China Steel Corporation

Financial Statements for the
Years Ended December 31, 2010 and 2009 and
Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
China Steel Corporation

We have audited the accompanying balance sheets of China Steel Corporation (the "Corporation") as of December 31, 2010 and 2009, and the related statements of income, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Corporation as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

As stated in Note 3 to the accompanying financial statements, starting January 1, 2009, the Corporation adopted the revised Statement of Financial Accounting Standards No. 10 - "Accounting for Inventories", issued by the Auditing Committee of the Accounting Research and Development Foundation (ARDF) in November 2007.

January 27, 2011
(Except for Note 32 as to which the date is March 4, 2011.)

<u>Notice to Readers</u>

The accompanying financial statements are intended only to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the Republic of China.

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

CHINA STEEL CORPORATION

BALANCE SHEETS
DECEMBER 31, 2010 AND 2009
(In Thousands of New Taiwan Dollars, Except Par Value)

	2010		2009	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash (Note 4)	$ 2,170,616	1	$ 5,188,481	2
Financial assets at fair value through profit or loss - current (Notes 2, 5 and 28)	-	-	4,062,844	1
Available-for-sale financial assets - current (Notes 2, 6 and 28)	2,068,057	1	1,878,728	1
Hedging derivative assets - current (Notes 2, 7 and 28)	-	-	58,960	-
Notes receivable	706,075	-	428,069	-
Notes receivable - related parties (Note 29)	537,208	-	222,431	-
Accounts receivable (Notes 2 and 8)	1,897,408	1	1,902,198	1
Accounts receivable - related parties (Notes 2 and 29)	589,531	-	929,902	-
Other receivables (Notes 10 and 29)	1,122,103	-	815,850	-
Other financial assets - current (Notes 13 and 28)	1,093,993	-	4,440,339	1
Inventories (Notes 2, 3 and 9)	43,260,511	11	31,376,231	9
Spare parts - current (Note 2)	7,262,805	2	6,641,783	2
Deferred income tax assets - current (Notes 2 and 25)	593,502	-	2,529,376	1
Restricted assets-current (Notes 4 and 30)	4,651,000	1	4,150,002	1
Others	1,497,530	1	910,390	-
Total current assets	67,450,339	18	65,535,584	19
FUNDS AND INVESTMENTS				
Available-for-sale financial assets - noncurrent (Notes 2, 6 and 28)	3,135,657	1	3,215,861	1
Hedging derivative assets - noncurrent (Notes 2, 7 and 28)	-	-	3,016	-
Financial assets carried at cost - noncurrent (Notes 2, 10 and 28)	6,829,728	2	5,575,210	2
Bond investments with no active market - noncurrent (Notes 2, 11 and 28)	103,000	-	103,000	-
Investments accounted for by the equity method (Notes 2 and 12)	123,129,399	32	101,992,209	30
Other financial assets - noncurrent (Notes 13 and 28)	753,328	-	537,891	-
Total funds and investments	133,951,112	35	111,427,187	33
PROPERTY, PLANT AND EQUIPMENT (Notes 2, 14, 29 and 30)				
Land	10,877,244	3	10,692,043	3
Land improvements	4,223,646	1	4,223,646	1
Buildings	44,640,508	12	42,280,414	12
Machinery and equipment	278,377,356	73	259,574,860	76
Transportation equipment	1,773,975	-	1,751,261	1
Other equipment	5,011,842	1	4,700,032	1
Total cost	344,904,571	90	323,222,256	94
Revaluation increment	43,431,952	12	43,670,986	13
Cost and revaluation increment	388,336,523	102	366,893,242	107
Less: Accumulated depreciation	248,028,500	65	235,231,086	68
	140,308,023	37	131,662,156	39
Construction in progress and prepayments for equipment	35,888,973	9	28,878,043	8
Total property, plant and equipment, net	176,196,996	46	160,540,199	47
INTANGIBLE ASSETS (Note 2)	226,445	-	301,365	-
OTHER ASSETS				
Assets leased to others, net (Notes 2 and 15)	3,218,045	1	3,220,697	1
Refundable deposits (Note 28)	116,518	-	138,324	-
Restricted assets - noncurrent (Notes 4 and 30)	30,467	-	14,301	-
Spare parts - noncurrent (Note 2)	1,197,500	-	1,129,547	-
Total other assets	4,562,530	1	4,502,869	1
TOTAL	$ 382,387,422	100	$ 342,307,204	100

	2010		2009	
LIABILITIES AND STOCKHOLDERS' EQUITY	**Amount**	**%**	**Amount**	**%**
CURRENT LIABILITIES				
Short-term loans and overdraft (Notes 16 and 30)	$ 1,341,764	-	$ 6,210,750	2
Commercial paper payable (Note 17)	3,699,639	1	7,999,777	2
Hedging derivative liabilities - current (Notes 2,7 and 28)	3,537	-	-	-
Notes payable - related parties (Note 29)	23,163	-	-	-
Accounts payable	4,630,800	1	2,007,684	1
Accounts payable - related parties (Note 29)	1,309,664	-	3,104,445	1
Income tax payable (Notes 2 and 25)	4,834,790	1	-	-
Accrued expenses (Notes 18 and 22)	10,732,630	3	8,494,138	2
Other payables (Note 2)	3,839,231	1	3,538,897	1
Bonds payable - current portion (Notes 19 and 28)	13,697,919	4	-	-
Long-term debt - current portion (Notes 20,28 and 30)	-	-	4,332,516	1
Others	3,856,966	1	2,477,723	1
Total current liabilities	47,970,103	12	38,165,930	11
LONG-TERM LIABILITIES				
Hedging derivative liabilities - noncurrent (Notes 2, 7 and 28)	2,877	-	-	-
Bonds payable (Notes 19 and 28)	29,580,147	8	43,268,970	13
Long-term debt - bank (Notes 20, 28 and 30)	23,181,624	6	902,200	-
Long-term notes payable (Notes 21 and 28)	4,496,973	1	5,245,996	1
Total long-term liabilities	57,261,621	15	49,417,166	14
RESERVE FOR LAND VALUE INCREMENT TAX (Note 14)	8,673,466	2	8,673,466	3
OTHER LIABILITIES				
Deferred income tax liabilities - noncurrent (Notes 2 and 25)	524,317	-	777,483	-
Deferred credits - gain from affiliates (Notes 10 and 23)	2,007,550	1	1,913,996	1
Total other liabilities	2,531,867	1	2,691,479	1
Total liabilities	116,437,057	30	98,948,041	29
CAPITAL STOCK - AUTHORIZED 17,000,000 THOUSAND SHARES AND 14,000,000 THOUSAND SHARES AT NT$10 PAR VALUE AS OF DECEMBER 31, 2010 AND 2009, RESPECTIVELY (Note 24)				
Common shares - issued 13,527,901 thousand shares and 13,094,519 thousand shares as of December 31, 2010 and 2009, respectively	135,279,009	36	130,945,189	38
Preferred shares - issued 38,268 thousand shares	382,680	-	382,680	-
Total capital stock	135,661,689	36	131,327,869	38
CAPITAL SURPLUS (Notes 2 and 24)	20,072,476	5	19,598,511	6
RETAINED EARNINGS (Notes 2 and 24)	94,337,962	25	74,351,367	22
OTHER EQUITY				
Unrealized revaluation increment (Notes 14 and 24)	21,873,940	6	21,913,148	6
Unrealized gain on financial instruments (Notes 7,13 and 24)	2,374,377	-	4,216,431	1
Cumulative translation adjustments (Notes 2 and 24)	(101,443)	-	183,001	-
Net loss not recognized as pension cost	(117,015)	-	(42,133)	-
Treasury stock - 284,762 thousand shares and 279,375 thousand shares as of December 31, 2010 and 2009, respectively (Notes 2 and 24)	(8,151,621)	(2)	(8,189,031)	(2)
Total other equity	15,878,238	4	18,081,416	5
Total stockholders' equity	265,950,365	70	243,359,163	71
TOTAL	$ 382,387,422	100	$ 342,307,204	100

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

(With Deloitte & Touche audit report dated January 27, 2011)

CHINA STEEL CORPORATION

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

	2010		2009	
	Amount	**%**	**Amount**	**%**
OPERATING REVENUE (Notes 2, 29 and 33)	$ 239,186,921	100	$ 165,408,888	100
OPERATING COSTS (Notes 2, 3, 9, 26 and 29)	196,235,742	82	150,698,842	91
GROSS PROFIT	42,951,179	18	14,710,046	9
REALIZED (UNREALIZED) GAIN FROM AFFILIATES, NET	47,610	-	(179,854)	-
REALIZED GROSS PROFIT	42,998,789	18	14,530,192	9
OPERATING EXPENSES (Notes 26 and 29)				
Research and development	1,380,490	1	1,247,849	1
Selling	2,615,206	1	2,552,263	2
General and administrative	2,954,465	1	2,452,376	1
Total operating expenses	6,950,161	3	6,252,488	4
OPERATING INCOME	36,048,628	15	8,277,704	5
NONOPERATING INCOME AND GAINS				
Interest income (Note 28)	91,999	-	97,092	-
Valuation gain on financial assets (Notes 2 and 5)	12,571	-	15,720	-
Investment income recognized under equity method, net (Notes 2 and 12)	8,247,775	4	9,334,316	6
Gain on sale of investments (Notes 2, 6 and 10)	8,892	-	1,642,584	1
Exchange gain	273,127	-	46,332	-
Others (Notes 9, 10, 14 and 29)	892,324	-	1,827,955	1
Total nonoperating income and gains	9,526,688	4	12,963,999	8
NONOPERATING EXPENSES AND LOSSES				
Interest expense (Notes 14 and 28)	659,814	-	816,596	1
Others (Notes 2 and 29)	821,231	-	265,268	-
Total nonoperating expenses and losses	1,481,045	-	1,081,864	1
INCOME BEFORE INCOME TAX	44,094,271	19	20,159,839	12
INCOME TAX EXPENSE (Notes 2 and 25)	6,507,445	3	557,322	-
NET INCOME	$ 37,586,826	16	$ 19,602,517	12

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CHINA STEEL CORPORATION

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

	2010		2009	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS PER SHARE (Note 27)				
Basic	$ 3.32	$ 2.83	$ 1.53	$ 1.49
Diluted	$ 3.29	$ 2.81	$ 1.52	$ 1.48

Pro forma information (after income tax) assuming the Corporation's shares held by its subsidiaries were accounted for as investments instead of treasury stock is as follows:

	2010	2009
Net income	$ 37,977,668	$ 20,054,929
Basic earnings per share based on weighted-average number of outstanding common shares aggregating 13,527,901 thousand shares and 13,424,401 thousand shares for the years ended December 31, 2010 and 2009, respectively	$ 2.80	$ 1.49
Diluted earnings per share based on weighted-average number of outstanding common shares aggregating 13,681,404 thousand shares and 13,539,348 thousand shares for the years ended December 31, 2010 and 2009, respectively	$ 2.78	$ 1.48

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

(With Deloitte & Touche audit report dated January 27, 2011) (Concluded)

CHINA STEEL CORPORATION

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2010 AND 2009
(In Thousands of New Taiwan Dollars, Except Dividends Per Share)

	Capital Stock			Retained Earnings				Other Equity					
	Common Shares	Preferred Shares	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings	Total	Unrealized Revaluation Increment	Unrealized Gain on Financial Instruments	Cumulative Translation Adjustments	Net Loss not Recognized as Pension Cost	Treasury Stock	Total Stockholders' Equity
BALANCES, JANUARY 1, 2009	$ 125,575,411	$ 382,700	$ 18,410,920	$ 44,715,153	$ 7,615,701	$ 24,096,253	$ 76,427,107	$ 21,915,248	$ 6,508,005	$ 358,976	$ (32,385)	$ (10,805,513)	$ 238,740,469
Conversion of preferred shares to common shares	20	(20)	-	-	-	-	-	-	-	-	-	-	-
Appropriation of 2008 earnings (Note 24)													
Legal reserve	-	-	-	2,402,556	-	(2,402,556)	-	-	-	-	-	-	-
Preferred cash dividends - $1.30 per share	-	-	-	-	-	(49,751)	(49,751)	-	-	-	-	-	(49,751)
Common cash dividends - $1.30 per share	-	-	-	-	-	(16,184,404)	(16,184,404)	-	-	-	-	-	(16,184,404)
Preferred stock dividends - $0.43 per share	16,455	-	-	-	-	(16,455)	(16,455)	-	-	-	-	-	-
Common stock dividends - $0.43 per share	5,353,303	-	-	-	-	(5,353,303)	(5,353,303)	-	-	-	-	-	-
Net income in 2009	-	-	-	-	-	19,602,517	19,602,517	-	-	-	-	-	19,602,517
Change in unrealized available-for-sale financial assets	-	-	-	-	-	-	-	-	(498,783)	-	-	-	(498,783)
Change in unrealized revaluation increment	-	-	-	-	-	-	-	(2,100)	-	-	-	-	(2,100)
Adjustment from changes in equity recognized under equity method	-	-	17,751	-	-	(74,344)	(74,344)	-	(1,521,259)	-	(9,748)	(64,259)	(1,651,859)
Foreign exchange loss on translation of foreign-currency financial statements	-	-	-	-	-	-	-	-	-	(123,063)	-	-	(123,063)
Foreign exchange loss on hedge of a net investment in a foreign operation	-	-	-	-	-	-	-	-	-	(52,912)	-	-	(52,912)
Discount on acquisition of treasury stock	-	-	-	-	-	-	-	-	-	-	-	886	886
Change in unrealized gain on financial instruments for cash flow hedging	-	-	-	-	-	-	-	-	(271,532)	-	-	-	(271,532)
Disposal of the Corporation's shares held by subsidiaries (Note 24)	-	-	98,225	-	-	-	-	-	-	-	-	414,610	512,835
Cash dividends declared by the Corporation and received by subsidiaries	-	-	354,187	-	-	-	-	-	-	-	-	-	354,187
Purchase of the Corporation's shares by subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(244,712)	(244,712)
Treasury stock transferred to employees (Note 24)	-	-	717,428	-	-	-	-	-	-	-	-	2,509,957	3,227,385
BALANCES, DECEMBER 31, 2009	130,945,189	382,680	19,598,511	47,117,709	7,615,701	19,617,957	74,351,367	21,913,148	4,216,431	183,001	(42,133)	(8,189,031)	243,359,163
Appropriation of 2009 earnings (Note 24)													
Legal reserve	-	-	-	1,952,817	-	(1,952,817)	-	-	-	-	-	-	-
Preferred cash dividends - $1.07 per share	-	-	-	-	-	(40,947)	(40,947)	-	-	-	-	-	(40,947)
Common cash dividends - $1.01 per share	-	-	-	-	-	(13,225,464)	(13,225,464)	-	-	-	-	-	(13,225,464)
Preferred stock dividends - $0.33 per share	12,628	-	-	-	-	(12,628)	(12,628)	-	-	-	-	-	-
Common stock dividends - $0.33 per share	4,321,192	-	-	-	-	(4,321,192)	(4,321,192)	-	-	-	-	-	-
Net income in 2010	-	-	-	-	-	37,586,826	37,586,826	-	-	-	-	-	37,586,826
Change in unrealized gain on available-for-sale financial assets	-	-	-	-	-	-	-	-	(185,756)	-	-	-	(185,756)
Change in unrealized revaluation increment	-	-	-	-	-	-	-	(41,393)	-	-	-	-	(41,393)
Adjustment from changes in equity recognized under equity method	-	-	83,123	-	-	-	-	2,185	(1,055,295)	-	(74,882)	(46,313)	(1,091,182)
Foreign exchange loss on translation of foreign-currency financial statements	-	-	-	-	-	-	-	-	-	(364,769)	-	-	(364,769)
Foreign exchange gain on hedge of a net investment in a foreign operation	-	-	-	-	-	-	-	-	-	80,325	-	-	80,325
Change in unrealized gain on financial instruments for cash flow hedging	-	-	-	-	-	-	-	-	(601,003)	-	-	-	(601,003)
Disposal of the Corporation's shares held by subsidiaries (Note 24)	-	-	102,280	-	-	-	-	-	-	-	-	298,725	401,005
Cash dividends declared by the Corporation and received by subsidiaries	-	-	288,562	-	-	-	-	-	-	-	-	-	288,562
Purchase of the Corporation's shares by subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(215,002)	(215,002)
BALANCES, DECEMBER 31, 2010	$ 135,279,009	$ 382,680	$ 20,072,476	$ 49,070,526	$ 7,615,701	$ 37,651,735	$ 94,337,962	$ 21,873,940	$ 2,374,377	$ (101,443)	$ (117,015)	$ (8,151,621)	$ 265,950,365

The accompanying notes are an integral part of the financial statements. Additional explanations for stockholders' equity accounts are in Appendix.

(With Deloitte & Touche audit report dated January 27, 2011)

CHINA STEEL CORPORATION

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

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 37,586,826	$ 19,602,517
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	14,652,975	12,860,345
Amortization	75,010	123,524
Deferred income tax	1,640,135	1,828,164
Provision for loss on inventories	30,468	58,433
Gain on sale of investments	(8,892)	(1,642,584)
Investment income recognized under equity method, net	(8,247,775)	(9,334,316)
Unrealized (realized) gain from affiliates, net	(47,610)	179,854
Cash dividends received from equity method investees	6,842,767	8,208,867
Valuation gain on financial assets	(12,571)	(15,720)
Impairment loss on financial assets	-	4,201
Compensation cost of treasury stock options	-	795,700
Others	(71,903)	17,542
Net changes in operating assets and liabilities		
Notes receivable	(278,006)	1,688,330
Notes receivable - related parties	(314,777)	(222,431)
Accounts receivable	4,790	(504,065)
Accounts receivable - related parties	340,371	567,169
Other receivables	(306,253)	627,607
Inventories	(11,706,568)	15,670,365
Other current assets	(1,208,162)	438,812
Notes payable - related parties	23,163	-
Accounts payable	2,626,633	(1,761,033)
Accounts payable - related parties	(1,798,298)	1,322,719
Income tax payable	4,834,790	(5,749,662)
Accrued expenses	2,238,492	2,330,800
Other payables	(164,523)	(4,443,015)
Other current liabilities	1,485,125	599,721
Net cash provided by operating activities	48,216,207	43,251,844
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of financial assets designated as at fair value through profit or loss	(12,240,059)	(5,580,000)
Proceeds from disposal of financial assets designated as at fair value through profit or loss	16,315,474	7,138,329
Acquisition of available-for-sale financial assets	(251,988)	-
Proceeds from disposal of available-for-sale financial assets	-	2,210,040
Acquisition of financial assets carried at cost	(1,283,289)	(4,201)
Proceeds from disposal of financial assets carried at cost	159,724	-
Proceeds from the capital reduction on financial assets carried at cost	25,721	3,764
Acquisition of investments accounted for by equity method	(20,713,569)	(3,685,717)
Acquisition of property, plant and equipment	(29,836,953)	(22,866,217)
Proceeds from disposal of property, plant and equipment	404	1,215
Decrease (increase) in other financial assets	2,604,292	(18,871)

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CHINA STEEL CORPORATION

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

	2010	2009
Decrease in refundable deposits	$ 21,806	$ 44,483
Decrease (increase) in restricted assets	(517,164)	2,147
Increase in intangible assets	(90)	(284,317)
Increase in other assets	(186,497)	(590,357)
Net cash used in investing activities	(45,902,188)	(23,629,702)
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in short-term loans and overdraft	(4,915,999)	(2,615,438)
Decrease in commercial paper payable	(4,300,138)	(6,971,816)
Proceeds from long-term debt	20,945,295	-
Repayments of long-term debt	(3,025,330)	-
Increase (decrease) in long-term notes payable	(750,000)	5,245,996
Cash dividends	(13,285,712)	(16,223,887)
Discount on acquisition cost of treasury stock	-	886
Treasury stock transferred to employees	-	2,407,323
Others	-	(21,766)
Net cash used in financing activities	(5,331,884)	(18,178,702)
NET INCREASE (DECREASE) IN CASH	(3,017,865)	1,443,440
CASH, BEGINNING OF YEAR	5,188,481	3,745,041
CASH, END OF YEAR	$ 2,170,616	$ 5,188,481
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	$ 1,254,676	$ 1,190,328
Capitalized interest	(610,630)	(359,103)
Interest paid (excluding capitalized interest)	$ 644,046	$ 831,225
Income tax paid	$ 32,520	$ 4,478,820
INVESTING AND FINANCING ACTIVITIES AFFECTING BOTH CASH AND NON-CASH ITEMS		
Cash paid for acquisition of property, plant and equipment		
Acquisition of property, plant and equipment	$ 30,321,111	$ 23,173,142
Increase in payable for equipment purchased	(484,158)	(306,925)
	$ 29,836,953	$ 22,866,217
Cash dividends paid to stockholders		
Total cash dividends payable to stockholders	$ 13,266,411	$ 16,234,155
Decrease (increase) in dividends payable	19,301	(10,268)
	$ 13,285,712	$ 16,223,887
NON-CASH FINANCING ACTIVITIES		
Current portion of long-term liabilities	$ 13,697,919	$ 4,332,516

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

(With Deloitte & Touche audit report dated January 27, 2011) (Concluded)

1. ORGANIZATION AND OPERATIONS

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

The Corporation's shares have been listed on the Taiwan Stock Exchange since December 1974. As of December 31, 2010, the Ministry of Economic Affairs, Republic of China owned 21.24% of the Corporation's issued common stock.

As of December 31, 2010 and 2009, the Corporation had about 9,200 employees.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements have been prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, Business Accounting Law, Guidelines Governing Business Accounting and accounting principles generally accepted in the Republic of China ("ROC"). Under these guidelines, law and principles, certain estimates and assumptions have been used for the loss on doubtful accounts, provision for inventories, depreciation, impairment loss on assets, loss on commitments, loss on idle capacity, pension cost, income tax and expense for bonuses to employees, directors and supervisors, etc. Actual results may differ from these estimates.

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

Significant accounting policies are summarized as follows:

Current and Noncurrent Assets and Liabilities

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

Financial Assets at Fair Value Through Profit or Loss

Financial instruments classified as financial assets at fair value through profit or loss ("FVTPL") include financial assets held for trading and those designated as at FVTPL on initial recognition. The Corporation recognizes financial assets on its balance sheet when the Corporation becomes a party to the contractual provisions of the financial instrument. A financial asset is derecognized when the Corporation has lost control of its contractual rights over the financial asset. These financial instruments are initially recognized at fair value and related transaction costs are expensed currently. When subsequently measured at fair value, the changes in fair value are recognized in current income. The difference between proceeds of sale and carrying value is recognized in current income when the financial asset is derecognized from the balance sheet. A regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

Fair value is based on net asset value of open-end bond funds on balance sheet date.

Available-for-sale Financial Assets

Available-for-sale financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are remeasured at fair value, with changes in fair value recognized in equity until the financial assets are disposed of, at which time, the cumulative gain or loss previously recognized in equity is included in profit or loss for the year. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Fair value is based on the closing price on balance sheet date for listed stocks. For stocks acquired by private subscription and not transferred freely in public market, the fair value is determined using valuation techniques.

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

Cash dividends are recognized on the ex-dividend date, except for dividends distributed from the pre-acquisition profit, which are treated as a reduction of investment cost. Stock dividends are not recognized as investment income but are recorded as an increase in the number of shares. The total number of shares subsequent to the increase is used for recalculation of cost per share.

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

Revenue Recognition, Accounts Receivable and Allowance for Doubtful Accounts

Revenues are recognized when titles to products and risks of ownership are transferred to customers as follows: domestic sales - when products are delivered out of the Corporation's premises to customers; exports - when products are loaded onto vessels.

Revenues are measured at fair value of the price (net of trade discounts and sales discounts) agreed to by the Corporation and customers. But if the related receivable is due within one year, the difference between its present value and receivable amount is immaterial, and sales transactions are frequent, the fair value of receivables is equivalent to the nominal amount of cash to be received. If the selling price of steel products declared by the Corporation declines, retroactive adjustment, if any, is provided for as other payables in the current liabilities.

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

The Corporation doesn't provide allowance for doubtful accounts on bank acceptances in transit which represent revenues from letters of credit. The Corporation provides 100% allowance for doubtful accounts on accounts receivable from sales on credit and services that are overdue and assessed as not collectible.

Factoring of Accounts Receivable

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

a. The accounts receivable have been legally isolated from the Corporation.

b. The transferees have obtained the right to pledge or exchange the accounts receivable.

c. The transferor does not maintain effective control, through an agreement to repurchase or redeem the transferred accounts receivable before their maturity, over the transferred accounts receivable.

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

Inventories

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

Spare Parts

Spare parts are intended for use in the repairs of the machinery and equipment. Spare parts estimated to be used within 12 months are classified as current assets. Otherwise, they are classified as other assets.

Financial Assets Carried at Cost

Investments in equity instruments with no quoted prices in an active market and with fair value that cannot be reliably measured, such as non-publicly traded stocks, stocks traded in the Emerging Stock Market and mutual funds are measured at their original cost. The accounting treatment for dividends on financial assets carried at cost is the same with that for dividends on available-for-sale financial assets. An impairment loss is recognized when there is objective evidence that the asset is impaired. A reversal of this impairment loss is disallowed.

Bond Investments with No Active Market

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

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

Investment Accounted for by the Equity Method

Investments in which the Corporation holds 20 percent or more of the investees' voting shares or exercises significant influence over the investees' operating and financial decisions are accounted for by the equity method.

The acquisition cost is allocated to the assets acquired and liabilities assumed on the basis of their fair values at the date of acquisition, and the acquisition cost in excess of the fair value of the identifiable net assets acquired is recognized as goodwill. Goodwill is not being amortized. The fair value of the net identifiable assets acquired in excess of the acquisition cost is used to reduce the fair value of each of the noncurrent assets acquired (except for financial assets other than investments accounted for by the equity method, deferred income tax assets, prepaid pension or other postretirement benefit) in proportion to the respective fair values of the noncurrent assets, with any excess recognized as an extraordinary gain.

Profits from downstream transactions with an equity-method investee are eliminated in proportion to the Corporation's percentage of ownership in the investee; however, if the Corporation has control over the investee, all the profits are eliminated. Profits from upstream transactions with an equity-method investee are eliminated in proportion to the Corporation's percentage of ownership in the investee.

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

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

When the Corporation and its investee have mutual equity holdings, the investment income or loss is accounted for by the treasury stock method. The Corporation's shares held by subsidiaries are recorded as treasury stock. The Corporation's dividends distributed to subsidiaries are debited to investment income and adjusted to capital surplus - treasury stock transaction.

Property, Plant and Equipment

Property, plant and equipment, except land, are stated at cost or cost plus revaluation increment less accumulated depreciation. Borrowing costs directly attributable to the acquisition or construction of property, plant and equipment are capitalized as part of the cost of those assets. Major additions, renewals and improvements are capitalized, while costs of maintenance and repairs are expensed currently.

Depreciation is calculated by the straight-line method over service lives estimated as follows: land improvements, 15 to 40 years; buildings, 5 to 60 years; machinery and equipment, 3 to 25 years; transportation equipment, 3 to 20 years; and other equipment, 3 to 10 years. Depreciation of revalued assets is provided on a straight-line basis over their remaining estimated useful lives determined at the time of revaluation. Property, plant and equipment still in use beyond their original estimated useful lives are further depreciated over their newly estimated useful lives.

The related cost (including revaluation increment), accumulated depreciation, accumulated impairment losses and any unrealized revaluation increment of an item of property, plant and equipment are derecognized upon its disposal. Any gain or loss on disposal of the asset is included in nonoperating gains or losses in the period of disposal.

Intangible Assets

Identifiable intangible assets (including computer software, leasehold, patents and trademarks) acquired are initially recorded at cost. Amortization is calculated by the straight-line method over estimated useful lives ranging from 3 to 20 years.

Assets Leased to Others

Assets leased to others are stated at the lower of carrying value or recoverable value. Depreciation is calculated by the working hours method or straight-line method over sixty years.

Impairment of Assets

If the recoverable amount of an asset (mainly property, plant and equipment, intangible assets, other assets and investments accounted for by the equity method) is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is charged to earnings unless the asset is carried at a revalued amount, in which case the impairment loss is first treated as a deduction to the unrealized revaluation increment and any remaining loss is charged to earnings.

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

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

Loss on Purchase Commitments

The Corporation recognizes purchase commitments payable under uncancelable purchasing contracts for raw materials when the estimated purchase cost is in excess of its expected profit from the contracts. The estimated loss is recognized as operating costs in the income statement.

Treasury stock-based Compensation

Employee stock options granted on or after January 1, 2008 are accounted for under SFAS No.39, "Accounting for Share-based Payment". Under the statement, the value of the treasury stock options granted, which is equal to the best available estimate of the number of treasury stock options expected to vest multiplied by the grant-date fair value, is expensed over the vesting period, with a corresponding adjustment to capital surplus - employee stock options. Then, an adjustment is recorded to capital surplus - treasury stock transaction when the options are transferred.

Pension Cost

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

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

Treasury Stock

The Corporation reacquired its issued shares and recorded this reacquired shares as treasury stock at cost and shown as a deduction in stockholders' equity.

The Corporation accounts for its stock held by subsidiaries as treasury stock. The recorded cost of the stock is based on its carrying amount as of January 1, 2002.

Income Tax

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

Tax credits for purchases of machinery, equipment and technology, and expenditures of R&D and employee training are recognized using the flow-through method when those credits are granted.

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

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

Foreign-currency Transactions

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

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

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

a. Recognized in stockholders' equity if the changes in fair value are recognized in stockholders' equity;

b. Recognized in profit and loss if the changes in fair value is recognized in profit or loss.

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

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

Hedging Derivative Financial Instruments

Derivatives qualified as effective hedging instruments are measured at fair value, with subsequent changes in fair value recognized either in profit or loss, or in stockholders' equity, depending on the nature of the hedging relationship.

Hedge Accounting

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

a. Fair value hedge

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

b. Cash flow hedge

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized in stockholders' equity. The amount recognized in stockholders' equity is recognized as the original cost of the asset while executing the firm commitment. However, if all or a portion of a loss recognized in stockholders' equity is not expected to be recovered in the future, the amount that is not expected to be recovered is recorded as current profit or loss.

c. Hedge of a net investment in a foreign operation

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

The Corporation uses the hedge activities to control the risk of the exchange rate fluctuation.

Reclassifications

Certain accounts in the financial statements as of and for the year ended December 31, 2009 have been reclassified to conform to the presentation of the financial statements as of and for the year ended December 31, 2010. The reline cost of blast furnace previously recorded as other assets was reclassified into property, plant and equipment.

3. EFFECTS OF CHANGES IN ACCOUNTING PRINCIPLES

Accounting for Inventories

Starting January 1, 2009, the Corporation adopted the newly revised SFAS No. 10 - "Accounting for Inventories." The main revisions are (1) inventories are stated at the lower of cost or net realizable value, and inventories are written down to net realizable value based on item-by-item basis; (2) unallocated overheads are recognized as operating costs in the period when incurred; and (3) write-downs of inventories and any reversal of write-downs are recorded as operating costs for the period. This adoption resulted in a decrease of NT$132,407 thousand in net income and a decrease of NT$0.01 in after income tax basic and diluted earnings per share for the year ended December 31, 2009.

4. CASH

	December 31	
	2010	**2009**
Cash on hand	$ 19,544	$ 19,443
Checking accounts and demand deposits	1,051,072	541,641
Time deposits	1,100,000	4,627,397
	$ 2,170,616	$ 5,188,481

Foreign bank deposits were as follows:

	December 31	
	2010	2009
Japan - IYO Bank and Mega International Commercial Bank (in thousands)	¥ 8,828	¥ 3,628
Singapore - Daiwa Securities SMBC (in thousands)	27,927	33
Total (in thousands)	¥ 36,755	¥ 3,661
Represented by NT dollars (in thousands)	$ 13,169	$ 1,270

The Corporation cooperated with the Ministry of Economic Affairs on "R&D Alliance Project for promoting of motor industry", etc. Deposits for the project were NT$23,192 thousand (NT$1,000 thousand recorded as restricted assets - current and NT$22,192 thousand recorded as restricted assets - noncurrent) and NT$2 thousand (recorded as restricted assets - current), as of December 31, 2010 and 2009, respectively.

5. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS - CURRENT

The financial assets designated as at FVTPL represent open-end bond funds. The purpose of classifying open-end bond funds to this account is to reduce the accounting inconsistency between investment income and interest expense. The group of financial assets is managed and its performance is evaluated on fair value basis, in accordance with a documented risk management or investment strategy. As of December 31, 2009, the balance of financial assets at fair value through profit or loss was NT$4,062,844 thousand.

Net gains on financial assets designated as at FVTPL for the years ended December 31, 2010 and 2009 were NT$12,571 thousand and NT$15,720 thousand, respectively.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31			
	2010		2009	
	Current	Noncurrent	Current	Noncurrent
Quoted stocks				
Taiwan Semiconductor Manufacturing Company (TSMC)	$ 2,068,057	$ -	$ 1,878,728	$ -
Maruichi Steel Tube Ltd.	-	1,235,963	-	1,288,758
Tang Eng Iron Works Corporation (TEI)	-	871,932	-	1,155,609
CSBC Corporation Taiwan (CSBC)	-	491,653	-	509,856
Yodogawa Steel Works, Ltd.	-	270,837	-	261,638
Rechi Precision Co., Ltd. (RPC)	-	265,272	-	-
	$ 2,068,057	$ 3,135,657	$ 1,878,728	$ 3,215,861

For the year ended December 31, 2009, the Corporation sold the shares of TSMC and recognized the gain on disposal of investment of NT$1,642,584 thousand as nonoperating income and gains.

In September 2010, the Corporation invested NT$251,988 thousand to acquire 5% equity of RPC through its private subscription. RPC mainly manufactures compressors. Under the Securities Exchange Act, the securities which the Corporation acquired by private subscription should only be transferred freely in public market after holding 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 20 and 28). Adjustments for change in valuation arising from exchange difference were recognized as profit or loss.

7. HEDGING DERIVATIVE FINANCIAL INSTRUMENTS

The Corporation entered into derivative contracts to manage cash flows exposures arising from exchange rate fluctuations on foreign-currency capital expenditures contracts.

Outstanding forward exchange contracts as of December 31, 2010 and 2009 were as follows:

	Currency	The Period for Generating Cash Flows and Maturity Date	Contract Amount (In Thousands)
December 31, 2010			
Forward exchange contracts	NT$/EUR€	March 2011 - March 2012	NT$82,353/EUR€1,891
December 31, 2009			
Forward exchange contracts	NT$/US$	March 2010 - September 2010	NT$3,521,182/US$111,490
	NT$/EUR€	June 2010 - March 2012	NT$532,503/EUR€11,891

Movements of hedging derivative financial instruments for the years ended December 31, 2010 and 2009 were as follows:

	Years Ended December 31	
	2010	2009
Balance, beginning of year	$ 61,976	$ 57,027
Valuation of unrealized gain (loss)	(76,627)	14,421
Transferred to construction in progress and prepayments for equipment	8,237	(9,472)
Balance, end of year	$ (6,414)	$ 61,976

As of December 31, 2010 and 2009, the balances of hedging derivative financial instruments were as follows:

	December 31	
	2010	2009
Hedging derivative assets - current	$ -	$ 58,960
Hedging derivative assets - noncurrent	-	3,016
Hedging derivative liabilities - current	(3,537)	-
Hedging derivative liabilities - noncurrent	(2,877)	-
	$ (6,414)	$ 61,976

The unrealized gain or loss was recognized as unrealized gain on financial instruments in stockholders' equity.

8. ACCOUNTS RECEIVABLE

The Corporation entered into three factoring accounts receivable contracts (without recourse) with Mega Bank, Bank of Taiwan and Taipei Fubon Bank. Under the contracts, the Corporation is empowered to sell accounts receivable to the banks upon the delivery of products to customers and is required to complete related formalities at the next banking day.

The related information for the Corporation's sale of accounts receivable for the years ended December 31, 2010 and 2009 was as follows:

Transaction Counter-party	Advances Received at Year - beginning	Receivables Sold	Amounts Collected by Bank	Advances Received at Year-end	Interest Rate on Advances Received (%)	Credit Line (In Billions of NTD)
Year ended December 31, 2010						
Accounts receivable						
Mega Bank	$ 2,723,672	$ 9,834,614	$ 8,258,087	$ 4,300,199	0.90-1.26	$ 9.0
Bank of Taiwan	484,607	1,883,711	1,444,773	923,545	0.90-1.20	3.0
Taipei Fubon Bank	124,901	434,667	495,852	63,716	1.15-1.20	0.4
	$ 3,333,180	$ 12,152,992	$ 10,198,712	$ 5,287,460		
Year ended December 31, 2009						
Accounts receivable						
Mega Bank	$ 4,166,480	$ 8,258,201	$ 9,701,009	$ 2,723,672	0.80-2.73	8.5
Bank of Taiwan	856,900	1,456,533	1,828,826	484,607	0.80-2.16	2.5
Taipei Fubon Bank	166,541	494,709	536,349	124,901	1.03-2.33	0.4
	$ 5,189,921	$ 10,209,443	$ 12,066,184	$ 3,333,180		

9. INVENTORIES

	December 31	
	2010	2009
Finished products	$ 10,362,226	$ 7,030,985
Work in process	16,168,678	11,098,288
Raw materials	13,247,396	9,485,626
Supplies	1,172,896	1,072,744
Raw materials and supplies in transit	1,987,831	2,307,826
Fuel	249,225	179,241
Others	72,259	201,521
	$ 43,260,511	$ 31,376,231

As of December 31, 2010 and 2009, the allowance for loss on value decline of inventory was NT$30,468 thousand and NT$58,433 thousand, respectively, and shown as deduction in inventories. The cost of inventories recognized as operating costs for the years ended December 31, 2010 and 2009 was NT$196,235,742 thousand and NT$150,698,842 thousand, respectively. The items recorded as operating costs were as follows:

	Years Ended December 31	
	2010	2009
Provision for loss on inventories	$ 30,468	$ 58,433
Loss on idle capacity	-	1,519,642
Gain on physical inventory	(208,180)	(287,464)
Income from scrap sales	(213,673)	(133,455)
	$ (391,385)	$ 1,157,156

Unallocated fixed overheads on idle capacity are recognized as operating costs in the year when incurred as a result of the adoption of SFAS No. 10 "Accounting for Inventories", starting January 1, 2009.

The Corporation purchased high-priced slabs due to the damage of the blast furnace. The Corporation claimed NT$906,000 thousand for business interruption losses from Chung Kuo Insurance and other insurance corporations, which was recognized as nonoperating income and gains for the year ended December 31, 2009.

10. FINANCIAL ASSETS CARRIED AT COST - NONCURRENT

	December 31	
	2010	2009
Unquoted common stocks		
Dongbu Metal Co., Ltd.	$ 1,276,092	$ -
Industrial Bank of Taiwan	1,000,000	1,000,000
CDIB & Partners Investment Holding Corporation	500,000	500,000
Taiwan Rolling Stock Co., Ltd.	202,048	202,048
Adimmune Corporation (AC)	135,897	231,650
CDIB BioScience Ventures I, Inc. (CBVI)	65,791	71,512
Overseas Investment & Development Corporation	50,000	50,000
Mega I Venture Capital Co., Ltd. (Mega I)	17,400	50,000
Taiwan High Speed Rail Corporation (THSRC)	-	-
Unquoted preferred stocks		
East Asia United Steel Corporation (EAUS) – Preferred A	3,582,500	3,470,000
Fund		
Sino-Canada Biotechnology Development Fund, LP (SCBDF)	-	-
	$ 6,829,728	$ 5,575,210

The above equity investments, which have no quoted prices in active market and of which fair value could not be reliably measured, are carried at cost.

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 durations 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 0% 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 will have 4.71% dividends. THSRC mainly builds and operates public transportation systems.

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.

The Corporation originally invested NT$102,000 thousand to acquire equity of CBVI. CBVI reduced its capital and returned it to the Corporation several times, in which, returning NT$5,721 thousand and NT$3,764 thousand in August 2010 and September 2009, respectively. Accordingly, the original cost of investment in CBVI was reduced to NT$65,791 thousand.

In August 2009, since SCBDF had no sufficient funds to pay service fees, the Corporation added NT$4,201 thousand to its investment in SCBDF. After evaluating SCBDF, the Corporation recognized an impairment loss and wrote book value of the investment down to zero. In August and November, 2010, SCBDF liquidated and returned capital of NT$8,353 thousand, recorded as nonoperating income and gains.

The Corporation increased investment of NT$7,197 thousand in AC and acquired 300 thousand common shares in June, 2010. In September, 2010, the Corporation sold 5,000 thousand shares to the subsidiary Gains Investment Corporation (GIC) for proceeds of NT$138,683 thousand, and recognized unrealized gain on sale of investment of NT$35,733 thousand, recorded as deferred credits - gain from affiliates (Notes 23 and 29).

In October 2010, Mega I reduced its capital and returned NT$20,000 thousand to the Corporation. The Corporation sold 1,260 thousand shares of Mega I in December 2010 to GIC for proceeds of NT$12,688 thousand, resulting in no significant gain or loss on sale of investment.

In December 2010, the Corporation acquired 1,500 thousand common shares (5% equity) of Dongbu Metal Co., Ltd. by investing NT$1,276,092 thousand (US$41,867 thousand). Dongbu Metal Co., Ltd. mainly manufactures and sells ferromanganese and ferro silico-manganese.

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 of EAUS was established. The Corporation invested in EAUS the amount of ￥10 billion (Notes 20 and 28). The Corporation thus has a stable supply of slab from this joint venture. The Corporation also signed a contract with its affiliate of Chung Hung Steel Corporation (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 amounts of royalty income for the years ended December 31, 2010 and 2009 were NT$282,757 thousand and NT$286,742 thousand, respectively (recorded as nonoperating income and gains). As of December 31, 2010 and 2009, the royalty receivable was NT$66,956 thousand and NT$72,932 thousand, respectively (recorded as other receivables).

11. BOND INVESTMENTS WITH NO ACTIVE MARKET - NONCURRENT

	December 31	
	2010	**2009**
Unquoted preferred stocks - overseas		
TaiGen Biopharmaceuticals Holdings Limited (TGB) (Preferred B)	$ 103,000	$ 103,000

The Corporation acquired 20,000 thousand Preferred B shares of TGB for NT$300,000 thousand. TGB mainly researches and develops drugs. The Corporation can request TGB to redeem all or part of preferred shares by issuing new stock or using its own retained earnings after December 2010. The Corporation has evaluated the investment and recognized an impairment loss of NT$197,000 thousand.

12. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

	December 31			
	2010		2009	
	Amount	% of Ownership	Amount	% of Ownership
Stocks listed on the Taiwan Stock Exchange				
Chung Hung Steel Corporation (CHSC)	$ 4,346,793	29	$ 3,902,665	29
China Steel Chemical Corporation (CSCC)	1,695,663	29	1,521,527	29
China Steel Structure Corporation (CSSC)	1,375,228	33	518,893	18
China Ecotek Corporation (CEC)	814,165	49	789,915	49
China Hi-ment Corporation (CHC)	703,316	20	713,480	20
	8,935,165		7,446,480	
Less: Shares held by subsidiaries accounted for as treasury stock	1,591,484		1,599,010	
	7,343,681		5,847,470	
Stocks without quoted market prices				
Dragon Steel Corporation (DSC)	78,841,711	100	58,402,941	100
China Steel Express Corporation (CSE)	10,373,819	100	12,211,143	100
C. S. Aluminum Corporation (CAC)	7,781,100	100	6,938,136	100
Gains Investment Corporation (GIC)	6,424,002	100	6,488,214	100
China Prosperity Development Corporation (CPDC)	4,890,207	100	4,833,677	100
China Steel Asia Pacific Holdings Pte Ltd. (CSAPH)	3,726,212	100	3,677,475	100
China Steel Sumikin Vietnam Joint Stock Company (CSVC)	1,764,253	51	1,867,329	51
China Steel Global Trading Corporation (CSGT)	1,612,465	100	1,435,366	100
Kaohsiung Rapid Transit Corporation (KRTC)	1,278,733	31	1,695,105	31
China Steel Machinery Corporation (CSMC)	1,170,591	74	1,029,474	74
CSC Steel Australia Holdings Pty Ltd.(CSCAU)	681,362	100	618,510	100
Long Yuan Fa Investment Corporation (LYFI)	671,274	100	603,748	100
Horng Yih Investment Corporation (HYI)	671,159	100	606,646	100
Goang Yaw Investment Corporation (GYI)	653,941	100	590,997	100
Info-Champ Systems Corporation (ICSC)	648,498	100	608,814	100
Kaohsiung Arena Development Corporation (KADC)	472,790	18	477,068	18
China Steel Security Corporation (CSS)	374,807	100	345,916	100
Hsin Hsin Cement Enterprise Corp. (HHCEC)	159,593	18	169,525	18
Hi-mag Magnetic Corporation (HMC)	114,570	50	99,441	50
China Steel Management Consulting Corporation (CSMCC)	26,918	100	28,196	100
TaiAn Technologies Corporation (TTC)	7,850	17	7,039	17
Baolai Greeting Development Co., Ltd. (BGDC)	-	45	-	45
	122,345,855		102,734,760	
Less: Shares held by subsidiaries accounted for as treasury stock	6,560,137		6,590,021	
	115,785,718		96,144,739	
	$ 123,129,399		$ 101,992,209	

The Corporation increased investment in CHSC for NT$1,774,125 thousand in the first quarter of 2009. Consequently, the Corporation's total equity in CHSC increased to 41%, including 29% directly owned and 12% indirectly owned through LYFI, HYI and GYI. The Corporation's total equity in KADC is 29%, including 18% directly owned and 11% indirectly owned through United Steel Engineering and Construction Corporation and CPDC. In September 2009, the subsidiary CHC invested in HHCEC. Consequently, the Corporation's total equity in HHCEC is 26%, including 18% directly owned and 8% indirectly owned through CHC. The Corporation's total equity in TTC is 22%, including 17% directly owned and 5% indirectly owned through CSCC.

In July 2009, the Corporation acquired 93,677 thousand common shares (51% equity) of CSVC for NT$1,919,965 thousand. This investee mainly processes steel and is now in phase of plant construction.

To increase its investment in Tsingtao TECO Corporation, in August 2009, the Corporation invested US$1,200 thousand (NT$39,520 thousand) in CSAPH.

According to its stockholders' resolution, BGDC was dissolved on December 28, 2009. The Corporation recognized all losses of its shares.

In April 2010, the Corporation invested additional NT$20,000,000 thousand in DSC through its private subscription, and the ownership percentage unchanged. In August, 2010, the Corporation invested additional NT$713,569 thousand in CSSC through its private subscription and raised its direct ownership to 33%. Under the Securities Exchange Act, the securities which the Corporation acquired by private subscription should only be transferred freely in public market after holding for three years, starting from the delivery date.

The market values of listed equity-method investments as of December 31, 2010 and 2009 were as follows:

	December 31	
	2010	**2009**
CHSC	$ 6,768,102	$ 8,187,196
CSCC	8,254,462	5,984,485
CSSC	1,464,770	714,059
CEC	2,786,275	2,503,770
CHC	1,595,191	1,886,447
	$ 20,868,800	$ 19,275,957

The market values of the above listed stocks are calculated at their closing price on balance sheet date, except for stocks acquired by private subscription and not transferred freely in public market that are stated at market values determined by using valuation techniques.

Investment income (loss) under the equity method for the years ended December 31, 2010 and 2009 was as follows:

	Years Ended December 31	
	2010	**2009**
CSE	$ 2,975,156	$ 5,333,921
DSC	1,280,374	1,494,256
CAC	911,840	26,471
CSCC	552,523	368,282
CSGT	498,772	331,197
GIC	398,767	683,164
CHSC	371,145	251,980
CSAPH	303,068	383,840
CSMC	283,112	263,860
CEC	194,131	218,800
ICSC	136,175	105,453
CSSC	133,451	(2,513)
CPDC	117,238	94,711

(Continued)

	Years Ended December 31	
	2010	2009
CHC	$ 113,619	$ 132,800
CSCAU	111,982	108,954
CSS	80,283	61,606
LYFI	57,451	(21,270)
HYI	54,413	(21,506)
GYI	53,098	(20,650)
KRTC	(416,372)	(483,387)
Others	37,549	24,347
	$ 8,247,775	$ 9,334,316

(Concluded)

Above investment income (loss) was based on the investees' audited financial statements.

The Corporation has prepared consolidated financial statements including all majority-owned and controlled-in-substance subsidiaries in accordance with the related accounting standards.

The Corporation's Board of Directors approved plans for additional investments in CSVC and other companies. The related subscription schedule depends on the investees' capital increase requirements. As of December 31, 2010, the Corporation's unexecuted investments in these investees aggregated NT$16,034,526 thousand. On August 26, 2010, the Corporation's Board of Directors approved investing US$30,520 thousand (NT$888,941 thousand) in Changzhou Xinzhong Precision Alloy Forging Products Co., Ltd. through CSAPH. The investment was executed on January 4, 2011.

The Corporation adopted the purchase method to account for the acquisition of DSC equity. The difference between the investment cost and the Corporation's share in the investee's net assets represents depreciable assets and goodwill. In 2009, the Corporation's total equity in HHCEC was 26% and the fair value of identifiable net assets exceeded the investment cost; the excess had been deducted to reduce the carrying amounts of non-current assets in proportion to their fair values.

Movements of the difference between the cost of investment and the Corporation's share in investees' net assets allocated to depreciable assets and goodwill were as follows:

	Depreciable Assets	Non-depreciable Assets	Goodwill
Year ended December 31, 2010			
Balance, beginning of year	$ 993,548	$ (1,924)	$ 401,018
Amortization	(76,197)	-	-
Balance, end of year	$ 917,351	$ (1,924)	$ 401,018
Year ended December 31, 2009			
Balance, beginning of year	$ 1,126,994	$ -	$ 401,018
Addition	(58,583)	(1,924)	-
Amortization	(74,863)	-	-
Balance, end of year	$ 993,548	$ (1,924)	$ 401,018

The depreciable assets comprised the property, plant and equipment, franchise from Carbon credit and Nox credit, developed technology and customer relationship etc. Non-depreciable assets comprised land and investments accounted for by the equity method.

13. OTHER FINANCIAL ASSETS

	December 31	
	2010	2009
Foreign-currency time deposits	$ 938,619	$ 4,841,420
Foreign-currency demand deposits	908,702	136,810
	1,847,321	4,978,230
Less: Current portion	1,093,993	4,440,339
	$ 753,328	$ 537,891

For the purpose of constructing the third cold - rolled plant, the Corporation signed contracts to purchase imported equipment in total of ￥16.15 billion. For the purposes of managing cash flows exposures arising from exchange rate fluctuations, the Corporation purchased deposits of ￥16 billion (NT$4,878,900 thousand) in January 2008. As of December 31, 2010 and 2009, the balance of the JPY deposits designated as hedging instrument was NT$656,933 thousand (￥1.8 billion) and NT$4,701,949 thousand (￥13.6 billion), respectively.

For the purpose of purchasing imported equipment as well as managing cash flows risk arising from exchange rate fluctuations, the Corporation purchased deposits of US$5,825 thousand (NT$179,323 thousand), US$6,900 thousand (NT$221,691 thousand) and US$5,990 thousand (NT$194,196 thousand), respectively, in October 2010, June 2010 and September 2009. As of December 31, 2010 and 2009, the balance of the U.S. dollar deposits designated as hedging instruments was NT$550,026 thousand (US$18,115 thousand) and NT$191,620 thousand (US$5,990 thousand).

For the purpose of managing cash flow exposures on foreign-currency capital expenditure contracts, the Corporation entered into forward exchange contracts (Note 7). As of December 31, 2010 and 2009, the balance of the hedging instruments were NT$640,362 thousand (US$18,972 thousand and EUR€1,653 thousand) and NT$84,661 thousand (US$1,335 thousand and EUR€910 thousand), respectively, which were intended for capital payments.

The unrealized gain of NT$23,519 thousand and unrealized loss of NT$276,481 thousand arising from the above deposits designated as hedging instruments were recognized as unrealized gain on financial instruments in stockholders' equity for the years ended December 31, 2010 and 2009, respectively. The unrealized gain on financial instruments of NT$550,136 thousand in stockholders' equity was transferred to construction in progress and prepayments for equipment for the year ended December 31, 2010.

As of December 31, 2010 and 2009, the periods of the cash flows generated from aforementioned contracts will be from 2011 to 2013 and from 2010 to 2013, respectively.

14. PROPERTY, PLANT AND EQUIPMENT

	Land	Land Improvements	Buildings	Machinery and Equipment	Transportation Equipment	Other Equipment	Construction in Progress and Prepayments for Equipment	Total
Year ended December 31, 2010								
Cost								
Balance, beginning of year	$ 10,692,043	$ 4,223,646	$ 42,280,414	$ 259,574,860	$ 1,751,261	$ 4,700,032	$ 28,878,043	$ 352,100,299
Addition	185,201	-	2,367,240	20,286,511	39,707	431,522	7,010,930	30,321,111
Disposals	-	-	(7,146)	(1,484,015)	(16,993)	(119,712)	-	(1,627,866)
Balance, end of year	10,877,244	4,223,646	44,640,508	278,377,356	1,773,975	5,011,842	35,888,973	380,793,544
Revaluation increment								
Balance, beginning of year	32,754,016	492,990	2,405,551	7,968,650	18,108	31,671	-	43,670,986
Disposals	-	-	(296)	(238,711)	-	(27)	-	(239,034)
Balance, end of year	32,754,016	492,990	2,405,255	7,729,939	18,108	31,644	-	43,431,952
Accumulated depreciation								
Balance, beginning of year	-	4,003,372	21,544,619	205,084,014	1,261,670	3,337,411	-	235,231,086
Depreciation expense	-	78,881	1,350,723	12,631,180	100,051	489,488	-	14,650,323
Disposals	-	-	(3,202)	(1,718,361)	(16,885)	(114,461)	-	(1,852,909)
Balance, end of year	-	4,082,253	22,892,140	215,996,833	1,344,836	3,712,438	-	248,028,500
Net book value, end of year	$ 43,631,260	$ 634,383	$ 24,153,623	$ 70,110,462	$ 447,247	$ 1,331,048	$ 35,888,973	$ 176,196,996
Year ended December 31, 2009								
Cost								
Balance, beginning of year	$ 10,692,043	$ 4,220,388	$ 40,698,022	$ 245,473,457	$ 1,623,659	$ 4,389,119	$ 20,657,785	$ 327,754,473
Addition	-	3,258	1,607,382	12,640,018	203,175	499,050	8,220,258	23,173,141
Reclassified	-	-	-	2,730,332	-	-	-	2,730,332
Disposals	-	-	(24,990)	(1,268,947)	(75,573)	(188,137)	-	(1,557,647)
Balance, end of year	10,692,043	4,223,646	42,280,414	259,574,860	1,751,261	4,700,032	28,878,043	352,100,299
Revaluation increment								
Balance, beginning of year	32,754,016	492,990	2,407,480	8,070,962	18,108	31,683	-	43,775,239
Disposals	-	-	(1,929)	(102,312)	-	(12)	-	(104,253)
Balance, end of year	32,754,016	492,990	2,405,551	7,968,650	18,108	31,671	-	43,670,986
Accumulated depreciation								
Balance, beginning of year	-	3,905,815	20,273,963	193,964,668	1,239,299	3,047,962	-	222,431,707
Depreciation expense	-	97,557	1,279,856	10,888,574	97,774	475,250	-	12,839,011
Reclassified	-	-	-	1,592,694	-	-	-	1,592,694
Disposals	-	-	(9,200)	(1,361,922)	(75,403)	(185,801)	-	(1,632,326)
Balance, end of year	-	4,003,372	21,544,619	205,084,014	1,261,670	3,337,411	-	235,231,086
Net book value, end of year	$ 43,446,059	$ 713,264	$ 23,141,346	$ 62,459,496	$ 507,699	$ 1,394,292	$ 28,878,043	$ 160,540,199

Information about capitalized interest on the purchase of property, plant and equipment for the years ended December 31, 2010 and 2009 was disclosed as follows:

	Years Ended December 31	
	2010	**2009**
Interest expense before capitalization	$ 1,285,593	$ 1,175,699
Less: Capitalized interest - construction in progress and prepayments for equipment	625,779	359,103
Interest expense through income statement	$ 659,814	$ 816,596
Capitalization rates	1.83%-2.15%	1.57%-2.09%

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 2008, the Corporation revalued its land in accordance with the current assessed land value. So, the total increments on land revaluation was NT$26,913,284 thousand, after the deduction of the reserve for land value increment tax of NT$6,502,342 thousand, and a net increment of NT$20,410,942 thousand was credited to unrealized revaluation increment. For the years ended December 31, 2010 and 2009, upon retirement or sale of appreciated properties, the unrealized revaluation increment decreased by NT$4,817 thousand and NT$2,100 thousand, respectively, and recorded as nonoperating income and gains. As of December 31, 2010 and 2009, the cumulative nonoperating income and gains due to disposal of appreciated properties were NT$37,974 thousand and NT$33,157 thousand, respectively. As of December 31, 2010 and 2009, the balance of reserve for land value increment tax remained NT$8,673,466 thousand, and the balance of the unrealized revaluation increment was NT$21,871,755 thousand and NT$21,913,148 thousand, respectively.

15. ASSETS LEASED TO OTHERS, NET

	December 31	
	2010	**2009**
Cost		
Land	$ 3,079,977	$ 3,079,977
Machinery and Equipment	2,000,000	2,000,000
Buildings	161,816	161,816
	5,241,793	5,241,793
Accumulated depreciation		
Machinery and Equipment	1,401,000	1,401,000
Buildings	28,748	26,096
	1,429,748	1,427,096
Accumulated impairment		
Machinery and Equipment	594,000	594,000
Net book value, end of year	$ 3,218,045	$ 3,220,697

Some of the Corporation's plant, property and machinery equipment are leased to its subsidiaries (Note 29). The depreciation expenses were NT$2,652 thousand and NT$21,334 thousand for the years ended December 31, 2010 and 2009, respectively.

16. SHORT-TERM LOANS AND OVERDRAFT

	December 31	
	2010	2009
Credit loans - interest at 0.5576%-0.607% p.a.	$ -	$ 2,272,950
Letters of credit - due within 180 days; interest at 0.5513%-1.41% p.a. and 0.58%-1.371% p.a. as of December 31, 2010 and 2009, respectively	147,655	434,596
Bank overdraft - interest at 0.26%-1.195% p.a. and 0.16%-0.442% p.a. as of December 31, 2010 and 2009, respectively	1,194,109	3,503,204
	$ 1,341,764	$ 6,210,750

The above credit loans, which included short-term loans of US$58,548 thousand (NT$1,872,951 thousand), were used to hedge the exchange rate fluctuations on investments in CSVC (Note 28). The Corporation renewed the long-term loans contract with the bank in February 2010 (Note 20).

17. COMMERCIAL PAPER PAYABLE

	December 31	
	2010	2009
Commercial paper - interest rates at 0.467%-0.547% p.a. and 0.150%-0.292% p.a. as of December 31, 2010 and 2009, respectively	$ 3,700,000	$ 8,000,000
Less: Unamortized discounts	361	223
	$ 3,699,639	$ 7,999,777

18. ACCRUED EXPENSES

	December 31	
	2010	2009
Accrued salaries and incentive bonus	$ 5,107,932	$ 3,802,609
Bonus to employees, and remuneration to directors and supervisors	2,751,874	1,557,243
Severance pay	707,145	428,569
Repair and construction	664,244	1,151,023
Others	1,501,435	1,554,694
	$ 10,732,630	$ 8,494,138

19. BONDS PAYABLE

	December 31 2010	December 31 2009
5-year unsecured bonds - issued at par in:		
June 2006; repayable in June 2011; 2.32% interest p.a., payable annually	$ 8,100,000	$ 8,100,000
November 2006; repayable in November 2011; 2.07% interest p.a., payable annually	5,600,000	5,600,000
December 2008; repayable in December 2012 and December 2013; 2.08% interest p.a., payable annually	13,000,000	13,000,000
December 2008; repayable in December 2012 and December 2013; 2.42% interest p.a., payable annually	9,600,000	9,600,000
7-year unsecured bonds - issued at par in:		
December 2008; repayable in December 2014 and December 2015; 2.30% interest p.a., payable annually	7,000,000	7,000,000
	43,300,000	43,300,000
Less: Issuance cost of bonds payable	21,934	31,030
Current portion	13,697,919	-
	$ 29,580,147	$ 43,268,970

20. LONG-TERM DEBT - BANK

	December 31 2010	December 31 2009
Mortgage loans		
Repayable in January 2015 (NT$16 billion); floating rate at 1.20% p.a.	$ 16,000,000	$ -
Credit loans		
Repayable in February 2013 (US$ 58,548 thousand); floating rates at 0.88616% and 0.92844% p.a.	1,777,693	-
Repayable in July 2015 (￥4.95 billion); floating rates at 0.65936% p.a.	1,773,338	-
Repayable in July 2015 (￥4.95 billion); floating rates at 0.67838% p.a.	1,773,337	-
Repayable in December 2009 (￥2.6 billion) originally but extended to December 2012; floating rates at 0.67375% and 0.71% p.a. as of December 31, 2010 and 2009, respectively	931,450	902,200
Repayable in July 2010 (AUD 16,540 thousand) originally but extended to July 2013; floating rates at 5.68895% and 4.14429% p.a. as of December 31, 2010 and 2009, respectively	490,891	475,958
Repayable in November 2010 (￥1.214 billion) originally but extended to November 2013; floating rates at 0.59625% and 0.7175% p.a. as of December 31, 2010 and 2009, respectively	434,915	421,258
Repayable in July 2010 (￥4.4 billion); floating rates at 0.6763% p.a.	-	1,526,800
Repayable in July 2010 (￥3.3 billion); floating rates at 0.8375% p.a.	-	1,145,100
Repayable in July 2010 (￥2.2 billion); floating rates at 0.6743% p.a.	-	763,400

(Continued)

	December 31	
	2010	2009
	$ 23,181,624	$ 5,234,716
Less: Current portion	-	4,332,516
	$ 23,181,624	$ 902,200

(Concluded)

The Corporation obtained long-term bank loans in Japanese yen, Australian dollar and U.S. dollar to hedge the exchange rate fluctuations on investments in EAUS, CSCAU and CSVC (Note 28); and on the available-for-sale financial assets in Maruichi Steel Tube Ltd. and Yodogawa Steel Works, Ltd. (Notes 6 and 28). The NT dollar loan was made to meet fund requirements.

21. LONG-TERM NOTES PAYABLE

	December 31	
	2010	2009
Long-term notes - interest rates at 0.630%-0.885% p.a. and 0.400%-0.760% p.a. as of December 31, 2010 and 2009, respectively	$ 4,500,000	$ 5,250,000
Less: Unamortized discounts	3,027	4,004
	$ 4,496,973	$ 5,245,996

The Corporation entered into Fixed Rate Commercial Paper contracts with International Bills Finance Corporation, Mega Bills Finance Corporation and China Bills Finance Corporation in April 2009. The duration of the contracts is five years and the cycle of issuance is sixty days, during which the Corporation pays service fees and interests. Therefore, the Corporation recorded those commercial papers issued as long-term notes payable.

22. RETIREMENT BENEFIT PLAN

The pension plan under the Labor Pension Act (the “LPA”) is a defined contribution plan. Based on the LPA, the Corporation makes monthly contributions to employees’ individual pension accounts at 6% of monthly salaries and wages. Such pension costs were NT$72,231 thousand and NT$45,052 thousand for the years ended December 31, 2010 and 2009, respectively.

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

The Corporation makes contributions, equal to a certain percentage of salaries, to a pension fund, which is deposited in the Bank of Taiwan in the name of, and administered by the employees’ pension fund administration committee. According to above regulation, pension cost for the years ended December 31, 2010 and 2009 was NT$761,279 thousand and NT$1,363,903 thousand, respectively.

Since August 1999, the Corporation also made contributions, equal to a certain percentage of salaries of management personnel (vice presidents and above), to another pension fund, which is deposited in The Mega International Commercial Bank in the name of, and administered by the officers’ pension fund management committee. Pension cost for the years ended December 31, 2010 and 2009 was NT$5,129 thousand and NT$5,121 thousand, respectively.

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

Under SFAS No. 18, pension information based on actuarial calculation was as follows:

a. Components of net pension cost

	Years Ended December 31	
	2010	2009
Service cost	$ 704,700	$ 1,344,399
Interest cost	431,050	456,567
Projected return on plan assets	(359,806)	(422,406)
Amortization	(9,536)	(9,536)
Net pension cost	$ 766,408	$ 1,369,024

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

	December 31	
	2010	2009
Benefit obligation		
Vested benefit obligation	$ 15,537,647	$ 12,642,763
Non-vested benefit obligation	2,363,885	3,802,421
Accumulated benefit obligation	17,901,532	16,445,184
Additional benefits based on future salaries	5,018,959	3,094,819
Projected benefit obligation	22,920,491	19,540,003
Fair value of plan assets	(18,885,539)	(17,842,102)
Funded status	4,034,952	1,697,901
Unrecognized net asset at transitional	33,375	42,911
Unamortized net loss	(4,034,690)	(1,612,588)
Accrued pension cost (included in accrued expense)	$ 33,637	$ 128,224
Vested benefits	$ 18,262,754	$ 14,894,185

c. Actuarial assumptions

	December 31	
	2010	2009
Discount rate used in determining present values	2.25%	2.25%
Future salary increase rate	3.00%	2.00%
Expected rate of return on plan assets	2.00%	2.00%

	Years Ended December 31	
	2010	2009
d. Contributions to the fund	$ 863,497	$ 1,348,362
e. Payments from the fund	$ 110,017	$ 431,435

23. DEFERRED CREDITS - GAIN FROM AFFILIATES

	December 31	
	2010	2009
Gain on disposal of land	$ 1,136,164	$ 1,136,164
Gain on contracted projects	836,104	777,832
Gain on disposal of stocks	35,282	-
	$ 2,007,550	$ 1,913,996

A deferred income of NT$1,405,040 thousand was recorded for the unrealized gain from the sale of land to CPDC in February 1999. The Corporation repurchased some of the land in January 2005 for construction of its office building and thus the deferred credits decreased by NT$268,876 thousand. The remaining deferred credit will be recognized as income when CPDC sells the rest of the land to third parties.

The Corporation contracted engineering projects with KRTC and DSC, resulting in deferred gain. Such deferred credits arising from the projects with KRTC and DSC are recognized as income over 8 to 30 years after completion of the constructions.

In September, 2010, the Corporation sold the stock of AC, financial assets carried at cost, to GIC, and recognized unrealized gain on disposal of investments of NT$35,733 thousand (Notes 10 and 29), which will be realized when GIC disposes of the stock.

24. STOCKHOLDERS' EQUITY

a. Capital stock

In August 2010 and 2009, the Corporation, through capitalization of retained earnings of NT$4,333,820 thousand and NT$5,369,758 thousand, issued common shares of 433,382 thousand and 536,976 thousand, respectively. For the year ended December 31, 2009, two thousand preferred shares have been converted to common shares and have been registered with the government.

b. Treasury stock

	Thousand Shares			December 31	
Purpose of Treasury Stock	Beginning of Year	Addition	Reduction	Thousand Shares	Book Value
Year ended December 31, 2010					
Shares acquired and held by subsidiaries	279,375	15,938	10,551	284,762	$ 8,151,621
Year ended December 31, 2009					
Shares acquired and held by subsidiaries	276,103	20,517	17,245	279,375	$ 8,189,031
Shares acquired by the Corporation for transfer to employees	108,000	-	108,000	-	-
	384,103	20,517	125,245	279,375	$ 8,189,031

1) Shares acquired and held by subsidiaries

The Corporation's shares acquired and held by subsidiaries were accounted for as treasury stock (subsidiaries recorded them as financial instruments held for trading - current, available-for-sale financial assets - noncurrent). Treasury stock increased due to acquisition of the Corporation's shared by subsidiaries in which the Corporation has less than 50% shareholding. Treasury stock decreased mainly due to subsidiaries' sales of the Corporation's shares and change in percentage of ownership. For the years ended December 31, 2010 and 2009, the proceeds for treasury stock sold amounted to NT$401,005 thousand and NT$512,835 thousand, and after deducting book values, resulted in the amounts of NT$102,280 thousand and NT$ 98,225 thousand (recorded as capital surplus), respectively.

As of December 31, 2010 and 2009, the market values calculated by combined holding percentage of the treasury shares were NT$9,539,536 thousand and NT$9,219,372 thousand, respectively.

2) Shares acquired for transfer to employees

On October 7, 2008, the Corporation's Board of Directors approved the buyback of 300,000 thousand outstanding common shares from the open market during October 8, 2008 to December 7, 2008 at the price between NT$21.18 and NT$52.67 per share for the transfer of these shares to employees. All the actual buyback of 108,000 thousand common shares have been transferred to employees in the fourth quarter of 2009.

Under the Securities and Exchange Act, the Corporation's share repurchase is restricted to up to 10% of total issued shares, and the total purchase amount should not exceed the sum of retained earnings, paid-in capital in excess of par value and realized capital surplus. In addition, the Corporation should transfer those shares to employees within three years.

Further, the Corporation should not pledge these stocks as collateral and should not collect dividends or exercise voting rights on these stocks. The shares of the Corporation held by subsidiaries are treated as treasury stocks. The Corporation's shares held by subsidiaries with shareholdings over 50% is not allowed to participate in the Corporation's capital increase in cash and have no voting right; others have the same right as common stockholders.

3) Treasury stock-based compensations

On October 2, 2009, options for 108,000 thousand common shares were granted to employees of the Corporation and its subsidiaries (104,560 thousand shares and 3,440 thousand shares, respectively). In 2009, all treasury stock options were exercised.

Options granted were priced with the Black-Scholes pricing model, and the inputs to the model were as follows:

Grant-date share price (NT$)	29.9
Transferred price (NT$)	22.29
Expected volatility	27.838%
Expected duration life (day)	1
Expected dividend yield	0%
Risk-free interest rate	0.86%

Expected volatility is based on the historical stock price volatility over the past 5 years. The Corporation recognized salary expense of NT$795,700 thousand in the fourth quarter of 2009. Capital surplus recognized from transferring treasury stocks to subsidiaries was NT$24,362 thousand. The transferred price was lower than the carrying value of the treasury stocks by NT$102,634 thousand, which was deducted from capital surplus.

c. Overseas depositary receipts

In May 1992, February 1997 and October 2003, the ROC's Ministry of Economic Affairs ("MOEA") sold its holding shares in the Corporation through issuances of 88,329,150 units of Global Depositary Receipts ("GDR"), the depositary receipts then increased by 6,626,885 units resulting from the capitalization of retained earnings. Each unit represents 20 shares of the Corporation's common stock and equals to the Corporation's common shares totaling 1,899,120,921 shares (including 221 fractional stocks). Under relevant regulations, the GDR holders may also request the conversion to the shares represented by the GDR. The foreign investors may also request the reissuance of such depositary receipts within the originally approved units. As of December 31, 2010 and 2009, the outstanding depositary receipts were 4,648,214 units and 4,388,466 units, equivalent to 92,964,521 common shares (including 241 fractional stocks) and 87,769,551 common shares (including 231 fractional stocks), which represented 0.69% and 0.67% 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 stock is through its retained earnings or the proceeds from issuance of new shares; conversion of shares into common stock at the ratio of 1:1.

e. Capital surplus

Capital surplus comprised the following:

	December 31	
	2010	**2009**
Additional paid-in capital - issuance of common shares to exchange for subsidiaries	$ 15,717,185	$ 15,717,185
Treasury stock transactions	3,976,052	3,585,210
Long-term stock investments	371,140	288,017
Others	8,099	8,099
	$ 20,072,476	$ 19,598,511

Under relevant regulations, capital surplus from acquiring the ownership of subsidiaries and treasury stock transaction may be used to offset a deficit or capitalized, which however is limited to a certain percentage of the Corporation's paid-in capital and once a year. 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 provides that the annual net income, less any deficit, should be appropriated in the following order of presentation:

1) 10% as legal reserve, until its balance equals the issued capital stock;

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 annual income. If necessary, it may, after appropriating preferred stock dividends, propose to retain certain earnings as a special reserve. These proposals should be submitted to the stockholders' meeting for approval.

The Corporation is required to appropriate 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 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 December 31, 2010, the Corporation had fully reversed the special reserve under relevant regulations which accounted for the balance of deduction in stockholders' equity, and the unreversed special reserve was held for the capital demand of expansion construction.

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

Estimated bonus to employees, and remunerations to directors and supervisors were NT$2,701,965 thousand and NT$50,662 thousand, respectively, for the year ended December 31, 2010, and NT$1,528,288 thousand and NT$28,655 thousand, respectively, for the year ended December 31, 2009. The bonus to employees and remuneration to directors and supervisors were calculated based on the percentages provided by the Corporation's Articles of Incorporation and accrued based on past experiences. Material differences between any estimated amounts and the amounts proposed by the Board of Directors in the following year are adjusted for in the current year. 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.

Under the Company Law, legal reserve may be used to offset a deficit, or be distributed as dividends and bonuses for the portion in excess of 50% of the paid-in capital if the Corporation has no unappropriated earnings and the reserve balance has exceeded 50% of the Corporation's capital stock. The Company Law also prescribes that, when the reserve has reached 50% of the Corporation's capital stock, up to 50% of the reserve may be transferred to capital.

The Corporation's stockholders in their June 2010 and 2009 meetings approved the following appropriations of the 2009 and 2008 earnings, respectively (the change of preferred stock and common stock dividends due to preferred stock converted to common stock has been adjusted by actual appropriation on the effective date of appropriations).

	Amount		Dividends Per Share (NT dollars)	
	2009	**2008**	**2009**	**2008**
Legal reserve	$ 1,952,817	$ 2,402,556		
Preferred stocks				
Cash dividends	40,947	49,751	$ 1.07	$ 1.30
Stock dividends	12,628	16,455	0.33	0.43
			$ 1.40	$ 1.73
Common Stocks				
Cash dividends	13,225,464	16,184,404	$ 1.01	$ 1.30
Stock dividends	4,321,192	5,353,303	0.33	0.43
	$ 19,553,048	$ 24,006,469	$ 1.34	$ 1.73

The bonus to employees and the remuneration to directors and supervisors for 2009 and 2008 approved in the aforementioned stockholders' meetings were as follows (settled by cash):

	Year Ended December 31, 2009		Year Ended December 31, 2008	
	Bonus to Employees	**Remuneration to Directors and Supervisors**	**Bonus to Employees**	**Remuneration to Directors and Supervisors**
Amounts approved in stockholders' meetings	$ 1,528,288	$ 28,655	$ 1,877,002	$ 35,194
Amounts recognized in respective financial statements	1,528,288	28,655	1,637,715	30,707
Difference	$ -	$ -	$ 239,287	$ 4,487

The differences between the amounts approved in stockholders' meeting in 2009 and the accrual amounts reflected in the financial statements for the year ended December 31, 2008 were primarily due to the difference of estimation and had been adjusted in profit and loss for the year ended December 31, 2009.

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:

	December 31	
	2010	2009
Revaluation increment of property, plant and equipment and patents	$ 21,871,755	$ 21,913,148
Recognized in proportion to the ownership percentage in long-term stock investments	2,185	-
	$ 21,873,940	$ 21,913,148

h. Unrealized gain on financial instruments

For the years ended December 31, 2010 and 2009, movements of unrealized gain on financial instruments were as follows:

	Available-for-sale Financial Assets	Equity-method Investments	Unrealized Gain or Loss on Cash Flow Hedging	Total
Year ended December 31, 2010				
Balance, beginning of year	$ 3,124,306	$ 461,850	$ 630,275	$ 4,216,431
Recognized in stockholders' equity	(185,756)	(1,055,295)	(59,104)	(1,300,155)
Transferred to construction in progress and prepayments for equipment	-	-	(541,899)	(541,899)
Balance, end of year	$ 2,938,550	$ (593,445)	$ 29,272	$ 2,374,377
Year ended December 31, 2009				
Balance, beginning of year	$ 3,623,089	$ 1,983,109	$ 901,807	$ 6,508,005
Recognized in stockholders' equity	1,143,801	(1,521,259)	(262,060)	(639,518)
Transferred to profit or loss	(1,642,584)	-	-	(1,642,584)
Transferred to construction in progress and prepayments for equipment	-	-	(9,472)	(9,472)
Balance, end of year	$ 3,124,306	$ 461,850	$ 630,275	$ 4,216,431

i. Cumulative translation adjustments

Change in composition of cumulative translation adjustments for the years ended December 31, 2010 and 2009 were as follows:

	Years Ended December 31	
	2010	2009
Balance, beginning of year	$ 183,001	$ 358,976
Recognized in stockholders' equity	(284,444)	(175,975)
Balance, end of year	$ (101,443)	$ 183,001

25. INCOME TAX

a. A reconciliation of income tax expense based on income before income tax at the 17% and 25% statutory rate for the years ended December 31, 2010 and 2009, respectively, and income tax expense was as follows:

	Years Ended December 31	
	2010	2009
Income tax expense at the statutory rate	$ 7,496,026	$ 5,039,960
Tax effect adjusting items		
Permanent differences		
Investment income recognized under equity method - domestic	(1,332,999)	(2,211,832)
Unrealized gain on valuation and gain on disposal of financial assets	(2,137)	(414,576)
Dividends	(25,488)	(26,242)
Others	17,856	(41)
Temporary differences		
Difference between tax reporting and financial reporting - depreciation methods	123,228	220,985
Unrealized loss on service commitments	114,281	208,667
Realized gain on hedging of forward foreign exchange	92,123	2,202
Cash dividends - foreign investees	60,320	32,269
Preferential severance pay	47,358	(46,804)
Investment income recognized under equity method - foreign investees	(69,123)	(121,747)
Unrealized (realized) impairment loss of investees	(36,623)	1,050
Unrealized (realized) gain from affiliates	(8,094)	44,964
Realized provision for loss on inventories	(4,754)	(2,759,421)
Realized loss on purchase commitments	-	(1,475,381)
Others	(1,067)	29,186
Investment tax credits used	(1,629,595)	-
Loss carryforward recognized	-	1,476,761
Additional 10% income tax on unappropriated earnings	4,945	-
Income tax currently payable	4,846,257	-
Tax separately levied on interest from short-term bills	-	202

(Continued)

	Years Ended December 31	
	2010	2009
Adjustments for prior years' tax	$ 21,053	$ (1,271,044)
Current income tax expense (benefit)	4,867,310	(1,270,842)
Deferred tax		
Temporary differences	(309,880)	3,579,765
Investment tax credits	806,532	(806,532)
Loss carryforwards	1,004,197	(1,181,409)
Effect of tax law changes on deferred assets	139,286	236,340
Income tax expense	$ 6,507,445	$ 557,322

(Concluded)

b. Changes in income tax payable

	Years Ended December 31	
	2010	2009
Balance, beginning of year	$ -	$ 5,749,662
Current income tax expense (benefit)	4,867,310	(1,270,842)
Payment in the current year	(32,520)	(4,478,820)
Balance, end of year	$ 4,834,790	$ -

During the years ended December 31, 2010 and 2009, the Legislative Yuan passed the following amendments to tax laws:

1) In January 2009, the Legislative Yuan passed the amendment of Article 39 of the Income Tax Law, which extends loss carryforwards tax credit period from 5 years to 10 years.

2) In March 2009, the Legislative Yuan passed the amendment of Article 24 of the Income Tax Law, which requires the profit-seeking enterprise that invests in short-term notes for which the issuance dates are on and after January 1, 2010 to include the interest income arising, which was taxed separately prior to January 1, 2010, in its taxable income.

3) In May 2009, the Legislative Yuan passed the amendment of Article 5 of the Income Tax Law, which reduced a profit-seeking enterprise's income tax rate from 25% to 20%, effective January 1, 2010. Then in May 2010, the Legislative Yuan passed another amendment of Article 5 of the Income Tax Law, which reduces a profit-seeking enterprise's income tax rate from 20% to 17%, effective January 1, 2010.

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

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

	December 31	
	2010	**2009**
Current		
Deferred income tax assets		
Unrealized loss on service commitments	$ 256,174	$ -
Unrealized impairment loss on spare parts	163,824	169,025
Estimated preferential severance pay	120,182	85,675
Unrealized gain from affiliates	42,760	71,482
Unrealized provision for loss on inventories	5,179	11,687
Loss carryforwards	-	1,181,409
Investment tax credits	-	806,532
Unrealized difference between tax reporting and financial reporting - inventory	-	8,814
Others	23,034	194,752
	611,153	2,529,376
Deferred income tax liabilities		
Unrealized difference between tax reporting and financial reporting - inventory	(17,651)	-
Total deferred income tax assets - current, net	593,502	2,529,376
Noncurrent		
Deferred income tax assets		
Impairment loss on financial assets	985,984	1,203,067
Unrealized gain from affiliates	142,138	155,567
Unrealized gain on hedging of forward exchange settlement	94,942	-
Impairment loss on assets	-	12,762
Others	1,626	6,725
	1,224,690	1,378,121
Deferred income tax liabilities		
Temporary difference between tax reporting and financial reporting - depreciation methods	(1,319,741)	(1,698,225)
Foreign investment income	(386,693)	(392,939)
Unrealized gain on cash flow hedge	(5,996)	-
Unrealized gain on revaluation increment	(36,577)	-
Others	-	(64,440)
	(1,749,007)	(2,155,604)
Total deferred income tax liabilities - noncurrent, net	(524,317)	(777,483)
Total deferred income tax assets, net	$ 69,185	$ 1,751,893

Under related regulations, the above tax credits resulted from purchases of machinery and equipment, research and development and personnel training expenditures.

Temporary difference for depreciation between tax reporting and financial reporting mainly resulted from the adoption of accelerated depreciation method in the filing of income tax returns.

The Corporation’s income tax returns through 2006 have been examined by the tax authorities.

The Corporation adopted the linked tax system for tax filing with DSC from 2009.

d. Information about integrated income tax was as follows:

	December 31	
	2010	**2009**
Imputation credit account (ICA)	$ 678,175	$ 5,522,124
Unappropriated earnings generated before January 1, 1998	15,440	35,440

The creditable ratio for distribution of 2010 and 2009 earnings was 14.65% (estimated) and 33.33%, respectively.

For distribution of earnings generated after January 1, 1998, the ratio for the imputation credits allocated to domestic shareholders of the Corporation is based on the balance of the ICA as of the date of dividend distribution. Nonresident stockholders, including holders of overseas depository receipts, are allowed only a tax credit from the 10% income tax on unappropriated earnings, which can be used to offset withholding income tax on dividends paid. The expected creditable ratio for the 2010 earnings may be adjusted, depending on the ICA balance on the date of dividend distribution.

26. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

	Years Ended December 31							
	2010				2009			
	Operating Cost	Operating Expense	Others	Total	Operating Cost	Operating Expense	Others	Total
Personnel								
Salary	$ 16,483,895	$ 2,993,411	$ 546,006	$ 20,023,312	$ 13,261,417	$ 2,646,889	$ 218,473	$ 16,126,779
Labor and health insurance	580,499	102,885	15,071	698,455	573,683	94,447	5,476	673,606
Pension and consolation costs	692,213	179,442	444,793	1,316,448	1,188,700	257,357	10,745	1,456,802
Others	394,677	154,090	18,290	567,057	280,701	153,009	7,289	440,999
	$ 18,151,284	$ 3,429,828	$ 1,024,160	$ 22,605,272	$ 15,304,501	$ 3,151,702	$ 241,983	$ 18,698,186
Depreciation	$ 14,279,170	$ 371,152	$ 2,653	$ 14,652,975	$ 12,504,442	$ 334,569	$ 21,334	$ 12,860,345
Amortization	52,913	22,097	-	75,010	58,118	65,406	-	123,524

27. EARNINGS PER SHARE

	Amount (Numerator)		Shares (Denominator) (Thousand)	Earnings Per Share (NT dollars)	
	Before Tax	After Tax		Before Tax	After Tax
Year ended December 31, 2010					
Net income	$ 44,094,271	$ 37,586,826			
Less: Dividends on preferred shares	(62,850)	(53,575)			
Basic EPS					
Net income attributable to common stockholders	44,031,421	37,533,251	13,243,139	$ 3.32	$ 2.83
Effect of dilutive potential common stock					
Add: Dividends on preferred shares	62,850	53,575	38,268		
Bonus to employees	-	-	115,235		
Diluted EPS					
Net income attributable to common stockholders plus effect of potential dilutive common stock	$ 44,094,271	$ 37,586,826	13,396,642	3.29	2.81

(Continued)

	Amount (Numerator)		Shares (Denominator)	Earnings Per Share (NT dollars)	
	Before Tax	After Tax	(Thousand)	Before Tax	After Tax
Year ended December 31, 2009					
Net income	$ 20,159,839	$ 19,602,517			
Less: Dividends on preferred shares	(55,098)	(53,575)			
Basic EPS					
Net income attributable to common stockholders	20,104,741	19,548,942	13,135,807	$ 1.53	$ 1.49
Effect of dilutive potential common stock					
Add: Dividends on preferred shares	55,098	53,575	38,268		
Bonus to employees	-	-	76,679		
Diluted EPS					
Net income attributable to common stockholders plus effect of potential dilutive common stock	$ 20,159,839	$ 19,602,517	13,250,754	1.52	1.48

(Concluded)

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.

In earnings per share calculation for the year ended December 31, 2009, the number of outstanding shares was retroactively adjusted for the effect of capitalization of 2009 earnings. Thus basic earnings per share before tax and after tax decreased from NT$1.58 to NT$1.53 and from NT$1.54 to NT$1.49, respectively.

28. FINANCIAL INSTRUMENTS

a. As of December 31, 2010 and 2009, the information of fair values was as follows:

	December 31			
	2010		2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	$ -	$ -	$ 4,062,844	$ 4,062,844
Available-for-sale financial assets (including noncurrent)	5,203,714	5,203,714	5,094,589	5,094,589
Financial assets carried at cost	6,829,728	-	5,575,210	-
Bond investments with no active market	103,000	103,000	103,000	103,000
Other financial assets (including noncurrent)	1,847,321	1,847,321	4,978,230	4,978,230
Refundable deposits	116,518	116,518	138,324	138,324

(Continued)

	December 31			
	2010		2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Liabilities				
Bonds payable (including current portion)	$ 43,278,066	$ 44,230,408	$ 43,268,970	$ 44,213,638
Long-term debt - bank (including current portion)	23,181,624	23,181,624	5,234,716	5,234,716
Long-term notes payable	4,496,973	4,496,973	5,245,996	5,245,996
Derivative financial instrument				
Hedging derivative assets (including noncurrent)	-	-	61,976	61,976
Hedging derivative liabilities (including noncurrent)	6,414	6,414	-	-

(Concluded)

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

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

2) The fair values of financial assets at fair value through profit or loss and 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 subscription 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 and etc. and calculated with the Black-Scholes Model. For hedging derivative instruments, the information used by the Corporation for determining assumptions applied in valuation is in consistent with that used by market participants and is obtained from financial institutions. For fair values of financial instruments denominated in foreign currencies, the translation to New Taiwan dollars is based on exchange rates used are based on the buying rates quoted by the Central Bank and on the rates quoted by Reuters.

3) The fair values of long-term liabilities and foreign currency deposits of other financial assets are determined by the present values of future cash flows. If there is market price available for reference, the fair values are determined. 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 for the Corporation. Discount rates as of December 31, 2010 and 2009 were from 0.6% to 5.68895% and from 0.4% to 4.14429%, respectively.

4) Financial assets carried at cost are financial instruments issued by non-public corporations which do not have active market price and whose verifiable fair value cannot be determined at a reasonable cost.

5) The fair value of bond investments with no active market is determined at their carrying values.

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

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

	Amount Determined by Quoted Market Price		Amount Determined by Using Valuation Technique	
	December 31		December 31	
	2010	2009	2010	2009
Assets				
Financial assets at fair value through profit or loss	$ -	$ 4,062,844	$ -	$ -
Available-for-sale financial assets (including noncurrent)	4,938,442	5,094,589	265,272	-
Bond investments with no active market	-	-	103,000	103,000
Other financial assets (including noncurrent)	-	-	1,847,321	4,978,230
Hedging derivative assets (including noncurrent)	-	-	-	61,976
Refundable deposits	-	-	116,518	138,324
Liabilities				
Hedging derivative liabilities (including noncurrent)	-	-	6,414	-
Bonds payables (including current portion)	44,230,408	44,213,638	-	-
Long-term debt - bank (including current portion)	-	-	23,181,624	5,234,716
Long-term notes payable	-	-	4,496,973	5,245,996

d. There is no gain or loss for the estimated change in fair value by using valuation technique for the years ended December 31, 2010 and 2009.

e. As of December 31, 2010 and 2009, financial liabilities with cash flow risk of the interest rate change were NT$29,020,361 thousand and NT$16,691,462 thousand, respectively, and financial liabilities with fair value risk of the interest rate change were NT$46,977,705 thousand and NT$51,268,747 thousand, respectively.

f. The Corporation's total interest revenues 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$91,999 thousand and NT$1,285,593 thousand, respectively, for the year ended December 31, 2010 and NT$97,092 thousand and NT$1,175,699 thousand, respectively, for the year ended December 31, 2009.

g. Financial risks

1) Market risk

Market risk includes fair value risk of interest rate change, exchange rate risk, and market price risk. The Corporation had loans in foreign currencies to hedge the exchange rate fluctuations on its long term investment in foreign currencies, thus, the exchange rate risk can be hedged naturally. The Corporation issues the bonds payable with the fixed interest rate, and the fair value of the bonds payable will be influenced by the 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$971,018 thousand.

The Corporation's investments in stocks of TSMC, Maruichi Steel Tube Ltd., Yodogawa Steel Works, Ltd., TEWC, CSBC and RPC involve market risk. If the share price increases or decreases by 1%, the fair value will increase or decrease by about NT$52,037 thousand.

2) Credit risk

Credit risk represents the potential loss that would be incurred by the Corporation if the counter-parties breached 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's exposure to default by those parties to be material.

As of December 31, 2010, the maximum credit risk of off-balance-sheet guarantees provided to DSC was NT$15,323,971thousand (US$503,664 thousand).

3) Liquidity risk

The Corporation has sufficient operating capital to meet future cash needs. Therefore, the cash flow risk is low.

Available-for-sale financial assets could be sold rapidly in the active market at prices approximating fair value.

There are liquidity risks for the financial assets carried at cost and bond investments with no active market 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%, the Corporation's cash outflow will increase by about NT$290,204 thousand.

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

The Corporation borrowed debt, purchased time deposit - 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 and contracts of purchasing machinery and equipment.

		Designated Hedging Instrument		
			Changes in Fair Value	
			Years Ended December 31	
Hedge Type	**Hedged Item**	**Financial Instrument**	**2010**	**2009**
Fair value hedge	Stock investments in EAUS Corporation (recorded as financial assets carried at cost - noncurrent)	Debt in YEN	($ 111,375)	$ 164,835
Fair value hedge	Stock investments in Maruichi Steel Tube Ltd. (recorded as available-for-sale financial assets - noncurrent)	Debt in YEN	(29,250)	43,290
Fair value hedge	Stock investments in Yodogawa Steel Works, Ltd. (recorded as available-for-sale financial assets - noncurrent)	Debt in YEN	(13,658)	20,213
Hedge of a net investment in a foreign operation	Stock investment in CSCAU (recorded as investments accounted for by the equity method)	Debt in AUD	(14,932)	(99,926)
Hedge of a net investment in a foreign operation	Stock investment in CSVC (recorded as investments accounted for by the equity method)	Debt in USD	95,257	47,014
Cash flow hedge	Contracts for purchasing machinery and equipment	Deposit-foreign currency	23,519	(276,481)
Cash flow hedge	Contracts for purchasing machinery and equipment	Forward contracts	(76,627)	14,421

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

As of December 31, 2010 and 2009, the fair values of the above foreign currency deposits on cash flow hedge were NT$1,847,321 thousand and NT$4,978,230 thousand, respectively, recorded as other financial assets (including noncurrent) (Note 13).

29. RELATED PARTY TRANSACTIONS

a. Related parties

Related Parties	Relationship with the Corporation
C. S. Aluminum Corporation (CAC)	Affiliate
China Steel Express Corporation (CSE)	Affiliate
China Steel Chemical Corporation (CSCC)	Affiliate
China Steel Global Trading Corporation	Affiliate
China Hi-ment Corporation (CHC)	Affiliate
China Ecotek Corporation (CEC)	Affiliate
China Steel Structure Corporation (CSSC)	Affiliate
Chung Hung Steel Corporation (CHSC)	Affiliate
China Steel Machinery Corporation (CSMC)	Affiliate
Gains Investment Corporation (GIC)	Affiliate
China Steel Security Corporation	Affiliate
China Prosperity Development Corporation	Affiliate
Info-Champ Systems Corporation	Affiliate
China Steel Management Consulting Corporation	Affiliate
Hi-mag Magnetic Corporation	Affiliate
Long Yuan Fa Investment Corporation	Affiliate
Horng Yih Investment Corporation	Affiliate
Goang Yaw Investment Corporation	Affiliate
Dragon Steel Corporation (DSC)	Affiliate
China Steel Sumikin Vietnam Joint Stock Company (CSVC)	Affiliate
Chung Mao Trading (BVI) Corp.	Affiliate
Chung Mao Trading (SAMOA) Co.	Affiliate
CSGT (Singapore) Pte. Ltd.	Affiliate
CSE Transport Corp. (Panama) (CSEP)	Affiliate
Mentor Consulting Corporation	Affiliate
Steel Castle Technology Corp.	Affiliate
Union Steel Development Corp.	Affiliate
Betacera Inc.	Affiliate
Wabo Globe Trading Corporation (WGTC)	Affiliate
Universal Exchange Inc.	Affiliate
United Steel Engineering and Construction Corporation	Affiliate
Thintech Materials Technology Co., Ltd.	Affiliate
Pao Good Industrial Co., Ltd.	Affiliate
CSGT International Corp.	Affiliate
CSGT Metals Vietnam Joint Stock Company	Affiliate
CSC Steel Sdn. Bhd. (CSSB)	Affiliate
Group Steel Corp. (M) Sdn. Bhd.	Affiliate
CSGT (JAPAN) Co., Ltd.	Affiliate
CSGT Hong Kong Limited	Affiliate
CSGT (SHANGHAI) Co., Ltd.	Affiliate
Ever Glory International Co., Ltd.	Affiliate
CSC Sonoma Pty Ltd.	Affiliate
Kaohsiung Rapid Transit Corporation	Equity method investee
TaiAn Technologies Corporation	Equity method investee
Hsin Hsin Cement Enterprise Co.	Equity method investee

(Continued)

Related Parties	Relationship with the Corporation
Kaohsiung Port Cargo Handling Services Corp.	Equity investee of the Corporation's affiliate
CSBC Corporation Taiwan (CSBC)	CSBC's director
Tang Eng Iron Works Co., Ltd. (TEI)	TEI's director
CSC Educational Foundation	Foundation established mainly from the Corporation's donation
Others	Substantial control and significant influence over investees, but no material transactions

(Concluded)

The Corporation revised the definition of its related parties by adopting the Interpretation issued by the ARDF on December 31 2010. Retroactive adjustments were made to the related-party transactions for the year ended December 31, 2009.

b. Significant related-party transactions were as follows:

Sales and purchases

The sales transactions with related parties were NT$24,124,098 thousand (10%, including CSSB, CSSC and CSCC, etc.) and NT$13,932,112 thousand (9%, including CSSB, CSCC and CSSC, etc.), respectively, and the purchases transactions with related parties were NT$28,920,926 thousand (19%, including CSEP, DSC and CAC, etc.) and NT$13,371,846 thousand (16%, including CSEP, CSE and CAC, etc.), respectively, for the years ended December 31, 2010 and 2009.

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

Sale of financial assets carried at cost (only for the year ended December 31, 2010)

In September and December, 2010, the Corporation sold the stock of AC and Mega I Venture Capital Co., Ltd. to GIC for proceeds of NT$138,683 thousand and NT$12,688 thousand, respectively. (Notes 10 and 23)

Assets lease

The Corporation leases its land and machinery equipment to CAC, CSMC, CSCC, CSSC and CHC, etc. Rentals were calculated at 4% to 10% p.a. of land assessed value as published by the government or under normal terms. Rentals were collected semiannually, except for rental from CAC on land and machinery and that from CSCC on the storage tank and pipelines, which are collected monthly. Lease information was as follows:

		Rental Income for the Years Ended December 31			
		2010		2009	
	Expiry of Contracts	Amount	%	Amount	%
CAC	February 2016	$ 57,010	35	$ 56,176	35
CSMC	November 2011	28,765	18	29,372	18
CSCC	December 2012	20,084	12	20,282	13
Others	May 2018	31,053	19	30,179	19
		$ 136,912	84	$ 136,009	85

Other revenues

Other revenues pertained to professional services, processing of products, utilities, construction, royalties and other services to related parties. These were recorded in other operating revenues and nonoperating income and gains as follows:

	Other Operating Revenue	%	Nonoperating Income and Gains	%	Total
Year ended December 31, 2010					
TEI	$ 796,267	17	$ 125	-	$ 796,392
DSC	666,641	15	4,841	-	671,482
CHSC (Note 10)	70,981	2	294,022	30	365,003
Others	470,880	10	124,446	13	595,326
	$ 2,004,769	44	$ 423,434	43	$ 2,428,203
Year ended December 31, 2009					
DSC	$ 795,940	21	$ 1,823	-	$ 797,763
TEI	735,635	20	125	-	735,760
CHSC (Note 10)	29,701	1	288,953	36	318,654
Others	299,444	8	123,147	16	422,591
	$ 1,860,720	50	$ 414,048	52	$ 2,274,768

The Corporation provided technical service to DSC and CSVC and recognized a loss on commitments of NT$1,618,612 thousand and NT$1,478,720 thousand, respectively, for the years ended December 31, 2010 and 2009.

Other expenditures

Other expenditures paid to related parties for the years ended December 31, 2010 and 2009 (including CEC, CHC and CSMC, etc.) were NT$3,800,483 thousand and NT$3,153,222 thousand, respectively. Other expenditures that pertained to commissions for processing services, export shipping charges, maintenance and repairs, commissions for export and import services, etc., were recorded in other operating costs, manufacturing expenses, operating expenses and nonoperating expenses and losses.

Other expenditures paid to related parties were made under normal terms applied to similar transactions in the market.

Capital expenditures

In August 2007, the Corporation bought land from CHC for construction of its factories. The contract price was a total of NT$977,257 thousand, which was determined by reference to the appraisal report. As of December 31, 2010, the Corporation had paid in full.

The construction in progress transacted with related parties for the years ended December 31, 2010 and 2009 (including CEC, CSMC and CSSC, etc.) were NT$6,676,076 thousand and NT$7,074,979 thousand, respectively.

Donation expenditures

The Corporation donated NT$16,450 thousand and NT$1,168 thousand to CSC Educational Foundation for the years ended December 31, 2010 and 2009, respectively. This foundation is established for promotion of education and personnel training in steel and related fields.

Balances at year-end

	December 31			
	2010		2009	
	Amount	%	Amount	%
Notes receivable - related parties				
CSBC	$ 537,208	43	$ 222,401	34
Others	-	-	30	-
	$ 537,208	43	$ 222,431	34
Accounts receivable - related parties				
CSCC	$ 250,312	10	$ 322,756	11
Others	339,219	14	607,146	22
	$ 589,531	24	$ 929,902	33
Other receivable				
CHSC	$ 66,956	6	$ 72,932	9
Notes payable - related parties				
CHSC	$ 23,163	100	$ -	-
Accounts payable – related parties				
CSEP	$ 862,534	14	$ 2,495,447	49
Others	447,130	8	608,998	12
	$ 1,309,664	22	$ 3,104,445	61

Guarantees

As of December 31, 2010 and 2009, guarantees provided to DSC were NT$15,323,971 thousand (US$503,664 thousand), and NT$17,813,677 thousand (US$556,851 thousand), respectively.

c. Compensation of directors, supervisors and management personnel

	Years Ended December 31	
	2010	2009
Salaries	$ 101,611	$ 86,721
Incentives	30,149	27,553
Bonus	41,167	23,033
	$ 172,927	$ 137,307

30. PLEDGED ASSETS

Time deposits of NT$4,658,275 thousand and NT$4,164,301 thousand (recorded as restricted assets - current and noncurrent) as of December 31, 2010 and 2009, respectively, have been pledged mainly as collaterals for bank overdraft, etc. As of December 31, 2010 and 2009, land with book value (including revaluation increment) of NT$17,058,175 thousand had been pledged as collateral for a long-term debt.

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

a. The Corporation is guaranteed of NT$378,087 thousand by Mega Bank, Shanghai Commercial and Savings Bank and the Land Bank of Taiwan for several construction, warranty, lease and payment contracts.

b. Unused letters of credit to import the materials and machinery amounted to NT$6.4 billion.

c. Property purchase and construction contracts of NT$2.6 billion were unrecorded.

d. The Corporation entered into raw material purchase contracts with suppliers in Australia, Brazil, Canada, Japan and domestic companies with contract terms of 1 to 10 years. Contracted annual purchases of 8,480,000 metric tons of coal, 17,290,000 metric tons of iron ore, and 2,910,000 metric tons of limestone are at prices negotiable. Unpaid purchase amounts as of December 31, 2010 were US$17.8 billion (including 14,640,000 metric tons of coal; 101,990,000 metric tons of iron ore; and 780,000 metric tons of limestone).

e. In September 2006, CHSC entered into a syndicated credit facility agreement with Mega Bank and 21 other banks. Under the agreement, the Corporation and its related parties should collectively hold at least 30% of CHSC's outstanding shares and possess no less than half of CHSC's board seats as well as control of its operations. As of December 31, 2010, the Corporation directly and indirectly had total shareholdings in CHSC of 41% and all seats in the Board of Directors and control on its operations with subsidiaries.

f. DSC entered into two syndicated credit facility agreements for NT$20 billion and NT$51.7 billion, with the Bank of Taiwan and other banks in December 2009 and February 2008, respectively. Under the agreements, the Corporation and its related parties should collectively hold at least 80% and 40%, respectively, of DSC's outstanding shares and possess no less than half of DSC's board seats. As of December 31, 2010, the Corporation's equity in DSC aggregated 100% and held all board seats.

g. Guarantees provided to related parties were NT$15,323,971 thousand (US$503,664 thousand) (Note 29).

32. OTHERS

By adopting the Interpretation issued by the ARDF on February 18, 2011, the significant foreign-currency financial assets and liabilities were as follows:

	December 31, 2010			December 31, 2009		
	Foreign Currency Amount (Thousands)	Exchange Rate	NTD Amount (Thousands)	Foreign Currency Amount (Thousands)	Exchange Rate	NTD Amount (Thousands)
Monetary Financial Assets						
USD	$ 81,493	30.363	$ 2,472,888	$ 44,447	31.99	$ 1,422,362
JPY	2,854,121	0.3583	1,022,441	13,837,423	0.347	4,801,486
EUR	1,661	38.92	64,659	921	46.085	42,459

(Continued)

	December 31, 2010			December 31, 2009		
	Foreign Currency Amount (Thousands)	Exchange Rate	NTD Amount (Thousands)	Foreign Currency Amount (Thousands)	Exchange Rate	NTD Amount (Thousands)
Non-Monetary Financial Assets						
JPY	$ 14,206,000	0.3583	$ 5,089,300	$ 14,468,000	0.347	$ 5,020,396
Investments Accounted for by the Equity Method						
USD	180,827	30.363	5,490,464	173,329	31.99	5,544,804
AUD	22,958	29.6791	681,362	21,494	28.7762	618,510
Monetary Financial Liabilities						
USD	197,660	30.363	6,004,760	107,764	31.99	3,447,358
JPY	14,043,545	0.3583	5,031,101	14,470,665	0.347	5,021,321
AUD	16,540	29.6791	490,891	16,540	28.7762	475,958
EUR	608	38.92	23,645	934	46.085	43,037

(Concluded)

Derivative Financial Instruments

	Currency	Contract Exchange Rate	Contract Amount (In Thousands)
December 31, 2010			
Forward exchange contracts	NT$/EUR€	42.915-44.165	NT$82,353／EUR€1,891
December 31, 2009			
Forward exchange contracts	NT$/US$	31.394-31.721	NT$3,521,182／US$111,490
	NT$/EUR€	42.915-45.015	NT$532,503／EUR€11,891

If the above exchange rate of USD against NTD had been the prevailing exchange rate as of December 31, 2010 from Bank of Taiwan (US$1=NT$29.13), there would be no significant influence on the financial statement for the year ended December 31, 2010.

33. SEGMENT INFORMATION

The Corporation operates in a single industry: steel manufacturing and revenue coming from a particular customer is less than 10% of the revenue. Under Statement of Financial Accounting Standards No. 20 – "Segment Reporting," the Corporation discloses its export sales as follows:

	Years Ended December 31	
	2010 Amount	2009 Amount
South Asia	$ 39,084,123	$ 27,752,017
East Asia	15,589,911	11,382,878
Others	6,692,262	3,176,968
	$ 61,366,296	$ 42,311,863
Percentage (%) of the sales	26	26

APPENDIX

CHINA STEEL CORPORATION

ADDITIONAL EXPLANATIONS FOR ACCOUNTS IN STOCKHOLDERS' EQUITY YEARS ENDED DECEMBER 31, 2010 AND 2009

1. ADJUSTMENT FROM CHANGES IN EQUITY RECOGNIZED UNDER EQUITY METHOD

a. Long-term investment adjustment

When an investee's capital surplus changed, the investor should adjust its long-term stock investment account and capital surplus account based on its stockholding percentage.

b. Adjustment of equity in investee due to change in percentage of ownership

If an investee issues new shares and original stockholders do not subscribe the new shares proportionately, then the investment percentage, e.g. the equity in the investee's net assets, will change. This change shall be reflected as an adjustment of the additional paid-in capital (capital surplus) and the long-term stock investments accounts. If this adjustment is to reduce the additional paid-in capital resulting from long-term stock investments and its balance is insufficient, the difference should be adjusted to the unappropriated retained earnings.

2. CHANGE IN UNREALIZED GAIN (LOSS) ON AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial asset is measured at fair value and its value change is recorded as a reconciliation item in the stockholders' equity.

3. NET LOSS NOT RECOGNIZED AS PENSION COST

a. Net loss not recognized as pension cost is the minimum pension liability exceeding the sum of unrecognized prior service cost and unrecognized transitional net benefit obligation. It is classified as a reduction of stockholders' equity.

b. Minimum pension liability, which is calculated actuarially, is the minimum amount of pension liability that is required to be recognized on the balance sheet.

c. Prior service cost is the increase in projected benefit obligation due to an employee's accumulation of service years at the initial introduction of pension data or the subsequent pension data amendment.

d. Unrecognized transitional net assets or benefit obligation means the amount resulting from a change from a method specified in Statement of Financial Accounting Standards No. 18, "Accounting for Pensions." This amount is the difference between (a) the fair market value of plan assets plus accrued pension liability or less prepaid pension cost recognized previously in the books and (b) the projected benefit obligation. If the difference is positive, it is treated as unrecognized transition net assets; if the difference is negative, it is treated as unrecognized transition net benefit obligations.

4. DISPOSAL OF TREASURY STOCK

Treasury stock is transferred at the price which is determined at the purchase cost plus the Corporation financial cost up to the time that the transfer is made.

When treasury stocks are transferred, if the transfer price is higher than the book value, the difference should be credited to capital surplus. If the transfer price is lower than book value, the difference should first be offset against capital surplus from the same class of treasury stock transactions, and the remainder, if any, should be debited to unappropriated retained earnings.

5. DISPOSAL OF THE CORPORATION'S SHARES HELD BY SUBSIDIARIES

A parent company should account for its outstanding stocks held by its subsidiary as treasury stocks when it recognizes investment income and prepares financial statements, and the accounting treatment is the same as that stated in item 4 above.

6. CASH DIVIDENDS DECLARED BY THE CORPORATION AND RECEIVED BY SUBSIDIARIES

When an investor receives cash dividends from financial assets at fair value through profit or loss, available-for-sale financial assets, financial assets carried at cost and from a year after investment acquisition, it records these dividends as investment income. But if the cash dividend is from the parent company, the accounting for these dividends is the same as that for treasury stock, i.e., the investment income should be credited to capital surplus when the parent company prepares financial statements.