China Steel Corporation

Financial Statements for the
Nine Months Ended September 30, 2009 and 2008 and
Independent Accountants' Review Report

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

The Board of Directors and Stockholders
China Steel Corporation

We have reviewed the accompanying balance sheets of China Steel Corporation (the "Corporation") as of September 30, 2009 and 2008, and the related statements of income and cash flows for the nine months then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express our opinion on these financial statements based on our reviews.

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

As discussed in Note 13 to the accompanying financial statements, the carrying values of certain equity-method investees in financial statements (including unlisted subsidiaries and equity-method investees of listed subsidiaries) were NT$91,621,716 thousand and NT$60,843,793 thousand as of September 30, 2009 and 2008, respectively. The related net investment income were NT$3,500,354 thousand and NT$7,619,874 thousand for the nine months ended September 30, 2009 and 2008, respectively. These investment amounts as well as the investees' information disclosed in Note 33 to the accompanying financial statements were based on the investees' unreviewed financial statements for the same reporting periods as that of the Corporation.

Based on our reviews, except for the effects of any adjustments that might have been determined to be necessary had certain investees' financial statements and the investees' information disclosed as mentioned in the preceding paragraph been reviewed, we are not aware of any material modifications that should be made to the financial statements of China Steel Corporation for them to be 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 newly revised Statement of Financial Accounting Standards No.10-"Inventories", issued by the ARDF in November 2007. Also, on January 1, 2008, the Corporation adopted Interpretation 2007-052, "Accounting for Bonuses to Employees, Directors and Supervisors" issued by the ARDF in March 2007.

The Corporation has issued consolidated financial statements as of September 30, 2009 and 2008 with qualified review report which can be referred to for more information.

October 12, 2009

Notice to Readers

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

For the convenience of readers, the accountants' review report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language accountants' review report and 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
SEPTEMBER 30, 2009 AND 2008
(In Thousands of New Taiwan Dollars, Except Par Value)
(Reviewed, Not Audited)

ASSETS	2009 Amount	%	2008 Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 4)	$ 1,693,560	1	$ 2,626,408	1
Financial assets at fair value through profit or loss - current (Notes 2 and 5)	301,745	-	-	-
Available-for-sale financial assets - current (Notes 2 and 6)	1,878,728	1	3,930,982	2
Hedging derivative assets - current (Notes 2 and 7)	91,627	-	-	-
Notes receivable (Note 30)	440,934	-	2,425,778	1
Accounts receivable (Notes 2, 8 and 30)	3,113,204	1	3,832,044	1
Other receivables (Notes 11)	513,070	-	691,112	-
Other financial assets - current (Note 14)	192,663	-	-	-
Inventories (Notes 2 and 9)	31,052,044	10	50,672,985	18
Deferred income tax assets - current (Notes 2 and 26)	1,602,983	-	321,689	-
Restricted assets - current (Note 31)	4,150,002	1	4,174,354	2
Others (Notes 10 and 30)	7,632,373	2	6,503,257	2
Total current assets	52,662,933	16	75,178,609	27
INVESTMENTS				
Available-for-sale financial assets - noncurrent (Notes 2, 6 and 29)	3,024,387	1	2,806,442	1
Hedging derivative assets - noncurrent (Notes 2 and 7)	4,780	-	-	-
Financial assets carried at cost - noncurrent (Notes 2, 11 and 29)	5,687,210	2	6,453,218	2
Bond investments with no active market-noncurrent (Notes 2 and 12)	103,000	-	103,000	-
Investments accounted for by the equity method (Notes 2, 13 and 29)	96,847,662	30	66,329,946	23
Other financial assets - noncurrent (Note 14)	5,178,286	1	4,808,532	2
Total investments	110,845,325	34	80,501,138	28
PROPERTY, PLANT AND EQUIPMENT (Notes 2, 15, 30 and 31)				
Land	10,692,043	3	10,692,043	4
Land improvements	4,223,647	1	4,220,387	1
Buildings	41,619,774	13	40,633,990	14
Machinery and equipment	248,714,201	76	243,470,982	87
Transportation equipment	1,721,676	1	1,630,223	1
Other equipment	4,532,225	1	4,313,796	2
Total cost	311,503,566	95	304,961,421	109
Revaluation increment	43,673,414	14	16,910,909	6
Cost and revaluation increment	355,176,980	109	321,872,330	115
Less: Accumulated depreciation	229,940,017	70	219,702,414	78
	125,236,963	39	102,169,916	37
Constructions in progress	30,189,930	9	17,687,169	6
Total property, plant and equipment	155,426,893	48	119,857,085	43
INTANGIBLE ASSETS (Note 2)	172,946	-	165,379	-
OTHER ASSETS				
Assets leased to others, net (Notes 2 and 16)	3,223,153	1	3,246,283	1
Refundable deposits	156,068	-	105,086	-
Deferred income tax assets - noncurrent (Notes 2 and 26)	2,367,383	1	-	-
Restricted assets - noncurrent (Note 31)	8,026	-	2,000	-
Unamortized repair costs and others (Notes 2 and 10)	1,817,697	-	2,056,485	1
Total other assets	7,572,327	2	5,409,854	2
TOTAL	$ 326,680,424	100	$ 281,112,065	100

LIABILITIES AND STOCKHOLDERS' EQUITY	2009 Amount	%	2008 Amount	%
CURRENT LIABILITIES				
Short-term loans and overdraft (Notes 17 and 31)	$ 4,808,233	2	$ 7,272,397	3
Commercial paper payable (Note 18)	14,496,306	4	2,994,848	1
Hedging derivative liabilities - current (Notes 2 and 7)	-	-	12,663	-
Accounts payable (Note 30)	3,022,698	1	6,239,417	2
Income tax payable (Notes 2 and 26)	-	-	4,093,235	2
Accrued expenses (Note 19)	6,929,272	2	11,343,459	4
Dividends payable (Note 25)	317,782	-	307,350	-
Purchase commitments payable (Notes 2, 9 and 32)	3,547,400	1	-	-
Other payables (Note 2)	3,251,678	1	3,766,910	1
Long-term debts - current portion (Notes 21 and 31)	4,945,334	2	-	-
Others	1,116,289	-	2,178,348	1
Total current liabilities	42,434,992	13	38,208,627	14
LONG-TERM LIABILITIES				
Hedging derivative liabilities - noncurrent (Notes 2 and 7)	-	-	92,978	-
Bonds payable (Note 20)	43,300,000	13	13,700,000	5
Long-term debts - bank (Notes 21 and 31)	434,855	-	4,648,545	1
Long-term notes payable (Note 22)	5,249,874	2	-	-
Total long-term liabilities	48,984,729	15	18,441,523	6
RESERVE FOR LAND VALUE INCREMENT TAX (Note 15)	8,673,466	3	2,171,124	1
OTHER LIABILITIES				
Deferred income tax liabilities - noncurrent (Notes 2 and 26)	-	-	1,217,431	-
Deferred credits - gain from affiliates (Note 24)	1,846,013	-	1,690,193	1
Total other liabilities	1,846,013	-	2,907,624	1
Total liabilities	101,939,200	31	61,728,898	22
CAPITAL STOCK - AUTHORIZED 14,000,000 THOUSAND SHARES AT NT$10 PAR VALUE AS OF SEPTEMBER 30, 2009 AND 2008, RESPECTIVELY (Note 25)				
Common shares - issued 13,094,519 thousand shares and 11,981,548 thousand shares as of September 30, 2009 and 2008, respectively	130,945,189	40	119,815,480	43
Preferred shares - issued 38,268 thousand shares and 38,272 thousand shares as of September 30, 2009 and 2008, respectively	382,680	-	382,720	-
Total capital stock	131,327,869	40	120,198,200	43
CAPITAL SURPLUS (Note 25)	18,842,759	6	2,691,704	1
RETAINED EARNINGS (Notes 2 and 25)				
Legal Reserve	47,117,709	15	44,715,153	16
Special Reserve	7,615,701	2	7,615,701	3
Unappropriated earnings	15,440	-	64,289	-
Net income for the nine months ended September 30	3,916,228	1	39,481,792	14
Total retained earnings	58,665,078	18	91,876,935	33
OTHER EQUITY				
Unrealized revaluation increment (Note 15)	21,913,197	7	1,505,293	-
Unrealized gain on financial instruments (Notes 7, 14 and 25)	4,686,578	1	4,778,316	2
Cumulative translation adjustments (Notes 2 and 25)	150,880	-	(76,060)	-
Net loss not recognized as pension cost	(32,385)	-	(40,118)	-
Treasury stock - 392,167 thousand shares and 80,209 thousand shares as of September 30, 2009 and 2008, respectively (Notes 2 and 25)	(10,812,752)	(3)	(1,551,103)	(1)
Total other equity	15,905,518	5	4,616,328	1
Total stockholders' equity	224,741,224	69	219,383,167	78
TOTAL	$ 326,680,424	100	$ 281,112,065	100

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

(With Deloitte & Touche review report dated October 12, 2009)

CHINA STEEL CORPORATION

STATEMENTS OF INCOME
NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)
(Reviewed, Not Audited)

	2009		2008	
	Amount	**%**	**Amount**	**%**
OPERATING REVENUE (Notes 2 and 30)	$ 115,344,691	100	$ 201,208,463	100
OPERATING COSTS (Notes 2, 3, 9, 10, 27, 30 and 32)	114,690,558	99	151,380,772	75
GROSS PROFIT	654,133	1	49,827,691	25
REALIZED (UNREALIZED) GAIN FROM AFFILIATES - NET	142,620	-	(539,648)	-
REALIZED GROSS PROFIT	796,753	1	49,288,043	25
OPERATING EXPENSES (Notes 27 and 30)				
Research and development	839,581	1	1,179,257	1
Selling	1,560,756	1	2,248,009	1
General and administrative	1,672,850	2	2,150,601	1
Total operating expenses	4,073,187	4	5,577,867	3
OPERATING INCOME (LOSS)	(3,276,434)	(3)	43,710,176	22
NONOPERATING INCOME AND GAINS				
Interest income (Note 29)	74,745	-	452,283	-
Valuation gain on financial assets (Notes 2 and 5)	14,621	-	52,942	-
Investment income recognized under equity method (Note 13)	3,784,963	3	8,916,183	4
Gain on disposal of investments (Notes 2 and 6)	1,642,584	2	-	-
Others (Notes 11 and 30)	871,307	1	1,315,049	1
Total nonoperating income and gains	6,388,220	6	10,736,457	5
NONOPERATING EXPENSES AND LOSSES				
Interest expense (Notes 15 and 29)	633,495	1	364,428	-
Impairment loss (Notes 11 and 12)	4,201	-	5,042,296	3
Others (Note 30)	219,062	-	520,122	-
Total nonoperating expenses and losses	856,758	1	5,926,846	3
INCOME BEFORE INCOME TAX	2,255,028	2	48,519,787	24
INCOME TAX EXPENSE (BENEFIT) (Notes 2 and 26)	(1,661,200)	(1)	9,037,995	4
NET INCOME	$ 3,916,228	3	$ 39,481,792	20

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CHINA STEEL CORPORATION

STATEMENTS OF INCOME
NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)
(Reviewed, Not Audited)

	2009		2008	
	Before Tax	**After Tax**	**Before Tax**	**After Tax**
EARNINGS PER SHARE (Note 28)				
Basic	$ 0.18	$ 0.31	$ 3.90	$ 3.18
Diluted	$ 0.18	$ 0.30	$ 3.86	$ 3.14

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:

	2009	2008
Net income	$ 4,331,051	$ 40,081,932
Basic earnings per share based on weighted-average number of outstanding common shares aggregating 12,986,519 thousand and 12,496,755 thousand for the nine months ended September 30, 2009 and 2008, respectively	$0.33	$3.20
Diluted earnings per share based on weighted-average number of outstanding common shares aggregating 13,028,928 thousand and 12,662,504 thousand for the nine months ended September 30, 2009 and 2008, respectively	$0.33	$3.17

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

(With Deloitte & Touche review report dated October 12, 2009) (Concluded)

CHINA STEEL CORPORATION

STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 3,916,228	$ 39,481,792
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	8,935,429	8,558,437
Amortization	500,444	486,399
Deferred income tax	(390,309)	(1,283,042)
Provision for loss on inventories	182,247	-
Loss on purchase commitments	1,939,063	-
Impairment loss of spare parts	182,458	69,021
Gain on disposal of investments	(1,642,584)	-
Investment income under equity method	(3,784,963)	(8,916,183)
Unrealized (realized) gain from affiliates	(142,620)	539,648
Cash dividends received from equity-method investees	8,008,186	9,381,400
Loss on disposal of property, plant and equipment	26,914	89,088
Valuation gains on financial assets	(14,621)	(52,942)
Impairment loss	4,201	5,042,296
Others	(245,496)	287,487
Net changes in operating assets and liabilities		
Notes receivable	1,675,465	(1,030,223)
Accounts receivable	(217,991)	(1,369,804)
Other receivables	1,001,989	(21,650)
Inventories	17,540,820	(17,917,265)
Other current assets	284,391	238,919
Accounts payable	(2,527,745)	899,324
Income tax payable	(5,749,662)	(2,589,009)
Accrued expenses	766,846	3,820,991
Other payables	(3,368,009)	450,243
Other current liabilities	(507,222)	(201,008)
Net cash provided by operating activities	26,373,459	35,963,919
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of financial assets at fair value through profit or loss	(1,820,000)	(10,750,557)
Proceeds from disposal of financial assets at fair value through profit or loss	7,138,329	11,835,596
Proceeds from disposal of available -for-sale financial assets	2,210,040	-
Acquisition of financial assets carried at cost	(4,201)	(231,650)
Proceeds from the capital reduction on financial assets carried at cost	3,764	8,364
Acquisition of investments accounted for by equity method	(3,685,715)	(140,872)
Acquisition of property, plant and equipment	(16,024,535)	(12,389,038)
Proceeds from disposal of property, plant and equipment	1,215	-
Increase in other financial assets	(214,187)	(4,770,093)
Decrease (increase) in refundable deposits	26,739	(23,413)

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CHINA STEEL CORPORATION

STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	2009	2008
Decrease in restricted deposits	$ 8,422	$ 17,680
Increase in intangible assets	(116,466)	-
Increase in other assets	(485,238)	(108,459)
Net cash used in investing activities	(12,961,833)	(16,552,442)
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in short-term loans and overdraft	(4,028,143)	(2,882,288)
Increase (decrease) in commercial paper payable	(475,287)	2,994,848
Increase in long-term notes payable	5,249,874	-
Cash dividends	(16,210,437)	(40,343,418)
Discout for acquisition cost of treasury stock	886	-
Cash bonus to employees and remuneration to directors and supervisors	-	(992,370)
Net cash used in financing activities	(15,463,107)	(41,223,228)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,051,481)	(21,811,751)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	3,745,041	24,438,159
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 1,693,560	$ 2,626,408
SUPPLEMENTAL INFORMATION		
Interest paid (excluding capitalized interest)	$ 109,967	$ 326,133
Income tax paid	4,478,771	12,910,046
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	$ 15,273,568	$ 12,827,039
Decrease (increase) in payable for equipment purchased	750,967	(438,001)
	$ 16,024,535	$ 12,389,038
Cash paid to stockholders		
Total cash dividends payable to stockholders	$ 16,234,154	$ 40,373,518
Increase in dividends payable	(23,717)	(30,100)
	$ 16,210,437	$ 40,343,418
NON-CASH FINANCING ACTIVITIES		
Current portion of long-term loan payable	$ 3,976,167	$ -

The accompanying notes are an integral part of the financial statements.
(With Deloitte & Touche review report dated October 12, 2009) (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 September 30, 2009, the Ministry of Economic Affairs, Republic of China owned 21.24% of the Corporation's outstanding common stock (including the treasury stock held by the Corporation and its subsidiaries).

As of September 30, 2009 and 2008, the Corporation had about 9,200 and 9,500 employees, respectively.

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 allowance for doubtful accounts, loss on inventory, depreciation of property, plant and equipment, impairment loss on assets, loss on purchase commitments, loss on idle capacity, pension cost, income tax and expense for bonuses to employees, directors and supervisors. 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 original Chinese version or any difference in the interpretation of the two versions, the Chinese-language financial statements shall prevail. However, the accompanying financial statements do not include the English translation of the additional footnote disclosures that are not required under generally accepted accounting principles but are required by the Securities and Futures Bureau (SFB, formerly the "Securities and Futures Commission" before July 1, 2004) for their oversight purposes.

Significant accounting policies are summarized as follows:

Current and Noncurrent Assets and Liabilities

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

Cash Equivalents

Cash equivalents are short-term notes and bills with maturities of three months or less when acquired and with carrying amounts that approximate their fair values.

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 designated as at FVTPL. 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 and determined by using valuation technique for financial instruments without quoted price.

The recognition and derecognition bases of available-for-sale financial assets are similar to 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. The difference between the initial cost of a debt instrument and its maturity amount is amortized using the straight-line method, with the amortized interest recognized in profit or loss.

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

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, 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 in the next period, retroactive adjustment of the reduction in selling price in the current period is required as stipulated in the Corporation's sales policy. The payables arising from such retroactive adjustment are recorded as other payables in the current liabilities.

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, which are either the transferred accounts receivable or beneficial interest in the transferred assets.

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

If the three conditions are met, the difference between the proceeds and the 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. Before January 1, 2009, inventories were stated at the lower of aggregate cost or market value. Market value meant replacement cost for raw materials, supplies and fuel and net realizable value for finished products and work in process. As stated in Note 3, effective January 1, 2009, inventories are stated at the lower of cost or net realizable value. Inventory write-downs are made based 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 currently recognized as operating costs when actual production is significantly lower than normal production or the equipment is idle.

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 similar to 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 not allowed.

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 based on their fair values at the date of acquisition, and the excess of the acquisition cost over the fair value of the identifiable net assets acquired is recognized as goodwill. Goodwill is not being amortized. The excess of the fair value of the net identifiable assets acquired over 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 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 appropriated 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 from the balance sheet 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.

Unamortized Repairs

Unamortized repairs pertain to the major repairs of blast furnaces and are amortized over five 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 treated as a deduction to the unrealized revaluation increment.

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

For 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.

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

Tax credits for purchases of machinery, equipment and technology, research and development expenditures, and employee training expenditures 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 nine months ended September 30, 2008 have been reclassified to conform to the presentation of the financial statements as of and for the nine months ended September 30, 2009. The main reclassifications are accounted for under International Financial Reporting Standards and relevant regulations, including (1) spare parts previously recorded as inventories were divided into current and noncurrent based on their service duration, and reclassified to other current assets and other assets (Note 10), and (2) income from scrap sales of NT$166,591 thousand and loss on physical inventory of NT$361,203 thousand previously recorded as nonoperating income and gains and nonoperating expenses and losses were reclassified into operating costs for the nine months ended September 30, 2008.

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$318,261 thousand in net income and a decrease of NT$0.025 in after income tax basic and diluted earnings per share for the nine months ended September 30, 2009.

Accounting for Bonuses to Employees, Directors and Supervisors

In March 2007, the ARDF issued an interpretation that requires companies to recognize bonuses paid to employees, directors and supervisors as compensation expenses starting January 1, 2008. These bonuses were previously recorded as appropriations from earnings. The adoption of this interpretation resulted in a decrease of NT$3,035,523 thousand in net income and a decrease in after income tax basic earnings per share of NT$0.24 for the nine months ended September 30, 2008.

4. CASH AND CASH EQUIVALENTS

	September 30 2009	September 30 2008
Cash on hand	$ 19,544	$ 19,088
Checking accounts and demand deposits	1,545,735	1,947,508
Time deposits	128,281	600,000
Cash equivalents - short-term notes and bills	-	59,812
	$ 1,693,560	$ 2,626,408

Foreign bank deposits were as follows:

	September 30 2009	September 30 2008
Japan - Osaka Bank (in thousands)	¥ 6,742	¥ 6,218
Singapore - Daiwa Securities SMBC (in thousands)	36	12
Total (in thousands)	¥ 6,778	¥ 6,230
Represented by NT dollars (in thousands)	$ 2,428	$ 1,917

5. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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 September 30, 2009, the balances of financial assets at fair value through profit or loss was NT$301,745 thousand.

Net gains on financial assets designated as at FVTPL for the nine months ended September 30, 2009 and 2008 were NT$14,621 thousand and NT$52,942 thousand, respectively.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	September 30			
	2009		2008	
	Current	Noncurrent	Current	Noncurrent
Quoted stocks				
Maruichi Steel Tube Ltd.	$ -	$ 757,920	$ -	$ 757,920
Yodogawa Steel Works, Ltd.	-	345,831	-	345,831
Taiwan Semiconductor Manufacturing Company (TSMC)	400,000	-	967,456	-
CSBC Corporation Taiwan (CSBC)	-	219,575	-	-
Tang Eng Iron Works Corporation (TEIWC)	-	-	-	-
Bank debentures - Taiwan Cooperative Bank	-	-	250,040	-
Adjustments for change in valuation	1,478,728	1,701,061	2,713,486	1,702,691
	$ 1,878,728	$ 3,024,387	$ 3,930,982	$ 2,806,442

Under the global financial crisis, the Corporation sold the shares of TSMC in April 2009 in order to meet funds circulation. The gain on disposal of investment was NT$1,642,584 thousand as nonoperating income.

The Corporation invested NT$597,214 thousand to acquire 9% equity of TEIWC. In 2002, the Corporation recognized an impairment loss of NT$597,214 thousand on its investment in TEIWC. In July 2006, TEIWC's shares were listed on the Gre Tai Securities Market. Accordingly, this financial asset carried at cost - noncurrent was reclassified as available-for-sale financial asset-noncurrent. As of September 30, 2009 and 2008, the carrying value of this financial asset were NT$936,133 thousand and NT$759,955 thousand, respectively and classified as valuation adjustment - noncurrent.

In September 2007, in order to firm up the sales business of steel products, the Corporation invested NT$349,389 thousand (￥1,214,000 thousand) and acquired 2,000 thousand common shares of Yodogawa Steel Works, Ltd., representing 1% equity. The difference between the carrying value and the cost of investment was cash dividends received from the year of investment acquisition which were treated as a reduction of investment cost.

In December 2008, the Corporation participated in CSBC's privatization through its shares public offering by investing NT$219,575 thousand for acquiring 2.48% equity. CSBC mainly builds and repairs vessels.

The Corporation borrowed foreign-currency bank loans with the hedged investment to hedge exchange rate fluctuation risks on the investments in Maruichi Steel Tube Ltd. and Yodogawa Steel Works, Ltd. (Notes 21 and 29). 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 for the nine months ended September 30, 2009 and 2008 to manage cash flows exposures arising from exchange rate fluctuations on foreign-currency capital expenditures contracts.

Outstanding forward exchange contracts as of September 30, 2009 and 2008 were as follows:

	Currency	**The Period for Generating Cash Flows and Maturity Date**	**Contract Amount (in Thousands)**
September 30, 2009			
Forward exchange contracts	NT$/US$	December 2009 - September 2010	NT$4,093,276/US$129,490
	NT$/EUR	June 2010 - March 2012	NT$721,146/EUR16,091
September 30, 2008			
Forward exchange contracts	NT$/US$	December 2009 - September 2010	NT$4,093,276/US$129,490
	NT$/EUR	January 2009 - March 2012	NT$1,160,674/EUR25,557

Movements of hedging derivative financial instruments were as follows:

	Nine Months Ended September 30	
	2009	**2008**
Balance, beginning of period	$ 57,027	$ -
Valuation of unrealized gain (loss)	46,047	(105,641)
Transferred to construction in progress	(6,667)	-
Balance, end of period	$ 96,407	$ (105,641)

As of September 30, 2009 and 2008, the balances of hedging derivative financial instruments are as follows:

	September 30	
	2009	2008
Hedging derivative assets - current	$ 91,627	$ -
Hedging derivative assets - non-current	4,780	-
Hedging derivative liabilities - current	-	(12,663)
Hedging derivative liabilities - non-current	-	(92,978)
	$ 96,407	$ (105,641)

The unrealized gain or loss was recognized as unrealized gain on financial instruments in stockholders' equity and it will be recognized during the period of providing depreciation over the useful lives of assets acquired.

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 nine months ended September 30, 2009 and 2008 is as follows:

Transaction Counter-party	Advances Received at Period-beginning	Receivables Sold	Amounts Collected	Advances Received at Period-end	Interest Rate on Advances Received (%)	Credit Line (in Billions of NTD)
Nine months ended September 30, 2009						
Accounts receivable						
Mega Bank	$ 4,166,480	$ 5,983,964	$ 7,720,194	$ 2,430,250	0.80-2.73	7.5
Bank of Taiwan	856,900	1,063,313	1,430,957	489,256	0.80-2.16	2.5
Taipei Fubon Bank	166,541	366,457	382,383	150,615	1.03-2.33	0.4
	$ 5,189,921	$ 7,413,734	$ 9,533,534	$ 3,070,121		
Nine months ended September 30, 2008						
Accounts receivable						
Mega Bank	$ 4,513,552	$ 11,337,732	$ 10,494,154	$ 5,357,130	2.53-2.77	7.5
Bank of Taiwan	698,837	2,201,461	1,884,866	1,015,432	2.53-2.55	2.5
Taipei Fubon Bank	221,220	773,387	734,691	259,916	2.70-2.77	0.4
	$ 5,433,609	$ 14,312,580	$ 13,113,711	$ 6,632,478		

9. INVENTORIES

	September 30 2009	September 30 2008
Finished products	$ 7,431,333	$ 12,954,749
Work in process	11,609,549	16,122,293
Raw materials	8,303,005	16,019,291
Supplies	1,285,380	776,958
Materials in transit	1,931,298	3,906,516
Fuel	387,801	280,219
Others	103,678	612,959
	$ 31,052,044	$ 50,672,985

As of September 30, 2009, the allowance for loss on value decline of inventory was NT$182,247 thousand, and shown as deduction in inventories. The cost of inventories recognized as operating costs for the nine months ended September 30, 2009 and 2008 was NT$114,690,558 thousand and NT$151,380,772 thousand, respectively. The items recorded as operating costs were as follows:

	Nine Months Ended September 30 2009	Nine Months Ended September 30 2008
Provision for loss on inventories	$ 182,247	$ -
Loss on purchase commitments	1,939,063	-
Loss on idle capacity	1,519,642	-
Impairment loss on spare parts	182,458	69,021
Loss (gain) on physical inventory	(274,988)	361,203
Income from scrap sales	(92,067)	(166,591)
	$ 3,456,355	$ 263,633

The global financial crisis hurts the demand for steel products, therefore, the steel products and materials prices declined significantly from the fourth quarter of 2008. Up to September 30, 2009, according to the lower of cost or net realizable value method, the Corporation recognized a provision for loss on inventories of NT$182,247 thousand.

The Corporation also recognized loss on purchase commitments of NT$1,939,063 thousand due to the effect of the crisis mentioned above, and reported such loss as operating costs and current liabilities - loss on purchase commitments payable. Due to exercise of the purchase contracts, the purchase commitments payable was reduced by NT$4,293,188 thousand for the nine months ended September 30, 2009. As of September 30, 2009, the purchase commitments payable was NT$3,547,400 thousand. (Notes 2 and 32).

Unallocated fixed overheads on idle capacity are recognized as operating costs in the period when incurred as a result of the adoption of SFAS No. 10 “Accounting for Inventories”, starting January 1, 2009. The Corporation recognized loss on idle capacity of NT$1,519,642 thousand for the nine months ended September 30, 2009.

10. OTHER CURRENT ASSETS AND OTHER ASSETS - UNAMORTIZED REPAIR COSTS AND OTHERS

	September 30			
	2009		2008	
	Current	Noncurrent	Current	Noncurrent
Spare parts and roller	$ 6,755,806	$ 1,056,305	$ 5,172,213	$ 773,140
Prepaid expense	592,080	-	532,091	-
Prepayments	71,537	-	793,767	-
Unamortized repair costs	-	728,088	-	1,274,155
Other	212,950	33,304	5,186	9,190
	$ 7,632,373	$ 1,817,697	$ 6,503,257	$ 2,056,485

Spare parts pertain to the 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 and evaluated for impairment. Impairment losses on spare parts were NT$182,458 thousand and NT$69,021 thousand for the nine months ended September 30, 2009 and 2008, respectively, which were recognized as operating costs.

11. FINANCIAL ASSETS CARRIED AT COST - NONCURRENT

	September 30	
	2009	2008
Unquoted common stocks		
Industrial Bank of Taiwan	$ 1,000,000	$ 1,000,000
CDIB & Partners Investment Holding Corporation	500,000	500,000
Adimmune Corporation (AC)	231,650	231,650
Taiwan Rolling Stock Co., Ltd. (TRSC)	202,048	202,048
CDIB BioScience Ventures I, Inc. (CBVI)	71,512	75,276
Overseas Investment & Development Corporation	50,000	50,000
Mega I Venture Capital Co., Ltd.	50,000	50,000
Hsin Hsin Cement Enterprise Corp.	-	165,010
Phalanx Biotech Group Corporation (PBGC)	-	-
Taiwan High Speed Rail Corporation (THSRC) (Note 12)	-	-
Unquoted preferred stocks		
East Asia United Steel Corporation (EAUS)	3,582,000	3,076,500
Dragon Steel Corporation (DSC)		
Preferred A	-	999,877
Preferred B	-	53,312
Fund - Sino-Canada Biotechnology Development Fund, LP (SCBDF)	-	49,545
	$ 5,687,210	$ 6,453,218

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 2008, the Corporation acquired 7% equity in AC by investing NT$231,650 thousand. AC mainly manufactures and processes vaccines.

The Corporation invested NT$102,000 thousand to acquire equity of CBVI. In September 2009, August 2008, and November 2007, CBVI reduced its capital and returned NT$3,764 thousand, NT$8,364 thousand and NT$18,360 thousand to the Corporation, respectively. Accordingly, the original cost of investment in CBVI was reduced to NT$71,512 thousand.

In June 2008, the Corporation evaluated and recognized an impairment losses of NT$73,370 thousand and NT$33,000 thousand (recorded as nonoperating losses) on the investment in PBGC and SCBDF, respectively. In December 2008, the Corporation recognized an impairment loss of NT$49,545 thousand on the investment in SCBDF. 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 of NT$4,201 thousand, recorded as nonoperating cost.

In August 2007, the Corporation acquired 3,808 thousand Preferred B shares (representing 5% ownership) of DSC for NT$55,216 thousand. Dividend on these shares is at 5%, payable on a participating and cumulative basis. Preferred stockholders have the same voting rights as common stockholders, except the right to vote for directors and supervisors, but they can be candidates for directors and supervisors. The difference between the carrying value and the cost of investment was dividends received by the Corporation in the acquisition year. The Corporation and DSC approved the share swap in their stockholders meetings. The Corporation exchanged 52% equity (including common stocks and preferred stocks) of DSC for new shares issued for capital increase on October 6, 2008. The exchange ratio was 1:2.6. After the share swap, the Corporation’s equity in DSC increased to 100%. Accordingly, the investment in DSC preferred stock was reclassified from financial assets carried at cost-noncurrent to investments accounted for by the equity method. (Note 13)

In September 2009, the subsidiary China Hi-ment Corporation acquired Hsin Hsin Cement Enterprise Corp. The Corporation’s total equity in Hsin Hsin Cement Enterprise Corp. is 26%, including 18% directly owned and 8% indirectly owned through CHC. Thus, the Corporation reclassified this investment from financial asset carried at cost - noncurrent to an investment accounted for by the equity method (Note13).

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 21 and 29). The Corporation thus enjoys a stable supply of slab from this joint venture. The Corporation also signed a contract with 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 nine months ended September 30, 2009 and 2008 were NT$217,125 thousand and NT$179,625 thousand, respectively (recorded as nonoperating income and gains). As of September 30, 2009 and 2008, the royalty receivable were NT$75,953 thousand and NT$65,992 thousand, respectively (recorded as other receivables).

12. BOND INVESTMENTS WITH NO ACTIVE MARKET - NONCURRENT

	September 30	
	2009	2008
Unquoted preferred stocks - domestic		
Taiwan High Speed Rail Corporation (THSRC)		
Preferred C	$ -	$ -
Preferred B	-	-
Taigen Biotechnology Co., Ltd. (TBC)	-	-
Unquoted preferred stocks - overseas		
TaiGen Biopharmaceuticals Holdings Limited (TGB)	103,000	103,000
	$ 103,000	$ 103,000

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, i.e., in 2009 and 2008, 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.

After June 2008, the Corporation evaluated and recognized an impairment loss of NT$4,738,926 thousand on the investments in preferred shares of THSRC. The conversion of the preferred shares held by the Corporation into common shares of THSRC was approved in the board of directors' meeting in June 2009. The tax credits would be used under the Act for Promotion of Private Participation in Infrastructure Projects. In August 2009, the Corporation converted THSRC's preferred shares to common shares. Thus, the Corporation reclassified this bond investment with no active market – noncurrent to financial asset carried at cost - noncurrent (Note 11).

In November 2005 and March 2004, the Corporation acquired a total of 20,000 thousand preferred shares, representing 24% of ownership, of TBC for NT$300,000 thousand. Preferred stockholders are entitled to 8% participating and noncumulative dividends as well as 9% voting and election rights. TBC mainly researches and develops drugs. In January 2008, TBC restructured its share capital and made arrangements with TGB incorporated in the British Cayman Islands. The Corporation swapped Preferred B shares of TBC with Preferred B shares of TGB at the ratio of 1:1. Any rights on these shares remained unchanged after the swap. The Corporation can request TBC to redeem all or part of preferred shares by issuing new stock or its own retained earnings after December 2010. In June 2008, the Corporation evaluated and recognized an impairment loss of NT$197,000 thousand on the investment in TGB.

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

	September 30			
	2009		2008	
	Amount	% of Ownership	Amount	% of Ownership
Stocks listed on the Taiwan Stock Exchange (recognition based on reviewed financial statements)				
Chung Hung Steel Corporation (CHSC)	$ 2,966,513	29	$ 3,539,917	24
China Steel Chemical Corporation (CSCC)	959,964	29	830,436	29
China Ecotek Corporation (CEC)	639,971	49	456,586	49
China Hi-ment Corporation (CHC)	616,874	20	524,272	20
China Steel Structure Corporation (CSSC)	423,992	18	405,324	18
	5,607,314		5,756,535	
Less: Shares held by subsidiaries accounted for as treasury stock	381,368		270,382	
	5,225,946		5,486,153	
Stocks without quoted market prices (recognition based on unreviewed financial statements)				
Dragon Steel Corporation (DSC)	56,599,867	100	17,313,302	47
China Steel Express Corporation (CSE)	10,468,399	100	11,768,291	100
C. S. Aluminum Corporation (CAC)	6,635,251	100	7,406,487	100
Gains Investment Corporation (GIC)	6,239,886	100	6,389,723	100
China Prosperity Development Corporation (CPDC)	4,810,618	100	4,688,844	100

(Continued)

	September 30			
	2009		2008	
	Amount	% of Ownership	Amount	% of Ownership
China Steel Asia Pacific Holdings Pte Ltd. (CSAPH)	$ 3,585,282	100	$ 3,461,150	100
China Steel Sumikin Vietnam Joint Stock Company	1,884,937	51	-	-
Kaohsiung Rapid Transit Corporation (KRTC)	1,671,633	31	2,466,149	31
China Steel Global Trading Corporation (CSGT)	1,366,741	100	1,399,824	100
China Steel Machinery Corporation (CSMC)	996,221	74	854,375	74
CSC Steel Australia Holdings Pty. Ltd.(CSCAU)	704,757	100	488,725	100
Info-Champ Systems Corporation (ICSC)	578,540	100	605,950	100
Horng Yih Investment Corporation (HYI)	549,731	100	958,115	100
Long Yuan Fa Investment Corporation (LYFI)	546,930	100	958,614	100
Goang Yaw Investment Corporation (GYI)	535,467	100	932,722	100
Investment accounted for by the equity method - Chung Hung Steel Corporation (CHSC)	525,105	-	571,232	-
Kaohsiung Arena Development Corporation (KADC)	458,206	18	343,248	18
Investment accounted for by the equity method - China Steel Chemical Corporation (CSCC)	450,796	-	546,516	-
China Steel Security Corporation	330,007	100	299,727	100
Hsin Hsin Cement Enterprise Corp. (Note 11)	160,904	18	-	-
Investment accounted for by the equity method - China Ecotek Corporation (CEC)	145,611	-	243,978	-
Hi-mag Magnetic Corporation	94,717	50	94,315	50
Investment accounted for by the equity method - China Hi-ment Corporation (CHC)	65,579	-	132,569	-
Investment accounted for by the equity method - China Steel Structure Corporation (CSSC)	61,937	-	132,482	-
Baolai Greeting Development Co., Ltd. (BGDC)	40,360	45	43,304	45
China Steel Management Consulting Corporation (CSMCC)	28,808	100	18,639	100
TaiAn Technologies Corporation (TTC)	6,852	17	6,233	17
	99,543,142		62,124,514	
Less: Shares held by subsidiaries accounted for as treasury stock	7,921,426		1,280,721	
	91,621,716		60,843,793	
	$ 96,847,662		$ 66,329,946	

(Concluded)

The Corporation increased investment in CHSC for NT$1,726,232 thousand for the six months ended June 30, 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 TTC is 22%, including 17% directly owned and 5% indirectly owned through CSCC. The Corporation's total equity in KADC is 29%, including 18% directly owned and 11% indirectly owned through CSSC and CPDC.

In July 2009, the Corporation acquired 93,677 thousand common shares (51% equity) of China Steel Sumikin Vietnam Joint Stock Company for NT$1,919,965 thousand. This investee mainly processes steel.

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

As stated in Note 11, the Corporation's equity in DSC increased from 47% to 100% upon the share swap. In December 2008, the Corporation invested additional NT$21,200,000 thousand in DSC through its private subscription. The rights and obligations of the privately subscribed common stocks are the same with common stock issued by DSC. The DSC shares subscribed from the private placement are not allowed to transfer to any transferee within three years unless the share transferee is qualified in accordance with the Article 43-8 of the securities and Exchange Act.

On April 1, 2008, the Corporation exchanged 22,900 thousand shares of CSMC for CEC's new shares issued for a capital increase. The exchange ratio was 1:1. After the share swap, the Corporation's equity in CSMC and CEC decreased from 100% to 74% and increased from 36% to 49%, respectively.

In December 2008, KADC increased capital by cash and the Corporation invested NT$90,000 thousand based on equity holding ratio.

The market values of the above listed stocks based on their closing prices on September 30, 2009 and 2008 were as follows:

	September 30	
	2009	**2008**
CHSC	$ 6,031,396	$ 4,298,922
CSCC	5,888,183	4,223,533
CEC	2,390,214	2,160,332
CHC	1,926,775	1,666,885
CSSC	688,145	398,779
	$ 16,924,713	$ 12,748,451

Investment income (loss) under the equity method was as follows:

	Nine Months Ended September 30	
	2009	**2008**
Recognition based on reviewed financial statements		
CSCC	$ 240,077	$ 298,466
CEC	172,899	3,626
CHC	97,404	88,508
CHSC	(184,987)	894,963
CSSC	(40,784)	10,746
	284,609	1,296,309
Recognition based on unreviewed financial statements		
CSE	3,618,674	5,684,019
GIC	610,897	(620,696)
CSAPH	297,704	448,284
CSMC	230,554	243,344
CSGT	221,681	361,990
CSCAU	100,378	-
CPDC	75,688	-
ICSC	73,397	72,999
China Steel Security Corporation	46,539	-
CEC's equity-method investments	36,694	31,913
CHSC's equity-method investments	26,855	24,203
CSCC's equity-method investments	18,737	21,480
CHC's equity-method investments	5,149	14,753
DSC	(889,810)	480,057

(Continued)

	Nine Months Ended September 30	
	2009	2008
KRTC	$ (506,746)	$ (425,929)
CAC	(274,276)	451,625
HYI	(78,292)	211,139
LYFI	(77,959)	217,660
GYI	(76,054)	205,789
CSSC's equity-method investments	(221)	5,575
Others	40,765	191,669
	3,500,354	7,619,874
	$ 3,784,963	$ 8,916,183

(Concluded)

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 steel factory in Vietnam, etc. The related subscription schedule depends on the investees' capital increase requirements. As of September 30, 2009, the Corporation's unexecuted investments in these investees aggregated NT$7,987,590 thousand.

As stated in Note 11, the Corporation adopted the purchase method to account for the acquisition of DSC equity. 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	Goodwill
Nine months ended September 30, 2009		
Balance, beginning of period	$ 1,126,994	$ 401,018
Amortization	(60,077)	-
Balance, end of period	$ 1,066,917	$ 401,018

The depreciable assets comprised of the franchise from Carbon credit and Nox credit, developed technology value and customer relationship value, etc.

For the nine months ended September 30, 2009 and 2008, the Corporation's equity-method investments and recognition of cash dividends from its subsidiaries resulted in a capital surplus increases of NT$371,204 thousand and NT$265,011 thousand, respectively, and retained earnings decreases of NT$74,344 thousand and NT$6,408 thousand, respectively.

On recognizing gain from its investees' sale of shares, the Corporation had capital surplus increases of NT$60,635 thousand and NT$548,063 thousand for the nine months ended September 30, 2009 and 2008, respectively.

14. OTHER FINANCIAL ASSETS - NONCURRENT

	September 30 2009	September 30 2008
JPY time deposits	$ 5,158,080	$ 4,677,040
USD time deposits	192,663	-
EUR demand deposits	20,206	131,492
	5,370,949	4,808,532
Less: Current portion	192,663	-
	$ 5,178,286	$ 4,808,532

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 time deposits of ￥16 billion (NT$4,878,900 thousand) in January 2008. As of September 30, 2009 and 2008, the balance of the JPY time deposits designated as hedging instrument was ￥14.4 billion and ￥15.2 billion, respectively. The unrealized loss of NT$77,760 thousand and unrealized gain of NT$42,060 thousand, respectively, designated as hedging instrument was recognized as unrealized gain on financial instruments in stockholders' equity for the nine months ended September 30, 2009 and 2008.

For the purpose of purchasing imported equipment as well as manage cash flows risk due to exchange rate fluctuations, the Corporation purchased time deposits of US$5,990 thousand (NT$194,196 thousand). As of September 30, 2009, the balance of the U.S. dollar time deposits designated as hedging instruments was US$ 5,990 thousand. The unrealized loss of US$1,533 thousand, arising from the U.S. dollar time deposits designated as hedging instruments was recognized as unrealized gain on financial instruments in stockholders' equity for the nine months ended September 30, 2009.

For the purposes of managing cash flows exposures on foreign-currency capital expenditure contracts, the Corporation entered into forward exchange contracts (Note 7). Of which EUR430 thousand and EUR2,840 thousand expired for the nine months ended September 30, 2009 and 2008, respectively, which were used to pay capital expenditures. An unrealized gain of NT$215 thousand and unrealized loss of NT$3,621 thousand on the hedging instrument was recorded as unrealized gain on financial instruments included in the stockholders' equity for the nine months ended September 30, 2009 and 2008, respectively.

As of September 30, 2009 and 2008 the cash flows generated from above mentioned contracts will be from 2009 to 2013 and from 2008 to 2013, respectively. The period for recognizing unrealized gain or loss on hedging instruments in the income statement is the same as that for providing depreciation on the hedged equipment purchased.

15. PROPERTY, PLANT AND EQUIPMENT

	Land	Land Improvements	Buildings	Machinery and Equipment	Transportation Equipment	Other Equipment	Construction In progress	Total
Nine months ended September 30, 2009								
Cost								
Balance, beginning of period	$ 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	-	3,259	946,742	4,331,229	147,239	312,954	9,532,145	15,273,568
Disposals	-	-	(24,990)	(1,090,485)	(49,222)	(169,848)	-	(1,334,545)
Balance, end of period	10,692,043	4,223,647	41,619,774	248,714,201	1,721,676	4,532,225	30,189,930	341,693,496
Revaluation increment								
Balance, beginning of period	32,754,016	492,990	2,407,480	8,070,962	18,108	31,683	-	43,775,239
Disposals	-	-	(1,929)	(99,883)	-	(13)	-	(101,825)
Balance, end of period	32,754,016	492,990	2,405,551	7,971,079	18,108	31,670	-	43,673,414

(Continued)

	Land	Land Improvements	Buildings	Machinery and Equipment	Transportation Equipment	Other Equipment	Construction In progress	Total
Accumulated depreciation								
Balance, beginning of period	$ -	$ 3,905,815	$ 20,273,963	$ 193,964,668	$ 1,239,299	$ 3,047,962	$ -	$ 222,431,707
Depreciation expense	-	76,373	943,036	7,466,184	72,963	357,995	-	8,916,551
Disposals	-	-	(9,200)	(1,182,178)	(49,065)	(167,798)	-	(1,408,241)
Balance, end of period	-	3,982,188	21,207,799	200,248,674	1,263,197	3,238,159	-	229,940,017
Net book value, end of period	$ 43,446,059	$ 734,449	$ 22,817,526	$ 56,436,606	$ 476,587	$ 1,325,736	$ 30,189,930	$ 155,426,893
Nine months ended September 30, 2008								
Cost								
Balance, beginning of period	$ 9,803,353	$ 4,212,123	$ 39,773,039	$ 237,189,591	$ 1,500,483	$ 4,018,844	$ 15,043,863	$ 311,541,296
Addition	888,690	8,264	1,075,912	7,591,660	150,814	468,393	2,643,306	12,827,039
Disposals	-	-	(214,961)	(1,310,269)	(21,074)	(173,441)	-	(1,719,745)
Balance, end of period	10,692,043	4,220,387	40,633,990	243,470,982	1,630,223	4,313,796	17,687,169	322,648,590
Revaluation increment								
Balance, beginning of period	5,840,732	492,990	2,423,523	8,286,388	27,233	31,714	-	17,102,580
Disposals	-	-	(15,786)	(175,845)	(9)	(31)	-	(191,671)
Balance, end of period	5,840,732	492,990	2,407,737	8,110,543	27,224	31,683	-	16,910,909
Accumulated depreciation								
Balance, beginning of period	-	3,788,617	19,177,953	186,025,665	1,215,056	2,780,098	-	212,987,389
Depreciation expense	-	89,910	951,725	7,082,932	60,884	351,902	-	8,537,353
Disposals	-	-	(148,593)	(1,481,720)	(20,894)	(171,121)	-	(1,822,328)
Balance, end of period	-	3,878,527	19,981,085	191,626,877	1,255,046	2,960,879	-	219,702,414
Net book value, end of period	$ 16,532,775	$ 834,850	$ 23,060,642	$ 59,954,648	$ 402,401	$ 1,384,600	$ 17,687,169	$ 119,857,085

(Concluded)

Information about capitalized interest on the purchase of property, plant and equipment for the nine months ended September 30, 2009 and 2008 was disclosed as follows:

	Nine Months Ended September 30	
	2009	2008
Interest expense before capitalization	$ 894,232	$ 474,755
Capitalized interest - construction in progress	(260,737)	(110,327)
Interest expense through income statement	$ 633,495	$ 364,428
Capitalization rates	1.57%-2.09%	2.14%-2.55%

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. As of September 30, 2009, unrealized revaluation increment on totally NT$13,952,356 thousand have been capitalized as capital stock, reducing its balance to NT$339,174 thousand. In January 2005, the government revised the land 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 its land, which resulted in a decrease of NT$3,500 thousand in reserve for land value increment tax. In the second half of 2008, the Corporation revalued its land in accordance with the current assessed land value. 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, a net increment of NT$20,410,942 thousand was credited to unrealized revaluation increment. For the nine months ended September 30, 2009 and 2008, upon retirement or sale of appreciated properties, the unrealized revaluation increment decreased by NT$2,051 thousand and NT$3,862 thousand, respectively, and recorded as nonoperating revenue. As of September 30, 2009 and 2008, the cumulative nonoperating revenue due to disposal of appreciated properties were NT$33,108 thousand and NT$30,070 thousand, respectively. As of September 30, 2009 and 2008, the balance of reserve for land value increment tax were NT$8,673,466 thousand and NT$2,171,124 thousand, respectively, and the balance of the unrealized revaluation increment were NT$21,913,197 thousand and NT$1,505,293 thousand, respectively.

16. ASSETS LEASED TO OTHERS

	Land	Machinery and Equipment	Buildings and Improvements	Total
Nine months ended September 30, 2009				
Cost				
Balance, beginning of period	$ 3,079,977	$ 2,000,000	$ 161,816	$ 5,241,793
Accumulated depreciation				
Balance, beginning of period	-	1,382,318	23,444	1,405,762
Depreciation expense	-	16,889	1,989	18,878
Balance, end of period	-	1,399,207	25,433	1,424,640
Accumulated impairment	-	594,000	-	594,000
Net book value, end of period	$ 3,079,977	$ 6,793	$ 136,383	$ 3,223,153
Nine months ended September 30, 2008				
Cost				
Balance, beginning of period	$ 3,079,977	$ 2,000,000	$ 161,816	$ 5,241,793
Accumulated depreciation				
Balance, beginning of period	-	1,359,636	20,790	1,380,426
Depreciation expense	-	19,093	1,991	21,084
Balance, end of period	-	1,378,729	22,781	1,401,510
Accumulated impairment	-	594,000	-	594,000
Net book value, end of period	$ 3,079,977	$ 27,271	$ 139,035	$ 3,246,283

Some of the Corporation's plant, property and machinery equipment are leased to its subsidiaries (Note 30).

17. SHORT-TERM LOANS AND OVERDRAFT

	September 30	
	2009	2008
Letters of credit - due within 180 days; interest at 0.600%-1.4644% p.a. and 1.03%-6.37% p.a. as of September 30, 2009 and 2008, respectively	$ 208,203	$ 1,225,037
Bank overdraft - interest at 0.16%- 1.1850% p.a. and 2.01%-2.0877% p.a. as of September 30, 2009 and 2008, respectively	1,316,892	547,360
Credit loans - interest at 0.380%- 0.7697% p.a. and 2.35%-2.372% p.a. as of September 30, 2009 and 2008, respectively	3,283,138	5,500,000
	$ 4,808,233	$ 7,272,397

The above credit loans, which included short-term loans of US$58,548 thousand (NT$1,883,138 thousand) were used to hedge the exchange rate fluctuations on the foreign-currency investments in China Steel Sumikin Vietnam Joint Stock Company (Note 29).

18. COMMERCIAL PAPER PAYABLE

	September 30 2009	September 30 2008
Commercial paper - interest rates at 0.2%~0.4% and 2.160%~2.162% p.a. as of September 30, 2009 and 2008	$ 14,500,000	$ 3,000,000
Unamortized discounts	(3,694)	(5,152)
	$ 14,496,306	$ 2,994,848

19. ACCRUED EXPENSES

	September 30 2009	September 30 2008
Accrued salaries and incentive bonus	$ 2,562,193	$ 4,345,827
Repair and construction	1,636,806	1,101,315
Bonus to employees, and remuneration to directors and supervisors	151,138	3,497,522
Others	2,579,135	2,398,795
	$ 6,929,272	$ 11,343,459

20. BONDS PAYABLE

	September 30 2009	September 30 2008
5-year unsecured bonds - issued at par in:		
November 2006; repayable in November 2011; 2.07% interest p.a., payable annually	$ 5,600,000	$ 5,600,000
June 2006; repayable in June 2011; 2.32% interest p.a., payable annually	8,100,000	8,100,000
December 2008; repayable in December 2012 and December 2013; 2.42% interest p.a., payable annually	9,600,000	-
December 2008; repayable in December 2012 and December 2013; 2.08% interest p.a., payable annually	13,000,000	-
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	-
	$ 43,300,000	$ 13,700,000

21. LONG-TERM DEBTS

	September 30	
	2009	2008
Repayable in July 2010 (￥4.4 billion); floating rates at 0.8838% and 1.134% p.a. as of September 30, 2009 and 2008, respectively	$ 1,576,080	$ 1,353,660
Repayable in July 2010 (￥3.3 billion); floating rates at 0.8375% and 1.325% p.a. as of September 30, 2009 and 2008, respectively	1,182,060	1,015,245
Repayable in December 2009 (￥2.6 billion); floating rates at 0.91875% and 1.26% p.a. as of September 30, 2009 and 2008, respectively	931,320	799,890
Repayable in July 2010 (￥2.2 billion); floating rates at 0.90525% and 1.2028% p.a. as of September 30, 2009 and 2008, respectively	788,040	676,830
Repayable in July 2010 (AUD16.54 million); floating rates at 4.14429% and 8.69239% p.a. as of September 30, 2009 and 2008, respectively	467,834	429,433
Repayable in November 2010 (￥1.214 billion); floating rates at 0.92375% and 1.1825% p.a. as of September 30, 2009 and 2008, respectively	434,855	373,487
	5,380,189	4,648,545
Less: Current portion	4,945,334	-
	$ 434,855	$ 4,648,545

The Corporation borrowed long-term bank loans in Japanese yen and Australian dollar to hedge the exchange rate fluctuations on the foreign-currency investments in East Asia United Steel Corporation, Maruichi Steel Tube Ltd., CSC Steel Australia Holdings Pty. Ltd., and Yodogawa Steel Works, Ltd. (Note 29).

22. LONG-TERM NOTES PAYABLE (Only as of September 30, 2009)

Long-term notes - interest rates at 0.3%-0.74% p.a.	$ 5,250,000
Unamortized discounts	(126)
	$ 5,249,874

23. 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$33,854 thousand and NT$29,699 thousand for the nine months ended September 30, 2009 and 2008, 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 nine months ended

September 30, 2009 and 2008 was NT$1,022,545 thousand and NT$1,089,618 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 an officers' pension fund management committee. Pension cost for the nine months ended September 30, 2009 and 2008 was NT$4,177 thousand and NT$3,543 thousand, respectively.

24. DEFERRED CREDITS - GAIN FROM AFFILIATES

	September 30	
	2009	2008
Gain on disposal of land	$ 1,136,164	$ 1,136,164
Gain on contracted projects	709,849	554,029
	$ 1,846,013	$ 1,690,193

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. Some of the projects with KRTC (equity method investee) were completed during the year ended December 31, 2008. Such deferred credits recognized as income over 8 to 30 years. The accumulated credits with DSC will be recognized as income over the service lives of the assets after completion of the constructions expected to be completed between 2009 and 2010.

25. STOCKHOLDERS' EQUITY

a. Capital stock

In August 2009 and 2008, the Corporation, through capitalization of retained earnings of NT$5,369,758 thousand and NT$4,845,290 thousand, issued common shares of 536,976 thousand and 484,529 thousand, respectively. In order to acquire 52% equity of DSC (Note 11), the Corporation issued NT$5,759,911 thousand (575,991 thousand shares) for a capital increase. Above capital increases have been registered with the government.

b. Treasury stock

	Thousand Shares			September 30	
Purpose of Treasury Stock	**Beginning of Period**	**Addition**	**Reduction**	**Thousand Shares**	**Book Value**
Nine months ended September 30, 2009					
Shares acquired and held by subsidiaries	276,103	18,369	10,305	284,167	$ 8,302,794
Shares acquired by the Corporation for transfer to employees	108,000	-	-	108,000	2,509,958
	384,103	18,369	10,305	392,167	$10,812,752
Nine months ended September 30, 2008					
Shares acquired and held by subsidiaries	84,543	12,765	17,099	80,209	$ 1,551,103

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 - current or available-for-sale financial assets - noncurrent). Treasury stock increased due to subsidiaries acquisition of the Corporation's shares. Treasury stock decreased mainly due to subsidiaries' sales of the Corporation's shares and change in percentage of ownership. For the nine months ended September 30, 2009 and 2008, the proceeds for treasury stock sold amounted to NT$296,007 thousand and NT$835,644 thousand, and after deducting book values, resulted in the amounts of NT$60,635 thousand and NT$548,063 thousand (recorded as capital surplus), respectively.

As of September 30, 2009 and 2008, the market values calculated by combined holding percentage of the treasury shares are NT$8,496,598 thousand and NT$2,518,567 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. Of which 108,000 thousand common shares have not yet been transferred to employees as of September 30, 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.

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 6,471,206 resulting from the capitalization of retained earnings. Each unit was representing 20 shares of the Corporation's common stock, or equivalent to the Corporation's common shares totaling 1,896,007,331 shares (including 211 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 September 30, 2009, the outstanding depositary receipts were 4,494,068 units, equivalent to 89,881,591 common shares (including 231 fractional stocks), which represented 0.69% of the outstanding common shares (including the treasury stock held by the Corporation and its subsidiaries).

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, at the Corporation's option 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 of the following:

	September 30	
	2009	**2008**
Additional paid-in capital- issuance of common shares to exchange for DSC shares (Note 11)	$ 15,717,185	$ -
Treasury stock transactions	2,830,192	2,415,370
Long-term stock investments	287,283	268,235
Others	8,099	8,099
	$ 18,842,759	$ 2,691,704

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. (In June 2008, the Corporation's stockholders resolved to change the appropriation rate for bonus to employees from 3%-5% to 8%, which will take effective for the appropriations of 2008 earnings.)

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 at 14% of paid-in capital, 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 September 30, 2009, 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.

For the nine months ended September 30, 2009 and 2008, the bonus to employees and remuneration to directors and supervisors, representing 8% and 0.15% of net income (which is deducted bonus to employees and remuneration to directors and supervisors, legal reserve and special reserve), respectively, were 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 2009 and 2008 meetings approved the following appropriations of the 2008 and 2007 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)	
	2008	**2007**	**2008**	**2007**
Legal reserve	$ 2,402,556	$ 5,125,820		
Preferred stocks				
Cash dividends	49,751	134,274	$ 1.30	$ 3.50
Stock dividends	16,456	11,509	0.43	0.30
			$ 1.73	$ 3.80
Common Stocks				
Cash dividends	16,184,403	40,239,244	$ 1.30	$ 3.50
Stock dividends	5,353,303	3,449,079	0.43	0.30
			$ 1.73	$ 3.80

(Continued

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	Amount		Dividends Per Share (NT dollars)	
	2008	2007	2008	2007
Remuneration to directors and supervisors	$ -	$ 69,235		
Bonus to employees				
Cash bonus	-	923,135		
Stock bonus	-	1,384,702		
	$ 24,006,469	$ 51,336,998		

(Concluded)

The bonus to employees of NT$1,877,002 thousand and the remuneration to directors and supervisors of NT$35,194 thousand for 2008 were approved in the stockholders' meeting on June 19, 2009. The bonus to employees was a cash bonus. The approved amounts of the bonus to employees and the remuneration to directors and supervisors were different from the accrual amounts of NT$1,637,715 thousand and NT$30,707 thousand, respectively, reflected in the financial statements for the year ended December 31, 2008, and the differences of NT$239,287 thousand and NT$4,487 thousand, respectively, resulted from the difference of estimation and had been adjusted in profit and loss for the nine months ended September 30, 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 gain on financial instruments

For the nine months ended September 30, 2009 and 2008, 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
Nine months ended September 30, 2009				
Balance, beginning of period	$ 3,623,089	$ 1,983,109	$ 901,807	$ 6,508,005
Recognized in stockholders' equity	909,625	(1,048,770)	(33,031)	(172,176)
Transferred to profit or loss	(1,642,584)	-	-	(1,642,584)
Transferred to construction in progress	-	-	(6,667)	(6,667)
Balance, end of period	$ 2,890,130	$ 934,339	$ 862,109	$ 4,686,578
Nine months ended September 30, 2008				
Balance, beginning of period	$ 4,894,886	$ 1,578,440	$ -	$ 6,473,326
Recognized in stockholders' equity	(575,638)	(1,052,170)	(67,202)	(1,695,010)
Balance, end of period	$ 4,319,248	$ 526,270	$ (67,202)	$ 4,778,316

h. Cumulative translation adjustments

Change in composition of cumulative translation adjustments for the nine months ended September 30, 2009 and 2008 were as follows:

	Nine Months Ended September 30	
	2009	**2008**
Balance, beginning of period	$ 358,976	$ 283,018
Recognized in stockholders' equity	(208,096)	(359,078)
Balance, end of period	$ 150,880	$ (76,060)

26. INCOME TAX

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

	Nine Months Ended September 30	
	2009	**2008**
Income tax expense at the 25% statutory rate	$ 563,757	$ 12,129,947
Tax effect adjusting items		
Permanent differences		
Investment income recognized under equity method - domestic	(846,255)	(2,098,479)
Unrealized gain on valuation and gain on disposal of financial assets	(414,301)	(13,235)
Dividends	(26,242)	(94,684)
Tax-exempt income	-	(74,713)
Others	23,645	159,666
Temporary differences		
Difference between tax reporting and financial reporting - depreciation methods	165,739	155,148
Realized loss on purchase commitments	(588,531)	-
Unrealized allowance for loss on inventories	(2,728,468)	-
Unrealized (realized) gain from affiliates	(35,655)	134,913
Preferential severance pay	(46,681)	-
Difference between tax reporting and financial reporting – operating revenue	(55,598)	(44,784)
Investment income recognized under equity method - foreign investees	(99,986)	(130,567)
Cash dividends - foreign investees	-	61,275
Impairment loss of financial assets	1,050	1,260,574
Investment loss resulting from investees' capital reduction	-	(150,000)
Others	82,926	(19,216)
Investment tax credits used	-	(838,333)
Loss carryforward recognized	(4,004,600)	-

(Continued)

	Nine Months Ended September 30	
	2009	2008
Income tax currently payable	$ -	$ 10,437,512
Tax separately levied on interest from short-term bills	153	38,558
Prior periods' adjustments	(1,271,044)	(155,033)
Current income tax expense (benefit)	(1,270,891)	10,321,037
Deferred tax		
Temporary differences	2,511,493	(1,283,042)
Investment tax credits	(486,920)	-
Loss carryforwards	(3,203,680)	-
Effect of tax law changes on deferred assets	788,798	-
Income tax expense (benefit)	$ (1,661,200)	$ 9,037,995

(Concluded)

As stated in Note 12, the Corporation is entitled to tax credits for its investment in the common shares of Taiwan High Speed Rail Corporation (THSRC). The related tax credits of NT$1,150,801 thousand, recorded as prior periods' adjustments, were used to deduct retroactively the income tax expense of 2008.

b. Changes in income tax payable

	Nine Months Ended September 30	
	2009	2008
Balance, beginning of period	$ 5,749,662	$ 6,682,244
Income tax (benefit) currently payable	(1,270,891)	10,321,037
Payment in the current period	(4,478,771)	(12,910,046)
Balance, end of period	$ -	$ 4,093,235

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

	September 30	
	2009	2008
Current		
Deferred income tax assets		
Allowance for inventory obsolescence loss	$ 38,727	$ 140,772
Unrealized loss on purchase commitments	753,823	-
Investment tax credits	486,920	-
Impairment loss on spare parts	168,190	-
Severance pay	91,134	41,474
Accrued electrostatic precipitator dust disposal expense	-	7,347
Unrealized gain from affiliates	21,870	125,888
Unrealized difference between tax reporting and financial reporting - inventory	20,875	-
Others	21,444	34,682
	1,602,983	350,163
Deferred income tax liabilities		
Unrealized difference between tax reporting and financial reporting - inventory	-	(28,474)
Total deferred income tax assets - current, net	1,602,983	321,689

(Continued)

	September 30	
	2009	**2008**
Noncurrent		
Deferred income tax assets		
Loss carryforwards	$ 3,203,680	$ -
Impairment loss on financial assets	1,203,067	1,490,396
Unrealized gain from affiliates	141,970	138,508
Impairment loss on assets	18,560	41,826
Others	2,864	4,543
	4,570,141	1,675,273
Deferred income tax liabilities		
Temporary difference between tax reporting and financial reporting - depreciation methods	(1,742,593)	(2,395,769)
Foreign investment income	(452,983)	(431,571)
Unrealized foreign exchange gain	-	(65,364)
Others	(7,182)	-
	(2,202,758)	(2,892,704)
Total deferred income tax assets (liabilities) - non-current, net	2,367,383	(1,217,431)
Total deferred income tax assets (liabilities), net	$ 3,970,366	$ (895,742)

(Concluded)

Under related regulations, the above tax credits resulted from purchases of machinery and equipment, research and development expense, employees training expense, and investment in newly emerging, important and strategic industries.

As of September 30, 2009, investment tax credits in accordance with Statute for Upgrading Industries comprised of:

Tax Credit Source	**Total Creditable Amount**	**Expiry Year**
Purchase of machinery and equipment	$ 293,890	2013
Research and development and personnel training expenditures	193,030	2013
	$ 486,920	

The aforementioned 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.

As of September 30, 2009, the unused loss carryforwards amount was NT$16,018,400 thousand (the amount of tax effect was NT$3,203,680 thousand). According to the newly revised Article 39 of the Income Tax Act, the Corporation can carry forward its net loss as tax credits from 5 years to 10 years. The unused loss carryforwards will be expired in 2019.

In May, 2009, the Legislative Yuan passed the amendment of Article 5 of the Income Tax Law, which reduces a profit-seeking enterprise's income tax rate from 25% to 20%, effective 2010. The Corporation recalculated its deferred tax assets and liabilities in accordance with the amended Article and recorded the resulting difference as a deferred income tax benefit or expense.

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 2005 have been examined by the tax authorities.

d. Information about integrated income tax was as follows:

	September 30	
	2009	**2008**
Imputation credit account (ICA)	$ 5,521,987	$ 34,083
Unappropriated earnings generated before January 1, 1998	35,440	35,440

The creditable ratio for distribution of 2008 and 2007 earnings was 33.35% and 27.46%, 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.

27. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

	Nine Months Ended September 30							
	2009				2008			
	Operating Cost	Operating Expense	Others	Total	Operating Cost	Operating Expense	Others	Total
Personnel								
Salary	$ 7,957,397	$ 1,399,461	$ 150,373	$ 9,507,231	$ 14,837,834	$ 2,458,748	$ 139,779	$ 17,436,361
Labor and health insurance	433,455	71,264	3,660	508,379	432,930	66,089	1,448	500,467
Pension and consolation costs	890,361	194,928	7,433	1,092,722	964,923	187,787	4,233	1,156,943
Others	197,609	107,051	6,032	310,692	922,933	131,805	6,583	1,061,321
	$ 9,478,822	$ 1,772,704	$ 167,498	$ 11,419,024	$ 17,158,620	$ 2,844,429	$ 152,043	$ 20,155,092
Depreciation	$ 8,665,345	$ 251,206	$ 18,878	$ 8,935,429	$ 8,316,676	$ 220,677	$ 21,084	$ 8,558,437
Amortization	444,578	49,064	6,802	500,444	436,622	47,408	2,369	486,399

28. EARNINGS PER SHARE

	Amount (Numerator)		Shares (Denominator)	Earnings Per Share (NT dollars)	
	Before Tax	**After Tax**	**(Thousand)**	**Before Tax**	**After Tax**
Nine months ended September 30, 2009					
Net income	$ 2,255,028	$ 3,916,228			
Less: Dividends on preferred shares	(23,137)	(40,181)			
Basic EPS					
Net income attributable to common stockholders	2,231,891	3,876,047	12,702,352	$ 0.18	$ 0.31
Effect of dilutive potential common stock					
Add: Bonus to employees (Note 3)	-	-	42,409		
Diluted EPS					
Net income attributable to common stockholders plus effect of potential dilutive common stock	$ 2,231,891	$ 3,876,047	12,744,761	0.18	0.30

(Continued)

	Amount (Numerator)		Shares (Denominator)	Earnings Per Share (NT dollars)	
	Before Tax	After Tax	(Thousand)	Before Tax	After Tax
Nine months ended September 30, 2008					
Net income	$ 48,519,787	$ 39,481,792			
Less: Dividends on preferred shares	(49,385)	(40,186)			
Basic EPS					
Net income attributable to common stockholders	48,470,402	39,441,606	12,413,097	$ 3.90	$ 3.18
Effect of dilutive potential common stock					
Add: Dividends on preferred shares	49,385	40,186	38,272		
Bonus to employees	-	-	127,477		
Diluted EPS					
Net income attributable to common stockholders plus effect of potential dilutive common stock	$ 48,519,787	$ 39,481,792	12,578,846	3.86	3.14

Preferred shares were not included in the calculation of diluted earnings because of their anti-dilutive effect.

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 EPS calculation for the nine months ended September 30, 2008, the number of outstanding shares was retroactively adjusted. Thus EPS before tax and after tax decreased from NT$4.07 to NT$3.90 and from NT$3.31 to NT$3.18, respectively.

29. FINANCIAL INSTRUMENTS

a. As of September 30, 2009 and 2008, the information of fair values was as follows:

	September 30			
	2009		2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	$ 301,745	$ 301,745	$ -	$ -
Available-for-sale financial assets (including non-current)	4,903,115	4,903,115	6,737,424	6,737,424
Financial assets carried at cost	5,687,210	-	6,453,218	-
Bond investments with no active market	103,000	103,000	103,000	103,000
Other financial assets (including non-current)	5,370,949	5,370,949	4,808,532	4,808,532
Refundable deposits	156,068	156,068	105,086	105,086

(Continued)

	September 30			
	2009		2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Liabilities				
Bonds payable	43,300,000	46,276,824	13,700,000	13,744,652
Long-term debts (including current portion)	5,380,189	5,380,189	4,648,545	4,648,545
Long-term bills payable	5,249,874	5,249,874	-	-
Derivative Financial Instrument				
Hedging derivative assets (including non-current)	96,407	96,407	-	-
Hedging derivative liabilities (including non-current)	-	-	105,641	105,641

(Concluded)

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

1) The carrying amount of cash and cash equivalents, notes and accounts receivable, other receivables, restricted assets, short-term loans and overdraft, short-term notes payable, accounts payable, 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. The information used as basis for determining the Corporation's assumptions in applying valuation technique is consistent with that used by market participants and is obtained by the Corporation 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 of other financial assets are determined by the present values of future cash flows, with the values 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 September 30, 2009 and 2008 were from 0.5% to 1.3% and from 2.47% to 2.48%, 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 based on quoted market prices or using valuation technique were as follows:

	Amount Determined by Quoted Market Price		Amount Determined by Using Valuation Technique	
	September 30		September 30	
	2009	2008	2009	2008
Assets				
Financial assets at fair value through profit or loss	$ 301,745	$ -	$ -	$ -
Available-for-sale financial assets (including non-current)	4,903,115	6,486,674	-	250,750
Bond investments with no active market	-	-	103,000	103,000
Other financial assets	-	-	5,370,949	4,808,532
Hedging derivative assets (including non-current)	-	-	96,407	-
Refundable deposits			156,068	105,086
Liabilities				
Hedging derivative liabilities (including non-current)	-	-	-	105,641
Bonds payable	-	-	46,276,824	13,744,652
Long-term bank loans (including current portion)	-	-	5,380,189	4,648,545
Long-term bills payable	-	-	5,249,874	-

d. There is no gain or loss for the estimated change in fair value by using valuation technique for the nine months ended September 30, 2009 and 2008.

e. As of September 30, 2008, financial assets with cash flow risk of the interest rate change was NT$250,750 thousand. As of September 30, 2009 and 2008, financial liabilities were NT$15,438,296 thousand and NT$11,920,942 thousand, respectively, and financial liabilities with fair value risk of the interest rate change were NT$57,796,306 thousand and NT$16,694,848 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$74,745 thousand and NT$894,232 thousand, respectively, for the nine months ended September 30, 2009 and NT$452,283 thousand and NT$474,755 thousand, respectively, for the nine months ended September 30, 2008.

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 long-term loans in yen to hedge the exchange rate fluctuations on its long term investment in yen, 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$1,533,431 thousand.

The Corporation's investments in the bond funds and stocks of Taiwan Semiconductor Manufacturing Company Ltd., Maruichi Steel Tube Ltd., Yodogawa Steel Work, Ltd., Tang Eng Iron Works Corporation and CSBC Corporation Taiwan involve market risk. Except the minor fluctuation of the bond fund's market price, the share price of the stocks increases or decreases by 1%, the fair value will increase or decrease by NT$49,031 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.

3) Liquidity risk

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

Financial assets at fair value through profit or loss and available-for-sale financial assets could be sold rapidly at prices approximating fair value because those financial assets could be sold in financial market at market value.

There are liquidity risks for the financial assets carried at cost and bond investments with no active market because no quoted 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 NT$154,383 thousand.

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

The Corporation borrowed long-term and short-term debt, purchased time deposit - foreign currency and forward contracts to effectively hedge the exchange rate fluctuations on the investments in East Asia United Steel Corporation, Maruichi Steel Tube Ltd., Yodogawa Steel Works Ltd., CSC Australia Holdings Pty. Ltd., China Steel Sumikin Vietnam Joint Stock Company and contracts of purchasing machinery and equipment.

		Designated Hedging Instrument		
			Changes in Fair Value Nine Months Ended September 30	
Hedge Type	**Hedged Item**	**Financial Instrument**	**2009**	**2008**
Fair value hedge	Stock investments in East Asia United Steel Corporation (recorded as financial assets carried at cost - noncurrent)	Long-term debt in JPY	$ 53,955	$ (177,705)
Fair value hedge	Stock investments in Maruichi Steel Tube Ltd. (recorded as available-for-sale financial assets - noncurrent)	Long-term debt in JPY	14,170	(46,670)
Fair value hedge	Stock investments in Yodogawa Steel Works, Ltd. (recorded as available-for-sale financial assets - noncurrent)	Long-term debt in JPY	6,616	(21,791)
Hedge of a net investment in a foreign operation	Stock investment in CSC Steel Australia Holdings Pty. Ltd. (recorded as investments accounted for by the equity method)	Long-term debt in AUD	(91,802)	43,275
Hedge of a net investment in a foreign operation	Stock investment in China Steel Sumikin Vietnam Joint Stock Company (recorded as investments accounted for by the equity method)	Short-term debt in USD	36,826	-
Hedge of cash flow	Contracts for purchasing machinery and equipment	Deposit-foreign currency	(79,078)	38,439
Hedge of cash flow	Contracts for purchasing machinery and equipment	Forward contracts	46,047	(105,641)

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 September 30, 2009 and 2008, the fair values of the above foreign deposits of financial instrument on hedge of cash flow were NT$5,370,949 thousand and NT$4,808,532 thousand, respectively, recorded as other financial assets (including non-current) (Note 14).

30. 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	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
Chung Mao Trading (BVI) Corp.	Affiliate
Chung Mao Trading (SAMOA) Co.	Affiliate
CSGT (Singapore) Pte. Ltd.	Affiliate
CSE Transport Corp. (CSEP)	Affiliate
Mentor Consulting Corporation	Affiliate
Steel Castle Technology Corp.	Affiliate
Union Steel Development Corp.	Affiliate
Betacera Inc.	Affiliate
Wabo Globe Trading Corporation	Affiliate
Universal Exchange Inc.	Affiliate
United Steel Engineering and Construction Corporation (USECC)	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

(Continued)

Related Parties	Relationship with the Corporation
CSGT (SHANGHAI) Co., Ltd.	Affiliate
Ever Glory International Co. Ltd.	Affiliate
CSC Sonoma Pty Ltd.	Affiliate
Kaohsiung Rapid Transit Corporation (KRTC)	Equity method investee
TaiAn Technologies Corporation	Equity method investee
Hsin Hsin Cement Enterprise Co.	Equity method investee
Kaohsiung Labor Assemble & Disassemble Co., Ltd.	Equity investee of the Corporation's affiliate
RSEA Engineering Co., Ltd.	Director of the Corporation's affiliate
Great Grandeul Steel Co., Ltd.	Director of the Corporation's affiliate
Southeast Cement Co., Ltd.	Supervisor of the Corporation's affiliate
Chun Yu Corporation	Supervisor of the Corporation's affiliate
Hua Eng Wire & Cable Co., Ltd.	Director of the Corporation's affiliate
Chun Yuan Steel industry Co., Ltd. (CYS)	Director of the Corporation's affiliate
Chin Ho Fa Steel & Iron Co., Ltd.	Director of the Corporation's affiliate
Chang Yee Steel Co., Ltd.	Director of the Corporation's affiliate
Unimax & Far Corporation	Director of the Corporation's affiliate
Mayer Steel Pipe Corporation	Director of the Corporation's affiliate
Kao Hsiung Changiron & Steel Corporation	Director of the Corporation's affiliate
Bichan Trading CORP.	Director of the Corporation's affiliate
Sando Trading Co., Ltd.	Director of the Corporation's affiliate
Tang Eng Iron Works Co., Ltd. (TEI)	Director of the Corporation
CSC Educational Foundation	Foundation established mainly from the Corporation's donation
CSBC Cprporation Taiwan	Director of the Corporation
CTCI Corporation	Supervisor of the Corporation's affiliate
Others	Substantial control and significant influence over investees, but no material transactions

(Concluded)

b. Significant transactions with related parties:

Sales and purchases

The sales transactions with related parties were NT$16,697,290 thousand (15%, including CYS, CSSB and CSCC, etc.) and NT$17,277,149 thousand (9%, including CSSB, CSSC and CSCC, etc.), respectively, and the purchases transactions (including CSEP, CSE and CAC, etc.) with related parties were NT$8,525,638 thousand (14%) and NT$25,979,518 thousand (22%), respectively, for the nine months ended September 30, 2009 and 2008.

The selling prices for products sold to related parties were similar to those for products sold to third parties; terms of purchases from related parties were similar to those from third parties.

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 Nine Months Ended September 30			
		2009		2008	
	Expiry of Contracts	Amount	%	Amount	%
CAC	February 2016	$ 42,058	35	$ 42,064	35
CSMC	November 2011	22,146	18	21,621	18
CSCC	December 2012	15,169	13	16,012	13
Others	May 2018	22,680	18	22,088	18
		$ 102,053	84	$ 101,785	84

Other revenues

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

	Other Operating Revenue	%	Nonoperating Revenue	%	Total
Nine months ended September 30, 2009					
DSC	$ 860,961	28	$ 1,637	-	$ 862,598
TEI	555,524	18	94	-	555,618
CHSC	23,663	1	219,282	37	242,945
KRTC	3,628	-	-	-	3,628
Others	212,052	8	75,952	13	288,004
	$ 1,655,828	55	$ 296,965	50	$ 1,952,793
Nine months ended September 30, 2008					
DSC	$ 967,916	17	$ 5,716	-	$ 973,632
TEI	616,917	11	52	-	616,969
CHSC	12,833	-	204,355	17	217,188
KRTC	1,983,403	35	-	-	1,983,403
Others	276,410	5	147,572	12	423,982
	$ 3,857,479	68	$ 357,695	29	$ 4,215,174

Other expenditures

Other expenditures paid to related parties for the nine months ended September 30, 2009 and 2008 (including CEC, CSMC and CSSC, etc.) were NT$2,341,576 thousand and NT$4,029,986 thousand, respectively. Other expenditures pertained to furnace slag handling services, export shipping charges, commissions for export and import services, etc., were recorded in other operating costs, manufacturing expenses, operating expenses and non-operating expenses and losses.

Other expenditures from related parties were fair with similar transactions in the market and were made under normal terms.

Construction in progress

The constructions in progress transacted with related parties for the nine months ended September 30, 2009 and 2008 were NT$5,456,316 thousand (including CEC, CSMC and CSSC, etc.) and NT$3,583,509 thousand (including CSMC, CEC and USECC, etc.), respectively.

Donation expenditures

For the nine months ended September 30 2009, the Corporation donated NT$1,000 thousand to CSC Educational Foundation. This foundation is established for promotion of education and personnel training in steel and related fields.

Balances at period-end

	September 30			
	2009		2008	
	Amount	%	Amount	%
Receivables				
DSC	$ 389,900	11	$ 101,647	2
Others	1,102,889	31	1,047,942	16
	$ 1,492,789	42	$ 1,149,589	18
Payables				
CSEP	$ 1,255,631	42	$ 2,538,546	41
Others	523,160	17	555,307	9
	$ 1,778,791	59	$ 3,093,853	50
Other prepayment (classified as other current assets)				
CSEP	$ -	-	$ 641,726	10

31. PLEDGED ASSETS

Time deposits of NT$4,158,026 thousand and NT$4,152,000 thousand (recorded as restricted assets - current and noncurrent) as of September 30, 2009 and 2008, respectively were pledged mainly as collaterals for bank overdraft, etc. Land amounting to NT$17,058,175 thousand had been pledged as collateral for a long-term debt.

32. SIGNIFICANT COMMITMENTS AND CONTINGENCIES AS OF SEPTEMBER 30, 2009

a. The Corporation is guaranteed of NT$1,310,924 thousand by Mega Bank and Taipei Fubon Bank for several construction, warranty, lease and payment contracts.

b. Unused letters of credit to import the materials and machinery amounted to NT$18.1 billion.

c. The Corporation entered into property purchase contracts that amounted to NT$34.9 billion. Unrecorded amounts as of September 30, 2009 were NT$15.2 billion.

d. The Corporation entered into raw material purchase contracts with suppliers in Australia, India, Brazil, Canada, Indonesia, North Korea, Japan, Philippines, Russia and domestic companies with contract terms of 1 to 10 years. Contracted annual purchases of 8,000,000 metric tons of coal, 17,000,000 metric tons of iron ore, and 3,000,000 metric tons of limestone are at prices negotiable every year.

Unpaid purchase amounts as of September 30, 2009 were US$10 billion (including 16,730,000 metric tons of coal; 119,060,000 metric tons of iron ore; and 2,040,000 metric tons of limestone). The purchase contracts are entered into in order to have stable supplies of raw materials. As of September 30, 2009, the Corporation evaluated that the purchase costs (including coal and iron ore) would be higher than the expected benefit from the contracts, accordingly, a loss on purchase commitments of NT$3,547,400 thousand was recognized as purchase commitments payable of current liabilities.

e. 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 September 30, 2009, 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.

f. DSC entered into a syndicated credit facility agreement amounted to NT$51.7 billion with the Bank of Taiwan and 12 other banks in February 2008. Under this agreement, the Corporation and its related parties should collectively hold at least 40% of DSC's outstanding shares and possess no less than half of DSC's board seats. As of September 30, 2009, the Corporation's equity in DSC aggregated 100% and held all board seats.

CHINA STEEL CORPORATION

ADDITIONAL EXPLANATIONS FOR ACCOUNTS IN STOCKHOLDERS' EQUITY
NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008

1. ADJUSTMENT FROM CHANGES IN 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.