China Steel Corporation

Financial Statements for the Three Months Ended March 31, 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 March 31, 2009 and 2008, and the related statements of income and cash flows for the three months then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to issue a report on these financial statements based on our reviews.

Except for the matters described in the third paragraph, we conducted our reviews in accordance with Statement of Auditing Standards No. 36 - "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 of making inquiries of officers responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the Republic of China, the objective of which is the expression of an opinion regarding the 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 financial statements of certain equity-method investees (including unlisted subsidiaries and equity-method investees of listed subsidiaries) were not reviewed by auditors. The aggregate carrying values of these investments were NT$94,255,085 thousand and NT$56,704,378 thousand as of March 31, 2009 and 2008, respectively. The related net investment income (loss) was NT$(298,189) thousand and NT$2,515,403 thousand for the three months ended March 31, 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 the 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 SFAS No.10, "Accounting for Inventories", issued by the ARDF in November 2007. Also, starting January 1, 2008, the Corporation adopted Interpretation 96-052, "Accounting for Bonuses to Employees, Directors and Supervisors" issued by the ARDF in March 2007.

April 23, 2009

<u>Notice to Readers</u>

The accompanying financial statements are intended only to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to 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
MARCH 31, 2009 AND 2008
(In Thousands of New Taiwan Dollars, Except Par Value)
(Reviewed, Not Audited)

	2009		2008	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 4)	$ 2,591,766	1	$ 22,389,881	8
Financial assets at fair value through profit or loss - current (Notes 2 and 5)	5,614,754	2	3,481,661	1
Available-for-sale financial assets - current (Notes 2 and 6)	3,603,123	1	4,651,849	2
Hedging derivative assets - current (Notes 2 and 7)	123,960	-	-	-
Notes receivable	1,250,011	-	1,377,658	1
Accounts receivable (Notes 2, 8 and 30)	2,793,402	1	3,130,854	1
Other receivables (Notes 11 and 30)	795,987	-	6,460,073	2
Inventories (Notes 2 and 9)	41,845,790	12	34,666,455	12
Deferred income tax assets (Note 26)	5,701,251	2	273,707	-
Restricted assets - current (Note 31)	4,158,424	1	4,186,196	1
Others (Notes 2, 10 and 30)	7,692,639	2	7,237,271	2
Total current assets	76,171,107	22	87,855,605	30
INVESTMENTS				
Available-for-sale financial assets - noncurrent (Notes 2 and 6)	2,935,092	1	3,375,967	1
Hedging derivative assets - noncurrent (Notes 2 and 7)	100,871	-	-	-
Financial assets carried at cost - noncurrent (Notes 2 and 11)	5,721,984	2	6,316,803	2
Bond investments with no active market - noncurrent (Notes 2 and 12)	103,000	-	5,038,926	2
Investments accounted for by the equity method (Notes 2 and 13)	99,369,638	29	63,526,249	21
Other financial assets - noncurrent (Note 14)	5,029,084	1	4,891,200	2
Total investments	113,259,669	33	83,149,145	28
PROPERTY, PLANT AND EQUIPMENT (Notes 2, 15, 30 and 31)				
Land	10,692,043	3	10,465,578	4
Land improvements	4,221,507	1	4,212,123	1
Buildings	40,881,463	12	40,261,354	14
Machinery and equipment	245,074,464	71	240,536,592	82
Transportation equipment	1,621,723	1	1,541,432	-
Other equipment	4,407,692	1	4,115,171	1
Total cost	306,898,892	89	301,132,250	102
Revaluation increment	43,729,168	12	17,064,474	6
Cost and revaluation increment	350,628,060	101	318,196,724	108
Less: Accumulated depreciation	224,565,975	65	215,444,283	73
	126,062,085	36	102,752,441	35
Constructions in progress	23,918,831	7	13,985,729	5
Total property, plant and equipment	149,980,916	43	116,738,170	40
INTANGIBLE ASSETS (Note 2)	115,773	-	215,025	-
OTHER ASSETS				
Assets leased to others (Notes 2 and 16)	3,236,744	1	3,260,517	1
Refundable deposits	111,475	-	111,973	-
Deferred income tax assets - non current (Note 26)	274,096	-	-	-
Restricted assets - noncurrent (Note 31)	8,026	-	2,000	-
Unamortized repair costs and others (Notes 2 and 10)	1,846,512	1	2,300,611	1
Total other assets	5,476,853	2	5,675,101	2
TOTAL	$ 345,004,318	100	$ 293,633,046	100

	2009		2008	
LIABILITIES AND STOCKHOLDERS' EQUITY	**Amount**	**%**	**Amount**	**%**
CURRENT LIABILITIES				
Short-term loans (Notes 17 and 31)	$ 11,442,166	3	$ 8,063,509	3
Commercial paper payable (Note 18)	13,496,590	4	-	-
Hedging derivative liabilities - current (Notes 2 and 7)	11,522	-	30,090	-
Accounts payable (Note 30)	1,929,129	1	5,779,146	2
Income tax payable (Note 26)	5,709,639	2	9,347,947	3
Accrued expenses (Notes 2 and 19)	6,184,121	2	6,316,071	2
Other payables (Note 2)	7,655,534	2	3,380,655	1
Purchase commitments payable (Notes 2 and 32)	6,654,255	2	-	-
Long-term debts-current portion (Note 21)	896,480	-	-	-
Others	1,121,629	-	2,427,057	1
Total current liabilities	55,101,065	16	35,344,475	12
LONG-TERM LIABILITIES				
Hedging derivative liabilities - noncurrent (Notes 2 and 7)	12,020	-	221,744	-
Bonds payable (Note 20)	43,300,000	13	13,700,000	5
Long-term debts (Note 21)	4,218,402	1	4,652,473	1
Total long-term liabilities	47,530,422	14	18,574,217	6
RESERVE FOR LAND VALUE INCREMENT TAX (Note 15)	8,673,466	2	2,171,124	1
OTHER LIABILITIES				
Deferred income tax liabilities - noncurrent (Note 26)	-	-	2,383,728	1
Deferred credits - gain from affiliates (Note 23)	1,796,141	1	1,543,519	-
Total other liabilities	1,796,141	1	3,927,247	1
Total liabilities	113,101,094	33	60,017,063	20
CAPITAL STOCK - AUTHORIZED 14,000,000 THOUSAND SHARES AND 12,000,000 THOUSAND SHARES AT NT$10 PAR VALUE AS OF MARCH 31, 2009 and 2008, RESPECTIVELY (Notes 2 and 24)				
Common shares - issued 12,557,541 thousand shares and 11,496,499 thousand shares as of March 31, 2009 and 2008, respectively	125,575,411	37	114,964,990	39
Preferred shares - issued 38,270 thousand shares and 38,792 thousand shares as of March 31, 2009 and 2008, respectively	382,700	-	387,920	-
Total capital stock	125,958,111	37	115,352,910	39
CAPITAL SURPLUS (Notes 2 and 24)	18,464,817	5	1,962,492	1
RETAINED EARNINGS (Notes 2 and 24)				
Legal Reserve	44,715,153	13	39,589,333	13
Special Reserve	7,615,701	2	7,615,701	3
Unappropriated earnings	24,002,582	7	51,407,695	18
Net income (loss) for the three months ended March 31	(7,175,567)	(2)	11,713,333	4
Total retained earnings	69,157,869	20	110,326,062	38
OTHER EQUITY				
Unrealized revaluation increment (Note 15)	21,914,320	6	1,508,387	-
Unrealized gain on financial instruments (Notes 6, 7, 14 and 24)	6,545,853	2	6,350,718	2
Cumulative translation adjustments	540,905	-	(469,521)	-
Net loss not recognized as pension cost	(32,385)	-	(41,208)	-
Treasury stock - 374,207 thousand shares and 81,849 thousand shares as of March 31, 2009 and 2008, respectively (Notes 2 and 24)	(10,646,266)	(3)	(1,373,857)	-
Total other equity	18,322,427	5	5,974,519	2
Total stockholders' equity	231,903,224	67	233,615,983	80
TOTAL	$ 345,004,318	100	$ 293,633,046	100

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

(With Deloitte & Touche review report dated April 23, 2009)

CHINA STEEL CORPORATION

STATEMENTS OF INCOME
THREE MONTHS ENDED MARCH 31, 2009 AND 2008
(In Thousands of New Taiwan Dollars, Except Earnings (Loss) Per Share)
(Reviewed, Not Audited)

	2009		2008	
	Amount	**%**	**Amount**	**%**
OPERATING REVENUE (Notes 2 and 30)	$ 36,603,783	100	$ 57,352,816	100
OPERATING COSTS (Notes 2, 3, 9, 25, 27, 30 and 32)	44,613,220	122	44,352,866	78
GROSS PROFIT (LOSS)	(8,009,437)	(22)	12,999,950	22
UNREALIZED LOSS (GAIN) FROM AFFILIATES	338,027	1	(174,823)	-
REALIZED GROSS PROFIT (LOSS)	(7,671,410)	(21)	12,825,127	22
OPERATING EXPENSES (Notes 27 and 30)				
Research and development	254,227	1	378,252	1
Selling	446,424	1	727,380	1
General and administrative	500,102	1	635,143	1
Total operating expenses	1,200,753	3	1,740,775	3
OPERATING INCOME (LOSS)	(8,872,163)	(24)	11,084,352	19
NONOPERATING INCOME AND GAINS				
Interest income (Note 29)	26,923	-	172,582	-
Valuation gain on financial assets (Notes 2 and 5)	9,301	-	6,530	-
Investment income recognized under equity method (Note 13)	-	-	3,007,729	5
Others (Notes 11 and 30)	240,062	1	316,657	1
Total nonoperating income and gains	276,286	1	3,503,498	6
NONOPERATING EXPENSES AND LOSSES				
Interest expense (Notes 15 and 29)	251,250	1	128,970	-
Investment loss recognized under equity method - net (Note 13)	640,792	2	-	-
Loss on disposal of property, plant and equipment	19,652	-	50,743	-
Others (Note 30)	63,163	-	72,464	-
Total nonoperating expenses and losses	974,857	3	252,177	-
INCOME (LOSS) BEFORE INCOME TAX	(9,570,734)	(26)	14,335,673	25
INCOME TAX EXPENSE (BENEFIT) (Notes 2 and 26)	(2,395,167)	(6)	2,622,340	5
NET INCOME (LOSS)	$ (7,175,567)	(20)	$ 11,713,333	20

(Continued)

CHINA STEEL CORPORATION

STATEMENTS OF INCOME
THREE MONTHS ENDED MARCH 31, 2009 AND 2008
(In Thousands of New Taiwan Dollars, Except Earnings (Loss) Per Share)
(Reviewed, Not Audited)

	2009		2008	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS (LOSS) PER SHARE (Note 28)				
Basic	$ (0.78)	$ (0.59)	$ 1.20	$ 0.98
Diluted	$ (0.78)	$ (0.59)	$ 1.20	$ 0.98

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 (Loss)	$ (7,114,932)	$ 11,797,657
Basic earnings (loss) per share based on weighted-average number of outstanding common shares aggregating 12,499,541 thousand and 11,981,028 thousand shares for the three months ended March 31, 2009 and 2008, respectively	$ (0.57)	$ 0.98
Diluted earnings (loss) per share based on weighted-average number of outstanding common shares aggregating 12,537,811 thousand and 12,044,405 thousand shares for the three months ended March 31, 2009 and 2008, respectively	$ (0.57)	$ 0.98

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

(With Deloitte & Touche review report dated April 23, 2009) (Concluded)

CHINA STEEL CORPORATION

STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2009 AND 2008
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ (7,175,567)	$ 11,713,333
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation	2,853,255	2,804,467
Amortization	163,569	162,140
Deferred income tax	(2,395,290)	(68,763)
Investment loss (income) under the equity method	640,792	(3,007,729)
Provision for loss on inventories	3,305,404	-
Loss on purchase commitments	752,730	-
Unrealized gain (loss) from affiliates	(338,027)	174,823
Valuation gains on financial assets	(9,301)	(6,530)
Loss on disposal of property, plant and equipment	19,652	50,743
Others	125,220	(56,836)
Net changes in operating assets and liabilities		
Notes receivable	866,388	17,897
Accounts receivable	101,811	(668,614)
Other receivables	647,470	27,290
Inventories	8,033,063	(1,277,064)
Other current assets	(166,703)	(767,438)
Accounts payable	(3,621,314)	439,053
Income tax payable	(40,023)	2,665,703
Accrued expenses	(78)	(1,204,166)
Other payables	562,112	(267,195)
Other current liabilities	(356,347)	265,851
Net cash provided by operating activities	3,968,816	10,996,965
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of financial assets at fair value through profit or loss	-	(3,500,017)
Proceeds from disposal of financial assets at fair value through profit or loss	-	1,056,983
Acquisition of investments accounted for by equity method	(1,774,125)	(140,872)
Acquisition of property, plant and equipment	(4,319,809)	(3,427,810)
Proceeds from disposal of property, plant and equipment	1,210	-
Decrease (increase) in refundable deposits	71,332	(30,300)
Increase in other financial assets - noncurrent	(66,676)	(4,878,900)
Increase in other assets	(125,641)	(22,852)
Net cash used in investing activities	(6,213,709)	(10,943,768)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term loans	4,572,350	942,759
Decrease in commercial paper payable	(1,475,003)	-

(Continued)

CHINA STEEL CORPORATION

STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2009 AND 2008
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	2009	2008
Cash dividends	$ (3,229)	$ (10,299)
Discount for acquisition cost of treasury stock	886	-
Net cash provided by financing activities	3,095,004	932,460
NET INCREASE IN CASH AND CASH EQUIVALENTS	850,111	985,657
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	1,741,655	21,404,224
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 2,591,766	$ 22,389,881
SUPPLEMENTAL INFORMATION		
Interest paid (excluding capitalized interest)	$ 21,350	$ 53,686
Income tax paid	40,146	25,400
INVESTING ACTIVITIES AFFECTING BOTH CASH AND NON-CASH ITEMS		
Cash Paid for Acquisition of Property, Plant and Equipment		
Acquisition of property, plant and equipment	$ 3,751,741	$ 3,930,043
Decrease (increase) in payable for equipment purchased	568,068	(502,233)
	$ 4,319,809	$ 3,427,810

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

(With Deloitte & Touche review report dated April 23, 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 March 31, 2009, the Ministry of Economic Affairs, Republic of China owned 21.24% of the Corporation's outstanding common stock (including the treasury stocks held by the Corporation and its subsidiaries).

As of March 31, 2009 and 2008, the Corporation had about 9,200 and 9,000 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 readers' convenience, the accompanying financial statements were translated into English from the original Chinese version prepared and used in the ROC. If inconsistencies arise between the English version and the Chinese version or if differences arise in the interpretations between the two versions, the Chinese version of the financial statements shall prevail. However, the Corporation's financial statements do not include the English translation of additional 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 (mainly open-end bond funds) are designated as financial assets at fair value through profit or loss ("FVTPL") to remove significant accounting inconsistency. 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. All 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 recognized 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 transacted by 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 active market and with fair value that cannot be reliably measured, such as non-publicly 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.

Investments 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 different 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 year of disposal.

Intangible Assets

Intangible assets acquired are initially recorded at cost and are amortized on a straight-line basis over their estimated useful lives. Computer software, patents and trademarks are amortized by the straight-line method over 3 to 5 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 Asset

If the recoverable amount of an asset (mainly property, plant and equipment, intangible assets, assets leased to others 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 Company 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 uncanceled purchasing contracts for raw materials when the estimated purchase costs 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 year in which employees render services.

Treasury Stock

The Corporation reacquired its issued shares and recorded this reacquisition 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 intra-year and inter-year allocations 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 year's tax provision.

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

Foreign-currency Transactions

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 reclassified into current 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 three months ended March 31, 2008 have been reclassified to conform to the presentation of the financial statements as of and for the three months ended March 31, 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$85,444 thousand and gain on physical inventory of NT$125 thousand previously recorded as nonoperating income and gains were reclassified into operating costs for the three months ended March 31, 2009.

3. EFFECTS OF CHANGES IN ACCOUNTING PRINCIPLES

<u>Accounting for Inventories</u>

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 sold for the period. The adoption resulted in an increase of NT$87,506 thousand in net loss and an increase of NT$0.01 in after income tax basic loss per share for the three months ended March 31, 2009.

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$336,267 thousand in net income and a decrease in after income tax basic earnings per share of NT$ 0.03, for the three months ended March 31, 2009.

4. CASH AND CASH EQUIVALENTS

	March 31	
	2009	2008
Cash on hand	$ 19,423	$ 19,072
Checking accounts and demand deposits	1,383,804	169,517
Time deposits	639,201	7,400,000
Negotiable certificates of deposits	-	7,000,000
Cash equivalents - short-term notes and bills	549,338	7,801,292
	$ 2,591,766	$ 22,389,881

As of March 31, 2009 and 2008, the Corporation had foreign bank deposits of ￥7,517 thousand and ￥5,785 thousand in Japan-Osaka Bank and ￥6 thousand and ￥11 thousand in Singapore - Daiwa Securities SMBC with the total of ￥7,523 thousand (NT$2,594 thousand) and ￥5,796 thousand (NT$1,772 thousand), respectively.

5. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The financial assets designated as at FVTPL represents open-end bond funds. As of March 31, 2009 and 2008, the balances of financial assets at fair value through profit or loss were NT$5,614,754 thousand and NT$3,481,661 thousand, respectively. The purpose of classifying open-end bond funds to this account is to remove the accounting inconsistency between investment income and interest expense.

Net gains on financial assets designated as at FVTPL for the three months ended March 31, 2009 and 2008 were NT$9,301 thousand and NT$6,530 thousand, respectively.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	March 31			
	2009		2008	
	Current	Noncurrent	Current	Noncurrent
Quoted stocks				
Maruichi Steel Tube Ltd.	$ -	$ 757,920	$ -	$ 757,920
Yodogawa Steel Works, Ltd.	-	345,831	-	349,389
Taiwan Semiconductor Manufacturing Company (TSMC)	967,456	-	967,456	-
CSBC Corporation Taiwan (CSBC)	-	219,575	-	-
Tang Eng Iron Works Corporation (TEIWC)	-	-	-	-
Bank debentures - Taiwan Cooperative Bank	-	-	250,160	-
Adjustments for change in valuation	2,635,667	1,611,766	3,434,233	2,268,658
	$ 3,603,123	$ 2,935,092	$ 4,651,849	$ 3,375,967

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 March 31, 2009 and 2008, the carrying value of this financial asset was NT$734,573 thousand and NT$1,063,041 thousand, respectively.

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 in 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 it's 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 in the same amounts 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).

7. HEDGING DERIVATIVE FINANCIAL INSTRUMENTS

The Corporation entered into derivative contracts for the three months ended March 31, 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 March 31, 2009 and 2008 were as follows:

	Currency	**The Period for Generating Cash Flows and Maturity Date**	**Contract Amount (In Thousands)**
March 31, 2009			
Forward exchange contracts	NT$/US$	December, 2009 - September, 2010	NT$4,093,276/USD$129,490
Forward exchange contracts	NT$/EUR€	April, 2009 - March, 2012	NT$1,093,998/EUR€24,137
March 31, 2008			
Forward exchange contracts	NT$/US$	April, 2008 - September, 2010	NTD4,630,189/USD146,190

Movements of unrealized gain or loss on valuation of hedging instruments were as follows:

	Three Months Ended March 31	
	2009	**2008**
Balance, beginning of period	$ 57,027	$ -
Valuation of unrealized gain (loss)	144,262	(251,834)
Balance, end of period	$ 201,289	$ (251,834)

As of March 31, 2009 and 2008, the balances of hedging derivative financial instruments comprised of:

	March 31	
	2009	2008
Hedging derivative assets - current	$ 123,960	$ -
Hedging derivative assets - noncurrent	100,871	-
Hedging derivative liabilities - current	(11,522)	(30,090)
Hedging derivative liabilities - noncurrent	(12,020)	(221,744)
	$ 201,289	$ (251,834)

The unrealized gain was NT$114,114 thousand and NT$47,156 thousand (with the total of NT$161,270 thousand) on derivative financial assets for hedging - current and - noncurrent, respectively, as of March 31, 2009. The unrealized loss was NT$7,043 thousand and NT$9,965 thousand (with the total of NT$17,008 thousand) and NT$30,090 thousand and NT$221,744 thousand (with the total of NT$251,834 thousand) on derivative financial liability for hedging - current and - noncurrent, respectively, as of March 31, 2009 and 2008, and recognized as unrealized gain on financial instruments in stockholders' equity.

The unrealized gain (loss) of abovementioned forward contracts will be recognized in the income statement 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 its accounts receivable for the three months ended March 31, 2009 and 2008 is as follows:

Transaction Counter-party	Advances Received at Period-beginning	Receivables Sold	Amounts Collected	Advances Received at Period-end	Interest Rates on Advances Received (%)	Credit Line (In Billions of NTD)
Three months ended March 31, 2009						
Accounts Receivable						
Mega Bank	$ 4,166,480	$ 2,259,500	$ 3,610,599	$ 2,815,381	1.02 ~ 2.74	7.5
Bank of Taiwan	856,900	360,819	683,841	533,878	2.16 ~ 2.55	2.5
Taipei Fubon Bank	166,541	113,127	166,541	113,127	1.26 ~ 2.73	0.4
	$ 5,189,921	$ 2,733,446	$ 4,460,981	$ 3,462,386		
Three months ended March 31, 2008						
Accounts Receivable						
Mega Bank	$ 4,513,552	$ 3,647,591	$ 3,484,240	$ 4,676,903	2.03-2.54	6.4
Bank of Taiwan	698,837	660,453	602,286	757,004	2.03-2.54	2.5
Taipei Fubon Bank	221,220	256,931	223,094	255,057	2.26-2.70	0.4
	$ 5,433,609	$ 4,564,975	$ 4,309,620	$ 5,688,964		

9. INVENTORIES

	March 31	
	2009	2008
Finished products	$ 9,221,653	$ 7,954,582
Work in process	15,304,813	11,837,125
Raw materials	13,442,621	9,023,189
Supplies	1,296,404	1,052,684
Materials in transit	1,903,828	3,840,739
Fuel	160,539	122,940
Others	515,932	835,196
	$ 41,845,790	$ 34,666,455

As of March 31, 2009, the allowance for value decline losses on inventory was NT$14,401,521 thousand.

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. The Corporation had recognized allowance for value decline losses on inventory of NT$11,096,117 thousand in the fourth quarter in 2008. In the first quarter of 2009, according to the lower of cost or net realizable value method, the Corporation recognized a provision for loss on inventories of NT$3,305,404 thousand (recorded as operating costs, Note 25). The Corporation also recognized additional loss on purchase commitments of NT$752,730 thousand due to the effect of the crisis mentioned above, and reported such loss as operating costs and current liabilities - purchase commitments payable. As of March 31, 2009, the purchase commitments payable was NT$6,654,255 thousand. (Notes 2, 25 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$1,630,120 thousand for the three months ended March 31, 2009.

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

	March 31			
	2009		208	
	Current	Noncurrent	Current	Noncurrent
Spare parts and roller	$ 5,929,223	$ 807,539	$ 4,044,706	$ 742,653
Prepayments	888,271	-	569,936	-
Prepaid expense	870,262	-	2,603,665	-
Unamortized repair costs	-	1,001,122	-	1,547,188
Other	4,883	37,851	18,964	10,770
	$ 7,692,639	$ 1,846,512	$ 7,237,271	$ 2,300,611

Spare parts pertain to the use in the repairs of the machinery and equipment. Spare parts estimated to be used within one year are classified as other current assets. Otherwise, they are classified as other assets and evaluated for impairment.

11. FINANCIAL ASSETS CARRIED AT COST - NONCURRENT

	March 31	
	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	-
Taiwan Rolling Stock Co., Ltd. (TRSC)	202,048	202,048
Hsin Hsin Cement Enterprise Corp.	165,010	165,010
CDIB BioScience Ventures I, Inc. (CBVI)	75,276	83,640
Overseas Investment & Development Corporation	50,000	50,000
CTB I Venture Capital Co., Ltd.	50,000	50,000
Phalanx Biotech Group Corporation (PBGC)	-	73,370
Asia Pacific Broadband Telecom Co., Ltd. (APBTC)	-	-
Advanced Material Technology Corporation (AMTC)	-	-
Unquoted Preferred stocks		
East Asia United Steel Corporation (EAUS)	3,448,000	3,057,000
Dragon Steel Corporation (DSC)		
Preferred A	-	999,877
Preferred B	-	53,312
Fund - Sino-Canada Biotechnology Development Fund, LP (SCBDF)	-	82,546
	$ 5,721,984	$ 6,316,803

The above equity investments, which had no quoted prices in active market and of which fair value could not be reliably measured, were 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 4 % equity of CBVI. In August 2008, and November 2007, CBVI reduced its capital and returned NT$8,364 thousand and NT$18,360 thousand to the Corporation, respectively. Accordingly, the cost of investment in CBVI was reduced to NT$75,726 thousand.

The Corporation evaluated and recognized an impairment loss of total investment amounts in PBGC, APBTC, AMTC and SCBDT.

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 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 three months ended March 31, 2009 and 2008 were NT$67,418 thousand and NT$64,595 thousand, respectively. As of March 31, 2009 and 2008, the royalty receivable were NT$80,040 thousand and NT$81,349 thousand, respectively (recorded as other receivables.).

12. BOND INVESTMENTS WITH NO ACTIVE MARKET

	March 31	
	2009	**2008**
Unquoted preferred stocks-domestic		
Taiwan High Speed Rail Corporation (THSRC)		
Preferred C	$ -	$ 3,904,542
Preferred B	-	834,384
Taigen Biotechnology Co., Ltd. (TBC)	-	-
	-	4,738,926
Unquoted preferred stocks-overseas		
TaiGen Biopharmaceuticals Holdings Limited (TGB)	103,000	300,000
	$ 103,000	$ 5,038,926

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 of 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.

In 2008, the Corporation evaluated and recognized an impairment loss of NT$4,738,926 thousand on the investments in preferred shares of THSRC.

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 shareholders 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 2009. In 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

	March 31			
	2009		2008	
	Amount	% of Owner-ship	Amount	% of Owner-ship
Stocks listed on the Taiwan Stock Exchange (recognition based on reviewed financial statements)				
Chung Hung Steel Corporation (CHSC)	$ 2,638,704	29	$ 3,932,103	24
China Steel Chemical Corporation (CSCC)	1,078,765	29	1,483,362	29
China Hi-ment Corporation (CHC)	661,728	20	697,413	20
China Ecotek Corporation (CEC)	647,956	49	485,783	36
China Steel Structure Corporation (CSSC)	471,860	18	556,398	18
	5,499,013		7,155,059	
Less: Shares held by subsidiaries accounted for as treasury stock	384,460		333,188	
	5,114,553		6,821,871	
Equity-method investments held by the stocks listed on the Taiwan Stock Exchange (recognition based on unreviewed financial statements)				
Chung Hung Steel Corporation (CHSC)	311,323	-	-	-
China Steel Chemical Corporation (CSCC)	438,370	-	-	-
China Hi-ment Corporation (CHC)	70,016	-	-	-
China Ecotek Corporation (CEC)	254,823	-	-	-
China Steel Structure Corporation (CSSC)	106,150	-	-	-
	1,180,682		-	
Less: Shares held by subsidiaries accounted for as treasury stock	1,224,365		-	
	(43,683)		-	
Stocks without quoted market prices (recognition based on the unreviewed financial statements)				
Dragon Steel Corporation (DSC)	57,525,657	100	16,749,593	47
China Steel Express Corporation (CSE)	14,597,966	100	7,715,053	100
C. S. Aluminum Corporation (CAC)	6,937,041	100	7,584,008	100
Gains Investment Corporation (GIC)	5,509,890	100	7,517,158	100
China Prosperity Development Corporation (CPDC)	4,728,688	100	4,771,376	100
China Steel Asia Pacific Holdings Pte Ltd. (CSAPH)	3,303,818	100	3,386,061	100
Kaohsiung Rapid Transit Corporation (KRTC)	1,991,824	31	2,821,004	31
China Steel Global Trading Corporation (CSGT)	1,582,118	100	1,304,327	100
China Steel Machinery Corporation (CSMC)	1,081,264	74	1,264,837	100
Info-Champ Systems Corporation (ICSC)	639,185	100	670,541	100
CSC Australia Holding Pty. Ltd. (CSCAU)	571,911	100	449,929	100
Horng Yih Investment Corporation (HYI)	471,164	100	913,822	100
Long Yuan Fa Investment Corporation (LYFI)	468,448	100	912,819	100
Goang Yaw Investment Corporation (GYI)	458,781	100	889,800	100
Kaohsiung Arena Development Corporation (KADC)	446,804	18	338,555	18
China Steel Security Corporation (CSS)	325,100	100	274,428	100
Hi-mag Magnetic Corporation (HMC)	104,907	50	110,104	50
Baolai Greeting Development Co., Ltd. (BGDC)	41,218	45	45,634	45

(Continued)

	March 31			
	2009		2008	
	Amount	% of Owner-ship	Amount	% of Owner-ship
China Steel Management Consulting Corporation (CSMCC)	$ 33,840	100	$ 20,275	100
TaiAn Technologies Corporation (TTC)	6,627	17	5,723	17
	100,826,251		57,745,047	
Less: Shares held by subsidiaries accounted for as treasury stock	6,527,483		1,040,669	
	94,298,768		56,704,378	
	$ 99,369,638		$ 63,526,249	

(Concluded)

In March 2009, the Corporation increased investment in CHSC for NT$1,774,125 thousand. 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.

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. Uopn 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.

In January 2008, in order to simplify the investment structure, the Corporation invested NT$15,083 thousand, at the carrying amount of Eminence Investment Co., Ltd. to acquire 1% ownership of GYI, HYI and LYFI, respectively, as well as invested NT$5,829 thousand and NT$6,315 thousand, at the carrying amounts of GIC and ICSC to acquire 30% and 32.5% ownership of CSMCC, respectively.

The market value of above listed stocks based on the closing price on March 31, 2009 and 2008 was as follows:

	March 31	
	2009	2008
CHSC	$ 5,629,146	$ 7,220,372
CSCC	3,797,053	5,529,179
CHC	1,617,595	1,753,196
CEC	1,836,283	1,346,841
CSSC	423,252	577,293
	$ 13,303,329	$ 16,426,881

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

	Three Months Ended March 31	
	2009	**2008**
Recognized based on reviewed financial statements		
CHSC	$ (674,876)	$ 254,936
CSCC	59,755	117,015
CHC	37,269	29,368
CEC	208,889	80,622
CSSC	26,360	10,385
	(342,603)	492,326
Recognized based on unreviewed financial statements		
CSE	931,407	1,919,889
CSMC	243,962	262,144
CSCAU	77,171	(1,096)
GIC	75,542	(366,950)
CSGT	50,264	148,033
CPDC	24,653	19,169
CSAPH	24,552	112,518
DSC	(951,099)	87,395
CAC	(204,660)	194,045
KRTC	(191,997)	(73,036)
HYI	(149,772)	57,786
LYFI	(149,373)	58,711
GYI	(145,833)	56,278
CHSC’s equity-method investments	(1,131)	-
CSCC’s equity-method investments	3,793	-
CHC’s equity-method investments	951	-
CEC’s equity-method investments	12,610	-
CSSC’s equity-method investments	969	-
Others	49,802	40,517
	(298,189)	2,515,403
	$ (640,792)	$ 3,007,729

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 March 31, 2009, the Corporation’s unexecuted investment in these investees aggregated NT$9,976,326 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 Company’s share in investees’ net assets allocated to depreciable assets and goodwill were as follows:

	Depreciable Assets	**Goodwill**
Three months ended March 31, 2009		
Balance, beginning of period	$ 1,126,994	$ 401,018
Amortization	(20,026)	-
Balance, end of period	$ 1,106,968	$ 401,018

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

14 OTHER FINANCIAL ASSETS – NONCURRENT

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 March 31, 2009 and 2008, the balance of the JPY time deposits designated as hedging instrument were ￥14.4 billion (NT$4,965,120 thousand) and ￥16 billion (NT$4,891,200 thousand), respectively. The unrealized loss and gain of NT$270,719 thousand and NT$12,300 thousand, respectively, arising from the JPY time deposits designated as hedging instrument were recognized as unrealized gain on financial instruments in stockholders' equity.

For the purposes of managing cash flows exposures on foreign-currency capital expenditure contracts, the Corporation entered into forward exchange contracts (Note 7). Partial of such contract for EUR 1,420 thousand (NT$63,964 thousand) was expired in January 2009. As of March 31, 2009, an unrealized loss of NT$2,712 thousand on the hedging instrument was recognized as unrealized gain on financial instruments in stockholders' equity.

There will be cash flows generated from abovementioned contracts, between 2008 and 2013 and between 2009 and 2012, 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
Three months ended March 31, 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
Additions	-	1,119	203,969	212,000	3,386	70,221	3,261,046	3,751,741
Disposals	-	-	(20,528)	(610,993)	(5,322)	(51,648)	-	(688,491)
Balance, end of period	10,692,043	4,221,507	40,881,463	245,074,464	1,621,723	4,407,692	23,918,831	330,817,723
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	-	-	-	(46,071)	-	-	-	(46,071)
Balance, end of year	32,754,016	492,990	2,407,480	8,024,891	18,108	31,683	-	43,729,168
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	-	27,266	304,503	2,381,556	19,627	115,016	-	2,847,968
Disposals	-	-	(5,883)	(651,662)	(5,283)	(50,872)	-	(713,700)
Balance, end of period	-	3,933,081	20,572,583	195,694,562	1,253,643	3,112,106	-	224,565,975
Net book value, end of period	$ 43,446,059	$ 781,416	$ 22,716,360	$ 57,404,793	$ 386,188	$ 1,327,269	$ 23,918,831	$ 149,980,916
Three months ended March 31, 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
Additions	662,225	-	611,193	3,519,015	48,638	147,106	(1,058,134)	3,930,043
Disposals	-	-	(122,878)	(172,014)	(7,689)	(50,779)	-	(353,360)
Balance, end of period	10,465,578	4,212,123	40,261,354	240,536,592	1,541,432	4,115,171	13,985,729	315,117,979
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		-	(15,787)	(22,319)	-	-	-	(38,106)
Balance, end of year	5,840,732	492,990	2,407,736	8,264,069	27,233	31,714	-	17,064,474
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	-	32,820	293,497	2,337,690	20,585	113,025	-	2,797,617
Disposals	-	-	(89,597)	(193,203)	(7,669)	(50,254)	-	(340,723)
Balance, end of period	-	3,821,437	19,381,853	188,170,152	1,227,972	2,842,869	-	215,444,283
Net book value, end of period	$ 16,306,310	$ 883,676	$ 23,287,237	$ 60,630,509	$ 340,693	$ 1,304,016	$ 13,985,729	$ 116,738,170

Information about capitalized interest on the purchase of property, plant and equipment for the three months ended March 31, 2009 and 2008 was disclosed as follows:

	Three Months Ended March 31	
	2009	2008
Interest expense before capitalization	$ 329,361	$ 160,518
Capitalized interest - construction in progress	(78,111)	(31,548)
Interest expense through income statement	$ 251,250	$ 128,970
Capitalization rates	1.76%-2.05%	2.21%-2.43%

In 1981 and 1994, the Corporation revalued its property, plant and equipment and patents in accordance with government regulations, resulting in the 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 March 31, 2009, unrealized revaluation increment on totalling NT$13,952,356 thousand had been capitalized as capital stock, reducing its balance to NT$339,174 thousand. In January 2005, the government revised the land 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 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 three months ended March 31, 2009 and 2008, upon retirement or sale of appreciated properties, the unrealized revaluation increment decreased by NT$928 thousand and NT$768 thousand, respectively, and recorded as nonoperating revenue. As of March 31, 2009, the cumulative nonoperating revenue due to disposal of appreciated properties was $31,985 thousand.

16. ASSETS LEASED TO OTHERS

	Land	Machinery and Equipment	Buildings and Improvements	Total
Three months ended March 31, 2009				
Cost	$ 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	-	4,625	662	5,287
Balance, end of period	-	1,386,943	24,106	1,411,049
Accumulated impairment	-	594,000	-	594,000
Net book value, end of period	$ 3,079,977	$ 19,057	$ 137,710	$ 3,236,744
Three months ended March 31, 2008				
Cost	$ 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	-	6,186	664	6,850
Balance, end of period	-	1,365,822	21,454	1,387,276
Accumulated impairment	-	594,000	-	594,000
Net book value, end of period	$ 3,079,977	$ 40,178	$ 140,362	$ 3,260,517

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

17. SHORT-TERM LOANS

	March 31	
	2009	2008
Credit loans - interest at 0.80%-1.15% p.a. and 2.239% p.a. as of March 31, 2009 and 2008, respectively	$ 11,300,000	$ 7,000,000
Letters of credit - due within 180 days; interest at 1.01%-2.295% p.a. and 0.87%-6.15% p.a. as of March 31, 2009 and 2008, respectively	142,166	1,063,509
	$ 11,442,166	$ 8,063,509

18. COMMERCIAL PAPER PAYABLE (Only for March 31, 2009)

	2009
Commercial paper - interest rates at 0.2%-1.01% p.a. as of March 31, 2009	$ 13,500,000
Unamortized discounts	(3,410)
	$ 13,496,590

19. ACCRUED EXPENSES

	March 31	
	2009	2008
Bonus to employees, and remuneration to directors and supervisors	$ 1,908,596	$ 996,790
Repair and construction	1,302,812	1,233,887
Accrued salaries and incentive bonus	617,450	1,932,830
Others	2,355,263	2,152,564
	$ 6,184,121	$ 6,316,071

20. BONDS PAYABLE

	March 31	
	2009	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	-

(Continued)

	March 31	
	2009	2008
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

(Concluded)

21. LONG-TERM DEBTS

	March 31	
	2009	2008
Repayable in July 2010 (￥4.4 billion); floating rates at 1.14% and 1.1268% p.a. as of March 31, 2009 and 2008, respectively	$ 1,517,120	$ 1,345,080
Repayable in July 2010 (￥3.3 billion); floating rates at 1.0663% and 1.3013% p.a. as of March 31, 2009 and 2008, respectively	1,137,840	1,008,810
Repayable in December 2009 (￥2.6 billion); floating rates at 1.235% and 1.2108% p.a. as of March 31, 2009 and 2008, respectively	896,480	794,820
Repayable in July 2010 (￥2.2 billion); floating rates at 1.1978% and 1.2202% p.a. as of March 31, 2009 and 2008, respectively	758,560	672,540
Repayable in November 2010 (￥1.214 billion); floating rates at 1.17125% and 1.165% p.a. as of March 31, 2009 and 2008, respectively	418,587	371,120
Repayable in July 2010 (AUD16.54 million); floating rates at 5.13399% and 7.9234% p.a. as of March 31, 2009 and 2008, respectively	386,295	460,103
	5,114,882	4,652,473
Less: Current portion	896,480	-
	$ 4,218,402	$ 4,652,473

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 Australia Holdings Pty Ltd. and Yodogawa Steel Works, Ltd. (Note 29).

22. RETIREMENT BENEFIT PLAN

The pension plan under the Labor Pension Act (the "LPA") is a defined contribution plan. Based on the LPA, the Corporation makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages. Such pension costs were NT$11,932 thousand and NT$8,208 thousand for the three months ended March 31, 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 three months ended March 31, 2009 and 2008 was NT$341,440 thousand and NT$362,910 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 three months ended March 31, 2009 and 2008 was NT$816 thousand and NT$1,477 thousand, respectively.

23. DEFERRED CREDITS - GAIN FROM AFFILIATES

	March 31	
	2009	**2008**
Gain on disposal of land	$ 1,136,164	$ 1,136,164
Gain on contracted projects	659,977	407,355
	$ 1,796,141	$ 1,543,519

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 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 revenue. Some of the projects with KRTC (equity method investee) were completed during the year ended December 31, 2008. Such deferred credits are 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.

24. STOCKHOLDERS' EQUITY

a. Capital stock

In August 2008, the Corporation, through capitalization of retained earnings of NT$4,845,290 thousand, issued common shares of 484,529 thousand. 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. As of March 31, 2009, 2 thousand shares of preferred shares converted into common stock were not yet registered with the government.

b. Treasury stock

	Thousand Shares			March 31	
Purpose of Treasury Stock	**Beginning of Period**	**Addition**	**Reduction**	**Thousand Shares**	**Book Value**
Three months ended March 31, 2009					
Shares acquired and held by subsidiaries	276,103	-	9,896	266,207	$ 8,136,308
Shares acquired by the Corporation for transfer to employees	108,000	-	-	108,000	2,509,958
	384,103	-	9,896	374,207	$ 10,646,266

(Continued)

Purpose of Treasury Stock	Thousand Shares			March 31	
	Beginning of Period	Addition	Reduction	Thousand Shares	Book Value
Three months ended March 31, 2008					
Shares acquired and held by subsidiaries	84,543	-	2,694	81,849	$ 1,373,857

(Concluded)

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 available-for-sale financial asset - current or available-for-sale financial assets - noncurrent). Treasury stock decreased mainly due to subsidiaries' sales of the Corporation's shares and change in percentage of ownership. For the three months ended March 31, 2009 and 2008, the proceeds for treasury stock sold amounted to NT$296,008 thousand and NT$128,716 thousand and after deducting book values, resulted in the amounts of NT$60,636 thousand and NT$84,324 thousand (recorded as capital surplus), respectively.

As of March 31, 2009 and 2008, the market values calculated by combined holding percentage of the treasury shares held by subsidiaries are NT$5,909,805 thousand and NT$3,928,728 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 issued 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. The buyback shares as of March 31, 2008 for 108,000 thousand shares have not yet been transferred to employees.

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 6,024,532 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 totalling 1,887,073,812 shares. Under relevant regulations, the GDR holders may also request the conversion to the shares represented by the GDR. The foreign investors may also request the reissuance of such depositary receipts within the originally approved units. As of March 31, 2009, the outstanding depositary receipts were 6,809,893 units, equivalent to 136,198,067 common shares, which represented 1.08% 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:

	March 31	
	2009	**2008**
Additional paid-in capital- issuance of common shares to exchange DSC shares (Note 11)	$ 15,717,185	$ -
Treasury stock transaction	2,476,005	1,714,880
Long-term stock investments under the equity method	263,528	239,513
Others	8,099	8,099
	$ 18,464,817	$ 1,962,492

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 be 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 March 31, 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.

The Corporation had a net loss for the three months ended March 31, 2009; therefore, no bonus to employees and remuneration to directors and supervisors were accrued. As of March 31, 2008, 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 Board of Directors and stockholders in their March 2009 and June 2008 meetings proposed and approved the following appropriations of the 2008 and 2007 earnings (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 and other distributions in the appropriation of earnings for 2007).

	Amount		**Dividends Per Share**	
	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

(Continued)

	Amount		Dividends Per Share	
	2008	2007	2008	2007
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
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 Corporation's Board of Directors in their March 2009 meeting also proposed the bonus to employees of NT$1,877,003 thousand and remuneration to directors and supervisors of NT$35,194 thousand in the appropriations of 2008 earnings.

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 three months ended March 31, 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
Three months ended March 31, 2009				
Balance, beginning of period	$ 3,623,089	$ 1,983,109	$ 901,807	$ 6,508,005
Recognized as adjustment of stockholders' equity	385,775	(218,758)	(129,169)	37,848
Balance, end of period	$ 4,008,864	$ 1,764,351	$ 772,638	$ 6,545,853
Three months ended March 31, 2008				
Balance, beginning of period	$ 4,894,886	$ 1,578,440	$ -	$ 6,473,326
Recognized as adjustment of stockholders' equity	718,398	(601,472)	(239,534)	(122,608)
Balance, end of period	$ 5,613,284	$ 976,968	$ (239,534)	$ 6,350,718

h. Cumulative translation adjustments

Change in composition of cumulative translation adjustments for the three months ended March 31, 2009 and 2008 was as follows:

	Three Months Ended March 31	
	2009	2008
Balance, beginning of period	$ 358,976	$ 283,018
Recognized as adjustment of stockholders' equity	181,929	(752,539)
Balance, end of period	$ 540,905	$ (469,521)

25. OPERATING COSTS

The operating costs comprised of the following:

	Three Months Ended March 31	
	2009	2008
Cost of goods sold	$ 38,205,399	$ 43,407,691
Provision for loss on inventories	3,305,404	-
Loss on idle capacity	1,630,120	-
Loss on purchase commitments	752,730	-
Service cost	390,658	697,288
Impairment loss of spare parts	71,628	19,739
Income from scrap sales	(23,400)	(85,444)
Gain on physical inventory	(118)	(125)
Others	280,799	313,717
	$ 44,613,220	$ 44,352,866

26. INCOME TAX

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

	Three Months Ended March 31	
	2009	2008
Income tax expense (benefit) at the 25% statutory rate	$ (2,392,684)	$ 3,583,918
Tax effect on adjusting items		
Permanent differences		
Investment loss (income) recognized under equity method - domestic	185,629	(724,077)
Employee benefits	4,242	26,446
Others	(272)	(26,844)
Temporary differences		
Provision for loss on inventory	826,351	-
Loss on purchase commitments	188,183	-
Difference between tax reporting and financial reporting - depreciation methods	55,246	51,152
Unrealized gain (loss) from affiliates	(84,507)	43,706

(Continued)

	Three Months Ended March 31	
	2009	2008
Difference between tax reporting and financial reporting - operating revenue	$ (75,162)	$ (41,453)
Investment income recognized under equity method – foreign investees	(25,431)	(27,856)
Preferential severance pay	(44,712)	(17,924)
Others	8,311	5,426
Investment tax credits used	-	(197,353)
Current income tax expense (benefit)	(1,354,806)	2,675,141
Loss carryforwards recognized	1,354,806	-
Tax separately levied on interest from short-term bills	123	15,962
Current income tax payable	123	2,691,103
Deferred tax		
Temporary differences	(848,281)	(68,763)
Investment tax credits	(192,203)	-
Loss carryforwards	(1,354,806)	-
Income tax expense (benefit)	$ (2,395,167)	$ 2,622,340

(Concluded)

b. Change in income tax payable

	Three Months Ended March 31	
	2009	2008
Balance, beginning of period	$ 5,749,662	$ 6,682,244
Current income tax payable	123	2,691,103
Payment in the current period	(40,146)	(25,400)
Balance, end of period	$ 5,709,639	$ 9,347,947

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

	March 31	
	2009	2008
Current		
Deferred income tax assets		
Allowance for value decline losses on inventory	$ 3,600,380	$ -
Unrealized loss on purchase commitments	1,663,564	-
Investment tax credits	192,203	-
Impairment loss on spare parts	170,163	128,452
Severance pay	109,186	42,099
Unrealized gain from affiliates	-	71,350
Others	6,375	49,236
	5,741,871	291,137

(Continued)

	March 31	
	2009	2008
Deferred income tax liabilities		
Temporary difference between tax reporting and financial reporting - inventory	$ (29,966)	$ (17,430)
Unrealized loss from affiliates	(10,654)	-
	(40,620)	(17,430)
Total deferred income tax assets-net	$ 5,701,251	$ 273,707
Noncurrent		
Deferred income tax assets		
Impairment loss on financial assets	$ 1,502,783	$ 379,822
Loss carryforwards	1,354,806	-
Unrealized gain from affiliates	164,995	101,839
Impairment loss on assets	34,355	53,565
Others	4,543	60,254
	3,061,482	595,480
Deferred income tax liabilities		
Temporary difference between tax reporting and financial reporting - depreciation methods	(2,284,645)	(2,498,826)
Foreign investment income	(427,127)	(406,853)
Unrealized foreign exchange gain,net	(75,614)	(73,529)
	(2,787,386)	(2,979,208)
Total deferred income tax assets - net	$ 274,096	$ (2,383,728)

(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 March 31, 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	$ 134,639	2013
Research and development and personnel training expenditures	57,564	2013
	$ 192,203	

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 March 31, 2009, the unused loss carryfowards amount was NT$1,354,806 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.

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:

	March 31 2009	March 31 2008
Imputation credit account (ICA)	$ 6,432,304	$ 5,506,583
Unappropriated earnings generated before January 1, 1997	35,440	35,440

The creditable ratio for distribution of 2008 and 2007 earnings was 33.35% (estimated) 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

	Three Months Ended March 31							
	2009				2008			
	Operating Costs	Operating Expenses	Others	Total	Operating Costs	Operating Expenses	Others	Total
Personnel								
Salary	$ 2,369,018	$ 415,339	$ 31,741	$ 2,816,098	$ 4,466,952	$ 748,229	$ 18,272	$ 5,233,453
Labor and health insurance	149,815	24,428	1,056	175,299	142,591	22,156	368	165,115
Pension and consolation costs	298,724	61,067	2,233	362,024	319,383	64,012	1,477	384,872
Others	62,217	34,473	2,660	99,350	200,714	30,453	2,421	233,588
	$ 2,879,774	$ 535,307	$ 37,690	$ 3,452,771	$ 5,129,640	$ 864,850	$ 22,538	$ 6,017,028
Depreciation	$ 2,768,211	$ 79,757	$ 5,287	$ 2,853,255	$ 2,736,259	$ 61,358	$ 6,850	$ 2,804,467
Amortization	144,957	16,358	2,254	163,569	145,540	15,810	790	162,140

28. EARNINGS (LOSS) PER SHARE

	Amount (Numerator) Before Tax	Amount (Numerator) After Tax	Shares (Denominator) (Thousand)	Earnings (Loss) Per Share (Dollars) Before Tax	Earnings (Loss) Per Share (Dollars) After Tax
Three months ended March 31, 2009					
Net loss	$ (9,570,734)	$ (7,175,567)			
Less: Dividends on preferred shares	(17,866)	(13,395)			
Loss per share - basic and diluted					
Net loss attributable to common stockholders	$ (9,588,600)	$ (7,188,962)	$ 12,233,334	$ (0.78)	$ (0.59)
Three months ended March 31, 2008					
Net income	$ 14,335,673	$ 11,713,333			
Less: Dividends on preferred shares	(16,617)	(13,577)			

(Continued)

	Amount (Numerator)		Shares (Denominator) (Thousand)	Earnings (Loss) Per Share (Dollars)	
	Before Tax	After Tax		Before Tax	After Tax
Basic earnings per share					
Net income attributable to common stockholders	$ 14,319,056	$ 11,699,756	11,896,725	$ 1.20	$ 0.98
Effect of dilutive potential common stock					
Add: Dividends on preferred shares	16,617	13,577	38,792		
Bonus to employees	-	-	24,585		
Diluted earnings per share					
Net income attributable to common stockholders plus effect of potential dilutive common stock	$ 14,335,673	$ 11,713,333	11,960,102	1.20	0.98

(Concluded)

Due to the net loss for the three months ended March 31, 2009, anti-dilutive effect will arise from the potential shares; therefore, the basic loss per share is the same with diluted loss per share.

The ARDF issued Interpretation 2007-052 that requires corporations to recognize bonuses paid to employees, directors and supervisors as compensation expenses beginning January 1, 2008. These bonuses were previously recorded as appropriations from earnings. If the Corporation may settle the bonus to employees by cash or shares, the Corporation should presume that the entire amount of the bonus will be settled in shares and the resulting potential shares should be included in the weighted average number of shares outstanding used in the calculation of diluted EPS, if the shares have a dilutive effect. The number of shares is estimated by dividing the amount of bonus by the closing price of the shares at the balance sheet date. The dilutive effect of the shares needs to 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 three months ended March 31, 2009, the number of outstanding shares was retroactively adjusted for the effect of capitalization of 2007 earnings. Thus EPS before tax and after tax decreased from NT$1.25 to NT$1.20 and from NT$1.02 to NT$0.98, respectively.

29. FINANCIAL INSTRUMENTS

a. As of March 31, 2009 and 2008, the information of fair values was as follows:

	March 31			
	2009		2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Non-derivative Financial Instruments				
Assets				
Financial assets at fair value through profit or loss	$ 5,614,754	$ 5,614,754	$ 3,481,661	$ 3,481,661
Available-for-sale financial assets (including non-current)	6,538,215	6,538,215	8,027,816	8,027,816
Financial assets carried at cost	5,721,984	-	6,316,803	-
Bond investments with no active market	103,000	103,000	5,038,926	5,038,926
Other financial assets-noncurrent	5,029,084	5,029,084	4,891,200	4,891,200
Refundable deposits	111,475	111,475	111,973	111,973

(Continued)

	March 31			
	2009		2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Liabilities				
Bonds payable	$ 43,300,000	$ 45,060,778	$ 13,700,000	$ 13,700,978
Long-term debts (including current portion)	5,114,882	5,114,882	4,652,473	4,652,473
Derivative Financial Instrument				
Hedging derivative assets (including non-current)	224,831	224,831	-	-
Hedging derivative liabilities (including non-current)	23,542	23,542	251,834	251,834

(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, commercial paper 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 of loss, available-for-sale financial assets and derivative financial instruments are determined at their market value. If there is no market value available for reference, the fair values are determined by using valuation technique. The information used as basis for determining the Corporation's assumptions in applying valuation technique is consistent with that used by market participants. The information is obtained by the Corporation from financial institutions.

3) The fair values of long-term liabilities (including bonds payable) 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 available for the Corporation.

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 financial assets based on quoted market prices or using valuation techniques were as follows:

	Amount Determined by Quoted Market Price		Amount Determined by Using Valuation Technique	
	March 31		March 31	
	2009	2008	2009	2008
Assets				
Financial assets at fair value through profit or loss	$ 5,614,754	$ 3,481,661	$ -	$ -
Available-for-sale financial assets (including non-current)	6,538,215	7,777,066	-	250,750
Hedging derivative assets (including non-current)	-	-	224,831	-
Liabilities				
Hedging derivative liabilities (including non-current)	-	-	23,542	251,834

d. There is no gain or loss for the estimated change in fair value by using valuation technique for the three months ended March 31, 2009 and 2008.

e. As of March 31, 2008, financial assets with cash flow risk of the interest rate change were NT$250,750 thousand. As of March 31, 2009 and 2008, financial liabilities were NT$16,557,048 thousand and NT$12,715,982 thousand, respectively, and financial liabilities with fair value risk of the interest rate change were NT$56,796,590 thousand and NT$13,700,000 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$26,923 thousand and NT$329,361 thousand, respectively, for the three months ended March 31, 2009 and NT$172,582 thousand and NT$160,518 thousand, respectively, for the three months ended March 31, 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 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 at 1%, the fair value of bonds payable will decrease or increase by NT$1,692,682 thousand.

The Corporation’s investments in the bond funds and stocks of Taiwan Semiconductor Manufacturing Company Ltd., Maruichi Steel Tube Ltd., Yodogawa Steel Works, Ltd. and Tang Eng Iron Works Corporation and CSBC Corporation Taiwan involve market risk. Except the minor fluctuation of the bond fund’s market price, if the share price of the stocks increases or decreases by 1%, the fair value will increase or decrease by about NT$65,382 thousand.

2) Credit risk

Credit risk represents the potential loss that would be incurred by the Company 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 secondary 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 active market prices are available.

4) Cash flow interest rate risk

Market interest rate change will influence the effective interest rate of the financial instruments which have cash flow risk of the interest rate change, and make future cash flow fluctuate. If the market interest rate increases by 1%, the Corporation’s cash outflow will increase by about NT$165,887 thousand.

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

The Corporation borrowed long-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 Steel Australia Holdings Pty Ltd. and contracts for purchasing machinery and equipment.

		Designated Hedging Instrument		
			Changes of Fair Value Three Months Ended March 31	
Hedge Type	**Hedged Item**	**Financial Instrument**	**2009**	**2008**
Fair value hedge	Stock investment in East Asia United Steel Corporation	Long-term debt in YEN	$ 186,615	$ (41,600)
Fair value hedge	Stock investment in Maruichi Steel Tube Ltd.	Long-term debt in YEN	49,010	(158,400)
Fair value hedge	Stock investment in Yodogawa Steel Works, Ltd.	Long-term debt in YEN	22,884	(19,424)
Hedge of a net investment in a foreign operation	Stock investment in CSC Australia Holdings Pty. Ltd.	Long-term debt in AUD	(10,263)	12,605
Hedge of cash flows	Contracts for purchasing machinery and equipment	Foreign currency	(273,431)	12,300
Hedge of cash flows	Contracts for purchasing machinery and equipment	Forward contracts	144,262	(251,834)

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 flows were recorded as adjustment to stockholders’ equity.

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

(Continued)

Related Parties	Relationship with the Corporation
Long-Yuan-Fa Investment Corporation	Affiliate
Horng-Yih 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
Jing Yu Investment Corporation	Affiliate
Pao Good Industrial Co., Ltd.	Affiliate
CSGT International Corp.	Affiliate
CSGT Metals Vietnam Joint Stock Company	Affiliate
CSC Steel Sdn. Bhd. (CSSB) (formerly Ornasteel Enterprise Corp. (M) Sdn. Bhd.)	Affiliate
Group Steel Enterprise Corp. (M) Sdn. Bhd	Affiliate
CSGT (JAPAN) Co., Ltd.	Affiliate
CSGT Hong Kong Limited	Affiliate
CSGT (SHANGHAI) Co., Ltd.	Affiliate
Gau Ruel Investment Corporation	Affiliate
Shin-Mau Investment Corporation	Affiliate
Chiun Yu Investment Corporation	Affiliate
Horng Chyuan Investment Corporation	Affiliate
Ever Glory International Co. Ltd.	Affiliate
CSC Sonoma Pty Ltd.	Affiliate
Chii Yih Investment Corporation	Affiliate
Kaohsiung Rapid Transit Corporation (KRTC)	Equity method investee
TaiAn Technologies Corporation	Equity method investee
Kaohsiung Labor Assemble & Disassemble Co., Ltd.	Equity investee of the Corporation's subsidiaries
RSEA Engineering Co., Ltd.	Director of the Corporation's subsidiary
Great Grandeul Steel Co., Ltd. (GGSC)	Director of the Corporation's subsidiary
Southeast Cement Co., Ltd.	Director of the Corporation's subsidiary
Chun Yu Corporation (CYC)	Director of the Corporation's subsidiary
Hua Eng Wire & Cable Co., Ltd.	Director of the Corporation's subsidiary
CTCI Corporation (CTCI)	Supervisor of the Corporation's Subsidiary
CSC Educational Foundation	Foundation established mainly from the Corporation's donation

(Concluded)

b. Significant related-party transactions were as follows:

	Three Months Ended March 31			
	2009		2008	
	Amount	%	Amount	%
Sales				
CSSB	$ 658,208	2	$ 1,309,212	2
CSCC	478,603	1	676,975	1
CYC	342,004	1	540,668	1
GGSC	220,143	1	-	-
CSSC	213,822	-	1,117,654	2
Others	400,273	1	729,115	2
	$ 2,313,053	6	$ 4,373,624	8
Purchases				
CSEP	$ 684,568	3	$ 6,778,398	23
CSE	482,397	2	805,612	3
CAC	269,350	1	704,499	2
Others	244,960	1	263,393	1
	$ 1,681,275	7	$ 8,551,902	29

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

Assets lease

The Corporation leases its land, machinery equipment and plant property 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 rentals 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:

	Expiry of Contracts	Rental Income Three Months Ended March 31	
		2009	2008
CAC	February 2016	$ 13,811	$ 13,826
CSMC	November 2011	7,668	7,180
CSCC	December 2012	5,024	5,649
CSSC	May 2018	3,860	3,912
CHC	April 2012	1,299	1,301
Others	October 2012	2,316	2,140
		$ 33,978	$ 34,008

Other revenues

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

	Three Months Ended March 31	
	2009	2008
DSC	$ 243,838	$ 237,996
CHSC	82,337	71,073
KRTC	2,747	846,471
Others	99,947	143,575
	$ 428,869	$ 1,299,115

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

Other expenditures

Other expenditures paid to related parties pertained to furnace slag handling services, property maintenance or construction, export shipping charges, commissions for export and import services, etc., were recorded in construction in process, manufacturing expenses, operating expenses and nonoperating expenses as follows:

	Three Months Ended March 31	
	2009	2008
CEC	$ 611,188	$ 643,057
CSMC	488,549	657,337
CSSC	270,425	108,725
USECC	237,044	244,508
CTCI	153,741	46,122
CHC	125,057	156,869
CHSC	14,228	189,517
Others	325,811	362,948
	$ 2,226,043	$ 2,409,083

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

Donation expenditures

For the three months ended March 31,2009, 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.

c. Balances at period-end

	March 31			
	2009		2008	
	Amount	%	Amount	%
Receivables				
KRTC	$ 794,443	28	$ 268,858	9
CSCC	183,417	7	44,273	1
DSC	126,955	5	108,070	4
Others	92,484	3	138,466	4
	$ 1,197,299	43	$ 559,667	18
Payables				
CSE	$ 311,678	16	$ 276,979	5
CSEP	221,732	11	2,781,586	48
CAC	107,372	6	176,140	3
Others	68,573	4	31,137	1
	$ 709,355	37	$ 3,265,842	57
Dividends receivable (classified as other receivables)				
CSE	$ -	-	$ 5,966,339	92
Prepaid freight (classified as other current assets)				
CSEP	$ 153,582	100	$ 1,836,166	100

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 March 31, 2009 and 2008, respectively, have been pledged mainly as collaterals for bank overdraft, etc.

32. COMMITMENTS AS OF MARCH 31, 2009

a. The Corporation is guaranteed of NT$1,672,521 thousand by Mega Bank and Taipei Fubon Bank for several construction,warranty, lease and payment contracts.

b. Unused letters of credit for purchase of raw materials and supplies amounted to NT$17.7 billion.

c. The Corporation entered into property purchase contracts amounted to NT$35.1 billion. Unpaid amounts as of March 31, 2009 were NT$18.4 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 8,500,000 metric tons of coal, 17,000,000 metric tons of iron ore, and 3,000,000 metric tons of limestone are at prices negotiated every year. Unpaid purchase amounts as of March 31, 2009 were US$10.66 billion (including 21,100,000 metric tons of coal; 127,340,000 metric tons of iron ore; and 3,570,000 metric tons of limestone). The purchase contracts are entered into in order to have stable supplies of raw materials. As of March 31, 2009, the Corporation evaluated that the purchase costs (including coal, iron ore and slab) would be higher than the expected profit from the contracts, accordingly, a loss on purchase commitments of NT$6,654,255 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 this agreement, the Corporation and its related parties should collectively hold at least 30% of CHSC's issued shares and have over half of CHSC's board seats as well as control of its operations. As of March 31, 2009, the Corporation and its subsidiaries' had total shareholdings in CHSC of 41% and all seats in the Board of Directors and control of its operations.

f. KRTC entered into a syndicated credit facility agreement with Bank of Taiwan and 23 other banks. Under this agreement, the Corporation and its subsidiaries should collectively hold at least 30% of KRTC's capital stock during the construction period. As of March 31, 2009, the Corporation's and its subsidiaries' equity in KRTC aggregated 32%.

g. DSC entered into a syndicated credit facility agreement amounted to NT$51.7 billion with 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 issued shares and have over half of DSC's board seats. As of March 31, 2009, the Corporation's equity in DSC aggregated 100% and held all board seats.

CHINA STEEL CORPORATION

ADDITIONAL EXPLANATIONS FOR ACCOUNTS IN STOCKHOLDERS' EQUITY
THREE MONTHS ENDED MARCH 31, 2009 AND 2008

1. ADJUSTMENTS 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.