China Steel Corporation

Financial Statements for the Six Months Ended June 30, 2010 and 2009 and Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
China Steel Corporation

We have audited the accompanying balance sheets of China Steel Corporation (the "Corporation") as of June 30, 2010 and 2009, and the related statements of income, changes in stockholders' equity and cash flows for the six months then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Corporation as of June 30, 2010 and 2009, and the results of its operations and its cash flows for the six months then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

As stated in Note 3 to the accompanying financial statements, starting January 1, 2009, the Corporation adopted the newly revised Statement of Financial Accounting Standards No. 10, "Accounting for Inventories".

July 27, 2010

Notice to Readers

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

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

CHINA STEEL CORPORATION

BALANCE SHEETS
JUNE 30, 2010 AND 2009
(In Thousands of New Taiwan Dollars, Except Par Value)

	2010		2009	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 4)	$ 7,109,166	2	$ 1,699,897	1
Financial assets at fair value through profit or loss - current (Notes 2, 5 and 27)	6,118,239	2	1,808,116	1
Available-for-sale financial assets - current (Notes 2, 6 and 27)	1,765,131	1	1,585,347	1
Hedging derivative assets - current (Notes 2, 7 and 27)	24,261	-	95,135	-
Notes receivable	526,279	-	734,682	-
Notes receivable - related parties (Note 28)	612,170	-	-	-
Accounts receivable (Notes 2 and 8)	1,996,031	1	994,507	-
Accounts receivable - related parties (Notes 2 and 28)	1,079,444	-	1,159,849	-
Other receivables (Notes 10 and 28)	2,276,286	1	1,514,260	1
Other financial assets - current (Notes 13 and 27)	1,001,491	-	4,590,353	1
Inventories (Notes 2, 3 and 9)	39,378,334	10	32,150,832	10
Spare parts-current (Note 2)	6,893,780	2	6,752,914	2
Deferred income tax assets - current (Notes 2 and 24)	549,273	-	3,960,695	1
Restricted assets - current (Notes 4 and 29)	4,650,002	1	4,150,002	1
Others	1,573,182	-	1,135,868	-
Total current assets	75,553,069	20	62,332,457	19
FUNDS AND INVESTMENTS				
Available-for-sale financial assets - noncurrent (Notes 2, 6 and 27)	2,796,548	1	3,100,772	1
Hedging derivative assets - noncurrent (Notes 2, 7 and 27)	-	-	32,749	-
Financial assets carried at cost - noncurrent (Notes 2, 10 and 27)	5,746,210	1	5,706,984	2
Bond investments with no active market - noncurrent (Notes 2, 11 and 27)	103,000	-	103,000	-
Investments accounted for by the equity method (Notes 2 and 12)	120,380,770	32	91,691,317	28
Prepaid long-term stock investments (Notes 10 and 27)	7,197	-	-	-
Other financial assets - noncurrent (Notes 13 and 27)	1,114,491	-	549,280	-
Total funds and investments	130,148,216	34	101,184,102	31
PROPERTY, PLANT AND EQUIPMENT (Notes 2, 14, 28 and 29)				
Land	10,877,244	3	10,692,043	3
Land improvements	4,223,646	1	4,221,507	1
Buildings	42,572,287	11	41,501,136	13
Machinery and equipment	265,350,755	70	249,528,715	77
Transportation equipment	1,763,101	1	1,708,643	1
Other equipment	4,776,133	1	4,455,249	2
Total cost	329,563,166	87	312,107,293	97
Revaluation increment	43,656,295	11	43,723,372	14
Cost and revaluation increment	373,219,461	98	355,830,665	111
Less: Accumulated depreciation	241,115,812	63	229,030,184	71
	132,103,649	35	126,800,481	40
Constructions in progress and prepayments for equipment	38,195,495	10	26,267,445	8
Total property, plant and equipment, net	170,299,144	45	153,067,926	48
INTANGIBLE ASSETS (Note 2)	247,682	-	203,560	-
OTHER ASSETS				
Assets leased to others, net (Notes 2 and 15)	3,219,371	1	3,230,252	1
Refundable deposits (Note 27)	160,307	-	220,320	-
Deferred income tax assets - noncurrent (Notes 2 and 24)	-	-	1,844,592	1
Restricted assets - noncurrent (Note 29)	14,301	-	8,026	-
Spare parts - noncurrent (Note 2)	1,258,709	-	935,881	-
Total other assets	4,652,688	1	6,239,071	2
TOTAL	$ 380,900,799	100	$ 323,027,116	100

	2010		2009	
LIABILITIES AND STOCKHOLDERS' EQUITY	**Amount**	**%**	**Amount**	**%**
CURRENT LIABILITIES				
Short-term loans and overdraft (Notes 16 and 29)	$ 1,794,105	-	$ 2,453,234	1
Hedging derivative liabilities - current (Notes 2, 7 and 27)	4,673	-	-	-
Accounts payable	6,099,981	2	1,529,227	1
Accounts payable - related parties (Note 28)	4,382,942	1	777,096	-
Income tax payable (Notes 2 and 24)	1,842,534	-	5,589,298	2
Accrued expenses (Note 17)	11,346,562	3	7,354,604	2
Dividends payable (Note 23)	13,546,115	4	16,521,897	5
Purchase commitments payable (Notes 2 and 9)	-	-	4,790,941	2
Other payables (Note 2)	3,627,492	1	4,741,698	1
Bonds payable - current portion (Notes 18 and 27)	8,098,044	2	-	-
Long-term debt-current portion (Notes 19, 27 and 29)	4,502,716	1	892,580	-
Others	3,130,198	1	1,083,460	-
Total current liabilities	58,375,362	15	45,734,035	14
LONG-TERM LIABILITIES				
Hedging derivative liabilities - noncurrent (Notes 2, 7 and 27)	3,791	-	-	-
Bonds payable (Notes 18 and 27)	35,175,475	10	43,264,422	13
Long-term debt - bank (Notes 19, 27 and 29)	18,836,238	5	4,256,063	1
Long-term notes payable (Notes 20 and 27)	4,496,761	1	5,247,276	2
Total long-term liabilities	58,512,265	16	52,767,761	16
RESERVE FOR LAND VALUE INCREMENT TAX (Note 14)	8,673,466	2	8,673,466	3
OTHER LIABILITIES				
Deferred income tax liabilities - noncurrent (Notes 2 and 24)	566,712	-	-	-
Deferred credits - gain from affiliates (Note 22)	1,963,841	1	1,867,760	1
Total other liabilities	2,530,553	1	1,867,760	1
Total liabilities	128,091,646	34	109,043,022	34
CAPITAL STOCK - AUTHORIZED 17,000,000 THOUSAND SHARES AND 14,000,000 THOUSAND SHARES AT NT$10 PAR VALUE AS OF JUNE 30, 2010 AND 2009, RESPECTIVELY (Note 23)				
Common shares - issued 13,094,519 thousand shares and 12,557,543 thousand shares as of June 30, 2010 and 2009, respectively	130,945,189	35	125,575,431	39
Preferred shares - issued 38,268 thousand shares	382,680	-	382,680	-
Total capital stock	131,327,869	35	125,958,111	39
CAPITAL SURPLUS (Notes 2 and 23)	19,604,464	5	18,476,681	6
RETAINED EARNINGS (Notes 2 and 23)	84,903,315	22	53,667,545	16
OTHER EQUITY				
Unrealized revaluation increment (Note 14)	21,912,852	5	21,914,203	7
Unrealized gain on financial instruments (Notes 7, 13 and 23)	3,040,124	1	4,519,987	1
Cumulative translation adjustments (Note 2)	463,051	-	292,704	-
Net loss not recognized as pension cost	(42,243)	-	(32,385)	-
Treasury stock - 285,700 thousand shares and 380,452 thousand shares as of June 30, 2010 and 2009, respectively (Notes 2 and 23)	(8,400,279)	(2)	(10,812,752)	(3)
Total other equity	16,973,505	4	15,881,757	5
Total stockholders' equity	252,809,153	66	213,984,094	66
TOTAL	$ 380,900,799	100	$ 323,027,116	100

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

(With Deloitte & Touche audit report dated July 27, 2010)

CHINA STEEL CORPORATION

STATEMENTS OF INCOME
SIX MONTHS ENDED JUNE 30, 2010 AND 2009
(In Thousands of New Taiwan Dollars, Except Earnings (Loss) Per Share)

	2010		2009	
	Amount	**%**	**Amount**	**%**
OPERATING REVENUE (Notes 2 and 28)	$ 112,508,620	100	$ 73,277,324	100
OPERATING COSTS (Notes 2, 3, 9, 25 and 28)	86,423,894	77	82,455,534	113
GROSS PROFIT (LOSS)	26,084,726	23	(9,178,210)	(13)
UNREALIZED LOSS (GAIN) FROM AFFILIATES, NET	(155,063)	-	369,423	1
REALIZED GROSS PROFIT (LOSS)	25,929,663	23	(8,808,787)	(12)
OPERATING EXPENSES (Notes 25 and 28)				
Research and development	687,621	1	505,892	1
Selling	1,357,879	1	970,242	1
General and administrative	1,365,882	1	984,824	1
Total operating expenses	3,411,382	3	2,460,958	3
OPERATING INCOME (LOSS)	22,518,281	20	(11,269,745)	(15)
NONOPERATING INCOME AND GAINS				
Interest income (Note 27)	51,717	-	51,972	-
Valuation gain on financial assets (Notes 2 and 5)	8,691	-	13,227	-
Investment income recognized under equity method, net (Notes 2 and 12)	4,993,346	5	786,802	1
Gain on sale of investments (Notes 2 and 6)	-	-	1,642,579	2
Others (Notes 10, 14 and 28)	341,258	-	581,491	1
Total nonoperating income and gains	5,395,012	5	3,076,071	4
NONOPERATING EXPENSES AND LOSSES				
Interest expense (Notes 14 and 27)	335,996	1	454,231	1
Others (Notes 2 and 28)	125,608	-	148,487	-
Total nonoperating expenses and losses	461,604	1	602,718	1
INCOME (LOSS) BEFORE INCOME TAX	27,451,689	24	(8,796,392)	(12)
INCOME TAX EXPENSE (BENEFIT) (Notes 2 and 24)	3,633,330	3	(2,345,328)	(3)
NET INCOME (LOSS)	$ 23,818,359	21	$ (6,451,064)	(9)

(Continued)

CHINA STEEL CORPORATION

STATEMENTS OF INCOME
SIX MONTHS ENDED JUNE 30, 2010 AND 2009
(In Thousands of New Taiwan Dollars, Except Earnings (Loss) Per Share)

	2010		2009	
	Before Tax	After Tax	Before Tax	After Tax
EARNINGS (LOSS) PER SHARE (Note 26)				
Basic	$ 2.14	$ 1.86	$ (0.70)	$ (0.51)
Diluted	$ 2.12	$ 1.84	$ (0.70)	$ (0.51)

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

	2010	2009
Net Income (Loss)	$ 23,818,359	$ (6,390,429)
Basic earnings (loss) per share based on weighted-average number of outstanding common shares aggregating 13,094,519 thousand and 12,986,519 thousand shares for the six months ended June 30, 2010 and 2009, respectively	$ 1.82	$ (0.49)
Diluted earnings (loss) per share based on weighted-average number of outstanding common shares aggregating 13,248,700 thousand and 12,986,519 thousand shares for the six months ended June 30, 2010 and 2009, respectively	$ 1.80	$ (0.49)

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

(With Deloitte & Touche audit report dated July 27, 2010) (Concluded)

CHINA STEEL CORPORATION

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
SIX MONTHS ENDED JUNE 30, 2010 AND 2009
(In Thousands of New Taiwan Dollars, Except Cash Dividend Per Share)

	Capital Stock			Retained Earnings				Other Equity					
	Common Stock	Preferred Stock	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings	Total	Unrealized Revaluation Increment	Unrealized Gain on Financial Instruments	Cumulative Translation Adjustments	Net Loss Not Recognized As Pension Cost	Treasury Stock	Total Stockholders' Equity
BALANCE, JANUARY 1, 2010	$ 130,945,189	$ 382,680	$ 19,598,511	$ 47,117,709	$ 7,615,701	$ 19,617,957	$ 74,351,367	$ 21,913,148	$ 4,216,431	$ 183,001	$ (42,133)	$ (8,189,031)	$ 243,359,163
Appropriation of 2009 earnings (Note 23)													
Legal reserve	-	-	-	1,952,817	-	(1,952,817)	-	-	-	-	-	-	-
Preferred cash dividends - $1.07 per share	-	-	-	-	-	(40,947)	(40,947)	-	-	-	-	-	(40,947)
Common cash dividends - $1.01 per share	-	-	-	-	-	(13,225,464)	(13,225,464)	-	-	-	-	-	(13,225,464)
Net income for the six months ended June 30, 2010	-	-	-	-	-	23,818,359	23,818,359	-	-	-	-	-	23,818,359
Change in unrealized gain (loss) on available-for-sale financial assets	-	-	-	-	-	-	-	-	(598,106)	-	-	-	(598,106)
Adjusted to nonoperating income from disposal of appreciated properties	-	-	-	-	-	-	-	(296)	-	-	-	-	(296)
Adjustment from changes in equity recognized under equity method	-	-	5,953	-	-	-	-	-	(188,280)	-	-	-	(182,327)
Foreign exchange gain on translation of foreign-currency financial statements	-	-	-	-	-	-	-	-	-	276,828	-	-	276,828
Foreign exchange gain on hedge of a net investment in a foreign operation	-	-	-	-	-	-	-	-	-	3,222	-	-	3,222
Investees' net loss not recognized as pension cost	-	-	-	-	-	-	-	-	-	-	(110)	-	(110)
Change in unrealized loss on financial instruments for cash flow hedging	-	-	-	-	-	-	-	-	(389,921)	-	-	-	(389,921)
Purchase of the Corporation's shares by subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(211,248)	(211,248)
BALANCE, JUNE 30, 2010	$ 130,945,189	$ 382,680	$ 19,604,464	$ 49,070,526	$ 7,615,701	$ 28,217,088	$ 84,903,315	$ 21,912,852	$ 3,040,124	$ 463,051	$ (42,243)	$ (8,400,279)	$ 252,809,153
BALANCE, JANUARY 1, 2009	$ 125,575,411	$ 382,700	$ 18,410,920	$ 44,715,153	$ 7,615,701	$ 24,096,253	$ 76,427,107	$ 21,915,248	$ 6,508,005	$ 358,976	$ (32,385)	$ (10,805,513)	$ 238,740,469
Conversion of preferred shares to common shares	20	(20)	-	-	-	-	-	-	-	-	-	-	-
Appropriation of 2008 earnings (Note 23)													
Legal reserve	-	-	-	2,402,556	-	(2,402,556)	-	-	-	-	-	-	-
Preferred cash dividends - $1.30 per share	-	-	-	-	-	(49,751)	(49,751)	-	-	-	-	-	(49,751)
Common cash dividends - $1.30 per share	-	-	-	-	-	(16,184,403)	(16,184,403)	-	-	-	-	-	(16,184,403)
Net loss for the six months ended June 30, 2009	-	-	-	-	-	(6,451,064)	(6,451,064)	-	-	-	-	-	(6,451,064)
Change in unrealized gain (loss) on available-for-sale financial assets	-	-	-	-	-	-	-	-	(893,142)	-	-	-	(893,142)
Adjusted to nonoperating income from disposal of appreciated properties	-	-	-	-	-	-	-	(1,045)	-	-	-	-	(1,045)
Adjustment from changes in equity recognized under equity method	-	-	5,126	-	-	(74,344)	(74,344)	-	(871,933)	-	-	(64,259)	(1,005,410)
Foreign exchange loss on translation of foreign-currency financial statements	-	-	-	-	-	-	-	-	-	(1,677)	-	-	(1,677)
Foreign exchange loss on hedge of a net investment in a foreign operation	-	-	-	-	-	-	-	-	-	(64,595)	-	-	(64,595)
Change in unrealized loss on financial instruments for cash flow hedging	-	-	-	-	-	-	-	-	(222,943)	-	-	-	(222,943)
Disposal of the Corporation's shares held by subsidiaries (Note 23)	-	-	60,635	-	-	-	-	-	-	-	-	235,372	296,007
Discount for acquisition cost of treasury stock	-	-	-	-	-	-	-	-	-	-	-	886	886
Purchase of the Corporation's shares by subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(179,238)	(179,238)
BALANCE, JUNE 30, 2009	$ 125,575,431	$ 382,680	$ 18,476,681	$ 47,117,709	$ 7,615,701	$ (1,065,865)	$ 53,667,545	$ 21,914,203	$ 4,519,987	$ 292,704	$ (32,385)	$ (10,812,752)	$ 213,984,094

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

(With Deloitte & Touche audit report dated July 27, 2010)

CHINA STEEL CORPORATION

STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2010 AND 2009
(In Thousands of New Taiwan Dollars)

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ 23,818,359	$ (6,451,064)
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation	6,815,112	6,180,985
Amortization	58,322	58,006
Deferred income tax	1,769,332	(2,225,230)
Provision for (recovery of) loss on inventories	(26,655)	9,597,643
Loss on purchase commitments	-	3,023,852
Impairment loss on spare parts	122,986	137,148
Gain on sale of investments	-	(1,642,579)
Investment income under equity method, net	(4,993,346)	(786,802)
Unrealized gain (loss) from affiliates, net	155,063	(369,423)
Cash dividends received from equity method investees	5,081,683	7,059,004
Loss on disposal of property, plant and equipment	11,957	22,353
Valuation gain on financial assets	(8,691)	(13,227)
Others	(104,478)	120,142
Net changes in operating assets and liabilities		
Notes receivable	(98,210)	1,381,717
Notes receivable - related parties	(389,739)	-
Accounts receivable	(276,064)	403,635
Accounts receivable - related parties	32,689	337,222
Other receivables	(54,191)	945,874
Inventories	(7,865,599)	11,106,031
Other current assets	(914,789)	27,982
Accounts payable	4,095,814	(2,239,490)
Accounts payable - related parties	1,274,980	(1,004,630)
Income tax payable	1,842,534	(160,364)
Accrued expenses	2,852,424	1,042,809
Other payables	1,053,518	(1,960,982)
Purchase commitments payable	-	(4,134,436)
Other current liabilities	547,257	(291,501)
Net cash provided by operating activities	34,800,268	20,164,675
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of financial assets designated as at fair value through profit or loss	(11,260,059)	-
Proceeds from disposal of financial assets designated as at fair value through profit or loss	9,213,355	3,810,564
Proceeds from disposal of available-for-sale financial assets	-	2,210,040
Acquisition of investments accounted for by equity method	(20,000,000)	(1,726,232)
Increase in prepaid long-term stock investments	(7,197)	-
Acquisition of property, plant and equipment	(17,245,682)	(9,693,031)
Proceeds from disposal of property, plant and equipment	404	1,215

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CHINA STEEL CORPORATION

STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2010 AND 2009
(In Thousands of New Taiwan Dollars)

	2010	2009
Increase in refundable deposits	$ (21,983)	$ (37,513)
Decrease (increase) in other financial assets	2,518,506	(197,593)
Decrease (increase) in restricted deposits	(500,000)	8,422
Increase in intangible assets	(90)	(116,466)
Increase in other assets	(252,148)	(297,738)
Net cash used in investing activities	(37,554,894)	(6,038,332)
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in short-term loans and overdraft	(4,463,659)	(6,419,968)
Decrease in commercial paper payable	(7,999,777)	(14,971,593)
Increase (decrease) in long - term notes payable	(756,589)	5,247,276
Increase in long-term debt	17,919,965	-
Cash dividends	(24,629)	(6,322)
Discount on acquisition cost of treasury stock	-	886
Other	-	(21,766)
Net cash provided by (used in) financing activities	4,675,311	(16,171,487)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,920,685	(2,045,144)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	5,188,481	3,745,041
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 7,109,166	$ 1,699,897
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	$ 315,646	$ 336,698
Capitalized interest	(146,817)	(88,330)
Interest paid (excluding capitalized interest)	$ 168,829	$ 248,368
Income tax paid	$ 21,464	$ 40,266
INVESTING AND FINANCING ACTIVITIES AFFECTING BOTH CASH AND NON-CASH ITEMS		
Cash Paid for Acquisition of Property, Plant and Equipment		
Acquisition of property, plant and equipment	$ 16,585,092	$ 9,025,057
Decrease in payable for equipment purchased	660,590	667,974
	$ 17,245,682	$ 9,693,031
Cash Dividends Paid to Stockholders		
Total cash dividends payable to stockholders	$ 13,266,411	$ 16,234,154
Increase in dividends payable	(13,241,782)	(16,227,832)
	$ 24,629	$ 6,322
NON-CASH FINANCING ACTIVITIES		
Current portion of long-term liabilities	$ 8,098,044	$ -

The accompanying notes are an integral part of the financial statements.
(With Deloitte & Touche audit report dated July 27, 2010)

(Concluded)

CHINA STEEL CORPORATION

NOTES TO FINANCIAL STATEMENTS
SIX MONTHS ENDED JUNE 30, 2010 AND 2009
(In Thousands of New Taiwan Dollars, Except Amounts Stated Otherwise)

1. ORGANIZATION AND OPERATIONS

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

The Corporation's shares have been listed on the Taiwan Stock Exchange since December 1974. As of June 30, 2010, the Ministry of Economic Affairs, Republic of China owned 21.24% of the Corporation's outstanding common stock.

As of June 30, 2010 and 2009, the Corporation had about 9,200 employees.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

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

Significant accounting policies are summarized as follows:

Current and Noncurrent Assets and Liabilities

Current assets include cash, 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 highly liquid instruments with maturities of three months or less when acquired and subject to insignificant risk of changes in value resulting from interest rate fluctuations.

Financial Assets at Fair Value Through Profit or Loss

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

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

Available-for-sale Financial Assets

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

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

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

Revenue Recognition, Accounts Receivable and Allowance for Doubtful Accounts

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

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

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

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

Factoring of Accounts Receivable

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

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

b. The transferees have obtained the right to pledge or exchange the accounts receivable, 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. Inventories are stated at the lower of cost or net realizable value. Inventory write-downs are made on item by item basis. Net realizable value is the estimated selling price of inventories less estimated costs of completion and expenses necessary to make the sale. Inventories are recorded at moving average cost. Unallocated fixed overheads on idle capacity when actual production is significantly lower than normal production or the equipment is idle are recognized as operating costs.

Spare Parts

Spare parts pertain to the use in the repairs of the machinery and equipment. Spare parts estimated to be used within 12 months are classified as current assets, otherwise are classified as noncurrent assets and evaluated for impairment.

Financial Assets Carried at Cost

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

Bond Investments with No Active Market

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

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

Investment Accounted for by the Equity Method

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

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

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

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

When the Corporation's share in losses of an investee over which the Corporation only has significant influence without control equals its investment in that investee plus any advances made to the investee, the Corporation discontinues applying the equity method. The Corporation continues to recognize its share in losses of the investee if (a) the Corporation commits to provide further financial support to the investee or (b) the losses of the investee are considered to be temporary and sufficient evidence shows imminent return to profitability.

When the Corporation and its investee have mutual equity holdings, the investment income or loss is accounted for by the treasury stock method. The Corporation's shares held by subsidiaries are recorded as treasury stock. The Corporation's dividends 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 attributable to the acquisition or construction of property, plant and equipment are capitalized as part of the cost of those assets. Major additions, renewals and improvements are capitalized, while costs of maintenance and repairs are expensed currently.

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

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

Intangible Assets

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

Assets Leased to Others

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

Impairment of Assets

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

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

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

Loss on Purchase Commitments

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

Treasury stock-based Compensation

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

Pension Cost

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

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

Treasury Stock

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

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

Income Tax

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

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

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

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

Foreign-currency Transactions

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

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

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

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

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

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

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

Hedging Derivative Financial Instruments

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

Hedge Accounting

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

a. Fair value hedge

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

b. Cash flow hedge

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

c. Hedge of a net investment in a foreign operation

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

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

Reclassifications

Certain accounts in the financial statements as of and for the six months ended June 30, 2009 have been reclassified to conform to the presentation of the financial statements as of and for the six months ended June 30, 2010. The main reclassifications include (1) Issuance cost of bonds payable previously recorded as other assets was reclassified to the deduction of the bond payable (Note 18), and (2) the reline cost of blast furnace previously recorded as other assets was reclassified into property, plant and equipment (Note 14).

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 for the period. This adoption resulted in an increase of NT$249,617 thousand in net loss and an increase of NT$0.02 in after income tax basic loss per share for the six months ended June 30, 2009.

4. CASH AND CASH EQUIVALENTS

	June 30	
	2010	2009
Cash on hand	$ 19,597	$ 19,410
Checking accounts and demand deposits	1,114,190	1,053,383
Time deposits	4,600,000	627,104
Cash equivalents - short-term notes and bills with repurchase agreements	1,375,379	-
	$ 7,109,166	$ 1,699,897

Foreign bank deposits were as follows:

	June 30	
	2010	2009
Japan - Osaka Bank (in thousands)	¥ 3,658	¥ 4,116
Singapore - Daiwa Securities SMBC (in thousands)	30	-
Total (in thousands)	¥ 3,688	¥ 4,116
Represented by NT dollars(in thousands)	$ 1,343	$ 1,413

The Corporation cooperated with Ministry of Economic Affairs on “High-value Steel Structure Industry” and “Green house gas emission reduction”. Deposits of the project were NT$2 thousand (recorded as restricted assets - current) as of June 30, 2010 and 2009.

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

The financial assets designated as at FVTPL represent open-end bond funds. The purpose of classifying open-end bond funds to this account is to reduce the accounting inconsistency between investment income and interest expense. The group of financial assets is managed and its performance is evaluated on fair value basis, in accordance with a documented risk management or investment strategy. As of June 30, 2010 and 2009, the balances of financial assets at fair value through profit or loss were NT$6,118,239 thousand and NT$1,808,116 thousand, respectively.

Net gains on financial assets designated as at FVTPL for the six months ended June 30, 2010 and 2009 were NT$8,691 thousand and NT$13,227 thousand, respectively.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	June 30			
	2010		2009	
	Current	Noncurrent	Current	Noncurrent
Quoted stocks				
Maruichi Steel Tube Ltd.	$ -	$ 757,920	$ -	$ 757,920
Yodogawa Steel Works, Ltd.	-	345,831	-	345,831
Taiwan Semiconductor Manufacturing Company (TSMC)	400,000	-	399,995	-
CSBC Corporation Taiwan (CSBC)	-	219,575	-	219,575
Tang Eng Iron Works Corporation (TEIWC)	-	-	-	-
Adjustments for change in valuation	1,365,131	1,473,222	1,185,352	1,777,446
	$ 1,765,131	$ 2,796,548	$ 1,585,347	$ 3,100,772

For the six months ended June 30, 2009, the Corporation sold the shares of TSMC and recognized the gain on disposal of investment of NT$1,642,579 thousand as nonoperating income and gains.

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 treasury 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 its shares public offering by investing NT$219,575 thousand for acquiring 2.48% equity. CSBC mainly builds and repairs vessels.

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 June 30, 2010 and 2009, the carrying value of this financial asset were NT$865,960 thousand and NT$949,570 thousand, respectively and classified as valuation adjustment - noncurrent.

The Corporation borrowed foreign-currency bank loans to hedge exchange rate fluctuation risks on the investments in Maruichi Steel Tube Ltd. and Yodogawa Steel Works, Ltd. (Notes 19 and 27). Adjustments for change in valuation arising from exchange difference were recognized as profit or loss.

7. HEDGING DERIVATIVE FINANCIAL INSTRUMENTS

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

Outstanding forward exchange contracts as of June 30, 2010 and 2009 were as follows:

	Currency	The Period for Generating Cash Flows and Maturity Date	Contract Amount (In Thousands)
June 30, 2010			
Forward exchange contracts	NT$/US$	September 2010	NT$996,760/US$31,750
Forward exchange contracts	NT$/EUR€	March 2011 - March 2012	NT$82,353/EUR€1,891
June 30, 2009			
Forward exchange contracts	NT$/US$	December 2009 - September 2010	NT$4,093,276/US$129,490
Forward exchange contracts	NT$/EUR€	March 2010 - March 2012	NT$764,096/EUR€17,037

Movements of hedging derivative financial instruments for the six months ended June 30, 2010 and 2009 were as follows:

	Six Months Ended June 30	
	2010	2009
Balance, beginning of period	$ 61,976	$ 57,027
Valuation of unrealized gain (loss)	(59,169)	79,179
Transferred to construction in progress and prepayments for equipment	12,990	(8,322)
Balance, end of period	$ 15,797	$ 127,884

As of June 30, 2010 and 2009, the balances of hedging derivative financial instruments were as follows:

	June 30	
	2010	2009
Hedging derivative assets - current	$ 24,261	$ 95,135
Hedging derivative assets - noncurrent	-	32,749
Hedging derivative liabilities - current	(4,673)	-
Hedging derivative liabilities - noncurrent	(3,791)	-
	$ 15,797	$ 127,884

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

8. ACCOUNTS RECEIVABLE

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

The related information for the Corporation's sale of accounts receivable for the six months ended June 30, 2010 and 2009 was as follows:

Transaction Counter-party	Advances Received at Period-beginning	Receivables Sold	Amounts Collected by Bank	Advances Received at Period-end	Interest Rates on Advances Received (%)	Credit Line (In Billions of NTD)
Six months ended June 30, 2010						
Accounts Receivable						
Mega Bank	$ 2,723,672	$ 4,559,525	$ 3,778,540	$ 3,504,657	0.80-2.73	7.5
Bank of Taiwan	484,607	751,844	636,414	600,037	0.80-2.16	2.5
Taipei Fubon Bank	124,901	263,791	261,426	127,266	1.03-2.33	0.4
	$ 3,333,180	$ 5,575,160	$ 4,676,380	$ 4,231,960		
Six months ended June 30, 2009						
Accounts Receivable						
Mega Bank	$ 4,166,480	$ 1,718,633	$ 3,334,432	$ 2,550,681	0.81-2.73	7.5
Bank of Taiwan	856,900	352,646	784,515	425,031	0.81-2.16	2.5
Taipei Fubon Bank	166,541	108,662	172,458	102,745	1.05-2.33	0.4
	$ 5,189,921	$ 2,179,941	$ 4,291,405	$ 3,078,457		

9. INVENTORIES

	June 30 2010	June 30 2009
Finished products	$ 8,927,450	$ 8,110,578
Work in process	13,899,555	14,177,951
Raw materials	12,239,964	7,309,301
Supplies	1,345,131	1,471,453
Materials in transit	2,560,785	763,991
Fuel	290,222	225,815
By - products and others	115,227	91,743
	$ 39,378,334	$ 32,150,832

As of June 30, 2010 and 2009, the allowance for loss on value decline of inventory was NT$31,778 thousand and NT$10,103,469 thousand, respectively, and shown as deduction in inventories. The cost of inventories recognized as operating costs for the six months ended June 30, 2010 and 2009 was NT$86,423,894 thousand and NT$82,455,534 thousand, respectively. The items recorded as operating costs were as follows:

	Six Months Ended June 30 2010	Six Months Ended June 30 2009
Provision for (recovery of) loss on inventories	$ (26,655)	$ 9,597,643
Loss on purchase commitments	-	3,023,852
Loss on idle capacity	-	1,676,301
Impairment loss on spare parts	122,986	137,148
Gain on physical inventory	(109,849)	(61,195)
Income from scrap sales	(113,561)	(57,832)
	$ (127,079)	$ 14,315,917

The global financial crisis in 2008 hurt the demand for steel products. Therefore, the steel products and materials prices declined significantly from the fourth quarter of 2008. The Corporation recognized a provision for loss on inventories for the six months ended June 30, 2009.

For the six months ended June 30, 2009, the Corporation also recognized loss on purchase commitments of NT$3,023,852 thousand due to the effect of the crisis mentioned above, and reported such loss as operating costs and current liabilities - purchase commitments payable. Due to the exercise of the purchase contracts and a rise in the steel price, the payable for loss on purchase commitments was fully reversed in the second half of 2009.

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$1,676,301 thousand for the six months ended June 30, 2009.

10. FINANCIAL ASSETS CARRIED AT COST - NONCURRENT AND PREPAID LONG-TERM STOCK INVESTMENTS

	June 30	
	2010	**2009**
Unquoted common stocks		
Industrial Bank of Taiwan	$ 1,000,000	$ 1,000,000
CDIB & Partners Investment Holding Corporation	500,000	500,000
Adimmune Corporation (AC)	231,650	231,650
Taiwan Rolling Stock Co., Ltd.	202,048	202,048
Hsin Hsin Cement Enterprise Corp. (HHCEC)	-	165,010
CDIB BioScience Ventures I, Inc. (CBVI)	71,512	75,276
Overseas Investment & Development Corporation	50,000	50,000
Mega I Venture Capital Co., Ltd.	50,000	50,000
Taiwan High Speed Rail Corporation (Note 11)	-	-
Unquoted preferred stocks		
East Asia United Steel Corporation (EAUS) – Preferred A	3,641,000	3,433,000
Fund - Sino-Canada Biotechnology Development Fund, LP (SCBDF)	-	-
	$ 5,746,210	$ 5,706,984
Prepaid long-term stock investments		
Adimmune Corporation	$ 7,197	$ -

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

In September 2009, the subsidiary China Hi-ment Corporation (CHC) invested in HHCEC. The Corporation’s total equity in HHCEC is 26%, including 18% directly owned and 8% indirectly owned through CHC. Thus, the Corporation reclassified this investment from financial asset carried at cost - noncurrent to an investment accounted for by the equity method (Note 12).

The Corporation invested NT$102,000 thousand to acquire equity of CBVI. CBVI reduced its capital and returned to the Corporation several times. Accordingly, the original cost of investment in CBVI was reduced to NT$71,512 thousand.

The Corporation recognized an impairment loss on the investment in SCBDF; thus, book value of the investment was written down.

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 19 and 27). The Corporation thus enjoys a stable supply of slab from this joint venture. The Corporation also signed a contract with its affiliate of Chung Hung Steel Corporation (CHSC) to transfer the purchasing right of slabs from EAUS, and the Corporation receives royalty on this contract based on the volume purchased by CHSC. The amounts of royalty income for the six months ended June 30, 2010 and 2009 were NT$121,790 thousand and NT$142,731 thousand, respectively (recorded as nonoperating income and gains). As of June 30, 2010 and 2009, the royalty receivable were NT$50,816 thousand and NT$76,255 thousand, respectively (recorded as other receivables).

The Corporation subscribed to the plan of share issuance for cash of AC in June 2010 and prepaid investment of NT$7,197 thousand.

11. BOND INVESTMENTS WITH NO ACTIVE MARKET - NONCURRENT

	June 30	
	2010	2009
Unquoted preferred stocks-domestic		
Taiwan High Speed Rail Corporation (THSRC)		
Preferred C	$ -	$ -
Preferred B	-	-
	-	-
Unquoted preferred stocks-overseas		
TaiGen Biopharmaceuticals Holdings Limited (TGB) (Preferred B)	103,000	103,000
	$ 103,000	$ 103,000

In September 2003, the Corporation acquired 100,000 thousand Preferred B shares (representing 4% of ownership) of THSRC for NT$1,000,000 thousand. Dividend on these shares is at 5%, payable on a nonparticipating and cumulative basis. These shares with six years of durations could be extended for 13 months prior to 3 months from the due date. In April 2005 and August 2004, the Corporation acquired additional 505,370 thousand Preferred C shares of THSRC for NT$3,199,944 thousand and NT$1,499,997 thousand, respectively. These shares, representing 19% of ownership, which may be converted to common shares within four years from the acquisition date, have a 9.5% dividend in the first two years and 0% in the next two years. At the end of four years, 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 the second half of 2008, the Corporation evaluated and recognized an impairment loss of NT$4,738,926 thousand on the investments in preferred shares of THSRC. The conversion of the preferred shares held by the Corporation into common shares of THSRC was approved by the board of directors’ meeting in June 2009. In order to use tax credits under the Act for Promotion of Private Participation in Infrastructure Projects, the Corporation converted THSRC’s preferred shares to 605,370 thousand common shares in August 2009. Thus, the Corporation reclassified this bond investment with no active market – noncurrent to financial asset carried at cost - noncurrent (Note 10).

The Corporation acquired 20,000 thousand Preferred B shares of TGB for NT$300,000 thousand. TGB mainly researches and develops drugs. The Corporation can request TGB to redeem all or part of preferred shares by issuing new stock or its own retained earnings after December 2010. In June 2008, the Corporation evaluated and recognized an impairment loss of NT$197,000 thousand on the investment in TGB.

12. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

	June 30			
	2010		2009	
	Amount	% of Ownership	Amount	% of Ownership
Stocks listed on the Taiwan Stock Exchange				
Chung Hung Steel Corporation (CHSC)	$ 4,747,639	29	$ 3,012,460	29
China Steel Chemical Corporation (CSCC)	1,403,899	29	1,287,471	29
China Ecotek Corporation (CEC)	851,163	49	775,295	49
China Hi-ment Corporation (CHC)	633,479	20	649,413	20
China Steel Structure Corporation (CSSC)	572,919	18	546,327	18
	8,209,099		6,270,966	
Less: Shares held by subsidiaries accounted for as treasury stock	1,604,771		1,600,312	
	6,604,328		4,670,654	
Stocks without quoted market prices				
Dragon Steel Corporation (DSC)	79,108,805	100	56,503,656	100
China Steel Express Corporation (CSE)	9,035,882	100	9,101,957	100
C. S. Aluminum Corporation (CAC)	7,420,412	100	6,537,401	100
Gains Investment Corporation (GIC)	5,921,937	100	5,758,561	100
China Prosperity Development Corporation (CPDC)	4,797,844	100	4,766,687	100
China Steel Asia Pacific Holdings Pte Ltd. (CSAPH)	4,170,357	100	3,344,822	100
China Steel Sumikin Vietnam Joint Stock Company (CSVC)	1,882,747	51	-	-
China Steel Global Trading Corporation (CSGT)	1,376,696	100	1,263,995	100
Kaohsiung Rapid Transit Corporation (KRTC)	1,274,358	31	1,919,152	31
China Steel Machinery Corporation (CSMC)	1,199,203	74	973,516	74
Horng Yih Investment Corporation (HYI)	724,116	100	483,548	100
Long Yuan Fa Investment Corporation (LYFI)	720,933	100	480,826	100
Goang Yaw Investment Corporation (GYI)	705,499	100	470,869	100
CSC Steel Australia Holding Pty Ltd. (CSCAU)	586,970	100	647,749	100
Info-Champ Systems Corporation (ICSC)	569,214	100	544,499	100
Kaohsiung Arena Development Corporation (KADC)	462,365	18	448,972	18
China Steel Security Corporation (CSS)	325,079	100	314,089	100
Hsin Hsin Cement Enterprise Corporation (HHCEC) (Noet 10)	158,972	18	-	-
Hi-mag Magnetic Corporation (HMC)	102,518	50	89,711	50
China Steel Management Consulting Corporation (CSMCC)	20,539	100	25,743	100
TaiAn Technologies Corporation (TTC)	7,504	17	6,662	17
Baolai Greeting Development Co., Ltd. (BGDC)	-	45	40,730	45
	120,571,950		93,723,145	
Less: Shares held by subsidiaries accounted for as treasury stock	6,795,508		6,702,482	
	113,776,442		87,020,663	
	$ 120,380,770		$ 91,691,317	

The Corporation increased investment in CHSC for NT$1,774,125 thousand in the first quarter of 2009. Consequently, the Corporation’s total equity in CHSC increased to 41%, including 29% directly owned and 12% indirectly owned through LYFI, HYI and GYI. The Corporation’s total equity in TTC is 22%, including 17% directly owned and 5% indirectly owned through CSCC. The Corporation’s total equity in KADC is 29%, including 18% directly owned and 11% indirectly owned through CSSC and CPDC.

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

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

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

In April 2010, the Corporation invested additional NT$20,000,000 thousand in DSC through its private subscription.

The market values of above listed stocks based on the closing price on June 30, 2010 and 2009 were as follows:

	June 30	
	2010	2009
CSCC	$ 6,465,995	$ 4,491,803
CHSC	6,200,953	5,934,506
CEC	2,625,635	2,229,574
CHC	1,684,808	1,926,775
CSSC	642,077	539,863
	$ 17,619,468	$ 15,122,521

Investment income (loss) under the equity method for the six months ended June 30, 2010 and 2009 was as follows:

	Six Months Ended June 30	
	2010	2009
CSE	$ 1,583,863	$ 2,339,019
CHSC	844,973	(586,090)
DSC	763,715	(1,351,572)
CAC	486,124	(380,206)
CSMC	290,067	208,265
CSCC	266,602	156,310
CSAPH	260,345	66,128
CSGT	234,038	119,720
CEC	211,666	204,381
HYI	117,470	(137,389)
LYFI	117,184	(136,996)
GYI	114,502	(133,745)
CSSC	82,165	22,752
CPDC	56,884	52,630
ICSC	56,021	42,953
CHC	45,672	74,317
CSS	32,014	33,619
KRTC	(420,747)	(261,657)
GIC	(158,417)	354,698
CSCAU	(5,942)	77,707
Others	15,147	21,958
	$ 4,993,346	$ 786,802

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

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

The Corporation's Board of Directors approved plans for additional investments in CSVC etc. The related subscription schedule depends on the investees' capital increase requirements. As of June 30, 2010, the Corporation's unexecuted investment in these investees aggregated NT$10,732,590 thousand.

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

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

	Depreciable Assets	Non-depreciable Assets	Goodwill
Six months ended June 30, 2010			
Balance, beginning of period	$ 993,548	$ (1,924)	$ 401,018
Amortization	(38,098)	-	-
Balance, end of period	$ 955,450	$ (1,924)	$ 401,018
Six months ended June 30, 2009			
Balance, beginning of period	$ 1,126,994	$ -	$ 401,018
Amortization	(40,052)	-	-
Balance, end of period	$ 1,086,942	$ -	$ 401,018

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

13. OTHER FINANCIAL ASSETS

	June 30	
	2010	2009
Foreign-currency time deposits	$ 1,488,948	$ 4,943,520
Foreign-currency demand deposits	627,034	196,113
	2,115,982	5,139,633
Less: Current portion	1,001,491	4,590,353
	$ 1,114,491	$ 549,280

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 June 30, 2010 and 2009, the balance of the JPY deposits designated as hedging instrument was NT$1,522,353 thousand (￥4.18 billion) and NT$4,943,520 thousand (￥14.4 billion), respectively.

For the purpose of purchasing imported equipment as well as managing cash flows risk arising from exchange rate fluctuations, the Corporation purchased time deposits of US$6,900 thousand (NT$221,691 thousand) and US$5,990 thousand (NT$194,196 thousand), respectively, in June 2010 and September 2009. As of June 30, 2010, the balance of the U.S. dollar time deposits designated as hedging instruments was NT$396,648 thousand (US$12,290 thousand).

For the purpose of managing cash flow exposures on foreign-currency capital expenditure contracts, the Corporation entered into forward exchange contracts (Note 7). As of June 30, 2010 and 2009, the balance of hedging instruments were NT$196,981 thousand (US$1,475 thousand and EUR€3,784 thousand) and the balance was NT$196,113 thousand (EUR€4,238 thousand), respectively, which were intended for capital payments.

The unrealized gain of NT$69,278 thousand and unrealized loss of NT$293,800 thousand arising from the above deposits designated as hedging instruments were recognized as unrealized gain on financial instruments in stockholders' equity for the six months ended June 30, 2010 and 2009, respectively. The unrealized gain on financial instruments of NT$413,020 thousand in stockholders' equity was transferred to construction in progress and prepayments for equipment for the six months ended June 30, 2010.

As of June 30, 2010 and 2009, the periods of the cash flows generated from aforementioned contracts will be from 2010 to 2013 and from 2009 to 2013, respectively.

14. PROPERTY, PLANT AND EQUIPMENT

	Land	Land Improvements	Buildings	Machinery and Equipment	Transportation Equipment	Other Equipment	Construction in progress and Prepayments for Equipment	Total
Six months ended June 30, 2010								
Cost								
Balance, beginning of period	$ 10,692,043	$ 4,223,646	$ 42,280,414	$ 255,698,125	$ 1,751,261	$ 4,700,032	$ 28,878,043	$ 348,223,564
Addition	185,201	-	298,565	6,617,420	25,575	140,879	9,317,452	16,585,092
Reclassified	-	-	-	3,876,735	-	-	-	3,876,735
Disposals	-	-	(6,692)	(841,525)	(13,735)	(64,778)	-	(926,730)
Balance, end of period	10,877,244	4,223,646	42,572,287	265,350,755	1,763,101	4,776,133	38,195,495	367,758,661
Revaluation increment								
Balance, beginning of period	32,754,016	492,990	2,405,551	7,968,650	18,108	31,671	-	43,670,986
Disposals	-	-	(296)	(14,374)	-	(21)	-	(14,691)
Balance, end of period	32,754,016	492,990	2,405,255	7,954,276	18,108	31,650	-	43,656,295
Accumulated depreciation								
Balance, beginning of period	-	4,003,372	21,544,619	202,868,828	1,261,670	3,337,411	-	233,015,900
Depreciation expense	-	41,519	639,803	5,848,825	51,121	232,518	-	6,813,786
Reclassified	-	-	-	2,215,186	-	-	-	2,215,186
Disposals	-	-	(2,983)	(852,070)	(13,660)	(60,347)	-	(929,060)
Balance, end of period	-	4,044,891	22,181,439	210,080,769	1,299,131	3,509,582	-	241,115,812
Net book value, end of period	$ 43,631,260	$ 671,745	$ 22,796,103	$ 63,224,262	$ 482,078	$ 1,298,201	$ 38,195,495	$ 170,299,144
Six months ended June 30, 2009								
Cost								
Balance, beginning of period	$ 10,692,043	$ 4,220,388	$ 40,698,022	$ 245,473,457	$ 1,623,659	$ 4,389,119	$ 20,657,785	$ 327,754,473
Additions	-	1,119	823,642	2,226,260	132,591	231,785	5,609,660	9,025,057
Reclassified	-	-	-	2,730,332	-	-	-	2,730,332
Disposals	-	-	(20,528)	(901,334)	(47,607)	(165,655)	-	(1,135,124)
Balance, end of period	10,692,043	4,221,507	41,501,136	249,528,715	1,708,643	4,455,249	26,267,445	338,374,738
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	-	-	-	(51,861)	-	(6)	-	(51,867)
Balance, end of year	32,754,016	492,990	2,407,480	8,019,101	18,108	31,677	-	43,723,372
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	-	52,931	628,417	5,197,959	47,875	242,024	-	6,169,206
Reclassified	-	-	-	1,592,694	-	-	-	1,592,694
Disposals	-	-	(5,883)	(946,386)	(47,462)	(163,692)	-	(1,163,423)
Balance, end of period	-	3,958,746	20,896,497	199,808,935	1,239,712	3,126,294	-	229,030,184
Net book value, end of period	$ 43,446,059	$ 755,751	$ 23,012,119	$ 57,738,881	$ 487,039	$ 1,360,632	$ 26,267,445	$ 153,067,926

Information about capitalized interest on the purchase of property, plant and equipment for the six months ended June 30, 2010 and 2009 was disclosed as follows:

	Six Months Ended June 30	
	2010	**2009**
Interest expense before capitalization	$ 625,215	$ 614,891
Less: Capitalized interest - construction in progress and prepayments for equipment	289,219	160,660
Interest expense through income statement	$ 335,996	$ 454,231
Capitalization rates	1.85%-2.15%	1.68%-2.05%

In 1981 and 1994, the Corporation revalued its property, plant and equipment and patents in accordance with government regulations, resulting in increment of NT$17,662,343 thousand. After the deduction of the reserve for land value increment tax of NT$3,370,813 thousand, a net increment of NT$14,291,530 thousand was credited to unrealized revaluation increment. Unrealized revaluation increment on totaling NT$13,952,356 thousand had been capitalized as capital stock, reducing its balance to NT$339,174 thousand. In January 2005, the government revised the land value increment tax law to reduce the tax rate. Thus, the reserve for land value increment tax decreased and the unrealized revaluation increment increased each by NT$1,196,189 thousand. Accordingly, the balance of unrealized revaluation increment increased to NT$1,535,363 thousand. In February 2005, the Corporation disposed its land, which resulted in a decrease of NT$3,500 thousand in reserve for land value increment tax. In 2008, the Corporation revalued its land in accordance with the current assessed land value. 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 six months ended June 30, 2010 and 2009, upon retirement or sale of appreciated properties, the unrealized revaluation increment decreased by NT$296 thousand and NT$1,045 thousand, respectively, and recorded as nonoperating income and gains. As of June 30, 2010 and 2009, the balance of reserve for land value increment tax was NT$8,673,466 thousand, the balance of the unrealized revaluation increment were NT$21,912,852 thousand and NT$21,914,203 thousand, respectively, and the cumulative nonoperating income and gains due to disposal of appreciated properties were NT$33,453 thousand and NT$32,102 thousand, respectively.

15. ASSETS LEASED TO OTHERS, NET

	June 30	
	2010	**2009**
Cost		
Land	$ 3,079,977	$ 3,079,977
Machinery and Equipment	2,000,000	2,000,000
Buildings	161,816	161,816
	5,241,793	5,241,793
Accumulated depreciation		
Machinery and Equipment	1,401,000	1,392,771
Buildings	27,422	24,770
	1,428,422	1,417,541
Accumulated impairment		
Machinery and Equipment	594,000	594,000
Net book value, end of period	$ 3,219,371	$ 3,230,252

Some of the Corporation's plant, property and machinery equipment are leased to its subsidiaries (Note 28). The depreciation expenses were NT$1,326 thousand and NT$11,779 thousand for the six months ended June 30, 2010 and 2009, respectively.

16. SHORT-TERM LOANS AND OVERDRAFT

	June 30	
	2010	**2009**
Letters of credit - due within 180 days; interest at 0.645%-1.9706% p.a. and 0.67%-1.91% p.a. as of June 30, 2010 and 2009, respectively	$ 279,583	$ 154,883
Credit loans - interest at 0.617% p.a. and 0.816% p.a. as of June 30, 2010 and 2009, respectively	400,000	400,000
Bank overdraft-interest at 0.16%-0.442% p.a. and 0.16%-0.502% p.a. as of June 30, 2010 and 2009, respectively	1,114,522	1,898,351
	$ 1,794,105	$ 2,453,234

17. ACCRUED EXPENSES

	June 30	
	2010	**2009**
Accrued salaries and incentive bonus	$ 3,976,910	$ 917,524
Bonus to employees, and remuneration to directors and supervisors	3,375,144	1,908,896
Repair and construction	1,471,073	1,815,868
Others	2,523,435	2,712,316
	$ 11,346,562	$ 7,354,604

18. BONDS PAYABLE

	June 30	
	2010	**2009**
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	9,600,000
December 2008; repayable in December 2012 and December 2013; 2.08% interest p.a., payable annually	13,000,000	13,000,000
7-year unsecured bonds - issued at par in:		
December 2008; repayable in December 2014 and December 2015; 2.30% interest p.a., payable annually	7,000,000	7,000,000
	43,300,000	43,300,000
Less: Issuance cost of bonds payable	26,481	35,578
Current portion	8,098,044	-
	$ 35,175,475	$ 43,264,422

19. LONG-TERM DEBT - BANK

	June 30	
	2010	2009
Repayable in January 2015 (NT$16 billion); floating rate at 1.2057% p.a.	$ 16,000,000	$ -
Repayable in February 2013 (USD 58,548 thousand); floating rates at 0.61839%-0.66067% p.a.	1,889,578	-
Repayable in July 2010 (￥4.4 billion); floating rates at 0.5963% and 0.8838% p.a. as of June 30, 2010 and 2009, respectively	1,602,040	1,510,520
Repayable in July 2010 (￥3.3 billion); floating rates at 0.74063% and 1.0663% p.a. as of June 30, 2010 and 2009, respectively	1,201,530	1,132,890
Repayable in December 2009 (￥2.6 billion) originally; extendable in December 2012; floating rates at 0.67375% and 0.91875% p.a. as of June 30, 2010 and 2009, respectively	946,660	892,580
Repayable in July 2010 (￥2.2 billion); floating rates at 0.639% and 0.90525% p.a. as of June 30, 2010 and 2009, respectively	801,020	755,260
Repayable in July 2010 (AUD16.54 million); floating rates at 4.86839% p.a. and 5.13399% p.a. as of June 30, 2010 and 2009, respectively	456,109	440,627
Repayable in November 2010 (￥1.214 billion); floating rates at 0.65125% p.a. and 0.92375% p.a. as of June 30, 2010 and 2009, respectively	442,017	416,766
	23,338,954	5,148,643
Less: Current portion	4,502,716	892,580
	$ 18,836,238	$ 4,256,063

The Corporation borrowed long-term bank loans in Japanese yen, Australian dollar and US dollar to hedge the exchange rate fluctuations on the foreign-currency investments in EAUS, Maruichi Steel Tube Ltd., CSCAU, Yodogawa Steel Works, Ltd., and CSVC (Note 27). The borrowing of NT dollar loan was made to meet fund requirements.

20. LONG-TERM NOTES PAYABLE

	June 30	
	2010	2009
Long-term notes - interest rates at 0.368%-0.768% p.a. and 0.400%-0.761% p.a. as of June 30, 2010 and 2009, respectively	$ 4,500,000	$ 5,250,000
Unamortized discounts	3,239	2,724
	$ 4,496,761	$ 5,247,276

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

21. 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$24,538 thousand and NT$22,843 thousand for the six months ended June 30, 2010 and 2009, respectively.

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

The Corporation makes contributions, equal to a certain percentage of salaries, to a pension fund, which is deposited in the Bank of Taiwan in the name of, and administered by the employees' pension fund administration committee. According to above regulation, pension cost for the six months ended June 30, 2010 and 2009 was NT$381,490 thousand and NT$682,926 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 six months ended June 30, 2010 and 2009 was NT$1,714 thousand and NT$1,586 thousand, respectively.

22. DEFERRED CREDITS - GAIN FROM AFFILIATES

	June 30	
	2010	**2009**
Gain on disposal of land	$ 1,136,164	$ 1,136,164
Gain on contracted projects	827,677	731,596
	$ 1,963,841	$ 1,867,760

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 land.

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

23. STOCKHOLDERS' EQUITY

a. Capital stock

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

b. Treasury stock

Purpose of Treasury Stock	Thousand Shares: Beginning of Period	Thousand Shares: Addition	Thousand Shares: Reduction	June 30: Thousand Shares	June 30: Book Value
Six months ended June 30, 2010					
Shares acquired and held by subsidiaries	279,375	6,325		285,700	$ 8,400,279
Six months ended June 30, 2009					
Shares acquired and held by subsidiaries	276,103	6,654	10,305	272,452	$ 8,302,794
Shares acquired by the Corporation for transfer to employees	108,000	-	-	108,000	2,509,958
	384,103	6,654	10,305	380,452	$ 10,812,752

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 increased due to acquisition of the Corporation's shared by subsidiaries in which the Corporation has less than 50% shareholding. Treasury stock decreased mainly due to subsidiaries' sales of the Corporation's shares and change in percentage of ownership. For the six months ended June 30, 2009, the proceeds for treasury stock sold amounted to NT$296,007 thousand, and after deducting book values, resulted in the amounts of NT$60,635 thousand (recorded as capital surplus).

As of June 30, 2010 and 2009, the market values calculated by combined holding percentage of the treasury shares were NT$8,513,870 thousand and NT$7,683,139 thousand, respectively.

2) Shares acquired for transfer to employees

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

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

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

3) Treasury stock-based Compensations

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

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

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

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

c. Overseas depositary receipts

In May 1992, February 1997 and October 2003, the ROC's Ministry of Economic Affairs ("MOEA") sold its holding shares in the Corporation through issuances of 88,329,150 units of Global Depositary Receipts ("GDR"), the depositary receipts then increased by 6,471,206 units resulting from the capitalization of retained earnings. Each unit was representing 20 shares of the Corporation's common stock, or equivalent to the Corporation's common shares totaling 1,896,007,331 shares (including 211 fractional stocks). Under relevant regulations, the GDR holders may also request the conversion to the shares represented by the GDR. The foreign investors may also request the reissuance of such depositary receipts within the originally approved units. As of June 30, 2010 and 2009, the outstanding depositary receipts were 5,118,506 units and 4,191,393 units, equivalent to 102,370,351 common shares (including 231 fractional stocks) and 83,828,067 common shares (including 207 fractional stocks), which represented 0.78% and 0.67% of the outstanding common shares, respectively.

d. Preferred stock

Preferred stockholders have the following entitlements or rights:

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

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

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

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

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

e. Capital surplus

Capital surplus comprised of the following:

	June 30	
	2010	2009
Additional paid-in capital- issuance of common shares to exchange for subsidiaries	$ 15,717,185	$ 15,717,185
Treasury stock transactions	3,585,210	2,476,005
Long-term stock investments	293,970	275,392
Others	8,099	8,099
	$ 19,604,464	$ 18,476,681

Under relevant regulations, capital surplus from acquiring the ownership of subsidiaries and treasury stock transaction may be used to offset a deficit or capitalized, which however is limited to a certain percentage of the Corporation's paid-in capital and once a year. Capital surplus from long-term stock investments accounted for under the equity method may not be used for any purpose.

f. Appropriation of retained earnings and dividend policy

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

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

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

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

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

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

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

The Corporation is required to appropriate a special reserve from annual earnings for any net debit balance resulting from adjustments to the stockholders' equity (including unrealized revaluation increment, unrealized gain (loss) on financial instruments, unrecognized net loss on pension cost and cumulative translation adjustments, excluding treasury stock held by the Corporation). Besides, if the market price of the Corporation's common share is lower than the carrying value of the Corporation's shares held by subsidiaries, the Corporation should appropriate a special reserve equal to the difference between market price and carrying value. The Corporation may release a portion of this special reserve when such debit balances are partially or fully reversed. As of June 30, 2010, the Corporation had fully reversed the special reserve under relevant regulations which accounted for the balance of deduction in stockholders' equity, and the unreversed special reserve was held for the capital demand of expansion construction.

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

Estimated bonus to employees, and remuneration to directors and supervisors were NT$1,784,443 thousand and NT$33,458 thousand, respectively for the six months ended June 30, 2010. The bonus to employees and remuneration to directors and supervisors, representing 8% and 0.15%, respectively, of net income (which is after deduction of bonus to employees and remuneration to directors and supervisors, legal reserve and special reserve) were accrued based on past experiences. The Corporation had a net loss for the six months ended June 30, 2009; therefore, no bonus to employees and remuneration to directors and supervisors were accrued. Material differences between any estimated amounts and the amounts proposed by the Board of Directors in the following year are adjusted for in the current year. If the actual amounts subsequently resolved by the stockholders differ from the proposed amounts, the differences are recorded in the year of stockholders' resolution as a change in accounting estimate.

If bonus shares are resolved to be distributed to employees, the number of shares is determined by dividing the amount of bonus by the closing price (after considering the effect of cash and stock dividends) of the shares at the date preceding the stockholders' meeting.

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

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

	Amount		**Dividends Per Share (NT dollars)**	
	2009	**2008**	**2009**	**2008**
Legal reserve	$ 1,952,817	$ 2,402,556		
Preferred stocks				
Cash dividends	40,947	49,751	$ 1.07	$ 1.30
Stock dividends	12,628	16,455	0.33	0.43
			$ 1.40	$ 1.73
Common Stocks				
Cash dividends	13,225,464	16,184,403	$ 1.01	$ 1.30
Stock dividends	4,321,192	5,353,303	0.33	0.43
	$ 19,553,048	$ 24,006,468	$ 1.34	$ 1.73

As of June 30, 2010 and 2009, the cash dividends declared have not been distributed to stockholders and were recorded as dividends payable. Capitalization of retained earnings of NT$4,333,820 thousand has been approved by the government and will be effective on August 1, 2010.

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

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

The differences between the amounts approved in stockholders' meeting in 2009 and the accrual amounts reflected in the financial statements for the year ended December 31, 2008 were primarily due to the difference of estimation and had been adjusted in profit and loss for the six months ended June 30, 2009.

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

g. Unrealized gain on financial instruments

For the six months ended June 30, 2010 and 2009, movements of unrealized gain on financial instruments were as follows:

	Available-for-sale Financial Assets	**Equity-method Investments**	**Unrealized Gain or Loss on Cash Flow Hedging**	**Total**
Six months ended June 30, 2010				
Balance, beginning of period	$ 3,124,306	$ 461,850	$ 630,275	$ 4,216,431
Recognized in stockholders' equity	(598,106)	(188,280)	10,109	(776,277)
Transferred to construction in progress and prepayments for equipment	-	-	(400,030)	(400,030)
Balance, end of period	$ 2,526,200	$ 273,570	$ 240,354	$ 3,040,124
Six months ended June 30, 2009				
Balance, beginning of period	$ 3,623,089	$ 1,983,109	$ 901,807	$ 6,508,005
Recognized in stockholders' equity	749,437	(871,933)	(214,621)	(337,117)
Transferred to profit or loss	(1,642,579)	-	-	(1,642,579)
Transferred to construction in progress and prepayments for equipment	-	-	(8,322)	(8,322)
Balance, end of period	$ 2,729,947	$ 1,111,176	$ 678,864	$ 4,519,987

24. INCOME TAX

a. A reconciliation of income tax expense (benefit) based on income (loss) before income tax at the 17% and 25% statutory rate for June 30, 2010 and 2009, respectively, and income tax expense (benefit) was as follows:

	Six Months Ended June 30	
	2010	2009
Income tax expense(benefit) at the statutory rate	$ 4,666,787	$ (2,199,098)
Tax effect adjusting items		
Permanent differences		
Investment income recognized under equity method – domestic	(805,815)	(160,742)
Gain on sale of investments	-	(410,645)
Others	6,209	10,646
Temporary differences		
Unrealized loss on service commitments	98,028	-
Unrealized gain on hedging of forward foreign exchange	68,005	2,080
Difference between tax reporting and financial reporting - depreciation methods	61,637	110,493
Unrealized gain (loss) from affiliates	26,361	(92,355)
Difference between tax reporting and financial reporting – sales revenue	21,860	(105,593)
Investment income recognized under equity method - foreign investees	(43,053)	(35,959)
Preferential severance pay	(23,809)	(46,111)
Realized provision for loss on inventories	(4,531)	(248,162)
Loss on idle capacity	-	104,535
Realized loss on purchase commitments	-	(277,646)
Others	(16,044)	14,999
Investment tax credits used	(1,220,293)	-
Loss carryforwards used	(995,179)	-
Loss carryforwards recognized	-	3,333,558
Additional 10% income tax on unappropriated earnings	4,945	-
Income tax currently payable	1,845,108	-
Tax separately levied on interest from short-term bills	-	145
Adjustments for prior years' tax	18,890	(120,243)
Current income tax expense (benefit)	1,863,998	(120,098)
Deferred tax		
Temporary differences	(290,804)	(84,115)
Investment tax credits	925,671	(337,944)
Loss carryforwards	995,179	(2,666,847)
Effect of tax law changes on deferred assets	139,286	863,676
Income tax expense (benefit)	$ 3,633,330	$ (2,345,328)

b. Change in income tax payable

	Six Months Ended June 30	
	2010	2009
Balance, beginning of period	$ -	$ 5,749,662
Current income tax expense (benefit)	1,863,998	(120,098)
Payment in the current period	(21,464)	(40,266)
Balance, end of period	$ 1,842,534	$ 5,589,298

During the six months ended June 30, 2010 and 2009, the Legislative Yuan passed the following amendments to tax laws:

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

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

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

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

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

	June 30	
	2010	2009
Current		
Deferred income tax assets		
Unrealized loss on service commitments	$ 239,921	$ -
Unrealized impairment loss on spare parts	164,579	167,889
Unrealized gain from affiliates	78,647	-
Estimated preferential severance pay	49,015	97,008
Unrealized provision for loss on inventories	5,402	2,273,281
Unrealized loss on purchase commitments	-	1,077,962
Investment tax credits	-	337,944
Loss on idle capacity	-	94,081
Others	25,758	-
	563,322	4,048,165

(Continued)

	June 30	
	2010	2009
Deferred income tax liabilities		
Difference between tax reporting and financial reporting - inventory	$ (14,049)	$ (32,625)
Unrealized loss from affiliates	-	(32,767)
Others	-	(22,078)
	(14,049)	(87,470)
Total deferred income tax assets - current, net	549,273	3,960,695
Noncurrent		
Deferred income tax assets		
Impairment loss on financial assets	1,013,651	1,202,226
Unrealized gain from affiliates	140,705	146,319
Unrealized gain on hedging of forward exchange settlement	70,824	8,846
Loss carryforwards	-	2,666,847
Others	15,121	14,398
	1,240,301	4,038,636
Deferred income tax liabilities		
Difference between tax reporting and financial reporting - depreciation methods	(1,381,594)	(1,783,528)
Foreign investment income	(377,052)	(350,124)
Unrealized foreign exchange gain, net	(48,367)	(56,844)
Others	-	(3,548)
	(1,807,013)	(2,194,044)
Total deferred income tax assets (liabilities) - noncurrent, net	(566,712)	1,844,592
Total deferred income tax assets (liabilities)	$ (17,439)	$ 5,805,287

(Concluded)

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

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

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

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

d. Information about integrated income tax was as follows:

	June 30	
	2010	2009
Imputation credit account (ICA)	$ 6,828,184	$ 8,778,733
Unappropriated earnings generated before January 1, 1997	15,440	35,440

The creditable ratio for distribution of 2009 and 2008 earnings was 33.33% (estimated) and 33.36%, 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.

25. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

	Six Months Ended June 30							
	2010				2009			
	Operating Cost	Operating Expense	Others	Total	Operating Cost	Operating Expense	Others	Total
Personnel								
Salary	$ 9,155,867	$ 1,621,555	$ 227,255	$ 11,004,677	$ 4,637,752	$ 811,580	$ 60,467	$ 5,509,799
Labor and health insurance	277,934	52,446	5,779	336,159	292,966	48,012	2,234	343,212
Pension and consolation costs	340,873	73,573	6,472	420,918	596,385	116,211	4,707	717,303
Others	190,178	72,828	7,919	270,925	124,568	71,036	4,270	199,874
	$ 9,964,852	$ 1,820,402	$ 247,425	$ 12,032,679	$ 5,651,671	$ 1,046,839	$ 71,678	$ 6,770,188
Depreciation	$ 6,642,609	$ 171,177	$ 1,326	$ 6,815,112	$ 6,004,305	$ 164,901	$ 11,779	$ 6,180,985
Amortization	31,910	21,863	4,549	58,322	20,764	32,715	4,527	58,006

26. EARNINGS (LOSS) PER SHARE

	Amount (Numerator)		Shares (Denominator)	Earnings (Loss) Per Share (NT dollars)	
	Before Tax	After Tax	(Thousand)	Before Tax	After Tax
Six months ended June 30, 2010					
Net income	$ 27,451,689	$ 23,818,359			
Less: Dividends on preferred shares	30,874	26,788			
Basic EPS					
Net income attributable to common stockholders	27,420,815	23,791,571	12,808,819	$ 2.14	$ 1.86
Effect of dilutive potential common stock					
Add: Dividends on preferred shares	30,874	26,788	38,268		
Bonus to employees	-	-	115,913		
Diluted EPS					
Net income attributable to common stockholders plus effect of potential dilutive common stock	$ 27,451,689	$ 23,818,359	12,963,000	2.12	1.84
Six months ended June 30, 2009					
Net loss	$ (8,796,392)	$ (6,451,064)			
Less: Dividends on preferred shares	36,526	26,788			
Loss per share-basic and diluted					
Net loss attributable to common stockholders	$ (8,832,918)	$ (6,477,852)	12,702,352	(0.70)	(0.51)

Due to the net loss for the six months ended June 30, 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 should be considered until the stockholders resolve the number of shares to be distributed to employees in their meeting in the following year.

In loss per share calculation for the six months ended June 30, 2009, the number of outstanding shares was retroactively adjusted for the effect of capitalization of 2009 earnings. Thus loss per share before tax and after tax decreased from NT$0.73 to NT$0.53 and from NT$0.70 to NT$0.51, respectively.

Capitalization of 2009 retained earnings of NT$4,333,820 thousand (433,382 thousand shares) will be effective on August 1, 2010 (Note 23). The earnings (loss) per share retroactively adjusted for the effect of such capitalization of retained earnings is summarized as follows:

	For the Six Months Ended June 30			
	2010		2009	
	Before Tax	After Tax	Before Tax	After Tax
Basic earnings (loss) per share	$ 2.07	$ 1.80	$ (0.67)	$ (0.49)
Diluted earnings (loss) per share	2.05	1.78	(0.67)	(0.49)
If the Corporation's shares held by subsidiaries were accounted for as investments rather than treasury stock				
Basic earnings (loss) per share		1.76		(0.48)
Diluted earnings (loss) per share		1.74		(0.48)

27. FINANCIAL INSTRUMENTS

a. As of June 30, 2010 and 2009, the information of fair values was as follows:

	June 30			
	2010		2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Non-derivative Financial Instruments				
Assets				
Financial assets at fair value through profit or loss	$ 6,118,239	$ 6,118,239	$ 1,808,116	$ 1,808,116
Available-for-sale financial assets (including noncurrent)	4,561,679	4,561,679	4,686,119	4,686,119
Financial assets carried at cost	5,746,210	-	5,706,984	-
Bond investments with no active market	103,000	103,000	103,000	103,000
Prepaid long-term stock investments	7,197	-	-	-
Other financial assets (including noncurrent)	2,115,982	2,115,982	5,139,633	5,139,633
Refundable deposits	160,307	160,307	220,320	220,320
Liabilities				
Bonds payable (including current portion)	43,273,519	44,269,721	43,264,422	44,136,028
Long-term debt - bank (including current portion)	23,338,954	23,338,954	5,148,643	5,148,643
Long-term notes payable	4,496,761	4,496,761	5,247,276	5,247,276
Derivative Financial Instrument				
Heading derivative assets (including noncurrent)	24,261	24,261	127,884	127,884
Hedging derivative liabilities (including noncurrent)	8,464	8,464	-	-

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 (including related parties), other receivables, restricted assets, short-term loans and overdraft, accounts payable

(including related parties), accrued expenses, dividends payable, and other payables, approximate fair value because of the short maturities of these instruments.

2) The fair values of financial assets at fair value through profit or loss and available-for-sale financial assets and derivative financial instruments are determined at their market price. If there is no market price available for reference, the fair values are determined by using valuation techniques. The information used by the Corporation for determining assumptions applied in valuation is in consistent with that used by market participants and is obtained from financial institutions. For fair values of financial instruments denominated in foreign currencies, the translation to New Taiwan dollars is based on exchange rates used are based on the buying rates quoted by the Central Bank and on the rates quoted by Reuters.

3) The fair values of long-term liabilities and foreign currency deposits of other financial assets are determined by the present values of future cash flows. If there is market price available for reference, the fair values are determined. If there is no market price available for reference, the values are discounted at the interest rates of similar long-term debt and the floating-rate of foreign currency deposits available for the Corporation. Discount rates as of June 30, 2010 and 2009 were from 0.368% to 4.86839% and from 0.4% to 5.13399%, respectively.

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

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

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

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

	Amount Determined by Quoted Market Price		Amount Determined by Using Valuation Technique	
	June 30		June 30	
	2010	2009	2010	2009
Assets				
Financial assets at fair value through profit or loss	$ 6,118,239	$ 1,808,116	$ -	$ -
Available-for-sale financial assets (including noncurrent)	4,561,679	4,686,119	-	-
Bond investments with no active market	-	-	103,000	103,000
Other financial assets (including noncurrent)	-	-	2,115,982	5,139,633
Hedging derivative assets (including noncurrent)	-	-	24,261	127,884
Refundable deposits	-	-	160,307	220,320
Liabilities				
Hedging derivative liabilities (including noncurrent)	-	-	8,464	-
Bonds payable (including current portion)	44,269,721	44,136,028	-	-
Long-term debt - bank (including current portion)	-	-	23,338,954	5,148,643
Long-term notes payable	-	-	4,496,761	5,247,276

d. There is no gain or loss for the estimated change in fair value by using valuation techniques for the six months ended June 30, 2010 and 2009.

e. As of June 30, 2010 and 2009, financial liabilities with cash flow risk of the interest rate change were NT$29,629,820 thousand and NT$12,849,153 thousand, respectively, and financial liabilities with fair value risk of the interest rate change were NT$43,273,519 thousand and NT$43,264,422 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$51,717 thousand and NT$625,215 thousand, respectively, for the six months ended June 30, 2010 and NT$51,972 thousand and NT$614,891 thousand, respectively, for the six months ended June 30, 2009.

g. Financial risks

1) Market risk

Market risk includes fair value risk of interest rate change, exchange rate risk, and market price risk. The Corporation has long-term loans in yen to hedge the exchange rate fluctuations on its long term investment in yen, thus, the exchange rate risk can be hedged naturally. The Corporation issues the bonds payable with the fixed interest rate, and the fair value of the bonds payable will be influenced by the market interest rate change. If market interest rate increases or decreases by 1%, the fair value of bonds payable will decrease or increase by about NT$1,188,000 thousand.

The Corporation's investments in the bond funds and stocks of TSMC, Maruichi Steel Tube Ltd., Yodogawa Steel Works Ltd., TEWC and CSBC Corporation Taiwan involve market risk. Aside from minor fluctuation of the bond fund's market price, the share price of the stocks increases or decreases by 1%, the fair value will increase or decrease by about NT$45,617 thousand.

2) Credit risk

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

As of June 30, 2010, the maximum credit risk of off-balance-sheet guarantees provided to DSC was NT$16,792,341 thousand (US$521,906 thousand).

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 in the active market at prices approximating fair value.

There are liquidity risks for the financial assets carried at cost, prepaid long-term stock investments and bond investments with no active market because no quoted active market prices are available.

4) Cash flow interest rate risk

Market interest rate change will influence the effective interest rate of the financial instruments which have cash flow risk of the interest rate change, and make future cash flow fluctuate. If the market interest rate increases by 1%, the Corporation's cash outflow will increase by about NT$296,298 thousand.

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

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 EAUS, Maruichi Steel Tube Ltd., Yodogawa Steel Works Ltd., CSCAU, CSVC and contracts of purchasing machinery and equipment.

		Designated Hedging Instrument		
			Changes of Fair Value	
			Six Months Ended June 30	
Hedge Type	**Hedged Item**	**Financial Instrument**	**2010**	**2009**
Fair value hedge	Stock investments in EAUS Corporation (recorded as financial assets carried at cost - noncurrent)	Debt in YEN	$ (169,290)	$ 201,465
Fair value hedge	Stock investments in Maruichi Steel Tube Ltd. (recorded as available-for-sale financial assets - noncurrent)	Debt in YEN	(44,460)	52,910
Fair value hedge	Stock investments in Yodogawa Steel Works, Ltd. (recorded as available-for-sale financial assets - noncurrent)	Debt in YEN	(20,759)	24,705
Hedge of a net investment in a foreign operation	Stock investment in CSCAU (recorded as investments accounted for by the equity method)	Debt in AUD	19,849	(64,595)
Hedge of a net investment in a foreign operation	Stock investment in CSVC (recorded as investments accounted for by the equity method)	Debt in USD	(16,627)	-
Cash flow hedge	Contracts for purchasing machinery and equipment	Deposit-foreign currency	69,278	(293,800)
Cash flow hedge	Contracts for purchasing machinery and equipment	Forward contracts	(59,169)	79,179

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

As of June 30, 2010 and 2009, the fair values of the above foreign currency deposits on cash flow hedge were NT$2,115,982 thousand and NT$5,139,633 thousand, respectively, recorded as other financial asset (including noncurrent) (Note 13).

28. RELATED-PARTY TRANSACTIONS

a. Related parties

Related Parties	Relationship with the Corporation
C. S. Aluminum Corporation (CAC)	Affiliate
China Steel Express Corporation (CSE)	Affiliate
China Steel Chemical Corporation (CSCC)	Affiliate
China Steel Global Trading Corporation	Affiliate
China Hi-ment Corporation (CHC)	Affiliate
China Ecotek Corporation (CEC)	Affiliate
China Steel Structure Corporation (CSSC)	Affiliate
Chung Hung Steel Corporation (CHSC)	Affiliate
China Steel Machinery Corporation (CSMC)	Affiliate
Gains Investment Corporation (GIC)	Affiliate
China Steel Security Corporation	Affiliate
China Prosperity Development Corporation	Affiliate
Info-Champ Systems Corporation	Affiliate
China Steel Management Consulting Corporation	Affiliate
Hi-mag Magnetic Corporation	Affiliate

(Continued)

Related Parties	Relationship with the Corporation
Long Yuan Fa Investment Corporation	Affiliate
Horng Yih Investment Corporation	Affiliate
Goang Yaw Investment Corporation	Affiliate
Dragon Steel Corporation (DSC)	Affiliate
China Steel Sumikin Vietnam Joint Stock Company (CSVC)	Affiliate
Chung Mao Trading (BVI) Corp. (CMT(BVI))	Affiliate
Chung Mao Trading (SAMOA) Co.	Affiliate
CSGT (Singapore) Pte. Ltd.	Affiliate
CSE Transport Corp. (Panama) (CSEP)	Affiliate
Mentor Consulting Corporation	Affiliate
Steel Castle Technology Corp.	Affiliate
Union Steel Development Corp.	Affiliate
Betacera Inc.	Affiliate
Wabo Globe Trading Corporation (WGTC)	Affiliate
Universal Exchange Inc.	Affiliate
United Steel Engineering and Construction Corporation	Affiliate
Thintech Materials Technology Co., Ltd.	Affiliate
Pao Good Industrial Co., Ltd.	Affiliate
CSGT International Corp.	Affiliate
CSGT Metals Vietnam Joint Stock Company (CMVC)	Affiliate
CSC Steel Sdn. Bhd. (CSSB)	Affiliate
Group Steel Corp. (M) Sdn. Bhd.	Affiliate
CSGT (JAPAN) Co., Ltd.	Affiliate
CSGT Hong Kong Limited	Affiliate
CSGT (SHANGHAI) Co., Ltd.	Affiliate
Ever Glory International Co. Ltd.	Affiliate
CSC Sonoma Pty Ltd.	Affiliate
Kaohsiung Rapid Transit Corporation (KRTC)	Equity method investee
TaiAn Technologies Corporation	Equity method investee
Hsin Hsin Cement Enterprise Co.	Equity method investee
Kaohsiung Port Cargo Handling Services Corp.	Equity investee of the Corporation’s affiliate
Southeast Cement Co., Ltd.	Director of the Corporation’s affiliate
RSEA Engineering Co., Ltd.	Director of the Corporation’s affiliate
Great Grandeul Steel Co., Ltd.	Director of the Corporation’s affiliate
Hua Eng Wire & Cable Co., Ltd.	Director of the Corporation’s affiliate
Chun Yuan Steel industry Co., Ltd. (CYS)	Director of the Corporation’s affiliate
Chin Ho Fa Steel & Iron Co., Ltd.	Director of the Corporation’s affiliate
CTCI Corporation	Supervisor of the Corporation’s affiliate
Chun Yu Corporation	Supervisor of the Corporation’s affiliate
Chang Yee Steel Co., Ltd.	Director of the Corporation’s affiliate
Mayer Steel Pipe Corporation	Director of the Corporation’s affiliate
Unimax & Far Corporation	Director of the Corporation’s affiliate
Bichan Trading CORP.	Director of the Corporation’s affiliate
Sando Trading Co., Ltd.	Director of the Corporation’s affiliate
Kao Hsing Chang Iron & Steel Corporation	Director of the Corporation’s affiliate
Sumitomo Corporation	Director of the Corporation’s affiliate
Sumikin Bussan Corporation	Director of the Corporation’s affiliate
CSBC Corporation Taiwan (CSBC)	CSBC’s director

(Continued)

Related Parties	Relationship with the Corporation
Tang Eng Iron Works Co., Ltd. (TEI)	TEI's director
CSC Educational Foundation	Foundation established mainly from the Corporation's donation
Others	Substantial control and significant influence over investees, but no material transactions

(Concluded)

b. Significant related-party transactions were as follows:

Sales

The sales transactions with related parties were NT$22,433,218 thousand (20%, including CYS, CSSB and CHSC, etc.) and NT$9,893,699 thousand (14%, including CSSB, CSBC and CYS, etc.), respectively, for the six months ended June 30, 2010 and 2009.

Purchases

	Six Months Ended June 30			
	2010		2009	
	Amount	%	Amount	%
DSC	$ 6,682,431	10	$ 28,664	-
CSEP	6,474,533	10	1,651,783	4
Others	6,950,067	11	2,320,359	5
	$ 20,107,031	31	$ 4,000,806	9

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 and machinery equipment to CAC, CSMC, CSCC, CSSC and CHC, etc. Rentals were calculated at 4% to 10% p.a. of land assessed value as published by the government or under normal terms. Rentals were collected semiannually, except for 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:

		Rental Income for Six Months Ended June 30			
		2010		2009	
	Expiry of Contracts	Amount	%	Amount	%
CAC	February 2016	$ 27,947	34	$ 27,945	35
CSMC	November 2011	14,462	18	14,920	18
CSCC	December 2012	10,132	12	10,091	12
Others	May 2018	15,241	19	15,225	19
		$ 67,782	83	$ 68,181	84

Other revenues

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

	Other Operating Revenues	%	Nonoperating income and gains	%	Total
Six months ended June 30, 2010					
TEI	$ 431,405	19	$ 62	-	$ 431,467
DSC	333,076	14	850	-	333,926
CHSC (Note 10)	26,493	1	123,555	49	150,048
Others	229,369	10	65,094	26	294,463
	$ 1,020,343	44	$ 189,561	75	$ 1,209,904
Six months ended June 30, 2009					
DSC	$ 692,982	36	$ 1,450	-	$ 694,432
TEI	320,122	16	62	-	320,184
CHSC (Note 10)	18,108	1	144,834	42	162,942
Others	138,705	7	51,928	15	190,633
	$ 1,169,917	60	$ 198,274	57	$ 1,368,191

The Corporation provided technical service to DSC and CSVC and recognized a loss on commitments of NT$1,193,803 thousand for the six months ended June 30, 2010.

Other expenditures

Other expenditures paid to related parties for the six months ended June 30, 2010 and 2009 (including CEC, CSMC and CHC, etc.) were NT$1,858,083 thousand and NT$1,514,580 thousand, respectively. Other expenditures pertained to furnace slag handling services, export shipping charges, commissions for export and import services, etc., were recorded in other operating costs, manufacturing expenses, operating expenses and nonoperating expenses and losses.

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

Capital expenditures

	Six Months Ended June 30			
	2010		2009	
	Amount	%	Amount	%
CEC	$ 1,679,169	10	$ 861,285	9
Others	2,023,256	12	2,641,736	29
	$ 3,702,425	22	$ 3,503,021	38

Donation expenditures

The Corporation donated NT$5,000 thousand and NT$1,000 thousand to CSC Educational Foundation for the six months ended June 30, 2010 and 2009, respectively. This foundation is established for promotion of education and training in steel and related fields.

Balances at period-end

	June 30			
	2010		2009	
	Amount	%	Amount	%
Notes Receivable - related parties				
CSBC	$ 612,170	54	$ -	-
Accounts Receivable - related parties				
KRTC	$ 32,245	1	$ 396,178	18
Others	1,047,199	34	763,671	36
	$ 1,079,444	35	$ 1,159,849	54
Payables - related parties				
CSEP	$ 2,968,404	28	$ 284,873	12
CSE	146,304	1	358,800	16
Others	1,268,234	13	133,423	6
	$ 4,382,942	42	$ 777,096	34
Dividends receivable (classified as other receivables)				
CSCC	$ 385,208	17	$ 319,860	21
GIC	287,351	13	-	-
CEC	149,561	7	110,786	7
CSMC	133,895	6	71,602	5
CHC	125,464	6	120,984	8
Others	325,624	13	393,445	26
	$ 1,407,103	62	$ 1,016,677	67

Guarantees

As of June 30, 2010, guarantees provided to DSC were NT$16,792,341 thousand (US$521,906 thousand).

29. PLEDGED ASSETS

Time deposits of NT$4,664,301 thousand and NT$4,158,026 thousand (recorded as restricted assets -current and noncurrent) as of June 30, 2010 and 2009, respectively, have been pledged mainly as collaterals for bank overdraft, etc. Land with book value (including revaluation increment) of NT$17,058,175 thousand had been pledged as collateral for a long-term debt.

30. SIGNIFICANT COMMITMENTS AND CONTINGENCIES AS OF JUNE 30, 2010

a. The Corporation is guaranteed of NT$708,408 thousand by Mega Bank, Shanghai Commercial and Savings Bank and the Land Bank of Taiwan for several construction, warranty, lease and payment contracts.

b. Unused letters of credit to import materials and machinery amounted to NT$9.6 billion.

c. Property purchase and construction contracts of NT$6.3 billion were unrecorded.

d. The Corporation entered into raw material purchase contracts with suppliers in Australia, Brazil, Canada, United States of America, Bahrain, Japan and domestic companies with contract terms of 1 to 10 years. Contracted annual purchases of 8,220,000 metric tons of coal, 17,290,000 metric tons of iron ore, and 2,910,000 metric tons of limestone are at prices negotiable. Unpaid purchase amounts as of June 30, 2010 were US$16.7 billion (including 16,330,000 metric tons of coal; 110,310,000 metric tons of iron ore; and 2,040,000 metric tons of limestone).

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

f. DSC entered into two syndicated credit facility agreements for NT$20 billion and NT$51.7 billion with Bank of Taiwan and other banks in December 2009 and February 2008, respectively. Under the agreements, the Corporation and its related parties should collectively hold at least 80% and 40%, respectively of DSC's outstanding shares and possess no less than half of DSC's board seats. As of June 30, 2010, the Corporation's equity in DSC aggregated 100% and held all board seats.

g. Guarantees provided to related parties were NT$16,792,341 thousand (Note 28).

h. Sales contracts of NT$45.2 billion (1,740,000 metric tons) were unrecorded.

CHINA STEEL CORPORATION

ADDITIONAL EXPLANATIONS FOR ACCOUNTS IN STOCKHOLDERS' EQUITY
SIX MONTHS ENDED JUNE 30, 2010 AND 2009

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.