China Steel Corporation

Financial Statements for the
Three Months Ended March 31, 2010 and 2009 and
Independent Accountants' Review Report

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

The Board of Directors and Stockholders
China Steel Corporation

We have reviewed the accompanying balance sheets of China Steel Corporation (the "Corporation") as of March 31, 2010 and 2009, and the related statements of income and cash flows for the three months then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to issue a report on these financial statements based on our reviews.

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

As discussed in Note 12 to the accompanying financial statements, investments in certain equity-method investees (including unlisted subsidiaries and equity-method investees of listed subsidiaries) were NT$34,662,572 thousand and NT$94,255,085 thousand as of March 31, 2010 and 2009, respectively. The related net investment income (loss) were NT$1,505,698 thousand and NT$(298,189) thousand for the three months ended March 31, 2010 and 2009, respectively. These investment amounts were based on the investees' unreviewed financial statements for the same reporting periods as that of the Corporation.

Based on our reviews, except for the effects of any adjustments that might have been determined to be necessary had the financial statements been reviewed, we are not aware of any material modifications that should be made to the financial statements of the Corporation for them to be in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

As stated in Note 3 to the accompanying financial statements, starting January 1, 2009, the Corporation adopted the newly revised Statement of Financial Accounting Standards No. 10, “Accounting for Inventories”, issued by the ARDF in November 2007.

April 13, 2010

<u>*Notice to Readers*</u>

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

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

CHINA STEEL CORPORATION

BALANCE SHEETS
MARCH 31, 2010 AND 2009
(In Thousands of New Taiwan Dollars, Except Par Value)
(Reviewed, Not Audited)

ASSETS	2010 Amount	%	2009 Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 4)	$ 16,049,522	5	$ 2,623,396	1
Financial assets at fair value through profit or loss - current (Notes 2, 5 and 28)	10,017,166	3	5,614,754	2
Available-for-sale financial assets - current (Notes 2, 6 and 28)	1,791,346	1	3,603,123	1
Hedging derivative assets - current (Notes 2, 7 and 28)	16,248	-	123,960	-
Notes receivable (Note 29)	1,059,540	-	1,250,011	-
Accounts receivable (Notes 2, 8 and 29)	2,579,763	1	2,793,402	1
Other receivables (Notes 10 and 29)	5,072,550	1	795,987	-
Other financial assets - current (Notes 13 and 28)	4,526,403	1	1,719,004	-
Inventories (Notes 2, 3 and 9)	27,505,073	8	41,845,790	12
Spare parts - current (Note 2)	6,671,594	2	5,929,223	2
Deferred income tax assets - current (Notes 2 and 25)	1,026,564	-	5,701,251	2
Restricted assets - current (Notes 4 and 30)	4,650,002	1	4,158,424	1
Others (Note 29)	1,428,017	-	1,763,416	1
Total current assets	82,393,788	23	77,921,741	23
FUNDS AND INVESTMENTS				
Available-for-sale financial assets - noncurrent (Notes 2, 6 and 28)	3,023,443	1	2,935,092	1
Hedging derivative assets - noncurrent (Notes 2, 7 and 28)	-	-	100,871	-
Financial assets carried at cost - noncurrent (Notes 2, 10 and 28)	5,515,210	1	5,721,984	1
Bond investments with no active market - noncurrent (Notes 2, 11 and 28)	103,000	-	103,000	-
Investments accounted for by the equity method (Notes 2 and 12)	99,295,958	28	99,369,638	29
Other financial assets - noncurrent (Notes 13 and 28)	281,325	-	3,310,080	1
Total funds and investments	108,218,936	30	111,540,665	32
PROPERTY, PLANT AND EQUIPMENT (Notes 2, 14, 29 and 30)				
Land	10,692,043	3	10,692,043	3
Land improvements	4,223,646	1	4,221,507	1
Buildings	42,286,022	12	40,881,463	12
Machinery and equipment	261,655,910	73	247,804,796	72
Transportation equipment	1,774,194	1	1,621,723	1
Other equipment	4,749,798	1	4,407,692	1
Total cost	325,381,613	91	309,629,224	90
Revaluation increment	43,665,919	12	43,729,168	13
Cost and revaluation increment	369,047,532	103	353,358,392	103
Less: Accumulated depreciation	238,557,920	66	226,295,185	66
	130,489,612	37	127,063,207	37
Constructions in progress and prepayments for equipment	33,382,147	9	23,918,831	7
Total property, plant and equipment	163,871,759	46	150,982,038	44
INTANGIBLE ASSETS (Note 2)	266,436	-	115,773	-
OTHER ASSETS				
Assets leased to others, net (Notes 2 and 15)	3,220,034	1	3,236,744	1
Refundable deposits (Note 28)	163,411	-	111,475	-
Deferred income tax assets - noncurrent (Notes 2 and 25)	-	-	274,096	-
Restricted assets - noncurrent (Note 30)	14,301	-	8,026	-
Spare parts - noncurrent	1,275,732	-	807,539	-
Total other assets	4,673,478	1	4,437,880	1
TOTAL	$ 359,424,397	100	$ 344,998,097	100

LIABILITIES AND STOCKHOLDERS' EQUITY	2010 Amount	%	2009 Amount	%
CURRENT LIABILITIES				
Short-term loans and overdraft (Notes 16 and 30)	$ 1,498,482	-	$ 11,473,796	3
Commercial paper payable (Note 17)	-	-	13,496,590	4
Hedging derivative liabilities - current (Notes 2, 7 and 28)	23,439	-	11,522	-
Accounts payable (Note 29)	5,489,524	2	1,929,129	1
Income tax payable (Notes 2 and 25)	574,016	-	5,709,639	2
Accrued expenses (Note 18)	8,332,785	2	6,184,121	2
Purchase commitments payable (Notes 2 and 9)	-	-	6,654,255	2
Other payables (Note 2)	3,743,707	1	7,573,678	2
Long-term debt-current portion (Notes 20, 28 and 30)	4,271,395	1	896,480	-
Others	3,308,218	1	1,203,485	-
Total current liabilities	27,241,566	7	55,132,695	16
LONG-TERM LIABILITIES				
Hedging derivative liabilities - noncurrent (Notes 2, 7 and 28)	661	-	12,020	-
Bonds payable (Notes 19 and 28)	43,271,244	12	43,262,149	13
Long-term debt - bank (Notes 20, 28 and 30)	18,749,276	5	4,218,402	1
Long-term notes payable (Notes 21 and 28)	5,249,871	2	-	-
Total long-term liabilities	67,271,052	19	47,492,571	14
RESERVE FOR LAND VALUE INCREMENT TAX (Note 14)	8,673,466	2	8,673,466	2
OTHER LIABILITIES				
Deferred income tax liabilities - noncurrent (Notes 2 and 25)	739,481	-	-	-
Deferred credits - gain from affiliates (Note 23)	1,968,611	1	1,796,141	1
Total other liabilities	2,708,092	1	1,796,141	1
Total liabilities	105,894,176	29	113,094,873	33
CAPITAL STOCK - AUTHORIZED 14,000,000 THOUSAND SHARES AT NT$10 PAR VALUE (Note 24)				
Common shares - issued 13,094,519 thousand shares and 12,557,541 thousand shares as of March 31, 2010 and 2009, respectively	130,945,189	37	125,575,411	37
Preferred shares - issued 38,268 thousand shares and 38,270 thousand shares as of March 31, 2010 and 2009, respectively	382,680	-	382,700	-
Total capital stock	131,327,869	37	125,958,111	37
CAPITAL SURPLUS (Notes 2 and 24)	19,605,674	5	18,464,817	5
RETAINED EARNINGS (Notes 2 and 24)				
Legal Reserve	47,117,709	13	44,715,153	13
Special Reserve	7,615,701	2	7,615,701	2
Unappropriated earnings	19,617,957	6	24,002,582	7
Net income (loss) for the three months ended March 31	11,065,729	3	(7,175,567)	(2)
Total retained earnings	85,417,096	24	69,157,869	20
OTHER EQUITY				
Unrealized revaluation increment (Note 14)	21,913,046	6	21,914,320	6
Unrealized gain on financial instruments (Notes 7, 13 and 24)	3,413,290	1	6,545,853	2
Cumulative translation adjustments (Notes 2 and 24)	294,985	-	540,905	-
Net loss not recognized as pension cost	(42,243)	-	(32,385)	-
Treasury stock - 285,674 thousand shares and 374,207 thousand shares as of March 31, 2010 and 2009, respectively (Notes 2 and 24)	(8,399,496)	(2)	(10,646,266)	(3)
Total other equity	17,179,582	5	18,322,427	5
Total stockholders' equity	253,530,221	71	231,903,224	67
TOTAL	$ 359,424,397	100	$ 344,998,097	100

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

(With Deloitte & Touche review report dated April 13, 2010)

CHINA STEEL CORPORATION

STATEMENTS OF INCOME
THREE MONTHS ENDED MARCH 31, 2010 AND 2009
(In Thousands of New Taiwan Dollars, Except Earnings (Loss) Per Share)
(Reviewed, Not Audited)

	2010		2009	
	Amount	**%**	**Amount**	**%**
OPERATING REVENUE (Notes 2 and 29)	$ 53,240,602	100	$ 36,603,783	100
OPERATING COSTS (Notes 2, 3, 9, 26 and 29)	40,971,685	77	44,613,220	122
GROSS PROFIT (LOSS)	12,268,917	23	(8,009,437)	(22)
REALIZED GAIN FROM AFFILIATES, NET	31,403	-	338,027	1
REALIZED GROSS PROFIT (LOSS)	12,300,320	23	(7,671,410)	(21)
OPERATING EXPENSES (Notes 26 and 29)				
Research and development	318,293	1	254,227	1
Selling	656,650	1	446,424	1
General and administrative	644,573	1	500,102	1
Total operating expenses	1,619,516	3	1,200,753	3
OPERATING INCOME (LOSS)	10,680,804	20	(8,872,163)	(24)
NONOPERATING INCOME AND GAINS				
Interest income (Note 28)	26,593	-	26,923	-
Valuation gain on financial assets (Notes 2 and 5)	4,322	-	9,301	-
Investment income recognized under equity method - net (Notes 2 and 12)	2,453,927	5	-	-
Others (Notes 10, 14 and 29)	192,328	-	240,062	1
Total nonoperating income and gains	2,677,170	5	276,286	1
NONOPERATING EXPENSES AND LOSSES				
Interest expense (Notes 14 and 28)	176,643	-	251,250	1
Investment loss recognized under equity method - net (Notes 2 and 12)	-	-	640,792	2
Others (Notes 2 and 29)	56,489	-	82,815	-
Total nonoperating expenses and losses	233,132	-	974,857	3
INCOME (LOSS) BEFORE INCOME TAX	13,124,842	25	(9,570,734)	(26)
INCOME TAX EXPENSE (BENEFIT) (Notes 2 and 25)	2,059,113	4	(2,395,167)	(6)
NET INCOME (LOSS)	$ 11,065,729	21	$ (7,175,567)	(20)

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CHINA STEEL CORPORATION

STATEMENTS OF INCOME
THREE MONTHS ENDED MARCH 31, 2010 AND 2009
(In Thousands of New Taiwan Dollars, Except Earnings (Loss) Per Share)
(Reviewed, Not Audited)

	2010		2009	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS (LOSS) PER SHARE (Note 27)				
Basic	$ 1.02	$ 0.86	$ (0.75)	$ (0.57)
Diluted	$ 1.01	$ 0.85	$ (0.75)	$ (0.57)

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)	$ 11,065,729	$ (7,114,932)
Basic earnings (loss) per share based on weighted-average number of outstanding common shares aggregating 13,094,519 thousand and 12,986,517 thousand shares for the three months ended March 31, 2010 and 2009, respectively	$0.84	$(0.55)
Diluted earnings (loss) per share based on weighted-average number of outstanding common shares aggregating 13,258,071 thousand and 12,986,517 thousand shares for the three months ended March 31, 2010 and 2009, respectively	$0.83	$(0.55)

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

(With Deloitte & Touche review report dated April 13, 2010) (Concluded)

CHINA STEEL CORPORATION

STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2010 AND 2009
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ 11,065,729	$ (7,175,567)
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation	3,438,403	2,989,771
Amortization	37,293	27,053
Deferred income tax	1,464,810	(2,395,290)
Provision for loss on inventories	1,436	3,305,404
Loss on purchase commitments	-	752,730
Provision for loss on spare parts	72,781	71,628
Investment loss (income) under equity method	(2,453,927)	640,792
Realized gain from affiliates, net	(31,403)	(338,027)
Valuation gain on financial assets	(4,322)	(9,301)
Loss on disposal of property, plant and equipment	5,867	19,652
Others	4,158	53,592
Net changes in operating assets and liabilities		
Notes receivable	(409,040)	866,388
Accounts receivable	252,337	101,811
Other receivables	522,287	647,470
Inventories	3,869,928	7,642,235
Other current assets	(547,438)	224,125
Accounts payable	377,395	(3,621,314)
Income tax payable	574,016	(40,023)
Accrued expenses	(161,353)	(78)
Other payables	272,092	1,122,588
Other current liabilities	916,514	(916,823)
Net cash provided by operating activities	19,267,563	3,968,816
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of financial assets designated as at fair value through profit or loss	(6,050,021)	-
Proceeds from disposal of financial assets designated as at fair value through profit or loss	100,021	-
Acquisition of investments accounted for by equity method	-	(1,774,125)
Acquisition of property, plant and equipment	(6,820,200)	(4,319,809)
Proceeds from disposal of property, plant and equipment	-	1,210
Decrease (increase) in refundable deposits	(25,087)	71,332
Increase in other financial assets	(30,836)	(66,676)
Increase in restricted assets	(500,000)	-
Increase in intangible assets	(90)	-
Increase in other assets	(218,966)	(103,876)
Net cash used in investing activities	(13,545,179)	(6,191,944)

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CHINA STEEL CORPORATION

STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2010 AND 2009
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	2010	2009
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in short-term loans and overdraft	$ (4,712,268)	$ 2,600,594
Decrease in commercial paper payable	(7,999,777)	(1,475,003)
Increase in long-term debt	17,872,951	-
Cash dividends	(22,249)	(3,229)
Discount on acquisition cost of treasury stock	-	886
Others	-	(21,765)
Net cash provided by financing activities	5,138,657	1,101,483
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	10,861,041	(1,121,645)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	5,188,481	3,745,041
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 16,049,522	$ 2,623,396
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	$ 57,011	$ 99,461
Capitalized interest	(23,987)	(22,935)
Interest paid (excluding capitalized interest)	$ 33,024	$ 76,526
Income tax paid	$ 20,287	$ 40,146
INVESTING ACTIVITIES AFFECTING BOTH CASH AND NON-CASH ITEMS		
Cash Paid for Acquisition of Property, Plant and Equipment		
Acquisition of property, plant and equipment	$ 6,775,167	$ 3,751,741
Decrease in payable for equipment purchased	45,033	568,068
	$ 6,820,200	$ 4,319,809

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

(With Deloitte & Touche review report dated April 13, 2010) (Concluded)

1. ORGANIZATION AND OPERATIONS

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements have been prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, Business Accounting Law, Guidelines Governing Business Accounting and accounting principles generally accepted in the Republic of China ("ROC"). Under these guidelines, law and principles, certain estimates and assumptions have been used for the loss on doubtful accounts, provision for loss on inventories, depreciation, impairment loss on assets, loss on purchase commitments, loss on idle capacity, pension cost, income tax and expense for bonuses to employees, directors and supervisors, 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 original Chinese version or any difference in the interpretation of the two versions, the Chinese-language financial statements shall prevail. However, the accompanying financial statements do not include the English translation of the additional footnote disclosures that are not required under generally accepted accounting principles but are required by the Securities and Futures Bureau ("SFB") for their oversight purposes.

Significant accounting policies are summarized as follows:

Current and Noncurrent Assets and Liabilities

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

Cash Equivalents

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

Financial Assets at Fair Value Through Profit or Loss

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

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

Available-for-sale Financial Assets

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

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, 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 is required. The payables arising from such retroactive adjustment are recorded 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 an item by item basis. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and expenses necessary to make the sale. Inventories are recorded at moving average cost. Unallocated fixed overheads on idle capacity 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, they are classified as other 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 directly attributable to the acquisition or construction of property, plant and equipment are capitalized as part of the cost of those assets. Major additions, renewals and improvements are capitalized, while costs of maintenance and repairs are expensed currently.

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

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

Intangible Assets

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

Assets Leased to Others

Assets leased to others are stated at the lower of carrying value or recoverable value.

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 allowances are provided to the extent, if any, that it is more likely than not that deferred income tax assets will not be realized. A deferred tax asset or liability is classified as current or noncurrent in accordance with the classification of its related asset or liability. However, if a deferred income tax asset or liability does not relate to an asset or liability in the financial statements, then it is classified as either current or noncurrent based on the expected length of time before it is realized or settled.

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

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

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

Foreign-currency Transactions

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

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

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

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

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

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

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

Hedging Derivative Financial Instruments

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

Hedge Accounting

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

a. Fair value hedge

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

b. Cash flow hedge

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

c. Hedge of a net investment in a foreign operation

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

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

Reclassifications

Certain accounts in the financial statements as of and for the three months ended March 31, 2009 have been reclassified to conform to the presentation of the financial statements as of and for the three months ended March 31, 2010. The main reclassifications include (1) Cost of bonds payable issuance previously recorded as unamortized repair costs and others was reclassified to the deduction of the bond payable (Note 19), and (2) the repair cost of blast furnace previously recorded as unamortized repair costs and others was reclassified into property, plant and equipment (Note 14), and (3) Overdraft previously recorded as cash and cash equivalents was reclassified to short-terms loans and overdraft (Note 16).

3. EFFECTS OF CHANGES IN ACCOUNTING PRINCIPLES

Accounting for Inventories

Starting January 1, 2009, the Corporation adopted the newly revised SFAS No. 10 - "Accounting for Inventories." The main revisions are (1) inventories are stated at the lower of cost or net realizable value, and inventories are written down to net realizable value item-by-item basis; (2) unallocated overheads are recognized as operating costs in the period when incurred; and (3) write-downs of inventories and any reversal of write-downs are recorded as operating costs for the period. This adoption resulted in a increase of NT$87,506 thousand in net loss and an increase of NT$0.01 in after income tax basic and diluted loss per share for the three months ended March 31, 2009.

4. CASH AND CASH EQUIVALENTS

	March 31 2010	March 31 2009
Cash on hand	$ 9,650	$ 19,423
Checking accounts and demand deposits	2,191,889	1,415,434
Time deposits	7,600,000	639,201
Cash equivalents - short-term notes and bills	6,247,983	549,338
	$ 16,049,522	$ 2,623,396

Foreign bank deposits were as follows:

	March 31 2010	March 31 2009
Japan - Osaka Bank (in thousands)	¥ 5,964	¥ 7,517
Singapore - Daiwa Securities SMBC (in thousands)	30	6
Total (in thousands)	¥ 5,994	¥ 7,523
Represented by NT dollars (in thousands)	$ 2,044	$ 2,594

The Corporation cooperated with Ministry of Economic Affairs on “High-value Steel Structure Industry” and “Steel Industry”. Deposits of the project were NT$2 thousand and NT$8,424 thousand (recorded as restricted assets - current) as of March 31, 2010 and 2009, respectively.

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

The financial assets designated as at FVTPL represent open-end bond funds. The purpose of classifying open-end bond funds to this account is to reduce the accounting inconsistency between investment income and interest expense. The group of financial assets is managed and its performance is evaluated on fair value basis, in accordance with a documented risk management or investment strategy. As of March 31, 2010 and 2009, the balances of financial assets at fair value through profit or loss were NT$10,017,166 thousand and NT$5,614,754 thousand, respectively.

Net gains on financial assets designated as at FVTPL for the three months ended March 31, 2010 and 2009 were NT$4,322 thousand and NT$9,301 thousand, respectively.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	March 31			
	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	-	967,456	-
CSBC Corporation Taiwan (CSBC)	-	219,575	-	219,575
Tang Eng Iron Works Corporation (TEIWC)	-	-	-	-
Adjustments for change in valuation	1,391,346	1,700,117	2,635,667	1,611,766
	$ 1,791,346	$ 3,023,443	$ 3,603,123	$ 2,935,092

Due to the global financial crisis, the Corporation sold the shares of TSMC in April 2009 in order to meet fund requirements.

The Corporation invested NT$597,214 thousand to acquire 9% equity of TEIWC. In 2002, the Corporation recognized an impairment loss of NT$597,214 thousand on its investment in TEIWC. In July 2006, TEIWC's shares were listed on the Gre Tai Securities Market. Accordingly, this financial asset carried at cost - noncurrent was reclassified as available-for-sale financial asset-noncurrent. As of March 31, 2010 and 2009, the carrying value of this financial asset were NT$983,910 thousand and NT$734,573 thousand, respectively and classified as valuation adjustment - noncurrent.

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

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

The Corporation borrowed foreign-currency bank loans to hedge exchange rate fluctuation risks on the investments in Maruichi Steel Tube Ltd. and Yodogawa Steel Works, Ltd. (Notes 20 and 28). Adjustments for change in valuation arising from exchange difference were recognized as profit or loss.

7. HEDGING DERIVATIVE FINANCIAL INSTRUMENTS

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

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

	Currency	The Period for Generating Cash Flows and Maturity Date	Contract Amount (In Thousands)
March 31, 2010			
Forward exchange contracts	NT$/US$	June 2010 - September 2010	NT$1,840,289/US$58,490
	NT$/EUR	June 2010 - March 2012	NT$532,503/EUR11,891
March 31, 2009			
Forward exchange contracts	NT$/US$	December 2009 - September 2010	NT$4,093,276/US$129,490
	NT$/EUR	April 2009 - March 2012	NT$1,093,998/EUR24,137

Movements of hedging derivative financial instruments for the three months ended March 31, 2010 and 2009 were as follows:

	Three Months Ended March 31	
	2010	2009
Balance, beginning of period	$ 61,976	$ 57,027
Valuation of unrealized gain	100,244	144,262
Transferred to construction in progress and prepayments for equipment	(170,072)	-
Balance, end of period	$ (7,852)	$ 201,289

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

	March 31	
	2010	2009
Hedging derivative assets - current	$ 16,248	$ 123,960
Hedging derivative assets - noncurrent	-	100,871
Hedging derivative liabilities - current	(23,439)	(11,522)
Hedging derivative liabilities - noncurrent	(661)	(12,020)
	$ (7,852)	$ 201,289

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

8. ACCOUNTS RECEIVABLE

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

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

Transaction Counter-party	Advances Received at Period - Beginning	Receivables Sold	Amounts Collected	Advances Received at Period-end	Interest Rate on Advances Received (%)	Credit Line (In Billions of NTD)
Three months ended March 31, 2010						
Accounts receivable						
Mega Bank	$ 2,723,672	$ 1,809,711	$ 1,657,522	$ 2,875,861	0.80 - 2.73	7.5
Bank of Taiwan	484,607	344,150	319,331	509,426	0.80 - 2.16	2.5
Taipei Fubon Bank	124,901	156,637	117,724	163,814	1.03 - 2.33	0.4
	$ 3,333,180	$ 2,310,498	$ 2,094,577	$ 3,549,101		
Three months ended March 31, 2009						
Accounts receivable						
Mega Bank	$ 4,166,480	$ 2,259,500	$ 3,610,599	$ 2,815,381	1.02 - 2.74	7.5
Bank of Taiwan	856,900	360,819	683,841	533,878	2.16 - 2.55	2.5
Taipei Fubon Bank	166,541	113,127	166,541	113,127	1.26 - 2.73	0.4
	$ 5,189,921	$ 2,733,446	$ 4,460,981	$ 3,462,386		

9. INVENTORIES

	March 31	
	2010	2009
Finished products	$ 7,366,113	$ 9,221,653
Work in process	10,068,836	15,304,813
Raw materials	7,256,638	13,442,621
Supplies	1,173,363	1,296,404
Materials in transit	1,273,243	1,903,828
Fuel	249,944	160,539
Others	116,936	515,932
	$ 27,505,073	$ 41,845,790

As of March 31, 2010 and 2009, the allowance for loss on value decline of inventory was NT$59,869 thousand and NT$14,401,521 thousand, and shown as deduction in inventories. The cost of inventories recognized as operating costs for the three months ended March 31, 2010 and 2009 was NT$40,971,685 thousand and NT$44,613,220 thousand, respectively. The items recorded as operating costs were as follows:

	Three Months Ended March 31	
	2010	2009
Provision for loss on inventories	$ 1,436	$ 3,305,404
Loss on purchase commitments	-	752,730
Loss on idle capacity	-	1,630,120
Impairment loss on spare parts	72,781	71,628
Loss (gain) on physical inventory	(205)	(118)
Income from scrap sales	(68,947)	(23,400)
	$ 5,065	$ 5,736,364

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 significant provision for loss on inventories for the three months ended March 31, 2009.

The Corporation also recognized loss on purchase commitments of NT$752,730 thousand due to the effect of the crisis mentioned above, and reported such loss as operating costs and current liabilities - loss on purchase commitments payable. Due to exercise of the purchase contracts and the steel price rose, the loss on purchase commitments payable was fully reversed.

Unallocated fixed overheads on idle capacity are recognized as operating costs in the period when incurred as a result of the adoption of SFAS No. 10 “Accounting for Inventories”, starting January 1, 2009. The Corporation recognized loss on idle capacity of NT$1,630,120 thousand for the three months ended March 31, 2009.

10. FINANCIAL ASSETS CARRIED AT COST - NONCURRENT

	March 31	
	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	231,650	231,650
Taiwan Rolling Stock Co., Ltd.	202,048	202,048
CDIB BioScience Ventures I, Inc. (CBVI)	71,512	75,276
Overseas Investment & Development Corporation	50,000	50,000
Mega I Venture Capital Co., Ltd.	50,000	50,000
Hsin Hsin Cement Enterprise Corp. (HHCEC)	-	165,010
Taiwan High Speed Rail Corporation (Note 11)	-	-
Unquoted preferred stocks		
East Asia United Steel Corporation (EAUS)	3,410,000	3,448,000
Fund - Sino-Canada Biotechnology Development Fund, LP (SCBDF)	-	-
	$ 5,515,210	$ 5,721,984

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.

The Corporation invested NT$102,000 thousand to acquire equity of CBVI. CBVI reduced its capital and returned to the Corporation, respectively. 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 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).

In May 2003, the Corporation signed a slab production joint-venture contract with Sumitomo Metal Industries, Ltd. and Sumitomo Corporation. In July 2003, the joint venture company of EAUS was established. The Corporation invested in EAUS the amount of ￥10 billion (Notes 20 and 28). The Corporation thus 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 years ended March 31, 2010 and 2009 were NT$69,211 thousand and NT$67,418 thousand, respectively (recorded as nonoperating income and gains). As of March 31, 2010 and 2009, the royalty receivable were NT$70,189 thousand and NT$80,040 thousand, respectively (recorded as other receivables).

11. BOND INVESTMENTS WITH NO ACTIVE MARKET - NONCURRENT

	March 31 2010	March 31 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, i.e., in 2009 and 2008, if the Corporation does not convert the Preferred C shares into common shares and THSRC cannot redeem the shares, the unredeemed shares will have 4.71% dividends. THSRC mainly builds and operates public transportation systems.

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

	March 31 2010 Amount	2010 % of Ownership	2009 Amount	2009 % of Ownership
Recognition based on reviewed financial statements				
Dragon Steel Corporation (DSC)	$ 58,296,378	100	$ -	-
Chung Hung Steel Corporation (CHSC)	3,533,076	29	2,638,704	29
China Steel Chemical Corporation (CSCC)	1,171,542	29	1,078,765	29
China Ecotek Corporation (CEC)	828,007	49	647,956	49
China Hi-ment Corporation (CHC)	664,226	20	661,728	20
China Steel Structure Corporation (CSSC)	521,618	18	471,860	18
	65,014,847		5,499,013	

(Continued)

	March 31			
	2010		2009	
	Amount	% of Ownership	Amount	% of Ownership
Less: Shares held by subsidiaries accounted for as treasury stock	$ 381,461		$ 384,460	
	64,633,386		5,114,553	
Recognition based on unreviewed financial statements				
China Steel Express Corporation (CSE)	8,173,331	100	14,597,966	100
C. S. Aluminum Corporation (CAC)	7,147,065	100	6,937,041	100
Gains Investment Corporation (GIC)	6,487,419	100	5,509,890	100
China Prosperity Development Corporation (CPDC)	4,856,583	100	4,728,688	100
China Steel Asia Pacific Holdings Pte Ltd. (CSAPH)	3,940,271	100	3,303,818	100
China Steel Sumikin Vietnam Joint Stock Company (CSVC)	1,858,241	51	-	-
China Steel Global Trading Corporation (CSGT)	1,501,340	100	1,582,118	100
Kaohsiung Rapid Transit Corporation (KRTC)	1,495,092	31	1,991,824	31
China Steel Machinery Corporation (CSMC)	1,305,464	74	1,081,264	74
Investment accounted for by the equity method - Chung Hung Steel Corporation (CHSC)	743,580	-	311,323	-
Horng Yih Investment Corporation (HYI)	658,596	100	471,164	100
Long Yuan Fa Investment Corporation (LYFI)	655,572	100	468,448	100
CSC Steel Australia Holdings Pty Ltd.(CSCAU)	643,982	100	571,911	100
Goang Yaw Investment Corporation (GYI)	641,634	100	458,781	100
Info-Champ Systems Corporation (ICSC)	634,572	100	639,185	100
Kaohsiung Arena Development Corporation (KADC)	484,438	18	446,804	18
Investment accounted for by the equity method - China Steel Chemical Corporation (CSCC)	472,352	-	438,370	-
China Steel Security Corporation (CSS)	358,841	100	325,100	100
Investment accounted for by the equity method - China Ecotek Corporation (CEC)	171,877	-	254,823	-
Hsin Hsin Cement Enterprise Corp. (HHCEC) (Note 10)	167,823	18	-	-
Hi-mag Magnetic Corporation (HMC)	105,783	50	104,907	50
Investment accounted for by the equity method - China Hi-ment Corporation (CHC)	72,844	-	70,016	-
Investment accounted for by the equity method - China Steel Structure Corporation (CSSC)	66,415	-	106,150	-
China Steel Management Consulting Corporation (CSMCC)	30,206	100	33,840	100
TaiAn Technologies Corporation (TTC)	7,286	17	6,627	17
Dragon Steel Corporation (DSC)	-	-	57,525,657	100
Baolai Greeting Development Co., Ltd. (BGDC)	-	45	41,218	45
	42,680,607		102,006,933	
Less: Shares held by subsidiaries accounted for as treasury stock	8,018,035		7,751,848	
	34,662,572		94,255,085	
	$ 99,295,958		$ 99,369,638	

(Concluded)

The Corporation increased investment in CHSC for NT$1,774,125 thousand for the three months ended March 31, 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.

The market values of the above listed stocks based on their closing prices on March 31, 2010 and 2009 were as follows:

	March 31	
	2010	2009
CHSC	$ 7,218,297	$ 5,629,146
CSCC	6,156,453	3,797,053
CEC	2,645,022	1,836,283
CHC	1,832,677	1,617,595
CSSC	675,188	423,252
	$ 18,527,637	$ 13,303,329

Investment income (loss) under the equity method for the three months ended March 31, 2010 and 2009 were as follows:

	Three Months Ended March 31	
	2010	2009
Recognized based on reviewed financial statements		
CHSC	$ 375,582	$ (674,876)
CEC	200,131	208,889
DSC	161,272	-
CSCC	118,917	59,755
CSSC	70,416	26,360
CHC	21,911	37,269
	948,229	(342,603)
Recognized based on unreviewed financial statements		
CSE	758,924	931,407
CSMC	269,155	243,962
CAC	213,537	(204,660)
CSAPH	123,624	24,552
CSGT	73,103	50,264
HYI	51,950	(149,772)
LYFI	51,824	(149,373)
GYI	50,637	(145,833)
CPDC	24,598	24,653
CSCAU	18,082	77,171
CEC's equity method investments	15,784	12,610
CSCC's equity method investments	4,517	3,793
CHC's equity method investments	1,547	951
CSVC	1,162	-
DSC's equity method investments	-	(951,099)
KRTC	(200,013)	(191,997)
GIC	(3,132)	75,542
CHSC's equity method investments	(1,592)	(1,131)
CSSC's equity method investments	(426)	969
Others	52,417	49,802
	1,505,698	(298,189)
	$ 2,453,927	$ (640,792)

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 DSC and CSVC, etc. The related subscription schedule depends on the investees' capital increase requirements. As of March 31, 2010, the Corporation's unexecuted investments in these investees aggregated NT$30,732,590 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 non-current assets in proportion to their fair values.

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

	Depreciable Assets	Non-depreciable Assets	Goodwill
Three months ended March 31, 2010			
Balance, beginning of period	$ 993,548	$ (1,924)	$ 401,018
Amortization	(19,049)	-	-
Balance, end of period	$ 974,499	$ (1,924)	$ 401,018
Three months ended March 31, 2009			
Balance, beginning of period	$ 1,126,994	$ -	$ 401,018
Amortization	(20,026)	-	-
Balance, end of period	$ 1,106,968	$ -	$ 401,018

The depreciable assets comprised of the 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

	March 31	
	2010	2009
Foreign-currency time deposits	$ 3,547,380	$ 4,965,120
Foreign-currency demand deposits	1,260,348	63,964
	4,807,728	5,029,084
Less: Current portion	4,526,403	1,719,004
	$ 281,325	$ 3,310,080

For the purpose of constructing the third cold - rolled plant, the Corporation signed contracts to purchase imported equipment in total of ￥16.15 billion. For the purposes of managing cash flows exposures arising from exchange rate fluctuations, the Corporation purchased time deposits of ￥16 billion (NT$4,878,900 thousand) in January 2008. As of March 31, 2010 and 2009, the balance of the JPY deposits designated as hedging instrument was ￥10.4 billion and ￥14.4 billion, respectively. The unrealized loss of NT$200,854 thousand and NT$270,719 thousand, respectively, designated as hedging instrument was recognized as unrealized gain on financial instruments in stockholders' equity for the three months ended March 31, 2010 and 2009.

For the purpose of purchasing imported equipment as well as managing cash flows risk due to exchange rate fluctuations, the Corporation purchased time deposits of US$5,990 thousand (NT$194,196 thousand). As of March 31, 2010, the balance of the U.S. dollar time deposits designated as hedging instruments was US$5,390 thousand. The unrealized loss of US$688 thousand, arising from the U.S. dollar time deposits designated as hedging instruments was recognized as unrealized gain on financial instruments in stockholders' equity for the three months ended March 31, 2010.

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 March 31, 2010, the balances of hedging instruments were US$32,849 thousand and EUR910 thousand, and as of March 31, 2009, the balance was EUR$1,420 thousand, which were intended for capital payments. The unrealized gain of NT$204 thousand and unrealized loss of NT$2,712 thousand for the three months ended March 31, 2010 and 2009, respectively, were included in unrealized gain on financial instruments in the stockholders' equity.

As of March 31, 2010 and 2009, the periods of the cash flows generated from above mentioned 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
Three months ended March 31, 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	-	-	11,553	2,155,938	24,067	79,505	4,504,104	6,775,167
Reclassified	-	-	-	3,876,735	-	-	-	3,876,735
Disposals	-	-	(5,945)	(74,888)	(1,134)	(29,739)	-	(111,706)
Balance, end of period	10,692,043	4,223,646	42,286,022	261,655,910	1,774,194	4,749,798	33,382,147	358,763,760
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	-	-	-	(5,048)	-	(19)	-	(5,067)
Balance, end of period	32,754,016	492,990	2,405,551	7,963,602	18,108	31,652	-	43,665,919
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	-	21,163	318,697	2,948,645	27,343	121,892	-	3,437,740
Reclassified	-	-	-	2,215,186	-	-	-	2,215,186
Disposals	-	-	(2,128)	(78,299)	(1,105)	(29,374)	-	(110,906)
Balance, end of period	-	4,024,535	21,861,188	207,954,360	1,287,908	3,429,929	-	238,557,920
Net book value, end of period	$ 43,446,059	$ 692,101	$ 22,830,385	$ 61,665,152	$ 504,394	$ 1,351,521	$ 33,382,147	$ 163,871,759
Three months ended March 31, 2009								
Cost								
Balance, beginning of period	$ 10,692,043	$ 4,220,388	$ 40,698,022	$ 245,473,457	$ 1,623,659	$ 4,389,119	$ 20,657,785	$ 327,754,473
Addition	-	1,119	203,969	212,000	3,386	70,221	3,261,046	3,751,741
Reclassified	-	-	-	2,730,332	-	-	-	2,730,332
Disposals	-	-	(20,528)	(610,993)	(5,322)	(51,648)	-	(688,491)
Balance, end of period	10,692,043	4,221,507	40,881,463	247,804,796	1,621,723	4,407,692	23,918,831	333,548,055
Revaluation increment								
Balance, beginning of period	32,754,016	492,990	2,407,480	8,070,962	18,108	31,683	-	43,775,239
Disposals	-	-	-	(46,071)	-	-	-	(46,071)
Balance, end of period	32,754,016	492,990	2,407,480	8,024,891	18,108	31,683	-	43,729,168
Accumulated depreciation								
Balance, beginning of period	-	3,905,815	20,273,963	193,964,668	1,239,299	3,047,962	-	222,431,707
Depreciation expense	-	27,266	304,503	2,518,072	19,627	115,016	-	2,984,484
Reclassified	-	-	-	1,592,694	-	-	-	1,592,694
Disposals	-	-	(5,883)	(651,662)	(5,283)	(50,872)	-	(713,700)
Balance, end of period	-	3,933,081	20,572,583	197,423,772	1,253,643	3,112,106	-	226,295,185
Net book value, end of period	$ 43,446,059	$ 781,416	$ 22,716,360	$ 58,405,915	$ 386,188	$ 1,327,269	$ 23,918,831	$ 150,982,038

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

	Three Months Ended March 31	
	2010	**2009**
Interest expense before capitalization	$ 300,433	$ 329,361
Capitalized interest - construction in progress and prepayments for equipment	(123,790)	(78,111)
Interest expense through income statement	$ 176,643	$ 251,250
Capitalization rates	1.85%-2.14%	1.76%-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. As of March 31, 2010, unrealized revaluation increment of NT$13,952,356 thousand had been capitalized as capital stock, reducing its balance to NT$339,174 thousand. In January 2005, the government revised the land value increment tax law to reduce the tax rate. Thus, the reserve for land value increment tax decreased and the unrealized revaluation increment increased each by NT$1,196,189 thousand. Accordingly, the balance of unrealized revaluation increment increased to NT$1,535,363 thousand. In February 2005, the Corporation disposed its land, which resulted in a decrease of NT$3,500 thousand in reserve for land value increment tax. In the second half of 2008, the Corporation revalued its land in accordance with the current assessed land value. Total increments on land revaluation was NT$26,913,284 thousand, after the deduction of the reserve for land value increment tax of NT$6,502,342 thousand, a net increment of NT$20,410,942 thousand was credited to unrealized revaluation increment. For the three months ended March 31, 2010 and 2009, upon retirement or sale of appreciated properties, the unrealized revaluation increment decreased by NT$102 thousand and NT$928 thousand, respectively, and recorded as nonoperating revenue. As of March 31, 2010 and 2009, the cumulative nonoperating revenue due to disposal of appreciated properties were NT$33,259 thousand and NT$31,985 thousand, respectively. As of March 31, 2010 and 2009, the balance of reserve for land value increment tax was NT$8,673,466 thousand, and the balance of the unrealized revaluation increment was NT$21,913,046 thousand and NT$21,914,320 thousand, respectively.

15. ASSETS LEASED TO OTHERS, NET

	March 31	
	2010	**2009**
Cost		
Land	$ 3,079,977	$ 3,079,977
Machinery and Equipment	2,000,000	2,000,000
Buildings and Improvements	161,816	161,816
	5,241,793	5,241,793
Accumulated depreciation		
Machinery and Equipment	1,401,000	1,386,943
Buildings and Improvements	26,759	24,106
	1,427,759	1,411,049
Accumulated impairment		
Machinery and Equipment	594,000	594,000
Net book value, end of period	$ 3,220,034	$ 3,236,744

Some of the Corporation's plant, property and machinery equipment are leased to its subsidiaries (Note 29). The depreciation expenses were NT$663 thousand and NT$5,287 thousand for the three months ended March 31, 2010 and 2009, respectively.

16. SHORT-TERM LOANS AND OVERDRAFT

	March 31	
	2010	**2009**
Credit loans - interest at 0.617% p.a. and 0.80% - 1.15% p.a. as of March 31, 2010 and 2009, respectively	$ 400,000	$ 11,300,000
Letters of credit - due within 180 days; interest at 0.5894% - 1.3718% p.a. and 1.01% - 2.295% p.a. as of March 31, 2010 and 2009, respectively	266,412	142,166
Bank overdraft - interest at 0.16% - 0.3435% p.a. as of March 31, 2010 and 2009	832,070	31,630
	$ 1,498,482	$ 11,473,796

17. COMMERCIAL PAPER PAYABLE (Only as of March 31, 2009)

Commercial paper - interest rates at 0.20% - 1.01% p.a. as of March 31, 2009	$ 13,500,000
Less: Unamortized discounts	3,410
	$ 13,496,590

18. ACCRUED EXPENSES

	March 31	
	2010	**2009**
Bonus to employees, and remuneration to directors and supervisors	$ 2,448,469	$ 1,908,596
Accrued salaries and incentive bonus	2,086,211	617,450
Repair and construction	1,540,930	1,302,812
Others	2,257,175	2,355,263
	$ 8,332,785	$ 6,184,121

19. BONDS PAYABLE

	March 31	
	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

(Continued)

	March 31	
	2010	2009
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: Cost of bonds payable issuance	28,756	37,851
	$ 43,271,244	$ 43,262,149

(Concluded)

20. LONG-TERM DEBT - BANK

	March 31	
	2010	2009
Repayable in January 2015 (NT$16 billion); floating rate at 1.2% p.a. as of March 31, 2010	$ 16,000,000	$ -
Repayable in February 2013 (USD58 million); floating rates at 0.61839% - 0.66068% p.a. as of March 31, 2010	1,862,676	-
Repayable in July 2010 (￥4.4 billion); floating rates at 0.67630% and 1.14% p.a. as of March 31, 2010 and 2009, respectively	1,500,400	1,517,120
Repayable in July 2010 (￥3.3 billion); floating rates at 0.74063% and 1.0663% p.a. as of March 31, 2010 and 2009, respectively	1,125,300	1,137,840
Repayable in December 2009 (￥2.6 billion) originally; extendable in December 2012; floating rates at 0.7100% and 1.235% p.a. as of March 31, 2010 and 2009, respectively	886,600	896,480
Repayable in July 2010 (￥2.2 billion); floating rates at 0.67430% and 1.1978% p.a. as of March 31, 2010 and 2009, respectively	750,200	758,560
Repayable in July 2010 (AUD16.54 million); floating rates at 4.86839% and 5.13399% p.a. as of March 31, 2010 and 2009, respectively	481,521	386,295
Repayable in November 2010 (￥1.214 billion); floating rates at 0.71750% and 1.17125% p.a. as of March 31, 2010 and 2009, respectively	413,974	418,587
	23,020,671	5,114,882
Less: Current portion	4,271,395	896,480
	$ 18,749,276	$ 4,218,402

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 East Asia United Steel Corporation, Maruichi Steel Tube Ltd., CSCAU, Yodogawa Steel Works, Ltd., and CSVC (Note 28). The borrowing of NT dollar loan was made to meet fund requirements.

21. LONG-TERM NOTES PAYABLE (Only as of March 31, 2010)

Long-term notes - interest rates at 0.400% - 0.757% p.a.	$ 5,250,000
Less: Unamortized discounts	129
	$ 5,249,871

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.

22. RETIREMENT BENEFIT PLAN

The pension plan under the Labor Pension Act (the "LPA") is a defined contribution plan. Based on the LPA, the Corporation makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages. Such pension costs were NT$11,495 thousand and NT$11,932 thousand for the three months ended March 31, 2010 and 2009, respectively.

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

The Corporation makes contributions, equal to a certain percentage of salaries, to a pension fund, which is deposited in the Bank of Taiwan in the name of, and administered by the employees' pension fund administration committee. According to above regulation, pension cost for the three months ended March 31, 2010 and 2009 was NT$190,534 thousand and NT$341,440 thousand, respectively.

Since August 1999, the Corporation also made contributions, equal to a certain percentage of salaries of management personnel (vice presidents and above), to another pension fund, which is deposited in The Mega International Commercial Bank in the name of, and administered by the officers' pension fund management committee. Pension cost for the three months ended March 31, 2010 and 2009 was NT$1,068 thousand and NT$816 thousand, respectively.

23. DEFERRED CREDITS - GAIN FROM AFFILIATES

	March 31	
	2010	**2009**
Gain on disposal of land	$ 1,136,164	$ 1,136,164
Gain on contracted projects	832,447	659,977
	$ 1,968,611	$ 1,796,141

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

The Corporation contracted engineering projects with KRTC and DSC, resulting in deferred gain. Such deferred credits arising from the projects with KRTC (equity method investee) are recognized as income over 8 to 30 years. The accumulated credits with DSC will be recognized as income over the service lives of the assets after completion of the constructions expected to be completed.

24. 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

	Thousand Shares			March 31	
Purpose of Treasury Stock	Beginning of Period	Addition	Reduction	Thousand Shares	Book Value
Three months ended March 31, 2010					
Shares acquired and held by subsidiaries	279,375	6,299	-	285,674	$ 8,399,496
Three months ended March 31, 2009					
Shares acquired and held by subsidiaries	276,103	-	9,896	266,207	$ 8,136,308
Shares acquired by the Corporation for transfer to employees	108,000	-	-	108,000	2,509,958
	384,103	-	9,896	374,207	$ 10,646,266

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 assets - 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 three months ended March 31, 2009, the proceeds for treasury stock sold amounted to NT$296,008 thousand, and after deducting book values, resulted in the amounts of NT$60,636 thousand (recorded as capital surplus).

As of March 31, 2010 and 2009, the market values calculated by combined holding percentage of the treasury shares were NT$9,384,396 thousand and NT$5,909,805 thousand, respectively.

2) Shares acquired for transfer to employees

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

Under the Securities and Exchange Act, the Corporation's share repurchase is restricted 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 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 represents 20 shares of the Corporation's common stock, and 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 March 31, 2010 and 2009, the outstanding depositary receipts were 4,759,712 units and 6,809,893 units, equivalent to 95,194,471 common shares (including 231 fractional stocks) and 136,198,067 common shares (including 207 fractional stocks), which represented 0.73% and 1.08% 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:

	March 31	
	2010	2009
Additional paid-in capital - issuance of common shares to exchange for subsidiaries	$ 15,717,185	$ 15,717,185
Treasury stock transactions	3,585,210	2,476,005
Long-term stock investments	295,180	263,528
Others	8,099	8,099
	$ 19,605,674	$ 18,464,817

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 at 14% of paid-in capital, propose to retain certain earnings as a special reserve. These proposals should be submitted to the stockholders' meeting for approval.

The Corporation is required to appropriate a special reserve from annual earnings for any net debit balance resulting from adjustments to the stockholders' equity (including unrealized revaluation increment, unrealized gain (loss) on financial instruments, unrecognized net loss on pension cost and cumulative translation adjustments, excluding treasury stock held by the Corporation). Besides, if the market price of the Corporation's common share is lower than the carrying value of the Corporation's shares held by subsidiaries, the Corporation should appropriate a special reserve equal to the difference between market price and carrying value. The Corporation may release a portion of this special reserve when such debit balances are partially or fully reversed. As of March 31, 2010, the Corporation had fully reversed the special reserve 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$874,823 thousand and NT$16,403 thousand, respectively for the three months ended March 31, 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 three months ended March 31, 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 Board of Directors and stockholders in their March 2010 and June 2009 meetings proposed and approved the following appropriations of the 2009 and 2008 earnings (the change of preferred stock and common stock dividends due to preferred stock converted to common stock has been adjusted by actual appropriation on the effective date of appropriations).

	Amount		**Dividends Per Share (NT dollars)**	
	2009	**2008**	**2009**	**2008**
Legal reserve	$ 1,952,817	$ 2,402,556		
Preferred stocks				
Cash dividends	40,947	49,751	$ 1.07	$ 1.30
Stock dividends	12,628	16,455	0.33	0.43
			$ 1.40	$ 1.73
Common Stocks				
Cash dividends	13,225,464	16,184,404	$ 1.01	$ 1.30
Stock dividends	4,321,191	5,353,303	0.33	0.43
	$ 19,553,047	$ 24,006,469	$ 1.34	$ 1.73

The Corporation's Board of Directors in their March 2010 meeting also proposed appropriations of 2009 earnings for bonus to employees of NT$1,528,288 thousand and remuneration to directors and supervisors of NT$28,655 thousand.

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

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

g. Unrealized gain on financial instruments

For the three months ended March 31, 2010 and 2009, movements of unrealized gain on financial instruments were as follows:

	Available-for-sale Financial Assets	Equity-method Investments	Unrealized Gain or Loss on Cash Flow Hedging	Total
Three months ended March 31, 2010				
Balance, beginning of period	$ 3,124,306	$ 461,850	$ 630,275	$ 4,216,431
Recognized in stockholders' equity	(256,925)	(275,050)	(101,094)	(633,069)
Transferred to construction in progress and prepayments for equipment	-	-	(170,072)	(170,072)
Balance, end of period	$ 2,867,381	$ 186,800	$ 359,109	$ 3,413,290
Three months ended March 31, 2009				
Balance, beginning of period	$ 3,623,089	$ 1,983,109	$ 901,807	$ 6,508,005
Recognized in stockholders' equity	385,775	(218,758)	(129,169)	37,848
Balance, end of period	$ 4,008,864	$ 1,764,351	$ 772,638	$ 6,545,853

h. Cumulative translation adjustments

Change in composition of cumulative translation adjustments for the three months ended March 31, 2010 and 2009 were as follows:

	March 31	
	2010	2009
Balance, beginning of period	$ 183,001	$ 358,976
Recognized in stockholders' equity	111,984	181,929
Balance, end of period	$ 294,985	$ 540,905

25. INCOME TAX

a. A reconciliation of income tax expense (benefit) based on income (loss) before income tax at the 20% and 25% statutory rate for March 31, 2010 and 2009, respectively, and income tax expense (benefit) was as follows:

	Three Months Ended March 31	
	2010	2009
Income tax expense (benefit) at statutory rate	$ 2,624,968	$ (2,392,684)
Tax effect on adjusting items		
Permanent differences		
Investment loss (income) recognized under equity method - domestic	(462,212)	185,629
Others	2,543	3,970
Temporary differences		
Unrealized loss on construction	154,508	-
Difference between tax reporting and financial reporting - depreciation methods	38,056	55,246
Difference between tax reporting and financial reporting-sales revenue	7,873	(75,162)
Provision for loss on inventories	287	826,351
Loss on purchase commitments	-	188,183
Investment income recognized under equity method - foreign investees	(28,574)	(25,431)
Unrealized gain from affiliates	(6,282)	(84,507)
Preferential severance pay	-	(44,712)
Others	7,163	8,311
Investment tax credits used	(578,461)	-
Loss carryforwards used	(1,181,409)	-
Loss carryforwards recognized	-	1,354,806
Income tax currently payable	578,460	-
Tax separately levied on interest from short-term bills	-	123
Adjustments for prior years' tax	15,843	-
Current income tax expense	594,303	123
Deferred tax		
Temporary differences	(173,031)	(848,281)
Investment tax credits	456,432	(192,203)
Loss carryforwards	1,181,409	(1,354,806)
Income tax expense (benefit)	$ 2,059,113	$ (2,395,167)

b. Changes in income tax payable

	Three Months Ended March 31	
	2010	2009
Balance, beginning of period	$ -	$ 5,749,662
Current income tax expense	594,303	123
Payment in the current period	(20,287)	(40,146)
Balance, end of period	$ 574,016	$ 5,709,639

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

	March 31	
	2010	**2009**
Current		
Deferred income tax assets		
Investment tax credits	$ 350,100	$ 192,203
Unrealized loss on construction	321,442	-
Unrealized impairment loss on spare parts	183,581	170,163
Estimated preferential severance pay	85,675	109,186
Unrealized gain from affiliates	54,278	-
Unrealized provision for loss on inventories	11,974	3,600,380
Unrealized loss on purchase commitments	-	1,663,564
Others	35,693	6,375
	1,042,743	5,741,871
Deferred income tax liabilities		
Difference between tax reporting and financial reporting - inventory	(16,179)	(29,966)
Unrealized loss from affiliates	-	(10,654)
	(16,179)	(40,620)
Total deferred income tax assets - current, net	1,026,564	5,701,251
Noncurrent		
Deferred income tax assets		
Impairment loss on financial assets	1,192,530	1,502,783
Unrealized gain from affiliates	166,489	164,995
Impairment loss on assets	7,008	34,355
Loss carryforwards	-	1,354,806
Others	33,405	4,543
	1,399,432	3,061,482
Deferred income tax liabilities		
Temporary difference between tax reporting and financial reporting - depreciation methods	(1,660,015)	(2,284,645)
Foreign investment income	(421,513)	(427,127)
Unrealized foreign exchange gain, net	(57,385)	(75,614)
	(2,138,913)	(2,787,386)
Total deferred income tax assets (liabilities) - noncurrent, net	(739,481)	274,096
Total deferred income tax assets, net	$ 287,083	$ 5,975,347

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

As of March 31, 2010, investment tax credits in accordance with Statute for Upgrading Industries comprised of:

Tax Credit Source	**Total Creditable Amount**	**Expiry Year**
Purchase of machinery and equipment	$ 88,013	2013
Research and development and personnel training expenditures	262,087	2013
	$ 350,100	

The aforementioned investment tax credits can be used in the current and next four years. The investment tax credits used every year shall not exceed 50% of the total tax payable, but the full remaining creditable amount can be used at the expiration year.

In May, 2009, the Legislative Yuan passed the amendment of Article 5 of the Income Tax Law, which reduces profit-seeking enterprises' income tax rate from 25% to 20%, effective 2010.

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.

d. Information about integrated income tax was as follows:

	March 31	
	2010	2009
Imputation credit account (ICA)	$ 5,529,676	$ 6,432,304
Unappropriated earnings generated before January 1, 1998	35,440	35,440

The creditable ratio for distribution of 2009 and 2008 earnings was 28.20% (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.

26. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

	Three Months Ended March 31							
	2010				2009			
	Operating Cost	Operating Expense	Others	Total	Operating Cost	Operating Expense	Others	Total
Personnel								
Salary	$ 4,345,556	$ 763,631	$ 98,231	$ 5,207,418	$ 2,369,018	$ 415,339	$ 31,741	$ 2,816,098
Labor and health insurance	130,428	27,620	2,375	160,423	149,815	24,428	1,056	175,299
Pension and consolation costs	168,752	40,201	2,650	211,603	298,724	61,067	2,233	362,024
Others	91,335	30,552	4,351	126,238	62,217	34,473	2,660	99,350
	$ 4,736,071	$ 862,004	$ 107,607	$ 5,705,682	$ 2,879,774	$ 535,307	$ 37,690	$ 3,452,771
Depreciation	$ 3,348,379	$ 89,361	$ 663	$ 3,438,403	$ 2,904,727	$ 79,757	$ 5,287	$ 2,989,771
Amortization	18,682	16,337	2,274	37,293	8,441	16,358	2,254	27,053

27. EARNINGS (LOSS) PER SHARE

	Amount (Numerator)		Shares (Denominator)	Earnings (Loss) Per Share (NT dollars)	
	Before Tax	After Tax	(Thousand)	Before Tax	After Tax
Three months ended March 31, 2010					
Net income	$ 13,124,842	$ 11,065,729			
Less: Dividends on preferred shares	(15,886)	(13,394)			
Basic EPS					
Net income attributable to common stockholders	13,108,956	11,052,335	12,808,845	$ 1.02	$ 0.86

(Continued)

	Amount (Numerator)		Shares (Denominator)	Earnings (Loss) Per Share (NT dollars)	
	Before Tax	After Tax	(Thousand)	Before Tax	After Tax
Effect of dilutive potential common stock					
Add: Dividends on preferred shares	$ 15,886	$ 13,394	38,268		
Bonus to employees	-	-	125,284		
Diluted EPS					
Net income attributable to common stockholders plus effect of potential dilutive common stock	$ 13,124,842	$ 11,065,729	12,972,397	$ 1.01	$ 0.85
Three months ended March 31, 2009					
Net loss	$ (9,570,734)	$ (7,175,567)			
Less: Dividends on preferred shares	(17,866)	(13,395)			
Loss per share-basic and diluted					
Net loss attributable to common stockholders	$ (9,588,600)	$ (7,188,962)	12,720,310	$ (0.75)	$ (0.57)

(Concluded)

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

The ARDF issued Interpretation 2007-052 that requires corporations to recognize bonuses paid to employees, directors and supervisors as compensation expenses beginning January 1, 2008. These bonuses were previously recorded as appropriations from earnings. If the Corporation may settle the bonus to employees by cash or shares, the Corporation should presume that the entire amount of the bonus will be settled in shares and the resulting potential shares should be included in the weighted average number of shares outstanding used in the calculation of diluted EPS, if the shares have a dilutive effect. The number of shares is estimated by dividing the amount of bonus by the closing price of the shares at the balance sheet date. The dilutive effect of the shares 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 three months March 31, 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$0.78 to NT$0.75 and from NT$0.59 to NT$0.57, respectively.

28. FINANCIAL INSTRUMENTS

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

	March 31			
	2010		2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	$ 10,017,166	$ 10,017,166	$ 5,614,754	$ 5,614,754
Available-for-sale financial assets (including noncurrent)	4,814,789	4,814,789	6,538,215	6,538,215
Financial assets carried at cost	5,515,210	-	5,721,984	-
Bond investments with no active market	103,000	103,000	103,000	103,000
Other financial assets (including noncurrent)	4,807,728	4,807,728	5,029,084	5,029,084
Refundable deposits	163,411	163,411	111,475	111,475

(Continued)

	March 31			
	2010		2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Liabilities				
Bonds payable - bank	$ 43,271,244	$ 45,314,498	$ 43,262,149	$ 45,060,778
Long-term debt (including current portion)	23,020,671	23,020,671	5,114,882	5,114,882
Long-term notes payable	5,249,871	5,249,871	-	-
Derivative Financial Instrument				
Hedging derivative assets (including noncurrent)	16,248	16,248	224,831	224,831
Hedging derivative liabilities (including noncurrent)	24,100	24,100	23,542	23,542

(Concluded)

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

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

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

3) The fair values of long-term liabilities and foreign currency of other financial assets are determined by the present values of future cash flows, with the values discounted at the interest rates of similar long-term debt and the floating-rate of foreign currency deposits available for the Corporation. Discount rates as of March 31, 2010 and 2009 were from 0.61839% to 4.86839% and from 1.0663% to 5.13399%, respectively.

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

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

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

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

	Amount Determined by Quoted Market Price		Amount Determined by Using Valuation Technique	
	March 31		March 31	
	2010	2009	2010	2009
Assets				
Financial assets at fair value through profit or loss	$ 10,017,166	$ 5,614,754	$ -	$ -
Available-for-sale financial assets (including noncurrent)	4,814,789	6,538,215	-	-

(Continued)

	Amount Determined by Quoted Market Price		Amount Determined by Using Valuation Technique	
	March 31		March 31	
	2010	2009	2010	2009
Bond investments with no active market	$ -	$ -	$ 103,000	$ 103,000
Other financial assets (including noncurrent)	-	-	4,807,728	5,029,084
Hedging derivative assets (including noncurrent)	-	-	16,248	224,831
Refundable deposits	-	-	163,411	111,475
Liabilities				
Hedging derivative liabilities (including noncurrent)	-	-	24,100	23,542
Bonds payable	-	-	45,314,498	45,060,778
Long-term debt - bank (including current portion)	-	-	23,020,671	5,114,882
Long-term notes payable	-	-	5,249,871	-

(Concluded)

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

e. As of March 31, 2010 and 2009, financial liabilities were NT$29,769,024 thousand and NT$16,588,678 thousand, respectively, and financial liabilities with fair value risk of the interest rate change were NT$43,271,244 thousand and NT$56,758,739 thousand, respectively.

f. The Corporation's total interest revenues and expenses (inclusive of capitalized interest) which were incurred from other than financial assets and liabilities at fair value through profit or loss were NT$26,593 thousand and NT$300,433 thousand, respectively, for the three months ended March 31, 2010; and NT$26,923 thousand and NT$329,361 thousand, respectively, for the three months ended March 31, 2009.

g. Financial risks

1) Market risk

Market risk includes fair value risk of interest rate change, exchange rate risk, and market price risk. The Corporation had 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$1,296,638 thousand.

The Corporation's investments in the bond funds and stocks of TSMC, Maruichi Steel Tube Ltd., Yodogawa Steel Work, Ltd., TEIWC and CSBC involve market risk. Aside from minor fluctuation of the bond fund's market price, if the share price of the stocks increases or decreases by 1%, the fair value will increase or decrease by NT$48,148 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 March 31, 2010, the maximum credit risk of off-balance-sheet endorsements / guarantees provided to DSC was NT$17,370,748 thousand (US$546,078 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 at prices approximating fair value because those financial assets could be sold in financial market at market value.

There are liquidity risks for the financial assets carried at cost and bond investments with no active market because no quoted prices are available.

4) Cash flow interest rate risk

Market interest rate change will influence the effective interest rate of the financial instruments which have cash flow risk of the interest rate change, and make future cash flow fluctuate. If the market interest rate increases by 1%, the Corporation's cash outflow will increase by NT$297,690 thousand.

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

The Corporation borrowed long-term debt, purchased deposit - foreign currency and forward contracts to effectively hedge the exchange rate fluctuations on the investments in East Asia United Steel Corporation, Maruichi Steel Tube Ltd., Yodogawa Steel Works Ltd., CSCAU,CSVC and contracts of purchasing machinery and equipment.

		Designated Hedging Instrument		
			Changes in Fair Value	
			Three Months Ended March 31	
Hedge Type	**Hedged Item**	**Financial Instrument**	**2010**	**2009**
Fair value hedge	Stock investments in East Asia United Steel Corporation (recorded as financial assets carried at cost - noncurrent)	Debt in JPY	$ 59,400	$ 186,615
Fair value hedge	Stock investments in Maruichi Steel Tube Ltd. (recorded as available-for-sale financial assets - noncurrent)	Debt in JPY	15,600	49,010
Fair value hedge	Stock investments in Yodogawa Steel Works, Ltd. (recorded as available-for-sale financial assets - noncurrent)	Debt in JPY	7,284	22,884
Hedge of a net investment in a foreign operation	Stock investment in CSC Steel Australia Holdings Pty. Ltd. (recorded as investments accounted for by the equity method)	Debt in AUD	(5,563)	(10,263)
Hedge of a net investment in a foreign operation	Stock investment in China Steel Sumikin Vietnam Joint Stock Company (recorded as investments accounted for by the equity method)	Debt in USD	10,275	-
Hedge of cash flow	Contracts for purchasing machinery and equipment	Deposit-foreign currency	(201,338)	(273,431)
Hedge of cash flow	Contracts for purchasing machinery and equipment	Forward contracts	100,244	144,262

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 March 31, 2010 and 2009, the fair values of the above foreign deposits of financial instrument on hedge of cash flow were NT$4,807,728 thousand and NT$5,029,084 thousand, respectively, recorded as other financial assets (including noncurrent) (Note 13).

29. RELATED PARTY TRANSACTIONS

a. Related parties

Related Parties	Relationship with the Corporation
C. S. Aluminum Corporation (CAC)	Affiliate
China Steel Express Corporation (CSE)	Affiliate
China Steel Chemical Corporation (CSCC)	Affiliate
China Steel Global Trading Corporation	Affiliate
China Hi-ment Corporation (CHC)	Affiliate
China Ecotek Corporation (CEC)	Affiliate
China Steel Structure Corporation (CSSC)	Affiliate
Chung Hung Steel Corporation (CHSC)	Affiliate
China Steel Machinery Corporation (CSMC)	Affiliate
Gains Investment Corporation	Affiliate
China Steel Security Corporation	Affiliate
China Prosperity Development Corporation	Affiliate
Info-Champ Systems Corporation	Affiliate
China Steel Management Consulting Corporation	Affiliate
Hi-mag Magnetic Corporation	Affiliate
Long-Yuan-Fa Investment Corporation	Affiliate
Horng-Yih Investment Corporation	Affiliate
Goang Yaw Investment Corporation	Affiliate
Dragon Steel Corporation (DSC)	Affiliate
China Steel Sumikin Vietnam Joint Stock Company (CSVC)	Affiliate
Chung Mao Trading (BVI) Corp. (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

(Continued)

Related Parties	Relationship with the Corporation
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 (CY)	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)	Director of the Corporation
Tang Eng Iron Works Co., Ltd. (TEI)	Director of the Corporation
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$9,857,448 thousand (19% of the operating revenues, including CYS, CSSB and CSSC, etc.) and NT$2,313,053 thousand (6% of the operating revenues, including CSSB, CSCC and CY, etc.), respectively, for the three months ended March 31, 2010 and 2009.

Purchases

	Three Months Ended March 31			
	2010		2009	
	Amount	%	Amount	%
CSEP	$ 3,029,624	13	$ 684,568	3
Others	4,381,526	19	996,707	4
	$ 7,411,150	32	$ 1,681,275	7

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

Assets lease

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

		Rental Income for the Three Months Ended March 31			
		2010		2009	
	Expiry of Contracts	Amount	%	Amount	%
CAC	February 2016	$ 13,813	34	$ 13,811	35
CSMC	November 2011	7,227	18	7,668	19
CSCC	December 2012	5,061	12	5,024	13
Others	May 2018	7,565	19	7,475	19
		$ 33,666	83	$ 33,978	86

Other revenues

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

	Other Operating Revenues	%	Nonoperating Income and Gains	%	Total
Three months ended March 31, 2010					
DSC	$ 239,407	21	$ 191	-	$ 239,598
TEI	193,057	16	31	-	193,088
CHSC (Note 10)	11,363	1	70,415	46	81,778
Others	106,445	9	32,595	22	139,040
	$ 550,272	47	$ 103,232	68	$ 653,504
Three months ended March 31, 2009					
DSC	$ 242,574	33	$ 1,264	1	$ 243,838
TEI	114,134	15	31	-	114,165
CHSC (Note 10)	13,867	2	68,470	34	82,337
Others	71,675	10	31,019	15	102,694
	$ 442,250	60	$ 100,784	50	$ 543,034

Other expenditures

Other expenditures paid to related parties for the three months ended March 31, 2010 and 2009 (including CEC, CSMC and CSSC, etc.) were NT$891,877 thousand and NT$764,652 thousand, respectively. Other expenditures pertained to furnace slag handling services, export shipping charges, commissions for export and import services, etc., were recorded in other operating costs, manufacturing expenses, operating expenses and non-operating expenses and losses.

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

Construction in progress and prepayments for equipment

	Three Months Ended March 31			
	2010		2009	
	Amount	%	Amount	%
CEC	$ 773,912	11	$ 375,650	10
CSMC	527,657	8	405,178	11
Others	511,942	8	680,563	18
	$ 1,813,511	27	$ 1,461,391	39

Donation expenditures

For the three months ended March 31 2009, the Corporation donated NT$1,000 thousand to CSC Educational Foundation. This foundation is established for promotion of education and personnel training in steel and related fields.

Balances at period-end

	March 31			
	2010		2009	
	Amount	%	Amount	%
Receivables				
CSBC	$ 574,776	16	$ 512,813	12
KRTC	34,511	1	794,443	20
Others	942,778	26	402,856	10
	$ 1,552,065	43	$ 1,710,112	42
Payables				
CSEP	$ 1,977,738	36	$ 221,732	11
DSC	1,253,154	23	26,639	1
CSE	386,846	7	311,678	16
Others	264,880	5	149,306	9
	$ 3,882,618	71	$ 709,355	37
Dividends receivable (classified as other receivables)				
CSE	$ 4,778,987	94	$ -	-
Prepaid freight (classified as other current assets)				
CSEP	$ -	-	$ 153,582	9

Guarantees

As of March 31, 2010, endorsements/guarantees provided to DSC were NT$17,370,748 thousand (US$546,078 thousand).

30. 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 March 31, 2010 and 2009, respectively, have been pledged mainly as collaterals for bank overdraft, contractual deposits and land deposits, etc. Land with book value of NT$17,058,175 thousand had been pledged as collateral for a long-term debt.

31. COMMITMENTS AS OF MARCH 31, 2010

a. The Corporation is guaranteed of NT$723,842 thousand by Mega 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$12.5 billion.

c. The Corporation entered into property purchase contracts. Unrecorded amounts as of March 31, 2010 were NT$10.2 billion.

d. The Corporation entered into raw material purchase contracts with suppliers in Australia, India, Brazil, Canada, Indonesia, North Korea, Japan, Philippines, Russia and domestic companies with contract terms of 1 to 10 years. Contracted annual purchases of 8,410,000 metric tons of coal, 17,000,000 metric tons of iron ore, and 2,800,000 metric tons of limestone are at prices negotiable. Unpaid purchase amounts as of March 31, 2010 were US$9.3 billion (including 17,300,000 metric tons of coal; 115,720,000 metric tons of iron ore; and 1,580,000 metric tons of limestone).

e. CHSC entered into a syndicated credit facility agreement with Mega Bank and 22 other banks. Under the agreement, the Corporation and its related parties should collectively hold at least 30% of CHSC’s outstanding shares and possess no less than half of CHSC’s board seats as well as control of its operations. As of March 31, 2010, the Corporation directly and indirectly had total shareholdings in CHSC of 41% and all seats in the Board of Directors and control on its operations.

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

g. Endorsements/guarantees provided to related parties were NT$17,370,748 thousand (Note 29).

CHINA STEEL CORPORATION

ADDITIONAL EXPLANATIONS FOR ACCOUNTS IN STOCKHOLDERS' EQUITY
THREE MONTHS ENDED MARCH 31, 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.