China Steel Corporation

Financial Statements for the
Years Ended December 31, 2009 and 2008 and
Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
China Steel Corporation

We have audited the accompanying balance sheets of China Steel Corporation (the "Corporation") as of December 31, 2009 and 2008, and the related statements of income, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Corporation as of December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

As stated in Note 3 to the accompanying financial statements, starting January 1, 2009, the Corporation adopted the newly revised Statement of Financial Accounting Standards No. 10 - "Inventories", issued by the Accounting Research and Development Foundation ("ARDF") in November 2007. Also, starting January 1, 2008, the Corporation adopted Interpretation 2007-052, "Accounting for Bonuses to Employees, Directors and Supervisors" issued by the ARDF in March 2007.

February 1, 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 audit such financial statements are those generally accepted and applied in the Republic of China.

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

CHINA STEEL CORPORATION

BALANCE SHEETS
DECEMBER 31, 2009 AND 2008
(In Thousands of New Taiwan Dollars, Except Par Value)

	2009		2008	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 4)	$ 5,188,481	2	$ 3,745,041	1
Financial assets at fair value through profit or loss - current (Notes 2 and 5)	4,062,844	1	5,605,453	1
Available-for-sale financial assets - current (Notes 2 and 6)	1,878,728	1	3,112,425	1
Hedging derivative assets - current (Notes 2 and 7)	58,960	-	9,846	-
Notes receivable (Note 30)	650,500	-	2,116,399	1
Accounts receivable, net (Notes 2, 8 and 30)	2,832,100	1	2,895,213	1
Other receivables (Note 11)	815,850	-	1,443,457	-
Other financial assets - current (Note 14)	4,440,339	1	-	-
Inventories (Notes 2, 3 and 9)	31,376,231	9	52,719,090	15
Spare parts (Notes 2 and 10)	6,641,783	2	5,620,336	2
Deferred income tax assets - current (Notes 2 and 26)	2,529,376	1	4,680,419	1
Restricted assets-current (Notes 4 and 31)	4,150,002	1	4,158,424	1
Others	910,390	-	2,370,649	1
Total current assets	65,535,584	19	88,476,752	25
FUNDS AND INVESTMENTS				
Available-for-sale financial assets - noncurrent (Notes 2, 6 and 29)	3,215,861	1	3,111,884	1
Hedging derivative assets - noncurrent (Notes 2 and 7)	3,016	-	53,715	-
Financial assets carried at cost - noncurrent (Notes 2, 11 and 29)	5,575,210	2	5,910,484	2
Bond investments with no active market - noncurrent (Notes 2 and 12)	103,000	-	103,000	-
Investments accounted for by the equity method (Notes 2, 13 and 29)	101,992,209	30	98,144,282	28
Other financial assets - noncurrent (Note 14)	537,891	-	5,235,840	1
Total funds and investments	111,427,187	33	112,559,205	32
PROPERTY, PLANT AND EQUIPMENT (Notes 2, 15, 30 and 31)				
Land	10,692,043	3	10,692,043	3
Land improvements	4,223,646	1	4,220,388	1
Buildings	42,280,414	12	40,698,022	12
Machinery and equipment	255,698,125	75	245,473,457	69
Transportation equipment	1,751,261	1	1,623,659	1
Other equipment	4,700,032	1	4,389,119	1
Total cost	319,345,521	93	307,096,688	87
Revaluation increment	43,670,986	13	43,775,239	12
Cost and revaluation increment	363,016,507	106	350,871,927	99
Less: Accumulated depreciation	233,015,900	68	222,431,707	63
	130,000,607	38	128,440,220	36
Constructions in progress	28,878,043	8	20,657,785	6
Total property, plant and equipment	158,878,650	46	149,098,005	42
INTANGIBLE ASSETS (Note 2)	301,365	-	140,572	-
OTHER ASSETS				
Assets leased to others, net (Notes 2 and 16)	3,220,697	1	3,242,031	1
Refundable deposits	138,324	-	182,807	-
Restricted assets - noncurrent (Note 31)	14,301	-	8,026	-
Unamortized repair costs and others (Notes 2 and 10)	2,791,096	1	1,912,929	-
Total other assets	6,164,418	2	5,345,793	1
TOTAL	$ 342,307,204	100	$ 355,620,327	100

	2009		2008	
LIABILITIES AND STOCKHOLDERS' EQUITY	**Amount**	**%**	**Amount**	**%**
CURRENT LIABILITIES				
Short-term loans and overdraft (Note 17 and 31)	$ 6,210,750	2	$ 8,873,202	2
Commercial paper payable (Note 18)	7,999,777	2	14,971,593	4
Hedging derivative liabilities - current (Notes 2 and 7)	-	-	4,479	-
Accounts payable (Note 30)	5,112,129	2	5,550,443	2
Income tax payable (Notes 2 and 26)	-	-	5,749,662	2
Accrued expenses (Notes 19 and 23)	8,494,138	2	6,131,420	2
Purchase commitments payable (Notes 2 and 9)	-	-	5,901,525	2
Other payables (Note 2)	3,538,897	1	7,664,719	2
Long-term debt - current portion (Notes 21 and 31)	4,332,516	1	945,490	-
Others	2,477,723	1	1,820,726	-
Total current liabilities	38,165,930	11	57,613,259	16
LONG-TERM LIABILITIES				
Hedging derivative liabilities - noncurrent (Notes 2 and 7)	-	-	2,055	-
Bonds payable (Note 20)	43,268,970	13	43,281,660	12
Long-term debt - bank (Notes 21 and 31)	902,200	-	4,417,638	1
Long-term notes payable (Note 22)	5,245,996	1	-	-
Total long-term liabilities	49,417,166	14	47,701,353	13
RESERVE FOR LAND VALUE INCREMENT TAX (Note 15)	8,673,466	3	8,673,466	3
OTHER LIABILITIES				
Deferred income tax liabilities - noncurrent (Notes 2 and 26)	777,483	-	1,100,362	-
Deferred credits - gain from affiliates (Note 24)	1,913,996	1	1,791,418	1
Total other liabilities	2,691,479	1	2,891,780	1
Total liabilities	98,948,041	29	116,879,858	33
CAPITAL STOCK - AUTHORIZED 14,000,000 THOUSAND SHARES AT NT$10 PAR VALUE (Note 25)				
Common shares - issued 13,094,519 thousand shares and 12,557,541 thousand shares as of December 31, 2009 and 2008, respectively	130,945,189	38	125,575,411	35
Preferred shares - issued 38,268 thousand shares and 38,270 thousand shares as of December 31, 2009 and 2008, respectively	382,680	-	382,700	-
Total capital stock	131,327,869	38	125,958,111	35
CAPITAL SURPLUS (Notes 2 and 25)	19,598,511	6	18,410,920	5
RETAINED EARNINGS (Notes 2 and 25)	74,351,367	22	76,427,107	22
OTHER EQUITY				
Unrealized revaluation increment (Note 15)	21,913,148	6	21,915,248	6
Unrealized gain on financial instruments (Notes 7,14 and 25)	4,216,431	1	6,508,005	2
Cumulative translation adjustments (Note 2)	183,001	-	358,976	-
Net loss not recognized as pension cost	(42,133)	-	(32,385)	-
Treasury stock - 279,375 thousand shares and 384,103 thousand shares as of December 31, 2009 and 2008, respectively (Notes 2 and 25)	(8,189,031)	(2)	(10,805,513)	(3)
Total other equity	18,081,416	5	17,944,331	5
Total stockholders' equity	243,359,163	71	238,740,469	67
TOTAL	$ 342,307,204	100	$ 355,620,327	100

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

(With Deloitte & Touche audit report dated February 1, 2010)

CHINA STEEL CORPORATION

STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2009 AND 2008
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2009		2008	
	Amount	**%**	**Amount**	**%**
OPERATING REVENUE (Notes 2, 30 and 35)	$ 165,408,888	100	$ 256,358,008	100
OPERATING COSTS (Notes 2, 3, 9, 27 and 30)	150,698,842	91	216,798,889	85
GROSS PROFIT	14,710,046	9	39,559,119	15
UNREALIZED GAIN FROM AFFILIATES	(179,854)	-	(437,457)	-
REALIZED GROSS PROFIT	14,530,192	9	39,121,662	15
OPERATING EXPENSES (Notes 27 and 30)				
Research and development	1,247,849	1	1,347,629	-
Selling	2,552,263	2	2,664,642	1
General and administrative	2,452,376	1	2,370,551	1
Total operating expenses	6,252,488	4	6,382,822	2
OPERATING INCOME	8,277,704	5	32,738,840	13
NONOPERATING INCOME AND GAINS				
Interest income (Note 29)	97,092	-	518,450	-
Valuation gain on financial assets (Notes 2 and 5)	15,720	-	58,395	-
Investment income recognized under equity method (Note 13)	9,334,316	6	1,804,006	1
Gain on sale of investment (Notes 2 and 6)	1,642,584	1	-	-
Exchange gain	46,332	-	466,868	-
Others (Notes 9, 11, 15 and 30)	1,827,955	1	1,307,971	1
Total nonoperating income and gains	12,963,999	8	4,155,690	2
NONOPERATING EXPENSES AND LOSSES				
Interest expense (Notes 15 and 29)	816,596	1	483,631	-
Impairment loss on financial assets (Notes 11 and 12)	4,201	-	5,091,842	2
Others (Notes 2 and 30)	261,067	-	1,063,726	1
Total nonoperating expenses and losses	1,081,864	1	6,639,199	3
INCOME BEFORE INCOME TAX	20,159,839	12	30,255,331	12
INCOME TAX (Notes 2 and 26)	557,322	-	6,224,925	3
NET INCOME	$ 19,602,517	12	$ 24,030,406	9

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CHINA STEEL CORPORATION

STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2009 AND 2008
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2009		2008	
	Before Tax	**After Tax**	**Before Tax**	**After Tax**
EARNINGS PER SHARE (Note 28)				
Basic	$ 1.58	$ 1.54	$ 2.44	$ 1.94
Diluted	$ 1.57	$ 1.53	$ 2.43	$ 1.93

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

	2009	2008
Net income	$ 20,054,929	$ 25,634,847
Basic earnings per share based on weighted-average number of outstanding common shares aggregating 12,991,019 thousand shares and 12,635,524 thousand shares for the years ended December 31, 2009 and 2008, respectively	$ 1.54	$ 2.02
Diluted earnings per share based on weighted-average number of outstanding common shares aggregating 13,105,966 thousand shares and 12,751,632 thousand shares for the years ended December 31, 2009 and 2008, respectively	$ 1.53	$ 2.01

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

(With Deloitte & Touche audit report dated February 1, 2010) (Concluded)

CHINA STEEL CORPORATION

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2009 AND 2008
(In Thousands of New Taiwan Dollars, Except Cash Dividends Per Share)

	Capital Stock			Retained Earnings				Other Equity					
	Common Stock	Preferred Stock	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings	Total	Unrealized Revaluation Increment	Unrealized Gain (Loss) on Financial Instruments	Cumulative Translation Adjustments	Net Loss not Recognized as Pension Cost	Treasury Stock	Total Stockholders' Equity
BALANCES, JANUARY 1, 2008	$ 114,963,350	$ 389,560	$ 1,878,630	$ 39,589,333	$ 7,615,701	$ 51,407,695	$ 98,612,729	$ 1,509,155	$ 6,473,326	$ 283,018	$ (38,083)	$ (1,416,395)	$ 222,655,290
Conversion of preferred stock to common shares	6,860	(6,860)	-	-	-	-	-	-	-	-	-	-	-
Appropriation of 2007 earnings (Note 25)													
Legal reserve	-	-	-	5,125,820	-	(5,125,820)	-	-	-	-	-	-	-
Bonus to employees	1,384,702	-	-	-	-	(2,307,837)	(2,307,837)	-	-	-	-	-	(923,135)
Remuneration to directors and supervisors	-	-	-	-	-	(69,235)	(69,235)	-	-	-	-	-	(69,235)
Preferred cash dividends - $3.50 per share	-	-	-	-	-	(134,274)	(134,274)	-	-	-	-	-	(134,274)
Common cash dividends - $3.50 per share	-	-	-	-	-	(40,239,244)	(40,239,244)	-	-	-	-	-	(40,239,244)
Preferred Stock dividends - $0.30 per share	11,509	-	-	-	-	(11,509)	(11,509)	-	-	-	-	-	-
Common stock dividends - $0.30 per share	3,449,079	-	-	-	-	(3,449,079)	(3,449,079)	-	-	-	-	-	-
Net income in 2008	-	-	-	-	-	24,030,406	24,030,406	-	-	-	-	-	24,030,406
Issuance of stock to acquire subsidiaries' shares (Notes 13 and 25)	5,759,911	-	15,717,185	-	-	-	-	-	-	-	-	-	21,477,096
Adjustments in treasury stock and minority interest arising from subsidiaries' shares	-	-	-	-	-	-	-	-	-	-	-	(6,747,074)	(6,747,074)
Change in unrealized gain (loss) on available-for-sale financial assets	-	-	-	-	-	-	-	-	(1,271,797)	-	-	-	(1,271,797)
Adjusted to nonoperating income from disposal of appreciated properties	-	-	-	-	-	-	-	(4,849)	-	-	-	-	(4,849)
Revaluation increment on land (Note 15)	-	-	-	-	-	-	-	20,410,942	-	-	-	-	20,410,942
Adjustment from changes in equity recognized under equity method	-	-	30,291	-	-	(4,850)	(4,850)	-	404,669	-	-	-	430,110
Foreign exchange gain on translation of foreign-currency financial statements	-	-	-	-	-	-	-	-	-	75,958	-	-	75,958
Investees' net loss not recognized as pension cost	-	-	-	-	-	-	-	-	-	-	5,698	-	5,698
Acquisition of treasury stock	-	-	-	-	-	-	-	-	-	-	-	(2,510,843)	(2,510,843)
Change in unrealized gain (loss) on financial instruments for cash flow hedging	-	-	-	-	-	-	-	-	901,807	-	-	-	901,807
Disposal of the Corporation's shares held by subsidiaries (Note 25)	-	-	548,063	-	-	-	-	-	-	-	-	287,581	835,644
Cash dividends declared by the Corporation and received by subsidiaries	-	-	236,751	-	-	-	-	-	-	-	-	-	236,751
Purchase of the Corporation's shares by subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(418,782)	(418,782)
BALANCES, DECEMBER 31, 2008	125,575,411	382,700	18,410,920	44,715,153	7,615,701	24,096,253	76,427,107	21,915,248	6,508,005	358,976	(32,385)	(10,805,513)	238,740,469
Conversion of preferred stock to common shares	20	(20)	-	-	-	-	-	-	-	-	-	-	-
Appropriation of 2008 earnings (Note 25)													
Legal reserve	-	-	-	2,402,556	-	(2,402,556)	-	-	-	-	-	-	-
Preferred cash dividends - $1.30 per share	-	-	-	-	-	(49,751)	(49,751)	-	-	-	-	-	(49,751)
Common cash dividends - $1.30 per share	-	-	-	-	-	(16,184,404)	(16,184,404)	-	-	-	-	-	(16,184,404)
Preferred stock dividends - $0.43 per share	16,455	-	-	-	-	(16,455)	(16,455)	-	-	-	-	-	-
Common stock dividends - $0.43 per share	5,353,303	-	-	-	-	(5,353,303)	(5,353,303)	-	-	-	-	-	-
Net income in 2009	-	-	-	-	-	19,602,517	19,602,517	-	-	-	-	-	19,602,517
Change in unrealized gain (loss) on available-for-sale financial assets	-	-	-	-	-	-	-	-	(498,783)	-	-	-	(498,783)
Adjusted to nonoperating income from disposal of appreciated properties	-	-	-	-	-	-	-	(2,100)	-	-	-	-	(2,100)
Adjustment from changes in equity recognized under equity method	-	-	17,751	-	-	(74,344)	(74,344)	-	(1,521,259)	-	-	(64,259)	(1,642,111)
Foreign exchange loss on translation of foreign-currency financial statements	-	-	-	-	-	-	-	-	-	(123,063)	-	-	(123,063)
Foreign exchange loss on hedge of a net investment in a foreign operation	-	-	-	-	-	-	-	-	-	(52,912)	-	-	(52,912)
Investees' net loss not recognized as pension cost	-	-	-	-	-	-	-	-	-	-	(9,748)	-	(9,748)
Discount on acquisition of treasury stock	-	-	-	-	-	-	-	-	-	-	-	886	886
Change in unrealized gain (loss) on financial instruments for cash flow hedging	-	-	-	-	-	-	-	-	(271,532)	-	-	-	(271,532)
Disposal of the Corporation's shares held by subsidiaries (Note 25)	-	-	98,225	-	-	-	-	-	-	-	-	414,610	512,835
Cash dividends declared by the Corporation and received by subsidiaries	-	-	354,187	-	-	-	-	-	-	-	-	-	354,187
Purchase of the Corporation's shares by subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(244,712)	(244,712)
Treasury stock transferred to employees	-	-	717,428	-	-	-	-	-	-	-	-	2,509,957	3,227,385
BALANCES, DECEMBER 31, 2009	$ 130,945,189	$ 382,680	$ 19,598,511	$ 47,117,709	$ 7,615,701	$ 19,617,957	$ 74,351,367	$ 21,913,148	$ 4,216,431	$ 183,001	$ (42,133)	$ (8,189,031)	$ 243,359,163

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

(With Deloitte & Touche audit report dated February 1, 2010)

CHINA STEEL CORPORATION

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2009 AND 2008
(In Thousands of New Taiwan Dollars)

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 19,602,517	$ 24,030,406
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	12,237,853	11,547,478
Amortization	755,093	648,513
Deferred income tax	1,828,164	(5,758,841)
Provision for loss on inventories	58,433	11,096,117
Increase (decrease) in loss on purchase commitments	(5,901,525)	5,901,525
Provision for loss on spare parts	236,101	114,956
Gain on sale of investments	(1,642,584)	-
Investment income recognized under equity method	(9,334,316)	(1,804,006)
Unrealized gain from affiliates	179,854	437,457
Cash dividends received from equity method investees	8,208,867	9,529,839
Valuation gains on financial assets	(15,720)	(58,395)
Impairment loss on financial assets	4,201	5,091,842
Compensation cost of treasury stock options	795,700	-
Others	(227,636)	310,283
Net changes in operating assets and liabilities		
Notes receivable	1,465,899	(720,844)
Accounts receivable	63,104	(432,973)
Other receivables	627,607	(922,433)
Inventories	21,571,890	(30,880,217)
Other current assets	438,812	(1,248,809)
Accounts payable	(438,314)	210,350
Income tax payable	(5,749,662)	(932,582)
Accrued expenses	2,330,800	(1,486,878)
Other payables	(4,443,015)	4,257,430
Other current liabilities	599,721	(355,215)
Net cash provided by operating activities	43,251,844	28,575,003
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of financial assets designated as at fair value through profit or loss	(5,580,000)	(16,350,557)
Proceeds from disposal of financial assets designated as at fair value through profit or loss	7,138,329	11,835,596
Acquisition of available-for-sale financial assets	-	(219,575)
Proceeds from disposal of available-for-sale financial assets	2,210,040	250,000
Acquisition of financial assets carried at cost	(4,201)	(231,650)
Proceeds of capital reduction on financial assets carried at cost	3,764	8,364
Acquisition of investments accounted for by equity method	(3,685,717)	(21,430,872)
Acquisition of property, plant and equipment	(21,719,813)	(17,928,526)
Proceeds from disposal of property, plant and equipment	1,215	-
Increase in other financial assets	(18,871)	(4,391,060)
Decrease (increase) in refundable deposits	44,483	(101,134)
Decrease in restricted assets	2,147	27,584

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CHINA STEEL CORPORATION

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2009 AND 2008
(In Thousands of New Taiwan Dollars)

	2009	2008
Increase in intangible assets	$ (284,317)	$ -
Increase in other assets	(1,736,761)	(156,545)
Net cash used in investing activities	(23,629,702)	(48,688,375)
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in loans and overdraft	(2,615,438)	(1,281,483)
Increase (decrease) in commercial paper payable	(6,971,816)	14,971,593
Increase in long-term notes payable	5,245,996	-
Issuance of bonds payable	-	29,600,000
Cash dividends	(16,223,887)	(40,356,703)
Discount on acquisition of treasury stock	886	-
Cash bonus to employees and remuneration to directors and supervisors	-	(992,370)
Cash paid for acquisition of treasury stock	-	(2,510,843)
Treasury stock transferred to employees	2,407,323	-
Others	(21,766)	(9,940)
Net cash used in financing activities	(18,178,702)	(579,746)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,443,440	(20,693,118)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,745,041	24,438,159
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 5,188,481	$ 3,745,041
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid (excluding capitalized interest)	$ 831,225	$ 460,029
Income tax paid	4,478,820	12,916,348
INVESTING AND FINANCING ACTIVITIES AFFECTING BOTH CASH AND NON-CASH ITEMS		
Cash Paid for Acquisition of Property, Plant and Equipment		
Acquisition of property, plant and equipment	$ 22,026,738	$ 18,163,084
Increase in payable for equipment purchased	(306,925)	(234,558)
	$ 21,719,813	$ 17,928,526
Cash Dividends Paid to Stockholders		
Total cash dividends payable to stockholders	$ 16,234,155	$ 40,373,518
Increase in dividends payable	(10,268)	(16,815)
	$ 16,223,887	$ 40,356,703
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Issuance of stock to acquire Dragon Steel Corporation's shares	$ -	$ 21,477,096
Current portion of long-term debt	$ 4,332,516	$ 945,490

The accompanying notes are an integral part of the financial statements.
(With Deloitte & Touche audit report dated February 1, 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 December 31, 2009, the Ministry of Economic Affairs, Republic of China owned 21.24% of the Corporation’s outstanding common stock.

As of December 31, 2009 and 2008, the Corporation had about 9,200 and 9,400 employees, respectively.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements have been prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, Business Accounting Law, Guidelines Governing Business Accounting and accounting principles generally accepted in the Republic of China (“ROC”). Under these guidelines, law and principles, certain estimates and assumptions have been used for the loss on doubtful accounts, provision for loss on inventories, depreciation of property, plant and equipment, impairment loss on assets, loss on purchase commitments, loss on idle capacity, pension cost, income tax and expense for bonuses to employees, directors and supervisors, 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 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. Before January 1, 2009, inventories were stated at the lower of aggregate cost or market value. Market value meant replacement cost for raw materials, supplies and fuel and net realizable value for finished products and work in process. As stated in Note 3, effective January 1, 2009, inventories are stated at the lower of cost or net realizable value. Inventory write-downs are made based on item by item basis. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and expenses necessary to make the sale. Inventories are recorded at moving average cost. Unallocated fixed overheads on idle capacity are currently recognized as operating costs when actual production is significantly lower than normal production or the equipment is idle.

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.

Unamortized Repairs

Unamortized repairs pertain to the major repairs of blast furnaces and are amortized by the straight-line method over five years.

Impairment of Assets

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

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

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

Loss on Purchase Commitments

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

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 year ended December 31, 2008 have been reclassified to conform to the presentation of the financial statements as of and for the year ended December 31, 2009. The main reclassifications include (1) spare parts previously recorded as inventories were divided into current and noncurrent based on their service duration, and reclassified to spare parts and other assets (Note 10), and (2) income from scrap sales of NT$206,047 thousand, loss on physical inventory of NT$181,933 thousand and provision for loss on inventories of NT$11,096,117 previously recorded as nonoperating income and gains and nonoperating expenses and losses were reclassified into operating costs for the year ended December 31, 2008 (3) Cost of bonds payable issuance previously recorded as unamortized repair costs and others were reclassified to the deduction of the bond payable (Note 20).

3. EFFECTS OF CHANGES IN ACCOUNTING PRINCIPLES

Accounting for Inventories

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

Accounting for Bonuses to Employees, Directors and Supervisors

In March 2007, the ARDF issued an interpretation that requires companies to recognize bonuses paid to employees, directors and supervisors as compensation expenses starting January 1, 2008. These bonuses were previously recorded as appropriations from earnings. The adoption of this interpretation resulted in a decrease of NT$1,567,439 thousand in net income and a decrease in after income tax basic and diluted earnings per share of NT$0.13 for the year ended December 31, 2008.

4. CASH AND CASH EQUIVALENTS

	December 31	
	2009	**2008**
Cash on hand	$ 19,443	$ 19,593
Checking accounts and demand deposits	541,641	2,199,932
Time deposits	4,627,397	600,000
Cash equivalents - short-term notes and bills	-	925,516
	$ 5,188,481	$ 3,745,041

Foreign bank deposits were as follows:

	December 31	
	2009	**2008**
Japan - Osaka Bank (in thousands)	¥ 3,628	¥ 2,858
Singapore - Daiwa Securities SMBC (in thousands)	33	37,210
Total (in thousands)	¥ 3,661	¥ 40,068
Represented by NT dollars (in thousands)	$ 1,270	$ 14,572

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 December 31, 2009 and 2008, respectively.

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

The financial assets designated as at FVTPL represent open-end bond funds. The purpose of classifying open-end bond funds to this account is to reduce the accounting inconsistency between investment income and interest expense. The group of financial assets is managed and its performance is evaluated on fair value basis, in accordance with a documented risk management or investment strategy. As of December 31, 2009 and 2008, the balances of financial assets at fair value through profit or loss were NT$4,062,844 thousand and NT$5,605,453 thousand, respectively.

Net gains on financial assets designated as at FVTPL for the years ended December 31, 2009 and 2008 were NT$15,720 thousand and NT$58,395 thousand, respectively.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31			
	2009		2008	
	Current	Noncurrent	Current	Noncurrent
Quoted stocks				
Maruichi Steel Tube Ltd.	$ -	$ 757,920	$ -	$ 757,920
Yodogawa Steel Works, Ltd.	-	345,831	-	345,831
Taiwan Semiconductor Manufacturing Company (TSMC)	400,000	-	967,456	-
CSBC Corporation Taiwan (CSBC)	-	219,575	-	219,575
Tang Eng Iron Works Corporation (TEIWC)	-	-	-	-
Adjustments for change in valuation	1,478,728	1,892,535	2,144,969	1,788,558
	$ 1,878,728	$ 3,215,861	$ 3,112,425	$ 3,111,884

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

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 December 31, 2009 and 2008, the carrying value of this financial asset were NT$1,155,609 thousand and NT$736,066 thousand, respectively and classified as valuation adjustment - noncurrent.

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

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

The Corporation borrowed foreign-currency bank loans with the hedged investment to hedge exchange rate fluctuation risks on the investments in Maruichi Steel Tube Ltd. and Yodogawa Steel Works, Ltd. (Notes 21 and 29). Adjustments for change in valuation arising from exchange difference were recognized as profit or loss.

7. HEDGING DERIVATIVE FINANCIAL INSTRUMENTS

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

Outstanding forward exchange contracts as of December 31, 2009 and 2008 were as follows:

	Currency	The Period for Generating Cash Flows and Maturity Date	Contract Amount (In Thousands)
December 31, 2009			
Forward exchange contracts	NT$/US$	March 2010 - September 2010	NT$3,521,182/US$111,490
	NT$/EUR	June 2010 - March 2012	NT$532,503/EUR11,891
December 31, 2008			
Forward exchange contracts	NT$/US$	December 2009 - September 2010	NT$4,093,276/US$129,490
	NT$/EUR	January 2009 - March 2012	NT$1,160,674/EUR25,557

Movements of hedging derivative financial instruments for the years ended December 31, 2009 and 2008 were as follows:

	Years Ended December 31	
	2009	2008
Balance, beginning of period	$ 57,027	$ -
Valuation of unrealized gain	14,421	57,027
Transferred to construction in progress	(9,472)	-
Balance, end of period	$ 61,976	$ 57,027

As of December 31, 2009 and 2008, the balances of hedging derivative financial instruments were as follows:

	December 31	
	2009	2008
Hedging derivative assets - current	$ 58,960	$ 9,846
Hedging derivative assets - noncurrent	3,016	53,715
Hedging derivative liabilities - current	-	(4,479)
Hedging derivative liabilities - noncurrent	-	(2,055)
	$ 61,976	$ 57,027

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 years ended December 31, 2009 and 2008 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)
Year ended December 31, 2009						
Accounts receivable						
Mega Bank	$ 4,166,480	$ 8,258,201	$ 9,701,009	$ 2,723,672	0.80～2.73	7.5
Bank of Taiwan	856,900	1,456,533	1,828,826	484,607	0.80～2.16	2.5
Taipei Fubon Bank	166,541	494,709	536,349	124,901	1.03～2.33	0.4
	$ 5,189,921	$ 10,209,443	$ 12,066,184	$ 3,333,180		
Year ended December 31, 2008						
Accounts receivable						
Mega Bank	$ 4,513,552	$ 14,327,049	$ 14,674,121	$ 4,166,480	2.53-2.74	7.5
Bank of Taiwan	698,837	2,753,049	2,594,986	856,900	2.53-2.55	2.5
Taipei Fubon Bank	221,220	987,481	1,042,160	166,541	2.73-2.74	0.4
	$ 5,433,609	$ 18,067,579	$ 18,311,267	$ 5,189,921		

9. INVENTORIES

	December 31	
	2009	2008
Finished products	$ 7,030,985	$ 11,255,650
Work in process	11,098,288	17,181,971
Raw materials	9,485,626	20,102,243
Supplies	1,072,744	756,184
Materials in transit	2,307,826	2,452,051
Fuel	179,241	249,473
Others	201,521	721,518
	$ 31,376,231	$ 52,719,090

As of December 31, 2009 and 2008, the allowance for loss on value decline of inventory was NT$58,433 thousand and NT$11,096,117 thousand, and shown as deduction in inventories. The cost of inventories recognized as operating costs for the years ended December 31, 2009 and 2008 was NT$150,698,842 thousand and NT$216,798,889 thousand, respectively. The items recorded as operating costs were as follows:

	Years Ended December 31	
	2009	2008
Provision for loss on inventories	$ 58,433	$ 11,096,117
Loss on purchase commitments	-	5,901,525
Loss on idle capacity	1,519,642	-
Impairment loss on spare parts	236,101	114,956
Loss (gain) on physical inventory	(287,464)	181,933
Income from scrap sales	(133,455)	(206,047)
	$ 1,393,257	$ 17,088,484

The global financial crisis hurts the demand for steel products. Therefore, the steel products and materials prices declined significantly from the fourth quarter of 2008. The Corporation recognized a provision for loss on inventories of NT$58,433 thousand and NT$11,096,117 thousand for the years ended December 31, 2009 and 2008, respectively.

The Corporation also recognized loss on purchase commitments of NT$5,901,525 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 purchase commitments payable was fully reduced (Note 2).

Unallocated fixed overheads on idle capacity are recognized as operating costs in the period when incurred as a result of the adoption of SFAS No. 10 "Accounting for Inventories", starting January 1, 2009. The Corporation recognized loss on idle capacity of NT$1,519,642 thousand for the year ended December 31, 2009.

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

10. SPARE PARTS AND OTHER ASSETS - UNAMORTIZED REPAIR COSTS AND OTHERS

	December 31			
	2009		2008	
	Current	Noncurrent	Current	Noncurrent
Spare parts	$ 6,641,783	$ 1,129,547	$ 5,620,336	$ 775,291
Unamortized repair costs	-	1,661,549	-	1,137,638
	$ 6,641,783	$ 2,791,096	$ 5,620,336	$ 1,912,929

Impairment losses on spare parts were NT$236,101 thousand and NT$114,956 thousand for the years ended December 31, 2009 and 2008, respectively, which were recognized as operating costs.

11. FINANCIAL ASSETS CARRIED AT COST - NONCURRENT

	December 31	
	2009	2008
Unquoted common stocks		
Industrial Bank of Taiwan	$ 1,000,000	$ 1,000,000
CDIB & Partners Investment Holding Corporation	500,000	500,000
Adimmune Corporation (AC)	231,650	231,650
Taiwan Rolling Stock Co., Ltd.	202,048	202,048
Hsin Hsin Cement Enterprise Corp. (HHCEC)	-	165,010
CDIB BioScience Ventures I, Inc. (CBVI)	71,512	75,276
Overseas Investment & Development Corporation	50,000	50,000
Mega I Venture Capital Co., Ltd.	50,000	50,000
Phalanx Biotech Group Corporation (PBGC)	-	-
Taiwan High Speed Rail Corporation (Note 12)	-	-
Unquoted preferred stocks		
East Asia United Steel Corporation (EAUS)	3,470,000	3,636,500
Fund - Sino-Canada Biotechnology Development Fund, LP (SCBDF)	-	-
	$ 5,575,210	$ 5,910,484

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

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

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

In June 2008, the Corporation evaluated and recognized an impairment loss of NT$73,370 thousand on the investment in PBGC (recorded as nonoperating losses).

In 2008, the Corporation recognized an impairment loss of NT$82,546 thousand on the investment in SCBDF. In August 2009, since SCBDF had no sufficient funds to pay service fees, the Corporation added NT$4,201 thousand to its investment in SCBDF and recognized an impairment loss of NT$4,201 thousand, recorded as nonoperating expenses and losses.

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 (Note13).

In May 2003, the Corporation signed a slab production joint-venture contract with Sumitomo Metal Industries, Ltd. and Sumitomo Corporation. In July 2003, the joint venture company of EAUS was established. The Corporation invested in EAUS the amount of ￥10 billion (Notes 21 and 29). The Corporation thus enjoys a stable supply of slab from this joint venture. The Corporation also signed a contract with Chung Hung Steel Corporation (CHSC) to transfer the purchasing right of slabs from EAUS, and the Corporation receives royalty on this contract based on the volume purchased by CHSC. The amounts of royalty income for the years ended December 31, 2009 and 2008 were NT$286,742 thousand and NT$212,337 thousand, respectively (recorded as nonoperating income and gains). As of December 31, 2009 and 2008, the royalty receivable were NT$72,932 thousand and NT$30,952 thousand, respectively (recorded as other receivables).

12. BOND INVESTMENTS WITH NO ACTIVE MARKET - NONCURRENT

	December 31	
	2009	**2008**
Unquoted preferred stocks - domestic		
Taiwan High Speed Rail Corporation (THSRC)		
Preferred C	$ -	$ -
Preferred B	-	-
Taigen Biotechnology Co., Ltd. (TBC)	-	-
	-	-
Unquoted preferred stocks - overseas		
TaiGen Biopharmaceuticals Holdings Limited (TGB)	103,000	103,000
	$ 103,000	$ 103,000

In September 2003, the Corporation acquired 100,000 thousand Preferred B shares (representing 4% of ownership) of THSRC for NT$1,000,000 thousand. Dividend on these shares is at 5%, payable on a nonparticipating and cumulative basis. These shares with six years of durations could be extended for 13 months prior to 3 months from the due date. In April 2005 and August 2004, the Corporation acquired additional 505,370 thousand Preferred C shares of THSRC for NT$3,199,944 thousand and NT$1,499,997 thousand, respectively. These shares, representing 19% of ownership, which may be converted to common shares within four years from the acquisition date, have a 9.5% dividend in the first two years and

0% in the next two years. At the end of four years, i.e., in 2009 and 2008, if the Corporation does not convert the Preferred C shares into common shares and THSRC cannot redeem the shares, the unredeemed shares will have 4.71% dividends. THSRC mainly builds and operates public transportation systems.

After June 2008, the Corporation evaluated and recognized an impairment loss of NT$4,738,926 thousand on the investments in preferred shares of THSRC. The conversion of the preferred shares held by the Corporation into common shares of THSRC was approved in the board of directors' meeting in June 2009. The tax credits would be used under the Act for Promotion of Private Participation in Infrastructure Projects. In August 2009, the Corporation converted THSRC's preferred shares to 605,370 thousand common shares. Thus, the Corporation reclassified this bond investment with no active market – noncurrent to financial asset carried at cost - noncurrent (Note 11).

In November 2005 and March 2004, the Corporation acquired a total of 20,000 thousand preferred shares, representing 24% of ownership, of TBC for NT$300,000 thousand. Preferred stockholders are entitled to 8% participating and noncumulative dividends as well as 9% voting and election rights. TBC mainly researches and develops drugs. In January 2008, TBC restructured its share capital and made arrangements with TGB incorporated in the British Cayman Islands. The Corporation swapped Preferred B shares of TBC with Preferred B shares of TGB at the ratio of 1:1. Any rights on these shares remained unchanged after the swap. The Corporation can request 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.

13. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

	December 31			
	2009		2008	
	Amount	% of Ownership	Amount	% of Ownership
Stocks listed on the Taiwan Stock Exchange				
Chung Hung Steel Corporation (CHSC)	$ 3,902,665	29	$ 2,211,584	24
China Steel Chemical Corporation (CSCC)	1,521,527	29	1,447,376	29
China Ecotek Corporation (CEC)	789,915	49	684,425	49
China Hi-ment Corporation (CHC)	713,480	20	691,813	20
China Steel Structure Corporation (CSSC)	518,893	18	547,017	18
	7,446,480		5,582,215	
Less: Shares held by subsidiaries accounted for as treasury stock	1,599,010		1,375,456	
	5,847,470		4,206,759	
Stocks without quoted market prices				
Dragon Steel Corporation (DSC)	58,402,941	100	58,831,552	100
China Steel Express Corporation (CSE)	12,211,143	100	13,502,625	100
C. S. Aluminum Corporation (CAC)	6,938,136	100	7,132,216	100
Gains Investment Corporation (GIC)	6,488,214	100	5,206,807	100
China Prosperity Development Corporation (CPDC)	4,833,677	100	4,700,887	100
China Steel Asia Pacific Holdings Pte Ltd. (CSAPH)	3,677,475	100	3,324,722	100
China Steel Sumikin Vietnam Joint Stock Company (CSVC)	1,867,329	51	-	-
Kaohsiung Rapid Transit Corporation (KRTC)	1,695,105	31	2,205,815	31
China Steel Global Trading Corporation (CSGT)	1,435,366	100	1,514,128	100
China Steel Machinery Corporation (CSMC)	1,029,474	74	837,269	74
CSC Steel Australia Holdings Pty Ltd.(CSCAU)	618,510	100	478,709	100
Info-Champ Systems Corporation (ICSC)	608,814	100	614,950	100
Horng Yih Investment Corporation (HYI)	606,646	100	532,755	100
Long Yuan Fa Investment Corporation (LYFI)	603,748	100	529,858	100
Goang Yaw Investment Corporation (GYI)	590,997	100	518,355	100
Kaohsiung Arena Development Corporation (KADC)	477,068	18	439,894	18
China Steel Security Corporation (CSS)	345,916	100	308,946	100

(Continued)

	December 31			
	2009		2008	
	Amount	% of Ownership	Amount	% of Ownership
Hsin Hsin Cement Enterprise Corp. (HHCEC) (Note 11)	$ 169,525	18	$ -	-
Hi-mag Magnetic Corporation (HMC)	99,441	50	103,514	50
China Steel Management Consulting Corporation (CSMCC)	28,196	100	25,150	100
TaiAn Technologies Corporation (TTC)	7,039	17	6,406	17
Baolai Greeting Development Co., Ltd. (BGDC)	-	45	42,179	45
	102,734,760		100,856,737	
Less: Shares held by subsidiaries accounted for as treasury stock	6,590,021		6,919,214	
	96,144,739		93,937,523	
	$ 101,992,209		$ 98,144,282	

(Concluded)

The Corporation increased investment in CHSC for NT$1,726,232 thousand for the six months ended June 30, 2009. Consequently, the Corporation's total equity in CHSC increased to 41%, including 29% directly owned and 12% indirectly owned through LYFI, HYI and GYI. The Corporation's total equity in TTC is 22%, including 17% directly owned and 5% indirectly owned through CSCC. The Corporation's total equity in KADC is 29%, including 18% directly owned and 11% indirectly owned through CSSC and CPDC.

In July 2009, the Corporation acquired 93,677 thousand common shares (51% equity) of 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.

BGDC dissolved on December 28, 2009 after the approval in shareholders' meeting, the Corporation recognized all losses of its shares.

The Corporation had 47% of common shares (investments accounted for by the equity method), 99,988 thousand Preferred A shares and 3,808 thousand Preferred B shares (recorded as financial assets carried at cost originally) of DSC. On October 6, 2008, the Corporation and DSC approved the share swap in their stockholders' meetings, and the exchange ratio was 1:2.6. The Corporation exchanged 52% equity (including common stocks and preferred stocks) of DSC for 575,991 new shares issued and paid-in capital increased by NT$15,717,185 thousand. After the share swap, the Corporation's equity in DSC increased to 100%. Accordingly, the investment in DSC preferred stock was reclassified from financial assets carried at cost-noncurrent to investments accounted for by the equity method. In December 2008, the Corporation invested additional NT$21,200,000 thousand in DSC through its private subscription. The rights and obligations of the privately subscribed common stocks are the same with common stock issued by DSC. The DSC shares subscribed from the private placement are not allowed to transfer to any transferee within three years unless the share transferee is qualified in accordance with Article 43-8 of the Securities and Exchange Act. As of December 31, 2009, the preferred shares were all converted to common shares.

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

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

The market values of the above listed stocks based on their closing prices on December 31, 2009 and 2008 were as follows:

	December 31	
	2009	**2008**
CHSC	$ 8,187,196	$ 3,087,958
CSCC	5,984,485	3,459,995
CEC	2,503,770	1,556,547
CHC	1,886,447	1,357,704
CSSC	714,059	380,063
	$ 19,275,957	$ 9,842,267

Investment income (loss) under the equity method for the years ended December 31, 2009 and 2008 were as follows:

	Years Ended December 31	
	2009	**2008**
CSE	$ 5,333,921	$ 7,144,057
DSC	1,494,256	(3,519,602)
GIC	683,164	(1,587,846)
CSAPH	383,840	273,034
CSCC	368,282	394,519
CSGT	331,197	417,470
CSMC	263,860	232,307
CHSC	251,980	(969,677)
CEC	218,800	12,519
CHC	132,800	142,545
CSCAU	108,954	129,736
ICSC	105,453	110,179
CPDC	94,711	73,158
CSS	61,606	65,835
CAC	26,471	147,841
KRTC	(483,387)	(688,915)
HYI	(21,506)	(211,815)
LYFI	(21,270)	(208,754)
GYI	(20,650)	(206,176)
CSSC	(2,513)	17,175
Others	24,347	36,416
	$ 9,334,316	$ 1,804,006

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

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

The Corporation's Board of Directors approved plans for additional investments in CSVC, etc. The related subscription schedule depends on the investees' capital increase requirements. As of December 31, 2009, the Corporation's unexecuted investments in these investees aggregated NT$11,047,590 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
Year ended December 31, 2009			
Balance, beginning of year	$ 1,126,994	$ -	$ 401,018
Addition	(58,583)	(1,924)	-
Amortization	(74,863)	-	-
Balance, end of year	$ 993,548	$ (1,924)	$ 401,018
Year ended December 31, 2008			
Balance, beginning of year	$ -	$ -	$ -
Addition	1,195,737	-	401,018
Amortization	(68,743)	-	-
Balance, end of year	$ 1,126,994	$ -	$ 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.

14. OTHER FINANCIAL ASSETS

	December 31	
	2009	2008
Foreign-currency time deposits	$ 4,841,420	$ 5,235,840
Foreign-currency demand deposits	136,810	-
	4,978,230	5,235,840
Less: Current portion	4,440,339	-
	$ 537,891	$ 5,235,840

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 December 31, 2009 and 2008, the balance of the JPY time deposits designated as hedging instrument was ￥13.4 billion and ￥14.4 billion, respectively. The time deposit of ￥150 million maturing in 2009 was not paid for imported equipment. The unrealized loss of NT$274,728 thousand and unrealized gain of NT$844,780 thousand, respectively, designated as hedging instrument was recognized as unrealized gain on financial instruments in stockholders' equity for the years ended December 31, 2009 and 2008.

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 December 31, 2009, the balance of the U.S. dollar time deposits designated as hedging instruments was US$5,990 thousand. The unrealized loss of US$2,576 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 year ended December 31, 2009.

For the purposes of managing cash flows exposures on foreign-currency capital expenditure contracts, the Corporation entered into forward exchange contracts (Note 7). Of which EUR910 thousand and US$1,335 thousand expired for the years ended December 31, 2009 and 2008, respectively, which were for capital payments. An unrealized gain of NT$823 thousand on the hedging instrument was recorded as unrealized gain on financial instruments included in the stockholders' equity for the years ended December 31, 2009.

As of December 31, 2009 and 2008, the cash flows generated from above mentioned contracts will be from 2010 to 2013 and from 2009 to 2013, respectively.

15. PROPERTY, PLANT AND EQUIPMENT

	Land	Land Improvements	Buildings	Machinery and Equipment	Transportation Equipment	Other Equipment	Construction In progress	Total
Year ended December 31, 2009								
Cost								
Balance, beginning of year	$ 10,692,043	$ 4,220,388	$ 40,698,022	$ 245,473,457	$ 1,623,659	$ 4,389,119	$ 20,657,785	$ 327,754,473
Addition	-	3,258	1,607,382	11,493,615	203,175	499,050	8,220,258	22,026,738
Disposals	-	-	(24,990)	(1,268,947)	(75,573)	(188,137)	-	(1,557,647)
Balance, end of year	10,692,043	4,223,646	42,280,414	255,698,125	1,751,261	4,700,032	28,878,043	348,223,564
Revaluation increment								
Balance, beginning of year	32,754,016	492,990	2,407,480	8,070,962	18,108	31,683	-	43,775,239
Disposals	-	-	(1,929)	(102,312)	-	(12)	-	(104,253)
Balance, end of year	32,754,016	492,990	2,405,551	7,968,650	18,108	31,671	-	43,670,986
Accumulated depreciation								
Balance, beginning of year	-	3,905,815	20,273,963	193,964,668	1,239,299	3,047,962	-	222,431,707
Depreciation expense	-	97,557	1,279,856	10,266,082	97,774	475,250	-	12,216,519
Disposals	-	-	(9,200)	(1,361,922)	(75,403)	(185,801)	-	(1,632,326)
Balance, end of year	-	4,003,372	21,544,619	202,868,828	1,261,670	3,337,411	-	233,015,900
Net book value, end of year	$ 43,446,059	$ 713,264	$ 23,141,346	$ 60,797,947	$ 507,699	$ 1,394,292	$ 28,878,043	$ 158,878,650
Year ended December 31, 2008								
Cost								
Balance, beginning of year	$ 9,803,353	$ 4,212,123	$ 39,773,039	$ 237,189,591	$ 1,500,483	$ 4,018,844	$ 15,043,863	$ 311,541,296
Addition	888,690	8,265	1,173,052	9,730,239	171,411	577,505	5,613,922	18,163,084
Disposals	-	-	(248,069)	(1,446,373)	(48,235)	(207,230)	-	(1,949,907)
Balance, end of year	10,692,043	4,220,388	40,698,022	245,473,457	1,623,659	4,389,119	20,657,785	327,754,473
Revaluation increment								
Balance, beginning of year	5,840,732	492,990	2,423,523	8,286,388	27,233	31,714	-	17,102,580
Addition	26,913,284	-	-	-	-	-	-	26,913,284
Disposals	-	-	(16,043)	(215,426)	(9,125)	(31)	-	(240,625)
Balance, end of year	32,754,016	492,990	2,407,480	8,070,962	18,108	31,683	-	43,775,239
Accumulated depreciation								
Balance, beginning of year	-	3,788,617	19,177,953	186,025,665	1,215,056	2,780,098	-	212,987,389
Depreciation expense	-	117,198	1,256,922	9,595,876	81,408	470,738	-	11,522,142
Disposals	-	-	(160,912)	(1,656,873)	(57,165)	(202,874)	-	(2,077,824)
Balance, end of year	-	3,905,815	20,273,963	193,964,668	1,239,299	3,047,962	-	222,431,707
Net book value, end of year	$ 43,446,059	$ 807,563	$ 22,831,539	$ 59,579,751	$ 402,468	$ 1,372,840	$ 20,657,785	$ 149,098,005

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

	Years Ended December 31	
	2009	2008
Interest expense before capitalization	$ 1,175,699	$ 672,175
Capitalized interest - construction in progress	(359,103)	(188,544)
Interest expense through income statement	$ 816,596	$ 483,631
Capitalization rates	1.57%~ 2.09%	1.96%-2.55%

In 1981 and 1994, the Corporation revalued its property, plant and equipment and patents in accordance with government regulations, resulting in increment of NT$17,662,343 thousand. After the deduction of the reserve for land value increment tax of NT$3,370,813 thousand, a net increment of NT$14,291,530 thousand was credited to unrealized revaluation increment. As of December 31, 2009, 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 years ended December 31, 2009 and 2008, upon retirement or sale of appreciated properties, the unrealized revaluation increment decreased by NT$2,100 thousand and NT$4,849 thousand, respectively, and recorded as nonoperating revenue. As of December 31, 2009 and 2008, the cumulative nonoperating revenue due to disposal of appreciated properties were NT$33,157 thousand and NT$31,057 thousand, respectively. As of December 31, 2009 and 2008, 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$21,913,148 thousand and NT$21,915,248 thousand, respectively.

16. ASSETS LEASED TO OTHERS

	Years ended December 31	
	2009	2008
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	1,382,318
Buildings and Improvements	26,096	23,444
	1,427,096	1,405,762
Accumulated impairment		
Machinery and Equipment	594,000	594,000
Net book value, end of year	$ 3,220,697	$ 3,242,031

Some of the Corporation’s plant, property and machinery equipment are leased to its subsidiaries (Note 30). The depreciation expenses were NT$21,334 thousand and NT$25,336 thousand for the years ended December 31, 2009 and 2008, respectively.

17. SHORT-TERM LOANS AND OVERDRAFT

	December 31	
	2009	2008
Credit loans - interest at 0.5576%-0.607% p.a. and 1.95%-2.21% p.a. as of December 31, 2009 and 2008, respectively	$ 2,272,950	$ 6,800,000
Letters of credit - due within 180 days; interest at 0.58%-1.371% p.a. and 1.186%-4.230% p.a. as of December 31, 2009 and 2008, respectively	434,596	69,816
Bank overdraft - interest at 0.16%-0.442% p.a. and 0.64%-1.575% p.a. as of December 31, 2009 and 2008, respectively	3,503,204	2,003,386
	$ 6,210,750	$ 8,873,202

The above credit loans, which included short-term loans of US$58,548 thousand (NT$1,872,951 thousand) were used to hedge the exchange rate fluctuations on the foreign-currency investments in China Steel Sumikin Vietnam Joint Stock Company (Note 29).

18. COMMERCIAL PAPER PAYABLE

	December 31	
	2009	2008
Commercial paper - interest rates at 0.150%-0.292% p.a. and 1.040%-1.547% p.a. as of December 31, 2009 and 2008, respectively	$ 8,000,000	$ 15,000,000
Unamortized discounts	(223)	(28,407)
	$ 7,999,777	$ 14,971,593

19. ACCRUED EXPENSES

	December 31	
	2009	2008
Accrued salaries and incentive bonus	$ 3,802,609	$ 1,129,924
Bonus to employees, and remuneration to directors and supervisors	1,557,243	1,665,122
Repair and construction	1,151,023	1,010,533
Others	1,983,263	2,325,841
	$ 8,494,138	$ 6,131,420

20. BONDS PAYABLE

	December 31 2009	December 31 2008
5-year unsecured bonds - issued at par in:		
November 2006; repayable in November 2011; 2.07% interest p.a., payable annually	$ 5,600,000	$ 5,600,000
June 2006; repayable in June 2011; 2.32% interest p.a., payable annually	8,100,000	8,100,000
December 2008; repayable in December 2012 and December 2013; 2.42% interest p.a., payable annually	9,600,000	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	31,030	18,340
	$ 43,268,970	$ 43,281,660

21. LONG-TERM DEBTS - BANK

	December 31 2009	December 31 2008
Repayable in July 2010 (￥4.4 billion); floating rates at 0.6763% and 1.14% p.a. as of December 31, 2009 and 2008, respectively	$ 1,526,800	$ 1,600,060
Repayable in July 2010 (￥3.3 billion); floating rates at 0.8375% and 1.325% p.a. as of December 31, 2009 and 2008, respectively	1,145,100	1,200,045
Repayable in December 2009 (￥2.6 billion) originally; extendable in December 2012; floating rates at 0.71% and 1.235% p.a. as of December 31, 2009 and 2008, respectively	902,200	945,490
Repayable in July 2010 (￥2.2 billion); floating rates at 0.6743% and 1.1978% p.a. as of December 31, 2009 and 2008, respectively	763,400	800,030
Repayable in July 2010 (AUD16.54 million); floating rates at 4.14429% and 8.69239% p.a. as of December 31, 2009 and 2008, respectively	475,958	376,032
Repayable in November 2010 (￥1.214 billion); floating rates at 0.7175% and 1.17125% p.a. as of December 31, 2009 and 2008, respectively	421,258	441,471
	5,234,716	5,363,128
Less: Current portion	4,332,516	945,490
	$ 902,200	$ 4,417,638

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

22. LONG-TERM NOTES PAYABLE (ONLY AS OF DECEMBER 31, 2009)

Long-term notes - interest rates at 0.4%-0.76% p.a.	$ 5,250,000
Unamortized discounts	(4,004)
	$ 5,245,996

The Corporation entered into Fixed Rate Commercial Paper contracts with International Bills Finance Corporation, Mega Bills Finance Corporation and China Bills Finance Corporation in April 2009. The duration of the 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.

23. RETIREMENT BENEFIT PLAN

The pension plan under the Labor Pension Act (the "LPA") is a defined contribution plan. Based on the LPA, the Corporation makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages. Such pension costs were NT$45,052 thousand and NT$41,548 thousand for the years ended December 31, 2009 and 2008, respectively.

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

The Corporation makes contributions, equal to a certain percentage of salaries, to a pension fund, which is deposited in the Bank of Taiwan in the name of, and administered by the employees' pension fund administration committee. According to above regulation, pension cost for the years ended December 31, 2009 and 2008 was NT$1,363,903 thousand and NT$1,453,123 thousand, respectively.

Since August 1999, the Corporation also made contributions, equal to a certain percentage of salaries of management personnel (vice presidents and above), to another pension fund, which is deposited in The Mega International Commercial Bank in the name of, and administered by an officers' pension fund management committee. Pension cost for the years ended December 31, 2009 and 2008 was NT$5,121 thousand and NT$4,425 thousand, respectively.

In order to encourage employees to retire and transfer to affiliates, the Corporation recognized preferential severance pay in accordance with the related preferential severance measures of NT$464,593 thousand for the year ended December 31, 2008.

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

	Years Ended December 31	
	2009	**2008**
a. Components of net pension cost		
Service cost	$ 1,344,399	$ 1,373,511
Interest cost	456,567	586,426
Projected return on plan assets	(422,406)	(532,460)
Amortization	(9,536)	30,071
Net pension cost	$ 1,369,024	$ 1,457,548

	December 31	
	2009	2008
b. Reconciliation of the funded status of the plan and accrued pension cost		
Benefit obligation		
Vested benefit obligation	$ 12,642,763	$ 1,078,442
Non-vested benefit obligation	3,802,421	14,413,652
Accumulated benefit obligation	16,445,184	15,492,094
Additional benefits based on future salaries	3,094,819	3,122,050
Projected benefit obligation	19,540,003	18,614,144
Fair value of plan assets	(17,842,102)	(16,812,157)
Funded status	1,697,901	1,801,987
Unrecognized net asset at transitional	42,911	52,447
Unamortized net loss	(1,612,588)	(1,758,521)
Accrued pension cost (included in accrued expense)	$ 128,224	$ 95,913
Vested benefits	$ 14,894,185	$ 1,137,303

	December 31	
	2009	2008
c. Actuarial assumptions		
Discount rate used in determining present values	2.25%	2.5%
Future salary increase rate	2.0%	2.0%
Expected rate of return on plan assets	2.0%	2.5%

	Years Ended December 31	
	2009	2008
d. Contributions to the fund	$ 1,348,362	$ 1,435,373
e. Payments from the fund	$ 431,435	$ 216,500

24. DEFERRED CREDITS - GAIN FROM AFFILIATES

	December 31	
	2009	2008
Gain on disposal of land	$ 1,136,164	$ 1,136,164
Gain on contracted projects	777,832	655,254
	$ 1,913,996	$ 1,791,418

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

The Corporation contracted engineering projects with KRTC and DSC, resulting in deferred gain. Such deferred credits arising from the projects with KRTC (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.

25. STOCKHOLDERS' EQUITY

a. Capital stock

In August 2009 and 2008, the Corporation, through capitalization of retained earnings of NT$5,369,758 thousand and NT$4,845,290 thousand, issued common shares of 536,976 thousand and 484,529 thousand, respectively. In order to acquire 52% equity of DSC (Note 13), the Corporation issued NT$5,759,911 thousand (575,991 thousand shares) for a capital increase. For the years ended 2009 and 2008, respectively, 2 thousand and 686 thousand preferred shares have converted to common shares, and have been registered with the government.

b. Treasury stock

	Thousand Shares			December 31	
Purpose of Treasury Stock	**Beginning of Year**	**Addition**	**Reduction**	**Thousand Shares**	**Book Value**
Year ended December 31, 2009					
Shares acquired and held by subsidiaries	276,103	20,517	17,245	279,375	$ 8,189,031
Shares acquired by the Corporation for transfer to employees	108,000	-	108,000	-	-
	384,103	20,517	125,245	279,375	$ 8,189,031
Year ended December 31, 2008					
Shares acquired and held by subsidiaries	84,543	208,659	17,099	276,103	$ 8,294,670
Shares acquired by the Corporation for transfer to employees	-	108,000	-	108,000	2,510,843
	84,543	316,659	17,099	384,103	$ 10,805,513

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 subsidiaries acquisition of the Corporation's shares, capitalization of retained earnings and share swap with DSC (Note 13). Treasury stock decreased mainly due to subsidiaries' sales of the Corporation's shares and change in percentage of ownership. For the years ended December 31, 2009 and 2008, the proceeds for treasury stock sold amounted to NT$512,835 thousand and NT$835,644 thousand, and after deducting book values, resulted in the amounts of NT$ 98,225 thousand and NT$548,063 thousand (recorded as capital surplus), respectively.

As of December 31, 2009 and 2008, the market values calculated by combined holding percentage of the treasury shares were NT$9,219,372 thousand and NT$6,377,968 thousand, respectively.

2) Shares acquired for transfer to employees

On October 7, 2008 the Corporation's Board of Directors approved the buyback of 300,000 thousand outstanding common shares from the open market during October 8, 2008 to December 7, 2008 at the price between NT$21.18 and NT$52.67 per share for the transfer of these shares to employees. Of which 108,000 thousand common shares have been transferred to employees as of December 31, 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). As of December 31, 2009, all treasury stock options were exercised.

Options granted during the year ended December 31, 2009 were priced using the Black-Scholes pricing model, and the inputs to the model were as follows:

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

Expected volatility is based on the historical stock price volatility over the past 5 years. The Corporation recognized salary expense of NT$795,700 thousand for the year ended December 31, 2009. Capital surplus recognized from transferring treasury stocks to subsidiaries was NT$24,362 thousand. The transferred price was lower than the carrying value of the treasury stocks by NT$102,634 thousand, which was deducted from capital surplus.

c. Overseas depositary receipts

In May 1992, February 1997 and October 2003, the ROC's Ministry of Economic Affairs ("MOEA") sold its holding shares in the Corporation through issuances of 88,329,150 units of Global Depositary Receipts ("GDR"), the depositary receipts then increased by 6,471,206 units resulting from the capitalization of retained earnings. Each unit was representing 20 shares of the Corporation's common stock, or equivalent to the Corporation's common shares totaling 1,896,007,331 shares (including 211 fractional stocks). Under relevant regulations, the GDR holders may also request the conversion to the shares represented by the GDR. The foreign investors may also request the reissuance of such depositary receipts within the originally approved units. As of December 31, 2009, the outstanding depositary receipts were 4,388,466 units, equivalent to 87,769,551 common shares (including 231 fractional stocks), which represented 0.67% of the outstanding common shares.

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:

	December 31	
	2009	**2008**
Additional paid-in capital - issuance of common shares to exchange for DSC shares (Note 13)	$ 15,717,185	$ 15,717,185
Treasury stock transactions	3,585,210	2,415,370
Long-term stock investments	288,017	270,266
Others	8,099	8,099
	$ 19,598,511	$ 18,410,920

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

f. Appropriation of retained earnings and dividend policy

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

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

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

3) Of the remainder, 0.15% as remuneration to directors and supervisors and 8% as bonus to employees. (In June 2008, the Corporation's stockholders resolved to change the appropriation rate for bonus to employees from 3%-5% to 8%, which will take effective for the appropriations of 2008 earnings.)

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

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

The Board of Directors should propose the appropriation of annual income. If necessary, it may, after appropriating preferred stock dividends at 14% of paid-in capital, propose to retain certain earnings as a special reserve. These proposals should be submitted to the stockholders' meeting for approval.

The Corporation is required to appropriate a special reserve from annual earnings for any net debit balance resulting from adjustments to the stockholders' equity (including unrealized revaluation increment, unrealized gain (loss) on financial instruments, unrecognized net loss on pension cost and cumulative translation adjustments, excluding treasury stock held by the Corporation). Besides, if the market price of the Corporation's common share is lower than the carrying value of the Corporation's shares held by subsidiaries, the Corporation should appropriate a special reserve equal to the difference between market price and carrying value. The Corporation may release a portion of this special reserve when such debit balances are partially or fully reversed. As of December 31, 2009, 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 remunerations to directors and supervisors were NT$ 1,528,288 thousand and NT$28,655 thousand, respectively as of December 31, 2009, and NT$1,637,715 thousand and NT$27,407 thousand , respectively as of December 31, 2008.

The bonus to employees and remuneration to directors and supervisors, representing 8% and 0.15% of net income (which is after deduction of bonus to employees and remuneration to directors and supervisors, legal reserve and special reserve), respectively, were accrued based on past experiences. Material differences between any estimated amounts and the amounts proposed by the Board of Directors in the following year are adjusted for in the current year. If the actual amounts subsequently resolved by the stockholders differ from the proposed amounts, the differences are recorded in the year of stockholders' resolution as a change in accounting estimate.

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

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

The Corporation's stockholders in their June 2009 and 2008 meetings approved the following appropriations of the 2008 and 2007 earnings, respectively (the change of preferred stock and common stock dividends due to preferred stock converted to common stock has been adjusted by actual appropriation on the effective date of appropriations).

	Amount		**Dividends Per Share (NT dollars)**	
	2008	**2007**	**2008**	**2007**
Legal reserve	$ 2,402,556	$ 5,125,820		
Preferred stocks				
Cash dividends	49,751	134,274	$ 1.30	$ 3.50
Stock dividends	16,455	11,509	0.43	0.30
			$ 1.73	$ 3.80

(Continued)

	Amount		Dividends Per Share (NT dollars)	
	2008	**2007**	**2008**	**2007**
Common Stocks				
Cash dividends	$ 16,184,404	$ 40,239,244	$ 1.30	$ 3.50
Stock dividends	5,353,303	3,449,079	0.43	0.30
			$ 1.73	$ 3.80
Remuneration to directors and supervisors	-	69,235		
Bonus to employees				
Cash bonus	-	923,135		
Stock bonus	-	1,384,702		
	$ 24,006,469	$ 51,336,998		

(Concluded)

The 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 years ended December 31, 2009 and 2008, movements of unrealized gain on financial instruments were as follows:

	Available-for-sale Financial Assets	**Equity-method Investments**	**Unrealized Gain or Loss on Cash Flow Hedging**	**Total**
Year ended December 31, 2009				
Balance, beginning of year	$ 3,623,089	$ 1,983,109	$ 901,807	$ 6,508,005
Recognized in stockholders' equity	1,143,801	(1,521,259)	(262,060)	(639,518)
Transferred to profit or loss	(1,642,584)	-	-	(1,642,584)
Transferred to construction in progress	-	-	(9,472)	(9,472)
Balance, end of year	$ 3,124,306	$ 461,850	$ 630,275	$ 4,216,431

(Continued)

Year ended December 31, 2008	Available-for-sale Financial Assets	Equity-method Investments	Unrealized Gain or Loss on Cash Flow Hedging	Total
Balance, beginning of year	$ 4,894,886	$ 1,578,440	$ -	$ 6,473,326
Recognized in stockholders' equity	(1,271,797)	404,669	901,807	34,679
Balance, end of year	$ 3,623,089	$ 1,983,109	$ 901,807	$ 6,508,005

(Concluded)

26. INCOME TAX

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

	Years Ended December 31 2009	2008
Income tax expense at the 25% statutory rate	$ 5,039,960	$ 7,563,833
Tax effect adjusting items		
Permanent differences		
Investment income recognized under equity method - domestic	(2,211,832)	(350,309)
Unrealized gain on valuation and gain on disposal of financial assets	(414,576)	(14,599)
Dividends	(26,242)	(94,684)
Tax-exempt income	(32,198)	(78,294)
Others	32,157	162,847
Temporary differences		
Difference between tax reporting and financial reporting - depreciation methods	220,985	205,354
Unrealized (realized) loss on purchase commitments	(1,475,381)	1,475,381
Unrealized (realized) provision for loss on inventories	(2,759,421)	2,774,029
Unrealized loss on construction	208,667	-
Unrealized gain from affiliates	44,964	109,365
Preferential severance pay	(46,804)	93,875
Investment income recognized under equity method - foreign investees	(121,747)	(100,692)
Cash dividends - foreign investees	32,269	61,275
Impairment loss of financial assets	1,050	1,272,961
Investment loss resulting from investees' capital reduction	-	(150,000)
Others	31,388	(4,057)
Investment tax credits used	-	(867,192)
Loss carryforward recognized	1,476,761	-
Income tax currently payable	-	12,059,093
Tax separately levied on interest from short-term bills	202	39,684
Adjustments for prior years' tax	(1,271,044)	(115,011)
Current income tax expense (benefit)	(1,270,842)	11,983,766

(Continued)

	Years Ended December 31	
	2009	2008
Deferred tax		
Temporary differences	$ 3,579,765	$ (5,758,841)
Investment tax credits	(806,532)	-
Loss carryforwards	(1,181,409)	-
Effect of tax law changes on deferred assets	236,340	-
Income tax expense	$ 557,322	$ 6,224,925

(Concluded)

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

b. Changes in income tax payable

	Years Ended December 31	
	2009	2008
Balance, beginning of year	$ 5,749,662	$ 6,682,244
Current income tax expense (benefit)	(1,270,842)	11,983,766
Payment in the current year	(4,478,820)	(12,916,348)
Balance, end of year	$ -	$ 5,749,662

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

	December 31	
	2009	2008
Current		
Deferred income tax assets		
Unrealized provision for loss on inventories	$ 11,687	$ 2,774,029
Unrealized loss on purchase commitments	-	1,475,381
Investment tax credits	806,532	-
Unrealized impairment loss on spare parts	169,025	152,256
Estimated preferential severance pay	85,675	153,898
Unrealized gain from affiliates	71,482	75,034
Difference between tax reporting and financial reporting - inventory	8,814	-
Loss carryforwards	1,181,409	-
Others	194,752	81,745
	2,529,376	4,712,343
Deferred income tax liabilities		
Difference between tax reporting and financial reporting - inventory	-	(31,924)
Total deferred income tax assets - current, net	2,529,376	4,680,419
Noncurrent		
Deferred income tax assets		
Impairment loss on financial assets	1,203,067	1,502,783
Unrealized gain from affiliates	155,567	163,814

(Continued)

	December 31	
	2009	2008
Impairment loss on assets	$ 12,762	$ 38,562
Others	6,725	4,542
	1,378,121	1,709,701
Deferred income tax liabilities		
Temporary difference between tax reporting and financial reporting - depreciation methods	(1,698,225)	(2,339,891)
Foreign investment income	(392,939)	(401,696)
Unrealized foreign exchange gain, net	(57,257)	(68,476)
Others	(7,183)	-
	(2,155,604)	(2,810,063)
Total deferred income tax liabilities - noncurrent, net	(777,483)	(1,100,362)
Total deferred income tax assets, net	$ 1,751,893	$ 3,580,057

(Concluded)

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

As of December 31, 2009, investment tax credits in accordance with Statute for Upgrading Industries comprised of:

Tax Credit Source	Total Creditable Amount	Expiry Year
Purchase of machinery and equipment	$ 544,445	2013
Research and development and personnel training expenditures	262,087	2013
	$ 806,532	

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

As of December 31, 2009, the unused loss carryforwards amount was NT$5,907,045 thousand (the amount of tax effect was NT$1,181,409 thousand). According to the newly revised Article 39 of the Income Tax Act, the Corporation can carry forward its net loss as tax credits from 5 years to 10 years. The unused loss carryforwards will be expired in 2019.

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

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

The Corporation's income tax returns through 2005 have been examined by the tax authorities.

d. Information about integrated income tax was as follows:

	December 31	
	2009	2008
Imputation credit account (ICA)	$ 5,522,124	$ 6,385,254
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.

27. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

	Years Ended December 31							
	2009				2008			
	Operating Cost	Operating Expense	Others	Total	Operating Cost	Operating Expense	Others	Total
Personnel								
Salary	$ 13,261,417	$ 2,646,889	$ 218,473	$ 16,126,779	$ 14,071,661	$ 2,230,621	$ 137,397	$ 16,439,679
Labor and health insurance	573,683	94,447	5,476	673,606	580,893	88,376	2,132	671,401
Pension and consolation costs	1,188,700	257,357	10,745	1,456,802	1,289,091	242,682	469,638	2,001,411
Others	280,701	153,009	7,289	440,999	1,038,050	147,450	7,121	1,192,621
	$ 15,304,501	$ 3,151,702	$ 241,983	$ 18,698,186	$ 16,979,695	$ 2,709,129	$ 616,288	$ 20,305,112
Depreciation	$ 11,881,950	$ 334,569	$ 21,334	$ 12,237,853	$ 11,237,294	$ 284,848	$ 25,336	$ 11,547,478
Amortization	680,611	65,406	9,076	755,093	582,163	63,190	3,160	648,513

28. EARNINGS PER SHARE

	Amount (Numerator)		Shares (Denominator)	Earnings Per Share (NT dollars)	
	Before Tax	After Tax	(Thousand)	Before Tax	After Tax
Year ended December 31, 2009					
Net income	$ 20,159,839	$ 19,602,517			
Less: Dividends on preferred shares	(55,098)	(53,575)			
Basic EPS					
Net income attributable to common stockholders	20,104,741	19,548,942	12,711,644	$ 1.58	$ 1.54
Effect of dilutive potential common stock					
Add: Dividends on preferred shares	55,098	53,575	38,268		
Bonus to employees	-	-	76,679		
Diluted EPS					
Net income attributable to common stockholders plus effect of potential dilutive common stock	$ 20,159,839	$ 19,602,517	12,826,591	1.57	1.53

(Continued)

	Amount (Numerator)		Shares (Denominator)	Earnings Per Share (NT dollars)	
	Before Tax	After Tax	(Thousand)	Before Tax	After Tax
Year ended December 31, 2008					
Net income	$ 30,255,331	$ 24,030,406			
Less: Dividends on preferred shares	(67,457)	(53,578)			
Basic EPS					
Net income attributable to common stockholders	30,187,874	23,976,828	12,347,549	$ 2.44	$ 1.94
Effect of dilutive potential common stock					
Add: Dividends on preferred shares	67,457	53,578	38,270		
Bonus to employees	-	-	77,838		
Diluted EPS					
Net income attributable to common stockholders plus effect of potential dilutive common stock	$ 30,255,331	$ 24,030,406	12,463,657	2.43	1.93

(Concluded)

The ARDF issued Interpretation 2007-052 that requires corporations to recognize bonuses paid to employees, directors and supervisors as compensation expenses beginning January 1, 2008. These bonuses were previously recorded as appropriations from earnings. If the Corporation may settle the bonus to employees by cash or shares, the Corporation should presume that the entire amount of the bonus will be settled in shares and the resulting potential shares should be included in the weighted average number of shares outstanding used in the calculation of diluted EPS, if the shares have a dilutive effect. The number of shares is estimated by dividing the amount of bonus by the closing price of the shares at the balance sheet date. The dilutive effect of the shares should be considered until the stockholders resolve the number of shares to be distributed to employees in their meeting in the following year.

In EPS calculation for the year ended December 31, 2008, the number of outstanding shares was retroactively adjusted. Thus EPS before tax and after tax decreased from NT$2.55 to NT$2.44 and from NT$2.03 to NT$1.94, respectively.

29. FINANCIAL INSTRUMENTS

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

	December 31			
	2009		2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	$ 4,062,844	$ 4,062,844	$ 5,605,453	$ 5,605,453
Available-for-sale financial assets (including noncurrent)	5,094,589	5,094,589	6,224,309	6,224,309
Financial assets carried at cost	5,575,210	-	5,910,484	-
Bond investments with no active market	103,000	103,000	103,000	103,000
Other financial assets (including noncurrent)	4,978,230	4,978,230	5,235,840	5,235,840
Refundable deposits	138,324	138,324	182,807	182,807
Liabilities				
Bonds payable	43,268,970	45,022,400	43,281,660	44,143,090
Long-term debts (including current portion)	5,234,716	5,234,716	5,363,128	5,363,128
Long-term notes payable	5,245,996	5,245,996	-	-

(Continued)

	December 31			
	2009		2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Derivative Financial Instrument				
Hedging derivative assets (including noncurrent)	$ 61,976	$ 61,976	$ 63,561	$ 63,561
Hedging derivative liabilities (including noncurrent)	-	-	6,534	6,534

(Concluded)

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

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

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

3) The fair values of long-term liabilities and foreign currency of other financial assets are determined by the present values of future cash flows, with the values discounted at the interest rates of similar long-term debt and the floating-rate of foreign currency deposits available for the Corporation. Discount rates as of December 31, 2009 and 2008 were from 0.4% to 4.14429% and from 1.14% to 8.69239%, 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	
	December 31		December 31	
	2009	2008	2009	2008
Assets				
Financial assets at fair value through profit or loss	$ 4,062,844	$ 5,605,453	$ -	$ -
Available-for-sale financial assets (including noncurrent)	5,094,589	6,224,309	-	-
Bond investments with no active market	-	-	103,000	103,000
Other financial assets (including noncurrent)	-	-	4,978,230	5,235,840
Hedging derivative assets (including noncurrent)	-	-	61,976	63,561
Refundable deposits	-	-	138,324	182,807

(Continued)

	Amount Determined by Quoted Market Price		Amount Determined by Using Valuation Technique	
	December 31		December 31	
	2009	2008	2009	2008
Liabilities				
Hedging derivative liabilities (including noncurrent)	$ -	$ -	$ -	$ 6,534
Bonds payable	-	-	45,022,400	44,143,090
Long-term debts (including current portion)	-	-	5,234,716	5,363,128
Long-term notes payable	-	-	5,245,996	-

(Concluded)

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

e. As of December 31, 2009 and 2008, financial liabilities were NT$16,691,462 thousand and NT$14,236,330 thousand, respectively, and financial liabilities with fair value risk of the interest rate change were NT$51,268,747 thousand and NT$58,253,253 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$97,092 thousand and NT$1,175,699 thousand, respectively, for the year ended December 31, 2009 and NT$518,450 thousand and NT$672,175 thousand, respectively, for the year ended December 31, 2008.

g. Financial risks

1) Market risk

Market risk includes fair value risk of interest rate change, exchange rate risk, and market price risk. The Corporation had long-term loans in yen to hedge the exchange rate fluctuations on 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$1,395,696 thousand.

The Corporation's investments in the bond funds and stocks of Taiwan Semiconductor Manufacturing Company Ltd., Maruichi Steel Tube Ltd., Yodogawa Steel Work, Ltd., Tang Eng Iron Works Corporation and CSBC Corporation Taiwan involve market risk. Except the minor fluctuation of the bond fund's market price, the share price of the stocks increases or decreases by 1%, the fair value will increase or decrease by NT$50,946 thousand.

2) Credit risk

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

3) Liquidity risk

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

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

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

4) Cash flow interest rate risk

Market interest rate change will influence the effective interest rate of the financial instruments which have cash flow risk of the interest rate change, and make future cash flow fluctuate. If the market interest rate increases by 1%, the Corporation's cash outflow will increase by NT$166,915 thousand.

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

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

		Designated Hedging Instrument		
			Changes in Fair Value	
			Years Ended December 31	
Hedge Type	**Hedged Item**	**Financial Instrument**	**2009**	**2008**
Fair value hedge	Stock investments in East Asia United Steel Corporation (recorded as financial assets carried at cost - noncurrent)	Long-term debt in JPY	$ 164,835	$ (732,105)
Fair value hedge	Stock investments in Maruichi Steel Tube Ltd. (recorded as available-for-sale financial assets - noncurrent)	Long-term debt in JPY	43,290	(192,270)
Fair value hedge	Stock investments in Yodogawa Steel Works, Ltd. (recorded as available-for-sale financial assets - noncurrent)	Long-term debt in JPY	20,213	(89,775)
Hedge of a net investment in a foreign operation	Stock investment in CSC Steel Australia Holdings Pty. Ltd. (recorded as investments accounted for by the equity method)	Long-term debt in AUD	(99,926)	96,676
Hedge of a net investment in a foreign operation	Stock investment in China Steel Sumikin Vietnam Joint Stock Company (recorded as investments accounted for by the equity method)	Short-term debt in USD	47,014	-
Hedge of cash flow	Contracts for purchasing machinery and equipment	Deposit-foreign currency	(276,481)	844,780
Hedge of cash flow	Contracts for purchasing machinery and equipment	Forward contracts	14,421	57,027

The amount determined by fair value would approximate to the carrying value on the above hedging instruments.

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

As of December 31, 2009 and 2008, the fair values of the above foreign deposits of financial instrument on hedge of cash flow were NT$4,978,230 thousand and NT$5,235,840 thousand, respectively, recorded as other financial assets (including non-current) (Note 14).

30. RELATED PARTY TRANSACTIONS

a. Related parties

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

(Continued)

Related Parties	Relationship with the Corporation
Great Grandeul Steel Co., Ltd.	Director of the Corporation's affiliate
Southeast Cement Co., Ltd.	Supervisor of the Corporation's affiliate
Chun Yu Corporation	Supervisor of the Corporation's affiliate
Hua Eng Wire & Cable Co., Ltd.	Director of the Corporation's affiliate
Chun Yuan Steel industry Co., Ltd. (CYS)	Director of the Corporation's affiliate
Chin Ho Fa Steel & Iron Co., Ltd.	Director of the Corporation's affiliate
Chang Yee Steel Co., Ltd.	Director of the Corporation's affiliate
Unimax & Far Corporation	Director of the Corporation's affiliate
Mayer Steel Pipe Corporation	Director of the Corporation's affiliate
Kao Hsing Chang Iron & Steel Corporation	Director of the Corporation's affiliate
Bichan Trading CORP.	Director of the Corporation's affiliate
Sando Trading Co., Ltd.	Director of the Corporation's affiliate
Sumitomo Corporation	Director of the Corporation's affiliate
Sumikin Bussan Corporation	Director of the Corporation's affiliate
CTCI Corporation	Supervisor of the Corporation's affiliate
Tang Eng Iron Works Co., Ltd. (TEI)	Director of the Corporation
CSBC Corporation Taiwan	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 transactions with related parties:

Sales

The sales transactions with related parties were NT$25,564,454 thousand (16%, including CSSB, CSCC and CYS, etc.) and NT$22,324,292 thousand (9%, including CSSB, CSSC and CSCC, etc.), respectively.

Purchases

	Years Ended December 31			
	2009		2008	
	Amount	%	Amount	%
CSEP	$ 8,019,761	9	$ 23,676,256	14
Others	7,216,384	9	7,165,995	4
	$ 15,236,145	18	$ 30,842,251	18

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:

	Expiry of Contracts	Rental Income for the Years Ended December 31			
		2009		2008	
		Amount	%	Amount	%
CAC	February 2016	$ 56,176	35	$ 56,189	35
CSMC	November 2011	29,372	18	28,826	18
CSCC	December 2012	20,282	13	21,006	13
Others	May 2018	30,196	19	29,680	18
		$ 136,026	85	$ 135,701	84

Other revenues

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

	Other Operating Revenue	%	Nonoperating Income and Gains	%	Total
Year ended December 31, 2009					
DSC	$ 795,940	21	$ 1,823	-	$ 797,763
TEI	735,635	20	125	-	735,760
CHSC	29,701	1	288,953	36	318,654
KRTC	3,511	-	-	-	3,511
Others	296,322	8	123,199	16	419,521
	$ 1,861,109	50	$ 414,100	52	$ 2,275,209
Year ended December 31, 2008					
DSC	$ 1,374,166	19	$ 6,870	-	$ 1,381,036
TEI	717,808	10	114	-	717,922
CHSC	27,455	-	220,454	13	247,909
KRTC	2,443,463	34	2,410	-	2,445,873
Others	393,209	6	189,907	12	583,116
	$ 4,956,101	69	$ 419,755	25	$ 5,375,856

Other expenditures

Other expenditures paid to related parties for the years ended December 31, 2009 and 2008 (including CEC, CHC and CSMC, etc.) were NT$3,172,078 thousand and NT$5,185,079 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.

Asset transactions

In April 2008, the Corporation entered into a contract with CPDC to purchase land for the construction of its factories. The contract price is NT$226,238 thousand, which was referred to the appraisal report and negotiated by the two parties.

In August 2007, the Corporation bought land from CHC for construction of its factories. The contract price was a total of NT$977,257 thousand, which was determined by reference to the appraisal report. As of December 31, 2009, the Corporation had paid NT$792,056 thousand, NT$185,201 thousand remained unpaid.

Construction in progress

The constructions in progress transacted with related parties for the years ended December 31, 2009 and 2008 were NT$7,373,365 thousand (including CEC, CSMC and CSSC, etc.) and NT$4,791,298 thousand (including CSMC, CEC and USECC, etc.), respectively.

Donation expenditures

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

Balances at year-end

	December 31			
	2009		2008	
	Amount	%	Amount	%
Receivables				
KRTC	$ 232,389	7	$ 839,073	17
Others	1,102,175	31	657,998	13
	$ 1,334,564	38	$ 1,497,071	30
Payables				
CSEP	$ 2,495,447	49	$ 1,313,347	24
Others	612,515	12	468,379	8
	$ 3,107,962	61	$ 1,781,726	32

Guarantees

As of December 31, 2009, endorsements/guarantees provided to DSC were NT$17,813,677 thousand (US$556,851 thousand).

c. Compensation of directors, supervisors and management personnel

	Years Ended December 31	
	2009	2008
Salaries	$ 86,721	$ 76,503
Incentives	27,553	23,705
Bonus	23,033	27,629
	$ 137,307	$ 127,837

31. PLEDGED ASSETS

Time deposits of NT$4,164,301 thousand and NT$4,158,026 thousand (recorded as restricted assets - current and noncurrent) as of December 31, 2009 and 2008, respectively were pledged mainly as collaterals for bank overdraft and contractual deposits etc. Book value of land amounted to NT$17,058,175 thousand had been pledged as collateral for a long-term debt.

32. SIGNIFICANT COMMITMENTS AND CONTINGENCIES AS OF DECEMBER 31, 2009

a. The Corporation is guaranteed of NT$1,274,849 thousand by Mega Bank and Taipei Fubon Bank for several construction, warranty, lease and payment contracts.

b. Unused letters of credit to import materials and machinery amounted to NT$16 billion.

c. The Corporation entered into property purchase contracts. Unrecorded amounts as of December 31, 2009 were NT$12.7 billion.

d. The Corporation entered into raw material purchase contracts with suppliers in Australia, India, Brazil, Canada, Indonesia, North Korea, Japan, Philippines, Russia and domestic companies with contract terms of 1 to 10 years. Contracted annual purchases of 8,000,000 metric tons of coal, 17,000,000 metric tons of iron ore, and 2,600,000 metric tons of limestone are at prices negotiable every year. Unpaid purchase amounts as of December 31, 2009 were US$10 billion (including 15,430,000 metric tons of coal; 124,270,000 metric tons of iron ore; and 1,200,000 metric tons of limestone).

e. CHSC entered into a syndicated credit facility agreement with Mega Bank and 21 other banks. Under the agreement, the Corporation and its related parties should collectively hold at least 30% of CHSC's outstanding shares and possess no less than half of CHSC's board seats as well as control of its operations. As of December 31, 2009, the Corporation directly and indirectly had total shareholdings in CHSC of 41% and all seats in the Board of Directors and control on its operations.

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

g. Endorsements/guarantees provided to related parties were NT$17,813,677 thousand (Note 30).

33. SUBSEQUENT EVENTS

From January 1, 2010 to the date of the accompanying auditors' report, the Corporation has borrowed NT$16,000,000 thousand as revolving funds from Bank of Taiwan.

34. SEGMENT INFORMATION

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

	Years Ended December 31	
	2009 Amount	2008 Amount
South Asia	$ 27,752,017	$ 35,612,720
East Asia	11,382,878	18,844,459
Others	3,176,968	3,980,678
	$ 42,311,863	$ 58,437,857
Percentage (%) of the sales	26	23

APPENDIX

CHINA STEEL CORPORATION

ADDITIONAL EXPLANATIONS FOR ACCOUNTS IN STOCKHOLDERS' EQUITY YEARS ENDED DECEMBER 31, 2009 AND 2008

1. ADJUSTMENT FROM CHANGES IN EQUITY RECOGNIZED UNDER EQUITY METHOD

a. Long-term investment adjustment

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

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

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

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

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

3. NET LOSS NOT RECOGNIZED AS PENSION COST

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

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

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

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

4. DISPOSAL OF TREASURY STOCK

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

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

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

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

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

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