China Steel Corporation

Financial Statements for the
Six Months Ended June 30, 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 June 30, 2009 and 2008, and the related statements of income, changes in stockholders' equity and cash flows for the six months then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Corporation as of June 30, 2009 and 2008, and the results of its operations and its cash flows for the six months then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

As stated in Note 3 to the accompanying financial statements, starting January 1, 2009, the Corporation adopted the newly revised SFAS No.10, “Accounting for Inventories”, issued by the Accounting Research and Development Foundation (“ARDF”) in November 2007. Also, starting January 1, 2008, the Corporation adopted Interpretation 96-052, “Accounting for Bonuses to Employees, Directors and Supervisors” issued by the ARDF in March 2007.

July 28, 2009

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

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

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

CHINA STEEL CORPORATION

BALANCE SHEETS
JUNE 30, 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)	$ 1,699,897	1	$ 19,971,830	7
Financial assets at fair value through profit or loss - current (Notes 2 and 5)	1,808,116	1	9,503,989	3
Available-for-sale financial assets - current (Notes 2 and 6)	1,585,347	1	4,784,371	2
Hedging derivative assets - current (Notes 2 and 7)	95,135	-	-	-
Notes receivable	734,682	-	1,919,388	1
Accounts receivable (Notes 2, 8 and 29)	2,154,356	1	4,547,324	2
Other receivables (Notes 11 and 29)	1,514,260	-	9,772,581	3
Inventories (Notes 2 and 9)	32,150,832	10	40,766,533	13
Deferred income tax assets - current (Note 25)	3,960,695	1	268,302	-
Restricted assets - current (Note 30)	4,150,002	1	4,186,208	1
Others (Notes 10 and 29)	7,888,782	2	7,483,638	2
Total current assets	57,742,104	18	103,204,164	34
INVESTMENTS				
Available-for-sale financial assets - noncurrent (Notes 2, 6 and 28)	3,100,772	1	3,006,814	1
Hedging derivative assets - noncurrent (Notes 2 and 7)	32,749	-	-	-
Financial assets carried at cost - noncurrent (Notes 2, 11 and 28)	5,706,984	2	6,035,433	2
Bond investments with no active market - noncurrent (Notes 2 and 12)	103,000	-	4,841,926	2
Investments accounted for by the equity method (Notes 2, 13 and 28)	91,691,317	28	63,105,901	20
Prepaid long-term stock investments (Note 13)	-	-	69,700	-
Other financial assets - noncurrent (Note 14)	5,139,633	2	4,380,640	1
Total investments	105,774,455	33	81,440,414	26
PROPERTY, PLANT AND EQUIPMENT (Notes 2, 15, 29, 30 and 32)				
Land	10,692,043	3	10,692,043	4
Land improvements	4,221,507	1	4,212,123	1
Buildings	41,501,136	13	40,476,985	13
Machinery and equipment	246,798,383	77	240,889,955	78
Transportation equipment	1,708,643	1	1,546,688	1
Other equipment	4,455,249	1	4,099,450	1
Total cost	309,376,961	96	301,917,244	98
Revaluation increment	43,723,372	13	16,941,188	5
Cost and revaluation increment	353,100,333	109	318,858,432	103
Less: Accumulated depreciation	227,164,457	70	217,037,007	70
	125,935,876	39	101,821,425	33
Constructions in progress	26,267,445	8	16,705,964	5
Total property, plant and equipment	152,203,321	47	118,527,389	38
INTANGIBLE ASSETS (Note 2)	203,560	-	190,197	-
OTHER ASSETS				
Assets leased to others, net (Notes 2 and 16)	3,230,252	1	3,253,245	1
Refundable deposits	220,320	-	179,078	-
Deferred income tax assets - noncurrent (Notes 2 and 25)	1,844,592	1	-	-
Restricted assets - noncurrent (Note 30)	8,026	-	2,000	-
Unamortized repair costs and others (Notes 2 and 10)	1,836,064	-	2,195,857	1
Total other assets	7,139,254	2	5,630,180	2
TOTAL	$ 323,062,694	100	$ 308,992,344	100

	2009		2008	
LIABILITIES AND STOCKHOLDERS' EQUITY	**Amount**	**%**	**Amount**	**%**
CURRENT LIABILITIES				
Short-term loans and overdraft (Notes 17 and 30)	$ 2,453,234	1	$ 7,551,058	2
Hedging derivative liabilities - current (Notes 2 and 7)	-	-	15,917	-
Accounts payable (Note 29)	2,306,323	1	7,600,994	3
Income tax payable (Notes 2 and 25)	5,589,298	2	6,349,405	2
Accrued expenses (Note 18)	7,354,604	2	9,271,567	3
Dividends payable (Note 24)	16,521,897	5	40,635,666	13
Other payables (Note 2)	4,741,698	1	4,292,310	1
Purchase commitments payable (Notes 2, 9 and 31)	4,790,941	2	-	-
Long-term debts-current portion (Note 20)	892,580	-	-	-
Others	1,083,460	-	1,883,323	1
Total current liabilities	45,734,035	14	77,600,240	25
LONG-TERM LIABILITIES				
Hedging derivative liabilities - noncurrent (Notes 2 and 7)	-	-	275,173	-
Bonds payable (Note 19)	43,300,000	13	13,700,000	4
Long-term debts - bank (Note 20)	4,256,063	1	4,437,470	2
Long-term notes payable (Note 21)	5,247,276	2	-	-
Total long-term liabilities	52,803,339	16	18,412,643	6
RESERVE FOR LAND VALUE INCREMENT TAX (Note 15)	8,673,466	3	2,171,124	1
OTHER LIABILITIES				
Deferred income tax liabilities - noncurrent (Notes 2 and 25)	-	-	2,477,638	1
Deferred credits - gain from affiliates (Note 23)	1,867,760	1	1,695,759	-
Total other liabilities	1,867,760	1	4,173,397	1
Total liabilities	109,078,600	34	102,357,404	33
CAPITAL STOCK - AUTHORIZED 14,000,000 THOUSAND SHARES AND 12,000,000 THOUSAND SHARES AT NT$10 PAR VALUE AS OF JUNE 30, 2009 AND 2008, RESPECTIVELY (Note 24)				
Common shares - issued 12,557,543 thousand shares and 11,496,921 thousand shares as of June 30, 2009 and 2008, respectively	125,575,431	39	114,969,210	37
Preferred shares - issued 38,268 thousand shares and 38,370 thousand shares as of June 30, 2009 and 2008, respectively	382,680	-	383,700	-
Total capital stock	125,958,111	39	115,352,910	37
CAPITAL SURPLUS (Note 24)	18,476,681	6	2,084,984	1
RETAINED EARNINGS (Note 24)	53,667,545	16	84,145,363	27
OTHER EQUITY				
Unrealized revaluation increment (Note 15)	21,914,203	7	1,505,903	-
Unrealized gain on financial instruments (Notes 6, 7, 14 and 24)	4,519,987	1	5,437,895	2
Cumulative translation adjustments (Note 2)	292,704	-	(511,142)	-
Net loss not recognized as pension cost	(32,385)	-	(40,099)	-
Treasury stock - 380,452 thousand shares and 79,443 thousand shares as of June 30, 2009 and 2008, respectively (Notes 2 and 24)	(10,812,752)	(3)	(1,340,874)	-
Total other equity	15,881,757	5	5,051,683	2
Total stockholders' equity	213,984,094	66	206,634,940	67
TOTAL	$ 323,062,694	100	$ 308,992,344	100

The accompanying notes are an integral part of the financial statements.
(With Deloitte & Touche audit report dated July 28, 2009)

CHINA STEEL CORPORATION

STATEMENTS OF INCOME
SIX MONTHS ENDED JUNE 30, 2009 AND 2008
(In Thousands of New Taiwan Dollars, Except Earnings (Loss) Per Share)

	2009		2008	
	Amount	**%**	**Amount**	**%**
OPERATING REVENUES (Notes 2 and 29)	$ 73,277,324	100	$ 124,322,834	100
OPERATING COSTS (Notes 2, 3, 9, 26, 29 and 31)	82,455,534	113	93,593,873	75
GROSS PROFIT (LOSS)	(9,178,210)	(13)	30,728,961	25
UNREALIZED LOSS (GAIN) FROM AFFILIATES, NET	369,423	1	(325,653)	-
REALIZED GROSS PROFIT (LOSS)	(8,808,787)	(12)	30,403,308	25
OPERATING EXPENSES (Notes 26 and 29)				
Research and development	505,892	1	764,311	1
Selling	970,242	1	1,460,793	1
General and administrative	984,824	1	1,405,164	1
Total operating expenses	2,460,958	3	3,630,268	3
OPERATING INCOME (LOSS)	(11,269,745)	(15)	26,773,040	22
NONOPERATING INCOME AND GAINS				
Interest income (Note 28)	51,972	-	336,267	-
Valuation gain on financial assets (Notes 2 and 5)	13,227	-	28,859	-
Investment income recognized under equity method (Note 13)	786,802	1	6,208,249	5
Gain on sale of investments (Notes 2 and 6)	1,642,579	2	-	-
Others (Notes 11 and 29)	581,491	1	729,416	1
Total nonoperating income and gains	3,076,071	4	7,302,791	6
NONOPERATING EXPENSES AND LOSSES				
Interest expense (Notes 15 and 28)	454,231	1	261,278	-
Impairment loss (Notes 11 and 12)	-	-	303,370	-
Others (Note 29)	148,487	-	339,149	1
Total nonoperating expenses and losses	602,718	1	903,797	1
INCOME (LOSS) BEFORE INCOME TAX	(8,796,392)	(12)	33,172,034	27
INCOME TAX EXPENSE (BENEFIT) (Notes 2 and 25)	(2,345,328)	(3)	6,271,935	5
NET INCOME (LOSS)	$ (6,451,064)	(9)	$ 26,900,099	22

(Continued)

CHINA STEEL CORPORATION

STATEMENTS OF INCOME
SIX MONTHS ENDED JUNE 30, 2009 AND 2008
(In Thousands of New Taiwan Dollars, Except Earnings (Loss) Per Share)

	2009		2008	
	Before Tax	**After Tax**	**Before Tax**	**After Tax**
EARNINGS (LOSS) PER SHARE (Note 27)				
Basic	$ (0.73)	$ (0.53)	$ 2.78	$ 2.26
Diluted	$ (0.73)	$ (0.53)	$ 2.76	$ 2.24

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

	2009	2008
Net income (Loss)	$ (6,390,429)	$ 26,973,589
Basic earnings (loss) per share based on weighted-average number of outstanding common shares aggregating 12,449,543 thousand and 11,981,450 thousand shares for the six months ended June 30, 2009 and 2008, respectively	$ (0.52)	$ 2.25
Diluted earnings (loss) per share based on weighted-average number of outstanding common shares aggregating 12,449,543 thousand and 12,080,910 thousand shares for the six months ended June 30, 2009 and 2008, respectively	$ (0.52)	$ 2.23

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

(With Deloitte & Touche audit report dated July 28, 2009) (Concluded)

CHINA STEEL CORPORATION

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
SIX MONTHS ENDED JUNE 30, 2009 AND 2008
(In Thousands of New Taiwan Dollars, Except Cash Dividend Per Share)

	CAPITAL STOCK			RETAINED EARNINGS				OTHER EQUITY					
	Common Stock	Preferred Stock	CAPITAL SURPLUS	Legal Reserve	Special Reserve	Unappropriated Earnings	Total	Unrealized Revaluation Increment	Unrealized Gain (Loss) on Financial Instruments	Cumulative Translation Adjustments	Net Loss Not Recognized As Pension Cost	Treasury Stock	Total Stockholders' Equity
BALANCE, JANUARY 1, 2009	$ 125,575,411	$ 382,700	$18,410,920	$ 44,715,153	$ 7,615,701	$ 24,096,253	$ 76,427,107	$21,915,248	$ 6,508,005	$ 358,976	$ (32,385)	$ (10,805,513)	$238,740,469
Conversion of preferred shares to common shares	20	(20)	-	-	-	-	-	-	-	-	-	-	-
Appropriation of 2008 earnings (Note 24 ; Note)													
Legal reserve	-	-	-	2,402,556	-	(2,402,556)	-	-	-	-	-	-	-
Preferred cash dividends - $1.30 per share	-	-	-	-	-	(49,751)	(49,751)	-	-	-	-	-	(49,751)
Common cash dividends - $1.30 per share	-	-	-	-	-	(16,184,403)	(16,184,403)	-	-	-	-	-	(16,184,403)
Net loss for the six months ended June 30, 2009	-	-	-	-	-	(6,451,064)	(6,451,064)	-	-	-	-	-	(6,451,064)
Change in unrealized gain on available-for-sale financial assets	-	-	-	-	-	-	-	-	(893,142)	-	-	-	(893,142)
Adjusted to nonoperating income upon disposal of appreciated properties (Note 15)	-	-	-	-	-	-	-	(1,045)	-	-	-	-	(1,045)
Adjustment from changes in equity recognized under equity method	-	-	5,126	-	-	(74,344)	(74,344)	-	(871,933)	-	-	(64,259)	(1,005,410)
Foreign exchange loss due to the translation of foreign currency financial statements	-	-	-	-	-	-	-	-	-	(1,677)	-	-	(1,677)
Exchange loss due to the hedge of a net investment in a foreign operation	-	-	-	-	-	-	-	-	-	(64,595)	-	-	(64,595)
Change in unrealized loss on cash flow hedging financial instruments	-	-	-	-	-	-	-	-	(222,943)	-	-	-	(222,943)
Disposal of the Corporation's shares held by subsidiaries	-	-	60,635	-	-	-	-	-	-	-	-	235,372	296,007
Discount for acquisition cost of treasury stock	-	-	-	-	-	-	-	-	-	-	-	886	886
Purchase of the Corporation's shares by subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(179,238)	(179,238)
BALANCE, JUNE 30, 2009	$ 125,575,431	$ 382,680	$18,476,681	$ 47,117,709	$ 7,615,701	$ (1,065,865)	$ 53,667,545	$21,914,203	$ 4,519,987	$ 292,704	$ (32,385)	$ (10,812,752)	$213,984,094
BALANCE, 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 shares to common shares	5,860	(5,860)	-	-	-	-	-	-	-	-	-	-	-
Appropriation of 2007 earnings (Note 24)													
Legal reserve	-	-	-	5,125,820	-	(5,125,820)	-	-	-	-	-	-	-
Bonus to employees	-	-	-	-	-	(923,135)	(923,135)	-	-	-	-	-	(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)
Net income for the six months ended June 30, 2008	-	-	-	-	-	26,900,099	26,900,099	-	-	-	-	-	26,900,099
Change in unrealized gain on available-for-sale financial assets	-	-	-	-	-	-	-	-	552,316	-	-	-	552,316
Adjusted to nonoperating income upon disposal of appreciated properties (Note 15)	-	-	-	-	-	-	-	(3,252)	-	-	-	-	(3,252)
Adjustment from changes in equity recognized under equity method	-	-	21,681	-	-	(1,577)	(1,577)	-	(1,042,317)	-	-	(5,584)	(1,027,797)
Foreign exchange loss due to the translation of foreign currency financial statements	-	-	-	-	-	-	-	-	-	(781,773)	-	-	(781,773)
Exchange loss due to the hedge of a net investment in a foreign operation	-	-	-	-	-	-	-	-	-	(12,387)	-	-	(12,387)
Investees' net loss not recognized as pension cost	-	-	-	-	-	-	-	-	-	-	(2,016)	-	(2,016)
Change in unrealized loss on cash flow hedging financial instruments	-	-	-	-	-	-	-	-	(545,430)	-	-	-	(545,430)
Disposal of the Corporation's shares held by subsidiaries	-	-	184,673	-	-	-	-	-	-	-	-	89,668	274,341
Purchase of the Corporation's shares by subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(8,563)	(8,563)
BALANCE, JUNE 30, 2008	$ 114,969,210	$ 383,700	$ 2,084,984	$ 44,715,153	$ 7,615,701	$ 31,814,509	$ 84,145,363	$ 1,505,903	$ 5,437,895	$ (511,142)	$ (40,099)	$ (1,340,874)	$206,634,940

Note: The remuneration to directors and supervisors of NT$35,194 thousand and the bonus to employees of NT$1,877,002 thousand of the 2008 were deducted in the income statement.

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

(With Deloitte & Touche audit report dated July 28, 2009)

CHINA STEEL CORPORATION

STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2009 AND 2008
(In Thousands of New Taiwan Dollars)

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ (6,451,064)	$ 26,900,099
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation	5,907,952	5,615,043
Amortization	331,039	324,274
Deferred income tax	(2,225,230)	30,552
Provision for loss on inventories	9,597,643	-
Loss on purchase commitments	3,023,852	-
Impairment loss of spare parts	137,148	45,939
Gain on sale of investments	(1,642,579)	-
Investment income under equity method	(786,802)	(6,208,249)
Unrealized gain (loss) from affiliates	(369,423)	325,653
Cash dividends received from equity method investees	7,059,004	155,284
Loss on disposal of property, plant and equipment	22,353	56,200
Valuation gains on financial assets	(13,227)	(28,859)
Impairment loss	-	303,370
Others	120,142	(55,846)
Net changes in operating assets and liabilities		
Notes receivable	1,381,717	(523,833)
Accounts receivable	740,857	(2,085,084)
Other receivables	945,874	(122,101)
Inventories	11,106,031	(7,649,610)
Other current assets	27,982	(741,463)
Accounts payable	(3,244,120)	2,260,901
Income tax payable	(160,364)	(332,839)
Accrued expenses	1,042,809	1,733,797
Other payables	(1,960,982)	78,432
Purchase commitments payable	(4,134,436)	-
Other current liabilities	(291,501)	(276,473)
Net cash provided by operating activities	20,164,675	19,805,187
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of financial assets at fair value through profit or loss	-	(9,550,208)
Proceeds from disposal of financial assets at fair value through profit or loss	3,810,564	1,107,175
Proceeds from disposal of available-for-sale financial assets	2,210,040	-
Acquisition of investments accounted for by equity method	(1,726,232)	(140,872)
Increase in prepaid long-term stock investments	-	(69,700)
Acquisition of property, plant and equipment	(9,693,031)	(8,185,181)
Proceeds from disposal of property, plant and equipment	1,215	-
Increase in other financial assets	(197,593)	(4,634,980)
Increase in refundable deposits	(37,513)	(97,405)
Decrease in restricted deposits	8,422	5,826

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CHINA STEEL CORPORATION

STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2009 AND 2008
(In Thousands of New Taiwan Dollars)

	2009	2008
Increase in intangible assets	$ (116,466)	$ -
Increase in other assets	(319,504)	(87,442)
Net cash used in investing activities	(6,060,098)	(21,652,787)
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in short-term loan and overdraft	(6,419,968)	(2,603,627)
Decrease in commerical paper payable	(14,971,593)	-
Increase in long-term notes payable	5,247,276	-
Cash dividends	(6,322)	(15,102)
Discount for acquisition cost of treasury stock	886	-
Net cash used in financing activities	(16,149,721)	(2,618,729)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,045,144)	(4,466,329)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	3,745,041	24,438,159
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 1,699,897	$ 19,971,830
SUPPLEMENTAL INFORMATION		
Interest paid (excluding capitalized interest)	$ 176,039	$ 296,095
Income tax paid	40,266	6,574,222
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	$ 9,025,057	$ 8,528,023
Decrease (increase) in payable for equipment purchased	667,974	(342,842)
	$ 9,693,031	$ 8,185,181
Cash Paid to Stockholders		
Total cash dividends payable to stockholders	$ 16,234,154	$ 40,373,518
Increase in dividends payable	(16,227,832)	(40,358,416)
	$ 6,322	$ 15,102
NON-CASH FINANCING ACTIVITIES		
Payable for Remuneration to Directors and Supervisors and Bonus to Employees (Appropriations of Earnings)	$ -	$ 992,370

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

(With Deloitte & Touche audit report dated July 28, 2009) (Concluded)

1. ORGANIZATION AND OPERATIONS

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

The Corporation's shares have been listed on the Taiwan Stock Exchange since December 1974. As of June 30, 2009, the Ministry of Economic Affairs, Republic of China owned 21.24% of the Corporation's outstanding common stock (including the treasury stocks held by the Corporation and its subsidiaries).

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

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

For readers' convenience, the accompanying financial statements were translated into English from the original Chinese version prepared and used in the ROC. If inconsistencies arise between the English version and the Chinese version or if differences arise in the interpretations between the two versions, the Chinese version of the financial statements shall prevail. However, the Corporation's financial statements do not include the English translation of additional disclosures that are not required under generally accepted accounting principles but are required by the Securities and Futures Bureau ("SFB") 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. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

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

Available-for-sale Financial Assets

Available-for-sale financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are remeasured at fair value, with changes in fair value recognized in equity until the financial assets are disposed of, at which time, the cumulative gain or loss previously recognized in equity is included in profit or loss for the year. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Fair value is based on the closing price on balance sheet date for listed stocks and determined by using valuation technique for financial instruments without quoted price.

The recognition and derecognition bases of available-for-sale financial assets are similar to those of financial assets at FVTPL.

Cash dividends are recognized on the ex-dividend date, except for dividends distributed from the pre-acquisition profit, which are treated as a reduction of investment cost. Stock dividends are not recognized as investment income but are recorded as an increase in the number of shares. The total number of shares subsequent to the increase is used for recalculation of cost per share. The difference between the initial cost of a debt instrument and its maturity amount is amortized using the straight-line method, with the amortized interest recognized in profit or loss.

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

Revenue Recognition, Accounts Receivable and Allowance for Doubtful Accounts

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

Revenues are measured at fair value, the price (net of trade discounts and sales discounts) agreed to by the Corporation and customers. But if the related receivable is due within one year, the difference between its present value and receivable amount is immaterial, and sales transactions are frequent, the fair value of receivables is equivalent to the nominal amount of cash to be received. If the selling price of steel products declared by the Corporation declines in the next period, retroactive adjustment of the reduction in selling price in the current period is required as stipulated in the Corporation's sales policy. The payables arising from such retroactive adjustment are recorded as other payables in the current liabilities.

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

Factoring of Accounts Receivable

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

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

b. The transferees have obtained the right to pledge or exchange the accounts receivable, which are either the transferred accounts receivable or beneficial interest in the transferred assets.

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

If the three conditions are met, the difference between the proceeds and the carrying value of the accounts receivable is recognized as a loss and recorded as nonoperating expenses.

Inventories

Inventories consist of raw materials, supplies, fuel, finished products and work in process. Before January 1, 2009, inventories were stated at the lower of aggregate cost or market value. Market value meant replacement cost for raw materials, supplies and fuel and net realizable value for finished products and work in process. As stated in Note 3, effective January 1, 2009, inventories are stated at the lower of cost or net realizable value. Inventory write-downs are made based on item by item basis. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and expenses necessary to make the sale. Inventories are recorded at moving average cost. Unallocated fixed overheads on idle capacity are currently recognized as operating costs when actual production is significantly lower than normal production or the equipment is idle.

Financial Assets Carried at Cost

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

Bond Investments with No Active Market

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

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

Investments Accounted for by the Equity Method

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

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

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

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

When the Corporation and its investee have mutual equity holdings, the investment income or loss is accounted for by the treasury stock method. The Corporation's shares held by subsidiaries are recorded as treasury stock. The Corporation's dividends appropriated to subsidiaries are debited to investment income and adjusted to capital surplus - treasury stock transaction.

Property, Plant and Equipment

Property, plant and equipment, except land, are stated at cost or cost plus revaluation increment less accumulated depreciation. Borrowing costs directly attributable to the acquisition or construction of property, plant and equipment are capitalized as part of the cost of those assets. Major additions, renewals and improvements are capitalized, while costs of maintenance and repairs are expensed currently.

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

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

Intangible Assets

Identifiable intangible assets (including computer software, 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 5 years.

Assets Leased to Others

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

Unamortized Repairs

Unamortized repairs pertain to the major repairs of blast furnaces and are amortized over five years.

Impairment of Asset

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

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

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

Loss on Purchase Commitments

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

Pension Cost

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

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

Treasury Stock

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

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

Income Tax

The Corporation applies 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 year's tax provision.

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

Foreign-currency Transactions

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

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

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

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

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

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

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

Hedging Derivative Financial Instruments

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

Hedge Accounting

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

a. Fair value hedge

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

b. Cash flow hedge

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

c. Hedge of a net investment in a foreign operation

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

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

Reclassifications

Certain accounts in the financial statements as of and for the six months ended June 30, 2008 have been reclassified to conform to the presentation of the financial statements as of and for the six months ended June 30, 2009. The main reclassifications are accounted for under International Financial Reporting Standards and relevant regulations, including (1) spare parts previously recorded as inventories were divided into current and noncurrent based on their service duration, and reclassified to other current assets and other assets (Note 10), and (2) income from scrap sales of NT$121,023 thousand and loss on physical inventory of NT$361,446 thousand previously recorded as nonoperating income and gains and nonoperating expenses and losses were reclassified into operating costs for the six months ended June 30, 2008.

3. EFFECTS OF CHANGES IN ACCOUNTING PRINCIPLES

Accounting for Inventories

Starting January 1, 2009, the Corporation adopted the newly revised SFAS No. 10, "Accounting for Inventories". The main revisions are (1) inventories are stated at the lower of cost or net realizable value, and inventories are written down to net realizable value based on item-by-item basis; (2) unallocated overheads are recognized as operating costs in the period when incurred; and (3) write-downs of inventories and any reversal of write-downs are recorded as operating costs for the period. The adoption resulted in an increase of NT$249,617 thousand in net loss and an increase of NT$0.02 in after income tax basic loss per share for the six months ended June 30, 2009.

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$1,900,732 thousand in net income and a decrease in after income tax basic earnings per share of NT$0.16 for the six months ended June 30, 2008.

4. CASH AND CASH EQUIVALENTS

	June 30	
	2009	2008
Cash on hand	$ 19,410	$ 18,914
Checking accounts and demand deposits	1,053,383	1,087,185
Time deposits	627,104	7,400,000
Negotiable certificates of deposit	-	5,500,000
Cash equivalents - short-term notes and bills	-	5,965,731
	$ 1,699,897	$ 19,971,830

Foreign bank deposits were as follows:

	June 30	
	2009	2008
Japan - Osaka Bank	¥ 4,116,000	¥ 5,882,000
Singapore - Daiwa Securities SMBC	-	5,000
Total	¥ 4,116,000	¥ 5,887,000
Represented by NT dollars(in thousands)	$ 1,413	$ 1,697

5. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The financial assets designated as at FVTPL represent open-end bond funds. The purpose of classifying open-end bond funds to this account is to reduce the accounting inconsistency between investment income and interest expense. The group of financial assets is managed and its performance is evaluated on fair value basis, in accordance with a documented risk management or investment strategy. As of June 30, 2009 and 2008, the balances of financial assets at fair value through profit or loss were NT$1,808,116 thousand and NT$9,503,989 thousand, respectively.

Net gains on financial assets designated as at FVTPL for the six months ended June 30, 2009 and 2008 were NT$13,227 thousand and NT$28,859 thousand, respectively.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	June 30			
	2009		2008	
	Current	Noncurrent	Current	Noncurrent
Quoted stocks				
Maruichi Steel Tube Ltd.	$ -	$ 757,920	$ -	$ 757,920
Yodogawa Steel Works, Ltd.	-	345,831	-	345,831
Taiwan Semiconductor Manufacturing Company (TSMC)	399,995	-	967,456	-
CSBC Corporation Taiwan (CSBC)	-	219,575	-	-
Tang Eng Iron Works Corporation (TEIWC)	-	-	-	-
Bank debentures - Taiwan Cooperative Bank	-	-	250,100	-
Adjustments for change in valuation	1,185,352	1,777,446	3,566,815	1,903,063
	$ 1,585,347	$ 3,100,772	$ 4,784,371	$ 3,006,814

Under the global financial crisis, the Corporation sold the shares of TSMC continually in April 2009 in order to add of funds circulating. The gain on sale of investment was NT$1,642,579 thousand.

The Corporation invested NT$597,214 thousand to acquire 9% equity of TEIWC. In 2002, the Corporation recognized an impairment loss of NT$597,214 thousand on its investment in TEIWC. In July 2006, TEIWC's shares were listed on the Gre Tai Securities Market. Accordingly, this financial asset carried at cost-noncurrent was reclassified as available-for-sale financial asset - noncurrent. As of June 30, 2009 and 2008, the carrying value of this financial asset recorded as adjustments for change in valuation - noncurrent was NT$949,570 thousand and NT$780,857 thousand, respectively.

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

In December 2008, the Corporation participated in CSBC's privatization through 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 in the same amounts with the hedged investment to hedge exchange rate fluctuation risks on the investments in Maruichi Steel Tube Ltd. and Yodogawa Steel Works, Ltd. (Notes 20 and 28). Adjustments for change in valuation arising from exchange difference were recognized in profit or loss.

7. HEDGING DERIVATIVE FINANCIAL INSTRUMENTS

The Corporation entered into derivative contracts for the six months ended June 30, 2009 and 2008 to manage cash flows exposures arising from exchange rate fluctuations on foreign-currency capital expenditures contracts.

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

	Currency	The Period for Generating Cash Flows and Maturity Date	Contract Amount (In Thousands)
June 30, 2009			
Forward exchange contracts	NT$/US$	December 2009 - September 2010	NT$4,093,276/US$129,490
Forward exchange contracts	NT$/EUR	March 2010 - March 2012	NT$764,096/EUR17,037
June 30, 2008			
Forward exchange contracts	NT$/US$	January 2009 - September 2010	NT$4,360,752/US$137,840

Movements of hedging derivative financial instruments were as follows:

	Six Months Ended June 30	
	2009	2008
Balance, beginning of period	$ 57,027	$ -
Valuation of unrealized gain (loss)	79,179	(291,090)
Transferred to construction in progress	(8,322)	-
Balance, end of period	$ 127,884	$ (291,090)

As of June 30, 2009 and 2008, the balances of hedging derivative financial instruments comprised of:

	June 30	
	2009	2008
Hedging derivative assets - current	$ 95,135	$ -
Hedging derivative assets - noncurrent	32,749	-
Hedging derivative liabilities - current	-	(15,917)
Hedging derivative liabilities - noncurrent	-	(275,173)
	$ 127,884	$ (291,090)

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

8. ACCOUNTS RECEIVABLE

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

The related information for the Corporation's sale of accounts receivable for the six months ended June 30, 2009 and 2008 is as follows:

Transaction Counter-party	Advances Received at Period-beginning	Receivables Sold	Amounts Collected	Advances Received at Period-end	Interest Rates on Advances Received (%)	Credit Line (In Billions of NTD)
Six months ended June 30, 2009						
Accounts Receivable						
Mega Bank	$ 4,166,480	$ 1,718,633	$ 3,334,432	$ 2,550,681	0.81-2.73	7.5
Bank of Taiwan	856,900	352,646	784,515	425,031	0.81-2.16	2.5
Taipei Fubon Bank	166,541	108,662	172,458	102,745	1.05-2.33	0.4
	$ 5,189,921	$ 2,179,941	$ 4,291,405	$ 3,078,457		

(Continued)

Transaction Counter-party	Advances Received at Period-beginning	Receivables Sold	Amounts Collected	Advances Received at Period-end	Interest Rates on Advances Received (%)	Credit Line (In Billions of NTD)
Six months ended June 30, 2008						
Accounts Receivable						
Mega Bank	$ 4,513,552	$ 7,377,225	$ 7,022,682	$ 4,868,095	2.50-2.53	6.4
Bank of Taiwan	698,837	1,412,421	1,113,781	997,477	2.50-2.77	2.5
Taipei Fubon Bank	221,220	494,314	476,560	238,974	2.70-2.77	0.4
	$ 5,433,609	$ 9,283,960	$ 8,613,023	$ 6,104,546		

(Concluded)

9. INVENTORIES

	June 30 2009	June 30 2008
Finished products	$ 8,110,578	$ 9,922,899
Work in process	14,177,951	12,856,857
Raw materials	7,309,301	13,112,726
Supplies	1,471,453	986,362
Materials in transit	763,991	3,069,806
Fuel	225,815	149,434
Others	91,743	668,449
	$ 32,150,832	$ 40,766,533

As of June 30, 2009, the allowance for loss on value decline of inventory was NT$10,103,469 thousand, and shown as deduction in inventories. The cost of inventories recognized as operating costs for the six months ended June 30, 2009 and 2008 was NT$82,455,534 thousand and NT$93,593,873 thousand, respectively. The items recorded as operating costs were as follows:

	Six Months Ended June 30 2009	Six Months Ended June 30 2008
Provision for loss on inventories	$ 9,597,643	$ -
Loss on purchase commitments	3,023,852	-
Loss on idle capacity	1,676,301	-
Loss (gain) on physical inventory	(61,195)	361,446
Income from scrap sales	(57,832)	(121,023)
	$ 14,178,769	$ 240,423

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. In the second quarter of 2009, according to the lower of cost or net realizable value method, the Corporation recognized a provision for loss on inventories of NT$9,597,643 thousand.

The Corporation also recognized loss on purchase commitments of NT$3,023,852 thousand due to the effect of the crisis mentioned above, and reported such loss as operating costs and current liabilities - purchase commitments payable. Due to exercise of the purchase contracts, the purchase commitments payable was reduced by NT$4,134,436 thousand for the six months ended June 30, 2009. As of June 30, 2009, the purchase commitments payable was NT$4,790,941 thousand. (Notes 2 and 31).

Unallocated fixed overheads on idle capacity are recognized as operating costs in the period when incurred as a result of the adoption of SFAS No. 10 “Accounting for Inventories”, starting January 1, 2009. The Corporation recognized loss on idle capacity of NT$1,676,301 thousand for the six months ended June 30, 2009.

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

	June 30			
	2009		2008	
	Current	Noncurrent	Current	Noncurrent
Spare parts and roller	$ 6,752,914	$ 935,881	$ 4,667,800	$ 775,205
Prepaid expense	989,108	-	480,255	-
Prepayments	116,665	-	2,335,055	-
Unamortized repair costs	-	864,605	-	1,410,672
Other	30,095	35,578	528	9,980
	$ 7,888,782	$ 1,836,064	$ 7,483,638	$ 2,195,857

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

11. FINANCIAL ASSETS CARRIED AT COST - NONCURRENT

	June 30	
	2009	2008
Unquoted common stocks		
Industrial Bank of Taiwan	$ 1,000,000	$ 1,000,000
CDIB & Partners Investment Holding Corporation	500,000	500,000
Adimmune Corporation (AC)	231,650	-
Taiwan Rolling Stock Co., Ltd. (TRSC)	202,048	202,048
Hsin Hsin Cement Enterprise Corp.	165,010	165,010
CDIB BioScience Ventures I, Inc. (CBVI)	75,276	83,640
Overseas Investment & Development Corporation	50,000	50,000
CTB I Venture Capital Co., Ltd.	50,000	50,000
Phalanx Biotech Group Corporation (PBGC)	-	-
Unquoted preferred stocks		
East Asia United Steel Corporation (EAUS)	3,433,000	2,882,000
Dragon Steel Corporation (DSC)		
Preferred A	-	999,877
Preferred B	-	53,312
Fund - Sino-Canada Biotechnology Development Fund, LP (SCBDF)	-	49,546
	$ 5,706,984	$ 6,035,433

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

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

The Corporation invested NT$102,000 thousand to acquire 4 % equity of CBVI. In August 2008, and November 2007, CBVI reduced its capital and returned NT$8,364 thousand and NT$18,360 thousand to the Corporation, respectively. Accordingly, the original cost of investment in CBVI was reduced to NT$75,276 thousand.

In June 2008, the Corporation evaluated and recognized an impairment loss of NT$73,370 thousand and NT$33,000 thousand (recorded as nonoperating loss) on the investment in PBGC and SCBDF, respectively. In December 2008, the Corporation recognized an impairment loss of NT$49,546 thousand on the investment in SCBDF.

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

In May 2003, the Corporation signed a slab production joint-venture contract with Sumitomo Metal Industries, Ltd. and Sumitomo Corporation. In July 2003, the joint venture company of EAUS was established. The Corporation invested in EAUS the amount of ￥10 billion (Notes 20 and 28). 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 six months ended June 30, 2009 and 2008 were NT$142,731 thousand and NT$124,943 thousand, respectively (recorded as nonoperating income and gains). As of June 30, 2009 and 2008, the royalty receivable were NT$76,255 thousand and NT$74,985 thousand, respectively (recorded as other receivables).

12. BOND INVESTMENTS WITH NO ACTIVE MARKET - NONCURRENT

	June 30 2009	June 30 2008
Unquoted preferred stocks-domestic		
Taiwan High Speed Rail Corporation (THSRC)		
Preferred C	$ -	$ 3,904,542
Preferred B	-	834,384
Taigen Biotechnology Co., Ltd. (TBC)	-	-
	-	4,738,926
Unquoted preferred stocks-overseas		
TaiGen Biopharmaceuticals Holdings Limited (TGB)	103,000	103,000
	$ 103,000	$ 4,841,926

In September 2003, the Corporation acquired 100,000 thousand Preferred B shares (representing 4% of ownership) of THSRC for NT$1,000,000 thousand. Dividend on these shares is at 5%, payable on a nonparticipating and cumulative basis. These shares with six years of durations could be extended for 13 months prior to 3 months 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 and depend on the progress certificates of stock are acquired by THSRC.

In November 2005 and March 2004, the Corporation acquired a total of 20,000 thousand preferred shares, representing 24% of ownership, of TBC for NT$300,000 thousand. Preferred stockholders are entitled to 8% participating and noncumulative dividends as well as 9% voting and election rights. TBC mainly researches and develops drugs. In January 2008, TBC restructured its share capital and made arrangements with TGB incorporated in the British Cayman Islands. The Corporation swapped Preferred B shares of TBC with Preferred B shares of TGB at the ratio of 1:1. Any rights on these shares remained unchanged after the swap. The Corporation can request TBC to redeem all or part of preferred shares by issuing new stock or its own retained earnings after December 2009. In June 2008, the Corporation evaluated and recognized an impairment loss of NT$197,000 thousand on the investment in TGB.

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

	June 30			
	2009		2008	
	Amount	% of Owner-ship	Amount	% of Owner-ship
Stocks listed on the Taiwan Stock Exchange				
Chung Hung Steel Corporation (CHSC)	$ 3,012,460	29	$ 3,805,929	24
China Steel Chemical Corporation (CSCC)	1,287,471	29	1,249,588	29
China Ecotek Corporation (CEC)	775,295	49	686,261	49
China Hi-ment Corporation (CHC)	649,413	20	631,882	20
China Steel Structure Corporation (CSSC)	546,327	18	524,490	18
	6,270,966		6,898,150	
Less: Shares held by subsidiaries accounted for as treasury stock	1,600,312		330,445	
	4,670,654		6,567,705	
Stocks without quoted market prices				
Dragon Steel Corporation (DSC)	56,503,656	100	17,033,605	47
China Steel Express Corporation (CSE)	9,101,957	100	9,381,292	100
C. S. Aluminum Corporation (CAC)	6,537,401	100	7,200,358	100
Gains Investment Corporation (GIC)	5,758,561	100	6,494,459	100
China Prosperity Development Corporation (CPDC)	4,766,687	100	4,667,907	100
China Steel Asia Pacific Holdings Pte Ltd. (CSAPH)	3,344,822	100	3,525,450	100
Kaohsiung Rapid Transit Corporation (KRTC)	1,919,152	31	2,670,843	31
China Steel Global Trading Corporation (CSGT)	1,263,995	100	1,246,308	100
China Steel Machinery Corporation (CSMC)	973,516	74	827,262	74
CSC Steel Australia Holding Pty. Ltd. (CSCAU)	647,749	100	491,023	100
Info-Champ Systems Corporation (ICSC)	544,499	100	588,707	100

(Continued)

	June 30			
	2009		2008	
	Amount	% of Owner-ship	Amount	% of Owner-ship
Horng Yih Investment Corporation (HYI)	$ 483,548	100	$ 888,856	100
Long Yuan Fa Investment Corporation (LYFI)	480,826	100	887,951	100
Goang Yaw Investment Corporation (GYI)	470,869	100	865,252	100
Kaohsiung Arena Development Corporation (KADC)	448,972	18	338,269	18
China Steel Security Corporation (CSS)	314,089	100	281,553	100
Hi-mag Magnetic Corporation (HMC)	89,711	50	92,822	50
Baolai Greeting Development Co., Ltd. (BGDC)	40,730	45	44,366	45
China Steel Management Consulting Corporation (CSMCC)	25,743	100	16,403	100
TaiAn Technologies Corporation (TTC)	6,662	17	5,939	17
	93,723,145		57,548,625	
Less: Shares held by subsidiaries accounted for as treasury stock	6,702,482		1,010,429	
	87,020,663		56,538,196	
	$ 91,691,317		$ 63,105,901	
Prepaid long-term stock investments				
Adimmune Corporation (AC)	$ -		$ 69,700	

(Concluded)

The Corporation increased investment in CHSC for NT$1,726,232 thousand for the six months ended June 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.

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

On April 1, 2008, the Corporation exchanged 22,900 thousand shares of CSMC for CEC's new shares issued for a capital increase. The exchange ratio was 1:1. Upon 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 value of above listed stocks based on the closing price on June 30, 2009 and 2008 was as follows:

	June 30	
	2009	2008
CHSC	$ 5,934,506	$ 7,053,865
CSCC	4,491,803	5,745,368
CEC	2,229,574	2,520,388
CHC	1,926,775	2,072,947
CSSC	539,863	598,888
	$ 15,122,521	$ 17,991,456

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

	Six Months Ended June 30	
	2009	2008
CSE	$ 2,339,019	$ 3,640,264
GIC	354,698	(292,810)
CSMC	208,265	218,471
CEC	204,381	31,665
CSCC	156,310	202,461
CSGT	119,720	250,419
CSCAU	77,707	15,172
CHC	74,317	69,374
CSAPH	66,128	330,212
CPDC	52,630	13,310
ICSC	42,953	38,093
CSS	33,619	35,819
CSSC	22,752	9,813
DSC	(1,351,572)	431,307
CHSC	(586,090)	668,027
CAC	(380,206)	304,191
KRTC	(261,657)	(227,913)
HYI	(137,389)	153,847
LYFI	(136,996)	158,962
GYI	(133,745)	149,942
Others	21,958	7,623
	$ 786,802	$ 6,208,249

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 steel factory in Vietnam, etc. The related subscription schedule depends on the investees' capital increase requirements. As of June 30, 2009, the Corporation's unexecuted investment in these investees aggregated NT$9,976,326 thousand.

As stated in Note 11, the Corporation adopted the purchase method to account for the acquisition of DSC equity. Movements of the difference between the cost of investment and the Corporation's share in investees' net assets allocated to depreciable assets and goodwill were as follows:

Six months ended June 30, 2009	Depreciable Assets	Goodwill
Balance, beginning of period	$ 1,126,994	$ 401,018
Amortization	(40,052)	-
Balance, end of period	$ 1,086,942	$ 401,018

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

14. OTHER FINANCIAL ASSETS - NONCURRENT

	June 30	
	2009	2008
The JPY time deposits	4,943,520	4,380,640
The EUR demand deposits	196,113	-
	$ 5,139,633	$ 4,380,640

For the purpose of constructing the third cold - rolled plant, the Corporation signed contracts to purchase imported equipment in total of ￥16.15 billion. For the purposes of managing cash flows exposures arising from exchange rate fluctuations, the Corporation purchased time deposits of ￥16 billion (NT$4,878,900 thousand) in January 2008. As of June 30, 2009 and 2008, the balance of the JPY time deposits designated as hedging instrument was ￥14.4 billion and ￥15.2 billion, respectively. The unrealized loss of NT$292,320 thousand and NT$254,340 thousand, respectively, arising from the JPY time deposits designated as hedging instrument was recognized as unrealized gain on financial instruments in stockholders' equity for the six months ended June 30, 2009 and 2008.

For the purposes of managing cash flows exposures on foreign-currency capital expenditure contracts, the Corporation entered into forward exchange contracts (Note 7). Parts of such contract for EUR4,238 thousand expired in January and April 2009. An unrealized loss of NT$1,480 thousand on the hedging instrument was recognized as unrealized gain on financial instruments in stockholders' equity for the six months ended June 30, 2009.

The cash flows generated from abovementioned contracts, will be between 2009 and 2013. The period for recognizing unrealized gain or loss on hedging instruments in the income statement is the same as that for providing depreciation on the hedged equipment purchased.

15. PROPERTY, PLANT AND EQUIPMENT

Six months ended June 30, 2009	Land	Land Improvements	Buildings	Machinery and Equipment	Transportation Equipment	Other Equipment	Construction In progress	Total
Cost								
Balance, beginning of period	$ 10,692,043	$ 4,220,388	$ 40,698,022	$ 245,473,457	$ 1,623,659	$ 4,389,119	$ 20,657,785	$ 327,754,473
Additions	-	1,119	823,642	2,226,260	132,591	231,785	5,609,660	9,025,057
Disposals	-	-	(20,528)	(901,334)	(47,607)	(165,655)	-	(1,135,124)
Balance, end of period	10,692,043	4,221,507	41,501,136	246,798,383	1,708,643	4,455,249	26,267,445	335,644,406
Revaluation increment								
Balance, beginning of period	32,754,016	492,990	2,407,480	8,070,962	18,108	31,683	-	43,775,239
Disposals	-	-	-	(51,861)	-	(6)	-	(51,867)
Balance, end of year	32,754,016	492,990	2,407,480	8,019,101	18,108	31,677	-	43,723,372

(Continued)

	Land	Land Improvements	Buildings	Machinery and Equipment	Transportation Equipment	Other Equipment	Construction In progress	Total
Six months ended June 30, 2009								
Accumulated depreciation								
Balance, beginning of period	$ -	$ 3,905,815	$ 20,273,963	$193,964,668	$ 1,239,299	$ 3,047,962	$ -	$ 222,431,707
Depreciation expense	-	52,931	628,417	4,924,926	47,875	242,024	-	5,896,173
Disposals	-	-	(5,883)	(946,386)	(47,462)	(163,692)	-	(1,163,423)
Balance, end of period	-	3,958,746	20,896,497	197,943,208	1,239,712	3,126,294	-	227,164,457
Net book value, end of period	$ 43,446,059	$ 755,751	$ 23,012,119	$ 56,874,276	$ 487,039	$ 1,360,632	$ 26,267,445	$ 152,203,321
Six months ended June 30, 2008								
Cost								
Balance, beginning of period	$ 9,803,353	$ 4,212,123	$ 39,773,039	$237,189,591	$ 1,500,483	$ 4,018,844	$ 15,043,863	$ 311,541,296
Additions	888,690	-	828,158	4,840,144	62,604	246,326	1,662,101	8,528,023
Disposals	-	-	(124,212)	(1,139,780)	(16,399)	(165,720)	-	(1,446,111)
Balance, end of period	10,692,043	4,212,123	40,476,985	240,889,955	1,546,688	4,099,450	16,705,964	318,623,208
Revaluation increment								
Balance, beginning of period	5,840,732	492,990	2,423,523	8,286,388	27,233	31,714	-	17,102,580
Disposals	-	-	(15,786)	(145,566)	(9)	(31)	-	(161,392)
Balance, end of year	5,840,732	492,990	2,407,737	8,140,822	27,224	31,683	-	16,941,188
Accumulated depreciation								
Balance, beginning of period	-	3,788,617	19,177,953	186,025,665	1,215,056	2,780,098	-	212,987,389
Depreciation expense	-	62,414	605,427	4,667,352	40,559	225,169	-	5,600,921
Disposals	-	-	(90,123)	(1,281,432)	(16,243)	(163,505)	-	(1,551,303)
Balance, end of period	-	3,851,031	19,693,257	189,411,585	1,239,372	2,841,762	-	217,037,007
Net book value, end of period	$ 16,532,775	$ 854,082	$ 23,191,465	$ 59,619,192	$ 334,540	$ 1,289,371	$ 16,705,964	$ 118,527,389

(Concluded)

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

	Six Months Ended June 30	
	2009	2008
Interest expense before capitalization	$ 614,891	$ 327,245
Capitalized interest - construction in progress	(160,660)	(65,967)
Interest expense through income statement	$ 454,231	$ 261,278
Capitalization rates	1.68%-2.05%	2.21%-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 June 30, 2009, unrealized revaluation increment on totaling NT$13,952,356 thousand had been capitalized as capital stock, reducing its balance to NT$339,174 thousand. In January 2005, the government revised the land 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 six months ended June 30, 2009 and 2008, upon retirement or sale of appreciated properties, the unrealized revaluation increment decreased by NT$1,045 thousand and NT$3,252 thousand, respectively, and recorded as nonoperating revenue. As of June 30, 2009 and 2008, the cumulative nonoperating revenue due to disposal of appreciated properties were NT$32,102 thousand and NT$29,460 thousand, respectively. As of June 30, 2009 and 2008, the balance of reserve for land value increment tax were NT$8,673,466 thousand and NT$2,171,124 thousand, respectively, and the balance of the unrealized revaluation increment were NT$21,914,203 thousand and NT$1,505,903 thousand, respectively.

16. ASSETS LEASED TO OTHERS

	Land	Machinery and Equipment	Buildings and Improvements	Total
Six months ended June 30, 2009				
Cost	$ 3,079,977	$ 2,000,000	$ 161,816	$ 5,241,793
Accumulated depreciation				
Balance, beginning of period	-	1,382,318	23,444	1,405,762
Depreciation expense	-	10,453	1,326	11,779
Balance, end of period	-	1,392,771	24,770	1,417,541
Accumulated impairment	-	594,000	-	594,000
Net book value, end of period	$ 3,079,977	$ 13,229	$ 137,046	$ 3,230,252
Six months ended June 30, 2008				
Cost	$ 3,079,977	$ 2,000,000	$ 161,816	$ 5,241,793
Accumulated depreciation				
Balance, beginning of period	-	1,359,636	20,790	1,380,426
Depreciation expense	-	12,795	1,327	14,122
Balance, end of period	-	1,372,431	22,117	1,394,548
Accumulated impairment	-	594,000	-	594,000
Net book value, end of period	$ 3,079,977	$ 33,569	$ 139,699	$ 3,253,245

Some of the Corporation's plant, property and machinery equipment are leased to its subsidiaries (Note 29).

17. SHORT-TERM LOANS AND OVERDRAFT

	June 30	
	2009	2008
Letters of credit - due within 180 days; interest at 0.67%-1.91% p.a. and 1.1275%-5.5213% p.a. as of June 30, 2009 and 2008, respectively	$ 154,883	$ 168,147
Credit loans - interest at 0.816% p.a. and 2.294% p.a. as of June 30, 2009 and 2008, respectively	400,000	6,500,000
Bank overdraft-interest at 0.16%-0.502% p.a. and 1.98%-2.146% p.a. as of June 30, 2009 and 2008, respectively	1,898,351	882,911
	$ 2,453,234	$ 7,551,058

18. ACCRUED EXPENSES

	June 30	
	2009	2008
Bonus to employees, and remuneration to directors and supervisors	$ 1,908,896	$ 2,293,124
Repair and construction	1,815,868	1,154,422
Accrued salaries and incentive bonus	917,524	3,443,379
Others	2,712,316	2,380,642
	$ 7,354,604	$ 9,271,567

19. BONDS PAYABLE

	June 30	
	2009	2008
5-year unsecured bonds - issued at par in:		
November 2006; repayable in November 2011; 2.07% interest p.a., payable annually	$ 5,600,000	$ 5,600,000
June 2006; repayable in June 2011; 2.32% interest p.a., payable annually	8,100,000	8,100,000
December 2008; repayable in December 2012 and December 2013; 2.42% interest p.a., payable annually	9,600,000	-
December 2008; repayable in December 2012 and December 2013; 2.08% interest p.a., payable annually	13,000,000	-
7-year unsecured bonds - issued at par in:		
December 2008; repayable in December 2014 and December 2015; 2.30% interest p.a., payable annually	7,000,000	-
	$ 43,300,000	$ 13,700,000

20. LONG-TERM DEBTS

	June 30	
	2009	2008
Repayable in July 2010 (￥4.4 billion); floating rates at 0.8838% and 1.134% p.a. as of June 30, 2009 and 2008, respectively	$ 1,510,520	$ 1,268,080
Repayable in July 2010 (￥3.3 billion); floating rates at 1.0663% and 1.3013% p.a. as of June 30, 2009 and 2008, respectively	1,132,890	951,060
Repayable in December 2009 (￥2.6 billion); floating rates at 0.91875% and 1.26% p.a. as of June 30, 2009 and 2008, respectively	892,580	749,320
Repayable in July 2010 (￥2.2 billion); floating rates at 0.90525% and 1.2028% p.a. as of June 30, 2009 and 2008, respectively	755,260	634,040
Repayable in July 2010 (AUD16.54 million); floating rates at 5.13399% p.a. and 7.9234% p.a. as of June 30, 2009 and 2008, respectively	440,627	485,095
Repayable in November 2010 (￥1.214 billion); floating rates at 0.92375% p.a. and 1.1825% p.a. as of June 30, 2009 and 2008, respectively	416,766	349,875
	5,148,643	4,437,470
Less: Current portion	892,580	-
	$ 4,256,063	$ 4,437,470

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 28).

21. LONG-TERM NOTES PAYABLE (Only for June 30, 2009)

	2009
Long-term notes - interest rates at 0.4%-0.761% p.a. as of June 30, 2009	$ 5,250,000
Unamortized discounts	(2,724)
	$ 5,247,276

The above long-term notes payable were guaranteed and accepted by International Bills Finance Corporation, Mega Bills Finance Corporation and China Bills Finance Corporation.

22. RETIREMENT BENEFIT PLAN

The pension plan under the Labor Pension Act (the "LPA") is a defined contribution plan. Based on the LPA, the Corporation makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages. Such pension costs were NT$22,843 thousand and NT$18,238 thousand for the six months ended June 30, 2009 and 2008, respectively.

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

The Corporation makes contributions, equal to a certain percentage of salaries, to a pension fund, which is deposited in the Bank of Taiwan in the name of, and administered by the employees' pension fund administration committee. According to above regulation, pension cost for the six months ended June 30, 2009 and 2008 was NT$682,926 thousand and NT$726,427 thousand, respectively.

Since August 1999, the Corporation also made contributions, equal to a certain percentage of salaries of management personnel (vice presidents and above), to another pension fund, which is deposited in The Mega International Commercial Bank in the name of, and administered by an officers' pension fund management committee. Pension cost for the six months ended June 30, 2009 and 2008 was NT$1,586 thousand and NT$2,347 thousand, respectively.

23. DEFERRED CREDITS - GAIN FROM AFFILIATES

	June 30	
	2009	2008
Gain on disposal of land	$ 1,136,164	$ 1,136,164
Gain on contracted projects	731,596	559,595
	$ 1,867,760	$ 1,695,759

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

The Corporation contracted engineering projects with KRTC and DSC, resulting in deferred revenue. Some of the projects with KRTC (equity method investee) were completed during the year ended December 31, 2008. Such deferred credits recognized as income over 8 to 30 years. The accumulated credits with

DSC will be recognized as income over the service lives of the assets after completion of the constructions expected to be completed between 2009 and 2010.

24. STOCKHOLDERS' EQUITY

a. Capital stock

In August 2008, the Corporation, through capitalization of retained earnings of NT$4,845,290 thousand, issued common shares of 484,529 thousand. In order to acquire 52% equity of DSC (Note 11), the Corporation issued NT$5,759,911 thousand (575,991 thousand shares) for a capital increase. Above capital increases have been registered with the government. As of June 30, 2009, 2 thousand shares of preferred shares converted into common stock were not yet registered with the government.

b. Treasury stock

	Thousand Shares			June 30	
Purpose of Treasury Stock	**Beginning of Period**	**Addition**	**Reduction**	**Thousand Shares**	**Book Value**
Six months ended June 30, 2009					
Shares acquired and held by subsidiaries	276,103	6,654	10,305	272,452	$ 8,302,794
Shares acquired by the Corporation for transfer to employees	108,000	-	-	108,000	2,509,958
	384,103	6,654	10,305	380,452	$ 10,812,752
Six months ended June 30, 2008					
Shares acquired and held by subsidiaries	84,543	180	5,280	79,443	$ 1,340,874

1) Shares acquired and held by subsidiaries

The Corporation's shares acquired and held by subsidiaries were accounted for as treasury stock (subsidiaries recorded them as financial instruments held for trading - current, available-for-sale financial asset - current or available-for-sale financial assets - noncurrent). Treasury stock increased due to subsidiaries acquisition of the Corporation's shares. Treasury stock decreased mainly due to subsidiaries' sales of the Corporation's shares and change in percentage of ownership. For the six months ended June 30, 2009 and 2008, the proceeds for treasury stock sold amounted to NT$296,007 thousand and NT$274,341 thousand, and after deducting book values, resulted in the amounts of NT$60,635 thousand and NT$184,673 thousand (recorded as capital surplus), respectively.

As of June 30, 2009 and 2008, the market values calculated by combined holding percentage of the treasury shares held by subsidiaries are NT$7,683,139 thousand and NT$3,721,904 thousand, respectively.

2) Shares acquired for transfer to employees

On October 7, 2008 the Corporation's Board of Directors approved the buyback of 300,000 thousand issued common shares from the open market during October 8, 2008 to December 7, 2008 at the price between NT$21.18 and NT$52.67 per share for the transfer of these shares to employees. The buyback shares as of June 30, 2009 for 108,000 thousand shares have not yet been transferred to employees.

Under the Securities and Exchange Act., the Corporation's share repurchase is restricted to up to 10% of total issued shares, and the total purchase amount should not exceed the sum of retained earnings, paid-in capital in excess of par value and realized capital surplus. In addition, the Corporation should transfer those shares to employees within three years. Further, the Corporation should not pledge these stocks as collateral and should not collect dividends or exercise voting rights on these stocks. The shares of the Corporation held by subsidiaries are treated as treasury stocks. The Corporation's shares held by subsidiaries with shareholdings over 50% is not allowed to participate in the Corporation's capital increase in cash and have no voting right; others have the same right as common stockholders.

c. Overseas depositary receipts

In May 1992, February 1997 and October 2003, the ROC's Ministry of Economic Affairs ("MOEA") sold its holding shares in the Corporation through issuances of 88,329,150 units of Global Depositary Receipts ("GDR"), the depositary receipts then increased by 6,288,677 resulting from the capitalization of retained earnings. Each unit was representing 20 shares of the Corporation's common stock, or equivalent to the Corporation's common shares totalling 1,887,073,812 shares. Under relevant regulations, the GDR holders may also request the conversion to the shares represented by the GDR. The foreign investors may also request the reissuance of such depositary receipts within the originally approved units. As of June 30, 2009, the outstanding depositary receipts were 4,191,393 units, equivalent to 83,828,067 common shares, which represented 0.67% of the outstanding common shares (including the treasury stock held by the Corporation and its subsidiaries).

d. Preferred stock

Preferred stockholders have the following entitlements or rights:

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

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

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

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

5) Redemption of stock, at the Corporation's option its retained earnings or the proceeds from issuance of new shares; conversion of shares into common stock at the ratio of 1:1.

e. Capital surplus

Capital surplus comprised of the following:

	June 30	
	2009	**2008**
Additional paid-in capital- issuance of common shares to exchange DSC shares (Note 11)	$ 15,717,185	$ -
Treasury stock transaction	2,476,005	1,815,229
Long-term stock investments under the equity method	275,392	261,656
Others	8,099	8,099
	$ 18,476,681	$ 2,084,984

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

f. Appropriation of retained earnings and dividend policy

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

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

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

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

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

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

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

The Corporation is required to appropriate a special reserve from annual earnings for any net debit balance resulting from adjustments to the stockholders' equity (including unrealized revaluation increment, unrealized gain (loss) on financial instruments, unrecognized net loss on pension cost and cumulative translation adjustments, excluding treasury stock held by the Corporation). Besides, if the market price of the Corporation's common share is lower than the carrying value of the Corporation's shares held by subsidiaries, the Corporation should appropriate a special reserve equal to the difference between market price and carrying value. The Corporation may release a portion of this special reserve when such debit balances are partially or fully reversed. As of June 30, 2009, the Corporation had fully reversed the special reserve under relevant regulations which accounted for the balance of deduction in stockholders' equity, and the unreversed special reserve was held for the capital demand of expansion construction.

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

The Corporation had a net loss for the six months ended June 30, 2009; therefore, no bonus to employees and remuneration to directors and supervisors were accrued. As of June 30, 2008, bonus to employees and remuneration to directors and supervisors representing 8% and 0.15% of net income (which is deducted bonus to employees and remuneration to directors and supervisors, legal reserve and special reserve),respectively, were accrued based on past experiences. Material differences between any estimated amounts and the amounts proposed by the Board of Directors in the following year are adjusted for in the current year. If the actual amounts subsequently resolved by the stockholders differ from the proposed amounts, the differences are recorded in the year of stockholders' resolution as a change in accounting estimate.

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

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

The Corporation's 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 and other distributions in the appropriation of earnings of 2007).

	Amount		Dividends Per Share (Dollars)	
	2008	**2007**	**2008**	**2007**
Legal reserve	$ 2,402,556	$ 5,125,820		
Preferred Stocks				
Cash dividends	49,751	134,274	$ 1.30	$ 3.50
Stock dividends	16,456	11,509	0.43	0.30
			$ 1.73	$ 3.80
Common Stocks				
Cash dividends	16,184,403	40,239,244	$ 1.30	$ 3.50
Stock dividends	5,353,303	3,449,079	0.43	0.30
			$ 1.73	$ 3.80
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		

As of June 30, 2009 and 2008, the cash dividends declared have not been distributed to stockholders and were recorded as dividends payable. Capitalization of retained earnings of NT$5,369,759 thousand has been approved by the government and will be effective on August 1, 2009.

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 six months ended June 30, 2009.

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

g. Unrealized gain on financial instruments

For the six months ended June 30, 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
Six months ended June 30, 2009				
Balance, beginning of period	$ 3,623,089	$ 1,983,109	$ 901,807	$ 6,508,005
Recognized in stockholders' equity	749,437	(871,933)	(214,621)	(337,117)
Transferred to profit or loss	(1,642,579)	-	-	(1,642,579)
Transferred to construction in progress	-	-	(8,322)	(8,322)
Balance, end of period	$ 2,729,947	$ 1,111,176	$ 678,864	$ 4,519,987
Six months ended June 30, 2008				
Balance, beginning of period	$ 4,894,886	$ 1,578,440	$ -	$ 6,473,326
Recognized in stockholders' equity	552,316	(1,042,317)	(545,430)	(1,035,431)
Balance, end of period	$ 5,447,202	$ 536,123	$ (545,430)	$ 5,437,895

25. INCOME TAX

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

	Six Months Ended June 30	
	2009	2008
Income tax expense(benefit) at the 25% statutory rate	$ (2,199,098)	$ 8,293,008
Tax effect adjusting items		
Permanent differences		
Investment income recognized under equity method – domestic	(160,742)	(1,465,716)
Gain on sale of investments	(410,645)	-
Others	10,646	26,776
Temporary differences		
Difference between tax reporting and financial reporting - depreciation methods	110,493	103,421
Loss on idle capacity	104,535	-
Realized of loss on purchase commitments	(277,646)	-
Realized of loss on inventory	(248,162)	-
Difference between tax reporting and financial reporting – operating revenue	(105,593)	(46,092)
Unrealized gain (loss) from affiliates	(92,355)	81,414
Preferential severance pay	(46,111)	(18,549)
Investment income recognized under equity method - foreign investees	(35,959)	(86,346)

(Continued)

	Six Months Ended June 30	
	2009	2008
Impairment loss of financial assets	$ -	$ 75,843
Investment loss resulting from investees' capital reduction	-	(150,000)
Others	17,079	30,921
Investment tax credits used	-	(477,949)
Income tax currently payable (deductible)	(3,333,558)	6,366,731
Loss carryforward recognized	3,333,558	-
Tax separately levied on interest from short-term bills	145	29,685
Prior periods' adjustments	(120,243)	(155,033)
Current income tax expense (benefit)	(120,098)	6,241,383
Deferred tax		
Temporary difference	(84,115)	30,552
Investment tax credits	(337,944)	-
Loss carryforwards	(2,666,847)	-
Effect of tax law changes on deferred assets (liabilities)	863,676	-
Income tax expense (benefit)	$ (2,345,328)	$ 6,271,935

(Concluded)

b. Change in income tax payable

	Six Months Ended June 30	
	2009	2008
Balance, beginning of period	$ 5,749,662	$ 6,682,244
Current income tax expense (benefit)	(120,098)	6,241,383
Payment in the current period	(40,266)	(6,574,222)
Balance, end of period	$ 5,589,298	$ 6,349,405

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

	June 30	
	2009	2008
Current		
Deferred income tax assets		
Allowance for value decline losses on inventory	$ 2,273,281	$ -
Unrealized loss on purchase commitments	1,077,962	-
Investment tax credits	337,944	-
Impairment loss on spare parts	167,889	135,002
Severance pay	97,008	41,474
Loss on idle capacity	94,081	-
Unrealized gain from affiliates	-	70,998
Others	-	43,717
	4,048,165	291,191
Deferred income tax liabilities		
Temporary difference between tax reporting and financial reporting - inventory	(32,625)	(22,889)
Unrealized loss from affiliates	(32,767)	-
Others	(22,078)	-
	(87,470)	(22,889)
Total deferred income tax assets - current, net	3,960,695	268,302

(Continued)

	June 30	
	2009	2008
Noncurrent		
Deferred income tax assets		
Loss carryforwards	$ 2,666,847	$ -
Impairment loss on financial assets	1,202,226	305,665
Unrealized gain from affiliates	146,319	139,899
Impairment loss on assets	23,244	47,555
Others	-	4,543
	4,038,636	497,662
Deferred income tax liabilities		
Temporary difference between tax reporting and financial reporting - depreciation methods	(1,783,528)	(2,447,479)
Foreign investment income	(350,124)	(448,624)
Unrealized foreign exchange gain, net	(56,844)	(79,197)
Others	(3,548)	-
	(2,194,044)	(2,975,300)
Total deferred income tax assets (liabilities) - noncurrent, net	1,844,592	(2,477,638)
Total deferred income tax assets (liabilities)	$ 5,805,287	$ (2,209,336)

(Concluded)

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

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

Tax Credit Source	**Total Creditable Amount**	**Expiry Year**
Purchase of machinery and equipment	$ 221,556	2013
Research and development and personnel training expenditures	116,388	2013
	$ 337,944	

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 June 30, 2009, the unused loss carryforwards amount was NT$13,334,235 thousand (the amount of tax effect was NT$2,666,847 thousand). According to the newly revised Article 39 of the Income Tax Act, the Corporation can carry forward its net loss as tax credits from 5 years to 10 years. The unused loss carryforwards will be expired in 2019.

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

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

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

d. Information about integrated income tax was as follows:

	June 30 2009	June 30 2008
Imputation credit account (ICA)	$ 8,778,733	$ 12,279,840
Unappropriated earnings generated before January 1, 1997	35,440	35,440

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

For distribution of earnings generated after January 1, 1998, the ratio for the imputation credits allocated to domestic shareholders of the Corporation is based on the balance of the ICA as of the date of dividend distribution. Nonresident stockholders, including holders of overseas depository receipts, are allowed only a tax credit from the 10% income tax on unappropriated earnings, which can be used to offset withholding income tax on dividends paid.

26. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

	Six Months Ended June 30							
	2009				2008			
	Operating Cost	Operating Expense	Others	Total	Operating Cost	Operating Expense	Others	Total
Personnel								
Salary	$ 4,637,752	$ 811,580	$ 60,467	$ 5,509,799	$ 9,509,891	$ 1,575,304	$ 46,393	$ 11,131,588
Labor and health insurance	292,966	48,012	2,234	343,212	286,943	44,097	860	331,900
Pension and consolation costs	596,385	116,211	4,707	717,303	642,104	126,668	2,791	771,563
Others	124,568	71,036	4,270	199,874	529,020	77,103	4,286	610,409
	$ 5,651,671	$ 1,046,839	$ 71,678	$ 6,770,188	$ 10,967,958	$ 1,823,172	$ 54,330	$ 12,845,460
Depreciation	$ 5,731,272	$ 164,901	$ 11,779	$ 5,907,952	$ 5,475,861	$ 125,060	$ 14,122	$ 5,615,043
Amortization	293,797	32,715	4,527	331,039	291,081	31,613	1,580	324,274

27. EARNINGS (LOSS) PER SHARE

	Amount (Numerator) Before Tax	Amount (Numerator) After Tax	Shares (Denominator) (Thousand)	Earnings (Loss) Per share (Dollars) Before Tax	Earnings (Loss) Per share (Dollars) After Tax
Six months ended June 30, 2009					
Net loss	$ (8,796,392)	$ (6,451,064)			
Less: Dividends on preferred shares	(36,526)	(26,788)			
Loss per share-basic and diluted					
Net loss attributable to common stockholders	$ (8,832,918)	$ (6,477,852)	12,177,091	$ (0.73)	$ (0.53)
Six months ended June 30, 2008					
Net income	$ 33,172,034	$ 26,900,099			
Less: Dividends on preferred shares	(33,121)	(26,859)			
Basic Earnings Per share					
Net income attributable to common stockholders	$ 33,138,913	$ 26,873,240	11,899,624	2.78	2.26
Effect of dilutive potential common stock					
Add: Dividends on preferred shares	33,121	26,859	38,370		
Bonus to employees	-	-	61,090		

(Continued)

	Amount (Numerator) Before Tax	Amount (Numerator) After Tax	Shares (Denominator) (Thousand)	Earnings (Loss) Per share (Dollars) Before Tax	Earnings (Loss) Per share (Dollars) After Tax
Diluted EPS					
Net income attributable to common stockholders plus effect of potential dilutive common stock	$ 33,172,034	$ 26,900,099	11,999,084	$ 2.76	$ 2.24

(Concluded)

Due to the net loss for the six months ended Jane 30, 2009, anti-dilutive effect will arise from the potential shares; therefore, the basic loss per share is the same with diluted loss per share.

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

In EPS calculation for the six months ended June 30, 2008, the number of outstanding shares was retroactively adjusted for the effect of capitalization of 2008 earnings. Thus EPS before tax and after tax decreased from NT$2.90 to NT$2.78 and from NT$2.35 to NT$2.26, respectively.

Capitalization of the 2008 retained earnings of NT$5,369,759 thousand (536,976 thousand shares) will be effective on August 1, 2009 (Note 24). The earning (loss) per share retroactively adjusted for the effect of such capitalization of retained earnings is summarized as follows:

	For the Six Months Ended June 30			
	2009		2008	
	Before Tax	After Tax	Before Tax	After Tax
Basic earning (loss) per share	$ (0.70)	$ (0.51)	$ 2.67	$ 2.17
Diluted earning (loss) per share	(0.70)	(0.51)	2.65	2.15
If the Corporation's shares held by subsidiaries accounted for as investments rather than treasury stock				
Basic earning (loss) per share		(0.49)		2.15
Diluted earning (loss) per share		(0.49)		2.14

28. FINANCIAL INSTRUMENTS

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

	June 30			
	2009		2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Non-derivative Financial Instruments				
Assets				
Financial assets at fair value through profit or loss	$ 1,808,116	$ 1,808,116	$ 9,503,989	$ 9,503,989
Available-for-sale financial assets (including non-current)	4,686,119	4,686,119	7,791,185	7,791,185
Financial assets carried at cost	5,706,984	-	6,035,433	-
Bond investments with no active market	103,000	103,000	4,841,926	4,841,926
Other financial assets-noncurrent	5,139,633	5,139,633	4,380,640	4,380,640
Refundable deposits	220,320	220,320	179,078	179,078
Liabilities				
Bonds payable	43,300,000	45,226,085	13,700,000	13,522,328
Long-term debts - bank (including current portion)	5,148,643	5,148,643	4,437,470	4,437,470
Long-term notes payable	5,247,276	5,247,276	-	-
Derivative Financial Instrument				
Heading derivative assets (including non-current)	127,884	127,884	-	-
Hedging derivative liabilities (including non-current)	-	-	291,090	291,090

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, 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 by using valuation technique. The information used as basis for determining the Corporation's assumptions in applying valuation technique is consistent with that used by market participants. The information is obtained by the Corporation from financial institutions.

3) The fair values of long-term liabilities 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.

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

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

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

c. Fair values of financial assets based on quoted market prices or using valuation techniques were as follows:

	Amount Determined by Quoted Market Price		Amount Determined by Using Valuation Technique	
	June 30		June 30	
	2009	2008	2009	2008
Assets				
Financial assets at fair value through profit or loss	$ 1,808,116	$ 9,503,989	$ -	$ -
Available-for-sale financial assets (including non-current)	4,686,119	7,540,435	-	250,750
Hedging derivative liabilities (including non-current)	-	-	127,884	-
Liabilities				
Hedging derivative liabilities (including non-current)	-	-	-	291,090

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

e. As of June 30, 2008, financial assets with cash flow risk of the interest rate change was NT$250,750 thousand. As of June 30, 2009 and 2008, financial liabilities were NT$12,849,153 thousand and NT$11,988,528 thousand, respectively, and financial liabilities with fair value risk of the interest rate change were NT$43,300,000 thousand and NT$13,700,000 thousand, respectively.

f. The Corporation’s total interest revenues and expenses (inclusive of capitalized interest) which were incurred from other than financial assets and liabilities at fair value through profit or loss were NT$51,972 thousand and NT$614,891 thousand, respectively, for the six months ended June 30, 2009 and NT$336,267 thousand and NT$327,245 thousand, respectively, for the six months ended June 30, 2008.

g. Financial risks

1) Market risk

Market risk includes fair value risk of interest rate change, exchange rate risk, and market price risk. The Corporation had long-term loans in yen to hedge the exchange rate fluctuations on its long term investment in yen, thus, the exchange rate risk can be hedged naturally. The Corporation issues the bonds payable with the fixed interest rate, and the fair value of the bonds payable will be influenced by the market interest rate change. If market interest rate increases or decreases by 1%, the fair value of bonds payable will decrease or increase by about NT$1,597,816 thousand.

The Corporation’s investments in the bond funds and stocks of Taiwan Semiconductor Manufacturing Company Ltd., Maruichi Steel Tube Ltd., Yodogawa Steel Works Ltd., 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 about NT$46,861 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 active market prices are available.

4) Cash flow interest rate risk

Market interest rate change will influence the effective interest rate of the financial instruments which have cash flow risk of the interest rate change, and make future cash flow fluctuate. If the market interest rate increases by 1%, the Corporation's cash outflow will increase by about NT$128,492 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 debt, purchased time deposit - foreign currency and forward contracts to effectively hedge the exchange rate fluctuations on the investments in East Asia United Steel Corporation, Maruichi Steel Tube Ltd., Yodogawa Steel Works Ltd., CSC Australia Holdings Pty. Ltd. and contracts of purchasing machinery and equipment.

		Designated Hedging Instrument		
			Changes of Fair Value Six Months Ended June 30	
Hedge Type	**Hedged Item**	**Financial Instrument**	**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 YEN	$ 201,465	$ 14,850
Fair value hedge	Stock investments in Maruichi Steel Tube Ltd. (recorded as available-for-sale financial assets - noncurrent)	Long-term debt in YEN	52,910	3,900
Fair value hedge	Stock investments in Yodogawa Steel Works, Ltd. (recorded as available-for-sale financial assets - noncurrent)	Long-term debt in YEN	24,705	1,821
Hedge of a net investment in a foreign operation	Stock investment in CSC Australia Holdings Pty. Ltd. (recorded as investments accounted for by the equity method)	Long-term debt in AUD	(64,595)	(12,387)
Hedge of cash flow	Contracts for purchasing machinery and equipment	Deposit-foreign currency	(293,800)	(254,340)
Hedge of cash flow	Contracts for purchasing machinery and equipment	Forward contracts	79,179	(291,090)

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

As of June 30, 2009 and 2008, the fair values of the above foreign deposits of financial instrument on hedge of cash flow were NT$5,139,633 thousand and NT$4,380,640 thousand, respectively, recorded as other financial asset - noncurrent (Note 14).

29. RELATED-PARTY TRANSACTIONS

a. Related parties

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

(Continued)

Related Parties	Relationship with the Corporation
Kaohsiung Rapid Transit Corporation (KRTC)	Equity method investee
TaiAn Technologies Corporation	Equity method investee
Kaohsiung Labor Assemble & Disassemble Co., Ltd.	Equity investee of the Corporation's affiliate
RSEA Engineering Co., Ltd.	Director of the Corporation's subsidiary
Great Grandeul Steel Co., Ltd.	Director of the Corporation's subsidiary
Southeast Cement Co., Ltd.	Director of the Corporation's subsidiary
Chun Yu Corporation	Director of the Corporation's subsidiary
Hua Eng Wire & Cable Co., Ltd.	Director of the Corporation's subsidiary
Chun Yuan Steel industry Co., Ltd.. (CYS)	Director of the Corporation's subsidiary
Chang Yee Steel Co., Ltd.	Director of the Corporation's affiliate
Unimax & Far Corporation	Director of the Corporation's affiliate
Mayer Steel Pipe Corporation	Director of the Corporation's affiliate
Kao Hsiung Changiron & Steel Corporation	Director of the Corporation's affiliate
Bichan Trading CORP.	Director of the Corporation's affiliate
Tang Eng Iron Works Co., Ltd. (TEI)	Director of the Corporation
CSBC Cprporation Taiwan (CSBC)	Director of the Corporation
CTCI Corporation	Supervisor of the Corporation's affiliate
CSC Educational Foundation	Foundation established mainly from the Corporation's donation

(Concluded)

b. Significant related-party transactions were as follows:

Sales and Purchases

The sales transactions with related parties were NT$9,893,699 thousand (14%, including CSSB, CSBC and CYS, etc.) and NT$9,979,664 thousand (8%, including CSSB, CSSC and CSSC, etc.), respectively, and the purchases transactions (including CSEP, CSE and CAC, etc.) with related parties were NT$4,000,806 thousand (9%) and NT$17,037,469 thousand (24%), respectively, for the six months ended June 30, 2009 and 2008.

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

Assets lease

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

		Rental Income Six Months Ended June 30			
		2009		2008	
	Expiry of Contracts	Amount	%	Amount	%
CAC	February 2016	$ 27,945	35	$ 27,944	35
CSMC	November 2011	14,920	18	14,415	18
CSCC	December 2012	10,091	12	10,780	13
Others	October 2012	15,225	19	14,794	18
		$ 68,181	84	$ 67,933	84

Other revenues

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

	Other operating revenue	%	Nonoperating revenue	%	Total
Six months ended June 30, 2009					
DSC	$ 692,982	36	$ 1,450	-	$ 694,432
TEI	320,122	16	62	-	320,184
CHSC	18,108	1	144,834	42	162,942
KRTC	3,628	-	-	-	3,628
Others	135,077	7	51,928	15	187,005
	$ 1,169,917	60	$ 198,274	57	$ 1,368,191
Six months ended June 30, 2008					
DSC	$ 615,328	15	$ 4,094	1	$ 619,422
TEI	504,827	12	52	-	504,879
CHSC	6,573	-	140,326	22	146,899
KRTC	1,726,017	41	-	-	1,726,017
Others	183,028	5	102,327	15	285,355
	$ 3,035,773	73	$ 246,799	38	$ 3,282,572

Other expenditures

Other expenditures paid to related parties for the six months ended June 30, 2009 and 2008 (including CEC, CSHC and CHC, etc.) were NT$1,514,580 thousand and NT$2,646,555 thousand, respectively. Other expenditures pertained to furnace slag handling services, export shipping charges, commissions for export and import services, etc., were recorded in other operating costs, manufacturing expenses, operating expenses and nonoperating expenses and losses.

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

Construction in progress

The constructions in progress transacted with related parties for the six months ended June 30, 2009 and 2008 were NT$3,503,021 thousand (including CSMC, CEC and CSSC, etc.) and NT$2,382,279 thousand (including CSMC, CEC and USECC, etc.), respectively.

Donation expenditures

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

c. Balances at period-end

	June 30			
	2009		2008	
	Amount	%	Amount	%
Receivables				
KRTC	$ 396,178	14	$ 465,081	10
Others	763,671	26	1,000,317	22
	$ 1,159,849	40	$ 1,465,398	32
Payables				
CSE	$ 358,800	16	$ 206,646	3
CSEP	284,873	12	2,740,134	36
Others	133,423	6	224,928	3
	$ 777,096	34	$ 3,171,708	42
Dividends receivable (classified as other receivables)				
CSCC	$ 319,860	21	$ 327,558	3
CAC	193,528	13	456,111	5
CHC	120,984	8	104,409	1
ISC	114,445	8	83,346	1
CEC	110,786	7	99,708	1
CSE	-	-	5,966,339	61
GIC	-	-	944,785	10
Others	157,074	10	1,147,200	11
	$ 1,016,667	67	$ 9,129,456	93
Other prepayment (classified as other current assets)				
CSEP	$ -	-	$ 1,122,948	15

30. PLEDGED ASSETS

Time deposits of NT$4,158,026 thousand and NT$4,152,000 thousand (recorded as restricted assets-current and noncurrent) as of June 30, 2009 and 2008, respectively, have been pledged mainly as collaterals for bank overdraft, etc.

31. SIGNIFICANT COMMITMENTS AND CONTINGENCIES AS OF JUNE 30, 2009

a. The Corporation is guaranteed of NT$1,295,375 thousand by Mega Bank and Taipei Fubon Bank for several construction, warranty, lease and payment contracts.

b. Unused letters of credit amounted to NT$19.3 billion.

c. The Corporation entered into property purchase contracts that amounted to NT$33.9 billion. Unrecorded amounts as of June 30, 2009 were NT$17.4 billion.

d. The Corporation entered into raw material purchase contracts with suppliers in Australia, India, Brazil, Canada, Indonesia, North Korea, Japan, Philippines, Russia and domestic companies with contract terms of 1 to 10 years. Contracted annual purchases of 8,000,000 metric tons of coal, 17,000,000 metric tons of iron ore, and 3,000,000 metric tons of limestone are at prices negotiated every year. Unpaid purchase amounts as of June 30, 2009 were US$7.72 billion (including 19,740,000 metric tons of coal; 119,080,000 metric tons of iron ore; and 2,800,000 metric tons of limestone). The purchase contracts are entered into in order to have stable supplies of raw materials. As of June 30, 2009, the Corporation evaluated that the purchase costs (including coal, iron ore and slab) would be higher than the expected profit from the contracts, accordingly, a loss on purchase commitments of NT$4,790,941 thousand was recognized as purchase commitments payable of current liabilities.

e. CHSC entered into a syndicated credit facility agreement with Mega Bank and 21 other banks. Under these agreements, the Corporation and its related parties should collectively hold at least 30% of CHSC's issued shares and have over half of CHSC's board seats as well as control of its operations. As of June 30, 2009, the Corporation and its subsidiaries had total shareholdings in CHSC of 41% and all seats in the Board of Directors and control of its operations.

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

g. DSC entered into a syndicated credit facility agreement amounted to NT$51.7 billion with Bank of Taiwan and 12 other banks in February 2008. Under this agreement, the Corporation and its related parties should collectively hold at least 40% of DSC's issued shares and have over half of DSC's board seats. As of June 30, 2009, the Corporation's equity in DSC aggregated 100% and held all board seats.

32. SUBSEQUENT EVENTS

The Corporation entered into working capital loan agreement with Bank of Taiwan on July 4, 2009. The loan amounted to NT$20 billion with 5-year-term. Under the loan agreement, the Corporation mortgaged the land (carrying value of NT$17,058,175 thousand) as collateral. Up to the audit report date, the working capital loans was unused.

CHINA STEEL CORPORATION

ADDITIONAL EXPLANATIONS FOR ACCOUNTS IN STOCKHOLDERS' EQUITY SIX MONTHS ENDED JUNE 30, 2009 AND 2008

1. ADJUSTMENTS RECOGNIZED UNDER EQUITY METHOD

a. Long-term investment adjustment

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

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

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

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

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

3. NET LOSS NOT RECOGNIZED AS PENSION COST

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

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

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

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

4. DISPOSAL OF TREASURY STOCK

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

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

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

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

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

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