China Steel Corporation

Financial Statements for the
Nine Months Ended September 30, 2010 and 2009 and
Independent Accountants' Review Report

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

The Board of Directors and Stockholders
China Steel Corporation

We have reviewed the accompanying balance sheets of China Steel Corporation (the "Corporation") as of September 30, 2010 and 2009, and the related statements of income and cash flows for the nine months then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to issue a report on these financial statements based on our reviews.

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

As discussed in Note 12 to the accompanying financial statements, investments in certain equity-method investees (including unlisted subsidiaries and equity-method investees of listed subsidiaries) were NT$36,125,840 thousand and NT$91,621,716 thousand as of September 30, 2010 and 2009, respectively. The related net investment income was NT$4,589,708 thousand and NT$3,500,354 thousand for the nine months ended September 30, 2010 and 2009, respectively. These investment amounts were based on the investees' unreviewed financial statements for the same reporting periods as that of the Corporation.

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

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

October 12, 2010

Notice to Readers

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

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

CHINA STEEL CORPORATION

BALANCE SHEETS
SEPTEMBER 30, 2010 AND 2009
(In Thousands of New Taiwan Dollars, Except Par Value)
(Reviewed, Not Audited)

ASSETS	2010 Amount	%	2009 Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 4)	$ 3,736,078	1	$ 1,693,560	1
Financial assets at fair value through profit or loss - current (Notes 2, 5 and 28)	-	-	301,745	-
Available-for-sale financial assets - current (Notes 2, 6 and 28)	1,805,909	1	1,878,728	1
Hedging derivative assets - current (Notes 2, 7 and 28)	-	-	91,627	-
Notes receivable	616,053	-	440,784	-
Notes receivable - related parties (Note 29)	459,452	-	150	-
Accounts receivable (Notes 2 and 8)	2,496,579	1	1,620,565	1
Accounts receivable - related parties (Notes 2 and 29)	1,231,598	-	1,492,639	-
Other receivables (Note 10)	1,169,636	-	513,070	-
Other financial assets - current (Notes 13 and 28)	784,888	-	4,624,432	1
Inventories (Notes 2, 3 and 9)	44,084,048	12	31,052,044	10
Spare parts - current (Note 2)	6,748,135	2	6,755,806	2
Deferred income tax assets - current (Notes 2 and 25)	671,526	-	1,602,983	-
Restricted assets - current (Notes 4 and 30)	4,651,000	1	4,150,002	1
Others	1,678,963	-	876,567	-
Total current assets	70,133,865	18	57,094,702	17
FUNDS AND INVESTMENTS				
Available-for-sale financial assets - noncurrent (Notes 2, 6 and 28)	3,126,178	1	3,024,387	1
Hedging derivative assets - noncurrent (Notes 2, 7 and 28)	-	-	4,780	-
Financial assets carried at cost - noncurrent (Notes 2, 10 and 28)	5,765,236	2	5,687,210	2
Bond investments with no active market-noncurrent (Notes 2, 11 and 28)	103,000	-	103,000	-
Investments accounted for by the equity method (Notes 2 and 12)	123,096,113	32	96,847,662	30
Other financial assets - noncurrent (Notes 13 and 28)	625,856	-	746,517	-
Total funds and investments	132,716,383	35	106,413,556	33
PROPERTY, PLANT AND EQUIPMENT (Notes 2, 14, 29 and 30)				
Land	10,877,244	3	10,692,043	3
Land improvements	4,223,646	1	4,223,647	1
Buildings	44,475,202	12	41,619,774	13
Machinery and equipment	277,295,714	73	251,444,533	77
Transportation equipment	1,770,260	-	1,721,676	1
Other equipment	4,914,381	1	4,532,225	1
Total cost	343,556,447	90	314,233,898	96
Revaluation increment	43,610,892	11	43,673,414	14
Cost and revaluation increment	387,167,339	101	357,907,312	110
Less: Accumulated depreciation	244,741,500	64	231,942,261	71
	142,425,839	37	125,965,051	39
Constructions in progress and prepayments for equipment	32,422,658	9	30,189,930	9
Total property, plant and equipment, net	174,848,497	46	156,154,981	48
INTANGIBLE ASSETS (Note 2)	237,061	-	172,946	-
OTHER ASSETS				
Assets leased to others, net (Notes 2 and 15)	3,218,708	1	3,223,153	1
Refundable deposits (Note 28)	124,578	-	156,068	-
Deferred income tax assets - noncurrent (Notes 2 and 25)	-	-	2,367,383	1
Restricted assets - noncurrent (Note 30)	8,275	-	8,026	-
Spare parts - noncurrent (Note 2)	1,209,923	-	1,056,305	-
Total other assets	4,561,484	1	6,810,935	2
TOTAL	$ 382,497,290	100	$ 326,647,120	100

LIABILITIES AND STOCKHOLDERS' EQUITY	2010 Amount	%	2009 Amount	%
CURRENT LIABILITIES				
Short-term loans and overdraft (Notes 16 and 30)	$ 1,066,024	-	$ 4,808,233	2
Commercial paper payable (Note 17)	3,699,309	1	14,496,306	4
Hedging derivative liabilities - current (Notes 2 , 7 and 28)	4,694	-	-	-
Accounts payable	2,982,013	1	1,243,907	-
Accounts payable - related parties (Note 29)	4,669,588	1	1,778,791	1
Income tax payable (Notes 2 and 25)	3,225,455	1	-	-
Accrued expenses (Note 18)	11,073,756	3	6,929,272	2
Purchase commitments payable (Notes 2 and 9)	-	-	3,547,400	1
Other payables (Note 2)	7,266,156	2	3,569,460	1
Bonds payable - current portion (Notes 19 and 28)	8,098,532	2	-	-
Long-term debt - current portion (Notes 20 and 28)	456,646	-	4,945,334	2
Others	4,024,928	1	1,116,289	-
Total current liabilities	46,567,101	12	42,434,992	13
LONG-TERM LIABILITIES				
Hedging derivative liabilities - noncurrent (Notes 2, 7 and 28)	896	-	-	-
Bonds payable (Notes 19 and 28)	35,177,260	10	43,266,696	13
Long-term debt - bank (Notes 20, 28 and 30)	23,037,402	6	434,855	-
Long-term notes payable (Notes 21 and 28)	4,493,372	1	5,249,874	2
Total long-term liabilities	62,708,930	17	48,951,425	15
RESERVE FOR LAND VALUE INCREMENT TAX (Note 14)	8,673,466	2	8,673,466	3
OTHER LIABILITIES				
Deferred income tax liabilities - noncurrent (Notes 2 and 25)	559,011	-	-	-
Deferred credits - gain from affiliates (Notes 10 and 23)	2,013,740	1	1,846,013	-
Total other liabilities	2,572,751	1	1,846,013	-
Total liabilities	120,522,248	32	101,905,896	31
CAPITAL STOCK - AUTHORIZED 17,000,000 THOUSAND SHARES AND 14,000,000 THOUSAND SHARES AT NT$10 PAR VALUE AS OF SEPTEMBER 30, 2010 and 2009, RESPECTIVELY (Note 24)				
Common shares - issued 13,527,901 thousand shares and 13,094,519 thousand shares as of September 30, 2010 and 2009, respectively	135,279,009	35	130,945,189	40
Preferred shares - issued 38,268 thousand shares	382,680	-	382,680	-
Total capital stock	135,661,689	35	131,327,869	40
CAPITAL SURPLUS (Notes 2 and 24)	19,966,634	5	18,842,759	6
RETAINED EARNINGS (Notes 2 and 24)				
Legal reserve	49,070,526	13	47,117,709	15
Special reserve	7,615,701	2	7,615,701	2
Unappropriated earnings	64,909	-	15,440	-
Net income for the nine months ended September 30	33,055,568	9	3,916,228	1
Total retained earnings	89,806,704	24	58,665,078	18
OTHER EQUITY				
Unrealized revaluation increment (Notes 14 and 24)	21,914,205	6	21,913,197	7
Unrealized gain on financial instruments (Notes 7, 13 and 24)	2,767,998	-	4,686,578	1
Cumulative translation adjustments (Notes 2 and 24)	350,198	-	150,880	-
Net loss not recognized as pension cost	(42,243)	-	(32,385)	-
Treasury stock - 297,213 thousand shares and 392,167 thousand shares as of September 30, 2010 and 2009, respectively (Notes 2 and 24)	(8,450,143)	(2)	(10,812,752)	(3)
Total other equity	16,540,015	4	15,905,518	5
Total stockholders' equity	261,975,042	68	224,741,224	69
TOTAL	$ 382,497,290	100	$ 326,647,120	100

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

(With Deloitte & Touche review report dated October 12, 2010)

CHINA STEEL CORPORATION

STATEMENTS OF INCOME
NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)
(Reviewed, Not Audited)

	2010		2009	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 2 and 29)	$ 177,466,771	100	$ 115,344,691	100
OPERATING COSTS (Notes 2, 3, 9, 26 and 29)	141,389,359	80	114,690,558	99
GROSS PROFIT	36,077,412	20	654,133	1
REALIZED (UNREALIZED) GAIN FROM AFFILIATES, NET	(193,309)	-	142,620	-
REALIZED GROSS PROFIT	35,884,103	20	796,753	1
OPERATING EXPENSES (Notes 26 and 29)				
Research and development	1,039,836	1	839,581	1
Selling	2,022,607	1	1,560,756	1
General and administrative	2,185,035	1	1,672,850	2
Total operating expenses	5,247,478	3	4,073,187	4
OPERATING INCOME (LOSS)	30,636,625	17	(3,276,434)	(3)
NONOPERATING INCOME AND GAINS				
Interest income (Note 28)	71,264	-	74,745	-
Valuation gain on financial assets (Notes 2 and 5)	12,005	-	14,621	-
Investment income recognized under equity method, net (Notes 2 and 12)	7,411,199	4	3,784,963	3
Gain on sale of investments (Notes 2, 6 and 10)	8,019	-	1,642,584	2
Others (Notes 10, 14 and 29)	752,217	1	871,307	1
Total nonoperating income and gains	8,254,704	5	6,388,220	6
NONOPERATING EXPENSES AND LOSSES				
Interest expense (Notes 14 and 28)	480,989	-	633,495	1
Others (Notes 2 and 29)	459,062	-	223,263	-
Total nonoperating expenses and losses	940,051	-	856,758	1
INCOME BEFORE INCOME TAX	37,951,278	22	2,255,028	2
INCOME TAX EXPENSE (BENEFIT) (Notes 2 and 25)	4,895,710	3	(1,661,200)	(1)
NET INCOME	$ 33,055,568	19	$ 3,916,228	3

(Continued)

CHINA STEEL CORPORATION

STATEMENTS OF INCOME
NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)
(Reviewed, Not Audited)

	2010		2009	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS PER SHARE (Note 27)				
Basic	$ 2.86	$ 2.50	$ 0.17	$ 0.30
Diluted	$ 2.84	$ 2.47	$ 0.17	$ 0.29

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

	2010	2009
Net income	$ 33,344,129	$ 4,331,051
Basic earnings per share based on weighted-average number of outstanding common shares aggregating 13,527,901 thousand and 13,419,901 thousand shares for the nine months ended September 30, 2010 and 2009, respectively	$2.46	$0.32
Diluted earnings per share based on weighted-average number of outstanding common shares aggregating 13,681,618 thousand and 13,462,310 thousand shares for the nine months ended September 30, 2010 and 2009, respectively	$2.44	$0.32

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

(With Deloitte & Touche review report dated October 12, 2010) (Concluded)

CHINA STEEL CORPORATION

STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 33,055,568	$ 3,916,228
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	10,643,501	9,344,979
Amortization	64,394	84,092
Deferred income tax	1,639,378	(390,309)
Provision for (recovery of) loss on inventories	(29,144)	182,247
Gain on sale of investments	(8,019)	(1,642,584)
Investment income under equity method, net	(7,411,199)	(3,784,963)
Unrealized (realized) gain from affiliates, net	193,309	(142,620)
Cash dividends received from equity method investees	6,770,245	8,008,186
Loss on disposal of property, plant and equipment	12,784	26,914
Valuation gain on financial assets	(12,005)	(14,621)
Impairment loss	-	4,201
Loss on purchase commitments	-	1,939,063
Others	20,095	(56,236)
Net changes in operating assets and liabilities		
Notes receivable	(187,984)	1,675,465
Notes receivable - related parties	(237,021)	-
Accounts receivable	(776,611)	(222,423)
Accounts receivable - related parties	(119,466)	4,432
Other receivables	(281,015)	1,001,989
Inventories	(12,568,281)	17,540,820
Other current assets	(874,925)	284,391
Accounts payable	977,846	(2,524,810)
Accounts payable - related parties	1,561,626	(2,935)
Income tax payable	3,225,455	(5,749,662)
Accrued expenses	2,579,618	766,846
Other payables	2,432,835	(3,368,009)
Other current liabilities	1,453,640	(507,222)
Net cash provided by operating activities	42,124,624	26,373,459
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of financial assets designated as at fair value through profit or loss	(11,660,059)	(1,820,000)
Proceeds from disposal of financial assets designated as at fair value through profit or loss	15,734,908	7,138,329
Acquisition of available-for-sale financial assets	(251,988)	-
Proceeds from disposal of available -for-sale financial assets	-	2,210,040
Acquisition of financial assets carried at cost	(7,197)	(4,201)
Proceeds from disposal of financial assets carried at cost	146,701	-
Proceeds from the capital reduction on financial assets carried at cost	5,721	3,764
Acquisition of investments accounted for by equity method	(20,713,569)	(3,685,715)
Acquisition of property, plant and equipment	(23,661,210)	(16,024,535)

(Continued)

CHINA STEEL CORPORATION

STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	2010	2009
Proceeds from disposal of property, plant and equipment	$ 404	$ 1,215
Decrease (increase) in other financial assets	3,153,081	(214,187)
Decrease in refundable deposits	13,746	26,739
Decrease (increase) in restricted assets	(494,972)	8,422
Increase in intangible assets	(90)	(116,466)
Increase in other assets	(246,484)	(485,238)
Net cash used in investing activities	(37,981,008)	(12,961,833)
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in short-term loans and overdraft	(5,191,740)	(4,028,143)
Decrease in commercial paper payable	(4,300,468)	(475,287)
Increase in long-term debt	20,945,295	-
Decrease in long-term debt	(3,025,331)	-
Increase (decrease) in long-term notes payable	(750,000)	5,249,874
Cash dividends	(13,273,775)	(16,210,437)
Discount on acquisition cost of treasury stock	-	886
Net cash used in financing activities	(5,596,019)	(15,463,107)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,452,403)	(2,051,481)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	5,188,481	3,745,041
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 3,736,078	$ 1,693,560
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	$ 405,438	$ 370,703
Capitalized interest	(201,530)	(260,736)
Interest paid (excluding capitalized interest)	$ 203,908	$ 109,967
Income tax paid	$ 30,877	$ 4,478,771
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	$ 24,962,998	$ 15,273,568
Decrease (increase) in payable for equipment purchased	(1,301,788)	750,967
	$ 23,661,210	$ 16,024,535
Cash dividends paid to stockholders		
Total cash dividends payable to stockholders	$ 13,266,411	$ 16,234,154
Decrease (increase) in dividends payable	7,364	(23,717)
	$ 13,273,775	$ 16,210,437
NON-CASH FINANCING ACTIVITIES		
Current portion of long-term liabilities	$ 4,187,274	$ 3,976,167

The accompanying notes are an integral part of the financial statements.
(With Deloitte & Touche review report dated October 12, 2010) (Concluded)

CHINA STEEL CORPORATION

NOTES TO FINANCIAL STATEMENTS
NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009
(In Thousands of New Taiwan Dollars, Except Amounts Stated Otherwise)
(Reviewed, Not Audited)

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 September 30, 2010, the Ministry of Economic Affairs, Republic of China owned 21.24% of the Corporation's issued common stock.

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

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

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

Significant accounting policies are summarized as follows:

Current and Noncurrent Assets and Liabilities

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

Cash Equivalents

Cash equivalents are highly liquid instruments with maturities of three months or less when acquired and subject to insignificant risk of changes in value resulting from interest rate fluctuations.

Financial Assets at Fair Value Through Profit or Loss

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

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

Available-for-sale Financial Assets

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

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

Cash dividends are recognized on the ex-dividend date, except for dividends distributed from the pre-acquisition profit, which are treated as a reduction of investment cost. Stock dividends are not recognized as investment income but are recorded as an increase in the number of shares. The total number of shares subsequent to the increase is used for recalculation of cost per share.

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

Revenue Recognition, Accounts Receivable and Allowance for Doubtful Accounts

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

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

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

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

Factoring of Accounts Receivable

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

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

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

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

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

Inventories

Inventories consist of raw materials, supplies, fuel, finished products, work in process, etc. Inventories are stated at the lower of cost or net realizable value. Inventory write-downs are made on item by item basis. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and expenses necessary to make the sale. Inventories are recorded at moving average cost. Unallocated fixed overheads on idle capacity when actual production is significantly lower than normal production or the equipment is idle are recognized as operating costs.

Spare Parts

Spare parts are intended for use in the repairs of the machinery and equipment. Spare parts estimated to be used within 12 months are classified as current assets. Otherwise, they are classified as other assets.

Financial Assets Carried at Cost

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

Bond Investments with No Active Market

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

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

Investment Accounted for by the Equity Method

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

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

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

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

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

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

Property, Plant and Equipment

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

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

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

Intangible Assets

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

Assets Leased to Others

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

Impairment of Assets

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

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

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

Loss on Purchase Commitments

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

Treasury stock-based Compensation

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

Pension Cost

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

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

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

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

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

Foreign-currency Transactions

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

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

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

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

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

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

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

Hedging Derivative Financial Instruments

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

Hedge Accounting

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

a. Fair value hedge

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

b. Cash flow hedge

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

c. Hedge of a net investment in a foreign operation

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

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

Reclassifications

Certain accounts in the financial statements as of and for the nine months ended September 30, 2009 have been reclassified to conform to the presentation of the financial statements as of and for the nine months ended September 30, 2010. The main reclassifications include (1) Issuance cost of bonds payable previously recorded as other assets was reclassified to the deduction of the bond payable (Note 19), and (2) the reline cost of blast furnace previously recorded as other assets was reclassified into property, plant and equipment (Note 14).

3. EFFECTS OF CHANGES IN ACCOUNTING PRINCIPLES

Accounting for Inventories

Starting January 1, 2009, the Corporation adopted the newly revised SFAS No. 10 - "Accounting for Inventories." The main revisions are (1) inventories are stated at the lower of cost or net realizable value, and inventories are written down to net realizable value based on item-by-item basis; (2) unallocated overheads are recognized as operating costs in the period when incurred; and (3) write-downs of inventories and any reversal of write-downs are recorded as operating costs for the period. This adoption resulted in a decrease of NT$318,261 thousand in net income and a decrease of NT$0.024 in after income tax basic and diluted earnings per share for the nine months ended September 30, 2009.

4. CASH AND CASH EQUIVALENTS

	September 30	
	2010	2009
Cash on hand	$ 15,953	$ 19,544
Checking accounts and demand deposits	1,163,071	1,545,735
Time deposits	1,106,026	128,281
Cash equivalents - short-term notes and bills with repurchase agreements	1,451,028	-
	$ 3,736,078	$ 1,693,560

Foreign bank deposits were as follows:

	September 30	
	2010	2009
Japan - IYO Bank and Mega International Commercial Bank (in thousands)	¥ 6,417	¥ 6,742
Singapore - Daiwa Securities SMBC (in thousands)	27	36
Total (in thousands)	¥ 6,444	¥ 6,778
Represented by NT dollars (in thousands)	$ 2,424	$ 2,428

The Corporation cooperated with Ministry of Economic Affairs on "High-value Steel Structure Industry" and "The Promotion for Value Chain of Steel Industry by Leading Company", etc. Deposits of the project were NT$1,000 thousand and NT$2 thousand (recorded as restricted assets - current) as of September 30, 2010 and 2009, respectively.

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

The financial assets designated as at FVTPL represent open-end bond funds. The purpose of classifying open-end bond funds to this account is to reduce the accounting inconsistency between investment income and interest expense. The group of financial assets is managed and its performance is evaluated on fair value basis, in accordance with a documented risk management or investment strategy. As of September 30, 2009, the balance of financial assets at fair value through profit or loss was NT$301,745 thousand.

Net gains on financial assets designated as at FVTPL for the nine months ended September 30, 2010 and 2009 were NT$12,005 thousand and NT$14,621 thousand, respectively.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	September 30			
	2010		2009	
	Current	Noncurrent	Current	Noncurrent
Quoted stocks				
Taiwan Semiconductor Manufacturing Company (TSMC)	$ 400,000	$ -	$ 400,000	$ -
Maruichi Steel Tube Ltd.	-	757,920	-	757,920
Yodogawa Steel Works, Ltd.	-	345,831	-	345,831
Rechi Precision Co., Ltd. (RPC)	-	251,988	-	-

(Continued)

	September 30			
	2010		2009	
	Current	Noncurrent	Current	Noncurrent
CSBC Corporation Taiwan	$ -	$ 219,575	$ -	$ 219,575
Tang Eng Iron Works Corporation (TEIWC)	-	-	-	-
Adjustments for change in valuation	1,405,909	1,550,864	1,478,728	1,701,061
	$ 1,805,909	$ 3,126,178	$ 1,878,728	$ 3,024,387

(Concluded)

For the nine months ended September 30, 2009, the Corporation sold the shares of TSMC and recognized the gain on disposal of investment for NT$1,642,584 thousand as nonoperating income and gains.

In September 2010, the Corporation invested NT$251,988 thousand to acquire 5% equity of RPC through its private subscription. RPC mainly manufactures compressors. Under the Securities Exchange Act, the securities which the Corporation acquired by private subscription should only be transferred freely in public market after holding for three years, starting from the delivery date.

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 September 30, 2010 and 2009, the carrying value of this financial asset were NT$868,946 thousand and NT$936,133 thousand, respectively and classified as valuation adjustment - noncurrent.

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

7. HEDGING DERIVATIVE FINANCIAL INSTRUMENTS

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

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

	Currency	The Period for Generating Cash Flows and Maturity Date	Contract Amount (In Thousands)
September 30, 2010			
Forward exchange contracts	NT$/US$	October 2010	NT$627,880/US$20,000
	NT$/EUR€	March 2011 - March 2012	NT$82,353/EUR€1,891
September 30, 2009			
Forward exchange contracts	NT$/US$	December 2009 - September 2010	NT$4,093,276/US$129,490
	NT$/EUR€	June 2010 - March 2012	NT$721,146/EUR€16,091

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

	Nine Months Ended September 30	
	2010	2009
Balance, beginning of period	$ 61,976	$ 57,027
Valuation of unrealized gain (loss)	(75,408)	46,047
Transferred to construction in progress and prepayments for equipment	7,842	(6,667)
Balance, end of period	$ (5,590)	$ 96,407

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

	September 30	
	2010	2009
Hedging derivative assets - current	$ -	$ 91,627
Hedging derivative assets - noncurrent	-	4,780
Hedging derivative liabilities - current	(4,694)	-
Hedging derivative liabilities - noncurrent	(896)	-
	$ (5,590)	$ 96,407

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

8. ACCOUNTS RECEIVABLE

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

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

Transaction Counter-party	Advances Received at Period - Beginning	Receivables Sold	Amounts Collected by Bank	Advances Received at Period - end	Interest Rate on Advances Received (%)	Credit Line (In Billions of NTD)
Nine months ended September 30, 2010						
Accounts receivable						
Mega Bank	$ 2,723,672	$ 6,848,996	$ 6,033,611	$ 3,539,057	0.80-1.20	$ 7.5
Bank of Taiwan	484,607	1,175,151	1,006,845	652,913	0.80-0.95	2.5
Taipei Fubon Bank	124,901	383,194	371,856	136,239	1.03-1.20	0.4
	$ 3,333,180	$ 8,407,341	$ 7,412,312	$ 4,328,209		
Nine months ended September 30, 2009						
Accounts receivable						
Mega Bank	$ 4,166,480	$ 5,983,964	$ 7,720,194	$ 2,430,250	0.80-2.73	7.5
Bank of Taiwan	856,900	1,063,313	1,430,957	489,256	0.80-2.16	2.5
Taipei Fubon Bank	166,541	366,457	382,383	150,615	1.03-2.33	0.4
	$ 5,189,921	$ 7,413,734	$ 9,533,534	$ 3,070,121		

9. INVENTORIES

	September 30 2010	September 30 2009
Finished products	$ 11,001,959	$ 7,431,333
Work in process	15,604,838	11,609,549
Raw materials	13,132,807	8,303,005
Supplies	1,266,784	1,285,380
Materials in transit	2,769,058	1,931,298
Fuel	220,452	387,801
Others	88,150	103,678
	$ 44,084,048	$ 31,052,044

As of September 30, 2010 and 2009, the allowance for loss on value decline of inventory was NT$29,289 thousand and NT$182,247 thousand, respectively, and shown as deduction in inventories. The cost of inventories recognized as operating costs for the nine months ended September 30, 2010 and 2009 was NT$141,389,359 thousand and NT$114,690,558 thousand, respectively. The items recorded as operating costs were as follows:

	Nine Months Ended September 30 2010	Nine Months Ended September 30 2009
Provision for (recovery of) loss on inventories	$ (29,144)	$ 182,247
Loss on purchase commitments	-	1,939,063
Loss on idle capacity	-	1,519,642
Gain on physical inventory	(110,392)	(274,988)
Income from scrap sales	(148,052)	(92,067)
	$ (287,588)	$ 3,273,897

The global financial crisis in 2008 hurt the demand for steel products. Therefore, the steel products and materials prices declined significantly from the fourth quarter of 2008. For the nine months ended September 30, 2009, the Corporation recognized loss on purchase commitments of NT$1,939,063 thousand due to the effect of the crisis, and reported such loss as operating costs and current liabilities - purchase commitments payable. Due to the exercise of the purchase contracts and a rise in the steel price, the purchase commitments payable was fully reversed in the fourth quarter of 2009.

Unallocated fixed overheads on idle capacity are recognized as operating costs in the period when incurred as a result of the adoption of SFAS No. 10 “Accounting for Inventories”, starting January 1, 2009. The Corporation recognized loss on idle capacity of NT$1,519,642 thousand for the nine months ended September 30, 2009.

10. FINANCIAL ASSETS CARRIED AT COST - NONCURRENT

	September 30 2010	September 30 2009
Unquoted common stocks		
Industrial Bank of Taiwan	$ 1,000,000	$ 1,000,000
CDIB & Partners Investment Holding Corporation	500,000	500,000
Taiwan Rolling Stock Co., Ltd.	202,048	202,048
Adimmune Corporation (AC)	135,897	231,650
CDIB BioScience Ventures I, Inc. (CBVI)	65,791	71,512
Overseas Investment & Development Corporation	50,000	50,000
Mega I Venture Capital Co., Ltd.	50,000	50,000
Taiwan High Speed Rail Corporation (THSRC)	-	-
Unquoted preferred stocks		
East Asia United Steel Corporation (EAUS) - Preferred A	3,761,500	3,582,000
Fund		
Sino-Canada Biotechnology Development Fund, LP (SCBDF)	-	-
	$ 5,765,236	$ 5,687,210

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

In September 2003, the Corporation acquired 100,000 thousand Preferred B shares (representing 4% of ownership) of THSRC for NT$1,000,000 thousand. Dividend on these shares is at 5%, payable on a nonparticipating and cumulative basis. These shares with six years of durations could be extended for 13 months prior to 3 months from the due date. In April 2005 and August 2004, the Corporation acquired additional 505,370 thousand Preferred C shares of THSRC for NT$3,199,944 thousand and NT$1,499,997 thousand, respectively. These shares, representing 19% of ownership, which may be converted to common shares within four years from the acquisition date, have a 9.5% dividend in the first two years and 0% in the next two years. At the end of four years, if the Corporation does not convert the Preferred C shares into common shares and THSRC cannot redeem the shares, the unredeemed shares will have 4.71% dividends. THSRC mainly builds and operates public transportation systems.

The Corporation evaluated and recognized an impairment loss of NT$4,738,926 thousand on the investments in preferred shares of THSRC. The conversion of the preferred shares held by the Corporation into common shares of THSRC was approved by the Corporation's board of directors' meeting in June 2009. In order to use tax credits under the Act for Promotion of Private Participation in Infrastructure Projects, the Corporation converted THSRC's preferred shares to 605,370 thousand common shares in August 2009.

The Corporation invested NT$102,000 thousand to acquire equity of CBVI. CBVI reduced its capital and returned to the Corporation several times. Accordingly, the original cost of investment in CBVI was reduced to NT$65,791 thousand.

In August 2009, since SCBDF had no sufficient funds to pay service fees, the Corporation added NT$4,201 thousand to its investment in SCBDF. After evaluating SCBDF, the Corporation recognized an impairment loss and wrote book value of the investment down to zero. In August, 2010, SCBDF liquidated and returned capital of NT$8,019 thousand, recorded as nonoperating income and gains.

The Corporation increased investment of NT$7,197 thousand in AC and acquired 300 thousand common shares in June, 2010. In September, 2010, the Corporation sold 5,000 thousand shares to the subsidiary Gains Investment Corporation (GIC) for proceeds of NT$138,683 thousand, and recognized unrealized gain on disposal of investment of NT$35,733 thousand, recorded as deferred credits – gain from affiliates (Notes 23 and 29).

In May 2003, the Corporation signed a slab production joint-venture contract with Sumitomo Metal Industries, Ltd. and Sumitomo Corporation. In July 2003, the joint venture company of EAUS was established. The Corporation invested in EAUS the amount of ￥10 billion (Notes 20 and 28). The Corporation thus enjoys a stable supply of slab from this joint venture. The Corporation also signed a contract with its affiliate of Chung Hung Steel Corporation (CHSC) to transfer the purchasing right of slabs from EAUS, and the Corporation receives royalty on this contract based on the volume purchased by CHSC. The amounts of royalty income for the nine months ended September 30, 2010 and 2009 were NT$188,306 thousand and NT$217,125 thousand, respectively (recorded as nonoperating income and gains). As of September 30, 2010 and 2009, the royalty receivable was NT$54,255 thousand and NT$75,953 thousand, respectively (recorded as other receivables).

11. BOND INVESTMENTS WITH NO ACTIVE MARKET - NONCURRENT

	September 30	
	2010	2009
Unquoted preferred stocks - overseas		
TaiGen Biopharmaceuticals Holdings Limited (TGB) (Preferred B)	$ 103,000	$ 103,000

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

12. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

	September 30			
	2010		2009	
	Amount	% of Ownership	Amount	% of Ownership
Recognition based on reviewed financial statements				
Dragon Steel Corporation (DSC)	$ 79,498,126	100	$ -	-
Chung Hung Steel Corporation (CHSC)	4,324,302	29	2,966,513	29
China Steel Structure Corporation (CSSC)	1,232,594	33	423,992	18
China Steel Chemical Corporation (CSCC)	1,074,296	29	959,964	29
China Ecotek Corporation (CEC)	685,406	49	639,971	49
China Hi-ment Corporation (CHC)	592,569	20	616,874	20
	87,407,293		5,607,314	
Less: Shares held by subsidiaries accounted for as treasury stock	437,020		381,368	
	86,970,273		5,225,946	
Recognition based on unreviewed financial statements				
Dragon Steel Corporation (DSC)	-	-	56,599,867	100
China Steel Express Corporation (CSE)	9,728,134	100	10,468,399	100
C. S. Aluminum Corporation (CAC)	7,613,969	100	6,635,251	100
Gains Investment Corporation (GIC)	6,280,720	100	6,239,886	100
China Prosperity Development Corporation (CPDC)	4,850,320	100	4,810,618	100
China Steel Asia Pacific Holdings Pte Ltd. (CSAPH)	3,938,308	100	3,585,282	100
China Steel Sumikin Vietnam Joint Stock Company (CSVC)	1,823,611	51	1,884,937	51
Kaohsiung Rapid Transit Corporation (KRTC)	1,585,957	31	1,671,633	31
China Steel Global Trading Corporation (CSGT)	1,481,053	100	1,366,741	100
China Steel Machinery Corporation (CSMC)	1,145,069	74	996,221	74
Horng Yih Investment Corporation (HYI)	716,713	100	549,731	100
Long Yuan Fa Investment Corporation (LYFI)	716,393	100	546,930	100
Goang Yaw Investment Corporation (GYI)	698,319	100	535,467	100
CSC Steel Australia Holdings Pty Ltd.(CSCAU)	627,923	100	704,757	100

(Continued)

	September 30			
	2010		2009	
	Amount	% of Ownership	Amount	% of Ownership
Info-Champ Systems Corporation (ICSC)	$ 612,712	100	$ 578,540	100
Investment accounted for by the equity method - CSCC	482,764	-	450,796	-
Kaohsiung Arena Development Corporation (KADC)	475,039	18	458,206	18
China Steel Security Corporation	352,247	100	330,007	100
Investment accounted for by the equity method - CHSC	349,992	-	525,105	-
Investment accounted for by the equity method - CEC	161,021	-	145,611	-
Hsin Hsin Cement Enterprise Corp. (HHCEC)	159,371	18	160,904	18
Investment accounted for by the equity method - CSSC	135,866	-	61,937	-
Hi-mag Magnetic Corporation	108,080	50	94,717	50
Investment accounted for by the equity method - CHC	66,705	-	65,579	-
China Steel Management Consulting Corporation	20,896	100	28,808	100
TaiAn Technologies Corporation (TTC)	7,781	17	6,852	17
Baolai Greeting Development Co., Ltd. (BGDC)	-	-	40,360	45
	44,138,963		99,543,142	
Less: Shares held by subsidiaries accounted for as treasury stock	8,013,123		7,921,426	
	36,125,840		91,621,716	
	$ 123,096,113		$ 96,847,662	

(Concluded)

The Corporation increased investment in CHSC for NT$1,774,125 thousand in the first quarter of 2009. Consequently, the Corporation's total equity in CHSC increased to 41%, including 29% directly owned and 12% indirectly owned through LYFI, HYI and GYI. The Corporation's total equity in KADC is 29%, including 18% directly owned and 11% indirectly owned through CSSC and CPDC. In September 2009, the subsidiary CHC invested in HHCEC. CHC invested in HHCEC in September 2009. Consequently, the Corporation's total equity in HHCEC is 26%, including 18% directly owned and 8% indirectly owned through CHC. The Corporation's total equity in TTC is 22%, including 17% directly owned and 5% indirectly owned through CSCC.

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

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

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

In April 2010, the Corporation invested additional NT$20,000,000 thousand in DSC through its private subscription, and the ownership percentage unchanged. In August, 2010, the Corporation invested additional NT$713,569 thousand in CSSC through its private subscription and raised its direct ownership to 33%. Under the Securities Exchange Act, the securities which the Corporation acquired by private subscription should only be transferred freely in public market after holding for three years, starting from the delivery date.

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

	September 30	
	2010	2009
CHSC	$ 5,755,864	$ 6,031,396
CSCC	7,429,016	5,888,183
CEC	2,766,887	2,390,214
CHC	1,599,671	1,926,775
CSSC	659,352	688,145
	$ 18,210,790	$ 16,924,713

The above market values excluded the shares acquired by private subscription and unable to be transferred freely in public market.

Investment income (loss) under the equity method for the nine months ended September 30, 2010 and 2009 were as follows:

	Nine Months Ended September 30	
	2010	2009
Recognition based on reviewed financial statements		
DSC	$ 1,398,184	$ -
CHSC	718,756	(184,987)
CSCC	383,486	240,077
CEC	161,306	172,899
CSSC	96,961	(40,784)
CHC	62,798	97,404
	2,821,491	284,609
Recognition based on unreviewed financial statements		
CSE	2,262,418	3,618,674
CAC	690,534	(274,276)
CSGT	341,929	221,681
CSAPH	265,495	297,704
CSMC	253,268	230,554
GIC	171,715	610,897
LYFI	106,913	(77,959)
HYI	104,322	(78,292)
GYI	101,721	(76,054)
ICSC	90,620	73,397
CPDC	88,928	75,688
China Steel Security Corporation	57,543	46,539
CEC's equity-method investments	46,926	36,694
CSCAU	46,268	100,378
CSCC's equity-method investments	19,343	18,737
CHSC's equity-method investments	11,356	26,855
CHC's equity-method investments	5,918	5,149
CSSC's equity-method investments	3,208	(221)
DSC	-	(889,810)
KRTC	(109,148)	(506,746)
Others	30,431	40,765
	4,589,708	3,500,354
	$ 7,411,199	$ 3,784,963

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

The Corporation's Board of Directors approved plans for additional investments in CSVC and other companies. The related subscription schedule depends on the investees' capital increase requirements. As of September 30, 2010, the Corporation's unexecuted investments in these investees aggregated NT$16,034,526 thousand.

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

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

	Depreciable Assets	Non-depreciable Assets	Goodwill
Nine months ended September 30, 2010			
Balance, beginning of period	$ 993,548	$ (1,924)	$ 401,018
Amortization	(57,148)	-	-
Balance, end of period	$ 936,400	$ (1,924)	$ 401,018
Nine months ended September 30, 2009			
Balance, beginning of period	$ 1,126,994	$ -	$ 401,018
Amortization	(60,077)	-	-
Balance, end of period	$ 1,066,917	$ -	$ 401,018

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

13. OTHER FINANCIAL ASSETS

	September 30 2010	September 30 2009
Foreign-currency time deposits	$ 986,825	$ 5,350,743
Foreign-currency demand deposits	423,919	20,206
	1,410,744	5,370,949
Less: Current portion	784,888	4,624,432
	$ 625,856	$ 746,517

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 deposits of ￥16 billion (NT$4,878,900 thousand) in January 2008. As of September 30, 2010 and 2009, the balance of the JPY deposits designated as hedging instrument was NT$900,710 thousand (¥2.4 billion) and NT$5,158,080 thousand (¥14.4 billion), respectively.

For the purpose of purchasing imported equipment as well as managing cash flows risk arising from exchange rate fluctuations, the Corporation purchased deposits of US$6,900 thousand (NT$221,691 thousand) and US$5,990 thousand (NT$194,196 thousand), respectively, in June 2010 and September 2009. As of September 30, 2010 and 2009, the balance of the U.S. dollar deposits designated as hedging instruments was NT$384,984 thousand (US$12,290 thousand) and NT$192,663 thousand (US$5,990 thousand).

For the purpose of managing cash flow exposures on foreign-currency capital expenditure contracts, the Corporation entered into exchange contracts (Note 7). As of September 30, 2010 and 2009, the balance of the hedging instruments were NT$125,050 thousand (US$1,741 thousand and EUR€1,653 thousand) and the balance was NT$20,206 thousand (EUR€430 thousand), respectively, which were intended for capital payments.

The unrealized gain of NT$96,934 thousand and unrealized loss of NT$79,078 thousand arising from the above deposits designated as hedging instruments were recognized as unrealized gain on financial instruments in stockholders' equity for the nine months ended September 30, 2010 and 2009, respectively. The unrealized gain on financial instruments of NT$511,339 thousand in stockholders' equity was transferred to construction in progress and prepayments for equipment for the nine months ended September 30, 2010.

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

14. PROPERTY, PLANT AND EQUIPMENT

	Land	Land Improvements	Buildings	Machinery and Equipment	Transportation Equipment	Other Equipment	Construction in Progress and Prepayments for Equipment	Total
Nine months ended September 30, 2010								
Cost								
Balance, beginning of period	$ 10,692,043	$ 4,223,646	$ 42,280,414	$ 255,698,125	$ 1,751,261	$ 4,700,032	$ 28,878,043	$ 348,223,564
Addition	185,201	-	2,201,934	18,694,102	35,043	302,103	3,544,615	24,962,998
Reclassified	-	-	-	3,876,735	-	-	-	3,876,735
Disposals	-	-	(7,146)	(973,248)	(16,044)	(87,754)	-	(1,084,192)
Balance, end of period	10,877,244	4,223,646	44,475,202	277,295,714	1,770,260	4,914,381	32,422,658	375,979,105
Revaluation increment								
Balance, beginning of period	32,754,016	492,990	2,405,551	7,968,650	18,108	31,671	-	43,670,986
Disposals	-	-	(296)	(59,777)	-	(21)	-	(60,094)
Balance, end of period	32,754,016	492,990	2,405,255	7,908,873	18,108	31,650	-	43,610,892
Accumulated depreciation								
Balance, beginning of period	-	4,003,372	21,544,619	202,868,828	1,261,670	3,337,411	-	233,015,900
Depreciation expense	-	60,793	976,130	9,173,337	75,495	355,757	-	10,641,512
Reclassified	-	-	-	2,215,186	-	-	-	2,215,186
Disposals	-	-	(3,202)	(1,029,077)	(15,960)	(82,859)	-	(1,131,098)
Balance, end of period	-	4,064,165	22,517,547	213,228,274	1,321,205	3,610,309	-	244,741,500
Net book value, end of period	$ 43,631,260	$ 652,471	$ 24,362,910	$ 71,976,313	$ 467,163	$ 1,335,722	$ 32,422,658	$ 174,848,497
Nine months ended September 30, 2009								
Cost								
Balance, beginning of period	$ 10,692,043	$ 4,220,388	$ 40,698,022	$ 245,473,457	$ 1,623,659	$ 4,389,119	$ 20,657,785	$ 327,754,473
Addition	-	3,259	946,742	4,331,229	147,239	312,954	9,532,145	15,273,568
Reclassified	-	-	-	2,730,332	-	-	-	2,730,332
Disposals	-	-	(24,990)	(1,090,485)	(49,222)	(169,848)	-	(1,334,545)
Balance, end of period	10,692,043	4,223,647	41,619,774	251,444,533	1,721,676	4,532,225	30,189,930	344,423,828

(Continued)

	Land	Land Improvements	Buildings	Machinery and Equipment	Transportation Equipment	Other Equipment	Construction in Progress and Prepayments for Equipment	Total
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	-	-	(1,929)	(99,883)	-	(13)	-	(101,825)
Balance, end of period	32,754,016	492,990	2,405,551	7,971,079	18,108	31,670	-	43,673,414
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	-	76,373	943,036	7,875,734	72,963	357,995	-	9,326,101
Reclassified	-	-	-	1,592,694	-	-	-	1,592,694
Disposals	-	-	(9,200)	(1,182,178)	(49,065)	(167,798)	-	(1,408,241)
Balance, end of period	-	3,982,188	21,207,799	202,250,918	1,263,197	3,238,159	-	231,942,261
Net book value, end of period	$ 43,446,059	$ 734,449	$ 22,817,526	$ 57,164,694	$ 476,587	$ 1,325,736	$ 30,189,930	$ 156,154,981

(Concluded)

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

	Nine Months Ended September 30	
	2010	**2009**
Interest expense before capitalization	$ 956,370	$ 894,232
Less: Capitalized interest - construction in progress and prepayments for equipment	475,381	260,737
Interest expense through income statement	$ 480,989	$ 633,495
Capitalization rates	1.85%-2.15%	1.57%-2.09%

In 1981 and 1994, the Corporation revalued its property, plant and equipment and patents in accordance with government regulations, resulting in increment of NT$17,662,343 thousand. After the deduction of the reserve for land value increment tax of NT$3,370,813 thousand, a net increment of NT$14,291,530 thousand was credited to unrealized revaluation increment. Unrealized revaluation increment of NT$13,952,356 thousand had been capitalized as capital stock, reducing its balance to NT$339,174 thousand. In January 2005, the government revised the land value increment tax law to reduce the tax rate. Thus, the reserve for land value increment tax decreased and the unrealized revaluation increment increased each by NT$1,196,189 thousand. Accordingly, the balance of unrealized revaluation increment increased to NT$1,535,363 thousand. In February 2005, the Corporation disposed its land, which resulted in a decrease of NT$3,500 thousand in reserve for land value increment tax. In 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 nine months ended September 30, 2010 and 2009, upon retirement or sale of appreciated properties, the unrealized revaluation increment decreased by NT$1,211 thousand and NT$2,051 thousand, respectively, and recorded as nonoperating income and gains. As of September 30, 2010 and 2009, the balance of reserve for land value increment tax were both NT$8,673,466 thousand, the balance of the unrealized revaluation increment were NT$21,911,937 thousand and NT$21,913,197 thousand, respectively, and the cumulative nonoperating income and gains due to disposal of appreciated properties were NT$34,368 thousand and NT$33,108 thousand, respectively.

15. ASSETS LEASED TO OTHERS, NET

	September 30 2010	September 30 2009
Cost		
Land	$ 3,079,977	$ 3,079,977
Machinery and Equipment	2,000,000	2,000,000
Buildings	161,816	161,816
	5,241,793	5,241,793
Accumulated depreciation		
Machinery and Equipment	1,401,000	1,399,207
Buildings	28,085	25,433
	1,429,085	1,424,640
Accumulated impairment		
Machinery and Equipment	594,000	594,000
Net book value, end of period	$ 3,218,708	$ 3,223,153

Some of the Corporation's plant, property and machinery equipment are leased to its subsidiaries (Note 29). The depreciation expenses were NT$1,989 thousand and NT$18,878 thousand for the nine months ended September 30, 2010 and 2009, respectively.

16. SHORT-TERM LOANS AND OVERDRAFT

	September 30 2010	September 30 2009
Letters of credit - due within 180 days; interest at 0.5813%-1.52% p.a. and 0.6%-1.4644% p.a. as of September 30, 2010 and 2009, respectively	$ 479,447	$ 208,203
Credit loans - interest at 0.38%- 0.7697% p.a.	-	3,283,138
Bank overdraft - interest at 0.21%-0.3964% p.a. and 0.16%- 1.185% p.a. as of September 30, 2010 and 2009, respectively	586,577	1,316,892
	$ 1,066,024	$ 4,808,233

The above credit loans, which included short-term loans of US$58,548 thousand (NT$1,883,138 thousand), were used to hedge the exchange rate fluctuations on investments in CSVC (Note 28). The Corporation renewed the long-term loans contract with the bank in February, 2010 (Note 20).

17. COMMERCIAL PAPER PAYABLE

	September 30 2010	September 30 2009
Commercial paper - interest rates at 0.342%~0.44% and 0.2%~0.4% p.a. as of September 30, 2010 and 2009	$ 3,700,000	$ 14,500,000
Less: Unamortized discounts	691	3,694
	$ 3,699,309	$ 14,496,306

18. ACCRUED EXPENSES

	September 30	
	2010	2009
Accrued salaries and incentive bonus	$ 4,332,385	$ 2,562,193
Bonus to employees, and remuneration to directors and supervisors	2,425,170	151,138
Repair and construction	1,236,310	1,636,806
Others	3,079,891	2,579,135
	$ 11,073,756	$ 6,929,272

19. BONDS PAYABLE

	September 30	
	2010	2009
5-year unsecured bonds - issued at par in:		
November 2006; repayable in November 2011; 2.07% interest p.a., payable annually	$ 5,600,000	$ 5,600,000
June 2006; repayable in June 2011; 2.32% interest p.a., payable annually	8,100,000	8,100,000
December 2008; repayable in December 2012 and December 2013; 2.42% interest p.a., payable annually	9,600,000	9,600,000
December 2008; repayable in December 2012 and December 2013; 2.08% interest p.a., payable annually	13,000,000	13,000,000
7-year unsecured bonds - issued at par in:		
December 2008; repayable in December 2014 and December 2015; 2.30% interest p.a., payable annually	7,000,000	7,000,000
	43,300,000	43,300,000
Less: Issuance cost of bonds payable	24,208	33,304
Current portion	8,098,532	-
	$ 35,177,260	$ 43,266,696

20. LONG-TERM DEBT - BANK

	September 30	
	2010	2009
Mortgage loans		
Repayable in January 2015 (NT$16 billion); floating rate at 1.2057% p.a.	$ 16,000,000	$ -
Credit loans		
Repayable in July 2015 (¥4.95 billion); floating rates at 0.65935% p.a.	1,861,943	-
Repayable in July 2015 (¥4.95 billion); floating rates at 0.67838% p.a.	1,861,942	-
Repayable in February 2013 (US$ 58,548 thousand); floating rates at 0.88616% and 0.92844% p.a.	1,834,016	-

(Continued)

	September 30	
	2010	2009
Repayable in December 2009 (￥2.6 billion) originally but extended to December 2012; floating rates at 0.67375% and 0.91875% p.a. as of September 30, 2010 and 2009, respectively	$ 977,990	$ 931,320
Repayable in July 2010 (AUD 16,540 thousand) originally but extended to July 2013; floating rates at 5.68895% and 4.14429% p.a. as of September 30, 2010 and 2009, respectively	501,511	467,834
Repayable in November 2010 (￥1.214 billion); floating rates at 0.65125% and 0.92375% p.a. as of September 30, 2010 and 2009, respectively	456,646	434,855
Repayable in July 2010 (￥4.4 billion); floating rates at 0.8838% p.a.	-	1,576,080
Repayable in July 2010 (￥3.3 billion); floating rates at 0.8375% p.a.	-	1,182,060
Repayable in July 2010 (￥2.2 billion); floating rates at 0.90525% p.a.	-	788,040
	23,494,048	5,380,189
Less: Current portion	456,646	4,945,334
	$ 23,037,402	$ 434,855

(Concluded)

The Corporation obtained long-term bank loans in Japanese yen, Australian dollar and U.S. dollar to hedge the exchange rate fluctuations on investments in EAUS, CSCAU and CSVC (Note 28); and on the available-for-sale financial assets in Maruichi Steel Tube Ltd. and Yodogawa Steel Works Ltd. (Notes 6 and 28). The NT dollar loan was made to meet fund requirements.

21. LONG-TERM NOTES PAYABLE

	September 30	
	2010	2009
Long-term notes - interest rates at 0.6%-0.822% p.a. and 0.3%-0.74% p.a. as of September 30, 2010 and 2009, respectively	$ 4,500,000	$ 5,250,000
Less: Unamortized discounts	6,628	126
	$ 4,493,372	$ 5,249,874

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

22. RETIREMENT BENEFIT PLAN

The pension plan under the Labor Pension Act (the "LPA") is a defined contribution plan. Based on the LPA, the Corporation makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages. Such pension costs were NT$48,376 thousand and NT$33,854 thousand for the nine months ended September 30, 2010 and 2009, respectively.

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

The Corporation makes contributions, equal to a certain percentage of salaries, to a pension fund, which is deposited in the Bank of Taiwan in the name of, and administered by the employees' pension fund administration committee. According to above regulation, pension cost for the nine months ended September 30, 2010 and 2009 was NT$570,560 thousand and NT$1,022,545 thousand, respectively.

Since August 1999, the Corporation also made contributions, equal to a certain percentage of salaries of management personnel (vice presidents and above), to another pension fund, which is deposited in The Mega International Commercial Bank in the name of, and administered by the officers' pension fund management committee. Pension cost for the nine months ended September 30, 2010 and 2009 was NT$4,246 thousand and NT$4,177 thousand, respectively.

23. DEFERRED CREDITS - GAIN FROM AFFILIATES

	September 30	
	2010	**2009**
Gain on disposal of land	$ 1,136,164	$ 1,136,164
Gain on contracted projects	841,843	709,849
Gain on disposal of stocks	35,733	-
	$ 2,013,740	$ 1,846,013

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 gain. Such deferred credits arising from the projects with KRTC and DSC are recognized as income over 8 to 30 years after completion of the constructions.

In September, 2010, the Corporation sold the stock of AC, financial assets carried at cost, to GIC, and recognized unrealized gain on disposal of investments of NT$35,733 thousand (Notes 10 and 29), which will be realized when GIC disposes of the stock.

24. STOCKHOLDERS' EQUITY

a. Capital stock

In August 2010 and 2009, the Corporation, through capitalization of retained earnings of NT$4,333,820 thousand and NT$5,369,758 thousand, issued common shares of 433,382 thousand and 536,976 thousand shares, respectively. For the year ended December 31, 2009, two thousand preferred shares have been converted to common shares and have been registered with the government.

b. Treasury stock

Purpose of Treasury Stock	Thousand Shares			September 30	
	Beginning of Period	Addition	Reduction	Thousand Shares	Book Value
Nine months ended September 30, 2010					
Shares acquired and held by subsidiaries	279,375	17,838	-	297,213	$ 8,450,143
Nine months ended September 30, 2009					
Shares acquired and held by subsidiaries	276,103	18,369	10,305	284,167	$ 8,302,794
Shares acquired by the Corporation for transfer to employees	108,000	-	-	108,000	2,509,958
	384,103	18,369	10,305	392,167	$10,812,752

1) Shares acquired and held by subsidiaries

The Corporation's shares acquired and held by subsidiaries were accounted for as treasury stock (subsidiaries recorded them as financial instruments held for trading - current, available-for-sale financial assets - noncurrent). Treasury stock increased due to acquisition of the Corporation's shared by subsidiaries in which the Corporation has less than 50% shareholding. Treasury stock decreased mainly due to subsidiaries' sales of the Corporation's shares and change in percentage of ownership. For the nine months ended September 30, 2009, the proceeds for treasury stock sold amounted to NT$296,007 thousand, and after deducting book values, resulted in the amounts of NT$60,635 thousand (recorded as capital surplus).

As of September 30, 2010 and 2009, the market values calculated by combined holding percentage of the treasury shares were NT$9,599,985 thousand and NT$8,496,598 thousand, respectively.

2) Shares acquired for transfer to employees

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

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

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

3) Treasury stock-based compensations

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

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

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

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

c. Overseas depositary receipts

In May 1992, February 1997 and October 2003, the ROC's Ministry of Economic Affairs ("MOEA") sold its holding shares in the Corporation through issuances of 88,329,150 units of Global Depositary Receipts ("GDR"), the depositary receipts then increased by 6,626,885 units resulting from the capitalization of retained earnings. Each unit represents 20 shares of the Corporation's common stock and equals to the Corporation's common shares totaling 1,899,120,700 shares (including 221 fractional stocks). Under relevant regulations, the GDR holders may also request the conversion to the shares represented by the GDR. The foreign investors may also request the reissuance of such depositary receipts within the originally approved units. As of September 30, 2010 and 2009, the outstanding depositary receipts were 4,805,161 units and 4,494,068 units, equivalent to 96,103,461 common shares (including 241 fractional stocks) and 89,881,591 common shares (including 231 fractional stocks), which represented 0.71% and 0.69% of the outstanding common shares, respectively.

d. Preferred stock

Preferred stockholders have the following entitlements or rights:

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

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

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

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

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

e. Capital surplus

Capital surplus comprised of the following:

	September 30 2010	September 30 2009
Additional paid-in capital - issuance of common shares to exchange for subsidiaries	$ 15,717,185	$ 15,717,185
Treasury stock transactions	3,873,772	2,830,192
Long-term stock investments	367,578	287,283
Others	8,099	8,099
	$ 19,966,634	$ 18,842,759

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

f. Appropriation of retained earnings and dividend policy

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

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

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

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

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

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

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

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

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

Estimated bonus to employees, and remuneration to directors and supervisors were NT$2,380,685 thousand and NT$44,638 thousand, respectively, for the nine months ended September 30, 2010, and NT$148,062 thousand and NT$2,776 thousand, respectively, for the nine months ended September 30, 2009. The bonus to employees and remuneration to directors and supervisors, representing 8% and 0.15%, respectively, of net income (which is after deduction of bonus to employees and remuneration to directors and supervisors, legal reserve and special reserve) were accrued based on past experiences. Material differences between any estimated amounts and the amounts proposed by the Board of Directors in the following year are adjusted for in the current year. If the actual amounts subsequently resolved by the stockholders differ from the proposed amounts, the differences are recorded in the year of stockholders' resolution as a change in accounting estimate.

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

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

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

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

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

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

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

Unrealized revaluation increment comprised of the following:

	September 30	
	2010	2009
Revaluation increment of property, plant and equipment and patents	$ 21,911,937	$ 21,913,197
Recognized in proportion to the ownership percentage in long-term stock investments	2,268	-
	$ 21,914,205	$ 21,913,197

h. Unrealized gain on financial instruments

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

	Available-for-sale Financial Assets	Equity-method Investments	Unrealized Gain or Loss on Cash Flow Hedging	Total
Nine months ended September 30, 2010				
Balance, beginning of period	$ 3,124,306	$ 461,850	$ 630,275	$ 4,216,431

(Continued)

	Available-for-sale Financial Assets	Equity-method Investments	Unrealized Gain or Loss on Cash Flow Hedging	Total
Recognized in stockholders' equity	$ (525,629)	$ (440,833)	$ 21,526	$ (944,936)
Transferred to construction in progress and prepayments for equipment	-	-	(503,497)	(503,497)
Balance, end of period	$ 2,598,677	$ 21,017	$ 148,304	$ 2,767,998
Nine months ended September 30, 2009				
Balance, beginning of period	$ 3,623,089	$ 1,983,109	$ 901,807	$ 6,508,005
Recognized in stockholders' equity	909,625	(1,048,770)	(33,031)	(172,176)
Transferred to profit or loss	(1,642,584)	-	-	(1,642,584)
Transferred to construction in progress and prepayments for equipment	-	-	(6,667)	(6,667)
Balance, end of period	$ 2,890,130	$ 934,339	$ 862,109	$ 4,686,578

(Concluded)

i. Cumulative translation adjustments

Change in composition of cumulative translation adjustments for the nine months ended September 30, 2010 and 2009 were as follows:

	Nine Months Ended September 30	
	2010	2009
Balance, beginning of period	$ 183,001	$ 358,976
Recognized in stockholders' equity	167,197	(208,096)
Balance, end of period	$ 350,198	$ 150,880

25. INCOME TAX

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

	Nine Months Ended September 30	
	2010	2009
Income tax expense at the statutory rate	$ 6,451,717	$ 563,757
Tax effect adjusting items		
Permanent differences		
Investment income recognized under equity method - domestic	(1,207,754)	(846,255)
Unrealized gain on valuation and gain on disposal of financial assets	(2,040)	(414,301)
Dividends	(25,488)	(26,242)
Others	37,119	23,645
Temporary differences		
Unrealized loss on service commitments	182,731	-
Realized gain (loss) on hedging of forward foreign exchange	85,595	(1,667)
Difference between tax reporting and financial reporting - depreciation methods	83,136	165,739
Unrealized (realized) gain from affiliates	26,788	(35,655)
Preferential severance pay	13,683	(46,681)
Difference between tax reporting and financial reporting - sales revenue	13,386	(55,598)
Investment income recognized under equity method - foreign investees	(52,150)	(99,986)
Impairment loss of investees	(36,623)	1,050
Realized provision for loss on inventories	(4,955)	(2,728,468)
Realized loss on purchase commitments	-	(588,531)
Others	6,815	84,593
Investment tax credits used	(1,346,447)	-
Loss carryforwards used	(995,179)	-
Loss carryforwards recognized	-	4,004,600
Additional 10% income tax on unappropriated earnings	4,945	-
Income tax currently payable	3,235,279	-
Tax separately levied on interest from short-term bills	-	153
Adjustments for prior years' tax	21,053	(1,271,044)
Current income tax expense (benefit)	3,256,332	(1,270,891)
Deferred tax		
Temporary differences	(301,619)	2,511,493
Investment tax credits	806,532	(486,920)
Loss carryforwards	995,179	(3,203,680)
Effect of tax law changes on deferred assets	139,286	788,798
Income tax expense (benefit)	$ 4,895,710	$ (1,661,200)

b. Changes in income tax payable

	Nine Months Ended September 30	
	2010	2009
Balance, beginning of period	$ -	$ 5,749,662
Current income tax expense (benefit)	3,256,332	(1,270,891)
Payment in the current period	(30,877)	(4,478,771)
Balance, end of period	$ 3,225,455	$ -

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

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

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

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

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

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

	September 30	
	2010	2009
Current		
Deferred income tax assets		
Unrealized loss on service commitments	$ 324,624	$ -
Unrealized impairment loss on spare parts	171,910	168,190
Estimated preferential severance pay	86,507	91,134
Unrealized gain from affiliates	76,666	21,870
Unrealized provision for loss on inventories	4,979	38,727
Unrealized loss on purchase commitments	-	753,823
Investment tax credits	-	486,920
Unrealized difference between tax reporting and financial reporting - inventory	-	20,875
Others	17,284	21,444
	681,970	1,602,983

(Continued)

	September 30	
	2010	2009
Deferred income tax liabilities		
Unrealized difference between tax reporting and financial reporting - inventory	$ (10,444)	$ -
Total deferred income tax assets - current, net	671,526	1,602,983
Noncurrent		
Deferred income tax assets		
Impairment loss on financial assets	985,984	1,203,067
Unrealized gain from affiliates	143,113	141,970
Unrealized gain on hedging of forward exchange settlement	88,413	-
Loss carryforwards	-	3,203,680
Impairment loss on assets	-	18,560
Others	4,165	2,864
	1,221,675	4,570,141
Deferred income tax liabilities		
Temporary difference between tax reporting and financial reporting - depreciation methods	(1,350,646)	(1,742,593)
Foreign investment income	(430,040)	(452,983)
Unrealized loss on hedging of forward exchange settlement	-	(7,182)
	(1,780,686)	(2,202,758)
Total deferred income tax assets (liabilities) - noncurrent, net	(559,011)	2,367,383
Total deferred income tax assets	$ 112,515	$ 3,970,366

(Concluded)

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

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

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

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

d. Information about integrated income tax was as follows:

	September 30	
	2010	2009
Imputation credit account (ICA)	$ 666,709	$ 5,521,987
Unappropriated earnings generated before January 1, 1997	15,440	35,440

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

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

26. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

	Nine Months Ended September 30							
	2010				2009			
	Operating Cost	Operating Expense	Others	Total	Operating Cost	Operating Expense	Others	Total
Personnel								
Salary	$ 13,203,594	$ 2,342,103	$ 433,571	$ 15,979,268	$ 7,957,397	$ 1,399,461	$ 150,373	$ 9,507,231
Labor and health insurance	428,639	77,558	10,129	516,326	433,455	71,264	3,660	508,379
Pension and consolation costs	516,235	131,791	236,270	884,296	890,361	194,928	7,433	1,092,722
Others	285,175	113,085	13,272	411,532	197,609	107,051	6,032	310,692
	$ 14,433,643	$ 2,664,537	$ 693,242	$ 17,791,422	$ 9,478,822	$ 1,772,704	$ 167,498	$ 11,419,024
Depreciation	$ 10,380,522	$ 260,990	$ 1,989	$ 10,643,501	$ 9,074,895	$ 251,206	$ 18,878	$ 9,344,979
Amortization	42,411	21,983	-	64,394	35,028	49,064	-	84,092

27. EARNINGS PER SHARE

	Amount (Numerator)		Shares (Denominator)	Earnings Per Share (NT Dollars)	
	Before Tax	After Tax	(Thousand)	Before Tax	After Tax
Nine months ended September 30, 2010					
Net income	$ 37,951,278	$ 33,055,568			
Less: Dividends on preferred shares	46,132	40,181			
Basic EPS					
Net income attributable to common stockholders	37,905,146	33,015,387	13,230,688	$ 2.86	$ 2.50
Effect of dilutive potential common stock					
Add: Dividends on preferred shares	46,132	40,181	38,268		
Bonus to employees	-	-	115,449		
Diluted EPS					
Net income attributable to common stockholders plus effect of potential dilutive common stock	$ 37,951,278	$ 33,055,568	13,384,405	2.84	2.47
Nine months ended September 30, 2009					
Net income	$ 2,255,028	$ 3,916,228			
Less: Dividends on preferred shares	23,137	40,181			
Basic EPS					
Net income attributable to common stockholders	2,231,891	3,876,047	13,126,356	0.17	0.30
Effect of dilutive potential common stock					
Add: Bonus to employees	-	-	42,409		
Diluted EPS					
Net income attributable to common stockholders plus effect of potential dilutive common stock	$ 2,231,891	$ 3,876,047	13,168,765	0.17	0.29

Due to anti-dilutive effect, preferred shares were excluded from calculating the diluted EPS for the nine months ended September 30, 2009.

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 earnings per share calculation for the nine months ended September 30, 2009, the number of outstanding shares was retroactively adjusted for the effect of capitalization of 2009 earnings. Thus basic earnings per share before tax and after tax decreased from NT$0.18 to NT$0.17 and from NT$0.31 to NT$0.30, respectively.

28. FINANCIAL INSTRUMENTS

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

	September 30			
	2010		2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	$ -	$ -	$ 301,745	$ 301,745
Available-for-sale financial assets (including noncurrent)	4,932,087	4,932,087	4,903,115	4,903,115
Financial assets carried at cost	5,765,236	-	5,687,210	-
Bond investments with no active market	103,000	103,000	103,000	103,000
Other financial assets (including noncurrent)	1,410,744	1,410,744	5,370,949	5,370,949
Refundable deposits	124,578	124,578	156,068	156,068
Liabilities				
Bonds payable (including current portion)	43,275,792	44,328,516	43,266,696	44,303,553
Long-term debt-bank (including current portion)	23,494,048	23,494,048	5,380,189	5,380,189
Long-term notes payable	4,493,372	4,493,372	5,249,874	5,249,874
Derivative Financial Instrument				
Hedging derivative assets (including noncurrent)	-	-	96,407	96,407
Hedging derivative liabilities (including noncurrent)	5,590	5,590	-	-

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

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

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

Bank and on the rates quoted by Reuters.

3) The fair values of long-term liabilities and foreign currency deposits of other financial assets are determined by the present values of future cash flows. If there is market price available for reference, the fair values are determined. If there is no market price available for reference, the values are discounted at the interest rates of similar long-term debt and the floating-rate of foreign currency deposits available for the Corporation. Discount rates as of September 30, 2010 and 2009 were from 0.23% to 5.68895% and from 0.5% to 1.3%, respectively.

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

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

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

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

	Amount Determined by Quoted Market Price		**Amount Determined by Using Valuation Technique**	
	September 30		**September 30**	
	2010	**2009**	**2010**	**2009**
Assets				
Financial assets at fair value through profit or loss	$ -	$ 301,745	$ -	$ -
Available-for-sale financial assets (including noncurrent)	4,932,087	4,903,115	-	-
Bond investments with no active market	-	-	103,000	103,000
Other financial assets (including noncurrent)	-	-	1,410,744	5,370,949
Hedging derivative assets (including noncurrent)	-	-	-	96,407
Refundable deposits	-	-	124,578	156,068
Liabilities				
Hedging derivative liabilities (including noncurrent)	-	-	5,590	-
Bonds payables (including current portion)	44,328,516	44,303,553	-	-
Long-term debt-bank (including current portion)	-	-	23,494,048	5,380,189
Long-term notes payable	-	-	4,493,372	5,249,874

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

e. As of September 30, 2010 and 2009, financial liabilities with cash flow risk of the interest rate change were NT$29,053,444 thousand and NT$15,438,296 thousand, respectively, and financial liabilities with fair value risk of the interest rate change were NT$46,975,101 thousand and NT$57,763,002 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$71,264 thousand and NT$956,370 thousand, respectively, for the nine months ended September 30, 2010 and NT$74,745 thousand and NT$894,232 thousand, respectively, for the nine months ended September 30, 2009.

g. Financial risks

1) Market risk

Market risk includes fair value risk of interest rate change, exchange rate risk and market price risk. The Corporation had loans in foreign currencies to hedge the exchange rate fluctuations on its long term investment in foreign currencies, 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$1,092,205 thousand.

The Corporation's investments in stocks of TSMC, Maruichi Steel Tube Ltd., Yodogawa Steel Works Ltd., TEWC, CSBC and RPC. involve market risk. If the share price of the stocks increases or decreases by 1%, the fair value will increase or decrease by about NT$49,321 thousand.

2) Credit risk

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

As of September 30, 2010, the maximum credit risk of off-balance-sheet guarantees provided to DSC was NT$16,233,989 thousand (US$515,365 thousand).

3) Liquidity risk

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

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

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

4) Cash flow interest rate risk

Market interest rate change will influence the effective interest rate of the financial instruments which have cash flow risk of the interest rate change, and make future cash flow fluctuate. If the market interest rate increases by 1%, the Corporation's cash outflow will increase by about NT$290,534 thousand.

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

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

			Designated Hedging Instrument	
			Changes in Fair Value	
			Nine Months Ended September 30	
Hedge Type	**Hedged Item**	**Financial Instrument**	**2010**	**2009**
Fair value hedge	Stock investments in EAUS Corporation (recorded as financial assets carried at cost - noncurrent)	Debt in YEN	$ (288,585)	$ 53,955
Fair value hedge	Stock investments in Maruichi Steel Tube Ltd. (recorded as available-for-sale financial assets - noncurrent)	Debt in YEN	(75,790)	14,170
Fair value hedge	Stock investments in Yodogawa Steel Works, Ltd. (recorded as available-for-sale financial assets - noncurrent)	Debt in YEN	(35,388)	6,616
Hedge of a net investment in a foreign operation	Stock investment in CSCAU (recorded as investments accounted for by the equity method)	Debt in AUD	(25,553)	(91,802)
Hedge of a net investment in a foreign operation	Stock investment in CSVC (recorded as investments accounted for by the equity method)	Debt in USD	38,934	36,826
Cash flow hedge	Contracts for purchasing machinery and equipment	Deposit-foreign currency	96,934	(79,078)
Cash flow hedge	Contracts for purchasing machinery and equipment	Forward contracts	(75,408)	46,047

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 September 30, 2010 and 2009, the fair values of the above foreign currency deposits on cash flow hedge were NT$1,410,744 thousand and NT$5,370,949 thousand, respectively, recorded as other financial asset (including noncurrent) (Note 13).

29. RELATED PARTY TRANSACTIONS

a. Related parties

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

(Continued)

Related Parties	Relationship with the Corporation
Chung Mao Trading (BVI) Corp. (CMT(BVI))	Affiliate
Chung Mao Trading (SAMOA) Co.	Affiliate
CSGT (Singapore) Pte. Ltd.	Affiliate
CSE Transport Corp. (Panama) (CSEP)	Affiliate
Mentor Consulting Corporation	Affiliate
Steel Castle Technology Corp.	Affiliate
Union Steel Development Corp.	Affiliate
Betacera Inc.	Affiliate
Wabo Globe Trading Corporation (WGTC)	Affiliate
Universal Exchange Inc.	Affiliate
United Steel Engineering and Construction Corporation	Affiliate
Thintech Materials Technology Co., Ltd.	Affiliate
Pao Good Industrial Co., Ltd.	Affiliate
CSGT International Corp.	Affiliate
CSGT Metals Vietnam Joint Stock Company (CMVC)	Affiliate
CSC Steel Sdn. Bhd. (CSSB)	Affiliate
Group Steel Corp. (M) Sdn. Bhd.	Affiliate
CSGT (JAPAN) Co., Ltd.	Affiliate
CSGT Hong Kong Limited	Affiliate
CSGT (SHANGHAI) Co., Ltd.	Affiliate
Ever Glory International Co., Ltd.	Affiliate
CSC Sonoma Pty Ltd.	Affiliate
Kaohsiung Rapid Transit Corporation	Equity method investee
TaiAn Technologies Corporation	Equity method investee
Hsin Hsin Cement Enterprise Co.	Equity method investee
Kaohsiung Port Cargo Handling Services Corp.	Equity investee of the Corporation's affiliate
Southeast Cement Co., Ltd.	Director of the Corporation's affiliate
RSEA Engineering Co., Ltd.	Director of the Corporation's affiliate
Great Grandeul Steel Co., Ltd.	Director of the Corporation's affiliate
Hua Eng Wire & Cable Co., Ltd.	Director of the Corporation's affiliate
Chun Yuan Steel industry Co., Ltd. (CYS)	Director of the Corporation's affiliate
Chin Ho Fa Steel & Iron Co., Ltd.	Director of the Corporation's affiliate
CTCI Corporation	Supervisor of the Corporation's affiliate
Chun Yu Corporation	Supervisor of the Corporation's affiliate
Chang Yee Steel Co., Ltd.	Director of the Corporation's affiliate
Mayer Steel Pipe Corporation	Director of the Corporation's affiliate
Unimax & Far Corporation	Director of the Corporation's affiliate
Bichan Trading CORP.	Director of the Corporation's affiliate
Sando Trading Co., Ltd.	Director of the Corporation's affiliate
Kao Hsing Chang Iron & Steel Corporation	Director of the Corporation's affiliate
Sumitomo Corporation (Sumitomo)	Director of the Corporation's affiliate
Sumikin Bussan Corporation	Director of the Corporation's affiliate
CSBC Corporation Taiwan (CSBC)	CSBC's director
Tang Eng Iron Works Co., Ltd. (TEI)	TEI's director
CSC Educational Foundation	Foundation established mainly from the Corporation's donation
Others	Substantial control and significant influence over investees, but no material transactions

(Concluded)

b. Significant related-party transactions were as follows:

Sales and purchases

The sales transactions with related parties were NT$34,893,486 thousand (20%, including CYS, CSSB and CHSC, etc.) and NT$16,697,290 thousand (15%, including CYS, CSSB and CSCC, etc.), respectively, and the purchases transactions with related parties were NT$28,139,303 thousand (26%, including DSC, CSEP and Sumitomo, etc.) and NT$8,525,638 thousand (14%, including CSEP, CSE and CAC, etc.), respectively, for the nine months ended September 30, 2010 and 2009.

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

Sale of financial assets carried at cost (only for the nine months ended September 30, 2010)

In September, 2010, the Corporation sold the stock of AC to GIC, and recognized unrealized gain on disposal of investments of NT$35,733 thousand. (Notes 10 and 23)

Assets lease

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

		Rental Income for the Nine Months Ended September 30			
		2010		**2009**	
	Expiry of Contracts	**Amount**	**%**	**Amount**	**%**
CAC	February 2016	$ 42,058	35	$ 42,058	35
CSMC	November 2011	21,614	18	22,146	18
CSCC	December 2012	15,088	12	15,169	13
Others	May 2018	22,837	19	22,680	18
		$ 101,597	84	$ 102,053	84

Other revenues

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

	Other Operating Revenues	**%**	**Nonoperating Income and Gains**	**%**	**Total**
Nine months ended September 30, 2010					
TEI	$ 610,882	18	$ 94	-	$ 610,976
DSC	438,172	13	4,649	1	442,821
CHSC (Note 10)	39,887	1	200,503	34	240,390

(Continued)

	Other Operating Revenues	%	Nonoperating Income and Gains	%	Total
Others	$ 344,938	11	$ 84,726	15	$ 429,664
	$ 1,433,879	43	$ 289,972	50	$ 1,723,851
Nine months ended September 30, 2009					
DSC	$ 860,961	28	$ 1,637	-	$ 862,598
TEI	555,524	18	94	-	555,618
CHSC (Note 10)	23,663	1	219,282	37	242,945
Others	215,680	8	75,952	13	291,632
	$ 1,655,828	55	$ 296,965	50	$ 1,952,793

(Concluded)

The Corporation provided technical service to DSC and CSVC and recognized a loss on commitments of NT$1,836,660 thousand and NT$183,533 thousand, respectively, for the nine months ended September 30, 2010 and 2009.

Other expenditures

Other expenditures paid to related parties for the nine months ended September 30, 2010 and 2009 (including CEC, CHC and CSMC, etc.) were NT$2,764,921 thousand and NT$2,341,576 thousand, respectively. Other expenditures that pertained to commissions for processing services, export shipping charges, maintenance and repairs, commissions for export and import services, etc., were recorded in other operating costs, manufacturing expenses, operating expenses and nonoperating expenses and losses.

Other expenditures paid to related parties were made under normal terms applied to similar transactions in the market.

Capital expenditures

The constructions in progress transacted with related parties for the nine months ended September 30, 2010 and 2009 were NT$5,124,525 thousand (including CEC, CSMC and CSSC, etc.) and NT$5,456,316 thousand (including CEC, CSMC and CSSC, etc.), respectively.

Donation expenditures

The Corporation donated NT$14,650 thousand and NT$1,000 thousand to CSC Educational Foundation for the nine months ended September 30, 2010 and 2009, respectively. This foundation is established for promotion of education and personnel training in steel and related fields.

Balances at period-end

	September 30			
	2010		2009	
	Amount	%	Amount	%
Notes receivable - related parties				
CSBC	$ 458,596	43	$ -	-
Others	856	-	150	-
	$ 459,452	43	$ 150	-
Accounts receivable - related parties				
DSC	$ 273,048	7	$ 389,900	13
Others	958,550	26	1,102,739	35
	$ 1,231,598	33	$ 1,492,639	48
Payables - related parties				
CSEP	$ 2,343,842	31	$ 1,255,631	42
DSC	1,816,220	24	2,731	-
Others	509,526	6	520,429	17
	$ 4,669,588	61	$ 1,778,791	59

Guarantees

As of September 30, 2010, guarantees provided to DSC were NT$16,233,989 thousand (US$515,365 thousand).

30. PLEDGED ASSETS

Time deposits of NT$4,658,275 thousand and NT$4,158,026 thousand (recorded as restricted assets - current and noncurrent) as of September 30, 2010 and 2009, respectively, have been pledged mainly as collaterals for bank overdraft, etc. As of September 30, 2010 and 2009, land with book value (including revaluation increment) of NT$17,058,175 thousand had been pledged as collateral for a long-term debt.

31. SIGNIFICANT COMMITMENTS AND CONTINGENCIES AS OF SEPTEMBER 30, 2010

a. The Corporation is guaranteed of NT$249,943 thousand by Mega Bank, Shanghai Commercial and Savings Bank and the Land Bank of Taiwan for several construction, warranty, lease and payment contracts.

b. Unused letters of credit to import the materials and machinery amounted to NT$8 billion.

c. Property purchase and construction contracts of NT$3.6 billion were unrecorded.

d. The Corporation entered into raw material purchase contracts with suppliers in Australia, Brazil, Canada, United States of America, Bahrain, Japan and domestic companies with contract terms of 1 to 10 years. Contracted annual purchases of 8,270,000 metric tons of coal, 17,290,000 metric tons of iron ore, and 2,910,000 metric tons of limestone are at prices negotiable. Unpaid purchase amounts as of September 30, 2010 were US$17.4 billion (including 16,220,000 metric tons of coal; 106,150,000 metric tons of iron ore; and 1,380,000 metric tons of limestone).

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

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

g. Guarantees provided to related parties were NT$16,233,989 thousand (Note 29).

h. Sales contracts of NT$17 billion (730,000 metric tons) were unrecorded.

CHINA STEEL CORPORATION

ADDITIONAL EXPLANATIONS FOR ACCOUNTS IN STOCKHOLDERS' EQUITY
NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

1. ADJUSTMENT 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.