China Steel Corporation

Financial Statements for the Six Months Ended June 30, 2007 and 2006 and Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
China Steel Corporation

We have audited the accompanying balance sheets of China Steel Corporation (the "Corporation") as of June 30, 2007 and 2006, and the related statements of income, changes in stockholders' equity and cash flows for the six months then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Corporation as of June 30, 2007 and 2006, and the results of its operations and its cash flows for the six months then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the ROC.

Effective 2006, as stated in Note 3 to the accompanying financial statements, the Corporation adopted the newly issued Statement of Financial Accounting Standards (SFAS) No. 34 "Accounting for Financial Instruments," SFAS No. 36 "Disclosure and Presentation of Financial Instruments" and the related revisions to other SFASs.

July 27, 2007

Notice to Readers

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

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

CHINA STEEL CORPORATION

BALANCE SHEETS
JUNE 30, 2007 AND 2006
(In Thousands of New Taiwan Dollars, Except Par Value)

ASSETS	2007 Amount	2007 %	2006 Amount	2006 %
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 4)	$ 27,733,201	10	$ 21,516,956	8
Financial assets at fair value through profit or loss - current (Notes 2 and 5)	10,445,962	4	17,231,571	6
Available-for-sale financial assets - current (Notes 2 and 6)	5,195,884	2	4,303,772	2
Notes receivable	1,330,445	1	1,147,743	-
Accounts receivable (Notes 2, 7 and 23)	3,460,771	1	2,477,104	1
Other receivables	5,994,563	2	5,667,220	2
Inventories (Notes 2 and 8)	34,874,362	12	30,958,294	12
Deferred income tax assets (Note 20)	162,078	-	119,599	-
Restricted assets - pledged time deposits (Note 24)	4,150,000	1	4,600,000	2
Other current assets	1,263,630	-	609,801	-
Total current assets	94,610,896	33	88,632,060	33
LONG-TERM INVESTMENTS				
Available-for-sale financial assets - noncurrent (Notes 2 and 6)	3,262,187	1	1,630,086	1
Financial assets carried at cost - noncurrent (Notes 2 and 9)	5,765,065	2	6,049,010	2
Investment in bonds without quoted price - noncurrent (Notes 2 and 10)	5,482,324	2	5,881,375	2
Long-term stock investment - equity method (Notes 2 and 11)	60,976,229	21	55,082,169	20
Prepaid long-term stock investments	90,000	-	-	-
Total long-term investments	75,575,805	26	68,642,640	25
PROPERTIES (Notes 2, 12, 23 and 24)				
Land	8,322,881	3	8,049,199	3
Land improvements	4,212,123	1	4,212,123	2
Buildings and improvements	39,221,392	14	36,417,175	13
Machinery and equipment	229,832,331	80	214,004,352	79
Transportation equipment	1,489,693	1	1,468,257	1
Miscellaneous equipment	3,544,651	1	3,131,885	1
Total cost	286,623,071	100	267,282,991	99
Appreciation	17,120,179	6	17,541,220	7
Total cost and appreciation	303,743,250	106	284,824,211	106
Less: Accumulated depreciation	207,691,703	72	201,276,830	75
	96,051,547	34	83,547,381	31
Constructions in progress	15,574,120	5	23,009,039	9
Net properties	111,625,667	39	106,556,420	40
INTANGIBLE ASSETS (Note 2)	279,623	-	4,282	-
OTHER ASSETS				
Rental assets, net (Notes 2 and 13)	3,025,628	1	3,052,200	1
Refundable deposits	131,967	-	223,865	-
Restricted assets - pledged time deposits (Note 24)	31,694	-	31,694	-
Unamortized repair costs and others (Note 2)	1,996,206	1	2,522,511	1
Total other assets	5,185,495	2	5,830,270	2
TOTAL	$ 287,277,486	100	$ 269,665,672	100

LIABILITIES AND STOCKHOLDERS' EQUITY	2007 Amount	2007 %	2006 Amount	2006 %
CURRENT LIABILITIES				
Short-term loans and overdraft (Notes 14 and 24)	$ 13,152,175	5	$ 16,693,318	6
Notes and accounts payable (Note 23)	3,757,597	1	3,320,686	1
Income tax payable (Note 20)	5,743,505	2	2,762,891	1
Accrued expenses	6,266,992	2	4,795,874	2
Other payables	3,615,479	1	2,201,190	1
Dividends payable (Note 19)	31,087,568	11	39,903,047	15
Bonds payable - current portion (Note 15)	-	-	5,000,000	2
Long-term bank loans - current portion (Notes 16 and 24)	-	-	733,850	-
Other current liabilities	1,795,233	1	1,336,598	1
Total current liabilities	65,418,549	23	76,747,454	29
LONG-TERM LIABILITIES				
Bonds payable, net of current portion (Note 15)	13,700,000	5	8,100,000	3
Bank loans, net of current portion (Notes 16 and 24)	3,313,125	1	2,794,275	1
Total long-term liabilities	17,013,125	6	10,894,275	4
RESERVE FOR LAND VALUE INCREMENT TAX (Note 12)	2,171,124	1	2,171,124	1
OTHER LIABILITIES				
Deferred income tax liabilities (Note 20)	2,603,823	1	2,774,763	1
Deferred credits - gain on intercompany transactions (Note 18)	1,261,292	-	1,145,282	-
Total other liabilities	3,865,115	1	3,920,045	1
Total liabilities	88,467,913	31	93,732,898	35
CAPITAL STOCK - authorized 12,000,000 thousand shares at NT$10 par value (Notes 2 and 19)				
Common shares - issued 11,053,773 thousand shares and 10,545,975 thousand shares as of June 30, 2007 and 2006, respectively	110,537,726	39	105,459,746	39
Preferred shares - issued 40,679 thousand shares and 40,697 thousand shares as of June 30, 2007 and 2006, respectively	406,790	-	406,970	-
Total capital stock	110,944,516	39	105,866,716	39
CAPITAL SURPLUS (Notes 2 and 19)	1,556,889	-	1,210,848	1
RETAINED EARNINGS (Notes 2 and 19)	77,967,569	27	63,219,176	23
OTHER EQUITY ITEMS				
Cumulative translation adjustments (Note 19)	(22,509)	-	(125,705)	-
Investees' unrecognized net loss on pension cost	(41,070)	-	(36,872)	-
Unrealized gain on financial instruments (Notes 3, 6 and 19)	8,327,684	3	5,610,604	2
Revaluation increment on assets (Notes 12 and 19)	1,509,510	1	1,535,363	1
Treasury stock - 85,374 thousand shares and 81,818 thousand shares as of June 30, 2007 and 2006, respectively (Notes 2 and 19)	(1,433,016)	(1)	(1,347,356)	(1)
Total other equity items	8,340,599	3	5,636,034	2
Total stockholders' equity	198,809,573	69	175,932,774	65
TOTAL	$ 287,277,486	100	$ 269,665,672	100

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

(With Deloitte & Touche audit report dated July 27, 2007)

CHINA STEEL CORPORATION

STATEMENTS OF INCOME
SIX MONTHS ENDED JUNE 30, 2007 AND 2006
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2007		2006	
	Amount	**%**	**Amount**	**%**
REVENUES (Notes 2 and 23)	$ 100,198,621	100	$ 80,035,536	100
COST OF REVENUES (Notes 21 and 23)	71,247,715	71	65,656,958	82
GROSS PROFIT	28,950,906	29	14,378,578	18
REALIZED (UNREALIZED) GAIN ON INTERCOMPANY TRANSACTIONS	(21,530)	-	126,609	-
REALIZED GROSS PROFIT	28,929,376	29	14,505,187	18
OPERATING EXPENSES (Note 21)				
Selling	1,321,839	1	1,068,746	1
General and administrative	1,219,871	1	920,112	1
Research and development	659,019	1	498,802	1
Total operating expenses	3,200,729	3	2,487,660	3
OPERATING INCOME	25,728,647	26	12,017,527	15
NONOPERATING INCOME AND GAINS				
Interest	364,010	-	170,077	-
Investment income under the equity method (Note 11)	5,657,894	6	4,604,393	6
Gain on appraisal of financial assets (Notes 2 and 5)	99,511	-	81,490	-
Other	948,226	1	598,719	1
Total nonoperating income and gains	7,069,641	7	5,454,679	7
NONOPERATING EXPENSES AND LOSSES				
Interest (Note 12)	294,122	-	301,273	-
Impairment loss (Note 6)	243,290	-	-	-
Other	410,389	1	516,110	1
Total nonoperating expenses and losses	947,801	1	817,383	1
INCOME BEFORE INCOME TAX	31,850,487	32	16,654,823	21
INCOME TAX (Notes 2 and 20)	5,644,336	6	2,757,345	4

(Continued)

CHINA STEEL CORPORATION

STATEMENTS OF INCOME
SIX MONTHS ENDED JUNE 30, 2007 AND 2006
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2007		2006	
	Amount	**%**	**Amount**	**%**
INCOME BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	$ 26,206,151	26	$ 13,897,478	17
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES (Note 3) (Net of $64,547 thousand income tax benefit in 2006)	-	-	(37,822)	-
NET INCOME	$ 26,206,151	26	$ 13,859,656	17

	2007		2006	
	Before Tax	**After Tax**	**Before Tax**	**After Tax**
EARNINGS PER SHARE (Note 22)				
Basic	$ 2.90	$ 2.39	$ 1.51	$ 1.26
Diluted	$ 2.89	$ 2.38	$ 1.50	$ 1.26

PRO FORMA INFORMATION - if the Corporation's shares held by subsidiaries had been accounted for as investments rather than treasury stock

	2007	2006
Net income	$ 26,210,168	$ 13,861,124
Basic earnings per share based on weighted-average number of outstanding common shares aggregating 11,052,173 thousand and 11,052,155 thousand for the six months ended June 30, 2007 and 2006, respectively	$ 2.37	$ 1.25
Diluted earnings per share based on weighted-average number of outstanding common shares aggregating 11,092,852 thousand and 11,092,852 thousand for the six months ended June 30, 2007 and 2006, respectively	$ 2.36	$ 1.25

(Concluded)

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

(With Deloitte & Touche audit report dated July 27, 2007)

CHINA STEEL CORPORATION

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
SIX MONTHS ENDED JUNE 30, 2007 AND 2006
(In Thousands of New Taiwan Dollars, Except Cash Dividend Per Share)

	Capital Stock			Retained Earnings				Other Equity Items					
	Common Stock	Preferred Stock	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated	Total	Revaluation Increment on Assets	Unrealized Gain (Loss) on Financial Instruments	Cumulative Translation Adjustments	Investees' Unrecognized Net Loss on Pension Cost	Treasury Stock	Total Stockholders' Equity
BALANCES, JANUARY 1, 2007	$ 110,537,576	$ 406,940	$ 1,548,370	$ 35,674,700	$ 8,444,993	$ 39,309,770	$ 83,429,463	$ 1,512,123	$ 7,533,737	$ (62,787)	$ (37,358)	$ (1,334,892)	$ 203,533,172
Conversion of preferred shares to common shares	150	(150)	-	-	-	-	-	-	-	-	-	-	-
Reclassify to nonoperating income due to disposal of revalued properties	-	-	-	-	-	-	-	(2,613)	-	-	-	-	(2,613)
Appropriation of 2006 earnings (Note 19)													
Legal reserve	-	-	-	3,914,633	-	(3,914,633)	-	-	-	-	-	-	-
Special reserve	-	-	-	-	(829,292)	829,292	-	-	-	-	-	-	-
Bonus to employees	-	-	-	-	-	(720,359)	(720,359)	-	-	-	-	-	(720,359)
Remuneration to directors and supervisors	-	-	-	-	-	(108,054)	(108,054)	-	-	-	-	-	(108,054)
Preferred cash dividends - $2.78 Per share	-	-	-	-	-	(113,129)	(113,129)	-	-	-	-	-	(113,129)
Common cash dividends - $2.78 Per share	-	-	-	-	-	(30,724,998)	(30,724,998)	-	-	-	-	-	(30,724,998)
Net income for the six months ended June 30, 2007	-	-	-	-	-	26,206,151	26,206,151	-	-	-	-	-	26,206,151
Unrealized gain of available-for-sale financial assets	-	-	-	-	-	-	-	-	937,808	-	-	-	937,808
Adjustment of equity in investees due to change in percentage of ownership	-	-	4,591	-	-	(1,505)	(1,505)	-	(143,861)	-	-	(101,361)	(242,136)
Foreign exchange gain due to the translation of foreign-currency financial statements	-	-	-	-	-	-	-	-	-	40,278	-	-	40,278
Investees' unrecognized net loss on pension cost	-	-	-	-	-	-	-	-	-	-	(3,712)	-	(3,712)
Disposal of the Corporation's shares held by subsidiaries	-	-	3,928	-	-	-	-	-	-	-	-	3,237	7,165
BALANCES, JUNE 30, 2007	$ 110,537,726	$ 406,790	$ 1,556,889	$ 39,589,333	$ 7,615,701	$ 30,762,535	$ 77,967,569	$ 1,509,510	$ 8,327,684	$ (22,509)	$ (41,070)	$ (1,433,016)	$ 198,809,573
BALANCES, JANUARY 1, 2006	$ 105,459,736	$ 406,980	$ 1,209,378	$ 30,614,261	$ 8,467,340	$ 51,026,001	$ 90,107,602	$ 1,535,363	$ (446,483)	$ (335,992)	$ (36,872)	$ (1,273,221)	$ 196,626,491
Adjustment upon adoption of the newly issued Statement of Financial Accounting Standard No. 34 (Note 3)	-	-	-	-	-	-	-	-	3,936,398	261,188	-	-	4,197,586
Conversion of preferred shares to common shares	10	(10)	-	-	-	-	-	-	-	-	-	-	-
Appropriation of 2005 earnings (Note 19)													
Legal reserve	-	-	-	5,060,439	-	(5,060,439)	-	-	-	-	-	-	-
Special reserve	-	-	-	-	(22,347)	22,347	-	-	-	-	-	-	-
Bonus to employees	-	-	-	-	-	(915,350)	(915,350)	-	-	-	-	-	(915,350)
Remuneration to directors and supervisors	-	-	-	-	-	(137,302)	(137,302)	-	-	-	-	-	(137,302)
Preferred cash dividends - $3.75 Per share	-	-	-	-	-	(152,614)	(152,614)	-	-	-	-	-	(152,614)
Common cash dividends - $3.75 Per share	-	-	-	-	-	(39,541,405)	(39,541,405)	-	-	-	-	-	(39,541,405)
Net income for the six months ended June 30, 2006	-	-	-	-	-	13,859,656	13,859,656	-	-	-	-	-	13,859,656
Unrealized loss of available-for-sale financial assets	-	-	-	-	-	-	-	-	(228,442)	-	-	-	(228,442)
Adjustment of equity in investees due to change in percentage of ownership	-	-	2	-	-	(1,411)	(1,411)	-	2,349,131	-	-	(49,420)	2,298,302
Foreign exchange loss due to the translation of foreign-currency financial statements	-	-	-	-	-	-	-	-	-	(50,901)	-	-	(50,901)
Reacquired the Corporation's issued shares	-	-	-	-	-	-	-	-	-	-	-	(32,096)	(32,096)
Disposal of the Corporation's shares held by subsidiaries	-	-	1,468	-	-	-	-	-	-	-	-	7,381	8,849
BALANCES, JUNE 30, 2006	$ 105,459,746	$ 406,970	$ 1,210,848	$ 35,674,700	$ 8,444,993	$ 19,099,483	$ 63,219,176	$ 1,535,363	$ 5,610,604	$ (125,705)	$ (36,872)	$ (1,347,356)	$ 175,932,774

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

(With Deloitte & Touche audit report dated July 27, 2007)

CHINA STEEL CORPORATION

STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2007 AND 2006
(In Thousands of New Taiwan Dollars)

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 26,206,151	$ 13,859,656
Cumulative effect of changes in accounting principles	-	37,822
Adjustments		
Depreciation	5,806,281	4,545,841
Amortization	291,357	230,316
Deferred income tax	(102,754)	(80,411)
Gain on appraisal of financial assets	(99,511)	(81,490)
Investment income under the equity method	(5,657,894)	(4,604,393)
Impairment loss on available-for-sale financial assets	243,290	-
Cash dividends received from equity investees	311,160	348,499
Unrealized (realized) gain on intercompany transactions	21,530	(126,609)
Effect of exchange rate changes on foreign-currency long-term debts	1,001	(282)
Provision for loss on inventory	115,428	-
Loss on disposal of properties	47,826	6,708
Others	(2,487)	120
Net changes in operating assets and liabilities		
Notes receivable	5,833	493,289
Accounts receivable	(723,604)	(442,475)
Other receivables	(445,726)	(512,965)
Inventories	(2,578,922)	4,833,737
Other current assets	(244,450)	550,936
Notes and accounts payable	146,811	984,279
Income tax payable	60,971	(4,815,586)
Accrued expenses	(1,583,919)	(2,203,619)
Other current liabilities	(549,300)	(1,923,290)
Net cash provided by operating activities	21,269,072	11,100,083
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of financial assets at fair value through profit or loss	(7,010,854)	(7,020,000)
Proceeds from disposal of financial assets at fair value through profit or loss	8,980,391	1,001,447
Increase in long-term stock investments under equity method	(549,095)	(217,553)
Purchase of financial assets carried at cost	(89,250)	-
Proceeds from capital reduction on financial assets carried at cost	-	18,000
Acquisition of properties	(6,692,953)	(5,264,962)
Proceeds from disposal of properties	-	1,836
Increase in other assets	(298,118)	(2,740,253)
Decrease (increase) in refundable deposits	(76,134)	122,965
Increase in pledged time deposits	(500,000)	-
Net cash used in investing activities	(6,236,013)	(14,098,520)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in short-term loans and overdraft	(3,472,242)	5,219,935
Cash dividends	(24,227)	(12,551)
Increase in bonds payable	-	8,100,000
Repayments of bonds payable	-	(5,000,000)
Decrease in commercial paper payable	-	(1,499,376)
Purchase of treasury stocks	-	(32,096)
Net cash provided by (used in) financing activities	(3,496,469)	6,775,912

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CHINA STEEL CORPORATION

STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2007 AND 2006
(In Thousands of New Taiwan Dollars)

	2007	2006
NET INCREASE IN CASH AND CASH EQUIVALENTS	$ 11,536,590	$ 3,777,475
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	16,196,611	17,739,481
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 27,733,201	$ 21,516,956
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid (exclusive of capitalized interest)	$ 323,915	$ 339,715
Income tax paid	5,686,119	7,653,342
ACQUISITION OF PROPERTIES		
Acquisition of properties	$ 7,012,742	$ 5,529,615
Increase in payable on properties purchased	(319,789)	(264,653)
Cash paid	$ 6,692,953	$ 5,264,962
NONCASH FINANCING ACTIVITIES		
Cash dividends payable	$ 30,838,127	$ 39,694,019
Payable for remuneration to directors and supervisors and bonus to employees	$ 828,413	$ 1,052,652

(Concluded)

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

(With Deloitte & Touche audit report dated July 27, 2007)

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, communication and engineering construction.

The Corporation's stock is listed on the Taiwan Stock Exchange. As of June 30, 2007, the Ministry of Economic Affairs (previously the Ministry of Finance), Republic of China owned 22.7% of the Corporation's outstanding common stock.

As of June 30, 2007 and 2006, the Corporation had about 9,000 and 8,700 employees, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Corporation's financial statements have been prepared 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 and accounting principles generally accepted in the Republic of China (ROC). Under these guidelines and principles, the Corporation is required to make certain estimates and assumptions on recorded assets, liabilities, revenues and expenses, including those related to doubtful accounts, inventory loss, depreciation of properties, impairment loss on assets, pension and loss on lawsuits. Actual results could differ from these estimates.

For the convenience of readers, the Corporation's financial statements have been translated into English from the original Chinese version prepared and used in the ROC. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language financial statements shall prevail. However, the Corporation's financial statements do not include the English translation of additional disclosures that are not required under generally accepted accounting principles but are required by the Securities and Futures Bureau (SFB, formerly the Securities and Futures Commission before July 1, 2004) for their oversight purposes.

The Corporation's significant accounting policies are summarized as follows:

Current and Noncurrent Assets and Liabilities

Current assets include unrestricted cash, cash equivalents, assets held mainly for operating purposes, and other assets to be realized in cash or to be consumed within 12 months from the balance sheet date. Properties, intangible assets and other assets which do not belong to current assets are classified as non-current. Liabilities to be settled within 12 months from the balance sheet date are classified as current. Liabilities which do not belong to current liabilities are classified as non-current.

Cash Equivalents

Cash equivalents are short-term notes and bills with maturities of three months or less. The carrying value of cash equivalents approximates fair value.

Financial Assets at Fair Value Through Profit or Loss

Financial instruments (mainly open-end funds) are recognized as financial assets at fair value through profit or loss to remove significant accounting inconsistency. The Corporation recognizes financial assets or financial liabilities on financial instrument contracts in which it is a party. The Corporation derecognizes financial assets from the balance sheet when it loses control of contractual rights. The Corporation derecognizes financial liabilities from the balance sheet upon dissolution, cancellation or expiration of its duties under the contract and the financial liabilities were eliminated. 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 purchase or sale of financial assets is recorded using trade date accounting.

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

Available-for-sale Financial Assets

Available-for-sale financial assets are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition. When subsequently measured at fair value, the changes in fair value are excluded from earnings and reported as a separate component of stockholders' equity. The accumulated gains or losses are recognized in earnings when the financial asset is derecognized from the balance sheet. A regular way purchase or sale of financial assets is recorded using trade date accounting. Fair value is based on the closing price on balance sheet date for listed stocks and determined by using valuation technique for financial instruments without quoted price.

The timing for recognition or derecognition of available–for–sale financial assets is similar to financial assets at fair value through profit or loss.

Cash dividends received from and after the year of investment acquisition are recognized as income in the period received. Stock dividends are recognized only as an increase in the number of shares of stock held on the ex-dividend date. Costs of investments sold are determined by the weighted-average method. Any difference between the initial carrying amounts of a debt security and the amount due at maturity is amortized using the straight-line method and the amortization is credited or charged to income.

If there is objective evidence that a financial asset is impaired, an impairment loss is recognized. If, in a subsequent period, the amount of the impairment loss decreases, for equity securities, the previously recognized impairment loss is reversed to the extent of the decrease and recorded as an adjustment to stockholders' equity; for debt securities, the amount of the decrease is recognized in earnings, provided that the decrease is clearly attributable to an event which occurred after the impairment loss was recognized.

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 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 face value of the accounts receivable is recognized as a loss and recorded as nonoperating expenses.

Inventories

Inventories are raw materials, supplies, fuel, finished products, work in process and by-products. Inventories are stated at the lower of total moving-average cost or market value. Market value is the net realizable value for finished products, work in process and by-products, and replacement costs for raw materials, supplies and fuel. Provision for loss on inventories is based on estimated obsolescence of supplies.

Financial Assets Carried at Cost

Investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are carried at original cost, such as non-publicly traded stocks and mutual funds. If there is objective evidence that a financial asset is impaired, an impairment loss is recognized. No recording of a subsequent recovery in fair value is allowed.

The accounting treatment for cash dividends and stock dividends on financial assets carried at cost is the same as that for cash and stock dividends on available-for-sale financial assets.

Investment in Bonds Without Quoted Price

Investment that does not have a quoted market price in an active market and the receipt upon maturity is fixed or definite is carried at the amortized cost. Those financial assets are initially recognized at fair value plus transaction cost that are directly attributable to the acquisition. Earnings or losses are recognized at the time of derecognition, impairment or amortization.

If there is objective evidence that a financial asset is impaired, an impairment loss is recognized. If, in a subsequent period, the amount of the impairment loss decreases and the decrease is clearly attributable to an event which occurred after the impairment loss was recognized, the previously recognized impairment loss is reversed to the extent of the decrease. The reversal should not result in a carrying amount of the financial asset that exceeds the amortized cost that would have been determined if no impairment loss had been recognized.

Long-term Stock Investment - Equity Method

Long-term stock investments in which the Corporation owns 20% or more of the outstanding voting shares or where the Corporation has significant influence on the investees are accounted for by the equity method. When the equity method is first applied or when a stock is acquired, the difference between the cost of an investment and the proportionate equity in the investee is amortized over five years.

Effective January 1, 2006, pursuant to the revised Statement of Financial Accounting Standard (SFAS) No.5 “Long-term Investment under Equity Method”, investment premiums, representing goodwill, are no longer being amortized, but annual impairment test is required. The investment discounts, representing the fair value of identifiable net assets acquired over investment costs, are allocated proportionately based on the fair values of noncurrent asset amounts and any remaining unallocated balance is recorded as extraordinary income. The investment discounts that existed prior to January 1, 2006 will continue to be amortized over five years.

If an investee issues additional shares and the Corporation acquires shares at a percentage different from its current equity in the investee, capital surplus is adjusted for the difference between the cost of the investments and the Corporation’s equity in the investee’s net assets. If the cost of the investments is less than equity in net assets, the difference is added to capital surplus. If the cost of the investments is more than equity in net assets, the difference is deducted from capital surplus, or from unappropriated earnings when capital surplus is not enough for debiting purposes.

The Corporation's shares held by subsidiaries are recorded as treasury stocks. The Corporation's dividends appropriated to subsidiaries are debited to investment income and adjusted to capital suplus - treasury stock transaction.

If the market prices of equity-investees' securities significantly decline below cost of the investments and the decline is permanent, the investment loss should be recognized as realized loss in the same year of the decline. This investment will be revalued if an investee's market value becomes higher than book value per share. The difference between the new cost of the investment and the proportionate equity in the investee is amortized over five years.

Properties

Properties, except land, are stated at cost or cost plus appreciation, less accumulated depreciation. Interest expense for the purchase or construction of properties is capitalized as property cost. Major additions, renewals and betterments are capitalized, while maintenance and repairs are expensed currently.

Depreciation is calculated by the straight-line method over service lives estimated as follows: land improvements, 10 to 40 years; buildings and improvements, 5 to 60 years; machinery and equipment, 3 to 25 years; transportation equipment, 3 to 25 years; and miscellaneous equipment, 3 to 10 years. Depreciation on appreciation is calculated by the straight-line method over the remaining service lives of the revalued assets. When a property reaches its residual value but is still in use, its residual value is depreciated over its reestimated service life.

Upon sale or other disposal of properties, the related cost, appreciation, accumulated depreciation, accumulated impairment and revaluation increment on assets are removed from the accounts. Gains or losses are recorded as credited or charged to nonoperating income.

Rental Assets

Rental assets (included in other assets) are stated at the lower of carrying value or recoverable value.

Asset Impairment

Assets (primarily properties, intangible assets, rental assets and long-term investments under the equity method) are evaluated on the basis of their recoverable value. If the recoverable value is less than the carrying value of the assets, the decline is charged to impairment loss and accumulated impairment loss is established. The long-term stock investments, majority-owned but the Corporation doesn't have controlling right, are estimated at the carrying value of the investments; the long-term stock investments that the Corporation has controlling right are estimated based on consolidated financial statements. If the value of the impaired assets recovers, the accumulated impairment loss will be reversed. However, the loss reversal is only to the extent that the increased carrying amount of an asset does not exceed the asset carrying amount (net of depreciation) that would have been determined had no impairment loss been recognized in prior years.

Intangible Assets

Intangible assets are stated at cost and amortized using the straight-line method. Computer software cost, patents and trademarks are amortized by the straight-line method over 3 to 5 years.

Unamortized Repair Costs

Unamortized repair costs refer to the major repairs of blast furnaces and are amortized over five years.

Treasury Stock

The Corporation reacquired its issued shares in accordance with government regulations and recorded this reacquisition as treasury stock at cost, which is presented as a deduction to stockholders' equity.

Effective 2002, the Corporation's shares acquired and held by subsidiaries are reclassified to treasury stock from long-term investments and accounted for at the carrying value recorded by subsidiaries for short-term or long-term investments as of January 1, 2002.

Effective 2005, the revised SFAS No. 7, "Consolidated Financial Statements", requires that equity-method investees that are not majority-owned but over which the Corporation has controlling capability in substance are deemed as subsidiaries. Thus, the Corporation's shares held by these investees are recorded as treasury stock.

Revenue Recognition 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.

Sales are measured at fair value, the price (net of trade discounts and sales discounts) agreed to by the Corporation and customers. But if the related receivable is due within one year, the difference between its present value and receivable amount is immaterial, and sales transactions are frequent, the fair value of receivables is equivalent to the nominal amount of cash to be received.

An allowance for doubtful receivable is provided based on a review of the collectibility of accounts receivable. The Corporation determines the amount of allowance for doubtful receivable by examining the aging analysis of outstanding accounts receivable and current trends in the credit quality of its customers.

Pension

Pension costs under defined benefits pension plan are recognized on the basis of actuarial calculations and recorded as expenses. Unamortized net transition assets and actuarial gains or loss are amortized over 11 years and the average remaining service life of employees, respectively.

Pension costs under defined contribution pension plan are recognized based on the amount of actual contributions made by the Corporation to the employees' individual pension accounts.

Income Tax

Income tax is provided based on inter-period and intra-period allocation basis. Tax effects of deductible temporary differences are recognized as deferred income tax assets. Valuation allowance is provided for deferred tax assets with uncertain realizability. Tax effects of taxable temporary differences are recognized as deferred tax liabilities. A deferred tax asset or liability is classified as current or noncurrent depending on the classification of the related asset or liability for financial reporting. But if the deferred income tax asset or liability cannot be related to an asset or liability for financial reporting, the classification is based on the expected reversal or realization date of the temporary difference.

Tax credits arising from expenditures for purchases of equipment, research and development, employees' training, and investment in newly emerging, important and strategic industries are recognized when those credits are granted.

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

Annual earnings are appropriated under a resolution adopted in the stockholders' meeting in the year following the year of earnings generation. Under tax regulations, unappropriated earnings generated since January 1, 1998 are subject to 10% income tax. This tax is recorded as expenses in the year when the stockholders resolve to retain the earnings.

Foreign-currency Transactions

Foreign-currency transactions, except derivative transactions, are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Exchange differences resulting from the application of prevailing exchange rates when foreign-currency assets and liabilities are settled or converted, are credited or charged to income in the year of settlement or conversion. On the balance sheet date, foreign-currency assets and liabilities are restated at the prevailing exchange rates, and resulting differences are accounted for as follows:

a. Equity-method stock investments-as cumulative translation adjustments under stockholders' equity;

b. Other assets and liabilities-as credits or charges to current income.

Exchange differences arising from the translation of nonmonetary items carried at fair value are recorded as gain or loss in the current period, except for differences arising on the translation of nonmonetary items for which gains and losses are recognized directly under equity. Nonmonetary items carried at cost are stated at the historical rate.

The prevailing exchange rates mean the middle price of the Taipei Foreign Exchange Trading Centre.

Hedge Accounting

a. Fair value hedge

   The Corporation uses financial instruments to hedge the exchange rate fluctuations of a net investment in a foreign operation. The hedge is attributable to fair value hedge and using the non-derivative financial instruments to be the hedge tools.

   For the fair value hedge, both the fair value change of the investments and financial instruments are recorded as gain or loss in the current period.

b. Hedge of a net investment in a foreign operation

   Gain or loss of financial instruments is recognized directly under equity, which is reclassified to gain or loss in the current period when foreign operation is disposed of.

The Corporation uses the hedge activities to control the net investment currency exchange and fair value risk.

3. ACCOUNTING CHANGES

a. Effect of adopting the newly released SFASs and related revisions of previously released SFASs

   Effective 2006, the Corporation adopted the newly issued SFAS No.34 "Accounting for Financial Instruments", No.36 "Disclosure and Presentation of Financial Instruments" and the related revisions of previously released SFASs.

The Corporation categorized properly its financial assets and liabilities upon initial adoption of the newly released SFASs and related revisions of previously released SFASs. The adjustments made to the carrying amounts of the financial instruments categorized as financial assets or financial liabilities at fair value through profit or loss were included in the cumulative effect of changes in accounting principles; on the other hand, the adjustments made to the carrying amounts of those categorized as financial assets carried at cost and available-for-sale financial assets were recognized as adjustments to shareholders' equity.

In addition, the foreign-currency investment under cost method is reclassified as financial assets carried at cost which were revalued based on the historical exchange rate at initial investment date and adjustment was made to cumulative translation adjustment recorded in shareholders' equity and related financial assets.

The Corporation also reassessed the hedge effectiveness for the equity investment in East Asia United Steel Corporation and adjusted the exchange loss of $193,641 thousand previously recorded to cumulative effect of changes in accounting principles.

The effect of adopting the newly released SFASs is summarized as follows:

	Recognized as Cumulative Effect of Changes in Accounting Principles (Net of Tax)	**Recognized as a Separate Component of Stockholders' Equity (Net of Tax)**
Financial assets at fair value through profit or loss	$ 155,819	$ -
Available-for-sale financial assets	-	3,936,398
Financial assets carried at cost	(193,641)	261,188
	$ (37,822)	$ 4,197,586

The net effect of the change in accounting principles is not significant to the Corporation's net income and basic earnings per share for the six months ended June 30, 2006.

Effective January 1, 2006, the Corporation adopted the amended SFAS No.1 "Conceptual Framework for Financial Accounting and Preparation of Financial Statements", No.5 "Long-Term Investment under Equity Method" and No.25 "Business Combinations." The amendments of the SFASs mainly provided that the carrying value of investment and the proportionate equity shall be analyzed, and goodwill should be tested for impairment annually and is no longer being amortized. Such change did not have significant impact on the Corporation's financial statements as of and for the six months ended June 30, 2006.

b. The newly released SFASs or interpretations not yet adopted as they have not yet taken effect

Accounting Research and Development Foundation in Taiwan issued the interpretation No. 052 in March 2007, which required the bonus to employees and remuneration to directors and supervisors should be recognized as expenses instead of earnings appropriation. This new interpretation will be effective in 2008.

The impact of the above new requirement to the Corporation's financial statements for the six months ending June 30, 2008 can not be estimated yet.

4. CASH AND CASH EQUIVALENTS

	June 30, 2007	June 30, 2006
Cash on hand	$ 18,705	$ 18,567
Checking accounts and demand deposits	623,123	2,468,140
Time deposits	9,100,000	2,150,000
Negotiable certificates of time deposits	8,000,000	8,200,000
Cash equivalents – short-term notes and bills	9,991,373	8,680,249
	$ 27,733,201	$ 21,516,956

As of June 30, 2007, the Corporation had foreign bank deposits of ￥3,920 thousand in Japan-Osaka Bank and ￥2 thousand in Singapore-Daiwa Securities SMBC with the total of ￥3,922 thousand; as of June 30, 2006, the Corporation's foreign bank deposits was ￥3,784 thousand in Japan-Osaka Bank.

5. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

This mainly represents open-end funds. As of June 30, 2007 and 2006, the balances of financial assets at fair value through profit or loss were $10,445,962 thousand and $17,231,571 thousand, respectively. The purpose of classifying open-end funds to this account is to remove the accounting inconsistency between investment income and interest expense.

Net gain arising from the financial assets at fair value through profit or loss for the six months ended June 30, 2007 and 2006 was $99,511 thousand and $81,490 thousand, respectively (including gain on appraisal and disposal of financial assets).

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	June 30, 2007		June 30, 2006	
	Current	Noncurrent	Current	Noncurrent
Listed stock				
Maruichi Steel Tube Ltd.	$ -	$ 757,920	$ -	$ 757,920
Advanced Material Technology Corporation (AMTC)	-	243,290	-	243,290
Tang Eng Iron Works Corporation (TEIWC)	-	-	-	-
Taiwan Semiconductor Manufacturing Company (TSMC)	967,456	-	967,456	-
Bank debentures - Taiwan Cooperative Bank	250,340	-	250,580	-
Allowance for appraisal	3,978,088	2,504,267	3,085,736	628,876
Accumulated impairment	-	(243,290)	-	-
	$ 5,195,884	$ 3,262,187	$ 4,303,772	$ 1,630,086

The Corporation invested $597,214 thousand to acquire 9% equity of Tang Eng Iron Works Corporation. In 2002, the Corporation recognized an impairment loss of 597,214 thousand on its investment in TEIWC.

In July 2006, TEIWC's stock was listed on the Gre Tai Securities Market. Accordingly, the financial asset carried at cost was classified as available-for-sale financial asset. As of June 30, 2007, the carrying value of this financial asset was $1,221,302 thousand.

The Corporation recognized an impairment loss of $243,290 thousand (recorded as nonoperating loss) on its investment in AMTC in the first quarter of 2007 mainly due to serious difficulty in AMTC's operation.

The Corporation borrowed foreign-currency bank loans in the same amounts with the hedged investment to hedge exchange rate fluctuation risks on the investments in Maruichi Steel Tube Ltd. (Notes 16 and 26)

7. ACCOUNTS RECEIVABLE

The Corporation entered into three factoring accounts receivable contracts (without recourse) with Mega International Commercial Bank, Bank of Taiwan and Taipei Fubon Bank for the facilities of $5.84 billion, $2.5 billion and $0.8 billion, respectively. Under the contracts, the Corporation is empowered to sell accounts receivable to the banks upon the delivery of products to customers and has to complete related formalities at the next banking day.

The related information for the Corporation's sale of its accounts receivable for the six months ended June 30, 2007 and 2006 is as follows:

Transaction Counter-Party	Total Factoring Amounts	Related Expenses	Proceeds Received	Interest Rate (%)
For the Six Months Ended June 30, 2007				
Accounts receivable				
Mega International Commercial Bank	$ 3,541,131	$ 44,416	$ 3,496,715	1.93-2.26
Bank of Taiwan	743,237	5,010	738,227	1.99-2.03
Taipei Fubon Bank	246,574	1,611	244,963	2.15-2.26
	$ 4,530,942	$ 51,037	$ 4,479,905	
For the Six Months Ended June 30, 2006				
Accounts receivable				
Mega International Commercial Bank	$ 6,059,232	$ 35,879	$ 6,023,353	1.57-1.95
Bank of Taiwan	517,549	3,038	514,511	1.57-1.95
	$ 6,576,781	$ 38,917	$ 6,537,864	

8. INVENTORIES

	June 30, 2007	June 30, 2006
Finished products	$ 5,869,899	$ 4,221,976
Work in process	10,388,382	12,428,085
Raw materials	8,675,462	6,987,139
Supplies	5,616,996	5,437,534
Materials in transit	1,989,146	784,216
Unallocated freight and others	1,523,995	300,822
Fuel	162,786	121,616
Others	763,124	676,906
	34,989,790	30,958,294
Less: Allowance for inventory obsolescence losses	115,428	-
	$ 34,874,362	$ 30,958,294

9. FINANCIAL ASSETS CARRIED AT COST

	June 30, 2007	June 30, 2006
Common stocks without quoted market prices		
Industrial Bank of Taiwan	$ 1,000,000	$ 1,000,000
CDIB & Partners Investment Holding Corporation	500,000	500,000
Hsun Hsin Cement Enterprise Corp.	165,010	-
CDIB BioScience Ventures I, Inc. (CBVI)	102,000	102,000
Phalanx Biotech Group Corporation (PBG)	73,370	105,370
Overseas Investment & Development Corporation	50,000	50,000
CTB I Venture Capital Co., Ltd.	50,000	50,000
Asia Pacific Broadband Telecom Co., Ltd. (APBT)	-	240,000
Tang Eng Iron Works Corporation (TEIWC) (Note 6)	-	-
Preferred stocks without quoted market prices		
East Asia United Steel Corporation (EAUS)	2,650,500	2,822,500
Dragon Steel Corporation	999,877	999,877
Fund - Sino-Canada Biotechnology Development Fund, LP (SCBDF)	174,308	179,263
	$ 5,765,065	$ 6,049,010

Above stocks which do not have quoted prices and their fair value cannot be measured reliably were classified as financial assets carried at cost.

In June 2006, CBVI reduced its capital and returned $18,000 thousand to the Corporation.

In August 2006 and January 2007, the Corporation invested totally $165,010 thousand for limestone supply to acquire 8,609 thousand shares and 8,500 thousand shares of Hsun Hsin Cement Enterprise Corp., respectively ($9.6 average price per share), representing 18% equity, which manufactures and sells cement products.

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 East Asia United Steel Corporation (EAUS) was established. As of June 30, 2007, the Corporation invested in EAUS the amount of ￥10 billion (Notes 16 and 26). The Corporation thus enjoys a stable supply of good quality slab from this joint venture. The Corporation also signed a contract with Chung Hung Steel Corporation (CHSC) to transfer the purchasing right of slabs from EAUS, and the Corporation receives premiums on this contract based on the volume purchased by CHSC.

The Corporation invested 100 units ($10,000 thousand Canadian dollars) in the SCBDF fund. As of June 30, 2007, the Corporation had invested CAD$9,435 thousand (NT$219,025 thousand) in SCBDF fund.

In September 2006, PBG reduced its capital to offset a deficit. Accordingly, the Corporation recognized an impairment loss of $32,000 thousand.

In December 2006, the Corporation recognized an impairment loss of $240,000 thousand on its investment in APBT.

10. INVESTMENT IN BONDS WITHOUT QUOTED PRICE

	June 30, 2007	June 30, 2006
Taiwan High Speed Rail Corporation (THSRC)		
Preferred C	$ 4,297,940	$ 4,646,991
Preferred B	884,384	934,384
Taigen Biotechnology Co., Ltd. (TBC)	300,000	300,000
	$ 5,482,324	$ 5,881,375

In September 2003, the Corporation acquired 100,000 thousand Preferred B shares (representing 4% of ownership) of THSRC for $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 of the due date. In April 2005 and August 2004, the Corporation acquired additional 505,370 thousand Preferred C shares of THSRC for $3,199,944 thousand and $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 9.5% dividend in the first two years and 0% in the next two years. At the end of four years, i.e., in 2009 and 2008, if the Corporation does not convert the Preferred C shares into common shares and THSRC cannot redeem the shares, the unredeemed shares will have 4.71% dividends. THSRC mainly builds and operates public transportation systems.

In November 2005 and March 2004, the Corporation acquired a total of 20,000 thousand preferred shares of TBC for $300,000 thousand. Preferred shareholders are entitled to 8% participating and noncumulative dividends as well as 9% voting and election rights. TBC mainly researches and develops drugs. The Corporation can request TBC to redeem all or part of preferred shares by issuing new stock or its own retained earnings after July of 2008 (Formerly July of 2007, but TBC's stockholders agreed to postpone to July 2008).

11. LONG-TERM STOCKS INVESTMENT - EQUITY METHOD

	June 30, 2007		June 30, 2006	
	Amount	% of Owner-ship	Amount	% of Owner-ship
Stocks listed on the Taiwan Stock Exchange				
Chung Hung Steel Corporation (CHSC)	$ 3,214,362	24	$ 1,854,393	24
China Steel Chemical Corporation (CSCC)	1,153,107	30	1,070,666	30
China Hi-ment Corporation (CHC)	605,365	20	597,111	20
China Steel Structure Corporation (CSSC)	527,985	18	506,523	18
China Ecotek Corporation (CEC)	380,852	36	377,729	36
	5,881,671		4,406,422	
Less: Shares held by subsidiaries accounted for as treasury stock	333,097		327,280	
	5,548,574		4,079,142	
Stocks without quoted market prices				
Dragon Steel Corporation (DSC)	16,139,024	47	15,453,207	47
China Steel Express Corporation (CSE)	8,345,411	100	6,883,171	100
Gains Investment Corporation (GIC)	8,171,476	100	8,067,835	100
C. S. Aluminum Corporation (CAC)	7,058,030	100	6,997,897	100

(Continued)

	June 30, 2007		June 30, 2006	
	Amount	% of Owner-ship	Amount	% of Owner-ship
China Prosperity Development Corporation (CPDC)	$ 4,715,925	100	$ 4,653,350	100
Kaohsiung Rapid Transit Corporation (KRTC)	2,980,881	31	3,087,703	31
China Steel Asia Pacific Holdings Pte. Ltd. (CSAPH)	2,895,869	100	2,469,880	100
Goang Yaw Investment Corporation (Goang Yaw) and other two investment companies (which invested CHSC indirectly)	2,226,319	99	1,285,222	99
China Steel Global Trading Corporation (CSGT)	1,065,759	100	943,005	100
China Steel Machinery Corporation (CSMC)	985,288	100	824,279	100
Info-Champ Systems Corporation (ICSC)	597,798	100	538,588	100
CSC Australia Holdings Pty. Ltd.(CSCAU)	460,879	100	-	-
Kaohsiung Arena Development Corporation (KADC)	253,687	18	189,799	18
China Steel Security Corporation (CSS)	239,095	100	232,077	100
Taiwan Rolling Stock Co., Ltd. (TRSC)	202,048	22	250,974	22
Hi-mag Magnetic Corporation (HMC)	91,717	50	43,635	50
Baolai Greeting Development Co., Ltd. (BGDC)	48,029	45	52,235	45
China Steel Management Consulting Corporation (CSMCC)	6,154	38	6,989	38
TaiAn Technologies Corporation (TTC)	4,654	17	3,726	17
	56,488,043		51,983,572	
Less: Shares held by subsidiaries accounted for as treasury stock	1,060,388		980,545	
	55,427,655		51,003,027	
	$ 60,976,229		$ 55,082,169	
Prepaid long-term stock investments - KADC	$ 90,000		$ -	

The Corporation's total equity in CHSC is 39%, including directly owned - 24% and indirectly owned - 15%. The Corporation's total equity in TTC is 22%, including directly owned - 17% and indirectly owned through CSCC - 5%. The Corporation totally invested $270,000 thousand in KADC. The Corporation's subsidiary also invested in KADC, thus, the Corporation and subsidiary's total equity in KADC is 33%, including directly owned - 18% and indirectly owned - 15%. In 2007, KADC will increase capital by cash and the Corporation subscribed for $90,000 thousand, which was recorded as prepaid long-term stock investment.

In May 2006, the Corporation invested $54,000 thousand to acquire 5,400 thousand shares of BGDC, representing 45% equity. The Corporation plans to invest in BGDC a total of $216,000 thousand. BGDC will engage in hotel business and is currently in the development stage.

In February 2007, the Corporation invested additionally US$400 thousand (NT$13,150 thousand) in CSAPH, and then CSAPH invested US$2,436 thousand (NT$80,612 thousand), including its own funds, in Tsingtao Teco Electric & Machinery Co., Ltd. (TTEC), representing 14% equity. TTEC will engage in, including its own funds, manufacturing and selling of compressors.

In April 2007, in order to obtain long-term coal mining right, the Corporation invested AUD$16,540 thousand (NT$445,945 thousand) to establish CSCAU and acquired 100% equity. Then CSCAU established CSC Sonoma Pty. Ltd., representing 100% equity. CSC Sonoma Pty. Ltd. invested in a joint venture (Sonoma Mine Investment) and acquired 8.3333 % equity.

The market value of above listed stocks based on the closing price on June 30, 2007 and 2006 was as follows:

	June 30, 2007	June 30, 2006
CHSC	$ 4,798,444	$ 4,268,648
CSCC	4,417,354	2,992,393
CHC	1,636,665	1,148,177
CSSC	524,027	398,779
CEC	1,403,704	531,263
	$ 12,780,194	$ 9,339,260

The Corporation's Board of Directors approved plans for additional investments in CSBC Corp., Taiwan, DSC, TRSC, etc. The related subscription schedule depends on the investees' capital increase requirements. As of June 30, 2007, the Corporation's unexecuted investment in these investees aggregated $6,219,169 thousand.

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

	For the Six Months Ended June 30, 2007		For the Six Months Ended June 30, 2006	
	Investment Income (Loss) Recognized by the Corporation	Net Income (Loss) of the Subsidiaries	Investment Income (Loss) Recognized by the Corporation	Net Income (Loss) of the Subsidiaries
CSE	$ 2,707,584	$ 2,467,279	$ 1,767,523	$ 1,646,198
CHSC, Goang Yaw Investment Corporation and other two investment companies	875,258	1,704,217	1,183,574	2,596,379
GIC	548,363	560,565	363,363	363,354
DSC	322,904	755,360	330,765	756,956
CAC	219,949	291,609	366,967	491,793
CSMC	205,617	127,511	(9,520)	76,584
CSCC	192,279	703,946	176,282	584,677
CSAPH	184,512	184,512	94,040	94,040
CSGT	175,057	187,579	152,245	142,573
CEC	58,066	82,736	(703)	92,503
CSSC	56,491	113,663	36,810	117,983
CHC	52,821	280,020	73,403	353,270
ICSC	35,500	50,455	34,829	49,360
HMC	9,933	21,682	44,676	27,461
KRTC	(65,687)	(209,862)	(22,704)	(73,186)
Others	79,247	65,350	12,843	29,516
	$ 5,657,894	$ 7,386,622	$ 4,604,393	$ 7,349,461

Net assets of investees under the equity method were as follows:

	June 30, 2007	June 30, 2006
A total of investees' assets	$ 202,561,555	$ 193,525,396
A total of investees' liabilities	89,059,467	90,311,480
A total of investees' net assets	$ 113,502,088	$ 103,213,916
A total of investees' net assets based on percentage owned by the Corporation	$ 64,916,320	$ 59,448,424

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

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

12. PROPERTIES

	Land	Land Improvements	Buildings and Improvements	Machinery and Equipment	Transportation Equipment	Miscellaneous Equipment	Total
For the Six Months Ended June 30, 2007							
Cost							
Balance, beginning of period	$ 8,322,881	$ 4,212,123	$ 37,423,461	$ 219,788,073	$ 1,473,130	$ 3,096,559	$ 274,316,227
Increase	-	-	1,836,524	10,888,485	48,372	588,014	13,361,395
Disposal	-	-	(38,593)	(844,227)	(31,809)	(139,922)	(1,054,551)
Balance, end of period	8,322,881	4,212,123	39,221,392	229,832,331	1,489,693	3,544,651	286,623,071
Appreciation							
Balance, beginning of period	5,840,732	492,990	2,423,546	8,433,643	27,233	31,747	17,249,891
Disposal	-	-	(23)	(129,663)	-	(26)	(129,712)
Balance, end of period	5,840,732	492,990	2,423,523	8,303,980	27,233	31,721	17,120,179
Accumulated depreciation							
Balance, beginning of period	-	3,654,129	18,022,299	177,729,235	1,178,615	2,451,299	203,035,577
Depreciation	-	68,639	594,641	4,830,039	41,851	257,385	5,792,555
Disposal	-	-	(16,757)	(949,373)	(31,325)	(138,974)	(1,136,429)
Balance, end of period	-	3,722,768	18,600,183	181,609,901	1,189,141	2,569,710	207,691,703
Net properties, end of period	$ 14,163,613	$ 982,345	$ 23,044,732	$ 56,526,410	$ 327,785	$ 1,006,662	$ 96,051,547
For the Six Months Ended June 30, 2006							
Cost							
Balance, beginning of period	$ 7,994,055	$ 4,216,794	$ 36,016,863	$ 212,821,181	$ 1,452,514	$ 3,013,382	$ 265,514,789
Increase	55,144	-	413,334	1,613,822	31,368	174,965	2,288,633
Disposal	-	(4,671)	(13,022)	(430,651)	(15,625)	(56,462)	(520,431)
Balance, end of period	8,049,199	4,212,123	36,417,175	214,004,352	1,468,257	3,131,885	267,282,991
Appreciation							
Balance, beginning of period	5,840,732	492,990	2,424,236	8,844,981	33,748	31,795	17,668,482
Disposal	-	-	-	(127,262)	-	-	(127,262)
Balance, end of period	5,840,732	492,990	2,424,236	8,717,719	33,748	31,795	17,541,220
Accumulated depreciation							
Balance, beginning of period	-	3,518,930	16,979,739	173,316,456	1,204,644	2,364,515	197,384,284
Depreciation	-	70,474	507,058	3,768,319	37,502	148,342	4,531,695
Disposal	-	(4,636)	(11,222)	(553,706)	(15,224)	(54,361)	(639,149)
Balance, end of period	-	3,584,768	17,475,575	176,531,069	1,226,922	2,458,496	201,276,830
Net properties, end of period	$ 13,889,931	$ 1,120,345	$ 21,365,836	$ 46,191,002	$ 275,083	$ 705,184	$ 83,547,381

The capitalized interest information on the purchase of properties for the six months ended June 30, 2007 was disclosed as follows:

Interest expense before capitalization	$ 310,576
Capitalized interest – construction in progress	(16,454)
Interest expense as shown in income statement	$ 294,122
Interest rates of interest expenses capitalized (annual rate)	1.74%-1.77%

In 1981 and 1994, the Corporation revalued its properties and patents in accordance with government regulations, resulting in an increment of $17,662,343 thousand. After the deduction of the reserve for land value increment tax of $3,370,813 thousand, a net increment of $14,291,530 thousand was credited to revaluation increment on assets. As of June 30, 2007, revaluation increment on assets totalling $13,952,356 thousand had been capitalized as capital stock, reducing the balance of revaluation increment on assets to $339,174 thousand. In January 2005, the government revised the land increment tax law to reduce the tax rate. Thus, the reserve for land value increment tax decreased and the revaluation increment on assets increased each by $1,196,189 thousand. Accordingly, the balance of revaluation increment on assets increased to $1,535,363 thousand. For the six months ended June 30, 2007 and in December 2006, upon retirement or sale of appreciated properties, the revaluation increment on assets decreased by $2,613 thousand and $23,240 thousand, respectively, and were recorded as nonoperating revenue.

13. RENTAL ASSETS

	Land	Machinery and Equipment	Total
For the Six Months Ended June 30, 2007			
Cost	$ 2,966,632	$ 2,000,000	$ 4,966,632
Accumulated depreciation			
Balance, beginning of period	-	1,333,278	1,333,278
Depreciation	-	13,726	13,726
Balance, end of period	-	1,347,004	1,347,004
Accumulated impairment	-	594,000	594,000
Rental assets - net, end of period	$ 2,966,632	$ 58,996	$ 3,025,628
For the Six Months Ended June 30, 2006			
Cost	$ 2,966,398	$ 2,000,000	$ 4,966,398
Accumulated depreciation			
Balance, beginning of period	-	1,306,052	1,306,052
Depreciation	-	14,146	14,146
Balance, end of period	-	1,320,198	1,320,198
Accumulated impairment	-	594,000	594,000
Rental assets - net, end of period	$ 2,966,398	$ 85,802	$ 3,052,200

The Corporation has leased some of its plant property and machinery to its subsidiaries (Note 23).

14. SHORT-TERM LOANS AND OVERDRAFT

	June 30, 2007	June 30, 2006
Letters of credit - due within 180 days; interest at 1.0438%-6.5% p.a. and 0.34%-6.036% p.a. as of June 30, 2007 and 2006, respectively	$ 151,280	$ 1,291,806
Overdraft - interest at 1.55%-2.554% p.a. and 1.2685%-1.427% p.a. as of June 30, 2007 and 2006, respectively	3,640,522	3,201,512
Credit loans - interest at 1.723%-6.9% p.a. and 1.518%-1.6% p.a. as of June 30, 2007 and 2006, respectively	9,360,373	12,200,000
	$ 13,152,175	$ 16,693,318

As of June 30, 2007, above credit loans included bank loan of AUD$16,540 thousand which was borrowed from Mizuho Corporate Bank and is repayable on July 3, 2007; subsequently, the Corporation had completed the refinancing for another three-year long-term bank loan upon the repayment of the short-term bank loan. The Corporation borrowed the short-term bank loan in AUD to hedge the exchange rate fluctuations on the investments in AUD in CSC Australia Holdings Pty. Ltd. (Note 11).

15. LONG-TERM BONDS PAYABLE

	June 30, 2007	June 30, 2006
5-year unsecured bonds - issued at par in:		
November 2006; repayable in November 2011; 2.07% interest p.a., payable annually	$ 5,600,000	$ -
June 2006; repayable in June 2011; 2.32% interest p.a., payable annually	8,100,000	8,100,000
November 2001; repayable in November 2006; 3.1% interest p.a., payable annually	-	3,500,000
November 2001; repayable in November 2006; 3.0763% interest p.a., compounded semiannually and payable annually	-	1,500,000
	13,700,000	13,100,000
Current portion	-	5,000,000
	$ 13,700,000	$ 8,100,000

16. LONG-TERM DEBTS

	June 30, 2007	June 30, 2006
Repayable in July 2010 (￥4.4 billion); floating rates at 0.8925% and 0.3525% p.a. as of June 30, 2007 and 2006, respectively	$ 1,166,220	$ 1,241,900
Repayable in December 2009 (￥2.6 billion); floating rates at 1.0906% and 0.594% p.a. as of June 30, 2007 and 2006, respectively	689,130	733,850
Repayable in July 2010 (￥2.2 billion); floating rates at 1.0396% and 0.6240% p.a. as of June 30, 2007 and 2006, respectively	583,110	620,950

(Continued)

	June 30, 2007	June 30, 2006
Repayable in July 2010 (￥3.3 billion); floating rates at 1.0125% and 0.4506% p.a. as of June 30, 2007 and 2006, respectively	$ 874,665	$ 931,425
	3,313,125	3,528,125
Current portion	-	733,850
	$ 3,313,125	$ 2,794,275

The Corporation borrowed long-term bank loans in Yen to hedge the exchange rate fluctuations on the investments in Yen in East Asia United Steel Corporation and Maruichi Steel Tube Ltd. (Notes 6 and 9).

17. PENSION PLAN

The Labor Pension Act (the "Act") became effective on July 1, 2005. The Corporation's regular employees hired before June 30, 2005 have chosen to continue their pension plan under the Labor Standards Law (those employees may change their choice to the "Act" before July 1, 2010), or have chosen the pension plan under the Act, but retained their employment seniority earned until June 30, 2005. Employees hired after July 1, 2005 can only adopt the pension plan under the Act.

Under the Act, a defined contribution plan, the Corporation makes monthly contribution to employees' personal retirement account at amounts equal to 6% of the salaries and wages of employees. According to above regulation, pension cost for the six months ended June 30, 2007 and 2006 was $11,706 thousand and $3,835 thousand, 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 (formerly Central Trust of China) in the name of, and administered by the employees' pension fund administration committee. According to above regulation, pension cost for the six months ended June 30, 2007 and 2006 was $817,227 thousand and $709,461 thousand, respectively.

Since August 1999, the Corporation also made contributions, equal to a certain percentage of salaries of management personnel (vice presidents and above), to another pension fund, which is deposited in The Mega International Commercial Bank in the name of, and administered by an officers' pension fund management committee. Pension cost for the six months ended June 30, 2007 and 2006 was $2,029 thousand and $1,961 thousand, respectively.

18. DEFERRED CREDITS - GAIN ON INTERCOMPANY TRANSACTIONS

	June 30, 2007	June 30, 2006
Gain on disposal of land	$ 1,136,164	$ 1,136,164
Gain on contracted projects	125,128	9,118
	$ 1,261,292	$ 1,145,282

A deferred income of $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 the first half of 2005 for construction of office building and thus the deferred credits decreased by $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 obtained building construction projects from KRTC, resulting in deferred revenue. The accumulated credits will be recognized as income over the service lives of the buildings after completion of the construction, expected in 2007 to 2009.

19. STOCKHOLDERS' EQUITY

a. Capital stock

In August 2006, the Corporation through capitalization of retained earnings issued new common shares of 507,780 thousand.

In April 2007, 15 thousand shares of preferred stock were converted into common stock. As of June 30, 2007, 15 thousand shares of which has not yet registered with the government.

b. Treasury stock

	Thousand Shares			June 30	
Purpose	**Beginning of Period**	**Increase**	**Decrease**	**Thousand Shares**	**Book Value**
For the Six Months Ended June 30, 2007					
1) Shares acquired and held by subsidiaries	81,180	2,800	206	83,774	$ 1,393,485
2) Shares acquired by the Corporation for transfer to employees	1,600	-	-	1,600	39,531
	82,780	2,800	206	85,374	$ 1,433,016
For the Six Months Ended June 30, 2006					
1) Shares acquired and held by subsidiaries	78,899	1,625	306	80,218	$ 1,307,825
2) Shares acquired by the Corporation for transfer to employees	300	1,300	-	1,600	39,531
	79,199	2,925	306	81,818	$ 1,347,356

1) Shares acquired and held by subsidiaries

The Corporation's shares acquired and held by subsidiaries were accounted for as treasury stock (recorded as long-term investment or financial assets - current by investees). For the six months ended June 30, 2007 and 2006, treasury stock increased by 2,800 thousand shares and 1,625 thousand shares, respectively, due to additional purchase by subsidiaries; treasury stock decreased by 206 thousand shares and 306 thousand shares, respectively, due to subsidiaries' sales of the Corporation's shares. The difference between the sale prices ($7,165 thousand and $8,849 thousand for the six months ended June 30, 2007 and 2006, respectively) and carrying values of $3,928 thousand and $1,468 thousand were credited to capital surplus.

As of June 30, 2007 and 2006, the market values of the treasury shares are $3,350,964 thousand and $2,626,351 thousand, respectively.

According to Securities and Exchange Act, treasury shares held by the Corporation are not allowed to be hypothecated, enjoy rights to receive dividends and right to vote. Although these shares held by subsidiaries (the Corporation held 50% or more shareholdings) are treated as treasury stock in the financial statements, the stockholders are entitled to exercise their rights on these stocks, except participation in the Corporation's capital increase by cash and exercise of voting rights. The shares held by the equity investees with substantially controlled by the Corporation still have the same rights with other common stockholders.

2) Shares acquired for transfer to employees

The Corporation under relevant regulations reacquired its issued common shares from the public market at a total of 1,600 thousand shares during December 2005 to February 2006.

Under the Securities and Exchange Act, the Corporation's share repurchase is restricted up to 10% of total issued shares, and the total purchase amount should not exceed the sum of retained earnings, paid-in capital in excess of par value and realized capital surplus. In addition, the Corporation should transfer those shares to employees within three years. Otherwise these shares are deemed unissued and the Corporation should then register with the government for capital reduction. Further, the Corporation should not pledge these stocks as collateral and should not collect dividends or exercise voting rights on these stocks.

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 (international GDR), with each unit representing 20 shares of the Corporation's common stock, or equivalent to the Corporation's common shares totalling 1,879,517,614 shares. The depositary shares then increased by 5,646,722 units resulting from the capitalization of retained earnings. Under relevant regulations, the GDR holders may also request the conversion to the shares represented by the international GDR. The foreign investors may also request the reissuance of such depositary receipts within the originally approved units. As of June 30, 2007, the outstanding depositary receipts were 12,344,390 units, equivalent to 246,887,954 common shares, which represented 2.23% of the outstanding common shares.

d. Preferred stock

Preferred stockholders have the following entitlements or rights:

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

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

3) Redemption of stock, at the Corporation's option out of its retained earnings or the proceeds from issuance of new shares;

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

5) Conversion of shares into common stock.

e. Capital surplus

Following are the capital surplus sources:

	June 30, 2007	June 30, 2006
Treasury stock transaction	$ 1,303,885	$ 962,339
Long-term stocks investments under the equity method	244,905	240,410
Others	8,099	8,099
	$ 1,556,889	$ 1,210,848

Under relevant regulations, capital surplus from treasury stock transaction may be used to offset a deficit or transferred to capital. Capital surplus from long-term stocks investments accounted for under the equity method is prohibited from any use.

f. Appropriation of retained earnings

The Corporation's Articles of Incorporation provide 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 paid-in capital;

3) Of the remainder, 0.15% as remuneration to directors and supervisors and 3% to 5% as bonus to employees (in their meeting in June 2007, the stockholders resolved to change the appropriation rate for directors and supervisors remuneration from 0.3% to 0.15%, which will be effective in 2008);

4) Common-stock dividends at 14% of paid-in capital; 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 earnings. If necessary, it may, after appropriating preferred stock dividends at 14% of paid-in capital, propose to retain certain earnings as a special reserve. These proposals should be submitted to the stockholders' meeting for approval.

The Corporation is required to appropriate a special reserve from annual earnings for any net debit balance resulting from adjustments to the stockholders' equity (including revaluation increment on assets, unrealized gain (loss) on financial instruments, investees' unrecognized net loss on pension cost and cumulative translation adjustments), excluding treasury stock. Besides, if the market price 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 debit balances are partially or fully reversed. As of June 30, 2007, the Corporation had fully reversed the special reserve under relevant regulations, and the unreversed special reserve of $7,615,701 thousand was held for the capital demand of expanding construction needs.

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.

Under the Company Law, legal reserve should be appropriated from retained earnings until its balance equals the issued capital stock. 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 2007 and 2006 meetings, approved the following appropriations of the 2006 and 2005 earnings, which were proposed by the Board of Directors in March 2007 and 2006, respectively.

	Amount		**Dividends Per Share**	
	2006	**2005**	**2006**	**2005**
Legal reserve	$ 3,914,633	$ 5,060,439		
Special reserve	(829,292)	(22,347)		
Preferred stocks				
Cash dividends	113,129	152,614	$ 2.78	$ 3.75
Stock dividends	12,208	14,244	0.30	0.35
			$ 3.08	$ 4.10
Common stocks				
Cash dividends	30,724,998	39,541,405	$ 2.78	$ 3.75
Stock dividends	3,315,647	3,690,531	0.30	0.35
			$ 3.08	$ 4.10
Remuneration to directors and supervisors	108,054	137,302		
Bonus to employees				
Cash dividends	720,359	915,350		
Stock dividends	1,080,539	1,373,025		
	$ 39,160,275	$ 50,862,563		

As of June 30, 2007 and 2006, the cash dividends declared had not been distributed to stockholders and were recorded as dividends payable. Capitalization of retained earnings (including bonus to employees) of $4,408,394 thousand has been approved by the government and will be effective on August 1, 2007.

g. Unrealized gain (loss) on financial instruments

Change in composition of unrealized gain (loss) on financial instruments for the six months ended June 30, 2007 and 2006 was as follows:

	Available-for-sale Financial Assets	Adjustment of Equity in Investees due to Change in Percentage of Ownership	Total
For the Six Months Ended June 30, 2007			
Balance, beginning of period	$ 5,582,793	$ 1,950,944	$ 7,533,737
Recognized as adjustment of stockholders' equity	937,808	(143,861)	793,947
Balance, end of period	$ 6,520,601	$ 1,807,083	$ 8,327,684

(Continued)

	Available-for-sale Financial Assets	Adjustment of Equity in Investees due to Change in Percentage of Ownership	Total
For the Six Months Ended June 30, 2006			
Balance, beginning of period	$ -	$ (446,483)	$ (446,483)
Adjustment upon adoption of the newly issued Statement of Financial Accounting Standard No.34	3,936,398	-	3,936,398
Recognized as adjustment of stockholders' equity	(228,442)	2,349,131	2,120,689
Balance, end of period	$ 3,707,956	$ 1,902,648	$ 5,610,604

h. Cumulative translation adjustments

Change in composition of cumulative translation adjustments for the six months ended June 30, 2007 and 2006 was as follows:

	Adjustment of Equity in Investees due to Change in Percentage of Ownership	Foreign Exchange Gain (Loss) due to the Translation of Foreign- currency Financial Statements	Foreign Translation Adjustments on Financial Assets Carried at Cost	Total
For the Six Months Ended June 30, 2007				
Balance, beginning of period	$ 33,714	$ (96,501)	$ -	$ (62,787)
Recognized as adjustment of stockholders' equity	44,182	(3,904)	-	40,278
Balance, end of period	$ 77,896	$ (100,405)	$ -	$ (22,509)
For the Six Months Ended June 30, 2006				
Balance, beginning of period	$ 5,060	$ (79,864)	$ (261,188)	$ (335,992)
Adjustment upon adoption of the newly issued Statement of Financial Accounting Standard No. 34	-	-	261,188	261,188
Recognized as adjustment of stockholders' equity	(18,239)	(32,662)	-	(50,901)
Balance, end of period	$ (13,179)	$ (112,526)	$ -	$ (125,705)

20. INCOME TAX

The Alternative Minimum Tax Act ("AMT Act") was effective on January 1, 2006. The alternative minimum tax ("AMT") imposed under the AMT Act is a supplemental tax levied at a rate of 10% which is payable if the income tax payable determined pursuant to the Income Tax Law is below the minimum amount prescribed under the AMT Act. The taxable income for calculating the AMT includes most of the income that is exempted from income tax under various laws and statutes. The Corporation has considered the impact of the AMT Act in the determination of its tax liabilities.

a. A reconciliation of income tax expense based on "income before income tax" at statutory rate (25%) and income tax currently payable was as follows:

	For the Six Months Ended June 30	
	2007	2006
Tax on pretax income at statutory rate	$ 7,962,622	$ 4,163,706
Add (deduct) tax effects of:		
Permanent differences		
Investment income under equity method – domestic	(1,368,224)	(1,127,588)
Gain on appraisal of financial assets	(24,878)	(20,373)
Tax-exempt income	(4,296)	(5,278)
Others	(338)	(32,630)
Temporary differences	102,754	80,411
Deduction of tax credits utilized	(913,403)	(306,289)
Income tax currently payable	5,754,237	2,751,959
Separate income tax on interest income	24,914	17,699
Prior periods' adjustments	(32,061)	68,098
Current income tax	$ 5,747,090	$ 2,837,756

b. Income tax was as follows:

	For the Six Months Ended June 30	
	2007	2006
Current income tax	$ 5,747,090	$ 2,837,756
Deferred income tax benefit – mainly temporary differences	(102,754)	(80,411)
	$ 5,644,336	$ 2,757,345

c. Changes in income tax payable

	For the Six Months Ended June 30	
	2007	2006
Balance, beginning of period	$ 5,682,534	$ 7,578,477
Current income tax	5,747,090	2,837,756
Payment in current period	(5,686,119)	(7,653,342)
Balance, end of period	$ 5,743,505	$ 2,762,891

d. Deferred income tax assets and liabilities

	June 30, 2007	June 30, 2006
Current		
Deferred income tax assets		
Unrealized gain on intercompany transactions	$ 63,454	$ 62,302
Accrued electrostatic precipitator dust disposal expense	25,602	-
Allowance for inventory loss	23,374	-

(Continued)

	June 30, 2007	June 30, 2006
Severance pay	$ 36,264	$ 48,119
Others	28,488	32,203
	177,182	142,624
Deferred income tax liabilities		
Temporary difference between tax reporting and financial reporting - inventory	(15,104)	(23,025)
	162,078	119,599
Noncurrent		
Deferred income tax assets		
Impairment loss on financial assets	360,822	240,000
Impairment loss on rental assets	70,680	95,061
Cumulative effect of changes in accounting principles	64,547	64,547
Unrealized gain on intercompany transactions	31,282	1,951
Others	7,894	684
	535,225	402,243
Deferred income tax liabilities		
Temporary difference between tax reporting and financial reporting - depreciation methods	(2,630,122)	(2,775,768)
Foreign investment income	(440,817)	(346,745)
Unrealized foreign exchange gain	(68,109)	(54,493)
	(3,139,048)	(3,177,006)
	(2,603,823)	(2,774,763)
Total deferred income tax liabilities - net	$ (2,441,745)	$ (2,655,164)

Changes in composition of deferred income assets (liabilities) were as follows:

	Balance, Beginning of Period	Recognized under Income Statements	Balance, End of Period
For the Six Months Ended June 30, 2007			
Temporary difference			
Difference between tax reporting and financial reporting – depreciation methods	$ (2,710,265)	$ 80,143	$ (2,630,122)
Foreign investment income	(394,568)	(46,249)	(440,817)
Impairment loss on financial assets	300,000	60,822	360,822
Unrealized gain on intercompany transactions	89,353	5,383	94,736
Unrealized foreign exchange gain	(66,554)	(1,555)	(68,109)
Severance pay	65,249	(28,985)	36,264
Others	172,286	33,195	205,481
	$ (2,544,499)	$ 102,754	$ (2,441,745)
For the Six Months Ended June 30, 2006			
Temporary difference			
Difference between tax reporting and financial reporting – depreciation methods	$ (2,893,576)	$ 117,808	$ (2,775,768)
Foreign investment income	(323,235)	(23,510)	(346,745)
Impairment loss on financial assets	240,000	-	240,000
Unrealized gain on intercompany transactions	95,905	(31,652)	64,253
Unrealized foreign exchange gain	(89,037)	34,544	(54,493)
Severance pay	57,657	(9,538)	48,119
Others	112,164	57,306	169,470
	$ (2,800,122)	$ 144,958	$ (2,655,164)

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

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

The Corporation's income tax returns through 2003 have been examined by the tax authorities.

e. Imputation tax system

	June 30, 2007	June 30, 2006
Balance of the imputation credit account (ICA)	$ 10,167,316	$ 14,924,579
Undistributed earnings generated up to 1997	35,440	35,440

Under the Imputation Tax System, domestic stockholders are allowed a tax credit for the income tax paid by the Corporation on earnings generated since 1998. Nonresident stockholders, including holders of overseas depository receipts, are allowed only a tax credit from the 10% income tax on undistributed earnings, which can be used to offset withholding income tax on dividends paid. As of June 30, 2007, the estimated creditable tax ratio for the 2006 earnings was 25.93%, and the actual ratio for the 2005 earnings was 29.84%.

21. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENDITURES

	For the Six Months Ended June 30							
	2007				2006			
	Cost of Revenues	Operating Expense	Others	Total	Cost of Revenues	Operating Expense	Others	Total
Personnel Expenditures								
Salary	$ 7,256,571	$ 1,225,489	$ 26,881	$ 8,508,941	$ 6,094,276	$ 985,864	$ 77,524	$ 7,157,664
Labor and health insurance	288,451	46,385	252	335,088	289,481	44,704	993	335,178
Pension and consolation	710,298	135,958	724	846,980	615,459	117,617	62,174	795,250
Others	282,407	43,875	2,771	329,053	217,591	33,791	29,589	280,971
	$ 8,537,727	$ 1,451,707	$ 30,628	$ 10,020,062	$ 7,216,807	$ 1,181,976	$ 170,280	$ 8,569,063
Depreciation	$ 5,590,883	$ 201,651	$ 13,747	$ 5,806,281	$ 4,421,396	$ 110,124	$ 14,321	$ 4,545,841
Amortization	278,873	10,905	1,579	291,357	227,528	589	2,199	230,316

22. EARNINGS PER SHARE

	For the Six Months Ended June 30			
	2007		2006	
	Before Tax	After Tax	Before Tax	After Tax
Basic EPS				
Net income before cumulative effect of changes in accounting principles	$ 2.90	$ 2.39	$ 1.51	$ 1.26
Cumulative effect of changes in accounting principles	-	-	-	-
Net income	$ 2.90	$ 2.39	$ 1.51	$ 1.26
Diluted EPS				
Net income before cumulative effect of changes in accounting principles	$ 2.89	$ 2.38	$ 1.51	$ 1.26
Cumulative effect of changes in accounting principles	-	-	(0.01)	-
Net income	$ 2.89	$ 2.38	$ 1.50	$ 1.26

	Amount (Numerator) Before Tax	Amount (Numerator) After Tax	Shares (Denominator) (Thousand)	Earnings Per Share (Dollars) Before Tax	Earnings Per Share (Dollars) After Tax
For the Six Months Ended June 30, 2007					
Net income	$ 31,850,487	$ 26,206,151			
Less: Preferred dividends	(34,608)	(28,475)			
Basic EPS					
Net income of common Stockholders	31,815,879	26,177,676	10,968,399	$ 2.90	$ 2.39
Effect of potentially dilutive shares:					
Add: Preferred dividends	34,608	28,475	40,679		
Diluted EPS					
Net income of common stockholders and effect of potentially dilutive shares	$ 31,850,487	$ 26,206,151	11,009,078	2.89	2.38
For the Six Months Ended June 30, 2006					
Net income	$ 16,552,454	$ 13,859,656			
Less: Preferred dividends	(34,140)	(28,488)			
Basic EPS					
Net income of common Stockholders	16,518,314	13,831,168	10,971,937	1.51	1.26
Effect of potentially dilutive shares:					
Add: Preferred dividends	34,140	28,488	40,697		
Diluted EPS					
Net income of common stockholders and effect of potentially dilutive shares	$ 16,552,454	$ 13,859,656	11,012,634	1.50	1.26

In EPS calculation for the six months ended June 30, 2006, the number of outstanding shares was retroactively adjusted for the effect of capitalization of 2006 retained earnings. Thus EPS before tax and after tax decreased from NT$1.58 to NT$1.51 and from NT$1.32 to NT$1.26, respectively.

Capitalization of the 2006 retained earnings of 4,408,394 thousand (440,839 thousand shares) will be effective on August 1, 2007 (Note 19). The EPS retroactively adjusted for the effect of such capitalization of retained earnings is summarized as follows:

	For the Six Months Ended June 30			
	2007		2006	
	Before Tax	After Tax	Before Tax	After Tax
Basic EPS	$ 2.79	$ 2.29	$ 1.45	$ 1.21
Diluted EPS	2.78	2.29	1.45	1.21
If the Corporation's shares held by subsidiaries have been accounted for as investments rather than treasury stock				
Basic EPS		2.28		1.20
Diluted EPS		2.27		1.20

23. RELATED-PARTY TRANSACTIONS

a. Related parties

Related Parties	Relationship with the Corporation
C. S. Aluminum Corporation (CAC)	Subsidiary
China Steel Express Corporation (CSE)	Subsidiary
China Steel Chemical Corporation (CSCC)	Subsidiary
China Steel Global Trading Corporation	Subsidiary
China Hi-ment Corporation (CHC)	Subsidiary
China Ecotek Corporation (CEC)	Subsidiary
China Steel Structure Corporation (CSSC)	Subsidiary
Chung Hung Steel Corporation (CHSC)	Subsidiary
China Steel Machinery Corporation (CSMC)	Subsidiary
Gains Investment Corporation	Subsidiary
China Steel Security Corporation	Subsidiary
China Prosperity Development Corporation	Subsidiary
Info-Champ Systems Corporation	Subsidiary
China Steel Management Consulting Corporation	Subsidiary
Hi-mag Magnetic Corporation	Subsidiary
Long-Yuan-Fa Investment Corporation	Subsidiary
Horng-Yih Investment Corporation	Subsidiary
Goang-Yaw Investment Corporation	Subsidiary
Dragon Steel Corporation (DSC)	Subsidiary
Chung Mao Trading (BVI) Corp.	Indirect investee under Corporation's substantial control
Chung Mao Trading (SAMOA) Co.	Indirect investee under Corporation's substantial control
CSGT (Singapore) Pte. Ltd.	Indirect investee under Corporation's substantial control
CSE Transport Corp. (CSEP)	Indirect investee under Corporation's substantial control
Mentor Consulting Corporation	Indirect investee under Corporation's substantial control
Steel Castle Technology Corp.	Indirect investee under Corporation's substantial control
Union Steel Development Corp.	Indirect investee under Corporation's substantial control
Betacera Inc.	Indirect investee under Corporation's substantial control
Wabo Globe Trading Corporation	Indirect investee under Corporation's substantial control
Universal Exchange Inc.	Indirect investee under Corporation's substantial control
United Steel Engineering and Construction Corporation (USECC)	Indirect investee under Corporation's substantial control
Thintech Materials Technology Co., Ltd.	Indirect investee under Corporation's substantial control
Pao Good Industrial Co., Ltd.	Indirect investee under Corporation's substantial control
Ornasteel Enterprise Corp. (M) Sdn. Bhd. (OEC)	Indirect investee under Corporation's substantial control

(Continued)

Related Parties	Relationship with the Corporation
Group Steel Enterprise Corp. (M) Sdn. Bhd	Indirect investee under Corporation's substantial control
CSGT (JAPAN) Co., Ltd.	Indirect investee under Corporation's substantial control
CSGT Hong Kong Limited	Indirect investee under Corporation's substantial control
CSGT (SHANGHAI) Co., Ltd.	Indirect investee under Corporation's substantial control
Ningbo Huayang Aluminum - Tech Co., Ltd.	Indirect investee under Corporation's substantial control
Taiwan Rolling Stock Co., Ltd.	Investee under equity method
Kaohsiung Rapid Transit Corporation (KRTC)	Investee under equity method
TaiAn Technologies Corporation	Investee under equity method
Kaohsiung Labor Assemble & Disassemble Co., Ltd.	Equity investee of the Corporation's subsidiaries
INternational CArbide Technology Co., Ltd.	Equity investee of the Corporation's subsidiaries
CSC Educational Foundation	Foundation established with Corporation's donation

b. Significant related-party transactions:

	For the Six Months Ended June 30			
	2007		2006	
	Amount	%	Amount	%
Sales				
OEC	$ 1,968,954	2	$ 677,634	1
CSSC	1,643,683	2	1,232,330	2
CSCC	1,093,961	1	846,946	1
CHSC	517,695	-	1,204,141	1
Others	1,708,623	2	998,572	1
	$ 6,932,916	7	$ 4,959,623	6
Purchases (inclusive of shipping charges)				
CSEP	$ 7,952,545	17	$ -	-
CSE	2,231,583	5	5,517,126	15
CAC	2,006,750	4	1,330,332	3
Others	465,067	1	353,669	1
	$ 12,655,945	27	$ 7,201,127	19

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

Asset lease

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

		Rental Income For the Six Months Ended June 30	
	Expiry of Contracts	**2007**	**2006**
CAC	February 2016	$ 27,277	$ 23,541
CSMC	November 2011	15,361	12,223
CSCC	December 2010	10,178	9,425
CSSC	May 2018	7,845	7,831
CHC	April 2012	2,861	2,456
Others	April 2009	3,880	3,672
		$ 67,402	$ 59,148

Other expenditures

Other expenditures paid to related parties pertained to furnace slag clearance services, property maintenance or construction, export shipping, commissions for export and import services, etc., were recorded as manufacturing expenses, operating expenses and nonoperating expenses as follows:

	For the Six Months Ended June 30	
	2007	**2006**
CSMC	$ 1,417,004	$ 875,264
CEC	1,150,543	1,249,839
CHC	340,811	299,587
CSSC	278,111	520,956
USECC	231,258	336,006
Others	764,145	653,899
	$ 4,181,872	$ 3,935,551

Other revenues

Other revenues pertained to construction, slab purchasing right, labor services, reprocessing of products, utilities and other services to related parties were recorded as other operating revenue.

	For the Six Months Ended June 30	
	2007	**2006**
KRTC	$ 1,067,166	$ 741,690
CHSC	193,434	157,356
Others	507,658	400,215
	$ 1,768,258	$ 1,299,261

c. Balances at period-end

	June 30, 2007		June 30, 2006	
	Amount	%	Amount	%
Receivables				
CSCC	$ 202,203	6	$ 165,735	7
KRTC	141,689	4	327,841	13
DSC	113,601	3	75,469	3
Others	186,751	6	213,025	9
	$ 644,244	19	$ 782,070	32
Payables				
CSEP	$ 1,639,663	44	$ -	-
CSE	354,489	10	650,807	20
CAC	270,213	7	162,534	5
Others	48,775	1	54,987	1
	$ 2,313,140	62	$ 868,328	26

24. PLEDGED ASSETS

a. Time deposits of $4,181,694 thousand and $4,631,694 thousand as of June 30, 2007 and 2006, respectively, have been pledged mainly as collateral for bank overdraft and deposits of lands, etc.

b. The Corporation provided machinery and equipment with carrying values of $2,553,007 thousand as of June 30, 2006, as collaterals for long-term credit lines with banks. The collaterals were canceled in January 2007.

25. COMMITMENTS AS OF JUNE 30, 2007

a. The Corporation engaged in several construction contracts, under guarantees of $1,071,687 thousand granted by The Mega International Commercial Bank and Taipei Fubon Bank.

b. Unused letters of credit for purchase of raw materials and supplies amounted to $9 billion.

c. The Corporation entered into raw material purchase contracts with suppliers in Australia, India, Brazil, Canada, Indonesia, North Korea, Japan, Philippines, Russia and domestic companies with contract terms of 1 to 10 years. Contracted annual purchases of 8,300,000 metric tons of coal, 17,000,000 metric tons of iron ore, and 2,600,000 metric tons of limestone are at prices negotiable every year. Unpaid purchase amounts as of June 30, 2007 were US$11 billion (including 31,000,000 metric tons of coal, 154,000,000 metric tons of iron ore and 4,500,000 metric tons of limestone).

d. CHSC entered into a syndicated credit facility agreement with The Mega International Commercial Bank and 21 other banks. Under the agreement, the Corporation and its related parties should collectively hold at least 30% of CHSC's issued shares and have over half of CHSC's board seats as well as significant influence on its operations. As of June 30, 2007, the Corporation had total direct and indirect shareholdings in CHSC of 39% and all seats in the Board of Directors and significant influence on its operations.

e. KRTC entered a syndicated credit facility agreement with the Taiwan Bank and 23 other banks. Under this agreement, the Corporation and its subsidiaries should collectively hold at least 30% of KRTC's capital stock during the construction period. As of June 30, 2007, the Corporation's total equity in KRTC was 31%.

26. FINANCIAL INSTRUMENTS

The Corporation had no derivative transactions for the six months ended June 30, 2007 and 2006.

a. As of June 30, 2007 and 2006, the information of fair values was as follows:

	June 30, 2007		June 30, 2006	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
Financial assets at fair value through profit or loss	$ 10,445,962	$ 10,445,962	$ 17,231,571	$ 17,231,571
Available-for-sale financial assets	8,458,071	8,458,071	5,933,858	5,933,858
Financial assets carried at cost	5,765,065	-	6,049,010	-
Investment in bonds without quoted price	5,482,324	5,482,324	5,881,375	5,881,375
Refundable deposits	131,967	131,967	223,865	223,865
Liabilities				
Long-term bonds	13,700,000	13,824,031	13,100,000	13,231,715
Long-term bank debts	3,313,125	3,313,125	3,528,125	3,528,125

b. The assumptions and methods used to estimate the fair values of financial instruments are as follows:

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

2) The fair values of financial assets at fair value through profit of loss and available-for-sale financial assets are determined at their market value. If there is no market value available for reference, the fair values are determined by using valuation technique. The information used as basis for determining the Corporation's assumptions in applying valuation technique is consistent with that used by market participants. The information is obtained by the Corporation from financial institutions.

3) The fair values of long-term liabilities (including bonds payable) are determined by the present values of future cash flows, with the values discounted at the interest rates of similar long-term debts available for the Corporation.

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

5) The fair value of investment in bonds without quoted price is determined at their carrying values.

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

c. The fair values of the Corporation's financial assets determined by either using quoted market price in an active market or valuation technique were as follows:

	Amount Determined by Quoted Market Price		Amount Determined by Using Valuation Technique	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
Assets				
Financial assets at fair value through profit or loss	$ 10,445,962	$ 17,231,571	$ -	$ -
Available-for-sale financial assets	8,207,321	5,683,108	250,750	250,750

d. There is no gain or loss on the estimated change in fair value by using valuation technique for the six months ended June 30, 2007 and 2006.

e. As of June 30, 2007 and 2006, cash flow risks of interest rate changes on financial assets were $250,750 thousand and on financial liabilities were $16,465,300 thousand and $20,221,443 thousand, respectively. The financial liabilities with fair value risks of interest rate changes were $13,700,000 thousand and $13,100,000 thousand, respectively.

f. The Corporation's total interest revenues and expenses (exclusive of capitalized interest) which were incurred from other than financial assets and liabilities at fair value through profit or loss were $364,010 thousand and $294,122 thousand, respectively, for the six months ended June 30, 2007 and $170,077 thousand and $301,273 thousand, respectively, for the six months ended June 30, 2006.

g. Financial risk information

1) Market risk

This includes fair value risk of interest rate change, exchange rate risk, and market price risk. The Corporation had long-term loans in yen to hedge the exchange rate fluctuations on its investment in yen, thus, the exchange rate risk can be hedged naturally. The Corporation issues the bonds payable with the fixed interest rate, and the fair value will be influenced by the market interest rate change. If market interest rate change at 1% each time, the fair value of bonds payable will increase or decrease by $533,324 thousand.

The Corporation's investments in the bond funds and stocks of Taiwan Semiconductor Manufacturing Company Ltd., Advanced Material Technology Corporation and Maruichi Steel Tube Ltd., and Tang Eng Iron Works Corporation involve market risk. Except the minor fluctuation of the bond fund's market price, if the share price of the stocks increases or decreases by $1 each time, the fair value will increase or decrease by $125,082 thousand.

2) Credit risk

Credit risk represents the potential loss that would be incurred by the Corporation if the counter-parties or third-parties breached the contracts. The Corporation's financial instruments are affected by its credit risk concentration, component, contract amounts and other receivables.

As of June 30, 2007 and 2006, the Corporation's credit risks amounted to $7,291,714 thousand and $6,688,385 thousand, respectively (including net notes and accounts receivable, other receivables and refundable deposits, net notes and accounts receivable after deducted with factoring and L/C transaction of $3,626,032 thousand and $2,827,547 thousand, respectively) and the maximum credit risk and carrying value are the same. The credit risks of the cash and bank deposits of the Corporation were considered to be immaterial.

3) Liquidity risk

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

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

There are liquidity risks for the financial assets carried at cost and investment in bonds without quoted price because no market values are available.

4) Cash flow risk of interest rate change

Market interest rate change will influence the effective interest rate of the financial instruments (including short-term loans and overdraft) which have cash flow risk of the interest rate change, and make future cash flow fluctuate. If the market interest rate increases 1%, the Corporation's cash outflow will increase $162,146 thousand.

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

The Corporation borrowed long-term and short-term bank loans to effectively hedge the exchange rate fluctuations on the investments in East Asia United Steel Corporation, Maruichi Steel Tube Ltd. and CSC Australia Holdings Pty. Ltd.

		Designated Hedging Instrument		
			Changes of Fair Value	
Hedge Type	**Hedged Item**	**Financial Instrument**	**For the Six Months Ended June 30, 2007**	**For the Six Months Ended June 30, 2006**
Fair value hedge	Stock investments in Maruichi Steel Tube Ltd.	Long-term bank loans in YEN	$ 23,530	$ 6,630
Fair value hedge	Stock investments in East Asia United Steel Corporation	Long-term bank loans in YEN	89,595	25,245
Hedge of a net investment in a foreign operation	Stock investment in CSC Australia Holdings Pty. Ltd.	Short-term bank loans in AUD	(14,428)	-

CHINA STEEL CORPORATION

ADDITIONAL EXPLANATION FOR ACCOUNTS IN STOCKHOLDERS' EQUITY SIX MONTHS ENDED JUNE 30, 2007 AND 2006

1. ADJUSTMENT OF EQUITY IN INVESTEES DUE TO CHANGE IN PERCENTAGE OF OWNERSHIP

a. Long-term investment adjustment

When an investee's capital surplus changed, the investor should adjust its long-term 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 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. UNREALIZED GAIN (LOSS) ON FINANCIAL INSTRUMENTS

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. INVESTEES' UNRECOGNIZED NET LOSS ON PENSION COST

a. Unrecognized net loss on 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. TRANSFER OF TREASURY STOCK TO EMPLOYEES.

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 or financial assets carried at cost-noncurrent 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.