China Steel Corporation

Financial Statements for the Nine Months Ended September 30, 2007 and 2006 and Independent Accountants' Review Report

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

The Board of Directors and Stockholders
China Steel Corporation

We have reviewed the accompanying balance sheets of China Steel Corporation (the "Corporation") as of September 30, 2007 and 2006, and the related statements of income and cash flows for the nine months then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to issue a report on these financial statements based on our reviews.

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

As discussed in Note 11 to the accompanying financial statements, we did not review the financial statements of certain subsidiaries (all with shares having no quoted prices) in which the Corporation has equity-method investments. The aggregate carrying values of these investments were NT$57,874,655 thousand and NT$53,597,222 thousand as of September 30, 2007 and 2006, respectively. The net investment incomes were NT$7,211,371 thousand and NT$5,819,238 thousand recognized for the nine months ended September 30, 2007 and 2006, respectively. These investment amounts as well as the investees' information disclosed in Note 27 to the financial statements were based on the investees' unreviewed financial statements for the same reporting periods as those of the Corporation.

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

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

October 19, 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 review such financial statements are those generally accepted and applied in the Republic of China.

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

2007 Amount	%	2006 Amount	%
$ 17,961,221	7	$ 10,351,799	4
430,024	-	4,509,142	2
4,665,799	2	4,393,993	2
1,294,858	-	1,217,945	1
3,884,879	1	3,177,610	1
2,041,241	1	734,012	-
34,543,094	13	32,497,770	13
237,153	-	182,553	-
4,150,000	2	4,600,000	2
1,824,004	1	1,094,507	-
71,032,273	27	62,759,331	25
3,084,487	1	2,300,724	1
6,131,425	2	6,074,771	3
5,038,926	2	5,881,374	2
63,874,181	24	58,491,168	23
90,000	-	72,000	-
78,219,019	29	72,820,037	29
9,785,593	4	8,208,710	3
4,212,123	2	4,212,123	2
39,525,210	15	36,851,150	15
234,256,423	87	214,048,730	85
1,496,486	-	1,470,177	1
3,965,937	1	3,086,014	1
293,241,772	109	267,876,904	107
17,102,725	7	17,407,416	7
310,344,497	116	285,284,320	114
210,454,861	79	201,165,057	80
99,889,636	37	84,119,263	34
13,828,671	5	25,764,725	10
113,718,307	42	109,883,988	44
264,700	-	4,004	-
3,160,978	1	3,046,676	1
141,566	-	101,938	-
31,694	-	31,694	-
1,832,571	1	2,395,723	1
5,166,809	2	5,576,031	2
$ 268,401,108	100	$ 251,043,391	100

LIABILITIES AND STOCKHOLDERS' EQUITY	2007 Amount	%	2006 Amount	%
CURRENT LIABILITIES				
Short-term loans and overdraft (Notes 14 and 24)	$ 10,404,326	4	$ 17,916,484	7
Notes and accounts payable (Note 23)	2,821,497	1	2,873,767	1
Income tax payable (Note 20)	8,584,358	3	5,669,257	2
Accrued expenses	7,165,806	3	6,877,019	3
Other payables	3,264,596	1	3,185,076	1
Bonds payable - current portion (Note 15)	-	-	5,000,000	2
Long-term debt - current portion (Notes 16 and 24)	-	-	729,170	1
Other current liabilities	2,292,841	1	1,939,496	1
Total current liabilities	34,533,424	13	44,190,269	18
LONG-TERM LIABILITIES				
Bonds payable (Note 15)	13,700,000	5	8,100,000	3
Long-term debt (Notes 16 and 24)	4,025,386	2	2,776,455	1
Total long-term liabilities	17,725,386	7	10,876,455	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)	2,539,375	1	2,764,716	1
Deferred credits - gain on inter-company transactions (Note 18)	1,267,113	-	1,147,735	-
Total other liabilities	3,806,488	1	3,912,451	1
Total liabilities	58,236,422	22	61,150,299	24
CAPITAL STOCK - authorized 12,000,000 thousand shares at NT$10 par value (Notes 2 and 19)				
Common shares - issued and outstanding 11,494,857 thousand shares and 11,053,755 thousand shares as of September 30, 2007 and 2006, respectively	114,948,570	43	110,537,546	44
Preferred shares - issued and outstanding 40,434 thousand shares and 40,697 thousand shares as of September 30, 2007 and 2006, respectively	404,340	-	406,970	-
Total capital stock	115,352,910	43	110,944,516	44
CAPITAL SURPLUS (Notes 2 and 19)	1,836,823	-	1,505,799	1
RETAINED EARNINGS (Notes 2 and 19)	85,665,358	32	70,945,403	28
OTHER EQUITY				
Unrealized revaluation increment (Note 12)	1,509,158	1	1,535,363	1
Unrealized gain on financial instruments (Notes 3, 6 and 19)	7,068,926	3	6,355,228	3
Cumulative translation adjustments (Note 19)	214,628	-	(13,401)	-
Net loss not recognized as pension cost	(41,094)	-	(36,872)	-
Treasury stock - 86,902 thousand shares and 84,051 thousand shares as of September 30, 2007 and 2006, respectively (Notes 2 and 19)	(1,442,023)	(1)	(1,342,944)	(1)
Total other equity	7,309,595	3	6,497,374	3
Total stockholders' equity	210,164,686	78	189,893,092	76
TOTAL	$ 268,401,108	100	$ 251,043,391	100

CHINA STEEL CORPORATION

STATEMENTS OF INCOME
NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)
(Reviewed, Not Audited)

	2007		2006	
	Amount	**%**	**Amount**	**%**
OPERATING REVENUE (Notes 2 and 23)	$ 152,249,154	100	$ 127,593,137	100
OPERATING COSTS (Notes 21 and 23)	110,061,649	72	99,557,849	78
GROSS PROFIT	42,187,505	28	28,035,288	22
REALIZED (UNREALIZED) INTER - COMPANY GAIN	(148,897)	-	139,013	-
REALIZED GROSS PROFIT	42,038,608	28	28,174,301	22
OPERATING EXPENSES (Notes 21 and 23)				
Research and development	999,411	1	789,338	1
Selling	1,994,547	1	1,701,637	1
General and administrative	1,714,983	1	1,446,520	1
Total operating expenses	4,708,941	3	3,937,495	3
OPERATING INCOME	37,329,667	25	24,236,806	19
NONOPERATING INCOME AND GAINS				
Interest income	509,168	-	252,020	-
Investment income recognized under equity method (Note 11)	8,519,258	6	7,627,871	6
Valuation gain on financial assets (Notes 2 and 5)	130,974	-	121,313	-
Other	1,510,364	1	1,221,302	1
Total nonoperating income and gains	10,669,764	7	9,222,506	7
NONOPERATING EXPENSES AND LOSSES				
Interest expense (Note 12)	437,294	1	422,257	-
Impairment losses (Notes 6 and 9)	319,290	-	32,000	-
Loss on physical inventory	274,160	-	173,907	-
Other	291,210	-	516,213	1
Total nonoperating expenses and losses	1,321,954	1	1,144,377	1
INCOME BEFORE INCOME TAX	46,677,477	31	32,314,935	25
INCOME TAX (Notes 2 and 20)	8,361,181	6	5,608,351	4

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CHINA STEEL CORPORATION

STATEMENTS OF INCOME
NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)
(Reviewed, Not Audited)

	2007		2006	
	Amount	%	Amount	%
INCOME BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGES	$ 38,316,296	25	$ 26,706,584	21
CUMULATIVE EFFECT OF ACCOUNTING CHANGES (Note 3) (net of income tax benefit of $64,547 thousand)	-	-	(37,822)	-
NET INCOME	$ 38,316,296	25	$ 26,668,762	21

	2007		2006	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS PER SHARE (Note 22)				
Basic	$ 4.09	$ 3.36	$ 2.82	$ 2.33
Diluted	$ 4.08	$ 3.35	$ 2.81	$ 2.33

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

	2007	2006
Net income	$ 38,595,600	$ 26,982,271
Basic earnings per share based on the weighted-average number of outstanding common shares aggregating 11,493,257 thousand shares and 11,492,994 thousand shares in the nine months ended September 30, 2007 and 2006, respectively	$3.35	$2.34
Diluted earnings per share based on the weighted-average number of outstanding common shares aggregating 11,533,691 thousand shares and 11,533,691 thousand shares in the nine months ended September 30, 2007 and 2006, respectively	$3.35	$2.34

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

(With Deloitte & Touche review report dated October 19, 2007) (Concluded)

CHINA STEEL CORPORATION

STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$38,316,296	$26,668,762
Cumulative effect of accounting changes	-	37,822
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	8,706,215	6,833,340
Amortization	454,140	368,130
Deferred income tax	(242,277)	(153,412)
Investment income under the equity method	(8,519,258)	(7,627,871)
Loss on disposal of properties	46,071	24,618
Cash dividends received from equity-method investees	4,630,824	4,879,105
Cash dividends from bond investments with no active market	443,398	-
Valuation gains on financial assets	(130,974)	(121,313)
Impairment loss on available-for-sale financial assets	243,290	-
Impairment loss on financial assets carried at cost	76,000	32,000
Unrealized loss (gain) on intercompany transactions	148,897	(139,013)
Provision for loss on inventories	304,211	-
Others	168,375	39,107
Net changes in operating assets and liabilities		
Notes receivable	41,420	423,087
Accounts receivable	(1,147,712)	(1,142,981)
Other receivable	(661,748)	(110,291)
Inventories	(2,710,597)	3,120,354
Other current assets	(804,824)	66,231
Notes and accounts payable	(789,289)	537,360
Income tax payable	2,901,824	(1,909,220)
Accrued expenses	(648,975)	(120,708)
Other payables	103,478	516,648
Other current liabilities	99,482	(1,737,352)
Net cash provided by operating activities	41,028,267	30,484,403
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of financial assets at fair value through profit or loss	(11,098,265)	(9,173,380)
Proceeds of the disposal of financial assets at fair value through profit or loss	23,115,203	15,917,079
Acquisition of available-for-sale financial assets	(349,389)	-
Acquisition of financial assets carried at cost	(142,562)	-
Acquisition of investments accounted for by the equity method	(573,579)	(365,313)
Acquisition of property, plant and equipment	(11,945,039)	(9,029,156)
Increase in other assets	(282,343)	(2,751,001)
Decrease (increase) in refundable deposits	(85,733)	244,892
Increase in restricted assets	(500,000)	-
Proceeds of the disposal of property, plant and equipment	-	1,836

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CHINA STEEL CORPORATION

STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	2007	2006
Proceeds of the capital reduction on financial assets carried at cost	$ -	$ 18,000
Net cash used in investing activities	(1,861,707)	(5,137,043)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash dividends	(30,813,819)	(39,694,019)
Increase (decrease) in short-term loans and overdraft	(6,205,663)	6,443,101
Cash bonus to employees and remuneration to directors and supervisors	(828,413)	(1,052,652)
Increase in long-term debt	445,945	8,100,000
Repayment of bonds payable	-	(5,000,000)
Decrease in short-term bills payable	-	(1,499,376)
Purchase of treasury stocks	-	(32,096)
Net cash used in financing activities	(37,401,950)	(32,735,042)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,764,610	(7,387,682)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	16,196,611	17,739,481
CASH AND CASH EQUIVALENTS, END OF PERIOD	$17,961,221	$10,351,799
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid (excluding capitalized interest)	$ 389,216	$ 369,263
Income tax paid	5,701,634	7,670,983
ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT		
Acquisition of property, plant and equipment	$12,141,868	$11,157,068
Increase in payable for equipment purchased	(196,829)	(2,127,912)
Cash paid for acquisition of property, plant and equipment	$11,945,039	$ 9,029,156

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

(With Deloitte & Touche review report dated October 19, 2007) (Concluded)

CHINA STEEL CORPORATION

NOTES TO FINANCIAL STATEMENTS
NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006
(In Thousands of New Taiwan Dollars, Except Amounts Stated Otherwise
Earnings and Dividends Per Share)
(Reviewed, Not Audited)

1. ORGANIZATION AND OPERATIONS

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

The Corporation's stock is listed on the Taiwan Stock Exchange. As of September 30, 2007, the Ministry of Economic Affairs (previously until October 2006 the owner was the Ministry of Finance), Republic of China owned 22.52% of the Corporation's outstanding common stock.

As of September 30, 2007 and 2006, the Corporation had about 9,100 and 8,700 employees, respectively.

2. 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 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. 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.

Revenue Recognition, Accounts Receivable and Allowance for Doubtful Accounts

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

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.

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

Factoring of Accounts Receivable

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

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

b. The transferees have obtained the right to pledge or exchange 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. Slow-moving supplies are provided with allowance for inventory obsolescence since 2007. The change did not have significant impact on the net income and basic earnings per share for the nine months ended September 30, 2007.

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 dividends on financial assets carried at cost is similar to that for dividends on available-for-sale financial assets.

Bond Investments With No Active Market

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.

Investment Accounted for by the 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.

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

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 surplus - 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.

Property, Plant and Equipment

Property, plant and equipment, 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 20 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.

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.

Assets Leased to Others

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

Unamortized Repairs

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

Impairment of Assets

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.

Pension

Pension costs under defined benefits pension plan are recognized on the basis of actuarial calculations and recorded as expenses.

Pension costs under defined contribution pension plan are recognized as pension cost during the period in which employees render services.

Treasury Stock

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

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

Income Tax

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 risk of the exchange rate fluctuation.

Reclassifications

Certain accounts in the financial statements as of and for the nine months ended September 30, 2006 have been reclassified to conform to the presentation of the financial statements as of and for the nine months ended September 30, 2007.

3. EFFECTS OF CHANGES IN ACCOUNTING PRINCIPLES

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 stockholders' 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 NT$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 nine months ended September 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 nine months ended September 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.

4. CASH AND CASH EQUIVALENTS

	September 30, 2007	September 30, 2006
Cash on hand and revolving funds	$ 18,873	$ 18,737
Checking accounts and demand deposits	1,630,051	2,941,498
Time deposits	2,700,000	1,200,000
Negotiable certificates of time deposits	2,000,000	1,000,000
Cash equivalents – short-term notes and bills	11,612,297	5,191,564
	$ 17,961,221	$ 10,351,799

As of September 30, 2007 and 2006, the Corporation had foreign bank deposits of ￥5,914 thousand and ￥6,644 thousand in Japan-Osaka Bank, respectively.

5. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

This mainly represents open-end funds. As of September 30, 2007 and 2006, the balances of financial assets at fair value through profit or loss were NT$430,024 thousand and NT$4,509,142 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 nine months ended September 30, 2007 and 2006 was NT$130,974 thousand and NT$121,313 thousand, respectively.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	September 30, 2007		September 30, 2006	
	Current	Noncurrent	Current	Noncurrent
Quoted stock				
Maruichi Steel Tube Ltd.	$ -	$ 757,920	$ -	$ 757,920
Yodogawa Steel Works, Ltd.	-	349,389	-	-
Advanced Material Technology Corporation (AMTC) (Note 9)	-	-	-	243,290
Tang Eng Iron Works Corporation (TEIWC)	-	-	-	-
Taiwan Semiconductor Manufacturing Company (TSMC)	967,456	-	967,456	-
Bank debentures - Taiwan Cooperative Bank	250,280	-	250,520	-
Allowance for appraisal	3,448,063	1,977,178	3,176,017	1,299,514
	$ 4,665,799	$ 3,084,487	$ 4,393,993	$ 2,300,724

The Corporation invested NT$597,214 thousand to acquire 9% equity of Tang Eng Iron Works Corporation. In 2002, the Corporation recognized an impairment loss of NT$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-noncurrent. As of September 30, 2007, the carrying value of this financial asset was NT$1,131,720 thousand.

In September 2007, in order to firm up the sales business of steel products, the Corporation invested NT$349,389 thousand and acquired 2,000 thousand common shares of Yodogawa Steel Works, Ltd., representing 1% equity.

The Corporation borrowed foreign-currency bank loans in the same amounts as the hedged investment to hedge exchange rate fluctuation risks on the investments in Maruichi Steel Tube Ltd. and Yodogawa Steel Works, Ltd. (Notes 14, 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 NT$5.84 billion, NT$2.5 billion and NT$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 nine months ended September 30, 2007 and 2006 is as follows:

Counter-Parties	Total Factoring Amounts	Related Expenses	Proceeds Received	Interest Rate (%)
Nine Months Ended September 30, 2007				
Accounts receivable				
Mega International Commercial Bank	$ 9,889,229	$ 67,954	$ 9,821,275	1.99-2.26
Bank of Taiwan	1,282,342	8,878	1,273,464	1.99-2.03
Taipei Fubon Bank	380,437	2,517	377,920	2.23-2.26
	$ 11,552,008	$ 79,349	$ 11,472,659	
Nine Months Ended September 30, 2006				
Accounts receivable				
Mega International Commercial Bank	$ 7,234,897	$ 55,546	$ 7,179,351	1.57-1.95
Bank of Taiwan	787,908	4,700	783,208	1.57-1.95
	$ 8,022,805	$ 60,246	$ 7,962,559	

8. INVENTORIES

	September 30, 2007	September 30, 2006
Finished products	$ 7,471,105	$ 5,885,973
Work in process	11,520,559	10,649,741
Raw materials	7,533,660	7,608,627
Supplies	6,013,560	5,501,129
Materials in transit	1,216,975	1,814,154
Unallocated freight and others	329,596	250,070
Fuel	130,285	109,822
Others	631,565	678,254
	34,847,305	32,497,770
Less: Allowance for inventory obsolescence losses	304,211	-
	$ 34,543,094	$ 32,497,770

9. FINANCIAL ASSETS CARRIED AT COST

	September 30, 2007	September 30, 2006
Unquoted common stocks		
Industrial Bank of Taiwan	$ 1,000,000	$ 1,000,000
CDIB & Partners Investment Holding Corporation	500,000	500,000
Taiwan Rolling Stock Co., Ltd (TRSC)	202,048	-
Hsin Hsin Cement Enterprise Corp.	165,010	75,760
CDIB BioScience Ventures I, Inc.	102,000	102,000
Phalanx Biotech Group Corporation (PBG)	73,370	73,370
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
Advanced Material Technology Corporation (AMTC)	-	-
Unquoted preferred stocks		
East Asia United Steel Corporation (EAUS)	2,837,500	2,804,500
Dragon Steel Corporation (DSC)		
Preferred A	999,877	999,877
Preferred B	53,312	-
Fund - Sino-Canada Biotechnology Development Fund, LP (SCBDF)	98,308	179,264
	$ 6,131,425	$ 6,074,771

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 August 2007, the Corporation acquired 3,808 thousand Preferred B shares (representing 5% ownership) of DSC for NT$55,216 thousand. Dividend on these shares is at 5%, payable on a participating and cumulative basis. Preferred stockholders have the same voting rights as common stockholders, except the right to vote for directors and supervisors, but they can be a candidate for directors and supervisors.

The Corporation invested NT$243,290 thousand to acquire 2% equity of AMTC. In the first quarter of 2007, the Corporation recognized an impairment loss of NT$243,290 thousand (recorded as nonoperating loss) on its investment in AMTC mainly due to serious difficulty in AMTC's operation.

In August 2007, AMTC's stock was delisted from the Gre Tai Securities Market. Accordingly, the available-for-sale financial asset was classified as financial asset carried at cost.

In July 2007, TRSC increased its capital by cash for 19,200 thousand shares. The Corporation did not subscribe and the equity in TRSC decreased to 19%. Accordingly, the investment in TRSC was reclassified from the account of investment accounted for by the equity method to financial assets carried at cost.

In August 2006 and January 2007, the Corporation invested totally NT$165,010 thousand for limestone supply to acquire 8,609 thousand shares and 8,500 thousand shares of Hsin Hsin Cement Enterprise Corp., respectively (NT$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 September 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 September 30, 2007, the Corporation had invested CAD$9,435 thousand (NT$219,025 thousand) in SCBDF fund. In September 2007, the Corporation recognized an impairment loss of NT$76,000 thousand (recorded as nonoperating loss) on its investment in SCBDF.

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

In December 2006, the Corporation evaluated APBT's operational difficulty and recognized an impairment loss of NT$240,000 thousand on its investment in APBT.

10. BONDS INVESTMENTS WITH NO ACTIVE MARKET

	September 30, 2007	September 30, 2006
Unquoted preferred stocks		
Taiwan High Speed Rail Corporation (THSRC)		
Preferred C	$ 3,904,542	$ 4,646,990
Preferred B	834,384	934,384
Taigen Biotechnology Co., Ltd. (TBC)	300,000	300,000
	$ 5,038,926	$ 5,881,374

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

	September 30, 2007		September 30, 2006	
	Amount	% of Owner-ship	Amount	% of Owner-ship
Stocks listed on the Taiwan Stock Exchange				
Chung Hung Steel Corporation (CHSC)	$ 3,512,383	24	$ 2,567,159	24
China Steel Chemical Corporation (CSCC)	1,265,031	29	1,135,671	30
China Hi-ment Corporation (CHC)	634,082	20	628,548	20

(Continued)

	September 30, 2007 Amount	September 30, 2007 % of Owner-ship	September 30, 2006 Amount	September 30, 2006 % of Owner-ship
China Steel Structure Corporation (CSSC)	$ 535,560	18	$ 516,079	18
China Ecotek Corporation (CEC)	388,393	36	379,451	36
	6,335,449		5,226,908	
Less: Shares held by subsidiaries accounted for as treasury stock	335,923		332,962	
	5,999,526		4,893,946	
Stocks without quoted market prices				
Dragon Steel Corporation (DSC)	16,288,236	47	15,634,749	47
China Steel Express Corporation (CSE)	9,678,687	100	7,749,005	100
Gains Investment Corporation (GIC)	8,482,027	100	8,559,914	100
C. S. Aluminum Corporation (CAC)	7,230,079	100	7,191,482	100
China Prosperity Development Corporation (CPDC)	4,763,309	100	4,644,724	100
China Steel Asia Pacific Holdings Pte. Ltd. (CSAPH)	3,152,663	100	2,684,218	100
Kaohsiung Rapid Transit Corporation (KRTC)	2,967,768	31	3,063,882	31
China Steel Global Trading Corporation (CSGT)	1,164,143	100	1,048,744	100
Goang Yaw Investment Corporation (Goang Yaw) and other two investment companies (which invested CHSC indirectly)	2,421,614	99	1,739,288	99
China Steel Machinery Corporation (CSMC)	1,000,266	100	832,158	100
Info-Champ Systems Corporation (ICSC)	643,133	100	600,763	100
CSC Australia Holdings Pty. Ltd.(CSCAU)	480,741	100	-	-
China Steel Security Corporation	255,848	100	245,892	100
Kaohsiung Arena Development Corporation (KADC)	253,338	18	189,419	18
Hi-mag Magnetic Corporation	100,309	50	69,406	50
Baolai Greeting Development Co., Ltd. (BGDC)	47,297	45	50,815	45
China Steel Management Consulting Corporation	6,812	38	7,938	38
TaiAn Technologies Corporation (TTC)	4,954	17	3,899	17
Taiwan Rolling Stock Co., Ltd. (Note 9)	-	-	251,377	22
	58,941,224		54,567,673	
Less: Shares held by subsidiaries accounted for as treasury stock	1,066,569		970,451	
	57,874,655		53,597,222	
	$ 63,874,181		$ 58,491,168	
Prepaid long-term stock investments - KADC	$ 90,000		$ 72,000	

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 NT$270,000 thousand in KADC. The Corporation's subsidiary also invested in KADC, thus, the Corporation and its subsidiary's total equity in KADC is 33%, including directly owned - 18% and indirectly owned - 15%. In 2007, KADC increased capital by cash and the Corporation subscribed for NT$90,000 thousand, which was recorded as prepaid long-term stock investment.

In May 2006, the Corporation invested NT$54,000 thousand to acquire 5,400 thousand shares of BGDC, representing 45% equity. The Corporation plans to invest in BGDC a total of NT$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 operation funds, in Tsingtao Teco Electric & Machinery Co., Ltd. (TTEC), representing 14% equity. TTEC will engage in 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 5% equity.

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

	September 30, 2007	September 30, 2006
CHSC	$ 5,691,530	$ 4,147,551
CSCC	5,673,305	2,941,783
CHC	1,613,984	1,098,150
CSSC	607,526	387,262
CEC	1,470,314	583,252
	$ 15,056,659	$ 9,157,998

The Corporation's Board of Directors approved plans for additional investments in CSBC Corporation, Taiwan and DSC, etc. The related subscription schedule depends on the investees' capital increase requirements. As of September 30, 2007, the Corporation's unexecuted investment in these investees aggregated NT$6,139,470 thousand.

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

	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Recognized based on the reviewed financial statements		
CHSC	$ 795,135	$ 1,388,923
CSCC	303,046	271,632
CHC	80,359	109,016
CSSC	66,279	41,048
CEC	63,068	(1,986)
	1,307,887	1,808,633
Recognized based on the unreviewed financial statements		
CSE	4,041,318	2,537,481
GIC	872,564	724,228
Goang Yaw Investment Corporation and other two investment companies	522,301	878,216
DSC	450,887	533,971
CAC	401,104	541,210
CSAPH	309,294	244,440
CSGT	269,780	241,946

(Continued)

	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
CSMC	$ 220,208	$ 2,454
ICSC	62,695	61,440
Others	61,220	53,852
	7,211,371	5,819,238
	$ 8,519,258	$ 7,627,871

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

	September 30, 2007	September 30, 2006
A total of investees' assets	$227,883,593	$219,776,922
A total of investees' liabilities	109,601,985	110,597,774
A total of investees' net assets	$118,281,608	$109,179,148
A total of investees' net assets based on percentage owned by the Corporation	$ 68,727,150	$ 62,584,766

Due to long-term stock investment and cash dividend appropriated to subsidiaries, the Corporation increased capital surplus by NT$232,130 thousand and NT$283,445 thousand, and decreased retained earnings by NT$5,467 thousand and NT$6,490 thousand for the nine months ended September 30, 2007 and 2006, respectively.

Due to the disposal of the Corporation's shares held by subsidiaries, the Corporation increased capital surplus by NT$56,323 thousand and NT$12,976 thousand for the nine months ended September 30, 2007 and 2006, respectively.

12. PROPERTY, PLANT AND EQUIPMENT

Nine Months Ended September 30, 2007	Land	Land Improvements	Buildings	Machinery and Equipment	Transportation Equipment	Other Equipment	Total
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
Addition	1,462,712	-	2,312,882	15,386,821	62,979	1,010,576	20,235,970
Reclassification	-	-	(161,816)	-	-	-	(161,816)
Disposal	-	-	(49,317)	(918,471)	(39,623)	(141,198)	(1,148,609)
Balance, end of period	9,785,593	4,212,123	39,525,210	234,256,423	1,496,486	3,965,937	293,241,772
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)	(147,110)	-	(33)	(147,166)
Balance, end of period	5,840,732	492,990	2,423,523	8,286,533	27,233	31,714	17,102,725
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	-	101,585	909,317	7,191,018	59,909	422,332	8,684,161
Reclassification	-	-	(18,138)	-	-	-	(18,138)
Disposal	-	-	(26,513)	(1,040,937)	(39,095)	(140,194)	(1,246,739)
Balance, end of period	-	3,755,714	18,886,965	183,879,316	1,199,429	2,733,437	210,454,861
Net book value, end of period	$ 15,626,325	$ 949,399	$ 23,061,768	$ 58,663,640	$ 324,290	$ 1,264,214	$ 99,889,636

(Continued)

Nine Months Ended September 30, 2006	Land	Land Improvements	Buildings	Machinery and Equipment	Transportation Equipment	Other Equipment	Total
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
Addition	215,373	-	850,302	3,759,091	108,401	227,233	5,160,400
Disposal	(718)	(4,671)	(16,015)	(2,531,542)	(90,738)	(154,601)	(2,798,285)
Balance, end of period	8,208,710	4,212,123	36,851,150	214,048,730	1,470,177	3,086,014	267,876,904
Appreciation							
Balance, beginning of period	5,840,732	492,990	2,424,236	8,844,981	33,748	31,795	17,668,482
Disposal	-	-	(690)	(253,813)	(6,515)	(48)	(261,066)
Balance, end of period	5,840,732	492,990	2,423,546	8,591,168	27,233	31,747	17,407,416
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	-	105,155	786,420	5,648,327	55,600	217,449	6,812,951
Disposal	-	(4,635)	(14,659)	(2,768,216)	(94,409)	(150,259)	(3,032,178)
Balance, end of period	-	3,619,450	17,751,500	176,196,567	1,165,835	2,431,705	201,165,057
Net book value, end of period	$ 14,049,442	$ 1,085,663	$ 21,523,196	$ 46,443,331	$ 331,575	$ 686,056	$ 84,119,263

The capitalized interest information on the purchase of properties for the nine months ended September 30, 2007 and 2006 was disclosed as follows:

	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Interest expense before capitalization	$ 470,529	$ 466,197
Capitalized interest – construction in progress	(33,235)	(43,940)
Interest expense as shown in income statement	$ 437,294	$ 422,257
Interest rates of interest expenses capitalized (annual rate)	1.74%-2%	1.85%-1.97%

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

13. ASSETS LEASED TO OTHERS

	Land	Machinery and Equipment	Buildings and Improvements	Total
Nine Months Ended September 30, 2007				
Cost				
Balance, beginning of period	$ 2,966,632	$ 2,000,000	$ -	$ 4,966,632
Reclassification	-	-	161,816	161,816
Balance, end of period	2,966,632	2,000,000	161,816	5,128,448
Accumulated depreciation				
Balance, beginning of period	-	1,333,278	-	1,333,278
Reclassification	-	-	18,138	18,138
Depreciation	-	20,064	1,990	22,054
Balance, end of period	-	1,353,342	20,128	1,373,470
Accumulated impairment	-	594,000	-	594,000
Net book value, end of period	$ 2,966,632	$ 52,658	$ 141,688	$ 3,160,978
Nine Months Ended September 30, 2006				
Cost				
Balance, beginning of period	$ 2,966,398	$ 2,000,000	$ -	$ 4,966,398
Addition	719	-	-	719
Balance, end of period	2,967,117	2,000,000	-	4,967,117
Accumulated depreciation				
Balance, beginning of period	-	1,306,052	-	1,306,052
Depreciation	-	20,389	-	20,389
Balance, end of period	-	1,326,441	-	1,326,441
Accumulated impairment	-	594,000	-	594,000
Net book value, end of period	$ 2,967,117	$ 79,559	$ -	$ 3,046,676

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

14. SHORT-TERM LOANS AND OVERDRAFT

	September 30, 2007	September 30, 2006
Letters of credit - due within 180 days; interest at 1.11%-6.71% p.a. and 0.57%-6.03% p.a. as of September 30, 2007 and 2006, respectively	$ 302,017	$ 1,334,732
Overdraft - interest at 1.42%-2.515% p.a. and 1.34%-1.501% p.a. as of September 30, 2007 and 2006, respectively	357,836	2,881,752
Credit loans - interest at 1.045%-2.117% p.a. and 1.584%-1.660% p.a. as of September 30, 2007 and 2006, respectively	9,744,473	13,700,000
	$ 10,404,326	$ 17,916,484

As of September 30, 2007, the above credit loans included bank loan of ￥1.214 billion which was borrowed from Mizuho Corporate Bank and is repayable on November 14, 2007. The Corporation had obtained the refinancing for another long-term bank loan upon the repayment of the short-term bank loan. The Corporation borrowed the short-term bank loan in Japanese yen to hedge the exchange rate fluctuations on the investments in Yodogawa Steel Works, Ltd. (Note 6).

15. BONDS PAYABLE

	September 30, 2007	September 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 DEBT

	September 30, 2007	September 30, 2006
Repayable in July 2010 (AUD$16.54 million); floating rates at 7.0011% p.a. as of September 30, 2007	$ 478,511	$ -
Repayable in July 2010 (￥4.4 billion); floating rates at 0.8925% and 0.3525% p.a. as of September 30, 2007 and 2006, respectively	1,248,500	1,233,980
Repayable in December 2009 (￥2.6 billion); floating rates at 1.0906% and 0.594% p.a. as of September 30, 2007 and 2006, respectively	737,750	729,170
Repayable in July 2010 (￥2.2 billion); floating rates at 1.0396% and 0.6240% p.a. as of September 30, 2007 and 2006, respectively	624,250	616,990
Repayable in July 2010 (￥3.3 billion); floating rates at 1.3863% and 0.7719% p.a. as of September 30, 2007 and 2006, respectively	936,375	925,485
	4,025,386	3,505,625
Current portion	-	729,170
	$ 4,025,386	$ 2,776,455

The Corporation borrowed long-term bank loans in Japanese yen and Australian dollar to hedge the exchange rate fluctuations on the foreign-currency investments in East Asia United Steel Corporation, Maruichi Steel Tube Ltd., and CSC Australia Holdings Pty. Ltd. (Note 26).

17. RETIREMENT BENEFIT 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 nine months ended September 30, 2007 and 2006 was NT$18,852 thousand and NT$6,756 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 nine months ended September 30, 2007 and 2006 was NT $1,225,780 thousand and NT$1,064,541 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 nine months ended September 30, 2007 and 2006 was NT $3,104 thousand and NT $2,591 thousand, respectively.

18. DEFERRED CREDITS - GAIN ON INTERCOMPANY TRANSACTIONS

	September 30, 2007	September 30, 2006
Gain on disposal of land	$ 1,136,164	$ 1,136,164
Gain on contracted projects	130,949	11,571
	$ 1,267,113	$ 1,147,735

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

The Corporation 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 2007 and 2006, the Corporation through capitalization of retained earnings of NT$4,408,394 thousand and NT$5,077,800 thousand issued new common shares of 440,839 thousand, and 507,780 thousand, respectively.

From July to September 2007, 245 thousand shares of preferred stock were converted into common stock, and 147 thousand shares of which have not yet been registered with the government as of September 30, 2007.

b. Treasury stock

Purpose of Treasury Stock	Thousand Shares			September 30	
	Beginning of Period	Increase	Decrease	Thousand Shares	Book Value
Nine Months Ended September 30, 2007					
1) Shares acquired and held by subsidiaries	81,180	6,157	2,035	85,302	$ 1,402,492
2) Shares acquired by the Corporation for transfer to employees	1,600	-	-	1,600	39,531
	82,780	6,157	2,035	86,902	$ 1,422,023
Nine Months Ended September 30, 2006					
1) Shares acquired and held by subsidiaries	78,899	4,643	1,091	82,451	$ 1,303,413
2) Shares acquired by the Corporation for transfer to employees	300	1,300	-	1,600	39,531
	79,199	5,943	1,091	84,051	$ 1,342,944

1) Shares acquired and held by subsidiaries

The Corporation's shares acquired and held by subsidiaries were accounted for as treasury stock (recorded as financial assets in available-for-sale-current and financial assets in available-for-sale-noncurrent). For the nine months ended September 30, 2007 and 2006, treasury stock increased by 6,157 thousand shares and 4,643 thousand shares, respectively, due to the Corporation's capitalization of retained earnings and additional purchase made by subsidiaries; treasury stock decreased by 2,035 thousand shares and 1,091 thousand shares, respectively, due to subsidiaries' sales of the Corporation's shares and change in percentage of ownership. The difference between the sale prices (NT$86,658 thousand and NT$30,653 thousand for the nine months ended September 30, 2007 and 2006, respectively) and carrying values of NT$56,323 thousand and NT$12,976 thousand were credited to capital surplus.

As of September 30, 2007 and 2006, the market values of the treasury shares are NT$4,107,305 thousand and NT$2,349,863 thousand, respectively.

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. The stocks of the Corporation held by subsidiaries are treated as treasury stocks. The Corporation's shares held by subsidiaries with shareholdings over 50% is not allowed to participate in the Corporation's capital increase in cash and have no voting right; others have the same right as common stockholders.

c. Overseas depositary receipts

In May 1992, February 1997 and October 2003, the ROC's Ministry of Economic Affairs (MOEA) sold its holding shares in the Corporation through issuances of 88,329,150 units of Global Depositary Receipts (international GDR), with each unit representing 20 shares of the Corporation's common stock, or equivalent to the Corporation's common shares totalling 1,887,073,814 shares. The depositary shares then increased by 6,024,532 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 September 30, 2007, the outstanding depositary receipts were 12,601,052 units, equivalent to 252,021,192 common shares, which represented 2.19% 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:

	September 30, 2007	September 30, 2006
Treasury stock transaction	$ 1,585,605	$ 1,278,685
Long-term stocks investments under the equity method	243,119	219,015
Others	8,099	8,099
	$ 1,836,823	$ 1,505,799

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. Retained Earnings

Contents of the retained earnings are shown below:

	September 30	
	2007	**2006**
Legal Reserve	$ 39,589,333	$ 35,674,700
Special Reserve	7,615,701	8,444,993
Unappropriated	144,028	156,948
Net income for the nine months ended September 30	38,316,296	26,668,762
	$ 85,665,358	$ 70,945,403

The Corporation's stockholders, in their June 2007 and 2006 meetings, reversed special reserve from the earnings appropriations of 2006 and 2005 for NT$829,292 thousand and NT$22,347 thousand, respectively. As of September 30, 2007 the Corporation had fully reversed the special reserve under relevant regulations which accounted for the balance of deduction on stockholders' equity, and the unreversed special reserve was held for the capital demand of expanding construction.

g. 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 par value;

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 par value; and

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

The Board of Directors should propose the appropriation of annual 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.

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.

	Appropriations of earnings		**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		

h. Unrealized gain (loss) on financial instruments

Change in composition of unrealized gain (loss) on financial instruments for the nine months ended September 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
Nine Months Ended September 30, 2007			
Balance, beginning of period	$ 5,582,793	$ 1,950,944	$ 7,533,737
Recognized as adjustment of stockholders' equity	(163,207)	(301,604)	(464,811)
Balance, end of period	$ 5,419,586	$ 1,649,340	$ 7,068,926

(Continued)

	Available-for-sale Financial Assets	Adjustment of Equity in Investees due to Change in Percentage of Ownership	Total
Nine Months Ended September 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	537,176	2,328,137	2,865,133
Balance, end of period	$ 4,473,574	$ 1,881,654	$ 6,355,228

i. Cumulative translation adjustments

Change in composition of cumulative translation adjustments for the nine months ended September 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	Unrealized gain or loss on hedge of a net investment in a foreign operation	Foreign-currency Translation Adjustments on Financial Assets Carried at Cost	Total
Nine Months Ended September 30, 2007					
Balance, beginning of period	$ 33,714	$ (96,501)	$ -	$ -	$ (62,787)
Recognized as adjustment of stockholders' equity	(15,586)	325,567	(32,566)	-	277,415
Balance, end of period	$ 18,128	$ 229,066	$ (32,566)	$ -	$ 214,628
Nine Months Ended September 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	33,950	27,453	-	-	61,403
Balance, end of period	$ 39,010	$ (52,411)	$ -	$ -	$ (13,401)

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:

	Nine Months Ended September 30	
	2007	**2006**
Tax on pretax income at statutory rate	$ 11,669,369	$ 8,078,734
Add (deduct) tax effects of:		
Permanent differences		
Investment income under equity method – domestic	(2,051,969)	(1,845,858)
Gain on valuation appraisal of financial assets	(32,744)	(30,328)
Dividend	(82,098)	(68,001)
Tax-exempt income	(43,672)	-
Others	(61,288)	(8,464)
Temporary differences	242,277	153,412
Deduction of tax credits utilized	(1,032,793)	(591,323)
Income tax currently payable	8,607,082	5,688,712
Prior periods' adjustments	(41,537)	47,253
Separate income tax on interest income	37,913	26,338
Current income tax	$ 8,603,458	$ 5,761,763

The above tax-exempt income results from the following:

1) The tax exemption, for a period of five consecutive years from 2004 to 2008, on the increased income derived from the expansion of the Corporation through capitalization of its undistributed earnings and making its capital-increase plan within the scope of the newly emerging, important and strategic industries as set forth in the Statute of Upgrading industries, and

2) The tax exemption on the investment income received in 2007 from its affiliates abroad for the establishment of the Corporation's operation headquarters within the territory of the Republic of China as set forth in the Statute for Upgrading Industries.

b. Income tax was as follows:

	Nine Months Ended September 30	
	2007	**2006**
Current income tax	$ 8,603,458	$ 5,761,763
Deferred income tax benefit – mainly temporary differences	(242,277)	(153,412)
	$ 8,361,181	$ 5,608,351

c. Changes in income tax payable

	Nine Months Ended September 30	
	2007	**2006**
Balance, beginning of period	$ 5,682,534	$ 7,578,477
Current income tax	8,603,458	5,761,763
Payment in current period	(5,701,634)	(7,670,983)
Balance, end of period	$ 8,584,358	$ 5,669,257

d. Deferred income tax assets and liabilities

	September 30, 2007	September 30, 2006
Current		
Deferred income tax assets		
Unrealized gain on intercompany transactions	$ 93,840	$ 59,605
Severance pay	59,525	52,996
Accrued electrostatic precipitator dust disposal expense	16,755	31,934
Allowance for inventory obsolescence loss	62,590	-
Others	22,538	63,749
	255,248	208,284
Deferred income tax liabilities		
Temporary difference between tax reporting and financial reporting - inventory	(18,095)	(25,731)
	237,153	182,553
Noncurrent		
Deferred income tax assets		
Impairment loss on financial assets	379,822	240,000
Impairment loss on rental assets	64,916	89,384
Cumulative effect of changes in accounting principles	64,547	64,547
Unrealized gain on intercompany transactions	32,738	1,547
Others	7,893	1,262
	549,916	396,740
Deferred income tax liabilities		
Foreign investment income	(434,832)	(384,345)
Temporary difference between tax reporting and financial reporting - depreciation methods	(2,590,050)	(2,716,488)
Unrealized foreign exchange gain	(64,409)	(60,623)
	(3,089,291)	(3,161,456)
	(2,539,375)	(2,764,716)
Total deferred income tax liabilities - net	$ (2,302,222)	$ (2,582,163)

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

	Balance, Beginning of Period	Recognized under Income Statements	Balance, End of Period
Nine Months Ended September 30, 2007			
Temporary difference			
Difference between tax reporting and financial reporting – depreciation methods	$ (2,710,265)	$ 120,215	($ 2,590,050)
Foreign investment income	(394,568)	(40,264)	(434,832)
Impairment loss on financial assets	300,000	79,822	379,822
Unrealized gain on intercompany transactions	89,353	37,225	126,578
Unrealized foreign exchange gain	(66,554)	2,145	(64,409)
Severance pay	65,249	(5,724)	59,525
Others	172,286	48,858	221,144
	$ (2,544,499)	$ 242,277	$ (2,302,222)

(Continued)

	Balance, Beginning of Period	Recognized under Income Statements	Balance, End of Period
Nine Months Ended September 30, 2006			
Temporary difference			
Difference between tax reporting and financial reporting – depreciation methods	$ (2,893,576)	$ 117,088	$ (2,716,488)
Foreign investment income	(323,235)	(61,110)	(384,345)
Impairment loss on financial assets	240,000	-	240,000
Unrealized gain on intercompany transactions	95,905	(34,753)	61,152
Unrealized foreign exchange gain	(89,037)	28,414	(60,623)
Severance pay	57,657	(4,661)	52,996
Others	112,164	112,981	225,145
	$ (2,800,122)	$ 217,959	$ (2,582,163)

Under related regulations, the above tax credits arising 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 mainly 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

	September 30, 2007	September 30, 2006
Balance of the imputation credit account (ICA)	$ 1,121,992	$ 69,926
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 September 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

	Nine Months Ended September 30							
	2007				2006			
	Cost of Revenues	Operating Expense	Others	Total	Cost of Revenues	Operating Expense	Others	Total
Personnel Expenditures								
Salary	$ 11,286,546	$ 1,802,698	$ 75,563	$ 13,164,807	$ 9,750,875	$ 1,603,029	$ 144,122	$ 11,498,026
Labor and health insurance	433,307	65,778	508	499,593	437,013	67,682	1,491	506,186
Pension and consolation	1,076,052	196,869	79,983	1,352,904	922,911	178,447	113,258	1,214,616
Others	453,392	65,733	3,833	522,958	338,393	51,643	49,284	439,320
	$ 13,249,297	$ 2,131,078	$ 159,887	$ 15,540,262	$ 11,449,192	$ 1,900,801	$ 308,155	$ 13,658,148
Depreciation	$ 8,422,523	$ 261,608	$ 22,084	$ 8,706,215	$ 6,650,517	$ 162,173	$ 20,650	$ 6,833,340
Amortization	425,030	26,740	2,370	454,140	364,044	868	3,218	368,130

22. EARNINGS PER SHARE

	Nine Months Ended September 30			
	2007		2006	
	Before Tax	After Tax	Before Tax	After Tax
Basic EPS				
Net income before cumulative effect of changes in accounting principles	$ 4.09	$ 3.36	$ 2.83	$ 2.34
Cumulative effect of changes in accounting principles	-	-	(0.01)	(0.01)
Net income	$ 4.09	$ 3.36	$ 2.82	$ 2.33
Diluted EPS				
Net income before cumulative effect of changes in accounting principles	$ 4.08	$ 3.35	$ 2.82	$ 2.33
Cumulative effect of changes in accounting principles	-	-	(0.01)	-
Net income	$ 4.08	$ 3.35	$ 2.81	$ 2.33

	Amount (Numerator)		Shares (Denominator) (Thousand)	Earnings Per Share (Dollars)	
	Before Tax	After Tax		Before Tax	After Tax
Nine Months Ended September 30, 2007					
Net income	$ 46,677,477	$ 38,316,296			
Less: Preferred dividends	(51,720)	(42,456)			
Basic EPS					
Net income of common Stockholders	46,625,757	38,273,840	11,407,950	$ 4.09	$ 3.36
Effect of potentially dilutive shares:					
Add: Preferred dividends	51,720	42,456	40,434		
Diluted EPS					
Net income of common stockholders and effect of potentially dilutive shares	$ 46,677,477	$ 38,316,296	11,448,384	4.08	3.35
Nine Months Ended September 30, 2006					
Net income	$ 32,212,566	$ 26,668,762			
Less: Preferred dividends	(51,705)	(42,732)			
Basic EPS					
Net income of common Stockholders	32,160,861	26,626,030	11,410,583	2.82	2.33
Effect of potentially dilutive shares:					
Add: Preferred dividends	51,705	42,732	40,697		
Diluted EPS					
Net income of common stockholders and effect of potentially dilutive shares	$ 32,212,566	$ 26,668,762	11,451,240	2.81	2.33

In EPS calculation for the nine months ended September 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$2.93 to NT$2.82 and from NT$2.43 to NT$2.33, respectively.

23. RELATED PARTY TRANSACTIONS

a. Related parties and their relationship with the Corporation

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 (CSGT)	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

(Continued)

Related Parties	Relationship with the Corporation
Pao Good Industrial Co., Ltd.	Indirect investee under Corporation's substantial control
Savecom International Inc.	Indirect investee under Corporation's substantial control
Ornasteel Enterprise Corp. (M) Sdn. Bhd. (OEC)	Indirect investee under Corporation's substantial control
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
Golden Fame Investments Limited	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 (Since July 2007, it is no longer as the Corporation's related party.)
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 transactions with related parties:

	Nine Months Ended September 30			
	2007		2006	
	Amount	%	Amount	%
Sales				
OEC	$ 3,198,981	2	$ 1,355,227	1
CSSC	2,556,052	2	2,103,198	2
CSCC	1,697,925	1	1,337,101	1
CHSC	818,688	1	3,208,571	3
Others	2,380,768	1	1,554,289	1
	$ 10,652,414	7	$ 9,548,386	8

(Continued)

	Nine Months Ended September 30			
	2007		2006	
	Amount	%	Amount	%
Purchases (inclusive of shipping charges)				
CSEP	$ 13,399,743	18	$ -	-
CAC	3,031,624	4	2,121,231	4
CSE	2,883,314	4	8,475,230	14
CSGT	261,559	-	399,096	1
Others	518,057	1	444,874	1
	$ 20,094,297	27	$ 11,440,431	20

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 Nine Months Ended September 30	
	Expiry of Contracts	2007	2006
CAC	February 2016	$ 41,404	$ 35,467
CSMC	November 2011	22,417	18,410
CSCC	December 2010	15,239	14,117
CSSC	May 2018	11,778	11,778
CHC	April 2012	4,165	3,683
Others	April 2009	5,792	5,423
		$ 100,795	$ 88,878

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 and operating expenses as follows:

	Nine Months Ended September 30	
	2007	2006
CSMC	$ 2,148,374	$ 1,322,153
CEC	1,786,359	1,714,650
CHC	533,058	492,080
CSSC	378,348	835,665
USECC	313,796	506,337
Others	1,280,835	1,007,764
	$ 6,440,770	$ 5,878,649

Donation expenditures

For the nine months ended September 30 2007, the Corporation donated NT$4,000 thousand to CSC Educational Foundation. This foundation is established for promotion of education and personnel training in steel and related fields.

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.

	Nine Months Ended September 30	
	2007	2006
KRTC	$ 1,299,102	$ 1,187,632
DSC	319,266	149,710
CHSC	263,005	254,541
CAC	205,705	184,961
Others	288,748	264,663
	$ 2,375,826	$ 2,041,507

c. Balances at period-end

	September 30, 2007		September 30, 2006	
	Amount	%	Amount	%
Receivables				
KRTC	$ 251,363	7	$ 224,731	7
CSCC	206,663	5	148,850	5
OEC	173,596	5	21,306	1
DSC	81,877	2	58,069	2
CHSC	14,989	-	400,807	13
Others	151,924	4	126,374	3
	$ 880,412	23	$ 980,137	31
Payables				
CSEP	$ 987,956	35	$ -	-
CSE	331,002	12	518,287	18
CAC	218,417	7	159,062	5
CSGT	20,563	1	106,120	4
Others	50,549	2	57,653	2
	$ 1,608,487	57	$ 841,122	29

24. PLEDGED ASSETS

a. Pledged time deposits of NT$4,181,694 thousand and NT$4,631,694 thousand as of September 30, 2007 and 2006, respectively, have been placed mainly as collateral for bank overdraft and deposits for renting lands, etc.

b. The Corporation provided machinery and equipment with carrying values of NT$2,504,304 thousand as of September 30, 2006, as collaterals for long-term credit lines with banks. The collaterals were canceled in January 2007.

25. COMMITMENTS AS OF SEPTEMBER 30, 2007

a. The Corporation engaged in several construction contracts, under guarantees of NT$1,071,436 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 NT$9.6 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. Unpurchase amounts as of September 30, 2007 were US$10.5 billion (including 29,300,000 metric tons of coal, 150,000,000 metric tons of iron ore and 3,700,000 metric tons of limestone).

d. CHSC entered into a syndicated credit facility agreement with The Mega International Commercial Bank and 22 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 September 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 24 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 September 30, 2007, the Corporation's total equity in KRTC was 31%.

f. In September 2007, the Corporation bought land from CHC for construction of its factories. The contract price is a total of NT$977,257 thousand, which is determined by reference to the appraisal report. The Corporation prepaid parts of the price and relevant expenses of NT$80,487 thousand in October 2007.

26. FINANCIAL INSTRUMENTS

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

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

	September 30, 2007		September 30, 2006	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
Assets				
Financial assets at fair value through profit or loss	$ 430,024	$ 430,024	$ 4,509,142	$ 4,509,142
Available-for-sale financial assets	7,750,286	7,750,286	6,694,717	6,694,717
Financial assets carried at cost	6,131,425	-	6,074,771	-
Bond investments with no active market	5,038,926	5,038,926	5,881,374	5,881,374
Refundable deposits	141,566	141,566	101,938	101,938
Liabilities				
Bonds payable	13,700,000	13,580,001	13,100,000	13,401,282
Long-term bank debts	4,025,386	4,025,386	3,505,625	3,505,625

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 bond investments with no active market is determined at their carrying values.

6) Financial assets carried at cost are financial instruments held by non-public corporations which do not have active market price 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 active market price or valuation technique were as follows:

	Amount Determined by Active Market Price		**Amount Determined by Using Valuation Technique**	
	September 30, 2007	**September 30, 2006**	**September 30, 2007**	**September 30, 2006**
Assets				
Financial assets at fair value through profit or loss	$ 430,024	$ 4,509,142	$ -	$ -
Available-for-sale financial assets	7,499,536	6,443,967	250,750	250,750

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

e. As of September 30, 2007 and 2006, cash flow risks of interest rate changes on financial assets were NT$250,750 thousand and on financial liabilities were NT$14,429,712 thousand and NT$21,422,109 thousand, respectively. The financial liabilities with fair value risks of interest rate changes were NT$13,700,000 thousand and NT$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 NT$509,168 thousand and NT$437,294 thousand, respectively, for the nine months ended September 30, 2007 and NT$252,020 thousand and NT$422,257 thousand, respectively, for the nine months ended September 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 NT$496,184 thousand.

The Corporation's investments in the bond funds and stocks of Taiwan Semiconductor Manufacturing Company Ltd., Maruichi Steel Tube Ltd., Yodogawa Steel Work, Ltd. 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 NT$1 each time, the fair value will increase or decrease by NT$103,609 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 September 30, 2007 and 2006, the Corporation's credit risks amounted to NT$3,519,793 thousand and NT$1,852,093 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 NT$3,842,751 thousand and NT$3,379,412 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 interest rate risk

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 NT$141,790 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., Yodogawa Steel Works, Ltd. and CSC Australia Holdings Pty. Ltd.

Hedge Type	Hedged Item	Designated Hedging Instrument Financial Instrument	Changes of Fair Value Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Fair value hedge	Stock investments in Maruichi Steel Tube Ltd.	Long-term bank loans in YEN	$ (25,090)	$ 1,950
Fair value hedge	Stock investments in East Asia United Steel Corporation	Long-term bank loans in YEN	(95,535)	7,425
Fair value hedge	Stock investments in Yodogawa Steel Works, Ltd.	Short-term bank loans in YEN	4,917	-
Hedge of a net investment in a foreign operation	Stock investment in CSC Australia Holdings Pty. Ltd.	Short-term bank loans in AUD	(32,566)	-

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