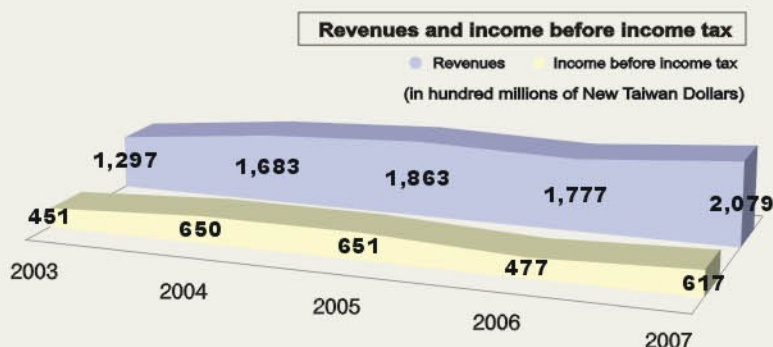


TWO-YEAR HIGHLIGHTS OF OPERATING RESULTS



	2007	2006
Revenues (Millions of New Taiwan Dollars)	207,919	177,658
Operating costs	159,042	139,940
Income from operations	48,716	37,745
Income before income tax	61,652	47,679
Employment costs ¹	20,770	19,022
Depreciation	11,460	9,086
Interest expenses net ¹	(99)	198
Total assets	281,941	265,627
Capital expenditures	16,077	16,745
Stockholders' equity	222,655	203,533
Output of steel products (Thousands of metric tons)	10,189	9,945
Sales volume of steel products	10,440	10,225
Number of employees ²	9,065	9,071
Return on sales (%)	29.65	26.84
Return on stockholders' equity ³	24.06	19.57

¹ Excluding capitalized expenses

² As of the end of the calendar year

³ Based on net income

CHRONOLOGY OF MAJOR EVENTS



- | | |
|---------------------------|--|
| December 3, 1971 | China Steel Corporation ⁴ is officially registered, with head office located in Taipei. |
| September 16, 1972 | Kaohsiung Plant Site Office is established. |
| September 1, 1974 | Phase I construction commences. |
| December 26, 1974 | CSC stock is listed on Taiwan Stock Exchange. |
| September 15, 1975 | Head office relocates to Kaohsiung. Plant Site Office closes. |
| July 1, 1977 | CSC becomes a state enterprise. |
| December 16, 1977 | Phase I is completed, with capacity ⁵ of 1.5 million tons ⁶ per year. |
| July 1, 1978 | Phase II construction commences. |
| June 30, 1982 | Phase II is completed. Capacity ⁴ reaches 3.25 million tons ⁶ per year. |
| July 1, 1984 | Phase III construction commences. |
| April 30, 1988 | Phase III is completed. Capacity ⁵ reaches 5.652 million tons ⁶ per year. |
| July 15, 1993 | Phase IV construction commences. |
| April 12, 1995 | CSC is privatized. |
| May 31, 1997 | Phase IV is completed. Capacity ⁵ reaches 8.054 million tons ⁶ per year. |
| June 2, 1998 | CSC Group's corporate identity system is formally introduced to the public. |
| October 7, 1998 | Cumulative steel production ⁵ breaks the 100 million-ton ⁶ mark. |
| November 22, 2006 | Groundbreaking for the CSC group headquarters building takes place. |
| February 20, 2008 | Cumulative steel production ⁵ breaks the 200 million-ton ⁶ mark. |

⁴ Hereinafter also referred to as "the Corporation" or "CSC".

⁵ In terms of crude steel.

⁶ All references to "tons" mean metric tons of 1,000 kilograms.

OVERVIEW OF THE BUSINESS SITUATION



Chairman and CEO Wen-Yuan Lin

Wen-Yuan Lin

Figures published by UN/DESA⁷ in January 2008 indicate a growth of world output of 3.7% for the year 2007, slightly lower than the 3.9% for 2006. Our government's DGBAS⁸ published our country's economic growth for 2007 to be 5.7%, an improvement over and above the 4.9% of the previous year. In the global steel market the European Union and the U.S. witnessed a period of adjustment of demand and production during the second half of 2007 while steel prices continued to undergo adjustment. China's steel production in the entire year of 2007 surpassed that of 2006, but experienced declines each quarter during 2007, and steel prices became firm and heading up. Taiwan's steel prices showed a quarterly steady upward trend. Prices of semis kept hovering at high levels and imports were sharply curtailed. Both production and apparent consumption of finished steel fell below the 2006 levels.

CSC's 2007 revenues were NT\$207,919 million, breaking the NT\$200 billion mark for the first time in the company's history, while income before income tax reached NT\$61,652 million, representing increases of 11.6% and 29.3% respectively over those of 2006. Principal causes are the vigorous steel market and price improvements quarter after quarter. The growing demand was successfully fulfilled by CSC with production at full capacity. Sales volume shot upward. Operating costs in 2007 were NT\$159,042 million, or 13.65% over those of 2006. Principal causes were: increased sales volume, skyrocketing of coal and iron ore prices and depreciation costs

due to the introduction of new production lines.

As to our progress in proceeding along our 2007 operating directions⁹

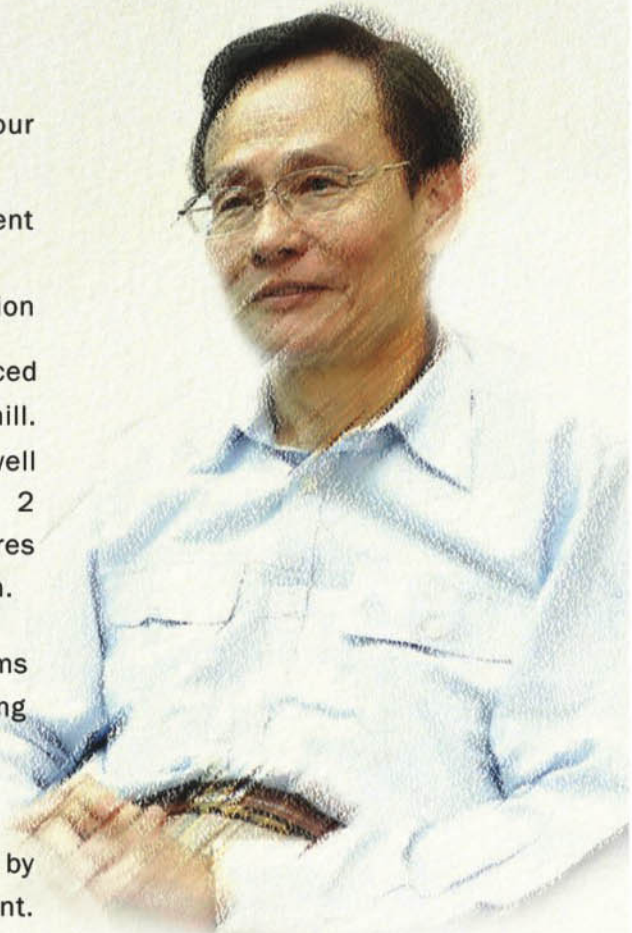
- Launch our NT\$200 billion investment program
- Toward 20 million-ton annual production

major equipment procurement has been commenced for the new wire rod mill and No.3 cold rolling mill. Stage II phase 1 expansion of Dragon Steel is well under way. Environmental evaluation of phase 2 expansion is undergoing the review procedures at the Environmental Protection Administration.

- Faithfully implement our safety programs
- Protect our environment while reaping benefits from energy savings and waste reduction

CSC actively urges its contractors to abide by the requirements of industrial safety management. It also helps them to establish their capability for self-management, with the result that there was no major occupational accident during 2007. Introduction of equipment and technology in energy saving and waste reduction, plus improvements in the production process, constitute CSC's concerted effort in energy saving.

- All-out R&D effort
- Upgrade ourselves as well as our customers



President Yuan-Cheng Chen

A stylized, cursive handwritten signature in black ink, reading 'y.c.chen'.

CSC continues to promote R&D alliances with the related industries, to join efforts in nurturing the key core technologies and to assist downstream industries to grow and upgrade together. As of the end of 2007, eight such alliances have been formed.

As to the outlook for 2008, UN/DESA predicts a moderate growth of world output at 3.4%.

The IISI¹⁰ predicts the growth of global apparent consumption of finished steel in 2008 to be 6.8%, same as the growth predicted for 2007. Among the geographic sectors, China's growth will exceed the rate predicted for 2007, while the EU, NAFTA¹¹ and India will grow at a lower rate than the predicted 2007 rates. Owing to increased raw material costs, the trend toward merger and consolidation, and China's measures in raising its steel export duty, supply of steel is expected to diminish and uphold the price of steel worldwide.

As for Taiwan's domestic situation, petroleum product price increases are expected to become moderate, interest rates to be adjusted downward, and impact of sub-prime mortgages in the U.S. to be diminishing. Such developments will lead to higher demand for steel products among the downstream industries. This has caused the TSIA¹² to predict the growth of Taiwan's apparent consumption of finished steel for 2008 to be 3.6%. As for the supply side, owing to insignificant increase in Taiwan's steel producing capacity, supply is predicted to be only slightly higher than that of 2007.

Facing the above extrinsic environment CSC has re-adjusted its mid- and long-term development strategy. Operating direction for 2008 is set at

- Continue pushing forward the NT\$200 billion investment and 20 million-ton annual capacity projects
- Integrate production and sales among the related members of the CSC Group
- Deepen the R&D alliances
- Leadership in industry-wide upgrading
- Proceed with re-engineering of work flow
- All-out endeavor for efficiency and cost reduction

Major activities are:

- (1) Looking ahead to the day when the annual production capacity of the CSC Group will reach 20 million tons, CSC is actively working toward the integration of the production/sales functions of all the steel-related members of the CSC Group in order to open up new sales channels and consolidate its advantageous competitive position.
- (2) Through R&D alliances CSC assists downstream customers to raise their competitiveness and to build up a mechanism for co-existence and co-prosperity.
- (3) Carry on the spirit of the former “1020 Cost Reduction Movement”, continue to improve the production/sales work flow and push forward the “save energy, reduce waste—down goes the cost” activities. Efficiency improvement and cost suppression are expected to net more than NT\$10,000 million for CSC in three years beginning 2008.

CSC's entire workforce will exert concerted effort toward the above direction to preserve its high degree of profitability and level of performance and to create the maximum benefit for the Corporation and its stockholders.

⁷ Department of Economic and Social Affairs of the United Nations Secretariat

⁸ Directorate General of Budget, Accounting, and Statistics

⁹ Please refer to footnote 10 on page 6 of CSC's 2006 Operation Report (English version) for more information.

¹⁰ International Iron and Steel Institute (Basis : figures published in October 2007.)

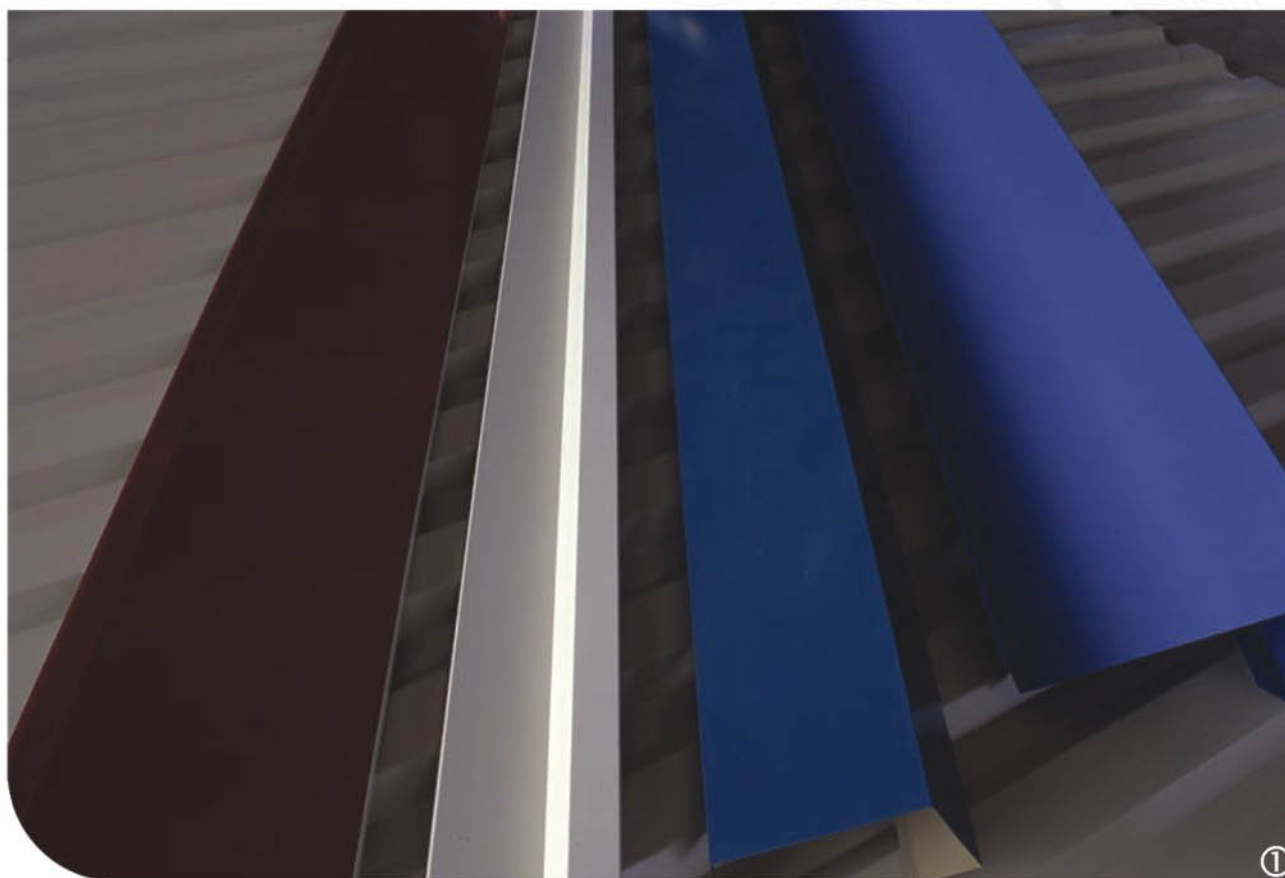
¹¹ North American Free Trade Area

¹² Taiwan Steel and Iron Industries Association

PRODUCTION AND SALES

Sales volume during 2007 was 10,440 thousand tons, 2.1% over the corresponding figure for 2006. Domestic sales accounted for 75.3%, and export for the remaining 24.7%. Major domestic customer groups in 2007 were re-rollers (24.7% of the domestic shipments), service centers (16.5%), direct users (15.5%), nuts and bolts makers (9.6%), steel piping (7.6%), vehicles (6.4%) and steel structures (5.9%). As to the export destinations, Hong Kong (including China) took the largest share (35.1% of the export shipments). This is followed by Northeast Asia (33.6%), Southeast Asia (25.9%) and other destinations (5.4%).

Production of hot metal and liquid steel was smooth in 2007, amounting to 10,518 thousand tons of the former and 11,256 thousand tons of the latter. Both were record highs. Rolling operations met the needs from a thriving steel market, and fulfilled the customers' orders by all-out operation. Production of finished steel products totaled 10,189 thousand tons, exceeding the targeted volume in CSC's production plans.



① Color coated steel sheets

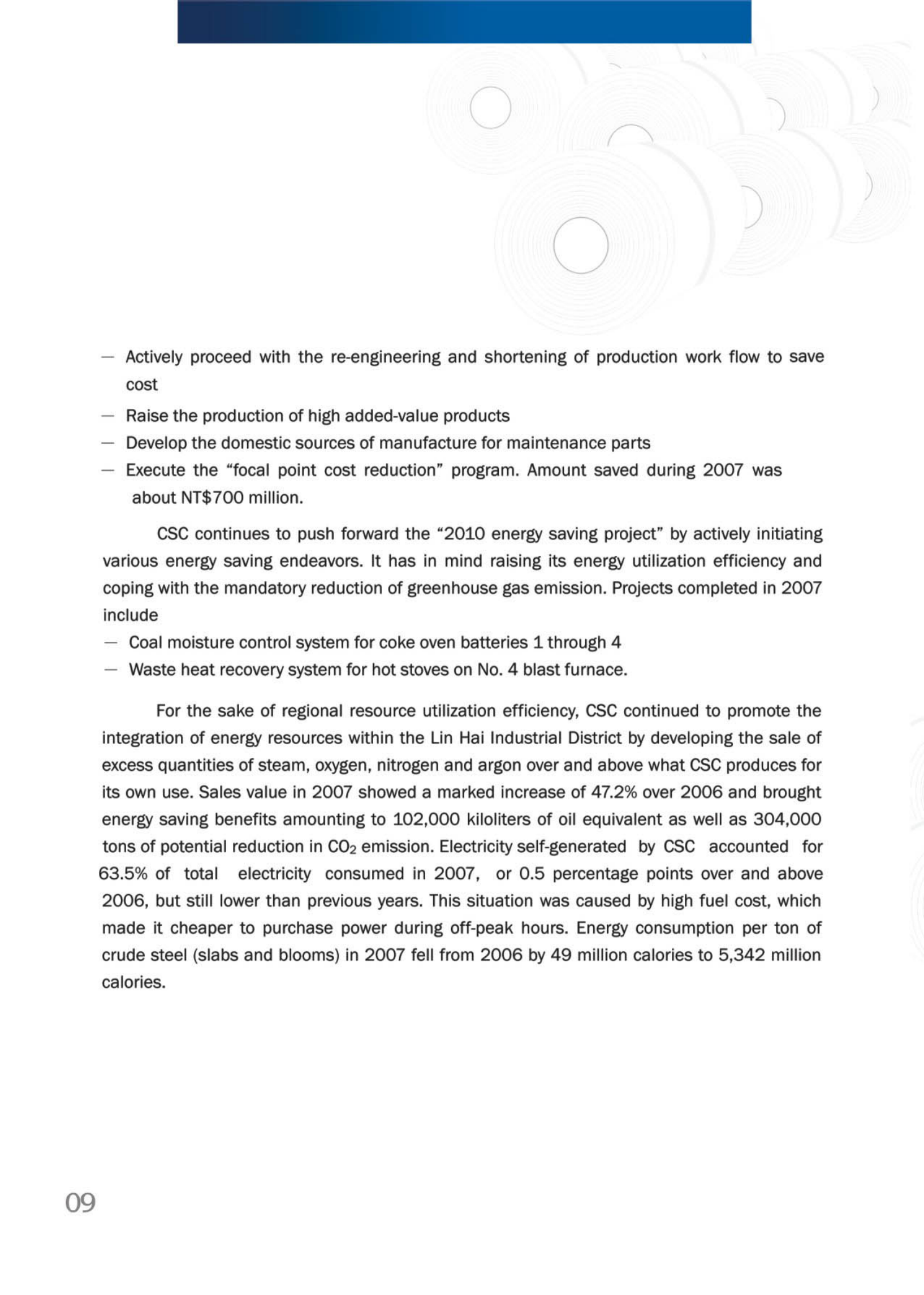
② Cold rolled steel sheets in coils



After successive skyrocketing rises in 2004 and 2005, coal prices fell in 2006 owing to sustained increase in production. Ranges of decline varied between 7% and 35%. However inadequate capacities of Australian railroad and loading ports resulted in continued tight coal supply. As to iron ore, output and sales restrictions imposed by the mining companies enabled them to raise the prices of lump and fine ore by 10% in 2007 after successive yearly skyrocketing price hikes between 2004 and 2006. Fortunately supply and demand were quite steady. Price of pellets fell by 3% in 2006 owing to excessive price hikes in 2005. However demand rose in 2007, causing a sustained tight supply and a 5% price rise over 2006. Flux material prices in 2007 rose by about 7% over 2006. Supply and demand were steady.

Price rises of raw materials, ferroalloys and rising freight rates saddled CSC with substantial burdens of material cost increases over and above the 2006 levels. CSC met this challenge with the following countermeasures:


- Strengthen maintenance to maintain smooth production and reduce costly emergency repairs

- 
- Actively proceed with the re-engineering and shortening of production work flow to save cost
 - Raise the production of high added-value products
 - Develop the domestic sources of manufacture for maintenance parts
 - Execute the “focal point cost reduction” program. Amount saved during 2007 was about NT\$700 million.

CSC continues to push forward the “2010 energy saving project” by actively initiating various energy saving endeavors. It has in mind raising its energy utilization efficiency and coping with the mandatory reduction of greenhouse gas emission. Projects completed in 2007 include

- Coal moisture control system for coke oven batteries 1 through 4
- Waste heat recovery system for hot stoves on No. 4 blast furnace.

For the sake of regional resource utilization efficiency, CSC continued to promote the integration of energy resources within the Lin Hai Industrial District by developing the sale of excess quantities of steam, oxygen, nitrogen and argon over and above what CSC produces for its own use. Sales value in 2007 showed a marked increase of 47.2% over 2006 and brought energy saving benefits amounting to 102,000 kiloliters of oil equivalent as well as 304,000 tons of potential reduction in CO₂ emission. Electricity self-generated by CSC accounted for 63.5% of total electricity consumed in 2007, or 0.5 percentage points over and above 2006, but still lower than previous years. This situation was caused by high fuel cost, which made it cheaper to purchase power during off-peak hours. Energy consumption per ton of crude steel (slabs and blooms) in 2007 fell from 2006 by 49 million calories to 5,342 million calories.



In the realm of Total Quality Management System, CSC practices strictly Internal Quality Management, and maintains ISO/TS 16949 and ISO 9001 certifications. To fall into line with the revision of the Japanese Industrial Standardization Law, CSC filed applications in 2007 for certification of JIS mark for seven specifications. They are:

G3101 (rolled steels for general structures)

G3106 (rolled steels for welded structures)

G3131 (hot-rolled mild steel coils)

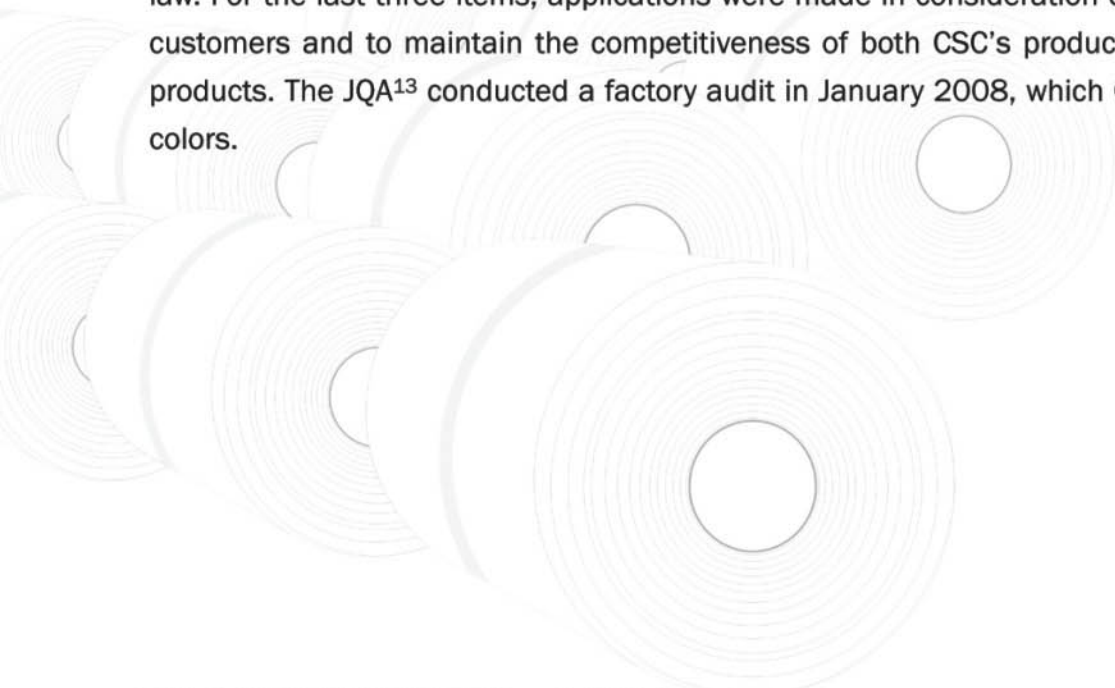
G3141 (cold-rolled steel coils)

G3103 (carbon steel and molybdenum alloy steel plates for boilers and pressure vessels)

G3136 (rolled steels for building structure)

G3302 (hot-dip zinc coated steel coils)

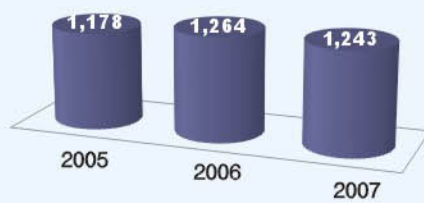
CSC already holds certifications for the first four items under the old standardization law. For the last three items, applications were made in consideration of requests from CSC's customers and to maintain the competitiveness of both CSC's products and the customers' products. The JQA¹³ conducted a factory audit in January 2008, which CSC passed with flying colors.



¹³ Japan Quality Assurance Organization

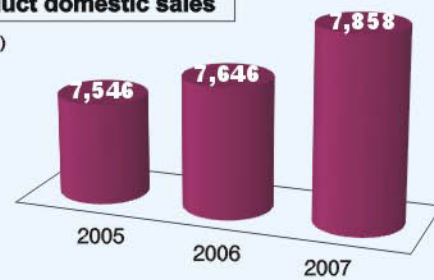
**Output per employee
in terms of crude steel**

(in tons)



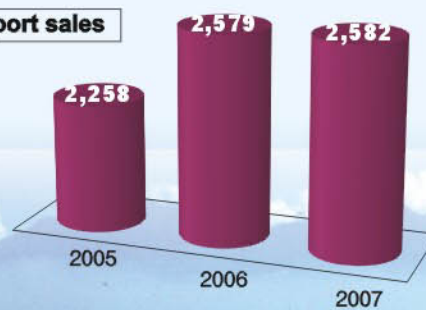
Steel product domestic sales

(in thousand tons)

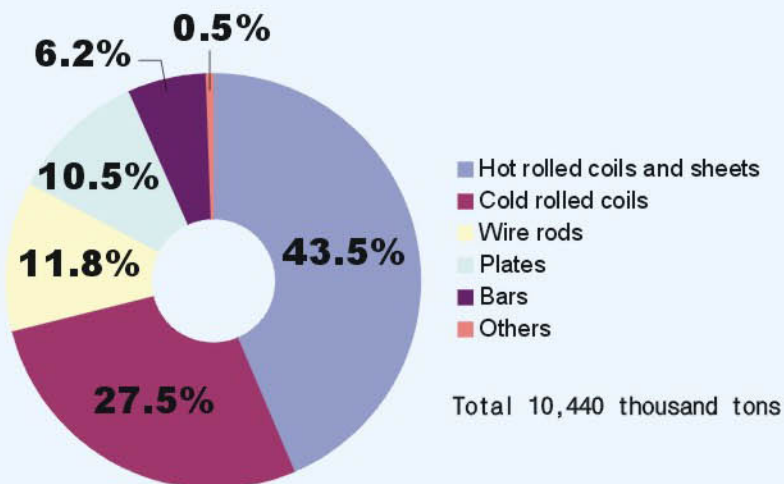


Steel product export sales

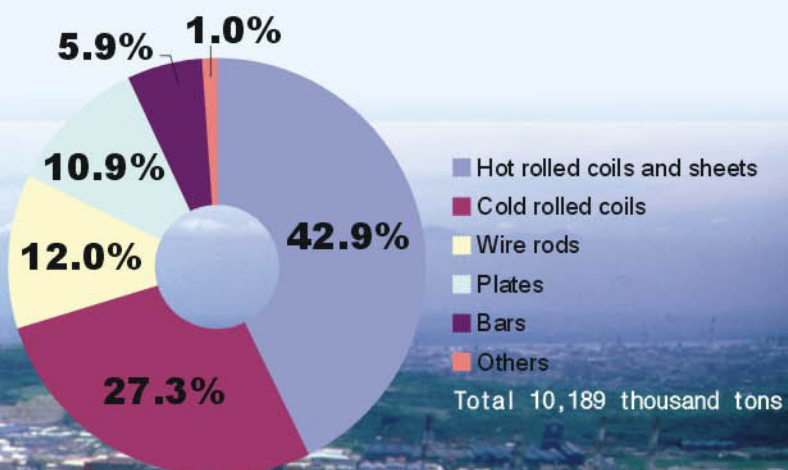
(in thousand tons)



Percentage of steel sales volume by product, 2007

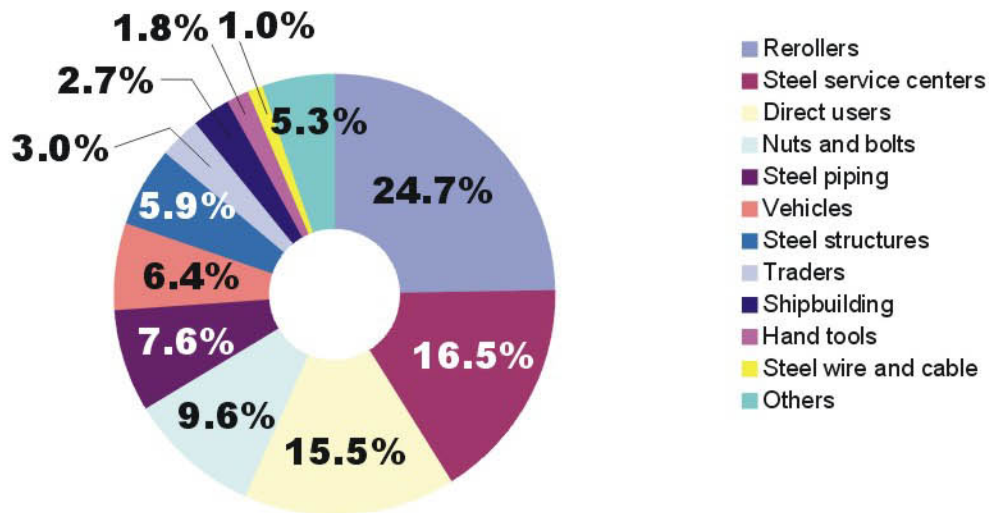


Percentage of steel production volume by product, 2007



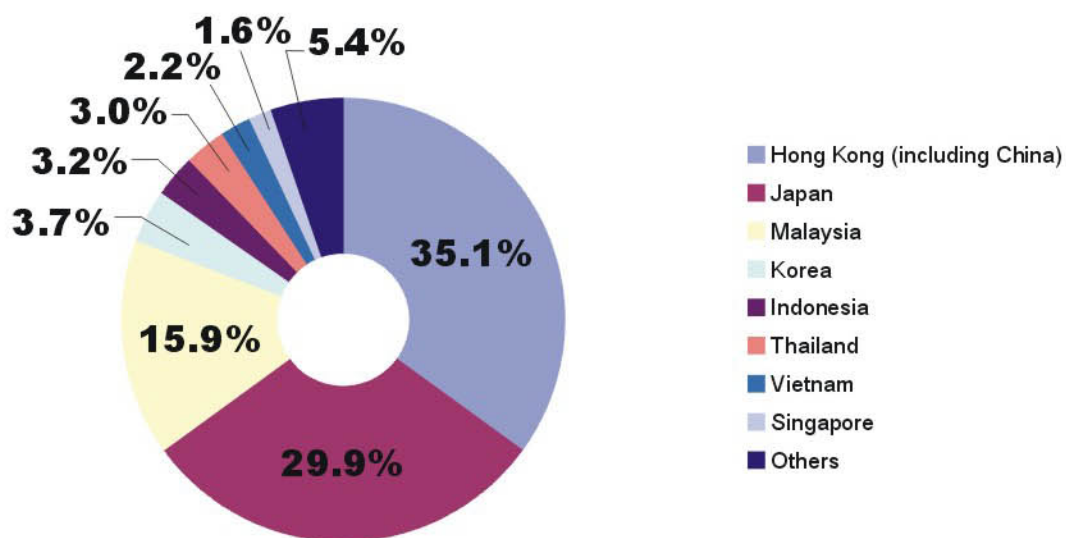
Percentage of domestic sales by industry, 2007

Total 7,858 thousand tons

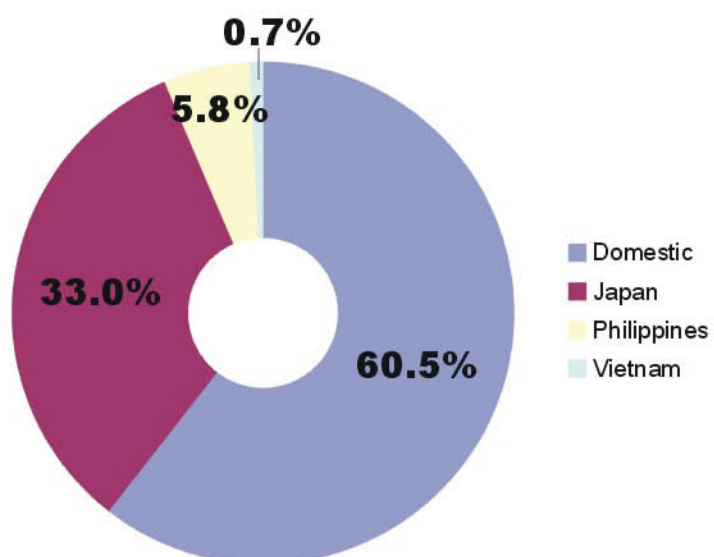


Percentage of export by region, 2007

Total 2,582 thousand tons

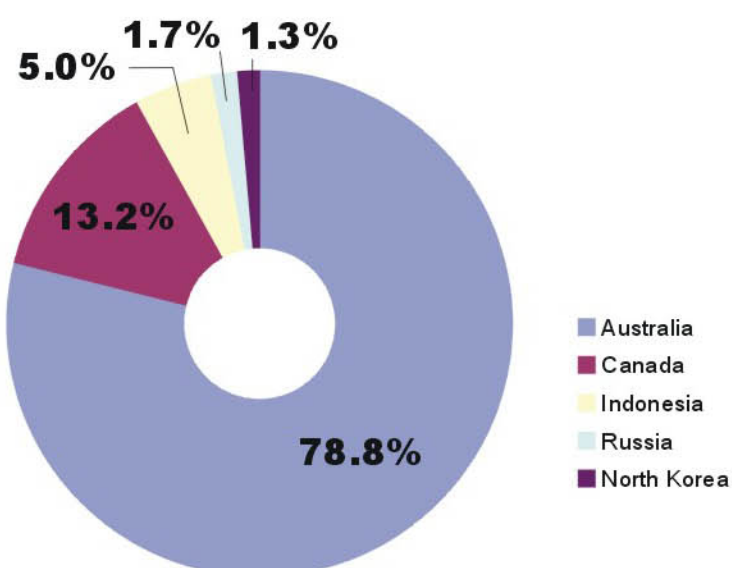


Sources of flux materials, 2007



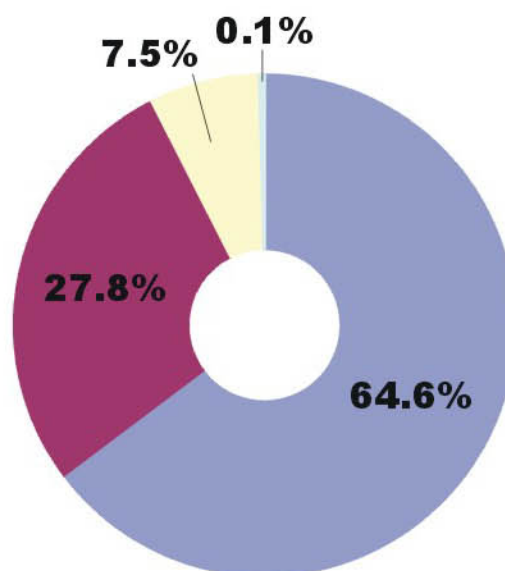
Total 3,718 thousand tons

Sources of coking coal, 2007

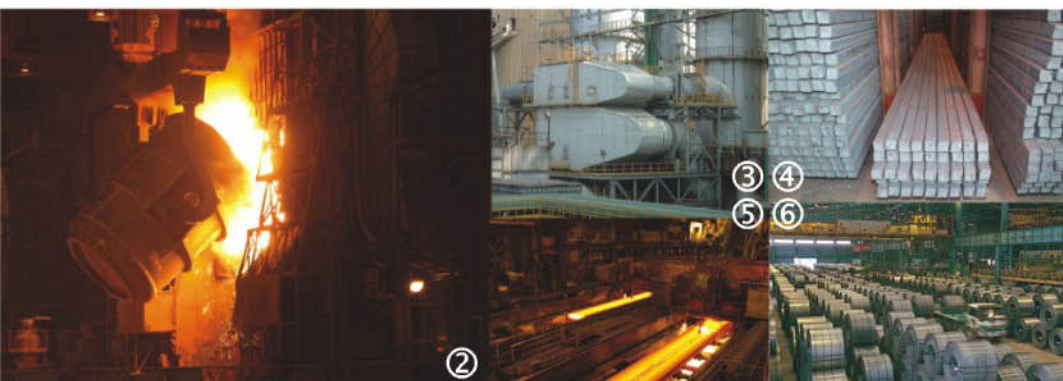


Total 8,536 thousand tons

Sources of iron ore, 2007



Total 17,022 thousand tons



- ② Basic oxygen furnace steelmaking
- ③ Waste heat recovery facilities on the hot stoves of No.4 blast furnace
- ④ Steel billets
- ⑤ Torch cutting of continuous cast steel slabs
- ⑥ Hot rolled steel sheets in coils

RESEARCH AND DEVELOPMENT (R&D)

CSC accomplished brilliant achievements in all sectors of R&D in 2007: product development, product improvement, process improvement and development of in-house equipment technology.

Product development: 23 items; the principal items of which are:

- development of GA 780Y hot-dip galvanized dual phase steel
- development of 50CS350 electrical steel sheet
- development of EH40 high strength plate for ships.

Product improvement: 16 items; the principal items of which are:

- improvement of spot weld-ability of advanced high strength plates
- solving the problem of scale looseness on thick hot-rolled steel coils
- solving the problem of rolled-in object marks on electro-galvanized steel.

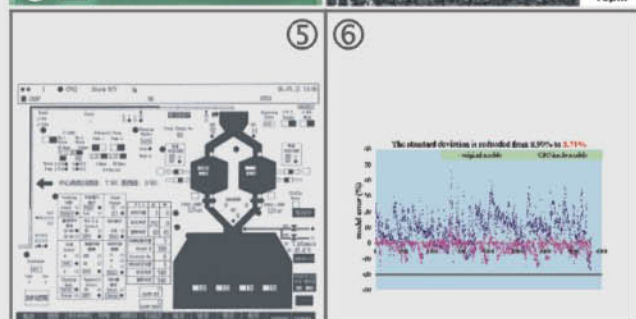
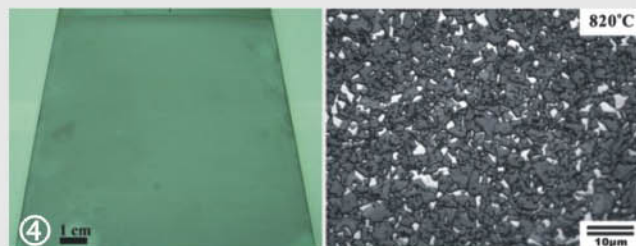
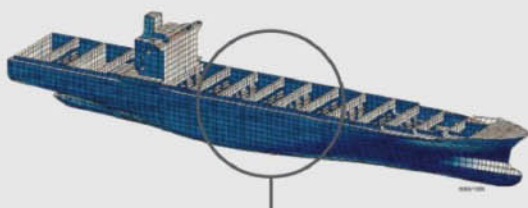
Process improvement: 30 items; the major ones are:

- reduction of dioxin from the sintering process
- continuous temperature measurement for hot metal in the runner during tapping
- tundish sealing effectiveness monitoring
- improved power generation efficiency of blast furnace top-pressure turbo-generator.



Development of in-house equipment technology: developed 29 items of equipment technology and process monitoring and diagnosis systems, including:

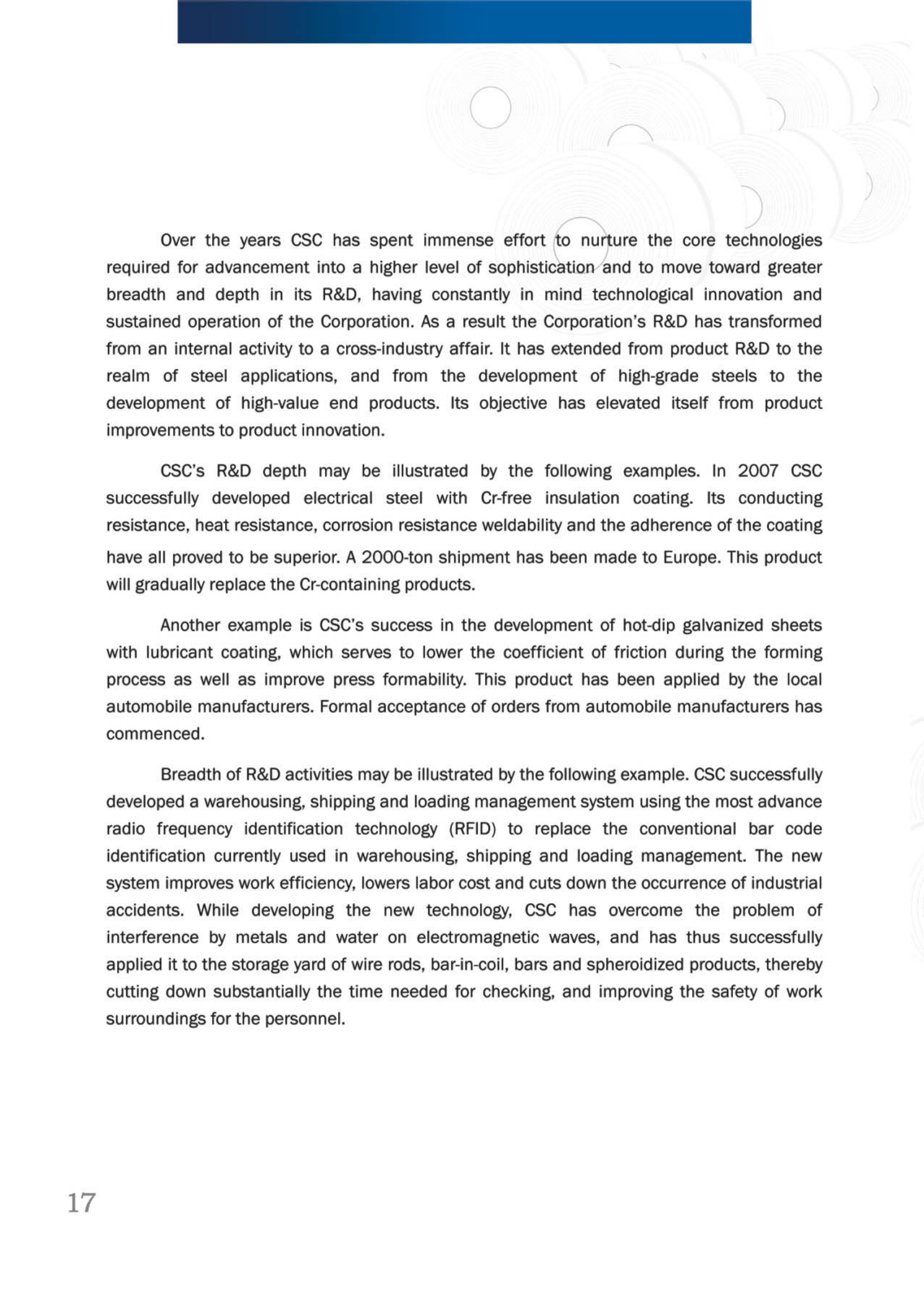
- complete set of electromagnetic stirring facility for slabs, including a control system for the flow pattern within the mould
- process control model for finishing mill
- strip width measurement and hole detection system
- cross-process integration system for surface inspection information.



- ① The 2007 forum on ways of raising the added value in the products of steel consuming industries
- ② Hosting the BSL¹⁴-CSC-POSCO¹⁵ iron-making conference in 2007
- ③ Development of EH40 high strength plate for ships
- ④ Success in the development of GA 780 Y hot-dipped galvanized dual phase steel has enhanced the sophistication of CSC's product mix.
Shown at the left is a specimen of CSC's product, with its micro-structure shown at the right.
- ⑤ Monitoring system set-up for blast furnace charging time
- ⑥ Development of process control model for finish rolling on No.2 hot strip mill

¹⁴ BlueScope Steel Limited, Australia

¹⁵ The Pohang Iron and Steel Company, South Korea




Over the years CSC has spent immense effort to nurture the core technologies required for advancement into a higher level of sophistication and to move toward greater breadth and depth in its R&D, having constantly in mind technological innovation and sustained operation of the Corporation. As a result the Corporation's R&D has transformed from an internal activity to a cross-industry affair. It has extended from product R&D to the realm of steel applications, and from the development of high-grade steels to the development of high-value end products. Its objective has elevated itself from product improvements to product innovation.

CSC's R&D depth may be illustrated by the following examples. In 2007 CSC successfully developed electrical steel with Cr-free insulation coating. Its conducting resistance, heat resistance, corrosion resistance weldability and the adherence of the coating have all proved to be superior. A 2000-ton shipment has been made to Europe. This product will gradually replace the Cr-containing products.

Another example is CSC's success in the development of hot-dip galvanized sheets with lubricant coating, which serves to lower the coefficient of friction during the forming process as well as improve press formability. This product has been applied by the local automobile manufacturers. Formal acceptance of orders from automobile manufacturers has commenced.

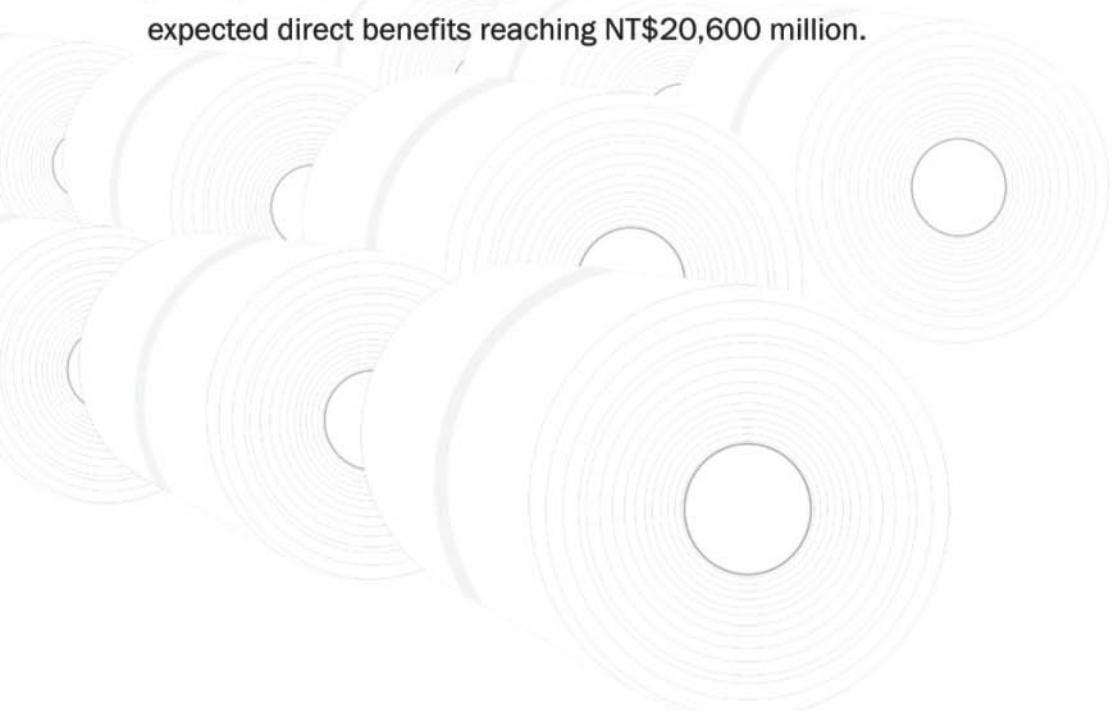
Breadth of R&D activities may be illustrated by the following example. CSC successfully developed a warehousing, shipping and loading management system using the most advance radio frequency identification technology (RFID) to replace the conventional bar code identification currently used in warehousing, shipping and loading management. The new system improves work efficiency, lowers labor cost and cuts down the occurrence of industrial accidents. While developing the new technology, CSC has overcome the problem of interference by metals and water on electromagnetic waves, and has thus successfully applied it to the storage yard of wire rods, bar-in-coil, bars and spheroidized products, thereby cutting down substantially the time needed for checking, and improving the safety of work surroundings for the personnel.



Over the recent years a number of factors: the rise of China, the outward moving of Taiwan's industries, and the lack of scale and R&D among individual downstream companies have caused CSC to become aware of the increasingly unfavorable environment. It has therefore decided to promote the overall upgrading of steel consuming industries and to assist down-stream customers to deepen their roots in Taiwan — through the mechanism of R&D alliances. As of the end of 2007, eight such alliances have been established for the following subjects:

- core technology for automobile fasteners
- tube hydro-forming technology for automobile parts
- technology for high performance and light weight hand tools
- advanced high strength steels and forming technology for automobiles
- high value and high efficiency electric motor integration technology
- advanced molding technology for automobile panels
- high value steel structure technology
- technology for high value hand tools using steel strip as the principal material.

Forty-six steel consuming companies and six research institutes have been invited to participate. A total of NT\$710 million will be contributed for the research expenses with expected direct benefits reaching NT\$20,600 million.



EMPLOYEE RELATIONS AND HUMAN RESOURCE DEVELOPMENT

As of the end of 2007 CSC employs 9,065 persons. Average age is 48.3 years. 8,977 employees or 99% are eligible for membership in the China Steel Labor Union.

CSC has entered into a collective agreement with the Labor Union to spell out fair and reasonable labor conditions for both Management and Labor to observe. The Corporation maintains multiple channels for management-labor dialogue as well as a Committee for Handling Sexual Harassment to handle complaints and to provide employees and job applicants a workplace environment free of such disturbances.

Facing the approaching retirement of persons in core positions, and with due regard to optimizing the utilization of the Corporation's manpower, CSC conducts recruitment programs at the appropriate times. Recruits will go through an apprenticeship program to accept the handing down of key knowledge and skills, each recruit being guided by one or two mentors. CSC also engages in knowledge management to ensure the effective handing down of key technology. To fill the requirement for manning the new production lines and to support the expansion construction of Dragon Steel Corporation, 265 persons were recruited during 2007. Staffing requirements of the various departments is also drawn from recruits made at appropriate times according to actual needs.



Graduation exercises of the 5th session of the Seminar for Basic Management Skills given by the Corporate University¹⁶ of China Steel

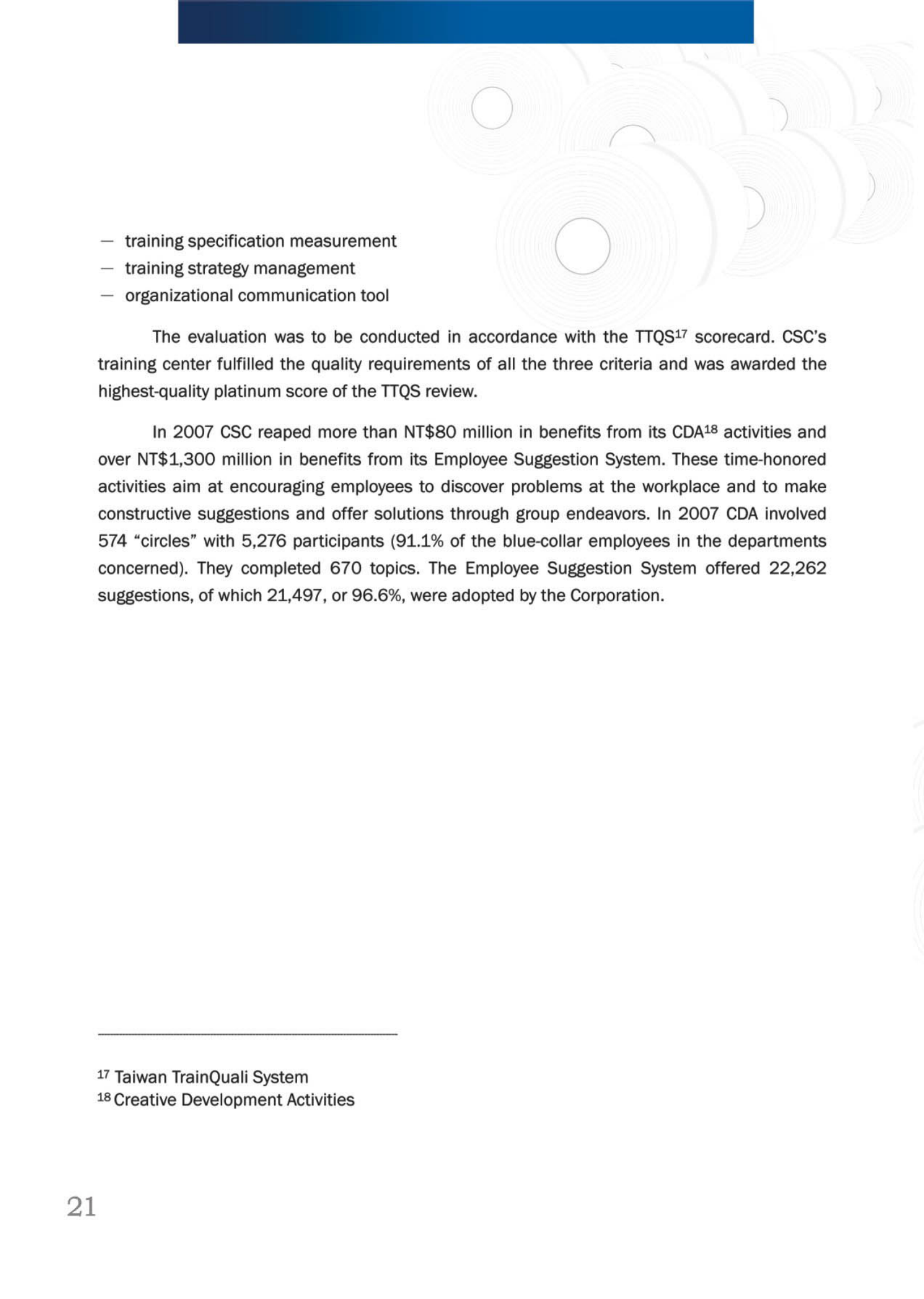
¹⁶ non-degree-granting

In order to attract, retain and effectively utilize top-notch talent, CSC has in place a sound compensation system, which provides for:

- basic salary. CSC has maintained its position among the best paying employers in Taiwan's industry.
- production-sales profit bonus. At the close of each month's accounts if there is a profit for the month, the Corporation may disburse this bonus. Over the years, this bonus has served as instant incentive and has spurred operating performance of the Corporation.
- performance-based incentive bonus. Appropriation is made with due regard for the interest of the stockholders and the Corporation's ability to bear the burden. It is appropriated at the close of accounts each year if there is a profit. It is distributed to employees according to individual performance.
- compensation for unused leave of absence. This is paid at the end of the year, amounting to the number of days of unused leave times the employee's basic salary converted to a daily basis.
- profit sharing bonus. CSC's Articles of Incorporation stipulate a percentage of the after-tax income be appropriated for employee profit sharing.
- employee stock purchase trust program. Employees participate on a voluntary basis with a monthly amount of up to 10% of the individual's salary. This is combined with a matching deposit by the Corporation which amounts to one fifth of the employee's deposit. This matching deposit serves as an incentive. The combined amount goes into a trust fund. The Corporation sets up an account with a financial institution and entrusts it with the administration of the fund along with any gains accrued. The employee, upon his retirement or termination, receives the stock due him, which may be regarded as a second retirement pension.

Average number of hours of classroom training and that of e-learning per employee in 2007 were 39.9 and 2.3 hours respectively. The Corporation's program for sending employees abroad to academic institutions and business organizations for studies is aimed at consolidating its capabilities in production, R&D, technology, management and the employees' foreign language proficiency. It also aims to fulfill the manpower needs for pursuing the Corporation's diversification and globalization strategies. In 2007, 103 persons were sent under this program. In addition CSC selected promising employees and enrolled them at universities in Taiwan (17 in 2007) and abroad (1 in 2007) for advanced studies.

The Bureau of Employment and Vocational Training delegated an outside review organization to visit CSC's training center on October 30, 2007 for on-site observation and evaluation on the basis of three criteria; namely:

- 
- training specification measurement
 - training strategy management
 - organizational communication tool

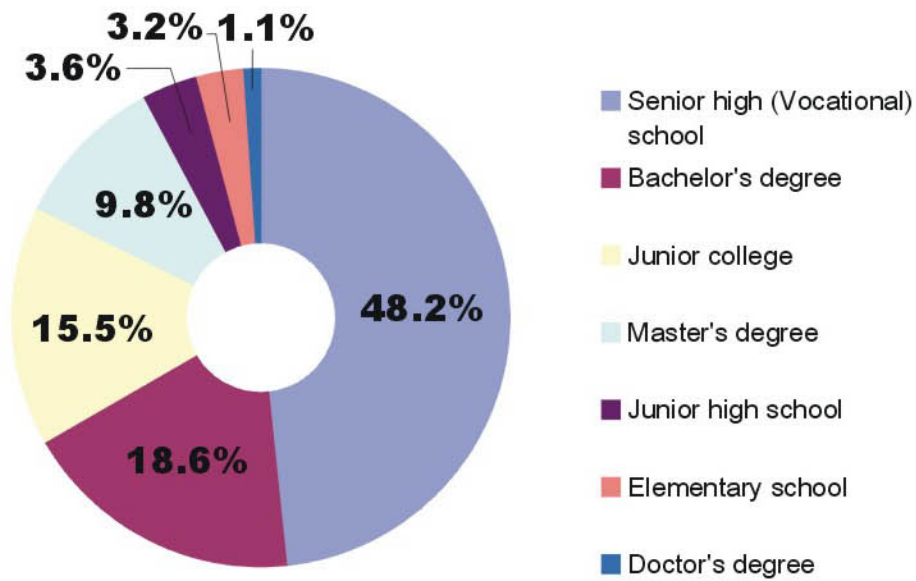
The evaluation was to be conducted in accordance with the TTQS¹⁷ scorecard. CSC's training center fulfilled the quality requirements of all the three criteria and was awarded the highest-quality platinum score of the TTQS review.

In 2007 CSC reaped more than NT\$80 million in benefits from its CDA¹⁸ activities and over NT\$1,300 million in benefits from its Employee Suggestion System. These time-honored activities aim at encouraging employees to discover problems at the workplace and to make constructive suggestions and offer solutions through group endeavors. In 2007 CDA involved 574 "circles" with 5,276 participants (91.1% of the blue-collar employees in the departments concerned). They completed 670 topics. The Employee Suggestion System offered 22,262 suggestions, of which 21,497, or 96.6%, were adopted by the Corporation.

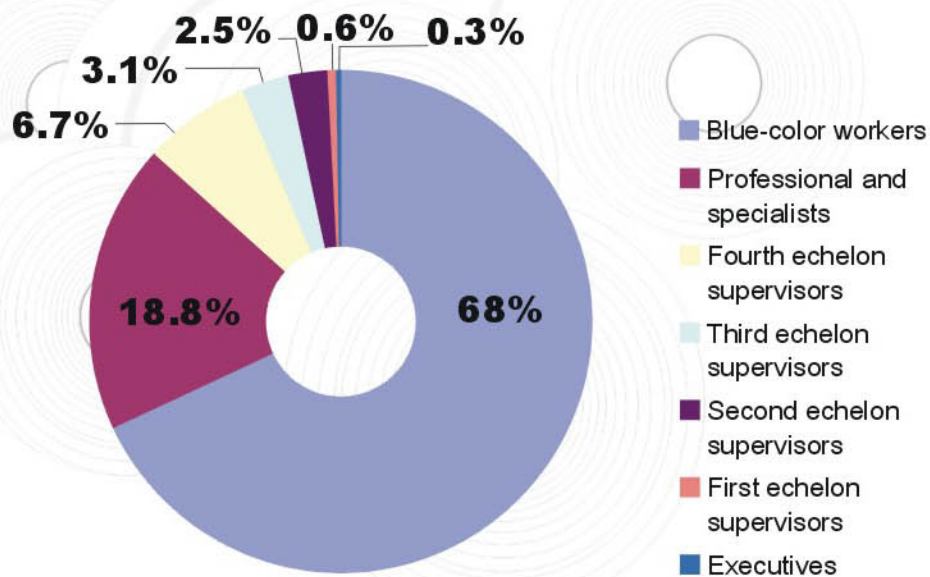
¹⁷ Taiwan TrainQuali System

¹⁸ Creative Development Activities

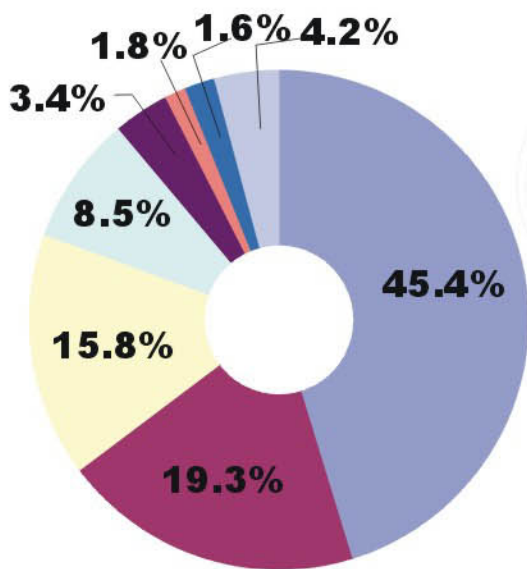
Educational background of employees, 2007 (as of December 31, 2007)



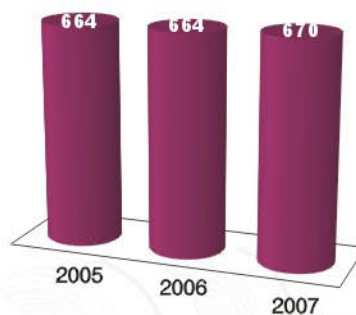
Breakdown by employees' position level, 2007 (as of December 31, 2007)



Cases completed by Creative Development Activities by subject matter, 2007

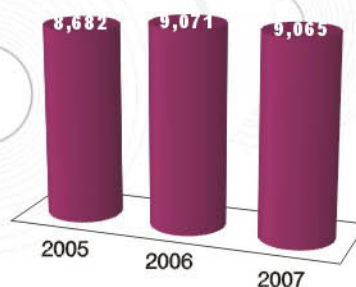


Cases completed by Creative Development Activities



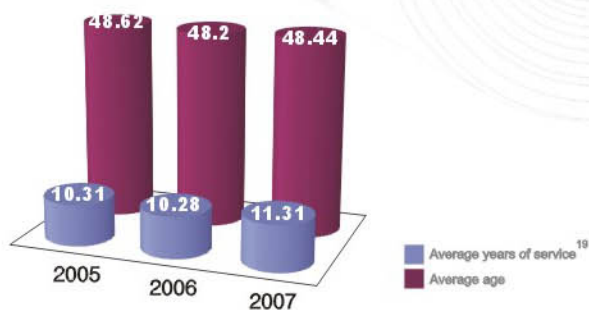
Number of employees

(as of December 31, 2007)



Employee's average age and years of service

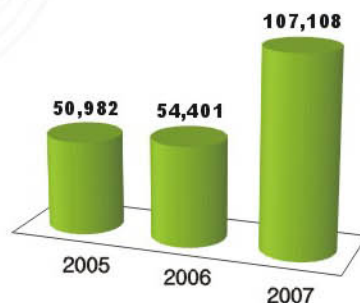
(as of December 31, 2007)



¹⁹ Not counting years of employment prior to the privatization of the Corporation on April 12, 1995.

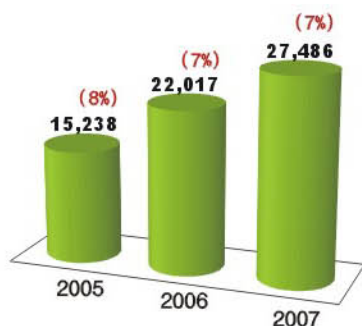
Employee training expense

(in NT\$1,000)



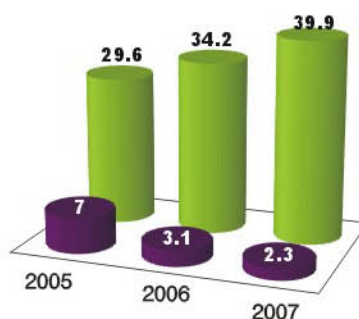
Employee training outside the Corporation

(In hours or ratio of outside training to total)



Average hours of training per employee

● Classromm ● e-Learning



① Training for writing news releases

② A songfest of Japanese songs marking the completion of the Japanese language course

ENVIRONMENTAL PROTECTION, INDUSTRIAL SAFETY AND HYGIENE, AND FULFILLMENT OF SOCIAL RESPONSIBILITIES

CSC has strengthened the control of its environmental management system and improved its facilities under the concept of “continual improvement and pollution prevention.” In 2007 CSC has amended or expanded the operation and maintenance specifications of its pollution source equipment and pollution control equipment. Other measures taken were:

- establish stiff requirements for strict observance of operation control specifications
- overall review to grasp the potential sources of pollution
- establish targets for improvement.

The above served as the basis for carrying out all the economically feasible environment management projects. Major achievements are:

- | | |
|--|------------------------|
| — reduction of sulfur oxides | 154 tons/year |
| — energy saving benefit | NT\$40.93 million/year |
| — recycling of water-quenched blast furnace slag | 100% |
| — recycling of sludge | 100% |
| — recycling of used refractories | 100% |
| — proper treatment ratio of hazardous and non-hazardous wastes | 100% |





- ① Employees' children performing at CSC's anniversary celebration in 2007
- ② Accordion performance at CSC's anniversary celebration in 2007

Achievements also include

- further greening of plant premises and conducting botanical studies on the effectiveness of CO₂ reduction by various shrubs and their pollution resistance
- complete the environmental impact difference analysis report for the No.3 cold-rolling line. This was approved, with conditions attached, on November 30, 2007 by the Environment Impact Assessment Committee of Kaohsiung Municipal Government
- established the environmental protection knowledge community website to facilitate discussion of environmental protection subjects by CSC people through the Intranet.

In the realm of industrial safety CSC continued in 2007 to proceed with these projects:

- promotion of the “partners for safety” declaration
- job safety demonstrations
- reorganization of the safety and hygiene organization, all with gratifying results.

In 2007 the number of cases of disabling injury among CSC's employees and contractors' employees were 5 and 16 respectively, the major cause being unsafe behavior. In order to lower effectively the accident frequency rate, CSC has incorporated the Certificate Guidelines of the “Taiwan Occupational Safety and Health Management System (TOSHMS)” promulgated by the Council of Labor Affairs into CSC's Review Management System, Management Handbooks and regulations.

In the area of employee health CSC arranges for the employees' physical examination according to the requirements of law and regulations and the nature of the jobs. CSC also monitors the workplace environment and, depending on the results of the examination, adopts measures to improve the employee's health and to show concern for his well-being. CSC engages experts to study the results of the employee physical examination together with the workplace environment monitoring data and propose programs for education and training for preventive measures. Immediate corrections and improvements are made in case of shortcomings.

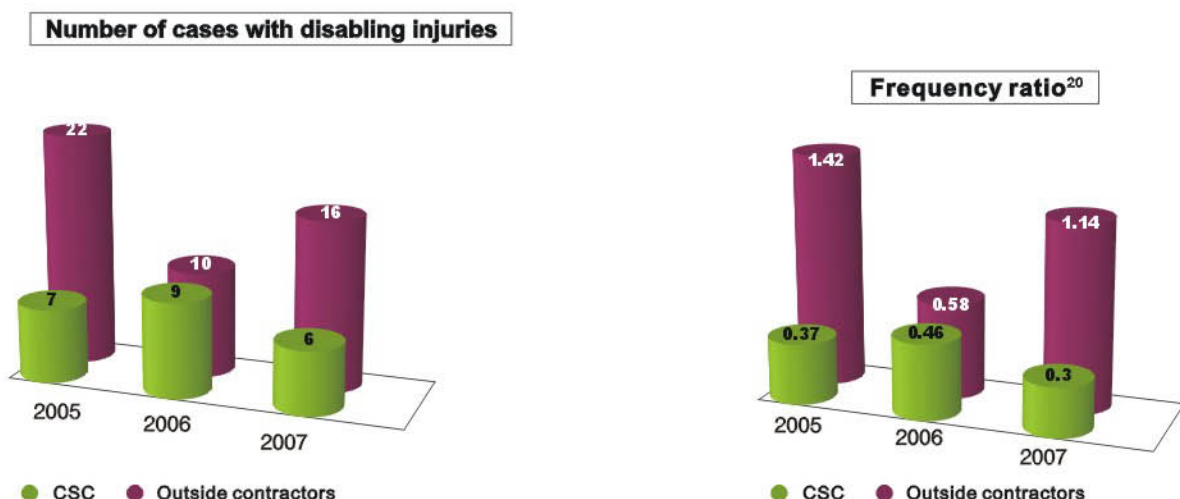
As a part of its efforts to fulfill its corporate responsibilities CSC continues to be concerned about the development of the neighboring communities and to participate in the public benefit activities in the Siaogang District. Beginning in 2008 CSC will “adopt” the greenery along Chung Shan 3rd and 4th Road²¹ as well as 20 hectares of woodland on Dadu Hills in Taichung Prefecture²². Jointly with the community, schools and Kaohsiung City Symphony Orchestra, CSC participated in the sponsorship of a series of musical events including Russian Concert, Jose Carreras 2007 Concert, and Le Nozze Figaro by the Vienna State Opera, and two concerts: “Mid Autumn Music Appreciation” and “A Rose in Winter” by the CSC Choir. These events injected a bit of artistic and cultural vitality to the living environment of Kaohsiung.

Late in 2007 CSC put out the first “Corporate Social Responsibility Report” ever published by a member of Taiwan’s steel industry, with “Accepting Responsibility Is A Joy” as its main theme. It describes in detail from three aspects how CSC bears its corporate social responsibility, and makes twelve commitments to proclaim CSC’s firm determination to fulfill such responsibilities.

The 2007 activities of the CSC Group Education Foundation were:

- establish an iron and steel scholarship with the collaboration of National Cheng Kung University and offer courses in iron and steel production processes to cultivate talent for the iron and steel industry
- “adopted” the greenery in Kaohsiung Park and along the bicycle path at Love Seaport of Sin Da Harbor
- sponsored an ecology education camp to familiarize school children with the surrounding environment of their homes and the land on which they reside
- sponsored auxiliary classes for school children of the Tao Yuan²³ Elementary School in Kaohsiung Prefecture with the collaboration of Kaohsiung Normal University

Occupational accident record of CSC - past three years

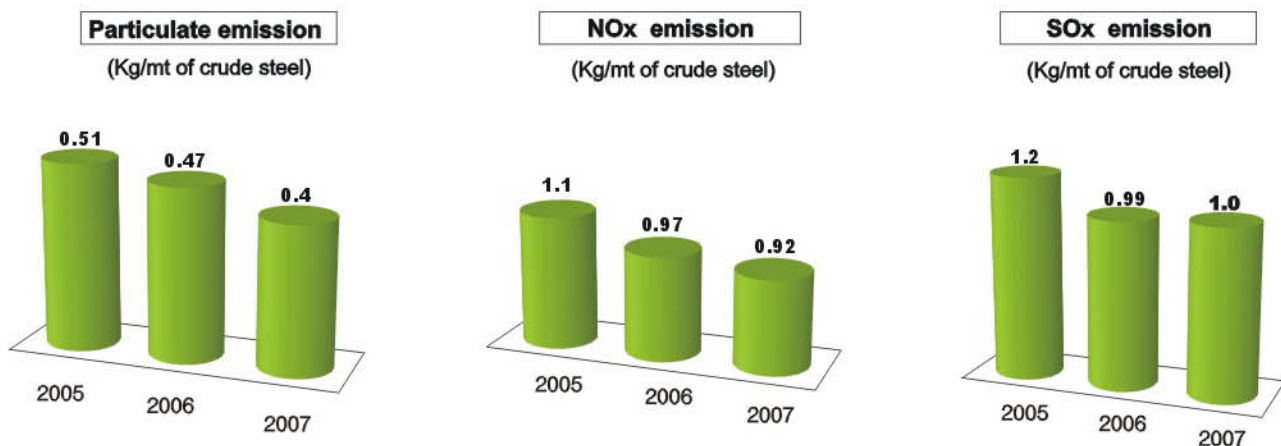


²⁰ FR = Number of cases with disabling injuries × 10⁶ / Total number of working hours of the entire company

- invited to CSC the Ma-Su-Hauz Traditional Culture Art Group of Yu Shan, Tao Yuan Village to give a traditional Bu-Nung eight-part harmonic vocal performance to promote and preserve the aboriginal traditional arts and culture
- helped the sponsorship of an island-wide performance tour by the Tainan Philharmonic Impaired-Vision Vocal Group to perform at prisons with “Singing the Song of Life,” hoping that the performance can help to influence the inmates to reshape their lives.

The Commonwealth magazine rated 1,100 domestic businesses entities in 2007 for corporate citizenship. CSC received “The Best Corporate Citizen in Taiwan” award and attracted wide acclaim for its fulfillment of corporate responsibility. In the future CSC will continue to abide by the concept of “What is received from society should be used for society’s benefits,” and engage in concrete measures and expressions of concern for society at large, the neighboring communities and the disadvantaged groups.

Air quality - past three years



- ① Greenery at the plant site
- ② Ozone oxidation system for coke oven wastewater treatment
- ③ Emergency rescue exercise

²¹ The main thoroughfares between Metropolitan Kaohsiung and the vicinity of CSC

²² In central Taiwan

²³ An aboriginal community

CAPITAL EXPENDITURES AND ENGINEERING BUSINESS

Twenty five project-type capital expenditure projects were in progress in 2007, involving capital expenditures of NT\$11,265 million.

I. Related to equipment revamp

1. end flue repair on coke oven batteries 1 and 2
2. replacing electrical equipment on the leveler at the plate mill
3. revamp of No.1 continuous annealing line
4. revamp of No.1 rod mill
5. third campaign revamp of No.1 blast furnace
6. revamp of pickling section at No.1 pickling and cold-rolling unit, Rolling Mill Department III
7. second campaign mid-term revamp of No.3 blast furnace

II. Related to production capacity increase or quality upgrade

8. addition of unit No. 9 at the oxygen plant
9. addition of No.2 hot-dip galvanizing line
10. addition of Nos. 6 and 7 lime kilns for the steel-making plant
11. addition of residual material pre-treatment equipment
12. No. 2 main transformer station expansion
13. addition of No. 2 horizontal annealing and coating line



14. addition of coal moisture control system at coke oven batteries 1 through 4
15. addition of No.7 slab caster at the steel-making plant
16. modification of the ship unloader conveyor system
17. expansion of pallet width and revamp of No. 3 sintering plant
18. addition of edge heater for No. 1 hot strip mill
19. addition of No.2 billet conditioning unit
20. 4th remodeling of hydrogen batch annealing furnace at Rolling Mill Department III
21. addition of No.3 cold-rolling line

III. Related to resource recycling

22. addition of equipment to recycle the waste heat from hot stoves on No. 4 blast furnace
23. equipment for recycling industrial waste water

IV. Related to re-engineering of business process and enhancing competitiveness

24. Supply chain management (SCM) software for integrating sales and production

V. Related to land and buildings

25. office building for CSC Group's headquarters

Items 4~7, 19~21 and 23 are projects initiated in 2007. The remaining items are continuation projects. Completed in 2007 are the following items:



① Plate mill

② NO.4 blast furnace

<u>Item</u>	<u>Completion</u>
9	March 2007
22	June 2007
13	September 2007
11, 14	December 2007

The remaining items were proceeding on schedule.

Individual items requiring investment exceeding NT\$3,000 million are items 4, 5, 9, 13, 15 and 21. Expected increases in annual production capacity after their completion are as follows:

<u>Item</u>	<u>Annual production capacity</u>
4	1 million tons of wire rod
5	2.33 million tons of hot metal
9	120,000 tons galvanized (GA) steel products and 180,000 tons galvanized iron (GI) products
13	200,000 tons high grade non-oriented electrical sheets
15	550,000 tons liquid steel
21	1,500,000 tons cold-rolled products

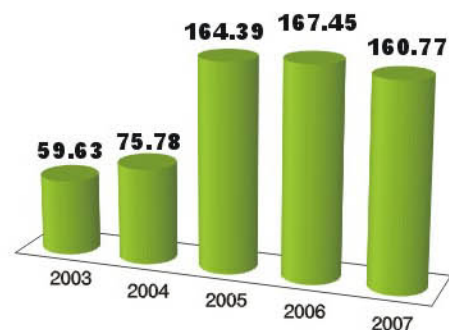
Non-project type capital expenditures in 2007 amounted to NT\$4,812 million. Their objectives are largely related to equipment replacement, industrial safety and environmental protection, re-engineering of business process, quality upgrade, R&D, energy saving, automation, computerization and miscellaneous facilities necessary for operation.

The Kaohsiung Rapid Transit System is composed of the red line and orange line. CSC was awarded the track work construction of the red line, which has been totally completed²⁴, and has passed the final inspection. A one-month trial operation began in March 2008. Formal operation began in April. As for the depot equipment, the south depot was completed and test operated in August 2006, and handed over to KRTC²⁵ in October. The north depot is expected to be handed over in May 2008, and the Da Liao Depot in August 2008. All of the 18 track maintenance vehicles have been handed over to KRTC in March 2007. Work on AC power supply system for the red line was completed in December 2007, and the orange line power supply system is expected to be handed over in April 2008. KRTC plans to have the entire system in operation by October 2008 and CSC will complete the entire construction work to meet this schedule.

The stage II expansion construction of Dragon Steel Corporation is to be carried out in two phases, with one 2.5 million – ton per year blast furnace and all the related iron making,

steel making, rolling, electronic controls and utility equipment in each phase. CSC was awarded the engineering service contract. Groundbreaking took place in July 2006. As of the end of 2007, the entire phase I construction was 44.73% complete and on schedule. Blast furnace blow-in and formal operation are planned for December 2009.

Capital expenditures
(in hundred millions of New Taiwan Dollars)



- ① Oxygen plant
- ② Ribbon-cutting ceremony marking the maiden run on the red line of Kaohsiung MRT system
- ③ Scenery along the Kaohsiung MRT elevated section
- ④ Blast furnaces, NO.1, 2, 3 and 4
- ⑤ Cold rolling mill
- ⑥ No.2 hot strip mill
- ⑦ Construction work of stage II phase 1 expansion of Dragon Steel Corporation, a CSC subsidiary

²⁴ Some of the events related to KRTC reported herein occurred after December 31, 2007, the end of the period covered by this report. They are nevertheless reported here for the sake of offering the readers as complete a picture as possible of the progress.

²⁵ Kaohsiung Rapid Transit Corporation

INVESTMENTS AND OTHER EQUITY INTERESTS

In 2007 CSC made investments in three additional companies: Qingdao TECO Precision Mechtronic Co., Ltd., Yodogawa Steel Works, Ltd., and CSC Australia Holdings Pty. Ltd., making a total of 43 companies with CSC holdings as of the end of 2007. A number of these companies showed good profitability. As a result the investment income for 2007 reached a record high of NT\$12,160 million.

Steel business

Chung Hung Steel Corporation is a re-rolling company. Although steel prices went up, worldwide price of slabs also followed upward. This has caused Chung Hung to be beset with high new material cost and curtailed production owing to shortage of slabs on the global market. As a result its 2007 income before income tax was only slightly higher than NT\$3,600 million, a 37% drop from 2006. However this figure was still the second highest in its history. Dragon Steel Corporation operated at full capacity and still could not satisfy the vigorous market. Price levels for its products continued to climb. Its 2007 income before income tax was a record high of NT\$2,119 million.

Ornasteel and Group Steel in Malaysia benefited from an upturn in the economy and the placing into operation of Ornasteel's No.3 rolling mill. Sales volume in 2007 for the two companies together totaled 443,000 tons, or 22% over 2006. Together their income before income tax was RM 86.62 million, or 4.29% over 2006.

Logistics and trading

Owing to rising oil price and strong demand for raw materials and supplies, freight rates and charter rates both climbed to new levels. China Steel Express posted a record income before income tax of NT\$9,096 million, a growth of 106% over 2006. China Steel Global Trading, owing to good profits generated by its oversea network of sales channels, and top performance of its sales agency operations for stainless steels, mill rolls and refractories, achieved a before-tax income of NT\$509 million.



- ① Steel structure members manufactured by China Steel Structure Company
- ② Office entrance of China Ecotek Corporation, a subsidiary of CSC
- ③ Chung Hung Steel Corporation, a CSC subsidiary
- ④ Servers at Info-Champ Systems Corporation, a wholly owned subsidiary of CSC
- ⑤ C.S. Aluminum Corporation, a CSC wholly owned subsidiary
- ⑥ Office entrance of China Prosperity Development Corporation, a CSC wholly owned subsidiary
- ⑦ Office entrance of China Steel Global Trading Corporation, a wholly owned subsidiary of CSC
- ⑧ Control room of a security system operated by China Steel Security Corporation, a CSC wholly owned subsidiary
- ⑨ Continuous caster built by China Steel Machinery Corporation for Dragon Steel Corporation, a CSC wholly owned subsidiary

Industrial materials

Among the industrial material businesses, C.S. Aluminum's profit for 2007 shrank substantially from the previous year to an income before income tax of NT\$768 million. This is attributed to loss of customers and falling prices. For China Steel Chemicals, hovering high oil prices cause the market price of its products to rise. Income before income tax for 2007 reached NT\$1,847 million, a historical record. China Himent encountered difficulties in loading slag powder on account of unusually heavy rain. Import ban of aggregate material from China further worsened the situation. Revenues and income both fell. However, recognizing of profit from land disposal helped to make it possible to post an income before income tax of NT\$862 million for 2007. HIMAG Magnetic Corporation was successful in developing a business for ferric oxide powder. Income from specialty chemicals and Mn-Zn ferrite powder enjoys steady growth. Income before income tax for 2007 was NT\$66.27 million.

Engineering and construction business

Business volumes of China Steel Machinery and China Ecotek both grew steadily. Income before income tax were NT\$319 million and NT\$299 million respectively. China Steel Structure's order books are well filled, but stiff competition and rising steel plate prices have compressed its gross profit. However CSSC's investment income was quite substantial, resulting in CSSC's 2007 income before income tax of NT\$329 million, a historic record.

Finance and service business

Again many of Gains Investment's investee companies' stock prices went steadily up after they became listed. Such development, plus a gratifying performance of Taiwan's stock market, enabled Gains Development to achieve another historic record pre-tax income of NT\$1,092 million for 2007. The number of clients using China Steel Security's system broke the 4,000 mark in 2006. In 2007 the company continues to benefit from the economy of scale derived from such development. The company also succeeded in securing higher priced security services. Overall profitability steadily improved. 2007 pre-tax income was NT\$61.23 million. Info-Champ Systems Corporation maintained steady operations with pre-tax income of NT\$138 million.

Business development

Plans for development consist mainly of assisting Dragon Steel to complete its phases 1 and 2 of its stage II expansion in order to raise CSC Group's upstream steel making capability. In addition the Group will set up two coordinating committees:

- Sales and Production Planning Committee
- Engineering and Maintenance System Committee

to integrate the marketing resources and capabilities among the Group's steel-related and engineering-related members and to create a spirit of mutual support. The Group will set forth a set of "Engineering and Maintenance Service Guidelines and Standards" to exploit the synergy of Group operations and enhance the competitiveness of the Group's steel-related businesses as a whole. Besides, for the sake of a stronger and more stable sales channel network, CSC is actively mapping out plans for a cold rolling and galvanizing plant in Vietnam. China Steel Global Trading is investing in downstream industries overseas to elevate its scope of production and sales, and to dovetail with CSC's oversea sales channel deployment.



CUSTOMER SERVICES

CSC believes in fostering and maintaining a cooperative relationship with downstream customers. Principal activities in customer service and related sales administration measures in 2007 were:

I. Technical service

CSC abides by the principles of “Customer first” and of quality management above all else. It offers timely and comprehensive technical services with a scorecard as follows:

1. Pre-sale service

- (1) 84 focal-point visits to customers in 2007 to obtain an in-depth understanding and confirmation of customers' quality requirement so as to improve product quality and guide the Corporation in the right direction for product development.
- (2) Made 156 man-days of visits in 2007 to Japan, Korea, India, Italy, Hong Kong, China and Southeast Asia to render technical service to customers in these areas and study the global trend of quality development.
- (3) Held 11 sessions of technical discussion, attended by 924 persons, to elevate the knowledge and skill of customers in applying steels.
- (4) Technical service made on CSC's initiative as a percentage of total service rendered, in terms of man-days. This percentage is held at about 65%.



2. After-sale service

- (1) 114 cases of assistance to customers to improve their processes, and solve their problems in material application and processing.
- (2) Handling of customer complaints or demands for compensation. CSC's technical and sales personnel take immediate action to investigate and respond to the customers, and study the cause as basis for necessary improvements. Over 97% of the cases were completed and closed within 14 working days. In 2007 total tonnage of products involved in cases of customer demand for compensation settled as CSC's responsibility was 4,686 tons or 449 ppm²⁶, which was markedly lower than the 870 ppm of 2006.

II. Financing service

In order to enlarge the customer's credit allowance, CSC continues to reduce its risks in account receivables by insurance coverage. Besides CSC joins with the Credit Insurance Fund for Small and Medium Enterprises in order to offer a line of "Firefly" credit, thus providing CSC customers from the small and medium industries with a financing alternative. CSC also provides each quarter, with the bank interest rate level as reference, a favorable rate for usance credit for the customer to select and utilize.

III. Sales service

Domestic customers are served by personnel of CSC's product section for the product they are ordering. Such services include price quotation, contract signing, specifying the product and quantity, setting the delivery schedule, payment arrangement, shipping and case closing. For export customers such services will be delegated by CSC to China Steel Global Trading and its oversea correspondent trading companies.

IV. Sales support services

In order to provide more convenient instant support services, CSC has developed e-commerce support services for the customers to make inquiries on the status of their orders: production, warehousing, shipping, loading and level of discounts; and to download the above information as well as the invoice, shipping documents and mill certificates. This service is provided at no extra charge.

CSC further promotes the use of e-commerce in a number of info-logistics services: L/C opening, negotiation, invoicing, inland transportation and order entry and changes. Since the introduction of Supply Chain Demand Consensus and Survey System in 2006, CSC has connected the customer's demand with CSC's production capacity so as to provide even more precise arrangements for on time delivery.



Symposium with customers on the processing technology of steel sheets

V. Supply chain management (SCM) system

This system is based on CSC's existing production-sales system. The SCM software modules are incorporated into the CSC system and customized to suit CSC's mode of operation and production-sales strategy, with incessant improvements based on customers' opinion feedback and actual operational outcome. Since the inauguration of overall operation in August 2006, the coverage of services has extended to all of CSC's more than 1,000 customers in Taiwan. Benefits from the system are gradually surfacing. Principal items are as follows:

Key Performance Index	Before building up the system	After start-up of system
1. Responding capability		
Production-sales planning (before CSC's quarterly price announcements)	about 20 days	< 14days
Price quotation	about 3 days	Online real-time
Demand changes	about 2 days	Online real-time
Main contract revisions	about 3 days	Online real-time
2. Shipping request-related response time		
Order receiving	about 2 days	Online real-time
Order changes	about 2 days	Online real-time
3. Lead time for producing hot-rolled products	> 30days	60% 22 days 21% 23 ~ 27 days 19% > 30 days
4. On-time delivery performance	About 70%	plates > 90% bars and rods about 85% hot rolled products about 85% cold rolled products > 80%



VI. Customer satisfaction surveys

Each year CSC engages an academic institution to conduct surveys of customer satisfaction among domestic customers since 1996 and among export customers since 2006. The 2006 ratings of satisfaction among domestic and export customers were 63.1 points and 69.69 points respectively. For 2007 they were 74.01 and 71.9 respectively. Overall satisfaction has shown improvements, especially among domestic customers where the rating has markedly moved upward.

VII. Steel product supply

Owing to competitiveness in both price and quality, customers vie for CSC products. In spite of all-out effort to raise production, limited capacity makes it impossible for CSC to satisfy entirely the demand from domestic and export markets. This is the reason for CSC's vigorous efforts to assist Dragon Steel Corporation in the latter's expansion projects to help satisfy market demand.



- ① CSC technical service personnel visiting Ford Liu Ho Motors Co. at Chung Li for drawing tests on steel sheets to be used for car body panels
- ② Award presentation during the 2007 Steel Engineering and Technology Symposium
- ③ Symposium on the technology of spring steels
- ④ CSC customer service personnel visiting Kuo Zui Motors Co. at Chung Li for technological exchange session
- ⑤ Technological exchange with Yieh Phui Enterprise Co., Ltd.

²⁶ tons per million tons shipped in 2007

RISK MANAGEMENT

Aside from concern about ordinary risks of injuries to employees or of loss of property, CSC also places emphasis on those risks that may place the Corporation's objectives in jeopardy. Such risks exist in finance, sales, transportation, purchasing, equipment, environmental protection, industrial safety and information systems. CSC takes out insurance on a yearly basis against risks of fire, interruption of business, erection and construction, public liability, employer liability, directors' and supervisors' liability and employee fidelity. CSC incorporates the control of all these risks into its daily operations.

I. Risks arising from concentration of market

If the Corporation's outlets are concentrated in domestic or in export sales, once a violent change occur, it is impossible for CSC to adjust its sales strategy to meet such abrupt changes and as a result let business opportunities slip by. By the same token, customer concentration in certain trades or among certain sales agents makes CSC prone to marketing problems resulting from domination by a few. In order to spread the risk of market concentration, CSC adopts a sales strategy of regarding the domestic market as the principal outlet for its products, and supplementing it with export. This strategy is adjusted to suit changes in market conditions from time to time.

II. Risks arising from raw material supply interruption

Problems at the mines, the port and along the railroad between mines and ports may give rise to interruptions in supply of major raw materials: coal and iron ore.

CSC's countermeasures are:

- sign long-term contracts with a number of suppliers
- provide in the contracts as far as possible options for CSC to buy additional quantities, so that when some of the suppliers fail to supply, CSC may exercise its options to fill the shortage
- actively open up new sources to intensify competition and avoid domination by a few suppliers
- faithfully carry out the contract and maintain good relations of mutual trust and assistance with all the suppliers

- select and evaluate raw material sources as targets for investment, and acquire an interest in the promising sources to gain a foothold for long-term supply.
- conduct weekly reviews of raw material inventories and map out a transportation plan with an optimum combination of contract vessels and spot vessels to be dispatched to the loading ports designated in the plan.

III. Environmental risks

Ever since CSC established in 1996 its environmental management system, it has applied the environmental aspect identification procedure in examining all the environmental impacts that may be created by its activities and operations. CSC studies and implements the countermeasures according to the category and degree of the impact and applies the P.D.C.A. (plan-do-check-act) cycle to verify the results of lowering the environmental impact in order to achieve the target of effective control of the environmental risks.



IV. Information system risks

In order to provide an operating environment to safeguard high availability and reliability of the systems, and avoid adverse effects on the Corporation's business operations caused by irregularities of the system, CSC has drawn up standard operating procedures and implemented education and training programs. Control measures instituted are:

1. Development and maintenance of application systems

Introduce the "Capability Maturity Model Integration (CMMI)-based project management system." Compile the relevant data from the system's development process into system documentation. Implement a rotation system for the system's responsible personnel, all to ensure smooth operation of the application system.

2. Data security control

Through the verification of user's identification and password, CSC controls the scope of information that each echelon is permitted to access and retrieve. Records of the name of users, time and place are kept on file to facilitate tracing.

3. Establishment of backup systems

All information, systems and application software have synchronous backup files at different locations. Periodic exercises are held for system start-ups to enhance the ability and quality of recovering from breakdowns.

4. Building up of a network firewall

This is to ensure the security of internal resources and information during periods of time when CSC's intranet is connected with extranet. Encryption and authentication mechanisms are installed on the electronic business mainframe. A "demilitarized zone" (DMZ) is set up between intranet and extranet to prevent the invasion of hackers and viruses. All e-mail mainframe messages pass through virus-scanning software. Building up of network and back-up mechanisms for the software and hardware serves to minimize the interruptions.

5. Handling of emergencies and security measures

An automatic fire suppressing system, an uninterrupted power system, entrance control and closed circuit television prevent theft and destruction of the facilities.

V. Financial risks

1. Policy

CSC manages its interest rate and foreign exchange rate fluctuations by means of dynamic control. Different measures are applied depending on the nature of the risks.

2. Strategy

Forecast the occurrence of large receipts and disbursements. Keep close watch on the daily balance of NT dollar/foreign currency transactions. Be on the alert for hotline news around the world.

3. Exchange rate risks

For short-term foreign currency positions, in principle natural hedge is applied. When exchange rate fluctuations are large and the trend is clear, CSC converts its foreign currency positions in a flexible manner between strong and weak currencies in accordance with foreign exchange fund demands, thus improving its fund operation efficiency. In the event of a foreign currency demand gap, CSC hedges exchange rate risks with forward foreign exchange.

4. Interest rate risks

Interest rate risk tolerances are set for floating rate debt positions. When it is obvious that interest rates in the financial market are turning around, CSC may apply early repayment or interest rate swaps (IRS) to convert to fixed rates.

5. Customer dependency risks

CSC assists customers to increase their bank facility and to utilize bank factoring. By means of e-commerce and digital signature security systems CSC simplifies customers' payment procedures. All these measures help to ensure a smooth flow of order deliveries to the customers.

6. Other risks

CSC keeps close watch to ensure faultless operation of electronic business and security mechanisms. Results of these measures: CSC has further improved the satisfaction of its customers for its services.

CORPORATE GOVERNANCE

The 2006 Regular Annual Stockholders' Meeting resolved to amend the Articles of Incorporation to provide for three independent directors. This amendment has been implemented when the 13th Board of Directors was voted in on June 21, 2007. Besides the three Corporate Supervisors, beginning 2006, meet semi-annually to hear a report duly audited and certified by the Corporation's independent accountants on the results of their audit.

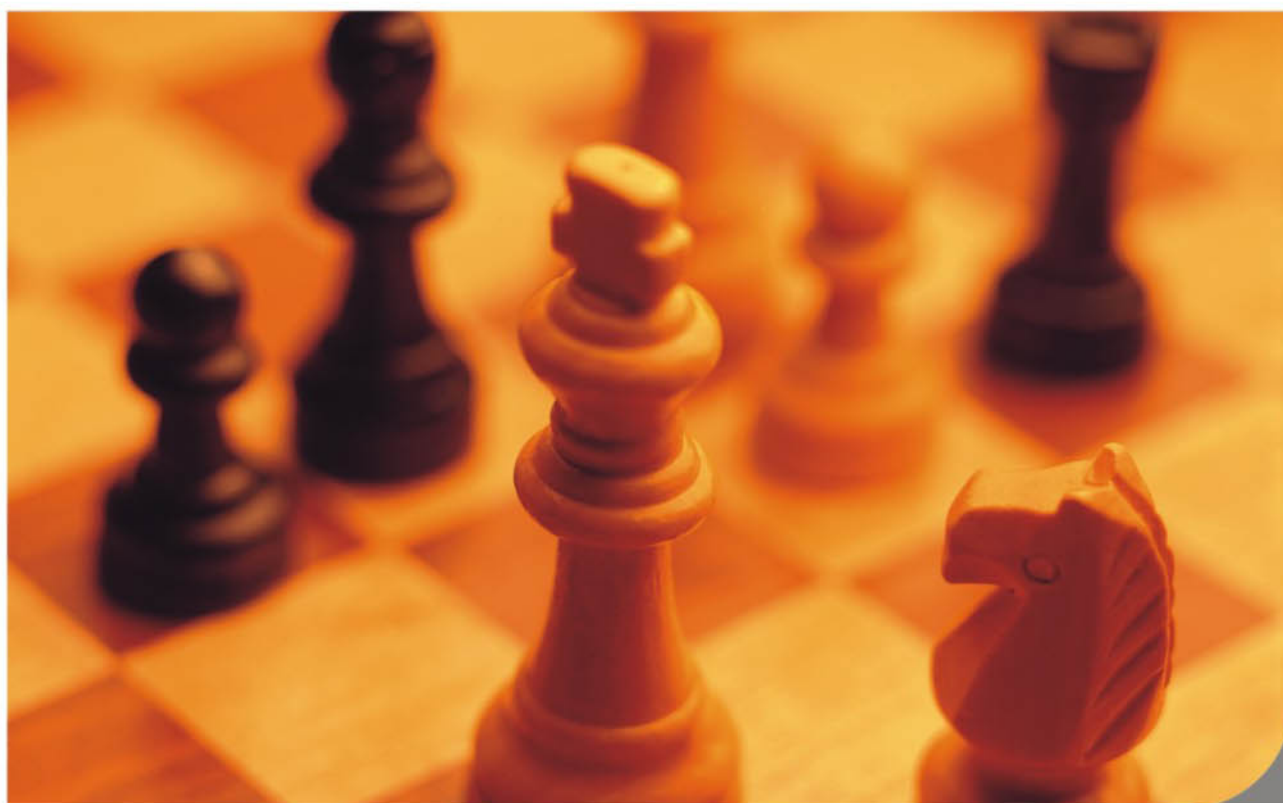
The Board meeting on June 29, 2007 passed the "Regulations for the Compensation Committee" and the "Regulations for the Corporate Governance Committee." Each committee shall be composed of three Directors, at least one of whom shall be an Independent Director, who shall serve as convener and chair the meetings. Among the Independent Directors in the Governance Committee, at least one shall have legal or administration professional background. Each committee shall operate according to its respective Regulations.

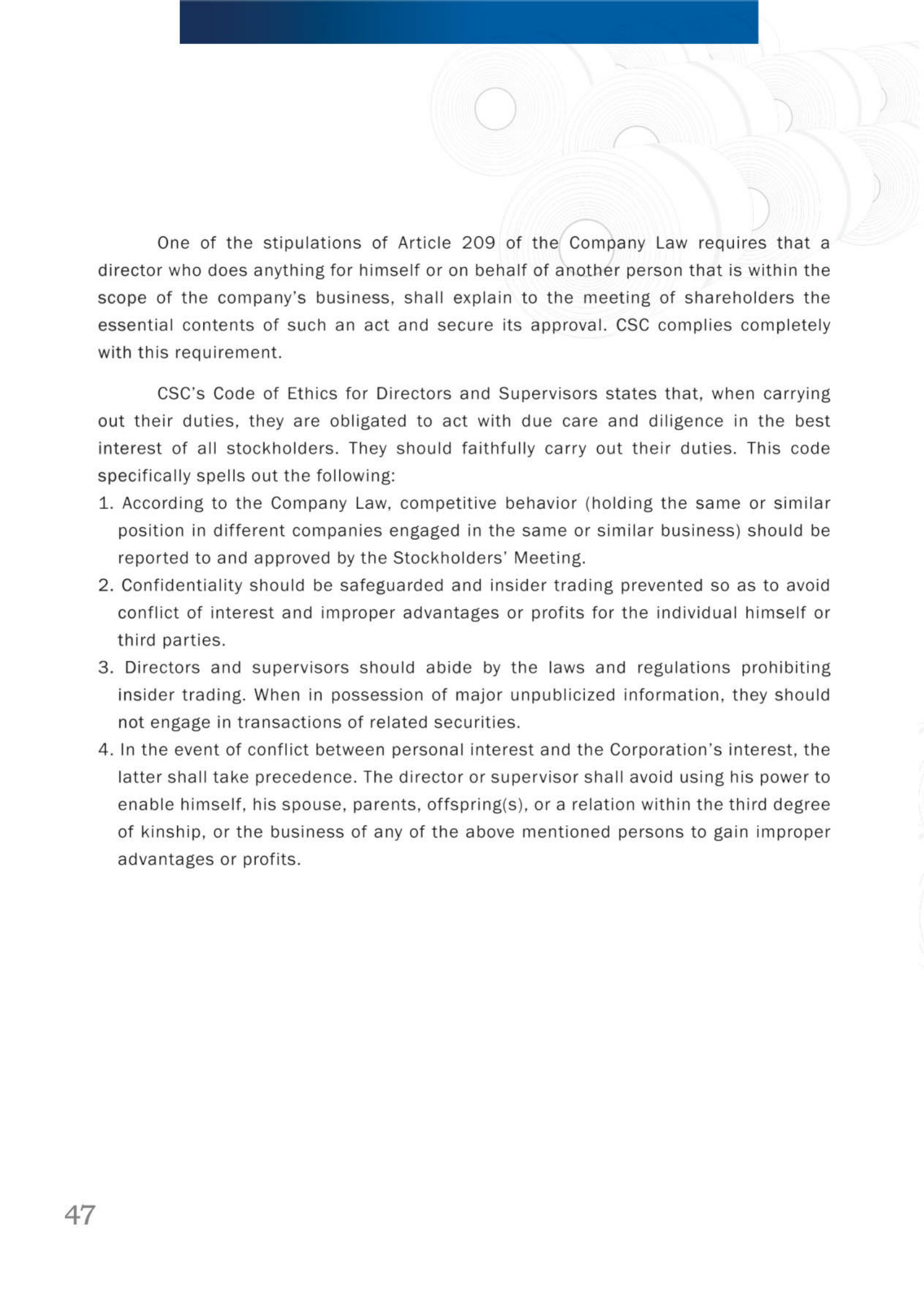
The Corporation makes timely public disclosures of related information in its corporate website, which contains a corporate governance district and a stockholder service part. Stockholders may visit the website and download the related information. Such practice on CSC's part is to place responsibility on its management to achieve higher performance. Information disclosed in the governance district includes: profiles of the Board members, Rules for the Conduct of Board Meetings, major resolutions of the Board, operation and organization of internal auditing, standards for ethical conduct, the Corporation's Articles of Incorporation and profiles of members of the management team. The stockholder service part discloses the Annual Report presented at the annual stockholders' meeting, the Manual for the Conduct of Stockholders' Meeting, monthly operation results and stock prices.

Following the increasingly wide dispersal of stockholders and increase in holdings by foreign investors, as of the end of 2007 foreign holdings have reached 35.23% of the total outstanding shares. CSC seeks to strengthen its dialogue with stockholders. It has designated specific personnel to receive visiting investors, answer their questions and conduct investor workshop conferences.

To safeguard stockholders' rights CSC has drawn up the following self-governing regulations.

- I. In accordance with the relevant rules and regulations promulgated by the Financial Supervisory Commission of the Executive Yuan
 1. Internal Control System Handbook
 2. Procedures for the Acquisition or Disposal of Assets
 3. Procedures for endorsements and guarantees
 4. Rules Governing the Conduct of the Board of Directors Meetings
- II. In accordance with the relevant regulations and template promulgated by the Taiwan Stock Exchange Corporation (TSEC)
 1. Rules and Procedures of Shareholders' Meeting
 2. Regulations for Corporate Governance Committee
 3. Regulations for Compensation Committee
 4. Code of Ethics for Directors and Supervisors
 5. Code of Ethics for First Echelon and Higher Rank Supervisors
- III. Pursuant to CSC's "Articles of Incorporation" and CSC's "Rules for Electing Directors and Supervisors," election of directors shall be by adopting a candidates nomination system;²⁷ the method of electing directors and supervisors shall be the single open cumulative ballot.





One of the stipulations of Article 209 of the Company Law requires that a director who does anything for himself or on behalf of another person that is within the scope of the company's business, shall explain to the meeting of shareholders the essential contents of such an act and secure its approval. CSC complies completely with this requirement.

CSC's Code of Ethics for Directors and Supervisors states that, when carrying out their duties, they are obligated to act with due care and diligence in the best interest of all stockholders. They should faithfully carry out their duties. This code specifically spells out the following:

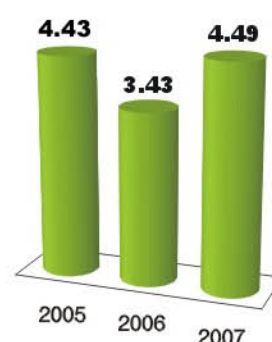
1. According to the Company Law, competitive behavior (holding the same or similar position in different companies engaged in the same or similar business) should be reported to and approved by the Stockholders' Meeting.
2. Confidentiality should be safeguarded and insider trading prevented so as to avoid conflict of interest and improper advantages or profits for the individual himself or third parties.
3. Directors and supervisors should abide by the laws and regulations prohibiting insider trading. When in possession of major unpublicized information, they should not engage in transactions of related securities.
4. In the event of conflict between personal interest and the Corporation's interest, the latter shall take precedence. The director or supervisor shall avoid using his power to enable himself, his spouse, parents, offspring(s), or a relation within the third degree of kinship, or the business of any of the above mentioned persons to gain improper advantages or profits.

In order to concentrate the Corporation's efforts on its core business and to maximize the benefits to the stockholders, CSC's "Article of Incorporation" stipulates in its Article 2-2 that CSC's total investment in other companies should not exceed the Corporation's paid-in capital, and that among such investments, those made in non-steel-related companies should not exceed 20% of the Corporation's paid-in capital. CSC has thus applied appropriate constraint on investment outside the steel business.

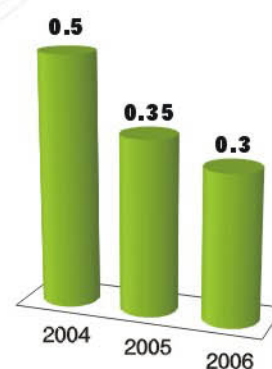
Cash dividend (NT\$ / share)



Earnings per share (NT\$)

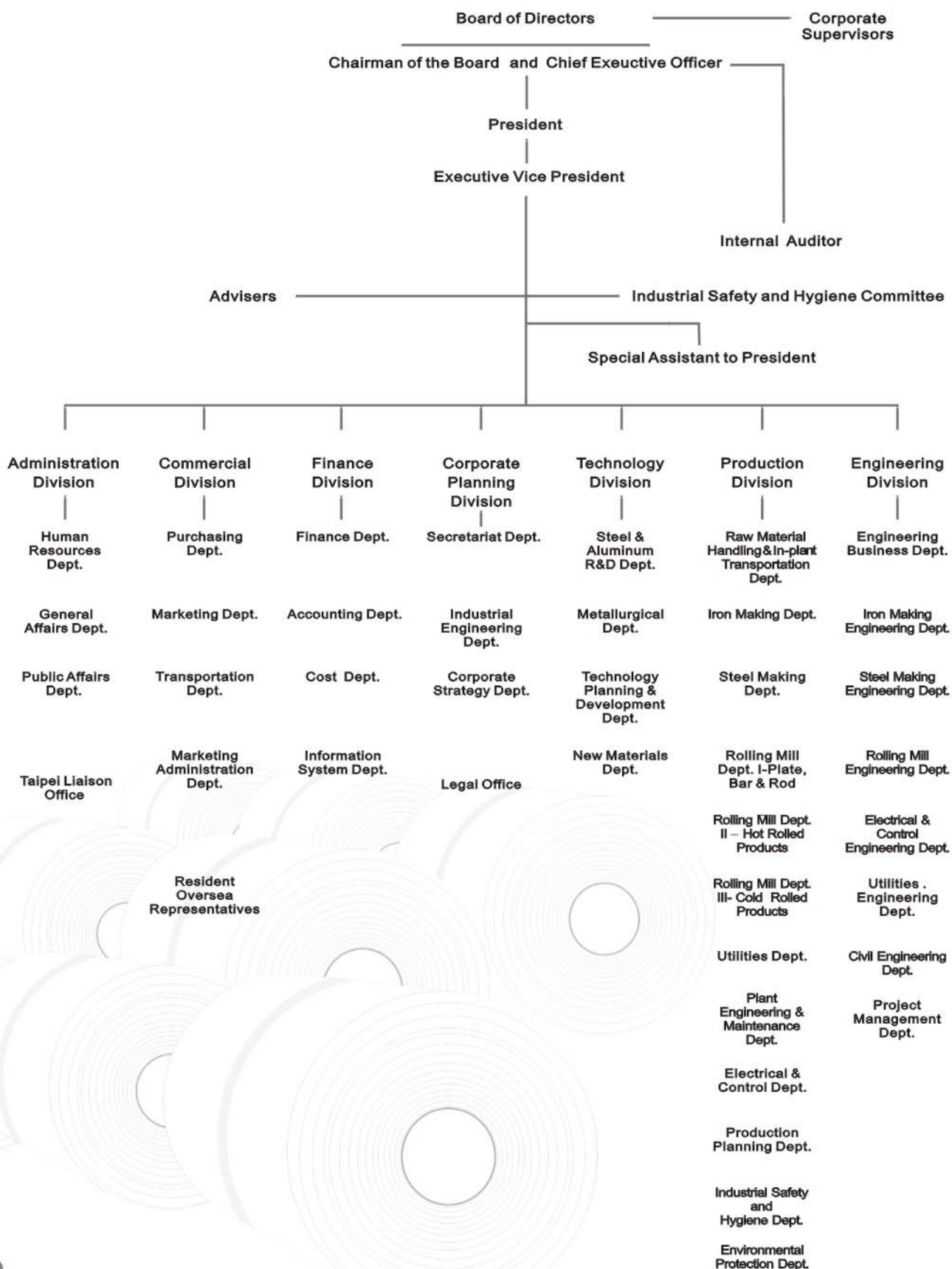


Stock dividend (NT\$ / share)



²⁷ All procedures in connection with CSC's adopting such a system conform with Article 192-1 of the Company Law.

CHINA STEEL CORPORATION ORGANIZATION CHART



DIRECTORS AND SUPERVISORS / SENIOR MANAGEMENT

Directors and Supervisors

(as of December 31, 2007)

Chairman of the Board	Wen-Yuan Lin	Representing Ministry of Economic Affairs, R. O. C.
Director	Fadah Hsieh	Representing Ministry of Economic Affairs, R. O. C.
Director	Jung-Chiou Hwang	Representing Ministry of Economic Affairs, R. O. C.
Director	Yuan-Cheng Chen	Representing Chiun Yu Investment Corporation
Director	Lo-Min Chung	Representing Ever Wealthy International Corporation
Director	Cheng-I Weng	Representing Gau Ruei Investment Corporation
Director	Shun-Tsai Wu	Representing the Labor Union of China Steel Corporation, Kaohsiung
Director	Ho-Chong Chen	Representing Shin Mau Investment Corporation
Independent Director	Steven Hung	—
Independent Director	Kenneth H. C. Chiu	—
Independent Director	Wei-Sheng Hwang	—
Supervisor	Iuan-Yuan Lu	Representing Hung-Chuan Investment Corporaion
Supervisor	Tien-Lin Lu	Representing Bureau of Labor Insurance
Supervisor	Eli Ching-I Wang	Representing Chi-Yi Investment Corporation

SENIOR MANAGEMENT

(as of December 31, 2007)

Chairman of the Board and Chief Executive Officer	Wen-Yuan Lin
President	Yuan-Cheng Chen
Executive Vice President (Concurrently Spokesman for the Corporation)	Lo-Min Chung
Vice President - Administration	Chao-Tung Wong
Vice President - Commercial	Tzer-Haw Chen
Vice President - Finance	King-Hsing Chang
Vice President - Corporate Planning	King-Ling Du
Vice President - Technology	Yu-Soong Chen
Vice President - Engineering	Jyh-Yuh Sung
Vice President - Production	Tong-Sheng Kao

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(as of December 31, 2007)

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FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA AND OPERATING RESULTS

(in thousands of New Taiwan Dollars unless otherwise noted)

	2007	2006	2005	2004	2003
Revenues	207,918,952	177,658,233	186,317,669	168,270,036	129,702,797
Operating costs	152,705,397	134,216,258	125,037,400	110,249,399	88,991,768
Gross profit	55,213,555	43,441,975	67,325,877	63,958,975	45,998,550
(Realized) Unrealized gain on intercompany transactions	(160,520)	26,208	(376,905)	(3,890)	(2,826)
Operating expenses	6,336,721	5,723,455	6,045,608	5,938,338	5,287,521
Operating income	48,716,314	37,744,728	60,903,364	58,016,747	40,708,203
Net non-operating income	12,935,360	9,934,025	4,209,065	7,005,267	4,398,686
Income before income tax	61,651,674	47,678,753	65,112,429	65,022,014	45,106,889
Net income	51,263,874	39,158,584	50,646,639	51,616,691	36,979,214
Current assets	79,510,065	75,046,154	75,851,757	85,093,446	69,040,716
Long-term investments	81,456,214	74,731,278	65,881,813	50,631,972	44,558,206
Net properties	115,769,832	110,453,314	105,567,044	99,334,963	102,717,268
Other assets	5,204,512	5,395,949	3,461,726	3,348,613	4,354,529
Total assets	281,940,623	265,626,695	250,762,340	238,408,994	220,670,719
Current liabilities	35,124,032	38,928,520	45,109,246	33,673,946	34,350,984
Long-term liabilities	18,145,654	17,126,250	2,769,030	12,861,200	17,225,300
Reserve for land value increment tax	2,171,124	2,171,124	2,171,124	3,370,813	3,370,813
Other liabilities	3,844,523	3,867,629	4,086,449	4,341,921	4,686,838
Total liabilities	59,285,333	62,093,523	54,135,849	54,247,880	59,633,935
Capital stock	115,352,910	110,944,516	105,866,716	99,311,138	95,000,857
Capital surplus	1,878,630	1,548,370	2,744,741	1,172,320	693,047
Retained earnings	98,612,729	83,429,463	90,107,602	85,642,418	66,934,700
Unrealized gain (loss) on financial instruments	1,509,155	1,512,123	1,535,363	339,174	339,174
Investees' unrecognized net loss on pension cost	6,473,326	7,533,737	(36,872)	(32,003)	(21,711)
Cumulative translation adjustments	283,018	(62,787)	(335,992)	(365,599)	91,700
Unrealized loss on investees' long-term investments	(38,083)	(37,358)	(466,483)	(454,039)	(485,104)
Treasury stock ²⁸	(1,416,395)	(1,334,892)	(1,273,221)	(1,113,121)	(1,176,705)
Total stockholders' equity	222,655,290	203,533,172	196,626,491	184,161,114	161,036,784
Total liabilities and stockholders' equity	281,940,623	265,626,695	250,762,340	238,408,994	220,670,719
Stockholders' equity per common share (NT\$)	19.30	18.35	18.57	18.54	16.95
Earnings per common share (NT\$)	4.49	3.56	4.83	5.26	3.94
Earnings per common share (NT\$) ²⁹	—	3.43	4.43	4.53	3.52

²⁸ Effective 2002, the Corporation's shares acquired and held by subsidiaries are accounted for as treasury stocks.

²⁹ After making retroactive adjustments on the number of common shares to take into account stock dividends.

FIVE-YEAR SUMMARY OF SELECTED FINANCIAL RATIOS AND PERCENTAGES

	2007	2006	2005	2004	2003
Current ratio (%)	226.37	192.78	168.15	252.70	200.99
Ratio of fixed assets to long-term liabilities and stockholders' equity (%)	48.08	50.06	52.94	50.42	57.62
Total liabilities to stockholders' equity	0.27	0.31	0.28	0.29	0.37
Net income rate (%)	25.26	22.62	27.18	30.67	28.51
Profitability in terms of total assets (%)	18.88	15.32	20.93	22.80	18.27
Profitability in terms of stockholders' equity (%)	24.06	19.57	26.60	29.91	24.98
Revenue growth rate, year to year (%)	17.03	(4.65)	10.73	29.74	29.78
Stockholders' equity growth rate, year to year (%)	9.40	3.51	6.77	14.36	19.28

ANALYSIS OF FINANCIAL STATUS AND OPERATING RESULTS

1. Two-year analysis of flow ratios

	December 31, 2007	December 31, 2006	Increase (Decrease)
Cash flow ratio (%)	150	122	23
Appropriate cash flow ratio (%) ³⁰	104	117	(11)
Cash reinvestment ratio (%)	4.60	1.65	179

³⁰ Based on data over the past five years.

Analysis of changes in above ratios

- (1) Increase of cash flow ratio over the previous year by 23% is mainly attributed to the substantial rise in net income accompanied by decrease in short term loans.
- (2) Decrease of appropriate cash flow ratio from the previous year by 11% is mainly attributed to the increase in net cash flows and the decrease in cash dividend in 2007.
- (3) The 179% increase in cash reinvestment ratio is mainly attributed to the increase in net cash flows from operating activities.

2. Analysis of operating results

- (1) Gross profit for 2007 increase by NT\$11,771,580 thousand over 2006. This increase is mainly attributed to steel price hikes being higher than cost increase. Furthermore sales volume in 2007 increased by 214,702 tons, resulting in a 17% increase in operating revenues with only 14% increase in operating costs and a 27% rise in gross profit.
- (2) The negative amount of NT\$ 186,728 thousand in "realized (unrealized) gain on inter-company transactions" is mainly attributed to the Corporation's downstream sales to investee companies appearing as a net unrealized gain for the current period.
- (3) Increase of operating income by NT\$10,971,586 thousand is attributed to the same causes as (1).
- (4) Increase of non-operating income and gains by NT\$3,373,816 thousand is mainly attributed to the increase resulting from recognizing "investment income under the equity method."
- (5) Increase in non-operating expenses and losses by NT\$372,481 thousand over the previous year is mainly attributed to losses on physical inventory.
- (6) Increase in income before income tax over the previous year by NT\$ 13,972,921 thousand is attributed to the same causes as (1).
- (7) Increase of NT\$12,105,290 thousand over the previous year in net income is attributed to the same cause as (1).

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TERMS AND CONDITIONS OF CORPORATE BONDS

Issue	Unsecured Corporate Bond	Unsecured Corporate Bond
Issue Date	From June 27, 2006 to June 27, 2011	From November 28, 2006 to November 28, 2011
Face Amount	NT\$1,000,000	NT\$1,000,000
Issuing Price	Coupon rate	Coupon rate
Amount	NT\$8,100,000,000	NT\$5,600,000,000
Coupon	2.32%	2.07%
Maturity	Five years (due from June 27, 2006 to June 27, 2011)	Five years (November 28, 2006 to November 28, 2011)
Trustee	Mega International Commercial Bank Head Office – Trust Department	Hua Nan Commercial Bank Head Office – Trust Department
Lead Manager	None	None
Legal Advisor to the Issuer	Chien Yeh Law Offices	Chien Yeh Law Offices
Auditor of the Issuer	Deloitte & Touche (A member firm of Deloitte Touche Tohmatsu)	Deloitte & Touche (A member firm of Deloitte Touche Tohmatsu)
Repayment	100% on maturity, interest shall be paid annually against interest coupon commencing from the issue date.	100% on maturity, interest shall be paid annually against interest coupon commencing from the issue date.
Rating Institution	Taiwan Ratings Corporation August 25, 2006 twAAA	Taiwan Ratings Corporation October 11, 2006 twAAA

PREFERRED STOCKS

Issuance date		Nov. 18, 1974	Jan. 31, 1980	Nov. 30, 1980	Dec. 31, 1981	Dec. 31, 2007
Items						
Face value (NT\$)		10	10	10	10	-
Issuing price (NT\$)		10	10	10	10	-
Number of shares		50,000,000	21,887,000	797,000	4,000,600	-
Total amount (NT\$)		500,000,000	218,870,000	7,970,000	40,006,000	-
Unretrieved balance (shares)		500,000,000	71,887,000	72,684,000	76,690,000	38,956,000
Rights and liabilities	Appropriation of residual property	Same as those of common shareholders.				
	Voting rights	No right to vote in the elections of board directors or supervisors.				
	Dividend policy	<p>After all the accounts are settled, taxes paid, deficits offset, and the legal reserve appropriated, the remaining earnings will be distributed as follows:</p> <p>(1) Preferred stock dividends at 14% of the par value.</p> <p>(2) Remunerations to directors and supervisors of the board at 0.15% of the distributable earnings, 3%-5% as bonuses to CSC employees.</p> <p>(3) Common stock dividends at 14% of the par value.</p> <p>(4) The rest of the remaining earnings will be appropriated proportionally to the preferred stockholders and common stockholders as bonuses.</p>				
	Others	Other rights and obligations are the same as those of the common shareholders.				
Preferred stock in circulation	Retrieved / converted shares	1,738,000 shares (year 2007)				
	Unretrieved / unconverted shares	38,956,000 shares				
	Retrieving or converting clause	The Corporation may retrieve the preferred stock using earnings or the proceeds from share issuance. Preferred shareholders have the right to convert preferred shares into common shares.				

MARKET PRICE OF STOCK OVER PAST THREE YEARS

		(in NT\$ / share)		
Stock	Price	2007	2006	2005
Common	Highest	52.0	35.0	37.6
	Lowest	32.6	24.4	23.2
	Average	40.7	29.7	30.8
Preferred	Highest	51.0	36.0	37.2
	Lowest	34.2	28.5	27.5
	Average	40.7	32.0	32.1

Source of Information: Taiwan Stock Exchange Corporation

PRODUCTS AND USES

Products	Major Uses
Plates	Shipbuilding, bridges, steel structures, oil country tubular goods (OCTGs), storage tanks, boilers, pressure vessels, truck chassis and general construction
Bars	Nuts and bolts, hand tools, loudspeaker parts, automobile and motor cycle parts, machinery parts
Wire rods	Nuts and bolts, steel wire and rope, welding electrodes, hand tools, tire cord and bead, umbrella parts, chains
Hot rolled coils and sheets	Steel pipes and tubes, vehicle parts, containers, pressure vessels, hydraulic jacks, cold rolled and galvanized products, light shapes, formed parts in general
Cold rolled coils	Steel pipes and tubes, steel furniture, home appliances, oil barrels, automobile bodies, hardwares, and as raw material for galvanized and coated steel sheets
Electro-galvanized coils	Computer cases, home appliance outer shells, parts and accessories, automobile bodies, building materials, furnitures and hardwares
Hot-dip galvanized coils	Automobile parts and appliance components, computer cases, color coated sheets, and building materials
Electrical steel coils	Electric motors, transformers and stabilizers

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Hot-dip galvanized coils	Automobile parts and appliance components, computer cases, color coated sheets, and building materials
Electrical steel coils	Electric motors, transformers and stabilizers

THREE-YEAR SUMMARY OF PRODUCTION AND SALES VOLUMES

(In tons)

Product	Volume	2007	2006	2005
Steel plates	Production	1,111,150	1,075,520	1,092,799
	Sales	1,101,900	1,079,049	1,084,629
Steel bars ³¹	Production	599,242	525,560	596,648
	Sales	649,122	563,206	635,356
Wire rods	Production	1,226,274	1,139,030	1,207,256
	Sales	1,227,101	1,134,526	1,211,944
Hot rolled steel products	Production	4,368,395	4,349,382	3,908,732
	Sales	4,538,226	4,376,337	3,978,283
Cold rolled steel products ³²	Production	2,777,960	2,643,518	2,695,851
	Sales	2,874,781	2,772,194	2,728,482
Commercial slabs, blooms and billets	Production	93,606	197,854	181,011
	Sales	38,135	286,958	151,388
Pig iron	Production	12,293	14,616	15,711
	Sales	10,786	13,079	13,929
Total	Production	10,188,920	9,945,481	9,698,007
	Sales	10,440,051	10,225,349	9,804,011

³¹ Including bars contracted out for hire-rolling

³² Including electrogalvanized, hot-dip galvanized products and electric sheets

China Steel Corporation

Financial Statements

**for the Years Ended December 31,
2007 and 2006 and Independent Auditors' Report**





勤業眾信

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
China Steel Corporation

We have audited the accompanying balance sheets of China Steel Corporation (the "Corporation") as of December 31, 2007 and 2006, and the related statements of income, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Corporation as of December 31, 2007 and 2006, and the results of its operations and its cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

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

Deloitte & Touche

January 29, 2008

Notice to Readers

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

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

CHINA STEEL CORPORATION

BALANCE SHEETS

DECEMBER 31, 2007 AND 2006

(In Thousands of New Taiwan Dollars, Except Par Value)

ASSETS	2007		2006	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 4)	\$ 24,438,159	9	\$ 16,196,611	6
Financial assets at fair value through profit or loss - current (Notes 2 and 5)	1,032,097	-	12,315,988	5
Available-for-sale financial assets - current (Notes 2 and 6)	4,575,126	2	4,935,322	2
Notes receivable	1,395,555	-	1,336,278	1
Accounts receivable (Notes 2, 7 and 23)	2,462,240	1	2,737,167	1
Other receivables	521,024	-	272,550	-
Inventories (Notes 2 and 8)	38,170,183	14	32,410,868	12
Deferred income tax assets - current (Note 20)	332,723	-	172,190	-
Restricted assets (Note 24)	4,160,340	1	3,650,000	1
Other current assets	2,422,618	1	1,019,180	-
Total current assets	79,510,065	28	75,046,154	28
INVESTMENTS				
Available-for-sale financial assets - noncurrent (Notes 2 and 6)	2,673,156	1	2,851,977	1
Financial assets carried at cost - noncurrent (Notes 2 and 9)	6,156,803	2	5,766,315	2
Bond investments with no active market - noncurrent (Notes 2 and 10)	5,038,926	2	5,482,324	2
Investments accounted for by the equity method (Notes 2 and 11)	67,587,329	24	60,630,662	23
Total investments	81,456,214	29	74,731,278	28
PROPERTY, PLANT AND EQUIPMENT (Notes 2, 12, 23 and 24)				
Land	9,916,698	4	8,322,881	3
Land improvements	4,212,123	1	4,212,123	2
Buildings	39,773,039	14	37,423,461	14
Machinery and equipment	237,189,591	84	219,788,073	83
Transportation equipment	1,500,483	1	1,473,130	-
Other equipment	4,018,844	1	3,096,559	1
Total cost	296,610,778	105	274,316,227	103
Revaluation increment	17,102,580	6	17,249,891	7
Cost and revaluation increment	313,713,358	111	291,566,118	110
Less: Accumulated depreciation	212,987,389	75	203,035,577	76
	100,725,969	36	88,530,541	34
Constructions in progress	15,043,863	5	21,922,773	8
Total property, plant and equipment	115,769,832	41	110,453,314	42
INTANGIBLE ASSETS (Note 2)	239,859	-	3,735	-
OTHER ASSETS				
Assets leased to others (Notes 2 and 13)	3,154,022	1	3,039,354	1
Refundable deposits	81,673	-	55,833	-
Restricted assets - pledged time deposits (Note 24)	33,694	-	31,694	-
Unamortized repair costs and others (Note 2)	1,695,264	1	2,265,333	1
Total other assets	4,964,653	2	5,392,214	2
TOTAL	\$ 281,940,623	100	\$ 265,626,695	100

LIABILITIES AND STOCKHOLDERS' EQUITY	2007		2006	
	Amount	%	Amount	%
CURRENT LIABILITIES				
Short-term loans and overdraft (Note 14)	\$ 10,154,685	4	\$ 16,609,989	6
Accounts payable (Note 23)	5,340,093	2	3,610,786	2
Income tax payable (Note 20)	6,682,244	2	5,682,534	2
Accrued expenses (Notes 2 and 17)	7,594,208	3	7,929,764	3
Other payables	3,155,916	1	3,237,957	1
Other current liabilities	2,196,886	1	1,857,490	1
Total current liabilities	35,124,032	13	38,928,520	15
LONG-TERM LIABILITIES				
Bonds payable (Note 15)	13,700,000	5	13,700,000	5
Long-term debt (Notes 16 and 24)	4,445,654	1	3,426,250	1
Total long-term liabilities	18,145,654	6	17,126,250	6
RESERVE FOR LAND VALUE INCREMENT TAX (Note 12)	2,171,124	1	2,171,124	1
OTHER LIABILITIES				
Deferred income tax liabilities (Note 20)	2,511,507	1	2,716,689	1
Deferred credits - gain on inter-company transactions (Note 18)	1,333,016	-	1,150,940	-
Total other liabilities	3,844,523	1	3,867,629	1
Total liabilities	59,285,333	21	62,093,523	23
CAPITAL STOCK - authorized 12,000,000 thousand shares at NT\$10 par value (Note 19)				
Common shares - issued 11,496,335 thousand shares and 11,053,758 thousand shares as of December 31, 2007 and 2006, respectively	114,963,350	41	110,537,576	42
Preferred shares - issued 38,956 thousand shares and 40,694 thousand shares as of December 31, 2007 and 2006, respectively	389,560	-	406,940	-
Total capital stock	115,352,910	41	110,944,516	42
CAPITAL SURPLUS (Notes 2 and 19)	1,878,630	1	1,548,370	1
RETAINED EARNINGS (Notes 2 and 19)	98,612,729	35	83,429,463	31
OTHER EQUITY				
Unrealized revaluation increment (Note 12)	1,509,155	1	1,512,123	1
Unrealized gain on financial instruments (Notes 6 and 19)	6,473,326	2	7,533,737	3
Cumulative translation adjustments	283,018	-	(62,787)	-
Net loss not recognized as pension cost	(38,083)	-	(37,358)	-
Treasury stock - 84,543 thousand shares and 82,780 thousand shares as of December 31, 2007 and 2006, respectively (Notes 2 and 19)	(1,416,395)	(1)	(1,334,892)	(1)
Total other equity	6,811,021	2	7,610,823	3
Total stockholders' equity	222,655,290	79	203,533,172	77
TOTAL	\$ 281,940,623	100	\$ 265,626,695	100

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

(With Deloitte & Touche audit report dated January 29, 2008)

CHINA STEEL CORPORATION

STATEMENTS OF INCOME YEARS ENDED DECEMBER 31, 2007 AND 2006 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2007		2006	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 2, 23 and 28)	\$ 207,918,952	100	\$ 177,658,233	100
OPERATING COSTS (Notes 21 and 23)	<u>152,705,397</u>	<u>73</u>	<u>134,216,258</u>	<u>76</u>
GROSS PROFIT	55,213,555	27	43,441,975	24
REALIZED (UNREALIZED) INTER-COMPANY GAIN	<u>(160,520)</u>	<u>-</u>	<u>26,208</u>	<u>-</u>
REALIZED GROSS PROFIT	<u>55,053,035</u>	<u>27</u>	<u>43,468,183</u>	<u>24</u>
OPERATING EXPENSES (Notes 21 and 23)				
Research and development	1,335,607	1	1,117,278	1
Selling	2,630,294	1	2,324,447	1
General and administrative	<u>2,370,820</u>	<u>1</u>	<u>2,281,730</u>	<u>1</u>
Total operating expenses	<u>6,336,721</u>	<u>3</u>	<u>5,723,455</u>	<u>3</u>
OPERATING INCOME	<u>48,716,314</u>	<u>24</u>	<u>37,744,728</u>	<u>21</u>
NONOPERATING INCOME AND GAINS				
Interest income	668,868	-	343,746	-
Investment income recognized under equity method (Note 11)	12,117,747	6	9,631,087	6
Valuation gain on financial assets (Note 5)	133,047	-	148,954	-
Others	<u>1,877,103</u>	<u>1</u>	<u>1,299,162</u>	<u>1</u>
Total nonoperating income and gains	<u>14,796,765</u>	<u>7</u>	<u>11,422,949</u>	<u>7</u>
NONOPERATING EXPENSES AND LOSSES				
Interest expense (Note 12)	569,884	-	541,823	-
Loss on physical inventory	603,793	1	-	-
Impairment loss (Note 9)	319,290	-	272,000	-
Others	<u>368,438</u>	<u>-</u>	<u>675,101</u>	<u>1</u>
Total nonoperating expenses and losses	<u>1,861,405</u>	<u>1</u>	<u>1,488,924</u>	<u>1</u>
INCOME BEFORE INCOME TAX	61,651,674	30	47,678,753	27
INCOME TAX (Notes 2 and 20)	<u>10,387,800</u>	<u>5</u>	<u>8,482,347</u>	<u>5</u>

(Continued)

	2007		2006	
	Amount	%	Amount	%
INCOME BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	\$ 51,263,874	25	\$ 39,196,406	22
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES (Note 3) (Net of income tax benefit of \$64,547 thousand)	-	-	(37,822)	-
NET INCOME	<u>\$ 51,263,874</u>	<u>25</u>	<u>\$ 39,158,584</u>	<u>22</u>
	2007		2006	
	Before Tax	After Tax	Before Tax	After Tax
EARNINGS PER SHARE (Note 22)				
Basic	\$ 5.40	\$ 4.49	\$ 4.16	\$ 3.43
Diluted	\$ 5.38	\$ 4.48	\$ 4.16	\$ 3.42

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

	2007	2005
Income before cumulative effect of changes in accounting principles	\$ 51,590,392	\$ 39,535,300
Net income	51,590,392	39,497,478
Basic earnings per share based on weighted-average number of outstanding common shares aggregating 11,494,998 thousand shares and 11,492,997 thousand shares for the years ended December 31, 2007 and 2006, respectively	<u>\$ 4.48</u>	<u>\$ 3.43</u>
Diluted earnings per share based on weighted-average number of outstanding common shares aggregating 11,533,954 thousand shares and 11,533,691 thousand shares for the years ended December 31, 2007 and 2006, respectively	<u>\$ 4.47</u>	<u>\$ 3.42</u>

(Concluded)

The accompanying notes are an integral part of the financial statements.
(With Deloitte & Touche audit report dated January 29, 2008)

CHINA STEEL CORPORATION

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY YEARS ENDED DECEMBER 31, 2007 AND 2006 (In Thousands of New Taiwan Dollars, Except Cash Dividends Per Share)

	Capital Stock		Capital Surplus	Retained Earnings		Unappropriated Earnings	Total	Unrealized Revaluation Increment	Unrealized Gain (Loss) on Financial Instruments	Cumulative Translation Adjustments	Net Loss not Recognized as Pension Cost	Treasury Stock	Total Stockholders' Equity
	Common Stock	Preferred Stock		Legal Reserve	Special Reserve								
BALANCES, JANUARY 1, 2006	\$ 105,459,736	\$ 406,980	\$ 1,209,378	\$ 30,614,261	\$ 8,467,340	\$ 51,026,001	\$ 90,107,602	\$ 1,535,363	\$ (446,483)	\$ (335,992)	\$ (36,872)	\$ (1,273,221)	\$ 196,626,491
Effect of first adoption of SFAS No. 34 (Note 3)	-	-	-	-	-	-	-	-	3,936,398	261,188	-	-	4,197,586
Conversion of preferred stock to common shares	40	(40)	-	-	-	-	-	-	-	-	-	-	-
Appropriation of 2005 earnings (Note 19)													
Legal reserve	-	-	-	5,060,439	-	(5,060,439)	-	-	-	-	-	-	-
Special reserve	-	-	-	-	(22,347)	22,347	-	-	-	-	-	-	-
Bonus to employees	1,373,025	-	-	-	-	(2,288,375)	(2,288,375)	-	-	-	-	-	(915,350)
Remuneration to directors and supervisors	-	-	-	-	-	(137,302)	(137,302)	-	-	-	-	-	(137,302)
Cash dividends to preferred shareholders - \$3.75 per share	-	-	-	-	-	(152,614)	(152,614)	-	-	-	-	-	(152,614)
Cash dividends to common shareholders - \$3.75 per share	-	-	-	-	-	(39,541,405)	(39,541,405)	-	-	-	-	-	(39,541,405)
Stock dividends to preferred shareholders - 3.5%	14,244	-	-	-	-	(14,244)	(14,244)	-	-	-	-	-	-
Stock dividends to common shareholders - 3.5%	3,690,531	-	-	-	-	(3,690,531)	(3,690,531)	-	-	-	-	-	-
Net income in 2006	-	-	-	-	-	39,158,584	39,158,584	-	-	-	-	-	39,158,584
Change in unrealized gain (loss) on available-for-sale financial assets	-	-	-	-	-	-	-	-	1,646,395	-	-	-	1,646,395
Reclassify to nonoperating income due to disposal of appreciated properties (Note 12)	-	-	-	-	-	-	-	(23,240)	-	-	-	-	(23,240)
Adjustment from changes in equity recognized under equity method	-	-	(78)	-	-	(12,252)	(12,252)	-	2,397,427	-	-	(71,556)	2,313,541
Foreign exchange gain due to the translation of foreign-currency financial statements	-	-	-	-	-	-	-	-	12,017	-	-	-	12,017
Investees' net loss not recognized as pension cost	-	-	-	-	-	-	-	-	-	(486)	-	-	(486)
Acquisition of treasury stock	-	-	-	-	-	-	-	-	-	-	-	(32,096)	(32,096)
Disposal of the Corporation's shares held by subsidiaries	-	-	38,071	-	-	-	-	-	-	-	-	41,981	80,052
Cash dividends declared by the Corporation and received by subsidiaries	-	-	300,999	-	-	-	-	-	-	-	-	-	300,999
BALANCES, DECEMBER 31, 2006	110,537,576	406,940	1,548,370	35,674,700	8,444,993	39,309,770	83,429,463	1,512,123	7,533,737	(62,787)	(37,358)	(1,334,892)	203,533,172
Conversion of preferred stock to common shares	17,380	(17,380)	-	-	-	-	-	-	-	-	-	-	-
Appropriation of 2006 earnings (Note 19)													
Legal reserve	-	-	-	3,914,633	-	(3,914,633)	-	-	-	-	-	-	-
Special reserve	-	-	-	-	(829,292)	829,292	-	-	-	-	-	-	-
Bonus to employees	1,080,539	-	-	-	-	(1,800,898)	(1,800,898)	-	-	-	-	-	(720,359)
Remuneration to directors and supervisors	-	-	-	-	-	(108,054)	(108,054)	-	-	-	-	-	(108,054)
Cash dividends to preferred shareholders - \$2.78 per share	-	-	-	-	-	(112,815)	(112,815)	-	-	-	-	-	(112,815)
Cash dividends to common shareholders - \$2.78 per share	-	-	-	-	-	(30,725,312)	(30,725,312)	-	-	-	-	-	(30,725,312)
Stock dividends to preferred shareholders - 3%	12,174	-	-	-	-	(12,174)	(12,174)	-	-	-	-	-	-
Stock dividends to common shareholders - 3%	3,315,681	-	-	-	-	(3,315,681)	(3,315,681)	-	-	-	-	-	-
Net income in 2007	-	-	-	-	-	51,263,874	51,263,874	-	-	-	-	-	51,263,874
Change in unrealized gain (loss) on available-for-sale financial assets	-	-	-	-	-	-	-	-	(687,907)	-	-	-	(687,907)
Reclassify to nonoperating income due to disposal of appreciated properties (Note 12)	-	-	-	-	-	-	-	(2,968)	-	-	-	-	(2,968)
Adjustment from changes in equity recognized under equity method	-	-	(340)	-	-	(5,674)	(5,674)	-	(372,504)	-	-	(179,968)	(558,486)
Foreign exchange gain due to the translation of foreign-currency financial statements	-	-	-	-	-	-	-	-	345,805	-	-	-	345,805
Investees' net loss not recognized as pension cost	-	-	-	-	-	-	-	-	-	(725)	-	-	(725)
Disposal of treasury stock	-	-	(2,263)	-	-	-	-	-	-	-	-	39,531	37,268
Disposal of the Corporation's shares held by subsidiaries	-	-	103,209	-	-	-	-	-	-	-	-	58,934	162,143
Cash dividends declared by the Corporation and received by subsidiaries	-	-	229,654	-	-	-	-	-	-	-	-	-	229,654
BALANCES, DECEMBER 31, 2007	<u>\$ 114,963,350</u>	<u>\$ 389,560</u>	<u>\$ 1,878,630</u>	<u>\$ 39,589,333</u>	<u>\$ 7,615,701</u>	<u>\$ 51,407,695</u>	<u>\$ 98,612,729</u>	<u>\$ 1,509,155</u>	<u>\$ 6,473,326</u>	<u>\$ 283,018</u>	<u>\$ (38,083)</u>	<u>\$ (1,416,395)</u>	<u>\$ 222,655,290</u>

The accompanying notes are an integral part of the financial statements.
(With Deloitte & Touche audit report dated January 29, 2008)

CHINA STEEL CORPORATION

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2007 AND 2006 (In Thousands of New Taiwan Dollars)

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 51,263,874	\$ 39,158,584
Cumulative effect of changes in accounting principles	-	37,822
Adjustments to reconcile net income to net cash provided by operating		
Depreciation	11,460,311	9,357,647
Amortization	616,288	505,859
Deferred income tax	(365,715)	(191,076)
Investment income under the equity method	(12,117,747)	(9,631,087)
Cash dividends received from equity method investees	5,737,767	4,956,820
Cash dividends from bond investments with no active market	443,398	399,050
Impairment loss	319,290	272,000
Valuation gains on financial assets	(133,047)	(148,954)
Unrealized loss (gain) on inter-company transactions	160,520	(26,208)
Others	11,913	(80,450)
Net changes in operating assets and liabilities		
Notes receivable	(59,277)	304,754
Accounts receivable	274,927	(702,538)
Inventories	(5,759,315)	3,419,504
Other receivable	(248,474)	273,456
Other current assets	(1,403,438)	141,557
Notes and accounts payable	1,729,307	1,274,379
Income tax payable	999,710	(1,895,943)
Accrued expenses	(300,297)	817,054
Other payables	(274,294)	(1,038,867)
Other current liabilities	360,952	447,422
Net cash provided by operating activities	<u>52,716,653</u>	<u>47,650,785</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of financial assets at fair value through profit or loss	(11,698,265)	(17,900,161)
Proceeds from disposal of financial assets at fair value through profit or loss	23,115,203	16,864,655
Acquisition of available-for-sale financial assets	(349,389)	-
Acquisition of financial assets carried at cost	(142,562)	(75,760)
Proceeds from disposal of financial assets carried at cost	15,762	4,955
Acquisition of investments accounted for by equity method	(573,579)	(289,554)
Acquisition of property, plant and equipment	(16,754,453)	(12,911,588)
Proceeds from disposal of property, plant and equipment	-	1,836
Decrease (increase) in refundable deposits	(25,840)	290,997
Proceeds from capital reduction on financial assets carried at cost	18,360	18,000
Decrease (increase) in restricted assets	(510,340)	950,000
Increase in other assets	(284,343)	(2,757,586)
Net cash used in investing activities	<u>(7,189,446)</u>	<u>(15,804,206)</u>

(Continued)

	2007	2006
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in short-term loans and overdraft	\$ (6,455,304)	\$ 5,136,606
Decrease in commercial paper payable	-	(1,499,376)
Repayments of bonds payable	-	(10,000,000)
Proceeds from issuance of bonds payable	-	13,700,000
Proceeds from long-term debt	795,335	-
Proceeds from disposal of treasury stock to employees	37,268	-
Cash dividends	(30,834,545)	(39,641,931)
Cash bonus to employees and remuneration to directors and supervisors	(828,413)	(1,052,652)
Purchase of treasury stocks	-	(32,096)
Net cash used in financing activities	<u>(37,285,659)</u>	<u>(33,389,449)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	8,241,548	(1,542,870)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>16,196,611</u>	<u>17,739,481</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 24,438,159</u>	<u>\$ 16,196,611</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid (excluding capitalized interest)	\$ 556,902	\$ 573,342
Income tax paid	9,753,805	10,569,366
INVESTING ACTIVITIES AFFECTING BOTH CASH AND NON-CASH ITEMS		
CASH PAID FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT		
Acquisition of property, plant and equipment	\$ 16,943,124	\$ 14,246,316
Increase in payable for equipment purchased	(188,671)	(1,334,728)
	<u>\$ 16,754,453</u>	<u>\$ 12,911,588</u>
CASH PAID TO STOCKHOLDERS		
Total cash dividends payable to stockholders	\$ 30,838,127	\$ 39,694,019
Increase in dividends payable	(3,582)	(52,088)
	<u>\$ 30,834,545</u>	<u>\$ 39,641,931</u>

(Concluded)

The accompanying notes are an integral part of the financial statements.
(With Deloitte & Touche audit report dated January 29, 2008)

CHINA STEEL CORPORATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2007 AND 2006

(In Thousands of New Taiwan Dollars, Except Amounts Stated Otherwise,
Earnings and Dividends Per Share)

1. ORGANIZATION AND OPERATIONS

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

The Corporation’s shares have been listed on the Taiwan Stock Exchange since December, 1974. As of December 31, 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 December 31, 2007 and 2006, the Corporation both had about 9,000 employees.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements have been prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, Business Accounting Law, Guidelines Governing Business Accounting and accounting principles generally accepted in the Republic of China (“ROC”). Under these guidelines, law and principles, certain estimates and assumptions have been used for the allowance for doubtful accounts, loss on inventory, depreciation of property, plant and equipment, impairment loss on assets, pension cost and loss on pending litigations. Actual results may differ from these estimates.

For readers’ convenience, the accompanying financial statements were translated into English from the original Chinese version prepared and used in the ROC. If inconsistencies arise between the English version and the original Chinese version or if differences arise in the interpretations between 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.

Significant accounting policies are summarized as follows:

Current and Noncurrent Assets and Liabilities

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

Cash Equivalents

Cash equivalents are short-term notes and bills with maturities of three months or less when acquired and with carrying amounts that approximate their fair values.

Financial Assets at Fair Value Through Profit or Loss

Financial instruments (mainly open-end funds) are designated as financial assets at fair value through profit or loss (FVTPL) to remove significant accounting inconsistency. The Corporation recognizes financial assets on its balance sheet when the Corporation becomes a party to the contractual provisions of the financial instrument. A financial asset is derecognized when the Corporation has lost control of its contractual rights over the financial asset. These financial instruments are initially recognized at fair value and related transaction costs are expensed currently. When subsequently measured at fair value, the changes in fair value are recognized in current income. The difference between proceeds of sale and carrying value is recognized in current income when the financial asset is derecognized from the balance sheet. A regular way 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, except for dividends distributed from the pre-acquisition profit which are treated as a reduction of investment cost. 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.

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

Revenue Recognition, Accounts Receivable and Allowance for Doubtful Accounts

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

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 letters of credit. The Corporation provides 100% allowance for doubtful accounts on accounts receivable from sales on credit and services that are overdue and assessed as not collectible.

Factoring of Accounts Receivable

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

- a. The accounts receivable have been legally isolated from the Corporation.
- b. The transferees have obtained the right to pledge or exchange the accounts receivable, which are either the transferred accounts receivable or beneficial interest in the transferred assets.
- c. The transferor does not maintain effective control, through an agreement to repurchase or redeem the transferred accounts receivable before their maturity, over the transferred accounts receivable.

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

Inventories

Inventories are raw materials, supplies, fuel, finished products, and work in process. Inventories are stated at the lower of total moving average cost or market value. Market value is the net realizable value for finished products, and work in process, and replacement costs for raw materials, supplies and fuel. Slow-moving supplies are provided with allowance for inventory obsolescence since 2007. This change did not have significant impact on the net income and basic earnings per share for the year ended December 31, 2007.

Financial Assets Carried at Cost

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

Bond Investments With No Active Market

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

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

Investments Accounted for by the Equity Method

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

Prior to January 1, 2006, the difference between the acquisition cost and the Corporation's proportionate share in the investee's equity was amortized by the straight-line method over 5 years. Effective January 1, 2006, pursuant to the revised Statement of Financial Accounting Standard ("SFAS") No. 5, "Long-term Investments Accounted for by Equity Method", the acquisition cost is analyzed, and the acquisition cost in excess of the Corporation's share of the fair value of the identifiable net assets acquired is recognized as

goodwill. Such goodwill is not amortized but instead is tested for impairment annually or whenever there are indications that the investments are impaired. The excess of the Corporation's share of the fair value of the net identifiable assets acquired over the cost of acquisition is used to reduce the fair value of each of the noncurrent assets acquired (except for financial assets other than investments accounted for by the equity method, noncurrent assets held for sale, deferred income tax assets, prepaid pension or other postretirement benefit) in proportion to the respective fair values of the noncurrent assets, with any excess recognized as an extraordinary gain. Effective January 1, 2006, the accounting treatment for the unamortized investment premium arising on acquisitions before January 1, 2006 is the same as that for goodwill and the premium is no longer being amortized. For any investment discount arising on acquisitions before January 1, 2006, the unamortized amount continues to be amortized over the remaining year.

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

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

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

Depreciation is calculated by the straight-line method over service lives estimated as follows: land improvements, 10 to 40 years; buildings, 5 to 60 years; machinery and equipment, 3 to 25 years; transportation equipment, 3 to 20 years; and other equipment, 3 to 10 years. Depreciation on appreciation is calculated by the straight-line method over the remaining service lives of the revalued assets. When property, plant and equipment reach their residual value but are still in use, their residual value are depreciated over their reestimated service lives.

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

Intangible Assets

Intangible assets acquired are initially recorded at cost and are amortized on a straight-line basis over their estimated useful lives. Computer software, 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 Repair

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

Impairment of Asset

If the recoverable amount of an asset (mainly property, plant and equipment, intangible assets, and investments accounted for by the equity method) is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is charged to earnings unless the asset is carried at a revalued amount, in which case the impairment loss is treated as a deduction to the unrealized revaluation increment. The long-term stock investments, with significant influence but the Corporation doesn't have controlling right, are estimated at the carrying value of the investments; the long-term stock investment that the Corporation has controlling right are estimated based on consolidated financial statement.

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

Pension Cost

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

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

Treasury Stock

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

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

Income Tax

The Corporation applies intra-year and inter-year allocations for its income tax, whereby deferred income tax assets for the tax effects of temporary differences, unused loss carryforward and unused tax credits. Valuation allowances are provided to the extent, if any, that it is more likely than not that deferred income tax assets will not be realized. A deferred tax asset or liability is classified as current or noncurrent in accordance with the classification of its related asset or liability. However, if a deferred income tax asset or liability does not relate to an asset or liability in the financial statements, then it is classified as either current or noncurrent based on the expected length of time before it is realized or settled.

Tax credits for purchases of machinery, equipment and technology, research and development expenditures, and employee training expenditures are recognized when those credits are granted.

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

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

Foreign-currency Transactions and Translation of Foreign-currency Financial Statements

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

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

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

- a. Recognized in stockholders' equity if the changes in fair value are recognized in stockholders' equity;
- b. Recognized in profit and loss if the changes in fair value is recognized in profit or loss.

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

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

Hedge Accounting

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

- a. Fair value hedge

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

- b. Hedge of a net investment in a foreign operation

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

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

Reclassifications

Certain accounts in the financial statements as of and for the year ended December 31, 2006 have been reclassified to conform to the presentation of the financial statements as of and for the year ended December 31, 2007.

3. EFFECTS OF CHANGES IN ACCOUNTING PRINCIPLES

a. Adoption of New and Revised Standards

On January 1, 2006, the Corporation adopted the newly released SFAS No.34 "Financial Instruments: Recognition Measurement" and SFAS No.36 "Financial Instruments: Disclosure and Presentation" 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 equity instruments previously accounted for by the 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 stockholders' equity and related financial assets.

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

The effects of adoption of the above SFASs were 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	<u>(193,641)</u>	<u>261,188</u>
	<u>\$ (37,822)</u>	<u>\$ 4,197,586</u>

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 year ended December 31, 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 Accounted for by Equity Method" and No. 25 "Business Combinations - Accounting Treatment under Purchase Method." 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 year ended December 31, 2006.

b. Recent Accounting Pronouncements

In March 2007, the Accounting Research Development Foundation in Taiwan issued an interpretation that requires companies to recognize as compensation expenses bonuses paid to employees, directors and supervisors beginning January 1, 2008. These bonuses are currently recorded as appropriations from earnings.

4. CASH AND CASH EQUIVALENTS

	December 31, 2007	December 31, 2006
Cash on hand	\$ 18,927	\$ 18,704
Checking accounts and demand deposits	682,671	872,368
Time deposits	7,100,000	2,700,000
Negotiable certificates of deposit	6,000,000	3,000,000
Cash equivalents - short-term notes and bills	<u>10,636,561</u>	<u>9,605,539</u>
	<u>\$ 24,438,159</u>	<u>\$ 16,196,611</u>

As of December 31, 2007 and 2006, the Corporation had foreign bank deposits of ¥8,825 thousand and ¥8,685 thousand in Japan-Osaka Bank and ¥9 thousand and ¥27,904 thousand in Singapore - Daiwa Securities SMBC with the total of ¥8,834 thousand (NT\$2,559 thousand) and ¥36,589 thousand (NT\$10,057 thousand), respectively.

5. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

These financial assets designated as at FVTPL represents open-end funds. As of December 31, 2007 and 2006, the balances of financial assets at fair value through profit or loss were NT\$1,032,097 thousand and NT\$12,315,988 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 gains on financial assets designated as at FVTPL for the years ended December 31, 2007 and 2006 were NT\$133,047 thousand and NT\$148,954 thousand, respectively.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31, 2007		December 31, 2006	
	Current	Noncurrent	Current	Noncurrent
Quoted stocks				
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	250,220	-	250,460	-
Adjustments for change in valuation	<u>3,357,450</u>	<u>1,565,847</u>	<u>3,717,406</u>	<u>1,850,767</u>
	<u>\$ 4,575,126</u>	<u>\$ 2,673,156</u>	<u>\$ 4,935,322</u>	<u>\$ 2,851,977</u>

The Corporation invested NT\$597,214 thousand to acquire 9% equity of TEIWC. In 2002, the Corporation recognized an impairment loss of NT\$597,214 thousand on its investment in TEIWC. In July 2006, TEIWC's shares were listed on the Gre Tai Securities Market. Accordingly, this financial asset carried at cost was classified as available-for-sale financial asset-noncurrent. As of December 31, 2007 and 2006, the carrying value of this financial asset were NT\$731,587 thousand and NT\$895,821 thousand, respectively.

In September 2007, in order to firm up the sales business of steel products, the Corporation invested NT\$349,389 thousand (¥1,214,000 thousand) and acquired 2,000 thousand common shares of Yodogawa Steel Works, Ltd., representing 1% equity. The purchase price per share was referred to the average closing price of Yodogawa Steel Works, Ltd. stock in Tokyo Stock Exchange from August 1 to 28, 2007.

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

7. ACCOUNTS RECEIVABLE

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

The related information for the Corporation's sale of its accounts receivable for the years ended December 31, 2007 and 2006 is as follows:

Transaction Counter-party	Receivables Sold	Amounts Collected	Advances Received at Year-end	Interest Rates on Advances Received (%)	Credit Line (In billions of NTD)
<u>Year ended December 31, 2007</u>					
Accounts Receivable					
Mega Bank	\$ 13,310,610	\$ 8,797,058	\$ 4,513,552	1.99-2.54	64
Bank of Taiwan	2,025,727	1,326,890	698,837	2.03-2.54	25
Taipei Fubon Bank	611,646	390,426	221,220	2.26-2.70	4
	<u>\$ 15,947,983</u>	<u>\$ 10,514,374</u>	<u>\$ 5,433,609</u>		
<u>Year ended December 31, 2006</u>					
Accounts Receivable					
Mega Bank	\$ 9,088,245	\$ 4,945,972	\$ 4,142,273	1.57-1.95	62.4
Bank of Taiwan	1,069,512	603,109	466,403	1.57-1.95	25
Taipei Fubon Bank	45,040	-	45,040	2.02-2.15	4
	<u>\$ 10,202,797</u>	<u>\$ 5,549,081</u>	<u>\$ 4,653,716</u>		

8. INVENTORIES

	December 31, 2007	December 31, 2006
Finished products	\$ 8,013,742	\$ 6,555,804
Work in process	11,972,374	9,947,583
Raw materials	8,787,808	6,730,833
Supplies	5,995,890	5,471,366
Materials in transit	2,953,488	2,667,036
Fuel	162,816	151,547
Others	787,667	886,699
	<u>38,673,785</u>	<u>32,410,868</u>
Less: Allowance for inventory obsolescence losses	<u>503,602</u>	<u>-</u>
	<u>\$ 38,170,183</u>	<u>\$ 32,410,868</u>

9. FINANCIAL ASSETS CARRIED AT COST

	December 31, 2007	December 31, 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. (CBVI)	83,640	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)	-	-
Advanced Material Technology Corporation (AMTC)	-	-
Unquoted Preferred stocks		
East Asia United Steel Corporation (EAUS)	2,897,000	2,741,000
Dragon Steel Corporation (DSC)		
Preferred A	999,877	999,877
Preferred B	53,312	-
Fund - Sino-Canada Biotechnology Development Fund, LP (SCBDF)	82,546	174,308
	<u>\$ 6,156,803</u>	<u>\$ 5,766,315</u>

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

The Corporation invested NT\$102,000 thousand to acquire 4.8% equity of CBVI. In November 2007, CBVI reduced its capital and returned NT\$18,360 thousand to the Corporation. Accordingly, the cost of investment in CBVI was reduced to NT\$83,640 thousand.

In August 2007, the Corporation acquired 3,808 thousand Preferred B shares (representing 5% ownership) of DSC for NT\$55,216 thousand. Dividend on these shares is at 5%, payable on a participating and cumulative basis. Preferred stockholders have the same voting rights as common stockholders, except the right to vote for directors and supervisors, but they can be candidates for directors and supervisors. The difference between the carrying value and the cost of investment was dividends received by the Corporation.

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, but the Corporation did not subscribe and the equity in TRSC decreased to 19%. Accordingly, the investment in TRSC was reclassified from the account of investments 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 December 31, 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 December 31, 2007, the Corporation have invested CAD\$9,435 thousand (NT\$219,025 thousand) in SCBDF fund. In 2007, the Corporation recognized an impairment loss of NT\$76,000 thousand (recorded as nonoperating loss) on its investment in SCBDF. The difference between the above cumulative investment and the carrying value was SCBDF disposal of its investments and returned capital to the Corporation.

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. BOND INVESTMENTS WITH NO ACTIVE MARKET

	December 31, 2007	December 31, 2006
<u>Unquoted preferred stocks</u>		
Taiwan High Speed Rail Corporation (THSRC)		
Preferred C	\$ 3,904,542	\$ 4,297,940
Preferred B	834,384	884,384
Taigen Biotechnology Co., Ltd. (TBC)	<u>300,000</u>	<u>300,000</u>
	<u>\$ 5,038,926</u>	<u>\$ 5,482,324</u>

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\$1,499,996 thousand, respectively. These shares, representing 19% of ownership, which may be converted to common shares within four years from the acquisition date, have a 9.5% dividend in the first two years and 0% in the next two years. At the end of four years, i.e., in 2009 and 2008, if the Corporation does not convert the Preferred C shares into common shares and THSRC cannot redeem the shares, the unredeemed shares will have 4.71% dividends. THSRC mainly builds and operates public transportation systems.

In November 2005 and March 2004, the Corporation acquired a total of 20,000 thousand preferred shares representing 24% of ownership of TBC for NT\$300,000 thousand. Preferred 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 stockholders' meeting agreed to postpone to July 2008)

11. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

	<u>December 31, 2007</u>		<u>December 31, 2006</u>	
	Amount	% of Owner- ship	Amount	% of Owner- ship
Stocks listed on the Taiwan Stock Exchange				
Chung Hung Steel Corporation (CHSC)	\$ 3,675,723	24	\$ 2,759,685	24
China Steel Chemical Corporation (CSCC)	1,377,882	29	1,226,692	30
China Hi-ment Corporation (CHC)	667,321	20	656,151	20
China Steel Structure Corporation (CSSC)	548,287	18	499,023	18
China Ecotek Corporation (CEC)	<u>404,891</u>	36	<u>373,658</u>	36
	6,674,104		5,515,209	
Less: Shares held by subsidiaries accounted for as treasury stock	<u>336,709</u>		<u>332,196</u>	
	<u>6,337,395</u>		<u>5,183,013</u>	
Stocks without quoted market prices				
Dragon Steel Corporation (DSC)	16,371,288	47	15,731,795	47
China Steel Express Corporation (CSE)	12,301,101	100	8,631,926	100
Gains Investment Corporation (GIC)	8,264,312	100	8,788,400	100
C. S. Aluminum Corporation (CAC)	7,413,376	100	7,387,741	100
China Prosperity Development Corporation (CPDC)	4,761,535	100	4,680,646	100
China Steel Asia Pacific Holdings Pte Ltd (CSAPH)	3,275,056	100	2,683,091	100
Kaohsiung Rapid Transit Corporation (KRTC)	2,900,453	31	3,035,260	31
Goang Yaw Investment Corporation (Goang Yaw) and other two investment companies	2,527,623	99	1,877,523	99
China Steel Global Trading Corporation (CSGT)	1,241,357	100	1,193,585	100
China Steel Machinery Corporation (CSMC)	1,005,342	100	861,088	100
Info-Champ Systems Corporation (ICSC)	679,218	100	644,834	100
CSC Australia Holding Pty. Ltd. (CSCAU)	463,351	100	-	-
Kaohsiung Arena Development Corporation (KADC)	339,147	18	260,606	18
China Steel Security Corporation (CSS)	261,905	100	250,071	100
Taiwan Rolling Stock Co., Ltd. (Note 9)	-	-	226,194	22
Hi-mag Magnetic Corporation (HMC)	105,243	50	94,324	50
Baolai Greeting Development Co., Ltd. (BGDC)	46,515	45	50,136	45
China Steel Management Consulting Corporation (CSMCC)	7,285	38	9,458	38
TaiAn Technologies Corporation (TTC)	<u>5,513</u>	17	<u>4,136</u>	17
	62,329,620		56,410,814	
Less: Shares held by subsidiaries accounted for as treasury stock	<u>1,079,686</u>		<u>963,165</u>	
	<u>61,249,934</u>		<u>55,447,649</u>	
	<u>\$ 67,587,329</u>		<u>\$ 60,630,662</u>	

The Corporation's total equity in CHSC is 39%, including 24% directly owned and 15% indirectly owned. The Corporation's total equity in TTC is 22%, including 17% directly owned and 5% indirectly owned through CSCC. The Corporation's total equity in KADC is 32%, including 18% directly owned and 14% indirectly owned through CSSC and CPDC.

In December 2007, KADC increased capital by cash and the Corporation invested NT\$90,000 thousand by holding equity ratio.

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. As of December 31, 2007, the joint venture has not yet begun to mine for coal.

The market value of above listed stocks based on the closing price on December 31, 2007 and 2006 was as follows:

	December 31, 2007	December 31, 2006
CSCC	\$ 5,175,417	\$ 2,941,783
CHSC	5,086,048	4,147,551
CHC	1,339,911	1,098,150
CEC	1,020,285	583,252
CSSC	<u>525,466</u>	<u>387,261</u>
	<u>\$ 13,147,127</u>	<u>\$ 9,157,997</u>

The Corporation's Board of Directors approved plans for additional investments in CSBC Corporation, Taiwan and steel factory in Vietnam etc. The related subscription schedule depends on the investees' capital increase requirements. As of December 31, 2007, the Corporation's unexecuted investment in these investees aggregated NT\$11,053,806 thousand.

The Corporation's Board of Directors approved to exchange 22,900 thousand shares of CSMC for CEC's new shares issued by increased capital. The exchange ratio is 1:1, and the estimated exchange date is on March 7, 2008. After the exchange, the Corporation's equity in CSMC and CEC will be reduced from 100% to 74% and increased from 36% to 49%, respectively. As of January 29, 2008, the share exchange plan is still subject to the approval of the authorities.

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

	Year Ended December 31, 2007	Year Ended December 31, 2006
CSE	\$ 6,686,007	\$ 3,452,173
CHSC, Goang Yaw and other two subsidiaries	1,576,781	2,623,804
GIC	865,562	886,902
DSC	733,954	642,517

(Continued)

	2007	2006
CAC	\$ 542,788	\$ 689,395
CSCC	413,309	362,817
CSAPH	355,247	285,331
CSGT	339,000	357,284
CSMC	228,179	34,173
CHC	118,874	135,591
CPPC	118,391	25,918
ICSC	96,383	83,440
CSSC	81,994	17,733
CEC	80,436	(8,829)
KRTC	(164,412)	(80,354)
Others	45,254	123,192
	<u>\$ 12,117,747</u>	<u>\$ 9,631,087</u>

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

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

12. PROPERTY, PLANT AND EQUIPMENT

	Land and Land Improvements	Buildings	Machinery and Equipment	Transportation Equipment	Other Equipment	Construction In progress	Total
<u>Year Ended December 31, 2007</u>							
Cost							
Balance, beginning of year	\$ 12,535,004	\$ 37,423,461	\$ 219,788,073	\$ 1,473,130	\$ 3,096,559	\$ 21,922,773	\$ 296,239,000
Additions	1,593,817	2,560,711	18,467,688	69,221	1,130,597	(6,878,910)	16,943,124
Reclassification	-	(161,816)	-	-	-	-	(161,816)
Disposals	-	(49,317)	(1,066,170)	(41,868)	(208,312)	-	(1,365,667)
Balance, end of year	<u>14,128,821</u>	<u>39,773,039</u>	<u>237,189,591</u>	<u>1,500,483</u>	<u>4,018,844</u>	<u>15,043,863</u>	<u>311,654,641</u>
Revaluation increment							
Balance, beginning of year	6,333,722	2,423,546	8,433,643	27,233	31,747	-	17,249,891
Disposals	-	(23)	(147,255)	-	(33)	-	(147,311)
Balance, end of year	<u>6,333,722</u>	<u>2,423,523</u>	<u>8,286,388</u>	<u>27,233</u>	<u>31,714</u>	<u>-</u>	<u>17,102,580</u>
Accumulated depreciation							
Balance, beginning of year	3,654,129	18,022,299	177,729,235	1,178,615	2,451,299	-	203,035,577
Depreciation expense	134,488	1,200,306	9,484,483	77,768	534,256	-	11,431,301
Reclassification	-	(18,138)	-	-	-	-	(18,138)
Disposals	-	(26,514)	(1,188,053)	(41,327)	(205,457)	-	(1,461,351)
Balance, end of year	<u>3,788,617</u>	<u>19,177,953</u>	<u>186,025,665</u>	<u>1,215,056</u>	<u>2,780,098</u>	<u>-</u>	<u>212,987,389</u>
Net book value, end of year	<u>\$ 16,673,926</u>	<u>\$ 23,018,609</u>	<u>\$ 59,450,314</u>	<u>\$ 312,660</u>	<u>\$ 1,270,460</u>	<u>\$ 15,043,863</u>	<u>\$ 115,769,832</u>
<u>Year Ended December 31, 2006</u>							
Cost							
Balance, beginning of year	\$ 12,210,849	\$ 36,016,863	\$ 212,821,181	\$ 1,452,514	\$ 3,013,382	\$ 19,768,057	\$ 285,282,846
Additions	329,544	1,422,613	9,931,813	116,173	291,457	2,154,716	14,246,316
Disposals	(5,389)	(16,015)	(2,964,921)	(95,557)	(208,280)	-	(3,290,162)
Balance, end of year	<u>12,535,004</u>	<u>37,423,461</u>	<u>219,788,073</u>	<u>1,473,130</u>	<u>3,096,559</u>	<u>21,922,773</u>	<u>296,239,000</u>
Revaluation increment							
Balance, beginning of year	6,333,722	2,424,236	8,844,981	33,748	31,795	-	17,668,482
Disposals	-	(690)	(411,338)	(6,515)	(48)	-	(418,591)
Balance, end of year	<u>6,333,722</u>	<u>2,423,546</u>	<u>8,433,643</u>	<u>27,233</u>	<u>31,747</u>	<u>-</u>	<u>17,249,891</u>
Accumulated depreciation							
Balance, beginning of year	3,518,930	16,979,739	173,316,456	1,204,644	2,364,515	-	197,384,284
Depreciation expense	139,835	1,057,219	7,771,707	73,128	288,532	-	9,330,421
Disposals	(4,636)	(14,659)	(3,358,928)	(99,157)	(201,748)	-	(3,679,128)
Balance, end of year	<u>3,654,129</u>	<u>18,022,299</u>	<u>177,729,235</u>	<u>1,178,615</u>	<u>2,451,299</u>	<u>-</u>	<u>203,035,577</u>
Net book value, end of year	<u>\$ 15,214,597</u>	<u>\$ 21,824,708</u>	<u>\$ 50,492,481</u>	<u>\$ 321,748</u>	<u>\$ 677,007</u>	<u>\$ 21,922,773</u>	<u>\$ 110,453,314</u>

Information about capitalized interest on the purchase of property, plant and equipment for years of the 2007 and 2006 was disclosed as follows:

	Year Ended December 31, 2007	Year Ended December 31, 2006
Interest expense before capitalization	\$ 643,147	\$ 636,177
Capitalized interest - construction in progress	<u>(73,263)</u>	<u>(94,354)</u>
Interest expense through income statement	<u>\$ 569,884</u>	<u>\$ 541,823</u>
Capitalization rates	1.74%-2.37%	1.64%-2.23%

In 1981 and 1994, the Corporation revalued its property, plant and equipment and patents in accordance with government regulations, resulting in the 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 December 31, 2007, revaluation increment on assets totaling 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. In 2007 and 2006, upon retirement or sale of appreciated properties, the revaluation increment on assets decreased by NT\$2,968 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
<u>Year Ended December 31, 2007</u>				
Cost				
Balance, beginning of year	\$ 2,966,632	\$ 2,000,000	\$ -	\$ 4,966,632
Reclassification	<u>-</u>	<u>-</u>	<u>161,816</u>	<u>161,816</u>
Balance, end of year	<u>2,966,632</u>	<u>2,000,000</u>	<u>161,816</u>	<u>5,128,448</u>
Accumulated depreciation				
Balance, beginning of year	-	1,333,278	-	1,333,278
Reclassification	-	-	18,138	18,138
Depreciation expense	-	<u>26,358</u>	<u>2,652</u>	<u>29,010</u>
Balance, end of year	-	<u>1,359,636</u>	<u>20,790</u>	<u>1,380,426</u>
Accumulated impairment	-	<u>594,000</u>	-	<u>594,000</u>
Net book value, end of year	<u>\$ 2,966,632</u>	<u>\$ 46,364</u>	<u>\$ 141,026</u>	<u>\$ 3,154,022</u>
<u>Year Ended December 31, 2006</u>				
Cost				
Balance, beginning of year	\$ 2,966,398	\$ 2,000,000	\$ -	\$ 4,966,398
Additions	<u>234</u>	<u>-</u>	<u>-</u>	<u>234</u>
Balance, end of year	<u>2,966,632</u>	<u>2,000,000</u>	<u>-</u>	<u>4,966,632</u>

	Land	Machinery and Equipment	Buildings and Improvements	Total
Accumulated depreciation				
Balance, beginning of year	\$ -	\$ 1,306,052	\$ -	\$ 1,306,052
Depreciation expense	-	27,226	-	27,226
Balance, end of year	-	1,333,278	-	1,333,278
Accumulated impairment	-	594,000	-	594,000
Net book value, end of year	\$ 2,966,632	\$ 72,722	\$ -	\$ 3,039,354

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

14. SHORT-TERM LOANS AND OVERDRAFT

	December 31, 2007	December 31, 2006
Credit loans - interest at 2.195% p.a. and 1.658%-1.73% p.a. as of December 31, 2007 and 2006, respectively	\$ 7,000,000	\$ 13,900,000
Letters of credit - due within 180 days; interest at 1.1088%-5.2838% p.a. and 0.7%-5.7833% p.a. as of December 31, 2007 and 2006, respectively	120,750	489,422
Overdraft - interest at 1.75%-2.675% p.a. and 1.49%-1.701% p.a. as of December 31, 2007 and 2006, respectively	3,033,935	2,220,567
	<u>\$ 10,154,685</u>	<u>\$ 16,609,989</u>

15. BONDS PAYABLE

	December 31, 2007	December 31, 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	\$ 5,600,000
June 2006; repayable in June 2011; 2.32% interest p.a., payable annually	8,100,000	8,100,000
	<u>\$ 13,700,000</u>	<u>\$ 13,700,000</u>

16. LONG-TERM DEBTS

	December 31, 2007	December 31, 2006
Repayable in July 2010 (AUD16.54 million); floating rates at 7.0011% p.a. as of December 31, 2007	\$ 472,708	\$ -
Repayable in July 2010 (¥4.4 billion); floating rates at 1.1268% and 0.69% p.a. as of December 31, 2007 and 2006, respectively	1,274,680	1,206,040
Repayable in December 2009 (¥2.6 billion); floating rates at 1.2108% and 0.8563% p.a. as of December 31, 2007 and 2006, respectively	753,220	712,660
Repayable in July 2010 (¥2.2 billion); floating rates at 1.2203% and 0.8034% p.a. as of December 31, 2007 and 2006, respectively	637,340	603,020

(Continued)

	2007	2006
Repayable in July 2010 (¥3.3 billion); floating rates at 1.3863% and 0.7719% p.a. as of December 31, 2007 and 2006, respectively	\$ 956,010	\$ 904,530
Repayable in November 2010 (¥1.214 billion); floating rates at 1.165% p.a. as of December 31, 2007	<u>351,696</u>	<u>-</u>
	<u>\$ 4,445,654</u>	<u>\$ 3,426,250</u>

The Corporation borrowed long-term bank loans in Japanese yen and Australian dollar to hedge the exchange rate fluctuations on the foreign-currency investments in East Asia United Steel Corporation, Maruichi Steel Tube Ltd., CSC Australia Holdings Pty. Ltd., and Yodogawa Steel Works, 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 accounts at amounts equal to 6% of the salaries and wages of employees. According to above regulation, pension cost for the years ended December 31, 2007 and 2006 was NT\$26,808 thousand and NT\$10,283 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 was merged into the Bank of Taiwan in July 2007) in the name of, and administered by the employees' pension fund administration committee. According to above regulation, pension cost for the years ended December 31, 2007 and 2006 was NT\$1,634,142 thousand and NT\$1,419,469 thousand, respectively.

Since August 1999, the Corporation also made contributions, equal to a certain percentage of salaries of management personnel (vice presidents and above), to another pension fund, which is deposited in The Mega International Commercial Bank in the name of, and administered by an officers' pension fund management committee. Pension cost for the years ended December 31, 2007 and 2006 was NT \$4,370 thousand and NT \$3,374 thousand, respectively.

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

	Year Ended December 31, 2007	Year Ended December 31, 2006
a. Components of net pension cost		
Service cost	\$ 1,372,219	\$ 1,313,716
Interest cost	543,483	486,928
Projected return on plan assets	(340,479)	(425,333)
Amortization	<u>63,289</u>	<u>47,532</u>
Net pension cost	<u>\$ 1,638,512</u>	<u>\$ 1,422,843</u>

	December 31, 2007	December 31, 2006
b. Reconciliation of the funded status of the plan and accrued pension cost		
Benefit obligation		
Vested benefit obligation	\$ 373,281	\$ 304,305
Non-vested benefit obligation	<u>13,492,230</u>	<u>12,173,110</u>
Accumulated benefit obligation	13,865,511	12,477,415
Additional benefits based on future salaries	<u>3,240,813</u>	<u>3,270,173</u>
Projected benefit obligation	17,106,324	15,747,588
Fair value of plan assets	<u>(15,026,819)</u>	<u>(13,403,529)</u>
Funded status	2,079,505	2,344,059
Unrecognized net asset at transitional	61,983	71,519
Unamortized net loss	<u>(2,067,096)</u>	<u>(2,303,011)</u>
Accrued pension cost (included in accrued expense)	<u>\$ 74,392</u>	<u>\$ 112,567</u>
Vested benefits	<u>\$ 399,899</u>	<u>\$ 328,828</u>
c. Actuarial assumptions		
Discount rate used in determining present values	3.5%	3.5%
Future salary increase rate	3.0%	3.0%
Expected rate of return on plan assets	3.5%	2.5%
d. Contributions to the fund during the year	<u>\$ 1,673,851</u>	<u>\$ 1,477,287</u>
e. Payments from the fund during the year	<u>\$ 481,139</u>	<u>\$ 295,420</u>

18. DEFERRED CREDITS - GAIN ON INTER-COMPANY TRANSACTIONS

	December 31, 2007	December 31, 2006
Gain on disposal of land	\$ 1,136,164	\$ 1,136,164
Gain on contracted projects	<u>196,852</u>	<u>14,776</u>
	<u>\$ 1,333,016</u>	<u>\$ 1,150,940</u>

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 and DSC, 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 2008 to 2009 and in 2009 to 2010, respectively.

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 common shares of 440,839 thousand and 507,780 thousand, respectively.

In 2007 and 2006, 1,738 thousand shares and 4 thousand shares of preferred stock were converted into common stocks, respectively. As of December 31, 2007, 1,271 thousand shares of which were not yet registered with the government.

b. Treasury stock

Purpose of Treasury Stock	Thousand Shares			December 31	
	Beginning of Year	Addition	Reduction	Thousand Shares	Book Value
<u>Year ended December 31, 2007</u>					
1) Shares acquired and held by subsidiaries	81,180	7,165	3,802	84,543	\$ 1,416,395
2) Shares acquired by the Corporation for transfer to employees	<u>1,600</u>	<u>-</u>	<u>1,600</u>	<u>-</u>	<u>-</u>
	<u>82,780</u>	<u>7,165</u>	<u>5,402</u>	<u>84,543</u>	<u>\$ 1,416,395</u>
<u>Year ended December 31, 2006</u>					
1) Shares acquired and held by subsidiaries	78,899	4,955	2,674	81,180	\$ 1,295,361
2) Shares acquired by the Corporation for transfer to employees	<u>300</u>	<u>1,300</u>	<u>-</u>	<u>1,600</u>	<u>39,531</u>
	<u>79,199</u>	<u>6,255</u>	<u>2,674</u>	<u>82,780</u>	<u>\$ 1,334,892</u>

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 years ended December 31, 2007 and 2006, treasury stock increased by 7,165 thousand shares and 4,955 thousand shares, respectively, due to the Corporation's capitalization of retained earnings and additional purchase made by subsidiaries; treasury stock decreased by 3,802 thousand shares and 2,674 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\$162,143 thousand and NT\$80,052 thousand for the years ended December 31, 2007 and 2006, respectively) and carrying values of NT\$103,209 thousand and NT\$38,071 thousand were credited to capital surplus.

As of December 31, 2007 and 2006, the market values of the treasury shares are NT\$3,677,641 thousand and NT\$2,808,816 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 and transferred all the shares to employees in 2007.

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

c. Overseas depositary receipts

In May 1992, February 1997 and October 2003, the ROC's Ministry of Economic Affairs (MOEA) sold its holding shares in the Corporation through issuances of 88,329,150 units of Global Depositary Receipts (GDR), with each unit representing 20 shares of the Corporation's common stock, or equivalent to the Corporation's common shares totalling 1,887,073,812 shares. The depositary shares then increased by 6,024,532 resulting from the capitalization of retained earnings. Under relevant regulations, the GDR holders may also request the conversion to the shares represented by the GDR. The foreign investors may also request the reissuance of such depositary receipts within the originally approved units. As of December 31, 2007, the outstanding depositary receipts were 9,515,633 units, equivalent to 190,312,812 common shares, which represented 1.66% 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 at the ratio of 1:1.

e. Capital surplus

Capital surplus comprised of the following:

	December 31, 2007	December 31, 2006
Treasury stock transaction	\$ 1,630,556	\$ 1,305,851
Long-term stock investments under the equity method	239,975	234,420
Others	<u>8,099</u>	<u>8,099</u>
	<u>\$ 1,878,630</u>	<u>\$ 1,548,370</u>

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

f. Appropriation of retained earnings and dividend policy

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

- 1) 10% as legal reserve, until its balance equals the issued capital stock;
- 2) Preferred stock dividends at 14% of par value;
- 3) Of the remainder, 0.15% as remuneration to directors and supervisors and 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 income. If necessary, it may, after appropriating preferred stock dividends at 14% of paid-in capital, propose to retain certain earnings as a special reserve. These proposals should be submitted to the stockholders' meeting for approval.

The Corporation is required to appropriate a special reserve from annual earnings for any net debit balance resulting from adjustments to the stockholders' equity (including revaluation increment on assets, unrealized gain (loss) on financial instruments, unrecognized net loss on pension cost and cumulative translation adjustments), excluding treasury stock. Besides, if the Corporation's 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 such debit balances are partially or fully reversed. As of December 31, 2007, the Corporation had fully reversed the special reserve under relevant regulations which accounted for the balance of deduction in stockholders' equity, and the unreversed special reserve was held for the capital demand of expansion construction.

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

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

The Corporation's stockholders in their June 2007 and 2006 meetings approved the following appropriations of the 2006 and 2005 earnings (the change of preferred stock and common stock dividends due to preferred stock converted to common stock has been adjusted by actual appropriation on the effective day).

	Amount		Dividends Per Share	
	2006	2005	2006	2005
Legal reserve	\$ 3,914,633	\$ 5,060,439		
Special reserve	(829,292)	(22,347)		
Preferred Stocks				
Cash dividends	112,815	152,614	\$ 2.78	\$ 3.75
Stock dividends	12,174	14,244	<u>0.30</u>	<u>0.35</u>
			<u>\$ 3.08</u>	<u>\$ 4.10</u>
Common Stocks				
Cash dividends	30,725,312	39,541,405	\$ 2.78	\$ 3.75
Stock dividends	3,315,681	3,690,531	<u>0.30</u>	<u>0.35</u>
			<u>\$ 3.08</u>	<u>\$ 4.10</u>
Remuneration to directors and supervisors	108,054	137,302		
Bonus to employees				
Cash bonus	720,359	915,350		
Stock bonus	<u>1,080,539</u>	<u>1,373,025</u>		
	<u>\$ 39,160,275</u>	<u>\$ 50,862,563</u>		

g. Effect of bonus to employees and remuneration to directors and supervisors if charged to expense

The aforementioned appropriation of bonus to employees and remuneration to directors and supervisors was as follows:

	Amount	Shares (Thousands)	Percentage to Common Shares Outstanding as of Each Year-end (%)
2006			
Bonus to employees			
Stock bonus	\$ 1,080,539	108,054	0.98
Cash bonus	720,359	-	-
Remuneration to directors and supervisors - cash	<u>108,054</u>	-	-
	<u>\$ 1,908,952</u>		

(Continued)

	Amount	Shares (Thousands)	Percentage to Common Shares Outstanding as of Each Year-end (%)
<u>2005</u>			
Bonus to employees			
Stock bonus	\$ 1,373,025	137,303	1.30
Cash bonus	915,350	-	-
Remuneration to directors and supervisors - cash	<u>137,302</u>	-	-
	<u>\$ 2,425,677</u>		

Had the bonus to employees and remuneration to directors and supervisors been charged to expense (stock bonus calculation was based on par value) in 2006 and 2005, the basic earnings per share after income tax for the years ended December 31, 2006 and 2005 would have decreased (the capitalization of retained earnings in 2007 and 2006 were already reflected as retroactive adjustment of the shares for 2006 and 2005) from NT\$3.43 to NT\$3.29 and from NT\$4.61 to NT\$4.39, respectively.

Information about the appropriations of earnings is available on the Market Observation Post System website of the Taiwan Stock Exchange.

h. Unrealized gain (loss) on financial instruments

For the years ended December 31, 2007 and 2006, movements of unrealized gain (loss) on financial instruments were as follows:

	Available-for- sale Financial Assets	Equity-method Investments	Total
<u>Year Ended December 31, 2007</u>			
Balance, beginning of year	\$ 5,582,793	\$ 1,950,944	\$ 7,533,737
Recognized in stockholders' equity	<u>(687,907)</u>	<u>(372,504)</u>	<u>(1,060,411)</u>
Balance, end of year	<u>\$ 4,894,886</u>	<u>\$ 1,578,440</u>	<u>\$ 6,473,326</u>
<u>Year Ended December 31, 2006</u>			
Balance, beginning of year	\$ -	\$ (446,483)	\$ (446,483)
Effect of first adoption of SFAS No. 34	3,936,398	-	3,936,398
Recognized in stockholders' equity	<u>1,646,395</u>	<u>2,397,427</u>	<u>4,043,822</u>
Balance, end of year	<u>\$ 5,582,793</u>	<u>\$ 1,950,944</u>	<u>\$ 7,533,737</u>

20. INCOME TAX

The government enacted the Alternative Minimum Tax Act ("AMT Act") 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 the 25% statutory rate and income tax expense was as follows:

	Year Ended December 31, 2007	Year Ended December 31, 2006
Income tax expense at the 25% statutory rate	\$ 15,412,919	\$ 11,919,688
Tax effect adjusting items		
Permanent differences		
Investment income recognized under equity method - domestic	(2,942,879)	(2,336,439)
Unrealized valuation gain on financial assets	(33,262)	(37,239)
Dividends - domestic investees	(82,098)	(68,001)
Tax - exempt income	(44,461)	(12,578)
Others	(42,929)	3,441
	<u>(3,145,629)</u>	<u>(2,450,816)</u>
Temporary differences		
Impairment loss	79,822	68,000
Difference between tax reporting and financial reporting - depreciation methods	160,286	158,549
Loss on inventory obsolescence	123,517	-
Unrealized (realized) gain on inter-company transactions	40,130	(6,552)
Investment income recognized under equity method - foreign	(86,557)	(71,333)
Unrealized (realized) foreign exchange gain	(8,746)	22,483
Investment loss resulting from investees' capital reduction	-	(10,939)
Accrued electrostatic precipitator dust disposal expense	(17,805)	31,934
Cash dividends – foreign investees	37,580	-
Others	28,344	3,383
	<u>356,571</u>	<u>195,525</u>
Investment tax credits used	<u>(1,879,831)</u>	<u>(1,070,145)</u>
Current income tax expense	10,744,030	8,594,252
Adjustments for prior years' tax	(41,357)	47,253
Tax separately levied on interest from short-term bills	51,022	31,918
Current income tax payable	10,753,515	8,673,423
Deferred income tax expense	<u>(365,715)</u>	<u>(191,076)</u>
	<u>\$ 10,387,800</u>	<u>\$ 8,482,347</u>

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 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. Change in income tax payable

Balance, beginning of year	\$ 5,682,534	\$ 7,578,477
Current income tax payable	10,753,515	8,673,423
Payment in the current year	<u>(9,753,805)</u>	<u>(10,569,366)</u>
Balance, end of year	<u>\$ 6,682,244</u>	<u>\$ 5,682,534</u>

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

	December 31, 2007	December 31, 2006
Current		
Deferred income tax assets		
Unrealized gain on inter-company transactions	\$ 80,270	\$ 85,659
Severance pay	60,023	65,249
Accrued electrostatic precipitator dust disposal expense	14,129	31,934
Allowance for inventory obsolescence loss	123,517	-
Others	<u>88,453</u>	<u>10,121</u>
	366,392	192,963
Deferred income tax liabilities		
Temporary difference between tax reporting and financial reporting - inventory	<u>(33,669)</u>	<u>(20,773)</u>
	<u>332,723</u>	<u>172,190</u>
Noncurrent		
Deferred income tax assets		
Impairment loss on financial assets	379,822	300,000
Impairment loss on assets	59,192	83,165
Cumulative effect of changes in accounting principles	64,547	64,547
Unrealized gain on inter-company transactions	49,213	3,694
Others	<u>4,543</u>	<u>3,292</u>
	<u>557,317</u>	<u>454,698</u>
Deferred income tax liabilities		
Foreign investment income	(443,545)	(394,568)
Temporary difference between tax reporting and financial reporting - depreciation methods	(2,549,979)	(2,710,265)
Unrealized foreign exchange gain	<u>(75,300)</u>	<u>(66,554)</u>
	<u>(3,068,824)</u>	<u>(3,171,387)</u>
	<u>(2,511,507)</u>	<u>(2,716,689)</u>
Total deferred income tax liabilities - net	<u>\$ (2,178,784)</u>	<u>\$ (2,544,499)</u>

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

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 had been examined by the tax authorities.

d. Information about integrated income tax was as follows:

	December 31, 2007	December 31, 2006
Imputation credit account (ICA)	\$ 5,271,280	\$ 2,985,419
Unappropriated earnings generated before January 1, 1998	35,440	35,440

The creditable ratio for distribution of 2007 and 2006 earnings was 23.27% (estimate) and 25.93%, respectively.

For distribution of earnings generated after January 1, 1998, the ratio for the imputation credits allocated to domestic shareholders of the Corporation is based on the balance of the ICA as of the date of dividend distribution. Nonresident stockholders, including holders of overseas depository receipts, are allowed only a tax credit from the 10% income tax on unappropriated earnings, which can be used to offset withholding income tax on dividends paid. The expected creditable ratio for the 2007 earnings may be adjusted, depending on the ICA balance on the date of dividend distribution.

21. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

	Year Ended December 31, 2007				Year Ended December 31, 2006			
	Operating Cost	Operating Expense	Others	Total	Operating Cost	Operating Expense	Others	Total
Personnel								
Salary	\$ 15,085,576	\$ 2,468,746	\$ 89,496	\$ 17,643,818	\$ 13,696,813	\$ 2,295,958	\$ 65,947	\$ 16,058,718
Labor and health insurance	557,760	84,765	763	643,288	586,130	94,286	-	680,416
Pension and consolation costs	1,435,550	263,772	83,455	1,782,777	1,232,785	244,335	166,438	1,643,558
Others	635,210	92,766	4,204	732,180	461,656	76,018	61,251	598,925
	<u>\$ 17,714,096</u>	<u>\$ 2,910,049</u>	<u>\$ 177,918</u>	<u>\$ 20,802,063</u>	<u>\$ 15,977,384</u>	<u>\$ 2,710,597</u>	<u>\$ 293,636</u>	<u>\$ 18,981,617</u>
Depreciation	\$ 11,095,932	\$ 335,284	\$ 29,095	\$ 11,460,311	\$ 9,113,997	\$ 217,104	\$ 26,546	\$ 9,357,647
Amortization	570,571	42,557	3,160	616,288	500,561	1,137	4,161	505,859

22. EARNINGS PER SHARE (EPS)

	Year Ended December 31, 2007		Year Ended December 31, 2006	
	Before Tax	After Tax	Before Tax	After Tax
Basic EPS				
Net income before cumulative effect of changes in accounting principles	\$ 5.40	\$ 4.49	\$ 4.17	\$ 3.44
Cumulative effect of changes in accounting principles	-	-	(0.01)	(0.01)
Net income	<u>\$ 5.40</u>	<u>\$ 4.49</u>	<u>\$ 4.16</u>	<u>\$ 3.43</u>
Diluted EPS				
Net income before cumulative effect of changes in accounting principles	\$ 5.38	\$ 4.48	\$ 4.16	\$ 3.42
Cumulative effect of changes in accounting principles	-	-	-	-
Net income	<u>\$ 5.38</u>	<u>\$ 4.48</u>	<u>\$ 4.16</u>	<u>\$ 3.42</u>

	<u>Amount (Numerator)</u>		<u>Shares (Denominator) (Thousand)</u>	<u>EPS (Dollars)</u>	
	<u>Before Tax</u>	<u>After Tax</u>		<u>Before Tax</u>	<u>After Tax</u>
<u>Year Ended December 31, 2007</u>					
Net income	\$ 61,651,674	\$ 51,263,874			
Less: Dividends on preferred shares	<u>(65,593)</u>	<u>(54,538)</u>			
Basic EPS					
Net income attributable to common stockholders	61,586,081	51,209,336	11,410,455	\$ 5.40	\$ 4.49
Effect of dilutive potential common stock					
Add: Dividends on preferred shares	<u>65,593</u>	<u>54,538</u>	<u>38,956</u>		
Diluted EPS					
Net income attributable to common stockholders plus effect of potential dilutive common stock	<u>\$ 61,651,674</u>	<u>\$ 51,263,874</u>	<u>11,449,411</u>	5.38	4.48
<u>Year Ended December 31, 2006</u>					
Net income (Net of cumulative effect of changes in accounting principles, before and after income tax of \$102,369 thousand and \$37,822 thousand, respectively)	\$ 47,576,384	\$ 39,158,584			
Less: Dividends on preferred shares	<u>(69,301)</u>	<u>(56,972)</u>			
Basic EPS					
Net income attributable to common stockholders	47,507,083	39,101,612	11,409,382	\$ 4.16	\$ 3.43
Effect of dilutive potential common stock					
Add: Dividends on preferred shares	<u>69,301</u>	<u>56,972</u>	<u>40,694</u>		
Diluted EPS					
Net income attributable to common stockholders plus effect of potential dilutive common stock	<u>\$ 47,576,384</u>	<u>\$ 39,158,584</u>	<u>11,450,076</u>	4.16	3.42

In EPS calculation for the year ended December 31, 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\$4.33 to NT\$4.16 and from NT\$3.56 to NT\$3.43, respectively.

23. RELATED-PARTY TRANSACTIONS

a. Related parties

<u>Related Parties</u>	<u>Relationship with the Corporation</u>
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
China Steel Asia Pacific Holdings Pte Ltd. (CSAPH)	Subsidiary
Chung Mao Trading (BVI) Corp.	Subsidiary
Chung Mao Trading (SAMOA) Co.	Subsidiary
CSGT (Singapore) Pte. Ltd.	Subsidiary
CSE Transport Corp. (CSEP)	Subsidiary
Mentor Consulting Corporation	Subsidiary
Steel Castle Technology Corp.	Subsidiary
Union Steel Development Corp.	Subsidiary
Betacera Inc.	Subsidiary
Wabo Globe Trading Corporation	Subsidiary
Universal Exchange Inc.	Subsidiary
United Steel Engineering and Construction Corporation (USECC)	Subsidiary
Thintech Materials Technology Co., Ltd.	Subsidiary
Pao Good Industrial Co., Ltd.	Subsidiary
AmbiCom Technology, Inc.	Subsidiary
Ornasteel Enterprise Corp. (M) Sdn. Bhd.	Subsidiary
Group Steel Enterprise Corp. (M) Sdn. Bhd	Subsidiary
CSGT (JAPAN) Co., Ltd.	Subsidiary
CSGT Hong Kong Limited	Subsidiary
CSGT (SHANGHAI) Co., Ltd.	Subsidiary
Gau Ruel Investment Corporation	Subsidiary
Ningbo Huayang Aluminum – Tech Co., Ltd.	Subsidiary
Shang Hai Xike Ceramic Electronic Co., Ltd.	Subsidiary
Taiwan Rolling Stock Co., Ltd.	The Corporation is its director (Since July, 2007, the investment under equity method was classified as financial asset carried at cost)
Kaohsiung Rapid Transit Corporation (KRTC)	Equity method investee
TaiAn Technologies Corporation	Equity method investee

(Continued)

<u>Related Parties</u>	<u>Relationship with the Corporation</u>
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
RSEA Engineering Co., Ltd.	Director of the Corporation's subsidiary
Southeast Cement Co., Ltd.	Director of the Corporation's subsidiary
Chun Yu Corporation (CYC)	Director of the Corporation's subsidiary
CSC Educational Foundation	Foundation established with the Corporation's donation

b. Significant related-party transactions:

	<u>Year Ended</u> <u>December 31, 2007</u>		<u>Year Ended</u> <u>December 31, 2006</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Sales				
OEC	\$ 4,238,905	2	\$ 2,147,388	1
CSSC	3,496,636	2	2,969,530	2
CSCC	2,277,698	1	1,801,268	1
CYC	1,931,401	1	1,525,024	1
DSC	1,120,918	1	206,885	-
CHSC	1,073,346	-	4,240,417	2
Others	<u>1,835,812</u>	<u>1</u>	<u>2,049,790</u>	<u>2</u>
	<u>\$ 15,974,716</u>	<u>8</u>	<u>\$ 14,940,302</u>	<u>9</u>
CSEP	\$ 23,381,559	22	\$ -	-
CAC	3,810,666	4	3,112,947	4
CSE	3,534,110	3	13,604,954	17
CSGT	294,318	1	481,638	1
Others	<u>705,318</u>	<u>1</u>	<u>589,724</u>	<u>1</u>
	<u>\$ 31,725,971</u>	<u>31</u>	<u>\$ 17,789,263</u>	<u>23</u>

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

Assets lease

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

	Expiry of Contracts	Rental Income	
		Year Ended December 31, 2007	Year Ended December 31, 2006
CAC	February 2016	\$ 55,522	\$ 47,385
CSMC	November 2011	29,597	24,597
CSCC	December 2010	20,799	18,864
CSSC	May 2018	15,720	15,717
CHC	April 2012	5,464	4,912
Others	April 2009	<u>7,897</u>	<u>7,526</u>
		<u>\$ 134,999</u>	<u>\$ 119,001</u>

Other revenues

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

	Year Ended December 31, 2007	Year Ended December 31, 2006
KRTC	\$ 1,730,474	\$ 1,561,709
DSC	492,310	233,972
CHSC	328,500	357,625
CAC	266,257	256,862
CSCC	88,065	85,962
Others	<u>312,872</u>	<u>273,235</u>
	<u>\$ 3,218,478</u>	<u>\$ 2,769,365</u>

Other expenditures

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

	Year Ended December 31, 2007	Year Ended December 31, 2006
CSMC	\$ 2,758,624	\$ 1,785,416
CEC	2,576,450	2,377,107
CHC	1,124,412	664,591
USECC	820,148	688,442
CSSC	473,235	1,084,371
Others	<u>1,805,728</u>	<u>1,412,643</u>
	<u>\$ 9,558,597</u>	<u>\$ 8,012,570</u>

Donation expenditures

In 2007 and 2006, the Corporation donated NT\$4,000 thousand and NT\$200,000 thousand, respectively to CSC Educational Foundation. This foundation is established for promotion of education and talent fostering in steel and related fields.

c. Balances at year-end

	<u>December 31, 2007</u>		<u>December 31, 2006</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Receivables				
CSCC	\$ 208,512	8	\$ 170,630	6
DSC	206,854	8	63,741	2
KRTC	19,772	1	107,675	4
CHSC	8,984	1	165,261	6
Others	<u>118,777</u>	<u>5</u>	<u>123,083</u>	<u>5</u>
	<u>\$ 562,899</u>	<u>23</u>	<u>\$ 630,390</u>	<u>23</u>
Payables				
CSEP	\$ 3,360,330	63	\$ -	-
CAC	171,163	3	354,993	10
CSE	139,041	3	1,923,696	53
Others	<u>29,098</u>	<u>-</u>	<u>46,661</u>	<u>1</u>
	<u>\$ 3,699,632</u>	<u>69</u>	<u>\$ 2,325,350</u>	<u>64</u>

24. PLEDGED ASSETS

- Time deposits of NT\$4,183,694 thousand and NT\$3,681,694 thousand as of December 31, 2007 and 2006, respectively, have been pledged mainly as collateral for bank overdraft, etc.
- The Corporation provided machinery and equipment with carrying values of NT\$2,431,310 thousand as of December 31, 2006, as collaterals for long-term credit lines with banks. The collaterals were canceled in January 2007.

25. COMMITMENTS AS OF DECEMBER 31, 2007

- The Corporation engaged in several construction contracts, under guarantees of NT\$1.1 billion granted by The Megal International Commercial Bank and Taipei Fubon Bank.
- Unused letters of credit for purchase of raw materials and supplies amounted to NT\$10.7 billion.
- 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 2,900,000 metric tons of limestone are at prices negotiable every year. Unpaid purchase amounts as of December 31, 2007 were US\$9.8 billion (including 26,000,000 metric tons of coal; 140,000,000 metric tons of iron ore; and 3,100,000 metric tons of limestone).
- CHSC entered into a syndicated credit facility agreement with The Mega International Commercial Bank and 22 other banks. Under these agreements, the Corporation and its related parties should collectively hold at least 30% of CHSC's issued shares and have over half of CHSC's board seats as well as significant influence on its operations. As of December 31, 2007, the Corporation had direct

and indirect shareholdings in CHSC totalling 39% and total seats in the Board of Directors and significant influence on its operations.

- e. KRTC entered into a syndicated credit facility agreement with the Bank of Taiwan 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 December 31, 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. As of December 31, 2007, the Corporation prepaid parts of the price and relevant expenses of NT\$400,275 thousand (recorded as land and construction in progress).

26. FINANCIAL INSTRUMENTS

The Corporation had no derivative transactions for the years ended December 31, 2007 and 2006.

- a. As of December 31, 2007 and 2006, the information of fair values were as follows:

	December 31, 2007		December 31, 2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets				
Financial assets at fair value through profit or loss	\$ 1,032,097	\$ 1,032,097	\$ 12,315,988	\$ 12,315,988
Available-for-sale financial assets	7,248,282	7,248,282	7,787,299	7,787,299
Financial assets carried at cost	6,156,803	-	5,766,315	-
Bond investments with no active market	5,038,926	5,038,926	5,482,324	5,482,324
Refundable deposits	81,673	81,673	55,833	55,833
Liabilities				
Bonds payable	13,700,000	13,564,504	13,700,000	13,865,449
Long-term debts	4,445,654	4,445,654	3,426,250	3,426,250

- b. Methods and assumptions used to estimate the fair values of financial instruments were as follows:
 - 1) The carrying amount of cash and cash equivalents, notes and accounts receivable, other receivables, restricted assets, short-term loans and overdraft, notes and accounts payable and accrued expenses, 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 issued by non-public corporations which do not have active market price and whose verifiable fair value cannot be determined at a reasonable cost.

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

	<u>Amount determined by quoted market price</u>		<u>Amount determined by using valuation technique</u>	
	December 31, 2007	December 31, 2006	December 31, 2007	December 31, 2006
Assets				
Financial assets at fair value through profit or loss	\$ 1,032,097	\$ 12,315,988	\$ -	\$ -
Available-for-sale financial assets	6,997,532	7,536,549	250,750	250,750

- d. There is no gain or loss for the estimated change in fair value by using valuation technique for the years ended December 31, 2007 and 2006.
- e. As of December 31, 2007 and 2006, cash flow risk of the interest rate change on financial assets were NT\$250,750 thousand and on financial liabilities were NT\$14,600,339 thousand and NT\$20,036,239 thousand, respectively. The financial liabilities with fair value risk of the interest rate change were NT\$13,700,000 thousand.
- 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\$668,868 thousand and NT\$569,884 thousand, respectively, for the year ended December 31, 2007 and NT\$343,746 thousand and NT\$541,823 thousand, respectively, for the year ended December 31, 2006.
- g. Financial risks

1) Market risk

Market risk includes fair value risk of interest rate change, exchange rate risk, and market price risk. The Corporation had long-term loans in yen to hedge the exchange rate fluctuations on long term investment in yen, thus, the exchange rate risk can be hedged naturally. The Corporation issues the bonds payable with the fixed interest rate, and the fair value will be influenced by the market interest rate change. If market interest rate increases or decreases at 1%, the fair value of bonds payable will decrease or increase by NT\$466,441 thousand.

The Corporation's investments in the bond funds and stocks of Taiwan Semiconductor Manufacturing Company Ltd., Maruichi Steel Tube Ltd, Yodogawa Steel Works Ltd. 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, 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 December 31, 2007 and 2006, the Corporation's credit risks amounted to NT\$1,283,871 thousand and NT\$1,334,059 thousand, respectively (including notes and accounts receivable, other receivables and refundable deposits, as of December 31, 2007 and 2006. The notes and accounts receivable represent the balance deducted with factoring and L/C transaction of NT\$3,176,621 thousand and NT\$3,067,769 thousand, respectively) and the maximum credit exposures 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 bond investments with no active market because no active market prices are available.

4) Cash flow interest rate risk

Market interest rate change will influence the effective interest rate of the financial instruments (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\$143,496 thousand.

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

The Corporation borrowed long-term debt 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	Financial Instrument	Designated Hedging Instrument	
			Changes of Fair Value	
			Year Ended December 31, 2007	Year Ended December 31, 2006
Fair value hedge	Stock investments in Maruichi Steel Tube Ltd.	Long-term debt in YEN	\$ (40,560)	\$ 14,560
Fair value hedge	Stock investments in East Asia United Steel Corporation	Long-term debt in YEN	(154,440)	55,440
Fair value hedge	Stock investments in Yodogawa Steel Works, Ltd.	Long-term debt in YEN	(2,307)	-
Hedge of a net investment in a foreign operation	Stock investment in CSC Australia Holdings Pty. Ltd.	Long-term debt in AUD	(26,763)	-

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.

CHINA STEEL CORPORATION**ADDITIONAL EXPLANATIONS FOR ACCOUNTS IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2007 AND 2006**

1. ADJUSTMENT FROM CHANGES IN RECOGNIZED UNDER EQUITY METHOD**a. Long-term investment adjustment**

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

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

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

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

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

3. NET LOSS NOT RECOGNIZED AS PENSION COST

- a. Net loss not recognized as pension cost is the minimum pension liability exceeding the sum of unrecognized prior service cost and unrecognized transitional net benefit obligation. It is classified as a reduction of stockholders' equity.
- b. Minimum pension liability, which is calculated actuarially, is the minimum amount of pension liability that is required to be recognized on the balance sheet.
- c. Prior service cost is the increase in projected benefit obligation due to an employee's accumulation of service years at the initial introduction of pension data or the subsequent pension data amendment.
- d. Unrecognized transitional net assets or benefit obligation means the amount resulting from a change from a method specified in Statement of Financial Accounting Standards No. 18, "Accounting for Pensions." This amount is the difference between (a) the fair market value of plan assets plus accrued pension liability or less prepaid pension cost recognized previously in the books and (b) the projected benefit obligation. If the difference is positive, it is treated as unrecognized transition net assets; if the difference is negative, it is treated as unrecognized transition net benefit obligations.

4. DISPOSAL OF TREASURY STOCK

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

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

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

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

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

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



OWNERSHIP OF SUBSIDIARIES AND OTHER EQUITY INTERESTS

December 31, 2007

Companies	Investment Amounts ³³ (NT\$1,000)	Holding Ratio (%)
Long-term stock investments - equity method:		
Dragon Steel Corporation	16,731,288	47
China Steel Express Corporation	12,301,101	100
Gains Investment Corporation	8,264,312	100
C.S. Aluminum Corporation	7,413,376	100
China Prosperity Development Corporation	4,761,535	100
Chung Hung Steel Corporation ³⁴	3,675,723	24
China Steel Asia Pacific Holdings Pte. Ltd. ³⁵	3,275,056	100
Kaohsiung Rapid Transit Corporation	2,900,453	31
China Steel Chemical Corporation	1,377,882	29
China Steel Global Trading Corporation	1,241,357	100
China Steel Machinery Corporation	1,005,342	100
Hong Yih Investment Corporation	850,672	99
Long Yuan Fa Investment Corporation	848,773	99
Goang Yaw Investment Corporation	828,178	99
Info-Champ Systems Corporation	678,218	100
China Hi-ment Corporation	667,321	20
China Steel Structure Co., Ltd.	548,287	18
CSC Australia Holding Pty. Ltd.	463,351	100
China Ecotek Corporation	404,891	36
Kaohsiung Arena Development Corporation	339,147	18
China Steel Security Corporation	261,905	100
HIMAG Magnetic Corporation	105,243	50
Baolai Greeting Development Co., Ltd	46,515	45
China Steel Management Consulting Corporation	7,285	38
TaiAn Technologies Corporation	5,513	17
Less: shares held by subsidiaries accounted for as treasury stock	(1,416,395)	
Subtotal	67,587,329	
Financial assets carried at cost:		
Industrial Bank of Taiwan	1,000,000	4
CDIB & Partners Investment Holding Corporation	500,000	5
Taiwan Rolling Stock Co., Ltd.	202,048	19
Hsin Hsin Cement Enterprise Corp.	165,010	18
CDIB Bio Science Ventures I, Inc.	83,640	5
Phalanx Biotech Group	73,370	10
Overseas Investment & Development Corporation	50,000	6
CTB I Venture Capital Co., Ltd	50,000	5
Asia Pacific Broadband Telecommunications Co., Ltd.	0	2
Dragon Steel Corporation - preferred stock A	999,877	100
Dragon Steel Corporation - preferred stock B	53,312	5
East Asia United Steel Corporation - preferred stock A	2,897,000	29
Sino-Canada Biotechnology Development Fund, LP	82,546	17
Subtotal	6,156,803	
Investment in bonds without quoted price:		
Taiwan High Speed Rail Corporation - preferred stock C	3,904,542	19
Taiwan High Speed Rail Corporation - preferred stock B	834,384	4
Taigen Biotechnology Co., Ltd. - preferred stock B	300,000	24
Subtotal	5,038,926	
Available-for-sale financial assets:		
Maruichi Steel Tube Ltd.	757,920	2
Yodogawa Steel Works, Ltd.	349,389	1
Tang Eng Iron Works Co., Ltd.	0	9
Adjustments for change in value	1,565,847	
Subtotal	2,673,156	
Total	81,456,214	

³³ Invested amounts are based on balances in the account Long-term Investments.

³⁴ The Corporation's total equity in Chung Hung Steel Corporation was 39%, of which 24% was directly owned and 15% was indirectly owned through Goang Yao, Hong Yih and Long Yuan Fa.

³⁵ Through China Steel Asia Pacific Holding Pte. Ltd. the Corporation indirectly holds 45%, 45%, 5.88% and 14% of Ornasteel Enterprise Corporation (M) Sdn. Bhd., Group Steel Corporation (M) Sdn. Bhd., Wuxi Teco Electric & Machinery Co., Ltd. and Qingdao TECO Precision Mechtronics Co., Ltd. respectively.

MAIN BUSINESSES AND ADDRESSES OF SUBSIDIARIES AND OTHER CSC-INVESTED COMPANIES

(As of March 15, 2008)

SUBSIDIARIES

C. S. Aluminium Corporation

Chairman: C. C. Chen
President: S. T. Chang
Main business: aluminum products
Address: 17 Tong Lin Road, Siaogang
District, Kaohsiung 81260,
Taiwan, R.O.C.
Tel: 886-7-871-8666
Fax: 886-7-872-1852

China Steel Express Corporation

Chairman: Y. C. Chen
President: Donald K. L. Chao
Main businesses: marine cargo
transportation; purchase, sale
and chartering of vessels;
and shipping agency
Address: 32F, 8 Ming Chuan 2nd Road,
Chien Chen District, Kaohsiung
80658, Taiwan, R.O.C.
Tel: 886-7-337-8888
Fax: 886-7-338-1310

China Steel Chemical Corporation

Chairman: Y. C. Chiang
President: P.Y. Chen
Main business: coal tar chemicals
Address: 5F-1, 47 Chunghua 4th Road,
Ling Ya District, Kaohsiung 80245,
Taiwan, R.O.C.
Tel: 886-7-338-3515
Fax: 886-7-338-3516

China Steel Global Trading Corporation

Chairman: W. Y. Lin
President: K. M. Chen
Main businesses: import / export
Address: 31F, 8 Ming Chuan 2nd Road,
Chien Chen District, Kaohsiung
80658, Taiwan, R.O.C.
Tel: 886-7-332-2168
Fax: 886-7-335-6411~2

China Hi-ment Corporation

Chairman: R. S. Jong
President: S. Y. Chiang
Main businesses: pulverized blast
furnace slag and slag cement
Address: 10F, 243 Yi-Hsin 1st Road,
Chien Chen District, Kaohsiung
80652, Taiwan, R.O.C.
Tel: 886-7-336-8377
Fax: 886-7-336-8433

China Ecotek Corporation

Chairman: K. L. Du
President: F. L. Hong
Main businesses: engineering, design
and construction of environmental
protection installations
Address: 8F, 8 Ming Chuan 2nd Road,
Chien Chen District, Kaohsiung
80658, Taiwan, R.O.C.
Tel: 886-7-330-6138
Fax: 886-7-339-4016

China Steel Structure Co., Ltd.

Chairman: J. Y. Chen
President: S. J. Su
Main businesses: steel structures,
construction
Address: 1 Chung Kang Road, Siaogang
District, Kaohsiung 81233, Taiwan,
R.O.C.
Tel: 886-7-802-3433
Fax: 886-7-801-9150

Chung Hung Steel Corporation

Chairman: T. H. Chen
President: J. G. Liu
Main business: hot rolled steel
products
Address: 317 Yu-Liao Road, Chiao Tou,
Kaohsiung 82544, Taiwan, R.O.C.
Tel: 886-7-611-7171
Fax: 886-7-611-0594

China Steel Machinery Corporation

Chairman: T. S. Kao
President: W. D. Hsu
Main businesses: machinery
manufacturing
Address: 3 Taichi Road, Siaogang
District, Kaohsiung 81246,
Taiwan, R.O.C.
Tel: 886-7-802-0111
Fax: 886-7-803-3515

MAIN BUSINESSES AND ADDRESSES OF SUBSIDIARIES AND OTHER CSC-INVESTED COMPANIES

Gains Investment Corporation

Chairman: G. H. Cheng
President: L. R. Hu
Main business: hi-tech investments
Address: 30F, 6 Ming Chuan 2nd Road,
Chien Chen District, Kaohsiung
80658, Taiwan, R.O.C.
Tel: 886-7-338-2288
Fax: 886-7-338-7110

China Steel Security Corporation

Chairman: M. L. Chou
President: C. M. Hsu
Main businesses: security services and
systems
Address: 17F, 247 Ming Sheng 1st
Road, Hsin Hsing District, Kaohsiung
80046, Taiwan, R.O.C.
Tel: 886-7-229-9678
Fax: 886-7-226-4078

China Prosperity Development Corporation

Chairman: C. T. Wong
President: C. S. Guo
Main businesses: real estate
development and investment
Address: Room 6, 24F, 31 Hai Bien
Road, Ling Ya District, Kaohsiung
80248, Taiwan, R.O.C.
Tel: 886-7-536-2500
Fax: 886-7-536-2413

Info-Champ Systems Corporation

Chairman: K. H. Chang
President: T. C. Wu
Main business: information system
planning (ERP)
Address: 11F, 6 Ming Chuan 2nd Road,
Chien Chen District, Kaohsiung
80658, Taiwan, R.O.C.
Tel: 886-7-535-0101
Fax: 886-7-535-0110

China Steel Management Consulting Corporation

Chairman: C. T. Wong
President: L. Y. Lai
Main business: management consulting
Address: 1 Chung Kang Road, Siaogang
District, Kaohsiung 81233, Taiwan,
R.O.C.
Tel: 886-7-801-0723
Fax: 886-7-803-3568

HIMAG Magnetic Corporation

Chairman: Y.S. Chen
President: T.C. Lin
Main business: magnetic materials
Address: 24-1 Chien Kuo Road, Nei Pu
Industrial Park, Ping Tung Hsien
91252, Taiwan, R.O.C.
Tel: 886-8-778-0222
Fax: 886-8-778-0227

Dragon Steel Corporation

Chairman: C. H. Ou
President: Q. G. Shyng
Main business: hot-rolled steel
products
Address: No.100, Lung Chang Road, Li
Shui Village, Lung Ching Hsiang,
Taichung Hsien 43401, Taiwan,
R.O.C.
Tel: 886-4-630-6088
Fax: 886-4-630-6066

Group Steel Corporation (M) Sdn. Bhd. ³⁶

Managing Director: W. J. Su
Main business: Hot-dip galvanized coils,
color sheets
Address: 180, Kawasan Industri Ayer
Keroh, 75450 Melaka, Malaysia
Tel: 60-6-231-9990
Fax: 60-6-231-5310

Ornasteel Enterprise Corporation (M) Sdn. Bhd. ³⁶

Managing Director: W. J. Su
Main business: cold rolled steel
products
Address: 180, Kawasan Industri Ayer
Keroh, 75450 Melaka, Malaysia
Tel: 60-6-231-9990
Fax: 60-6-231-5310

OTHER CHINASTEEL-INVESTED COMPANIES

Kaohsiung Rapid Transit Corporation

Chairman: W. Y. Lin
President: C. B. Fan
Main businesses: mass rapid transit engineering and services
Address: No.1, Jhong-an Rd., Chien Chen District, Kaohsiung City 80665, Taiwan (R.O.C.)
Tel: 886-7-793-9666
Fax: 886-7-793-9999

Taiwan Rolling Stock Co., Ltd.

Chairman: F. S. Wu
President: Koji Aso
Main businesses: rolling stock and components
Address: 458 Hsin Hsing Road, Hu Kou Hsiang, Hsin-chu Hsien 30353, Taiwan, R.O.C.
Tel: 886-3-597-4905
Fax: 886-3-597-4921

Tang Eng Iron Works Co., Ltd.

Chairman: F. S. Wu
President: C. T. Chao
Main businesses: stainless steel, construction
Address: No.53, Chung Hua 4th Road, Lin Ya District, Kaohsiung 80245, Taiwan, R.O.C.
Tel: 886-7-335-1108
Fax: 886-7-335-0348

Overseas Investment & Development Corporation

Chairman: K. H. Wu
President: Victor Hsiah
Main business: oversea investments
Address: Room 2406, 24F, No. 333, Keelung Road Section 1, Taipei 11012, Taiwan, R.O.C.
Tel: 886-2-2757-6965
Fax: 886-2-2757-6932

CDIB & Partners Investment Holding Corporation

Chairman: T. S. Lee
President: Paul Wai Kai Wong
Main business: industrial investments
Address: 6F, 125 Nan King East Road Sec. 5, Song Shan District, Taipei 10504, Taiwan, R.O.C.
Tel: 886-2-2745-7181
Fax: 886-2-2761-4741

Industrial Bank of Taiwan

Chairman: Kenneth C. M. Lo
President: Henry W. Peng
Main business: industrial banking
Address: 99, Sec. 2, Tiding Blvd., Neihu District, Taipei, Taiwan, R.O.C.
Tel: 886-2-8752-7000
Fax: 886-2-2798-8739

Maruichi Steel Tube Ltd.

Honorary Chairman of the Board:
T. Horikawa
President: S. Yoshimura
Main business: steel tubes
Address: 3-9-10 Kitahorie Nishi-Ku, Osaka 550-0014, Japan
Tel: 81-6-6531-0102
Fax: 81-6-6531-0132

Asia Pacific Broadband Telecom Co., Ltd.

Chairman: Sophia Chiu
CEO : Edward Hsieh
Main business: fixed-line network communication services
Address: 16F, 277 Song Jen Road, Xin-Yi District, Taipei 11046, Taiwan, R.O.C.
Tel: 886-2-8780-8777
Fax: 886-2-8780-9200

CDIB Bio Science Ventures I, Inc.

Chairman and CEO: Benny T. Hu
Main business: bioscience investment
Address: 30F, 99 Tun Hwa South Road Sec. II, Taipei 10682, Taiwan, R.O.C.
Tel: 886-2-2325-0556
Fax: 886-2-2754-7708

MAIN BUSINESSES AND ADDRESSES OF SUBSIDIARIES AND OTHER CSC-INVESTED COMPANIES

Phalanx Biotech Group

Chairman: Andrew Wang

President: Y. L. Lee

Main business: biochip manufacturing

Address: 6 Technology Road 5

6th Floor Science-Based

Industrial Park, Hsinchu 30077,
Taiwan, R.O.C.

Tel: 886-3-5781168

Fax: 886-3-5785099

Wuxi Teco Electric & Machinery Co., Ltd.³⁶

Chairman: S. C. Lin

President: C. L. Yang

Main business: induction motor
manufacturing

Address: No.72, Wuxi National Hi-Tech

Industrial Development Zone,
New District Jiang Su, China

Tel: 86-510-85342005

Fax: 86-510-85342053

East Asia United Steel Corp.

Chairman: Fumio Hombe

President: Fumio Hombe (Concurrently)

Main business: holding company
owning 100% of the shares of
Sumikin Iron & Steel Corp.

Address: Triton Square Office Tower Y

8-11, Harumi, 1-Chome, Chuo-Ku
Tokyo 104-6411, Japan

Tel: 81-3-4416-6788

Fax: 81-3-4416-6149

CTB I Venture Capital Co., Ltd.

Chairman: K. S. Shiu

President: F.Y.Huang

Main business: investments in hi-tech
businesses

Address: 5th Floor, No.91, Heng Yang
Road, Taipei 10009, Taiwan, R.O.C.

Tel: 886-2-87892000

Fax: 886-2-87893000

Taiwan High Speed Rail Corporation

Chairman: Nita Ing

CEO: Chin-Der Ou

Main business: high speed rail
engineering and services

Address: 3rd Floor, No.100, Xin-yi Road
Sec.5, Taipei 11047, Taiwan, R.O.C.

Tel: 886-2-8789-2000

Fax: 886-2-8789-3000

Taian Technologies Corporation

Chairman: W. Y. Lin

President: J. M. Yang, Ph.D.

Main business: bioscience investment
consulting and management

Address: Room A, 28F., No.7, Sec. 5,
Xin-Yi Rd., Xin-yi District,
Taipei 11049, Taiwan R.O.C.

Tel: 886-2-2655-3299

Fax: 886-2-2655-3209

Taigen Biotechnology Co., Ltd.

Chairman: M.C. Hsu, Ph. D.

President: M.C. Hsu, Ph. D.

(Concurrently)

Main business: pharmaceutical
research and development

Address: 7F 138 Shin Ming Road,
Taipei 11470, Taiwan, R.O.C.

Tel: 886-2-8177-7072

Fax: 886-2-2796-3606

Kaohsiung Arena Development Corporation

Chairman: Victor Lin

President: Victor Lin (Concurrently)

Main business: grounds and buildings
for athletic events and recreational
activities.

Address: 15F, No.12 Bo-ai 3rd Road,
Zuoying District, Kaohsiung 81367,
Taiwan, R.O.C.

Tel: 886-7-341-6852

Fax: 886-7-974-5525

Baolai Greeting Development Co., Ltd

Chairman: C.C. Chiang

President: C.C. Chiang (Concurrently)

Main business: investments in hotels,
restaurants and recreation facilities.

Address: 14F., No. 285, Sec. 4,
Jhongsiao E. Rd., Da-an District,
Taipei 10692, Taiwan, R.O.C.

Tel: 886-2-8772-7799

Fax: 886-2-8772-2531

Hsin Hsin Cement

Enterprice Corp.

Chairman: C. L. Wang

President: C. Liu

Main business: development of raw
material sources for cement;
production and sales of cement
products

Address: 6F, No.121 Sung Chiang Road,
Taipei 10485, Taiwan, R.O.C

Tel: 886-2-2508-4468

Fax: 886-2-2507-4510

Qingdao TECO Precision

Mechtronics Co., Ltd.³⁶

Chairman: Theodore M. H. Huang

Vice Chairman: Emilie Sun Ph.D.

President: S. T. Chiu

Main business: production and sales of
compressor

Address: No.551, Renmin Road,
Jiaonan City, Shandong, China

Tel: 86-532-8905-3778

Fax: 86-532-8905-3779

Yodogawa Steel Works, Ltd.

Chairman: Takushi Suzuki

President: Yoshitsugu Kokubo

Main business: Hot-dip galvanized coils,
color sheets

Address: 1-1, 4-Chome, Minamihomachi,
Chuo-ku, Osaka, 541-0054, Japan

Tel: 81-6-6245-1111

³⁶ China Steel Corporation's investment
is through China Steel Asia-Pacific
Holdings Pte. Ltd.