

2008

OPERATION REPORT



CHINA STEEL CORPORATION



ON THE FRONT COVER:

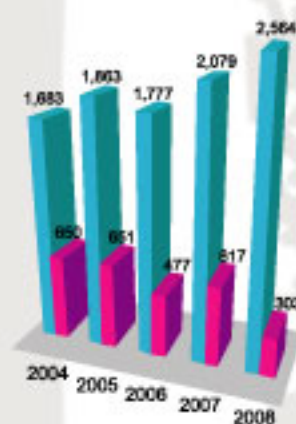
China Steel Corporation donated this steel sculpture to the City of Kaohsiung in December 2008 as an emblem of the Kaohsiung Linhai Industrial Park. It stands conspicuously at the Park's gateway, located at the intersection of Jhongshan 4th Road and Daye North Road, the latter being the arterial road between Kaohsiung International Airport and the Corporation's steel works.

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^{*} This English version is a translation of the Operation Report 2008 published in Chinese. In case of any discrepancy, the Chinese version shall prevail.

TWO-YEAR HIGHLIGHTS OF OPERATING RESULTS



Revenues and income before income tax

■ Revenues ■ Income before income tax
(in hundred millions of New Taiwan Dollars)

	2008	2007
Revenues (Millions of New Taiwan Dollars)	256,358	207,919
Operating costs	212,110	159,042
Income from operations	43,811	48,716
Income before income tax	30,255	61,652
Employment costs¹	20,245	20,770
Depreciation	11,547	11,460
Interest expenses net¹	(35)	(99)
Total assets	355,639	281,941
Capital expenditures	17,929	16,754
Stockholders' equity	238,740	222,655
Output of steel products (Thousands of metric tons)	9,653	10,189
Sales volume of steel products	9,742	10,440
Number of employees²	9,412	9,065
Return on sales (%)	11.80	29.65
Return on stockholders' equity³	10.42	24.06

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 Corporation⁴ 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 capacity⁵ of 1.5 million tons⁶ per year.
- July 1, 1978** Phase II construction commences.
- June 30, 1982** Phase II is completed. Capacity⁵ reaches 3.25 million tons⁶ per year.
- July 1, 1984** Phase III construction commences.
- April 30, 1988** Phase III is completed. Capacity⁵ reaches 5.652 million tons⁶ per year.
- July 15, 1993** Phase IV construction commences.
- April 12, 1995** CSC is privatized.
- May 31, 1997** Phase IV is completed. Capacity⁵ reaches 8.054 million tons⁶ per year.
- June 2, 1998** CSC Group's corporate identity system is formally introduced to the public.
- October 7, 1998** Cumulative steel production⁵ breaks the 100 million-ton⁶ mark.
- November 22, 2006** Groundbreaking for the CSC group headquarters building takes place.
- February 20, 2008** Cumulative steel production⁵ breaks the 200 million-ton⁶ mark.
- October 6, 2008** Dragon Steel Corporation becomes a wholly owned subsidiary of CSC.

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

The International Monetary Fund (IMF) published on January 28, 2009 the 2008 global economic growth as 3.4%, which is far below the 5.2% for the year 2007. The DGBAS⁷ of our government published on February 18, 2009 our 2008 economic growth as 0.12%. During the latter half of 2008, owing to the global financial crisis the bottom fell out of the world's steel market. Steel demand plummeted, prices took a dive, and orders shriveled. As steel producers the world over cut back production, world steel production in 2008 was 1.2% less than in 2007; Taiwan's domestic steel production, import and export volumes and apparent consumption of finished steel all fell bellow the respective 2007 levels, among which the apparent consumption of finished steel fell by a hefty 7.4%.

As to the outlook for 2009, the IMF predicts a minuscule global economic growth of only 0.5%. Our DGBAS predicts our country's 2009 economic growth to be -2.97%. Apparent consumption of finished steel in Taiwan is expected to decrease owing to shrinking demand. Prices of iron ore and coking coal and coke are expected to take a downturn, thereby somewhat relieving the pressure on the operation of steel producers. With the diminishing of inventory and the downstream consumers' replenishing their inventories, one expects to see the return of improved demand.

Chairman and CEO Chia-Juch Chang



CSC's 2008 sales volume was 9.74 million tons. Although this was 6.7% below that of 2007, CSC's 2008 revenues of NT\$256.358 billion turned out to be 23.3% above the 2007 level. This phenomenon is mainly attributable to the brisk steel market and rising prices during the first half of 2008. The favorable effect of higher average price over the year was enough to offset the unfavorable effect of reduced sales volume, and the net effect is a higher revenue level for 2008. CSC's 2008 income before income tax was NT\$30.255 billion or 50.9% below 2007 level. This is mainly attributable to:

- rapid deterioration of steel demand and sliding steel prices caused by the global financial crisis during the latter half of 2008
- rise in prices of iron ore, coking coal, and ferro-alloys
- rise in ocean freight
- provision for losses on inventories owing to falling prices
- recognizing of investment losses.

2008 operating costs were NT\$212.110 billion, or 33.37% above the 2007 level. This is mainly attributable to rise in raw material costs.

Progress in proceeding along our 2008 operating directions:

- Continue with our "Double 2000 Project"⁸ and integrate our sales/production deployment

President Yuan-Cheng Chen



CSC will exert all out effort to support Dragon Steel stage II phase 1 expansion. Progress, as well as quality of construction work and budget, will be strictly controlled. Completion is expected to be on schedule. As to Dragon Steel's stage II phase 2 expansion, the environmental impact report has been conditionally approved by the Environmental Protection Agency, thanks to the thorough preparation and active efforts of CSC's related departments. In addition CSC will actively implement construction of its new wire-rod mill and No.3 cold rolling plant.

- Deepen the activities of R&D alliances and lead the steel industry toward upgrading

Aside from continuing to integrate the resources of industry, government, academia and research institutions in the collaborative R&D of advanced technologies in the steel-consuming industries to help the downstream to upgrade their operations, CSC proceeds according to pre-planned progress with upgrading programs to meet the needs of individual customers. This involves tailoring the high value-added products or process technology that requires R&D to the individual customer to raise his competitiveness.

- Proceed with re-engineering of work flow and all-out endeavor for efficiency and cost reduction

Implement the "Unified Operation Procedures for Order Acceptance and Production/Sales Planning among Members of the CSC Group" in order to integrate the resources within the Group, to establish a unified system for purchasing, transportation, warehousing, production and marketing, thereby maximizing the synergy among the group members. Besides, CSC is studying the model of joint sales by CSC and Dragon Steel Corporation, where the basic principle is to improve the efficiency in serving customers so as to attain the objectives of lowering marketing cost and elevating customer satisfaction. The Corporation also pushed forward with its "Energy Conservation, Waste Reduction and Cost Saving" program, saving about NT\$1.2 billion in production cost.

In September 2008 the sudden advent of the global financial crisis depressed the stock market worldwide. Nearly all trades

and industries suffered from the unprecedented impact of this tsunami. To face this worldwide recession CSC has formulated various countermeasures, and set its 2009 operating directions as "Kai Yuan Jie Liu 123."⁹ The "1" refers to reactivating the 1020 cost reduction movement of 1999 which aims at a 10% reduction in all controllable direct costs and 20% reduction in all controllable indirect costs. Also involved under this item are curtailing capital expenditures and full grasp of affairs involving working capital and risk management in order to enhance financial operation efficiency.

The "2" represents two "high"s; high grade and high quality in order to boost product value. CSC will utilize openings in the production schedule to accelerate new product development and R&D on advanced steel grades, sophisticates technologies and process capabilities. In addition, CSC will continue to deepen the R&D alliances' functions, assist customers in their R&D and promote the upgrading of the steel-related industries.

The "3" stands for saving more than NT\$10 billion within 3 years under a continual "Energy Conservation, Waste Reduction and Costs Saving" program. CSC also encourages contractors and other CSC Group members to join this endeavor.

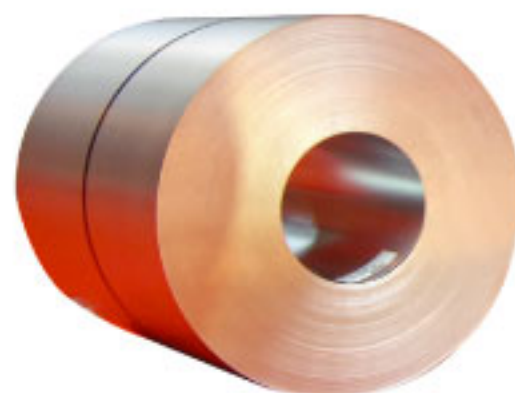
The entire CSC workforce will channel its efforts toward the Corporation's operating direction to maximize the benefits to the stockholders by cutting costs, raising efficiency and improving operating results.

⁷ Directorate General of Budget and Statistics

⁸ For explanation of this term please refer to top of page 4 of the English version 2007 Operating Report and the related footnote 9 at the bottom of page 6 of the same report.

⁹ The four romanized Chinese words here belong to a saying that may be translated as "open up new sources (of earnings) and curtail outflow (of expenses)." The "123" is also to emulate the counting of cadence of forward marching men.

PRODUCTION AND SALES



Sales volume of steel products in 2008 fell by 6.7% from that of 2007 to 9.74 million tons. Domestic sales accounted for 74.6% while export accounted for the remaining 25.4%. The major customer groups in 2008 were, in diminishing order of quantities shipped, re-rollers (23.3% of the domestic shipments), direct users (18.0%), service centers (15.2%), nuts and bolts makers (11.3%), vehicles (7.6%), steel piping (6.5%), steel structures (6.1%) and shipbuilding (3.1%). The major export destinations were Northeast Asia (33.7%), Hong Kong (including China) (29.9%), Southeast Asia (27.3%) and others (9.1%).

Production in 2008 amounted to 9.65 million tons, marking a fall of 5.3% from that of 2007. Production of hot metal and liquid steel were 9.75 million tons and 10.43 million tons, representing declines from 2007 by 7.3% and 7.4% respectively. Major causes for the drop in production were the breakout of No.4 blast furnace at the bustle pipe in March and leakage in the cooling box of No.1 blast furnace in June. However a number of downstream facilities and products: No.2 bar mill, wire-rod spheroidizing plant, reversing cold rolling line, as well as bars, rods and coated steel products, all broke previous annual production records.

World steel production in the first three quarters of 2008 continued to gain momentum. Coal, iron ore and flux materials were in strong demand. Early in 2008 serious floods occurred in the Australia coal mining districts of Queensland. This was compounded by the delay in the expansion of railroad and port facilities in Australia. Coal supply became unprecedentedly tight. As a result prices of coal in 2008 shot up by an alarming 206% over those of 2007. Delays in production expansion at the iron mines led to tight supply and price hikes ranging between 65% and 96.5%. Flux material supply, both domestic and foreign, was stable. Prices went up by a modest 10% in 2008. The global recession brought by the financial crisis in September 2008 led to sharp declines in steel demand. In spite of cutback measures by the steel mills and mining companies the excess of raw material supply remained. Raw material supply situation has become relaxed.

Self-generated electricity accounted for 57.1% of the electricity consumed by CSC in 2008, or 6.4 percentage points below the percentage in 2007. This situation was again caused by high fuel

- ① Wire rods
- ② Hot rolled steel sheets in coils
- ③ CSC's hot-dip galvanized steel on display at a customer's plant where it is used for making automobile panels

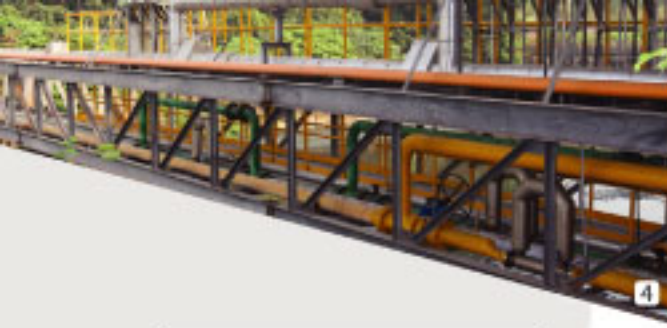
prices, which make it cheaper to purchase power and cut back on self-generation during off-peak hours. Energy consumption per ton of crude steel (slabs and blooms) was 5,479 million calories, or 137 million calories over that of 2007. This setback is attributable to the unfavorable effect on energy efficiency caused by production cutbacks in November and December in the face of a depressed market.

For the sake of regional resource utilization efficiency, the Corporation continued to promote the regional integration of energy resources within the Lin Hai Industrial District by developing the sale of excess quantities of steam, oxygen, nitrogen, argon over and above what CSC produces for its own use. Sales value of NT\$2.24 billion in 2008 showed a substantial increase of 49% over 2007. Sale of steam was 1.873 million tons, which brought energy saving benefits amounting to 144,000 kiloliters of oil equivalent. Converted to reduction in air pollution and in emission of greenhouse gases, this amounts to 429,000 tons of CO₂, 1,369 tons of SO_x, 949 tons of NO_x and 135 tons of suspended solids. This is to the benefit of CSC, the customers and to the environment as well.

CSC has placed emphasis on the conservation of energy ever since its commencement of operations. A CSC Energy Conservation Committee was set up as early as 1978. The Energy-saving Service Team under the Committee has over the years rendered services to parties outside the Corporation. During 2008 the Team provided on-the-spot services to 12 customers, made 261 improvement proposals, offering the customers potential energy conservation savings of NT\$550 million and bringing about reductions of 100,000 tons of CO₂, 64 tons of SO_x and 71 tons of NO_x. The Corporation continued to carry on the "2010 energy saving project."¹⁰ In 2008, 73 proposals were made, resulting in energy savings of 2,859 kiloliters of oil equivalent. The Corporation was awarded the 2008 "Outstanding Performance Organization for Energy Saving and Reduction of Greenhouse Gas Emissions" award by the Ministry of Economic Affairs.

Under the Total Quality Management System CSC has, over the years, been exercising internal quality management so that its quality management system can continue to function efficiently. CSC maintains its certifications under the ISO/TS 16949 of the automotive industry as well as ISO 9001 quality management system. It has applied for the new JIS mark for seven product specifications. In January 2008

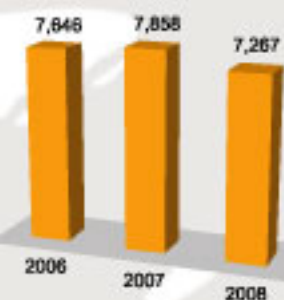




- 4 Pipeline for steam sold to neighboring plants
- 5 Flux material storage yard
- 6 Cold rolled steel sheets in coils

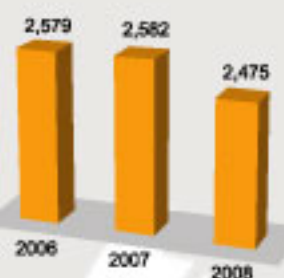
Steel product domestic sales

(in thousand metric tons)



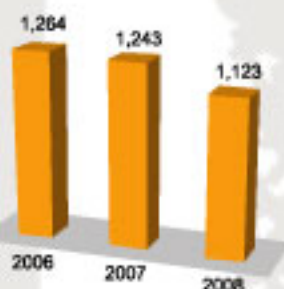
Steel product export sales

(in thousand metric tons)



Output per employee in terms of crude steel

(in tons)



Percentage of domestic sales by industry, 2008

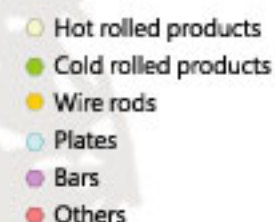


Total: 7,267 thousand metric tons

CSC underwent an onsite audit which it passed without defect. This new JIS mark is being displayed on the certified products since July 2008. To comply with customers' demand, CSC began in June 2008 to set up its IEC QC 080000 Hazardous Substance Process Management System, and completed the "Hazardous Substance List" to use as basis for providing its customers with hazardous substances chemical contents declaration and warranty. CSC has also set up plans and objectives for management of hazardous substances and established or amended the related standards. It expects to undergo an audit by British Standards Institute in June 2009.

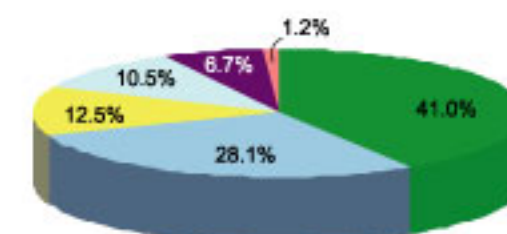
10 A six-year project launched in 2005

Percentage of steel sales volume by product, 2008



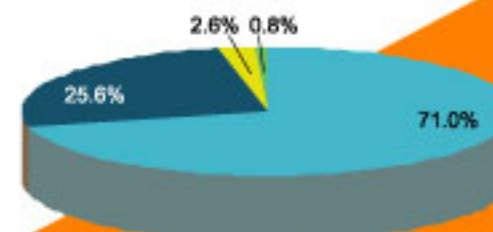
Total: 9,742 thousand metric tons

Percentage of steel production by product, 2008



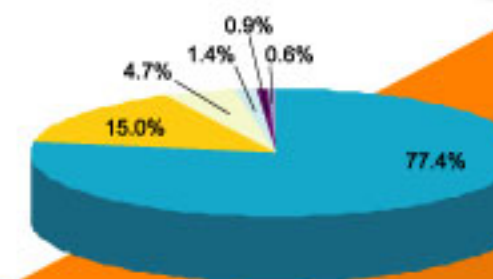
Total 9,653 thousand metric tons

Sources of iron ore, 2008



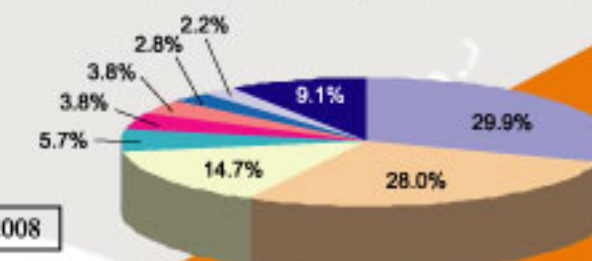
Total: 16,277 thousand metric tons

Sources of coking coal, 2008



Total: 8,100 thousand metric tons

Percentage of export by region, 2008



Total: 2,475 thousand metric tons

RESEARCH AND DEVELOPMENT (R&D)

The Corporation, over the recent years, has endeavored to raise the status of its research and development (R&D) in order to enhance the function and contribution of R&D and to pioneer in technical innovation and sustained development.

The Corporation has widened and deepened its R&D, expanding it from within the Corporation to R&D that involves downstream customers; extending it from steel product R&D to steel application R&D; from the development of higher grade steels to that of high value-added end products; and elevating it from the improvement-oriented R&D to the creation of products.

2008 has been a good year for reaping rich fruits in R&D in the realms of products, processes, and product applications. Examples are:

- development of 50CS290/35CS250 non-oriented electrical steel sheets. Development of high grade electrical steel sheets is to fulfill customers' demand for their development of high efficiency motors, and to enhance CSC's competitiveness in the electrical steel market. 35CS250 produced by CSC has been successful, with average iron loss of 2.24 W/kg, which is only 35% of the ordinary grade products, enabling marked savings in energy in the motors and transformers produced from it. CSC is currently advancing toward the development of the highest grade 35CS210 product.
- development of EH40 high heat input welding shipbuilding plate. CSBC Corporation, Taiwan requested the supply of steel plate that can endure heat input of 400 KJ/cm in welding for its construction of container vessels of 8000 TEU and above. By applying special alloying technology CSC successfully developed steel plate that meet such requirements. Toughness of the CSC product, after one pass of 400 KJ/cm heat input weld, far excels that of equivalent grade products from advanced producers in Korea and Japan. Business volume for CSBC's potential demand for EH40 steel plate could exceed NT\$200 million per year. This product is highly competitive on the export market and enlarges CSC's export opportunities.
- an air-leakage detection solution for sintering pallets. Air leakage often results from abrasion between sinter and pallet. In the past detection depended on inspection by operators. Results were less than satisfactory, and created industrial safety hazards. This solution is based on the noise created by the air leakage, and consists of measurements with an array of microphones and analyses of the noise frequencies to determine the location, cause and degree of leakage. Such information enables operating personnel to perform timely maintenance. Estimated benefit of this solution is as much as NT\$60 million per year.

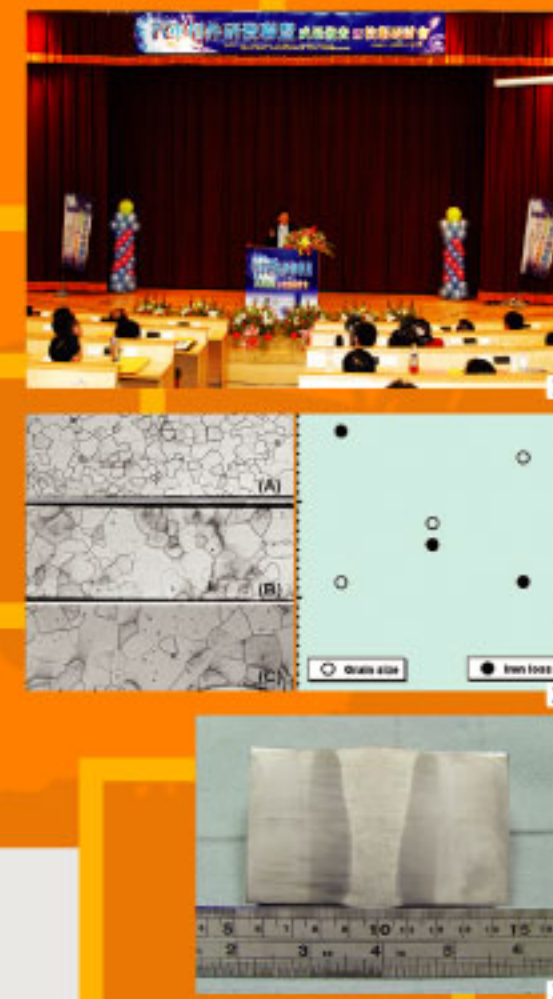
Over the recent years a number of factors: the rise of China, the outward moving of Taiwan's industries,

the inadequate scale of downstream industries and the lack of R&D — these factors have given rise to bottlenecks in the development of downstream steel-consuming industries. The Corporation became aware of this unfavorable environment, and decided on promoting the upgrading of steel-consuming industries, to help them to deepen their roots in Taiwan, thereby creating employment opportunities and achieving positive-sum results for all three parties concerned — CSC, CSC's customers and the nation and society.

One new R&D alliance, on the eco-friendly processing of wire rod, was established in 2008. Together with the eight alliances already established as of the end of 2007, a total of nine alliances are in existence as of the end of 2008. They are:

- 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
- technology for high value and high efficiency electric motor development
- advanced molding technology for automobile panels
- high value steel structure technology
- technology for high value hand tools using steel strip as the principal material
- eco-friendly processing of wire rod.

A total of 47 steel-consuming companies and 7 academic and research institutions have been invited to participate. R&D funds contributed by CSC and the above parties may ultimately total NT\$770 million, with direct benefits estimated at NT\$29.6 billion per year.



- ① Technical symposium and presentation of achievements of the Automobile Fastener R&D Alliance
- ② Microstructure of 50CS290 non-oriented electrical steels
- ③ Weld surface of high heat input welded EH40 shipbuilding plate

EMPLOYEE RELATIONS AND HUMAN RESOURCE DEVELOPMENT



As of the end of 2008 the Corporation employs 9,412 persons. Average age is 48.3 years. Among the 9,412 employees 9,330 (99.13%) are eligible for membership in the China Steel Labor Union.

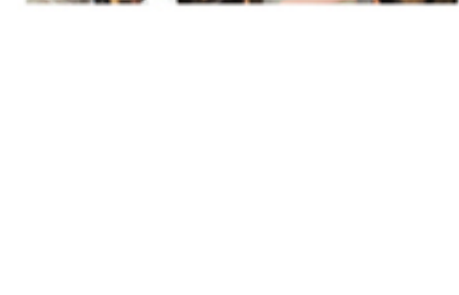
In order to spell out fair and reasonable labor conditions for both Management and Labor to observe, CSC has maintained a collective agreement with the Labor Union. This agreement, extended for the second time in February 2006, is due for another three-year extension, for which, as of the end of 2008, Management and Labor are actively reviewing the terms. In addition the Corporation maintains multiple channels for labor-management communications, as well as a Committee for Handling Sexual Harassment to handle complaints and to provide employees and job applicants a workplace free of such annoyances.

The Corporation maps out short- and long-term human resources plans according to its corporate development strategy and investment plans, and the requirement for human resources determined by the periodic reviews by each of the departments. With due consideration of optimum utilization of manpower, the Corporation conducts at appropriate intervals recruitment programs to prepare for filling the vacancies created by separations and retirements of people in key positions. For the recruits' training, the Corporation adopts a mentor-apprenticeship program for handing down key knowledge and technologies, and at the same time furthers the promotion of knowledge management. In 2008 to fill the need of new production lines and to assist Dragon Steel Corporation in its expansion, CSC recruited 505 persons.

In order to express care for employees with serious health problems and to encourage them to retire early, and for the sake of safety and introducing younger persons into the workforce, thereby improving the age structure and vitality of the organization, CSC put into effect in August 2008 the "Guidelines for Handling Special Cases of Employee Retirement." Applications were accepted from September to December 2008. Qualified applicants, whose applications have been approved by the President, receive

an extra incentive payment in addition to the standard pension settlement.

Cultivation of specialized and technical capabilities is by means of the Corporation's education and training development structure. Training is carried out in a step-wise manner according to the capabilities required by each position with a combination of classroom work, e-learning and mentor-apprenticeship program. In 2008 classroom work and e-learning averaged 35 hours and 5.8 hours respectively per employee. The Corporation's program for sending employees overseas to academic institutions and business organizations for studies is aimed at strengthening its capabilities in production, R&D, technology, management and foreign language proficiency. It also aims at fulfilling the manpower needs for pursuing the Corporation's diversification and globalization strategies. In 2008, 82 persons were



- ① May First Labor Day evening festivity, 2008 — jazz concert
- ② Opening ceremony of the 7th Session of the Basic Management Skills Seminar given by the Corporate University¹¹ of China Steel
- ③ Presentation of awards for outstanding achievements in Knowledge Management
- ④ Lecture on intellectual property rights
- ⑤ Inauguration of "Six Sigma" seminar for top management personnel



¹¹ Non-degree-granting

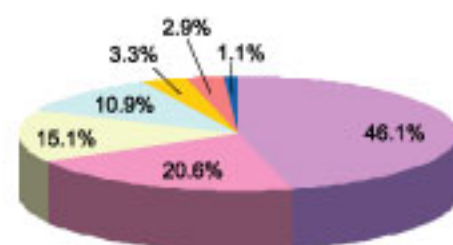
sent overseas under this program. The Corporation also enrolled selected employees with development potential at universities in Taiwan (19 persons) and abroad (10 persons) for further education.

In 2008 CSC reaped more than NT\$90 million in benefits from its CDA¹² program and more than NT\$120 million in estimated tangible benefits from its Employee Suggestion System. These time-honored activities aim at encouraging employees to discover problems at their work-place and to make contributive suggestions and offer solutions created by group endeavors. In 2008 CDA involved 568 "circles" with 5,428 participants (90.7% of the blue-collar personnel of the departments concerned). They completed 663 topics. The Suggestion System offered 23,751 suggestions, of which 96.6% were adopted.

¹² Creative Development Activities

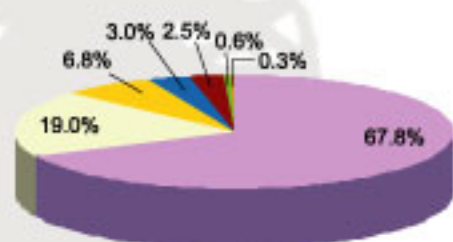
Educational background of employees (as of December 31, 2008)

- Senior high (Vocational) school
- Bachelor's degree
- Junior college
- Master's degree
- Junior high school
- Elementary school
- Doctor's degree



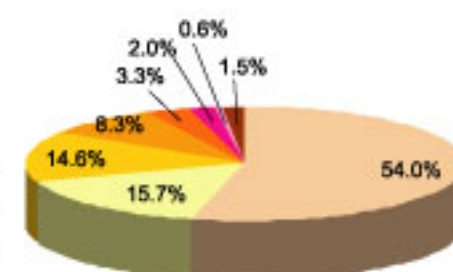
Breakdown by employees' position level (as of December 31, 2008)

- Blue-collar workers
- Professional and specialists
- Fourth echelon supervisors
- Third echelon supervisors
- Second echelon supervisors
- First echelon supervisors
- Executives

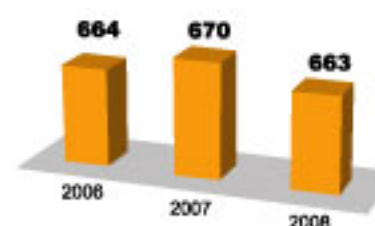


Cases completed by Creative Development Activities by subject matter, 2008

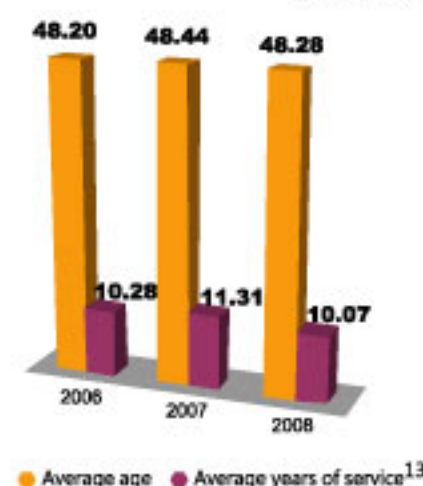
- Safety
- Maintenance
- Production
- Cost
- Quality
- Energy
- Morale
- Others



Cases completed by Creative Development Activities

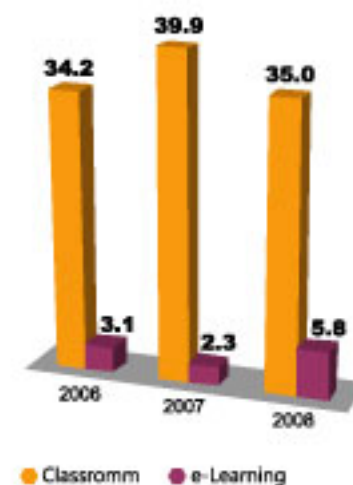


Employee's average age and years of service (as of end of year)

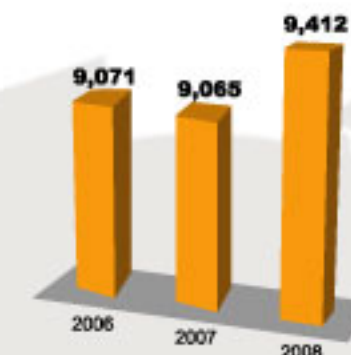


¹³ Not counting years of employment prior to the privatization of the Corporation on April 12, 1995.

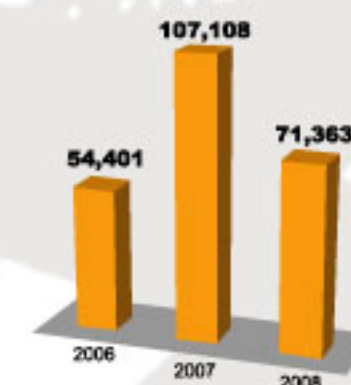
Average hours of training per employee



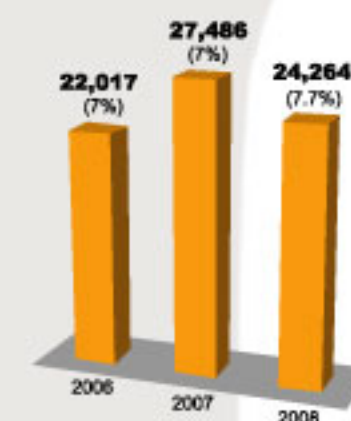
Number of employees (as of end of year)



Employee training expense (in NT\$1,000)



Employee training outside the Corporation (ratio of outside training to total hours)



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

Environmental Protection

Since 1996 the Corporation has carried out its environmental protection activities and improved the performance of all the items of environmental management through the ISO 14001 environmental management system. Major pursuits in 2008 were:

- implemented environmental information system and environmental investment accounting system that can be used in CSC intranet, and strengthened the existing systems to make the operation of CSC's environmental protection system more efficient
- proceeded with the sequestration of CO₂ and air pollutants by means of shrubs planted on CSC's plant premises
- completed the analysis report on the difference of the environmental impact for the proposed No.3 cold rolling mill. This report has been finally approved by the Kaohsiung Municipal Government
- the environmental impact assessment report for the investment in China Steel Sumikin Vietnam. This report has been approved by the Department of Natural Resources and Environment of BaRia-VungTau Province of Vietnam
- agreement for cooperative tree-planting by China Steel, Dragon Steel and the Taichung County Government
- completed the analysis of environmental burden for 14 capital expenditure projects
- CSC's employee welfare store has been certified as a "green store" by the Environmental Protection Agency
- published CSC's 2008 Sustainability Report.

Over the years CSC has done its utmost in injecting vast amounts of manpower, materiel and funds into environmental protection. By adopting the best feasible technologies CSC has attained its objectives in energy saving and prevention of pollution, thereby ensuring sustainability of the Corporation. In order to accomplish pollution abatement and resource recycling, CSC strengthens its related operations and improves its facilities on the concept of ISO 14001 "Prevention at the source (of pollution) and continual improvement." In the realm of strengthening of operations CSC has augmented or amended its operating and maintenance procedures for facilities at the pollution source and pollution prevention equipment. Through administrative channels CSC has demanded that all related personnel in the various departments faithfully abide by the procedures to avoid human errors and cause polluting emissions. In the realm of facility improvement, all departments are requested to conduct

overall comprehensive reviews to identify all possible points and locations of pollution source, to establish targets for improvement to serve as basis for proceeding with various economically feasible environmental management programs.

Major items of achievements in 2008 are:

Reduction of sulfur oxides (SO _x)	26 tons/year
Reduction of dust	1,789 tons/year
Reduction of nitrogen oxides (NO _x)	6 tons/year
Saving of water	103,295 tons/year
Energy saving benefit	NT\$158.92 million/year
Recycling of water quenched blast furnace slag	100%
Recycling of sludge	100%
Recycling of used refractories	100%
Proper treatment of hazardous and non-hazardous wastes	100%

Industrial Safety

For the sake of effective reduction of occupational accidents CSC invested in a building entirely devoted to physical experience safety training. Through such training, CSC raises the safety-awareness of its own personnel, as well as the employees of contractors. Other measures include:

- continue to carry out the five-year accident reduction program
- drawing up Safety Guidelines for Facilities (to be incorporated into specifications for purchasing new equipment)
- invite contractors' personnel to participate in the drafting of amendments of safety job procedures
- conducting labor safety and health retraining
- safety management for work carried out jointly by CSC and contractor personnel
- improvement of traffic within and surrounding CSC premises and publicize traffic safety
- enhance the reporting of near-miss incidents and
- three hours of safety notice training for contractors' employees prior to commencing work

Execution of the above items has produced gratifying results, including:

- corporation-wide safety and hygiene activities were reviewed by the Council of Labor Affairs, Executive Yuan, R.O.C. (Taiwan). CSC received a gold award
- received the Occupational Health and Safety Assessment



- 1 De-dusting bag house
- 2 Safety training under conditions simulated to those inside a sloping flue
- 3 Aerobic exercises at CSC's gym
- 4 Sponsoring the 2008 summer camp for school children
- 5 Greenery at CSC plant site

Occupational accident record of CSC —
past three years

Number of cases with disabling injuries



Frequency ratio¹⁴



CSC Outside contractors

¹⁴ FR = Number of cases with disabling injuries × 10⁶ ÷ Total number of working hours of the entire company



Series 18001 (OHSAS 18001) and the Taiwan Occupational Safety and Health Management System (TOSHMS) certifications

- rate of reporting of near-miss incidents increased in 2008. A total of 1,038 incidents were reported. Potential hazards are reviewed for corrections to forestall the occurrence of accidents
- safety notice training carried out for 7,358 workers employed by contractors. They have all passed the post-training examinations
- the steelmaking plant achieved a record high of 8 million man-hours without disabling injuries.

Employee Health and Hygiene

In the realm of employee health CSC arranges for physical examinations for employees according to the requirements of law and regulations and the nature of the jobs. The Corporation monitors the workplace environment and, depending on the results of the monitoring and physical examinations, adopts measures to improve the employees' health and to express concern for their well-being. Such measures include engaging experts to study the results of the physical examinations together with the workplace monitoring results to identify the injurious factors and to draw up programs of education and training for preventive measures. Immediate action is taken to correct the shortcomings. For many years CSC has carried forth its health assistance programs. Included are the four sessions of Healthy Living Camp with the collaboration of the Department of Nursing of the College of Medicine of National Cheng Kung University. A total of 1,824 employees participated. Also among the programs was the continuing series of lectures on topics related to health. Aside from benefits of improved health for the employees, the Corporation also reaped benefits from lower rate of sick leaves, reduced occupational accidents, reduced employee health insurance expenses, higher productivity and improved quality and working environment.

Social Responsibilities

The Corporation gauges the requirements of the local community and renders, assistance in all, types of public benefit activities. For 2008, CSC engaged in beautifying the city by "adopting" 2.2 km stretch of the green belt along Zhongshan 3rd and 4th Roads¹⁵, and donated a steel sculpture at the gateway to the Kaohsiung Lin Hai Industrial Park as an emblem

of the Park. Activities for adding to the cultural vitality of Kaohsiung included, for 2008, the joint sponsorship of "Russian Fantasy" and "Élite on Stage" performances with the Kaohsiung City Symphony. To fulfill its responsibility as a global corporate citizen, and to express compassion for those afflicted, CSC donated to the relief activities for the Sichuan earthquake.

The CSC Group Education Foundation continued to carry on various activities in line with its aims and purposes, which are:

- to promote education and cultivation of talent in realms related to steel
- to care about the conservation of the ecosystem
- to invoke the humanistic spirit
- to pursue sustained development.

Major items of activities in 2008 were:

- hosting the "International Iron and Steel Technology Symposium, Taiwan 2008" and co-sponsoring other symposiums on technology related to iron and steel
- continued support to top-notch universities in Taiwan for offering "Introduction to Iron and Steel Production Processes" courses in their material science departments
- sponsoring the "2008 Steel and You" camp to attract promising university students to choose the steel industry for their future career, and thus forge the competitiveness of our steel-related industries
- "adopting" the Kaohsiung Park and the trees along the bicycle and pedestrian paths of Sing-Da Harbor Lover's Wharf
- sponsoring the ecosystem summer camp for primary school children and support for studies of ecosystems in hills and forests
- co-sponsoring art and culture performances and "Meet the Masters" series of lectures for senior high school students on humanities and social sciences and on spiritual growth
- care for children from disadvantaged families and from remote areas by sponsoring a one-day China Steel Camp and by donation of books (in line with the spirit of the Salesian Society)

In its once-a-year Most Admired Company Survey by CommonWealth Magazine, the Corporation ranked 10th, and took the top position in the metal industry. The Corporation will continue to pursue growth, sustained value innovation, and fulfillment of social responsibilities of a corporate citizen, to become a trustworthy steel enterprise of global distinction.

¹⁵ main thoroughfares from metropolitan Kaohsiung to the vicinity of CSC's steel plant

[6] Agreement for cooperation in tree-planting by CSC, Dragon Steel and Taichung County Government

[7] Awarding the 2008 CSC Group Education Foundation scholarship

[8] Steel sculpture emblem at the gateway to the Kaohsiung Lin-Hai Industrial Park

[9] Receiving the 17th Corporate Environmental Protection Award

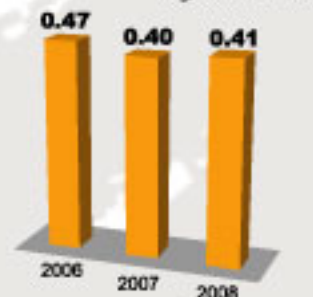
[10] Receiving the 2008 Most Admired Company Award from CommonWealth Magazine



Air quality

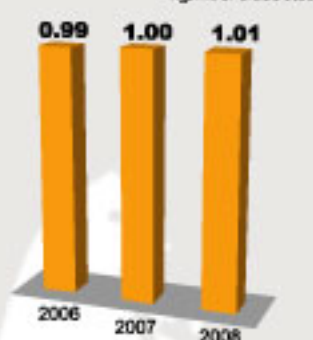
Particulate emission

Kg/mt of crude steel



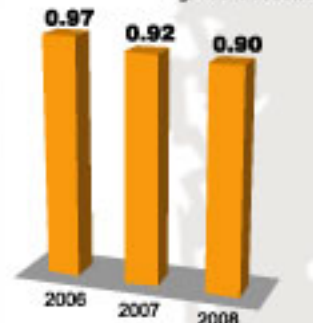
SOx emission

Kg/mt of crude steel



NOx emission

Kg/mt of crude steel



CAPITAL EXPENDITURES AND ENGINEERING BUSINESS

Twenty eight project-type capital expenditure projects were in progress in 2008, involving expenditures of NT\$13.35 billion.

I. Related to equipment revamp

1. revamping electrical equipment on the leveler at the plate mill
2. revamp of No. 1 continuous annealing line
3. end flue repair on coke oven batteries 1 and 2
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
8. revamp of welders of pickling and oiling line for hot rolled temper and finishing mill
9. revamp of hot stoves 11-13 and peripheral equipment for No. 1 blast furnace

II. Related to production capacity increase or quality upgrade

10. addition of unit No. 9 at the oxygen plant
11. addition of No. 2 main transformer station
12. modification of the ship unloader conveyor system
13. addition of Nos. 6 and 7 lime kilns for the steel-making plant
14. addition of No. 7 continuous slab caster at the steel-making plant
15. expansion of pallet width and revamp of No. 3 sintering plant

16. addition of edge heater for No. 1 hot strip mill
17. addition of No. 2 billet conditioning unit
18. remodeling of the 4th batch (35 ovens) of hydrogen batch annealing furnaces at Rolling Mill Department III
19. addition of No. 3 cold-rolling line
20. revamp and remodeling of Nos. 1 and 2 sintering plants
21. addition of hot metal ladle desulfurization facilities in steel-making plant
22. addition of unit No. 10 at the oxygen plant
23. revamp and remodeling of No. 1 hot strip mill
24. addition of electric overhead traveling crane (D4126) for steel-making material charging at No. 2 steel-making plant
25. additional pipeline for steam sold to neighboring plants

III. Related to resource recycling

26. equipment for recycling industrial waste water

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

27. supply chain management (SCM) software for integrating sales and production

V. Related to land and buildings

28. office building for CSC Group's headquarters.

Among the above 28 items, items 1, 3, 10, 11, 12 were completed in 2008. The remaining items are proceeding on schedule.



1 Raw material unloader
2 No. 4 blast furnace

Increases in annual production from capacity-related projects are:

Revamp of No. 1 rod mill	250,000 tons ¹⁶ wire rod
Third campaign revamp of No. 1 blast furnace	144,000 tons hot metal
Addition of No. 7 continuous slab caster at the steel-making plant	Facilitate the increase of upstream liquid steel production by 550,000 tons
No. 3 cold rolling line	1.5 million tons cold rolled products
Revamp and remodeling of No. 1 hot strip mill	227,000 tons hot rolled and cold rolled products
Addition of unit No. 10 at the oxygen plant	1,500 tons oxygen (99.5% pure) 1,050 tons gaseous nitrogen 60 tons liquid nitrogen 60 tons liquid argon

At the completion of the CSC Group headquarters building late in 2011, all member companies of the CSC Group will be under the same roof. This will facilitate centralized management and mutual support and create synergy.

Non-project type capital expenditures for 2008 amounted to NT\$4.579 billion. They are chiefly related to: equipment replacement, industrial safety and environmental protection, re-engineering of business process, quality improvement, research and development, energy saving, automation, computerization and miscellaneous equipment.



Construction and engineering work the Corporation undertook for the Kaohsiung Rapid Transit System consist of (1) red line track-work construction, and track-work engineering design for both the red and orange lines, (2) equipment engineering for the South Depot, North Depot and Da Liao Depot, (3) procurement of 18 track maintenance vehicles, (4) alternating current supply system for the red and orange lines. In March 2008 the red line was completed, passed final inspection, went into a one-month trial operation, and in April 2008 into formal operation. The remaining items were successively completed and handed over to Kaohsiung Rapid Transit Corporation during the period from October 2006 to December 2008.

- ③ No. 2 continuous hot-dip galvanizing line
- ④ Continuous slab casting plant
- ⑤ Skylight steel structure over the platform at Oil Refinery Elementary School station of Kaohsiung Rapid Transit

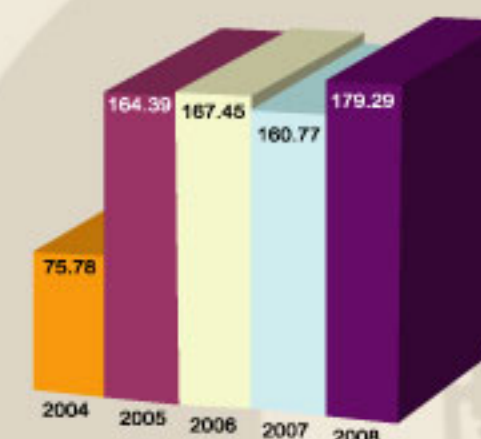


The expansion project Stage II of Dragon Steel Corporation is carried out in two phases. Each phase calls for the construction of a set of 2.5 million ton per year blast furnace, plus iron making facilities, and steel making, rolling, electric control and utility facilities. CSC undertook the technical service of stage II phase 1. Construction began in July 2006. As of the end of 2008, the project is 86.13% complete, ahead of scheduled progress by 2.73%. Formal operation, with the lighting-up of the blast furnace is expected to take place early in January 2010. Environmental impact assessment report for stage II phase 2 has been approved by the Environmental Protection Agency with conditions in June 2008.

CSC's revenues from engineering business in 2008 totaled NT\$1.967 billion, lower than the 2007 level by about 21%.

¹⁶ all quantities on per annum basis except figures for No. 10 unit at oxygen plant, which are per day

Capital expenditures
(in hundred millions of New Taiwan Dollars)



INVESTMENTS AND OTHER EQUITY INTERESTS

In 2008 the Corporation made investments in two additional companies: Adimmune Corporation and CSBC Corporation, Taiwan; making a total of 45 companies with CSC holdings as of the end of 2008. In the 4th quarter the economy quickly lost its vitality owing to the advent of the financial crisis. Basing on the principle of conservatism, CSC recognized impairment losses on the investments in Taiwan High Speed Rail Corporation (THSRC) and in a number of bio-technology businesses. Recognized investment income was more than cancelled out by investment losses, resulting in an investment loss exceeding NT\$2.8 billion for the entire year of 2008.

Profit in the CSC-invested steel businesses for the first three quarter of 2008 showed substantial increases over the same period of 2007. However owing to the rapid downturn of the economy in the 4th quarter triggered shrinkages in both sales volume and prices. Provision for losses on inventories by Chung Hung Steel Corporation and Dragon Steel Corporation led to a loss for the year 2008. CSC Steel and Group Steel Corporation in Malaysia also suffered from the impact of a 4th quarter weak market in Malaysia and sharp drop in sales. Fortunately good profits of the first three quarters and timely reduction of inventory enabled the companies together to post income before income tax of RM 46.26 million.

Among the CSC-invested logistics and trading businesses, in spite of the lower oil price during the second half

- ① A touch of Yuletide at the entrance to Central Park station of Kaohsiung Rapid Transit
- ② The "Floating Forest" at Zuoying World Games station of Kaohsiung Rapid Transit

of 2008, which led to lower charter rates, and the weakening demand for bulk raw materials, China Steel Express still showed again a record income before income tax for 2008: NT\$9.864 billion thanks to the high charter rates prevailing when it signed some of its long-term charter contracts. China Steel Global Trading Corporation, owing to good profits generated by its oversea strongholds, its success in developing the export market for CSC's automotive steels, and its sales agency operations for mill rolls and refractories, posted its 2008 income before income tax as NT\$501 million.

Among the industrial materials-related subsidiaries C.S. Aluminum Corporation's 2008 income before income tax was only NT\$257 million, far below the 2007 level. This was on account of its provision for loss on inventories. China Steel Chemical Corporation's income before income tax for the first three quarter of 2008 was NT\$1.528 billion because oil prices remained high during the first half of 2008.¹⁷ In the fourth quarter although oil prices fell and China Steel Chemical's sales met with challenges, both in volume and in price level, its income before income tax for the whole year still reached NT\$1.8 billion, about the same as the 2007 level. China Hi-ment Corporation reported income before income tax of NT\$1.226 billion, a sizable increase over the 2007 level of 42%. This was due to the strong demand for slag powder and to recognizing in the first half of the year gains from the sale of land and buildings of Mao Da located in Siaogang District of Kaohsiung.



HIMAG Magnetic Corporation, in spite of recognizing losses for uncollectible accounts and provision for losses on inventories, still posted income before income tax of NT\$57.79 million. This was due to success in developing its ferric oxide powder business and to steady growth in revenues from specialty chemicals and Mn-Zn ferrite powder.

In the engineering and construction business, revenues of China Steel Machinery Corporation and China Ecotek Corporation continued to rise as these two companies went on in 2008 with the contracts concluded in previous years. Income before income tax was NT\$471 million and NT\$458 million respectively. China Steel Structure Co., Ltd. (CSSC) did well in seeking orders, but gross profit from steel structure manufacture was suppressed by fierce competition in the steel structure business. Fortunately CSSC's income from investment bolstered its 2008 income before income tax to NT\$249 million.

In the area of finance and service business, owing to lackluster performance of the domestic stock market and recognizing financial asset losses, Gains Investment Corporation posted as loss of NT\$1 billion for the year 2008. As to China Steel Security Corporation number of clients using its security system broke the 5,000 mark in 2008 and enable it to take advantage of the benefit of scale. The company continued to be successful in securing higher priced services and its revenues continued to growth. Income before income tax for 2008 was NT\$82.58 million. Infochamp System Corporation maintained steady operations with income before income tax of NT\$153 million.

As to the strategy for the operation of its core business sector of the CSC Group, namely steel, currently CSC is concentrating all-out effort to assist Dragon Steel Corporation to complete its stage II phase 1 construction in 2009 and to proceed with the construction of the blast furnace and all related facilities for its phase 2 development, thus raising the Group's capability for iron-making, steel-making and hot-rolling. Then through the mechanism of CSC Group's two committee — Steel-related Business Sales and Production Planning Committee and Engineering and Maintenance System Committee — CSC will bolster the competitiveness of the CSC Group as a whole. In addition, in order to be close to the market and establish more stable sales channels, CSC is putting the preparatory work for the Vietnamese cold rolling and galvanizing plant "on the front burner". At the same time China Steel Global Trading Corporation, acting in unison with the Corporation in the development of oversea channels, has invested in five steel service centers in a number of countries.

¹⁷ Prices of some of China Steel Chemical's product are tie with the price of oil



Collection of photos of construction work of stage II phase 1 expansion of Dragon Steel Corporation, a CSC subsidiary :

- 3 Lime kilns
- 4 Sinter plant
- 5 Oxygen plant
- 6 Blast furnace
- 7 Basic Oxygen Furnace

CUSTOMER SERVICES

Sales Services

CSC organizes its domestic customer service function along product lines into four sales sections. Each section takes charge of the related business in making quotations, order taking, contract signing, receiving payment, making delivery, closing the case and answering questions and inquiries. Export customers are served by China Steel Global Trading Corporation through its correspondent trading companies overseas. Through e-commerce service and the introduction of supply chain management (SCM) CSC provides its customers with an entirely integrated package of services and information. To enhance interaction with customers the Corporation sponsors from time to time technical symposiums and business-related lectures, and routinely dispatches service personnel to visit the customers.

Over the years the Corporation applies the strategies of reasonable prices, dependable channels, new products and attentive services to develop and expand its market. CSC hosts quarterly production/sales confabs with the trade associations¹⁸ (or special trade groups) to set competitive steel prices that follow international market trends. CSC's pricing practice also provides for retroactive effectiveness of price reduction.¹⁹ All these measures are to ensure that CSC's downstream remain competitive worldwide.

In order to provide customers with greater convenience and instant support services, CSC has developed e-commerce services to enable the customer to make on-line inquiries on the status of his order: production status, items ready in CSC warehouse, shipping, loading and level of discount, and to download the above information as well as the invoice, shipping documents and mill certificates. CSC further promotes the use of e-commerce in a number of information flow services: L/C opening, negotiation, invoicing, inland transportation paperwork, order entry and order changes.

For the sake of providing better delivery service, CSC has drawn up standards for "Steel Trucking Operations" and "Hiring and Rating of Trucking Companies". The former spells out the requirements for the trucking company to liaise with the customers on matters related to shipments and best delivery

time periods, and the trucking company's responsibilities in the protection and custody of the goods. The latter assesses the efficiency of the trucking companies to serve as basis of allocation of business among the companies. Such actions encourage healthy competition and elevate the quality of trucking services.

Financing Services

Each quarter CSC provides the customers — with the bank interest rate level as reference — a favorable interest rate for usance credit for customers to select and utilize. In addition, in order to enlarge the customers' credit allowance, CSC engages in sales on credit, and reduces its credit sale financial risks by insurance coverage. Beginning in 2006 CSC joins with the Credit Insurance Fund for Small and Medium Enterprises in a "Firefly" credit-sale program to provide CSC customers who qualify as small and medium enterprises a financing alternative.

Technical Services

Each product is covered by a technical service engineer and a senior engineer to offer consultation for the metallurgical and processing problems. Each year CSC hosts numerous technical symposiums. There is also a "customer hotline" to handle customers' complaints and queries. Major activities and accomplishment in 2008 were:

- Focal point visits to customers to obtain an in-depth understanding of market trends and customers' demands on quality. Information obtained from these visits will guide CSC's quality upgrading efforts and future product development



1 Taiwan 2008 International Steel Technology Symposium



2

- Strengthen technical service to oversea customers and inquire into the global directions of development in quality demands. Visits covered U.S.A., Italy, Japan, Australia, Mexico, Hong Kong, China, and Southeast Asia
- Hosted a Steel Technical Symposium attended by more than 1,200 persons. This is beneficial to elevating the level of knowledge on steel applications and the technical capability among the domestic customers and in Taiwan's steel industry as a whole
- Completed 97 major cases of assistance to customers for improving their processes and offering solutions for steel application and processing
- 3,499 tons of product were involved in customer complaints and demands for compensation, or 382 ppm²⁰ of total tonnage shipped in 2008, which is lower than the corresponding figure of 471 ppm for 2007. 96% of the cases were settled within 14 days, thereby maintaining the Corporation's favorable image for efficiency in responding to customers' problems.

Supply Chain and Efficiency

CSC began developing its Supply Chain Management System in 2004 in order to augment and elevate the quality of its customer services. Through the close collaboration of the Corporation's production, warehousing, transportation and sales functions, CSC creates with such expanded services a favorable environment for both customer and CSC. Since April 2006 the SCM services have extended to more than 1,000 domestic customers. Beginning the 4th quarter of 2008, export customers are also covered. Based on customer reaction since its inauguration, the system has rendered CSC's production/sales plans more practical and accurate and the collaboration and interaction between CSC and the customer closer and smoother than ever. Examples of benefits are:

- ability to get a clear picture of the trend of customers' requirements at an earlier date
- production/sales planning can become more accurate. Earlier discovery of production bottlenecks enables timely remedies
- customer may receive instant quotations on-line, and if he accepts the quotations, the computer automatically generates a master contract to serve as basis for customer to place orders
- ability to set reasonable delivery dates to fit CSC's rolling cycle and facilitate allocating quantities to each individual shipment
- ability to shorten production lead time, elevate the on-time-delivery rate and reduce inventory.



3

Customer Satisfaction Survey

Each year the Corporation engages an academic institution to conduct a survey of customer satisfaction, and studies ways of improvement based on the problems that are emphasized by the customers in their response. Results of the 2008 survey were satisfaction indexes of 76.2 points and 80.2 points for domestic and export customers respectively, marking substantial improvements over the 74.01 points and 71.9 points of 2007. Individual subjects with the highest satisfaction ratings from domestic customers were CSC's e-commerce service, fabrication properties of CSC's products and knowledgeableness of CSC's technical service personnel. Subjects that ranked lowest all had to do with CSC's pricing of products.

As to ratings from export customers, again CSC's e-commerce services ranked tops, followed by the accuracy of information furnished by CSC. Like their counterparts among CSC's domestic customers, CSC's export customers gave the lowest ratings to CSC's pricing and price levels.

From its earliest days, the Corporation takes to heart the maxims "Customers are the ones who feed and clothe us" and the time-honored "Customer first." Building on the foundation laid over the years for customer relationship, CSC never stops pushing up the quality of customer service under the concept that there is always room for improvement. We aspire to remain forever the customers' favorite.

¹⁸ Organized in the early days by customers' trade or product, e.g. "Nut and Bolt Makers' confab." These confabs gradually evolve into meetings between CSC and the various trade associations to which the customers belong, such as the meetings with the Steel Wire and Wire Rope Association.

¹⁹ Price reductions that come into effect at the beginning of any given price period are applicable retroactively to the orders placed during the previous price period. Excessive payments, if any, are refunded.

²⁰ Total tons of steel products involved in all the cases of complaint settled as CSC's responsibility during the year, per million tons of steel products shipped during that year.

RISK MANAGEMENT

Market risks

The Corporation has over the years adopted the marketing channel strategy of regarding the domestic market as its principal outlet and supplementing it with exports. However, to spread the market risks, CSC exercises flexibility in adjusting the domestic/export ratio and allocation to different customer groups to gain market opportunities. With its numerous loyal customers CSC maintains lasting relationship for the sake of stable sustained development of the Corporation.

Raw Material Supply Risks

To avoid interruptions in the supply of the principal raw materials caused by weather conditions or problems at the mines, railway or loading ports, CSC adopts the following countermeasures:

- cautious evaluation of sources and suppliers
- diversification of sources and signing long-term agreements with numerous suppliers in a number of countries
- faithful contract execution and maintaining a cordial relationship of mutual trust and assistance with all the suppliers
- active endeavors to develop new sources to intensify competition and avoid domination by a few 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.



1



2

- ① Double-checking an outgoing shipment
- ② The 202,500 dwt raw material bulk carrier s.s. China Steel Realist

Transportation Risks

CSC's ultimate objective in the management of raw material transportation is uninterrupted supply. Its weekly review of all material inventories serves as basis for determining the optimum shipping plan, which produces the schedule for dispatching vessels of the most economic size to the loading ports. The plan also allows flexibility in selecting vessels under long-term or spot charter. Each voyage is subjected to incessant follow-up of the vessel's movement all the way until the vessel is completely unloaded at CSC's pier.

For inland transportation all trucking companies engaged by CSC are required to sign letters of guarantee and post bonds for the safe delivery of goods in perfect condition to the domestic customers; or to shipside for export products. In case of damage or shortage CSC is entitled to compensation by deducting from the performance bonds or from freight payments due.

Information System Risks

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

- introduce the "Capability Maturity Model Integration (CMMI)-based project management system" to ensure smooth development, maintenance and operation of the application systems
- 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 user's name, time and place of use are kept on file for tracing

- establish backup systems

All information, systems and application software have synchronous backup files at different locations to deal with system failures and enhance the ability and quality of recovering from breakdowns

- install at the computer facilities an automatic fire suppressing system, an uninterrupted power system, entrance control, and closed circuit television to prevent theft or destruction of the facilities.

Environmental, Safety and Hygiene Risks

The Corporation applies the identification procedures of its environmental management system to examine all the environmental impacts that may arise from its activities and operations. It studies and implements countermeasures according to the category and degree of the impact and applies the P.D.C.A. (plan-do-check-act) continual improvement cycle to achieve impact abatement in order to achieve the target of effective control of the environmental risks. In addition, CSC establishes an occupational safety and health management system and identifies the risks in all production processes, maintenance and construction work, and assesses the seriousness of these risks. Result of the assessment classifies the risks as having low, medium, high or major seriousness. Those risks in the “high” and “major” categories are keyed in the system and placed under follow-up and control, as well as reported to top management. Measures are taken to lower the risks and emergency drills are periodically held in order to diminish the occurrence of major incidents and prevent injury to personnel at the time of occurrence.

Construction Management Risks

CSC has in place a Capital Expenditure Management Information System and a Contract Management System for all its project-type capital expenditure projects and for Dragon Steel Corporation expansion project to exercise strict control over industrial safety, quality, progress and budget. Starting from the day the projects are launched, all budget operations are completely placed under computerized management, with multiple functions of budget over-run early warning and statistical analyses by column and by row. As to the Contract Management System, it encompasses:

1. project application and basic information
2. material application and procurement management
3. preparation of tender documents
4. contractor management
5. contract signing and handling of performance bonds
6. final inspection, case closing and contractor performance assessment.

Each year CSC engages a domestic credit information organization to conduct a study on the financial condition of contractors that are registered with CSC as class “one” and, if

necessary, to conduct a credit check. This is to enable CSC to have a clear idea of contractors’ financial conditions and ability to comply with the progress schedule and quality specification. Based on considerations of quality and budget control and avoidance of delay caused by material price fluctuations, CSC takes care of procuring and furnishing the major construction materials such as reinforcing steel, mixed concrete and steel plate.

Financial Risks

CSC regularly carries the following types of insurance to avoid losses from liability for people’s death or injury and from property losses:

- fire insurance and business interruption insurance
- erection insurance
- public liability insurance
- employer liability insurance
- directors’ and officers’ liability insurance and
- fidelity guarantee insurance

Against financial risks involving interest and exchange rate fluctuations, customer credit and ability to pay, and security of e-commerce operations CSC adopts the following control measures:

- Forecast the occurrence of large receipts and disbursements. CSC keeps close watch on the daily balance of NT\$/foreign currency transactions and maintains alertness for hot-line news around the world
- Set clear interest rate risk tolerances to control floating interest rate debts. When interest rates in the financial market turns around, CSC may apply early repayment or interest rate swaps (IRS) to convert to fixed rates
- For short-term foreign exchange positions, in principle natural hedge is applied. When exchange rate fluctuations are large and the trend is clear, CSC converts its foreign currency position 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 exchange demand gap, CSC hedges exchange rate risks with forward foreign exchange
- 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
- CSC keeps close watch to ensure faultless operation of electronic business and of security mechanisms. By means of e-commerce financial operations CSC raises the degree of satisfaction of the customers for its services

CORPORATE GOVERNANCE

For the sake of strengthening the Corporation's governance, in June 2007, at the election of directors and corporate supervisors, among the directors elected three were independent directors in accordance with the amended Articles of Incorporation. The Board Meeting on June 20, 2007 passed the "Regulations for the Corporate Governance Committee" and the "Regulations for the Compensation Committee" to serve as basis for setting up the two committees. Each of the two committees is composed of three directors, one of whom is an independent director, who serves as convener and chairman. During 2008 the Governance Committee held two meetings, the Compensation Committee one meeting. Each committee operates according to its regulations. In addition there are within the Board three seats for Corporate Supervisors who sit at Board meetings as observers. The Independent Auditors submit a report to the Corporate Supervisors every half year on the results of the independent audit.

The Corporation's Internal Auditor reports directly to the Board of Directors. To forestall irregularities and strengthen the effectiveness of corporate administration, focal point activities of the Internal Auditor for 2008 were to test and assess whether the operational procedures in the 8 operational cycles are adequately comprehensive and precise. The 8 cycles are²¹:

- Sale and receipt
- Purchase and payment
- Production
- Labor and wages
- Finance
- Fixed asset
- Investment
- Research and development

Also whether there are risks involved and whether the systems are designed with a cross-checking function. In addition the Internal Auditor conducted the audits required by the "Regulations Governing Establishment of Internal Control Systems by Public Corporations" promulgated by the Financial Supervisory Commission, Executive Yuan, R.O.C. on a number of controls required in Article 8 of the above mentioned Regulations. The controls are for the following activities²¹:

- management of the use of seals
- management of the receipt and use of negotiable instruments
- management of the budget
- management of the assets
- management of endorsements and guarantees
- management of liabilities, commitments and contingencies
- implementation of authorization and deputy systems
- management of loans to others
- management of related party transactions
- management of the procedures for preparation of financial statements
- supervision and management of subsidiaries.



1



2



3

1 Corporate governance district in CSC website

2 Accepting the 2007 topmost ranking of A+ for Corporate Information Disclosure and Transparency from the Taiwan Securities & Futures Institute

3 Accepting the CG6003 Accreditation of Corporate Governance from Corporate Governance Association

The Internal Auditor also assessed the internal control systems and due diligence of 18 CSC subsidiaries. Over the entire year the internal Auditor presented 42 audit reports, with 409 suggestions for improvement. These suggestions were all relayed to the auditees, including the above-mentioned 18 subsidiaries, to take immediate appropriate improvement measures according to the suggestions. The suggestions were also keyed into CSC's audit management system for management and control and for continued follow-up of progress of improvement measures. Each audit, when completed, is sent by letter according to regulations to the Corporate Supervisors and Independent Directors for examination and perusal.

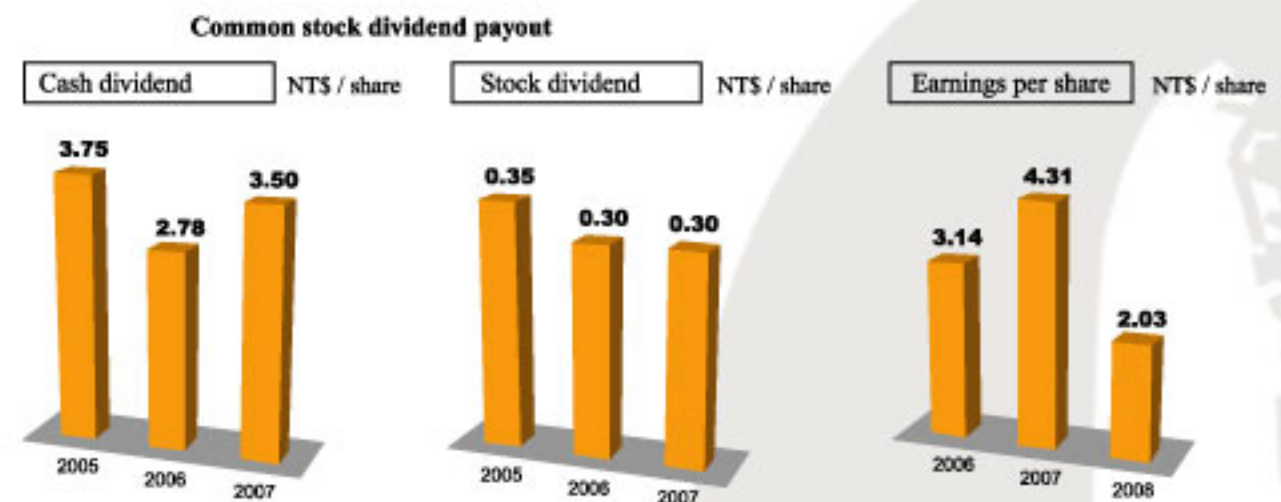
The primary objective of governance being to safeguard the shareholders' best interests, CSC conducts regular performance evaluations of its managerial personnel over the years to elevate management efficiency. For such evaluations top management takes into overall consideration both the degree of success in reaching the annual targets and the actual performance of the Corporation as a whole.

For the sake of transparency of the Corporation's operating information, CSC has established a corporate website to publicly disclose the Board's major resolutions, the Annual Report, Manual for the Conduct of Stockholders' Meetings, monthly operation results and CSC stock prices. In 2008 CSC made substantial changes to the web-pages to make it even more convenient for the widely dispersed stockholders and the public at large to visit the website and download the related information. At the same time, to enhance two-way communication with investors, CSC has designated persons charged with

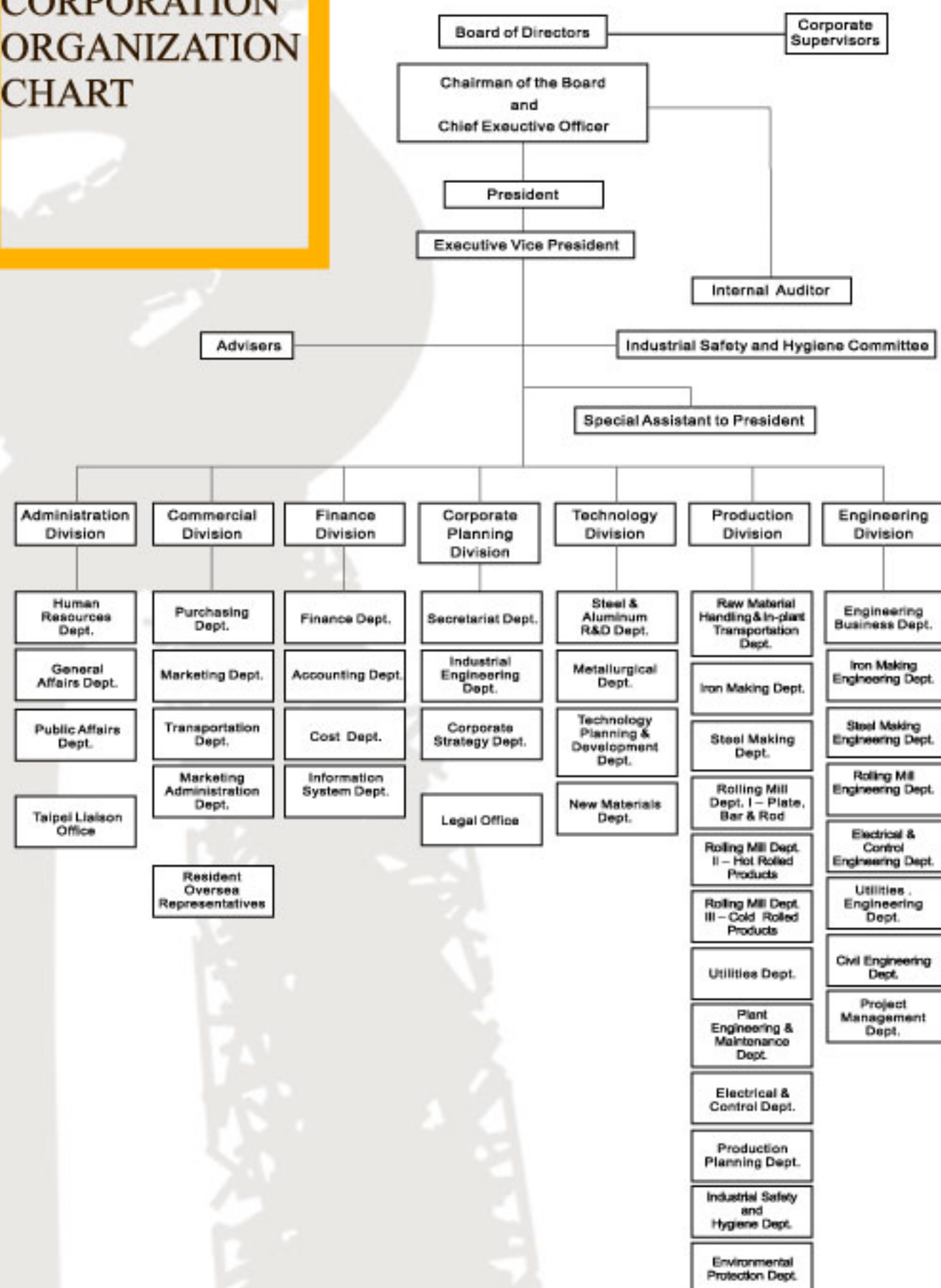
specific responsibilities to receive visiting investors from Taiwan and abroad, to answer questions and to hold investor workshop conferences. CSC provides a toll-free telephone line and a special purpose e-mail address. Stockholders may use these free-of-charge facilities to express their opinions or pose questions. Besides, CSC makes a seat on its Board of Directors available to the China Steel Labor Union. This is a distinctive feature of the Corporation's governance.

For many years the Corporation's emphasis on corporate governance enabled it to achieve records in operating results. In 2008 it received the CG6003 Accreditation from the Corporate Governance Association in Taiwan, and the 2007 Ranking A⁺ (highest) from the Taiwan Securities and Futures Information Center for the Corporation's corporate information disclosure and transparency. The Corporation also won second-place awards in 2008 for "best corporate governance", "best investor relations" and "best commitment to strong dividend payments" among Taiwan's enterprises from a poll conducted by Finance Asia Magazine. This has brought wide acclaim to the Corporation.

²¹ These terms follow those used in Articles 7 and 8 of Regulations Governing Establishment of Internal Control System in Public Companies promulgated by Financial Supervisory Commission, Executive Yuan, R.O.C.



CHINA STEEL CORPORATION ORGANIZATION CHART



DIRECTORS AND SUPERVISORS SENIOR MANAGEMENT

as of December 31, 2008

DIRECTORS AND SUPERVISORS

Chairman of the Board	Chia-Juch Chang	Representing Ministry of Economic Affairs, R. O. C.
Director	Sheng-Chung Lin	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 Ruci Investment Corporation
Director	Shun-Tsai Wu	Representing China Steel Labor Union
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 Corporation
Supervisor	Ju-Hsuan Wang	Representing Bureau of Labor Insurance
Supervisor	Eli Ching-I Wang	Representing Chi-Yi Investment Corporation

SENIOR MANAGEMENT

Chairman of the Board and Chief Executive Officer	Chia-Juch Chang
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

FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA AND OPERATING RESULTS

(in thousands of New Taiwan dollars unless otherwise noted)

	2008	2007	2006	2005	2004
Operating revenues	256,358,008	207,918,952	177,658,233	186,317,669	168,270,036
Operating costs	205,726,886	152,705,397	134,216,258	118,991,792	104,311,061
Gross profit	50,631,122	55,213,555	43,441,975	67,325,877	63,958,975
Unrealized gain from affiliates	(437,457)	(160,520)	26,208	(376,905)	(3,890)
Operating expenses	6,382,822	6,336,721	5,723,455	6,045,608	5,938,338
Operating income	43,810,843	48,716,314	37,744,728	60,903,364	58,016,747
Net non-operating income	(13,555,512)	12,935,360	9,934,025	4,209,065	7,005,267
Income before income tax	30,255,331	61,651,674	47,678,753	65,112,429	65,022,014
Net income	24,030,406	51,263,874	39,158,584	50,646,639	51,616,691
Current assets	89,252,043	79,510,065	75,046,154	75,851,757	85,093,446
Long-term investments	112,559,205	81,456,214	74,731,278	65,881,813	50,631,972
Property, plant and equipment	149,098,005	115,656,487	110,453,314	105,567,044	99,334,963
Other assets	4,729,414	5,317,857	5,395,949	3,461,726	3,348,613
Total assets	355,638,667	281,940,623	265,626,695	250,762,340	238,408,994
Current liabilities	57,613,259	35,124,032	38,928,520	45,109,246	33,673,946
Long-term liabilities	47,719,693	18,145,654	17,126,250	2,769,030	12,861,200
Reserve for land value increment tax	8,673,466	2,171,124	2,171,124	2,171,124	3,370,813
Other liabilities	2,891,780	3,844,523	3,867,629	4,086,449	4,341,921
Total liabilities	116,898,198	59,285,333	62,093,523	54,135,849	54,247,880
Capital stock	125,958,111	115,352,910	110,944,516	105,866,716	99,311,138
Capital surplus	18,410,920	1,878,630	1,548,370	1,209,378	833,146
Retained earnings	76,427,107	98,612,729	83,429,463	90,107,602	85,642,418
Unrealized revaluation increment	21,915,248	1,509,155	1,512,123	1,535,363	339,174
Unrealized gain on financial instruments	6,508,005	6,473,326	7,533,737	(36,872)	(32,003)
Net loss not recognized as pension cost	358,976	283,018	(62,787)	(335,992)	(365,599)
Unrealized loss on investees' long-term investments	(32,385)	(38,083)	(37,358)	(466,483)	(454,039)
Treasury stock ²²	(10,805,513)	(1,416,395)	(1,334,892)	(1,273,221)	(1,113,121)
Total stockholders' equity	238,740,469	222,655,290	203,533,172	196,626,491	184,161,114
Total liabilities and stockholders' equity	355,638,667	281,940,623	265,626,695	250,762,340	238,408,994
Stockholders' equity per common share (NT\$)	19.55	19.30	18.35	18.57	18.54
Earnings per common share (NT\$)	2.03	4.49	3.56	4.83	5.26
Earnings per common share (NT\$) ²³	-	4.48	3.56	4.83	4.93

²² Effective 2002, the Corporation's shares acquired and held by subsidiaries are accounted for as treasury stocks.

²³ 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 ANALYSIS OF FINANCIAL STATUS AND OPERATING RESULTS

	2008	2007	2006	2005	2004
Current ratio (%)	154.92	226.37	192.78	168.15	252.70
Ratio of fixed assets to long-term liabilities and stockholders' equity (%)	52.05	48.03	50.06	52.94	50.42
Total liabilities to stockholders' equity	0.49	0.27	0.31	0.28	0.29
Net income rate (%)	9.64	25.26	22.62	27.18	30.67
Profitability in terms of total assets (%)	7.65	18.88	15.32	20.93	22.80
Profitability in terms of stockholders' equity (%)	10.42	24.06	19.57	26.60	29.91
Revenue growth rate, year to year (%)	23.30	17.03	(4.65)	10.73	29.74
Stockholders' equity growth rate, year to year (%)	7.22	9.40	3.51	6.77	14.36

1. Two-year analysis of flow ratios

	December 31, 2008	December 31, 2007	Increase (Decrease)
Cash flow ratio (%)	49	150	(67)
Appropriate cash flow ratio (%) ²⁴	76	104	(27)
Cash reinvestment ratio (%)	(2.47)	4.60	(154)

²⁴ Based on data over the past five years.

Analysis of increases or decreases in the above ratios :

- (1) Decrease in cash flow ratio from that of the previous year of 67% is mainly attributed to the large decrease in net cash flow from operating activities in 2008, compounded by the large increase in current liabilities in 2008.
- (2) Decrease in appropriate cash flow ratio of 27% from that of the previous year is mainly attributed to large increase in inventories in 2008.
- (3) Decrease in cash reinvestment ratio of 154% from that of the previous year is mainly attributed to the large decrease in net cash flows from operating activities in 2008, compounded by the increase in cash dividend paid to stockholders.

2. Analysis of operating results

- (1) Gross profit for 2008 shrank by NT\$ 4,582,433 thousand or 8% from that of the previous year. This decrease is mainly attributed to:
 - increase in average steel price being lower than increase in costs
 - decrease of 697,595 tons in sales volume
 - the negative net change resulting from the failure of the favorable change (23% increase in operating revenue) to offset the unfavorable change (35% increase in operating costs).
- (2) The unfavorable change of NT\$276,937 thousand in unrealized gain on inter-company transactions of 2008, as compared with 2007, is mainly attributed to higher level of unrealized gain in downstream sales to investee companies in 2008.
- (3) Decrease in 2008 non-operating income and gains from those of 2007 by NT\$ 4,905,471 thousand is attributed to the same causes as "(1)".
- (4) Decrease of 2008 non-operating income and gains from those of 2007 by NT\$10,435,028 thousand is mainly attributed to the large decrease resulting from recognizing investment income under the equity method.
- (5) Increase of 2008 non-operating expenses and losses over those of 2007 by NT\$16,055,844 thousand is mainly attributed to the provision for loss on inventories resulting from falling prices, and impairment loss on the investment in preferred shares of Taiwan High Speed Rail Corporation.
- (6) Decrease in 2008 income before income tax from that of 2007 by NT\$31,396,343 thousand is attributed to the same causes as "(1)" through "(5)".
- (7) Decrease in 2008 net income from that of 2007 by NT\$27,233,468 thousand is attributed to the same cause as "(1)" through "(5)".

TERMS AND CONDITIONS OF CORPORATE BONDS

Issue	1st Unsecured Corporate Bonds Issue in 2006	2nd Unsecured Corporate Bonds Issue in 2006	1st Unsecured Corporate Bonds Issue in 2008	2nd Unsecured Corporate Bonds-A Issue in 2008	2nd Unsecured Corporate Bonds-B Issue in 2008
Issue Date	From June 27, 2006 to June 27, 2011	From November 28, 2006 to November 28, 2011	From December 4, 2008 to December 4, 2008	From December 29, 2008 to December 29, 2013	From December 29, 2008 to December 29, 2015
Face Amount	NT\$1 million	NT\$1 million	NT\$1,000,000	NT\$1,000,000	NT\$1,000,000
Issue Price	At par value	At par value	At par value	NT\$1,000,000	NT\$1,000,000
Amount	NT\$8,100 million	NT\$5,600 million	NT\$9,600 million	NT\$13,000 million	NT\$7,000 million
Coupon	2.32%	2.07%	2.42%	2.08%	2.30%
Maturity	Five years	Five years	Five years	Five years	Seven years
Trustee	Mega International Commercial Bank, Head Office -Trust Department	Hua Nan Bank, Head Office -Trust Department	Taipei Fubon Bank, Head Office -Trust Department	Mega International Commercial Bank, Head Office -Trust Department	Mega International Commercial Bank, Head Office -Trust Department
Lead Manager	—	—	—	—	—
Legal Advisor to the Issuer	Chien Yeh Law Offices	Chien Yeh Law Offices	Chien Yeh Law Offices	Chien Yeh Law Offices	Chien Yeh Law Offices
Auditor of the Issuer	Deloitte & Touche	Deloitte & Touche	Deloitte & Touche	Deloitte & Touche	Deloitte & Touche
Repayment	Payable at maturity; interest shall be paid annually against interest coupon commencing from the issue date.	Payable at maturity; interest shall be paid annually against interest coupon commencing from the issue date.	Repay 50% of the principal at the end of the 4th and 5th year; interest shall be paid annually against interest coupon commencing from the issue date.	Repay 50% of the principal at the end of the 4th and 5th year; interest shall be paid annually against interest coupon commencing from the issue date.	Repay 50% of the principal at the end of the 6th and 7th year; interest shall be paid annually against interest coupon commencing from the issue date.

PREFERRED STOCKS

Items	Issuance date	Nov. 18, 1974	Jan. 31, 1980	Nov. 30, 1980	Dec. 31, 1981	Dec. 31, 2008
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)		50,000,000	71,887,000	72,684,000	76,690,000	38,270,000
Rights and liabilities	Appropriation of residual property	Same as that those of common shareholders.				
	Voting rights	No right to vote in the elections of board directors or supervisors.				
	Dividend policy	After all the accounts are settled, taxes paid, deficits offset, and the legal reserve appropriated, the remaining earnings will be distributed as follows: (1) Preferred stock dividends at 14% of the par value. (2) Remunerations to directors and supervisors of the board at 0.15% of the distributable earnings, 8% as bonuses to CSC employees. (3) Common stock dividends at 14% of the par value. (4) The rest of the remaining earnings will be appropriated proportionally to the preferred stockholders and common stockholders as bonuses.				
	Others	Other rights and obligations are the same as those of the common shareholders.				
Preferred stock in circulation	Retrieved / converted shares	2,424,000 shares (year 2008)				
	Unretrieved / unconverted shares	38,270,000 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 PRINCIPAL PRODUCTS AND USES

Stock	Price	(in NTS / share)		
		2008	2007	2006
Common	Highest	54.4	52.0	35.0
	Lowest	19.2	32.6	24.4
	Average	39.7	40.7	29.7
Preferred	Highest	53.8	51.0	36.0
	Lowest	26.7	34.2	28.5
	Average	41.2	40.7	32.0

Source of Information: Taiwan Stock Exchange Corporation

Product	Major Uses
Plates	Ships, 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, hardware, 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 and components, and hardware
Hot-dip galvanized coils	Automobile parts and components, computer cases, color coated sheets, building materials and components
Electrical steel coils	Motors, transformers and stabilizers

THREE-YEAR SUMMARY OF PRODUCTION AND SALES VOLUMES

Product	Volume	(In tons)		
		2008	2007	2006
Steel plates	Production	1,018,290	1,111,150	1,075,520
	Sales	982,375	1,101,900	1,079,049
Steel bars ²⁵	Production	651,177	599,242	525,560
	Sales	709,299	649,122	563,206
Wire rods	Production	1,206,637	1,226,274	1,139,030
	Sales	1,207,027	1,227,101	1,134,526
Hot rolled steel products	Production	3,960,634	4,368,395	4,349,382
	Sales	4,058,374	4,538,226	4,376,337
Cold rolled steel products ²⁶	Production	2,713,963	2,777,960	2,643,518
	Sales	2,751,787	2,874,781	2,772,194
Commercial slabs, blooms and billets	Production	94,170	93,606	197,854
	Sales	27,691	38,135	286,958
Pig iron	Production	8,533	12,293	14,616
	Sales	5,903	10,786	13,079
Total	Production	9,653,404	10,188,920	9,945,481
	Sales	9,742,456	10,440,051	10,225,349

²⁵ Includes bars contracted out for hire-rolling except for "production" in 2008

²⁶ Includes electrogalvanized, hot-dip galvanized products and electrical steel coils

Financial Statements

for the Years Ended December 31,
2008 and 2007 and

Independent Auditors' Report

China Steel Corporation

Deloitte.

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, 2008 and 2007, 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, 2008 and 2007, 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.

As stated in Note 3 to the accompanying financial statements, starting January 1, 2008, the Corporation adopted Interpretation 96-052, "Accounting for Bonuses to Employees, Directors and Supervisors" issued by the Accounting Research and Development Foundation ("ARDF") in March 2007.

February 5, 2009

Deloitte & Touche

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.

BALANCE SHEETS

DECEMBER 31, 2008 AND 2007
(In Thousands of New Taiwan Dollars,
Except Par Value)

China Steel Corporation

ASSETS	2008		2007	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 4)	\$ 3,745,041	1	\$ 24,438,159	9
Financial assets at fair value through profit or loss - current (Notes 2 and 5)	5,605,453	1	1,032,097	-
Available-for-sale financial assets - current (Notes 2 and 6)	3,112,425	1	4,575,126	2
Hedging derivative assets - current (Notes 2 and 7)	9,846	-	-	-
Notes receivable	2,116,399	1	1,395,555	-
Accounts receivable (Notes 2, 8 and 28)	2,895,213	1	2,462,240	1
Other receivables (Note 10)	1,443,457	-	521,024	-
Inventories (Notes 2 and 9)	59,114,717	17	38,170,183	14
Deferred income tax assets (Note 24)	4,680,419	1	332,723	-
Restricted assets-current (Note 29)	4,158,424	1	4,160,340	1
Others	2,370,649	1	2,422,618	1
Total current assets	89,252,043	25	79,510,065	28
INVESTMENTS				
Available-for-sale financial assets - noncurrent (Notes 2 and 6)	3,111,884	1	2,673,156	1
Hedging derivative assets - noncurrent (Notes 2 and 7)	53,715	-	-	-
Financial assets carried at cost - noncurrent (Notes 2 and 10)	5,910,484	2	6,156,803	2
Bond investments with no active market - noncurrent (Notes 2 and 11)	103,000	-	5,038,926	2
Investments accounted for by the equity method (Notes 2 and 12)	98,144,282	28	67,587,329	24
Other financial assets - noncurrent (Note 13)	5,235,840	1	-	-
Total investments	112,559,205	32	81,456,214	29
PROPERTY, PLANT AND EQUIPMENT (Notes 2, 14, 28 and 29)				
Land	10,692,043	3	9,803,353	3
Land improvements	4,220,388	1	4,212,123	2
Buildings	40,698,022	12	39,773,039	14
Machinery and equipment	245,473,457	69	237,189,591	84
Transportation equipment	1,623,659	1	1,500,483	1
Other equipment	4,389,119	1	4,018,844	1
Total cost	307,096,688	87	296,497,433	105
Revaluation increment	43,775,239	12	17,102,580	6
Cost and revaluation increment	350,871,927	99	313,600,013	111
Less: Accumulated depreciation	222,431,707	63	212,987,389	75
	128,440,220	36	100,612,624	36
Constructions in progress	20,657,785	6	15,043,863	5
Total property, plant and equipment	149,098,005	42	115,656,487	41
INTANGIBLE ASSETS (Note 2)	140,572	-	239,859	-
OTHER ASSETS				
Assets leased to others (Notes 2 and 15)	3,242,031	1	3,267,367	1
Refundable deposits	182,807	-	81,673	-
Restricted assets - noncurrent (Note 29)	8,026	-	33,694	-
Unamortized repair costs and others (Note 2)	1,155,978	-	1,695,264	1
Total other assets	4,588,842	1	5,077,998	2
TOTAL	\$ 355,638,667	100	\$ 281,940,623	100

The accompanying notes are an integral part of the financial statements.
(With Deloitte & Touche audit report dated February 5, 2009)

LIABILITIES AND STOCKHOLDERS' EQUITY	2008		2007	
	Amount	%	Amount	%
CURRENT LIABILITIES				
Short-term loans and overdraft (Note 16 and 29)	\$ 8,873,202	2	\$ 10,154,685	4
Commercial paper payable (Note 17)	14,971,593	4	-	-
Hedging derivative liabilities - current (Notes 2 and 7)	4,479	-	-	-
Accounts payable (Note 28)	5,550,443	2	5,340,093	2
Income tax payable (Note 24)	5,749,662	2	6,682,244	2
Accrued expenses (Notes 2, 18 and 21)	6,131,420	2	7,594,208	3
Other payables (Note 2)	7,664,719	2	3,155,916	1
Purchase commitments payable (Notes 2 and 30)	5,901,525	2	-	-
Long-term debt-current portion (Note 20)	945,490	-	-	-
Other	1,820,726	-	2,196,886	1
Total current liabilities	57,613,259	16	35,124,032	13
LONG-TERM LIABILITIES				
Hedging derivative liabilities - noncurrent (Notes 2 and 7)	2,055	-	-	-
Bonds payable (Note 19)	43,300,000	12	13,700,000	5
Long-term debt (Note 20)	4,417,638	1	4,445,654	1
Total long-term liabilities	47,719,693	13	18,145,654	6
RESERVE FOR LAND VALUE INCREMENT TAX (Note 14)	8,673,466	3	2,171,124	1
OTHER LIABILITIES				
Deferred income tax liabilities (Note 24)	1,100,362	-	2,511,507	1
Deferred credits - gain from affiliates (Note 22)	1,791,418	1	1,333,016	-
Total other liabilities	2,891,780	1	3,844,523	1
Total liabilities	116,898,198	33	59,285,333	21
CAPITAL STOCK - AUTHORIZED 14,000,000 THOUSAND SHARES AND 12,000,000 THOUSAND SHARES AT NT\$10 PAR VALUE AS OF DECEMBER 31, 2008 AND 2007, RESPECTIVELY (Notes 2 and 23)				
Common shares - issued 12,557,541 thousand shares and 11,496,335 thousand shares as of December 31, 2008 and 2007, respectively	125,575,411	35	114,963,350	41
Preferred shares - issued 38,270 thousand shares and 38,956 thousand shares as of December 31, 2008 and 2007, respectively	382,700	-	389,560	-
Total capital stock	125,958,111	35	115,352,910	41
CAPITAL SURPLUS (Notes 2 and 23)	18,410,920	5	1,878,630	1
RETAINED EARNINGS (Notes 2 and 23)	76,427,107	22	98,612,729	35
OTHER EQUITY				
Unrealized revaluation increment (Note 14)	21,915,248	6	1,509,155	1
Unrealized gain on financial instruments (Notes 6 and 23)	6,508,005	2	6,473,326	2
Cumulative translation adjustments	358,976	-	283,018	-
Net loss not recognized as pension cost	(32,385)	-	(38,083)	-
Treasury stock - 384,103 thousand shares and 84,543 thousand shares as of December 31, 2008 and 2007, respectively (Notes 2 and 23)	(10,805,513)	(3)	(1,416,395)	(1)
Total other equity	17,944,331	5	6,811,021	2
Total stockholders' equity	238,740,469	67	222,655,290	79
TOTAL	\$ 355,638,667	100	\$ 281,940,623	100

STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31,
2008 AND 2007

(In Thousands of New Taiwan Dollars,
Except Earnings Per Share)

China Steel Corporation

The accompanying notes are an integral part of the financial statements.
(With Deloitte & Touche audit report dated February 5, 2009)

	2008		2007	
	Amount	%	Amount	%
OPERATING REVENUE (Notes 2, 28 and 32)	\$ 256,358,008	100	\$ 207,918,952	100
OPERATING COSTS (Notes 9, 25, 28 and 30)	<u>205,726,886</u>	<u>80</u>	<u>152,705,397</u>	<u>73</u>
GROSS PROFIT	50,631,122	20	55,213,555	27
UNREALIZED GAIN FROM AFFILIATES	<u>(437,457)</u>	<u>-</u>	<u>(160,520)</u>	<u>-</u>
REALIZED GROSS PROFIT	<u>50,193,665</u>	<u>20</u>	<u>55,053,035</u>	<u>27</u>
OPERATING EXPENSES (Notes 25 and 28)				
Research and development	1,347,629	1	1,335,607	1
Selling	2,664,642	1	2,630,294	1
General and administrative	<u>2,370,551</u>	<u>1</u>	<u>2,370,820</u>	<u>1</u>
Total operating expenses	<u>6,382,822</u>	<u>3</u>	<u>6,336,721</u>	<u>3</u>
OPERATING INCOME	<u>43,810,843</u>	<u>17</u>	<u>48,716,314</u>	<u>24</u>
NONOPERATING INCOME AND GAINS				
Interest income (Note 27)	518,450	-	668,868	-
Valuation gain on financial assets (Notes 2 and 5)	58,395	-	133,047	-
Investment income recognized under equity method (Note 12)	1,804,006	1	12,117,747	6
Exchange gain	466,868	-	198,492	-
Others (Notes 10 and 28)	<u>1,514,018</u>	<u>1</u>	<u>1,678,611</u>	<u>1</u>
Total nonoperating income and gains	<u>4,361,737</u>	<u>2</u>	<u>14,796,765</u>	<u>7</u>
NONOPERATING EXPENSES AND LOSSES				
Interest expense (Note 14)	483,631	-	569,884	-
Loss on physical inventory	181,933	-	603,793	1
Provision for loss on inventories (Notes 2 and 9)	11,096,117	4	-	-
Impairment loss (Notes 10 and 11)	5,091,842	2	319,290	-
Others (Note 28)	<u>1,063,726</u>	<u>1</u>	<u>368,438</u>	<u>-</u>
Total nonoperating expenses and losses	<u>17,917,249</u>	<u>7</u>	<u>1,861,405</u>	<u>1</u>
INCOME BEFORE INCOME TAX	30,255,331	12	61,651,674	30
INCOME TAX (Notes 2 and 24)	<u>6,224,925</u>	<u>3</u>	<u>10,387,800</u>	<u>5</u>
NET INCOME	<u>\$ 24,030,406</u>	<u>9</u>	<u>\$ 51,263,874</u>	<u>25</u>

(Continued)

	2008		2007	
	Before Tax	After Tax	Before Tax	After Tax
EARNINGS PER SHARE (Note 26)				
Basic	\$ 2.55	\$ 2.03	\$ 5.18	\$ 4.31
Diluted	\$ 2.53	\$ 2.01	\$ 5.17	\$ 4.30

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

	2008	2007
Net income	\$25,634,847	\$51,590,392
Basic earnings per share based on weighted-average number of outstanding common shares aggregating 12,098,548 thousand and 11,979,527 thousand shares for the years ended December 31, 2008 and 2007, respectively	\$ 2.11	\$ 4.30
Diluted earnings per share based on weighted-average number of outstanding common shares aggregating 12,214,656 thousand and 12,018,483 thousand shares for the years ended December 31, 2008 and 2007, respectively	\$ 2.10	\$ 4.29

(Concluded)

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

YEARS ENDED DECEMBER 31,
2008 AND 2007

(In Thousands of New Taiwan Dollars,
Except Earnings Per Share)

China Steel Corporation

The accompanying notes are an integral part of the financial statements. Additional explanations for stockholders' equity accounts are in Appendix.
(With Deloitte & Touche audit report dated February 5, 2009)

	CAPITAL STOCK			CAPITAL SURPLUS	RETAINED EARNINGS		OTHER EQUITY						
	Common Stock	Preferred Stock	Legal Reserve		Special Reserve	Unappropriated Earnings	Total	Unrealized Revaluation Increment	Unrealized Gain (Loss) on Financial Instruments	Cumulative Translation Adjustments	Net Loss not Recognized as Pension Cost	Treasury Stock	Total Stockholders' Equity
BALANCES, JANUARY 1, 2007	\$ 110,537,576	\$ 406,940	\$ 1,548,370	\$ 35,674,700	\$ 8,444,593	\$ 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 23)	-	-	-	-	-	-	-	-	-	-	-	-	-
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)
Preferred cash dividends - \$2.78 per share	-	-	-	-	-	(112,815)	(112,815)	-	-	-	-	-	(112,815)
Common cash dividends - \$2.78 per share	-	-	-	-	-	(30,725,312)	(30,725,312)	-	-	-	-	-	(30,725,312)
Preferred stock dividends - \$0.3 per share	12,174	-	-	-	-	(12,174)	(12,174)	-	-	-	-	-	-
Common stock dividends - \$0.3 per share	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)
Adjusted to nonoperating income from disposal of appreciated properties	-	-	-	-	-	-	-	(2,968)	-	-	-	-	(2,968)
Adjustment from changes in equity recognized under equity method	-	-	(340)	-	-	(5,674)	(5,674)	-	(372,504)	-	-	7,234	(371,284)
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
Purchase of the Corporation's shares by subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(187,202)	(187,202)
BALANCES, DECEMBER 31, 2007	114,963,350	389,560	1,878,630	39,589,333	7,615,701	51,407,695	98,612,729	1,509,155	6,473,326	283,018	(38,083)	(1,416,395)	222,655,290
Conversion of preferred stock to common shares	6,860	(6,860)	-	-	-	-	-	-	-	-	-	-	-
Appropriation of 2007 earnings (Note 23)	-	-	-	-	-	-	-	-	-	-	-	-	-
Legal reserve	-	-	-	5,125,820	-	(5,125,820)	-	-	-	-	-	-	-
Bonus to employees	1,384,702	-	-	-	-	(2,307,837)	(2,307,837)	-	-	-	-	-	(923,135)
Remuneration to directors and supervisors	-	-	-	-	-	(69,235)	(69,235)	-	-	-	-	-	(69,235)
Preferred cash dividends - \$3.50 per share	-	-	-	-	-	(134,274)	(134,274)	-	-	-	-	-	(134,274)
Common cash dividends - \$3.50 per share	-	-	-	-	-	(40,239,244)	(40,239,244)	-	-	-	-	-	(40,239,244)
Preferred Stock dividends - \$0.3 per share	11,509	-	-	-	-	(11,509)	(11,509)	-	-	-	-	-	-
Common stock dividends - \$0.3 per share	3,449,079	-	-	-	-	(3,449,079)	(3,449,079)	-	-	-	-	-	-
Net income in 2008	-	-	-	-	-	24,030,406	24,030,406	-	-	-	-	-	24,030,406
Issuance of stock to acquire subsidiaries' shares (Notes 10 and 23)	5,759,911	-	15,717,185	-	-	-	-	-	-	-	-	-	21,477,096
Adjustments in treasury stock and minority interest arising from subsidiaries' shares	-	-	-	-	-	-	-	-	-	-	-	(6,747,074)	(6,747,074)
Change in unrealized gain (loss) on available-for-sale financial assets	-	-	-	-	-	-	-	-	(1,271,797)	-	-	-	(1,271,797)
Adjusted to nonoperating income from disposal of appreciated properties	-	-	-	-	-	-	-	(4,849)	-	-	-	-	(4,849)
Revaluation increment on land (Note 14)	-	-	-	-	-	-	-	20,410,942	-	-	-	-	20,410,942
Adjustment from changes in equity recognized under equity method	-	-	30,291	-	-	(4,850)	(4,850)	-	404,669	-	-	-	430,110
Foreign exchange gain due to the translation of foreign-currency financial statements	-	-	-	-	-	-	-	-	-	75,958	-	-	75,958
Investees' net loss not recognized as pension cost	-	-	-	-	-	-	-	-	-	-	5,698	-	5,698
Acquisition of treasury stock	-	-	-	-	-	-	-	-	-	-	-	(2,510,843)	(2,510,843)
Change in unrealized gain (loss) on financial instruments for cash flow hedging	-	-	-	-	-	-	-	-	901,807	-	-	-	901,807
Disposal of the Corporation's shares held by subsidiaries	-	-	548,063	-	-	-	-	-	-	-	-	287,581	835,644
Cash dividends declared by the Corporation and received by subsidiaries	-	-	236,751	-	-	-	-	-	-	-	-	-	236,751
Purchase of the Corporation's shares by subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(418,782)	(418,782)
BALANCES, DECEMBER 31, 2008	\$ 125,575,411	\$ 382,700	\$ 18,410,920	\$ 44,715,153	\$ 7,615,701	\$ 24,096,253	\$ 76,427,107	\$ 21,915,248	\$ 6,508,085	\$ 358,976	\$ (32,385)	\$ (10,805,513)	\$ 238,740,469

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31,
2008 AND 2007
(In Thousands of New Taiwan Dollars)

China Steel Corporation

The accompanying notes are an integral part of the financial statements.
(With Deloitte & Touche audit report dated February 5, 2009)

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 24,030,406	\$ 51,263,874
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	11,547,478	11,460,311
Amortization	648,513	616,288
Deferred income tax	(5,758,841)	(365,715)
Provision for loss on inventories	11,211,073	503,602
Loss on purchase commitments	5,901,525	-
Impairment loss	5,091,842	319,290
Unrealized gain from affiliates	437,457	160,520
Cash dividends received from equity - method investees	9,529,839	5,737,767
Investment income under equity method	(1,804,006)	(12,117,747)
Valuation gains on financial assets	(58,395)	(133,047)
Others	310,283	(48,291)
Net changes in operating assets and liabilities		
Notes receivable	(720,844)	(59,277)
Accounts receivable	(432,973)	274,927
Inventories	(32,337,540)	(5,759,315)
Other receivables	(922,433)	(248,474)
Other current assets	51,969	(1,403,438)
Accounts payable	210,350	1,729,307
Income tax payable	(932,582)	999,710
Accrued expenses	(1,486,878)	(300,297)
Other payables	4,257,430	(274,294)
Other current liabilities	(355,215)	360,952
Net cash provided by operating activities	<u>28,418,458</u>	<u>52,716,653</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of financial assets at fair value through profit or loss	(16,350,557)	(11,698,265)
Proceeds from disposal of financial assets at fair value through profit or loss	11,835,596	23,115,203
Acquisition of available-for-sale financial assets	(219,575)	(349,389)
Proceeds from disposal of available-for-sale financial assets	250,000	-
Acquisition of financial assets carried at cost	(231,650)	(142,562)
Proceeds from disposal of financial assets carried at cost	-	15,762
Acquisition of investments accounted for by equity method	(21,430,872)	(573,579)
Acquisition of property, plant and equipment	(17,928,526)	(16,754,453)
Increase in refundable deposits	(101,134)	(25,840)
Proceeds of capital reduction on financial assets carried at cost	8,364	18,360
Decrease (increase) in restricted assets	27,584	(510,340)
Increase in other financial assets - noncurrent	(4,391,060)	-
Increase in other assets	<u>(9,940)</u>	<u>(284,343)</u>

(Continued)

	2008	2007
Net cash used in investing activities	<u>\$ (48,541,770)</u>	<u>\$ (7,189,446)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of bonds payable	29,600,000	-
Cash dividends	(40,356,703)	(30,834,545)
Decrease in short-term loans and overdraft	(1,281,483)	(6,455,304)
Increase in commercial paper payable	14,971,593	-
Cash bonus to employees and remuneration to directors and supervisors	(992,370)	(828,413)
Cash paid for acquisition of treasury stock	(2,510,843)	-
Increase in long-term debt	-	795,335
Proceeds from disposal of treasury stock to employees	-	37,268
Net cash used in financing activities	<u>(569,806)</u>	<u>(37,285,659)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(20,693,118)</u>	<u>8,241,548</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>24,438,159</u>	<u>16,196,611</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 3,745,041</u>	<u>\$ 24,438,159</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid (excluding capitalized interest)	\$ 460,029	\$ 556,902
Income tax paid	12,916,348	9,753,805
INVESTING AND FINANCING ACTIVITIES AFFECTING BOTH CASH AND NON-CASH ITEMS		
Cash Paid for Acquisition of Property, Plant and Equipment		
Acquisition of property, plant and equipment	\$ 18,163,084	\$ 16,943,124
Increase in payable for equipment purchased	<u>(234,558)</u>	<u>(188,671)</u>
	<u>\$ 17,928,526</u>	<u>\$ 16,754,453</u>
Cash Dividends Paid to Stockholders		
Total cash dividends payable to stockholders	\$ 40,373,518	\$ 30,838,127
Increase in dividends payable	<u>(16,815)</u>	<u>(3,582)</u>
	<u>\$ 40,356,703</u>	<u>\$ 30,834,545</u>
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Issuance of stock to acquire Dragon Steel Corporation's shares	<u>\$ 21,477,096</u>	<u>\$ -</u>

(Concluded)

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31,
2008 AND 2007

(In Thousands of New Taiwan Dollars,
Except Amounts Stated Otherwise)

China Steel Corporation

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, 2008, the Ministry of Economic Affairs, Republic of China owned 21.24% of the Corporation's outstanding common stock (including the treasury stocks held by the Corporation and its subsidiaries).

As of December 31, 2008 and 2007, the Corporation had about 9,400 and 9,000 employees, respectively.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

For readers' convenience, the accompanying financial statements were translated into English from the original Chinese version prepared and used in the ROC. If inconsistencies arise between the English version and the Chinese version or if differences arise in the interpretations between the two versions, the Chinese version of the financial statements shall prevail. However, the Corporation's financial statements do not include the English translation of additional disclosures that are not required under generally accepted accounting principles but are required by the Securities and Futures Bureau (SFB, 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 and cash equivalents, and those assets held primarily for trading purposes or to be realized, sold or consumed within one year from the balance sheet date. All other assets such as property, plant and equipment and intangible assets are classified as noncurrent. Current liabilities are obligations incurred for trading purposes or to be settled within one year from the balance sheet date. All other liabilities are classified as noncurrent.

Cash Equivalents

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

Financial Assets at Fair Value Through Profit or Loss

Financial instruments (mainly open-end bond 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. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

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

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

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

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

Revenue Recognition, Accounts Receivable and Allowance for Doubtful Accounts

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

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

The Corporation doesn't provide allowance for doubtful accounts on bank acceptances in transit which represent revenues transacted by 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:

- The accounts receivable have been legally isolated from the Corporation.
- 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.
- 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, work in process, and finished products. Inventories are stated at the lower of total moving average cost or market value. Market value is the net realizable value for finished products, and work in process, and replacement costs for raw materials, supplies and fuel. Slow-moving supplies are provided with allowance for inventory obsolescence.

Financial Assets Carried at Cost

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

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

Investments Accounted for by the Equity Method

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

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 allocated to the assets acquired and liabilities assumed based on their fair values at the date of acquisition, and the excess of the acquisition cost over the fair value of the identifiable net assets acquired is recognized as goodwill. Goodwill is not being amortized. The excess of the fair value of the net identifiable assets acquired over the acquisition cost is used to reduce the fair value of each of the noncurrent assets acquired (except for financial assets other than investments accounted for by the equity method, deferred income tax assets, prepaid pension or other postretirement benefit) in proportion to the respective fair values of the noncurrent assets, with any excess recognized as an extraordinary gain. 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 stock. 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, 15 to 40 years; buildings, 5 to 60 years; machinery and equipment, 3 to 25 years; transportation equipment, 3 to 20 years; and other equipment, 3 to 10 years. Depreciation of revalued assets is provided on a straight-line basis over their remaining estimated useful lives determined at the time of revaluation. Property, plant and equipment still in use beyond their original estimated useful lives are further depreciated over their newly estimated useful lives.

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

Intangible Assets

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 Repairs

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

Impairment of Asset

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

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

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

Loss on Purchase Commitments

The Corporation recognizes purchase commitments payable under uncanceled purchasing contracts for raw materials when the estimated cost of finished product is in excess of its expected net realizable value. The estimated loss is recognized as operating costs in the income statement.

Pension Cost

Pension cost under a 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. Valuation allowances are provided to the extent, if any, that it is more likely than not that deferred income tax assets will not be realized. A deferred tax asset or liability is classified as current or noncurrent in accordance with the classification of its related asset or liability. However, if a deferred income tax asset or liability does not relate to an asset or liability in the financial statements, then it is classified as either current or noncurrent based on the expected length of time before it is realized or settled.

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

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

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

Foreign-currency Transactions

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

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

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

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

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

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

Hedging Derivative Financial Instruments

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

Hedge Accounting

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

- a. Fair value hedge

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

b. Cash flow hedge

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

c. Hedge of a net investment in a foreign operation

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

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

3. EFFECTS OF CHANGES IN ACCOUNTING PRINCIPLES

In March 2007, the ARDF issued an interpretation that requires companies to recognize bonuses paid to employees, directors and supervisors as compensation expenses starting January 1, 2008. These bonuses were previously recorded as appropriations from earnings. The adoption of this interpretation resulted in a decrease of NT\$1,567,439 thousand in net income and a decrease in after income tax basic and diluted earnings per share of NT\$ 0.13, for the year ended December 31, 2008.

4. CASH AND CASH EQUIVALENTS

	December 31	
	2008	2007
Cash on hand	\$ 19,593	\$ 18,927
Checking accounts and demand deposits	2,199,932	682,671
Time deposits	600,000	7,100,000
Negotiable certificates of deposits	-	6,000,000
Cash equivalents - short-term notes and bills	925,516	10,636,561
	<u>\$ 3,745,041</u>	<u>\$ 24,438,159</u>

As of December 31, 2008 and 2007, the Corporation had foreign bank deposits of ¥2,858 thousand and ¥8,825 thousand in Japan-Osaka Bank and ¥37,210 thousand and ¥9 thousand in Singapore-Daiwa Securities SMBC with the total of ¥40,068 thousand (NT\$14,572 thousand) and ¥8,834 thousand (NT\$2,559 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, 2008 and 2007, the balances of financial assets at fair value through profit or loss were NT\$5,605,453 thousand and NT\$1,032,097 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, 2008 and 2007 were NT\$58,395 thousand and NT\$133,047 thousand, respectively.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31			
	2008		2007	
	Current	Noncurrent	Current	Noncurrent
Quoted stocks				
Maruichi Steel Tube Ltd.	\$ -	\$ 757,920	\$ -	\$ 757,920
Yodogawa Steel Works, Ltd.	-	345,831	-	349,389
Taiwan Semiconductor Manufacturing Company (TSMC)	967,456	-	967,456	-
CSBC Corporation, Taiwan (CSBC)	-	219,575	-	-
Tang Eng Iron Works Corporation (TEIWC)	-	-	-	-
Bank debentures - Taiwan Cooperative Bank	-	-	250,220	-
Adjustments for change in valuation	<u>2,144,969</u>	<u>1,788,558</u>	<u>3,357,450</u>	<u>1,565,847</u>
	<u>\$ 3,112,425</u>	<u>\$ 3,111,884</u>	<u>\$ 4,575,126</u>	<u>\$ 2,673,156</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 - noncurrent was reclassified as available-for-sale financial asset-noncurrent. As of December 31, 2008 and 2007, the carrying value of this financial asset was NT\$736,066 thousand and NT\$731,587 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 difference between the carrying value and the cost of investment was cash dividends received in the year of investment acquisition which were treated as a reduction of investment cost.

In December 2008, the Corporation participated in CSBC's privatization through its' shares public offering by investing NT\$219,575 thousand to acquire 2.48% equity. CSBC mainly builds and sells vessels.

The Corporation borrowed foreign-currency bank loans in the same amounts with the hedged investment to hedge exchange rate fluctuation risks on the investments in Maruichi Steel Tube Ltd. and Yodogawa Steel Works, Ltd (Notes 20 and 27).

7. HEDGING DERIVATIVE FINANCIAL INSTRUMENTS (Only as of December 31, 2008)

The Corporation entered into derivative contracts during the year ended December 31, 2008 to manage cash flows exposures arising from exchange rate fluctuations on foreign-currency capital expenditures contracts.

Outstanding forward exchange contracts as of December 31, 2008 were as follows:

Currency	The Period for Generating Cash Flows and Maturity Date	Contract Amount (in Thousands)
NT\$/USDS	December, 2009 - September, 2010	NT\$4,093,276/USD\$129,490
NT\$/EURS	January, 2009 - March, 2012	NT\$1,160,674/EUR\$25,557

The unrealized gain at December 31, 2008, was NT\$9,846 thousand and NT\$53,715 thousand (with the total of NT\$63,561 thousand) on derivative financial assets for hedging - current and - noncurrent, respectively, and the unrealized loss was NT\$4,479 thousand and NT\$2,055 thousand (with the total of NT\$6,534 thousand) on derivative financial liability for hedging - current and - noncurrent, respectively, and recognized as unrealized gain or loss on financial instruments in stockholders' equity.

The unrealized gain (loss) of abovementioned forward contracts will be recognized in the income statement during the period of providing depreciation over the useful lives of assets acquired.

8. ACCOUNTS RECEIVABLE

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

The related information for the Corporation's sale of its accounts receivable for the years ended December 31, 2008 and 2007 is as follows:

Transaction Counter-party	Advances Received at Year-beginning	Receivables Sold	Amounts Collected	Advances Received at Year-end	Interest Rates on Advances Received (%)	Credit Line (In billions of NT\$)
<u>Year ended December 31, 2008</u>						
Accounts Receivable						
Mega Bank	\$ 4,513,552	\$ 14,327,049	\$ 14,674,121	\$ 4,166,480	2.53-2.74	7.5
Bank of Taiwan	698,837	2,753,049	2,594,986	856,900	2.53-2.55	2.5
Taipei Fubon Bank	221,220	987,481	1,042,160	166,541	2.73-2.74	0.4
	<u>\$ 5,433,609</u>	<u>\$ 18,067,579</u>	<u>\$ 18,311,267</u>	<u>\$ 5,189,921</u>		
<u>Year ended December 31, 2007</u>						
Accounts Receivable						
Mega Bank	\$ 4,142,273	\$ 13,310,610	\$ 12,939,331	\$ 4,513,552	1.99-2.54	6.4
Bank of Taiwan	466,403	2,025,727	1,793,293	698,837	2.03-2.54	2.5
Taipei Fubon Bank	45,040	611,646	435,466	221,220	2.26-2.70	0.4
	<u>\$ 4,653,716</u>	<u>\$ 15,947,983</u>	<u>\$ 15,168,090</u>	<u>\$ 5,433,609</u>		

9. INVENTORIES

	December 31	
	2008	2007
Finished products	\$ 14,103,511	\$ 8,013,742
Work in process	17,589,620	11,972,374
Raw materials	27,826,460	8,787,808
Supplies	7,770,369	5,995,890
Materials in transit	2,452,051	2,953,488
Fuel	249,473	162,816
Others	837,908	787,667

	70,829,392	38,673,785
Less: Allowance for value decline and obsolescence losses on inventory	<u>11,714,675</u>	<u>503,602</u>
	<u>\$ 59,114,717</u>	<u>\$ 38,170,183</u>

The global financial crisis hurts the demand for steel products, therefore, the steel products and materials prices declined significantly in the fourth quarter in 2008. According to the lower of cost or market value method, the Corporation recognized a provision for loss on inventories of NT\$11,096,117 thousand (recorded as nonoperating loss). The Corporation also recognized loss on purchase commitments of NT\$5,901,525 thousand due to the effect of the crisis mentioned above, and reported such loss as operating costs and current liabilities - purchase commitments payable (Notes 2 and 30).

10. FINANCIAL ASSETS CARRIED AT COST - NONCURRENT

	December 31	
	2008	2007
Unquoted common stocks		
Industrial Bank of Taiwan	\$ 1,000,000	\$ 1,000,000
CDIB & Partners Investment Holding Corporation	500,000	500,000
Adimmune Corporation (AC)	231,650	-
Taiwan Rolling Stock Co., Ltd. (TRSC)	202,048	202,048
Hsin Hsin Cement Enterprise Corp.	165,010	165,010
CDIB BioScience Ventures I, Inc. (CBVI)	75,276	83,640
Overseas Investment & Development Corporation	50,000	50,000
CTB I Venture Capital Co., Ltd.	50,000	50,000
Phalanx Biotech Group Corporation (PBGC)	-	73,370
Asia Pacific Broadband Telecom Co., Ltd.	-	-
Advanced Material Technology Corporation (AMTC)	-	-
Unquoted preferred stocks		
East Asia United Steel Corporation (EAUS)	3,636,500	2,897,000
Dragon Steel Corporation (DSC)		
Preferred A	-	999,877
Preferred B	-	53,312
Fund - Sino-Canada Biotechnology Development Fund, LP (SCBDF)	-	82,546
	<u>\$ 5,910,484</u>	<u>\$ 6,156,803</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.

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

The Corporation invested NT\$102,000 thousand to acquire 4 % equity of CBVI. In August 2008, and November 2007, CBVI reduced its capital and returned NT\$8,364 thousand and NT\$18,360 thousand to the Corporation, respectively. Accordingly, the cost of investment in CBVI was reduced to NT\$75,726 thousand.

In June 2008, the Corporation evaluated and recognized an impairment loss of NT\$73,370 thousand (recorded as nonoperating loss) in the investment of PBGC.

In August 2007, the Corporation acquired 3,808 thousand Preferred B shares (representing 5% ownership) of DSC for NT\$55,216 thousand. Dividend on these shares is at 5%, payable on a participating and cumulative basis. Preferred stockholders have the same voting rights as common stockholders, except the

right to vote for directors and supervisors, but they can be candidates for directors and supervisors. The difference between the carrying value and the cost of investment was dividends received by the Corporation in the acquisition year. The Corporation and DSC approved the share swap in their stockholders meetings. The Corporation exchanged 52% equity (including common stocks and preferred stocks) of DSC for new shares issued for capital increase on October 6, 2008. The exchange ratio was 1:2.6. After the share swap, the Corporation's equity in DSC increased to 100%. Accordingly, the investment in DSC preferred stock was reclassified from financial assets carried at cost-noncurrent to investments accounted for by the equity method (Note 12).

The Corporation invested NT\$243,290 thousand to acquire 2% equity of AMTC. In the first quarter of 2007, the Corporation evaluated and 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 reclassified 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 EAUS was established. As of December 31, 2008, the Corporation invested in EAUS the amount of ¥10 billion (Notes 20 and 27). 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 royalties on this contract based on the volume purchased by CHSC. The amounts of royalty income for the years ended December 31, 2008 and 2007 were NT\$212,337 thousand and NT\$311,745 thousand, respectively. As of December 31, 2008 and 2007, the royalty receivable were NT\$30,952 thousand and NT\$91,774 thousand, respectively.

The Corporation invested 100 units (\$10,000 thousand Canadian dollars) in the SCBDF fund. As of December 31, 2008, the Corporation has invested CAD\$9,435 thousand (NT\$219,025 thousand) in SCBDF fund. In 2008 and 2007, the Corporation recognized impairment losses of NT\$82,546 thousand and NT\$76,000 thousand, respectively, on its investment in SCBDF.

11. BOND INVESTMENTS WITH NO ACTIVE MARKET

	December 31	
	2008	2007
<u>Unquoted preferred stocks – domestic</u>		
Taiwan High Speed Rail Corporation (THSRC)		
Preferred C	\$ -	\$ 3,904,542
Preferred B	-	834,384
Taigen Biotechnology Co., Ltd. (TBC)	-	300,000
	-	5,038,926
<u>Unquoted preferred stocks - overseas</u>		
TaiGen Biopharmaceuticals Holdings Limited (TGB)	103,000	-
	<u>\$ 103,000</u>	<u>\$ 5,038,926</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 2008, the Corporation evaluated and recognized an impairment loss of NT\$4,738,926 thousand (recorded as nonoperating loss) on the investments in preferred shares of THSRC.

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

12. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

	December 31			
	2008		2007	
	Amount	% of Owner-ship	Amount	% of Owner-ship
Stocks listed on the Taiwan Stock Exchange				
Chung Hung Steel Corporation (CHSC)	\$ 2,211,584	24	\$ 3,675,723	24
China Steel Chemical Corporation (CSCC)	1,447,376	29	1,377,882	29
China Hi-ment Corporation (CHC)	691,813	20	667,321	20
China Ecotek Corporation (CEC)	684,425	49	404,891	36
China Steel Structure Corporation (CSSC)	547,017	18	548,287	18
	5,582,215		6,674,104	
Less: Shares held by subsidiaries accounted for as treasury stock	1,375,456		336,709	
	<u>4,206,759</u>		<u>6,337,395</u>	
Stocks without quoted market prices				
Dragon Steel Corporation (DSC)	58,831,552	100	16,731,288	47
China Steel Express Corporation (CSE)	13,502,625	100	12,301,101	100
C. S. Aluminum Corporation (CAC)	7,132,216	100	7,413,376	100
Gains Investment Corporation (GIC)	5,206,807	100	8,264,312	100
China Prosperity Development Corporation (CPDC)	4,700,887	100	4,761,535	100
China Steel Asia Pacific Holdings Pte Ltd (CSAPH)	3,324,722	100	3,275,056	100
Kaohsiung Rapid Transit Corporation (KRTC)	2,205,815	31	2,900,453	31

(Continued)

	December 31			
	2008	% of	2007	% of
	Amount	Owner-ship	Amount	Owner-ship
China Steel Global Trading Corporation (CSGT)	1,514,128	100	1,241,357	100
China Steel Machinery Corporation (CSMC)	837,269	74	1,005,342	100
Info-Champ Systems Corporation (ICSC)	614,950	100	679,218	100
Hong Yih Investment Corporation (HYI)	532,755	100	850,672	100
Long Yuan Fa Investment Corporation (LYFI)	529,858	100	848,773	100
Goang Yaw Investment Corporation (GYI)	518,355	100	828,178	100
CSC Steel Australia Holdings Pty Ltd (CSCAU)	478,709	100	463,351	100
Kaohsiung Arena Development Corporation (KADC)	439,894	18	339,147	18
China Steel Security Corporation (CSS)	308,946	100	261,905	100
Hi-mag Magnetic Corporation (HMC)	103,514	50	105,243	50
Baolai Greeting Development Co., Ltd. (BGDC)	42,179	45	46,515	45
China Steel Management Consulting Corporation (CSMCC)	25,150	100	7,285	38
TaiAn Technologies Corporation (TTC)	6,406	17	5,513	17
	100,856,737		62,329,620	
Less: Shares held by subsidiaries accounted for as treasury stock	6,919,214		1,079,686	
	93,937,523		61,249,934	
	\$ 98,144,282		\$ 67,587,329	

(Concluded)

The Corporation's total equity in CHSC is 39%, including 24% directly owned and 15% indirectly owned through LYFI, HYI and GYI. The Corporation's total equity in TTC is 22%, including 17% directly owned and 5% indirectly owned through CSCC. The Corporation's total equity in KADC is 29%, including 18% directly owned and 11% indirectly owned through CSSC and CPDC.

As stated in Note 10, the Corporation's equity in DSC increased from 47% to 100% after the share swap. In December 2008, the Corporation invested additional NT\$21,200,000 thousand in DSC through its private subscription.

On April 1, 2008, the Corporation exchanged 22,900 thousand shares of CSMC for CEC's new shares issued for a capital increase. The exchange ratio was 1:1. After the share swap, the Corporation's equity in CSMC and CEC decreased from 100% to 74% and increased from 36% to 49%, respectively.

In December 2007 and 2008, KADC increased capital by cash and the Corporation invested both NT\$90,000 thousand based on equity holding ratio.

In February 2007, the Corporation invested US\$400 thousand (NT\$13,150 thousand) in CSAPH, and then CSAPH invested US\$2,436 thousand (NT\$80,084 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 January 2008, the Corporation invested additional US\$3,500 thousand (NT\$113,645 thousand) in CSAPH, and then CSAPH invested the same amount in TTEC.

In April 2007, in order to obtain long-term coal mining, 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.

In January 2008, in order to simplify the investments structure, the Corporation invested NT\$15,083 thousand, at the carrying amount of Eminence Investment Co., Ltd. to acquire 1% ownership of GYI, HYI and LYFI, respectively, as well as invested NT\$5,829 thousand and NT\$6,315 thousand, at the carrying amounts of GIC and ICSC to acquire 30% ownership and 32.5% ownership of CSMCC, respectively.

The market value of above listed stocks based on the closing price on December 31, 2008 and 2007 was as follows:

	December 31	
	2008	2007
CHSC	\$ 3,087,958	\$ 5,086,048
CSCC	3,459,995	5,175,417
CHC	1,357,704	1,339,911
CEC	1,556,547	1,020,285
CSSC	380,063	525,466
	\$ 9,842,267	\$ 13,147,127

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

	Year Ended December 31	
	2008	2007
CSE	\$ 7,144,057	\$ 6,686,007
CSGT	417,470	339,000
CSCC	394,519	413,309
CSAPH	273,034	355,247
CSMC	232,307	228,179
CAC	147,841	542,788
CHC	142,545	118,874
CSCAU	129,736	(9,017)
ICSC	110,179	96,383
CPDC	73,158	118,391
CSSC	17,175	81,994
CEC	12,519	80,436
DSC	(3,519,602)	733,954
GIC	(1,587,846)	865,562
CHSC	(969,677)	952,422
KRTC	(688,915)	(164,412)
HYI	(211,815)	210,001
LYFI	(208,754)	209,869
GYI	(206,176)	204,489
Others	102,251	54,271
	\$ 1,804,006	\$ 12,117,747

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.

The Corporation's Board of Directors approved plans for additional investments in steel factory in Vietnam etc. The related subscription schedule depends on the investees' capital increase requirements. As of December 31, 2008, the Corporation's unexecuted investments in these investees aggregated NT\$9,976,326 thousand. The Corporation's Board of Directors approved plans for additional investments in CHSC at most for 360,000 thousand shares.

As stated in Note 10, the Corporation adopted the purchase method to account for the acquisition of DSC equity. Movements of the difference between the cost of investment and the Company's share in investees' net assets allocated to depreciable assets and goodwill for the year ended December 31, 2008 were as follows:

	Depreciable Assets	Goodwill
Year ended December 31, 2008		
Balance, beginning of year	\$ -	\$ -
Addition	1,195,737	401,018
Amortization	(68,743)	-
Balance, end of year	\$ 1,126,994	\$ 401,018

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

Pro forma information on operating performance assuming DSC was acquired at the beginning of year 2007 was as follows:

	Pro Forma Information	
	2008	2007
Nonoperating income and gains		
Investment income recognized under equity method	\$ 2,350,643	\$ 12,701,177
Income before income tax	\$ 30,801,968	\$ 62,235,105
Net income	\$ 24,577,043	\$ 51,847,305
Basic earnings per share-after tax	\$ 2.00	\$ 4.15
Diluted earnings per share-after tax	\$ 1.99	\$ 4.15

13. OTHER FINANCIAL ASSETS – NONCURRENT (Only as of December 31, 2008)

For the purpose of constructing the third cold – rolled plant, the Corporation signed contracts to purchase imported equipment in total of ¥16.15 billion. For the purposes of managing cash flows exposures arising from exchange rate fluctuations, the Corporation purchased time deposits of ¥16 billion (NT\$4,878,900 thousand) in January 2008. As of December 31, 2008, the balance of the JPY time deposits designated as hedging instrument was ¥14.4 billion (NT\$5,235,840 thousand). An unrealized gain of NT\$844,780 thousand arising from the JPY time deposits designated as hedging instrument was recognized as unrealized gain on financial instruments in stockholders' equity.

The cash flows generated from abovementioned contracts will be between 2008 and 2013. The period for recognizing unrealized gain on hedging instruments in the income statement is the same as that for providing depreciation on the hedged equipment.

14. PROPERTY, PLANT AND EQUIPMENT

	Land	Land Improvements	Buildings	Machinery and Equipment	Transportation Equipment	Other Equipment	Construction in progress	Total
Year ended December 31, 2008								
Cost:								
Balance, beginning of year	\$ 9,803,353	\$ 4,212,123	\$ 39,773,839	\$ 237,188,291	\$ 1,590,483	\$ 4,018,844	\$ 15,043,883	\$ 311,541,296
Additions	888,690	8,265	1,173,832	9,736,270	171,611	577,595	5,613,922	18,165,084
Disposals	-	-	(245,007)	(1,446,273)	(85,225)	(285,250)	-	(1,961,555)
Balance, end of year	10,692,043	4,220,388	40,698,662	245,478,287	1,676,869	4,309,189	20,657,785	327,734,473
Accumulated depreciation:								
Balance, beginning of year	-	-	2,423,523	8,296,388	27,233	31,714	-	17,382,588
Additions	26,913,384	-	-	-	-	-	-	26,913,384
Disposals	-	-	(10,062)	(212,426)	(9,123)	(53)	-	(231,624)
Balance, end of year	26,913,384	-	2,413,461	8,083,962	18,110	31,661	-	37,447,578
Net book value, end of year	\$ 8,000,000	\$ 4,220,388	\$ 38,285,201	\$ 237,394,325	\$ 1,658,759	\$ 4,277,528	\$ 20,657,785	\$ 290,286,895
Year ended December 31, 2007								
Cost:								
Balance, beginning of year	\$ 8,209,236	\$ 4,212,123	\$ 37,261,645	\$ 219,788,075	\$ 1,475,139	\$ 3,086,539	\$ 21,822,773	\$ 295,965,530
Additions	1,593,117	-	2,540,711	18,467,888	69,221	1,133,597	(9,878,900)	16,945,124
Disposals	-	-	(49,317)	(1,066,370)	(41,868)	(288,212)	-	(1,345,667)
Balance, end of year	9,803,353	4,212,123	36,752,039	218,189,593	1,502,492	3,931,924	11,943,873	311,541,296
Accumulated depreciation:								
Balance, beginning of year	-	-	2,423,523	8,433,645	27,233	31,714	-	17,249,899
Additions	-	-	(22)	(147,255)	-	(53)	-	(147,330)
Disposals	-	-	-	-	-	-	-	-
Balance, end of year	-	-	2,401,501	8,286,390	27,233	31,661	-	17,382,588
Net book value, end of year	\$ 9,803,353	\$ 4,212,123	\$ 34,350,538	\$ 209,903,203	\$ 1,475,259	\$ 3,900,263	\$ 11,943,873	\$ 294,158,708

Information about capitalized interest on the purchase of property, plant and equipment for years 2008 and 2007 was disclosed as follows:

	Year Ended December 31	
	2008	2007
Interest expense before capitalization	\$ 672,175	\$ 643,147
Capitalized interest - construction in progress	(188,544)	(73,263)
Interest expense through income statement	\$ 483,631	\$ 569,884
Capitalization rates	1.96%-2.55%	1.74%-2.37%

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 unrealized revaluation increment. As of December 31, 2008, unrealized revaluation increment totalling NT\$13,952,356 thousand had been capitalized as capital stock, reducing its balance to NT\$339,174 thousand. In January 2005, the government revised the land increment tax law to reduce the tax rate. Thus, the reserve for land value increment tax decreased and the unrealized

revaluation increment increased each by NT\$1,196,189 thousand. Accordingly, the balance of unrealized revaluation increment increased to NT\$1,535,363 thousand. In 2008, the Corporation revalued its land in accordance with the current assessed land value. Total increments on land revaluation was NT\$26,913,284 thousand, after the deduction of the reserve for land value increment tax of NT\$6,502,342 thousand, a net increment of NT\$20,410,942 thousand was credited to unrealized revaluation increment. In 2008 and 2007, upon retirement or sale of appreciated properties, the unrealized revaluation increment decreased by NT\$4,849 thousand and NT\$2,968 thousand, respectively, and recorded as nonoperating revenue. As of December 31, 2008, the cumulative nonoperating revenue was NT\$31,057 thousand.

15. ASSETS LEASED TO OTHERS

	Land	Machinery and Equipment	Buildings and Improvements	Total
<u>Year ended December 31, 2008</u>				
Cost				
Balance, beginning and end of year	\$ 3,079,977	\$ 2,000,000	\$ 161,816	\$ 5,241,793
Accumulated depreciation				
Balance, beginning of year	-	1,359,636	20,790	1,380,426
Depreciation expense	-	22,682	2,654	25,336
Balance, end of year	-	1,382,318	23,444	1,405,762
Accumulated impairment	\$ -	\$ 594,000	\$ -	\$ 594,000
Net book value, end of year	\$ 3,079,977	\$ 23,682	\$ 138,372	\$ 3,242,031
<u>Year ended December 31, 2007</u>				
Cost				
Balance, beginning and end of year	\$ 3,079,977	\$ 2,000,000	\$ 161,816	\$ 5,241,793
Accumulated depreciation				
Balance, beginning of year	-	1,333,278	18,138	1,351,416
Depreciation expense	-	26,358	2,652	29,010
Balance, end of year	-	1,359,636	20,790	1,380,426
Accumulated impairment	-	594,000	-	594,000
Net book value, end of year	\$ 3,079,977	\$ 46,364	\$ 141,026	\$ 3,267,367

The Corporation has leased some of its land, machinery equipment and plant property to its subsidiaries (Note 28).

16. SHORT-TERM LOANS AND OVERDRAFT

	December 31	
	2008	2007
Credit loans - interest at 1.95%-2.21% p.a. and 2.195% p.a. as of December 31, 2008 and 2007, respectively	\$ 6,800,000	\$ 7,000,000
Letters of credit - due within 180 days; interest at 1.186%-4.230% p.a. and 1.1088%-5.2838% p.a. as of December 31, 2008 and 2007, respectively	69,816	120,750
Overdraft - interest at 0.64%-1.575% p.a. and 1.75%-2.675% p.a. as of December 31, 2008 and 2007, respectively	2,003,386	3,033,935
	<u>\$ 8,873,202</u>	<u>\$ 10,154,685</u>

17. COMMERCIAL PAPER PAYABLE (Only as of December 31, 2008)

	2008
Commercial paper - interest rates at 1.040%-1.547% p.a. as of December 31, 2008	\$ 15,000,000
Unamortized discounts	(28,407)
	<u>\$ 14,971,593</u>

18. ACCRUED EXPENSES

	December 31	
	2008	2007
Incentive bonus	\$ 630,522	\$ 2,934,361
Bonus to employees, and remuneration to directors and supervisors (Note 3)	1,665,122	-
Repair and construction	1,010,533	1,069,951
Others	2,825,243	3,589,896
	<u>\$ 6,131,420</u>	<u>\$ 7,594,208</u>

19. BONDS PAYABLE

	December 31	
	2008	2007
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
5-year unsecured bonds - issued at par in:		
December 2008; repayable in December 2012 and December 2013; 2.42% interest p.a., payable annually	9,600,000	-
December 2008; repayable in December 2012 and December 2013; 2.08% interest p.a., payable annually	13,000,000	-
7-year unsecured bonds - issued at par in:		
December 2008; repayable in December 2014 and December 2015; 2.30% interest p.a., payable annually	7,000,000	-
	<u>\$ 43,300,000</u>	<u>\$ 13,700,000</u>

20. LONG-TERM DEBTS

	December 31	
	2008	2007
Repayable in July 2010 (¥4.4 billion); floating rates at 1.14% and 1.1268% p.a. as of December 31, 2008 and 2007, respectively	\$ 1,600,060	\$ 1,274,680
Repayable in July 2010 (¥3.3 billion); floating rates at 1.325% and 1.3863% p.a. as of December 31, 2008 and 2007, respectively	1,200,045	956,010
Repayable in December 2009 (¥2.6 billion); floating rates at 1.235% and 1.2108% p.a. as of December 31, 2008 and 2007, respectively	945,490	753,220
Repayable in July 2010 (¥2.2 billion); floating rates at 1.1978% and 1.2203% p.a. as of December 31, 2008 and 2007, respectively	800,030	637,340
Repayable in November 2010 (¥1.214 billion); floating rates at 1.17125% and 1.165% p.a. as of December 31, 2008 and 2007, respectively	441,471	351,696
Repayable in July 2010 (AUD16.54 million); floating rates at 8.69239% and 7.0011% p.a. as of December 31, 2008 and 2007, respectively	<u>376,032</u>	<u>472,708</u>
	5,363,128	4,445,654
Less: Current portion	<u>945,490</u>	-
	<u>\$ 4,417,638</u>	<u>\$ 4,445,654</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 27).

21. RETIREMENT BENEFIT PLAN

The pension plan under the Labor Pension Act (the "LPA") is a defined contribution plan. Based on the LPA, the Corporation makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages. Such pension costs were NT\$41,548 thousand and NT\$26,808 thousand for the years ended December 31, 2008 and 2007, 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, 2008 and 2007 was NT\$1,453,123 thousand and NT\$1,634,142 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, 2008 and 2007 was NT\$4,425 thousand and NT\$4,370 thousand, respectively.

In order to encourage employees to retire and transfer to affiliates, the Corporation recognized preferential severance pay in accordance with the related preferential severance measures of NT\$464,593 thousand and NT\$81,077 thousand for the years ended December 31, 2008 and 2007, respectively.

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

	Year Ended December 31	
	2008	2007
a. Components of net pension cost		
Service cost	\$ 1,373,511	\$ 1,372,219
Interest cost	586,426	543,483
Projected return on plan assets	(532,460)	(340,479)
Amortization	<u>30,071</u>	<u>63,289</u>
Net pension cost	<u>\$ 1,457,548</u>	<u>\$ 1,638,512</u>
b. Reconciliation of the funded status of the plan and accrued pension cost		
	December 31	
	2008	2007
Benefit obligation		
Vested benefit obligation	\$ 1,078,442	\$ 373,281
Non-vested benefit obligation	<u>14,413,652</u>	<u>13,492,230</u>
Accumulated benefit obligation	15,492,094	13,865,511
Additional benefits based on future salaries	<u>3,122,050</u>	<u>3,240,813</u>
Projected benefit obligation	18,614,144	17,106,324
Fair value of plan assets	<u>(16,812,157)</u>	<u>(15,026,819)</u>
Funded status	1,801,987	2,079,505
Unrecognized net asset at transitional	52,447	61,983
Unamortized net loss	<u>(1,758,521)</u>	<u>(2,067,096)</u>
Accrued pension cost (included in accrued expense)	<u>\$ 95,913</u>	<u>\$ 74,392</u>
Vested benefits	<u>\$ 1,137,303</u>	<u>\$ 399,899</u>
c. Actuarial assumptions		
Discount rate used in determining present values	2.5%	3.5%
Future salary increase rate	2.0%	3.0%
Expected rate of return on plan assets	2.5%	3.5%
d. Contributions to the fund	<u>\$ 1,435,373</u>	<u>\$ 1,673,851</u>
e. Payments from the fund	<u>\$ 216,500</u>	<u>\$ 481,139</u>

22. DEFERRED CREDITS - GAIN FROM AFFILIATES

	December 31	
	2008	2007
Gain on disposal of land	\$ 1,136,164	\$ 1,136,164
Gain on contracted projects	<u>655,254</u>	<u>196,852</u>
	<u>\$ 1,791,418</u>	<u>\$ 1,333,016</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 contracted engineering projects with KRTC and DSC, resulting in deferred revenue. Some of the projects with KRTC (investment accounted by the equity method) were completed during the year ended December 31, 2008. Such deferred credits are recognized as income over 8 to 30 years and the accumulated deferred credits recognized as of December 31, 2008 were NT\$15,033 thousand. The accumulated credits with DSC will be recognized as income over the service lives of the assets after completion of the constructions expected to be completed between 2009 and 2010.

23. STOCKHOLDERS' EQUITY

a. Capital stock

In August 2008 and 2007, the Corporation, through capitalization of retained earnings of NT\$4,845,290 thousand and NT\$4,408,394 thousand, issued common shares of 484,529 thousand and 440,839 thousand, respectively. In order to acquire 52% equity of DSC (Note 10), the Corporation issued NT\$5,759,911 thousand (575,991 thousand shares) for a capital increase.

For the years ended December 31, 2008 and 2007, 686 thousand shares and 1,738 thousand shares of preferred shares were converted into common stock, respectively. As of December 31, 2008, 2 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, 2008</u>					
Shares acquired and held by subsidiaries	84,543	208,659	17,099	276,103	\$ 8,294,670
Shares acquired by the Corporation for transfer to employees	<u>-</u>	<u>108,000</u>	<u>-</u>	<u>108,000</u>	<u>2,510,843</u>
	<u>84,543</u>	<u>316,659</u>	<u>17,099</u>	<u>384,103</u>	<u>\$ 10,805,513</u>
<u>Year ended December 31, 2007</u>					
Shares acquired and held by subsidiaries	81,180	7,165	3,802	84,543	\$ 1,416,395
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>

1) Shares acquired and held by subsidiaries

The Corporation's shares acquired and held by subsidiaries were accounted for as treasury stock

(subsidiaries recorded them as available-for-sale financial asset - current or available-for-sale financial assets - noncurrent). Treasury stock increased mainly due to additional shares purchased by subsidiaries and share swap with DSC (Note 10) and treasury stock decreased mainly due to subsidiaries' sales of the Corporation's shares and change in percentage of ownership. For the years ended December 31, 2008 and 2007, the proceeds for treasury stock sold amounted to NT\$835,644 thousand and NT\$162,143 thousand and after deducting book values, resulted in the balances of NT\$548,063 thousand and NT\$103,209 thousand (recorded as capital surplus), respectively.

As of December 31, 2008 and 2007, the market values of the treasury stock acquired and held are NT\$6,377,968 thousand and NT\$3,677,641 thousand, respectively.

2) Shares acquired for transfer to employees

On October 7, 2008 the Corporation's Board of Directors approved the buyback of 300,000 thousand issued common shares from the open market during October 8, 2008 to December 7, 2008 at the price between NT\$21.18 and NT\$52.67 per share for the transfer of these shares to employees. The buyback 108,000 thousand shares as of December 31, 2008 have not been transferred to employees.

The Corporation under relevant regulations acquired its issued common shares from the public market at a total of 1,600 thousand shares during December 2005 to February 2006 and have transferred all shares to employees in 2007.

Under the Securities and Exchange Act., the Corporation's share repurchase is restricted up to 10% of total issued shares, and the total purchase amount should not exceed the sum of retained earnings, paid-in capital in excess of par value and realized capital surplus. In addition, the Corporation should transfer those shares to employees within three years. Otherwise these shares are deemed unissued and the Corporation should then register with the government for capital reduction. Further, the Corporation should not pledge these stocks as collateral and should not collect dividends or exercise voting rights on these stocks. The 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 receipts then increased by 6,024,532 units resulting from the capitalization of retained earnings. Under relevant regulations, the GDR holders may also request the conversion to the shares represented by the GDR. The foreign investors may also request the reissuance of such depositary receipts within the originally approved units. As of December 31, 2008, the outstanding depositary receipts were 7,195,731 units, equivalent to 143,914,827 common shares, which represented 1.15% of the outstanding common shares (including the treasury stocks held by the Corporation and its subsidiaries).

d. Preferred stock

Preferred stockholders have the following entitlements or rights:

- 1) 14% annual dividends, with dividend payments ahead of those to common stockholders;
- 2) Preference over common stock in future payment of dividends in arrears;

- 3) Redemption of stock, at the Corporation's option 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	
	2008	2007
Additional paid-in capital- issuance of common shares to acquire ownership of subsidiaries (Note 10)	\$ 15,717,185	\$ -
Treasury stock transaction	2,415,370	1,630,556
Long-term stock investments under the equity method	270,266	239,975
Others	8,099	8,099
	<u>\$ 18,410,920</u>	<u>\$ 1,878,630</u>

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

f. Appropriation of retained earnings and dividend policy

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

- 1) 10% as legal reserve, until its balance equals the issued capital stock;
- 2) Preferred stock dividends at 14% of par value;
- 3) Of the remainder, 0.15% as remuneration to directors and supervisors and 8% as bonus to employees. (In June 2008, the Corporation's stockholders resolved to change the appropriation rate for bonus to employees from 3%-5% to 8%, which will be effective for the appropriations of 2008 earnings.)
- 4) Common stock dividends at 14% of par value; and
- 5) The remainder, if any, as additional dividends divided equally between the holders of preferred and common stock.

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

The Corporation is required to appropriate a special reserve from annual earnings for any net debit balance resulting from adjustments to the stockholders' equity (including unrealized revaluation increment, unrealized gain (loss) on financial instruments, unrecognized net loss on pension cost and cumulative translation adjustments), excluding treasury stock held by the Corporation. Besides, if the market price of the Corporation's common share is lower than the carrying value of the Corporation's

shares held by subsidiaries, the Corporation should appropriate a special reserve equal to the difference between market price and carrying value. The Corporation may release a portion of this special reserve when such debit balances are partially or fully reversed. As of December 31, 2008, 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.

For the year ended December 31, 2008, the bonus to employees of NT\$1,637,715 thousand and remuneration to directors and supervisors of NT\$27,407 thousand, which representing 8% and 0.15% of net income (which is deducted bonus to employees and remuneration to directors and supervisors, legal reserve and special reserve), respectively, were accrued based on past experiences.

When the accrued amounts of bonus and remuneration approved subsequently by the Board of Directors have significant variation, the variation should be adjusted currently in profit or loss. If the amounts continue to have variation upon the stockholders' resolutions, the variation will be adjusted according to change in accounting estimates and be recognized in the year of stockholders' resolutions.

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

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

The Corporation's stockholders in their June 2008 and 2007 meetings, approved the following appropriations of the 2007 and 2006 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 date of appropriations and other distributions).

	Amount		Dividends Per Share	
	2007	2006	2007	2006
Legal reserve	\$ 5,125,820	\$ 3,914,633		
Special reserve	-	(829,292)		
Preferred stock				
Cash dividends	134,274	112,815	\$ 3.50	\$ 2.78
Stock dividends	11,509	12,174	0.30	0.30
			<u>\$ 3.80</u>	<u>\$ 3.08</u>
Common stock				
Cash dividends	40,239,244	30,725,312	\$ 3.50	\$ 2.78
Stock dividends	3,449,079	3,315,681	0.30	0.30
			<u>\$ 3.80</u>	<u>\$ 3.08</u>
Remuneration to directors and supervisors	69,235	108,054		
Bonus to employees				
Cash bonus	923,135	720,359		
Stock bonus	1,384,702	1,080,539		
	<u>\$ 51,336,998</u>	<u>\$ 39,160,275</u>		

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

g. Unrealized gain on financial instruments

For the years ended December 31, 2008 and 2007, movements of unrealized gain on financial instruments were as follows:

	Available-for-sale Financial Assets	Equity-method Investments	Unrealized Gain or Loss on Cash Flow Hedging	Total
<u>Year ended December 31, 2008</u>				
Balance, beginning of year	\$ 4,894,886	\$ 1,578,440	\$ -	\$ 6,473,326
Recognized in stockholders' equity	(1,271,797)	404,669	901,807	34,679
Balance, end of year	\$ 3,623,089	\$ 1,983,109	\$ 901,807	\$ 6,508,005
<u>Year ended December 31, 2007</u>				
Balance, beginning of year	\$ 5,582,793	\$ 1,950,944	\$ -	\$ 7,533,737
Recognized in stockholders' equity	(687,907)	(372,504)	-	(1,060,411)
Balance, end of year	\$ 4,894,886	\$ 1,578,440	\$ -	\$ 6,473,326

24. INCOME TAX

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:

	<u>Year Ended December 31</u>	
	2008	2007
Income tax expense at the 25% statutory rate	\$ 7,563,833	\$ 15,412,919
Tax effect on adjusting items		
Permanent differences		
Investment income recognized under equity method - domestic	(350,309)	(2,942,879)
Dividends	(94,684)	(82,098)
Tax-exempt income	(78,294)	(44,461)
Unrealized gain on valuation and gain on disposal of financial assets	(14,599)	(33,262)
Employee benefits	165,619	49,148
Others	(2,772)	(92,077)
Temporary differences		
Impairment loss on financial assets	1,272,961	79,822
Provision for loss on inventory	2,802,768	123,517

Loss on purchase commitments	1,475,381	-
Difference between tax reporting and financial reporting - depreciation methods	205,354	160,286
Unrealized gain from affiliates	109,365	40,130
Investment income recognized under equity method - foreign investees	(100,692)	(86,557)
Preferential severance pay	93,875	(9,610)
Investment loss resulting from investees' capital reduction	(150,000)	-
Cash dividends - foreign investees	61,275	37,580
Others	(32,796)	11,403
Investment tax credits used	(867,192)	(1,879,831)
Current income tax payable	12,059,093	10,744,030
Tax separately levied on interest from short-term bills	39,684	51,022
Prior periods' adjustments	(115,011)	(41,537)
Income tax currently payable	11,983,766	10,753,515
Deferred tax - temporary differences	(5,758,841)	(365,715)
Income tax	\$ 6,224,925	\$ 10,387,800

Year Ended December 31
2008 2007

b. Change in income tax payable

Balance, beginning of year	\$ 6,682,244	\$ 5,682,534
Income tax currently payable	11,983,766	10,753,515
Payment in the current year	(12,916,348)	(9,753,805)
Balance, end of year	\$ 5,749,662	\$ 6,682,244

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

	<u>December 31</u>	
	2008	2007
Current		
Deferred income tax assets		
Allowance for value decline and obsolescence losses on inventory	\$ 2,926,285	\$ 123,517
Unrealized loss on purchase commitments	1,475,381	-
Estimated preferential severance pay	153,898	60,023
Unrealized gain from affiliates	75,034	80,270
Others	81,745	102,582
	4,172,343	366,392
Deferred income tax liabilities		
Temporary difference between tax reporting and financial reporting - inventory	(31,924)	(33,669)
Total deferred income tax assets - net	\$ 4,680,419	\$ 332,723
Noncurrent		
Deferred income tax assets		
Impairment loss on financial assets	\$ 1,502,783	\$ 379,822
Unrealized gain from affiliates	163,814	49,213
Impairment loss on assets	38,562	59,192
Others	4,542	4,543
	1,709,701	492,770
Deferred income tax liabilities		

Temporary difference between tax reporting and financial reporting - depreciation methods	(2,339,891)	(2,549,979)
Foreign investment income	(401,696)	(378,998)
Unrealized foreign exchange gain	(68,476)	(75,300)
	<u>(2,810,063)</u>	<u>(3,004,277)</u>
Total deferred income tax liabilities, net	<u>\$ (1,100,362)</u>	<u>\$ (2,511,507)</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 2005 have been examined by the tax authorities.

d. Information about integrated income tax was as follows:

	December 31	
	2008	2007
Imputation credit account (ICA)	\$ 6,385,254	\$ 5,271,280
Unappropriated earnings generated before January 1, 1997	35,440	35,440

The creditable ratio for distribution of 2008 and 2007 earnings was 33.36% (estimated) and 27.46%, respectively.

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

25. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

	Year Ended December 31							
	2008				2007			
	Operating Cost	Operating Expense	Others	Total	Operating Cost	Operating Expense	Others	Total
Personnel								
Salary	\$ 14,071,661	\$ 2,230,621	\$ 137,397	\$ 16,439,679	\$ 15,085,576	\$ 2,468,746	\$ 89,496	\$ 17,643,818
Labor and health insurance	580,893	88,376	2,132	671,401	557,760	84,765	763	643,288
Pension and consolation costs	1,289,091	242,682	469,638	2,001,411	1,435,550	263,772	83,455	1,782,777
Others	1,038,055	147,450	7,121	1,192,626	635,210	92,766	4,204	732,180
	<u>\$ 16,979,695</u>	<u>\$ 2,709,129</u>	<u>\$ 616,288</u>	<u>\$ 20,305,112</u>	<u>\$ 17,714,096</u>	<u>\$ 2,910,049</u>	<u>\$ 177,918</u>	<u>\$ 20,802,063</u>
Depreciation	\$ 11,237,294	\$ 284,848	\$ 25,336	\$ 11,547,478	\$ 11,096,017	\$ 335,284	\$ 29,010	\$ 11,460,311
Amortization	582,163	63,190	3,160	648,513	570,571	42,557	3,160	616,288

26. EARNINGS PER SHARE (EPS)

	Amount (Numerator)		Shares (Denominator) (Thousand)	EPS (Dollars)	
	Before Tax	After Tax		Before Tax	After Tax
<u>Year ended December 31, 2008</u>					
Net income	\$ 30,255,331	\$ 24,030,406			
Less: Dividends on preferred shares	<u>(67,457)</u>	<u>(53,578)</u>			
Basic EPS					
Net income attributable to common stockholders	30,187,874	23,976,828	11,822,445	\$ 2.55	\$ 2.03
Effect of dilutive potential common stock					
Add: Dividends on preferred shares	67,457	53,578	38,270		
Bonus to employees (Note 3)	<u>-</u>	<u>-</u>	<u>77,838</u>		
Diluted EPS					
Net income attributable to common stockholders plus effect of potential dilutive common stock	<u>\$ 30,255,331</u>	<u>\$ 24,030,406</u>	<u>11,938,553</u>	2.53	2.01
<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	11,892,448	\$ 5.18	\$ 4.31
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>11,931,404</u>	5.17	4.30

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

In EPS calculation for the year ended December 31, 2007, the number of outstanding shares was retroactively adjusted for the effect of capitalization of 2007 retained earnings. Thus EPS before tax and after tax decreased from NT\$5.40 to NT\$5.18 and from NT\$4.49 to NT\$4.31, respectively.

27. FINANCIAL INSTRUMENTS

a. As of December 31, 2008 and 2007, the information of fair values was as follows:

	December 31			
	2008		2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Non-derivative Financial Instruments				
Assets				
Financial assets at fair value through profit or loss	\$ 5,605,453	\$ 5,605,453	\$ 1,032,097	\$ 1,032,097
Available-for-sale financial assets (including non-current)	6,224,309	6,224,309	7,248,282	7,248,282
Financial assets carried at cost	5,910,484	-	6,156,803	-
Bond investments with no active market	103,000	103,000	5,038,926	5,038,926
Other financial assets - noncurrent	5,235,840	5,235,840	-	-
Refundable deposits	182,807	182,807	81,673	81,673
Liabilities				
Bonds payable	43,300,000	44,143,090	13,700,000	13,564,504
Long-term debts (including current portion)	5,363,128	5,363,128	4,445,654	4,445,654
Derivative Financial Instruments				
Hedging derivative asset (including non-current)	63,561	63,561	-	-
Hedging derivative liabilities (including non-current)	6,534	6,534	-	-

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, commercial paper payable, accounts payable, accrued expenses and other payables, approximate fair value because of the short maturities of these instruments.
- 2) The fair values of financial assets at fair value through profit of loss, available-for-sale financial assets and derivative financial instruments are determined at their market value. If there is no market value available for reference, the fair values are determined by using valuation technique. The information used as basis for determining the Corporation's assumptions in applying valuation technique is consistent with that used by market participants. The information is obtained by the Corporation from financial institutions.
- 3) The fair values of long-term liabilities (including bonds payable) and foreign currency of other financial assets are determined by the present values of future cash flows, with the values discounted at the interest rates of similar long-term debt and the floating-rate of foreign currency available for the Corporation.
- 4) Financial assets carried at cost are financial instruments issued by non-public corporations which do not have active market price and whose verifiable fair value cannot be determined at a reasonable cost.
- 5) The fair value of bond investments with no active market is determined at their carrying values.
- 6) The fair values of refundable deposits are determined at their carrying values.

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

	Amount Determined by Quoted Market Price		Amount Determined by Using Valuation Technique	
	December 31		December 31	
	2008	2007	2008	2007
Assets				
Financial assets at fair value through profit or loss	\$ 5,605,453	\$ 1,032,097	\$ -	\$ -
Hedging derivative assets (including non-current)	-	-	63,561	-
Available-for-sale financial assets (including non-current)	6,224,309	6,997,532	-	250,750
Liabilities				
Hedging derivative liabilities (including non-current)	-	-	6,534	-

d. There is no gain or loss for the estimated change in fair value by using valuation technique for the years ended December 31, 2008 and 2007.

e. As of December 31, 2007, financial assets with cash flow risk of the interest rate change were NT\$250,750 thousand. As of December 31, 2008 and 2007, financial liabilities were NT\$14,236,330 thousand and NT\$14,600,339 thousand, respectively, and financial liabilities with fair value risk of the interest rate change were NT\$58,271,593 thousand and NT\$13,700,000 thousand, respectively.

f. The Corporation's total interest revenues and expenses (exclusive of capitalized interest) which were incurred from other than financial assets and liabilities at fair value through profit or loss were NT\$518,450 thousand and NT\$672,175 thousand, respectively, for the year ended December 31, 2008 and NT\$668,868 thousand and NT\$643,147 thousand, respectively, for the year ended December 31, 2007.

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 investments in yen, thus, the exchange rate risk can be hedged naturally. The Corporation issues the bonds payable with the fixed interest rate, and the fair value of the bonds payable will be influenced by the market interest rate change. If market interest rate increases or decreases at 1%, the fair value of bonds payable will decrease or increase by NT\$1,757,460 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 and China Shipbuilding Corporation involve market risk. Except the minor fluctuation of the bond fund's market price, if the share price of the stocks increases or decreases by 1%, the fair value will increase or decrease by about NT\$62,243 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, 2008 and 2007, the Corporation's credit risks amounted to NT\$3,031,258 thousand and NT\$1,283,871 thousand, respectively (including notes and accounts receivable, other receivables and refundable deposits, as of December 31, 2008 and 2007. The notes and accounts receivable represent the balance deducted with acceptance in transit of NT\$3,606,618 thousand and NT\$3,176,621 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 available-for-sale financial assets (including non-current), short-term loans and long-term loans) which have cash flow risk of the interest rate change, and make future cash flow fluctuate. If the market interest rate increases by 1%, the Corporation's cash outflow will increase by about NT\$142,363 thousand a year.

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

The Corporation borrowed long-term debt, purchased time deposits - foreign currency and forward contracts to effectively hedge the exchange rate fluctuations on the investments in East Asia United Steel Corporation, Maruichi Steel Tube Ltd., Yodogawa Steel Works, Ltd., CSC Steel Australia Holdings Pty. Ltd. and contracts of purchasing machinery and equipment.

Hedge Type	Hedged Item	Financial Instrument	Designated Hedging Instrument	
			Changes of Fair Value	
			Year Ended December 31	
			2008	2007
Fair value hedge	Stock investment in Maruichi Steel Tube Ltd.	Long-term debt in YEN	\$ (192,270)	\$ (40,560)
Fair value hedge	Stock investment in East Asia United Steel Corporation	Long-term debt in YEN	(732,105)	(154,440)
Fair value hedge	Stock investment in Yodogawa Steel Works, Ltd.	Long-term debt in YEN	(89,775)	(2,307)
Hedge of a net investment in a foreign operation	Stock investment in CSC Australia Holdings Pty. Ltd.	Long-term debt in AUD	96,676	(26,763)
Hedge of cash flows	Contracts for purchasing machinery and equipment	Foreign currency	844,780	-
Hedge of cash flows	Contracts for purchasing machinery and equipment	Forward contracts	57,027	-

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

28. RELATED-PARTY TRANSACTIONS

a. Related parties

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

(Continued)

Shang Hai Xike Ceramic Electronic Co., Ltd.
Kaohsiung Rapid Transit Corporation (KRTC)
TaiAn Technologies Corporation
Kaohsiung Labor Assemble & Disassemble Co., Ltd.

International Carbide Technology Co., Ltd.

RSEA Engineering Co., Ltd.
Great Grandeur Steel Co., Ltd.
Southeast Cement Co., Ltd.
Chun Yu Corporation (CYC)
Hua Eng Wire & Cable Co., Ltd.
CTCI Corporation
CSC Educational Foundation

Affiliate
Equity method investee
Equity method investee
Equity investee of the Corporation's subsidiaries
Equity investee of the Corporation's subsidiaries
Director of the Corporation's subsidiary
Director of the Corporation's subsidiary
Director of the Corporation's subsidiary
Director of the Corporation's subsidiary
Supervisor of the Corporation's subsidiary
Foundation established with the Corporation's donation

(Concluded)

b. Significant related-party transactions were as follows:

	Year Ended December 31			
	2008		2007	
	Amount	%	Amount	%
Sales				
CSSB	\$ 5,017,186	2	\$ 4,238,905	2
CSSC	4,704,506	2	3,496,636	2
CSCC	4,328,527	2	2,277,698	1
CYC	2,776,047	1	1,931,401	1
CHSC	2,103,340	1	1,073,346	-
Others	3,394,686	1	2,956,730	2
	<u>\$ 22,324,292</u>	<u>9</u>	<u>\$ 15,974,716</u>	<u>8</u>
Purchases (including of shipping charges)				
CSEP	\$ 23,676,256	14	\$ 23,381,559	22
CSE	2,845,080	2	3,534,110	3
CAC	2,820,573	2	3,810,666	4
CSGT	369,803	-	294,318	1
Others	1,130,539	-	705,318	1
	<u>\$ 30,842,251</u>	<u>18</u>	<u>\$ 31,725,971</u>	<u>31</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, machinery equipment and plant property to CAC, CSMC, CSCC, CSSC and CHC, etc. Rentals were calculated at 4% to 10% p.a. of land assessed value as published by the government or under normal terms. Rentals were collected semiannually, except for rentals from CAC on land and machinery and that from CSCC on the storage tank and pipelines, which are collected monthly. Lease information was as follows:

	Expiry of Contracts	Rental Income	
		Year Ended December 31	
		2008	2007
CAC	February 2016	\$ 56,189	\$ 55,522
CSMC	November 2011	28,826	29,597
CSCC	December 2012	21,006	20,799
CSSC	May 2018	15,705	15,720
CHC	April 2012	5,204	5,464
Others	October 2012	8,771	7,897
		<u>\$ 135,701</u>	<u>\$ 134,999</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	
	2008	2007
KRTC	\$ 2,445,873	\$ 1,730,474
DSC	1,381,036	492,310
CHSC	247,909	328,500
CSCC	117,102	88,065
CAC	106,746	266,257
Others	452,597	312,872
	<u>\$ 4,751,263</u>	<u>\$ 3,218,478</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 construction in progress, manufacturing expenses, operating expenses and nonoperating expenses as follows:

	Year Ended December 31	
	2008	2007
CEC	\$ 2,810,713	\$ 2,576,450
CSMC	2,810,181	2,758,624
USECC	825,932	820,148
CHC	752,135	1,124,412
CHSC	524,924	253,570
CSSC	443,258	473,235
Others	2,128,801	1,961,036
	<u>\$ 10,295,944</u>	<u>\$ 9,967,475</u>

Asset transactions

In April 2008, the Corporation entered into a contract with CPDC to purchase land for the construction of its factories. The contract price is NT\$226,238 thousand, which was referred to the appraisal report and negotiated by the two parties.

In August 2007, the Corporation bought land from CHC for construction of its factories. The contract price was a total of NT\$977,257 thousand, which was determined by reference to the appraisal report. As of December 31, 2008, the Corporation had paid NT\$792,056 thousand.

Donation expenditures

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

c. Balances at year-end

	December 31			
	2008		2007	
	Amount	%	Amount	%
Receivables				
KRTC	\$ 839,073	29	\$ 19,772	1
CSCC	296,372	10	208,512	8
DSC	189,690	7	206,854	8
Others	171,936	6	127,761	6
	<u>\$ 1,497,071</u>	<u>52</u>	<u>\$ 562,899</u>	<u>23</u>
Payables				
CSEP	\$ 1,313,347	24	\$ 3,360,330	63
CSE	223,467	4	139,041	3
CAC	124,792	2	171,163	3
Others	120,120	2	29,098	-
	<u>\$ 1,781,726</u>	<u>32</u>	<u>\$ 3,699,632</u>	<u>69</u>

d. Compensation of directors, supervisors and management personnel

	Year Ended December 31	
	2008	2007
Salaries	\$ 76,503	\$ 105,336
Incentives	23,705	31,042
Bonus	4,763	36,282
	<u>\$ 104,971</u>	<u>\$ 172,660</u>

The compensation of directors, supervisors and management personnel for the year ended December 31, 2007 included the bonuses appropriated from earnings for 2007 which had been approved by shareholders in their annual meeting held in 2008.

29. PLEDGED ASSETS

Time deposits of NT\$4,158,026 thousand and NT\$4,183,694 thousand (recorded as restricted assets-current and noncurrent) as of December 31, 2008 and 2007, respectively, have been pledged mainly as collateral for bank overdraft, etc.

30. COMMITMENTS AS OF DECEMBER 31, 2008

- The Corporation is guaranteed for NT\$1,090,313 thousand by The Mega International Commercial Bank and Taipei Fubon Bank for several construction, warranty, lease and payment contracts.
- Unused letters of credit for purchase of raw materials and supplies amounted to NT\$21 billion.
- The Corporation entered into property purchase contracts amounted to NT\$34.5 billion. Unpaid amounts as of December 31, 2008 were NT\$18.4 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 8,500,000 metric tons of coal, 17,000,000 metric tons of iron ore, and 3,000,000 metric tons of limestone are at prices negotiable every year. Unpaid purchase amounts as of December 31, 2008 were US\$14.75 billion (including 21,930,000 metric tons of coal; 1,300,000,000 metric tons of iron ore; and 3,560,000 metric tons of limestone). The purchase contracts are entered into in order to have stable supplies of raw materials. As of December 31, 2008, the Corporation evaluated that the purchase costs (including coal, iron ore and slab) would be higher than the expected profit from the contracts, accordingly, a loss on purchase commitments of NT\$5,901,525 thousand was recognized as operating costs.
- CHSC entered into a syndicated credit facility agreement with The Mega International Commercial Bank and 21 other banks. Under the agreement, the Corporation and its related parties should collectively hold at least 30% of CHSC's issued shares and have over half of CHSC's board seats as well as significant influence on its operations. As of December 31, 2008, the Corporation's and its subsidiaries' had total shareholdings in CHSC of 39% and all seats in the Board of Directors and significant influence on its operations.
- KRTC entered into a syndicated credit facility agreement with the Bank of Taiwan and 23 other banks. Under this agreement, the Corporation and its subsidiaries should collectively hold at least 30% of KRTC's capital stock during the construction period. As of December 31, 2008, the Corporation's and its subsidiaries' equity in KRTC aggregated 32%.
- DSC entered into a syndicated credit facility agreement amounted to NT\$51.7 billion with the Bank of Taiwan and 12 other banks in February 2008. Under this agreement, the Corporation and its related parties should collectively hold at least 40% of DSC's issued shares and have over half of DSC's board seats. As of December 31, 2008, the Corporation's equity in DSC aggregated 100% and have all board seats.

1. ADJUSTMENTS RECOGNIZED UNDER EQUITY METHOD

a. Long-term investment adjustment

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

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

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

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

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

3. NET LOSS NOT RECOGNIZED AS PENSION COST

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

4. DISPOSAL OF TREASURY STOCK

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

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

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

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

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

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

OWNERSHIP OF SUBSIDIARIES AND OTHER EQUITY INTERESTS

December 31, 2008

Companies	Investment Amounts ²⁷ (NT\$1,000)	Holding Ratio (%)
Long-term stock investments - equity method:		
Dragon Steel Corporation	58,831,552	100
China Steel Express Corporation	13,502,625	100
C.S. Aluminum Corporation	7,132,216	100
Gains Investment Corporation	5,206,807	100
China Prosperity Development Corporation	4,700,887	100
China Steel Asia Pacific Holdings Pte. Ltd. ²⁸	3,324,722	100
Chung Hung Steel Corporation ²⁹	2,211,584	24
Kaohsiung Rapid Transit Corporation	2,205,815	31
China Steel Global Trading Corporation	1,514,128	100
China Steel Chemical Corporation	1,447,376	29
China Steel Machinery Corporation	837,269	74
China Hi-ment Corporation	691,813	20
China Ecotek Corporation	684,425	49
Info-Champ Systems Corporation	614,950	100
China Steel Structure Co., Ltd.	547,017	18
Hong Yih Investment Corporation	532,755	100
Long Yuan Fa Investment Corporation	529,858	100
Goang Yaw Investment Corporation	518,355	100
CSC Australia Holding Pty. Ltd.	478,709	100
Kaohsiung Arena Development Corporation	439,894	18
China Steel Security Corporation	308,946	100
HIMAG Magnetic Corporation	103,514	50
Baolai Greeting Development Co., Ltd.	42,179	45
China Steel Management Consulting Corporation	25,150	100
TaiAn Technologies Corporation	6,406	17
Less: shares held by subsidiaries accounted for as treasury stock	(8,294,670)	
Subtotal	98,144,282	
Financial assets carried at cost:		
Industrial Bank of Taiwan	1,000,000	4
CDIB & Partners Investment Holding Corporation	500,000	5
Adimmune Corporation	231,650	7
Taiwan Rolling Stock Co., Ltd.	202,048	19
Hsin Hsin Cement Enterprise Corp.	165,010	18
CDIB Bio Science Ventures I, Inc.	75,276	4

(Continued)

Overseas Investment & Development Corporation	50,000	6
CTB I Venture Capital Co., Ltd.	50,000	5
Phalanx Biotech Group	0	10
Allied material Technology Corporation	0	2
Asia Pacific Broadband Telecommunications Co., Ltd.	0	2
East Asia United Steel Corporation - preferred stock A	3,636,500	29
Sino-Canada Biotechnology Development Fund, LP	0	17
Subtotal	5,910,484	
Investment in bonds without quoted price:		
Taigen Biotechnology Co., Ltd. - preferred stock B	103,000	24
Taiwan High Speed Rail Corporation - preferred stock C	0	19
Taiwan High Speed Rail Corporation - preferred stock B	0	4
Subtotal	103,000	
Available-for-sale financial assets:		
Maruichi Steel Tube Ltd.	757,920	2
Yodogawa Steel Works, Ltd.	345,831	1
CSBC Corporation, Taiwan	219,575	2
Tang Eng Iron Works Co., Ltd.	0	9
Adjustments for change in value	1,788,558	
Subtotal	3,111,884	

(Concluded)

²⁷ Invested amounts are based on balances in the account Long-term Investments.

²⁸ Through China Steel Asia Pacific Holdings Pte. Ltd. the Corporation indirectly holds (1) 47% ownership of CSC Steel Holding Berhad which holds 100% of CSC Steel Sdn. Bhd. and Group Steel Corporation (M) Sdn. Bhd. respectively, (2) 6% of Wuxi Teao Electric & Machinery Co., Ltd. and 14% of Qingdao TECO Precision Mechnronics Co., Ltd. respectively.

²⁹ 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.

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

(as of March 31, 2009)

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: L. M. Chung
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: T. H. Chen
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: C. T. Wong
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: W. T. Chen
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: Terry J. C. King
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: R. S. Jong
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

Gains Investment Corporation

Chairman: L. R. Hu
President: L. R. Hu (Concurrently)
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. J. Chang
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: G. H. Cheng
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: K. T. Lee
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

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

(as of March 31, 2009)

Group Steel Corporation (M) Sdn. Bhd.³⁰
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

CSC Steel Sdn. Bhd.³⁰
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 CSC-INVESTED COMPANIES

Kaohsiung Rapid Transit Corporation
Chairman: S. C. Liu
President: B. C. Yen
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: 886-7-793-9168
Fax: 886-7-793-9999

Taiwan Rolling Stock Co., Ltd.
Chairman: F. S. Wu
President: C. M. Chiou
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: I. H. Chen
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: D. Mao
President: Victor Hsieh
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

Phalanx Biotech Group
Chairman and CEO: Andrew Wang
Main business: biochip manufacturing
Address: 6 Technology Road 56th 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.³⁰
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 Corporation
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

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

(as of March 31, 2009)

CTB I Venture Capital Co., Ltd.

Chairman: M. Y. Wei
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: C. J. Chang
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 City 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-2., No. 412, Sec. 5, Zhongxiao E. Rd., Da-an
District, Taipei 11061, Taiwan, R.O.C.
Tel: 886-2-8780-5013
Fax: 886-2-8780-5064

Hsin Hsin Cement Enterprise Corporation

Chairman: C. L. Wang
President: C. L. Wang (Concurrently)
Main business: development of raw material sources for
cement; production and sales of cement
products
Address: 6F, No.121 Sung Chiang Road, Taipei10485, Taiwan,
R.O.C.
Tel: 886-2-2508-4468
Fax: 886-2-2507-4510

Qingdao TECO Precision Mechatronics Co., Ltd. ³⁰

Chairman: Theodore M. H. Huang
Vice Chairman: Emilie Sun Ph.D.
President: Theodore M. H. Huang (Concurrently)
Main business: production and sales of compressors
Address: No.666, Beijing Road, Jiaonan City, Qingdao Lingang Economic Development
Zone, Shandong, China
Tel: 86-532-8905-8888
Fax: 86-532-8905-9666

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

Adimmune Corporation

Chairman: Steve Chan
President: Ignatius Wei
Main business: human vaccine manufacture
Address: No.3, Sec. 1, Tan Shin Rd., Tantz, Taichung 42743, Taiwan, R.O.C.
Tel: 886-4-2538-1220
Fax: 886-4-2538-2105

CSBC Corporation, Taiwan

Chairman: W. L. Cheng
President: C. C. Li
Main business: shipbuilding
Address: NO.3 Chung Kang Road, Siaogang District, Kaohsiung 81234, Taiwan,
R.O.C.
Tel: 886-7-801-0111
Fax: 886-7-802-0805

³⁰ China Steel Corporation's investment is through China Steel Asia-Pacific Holdings Pte. Ltd.



CHINA STEEL CORPORATION

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1 Chung Kang Road, Siaogang District, Kaohsiung 81233,
Taiwan, R. O. C.

Tel.: 886 7 802-1111

Fax: 886 7 802-2511, 801-9427

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Taiwan, R. O. C

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Singapore 0207

Tel.: 65 6223-8777~8

Fax: 65 6225-6054

Osaka Office

8F, Nantai Building, 2-20, Minamihonmachi,
4-Chome, Chuoku, Osaka 541, Japan

Tel.: 81 6 6281-1021~2

Fax: 81 6 6281-1023