China Steel Corporation

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

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
China Steel Corporation

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

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

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

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

January 29, 2008

Notice to Readers

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

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

%	2006 Amount	2006 %
9	$ 16,196,611	6
-	12,315,988	5
2	4,935,322	2
-	1,336,278	1
1	2,737,167	1
-	272,550	-
14	32,410,868	12
-	172,190	-
1	3,650,000	1
1	1,019,180	-
28	75,046,154	28
1	2,851,977	1
2	5,766,315	2
2	5,482,324	2
24	60,630,662	23
29	74,731,278	28
4	8,322,881	3
1	4,212,123	2
14	37,423,461	14
84	219,788,073	83
1	1,473,130	-
1	3,096,559	1
105	274,316,227	103
6	17,249,891	7
111	291,566,118	110
75	203,035,577	76
36	88,530,541	34
5	21,922,773	8
41	110,453,314	42
-	3,735	-
1	3,039,354	1
-	55,833	-
-	31,694	-
1	2,265,333	1
2	5,392,214	2
100	$ 265,626,695	100

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

CHINA STEEL CORPORATION

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

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

(Continued)

CHINA STEEL CORPORATION

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

	2007		2006	
	Amount	**%**	**Amount**	**%**
INCOME BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	$ 51,263,874	25	$ 39,196,406	22
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES (Note 3) (Net of income tax benefit of $64,547 thousand)	-	-	(37,822)	-
NET INCOME	$ 51,263,874	25	$ 39,158,584	22

	2007		2006	
	Before Tax	**After Tax**	**Before Tax**	**After Tax**
EARNINGS PER SHARE (Note 22)				
Basic	$ 5.40	$ 4.49	$ 4.16	$ 3.43
Diluted	$ 5.38	$ 4.48	$ 4.16	$ 3.42

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

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

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

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

Capital Surplus	Retained Earnings: Legal Reserve	Retained Earnings: Special Reserve	Retained Earnings: Unappropriated Earnings	Retained 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
$ 1,209,378	$ 30,614,261	$ 8,467,340	$ 51,026,001	$ 90,107,602	$ 1,535,363	$ (446,483)	$ (335,992)	$ (36,872)	$ (1,273,221)	$ 196,626,491
-	-	-	-	-	-	3,936,398	261,188	-	-	4,197,586
-	-	-	-	-	-	-	-	-	-	-
-	5,060,439	-	(5,060,439)	-	-	-	-	-	-	-
-	-	(22,347)	22,347	-	-	-	-	-	-	-
-	-	-	(2,288,375)	(2,288,375)	-	-	-	-	-	(915,350)
-	-	-	(137,302)	(137,302)	-	-	-	-	-	(137,302)
-	-	-	(152,614)	(152,614)	-	-	-	-	-	(152,614)
-	-	-	(39,541,405)	(39,541,405)	-	-	-	-	-	(39,541,405)
-	-	-	(14,244)	(14,244)	-	-	-	-	-	-
-	-	-	(3,690,531)	(3,690,531)	-	-	-	-	-	-
-	-	-	39,158,584	39,158,584	-	-	-	-	-	39,158,584
-	-	-	-	-	-	1,646,395	-	-	-	1,646,395
-	-	-	-	-	(23,240)	-	-	-	-	(23,240)
(78)	-	-	(12,252)	(12,252)	-	2,397,427	-	-	(71,556)	2,313,541
-	-	-	-	-	-	-	12,017	-	-	12,017
-	-	-	-	-	-	-	-	(486)	-	(486)
-	-	-	-	-	-	-	-	-	(32,096)	(32,096)
38,071	-	-	-	-	-	-	-	-	41,981	80,052
300,999	-	-	-	-	-	-	-	-	-	300,999
1,548,370	35,674,700	8,444,993	39,309,770	83,429,463	1,512,123	7,533,737	(62,787)	(37,358)	(1,334,892)	203,533,172
-	-	-	-	-	-	-	-	-	-	-
-	3,914,633	-	(3,914,633)	-	-	-	-	-	-	-
-	-	(829,292)	829,292	-	-	-	-	-	-	-
-	-	-	(1,800,898)	(1,800,898)	-	-	-	-	-	(720,359)
-	-	-	(108,054)	(108,054)	-	-	-	-	-	(108,054)
-	-	-	(112,815)	(112,815)	-	-	-	-	-	(112,815)
-	-	-	(30,725,312)	(30,725,312)	-	-	-	-	-	(30,725,312)
-	-	-	(12,174)	(12,174)	-	-	-	-	-	-
-	-	-	(3,315,681)	(3,315,681)	-	-	-	-	-	-
-	-	-	51,263,874	51,263,874	-	-	-	-	-	51,263,874
-	-	-	-	-	-	(687,907)	-	-	-	(687,907)
-	-	-	-	-	(2,968)	-	-	-	-	(2,968)
(340)	-	-	(5,674)	(5,674)	-	(372,504)	-	-	(179,968)	(558,486)
-	-	-	-	-	-	-	345,805	-	-	345,805
-	-	-	-	-	-	-	-	(725)	-	(725)
(2,263)	-	-	-	-	-	-	-	-	39,531	37,268
103,209	-	-	-	-	-	-	-	-	58,934	162,143
229,654	-	-	-	-	-	-	-	-	-	229,654
$ 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

CHINA STEEL CORPORATION

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

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

(Continued)

CHINA STEEL CORPORATION

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

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

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

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

1. ORGANIZATION AND OPERATIONS

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

The Corporation's shares have been listed on the Taiwan Stock Exchange since December, 1974. As of December 31, 2007, the Ministry of Economic Affairs (previously until October 2006 the owner was the Ministry of Finance), Republic of China owned 22.52% of the Corporation's outstanding common stock.

As of December 31, 2007 and 2006, the Corporation both had about 9,000 employees.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

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

Significant accounting policies are summarized as follows:

Current and Noncurrent Assets and Liabilities

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

Cash Equivalents

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

Financial Assets at Fair Value Through Profit or Loss

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

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

Available-for-sale Financial Assets

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

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

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

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

Revenue Recognition, Accounts Receivable and Allowance for Doubtful Accounts

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

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

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

Factoring of Accounts Receivable

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

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

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

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

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

Inventories

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

Financial Assets Carried at Cost

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

Bond Investments With No Active Market

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

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

Investments Accounted for by the Equity Method

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

Prior to January 1, 2006, the difference between the acquisition cost and the Corporation's proportionate share in the investee's equity was amortized by the straight-line method over 5 years. Effective January 1, 2006, pursuant to the revised Statement of Financial Accounting Standard ("SFAS") No. 5, "Long-term Investments Accounted for by Equity Method", the acquisition cost is analyzed, and the acquisition cost in excess of the Corporation's share of the fair value of the identifiable net assets acquired is recognized as goodwill. Such goodwill is not amortized but instead is tested for impairment annually or whenever there are indications that the investments are impaired. The excess of the Corporation's share of the fair value of the net identifiable assets acquired over the cost of acquisition is used to reduce the fair value of each of the noncurrent assets acquired (except for financial assets other than investments accounted for by the equity method, noncurrent assets held for sale, deferred income tax assets, prepaid pension or other postretirement benefit) in proportion to the respective fair values of the noncurrent assets, with any excess recognized as an extraordinary gain. Effective January 1, 2006, the accounting treatment for the unamortized investment premium arising on acquisitions before January 1, 2006 is the same as that for goodwill and the premium is no longer being amortized. For any investment discount arising on acquisitions before January 1, 2006, the unamortized amount continues to be amortized over the remaining year.

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

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

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

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

Property, Plant and Equipment

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

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

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

Intangible Assets

Intangible assets acquired are initially recorded at cost and are amortized on a straight-line basis over their estimated useful lives. Computer software, patents and trademarks are amortized by the straight-line method over 3 to 5 years.

Assets Leased to Others

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

Unamortized Repair

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

Impairment of Asset

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

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

Pension Cost

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

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

Treasury Stock

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

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

Income Tax

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

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

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

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

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

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

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

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

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

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

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

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

Hedge Accounting

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

a. Fair value hedge

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

b. Hedge of a net investment in a foreign operation

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

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

Reclassifications

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

3. EFFECTS OF CHANGES IN ACCOUNTING PRINCIPLES

a. Adoption of New and Revised Standards

On January 1, 2006, the Corporation adopted the newly released SFAS No.34 “Financial Instruments: Recognition Measurement” and SFAS No.36 “Financial Instruments: Disclosure and Presentation” and the related revisions of previously released SFASs.

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

In addition, the foreign-currency equity instruments previously accounted for by the cost method is reclassified as financial assets carried at cost which were revalued based on the historical exchange rate at initial investment date and adjustment was made to cumulative translation adjustment recorded in stockholders’ equity and related financial assets.

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

The effects of adoption of the above SFASs were summarized as follows:

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

The net effect of the change in accounting principles is not significant to the Corporation’s net income and basic earnings per share for the year ended December 31, 2006.

Effective January 1, 2006, the Corporation adopted the amended SFAS No. 1 “Conceptual Framework for Financial Accounting and Preparation of Financial Statements”, No. 5 ”Long-Term Investment Accounted for by Equity Method” and No. 25 “Business Combinations - Accounting Treatment under Purchase Method.” The amendments of the SFASs mainly provided that the carrying value of investment and the proportionate equity shall be analyzed, and goodwill should be tested for impairment annually and is no longer being amortized. Such change did not have significant impact on the Corporation’s financial statements as of and for the year ended December 31, 2006.

b. Recent Accounting Pronouncements

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

4. CASH AND CASH EQUIVALENTS

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

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

5. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

These financial assets designated as at FVTPL represents open-end funds. As of December 31, 2007 and 2006, the balances of financial assets at fair value through profit or loss were NT$1,032,097 thousand and NT$12,315,988 thousand, respectively. The purpose of classifying open-end funds to this account is to remove the accounting inconsistency between investment income and interest expense.

Net gains on financial assets designated as at FVTPL for the years ended December 31, 2007 and 2006 were NT$133,047 thousand and NT$148,954 thousand, respectively.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31, 2007		December 31, 2006	
	Current	Noncurrent	Current	Noncurrent
Quoted stocks				
Maruichi Steel Tube Ltd.	$ -	$ 757,920	$ -	$ 757,920
Yodogawa Steel Works, Ltd.	-	349,389	-	-
Advanced Material Technology Corporation (AMTC) (Note 9)	-	-	-	243,290
Tang Eng Iron Works Corporation (TEIWC)	-	-	-	-
Taiwan Semiconductor Manufacturing Company (TSMC)	967,456	-	967,456	-
Bank debentures - Taiwan Cooperative Bank	250,220	-	250,460	-
Adjustments for change in valuation	3,357,450	1,565,847	3,717,406	1,850,767
	$ 4,575,126	$ 2,673,156	$ 4,935,322	$ 2,851,977

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

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

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

7. ACCOUNTS RECEIVABLE

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

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

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

8. INVENTORIES

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

9. FINANCIAL ASSETS CARRIED AT COST

	December 31, 2007	December 31, 2006
Unquoted common - stocks		
Industrial Bank of Taiwan	$ 1,000,000	$ 1,000,000
CDIB & Partners Investment Holding Corporation	500,000	500,000
Taiwan Rolling Stock Co., Ltd. (TRSC)	202,048	-
Hsin Hsin Cement Enterprise Corp.	165,010	75,760
CDIB BioScience Ventures I, Inc. (CBVI)	83,640	102,000
Phalanx Biotech Group Corporation (PBG)	73,370	73,370
Overseas Investment & Development Corporation	50,000	50,000
CTB I Venture Capital Co., Ltd.	50,000	50,000
Asia Pacific Broadband Telecom Co., Ltd. (APBT)	-	-
Advanced Material Technology Corporation (AMTC)	-	-
Unquoted Preferred stocks		
East Asia United Steel Corporation (EAUS)	2,897,000	2,741,000
Dragon Steel Corporation (DSC)		
Preferred A	999,877	999,877
Preferred B	53,312	-
Fund - Sino-Canada Biotechnology Development Fund, LP (SCBDF)	82,546	174,308
	$ 6,156,803	$ 5,766,315

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

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

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

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

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

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

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

In May 2003, the Corporation signed a slab production joint-venture contract with Sumitomo Metal Industries, Ltd. and Sumitomo Corporation. In July 2003, the joint venture company of East Asia United Steel Corporation (EAUS) was established. As of December 31, 2007, the Corporation invested in EAUS the amount of ￥10 billion (Notes 16 and 26). The Corporation thus enjoys a stable supply of good quality slab from this joint venture. The Corporation also signed a contract with Chung Hung Steel Corporation (CHSC) to transfer the purchasing right of slabs from EAUS, and the Corporation receives premiums on this contract based on the volume purchased by CHSC.

The Corporation invested 100 units ($10,000 thousand Canadian dollars) in the SCBDF fund. As of December 31, 2007, the Corporation have invested CAD$9,435 thousand (NT$219,025 thousand) in SCBDF fund. In 2007, the Corporation recognized an impairment loss of NT$76,000 thousand (recorded as nonoperating loss) on its investment in SCBDF. The difference between the above cumulative investment and the carrying value was SCBDF disposal of its investments and returned capital to the Corporation.

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

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

10. BOND INVESTMENTS WITH NO ACTIVE MARKET

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

In September 2003, the Corporation acquired 100,000 thousand Preferred B shares (representing 4% of ownership) of THSRC for NT$1,000,000 thousand. Dividend on these shares is at 5%, payable on a nonparticipating and cumulative basis. These shares with six years of durations could be extended for 13 months prior to 3 months of the due date. In April 2005 and August 2004, the Corporation acquired additional 505,370 thousand Preferred C shares of THSRC for NT$3,199,944 thousand and NT$1,499,996 thousand, respectively. These shares, representing 19% of ownership, which may be converted to common shares within four years from the acquisition date, have a 9.5% dividend in the first two years and 0% in the next two years. At the end of four years, i.e., in 2009 and 2008, if the Corporation does not convert the Preferred C shares into common shares and THSRC cannot redeem the shares, the unredeemed shares will have 4.71% dividends. THSRC mainly builds and operates public transportation systems.

In November 2005 and March 2004, the Corporation acquired a total of 20,000 thousand preferred shares representing 24% of ownership of TBC for NT$300,000 thousand. Preferred shareholders are entitled to 8% participating and noncumulative dividends as well as 9% voting and election rights. TBC mainly researches and develops drugs. The Corporation can request TBC to redeem all or part of preferred shares by issuing new stock or its own retained earnings after July of 2008. (Formerly July of 2007, but TBC stockholders' meeting agreed to postpone to July 2008)

11. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

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

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

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

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

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

In April 2007, in order to obtain long-term coal mining right, the Corporation invested AUD$16,540 thousand (NT$445,945 thousand) to establish CSCAU and acquired 100% equity. Then CSCAU established CSC Sonoma Pty. Ltd., representing 100% equity. CSC Sonoma Pty. Ltd. invested in a joint venture (Sonoma Mine Investment) and acquired 5% equity. As of December 31, 2007, the joint venture has not yet begun to mine for coal.

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

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

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

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

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

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

(Continued)

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

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

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

12. PROPERTY, PLANT AND EQUIPMENT

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

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

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

In 1981 and 1994, the Corporation revalued its property, plant and equipment and patents in accordance with government regulations, resulting in the increment of NT$17,662,343 thousand. After the deduction of the reserve for land value increment tax of NT$3,370,813 thousand, a net increment of NT$14,291,530 thousand was credited to revaluation increment on assets. As of December 31, 2007, revaluation increment on assets totaling NT$13,952,356 thousand had been capitalized as capital stock, reducing the balance of revaluation increment on assets to NT$339,174 thousand. In January 2005, the government revised the land increment tax law to reduce the tax rate. Thus, the reserve for land value increment tax decreased and the revaluation increment on assets increased each by NT$1,196,189 thousand. Accordingly, the balance of revaluation increment on assets increased to NT$1,535,363 thousand. In 2007 and 2006, upon retirement or sale of appreciated properties, the revaluation increment on assets decreased by NT$2,968 thousand and NT$23,240 thousand, respectively, and recorded as nonoperating revenue.

13. ASSETS LEASED TO OTHERS

	Land	Machinery and Equipment	Buildings and Improvements	Total
Year Ended December 31, 2007				
Cost				
Balance, beginning of year	$ 2,966,632	$ 2,000,000	$ -	$ 4,966,632
Reclassification	-	-	161,816	161,816
Balance, end of year	2,966,632	2,000,000	161,816	5,128,448
Accumulated depreciation				
Balance, beginning of year	-	1,333,278	-	1,333,278
Reclassification	-	-	18,138	18,138
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	$ 2,966,632	$ 46,364	$ 141,026	$ 3,154,022
Year Ended December 31, 2006				
Cost				
Balance, beginning of year	$ 2,966,398	$ 2,000,000	$ -	$ 4,966,398
Additions	234	-	-	234
Balance, end of year	2,966,632	2,000,000	-	4,966,632

(Continued)

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

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

14. SHORT-TERM LOANS AND OVERDRAFT

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

15. BONDS PAYABLE

	December 31, 2007	December 31, 2006
5-year unsecured bonds - issued at par in:		
November 2006; repayable in November 2011; 2.07% interest p.a., payable annually	$ 5,600,000	$ 5,600,000
June 2006; repayable in June 2011; 2.32% interest p.a., payable annually	8,100,000	8,100,000
	$ 13,700,000	$ 13,700,000

16. LONG-TERM DEBTS

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

(Continued)

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

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

17. RETIREMENT BENEFIT PLAN

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

Under the Act, a defined contribution plan, the Corporation makes monthly contribution to employees' personal retirement accounts at amounts equal to 6% of the salaries and wages of employees. According to above regulation, pension cost for the years ended December 31, 2007 and 2006 was NT$26,808 thousand and NT$10,283 thousand, respectively.

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

The Corporation makes contributions, equal to a certain percentage of salaries, to a pension fund, which is deposited in the Bank of Taiwan (formerly Central Trust of China was merged into the Bank of Taiwan in July 2007) in the name of, and administered by the employees' pension fund administration committee. According to above regulation, pension cost for the years ended December 31, 2007 and 2006 was NT$1,634,142 thousand and NT$1,419,469 thousand, respectively.

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

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

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

(Continued)

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

18. DEFERRED CREDITS - GAIN ON INTER-COMPANY TRANSACTIONS

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

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

The Corporation obtained building construction projects from KRTC and DSC, resulting in deferred revenue. The accumulated credits will be recognized as income over the service lives of the buildings after completion of the construction, expected in 2008 to 2009 and in 2009 to 2010, respectively.

19. STOCKHOLDERS' EQUITY

a. Capital stock

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

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

b. Treasury stock

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

1) Shares acquired and held by subsidiaries

The Corporation's shares acquired and held by subsidiaries were accounted for as treasury stock (recorded as financial assets in available-for-sale-current and financial assets in available-for-sale-noncurrent). For the years ended December 31, 2007 and 2006, treasury stock increased by 7,165 thousand shares and 4,955 thousand shares, respectively, due to the Corporation's capitalization of retained earnings and additional purchase made by subsidiaries; treasury stock decreased by 3,802 thousand shares and 2,674 thousand shares, respectively, due to subsidiaries' sales of the Corporation's shares and change in percentage of ownership. The difference between the sale prices (NT$162,143 thousand and NT$80,052 thousand for the years ended December 31, 2007 and 2006, respectively) and carrying values of NT$103,209 thousand and NT$38,071 thousand were credited to capital surplus.

As of December 31, 2007 and 2006, the market values of the treasury shares are NT$3,677,641 thousand and NT$2,808,816 thousand, respectively.

2) Shares acquired for transfer to employees

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

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

c. Overseas depositary receipts

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

d. Preferred stock

Preferred stockholders have the following entitlements or rights:

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

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

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

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

5) Conversion of shares into common stock at the ratio of 1:1.

e. Capital surplus

Capital surplus comprised of the following:

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

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

f. Appropriation of retained earnings and dividend policy

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(Continued)

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

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

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

h. Unrealized gain (loss) on financial instruments

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

	Available-for-sale Financial Assets	Equity-method Investments	Total
Year Ended December 31, 2007			
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
Year Ended December 31, 2006			
Balance, beginning of year	$ -	$ (446,483)	$ (446,483)
Effect of first adoption of SFAS No. 34	3,936,398	-	3,936,398
Recognized in stockholders' equity	1,646,395	2,397,427	4,043,822
Balance, end of year	$ 5,582,793	$ 1,950,944	$ 7,533,737

20. INCOME TAX

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

a. A reconciliation of income tax expense based on income before income tax at the 25% statutory rate and income tax expense was as follows:

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

The above tax-exempt income results from the following:

1) The tax exemption, for a period of five consecutive years from 2004 to 2008, on the increased income derived from the scope of the newly emerging, important and strategic industries as set forth in the Statute of Upgrading Industries, and

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

b. Change in income tax payable

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

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

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

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

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

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

d. Information about integrated income tax was as follows:

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

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

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

21. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

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

22. EARNINGS PER SHARE (EPS)

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

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

In EPS calculation for the year ended December 31, 2006, the number of outstanding shares was retroactively adjusted for the effect of capitalization of 2006 retained earnings. Thus EPS before tax and after tax decreased from NT$4.33 to NT$4.16 and from NT$3.56 to NT$3.43, respectively.

23. RELATED-PARTY TRANSACTIONS

a. Related parties

Related Parties	Relationship with the Corporation
C. S. Aluminum Corporation (CAC)	Subsidiary
China Steel Express Corporation (CSE)	Subsidiary
China Steel Chemical Corporation (CSCC)	Subsidiary
China Steel Global Trading Corporation (CSGT)	Subsidiary
China Hi-ment Corporation (CHC)	Subsidiary
China Ecotek Corporation (CEC)	Subsidiary
China Steel Structure Corporation (CSSC)	Subsidiary
Chung Hung Steel Corporation (CHSC)	Subsidiary
China Steel Machinery Corporation (CSMC)	Subsidiary
Gains Investment Corporation	Subsidiary
China Steel Security Corporation	Subsidiary
China Prosperity Development Corporation	Subsidiary
Info-Champ Systems Corporation	Subsidiary
China Steel Management Consulting Corporation	Subsidiary
Hi-mag Magnetic Corporation	Subsidiary
Long-Yuan-Fa Investment Corporation	Subsidiary
Horng-Yih Investment Corporation	Subsidiary
Goang-Yaw Investment Corporation	Subsidiary
Dragon Steel Corporation (DSC)	Subsidiary
China Steel Asia Pacific Holdings Pte Ltd. (CSAPH)	Subsidiary
Chung Mao Trading (BVI) Corp.	Subsidiary
Chung Mao Trading (SAMOA) Co.	Subsidiary
CSGT (Singapore) Pte. Ltd.	Subsidiary
CSE Transport Corp. (CSEP)	Subsidiary
Mentor Consulting Corporation	Subsidiary
Steel Castle Technology Corp.	Subsidiary
Union Steel Development Corp.	Subsidiary
Betacera Inc.	Subsidiary
Wabo Globe Trading Corporation	Subsidiary
Universal Exchange Inc.	Subsidiary
United Steel Engineering and Construction Corporation (USECC)	Subsidiary
Thintech Materials Technology Co., Ltd.	Subsidiary
Pao Good Industrial Co., Ltd.	Subsidiary
AmbiCom Technology, Inc.	Subsidiary
Ornasteel Enterprise Corp. (M) Sdn. Bhd.	Subsidiary
Group Steel Enterprise Corp. (M) Sdn. Bhd	Subsidiary
CSGT (JAPAN) Co., Ltd.	Subsidiary
CSGT Hong Kong Limited	Subsidiary
CSGT (SHANGHAI) Co., Ltd.	Subsidiary
Gau Ruel Investment Corporation	Subsidiary
Ningbo Huayang Aluminum – Tech Co., Ltd.	Subsidiary
Shang Hai Xike Ceramic Electronic Co., Ltd.	Subsidiary
Taiwan Rolling Stock Co., Ltd.	The Corporation is its director（Since July, 2007, the investment under equity method was classified as financial asset carried at cost）
Kaohsiung Rapid Transit Corporation (KRTC)	Equity method investee
TaiAn Technologies Corporation	Equity method investee

(Continued)

Related Parties	Relationship with the Corporation
Kaohsiung Labor Assemble & Disassemble Co., Ltd.	Equity investee of the Corporation's subsidiaries
International Carbide Technology Co., Ltd.	Equity investee of the Corporation's subsidiaries
RSEA Engineering Co., Ltd.	Director of the Corporation's subsidiary
Southeast Cement Co., Ltd.	Director of the Corporation's subsidiary
Chun Yu Corporation (CYC)	Director of the Corporation's subsidiary
CSC Educational Foundation	Foundation established with the Corporation's donation

b. Significant related-party transactions:

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

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

Assets lease

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

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

Other revenues

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

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

Other expenditures

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

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

Donation expenditures

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

c. Balances at year-end

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

24. PLEDGED ASSETS

a. Time deposits of NT$4,183,694 thousand and NT$3,681,694 thousand as of December 31, 2007 and 2006, respectively, have been pledged mainly as collateral for bank overdraft, etc.

b. The Corporation provided machinery and equipment with carrying values of NT$2,431,310 thousand as of December 31, 2006, as collaterals for long-term credit lines with banks. The collaterals were canceled in January 2007.

25. COMMITMENTS AS OF DECEMBER 31, 2007

a. The Corporation engaged in several construction contracts, under guarantees of NT$1.1 billion granted by The Megal International Commercial Bank and Taipei Fubon Bank.

b. Unused letters of credit for purchase of raw materials and supplies amounted to NT$10.7 billion.

c. The Corporation entered into raw material purchase contracts with suppliers in Australia, India, Brazil, Canada, Indonesia, North Korea, Japan, Philippines, Russia and domestic companies with contract terms of 1 to 10 years. Contracted annual purchases of 8,300,000 metric tons of coal, 17,000,000 metric tons of iron ore, and 2,900,000 metric tons of limestone are at prices negotiable every year. Unpaid purchase amounts as of December 31, 2007 were US$9.8 billion (including 26,000,000 metric tons of coal; 140,000,000 metric tons of iron ore; and 3,100,000 metric tons of limestone).

d. CHSC entered into a syndicated credit facility agreement with The Mega International Commercial Bank and 22 other banks. Under these agreements, the Corporation and its related parties should collectively hold at least 30% of CHSC's issued shares and have over half of CHSC's board seats as well as significant influence on its operations. As of December 31, 2007, the Corporation had direct and indirect shareholdings in CHSC totalling 39% and total seats in the Board of Directors and significant influence on its operations.

e. KRTC entered into a syndicated credit facility agreement with the Bank of Taiwan and 24 other banks. Under this agreement, the Corporation and its subsidiaries should collectively hold at least 30% of KRTC's capital stock during the construction period. As of December 31, 2007, the Corporation's total equity in KRTC was 31%.

f. In September 2007, the Corporation bought land from CHC for construction of its factories. The contract price is a total of NT$977,257 thousand, which is determined by reference to the appraisal report. As of December 31, 2007, the Corporation prepaid parts of the price and relevant expenses of NT$400,275 thousand (recorded as land and construction in progress).

26. FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

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

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

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

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

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

d. There is no gain or loss for the estimated change in fair value by using valuation technique for the years ended December 31, 2007 and 2006.

e. As of December 31, 2007 and 2006, cash flow risk of the interest rate change on financial assets were NT$250,750 thousand and on financial liabilities were NT$14,600,339 thousand and NT$20,036,239 thousand, respectively. The financial liabilities with fair value risk of the interest rate change were NT$13,700,000 thousand.

f. The Corporation's total interest revenues and expenses (exclusive of capitalized interest) which were incurred from other than financial assets and liabilities at fair value through profit or loss were NT$668,868 thousand and NT$569,884 thousand, respectively, for the year ended December 31, 2007 and NT$343,746 thousand and NT$541,823 thousand, respectively, for the year ended December 31, 2006.

g. Financial risks

1) Market risk

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

The Corporation's investments in the bond funds and stocks of Taiwan Semiconductor Manufacturing Company Ltd., Maruichi Steel Tube Ltd, Yodogawa Steel Works Ltd. and Tang Eng Iron Works Corporation involve market risk. Except the minor fluctuation of the bond fund's market price, if the share price of the stocks increases or decreases by NT$1, the fair value will increase or decrease by NT$103,609 thousand.

2) Credit risk

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

As of December 31, 2007 and 2006, the Corporation's credit risks amounted to NT$1,283,871 thousand and NT$1,334,059 thousand, respectively (including notes and accounts receivable, other receivables and refundable deposits, as of December 31, 2007 and 2006. The notes and accounts receivable represent the balance deducted with factoring and L/C transaction of NT$3,176,621 thousand and NT$3,067,769 thousand , respectively) and the maximum credit exposures and carrying value are the same. The credit risks of the cash and bank deposits of the Corporation were considered to be immaterial.

3) Liquidity risk

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

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

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

4) Cash flow interest rate risk

Market interest rate change will influence the effective interest rate of the financial instruments (including short-term loans and overdraft) which have cash flow risk of the interest rate change, and make future cash flow fluctuate. If the market interest rate increases 1%, the Corporation's cash outflow will increase NT$143,496 thousand.

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

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

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

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

CHINA STEEL CORPORATION

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

1. ADJUSTMENT FROM CHANGES IN RECOGNIZED UNDER EQUITY METHOD

a. Long-term investment adjustment

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

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

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

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

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

3. NET LOSS NOT RECOGNIZED AS PENSION COST

a. Net loss not recognized as pension cost is the minimum pension liability exceeding the sum of unrecognized prior service cost and unrecognized transitional net benefit obligation. It is classified as a reduction of stockholders' equity.

b. Minimum pension liability, which is calculated actuarially, is the minimum amount of pension liability that is required to be recognized on the balance sheet.

c. Prior service cost is the increase in projected benefit obligation due to an employee's accumulation of service years at the initial introduction of pension data or the subsequent pension data amendment.

d. Unrecognized transitional net assets or benefit obligation means the amount resulting from a change from a method specified in Statement of Financial Accounting Standards No. 18, "Accounting for Pensions." This amount is the difference between (a) the fair market value of plan assets plus accrued pension liability or less prepaid pension cost recognized previously in the books and (b) the projected benefit obligation. If the difference is positive, it is treated as unrecognized transition net assets; if the difference is negative, it is treated as unrecognized transition net benefit obligations.

4. DISPOSAL OF TREASURY STOCK

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

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

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

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

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

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