China Steel Corporation

Financial Statements for the
Years Ended December 31, 2008 and 2007 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, 2008 and 2007, and the related statements of income, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Corporation as of December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

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

February 5, 2009

Notice to Readers

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

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

CHINA STEEL CORPORATION

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

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

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

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

(With Deloitte & Touche audit report dated February 5, 2009)

CHINA STEEL CORPORATION

STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2008 AND 2007
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

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

(Continued)

CHINA STEEL CORPORATION

STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2008 AND 2007
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

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

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

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

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

(With Deloitte & Touche audit report dated February 5, 2009) (Concluded)

CHINA STEEL CORPORATION

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2008 AND 2007
(In Thousands of New Taiwan Dollars, Except Cash Dividends Per Share)

	CAPITAL STOCK			RETAINED EARNINGS				OTHER EQUITY					
	Common Stock	Preferred Stock	CAPITAL SURPLUS	Legal Reserve	Special Reserve	Unappropriated Earnings	Total	Unrealized Revaluation Increment	Unrealized Gain (Loss) on Financial Instruments	Cumulative Translation Adjustments	Net Loss not Recognized as Pension Cost	Treasury Stock	Total Stockholders' Equity
BALANCES, JANUARY 1, 2007	$ 110,537,576	$ 406,940	$ 1,548,370	$ 35,674,700	$ 8,444,993	$ 39,309,770	$ 83,429,463	$ 1,512,123	$ 7,533,737	$ (62,787)	$ (37,358)	$ (1,334,892)	$ 203,533,172
Conversion of preferred stock to common shares	17,380	(17,380)	-	-	-	-	-	-	-	-	-	-	-
Appropriation of 2006 earnings (Note 23)													
Legal reserve	-	-	-	3,914,633	-	(3,914,633)	-	-	-	-	-	-	-
Special reserve	-	-	-	-	(829,292)	829,292	-	-	-	-	-	-	-
Bonus to employees	1,080,539	-	-	-	-	(1,800,898)	(1,800,898)	-	-	-	-	-	(720,359)
Remuneration to directors and supervisors	-	-	-	-	-	(108,054)	(108,054)	-	-	-	-	-	(108,054)
Preferred cash dividends - $2.78 per share	-	-	-	-	-	(112,815)	(112,815)	-	-	-	-	-	(112,815)
Common cash dividends - $2.78 per share	-	-	-	-	-	(30,725,312)	(30,725,312)	-	-	-	-	-	(30,725,312)
Preferred stock dividends - $0.3 per share	12,174	-	-	-	-	(12,174)	(12,174)	-	-	-	-	-	-
Common stock dividends - $0.3 per share	3,315,681	-	-	-	-	(3,315,681)	(3,315,681)	-	-	-	-	-	-
Net income in 2007	-	-	-	-	-	51,263,874	51,263,874	-	-	-	-	-	51,263,874
Change in unrealized gain (loss) on available-for-sale financial assets	-	-	-	-	-	-	-	-	(687,907)	-	-	-	(687,907)
Adjusted to nonoperating income from disposal of appreciated properties	-	-	-	-	-	-	-	(2,968)	-	-	-	-	(2,968)
Adjustment from changes in equity recognized under equity method	-	-	(340)	-	-	(5,674)	(5,674)	-	(372,504)	-	-	7,234	(371,284)
Foreign exchange gain due to the translation of foreign-currency financial statements	-	-	-	-	-	-	-	-	-	345,805	-	-	345,805
Investees' net loss not recognized as pension cost	-	-	-	-	-	-	-	-	-	-	(725)	-	(725)
Disposal of treasury stock	-	-	(2,263)	-	-	-	-	-	-	-	-	39,531	37,268
Disposal of the Corporation's shares held by subsidiaries	-	-	103,209	-	-	-	-	-	-	-	-	58,934	162,143
Cash dividends declared by the Corporation and received by subsidiaries	-	-	229,654	-	-	-	-	-	-	-	-	-	229,654
Purchase of the Corporation's shares by subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(187,202)	(187,202)
BALANCES, DECEMBER 31, 2007	114,963,350	389,560	1,878,630	39,589,333	7,615,701	51,407,695	98,612,729	1,509,155	6,473,326	283,018	(38,083)	(1,416,395)	222,655,290
Conversion of preferred stock to common shares	6,860	(6,860)	-	-	-	-	-	-	-	-	-	-	-
Appropriation of 2007 earnings (Note 23)													
Legal reserve	-	-	-	5,125,820	-	(5,125,820)	-	-	-	-	-	-	-
Bonus to employees	1,384,702	-	-	-	-	(2,307,837)	(2,307,837)	-	-	-	-	-	(923,135)
Remuneration to directors and supervisors	-	-	-	-	-	(69,235)	(69,235)	-	-	-	-	-	(69,235)
Preferred cash dividends - $3.50 per share	-	-	-	-	-	(134,274)	(134,274)	-	-	-	-	-	(134,274)
Common cash dividends - $3.50 per share	-	-	-	-	-	(40,239,244)	(40,239,244)	-	-	-	-	-	(40,239,244)
Preferred Stock dividends - $0.3 per share	11,509	-	-	-	-	(11,509)	(11,509)	-	-	-	-	-	-
Common stock dividends - $0.3 per share	3,449,079	-	-	-	-	(3,449,079)	(3,449,079)	-	-	-	-	-	-
Net income in 2008	-	-	-	-	-	24,030,406	24,030,406	-	-	-	-	-	24,030,406
Issuance of stock to acquire subsidiaries' shares (Notes 10 and 23)	5,759,911	-	15,717,185	-	-	-	-	-	-	-	-	-	21,477,096
Adjustments in treasury stock and minority interest arising from subsidiaries' shares	-	-	-	-	-	-	-	-	-	-	-	(6,747,074)	(6,747,074)
Change in unrealized gain (loss) on available-for-sale financial assets	-	-	-	-	-	-	-	-	(1,271,797)	-	-	-	(1,271,797)
Adjusted to nonoperating income from disposal of appreciated properties	-	-	-	-	-	-	-	(4,849)	-	-	-	-	(4,849)
Revaluation increment on land (Note 14)	-	-	-	-	-	-	-	20,410,942	-	-	-	-	20,410,942
Adjustment from changes in equity recognized under equity method	-	-	30,291	-	-	(4,850)	(4,850)	-	404,669	-	-	-	430,110
Foreign exchange gain due to the translation of foreign-currency financial statements	-	-	-	-	-	-	-	-	-	75,958	-	-	75,958
Investees' net loss not recognized as pension cost	-	-	-	-	-	-	-	-	-	-	5,698	-	5,698
Acquisition of treasury stock	-	-	-	-	-	-	-	-	-	-	-	(2,510,843)	(2,510,843)
Change in unrealized gain (loss) on financial instruments for cash flow hedging	-	-	-	-	-	-	-	-	901,807	-	-	-	901,807
Disposal of the Corporation's shares held by subsidiaries	-	-	548,063	-	-	-	-	-	-	-	-	287,581	835,644
Cash dividends declared by the Corporation and received by subsidiaries	-	-	236,751	-	-	-	-	-	-	-	-	-	236,751
Purchase of the Corporation's shares by subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(418,782)	(418,782)
BALANCES, DECEMBER 31, 2008	$ 125,575,411	$ 382,700	$ 18,410,920	$ 44,715,153	$ 7,615,701	$ 24,096,253	$ 76,427,107	$ 21,915,248	$ 6,508,005	$ 358,976	$ (32,385)	$ (10,805,513)	$ 238,740,469

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

(With Deloitte & Touche audit report dated February 5, 2009)

CHINA STEEL CORPORATION

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

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

(Continued)

CHINA STEEL CORPORATION

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

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

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

(With Deloitte & Touche audit report dated February 5, 2009) (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, 2008, the Ministry of Economic Affairs, Republic of China owned 21.24% of the Corporation's outstanding common stock (including the treasury stocks held by the Corporation and its subsidiaries).

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

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

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

Significant accounting policies are summarized as follows:

Current and Noncurrent Assets and Liabilities

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

Cash Equivalents

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

Financial Assets at Fair Value Through Profit or Loss

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

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

Available-for-sale Financial Assets

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

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

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

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

Revenue Recognition, Accounts Receivable and Allowance for Doubtful Accounts

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

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

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

Factoring of Accounts Receivable

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

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

Financial Assets Carried at Cost

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

Bond Investments With No Active Market

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

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

Investments Accounted for by the Equity Method

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

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

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

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

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

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

Property, Plant and Equipment

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

Depreciation is calculated by the straight-line method over service lives estimated as follows: land improvements, 15 to 40 years; buildings, 5 to 60 years; machinery and equipment, 3 to 25 years; transportation equipment, 3 to 20 years; and other equipment, 3 to 10 years. Depreciation of revalued assets is provided on a straight-line basis over their remaining estimated useful lives determined at the time of revaluation. Property, plant and equipment still in use beyond their original estimated useful lives are further depreciated over their newly estimated useful lives.

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

Intangible Assets

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

Assets Leased to Others

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

Unamortized Repairs

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

Impairment of Asset

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

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

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

Loss on Purchase Commitments

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

Pension Cost

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

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

Treasury Stock

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

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

Income Tax

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

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

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

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

Foreign-currency Transactions

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

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

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

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

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

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

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

Hedging Derivative Financial Instruments

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

Hedge Accounting

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

a. Fair value hedge

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

b. Cash flow hedge

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

c. Hedge of a net investment in a foreign operation

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

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

3. EFFECTS OF CHANGES IN ACCOUNTING PRINCIPLES

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

4. CASH AND CASH EQUIVALENTS

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

As of December 31, 2008 and 2007, the Corporation had foreign bank deposits of ￥2,858 thousand and ￥8,825 thousand in Japan-Osaka Bank and ￥37,210 thousand and ￥9 thousand in Singapore-Daiwa Securities SMBC with the total of ￥40,068 thousand (NT$14,572 thousand) and ￥8,834 thousand (NT$2,559 thousand), respectively.

5. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

These financial assets designated as at FVTPL represents open-end funds. As of December 31, 2008 and 2007, the balances of financial assets at fair value through profit or loss were NT$5,605,453 thousand and NT$1,032,097 thousand, respectively. The purpose of classifying open-end funds to this account is to remove the accounting inconsistency between investment income and interest expense.

Net gains on financial assets designated as at FVTPL for the years ended December 31, 2008 and 2007 were NT$58,395 thousand and NT$133,047 thousand, respectively.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31			
	2008		2007	
	Current	Noncurrent	Current	Noncurrent
Quoted stocks				
Maruichi Steel Tube Ltd.	$ -	$ 757,920	$ -	$ 757,920
Yodogawa Steel Works, Ltd.	-	345,831	-	349,389
Taiwan Semiconductor Manufacturing Company (TSMC)	967,456	-	967,456	-
CSBC Corporation, Taiwan (CSBC)	-	219,575	-	-
Tang Eng Iron Works Corporation (TEIWC)	-	-	-	-
Bank debentures - Taiwan Cooperative Bank		-	250,220	-
Adjustments for change in valuation	2,144,969	1,788,558	3,357,450	1,565,847
	$ 3,112,425	$ 3,111,884	$ 4,575,126	$ 2,673,156

The Corporation invested NT$597,214 thousand to acquire 9% equity of TEIWC. In 2002, the Corporation recognized an impairment loss of NT$597,214 thousand on its investment in TEIWC. In July 2006, TEIWC's shares were listed on the Gre Tai Securities Market. Accordingly, this financial asset carried at cost - noncurrent was reclassified as available-for-sale financial asset-noncurrent. As of December 31, 2008 and 2007, the carrying value of this financial asset was NT$736,066 thousand and NT$731,587 thousand, respectively.

In September 2007, in order to firm up the sales business of steel products, the Corporation invested NT$349,389 thousand (￥1,214,000 thousand) and acquired 2,000 thousand common shares of Yodogawa Steel Works, Ltd., representing 1% equity. The purchase price per share was referred to the average closing price of Yodogawa Steel Works, Ltd. stock in Tokyo Stock Exchange from August 1 to 28, 2007. The difference between the carrying value and the cost of investment was cash dividends received in the year of investment acquisition which were treated as a reduction of investment cost.

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

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

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

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

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

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

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

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

8. ACCOUNTS RECEIVABLE

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

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

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

9. INVENTORIES

	December 31	
	2008	2007
Finished products	$ 14,103,511	$ 8,013,742
Work in process	17,589,620	11,972,374
Raw materials	27,826,460	8,787,808
Supplies	7,770,369	5,995,890
Materials in transit	2,452,051	2,953,488
Fuel	249,473	162,816
Others	837,908	787,667
	70,829,392	38,673,785
Less: Allowance for value decline and obsolescence losses on inventory	11,714,675	503,602
	$ 59,114,717	$ 38,170,183

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

10. FINANCIAL ASSETS CARRIED AT COST - NONCURRENT

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

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

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

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

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

In August 2007, the Corporation acquired 3,808 thousand Preferred B shares (representing 5% ownership) of DSC for NT$55,216 thousand. Dividend on these shares is at 5%, payable on a participating and cumulative basis. Preferred stockholders have the same voting rights as common stockholders, except the right to vote for directors and supervisors, but they can be candidates for directors and supervisors. The difference between the carrying value and the cost of investment was dividends received by the Corporation in the acquisition year. The Corporation and DSC approved the share swap in their stockholders meetings. The Corporation exchanged 52% equity (including common stocks and preferred stocks) of DSC for new shares issued for capital increase on October 6, 2008. The exchange ratio was 1:2.6. After the share swap, the Corporation’s equity in DSC increased to 100%. Accordingly, the investment in DSC preferred stock was reclassified from financial assets carried at cost-noncurrent to investments accounted for by the equity method (Note 12).

The Corporation invested NT$243,290 thousand to acquire 2% equity of AMTC. In the first quarter of 2007, the Corporation evaluated and recognized an impairment loss of NT$243,290 thousand (recorded as nonoperating loss) on its investment in AMTC mainly due to serious difficulty in AMTC’s operation. In August 2007, AMTC’s stock was delisted from the Gre Tai Securities Market. Accordingly, the available-for-sale financial asset was reclassified as financial asset carried at cost.

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

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

In May 2003, the Corporation signed a slab production joint-venture contract with Sumitomo Metal Industries, Ltd. and Sumitomo Corporation. In July 2003, the joint venture company of EAUS was established. As of December 31, 2008, the Corporation invested in EAUS the amount of ￥10 billion (Notes 20 and 27). The Corporation thus enjoys a stable supply of good quality slab from this joint venture. The Corporation also signed a contract with Chung Hung Steel Corporation (CHSC) to transfer the purchasing right of slabs from EAUS, and the Corporation receives royalties on this contract based on the volume purchased by CHSC. The amounts of royalty income for the years ended December 31, 2008 and 2007 were NT$212,337 thousand and NT$311,745 thousand, respectively. As of December 31, 2008 and 2007, the royalty receivable were NT$30,952 thousand and NT$91,774 thousand, respectively.

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

11. BOND INVESTMENTS WITH NO ACTIVE MARKET

	December 31 2008	December 31 2007
Unquoted preferred stocks - domestic		
Taiwan High Speed Rail Corporation (THSRC)		
Preferred C	$ -	$ 3,904,542
Preferred B	-	834,384
Taigen Biotechnology Co., Ltd. (TBC)	-	300,000
	-	5,038,926
Unquoted preferred stocks - overseas		
TaiGen Biopharmaceuticals Holdings Limited (TGB)	103,000	-
	$ 103,000	$ 5,038,926

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

In 2008, the Corporation evaluated and recognized an impairment loss of NT$4,738,926 thousand (recorded as nonoperating loss) on the investments in preferred shares of THSRC.

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

12. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

	December 31 2008 Amount	2008 % of Owner-ship	December 31 2007 Amount	2007 % of Owner-ship
Stocks listed on the Taiwan Stock Exchange				
Chung Hung Steel Corporation (CHSC)	$ 2,211,584	24	$ 3,675,723	24
China Steel Chemical Corporation (CSCC)	1,447,376	29	1,377,882	29

(Continued)

	December 31			
	2008		2007	
	Amount	% of Owner-ship	Amount	% of Owner-ship
China Hi-ment Corporation (CHC)	$ 691,813	20	$ 667,321	20
China Ecotek Corporation (CEC)	684,425	49	404,891	36
China Steel Structure Corporation (CSSC)	547,017	18	548,287	18
	5,582,215		6,674,104	
Less: Shares held by subsidiaries accounted for as treasury stock	1,375,456		336,709	
	4,206,759		6,337,395	
Stocks without quoted market prices				
Dragon Steel Corporation (DSC)	58,831,552	100	16,731,288	47
China Steel Express Corporation (CSE)	13,502,625	100	12,301,101	100
C. S. Aluminum Corporation (CAC)	7,132,216	100	7,413,376	100
Gains Investment Corporation (GIC)	5,206,807	100	8,264,312	100
China Prosperity Development Corporation (CPDC)	4,700,887	100	4,761,535	100
China Steel Asia Pacific Holdings Pte Ltd (CSAPH)	3,324,722	100	3,275,056	100
Kaohsiung Rapid Transit Corporation (KRTC)	2,205,815	31	2,900,453	31
China Steel Global Trading Corporation (CSGT)	1,514,128	100	1,241,357	100
China Steel Machinery Corporation (CSMC)	837,269	74	1,005,342	100
Info-Champ Systems Corporation (ICSC)	614,950	100	679,218	100
Horng Yih Investment Corporation (HYI)	532,755	100	850,672	100
Long Yuan Fa Investment Corporation (LYFI)	529,858	100	848,773	100
Goang Yaw Investment Corporation (GYI)	518,355	100	828,178	100
CSC Steel Australia Holdings Pty Ltd (CSCAU)	478,709	100	463,351	100
Kaohsiung Arena Development Corporation (KADC)	439,894	18	339,147	18
China Steel Security Corporation (CSS)	308,946	100	261,905	100
Hi-mag Magnetic Corporation (HMC)	103,514	50	105,243	50
Baolai Greeting Development Co., Ltd. (BGDC)	42,179	45	46,515	45
China Steel Management Consulting Corporation (CSMCC)	25,150	100	7,285	38
TaiAn Technologies Corporation (TTC)	6,406	17	5,513	17
	100,856,737		62,329,620	
Less: Shares held by subsidiaries accounted for as treasury stock	6,919,214		1,079,686	
	93,937,523		61,249,934	
	$ 98,144,282		$ 67,587,329	

(Concluded)

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

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

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

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

In February 2007, the Corporation invested US$400 thousand (NT$13,150 thousand) in CSAPH, and then CSAPH invested US$2,436 thousand (NT$80,084 thousand), including its operation funds, in Tsingtao Teco Electric & Machinery Co., Ltd. (TTEC), representing 14% equity. TTEC will engage in manufacturing and selling of compressors. In January 2008, the Corporation invested additional US$3,500 thousand (NT$113,645 thousand) in CSAPH, and then CSAPH invested the same amount in TTEC.

In April 2007, in order to obtain long-term coal mining, the Corporation invested AUD$16,540 thousand (NT$445,945 thousand) to establish CSCAU and acquired 100% equity. Then CSCAU established CSC Sonoma Pty Ltd representing 100% equity. CSC Sonoma Pty Ltd invested in a joint venture (Sonoma Mine Investment) and acquired 5% equity.

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

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

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

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

	Year Ended December 31	
	2008	**2007**
CSE	$ 7,144,057	$ 6,686,007
CSGT	417,470	339,000
CSCC	394,519	413,309
CSAPH	273,034	355,247
CSMC	232,307	228,179
CAC	147,841	542,788
CHC	142,545	118,874
CSCAU	129,736	(9,017)
ICSC	110,179	96,383

(Continued)

	Year Ended December 31	
	2008	2007
CPDC	$ 73,158	$ 118,391
CSSC	17,175	81,994
CEC	12,519	80,436
DSC	(3,519,602)	733,954
GIC	(1,587,846)	865,562
CHSC	(969,677)	952,422
KRTC	(688,915)	(164,412)
HYI	(211,815)	210,001
LYFI	(208,754)	209,869
GYI	(206,176)	204,489
Others	102,251	54,271
	$ 1,804,006	$ 12,117,747

(Concluded)

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

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

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

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

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

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

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

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

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

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

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

14. PROPERTY, PLANT AND EQUIPMENT

	Land	Land Improvements	Buildings	Machinery and Equipment	Transportation Equipment	Other Equipment	Construction In progress	Total
Year ended December 31, 2008								
Cost								
Balance, beginning of year	$ 9,803,353	$ 4,212,123	$ 39,773,039	$ 237,189,591	$ 1,500,483	$ 4,018,844	$ 15,043,863	$ 311,541,296
Addition	888,690	8,265	1,173,052	9,730,239	171,411	577,505	5,613,922	18,163,084
Disposals	-	-	(248,069)	(1,446,373)	(48,235)	(207,230)	-	(1,949,907)
Balance, end of year	10,692,043	4,220,388	40,698,022	245,473,457	1,623,659	4,389,119	20,657,785	327,754,473
Revaluation increment								
Balance, beginning of year	5,840,732	492,990	2,423,523	8,286,388	27,233	31,714	-	17,102,580
Addition	26,913,284	-	-	-	-	-	-	26,913,284
Disposals	-	-	(16,043)	(215,426)	(9,125)	(31)	-	(240,625)
Balance, end of year	32,754,016	492,990	2,407,480	8,070,962	18,108	31,683	-	43,775,239
Accumulated depreciation								
Balance, beginning of year	-	3,788,617	19,177,953	186,025,665	1,215,056	2,780,098	-	212,987,389
Depreciation expense	-	117,198	1,256,922	9,595,876	81,408	470,738	-	11,522,142
Disposals	-	-	(160,912)	(1,656,873)	(57,165)	(202,874)	-	(2,077,824)
Balance, end of year	-	3,905,815	20,273,963	193,964,668	1,239,299	3,047,962	-	222,431,707
Net book value, end of year	$ 43,446,059	$ 807,563	$ 22,831,539	$ 59,579,751	$ 402,468	$ 1,372,840	$ 20,657,785	$ 149,098,005
Year ended December 31, 2007								
Cost								
Balance, beginning of year	$ 8,209,536	$ 4,212,123	$ 37,261,645	$ 219,788,073	$ 1,473,130	$ 3,096,559	$ 21,922,773	$ 295,963,839
Additions	1,593,817	-	2,560,711	18,467,688	69,221	1,130,597	(6,878,910)	16,943,124
Disposals	-	-	(49,317)	(1,066,170)	(41,868)	(208,312)	-	(1,365,667)
Balance, end of year	9,803,353	4,212,123	39,773,039	237,189,591	1,500,483	4,018,844	15,043,863	311,541,296
Revaluation increment								
Balance, beginning of year	5,840,732	492,990	2,423,546	8,433,643	27,233	31,747	-	17,249,891
Disposals	-	-	(23)	(147,255)	-	(33)	-	(147,311)
Balance, end of year	5,840,732	492,990	2,423,523	8,286,388	27,233	31,714	-	17,102,580

(Continued)

	Land	Land Improvements	Buildings	Machinery and Equipment	Transportation Equipment	Other Equipment	Construction In progress	Total
Accumulated depreciation								
Balance, beginning of year	$ -	$ 3,654,129	$ 18,004,161	$ 177,729,235	$ 1,178,615	$ 2,451,299	$ -	$ 203,017,439
Depreciation expense	-	134,488	1,200,306	9,484,483	77,768	534,256	-	11,431,301
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	$ 15,644,085	$ 916,496	$ 23,018,609	$ 59,450,314	$ 312,660	$ 1,270,460	$ 15,043,863	$ 115,656,487

(Concluded)

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

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

In 1981 and 1994, the Corporation revalued its property, plant and equipment and patents in accordance with government regulations, resulting in the increment of NT$17,662,343 thousand. After the deduction of the reserve for land value increment tax of NT$3,370,813 thousand, a net increment of NT$14,291,530 thousand was credited to unrealized revaluation increment. As of December 31, 2008, unrealized revaluation increment totalling NT$13,952,356 thousand had been capitalized as capital stock, reducing its balance to NT$339,174 thousand. In January 2005, the government revised the land increment tax law to reduce the tax rate. Thus, the reserve for land value increment tax decreased and the unrealized revaluation increment increased each by NT$1,196,189 thousand. Accordingly, the balance of unrealized revaluation increment increased to NT$1,535,363 thousand. In 2008, the Corporation revalued its land in accordance with the current assessed land value. Total increments on land revaluation was NT$26,913,284 thousand, after the deduction of the reserve for land value increment tax of NT$6,502,342 thousand, a net increment of NT$20,410,942 thousand was credited to unrealized revaluation increment. In 2008 and 2007, upon retirement or sale of appreciated properties, the unrealized revaluation increment decreased by NT$4,849 thousand and NT$2,968 thousand, respectively, and recorded as nonoperating revenue. As of December 31, 2008, the cumulative nonoperating revenue was NT$31,057 thousand.

15. ASSETS LEASED TO OTHERS

	Land	Machinery and Equipment	Buildings and Improvements	Total
Year ended December 31, 2008				
Cost				
Balance, beginning and end of year	$ 3,079,977	$ 2,000,000	$ 161,816	$ 5,241,793
Accumulated depreciation				
Balance, beginning of year	-	1,359,636	20,790	1,380,426
Depreciation expense	-	22,682	2,654	25,336
Balance, end of year	-	1,382,318	23,444	1,405,762

(Continued)

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

(Concluded)

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

16. SHORT-TERM LOANS AND OVERDRAFT

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

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

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

18. ACCRUED EXPENSES

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

19. BONDS PAYABLE

	December 31 2008	December 31 2007
5-year unsecured bonds - issued at par in:		
November 2006; repayable in November 2011; 2.07% interest p.a., payable annually	$ 5,600,000	$ 5,600,000
June 2006; repayable in June 2011; 2.32% interest p.a., payable annually	8,100,000	8,100,000
5-year unsecured bonds – issued at par in:		
December 2008; repayable in December 2012 and December 2013; 2.42% interest p.a., payable annually	9,600,000	-
December 2008; repayable in December 2012 and December 2013; 2.08% interest p.a., payable annually	13,000,000	-
7-year unsecured bonds – issued at par in:		
December 2008; repayable in December 2014 and December 2015; 2.30% interest p.a., payable annually	7,000,000	-
	$ 43,300,000	$ 13,700,000

20. LONG-TERM DEBTS

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

The Corporation borrowed long-term bank loans in Japanese yen and Australian dollar to hedge the exchange rate fluctuations on the foreign-currency investments in East Asia United Steel Corporation, Maruichi Steel Tube Ltd., CSC Australia Holdings Pty Ltd and Yodogawa Steel Works, Ltd. (Note 27).

21. RETIREMENT BENEFIT PLAN

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

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

The Corporation makes contributions, equal to a certain percentage of salaries, to a pension fund, which is deposited in the Bank of Taiwan (formerly Central Trust of China was merged into the Bank of Taiwan in July 2007) in the name of, and administered by the employees' pension fund administration committee. According to above regulation, pension cost for the years ended December 31, 2008 and 2007 was NT$1,453,123 thousand and NT$1,634,142 thousand, respectively.

Since August 1999, the Corporation also made contributions, equal to a certain percentage of salaries of management personnel (vice presidents and above), to another pension fund, which is deposited in The Mega International Commercial Bank in the name of, and administered by an officers' pension fund management committee. Pension cost for the years ended December 31, 2008 and 2007 was NT$4,425 thousand and NT$4,370 thousand, respectively.

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

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

	Year Ended December 31	
	2008	2007
a. Components of net pension cost		
Service cost	$ 1,373,511	$ 1,372,219
Interest cost	586,426	543,483
Projected return on plan assets	(532,460)	(340,479)
Amortization	30,071	63,289
Net pension cost	$ 1,457,548	$ 1,638,512

	December 31	
	2008	2007
b. Reconciliation of the funded status of the plan and accrued pension cost		
Benefit obligation		
Vested benefit obligation	$ 1,078,442	$ 373,281
Non-vested benefit obligation	14,413,652	13,492,230
Accumulated benefit obligation	15,492,094	13,865,511

(Continued)

	December 31	
	2008	2007
Additional benefits based on future salaries	$ 3,122,050	$ 3,240,813
Projected benefit obligation	18,614,144	17,106,324
Fair value of plan assets	(16,812,157)	(15,026,819)
Funded status	1,801,987	2,079,505
Unrecognized net asset at transitional	52,447	61,983
Unamortized net loss	(1,758,521)	(2,067,096)
Accrued pension cost (included in accrued expense)	$ 95,913	$ 74,392
Vested benefits	$ 1,137,303	$ 399,899

(Concluded)

c. Actuarial assumptions

Discount rate used in determining present values	2.5%	3.5%
Future salary increase rate	2.0%	3.0%
Expected rate of return on plan assets	2.5%	3.5%

	Year Ended December 31	
	2008	2007
d. Contributions to the fund	$ 1,435,373	$ 1,673,851
e. Payments from the fund	$ 216,500	$ 481,139

22. DEFERRED CREDITS - GAIN FROM AFFILIATES

	December 31	
	2008	2007
Gain on disposal of land	$ 1,136,164	$ 1,136,164
Gain on contracted projects	655,254	196,852
	$ 1,791,418	$ 1,333,016

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

The Corporation contracted engineering projects with KRTC and DSC, resulting in deferred revenue. Some of the projects with KRTC (investment accounted by the equity method) were completed during the year ended December 31, 2008. Such deferred credits are recognized as income over 8 to 30 years and the cumulated deferred credits recognized as of December 31, 2008 were NT$15,033 thousand. The accumulated credits with DSC will be recognized as income over the service lives of the assets after completion of the constructions expected to be completed between 2009 and 2010.

23. STOCKHOLDERS' EQUITY

a. Capital stock

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

For the years ended December 31, 2008 and 2007, 686 thousand shares and 1,738 thousand shares of preferred shares were converted into common stock, respectively. As of December 31, 2008, 2 thousand shares of which were not yet registered with the government.

b. Treasury stock

	Thousand Shares			December 31	
Purpose of Treasury Stock	**Beginning of Year**	**Addition**	**Reduction**	**Thousand Shares**	**Book Value**
Year ended December 31, 2008					
Shares acquired and held by subsidiaries	84,543	208,659	17,099	276,103	$ 8,294,670
Shares acquired by the Corporation for transfer to employees	-	108,000	-	108,000	2,510,843
	84,543	316,659	17,099	384,103	$ 10,805,513
Year ended December 31, 2007					
Shares acquired and held by subsidiaries	81,180	7,165	3,802	84,543	$ 1,416,395
Shares acquired by the Corporation for transfer to employees	1,600	-	1,600	-	-
	82,780	7,165	5,402	84,543	$ 1,416,395

1) Shares acquired and held by subsidiaries

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

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

2) Shares acquired for transfer to employees

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

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

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

c. Overseas depositary receipts

In May 1992, February 1997 and October 2003, the ROC’s Ministry of Economic Affairs (MOEA) sold its holding shares in the Corporation through issuances of 88,329,150 units of Global Depositary Receipts (“GDR”), with each unit representing 20 shares of the Corporation’s common stock, or equivalent to the Corporation’s common shares totalling 1,887,073,812 shares. The depositary receipts then increased by 6,024,532 units resulting from the capitalization of retained earnings. Under relevant regulations, the GDR holders may also request the conversion to the shares represented by the GDR. The foreign investors may also request the reissuance of such depositary receipts within the originally approved units. As of December 31, 2008, the outstanding depositary receipts were 7,195,731 units, equivalent to 143,914,827 common shares, which represented 1.15% of the outstanding common shares (including the treasury stocks held by the Corporation and its subsidiaries).

d. Preferred stock

Preferred stockholders have the following entitlements or rights:

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

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

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

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

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

e. Capital surplus

Capital surplus comprised of the following:

	December 31	
	2008	**2007**
Additional paid-in capital- issuance of common shares to acquire ownership of subsidiaries (Note 10)	$ 15,717,185	$ -
Treasury stock transaction	2,415,370	1,630,556
Long-term stock investments under the equity method	270,266	239,975
Others	8,099	8,099
	$ 18,410,920	$ 1,878,630

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

f. Appropriation of retained earnings and dividend policy

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

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

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

3) Of the remainder, 0.15% as remuneration to directors and supervisors and 8% as bonus to employees. (In June 2008, the Corporation's stockholders resolved to change the appropriation rate for bonus to employees from 3%-5% to 8%, which will be effective for the appropriations of 2008 earnings.)

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

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

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

The Corporation is required to appropriate a special reserve from annual earnings for any net debit balance resulting from adjustments to the stockholders' equity (including unrealized revaluation increment , unrealized gain (loss) on financial instruments, unrecognized net loss on pension cost and cumulative translation adjustments), excluding treasury stock held by the Corporation. Besides, if the market price of the Corporation's common share is lower than the carrying value of the Corporation's shares held by subsidiaries, the Corporation should appropriate a special reserve equal to the difference between market price and carrying value. The Corporation may release a portion of this special reserve when such debit balances are partially or fully reversed. As of December 31, 2008, the Corporation had fully reversed the special reserve under relevant regulations which accounted for the balance of deduction in stockholders' equity, and the unreversed special reserve was held for the capital demand of expansion construction.

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

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

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

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

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

The Corporation's stockholders in their June 2008 and 2007 meetings, approved the following appropriations of the 2007 and 2006 earnings (the change of preferred stock and common stock dividends due to preferred stock converted to common stock has been adjusted by actual appropriation on the effective date of appropriations and other distributions).

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

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

g. Unrealized gain on financial instruments

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

	Available-for-sale Financial Assets	Equity-method Investments	Unrealized Gain or Loss on Cash Flow Hedging	Total
Year ended December 31, 2008				
Balance, beginning of year	$ 4,894,886	$ 1,578,440	$ -	$ 6,473,326
Recognized in stockholders' equity	(1,271,797)	404,669	901,807	34,679
Balance, end of year	$ 3,623,089	$ 1,983,109	$ 901,807	$ 6,508,005

(Continued)

Year ended December 31, 2007	Available-for-sale Financial Assets	Equity-method Investments	Unrealized Gain or Loss on Cash Flow Hedging	Total
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

(Concluded)

24. INCOME TAX

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

	Year Ended December 31 2008	2007
Income tax expense at the 25% statutory rate	$ 7,563,833	$ 15,412,919
Tax effect on adjusting items		
Permanent differences		
Investment income recognized under equity method - domestic	(350,309)	(2,942,879)
Dividends	(94,684)	(82,098)
Tax-exempt income	(78,294)	(44,461)
Unrealized gain on valuation and gain on disposal of financial assets	(14,599)	(33,262)
Employee benefits	165,619	49,148
Others	(2,772)	(92,077)
Temporary differences		
Impairment loss on financial assets	1,272,961	79,822
Provision for loss on inventory	2,802,768	123,517
Loss on purchase commitments	1,475,381	-
Difference between tax reporting and financial reporting - depreciation methods	205,354	160,286
Unrealized gain from affiliates	109,365	40,130
Investment income recognized under equity method - foreign investees	(100,692)	(86,557)
Preferential severance pay	93,875	(9,610)
Investment loss resulting from investees' capital reduction	(150,000)	-
Cash dividends - foreign investees	61,275	37,580
Others	(32,796)	11,403
Investment tax credits used	(867,192)	(1,879,831)
Current income tax payable	12,059,093	10,744,030
Tax separately levied on interest from short-term bills	39,684	51,022
Prior periods' adjustments	(115,011)	(41,537)
Income tax currently payable	11,983,766	10,753,515
Deferred tax - temporary differences	(5,758,841)	(365,715)
Income tax	$ 6,224,925	$ 10,387,800

	Year Ended December 31	
	2008	2007
b. Change in income tax payable		
Balance, beginning of year	$ 6,682,244	$ 5,682,534
Income tax currently payable	11,983,766	10,753,515
Payment in the current year	(12,916,348)	(9,753,805)
Balance, end of year	$ 5,749,662	$ 6,682,244

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

	December 31	
	2008	2007
Current		
Deferred income tax assets		
Allowance for value decline and obsolescence losses on inventory	$ 2,926,285	$ 123,517
Unrealized loss on purchase commitments	1,475,381	-
Estimated preferential severance pay	153,898	60,023
Unrealized gain from affiliates	75,034	80,270
Others	81,745	102,582
	4,172,343	366,392
Deferred income tax liabilities		
Temporary difference between tax reporting and financial reporting - inventory	(31,924)	(33,669)
Total deferred income tax assets - net	$ 4,680,419	$ 332,723
Noncurrent		
Deferred income tax assets		
Impairment loss on financial assets	$ 1,502,783	$ 379,822
Unrealized gain from affiliates	163,814	49,213
Impairment loss on assets	38,562	59,192
Others	4,542	4,543
	1,709,701	492,770
Deferred income tax liabilities		
Temporary difference between tax reporting and financial reporting - depreciation methods	(2,339,891)	(2,549,979)
Foreign investment income	(401,696)	(378,998)
Unrealized foreign exchange gain	(68,476)	(75,300)
	(2,810,063)	(3,004,277)
Total deferred income tax liabilities, net	$ (1,100,362)	$ (2,511,507)

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

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

The Corporation’s income tax returns through 2005 have been examined by the tax authorities.

d. Information about integrated income tax was as follows:

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

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

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

25. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

	Year Ended December 31							
	2008				2007			
	Operating Cost	Operating Expense	Others	Total	Operating Cost	Operating Expense	Others	Total
Personnel								
Salary	$ 14,071,661	$ 2,230,621	$ 137,397	$ 16,439,679	$ 15,085,576	$ 2,468,746	$ 89,496	$ 17,643,818
Labor and health insurance	580,893	88,376	2,132	671,401	557,760	84,765	763	643,288
Pension and consolation costs	1,289,091	242,682	469,638	2,001,411	1,435,550	263,772	83,455	1,782,777
Others	1,038,050	147,450	7,121	1,192,621	635,210	92,766	4,204	732,180
	$ 16,979,695	$ 2,709,129	$ 616,288	$ 20,305,112	$ 17,714,096	$ 2,910,049	$ 177,918	$ 20,802,063
Depreciation	$ 11,237,294	$ 284,848	$ 25,336	$ 11,547,478	$ 11,096,017	$ 335,284	$ 29,010	$ 11,460,311
Amortization	582,163	63,190	3,160	648,513	570,571	42,557	3,160	616,288

26. EARNINGS PER SHARE (EPS)

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

(Continued)

	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	11,892,448	$ 5.18	$ 4.31
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	11,931,404	5.17	4.30

(Concluded)

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

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

27. FINANCIAL INSTRUMENTS

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

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

(Continued)

	December 31			
	2008		2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Derivative Financial Instruments				
Hedging derivative asset (including non-current)	63,561	63,561	-	-
Hedging derivative liabilities (including non-current)	6,534	6,534	-	-

(Concluded)

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

1) The carrying amount of cash and cash equivalents, notes and accounts receivable, other receivables, restricted assets, short-term loans and overdraft, commercial paper payable, accounts payable, accrued expenses and other payables, approximate fair value because of the short maturities of these instruments.
2) The fair values of financial assets at fair value through profit of loss, available-for-sale financial assets and derivative financial instruments are determined at their market value. If there is no market value available for reference, the fair values are determined by using valuation technique. The information used as basis for determining the Corporation's assumptions in applying valuation technique is consistent with that used by market participants. The information is obtained by the Corporation from financial institutions.

3) The fair values of long-term liabilities (including bonds payable) and foreign currency of other financial assets are determined by the present values of future cash flows, with the values discounted at the interest rates of similar long-term debt and the floating-rate of foreign currency available for the Corporation.

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

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

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

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

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

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

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

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

g. Financial risks

1) Market risk

Market risk includes fair value risk of interest rate change, exchange rate risk, and market price risk. The Corporation had long-term loans in yen to hedge the exchange rate fluctuations on long term investments in yen, thus, the exchange rate risk can be hedged naturally. The Corporation issues the bonds payable with the fixed interest rate, and the fair value of the bonds payable will be influenced by the market interest rate change. If market interest rate increases or decreases at 1%, the fair value of bonds payable will decrease or increase by NT$1,757,460 thousand.

The Corporation’s investments in the bond funds and stocks of Taiwan Semiconductor Manufacturing Company Ltd., Maruichi Steel Tube Ltd, Yodogawa Steel Works, Ltd and Tang Eng Iron Works Corporation and China Shipbuilding Corporation involve market risk. Except the minor fluctuation of the bond fund’s market price, if the share price of the stocks increases or decreases by 1%, the fair value will increase or decrease by about NT$62,243 thousand.

2) Credit risk

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

As of December 31, 2008 and 2007, the Corporation’s credit risks amounted to NT$3,031,258 thousand and NT$1,283,871 thousand, respectively (including notes and accounts receivable, other receivables and refundable deposits, as of December 31, 2008 and 2007. The notes and accounts receivable represent the balance deducted with acceptance in transit of NT$3,606,618 thousand and NT$3,176,621 thousand, respectively) and the maximum credit exposures and carrying value are the same. The credit risks of the cash and bank deposits of the Corporation were considered to be immaterial.

3) Liquidity risk

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

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

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

4) Cash flow interest rate risk

Market interest rate change will influence the effective interest rate of the financial instruments (including available-for-sale financial assets (including non-current), short-term loans and long-term loans) which have cash flow risk of the interest rate change, and make future cash flow fluctuate. If the market interest rate increases by 1%, the Corporation’s cash outflow will increase by about NT$142,363 thousand a year.

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

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

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

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

28. RELATED-PARTY TRANSACTIONS

a. Related parties

Related Parties	Relationship with the Corporation
C. S. Aluminum Corporation (CAC)	Affiliate
China Steel Express Corporation (CSE)	Affiliate
China Steel Chemical Corporation (CSCC)	Affiliate
China Steel Global Trading Corporation (CSGT)	Affiliate
China Hi-ment Corporation (CHC)	Affiliate
China Ecotek Corporation (CEC)	Affiliate
China Steel Structure Corporation (CSSC)	Affiliate
Chung Hung Steel Corporation (CHSC)	Affiliate
China Steel Machinery Corporation (CSMC)	Affiliate
Gains Investment Corporation	Affiliate

(Continued)

Related Parties	Relationship with the Corporation
China Steel Security Corporation	Affiliate
China Prosperity Development Corporation (CPDC)	Affiliate
Info-Champ Systems Corporation	Affiliate
China Steel Management Consulting Corporation	Affiliate
Hi-mag Magnetic Corporation	Affiliate
Long-Yuan-Fa Investment Corporation	Affiliate
Horng-Yih Investment Corporation	Affiliate
Dragon Steel Corporation (DSC)	Affiliate
Chung Mao Trading (BVI) Corp.	Affiliate
Chung Mao Trading (SAMOA) Co.	Affiliate
CSGT (Singapore) Pte. Ltd.	Affiliate
CSE Transport Corp. (CSEP)	Affiliate
Mentor Consulting Corporation	Affiliate
Steel Castle Technology Corp.	Affiliate
Union Steel Development Corp.	Affiliate
Betacera Inc.	Affiliate
Wabo Globe Trading Corporation	Affiliate
Universal Exchange Inc.	Affiliate
United Steel Engineering and Construction Corporation (USECC)	Affiliate
Thintech Materials Technology Co., Ltd.	Affiliate
Jing Yu Investment Corporation	Affiliate
Pao Good Industrial Co., Ltd.	Affiliate
CSGT International Corp.	Affiliate
CSGT Metals Veitnan Joint Stock Company	Affiliate
CSC Steel Sdn. Bhd. (CSSB) (formerly Ornasteel Enterprise Corp. (M) Sdn. Bhd.)	Affiliate
Group Steel Enterprise Corp. (M) Sdn. Bhd.	Affiliate
CSGT (JAPAN) Co., Ltd.	Affiliate
CSGT Hong Kong Limited	Affiliate
CSGT (SHANGHAI) Co., Ltd.	Affiliate
Gau Ruel Investment Corporation	Affiliate
Shin-Mau Investment Corporation	Affiliate
Chiun Yu Investment Corporation	Affiliate
Horng Chyuan Investment Corporation	Affiliate
Chii Yih Investment Corporation	Affiliate
Shang Hai Xike Ceramic Electronic Co., Ltd.	Affiliate
Kaohsiung Rapid Transit Corporation (KRTC)	Equity method investee
TaiAn Technologies Corporation	Equity method investee
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
Great Grandeul Steel 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
Hua Eng Wire & Cable Co., Ltd.	Director of the Corporation's subsidiary
CTCI Corporation	Supervisor of the Corporation's subsidiary
CSC Educational Foundation	Foundation established with the Corporation's donation

(Concluded)

b. Significant related-party transactions were as follows:

	Year Ended December 31			
	2008		2007	
	Amount	%	Amount	%
Sales				
CSSB	$ 5,017,186	2	$ 4,238,905	2
CSSC	4,704,506	2	3,496,636	2
CSCC	4,328,527	2	2,277,698	1
CYC	2,776,047	1	1,931,401	1
CHSC	2,103,340	1	1,073,346	-
Others	3,394,686	1	2,956,730	2
	$ 22,324,292	9	$ 15,974,716	8
Purchases (including of shipping charges)				
CSEP	$ 23,676,256	14	$ 23,381,559	22
CSE	2,845,080	2	3,534,110	3
CAC	2,820,573	2	3,810,666	4
CSGT	369,803	-	294,318	1
Others	1,130,539	-	705,318	1
	$ 30,842,251	18	$ 31,725,971	31

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

Assets lease

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

		Rental Income Year Ended December 31	
	Expiry of Contracts	2008	2007
CAC	February 2016	$ 56,189	$ 55,522
CSMC	November 2011	28,826	29,597
CSCC	December 2012	21,006	20,799
CSSC	May 2018	15,705	15,720
CHC	April 2012	5,204	5,464
Others	October 2012	8,771	7,897
		$ 135,701	$ 134,999

Other revenues

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

	Year Ended December 31	
	2008	2007
KRTC	$ 2,445,873	$ 1,730,474
DSC	1,381,036	492,310
CHSC	247,909	328,500
CSCC	117,102	88,065
CAC	106,746	266,257
Others	452,597	312,872
	$ 4,751,263	$ 3,218,478

Other expenditures

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

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

Asset transactions

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

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

Donation expenditures

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

c. Balances at year-end

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

d. Compensation of directors, supervisors and management personnel

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

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

29. PLEDGED ASSETS

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

30. COMMITMENTS AS OF DECEMBER 31, 2008

a. The Corporation is guaranteed for NT$1,090,313 thousand by The Mega International Commercial Bank and Taipei Fubon Bank for several construction, warranty, lease and payment contracts.

b. Unused letters of credit for purchase of raw materials and supplies amounted to NT$21 billion.

c. The Corporation entered into property purchase contracts amounted to NT$34.5 billion. Unpaid amounts as of December 31, 2008 were NT$18.4 billion.

d. The Corporation entered into raw material purchase contracts with suppliers in Australia, India, Brazil, Canada, Indonesia, North Korea, Japan, Philippines, Russia and domestic companies with contract terms of 1 to 10 years. Contracted annual purchases of 8,500,000 metric tons of coal, 17,000,000 metric tons of iron ore, and 3,000,000 metric tons of limestone are at prices negotiable every year. Unpaid purchase amounts as of December 31, 2008 were US$14.75 billion (including 21,930,000 metric tons of coal; 1,300,000,000 metric tons of iron ore; and 3,560,000 metric tons of limestone). The purchase contracts are entered into in order to have stable supplies of raw materials. As of December 31, 2008, the Corporation evaluated that the purchase costs (including coal, iron ore and slab) would be higher than the expected profit from the contracts, accordingly, a loss on purchase commitments of NT$5,901,525 thousand was recognized as operating costs.

e. CHSC entered into a syndicated credit facility agreement with The Mega International Commercial Bank and 21 other banks. Under the agreement, the Corporation and its related parties should collectively hold at least 30% of CHSC's issued shares and have over half of CHSC's board seats as well as significant influence on its operations. As of December 31, 2008, the Corporation's and its subsidiaries' had total shareholdings in CHSC of 39% and all seats in the Board of Directors and significant influence on its operations.

f. KRTC entered into a syndicated credit facility agreement with the Bank of Taiwan and 23 other banks. Under this agreement, the Corporation and its subsidiaries should collectively hold at least 30% of KRTC's capital stock during the construction period. As of December 31, 2008, the Corporation's and its subsidiaries' equity in KRTC aggregated 32%.

g. DSC entered into a syndicated credit facility agreement amounted to NT$51.7 billion with the Bank of Taiwan and 12 other banks in February 2008. Under this agreement, the Corporation and its related parties should collectively hold at least 40% of DSC's issued shares and have over half of DSC's board seats. As of December 31, 2008, the Corporation's equity in DSC aggregated 100% and have all board seats.

CHINA STEEL CORPORATION

ADDITIONAL EXPLANATIONS FOR ACCOUNTS IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2008 AND 2007

1. ADJUSTMENTS RECOGNIZED UNDER EQUITY METHOD

a. Long-term investment adjustment

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

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

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

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

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

3. NET LOSS NOT RECOGNIZED AS PENSION COST

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

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

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

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

4. DISPOSAL OF TREASURY STOCK

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

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

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

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

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

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