China Steel Corporation

Financial Statements for the
Six Months Ended June 30, 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 June 30, 2008 and 2007, and the related statements of income, changes in stockholders' equity and cash flows for the six months 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 June 30, 2008 and 2007, and the results of its operations and its cash flows for the six months 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.

July 30, 2008

Notice to Readers

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

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

CHINA STEEL CORPORATION

BALANCE SHEETS
JUNE 30, 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)	$ 19,971,830	6	$ 27,733,201	10
Financial assets at fair value through profit or loss - current (Notes 2 and 5)	9,503,989	3	10,445,962	4
Available-for-sale financial assets - current (Notes 2 and 6)	4,784,371	2	5,195,884	2
Notes receivable	1,919,388	1	1,330,445	1
Accounts receivable (Notes 2, 7 and 27)	4,547,324	2	3,460,771	1
Other receivables	9,772,581	3	5,994,563	2
Inventories (Notes 2 and 8)	46,209,538	15	34,874,362	12
Deferred income tax assets (Note 23)	268,302	-	162,078	-
Restricted assets - current (Note 28)	4,186,208	1	4,150,000	1
Others (Note 27)	2,815,838	1	1,263,630	-
Total current assets	103,979,369	34	94,610,896	33
INVESTMENTS				
Available-for-sale financial assets - noncurrent (Notes 2 and 6)	3,006,814	1	3,262,187	1
Financial assets carried at cost - noncurrent (Notes 2 and 9)	6,035,433	2	5,765,065	2
Bond investments with no active market - noncurrent (Notes 2 and 10)	4,841,926	2	5,482,324	2
Investments accounted for by the equity method (Notes 2 and 11)	63,105,901	20	60,976,229	21
Prepaid long-term stock investments (Note 11)	69,700	-	90,000	-
Other financial assets - noncurrent (Note 12)	4,380,640	1	-	-
Total investments	81,440,414	26	75,575,805	26
PROPERTY, PLANT AND EQUIPMENT (Notes 2, 13, 27 and 29)				
Land	10,805,388	4	8,322,881	3
Land improvements	4,212,123	1	4,212,123	1
Buildings	40,476,985	13	39,059,576	14
Machinery and equipment	240,889,955	78	229,832,331	80
Transportation equipment	1,546,688	1	1,489,693	-
Other equipment	4,099,450	1	3,544,651	1
Total cost	302,030,589	98	286,461,255	99
Revaluation increment	16,941,188	5	17,120,179	6
Cost and revaluation increment	318,971,777	103	303,581,434	105
Less: Accumulated depreciation	217,037,007	70	207,672,238	72
	101,934,770	33	95,909,196	33
Constructions in progress	16,705,964	5	15,574,120	6
Total property, plant and equipment	118,640,734	38	111,483,316	39
INTANGIBLE ASSETS (Note 2)	190,197	-	279,623	-
OTHER ASSETS				
Assets leased to others (Notes 2 and 14)	3,139,900	1	3,167,979	1
Refundable deposits	179,078	-	131,967	-
Restricted assets - noncurrent (Note 28)	2,000	-	31,694	-
Unamortized repair costs and others (Note 2)	1,420,652	1	1,996,206	1
Total other assets	4,741,630	2	5,327,846	2
TOTAL	$ 308,992,344	100	$ 287,277,486	100

	2008		2007	
LIABILITIES AND STOCKHOLDERS' EQUITY	**Amount**	**%**	**Amount**	**%**
CURRENT LIABILITIES				
Short-term loans and overdraft (Notes 15 and 28)	$ 7,551,058	2	$ 13,152,175	5
Hedging derivative liabilities - current (Notes 2 and 16)	15,917	-	-	-
Notes and accounts payable (Note 27)	7,600,994	3	3,757,597	1
Income tax payable (Note 23)	6,349,405	2	5,743,505	2
Accrued expenses (Note 17)	9,271,567	3	6,266,992	2
Other payables	4,292,310	1	3,615,479	1
Dividends payable (Note 22)	40,635,666	13	31,087,568	11
Other current liabilities	1,883,323	1	1,795,233	1
Total current liabilities	77,600,240	25	65,418,549	23
LONG-TERM LIABILITIES				
Hedging derivative liabilities - noncurrent (Notes 2 and 16)	275,173	-	-	-
Bonds payable (Note 18)	13,700,000	4	13,700,000	5
Long-term debt (Notes 19 and 29)	4,437,470	2	3,313,125	1
Total long-term liabilities	18,412,643	6	17,013,125	6
RESERVE FOR LAND VALUE INCREMENT TAX (Note 13)	2,171,124	1	2,171,124	1
OTHER LIABILITIES				
Deferred income tax liabilities (Note 23)	2,477,638	1	2,603,823	1
Deferred credits - gain from affiliates (Note 21)	1,695,759	-	1,261,292	-
Total other liabilities	4,173,397	1	3,865,115	1
Total liabilities	102,357,404	33	88,467,913	31
CAPITAL STOCK - AUTHORIZED 12,000,000 THOUSAND SHARES AT NT$10 PAR VALUE (Note 22)				
Common shares - issued 11,496,921 thousand shares and 11,053,773 thousand shares as of June 30, 2008 and 2007, respectively	114,969,210	37	110,537,726	39
Preferred shares - issued 38,370 thousand shares and 40,679 thousand shares as of June 30, 2008 and 2007, respectively	383,700	-	406,790	-
Total capital stock	115,352,910	37	110,944,516	39
CAPITAL SURPLUS (Notes 2 and 22)	2,084,984	1	1,556,889	-
RETAINED EARNINGS (Notes 2 and 22)	84,145,363	27	77,967,569	27
OTHER EQUITY				
Unrealized revaluation increment (Notes 13 and 22)	1,505,903	-	1,509,510	1
Unrealized gain on financial instruments (Notes 6 and 22)	5,437,895	2	8,327,684	3
Cumulative translation adjustments	(511,142)	-	(22,509)	-
Net loss not recognized as pension cost	(40,099)	-	(41,070)	-
Treasury stock - 79,443 thousand shares and 85,374 thousand shares as of June 30, 2008 and 2007, respectively (Notes 2 and 22)	(1,340,874)	-	(1,433,016)	(1)
Total other equity	5,051,683	2	8,340,599	3
Total stockholders' equity	206,634,940	67	198,809,573	69
TOTAL	$ 308,992,344	100	$ 287,277,486	100

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

(With Deloitte & Touche audit report dated July 30, 2008)

CHINA STEEL CORPORATION

STATEMENTS OF INCOME
SIX MONTHS ENDED JUNE 30, 2008 AND 2007
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2008		2007	
	Amount	**%**	**Amount**	**%**
OPERATING REVENUES (Notes 2 and 27)	$ 124,322,834	100	$ 100,198,621	100
OPERATING COSTS (Notes 24 and 27)	93,353,450	75	71,247,715	71
GROSS PROFIT	30,969,384	25	28,950,906	29
UNREALIZED GAIN FROM AFFILIATES	(325,653)	-	(21,530)	-
REALIZED GROSS PROFIT	30,643,731	25	28,929,376	29
OPERATING EXPENSES (Notes 24 and 27)				
Research and development	764,311	1	659,019	1
Selling	1,460,793	1	1,321,839	1
General and administrative	1,405,164	1	1,219,871	1
Total operating expenses	3,630,268	3	3,200,729	3
OPERATING INCOME	27,013,463	22	25,728,647	26
NONOPERATING INCOME AND GAINS				
Interest income (Note 26)	336,267	-	364,010	-
Investment income recognized under equity method (Note 11)	6,208,249	5	5,657,894	6
Valuation gain on financial assets (Notes 2 and 5)	28,859	-	99,511	-
Others	850,439	1	948,226	1
Total nonoperating income and gains	7,423,814	6	7,069,641	7
NONOPERATING EXPENSES AND LOSSES				
Interest expense (Notes 13 and 26)	261,278	-	294,122	1
Loss on physical inventory	361,446	1	274,330	-
Impairment loss (Notes 9 and 10)	303,370	-	243,290	-
Others	339,149	-	136,059	-
Total nonoperating expenses and losses	1,265,243	1	947,801	1
INCOME BEFORE INCOME TAX	33,172,034	27	31,850,487	32
INCOME TAX (Notes 2 and 23)	6,271,935	5	5,644,336	6
NET INCOME	$ 26,900,099	22	$ 26,206,151	26

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CHINA STEEL CORPORATION

STATEMENTS OF INCOME
SIX MONTHS ENDED JUNE 30, 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 25)				
Basic	$ 2.90	$ 2.35	$ 2.79	$ 2.29
Diluted	$ 2.88	$ 2.34	$ 2.78	$ 2.29

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

	2008	2007
Net Income	$ 26,973,589	$ 26,210,168
Basic earnings per share based on weighted-average number of outstanding common shares aggregating11,496,921 thousand and 11,493,012 thousand for the six months ended June 30, 2008 and 2007, respectively	$2.35	$2.28
Diluted earnings per share based on weighted-average number of outstanding common shares aggregating 11,596,381 thousand and 11,533,691 thousand for the six months ended June 30, 2008 and 2007, respectively	$2.33	$2.27

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

(With Deloitte & Touche audit report dated July 30, 2008) (Concluded)

CHINA STEEL CORPORATION

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
SIX MONTHS ENDED JUNE 30, 2008 AND 2007
(In Thousands of New Taiwan Dollars, Except Cash Dividend Per Share)

	Capital Stock			Retained Earnings				Other Equity Items					
	Common Stock	Preferred Stock	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated	Total	Revaluation Increment on Assets	Unrealized Gain (Loss) on Financial Instruments	Cumulative Translation Adjustments	Net Loss Not Recognized As Pension Cost	Treasury Stock	Total Stockholders' Equity
BALANCES, JANUARY 1, 2008	$ 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 shares to common shares	5,860	(5,860)	-	-	-	-	-	-	-	-	-	-	-
Appropriation of 2007 earnings (Note 22)													
Legal reserve	-	-	-	5,125,820	-	(5,125,820)	-	-	-	-	-	-	-
Bonus to employees	-	-	-	-	-	(923,135)	(923,135)	-	-	-	-	-	(923,135)
Remuneration to directors and supervisors	-	-	-	-	-	(69,235)	(69,235)	-	-	-	-	-	(69,235)
Preferred cash dividends - $3.5 per share	-	-	-	-	-	(136,076)	(136,076)	-	-	-	-	-	(136,076)
Common cash dividends - $3.5 per share	-	-	-	-	-	(40,237,442)	(40,237,442)	-	-	-	-	-	(40,237,442)
Net income for the six months ended June 30, 2008	-	-	-	-	-	26,900,099	26,900,099	-	-	-	-	-	26,900,099
Change in unrealized gain on available-for-sale financial assets	-	-	-	-	-	-	-	-	552,316	-	-	-	552,316
Reclassify to nonoperating income due to disposal of appreciated properties	-	-	-	-	-	-	-	(3,252)	-	-	-	-	(3,252)
Adjustment from changes in equity recognized under equity method	-	-	21,681	-	-	(1,577)	(1,577)	-	(1,042,317)	-	-	(14,147)	(1,036,360)
Foreign exchange loss due to the translation of foreign-currency financial statements	-	-	-	-	-	-	-	-	-	(794,160)	-	-	(794,160)
Investees' net loss not recognized as pension cost	-	-	-	-	-	-	-	-	-	-	(2,016)	-	(2,016)
Change in unrealized loss on cash flow hedging financial instruments	-	-	-	-	-	-	-	-	(545,430)	-	-	-	(545,430)
Disposal of the Corporation's shares held by subsidiaries	-	-	184,673	-	-	-	-	-	-	-	-	89,668	274,341
BALANCES, JUNE 30, 2008	$ 114,969,210	$ 383,700	$ 2,084,984	$ 44,715,153	$ 7,615,701	$ 31,814,509	$ 84,145,363	$ 1,505,903	$ 5,437,895	$ (511,142)	$ (40,099)	$ (1,340,874)	$ 206,634,940
						$ -							
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 shares to common shares	150	(150)	-	-	-	-	-	-	-	-	-	-	-
Appropriation of 2006 earnings (Note 22)													
Legal reserve	-	-	-	3,914,633	-	(3,914,633)	-	-	-	-	-	-	-
Special reserve	-	-	-	-	(829,292)	829,292	-	-	-	-	-	-	-
Bonus to employees	-	-	-	-	-	(720,359)	(720,359)	-	-	-	-	-	(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)
Net income for the six months ended June 30, 2007	-	-	-	-	-	26,206,151	26,206,151	-	-	-	-	-	26,206,151
Change in unrealized gain on available-for-sale financial assets	-	-	-	-	-	-	-	-	937,808	-	-	-	937,808
Reclassify to nonoperating income due to disposal of appreciated properties	-	-	-	-	-	-	-	(2,613)	-	-	-	-	(2,613)
Adjustment from changes in equity recognized under equity method	-	-	4,591	-	-	(1,505)	(1,505)	-	(143,861)	-	-	(101,361)	(242,136)
Foreign exchange gain due to the translation of foreign-currency financial statements	-	-	-	-	-	-	-	-	-	40,278	-	-	40,278
Investees' net loss not recognized as pension cost	-	-	-	-	-	-	-	-	-	-	(3,712)	-	(3,712)
Disposal of the Corporation's shares held by subsidiaries	-	-	3,928	-	-	-	-	-	-	-	-	3,237	7,165
BALANCES, JUNE 30, 2007	$ 110,537,726	$ 406,790	$ 1,556,889	$ 39,589,333	$ 7,615,701	$ 30,762,535	$ 77,967,569	$ 1,509,510	$ 8,327,684	$ (22,509)	$ (41,070)	$ (1,433,016)	$ 198,809,573

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 July 30, 2008)

CHINA STEEL CORPORATION

STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2008 AND 2007
(In Thousands of New Taiwan Dollars)

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 26,900,099	$ 26,206,151
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	5,615,043	5,806,281
Amortization	324,274	291,357
Deferred income tax	30,552	(102,754)
Unrealized gain from affiliates	325,653	21,530
Valuation gains on financial assets	(28,859)	(99,511)
Cash dividends received from equity method investees	155,284	311,160
Loss on disposal of property, plant and equipment	56,200	47,826
Investment income under equity method	(6,208,249)	(5,657,894)
Impairment loss	303,370	243,290
Others	(55,846)	(1,486)
Net changes in operating assets and liabilities		
Notes receivable	(523,833)	5,833
Accounts receivable	(2,085,084)	(723,604)
Other receivables	(122,101)	(445,726)
Inventories	(8,039,355)	(2,463,494)
Other current assets	(393,221)	(244,450)
Accounts payable	2,260,901	146,811
Income tax payable	(332,839)	60,971
Accrued expenses	1,733,797	(1,583,919)
Other current liabilities	(198,041)	(549,300)
Net cash provided by operating activities	19,717,745	21,269,072
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of financial assets at fair value through profit or loss	(9,550,208)	(7,010,854)
Proceeds from disposal of financial assets at fair value through profit or loss	1,107,175	8,980,391
Acquisition of investments accounted for by equity method	(140,872)	(549,095)
Acquisition of financial assets carried at cost	-	(89,250)
Increase in prepaid long-term stock investments	(69,700)	-
Acquisition of property, plant and equipment	(8,185,181)	(6,692,953)
Increase in other financial assets - noncurrent	(4,634,980)	-
Increase in refundable deposits	(97,405)	(76,134)
Decrease (increase) in restricted deposits	5,826	(500,000)
Increase in other assets	-	(298,118)
Net cash used in investing activities	(21,565,345)	(6,236,013)

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CHINA STEEL CORPORATION

STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2008 AND 2007
(In Thousands of New Taiwan Dollars)

	2008	2007
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in short-term loans and overdraft	$ (2,603,627)	$ (3,472,242)
Cash dividends	(15,102)	(24,227)
Net cash used in financing activities	(2,618,729)	(3,496,469)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(4,466,329)	11,536,590
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	24,438,159	16,196,611
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 19,971,830	$ 27,733,201
SUPPLEMENTAL INFORMATION		
Interest paid (excluding capitalized interest)	$ 296,095	$ 323,915
Income tax paid	6,574,222	5,686,119
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	$ 8,528,023	$ 7,012,742
Increase in payable for equipment purchased	(342,842)	(319,789)
	$ 8,185,181	$ 6,692,953
Cash Paid to Stockholders		
Total cash dividends payable to stockholders	$ 40,373,518	$ 30,838,127
Increase in dividends payable	(40,358,416)	(30,813,900)
	$ 15,102	$ 24,227
NONCASH FINANCING ACTIVITES		
Payable for remuneration to directors and supervisors and bonus to employees (appropriations of earnings)	$ 992,370	$ 828,413

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

(With Deloitte & Touche audit report dated July 30, 2008) (Concluded)

1. ORGANIZATION AND OPERATIONS

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

The Corporation's shares have been listed on the Taiwan Stock Exchange since December 1974. As of June 30, 2008, the Ministry of Economic Affairs, Republic of China owned 22.52% of the Corporation's outstanding common stock.

As of June 30, 2008 and 2007, the Corporation had about 9,500 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, 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, 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 funds) are designated as financial assets at fair value through profit or loss (FVTPL) to remove significant accounting inconsistency. The Corporation recognizes financial assets on its balance sheet when the Corporation becomes a party to the contractual provisions of the financial instrument. A financial asset is derecognized when the Corporation has lost control of its contractual rights over the financial asset. These financial instruments are initially recognized at fair value and related transaction costs are expensed currently. When subsequently measured at fair value, the changes in fair value are recognized in current income. The difference between proceeds of sale and carrying value is recognized in current income when the financial asset is derecognized from the balance sheet. A regular way purchase or sale of financial assets is recorded using trade date accounting.

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

Available-for-sale Financial Assets

Available-for-sale financial assets are initially measured 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.

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

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

Factoring of Accounts Receivable

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

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

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

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

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

Inventories

Inventories are raw materials, supplies, fuel, finished products, and work in process. Inventories are stated at the lower of total moving average cost or market value. Market value is the net realizable value for finished products, and work in process, and replacement cost 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 differs from its percentage of ownership in the investee, the Corporation records the change in its equity in the investee's net assets as an adjustment to investments, with a corresponding amount credited or debited to capital surplus. When the adjustment should be debited to capital surplus, but the capital surplus arising from long-term investments is insufficient, the shortage is debited to retained earnings.

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

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

Property, Plant and Equipment

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

Depreciation is provided by the straight-line basis over estimated useful lives as follows: land improvements, 10 to 40 years; buildings, 5 to 60 years; machinery and equipment, 3 to 25 years; transportation equipment, 3 to 20 years; and other equipment, 3 to 10 years. Depreciation 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, 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.

Pension Cost

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

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

Treasury Stock

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

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

Income Tax

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

Tax credits for purchases of machinery, equipment and technology, research and development expenditures, and employee training expenditures are recognized 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 and Translation of Foreign-currency Financial Statements

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

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

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

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

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

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

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

Hedging Derivative Financial Instruments

Derivatives that qualify 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 in a foreign operation. The gain or loss from remeasuring the hedging instrument at fair value and the gain or loss on the hedged item attributable to the hedged risk are recognized in profit or loss.

b. 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 recorded as current profit or 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.

Reclassifications

Certain accounts in the financial statements as of and for the six months ended June 30, 2007 have been reclassified to conform to the presentation of the financial statements as of and for the six months ended June 30, 2008.

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$1,900,732 thousand in net income and a decrease in after income tax basic and diluted earnings per share of NT$0.17 for the six months ended June 30, 2008.

4. CASH AND CASH EQUIVALENTS

	June 30	
	2008	2007
Cash on hand	$ 18,914	$ 18,705
Checking accounts and demand deposits	1,087,185	623,123
Time deposits	7,400,000	9,100,000
Negotiable certificates of deposit	5,500,000	8,000,000
Cash equivalents - short-term notes and bills	5,965,731	9,991,373
	$ 19,971,830	$ 27,733,201

As of June 30, 2008 and 2007, the Corporation had foreign bank deposits of ￥5,882 thousand and ￥3,920 thousand in Japan-Osaka Bank and ￥5 thousand and ￥2 thousand in Singapore - Daiwa Securities SMBC with the total of ￥5,887 thousand (NT$1,697 thousand) and ￥3,922 thousand (NT$1,040 thousand), respectively.

5. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The financial assets designated as at FVTPL represent open-end funds. As of June 30, 2008 and 2007, the balances of financial assets at fair value through profit or loss were NT$9,503,989 thousand and NT$10,445,962 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 six months ended June 30, 2008 and 2007 were NT$28,859 thousand and NT$99,511 thousand, respectively.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	June 30			
	2008		2007	
	Current	Noncurrent	Current	Noncurrent
Quoted stocks				
Maruichi Steel Tube Ltd.	$ -	$ 757,920	$ -	$ 757,920
Yodogawa Steel Works, Ltd.	-	345,831	-	-
Advanced Material Technology Corporation (AMTC) (Note 9)	-	-	-	243,290
Tang Eng Iron Works Corporation (TEIWC)	-	-	-	-
Taiwan Semiconductor Manufacturing Company (TSMC)	967,456	-	967,456	-
Bank debentures - Taiwan Cooperative Bank	250,100	-	250,340	-
Adjustments for change in valuation	3,566,815	1,903,063	3,978,088	2,504,267
Accumulated impairment	-	-	-	(243,290)
	$ 4,784,371	$ 3,006,814	$ 5,195,884	$ 3,262,187

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 June 30, 2008 and 2007, the carrying value of this financial asset was NT$780,857 thousand and NT$1,221,302 thousand, respectively and was recorded in adjustments for change in valuation.

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 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 from the year of investment acquisition which were treated as a reduction of investment cost.

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 19 and 26).

7. ACCOUNTS RECEIVABLE

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

The related information for the Corporation's sale of accounts receivable for the six months ended June 30, 2008 and 2007 is as follows:

Transaction Counter-party	Receivables Sold	Amounts Collected	Advances Received at Period-end	Interest Rates on Advances Received (%)	Credit Line (In Billions of NTD)
Six months ended June 30, 2008					
Accounts Receivable					
Mega Bank	$ 7,377,225	$ 7,022,682	$ 4,868,095	2.50～2.53	6.4
Bank of Taiwan	1,412,421	1,113,781	997,477	2.50～2.77	2.5
Taipei Fubon Bank	494,314	476,560	238,974	2.70～2.77	0.4
	$ 9,283,960	$ 8,613,023	$ 6,104,546		
Six months ended June 30, 2007					
Accounts Receivable					
Mega Bank	$ 3,541,131	$ 3,391,635	$ 3,496,715	1.93-2.26	6.24
Bank of Taiwan	743,237	715,389	738,227	1.99-2.03	2.5
Taipei Fubon Bank	246,574	156,592	244,963	2.15-2.26	0.4
	$ 4,530,942	$ 4,263,616	$ 4,479,905		

8. INVENTORIES

	June 30	
	2008	2007
Finished products	$ 9,922,899	$ 5,869,899
Work in process	12,856,857	10,388,382
Raw materials	13,112,726	8,675,462
Supplies	6,978,908	5,616,996
Materials in transit	3,069,806	3,513,141
Fuel	149,434	162,786
Others	668,449	763,124
	46,759,079	34,989,790
Less: Allowance for inventory obsolescence losses	549,541	115,428
	$ 46,209,538	$ 34,874,362

9. FINANCIAL ASSETS CARRIED AT COST

	June 30	
	2008	2007
Unquoted common stocks		
Industrial Bank of Taiwan	$ 1,000,000	$ 1,000,000
CDIB & Partners Investment Holding Corporation	500,000	500,000
Taiwan Rolling Stock Co., Ltd. (TRSC)	202,048	-
Hsin Hsin Cement Enterprise Corp.	165,010	165,010
CDIB BioScience Ventures I, Inc.	83,640	102,000
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)	2,882,000	2,650,500
Dragon Steel Corporation (DSC)		
Preferred A	999,877	999,877
Preferred B	53,312	-
Fund - Sino-Canada Biotechnology Development Fund, LP (SCBDF)	49,546	174,308
	$ 6,035,433	$ 5,765,065

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

The Corporation invested NT$73,370 thousand to acquire 9.9% equity of PBGC. In June 2008, the Corporation recognized an impairment loss of NT$73,370 thousand (recorded as nonoperating loss).

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

In August 2007, AMTC’s stock was delisted from the Gre Tai Securities Market. Accordingly, the available-for-sale financial asset was 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 June 30, 2008, the Corporation invested in EAUS the amount of ￥10 billion (Notes 19 and 26). The Corporation thus enjoys a stable supply of good quality slab from this joint venture. The Corporation also signed a contract with Chung Hung Steel Corporation (CHSC) to transfer the purchasing right of slabs from EAUS, and the Corporation receives royalties on this contract based on the volume purchased by CHSC. The amounts of royalty income for the six months ended June 30, 2008 and 2007 were NT$124,943 thousand and NT$182,134 thousand, respectively. As of June 30, 2008 and 2007, the royalty receivable was NT$74,985 thousand and NT$106,161 thousand, respectively.

The Corporation invested 100 units ($10,000 thousand Canadian dollars) in the SCBDF fund. As of June 30, 2008, the Corporation has invested CAD$9,435 thousand (NT$219,025 thousand) in SCBDF fund. In June 30, 2008 and 2007, the Corporation recognized impairment losses of NT$33,000 thousand and NT$76,000 thousand, respectively, on its investment in SCBDF. The difference between the balance of the above cumulative investment less the cumulative impairment and the carrying value in June 2008 was SCBDF disposal of its investments and returned capital to the Corporation.

10. BOND INVESTMENTS WITH NO ACTIVE MARKET

	June 30	
	2008	2007
Unquoted preferred stocks-domestic		
Taiwan High Speed Rail Corporation (THSRC)		
Preferred C	$ 3,904,542	$ 4,297,940
Preferred B	834,384	884,384
Taigen Biotechnology Co., Ltd. (TBC)	-	300,000
	4,738,926	5,482,324
Unquoted preferred stocks-overseas		
TaiGen Biopharmaceuticals Holdings Limited (TGB)	103,000	-
	$ 4,841,926	$ 5,482,324

In September 2003, the Corporation acquired 100,000 thousand Preferred B shares (representing 4% of ownership) of THSRC for NT$1,000,000 thousand. Dividend on these shares is at 5%, payable on a nonparticipating and cumulative basis. These shares with six years of durations could be extended for 13 months prior to 3 months from the due date. In April 2005 and August 2004, the Corporation acquired additional 505,370 thousand Preferred C shares of THSRC for NT$3,199,944 thousand and NT$1,499,997 thousand, respectively. These shares, representing 19% of ownership, which may be converted to common shares within four years from the acquisition date, have a 9.5% dividend in the first two years and 0% in the next two years. At the end of four years, i.e., in 2009 and 2008, if the Corporation does not convert the Preferred C shares into common shares and THSRC cannot redeem the shares, the unredeemed shares will have 4.71% dividends. THSRC mainly builds and operates public transportation systems.

In November 2005 and March 2004, the Corporation acquired a total of 20,000 thousand preferred shares, representing 24% of ownership, of TBC for NT$300,000 thousand. Preferred stockholders 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 a 1:1 ratio. Any rights on these shares remained unchanged after the swap. The Corporation can request TGB to redeem all or part of preferred shares by issuing new stock or retained earnings after December 2009. In June 2008, the Corporation recognized an impairment loss of NT$197,000 thousand (recorded as nonoperating loss) on its investment in TGB.

11. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD AND PREPAID LONG-TERM STOCK INVESTMENT

	June 30			
	2008		2007	
	Amount	% of Ownership	Amount	% of Ownership
Stocks listed on the Taiwan Stock Exchange				
Chung Hung Steel Corporation (CHSC)	$ 3,805,929	24	$ 3,214,362	24
China Steel Chemical Corporation (CSCC)	1,249,588	29	1,153,107	30
China Ecotek Corporation (CEC)	686,261	49	380,852	36
China Hi-ment Corporation (CHC)	631,882	20	605,365	20
China Steel Structure Corporation (CSSC)	524,490	18	527,985	18
	6,898,150		5,881,671	
Less: Shares held by subsidiaries accounted for as treasury stock	330,445		333,097	
	6,567,705		5,548,574	
Stocks without quoted market prices				
Dragon Steel Corporation (DSC)	17,033,605	47	16,139,024	47
China Steel Express Corporation (CSE)	9,381,292	100	8,345,411	100
C. S. Aluminum Corporation (CAC)	7,200,358	100	7,058,030	100
Gains Investment Corporation (GIC)	6,494,459	100	8,171,476	100
China Prosperity Development Corporation (CPDC)	4,667,907	100	4,715,925	100
China Steel Asia Pacific Holdings Pte Ltd. (CSAPH)	3,525,450	100	2,895,869	100
Kaohsiung Rapid Transit Corporation (KRTC)	2,670,843	31	2,980,881	31
China Steel Global Trading Corporation (CSGT)	1,246,308	100	1,065,759	100
Horng Yih Investment Corporation (HYI)	888,856	100	749,268	99
Long Yuan Fa Investment Corporation (LYFI)	887,951	100	747,620	99
Goang Yaw Investment Corporation (GYI)	865,252	100	729,431	99
China Steel Machinery Corporation (CSMC)	827,262	74	985,288	100
Info-Champ Systems Corporation (ICSC)	588,707	100	597,798	100
CSC Australia Holding Pty. Ltd. (CSCAU)	491,023	100	460,879	100
Kaohsiung Arena Development Corporation (KADC)	338,269	18	253,687	18
China Steel Security Corporation	281,553	100	239,095	100
Hi-mag Magnetic Corporation	92,822	50	91,717	50
Baolai Greeting Development Co., Ltd.	44,366	45	48,029	45
China Steel Management Consulting Corporation (CSMCC)	16,403	100	6,154	38
TaiAn Technologies Corporation (TTC)	5,939	17	4,654	17
Taiwan Rolling Stock Co., Ltd. (Note 9)	-	-	202,048	22
	57,548,625		56,488,043	
Less: Shares held by subsidiaries accounted for as treasury stock	1,010,429		1,060,388	
	56,538,196		55,427,655	
	$ 63,105,901		$ 60,976,229	
Prepaid long-term stock investments				
Adimmune Corporation (AC)	$ 69,700		$ -	
KADC	-		90,000	
	$ 69,700		$ 90,000	

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

The Corporation subscribed to the plan of share issuance for cash of AC in June 2008 and prepaid investment of NT$69,700 thousand to acquire 2% ownership of common stock of AC.

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

In December 2007, KADC increased capital by cash and the Corporation invested NT$90,000 thousand by 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 June 30, 2008 and 2007 was as follows:

	June 30	
	2008	**2007**
CHSC	$ 7,053,865	$ 4,798,444
CSCC	5,745,368	4,417,354
CEC	2,520,388	1,403,704
CHC	2,072,947	1,636,665
CSSC	598,888	524,027
	$ 17,991,456	$ 12,780,194

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

	Six Months Ended June 30	
	2008	**2007**
CSE	$ 3,640,264	$ 2,707,584
CHSC	668,027	528,012
DSC	431,307	322,904

(Continued)

	Six Months Ended June 30	
	2008	2007
CSAPH	$ 330,212	$ 184,512
CAC	304,191	219,949
CSGT	250,419	175,057
CSMC	218,471	205,617
CSCC	202,461	192,279
LYFI	158,962	116,835
HYI	153,847	116,740
GYI	149,942	113,671
CHC	69,374	52,821
ICSC	38,093	35,500
CEC	31,665	58,066
CSSC	9,813	56,491
GIC	(292,810)	548,363
KRTC	(227,913)	(65,687)
Others	71,924	89,180
	$ 6,208,249	$ 5,657,894

(Concluded)

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 June 30, 2008, the Corporation's unexecuted investment in these investees aggregated NT$10,910,161 thousand.

The Corporation's stockholders, in their June 2008 meeting, approved the share exchange plan which the Corporation's Board of Directors approved to increase its capital by issuing 575,991 thousand shares to swap 52% ownership of DSC at a 1:2.6 ratio in March 2008. The estimated share swap date is on September 30, 2008. The Corporation's percentage of ownership in DSC will be increased to 100% after the swap. The share exchange plan is still subject to the approval of the authorities.

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

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

12. OTHER FINANCIAL ASSETS - NONCURRENT (Only as of June 30, 2008)

For the purpose of constructing the cold – rolled plant, the Corporation signed contracts to purchase imported equipment in total of JPY16.15 billion. For the purposes of managing exposures due to cash flows arising from exchange rate fluctuations, the Corporation purchased time deposits of JPY 16 billion (NT$4,878,900 thousand) in January 2008. As of June 30, 2008, the balance of the JPY time deposits designated as hedging instrument was JPY15.2 billion (NT$4,634,980 thousand). An unrealized gain of NT$254,340 thousand arising from the JPY time deposits designated as hedging instrument was recognized as unrealized gain or loss on financial instruments in stockholders' equity.

The period for generating cash flows is from 2008 to 2023. The period to recognize the related gain (loss) on the income statement is the same as that the depreciation expenses provided for the equipment.

13. PROPERTY, PLANT AND EQUIPMENT

	Land	Land Improvement	Buildings	Machinery and Equipment	Transportation Equipment	Other Equipment	Construction In progress	Total
Six months ended June 30, 2008								
Cost								
Balance, beginning of period	$ 9,916,698	$ 4,212,123	$ 39,773,039	$237,189,591	$ 1,500,483	$ 4,018,844	$ 15,043,863	$ 311,654,611
Additions	888,690	-	828,158	4,840,144	62,604	246,326	(1,662,101)	8,528,023
Disposals	-	-	(124,212)	(1,139,780)	(16,399)	(165,720)	-	(1,446,111)
Balance, end of period	10,805,388	4,212,123	40,476,985	240,889,955	1,546,688	4,099,450	16,705,964	318,736,553
Revaluation increment								
Balance, beginning of period	5,840,732	492,990	2,423,523	8,286,388	27,233	31,714	-	17,102,580
Disposals	-	-	(15,786)	(145,566)	(9)	(31)	-	(161,392)
Balance, end of year	5,840,732	492,990	2,407,737	8,140,822	27,224	31,683	-	16,941,188
Accumulated depreciation								
Balance, beginning of period	-	3,788,617	19,177,953	186,025,665	1,215,056	2,780,098	-	212,987,389
Depreciation expense	-	62,414	605,427	4,667,352	40,559	225,179	-	5,600,921
Disposals	-	-	(90,123)	(1,281,432)	(16,243)	(163,505)	-	(1,551,303)
Balance, end of period	-	3,851,031	19,693,257	189,411,585	1,239,372	2,841,762	-	217,037,007
Net book value, end of period	$ 16,646,120	$ 854,082	$ 23,191,465	$ 59,619,192	$ 334,540	$ 1,289,371	$ 16,705,964	$ 118,640,734
Six months ended June 30, 2007								
Cost								
Balance, beginning of period	$ 8,322,881	$ 4,212,123	$ 37,261,645	$219,788,073	$ 1,473,130	$ 3,096,559	$ 21,922,773	$ 296,077,184
Additions	-	-	1,836,524	10,888,485	48,372	588,014	(6,348,653)	7,012,742
Disposals	-	-	(38,593)	(844,227)	(31,809)	(139,922)	-	(1,054,551)
Balance, end of period	8,322,881	4,212,123	39,059,576	229,832,331	1,489,693	3,544,651	15,574,120	302,035,375
Revaluation increment								
Balance, beginning of period	5,840,732	492,990	2,423,546	8,433,643	27,233	31,747	-	17,249,891
Disposals	-	-	(23)	(129,663)	-	(26)	-	(129,712)
Balance, end of period	5,840,732	492,990	2,423,523	8,303,980	27,233	31,721	-	17,120,179
Accumulated depreciation								
Balance, beginning of period	-	3,654,129	18,004,161	177,729,235	1,178,615	2,451,299	-	203,017,439
Depreciation expense	-	68,639	593,314	4,830,039	41,851	257,385	-	5,791,228
Disposals	-	-	(16,757)	(949,373)	(31,325)	(138,974)	-	(1,136,429)
Balance, end of period	-	3,722,768	18,580,718	181,609,901	1,189,141	2,569,710	-	207,672,238
Net book value, end of period	$ 14,163,613	$ 982,345	$ 22,902,381	$ 56,526,410	$ 327,785	$ 1,006,662	$ 15,574,120	$ 111,483,316

Information about capitalized interest on the purchase of property, plant and equipment for the six months ended June 30, 2008 and 2007 was disclosed as follows:

	Six Months Ended June 30	
	2008	2007
Interest expense before capitalization	$ 327,245	$ 310,576
Capitalized interest - construction in progress	(65,967)	(16,454)
Interest expense through income statement	$ 261,278	$ 294,122
Capitalization rates	2.21%-2.55%	1.74%-1.77%

In 1981 and 1994, the Corporation revalued its property, plant and equipment and patents in accordance with government regulations, resulting in increment of NT$17,662,343 thousand. After the deduction of the reserve for land value increment tax of NT$3,370,813 thousand, a net increment of NT$14,291,530 thousand was credited to revaluation increment on assets. As of June 30, 2008, revaluation increment on assets totaling NT$13,952,356 thousand have been capitalized as capital stock, reducing the balance of revaluation increment on assets to NT$339,174 thousand. In January 2005, the government revised the land increment tax law to reduce the tax rate. Thus, the reserve for land value increment tax decreased and the revaluation increment on assets increased each by NT$1,196,189 thousand. Accordingly, the balance of revaluation increment on assets increased to NT$1,535,363 thousand. For the six months ended June 30, 2008 and 2007, upon retirement or sale of appreciated properties, the revaluation increment on assets decreased by NT$3,252 thousand and NT$2,613 thousand, respectively, and recorded as nonoperating revenue. As of June 30, 2008, the cumulative nonoperating revenue was NT$29,460 thousand.

14. ASSETS LEASED TO OTHERS

	Land	Machinery and Equipment	Buildings and Improvements	Total
Six months ended June 30, 2008				
Cost				
Balance, beginning of period	$ 2,966,632	$ 2,000,000	$ 161,816	$ 5,128,448
Accumulated depreciation				
Balance, beginning of period	-	1,359,636	20,790	1,380,426
Depreciation expense	-	12,795	1,327	14,122
Balance, end of period	-	1,372,431	22,117	1,394,548
Accumulated impairment	-	594,000	-	594,000
Net book value, end of period	$ -	$ 33,569	$ 139,669	$ 3,139,900
Six months ended June 30, 2007				
Cost	$ 2,966,632	$ 2,000,000	$ 161,816	$ 5,128,448
Accumulated depreciation				
Balance, beginning of period	-	1,333,278	18,138	1,351,416
Depreciation expense	-	13,726	1,327	15,053
Balance, end of period	-	1,347,004	19,465	1,366,469
Accumulated impairment	-	594,000	-	594,000
Net book value, end of period	$ 2,966,632	$ 58,996	$ 142,351	$ 3,167,979

The Corporation has leased some of its plant, property and machinery to its subsidiaries (Note 27).

15. SHORT-TERM LOANS AND OVERDRAFT

	June 30	
	2008	2007
Letters of credit - due within 180 days; interest at 1.1275%-5.5213% p.a. and 1.0438%-6.5% p.a. as of June 30, 2008 and 2007, respectively	$ 168,147	$ 151,280
Overdraft - interest at 1.98%-2.146% p.a. and 1.55%-2.554% p.a. as of June 30, 2008 and 2007, respectively	882,911	3,640,522
Credit loans - interest at 2.294% p.a. and 1.723%-6.9% p.a. as of June 30, 2008 and 2007, respectively	6,500,000	9,360,373
	$ 7,551,058	$ 13,152,175

16. HEDGING DERIVATIVE LIABILITIES (Only as of June 30, 2008)

The Corporation entered into derivative contracts during the six months ended June 30, 2008 to manage exposures due to cash flows arising from exchange rate fluctuations on foreign-currency capital expenditures contracts.

Outstanding forward exchange contracts as of June 30, 2008 were as follows:

Currency	The Period for Generating Cash Flows and Maturity Date	Contract Amount (In Thousands)
NT$/US$	January, 2009 - September, 2010	NT$4,360,752/USD$137,840

The gain (loss) of above - mentioned forward contracts will be recognized on the income statement during the depreciation period over the useful lives of capital expenditure.

For the six months ended June 30, 2008, the unrealized loss was NT$15,917 thousand and NT$275,173 thousand on derivative financial liability for hedging - current and - noncurrent, respectively, and recognized as unrealized gain or loss on financial instruments in stockholders' equity.

17. ACCRUED EXPENSES

	June 30	
	2008	2007
Incentive bonus	$ 2,334,563	$ 2,406,288
Bonus to employees, and remuneration to directors and supervisors (Note 3)	2,293,124	-
Repair and construction	1,154,422	955,560
Others	3,489,458	2,905,144
	$ 9,271,567	$ 6,266,992

18. BONDS PAYABLE

	June 30	
	2008	2007
5-year unsecured bonds - issued at par in:		
November 2006; repayable in November 2011; 2.07% interest p.a., payable annually	$ 5,600,000	$ 5,600,000
June 2006; repayable in June 2011; 2.32% interest p.a., payable annually	8,100,000	8,100,000
	$ 13,700,000	$ 13,700,000

19. LONG-TERM DEBTS

	June 30	
	2008	2007
Repayable in July 2010 (￥4.4 billion); floating rates at 1.134% and 0.8925% p.a. as of June 30, 2008 and 2007, respectively	$ 1,268,080	$ 1,166,220
Repayable in July 2010 (￥3.3 billion); floating rates at 1.3013% and 1.0125% p.a. as of June 30, 2008 and 2007, respectively	951,060	874,665

(Continued)

	June 30	
	2008	2007
Repayable in December 2009 (￥2.6 billion); floating rates at 1.26% and 1.0906% p.a. as of June 30, 2008 and 2007, respectively	$ 749,320	$ 689,130
Repayable in July 2010 (￥2.2 billion); floating rates at 1.2028% and 1.0396% p.a. as of June 30, 2008 and 2007, respectively	634,040	583,110
Repayable in July 2010 (AUD16.54 million); floating rates at 7.9234% p.a. as of June 30, 2008	485,095	-
Repayable in November 2010 (￥1.214 billion); floating rates at 1.1825% p.a. as of June 30, 2008	349,875	-
	$ 4,437,470	$ 3,313,125

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., (only as of June 30, 2008) and Yodogawa Steel Works, Ltd. (Note 26).

20. 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$18,238 thousand and NT$11,706 thousand for the six months ended June 30, 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 2007) in the name of, and administered by the employees' pension fund administration committee. According to above regulation, pension cost for the six months ended June 30, 2008 and 2007 was NT$726,427 thousand and NT$817,227 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 six months ended June 30, 2008 and 2007 was NT$2,347 thousand and NT$2,029 thousand, respectively.

21. DEFERRED CREDITS - GAIN FROM AFFILIATES

	June 30	
	2008	2007
Gain on disposal of land	$ 1,136,164	$ 1,136,164
Gain on contracted projects	559,595	125,128
	$ 1,695,759	$ 1,261,292

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 its 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 six months ended June 30, 2008. Such deferred credits recognized as income over 8 to 30 years were NT$3,589 thousand for the six months ended June 30, 2008. 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.

22. STOCKHOLDERS' EQUITY

a. Capital stock

In August 2007 the Corporation, through capitalization of retained earnings of NT$4,408,394 thousand, issued common shares of 440,839 thousand.

From July 1, 2007 to June 30, 2008, 2,309 thousand preferred shares were converted into common stocks. As of June 30, 2008, 1,857 thousand shares of which were not yet registered with the government.

b. Treasury stock

	Thousand Shares			June 30	
Purpose of Treasury Stock	**Beginning of Period**	**Addition**	**Reduction**	**Thousand Shares**	**Book Value**
Six months ended June 30, 2008					
Shares acquired and held by subsidiaries	84,543	180	5,280	79,443	$ 1,340,874
Six months ended June 30, 2007					
Shares acquired and held by subsidiaries	81,180	2,800	206	83,774	$ 1,393,485
Shares acquired by the Corporation for transfer to employees	1,600	-	-	1,600	39,531
	82,780	2,800	206	85,374	$ 1,433,016

1) Shares acquired and held by subsidiaries

The Corporation's shares acquired and held by subsidiaries were accounted for as treasury stock (recorded as available-for-sale financial assets - current or available-for-sale financial assets - noncurrent). For the six months ended June 30, 2008 and 2007, treasury stock increased by NT$274,341 thousand and NT$7,165 thousand, respectively, due to the Corporation's capitalization of retained earnings and additional shares purchased by subsidiaries; treasury stock decreased by NT$184,673 thousand and NT$3,928 thousand, respectively, due to subsidiaries' sales of the Corporation's shares and change in percentage of ownership.

As of June 30, 2008 and 2007, the market values of the treasury shares are NT$3,721,904 thousand and NT$3,350,964 thousand, respectively.

2) Shares acquired for transfer 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 transferred all the shares to employees in 2007.

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

c. Overseas depositary receipts

In May 1992, February 1997 and October 2003, the ROC’s Ministry of Economic Affairs (MOEA) sold its holding shares in the Corporation through issuances of 88,329,150 units of Global Depositary Receipts (GDR), with each unit representing 20 shares of the Corporation’s common stock, or equivalent to the Corporation’s common shares totalling 1,887,073,812 shares. The depositary shares then increased by 6,024,532 resulting from the capitalization of retained earnings. Under relevant regulations, the GDR holders may also request the conversion to the shares represented by the GDR. The foreign investors may also request the reissuance of such depositary receipts within the originally approved units. As of June 30, 2008, the outstanding depositary receipts were 8,689,984 units, equivalent to 173,799,872 common shares, which represented 1.51% of the outstanding common shares.

d. Preferred stock

Preferred stockholders have the following entitlements or rights:

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

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

3) Redemption of stock, at the Corporation’s option 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:

	June 30	
	2008	2007
Treasury stock transaction	$ 1,815,229	$ 1,303,885
Long-term stock investments under the equity method	261,656	244,905
Others	8,099	8,099
	$ 2,084,984	$ 1,556,889

Under relevant regulations, capital surplus from treasury stock transaction may be used to offset a deficit or capitalized, which however is limited to a certain percentage of the Corporation's paid in capital and once a year. Capital surplus from long-term 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, respectively. (In June 2008, the Board of Directors proposed 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 stocks.

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

The Corporation is required to appropriate a special reserve from annual earnings for any net debit balance resulting from adjustments to the stockholders' equity (including revaluation increment on assets, unrealized gain (loss) on financial instruments, unrecognized net loss on pension cost and cumulative translation adjustments), excluding treasury stock. Besides, if the 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 June 30, 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 six months ended June 30, 2008, the bonus to employees and remuneration to directors and supervisors, representing 8% and 0.15% of net income, respectively, were accrued based on past experiences.

When the amounts of bonus and remuneration approved subsequently by the Board of Directors has 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) 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, respectively (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 of earnings of 2006).

	Amount		**Dividends Per Share**	
	2007	**2006**	**2007**	**2006**
Legal reserve	$ 5,125,820	$ 3,914,633		
Special reserve	-	(829,292)		
Preferred Stocks				
Cash dividends	136,076	112,815	$ 3.50	$ 2.78
Stock dividends	11,664	12,174	0.30	0.30
			$ 3.80	$ 3.08
Common Stocks				
Cash dividends	40,237,442	30,725,312	$ 3.50	$ 2.78
Stock dividends	3,448,924	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		

As of June 30, 2008 and 2007, the cash dividends declared have not been distributed to stockholders and were recorded as dividends payable. Capitalization of retained earnings (including bonus to employees) of NT$4,845,290 thousand has been approved by the government and will be effective on August 1, 2008.

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.

h. Unrealized gain (loss) on financial instruments

For the six months ended June 30, 2008 and 2007, movements of unrealized gain (loss) on financial instruments were as follows:

	Available-for-sale Financial Assets	Equity-method Investments	Unrealized Gain or Loss on Cash Flow Hedging	Total
Six months ended June 30, 2008				
Balance, beginning of period	$ 4,894,886	$ 1,578,440	$ -	$ 6,473,326
Recognized in stockholders' equity	552,316	(1,042,317)	(545,430)	(1,035,431)
Balance, end of period	$ 5,447,202	$ 536,123	$ (545,430)	$ 5,437,895
Six months ended June 30, 2007				
Balance, beginning of period	$ 5,582,793	$ 1,950,944	$ -	$ 7,533,737
Recognized in stockholders' equity	847,097	(143,861)	-	703,236
Transferred to profit or loss	90,711	-	-	90,711
Balance, end of period	$ 6,520,601	$ 1,807,083	$ -	$ 8,327,684

23. 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:

	Six Months Ended June 30	
	2008	2007
Income tax expense at the 25% statutory rate	$ 8,293,008	$ 7,962,622
Tax effect adjusting items		
Permanent differences		
Investment income recognized under equity method - domestic	(1,465,716)	(1,368,224)
Unrealized gain on valuation of financial assets	(7,214)	(24,878)
Tax - exempt income	(10,641)	(4,296)
Others	44,631	(338)
Temporary differences		
Difference between tax reporting and financial reporting - depreciation methods	103,421	80,143
Unrealized gain from affiliates	81,414	5,383
Unrealized foreign exchange gain	(3,907)	(1,555)
Difference between tax reporting and financial reporting - sales	(46,092)	9,492
Investment income recognized under equity method - foreign investees	(86,346)	(46,249)
Impairment loss of financial assets	75,843	60,822
Investment loss resulting from investees' capital reduction	(150,000)	-
Others	16,279	(5,282)
Investment tax credits used	(477,949)	(913,403)
Current income tax expense	6,366,731	5,754,237

(Continued)

	Six Months Ended June 30 2008	Six Months Ended June 30 2007
Tax separately levied on interest from short-term bills	$ 29,685	$ 24,914
Prior periods' adjustments	(155,033)	(32,061)
Income tax currently payable	6,241,383	5,747,090
Deferred tax – temporary difference	30,552	(102,754)
	$ 6,271,935	$ 5,644,336

b. Change in income tax payable

	Six Months Ended June 30 2008	Six Months Ended June 30 2007
Balance, beginning of period	$ 6,682,244	$ 5,682,534
Income tax currently payable	6,241,383	5,747,090
Payment in the current period	(6,574,222)	(5,686,119)
Balance, end of period	$ 6,349,405	$ 5,743,505

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

	June 30 2008	June 30 2007
Current		
Deferred income tax assets		
Allowance for inventory obsolescence loss	$ 135,002	$ 23,374
Unrealized gain from affiliates	70,998	63,454
Severance pay	41,474	36,264
Accrued electrostatic precipitator dust disposal expense	10,344	25,602
Others	33,373	28,488
	291,191	177,182
Deferred income tax liabilities		
Temporary difference between tax reporting and financial reporting - inventory	(22,889)	(15,104)
Total deferred income tax assets – net	$ 268,302	$ 162,078
Noncurrent		
Deferred income tax assets		
Impairment loss on financial assets	$ 305,665	$ 360,822
Impairment loss on assets	47,555	70,680
Unrealized gain from affiliates	139,899	31,282
Others	4,543	7,894
	497,662	470,678
Deferred income tax liabilities		
Temporary difference between tax reporting and financial reporting - depreciation methods	(2,447,479)	(2,630,122)
Foreign investment income	(448,624)	(376,270)
Unrealized foreign exchange gain	(79,197)	(68,109)
	(2,975,300)	(3,074,501)
Total deferred income tax liabilities - net	$ (2,477,638)	$ (2,603,823)

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

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

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

d. Information about integrated income tax was as follows:

	June 30	
	2008	**2007**
Imputation credit account (ICA)	$ 12,279,840	$ 10,167,316
Unappropriated earnings generated before January 1, 1997	35,440	35,440

The creditable ratio for distribution of 2007 and 2006 earnings was 23.90% (estimated) and 25.91%, respectively.

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

24. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

	Six Months Ended June 30							
	2008				2007			
	Operating Cost	**Operating Expense**	**Others**	**Total**	**Operating Cost**	**Operating Expense**	**Others**	**Total**
Personnel								
Salary	$ 9,509,891	$ 1,575,304	$ 46,393	$ 11,131,588	$ 7,256,571	$ 1,225,489	$ 26,881	$ 8,508,941
Labor and health insurance	286,943	44,097	860	331,900	288,451	46,385	252	335,088
Pension and consolation costs	642,104	126,668	2,791	771,563	710,298	135,958	724	846,980
Others	529,020	77,103	4,286	610,409	282,407	43,875	2,771	329,053
	$ 10,967,958	$ 1,823,172	$ 54,330	$ 12,845,460	$ 8,537,727	$ 1,451,707	$ 30,628	$ 10,020,062
Depreciation	$ 5,475,861	$ 125,060	$ 14,122	$ 5,615,043	$ 5,590,883	$ 201,651	$ 13,747	$ 5,806,281
Amortization	291,081	31,613	1,580	324,274	278,873	10,905	1,579	291,357

25. EARNINGS PER SHARE (EPS)

	Amount (Numerator)		Shares (Denominator) (Thousand)	EPS (Dollars)	
	Before Tax	**After Tax**		**Before Tax**	**After Tax**
Six months ended June 30, 2008					
Net income	$ 33,172,034	$ 26,900,099			
Less: Dividends on preferred shares	(33,121)	(26,859)			
Basic EPS					
Net income attributable to common stockholders	33,138,913	26,873,240	11,417,478	$ 2.90	$ 2.35
Effect of dilutive potential common stock					
Add: Dividends on preferred shares	33,121	26,859	38,370		
Bonus to employees	-	-	61,090		

(Continued)

	Amount (Numerator) Before Tax	Amount (Numerator) After Tax	Shares (Denominator) (Thousand)	EPS (Dollars) Before Tax	EPS (Dollars) After Tax
Diluted EPS					
Net income attributable to common stockholders plus effect of potential dilutive common stock	$ 33,172,034	$ 26,900,099	11,516,938	$ 2.88	$ 2.34
Six months ended June 30, 2007					
Net income	$ 31,850,487	$ 26,206,151			
Less: Dividends on preferred shares	(34,608)	(28,475)			
Basic EPS					
Net income attributable to common stockholders	31,815,879	26,177,676	11,406,725	2.79	2.29
Effect of dilutive potential common stock					
Add: Dividends on preferred shares	34,608	28,475	40,679		
Diluted EPS					
Net income attributable to common stockholders plus effect of potential dilutive common stock	$ 31,850,487	$ 26,206,151	11,447,404	2.78	2.29

In the calculation of diluted EPS, the Corporation presumes that the bonus to employees will be settled in shares and the resulting potential shares will be included in the weighted average number of shares outstanding, if the shares have 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 shareholders resolve the number of shares to be distributed to employees in their meeting in the following year.

In EPS calculation for the six months ended June 30, 2007, the number of outstanding shares was retroactively adjusted for the effect of capitalization of 2006 earnings. Thus EPS before tax and after tax decreased from NT$2.90 to NT$2.79 and from NT$2.39 to NT$2.29, respectively.

Capitalization of the 2007 retained earnings of NT$4,845,290 thousand (484,529 thousand shares) will be effective on August 1, 2008 (Note 22). The EPS retroactively adjusted for the effect of such capitalization of retained earnings is summarized as follows:

	For the Six Months Ended June 30			
	2008		2007	
	Before Tax	After Tax	Before Tax	After Tax
Basic EPS	$ 2.78	$ 2.26	$ 2.68	$ 2.20
Diluted EPS	2.76	2.24	2.67	2.20
If the Corporation's shares held by subsidiaries accounted for as investments rather than treasury stock				
Basic EPS		2.25		2.19
Diluted EPS		2.23		2.18

26. FINANCIAL INSTRUMENTS

a. As of June 30, 2008 and 2007, the information of fair values was as follows:

	June 30			
	2008		2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Non-derivative Financial Instruments				
Assets				
Financial assets at fair value through profit or loss	$ 9,503,989	$ 9,503,989	$ 10,445,962	$ 10,445,962
Available-for-sale financial assets (including non-current)	7,791,185	7,791,185	8,458,071	8,458,071
Financial assets carried at cost	6,035,433	-	5,765,065	-
Bond investments with no active market	4,841,926	4,841,926	5,482,324	5,482,324
Other financial assets-noncurrent	4,380,640	4,380,640	-	-
Refundable deposits	179,078	179,078	131,967	131,967
Liabilities				
Bonds payable	13,700,000	13,522,328	13,700,000	13,824,031
Long-term debt	4,437,470	4,437,470	3,313,125	3,313,125
Derivative Financial Instrument				
Hedging derivative liabilities (including non-current)	291,090	291,090	-	-

(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, notes and accounts payable and accrued expenses, approximate fair value because of the short maturities of these instruments.

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

   Derivatives with no quoted market prices, their fair values are determined using valuation techniques incorporating estimates and assumptions consistent with those generally used by other market participants to price financial instruments.

3) The fair values of long-term liabilities (including bonds payable) and time deposits 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 time deposits 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	
	June 30		June 30	
	2008	2007	2008	2007
Assets				
Financial assets at fair value through profit or loss	$ 9,503,989	$ 10,445,962	$ -	$ -
Available-for-sale financial assets (including non-current)	7,540,435	8,207,321	250,750	250,750
Liabilities				
Hedging derivative liabilities (including non-current)	-	-	291,090	-

d. There is no gain or loss for the estimated change in fair value by using valuation techniques for the six months ended June 30, 2008 and 2007.

e. As of June 30, 2008 and 2007, financial assets with cash flow risk of the interest rate change were both NT$250,750 thousand and financial liabilities with cash flow risk of the interest rate change were NT$11,988,528 thousand and NT$16,465,300 thousand, respectively. The financial liabilities with fair value risk of the interest rate change were both NT$13,700,000 thousand.

f. The Corporation's total interest revenues and expenses (inclusive of capitalized interest) which were incurred from other than financial assets and liabilities at fair value through profit or loss were NT$336,267 thousand and NT$327,245 thousand, respectively, for the six months ended June 30, 2008 and NT$364,010 thousand and NT$310,576 thousand, respectively, for the six months ended June 30, 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 its long term investment in yen, thus, the exchange rate risk can be hedged naturally. The Corporation issues the bonds payable with the fixed interest rate, and the fair value will be influenced by the market interest rate change. If market interest rate increases or decreases by 1%, the fair value of bonds payable will decrease or increase by NT$404,471 thousand.

The Corporation's investments in the bond funds and stocks of Taiwan Semiconductor Manufacturing Company Ltd., Maruichi Steel Tube Ltd., Yodogawa Steel Works Ltd. and Tang Eng Iron Works Corporation involve market risk. Except the minor fluctuation of the bond fund's market price, the share price of the stocks increases or decreases by 1%, the fair value will increase or decrease by NT$75,404 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 June 30, 2008 and 2007, the Corporation's credit risks amounted to NT$13,378,730 thousand and NT$7,291,714 thousand, respectively (including notes and accounts receivable, other receivables and refundable deposits, as of June 30, 2008 and 2007. The notes and accounts receivable represent the balance deducted with factoring and L/C transaction of NT$3,039,641 thousand and NT$3,626,032 thousand, respectively), and the maximum exposures and carrying value are the same. The credit risks of the cash and bank deposits of the Corporation were considered to be immaterial.

3) Liquidity risk

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

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

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

4) Cash flow interest rate risk

Market interest rate change will influence the effective interest rate of the financial instruments (including short-term 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 NT$117,378 thousand.

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 deposit - 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 Australia Holdings Pty. Ltd. and contracts of purchasing machinery and equipment.

		Designated Hedging Instrument		
			Changes of Fair Value Six Months Ended June 30	
Hedge Type	**Hedged Item**	**Financial Instrument**	**2008**	**2007**
Fair value hedge	Stock investments in Maruichi Steel Tube Ltd.	Long-term debt in YEN	$ 3,900	$ 23,530
Fair value hedge	Stock investments in East Asia United Steel Corporation	Long-term debt in YEN	14,850	89,595
Fair value hedge	Stock investments in Yodogawa Steel Works, Ltd.	Long-term debt in YEN	1,821	-
Hedge of a net investment in a foreign operation	Stock investment in CSC Australia Holdings Pty. Ltd.	Long-term debt in AUD	(12,387)	(14,428)
Hedge of cash flow	Contracts for purchasing machinery and equipment	Time deposits - foreign currency	(254,340)	-
Hedge of cash flow	Contracts for purchasing machinery and equipment	Forward contracts	(291,090)	-

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

27. RELATED-PARTY TRANSACTIONS

a. Related parties

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

(Continued)

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

(Concluded)

b. Significant related-party transactions were as follows:

	Six Months Ended June 30			
	2008		2007	
	Amount	%	Amount	%
Sales				
CSSB	$ 2,789,897	2	$ 1,968,954	2
CSSC	2,335,476	2	1,643,683	2
CSCC	1,939,088	2	1,093,961	1
CYC	1,224,120	1	945,343	1
CHSC	764,256	-	517,695	-
Others	926,827	1	1,708,623	2
	$ 9,979,664	8	$ 7,878,259	8
Purchases (including of shipping charges)				
CSEP	$ 13,381,335	19	$ 7,952,545	17
CSE	1,600,976	2	2,231,583	5
CAC	1,494,392	2	2,006,750	4
Others	560,766	1	465,067	1
	$ 17,037,469	24	$ 12,655,945	27

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

Assets lease

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

	Expiry of Contracts	Rental Income Six Months Ended June 30 2008	2007
CAC	February 2016	$ 27,944	$ 27,277
CSMC	November 2011	14,415	15,361
CSCC	December 2012	10,780	10,178
CSSC	May 2018	7,847	7,845
CHC	April 2012	2,602	2,861
Others	October 2012	4,345	3,880
		$ 67,933	$ 67,402

Other revenues

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

	Six Months Ended June 30 2008	2007
KRTC	$ 1,726,018	$ 1,067,166
DSC	619,423	181,872
CHSC	146,899	193,434
Others	338,979	325,786
	$ 2,831,319	$ 1,768,258

Other expenditures

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

	Six Months Ended June 30 2008	2007
CSMC	$ 1,392,468	$ 1,417,004
CEC	1,355,313	1,150,543
USECC	453,105	231,258
CHC	360,543	340,811
CHSC	306,606	-
CSSC	198,562	278,111
Others	1,015,863	764,145
	$ 5,082,460	$ 4,181,872

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.

c. Balances at period-end

	June 30			
	2008		2007	
	Amount	%	Amount	%
Receivables				
KRTC	$ 465,081	10	$ 141,689	4
CSCC	375,558	8	202,203	6
DSC	259,677	6	113,601	3
Others	365,082	8	186,751	6
	$ 1,465,398	32	$ 644,244	19
Payables				
CSEP	$ 2,740,134	36	$ 1,639,663	44
CSE	206,646	3	354,489	10
CAC	177,786	2	270,213	7
Others	47,142	1	48,775	1
	$ 3,171,708	42	$ 2,313,140	62
Other prepayment (classified as other current assets)				
CSEP	$ 1,122,948	40	$ 760,714	60
CSE	-	-	114,356	9
	$ 1,122,948	40	$ 875,070	69

28. PLEDGED ASSETS

Time deposits of NT$4,152,000 thousand and NT$4,181,694 thousand as of June 30, 2008 and 2007, respectively, have been pledged mainly as collaterals for bank overdraft, etc.

29. COMMITMENTS AS OF JUNE 30, 2008

a. The Corporation were under guarantees of NT$1,086,327 thousand granted 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$20.2 billion.

c. The Corporation entered into property purchase contracts that amounted to NT$26.2 billion. Unpaid amounts as of June 30, 2008 were NT$14.9 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 June 30, 2008 were US$22.5 billion (including 26,000,000 metric tons of coal; 139,000,000 metric tons of iron ore; and 5,500,000 metric tons of limestone).

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

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 June 30, 2008, the Corporation's total equity in KRTC was 32%.

g. 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 June 30, 2008, the Corporation had paid NT$792,506 thousand.

CHINA STEEL CORPORATION

ADDITIONAL EXPLANATIONS FOR ACCOUNTS IN STOCKHOLDERS' EQUITY SIX MONTHS ENDED JUNE 30, 2008 AND 2007

1. ADJUSTMENT FROM CHANGES IN RECOGNIZED UNDER EQUITY METHOD

a. Long-term investment adjustment

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

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

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

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

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

3. NET LOSS NOT RECOGNIZED AS PENSION COST

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

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

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

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

4. DISPOSAL OF TREASURY STOCK

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

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

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

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

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

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