China Steel Corporation

Financial Statements for the Nine Months Ended September 30, 2008 and 2007 and Independent Accountants' Review Report

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

The Board of Directors and Stockholders
China Steel Corporation

We have reviewed the accompanying balance sheets of China Steel Corporation (the "Corporation") as of September 30, 2008 and 2007, and the related statements of income and cash flows for the nine months then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to issue a report on these financial statements based on our reviews.

Except for the matters described in the third paragraph, we conducted our reviews in accordance with Statement of Auditing Standards No. 36 - "Review of Financial Statements" issued by the Auditing Committee of the Accounting Research and Development Foundation ("ARDF") of the Republic of China. A review consists principally of applying analytical procedures to financial data and making inquiries of officers responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the Republic of China, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

As discussed in Note 11 to the accompanying financial statements, we did not review the financial statements of certain equity-method investments (including unlisted subsidiaries and equity-method investees of listed subsidiaries). The aggregate carrying values of these investments were NT$60,843,793 thousand and NT$57,874,655 thousand as of September 30, 2008 and 2007, respectively. The net investment incomes were NT$7,619,874 thousand and NT$7,211,371 thousand recognized for the nine months ended September 30, 2008 and 2007, respectively. These investment amounts as well as the investees' information disclosed in Note 32 to the financial statements were based on the investees' unreviewed financial statements for the same reporting periods as those of the Corporation.

Based on our reviews, except for the effects of any adjustments that might have been determined to be necessary had certain investees' financial statements mentioned in the preceding paragraph been reviewed, we are not aware of any material modifications that should be made to the accompanying financial statements of the Corporation for them to be 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 ARDF in March 2007.

October 22, 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 review such financial statements are those generally accepted and applied in the Republic of China.

For the convenience of readers, the accountants' review 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 accountants' review 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
SEPTEMBER 30, 2008 AND 2007
(In Thousands of New Taiwan Dollars, Except Par Value)
(Reviewed, Not Audited)

ASSETS	2008 Amount	%	2007 Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 4)	$ 2,626,408	1	$ 17,961,221	7
Financial assets at fair value through profit or loss - current (Notes 2 and 5)	-	-	430,024	-
Available-for-sale financial assets - current (Notes 2 and 6)	3,930,982	1	4,665,799	2
Notes receivable	2,425,778	1	1,294,858	-
Accounts receivable (Notes 2, 7 and 28)	3,832,044	1	3,884,879	1
Other receivables	691,112	-	2,041,241	1
Inventories (Notes 2 and 8)	56,618,338	20	34,543,094	13
Deferred income tax assets (Note 24)	321,689	-	237,153	-
Restricted assets - current (Note 29)	4,174,354	2	4,150,000	2
Others (Note 28)	1,331,044	1	1,824,004	1
Total current assets	75,951,749	27	71,032,273	27
INVESTMENTS				
Available-for-sale financial assets - noncurrent (Notes 2 and 6)	2,806,442	1	3,084,487	1
Financial assets carried at cost - noncurrent (Notes 2 and 9)	6,453,218	2	6,131,425	2
Bond investments with no active market-noncurrent (Notes 2 and 10)	103,000	-	5,038,926	2
Investments accounted for by the equity method (Notes 2 and 11)	66,329,946	23	63,874,181	24
Prepaid long-term stock investments (Note 11)	-	-	90,000	-
Other financial assets - noncurrent (Note 12)	4,808,532	2	-	-
Total investments	80,501,138	28	78,219,019	29
PROPERTY, PLANT AND EQUIPMENT (Notes 2, 13, 28 and 30)				
Land	10,692,043	4	9,785,593	4
Land improvements	4,220,387	1	4,212,123	2
Buildings	40,633,990	14	39,525,210	15
Machinery and equipment	243,470,982	87	234,256,423	87
Transportation equipment	1,630,223	1	1,496,486	-
Other equipment	4,313,796	2	3,965,937	1
Total cost	304,961,421	109	293,241,772	109
Revaluation increment	16,910,909	6	17,102,725	7
Cost and revaluation increment	321,872,330	115	310,344,497	116
Less: Accumulated depreciation	219,702,414	78	210,454,861	79
	102,169,916	37	99,889,636	37
Constructions in progress	17,687,169	6	13,828,671	5
Total property, plant and equipment	119,857,085	43	113,718,307	42
INTANGIBLE ASSETS (Note 2)	165,379	-	264,700	-
OTHER ASSETS				
Assets leased to others (Notes 2 and 14)	3,246,283	1	3,160,978	1
Refundable deposits	105,086	-	141,566	-
Restricted assets - noncurrent (Note 29)	2,000	-	31,694	-
Unamortized repair costs and others (Note 2)	1,283,345	1	1,832,571	1
Total other assets	4,636,714	2	5,166,809	2
TOTAL	$ 281,112,065	100	$ 268,401,108	100

LIABILITIES AND STOCKHOLDERS' EQUITY	2008 Amount	%	2007 Amount	%
CURRENT LIABILITIES				
Short-term loans and overdraft (Notes 15 and 29)	$ 7,272,397	3	$ 10,404,326	4
Commercial paper payable (Note 16)	2,994,848	1	-	-
Hedging derivative liabilities - current (Notes 2 and 17)	12,663	-	-	-
Notes and accounts payable (Note 28)	6,239,417	2	2,821,497	1
Income tax payable (Note 24)	4,093,235	2	8,584,358	3
Accrued expenses (Note 18)	11,343,459	4	7,165,806	3
Other payables	3,766,910	1	3,264,596	1
Other current liabilities	2,485,698	1	2,292,841	1
Total current liabilities	38,208,627	14	34,533,424	13
LONG-TERM LIABILITIES				
Hedging derivative liabilities - noncurrent (Notes 2 and 17)	92,978	-	-	-
Bonds payable (Note 19)	13,700,000	5	13,700,000	5
Long-term debt (Note 20)	4,648,545	1	4,025,386	2
Total long-term liabilities	18,441,523	6	17,725,386	7
RESERVE FOR LAND VALUE INCREMENT TAX (Note 13)	2,171,124	1	2,171,124	1
OTHER LIABILITIES				
Deferred income tax liabilities (Note 24)	1,217,431	-	2,539,375	1
Deferred credits - gain from affiliates (Note 22)	1,690,193	1	1,267,113	-
Total other liabilities	2,907,624	1	3,806,488	1
Total liabilities	61,728,898	22	58,236,422	22
CAPITAL STOCK - AUTHORIZED 14,000,000 THOUSAND SHARES AND 12,000,000 THOUSAND SHARES AT NT$10 PAR VALUE AS OF SEPTEMBER 30, 2008 AND 2007, RESPECTIVELY (Note 23)				
Common shares - issued 11,981,548 thousand shares and 11,494,857 thousand shares as of September 30, 2008 and 2007, respectively	119,815,480	43	114,948,570	43
Preferred shares - issued 38,272 thousand shares and 40,434 thousand shares as of September 30, 2008 and 2007, respectively	382,720	-	404,340	-
Total capital stock	120,198,200	43	115,352,910	43
CAPITAL SURPLUS (Notes 2 and 23)	2,691,704	1	1,836,823	-
RETAINED EARNINGS (Notes 2 and 23)	91,876,935	33	85,665,358	32
OTHER EQUITY				
Cumulative translation adjustments (Note 23)	(76,060)	-	214,628	-
Net loss not recognized as pension cost	(40,118)	-	(41,094)	-
Unrealized gain on financial instruments (Notes 6 and 23)	4,778,316	2	7,068,926	3
Unrealized revaluation increment (Note 13)	1,505,293	-	1,509,158	1
Treasury stock - 80,209 thousand shares and 86,902 thousand shares as of September 30, 2008 and 2007, respectively (Notes 2 and 23)	(1,551,103)	(1)	(1,442,023)	(1)
Total other equity	4,616,328	1	7,309,595	3
Total stockholders' equity	219,383,167	78	210,164,686	78
TOTAL	$ 281,112,065	100	$ 268,401,108	100

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

(With Deloitte & Touche review report dated October 22, 2008)

CHINA STEEL CORPORATION

STATEMENTS OF INCOME
NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)
(Reviewed, Not Audited)

	2008		2007	
	Amount	**%**	**Amount**	**%**
OPERATING REVENUE (Notes 2 and 28)	$ 201,208,463	100	$ 152,249,154	100
OPERATING COSTS (Notes 25 and 28)	151,186,160	75	110,061,649	72
GROSS PROFIT	50,022,303	25	42,187,505	28
UNREALIZED GAIN FROM AFFILIATES	539,648	-	148,897	-
REALIZED GROSS PROFIT	49,482,655	25	42,038,608	28
OPERATING EXPENSES (Notes 25 and 28)				
Research and development	1,179,257	1	999,411	1
Selling	2,248,009	1	1,994,547	1
General and administrative	2,150,601	1	1,714,983	1
Total operating expenses	5,577,867	3	4,708,941	3
OPERATING INCOME	43,904,788	22	37,329,667	25
NONOPERATING INCOME AND GAINS				
Interest income (Note 27)	452,283	-	509,168	-
Investment income recognized under equity method (Note 11)	8,916,183	4	8,519,258	6
Valuation gain on financial assets (Notes 2 and 5)	52,942	-	130,974	-
Others	1,481,640	1	1,510,364	1
Total nonoperating income and gains	10,903,048	5	10,669,764	7
NONOPERATING EXPENSES AND LOSSES				
Interest expense (Notes 13 and 27)	364,428	-	437,294	1
Loss on physical inventory	361,203	-	274,160	-
Impairment loss (Notes 9 and 10)	5,042,296	3	319,290	-
Others	520,122	-	291,210	-
Total nonoperating expenses and losses	6,288,049	3	1,321,954	1
INCOME BEFORE INCOME TAX	48,519,787	24	46,677,477	31
INCOME TAX (Notes 2 and 24)	9,037,995	4	8,361,181	6
NET INCOME	$ 39,481,792	20	$ 38,316,296	25

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CHINA STEEL CORPORATION

STATEMENTS OF INCOME
NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)
(Reviewed, Not Audited)

	2008		2007	
	Before Tax	**After Tax**	**Before Tax**	**After Tax**
EARNINGS PER SHARE (Note 26)				
Basic	$ 4.07	$ 3.31	$ 3.92	$ 3.22
Diluted	$ 4.02	$ 3.27	$ 3.91	$ 3.21

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	$ 40,081,932	$ 38,595,600
Basic earnings per share based on the weighted-average number of outstanding common shares aggregating 11,981,548 thousand and 11,977,786 thousand for the nine months ended September 30, 2008 and 2007, respectively	$3.35	$3.22
Diluted earnings per share based on the weighted-average number of outstanding common shares aggregating 12,147,297 thousand and 12,018,220 thousand for the nine months ended September 30, 2008 and 2007, respectively	$3.30	$3.21

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

(With Deloitte & Touche review report dated October 22, 2008) (Concluded)

CHINA STEEL CORPORATION

STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 39,481,792	$ 38,316,296
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	8,558,437	8,706,215
Amortization	486,399	454,140
Deferred income tax	(1,283,042)	(242,277)
Valuation gains on financial assets	(52,942)	(130,974)
Unrealized gain from affiliates	539,648	148,897
Cash dividends received from equity-method investees	9,381,400	4,630,824
Loss on disposal of property, plant and equipment	89,088	46,071
Investment income under equity method	(8,916,183)	(8,519,258)
Cash dividends from bond investments with no active market	-	443,398
Impairment loss	5,042,296	319,290
Others	287,487	168,375
Net changes in operating assets and liabilities		
Notes receivable	(1,030,223)	41,420
Accounts receivable	(1,369,804)	(1,147,712)
Other receivables	(21,650)	(661,748)
Inventories	(18,809,358)	(2,406,386)
Other current assets	1,091,574	(804,824)
Accounts payable	899,324	(789,289)
Income tax payable	(2,589,009)	2,901,824
Accrued expenses	3,820,991	(648,975)
Other payables	450,243	103,478
Other current liabilities	(201,008)	99,482
Net cash provided by operating activities	35,855,460	41,028,267
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of financial assets at fair value through profit or loss	(10,750,557)	(11,098,265)
Proceeds from disposal of financial assets at fair value through profit or loss	11,835,596	23,115,203
Acquisition of available-for-sale financial assets	-	(349,389)
Acquisition of financial assets carried at cost	(231,650)	(142,562)
Proceeds of the capital reduction on financial assets carried at cost	8,364	-
Acquisition of investments accounted for by equity method	(140,872)	(573,579)
Acquisition of property, plant and equipment	(12,389,038)	(11,945,039)
Increase in other assets	-	(282,343)
Increase in other financial assets-noncurrent	(4,770,093)	-
Increase in refundable deposits	(23,413)	(85,733)
Decrease (increase) in restricted deposits	17,680	(500,000)
Net cash used in investing activities	(16,443,983)	(1,861,707)

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CHINA STEEL CORPORATION

STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	2008	2007
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash dividends	$(40,343,418)	$(30,813,819)
Increase in commercial paper payable	2,994,848	-
Decrease in short-term loans and overdraft	(2,882,288)	(6,205,663)
Cash bonus to employees and remuneration to directors and supervisors	(992,370)	(828,413)
Increase in long-term debt	-	445,945
Net cash used in financing activities	(41,223,228)	(37,401,950)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(21,811,751)	1,764,610
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	24,438,159	16,196,611
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 2,626,408	$ 17,961,221
SUPPLEMENTAL INFORMATION		
Interest paid (excluding capitalized interest)	$ 326,133	$ 389,216
Income tax paid	12,910,046	5,701,634
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	$ 12,827,039	$ 12,141,868
Increase in payable for equipment purchased	(438,001)	(196,829)
	$ 12,389,038	$ 11,945,039
Cash Paid to Stockholders		
Total cash dividends payable to stockholders	$ 40,373,518	$ 30,838,127
Increase in dividends payable	(30,100)	(24,308)
	$ 40,343,418	$ 30,813,819

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

(With Deloitte & Touche review report dated October 22, 2008) (Concluded)

CHINA STEEL CORPORATION

NOTES TO FINANCIAL STATEMENTS
NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007
(In Thousands of New Taiwan Dollars, Except Amounts Stated Otherwise)
(Reviewed, Not Audited)

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 September 30, 2008, the Ministry of Economic Affairs, Republic of China owned 22.26% of the Corporation's outstanding common stock.

As of September 30, 2008 and 2007, the Corporation had about 9,500 and 9,100 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 represent 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.

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

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

Intangible Assets

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

Assets Leased to Others

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

Unamortized Repairs

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

Impairment of Assets

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

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 measured at fair value are revalued using prevailing exchange rates, with the exchange differences treated as follows:

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

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

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

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

Hedging Derivative Financial Instruments

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

Hedge Accounting

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

a. Fair value hedge

The Corporation uses the non-derivative financial instruments to hedge the exchange rate fluctuations of a net investment 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.

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$3,035,523 thousand in net income and a decrease in after income tax basic and diluted earnings per share of NT$0.26 and NT$0.25, respectively, for the nine months ended September 30, 2008.

4. CASH AND CASH EQUIVALENTS

	September 30	
	2008	**2007**
Cash on hand	$ 19,088	$ 18,873
Checking accounts and demand deposits	1,947,508	1,630,051
Time deposits	600,000	2,700,000
Negotiable certificates of deposits	-	2,000,000
Cash equivalents - short-term notes and bills	59,812	11,612,297
	$ 2,626,408	$ 17,961,221

The Corporation had foreign bank deposits of ￥6,218 thousand in Japan-Osaka Bank and ￥12 thousand in Singapore Daiwa Securities SMBC, or a total of ￥6,230 thousand (NT$1,917 thousand), as of September 30, 2008, and ￥5,914 thousand (NT$1,819 thousand) in Japan-Osaka Bank as of September 30, 2007.

5. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

This financial assets designated as at FVTPL represent open-end funds. The purpose of classifying open-end funds to this account is to remove the accounting inconsistency between investment income and interest expense. As of September 30, 2007, the balance of financial assets at fair value through profit or loss was NT$430,024 thousand.

Net gains on financial assets designated as at FVTPL for the nine months ended September 30, 2008 and 2007 were NT$52,942 thousand and NT$130,974 thousand, respectively.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	September 30			
	2008		2007	
	Current	Noncurrent	Current	Noncurrent
Quoted stock				
Maruichi Steel Tube Ltd.	$ -	$ 757,920	$ -	$ 757,920
Yodogawa Steel Works, Ltd.	-	345,831	-	349,389
Advanced Material Technology Corporation (AMTC) (Note 9)	-	-	-	-
Tang Eng Iron Works Corporation (TEIWC)	-	-	-	-
Taiwan Semiconductor Manufacturing Company (TSMC)	967,456	-	967,456	-
Bank debentures - Taiwan Cooperative Bank	250,040	-	250,280	-
Adjustments for change in valuation	2,713,486	1,702,691	3,448,063	1,977,178
	$ 3,930,982	$ 2,806,442	$ 4,665,799	$ 3,084,487

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 September 30, 2008 and 2007, the carrying value of this financial asset were NT$759,955 thousand and NT$1,131,720 thousand, respectively.

In September 2007, in order to firm up the sales business of steel products, the Corporation invested NT$349,389 thousand (￥1,214,000 thousand) and acquired 2,000 thousand common shares of Yodogawa Steel Works, Ltd., representing 1% equity. The purchase price per share 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 20 and 27)

7. ACCOUNTS RECEIVABLE

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

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

Transaction Counter-party	Receivables Sold	Amounts Collected	Advances Received at Period-end	Interest Rate on Advances Received (%)	Credit Line (in Billions of NTD)
Nine months ended September 30, 2008					
Accounts receivable					
Mega Bank	$ 11,337,732	$ 10,494,154	$ 5,357,130	2.53-2.77	75
Bank of Taiwan	2,201,461	1,884,866	1,015,432	2.53-2.55	25
Taipei Fubon Bank	773,387	734,691	259,916	2.70-2.77	4
	$ 14,312,580	$ 13,113,711	$ 6,632,478		
Nine months ended September 30, 2007					
Accounts receivable					
Mega Bank	$ 9,889,229	$ 9,337,176	$ 4,694,326	1.99-2.26	58.4
Bank of Taiwan	1,282,342	1,049,505	699,240	1.99-2.03	25
Taipei Fubon Bank	380,437	294,802	130,675	2.23-2.26	8
	$ 11,552,008	$ 10,681,483	$ 5,524,241		

8. INVENTORIES

	September 30	
	2008	2007
Finished products	$ 12,954,749	$ 7,471,105
Work in process	16,122,293	11,520,559
Raw materials	16,019,291	7,533,660
Supplies	7,294,934	6,013,560
Materials in transit	3,906,516	1,546,571
Fuel	280,219	130,285
Others	612,959	631,565
	57,190,961	34,847,305
Less: Allowance for inventory obsolescence losses	572,623	304,211
	$ 56,618,338	$ 34,543,094

9. FINANCIAL ASSETS CARRIED AT COST - NONCURRENT

	September 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
Adimmune Corporation (AC)	231,650	-
Taiwan Rolling Stock Co., Ltd. (TRSC)	202,048	202,048
Hsin Hsin Cement Enterprise Corp.	165,010	165,010
CDIB BioScience Ventures I, Inc. (CBVI)	75,276	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)	3,076,500	2,837,500
Dragon Steel Corporation (DSC)		
Preferred A	999,877	999,877
Preferred B	53,312	53,312
Fund - Sino-Canada Biotechnology Development Fund, LP (SCBDF)	49,545	98,308
	$ 6,453,218	$ 6,131,425

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

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

The Corporation invested NT$102,000 thousand to acquire 4.8% equity of CBVI. In August 2008, and November 2007, CBVI reduced its capital and returned NT$8,364 thousand and NT$18,360 thousand to the Corporation, respectively. Accordingly, the cost of investment in CBVI was reduced to NT$75,276 thousand.

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.

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. 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 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 investment 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 September 30, 2008, the Corporation invested in EAUS the amount of ￥10 billion (Notes 20 and 27). The Corporation thus enjoys a stable supply of good quality slab from this joint venture. The Corporation also signed a contract with Chung Hung Steel Corporation (CHSC) to transfer the purchasing right of slabs from EAUS, and the Corporation receives royalties on this contract based on the volume purchased by CHSC. The amounts of royalty income for the nine months ended September 30, 2008 and 2007 were NT$179,625 thousand and NT$249,528 thousand, respectively. As of September 30, 2008 and 2007, the royalty receivable were NT$65,992 thousand and NT$87,311 thousand, respectively.

The Corporation invested 100 units ($10,000 thousand Canadian dollars) in the SCBDF fund. As of September 30, 2008, the Corporation has invested CAD$9,435 thousand (NT$219,025 thousand) in SCBDF fund. In June 2008 and September 2007, the Corporation recognized impairment losses of NT$33,000 thousand and $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 as at September 30, 2008 represents SCBDF's disposal of its investments and returned the proceeds to the Corporation.

10. BOND INVESTMENTS WITH NO ACTIVE MARKET - NONCURRENT

	September 30	
	2008	2007
Unquoted preferred stocks - domestic		
Taiwan High Speed Rail Corporation (THSRC)		
Preferred C	$ -	$ 3,904,542
Preferred B	-	834,384
Taigen Biotechnology Co., Ltd. (TBC)	-	300,000
	-	5,038,926
Unquoted preferred stocks - overseas		
TaiGen Biopharmaceuticals Holdings Limited (TGB)	103,000	-
	$ 103,000	$ 5,038,926

In September 2003, the Corporation acquired 100,000 thousand Preferred B shares (representing 4% of ownership) of THSRC for NT$1,000,000 thousand. Dividend on these shares is at 5%, payable on a nonparticipating and cumulative basis. These shares with six years durations could be extended for 13 months, 3 months prior to the due date. In April 2005 and August 2004, the Corporation acquired a total of 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 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 September 2008, the Corporation evaluated and recognized an impairment loss of NT$4,738,926 thousand (recorded as nonoperating loss) on the investments in preferred shares of THSRC.

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

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

	September 30			
	2008		2007	
	Amount	% of Owner-ship	Amount	% of Owner-ship
Stocks listed on the Taiwan Stock Exchange (recognition based on reviewed financial statements)				
Chung Hung Steel Corporation (CHSC)	$ 3,539,917	24	$ 3,512,383	24
China Steel Chemical Corporation (CSCC)	830,436	29	1,265,031	29
China Hi-ment Corporation (CHC)	524,272	20	634,082	20
China Ecotek Corporation (CEC)	456,586	49	388,393	36
China Steel Structure Corporation (CSSC)	405,324	18	535,560	18
	5,756,535		6,335,449	
Less: Shares held by subsidiaries accounted for as treasury stock	270,382		-	
	5,486,153		6,335,449	
Equity-method investments held by the stocks listed on the Taiwan Stock Exchange (recognition based on unreviewed financial statements)				
Chung Hung Steel Corporation (CHSC)	571,232	-	-	-
China Steel Chemical Corporation (CSCC)	546,516	-	-	-
China Hi-ment Corporation (CHC)	132,569	-	-	-
China Ecotek Corporation (CEC)	243,978	-	-	-
China Steel Structure Corporation (CSSC)	132,482	-	-	-
	1,626,777		-	
Less: Shares held by subsidiaries accounted for as treasury stock	71,725		335,923	
	1,555,052		5,999,526	
Stocks without quoted market prices (recognition based on unreviewed financial statements)				
Dragon Steel Corporation (DSC)	17,313,302	47	16,288,236	47
China Steel Express Corporation (CSE)	11,768,291	100	9,678,687	100
C. S. Aluminum Corporation (CAC)	7,406,487	100	7,230,079	100
Gains Investment Corporation (GIC)	6,389,723	100	8,482,027	100
China Prosperity Development Corporation (CPDC)	4,688,844	100	4,763,309	100

(Continued)

	September 30			
	2008		2007	
	Amount	% of Owner-ship	Amount	% of Owner-ship
China Steel Asia Pacific Holdings Pte Ltd. (CSAPH)	$ 3,461,150	100	$ 3,152,663	100
Kaohsiung Rapid Transit Corporation (KRTC)	2,466,149	31	2,967,768	31
China Steel Global Trading Corporation (CSGT)	1,399,824	100	1,164,143	100
Long Yuan Fa Investment Corporation (LYFI)	958,614	100	813,174	99
Horng Yih Investment Corporation (HYI)	958,115	100	814,997	99
Goang Yaw Investment Corporation (GYI)	932,722	100	793,443	99
China Steel Machinery Corporation (CSMC)	854,375	74	1,000,266	100
Info-Champ Systems Corporation (ICSC)	605,950	100	643,133	100
CSC Steel Australia Holdings Pty. Ltd.(CSCAU)	488,725	100	480,741	100
Kaohsiung Arena Development Corporation (KADC)	343,248	18	253,338	18
China Steel Security Corporation	299,727	100	255,848	100
Hi-mag Magnetic Corporation	94,315	50	100,309	50
Baolai Greeting Development Co., Ltd. (BGDC)	43,304	45	47,297	45
China Steel Management Consulting Corporation (CSMCC)	18,639	100	6,812	38
TaiAn Technologies Corporation (TTC)	6,233	17	4,954	17
Taiwan Rolling Stock Co., Ltd. (Note 9)	-	-	-	-
	60,497,737		58,941,224	
Less: Shares held by subsidiaries accounted for as treasury stock	1,208,996		1,066,569	
	59,288,741		57,874,655	
	$ 66,329,946		$ 63,874,181	
Prepaid long-term stock investments				
KADC	$ -		$ 90,000	

(Concluded)

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

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

In December 2007, 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 September 30, 2008 and 2007 was as follows:

	September 30	
	2008	**2007**
CHSC	$ 4,298,922	$ 5,691,530
CSCC	4,223,533	5,673,305
CEC	2,160,332	1,470,314
CHC	1,666,885	1,613,984
CSSC	398,779	607,526
	$ 12,748,451	$ 15,056,659

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

	Nine Months Ended September 30	
	2008	**2007**
Recognition based on reviewed financial statements		
CHSC	$ 894,963	$ 795,135
CSCC	298,466	303,046
CHC	88,508	80,359
CEC	3,626	63,068
CSSC	10,746	66,279
	1,296,309	1,307,887
Recognition based on unreviewed financial statements		
CSE	5,684,019	4,041,318
DSC	480,057	450,887
CAC	451,625	401,104
CSAPH	448,284	309,294
CSGT	361,990	269,780
CSMC	243,344	220,208
LYFI	217,660	175,604
HYI	211,139	175,656
GYI	205,789	171,041
ICSC	72,999	62,695
GIC	(620,696)	872,564
KRTC	(425,929)	(95,761)
Others	191,669	156,981
CHSC’s equity-method investments	24,203	-
CSCC’s equity-method investments	21,480	-
CHC’s equity-method investments	14,753	-

(Continued)

	Nine Months Ended September 30	
	2008	2007
CEC's equity-method investments	$ 31,913	$ -
CSSC's equity-method investments	5,575	-
	7,619,874	7,211,371
	$ 8,916,183	$ 8,519,258

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 September 30, 2008, the Corporation's unexecuted investments in these investees aggregated NT$11,000,690 thousand.

The Corporation's stockholders, in their June 2008 meeting, approved the share exchange plan which the Corporation's Board of Directors approved in March 2008 to increase its capital by issuing 575,991 thousand shares to swap 52% ownership of DSC at the ratio of 1:2.6. The share swap date is on October 6, 2008. The Corporation's percentage of ownership in DSC will be increased to 100% after the swap. The share exchange plan has been approved by the government.

Due to long-term stock investment and cash dividend appropriated to subsidiaries, the Corporation increased capital surplus by NT$265,011 thousand and NT$232,130 thousand, and decreased retained earnings by NT$6,408 thousand and NT$5,467 thousand for the nine months ended September 30, 2008 and 2007, respectively.

Due to the disposal of the Corporation's shares held by subsidiaries, the Corporation increased capital surplus by NT$548,063 thousand and NT$56,323 thousand for the nine months ended September 30, 2008 and 2007, respectively.

12. OTHER FINANCIAL ASSETS - NONCURRENT

For the purpose of constructing the third 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 September 30, 2008, the balance of the JPY time deposits designated as hedging instrument was JPY15.2 billion (NT$4,677,040 thousand). An unrealized gain of NT$42,060 thousand arising from the JPY time deposits designated as hedging instrument was recognized as unrealized gain or loss on financial instruments in stockholders' equity.

To manage exposures on cash flows on foreign-currency capital expenditure contracts, the Corporation entered into forward exchange contracts (Note 17). On contract expiry in September 2008, the Corporation will make a capital expenditure payment of EUR2,840 thousand (NT$131,492 thousand) in October 2008. As of September 30, 2008, an unrealized loss of NT$3,621 thousand on the hedging instrument was recognized as unrealized gain or loss on financial instruments in stockholders' equity.

There will be cash flows generated from above mention contracts, between 2008 and 2013 and between 2009 and 2012, respectively. The period for recognizing in the income statement any unrealized gain (loss) on hedging instruments is the same as that for depreciation expenses on the hedged equipment.

13. PROPERTY, PLANT AND EQUIPMENT

Nine months ended September 30, 2008	Land	Land Improvements	Buildings	Machinery and Equipment	Transportation Equipment	Other Equipment	Construction In progress	Total
Cost								
Balance, beginning of period	$ 9,803,353	$ 4,212,123	$ 39,773,039	$ 237,189,591	$ 1,500,483	$ 4,018,844	$ 15,043,863	$ 311,541,296
Addition	888,690	8,264	1,075,912	7,591,660	150,814	468,393	2,643,306	12,827,039
Disposals	-	-	(214,961)	(1,310,269)	(21,074)	(173,441)	-	(1,719,745)
Balance, end of period	10,692,043	4,220,387	40,633,990	243,470,982	1,630,223	4,313,796	17,687,169	322,648,590
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)	(175,845)	(9)	(31)	-	(191,671)
Balance, end of period	5,840,732	492,990	2,407,737	8,110,543	27,224	31,683	-	16,910,909
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	-	89,910	951,725	7,082,932	60,884	351,902	-	8,537,353
Disposals	-	-	(148,593)	(1,481,720)	(20,894)	(171,121)	-	(1,822,328)
Balance, end of period	-	3,878,527	19,981,085	191,626,877	1,255,046	2,960,879	-	219,702,414
Net book value, end of period	$ 16,532,775	$ 834,850	$ 23,060,642	$ 59,954,648	$ 402,401	$ 1,384,600	$ 17,687,169	$ 119,857,085
Nine months ended September 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
Addition	1,462,712	-	2,312,882	15,386,821	62,979	1,010,576	(8,094,102)	12,141,868
Disposals	-	-	(49,317)	(918,471)	(39,623)	(141,198)	-	(1,148,609)
Balance, end of period	9,785,593	4,212,123	39,525,210	234,256,423	1,496,486	3,965,937	13,828,671	307,070,443
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)	(147,110)	-	(33)	-	(147,166)
Balance, end of period	5,840,732	492,990	2,423,523	8,286,533	27,233	31,714	-	17,102,725
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	-	101,585	909,317	7,191,018	59,909	422,332	-	8,684,161
Disposals	-	-	(26,513)	(1,040,937)	(39,095)	(140,194)	-	(1,246,739)
Balance, end of period	-	3,755,714	18,886,965	183,879,316	1,199,429	2,733,437	-	210,454,861
Net book value, end of period	$ 15,626,325	$ 949,399	$ 23,061,768	$ 58,663,640	$ 324,290	$ 1,264,214	$ 13,828,671	$ 113,718,307

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

	Nine Months Ended September 30	
	2008	**2007**
Interest expense before capitalization	$ 474,755	$ 470,529
Capitalized interest - construction in progress	(110,327)	(33,235)
Interest expense through income statement	$ 364,428	$ 437,294
Capitalization rates	2.14%-2.55%	1.74%-2%

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 September 30, 2008, revaluation increment on assets totalling 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 nine months ended September 30, 2008 and 2007, upon retirement or sale of appreciated properties, the revaluation increment on assets decreased by NT$3,862 thousand and NT$2,965 thousand, respectively, and recorded as nonoperating revenue. As of September 30, 2008, the cumulative nonoperating revenue was NT$30,070 thousand.

14. ASSETS LEASED TO OTHERS

	Land	Machinery and Equipment	Buildings and Improvements	Total
Nine months ended September 30, 2008				
Cost				
Balance, beginning of period	$ 3,079,977	$ 2,000,000	$ 161,816	$ 5,241,793
Accumulated depreciation				
Balance, beginning of period	-	1,359,636	20,790	1,380,426
Depreciation expense	-	19,093	1,991	21,084
Balance, end of period	-	1,378,729	22,781	1,401,510
Accumulated impairment	-	594,000	-	594,000
Net book value, end of period	$ 3,079,977	$ 27,271	$ 139,035	$ 3,246,283
Nine months ended September 30, 2007				
Cost				
Balance, beginning of period	$ 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	-	20,064	1,990	22,054
Balance, end of period	-	1,353,342	20,128	1,373,470
Accumulated impairment	-	594,000	-	594,000
Net book value, end of period	$ 2,966,632	$ 52,658	$ 141,688	$ 3,160,978

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

15. SHORT-TERM LOANS AND OVERDRAFT

	September 30	
	2008	2007
Letters of credit - due within 180 days; interest at 1.03%-6.37% p.a. and 1.11%-6.71% p.a. as of September 30, 2008 and 2007, respectively	$ 1,225,037	$ 302,017
Overdraft - interest at 2.01%-2.0877% p.a. and 1.42%-2.515% p.a. as of September 30, 2008 and 2007, respectively	547,360	357,836
Credit loans - interest at 2.35%-2.372% p.a. and 1.045%-2.117% p.a. as of September 30, 2008 and 2007, respectively	5,500,000	9,744,473
	$ 7,272,397	$ 10,404,326

As of September 30, 2007, the above credit loans included bank loan of ￥1.214 billion which was borrowed from Mizuho Corporate Bank and repaid on November 14, 2007. The Corporation had obtained the refinancing for another long-term bank loan upon the repayment of the short-term bank loan. The Corporation borrowed the short-term bank loan in Japanese yen to hedge the exchange rate fluctuations on the investments in Yodogawa Steel Works, Ltd. (Note 6).

16. COMMERCIAL PAPER PAYABLE (Only as of September 30, 2008)

	2008
Commercial paper - interest rates at 2.160%-2.162% p.a. as of September 30, 2008	$ 3,000,000
Unamortized discounts	(5,152)
	$ 2,994,848

17. HEDGING DERIVATIVE LIABILITIES (Only as of September 30, 2008)

The Corporation entered into derivative contracts during the nine months ended September 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 September 30, 2008 were as follows:

Currency	The Period for Generating Cash Flows and Maturity Date	Contract Amount (in Thousands)
NT$/US$	December, 2009 - September, 2010	NT$4,093,276/USD129,490
NT$/EUR$	January, 2009 - March, 2012	NT$1,160,674/EUR$25,557

The unrealized 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 nine months ended September 30, 2008, the unrealized loss was NT$12,663 thousand and NT$92,978 thousand (with the total of NT$105,641 thousand) on derivative financial liability for hedging - current and - noncurrent, respectively, and recognized as unrealized gain or loss on financial instruments in stockholders' equity.

18. ACCRUED EXPENSES

	September 30	
	2008	2007
Incentive bonus	$ 2,834,861	$ 2,490,131
Bonus to employees, and remuneration to directors and supervisors (Note 3)	3,497,522	-
Repair and construction	1,101,315	1,079,407
Others	3,909,761	3,596,268
	$ 11,343,459	$ 7,165,806

19. BONDS PAYABLE

	September 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

20. LONG-TERM DEBT

	September 30	
	2008	2007
Repayable in July 2010 (￥4.4 billion); floating rates at 1.134% and 0.8925% p.a. as of September 30, 2008 and 2007, respectively	$ 1,353,660	$ 1,248,500
Repayable in July 2010 (￥3.3 billion); floating rates at 1.325% and 1.3863% p.a. as of September 30, 2008 and 2007, respectively	1,015,245	936,375
Repayable in December 2009 (￥2.6 billion); floating rates at 1.26% and 1.0906% p.a. as of September 30, 2008 and 2007, respectively	799,890	737,750
Repayable in July 2010 (￥2.2 billion); floating rates at 1.2028% and 1.0396% p.a. as of September 30, 2008 and 2007, respectively	676,830	624,250
Repayable in July 2010 (AUD16.54 million); floating rates at 8.69239% p.a. as of September 30, 2008	429,433	478,511
Repayable in November 2010 (￥1.214 billion); floating rates at 1.1825% p.a. as of September 30, 2008	373,487	-
	$ 4,648,545	$ 4,025,386

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 Steel Australia Holdings Pty. Ltd., and Yodogawa Steel Works, Ltd. (Note 27).

21. RETIREMENT BENEFIT PLAN

The pension plan under the Labor Pension Act (the "LPA") is a defined contribution plan. Based on the LPA, the Corporation makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages. Such pension costs were NT$29,699 thousand and NT$18,852 thousand for the nine months ended September 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 nine months ended September 30, 2008 and 2007 was NT$1,089,618 thousand and NT $1,225,780 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 nine months ended September 30, 2008 and 2007 was NT$3,543 thousand and NT$3,104 thousand, respectively.

22. DEFERRED CREDITS - GAIN FROM AFFILIATES

	September 30	
	2008	**2007**
Gain on disposal of land	$ 1,136,164	$ 1,136,164
Gain on contracted projects	554,029	130,949
	$ 1,690,193	$ 1,267,113

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 nine months ended September 30, 2008. Such deferred credits recognized as income over 8 to 30 years were NT$9,311 thousand for the nine months ended September 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.

23. STOCKHOLDERS' EQUITY

a. Capital stock

In August 2008 and 2007, the Corporation through capitalization of retained earnings of NT$4,845,290 thousand and NT$4,408,394 thousand, issued common shares of 484,529 thousand and 440,839 thousand, respectively.

From July 1, 2007 to September 30, 2008, 2,407 thousand shares of preferred shares were converted into common stocks. As of September 30, 2008, 1,955 thousand shares of which were not yet registered with the government.

b. Treasury stock

	Thousand Shares			September 30	
Purpose of Treasury Stock	**Beginning of Period**	**Addition**	**Reduction**	**Thousand Shares**	**Book Value**
Nine months ended September 30, 2008					
Shares acquired and held by subsidiaries	84,543	12,765	17,099	80,209	$ 1,551,103

(Continued)

Purpose of Treasury Stock	Thousand Shares Beginning of Period	Addition	Reduction	September 30 Thousand Shares	Book Value
Nine months ended September 30, 2007					
Shares acquired and held by subsidiaries	81,180	6,157	2,035	85,302	$ 1,402,492
Shares acquired by the Corporation for transfer to employees	1,600	-	-	1,600	39,531
	82,780	6,157	2,035	86,902	$ 1,422,023

1) Shares acquired and held by subsidiaries

The Corporation's shares acquired and held by subsidiaries were accounted for as treasury stock (subsidiaries recorded them as available-for-sale financial assets - current or available-for-sale financial assets - noncurrent). For the nine months ended September 30, 2008 and 2007, treasury stock increased by NT$835,644 thousand and NT$86,658 thousand, respectively, due to the Corporation's capitalization of retained earnings and additional shares purchased by subsidiaries; treasury stock decreased by NT$548,063 thousand and NT$56,323 thousand, respectively, due to subsidiaries' sales of the Corporation's shares and change in percentage of ownership.

As of September 30, 2008 and 2007, the market values of the treasury shares are NT$2,518,567 thousand and NT$4,107,305 thousand, respectively.

2) Shares acquired for transfer to employees

On October 7, 2008 the Corporation's Board of Directors approved the buyback of the Corporation's 300,000 thousand issued common shares and the transfer of these shares to employees (Note 31).

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 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 6,288,677 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 September 30, 2008, the outstanding depositary receipts were 8,375,006 units, equivalent to 167,500,327 common shares, which represented 1.40% 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:

	September 30	
	2008	**2007**
Treasury stock transaction	$ 2,415,370	$ 1,585,605
Long-term stock investments under the equity method	268,235	243,119
Others	8,099	8,099
	$ 2,691,704	$ 1,836,823

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. Retained earnings

Contents of the retained earnings are shown below:

	September 30	
	2008	**2007**
Legal reserve	$ 44,715,153	$ 39,589,333
Special reserve	7,615,701	7,615,701
Unappropriated	64,289	144,028
Net income for the nine months ended September 30	39,481,792	38,316,296
	$ 91,876,935	$ 85,665,358

g. 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 dividends at 14% of par value;

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

4) Common 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 September 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 nine months ended September 30, 2008, the bonus to employees and remuneration to directors and supervisors, representing 8% and 0.15% of net income (which is deducted bonus to employees and remuneration to directors and supervisors, and legal reserve), respectively, were accrued based on past experiences.

When the accrued 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).

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

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

h. Unrealized gain (loss) on financial instruments

For the nine months ended September 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
Nine months ended September 30, 2008				
Balance, beginning of period	$ 4,894,886	$ 1,578,440	$ -	$ 6,473,326
Recognized in stockholders' equity	(575,638)	(1,052,170)	(67,202)	(1,695,010)
Balance, end of period	$ 4,319,248	$ 526,270	$ (67,202)	$ 4,778,316
Nine months ended September 30, 2007				
Balance, beginning of period	$ 5,582,793	$ 1,950,944	$ -	$ 7,533,737
Recognized in stockholders' equity	(163,207)	(301,604)	-	(464,811)
Balance, end of period	$ 5,419,586	$ 1,649,340	$ -	$ 7,068,926

i. Cumulative translation adjustments

Change in composition of cumulative translation adjustments for the nine months ended September 30, 2008 and 2007 were as follows:

	Nine Months Ended September 30	
	2008	**2007**
Balance, beginning of period	$ 283,018	$ (62,787)
Recognized in stockholders' equity	(359,078)	277,415
Balance, end of period	$ (76,060)	$ 214,628

24. INCOME TAX

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

	Nine Months Ended September 30	
	2008	**2007**
Income tax expense at the 25% statutory rate	$ 12,129,947	$ 11,669,369
Tax effect adjusting items		
Permanent differences		
Investment income recognized under equity method - domestic	(2,098,479)	(2,051,969)
Unrealized gain on valuation and gain on disposal of financial assets	(13,235)	(32,744)
Dividend	(94,684)	(82,098)
Tax-exempt income	(74,713)	(43,672)
Employee benefits	163,960	30,704
Others	(4,294)	(91,992)
Temporary differences		
Difference between tax reporting and financial reporting - depreciation methods	155,148	120,215
Unrealized gain from affiliates	134,913	37,225
Difference between tax reporting and financial reporting - sales	(44,784)	3,543
Investment income recognized under equity method - foreign investees	(130,567)	(77,845)
Cash dividends – foreign investees	61,275	37,580
Impairment loss on financial assets	1,260,574	60,822
Investment loss resulting from investees' capital reduction	(150,000)	19,000
Others	(19,216)	41,737
Investment tax credits used	(838,333)	(1,032,793)
Current income tax payable	10,437,512	8,607,082
Tax separately levied on interest from short-term bills	38,558	37,913
Prior periods' adjustments	(155,033)	(41,537)
Income tax currently payable	10,321,037	8,603,458
Deferred tax - temporary differences	(1,283,042)	(242,277)
Income tax	$ 9,037,995	$ 8,361,181

b. Changes in income tax payable

	Nine Months Ended September 30	
	2008	2007
Balance, beginning of period	$ 6,682,244	$ 5,682,534
Income tax currently payable	10,321,037	8,603,458
Payment in the current period	(12,910,046)	(5,701,634)
Balance, end of period	$ 4,093,235	$ 8,584,358

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

	September 30	
	2008	2007
Current		
Deferred income tax assets		
Allowance for inventory obsolescence loss	$ 140,772	$ 62,590
Unrealized gain from affiliates	125,888	93,840
Severance pay	41,474	59,525
Accrued electrostatic precipitator dust disposal expense	7,347	16,755
Others	34,682	22,538
	350,163	255,248
Deferred income tax liabilities		
Temporary difference between tax reporting and financial reporting - inventory	(28,474)	(18,095)
Total deferred income tax assets - net	$ 321,689	$ 237,153
Noncurrent		
Deferred income tax assets		
Impairment loss on financial assets	$ 1,490,396	$ 379,822
Unrealized gain from affiliates	138,508	32,738
Impairment loss on assets	41,826	64,916
Others	4,543	7,893
	1,675,273	485,369
Deferred income tax liabilities		
Temporary difference between tax reporting and financial reporting - depreciation methods	(2,395,769)	(2,590,050)
Foreign investment income	(431,571)	(370,285)
Unrealized foreign exchange gain	(65,364)	(64,409)
	(2,892,704)	(3,024,744)
Total deferred income tax liabilities - net	$ (1,217,431)	$ (2,539,375)

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:

	September 30 2008	September 30 2007
Imputation credit account (ICA)	$ 34,083	$ 1,121,992
Unappropriated earnings generated before January 1, 1997	35,440	35,440

The creditable ratio for distribution of 2007 and 2006 earnings was 27.46% and 25.91%, respectively.

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

25. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

	Nine Months Ended September 30							
	2008				2007			
	Operating Cost	Operating Expense	Others	Total	Operating Cost	Operating Expense	Others	Total
Personnel								
Salary	$ 14,837,834	$ 2,458,748	$ 139,779	$ 17,436,361	$ 11,286,546	$ 1,802,698	$ 75,563	$ 13,164,807
Labor and health insurance	432,930	66,089	1,448	500,467	433,307	65,778	508	499,593
Pension and consolation costs	964,923	187,787	4,233	1,156,943	1,076,052	196,869	79,983	1,352,904
Others	922,933	131,805	6,583	1,061,321	453,392	65,733	3,833	522,958
	$ 17,158,620	$ 2,844,429	$ 152,043	$ 20,155,092	$ 13,249,297	$ 2,131,078	$ 159,887	$ 15,540,262
Depreciation	$ 8,316,676	$ 220,677	$ 21,084	$ 8,558,437	$ 8,422,553	$ 261,608	$ 22,054	$ 8,706,215
Amortization	436,622	47,408	2,369	486,399	425,030	26,740	2,370	454,140

26. EARNINGS PER SHARE (EPS)

	Amount (Numerator) Before Tax	Amount (Numerator) After Tax	Shares (Denominator) (Thousand)	Earnings Per Share (Dollars) Before Tax	Earnings Per Share (Dollars) After Tax
Nine months ended September 30, 2008					
Net income	$ 48,519,787	$ 39,481,792			
Less: Dividends on preferred shares	(49,385)	(40,186)			
Basic EPS					
Net income attributable to common stockholders	48,470,402	39,441,606	11,901,339	$ 4.07	$ 3.31
Effect of dilutive potential common stock					
Add: Dividends on preferred shares	49,385	40,186	38,272		
Bonus to employees (Note 3)	-	-	127,477		

(Continued)

	Amount (Numerator)		Shares (Denominator)	Earnings Per Share (Dollars)	
	Before Tax	After Tax	(Thousand)	Before Tax	After Tax
Diluted EPS					
Net income attributable to common stockholders plus effect of potential dilutive common stock	$ 48,519,787	$ 39,481,792	12,067,088	$ 4.02	$ 3.27
Nine months ended September 30, 2007					
Net income	$ 46,677,477	$ 38,316,296			
Less: Dividends on preferred shares	(51,720)	(42,456)			
Basic EPS					
Net income attributable to common stockholders	46,625,757	38,273,840	11,891,520	3.92	3.22
Effect of dilutive potential common stock					
Add: Dividends on preferred shares	51,720	42,456	40,434		
Diluted EPS					
Net income attributable to common stockholders plus effect of potential dilutive common stock	$ 46,677,477	$ 38,316,296	11,931,954	3.91	3.21

(Concluded)

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 stockholders resolve the number of shares to be distributed to employees in their meeting in the following year.

In EPS calculation for the nine months ended September 30, 2007, the number of outstanding shares was retroactively adjusted for the effect of capitalization of 2007 earnings. Thus EPS before tax and after tax decreased from NT$4.09 to NT$3.92 and from NT$3.36 to NT$3.22, respectively.

27. FINANCIAL INSTRUMENTS

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

	September 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	$ -	$ -	$ 430,024	$ 430,024
Available-for-sale financial assets (including non-current)	6,737,424	6,737,424	7,750,286	7,750,286

(Continued)

	September 30			
	2008		2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets carried at cost	$ 6,453,218	$ -	$ 6,131,425	$ -
Bond investments with no active market	103,000	103,000	5,038,926	5,038,926
Other financial assets - noncurrent	4,808,532	4,808,532	-	-
Refundable deposits	105,086	105,086	141,566	141,566
Liabilities				
Bonds payable	13,700,000	13,744,652	13,700,000	13,580,001
Long-term debts	4,648,545	4,648,545	4,025,386	4,025,386
Derivative Financial Instrument				
Hedging derivative liabilities (including non-current)	105,641	105,641	-	-

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

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

2) The fair values of financial assets at fair value through profit 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.

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

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

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

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

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

	Amount Determined by Quoted Market Price		Amount Determined by Using Valuation Technique	
	September 30		September 30	
	2008	2007	2008	2007
Assets				
Financial assets at fair value through profit or loss	$ -	$ 430,024	$ -	$ -
Available-for-sale financial assets (including non-current)	6,486,674	7,499,536	250,750	250,750
Liabilities				
Hedging derivative liabilities (including non-current)	-	-	105,641	-

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

e. As of September 30, 2008 and 2007, financial assets with cash flow risk of the interest rate change were both NT$250,750 thousand and on financial liabilities with cash flow risk of the interest rate change were NT$11,920,942 thousand and NT$14,429,712 thousand, respectively. The financial liabilities with fair value risk of interest rate change were both NT$16,694,848 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$452,283 thousand and NT$474,755 thousand, respectively, for the nine months ended September 30, 2008 and NT$509,168 thousand and NT$470,529 thousand, respectively, for the nine months ended September 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$378,749 thousand.

The Corporation's investments in the bond funds and stocks of Taiwan Semiconductor Manufacturing Company Ltd., Maruichi Steel Tube Ltd., Yodogawa Steel Work, 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$64,867 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 September 30, 2008 and 2007, the Corporation's credit risks amounted to NT$4,605,988 thousand and NT$3,519,793 thousand, respectively (including notes and accounts receivable, other receivables and refundable deposits, as of September 30, 2008 and 2007. The notes and accounts receivable represent the balance deducted with factoring and L/C transaction of NT$2,448,031 thousand and NT$3,842,751 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 available-for-sale financial assets (including non-current), short-term loans and long-term loans) which have cash flow risk of the interest rate change, and make future cash flow fluctuate. If the market interest rate increases by 1%, the Corporation's cash outflow will increase by NT$116,702 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 Steel Australia Holdings Pty. Ltd. and contracts of purchasing machinery and equipment.

		Designated Hedging Instrument		
			Changes of Fair Value Nine Months Ended September 30	
Hedge Type	**Hedged Item**	**Financial Instrument**	**2008**	**2007**
Fair value hedge	Stock investments in Maruichi Steel Tube Ltd.	Long-term debt in YEN	$ (46,670)	$ (25,090)
Fair value hedge	Stock investments in East Asia United Steel Corporation	Long-term debt in YEN	(177,705)	(95,535)
Fair value hedge	Stock investments in Yodogawa Steel Works, Ltd.	Long-term debt in YEN	(21,791)	4,917
Hedge of a net investment in a foreign operation	Stock investment in CSC Australia Holdings Pty. Ltd.	Long-term debt in AUD	43,275	(32,566)
Hedge of cash flow	Contracts for purchasing machinery and equipment	Foreign currency	38,439	-
Hedge of cash flow	Contracts for purchasing machinery and equipment	Forward contracts	(105,641)	-

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.

28. RELATED PARTY TRANSACTIONS

a. Related parties

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

(Concluded)

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
Hua Eng Wire & Cable Co., Ltd.	Director of the Corporation's subsidiary
CTCI Corporation	Supervisor of the Corporation's subsidiary
CSC Educational Foundation	Foundation established with the Corporation's donation

b. Significant related-party transactions were as follows:

	Nine Months Ended September 30			
	2008		2007	
	Amount	%	Amount	%
Sales				
CSSB	$ 4,592,038	2	$ 3,198,981	2
CSSC	3,914,109	2	2,556,052	2
CSCC	3,362,046	2	1,697,925	1
CYC	2,072,729	1	1,415,486	1
CHSC	1,637,428	1	818,688	1
Others	1,698,799	1	2,380,768	1
	$ 17,277,149	9	$ 12,067,900	8
Purchases (including of shipping charges)				
CSEP	$ 20,544,116	17	$ 13,399,743	18
CAC	2,252,109	2	3,031,624	4
CSE	2,241,971	2	2,883,314	4
CSGT	224,434	-	261,559	-
Others	716,888	1	518,057	1
	$ 25,979,518	22	$ 20,094,297	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 rental 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 Nine Months Ended September 30 2008	2007
CAC	February 2016	$ 42,064	$ 41,404
CSMC	November 2011	21,621	22,417
CSCC	December 2012	16,012	15,239
CSSC	May 2018	11,753	11,778
CHC	April 2012	3,903	4,165
Others	October 2012	6,432	5,792
		$ 101,785	$ 100,795

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:

	Nine Months Ended September 30 2008	2007
KRTC	$ 1,983,403	$ 1,299,102
DSC	973,632	319,266
CHSC	217,188	263,005
Others	496,351	494,453
	$ 3,670,574	$ 2,375,826

Other expenditures

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

	Nine Months Ended September 30 2008	2007
CEC	$ 2,153,133	$ 1,786,359
CSMC	2,044,284	2,148,374
USECC	582,959	313,796
CHC	563,229	533,058
CHSC	461,680	134,347
CSSC	330,594	378,348
Others	1,323,746	1,146,488
	$ 7,459,625	$ 6,440,770

Asset transactions

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

In August 2007, the Corporation bought land from CHC for construction of its factories. The contract price was a total of NT$977,257 thousand, which was determined by reference to the appraisal report. As of September 30, 2008, the Corporation had paid NT$792,056 thousand.

Donation expenditures

For the nine months ended September 30 2007, the Corporation donated NT$4,000 thousand to CSC Educational Foundation. This foundation is established for promotion of education and personnel training in steel and related fields.

c. Balances at period-end

	September 30			
	2008		2007	
	Amount	%	Amount	%
Receivables				
KRTC	$ 553,342	14	$ 251,363	7
CSCC	315,179	8	206,663	5
DSC	101,647	3	81,877	2
CSSB	79	-	173,596	5
Others	179,342	5	166,913	4
	$ 1,149,589	30	$ 880,412	23
Payables				
CSEP	$ 2,538,546	41	$ 987,956	35
CSE	364,440	6	331,002	12
CAC	126,407	2	218,417	7
Others	64,460	1	71,112	3
	$ 3,093,853	50	$ 1,608,487	57
Other prepayment (classified as other current assets)				
CSEP	$ 641,726	48	$ 1,173,968	64

29. PLEDGED ASSETS

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

30. COMMITMENTS AS OF SEPTEMBER 30, 2008

a. The Corporation were under guarantees of NT$1,089,324 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$21.5 billion.

c. The Corporation entered into property purchase contracts amounted to NT$31 billion. Unpaid amounts as of September 30, 2008 were NT$17.6 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 September 30, 2008 were US$21.8 billion (including 23,950,000 metric tons of coal; 134,870,000 metric tons of iron ore; and 4,520,000 metric tons of limestone).

e. CHSC entered into a syndicated credit facility agreement with The Mega International Commercial Bank and 21 other banks. Under the agreement, the Corporation and its related parties should collectively hold at least 30% of CHSC's issued shares and have over half of CHSC's board seats as well as significant influence on its operations. As of September 30, 2008, the Corporation had total direct and indirect shareholdings in CHSC of 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 September 30, 2008, the Corporation's and its subsidiaries' equity in KRTC aggregated 32%.

g. DSC entered into a syndicated credit facility agreement amounted to NT$51.7 billion with the Bank of Taiwan and 12 other banks in February 2008. Under this agreement, the Corporation (the main stockholder of DSC) and its related parties should collectively hold at least 40% of DSC's issued shares and have over half of DSC's board seats. As of September 30, 2008, the Corporation's and its subsidiaries' equity in DSC aggregated 73%.

31. SUBSEQUENT EVENT

On October 7, 2008, the Corporation's Board of Directors approved the buyback of 300,000 thousand issued common shares on the open market between October 8, 2008 and December 7, 2008 at between NT$21.18 and NT$52.67 per share for the transfer of these shares to employees. As of October 22, 2008, the date of the accompanying accountants' report, the Corporation had acquired 21,000 thousand common shares.

CHINA STEEL CORPORATION

ADDITIONAL EXPLANATIONS FOR ACCOUNTS IN STOCKHOLDERS' EQUITY NINE MONTHS ENDED SEPTEMBER 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.