China Steel Corporation

Financial Statements for the
Three Months Ended March 31, 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 March 31, 2008 and 2007, and the related statements of income and cash flows for the three 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 of making inquiries of persons 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 subsidiaries (all with shares having no quoted prices) in which the Corporation has equity-method investments. The aggregate carrying values of these investments were NT$56,704,378 thousand and NT$58,014,721 thousand as of March 31, 2008 and 2007, respectively. The net investment income were NT$2,515,403 thousand and NT$2,438,585 thousand recognized for the three months ended March 31, 2008 and 2007, respectively. These investment amounts as well as the investees' information disclosed in Note 31 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.

April 21, 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
MARCH 31, 2008 AND 2007
(In Thousands of New Taiwan Dollars, Except Par Value)
(Reviewed, Not Audited)

	2008		2007	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 4)	$ 23,212,830	8	$ 19,715,847	7
Financial assets at fair value through profit or loss - current (Notes 2 and 5)	3,481,661	1	13,944,419	5
Available-for-sale financial assets - current (Notes 2 and 6)	4,651,849	2	4,963,082	2
Notes receivable	1,377,658	1	1,173,082	1
Accounts receivable (Notes 2, 7 and 27)	3,130,854	1	2,777,672	1
Other receivables (Note 27)	6,460,073	2	846,421	-
Inventories (Notes 2 and 8)	39,453,814	13	32,118,443	12
Deferred income tax assets (Note 23)	273,707	-	183,910	-
Restricted assets - current (Note 28)	4,186,196	1	3,650,000	1
Others (Note 27)	3,192,565	1	770,351	-
Total current assets	89,421,207	30	80,143,227	29
INVESTMENTS				
Available-for-sale financial assets - noncurrent (Notes 2 and 6)	3,375,967	1	3,133,485	1
Financial assets carried at cost - noncurrent (Notes 2 and 9)	6,316,803	2	5,918,565	2
Bond investments with no active market - noncurrent (Notes 2 and 10)	5,038,926	2	5,482,324	2
Investments accounted for by the equity method (Notes 2 and 11)	63,526,249	21	63,690,950	24
Other financial assets - noncurrent (Note 12)	4,891,200	2	-	-
Total investments	83,149,145	28	78,225,324	29
PROPERTY, PLANT AND EQUIPMENT (Notes 2, 13, 27 and 29)				
Land	10,578,923	4	8,322,881	3
Land improvements	4,212,123	1	4,212,123	2
Buildings	40,261,354	14	39,099,627	14
Machinery and equipment	240,536,592	82	226,252,506	82
Transportation equipment	1,541,432	-	1,494,864	1
Other equipment	4,115,171	1	3,276,555	1
Total cost	301,245,595	102	282,658,556	103
Revaluation increment	17,064,474	6	17,248,425	6
Cost and revaluation increment	318,310,069	108	299,906,981	109
Less: Accumulated depreciation	215,444,283	73	205,573,549	75
	102,865,786	35	94,333,432	34
Constructions in progress	13,985,729	5	16,343,394	6
Total property, plant and equipment	116,851,515	40	110,676,826	40
INTANGIBLE ASSETS (Note 2)	215,025	-	3,468	-
OTHER ASSETS				
Assets leased to others (Notes 2 and 14)	3,147,172	1	3,175,839	1
Refundable deposits	111,973	-	71,571	-
Restricted assets - noncurrent (Note 28)	2,000	-	31,694	-
Unamortized repair costs and others (Note 2)	1,557,958	1	2,131,394	1
Total other assets	4,819,103	2	5,410,498	2
TOTAL	$ 294,455,995	100	$ 274,459,343	100

	2008		2007	
LIABILITIES AND STOCKHOLDERS' EQUITY	**Amount**	**%**	**Amount**	**%**
CURRENT LIABILITIES				
Short-term loans and overdraft (Notes 15 and 28)	$ 8,886,458	3	$ 12,372,543	5
Hedging derivative liabilities - current (Notes 2 and 16)	30,090	-	-	-
Accounts payable (Note 27)	5,779,146	2	3,793,156	1
Income tax payable (Note 23)	9,347,947	3	8,469,044	3
Accrued expenses (Notes 2 and 17)	6,316,071	2	5,237,244	2
Other payables (Note 29)	3,380,655	1	2,125,094	1
Others	2,427,057	1	1,991,055	1
Total current liabilities	36,167,424	12	33,988,136	13
LONG-TERM LIABILITIES				
Hedging derivative liabilities - noncurrent (Notes 2 and 16)	221,744	-	-	-
Bonds payable (Note 18)	13,700,000	5	13,700,000	5
Long-term debt (Note 19)	4,652,473	1	3,505,000	1
Total long-term liabilities	18,574,217	6	17,205,000	6
RESERVE FOR LAND VALUE INCREMENT TAX (Note 13)	2,171,124	1	2,171,124	1
OTHER LIABILITIES				
Deferred income tax liabilities (Note 23)	2,383,728	1	2,644,170	1
Deferred credits - gain from affiliates (Note 21)	1,543,519	1	1,152,204	-
Total other liabilities	3,927,247	2	3,796,374	1
Total liabilities	60,840,012	21	57,160,634	21
CAPITAL STOCK - authorized 12,000,000 thousand shares at NT$10 par value (Note 22)				
Common shares - issued 11,496,499 thousand shares and 11,053,758 thousand shares as of March 31, 2008 and 2007, respectively	114,964,990	39	110,537,576	40
Preferred shares - issued 38,792 thousand shares and 40,694 thousand shares as of March 31, 2008 and 2007, respectively	387,920	-	406,940	-
Total capital stock	115,352,910	39	110,944,516	40
CAPITAL SURPLUS (Note 22)	1,962,492	1	1,556,379	1
RETAINED EARNINGS (Note 22)	110,326,062	37	96,540,981	35
OTHER EQUITY				
Unrealized revaluation increment (Notes 2, 13 and 22)	1,508,387	-	1,512,094	1
Unrealized gain on financial instruments (Notes 6, 12, 16 and 22)	6,350,718	2	8,083,529	3
Cumulative translation adjustments (Note 22)	(469,521)	-	38,083	-
Net loss not recognized as pension cost	(41,208)	-	(37,359)	-
Treasury stock - 81,849 thousand shares and 83,000 thousand shares as of March 31, 2008 and 2007, respectively (Notes 2 and 22)	(1,373,857)	-	(1,339,514)	(1)
Total other equity	5,974,519	2	8,256,833	3
Total stockholders' equity	233,615,983	79	217,298,709	79
TOTAL	$ 294,455,995	100	$ 274,459,343	100

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

(With Deloitte & Touche review report dated April 21, 2008)

CHINA STEEL CORPORATION

STATEMENTS OF INCOME
THREE MONTHS ENDED MARCH 31, 2008 AND 2007
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)
(Reviewed, Not Audited)

	2008		2007	
	Amount	**%**	**Amount**	**%**
OPERATING REVENUES (Notes 2 and 27)	$ 57,352,816	100	$ 49,127,693	100
OPERATING COSTS (Notes 24 and 27)	44,438,435	78	34,857,027	71
GROSS PROFIT	12,914,381	22	14,270,666	29
UNREALIZED GAIN FROM AFFILIATES	(174,823)	-	(49,343)	-
REALIZED GROSS PROFIT	12,739,558	22	14,221,323	29
OPERATING EXPENSES (Notes 24 and 27)				
Research and development	378,252	1	302,268	1
Selling	727,380	1	640,474	1
General and administrative	635,143	1	548,427	1
Total operating expenses	1,740,775	3	1,491,169	3
OPERATING INCOME	10,998,783	19	12,730,154	26
NONOPERATING INCOME AND GAINS				
Interest income (Note 26)	172,582	-	182,964	-
Valuation gain on financial assets (Notes 2 and 5)	6,530	-	48,431	-
Investment income recognized under equity method (Note 11)	3,007,729	5	2,929,260	6
Income from scrap sales	85,444	-	107,389	-
Others	316,782	1	266,344	1
Total nonoperating income and gains	3,589,067	6	3,534,388	7
NONOPERATING EXPENSES AND LOSSES				
Interest expense (Notes 13 and 26)	128,970	-	141,157	-
Loss on disposal of property, plant and equipment	50,743	-	314	-
Impairment loss (Note 9)	-	-	243,290	1
Others	72,464	-	50,225	-
Total nonoperating expenses and loses	252,177	-	434,986	1
INCOME BEFORE INCOME TAX	14,335,673	25	15,829,556	32
INCOME TAX (Notes 2 and 23)	2,622,340	5	2,718,038	5
NET INCOME	$ 11,713,333	20	$ 13,111,518	27

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CHINA STEEL CORPORATION

STATEMENTS OF INCOME
THREE MONTHS ENDED MARCH 31, 2008 AND 2007
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)
(Reviewed, Not Audited)

	2008		2007	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS PER SHARE (Note 25)				
Basic	$ 1.25	$ 1.02	$ 1.39	$ 1.15
Diluted	$ 1.25	$ 1.02	$ 1.38	$ 1.15

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	$ 11,797,657	$ 13,114,936
Basic earnings per share based on weighted-average number of outstanding common shares aggregating11,496,499 thousand and 11,492,997 thousand for the three months ended March 31, 2008 and 2007, respectively	$1.03	$1.14
Diluted earnings per share based on weighted-average number of outstanding common shares aggregating 11,535,291 thousand and 11,533,691 thousand for the three months ended March 31, 2008 and 2007, respectively	$1.02	$1.14

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

(With Deloitte & Touche review report dated April 21, 2008) (Concluded)

CHINA STEEL CORPORATION

STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2008 AND 2007
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 11,713,333	$ 13,111,518
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	2,804,467	2,656,882
Amortization	162,140	137,572
Deferred income tax	(68,763)	(84,238)
Investment income under the equity method	(3,007,729)	(2,929,260)
Impairment loss	-	243,290
Valuation gains on financial assets	(6,530)	(48,431)
Loss on disposal of property, plant and equipment	50,743	314
Unrealized gain from affiliates	174,823	49,343
Provision for pension costs	(73,971)	(110,971)
Others	17,135	(765)
Net changes in operating assets and liabilities		
Notes receivable	17,897	163,196
Accounts receivable	(668,614)	(40,505)
Other receivables	27,290	(573,871)
Inventories	(1,303,245)	292,522
Other current assets	(769,947)	248,830
Notes and accounts payable	439,053	182,370
Income tax payable	2,665,703	2,786,510
Accrued expenses	(1,204,166)	(2,581,549)
Other current liabilities	(1,344)	(683,318)
Net cash provided by operating activities	10,968,275	12,819,439
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of financial assets at fair value through profit or loss	(3,500,017)	(3,463,760)
Proceeds from disposal of financial assets at fair value through profit or loss	1,056,983	1,883,760
Acquisition of financial assets carried at cost	-	(89,250)
Acquisition of investments accounted for by equity method	(140,872)	(13,150)
Acquisition of property, plant and equipment	(3,427,810)	(3,344,064)
Increase in other financial assets - noncurrent	(4,878,900)	-
Increase in refundable deposits	(30,300)	(15,738)
Decrease (increase) in other assets	5,838	(3,366)
Net cash used in investing activities	(10,915,078)	(5,045,568)
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in short-term loans and overdraft	(1,268,227)	(4,237,446)
Cash dividends	(10,299)	(17,189)

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CHINA STEEL CORPORATION

STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2008 AND 2007
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	2008	2007
Net cash used in financing activities	$ (1,278,526)	$ (4,254,635)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,225,329)	3,519,236
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	24,438,159	16,196,611
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 23,212,830	$ 19,715,847
SUPPLEMENTAL INFORMATION		
Interest paid (excluding capitalized interest)	$ 53,686	$ 63,620
Income tax paid	25,400	15,766
CASH PAID FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT		
Acquisition of property, plant and equipment	$ 3,930,043	$ 3,017,193
Decrease (increase) in payable for equipment purchased	(502,233)	326,871
	$ 3,427,810	$ 3,344,064

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

(With Deloitte & Touche review report dated April 21, 2008) (Concluded)

1. ORGANIZATION AND OPERATIONS

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

The Corporation's shares have been listed on the Taiwan Stock Exchange since December 1974. As of March 31, 2008, the Ministry of Economic Affairs, Republic of China owned 22.52% of the Corporation's outstanding common stock.

As of March 31, 2008 and 2007, the Corporation both had about 9,000 employees.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements have been prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, Business Accounting Law, Guidelines Governing Business Accounting and accounting principles generally accepted in the Republic of China ("ROC"). Under these guidelines, law and principles, certain estimates and assumptions have been used for the allowance for doubtful accounts, loss on inventory, depreciation of property, plant and equipment, impairment loss on assets, pension cost, 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 resulted from revenue from letters of credit. The Corporation provides 100% allowance for doubtful accounts on accounts receivable from sales on credit and services that are overdue and assessed as not collectible.

Factoring of Accounts Receivable

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

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

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

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

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

Inventories

Inventories are raw materials, supplies, fuel, finished products, and work in process. Inventories are stated at the lower of total moving average cost or market value. Market value is the net realizable value for finished products, and work in process, and replacement cost for raw materials, supplies and fuel. Slow-moving supplies are provided with allowance for inventory obsolescence since the second quarter in 2007.

Financial Assets Carried at Cost

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

Bond Investments With No Active Market

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

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

Investments Accounted for by the Equity Method

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

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

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

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

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

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

Property, Plant and Equipment

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

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

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

Intangible Assets

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

Assets Leased to Others

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

Unamortized Repairs

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

Impairment of Asset

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

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

Pension Cost

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

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

Treasury Stock

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

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

Income Tax

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

Tax credits for purchases of machinery, equipment and technology, research and development expenditures, and employee training expenditures are recognized 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 stockholder's meeting approve to retain the earnings.

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

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

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

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

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

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

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

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

Hedging Derivative Financial Instruments

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

Hedge Accounting

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

a. Fair value hedge

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

b. Cash flow hedge

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

c. Hedge of a net investment in a foreign operation

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

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

Reclassifications

Certain accounts in the financial statements as of and for the three months ended March 31, 2007 have been reclassified to conform to the presentation of the financial statements as of and for the three months ended March 31, 2008.

3. EFFECTS OF CHANGES IN ACCOUNTING PRINCIPLES

In March 2007, the ARDF issued an interpretation that requires companies to recognize as compensation expenses bonuses paid to employees, directors and supervisors starting January 1, 2008. These bonuses were previously recorded as appropriations from earnings. The adoption of this interpretation resulted in a decrease of NT$336,267 thousand in net income and a decrease in after income tax basic earnings per share of NT$0.03 for the three months ended March 31, 2008.

4. CASH AND CASH EQUIVALENTS

	March 31	
	2008	**2007**
Cash on hand	$ 19,072	$ 18,603
Checking accounts and demand deposits	992,466	1,264,028
Time deposits	7,400,000	3,300,000
Negotiable certificates of deposit	7,000,000	5,500,000
Cash equivalents - short-term notes and bills	7,801,292	9,633,216
	$ 23,212,830	$ 19,715,847

As of March 31, 2008 and 2007, the Corporation had foreign bank deposits of ￥5,785 thousand and ￥5,840 thousand in Japan-Osaka Bank and ￥11 thousand and ￥2 thousand in Singapore - Daiwa Securities SMBC with the total of ￥5,796 thousand (NT$1,772 thousand) and ￥5,842 thousand (NT$1,638 thousand), respectively.

5. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The financial assets designated as at FVTPL represent open-end funds. As of March 31, 2008 and 2007, the balances of financial assets at fair value through profit or loss were NT$3,481,661 thousand and NT$13,944,419 thousand, respectively. The purpose of classifying open-end funds to this account is to remove the accounting inconsistency between investment income and interest expense.

Net gains on financial assets designated as at FVTPL for the three months ended March 31, 2008 and 2007 were NT$6,530 thousand and NT$48,431 thousand, respectively.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	March 31			
	2008		2007	
	Current	Noncurrent	Current	Noncurrent
Quoted stocks				
Maruichi Steel Tube Ltd.	$ -	$ 757,920	$ -	$ 757,920
Yodogawa Steel Works, Ltd.	-	349,389	-	-
Advanced Material Technology Corporation (AMTC) (Note 9)	-	-	-	243,290
Tang Eng Iron Works Corporation (TEIWC)	-	-	-	-
Taiwan Semiconductor Manufacturing Company (TSMC)	967,456	-	967,456	-
Bank debentures - Taiwan Cooperative Bank	250,160	-	250,400	-
Adjustments for change in valuation	3,434,233	2,268,658	3,745,226	2,375,565
Accumulated impairment	-	-	-	(243,290)
	$ 4,651,849	$ 3,375,967	$ 4,963,082	$ 3,133,485

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 classified as available-for-sale financial asset - noncurrent. As of March 31, 2008 and 2007, the carrying value of this financial asset was NT$1,063,041 thousand and NT$1,080,957 thousand recorded in adjustments for change in valuation, 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 price referred to the average closing price of Yodogawa Steel Works, Ltd. stock in Tokyo Stock Exchange from August 1 to 28, 2007.

The Corporation borrowed foreign-currency bank loans in the same amounts with the hedged investment to hedge exchange rate fluctuation risks on the investments in Maruichi Steel Tube Ltd. and Yodogawa Steel Works, Ltd. (Notes 19 and 26).

7. ACCOUNTS RECEIVABLE

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

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

Transaction Counter-party	Receivables Sold	Amounts Collected	Advances Received at Period-end	Interest Rates on Advances Received (%)	Credit Line (In Billions of NTD)
Three months ended March 31, 2008					
Accounts Receivable					
Mega Bank	$ 3,647,591	$ 3,484,240	$ 4,676,903	2.03-2.54	6.4
Bank of Taiwan	660,453	602,286	757,004	2.03-2.54	2.5
Taipei Fubon Bank	256,931	223,094	255,057	2.26-2.70	0.4
	$ 4,564,975	$ 4,309,620	$ 5,688,964		
Three months ended March 31, 2007					
Accounts Receivable					
Mega Bank	$ 2,953,653	$ 2,879,255	$ 4,216,671	1.79-1.93	6.24
Bank of Taiwan	407,278	387,124	486,557	1.79-1.99	2.5
Taipei Fubon Bank	110,046	54,221	100,865	2.09-2.23	0.4
	$ 3,470,977	$ 3,320,600	$ 4,804,093		

8. INVENTORIES

	March 31 2008	March 31 2007
Finished products	$ 7,954,582	$ 5,427,751
Work in process	11,837,125	10,545,426
Raw materials	9,023,189	7,004,393
Supplies	6,363,383	5,537,231
Materials in transit	3,840,739	2,470,310
Fuel	122,940	167,648
Others	835,196	965,684
	39,977,154	32,118,443
Less: Allowance for inventory obsolescence losses	523,340	-
	$ 39,453,814	$ 32,118,443

9. FINANCIAL ASSETS CARRIED AT COST

	March 31 2008	March 31 2007
Unquoted common - stocks		
Industrial Bank of Taiwan	$ 1,000,000	$ 1,000,000
CDIB & Partners Investment Holding Corporation	500,000	500,000
Taiwan Rolling Stock Co., Ltd. (TRSC)	202,048	-
Hsin Hsin Cement Enterprise Corp.	165,010	165,010
CDIB BioScience Ventures I, Inc.	83,640	102,000
Phalanx Biotech Group Corporation	73,370	73,370
Overseas Investment & Development Corporation	50,000	50,000
CTB I Venture Capital Co., Ltd.	50,000	50,000

(Continued)

	March 31	
	2008	2007
Asia Pacific Broadband Telecom Co., Ltd.	$ -	$ -
Advanced Material Technology Corporation (AMTC)	-	-
Unquoted Preferred stocks		
East Asia United Steel Corporation (EAUS)	3,057,000	2,804,000
Dragon Steel Corporation (DSC)		
Preferred A	999,877	999,877
Preferred B	53,312	-
Fund - Sino-Canada Biotechnology Development Fund, LP (SCBDF)	82,546	174,308
	$ 6,316,803	$ 5,918,565

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

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

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

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

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

In May 2003, the Corporation signed a slab production joint-venture contract with Sumitomo Metal Industries, Ltd. and Sumitomo Corporation. In July 2003, the joint venture company of EAUS was established. As of March 31, 2008, the Corporation invested in EAUS the amount of ￥10 billion (Notes 19 and 26). The Corporation thus enjoys a stable supply of good quality slab from this joint venture. The Corporation also signed a contract with Chung Hung Steel Corporation (CHSC) to transfer the purchasing right of slabs from EAUS, and the Corporation receives premiums on this contract based on the volume purchased by CHSC. The amounts of royalty income for the three months ended March 31, 2008 and 2007 were NT$64,595 thousand and NT$89,485 thousand, respectively. As of March 31, 2008 and 2007, the accounts receivable-royalty were NT$81,349 thousand and NT$98,362 thousand, respectively.

The Corporation invested 100 units ($10,000 thousand Canadian dollars) in the SCBDF fund. As of March 31, 2008, the Corporation has invested CAD$9,435 thousand (NT$219,025 thousand) in SCBDF fund. In 2007, the Corporation recognized an impairment loss of NT$76,000 thousand on its investment in SCBDF. The difference between the above cumulative investment and the carrying value was SCBDF disposal of its investments and returned capital to the Corporation.

10. BOND INVESTMENTS WITH NO ACTIVE MARKET

	March 31	
	2008	2007
Unquoted preferred stocks-domestic		
Taiwan High Speed Rail Corporation (THSRC)		
Preferred C	$ 3,904,542	$ 4,297,940
Preferred B	834,384	884,384
Taigen Biotechnology Co., Ltd. (TBC)	-	300,000
	4,738,926	5,482,324
Unquoted preferred stocks-overseas		
TaiGen Biopharmaceuticals Holdings Limited (TGB)	300,000	-
	$ 5,038,926	$ 5,482,324

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

In November 2005 and March 2004, the Corporation acquired a total of 20,000 thousand preferred shares, representing 24% 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. The Corporation can request TBC to redeem all or part of preferred shares by issuing new stock or its own retained earnings after July of 2008. In January 2008, TBC restructured its share capital and made arrangements with TGB incorporated in the British Cayman Islands. The Corporation swapped Preferred B shares of TBC with Preferred B shares of TGB at a 1:1 ratio. Any rights on these shares remained unchanged after the swap.

11. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

	March 31			
	2008		2007	
	Amount	% of Ownership	Amount	% of Ownership
Stocks listed on the Taiwan Stock Exchange, based on the reviewed financial statements				
Chung Hung Steel Corporation (CHSC)	$ 3,932,103	24	$ 3,002,825	24
China Steel Chemical Corporation (CSCC)	1,483,362	29	1,326,671	30
China Hi-ment Corporation (CHC)	697,413	20	686,384	20
China Steel Structure Corporation (CSSC)	556,398	18	552,901	18
China Ecotek Corporation (CEC)	485,783	36	439,736	36
	7,155,059		6,008,517	

(Continued)

	March 31			
	2008		2007	
	Amount	% of Owner-ship	Amount	% of Owner-ship
Less: Shares held by subsidiaries accounted for as treasury stock	$ 333,188		$ 332,288	
	6,821,871		5,676,229	
Stocks without quoted market prices, based on the unreviewed financial statements				
Dragon Steel Corporation (DSC)	16,749,593	47	15,978,926	47
China Steel Express Corporation (CSE)	7,715,053	100	9,969,357	100
C. S. Aluminum Corporation (CAC)	7,584,008	100	7,589,280	100
Gains Investment Corporation (GIC)	7,517,158	100	8,967,927	100
China Prosperity Development Corporation (CPDC)	4,771,376	100	4,711,237	100
China Steel Asia Pacific Holdings Pte Ltd (CSAPH)	3,386,061	100	2,825,765	100
Kaohsiung Rapid Transit Corporation (KRTC)	2,821,004	31	3,025,494	31
China Steel Global Trading Corporation (CSGT)	1,304,327	100	1,275,784	100
China Steel Machinery Corporation (CSMC)	1,264,837	100	1,034,858	100
Horng Yih Investment Corporation (HYI)	913,822	100	677,553	99
Long Yuan Fa Investment Corporation (LYFI)	912,819	100	675,712	99
Goang Yaw Investment Corporation (GYI)	889,800	100	659,590	99
Info-Champ Systems Corporation (ICSC)	670,541	100	682,182	100
CSC Australia Holding Pty. Ltd. (CSCAU)	449,929	100	-	-
Kaohsiung Arena Development Corporation (KADC)	338,555	18	254,533	18
China Steel Security Corporation	274,428	100	260,094	100
Hi-mag Magnetic Corporation	110,104	50	102,044	50
Baolai Greeting Development Co., Ltd.	45,634	45	48,866	45
China Steel Management Consulting Corporation (CSMCC)	20,275	100	9,836	38
TaiAn Technologies Corporation (TTC)	5,723	17	4,426	17
Taiwan Rolling Stock Co., Ltd. (Note 9)	-	-	228,952	22
	57,745,047		58,982,416	
Less: Shares held by subsidiaries accounted for as treasury stock	1,040,669		967,695	
	56,704,378		58,014,721	
	$ 63,526,249		$ 63,690,950	

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

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 additionally 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 an 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 right, the Corporation invested AUD$16,540 thousand (NT$445,945 thousand) to establish CSCAU and acquired 100% equity. Then CSCAU established CSC Sonoma Pty. Ltd., representing 100% equity. CSC Sonoma Pty. Ltd. invested in a joint venture (Sonoma Mine Investment) and acquired 5% equity.

In January 2008, in order to simplify the structure of investments, the Corporation invested NT$15,083 thousand, 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 , 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 March 31, 2008 and 2007 was as follows:

	March 31	
	2008	**2007**
CHSC	$ 7,220,372	$ 5,161,734
CSCC	5,529,179	3,805,912
CHC	1,753,196	1,330,450
CEC	1,346,841	942,301
CSSC	577,293	457,804
	$ 16,426,881	$ 11,698,201

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

	Three Months Ended March 31,	
	2008	**2007**
Recognized based on the reviewed financial statements		
CHSC	$ 254,936	$ 243,219
CSCC	117,015	98,822
CEC	80,622	65,088
CHC	29,368	29,887
CSSC	10,385	53,659
	492,326	490,675
Recognized based on the unreviewed financial statements		
CSE	1,919,889	1,285,027
CSMC	262,144	174,802
CAC	194,045	205,228
CSGT	148,033	78,551
CSAPH	112,518	83,196
DSC	87,395	158,938
LYFI	58,711	51,950
HYI	57,786	52,069

(Continued)

	Three Months Ended March 31, 2008	2007
GYI	$ 56,278	$ 50,693
GIC	(366,950)	253,660
KRTC	(73,036)	(6,073)
Others	58,590	50,544
	2,515,403	2,438,585
	$ 3,007,729	$ 2,929,260

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 March 31, 2008, the Corporation's unexecuted investment in these investees aggregated NT$10,910,161 thousand.

The Corporation's Board of Directors approved to exchange 22,900 thousand shares of CSMC for CEC's new shares issued from increased capital. The exchange ratio is 1:1, and the exchange date is on April 1, 2008. After the exchange, the Corporation's equity in CSMC and CEC will be reduced from 100% to 74% and increased from 36% to 49%, respectively.

In March 2008, the Corporation's Board of Directors approved to increase its share capital by issuing 575,991 thousand shares to swap 53% ownership of DSC at a 1:2.6 ratio. The estimated stock exchange date is on September 30, 2008. The Corporation's percentage of ownership in DSC will increase to 100% after the swap. The share exchange plan is still subject to the approval of the stockholders' meeting and the authorities.

12. OTHER FINANCIAL ASSETS - NONCURRENT

For the purpose of constructing the Cold – Rolled plant, the Corporation signed the contract to purchase the foreign equipment and the price was 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 March 31, 2008, an unrealized gain of NT$12,300 thousand arising from the JPY time deposits designated as hedging instrument was recognized as unrealized gain or loss on financial instruments in stockholders' equity.

13. PROPERTY, PLANT AND EQUIPMENT

Three months ended March 31, 2008	Land and Land Improvements	Buildings	Machinery and Equipment	Transportation Equipment	Other Equipment	Construction In progress	Total
Cost							
Balance, beginning of period	$ 14,128,821	$ 39,773,039	$ 237,189,591	$ 1,500,483	$ 4,018,844	$ 15,043,863	$ 311,654,641
Additions	662,225	611,193	3,519,015	48,638	147,106	(1,058,134)	3,930,043
Disposals	-	(122,878)	(172,014)	(7,689)	(50,779)	-	(353,360)
Balance, end of period	14,791,046	40,261,354	240,536,592	1,541,432	4,115,171	13,985,729	315,231,324
Revaluation increment							
Balance, beginning of period	6,333,722	2,423,523	8,286,388	27,233	31,714	-	17,102,580
Disposals	-	(15,787)	(22,319)	-	-	-	(38,106)
Balance, end of year	6,333,722	2,407,736	8,264,069	27,233	31,714	-	17,064,474
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	32,820	293,497	2,337,690	20,585	113,025	-	2,797,617
Disposals	-	(89,597)	(193,203)	(7,669)	(50,254)	-	(340,723)
Balance, end of period	3,821,437	19,381,853	188,170,152	1,227,972	2,842,869	-	215,444,283
Net book value, end of period	$ 17,303,331	$ 23,287,237	$ 60,630,509	$ 340,693	$ 1,304,016	$ 13,985,729	$ 116,851,515

(Continued)

Three months ended March 31, 2007	Land and Land Improvements	Buildings	Machinery and Equipment	Transportation Equipment	Other Equipment	Construction In progress	Total
Cost							
Balance, beginning of period	$ 12,535,004	$ 37,261,645	$ 219,788,073	$ 1,473,130	$ 3,096,559	$ 21,922,773	$ 296,077,184
Additions	-	1,837,982	6,496,309	23,560	238,721	(5,579,379)	3,017,193
Disposals	-	-	(31,876)	(1,826)	(58,725)	-	(92,427)
Balance, end of period	12,535,004	39,099,627	226,252,506	1,494,864	3,276,555	16,343,394	299,001,950
Revaluation increment							
Balance, beginning of period	6,333,722	2,423,546	8,433,643	27,233	31,747	-	17,249,891
Disposals	-	-	(1,466)	-	-	-	(1,466)
Balance, end of period	6,333,722	2,423,546	8,432,177	27,233	31,747	-	17,248,425
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	34,678	267,412	2,224,135	21,525	101,939	-	2,649,689
Disposals	-	-	(33,268)	(1,821)	(58,490)	-	(93,579)
Balance, end of period	3,688,807	18,271,573	179,920,102	1,198,319	2,494,748	-	205,573,549
Net book value, end of period	$ 15,179,919	$ 23,251,600	$ 54,764,581	$ 323,778	$ 813,554	$ 16,343,394	$ 110,676,826

Information about capitalized interest on the purchase of property, plant and equipment for the three months ended March 31, 2008 and 2007 was disclosed as follows:

	Three Months Ended March 31	
	2008	2007
Interest expense before capitalization	$ 160,518	$ 157,227
Capitalized interest - construction in progress	(31,548)	(16,070)
Interest expense through income statement	$ 128,970	$ 141,157
Capitalization rates	2.21%-2.43%	1.74%-1.77%

In 1981 and 1994, the Corporation revalued its property, plant and equipment and patents in accordance with government regulations, resulting in were 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 March 31, 2008, revaluation increment on assets totaling NT$13,952,356 thousand have been capitalized as capital stock, reducing the balance of revaluation increment on assets to NT$339,174 thousand. In January 2005, the government revised the land increment tax law to reduce the tax rate. Thus, the reserve for land value increment tax decreased and the revaluation increment on assets increased each by NT$1,196,189 thousand. Accordingly, the balance of revaluation increment on assets increased to NT$1,535,363 thousand. For the three months ended March 31, 2008 and 2007, upon retirement or sale of appreciated properties, the revaluation increment on assets decreased by NT$768 thousand and NT$29 thousand, respectively, and recorded as nonoperating revenue. As of March 31, 2008, the cumulative nonoperating revenue was $26,976 thousand.

14. ASSETS LEASED TO OTHERS

Three months ended March 31, 2008	Land	Machinery and Equipment	Buildings and Improvements	Total
Cost				
Balance, beginning of period	$ 2,966,632	$ 2,000,000	$ 161,816	$ 5,128,448

(Continued)

	Land	Machinery and Equipment	Buildings and Improvements	Total
Accumulated depreciation				
Balance, beginning of period	$ -	$ 1,359,636	$ 20,790	$ 1,380,426
Depreciation expense	-	6,186	664	6,850
Balance, end of period	-	1,365,822	21,454	1,387,276
Accumulated impairment	-	594,000		594,000
Net book value, end of period	$ 2,966,632	$ 40,178	$ 140,362	$ 3,147,172
Three months ended March 31, 2007				
Cost				
Balance, beginning of period	$ 2,966,398	$ 2,000,000	$ 161,816	$ 5,128,214
Additions	234	-	-	234
Balance, end 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	-	6,529	664	7,193
Balance, end of period	-	1,339,807	18,802	1,358,609
Accumulated impairment	-	594,000	-	594,000
Net book value, end of period	$ 2,966,632	$ 66,193	$ 143,014	$ 3,175,839

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

15. SHORT-TERM LOANS AND OVERDRAFT

	March 31 2008	March 31 2007
Credit loans - interest at 2,239% p.a. and 1.689%-1.760% p.a. as of March 31, 2008 and 2007, respectively	$ 7,000,000	$ 10,900,000
Letters of credit - due within 180 days; interest at 0.87%-6.15% p.a. and 1.00%-5.86% p.a. as of March 31, 2008 and 2007, respectively	1,063,509	591,292
Overdraft - interest at 1.93%-2.298% p.a. and 1.20%-3.03% p.a. as of March 31, 2008 and 2007, respectively	822,949	881,251
	$ 8,886,458	$ 12,372,543

16. HEDGING DERIVATIVE LIABILITIES

The Corporation entered into derivative contracts during the three months ended March 31, 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 March 31, 2008 were as follows:

	Currency	Maturity Date	Contract Amount (In Thousands)
March 31, 2008			
Purchase Forward	NT$/US$	April, 2008 - September, 2010	NTD4,630,189/USD146,190

For the three months ended March 31, 2008, the unrealized loss was NT$30,090 thousand and NT$221,744 thousand on derivative financial liability for hedging - current and - noncurrent, respectively, and recognized as unrealized gain or loss on financial instruments in stockholders' equity.

17. ACCRUED EXPENSES

	March 31 2008	March 31 2007
Repair and construction	$ 1,233,887	$ 1,100,951
Incentive bonus	1,050,447	1,188,171
Bonus to employees, and remuneration to directors and supervisors	996,790	-
Others	2,854,947	2,948,122
	$ 6,136,071	$ 5,237,244

18. BONDS PAYABLE

	March 31 2008	March 31 2007
5-year unsecured bonds - issued at par in:		
November 2006; repayable in November 2011; 2.07% interest p.a., payable annually	$ 5,600,000	$ 5,600,000
June 2006; repayable in June 2011; 2.32% interest p.a., payable annually	8,100,000	8,100,000
	$ 13,700,000	$ 13,700,000

19. LONG-TERM DEBTS

	March 31 2008	March 31 2007
Repayable in July 2010 (AUD16.54 million); floating rates at 7.9234% p.a. as of March 31, 2008	$ 460,103	$ -
Repayable in July 2010 (￥4.4 billion); floating rates at 1.1268% and 0.69% p.a. as of March 31, 2008 and 2007, respectively	1,345,080	1,233,760
Repayable in July 2010 (￥3.3 billion); floating rates at 1.3013% and 1.0125% p.a. as of March 31, 2008 and 2007, respectively	1,008,810	925,320
Repayable in December 2009 (￥2.6 billion); floating rates at 1.2108% and 0.8563% p.a. as of March 31, 2008 and 2007, respectively	794,820	729,040

(Continued)

	March 31	
	2008	2007
Repayable in July 2010 (￥2.2 billion); floating rates at 1.2202% and 0.8034% p.a. as of March 31, 2008 and 2007, respectively	$ 672,540	$ 616,880
Repayable in November 2010 (￥1.214 billion); floating rates at 1.165% p.a. as of March 31, 2008	371,120	-
	$ 4,652,473	$ 3,505,000

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

20. RETIREMENT BENEFIT PLAN

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

Under the Act, a defined contribution plan, the Corporation makes monthly contribution to employees' personal retirement account at amounts equal to 6% of the salaries and wages of employees. According to above regulation, pension cost for the three months ended March 31, 2008 and 2007 was NT$8,208 thousand and NT$5,582 thousand, respectively.

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

The Corporation makes contributions, equal to a certain percentage of salaries, to a pension fund, which is deposited in the Bank of Taiwan (formerly Central Trust of China was merged into the Bank of Taiwan in July 2007) in the name of, and administered by the employees' pension fund administration committee. According to above regulation, pension cost for the three months ended March 31, 2008 and 2007 was NT$362,910 thousand and NT$409,628 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 three months ended March 31, 2008 and 2007 was NT$1,477 thousand and NT$1,633 thousand, respectively.

21. DEFERRED CREDITS - GAIN FROM AFFILIATES

	March 31	
	2008	2007
Gain on disposal of land	$ 1,136,164	$ 1,136,164
Gain on contracted projects	407,355	16,040
	$ 1,543,519	$ 1,152,204

A deferred income of NT$1,405,040 thousand was recorded for the unrealized gain NT$1,405,040 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. The accumulated credits will be recognized as income over the service lives of the assets after completion of the constructions expecting to be completes between 2008 and 2010.

22. STOCKHOLDERS' EQUITY

a. Capital stock

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

From April 1, 2007 to March 31, 2008, preferred shares were converted into 1,902 thousand shares of common stocks. As of March 31, 2008, 1,435 thousand shares of which were not yet registered with the government.

b. Treasury stock

	Thousand Shares			March 31	
Purpose of Treasury Stock	**Beginning of Year**	**Addition**	**Reduction**	**Thousand Shares**	**Book Value**
Three months ended March 31, 2008					
Shares acquired and held by subsidiaries	84,543	-	2,694	81,849	$ 1,373,857
Three months ended March 31, 2007					
Shares acquired and held by subsidiaries	81,180	386	166	81,400	$ 1,299,983
Shares acquired by the Corporation for transfer to employees	1,600	-	-	1,600	39,531
	82,780	386	166	83,000	$ 1,339,514

1) Shares acquired and held by subsidiaries

The Corporation's shares acquired and held by subsidiaries were accounted for as treasury stock (recorded as available-for-sale financial assets - current or available-for-sale financial assets - noncurrent). For the three months ended March 31, 2008 and 2007, treasury stock increased by 128,716 thousand shares and 5,632 thousand shares, respectively, due to the Corporation's capitalization of retained earnings and additional shares purchased by subsidiaries; treasury stock decreased by 84,324 thousand shares and 3,418 thousand shares, respectively, due to subsidiaries' sales of the Corporation's shares and change in percentage of ownership.

As of March 31, 2008 and 2007, the market values of the treasury shares are NT$3,928,728 thousand and NT$3,036,232 thousand, respectively.

2) Shares acquired for transfer to employees

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

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

c. Overseas depositary receipts

In May 1992, February 1997 and October 2003, the ROC's Ministry of Economic Affairs (MOEA) sold its holding shares in the Corporation through issuances of 88,329,150 units of Global Depositary Receipts (GDR), with each unit representing 20 shares of the Corporation's common stock, or equivalent to the Corporation's common shares totalling 1,887,073,812 shares. The depositary shares then increased by 6,024,532 resulting from the capitalization of retained earnings. Under relevant regulations, the GDR holders may also request the conversion to the shares represented by the GDR. The foreign investors may also request the reissuance of such depositary receipts within the originally approved units. As of March 31, 2008, the outstanding depositary receipts were 8,581,355 units, equivalent to 171,627,292 common shares, which represented 1.49% of the outstanding common shares.

d. Preferred stock

Preferred stockholders have the following entitlements or rights:

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

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

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

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

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

e. Capital surplus

Capital surplus comprised of the following:

	March 31	
	2008	**2007**
Treasury stock transaction	$ 1,714,880	$ 1,313,860
Long-term stock investments under the equity method	239,513	234,420
Others	8,099	8,099
	$ 1,962,492	$ 1,556,379

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

f. Retained Earnings

Contents of the retained earnings are shown below:

	March 31	
	2008	2007
Legal Reserve	$ 39,589,333	$ 35,674,700
Special Reserve	7,615,701	8,444,993
Unappropriated	51,407,695	39,309,770
Net income for the three months ended March 31	11,713,333	13,111,518
	$ 110,326,062	$ 96,540,981

The Corporation's stockholders, in their June 2007 meetings, reversed special reserve from the earnings appropriations of 2006 for NT$829,292 thousand. As of March 31, 2008, the Corporation has fully reversed the special reserve provided under relevant regulations for those accounted for the balance of deduction on stockholders' equity, and the unreversed special reserve was held for the capital demand of expanding construction.

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 stock dividends at 14% of par value;

3) Of the remainder, 0.15% as remuneration to directors and supervisors (in their meeting in June 2007, the stockholders resolved to change the appropriation rate for directors and supervisors remuneration from 0.3% to 0.15%, which will be effective in 2008) and 3% to 5% as bonus to employees (In March 2008, the Board of Directors proposed to change the appropriation rate for bonus to employees from 3%-5% to 8%, which will be effective for the appropriations of 2008 earnings. Therefore, for the three months ended March 31, 2008, the bonus to employees was accrued temporarily based on above-mentioned percentage);

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

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

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

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

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 three months ended March 31, 2008, the bonus to employees and directors and supervisors, representing 8% and 0.15% of net income, respectively, were accrued based on past experiences.

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

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 Board of Directors and stockholders in their March 2008 and June 2007 meetings proposed and approved (the approved amounts are the same with the proposed amounts) 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 day of appropriations and other distributions of earnings of 2006).

	Amount		**Dividends Per Share**	
	2008	**2007**	**2008**	**2007**
Legal reserve	$ 5,125,820	$ 3,914,633		
Special reserve	-	(829,292)		
Preferred Stocks				
Cash dividends	136,076	112,815	$ 3.50	$ 2.78
Stock dividends	11,664	12,174	0.30	0.30
			$ 3.80	$ 3.08
Common Stocks				
Cash dividends	$ 40,237,442	$ 30,725,312	$ 3.50	$ 2.78
Stock dividends	3,448,924	3,315,681	0.30	0.30
			$ 3.80	$ 3.08
Remuneration to directors and supervisors	69,235	108,054		
Bonus to employees				
Cash bonus	923,135	720,359		
Stock bonus	1,384,702	1,080,539		
	$ 51,336,998	$ 39,160,275		

Information about the bonus to employees and 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 three months ended March 31, 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
Three months ended March 31, 2008				
Balance, beginning of period	$ 4,894,886	$ 1,578,440	$ -	$ 6,473,326
Recognized in stockholders' equity	718,398	(601,472)	(239,534)	(122,608)
Balance, end of period	$ 5,613,284	$ 976,968	$ (239,534)	$ 6,350,718
Three months ended March 31, 2007				
Balance, beginning of period	$ 5,582,793	$ 1,950,944	$ -	$ 7,533,737
Recognized in stockholders' equity	445,460	13,621	-	459,081
Transferred to profit or loss	90,711	-	-	90,711
Balance, end of period	$ 6,118,964	$ 1,964,565	$ -	$ 8,083,529

i. Cumulative translation adjustments

Change in composition of cumulative translation adjustments for the three months ended March 31, 2008 and 2007 was as follows:

	Three Months Ended March 31	
	2008	2007
Balance, beginning of period	$ 283,018	$ (62,787)
Recognized as adjustment of stockholders' equity	(752,539)	100,870
Balance, end of period	$ (469,521)	$ 38,083

23. INCOME TAX

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

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

	Three Months Ended March 31	
	2008	**2007**
Income tax expense at the 25% statutory rate	$ 3,583,918	$ 3,957,389
Tax effect adjusting items		
Permanent differences		
Investment income recognized under equity method - domestic	(724,077)	(711,516)
Unrealized valuation gain on financial assets	(1,633)	(12,108)
Dividends - domestic investees	(3,125)	(21,864)
Tax - exempt income	(4,119)	(2,112)
Others	8,479	(2,445)
Temporary differences		
Difference between tax reporting and financial reporting - depreciation methods	51,152	34,134
Unrealized (realized) gain from affiliates	43,706	12,336
Realized (unrealized) foreign exchange gain	1,771	(6,555)
Difference between tax reporting and financial reporting - sales income	(41,453)	23,666
Investment income recognized under equity method - domestic	(27,856)	(20,799)
Impairment loss	-	60,822
Others	(14,269)	(23,966)
Investment tax credits used	(197,353)	(495,260)
Current income tax expense	2,675,141	2,791,722
Tax separately levied on interest from short-term bills	15,962	10,554
Income tax currently payable	2,691,103	2,802,276
Deferred income tax expense	(68,763)	(84,238)
	$ 2,622,340	$ 2,718,038

The tax exemption, for a period of five consecutive years from April, 2004 to March, 2009, on the increased income derived from the expansion of the Corporation through capitalization of its undistributed earnings and making its capital-increase plan within the scope of the newly emerging, important and strategic industries as set forth in the Statute of Upgrading Industries.

b. Change in income tax payable

	Three Months Ended March 31	
	2008	**2007**
Balance, beginning of period	$ 6,682,244	$ 5,682,534
Income tax currently payable	2,691,103	2,802,276
Payment in the current period	(25,400)	(15,766)
Balance, end of period	$ 9,347,947	$ 8,469,044

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

	March 31	
	2008	**2007**
Current		
Deferred income tax assets		
Severance pay	$ 42,099	$ 36,373
Unrealized gain from affiliates	71,350	97,679
Accrued electrostatic precipitator dust disposal expense	11,111	28,916
Allowance for inventory obsolescence loss	128,452	-
Others	38,125	33,786
	291,137	196,754
Deferred income tax liabilities		
Temporary difference between tax reporting and financial reporting - inventory	(17,430)	(12,844)
	273,707	183,910
Noncurrent		
Deferred income tax assets		
Impairment loss on financial assets	379,822	360,822
Impairment loss on assets	53,565	77,227
Unrealized gain from affiliates	101,839	4,010
Others	60,254	-
	595,480	442,059
Deferred income tax liabilities		
Temporary difference between tax reporting and financial reporting - depreciation methods	(2,498,826)	(2,670,194)
Foreign investment income	(406,853)	(350,820)
Unrealized foreign exchange gain	(73,529)	(6,355)
Others	-	(58,860)
	(2,979,208)	(3,086,229)
	(2,383,728)	(2,644,170)
Total deferred income tax liabilities - net	$ (2,110,021)	$ (2,460,260)

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:

	March 31	
	2008	**2007**
Imputation credit account (ICA)	$ 5,506,583	$ 4,098,292
Unappropriated earnings generated before January 1, 1998	35,440	35,440

The creditable ratio for distribution of 2007 and 2006 earnings was 23.73% (estimated) and 25.93%, respectively.

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

24. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

	Three Months Ended March 31							
	2008				2007			
	Operating Cost	Operating Expense	Others	Total	Operating Cost	Operating Expense	Others	Total
Personnel								
Salary	$ 4,466,952	$ 748,229	$ 18,272	$ 5,233,453	$ 3,665,290	$ 587,997	$ 19,707	$ 4,272,994
Labor and health insurance	142,591	22,156	368	165,115	148,197	22,992	129	171,318
Pension and consolation costs	319,383	64,012	1,477	384,872	355,891	61,940	366	418,197
Others	200,714	30,453	2,421	233,588	138,398	20,017	1,815	160,230
	$ 5,129,640	$ 864,850	$ 22,538	$ 6,017,028	$ 4,307,776	$ 692,946	$ 22,017	$ 5,022,739
Depreciation	$ 2,736,259	$ 61,251	$ 6,957	$ 2,804,467	$ 2,582,336	$ 68,004	$ 6,542	$ 2,656,882
Amortization	145,540	15,810	790	162,140	136,516	266	790	137,572

25. EARNINGS PER SHARE (EPS)

	Amount (Numerator)		Shares (Denominator) (Thousand)	EPS (Dollars)	
	Before Tax	After Tax		Before Tax	After Tax
Three months ended March 31, 2008					
Net income	$ 14,335,673	$ 11,713,333			
Less: Dividends on preferred shares	(16,617)	(13,577)			
Basic EPS					
Net income attributable to common stockholders	14,319,056	11,699,756	11,414,650	$ 1.25	$ 1.02
Effect of dilutive potential common stock					
Add: Dividends on preferred shares	16,617	13,577	38,792		
Diluted EPS					
Net income attributable to common stockholders plus effect of potential dilutive common stock	$ 14,335,673	$ 11,713,333	11,453,442	$ 1.25	$ 1.02
Three months ended March 31, 2007					
Net income	$ 15,829,556	$ 13,111,518			
Less: Dividends on preferred shares	(17,195)	(14,243)			
Basic EPS					
Net income attributable to common stockholders	15,812,361	13,097,275	11,409,155	1.39	1.15

(Continued)

	Amount (Numerator)		Shares (Denominator) (Thousand)	EPS (Dollars)	
	Before Tax	After Tax		Before Tax	After Tax
Effect of dilutive potential common stock					
Add: Dividends on preferred shares	$ 17,195	$ 14,243	$ 40,694		
Diluted EPS					
Net income attributable to common stockholders plus effect of potential dilutive common stock	$ 15,829,556	$ 13,111,518	11,449,849	1.38	1.15

In EPS calculation for the three months ended March 31, 2007, the number of outstanding shares was retroactively adjusted for the effect of capitalization of 2006 earnings. Thus EPS before tax and after tax decreased from NT$1.44 to NT$1.39 and from NT$1.19 to NT$1.15, respectively.

26. FINANCIAL INSTRUMENTS

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

	March 31			
	2008		2007	
Non-derivetive Financial Instruments	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets				
Financial assets at fair value through profit or loss	$ 3,481,661	$ 3,481,661	$ 13,944,419	$ 13,944,419
Available-for-sale financial assets	8,027,816	8,027,816	8,096,567	8,133,890
Financial assets carried at cost	6,316,803	-	5,918,565	-
Bond investments with no active market	5,038,926	5,038,926	5,482,324	5,482,324
Other financial assets-noncurrent	4,891,200	4,891,000	-	-
Refundable deposits	111,973	111,973	71,571	71,571
Liabilities				
Bonds payable	13,700,000	13,770,978	13,700,000	13,970,743
Long-term debt	4,652,473	4,652,473	3,505,000	3,505,000
Derivative Financial Instrument				
Hedging derivative liabilities (including non-current)	251,834	251,834	-	-

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

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

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

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

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

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

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

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

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

	Amount Determined by Quoted Market Price		**Amount Determined by Using Valuation Technique**	
	March 31		**March 31**	
	2008	**2007**	**2008**	**2007**
Assets				
Financial assets at fair value through profit or loss	$ 3,481,661	$ 13,944,419	$ -	$ -
Available-for-sale financial assets	7,777,066	7,883,140	250,750	250,750
Liabilities				
Hedging derivative liabilities (including non-current)	-	-	251,834	-

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

e. As of March 31, 2008 and 2007, financial assets with cash flow risk of the interest rate change were both NT$250,750 thousand and financial liabilities with cash flow risk of the interest rate change were NT$13,538,931 thousand and NT$15,877,543 thousand, respectively. The financial liabilities with fair value risk of the interest rate change were both NT$13,700,000 thousand.

f. The Corporation's total interest revenues and expenses (inclusive of capitalized interest) which were incurred from other than financial assets and liabilities at fair value through profit or loss were NT$172,582 thousand and NT$160,518 thousand, respectively, for the three months ended March 31, 2008 and NT$182,964 thousand and NT$157,227 thousand, respectively, for the three months ended March 31, 2007.

g. Financial risks

1) Market risk

Market risk includes fair value risk of interest rate change, exchange rate risk, and market price risk. The Corporation had long-term loans in yen to hedge the exchange rate fluctuations on 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$441,347 thousand.

The Corporation's investments in the bond funds and stocks of Taiwan Semiconductor Manufacturing Company Ltd., Maruichi Steel Tube Ltd, Yodogawa Steel Works Ltd. and Tang Eng Iron Works Corporation involve market risk. Except the minor fluctuation of the bond fund's market price, the share price of the stocks increases or decreases by 1%, the fair value will increase or decrease by NT$77,771 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 March 31, 2008 and 2007, the Corporation's credit risks amounted to NT$7,393,052 thousand and NT$2,129,512 thousand, respectively (including notes and accounts receivable, other receivables and refundable deposits, as of March 31, 2008 and 2007. The notes and accounts receivable represent the balance deducted with factoring and L/C transaction of NT$3,687,506 thousand and NT$2,739,234 thousand, respectively) and the maximum exposures and carrying value are the same. The credit risks of the cash and bank deposits of the Corporation were considered to be immaterial.

3) Liquidity risk

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

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

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

4) Cash flow interest rate risk

Market interest rate change will influence the effective interest rate of the financial instruments (including short-term and long-term loans) which have cash flow risk of the interest rate change, and make future cash flow fluctuate. If the market interest rate increases by 1%, the Corporation's cash outflow will increase by NT$135,389 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 exchange contracts to effectively hedge the exchange rate fluctuations on the investments in East Asia United Steel Corporation, Maruichi Steel Tube Ltd., Yodogawa Steel Works Ltd., CSC Australia Holdings Pty. Ltd. and contracts of purchasing machinery and equipment.

		Designated Hedging Instrument		
			Changes of Fair Value Three Months Ended March 31	
Hedge Type	**Hedged Item**	**Financial Instrument**	**2008**	**2007**
Fair value hedge	Stock investments in Maruichi Steel Tube Ltd.	Long-term debt in YEN	$ (158,400)	$ 16,380
Fair value hedge	Stock investments in East Asia United Steel Corporation	Long-term debt in YEN	(41,600)	62,370
Fair value hedge	Stock investments in Yodogawa Steel Works, Ltd.	Long-term debt in YEN	(19,424)	-

(Continued)

Hedge Type	Hedged Item	Designated Hedging Instrument		
		Financial Instrument	Changes of Fair Value Three Months Ended March 31	
			2008	2007
Hedge of a net investment in a foreign operation	Stock investment in CSC Australia Holdings Pty. Ltd.	Long-term debt in AUD	12,605	-
Cash flow hedge	Contracts for purchases of machinery and equipment	Time deposit - foreign currency	12,300	-
Cash flow hedge	Contracts for purchases of machinery and equipment	Forward contracts	(251,834)	-

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

27. RELATED-PARTY TRANSACTIONS

a. Related parties

Related Parties	Relationship with the Corporation
C. S. Aluminum Corporation (CAC)	Subsidiary
China Steel Express Corporation (CSE)	Subsidiary
China Steel Chemical Corporation (CSCC)	Subsidiary
China Steel Global Trading Corporation (CSGT)	Subsidiary
China Hi-ment Corporation (CHC)	Subsidiary
China Ecotek Corporation (CEC)	Subsidiary
China Steel Structure Corporation (CSSC)	Subsidiary
Chung Hung Steel Corporation (CHSC)	Subsidiary
China Steel Machinery Corporation (CSMC)	Subsidiary
Gains Investment Corporation	Subsidiary
China Steel Security Corporation	Subsidiary
China Prosperity Development Corporation (CPDC)	Subsidiary
Info-Champ Systems Corporation	Subsidiary
China Steel Management Consulting Corporation	Subsidiary
Hi-mag Magnetic Corporation	Subsidiary
Long-Yuan-Fa Investment Corporation	Subsidiary
Horng-Yih Investment Corporation	Subsidiary
Dragon Steel Corporation (DSC)	Subsidiary
Chung Mao Trading (BVI) Corp.	Subsidiary
Chung Mao Trading (SAMOA) Co.	Subsidiary
CSGT (Singapore) Pte. Ltd.	Subsidiary
CSE Transport Corp. (CSEP)	Subsidiary
Mentor Consulting Corporation	Subsidiary
Steel Castle Technology Corp.	Subsidiary
Union Steel Development Corp.	Subsidiary
Betacera Inc.	Subsidiary
Wabo Globe Trading Corporation	Subsidiary

(Continued)

Related Parties	Relationship with the Corporation
Universal Exchange Inc.	Subsidiary
United Steel Engineering and Construction Corporation (USECC)	Subsidiary
Thintech Materials Technology Co., Ltd.	Subsidiary
Jing Yu Investment Corporation	Subsidiary
Pao Good Industrial Co., Ltd.	Subsidiary
AmbiCom Technology, Inc.	Subsidiary
Ornasteel Enterprise Corp. (M) Sdn. Bhd. (OEC)	Subsidiary
Group Steel Enterprise Corp. (M) Sdn. Bhd	Subsidiary
CSGT (JAPAN) Co., Ltd.	Subsidiary
CSGT Hong Kong Limited	Subsidiary
CSGT (SHANGHAI) Co., Ltd.	Subsidiary
Gau Ruel Investment Corporation	Subsidiary
Shin-Mau Investment Corporation	Subsidiary
Chiun Yu Investment Corporation	Subsidiary
Horng Chyuan Investment Corporation	Subsidiary
Chii Yih Investment Corporation	Subsidiary
Shang Hai Xike Ceramic Electronic Co., Ltd.	Subsidiary
Kaohsiung Rapid Transit Corporation (KRTC)	Equity method investee
TaiAn Technologies Corporation	Equity method investee
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
Quintain Steel Co., Ltd.	It's subsidiary, Chateau International Development Co., Ltd. is a related party of CPDC
CSC Educational Foundation	Foundation established with the Corporation's donation

(Concluded)

b. In addition to the disclosures in Note 9 and 11, significant related-party transactions were as follows:

	Three Months Ended March 31			
	2008		2007	
	Amount	%	Amount	%
Sales				
OEC	$ 1,309,212	2	$ 844,848	2
CSSC	1,117,654	2	789,933	2
CSCC	676,975	1	539,680	1
CYC	540,668	1	415,206	1
CHSC	270,631	1	349,947	-
Others	463,852	1	846,075	2
	$ 4,378,992	8	$ 3,785,689	8

(Continued)

	Three Months Ended March 31			
	2008		2007	
	Amount	%	Amount	%
CSEP	$ 6,778,398	23	$ 2,908,591	13
CSE	805,612	3	1,422,082	6
CAC	704,499	2	941,614	4
Others	263,393	1	210,834	1
	$ 8,551,902	29	$ 5,483,121	24

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

Assets lease

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

	Expiry of Contracts	Rental Income Three Months Ended March 31	
		2008	2007
CAC	February 2016	$ 13,826	$ 13,156
CSMC	November 2011	7,180	6,209
CSCC	December 2010	5,649	5,024
CSSC	May 2018	3,912	3,920
CHC	April 2012	1,301	1,558
Others	April 2009	2,140	1,851
		$ 34,008	$ 31,718

Other expenditures

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

	Three Months Ended March 31	
	2008	2007
CSMC	$ 657,337	$ 791,358
CEC	643,057	544,772
USECC	244,508	165,798
CHSC	189,517	24
CHC	173,223	163,269
CSSC	108,725	144,584
Others	393,581	363,507
	$ 2,409,948	$ 2,173,312

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:

	Three Months Ended March 31	
	2008	**2007**
KRTC	$ 846,471	$ 469,485
DSC	237,996	75,624
CHSC	71,073	95,670
CAC	49,177	68,783
Others	141,385	91,399
	$ 1,346,102	$ 800,961

c. Balances at period-end

	March 31			
	2008		**2007**	
	Amount	**%**	**Amount**	**%**
Receivables				
KRTC	$ 268,858	9	$ 97,295	4
DSC	108,070	4	91,943	3
CSCC	44,273	1	165,370	6
CHSC	34,162	1	166,591	6
Others	104,304	3	89,653	3
	$ 559,667	18	$ 610,852	22
Payables				
CSEP	$ 2,781,586	48	$ 1,299,188	34
CSE	276,979	5	479,836	13
CAC	176,140	3	208,503	5
Others	31,137	1	24,640	1
	$ 3,265,842	57	$ 2,012,167	53
Dividends receivable (recorded in other receivables)				
CSE	$ 5,966,339	92	$ -	-
Prepaid freight (recorded in other current assets)				
CSEP	$ 1,836,166	100	$ -	-
CSE	-	-	262,287	100
	$ 1,836,166	100	$ 262,287	100

28. PLEDGED ASSETS

Time deposits of NT$4,152,000 thousand and NT$3,681,694 thousand as of March 31, 2008 and 2007, respectively, have been pledged mainly as collaterals for bank overdraft, etc.

29. COMMITMENTS AS OF MARCH 31, 2008

a. The Corporation were under guarantees of NT$1,086,365 thousand billion 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$12 billion.

c. The Corporation entered into raw material purchase contracts with suppliers in Australia, India, Brazil, Canada, Indonesia, North Korea, Japan, Philippines, Russia and domestic companies with contract terms of 1 to 10 years. Contracted annual purchases of 8,500,000 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 March 31, 2008 were US$17 billion (including 29,000,000 metric tons of coal; 14,000,000 metric tons of iron ore; and 6,000,000 metric tons of limestone).

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

e. 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 March 31, 2008, the Corporation's total equity in KRTC was 31%.

f. In September 2007, the Corporation bought land from CHC for construction of its factories. The contract price is a total of NT$977,257 thousand, which is determined by reference to appraisal report. As of March 31, 2008, the Corporation have paid NT$396,028 thousand and recorded as payable for NT$400,275 thousand.

30. SUBSEQUENT EVENTS

In April 2008, the Corporation entered into a land purchase contract with CPDC for constructing its factories. The contract price is a total of NT$226,238 thousand, which is determined by reference to appraisal report. As of April 21, 2008, the date of the accompanying independent accountants' review report, the Corporation has not yet made payments.