

China Steel Corporation

**Financial Statements for the
Three Months Ended March 31, 2007 and 2006 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, 2007 and 2006, 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 of the Republic of China. A review consists principally of applying analytical procedures to financial data and 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 an audit opinion.

As discussed in Note 11 to the accompany financial statements, we did not review certain investees (all are non-listed companies) long-term stock investments of the Corporation are accounted for by the equity method. The aggregate carrying values of such long-term stock investments of NT\$58,014,721 thousand and NT\$54,523,449 thousand, respectively, as of March 31, 2007 and 2006, and the investment income amounted to NT\$2,438,585 thousand and NT\$1,549,940 thousand, respectively, for the three months then ended, as well as the investees' information described in Note 27 were presented based on the investees' unreviewed financial statements for the same period.

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 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.

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

April 14, 2007

		2007		2006	
		Amount	%	Amount	%
LIABILITIES AND STOCKHOLDERS' EQUITY					
CURRENT LIABILITIES					
	Short-term loans and overdraft	\$ 12,372,543	5	\$ 15,856,963	6
	Notes and accounts payable	3,793,156	1	2,373,855	1
	Income tax payable	8,469,044	3	8,567,053	3
	Accrued expenses	5,237,244	2	3,931,386	1
	Other payables	2,174,489	1	1,420,246	1
	Bonds payable - current portion	-	-	10,000,000	4
	Long-term bank loans - current portion	-	-	718,250	-
	Other	1,941,660	1	1,399,905	1
	Total current liabilities	33,988,136	13	44,267,658	17
LONG-TERM LIABILITIES					
	Bonds payable, net of current portion	13,700,000	5	-	-
	Bank loans, net of current portion	3,505,000	1	2,734,875	1
	Total long-term liabilities	17,205,000	6	2,734,875	1
RESERVE FOR LAND VALUE INCREMENT TAX					
		2,171,124	1	2,171,124	1
OTHER LIABILITIES					
	Deferred income tax liabilities	2,644,170	1	2,805,643	1
	Deferred credits - gain on intercompany transactions	1,152,204	-	1,143,667	-
	Total other liabilities	3,796,374	1	3,949,310	1
	Total liabilities	57,160,634	21	53,122,967	20
CAPITAL STOCK - authorized 12,000,000 thousand shares at NT\$10 par value					
	Common shares - issued 11,053,758 thousand shares and 10,545,975 thousand shares as of March 31, 2007 and 2006, respectively	110,537,576	40	105,459,746	40
	Preferred shares - issued 40,694 thousand shares and 40,697 thousand shares as of March 31, 2007 and 2006, respectively	406,940	-	406,970	-
	Total capital stock	110,944,516	40	105,866,716	40
CAPITAL SURPLUS					
		1,556,379	1	1,210,847	1
RETAINED EARNINGS					
		83,429,463	30	90,106,191	34
NET INCOME-FIRST QUARTER					
		13,111,518	5	5,488,268	2
OTHER EQUITY ITEMS					
	Cumulative translation adjustments	38,083	-	(120,612)	-
	Investees' unrecognized net loss on pension cost	(37,359)	-	(36,872)	-
	Unrealized gain on financial instrument	8,083,529	3	7,384,719	3
	Revaluation increment on assets	1,512,094	-	1,535,363	-
	Total other equity items	9,596,347	3	8,762,598	3
TREASURY STOCK - 83,000 thousand shares and 81,027 thousand shares as of March 31, 2007 and 2006, respectively					
		(1,339,514)	-	(1,322,387)	-
	Total stockholders' equity	217,298,709	79	210,112,233	80

CHINA STEEL CORPORATION

STATEMENTS OF INCOME

THREE MONTHS ENDED MARCH 31, 2007 AND 2006

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

(Reviewed, Not Audited)

	2007		2006	
	Amount	%	Amount	%
REVENUE	\$49,127,693	100	\$37,846,224	100
COST OF REVENUES	<u>34,857,027</u>	<u>71</u>	<u>32,158,065</u>	<u>85</u>
GROSS PROFIT	14,270,666	29	5,688,159	15
REALIZED (UNREALIZED) GAIN ON INTERCOMPANY TRANSACTIONS	<u>(49,343)</u>	<u>-</u>	<u>201,612</u>	<u>-</u>
REALIZED GROSS PROFIT	<u>14,221,323</u>	<u>29</u>	<u>5,889,771</u>	<u>15</u>
OPERATING EXPENSES				
Selling	640,474	1	506,822	1
General and administrative	548,427	1	432,063	1
Research and development	<u>302,268</u>	<u>1</u>	<u>234,804</u>	<u>1</u>
Total operating expenses	<u>1,491,169</u>	<u>3</u>	<u>1,173,689</u>	<u>3</u>
OPERATING INCOME	<u>12,730,154</u>	<u>26</u>	<u>4,716,082</u>	<u>12</u>
NONOPERATING INCOME AND GAINS				
Interest	182,964	-	78,375	-
Investment income under the equity method	2,929,260	6	1,887,903	5
Income from sales of scraps	107,389	-	65,364	-
Gain on appraisal of financial assets	48,431	-	39,359	-
Other	<u>266,344</u>	<u>1</u>	<u>121,763</u>	<u>1</u>
Total nonoperating income and gains	<u>3,534,388</u>	<u>7</u>	<u>2,192,764</u>	<u>6</u>
NONOPERATING EXPENSES AND LOSSES				
Interest	141,157	-	147,891	-
Impairment loss on available-for-sale financial assets	243,290	1	-	-
Other	<u>50,539</u>	<u>-</u>	<u>261,420</u>	<u>1</u>
Total nonoperating expenses	<u>434,986</u>	<u>1</u>	<u>409,311</u>	<u>1</u>
INCOME BEFORE INCOME TAX	15,829,556	32	6,499,535	17
INCOME TAX	<u>2,718,038</u>	<u>5</u>	<u>973,445</u>	<u>3</u>

(Continued)

CHINA STEEL CORPORATION

STATEMENTS OF INCOME

THREE MONTHS ENDED MARCH 31, 2007 AND 2006

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

(Reviewed, Not Audited)

	2007		2006	
	Amount	%	Amount	%
INCOME BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	\$ 13,111,518	27	\$ 5,526,090	14
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES (net of \$64,547 thousand income tax benefit in 2006)	-	-	(37,822)	-
NET INCOME	<u>\$ 13,111,518</u>	<u>27</u>	<u>\$ 5,488,268</u>	<u>14</u>
	2007		2006	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS PER SHARE				
Basic	<u>\$ 1.44</u>	<u>\$ 1.19</u>	<u>\$ 0.58</u>	<u>\$ 0.50</u>
Diluted	<u>\$ 1.44</u>	<u>\$ 1.19</u>	<u>\$ 0.58</u>	<u>\$ 0.50</u>

PRO FORMA INFORMATION - if the Corporation's shares held by subsidiaries had been accounted for as investments rather than treasury stock

Net Income \$ 13,114,936 \$ 5,489,735

Basic earnings per share based on weighted-average number of outstanding common shares of 11,052,158 thousand and 11,052,155 thousand for the three months ended March 31, 2007 and 2006, respectively

\$1.19

\$0.50

Diluted earnings per share based on weighted-average number of outstanding common shares of 11,092,852 thousand and 11,092,852 thousand for the three month ended March 31, 2007 and 2006, respectively

\$1.18

\$0.49

(Concluded)

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

(With Deloitte & Touche review report dated April 14, 2007)

CHINA STEEL CORPORATION

STATEMENTS OF CASH FLOWS

THREE MONTHS ENDED MARCH 31, 2007 AND 2006

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 13,111,518	\$ 5,488,268
Cumulative effect of changes in accounting principles	-	37,822
Adjustments		
Depreciation	2,656,882	2,280,292
Amortization	137,572	92,410
Deferred income tax	(84,238)	(28,584)
Investment income under the equity method	(2,929,260)	(1,887,903)
Gain on appraisal of financial assets	(48,431)	(39,359)
Provision for pension costs	(110,971)	(264,234)
Impairment loss on available for sale financial assets	243,290	-
Unrealized loss (gain) on intercompany transaction	49,343	(201,612)
Others	(451)	2,235
Net changes in operating assets and liabilities		
Notes receivable	163,196	268,877
Accounts receivable	(40,505)	361,371
Other receivable	(573,871)	182,664
Inventories	292,522	2,045,006
Other current assets	248,830	450,913
Notes and accounts payable	182,370	37,448
Income tax payable	2,786,510	988,576
Accrued expenses	(2,581,549)	(2,963,892)
Other current liabilities	<u>(683,318)</u>	<u>(1,304,266)</u>
Net cash provided by operating activities	<u>12,819,439</u>	<u>5,546,032</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of financial assets at fair value through profit or loss	(3,463,760)	(1,410,000)
Proceeds from disposal of financial assets at fair value through profit or loss	1,883,760	800,000
Purchase of financial assets carried at cost	(89,250)	-
Increase in long-term stock investments under the equity method	(13,150)	(100,553)
Acquisition of properties	(3,344,064)	(2,121,281)
Proceeds from disposal of properties	-	1,836
Increase in other assets	<u>(19,104)</u>	<u>(2,718,560)</u>
Net cash used in investing activities	<u>(5,045,568)</u>	<u>(5,548,558)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in short-term bank loans and overdraft	(4,237,446)	4,383,580
Decrease in commercial paper payable	-	(1,499,376)
Purchase of treasury stocks	-	(32,096)
Cash dividends	<u>(17,189)</u>	<u>(7,527)</u>

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CHINA STEEL CORPORATION

STATEMENTS OF CASH FLOWS THREE MONTHS ENDED MARCH 31, 2007 AND 2006 (In Thousands of New Taiwan Dollars) (Reviewed, Not Audited)

	2007	2006
Net cash provided by (used in) financing activities	<u>\$ (4,254,635)</u>	<u>\$ 2,844,581</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,519,236	2,842,055
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>16,196,611</u>	<u>17,739,481</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$19,715,847</u>	<u>\$20,581,536</u>
SUPPLEMENTAL INFORMATION		
Interest paid (exclusive of capitalized interest)	\$ 63,620	\$ 64,598
Income tax paid	15,766	13,453
PURCHASE OF PROPERTIES		
Acquisition of properties	\$ 3,017,193	\$ 2,149,983
Decrease (increase) in payable on properties purchased	<u>326,871</u>	<u>(28,702)</u>
	<u>\$ 3,344,064</u>	<u>\$ 2,121,281</u>

(Concluded)

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(With Deloitte & Touche review report dated April 14, 2007)