

# **China Steel Corporation and Subsidiaries**

**Consolidated Financial Statements for the  
Three Months Ended March 31, 2010 and 2009 and  
Independent Accountants' Review Report**

## INDEPENDENT ACCOUNTANTS' REVIEW REPORT

The Board of Directors and Stockholders  
China Steel Corporation

We have reviewed the accompanying consolidated balance sheets of China Steel Corporation (the "Corporation") and its subsidiaries as of March 31, 2010 and 2009, and the related consolidated statements of income and cash flows for the three months then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to issue a report on these consolidated 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 officers responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the Republic of China, the objective of which is the expression of an opinion regarding the consolidated financial statements taken as a whole. Accordingly, we do not express such an opinion.

As discussed in Note 1 to the accompanying consolidated financial statements, investments in certain subsidiaries (all with shares having no quoted prices) included in the consolidated financial statements were unreviewed. As of March 31, 2010 and 2009, these subsidiaries' total assets amounted to NT\$70,915,853 thousand and NT\$164,707,335 thousand, or 14% and 36%, respectively, of total consolidated assets, and their total liabilities amounted to NT\$28,147,169 thousand and NT\$67,053,185 thousand, or 13% and 31%, respectively, of total consolidated liabilities. For the three months ended March 31, 2010 and 2009, their net sales amounted to NT\$12,649,408 thousand and NT\$10,472,955 thousand, or 16% and 19%, respectively, of consolidated net operating revenues, and their related net income amounted to NT\$2,293,079 thousand and NT\$665,101 thousand, or 17% and 8%, of consolidated net income and net loss, respectively. As discussed in Note 13 to the accompanying consolidated financial statements, the aggregate carrying value of the Corporation's investments accounted for by the equity-method amounted to NT\$3,133,474 thousand and NT\$3,499,940 thousand, as of March 31, 2010 and 2009, respectively, and the net investment loss amounted to NT\$182,785 thousand and NT\$179,960 thousand for the three months ended March 31, 2010 and 2009, respectively. These investment amounts were based on the investees' unreviewed financial statements for the same reporting period as that of the Corporation.

Based on our reviews, except for the effect of any adjustments that might have been determined to be necessary had the financial statements been reviewed, we are not aware of any material modifications that should be made to the accompanying consolidated financial statements of the Corporation and its subsidiaries for them to be in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, relevant requirements promulgated by the Financial Supervisory Commission (“FSC”), and accounting principles generally accepted in the Republic of China.

As stated in Note 3 to the accompanying consolidated financial statements, starting January 1, 2009, the Corporation and its subsidiaries adopted the newly revised Statement of Financial Accounting Standards No. 10, “Accounting for Inventories”, issued by the ARDF in November 2007.

April 13, 2010

Notice to Readers

*The accompanying consolidated 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 consolidated 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 consolidated 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 consolidated financial statements shall prevail.*

**CHINA STEEL CORPORATION AND SUBSIDIARIES**

CONSOLIDATED BALANCE SHEETS  
MARCH 31, 2010 AND 2009  
(In Thousands of New Taiwan Dollars, Except Par Value)  
(Reviewed, Not Audited)

ASSETS	2010		2009		LIABILITIES AND STOCKHOLDERS' EQUITY	2010		2009	
	Amount	%	Amount	%		Amount	%	Amount	%
<b>CURRENT ASSETS</b>					<b>CURRENT LIABILITIES</b>				
Cash and cash equivalents	\$ 32,429,170	7	\$ 26,215,203	6	Short-term loans and overdraft	\$ 47,105,819	10	\$ 44,747,507	9
Financial assets at fair value through profit or loss - current	15,478,447	3	10,262,447	2	Commercial paper payable	11,387,331	2	22,372,391	5
Available-for-sale financial assets - current	6,170,432	1	7,637,308	2	Financial liabilities at fair value through profit or loss - current	367	-	4,435	-
Held-to-maturity financial assets - current	34,815	-	110,273	-	Hedging derivative liabilities - current	102,163	-	11,522	-
Hedging derivative assets - current	341,013	-	548,559	-	Notes payable	543,986	-	246,796	-
Bond investments with no active market - current	99,878	-	-	-	Accounts payable	6,880,916	1	7,807,834	2
Notes receivable, net	1,870,738	-	2,592,411	1	Income tax payable	2,026,637	-	9,535,121	2
Accounts receivable, net	8,066,068	2	7,102,045	1	Accrued expenses	10,422,618	2	8,488,676	2
Other receivables	1,837,937	-	3,284,606	1	Other payables	4,276,174	1	8,644,920	2
Other financial assets - current	5,225,922	1	6,018,399	1	Purchase commitments payable	-	-	7,599,337	1
Inventories	46,795,848	10	68,563,772	15	Long-term debt - current portion	5,944,700	1	8,026,792	2
Spare parts - current	8,033,788	2	7,165,141	2	Reorganized loans payable - current portion	400,000	-	400,000	-
Deferred income tax assets - current	1,680,567	-	7,111,935	1	Others	7,223,068	2	4,696,007	1
Restricted assets - current	5,648,046	1	4,504,981	1					
Others	6,177,657	1	5,111,827	1	Total current liabilities	96,313,779	19	122,581,338	26
Total current assets	139,890,326	28	156,228,907	34	<b>LONG-TERM LIABILITIES</b>				
<b>FUNDS AND INVESTMENTS</b>					Hedging derivative liabilities - noncurrent	325,734	-	12,020	-
Available-for-sale financial assets - noncurrent	3,264,546	1	3,230,907	1	Bonds payable	43,221,244	9	43,212,149	9
Held-to-maturity financial assets - noncurrent	315,711	-	499,522	-	Long-term debt	59,303,984	12	29,374,982	6
Hedging derivative assets - noncurrent	81,312	-	682,537	-	Long-term notes payable	6,598,286	1	1,848,336	1
Financial assets carried at cost - noncurrent	8,245,195	2	8,266,094	2	Reorganized loans payable	4,565,816	1	4,961,039	1
Bond investments with no active market - noncurrent	246,246	-	145,379	-	Total long-term liabilities	114,015,064	23	79,408,526	17
Investments accounted for by the equity method	3,133,474	-	3,499,940	1	<b>RESERVE FOR LAND VALUE INCREMENT TAX</b>	8,673,466	2	8,673,466	2
Investments in real estate	219,205	-	219,205	-	<b>OTHER LIABILITIES</b>				
Prepaid long-term stock investments	42,000	-	-	-	Accrued pension cost	733,970	-	888,799	-
Other financial assets - noncurrent	281,325	-	6,081,199	1	Deferred income tax liabilities - noncurrent	-	-	715,073	-
Total funds and investments	15,829,014	3	22,624,783	5	Others	855,524	-	895,601	1
<b>PROPERTY, PLANT AND EQUIPMENT</b>					Total other liabilities	1,589,494	-	2,499,473	1
Land	16,511,507	3	15,945,180	3	Total liabilities	220,591,803	44	213,162,803	46
Land improvements	4,291,679	1	4,289,540	1	<b>STOCKHOLDERS' EQUITY OF PARENT COMPANY</b>				
Buildings	52,151,299	10	50,352,087	11	Capital stock - authorized 14,000,000 thousand shares				
Machinery and equipment	312,089,657	63	296,924,477	64	Common shares - issued 13,094,519 thousand shares and 12,557,541 thousand shares as of March 31, 2010 and 2009, respectively	130,945,189	26	125,575,411	27
Transportation equipment	19,404,180	4	21,254,746	5	Preferred shares - issued 36,268 thousand shares and 38,270 thousand shares as of March 31, 2010 and 2009, respectively	382,680	-	382,700	-
Other equipment	13,192,273	3	13,059,604	3	Total capital stock	131,327,869	26	125,958,111	27
Total cost	417,640,595	84	401,825,634	87	Capital surplus	19,605,674	4	18,464,817	4
Revaluation increment	43,665,919	9	43,729,168	9	Retained earnings				
Cost and revaluation increment	461,306,514	93	445,554,802	96	Legal reserve	47,117,709	9	44,715,153	10
Less: Accumulated depreciation	281,487,074	57	266,528,754	57	Special reserve	7,615,701	2	7,615,701	2
Accumulated impairment	1,040,329	-	1,027,157	-	Unappropriated earnings	19,617,957	4	24,002,582	5
	178,779,111	36	177,998,891	39	Net income (loss) of parent company for the three months ended March 31	11,065,729	2	(7,175,567)	(2)
Construction in progress and prepayments for equipment	150,466,910	30	97,347,516	21	Total retained earnings	85,417,096	17	69,157,869	15
Total property, plant and equipment	329,246,021	66	275,346,407	60	Other equity				
<b>INTANGIBLE ASSETS</b>	1,886,214	1	1,832,350	-	Unrealized revaluation increment	21,913,046	5	21,914,320	5
<b>OTHER ASSETS</b>					Unrealized gain on financial instruments	3,413,290	1	6,545,853	1
Assets leased to others, net	361,384	-	445,803	-	Cumulative translation adjustments	294,985	-	540,905	-
Idle assets	4,332,077	1	3,774,429	1	Net loss not recognized as pension cost	(42,243)	-	(32,385)	-
Refundable deposits	259,571	-	235,847	-	Treasury stock - 285,674 thousand shares and 374,207 thousand shares as of March 31, 2010 and 2009, respectively	(8,399,496)	(2)	(10,646,266)	(2)
Deferred income tax assets - noncurrent	2,020,612	1	-	-	Total other equity	17,179,582	4	18,322,427	4
Restricted assets - noncurrent	163,329	-	158,021	-	Total stockholders' equity of parent company	253,530,221	51	231,903,224	50
Spare parts - noncurrent	1,759,842	-	1,163,286	-	<b>MINORITY INTEREST</b>	22,616,082	5	17,540,629	4
Unamortized repair costs and others	989,716	-	796,823	-	Total stockholders' equity	276,146,303	56	249,443,853	54
Total other assets	9,886,531	2	6,574,209	1	<b>TOTAL</b>	\$ 496,738,106	100	\$ 462,606,656	100
<b>TOTAL</b>	\$ 496,738,106	100	\$ 462,606,656	100					

(With Deloitte & Touche review report dated April 13, 2010)

# CHINA STEEL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME

THREE MONTHS ENDED MARCH 31, 2010 AND 2009

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

(Reviewed, Not Audited)

	2010		2009	
	Amount	%	Amount	%
OPERATING REVENUES	\$ 78,980,001	100	\$ 56,396,060	100
OPERATING COSTS	<u>59,866,267</u>	<u>76</u>	<u>64,732,476</u>	<u>115</u>
GROSS PROFIT (LOSS)	19,113,734	24	(8,336,416)	(15)
REALIZED GAIN FROM AFFILIATES	<u>7,613</u>	<u>-</u>	<u>7,613</u>	<u>-</u>
REALIZED GROSS PROFIT (LOSS)	<u>19,121,347</u>	<u>24</u>	<u>(8,328,803)</u>	<u>(15)</u>
OPERATING EXPENSES				
Research and development	364,550	-	300,546	-
Selling	1,094,762	1	1,017,982	2
General and administrative	<u>1,155,628</u>	<u>2</u>	<u>952,521</u>	<u>2</u>
Total operating expenses	<u>2,614,940</u>	<u>3</u>	<u>2,271,049</u>	<u>4</u>
OPERATING INCOME (LOSS)	<u>16,506,407</u>	<u>21</u>	<u>(10,599,852)</u>	<u>(19)</u>
NONOPERATING INCOME AND GAINS				
Interest income	66,960	-	91,525	-
Exchange gain, net	50,590	-	103,133	-
Reversal of impairment loss	462	-	1,145,192	2
Others	<u>120,905</u>	<u>-</u>	<u>181,317</u>	<u>1</u>
Total nonoperating income and gains	<u>238,917</u>	<u>-</u>	<u>1,521,167</u>	<u>3</u>
NONOPERATING EXPENSES AND LOSSES				
Interest expense	278,777	-	520,430	1
Investment loss recognized under equity method, net	182,270	-	178,126	1
Others	<u>81,777</u>	<u>-</u>	<u>81,868</u>	<u>-</u>
Total nonoperating expenses and losses	<u>542,824</u>	<u>-</u>	<u>780,424</u>	<u>2</u>
CONSOLIDATED INCOME (LOSS) BEFORE INCOME TAX	16,202,500	21	(9,859,109)	(18)
INCOME TAX EXPENSE (BENEFIT)	<u>2,992,336</u>	<u>4</u>	<u>(1,665,548)</u>	<u>(3)</u>
CONSOLIDATED NET INCOME (LOSS)	<u>\$ 13,210,164</u>	<u>17</u>	<u>\$ (8,193,561)</u>	<u>(15)</u>

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# CHINA STEEL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME

THREE MONTHS ENDED MARCH 31, 2010 AND 2009

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

(Reviewed, Not Audited)

	2010		2009	
	Amount	%	Amount	%
The Corporation's stockholders	\$ 11,065,729	14	\$ (7,175,567)	(13)
Minority interest	<u>2,144,435</u>	<u>3</u>	<u>(1,017,994)</u>	<u>(2)</u>
	<u>\$ 13,210,164</u>	<u>17</u>	<u>\$ (8,193,561)</u>	<u>(15)</u>
	2010		2009	
	Before Tax	After Tax	Before Tax	After Tax
EARNINGS (LOSS) PER SHARE				
Basic	<u>\$ 1.02</u>	<u>\$ 0.86</u>	<u>\$ (0.75)</u>	<u>\$ (0.57)</u>
Diluted	<u>\$ 1.01</u>	<u>\$ 0.85</u>	<u>\$ (0.75)</u>	<u>\$ (0.57)</u>

(With Deloitte & Touche review report dated April 13, 2010)

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# CHINA STEEL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS THREE MONTHS ENDED MARCH 31, 2010 AND 2009 (In Thousands of New Taiwan Dollars) (Reviewed, Not Audited)

	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Consolidated net income (loss)	\$ 13,210,164	\$ (8,193,561)
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation	4,506,958	4,056,029
Amortization	88,638	98,953
Deferred income tax	1,914,160	(2,150,598)
Realized gain from affiliates	(7,613)	(7,613)
Provision for loss on inventories, net	36,588	3,884,646
Decrease in loss on purchase commitments	(29,931)	(600,204)
Investment loss recognized under equity method	182,785	179,960
Loss on disposal of property, plant and equipment	10,252	46,089
Reversal of impairment loss	(439)	(1,143,410)
Loss (gain) on sale of investments and on valuation of financial instruments	31,751	(119,423)
Others	(181,336)	4,541
Net changes in operating assets and liabilities		
Financial instruments held for trading	375,897	(5,958)
Notes receivable	(457,327)	583,598
Accounts receivable	(826,973)	169,138
Other receivables	(186,106)	(476,580)
Inventories	4,487,770	11,708,239
Other current assets	(1,287,912)	(671,188)
Notes payable	(32,151)	(341,078)
Accounts payable	262,420	409,491
Income tax payable	1,088,281	452,009
Accrued expenses	(1,171,580)	(592,547)
Other payables	(253,834)	545,244
Other current liabilities	<u>1,353,003</u>	<u>508,772</u>
Net cash provided by operating activities	<u>23,113,465</u>	<u>8,344,549</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of financial assets designated as at fair value through profit or loss	(8,625,491)	(1,469,856)
Proceeds from disposal of financial assets designated as at fair value through profit or loss	2,575,745	3,687,068
Acquisition of available-for-sale financial assets	(2,917,830)	(2,038,321)
Proceeds from disposal of available-for-sale financial assets	2,572,639	2,015,451
Acquisition of held-to-maturity financial assets	(63,629)	(52,400)
Proceeds from disposal of held-to-maturity financial assets	146,990	188,817
Acquisition of financial assets carried at cost	(66,541)	(1,024)
Proceeds from disposal of financial assets carried at cost	20,718	5,553
Acquisition of bond investments with no active market	(99,878)	(1,715)
Decrease (increase) in other financial assets	(572,293)	851,111

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# CHINA STEEL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS THREE MONTHS ENDED MARCH 31, 2010 AND 2009 (In Thousands of New Taiwan Dollars) (Reviewed, Not Audited)

	2010	2009
Acquisition of prepaid long-term stock investments	\$ (42,000)	\$ -
Proceeds from disposal of investments accounted for by equity method	9,512	-
Proceeds of capital reduction on investments accounted for by equity method	51,780	130,600
Acquisition of property, plant and equipment	(18,228,805)	(15,282,842)
Proceeds from disposal of property, plant and equipment	2,412	5,630
Decrease in refundable deposits	13,131	62,421
Decrease (increase) in restricted assets	(486,658)	40,946
Increase in intangible assets	(3,712)	(5,043)
Increase in other assets	<u>(80,321)</u>	<u>(74,060)</u>
Net cash used in investing activities	<u>(25,794,231)</u>	<u>(11,937,664)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase (decrease) in short-term loans and overdraft	(2,969,010)	6,967,903
Increase (decrease) in commercial paper payable	(7,234,194)	143,280
Increase in long-term debt	25,139,965	480,405
Repayments of long-term debt	(1,786,624)	(87,701)
Decrease in long-term notes payable	(196,021)	(198,110)
Increase in other liabilities	27,782	42,797
Cash dividends paid by parent company	(22,249)	(3,229)
Disposal of parent company's shares held by subsidiaries	-	296,008
Purchase of parent company's shares by subsidiaries	(381,055)	-
Discount on acquisition of treasury stock	-	886
Increase in minority interest	191,033	2,118,411
Others	<u>(44,000)</u>	<u>(21,765)</u>
Net cash provided by financing activities	<u>12,725,627</u>	<u>9,738,885</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	10,044,861	6,145,770
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>22,384,309</u>	<u>20,069,433</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 32,429,170</u>	<u>\$ 26,215,203</u>
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Interest paid	\$ 296,714	\$ 480,847
Capitalized interest	<u>(142,998)</u>	<u>(133,395)</u>
Interest paid (excluding capitalized interest)	<u>\$ 153,716</u>	<u>\$ 347,452</u>
Income tax paid	<u>\$ 50,109</u>	<u>\$ 52,110</u>
<b>INVESTING ACTIVITIES AFFECTING BOTH CASH AND NON-CASH ITEMS</b>		
Cash Paid for Acquisition of Property, Plant and Equipment		
Acquisition of property, plant and equipment	\$ 18,368,754	\$ 14,932,855
Decrease (increase) in payable for equipment purchased	<u>(139,949)</u>	<u>349,987</u>

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# CHINA STEEL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS THREE MONTHS ENDED MARCH 31, 2010 AND 2009 (In Thousands of New Taiwan Dollars) (Reviewed, Not Audited)

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	2010	2009
	<u>\$ 18,228,805</u>	<u>\$ 15,282,842</u>
NONCASH FINANCIAL ACTIVITIES		
Current portion of long-term liabilities	<u>\$ 1,281,284</u>	<u>\$ 696,596</u>
 (With Deloitte & Touche review report dated April 13, 2010)		 (Concluded)