

Agenda 1-proposed by the board of directors

Subject:

To acknowledge 2009 Business Report and Financial Statements.

Resolution:

CHINA STEEL CORPORATION

BALANCE SHEETS

DECEMBER 31, 2009 AND 2008

(In Thousands of New Taiwan Dollars, Except Par Value)

| ASSETS | 2009 | | 2008 | | LIABILITIES AND STOCKHOLDERS' EQUITY | 2009 | | 2008 | |
|---|----------------|-----|----------------|-----|--|----------------|-----|----------------|-----|
| | Amount | % | Amount | % | | Amount | % | Amount | % |
| CURRENT ASSETS | | | | | CURRENT LIABILITIES | | | | |
| Cash and cash equivalents (Notes 2 and 4) | \$ 5,188,481 | 2 | \$ 3,745,041 | 1 | Short-term loans and overdraft (Note 17 and 31) | \$ 6,210,750 | 2 | \$ 8,873,202 | 2 |
| Financial assets at fair value through profit or loss - current (Notes 2 and 5) | 4,062,844 | 1 | 5,605,453 | 1 | Commercial paper payable (Note 18) | 7,999,777 | 2 | 14,971,593 | 4 |
| Available-for-sale financial assets - current (Notes 2 and 6) | 1,878,728 | 1 | 3,112,425 | 1 | Hedging derivative liabilities - current (Notes 2 and 7) | - | - | 4,479 | - |
| Hedging derivative assets - current (Notes 2 and 7) | 58,960 | - | 9,846 | - | Accounts payable (Note 30) | 5,112,129 | 2 | 5,550,443 | 2 |
| Notes receivable (Note 30) | 650,500 | - | 2,116,399 | 1 | Income tax payable (Notes 2 and 26) | - | - | 5,749,662 | 2 |
| Accounts receivable, net (Notes 2, 8 and 30) | 2,832,100 | 1 | 2,895,213 | 1 | Accrued expenses (Notes 19 and 23) | 8,494,138 | 2 | 6,131,420 | 2 |
| Other receivables (Note 11) | 815,850 | - | 1,443,457 | - | Purchase commitments payable (Notes 2 and 9) | - | - | 5,901,525 | 2 |
| Other financial assets - current (Note 14) | 4,440,339 | 1 | - | - | Other payables (Note 2) | 3,538,897 | 1 | 7,664,719 | 2 |
| Inventories (Notes 2, 3 and 9) | 31,376,231 | 9 | 52,719,090 | 15 | Long-term debt - current portion (Notes 21 and 31) | 4,332,516 | 1 | 945,490 | - |
| Spare parts (Notes 2 and 10) | 6,641,783 | 2 | 5,620,336 | 2 | Others | 2,477,723 | 1 | 1,820,726 | - |
| Deferred income tax assets - current (Notes 2 and 26) | 2,529,376 | 1 | 4,680,419 | 1 | | | | | |
| Restricted assets-current (Notes 4 and 31) | 4,150,002 | 1 | 4,158,424 | 1 | Total current liabilities | 38,165,930 | 11 | 57,613,259 | 16 |
| Others | 910,390 | - | 2,370,649 | 1 | | | | | |
| Total current assets | 65,535,584 | 19 | 88,476,752 | 25 | LONG-TERM LIABILITIES | | | | |
| FUNDS AND INVESTMENTS | | | | | Hedging derivative liabilities - noncurrent (Notes 2 and 7) | - | - | 2,055 | - |
| Available-for-sale financial assets - noncurrent (Notes 2, 6 and 29) | 3,215,861 | 1 | 3,111,884 | 1 | Bonds payable (Note 20) | 43,268,970 | 13 | 43,281,660 | 12 |
| Hedging derivative assets - noncurrent (Notes 2 and 7) | 3,016 | - | 53,715 | - | Long-term debt - bank (Notes 21 and 31) | 902,200 | - | 4,417,638 | 1 |
| Financial assets carried at cost - noncurrent (Notes 2, 11 and 29) | 5,575,210 | 2 | 5,910,484 | 2 | Long-term notes payable (Note 22) | 5,245,996 | 1 | - | - |
| Bond investments with no active market - noncurrent (Notes 2 and 12) | 103,000 | - | 103,000 | - | Total long-term liabilities | 49,417,166 | 14 | 47,701,353 | 13 |
| Investments accounted for by the equity method (Notes 2, 13 and 29) | 101,992,209 | 30 | 98,144,282 | 28 | RESERVE FOR LAND VALUE INCREMENT TAX (Note 15) | 8,673,466 | 3 | 8,673,466 | 3 |
| Other financial assets - noncurrent (Note 14) | 537,891 | - | 5,235,840 | 1 | OTHER LIABILITIES | | | | |
| Total funds and investments | 111,427,187 | 33 | 112,559,205 | 32 | Deferred income tax liabilities - noncurrent (Notes 2 and 26) | 777,483 | - | 1,100,362 | - |
| PROPERTY, PLANT AND EQUIPMENT (Notes 2, 15, 30 and 31) | | | | | Deferred credits - gain from affiliates (Note 24) | 1,913,996 | 1 | 1,791,418 | 1 |
| Land | 10,692,043 | 3 | 10,692,043 | 3 | Total other liabilities | 2,691,479 | 1 | 2,891,780 | 1 |
| Land improvements | 4,223,646 | 1 | 4,220,388 | 1 | Total liabilities | 98,948,041 | 29 | 116,879,858 | 33 |
| Buildings | 42,280,414 | 12 | 40,698,022 | 12 | CAPITAL STOCK - AUTHORIZED 14,000,000 THOUSAND SHARES AT NTS\$10 PAR VALUE (Note 25) | | | | |
| Machinery and equipment | 255,698,125 | 75 | 245,473,457 | 69 | Common shares - issued 13,094,519 thousand shares and 12,557,541 thousand shares as of December 31, 2009 and 2008, respectively | 130,945,189 | 38 | 125,575,411 | 35 |
| Transportation equipment | 1,751,261 | 1 | 1,623,659 | 1 | Preferred shares - issued 38,268 thousand shares and 38,270 thousand shares as of December 31, 2009 and 2008, respectively | 382,680 | - | 382,700 | - |
| Other equipment | 4,700,032 | 1 | 4,389,119 | 1 | Total capital stock | 131,327,869 | 38 | 125,958,111 | 35 |
| Total cost | 319,345,521 | 93 | 307,096,688 | 87 | CAPITAL SURPLUS (Notes 2 and 25) | 19,598,511 | 6 | 18,410,920 | 5 |
| Revaluation increment | 43,670,986 | 13 | 43,775,239 | 12 | RETAINED EARNINGS (Notes 2 and 25) | 74,351,367 | 22 | 76,427,107 | 22 |
| Cost and revaluation increment | 363,016,507 | 106 | 350,871,927 | 99 | OTHER EQUITY | | | | |
| Less: Accumulated depreciation | 233,015,900 | 68 | 222,431,707 | 63 | Unrealized revaluation increment (Note 15) | 21,913,148 | 6 | 21,915,248 | 6 |
| | 130,000,607 | 38 | 128,440,220 | 36 | Unrealized gain on financial instruments (Notes 7,14 and 25) | 4,216,431 | 1 | 6,508,005 | 2 |
| Constructions in progress | 28,878,043 | 8 | 20,657,785 | 6 | Cumulative translation adjustments (Note 2) | 183,001 | - | 358,976 | - |
| Total property, plant and equipment | 158,878,650 | 46 | 149,098,005 | 42 | Net loss not recognized as pension cost | (42,133) | - | (32,385) | - |
| INTANGIBLE ASSETS (Note 2) | 301,365 | - | 140,572 | - | Treasury stock - 279,375 thousand shares and 384,103 thousand shares as of December 31, 2009 and 2008, respectively (Notes 2 and 25) | (8,189,031) | (2) | (10,805,513) | (3) |
| OTHER ASSETS | | | | | Total other equity | 18,081,416 | 5 | 17,944,331 | 5 |
| Assets leased to others, net (Notes 2 and 16) | 3,220,697 | 1 | 3,242,031 | 1 | Total stockholders' equity | 243,359,163 | 71 | 238,740,469 | 67 |
| Refundable deposits | 138,324 | - | 182,807 | - | TOTAL | \$ 342,307,204 | 100 | \$ 355,620,327 | 100 |
| Restricted assets - noncurrent (Note 31) | 14,301 | - | 8,026 | - | | | | | |
| Unamortized repair costs and others (Notes 2 and 10) | 2,791,096 | 1 | 1,912,929 | - | | | | | |
| Total other assets | 6,164,418 | 2 | 5,345,793 | 1 | | | | | |
| TOTAL | \$ 342,307,204 | 100 | \$ 355,620,327 | 100 | | | | | |

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

(With Deloitte & Touche audit report dated February 1, 2010)

CHINA STEEL CORPORATION

STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2009 AND 2008

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

| | 2009 | | 2008 | |
|---|----------------------|-----------|----------------------|-----------|
| | Amount | % | Amount | % |
| OPERATING REVENUE (Notes 2, 30 and 35) | \$ 165,408,888 | 100 | \$ 256,358,008 | 100 |
| OPERATING COSTS (Notes 2, 3, 9, 27 and 30) | <u>150,698,842</u> | <u>91</u> | <u>216,798,889</u> | <u>85</u> |
| GROSS PROFIT | 14,710,046 | 9 | 39,559,119 | 15 |
| UNREALIZED GAIN FROM AFFILIATES | <u>(179,854)</u> | <u>-</u> | <u>(437,457)</u> | <u>-</u> |
| REALIZED GROSS PROFIT | <u>14,530,192</u> | <u>9</u> | <u>39,121,662</u> | <u>15</u> |
| OPERATING EXPENSES (Notes 27 and 30) | | | | |
| Research and development | 1,247,849 | 1 | 1,347,629 | - |
| Selling | 2,552,263 | 2 | 2,664,642 | 1 |
| General and administrative | <u>2,452,376</u> | <u>1</u> | <u>2,370,551</u> | <u>1</u> |
| Total operating expenses | <u>6,252,488</u> | <u>4</u> | <u>6,382,822</u> | <u>2</u> |
| OPERATING INCOME | <u>8,277,704</u> | <u>5</u> | <u>32,738,840</u> | <u>13</u> |
| NONOPERATING INCOME AND GAINS | | | | |
| Interest income (Note 29) | 97,092 | - | 518,450 | - |
| Valuation gain on financial assets (Notes 2 and 5) | 15,720 | - | 58,395 | - |
| Investment income recognized under equity method (Note 13) | 9,334,316 | 6 | 1,804,006 | 1 |
| Gain on sale of investment (Notes 2 and 6) | 1,642,584 | 1 | - | - |
| Exchange gain | 46,332 | - | 466,868 | - |
| Others (Notes 9, 11, 15 and 30) | <u>1,827,955</u> | <u>1</u> | <u>1,307,971</u> | <u>1</u> |
| Total nonoperating income and gains | <u>12,963,999</u> | <u>8</u> | <u>4,155,690</u> | <u>2</u> |
| NONOPERATING EXPENSES AND LOSSES | | | | |
| Interest expense (Notes 15 and 29) | 816,596 | 1 | 483,631 | - |
| Impairment loss on financial assets (Notes 11 and 12) | 4,201 | - | 5,091,842 | 2 |
| Others (Notes 2 and 30) | <u>261,067</u> | <u>-</u> | <u>1,063,726</u> | <u>1</u> |
| Total nonoperating expenses and losses | <u>1,081,864</u> | <u>1</u> | <u>6,639,199</u> | <u>3</u> |
| INCOME BEFORE INCOME TAX | 20,159,839 | 12 | 30,255,331 | 12 |
| INCOME TAX (Notes 2 and 26) | <u>557,322</u> | <u>-</u> | <u>6,224,925</u> | <u>3</u> |
| NET INCOME | <u>\$ 19,602,517</u> | <u>12</u> | <u>\$ 24,030,406</u> | <u>9</u> |

(Continued)

CHINA STEEL CORPORATION

STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2009 AND 2008

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

| | 2009 | | 2008 | |
|------------------------------|----------------|----------------|----------------|----------------|
| | Before Tax | After Tax | Before Tax | After Tax |
| EARNINGS PER SHARE (Note 28) | | | | |
| Basic | <u>\$ 1.58</u> | <u>\$ 1.54</u> | <u>\$ 2.44</u> | <u>\$ 1.94</u> |
| Diluted | <u>\$ 1.57</u> | <u>\$ 1.53</u> | <u>\$ 2.43</u> | <u>\$ 1.93</u> |

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

| | 2009 | 2008 |
|---|----------------------|----------------------|
| Net income | <u>\$ 20,054,929</u> | <u>\$ 25,634,847</u> |
| Basic earnings per share based on weighted-average number of outstanding common shares aggregating 12,991,019 thousand shares and 12,635,524 thousand shares for the years ended December 31, 2009 and 2008, respectively | <u>\$ 1.54</u> | <u>\$ 2.02</u> |
| Diluted earnings per share based on weighted-average number of outstanding common shares aggregating 13,105,966 thousand shares and 12,751,632 thousand shares for the years ended December 31, 2009 and 2008, respectively | <u>\$ 1.53</u> | <u>\$ 2.01</u> |

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

(With Deloitte & Touche audit report dated February 1, 2010)

(Concluded)

CHINA STEEL CORPORATION

**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2009 AND 2008
(In Thousands of New Taiwan Dollars, Except Cash Dividends Per Share)**

| | Capital Stock | | Capital Surplus | Retained Earnings | | | Other Equity | | | | | Total Stockholders' Equity | |
|---|----------------|-----------------|-----------------|-------------------|-----------------|-------------------------|---------------|----------------------------------|---|------------------------------------|---|----------------------------|----------------|
| | Common Stock | Preferred Stock | | Legal Reserve | Special Reserve | Unappropriated Earnings | Total | Unrealized Revaluation Increment | Unrealized Gain (Loss) on Financial Instruments | Cumulative Translation Adjustments | Net Loss not Recognized as Pension Cost | | Treasury Stock |
| | | | | | | | | | | | | | |
| BALANCES, JANUARY 1, 2008 | \$ 114,963,350 | \$ 389,560 | \$ 1,878,630 | \$ 39,589,333 | \$ 7,615,701 | \$ 51,407,695 | \$ 98,612,729 | \$ 1,509,155 | \$ 6,473,326 | \$ 283,018 | \$ (38,083) | \$ (1,416,395) | \$ 222,655,290 |
| Conversion of preferred stock to common shares | 6,860 | (6,860) | - | - | - | - | - | - | - | - | - | - | - |
| Appropriation of 2007 earnings (Note 25) | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Legal reserve | - | - | - | 5,125,820 | - | (5,125,820) | - | - | - | - | - | - | - |
| Bonus to employees | 1,384,702 | - | - | - | - | (2,307,837) | (2,307,837) | - | - | - | - | - | (923,135) |
| Remuneration to directors and supervisors | - | - | - | - | - | (69,235) | (69,235) | - | - | - | - | - | (69,235) |
| Preferred cash dividends - \$3.50 per share | - | - | - | - | - | (134,274) | (134,274) | - | - | - | - | - | (134,274) |
| Common cash dividends - \$3.50 per share | - | - | - | - | - | (40,239,244) | (40,239,244) | - | - | - | - | - | (40,239,244) |
| Preferred Stock dividends - \$0.30 per share | 11,509 | - | - | - | - | (11,509) | (11,509) | - | - | - | - | - | - |
| Common stock dividends - \$0.30 per share | 3,449,079 | - | - | - | - | (3,449,079) | (3,449,079) | - | - | - | - | - | - |
| Net income in 2008 | - | - | - | - | - | 24,030,406 | 24,030,406 | - | - | - | - | - | 24,030,406 |
| Issuance of stock to acquire subsidiaries' shares (Notes 13 and 25) | 5,759,911 | - | 15,717,185 | - | - | - | - | - | - | - | - | - | 21,477,096 |
| Adjustments in treasury stock and minority interest arising from subsidiaries' shares | - | - | - | - | - | - | - | - | - | - | - | (6,747,074) | (6,747,074) |
| Change in unrealized gain (loss) on available-for-sale financial assets | - | - | - | - | - | - | - | - | (1,271,797) | - | - | - | (1,271,797) |
| Adjusted to nonoperating income from disposal of appreciated properties | - | - | - | - | - | - | - | (4,849) | - | - | - | - | (4,849) |
| Revaluation increment on land (Note 15) | - | - | - | - | - | - | - | 20,410,942 | - | - | - | - | 20,410,942 |
| Adjustment from changes in equity recognized under equity method | - | - | 30,291 | - | - | (4,850) | (4,850) | - | 404,669 | - | - | - | 430,110 |
| Foreign exchange gain on translation of foreign-currency financial statements | - | - | - | - | - | - | - | - | - | 75,958 | - | - | 75,958 |
| Investees' net loss not recognized as pension cost | - | - | - | - | - | - | - | - | - | - | 5,698 | - | 5,698 |
| Acquisition of treasury stock | - | - | - | - | - | - | - | - | - | - | - | (2,510,843) | (2,510,843) |
| Change in unrealized gain (loss) on financial instruments for cash flow hedging | - | - | - | - | - | - | - | - | 901,807 | - | - | - | 901,807 |
| Disposal of the Corporation's shares held by subsidiaries (Note 25) | - | - | 548,063 | - | - | - | - | - | - | - | - | 287,581 | 835,644 |
| Cash dividends declared by the Corporation and received by subsidiaries | - | - | 236,751 | - | - | - | - | - | - | - | - | - | 236,751 |
| Purchase of the Corporation's shares by subsidiaries | - | - | - | - | - | - | - | - | - | - | - | (418,782) | (418,782) |
| BALANCES, DECEMBER 31, 2008 | 125,575,411 | 382,700 | 18,410,920 | 44,715,153 | 7,615,701 | 24,096,253 | 76,427,107 | 21,915,248 | 6,508,005 | 358,976 | (32,385) | (10,805,513) | 238,740,469 |
| Conversion of preferred stock to common shares | 20 | (20) | - | - | - | - | - | - | - | - | - | - | - |
| Appropriation of 2008 earnings (Note 25) | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Legal reserve | - | - | - | 2,402,556 | - | (2,402,556) | - | - | - | - | - | - | - |
| Preferred cash dividends - \$1.30 per share | - | - | - | - | - | (49,751) | (49,751) | - | - | - | - | - | (49,751) |
| Common cash dividends - \$1.30 per share | - | - | - | - | - | (16,184,404) | (16,184,404) | - | - | - | - | - | (16,184,404) |
| Preferred stock dividends - \$0.43 per share | 16,455 | - | - | - | - | (16,455) | (16,455) | - | - | - | - | - | - |
| Common stock dividends - \$0.43 per share | 5,353,303 | - | - | - | - | (5,353,303) | (5,353,303) | - | - | - | - | - | - |
| Net income in 2009 | - | - | - | - | - | 19,602,517 | 19,602,517 | - | - | - | - | - | 19,602,517 |
| Change in unrealized gain (loss) on available-for-sale financial assets | - | - | - | - | - | - | - | - | (498,783) | - | - | - | (498,783) |
| Adjusted to nonoperating income from disposal of appreciated properties | - | - | - | - | - | - | - | (2,100) | - | - | - | - | (2,100) |
| Adjustment from changes in equity recognized under equity method | - | - | 17,751 | - | - | (74,344) | (74,344) | - | (1,521,259) | - | - | (64,259) | (1,642,111) |
| Foreign exchange loss on translation of foreign-currency financial statements | - | - | - | - | - | - | - | - | - | (123,063) | - | - | (123,063) |
| Foreign exchange loss on hedge of a net investment in a foreign operation | - | - | - | - | - | - | - | - | - | (52,912) | - | - | (52,912) |
| Investees' net loss not recognized as pension cost | - | - | - | - | - | - | - | - | - | - | (9,748) | - | (9,748) |
| Discount on acquisition of treasury stock | - | - | - | - | - | - | - | - | - | - | - | 886 | 886 |
| Change in unrealized gain (loss) on financial instruments for cash flow hedging | - | - | - | - | - | - | - | - | (271,532) | - | - | - | (271,532) |
| Disposal of the Corporation's shares held by subsidiaries (Note 25) | - | - | 98,225 | - | - | - | - | - | - | - | - | 414,610 | 512,835 |
| Cash dividends declared by the Corporation and received by subsidiaries | - | - | 354,187 | - | - | - | - | - | - | - | - | - | 354,187 |
| Purchase of the Corporation's shares by subsidiaries | - | - | - | - | - | - | - | - | - | - | - | (244,712) | (244,712) |
| Treasury stock transferred to employees | - | - | 717,428 | - | - | - | - | - | - | - | - | 2,509,957 | 3,227,385 |
| BALANCES, DECEMBER 31, 2009 | \$ 130,945,189 | \$ 382,680 | \$ 19,598,511 | \$ 47,117,709 | \$ 7,615,701 | \$ 19,617,957 | \$ 74,351,367 | \$ 21,913,148 | \$ 4,216,431 | \$ 183,001 | \$ (42,133) | \$ (8,189,031) | \$ 243,359,163 |

The accompanying notes are an integral part of the financial statements. Additional explanations for stockholders' equity accounts are in Appendix.

(With Deloitte & Touche audit report dated February 1, 2010)

CHINA STEEL CORPORATION
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2009 AND 2008
(In Thousands of New Taiwan Dollars)

| | 2009 | 2008 |
|---|-------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | \$ 19,602,517 | \$ 24,030,406 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Depreciation | 12,237,853 | 11,547,478 |
| Amortization | 755,093 | 648,513 |
| Deferred income tax | 1,828,164 | (5,758,841) |
| Provision for loss on inventories | 58,433 | 11,096,117 |
| Increase (decrease) in loss on purchase commitments | (5,901,525) | 5,901,525 |
| Provision for loss on spare parts | 236,101 | 114,956 |
| Gain on sale of investments | (1,642,584) | - |
| Investment income recognized under equity method | (9,334,316) | (1,804,006) |
| Unrealized gain from affiliates | 179,854 | 437,457 |
| Cash dividends received from equity method investees | 8,208,867 | 9,529,839 |
| Valuation gains on financial assets | (15,720) | (58,395) |
| Impairment loss on financial assets | 4,201 | 5,091,842 |
| Compensation cost of treasury stock options | 795,700 | - |
| Others | (227,636) | 310,283 |
| Net changes in operating assets and liabilities | | |
| Notes receivable | 1,465,899 | (720,844) |
| Accounts receivable | 63,104 | (432,973) |
| Other receivables | 627,607 | (922,433) |
| Inventories | 21,571,890 | (30,880,217) |
| Other current assets | 438,812 | (1,248,809) |
| Accounts payable | (438,314) | 210,350 |
| Income tax payable | (5,749,662) | (932,582) |
| Accrued expenses | 2,330,800 | (1,486,878) |
| Other payables | (4,443,015) | 4,257,430 |
| Other current liabilities | 599,721 | (355,215) |
| Net cash provided by operating activities | <u>43,251,844</u> | <u>28,575,003</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Acquisition of financial assets designated as at fair value through profit or loss | (5,580,000) | (16,350,557) |
| Proceeds from disposal of financial assets designated as at fair value through profit or loss | 7,138,329 | 11,835,596 |
| Acquisition of available-for-sale financial assets | - | (219,575) |
| Proceeds from disposal of available-for-sale financial assets | 2,210,040 | 250,000 |
| Acquisition of financial assets carried at cost | (4,201) | (231,650) |
| Proceeds of capital reduction on financial assets carried at cost | 3,764 | 8,364 |
| Acquisition of investments accounted for by equity method | (3,685,717) | (21,430,872) |
| Acquisition of property, plant and equipment | (21,719,813) | (17,928,526) |
| Proceeds from disposal of property, plant and equipment | 1,215 | - |
| Increase in other financial assets | (18,871) | (4,391,060) |
| Decrease (increase) in refundable deposits | 44,483 | (101,134) |
| Decrease in restricted assets | 2,147 | 27,584 |

(Continued)

CHINA STEEL CORPORATION
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2009 AND 2008
(In Thousands of New Taiwan Dollars)

| | 2009 | 2008 |
|--|----------------------|----------------------|
| Increase in intangible assets | \$ (284,317) | \$ - |
| Increase in other assets | <u>(1,736,761)</u> | <u>(156,545)</u> |
| Net cash used in investing activities | <u>(23,629,702)</u> | <u>(48,688,375)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Decrease in loans and overdraft | (2,615,438) | (1,281,483) |
| Increase (decrease) in commercial paper payable | (6,971,816) | 14,971,593 |
| Increase in long-term notes payable | 5,245,996 | - |
| Issuance of bonds payable | - | 29,600,000 |
| Cash dividends | (16,223,887) | (40,356,703) |
| Discount on acquisition of treasury stock | 886 | - |
| Cash bonus to employees and remuneration to directors and supervisors | - | (992,370) |
| Cash paid for acquisition of treasury stock | - | (2,510,843) |
| Treasury stock transferred to employees | 2,407,323 | - |
| Others | <u>(21,766)</u> | <u>(9,940)</u> |
| Net cash used in financing activities | <u>(18,178,702)</u> | <u>(579,746)</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 1,443,440 | (20,693,118) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | <u>3,745,041</u> | <u>24,438,159</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR | <u>\$ 5,188,481</u> | <u>\$ 3,745,041</u> |
| SUPPLEMENTAL CASH FLOW INFORMATION | | |
| Interest paid (excluding capitalized interest) | \$ 831,225 | \$ 460,029 |
| Income tax paid | 4,478,820 | 12,916,348 |
| INVESTING AND FINANCING ACTIVITIES AFFECTING BOTH CASH AND NON-CASH ITEMS | | |
| Cash Paid for Acquisition of Property, Plant and Equipment | | |
| Acquisition of property, plant and equipment | \$ 22,026,738 | \$ 18,163,084 |
| Increase in payable for equipment purchased | <u>(306,925)</u> | <u>(234,558)</u> |
| | <u>\$ 21,719,813</u> | <u>\$ 17,928,526</u> |
| Cash Dividends Paid to Stockholders | | |
| Total cash dividends payable to stockholders | \$ 16,234,155 | \$ 40,373,518 |
| Increase in dividends payable | <u>(10,268)</u> | <u>(16,815)</u> |
| | <u>\$ 16,223,887</u> | <u>\$ 40,356,703</u> |
| NON-CASH INVESTING AND FINANCING ACTIVITIES | | |
| Issuance of stock to acquire Dragon Steel Corporation's shares | <u>\$ -</u> | <u>\$ 21,477,096</u> |
| Current portion of long-term debt | <u>\$ 4,332,516</u> | <u>\$ 945,490</u> |

The accompanying notes are an integral part of the financial statements.
(With Deloitte & Touche audit report dated February 1, 2010)

(Concluded)

Agenda 3-proposed by the board of directors

Subject:

To approve the proposed appropriation of NT\$ 4,333,819,680 from earnings available for distribution in 2009 toward an increase in equity capital with the issuance of 433,381,968 common shares.

Text:

1. In order to meet the capital requirement for the Company's long term development, it is proposed that (all amounts in NT\$) 4,333,819,680 be appropriated from earnings available for distribution in 2009 toward an increase in equity capital by issuing 433,381,968 common shares, with a par value of 10 per share, in a single stock offering. The rights and obligations of the new common shares are the same as existing common shares.
2. Of this equity capital increase from earnings available for distribution, shareholder stock dividend appropriation is appropriated free-of-charge to shareholders in our Shareholder Register on the dividend record date according to their respective shareholdings percentages. The distribution shall be 33 shares for every 1,000 shares of both preferred stock and common stock. Fractional shares may be combined into one whole share by the shareholders; otherwise, pro rata cash payments shall be made for fractional shares not combined into one whole share based on its par value. Residual amounts less than one NT dollar shall be rounded to the next dollar and the difference shall be recognized as a Company expense. The Chairman of the Board is authorized to determine the disposal of cumulative fractional shares.

Resolution:

Agenda 4 -proposed by the board of directors

Subject:

To submit the amendment to the Company's Articles of Incorporation.

Text:

To meet future demand for capital, the ceiling amount of investment as stated in Article 5 of the Company's Articles of Incorporation is increased to NT\$170 billion.

The amendments to the Company's Articles of Incorporation are as attached:

Resolution:

Attachment 1

Comparison Table of Drafted Amendments to Clauses of the Articles of Association of the China Steel Corporation

| Revised clause | Clause in force | Explanation |
|----------------|-----------------|-------------|
|----------------|-----------------|-------------|

| | | |
|--|--|---|
| <p>Article 5</p> <p>The total capital of the Company is One Hundred and <u>Seventy</u> billion New Taiwan Dollars (NT\$170,000,000,000), which is divided into <u>Seventeen</u> billion shares (17,000,000,000), at a par value of Ten New Taiwan Dollars (NT\$10) per share. The shares shall be issued in installment. Preferred shares may be issued within the aforementioned shares.</p> | <p>Article 5</p> <p>The total capital of the Company is One Hundred and Forty billion New Taiwan Dollars (NT\$140,000,000,000), which is divided into Fourteen billion shares (14,000,000,000), at a par value of Ten New Taiwan Dollars (NT\$10) per share. The shares shall be issued in installment. Preferred shares may be issued within the aforementioned shares.</p> | <p>We revise our total amount of authorized capital for future needs for capital requirement.</p> |
| <p>Article 42.</p> <p>This Articles of Incorporation are agreed and signed on Nov. 2, 1971, firstly amended on Dec. 28, 1973, secondly amended on Jun. 25, 1974, thirdly amended on Oct. 5, 1974, fourthly amended on Jun. 28, 1975, fifthly amended on Jun. 6, 1976, sixthly amended on Jun. 25, 1977, seventhly amended on Oct. 14, 1978, eighthly amended on Oct. 20, 1977, ninthly amended on Sep. 20, 1980, tenthly amended on Sep. 26, 1981, eleventh amended on Nov. 20, 1982, twelfth amended on Sep. 22, 1984, thirteenth amended on Feb. 16, 1985, fourteenth amended on Nov. 23, 1985, fifteenth amended on Dec. 20, 1986, sixteenth amended on Sep. 17, 1988, eighteenth amended on Sep. 27, 1990, nineteenth amended on Sep. 26, 1991, twentieth amended on Sep. 25, 1992, twenty-firstly amended on Sep. 24, 1993, twenty-secondly amended on Sep. 22, 1994, twenty-thirdly amended on May 26, 1995, twenty-fourthly amended on Oct. 20, 1995, twenty-fifthly amended on Nov. 6, 1996, twenty-sixthly amended on Dec. 30, 1997, twenty-seventhly amended on Apr. 30, 1999, twenty-eighthly amended on Jun. 8, 2000, twenty-ninthly amended on May 31, 2001, thirtieth amended on Jun. 20, 2002, thirty-firstly amended on Jun. 18, 2003, thirty-secondly amended on Jun. 17, 2004, thirty-thirdly amended on Jun. 14, 2005, thirty-fourthly amended on</p> | <p>Article 42.</p> <p>This Articles of Incorporation are agreed and signed on Nov. 2, 1971, firstly amended on Dec. 28, 1973, secondly amended on Jun. 25, 1974, thirdly amended on Oct. 5, 1974, fourthly amended on Jun. 28, 1975, fifthly amended on Jun. 6, 1976, sixthly amended on Jun. 25, 1977, seventhly amended on Oct. 14, 1978, eighthly amended on Oct. 20, 1977, ninthly amended on Sep. 20, 1980, tenthly amended on Sep. 26, 1981, eleventh amended on Nov. 20, 1982, twelfth amended on Sep. 22, 1984, thirteenth amended on Feb. 16, 1985, fourteenth amended on Nov. 23, 1985, fifteenth amended on Dec. 20, 1986, sixteenth amended on Sep. 17, 1988, eighteenth amended on Sep. 27, 1990, nineteenth amended on Sep. 26, 1991, twentieth amended on Sep. 25, 1992, twenty-firstly amended on Sep. 24, 1993, twenty-secondly amended on Sep. 22, 1994, twenty-thirdly amended on May 26, 1995, twenty-fourthly amended on Oct. 20, 1995, twenty-fifthly amended on Nov. 6, 1996, twenty-sixthly amended on Dec. 30, 1997, twenty-seventhly amended on Apr. 30, 1999, twenty-eighthly amended on Jun. 8, 2000, twenty-ninthly amended on May 31, 2001, thirtieth amended on Jun. 20, 2002, thirty-firstly amended on Jun. 18, 2003, thirty-secondly amended on Jun. 17, 2004, thirty-thirdly amended on Jun. 14, 2005, thirty-fourthly amended on</p> | <p>The date of amendment and cardinal number of amendment have been revised.</p> |

Jun. 15, 2006, thirty-fifthly amended on June 21, 2007, thirty-sixthly amended on June 19, 2008, thirty-seventhly amended on June 19, 2009, and thirty-eighthly amended on June 23, 2010.

Jun. 15, 2006, thirty-fifthly amended on Jun. 21, 2007, thirty-sixthly amended on Jun. 19, 2008, and thirty-seventhly amended on June 19, 2009.

Agenda 5-proposed by the board of directors

Subject:

To elect of 11 directors (including 3 independent directors) and 3 supervisors for the 14th term of board of directors.

Text:

1. The term of the 11 directors and 3 supervisors of the 13th board shall expire on June 20, 2010. It is planned to elect all of the 11 directors and 3 supervisors of the 14th term of the board, serving a term of three years from June 23, 2010 to June 22, 2013.

2. The Company is to adopt the candidate nomination system in election of the 14th term of board of directors. Shareholders are to elect from among the list of the candidates as follows.

Candidates of Directors of the 14th term of Board of Directors.

| Name | Current Position | Major Education | Remark |
|------------------|---|---|---|
| Chang, Chia Juch | Chairman & CEO, China Steel Corporation | Ph D., Purdue University, U.S.A. | Representing Ministry of Economic Affairs R.O.C.(Y00001) |
| Chen, Chao Yih | Vice Chairperson, State-owned Enterprise Commission | Ph D., Agricultural Chemistry, National Taiwan University, Taiwan, R.O.C. | Representing Ministry of Economic Affairs R.O.C. (Y00001) |
| Fang, Liang Tung | Executive Secretary, Investment Commission, Ministry of Economics Affairs | B.S., Agricultural Economics, National Chung Hsing University, Taiwan, R.O.C. | Representing Ministry of Economic Affairs R.O.C. (Y00001) |
| Tsou, Jo Chi | President, China Steel Corporation | Ph D., Material Engineering, University of Rochester, U.S.A. | Representing Chiun Yu Investment Corporation (V01357) |
| Chung, Lo Min | Executive Vice President, China Steel Corporation | MBA, International Marketing, Arizona University, USA | Representing Ever Wealthy International Corporation(V02376) |
| Weng, Cheng I | President, Fo Guang University | Ph D., Mechanical & Aerospace Sciences, University of Rochester, U.S.A. | Representing Hung Kao Investment Corporation(V05147) |
| Wu, Shun Tsai | President, China Steel Labor Union | MBA, Department of Industrial Management, National Pingtung University of Science and Technology, Taiwan R.O.C. | Representing China Steel Labor Union(X00012) |
| Ou, Chao Hua | Chairman, Dragon Steel Corporation | M.S., Electrical Engineering, National Taiwan University, Taiwan, R.O.C. | Representing Gau Ruei Investment Corporation(V01360) |
| Li, Shen Yi | Lawyer | Doctor of Judicial Science, Chinese Culture University, Taiwan, R.O.C. | Independent Director (R100955005) |
| Chang, Tsu En | Professor, Environmental | Ph.D., Civil Engineering, Tohoku University, Japan | Independent Director (N103009187) |

| | | | |
|-----------------|---|---|--------------------------------------|
| | Engineering, National Cheng Kung University Taiwan, R.O.C. | | |
| Liang Ting Peng | Professor, Business Management, National Sun Yat-sen University, Taiwan, R.O.C. | Ph.D., Information Management, Wharton College, University of Pennsylvania | Independent Director (S101063589) |

Resolution:

Agenda 6-proposed by the board of directors

Subject:

To discuss the removal of the prohibition against competition by concurrently holding positions in other companies.

For the best interest of the Company, it is proposed that the Company's Director of the Board, Mr.J.C. Tsou, shall be allowed to serve at Chung-Hung Steel Corporation. The agenda is hereby submitted for shareholder resolution.

Text:

1. The agenda is discussed in compliance with Paragraph1, Article 209 of the Company Act :
A director who does anything for himself or on behalf of another person that is within the scope of the company's business, shall explain to the meeting of shareholders the essential contents of such an act and secure its approval.
2. Mr.J.C. Tsou, Dircetor of the Board, plans to serve on the Board of Chung-Hung Steel Corporation. Information of Chung-Hung Steel Corporation is as follows:

| <u>Invested Company</u> | <u>Ownership</u> | <u>Position</u> | <u>Business Relationship with CSC</u> |
|------------------------------|------------------|-----------------|---------------------------------------|
| Chung-Hung Steel Corporation | 40.59% | director | Steel production & trading |

2. Although the Company is affiliated with Chung-Hung Steel Corporation in terms of operation, differences still exist in the products and services provided. The Company may benefit from Mr.J.C. Tsou, service in the board of these subsidiaries, since CSC can therefore participate in important operating decisions and monitor the execution of business strategies. The Company's investment equity is therefore protected.

Resolution: