China Steel Corporation

Financial Statements for the Nine Months Ended September 30, 2006 and 2005 And Independent Accountants' Review Report

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

The Board of Directors and Stockholders China Steel Corporation

We have reviewed the accompanying balance sheets of China Steel Corporation (the "Corporation") as of September 30, 2006 and 2005, and the related statements of income and cash flows for the nine months then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to issue a report on these financial statements based on our reviews.

Except as stated in the following 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 such an opinion.

As stated in Note 11 to the accompanying financial statements, we did not review the financial statements of certain investees (with no publicly traded stocks) in which the Corporation's long-term stock investments were accounted for by the equity method. The aggregate carrying values of these long-term stock investments were NT\$53,597,222 thousand and NT\$49,159,227 thousand as of September 30, 2006 and 2005, respectively. The related investment incomes were NT\$5,819,238 thousand and 4,220,980 thousand for the nine months ended September 30, 2006 and 2005, respectively. These investment amounts as well as the investees' information in Note 27 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 for them to be in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

As stated in Note 3 to the accompanying financial statements, the Corporation adopted, effective 2006, the newly issued Statements of Financial Accounting Standards ("Statements") No. 34 - "Accounting for Financial Instruments" and No. 36 - "Disclosure and Presentation of Financial Instruments" and the related revisions of previously released Statements.

October 13, 2006

%	4 – κ κ ' 4 ' –	2 2	<u>- </u> %	1		2	22	43	"	43	'	35		"	"	78	100
2005 Amount	\$ 10,711,361 2,482,701 6,144,228 6,443,246 1,032,899 10,000,000 - 2,263,485	<u>39,077,920</u> 5,000,000	3,663,750 8,663,750	2,171,124	2,939,504 1,154,205	4,093,709	54,006,503	105,459,606	407,110	105,866,716	1,141,919	85,244,613	(158,061) (31,565) (446,462) 1,535,363	899,275	(1,256,475)	191,896,048	\$ 245,902,551
%	n - 0 m - 0 - 1	3 18	4	1	- '	1	24	44	"	44	1	28	0 -	3	"	76	100
2006 Amount	 \$ 17,916,484 2,873,767 5,669,257 6,877,019 3,185,076 5,000,000 729,170 1,939,496 	44,190,269 8,100,000	2,776,455 10,876,455	2,171,124	2,764,716 1,147,735	3,912,451	61,150,299	110,537,546	406,970	110,944,516	1,505,799	70,945,403	(13,401) (36,872) 6,355,228 1,535,363	7,840,318	(1,342,944)	189,893,092	\$ 251,043,391
LIABILITIES AND STOCKHOLDERS' EQUITY	CURRENT LIABILITIES Short-term loans and overdraft Notes and accounts payable Income tax payable Accured expenses Other payables Bonds payable - current portion Long-term bank loans - current portion Other	Total current liabilities LONG-TERM LIABILITIES, NET OF CURRENT PORTION Bonds payable, net of current portion	Bank loans, net of current portion Total long-term liabilities	RESERVE FOR LAND VALUE INCREMENT TAX	OTHER LIABILITES Deferred income tax liabilities Deferred credits - gain on intercompany transactions	Total other liabilities	Total liabilities	Capital stock - authorized 12,000,000 thousand shares at NT\$10 par value Common shares - issued and outstanding 11,053,755 thousand shares and 10,545,961 thousand shares as of September 30, 2006 and 2005, reservely	Preferred shares - issued 40,697 thousand and 40,711 thousand shares as of September 30, 2006 and 2005, respectively	Total capital stock	Capital surplus	Retained earnings	Other equity items Cumulative translation adjustments Investees' unrecognized net loss on pension cost Unrealized gain (loss) on financial instruments Revaluation on increment on assets	Total other equity items	Treasury stock – 84,051 thousand shares and 78,451 thousand shares as of September 30, 2006 and 2005, respectively	STOCKHOLDERS' EQUITY	TOTAL
%	олг <u>г</u> , 4, 6	30	' n	22		ς, τ	15 26	$\frac{1}{108}$	<u>35</u> 35		77	1	· · · -				100
2005 Amount	\$ 15,262,105 11,363,861 1,218,156 1,781,621 2,537,579 929,635 34,013,199 234,736 4,600,000	850,471 72,791,363	1,001,210 6,319,097	5,731,374 53,585,201	66,636,882	7,994,055	36,118,327 36,118,327 212 753 752	212,722,722 1,451,938 3,027,139 265,562,005 17,669,159 283,231,164	196,461,902 86,769,262	102 051 850	000,106,201	3,073,830 322 818	31,694 84,114 3,512,456				\$ 245,902,551
%	4 0 0 ' <u>~</u> ' 0		- 6	23		ς, τ	15 15 85	$\begin{array}{c} 83\\1\\1\\107\\114\\114\end{array}$	80 34	10	+ +	1					100

STATEMENTS OF INCOME NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005 (In Thousands of New Taiwan Dollars, Except Earnings Per Share) (Reviewed, Not Audited)

	2006	2006		2005			
	Amount	%	Amount	%			
REVENUES	\$127,830,181	100	\$145,120,842	100			
COST OF REVENUES	99,557,849	<u>_78</u>	86,220,722	60			
GROSS PROFIT	28,272,332	22	58,900,120	40			
REALIZED (UNREALIZED) GAIN ON INTERCOMPANY TRANSACTIONS	139,013		(514,990)				
REALIZED GROSS PROFIT	28,411,345	22	58,385,130	40			
OPERATING EXPENSES Selling General and administrative Research and development Total operating expenses	1,701,637 1,446,520 <u>789,338</u> <u>3,937,495</u>	1 1 -1 3	1,713,440 2,060,548 <u>852,744</u> <u>4,626,732</u>	$\begin{array}{c}1\\1\\\underline{}\\\underline{}\\3\end{array}$			
OPERATING INCOME	24,473,850	<u> 19</u>	53,758,398	37			
NONOPERATING INCOME AND GAINS Interest Investment income under the equity method Gain on appraisal of financial assets Other	252,020 7,627,871 121,313 984,258	- 6 - 1	436,945 5,227,546 378,419 <u>1,046,859</u>	- 4 - 1			
Total nonoperating income and gains	8,985,462	7	7,089,769	5			
NONOPERATING EXPENSES AND LOSSES Interest Impairment losses on long - term investments Loss on physical inventory Other	422,257 32,000 173,907 516,213	- - _1	553,507 906,000 - 713,661	- 1 - -			
Total nonoperating expenses and losses	1,144,377	1	2,173,168	1			
INCOME BEFORE INCOME TAX	32,314,935	25	58,674,999	41			
INCOME TAX	5,608,351	4	12,923,453	9			

(Continued)

STATEMENTS OF INCOME NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005 (In Thousands of New Taiwan Dollars, Except Earnings Per Share) (Reviewed, Not Audited)

	2006			2005					
	I	Amount		%	1	Amount		%	
INCOME BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	\$ 2	26,706,5	84	21	\$	45,751,5	46	32	
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES (NET OF \$64,547 THOUSAND INCOME TAX BENEFIT)		(37,822)							
NET INCOME	<u>\$</u>	26,668,7	62		<u>\$</u>	45,751,5	<u>46</u>	32	
		20	06			20	05		
	Befo	re Tax	Afte	er Tax	Befo	ore Tax	Afte	er Tax	
EARNINGS PER SHARE Basic Diluted	\$	2.93 2.93	\$	2.43 2.42	\$	5.34 5.33	\$	4.17 4.15	

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

	2006	2005
Income before cumulative effect of changes in		
accounting principles	\$ 27,020,093	\$ 46,071,330
Net income	26,982,271	46,071,330
Basic earnings per share based on the weighted-average		
number of outstanding common shares aggregating		
11,052,155 thousand shares and 11,053,738		
thousand shares in the nine months ended September		
30, 2006 and 2005, respectively	<u>\$ 2.44</u>	<u>\$ 4.16</u>
Diluted earnings per share based on the		
weighted-average number of outstanding common		
shares aggregating 11,092,852 thousand shares and		
11,094,449 thousand shares in the nine months		
ended September 30, 2006 and 2005, respectively	<u>\$ 2.43</u>	<u>\$ 4.15</u>

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

(With Deloitte & Touche review report dated October 13, 2006)

(Concluded)

STATEMENTS OF CASH FLOWS NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005 (In Thousands of New Taiwan Dollars) (Reviewed, Not Audited)

		2006		2005
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income	\$	26,668,762	\$	45,751,546
Adjustments				
Depreciation		6,833,340		7,144,722
Amortization		368,130		85,721
Deferred income tax		(153,412)		(112,902)
Investment income under the equity method		(7,627,871)		(5,227,546)
Loss (gain) on disposal of properties		24,618		(4,917)
Cash dividends from long-term investments under the equity method		4,956,820		5,309,653
Construction dividends from investment in bonds without quoted				
market prices		-		102,951
Gain on appraisal of financial assets		(121,313)		(378,006)
Impairment loss on financial assets carried at cost		32,000		906,000
Unrealized loss (gain) on intercompany transactions		(139,013)		514,990
Effects of exchange rate changes on foreign-currency long-term				
debts		(83)		(175,240)
Others		77,012		106,835
Net changes in operating assets and liabilities				
Notes receivable		423,087		(70,286)
Accounts receivable		(1,142,981)		(475,416)
Inventories		3,120,354		(8,133,078)
Other receivable		(188,006)		(703,455)
Other current assets		66,231		(701,986)
Notes and accounts payable		537,360		(603,639)
Accrued expenses		(120,708)		(572,053)
Other payables		516,648		170,522
Income tax payable		(1,909,220)		(3,260,837)
Other current liabilities	_	(1,737,352)	_	(426,863)
Net cash provided by operating activities	_	30,484,403		39,246,716
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of financial assets at fair value through profit or loss		(9,173,380)		(13,990,000)
Disposal of financial assets at fair value through profit or loss		15,917,079		25,641,024
Increase in long-term investments under the equity method		(365,313)		(13,691,340)
Acquisition of properties		(9,029,156)		(11,020,304)
Increase in other assets		(2,751,001)		(270,778)
Proceeds of disposal of properties		1,836		86,176
Proceeds of capital reduction on financial assets carried at cost		18,000		
Decrease in refundable deposits		244,892		-
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STATEMENTS OF CASH FLOWS NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005 (In Thousands of New Taiwan Dollars) (Reviewed, Not Audited)

	2006	2005
Increase in investment in bonds without quoted market prices	\$ -	\$ (3,199,944)
Proceeds of disposal of long-term investments	-	54,170
Decrease in pledged time deposits		100,000
Net cash used in investing activities	(5,137,043)	(16,290,996)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash dividends	(39,694,019)	(38,668,242)
Decrease in commercial paper payable	(1,499,376)	(1,799,052)
Increase in short-term bank loans and overdraft	6,443,101	6,245,402
Increase in long-term loans	8,100,000	977,790
Bonus to employees	(915,350)	(714,035)
Remuneration to directors and supervisors	(137,302)	(138,243)
Repayment of bonds payable	(5,000,000)	-
Acquisition of treasury stock	(32,096)	
Net cash used in financing activities	(32,735,042)	(34,096,380)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(7,387,682)	(11,140,660)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	17,739,481	26,402,765
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 10,351,799</u>	<u>\$ 15,262,105</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	\$ 369,263	\$ 286,472
Income tax paid	7,670,983	16,297,192
PURCHASE OF PROPERTIES		
Acquisition of properties	\$ 11,157,068	\$ 11,104,031
Increase in payable on properties purchased	(2,127,912)	(83,727)
	<u>\$ 9,029,156</u>	<u>\$ 11,020,304</u>

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

(With Deloitte & Touche review report dated October 13, 2006) (Concluded)