

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 June 30, 2007 and 2006, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the six 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.

We conducted our reviews in accordance with Statement on Auditing Standards No. 36 "Review of Financial Statements" issued by the Auditing Standards 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 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 consolidated financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above 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 ROC.

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

July 27, 2007

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.

2007		2006		LIABILITIES AND STOCKHOLDERS' EQUITY	2007		2006	
Amount	%	Amount	%		Amount	%	Amount	%
				CURRENT LIABILITIES				
\$ 54,216,637	15	\$ 49,437,929	14	Short-term loans	\$ 30,253,614	8	\$ 31,027,092	9
19,968,229	5	33,078,405	9	Short-term notes and bills payable	2,353,230	1	5,140,668	1
10,485,105	3	10,772,880	3	Financial liabilities at fair value through profit or loss - current	6,535	-	139	-
16,274	-	-	-	Hedge of derivative financial liabilities - current	387	-	-	-
158,113	-	1,950	-	Notes and accounts payable	6,634,654	2	5,516,677	2
-	-	100,000	-	Income tax payable	9,137,928	2	4,972,086	1
1,935,872	1	1,705,837	1	Accrued expenses	8,968,490	2	7,299,604	2
8,876,602	2	7,018,601	2	Other payables	38,250,626	10	45,580,621	13
1,137,810	-	1,660,922	1	Bonds payable - current portion	-	-	5,425,000	2
61,598,993	17	50,240,161	14	Long-term bank loans - current portion	1,779,168	1	2,712,160	1
674,977	-	810,696	-	Reorganized loans payable - current portion	527,974	-	527,974	-
4,528,143	1	5,117,881	2	Others	4,297,850	1	4,341,757	1
3,902,762	1	2,932,458	1					
				Total current liabilities	102,210,456	27	112,543,778	32
167,499,517	45	162,877,720	47					
				LONG-TERM LIABILITIES				
				Bonds payable, net of current portion	13,700,000	4	8,100,000	2
139,706	-	138,383	-	Bank loans, net of current portion	14,393,977	4	13,196,027	4
4,254,082	1	2,839,135	1	Reorganized loans payable, net of current portion	5,582,533	1	6,110,506	2
1,046,012	-	671,289	-					
31,709	-	-	-	Total long-term liabilities	33,676,510	9	27,406,533	8
7,038,705	2	6,956,538	2					
5,566,059	2	5,997,054	2	RESERVE FOR LAND REVALUATION INCREMENT TAX	2,171,124	1	2,171,124	1
4,727,566	1	4,952,540	1					
172,312	-	-	-	OTHER LIABILITIES				
				Accrued pension liabilities	1,034,624	-	1,041,509	-
22,976,151	6	21,554,939	6	Deferred income tax liabilities	2,208,542	1	2,306,620	1
				Others - mainly negative goodwill	727,626	-	1,169,431	-
				Total other liabilities	3,970,792	1	4,517,560	1
16,509,856	4	16,208,587	5					
4,279,663	1	4,278,875	1	Total liabilities	142,028,882	38	146,638,995	42
47,363,755	13	44,357,616	13					
276,521,773	74	258,919,289	74	PARENT COMPANY STOCKHOLDERS' EQUITY				
20,686,099	6	16,070,607	4	Capital stock - authorized 12,000,000 thousand shares at NT\$10 par value				
11,287,678	3	7,320,846	2	Common shares - issued 11,053,773 thousand and 10,545,975 thousand shares as of June 30, 2007 and 2006, respectively	110,537,726	30	105,459,746	30
376,648,824	101	347,155,820	99	Preferred shares - issued 40,679 thousand and 40,697 thousand shares as of June 30, 2007 and 2006, respectively	406,790	-	406,970	-
17,120,179	5	17,541,220	5	Total capital stock	110,944,516	30	105,866,716	30
393,769,003	106	364,697,040	104	Capital surplus	1,556,889	1	1,210,848	-
242,051,008	65	232,064,221	66	Retained earnings	77,967,569	21	63,219,176	18
2,366,360	1	1,705,719	1	Other equity items				
149,351,635	40	130,927,100	37	Cumulative translation adjustments	(22,509)	-	(125,705)	-
25,786,868	7	26,561,057	8	Net loss not recognized as pension cost	(41,070)	-	(36,872)	-
				Unrealized gain on financial instrument	8,327,684	2	5,610,604	2
175,138,503	47	157,488,157	45	Unrealized revaluation increment	1,509,510	-	1,535,363	-
85,674	-	96,948	-	Treasury stock - 85,374 thousand and 81,818 thousand shares as of June 30, 2007 and 2006, respectively	(1,433,016)	-	(1,347,356)	-
				Total other equity items	8,340,599	2	5,636,034	2
199,475	-	241,915	-	Total parent company stockholders' equity	198,809,573	54	175,932,774	50
255,329	-	350,433	-					
210,200	-	200,997	-	MINORITY INTEREST	31,193,125	8	28,004,459	8
5,666,731	2	7,765,119	2					
6,331,735	2	8,558,464	2	Total stockholders' equity	230,002,698	62	203,937,233	58

CHINA STEEL CORPORATION AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

SIX MONTHS ENDED JUNE 30, 2007 AND 2006

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

(Reviewed, Not Audited)

	2007		2006	
	Amount	%	Amount	%
NET REVENUES	\$ 161,516,943	100	\$ 129,365,757	100
COSTS OF REVENUES	<u>119,243,530</u>	<u>74</u>	<u>104,253,243</u>	<u>81</u>
GROSS PROFIT	42,273,413	26	25,112,514	19
UNREALIZED GAIN ON INTERCOMPANY TRANSACTIONS	<u>17,934</u>	<u>-</u>	<u>2,930</u>	<u>-</u>
REALIZED GROSS PROFIT	<u>42,255,479</u>	<u>26</u>	<u>25,109,584</u>	<u>19</u>
OPERATING EXPENSES				
Selling	2,350,555	1	1,972,310	1
General and administrative	2,352,730	2	2,066,740	2
Research and development	<u>725,648</u>	<u>-</u>	<u>543,399</u>	<u>-</u>
Total operating expenses	<u>5,428,933</u>	<u>3</u>	<u>4,582,449</u>	<u>3</u>
OPERATING INCOME	<u>36,826,546</u>	<u>23</u>	<u>20,527,135</u>	<u>16</u>
NONOPERATING INCOME AND GAINS				
Interest income	604,997	-	429,875	-
Gain on valuation of financial assets	188,833	-	136,801	-
Investment income under equity method	-	-	72,000	-
Gain on foreign exchange	129,983	-	96,099	-
Revenue from sale of scraps	145,373	-	66,308	-
Others	<u>984,526</u>	<u>1</u>	<u>928,939</u>	<u>1</u>
Total nonoperating income and gains	<u>2,053,712</u>	<u>1</u>	<u>1,730,022</u>	<u>1</u>
NONOPERATING EXPENSES AND LOSSES				
Interest expense	821,425	1	817,476	1
Investment loss under equity method	32,707	-	-	-
Impairment loss	263,821	-	-	-
Others	<u>657,305</u>	<u>-</u>	<u>685,784</u>	<u>-</u>
Total nonoperating expenses and losses	<u>1,775,258</u>	<u>1</u>	<u>1,503,260</u>	<u>1</u>
CONSOLIDATED INCOME BEFORE INCOME TAX	37,105,000	23	20,753,897	16

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CHINA STEEL CORPORATION AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

SIX MONTHS ENDED JUNE 30, 2007 AND 2006

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

(Reviewed, Not Audited)

	2007		2006	
	Amount	%	Amount	%
INCOME TAX	<u>\$ 8,173,607</u>	<u>5</u>	<u>\$ 4,202,577</u>	<u>3</u>
NET INCOME BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	28,931,393	18	16,551,320	13
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES (Net of \$64,547 thousand income tax benefit)	<u>-</u>	<u>-</u>	<u>2,769</u>	<u>-</u>
CONSOLIDATED NET INCOME	<u>\$ 28,931,393</u>	<u>18</u>	<u>\$ 16,554,089</u>	<u>13</u>
BELONG TO				
The Corporation's stockholders	\$ 26,206,151	16	\$ 13,859,656	11
Minority interest	<u>2,725,242</u>	<u>2</u>	<u>2,694,433</u>	<u>2</u>
	<u>\$ 28,931,393</u>	<u>18</u>	<u>\$ 16,554,089</u>	<u>13</u>
	2007		2006	
	Before Tax	After Tax	Before Tax	After Tax
EARNINGS PER SHARE				
Basic	<u>\$ 2.90</u>	<u>\$ 2.39</u>	<u>\$ 1.51</u>	<u>\$ 1.26</u>
Diluted	<u>\$ 2.89</u>	<u>\$ 2.38</u>	<u>\$ 1.50</u>	<u>\$ 1.26</u>

(Concluded)

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

(With Deloitte & Touche review report dated July 27, 2007)

	Retained Earnings					Other Equity Items						Total Stockholders' Equity
	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated	Total	Cumulative Translation Adjustments	Net Loss not Recognized as Pension Cost	Unrealized Gain (Loss) on Financial Instrument	Unrealized Revaluation Increment	Treasury Stock	Minority Interest	
	\$1,548,370	\$ 35,674,700	\$ 8,444,993	\$ 39,309,770	\$ 83,429,463	\$ (62,787)	\$ (37,358)	\$ 7,533,737	\$ 1,512,123	\$ (1,334,892)	\$ 30,597,119	\$ 234,130,291
	-	-	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	(2,613)	-	-	(2,613)
	-	3,914,633	-	(3,914,633)	-	-	-	-	-	-	-	-
	-	-	(829,292)	829,292	-	-	-	-	-	-	-	-
	-	-	-	(720,359)	(720,359)	-	-	-	-	-	-	(720,359)
	-	-	-	(108,054)	(108,054)	-	-	-	-	-	-	(108,054)
	-	-	-	(113,129)	(113,129)	-	-	-	-	-	-	(113,129)
	-	-	-	(30,724,998)	(30,724,998)	-	-	-	-	-	-	(30,724,998)
	-	-	-	26,206,151	26,206,151	-	-	-	-	-	2,725,242	28,931,393
	-	-	-	-	-	-	-	937,808	-	-	-	937,808
	4,591	-	-	(1,505)	(1,505)	-	-	(143,861)	-	(101,361)	-	(242,136)
	-	-	-	-	-	40,278	-	-	-	-	-	40,278
	-	-	-	-	-	-	(3,712)	-	-	-	-	(3,712)
	3,928	-	-	-	-	-	-	-	-	3,237	-	7,165
	-	-	-	-	-	-	-	-	-	-	(3,334)	(3,334)
	-	-	-	-	-	-	-	-	-	-	(2,125,902)	(2,125,902)
	<u>\$1,556,889</u>	<u>\$ 39,589,333</u>	<u>\$ 7,615,701</u>	<u>\$ 30,762,535</u>	<u>\$ 77,967,569</u>	<u>\$ (22,509)</u>	<u>\$ (41,070)</u>	<u>\$ 8,327,684</u>	<u>\$ 1,509,510</u>	<u>\$ (1,433,016)</u>	<u>\$ 31,193,125</u>	<u>\$ 230,002,698</u>
	\$1,209,378	\$ 30,614,261	\$ 8,467,340	\$ 51,026,001	\$ 90,107,602	\$ (335,992)	\$ (36,872)	\$ (446,483)	\$ 1,535,363	\$ (1,273,221)	\$ 26,655,971	\$ 223,282,462
	-	-	-	-	-	261,188	-	3,936,398	-	-	-	4,197,586
	-	-	-	-	-	-	-	-	-	-	-	-
	-	5,060,439	-	(5,060,439)	-	-	-	-	-	-	-	-
	-	-	(22,347)	22,347	-	-	-	-	-	-	-	-
	-	-	-	(137,302)	(137,302)	-	-	-	-	-	-	(137,302)
	-	-	-	(915,350)	(915,350)	-	-	-	-	-	-	(915,350)
	-	-	-	(152,614)	(152,614)	-	-	-	-	-	-	(152,614)
	-	-	-	(39,541,405)	(39,541,405)	-	-	-	-	-	-	(39,541,405)
	-	-	-	13,859,656	13,859,656	-	-	-	-	-	2,694,433	16,554,089
	-	-	-	-	-	-	-	(228,442)	-	-	-	(228,442)
	2	-	-	(1,411)	(1,411)	-	-	2,349,131	-	(49,420)	-	2,298,302
	-	-	-	-	-	(50,901)	-	-	-	-	-	(50,901)
	-	-	-	-	-	-	-	-	-	(32,096)	-	(32,096)
	1,468	-	-	-	-	-	-	-	-	7,381	-	8,849
	-	-	-	-	-	-	-	-	-	-	(1,345,945)	(1,345,945)
	<u>\$1,210,848</u>	<u>\$ 35,674,700</u>	<u>\$ 8,444,993</u>	<u>\$ 19,099,483</u>	<u>\$ 63,219,176</u>	<u>\$ (125,705)</u>	<u>\$ (36,872)</u>	<u>\$ 5,610,604</u>	<u>\$ 1,535,363</u>	<u>\$ (1,347,356)</u>	<u>\$ 28,004,459</u>	<u>\$ 203,937,233</u>

CHINA STEEL CORPORATION AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

SIX MONTHS ENDED JUNE 30, 2007 AND 2006

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Consolidated net income	\$ 28,931,393	\$ 16,554,089
Cumulative effect of changes in accounting principles	-	(2,769)
Adjustments		
Depreciation	7,791,244	6,367,599
Amortization	402,945	339,212
Deferred income tax	262,899	5,041
Provision for (recovery of) loss on inventories	(58,584)	121,906
Investment loss (income) under equity method	35,701	(74,133)
Cash dividends from long-term investments under the equity method	96,760	24,768
Loss on disposal of properties	51,177	12,116
Impairment loss	264,315	53,289
Gains on disposal of investments and financial assets valuation	(769,467)	(632,149)
Effect of exchange rate changes on foreign-currency long-term debts	(12,013)	(282)
Others	26,009	1,215
Net changes in operating assets and liabilities		
Financial assets held for trading	(323,141)	(190,882)
Notes receivable	(78,683)	658,373
Accounts receivable	(592,263)	(379,041)
Other receivables	(568,365)	(840,729)
Inventories	(5,082,136)	7,528,068
Other current assets	(1,810,557)	51,991
Notes and accounts payable	(472,456)	866,039
Income tax payable	706,866	(5,331,132)
Accrued expenses	(1,743,275)	(2,433,647)
Other payables	1,656,784	1,141,623
Other current liabilities	<u>1,456,095</u>	<u>179,633</u>
Net cash provided by operating activities	<u>30,171,248</u>	<u>24,020,198</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal of financial assets at fair value through profit or loss	19,367,448	10,026,747
Purchase of financial assets at fair value through profit or loss	(11,802,053)	(15,340,904)
Proceeds from disposal of available-for-sale financial assets	7,048,502	7,383,468
Purchase of available-for-sale financial assets	(6,984,164)	(6,710,280)
Proceeds from disposal of held-to-maturity investment	3,683	45,064
Purchase of held-to-maturity investment	(101,021)	(97,593)
Proceeds from disposal of financial assets carried at cost	17,355	16,309
Purchase of financial assets carried at cost	(593,443)	(83,324)
Proceeds from reduced capital on financial assets at cost	132,319	-
Purchase of investment in bonds without quoted price	(2,686)	(34,535)
Purchase of hedge of derivative financial assets	(21,621)	-
Decrease in other financial assets	8,873	-
Proceeds from disposal of long-term investments under equity method	13,788	131,846
Increase in long-term stock investments under equity method	(172,312)	(396,868)
Proceeds from disposal of properties	49,816	10,733
Acquisitions of properties	(15,636,717)	(7,609,278)
Decrease (increase) in restricted assets	(454,136)	112,812
Increase in other assets	<u>(938,205)</u>	<u>(2,563,698)</u>

(Continued)

CHINA STEEL CORPORATION AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

SIX MONTHS ENDED JUNE 30, 2007 AND 2006

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	2007	2006
Net cash used in investing activities	\$ (10,064,574)	\$ (15,109,501)
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in short-term notes and bills payable	(740,437)	(4,327,138)
Decrease in short-term loans	(2,866,788)	(441,961)
Increase in bonds payable	-	8,100,000
Repayments of bonds payable	-	(5,000,000)
Increase in long-term loans	2,195,360	47,593
Repayments of long-term loans	(1,768,849)	(2,714,183)
Repayments of reorganized loans payable	(200,000)	(200,000)
Decrease in other liabilities	(286,546)	(275,198)
Cash dividends paid	(24,227)	(59,500)
Remuneration to directors and supervisors and bonus to employees	-	(12,773)
Purchase of treasury stock	-	(32,096)
Decrease in minority interest	(2,125,902)	(1,345,945)
Net cash used in financing activities	(5,817,389)	(6,261,201)
EFFECT FROM DISPOSAL OF SUBSIDIARIES	(5,794)	-
NET INCREASE IN CASH AND CASH EQUIVALENTS	14,283,491	2,649,496
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	39,933,146	46,788,433
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 54,216,637	\$ 49,437,929
SUPPLEMENTAL DISCLOSURE OF CASH FLOW		
Interest paid, excluding capitalized interest	\$ 834,197	\$ 822,495
Income tax paid	7,203,842	9,593,215
PURCHASE OF PROPERTIES		
Acquisition of properties	\$ 15,986,986	\$ 7,796,365
Increase in payable on properties purchased	(350,269)	(187,087)
	\$ 15,636,717	\$ 7,609,278
NONCASH INVESTING AND FINANCING ACTIVITIES		
Cash dividends payable	\$ 33,762,054	\$ 41,031,043
Payable for remuneration to directors and supervisors and bonus to employees	1,229,669	1,220,049

(Concluded)

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

(With Deloitte & Touche review report dated July 27, 2007)