

# **China Steel Corporation and Subsidiaries**

**Consolidated Financial Statements for the  
Years Ended December 31, 2008 and 2007 and  
Independent Auditors' Report**

## INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders  
China Steel Corporation

We have audited the accompanying consolidated balance sheets of China Steel Corporation (the "Corporation") and its subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the Rules Governing the Audit of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Those rules and standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the consolidated financial position of the Corporation and its subsidiaries as of December 31, 2008 and 2007, and the consolidated results of their operations and their cash flows for the years then ended, 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.

As discussed in Note 3 to the accompanying consolidated financial statements, starting January 1, 2008, the Corporation and its subsidiaries adopted Interpretation 96-052, "Accounting for Bonuses to Employees, Directors and Supervisors" issued by the Accounting Research and Development Foundation ("ARDF") in March 2007.

February 5, 2009

### 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 audit such consolidated financial statements are those generally accepted and applied in the Republic of China.*

*For the convenience of readers, the auditors' 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 auditors' report and consolidated financial statements shall prevail.*

## CHINA STEEL CORPORATION AND SUBSIDIARIES

### CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2008 AND 2007

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

ASSETS	2008		2007		LIABILITIES AND STOCKHOLDERS' EQUITY	2008		2007	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents	\$ 20,069,433	4	\$ 38,590,707	11	Short-term loans and overdraft	\$ 37,779,604	8	\$ 24,119,724	7
Financial assets at fair value through profit or loss - current	12,431,031	3	6,409,218	2	Commercial paper payable	22,229,111	5	3,551,541	1
Available-for-sale financial assets - current	6,962,164	1	8,627,237	2	Financial liabilities at fair value through profit or loss - current	5,909	-	23,114	-
Held-to-maturity financial assets - current	120,000	-	96,274	-	Hedging derivative liabilities - current	4,479	-	-	-
Hedging derivative assets - current	256,344	-	100,587	-	Notes and accounts payable	7,986,217	2	8,008,046	2
Notes receivable, net	3,176,009	1	2,169,121	1	Income tax payable	9,083,112	2	9,174,071	2
Accounts receivable, net	7,271,183	2	9,248,305	2	Accrued expenses	9,081,256	2	10,630,598	3
Other receivables	2,922,636	1	1,188,569	-	Other payables	8,452,142	2	4,143,073	1
Inventories	91,580,483	20	64,098,198	18	Purchase commitments payable	8,199,541	2	199,662	-
Deferred income tax assets	6,137,338	1	990,675	-	Long-term debt - current portion	7,616,007	1	2,970,773	1
Restricted assets	4,885,736	1	4,507,974	1	Reorganized loans payable - current portion	400,000	-	400,000	-
Others	5,315,387	1	3,888,431	1	Others	4,187,235	1	4,567,505	1
Total current assets	161,127,744	35	139,915,296	38	Total current liabilities	115,024,613	25	67,788,107	18
INVESTMENTS					LONG-TERM LIABILITIES				
Financial assets at fair value through profit or loss - noncurrent	-	-	155,718	-	Hedging derivative liabilities - noncurrent	2,055	-	-	-
Available-for-sale financial assets - noncurrent	3,331,250	1	3,755,021	1	Bonds payable	43,250,000	9	13,700,000	4
Held-to-maturity financial assets - noncurrent	612,179	-	824,875	-	Long-term debt	31,567,356	7	14,032,257	4
Hedging derivative assets - noncurrent	623,982	-	57,411	-	Reorganized loans payable	4,959,845	1	5,382,533	1
Financial assets carried at cost - noncurrent	8,462,588	2	7,642,392	2	Total long-term liabilities	79,779,256	17	33,114,790	9
Bond investments with no active market - noncurrent	141,598	-	5,123,136	2	RESERVE FOR LAND VALUE INCREMENT TAX	8,673,466	2	2,171,124	1
Investments accounted for by the equity method	3,700,165	1	4,617,432	1	OTHER LIABILITIES				
Investments in real estate	219,205	-	-	-	Accrued pension cost	899,151	-	1,016,659	1
Other financial assets - noncurrent	13,428,050	3	6,912,838	2	Deferred income tax liabilities	1,891,074	1	4,505,524	1
Total investments	30,519,017	7	29,088,823	8	Others - mainly deferred credits	860,417	-	421,935	-
PROPERTY, PLANT AND EQUIPMENT					Total other liabilities	3,650,642	1	5,944,118	2
Land	15,945,872	3	18,612,260	5	Total liabilities	207,127,977	45	109,018,139	30
Land improvements	4,288,420	1	4,279,662	1	STOCKHOLDERS' EQUITY OF PARENT COMPANY				
Buildings	49,768,271	11	48,302,038	13	Capital stock - authorized 14,000,000 thousand shares and 12,000,000 thousand shares at NT\$10 par value as of December 31, 2008 and 2007, respectively				
Machinery and equipment	294,761,897	64	285,014,272	78	Common shares - issued 12,557,541 thousand shares and 11,496,335 thousand shares as of December 31, 2008 and 2007, respectively	125,575,411	27	114,963,350	32
Transportation equipment	20,916,674	4	20,617,522	6	Preferred shares - issued 38,270 thousand shares and 38,956 thousand shares as of December 31, 2008 and 2007, respectively	382,700	-	389,560	-
Other equipment	13,051,908	3	12,480,080	3	Total capital stock	125,958,111	27	115,352,910	32
Total cost	398,733,042	86	389,305,834	106	Capital surplus	18,410,920	4	1,878,630	-
Revaluation increment	43,775,240	10	17,102,580	5	Retained earnings	76,427,107	17	98,612,729	27
Cost and revaluation increment	442,508,282	96	406,408,414	111	Other equity				
Less: Accumulated depreciation	262,923,994	57	249,670,550	68	Unrealized revaluation increment	21,915,248	5	1,509,155	-
Accumulated impairment	1,029,187	-	2,680,446	1	Unrealized gain on financial instruments	6,508,005	1	6,473,326	2
	178,555,101	39	154,057,418	42	Cumulative translation adjustments	358,976	-	283,018	-
Construction in progress and prepayments for equipment	84,514,289	18	36,211,289	10	Net loss not recognized as pension cost	(32,385)	-	(38,083)	-
Total property, plant and equipment	263,069,390	57	190,268,707	52	Treasury stock - 384,103 thousand shares and 84,543 thousand shares as of December 31, 2008 and 2007, respectively	(10,805,513)	(2)	(1,416,395)	-
INTANGIBLE ASSETS	1,857,337	-	486,469	-	Total other equity	17,944,331	4	6,811,021	2
OTHER ASSETS					Total stockholders' equity of parent company	238,740,469	52	222,655,290	61
Assets leased to others	447,765	-	346,669	-	MINORITY INTEREST	16,242,698	3	33,274,506	9
Refundable deposits	298,268	-	214,196	-	Total stockholders' equity	254,983,167	55	255,929,796	70
Restricted assets	163,957	-	222,961	-	TOTAL	\$462,111,144	100	\$364,947,935	100
Unamortized repair costs and others	4,627,666	1	4,404,814	2					
Total other assets	5,537,656	1	5,188,640	2					
TOTAL	\$462,111,144	100	\$364,947,935	100					

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

(With Deloitte & Touche audit report dated February 5, 2009)

# CHINA STEEL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME YEARS ENDED DECEMBER 31, 2008 AND 2007

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

	2008		2007	
	Amount	%	Amount	%
OPERATING REVENUES	\$ 385,317,335	100	\$ 330,740,665	100
OPERATING COSTS	<u>319,264,484</u>	<u>83</u>	<u>247,962,771</u>	<u>75</u>
GROSS PROFIT	66,052,851	17	82,777,894	25
UNREALIZED GAIN FROM AFFILIATES	<u>(360,042)</u>	<u>-</u>	<u>(180,053)</u>	<u>-</u>
REALIZED GROSS PROFIT	<u>65,692,809</u>	<u>17</u>	<u>82,597,841</u>	<u>25</u>
OPERATING EXPENSES				
Research and development	1,474,290	1	1,489,494	1
Selling	5,043,237	1	4,739,050	1
General and administrative	<u>5,045,811</u>	<u>1</u>	<u>4,595,853</u>	<u>1</u>
Total operating expenses	<u>11,563,338</u>	<u>3</u>	<u>10,824,397</u>	<u>3</u>
OPERATING INCOME	<u>54,129,471</u>	<u>14</u>	<u>71,773,444</u>	<u>22</u>
NONOPERATING INCOME AND GAINS				
Interest income	936,393	-	1,062,742	-
Valuation gain on financial assets, net	60,452	-	297,714	-
Dividend income	417,728	-	371,631	-
Exchange gain, net	483,889	-	497,760	-
Gain on disposal of investments	45,470	-	98,437	-
Others	<u>935,677</u>	<u>-</u>	<u>1,511,710</u>	<u>1</u>
Total nonoperating income and gains	<u>2,879,609</u>	<u>-</u>	<u>3,839,994</u>	<u>1</u>
NONOPERATING EXPENSES AND LOSSES				
Interest expense	1,681,251	1	1,629,826	1
Investment loss recognized under equity method, net	751,456	-	117,704	-
Loss on physical inventory	166,667	-	601,506	-
Provision for loss on inventories	14,503,007	4	15,438	-
Impairment loss	5,247,082	1	676,724	-
Others	<u>1,377,438</u>	<u>-</u>	<u>759,844</u>	<u>-</u>
Total nonoperating expenses and losses	<u>23,726,901</u>	<u>6</u>	<u>3,801,042</u>	<u>1</u>
CONSOLIDATED INCOME BEFORE INCOME TAX	33,282,179	8	71,812,396	22
INCOME TAX	<u>8,916,669</u>	<u>2</u>	<u>15,581,064</u>	<u>5</u>

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# CHINA STEEL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2008 AND 2007

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

	<u>2008</u>		<u>2007</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
CONSOLIDATED NET INCOME	<u>\$ 24,365,510</u>	<u>6</u>	<u>\$ 56,231,332</u>	<u>17</u>
BELONGED TO				
The Corporation's stockholders	\$ 24,030,406	6	\$ 51,263,874	15
Minority interest	<u>335,104</u>	<u>-</u>	<u>4,967,458</u>	<u>2</u>
	<u>\$ 24,365,510</u>	<u>6</u>	<u>\$ 56,231,332</u>	<u>17</u>
	<u>2008</u>		<u>2007</u>	
	<u>Before Tax</u>	<u>After Tax</u>	<u>Before Tax</u>	<u>After Tax</u>
EARNINGS PER SHARE				
Basic	<u>\$ 2.55</u>	<u>\$ 2.03</u>	<u>\$ 5.18</u>	<u>\$ 4.31</u>
Diluted	<u>\$ 2.53</u>	<u>\$ 2.01</u>	<u>\$ 5.17</u>	<u>\$ 4.30</u>

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

(With Deloitte & Touche audit report dated February 5, 2009)

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CHINA STEEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
YEARS ENDED DECEMBER 31, 2008 AND 2007  
(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	MINORITY INTEREST	
BALANCES, JANUARY 1, 2007	\$ 110,537,576	\$ 406,940	\$ 1,548,370	\$ 35,674,700	\$ 8,444,993	\$ 39,309,770	\$ 83,429,463	\$ 1,512,123	\$ 7,533,737	\$ (62,787 )	\$ (37,358 )	\$ (1,334,892 )	\$ 30,597,119	\$ 234,130,291
Conversion of preferred stock to common shares	17,380	(17,380 )	-	-	-	-	-	-	-	-	-	-	-	-
Appropriation of 2006 earnings														
Legal reserve	-	-	-	3,914,633	-	(3,914,633 )	-	-	-	-	-	-	-	-
Special reserve	-	-	-	-	(829,292 )	829,292	-	-	-	-	-	-	-	-
Bonus to employees	1,080,539	-	-	-	-	(1,800,898 )	(1,800,898 )	-	-	-	-	-	-	(720,359 )
Remuneration to directors and supervisors	-	-	-	-	-	(108,054 )	(108,054 )	-	-	-	-	-	-	(108,054 )
Preferred cash dividends - \$2.78 per share	-	-	-	-	-	(112,815 )	(112,815 )	-	-	-	-	-	-	(112,815 )
Common cash dividends - \$2.78 per share	-	-	-	-	-	(30,725,312 )	(30,725,312 )	-	-	-	-	-	-	(30,725,312 )
Preferred stock dividends - \$0.3 per share	12,174	-	-	-	-	(12,174 )	(12,174 )	-	-	-	-	-	-	-
Common stock dividends - \$0.3 per share	3,315,681	-	-	-	-	(3,315,681 )	(3,315,681 )	-	-	-	-	-	-	-
Consolidated net income in 2007	-	-	-	-	-	51,263,874	51,263,874	-	-	-	-	-	4,967,458	56,231,332
Change in unrealized loss on available-for-sale financial assets	-	-	-	-	-	-	-	-	(687,907 )	-	-	-	-	(687,907 )
Adjusted to nonoperating income from disposal of appreciated properties	-	-	-	-	-	-	-	(2,968 )	-	-	-	-	-	(2,968 )
Adjustment from changes in equity recognized under equity method	-	-	(340 )	-	-	(5,674 )	(5,674 )	-	(372,504 )	-	-	7,234	-	(371,284 )
Foreign exchange gain due to the translation of foreign-currency financial statements	-	-	-	-	-	-	-	-	-	345,805	-	-	-	345,805
Investees' net loss not recognized as pension cost	-	-	-	-	-	-	-	-	-	-	(725 )	-	-	(725 )
Disposal of treasury stock	-	-	(2,263 )	-	-	-	-	-	-	-	-	39,531	-	37,268
Disposal of the Corporation's shares held by subsidiaries	-	-	103,209	-	-	-	-	-	-	-	-	58,934	121,520	283,663
Cash dividends declared by the Corporation and received by subsidiaries	-	-	229,654	-	-	-	-	-	-	-	-	-	206,563	436,217
Disposal of subsidiaries' shares	-	-	-	-	-	-	-	-	-	-	-	-	16,133	16,133
Purchase of the Corporation's shares by subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(187,202 )	(175,209 )	(362,411 )
Effect of decrease in subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	(3,334 )	(3,334 )
Adjustment of minority interest	-	-	-	-	-	-	-	-	-	-	-	-	(2,455,744 )	(2,455,744 )
BALANCES, DECEMBER 31, 2007	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 )	33,274,506	255,929,796
Conversion of preferred stock to common shares	6,860	(6,860 )	-	-	-	-	-	-	-	-	-	-	-	-
Appropriation of 2007 earnings														
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 - \$3.5 per share	-	-	-	-	-	(134,274 )	(134,274 )	-	-	-	-	-	-	(134,274 )
Common cash dividends - \$3.5 per share	-	-	-	-	-	(40,239,244 )	(40,239,244 )	-	-	-	-	-	-	(40,239,244 )
Preferred stock dividends - \$0.3 per share	11,509	-	-	-	-	(11,509 )	(11,509 )	-	-	-	-	-	-	-
Common stock dividends - \$0.3 per share	3,449,079	-	-	-	-	(3,449,079 )	(3,449,079 )	-	-	-	-	-	-	-
Consolidated net income in 2008	-	-	-	-	-	24,030,406	24,030,406	-	-	-	-	-	335,104	24,365,510
Issuance of stock to acquire subsidiaries' share	5,759,911	-	15,717,185	-	-	-	-	-	-	-	-	-	-	21,477,096
Adjustments in treasury stock and minority interest arising from acquiring subsidiaries' shares	-	-	-	-	-	-	-	-	-	-	-	(6,747,074 )	(13,398,180 )	(20,145,254 )
Change in unrealized 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	-	-	-	-	-	-	-	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 due to the 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 on financial instruments for cash flow hedging	-	-	-	-	-	-	-	-	901,807	-	-	-	-	901,807
Disposal of the Corporation's shares held by subsidiaries	-	-	548,063	-	-	-	-	-	-	-	-	287,581	698,096	1,533,740
Cash dividends declared by the Corporation and received by subsidiaries	-	-	236,751	-	-	-	-	-	-	-	-	-	219,949	456,700
Purchase of the Corporation's shares by subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(418,782 )	(363,262 )	(782,044 )
Adjustment of minority interest	-	-	-	-	-	-	-	-	-	-	-	-	(4,523,515 )	(4,523,515 )
BALANCES, DECEMBER 31, 2008	<u>\$ 125,575,411</u>	<u>\$ 382,700</u>	<u>\$ 18,410,920</u>	<u>\$ 44,715,153</u>	<u>\$ 7,615,701</u>	<u>\$ 24,096,253</u>	<u>\$ 76,427,107</u>	<u>\$ 21,915,248</u>	<u>\$ 6,508,005</u>	<u>\$ 358,976</u>	<u>\$ (32,385 )</u>	<u>\$ (10,805,513 )</u>	<u>\$ 16,242,698</u>	<u>\$ 254,983,167</u>

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

(With Deloitte & Touche audit report dated February 5, 2009)

# CHINA STEEL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2008 AND 2007

(In Thousands of New Taiwan Dollars)

	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Consolidated net income	\$ 24,365,510	\$ 56,231,332
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	15,652,307	15,541,785
Amortization	965,349	850,827
Deferred income tax	(7,761,113 )	1,019,794
Unrealized gain from affiliates	360,042	180,053
Provision for loss on inventories	21,634,886	(1,437 )
Loss on purchase commitments	7,999,879	199,662
Investment loss under the equity method	763,248	118,835
Cash dividends received from equity method investees	72,162	96,760
Constructive dividends from bond investments with no active market	-	443,399
Loss on disposal of property, plant and equipment	207,163	57,264
Impairment loss	5,947,051	765,997
Loss (gain) on sale of investments and valuation on financial instruments	1,132,133	(1,219,625 )
Others	(228,603 )	(1,285,523 )
Net changes in operating assets and liabilities		
Financial instruments held for trading	29,158	231,204
Notes receivable	(1,006,888 )	(311,932 )
Accounts receivable	1,977,122	(963,966 )
Other receivables	(1,745,241 )	(155,176 )
Inventories	(49,117,171 )	(7,638,488 )
Other current assets	(1,426,956 )	(2,105,202 )
Notes and accounts payable	(21,829 )	915,402
Income tax payable	(90,959 )	1,967,398
Accrued expenses	(1,549,342 )	(90,891 )
Other payables	3,700,052	(906,144 )
Other current liabilities	<u>(380,270 )</u>	<u>1,925,169</u>
Net cash provided by operating activities	<u>21,477,690</u>	<u>65,866,497</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of financial assets at fair value through profit or loss	(30,140,211 )	(28,135,076 )
Proceeds from disposal of financial assets at fair value through profit or loss	22,849,844	48,846,755
Acquisition of available-for-sale financial assets	(11,648,512 )	(12,865,844 )
Proceeds from disposal of available-for-sale financial assets	11,592,140	14,287,907
Acquisition of held-to-maturity financial assets	(1,045,885 )	(334,217 )
Proceeds from disposal of held-to-maturity financial assets	975,904	335,278
Acquisition of financial assets carried at cost	(829,574 )	(1,232,522 )
Proceeds from disposal of financial assets carried at cost	260,562	67,949
Proceeds from capital reduction on financial assets carried at cost	23,988	236,660

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# CHINA STEEL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2008 AND 2007 (In Thousands of New Taiwan Dollars)

	2008	2007
Acquisition of bond investments with no active market	\$ (6,598)	\$ (2,687)
Increase in other financial assets	(4,595,968)	(6,903,965)
Acquisition of investments accounted for by equity method	(114,462)	(232,312)
Proceeds from disposal of investments accounted for by equity method	-	13,788
Acquisition of investments in real estate	(219,205)	-
Proceeds from disposal of subsidiaries' shares	-	15,673
Acquisition of property, plant and equipment	(62,192,467)	(37,875,903)
Proceeds from disposal of property, plant and equipment	3,142	42,080
Increase in refundable deposits	(84,072)	(53,613)
Increase in restricted assets	(318,758)	(446,728)
Increase in other assets	(127,818)	(995,269)
Cash dividends declared by parent company and received by subsidiaries	<u>456,700</u>	<u>436,217</u>
Net cash used in investing activities	<u>(75,161,250)</u>	<u>(24,795,829)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase (decrease) in short-term loans and overdraft	13,659,880	(9,000,678)
Increase in commercial paper payable	18,677,570	457,874
Issuance of bonds payable	29,550,000	-
Proceeds from long-term debt	24,751,745	4,151,142
Repayments of long-term debt	(3,523,614)	(3,254,181)
Repayments of reorganized loans payable	(400,000)	(527,974)
Increase (decrease) in other liabilities	78,440	(73,314)
Cash dividends paid by parent company	(40,356,703)	(30,834,545)
Cash bonus to employees and remuneration to directors and supervisors paid by parent company	(992,370)	(828,413)
Acquisition of treasury stock	(2,510,843)	-
Proceeds from disposal of treasury stocks to employees	-	37,268
Disposal of parent company's shares held by subsidiaries	1,533,740	283,663
Purchase of parent company's shares by subsidiaries	(782,044)	(362,411)
Decrease in minority interest	<u>(4,523,515)</u>	<u>(2,455,744)</u>
Net cash provided by (used in) financing activities	<u>35,162,286</u>	<u>(42,407,313)</u>
EFFECT FROM DISPOSAL OF SUBSIDIARIES	<u>-</u>	<u>(5,794)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(18,521,274)	(1,342,439)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>38,590,707</u>	<u>39,933,146</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$20,069,433</u>	<u>\$38,590,707</u>
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Interest paid (excluding capitalized interest)	\$ 1,640,529	\$ 1,619,523

(Continued)



# CHINA STEEL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2008 AND 2007 (In Thousands of New Taiwan Dollars)

	2008	2007
Income tax paid	\$ 16,768,741	\$ 12,593,872
<b>INVESTING AND FINANCING ACTIVITIES AFFECTING BOTH CASH AND NON-CASH ITEMS</b>		
Cash Paid for Acquisition of Property, Plant and Equipment		
Acquisition of property, plant and equipment	\$ 62,785,419	\$ 38,311,767
Increase in payable for equipment purchased	<u>(592,952)</u>	<u>(435,864)</u>
	<u>\$ 62,192,467</u>	<u>\$ 37,875,903</u>
Cash Dividends Paid to Stockholders		
Total cash dividends payable to stockholders	\$ 40,373,518	\$ 30,838,127
Increase in dividend payable	<u>(16,815)</u>	<u>(3,582)</u>
	<u>\$ 40,356,703</u>	<u>\$ 30,834,545</u>
<b>NONCASH FINANCING ACTIVITIES</b>		
Current portion of long-term liabilities	<u>\$ 8,616,007</u>	<u>\$ 3,370,773</u>

(Concluded)

In 2008, the Corporation acquired Dragon Steel Corporation (DSC) by issuance of shares to stockholders of DSC who do not belong to the Corporation's group. The acquisition made on October 6, 2008 was accounted for by the purchase method. The fair value of the assets and liabilities acquired and common shares issued were shown as follows:

Items	Amount
<b>ASSETS</b>	
Current assets	\$ 3,553,231
Other investments	1,222,002
Property, plant and equipment, net	15,216,877
Goodwill	401,018
Identifiable intangible assets	1,152,904
Other assets	73,833
<b>LIABILITIES</b>	
Current liabilities	(6,141,967)
Long-term liabilities	(4,154,216)
Other liabilities	<u>(15,704)</u>
Net assets	<u>\$ 11,307,978</u>

(Continued)

# CHINA STEEL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2008 AND 2007

(In Thousands of New Taiwan Dollars)

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	<u>Amount</u>
Issuance of common shares to stockholders of DSC who do not belong to the Corporation's group	
Common stock	\$ 2,839,774
Capital surplus-additional paid-in capital	<u>8,468,204</u>
	<u>\$ 11,307,978</u>
Issuance of common shares to stockholders of DSC who belong to the Corporation's group	
Common stock	\$ 2,920,137
Capital surplus-additional paid-in capital	<u>7,248,981</u>
	<u>\$ 10,169,118</u>
Total common shares issued to acquire the equity of DSC	
Common stock	\$ 5,759,911
Capital surplus-additional paid-in capital	<u>15,717,185</u>
	<u>\$ 21,477,096</u>

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

(With Deloitte & Touche audit report dated February 5, 2009)

(Concluded)