

# **China Steel Corporation and Subsidiaries**

**Consolidated Financial Statements for the  
Nine Months Ended September 30, 2008 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 sheet of China Steel Corporation (the "Corporation") and its subsidiaries as of September 30, 2008, and the related consolidated statements of income and cash flows for the nine 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 review.

Except for the matters described in the third paragraph, we conducted our review 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, the financial statements of certain subsidiaries (all with shares having no quoted prices) included in the consolidated financial statements were unreviewed. As of September 30, 2008, their total assets and total liabilities were NT\$145,887,000 thousand and NT\$71,992,956 thousand, respectively, which represented 35% of total consolidated assets and 45% of total consolidated liabilities, respectively. For the nine months ended September 30, 2008, their net sales and net income were NT\$85,207,982 thousand and NT\$8,725,779 thousand, respectively, which represented 26% of consolidated net operating revenues and 20% of consolidated net income. As discussed in Note 13 to the accompanying consolidated financial statements, the Corporation's aggregate carrying value of the investments accounted for by the equity-method was NT\$4,098,429 thousand as of September 30, 2008, and the net investment loss for the nine months ended September 30, 2008 was NT\$480,737 thousand. These investment amounts were based on the investees' unreviewed financial statements for the same reporting period as that of the Corporation.

Based on our review, except for the effects of any adjustments that might have been determined to be necessary had the financial statements of certain subsidiaries and equity - method investees mentioned in the preceding paragraph been reviewed, we are not aware of any material modifications that should be made to the accompanying consolidated financial statements of the Corporation 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 discussed in Note 2 to the accompanying consolidated financial statements, in accordance with the rules promulgated by the FSC, starting in the third quarter of 2008, the Corporation is required to prepare and present consolidated financial statements. The rules also provide that single period presentation of consolidated financial statements is permitted at the initial adoption of the rule.

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 ARDF in March 2007.

October 22, 2008

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.*

LIABILITIES AND STOCKHOLDERS' EQUITY			Amount	%
CURRENT LIABILITIES				
Short-term loans and overdraft	4		\$ 14,439,401	
Commercial paper payable	1		3,346,919	
Financial liabilities at fair value through profit or loss - current	2		6,586,454	
Hedging derivative liabilities - current	-		223,416	
Notes and accounts payable	-		22,324	
Income tax payable	1		3,662,253	
Accrued expenses	3		10,979,240	
Other payables	-		1,185,367	
Long-term debt - current portion	24		101,064,222	
Reorganized loans payable - current portion	-		867,942	
Others	1		4,666,096	
	2		7,700,206	
Total current liabilities	38		154,743,840	
LONG-TERM LIABILITIES				
Hedging derivative liabilities - noncurrent	1		3,181,701	
Bonds payable	-		781,693	
Long-term debt	-		77,792	
Reorganized loans payable	2		8,286,443	
	-		184,932	
	1		4,098,429	
	-		219,205	
Total long-term liabilities	3		12,198,054	
RESERVE FOR LAND VALUE INCREMENT TAX				
			2,171,124	
OTHER LIABILITIES				
Accrued pension cost	7		29,028,249	
Deferred income tax liabilities				
Others - mainly deferred credits				
Total other liabilities	5		18,661,127	
	1		4,288,420	
	12		49,554,622	
	71		291,933,094	
	5		20,722,889	
	3		12,911,144	
	97		398,071,296	
	4		16,910,909	
	101		414,982,205	
	63		259,103,810	
	1		2,678,471	
	37		153,199,924	
	17		70,812,039	
	54		224,011,963	
	-		72,271	
	-			
	-		453,710	
	-		227,817	
	-		295,934	
	1		4,252,412	
	1		5,229,873	
	100		\$ 413,086,196	
STOCKHOLDERS' EQUITY OF PARENT COMPANY				
Capital stock - authorized 14,000,000 thousand shares at NTS\$10 par value				
Common shares - issued 11,981,548 thousand shares				
Preferred shares - issued 38,272 thousand shares				
Total capital stock				
Capital surplus				
Retained earnings				
Other equity				
Cumulative translation adjustments				
Net loss not recognized as pension cost				
Unrealized gain on financial instruments				
Unrealized revaluation increment				
Treasury stock - 80,209 thousand shares				
Total other equity				
Total stockholders' equity of parent company				
MINORITY INTEREST				
Total stockholders' equity				
TOTAL				

# CHINA STEEL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF INCOME

NINE MONTHS ENDED SEPTEMBER 30, 2008

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

(Reviewed, Not Audited)

	Amount	%
OPERATING REVENUES	\$ 331,028,242	100
OPERATING COSTS	<u>256,558,426</u>	<u>78</u>
GROSS PROFIT	74,469,816	22
UNREALIZED INTER-COMPANY GAIN	<u>321,517</u>	<u>-</u>
REALIZED GROSS PROFIT	<u>74,148,299</u>	<u>22</u>
OPERATING EXPENSES		
Research and development	1,301,353	1
Selling	4,183,163	1
General and administrative	<u>4,409,719</u>	<u>1</u>
Total operating expenses	<u>9,894,235</u>	<u>3</u>
OPERATING INCOME	<u>64,254,064</u>	<u>19</u>
NONOPERATING INCOME AND GAINS		
Interest income	779,766	1
Dividend income	402,268	-
Exchange gain, net	325,576	-
Income from scrap sales	170,153	-
Others	<u>728,338</u>	<u>-</u>
Total nonoperating income and gains	<u>2,406,101</u>	<u>1</u>
NONOPERATING EXPENSES AND LOSSES		
Interest expense	1,530,705	-
Valuation loss on financial assets, net	6,358	-
Valuation loss on financial liabilities, net	46,065	-
Investment loss recognized under equity method, net	474,381	-
Impairment loss	5,059,797	2
Others	<u>995,291</u>	<u>-</u>
Total nonoperating expenses and losses	<u>8,112,597</u>	<u>2</u>
CONSOLIDATED INCOME BEFORE INCOME TAX	58,547,568	18
INCOME TAX	<u>14,369,368</u>	<u>5</u>
CONSOLIDATED NET INCOME	<u>\$ 44,178,200</u>	<u>13</u>

(Continued)

# CHINA STEEL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF INCOME

NINE MONTHS ENDED SEPTEMBER 30, 2008

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

(Reviewed, Not Audited)

---

	Amount	%
BELONGED TO		
The Corporation's stockholders	\$ 39,481,792	12
Minority interest	<u>4,696,408</u>	<u>1</u>
	<u>\$ 44,178,200</u>	<u>13</u>
	<b>Before Tax</b>	<b>After Tax</b>
EARNINGS PER SHARE		
Basic	<u>\$ 4.07</u>	<u>\$ 3.31</u>
Diluted	<u>\$ 4.02</u>	<u>\$ 3.27</u>

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

(With Deloitte & Touche review report dated October 22, 2008)

(Concluded)

# CHINA STEEL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF CASH FLOWS

NINE MONTHS ENDED SEPTEMBER 30, 2008

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

### CASH FLOWS FROM OPERATING ACTIVITIES

Consolidated net income	\$ 44,178,200
Adjustments to reconcile net income to net cash provided by operating activities	
Depreciation	11,552,947
Amortization	920,655
Deferred income tax	(1,919,293)
Unrealized gain from affiliates	321,517
Cash dividends received from equity method investees	72,162
Investment loss under equity method	480,737
Loss on disposal of property, plant and equipment	141,074
Loss on sale of investments and valuation on financial instruments	677,823
Impairment loss	5,110,508
Others	(101,972)
Net changes in operating assets and liabilities	
Financial instruments held for trading	405,209
Notes receivable	(1,493,132)
Accounts receivable	(1,730,935)
Other receivables	(149,412)
Inventories	(36,966,024)
Other current assets	(3,811,775)
Notes and accounts payable	2,655,204
Income tax payable	(391,480)
Accrued expenses	4,174,982
Other payables	567,342
Other current liabilities	<u>205,046</u>
Net cash provided by operating activities	<u>24,899,383</u>

### CASH FLOWS FROM INVESTING ACTIVITIES

Acquisition of financial assets at fair value through profit or loss	(17,882,813)
Proceeds from disposal of financial assets at fair value through profit or loss	19,765,356
Acquisition of available-for-sale financial assets	(8,213,804)
Proceeds from disposal of available-for-sale financial assets	9,877,883
Acquisition of held-to-maturity financial assets	(1,012,457)
Proceeds from disposal of held-to-maturity financial assets	829,864
Acquisition of financial assets carried at cost	(805,423)
Proceeds from disposal of financial assets carried at cost	168,137
Proceeds from capital reduction on financial assets carried at cost	23,988
Acquisition of bond investments with no active market	(6,598)
Acquisition of investments accounted for by equity method	(24,462)
Acquisition of investments in real estate	(219,205)
Increase in other financial assets - noncurrent	(4,996,854)
Acquisition of property, plant and equipment	(45,138,799)
Proceeds from disposal of property, plant and equipment	2,663
Increase in restricted deposits	(231,095)
Increase in other assets	<u>(154,826)</u>
	(Continued)

# CHINA STEEL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF CASH FLOWS

NINE MONTHS ENDED SEPTEMBER 30, 2008

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

---

Net cash used in investing activities	\$ (48,018,445 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Increase in short-term loans and overdraft	27,126,798
Increase in commercial paper payable	8,563,919
Proceeds from long-term debt	12,182,307
Repayments of long-term debt	(2,894,439 )
Repayments of reorganized loans payable	(200,000 )
Cash dividends paid by parent company	(40,343,418 )
Cash bonus to employees and remuneration to directors and supervisors paid by parent company	(992,370 )
Increase in other liabilities	27,377
Decrease in minority interest	<u>(4,502,418 )</u>
Net cash used in financing activities	<u>(1,032,244 )</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(24,151,306 )</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b><u>38,590,707</u></b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b><u>\$ 14,439,401</u></b>
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>	
Interest paid (excluding capitalized interest)	\$ 1,474,570
Income tax paid	16,680,141
<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	\$ 45,823,546
Increase in payable for equipment purchased	<u>(684,747 )</u>
	<u>\$ 45,138,799</u>
Cash Paid to Stockholders	
Total cash dividends payable to stockholders	\$ 40,373,518
Increase in dividends payable	<u>(30,100 )</u>
	<u>\$ 40,343,418</u>
<b>NONCASH FINANCING ACTIVITIES</b>	
Current portion of long-term liabilities	<u>\$ 2,743,331</u>

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

(With Deloitte & Touche review report dated October 22, 2008)

(Concluded)