

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, 2008 and 2007, 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 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 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.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying consolidated financial statements of the Corporation and its subsidiaries 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 consolidated financial statements, starting January 1, 2008, the Corporation adopted Interpretation 96-052, "Accounting for Bonuses to Employees, Directors and Supervisors" issued by the ARDF in March 2007.

July 30, 2008

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 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.

2007			LIABILITIES AND STOCKHOLDERS' EQUITY	2008		2007	
%	Amount	%		Amount	%	Amount	%
			CURRENT LIABILITIES				
9	\$ 54,216,637	15	Short-term loans and overdraft	\$ 38,635,726	9	\$ 30,253,614	8
4	19,968,229	5	Commercial paper payable	5,221,897	1	2,353,230	1
2	10,485,105	3	Financial liabilities at fair value through profit or loss - current	89,747	-	6,535	-
-	16,274	-	Hedging derivative liabilities - current	77,005	-	387	-
-	158,113	-	Notes and accounts payable	16,196,153	4	6,634,654	2
1	1,935,872	1	Income tax payable	10,499,979	3	7,512,365	2
3	8,876,602	2	Accrued expenses	12,259,849	3	8,968,490	2
-	1,137,810	-	Other payables	49,765,305	12	38,250,626	10
19	61,598,993	17	Long-term debt - current portion	1,439,616	-	1,779,168	1
-	674,977	-	Reorganized loans payable - current portion	400,000	-	527,974	-
1	4,528,143	1	Others	5,377,347	1	4,297,850	1
<u>1</u>	<u>3,902,762</u>	<u>1</u>					
			Total current liabilities	<u>139,962,624</u>	<u>33</u>	<u>100,584,893</u>	<u>27</u>
<u>40</u>	<u>167,499,517</u>	<u>45</u>					
			LONG-TERM LIABILITIES				
-	139,706	-	Hedging derivative liabilities - noncurrent	329,289	-	-	-
1	4,254,082	1	Bonds payable	13,700,000	4	13,700,000	4
-	1,046,012	-	Long-term debt	12,874,626	3	14,393,977	4
-	31,709	-	Reorganized loans payable	<u>5,182,533</u>	<u>1</u>	<u>5,582,533</u>	<u>1</u>
2	7,038,705	2					
1	5,566,059	2	Total long-term liabilities	<u>32,086,448</u>	<u>8</u>	<u>33,676,510</u>	<u>9</u>
1	4,727,566	1					
-	172,312	-	RESERVE FOR LAND VALUE INCREMENT TAX	<u>2,171,124</u>	<u>1</u>	<u>2,171,124</u>	<u>1</u>
<u>3</u>	<u>-</u>	<u>-</u>					
			OTHER LIABILITIES				
<u>8</u>	<u>22,976,151</u>	<u>6</u>	Accrued pension cost	1,014,397	-	1,034,624	-
			Deferred income tax liabilities	3,839,571	1	3,834,105	1
			Others - mainly deferred credits	<u>792,469</u>	<u>-</u>	<u>727,626</u>	<u>-</u>
4	16,509,856	4					
1	4,279,663	1	Total other liabilities	<u>5,646,437</u>	<u>1</u>	<u>5,596,355</u>	<u>1</u>
12	47,201,939	13					
69	276,521,773	74	Total liabilities	<u>179,866,633</u>	<u>43</u>	<u>142,028,882</u>	<u>38</u>
5	20,686,099	6					
<u>3</u>	<u>11,287,678</u>	<u>3</u>	STOCKHOLDERS' EQUITY OF PARENT COMPANY				
94	376,487,008	101	Capital stock - authorized 12,000,000 thousand shares at NT\$10 par value				
<u>4</u>	<u>17,120,179</u>	<u>5</u>	Common shares - issued 11,496,921 thousand shares and 11,053,773 thousand shares as of June 30, 2008 and 2007, respectively	114,969,210	28	110,537,726	30
98	393,607,187	106	Preferred shares - issued 38,370 thousand shares and 40,679 thousand shares as of June 30, 2008 and 2007, respectively	<u>383,700</u>	<u>-</u>	<u>406,790</u>	<u>-</u>
61	242,031,543	65	Total capital stock	<u>115,352,910</u>	<u>28</u>	<u>110,944,516</u>	<u>30</u>
-	<u>2,366,360</u>	<u>1</u>	Capital surplus	<u>2,084,984</u>	<u>-</u>	<u>1,556,889</u>	<u>1</u>
37	149,209,284	40	Retained earnings	<u>84,145,363</u>	<u>20</u>	<u>77,967,569</u>	<u>21</u>
<u>14</u>	<u>25,786,868</u>	<u>7</u>	Other equity				
			Unrealized revaluation increment	1,505,903	-	1,509,510	-
<u>51</u>	<u>174,996,152</u>	<u>47</u>	Unrealized gain on financial instruments	5,437,895	1	8,327,684	2
-	<u>85,674</u>	<u>-</u>	Cumulative translation adjustments	(511,142)	-	(22,509)	-
-			Net loss not recognized as pension cost	(40,099)	-	(41,070)	-
-	341,826	-	Treasury stock - 79,443 thousand shares and 85,374 thousand shares as of June 30, 2008 and 2007, respectively	<u>(1,340,874)</u>	<u>-</u>	<u>(1,433,016)</u>	<u>-</u>
-	255,329	-	Total other equity	<u>5,051,683</u>	<u>1</u>	<u>8,340,599</u>	<u>2</u>
-	210,200	-					
<u>1</u>	<u>5,666,731</u>	<u>2</u>	Total stockholders' equity of parent company	206,634,940	49	198,809,573	54
<u>1</u>	<u>6,474,086</u>	<u>2</u>					
			MINORITY INTEREST	31 770 606	8	31 193 125	8

CHINA STEEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

SIX MONTHS ENDED JUNE 30, 2008 AND 2007

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

(Reviewed, Not Audited)

	2008		2007	
	Amount	%	Amount	%
OPERATING REVENUES	\$ 198,770,988	100	\$ 161,516,943	100
OPERATING COSTS	<u>150,626,461</u>	<u>76</u>	<u>119,243,530</u>	<u>74</u>
GROSS PROFIT	48,144,527	24	42,273,413	26
UNREALIZED INTER-COMPANY GAIN	<u>341,521</u>	<u>-</u>	<u>17,934</u>	<u>-</u>
REALIZED GROSS PROFIT	<u>47,803,006</u>	<u>24</u>	<u>42,255,479</u>	<u>26</u>
OPERATING EXPENSES				
Research and development	831,312	1	725,648	-
Selling	2,718,238	1	2,350,555	1
General and administrative	<u>3,014,523</u>	<u>2</u>	<u>2,352,730</u>	<u>2</u>
Total operating expenses	<u>6,564,073</u>	<u>4</u>	<u>5,428,933</u>	<u>3</u>
OPERATING INCOME	<u>41,238,933</u>	<u>20</u>	<u>36,826,546</u>	<u>23</u>
NONOPERATING INCOME AND GAINS				
Interest income	563,969	-	604,997	-
Valuation gain on financial assets, net	3,146	-	188,833	-
Exchange gain, net	263,240	-	129,983	-
Income from scrap sales	130,852	-	145,373	-
Others	<u>677,626</u>	<u>1</u>	<u>984,526</u>	<u>1</u>
Total nonoperating income and gains	<u>1,638,833</u>	<u>1</u>	<u>2,053,712</u>	<u>1</u>

NONOPERATING EXPENSES AND LOSSES

Interest expense	965,017	1	821,425	1
Investment loss recognized under equity method, net	264,649	-	32,707	-
Impairment loss	313,271	-	263,821	-
Others	<u>865,910</u>	<u>-</u>	<u>657,305</u>	<u>-</u>
Total nonoperating expenses and losses	<u>2,408,847</u>	<u>1</u>	<u>1,775,258</u>	<u>1</u>
CONSOLIDATED INCOME BEFORE INCOME TAX	40,468,919	20	37,105,000	23
INCOME TAX	<u>10,038,677</u>	<u>5</u>	<u>8,173,607</u>	<u>5</u>
CONSOLIDATED NET INCOME	<u>\$ 30,430,242</u>	<u>15</u>	<u>\$ 28,931,393</u>	<u>18</u>

(Continued)

CHINA STEEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

SIX MONTHS ENDED JUNE 30, 2008 AND 2007

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

(Reviewed, Not Audited)

	2008		2007	
	Amount	%	Amount	%
BELONGED TO				
The Corporation's stockholders	\$ 26,900,099	13	\$ 26,206,151	16
Minority interest	<u>3,530,143</u>	<u>2</u>	<u>2,725,242</u>	<u>2</u>
	<u>\$ 30,430,242</u>	<u>15</u>	<u>\$ 28,931,393</u>	<u>18</u>
	2008		2007	
	Before Tax	After Tax	Before Tax	After Tax
EARNINGS PER SHARE				
Basic	<u>\$ 2.90</u>	<u>\$ 2.35</u>	<u>\$ 2.79</u>	<u>\$ 2.29</u>
Diluted	<u>\$ 2.88</u>	<u>\$ 2.34</u>	<u>\$ 2.78</u>	<u>\$ 2.29</u>

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

(With Deloitte & Touche review report dated July 30, 2008)

(Concluded)

				Other Equity Items							
Retained Earnings				Unrealized Gain							Total
Legal	Special			Revaluation	(Loss) on	Cumulative	Net Loss Not				
Reserve	Reserve	Unappropriated	Total	Increment on	Financial	Translation	Recognized As	Treasury	Minority		Stockholders'
				Assets	Instruments	Adjustments	Pension Cost	Stock	Interest		Equity
30	\$ 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
-	-	-	-	-	-	-	-	-	-	-	-
-	5,125,820	-	(5,125,820)	-	-	-	-	-	-	-	-
-	-	-	(923,135)	(923,135)	-	-	-	-	-	-	(923,135)
-	-	-	(69,235)	(69,235)	-	-	-	-	-	-	(69,235)
-	-	-	(136,076)	(136,076)	-	-	-	-	-	-	(136,076)
-	-	-	(40,237,442)	(40,237,442)	-	-	-	-	-	-	(40,237,442)
-	-	-	26,900,099	26,900,099	-	-	-	-	3,530,143		30,430,242
-	-	-	-	-	-	552,316	-	-	-	-	552,316
-	-	-	-	-	(3,252)	-	-	-	-	-	(3,252)
81	-	-	(1,577)	(1,577)	-	(1,042,317)	-	-	(14,147)	-	(1,036,360)
-	-	-	-	-	-	-	(794,160)	-	-	-	(794,160)
-	-	-	-	-	-	-	-	(2,016)	-	-	(2,016)
-	-	-	-	-	-	(545,430)	-	-	-	-	(545,430)
73	-	-	-	-	-	-	-	-	89,668	-	274,341
-	-	-	-	-	-	-	-	-	-	(5,034,043)	(5,034,043)
84	<u>\$ 44,715,153</u>	<u>\$ 7,615,701</u>	<u>\$ 31,814,509</u>	<u>\$ 84,145,363</u>	<u>\$ 1,505,903</u>	<u>\$ 5,437,895</u>	<u>\$(511,142)</u>	<u>\$ (40,099)</u>	<u>\$(1,340,874)</u>	<u>\$ 31,770,606</u>	<u>\$ 238,405,546</u>
70	\$ 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

-	-	-	(30,725,312)	(30,725,312)	-	-	-	-	-	-	(30,725,312)
-	-	-	26,206,151	26,206,151	-	-	-	-	-	2,725,242	28,931,393
-	-	-	-	-	-	937,808	-	-	-	-	937,808
-	-	-	-	-	(2,613)	-	-	-	-	-	(2,613)
91	-	-	(1,505)	(1,505)	-	(143,861)	-	-	(101,361)	-	(242,136)
-	-	-	-	-	-	-	40,278	-	-	-	40,278
-	-	-	-	-	-	-	-	(3,712)	-	-	(3,712)
28	-	-	-	-	-	-	-	-	3,237	-	7,165
-	-	-	-	-	-	-	-	-	-	(3,334)	(3,334)
-	-	-	-	-	-	-	-	-	-	(2,125,902)	(2,125,902)
<u>89</u>	<u>\$ 39,589,333</u>	<u>\$ 7,615,701</u>	<u>\$ 30,762,535</u>	<u>\$ 77,967,569</u>	<u>\$ 1,509,510</u>	<u>\$ 8,327,684</u>	<u>\$ (22,509)</u>	<u>\$ (41,070)</u>	<u>\$ (1,433,016)</u>	<u>\$ 31,193,125</u>	<u>\$ 230,002,698</u>

CHINA STEEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

SIX MONTHS ENDED JUNE 30, 2008 AND 2007

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Consolidated net income	\$ 30,430,242	\$ 28,931,393
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	7,643,014	7,791,244
Amortization	640,760	402,945
Deferred income tax	(478,984)	664,073
Unrealized gain on inter-company transactions	341,521	17,934
Investment loss under equity method	270,655	35,701
Cash dividends received from equity method investees	71,147	96,760
Loss on disposal of property, plant and equipment	98,929	51,177
Impairment loss	330,903	264,315
Loss (gain) on sale of investments and valuation on financial assets	187,008	(769,113)
Others	514,501	(4,292)
Net changes in operating assets and liabilities		
Financial assets held for trading	386,223	(323,141)
Notes receivable	(1,139,584)	(78,683)
Accounts receivable	(2,817,980)	(592,263)
Other receivables	156,597	(568,365)
Inventories	(14,351,725)	(5,140,720)
Other current assets	(2,889,291)	(1,810,557)
Notes and accounts payable	8,154,113	(472,456)
Income tax payable	1,325,908	305,692
Accrued expenses	1,643,359	(1,743,275)
Other payables	4,318,658	1,656,784
Other current liabilities	<u>610,180</u>	<u>1,456,095</u>
Net cash provided by operating activities	<u>35,446,154</u>	<u>30,171,248</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Acquisition of financial assets at fair value through profit or loss	(15,157,212)	(11,802,053)
Proceeds from disposal of financial assets at fair value through profit or loss	5,591,374	19,367,448
Acquisition of available-for-sale financial assets	(6,225,085)	(6,984,164)
Proceeds from disposal of available-for-sale financial assets	5,854,372	7,026,881
Acquisition of held-to-maturity investment	(749,984)	(101,021)
Proceeds from disposal of held-to-maturity investment	537,864	3,683
Acquisition of financial assets carried at cost	(416,439)	(593,443)
Proceeds from disposal of financial assets carried at cost	115,139	17,355
Proceeds from capital reduction on financial assets carried at cost	13,184	132,319
Acquisition of bond investments with no active market	(6,598)	(2,686)
Acquisition of investments accounted for by equity method	(20,961)	-
Proceeds from disposal of investments accounted for by equity method	-	13,788
Increase in prepaid long-term stock investments	(103,130)	(172,312)

(Continued)

CHINA STEEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

SIX MONTHS ENDED JUNE 30, 2008 AND 2007

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	2008	2007
Decrease (increase) in other financial assets	\$ (4,846,216)	\$ 8,873
Acquisition of property, plant and equipment	(29,758,461)	(15,636,717)
Proceeds from disposal of property, plant and equipment	1,262	49,816
Increase in restricted deposits	(4,777)	(454,136)
Increase in other assets	<u>(250,299)</u>	<u>(938,205)</u>
Net cash used in investing activities	<u>(45,425,967)</u>	<u>(10,064,574)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in short-term loans and overdraft	14,516,002	(2,866,788)
Increase (decrease) in commercial paper payable	1,670,356	(740,437)
Proceeds from long-term debt	128,692	2,195,360
Repayments of long-term debt	(2,508,521)	(1,768,849)
Repayments of reorganized loans payable	(200,000)	(200,000)
Increase (decrease) in other liabilities	29,013	(286,546)
Cash dividends	(15,102)	(24,227)
Decrease in minority interest	<u>(5,034,043)</u>	<u>(2,125,902)</u>
Net cash provided by (used in) financing activities	<u>8,586,397</u>	<u>(5,817,389)</u>
EFFECT FROM DISPOSAL OF SUBSIDIARIES	<u>-</u>	<u>(5,794)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,393,416)	14,283,491
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>38,590,707</u>	<u>39,933,146</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 37,197,291</u>	<u>\$ 54,216,637</u>

SUPPLEMENTAL CASH FLOW INFORMATION

Interest paid (excluding capitalized interest)	\$ 990,430	\$ 834,197
Income tax paid	9,191,753	7,203,842

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	\$ 29,731,885	\$ 15,986,986
Increase in payable for equipment purchased	<u>26,576</u>	<u>(350,269)</u>
	<u>\$ 29,758,461</u>	<u>\$ 15,636,717</u>

Cash Paid to Stockholders

Total cash dividends payable to stockholders	\$ 40,373,518	\$ 30,838,127
Increase in dividends payable	<u>(40,358,416)</u>	<u>(30,813,900)</u>
	<u>\$ 15,102</u>	<u>\$ 24,227</u>

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CHINA STEEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

SIX MONTHS ENDED JUNE 30, 2008 AND 2007

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	2008	2007
NONCASH FINANCING ACTIVITIES		
Current portion of long-term liabilities	<u>\$ 1,177,364</u>	<u>\$ 1,409,275</u>
Payable for remuneration to directors and supervisors and bonus to employees (appropriations of earnings)	<u>\$ 1,359,041</u>	<u>\$ 1,229,669</u>

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

(With Deloitte & Touche review report dated July 30, 2008)

(Concluded)