

China Steel Corporation and Subsidiaries

**Consolidated Financial Statements for the
Three Months Ended March 31, 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 March 31, 2008, and the related consolidated statements of income and cash flows for the three 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 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.

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 statement were unreviewed. As of March 31, 2008, their total assets and total liabilities were NT\$118,570,818 thousand and NT\$43,563,824 thousand, respectively, which represented 30% of total consolidated assets and 35% of total consolidated liabilities, respectively. For the three months ended March 31, 2008, their net sales and net income were NT\$19,070,057 thousand and NT\$2,874,124 thousand, respectively, and which represented 21% of consolidated net operating revenues and 22% 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\$4,507,020 thousand as of March 31, 2008, and the net investment loss was NT\$97,705 thousand for the three months ended March 31, 2008. 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 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 first quarter of 2008, the Corporation and its subsidiaries are 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.

April 21, 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 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. Also, as stated in Note 2 to the financial statements, the additional footnote disclosures that are not required under generally accepted accounting principles were not translated into English.

CHINA STEEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

MARCH 31, 2008

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

(Reviewed, Not Audited)

ASSETS	Amount	%	LIABILITIES AND STOCKHOLDERS' EQUITY	Amount	%
CURRENT ASSETS			CURRENT LIABILITIES		
Cash and cash equivalents	\$ 38,152,195	10	Short-term loans and overdraft	\$ 30,225,133	8
Financial assets at fair value through profit or loss - current	8,547,670	2	Commercial paper payable	5,572,221	2
Available-for-sale financial assets - current	9,077,469	2	Financial liabilities at fair value through profit or loss - current	305,340	-
Held-to-maturity financial assets - current	321,392	-	Hedging derivative liabilities - current	241,567	-
Hedging derivative assets - current	4,636	-	Notes and accounts payable	11,957,153	3
Notes receivable, net	2,055,001	1	Income tax payable	13,468,698	4
Accounts receivable, net	9,108,889	2	Accrued expenses	8,857,989	2
Other receivables	1,711,381	1	Other payables	3,947,252	1
Inventories	67,404,899	17	Long-term debt - current portion	1,489,735	-
Deferred income tax assets - current	901,712	-	Reorganized loans payable - current portion	400,000	-
Restricted assets	4,552,796	1	Other current liabilities	<u>5,388,672</u>	<u>1</u>
Other current assets	<u>7,523,680</u>	<u>2</u>			
Total current assets	<u>149,361,720</u>	<u>38</u>	Total current liabilities	<u>81,853,760</u>	<u>21</u>
INVESTMENTS			LONG-TERM LIABILITIES		
Financial assets at fair value through profit or loss - noncurrent	146,582	-	Hedging derivative liabilities - noncurrent	279,596	-
Available-for-sale financial assets - noncurrent	3,969,301	1	Bonds payable	13,700,000	4
Held-to-maturity financial assets - noncurrent	743,273	-	Long-term debt, net of current portion	13,502,439	3
Hedging derivative assets - noncurrent	17,152	-	Reorganized loans payable, net of current portion	<u>5,382,533</u>	<u>1</u>
Financial assets carried at cost - noncurrent	7,985,434	2			
Bond investments with no active market - noncurrent	5,120,074	2	Total long-term liabilities	<u>32,864,568</u>	<u>8</u>
Investments accounted for by the equity method	4,507,020	1			
Other noncurrent financial assets	<u>12,234,841</u>	<u>3</u>	RESERVE FOR LAND VALUE INCREMENT TAX	<u>2,171,124</u>	<u>1</u>
Total investments	<u>34,723,677</u>	<u>9</u>			
PROPERTY, PLANT AND EQUIPMENT			OTHER LIABILITIES		
Land	18,548,600	5	Accrued pension cost	1,001,422	1
Land improvements	4,280,156	1	Deferred income tax liabilities	4,462,894	1
Buildings	48,748,497	13	Others - mainly deferred credits	<u>613,997</u>	<u>-</u>
Machinery and equipment	288,272,516	74			
Transportation equipment	20,023,587	5	Total other liabilities	<u>6,078,313</u>	<u>2</u>
Other equipment	<u>12,597,211</u>	<u>3</u>			
Total cost	392,470,567	101	Total liabilities	<u>122,967,765</u>	<u>32</u>
Revaluation increment	<u>17,064,475</u>	<u>4</u>			
Cost and revaluation increment	409,535,042	105	STOCKHOLDERS' EQUITY OF PARENT COMPANY		
Less: Accumulated depreciation	252,892,260	65	Capital stock - authorized 12,000,000 thousand shares at NT\$10 par value		
Accumulated impairment	<u>2,679,067</u>	<u>1</u>	Common shares - issued 11,496,499 thousand shares as of March 31, 2008	114,964,990	30
	153,963,715	39	Preferred shares - issued 38,792 thousand shares as of March 31, 2008	<u>387,920</u>	<u>-</u>
Construction in progress and prepayments for equipment	<u>46,062,114</u>	<u>12</u>	Total capital stock	<u>115,352,910</u>	<u>30</u>
Total property, plant and equipment	<u>200,025,829</u>	<u>51</u>	Capital surplus	<u>1,962,492</u>	<u>-</u>
DEFERRED PENSION COST	<u>68,636</u>	<u>-</u>	Retained earnings	<u>110,326,062</u>	<u>28</u>
OTHER ASSETS			Other equity		
Assets leased to others	345,607	-	Unrealized revaluation increment	1,508,387	-
Refundable deposits	233,794	-	Unrealized gain on financial instruments	6,350,718	2
Restricted assets - noncurrent	178,378	-	Cumulative translation adjustments	(469,521)	-
Unamortized repair costs and others	<u>5,047,007</u>	<u>2</u>	Net loss not recognized as pension cost	(41,208)	-
Total other assets	<u>5,804,786</u>	<u>2</u>	Treasury stock - 81,849 thousand shares as of March 31, 2008	<u>(1,373,857)</u>	<u>-</u>
TOTAL	<u>\$ 389,984,648</u>	<u>100</u>	Total other equity	<u>5,974,519</u>	<u>2</u>
			Total stockholders' equity of parent company	233,615,983	60
			MINORITY INTEREST	<u>33,400,900</u>	<u>8</u>
			Total stockholders' equity	<u>267,016,883</u>	<u>68</u>
			TOTAL	<u>\$ 389,984,648</u>	<u>100</u>

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

(With Deloitte & Touche review report dated April 21, 2008)

CHINA STEEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME

THREE MONTHS ENDED MARCH 31, 2008

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

(Reviewed, Not Audited)

	Amount	%
OPERATING REVENUES	\$91,377,405	100
OPERATING COSTS	<u>70,554,269</u>	<u>77</u>
GROSS PROFIT	20,823,136	23
UNREALIZED INTER-COMPANY GAIN	<u>(201,994)</u>	<u>(1)</u>
REALIZED GROSS PROFIT	<u>20,621,142</u>	<u>22</u>
OPERATING EXPENSES		
Research and development	404,214	-
Selling	1,343,275	1
General and administrative	<u>1,349,022</u>	<u>2</u>
Total operating expenses	<u>3,096,511</u>	<u>3</u>
OPERATING INCOME	<u>17,524,631</u>	<u>19</u>
NONOPERATING INCOME AND GAINS		
Interest income	268,874	1
Exchange gain, net	143,999	-
Gain on disposal of investments	25,541	-
Others	<u>204,816</u>	<u>-</u>
Total nonoperating income and gains	<u>643,230</u>	<u>1</u>
NONOPERATING EXPENSES AND LOSSES		
Interest expense	414,141	1
Investment loss recognized under the equity method, net	94,960	-
Loss on disposal of property, plant and equipment	59,860	-
Loss on valuation of financial assets, net	13,760	-
Loss on valuation of financial liabilities, net	34,843	-
Others	<u>90,108</u>	<u>-</u>
Total nonoperating expenses and losses	<u>707,672</u>	<u>1</u>
CONSOLIDATED INCOME BEFORE INCOME TAX	17,460,189	19
INCOME TAX	<u>4,232,200</u>	<u>5</u>
CONSOLIDATED NET INCOME	<u>\$13,227,989</u>	<u>14</u>

(Continued)

CHINA STEEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME

THREE MONTHS ENDED MARCH 31, 2008

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

(Reviewed, Not Audited)

	Amount		
BELONGED TO			
The Corporation's stockholders	\$ 11,713,333		
Minority interest	<u>1,514,656</u>		
	<u>\$ 13,227,989</u>		
		Before	After
		Income	Income
		Tax	Tax
EARNINGS PER SHARE			
Basic	<u>\$ 1.25</u>	<u>\$ 1.02</u>	
Diluted	<u>\$ 1.25</u>	<u>\$ 1.02</u>	

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

(With Deloitte & Touche review report dated April 21, 2008)

(Concluded)

CHINA STEEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

THREE MONTHS ENDED MARCH 31, 2008

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

CASH FLOWS FROM OPERATING ACTIVITIES

Consolidated net income	\$ 13,227,989
Adjustments to reconcile net income to net cash provided by operating activities	
Depreciation	3,813,063
Amortization	316,282
Deferred income tax	46,333
Unrealized gain on inter-company transactions	201,994
Investment loss under the equity method	97,705
Loss on disposal of property, plant and equipment	59,786
Valuation loss on financial assets and gains on disposal of investments, net	304,282
Others	514,817
Net changes in operating assets and liabilities	
Financial assets held for trading	314,267
Notes receivable	114,120
Accounts receivable	139,416
Other receivables	(695,165)
Inventories	(3,306,701)
Other current assets	(3,635,249)
Notes and accounts payable	3,915,113
Income tax payable	4,294,627
Accrued expenses	(1,758,501)
Other payables	(473,326)
Other current liabilities	<u>621,505</u>
Net cash provided by operating activities	<u>18,112,357</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Acquisition of financial assets at fair value through profit or loss	(6,573,825)
Proceeds from disposal of financial assets at fair value through profit or loss	4,062,588
Acquisition of available-for-sale financial assets	(3,428,255)
Proceeds from disposal of available-for-sale financial assets	2,729,983
Acquisition of held-to-maturity financial assets	(433,984)
Proceeds from disposal of held-to-maturity financial assets	241,338
Acquisition of financial assets carried at cost	(239,699)
Proceeds from disposal of financial assets carried at cost	7,413
Increase in other financial assets	(5,090,397)
Acquisition of investments accounted for by equity method	(20,962)
Acquisition of property, plant and equipment	(14,013,459)
Proceeds from disposal of property, plant and equipment	613
Increase in refundable deposits	(19,598)
Increase in restricted assets	(239)
Increase in other assets	<u>(521,092)</u>
Net cash used in investing activities	<u>(23,299,575)</u>

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CHINA STEEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

THREE MONTHS ENDED MARCH 31, 2008

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

CASH FLOWS FROM FINANCING ACTIVITIES

Increase in short-term loans and overdraft	\$ 6,105,409
Increase in commercial paper payable	2,020,680
Proceeds from long-term debt	28,393
Repayments of long-term debt	(1,997,283)
Decrease in other liabilities	(9,932)
Cash dividends	(10,299)
Decrease in minority interest	<u>(1,388,262)</u>

Net cash provided by financing activities	<u>4,748,706</u>
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NET DECREASE IN CASH AND CASH EQUIVALENTS	(438,512)
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CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>38,590,707</u>
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CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$38,152,195</u>
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SUPPLEMENTAL CASH FLOW INFORMATION

Interest paid (excluding capitalized interest)	\$ 345,489
Income tax paid	67,483

INVESTING ACTIVITIES AFFECTING BOTH CASH AND NON-CASH ITEMS

Cash paid for acquisition of property, plant and equipment	\$ 14,321,637
Acquisition of property, plant and equipment	(308,178)
Increase in payable for equipment purchased	<u>\$14,013,459</u>

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

(With Deloitte & Touche review report dated April 21, 2008)

(Concluded)