

China Steel Corporation and Subsidiaries

**Consolidated Financial Statements for the
Three Months Ended March 31, 2009 and 2008 and
Independent Accountants' Review Report**

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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, 2009 and 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 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, 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, 2009 and 2008, their total assets were NT\$164,706,813 thousand and NT\$118,570,818 thousand, respectively, which represented 36% and 30% of total consolidated assets, respectively, and their total liabilities were NT\$67,052,663 thousand and NT\$43,563,824 thousand, respectively, which represented 31% and 36% of total consolidated liabilities, respectively. For the three months ended March 31, 2009 and 2008, their net sales were NT\$10,472,955 thousand and NT\$19,070,057 thousand, respectively, which represented 19% and 21% of consolidated net operating revenues, respectively, and their related net income was NT\$665,101 thousand and NT\$2,874,124 thousand, respectively, which represented (8%) and 22% of consolidated net income (loss). As discussed in Note 14 to the accompanying consolidated financial statements, the Corporation's aggregate carrying value of the investments accounted for by the equity-method was NT\$3,499,940 thousand and NT\$4,507,020 thousand as of March 31, 2009 and 2008, respectively and the net investment loss was NT\$179,960 thousand and NT\$97,705 thousand for the three months ended March 31, 2009 and 2008, respectively. 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 effect 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 and its subsidiaries 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 stated in Note 3 to the accompanying consolidated financial statements, starting January 1, 2009, the Corporation and its subsidiaries adopted the newly revised SFAS No.10, “Accounting for Inventories”, issued by the ARDF in November 2007. Also, 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 23, 2009

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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.

CHINA STEEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

MARCH 31, 2009 AND 2008

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

(Reviewed, Not Audited)

ASSETS	2009		2008	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents	\$ 26,183,051	6	\$ 37,258,652	10
Financial assets at fair value through profit or loss - current	10,262,447	2	8,547,670	2
Available-for-sale financial assets - current	7,637,308	2	9,077,469	2
Held-to-maturity financial assets - current	110,273	-	321,392	-
Hedging derivative assets - current	548,559	-	4,636	-
Notes receivable, net	2,592,411	1	2,055,001	1
Accounts receivable, net	7,102,045	1	9,108,889	2
Other receivables	3,284,606	1	1,711,381	1
Other financial assets - current	311,648	-	-	-
Inventories	68,563,772	15	61,523,595	16
Deferred income tax assets	7,111,935	1	901,712	-
Restricted assets - current	4,504,981	1	4,552,796	1
Others	12,276,968	3	12,294,039	3
Total current assets	<u>150,490,004</u>	<u>33</u>	<u>147,357,232</u>	<u>38</u>
INVESTMENTS				
Financial assets at fair value through profit or loss - noncurrent	-	-	146,582	-
Available-for-sale financial assets - noncurrent	3,230,907	1	3,969,301	1
Held-to-maturity financial assets - noncurrent	499,522	-	743,273	-
Hedging derivative assets - noncurrent	682,537	-	17,152	-
Financial assets carried at cost - noncurrent	8,266,094	2	7,985,434	2
Bond investments with no active market - noncurrent	145,379	-	5,120,074	2
Investments accounted for by the equity method	3,499,940	1	4,507,020	1
Investments in real estate	219,205	-	-	-
Other financial assets - noncurrent	11,787,950	2	12,234,841	3
Total investments	<u>28,331,534</u>	<u>6</u>	<u>34,723,677</u>	<u>9</u>
PROPERTY, PLANT AND EQUIPMENT				
Land	15,945,180	3	18,548,600	5
Land improvements	4,289,540	1	4,280,156	1
Buildings	50,352,087	11	48,748,497	13
Machinery and equipment	294,194,145	63	288,285,917	74
Transportation equipment	21,254,746	5	20,023,587	5
Other equipment	13,059,604	3	12,597,211	3
Total cost	399,095,302	86	392,483,968	101
Revaluation increment	43,729,168	9	17,064,475	4
Cost and revaluation increment	442,824,470	95	409,548,443	105
Less: Accumulated depreciation	264,799,544	57	252,892,260	65
Accumulated impairment	1,027,157	-	2,679,067	1
	176,997,769	38	153,977,116	39
Construction in progress and prepayments for equipment	97,347,516	21	46,062,114	12
Total property, plant and equipment	<u>274,345,285</u>	<u>59</u>	<u>200,039,230</u>	<u>51</u>
INTANGIBLE ASSETS	<u>1,832,350</u>	<u>-</u>	<u>498,052</u>	<u>-</u>
OTHER ASSETS				
Assets leased to others, net	445,803	-	345,607	-
Refundable deposits	235,847	-	233,794	-
Restricted assets - noncurrent	158,021	-	178,378	-
Unamortized repair costs and others	6,773,511	2	5,647,976	2
Total other assets	<u>7,613,182</u>	<u>2</u>	<u>6,405,755</u>	<u>2</u>
TOTAL	<u>\$462,612,355</u>	<u>100</u>	<u>\$389,023,946</u>	<u>100</u>

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

(With Deloitte & Touche review report dated April 23, 2009)

LIABILITIES AND STOCKHOLDERS' EQUITY	2009		2008	
	Amount	%	Amount	%
CURRENT LIABILITIES				
Short-term loans and overdraft	\$ 44,715,355	9	\$ 29,331,590	8
Commercial paper payable	22,372,391	5	5,572,221	2
Financial liabilities at fair value through profit or loss - current	4,435	-	305,340	-
Hedging derivative liabilities - current	11,522	-	241,567	-
Notes and accounts payable	8,054,630	2	11,957,153	3
Income tax payable	9,535,121	2	13,468,698	4
Accrued expenses	8,488,676	2	8,892,905	2
Other payables	8,644,920	2	3,863,877	1
Purchase commitments payable	7,599,337	1	106,480	-
Long-term debt - current portion	8,026,792	2	1,489,735	-
Reorganized loans payable - current portion	400,000	-	400,000	-
Others	4,696,007	1	5,282,192	1
Total current liabilities	<u>122,549,186</u>	<u>26</u>	<u>80,911,758</u>	<u>21</u>
LONG-TERM LIABILITIES				
Hedging derivative liabilities - noncurrent	12,020	-	279,596	-
Bonds payable	43,250,000	9	13,700,000	4
Long-term debt	31,223,318	7	13,483,739	3
Reorganized loans payable	4,961,039	1	5,382,533	1
Total long-term liabilities	<u>79,446,377</u>	<u>17</u>	<u>32,845,868</u>	<u>8</u>
RESERVE FOR LAND VALUE INCREMENT TAX	<u>8,673,466</u>	<u>2</u>	<u>2,171,124</u>	<u>-</u>
OTHER LIABILITIES				
Accrued pension cost	888,799	-	1,001,422	1
Deferred income tax liabilities	715,073	-	4,462,894	1
Others - mainly deferred credits	895,601	1	613,997	-
Total other liabilities	<u>2,499,473</u>	<u>1</u>	<u>6,078,313</u>	<u>2</u>
Total liabilities	<u>213,168,502</u>	<u>46</u>	<u>122,007,063</u>	<u>31</u>
STOCKHOLDERS' EQUITY OF PARENT COMPANY				
Capital stock - authorized 14,000,000 thousand shares and 12,000,000 thousand shares at NT\$10 par value as of March 31 2009 and 2008, respectively				
Common shares - issued 12,557,541 thousand shares and 11,496,499 thousand shares as of March 31, 2009 and 2008, respectively	125,575,411	27	114,964,990	30
Preferred shares - issued 38,270 thousand shares and 38,792 thousand shares as of March 31, 2009 and 2008, respectively	382,700	-	387,920	-
Total capital stock	<u>125,958,111</u>	<u>27</u>	<u>115,352,910</u>	<u>30</u>
Capital surplus	18,464,817	4	1,962,492	-
Retained earnings				
Legal reserve	44,715,153	10	39,589,333	10
Special reserve	7,615,701	2	7,615,701	2
Unappropriated earnings	24,002,582	5	51,407,695	13
Net income (loss) of parent company for the three months ended March 31	(7,175,567)	(2)	11,713,333	3
Total retained earnings	<u>69,157,869</u>	<u>15</u>	<u>110,326,062</u>	<u>28</u>
Other equity				
Unrealized revaluation increment	21,914,320	5	1,508,387	-
Unrealized gain on financial instruments	6,545,853	1	6,350,718	2
Cumulative translation adjustments	540,905	-	(469,521)	-
Net loss not recognized as pension cost	(32,385)	-	(41,208)	-
Treasury stock - 374,207 thousand shares and 81,849 thousand shares as of March 31, 2009 and 2008, respectively	(10,646,266)	(2)	(1,373,857)	-
Total other equity	<u>18,322,427</u>	<u>4</u>	<u>5,974,519</u>	<u>2</u>
Total stockholders' equity of parent company	231,903,224	50	233,615,983	60
MINORITY INTEREST	<u>17,540,629</u>	<u>4</u>	<u>33,400,900</u>	<u>9</u>
Total stockholders' equity	<u>249,443,853</u>	<u>54</u>	<u>267,016,883</u>	<u>69</u>
TOTAL	<u>\$462,612,355</u>	<u>100</u>	<u>\$389,023,946</u>	<u>100</u>

CHINA STEEL CORPORATION AND SUBSIDIARIES**CONSOLIDATED STATEMENTS OF INCOME****THREE MONTHS ENDED MARCH 31, 2009 AND 2008****(In Thousands of New Taiwan Dollars, Except Earnings (Loss) Per Share)****(Reviewed, Not Audited)**

	2009		2008	
	Amount	%	Amount	%
OPERATING REVENUES	\$ 56,396,060	100	\$ 91,377,405	100
OPERATING COSTS	<u>64,732,476</u>	<u>115</u>	<u>70,492,686</u>	<u>77</u>
GROSS PROFIT (LOSS)	(8,336,416)	(15)	20,884,719	23
UNREALIZED GAIN (LOSS) FROM AFFILIATES	<u>7,613</u>	<u>-</u>	<u>(201,994)</u>	<u>-</u>
REALIZED GROSS PROFIT (LOSS)	<u>(8,328,803)</u>	<u>(15)</u>	<u>20,682,725</u>	<u>23</u>
OPERATING EXPENSES				
Research and development	300,546	-	404,214	-
Selling	1,017,982	2	1,343,275	2
General and administrative	<u>952,521</u>	<u>2</u>	<u>1,349,022</u>	<u>2</u>
Total operating expenses	<u>2,271,049</u>	<u>4</u>	<u>3,096,511</u>	<u>4</u>
OPERATING INCOME (LOSS)	<u>(10,599,852)</u>	<u>(19)</u>	<u>17,586,214</u>	<u>19</u>
NONOPERATING INCOME AND GAINS				
Interest income	91,525	-	268,874	1
Valuation gain on financial assets, net	21,772	-	-	-
Exchange gain, net	103,133	-	143,999	-
Gain on disposal of investments	19,366	-	25,541	-
Reversal of impairment loss	1,145,192	2	18	-
Others	<u>140,179</u>	<u>1</u>	<u>143,215</u>	<u>-</u>
Total nonoperating income and gains	<u>1,521,167</u>	<u>3</u>	<u>581,647</u>	<u>1</u>
NONOPERATING EXPENSES AND LOSSES				
Interest expense	520,430	1	414,141	1
Valuation loss on financial assets, net	-	-	13,760	-
Valuation loss on financial liabilities, net	1,895	-	34,843	-
Investment loss recognized under equity method, net	178,126	1	94,960	-
Others	<u>79,973</u>	<u>-</u>	<u>149,968</u>	<u>-</u>
Total nonoperating expenses and losses	<u>780,424</u>	<u>2</u>	<u>707,672</u>	<u>1</u>
CONSOLIDATED INCOME (LOSS) BEFORE INCOME TAX	(9,859,109)	(18)	17,460,189	19
INCOME TAX EXPENSE (BENEFIT)	<u>(1,665,548)</u>	<u>(3)</u>	<u>4,232,200</u>	<u>5</u>

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CHINA STEEL CORPORATION AND SUBSIDIARIES**CONSOLIDATED STATEMENTS OF INCOME****THREE MONTHS ENDED MARCH 31, 2009 AND 2008****(In Thousands of New Taiwan Dollars, Except Earnings (Loss) Per Share)****(Reviewed, Not Audited)**

	2009		2008	
	Amount	%	Amount	%
CONSOLIDATED NET INCOME (LOSS)	<u>\$ (8,193,561)</u>	<u>(15)</u>	<u>\$ 13,227,989</u>	<u>14</u>
BELONGED TO				
The Corporation's stockholders	\$ (7,175,567)	(13)	\$ 11,713,333	13
Minority interest	<u>(1,017,994)</u>	<u>(2)</u>	<u>1,514,656</u>	<u>1</u>
	<u>\$ (8,193,561)</u>	<u>(15)</u>	<u>\$ 13,227,989</u>	<u>14</u>
	2009		2008	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS (LOSS) PER SHARE				
Basic	<u>\$ (0.78)</u>	<u>\$ (0.59)</u>	<u>\$ 1.20</u>	<u>\$ 0.98</u>
Diluted	<u>\$ (0.78)</u>	<u>\$ (0.59)</u>	<u>\$ 1.20</u>	<u>\$ 0.98</u>

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

(With Deloitte & Touche review report dated April 23, 2009)

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CHINA STEEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2009 AND 2008
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Consolidated net income (loss)	\$ (8,193,561)	\$ 13,227,989
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation	3,919,513	3,813,063
Amortization	235,469	316,282
Deferred income tax	(2,150,598)	46,333
Unrealized gain (loss) from affiliates	(7,613)	201,994
Provision for (recovery of) loss on inventories	3,884,646	(81,650)
Loss on purchase commitments	1,795,190	92,800
Investment loss under the equity method	179,960	97,705
Loss on disposal of property, plant and equipment	47,017	59,786
Provision for (reversal of) impairment loss	(1,143,410)	6,831
Loss (gain) on sale of investments and valuation on financial instruments	(119,423)	304,282
Others	3,613	507,985
Net changes in operating assets and liabilities		
Financial instruments held for trading	(5,958)	314,267
Notes receivable	583,598	114,120
Accounts receivable	169,138	139,416
Other receivables	(476,580)	(695,165)
Inventories	11,708,239	(3,225,051)
Other current assets	(671,188)	(3,635,249)
Notes and accounts payable	68,413	3,949,107
Income tax payable	452,009	4,294,627
Accrued expenses	(592,547)	(1,737,693)
Other payables	545,244	(528,127)
Purchase commitments payable	(2,395,394)	(185,982)
Other current liabilities	508,772	714,687
Net cash provided by operating activities	<u>8,344,549</u>	<u>18,112,357</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of financial assets at fair value through profit or loss	(1,469,856)	(6,573,825)
Proceeds from disposal of financial assets at fair value through profit or loss	3,687,068	4,062,588
Acquisition of available-for-sale financial assets	(2,038,321)	(3,556,971)
Proceeds from disposal of available-for-sale financial assets	2,015,451	2,729,983
Acquisition of held-to-maturity financial assets	(52,400)	(433,984)
Proceeds from disposal of held-to-maturity financial assets	188,817	241,338
Acquisition of financial assets carried at cost	(1,024)	(239,699)
Proceeds from disposal of financial assets carried at cost	5,553	7,413
Proceeds of capital reduction of investments accounted for by equity method	130,600	-
Acquisition of bond investments with no active market	(1,715)	-
Decrease (increase) in other financial assets	851,111	(5,090,397)

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CHINA STEEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2009 AND 2008
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	2009	2008
Acquisition of investments accounted for by equity method	\$ -	\$ (20,962)
Acquisition of property, plant and equipment	(15,282,842)	(14,013,459)
Proceeds from disposal of property, plant and equipment	5,630	613
Decrease (increase) in refundable deposits	62,421	(19,598)
Decrease (increase) in restricted assets	40,946	(239)
Increase in intangible assets	(5,043)	(55,429)
Increase in other assets	<u>(95,825)</u>	<u>(465,663)</u>
Net cash used in investing activities	<u>(11,959,429)</u>	<u>(23,428,291)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term loans and overdraft	9,018,265	8,299,984
Increase in commercial paper payable	143,280	2,020,680
Proceeds from long-term debt	480,405	28,393
Repayments of long-term debt	(285,811)	(1,997,283)
Increase (decrease) in other liabilities	42,797	(9,932)
Cash dividends paid by parent company	(3,229)	(10,299)
Disposal of parent company's shares held by subsidiaries	296,008	241,320
Discount for acquisition cost of treasury stock	886	-
Increase (decrease) in minority interest	<u>2,118,411</u>	<u>(1,500,866)</u>
Net cash provided by financing activities	<u>11,811,012</u>	<u>7,071,997</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	8,196,132	1,756,063
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>17,986,919</u>	<u>35,502,589</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$26,183,051</u>	<u>\$37,258,652</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid (excluding capitalized interest)	\$ 280,182	\$ 345,489
Income tax paid	52,110	67,483
INVESTING ACTIVITIES AFFECTING BOTH CASH AND NON-CASH ITEMS		
Cash Paid for Acquisition of Property, Plant and Equipment		
Acquisition of property, plant and equipment	\$ 14,932,855	\$ 14,321,637
Decrease (increase) in payable for equipment purchased	<u>349,987</u>	<u>(308,178)</u>
	<u>\$15,282,842</u>	<u>\$14,013,459</u>
NONCASH FINANCIAL ACTIVITIES		
Current portion of long-term liabilities	<u>\$ 696,596</u>	<u>\$ 516,245</u>

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

(With Deloitte & Touche review report dated April 23, 2009)

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