

# **China Steel Corporation and Subsidiaries**

**Consolidated Financial Statements for the  
Years Ended December 31, 2009 and 2008 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, 2009 and 2008, 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, 2009 and 2008, 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 stated in Note 3 to the accompanying consolidated financial statements, starting January 1, 2009, the Corporation and its subsidiaries adopted the newly revised Statement of Financial Accounting standards No. 10 - "Inventories" issued by the Accounting Research and Development Foundation ("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.

February 1, 2010

### 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, 2009 AND 2008

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

ASSETS	2009		2008		LIABILITIES AND STOCKHOLDERS' EQUITY	2009		2008	
	Amount	%	Amount	%		Amount	%	Amount	%
<b>CURRENT ASSETS</b>					<b>CURRENT LIABILITIES</b>				
Cash and cash equivalents	\$ 22,384,309	5	\$ 20,069,433	4	Short-term loans and overdraft	\$ 50,074,829	11	\$ 37,779,604	8
Financial assets at fair value through profit or loss - current	9,898,923	2	12,431,031	3	Commercial paper payable	18,621,525	4	22,229,111	5
Available-for-sale financial assets - current	5,629,394	1	6,962,164	2	Financial liabilities at fair value through profit or loss - current	1,047	-	5,909	-
Held-to-maturity financial assets - current	149,990	-	120,000	-	Hedging derivative liabilities - current	41,680	-	4,479	-
Hedging derivative assets - current	407,249	-	256,344	-	Notes payable	576,137	-	587,874	-
Notes receivable, net	1,413,411	-	3,176,009	1	Accounts payable	6,618,496	2	7,398,343	1
Accounts receivable, net	7,239,095	2	7,271,183	2	Income tax payable	938,356	-	9,083,112	2
Other receivables	1,629,231	-	2,922,636	1	Accrued expenses	11,594,198	3	9,081,256	2
Other financial assets - current	4,626,945	1	-	-	Other payables	4,412,308	1	8,452,142	2
Inventories	51,320,206	11	83,604,334	18	Purchase commitments payable	29,931	-	8,199,541	2
Spare parts	7,977,918	2	6,763,155	1	Long-term debt - current portion	6,250,091	1	7,616,007	2
Deferred income tax assets - current	3,280,891	1	6,137,338	1	Long-term notes payable - current portion	199,949	-	-	-
Restricted assets - current	5,161,150	1	4,885,736	1	Reorganized loans payable - current portion	400,000	-	400,000	-
Others	4,978,115	1	5,308,186	1	Others	5,870,065	1	4,187,235	1
Total current assets	126,096,827	27	159,907,549	35	Total current liabilities	105,628,612	23	115,024,613	25
<b>FUNDS AND INVESTMENTS</b>					<b>LONG-TERM LIABILITIES</b>				
Available-for-sale financial assets - noncurrent	3,591,420	1	3,331,250	1	Hedging derivative liabilities - noncurrent	184,558	-	2,055	-
Held-to-maturity financial assets - noncurrent	285,462	-	612,179	-	Bonds payable	43,218,970	9	43,231,660	9
Hedging derivative assets - noncurrent	141,911	-	623,982	-	Long-term debt - bank	35,832,220	8	29,520,910	6
Financial assets carried at cost - noncurrent	8,262,208	2	8,462,588	2	Long-term notes payable	6,594,358	1	2,046,446	1
Bond investments with no active market - noncurrent	246,302	-	141,598	-	Reorganized loans payable	4,564,622	1	4,959,845	1
Investments accounted for by the equity method	3,317,002	1	3,700,165	1	Total long-term liabilities	90,394,728	19	79,760,916	17
Investments in real estate	219,205	-	219,205	-	<b>RESERVE FOR LAND VALUE INCREMENT TAX</b>	8,673,466	2	8,673,466	2
Other financial assets - noncurrent	537,891	-	13,428,050	3	<b>OTHER LIABILITIES</b>				
Total funds and investments	16,601,401	4	30,519,017	7	Accrued pension cost	804,409	-	899,151	-
<b>PROPERTY, PLANT AND EQUIPMENT</b>					Deferred income tax liabilities - noncurrent	-	-	1,891,074	1
Land	16,509,916	4	15,945,872	3	Others	835,355	-	860,417	-
Land improvements	4,291,679	1	4,288,420	1	Total other liabilities	1,639,764	-	3,650,642	1
Buildings	52,044,998	11	49,768,271	11	Total liabilities	206,336,570	44	207,109,637	45
Machinery and equipment	305,754,080	65	294,776,114	64	<b>STOCKHOLDERS' EQUITY OF PARENT COMPANY</b>				
Transportation equipment	19,427,182	4	20,916,674	4	Capital stock - authorized 14,000,000 thousand shares at NT\$10 par value				
Other equipment	13,031,091	3	13,051,908	3	Common shares	130,945,189	28	125,575,411	27
Total cost	411,058,946	88	398,747,259	86	Preferred shares	382,680	-	382,700	-
Revaluation increment	43,670,986	9	43,775,240	10	Total capital stock	131,327,869	28	125,958,111	27
Cost and revaluation increment	454,729,932	97	442,522,499	96	Capital surplus	19,598,511	4	18,410,920	4
Less: Accumulated depreciation	274,835,559	59	262,923,994	57	Retained earnings	74,351,367	16	76,427,107	17
Accumulated impairment	1,035,667	-	1,029,187	-	Other equity				
Construction in progress and prepayments for equipment	178,858,706	38	178,569,318	39	Unrealized revaluation increment	21,913,148	5	21,915,248	5
	134,810,992	29	84,514,289	18	Unrealized gain on financial instruments	4,216,431	1	6,508,005	1
Total property, plant and equipment	313,669,698	67	263,083,607	57	Cumulative translation adjustments	183,001	-	358,976	-
<b>INTANGIBLE ASSETS</b>	1,946,105	-	1,880,382	-	Net loss not recognized as pension cost	(42,133)	-	(32,385)	-
<b>OTHER ASSETS</b>					Treasury stock - 279,375 thousand shares and 384,103 thousand shares as of December 31, 2009 and 2008, respectively	(8,189,031)	(2)	(10,805,513)	(2)
Idle assets	4,332,077	1	2,629,563	-	Total other equity	18,081,416	4	17,944,331	4
Refundable deposits	272,702	-	298,268	-	Total stockholders' equity of parent company	243,359,163	52	238,740,469	52
Deferred income tax asset - noncurrent	2,334,448	-	-	-	<b>MINORITY INTEREST</b>	20,430,721	4	16,242,698	3
Restricted assets - noncurrent	163,567	-	163,957	-	Total stockholders' equity	263,789,884	56	254,983,167	55
Unamortized repair costs and others	4,709,629	1	3,610,461	1	<b>TOTAL</b>	\$ 470,126,454	100	\$ 462,092,804	100
Total other assets	11,812,423	2	6,702,249	1					

(With Deloitte & Touche audit report dated February 1, 2010)

# CHINA STEEL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME YEARS ENDED DECEMBER 31, 2009 AND 2008

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

	2009		2008	
	Amount	%	Amount	%
OPERATING REVENUES	\$ 251,112,296	100	\$ 385,317,335	100
OPERATING COSTS	<u>223,606,000</u>	<u>89</u>	<u>333,794,938</u>	<u>87</u>
GROSS PROFIT	27,506,296	11	51,522,397	13
REALIZED (UNREALIZED) GAIN FROM AFFILIATES	<u>30,452</u>	<u>-</u>	<u>(360,042)</u>	<u>-</u>
REALIZED GROSS PROFIT	<u>27,536,748</u>	<u>11</u>	<u>51,162,355</u>	<u>13</u>
OPERATING EXPENSES				
Research and development	1,427,967	-	1,474,290	1
Selling	4,720,083	2	5,043,237	1
General and administrative	<u>4,429,194</u>	<u>2</u>	<u>5,045,811</u>	<u>1</u>
Total operating expenses	<u>10,577,244</u>	<u>4</u>	<u>11,563,338</u>	<u>3</u>
OPERATING INCOME	<u>16,959,504</u>	<u>7</u>	<u>39,599,017</u>	<u>10</u>
NONOPERATING INCOME AND GAINS				
Interest income	271,785	-	936,393	1
Dividend income	165,579	-	417,728	-
Exchange gain, net	119,443	-	483,889	-
Gain disposal of property, plant and equipment	1,304,313	1	820	-
Gain on sale of investments, net	1,679,677	1	45,470	-
Reversal of impairment loss	1,145,911	-	73	-
Others	<u>2,193,201</u>	<u>1</u>	<u>856,016</u>	<u>-</u>
Total nonoperating income and gains	<u>6,879,909</u>	<u>3</u>	<u>2,740,389</u>	<u>1</u>
NONOPERATING EXPENSES AND LOSSES				
Interest expense	1,459,918	1	1,681,251	1
Investment loss recognized under equity method, net	436,123	-	751,456	-
Impairment loss	22,829	-	5,247,082	2
Others	<u>494,668</u>	<u>-</u>	<u>1,377,438</u>	<u>-</u>
Total nonoperating expenses and losses	<u>2,413,538</u>	<u>1</u>	<u>9,057,227</u>	<u>3</u>
CONSOLIDATED INCOME BEFORE INCOME TAX	21,425,875	9	33,282,179	8
INCOME TAX EXPENSE (BENEFIT)	<u>(380,920)</u>	<u>-</u>	<u>8,916,669</u>	<u>2</u>

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# CHINA STEEL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME YEARS ENDED DECEMBER 31, 2009 AND 2008

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

	<u>2009</u>		<u>2008</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
CONSOLIDATED NET INCOME	\$ <u>21,806,795</u>	<u>9</u>	\$ <u>24,365,510</u>	<u>6</u>
BELONGED TO				
The Corporation's stockholders	\$ <u>19,602,517</u>	<u>8</u>	\$ <u>24,030,406</u>	<u>6</u>
Minority interest	<u>2,204,278</u>	<u>1</u>	<u>335,104</u>	<u>-</u>
	\$ <u>21,806,795</u>	<u>9</u>	\$ <u>24,365,510</u>	<u>6</u>
	<u>2009</u>		<u>2008</u>	
	<u>Before Tax</u>	<u>After Tax</u>	<u>Before Tax</u>	<u>After Tax</u>
EARNINGS PER SHARE				
Basic	\$ <u>1.58</u>	\$ <u>1.54</u>	\$ <u>2.44</u>	\$ <u>1.94</u>
Diluted	\$ <u>1.57</u>	\$ <u>1.53</u>	\$ <u>2.43</u>	\$ <u>1.93</u>

(With Deloitte & Touche audit report dated February 1, 2010)

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# CHINA STEEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
YEARS ENDED DECEMBER 31, 2009 AND 2008  
(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, 2008	\$ 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 - \$0.30 per share	11,509	-	-	-	-	(11,509)	(11,509)	-	-	-	-	-	-	-
Common stock dividends - \$0.30 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 gain (loss) on available-for-sale financial assets	-	-	-	-	-	-	-	-	(1,271,797)	-	-	-	-	(1,271,797)
Adjusted to nonoperating income from disposal of revalued 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)	-	-	-	-	-	-	-
Foreign exchange gain on translation of foreign-currency financial statements	-	-	-	-	-	-	-	-	404,669	-	-	-	-	430,110
Investees' net loss not recognized as pension cost	-	-	-	-	-	-	-	-	-	75,958	-	-	-	75,958
Acquisition of treasury stock	-	-	-	-	-	-	-	-	-	-	5,698	-	-	5,698
Change in unrealized gain on financial instruments for cash flow hedging	-	-	-	-	-	-	-	-	-	-	-	(2,510,843)	-	(2,510,843)
Disposal of the Corporation's shares held by subsidiaries	-	-	548,063	-	-	-	-	-	901,807	-	-	-	-	901,807
Cash dividends declared by the Corporation and received by subsidiaries	-	-	236,751	-	-	-	-	-	-	287,581	-	-	698,096	1,533,740
Purchase of the Corporation's shares by subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	219,949	456,700
Adjustment of minority interest	-	-	-	-	-	-	-	-	-	-	-	(418,782)	(363,262)	(782,044)
BALANCES, DECEMBER 31, 2008	125,575,411	382,700	18,410,920	44,715,153	7,615,701	24,096,253	76,427,107	21,915,248	6,508,005	358,976	(32,385)	(10,805,513)	16,242,698	254,983,167
Conversion of preferred stock to common shares	20	(20)	-	-	-	-	-	-	-	-	-	-	-	-
Appropriation of 2008 earnings	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Legal reserve	-	-	-	2,402,556	-	(2,402,556)	-	-	-	-	-	-	-	-
Preferred cash dividends - \$1.30 per share	-	-	-	-	-	(49,751)	(49,751)	-	-	-	-	-	-	(49,751)
Common cash dividends - \$1.30 per share	-	-	-	-	-	(16,184,404)	(16,184,404)	-	-	-	-	-	-	(16,184,404)
Preferred stock dividends - \$0.43 per share	16,455	-	-	-	-	(16,455)	(16,455)	-	-	-	-	-	-	-
Common stock dividends - \$0.43 per share	5,353,303	-	-	-	-	(5,353,303)	(5,353,303)	-	-	-	-	-	-	-
Consolidated net income in 2009	-	-	-	-	-	19,602,517	19,602,517	-	-	-	-	-	2,204,278	21,806,795
Change in unrealized gain (loss) on available-for-sale financial assets	-	-	-	-	-	-	-	-	(498,783)	-	-	-	-	(498,783)
Adjusted to nonoperating income from disposal of revalued properties	-	-	-	-	-	-	-	(2,100)	-	-	-	-	-	(2,100)
Adjustment from changes in equity recognized under equity method	-	-	17,751	-	-	(74,344)	(74,344)	-	(1,521,259)	-	-	(64,259)	-	(1,642,111)
Foreign exchange loss on translation of foreign-currency financial statements	-	-	-	-	-	-	-	-	-	(123,063)	-	-	-	(123,063)
Foreign exchange loss on hedge of a net investment in a foreign operation	-	-	-	-	-	-	-	-	-	(52,912)	-	-	-	(52,912)
Investees' net loss not recognized as pension cost	-	-	-	-	-	-	-	-	-	-	(9,748)	-	-	(9,748)
Discount on acquisition of treasury stock	-	-	-	-	-	-	-	-	-	-	-	886	-	886
Change in unrealized loss on financial instruments for cash flow hedging	-	-	-	-	-	-	-	-	(271,532)	-	-	-	-	(271,532)
Disposal of the Corporation's shares held by subsidiaries	-	-	98,225	-	-	-	-	-	-	-	-	414,610	175,746	688,581
Cash dividends declared by the Corporation and received by subsidiaries	-	-	354,187	-	-	-	-	-	-	-	-	-	225,353	579,540
Disposal of the subsidiaries' shares	-	-	-	-	-	-	-	-	-	-	-	-	42,659	42,659
Purchase of the Corporation's shares by subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(244,712)	(202,173)	(446,885)
Treasury stock transferred to employees	-	-	717,428	-	-	-	-	-	-	-	-	2,509,957	-	3,227,385
Adjustment of minority interest	-	-	-	-	-	-	-	-	-	-	-	-	1,742,160	1,742,160
BALANCES, DECEMBER 31, 2009	\$ 130,945,189	\$ 382,680	\$ 19,598,511	\$ 47,117,709	\$ 7,615,701	\$ 19,617,957	\$ 74,351,367	\$ 21,913,148	\$ 4,216,431	\$ 183,001	\$ (42,133)	\$ (8,189,031)	\$ 20,430,721	\$ 263,789,884

(With Deloitte & Touche audit report dated February 1, 2010)

# CHINA STEEL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2009 AND 2008

(In Thousands of New Taiwan Dollars)

	2009	2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Consolidated net income	\$ 21,806,795	\$ 24,365,510
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	16,489,918	15,652,307
Amortization	966,751	965,349
Deferred income tax	(1,369,075)	(7,761,113)
Unrealized (realized) gain from affiliates	(30,452)	360,042
Provision for loss on inventories, net	315,900	21,634,886
Increase (decrease) in loss on purchase commitments	(8,169,610)	7,999,879
Investment loss recognized under equity method	443,266	763,248
Cash dividends received from equity method investees	38,375	72,162
Loss (gain) on disposal of property, plant and equipment	(1,239,793)	207,163
Loss (gain) on sale of investments and valuation on financial instruments	(2,593,453)	1,132,133
Impairment loss (reversal of impairment loss), net	(970,164)	5,947,051
Compensation cost of treasury stock options	795,700	-
Others	95,990	(228,603)
Net changes in operating assets and liabilities		
Financial instruments held for trading	(848,674)	29,158
Notes receivable	1,762,598	(1,006,888)
Accounts receivable	32,088	1,977,122
Other receivables	1,209,294	(1,745,241)
Inventories	32,395,837	(49,117,171)
Other current assets	(879,192)	(1,426,956)
Notes and accounts payable	(688,026)	(21,829)
Income tax payable	(8,144,756)	(90,959)
Accrued expenses	2,512,942	(1,549,342)
Other payables	(3,963,065)	3,700,052
Other current liabilities	1,682,830	(380,270)
Net cash provided by operating activities	<u>51,652,024</u>	<u>21,477,690</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of financial assets designated as at fair value through profit or loss	(12,072,561)	(30,140,211)
Proceeds from disposal of financial assets designated as at fair value through profit or loss	16,138,834	22,849,844
Acquisition of available-for-sale financial assets	(10,594,179)	(11,648,512)
Proceeds from disposal of available-for-sale financial assets	13,427,474	11,592,140
Acquisition of held-to-maturity financial assets	(1,201,448)	(1,045,885)
Proceeds from disposal of held-to-maturity financial assets	1,469,824	975,904
Acquisition of financial assets carried at cost	(335,866)	(829,574)
Proceeds from disposal of financial assets carried at cost	44,539	260,562
Proceeds from capital reduction on financial assets carried at cost	4,818	23,988

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# CHINA STEEL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2009 AND 2008

(In Thousands of New Taiwan Dollars)

	2009	2008
Acquisition of bond investments with no active market	\$ (106,576)	\$ (6,598)
Decrease (increase) in other financial assets	8,162,595	(4,595,968)
Acquisition of investments accounted for by equity method	(59,958)	(114,462)
Proceeds from disposal of investments accounted for by equity method	95,864	-
Proceeds from capital reduction on investment accounted for by equity method	130,600	-
Acquisition of investments in real estate	-	(219,205)
Proceeds from disposal of subsidiaries' shares	20,182	-
Acquisition of property, plant and equipment	(69,872,863)	(62,192,467)
Proceeds from disposal of property, plant and equipment	1,385,533	3,142
Decrease (increase) in refundable deposits	25,566	(84,072)
Increase in restricted assets	(620,769)	(318,758)
Increase in intangible assets	(316,186)	(43,450)
Increase in other assets	<u>(1,982,265)</u>	<u>(74,428)</u>
Net cash used in investing activities	<u>(56,256,842)</u>	<u>(75,608,010)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term loans and overdraft	12,295,225	13,659,880
Increase (decrease) in commercial paper payable	(3,607,586)	18,677,570
Issuance of bonds payable	-	29,550,000
Proceeds from long-term debt	11,320,000	24,751,745
Repayments of long-term debt	(6,167,148)	(3,522,729)
Increase (decrease) in long-term notes payable	4,747,861	(885)
Repayments of reorganized loans payable	(400,000)	(400,000)
Increase in other liabilities	5,390	78,440
Cash dividends paid by parent company	(15,644,347)	(39,900,003)
Disposal of parent company's shares held by subsidiaries	688,581	1,533,740
Purchase of parent company's shares by subsidiaries	(446,885)	(782,044)
Cash bonus to employees and remuneration to directors and supervisors paid by parent company	-	(992,370)
Acquisition of treasury stock	-	(2,510,843)
Treasury stocks transferred to employees	2,407,323	-
Discount on acquisition of treasury stock	886	-
Increase (decrease) in minority interest	1,742,160	(4,523,515)
Others	<u>(21,766)</u>	<u>(9,940)</u>
Net cash provided by financing activities	<u>6,919,694</u>	<u>35,609,046</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,314,876	(18,521,274)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>20,069,433</u>	<u>38,590,707</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 22,384,309</u>	<u>\$ 20,069,433</u>

(Continued)



# CHINA STEEL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2009 AND 2008 (In Thousands of New Taiwan Dollars)

	2009	2008
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid (excluding capitalized interest)	\$ 1,515,714	\$ 1,640,529
Income tax paid	9,132,911	16,768,741
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	\$ 69,785,826	\$ 62,785,419
Decrease (increase) in payable for equipment purchased	<u>87,037</u>	<u>(592,952)</u>
	<u>\$ 69,872,863</u>	<u>\$ 62,192,467</u>
Cash Dividends Paid to Stockholders		
Total cash dividends payable to stockholders	\$ 16,234,155	\$ 40,373,518
Cash dividends paid by the parent company and received by subsidiaries	(579,540)	(456,700)
Increase in dividend payable	<u>(10,268)</u>	<u>(16,815)</u>
	<u>\$ 15,644,347</u>	<u>\$ 39,900,003</u>
NONCASH FINANCING ACTIVITIES		
Current portion of long-term liabilities	<u>\$ 6,850,040</u>	<u>\$ 8,016,007</u>

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 values of the assets and liabilities acquired and common shares issued were shown as follows:

Items	Amount
ASSETS	
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
LIABILITIES	
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, 2009 AND 2008

(In Thousands of New Taiwan Dollars)

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	Amount
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>

(With Deloitte & Touche audit report dated February 1, 2010)

(Concluded)