

China Steel Corporation and Subsidiaries

**Consolidated Financial Statements for the
Years Ended September 30, 2009 and 2008 and
Independent Accountants' Report**

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 September 30, 2009 and 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 express our opinion on these consolidated financial statements based on our reviews.

Except for the matters mentioned in the third paragraph, 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.

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, 2009 and 2008, these subsidiaries' total assets amounted to NT\$180,545,047 thousand and NT\$145,887,000 thousand, respectively, or 40% and 35%, respectively, of total consolidated assets and their total liabilities amounted to NT\$82,278,847 thousand and NT\$71,992,956 thousand, respectively, or 40% and 45%, respectively, of total consolidated liabilities. For the nine months ended September 30, 2009 and 2008, their net sales were NT\$34,412,302 thousand and NT\$85,207,982 thousand, respectively, or 19% and 26%, respectively, of consolidated net operating revenues, and their related net income was NT\$4,435,116 thousand and NT\$8,725,779 thousand, respectively, or 97% and 20%, respectively, of consolidated net income. As discussed in Note 15 to the accompanying consolidated financial statements, the aggregate carrying values of the Corporation's investments accounted for by the equity-method were NT\$3,314,305 thousand and NT\$4,098,429 thousand, respectively, as of September 30, 2009 and 2008, and the net investment losses were NT\$467,115 thousand and NT\$480,737 thousand for the nine months ended September 30, 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 reviews, 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 and related investment income (loss) as 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 China Steel 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 Statement of Financial Accounting Standards No. 10 - "Inventories" issued by the ARDF in November 2007. Also, on January 1, 2008, the Corporation and its

subsidiaries adopted Interpretation 2007-052, “Accounting for Bonuses to Employees, Directors and Supervisors” issued by the ARDF in March 2007.

October 12, 2009

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
SEPTEMBER 30, 2009 AND 2008
(In Thousands of New Taiwan Dollars, Except Par Value)
(Reviewed, Not Audited)

ASSETS	2009		2008		LIABILITIES AND STOCKHOLDERS' EQUITY	2009		2008	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents	\$ 15,779,391	3	\$ 14,439,401	3	Short-term loans and overdraft	\$ 51,019,521	11	\$ 51,246,522	12
Financial assets at fair value through profit or loss - current	4,853,963	1	3,346,919	1	Commercial paper payable	24,627,231	6	12,115,460	3
Available-for-sale financial assets - current	4,912,910	1	6,586,454	2	Financial liabilities at fair value through profit or loss - current	701	-	63,574	-
Held-to-maturity financial assets - current	407,464	-	223,416	-	Hedging derivative liabilities - current	-	-	21,316	-
Hedging derivative assets - current	579,958	-	22,324	-	Notes and accounts payable	5,599,285	1	10,697,244	3
Notes receivable, net	1,045,452	-	3,662,253	1	Income tax payable	2,206,064	1	8,782,591	2
Accounts receivable, net	7,312,179	2	10,979,240	3	Accrued expenses	8,959,118	2	14,791,472	4
Other receivables	2,558,594	1	1,185,367	-	Other payables	4,583,487	1	5,404,626	1
Other financial assets - current	1,243,603	-	-	-	Purchase commitments payable	3,565,434	1	417,586	-
Inventories	50,007,942	11	93,906,371	23	Long-term debt - current portion	10,627,192	2	2,619,665	1
Investment classified as held for disposal	89,936	-	-	-	Restructured loans payable - current portion	400,000	-	400,000	-
Deferred income tax assets - current	2,470,652	1	867,942	-	Long-term notes payable - current portion	199,995	-	-	-
Restricted assets - current	4,635,345	1	4,666,096	1	Others	<u>4,978,283</u>	<u>1</u>	<u>4,554,627</u>	<u>1</u>
Others	<u>13,810,223</u>	<u>3</u>	<u>13,694,032</u>	<u>3</u>					
Total current assets	<u>109,707,612</u>	<u>24</u>	<u>153,579,815</u>	<u>37</u>	Total current liabilities	<u>116,766,311</u>	<u>26</u>	<u>111,114,683</u>	<u>27</u>
FUNDS AND INVESTMENTS					LONG-TERM LIABILITIES				
Available-for-sale financial assets - noncurrent	3,379,730	1	3,181,701	1	Hedging derivative liabilities - noncurrent	-	-	100,391	-
Held-to-maturity financial assets - noncurrent	455,375	-	781,693	-	Bonds payable, net of current portion	43,250,000	10	13,700,000	3
Hedging derivative assets - noncurrent	199,544	-	77,792	-	Long-term debt - bank, net of current portion	24,968,426	6	21,683,862	5
Financial assets carried at cost - noncurrent	8,319,019	2	8,286,443	2	Long-term notes payable, net of current portion	6,597,906	1	2,046,637	1
Bond investments with no active market - noncurrent	144,491	-	184,932	-	Restructured loans payable, net of current portion	<u>4,763,427</u>	<u>1</u>	<u>5,182,533</u>	<u>1</u>
Investments accounted for by the equity method	3,314,305	-	4,098,429	1					
Investments in real estate	219,205	-	219,205	-	Total long-term liabilities	<u>79,579,759</u>	<u>18</u>	<u>42,713,423</u>	<u>10</u>
Prepaid long-term stock investments	77,883	-	-	-	RESERVE FOR LAND VALUE INCREMENT TAX	<u>8,673,466</u>	<u>2</u>	<u>2,171,124</u>	<u>1</u>
Other financial assets - noncurrent	<u>7,931,540</u>	<u>2</u>	<u>12,198,054</u>	<u>3</u>					
Total investments	<u>24,041,092</u>	<u>5</u>	<u>29,028,249</u>	<u>7</u>	OTHER LIABILITIES				
PROPERTY, PLANT AND EQUIPMENT					Accrued pension cost	837,552	-	1,000,976	-
Land	16,805,003	4	18,661,127	5	Deferred income tax liabilities - noncurrent	-	-	2,463,498	1
Land improvements	4,291,679	1	4,288,420	1	Others - mainly deferred credits	<u>854,103</u>	<u>-</u>	<u>770,829</u>	<u>-</u>
Buildings	51,470,448	11	49,554,622	12	Total other liabilities	<u>1,691,655</u>	<u>-</u>	<u>4,235,303</u>	<u>1</u>
Machinery and equipment	298,186,956	66	291,947,926	71	Total liabilities	<u>206,711,191</u>	<u>46</u>	<u>160,234,533</u>	<u>39</u>
Transportation equipment	19,927,731	4	20,722,889	5					
Other equipment	<u>12,854,449</u>	<u>3</u>	<u>12,911,144</u>	<u>3</u>	STOCKHOLDERS' EQUITY OF PARENT COMPANY				
Total cost	403,536,266	89	398,086,128	97	Capital stock - authorized 14,000,000 thousand shares at NTS10 par value				
Revaluation increment	<u>43,673,414</u>	<u>10</u>	<u>16,910,909</u>	<u>4</u>	Common shares - issued 13,094,519 thousand shares and 11,981,548 thousand shares as of September 30, 2009 and 2008, respectively	130,945,189	29	119,815,480	29
Cost and revaluation increment	447,209,680	99	414,997,037	101	Preferred shares - issued 38,268 thousand shares and 38,272 thousand shares as of September 30, 2009 and 2008, respectively	<u>382,680</u>	<u>-</u>	<u>382,720</u>	<u>-</u>
Less: Accumulated depreciation	271,215,927	60	259,103,810	63	Total capital stock	<u>131,327,869</u>	<u>29</u>	<u>120,198,200</u>	<u>29</u>
Accumulated impairment	<u>1,026,646</u>	<u>-</u>	<u>2,678,471</u>	<u>1</u>	Capital surplus	<u>18,842,759</u>	<u>4</u>	<u>2,691,704</u>	<u>1</u>
Construction in progress and prepayments for equipment	<u>128,275,102</u>	<u>28</u>	<u>70,812,039</u>	<u>17</u>	Retained earnings				
Total property, plant and equipment	<u>303,242,209</u>	<u>67</u>	<u>224,026,795</u>	<u>54</u>	Legal reserve	47,117,709	10	44,715,153	11
Intangible assets	<u>1,841,889</u>	<u>1</u>	<u>455,988</u>	<u>-</u>	Special reserve	7,615,701	2	7,615,701	2
OTHER ASSETS					Unappropriated earnings	15,440	-	64,289	-
Assets leased to others, net	442,696	-	453,710	-	Net income of parent company for the nine months ended September 30	<u>3,916,228</u>	<u>1</u>	<u>39,481,792</u>	<u>9</u>
Refundable deposits	265,181	-	227,817	-	Total retained earnings	<u>58,665,078</u>	<u>13</u>	<u>91,876,935</u>	<u>22</u>
Deferred income tax assets - noncurrent	2,912,766	1	-	-	Other equity				
Restricted assets - noncurrent	177,298	-	295,934	-	Cumulative translation adjustments	150,880	-	(76,060)	-
Unamortized repair costs and others	<u>7,570,427</u>	<u>2</u>	<u>5,017,888</u>	<u>2</u>	Net loss not recognized as pension cost	(32,385)	-	(40,118)	-
Total other assets	<u>11,368,368</u>	<u>3</u>	<u>5,995,349</u>	<u>2</u>	Unrealized gain on financial instruments	4,686,578	1	4,778,316	1
					Unrealized revaluation increment	21,913,197	5	1,505,293	-
					Treasury stock - 392,167 thousand shares and 80,209 thousand shares as of September 30, 2009 and 2008, respectively	<u>(10,812,752)</u>	<u>(2)</u>	<u>(1,551,103)</u>	<u>-</u>
					Total other equity	<u>15,905,518</u>	<u>4</u>	<u>4,616,328</u>	<u>1</u>
					Total stockholders' equity of parent company	224,741,224	50	219,383,167	53
					MINORITY INTEREST	<u>18,748,755</u>	<u>4</u>	<u>33,468,496</u>	<u>8</u>
					Total stockholders' equity	<u>243,489,979</u>	<u>54</u>	<u>252,851,663</u>	<u>61</u>
TOTAL	<u>\$ 450,201,170</u>	<u>100</u>	<u>\$ 413,086,196</u>	<u>100</u>	TOTAL	<u>\$ 450,201,170</u>	<u>100</u>	<u>\$ 413,086,196</u>	<u>100</u>

(With Deloitte & Touche review report dated October 12, 2009)

CHINA STEEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008

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

(Reviewed, Not Audited)

	2009		2008	
	Amount	%	Amount	%
OPERATING REVENUES	\$ 177,383,787	100	\$ 331,028,242	100
OPERATING COSTS	<u>168,738,726</u>	<u>95</u>	<u>256,749,907</u>	<u>78</u>
GROSS PROFIT	8,645,061	5	74,278,335	22
REALIZED (UNREALIZED) INTERCOMPANY GAIN	<u>22,839</u>	<u>-</u>	<u>(321,517)</u>	<u>-</u>
REALIZED GROSS PROFIT	<u>8,667,900</u>	<u>5</u>	<u>73,956,818</u>	<u>22</u>
OPERATING EXPENSES				
Research and development	967,687	-	1,301,353	1
Selling	3,238,581	2	4,183,163	1
General and administrative	<u>3,108,020</u>	<u>2</u>	<u>4,409,719</u>	<u>1</u>
Total operating expenses	<u>7,314,288</u>	<u>4</u>	<u>9,894,235</u>	<u>3</u>
OPERATING INCOME	<u>1,353,612</u>	<u>1</u>	<u>64,062,583</u>	<u>19</u>
NONOPERATING INCOME AND GAINS				
Interest income	214,124	-	779,766	1
Dividend income	155,530	-	402,268	-
Exchange gain, net	61,533	-	325,576	-
Gain on disposal of property, plant and equipment	1,263,610	1	586	-
Gain on disposal of investments, net	1,683,470	1	79,653	-
Reversal of impairment loss	1,145,693	1	55	-
Others	<u>679,753</u>	<u>-</u>	<u>648,044</u>	<u>-</u>
Total nonoperating income and gains	<u>5,203,713</u>	<u>3</u>	<u>2,235,948</u>	<u>1</u>
NONOPERATING EXPENSES AND LOSSES				
Interest expense	1,163,259	1	1,530,705	-
Investment loss recognized under equity method, net	460,273	-	474,381	-
Impairment loss	6,683	-	5,059,797	2
Others	<u>295,220</u>	<u>-</u>	<u>686,080</u>	<u>-</u>
Total nonoperating expenses and losses	<u>1,925,435</u>	<u>1</u>	<u>7,750,963</u>	<u>2</u>
CONSOLIDATED INCOME BEFORE INCOME TAX	4,631,890	3	58,547,568	18

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CHINA STEEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008

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

(Reviewed, Not Audited)

	<u>2009</u>		<u>2008</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
INCOME TAX EXPENSE	<u>48,894</u>	<u>-</u>	<u>14,369,368</u>	<u>5</u>
CONSOLIDATED NET INCOME	<u>\$ 4,582,996</u>	<u>3</u>	<u>\$ 44,178,200</u>	<u>13</u>
BELONGED TO				
The Corporation's stockholders	\$ 3,916,228	2	\$ 39,481,792	12
Minority interest	<u>666,768</u>	<u>1</u>	<u>4,696,408</u>	<u>1</u>
	<u>\$ 4,582,996</u>	<u>3</u>	<u>\$ 44,178,200</u>	<u>13</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>\$ 0.18</u>	<u>\$ 0.31</u>	<u>\$ 3.90</u>	<u>\$ 3.18</u>
Diluted	<u>\$ 0.18</u>	<u>\$ 0.30</u>	<u>\$ 3.86</u>	<u>\$ 3.14</u>

(With Deloitte & Touche review report dated October 12, 2009)

(Concluded)

CHINA STEEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008 (In Thousands of New Taiwan Dollars) (Reviewed, Not Audited)

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Consolidated net income	\$ 4,582,996	\$ 44,178,200
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	12,124,324	11,552,947
Amortization	602,811	920,655
Deferred income tax	(1,137,154)	(1,919,293)
Unrealized (realized) intercompany gain	(22,839)	321,517
Provision for loss on inventories - net	799,972	389,785
Loss on purchase commitments	2,112,722	417,586
Investment loss under the equity method	467,115	480,737
Cash dividends received from equity method investees	33,369	72,162
Loss (gain) on disposal of property, plant and equipment	(1,207,032)	141,074
Loss (gain) on disposal of investments and valuation on financial instruments	(2,382,837)	677,823
Impairment loss (reversal of impairment loss) on financial and idle assets	(1,101,846)	5,110,508
Others	45,299	(101,972)
Net changes in operating assets and liabilities		
Financial instruments held for trading	(433,440)	405,209
Notes receivable	2,130,557	(1,493,132)
Accounts receivable	(40,996)	(1,730,935)
Other receivables	240,244	(149,412)
Inventories	26,211,086	(37,555,471)
Other current assets	(1,813,615)	(3,811,775)
Notes and accounts payable	(2,283,374)	2,655,204
Income tax payable	(6,877,048)	(391,480)
Accrued expenses	(122,138)	4,174,982
Other payables	(2,717,355)	567,342
Other current liabilities	791,048	(12,878)
Net cash provided by operating activities	<u>30,001,869</u>	<u>24,899,383</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of financial assets at fair value through profit or loss	(5,952,787)	(17,882,813)
Proceeds from disposal of financial assets at fair value through profit or loss	14,445,904	19,765,356
Acquisition of available-for-sale financial assets	(6,684,673)	(8,869,069)
Proceeds from disposal of available-for-sale financial assets	9,954,912	9,877,883
Acquisition of held-to-maturity financial assets	(1,287,442)	(1,012,457)
Proceeds from disposal of held-to-maturity financial assets	1,129,007	829,864
Acquisition of financial assets carried at cost	(126,176)	(805,423)
Proceeds from disposal of financial assets carried at cost	21,015	168,137
Proceeds from capital reduction on financial assets carried at cost	5,264	23,988
		(Continued)

CHINA STEEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008 (In Thousands of New Taiwan Dollars) (Reviewed, Not Audited)

	2009	2008
Acquisition of bond investments with no active market	\$ (4,170)	\$ (6,598)
Acquisition of investments accounted for by equity method	(59,958)	(24,462)
Proceeds from disposal of investments accounted for by the equity method	7,438	-
Proceeds from capital reduction by an equity-method investees	130,600	-
Increase in prepaid long-term investments	(77,883)	-
Acquisition of investments in real estate	-	(219,205)
Decrease (increase) in other financial assets	3,296,178	(4,996,854)
Acquisition of property, plant and equipment	(54,794,637)	(45,138,799)
Proceeds from disposal of property, plant and equipment	1,768,795	2,663
Decrease (increase) in refundable deposits	33,087	(13,621)
Increase in restricted deposits	(108,695)	(231,095)
Increase in intangible assets	(127,164)	(17,149)
Increase in other assets	<u>(671,326)</u>	<u>(124,056)</u>
Net cash used in investing activities	<u>(39,102,711)</u>	<u>(48,673,710)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term loans and overdraft	13,239,917	27,126,798
Increase in commercial paper payable	2,398,120	8,563,919
Proceeds from long-term debt	2,900,000	12,183,000
Repayments of long-term debt	(4,391,649)	(2,894,439)
Increase (decrease) in long-term notes payable	4,751,456	(693)
Repayments of reorganized loans payable	(200,000)	(200,000)
Increase in other liabilities	16,525	27,377
Cash dividends paid by parent company	(15,630,897)	(39,886,718)
Disposal of parent's stock by subsidiaries	296,007	1,533,740
Purchase of the Corporation's shares by subsidiaries	(324,517)	(779,050)
Cash bonus to directors, supervisors and employees	-	(992,370)
Discount for acquisition cost of treasury stock	886	-
Increase (decrease) in minority interest	<u>1,754,952</u>	<u>(5,058,543)</u>
Net cash provided by (used in) financing activities	<u>4,810,800</u>	<u>(376,979)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(4,290,042)	(24,151,306)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>20,069,433</u>	<u>38,590,707</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 15,779,391</u>	<u>\$ 14,439,401</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid (excluding capitalized interest)	\$ 678,985	\$ 1,474,570
Income tax paid	8,063,096	16,680,141

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CHINA STEEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	2009	2008
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	\$ 53,619,620	\$ 45,823,546
Decrease (increase) in payable for equipment purchased	<u>1,175,017</u>	<u>(684,747)</u>
	<u>\$ 54,794,637</u>	<u>\$ 45,138,799</u>
Cash paid to stockholders		
Cash dividends	\$ 16,234,154	\$ 40,373,518
Acquisition of cash dividends distributed by parent company	(579,540)	(456,700)
Increase in dividends payable	<u>(23,717)</u>	<u>(30,100)</u>
	<u>\$ 15,630,897</u>	<u>\$ 39,886,718</u>
NONCASH FINANCING ACTIVITIES		
Current portion of long-term liabilities	<u>\$ 8,301,247</u>	<u>\$ 2,743,331</u>

(With Deloitte & Touche review report dated October 12, 2009)

(Concluded)