

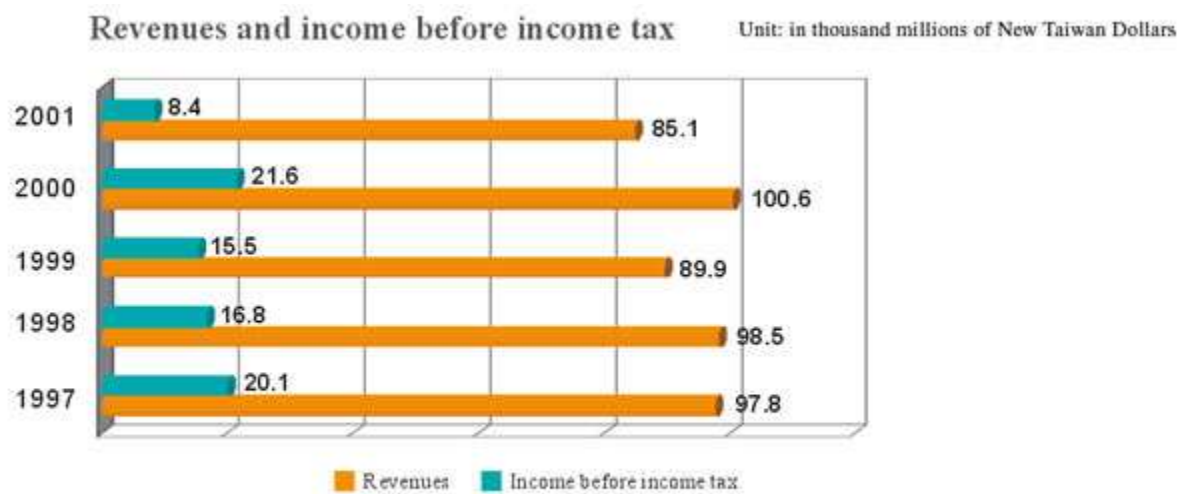
## TWO-YEAR HIGHLIGHTS OF OPERATING RESULTS



	<b>2001</b>	<b>2000</b>
Revenues (Millions of New Taiwan Dollars)	<b>85,101</b>	<b>100,635</b>
Operating costs	<b>77,708</b>	<b>79,414</b>
Income from operations	<b>7,394</b>	<b>21,221</b>
Income before income tax	<b>8,407</b>	<b>21,606</b>
Employment costs <sup>1</sup>	<b>12,763</b>	<b>13,586</b>
Depreciation	<b>11,954</b>	<b>12,097</b>
Interest expenses net <sup>1</sup>	<b>2,073</b>	<b>2,083</b>
Total assets	<b>198,937</b>	<b>208,982</b>
Capital expenditures	<b>7,373</b>	<b>4,289</b>
Stockholders' equity	<b>126,648</b>	<b>134,654</b>
Output of steel products (Thousands of metric tons)	<b>9,338</b>	<b>9,492</b>
Sales volume of steel products	<b>9,701</b>	<b>9,717</b>

Number of employees <sup>2</sup>		<b>8,796</b>	<b>8,876</b>
Return on sales	(%)	<b>9.88</b>	<b>21.47</b>
Return on stockholders' equity <sup>3</sup>		<b>5.71</b>	<b>14.18</b>

<sup>1</sup> Excluding capitalized expenses <sup>2</sup> As of the end of the calendar year <sup>3</sup> Based on net income



Note : figures for 1997 are *proforma* for the calendar year.

# CHRONOLOGY OF MAJOR EVENTS




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December 3, 1971	◉ China Steel Corporation (the Corporation) officially registered, with head office located in Taipei
September 16, 1972	◉ Kaohsiung Plant Site Office established
September 1, 1974	◉ Construction of Phase I commenced
December 26, 1974	◉ Public listing of China Steel stock on Taiwan Stock Exchange
September 15, 1975	◉ Head office relocated to Kaohsiung, Plant Site Office closed
July 1, 1977	◉ China Steel Corporation became a state enterprise.
December 16, 1977	◉ Phase I completed. Capacity <sup>4</sup> 1.5 million tons <sup>5</sup> per year
July 1, 1978	◉ Construction of Phase II commenced
June 30, 1982	◉ Phase II completed. Capacity <sup>4</sup> reached 3.25 million tons per year
July 1, 1984	◉ Phase III construction commenced ◦
April 30, 1988	◉ Phase III completed. Capacity <sup>4</sup> reached 5.652 million tons per year
July 15, 1993	◉ Phase IV construction commenced
April 12, 1995	◉ China Steel Corporation privatized
May 31, 1997	◉ Phase IV completed. Capacity <sup>4</sup> reached 8.054 million tons per year
June 2, 1998	◉ CSC Group's corporate identity system formally introduced to the public

**note**<sup>4</sup> : In terms of crude steel

**note**<sup>5</sup> : All references to tons mean metric tons of 1,000 kilograms.

## STATUS OF OPERATIONS



Worldwide imbalance in steel supply and demand in 2001 led to continued decline of steel prices. Persistent global recession and the dot-com bubble-burst in the U. S. both contributed to the shrinking of steel demand. World steel prices even hit new record lows since the Second Oil Crisis. Facing such adverse developments, the Corporation decided in August 2001 to scale down 2001 target for pretax income from NT\$17,250 million to NT\$10,500 million. And the ailing steel market was further crippled by the aftermath of the 911 event at the World Trade Center.



*X. T. Kuo*  
Chairman of the Board

The Corporation's 2001 steel production reached 9,337 million tons, down by a slight 1.62% from 2000 while sales of 9,700 million tons experienced an even smaller drop of 0.17%. However operating revenues and pretax income of NT\$85,101 million and NT\$8,407 million suffered sizable declines of 15.44% and 61.09% respectively from the previous year. Through intense marketing efforts the Corporation was able to maintain a performance comparable to the previous year in production and sales, and both have come close to achieving preset targets. Unfortunately owing to the drooping prices, the same cannot be said of revenues and profit. Both suffered substantial setbacks.



*J. Y. Chen*  
President

In 2001 the Corporation continued with its “1020 cost reduction” drive of the previous two years, targeting 10% reduction in direct costs and 20% reduction in indirect costs, resulting in continued reductions in average cost of goods sold.

The Corporation expects that the waters through which it must navigate will become even rougher with the outward movement of its domestic customers' operations and Taiwan's accession to the World Trade Organization (WTO). In the face of the new challenges posed by the advent of the digit economy era and the effect of the persistent worldwide recession, the Corporation is compelled to shore up its competitiveness. This would be impossible without (1) accelerated development of competitive products, (2) higher productivity, (3) suppressed costs, (4) upgraded quality, (5) proactive re-engineering of business process and (6) enrichment of the Corporation's management capability and knowledge. Thus the Corporation set its 2002 operating directions as “up by three successive fives, rapid service, product upgrade, lean organization and reengineered business process” . “Up by three successive fives” stands for launching a three-year drive to raise productivity by five percent each year for three consecutive years, in order to stay in the game of vying with Korean and Japanese steel producers in productivity, while raising the Corporation's profitability and competitiveness.

Fourth quarter 2001 showed no sign of an economic upturn.

Basing on the status of the Corporation's order book at the time and

the prices set for the forthcoming first quarter 2002, the Corporation forecasted that 2002 will be burdened with the continued effect of the 2001 worldwide recession and possible impact of Taiwan's accession to the WTO. The Corporation's outlook was for the prices of major steel products to follow 2001's downward trend. Target for 2002 was thus set at NT\$81,080 million in revenues, NT\$4,500 million in pretax income, with net earnings per share at NT\$0.45.

Early in 2002 there was initial appearance of light at the end of the tunnel in the long depressed steel market. This was the result of strong urging from the Organization for Economic Cooperation and Development (OECD) to the world's steel producers to enlarge their cutbacks in production in order to relieve the serious pressure of oversupply. The first quarter of 2002 also saw the upturn in steel demand in the U. S. and in China. Combined effect of these developments led to a rebound in steel prices that have long remained at the bottom of the valley. The Corporation's order backlog and attained price levels both appear better than expected, and give reason for cautious optimism for the Corporation's 2002 performance.

## PRODUCTION AND SALES



The Corporation's total steel sales reached 9,700,657 tons, merely 0.17% down from 2000. Domestic markets took 72.2%, while exports accounted for the remaining 27.8%. Again re-rollers took the largest share among the domestic customers, accounting for 31.8% of domestic shipments, followed by service centers and nut and bolt makers. Geographic distribution for exports was 37.5% for Northeast Asia, 30.1% for Hongkong (including sales to Mainland China), 24.2% for Southeast Asia and the remainder for the U. S. and other areas.

Weak demand worldwide has caused the Corporation's inventory to rise. At times it became difficult to attain a full order book for the Corporation's rolling mills to develop their full capacity. Steel product output slid by 1.62% from the previous year to 9,337,747 tons. However the upstream departments, with "1020 cost reduction" in mind, directed their effort at (1) improving quality of raw materials, (2) raising the level of oxygen enrichment, (3) introducing double lance pulverized coal injection at No. 4 blast furnace and (4) supplementing Nos. 1 and 2 blast furnaces with pulverized coal from No. 4 blast furnace. The result was the breaking of the 10 million ton mark for hot metal output from the blast furnaces for any year in the Corporation's history: 10,001,210 tons, which topped the previous year by 3.99%. Meanwhile smooth coordination between the blast furnaces and steel making department pushed liquid steel production to 10,609,588 tons in or 3.45% over the previous year.

Average prices for both coal and ore rose in 2001. Coal price rose because of reduced export from the U. S. And production cutbacks in Canada. Tight supply led to substantial price hikes on the world coal market. Iron ore supply was stable. Demand was up slightly. Thus price rise was only moderate. Facing such pressures the Corporation's negotiation team still exerted their best effort in exacting the most favorable prices from the suppliers. The Corporation also took active measures to open up new sources of raw materials.



●Raw material unloading pier

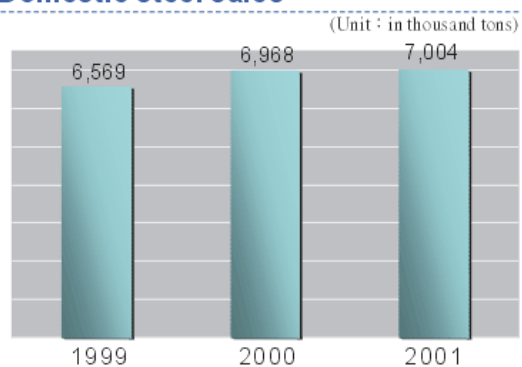
The Corporation continued to make progress in cogeneration and vigorously develop the sale of steam, oxygen, nitrogen and argon from its utility facilities. These measures aim at effective overall resource utilization and regional integration and self-sufficiency in energy supply and demand. Total sales of these items again set new records in both quantity and value. Of the electricity consumed by the Corporation in 2001, 80.2% was generated in its own power plants up by 4.8 percentage points over the percentage level of the previous year. This was made possible largely by the gradual reaching of full load operation of the new No. 8 turbo-generator. Overall energy consumption fell to 5,256 million calories per ton of crude steel, down by 109 million from the 2000 level.

In order to gain competitiveness and to cushion the impact of economic downturns, the Corporation continued to implement strict quality management and to launch special projects aimed at overall upgrading of quality. Projects that yielded pronounced benefits to sales promotion were: (1) raising the success rate in steel making for 50CS600 electrical steel sheets and SM570 steel for high heat

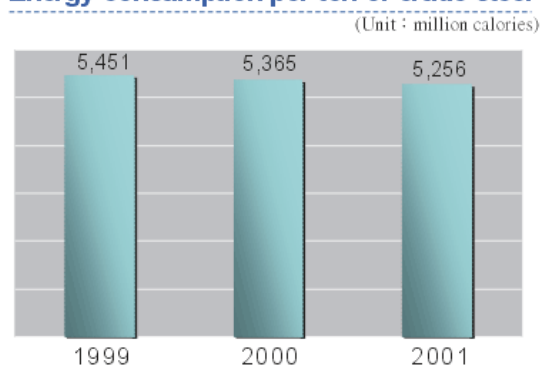


● Hot rolled coils

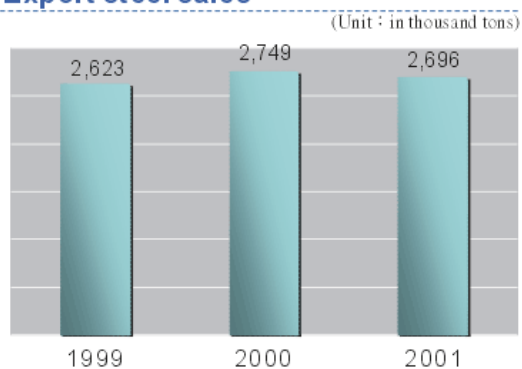
### Domestic steel sales



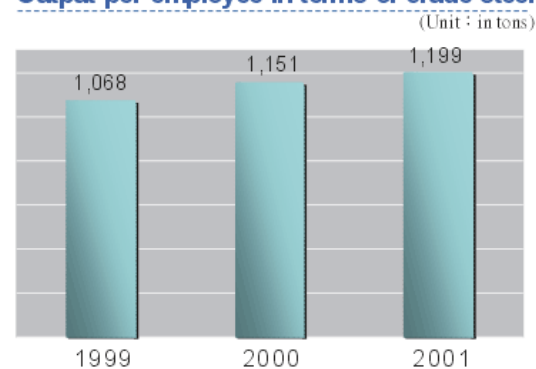
### Energy consumption per ton of crude steel



### Export steel sales



### Output per employee in terms of crude steel



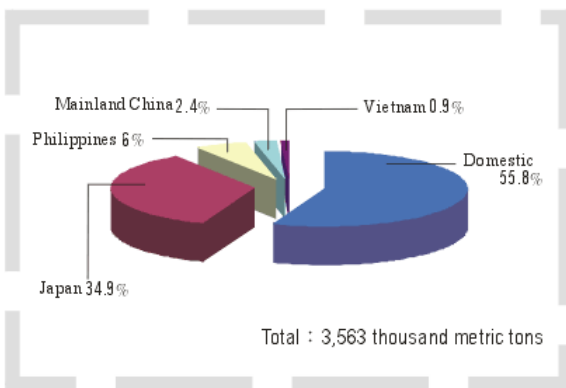


● Sinter storage yard

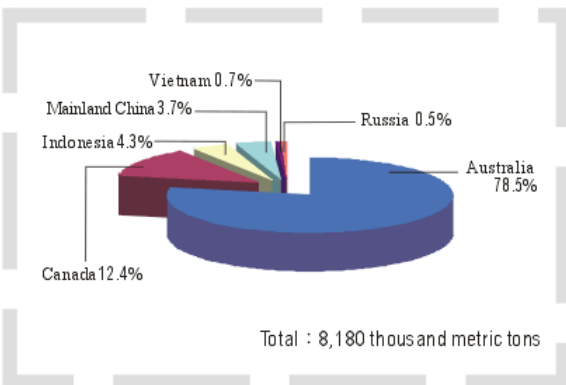
input welding electrodes, (2) completion of the total quality management information system (TQMIS) for plate, bar and rod, (3) completion of the development of SPFH540 high hole expansion ratio steel for automotive use, (4) quality improvements for batch annealed cold rolled products (solved problem of surface carbon contamination) and for 50CS600A semi-processed electrical steel sheet (solved the bow problem), (5) quality improvement for galvanealed cold rolled sheet for automobile exposed panels (solved the streaky marks problem) and (6) success in gaining accreditation for anti-fingerprint galvanized sheet by computer case manufacturers, and successful entry of this product into the export market.

To cope with the intensified competition following Taiwan's accession to the WTO, the Corporation is actively engaged in the development of 41 products that enjoy strong competitiveness. Development work for fourteen of them has been targeted for completion

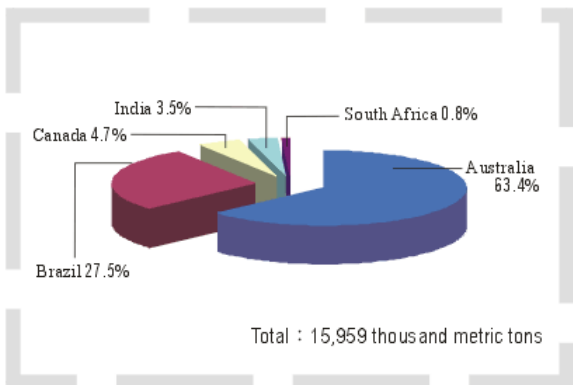
### Sources of flux materials



### Sources of coking coal



### Sources of iron ore



●Cold rolled coils



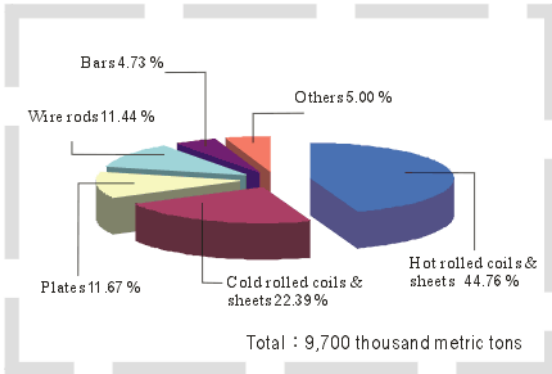
●Wire rods

within 2002. These 41 products are expected to enable the Corporation to win up to one million tons a year of orders for steel products that heretofore have gone to imports.

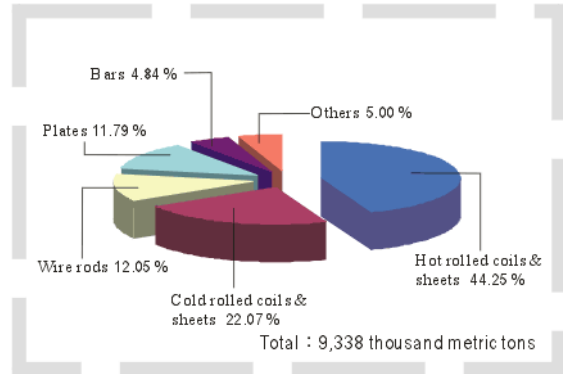
At the same time, in line with the Corporation's sales policy, the Corporation utilizes to good advantage the technical capability it accumulated over the years to help its customers with technical counseling services and enables the

Corporation to share its technical achievements with the domestic industrial community.

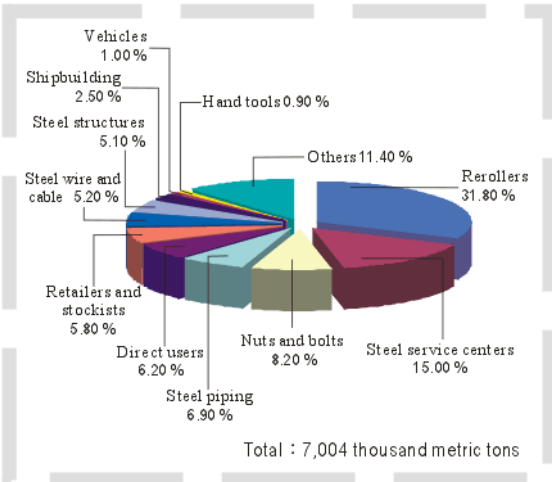
**Steel sales 2001**



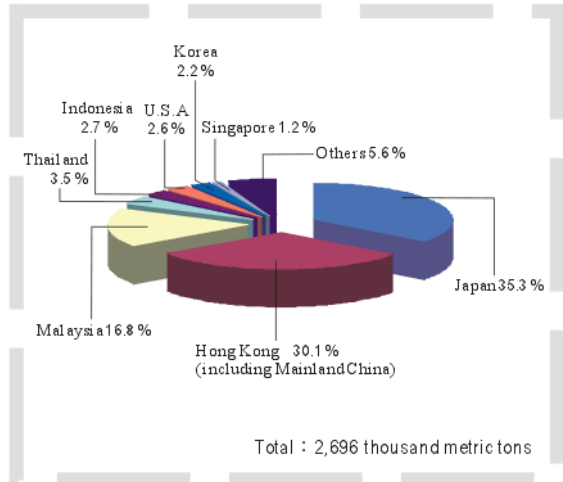
**Steel production 2001**



**Percentage of domestic sales by industry, 2001**



**Percentage of export by region, 2001**



## RESEARCH AND DEVELOPMENT (R&D)



● Hot press sintering machine

● facility on-line monitoring system

● Testing for chemical oxygen demand-as a part of the research program for prevention of pollution from wastewater

The consistent concept in the Corporation's R&D consists of continued enhancement of R&D effectiveness, and accelerating the implementation and application of R&D results to suppress cost and strengthen competitiveness. Meanwhile the Corporation continues to provide technical backup for the CSC Group's diversified development and to build a stable and solid technical foundation for the entire Group.

Investments in R&D in 2001 again exceeded NT\$800 million. Major accomplishments were:

**Related to products.** Objectives are (1) to develop high value-added new products, (2) to upgrade quality of existing products, (3) to actively preserve the Corporation's leadership position in the domestic steel market, and (4) to provide problem-solving assistance to mid- and downstream customers to develop their new products and cut down their costs.

Items completed include:

- (1) development work for the galvannealing technique to take root in the Corporation's production process for steel used in automobile exposed panels. Benefits include quality uniformity and stability and pronounced improvement in prime product yield.
- (2) development for 50CS600A semi-processed electrical steel sheet to gain a foothold in Taiwan's market for materials used in manufacturing high efficiency compressor motors, which has heretofore been dominated by Japan.
- (3) development work of the Corporation's own coating technology for commercial production of anti-fingerprint hot dip galvanized sheets for use in manufacturing computer cases.
- (4) development and stable commercial production of high gloss electro-galvanized sheets. Success in eliminating defects on the bottom side of the sheet caused by band marks from the conductor rolls.

**Related to processes.** Emphasis is on process and efficiency improvement and cost reduction. The more significant accomplishments are:

- (1) completion of a project for developing the core technology in smelting reduction iron making. Smooth production of hot metal from an experimental smelting reduction vessel designed and built by the Corporation.
- (2) successful development of technology to enable indigenous production of tap-hole mud binders, resulting in superior

quality of mud formulations. Benefits include smoother tapping operation, improved furnace condition stability and prolonged furnace lining life, plus providing the Corporation with an alternative to imports which helped to lower cost.

- (3) successful development of technology to enable indigenous production of alumina-spinel castables for steel ladles linings, thereby providing an alternative to imports and reducing cost of steel making refractory materials.
- (4) development and putting in place a system of sophisticated sampling and analysis of defects, which have been spotted by ultrasonic testing on heavy steel plate. This system facilitates systematic exploration and determination of counter-measures in upstream steel making. Result: significant drop in rejection rate.
- (5) putting in place the Corporation's technology for optimizing the finishing mill setup for rolling ultra thin gauge hot rolled products and 316 stainless steel, thereby eliminating technical bottlenecks.
- (6) raising the prime product yield of S6P/SB grade iron oxide at No. 3 acid recovery plant. Tangible benefit of such improvement alone exceeds NT\$10 million per year.
- (7) development of a thermal simulation model for aluminum coil in the annealing furnace. Establishment of the Corporation's own capability for analysis of the thermal flow field in an aluminum coil annealing furnace adds to the Corporation's credibility as well as capability for building industrial furnaces. It puts the Corporation one step forward toward becoming a commercial and professional builder of industrial furnaces.

**Related to automation and development of inspection and measurement systems.** These activities focus mainly on the application of the computer, opto-electronics and control technology to production facilities in order to stabilize production and simplify operations. Important accomplishments include:

- (1) development of a computer-aided rolling analysis and quality control system. This system enables trouble shooters to accurately and rapidly identify the source of trouble and readily solve problems of all types and magnitudes with the assistance of an integrated information system.
- (2) putting in place an on-line monitoring system for blast furnace hearth refractory wear to assist operators to stay

abreast

of changes in lining thickness and take appropriate action to ensure prolonged furnace campaign.

**Related to energy technology and environmental protection.** These activities aim at improving energy efficiency, conversion of wastes to resources and enhancing environmental protection. Items completed in 2001 include:

- (1) applying process integration technology in phase I and II desulphurization plant. These activities help to save energy and to improve the quality stability of coke oven gas and wastewater from coke operations.
- (2) utilization of waste  $\text{Al}_2\text{O}_3\text{-Cr}_2\text{O}_3$  bricks in gunning material for torpedo ladle cars. Such waste recovery operations create a positive environmental protection image for the Corporation.
- (3) applying heat balance analysis techniques to diagnose and further reduce the energy consumption of the hot strip mill slab-reheating furnace.

**Related to backup for members of the CSC Group.**

- (1) assistance to C. S. Aluminum to put in place technology for parameter tuning for the surface inspection system on its coating line to safeguard against the unintentional release of defective products.
- (2) development of  $6\ \mu\text{m}$  aluminum foil from continuous cast strip. Product quality has proved to be equal to or better than products from world-class European and American producers. This product has fulfilled the quality requirements of users at home and abroad.
- (3) assistance to HIMAG Magnetic Corporation with the development of high reactivity ferrite powder and the stable commercial production of MO7 high permeability Mn Zn ferrites in the high-speed roller hearth furnace. These activities helped to improve HIMAG's position in the ferrite market.

The Corporation's R&D will continue to guide and lead the technology development of the CSC Group and to back up its members' R&D. It will seek opportunities for investments in new businesses and discover additional realms of R&D to ensure the Group's sustained growth and excellence.



## EMPLOYEE RELATIONS AND HUMAN RESOURCE DEVELOPMENT



As of the end of 2001 the Corporation employs 8,769 persons, with 8,721 or 99.14% eligible for union membership and belonging to the China Steel Labor Union. Average age of employees is 45.52 years.

The concepts of labor-management harmony and interdependence for prosperity have long guided the Corporation in building up its relations with the employees. It extended the management-union collective agreement, as well as con-  
tinued to:

- maintain diverse communication channels,
- enhance communication and conciliation plant-wide,
- improve workplace environment,
- ensure the effectiveness of the existing grievance system.

The Corporation continued to carry out the “peer counseling volunteer program” . This program selects and trains compassionate employee volunteers to participate in the promotion of the counseling program and assist fellow employees in their personal problems.

Facing the challenges of our competitors' unrelenting improvement in their productivity and the price downtrend at the marketplace, the Corporation is under increasing pressure to cut cost and raise productivity. In 2001 the Corporation

continued with its programs to rationalize manpower deployment and re-examine the related personnel systems. In addi-

tion to continuing its strong quest for a more effective manpower structure, it also undertook a sweeping revision of the

Corporation's performance management system. All these measures are expected to boost both morale and manpower

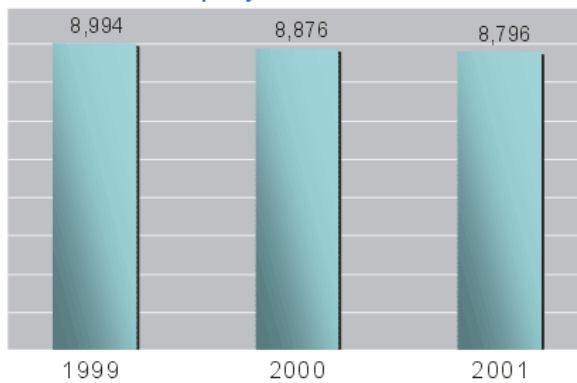


● Top management seminar

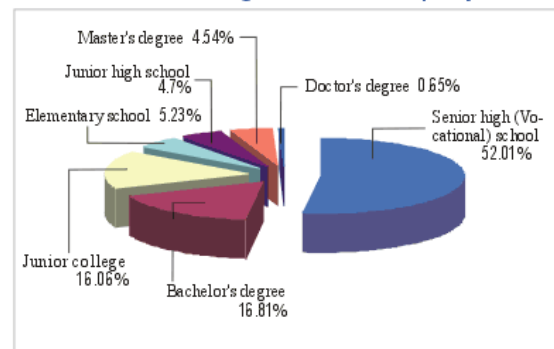
● Student presentation at the Administrative

Personnel Program

Number of employees



Educational background of employees



effectiveness. Alongside the growth in number of subsidiaries the Corporation continued to review and trim down its current organizational structure.

Training in 2001 continued to focus on:

- improving the quality of overall management and decision making
- honing leadership and communication skills
- inspiring employees to develop their potential and creativity
- strengthening quality management and raising the employees' environment-consciousness to satisfy the requirements of ISO accreditation.

To meet future development requirements in talent and manpower, the Corporation has in place a facility that may be conceptualized as a non-degree granting "Corporate University of China Steel" within CSC Group's organization.

The

Corporation continues to offer two programs<sup>6</sup> under this facility: the Global Business Manpower Program and the Admini-

strative Personnel Program. Both focus on employees who show promise for a future in the Group's management ranks.

They are designed with curricula specifically related to the subject of the programs, and aim at ensuring success in deve-

loping top notch human resources.

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**note**<sup>6</sup> : Available only to Corporation employees. The "student" attend classes on company time. Nearly all the lectures are given by professors from nearby universities and the remainder by experienced Corporation personnel to impart their experience to the student. The "student" is required to file study reports during the "semester" and to pass a final examination. His performance is recorded in his personal file, but no college credits are given.

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Other training programs tailored to consolidate the Corporation's capability in production, technology and administration continued as in previous years. they are designed to meet the demands created by diversification, globalization and the forming of the CSC Group. In 2001 the Corporation selected 180 persons for short courses in academic institu-

tions or for observation trips on job-related subjects in business organizations overseas. Also on a continuing basis from

year to year the Corporation selected promising employees for further education at company expense: 13 at universities

in Taiwan and 5 abroad.

The time-honored suggestion system and Creative Development Activities (CDA) in the Corporation aim at bringing out the employees' initiative to offer constructive suggestions, and inspire them to discover problems and work out solu-

tions through team effort. In 2001, 570 active CDA "circles" with 5,485 participants (93.1% of the blue-collar

employees

of the departments involved) completed 701 topics with total benefit amounting to approximately NT\$100 million.

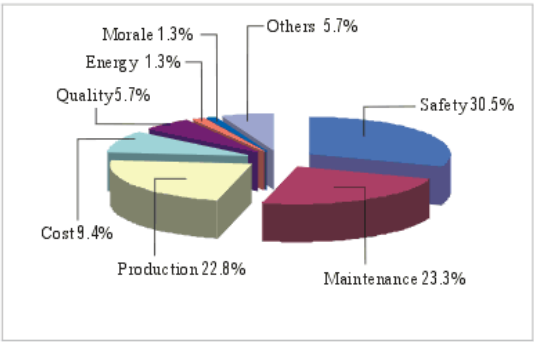
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Corporation listened to 22,798 suggestions from employees and adopted 20,674, or 93% of them. Tangible benefits

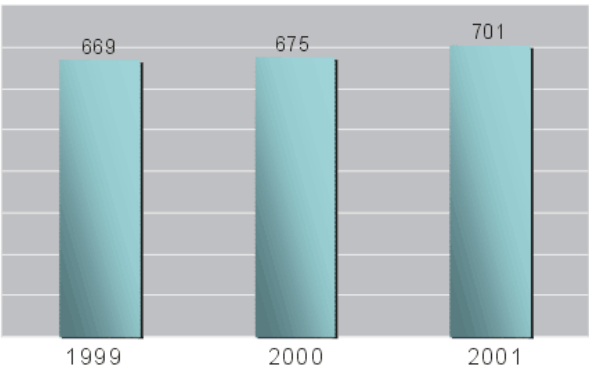
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these suggestions amounted to more than NT\$210 million.

Cases completed by Creative Development Activities by subject matter



Cases completed by Creative Development Activities



# INDUSTRIAL SAFETY, ENVIRONMENTAL PROTECTION AND COMMUNITY RELATIONS



The year 2001 was devoted to plant-wide promotion of the OHSAS<sup>7</sup>-18001 occupational health and safety management system, particularly the implementation of its procedures, so that every employee regards safety as a matter of paramount and personal concern. Each employee is urged to be constantly vigilant for the occupational safety and hygiene of himself as well as his coworkers, so as to thoroughly eradicate occupational accidents. In order to provide the employee with a pleasant and hygienic work environment, plant-wide assessments are conducted, aiming particularly at those locations with potential hazards, so as to ensure at all times that they are in the safest and most hygienic state. Major activities in 2001 include:

- (1) completed the review of the Corporation's occupational health and safety (OH&S) policy
- (2) completed the establishment of the Corporation's OH&S objectives
- (3) completed the establishment of the various requirements of the OHSAS-18001 occupational hygiene and safety management system, and implemented them plant-wide
- (4) implemented control action basing on the Corporation's OH&S policy, major risk items, non-conformance items, and demands from interested parties.
- (5) overall review and revision of safety procedures and standards to make them compatible with international trends as well as the Corporation's OH&S management.
- (6) maintaining a level of safe environment to fulfill the requirements for passing the inspection and review of hazardous



●Ms. Chang Po-Ya, Minister of Interior, accepting from Chairman Y.T. Kuo an NT\$50 million donation as relief for families stricken by typhoon Toraji on July 30, 2001

work places by the Labor Inspection Bureau.

### Environmental protection

The Corporation keeps up its efforts devoted to environmental protection, and continues to push forward various programs under the guidance of ISO14001 environmental management system (EMS): namely the commitments of com-

pliance with relevant legislations and regulations, prevention of pollution and continual improvement. One external audit

and two company-level internal audits were conducted in 2001. No major defect was found. The Corporation's perform-

ance in implementing the EMS is well affirmed.

#### Pollution prevention

Activities in 2001 include:

- (1) correction of flaws on all pollution prevention facilities to maintain normal operation of such equipment and monitor-  
ing systems
- (2) beef up pollution audits
- (3) establish database for total emission control so as to effectively cut down total emission and occurrence of pollution incidents
- (4) seek measures to cope with the control standards for dioxin from the sintering plants to be promulgated by the En-  
vironment Protection Administration, Executive Yuan<sup>8</sup>



● Plant greenery

● Triennial concert

● "Beauty of CSC" outdoor painting

## **Waste management**

The Corporation consistently maintains its policy of waste reduction and waste-to-resource conversion. It abides by the relevant laws and regulations in waste removal, treatment and disposal and promotes waste recycling and reuse.

Examples of related activities are:

- seek government approval for applying to waste refractories the same recycling control procedures which the government authorities have already approved and announced for waste ceramics, bricks and tiles.
- regularize the selling of (1) zinc-containing sludges for crude zinc oxide, (2) lime fines, and (3) mill scale.
- sell iron-containing sludges to cement mills as material for “iron slag” . Cold rolling mill sludge was introduced as a new item in 2001 to the list of sludges thus sold.
- recycle chromium-containing sludge and incinerator bottom slag to the sinter plant.

These measures are quite helpful to cutting cost. To meet the new requirement brought about by the implementation of the Soil and Groundwater Pollution Remediation Act, the Corporation took extended action in the examination of soil

and groundwater within the plant premises. Such activities include soil and groundwater monitoring as well as pollution

potential evaluation, aiming at establishing soil and groundwater characteristics and background data.

## **Prevention of water pollution**

In addition to groundwater monitoring and drawing up plans for a storm run-off system, the Corporation adopts the best available control technology for cutting down the quantity of pollutants. It also engages in the reduction of water drawn from the water company's system and maximizes the reuse and recycling of water in all production processes plant-wide. It plans carefully the multiple re-use of recovered effluents basing on the quality of the effluent and the quality of the water required at the point of use. The result is not only success in full compliance with all the current (1998) control standards set by the government, but also a water recovery ratio as high as 97%.

## **Community relations and good-neighbor activities**

The Corporation consistently believes that what it receives from society must be reciprocated. It has for years shown concern for the development of the neighboring areas by gauging the requirements of the local communities and

engaging in:

- assistance to the local municipal schools in improving or replenishing their educational facilities
- scholarships for outstanding students
- financial assistance to indigent students
- offering gifts to low income families on the occasion of the New Year, Dragon Boat and Autumn Festivals
- assistance in sponsoring and participation in local festivities, senior citizen day activities, and other community activities
- sponsoring athletic competitions and sport events
- open-house and familiarization tours of the steel mill for primary school students of the community

In the spirit of love and care for the land on which it is domiciled, the Corporation is a fervent participant in activities that heighten social awareness. Examples of activities expressing concern for the disaster area of the devastating September 21, 1999 earthquake include:

- adoption of a tract of land for reforestation near the disaster area: “Let the tree roots grasp and hold together this land of ours. ” Such action received commendation from the Executive Yuan on the second anniversary of the earthquake.
- participation in a campaign to rebuild Chung Liao village through reforestation. Assistance to the local population in ecological preservation and development of the area into a tourist attraction.

Other activities include:

- joining the hosts<sup>9</sup> of the 2001 National Games in southern Taiwan by holding a “CSC-KRTC<sup>10</sup> Olympic Fair” , which won wide public acclaim
- sponsoring cultural events to promote goodwill. The Corporation took the occasion of its tricennial to sponsor “Beauty of CSC” outdoor painting, a CSC tricennial concert, and a “CSC tricennial family outing to evergreen Shou Shan<sup>11</sup>” .

Such activities help to fully express the Corporation's care for the local communities and display its contribution to fostering family togetherness.

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**note**<sup>7</sup> : Occupational Health and Safety Assessment Series

**note**<sup>8</sup> : The executive branch of the government.

**note**<sup>9</sup> : The Special Municipality of Kaohsiung, Pingtung Prefecture and Kaohsiung Prefecture

**note**<sup>10</sup> : Kaohsiung Rapid Transit Corporation

**note**<sup>11</sup> : The Chinese words Shou Shan translate as Longevity Hill. It is situated on the outskirts of metropolitan Kaohsiung.

## CAPITAL EXPENDITURES AND ENGINEERING BUSINESS



Sixteen project-type capital expenditure projects were in progress during 2001. Disbursements during the year totaled NT\$5,549 million. They were:

### **Related to equipment revamping**

1. revamp of coke oven machines for phase I and phase II coke ovens
2. revamp of hot stoves 21, 22, and 23 on No. 2 blast furnace
3. revamp of 4-hi reversing mill
4. revamp of electrical equipment for billet mill
5. revamp of high current density cleaning line and temper mill

### **Related to raising of production capacity**

6. addition of No. 8 oxygen plant
7. modification of reduction sizing block on No. 1 bar mill
8. addition and modification of billet conditioning equipment in the billet mill
9. addition of bloom preheating furnace for billet mill
10. modification of equipment and addition of reducing and sizing mill for rod outlet line of No. 2 bar mill
11. new non-oriented high grade electrical sheet line
12. pulverized coal injection equipment and raw coal transportation system for No. 2 blast furnace
13. additional coal bin for phase II coke oven plant

### **Related to recovery of resources**

14. new sinter cooler waste heat recovery and steam generating system for No. 4 sinter plant

### Related to acquisition of real estate

15. acquisition of land and plant from Kaohsiung Motor Mobile Enterprise Co., Ltd.

16. acquisition of land from Taiwan Machinery Manufacturing Corporation (as a part of the takeover)

Projects Nos. 4, 5, 14, 15 and 16 are new projects of 2001. The remainders are continuation projects. Item 1 was completed in June 2001 on schedule. Item 6 was completed in June six months ahead of schedule. Item 7 was completed

in July two months ahead of schedule. For items 15 and 16 transfer of title was completed in October and November.

All the other projects are proceeding according to schedule.

Non-project type capital expenditures in 2001 totaled NT\$1,824 million. They cover a wide range of objectives including equipment revamp, industrial safety and environmental protection, elimination of bottlenecks, quality improvement,

research and development, energy saving, automation, computerization and others.

The refuse resource recovery plants at Kangshan in Kaohsiung Prefecture and Lutsao in Chiayi Prefecture remain the principal items of engineering business undertaken by the Corporation on a turnkey basis. They were completed on February 16, 2001 (83 days ahead of schedule) and August 22, 2001 (103 days ahead of schedule). Total contract amount

for the two projects was NT\$5,394 million.



● Wire rod mill

● Continuous pickling line-4-stand cold rolling mill

## SUBSIDIARIES AND OTHER EQUITY INTERESTS



Through the incorporation of the assets of Taiwan Machinery Manufacturing Corporation, the Corporation established an additional wholly owned subsidiary, China Steel Machinery Corporation. Its scope of business is the manufacture and

sale of machinery and contracting for heavy machinery engineering and construction.

In line with government policy of actively promoting biotechnology, the Corporation participated in the investment in GeMont Biotech Inc. and CDIB Bioscience Venture Management (BVI) Inc.

Basing on considerations of cash flow and timely realization of capital gains, the Corporation divested itself of a part of its interests in Taiwan Semiconductor Manufacturing Company at a gain of NT\$3,741 million.

State of subsidiaries and affiliated companies in which the Corporation plays a leading role in management is as follows:

--- China Steel Express<sup>12</sup>: Owing to growth in its fleet and effective cost control, earnings per share was NT\$2.53 for 2001.

--- China Steel Chemical: Thanks to stability of its product prices and good performance in product development and financial operations, profit was at about the same level as in 2000-----earnings per share of NT\$2.91.

--- China Steel Structure and China Ecotek: Recession in industry as a whole gave rise to fierce competition for construction contracts, which shrank profitability, but yet these two companies attained NT\$1.27 and NT\$0.77 of earnings per share respectively.

--- China HIMENT: Expanded production capacity by incorporating Union Steel Cement Corporation. Reaped benefit from economy of scale. Net income reached NT\$189 million.

--- Gains Investment: The companies in which it invested became publicly listed. Timely divesting itself of its interests in these companies during an upturn in the stock market resulted in net income for 2001 exceeding NT\$223 million.

--- Yieh Loong: With depressed prices of hot rolled coils and heavy financial burden owing to high cost of capital, 2001

was another unprofitable year. Yieh Loong posted a loss of NT\$2,496 million. Based on the equity method the Corporation recognized an investment loss of NT\$1,561 million. In addition, owing to the significant drop in Yieh Loong's stock price in 2001, the Corporation recognized an investment loss of NT\$1,584 million, based on the 2001 year-end market price.



● One of the uses of C.S. Aluminum's products:

aluminum

cans.



● Mr. Chen Shui-Bian, President of ROC, addressing

the

attendees at the groundbreaking ceremony of

Kaohsiung Rapid Transit Station R3

--- Taisil Electronic Materials: Suffered from the recession and falling wafer prices with reduced orders. Revenues and profits both shrank. However pretax income still reached NT\$122 million.

--- Kuei Yi: The reorganization plan was approved at a meeting of the interested parties. Financial disbursements are being effectively controlled, and price of structural sections took an upturn owing to strong demand. Operations are expected to stabilize.

--- Ornasteel and Group Steel. Owing to the measures taken by the Malaysian Government to protect its domestic steel industry, purchase of raw materials (hot rolled band) is restricted to buying from domestic mills. Operations suffered. Ornasteel was able to post a small gain for 2001, but Group Steel suffered a loss due to tough competition for its products (hot-dip galvanized coils and color sheet coils) in the domestic (Malaysian) market.

Kaohsiung Rapid Transit Corporation, in which the Corporation has invested in a substantial interest, is currently proceeding with the construction of its physical facilities and the drawing up of plans for its peripheral businesses. CSC Group will utilize to good advantage the engineering and construction experience and technology it accumulated over the years to assume a leadership role among the contractors and to see to it that the project is finished on schedule.

Among other industries that offer opportunities for investment, knowledge-based industries such as electronic materials and opto-electronics, and service industries such as mass transit and logistics have great potential for growth. These industries will be CSC Group's focus for deployment and deep-rooted development in the future.

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**note**<sup>12</sup> : For official full names of the companies please refer to pages 35 to 36 of this report.

CHINA STEEL CORPORATION  
**BALANCE SHEETS**  
(In Thousand New Taiwan Dollars)



ASSETS	2001		2000	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents	\$ 4,302,175	2	\$15,161,618	7
Short-term investments	12,206,524	6	7,207,497	4
Notes receivable	144,794	-	327,427	-
Accounts receivable	1,815,944	1	1,727,905	1
Inventories	18,371,621	9	19,064,329	9
Pledged time deposits	8,200,000	4	7,600,000	4
Other	<u>1,238,409</u>	<u>1</u>	427,115	-
Total Current Assets	<u>46,279,467</u>	<u>23</u>	51,560,891	<u>25</u>
	<u>35,026,411</u>	<u>18</u>	<u>34,504,547</u>	<u>16</u>
LONG-TERM INVESTMENTS				
PROPERTIES				
Cost				
Land	6,764,647	4	5,129,690	2
Land improvements	4,316,764	2	4,316,764	2
Buildings and improvements	35,664,534	18	35,432,748	17

Machinery and equipment	207,043,084	104	203,832,573	98
Transportation equipment	1,594,481	1	1,569,793	1
Miscellaneous equipment	<u>2,651,344</u>	<u>1</u>	<u>2,631,889</u>	<u>1</u>
Total cost	258,034,854,	130	252,913,457	121
Appreciation	<u>18,405,85</u>	<u>9</u>	<u>18,536,364</u>	<u>9</u>
Total cost and appreciation	276,440,709	139	271,449,821	130
Less: Accumulated depreciation	<u>167,376,583</u>	<u>84</u>	<u>157,493,844</u>	<u>75</u>
	109,064,126	55	113,955,977	55
Constructions in progress	<u>3,183,839</u>	<u>1</u>	<u>4,460,016</u>	<u>2</u>
Net Properties	<u>112,247,965</u>	<u>56</u>	<u>118,415,993</u>	<u>57</u>
OTHER ASSETS	<u>5,383,157</u>	<u>3</u>	<u>4,500,797</u>	<u>2</u>
TOTAL ASSETS	<b><u>\$198,937,000</u></b>	<b><u>100</u></b>	<b><u>\$208,982,228</u></b>	<b><u>100</u></b>

LIABILITIES AND STOCKHOLDERS'	2001		2000	
	EQUITY			
	Amount	%	Amount	%

#### CURRENT LIABILITIES

Short-term bank loans and overdrafts	\$ 5,947,913	3	\$ 2,933,033	1
Commercial papers payable	2,843,252	2	1,092,919	-
Accounts payable	2,441,818	1	2,426,340	1
Income tax payable	-	-	3,339,555	2
Other payable	4,310,176	2	5,553,083	3
Long-term liabilities due within one year	8,140,269	4	12,809,033	6
Other	1,917,819	1	1,682,907	1
Total Current Liabilities	25,601,247	13	29,836,870	14

#### LONG-TERM LIABILITIES

Bonds	34,200,000	17	30,050,000	14
Debts	<u>3,455,293</u>	<u>2</u>	<u>5,245,363</u>	<u>3</u>
Total Long-Term Liabilities	<u>37,655,293</u>	<u>19</u>	<u>35,295,363</u>	<u>17</u>
RESERVE FOR LAND VALUE INCREMENT TAX	<u>3,370,813</u>	<u>1</u>	<u>3,370,813</u>	<u>2</u>
OTHER LIABILITIES	<u>5,661,212</u>	<u>3</u>	<u>5,824,702</u>	<u>3</u>
Total Liabilities	<u>72,288,565</u>	<u>36</u>	<u>74,327,748</u>	<u>36</u>

#### STOCKHOLDERS' EQUITY

Capital stock				
Common	90,611,684	46	87,483,626	42
Preferred, 14%	<u>477,680</u>	<u>-</u>	<u>477,770</u>	<u>-</u>
Total capital stock	91,089,364	46	87,961,396	42
Capital surplus	416,570	-	409,005	-
Retained earnings	37,434,024	19	46,380,081	22

Unrealized loss on investees' long-term investments	( 569,837)	-	( 149,728)	-
Cumulative translation adjustments	198,881	-	53,726	-
Investees' unrecognized net loss on pension cost	(15,508)	-	-	-
Treasury stock	( 1,905,059)	( 1)	-	-
Total Stockholders' Equity	<u>126,648,435</u>	<u>64</u>	<u>134,654,480</u>	<u>64</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<b><u>\$198,937,000</u></b>	<b><u>100</u></b>	<b><u>\$208,982,228</u></b>	<b><u>100</u></b>

CHINA STEEL CORPORATION  
**STATEMENTS OF INCOME**  
(In Thousand New Taiwan Dollars, Except Earnings Per Common Share)



Year Ended December 31

	2001		2000	
	Amount	%	Amount	%
REVENUES	\$ 85,101,266	100	100,634,849	100
COST OF REVENUES	73,223,833	86	74,724,305	74
GROSS PROFIT	11,877,433	14	25,910,544	26
OPERATING EXPENSES				
Selling	1,602,713	2	1,777,245	2
General and administrative	2,030,550	2	2,055,655	2
Research and development	850,640	1	856,301	1
Total Operating Expenses	4,483,903	5	4,689,201	5
INCOME FROM OPERATIONS	7,393,530	9	21,221,343	21
NON-OPERATING INCOME				
Interest	660,107	1	1,140,795	1
Investment income	4,081,649	5	2,053,155	2
Other	969,223	1	717,964	1
Total Non-Operating Income	5,710,979	7	3,911,914	4
NON-OPERATING EXPENSES				

Interest	2,732,813	3	3,223,830	3
Investment loss	1,611,175	2	-	-
Other	353,722	1	303,880	1
Total Non-Operating Expenses	4,697,710	6	3,527,710	4
INCOME BEFORE INCOME TAX	8,406,799	10	21,605,547	21
INCOME TAX	947,049	1	3,024,012	3
NET INCOME	\$ 7,459,750	9	\$ 18,581,535	18

#### EARNINGS PER COMMON SHARE

Based on weighted average number of  
outstanding common shares of 9,031,243  
thousand and 8,748,363 thousand for  
the year ended December 31, 2001  
and 2000, respectively, after deducting the  
respective preferred stock dividends of

\$66,875 and \$66,888	\$0.82	\$2.12
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Based on weighted average number of  
outstanding common shares of 9,061,168  
thousand after giving retroactive  
adjustment for stocks issued for  
dividends and bonus to employees

\$2.04

CHINA STEEL CORPORATION  
**STATEMENTS OF CASH FLOWS**  
(In Thousand New Taiwan Dollars)



	Year Ended December 31	
	2001	2000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 7,459,750	\$ 18,581,535
Depreciation	11,954,277	12,096,839
Amortization	648,429	570,418
Deferred tax	( 107,786)	( 577,691)
Reversal of allowance for doubtful accounts	( 615)	-
Reversal of allowance for loss on inventories	( 241,685)	( 197,356)
Investment loss (income) under equity method	1,623,266	( 253,647)
Loss on disposal properties	43,865	38,813
Cash dividends on long-term investments under equity method	148,894	126,831
Gain on disposal of long-term investments	-	( 1,541,563)
Gain on disposal of short-term investments	( 4,081,649)	( 244,225)
Amortization and exchange gain of forward exchange	( 33,141)	( 18,949)
Changes in operating assets and liabilities		
Notes receivable	182,633	81,668
Accounts receivable	( 87,424)	( 585,504)
Inventories	934,393	( 4,117,684)
Other current assets	( 827,578)	208,313
Accounts payable	19,680	167,726
Income tax payable	( 3,339,555)	2,089,147
Other payable	( 1,250,553)	1,652,380
Other current liabilities	234,912	( 247,165)
Net Cash Provided by Operating Activities	13,280,113	27,829,886
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Increase in short-term investments	( 917,378)	( 4,499,078)
Increase in long-term investments	( 2,617,955)	( 9,177,850)
Acquisition of properties	( 5,738,543)	( 2,494,358)
Increase in other assets	( 1,622,360)	( 1,431,018)
Proceeds from disposal of long-term investments	-	1,954,120
Increase in pledged time deposits	( 600,000)	( 77,299)
Net Cash Used in Investing Activities	( 11,496,236)	(15,725,483)

# CASH FLOWS FROM FINANCING ACTIVITIES

Cash dividends	( 13,180,003)	(11,150,096)
Increase (decrease) in commercial papers payable	1,750,333	( 5,220,887)
Increase (decrease) in short-term bank loans and overdrafts	3,014,880	( 692,579)
Increase (decrease) in long-term debts	( 2,546,834)	719,762
Purchases of treasury stock	( 1,905,059)	-
Decrease in payable on properties purchased	( 4,202)	( 498,995)
Increase (decrease) in bonds payable	238,000	( 41,000)
Bonus to directors and supervisors	( 48,913)	( 39,056)
Net increase (decrease) in cash from purchased forward exchange	38,478	( 12,541)
<b>Net Cash Used in Financing Activities</b>	<b>( 12,643,320)</b>	<b>(16,935,392)</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>( 10,859,443)</b>	<b>( 4,830,989)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>15,161,618</b>	<b>19,992,607</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>4,302,175</b>	<b>15,161,618</b>

## SUPPLEMENTAL INFORMATION

Interest paid, excluding capitalized amounts	2,952,306	3,276,364
Income tax paid		
Payment for prior years' income taxes	3,088,787	1,238,141
Prepayment and withholding	1,263,214	172,928
Tax on interest from commercial papers	42,389	101,487
	4,394,390	1,512,556

## NON-CASH INVESTING AND FINANCING ACTIVITIES

Long-term liabilities due within one year	8,140,269	12,809,033
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## SUPPLEMENTAL INFORMATION FOR SUBSIDIARIES

### ACQUIRED

Fair value of assets and liabilities of subsidiaries acquired	-	
Cash	-	9
Long-term investments	-	1,597,253
Others	-	75
Liabilities	-	( 90)
	-	1,597,247
Shareholdings acquired	-	×99.44%
	-	1,588,302
Deferred credit	-	210,977
Contract price paid	-	1,377,325
Cash balances based on shareholdings acquired		( 9)
Cash paid	\$	\$1,377,316

CHINA STEEL CORPORATION

# STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(In Thousand New Taiwan Dollars, Except Par Value and Dividends)



	CAPITAL STOCK - \$ 10 PAR VALUE								UNREALIZED LOSS ON INVESTEE'S LONG-TERM INVESTMENTS	CUMULATIVE TRANSLATION ADJUSTMENT S	INVESTEES'		TOTAL STOCKHOLDERS' EQUITY
	Issued		CAPITAL SURPLUS	RETAINED EARNINGS							UNRECOGNIZED NET LOSS ON PENSION COST	TREASURY STOCK	
	Authorized	Preferred		Common	Legal Reserve	Special Reserve	Unappropriated	Total					
		Stock		Stock									
BALANCES, JANUARY 1, 2000	\$99,000,000	\$487,340	\$85,621,689	\$363,995	\$15,965,075	\$9,815,701	\$15,175,112	\$40,955,888	(\$ 1,101)	\$15,341	\$ -	\$127,443,152	
Conversion of preferred stock to common stock	-	( 9,570)	9,570	-	-	-	-	-	-	-	-	- -	
Appropriations of prior years' earnings 1999													
Legal reserve	-	-	-	-	1,512,123	-	( 1,512,123)	-	-	-	-	- -	
Bonus to employees	-	-	130,187	-	-	-	( 130,187)	( 130,187)	-	-	-	- -	
Bonus to directors and supervisors	-	-	-	-	-	-	( 39,056)	( 39,056)	-	-	-	- ( 39,056)	
Cash dividends to preferred stock 13%	-	-	-	-	-	-	( 62,115)	( 62,115)	-	-	-	- ( 62,115)	



common

stock

Appropriations of prior

years' earnings - 2000

Legal reserve	-	-	-	-	1,858,154	-	(	1,858,154)	-	-	-	-	-	-		
Special reserve	-	-	-	-	-	96,001	(	96,001)	-	-	-	-	-	-		
Bonus to employees	-	-	489,126	-	-	-	(	489,126)	(	489,126	-	-	-	-		
									)							
Bonus to directors and supervisors	-	-	-	-	-	-	(	48,913)	(	48,913	-	-	-	(	48,913)	
									)							
Cash dividends to preferred stock 15%	-	-	-	-	-	-	(	71,652)	(	71,652	-	-	-	(	71,652)	
									)							
Cash dividends to common stock 15%	-	-	-	-	-	-	(	13,122,557)	(	13,122,557	-	-	-	(	13,122,557)	
									)							
Capitalization of retained earnings - 3%	-	-	2,638,842	-	-	-	(	2,638,842)	(	2,638,842	-	-	-	-	-	
									)							
Purchases of treasury stock	-	-	-	-	-	-	-	-	-	-	-	-	(	1,905,059)	(	1,905,059)
Net income for 2001	-	-	-	-	-	-	7,459,750	7,459,750	-	-	-	-	-	7,459,750		
Bonus payable to directors and supervisors	-	-	-	6,317	-	-	-	-	-	-	-	-	-	-	6,317	
transfer to capital surplus																
Adjustment of equity	-	-	-	1,248	-	-	(	34,717)	(	34,717)	-	-	-	-	(	33,469)

( 15,508 )

# FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA AND OPERATING RESULTS<sup>13</sup> (In thousand New Taiwan Dollars unless otherwise noted)

(In thousand New Taiwan Dollars unless otherwise noted)

	2001	2000	1999	1998	1997
Revenues	85,101,266	100,634,849	89,881,678	98,458,902	97,755,649
Operating costs	77,707,736	79,413,506	75,087,371	80,306,218	80,306,218
Income from operations	7,393,530	21,221,343	14,794,307	18,152,684	22,280,817
Non-operating income( loss)	1,013,269	384,204	717,571	(1,320,631)	(2,167,208)
Income before income tax	8,406,799	21,605,547	15,511,878	16,832,053	20,113,609
Net income	7,459,750	18,581,535	15,121,282	18,329,908	15,655,853
Current assets	46,279,467	51,560,891	44,600,119	42,065,939	43,464,973
Long-term investments	35,026,411	34,504,547	28,213,609	24,268,233	18,519,057
Net properties	112,247,965	118,415,993	127,971,633	131,438,295	133,372,805
Other assets	5,383,157	4,500,797	3,679,765	5,272,302	5,642,137
Total assets	198,937,000	208,982,228	204,465,126	203,404,769	200,998,972
Current liabilities	25,601,247	29,836,870	27,502,545	28,878,577	50,857,208
Long-term liabilities	37,655,293	38,666,176	43,045,793	36,279,535	29,749,611
Other liabilities	5,661,212	5,824,702	6,473,636	5,344,293	5,597,080
Total liabilities	72,288,565	74,327,748	77,021,974	70,505,405	86,203,899
Capital stock	91,089,364	87,961,396	86,109,029	81,970,995	74,466,741
Capital surplus	416,570	409,005	363,995	361,948	361,998
Retained earnings	37,434,024	46,380,081	40,955,888	50,734,681	39,909,051
Unrealized loss on long-term investments	(569,837)	(149,728)	(1,101)	(203,073)	-
Cumulative translation adjustments	198,881	53,726	15,341	37,813	57,283
Treasury stock	(1,905,059)	-	-	-	-
Investees' unrecognized net loss on pension cost	(15,508)	-	-	-	-

Total stockholders' equity	126,648,435	134,654,480	127,443,152	132,902,364	114,795,073
Total liabilities and stockholders' equity	198,937,000	208,982,228	204,465,126	203,404,769	200,998,972
Stockholders' equity per common share (NT\$)	13.90	15.31	14.80	16.21	15.42
Earnings per common share (NT\$)	0.82	2.12	1.76	2.24	2.11
Earnings per common share (NT\$) <sup>14</sup>		2.04	1.73	2.1	1.79

<sup>13</sup> : Beginning January 1, 1998 the fiscal year has been changed to coincide with the calendar year. *Proforma* figures are shown here for the calendar year 1997.

**note** <sup>14</sup> : After making retroactive adjustments to take into account stock dividends.

## FIVE-YEAR SUMMARY OF SELECTED FINANCIAL RATIOS AND PERCENTAGES<sup>15</sup>



	2001	2000	1999	1998	1997
Current ratio (%)	180.77	178.81	162.17	145.66	85.46
Ratio of fixed assets to long-term liabilities and stockholders' equity (%)	68.32	69.68	75.06	77.69	92.27
Total liabilities to stockholders' equity	0.57	0.55	0.60	0.53	0.75
Net income rate (%)	8.77	18.46	16.82	18.62	16.02
Profitability in terms of total assets (%)	4.66	10.16	8.54	10.22	9.07
Profitability in terms of stockholders' equity (%)	5.71	14.18	11.62	14.80	14.09
Revenue growth rate, year to year (%)	(15.44)	11.96	(8.71)	0.72	14.50
Stockholders' equity growth rate, year to year (%)	5.95	5.66	(4.11)	15.77	6.91

<sup>15</sup> : Figures shown here for 1997 are proforma.

# ANALYSIS OF FINANCIAL STATUS AND OPERATING RESULTS



Ratio	December 31, 2001	December 31, 2000	increase (decrease)
Cash flow ratio (%)	51.87	93.27	-44.39
Appropriate cash flow ratio (%)	133.46 <sup>16</sup>	132.53 <sup>16</sup>	0.70
Cash reinvestment ratio (%)	0.03	4.95	-99.39

note <sup>16</sup> : Based on data over the past five years.

## Comments on ratio variations:

Decreases of about 44% in cash flow ratio and about 99% in cash reinvestment ratio are mainly attributed to decrease of net income.

## Operation Analysis:

1. The decrease of NT\$14,033,111 thousand (about 54%) in gross profit is mainly attributed to steel over-supply and decrease in sales price.
2. The increase of NT\$1,799,065 thousand (about 46%) in total non-operating income is mainly attributed to increase in investment revenue.
3. The increase of NT\$1,170,000 thousand (about 33%) in total non-operating expenses is mainly attributed to investment loss in 2001.

# TERMS AND CONDITIONS OF CORPORATE BONDS



Issue	Unsecured Corporate Bond	Unsecured Corporate Bond	Unsecured Corporate Bond	Unsecured Corporate Bond	Unsecured Corporate Bond	Unsecured Corporate Bond	Unsecured Corporate Bond	Unsecured Corporate Bond	Unsecured Corporate Bond
Issue Date	June 27, 1997	May 6, 1998	December 8, 1998	March 16, 1999	June 1, 1999	July 20, 1999	December 11, 2000	June 28, 2001	November 16, 2001
Face Amount	NT\$1,000,000	NT\$1,000,000	NT\$1,000,000	NT\$10,000,000	NT\$1,000,000	NT\$1,000,000	NT\$1,000,000	NT\$1,000,000	NT\$1,000,000
Issue Price	Market Price	NT\$1,000,000	Market Price	NT\$10,000,000	Market Price	Market Price	Market Price	NT\$1,000,000	NT\$1,000,000
Amount	NT\$5,000,000,000	NT\$5,000,000,000	NT\$5,000,000,000	NT\$5,000,000,000	NT\$7,750,000,000	NT\$2,250,000,000	NT\$5,000,000,000	NT\$5,000,000,000	NT\$5,000,000,000
Coupon	6.50%	7.40%	6.785%	6.50%	5.69%	5.99 %	5.18 %	4.27 %	A Bond:3.1% B Bond:3.0763%
Maturity	Five years (due June 27, 2002)	Five years (due May 6, 2003)	Five years (due December 8, 2003)	Four years (due March 16, 2003)	Five years (due June 1, 2004)	Five years (due July 20, 2004)	Five years (due December 11, 2005)	Five years (due June 28, 2006)	Five years (due November 16, 2006)
Trustee	The International Commercial Bank of China, Head Office - Trust Department	Chiao Tung Bank, Head Office - Trust Department	Chiao Tung Bank, Head Office - Trust Department	Chiao Tung Bank, Head Office - Trust Department	Chiao Tung Bank, Head Office - Trust Department	Chiao Tung Bank, Head Office - Trust Department	China Trust Commercial Corporation Head Office- Trust Department	The International Commercial Bank Of China, Head Office- Trust Department	The International Commercial Bank Of China, Head Office- Trust Department
Lead Manager	Capital Securities Corporation	Citicorp International Securities limited	MasterLink Securities Corporation	---	MasterLink Securities Corporation	Grand Cathay Securities Corporation	China Trust Securities Corporation	---	---

Legal Advisor to the Issuer	Prosperity United Firm Attorneys at Law	Prosperity United Firm Attorneys at Law	Prosperity United Firm Attorneys at Law	Prosperity United Firm Attorneys at Law	Prosperity United Firm Attorneys at Law	Prosperity United Firm Attorneys at Law	Prosperity United Firm Attorneys at Law	Prosperity United Firm Attorneys at Law	Prosperity United Firm Attorneys at Law
Auditor of the Issuer	T. N. Soong & Co. (A member firm of Arthur Andersen & Co., SC)	T. N. Soong & Co. (A member firm of Arthur Andersen & Co., SC)	T. N. Soong & Co. (A member firm of Arthur Andersen & Co., SC)	T. N. Soong & Co. (A member firm of Arthur Andersen & Co., SC)	T. N. Soong & Co. (A member firm of Arthur Andersen & Co., SC)	T. N. Soong & Co. (A member firm of Arthur Andersen & Co., SC)	T. N. Soong & Co. (A member firm of Arthur Andersen & Co., SC)	T. N. Soong & Co. (A member firm of Arthur Andersen & Co., SC)	T. N. Soong & Co. (A member firm of Arthur Andersen & Co., SC)
Repayment	33% after 3 years and 4 years, 34% on maturity, respectively; interest shall be Compounded Semiannually and paid annually against interest coupon commencing from the issue date.	33% after 3 years and 4 years, 34% on maturity, respectively; interest shall be compounded semiannually and paid annually against interest coupon commencing from the issue date.	50% after 4 years, 50% a on maturity, respectively; interest shall be and compounded semiannually and paid annually against interest coupon commencing from the issue date.	100% on maturity, interest shall be compounded semiannually and paid annually against interest coupon commencing from the issue date.	100% on maturity, interest shall be compounded semiannually and paid annually against interest coupon commencing from the issue date.	100% on maturity, interest shall be compounded semiannually and paid annually against interest coupon commencing from the issue date.	100% on maturity, interest shall be paid annually against interest coupon commencing from the issue date.	100% on maturity, interest shall be paid annually against interest coupon commencing from the issue date.	100% on maturity, A bond: interest shall be paid annually against interest coupon commencing from the issue date. B bond: interest shall be compounded semiannually and paid annually against interest coupon commencing from the issue date.

# MARKET PRICE OF STOCK OVER PAST THREE YEARS



(in NT\$ / share)

Stock	Price	2001	2000	1999
Common	Highest	21.80	26.8	28.4
	Lowest	11.00	17.0	16.0
Preferred	Highest	21.90	26.6	27.6
	Lowest	17.30	18.8	20.0

Source of Information: Taiwan Stock Exchange Corporation

# PRODUCTS AND USES



Products	Major Uses
Carbon steels	Shipbuilding, bridges, steel structures, oil country tubular goods (OCTGs),
Plates	storage tanks, boilers, pressure vessels, truck chassis and general construction
Bars	Nuts and bolts, hand tools, loudspeaker parts, automobile and motor cycle parts, machinery parts
Wire rods	Nuts and bolts, steel wire and rope, welding electrodes, hand tools, tire cord and bead, umbrella parts, chains
Hot rolled coils and sheets	Steel pipes and tubes, vehicle parts, containers, pressure vessels, hydraulic jacks, cold rolled and galvanized products, light shapes, formed parts in general
Cold rolled coils	Steel pipes and tubes, steel furniture, home appliances, drums, automobile bodies, hardwares, and as raw material for galvanized and coated steel sheets
Electro-galvanized coils	Computer cases, home appliance outer shells, parts and accessories, automobile bodies, building materials and components, and hardwares
Hot-dip galvanized coils	Automobile parts and components, computer cases, coated sheets, building materials and components
Electrical steel coils	Motors, transformers and stabilizers
Stainless steel	
Hot rolled bands	Cold rolled stainless steel products, stainless pipes and tubes, processing in general into tanks and pressure vessels

## THREE-YEAR SUMMARY OF PRODUCTION AND SALES VOLUMES



(In tons)

Product	Volume	2001	2000	1999
Steel plates	Production	1,100,636	1,086,782	1,012,404
	Sales	1,132,415	1,111,837	1,021,401
Steel bars <sup>17</sup>	Production	451,971	549,802	551,767
	Sales	459,276	560,119	576,121
Wire rods	Production	1,125,488	1,152,210	1,204,187
	Sales	1,109,768	1,168,667	1,171,029
Hot rolled steel products <sup>18</sup>	Production	4,131,511	4,291,131	4,072,518
	Sales	4,342,207	4,284,858	4,116,919
Cold rolled steel products <sup>19</sup>	Production	2,061,429	2,312,358	2,232,959
	Sales	2,171,854	2,431,460	2,241,372
Commercial slabs, blooms and billets	Production	451,241	88,232	31,539
	Sales	473,334	150,648	53,819
Pig iron	Production	15,472	11,317	10,488
	Sales	11,803	9,179	11,162
Total	Production	9,37,747	9,491,832	9,115,861
	Sales	9,700,657	9,716,768	9,191,823

<sup>17</sup> : Including bars contracted out for hire-rolling

**note** <sup>18</sup> : Including stainless steel hot rolled products

**note** <sup>19</sup> : Including electro galvanized, hot-dip galvanized products and electric sheets

# OWNERSHIP OF SUBSIDIARIES AND OTHER EQUITY INTERESTS



December 31, 2001

Companies	Investment Amounts <sup>20</sup> (NT\$1,000)	Holding Ratio (%)	Evaluation Method
China Steel Express Corporation	5,519,921	100	Equity
C.S. Aluminum Corporation	5,508,891	98	Equity
Gains Investment Corporation	4,189,482	100	Equity
China Prosperity Development Corporation	4,090,900	100	Equity
Kaohsiung Rapid Transit Corporation	3,012,620	37	Equity
China Steel Asia Pacific Holdings Pte. Ltd. <sup>21</sup>	1,646,053	100	Equity
Taisil Electronic Materials Corporation	1,009,937	35	Equity
China Steel Global Trading Corporation	861,286	100	Equity
China Steel Machinery Corporation	803,300	100	Equity
China Steel Chemical Corporation	778,433	31	Equity
Kuei Yi Industrial Co., Ltd.	592,916	30	Equity
China Hi-ment Corporation	480,268	20	Equity
China Steel Structure Co., Ltd.	465,463	18	Equity
Info-Champ Systems Corporation	462,204	100	Equity

China Ecotek Corporation	365,502	36	Equity
Yieh Loong Enterprise Co., Ltd. <sup>22</sup>	249,768	24	Equity
China Steel Security Corporation	193,051	100	Equity
HIMAG Magnetic Corporation	103,571	50	Equity
GenMont Biotech Inc.	60,990	17	Equity
Goang Yaw Investment Corporation	19,726	99	Equity
Horng Yih Investment Corporation	18,979	99	Equity
Long Yuan Fa Investment Corporation	18,842	99	Equity
Tay Yih Investment Corporation	18,798	99	Equity
Yeong Horng Investment Corporation	18,798	99	Equity
Min Long Feng Investment Corporation	18,798	99	Equity
Woei Sheng Investment Corporation	18,797	99	Equity
Horng Sheng Investment Corporation	18,791	99	Equity
Diing Feng Investment Corporation	16,566	99	Equity
Eastern Broadband Telecommunications Co., Ltd.	1,200,000	2	Cost
Industrial Bank of Taiwan	1,000,000	4	Cost
Maruichi Steel Tube Ltd.	715,550	2	Cost
Tang Eng Iron Works Co., Ltd.	597,214	9	Cost
CDIB & Partners Investment Holding Corporation	500,000	5	Cost

Allied Material Technology Corporation	182,200	3	Cost
CDIB BioScience Ventures I, Inc. (at preparatory stage)	120,000 <sup>23</sup>		Cost
Sino-Canada Biotechnology Development Fund	98,794		Cost
Overseas Investment & Development Corporation	50,000	6	Cost

<sup>20</sup> Invested amounts are based on balances in the account Long-term Investments.

<sup>21</sup> Through China Steel Asia Pacific Holding Pte. Ltd. the Corporation indirectly holds 70% and 60% of Ornasteel Enterprise Corporation (M) Sdn. Bhd. and Group Steel Corporation (M) Sdn. Bhd. respectively.

<sup>note 22</sup> Together with the holdings of Goang Yao, Horng Yih, Tay Yih, Woei Sheng, Yeong Horng, Long Yuan Fa, Min Long Feng, Horng Sheng and Diing Feng the Corporation's direct and indirect holdings in Yieh Loong Enterprise Co. total 40%.

<sup>note 23</sup> Prepayments for investments.

# DIRECTORS AND SUPERVISORS



(as of December 31, 2001)

Chairman Of the Board	Y. T. Kuo	Representing Ministry of Economic Affairs, R. O. C.
Director	C. Y. Wang	Representing Ministry of Economic Affairs, R. O. C.
Director	J. Y. Chen	Representing Ministry of Economic Affairs, R. O. C.
Director	I. Y. Lu	Representing Ministry of Economic Affairs, R. O. C.
Director	C.I. Weng	Representing Ministry of Economic Affairs, R. O. C.
Director	Y. C. Chen	Representing Ministry of Economic Affairs, R. O. C.
Director	T. K. Huamg	Representing Bureau of Labor Insurance
Director	C. Y. Lee	Representing Cathay General Hospital
Director	S.T. Wu	Representing China Steel Labor Union
Director	Chin Lin	Representing China Development Industrial Bank
Director	H. C. Chen	Representing Ching Hwa Investment & Development Co., Ltd
Supervisor	J. Y. Hsu	Representing Ministry of Economic Affair, R. O. C.
Supervisor	C.C. Huang	Representing Ministry of Economic Affair, R. O. C.
Supervisor	L. T. Chang	Representing Ever Wealthy Investment Corporation

# SENIOR MANAGEMENT



(as of December 31, 2001)

President	J. Y. Chen
Executive Vice President (Concurrently Spokesman)	Y. C. Chen
Vice President, Administration Division	C. S. Huang
Vice President, Commercial Division	J. C. Tsou
Vice President, Finance Division	L. M. Chung
Vice President, Corporate Planning Division	C. C. Chen
Vice President, Technology Division	G. H. Cheng
Assistant Vice President, Engineering Division	G. L. Lin
Vice President, Production Division	C. H. Ou

# MAIN BUSINESS AND ADDRESSES OF SUBSIDIARIES AND OTHER CHINA STEEL-INVESTED COMPANIES



## SUBSIDIARIES

(As of December 31, 2001)

### **C. S. Aluminium Corporation**

Chairman: Y. K. Chi

President: S. T. Chang

Main business: aluminum products

Address: 17 Tong Lin Road, Hsiao Kang District

Kaohsiung 812, Taiwan, R. O. C.

Tel: 886 7 871-8666

Fax: 886 7 872-1852

### **China Steel Global Trading Corporation**

Chairman: Y. T. Kuo

President: K. M. Chen

Main businesses: import, export

Address: 31F, 8 Ming Chuan 2nd Road, Chien Chen District

Kaohsiung 806, Taiwan, R. O. C.

Tel: 886 7 332-2168

Fax: 886 7 335-6411~2

### **China Steel Express Corporation**

Chairman: Y. C. Chen

President: Donald K. L. Chao

Main businesses: marine cargo transportation; purchase,  
sale and chartering of vessels; and shipping agency

Address: 32F, 8 Ming Chuan 2nd Road, Chien Chen District

Kaohsiung 806, Taiwan, R. O. C.

Tel: 886 7 337-8888

Fax: 886 7 338-1310

### **Gains Investment Corporation**

Chairman: L. M. Chung

President: L. R. Hu

Main business: hi-tech investments

Address: 30F, 6 Ming Chuan 2nd Road, Chien Chen District

Kaohsiung 806, Taiwan, R. O. C.

Tel: 886 7 338-2288

Fax: 886 7 338-7110

### **China Steel Security Corporation**

Chairman: M. L. Chou

President: C. M. Hsu

Main businesses: security services and systems

Address: 17F, 247 Ming Sheng 1st Road, Hsin Hsing District  
Kaohsiung 800, Taiwan, R. O. C.

Tel: 886 7 229-9678

Fax: 886 7 226-4078

### **Info-Champ Systems Corporation**

Chairman: K. H. Chang

President: T. C. Wu

Main business: information system planning (ERP)

Address: 11F, 6 Ming Chuan 2nd Road, Chien Chen District  
Kaohsiung 806, Taiwan, R. O. C.

Tel: 886 7 535-0101

Fax: 886 7 535-0110

### **China Prosperity Development Corporation**

Chairman: J. Y. Chen

President: K. M. Chen

Main businesses: real estate development and investment

Address: Room 6, 24F, 31 Hai Bien Road, Ling Ya District  
Kaohsiung 802, Taiwan, R. O. C.

Tel: 886 7 536-2500

Fax: 886 7 536-2413

### **China Steel Machinery Corporation**

Chairman: C. C. Chen

President: W. D. Hsu

Main businesses: machinery manufacturing and contracting  
for  
heavy machine engineering and  
construction

Address: 3 Taichi Road, Hsiao Kang District  
Kaohsiung 812, Taiwan, R. O. C.

Tel: 886 7 802-0111

Fax: 886 7 803-3515

#### **Ornasteel Enterprise Corporation (M) Sdn. Bhd. 22**

Managing Director: Paul T. Y. Huang

Main business: steel products

Address: 180, Kawasan Industri Ayer Keroh  
75450 Melaka, Malaysia

Tel: 60 6 231 9990

Fax: 60 6 231 5310

#### **Group Steel Corporation (M) Sdn. Bhd. 22**

Managing Director: Paul T. Y. Huang

Main business: steel products

Address: 180, Kawasan Industri Ayer Keroh  
75450 Melaka, Malaysia

Tel: 60 6 231 9990

Fax: 60 6 231 5310

#### **HIMAG Magnetic Corporation**

Chairman: G. H. Cheng

President: Victor W. C. Kuo

Main business: magnetic materials

Address: 24-1 Chien Kuo Road, Nei Pu Industrial Park  
Ping Tung Hsien 912, Taiwan, R. O. C.

Tel: 886 8 778-0222

Fax: 886 8 778-0227

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### **OTHER CHINA STEEL-INVESTED COMPANIES**

#### **China Hi-ment Corporation**

Chairman: R. S. Jong

President: Mar-Ling Tsai

Main businesses: pulverized blast furnace slag and slag  
cement

Address: 10F, 243 Yi-Hsin 1st Road, Chien Chen District  
Kaohsiung 806, Taiwan, R. O. C.

#### **China Ecotek Corporation**

Chairman: K. L. Du

President: S. S. Shen

Main businesses: environment engineering, design and  
construction

Address: 8F, 8 Ming Chuan 2nd Road, Chien Chen District  
Kaohsiung 806, Taiwan, R. O. C.

Tel: 886 7 336-8377

Fax: 886 7 336-8433

Tel: 886 7 330-6138

Fax: 886 7 339-4016

### **Taisil Electronic Materials Corporation**

Chairman: Y. T. Kuo

President: Steve K. T. Lee

Main business: silicon wafers

Address: No. 2 Creation Road 1, Science-Based Industrial  
Park

Hsin-chu 300, Taiwan, R. O. C.

Tel: 886 3 578-3131

Fax: 886 3 578-7287

### **Taiwan Semiconductor Manufacturing Co. Ltd.**

Chairman: Morris Chang , Ph.D.

Deputy CEO: F. C. Tseng , Ph.D.

President & COO: Rick Tsai, Ph.D.

Main business: integrated circuit foundry

Address: 121 Park Avenue III, Science-Based Industrial Park  
Hsin-chu 300, Taiwan, R.O.C.

Tel: 886 3 578-0221

Fax: 886 3 578-1546

### **Kuei Yi Industrial Corporation**

Chairman: K. H. Chang

President: C. H. Huang

Main business: H-sections

Address: No. 100, Lung Chang Road, Li Shui Village,  
Lung Ching Hsiang Taichung Hsien 434, Taiwan,  
R.O.C.

Tel: 886 4 630-6088

Fax: 886 4 630-6066

### **Tang Eng Iron Works Co., Ltd.**

Chairman concurrently President: H. P. Chen

Main businesses: stainless steel, construction

Address: 458 Hsin Hsing Road, Hu Kou Hsiang  
Hsin-chu Hsien 303, Taiwan, R. O. C.

Tel: 886 3 598-1721

Fax: 886 3 598-1646

#### **Overseas Investment & Development Corporation**

Chairman: Jeffrey L. S. Koo

President: D. Mao

Main business: oversea investments

Address: Room 2406, 24F, No. 333, Keelung Road Section 1  
Taipei 105, Taiwan, R. O. C.

Tel: 886 2 2757-6965

Fax: 886 2 2757-6932

#### **Industrial Bank of Taiwan**

Chairman: Samuel C. Hsieh

Vice Chairman concurrently President: Kenneth C. M. Lo

Main business: industrial banking

Address: 3F, 101 Song Jen Road, Hsin Yi District  
Taipei 110, Taiwan, R. O. C.

Tel: 886 2 2345-1101

Fax: 886 2 2345-1102

#### **Maruichi Steel Tube Ltd.**

Honorary Chairman of the Board: T. Horikawa

President: S. Yoshimura

Main business: steel tube

Address: 3-9-10 Kitahorie Nishi-Ku, Osaka 550-0014, Japan

Tel: 81 6 6531-0102

Fax: 81 6 6531-0132

#### **CDIB & Partners Investment Holding Corporation**

Chairman: Tai-Ying Liu

President: Joung-Yol Lin

Main business: industrial investments

Address: 6F, 125 Nan King East Road Sec. 5, Song Shan  
District

Taipei 105, Taiwan, R. O. C.

Tel: 886 2 2745-7181

Fax: 886 2 2761-4741

#### **Allied Material Technology Corporation**

Chairman & CEO: Charles Yu

Main business: color filter of thin film transistor-liquid crystal  
display (TFT-LCD)

Address: 458 Pingjen Section, Jung Shing Road, Pingjen  
City,

Taoyuan Shien 324, Taiwan, R. O. C.

Tel: 886 3 469-7107

Fax: 886 3 469-7005

#### **Yieh Loong Enterprise Co., Ltd.**

Chairman: K. H. Lin

President: C. T. Wu

Main business: steel products

Address: 317 Yu-Liao Road, Chiao tou

Kaohsiung 825, Taiwan, R. O. C.

Tel: 886 7 611-7171

Fax: 886 7 611-0594

#### **Kaohsiung Rapid Transit Corporation**

Chairman: J. Y. Chen

President: S. Y. Lai

Main businesses: mass rapid transit engineering and services

Address: 5F, 8 Ming Chuan 2nd Road, Chien Chen District  
Kaohsiung 806, Taiwan, R. O. C.

Tel: 886 7 338 9666

Fax: 886 7 338 7999

#### **Eastern Broadband Telecommunications Co., Ltd.**

Chairman: Y. T. Wang

Vice Chairman concurrently President: L. T. Wang

Main business: fixed line network communication services

Address: 16F, 277 Song Jen Road, Hsin I District  
Taipei 110, Taiwan, R. O. C.

Tel: 886 2 8780 8777

Fax: 886 2 8780 9200

#### **China Steel Structure Co., Ltd.**

Chairman: J. Y. Chen

President: S. J. Su

Main businesses: steel structures, construction

Address: 1 Chung Kang Road, Hsiao Kang District  
Kaohsiung 81233, Taiwan, R. O. C.

Tel: 886 7 802-3433

Fax: 886 7 801-9150

#### **China Steel Chemical Corporation**

Chairman: T. T. Cheng

President: Pao-Yuan Chen

Main business: coal tar chemicals

Address: 5F-1, 47 Chunghua 4th Road, Ling Ya District  
Kaohsiung 802, Taiwan, R. O. C.

Tel: 886 7 338-3515

Fax: 886 7 338-3516

**GenMont Biotech Inc.**

Chairman concurrently President: C. S. Hsu

Main business: R&D of new Drug

Address: No.8, Nan-Ke 7th Rd., Tainan Science-Based  
Industrial Park,

Tainan Country, Taiwan, R. O. C.

Tel: 886 6 505-2151

Fax: 886 6 505-2152