TWO-YEAR HIGHLIGHTS OF OPERATING RESULTS

		2005	2004
Revenues	(Millions of New Taiwan Dollars)	**186,318**	168,270
Operating costs		**125,038**	110,249
Income from operations		**60,903**	58,017
Income before income tax		**65,112**	65,022
Employment costs[1]		**19,758**	19,122
Depreciation		**9,419**	10,047
Interest expenses net[1]		**194**	715
Total assets		**250,762**	238,409
Capital expenditures		**16,439**	7,578
Stockholders' equity		**196,626**	184,161
Output of steel products	(Thousands of metric tons)	**9,698**	10,101
Sales volume of steel products		**9,804**	10,430
Number of employees[2]		**8,682**	8,640
Return on sales	(%)	**34.95**	38.64
Return on stockholders' equity[3]		**26.60**	29.91

[1] Excluding capitalized expenses

[2] As of the end of the calendar year

[3] Based on net income

Revenues and income before income tax

● Revenues ▲ income before income tax

Unit : in hundred millions of New Taiwan Dollars

CHRONOLOGY OF MAJOR EVENTS

December 3, 1971	China Steel Corporation is officially registered, with head office located in Taipei.
September 16, 1972	Kaohsiung Plant Site Office is established.
September 1, 1974	Phase I construction commences.
December 26, 1974	China Steel stock is listed on Taiwan Stock Exchange.
September 15, 1975	Head office relocates to Kaohsiung. Plant Site Office closes.
July 1, 1977	China Steel Corporation becomes a state enterprise.
December 16, 1977	Phase I is completed, with capacity[4] of 1.5 million tons[5] per year.
July 1, 1978	Phase II construction commences.
June 30, 1982	Phase II is completed. Capacity[4] reaches 3.25 million tons[5] per year.
July 1, 1984	Phase III construction commences.
April 30, 1988	Phase III is completed. Capacity[4] reaches 5.652 million tons[5] per year.
July 15, 1993	Phase IV construction commences.
April 12, 1995	China Steel Corporation is privatized.
May 31, 1997	Phase IV is completed. Capacity[4] reaches 8.054 million tons[5] per year.
June 2, 1998	CSC Group's corporate identity system is formally introduced to the public.
April 15, 2002	Annual production capacity[4] is officially raised to 9.55 million tons[5] owing to success in equipment renovations and improvements carried out over the years.

[4] In terms of crude steel.

[5] All references to “tons” mean metric tons of 1,000 kilograms.

OVERVIEW OF THE BUSINESS SITUATION

Growth of world output in 2005 fell below that of 2004 owing to soaring oil prices and natural calamities. UNDES[6] published the growth rate of world output in 2005 as 3.2%, lower than the 4% of 2004. ROC's DGBAS[7] published Taiwan's economic growth rate in 2005 as 4.09%, also lower than 2004's 6.07%.

As to the global steel market, early in 2005 steel prices in all major markets, except that of the U.S., continued to rise. Towards the end of the first quarter a downturn in steel prices appeared worldwide. From August on, the inventory adjustment among steel consumers and traders had ended, and steel prices rebounded. The U.S. became the region with the highest steel price in the world. Late in 2005, EU steel companies, having seen the effectiveness of their production cutbacks, took the lead in raising prices for 1Q 2006. China's implementing its austerity measures in earnest restricted its steel demand, and its growth in steel demand fell behind its additional new capacity. Prices slumped as a result. IISI[8] published 2005's growth in global apparent consumption of finished steel as 4.1%, far lower than 2004's 10%. Taiwan's apparent consumption of finished steel in 2005 fell by 9.8% from that of 2004 as a result of the impact of the slowdown in growth of world output. Other contributing factors were the shortfall from expectations in downstream industries' steel demand, and the inventory adjustment among customers.

The Corporation faced substantial rises in costs in 2005 owing to climbing prices of raw materials and supplies, and to increased outsourcing of steel slabs. It also faced a decline in production, with No. 2 blast furnace down for campaign revamp. Thanks to continued favorable prices and to the concerted effort and determination of the employees throughout the Corporation to achieve outstanding results, revenues and income before income tax both reached new records of NT$186,318 million and NT$65,112 million, up by 10.73% and 0.14% over 2004 respectively.

Yao-Chung Chiang
Chairman and CEO

As to the outlook for 2006, UNDES forecasts the growth rate of world output to be 3.3% and ROC's DGBAS forecasts Taiwan's economic growth rate to be 4.25%. As for the steel market, IISI forecasts global apparent consumption of finished steel to grow by 7.3%, higher than the 4.1% of 2005. Taiwan's apparent consumption of finished steel is predicted by TSIIA[9] to resume growth: 2.7% as compared with the -9.8% of 2005. On the supply side, although members of the industry worldwide have adjusted their production capacities following 2005's violent market fluctuations, most steel mills have postponed the shutdown of old and marginal high cost facilities due to consideration of the booming market over the recent three years. With new production capacities coming into operation, steel supply capacity will hit new records. As to the domestic supply situation, additional production capacity has been insignificant and supply will remain as in 2005.

[6] Department of Economic and Social Affairs of the UN Secretariat

[7] Directorate General of Budget and Statistics

[8] International Iron and Steel Institute

[9] Taiwan Steel and Iron Industries Association

Uncertainties will remain in the future development of the steel industries. On the global market the uncertainties include:

- Impact of rising raw material cost on profitability
- Non-uniformity of rate of demand growth among regions, causing price disparities that may trigger the revival of trade protectionism
- Impact on world steel price trends from China's new steel production capacity and changes in its demand.

On the domestic steel market the uncertainties include:

- Outward moving of industries and the resulting restriction on the room for growth in domestic steel demand
- Head-on competition from imports caused by the reduction of import duty to zero
- Appreciation of the New Taiwan Dollar
- Rebound of the interest rate
- Cross-strait relationship
- Coming into effect and implementation of the Kyoto protocol regarding greenhouse gas emission control.

Thus global steel production and consumption are expected to slow down from rapid expansion to a moderate paced growth.

To meet such harsh challenges the Corporation will continue with the following efforts:

- Management innovation
- Re-engineering of production work flow
- Strengthen maintenance
- Stabilize production
- Raise productivity
- Suppress costs
- Increase the production of high grade products and products with high added value.

Yuan-Cheng Chen
President

The 2006 direction of operations will be carried through, namely:

- Ensure thorough observance of industrial safety procedures
- Eradicate major occupational accidents
- Expand production lines
- Raise product grade and value
- Innovate customer services
- Assist customers to raise their product grade and quality.

These measures aim at bolstering the Corporation's competitiveness and maintaining its profitability level so that it may share the benefits with customers, shareholders and employees.

PRODUCTION AND SALES

The Corporation sold 9.8 million tons of steel in 2005, down by 6% from the previous year. Domestic sales accounted for 77%, exports for the remaining 23%. Among the domestic customer groups, re-rollers again took the largest share (23%) of the domestic shipments. This group is followed by supply centers, direct users and traders. Among the export destinations Northeast Asia accounted for 38% of the export volume, followed by Hong Kong (including China) 37%, Southeast Asia 24% and others 1%.

Unstable furnace conditions of No. 2 blast furnace in 2005 during the final period of its campaign, plus its shutdown for scheduled complete revamp beginning October 15 have caused production of hot metal and liquid steel in 2005 to fall to 9.45 million tons and 10.17 million tons respectively. As to the downstream production lines (rolling mills and processing lines), total production volume was 9.7 million tons, a decline of 400,000 tons from 2004. This was due to (1) sudden slowdown of the market in the second half of the year, resulting in difficulty in filling the order books, and (2) in order to fully utilize the hot strip mill capacity the Corporation undertook a substantially higher tonnage of hire rolling for others in 2005. Such tonnage has consistently been excluded from the production records.

The Corporation was beset in 2005 with short supply and rising prices of raw materials, as well as a downturn in the steel market. However demand for certain particular steel products remained strong on the domestic market. As in the past, teamwork enabled the Corporation's workforce to successfully take up the challenge of boosting productivity of the products in demand. As a result seven production lines broke their individual production records — No. 1 bar mill, No. 2 hot strip mill's stainless steel hire rolling, pickling and oiling line, No. 2 cold rolling mill, horizontal annealing and coating line, electrical sheet coating line and hot dip galvanizing line. Six other lines achieved second highest production record in history while another six achieved third. Remarkable results indeed.

For improving energy utilization efficiency, the "2010 Energy Saving Plan" was launched in 2005, which consists of 56 items including (1) dry coke quenching on coke batteries 7 and 8 and (2) addition of heat recovery equipment on the hot stoves of No. 2 blast furnace. At the same time the Corporation continued to promote co-generation. Sales of steam and industrial gases produced by the Corporation – oxygen, nitrogen and argon – in 2005 surpassed 2004 by


Raw materials dock at the plant

Energy saving demonstration and plant visit

Solving our customers' problems

Hot rolled coils

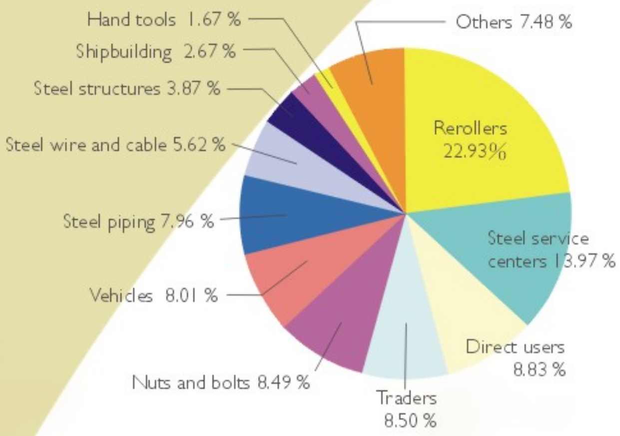
a robust 23%. Self-generated electricity accounted for 66.8% of the electricity consumed in 2005, down by 5.1 percentage points from 2004. Major causes were: (1) rising fuel cost made it cheaper to purchase electricity during off-peak hours and (2) reduced production of combustible gases during the shut-down of No. 2 blast furnace for campaign revamp. Energy consumption per ton of crude steel was 5,491 million calories, an increase of 224 million calories over 2004 due to reduction of crude steel production capacity during the revamp of No. 2 blast furnace.

Moving toward the high end steel products will facilitate the upgrading of the domestic steel industry and raise the industry's supply chain value. The Corporation therefore incorporates product upgrading into its operation directions as one of the major tasks. Sales of high end steel products in 2005 amounted to 1.56 million tons, exceeding the target 1.5 million tons. With a view toward turning the Corporation's customer assistance — to help the customer to reduce his cost and upgrade his products — into a strong competitive advantage, the Corporation will continue to:

- Push forward product upgrading
- Assist customers in the use of the proper materials for specified usages
- Raise the Corporation's product quality
- Raise the effectiveness of the Corporation's production processes, facilities and operation systems
- Narrow down the quality deviations: chemical composition, dimensional accuracy, surface quality and mechanical properties.

In order to discover opportunities for the promotion of future new products and high end products, the Corporation completed a number of surveys in 2005 among industries, including the manufacturing of motors and transformers, hand tools, wire and cable, welding electrodes, hardware, steel barrels, automobile parts, slide rails, pipe and tube, and the shipbuilding and 3C industries (computer, communication, consumer electronics industries). Regarding auto parts, the mainland market is taking off and growing by leaps and bounds. In response to our government's call to upgrade Taiwan's auto parts and components industry, the Corporation completed in 2005 the development of nine steel products for automobiles and placed them on

Ladle car carrying molten iron



Percentage of domestic sales by industry, 2005

Cold rolled coils

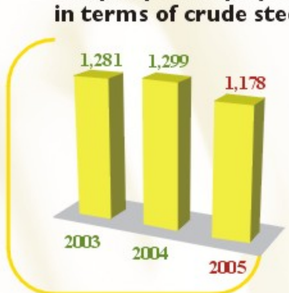
the market. These include spring steel, steel for air bag parts, and a number of high tensile steels of various properties. At the same time the Corporation held many technical symposiums on steel selection, working and processing for automobile manufacture to assist the industry to upgrade themselves in these fields. The Corporation is taking the initiative to meet the specific demands of International Organization for Standardization in the certification of quality systems (ISO/TS 16949) of steel suppliers of automobile makers, and hopefully will pass the certification early in 2006. In coordination with the on-going surveys of automobile companies, such activities will facilitate the Corporation's entrance into the global supply chain systems of the large automobile makers of the world. In addition to the above programs, the Corporation joins with the government and industries in R&D alliances to upgrade the domestic steel-related industries.

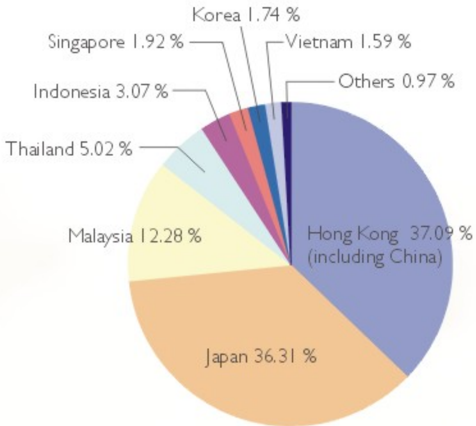
In response to the environmental protection requirements of the directive of the European Parliament and of the Council of 27 January 2003 on the restriction of the use of certain hazardous substances (RoHS) in electrical and electronic equipment, and the directive of the same date on waste electrical and electronic equipment (WEEE), the Corporation actively develops environmental protection type chromium-free coated steels. Such products already placed on the market include chromium-free anti-fingerprint treated electro-galvanized and hot-dip galvanized sheets. Development work is proceeding for chromium-free coated electrical sheets and surface passivation treated hot-dip galvanized sheets to replace the corresponding chromate-treated products. At the same time the Corporation is holding numerous sessions of technical seminars on properties and product applications of environmental protection type steels. These measures aim at raising Taiwan's global competitiveness through concerted effort with the electronic and electrical machinery industries to establish a green product supply chain.

Domestic steel sales in thousand tons

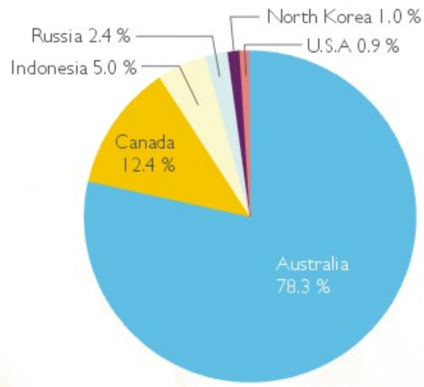
Export steel sales in thousand tons

Output per employee in terms of crude steel in tons



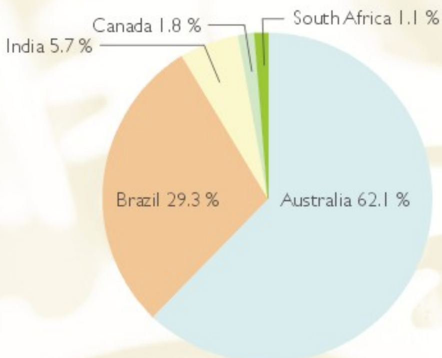


Percentage of export by region, 2005



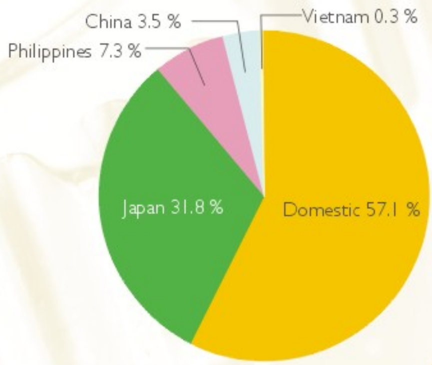
Sources of coking coal, 2005

Total：8,201 thousand metric tons



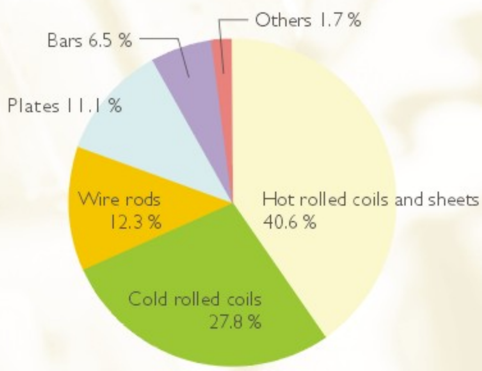
Sources of iron ore, 2005

Total：15,215 thousand metric tons



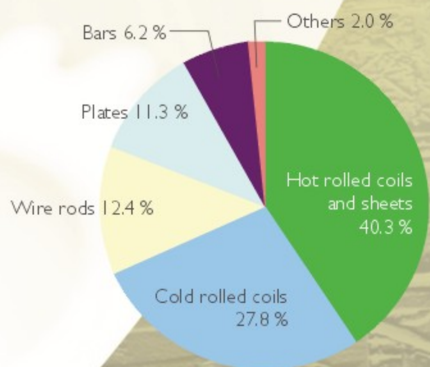
Sources of flux materials, 2005

Total：3,215 thousand metric tons



Pecentage of sales volume by product, 2005

Total：9,804 thousand metric tons



Pecentage of steel production by product, 2005

Total：9,698 thousand metric tons

RESEARCH AND DEVELOPMENT (R&D)

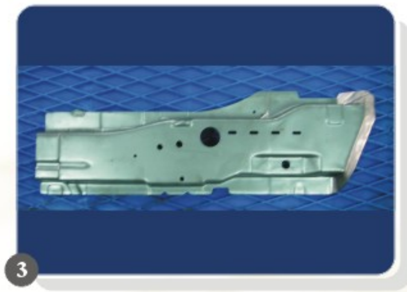
The Corporation has formally launched its expansion program for research and development, both in depth and in breadth. In 2005 it added to its R&D team twelve outstanding researchers with doctoral degrees. They will be of tremendous benefit to bolstering the Corporation's R&D human resources, introducing state-of-the-art core technology and deepening as well as broadening the Corporation's realm of R&D.

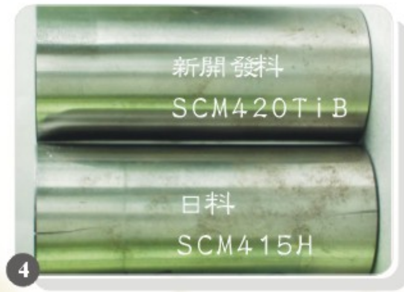
The focal point in R&D over the recent years has been the linking of product development and elevation of process equipment capability to maximize the Corporation's performance. Early in 2005 hardware and software renovation of the laminar flow cooling facilities at No. 1 hot strip mill was completed. Thanks to meticulous planning and thorough preparation, it took only one week of test running to finish the adjusting of processes for various difficult-to-produce steels. The new facility has markedly raised the cooling capacity as well as improved the precision of coiling temperature control so that the aim accuracy of hitting within ±10^0C of the target value has shot up from 73.4% to 93.7%. At the same time it has enabled the establishment of versatile cooling patterns and provides greater flexibility in the cooling operations.

With the capabilities of high cooling rate and low temperature coiling on the renovated No.1 hot strip mill, the Corporation smoothly developed JSH 590Y dual phase hot rolled steels for automobiles with high strength, high formability and fatigue resistance properties. Such steel, when applied to car wheels, offers the benefits of light weight and increased fatigue resistance safety. In addition the Corporation has developed a series of cold forging titanium-boron low alloy steels that do not require the soft annealing process. Such steels may be applied to piston pins and replace the high priced imported hollow tubes to help the customer to lower his cost.

Gas Chromatography — Mass Spectrometry

1. High strength spring steel SRS 60 for automobiles
2. High hole expansion ratio type SPFH 540M automobile steels
3. 590MPa grade cold rolled and galvannealed dual phase steels
4. Titanium-boron series SCM420 low alloy steel for cold forging without prior soft annealing





With the coming into effect of the Kyoto Protocol, another R&D focal point is energy saving and abatement of CO_2 emission. For CO_2 abatement the Corporation established in 2005 the hot stove heat recovery technology for No.3 blast furnace and smoothly applied it to other heat exchange systems for heat recovery. This project produces an annual saving of NT$74 million and reduces CO_2 emission by nearly 28,000 tons.

With the full support of the Ministry of Economic Affairs the Corporation has launched research for steel consuming industry upgrading, hoping that the upgraded steel industries will deepen their roots in Taiwan. Currently established is the Research Alliance Program of fasteners for automobiles, and application has been filed with the Ministry for support under the Integrated Industrial R&D Program. Carried out in 2005 were the planning for the pgrading of the hand tool, auto blank parts and electric motor industries. The Corporation expects to push forward the dustry upgrading programs for all 21 steel-consuming industries within three to four years, devise the related strategies, and identify the key core technologies and high valued steel products to nurture. At the same time the Corporation will assist downstream customers to form R&D alliances, thus combining the strengths of industry, government, academia and research organizations to produce a prosperous environment for all steel-consuming industries.

Continuous annealing simulator

EMPLOYEE RELATIONS AND HUMAN RESOURCE DEVELOPMENT

As of the end of 2005 the Corporation employs 8,682 persons. Average age is 48.62 years. 8,605 employees, or 99%, are eligible for membership in the China Steel Labor Union.

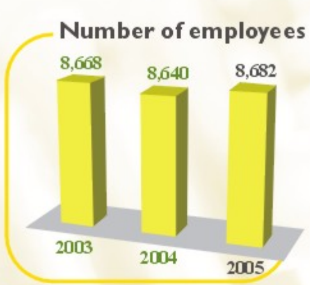
For the sake of clear-cut definition of rights and obligations of labor and management and harmonious labor-management relations, the Corporation has twice since February 1997 signed a collective agreement in accordance with the Collective Agreement Law. Term of each agreement is three years. The third agreement will be signed at the expiry of the current agreement in February 2006.

In consideration of the age distribution among the employees, the Corporation carries out hiring programs of suitable scale and timing to bring in the required talents. To avoid future gaps in experienced and trained manpower, the Corporation has drawn up appropriate plans for maintaining continuity in human resources so that key skills and know-how may be effectively handed down.

In 2005 average number of training hours per employee was 29.6 hours of classroom work plus 7 hours of e-Learning. The Corporation continues to carry out training and advanced studies in management and specialized subjects and to emphasize the following:

- Raising the capability for group leadership and negotiating skill for middle echelon supervisors
- Management skill for blue-collar supervisors
- Briefing and communication skills for engineers, administrative staff and researcher
- Meeting the requirements of TS16949 certification, strengthening of quality management.

In the non-degree-granting “Corporate University of China Steel” the Corporation carried out “Foreign Language Specialist Class” and for the fourth time the “Management Specialist Class” as a part of its plans for cultivation of elite personnel.




On job training

Ceremony marking the completion of the 4th "Management Specialist Class"

Second echelon supervisor training

Design discussion—Plant Engineering & Maintenance Department

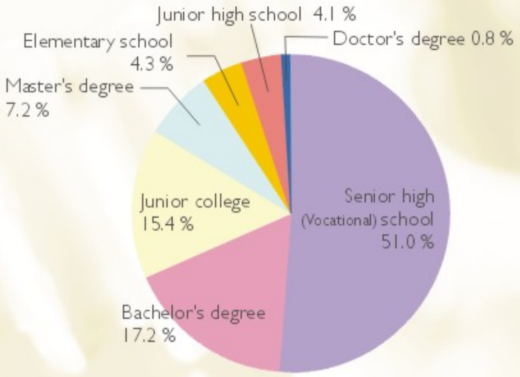
The program of selecting promising employees for sending abroad to academic institutions or business organization is aimed at consolidating the Corporation's capabilities in production, R&D, technology, management and foreign language proficiency. The Corporation sent 123 persons to academic and business organizations abroad for short term studies and observations in related subjects. Also sent during 2005 were fourteen persons and two persons to universities in Taiwan and abroad respectively for advanced studies.

Success in integrating the eHRD (e-human resource development), e-Learning and KM (knowledge management) won for the Corporation the first annual Group Award for Human Resource Innovation from the Council of Labor Affairs of the Executive Yuan[10]. Since 2003 the Corporation has filed application for three straight years with the National Science Council for admitting the Corporation's e-Learning-related projects into the Council's "National Science and Technology Program for e-Learning." Applications were approved in all three years with incentive financial awards. In 2005 the Corporation's "Integration of e-Learning and Knowledge Management" won from the Ministry of Economic Affairs the "Award for Outstanding e-Learning System".

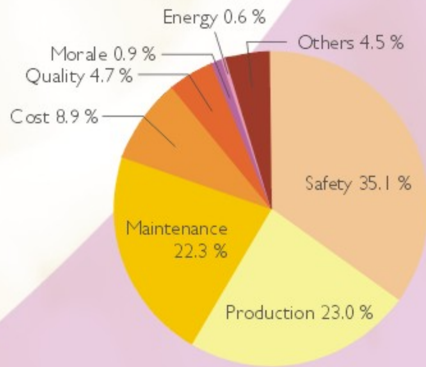
The time-honored suggestion system and Creative Development Activities (CDA) in the Corporation aim at inspiring the employee's initiative to offer constructive suggestions and to discover and solve problems at the workplace through teamwork and group endeavor. In 2005, 570 active CDA "circles" with 5,197 participants (91.8% of the blue-collar employees in the departments involved) completed 664 topics, with total benefit exceeding NT$100 million. As for the suggestion system, the Corporation took note of 22,161 suggestions and adopted 21,147, or 95.4% of them. Tangible benefits from these suggestions exceeded NT$110 million.

[10] Cabinet

Educational background of employees, 2005



Cases completed by Creative Development Activities by subject matter, 2005



INDUSTRIAL SAFETY, ENVIRONMENTAL PROTECTION AND COMMUNITY RELATIONS

INDUSTRIAL SAFETY AND HYGIENE

The Corporation strengthens its safety and health publicity campaign and education. It strives to provide pleasant work environment and fortifies the various facilities for medical service, health care, recreation and exercise. Beginning February 2000 the Corporation puts in place Occupational Health and Safety Management System (OHSAS 18001). This system was certified by British Standards Institution in October 2002. All these activities are aimed at effectively carrying out safety and health management, maintaining the physical and mental health and safety of the Corporation's employees and those of outside contractors, and preventing the occurrence of occupational accidents and injuries.

Since the OHSAS 18001 was put in place, the Corporation's injury frequency has dropped from 1.10 in 2002 to 0.29 in 2005. Outside contractors' injury frequency dropped from 1.70 in 2002 to 0.83 in 2004, but rose to 1.42 in 2005. Major reason for the rise was the four cases of industrial accidents due to unsafe acts of the contractors' workers. Tightened oversight of outside contractors' work should help prevent recurrences. Under planning and expected to produce improvements in occupational health and safety management are:

— A plant-wide work safety examination early in 2006

— Ensuring and enforcing work safety self-inspection

— Setting up subcommittees under the Corporation's Industrial Safety and Hygiene Committee

— Computerization of related operations (partly completed).

Air mask demonstration

CAPITAL EXPENDITURES AND ENGINEERING BUSINESS

Thirty-five project type capital expenditure projects were in progress in 2005, involving disbursements of NT$12,602 million.

I. Related to equipment revamping

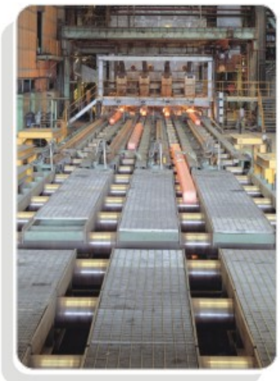
1. Revamp of coiling equipment of No. 1 hot strip mill
2. Revamp of billet reheating furnace of No. 1 bar mill at Rolling Mill Department I
3. No. 2 blast furnace second campaign revamp
4. Revamp of No. 1 and 2 sinter plants
5. End flue repairs for coke oven batteries 1 and 2
6. Replacement of Nos. 1 and 2 ship unloaders
7. Revamp of crop shear for No. 2 hot strip mill
8. Replacement of electrical equipment at leveling area of plate mill
9. Revamp of No. 1 continuous annealing line

II. Related to production capacity increase or quality upgrade

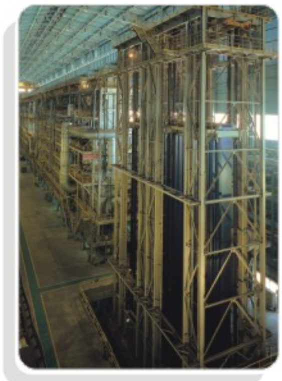
10. Additional coal bins for coke oven batteries 3 and 4
11. Addition of vertical and horizontal stands on billet mill and revamp of electrical equipment
12. Addition of sizing press equipment on No.1 hot strip mill
13. Remodeling of hydrogen batch annealing furnaces at Rolling Mill Department III
14. Addition of second ladle refining furnace at No. 1 steel-making plant
15. Revamp and remodeling of Nos. 4 and 5 slab casters
16. Expansion of the spheroidizing zones of the rod mill
17. Addition of a fourth hot stove for No. 1 blast furnace
18. Addition of unit No. 9 at the oxygen plant
19. Addition of No.2 continuous hot-dip galvanizing line
20. Remodeling and rebuilding of No. 4 vacuum treatment facilities into two independent refining stations at the steel-making plan
21. Addition of lime kilns Nos. 6 and 7 for the steel-making plant
22. Addition of residual material treatment plant
23. Modification of No. 4 basic oxygen furnace to coject process system
24. No. 2 main transformer station expansion
25. Addition of No. 2 annealing and coating line
26. Addition of coal moisture control system for coke batteries 1, 2, 3 and 4
27. Addition of No. 7 slab caster
28. Revamp of raw material ship unloading conveyor system

III. Related to resource recovery

29. Addition of coke dry quenching equipment for coke batteries 7 and 8
30. Addition of waste heat recovery system for hot stoves on No. 2 blast furnace
31. Addition of waste heat recovery system for hot stoves on No. 4 blast furnace



Bloom continuous casters



No. 2 continuous annealing line

Slab continuous casters

IV. Related to re-engineering of business process and enhancing competition

32. Supply chain management (SCM) software for integrating sales and production

V. Related to land and buildings

33. Land for building CSC Group's headquarters
34. Land purchase from Nan Sing Development Co.
35. Construction of CSC Group's headquarters

Items 7, 8, 9, 20~28, 30 and 31 are projects begun in 2005. The remaining items are continuation projects. Items 1 and 13 were completed in February 2005. Item 12 was completed in September 2005. Transactions for items 33 and 34 were completed in February and April respectively. All remaining items are proceeding according to plan. Individual projects with investment exceeding NT$3,000 million are items 3, 19, 25 and 27. Expected increases in annual capacity after their completion are:

Item 3	350,000 tons hot metal
Item 19	120,000 tons galvannealed steel products (GA) and 180,000 tons galvanized iron products (GI)
Item 25	200,000 tons high grade non-oriented electrical sheets
Item 27	550,000 tons liquid steel

Non-project type capital expenditures in 2005 amounted to NT$3,837 million. Their objectives cover: equipment renovation, industrial safety and environmental protection, business process re-engineering, quality improvement, research and development, energy saving, automation, computerization and others.

The Corporation's four phases of plant construction have enabled it to accumulate robust amounts of engineering and construction experience as well as cultivate a wealth of professional manpower. Such strong background was instrumental for it to engage in engineering and contracts for outside parties. Beginning in 2003 the Corporation has been awarded a series of contracts by the Kaohsiung Rapid Transit Corporation, including track work construction, AC power supply system, depot equipment and structure corrosion online monitoring system, totaling NT$7,770 million. Work under all these contracts is proceeding on schedule.

Billet mill

SUBSIDIARIES AND OTHER EQUITY INTERESTS

As of the end of 2005 there were 38 CSC-invested companies. During 2005, investments were made only to fulfill the business development needs of the existing investees through participation in capital increase by cash. The Corporation did not invest in new investees.

An overview of 2005 indicates that among those CSC-invested companies where the Corporation plays a leading management role, a number of them maintained their bright performance owing to sustained strong market of industrial materials and high level of freight rates. However the steel-related businesses were impacted by the downturn in the steel market and showed a decline in profits.

C.S. Aluminum adjusted its product mix and raised both prices and production. Revenues reached NT$14,700 million, a record high. In spite of a recognized impairment loss on investment, income before income tax reached NT$746 million. China Steel Chemicals showed a slight dip in profits owing to appreciation of the NT$ against U.S. dollar, but still reported an income before income tax of NT$1,321 million. Demand for pulverized blast furnace slag remained strong, and income before income tax of China Hi-ment set new records for three straight years, being NT$958 million for 2005. HIMAG Magnetic benefited from relatively smooth sales of ferric oxide and the fact that it has completed the process of recognizing the losses on its Zn-Mn ferrite core facilities. Its profits grew by 101% to NT$5.28 per share.

As to businesses related to trading and logistics, China Steel Express continued to benefit from the substantial rise in freight rates. Income before income tax reached NT$4,305 million or NT$10.19 per share. In spite of the slump in the steel market, China Steel Global Trading posted an income before income tax of NT$8.52 per share owing to success in new business development and an investment gain.

Regarding the steel-related businesses, prices for H sections have been weak. Dragon Steel adjusted its product mix to increase revenues, but its gross profit still suffered a slight decrease. Its income before income tax was NT$1,160 million. For its Stage II Phase 1

Bird's-eye view of Chenchin Lake Water Treatment Plant—advanced treatment extension built and operated by China Ecotek Corporation

Signing of lease between Dragon Steel Corporation and Taichung Harbor Bureau for land and piers to be used by the former to construct an integrated steel mill in Industrial Zone (I) of the harbor.

Kaohsiung's Acting Mayor Yeh and Chairman Chiang inspecting the shield tunnel construction site of the Kaohsiung Rapid Transit expansion plan, with annual capacity of 2.5 million tons to fill the gap of domestic crude steel availability, Dragon Steel has completed its NT$27,000 million capital increase. As to Chung Hung Steel, Ornasteel and Group Steel, their selling prices were adversely affected by the slump in the market and their profits shrank considerably.

For the CSC-invested engineering and construction companies business grew remarkably. China Steel Machinery improved its competitiveness and saw its revenues grow from NT$600 million at the time of its establishment to NT$3,400 million in 2005. Income before income tax was more than NT$100 million. China Steel Structures benefited from the timely downturn in steel prices and made good use of its advantages in fabrication capacity and financial status in its all-out effort competing for large volume, short delivery contracts with reasonable prices. Coupled with good profits from its trading operations and construction business (United Steel Construction and Engineering Corporation), its income before income tax for 2005 was NT$181 million. China Ecotek enjoyed growth in business volume for the third year straight, thanks to success in business development and reasonable prices. For 2005 its income before income tax was NT$138 million.

As to the Corporation's strategy in the operation of the steel businesses within the CSC Group, the Corporation has participated in the capital increase of Dragon Steel through cash paid-in for its Stage II Phase 1 expansion. This is to raise the upstream iron-making and steel-making capacities of the Group and fortify the competitiveness of the Group's steel businesses as a whole. The Corporation has activated its Dragon Steel Expansion Committee to help carry out the project. Besides, China Steel Global Trading Corporation is actively setting up stronger and more stable distribution channels overseas for increased scale of production and sales in coordination with the planning of the Corporation's new production lines.

As to non-steel businesses the Corporation will base on degree of business inter-relationship and emphasis by the government in reviewing cautiously future investment opportunities. It will also collect data and information on those knowledge-based industries with growth potential as focal points on CSC Group's future development.

1 Taiwan High Speed Railway Zuoying Station — steel structures by China Steel Structure Co.

2 Wind-power generators of Taipower's No. 3 Nuclear Power Plant — posts fabricated by China Steel Machinery Corporation

CHINA STEEL CORPORATION

Financial Statements for the Years Ended December 31, 2005 and 2004 and Independent Auditors' Report

Deloitte.
勤業眾信

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
China Steel Corporation

We have audited the accompanying balance sheets of China Steel Corporation (the "Corporation") as of December 31, 2005 and 2004 and the related statements of income, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the Rules Governing the Audit of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China (ROC). Those rules and standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Corporation as of December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles in the ROC.

Deloitte & Touche

January 27, 2006

<u>*Notice to Readers*</u>

The accompanying financial statements are intended only to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the Republic of China.

For the convenience of readers, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail. Also, as stated in Note 2 to the financial statements, the additional footnote disclosures that are not required under generally accepted accounting principles were not translated into English.

BALANCE SHEETS

CHINA STEEL CORPORATION
DECEMBER 31, 2005 AND 2004
(In Thousands of New Taiwan Dollars, Except Par Value)

ASSETS	2005 Amount	2005 %	2004 Amount	2004 %
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 3)	$ 13,239,481	5	$ 26,402,765	11
Short-term investments (Notes 2 and 4)	16,693,866	7	23,855,035	10
Notes receivable (Note 5)	1,641,032	1	1,711,335	1
Accounts receivable, net of allowance for doubtful accounts of $134 thousand as of December 31, 2004 (Notes 2, 5 and 20)	2,034,629	1	2,062,163	1
Other receivables	546,006	-	226,180	-
Inventories (Notes 2 and 6)	35,792,031	14	25,874,988	11
Deferred income tax assets (Note 17)	143,975	-	112,495	-
Pledged time deposits (Note 21)	4,600,000	2	4,700,000	2
Other	1,160,737	-	148,485	-
Total current assets	75,851,757	30	85,093,446	36
LONG-TERM INVESTMENTS (Notes 2 and 7)				
Long-term stock investments				
Equity method	52,825,719	21	40,642,218	17
Cost method	12,876,831	5	9,717,543	4
Total long-term stock investments	65,702,550	26	50,359,761	21
Prepaid long-term stock investments	-	-	90,000	-
Other	179,263	-	182,211	-
Total long-term investments	65,881,813	26	50,631,972	21
PROPERTIES (Notes 2, 8 and 21)				
Land	7,994,055	3	7,146,632	3
Land improvements	4,216,794	2	4,231,666	2
Buildings and improvements	36,016,863	14	35,994,405	15
Machinery and equipment	212,821,181	85	211,725,159	89
Transportation equipment	1,452,514	1	1,537,749	1
Miscellaneous equipment	3,013,382	1	2,978,585	1
Total cost	265,514,789	106	263,614,196	111
Appreciation	17,668,482	7	17,795,827	7
Total cost and appreciation	283,183,271	113	281,410,023	118
Less: Accumulated depreciation	197,384,284	79	190,984,509	80
	85,798,987	34	90,425,514	38
Constructions in progress	19,768,057	8	8,909,449	4
Net properties	105,567,044	42	99,334,963	42
OTHER ASSETS				
Rental assets - net (Notes 2 and 9)	3,066,346	2	3,095,044	1
Refundable deposits	346,830	-	73,793	-
Restricted assets - pledged time deposits (Note 21)	31,694	-	31,694	-
Unamortized repair costs and others (Note 2)	16,856	-	148,082	-
Total other assets	3,461,726	2	3,348,613	1
TOTAL	$ 250,762,340	100	$ 238,408,994	100

LIABILITIES AND STOCKHOLDERS' EQUITY	2005 Amount	2005 %	2004 Amount	2004 %
CURRENT LIABILITIES				
Short-term loans and overdraft (Notes 10 and 21)	$ 11,473,383	4	$ 4,465,959	2
Commercial paper payable (Note 11)	1,499,376	1	1,799,052	1
Notes and accounts payable (Note 20)	2,336,407	1	3,086,340	1
Income tax payable (Notes 2 and 17)	7,578,477	3	9,405,065	4
Accrued expenses (Note 14)	7,159,512	3	7,015,299	3
Bonds payable - current portion (Note 12)	10,000,000	4	5,000,000	2
Long-term bank loans - current portion (Notes 13 and 21)	727,220	-	-	-
Other payables	2,890,008	1	1,044,843	-
Other	1,444,863	1	1,857,388	1
Total current liabilities	45,109,246	18	33,673,946	14
LONG-TERM LIABILITIES				
Bonds payable, net of current portion (Note 12)	-	-	10,000,000	4
Bank loans, net of current portion (Notes 13 and 21)	2,769,030	1	2,861,200	1
Total long-term liabilities	2,769,030	1	12,861,200	5
RESERVE FOR LAND VALUE INCREMENT TAX (Note 8)	2,171,124	1	3,370,813	2
OTHER LIABILITIES				
Deferred income tax liabilities (Note 17)	2,944,097	1	2,930,165	1
Deferred credits - gain on intercompany transactions (Note 15)	1,142,352	1	1,411,756	1
Total other liabilities	4,086,449	2	4,341,921	2
Total liabilities	54,135,849	22	54,247,880	23
STOCKHOLDERS' EQUITY (Note 2 and 16)				
Capital stock - authorized 10,600,000 thousand shares at NT$10 par value				
Common shares - issued 10,545,974 thousand shares and 9,888,937 thousand shares as of December 31, 2005 and 2004, respectively	105,459,736	42	98,889,368	42
Preferred shares - issued 40,698 thousand shares and 42,177 thousand shares as of December 31, 2005 and 2004, respectively	406,980	-	421,770	-
Total capital stock	105,866,716	42	99,311,138	42
Capital surplus	2,744,741	1	1,172,320	-
Retained earnings	90,107,602	36	85,642,418	36
Other equity items				
Unrealized loss on investees' long-term investments	(446,483)	-	(454,039)	-
Cumulative translation adjustments	(335,992)	-	(365,599)	-
Investees' unrecognized net loss on pension cost	(36,872)	-	(32,003)	-
Total other equity items	(819,347)	-	(851,641)	-
Treasury stock – 79,199 thousand shares and 84,463 thousand shares as of December 31, 2005 and 2004, respectively	(1,273,221)	(1)	(1,113,121)	(1)
Total stockholders' equity	196,626,491	78	184,161,114	77
TOTAL	$ 250,762,340	100	$ 238,408,994	100

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

STATEMENTS OF INCOME

CHINA STEEL CORPORATION
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2005 Amount	2005 %	2004 Amount	2004 %
REVENUES (Notes 2 and 20)	$ 186,317,669	100	$ 168,270,036	100
COST OF REVENUES (Notes 18 and 20)	118,991,792	64	104,311,061	62
GROSS PROFIT	67,325,877	36	63,958,975	38
UNREALIZED GAIN ON INTERCOMPANY TRANSACTIONS	376,905	-	3,890	-
REALIZED GROSS PROFIT	66,948,972	36	63,955,085	38
OPERATING EXPENSES (Notes 18 and 20)				
Selling	2,248,551	1	2,239,585	1
General and administrative	2,682,343	1	2,634,895	2
Research and development	1,114,714	1	1,063,858	1
Total operating expenses	6,045,608	3	5,938,338	4
OPERATING INCOME	60,903,364	33	58,016,747	34
NONOPERATING INCOME AND GAINS				
Interest	540,381	-	237,266	-
Investment income under the equity method (Note 7)	4,442,401	3	7,635,403	5
Gain on disposal of investments	412,908	-	786,868	-
Other	1,573,995	1	869,494	1
Total nonoperating income	6,969,685	4	9,529,031	6
NONOPERATING EXPENSES AND LOSSES				
Interest (Note 20)	734,335	-	952,447	1
Impairment loss on long-term investment (Note 7)	906,000	1	54,000	-
Impairment loss on rental assets (Note 9)	-	-	594,000	-
Other	1,120,285	1	923,317	-
Total nonoperating expenses	2,760,620	2	2,523,764	1
INCOME BEFORE INCOME TAX	65,112,429	35	65,022,014	39
INCOME TAX (Notes 2 and 17)	14,465,790	8	13,405,323	8
NET INCOME	$ 50,646,639	27	$ 51,616,691	31

	2005 Before Tax	2005 After Tax	2004 Before Tax	2004 After Tax
EARNINGS PER SHARE (Note 19)				
Basic	$ 6.21	$ 4.83	$ 6.21	$ 4.93
Diluted	$ 6.20	$ 4.82	$ 6.19	$ 4.92

PRO FORMA INFORMATION - if the Corporation's shares held by subsidiaries had been accounted for as investments rather than treasury stock

	2005	2004
Net Income	$ 50,966,883	$ 51,975,464

	2005 Before Tax	2005 After Tax	2004 Before Tax	2004 After Tax
Basic earnings per share based on weighted-average number of outstanding common shares of 10,545,949 thousand and 10,544,474 thousand as of December 31, 2005 and 2004, respectively	$ 6.20	$ 4.83	$ 6.19	$ 4.92
Diluted earnings per share based on weighted-average number of outstanding common shares of 10,586,647 thousand and 10,586,651 thousand as of December 31, 2005 and 2004, respectively	$ 6.18	$ 4.81	$ 6.18	$ 4.91

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

STATEMENTS OF CASH FLOWS

CHINA STEEL CORPORATION
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004
(In Thousands of New Taiwan Dollars)

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 50,646,639	$ 51,616,691
Adjustments		
Depreciation	9,418,781	10,046,890
Amortization	87,520	329,218
Deferred income tax	(17,548)	(376,754)
Impairment loss on rental assets	-	594,000
Cash dividends from long-term investments under the equity method	5,282,274	3,354,496
Investment income under the equity method	(4,442,401)	(7,635,403)
Construction dividends from long-term investments under the cost method	131,884	15,616
Impairment loss on long-term investments under the cost method	906,000	54,000
Loss on disposal of properties	67,348	358,152
Reversal of allowance for loss on inventories	(164,689)	-
Gain on disposal of short-term investments	(412,496)	(575,170)
Gain on disposal of long-term investments	(412)	(211,698)
Unrealized gain on intercompany transaction	376,905	3,890
Effect of exchange rate changes on foreign-currency long-term bank loans	(287,960)	(48,300)
Others	94,034	(1,800)
Net cash provided by adjusted net income	61,685,879	57,523,828
Net changes in operating assets and liabilities		
Notes receivable	70,303	(1,223,409)
Accounts receivable	27,534	(1,011,421)
Inventories	(9,715,611)	(6,637,226)
Other receivable	(319,826)	(75,539)
Other current assets	(1,012,252)	293,800
Notes and accounts payable	(749,933)	793,906
Income tax payable	(1,826,588)	2,865,332
Accrued expenses	144,213	1,125,475
Other payables	1,806,051	511,411
Other current liabilities	(815,799)	77,274
Net cash provided by operating activities	49,293,971	54,243,431
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease in short-term investments	7,573,665	15,549,227
Increase in long-term investments	(17,061,785)	(2,951,894)
Proceeds from disposal of long-term investments	54,170	1,403,797
Acquisition of properties	(16,028,779)	(7,927,503)
Proceeds from sale of properties	96,234	-
Decrease in pledged time deposits	100,000	200,000
Decrease (increase) in other assets	(269,574)	12,532
Net cash provided by (used in) investing activities	(25,536,069)	6,286,159

	2005	2004
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in short-term bank loans and overdraft	$ 7,007,423	$ (143,511)
Increase (decrease) in commercial paper payable	(299,676)	99,838
Repayments of bonds payable	(5,000,000)	(10,000,000)
Increase in long-term loans	923,010	684,200
Purchase of treasury stocks	(7,435)	-
Cash dividends	(38,692,230)	(28,481,980)
Remuneration to directors and supervisors and bonus to employees	(852,278)	(98,526)
Repayments of long-term bank loans	-	(50,000)
Proceeds from transfer of treasury stock to employees	-	434
Net cash used in financing activities	(36,921,186)	(37,989,545)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(13,163,284)	22,540,045
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	26,402,765	3,862,720
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 13,239,481	$ 26,402,765
SUPPLEMENTAL INFORMATION		
Interest paid	$ 742,881	$ 1,283,307
Income tax paid	16,309,926	10,916,745
PURCHASE OF PROPERTIES		
Acquisition of properties	$ 16,054,622	$ 7,617,154
Decrease (increase) in payable on properties purchased	(25,843)	310,349
	$ 16,028,779	$ 7,927,503
PAYMENTS OF CASH DIVIDENDS		
Total cash dividends payable to stockholders	$ 38,731,344	$ 28,500,149
Increase in dividends payable	(39,114)	(18,169)
	$ 38,692,230	$ 28,481,980
NONCASH FINANCING ACTIVITIES		
Current portion of long-term liabilities	$ 10,727,220	$ 5,000,000

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

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

CHINA STEEL CORPORATION
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004
(In Thousands of New Taiwan Dollars, Except Cash Dividends Per Share)

	Capital Stock		Capital Surplus	Retained Earnings (Note 16)				Unrealized Loss on Investees' Long-term Investments	Cumulative Translation Adjustments	Investees' Unrecognized Net Loss on Pension Cost	Treasury Stock	Total Stockholders' Equity
	Common Stock	Preferred Stock	(Notes 8 and 16)	Legal Reserve	Special Reserve	Unappropriated	Total	(Note 2)	(Note 2)		(Note 16)	
BALANCES, JANUARY 1, 2004	$ 94,523,237	$ 477,620	$ 693,047	$ 21,767,286	$ 8,002,165	$ 37,165,249	$ 66,934,700	$ (485,104)	$ 91,700	$ (21,711)	$ (1,176,705)	$ 161,036,784
Conversion of preferred shares to common shares	55,850	(55,850)	-	-	-	-	-	-	-	-	-	
Appropriation of 2003 earnings (Note 16)												
Legal reserve	-	-	-	3,685,308	-	(3,685,308)	-	-	-	-	-	
Special reserve	-	-	-	-	28,651	(28,651)	-	-	-	-	-	
Capitalization of bonus to employees	985,263	-	-	-	-	(985,263)	(985,263)	-	-	-	-	-
Remuneration to directors and supervisors	-	-	-	-	-	(98,526)	(98,526)	-	-	-	-	(98,526)
Cash dividends to preferred shareholders - $3.00 per share	-	-	-	-	-	(143,286)	(143,286)	-	-	-	-	(143,286)
Cash dividends to common shareholders - $3.00 per share	-	-	-	-	-	(28,356,863)	(28,356,863)	-	-	-	-	(28,356,863)
Stock dividends to preferred shareholders - 3.5%	16,717	-	-	-	-	(16,717)	(16,717)	-	-	-	-	-
Stock dividends to common shareholders - 3.5%	3,308,301	-	-	-	-	(3,308,301)	(3,308,301)	-	-	-	-	-
Net income in 2004	-	-	-	-	-	51,616,691	51,616,691	-	-	-	-	51,616,691
Adjustment of equity in investees due to change in percentage of ownership	-	-	120,582	-	-	(17)	(17)	-	-	-	(90)	120,475
Reversal unrealized loss on investees' long-term investments	-	-	-	-	-	-	-	764	-	-	-	764
Cumulative translation adjustments on long-term investments (Note 7)	-	-	-	-	-	-	-	-	(457,299)	-	-	(457,299)
Investees' unrecognized net loss on pension cost	-	-	-	-	-	-	-	-	-	(10,292)	-	(10,292)
Transfer of treasury stock to employees	-	-	(82)	-	-	-	-	-	-	-	516	434
Disposal of the Corporation's shares held by subsidiaries	-	-	100,452	-	-	-	-	30,301	-	-	63,158	193,911
Cash dividends declared by the Corporation and received by subsidiaries	-	-	258,321	-	-	-	-	-	-	-	-	258,321
BALANCES, DECEMBER 31, 2004	98,889,368	421,770	1,172,320	25,452,594	8,030,816	52,159,008	85,642,418	(454,039)	(365,599)	(32,003)	(1,113,121)	184,161,114
Conversion of preferred stock to common shares	14,790	(14,790)	-	-	-	-	-	-	-	-	-	
Adjustment for reserve for land value tax increment	-	-	1,196,189	-	-	-	-	-	-	-	-	1,196,189
Appropriation of 2004 earnings (Note 16)												
Legal reserve	-	-	-	5,161,667	-	(5,161,667)	-	-	-	-	-	
Special reserve	-	-	-	-	436,524	(436,524)	-	-	-	-	-	
Bonus to employees	1,590,021	-	-	-	-	(2,304,056)	(2,304,056)	-	-	-	-	(714,035)
Remuneration to directors and supervisors	-	-	-	-	-	(138,243)	(138,243)	-	-	-	-	(138,243)
Cash dividends to preferred shareholders - $3.90 per share	-	-	-	-	-	(158,785)	(158,785)	-	-	-	-	(158,785)
Cash dividends to common shareholders - $3.90 per share	-	-	-	-	-	(38,572,559)	(38,572,559)	-	-	-	-	(38,572,559)
Stock dividends to preferred shareholders - 5%	20,357	-	-	-	-	(20,357)	(20,357)	-	-	-	-	-
Stock dividends to common shareholders - 5%	4,945,200	-	-	-	-	(4,945,200)	(4,945,200)	-	-	-	-	-
Net income in 2005	-	-	-	-	-	50,646,639	50,646,639	-	-	-	-	50,646,639
Adjustment of equity in investees due to change in percentage of ownership	-	-	55,853	-	-	(42,255)	(42,255)	-	-	-	(213,620)	(200,022)
Reversal of unrealized loss on investees' long-term investments	-	-	-	-	-	-	-	7,556	-	-	-	7,556
Cumulative translation adjustments on long-term investments (Note 7)	-	-	-	-	-	-	-	-	29,607	-	-	29,607
Investees' unrecognized net loss on pension cost	-	-	-	-	-	-	-	-	-	(4,869)	-	(4,869)
Disposal of the Corporation's shares held by subsidiaries	-	-	34,425	-	-	-	-	-	-	-	60,955	95,380
Cash dividends declared by the Corporation and received by subsidiaries	-	-	285,954	-	-	-	-	-	-	-	-	285,954
Reacquired the corporation's issued shares	-	-	-	-	-	-	-	-	-	-	(7,435)	(7,435)
BALANCES, DECEMBER 31, 2005	$ 105,459,736	$ 406,980	$ 2,744,741	$ 30,614,261	$ 8,467,340	$ 51,026,001	$ 90,107,602	$ (446,483)	$ (335,992)	$ (36,872)	$ (1,273,221)	$ 196,626,491

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

CHINA STEEL CORPORATION

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004
(In Thousands of New Taiwan Dollars, Except Amounts Stated Otherwise, Earnings and Dividends Per Share)

1. ORGANIZATION AND OPERATIONS

China Steel Corporation (the "Corporation") was incorporated on December 3, 1971. It manufactures and sells steel products and engages in machinery and communications engineering and construction.

The Corporation's stock is listed on the Taiwan Stock Exchange. As of December 31, 2005, the Ministry of Finance (formerly the Ministry of Economic Affairs), Republic of China owned 23.0% of the Corporation's outstanding common stock.

As of December 31, 2005 and 2004, the Corporation had about 8,600 employees.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements have been prepared in conformity with the accounting principles generally accepted in the Republic of China (ROC). Under these principles, the Corporation is required to make certain estimates and assumptions on recorded assets, liabilities, revenues and expenses, including those related to doubtful accounts, inventory loss, depreciation of properties, impairment loss on assets, pension and loss on lawsuits. Actual results could differ from these estimates.

For the convenience of readers, the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language financial statements shall prevail. However, the accompanying financial statements do not include the English translation of additional disclosures that are not required under generally accepted accounting principles but are required by the Securities and Futures Bureau (SFB, formerly the Securities and Futures Commission before July 1, 2004) for their oversight purposes.

The Corporation's significant accounting policies are summarized as follows:

Current and Noncurrent Assets and Liabilities

Current assets include cash and cash equivalents and other assets to be realized in cash or to be consumed within one year from the balance sheet date. Liabilities to be settled within one year are classified as current. All other assets and liabilities are classified as noncurrent.

Cash Equivalents

Cash equivalents are short-term notes and bills with maturities of three months or less. The carrying value of cash equivalents approximates fair value.

Short-term Investments

Short-term investments are bond funds, bank debentures, commercial paper with repurchase agreements, negotiable certificates of time deposit with maturities of three months or more, and stocks listed on the Taiwan Stock Exchange, which are not intended for long-term holding. These investments are stated at the lower of total cost or market value. If market value falls below carrying value, the decline is charged to loss, and an allowance for investment loss is provided. If market price recovers, the allowance will be reversed to the extent of the recovery up to cost. Cost is determined by the first-in, first-out method for bond funds; moving-average method for listed stocks; and individual identification method for commercial paper with repurchase agreements, bank debentures and negotiable certificates of time deposit. Market value is the net asset value of bond funds on the balance sheet date, the average closing price of listed stocks in the last month of the reporting period, the quotation price by financial institution of bank debentures and the book value for negotiable certificates of time deposit and commercial paper with repurchase agreements.

Stock dividends received from investees are not recorded as investment income but as an increase in shares. The carrying value per share is recalculated on the basis of totally owned shares after the stock dividends received. Cash dividends received within the year of investment acquisition are accounted for as a reduction of the carrying value of the investment but those received next year are accounted for as dividend income.

Factoring of Accounts Receivable

The following three conditions must be met to recognize factoring of accounts receivable:

a. The accounts receivable have been legally isolated from the Corporation.

b. The transferees have obtained the right to pledge or exchange the accounts receivable, which are either the transferred accounts receivable or beneficial interest in the transferred assets.

c. The transferor does not maintain effective control, through an agreement to repurchase or redeem the transferred accounts receivable before their maturity, over the transferred accounts receivable.

The difference between the proceeds and the face value of the accounts receivable is recognized as a loss and recorded as nonoperating expenses.

Allowance for Doubtful Accounts

Allowance for doubtful accounts is provided on the basis of aging accounts and the collectibility of receivables.

Inventories

Inventories are raw materials, supplies, fuel, finished products, work in process, by-products and construction in progress. Inventories, except for construction in progress, are stated at the lower of total moving average cost or market value. Market value is the net realizable value for finished products, work in process, by-products and construction in progress, and replacement costs for raw materials, supplies and fuel. Contract project is accounted for in accordance with accounting practice for Long-Term Construction Contracts.

Long-term Investments

Long-term stock investments in which the Corporation owns 20% or more of the outstanding voting shares or where the Corporation has significant influence on the investees are accounted for by the equity method. When the equity method is first applied or when a stock is acquired, the difference between the carrying value of an investment and the proportionate equity in the investee is amortized over five years. The long-term investments under the equity method were previously based on the investees' financial statements with closing date three months earlier than the Corporation. Starting 2005, the investment income or loss is recognized on the basis of the investees' financial statements for the same accounting period as that of the Corporation. If an investee issues additional shares and the Corporation acquires shares at a percentage different from its current equity in the investee, capital surplus is adjusted for the difference between the carrying values of the investments and the Corporation's equity in the investees' net assets. If the carrying value is less than equity in net assets, the difference is added to capital surplus. If the carrying value is more than equity in net assets, the difference is deducted from capital surplus, or from unappropriated earnings when capital surplus is insufficient for deduction for debiting purposes. If the market prices of investments significantly decline below carrying value and the decline is permanent, the investment loss should be recognized currently. This investment will be revalued if its market value becomes equal to or higher than carrying value per share. The difference between the new cost of the investment and the proportionate equity in the investee is amortized over five years.

Other investments are accounted for by the cost method. If evidence indicates that the market value of investments has significantly declined permanently below carrying value, the decline should be recognized as a realized investment loss. The previous carrying value less the amount of write-down becomes the new cost basis for such investments. Cash dividends received from an investee within the year of the acquisition and an accumulation of cash dividends received that exceed the previous year-end retained earnings after the year of acquisition are recorded as a reduction of investment cost, while received in subsequent years are recorded as investment income. Construction dividends are recorded as a reduction of investment cost.

For both equity-method and cost-method investments, the cost of investment sold is calculated using the weighted-average method.

Properties

Properties are stated at cost or cost plus appreciation, less accumulated depreciation. Interest expense for the purchase or construction of properties is capitalized as property cost. Major additions, renewals and betterments are capitalized, while maintenance and repairs are expensed currently.

Depreciation is calculated by the straight-line method over service lives estimated as follows: land improvements, 10 to 40 years; buildings and improvements, 5 to 60 years; machinery and equipment, 4 to 25 years; transportation equipment, 3 to 25 years; and miscellaneous equipment, 3 to 10 years. Depreciation on appreciation is calculated by the straight-line method over the remaining service lives of the reevalued assets. When a property reaches its residual value but is still in use, its residual value is depreciated over its reestimated service life.

Upon sale or other disposal of properties, the related cost, appreciation and accumulated depreciation are removed from the accounts. Gains or losses are credited or charged to current income.

Rental Assets

Rental assets (included in other assets) are stated at the lower of carrying value or recoverable value.

Asset Impairment

Assets (primarily properties and long-term investments under the equity method) are evaluated on the basis of their recoverable value starting January 1, 2005. If the recoverable value is less than the carrying value of the assets, the decline is charged to impairment loss and accumulated impairment loss is established. If the value of the impaired assets recovers, the accumulated impairment loss will be reversed. However, the loss reversal is only to the extent that the increased carrying amount of an asset would not exceed the asset carrying amount (net of depreciation), as if the assets had no impairment loss been recognized in prior years.

Unamortized Repair Costs

Unamortized repair costs refer to the major repairs of blast furnaces and are amortized over five years.

Treasury Stock

The Corporation reacquired its issued shares in accordance with government regulations and recorded this reacquisition as treasury stock at cost, which is presented as a deduction to stockholders' equity.

Effective 2002, the Corporation's shares acquired and held by subsidiaries are reclassified to treasury stock from long-term investments and accounted for at the carrying value recorded by subsidiaries for short-term or long-term investments as of January 1, 2002.

Effective 2005, the revised Statement of Financial Accounting Standards No. 7, "Consolidated Financial Statements", requires that equity-method investees that are not majority-owned but over which the Corporation has controlling capability in substance are deemed as subsidiaries. Thus, the Corporation's shares held by these investees are recorded as treasury stock.

Revenue Recognition

Revenues are recognized when titles to products and risks of ownership are transferred to customers as follows: domestic sales - when products are delivered out of the Corporation's premises to customers; exports - when products are loaded onto vessels.

Sales are measured at fair value, which is a price (net of trade discounts and sales discounts) agreed to by the Corporation and customers. But if the related receivable is due within one year, the difference between its present value and receivable amount is immaterial and sales transactions are frequent, the fair value of receivables is equivalent to the nominal amount of cash received.

Capitalization and Expense

Expenditure which amount is significant and has future economic benefits is classified as asset; otherwise is classified as expense or loss.

Pension

Pension costs under defined benefits pension plan are recognized on the basis of actuarial calculations. The difference between the actuarial pension cost and the amount appropriated to a special fund (Note 14) is recognized as accrued pension liability (included in accrued expenses). Unamortized net transition assets and actuarial gain or loss are amortized over 11 years and the average remaining service life of employees, respectively.

Pension costs under defined contribution plan are recognized based on contributions amounts by the Corporation to the employees' individual account.

Income Tax

Income tax is provided based on inter-period allocation basis. Tax effects of deductible temporary differences are recognized as deferred income tax assets. Valuation allowance is provided for deferred tax assets with uncertain realizability. Tax effects of taxable temporary differences are recognized as deferred tax liabilities. A deferred tax asset or liability is classified as current or noncurrent depending on the classification of the related asset or liability for financial reporting. But if the deferred income tax asset or liability cannot be related to an asset or liability for financial reporting, the classification is based on the expected reversal or realization date of the temporary difference.

Tax credits arising from expenditures for purchases of equipment, research and development, employees' training, and investment in newly emerging, important and strategic industries are recognized when those credits are granted.

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax expense.

Annual earnings are appropriated under a resolution adopted in the stockholders' meeting in the year following the year of earnings generation. Under tax regulations, unappropriated earnings generated after 1998 are subject to 10% income tax. This tax is recorded as expense in the year when the stockholders resolve to retain the earnings.

Foreign-currency Transactions

Foreign-currency transactions, except derivative transactions, are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Gains or losses resulting from the application of prevailing exchange rates when foreign-currency assets and liabilities are settled or converted, are credited or charged to income in the year of settlement or conversion. On the balance sheet date, foreign-currency assets and liabilities are restated at the prevailing exchange rates, and resulting differences are accounted for as follows:

(a) Equity-method stock investments - as cumulative translation adjustments under stockholders' equity;

(b) Cost-method stock investments - same as (a) above if restated balances are lower than their costs; otherwise, no adjustment is made;

(c) Other assets and liabilities - as credits or charges to current income.

3. CASH AND CASH EQUIVALENTS

	2005	2004
Cash on hand	$ 20,273	$ 45,039
Checking accounts and demand deposits	2,320,639	2,737,397
Time deposits	3,700,000	1,600,000
Cash equivalents - short-term notes and bills	7,198,569	22,020,329
	$ 13,239,481	$ 26,402,765

As of December 31, 2005, the Corporation had foreign bank deposits of $2,417 thousand (¥9,000 thousand) in Japan-Osaka.

4. SHORT-TERM INVESTMENTS

	2005	2004
Bond funds	$ 10,975,710	$ 20,043,753
Negotiable certificates of time deposits	4,500,000	-
Stocks listed	967,456	967,456
Bank debentures	250,700	250,700
Commercial paper with repurchase agreements	-	2,593,126
	$ 16,693,866	$ 23,855,035

5. NOTES AND ACCOUNTS RECEIVABLE

The Corporation entered into two accounts receivable factoring contracts (without recourse) with The International Commercial Bank of China (ICBC) and Bank of Taiwan for the facilities of $5.84 billion and $2.5 billion, respectively. Under the contracts, the Corporation is empowered to sell accounts receivable to the banks upon the delivery of products to customers and is required to complete related formalities at the following banking day.

The Corporation entered into a commercial papers purchasing contract, which was due on October 31, 2005, with Chung Hsing Bills Finance Corporation for the facility of $2.5 billion. Customers will issue commercial papers to the Corporation upon the delivery of products. The commercial papers will be sold to Chung Hsing Bills Finance Corporation (without recourse) upon the Corporation's endorsements.

As of December 31, 2005, the balance of endorsed commercial papers was $680,551 thousand.

The Corporation sold its notes and accounts receivable in 2005 and 2004. The related information is as follows:

Transaction Counter - party	Total Factoring Amounts	Related Expenses	Proceeds Received	Interest Rate (%)
2005				
Notes Receivable				
Chung Hsing Bills Finance Corporation	$ 3,368,849	$ 20,531	$ 3,348,318	1.70 ~ 2.10
Accounts Receivable				
ICBC	5,898,506	43,579	5,854,927	1.64 ~ 2.10
Bank of Taiwan	3,208,548	21,386	3,187,162	1.64 ~ 4.16
	9,107,054	64,965	9,042,089	
	$ 12,475,903	$ 85,496	$ 12,390,407	
2004				
Notes Receivable				
Chung Hsing Bills Finance Corporation	$ 3,057,342	$ 15,887	$ 3,041,455	1.64 ~ 1.70
Mentor Consulting Corporation	442,559	2,639	439,920	1.908
	3,499,901	18,526	3,481,375	
Accounts Receivable				
ICBC	5,274,192	28,721	5,245,471	1.58 ~ 1.70
Bank of Taiwan	688,805	3,905	684,900	1.64 ~ 1.70
	5,962,997	32,626	5,930,371	
	$ 9,462,898	$ 51,152	$ 9,411,746	

6. INVENTORIES

	2005	2004
Finished products	$ 6,776,286	$ 4,751,613
Work in process	9,293,601	8,602,141
Raw materials	12,320,916	5,135,172
Supplies	5,210,244	3,921,113
Materials in transit and others	1,733,764	3,398,933
Fuel	89,186	105,158
Others	368,034	125,547
	35,792,031	26,039,677
Less: Allowance for losses	-	164,689
	$ 35,792,031	$ 25,874,988

7. LONG-TERM INVESTMENTS

	2005		2004	
	Amount	% of Ownership	Amount	% of Ownership
Stocks - under the equity method				
Stocks listed on the Taiwan Stock Exchange				
Chung Hung Steel Corporation (CHSC)	$ 1,138,751	24	$ 2,007,733	24
China Steel Chemical Corporation (CSCC)	1,099,876	30	1,050,325	30
China Hi-ment Corporation (CHC)	619,815	20	561,291	20
China Steel Structure Corporation (CSSC)	471,177	18	437,654	18
China Ecotek Corporation (CEC)	407,238	36	383,270	36
	3,736,857		4,440,273	
Less: Shares held by subsidiaries accounted for as treasury stock	333,214		192	
	3,403,643		4,440,081	
Stocks without quoted market prices				
Dragon Steel Corporation (DSC)	15,122,411	47	1,513,678	37
China Steel Express Corporation (CSE)	7,870,266	100	7,643,022	100
C. S. Aluminum Corporation (CAC)	7,031,956	100	6,885,517	98
Gains Investment Corporation (GIC)	6,341,240	100	5,779,470	100
China Prosperity Development Corporation (CPDC)	4,721,157	100	4,788,857	100
Kaohsiung Rapid Transit Corporation (KRTC)	3,112,060	31	3,176,545	31
China Steel Asia Pacific Holdings Pte Ltd (CSAPH)	2,408,502	100	3,306,414	100
China Steel Global Trading Corporation (CSGT)	1,135,359	100	1,242,487	100
China Steel Machinery Corporation (CSMC)	826,656	100	695,536	100
Goang Yaw Investment Corporation and other two companies	817,541	99	1,345,490	99
Info-Champ Systems Corporation (ICSC)	554,411	100	533,776	99
China Steel Security Corporation (CSS)	236,689	100	229,712	100
Taiwan Rolling Stock Co., Ltd. (TRSC)	164,447	27	163,395	27
China Steel Management Consulting Corporation (CSMCC)	8,533	38	8,848	38

(Continued)

	2005 Amount	2005 % of Owner-ship	2004 Amount	2004 % of Owner-ship
TaiAn Technologies Corporation (TTC)	$ 3,420	17	$ 2,319	17
Hi-mag Magnetic Corporation (HMC)	-	50	-	50
	50,354,648		37,315,066	
Less: Shares held by subsidiaries accounted for as treasury stock	932,572		1,112,929	
	49,422,076		36,202,137	
	52,825,719		40,642,218	
Stocks - under the cost method				
Listed stocks				
Maruichi Steel Tube Ltd.	757,919	2	757,919	2
Advanced Material Technology Corporation (AMTC)	243,290	2	243,290	2
Common stocks without quoted market prices				
Industrial Bank of Taiwan	1,000,000	4	1,000,000	4
CDIB & Partners Investment Holding Corporation	500,000	5	500,000	5
Asia Pacific Broadband Telecom Co., Ltd. (APBT)	240,000	2	1,146,000	2
Kaohsiung Arena Development Corp. (KADC)	135,000	18	-	-
CDIB BioScience Ventures I, Inc.	120,000	5	120,000	5
Phalanx Biotech Group Inc. (PBG)	105,370	15	105,370	15
Overseas Investment & Development Corporation	50,000	6	50,000	6
CTB I Venture Capital Co., Ltd.	50,000	5	50,000	5
GenMont Biotech Inc. (GMB)	-	-	55,269	14
Tang Eng Iron Works Corporation (TEIWC)	-	9	-	9
Preferred stocks without quoted market prices				
Taiwan High Speed Rail Corporation - Preferred C (THSRC)	4,646,991	19	1,499,997	14
Preferred B (THSRC)	934,384	4	984,384	4
East Asia United Steel Corporation (EAUS)	2,794,000	29	2,055,437	33
Dragon Steel Corporation	999,877	100	999,877	100
TaiGen Biotechnology Co., Ltd. (TBC)	300,000	24	150,000	24
	12,876,831		9,717,543	
Prepaid long-term investment				
KADC	-		90,000	
Fund - Sino-Canada Biotechnology Development Fund, LP (SCBDF)	179,263		182,211	
	$ 65,881,813		$ 50,631,972	

The market values of listed stocks based on the average closing prices in December are summarized as follows:

	2005	2004
Listed stocks under the equity method		
CSCC	$ 2,537,477	$ 2,889,178
CHSC	2,325,051	6,206,190
CHC	1,039,100	820,521
CSSC	371,426	469,953
CEC	352,226	289,839
	$ 6,625,280	$ 10,675,681
Listed stocks under the cost method		
Maruichi Steel Tube Ltd.	$ 1,418,793	$ 1,109,263
AMTC	239,900	255,095
	$ 1,658,693	$ 1,364,358

As of December 31, 2005 and 2004, the Corporation's total equity in CHSC was 39%, including directly owned - 24% and indirectly owned - 15%. The Corporation's total equity in TTC was 22%, including directly owned - 17% and indirectly owned through CSCC - 5%.

In November 2004, the Corporation increased its investment in GIC for $500,000 thousand, with its equity interest unchanged.

In 2005, DSC issued additional shares and declared stock dividends on its preferred stock. The Corporation increased its investment in DSC by 980,032 thousand shares for $13,230,426 thousand ($13.50 per share) and stock dividends received by the Corporation. The Corporation's holding in DSC increased from 37% to 47%.

In August 2005, CSAPH reduced its capital 29,455 thousand shares and returned US$18,000 thousand to the Corporation.

In May 2003, the Corporation signed a slab production joint-venture contract with Sumitomo Metal Industries, Ltd. and Sumitomo Corporation. In July 2003, the joint venture company of East Asia United Steel Corporation (EAUS) was established. The joint venture contract required the Corporation hold the investment in EAUS for 12 years (until June 2015). Upon the expiration of the joint venture contract, the Corporation has an option to sell its shareholding in EAUS, or other shareholders have an option to purchase the shareholding owned by the Corporation to terminate the contract. However, the contract will be extended if all shareholders consider it necessary. As of December 31, 2005, the Corporation had invested in EAUS at the amount of $3,055,188 thousand (¥10 billion, Note 13). In June 2005, the Corporation's equity in EAUS decreased from 33% to 29% because EAUS issued additional shares but the Corporation did not subscribe proportionately for these shares. The long-term investment is valued under the cost method because the Corporation has no significant influence on EAUS. Because of changes in exchange rate in 2005, the Corporation incurred $249,004 thousand cumulative translation adjustments to reduce stockholders' equity (the Corporation has borrowed the same amount of long-term bank loans in yen to hedge exchange rate fluctuations; Note 13). As of December 31, 2005, the cumulative translation adjustments amounted to $261,188. The Corporation thus have a stable supply of good quality slab from this joint venture. The Corporation also signed a contract with CHSC to transfer the purchasing right of slabs from EAUS, and the Corporation receives premiums on this contract based on the volume purchased by CHSC.

In September 2003, the Corporation acquired 100,000 thousand preferred shares of THSRC for $1,000,000. Dividends on these shares are at 5%, payable on a nonparticipating and cumulative basis. In April 2005 and August 2004, the Corporation acquired additional 505,370 thousand preferred shares of THSRC for $3,199,944 thousand and $1,499,997 thousand, respectively. These shares, which may be converted to common shares within four years from the acquisition date, have a 9.5% dividend in the first two years and 0% in the next two years. At the end of four years (i.e., in 2009 and 2008), if the Corporation does not convert the preferred shares into common shares and THSRC unredeem the shares, the unredeemed shares will have 4.71% dividends. THSRC builds and operates public transportation systems. The long-term investment is accounted for by the cost method because the Corporation's shares have no voting rights.

In November 2005 and March 2004, the Corporation totally acquired 20,000 thousand preferred shares of TBC for $300,000 thousand. Preferred shareholders are entitled to 8% participating and noncumulative dividends as well as voting and election rights. TBC mainly researches and develops drugs. The long-term investment is accounted for by the cost method because the Corporation has no significant influence on the investee.

The Corporation promised to invest 100 units (10,000 thousand Canadian dollars) in the SCBDF fund. As of December 31, 2005, the Corporation had invested $219,025 thousand (CAD$9,435 thousand) in SCBDF fund, representing investment of 94.35%. The difference between the above cumulative investment and the carrying value was due to the cash dividends received by the Corporation.

In 2005, the Corporation recognized an impairment loss of $906,000 thousand (recorded as nonoperating expense) on its investment in APBT.

In March 2005 and November 2004, the Corporation invested $45,000 thousand and $90,000 thousand to acquire 13,500 thousand shares of KADC , representing 18% equity in KADC. The Corporation plans to invest in KADC totaling $270,000 thousand. KADC mainly engages in international trading, retailing and gymnasium development.

The Corporation's Board of Directors approved plans for additional investments in KADC, DSC, TRSC, etc. The related subscription schedule depends on the investees' capital increase requirements. As of December 31, 2005, the Corporation's further infuse capital in these investees amounted to $5,247,058 thousand.

Investment income (loss) under the equity method was as follows:

	2005	2004
CSE	$ 2,722,709	$ 2,896,485
GIC	692,336	125,609
CHSC	(674,363)	818,947
Goang Yaw Investment Corporation and other two companies	(499,853)	528,225
CAC	483,448	613,357
DSC	366,086	491,361
CSGT	355,539	529,933
CSCC	304,511	331,524
CSAPH	185,550	988,812
CSSC	184,297	2,278
CHC	136,701	105,070
CSMC	135,794	9,759
ICSC	83,685	90,104
KRTC	(64,485)	58,379
CPDC	(42,401)	16,942
CEC	40,771	22,642

(Continued)

	2005	2004
CSS	$ 25,794	$ 21,316
CSMCC	4,129	4,939
TRSC	1,052	423
TTC	1,101	(5,309)
PBG	-	(15,393)
	$ 4,442,401	$ 7,635,403

The calculation of the above investment income (loss) was based on the investees' audited financial statements.

The Corporation has prepared the consolidated financial statements including majority-owned and controlled in-substance subsidiaries in accordance with the related regulations.

8. PROPERTIES

	Cost	Appreciation	Total
December 31, 2005			
Cost and appreciation			
Land	$ 7,994,055	$ 5,840,732	$ 13,834,787
Land improvements	4,216,794	492,990	4,709,784
Buildings and improvements	36,016,863	2,424,236	38,441,099
Machinery and equipment	212,821,181	8,844,981	221,666,162
Transportation equipment	1,452,514	33,748	1,486,262
Miscellaneous equipment	3,013,382	31,795	3,045,177
	265,514,789	17,668,482	283,183,271
Accumulated depreciation			
Land improvements	3,097,184	421,746	3,518,930
Buildings and improvements	15,356,709	1,623,030	16,979,739
Machinery and equipment	164,474,811	8,841,645	173,316,456
Transportation equipment	1,170,916	33,728	1,204,644
Miscellaneous equipment	2,332,735	31,780	2,364,515
	186,432,355	10,951,929	197,384,284
Constructions in progress	19,768,057	-	19,768,057
	$ 98,850,491	$ 6,716,553	$ 105,567,044
December 31, 2004			
Cost and appreciation			
Land	$ 7,146,632	$ 5,850,597	$ 12,997,229
Land improvements	4,231,666	492,990	4,724,656
Buildings and improvements	35,994,405	2,437,677	38,432,082
Machinery and equipment	211,725,159	8,946,631	220,671,790
Transportation equipment	1,537,749	33,748	1,571,497
Miscellaneous equipment	2,978,585	34,184	3,012,769
	263,614,196	17,795,827	281,410,023

(Continued)

	Cost	Appreciation	Total
Accumulated depreciation			
Land improvements	$ 2,979,282	$ 410,204	$ 3,389,486
Buildings and improvements	14,487,030	1,573,464	16,060,494
Machinery and equipment	158,920,303	8,940,062	167,860,365
Transportation equipment	1,217,572	33,712	1,251,284
Miscellaneous equipment	2,388,712	34,168	2,422,880
	179,992,899	10,991,610	190,984,509
Constructions in progress	8,909,449	-	8,909,449
	$ 92,530,746	$ 6,804,217	$ 99,334,963

In 1981 and 1994, the Corporation revalued its properties and patents in accordance with government regulations, resulting in an increment of $17,662,343 thousand. After the deduction of the reserve for land value increment tax of $3,370,813 thousand, an increment of $14,291,530 thousand was credited to capital surplus. As of December 31, 2005, capital surplus from revaluation of assets totaling $13,952,356 thousand had been transferred to capital stock, reducing the balance of capital surplus from revaluation of assets to $339,174 thousand. In January 2005, the government revised the land increment tax law to reduce the tax rate. Thus, the reserve for land value increment tax decreased and the capital surplus from revaluation increment increased each by $1,196,189 thousand. In 2005, the Corporation decreased reserve for land value increment tax by $3,500 thousand resulting from sale of its land. As of December 31, 2005, the balance of reserve for land value increment tax amounted to $2,171,124 thousand.

In January 2005, the Corporation repurchased land from CPDC for $834,673 thousand, and after offsetting unrealized gain on intercompany transaction of $268,876 thousand which occurred in 1999, the actual purchase cost was $565,797 thousand.

9. RENTAL ASSETS

	2005	2004
Land - at cost	$ 2,966,398	$ 2,966,398
Machinery and equipment - at cost	2,000,000	2,000,000
Less: Accumulated depreciation	1,306,052	1,277,354
Accumulated impairment loss	594,000	594,000
	99,948	128,646
	$ 3,066,346	$ 3,095,044

The Corporation has leased to its subsidiaries some of its plant property and machinery (Note 20). The Corporation recognized an impairment loss of $594,000 (recorded in nonoperating losses in 2004) on the rental machinery and equipment, based on future rental income.

10. SHORT-TERM LOANS AND OVERDRAFT

	2005	2004
Credit loans - interest at 1.387%-1.479% p.a. and 1.146%-1.164% p.a. as of December 31, 2005 and 2004, respectively	$ 7,500,000	$ 2,500,000
Letters of credit - due within 180 days; interest at 0.26%-5.38% p.a. and 0.46%-5.32% p.a. as of December 31, 2005 and 2004, respectively	674,869	108,323
Overdraft - interest at 1.1%-2.72% p.a. and 0.85%-2.377% p.a. as of December 31, 2005 and 2004, respectively	3,298,514	1,857,636
	$ 11,473,383	$ 4,465,959

11. COMMERCIAL PAPER PAYABLE

	2005	2004
Commercial paper - interest rates at 1.15%-1.34% p.a. and 0.922%-0.972% p.a. as of December 31, 2005 and 2004, respectively	$ 1,500,000	$ 1,800,000
Unamortized discounts	(624)	(948)
	$ 1,499,376	$ 1,799,052

12. LONG-TERM BONDS PAYABLE

	2005	2004
5-year unsecured bonds - issued at par in:		
November 2001; repayable in November 2006; interest at 3.1% p.a., repayable annually	$ 3,500,000	$ 3,500,000
November 2001; repayable in November 2006; interest at 3.0763% p.a., compounded semiannually and repayable annually	1,500,000	1,500,000
June 2001; repayable in June 2006; interest at 4.27% p.a., repayable annually	5,000,000	5,000,000
November 2000; repayable in December 2005; interest at 5.18% p.a., repayable annually	-	5,000,000
	10,000,000	15,000,000
Current portion	10,000,000	5,000,000
	$ -	$ 10,000,000

13. LONG-TERM DEBTS

	2005	2004
Mortgage bank loans:		
Repayable in July 2010 (¥4.4 billion); floating rate at 0.2288% and 0.2163% p.a. as of December 31, 2005 and 2004, respectively	$ 1,230,680	$ 1,368,400
Repayable in December 2006 (¥2.6 billion); floating rates at 0.2310% p.a. and 0.2160% p.a. as of December 31, 2005 and 2004, respectively	727,220	808,600

(Continued)

	2005	2004
Repayable in July 2010 (¥2.2 billion); floating rates at 0.2750% p.a. and 0.259% p.a. as of December 31, 2005 and 2004, respectively	$ 615,340	$ 684,200
Repaid in July 2010 (¥3.3 billion); floating rates at 0.3625% p.a. as of December 31, 2005	923,010	-
	3,496,250	2,861,200
Current portion	727,220	-
	$ 2,769,030	$ 2,861,200

As of December 31, 2005, the Corporation has long-term loans in yen to hedge the exchange rate fluctuations on its investments in yen in East Asia United Steel Corporation and Maruichi Steel Tube Ltd (Note 7).

14. PENSION PLAN

The Labor Pension Act (the "Act ") effected from on July 1, 2005. The Corporation's regular employees hired before June 30, 2005, have chosen to apply continuously their pension plan to the Labor standard Law (those employees may change their choice to the "Act" before July, 1, 2010), or have chosen their pension plan to apply to the Act, but remain their seniority before July 2005, to apply to the Labor Standards Law. Employees hired after July 1, 2005 can only adopt the pension plan under the Act.

Under the Act, the pension plan is a defined contribution plan, the Corporation makes monthly contribution to employees' personal retirement account at 6% of their salaries and wages. The Corporation's pension expense under the Act amounted to $1,369,536 in 2005.

The Corporation has a retirement plan in accordance with the Labor Standards Law. Retirement benefits are based on employee's length of service and his/her average salaries and wages of the last six months before retirement.

The Corporation makes contributions, equal to a certain percentage of salaries, to a pension fund, which is deposited in the Central Trust of China in the name of, and administered by the employees' pension fund supervisory committee. The changes in the fund are summarized as follows:

	2005	2004
Balance, beginning of year	$ 10,503,035	$ 9,270,619
Contributions	1,289,951	1,227,590
Gains appropriated	117,438	123,434
Payment of benefits	(151,406)	(118,608)
Balance, end of year	$ 11,759,018	$ 10,503,035

Since August 1999, the Corporation has also made contributions, equal to a certain percentage of salaries of management personnel (vice presidents and above), to another pension fund, which is deposited in the International Commercial Bank of China in the name of, and administered by an officers' pension fund management committee. The changes in the fund are summarized as follows:

	2005	2004
Balance, beginning of year	$ 9,982	$ 7,250
Contributions	4,343	7,904
Interest income	153	110
Payment of benefits	-	(5,282)
Balance, end of year	$ 14,478	$ 9,982

The pension costs are as follows:

	2005	2004
Under Labor Standards Law	$ 1,369,536	$ 1,157,138
Under Labor Pension Act	1,773	-
	$ 1,371,309	$ 1,157,138

Under the defined benefits pension plan, pension information based on actuarial calculation is as follows:

a. Net pension cost

	2005	2004
Service cost	$ 1,254,577	$ 1,159,792
Interest cost	431,026	345,922
Expected return on plan assets	(335,227)	(339,040)
Amortization	19,160	(9,536)
	$ 1,369,536	$ 1,157,138

b. Reconciliation of the funded status of the plan and accrued pension liability

	2005	2004
Benefit obligation		
Vested	$ 263,749	$ 192,430
Non-vested	10,603,429	8,965,315
Accumulated	10,867,178	9,157,745
Additional benefits based on future salaries	3,181,579	2,403,094
Projected	14,048,757	11,560,839
Fair value of plan assets	(11,936,196)	(10,630,540)
Funded status	2,112,561	930,299
Unrecognized net asset at transition	81,055	90,591
Unamortized net actuarial loss	(2,032,626)	(942,819)
Accrued pension liabilities (included in accrued expense)	$ 160,990	$ 78,071

The difference between the pension fund and the fair value of plan assets as of December 31, 2005 and 2004 represented the accrued interest income of the fund.

		2005	2004
c.	Vested benefits	$ 284,753	$ 209,608

d. Actuarial assumptions

	2005	2004
Discount rate used in determining present values	3.5%	3.5%
Future salary increase rate	3.0%	2.5%
Expected rate of return on plan assets	3.5%	2.5%

15. DEFERRED CREDITS - GAIN ON INTERCOMPANY TRANSACTION

	2005	2004
Gain on disposal of land	$ 1,136,164	$ 1,405,040
Gain on contracted projects	6,188	6,716
	$ 1,142,352	$ 1,411,756

A deferred income of $1,405,040 thousand was the unrealized gain from the sale of land to CPDC in February 1999. The Corporation repurchased some of the land in the first half of 2005 for office building construction and thus decreased its deferred credits by $268,876 thousand. The remaining deferred credit will be recognized as income when CPDC sells the rest of the land to third parties.

The Corporation contracted projects with KRTC, resulting in a deferred revenue of $6,188 thousand as of December 31, 2005. The accumulated credits will be recognized as income over the service lives of the buildings after completion of the construction, expected in 2007.

16. STOCKHOLDERS' EQUITY

a. Capital stock

In August 2005 and July 2004, the Corporation, through capitalizing of retained earnings, issued new common shares of 655,558 thousand and 431,028 thousand, respectively.

In 2005, preferred stock of 1,479 thousand shares were converted into common stock of which 13 thousand shares, has not yet registered with the government.

b. Treasury stock

Purpose	Thousand Shares			End of Year	
	Beginning of Year	Increase	Decrease	Thousand Shares	Book Carrying Value
2005					
1) Shares acquired and held by subsidiaries	106,652	6,891	34,644	78,899	$ 1,265,786
2) Shares acquired by the Corporation for transfer to employees	-	300	-	300	7,435
	106,652	7,191	34,644	79,199	$ 1,273,221

(Continued)

Purpose	Thousand Shares Beginning of Year	Increase	Decrease	End of Year Thousand Shares	Book Carrying Value
2004					
1) Shares acquired and held by subsidiaries	86,237	3,019	4,793	84,463	$ 1,113,121
2) Shares acquired by the Corporation for transfer to employees	36	-	36	-	-
	86,273	3,019	4,829	84,463	$ 1,113,121

1) Shares acquired and held by subsidiaries

The Corporation's shares acquired and held by subsidiaries (with 50% or more shareholdings) were accounted for as treasury stock (recorded as long-term or short-term investment by investees), and had 84, 463 thousand shares and carrying value of $1,356,485 thousand as of December 31, 2004. As mentioned in Note 2, effective 2005, the Corporation's shares acquired and held by other equity-method investees substantially controlled by the Corporation were also reclassified as treasury stock. This accounting change resulted in an increase of 22,189 thousand treasury shares in treasury stock, with a carrying value of $539,707 thousand as of January 1, 2005. In 2005 and 2004, treasury stock increased by 6,891 thousand shares and 3,019 thousand shares, due to subsidiaries' purchase and the Corporation's capitalization of retained earnings; treaury stock decreased by 34,644 thousand shares and 4,793 thousand shares due to subsidiaries' sales of their holdings of the Corporation's shares and due to change in percentage of ownership.

The difference between the sale prices ($95,380 thousand in 2005 and $163,518 thousand in 2004) and carrying values ($60,955 thousand in 2005 and $63,066 thousand in 2004) of $34,425 thousand and $100,452 thousand were credited to capital surplus.

As of December 31, 2005 and 2004, the market values of those treasury shares are $1,922,771 thousand and $3,020,383 thousand, respectively.

Although these shares are treated as treasury stock in the financial statements, the stockholders are entitled to exercise their rights on these stocks, except participation in the Corporation's capital increase by cash. However, effective June 2005, the revised Company Law restricts that treasury stockholders from exercise of voting rights.

2) Shares acquired for transfer to employees

In August 2004, the Corporation transferred 36 thousand treasury shares, which were reacquired in 2001, to its employees and resulted in decrease in capital surplus of $82 thousand.

Starting December 2005, the Corporation under relevant regulations planed to reacquire its issued common shares from the public market at a total of 0.2 billion shares before February 20, 2006. As of December 31, 2005 the Corporation has reacquired 300 thousand issued common shares.

Under the Securities Transaction Law, the Corporation's share repurchase is restricted to up to 10% of total issued shares, and the total purchase amount should not exceed the sum of retained earnings, paid-in capital in excess of par value and realized capital surplus. In addition, the Corporation should transfer those shares to employees within three years. Otherwise these shares are deemed unissued and the Corporation should then register with the government for capital decrease. Further, the Corporation should not pledge these stocks as collateral and should not collect dividends or exercise voting rights on these stocks.

c. Overseas depositary receipts

In May 1992, February 1997 and October 2003, the ROC's Ministry of Economic Affairs (MOEA) (the shares were transferred to the Ministry of Finance in 2005) sold its shares in the Corporation through issuances of 88,329,150 units of Global Depositary Receipts (international GDR), with each unit representing 20 shares of the Corporation's common stock, or equivalent to the Corporation's common shares totalling 1,873,506,074 shares. The depositary shares increased by 5,346,146 units when retained earnings were capitalized. Under relevant regulations, the International GDR holders may also request the conversion to the shares represented by the International GDR. The foreign investors may also request the reissuance of such depositary receipts within the originally approved units. As of December 31, 2005, the outstanding depositary receipts were 16,706,675 units, equivalent to 334,133,634 common shares and 3.17% of the outstanding common shares.

d. Preferred stock

Preferred stockholders have the following entitlements or rights:

1) 14% annual dividends, with dividend payments ahead of those to common stockholders;

2) Preference over common stock in future payment of dividends in arrears;

3) Redemption of stock, at the Corporation's option out of its retained earnings or the proceeds from issuance of new shares;

4) The same rights as common stockholders, except the right to vote for directors and supervisors; and

5) Conversion of shares into common stock.

e. Capital surplus

Following are the capital surplus sources:

	2005	2004
Revaluation increment on assets (Note 8)	$1,535,363	$ 339,174
Treasury stock transaction	960,872	638,668
Long-term investments under the equity method	240,407	186,379
Others	8,099	8,099
	$2,744,741	$1,172,320

Under relevant regulations, the capital surplus from revaluation increment on assets may only be used to offset a deficit. Capital surplus from treasury stock transaction may be used to offset a deficit or transferred to capital. Capital surplus from long-term investments accounted for under the equity method is prohibited from any use.

f. Appropriation of retained earnings

The Corporation's Articles of Incorporation provides that the annual net income, less any deficit, should be appropriated in the following order of presentation:

1) 10% as legal reserve, until its balance equals the issued capital stock;

2) Preferred stock dividends at 14% of paid-in capital;

3) Of the remainder, 0.3% as compensation to directors and supervisors and 3% to 5% as bonus to employees (in their meeting in June 2004, the stockholders resolved to change the appropriation rate for employee bonus from 3% to between 3% and 5%, which was effective from the 2004 earnings distribution in 2005);

4) Common stock dividends at 14% of paid-in capital; and

5) The remainder, if any, as additional dividends divided equally between the holders of preferred and common stocks.

The Board of Directors should propose the appropriation of annual income. If necessary, it may, after appropriating preferred stock dividends at 14% of paid-in capital, propose to retain certain earnings as a special reserve. These proposals should be submitted to the stockholders' meeting for approval.

The Corporation is required to appropriate a special reserve from annual earnings for any net debit balance resulting from adjustments to the stockholders' equity, excluding treasury stock. Effective 2002, if the market price is lower than the carrying value of the Corporation's shares held by subsidiaries, the Corporation should appropriate a special reserve equal to the difference between market price and carrying value. The Corporation may release a portion of this special reserve when debit balances are partially or fully reversed.

The Corporation's steel business is in a phase of stable growth; thus, more than 75% of the appropriation of dividends and bonus should be in cash and less than 25% in stock.

Under the Company Law, the aforementioned legal reserve may be used to offset a deficit; also, when the Company makes no profit in the current year and the reserve has reached 50% of the paid - in capital, up to 50% thereof may be distributed as dividends and bonuses; in addition, while the Company has no deficit and where the legal reserve reaches over 50% of the paid - in capital, the amount in excess can be capitalized.

In their June 2005 and 2004 meetings, the Corporation's stockholders approved the following appropriation of the 2004 and 2003 earnings, which was proposed by the Board of Directors in March 2005 and 2004, respectively.

	Amount		Dividends Per Share	
	2004	2003	2004	2003
Legal reserve	$ 5,161,667	$ 3,685,308		
Special reserve	436,524	28,651		
Preferred Stock				
Cash dividends	158,785	143,286	$ 3.90	$ 3.00
Stock dividends	20,357	16,717	0.50	0.35
			$ 4.40	$ 3.35
Common Stock				
Cash dividends	38,572,559	28,356,863	3.90	3.00
Stock dividends	4,945,200	3,308,301	0.50	0.35
			$ 4.40	$ 3.35
Remuneration to directors and supervisors	138,243	98,526		
Bonus to employees				
Cash dividends	714,035	-		
Stock dividends	1,590,021	985,263		
	$ 51,737,391	$ 36,622,915		

As of January 27, 2006, the auditors' report date, the appropriation of 2005 earnings had not been proposed by the Board of Directors. Information on the Board of Directors' proposed appropriation of the 2005 earnings and related stockholders' meeting will be published on the web site of the Taiwan Stock Exchange Corporation.

g. Effect of bonus to employees and compensation to directors and supervisors if charged to expense

The aforementioned appropriation of bonus to employees and compensation to directors and supervisors was as follows:

	Amount	Shares (Thousands)	Percentage to Common Shares Outstanding as of each year-end (%)
2004			
Bonus to employees			
Stock dividends	$ 1,590,021	159,002	1.51
Cash dividends	714,035	-	-
Remuneration to directors and supervisors - cash	138,243	-	-
	$ 2,442,299		
2003			
Bonus to employees - stock	$ 985,263	98,526	1.04
Remuneration to directors and supervisors - cash	98,526	-	-
	$ 1,083,789		

Had the bonus to employees and remuneration to directors and supervisors been charged to expense (stock bonus calculation was based on par value) in 2004 and 2003, the basic earnings per share (after tax) for 2004 and 2003 would have decreased (the capitalization of retained earnings in 2005 and 2004 already reflected the retroactive adjustment to the shares) from $4.93 to $4.70 for 2004 and from $3.77 to $3.70 for 2003.

17. INCOME TAX

a. Reconciliation between the income tax expense and the income tax calculated on pre-tax financial statement income based on the statutory tax rate:

	2005	2004
Tax on pretax income at statutory rate (25%)	$ 16,278,107	$ 16,255,504
Add (deduct) tax effects of differences of:		
Permanent		
Gain disposal of investments	(103,227)	(196,717)
Cash dividends	(59,201)	(33,516)
Investment income	(1,064,213)	(1,661,648)
Tax-exempt income	(37,573)	(31,346)
Others	22,767	7,768
	(1,241,447)	(1,915,459)

(Continued)

	2005	2004
Temporary		
Investment income	$ (46,387)	$ (247,203)
Cash dividends	164,897	-
Impairment loss on long-term investments	226,500	-
Investment loss resulting from investees' capital decrease	(102,180)	-
Depreciation	177,765	201,960
Reversal of allowance for loss on inventory	(41,172)	(1,250)
Unrealized gain on intercompany transactions	94,226	973
Unrealized foreign exchange loss (gain)	(89,399)	17,102
Impairment loss on assets	-	148,500
Others	(54,203)	5,095
	330,047	125,177
Income tax payable based on taxable income	15,366,707	14,465,222
Tax credits	(884,544)	(653,154)
Prior periods' adjustments	(48,692)	(48,912)
Separate income tax on interest income	49,867	18,921
Tax payable	14,483,338	13,782,077
Deferred tax adjustments	(17,548)	(376,754)
Income tax	$ 14,465,790	$ 13,405,323

b. Change in income tax payable

	2005	2004
Balance, beginning of the year	$ 9,405,065	$ 6,539,733
Current income tax	14,483,338	13,782,077
Payment in current the year	(16,309,926)	(10,916,745)
Balance, ending of year	$ 7,578,477	$ 9,405,065

c. Deferred income tax assets and liabilities

	2005	2004
Current		
Deferred income tax assets		
Unrealized gain on intercompany transactions	$ 94,358	$ -
Severance pay	57,657	43,638
Provision of allowance for inventory loss	-	41,172
Others	16,971	52,511
	168,986	137,321
Deferred income tax liabilities		
Temporary difference between tax reporting and financial reporting - inventory	(25,011)	(24,826)
	143,975	112,495
Noncurrent		
Deferred income tax assets		
Impairment loss on long-term investment	240,000	13,500
Impairment loss on rental assets	107,927	134,029
Unrealized foreign exchange loss (gain)	(89,399)	4,911
Others	2,301	3,173
	260,829	155,613

(Continued)

	2005	2004
Deferred income tax liabilities		
Temporary difference between tax reporting and financial reporting – depreciation methods	$ (2,881,691)	$ (3,085,778)
Foreign investment income	(323,235)	-
	(3,204,926)	(3,085,778)
	(2,944,097)	(2,930,165)
Total deferred income tax liabilities - net	$ (2,800,122)	$ (2,817,670)

Under related regulations, the above tax credits resulted from certain purchases of machinery and equipment, research and development, employees' training, and investment in newly emerging, important and strategic industries.

Temporary difference for depreciation between tax reporting and financial reporting resulted from the adoption of accelerated depreciation method in the filing of income tax returns.

The Corporation's income tax returns through 2002 had been examined and cleared by the tax authorities.

d. Imputation tax system

Under the Imputation Tax System, domestic stockholders are allowed a tax credit for the income tax paid by the Corporation on earnings generated since 1998. Nonresident stockholders, including holders of overseas depository receipts, are allowed only a tax credit from the 10% income tax on undistributed earnings, which can be used to offset withholding income tax on dividends paid.

As of December 31, 2005, the balance of the imputation credit account (ICA) aggregated $7,263,905 thousand. The estimated creditable tax ratio for the 2005 earnings was 29.11%, and the actual ratio for the 2004 earnings was 28.89%.

As of December 31, 2005, undistributed earnings generated up to 1997 amounted to $35,440 thousand, which is not subject to the Imputation Tax System.

18. PERSONNEL EXPENDITURE, DEPRECIATION AND AMORTIZATION

	2005				2004			
	Cost of Revenues	Operating Expense	Others	Total	Cost of Revenues	Operating Expense	Others	Total
Personnel Expenditure								
Salary	$ 14,425,508	$ 2,504,219	$ 150,488	$ 17,080,215	$ 14,085,149	$ 2,671,911	$ 70,926	$ 16,827,986
Labor and health insurance	521,086	88,829	1,495	611,410	494,236	86,272	981	581,489
Pension and consolation costs	1,167,221	227,063	123,377	1,517,661	978,943	196,734	132,983	1,308,660
Others	497,379	81,214	40,973	619,566	348,065	58,925	32,566	439,556
	$ 16,611,194	$ 2,901,325	$ 316,333	$ 19,828,852	$ 15,906,393	$ 3,013,842	$ 237,456	$ 19,157,691
Depreciation	$ 9,086,337	$ 303,379	$ 29,065	$ 9,418,781	$ 9,672,083	$ 304,316	$ 70,491	$ 10,046,890
Amortization	79,712	1,260	6,548	87,520	318,848	1,605	8,765	329,218

19. EARNINGS PER SHARE

Earnings per share (EPS) were calculated using the following numerators and denominators:

Numerator, net income:

	2005		2004	
	Before Tax	After Tax	Before Tax	After Tax
Net income	$ 65,112,429	$ 50,646,639	$ 65,022,014	$ 51,616,691
Less: Preferred dividend	73,251	56,977	74,383	59,048
Basic EPS				
Net income of common stockholders	65,039,178	50,589,662	64,947,631	51,557,643
Effect of potentially dilutive shares:				
14% cumulative and convertible preferred stocks	73,251	56,977	74,383	59,048
Diluted EPS				
Net income of common stockholders and effect of potentially dilutive shares	$ 65,112,429	$ 50,646,639	$ 65,022,014	$ 51,616,691

Denominator - thousand shares:

	2005	2004
Weighted average of issued common shares	10,545,974	9,888,937
Add: Retroactive adjustments for capitalization of retained earnings	-	655,558
Less: Weighted average of treasury stocks		
Issued stocks purchased by the Corporation	25	21
Corporation's shares held by subsidiaries	78,899	88,686
	10,467,050	10,455,788
Potentially dilutive preferred stocks	40,698	42,177
	10,507,748	10,497,965

In EPS calculation, the number of outstanding shares is retroactively adjusted for the effect of capitalization of retained earnings. Thus basic EPS before tax and after tax decreased from $6.62 to $6.21 and from $5.26 to $4.93, respectively, for the year ended December 31, 2004.

20. RELATED-PARTY TRANSACTIONS

a. Related parties

Related Parties	Relationship with the Corporation
C. S. Aluminum Corporation (CAC)	Subsidiary
China Steel Express Corporation (CSE)	Subsidiary
China Steel Chemical Corporation (CSCC)	Subsidiary
China Steel Global Trading Corporation (CSGT)	Subsidiary
China Hi-ment Corporation (CHC)	Subsidiary
China Ecotek Corporation (CEC)	Subsidiary
China Steel Structure Corporation (CSSC)	Subsidiary
Chung Hung Steel Corporation (CHSC)	Subsidiary
China Steel Machinery Corporation (CSMC)	Subsidiary

(Continued)

Related Parties	Relationship with the Corporation
Gains Investment Corporation (GIC)	Subsidiary
China Steel Security Corporation (CSS)	Subsidiary
China Prosperity Development Corporation (CPDC)	Subsidiary
Info-Champ Systems Corporation (ICSC)	Subsidiary
China Steel Management Consulting Corporation (CSMCC)	Subsidiary
Hi-mag Magnetic Corporation (HMC)	Subsidiary
Long-Yuan-Fa Investment Corporation	Subsidiary
Horng-Yih Investment Corporation	Subsidiary
Goang-Yaw Investment Corporation	Subsidiary
Dragon Steel Corporation (DSC)	Subsidiary
China Steel Asia Pacific Holdings Pte Ltd. (CSAPH)	Subsidiary
Chung Mao Trading (BVI) Corp. (CSGT-BVI)	Indirect investee under Corporation's substantial control
Chung Mao Trading (SAMOA)	Indirect investee under Corporation's substantial control
CSGT (Singapore) Pte. Ltd.	Indirect investee under Corporation's substantial control
Mentor Consulting Corporation (MCC)	Indirect investee under Corporation's substantial control
Steel Castle Technology Corp.	Indirect investee under Corporation's substantial control
Ningbo Huayang Aluminum-Tech Co., Ltd.	Indirect investee under Corporation's substantial control
Betacera Inc.	Indirect investee under Corporation's substantial control
Wabo Globe Trading Corporation (WGTC)	Indirect investee under Corporation's substantial control
Universal Exchange Inc. (UEI)	Indirect investee under Corporation's substantial control
United Steel Engineering and Construction Corporation (USECC)	Indirect investee under Corporation's substantial control
Thintech Materials Technology Co., Ltd.	Indirect investee under Corporation's substantial control
Pao Good Industrial Co., Ltd.	Indirect investee under Corporation's substantial control
Ornasteel Enterprise Corp. (M) Sdn. Bhd. (OEC)	Indirect investee under Corporation's substantial control
Group Steel Enterprise Corp. (M) Sdn. Bhd (GEC)	Indirect investee under Corporation's substantial control
CSGT (JAPAN) Co., Ltd.	Indirect investee under Corporation's substantial control
CSGT Hong Kong Limited	Indirect investee under Corporation's substantial control
CSGT (SHANGHAI) Co., Ltd.	Indirect investee under Corporation's substantial control
China Steel Structure (KUNLUM Mount) Co., Ltd	Indirect investee under Corporation's substantial control
Taiwan Rolling Stock Co., Ltd. (TRSC)	Investee
Kaohsiung Rapid Transit Corporation (KRTC)	Investee
TaiAn Technologies Corporation (TTC)	Investee
Kaohsiung Labor Assemble & Disassemble Co., Ltd.	Indirect investee under Corporation's substantial control

b. Significant related-party transactions:

	2005 Amount	2005 %	2004 Amount	2004 %
Sales				
CSSC	$ 3,243,159	2	$ 3,625,648	2
OEC	2,513,078	1	3,486,361	2
CSCC	1,754,811	1	1,421,948	1
CHSC	1,140,929	1	1,640,709	1
Others	2,774,069	1	2,510,603	1
	$ 11,426,046	6	$ 12,685,269	8
Purchases				
CSE	$ 13,220,944	16	$ 17,390,754	28
CAC	1,784,766	2	1,702,437	3
CSGT	1,161,914	1	635,020	-
CHSC	440,996	1	1,235,664	2
Others	505,411	1	445,656	2
	$ 17,114,031	21	$ 21,409,531	35

Sales to and purchases from related parties are made under normal terms, except those with OEC, CAC, CSCC, CHC, and CSE, for which there were no similar transactions in the market for comparison.

Assets lease

The Corporation leases its land and office to CAC, CSSC, CHC, CSCC and CSMC, etc. Rentals are calculated at 4% to 10% p.a. of land value as published by the government or under arm's length basis. Rentals are collected semiannually, except for rentals from CAC and that from CSCC on the storage tank and pipelines, which are collected monthly. Lease information is as follows:

	Expiry Date	Rental Income 2005	Rental Income 2004
CAC	February 2016	$ 47,353	$ 51,783
CSMC	November 2011	22,959	22,967
CSCC	December 2010	19,939	20,441
CSSC	May 2018	16,054	20,469
CHC	April 2012	4,927	4,938
Others	April 2009	3,606	3,270
		$ 114,838	$ 123,868

Factoring of notes receivable

The Corporation sold some of its notes receivable to MCC without recourse for $442,559 thousand for the year ended 2004. The related expenses were $2,639 thousand in 2004.

Property transaction

In January 2005, the Corporation bought land from CPDC for office construction. The price was based on an agreement between the Corporation and CPDC.

Other expenditures

Other expenditures paid to related parties pertained to furnace slag and clearance services, property maintenance or construction, export shipping charges, commissions for export and import services, etc.

	2005	2004
CEC	$ 2,040,106	$ 983,665
CSMC	1,260,775	669,277
CSSC	1,017,263	795,548
USECC	544,868	387,943
CHC	522,038	528,118
CSE	274,913	264,367
Others	1,071,295	1,091,052
	$ 6,731,258	$ 4,719,970

Other revenues

Other revenues pertained to labor services, processing of products, utilities, and other services to related parties.

	2005	2004
KRTC	$ 1,225,521	$ 282,048
DSC	239,535	55,415
CHSC	238,711	131,947
CAC	156,169	137,459
CSCC	106,010	89,631
Others	325,852	1,277,673
	$ 2,291,798	$ 1,974,173

Short–term loans payable to related parties

In January 2005, the Corporation borrowed $1,238,738 thousand (USD$38,500 thousand) at no interest from CSAPH and repaid in September 2005.

c. Balances at year-end

	2005		2004	
	Amount	%	Amount	%
Receivables				
DSC	$ 166,031	8	$ 342	-
CSCC	115,473	6	139,995	7
Others	124,446	6	252,642	12
	$ 405,950	20	$ 392,979	19
Payables				
CSE	$ 761,699	33	$ 1,158,805	38
CAC	86,247	4	109,130	4
CHSC	-	-	313,121	10
Others	22,561	-	29,298	-
	$ 870,507	37	$ 1,610,354	52

21. PLEDGED ASSETS

a. Time deposits of $4,631,694 thousand and $4,731,694 thousand as of December 31, 2005 and 2004, respectively, had been pledged mainly as collateral for bank overdraft, etc.

b. The Corporation provided machinery and equipment with carrying values of $2,723,469 thousand and $2,991,337 thousand as of December 31, 2005 and 2004, respectively, as collaterals for long-term credit lines with banks.

22. COMMITMENTS AS OF DECEMBER 31, 2005

a. The Corporation engaged in several construction contracts, under guarantees of $1,279,282 thousand granted by The International Commercial Bank of China and Taipei Fubon Bank.

b. Unused letters of credit amounted to $10.6 billion.

c. The Corporation sold its notes receivable of $680,551 thousand to Chung Hsing Bills Finance Corporation (CHBFC) and also fully endorsed these receivables. To reduce its risk on this endorsement, the Corporation obtained credit risk insurance from an insurance company and also entered into an agreement with CHBFC to eliminate any loss on this credit risk.

d. The Corporation has raw material purchase contracts with suppliers from Australia, India, Brazil, Canada, Indonesia, North Korea, Japan, Philippines, Russia, Vietnam and domestic companies with contract terms of 1 to 10 years. Contracted annual purchases of 8,600,000 metric tons of coal, 16,000,000 metric tons of iron ore, and 2,800,000 metric tons of limestone are at prices negotiable every year. Unpaid purchase amounts as of December 31, 2005 were $83.2 billion (16,950,000 metric tons of coal; 19,720,000 metric tons of iron ore; and 300,000 metric tons of limestone).

e. CHSC entered into one Syndicated Credit Facility Agreement with Chiao Tung Bank and 23 other Banks, the other Agreement with The International Commercial Bank of China and 19 other financial institutions. Under these agreements, the Corporation and its related parties should collectively hold at least 30% of CHSC's issued shares and have over half of CHSC's board seats as well as significant influence on its operations. As of December 31, 2005, the Corporation had total direct and indirect shareholdings in CHSC of 39% and two-thirds of the seats in the Board of Directors and influence on its operations.

f. KRTC entered a Syndicated Credit Facility Agreement with the Taiwan Bank and 23 other Banks. Under this agreement, the Corporation and its subsidiaries should collectively hold at least 30% of KRTC's capital stock during the construction period. As of December 31, 2005, the Corporation's total equity in KRTC was 31%.

23. FINANCIAL INSTRUMENTS

For the years ended December 31, 2005 and 2004, the Corporation had no derviative transactions.

As of December 31, 2005 and 2004, the estimated fair values of nonderivative financial instruments were as follows:

	2005		2004	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
Cash and cash equivalents	$ 13,239,481	$ 13,239,481	$ 26,402,765	$ 26,402,765
Short-term investments	16,693,866	20,069,967	23,855,035	26,360,811
Notes receivable	1,641,032	1,641,032	1,711,335	1,711,335
Accounts receivable	2,034,629	2,034,629	2,062,163	2,062,163
Other receivable	546,006	546,006	226,180	226,180
Pledged time deposits	4,631,694	4,631,694	4,731,694	4,731,694
Long-term investments	65,881,813	71,261,909	50,631,972	56,403,837
Refundable deposits	346,830	346,830	73,793	73,793
Liabilities				
Short-term loans and overdraft	11,473,383	11,473,383	4,465,959	4,465,959
Commercial paper payable	1,499,376	1,499,376	1,799,052	1,799,052
Notes and accounts payable	2,336,407	2,336,407	3,086,340	3,086,340
Accrued expenses	7,159,512	7,159,512	7,015,299	7,015,299
Long-term bonds	10,000,000	10,034,101	15,000,000	15,880,323
Long-term bank debts	3,496,250	3,496,250	2,861,200	2,861,200

The assumptions and methods used to estimate the fair values of financial instruments are as follows:

1) The carrying values of cash and cash equivalents, notes and accounts receivable, other receivables, pledged time deposits, short-term bank loans and overdraft, commercial paper payable, notes and accounts payable, accrued expenses and dividend payable approximate fair value because of the short maturities of these instruments.

2) The fair values of short-term investments and long-term investments are determined at market values or net asset values.

3) The fair values of long-term liabilities are determined by the present values of future cash flows, with the values discounted at the interest rates of similar long-term debts available for the Corporation.

4) The fair values of refundable deposits are determined at their carrying values.

FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA AND OPERATING RESULTS

(in thousands of New Taiwan Dollars unless otherwise noted)

	2005	2004	2003	2002	2001
Revenues	186,317,669	168,270,036	129,702,797	99,939,846	85,101,266
Operating costs	125,037,400	110,249,399	88,991,768	79,566,230	77,707,736
Gross profit	67,325,877	63,958,975	45,998,550	24,828,036	11,877,433
Unrealized gain on intercompany transaction	376,905	3,890	2,826	-	-
Income from operations	60,903,364	58,016,747	40,708,203	20,373,616	7,393,530
Non-operating income (loss)	4,209,065	7,005,267	4,398,686	322,198	1,013,269
Income before income tax	65,112,429	65,022,014	45,106,889	20,695,814	8,406,799
Net income	50,646,639	51,616,691	36,979,214	16,839,080	7,459,750
Current assets	75,851,757	85,093,446	69,040,716	47,581,405	46,279,467
Long-term investments	65,881,813	50,631,972	44,558,206	35,532,286	35,026,411
Net properties	105,567,044	99,334,963	102,717,268	107,471,096	112,247,965
Other assets	3,461,726	3,348,613	4,354,529	4,857,546	5,383,157
Total assets	250,762,340	238,408,994	220,670,719	195,442,333	198,937,000
Current liabilities	45,109,246	33,673,946	34,350,984	27,026,296	25,601,247
Long-term liabilities	2,769,030	12,861,200	17,225,300	25,050,000	37,655,293
Reserve for land value increment tax	2,171,124	3,370,813	3,370,813	3,370,813	3,370,813
Other liabilities	4,086,449	4,341,921	4,686,838	4,989,828	5,661,212
Total liabilities	54,135,849	54,247,880	59,633,935	60,436,937	72,288,565
Capital stock	105,866,716	99,311,138	95,000,857	93,157,609	91,089,364
Capital surplus	2,744,741	1,172,320	693,047	481,597	416,570
Retained earnings	90,107,602	85,642,418	66,934,700	44,960,063	37,434,024
Unrealized loss on investees' long-term investments	(466,483)	(454,039)	(485,104)	(555,491)	(569,837)
Cumulative translation ajustments	(335,992)	(365,599)	91,700	222,391	198,881
Investees' unrecognized net loss on pension cost	(36,872)	(32,003)	(21,711)	(15,696)	(15,508)
Treasury stock[12]	(1,273,221)	(1,113,121)	(1,176,705)	(3,245,077)	(1,905,059)
Total stockholders' equity	196,626,491	184,161,114	161,036,784	135,005,396	126,647,435
Total liabilities and stockholders' equity	250,762,340	238,408,994	220,670,719	195,442,333	198,937,000
Stockholders' equity per common share (NT$)	18.57	18.54	16.95	14.49	13.90
Earnings per common share (NT$)	4.83	5.26	3.94	1.86	0.82
Earnings per common share (NT$) [13]	4.83	4.93	3.54	1.65	0.70

[12] Effective 2002, the Corporation's shares acquired and held by subsidiaries are accounted for as treasury stocks.

[13] After making retroactive adjustments to take into account stock dividends.

FIVE-YEAR SUMMARY OF SELECTED FINANCIAL RATIOS AND PERCENTAGES

	2005	2004	2003	2002	2001
Current ratio (%)	168.15	252.70	200.99	176.06	180.77
Ratio of fixed assets to long-term liabilities and stockholders' equity (%)	52.94	50.42	57.62	67.15	68.32
Total liabilities to stockholders' equity	0.28	0.29	0.37	0.45	0.57
Net income rate (%)	27.18	30.67	28.51	16.85	8.77
Profitability in terms of total assets (%)	20.93	22.80	18.27	9.38	4.66
Profitability in terms of stockholders' equity (%)	26.60	29.91	24.98	12.87	5.71
Revenue growth rate, year to year (%)	10.73	29.74	29.78	17.44	(15.44)
Stockholders' equity growth rate, year to year (%)	6.77	14.36	19.28	6.60	(5.95)

ANALYSIS OF FINANCIAL STATUS AND OPERATING RESULTS

1. Two-year analysis of flow ratios

Ratio	December 31, 2005	December 31, 2004	Increase (Decrease)
Cash flow ratio (%)	109	161	(32)
Appropriate cash flow ratio (%) [14]	119	149	(20)
Cash reinvestment ratio (%)	2	7	(71)

[14] Based on data over the past five years.

Analysis of changes in above ratios :

(1) Decrease of cash flow ratio from the previous year by 32% is mainly attributed to increase of short term bank loans and to the increase of reclassified long-term bank loans – current portion.

(2) Decrease in appropriate cash flow ratio from the previous year by 20% is mainly attributed to increase of cash dividend payment and increase of capital expenditure for the revamp of No. 2 blast furnace.

(3) Decrease in cash reinvestment ratio from the previous year by 71% is mainly attributed to increase of cash dividend payment, revamp of No. 2 blast furnace, and payment of NT$13,200 million for Dragon Steel's capital increase.

2. Operation Analysis:

(1) The increase of NT$373,015 thousand in unrealized gain on intercopmpany transaction is mainly attributed to increase of number of subsidiaries controlled in substance by the Corporation; and according to the amended "Statements of Financial Accounting Standards No.7 - Consolidated Financial Statement", the unrealized gains on intercompany transactions with these subsidiaries must be wholly written off by the Corporation excersing control in substance instead of being written off in proportion to ownership.

(2) Decrease of non-operating income by NT$2,559,346 thousand is mainly attributed to decrese of investment income under the equity method. (Mainly attributed to large impairment loss recognized by Chung Hung Steel on its inventory due to recession in the steel market.)

Issue	Unsecured Corporate Bond	Unsecured Corporate Bond	Unsecured Corporate Bond
Issue Date	From November 20, 2000 to December 11, 2000	From June 7, 2001 to June 28, 2001	From November 2, 2001 to November 16, 2001
Face Amount	NT$1,000,000	NT$1,000,000	NT$1,000,000
Issue 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
Coupon	5.18%	4.27%	Bond A:3.1% Bond B:3.0763%
Maturity	Five years (due from November 20, 2005 to December 11, 2005)	Five years (due from June 7, 2006 to June 28, 2006)	Five years (due from November 2, 2006 to November 16, 2006)
Trustee	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	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
Auditor of the Issuer	Deloitte & Touche (A member firm of Deloitte Touche Tohmatsu)	Deloitte & Touche (A member firm of Deloitte Touche Tohmatsu)	Deloitte & Touche (A member firm of Deloitte Touche Tohmatsu)
Repayment	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, Bond A: interest shall be paid annually against interest coupon commencing from the issue date. Bond B: 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	2005	2004	2003
Common	Highest	37.6	37.4	28.7
	Lowest	23.2	27.0	18.9
Preferred	Highest	37.2	37.0	30.8
	Lowest	27.5	29.5	24.5

Source of Information: Taiwan Stock Exchange Corporation

PRODUCTS AND USES

Products	Major Uses
Plates	Shipbuilding, bridges, steel structures, oil country tubular goods (OCTGs), 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, oil barrels, 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, color coated sheets, building materials and components
Electrical steel coils	Motors, transformers and stabilizers

THREE-YEAR SUMMARY OF PRODUCTION AND SALES VOLUMES

(In tons)

Product	Volume	2005	2004	2003
Steel plates	**Production**	**1,092,799**	1,167,083	986,081[15]
	Sales	**1,084,629**	1,197,730	1,059,731[15]
Steel bars[16]	**Production**	**596,648**	569,443	555,424
	Sales	**635,356**	611,765	577,391
Wire rods	**Production**	**1,207,256**	1,287,021	1,285,253
	Sales	**1,211,944**	1,305,604	1,266,610
Hot rolled steel products	**Production**	**3,908,732**	4,095,068	4,468,965[15]
	Sales	**3,978,283**	4,246,913	4,548,040[15]
Cold rolled steel products[17]	**Production**	**2,695,851**	2,752,700	2,629,781
	Sales	**2,728,482**	2,885,865	2,707,294
Commercial slabs, blooms and billets	**Production**	**181,011**	209,526	236,828
	Sales	**151,388**	165,198	204,951
Pig iron	**Production**	**15,711**	20,448	25,921
	Sales	**13,929**	17,041	21,970
Total	**Production**	**9,698,007**	10,101,289	10,188,253
	Sales	**9,804,011**	10,430,116	10,385,987

[15] Including stainless steel

[16] Including bars contracted out for hire-rolling

[17] Including electrogalvanized, hot-dip galvanized products and electric sheets

OWNERSHIP OF SUBSIDIARIES AND OTHER EQUITY INTERESTS

December 31, 2005

Companies	Investment Amounts[18] (NT$1,000)	Holding Ratio (%)	Evaluation Method
Dragon Steel Corporation	15,122,411	47	Equity
China Steel Express Corporation	7,870,266	100	Equity
C.S. Aluminum Corporation	7,031,956	100	Equity
Gains Investment Corporation	6,341,240	100	Equity
China Prosperity Development Corporation	4,721,157	100	Equity
Kaohsiung Rapid Transit Corporation	3,112,060	31	Equity
China Steel Asia Pacific Holdings Pte Ltd [19]	2,408,502	100	Equity
Chung Hung Steel Corporation [20]	1,138,751	24	Equity
China Steel Global Trading Corporation	1,135,359	100	Equity
China Steel Chemical Corporation	1,099,876	30	Equity
China Steel Machinery Corporation	826,656	100	Equity
China Hi-ment Corporation	619,815	20	Equity
Info-Champ Systems Corporation	554,411	100	Equity
China Steel Structure Co., Ltd.	471,177	18	Equity
China Ecotek Corporation	407,238	36	Equity
Horng Yih Investment Corporation	275,598	99	Equity
Long Yuan Fa Investment Corporation	274,234	99	Equity
Goang Yaw Investment Corporation	267,709	99	Equity
China Steel Security Corporation	236,689	100	Equity
Taiwan Rolling Stock Co., Ltd.	164,447	27	Equity
China Steel Management Consulting Corporation	8,533	38	Equity
TaiAn Technologies Corporation	3,420	17	Equity
HIMAG Magnetic Corporation [21]	0	50	Equity
Less: shares held by subsidiaries accounted for as treasury stock	(1,265,786)		
Subtotal	52,825,719		
Industrial Bank of Taiwan	1,000,000	4	Cost
Maruichi Steel Tube Ltd.	757,919	2	Cost
CDIB & Partners Investment Holding Corporation	500,000	5	Cost
Allied Material Technology Corporation	243,290	2	Cost
Asia Pacific Broadband Telecom Co., Ltd.	240,000	2	Cost
Kaohsiung Arena Development Corporation	135,000	18	Cost
CDIB Bio Science Ventures I, Inc.	120,000	5	Cost
Phalanx Biotech Group	105,370	15	Cost
Overseas Investment & Development Corporation	50,000	6	Cost
CTB I Venture Capital Co., Ltd	50,000	5	Cost
Tang Eng Iron Works Co., Ltd. [21]	0	9	Cost
Taiwan High Speed Rail Corporation - preferred stock C	4,646,991	19	Cost
East Asia United Steel Corporation - preferred stock A	2,794,000	29	Cost
Dragon Steel Corporation – preferred stock A	999,877	100	Cost
Long-term fund:			
Sino-Canada Biotechnology Development Fund, LP	179,263		
Total	65,881,813		

[18] Invested amounts are based on balances in the account Long-term Investments.

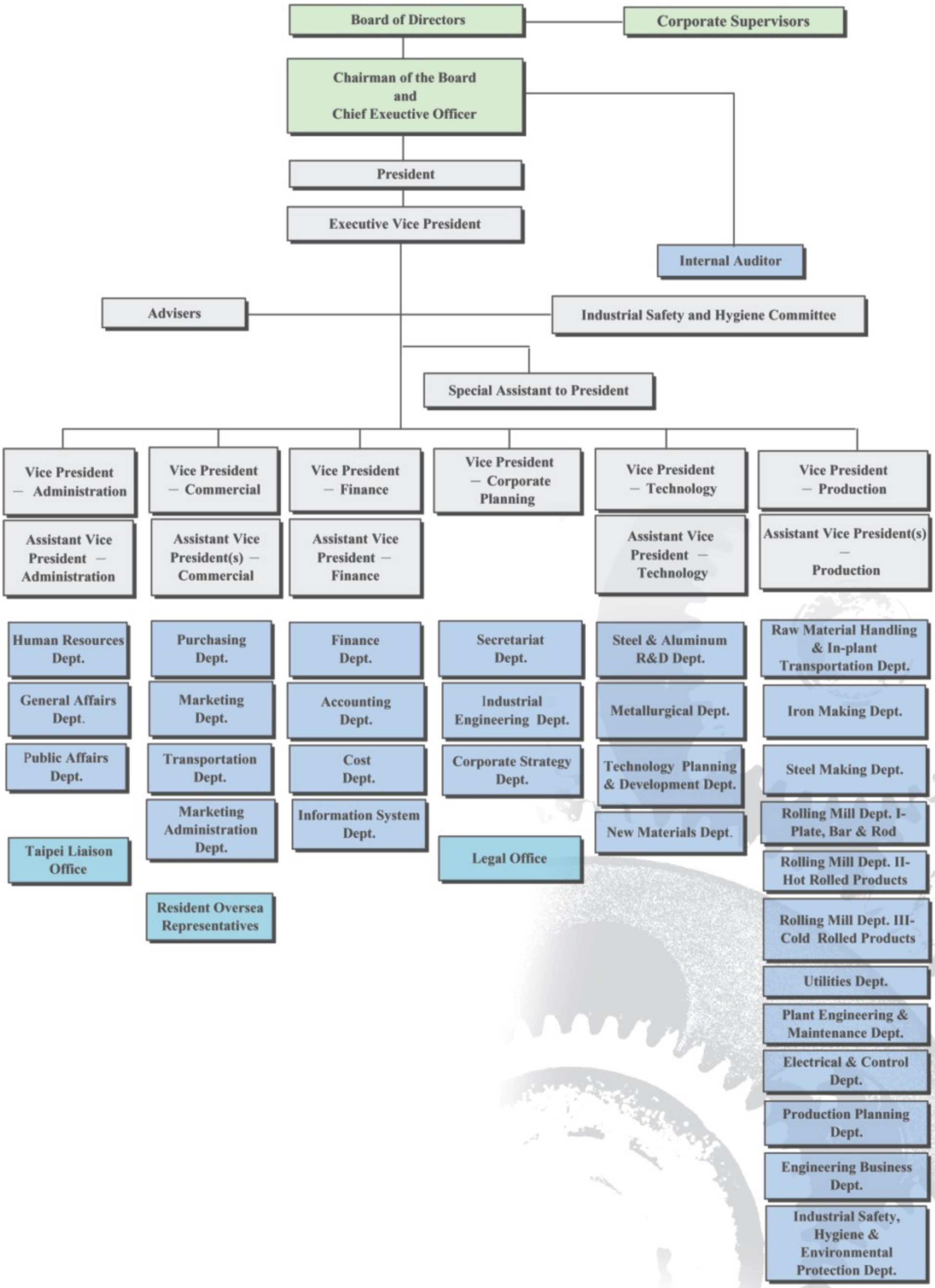
[19] Through China Steel Asia Pacific Holding Pte Ltd. the Corporation indirectly holds 45 %, 45% and 10% of Ornasteel Enterprise Corporation (M) Sdn. Bhd., Group Steel Corporation (M) Sdn. Bdh., and Wuxi Teco Electric & Machinery Co., Ltd. respectively.

[20] The Corporation's total equity in Chung Hung Steel Corporation was 39 %, of which 24% was directly owned and 15% was indirectly owned through Goang Yao, Horng Yih and Long Yuan Fa.

[21] The Corporation fully recognized in 2002 the balances of its investment in HIMAG Magnetic Corporation and Tang Eng Iron Works Co., Ltd. as investment losses to reflect these investees' persistent operation losses.

ORGANIZATION CHART OF CHINA STEEL CORPORATION

(As revised March 21, 2006)



DIRECTORS AND SUPERVISORS

(as of December 31, 2005)

Chairman of the Board	Yao-Chung Chiang	Representing Ministry of Finance, R. O. C.
Director	Yu-Po Cheng	Representing Ministry of Finance, R. O. C
Director	Feng-Sheng Wu	Representing Ministry of Finance, R. O. C
Director	Ying-Yuan Lee	Representing Bureau of Labour Insurance
Director	Yuan-Cheng Chen	Representing Chiun Yu Investment Corporation
Director	Cheng-I Weng	Representing Gau Ruei Investment Corporation
Director	Iuan-Yuan Lu	Representing Ever Wealthy International Corporation
Director	Shun-Tsai Wu	Representing China Steel Labor Union
Director	Tzer-Haw Chen	Representing Chung Hung Steel Corporation
Director	Pyng-Yeong Liang	Representing Hsing Loong Investment & Development Co., Ltd.
Director	Ho-Chong Chen	Representing TS Investment Development Inc.
Supervisor	Chen-Cheng Huang	Representing Ministry of Finance, R. O. C
Supervisor	Wang-Ping Gu	Representing Ministry of Finance, R. O. C
Supervisor	Benny T. Hu	Representing Dragon Steel Corporation

SENIOR MANAGEMENT

(as of December 31, 2005)

Chairman of the Board and Chief Executive Officer	Yao-Chung Chiang
President	Yuan-Cheng Chen
Executive Vice President (Concurrently Spokesman for the Corporation)	Lo-Min Chung
Vice President — Administration	Chao-Tung Wong
Vice President — Commercial	Tzer-Haw Chen
Assistant Vice President — Finance	King-Hsing Chang
Vice President — Corporate Planning	Chao-Ching Chen
Vice President — Technology	Guo-Hwa Cheng
Vice President — Production	Chaur-Hwa Ou

MAIN BUSINESSES AND ADDRESSES OF SUBSIDIARIES AND OTHER CSC-INVESTED COMPANIES

SUBSIDIARIES

C. S. Aluminium Corporation
Chairman: C. C. Chen
President: S. T. Chang
Main business: aluminum products
Address: 17 Tong Lin Road, Siaogang District, Kaohsiung 81260, Taiwan, R.O.C.
Tel : 886-7-871-8666
Fax: 886-7-872-1852

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 80658, Taiwan, R.O.C.
Tel : 886-7-337-8888
Fax: 886-7-338-1310

China Steel Chemical Corporation
Chairman: Y. C. Chiang
President: P. Y. Chen
Main business: coal tar chemicals
Address: 5F-1, 47 Chunghua 4th Road, Ling Ya District, Kaohsiung 80245, Taiwan, R. O. C.
Tel : 886-7-338-3515
Fax: 886-7-338-3516

China Steel Global Trading Corporation
Chairman: Y. C. Chiang
President: K. M. Chen
Main businesses: import / export
Address: 31F, 8 Ming Chuan 2nd Road, Chien Chen District, Kaohsiung 80658, Taiwan, R. O. C.
Tel: 886-7-332-2168
Fax: 886-7-335-6411~2

China Hi-ment Corporation
Chairman: R. S. Jong
President: S. Y. Chiang
Main businesses: pulverized blast furnace slag and slag cement
Address: 10F, 243 Yi-Hsin 1st Road, Chien Chen District, Kaohsiung 80652, Taiwan, R.O.C.
Tel : 886-7-336-8377
Fax: 886-7-336-8433

China Ecotek Corporation
Chairman: K. L. Du
President: Q. G. Shyng
Main businesses: engineering, design and construction of environmental protection installations
Address: 8F, 8 Ming Chuan 2nd Road, Chien Chen District, Kaohsiung 80658, Taiwan, R.O.C.
Tel : 886-7-330-6138
Fax: 886-7-339-4016

China Steel Structure Co., Ltd.
Chairman: J. Y. Chen
President: S. J. Su
Main businesses: steel structures, construction
Address: 1 Chung Kang Road, Siaogang District, Kaohsiung 81233, Taiwan, R.O.C.
Tel: 886-7-802-3433
Fax: 886-7-801-9150

Chung Hung Steel Corporation
Chairman: T. H. Chen
President: J. G. Liu
Main business: hot rolled steel products
Address: 317 Yu-Liao Road, Chiao Tou, Kaohsiung 82544, Taiwan, R.O.C.
Tel: 886-7-611-7171
Fax: 886-7-611-0594

China Steel Machinery Corporation
Chairman: C. H. Ou
President: W. D. Hsu
Main businesses: machinery manufacturing
Address: 3 Taichi Road, Siaogang District, Kaohsiung 81246, Taiwan, R.O.C.
Tel : 886-7-802-0111
Fax: 886-7-803-3515

Gains Investment Corporation
Chairman: G. H. Cheng
President: L. R. Hu
Main business: hi-tech investments
Address: 30F, 6 Ming Chuan 2nd Road, Chien Chen District, Kaohsiung 80658, 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 80046, Taiwan, R.O.C.
Tel: 886-7-229-9678
Fax: 886-7-226-4078

China Prosperity Development Corporation
Chairman: C. T. Wong
President: K. M. Chen
Main businesses: real estate development and investment
Address: Room 6, 24F, 31 Hai Bien Road, Ling Ya District, Kaohsiung 80248, Taiwan, R.O.C.
Tel: 886-7-536-2500
Fax: 886-7-536-2413

MAIN BUSINESSES AND ADDRESSES OF SUBSIDIARIES AND OTHER CSC-INVESTED COMPANIES

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 80658, Taiwan, R.O.C.
Tel : 886-7-535-0101
Fax: 886-7-535-0110

China Steel Management Consulting Corporation
Chairman: C. T. Wong
President: Y. C. Guu
Main business: management consulting
Address: 1 Chung Kang Road, Siaogang District, Kaohsiung 81233,Taiwan, R.O.C.
Tel : 886-7-801-0723
Fax: 886-7-803-3568

HIMAG Magnetic Corporation
Chairman: P.Y. Chen
President: T.C.Lin
Main business: magnetic materials
Address: 24-1 Chien Kuo Road, Nei Pu Industrial Park, Ping Tung Hsien 91252, Taiwan, R.O.C.
Tel : 886-8-778-0222
Fax: 886-8-778-0227

Dragon Steel Corporation
Chairman: K. H. Chang
President: C. H. Huang
Main business: hot-rolled steel products
Address: No. 100, Lung Chang Road, Li Shui Village, Lung Ching Hsiang, Taichung Hsien 43401, Taiwan, R.O.C.
Tel : 886-4-630-6088
Fax: 886-4-630-6066

Group Steel Corporation (M) Sdn. Bhd. [22]
Managing Director: Y. H. Chung
Main business: hot-dip galvanized coils, color sheets
Address: 180,Kawasan Industri Ayer Keroh, 75450 Melaka, Malaysia
Tel : 60-6-231-9990
Fax: 60-6-231-5310

Ornasteel Enterprise Corporation (M) Sdn. Bhd. [22]
Managing Director: Y. H. Chung
Main business: cold rolled steel products
Address: 180, Kawasan Industri Ayer Keroh, 75450 Melaka, Malaysia
Tel : 60-6-231-9990
Fax: 60-6-231-5310

OTHER CSC-INVESTED COMPANIES

Kaohsiung Rapid Transit Corporation
Chairman: Y. C. Chiang
President: C. B. Fan
Main businesses: mass rapid transit engineering and services
Address: 5F, 8 Ming Chuan 2nd Road, Chien Chen District, Kaohsiung 80665, Taiwan, R.O.C.
Tel: 886-7-793-9666
Fax: 886-7-793-9999

Taiwan Rolling Stock Co., Ltd.
Chairman: Y. C. Chiang
President: Koji Aso
Main business: rolling stock
Address: 458 Hsin Hsing Road, Hu Kou Hsiang, Hsin-chu Hsien 30353, Taiwan, R.O.C.
Tel : 886-3-597-4905
Fax: 886-3-597-4921

Tang Eng Iron Works Co., Ltd.
Chairman: S. T . Liu
President: H. P. Chen
Main businesses: stainless steel, construction
Address: No.53, Chung Hua 4th Road, Lin Ya District, Kaohsiung 80245, Taiwan, R.O.C.
Tel : 886-7-335-1108
Fax: 886-7-335-0348

Overseas Investment & Development Corporation
Chairman: K. H. Wu
President: Victor Hsiah
Main business: oversea investments
Address: Room 2406, 24F, No. 333, Keelung Road Section 1, Taipei 11012, Taiwan, R.O.C.
Tel : 886-2-2757-6965
Fax: 886-2-2757-6932

CDIB & Partners Investment Holding Corporation
Chairman: Daniel Wu
President: Paul Wai Kai Wong
Main business: industrial investments
Address: 6F, 125 Nan King East Road Sec. 5, Song Shan District, Taipei 10504, Taiwan, R.O.C.
Tel : 886-2-2745-7181
Fax: 886-2-2761-474

Industrial Bank of Taiwan
Chairman: Kenneth C. M. Lo
President: Henry W. Peng
Main business: industrial banking
Address: 3F, 101 Song Jen Road, Hsin Yi District, Taipei 11013, Taiwan, R.O.C.
Tel : 886-2-2345-1101
Fax: 886-2-2345-1102

[22] China Steel Corporation's investment is through China Steel Asia-Pacific Holdings Pte. Ltd.

MAIN BUSINESSES AND ADDRESSES OF SUBSIDIARIES AND OTHER CSC-INVESTED COMPANIES

Allied Material Technology Corporation

Chairman & CEO: Charles Yu

President: Arthur Chou

Main business: color filters for thin film transistor-liquid crystal display (TFT-LCD)

Address: 458 Pingjen Section, Jung Shing Road, Pingjen City, Taoyuan Shien 32460, Taiwan, R.O.C.

Tel : 886-3-469-7107

Fax: 886-3-469-7005

Maruichi Steel Tube Ltd.

Honorary Chairman of the Board: T. Horikawa

President: S. Yoshimura

Main business: steel tubes

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

Tel : 81-6-6531-0102

Fax: 81-6-6531-0132

Asia Pacific Broadband Telecom Co., Ltd.

Chairman: S. S. Y. 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 11046, Taiwan, R.O.C.

Tel : 886-2-8780-8777

Fax: 886-2-8780-9200

CDIB Bio Science Ventures I, Inc.

Chairman & CEO: Benny T. Hu

Main business: bioscience investment

Address: 30F, 99 Tun Hwa South Road, Sec. II, Taipei 10682, Taiwan, R.O.C.

Tel : 886-2-2325-0556

Fax: 886-2-2754-7708

Phalanx Biotech Group

Chairman: Andrew Wang

President: Y. L. Lee

Main business: biochip manufacturer

Address: 6th Floor, 6 Technology Road 5, Science-Based Industrial Park, Hsinchu 30077, Taiwan , R.O.C.

Te l : 886-3-5781168

Fax: 886-3-5785099

Wuxi Teco Electric & Machinery Co., Ltd.[22]

Chairman: S. C. Lin

President: C. Y. Huang

Main business: induction motor manufacturing

Address: No.9, Changjiang South Road, Wuxi, Jiangsu, China China

Tel : 86-5108-5342005

Fax: 86-5108-5342053

East Asia United Steel Corp.

Chairman: Fumio Hombe

President: Fumio Hombe (Concurrently)

Main business: holding company owning 100% of the shares of Sumikin Iron & Steel Corp.

Address: Triton Square Office Tower Y 8-11, Harumi, 1-Chome, Chuo-Ku, Tokyo 104-6411, Japan

Tel : 81-3-4416-6788

Fax: 81-3-4416-6149

CTB I Venture Capital Co.,Ltd

Chairman: F.Y.Huang

President: C.L.Huang

Main business: investments in hi-tech businesses

Address: 5th Floor, No.91, Heng Yang Road, Taipei 10009, Taiwan, R.O.C.

Tel : 886-2-87892000

Fax: 886-2-87893000

Taiwan High Speed Rail Corporation

Chairman: Nita Ing

President: K.C.Liu

Main business: high speed rail engineering and services

Address: 3rd Floor, No.100, Hsin Yi Road, sec.v, Taipei 11047, Taiwan, R.O.C.

Tel : 886-2-8789-2000

Fax: 886-2-8789-3000

Taian Technologies Corporation

Chairman: Y. C. Chiang

President: Steve Lee

Main business: bioscience investment consulting and management

Address: Nankang Software Park, Building E 11F, 19-11, San Chong Rd., Nankang, Taipei 11501, Taiwan, R.O.C.

Tel : 886-2-2655-3299

Fax: 886-2-2655-3209

Taigen Biotechnology Co., Ltd.

Chairman: S.C. Ho

President: M.C. Hsu, Ph. D.

Main business: pharmaceutical research and development

Address: 7F 138 Shin Ming Road, Taipei 11470, Taiwan, R.O.C.

Tel : 886-2-8177-7072

Fax: 886-2-2796-3606

Kaohsiung Arena Development Corporation

Chairman: L. M. Chung

President: Victor Lin

Main business: construction and operation of stadiums and arenas for competitive sports and recreation.

Address: 15F, No.12 Bo-ai 3rd Road, Zuoying District, Kaohsiung 813, Taiwan, R.O.C.

Tel : 886-7-341-6852

Fax: 886-7-974-5525