

# **China Steel Corporation**

**Financial Statements as of June 30, 2001 and 2000**

**Together with Independent Auditors' Report**

The reader is advised that these financial statements have been prepared originally in Chinese. In the event of a conflict between these financial statements and the original Chinese version or difference in interpretation between the two versions, the Chinese language financial statements shall prevail.

English Translation of a Report Originally Issued in Chinese

Independent Auditors' Report

July 20, 2001

The Board of Directors and Stockholders  
China Steel Corporation

We have audited the balance sheets of China Steel Corporation (the Corporation) as of June 30, 2001 and 2000, and the related statements of income, changes in stockholders' equity and cash flows for the six months 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 auditing standards generally accepted in the Republic of China. Those 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 June 30, 2001 and 2000, and the results of its operations and its cash flows for the six months then ended in conformity with accounting principles generally accepted in the Republic of China.

Notice to Readers

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 applied in the Republic of China.

English Translation of Financial Statements Originally Issued in Chinese

CHINA STEEL CORPORATION

BALANCE SHEETS  
(In Thousands of New Taiwan Dollars)

	June 30					June 30			
	2001		2000			2001		2000	
A S S E T S	Amount	%	Amount	%	LIABILITIES AND STOCKHOLDERS' EQUITY	Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents (Note 2)	\$ 12,279,324	6	\$ 15,313,433	7	Short-term bank loans (Notes 8 and 17)	\$ 1,289,451	1	\$ 4,763,321	2
Short - term investments (Notes 2 and 3)	14,749,414	7	12,908,755	6	Commercial papers payable (Note 9)	2,009,899	1	3,881,196	2
Notes receivable (Note 16)	315,370	-	244,589	-	Accounts payable (Note 16)	2,270,574	1	2,654,746	1
Accounts receivable (Note 16)	1,447,506	1	1,418,778	1	Income tax payable (Note 13)	849,599	-	1,759,277	1
Inventories (Notes 2 and 4)	16,992,649	8	15,067,991	7	Dividends payable (Note 12)	13,369,242	6	11,341,867	5
Pledged time deposits (Notes 8 and 17)	7,600,000	4	7,500,000	3	Other payable	4,084,972	2	4,037,461	2
Other (Notes 13 and 20)	574,910	-	1,168,027	1	Long-term liabilities due within one year (Notes 10 and 11)	11,657,419	6	9,487,746	5
Total Current Assets	53,959,173	26	53,621,573	25	Other	1,666,250	1	2,119,907	1
LONG-TERM INVESTMENTS (Notes 2, 5 and 19)	34,927,479	17	32,367,865	15	Total Current Liabilities	37,197,406	18	40,045,521	19
PROPERTIES (Notes 2, 6, 16 and 17)					LONG-TERM LIABILITIES				
Cost					Bonds (Note 10)	31,700,000	15	30,050,000	14
Land	5,129,690	3	5,130,874	2	Debts (Note 11)	3,902,276	2	5,587,038	3
Land improvements	4,316,764	2	4,305,016	2	Total Long - Term Liabilities	35,602,276	17	35,637,038	17
Buildings and improvements	35,536,166	17	35,364,448	17	RESERVE FOR LAND VALUE INCREMENT TAX (Note 6)	3,370,813	2	3,370,813	1
Machinery and equipment	203,859,917	98	201,507,703	94	OTHER LIABILITIES (Note 13)	5,880,539	3	6,124,080	3
Transportation equipment	1,581,560	1	1,549,938	1	Total Liabilities	82,051,034	40	85,177,452	40
Miscellaneous equipment	2,619,878	1	2,533,790	1	STOCKHOLDERS' EQUITY (Notes 2 and 12)				
Total cost	253,043,975	122	250,391,769	117	Capital stock				
Appreciation	18,458,619	9	18,651,775	9	Common	87,483,716	42	85,631,219	40
Total cost and appreciation	271,502,594	131	269,043,544	126	Preferred, 14% cumulative and participating	477,680	-	477,810	-
Accumulated depreciation	162,577,785	78	152,017,212	71	Total capital stock	87,961,396	42	86,109,029	40
	108,924,809	53	117,026,332	55	Capital surplus	407,960	-	363,995	-
Constructions in progress	5,124,749	2	6,344,113	3	Retained earnings	36,822,857	18	42,565,511	20
Net Properties	114,049,558	55	123,370,445	58	Unrealized loss on long-term investments	( 320,435 )	-	-	-
OTHER ASSETS (Notes 2, 7, 11 and 17)	4,142,760	2	4,863,102	2	Cumulative translation adjustments	156,158	-	6,998	-
					Total Stockholders' Equity	125,027,936	60	129,045,533	60
TOTAL ASSETS	\$ 207,078,970	100	\$ 214,222,985	100	TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 207,078,970	100	\$ 214,222,985	100

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

CHINA STEEL CORPORATION

STATEMENTS OF INCOME

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

	Six Months Ended June 30			
	2001		2000	
	Amount	%	Amount	%
REVENUES (Notes 2 and 16)	\$ 44,735,748	100	\$ 51,900,314	100
COST OF REVENUES (Note 16)	<u>37,986,458</u>	<u>85</u>	<u>37,370,989</u>	<u>72</u>
GROSS PROFIT	<u>6,749,290</u>	<u>15</u>	<u>14,529,325</u>	<u>28</u>
OPERATING EXPENSES				
Selling	840,739	2	886,974	1
General and administrative	990,379	2	946,069	2
Research and development	<u>429,854</u>	<u>1</u>	<u>420,744</u>	<u>1</u>
Total Operating Expenses	<u>2,260,972</u>	<u>5</u>	<u>2,253,787</u>	<u>4</u>
INCOME FROM OPERATIONS	<u>4,488,318</u>	<u>10</u>	<u>12,275,538</u>	<u>24</u>
NON-OPERATING INCOME				
Interest	454,039	1	569,354	1
Investment income - net (Note 5)	619,028	1	1,523,171	3
Gain on disposal of investments	98,814	-	1,661,603	3
Other	<u>330,034</u>	<u>1</u>	<u>307,368</u>	<u>1</u>
Total Non-Operating Income	<u>1,501,915</u>	<u>3</u>	<u>4,061,496</u>	<u>8</u>
NON-OPERATING EXPENSES				
Interest (Notes 6 and 16)	1,427,475	3	1,657,962	3
Other	<u>161,515</u>	<u>-</u>	<u>424,938</u>	<u>1</u>
Total Non-Operating Expenses	<u>1,588,990</u>	<u>3</u>	<u>2,082,900</u>	<u>4</u>
INCOME BEFORE INCOME TAX	4,401,243	10	14,254,134	28
INCOME TAX EXPENSE (Notes 2 and 13)	<u>713,956</u>	<u>2</u>	<u>1,411,281</u>	<u>3</u>
NET INCOME	<u>\$ 3,687,287</u>	<u>8</u>	<u>\$ 12,842,853</u>	<u>25</u>

(Forward)

EARNINGS PER COMMON SHARE

Based on weighted average number of outstanding common shares of 8,748,372 thousand and 8,563,122 thousand for the six months ended June 30, 2001 and 2000, respectively, after deducting preferred stock dividends of \$33,438 and \$33,447, respectively (Note 15)	<u>\$0.42</u>	<u>\$1.50</u>
Based on weighted average number of outstanding common stocks of 8,747,402 thousand shares after giving retroactive adjustment for stocks issued for dividends and bonus to employees		<u>\$1.47</u>

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

English Translation of Financial Statements Originally Issued in Chinese

CHINA STEEL CORPORATION

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
(In Thousands of New Taiwan Dollars, Except Par Value and dividends)

	CAPITAL STOCK - \$ 10 Par Value				CAPITAL SURPLUS	RETAINED EARNINGS (Note 12)				UNREALIZED LOSS ON LONG-TERM INVESTMENTS	CUMULATIVE TRANSLATION ADJUSTMENTS	TOTAL STOCKHOLDERS' EQUITY
	Authorized	Issued Preferred	Common	Total	(Notes 2, 6 and 12)	Legal Reserve	Special Reserve	Unappropriated	Total	(Note 2)	(Note 2)	
BALANCE, JANUARY 1, 2001	\$ 99,000,000	\$477,770	\$87,483,626	\$87,961,396	\$409,005	\$17,477,198	\$9,815,701	\$19,087,182	\$46,380,081	(\$149,728)	\$ 53,726	\$ 134,654,480
Increase in authorized shares	7,000,000	-	-	-	-	-	-	-	-	-	-	-
Conversion of preferred stock to common stock	-	( 90)	90	-	-	-	-	-	-	-	-	-
Appropriation of earnings for 2000												
Legal reserve	-	-	-	-	-	1,858,153	-	( 1,858,153)	-	-	-	-
Special reserve	-	-	-	-	-	-	96,001	( 96,001)	-	-	-	-
Compensation to directors and supervisors	-	-	-	-	-	-	-	( 48,913)	( 48,913)	-	-	( 48,913)
Cash dividends to preferred stock - \$1.5 per share	-	-	-	-	-	-	-	( 71,652)	( 71,652)	-	-	( 71,652)
Cash dividends to common stock - \$1.5 per share	-	-	-	-	-	-	-	( 13,122,557)	( 13,122,557)	-	-	( 13,122,557)
Net income for the six months ended June 30, 2001	-	-	-	-	-	-	-	3,687,287	3,687,287	-	-	3,687,287
Unrealized loss on investees' long-term investments	-	-	-	-	-	-	-	-	-	( 170,707)	-	( 170,707)
Translation adjustment of investees' long-term investments	-	-	-	-	-	-	-	-	-	-	102,432	102,432
Adjustments of equity in investees due to change in percentage of ownership	-	-	-	-	440	-	-	-	-	-	-	440
Other	-	-	-	-	( 1,485)	-	-	( 1,389)	( 1,389)	-	-	( 2,874)
BALANCE, JUNE 30, 2001	<u>\$ 106,000,000</u>	<u>\$477,680</u>	<u>\$87,483,716</u>	<u>\$87,961,396</u>	<u>\$407,960</u>	<u>\$19,335,351</u>	<u>\$9,911,702</u>	<u>\$ 7,575,804</u>	<u>\$36,822,857</u>	<u>(\$320,435)</u>	<u>\$156,158</u>	<u>\$ 125,027,936</u>
BALANCE, JANUARY 1, 2000	\$ 99,000,000	\$487,340	\$85,621,689	\$86,109,029	\$363,995	\$15,965,075	\$9,815,701	\$15,175,112	\$40,955,888	(\$ 1,101)	\$ 15,341	\$ 127,443,152
Conversion of preferred stock to common stock	-	( 9,530)	9,530	-	-	-	-	-	-	-	-	-
Appropriation of earnings for 1999												
Legal reserve	-	-	-	-	-	1,512,123	-	( 1,512,123)	-	-	-	-
Compensation to directors and supervisors	-	-	-	-	-	-	-	( 39,056)	( 39,056)	-	-	( 39,056)
Cash dividends to preferred stock - \$1.3 per share	-	-	-	-	-	-	-	( 62,115)	( 62,115)	-	-	( 62,115)
Cash dividends to common stock - \$1.3 per share	-	-	-	-	-	-	-	( 11,132,059)	( 11,132,059)	-	-	( 11,132,059)
Net income for the six months ended June 30, 2000	-	-	-	-	-	-	-	12,842,853	12,842,853	-	-	12,842,853
Reversal of unrealized loss on investees' long-term investments	-	-	-	-	-	-	-	-	-	1,101	-	1,101
Translation adjustment of investees' long-term investments	-	-	-	-	-	-	-	-	-	-	( 8,343)	( 8,343)
BALANCE, JUNE 30, 2000	<u>\$ 99,000,000</u>	<u>\$477,810</u>	<u>\$85,631,219</u>	<u>\$86,109,029</u>	<u>\$363,995</u>	<u>\$17,477,198</u>	<u>\$9,815,701</u>	<u>\$15,272,612</u>	<u>\$42,565,511</u>	<u>\$ -</u>	<u>\$ 6,998</u>	<u>\$ 129,045,533</u>

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

CHINA STEEL CORPORATION

STATEMENTS OF CASH FLOWS  
(In Thousands of New Taiwan Dollars)

	<u>Six Months Ended June 30</u>	
	<u>2001</u>	<u>2000</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 3,687,287	\$ 12,842,853
Depreciation	5,984,249	5,839,286
Amortization	324,567	244,352
Deferred income tax	57,789	( 411,305 )
Provision for loss on inventories	-	246,998
Investment income on long-term investments under equity method	( 619,028 )	( 1,523,171 )
Loss on disposal of properties	28,362	28,645
Cash dividends on long-term investments under equity method	148,892	126,827
Gain on disposal of long-term investments	-	( 1,541,563 )
Amortization and exchange (gain) loss of forward exchange	( 17,435 )	65,598
Changes in operating assets and liabilities:		
Notes receivable	12,057	164,506
Accounts receivable	280,399	( 276,377 )
Inventories	2,071,680	( 565,700 )
Other current assets	( 93,035 )	( 347,977 )
Accounts payable	216,215	324,160
Other payable	( 1,389,931 )	216,109
Income tax payable	( 2,489,956 )	508,869
Other current liabilities	( 16,657 )	189,835
Net Cash Provided by Operating Activities	<u>8,185,455</u>	<u>16,131,945</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in marketable securities	( 7,541,917 )	( 11,207,732 )
Acquisitions of properties	( 1,600,163 )	( 1,223,697 )
Additions to Long-term investments	( 23,505 )	( 4,878,734 )
Proceeds from disposal of long -term investments	-	1,954,120
Increase in other assets	( 12,543 )	( 1,470,735 )
Decrease in pledged time deposits	-	68,787
Net Cash Used in Investing Activities	<u>( 9,178,128 )</u>	<u>( 16,757,991 )</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in short-term bank loans	( 1,643,582 )	1,137,709
Increase (decrease) in long-term debts	( 1,082,701 )	768,150
Increase (decrease) in bonds payable	238,000	( 3,069,000 )
Increase (decrease) in commercial papers payable	916,980	( 2,432,610 )

(Forward)

English Translation of Financial Statements Originally Issued in Chinese

Decrease in payable on properties purchased	(\$ 371,981)	(\$ 427,023)
Net increase (decrease) in cash from forward exchange	7,426	( 93,329)
Other	<u>46,237</u>	<u>62,975</u>
Net Cash Used in Financing Activities	( <u>1,889,621</u> )	( <u>4,053,128</u> )
 NET DECREASE IN CASH AND CASH EQUIVALENTS	 ( 2,882,294)	( 4,679,174)
 CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	 <u>15,161,618</u>	<u>19,992,607</u>
 CASH AND CASH EQUIVALENTS, END OF PERIOD	 <u>\$12,279,324</u>	<u>\$15,313,433</u>
 SUPPLEMENTAL INFORMATION		
Interest paid, excluding capitalized amounts	<u>\$ 1,642,231</u>	<u>\$ 2,029,760</u>
Income tax paid :		
Payment for prior years' income taxes	\$ 3,079,581	\$ 1,229,408
Withholding taxes	29,862	35,451
Tax on interest from commercial papers	<u>40,093</u>	<u>48,858</u>
	<u>\$ 3,149,536</u>	<u>\$ 1,313,717</u>
 NON-CASH FINANCING ACTIVITIES		
Long-term liabilities due within one year	<u>\$11,657,419</u>	<u>\$ 9,487,746</u>
 SUPPLEMENTAL INFORMATION FOR SUBSIDIARIES		
ACQUIRED		
Fair value of assets and liabilities of subsidiaries acquired		
Cash	\$ -	\$ 9
Long-term investments	-	1,597,253
Others	-	75
Liabilities	<u>-</u>	<u>( 90)</u>
	-	1,597,247
Shareholdings acquired	<u>-</u>	<u>x 99.44%</u>
	-	1,588,302
Deferred credit	<u>-</u>	<u>( 210,977)</u>
Contract price paid (Note 5)	-	1,377,325
Cash balances based on shareholdings acquired	<u>-</u>	<u>( 9)</u>
 Cash paid	<u>\$ -</u>	<u>\$ 1,377,316</u>

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



CHINA STEEL CORPORATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2001 and 2000

(In Thousands of New Taiwan Dollars and Stated Currencies)

1. GENERAL

The Corporation was incorporated in December 1971. It manufactures and sells steel products. The Corporation completed its Phase IV expansion project in 1998, and currently has an annual crude steel production capacity of 8.054 million metric tons.

The Corporation's stock is listed and traded in the Taiwan Stock Exchange. As of June 30, 2001, the Ministry of Economic Affairs, Republic of China (MOEA - ROC) holds 40.5% of the Corporation's outstanding common stock.

2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies of the Corporation, which conform to generally accepted accounting principles in the Republic of China, are summarized below.

Cash equivalents

Cash equivalents represent commercial papers matured within three months from investing date.

Marketable securities

Marketable securities, representing bond funds, stocks listed and traded in the Taiwan Stock Exchange and commercial papers matured over three months from investing date, are stated at the lower of weighted average cost or market value.

Market value represents net assets value of bond funds on balance sheet date, or monthly average price of listed stocks in the latest month of the period.

Inventories

Inventories represent raw materials, supplies, fuel, finished products, work in process, by-products and construction in progress. The construction revenues are recognized by the percentage-of-completion method. Construction in progress is valued by the costs incurred plus (less) the estimated gain (loss), others are stated at the lower of weighted moving average cost or market value. Market value represents net realizable value for finished products, work in process, by-products and construction in progress, and replacement costs for raw materials, supplies and fuel.

### Long-term investments

Long-term stock investments for which the Company owns 20% or more of the voting shares of the investee or has significant influence on the investees are accounted for by equity method. When the equity method is initially applied or when a stock is acquired, the difference between the carrying value of an investment and the proportionate equity in the net assets of the investee is amortized over five years. Investment gains or losses are recognized quarterly, unrealized gains or losses arising from transactions with investees and from transactions between investees are eliminated. Cash dividends received from investees are recorded as a deduction in the investment carrying value. Translation adjustments and unrealized loss on long-term investments of investees are recognized proportionately by the Corporation's shareholdings. Stock dividends received are accounted for only as increases in number of shares held.

When the investee issues additional shares, and if the Corporation does not acquire the proportionate shares, as a result, the Corporation's percentage of ownership is changed. The difference between the long - term investment accounts and the proportionate shares in the investees' net assets shall be adjusted to the capital surplus or to unappropriated earnings if the capital surplus is insufficient to be offset.

Other investments are accounted for by cost method.

### Properties and other assets

Properties and other assets (leased assets) are stated at cost or cost plus appreciation, less accumulated depreciation. Major additions, renewals and betterments are capitalized while maintenance and repairs are expensed currently.

Interest expense arised from the purchase or construction of such properties is capitalized as cost.

Depreciation on properties is provided by the straight-line method based on estimated average service lives as follows: land improvements, 5-40 years; buildings and improvements, 20-60 years; machinery and equipment, 3-25 years; transportation equipment, 3-25 years; miscellaneous equipment, 3-15 years. Depreciation on appreciation is provided by the straight-line method over the remaining service lives of the revalued assets. When a property reaches its original service life but is still in use, its residual value shall be further depreciated over its reestimated remaining service life until fully depreciated.

Depreciation on machinery and equipment leased to the Corporation's affiliate (under other assets - leased assets) is provided by the working hours method.

Upon sale or disposal of properties, the related cost, appreciation and accumulated depreciation are removed from the accounts. Gains or losses on the retirement or disposal of properties are credited or charged to current income and any such gains, net of applicable income tax, are transferred later to capital surplus in the same year.

### Sales

Sales are recognized as follows: Domestic - when products are delivered off the Corporation's premises; export - when products are loaded aboard vessels.

### Pension

Pension costs are recognized on the basis of actuarial calculations, See Note 14.

### Income tax

Income tax is provided on interperiod allocation basis. Tax effects on deductible temporary differences and unused tax credits are recognized as deferred income tax asset. Valuation allowance is provided for deferred tax assets which are not certain to be realized. Tax effects of taxable temporary differences are recognized as deferred tax liability. Deferred tax asset or liability is classified as current or noncurrent based on the classification of the related asset or liability, otherwise it shall be classified according to the expected reversal time period.

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

Annual earnings shall be appropriated by the Corporation's shareholders' resolution in the next year. The undistributed earnings, as determined by the tax regulations, shall be subject to 10% income taxes. Such taxes are recorded as expenses after the shareholders resolve that the earnings shall be retained.

### Foreign-currency transactions

Foreign-currency transactions, except derivative financial instruments, 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 different foreign exchange rates when foreign-currency receivables and payables are settled will be credited or charged to income in the year of settlement. At the balance sheet date, foreign-currency assets and liabilities are restated at the prevailing exchange rates and resulting adjustments are credited or charged to income.

### Derivative financial instruments

Forward exchange transactions entered into as hedge for foreign-currency net assets or net liabilities are recorded in New Taiwan dollars at the spot rates on the date of each forward contract. The differences between spot rates and forward rates are amortized over the period of each forward contract and recognized as gains or losses. Year-end balances of forward exchange contracts are restated at the prevailing exchange rates and the resulting adjustments are credited or charged to income. Exchange gains or losses on forward exchange transactions entered into as hedge for foreign-currency commitments are deferred as adjustments to the prices of transactions.

The related receivable and payable balances for forward contracts are netted against each other and the resulting balance is accounted for as either current asset or liability.

### Reclassifications

Certain accounts for the period ended June 30, 2000 has been reclassified to conform to the classifications in 2001.

3. SHORT-TERM INVESTMENTS	June 30	
	2001	2000
Bond funds	\$ 12,285,220	\$ 6,195,400
Stocks listed and traded in the Taiwan Stock Exchange	2,464,194	2,464,194
Commercial papers	-	4,249,161
	<u>\$ 14,749,414</u>	<u>\$ 12,908,755</u>

4. INVENTORIES	June 30	
	2001	2000
Finished products	\$ 5,166,359	\$ 5,287,075
Work in process	5,072,443	4,138,326
Raw materials	3,108,070	2,331,482
Supplies	3,237,385	3,094,963
Fuel	49,822	53,410
Materials in transit and freight expenses	665,386	955,668
Others	70,722	28,959
	<u>17,370,187</u>	<u>15,889,883</u>
Allowance for loss	<u>377,538</u>	<u>821,892</u>
	<u>\$ 16,992,649</u>	<u>\$ 15,067,991</u>

5. LONG-TERM INVESTMENTS	June 30			
	2001		2000	
		% of		% of
		Owner-		Owner-
	<u>Amount</u>	<u>ship</u>	<u>Amount</u>	<u>ship</u>
Stocks under equity method	-	-	-	-
C. S. Aluminum Corporation (CAC)	\$ 5,443,062	98	\$ 5,221,111	98
China Prosperity Development Corporation (CPDC)	4,085,829	100	4,084,269	100
Gains Investment Corporation (GIC)	4,366,463	100	4,444,718	100
China Steel Express Corporation (CSE)	5,075,811	100	4,033,077	100

(Forward)



Kuei Yi Industrial Co. (KYIC)	\$ 806,034	30	\$ 2,519,745	30
Taisil Electronic Materials Corporation (TEM)	1,066,004	35	825,516	35
China Steel Global Trading Corporation (CSGT)	805,072	100	705,876	100
China Steel Chemical Corporation (CSCC)	709,168	31	660,131	31
China Hi-ment Corporation (CHC)	462,711	20	438,653	32
China Ecotek Corporation (CEC)	356,865	36	348,880	36
China Steel Structure Corporation (CSSC)	453,638	18	250,447	19
Hi-mag Magnetic Corporation (HMC)	122,262	50	110,241	50
China Steel Security Corporation (CSS)	191,711	100	188,415	100
Info-Champ Systems Corporation (ICSC)	435,234	100	352,317	100
Goang Yaw Investment Corporation and other eight companies	998,702	99	1,369,122	99
Yieh Loong Enterprises Corporation (YLEC)	2,128,650	24	-	-
China Steel Asia Pacific Holdings Pte. Ltd. (CSAP)	1,598,029	100	-	-
Kaohsiung Rapid Transit Corporation (KRTC)	<u>1,486,222</u>	31	<u>-</u>	-
	<u>30,591,467</u>		<u>25,552,518</u>	
Stocks under cost method				
Eastern Broadband Telecommunications Co., Ltd.	1,200,000	2	1,200,000	2
The Industrial Bank of Taiwan	1,000,000	4	1,000,000	4
Tang Eng Iron Works Corporation	597,214	9	597,214	9
Cdib & Partners Investment Holding Corporation (Southeast Asia Investment Holding Corporation)	500,000	5	500,000	5
CSSC - preferred stock	-	-	153,472	15
Overseas Investment & Development Corporation	50,000	6	50,000	6
Maruichi Steel Tube Ltd.	751,450	2	463,790	1
Advanced Material Technology Corporation	<u>182,200</u>	3	<u>115,000</u>	3
	<u>4,280,864</u>		<u>4,079,476</u>	
Prepayments for investments				
YLEC	<u>-</u>		<u>2,714,874</u>	
Other	<u>55,148</u>		<u>20,997</u>	
	<u>\$34,927,479</u>		<u>\$32,367,865</u>	

In February 2000, the Corporation acquired 99% shares of Goang Yaw Investment Corporation (GYIC) and other eight investment companies, which totally owned 22.5% shares of YLEC, with price of \$1,377,325. Based on the acquisition agreement, the Corporation has the power for the management and operation of YLEC. As of June 30, 2001 the nine investment companies shareholdings for YLEC dropped to 15.6% because of capital increase in YLEC. In June 2000, YLEC increased its capital by 350,000 thousand shares with amounts of \$3,500,000, the Corporation subscribed 271,487 thousand shares, with amounts of \$2,714,874. As of June 30, 2001, the Corporation owned 23.7% YLEC shares. Consequently, the Corporation owned 39.3% shares of YLEC in substance.

In November 2000, the Corporation obtained the approval from the government to incorporate China Steel Asia Pacific Holdings Pte. Ltd. (CSAP) in Singapore, a holding Company with capital of \$1,631,167 (US\$49,290,400). The CSAP acquired the shareholdings of Ornasteel Enterprise Corporation (M) Sdn. Bhd. (70%) and Group Steel Corporation (M) Sdn. Bhd. (60%), both are Malaysian companies, from several shareholders, at the respective price of \$1,012,287 and \$607,372 (MYR115,780,000 and MYR69,468,000).

The CSSC's preferred stocks were converted into common stocks on December 29, 2000, at the share conversion rate of 1 to 1. Accordingly, the Corporation's investments in CSSC-preferred stock were valued under equity method as of December 31, 2000.

In March 2000, the Corporation sold its shares of MCL at the price of \$1,960,000, resulting in a gain of \$1,541,563, net of securities trading taxes.

Investment income or losses under equity method are recognized based on the investees' audited financial statements as follows:

	<u>Six Months Ended June 30</u>	
	<u>2001</u>	<u>2000</u>
CAC	\$ 95,825	\$ 232,881
CSE	631,052	636,578
GIC	201,934	598,480
CSGT	66,539	49,612
HMC	2,941	( 5,679)
CSS	8,331	7,014
CSSC	58,110	13,576
CSCC	78,778	117,330
CHC	20,105	28,990
CEC	13,461	23,261
CPDC	653	3,027
ICSC	57,721	2,397
TEM	18,494	32,605
KRTC	10,332	-
KYIC	( 117,621)	( 208,701)
Goang Yaw Investment Corporation and other eight companies	( 164,281)	( 8,200)
YLEC	( 271,231)	-
CSAPH	( 92,115)	-
	<u>\$ 619,028</u>	<u>\$1,523,171</u>

The Corporation has investment in KYIC with 30% shareholdings. Preliminarily, the Corporation recognized the investment income or loss based on KYIC's preceding year's audited financial statements. In September 2000, KYIC exposed a serious management fraud which caused the financial crisis to KYIC. The Corporation's representative was elected as the KYIC's Chairman by its board of directors. Consequently, the Corporation has substantial control power to KYIC, and has to recognize its investment loss or income based on the financial statements of the same period. Accordingly, for the six months ended June 30, 2000 and 2001, the Corporation recognize the investment losses of \$208,701 and \$117,621 respectively.

#### 6. PROPERTIES - NET

<u>June 30, 2001</u>	<u>Cost</u>	<u>Appreciation</u>	<u>Total</u>
Cost and appreciation			
Land	\$ 5,129,690	\$ 5,850,597	\$ 10,980,287
Land improvements	4,316,764	492,990	4,809,754
Buildings and improvements	35,536,166	2,445,367	37,981,533
Machinery and equipment	203,859,917	9,585,018	213,444,935
Transportation equipment	1,581,560	49,145	1,630,705
Miscellaneous equipment	<u>2,619,878</u>	<u>35,502</u>	<u>2,655,380</u>
	<u>253,043,975</u>	<u>18,458,619</u>	<u>271,502,594</u>
Accumulated depreciation			
Land improvements	2,396,701	316,692	2,713,393
Buildings and improvements	11,512,403	1,306,531	12,818,934
Machinery and equipment	134,759,953	8,997,725	143,757,678
Transportation equipment	1,191,538	43,762	1,235,300
Miscellaneous equipment	<u>2,019,910</u>	<u>32,570</u>	<u>2,052,480</u>
	<u>151,880,505</u>	<u>10,697,280</u>	<u>162,577,785</u>
Constructions in progress	<u>5,124,749</u>	<u>-</u>	<u>5,124,749</u>
	<u>\$ 106,288,219</u>	<u>\$ 7,761,339</u>	<u>\$ 114,049,558</u>
<u>June 30, 2000</u>			
Cost and appreciation			
Land	\$ 5,130,874	\$ 5,850,597	\$ 10,981,471
Land improvements	4,305,016	492,990	4,798,006
Buildings and improvements	35,364,448	2,445,706	37,810,154
Machinery and equipment	201,507,703	9,776,691	211,284,394
Transportation equipment	1,549,938	50,279	1,600,217
Miscellaneous equipment	<u>2,533,790</u>	<u>35,512</u>	<u>2,569,302</u>
	<u>250,391,769</u>	<u>18,651,775</u>	<u>269,043,544</u>

(Forward)



Accumulated depreciation			
Land improvements	\$ 2,109,657	\$ 311,674	\$ 2,421,331
Buildings and improvements	10,557,928	1,269,123	11,827,051
Machinery and equipment	125,500,533	9,202,489	134,703,022
Transportation equipment	1,100,638	44,895	1,145,533
Miscellaneous equipment	<u>1,887,696</u>	<u>32,579</u>	<u>1,920,275</u>
	<u>141,156,452</u>	<u>10,860,760</u>	<u>152,017,212</u>
Constructions in progress	<u>6,344,113</u>	<u>-</u>	<u>6,344,113</u>
	<u>\$ 115,579,430</u>	<u>\$ 7,791,015</u>	<u>\$ 123,370,445</u>

Information of interest capitalization follows:

	<u>Six Months Ended June 30</u>	
	<u>2001</u>	<u>2000</u>
Total interest expense	\$ 1,506,139	\$ 1,761,608
Interest expense capitalized (under constructions in progress)	78,664	103,646
Interest rate for capitalization	5.66%	5.86%

The interest rate for capitalization is computed based on the weighted average interest rate of long-term and short-term debts during the period.

In 1981 and 1994, the Corporation revalued its properties and patents in accordance with government regulations, resulting in appreciation or increment of \$17,662,343. The appreciation or increment, after deducting reserve for land value increment tax of \$3,370,813, with net balance of \$14,291,530 was credited to capital surplus. As of June 30, 2001, such capital surplus that has been transferred to capital account amounted to \$13,952,356.

Depreciation on the appreciation of property aggregated \$10,538 and \$22,560 for the six months ended June 30, 2001 and 2000, respectively.

	<u>June 30</u>	
	<u>2001</u>	<u>2000</u>
7. OTHER ASSETS		
Rental properties (Notes 2 , 11 and 16)		
Land - at cost	\$ 1,316,696	\$ 1,316,582
Machinery and equipment - at cost, less accumulated depreciation of \$928,811 and \$835,322, respectively	<u>1,071,189</u>	<u>1,164,678</u>
	<u>2,387,885</u>	<u>2,481,260</u>
Unamortized repair expense - major repair for blast furnaces	1,429,898	2,061,036
Other	<u>324,977</u>	<u>320,806</u>
	<u>\$ 4,142,760</u>	<u>\$ 4,863,102</u>

The Corporation has leased its partial plant property and machinery acquired through NDID Fund loan to its subsidiaries.

Unamortized repair expense represents the deferred expense for the major repair of No. 1 and No. 3 blast furnaces, is being amortized by the straight-line method over 5 years.

	<u>June 30</u>	
8. SHORT-TERM BANK LOANS AND OVERDRAFTS	<u>2001</u>	<u>2000</u>
Credit loans - due within 180 days, interest at 3.7%-3.9% p.a. as of June 30, 2001 and 4.7%-4.8% p.a. as of June 30, 2000	\$ 1,000,000	\$ 3,500,000
Letters of credit - due within 180 days, interest at 0.33%-6.09% p.a. as of June 30, 2001 and 0.32%-7.55% p.a. as of June 30, 2000	220,322	591,907
Overdrafts - interest at 4.25%-7.01% p.a. as of June 30, 2001 and 4.9%-7.42% p.a. as of June 30, 2000	69,129	200,807
Foreign-currency loans - interest at 0.36%-0.51%	<u>-</u>	<u>470,607</u>
	<u>\$ 1,289,451</u>	<u>\$ 4,763,321</u>

As of June 30, 2001, the Corporation issued promissory notes of \$52,629,160 and provided certificates of time deposits of \$7,600,000 as collaterals for short-term borrowings. The unused credit lines for short-term borrowings and commercial papers aggregated about \$63,095,665.

	<u>June 30</u>	
9. COMMERCIAL PAPERS PAYABLE	<u>2001</u>	<u>2000</u>
Commercial papers - interest at 3.49%-4.6% p.a. as of June 30, 2001 and 4.348%-5.04% p.a. as of June 30, 2000	\$ 2,030,000	\$ 3,900,000
Unamortized discount	<u>20,101</u>	<u>18,804</u>
	<u>\$ 2,009,899</u>	<u>\$ 3,881,196</u>

10. LONG-TERM BONDS PAYABLE	June 30	
	2001	2000
5 - year unsecured bonds - issued at par in:		
December 1995, interest at 7.20% p.a., repaid in December 2000	\$ -	\$ 1,972,000
March 1996, interest at 6.88% p.a., repaid in March 2001	-	1,462,000
June 1997, payable in three annual installments starting from June 2000 to June 2002, interest at 6.5% p.a., compounded semi-annually and payable annually	1,700,000	3,350,000
May 1998, payable in three annual installments starting from May 2001 to May 2003, interest at 7.4% p.a., compounded semi-annually and payable annually	3,350,000	5,000,000
November and December 1998, payable in two equal installments in 2002 and 2003, interest at 6.785% p.a., compounded semi-annually and payable annually	5,000,000	5,000,000
May and June 1999, payable in May and June 2004, interest at 5.69% p.a., compounded semi-annually and payable annually	7,750,000	7,750,000
July 1999, payable in July 2004, interest at 5.99% p.a., compounded semi-annually and payable annually	2,250,000	2,250,000
November and December 2000, payable in November and December 2005, interest at 5.18%, payable annually	5,000,000	-
June 2001, payable in June 2006 interest at 4.27% p.a., compounded and payable annually	5,000,000	-
4-year unsecured bond - issued at par in March 1999, payable in March 2003, interest at 6.5% p.a., compounded semi-annually and payable annually	5,000,000	5,000,000
3-year unsecured bond - issued at par in July 1998, payable in July 2001, interest at 7.3% p.a., compounded semi- annually and payable annually	<u>5,000,000</u>	<u>5,000,000</u>
	40,050,000	36,784,000
Current portion	( <u>8,350,000</u> )	( <u>6,734,000</u> )
	<u>\$31,700,000</u>	<u>\$30,050,000</u>

11. LONG-TERM DEBTS	June 30	
	2001	2000
Import equipment loans:		
Kreditanstalt fur Wiederaufbau - payable in ten equal installments from April 1997 to September 2002, interest at 6.4% - 6.99% p.a.	\$ 1,915,913	\$ 2,853,873
West Merchant Bank - payable in ten equal installments from October 1997 to April 2002, interest at 5.38% p.a.	566,900	1,017,629
Sumitomo Bank - payable in ten equal installments from August 1998 to February 2003, interest at 6.715% p.a.	689,600	926,100
Hitachi Zosen Corp. - payable in ten equal installments from August 1997 to February 2002, interest at 6.99% p.a.	134,240	240,372
Nippon Steel Corp. - payable in ten equal installments from May 1997 to Nov. 2001, interest at 6.99% p.a.	33,071	88,826
Mortgage bank loan on machinery and equipment-repayable in March 2003, float rate at 5.15% p.a. (Note 18)	2,050,000	2,050,000
Mortgage bank loan on machinery and equipment - repayable in June 2004, float rate at 5.15% p.a. (Note 18)	50,000	-
International Commercial Bank of China - payable in December 2003, interest at 1.05% (Note 18)	726,180	-
Loan from National Defense Industrial Development Fund (NDIDF) - payable in annual installments from July 1989 to June 2003; float rate at 5.80%-5.88% p.a. as Of June 30, 2001 and 5.89%-5.92% p.a. as of June 30, 2000	<u>1,043,791</u>	<u>1,163,984</u>
	7,209,695	8,340,784
Current portion	( <u>3,307,419</u> )	( <u>2,753,746</u> )
	<u>\$ 3,902,276</u>	<u>\$ 5,587,038</u>

The Corporation assumed the balance of the loan from NDIDF to acquire the related machinery and equipment. The foregoing loan is payable based on the depreciation charges (\$71,974 and \$68,688 for the six months ended June 30, 2001 and 2000, respectively) on such machinery and equipment determined on the basis of the quantity of aluminum products sold and the profit calculated based on the percentage of such machinery and equipment over CAC's aluminum operating machinery and equipment, payable from July 1989 to June 2003. The title of such properties belongs to NDIDF before the loan has been fully settled, and will be transferred to the Corporation after the loan has been fully settled (the value of the properties repayment percentage accumulated up to 100%). These machinery and equipment are been leased to CAC (Note 7) and therefore, are recorded under rental properties.

## 12. STOCKHOLDERS' EQUITY

The holders of preferred stock have the following entitlements or rights:

- a. 14% annual dividends with priority over those of common stockholders;
- b. Preference of payment in succeeding years of dividends in arrears;
- c. Redemption of stock, at the option of the Corporation out of its retained earnings or the proceeds from issuance of new shares;
- d. The same rights as common stockholders, except the right to vote in the election of directors and supervisors; and
- e. Conversion of shares into common stock.

In May 1992 and February 1997, the MOEA - ROC (see Note 1) sold to international investors 20,537,550 units of Global Depository Receipts ("GDR") and 7,631,800 units of Rule 144A American Depository Receipts ("ADR"), each unit representing 20 shares of the Corporation's common stock. The depository shares were increased by 2,635,167 units after the capitalization of retained earnings in May 1997, March 1998, August 1999 and December 2000. In accordance with regulations, the holders of GDR or ADR may request, after holding for three months, the depository to sell the shares represented by such GDR or ADR in the domestic market. As of June 30, 2001, the outstanding depository shares were 17,921,455 units which approximate to 4% of the issued common shares.

Under relevant regulations, capital surplus from long-term investment under equity method is prohibited from being used, others can only be used to offset a deficit or be transferred to capital. The capital surplus from revaluation increment on assets can be transferred to capital subject to a specified limit.

Capital surplus consists of:

	June 30	
	2001	2000
Revaluation increment on assets (Note 6)	\$ 339,174	\$ 339,174
Others	<u>68,786</u>	<u>24,821</u>
	<u>\$ 407,960</u>	<u>\$ 363,995</u>

The Corporation's Articles of Incorporation provides that the annual net income, less any deficit, shall be appropriated as follows:

- a. 10% as legal reserve, until its balance equals the issued capital stock;
- b. Preferred stock dividends at 14% of par value;
- c. 0.3% and 3% of the remainder as compensation to directors and supervisors and as bonus to employees, respectively;
- d. Common stock dividends at any percent up to 14% of par value; and

- e. The remainder if any, as bonus proportionately to the holders of preferred and common stocks.

The Board of Directors shall propose the aforementioned appropriation for net income. If necessary, it may, after appropriating preferred stock dividends at 14% of par value, propose to retain certain earnings as a special reserve. These proposals shall be submitted to the stockholders for approval.

The Corporation should appropriate annual earnings as special reserve for the net debit balance resulting from the adjustment items to the stockholders equity. The Corporation may distribute that portion of earnings when the debit balances are reversed.

The life cycle of the Corporation's steel industry is in the phase of stable growth, the aforementioned appropriation of dividends and bonus shall be more than 75% in cash and less than 25% in stock. However, subject to the need of development of the Corporation and working capital, the Corporation may decrease the appropriation of cash dividends.

In May 2001, the Corporation's shareholders meeting has approved the appropriation of 2000 earnings as follows:

Legal reserve	\$ 1,858,153
Special reserve	96,001
Cash dividends	13,194,209
Stock dividends	2,638,842
Compensation to directors and supervisors	48,913
Bonus to employees - stock	<u>489,126</u>
	<u>\$18,325,244</u>

As of June 30, 2001, cash dividends of \$13,194,209 was recorded as dividends payable. The Corporation has filed with ROC Securities and Futures Commission for the capital increase through the capitalization of retained earnings (including bonus to employees) of \$3,127,968, and obtained its ratification, but pending for approval for changes in the Company's license.

Under the Company Law, legal reserve may be used to offset a deficit or when the reserve has reached 50% of paid-in capital, up to 50% thereof may be transferred to capital.

Under the Imputation Tax System, domestic stockholders are allowed a tax credit for the income tax paid by the Corporation on earnings generated in 1998 and onwards.

As of June 30, 2001, the balance of the Imputation Credit Account (ICA) aggregated \$223,414. In July 2001, the Corporation distributed 2000 earnings, with the tax credit ratio of 19.89%.

As of June 30, 2001, undistributed earnings from 1997 and backwards amounted to \$54,611, which is not subject to application of Imputation Tax System.

### 13. INCOME TAX

	Six Months Ended June 30	
	2001	2000
Tax on pretax income at statutory rate (25%)	\$ 1,100,311	\$ 3,563,534
Add (deduct) tax effects of differences:		
Unrealized foreign exchange income – net	( 67,914)	( 45,818)
Depreciation	246,299	397,003
Investment income – net	( 202,489)	( 796,194)
Provision for loss on inventories	-	61,750
Others	( 14,137)	( 52,518)
Tax benefit from investment tax credit	( 457,558)	( 1,333,029)
Income tax payable	604,512	1,794,728
Deferred tax adjustment	57,789	( 411,305)
Tax on undistributed earnings	274,949	-
Income tax on segregate taxation on interest income	40,093	48,858
Prior periods' adjustments	( 263,387)	( 21,000)
Income tax expense	<u>\$ 713,956</u>	<u>\$ 1,411,281</u>

Deferred income tax assets and liabilities are as follows:

	June 30	
	2001	2000
Current (included in other current assets)		
Deferred income tax assets		
Inventory value – declined loss	\$ 94,385	\$ 205,473
Others	<u>4,601</u>	<u>28,458</u>
	<u>98,986</u>	<u>233,931</u>
Non-current (included in other liabilities)		
Deferred income tax assets		
Unrealized foreign exchange loss	58,225	144,473
Others	<u>7,085</u>	<u>9,955</u>
	65,310	154,428
Deferred income tax liabilities		
Depreciation difference	( 4,540,809)	( 4,873,468)
	( 4,475,499)	( 4,719,040)
Total Deferred income tax liabilities	<u>( \$ 4,376,513)</u>	<u>( \$ 4,485,109)</u>

Income tax payable is net of prepaid taxes.

The changes in income tax payable are summarized as follows:

	<u>Six Months Ended June 30</u>	
	<u>2001</u>	<u>2000</u>
Income tax payable, beginning of period	\$ 3,339,555	\$ 1,250,408
Payment of prior year's tax	( 3,079,581 )	( 1,229,408 )
Income tax for current period	604,512	1,794,728
Tax on undistributed earnings	274,949	-
Withholding tax	( 29,862 )	( 35,451 )
Adjustments of taxes for prior year	( 259,974 )	( 21,000 )
Income tax payable, end of period	<u>\$ 849,599</u>	<u>\$ 1,759,277</u>

Income tax returns through the year ended December 31, 1998 have been examined by the tax authorities.

#### 14. PENSION PLAN

The Corporation has a pension plan covering all regular employees which provides pension benefits based on length of service and average salary for six months prior to retirement.

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

	<u>Six Months Ended June 30</u>	
	<u>2001</u>	<u>2000</u>
Balance, beginning of period	\$ 5,563,997	\$ 4,731,396
Contributions	479,973	470,781
Interest income	383,699	-
Payment of benefits	( 28,105 )	( 6,946 )
Balance, end of period	<u>\$ 6,399,564</u>	<u>\$ 5,195,231</u>

The Corporation also makes contributions, equal to certain percentage of salaries of management personnels (Vice president and above), to a pension fund which is administered by, and deposited with the International Commercial Bank of China in the name of, the employees pension fund management committee in August 1999. The changes in the fund are summarized as follows:

	<u>Six Months Ended June 30</u>	
	<u>2001</u>	<u>2000</u>
Balance, beginning of period	\$ 17,350	\$ 9,965
Contributions	1,592	5,622
Interest income	<u>291</u>	<u>-</u>
Balance, end of period	<u>\$ 19,233</u>	<u>\$ 15,587</u>



The pension costs aggregated \$413,073 and \$402,023 for the six months ended June 30, 2001 and 2000, respectively.

# 15. EARNINGS PER SHARE

Convertible preferred shares were not included in the calculation of earnings per common share because such shares are not considered as equivalent common shares.

# 16. RELATED PARTY TRANSACTIONS

a. Related parties	<u>Relationship</u>
C. S. Aluminum Corporation (CAC)	Investee - 98%
China Steel Express Corporation (CSE)	Investee - 100%
China Steel Chemical Corporation (CSCC)	Investee - 31%
China Steel Global Trading Corporation (CSGT)	Investee - 100%
China Hi-ment Corporation (CHC)	Investee - 32%
China Ecotek Corporation (CEC)	Investee - 36%
China Steel Structure Corporation (CSSC)	Investee - 18%
China Prosperity Development Corporation (CPDC)	Investee - 100%
China Steel Security Corporation (CSS)	Investee - 100%
Yieh Loong Enterprises Corporation (YLEC)	Investee - 24%
Info-Champ Systems Corporation (ICSC)	Investee - 100%
WABO Global Trading Corporation (WGTC)	Substantially owned
Chung Mao Trading (BVI) Corp. (CSGT-BVI)	Substantially owned
Mentor Consulting Corporation (MCC)	Substantially owned
Ornasteel Enterprise Corp. (M) Sdn. Bhd (OEC)	Substantially owned
Universal Exchange Inc. (UEI)	Substantially owned
United Steel Engineering and Construction Corporation (USECC)	Substantially owned

## b. Significant related party transactions:

	<u>Six Months Ended June 30</u>			
	<u>2001</u>		<u>2000</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
<u>Sales</u>				
YLEC	\$ 2,445,573	6	\$ 558,557	1
OEC	1,334,858	3	-	-
CSSC	660,494	1	709,756	1
Others	<u>498,755</u>	<u>1</u>	<u>963,408</u>	<u>2</u>
	<u>\$4,939,680</u>	<u>11</u>	<u>\$2,231,721</u>	<u>4</u>
<u>Purchases</u>				
CAC	\$ 837,442	5	\$ 801,273	5
Others	<u>168,864</u>	<u>1</u>	<u>411,312</u>	<u>2</u>
	<u>\$1,006,306</u>	<u>6</u>	<u>\$1,212,585</u>	<u>7</u>

Sales to and purchases from related parties are made under normal arms-length terms.

#### Lease of land and office

The Corporation leases its land and office to CAC, CSSC, CHC, CSCC and UEI. Rentals are calculated based on 4% to 10% p.a. of land value as published by the government. The related informations of the leases are as follows:

	<u>Expiry Date</u>	<u>Rental Income for The Six Months Ended June 30</u>	
		<u>2001</u>	<u>2000</u>
CAC	February 2016	\$ 12,407	\$ 11,167
CSSC	May 2018	7,880	7,813
CHC	April 2012	2,570	2,247
CSCC	December 2010	2,098	2,019
UEI	December 2001	1,950	-
Others	December 2001	<u>295</u>	<u>224</u>
		<u>\$ 27,200</u>	<u>\$ 23,470</u>

#### Lease of machinery and equipment

The machinery and equipment acquired through NDIDF loan were leased to CAC under a contract expiring in February 2011. Rentals are \$11,000 each for the six months ended June 30, 2001 and 2000.

The Corporation leases its storage tank and transportation canal lines to CSCC. The annual rental is based on consumption indices of living in Taiwan region. The lease contract will expire in December 2003. Rental amounted to \$7,706 and \$7,622 for the six months ended June 30, 2001 and 2000, respectively.

#### Transportation Charges

The Corporation engaged CSE in the shipment of its import raw materials and exporting products. Transportation fees are calculated on the agreed formula based on standard transportation prices and oil prices. The transportation fees amounted to \$3,128,185 and \$2,388,985 to CSE for the six months ended June 30, 2001 and 2000, respectively.

#### Import-export services

The Corporation engaged the export and import services to the related companies, with service charges and commission as follows:

	<u>Six Months Ended June 30</u>	
	<u>2001</u>	<u>2000</u>
WGTC	\$ 78,933	\$ 94,329
CSGT	62,696	56,451
CSGT (BVI)	<u>42,094</u>	<u>80,530</u>
	<u>\$ 183,723</u>	<u>\$ 231,310</u>

#### Furnace slag transportation and clearance services

The Corporation engaged CHC in furnace slag transportation and clearance services. Fee charges for the six months ended June 30, 2001 and 2000 amounted to \$186,021 and \$120,062, respectively.

#### Operation aids services

The Corporation engaged CSSC in rolling out of plate steel and evaluating of scrap steel services. Fee charges for the six months ended June 30, 2001 and 2000 amounted to \$62,535 and \$66,553, respectively.

#### Security services

The Corporation engaged CSS in the security services. Fee charges for the six months ended June 30, 2001 and 2000 amounted to \$58,968 and \$60,506 respectively.

#### Factor of notes receivable

The Corporation sold some of its notes receivables to MCC without recourse, at the amounts of \$1,356,493 and \$2,008,986 for the six months ended June 30, 2001 and 2000. The related interest amounted to \$30,227 and \$49,517 for the six months ended June 30, 2001 and 2000, respectively.

#### Coke breeze processing

The Corporation engaged CSCC in processing of coke breeze. Fee charges for the six months ended June 30, 2001 and 2000 amounted to \$31,563 and \$44,021, respectively.

#### Recycled resources neap operating

The Corporation engaged CEC in operating of recycled resources neap and vacuum car cleaning operation. Fee charges for the six months ended June 30, 2001 and 2000 amounted to \$20,332 and \$20,767, respectively.

#### Maintenance and construction of properties

The Corporation entered into contracts with USECC, CEC and CSSC for the maintenance and construction of properties. Maintenance and construction charges to USECC, CEC and CSSC are summarized as follows:

	<u>Six Months Ended June 30</u>	
	<u>2001</u>	<u>2000</u>
Maintenance expense		
CEC	\$ 177,370	\$ 244,998
CSSC	<u>66,379</u>	<u>77,174</u>
	<u>\$ 243,749</u>	<u>\$ 322,172</u>
Construction charges (under Constructions in progress)		
USECC	\$ 177,371	\$ 351,802
CEC	153,343	315,596
CSSC	<u>17,780</u>	<u>2,996</u>
	<u>\$ 348,494</u>	<u>\$ 670,394</u>

Information technology service

The Corporation entered into contracts with ICSC for the management and supporting of software. Fee charges for the six months ended June 30, 2001 amounted to \$49,087.

b. Balance at period-end

	<u>June 30</u>			
	<u>2001</u>		<u>2000</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Receivables				
OEC	\$ 80,946	5	\$ -	-
CSCC	45,422	3	48,389	3
CSSC	17,352	1	9,244	1
CAC	586	-	49,376	3
Others	<u>11,264</u>	<u>1</u>	<u>3,577</u>	<u>-</u>
	<u>\$ 155,570</u>	<u>10</u>	<u>\$ 110,586</u>	<u>7</u>
Payables				
CSE	\$ 214,499	9	\$ 166,311	6
CAC	71,556	3	60,304	2
Others	<u>16,838</u>	<u>1</u>	<u>82,860</u>	<u>3</u>
	<u>\$ 302,893</u>	<u>13</u>	<u>\$ 309,475</u>	<u>11</u>

17. PLEDGED ASSETS

- Time deposits of \$7,631,396 and \$7,556,686 (included in pledged time deposits and other assets) as of June 30, 2001 and 2000, respectively, are pledged as collateral for bank overdrafts.
- The Corporation provided 20,000,000 shares of CAC's stock as collateral for China Development Industrial Bank (Corporation's director) to obtain credit line (US\$3,000 thousands) of borrowings.

- c. The Corporation pledged machinery and equipment with book value of \$9,674,350 as collateral for long-term credit line.

#### 18. SIGNIFICANT COMMITMENTS AS OF JUNE 30, 2001

- a. The Corporation has several construction contracts, with the guarantee of \$1,726,808 granted by the Chattered Standard Bank, International Commercial Bank of China and Central Trust of China.
- b. Unused letters of credit of \$3,480,000.
- c. Contracted annual purchases for 7,700,000 metric tons of coal, 15,000,000 metric tons of iron ore, and 2,800,000 metric tons of stones at prices negotiable every year.
- d. The Corporation provided guarantees on loans for TEM expansion project amounting to \$496,246.
- e. The Corporation provided guarantees on rapid transit construction contract for KRTC amounting to \$1,500,000.
- f. The Corporation's employees filed lawsuits against the Corporation that their seniority compensation was not calculated in accordance with the Labor Law regulations when the Corporation privatized in April, 1995. The claimed amount aggregate about \$125,000 plus interest. The Corporation lost the lawsuit in the preliminary judgement by the Court. The Corporation filed appeal for the judgment on that ground that the Corporation calculated the compensation in accordance with related regulations which has been approved by government. The Corporation's management believe that the final judgement will be favorable to the Corporation.

#### 19. FINANCIAL INSTRUMENTS

The Corporation entered into forward exchange contracts with reputable banks to hedge its foreign currency exposure. The benefits of the hedge instruments are being evaluated on a periodically basis.

Information on such financial instruments are as follows:

- a. As of June 30, 2001 and 2000, the outstanding balances of forward exchange contracts were as follows:

	June 30	
	2001	2000
Forward exchange contracts for purchases (US\$9,602 thousands at June 30, 2001; US\$63,170 thousands at June 30, 2000)		
Receivable	\$ 330,132	\$ 1,943,754
Payable	( 313,712 )	( 1,924,318 )
Net receivable (included in other current assets)	<u>\$ 16,420</u>	<u>\$ 19,436</u>
Forward exchange contracts for sales ( ¥ 600,000 thousands exchange for US\$5,091 thousands at contract rate)		
Payable	( \$ 169,681 )	\$ -
Receivable	<u>178,704</u>	<u>-</u>
Net receivable (included in other current assets)	<u>\$ 9,023</u>	<u>\$ -</u>

- b. These counterparties (banks) are reputable and the Corporation does not expect to be exposed to significant credit risks. Also, market risks are expected to be minimal.
- c. The outstanding forward exchange contracts as of June 30, 2001, will due before December 4, 2001. Estimated cash inflows are US\$14,693 thousands and cash outflows are ¥ 600,000 thousands and NT\$313,712, respectively. The Corporation has sufficient working capital to meet cash demand and therefore, there should be no material cash flow risk.
- d. Forward exchange contracts resulted in net of exchange gains \$15,817 and exchange losses \$73,291 (accounted for as non-operating items) for the six months ended June 30, 2001 and 2000, respectively.

As of June 30, 2001 and 2000, the estimated fair values of financial instruments are as follows:

	June 30			
	2001		2000	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Non-derivative financial instruments				
<u>Assets</u>				
Cash and cash equivalents	\$ 12,279,324	\$ 12,279,324	\$ 15,313,433	\$ 15,313,433
Marketable securities	14,749,414	19,874,596	12,908,755	23,519,573
Notes receivable	315,370	315,370	244,589	244,589
Accounts receivable	1,447,506	1,447,506	1,418,778	1,418,778
Pledged time deposits	7,631,396	7,631,396	7,556,686	7,556,686
Long-term investments	34,927,479	34,534,312	32,367,865	34,802,756
<u>Liabilities</u>				
Short-term bank loans and overdrafts	1,289,451	1,289,451	4,763,321	4,763,321
Commercial papers payable	2,009,899	2,009,899	3,881,196	3,881,196
Accounts payable	2,270,574	2,270,574	2,654,746	2,654,746
Long-term bonds	40,050,000	42,719,043	36,784,000	38,412,142
Long-term debts	7,209,695	7,209,695	8,340,784	8,340,784
Derivative financial instruments				
Forward exchange contracts – purchases	16,420	17,483	19,436	8,349
Forward exchange contracts - Sales	9,023	9,601	-	-

The carrying values of cash and cash equivalents, notes receivable, accounts receivable, pledged time deposits, short-term bank loans and overdrafts, commercial papers payable and accounts payable approximate fair value because of the short maturity of these instruments. The fair values of marketable securities and long-term investments are determined on market values or net equity values. The fair values of long-term liabilities are determined on the estimated present values of future cash flows; discount rates are the interest rates of similar long-term debt available for the Corporation. The fair values of forward exchange contracts are calculated using the swap rates published by Bridge Information Systems (Hong Kong) Ltd., Taiwan branch, and forward rates of forward contracts.