Readers are advised that the original version of these financial statements is in Chinese. This English translation is solely for the readers' convenience and may present financial statements for periods not previously presented in a single document. (NOTE: If the same reporting periods are covered in a single Chinese document, there is no need to add the preceding sentence. In general, our Chinese financial statements covers two periods only.) Also, these financial statements do not include additional disclosures that are required for Chinese-language reports under the Guidelines for Securities Issuers' Financial Reporting promulgated by the Securities and Futures Commission of the Republic of China. (NOTE: If additional disclosures required by the SFC are translated, there is no need to add the preceding sentence). If there is any conflict between these financial statements and the Chinese version or any difference in the interpretation of the two versions, the Chinese-language financial statements shall prevail.

English Translation of Financial Statements Originally Issued in Chinese

CHINA STEEL CORPORATION

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

	March 31			
	2003		2002	
ASSETS	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents	$ 702,857	-	$ 3,860,145	2
Short-term investments	22,983,754	12	12,627,847	6
Notes receivable	460,228	-	274,602	-
Accounts receivable	2,180,791	1	1,552,681	1
Other financial assets	122,861	-	152,084	-
Inventories	15,716,878	8	17,314,442	9
Pledged time deposits	6,900,000	4	8,200,000	4
Other	343,735	-	1,141,144	1
Total Current Assets	49,411,104	25	45,122,945	23
FUNDS AND LONG-TERM INVESTMENTS				
Long-term investment under equity method	34,024,447	17	29,700,842	15
Long-term investment under cost method	4,917,555	3	4,305,954	2
Prepayments for investments	59,308	-	120,000	-
Bond funds	120,830	-	98,794	-
Total Funds and Long-term Investments	39,122,140	20	34,225,590	17
PROPERTIES				
Land	7,146,632	4	7,065,078	4
Land improvements	4,316,764	2	4,316,764	2
Buildings and improvements	35,854,979	18	35,684,010	18
Machinery and equipment	208,509,289	105	207,146,837	106
Transportation equipment	1,574,633	1	1,595,060	1
Miscellaneous equipment	2,901,165	1	2,772,563	2
Total cost	260,303,462	131	258,580,312	133
Appreciation	18,336,857	9	18,405,386	9
Total cost and appreciation	278,640,319	140	276,985,698	142
Less: Accumulated depreciation	179,243,994	90	170,049,289	87
	99,396,325	50	106,936,409	55
Constructions in progress	6,717,740	3	3,405,028	2
Net Properties	106,114,065	53	110,341,437	57
OTHER ASSETS				
Refundable deposit	71,966	-	63,478	-
Restricted assets－pledged time deposits	31,694	-	31,396	-
Leased assets	3,856,445	2	3,954,925	2
Other－mainly unamortized repair expense	771,955	-	1,145,990	1
Total Other Assets	4,732,060	2	5,195,789	3
TOTAL ASSETS	$ 199,379,369	100	$ 194,885,761	100

	March 31			
	2003		2002	
LIABILITIES AND STOCKHOLDERS' EQUITY	Amount	%	Amount	%
CURRENT LIABILITIES				
Short-term bank loans and overdraft	$ 171,627	-	$ 3,803,742	2
Commercial paper payable	998,860	1	1,367,282	1
Accounts payable	2,844,452	1	2,563,885	1
Income tax payable	5,368,886	3	369,574	-
Other payable	4,389,582	2	3,590,766	2
Long-term bonds - current portion	4,200,000	2	10,850,000	6
Long-term debts – current portion	759,460	-	4,310,758	2
Other	1,437,143	1	2,120,921	1
Total Current Liabilities	20,170,010	10	28,976,928	15
LONG-TERM LIABILITIES				
Bonds	25,000,000	13	29,200,000	15
Debts	50,000	-	1,187,306	-
Total Long-Term Liabilities	25,050,000	13	30,387,306	15
Reserve for land value increment tax	3,370,813	2	3,370,813	2
OTHER LIABILITIES				
Deferred income tax liability - noncurrent portion	3,466,292	2	4,079,933	2
Deferred credit - intercompany benefit	1,405,040	-	1,405,040	1
Total Other Liabilities	4,871,332	2	5,484,973	3
Total Liabilities	53,462,155	27	68,220,020	35
STOCKHOLDERS' EQUITY				
Capital stock - authorized 10,600,000 and 9,900,000 thousand shares of $10 par value as of March 31, 2003 and 2002, respectively				
Common - issued, 9,267,999 and 9,061,168 thousand shares as of March 31, 2003 and 2002, respectively	92,679,989	47	90,611,684	47
Preferred - 14% cumulative and participative – issued 47,762 and 47,768 thousand shares as of March 31, 2003 and 2002, respectively	477,620	-	477,680	-
Total capital stock	93,157,609	47	91,089,364	47
Capital surplus	413,947	-	420,124	-
Retained earnings	44,945,141	22	37,392,357	19
Net profit - for the first quarter	9,134,858	5	1,405,137	1
Other adjustments				
Unrealized loss on investees' long-term investments	(579,474)	-	(566,913)	-
Cumulative translation adjustments	193,798	-	202,724	-
Investees' unrecognized net loss on pension cost	(15,687)	-	(15,508)	
Treasury stock	(1,332,978)	(1)	(3,261,544)	(2)
Total Stockholders' Equity	145,917,214	73	126,665,741	65
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 199,379,369	100	$ 194,885,761	100

CHINA STEEL CORPORATION
STATEMENTS OF INCOME
(Unaudited)
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	Three Months Ended March 31			
	2003		2002	
	Amount	%	Amount	%
REVENUES	$30,426,744	100	$21,076,045	100
COST OF REVENUES	19,850,106	65	18,316,998	87
GROSS PROFIT	10,576,638	35	2,759,047	13
OPERATING EXPENSES				
Selling	498,679	1	417,845	2
General and administrative	518,849	2	441,905	2
Research and development	247,055	1	215,763	1
Total Operating Expenses	1,264,583	4	1,075,513	5
OPERATING INCOME	9,312,055	31	1,683,534	8
NONOPERATING INCOME				
Interest	33,935	-	73,079	1
Investment income under equity method	1,715,805	6	456,820	2
Gain on disposal of short-term investments	92,496	-	57,497	-
Other	121,339	-	131,874	1
Total Non-operating Income	1,963,575	6	719,270	4
NON OPERATING EXPENSES				
Interest	416,534	2	657,079	3
Provision for loss on inventories	-	-	76,057	-
Other	94,080	-	103,347	1
Total Non operating Expenses	510,614	2	836,483	4
INCOME BEFORE INCOME TAX	10,765,016	35	1,566,321	8
INCOME TAX	1,630,158	5	161,184	1
NET INCOME	$ 9,134,858	30	$ 1,405,137	7

(Forward)

	Three Months Ended March 31			
	2003		2002	
	Amount	%	Amount	%
BASIC EARNINGS PER SHARE				
Before tax	$ 1.17		$ 0.17	
After tax	$ 1.00		$ 0.15	
DILUTED EARNINGS PER SHARE				
Before tax	$ 1.17		$ 0.17	
After tax	$ 0.99		$ 0.15	
PRO FORMA INFORMATION - AS IF THE CORPORATION'S STOCK SHARES HELD BY SUBSIDIARIES WERE ACCOUNTED FOR AS INVESTMENTS RATHER THAN TREASURY STOCKS				
Net income	$ 9,138,135		$ 1,414,378	
Basic earnings per share based on weighted average number of outstanding common shares of 9,261,714 thousand and 9,117,993 thousand for the three months ended March 31, 2003 and 2002, respectively				
Before tax	$ 1.16		$ 0.17	
After tax	$ 0.99		$ 0.15	
Diluted earnings per share based on weighted average number of outstanding common stock shares of 9,309,476 thousand and 9,165,761 thousand for the three months ended March 31, 2003 and 2002, respectively				
Before tax	$ 1.16		$ 0.17	
After tax	$ 0.98		$ 0.15	

English Translation of Financial Statements Originally Issued in Chinese

CHINA STEEL CORPORATION

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

	Three Months Ended March 31	
	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 9,134,858	$ 1,405,137
Depreciation	2,978,986	3,023,777
Amortization	84,438	162,202
Deferred tax	(111,791)	(214,777)
Provision for allowance for loss on inventories	-	76,057
Investment income under equity method	(1,715,805)	(456,820)
Gain on disposal of short-term investments	(92,496)	(57,497)
Increase in notes receivable	(81,786)	(129,808)
Decrease (increase) in accounts receivable	(538,714)	263,263
Decrease (increase) in inventories	(248,402)	981,122
Decrease (increase) in other financial assets – current protion	(8,822)	58,784
Increase in other current assets	(92,371)	(21,362)
Increase (decrease) in accounts payable	(178,697)	470,060
Increase in income tax payable	1,638,364	369,574
Decrease in other payable	(713,160)	(721,294)
Increase (decrease) in other current liabilities	(304,557)	203,102
Others	6,878	10,198
Net Cash Provided by Operating Activities	9,756,973	5,362,934
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in short-term investments	(3,139,922)	(363,826)
Acquisition of properties	(1,028,129)	(1,107,384)
Increase in long-term investments	(1,904,155)	(130,190)
Decrease in other assets	9,032	2,809
Net Cash Used in Investing Activities	(6,063,174)	(1,598,591)
CASH FLOWS FROM FINANCING ACTIVITIES		

Increase in short-term bank loans and overdraft	(638,061)	(2,144,171)
Increase(decrease) in commercial paper payable	513	(1,475,970)
Decrease in bonds payable	(5,000,000)	-
Decrease in long-term debts	(2,225,585)	(247,498)
Treasury stock transfer to employees	1,807,066	-
Net increase in cash from purchased forward exchange contract	-	9,553
Decrease in payable on properties purchased	-	(347,993)
Cash dividends	(3,791)	(294)
Net Cash Used in Financing Activities	(6,059,858)	(4,206,373)

(Forward)

	Three Months Ended March 31	
	2003	2002
NET DECREASE IN CASH AND CASH EQUIVALENTS	($ 2,366,109)	($ 442,030)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	3,068,966	4,302,175
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 702,857	$ 3,860,145
SUPPLEMENTAL INFORMATION		
Interest paid, excluding capitalized amounts	$ 312,419	$ 404,489
Income tax paid		
Payment of prior year's tax	$ 99,998	$ -
Prepayment and withholding	50	6,387
Segregate income tax on interest incme	3,537	-
	$ 103,585	$ 6,387
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Long-term liabilities due within one year	$ -	$ 7,020,489
Reclassification of treasury stocks from long-term investments in parent company hold by subsidiaries	$ 1,332,462	$ 1,356,485

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

CHINA STEEL CORPORATION

NOTES TO FINANCIAL STATEMENTS
March 31, 2003 and 2002
(Unaudited)
(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)

1. GENERAL

The Corporation was incorporated in December 1971. It manufactures and sells steel products.

The Corporation's stock is listed and traded in the Taiwan Stock Exchange. As of March 31, 2002, the Ministry of Economic Affairs, Republic of China (MOEA - ROC) holds 40.9% of the Corporation's outstanding common stocks.

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.

Short-term investments

Short-term investments, 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.

Inventories

Inventories consist of 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, and the construction in progress is valued by the costs incurred plus (less) the estimated gain (loss). Other inventories are stated at the lower of weighted moving average cost or market value.

Long-term investments

Long-term stock investments for which the Corporation 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, unrealized loss on long-term investments of investees and unrecognized net loss on pension cost 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. If the market prices of investees decline significantly and not temporarily, the investment loss should be recognized as realized loss in the same year.

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. Interest expense arised from the purchase or construction of such properties is capitalized as cost. Major additions, renewals and betterments are capitalized while maintenance and repairs are expensed currently.

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 incurred before 2000, net of applicable income tax, were 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 based on actuarial calculations. The difference between the pension costs recognized and the amount appropriated to a special fund is recognized as accrued pension liabilities. Pension benefits paid in excess of the fund and accrual are charged to expense.

Income tax

Income tax is provided on interperiod allocation basis. Tax effects on deductible temporary differences and unused tax credits are recognized as defered 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.

The tax credits from equipment purchase, research and development, and personnel training expense are recognized as income tax credit when they occur.

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 unappropriated 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 effects of 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 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.

Treasury stocks

Treasury stocks are stated at cost, and its book value is recorded as a deduction of stockholders' equity.

Reclassifications

Certain accounts for the period ended March 31, 2001 have been reclassified to conform to the classifications as of March 31, 2002.

3. ACCOUNTING CHANGE

According to Statement of Financial Accounting Standards No. 30 "Treasury Stocks" and regulations issued by ROC Securities & Futures Commission, the Corporation's shares acquired and held by subsidiaries should be accounted for as treasury stocks effective 2002. As a result, the Corporation's shares acquired by its subsidiaries, based on the book value of such shares at the beginning of 2002, were reclassified from the long-term investments to treasury stock. Due to the adoption of this accounting principle, the Corporation's long-term investments and net income of the first quarter decrease by $1,571,253 and $9,241, and treasury stocks and unrealized loss on investees' long-term investments increase by $1,356,485 and $205,527, respectively, as of March 31, 2002.

4. SHORT-TERM INVESTMENTS

	March 31	
	2003	2002
Bond funds	$11,660,391	$11,462,486
Stocks listed and traded in the Taiwan Stock Exchange	967,456	2,464,194
Commercial papers	-	127,562
	$12,627,847	$14,054,242

5. INVENTORIES

	March 31	
	2003	2002
Finished products	$ 4,306,836	$ 5,282,499
Work in process	6,268,073	5,127,135
By-products	41,722	-
Raw materials	2,883,975	2,667,279
Supplies	3,242,297	3,237,201
Fuel	67,603	62,428
Materials in transit and unallocated freight expenses	715,846	962,127
Others	-	85,376
	17,526,352	17,424,045
Less: Allowance for loss	211,910	377,538
	$17,314,442	$17,046,507

6. LONG-TERM INVESTMENTS

	March 31			
	2003		2002	
	Amount	% of Owner-ship	Amount	% of Owner-ship
Based on reviewed financial statements				
China Steel Chemical Corporation (CSCC)	$ 799,584	31	$ 755,874	31
China Hi-ment Corporation (CHC)	491,290	20	471,911	20
China Ecotek Corporation (CEC)	370,255	36	374,543	36
China Steel Structure Corporation (CSSC)	473,026	18	455,233	18
Yieh Loong Enterprises Corporation (YLEC)	249,768	24	2,229,971	24
	2,383,923		4,287,532	
Based on unreviewed financial statements				
C. S. Aluminum Corporation (CAC)	5,573,413	98	5,390,129	98
China Prosperity Development Corporation (CPDC)	4,072,953	100	4,085,347	100
Gains Investment Corporation (GIC)	4,324,701	100	4,475,600	100
China Steel Express Corporation (CSE)	5,731,765	100	4,741,939	100
Kuei Yi Industrial Co. (KYIC)	564,667	30	878,467	30
Taisil Electronic Materials Corporation (TEM)	1,009,901	35	1,067,595	35

(Forward)

China Steel Global Trading Corporation (CSGT)	$ 898,654	100	$ 761,253	100
Hi-mag Magnetic Corporation (HMC)	93,249	50	120,774	50
China Steel Security Corporation (CSS)	195,538	100	184,414	100
Info-Champ Systems Corporation (ICSC)	475,792	100	396,110	100
Goang Yaw Investment Corporation and other eight companies	167,501	99	1,060,483	99
China Steel Asia Pacific Holdings Pte. Ltd. (CSAPH)	1,622,826	100	1,481,264	100
Kaohsiung Rapid Transit Corporation (KRTC)	3,135,378	31	1,478,320	31
China Steel Machinery Corporation (CSMC)	807,066	100	-	-
	28,673,404		26,121,695	
Less: Treasury stock which is parent company's shares hold by subsidiaries	1,356,485		-	
	27,316,919		26,121,695	
Stocks - under cost method				
Eastern Broadband Telecommunications Co., Ltd.	1,200,000	2	1,200,000	2
Industrial Bank of Taiwan	1,000,000	4	1,000,000	4
Maruichi Steel Tube Ltd.	715,550	2	757,920	2
Tang Eng Iron Works Corporation	597,214	9	597,214	9
CDIB & Partners Investment Holding Corporation	500,000	5	500,000	5
Advanced Material Technology Corporation	182,200	3	182,200	3
GenMont Biotech Inc. (GMB)	60,990	17	-	-
Overseas Investment & Development Corporation	50,000	6	50,000	6
	4,305,954		4,287,334	
Prepayments for investments				
CDIB BioScience Ventures I, Inc.	120,000		-	-
Others	98,794		47,318	
	$34,225,590		$34,743,879	

As of March 31, 2002, the Corporation owned 24.1% shares directly and 15.9% shares indirectly of YLEC. Consequently, the Corporation owned 40% shares of YLEC in substance.

In September 2001, the Corporation incorporated CSMC, a wholly-owned subsidiary, with amount of $799,930. The subsidiary is mainly engaged in the manufacture, sales and maintenance of machinery and equipment.

In September 2001, the Corporation invested in GenMont Biotech Inc. with amount of $60,000, representing 16.7% shareholdings.

In December 2001, capital increase plans of GIC, KRTC and KYIC have been approved by the Board of Directors. The upper limit of capital increase is $2,150,000 and the implement schedule depends on that of investees.

Investment income or loss under equity method are recognized as follows:

	Three Months Ended March 31	
	2003	2002
Based on reviewed financial statements		
CSCC	$ 47,013	$ 38,949
CEC	4,753	10,315
CHC	11,019	10,406
CSSC	4,288	39,121
YLEC	-	(170,242)
	67,073	(71,451)
Based on unreviewed financial statements		
GIC	132,294	107,348
CSE	211,843	328,758
CAC	64,522	34,076
KYIC	(28,249)	(45,188)
CSGT	37,367	22,361
CSAPH	(26,960)	(133,518)
ICSC	13,588	18,600
TEM	(37)	20,085
HMC	(10,321)	1,487
Goang Yaw Investment Corporation and other eight companies	(595)	(102,500)
Others	(3,705)	3,635
	389,747	255,144
	$ 456,820	$ 183,693

The stock price of YLEC droped significantly in 2001 and the Corporation recognized investment loss based on the year-ended market price of 2001. Therefore, the Corporation did not recognize any investment income or loss by equity method for three months ended March 31, 2002.

Investment incomes on statements of income are as follows:

	Three Months Ended March 31 2003	2002
Long-term invesment income under equity method	$456,820	$183,693
Gain on disposal of short-term investment-net	57,497	12,149
	$514,317	$195,842

The Corporation reversed $2,924 of unrealized loss on investees' long-term investments and recognized $57,319 of that for the three months ended March 31, 2003 and 2002, respectively.

The Corporation have an increase in cumulative translation adjustments with amounts of $3,843 and a decrease with amounts of $16,169 for the three months ended March 31, 2003 and 2002, respectively.

Capital surplus increases by $3,554 and decreases by $1,018, and retained earnings decrease by $41,667 and $169 for the three months ended March 31, 2003 and 2002, respectively.

7. PROPERTIES - NET

	Cost	Appreciation	Total
March 31, 2002			
Cost and appreciation			
Land	$ 7,065,078	$ 5,850,597	$ 12,915,675
Land improvements	4,316,764	492,990	4,809,754
Buildings and improvements	35,684,010	2,445,529	38,129,539
Machinery and equipment	207,146,837	9,541,792	216,688,629
Transportation equipment	1,595,060	39,186	1,634,246
Miscellaneous equipment	2,772,563	35,292	2,807,855
	258,580,312	18,405,386	276,985,698
Accumulated depreciation			
Land improvements	2,539,384	342,827	2,882,211
Buildings and improvements	12,124,136	1,412,694	13,536,830
Machinery and equipment	140,795,556	9,522,395	150,317,951
Transportation equipment	1,216,344	38,982	1,255,326
Miscellaneous equipment	2,021,716	35,255	2,056,971
	158,697,136	11,352,153	170,049,289
Constructions in progress	3,405,028	-	3,405,028
	$103,288,204	$ 7,053,233	$110,341,437

(Forward)

March 31, 2001

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	35,489,602	2,445,462	37,935,064
Machinery and equipment	204,160,024	9,659,730	213,819,754
Transportation equipment	1,581,695	50,279	1,631,974
Miscellaneous equipment	2,583,928	35,509	2,619,437
	253,261,703	18,534,567	271,796,270
Accumulated depreciation			
Land improvements	2,333,715	316,691	2,650,406
Buildings and improvements	11,257,901	1,306,622	12,564,523
Machinery and equipment	132,795,756	9,072,437	141,868,193
Transportation equipment	1,169,380	44,896	1,214,276
Miscellaneous equipment	1,973,937	32,576	2,006,513
	149,530,689	10,773,222	160,303,911
Constructions in progress	4,763,496	-	4,763,496
	$ 108,494,510	$ 7,761,345	$ 116,255,855

The Corporation constructed and acquired the properties with financing from bank loans. The information of interest capitalization is as follows:

	Three Months Ended March 31	
	2003	2002
Total interest expense	$ 673,654	$ 774,228
Interest expense capitalized (under constructions in progress)	16,575	36,123
Interest rate for capitalization	5.23%	5.66%

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, the balance of $14,291,530 was credited to capital surplus. As of March 31, 2002, such capital surplus of $13,952,356 has been transferred to capital account.

8. OTHER ASSETS

	March 31	
	2003	2002
Rental properties (Notes 2, 12 and 17)		
Land - at cost	$ 2,952,220	$ 1,316,696
Machinery and equipment - at cost, less accumulated depreciation of $997,295 and $904,613, respectively	1,002,705	1,095,387
	3,954,925	2,412,083
Unamortized repair expense - major repair for blast furnaces	956,544	1,587,683
Other	284,320	318,454
	$ 5,195,789	$ 4,318,220

The Corporation has leased its partial plant property and machinery acquired through NDID Fund loan to its subsidiaries. In 2001, the Corporation leased the recently acquired land with cost of $1,634,956 to CSMC.

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

9. SHORT-TERM BANK LOANS AND OVERDRAFTS

	March 31	
	2003	2002
Credit loans - due within 180 days, interest at 2.45%-2.50% p.a.	$ 3,200,000	$ -
Letters of credit - due within 180 days, interest at 0.33%-4.84% p.a. and 0.25%-6.39% p.a. as of March 31, 2002 and 2001, respectively	419,647	253,033
Overdrafts - interest at 2.4%-3.925% p.a. and 4.75%-7.14% p.a. as of March 31, 2003 and 2002, respectively	184,095	180,810
	$ 3,803,742	$ 433,843

10. COMMERCIAL PAPERS PAYABLE

	March 31	
	2003	2002
Commercial papers - interest at 2.12%-2.37% p.a. and 4.25%-4.6% p.a. as of March 31, 2003 and 2002, respectively	$ 1,370,000	$ 1,380,000
Less: Unamortized discount	2,718	19,729
	$ 1,367,282	$ 1,360,271

11. LONG-TERM BONDS PAYABLE

	March 31	
	2003	2002
5-year unsecured bonds - issued at par in:		
November 2001, payable in November 2006, interest at 3.1% p.a., payable annually	$ 3,500,000	$ -
November 2001, payable in November 2006, interest at 3.0763% p.a., compounded semi-annually and payable annually	1,500,000	-
June 2001, payable in June 2006, interest at 4.27% p.a., payable annually	5,000,000	-
December 2000, payable in December 2005, interest at 5.18% p.a., payable annually	5,000,000	5,000,000
July 1999, payable in July 2004, interest at 5.99% p.a., compounded semi-annually and payable annually	2,250,000	2,250,000

(Forward)

June 1999, payable in June 2004, interest at 5.69% p.a., compounded semi-annually and payable annually	$ 7,750,000	$ 7,750,000
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 1998, payable in three annual installments starting May 2001, interest at 7.4% p.a., compounded semi-annually and payable annually	3,350,000	5,000,000
June 1997, payable in three annual installments starting June 2000, interest at 6.5% p.a., compounded semi-annually and payable annually	1,700,000	3,350,000
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, interest at 7.3% p.a., repaid in July 2001	-	5,000,000
	40,050,000	38,350,000
Current portion	(10,850,000)	(8,300,000)
	$29,200,000	$30,050,000

12. LONG-TERM DEBTS

	March 31	
	2003	2002
Import equipment loans:		
Kreditanstalt fur Wiederaufbau - payable in ten equal installments from April 1997 to September 2003, interest at 6.4% - 6.99% p.a.	$ 1,025,308	$ 2,344,263
West Merchant Bank - payable in ten equal installments from October 1997 to April 2002, interest at 5.38% p.a.	286,655	812,489
Sumitomo Bank - payable in ten equal installments from August 1998 to February 2003, interest at 6.715% p.a.	350,450	657,800
Hitachi Zosen Corp. - interest at 6.99% p.a., repaid in February 2002	-	128,050
Nippon Steel Corp. - interest at 6.99% p.a., repaid in November 2001	-	63,092
Mortgage bank loan on machinery and equipment:		
Payable through June 2004, float rate at 4.95% p.a. (Note 18)	50,000	-
Payable through March 2003, float rate at 4.95% p.a. and 5.25% p.a., as of March 31, 2002 and 2002, respectively (Note 18)	2,050,000	2,050,000

(Forward)

Payable through December 2003, interest at 1.0466% p.a. and 1.05% p.a., as of March 31, 2002 and 2001, respectively (Note 18)	$ 691,860	$ 696,540
Loan from National Defense Industrial Development Fund (NDIDF) - payable in annual installments from July 1989 to June 2003; float rate at 5.55% p.a. and 5.85% p.a. as of March 31, 2003 and 2002, respectively	1,043,791	1,043,791
	5,498,064	7,796,025
Current portion	(4,310,758)	(3,231,599)
	$ 1,187,306	$ 4,564,426

The Corporation assumed the balance of the loan from NDIDF and acquired the related machinery and equipment. The foregoing loan is payable based on the depreciation charges ($36,487 and $34,967 for the three months ended March 31, 2003 and 2002, 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 leased to CAC (Note 8) and therefore, are recorded under rental properties.

13. 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 reserve fund which is administered by, and deposited with the Central Trust of China in the name of the employees pension reserve fund administration committee. The changes in the fund are summarized as follows:

	Three Months Ended March 31	
	2003	2002
Balance, beginning of period	$ 6,735,145	$ 5,563,997
Contributions	308,761	300,700
Interest income	258,275	383,699
Payment of benefits	(14,342)	(10,074)
Balance, end of period	$ 7,287,839	$ 6,238,322

The pension costs aggregated $279,636 and $234,329 for the three months ended March 31, 2003 and 2002, respectively.

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 officers' pension fund management committee in August 1999. The changes in the fund are summarized as follows:

	Three Months Ended March 31	
	2003	2002
Balance, beginning of period	$ 16,462	$ 17,350
Contributions	990	1,055
Interest income	207	262
Balance, end of period	$ 17,659	$ 18,667

14. STOCKHOLDERS' EQUITY

a. Capital stock

The authorized shares of capital stocks are 10,600,000 thousand and 9,900,000 thousand shares with par value of $10 as of March 31, 2003 and 2002, respectively. The issued shares include 9,061,168 thousand shares of common stocks and 47,768 thousand shares of preferred stocks as of March 31, 2002 and 8,748,373 thousand shares of common stocks and 47,768 thousand shares of preferred stocks as of March 31, 2001.

b. Treasury stock - Three Months Ended March 31, 2002

	Thousand Shares			
Purpose	Beginning of Period	Increase	Decrease	End of Period
Shares acquired for transfer to employees	150,000	-	-	150,000
Shares acquired and owned by subsidiaries	-	96,026	-	96,026
	150,000	96,026	-	246,026

For the purpose of transferring some of the Corporation's stocks to employees, the Corporation acquired 150,000 thousand shares of common stocks by $1,905,059 in 2001. As of March 31, 2002, these stocks has not yet been transferred to employees.

The treasury stock, which is the Corporation's shares acquired and held by its subsidiaries based on book value of such shares, amounts to $1,356,485 and is not disposed yet. The market value of such treasury stock is 1,611,316 as of March 31, 2002.

According to the Security Act, the Corporation can not purchase over 10% of total issued shares. The total amount of purchasing shares can not be more than retained earnings plus paid-in capitals in excess of par value and realized capital surplus. The Corporation's transaction of treasury stocks conformed to the regulation of the Security Act. Furthermore, the Corporation should transfer those shares to employees within three years. These stock shares are deemed as unissued shares if they are not transferred in time, and the Corporation should register for reduction in capital. These stocks can not be pledged and are not entitled to dividends and voting.

The Corporation's shares held by its subsidiaries are recorded as treasury stocks in the financial statements but not restricted to aforementioned regulations.

c. Overseas depository receipts

In May 1992 and February 1997, the MOEA - ROC 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 3,174,567 units resulting from the capitalization of retained earnings. 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 March 31, 2003 and 2002, the outstanding depositary shares were 17,026,936 units and 21,805,563 units, respectively, which were equivalent to common shares of 340,538,835 and 436,110,349 and approximated to 4% and 5% of the issued common shares, respectively.

d. Preferred Stock

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

1) 14% annual dividends with priority over those of common stockholders;

2) Preference of payment in succeeding years of dividends in arrears;

3) Redemption of stock, at the option of the Corporation 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 in the election of directors and supervisors; and

5) Conversion of shares into common stock.

e. Capital surplus

Capital surplus consists of:

	March 31	
	2003	2002
Revaluation increment on assets (Note 7)	$339,174	$339,174
Long-term investment under equity method	52,337	46,517
Gain on disposal of properties	20,514	20,514
Others	8,099	1,782
	$420,124	$407,987

Under relevant regulations, the capital surplus from revaluation increment on assets can only be used to offset a deficit. Capital surplus from long-term investment under equity method is prohibited from being used. The capital surplus from gain on disposal of properties can be transferred to retained earnings based on resolution of the most recent stockholders' meeting in 2002.

f. Appropriation of retained earnings

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

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

2) Preferred stock dividends at 14% of par value;

3) 0.3% and 3% of the remainder as compensation to directors and supervisors and as bonus to employees, respectively;

4) Common stock dividends at 14% of par value; and

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

The Board of Directors shall propose the aforementioned appropriation of annual 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' meeting for approval.

In March 2002, the Corporation's Board of Directors proposed that $2,200,000 special reserve and $20,514 capital surplus from gain on disposal of properties, net of $2,051 legal reserve, are tranferred to unappropriated earnings. The appropriation of its 2001 earnings, in accordance with the Corporation's Article of Incorporation, is as follows:

Legal reserve	$ 748,026
Special reserve	290,463
Cash dividends	
Common stock - 8%	7,128,934
Preferred stock - 12%	57,322
Stock dividends	
Common stock - 2%	1,782,234
Preferred stock - 2%	9,553
Bonus to directors and supervisors	27,646
Bonus to employees	276,458
	$10,320,636

The aforementioned appropriation will be according to resolution of the Corporation's stockholders' meeting of in 2002.

The Corporation is required to appropriate annual earnings as special reserve for the net debit balance resulting from the adjustment items to the stockholders' equity. The Corporation may release that portion of earnings from such special reserve when that debit balances are partially or fully 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.

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.

g. 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 in 1998 and onwards. Non-resident stockholders, including the overseas depositsory receipts, are only allowed a tax credit from the 10% income tax on undistributed earnings, which can be used to deduct the withholding income tax on dividends paid.

As of March 31, 2002, the balance of the Imputation Credit Account (ICA) aggregated $1,485,002 equivalent to 18.26% of undistributed earnings for 2001. This percentage may change depending on the balance of the ICA on the dividend distribution date. In July 2001, the Corporation distributed 2000 earnings, and the ratio of tax credit allocated to stockholders is 19.89%.

As of March 31, 2002, undistributed earnings from 1997 and backwards amounted to $54,611, which is not subject to the application of Imputation Tax System.

15. INCOME TAX

	Three Months Ended March 31	
	2003	2002
Tax on pretax income at statutory rate (25%)	$ 391,580	$ 547,722
Add (deduct) tax effects of temporary differences:		
Investment income - net	(128,579)	(48,961)
Depreciation	178,241	122,529
Allowance for loss on inventories	19,014	-
Others	20,447	(26,161)
Income tax payable	480,703	595,129
Tax benefits from investment tax credits	(104,742)	(86,414)
Deferred tax	(214,777)	(119,205)
Income tax on interest income with segregate taxation	-	22,469
Income tax	$ 161,184	$ 411,979

Deferred income tax assets and liabilities are as follows:

	March 31	
	2003	2002
Current-deferred tax assets (under other current assets)		
Deferred income tax assets		
Inventory value - declined loss	$ 52,977	$ 94,385
Others	30,795	34,441
	83,772	128,826
Noncurrent-(under other liabilities)		
Deferred income tax assets		
Unrealized foreign exchange loss	31,355	94,928
Others	4,982	7,706
	36,337	102,634
Deferred income tax liabilities		
Depreciation difference	(4,116,270)	(4,430,978)
Net deferred tax liabilities-Noncurrent	(4,079,933)	(4,328,344)
Total deferred income tax	($3,996,161)	($4,199,518)

Income tax payable is net of prepaid taxes.

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

16. 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.

Three Months Ended March 31, 2002	Numerator-Amount Before Tax	Numerator-Amount After Tax	Three Months Ended March 31, 2002	Denominator -Thousand Shares
Net income	$ 1,566,321	$ 1,405,137	Weighted average number of issued common shares	9,061,168
Less: Dividends to preferred stocks	16,719	16,719	Less: Weighted average number of treasury stocks	
			- Purchased by the Corporation	150,000
			- Held by subsidiaries	96,026
Net income belonging to common stockholders	$ 1,549,602	$ 1,388,418		8,815,142
Three Months Ended March 31, 2001			**Three Months Ended March 31, 2001**	
Net income	$ 2,190,886	$ 1,778,907	Weighted average number of issued common shares	8,748,372
Less: Dividends to preferred stocks	16,719	16,719	Add: Retroactive adjustments for capitalization of retained earnings	312,796
Net income belonging to common stockholders	$ 2,174,167	$ 1,762,188		9,061,168

The number of shares is retroactive adjusted for the effect of capitalization of retained earnings in calculating the earnings per share. Consequently, earnings per share before tax and after tax are decreased from $0.25 and $0.20 to $0.24 and $0.19 for the three months ended March 31, 2001.

17. RELATED PARTY TRANSACTIONS

a. Related parties

Related parties	Relationship
C. S. Aluminum Corporation (CAC)	Investee
China Steel Express Corporation (CSE)	Investee
China Steel Chemical Corporation (CSCC)	Investee
China Steel Global Trading Corporation (CSGT)	Investee
China Hi-ment Corporation (CHC)	Investee
China Ecotek Corporation (CEC)	Investee
China Steel Structure Corporation (CSSC)	Investee
Yieh Loong Enterprises Corporation (YLEC)	Investee
China Steel Machinery Corporation (CSMC)	Investee
WABO Global Trading Corporation (WGTC)	Substantially owned
Chung Mao Trading (BVI) Corp. (CSGT-BVI)	Substantially owned
Mentor Consulting Corporation (MCC)	Substantially owned
United Steel Engineering and Construction Corporation (USECC)	Substantially owned
Ornasteel Enterprise Corp. (M) Sdn. Bhd (OEC)	Substantially owned

b. Significant related party transactions:

	Three Months Ended March 31			
	2003		2002	
	Amount	%	Amount	%
Sales				
YLEC	$1,452,012	7	$1,870,075	8
OEC	500,160	2	632,094	3
CSSC	427,827	2	340,241	1
Others	311,715	2	253,129	1
	$2,691,714	13	$3,095,539	13
Purchases				
CAC	$ 369,364	4	$ 453,077	3

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

Lease of land

The Corporation leases its lands and buildings to CAC, CSMC, CSCC, CSSC and CHC. Rentals are calculated based on 4% to 10% p.a. of land value as published by the government. The related information of the leasing is as follows:

		Rental Income Three Months Ended March 31	
	Expiry Date	2003	2002
CAC	February 2016	$ 6,204	$ 6,204
CSMC	November 2011	5,737	-
CSCC	December 2010	5,499	1,231
CSSC	May 2018	3,929	3,951
CHC	April 2012	1,282	1,288
Others	December 2002	825	114
		$ 23,476	$ 12,788

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 $5,400 each for the three months ended March 31, 2003 and 2002.

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 leasing contract will expire in December 2003. Rental amounted to $2,801 each for the three months ended March 31, 2003 and 2002.

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 $1,149,655 and $1,498,631 to CSE for the three months ended March 31, 2003 and 2002, respectively.

Import-export services

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

	Three Months Ended March 31	
	2003	2002
CSGT	$ 31,032	$ 30,925
WGTC	27,307	45,959
CSGT (BVI)	17,915	9,892
	$ 76,254	$ 86,776

Furnace slag transportation and clearance services

The Corporation engaged CHC in furnace slag transportation and clearance services. Charges for the three months ended March 31, 2003 and 2002 amounted to $65,847 and $99,040, respectively.

Factor of notes receivable

The Corporation sold certain notes receivables to MCC without recourse, with amounts of $775,962 and $761,886 for the three months ended March 31, 2003 and 2002. The related interest expenses are $11,388 and $17,086 for the three months ended March 31, 2003 and 2002, respectively.

Maintenance and construction of properties

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

	Three Months Ended March 31	
	2003	2002
Maintenance expense		
CEC	$ 89,952	$ 88,625
CSSC	33,706	36,645
	$ 123,658	$ 125,270

(Forward)

Construction charges (under Constructions in progress)		
CEC	$ 18,641	$ 111,748
USECC	156,608	100,721
	$ 175,249	$ 212,469

Balance at period-ended

	March 31			
	2003		2002	
	Amount	%	Amount	%
Receivables				
YLEC	$ 102,798	7	$ 78,220	6
OEC	33,786	2	87,803	6
CSCC	42,495	3	49,050	4
CSSC	15,876	1	5,701	-
Others	9,927	-	5,293	-
	$ 204,882	13	$ 226,067	16
Payables				
CSE	$ 176,526	7	$ 154,681	7
CAC	78,539	3	919	-
Others	9,395	-	6,143	-
	$ 264,460	10	$ 161,743	7

18. PLEDGED ASSETS

a. Time deposits of $8,231,396 and $7,631,396 as of March 31, 2003 and 2002, respectively, are pledged as collateral for bank overdrafts (under pledged time deposits and other assets).

b. The Corporation provided 20,000 thousand shares of CAC's stock as collateral to China Development Industrial Bank (Corporation's director) for obtaining the credit line of borrowings.

c. The Corporation provided machinery and equipment with book value $9,099,249 and $9,866,505 as of March 31, 2003 and 2002, respectively, as collateral for bank long-term credit line.

19. SIGNIFICANT COMMITMENTS AS OF MARCH 31, 2002

a. The Corporation entered into several construction contracts, with the guarantee of $710,392 granted by International Commercial Bank of China.

b. Unused letters of credit of $4,300,000.

c. Contracted annual purchases for 7,500,000 metric tons of coal, 15,000,000 metric tons of iron ore, and 2,800,000 metric tons of stones over one, three or ten years at prices negotiated every year.

d. The Corporation provided guarantees on loans for TEM expansion project amounting to $160,000.

e. The Corporation provided guarantees to Kaohsiung Municipal Government on rapid transit construction contract for KRTC amounting to $1,500,000 and were discharged at April 2, 2002.

f. The Corporation's employees filed lawsuits against the Corporation that their seniority compensation was not calculated in accordance with the Labor Law when the Corporation privatized in April, 1995. The claimed amount aggregates about $125,000 plus interest. The Corporation failed 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.

20. FINANCIAL INSTRUMENTS

As of March 31, 2003 and 2002, the outstanding balances of forward exchange contracts were as follows:

a. Contract amount (or nominal principal) and credit risk

	March 31			
	2003		2002	
Financial Instruments	Contract Amount (Nominal Principal)	Credit Risk	Contract Amount (Nominal Principal)	Credit Risk
Forward exchange contracts	$ 499,069	$ 2,872	$ 310,784	$ 5,329

The credit risk is a loss that occurs from the failure of the counterparty to perform according to the terms of a contract. The aforementioned amount of the credit risk comes from the aggregation of positive fair value as of balance sheet date after being offset under the master netting arrangement. The counterparties are reputable and the Corporation does not expect to be exposed to significant credit risks.

b. The Corporation enters into transactions of forward exchange contracts in order to hedge exchange rate risks of net foreign currency assets or liabilities. The gains or losses from the change in the exchange rates are mostly offset by the gains or losses from the hedged items, so the price risk is not significant.

c. The outstanding forward exchange contracts as of March 31, 2002, will be due before September 30, 2002. Estimated cash inflows are US$14,211 thousands and estimated cash outflows are ￥600,000 thousands and $337,574, respectively. The Corporation has sufficient working capital to meet cash demand. Therefore, there is no liquidity risk. The exchange rates of forward exchange contracts are certain, and therefore, there should be no material cash flow risk.

d. The derivative financial instruments held by the Corporation are not for trading purpose but mainly for hedging the exchange rate risks from the foreign currency rights or obligations. The Corporation's strategies are to hedge most of price risks, so the Corporation chooses those derivative financial instruments with negatively high relation with the changes in fair value of hedged items and evaluate the strategies periodically.

e. Forward exchange contracts resulted in accounts receivable of $3,064 and $4,084 as of March 31, 2003 and 2002, respectively, accounts payable of $2,017 as of March 31, 2002, and net exchange gains of $9,144 and net exchange loss of $5,134 for the three months ended March 31, 2003 and 2002, respectively.

As of March 31, 2003 and 2002, the estimated fair values of financial instruments are as follows:

	March 31			
	2003		2002	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Non-derivative financial instruments				
Assets				
Cash and cash equivalents	$ 3,860,145	$ 3,860,145	$ 9,636,943	$ 9,636,943
Short-term investments	12,627,847	16,168,461	14,054,242	19,265,646
Notes receivable	274,602	274,602	346,359	346,359
Accounts receivable	1,552,681	1,552,681	1,371,322	1,371,322
Pledged time deposits	8,231,396	8,231,396	7,631,396	7,631,396
Long-term investments	34,225,590	37,683,581	34,743,879	35,296,750
Liabilities				
Short-term bank loans and overdrafts	3,803,742	3,803,742	433,843	433,843
Commercial papers payable	1,367,282	1,367,282	1,360,271	1,360,271
Accounts payable	2,563,885	2,563,885	2,293,066	2,293,066
Long-term bonds	40,050,000	42,900,496	38,350,000	40,151,456
Long-term debts	5,498,064	5,498,064	7,796,025	7,796,025
Derivative financial instruments				
Forward exchange contracts - purchases	(2,017)	(906)	4,081	5,329
Forward exchange contracts - sales	3,064	2,782	-	

The assumptions for estimating the fair values of financial instruments are as follows:

a. 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.

b. The fair values of short-term investments and long-term investments are determined on market values or net equity values.

c. 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.

d. The fair values of forward exchange contracts are calculated using the swap rates published by Moneyline (Hong Kong) Limited, Taiwan branch, and forward rates ard contracts.

以下未送打

CHINA STEEL CORPORATION

NOTES TO FINANCIAL STATEMENTS
March 31, 2003 and 2002
(Unaudited)
(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)

1. GENERAL

The Corporation was incorporated in December 1971. It manufactures and sells steel products.

The Corporation's stock is listed and traded in the Taiwan Stock Exchange. As of March 31, 2002, the Ministry of Economic Affairs, Republic of China (MOEA - ROC) holds 40.9% of the Corporation's outstanding common stocks.

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.

Short-term investments

Short-term investments, 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.

Inventories

Inventories consist of 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, and the construction in progress is valued by the costs incurred plus (less) the estimated gain (loss). Other inventories are stated at the lower of weighted moving average cost or market value.

Long-term investments

Long-term stock investments for which the Corporation 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, unrealized loss on long-term investments of investees and unrecognized net loss on pension cost 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. If the market prices of investees decline significantly and not temporarily, the investment loss should be recognized as realized loss in the same year.

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. Interest expense arised from the purchase or construction of such properties is capitalized as cost. Major additions, renewals and betterments are capitalized while maintenance and repairs are expensed currently.

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 incurred before 2000, net of applicable income tax, were 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 based on actuarial calculations. The difference between the pension costs recognized and the amount appropriated to a special fund is recognized as accrued pension liabilities. Pension benefits paid in excess of the fund and accrual are charged to expense.

Income tax

Income tax is provided on interperiod allocation basis. Tax effects on deductible temporary differences and unused tax credits are recognized as defered 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.

The tax credits from equipment purchase, research and development, and personnel training expense are recognized as income tax credit when they occur.

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 unappropriated 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 effects of 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 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.

Treasury stocks

Treasury stocks are stated at cost, and its book value is recorded as a deduction of stockholders' equity.

Reclassifications

Certain accounts for the period ended March 31, 2001 have been reclassified to conform to the classifications as of March 31, 2002.

3. ACCOUNTING CHANGE

According to Statement of Financial Accounting Standards No. 30 "Treasury Stocks" and regulations issued by ROC Securities & Futures Commission, the Corporation's shares acquired and held by subsidiaries should be accounted for as treasury stocks effective 2002. As a result, the Corporation's shares acquired by its subsidiaries, based on the book value of such shares at the beginning of 2002, were reclassified from the long-term investments to treasury stock. Due to the adoption of this accounting principle, the Corporation's long-term investments and net income of the first quarter decrease by $1,571,253 and $9,241, and treasury stocks and unrealized loss on investees' long-term investments increase by $1,356,485 and $205,527, respectively, as of March 31, 2002.

4. SHORT-TERM INVESTMENTS

	March 31	
	2003	2002
Bond funds	$11,660,391	$11,462,486
Stocks listed and traded in the Taiwan Stock Exchange	967,456	2,464,194
Commercial papers	-	127,562
	$12,627,847	$14,054,242

5. INVENTORIES

	March 31	
	2003	2002
Finished products	$ 4,306,836	$ 5,282,499
Work in process	6,268,073	5,127,135
By-products	41,722	-
Raw materials	2,883,975	2,667,279
Supplies	3,242,297	3,237,201
Fuel	67,603	62,428
Materials in transit and unallocated freight expenses	715,846	962,127
Others	-	85,376
	17,526,352	17,424,045
Less: Allowance for loss	211,910	377,538
	$17,314,442	$17,046,507

6. LONG-TERM INVESTMENTS

	March 31			
	2003		2002	
	Amount	% of Owner-ship	Amount	% of Owner-ship
Based on reviewed financial statements				
China Steel Chemical Corporation (CSCC)	$ 799,584	31	$ 755,874	31
China Hi-ment Corporation (CHC)	491,290	20	471,911	20
China Ecotek Corporation (CEC)	370,255	36	374,543	36
China Steel Structure Corporation (CSSC)	473,026	18	455,233	18
Yieh Loong Enterprises Corporation (YLEC)	249,768	24	2,229,971	24
	2,383,923		4,287,532	
Based on unreviewed financial statements				
C. S. Aluminum Corporation (CAC)	5,573,413	98	5,390,129	98
China Prosperity Development Corporation (CPDC)	4,072,953	100	4,085,347	100
Gains Investment Corporation (GIC)	4,324,701	100	4,475,600	100
China Steel Express Corporation (CSE)	5,731,765	100	4,741,939	100
Kuei Yi Industrial Co. (KYIC)	564,667	30	878,467	30
Taisil Electronic Materials Corporation (TEM)	1,009,901	35	1,067,595	35

(Forward)

China Steel Global Trading Corporation (CSGT)	$ 898,654	100	$ 761,253	100
Hi-mag Magnetic Corporation (HMC)	93,249	50	120,774	50
China Steel Security Corporation (CSS)	195,538	100	184,414	100
Info-Champ Systems Corporation (ICSC)	475,792	100	396,110	100
Goang Yaw Investment Corporation and other eight companies	167,501	99	1,060,483	99
China Steel Asia Pacific Holdings Pte. Ltd. (CSAPH)	1,622,826	100	1,481,264	100
Kaohsiung Rapid Transit Corporation (KRTC)	3,135,378	31	1,478,320	31
China Steel Machinery Corporation (CSMC)	807,066	100	-	-
	28,673,404		26,121,695	
Less: Treasury stock which is parent company's shares hold by subsidiaries	1,356,485		-	
	27,316,919		26,121,695	
Stocks - under cost method				
Eastern Broadband Telecommunications Co., Ltd.	1,200,000	2	1,200,000	2
Industrial Bank of Taiwan	1,000,000	4	1,000,000	4
Maruichi Steel Tube Ltd.	715,550	2	757,920	2
Tang Eng Iron Works Corporation	597,214	9	597,214	9
CDIB & Partners Investment Holding Corporation	500,000	5	500,000	5
Advanced Material Technology Corporation	182,200	3	182,200	3
GenMont Biotech Inc. (GMB)	60,990	17	-	-
Overseas Investment & Development Corporation	50,000	6	50,000	6
	4,305,954		4,287,334	
Prepayments for investments				
CDIB BioScience Ventures I, Inc.	120,000		-	-
Others	98,794		47,318	
	$34,225,590		$34,743,879	

As of March 31, 2002, the Corporation owned 24.1% shares directly and 15.9% shares indirectly of YLEC. Consequently, the Corporation owned 40% shares of YLEC in substance.

In September 2001, the Corporation incorporated CSMC, a wholly-owned subsidiary, with amount of $799,930. The subsidiary is mainly engaged in the manufacture, sales and maintenance of machinery and equipment.

In September 2001, the Corporation invested in GenMont Biotech Inc. with amount of $60,000, representing 16.7% shareholdings.

In December 2001, capital increase plans of GIC, KRTC and KYIC have been approved by the Board of Directors. The upper limit of capital increase is $2,150,000 and the implement schedule depends on that of investees.

Investment income or loss under equity method are recognized as follows:

	Three Months Ended March 31	
	2003	2002
Based on reviewed financial statements		
CSCC	$ 47,013	$ 38,949
CEC	4,753	10,315
CHC	11,019	10,406
CSSC	4,288	39,121
YLEC	-	(170,242)
	67,073	(71,451)
Based on unreviewed financial statements		
GIC	132,294	107,348
CSE	211,843	328,758
CAC	64,522	34,076
KYIC	(28,249)	(45,188)
CSGT	37,367	22,361
CSAPH	(26,960)	(133,518)
ICSC	13,588	18,600
TEM	(37)	20,085
HMC	(10,321)	1,487
Goang Yaw Investment Corporation and other eight companies	(595)	(102,500)
Others	(3,705)	3,635
	389,747	255,144
	$456,820	$183,693

The stock price of YLEC droped significantly in 2001 and the Corporation recognized investment loss based on the year-ended market price of 2001. Therefore, the Corporation did not recognize any investment income or loss by equity method for three months ended March 31, 2002.

Investment incomes on statements of income are as follows:

	Three Months Ended March 31	
	2003	2002
Long-term invesment income under equity method	$456,820	$183,693
Gain on disposal of short-term investment-net	57,497	12,149
	$514,317	$195,842

The Corporation reversed $2,924 of unrealized loss on investees' long-term investments and recognized $57,319 of that for the three months ended March 31, 2003 and 2002, respectively.

The Corporation have an increase in cumulative translation adjustments with amounts of $3,843 and a decrease with amounts of $16,169 for the three months ended March 31, 2003 and 2002, respectively.

Capital surplus increases by $3,554 and decreases by $1,018, and retained earnings decrease by $41,667 and $169 for the three months ended March 31, 2003 and 2002, respectively.

7. PROPERTIES - NET

	Cost	Appreciation	Total
March 31, 2002			
Cost and appreciation			
Land	$ 7,065,078	$ 5,850,597	$ 12,915,675
Land improvements	4,316,764	492,990	4,809,754
Buildings and improvements	35,684,010	2,445,529	38,129,539
Machinery and equipment	207,146,837	9,541,792	216,688,629
Transportation equipment	1,595,060	39,186	1,634,246
Miscellaneous equipment	2,772,563	35,292	2,807,855
	258,580,312	18,405,386	276,985,698
Accumulated depreciation			
Land improvements	2,539,384	342,827	2,882,211
Buildings and improvements	12,124,136	1,412,694	13,536,830
Machinery and equipment	140,795,556	9,522,395	150,317,951
Transportation equipment	1,216,344	38,982	1,255,326
Miscellaneous equipment	2,021,716	35,255	2,056,971
	158,697,136	11,352,153	170,049,289
Constructions in progress	3,405,028	-	3,405,028
	$103,288,204	$ 7,053,233	$110,341,437

(Forward)

March 31, 2001

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	35,489,602	2,445,462	37,935,064
Machinery and equipment	204,160,024	9,659,730	213,819,754
Transportation equipment	1,581,695	50,279	1,631,974
Miscellaneous equipment	2,583,928	35,509	2,619,437
	253,261,703	18,534,567	271,796,270
Accumulated depreciation			
Land improvements	2,333,715	316,691	2,650,406
Buildings and improvements	11,257,901	1,306,622	12,564,523
Machinery and equipment	132,795,756	9,072,437	141,868,193
Transportation equipment	1,169,380	44,896	1,214,276
Miscellaneous equipment	1,973,937	32,576	2,006,513
	149,530,689	10,773,222	160,303,911
Constructions in progress	4,763,496	-	4,763,496
	$ 108,494,510	$ 7,761,345	$ 116,255,855

The Corporation constructed and acquired the properties with financing from bank loans. The information of interest capitalization is as follows:

	Three Months Ended March 31	
	2003	2002
Total interest expense	$ 673,654	$ 774,228
Interest expense capitalized (under constructions in progress)	16,575	36,123
Interest rate for capitalization	5.23%	5.66%

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, the balance of $14,291,530 was credited to capital surplus. As of March 31, 2002, such capital surplus of $13,952,356 has been transferred to capital account.

8. OTHER ASSETS

	March 31	
	2003	2002
Rental properties (Notes 2, 12 and 17)		
Land - at cost	$ 2,952,220	$ 1,316,696
Machinery and equipment - at cost, less accumulated depreciation of $997,295 and $904,613, respectively	1,002,705	1,095,387
	3,954,925	2,412,083
Unamortized repair expense - major repair for blast furnaces	956,544	1,587,683
Other	284,320	318,454
	$ 5,195,789	$ 4,318,220

The Corporation has leased its partial plant property and machinery acquired through NDID Fund loan to its subsidiaries. In 2001, the Corporation leased the recently acquired land with cost of $1,634,956 to CSMC.

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

9. SHORT-TERM BANK LOANS AND OVERDRAFTS

	March 31	
	2003	2002
Credit loans - due within 180 days, interest at 2.45%-2.50% p.a.	$ 3,200,000	$ -
Letters of credit - due within 180 days, interest at 0.33%-4.84% p.a. and 0.25%-6.39% p.a. as of March 31, 2002 and 2001, respectively	419,647	253,033
Overdrafts - interest at 2.4%-3.925% p.a. and 4.75%-7.14% p.a. as of March 31, 2003 and 2002, respectively	184,095	180,810
	$ 3,803,742	$ 433,843

10. COMMERCIAL PAPERS PAYABLE

	March 31	
	2003	2002
Commercial papers - interest at 2.12%-2.37% p.a. and 4.25%-4.6% p.a. as of March 31, 2003 and 2002, respectively	$ 1,370,000	$ 1,380,000
Less: Unamortized discount	2,718	19,729
	$ 1,367,282	$ 1,360,271

11. LONG-TERM BONDS PAYABLE

	March 31	
	2003	2002
5-year unsecured bonds - issued at par in:		
November 2001, payable in November 2006, interest at 3.1% p.a., payable annually	$ 3,500,000	$ -
November 2001, payable in November 2006, interest at 3.0763% p.a., compounded semi-annually and payable annually	1,500,000	-
June 2001, payable in June 2006, interest at 4.27% p.a., payable annually	5,000,000	-
December 2000, payable in December 2005, interest at 5.18% p.a., payable annually	5,000,000	5,000,000
July 1999, payable in July 2004, interest at 5.99% p.a., compounded semi-annually and payable annually	2,250,000	2,250,000

(Forward)

June 1999, payable in June 2004, interest at 5.69% p.a., compounded semi-annually and payable annually	$ 7,750,000	$ 7,750,000
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 1998, payable in three annual installments starting May 2001, interest at 7.4% p.a., compounded semi-annually and payable annually	3,350,000	5,000,000
June 1997, payable in three annual installments starting June 2000, interest at 6.5% p.a., compounded semi-annually and payable annually	1,700,000	3,350,000
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, interest at 7.3% p.a., repaid in July 2001	-	5,000,000
	40,050,000	38,350,000
Current portion	(10,850,000)	(8,300,000)
	$29,200,000	$30,050,000

12. LONG-TERM DEBTS

	March 31	
	2003	2002
Import equipment loans:		
Kreditanstalt fur Wiederaufbau - payable in ten equal installments from April 1997 to September 2003, interest at 6.4% - 6.99% p.a.	$ 1,025,308	$ 2,344,263
West Merchant Bank - payable in ten equal installments from October 1997 to April 2002, interest at 5.38% p.a.	286,655	812,489
Sumitomo Bank - payable in ten equal installments from August 1998 to February 2003, interest at 6.715% p.a.	350,450	657,800
Hitachi Zosen Corp. - interest at 6.99% p.a., repaid in February 2002	-	128,050
Nippon Steel Corp. - interest at 6.99% p.a., repaid in November 2001	-	63,092
Mortgage bank loan on machinery and equipment:		
Payable through June 2004, float rate at 4.95% p.a. (Note 18)	50,000	-
Payable through March 2003, float rate at 4.95% p.a. and 5.25% p.a., as of March 31, 2002 and 2002, respectively (Note 18)	2,050,000	2,050,000

(Forward)

Payable through December 2003, interest at 1.0466% p.a. and 1.05% p.a., as of March 31, 2002 and 2001, respectively (Note 18)	$ 691,860	$ 696,540
Loan from National Defense Industrial Development Fund (NDIDF) - payable in annual installments from July 1989 to June 2003; float rate at 5.55% p.a. and 5.85% p.a. as of March 31, 2003 and 2002, respectively	1,043,791	1,043,791
	5,498,064	7,796,025
Current portion	(4,310,758)	(3,231,599)
	$ 1,187,306	$ 4,564,426

The Corporation assumed the balance of the loan from NDIDF and acquired the related machinery and equipment. The foregoing loan is payable based on the depreciation charges ($36,487 and $34,967 for the three months ended March 31, 2003 and 2002, 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 leased to CAC (Note 8) and therefore, are recorded under rental properties.

13. 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 reserve fund which is administered by, and deposited with the Central Trust of China in the name of the employees pension reserve fund administration committee. The changes in the fund are summarized as follows:

	Three Months Ended March 31	
	2003	2002
Balance, beginning of period	$ 6,735,145	$ 5,563,997
Contributions	308,761	300,700
Interest income	258,275	383,699
Payment of benefits	(14,342)	(10,074)
Balance, end of period	$ 7,287,839	$ 6,238,322

The pension costs aggregated $279,636 and $234,329 for the three months ended March 31, 2003 and 2002, respectively.

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 officers' pension fund management committee in August 1999. The changes in the fund are summarized as follows:

	Three Months Ended March 31	
	2003	2002
Balance, beginning of period	$ 16,462	$ 17,350
Contributions	990	1,055
Interest income	207	262
Balance, end of period	$ 17,659	$ 18,667

14. STOCKHOLDERS' EQUITY

a. Capital stock

The authorized shares of capital stocks are 10,600,000 thousand and 9,900,000 thousand shares with par value of $10 as of March 31, 2003 and 2002, respectively. The issued shares include 9,061,168 thousand shares of common stocks and 47,768 thousand shares of preferred stocks as of March 31, 2002 and 8,748,373 thousand shares of common stocks and 47,768 thousand shares of preferred stocks as of March 31, 2001.

b. Treasury stock - Three Months Ended March 31, 2002

	Thousand Shares			
Purpose	Beginning of Period	Increase	Decrease	End of Period
Shares acquired for transfer to employees	150,000	-	-	150,000
Shares acquired and owned by subsidiaries	-	96,026	-	96,026
	150,000	96,026	-	246,026

For the purpose of transferring some of the Corporation's stocks to employees, the Corporation acquired 150,000 thousand shares of common stocks by $1,905,059 in 2001. As of March 31, 2002, these stocks has not yet been transferred to employees.

The treasury stock, which is the Corporation's shares acquired and held by its subsidiaries based on book value of such shares, amounts to $1,356,485 and is not disposed yet. The market value of such treasury stock is 1,611,316 as of March 31, 2002.

According to the Security Act, the Corporation can not purchase over 10% of total issued shares. The total amount of purchasing shares can not be more than retained earnings plus paid-in capitals in excess of par value and realized capital surplus. The Corporation's transaction of treasury stocks conformed to the regulation of the Security Act. Furthermore, the Corporation should transfer those shares to employees within three years. These stock shares are deemed as unissued shares if they are not transferred in time, and the Corporation should register for reduction in capital. These stocks can not be pledged and are not entitled to dividends and voting.

The Corporation's shares held by its subsidiaries are recorded as treasury stocks in the financial statements but not restricted to aforementioned regulations.

c. Overseas depository receipts

In May 1992 and February 1997, the MOEA - ROC 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 3,174,567 units resulting from the capitalization of retained earnings. 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 March 31, 2003 and 2002, the outstanding depositary shares were 17,026,936 units and 21,805,563 units, respectively, which were equivalent to common shares of 340,538,835 and 436,110,349 and approximated to 4% and 5% of the issued common shares, respectively.

d. Preferred Stock

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

1) 14% annual dividends with priority over those of common stockholders;

2) Preference of payment in succeeding years of dividends in arrears;

3) Redemption of stock, at the option of the Corporation 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 in the election of directors and supervisors; and

5) Conversion of shares into common stock.

e. Capital surplus

Capital surplus consists of:

	March 31	
	2003	2002
Revaluation increment on assets (Note 7)	$339,174	$339,174
Long-term investment under equity method	52,337	46,517
Gain on disposal of properties	20,514	20,514
Others	8,099	1,782
	$420,124	$407,987

Under relevant regulations, the capital surplus from revaluation increment on assets can only be used to offset a deficit. Capital surplus from long-term investment under equity method is prohibited from being used. The capital surplus from gain on disposal of properties can be transferred to retained earnings based on resolution of the most recent stockholders' meeting in 2002.

f. Appropriation of retained earnings

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

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

2) Preferred stock dividends at 14% of par value;

3) 0.3% and 3% of the remainder as compensation to directors and supervisors and as bonus to employees, respectively;

4) Common stock dividends at 14% of par value; and

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

The Board of Directors shall propose the aforementioned appropriation of annual 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' meeting for approval.

In March 2002, the Corporation's Board of Directors proposed that $2,200,000 special reserve and $20,514 capital surplus from gain on disposal of properties, net of $2,051 legal reserve, are tranferred to unappropriated earnings. The appropriation of its 2001 earnings, in accordance with the Corporation's Article of Incorporation, is as follows:

Legal reserve	$ 748,026
Special reserve	290,463
Cash dividends	
Common stock - 8%	7,128,934
Preferred stock - 12%	57,322
Stock dividends	
Common stock - 2%	1,782,234
Preferred stock - 2%	9,553
Bonus to directors and supervisors	27,646
Bonus to employees	276,458
	$10,320,636

The aforementioned appropriation will be according to resolution of the Corporation's stockholders' meeting of in 2002.

The Corporation is required to appropriate annual earnings as special reserve for the net debit balance resulting from the adjustment items to the stockholders' equity. The Corporation may release that portion of earnings from such special reserve when that debit balances are partially or fully 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.

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.

g. 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 in 1998 and onwards. Non-resident stockholders, including the overseas depositsory receipts, are only allowed a tax credit from the 10% income tax on undistributed earnings, which can be used to deduct the withholding income tax on dividends paid.

As of March 31, 2002, the balance of the Imputation Credit Account (ICA) aggregated $1,485,002 equivalent to 18.26% of undistributed earnings for 2001. This percentage may change depending on the balance of the ICA on the dividend distribution date. In July 2001, the Corporation distributed 2000 earnings, and the ratio of tax credit allocated to stockholders is 19.89%.

As of March 31, 2002, undistributed earnings from 1997 and backwards amounted to $54,611, which is not subject to the application of Imputation Tax System.

15. INCOME TAX

	Three Months Ended March 31 2003	Three Months Ended March 31 2002
Tax on pretax income at statutory rate (25%)	$ 391,580	$ 547,722
Add (deduct) tax effects of temporary differences:		
Investment income - net	(128,579)	(48,961)
Depreciation	178,241	122,529
Allowance for loss on inventories	19,014	-
Others	20,447	(26,161)
Income tax payable	480,703	595,129
Tax benefits from investment tax credits	(104,742)	(86,414)
Deferred tax	(214,777)	(119,205)
Income tax on interest income with segregate taxation	-	22,469
Income tax	$ 161,184	$ 411,979

Deferred income tax assets and liabilities are as follows:

	March 31 2003	March 31 2002
Current-deferred tax assets (under other current assets)		
Deferred income tax assets		
Inventory value - declined loss	$ 52,977	$ 94,385
Others	30,795	34,441
	83,772	128,826
Noncurrent-(under other liabilities)		
Deferred income tax assets		
Unrealized foreign exchange loss	31,355	94,928
Others	4,982	7,706
	36,337	102,634
Deferred income tax liabilities		
Depreciation difference	(4,116,270)	(4,430,978)
Net deferred tax liabilities-Noncurrent	(4,079,933)	(4,328,344)
Total deferred income tax	($3,996,161)	($4,199,518)

Income tax payable is net of prepaid taxes.

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

16. 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.

Three Months Ended March 31, 2002	Numerator-Amount Before Tax	Numerator-Amount After Tax	Three Months Ended March 31, 2002	Denominator -Thousand Shares
Net income	$ 1,566,321	$ 1,405,137	Weighted average number of issued common shares	9,061,168
Less: Dividends to preferred stocks	16,719	16,719	Less: Weighted average number of treasury stocks	
			- Purchased by the Corporation	150,000
			- Held by subsidiaries	96,026
Net income belonging to common stockholders	$ 1,549,602	$ 1,388,418		8,815,142
Three Months Ended March 31, 2001			**Three Months Ended March 31, 2001**	
Net income	$ 2,190,886	$ 1,778,907	Weighted average number of issued common shares	8,748,372
Less: Dividends to preferred stocks	16,719	16,719	Add: Retroactive adjustments for capitalization of retained earnings	312,796
Net income belonging to common stockholders	$ 2,174,167	$ 1,762,188		9,061,168

The number of shares is retroactive adjusted for the effect of capitalization of retained earnings in calculating the earnings per share. Consequently, earnings per share before tax and after tax are decreased from $0.25 and $0.20 to $0.24 and $0.19 for the three months ended March 31, 2001.

17. RELATED PARTY TRANSACTIONS

a. Related parties

Related parties	Relationship
C. S. Aluminum Corporation (CAC)	Investee
China Steel Express Corporation (CSE)	Investee
China Steel Chemical Corporation (CSCC)	Investee
China Steel Global Trading Corporation (CSGT)	Investee
China Hi-ment Corporation (CHC)	Investee
China Ecotek Corporation (CEC)	Investee
China Steel Structure Corporation (CSSC)	Investee
Yieh Loong Enterprises Corporation (YLEC)	Investee
China Steel Machinery Corporation (CSMC)	Investee
WABO Global Trading Corporation (WGTC)	Substantially owned
Chung Mao Trading (BVI) Corp. (CSGT-BVI)	Substantially owned
Mentor Consulting Corporation (MCC)	Substantially owned
United Steel Engineering and Construction Corporation (USECC)	Substantially owned
Ornasteel Enterprise Corp. (M) Sdn. Bhd (OEC)	Substantially owned

b. Significant related party transactions:

	Three Months Ended March 31			
	2003		2002	
	Amount	%	Amount	%
Sales				
YLEC	$1,452,012	7	$1,870,075	8
OEC	500,160	2	632,094	3
CSSC	427,827	2	340,241	1
Others	311,715	2	253,129	1
	$2,691,714	13	$3,095,539	13
Purchases				
CAC	$ 369,364	4	$ 453,077	3

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

Lease of land

The Corporation leases its lands and buildings to CAC, CSMC, CSCC, CSSC and CHC. Rentals are calculated based on 4% to 10% p.a. of land value as published by the government. The related information of the leasing is as follows:

		Rental Income Three Months Ended March 31	
	Expiry Date	2003	2002
CAC	February 2016	$ 6,204	$ 6,204
CSMC	November 2011	5,737	-
CSCC	December 2010	5,499	1,231
CSSC	May 2018	3,929	3,951
CHC	April 2012	1,282	1,288
Others	December 2002	825	114
		$ 23,476	$ 12,788

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 $5,400 each for the three months ended March 31, 2003 and 2002.

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 leasing contract will expire in December 2003. Rental amounted to $2,801 each for the three months ended March 31, 2003 and 2002.

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 $1,149,655 and $1,498,631 to CSE for the three months ended March 31, 2003 and 2002, respectively.

Import-export services

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

	Three Months Ended March 31	
	2003	2002
CSGT	$ 31,032	$ 30,925
WGTC	27,307	45,959
CSGT (BVI)	17,915	9,892
	$ 76,254	$ 86,776

Furnace slag transportation and clearance services

The Corporation engaged CHC in furnace slag transportation and clearance services. Charges for the three months ended March 31, 2003 and 2002 amounted to $65,847 and $99,040, respectively.

Factor of notes receivable

The Corporation sold certain notes receivables to MCC without recourse, with amounts of $775,962 and $761,886 for the three months ended March 31, 2003 and 2002. The related interest expenses are $11,388 and $17,086 for the three months ended March 31, 2003 and 2002, respectively.

Maintenance and construction of properties

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

	Three Months Ended March 31	
	2003	2002
Maintenance expense		
CEC	$ 89,952	$ 88,625
CSSC	33,706	36,645
	$123,658	$125,270

(Forward)

Construction charges (under Constructions in progress)		
CEC	$ 18,641	$ 111,748
USECC	156,608	100,721
	$ 175,249	$ 212,469

Balance at period-ended

	March 31			
	2003		2002	
	Amount	%	Amount	%
Receivables				
YLEC	$ 102,798	7	$ 78,220	6
OEC	33,786	2	87,803	6
CSCC	42,495	3	49,050	4
CSSC	15,876	1	5,701	-
Others	9,927	-	5,293	-
	$ 204,882	13	$ 226,067	16
Payables				
CSE	$ 176,526	7	$ 154,681	7
CAC	78,539	3	919	-
Others	9,395	-	6,143	-
	$ 264,460	10	$ 161,743	7

18. PLEDGED ASSETS

a. Time deposits of $8,231,396 and $7,631,396 as of March 31, 2003 and 2002, respectively, are pledged as collateral for bank overdrafts (under pledged time deposits and other assets).

b. The Corporation provided 20,000 thousand shares of CAC's stock as collateral to China Development Industrial Bank (Corporation's director) for obtaining the credit line of borrowings.

c. The Corporation provided machinery and equipment with book value $9,099,249 and $9,866,505 as of March 31, 2003 and 2002, respectively, as collateral for bank long-term credit line.

19. SIGNIFICANT COMMITMENTS AS OF MARCH 31, 2002

a. The Corporation entered into several construction contracts, with the guarantee of $710,392 granted by International Commercial Bank of China.

b. Unused letters of credit of $4,300,000.

c. Contracted annual purchases for 7,500,000 metric tons of coal, 15,000,000 metric tons of iron ore, and 2,800,000 metric tons of stones over one, three or ten years at prices negotiated every year.

d. The Corporation provided guarantees on loans for TEM expansion project amounting to $160,000.

e. The Corporation provided guarantees to Kaohsiung Municipal Government on rapid transit construction contract for KRTC amounting to $1,500,000 and were discharged at April 2, 2002.

f. The Corporation's employees filed lawsuits against the Corporation that their seniority compensation was not calculated in accordance with the Labor Law when the Corporation privatized in April, 1995. The claimed amount aggregates about $125,000 plus interest. The Corporation failed 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.

20. FINANCIAL INSTRUMENTS

As of March 31, 2003 and 2002, the outstanding balances of forward exchange contracts were as follows:

a. Contract amount (or nominal principal) and credit risk

	March 31			
	2003		2002	
Financial Instruments	Contract Amount (Nominal Principal)	Credit Risk	Contract Amount (Nominal Principal)	Credit Risk
Forward exchange contracts	$ 499,069	$ 2,872	$ 310,784	$ 5,329

The credit risk is a loss that occurs from the failure of the counterparty to perform according to the terms of a contract. The aforementioned amount of the credit risk comes from the aggregation of positive fair value as of balance sheet date after being offset under the master netting arrangement. The counterparties are reputable and the Corporation does not expect to be exposed to significant credit risks.

b. The Corporation enters into transactions of forward exchange contracts in order to hedge exchange rate risks of net foreign currency assets or liabilities. The gains or losses from the change in the exchange rates are mostly offset by the gains or losses from the hedged items, so the price risk is not significant.

c. The outstanding forward exchange contracts as of March 31, 2002, will be due before September 30, 2002. Estimated cash inflows are US$14,211 thousands and estimated cash outflows are ￥600,000 thousands and $337,574, respectively. The Corporation has sufficient working capital to meet cash demand. Therefore, there is no liquidity risk. The exchange rates of forward exchange contracts are certain, and therefore, there should be no material cash flow risk.

d. The derivative financial instruments held by the Corporation are not for trading purpose but mainly for hedging the exchange rate risks from the foreign currency rights or obligations. The Corporation's strategies are to hedge most of price risks, so the Corporation chooses those derivative financial instruments with negatively high relation with the changes in fair value of hedged items and evaluate the strategies periodically.

e. Forward exchange contracts resulted in accounts receivable of $3,064 and $4,084 as of March 31, 2003 and 2002, respectively, accounts payable of $2,017 as of March 31, 2002, and net exchange gains of $9,144 and net exchange loss of $5,134 for the three months ended March 31, 2003 and 2002, respectively.

As of March 31, 2003 and 2002, the estimated fair values of financial instruments are as follows:

	March 31			
	2003		2002	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Non-derivative financial instruments				
Assets				
Cash and cash equivalents	$ 3,860,145	$ 3,860,145	$ 9,636,943	$ 9,636,943
Short-term investments	12,627,847	16,168,461	14,054,242	19,265,646
Notes receivable	274,602	274,602	346,359	346,359
Accounts receivable	1,552,681	1,552,681	1,371,322	1,371,322
Pledged time deposits	8,231,396	8,231,396	7,631,396	7,631,396
Long-term investments	34,225,590	37,683,581	34,743,879	35,296,750
Liabilities				
Short-term bank loans and overdrafts	3,803,742	3,803,742	433,843	433,843
Commercial papers payable	1,367,282	1,367,282	1,360,271	1,360,271
Accounts payable	2,563,885	2,563,885	2,293,066	2,293,066
Long-term bonds	40,050,000	42,900,496	38,350,000	40,151,456
Long-term debts	5,498,064	5,498,064	7,796,025	7,796,025
Derivative financial instruments				
Forward exchange contracts - purchases	(2,017)	(906)	4,081	5,329
Forward exchange contracts - sales	3,064	2,782	-	

The assumptions for estimating the fair values of financial instruments are as follows:

a. 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.

b. The fair values of short-term investments and long-term investments are determined on market values or net equity values.

c. 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.

d. The fair values of forward exchange contracts are calculated using the swap rates published by Moneyline (Hong Kong) Limited, Taiwan branch, and forward rates of forward contracts.