

# CHINA STEEL CORPORATION

## BALANCE SHEETS

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

(Reviewed, Not Audited)

ASSETS	September 30,			
	2005		2004	
	Amount	%	Amount	%
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	\$ 12,762,105	5	\$ 12,911,650	6
Short-term investments	15,082,017	6	26,301,355	12
Notes receivable	1,781,621	1	1,724,042	-
Accounts receivable, net of allowance for doubtful accounts of \$134 thousand as of September 30, 2004	2,537,579	1	2,577,210	1
Other receivables	929,635	1	270,346	-
Inventories	34,013,199	14	24,368,107	11
Deferred income tax assets	234,736	-	156,544	-
Pledged time deposits	4,600,000	2	4,200,000	2
Other	850,471	-	175,846	-
Total current assets	<u>72,791,363</u>	<u>30</u>	<u>72,685,100</u>	<u>32</u>
<b>LONG-TERM INVESTMENTS</b>				
Long-term stock investments				
Equity method	53,585,201	22	37,944,463	17
Cost method	12,861,831	5	9,077,749	4
Total long-term stock investments	66,447,032	27	47,022,212	21
Other	189,850	-	185,411	-
Total long-term investments	<u>66,636,882</u>	<u>27</u>	<u>47,207,623</u>	<u>21</u>
<b>PROPERTIES</b>				
Land	7,994,055	3	7,146,632	3
Land improvements	4,216,794	2	4,275,382	2
Buildings and improvements	36,118,327	15	36,207,870	16
Machinery and equipment	212,753,752	86	211,762,117	95
Transportation equipment	1,451,938	1	1,548,338	1
Miscellaneous equipment	3,027,139	1	2,964,139	1
Total cost	265,562,005	108	263,904,478	118
Appreciation	17,669,159	7	17,820,235	8
Total cost and appreciation	283,231,164	115	281,724,713	126
Less: Accumulated depreciation	196,461,902	80	188,829,204	84
	86,769,262	35	92,895,509	42
Constructions in progress	16,192,588	7	6,706,011	3
Net properties	<u>102,961,850</u>	<u>42</u>	<u>99,601,520</u>	<u>45</u>
<b>OTHER ASSETS</b>				
Rental assets - net	3,073,830	1	3,102,203	2
Refundable deposits	322,818	-	171,601	-
Restricted assets-pledged time deposits	31,694	-	31,694	-
Unamortized repair costs and others	84,114	-	248,214	-
Total other assets	<u>3,512,456</u>	<u>1</u>	<u>3,553,712</u>	<u>2</u>
<b>TOTAL</b>	<u>\$ 245,902,551</u>	<u>100</u>	<u>\$ 223,047,955</u>	<u>100</u>

LIABILITIES AND STOCKHOLDERS' EQUITY	September 30,			
	2005		2004	
	Amount	%	Amount	%
<b>CURRENT LIABILITIES</b>				
Short-term bank loans and overdraft	\$ 10,711,361	4	\$ 8,534,101	4
Commercial paper payable	-	-	1,999,955	1
Notes and accounts payable	2,482,701	1	3,154,464	1
Income tax payable	6,144,228	3	5,558,515	3
Accrued expenses	6,443,246	3	6,421,560	3
Bonds payable - current portion	10,000,000	4	-	-
Other	3,296,384	1	2,733,003	1
Total current liabilities	<u>39,077,920</u>	<u>16</u>	<u>28,401,598</u>	<u>13</u>
<b>LONG-TERM LIABILITIES, NET OF CURRENT PORTION</b>				
Bonds payable	5,000,000	2	15,000,000	7
Long - term loans	3,663,750	1	2,145,500	1
Total long-term liabilities	<u>8,663,750</u>	<u>3</u>	<u>17,145,500</u>	<u>8</u>
<b>RESERVE FOR LAND VALUE INCREMENT TAX</b>	<u>2,171,124</u>	<u>1</u>	<u>3,370,813</u>	<u>1</u>
<b>OTHER LIABILITIES</b>				
Deferred income tax liabilities	2,939,504	1	3,001,046	1
Deferred credits - gain on intercompany transactions	1,154,205	1	1,409,956	1
Total other liabilities	<u>4,093,709</u>	<u>2</u>	<u>4,411,002</u>	<u>2</u>
Total liabilities	<u>54,006,503</u>	<u>22</u>	<u>53,328,913</u>	<u>24</u>
<b>STOCKHOLDERS' EQUITY</b>				
Capital stock - authorized 10,600,000 thousand shares at NT\$10 par value				
Common shares - issued 10,545,961 thousand and 9,883,352 thousand shares as of September 30, 2005 and 2004, respectively	105,459,606	43	98,833,518	45
Preferred shares - issued 40,711 thousand and 47,762 thousand shares as of September 30, 2005 and 2004, respectively	407,110	-	477,620	-
Total capital stock	<u>105,866,716</u>	<u>43</u>	<u>99,311,138</u>	<u>45</u>
Capital surplus	2,677,282	1	1,013,896	-
Retained earnings	85,244,613	35	70,958,274	32
Other equity items				
Unrealized loss on investees' long-term investments	(446,462)	-	(467,346)	-
Cumulative translation adjustments	(158,061)	-	65,444	-
Investees' unrecognized net loss on pension cost	(31,565)	-	(21,652)	-
Total other equity items	<u>(636,088)</u>	<u>-</u>	<u>(423,554)</u>	<u>-</u>
Treasury stock - 78,451 thousand and 86,560 thousand shares as of September 30, 2005 and 2004, respectively	(1,256,475)	(1)	(1,140,712)	(1)
Total stockholders' equity	<u>191,896,048</u>	<u>78</u>	<u>169,719,042</u>	<u>76</u>
<b>TOTAL</b>	<u>\$ 245,902,551</u>	<u>100</u>	<u>\$ 223,047,955</u>	<u>100</u>

# CHINA STEEL CORPORATION

## STATEMENTS OF INCOME

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

(Reviewed, Not Audited)

	Nine Months Ended September 30,			
	2005		2004	
	Amount	%	Amount	%
REVENUES	\$ 145,120,842	100	\$ 121,392,340	100
COST OF REVENUES	<u>86,220,722</u>	<u>60</u>	<u>75,481,732</u>	<u>62</u>
GROSS PROFIT	58,900,120	40	45,910,608	38
UNREALIZED GAIN ON INTERCOMPANY TRANSACTIONS	<u>514,990</u>	<u>-</u>	<u>2,090</u>	<u>-</u>
REALIZED GROSS PROFIT	<u>58,385,130</u>	<u>40</u>	<u>45,908,518</u>	<u>38</u>
OPERATING EXPENSES				
Selling	1,713,440	1	1,654,215	1
General and administrative	2,060,548	1	1,826,618	2
Research and development	<u>852,744</u>	<u>1</u>	<u>756,337</u>	<u>1</u>
Total operating expenses	<u>4,626,732</u>	<u>3</u>	<u>4,237,170</u>	<u>4</u>
OPERATING INCOME	<u>53,758,398</u>	<u>37</u>	<u>41,671,348</u>	<u>34</u>
NONOPERATING INCOME AND GAINS				
Interest	436,945	-	111,024	-
Investment income under the equity method	5,227,546	4	5,191,563	4
Gain on disposal of investments	378,419	-	678,388	1
Other	<u>1,046,859</u>	<u>1</u>	<u>874,818</u>	<u>1</u>
Total nonoperating income and gains	<u>7,089,769</u>	<u>5</u>	<u>6,855,793</u>	<u>6</u>
NONOPERATING EXPENSES AND LOSSES				
Interest	553,507	-	775,071	1
Impairment loss on rental assets	-	-	594,000	-
Impairment loss on long - term investment	906,000	1	-	-
Other	<u>713,661</u>	<u>-</u>	<u>650,019</u>	<u>1</u>
Total nonoperating expenses and losses	<u>2,173,168</u>	<u>1</u>	<u>2,019,090</u>	<u>2</u>
INCOME BEFORE INCOME TAX	58,674,999	41	46,508,051	38
INCOME TAX	<u>12,923,453</u>	<u>9</u>	<u>9,575,520</u>	<u>8</u>
NET INCOME	<u>\$ 45,751,546</u>	<u>32</u>	<u>\$ 36,932,531</u>	<u>30</u>

(Continued)

	<b>Nine Months Ended September 30,</b>			
	<b>2005</b>		<b>2004</b>	
	<b>Before Tax</b>	<b>After Tax</b>	<b>Before Tax</b>	<b>After Tax</b>
<b>EARNINGS PER SHARE</b>				
Basic	\$ 5.60	\$ 4.37	\$ 4.45	\$ 3.53
Diluted	5.58	4.35	4.43	3.52

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

Net income	<u>\$ 46,071,330</u>		<u>\$ 37,226,873</u>	
Basic earnings per share - based on weighted-average number of outstanding common shares aggregating 10,545,961 thousand and 10,538,882 thousand for the nine months ended September 30, 2005 and 2004, respectively	<u>\$ 5.59</u>	<u>\$ 4.36</u>	<u>\$ 4.43</u>	<u>\$ 3.53</u>
Diluted earnings per share - based on weighted-average number of outstanding common shares aggregating 10,586,672 thousand and 10,586,644 thousand for the nine months ended September 30, 2005 and 2004, respectively	<u>\$ 5.57</u>	<u>\$ 4.35</u>	<u>\$ 4.42</u>	<u>\$ 3.52</u>

# CHINA STEEL CORPORATION

## STATEMENTS OF CASH FLOWS (In Thousands of New Taiwan Dollars) (Reviewed, Not Audited)

	Nine Months Ended September 30,	
	2005	2004
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 45,751,546	\$ 36,932,531
Adjustments		
Depreciation	7,144,722	7,576,831
Amortization	90,475	247,491
Deferred income tax	(112,902)	(349,922)
Impairment loss on rental assets	-	594,000
Reversal of allowance for loss on inventories	(5,133)	(5,000)
Investment income under the equity method	(5,227,546)	(5,191,563)
Loss (gain) on disposal of properties	(4,917)	326,458
Cash dividends from long-term investments under the equity method	5,309,653	3,354,496
Construction dividends from long-term investments under the cost method	102,951	15,616
Impairment loss on long - term investment under the cost method	906,000	-
Gain on disposal of short-term investments	(378,006)	(466,690)
Gain on disposal of long-term investments	(413)	(211,698)
Unrealized gain on intercompany transactions	514,990	2,090
Effect of exchange rate changes on foreign-currency long-term loans	(175,240)	(79,800)
Other	112,381	-
Net cash provided by adjusted net income	54,028,561	42,744,840
Net changes in operating assets and liabilities		
Notes receivable	(70,286)	(1,236,116)
Accounts receivable	(475,416)	(1,526,468)
Inventories	(8,133,078)	(5,130,345)
Other receivables	(703,455)	(119,705)
Other current assets	(701,986)	266,439
Notes and accounts payable	(603,639)	862,030
Accrued expenses	(572,053)	531,736
Income tax payable	(3,260,837)	(981,218)
Other current liabilities	(256,341)	312,563
Net cash provided by operating activities	39,251,470	35,723,756
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Decrease in short-term investments	9,151,024	12,994,427
Increase in long-term investments	(16,891,284)	(1,672,097)
Proceeds from disposal of long-term investments	54,170	1,403,797
Acquisition of properties	(11,020,304)	(5,620,444)
Decrease in pledged time deposits	100,000	700,000

(Continued)

	<b>Nine Months Ended</b>	
	<b>September 30,</b>	
	<b>2005</b>	<b>2004</b>
Increase in other assets	\$ (275,532)	\$ (103,681)
Proceeds from disposal of properties	<u>86,176</u>	<u>-</u>
Net cash provided by (used in) investing activities	<u>(18,795,750)</u>	<u>7,702,002</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Cash dividends	\$ (38,668,242)	\$ (28,454,108)
Increase(decrease) in commercial paper payable	(1,799,052)	300,741
Increase in short-term bank loans and overdraft	6,245,402	3,924,631
Increase in long-term loans	977,790	-
Remuneration to directors and supervisors	(138,243)	(98,526)
Bonus to employees	(714,035)	-
Repayment of long-term bank loans	-	(50,000)
Transfer of treasury stock to employees	-	434
Repayment of bonds payable	<u>-</u>	<u>(10,000,000)</u>
Net cash used in financing activities	<u>(34,096,380)</u>	<u>(34,376,828)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(13,640,660)</b>	<b>9,048,930</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<u><b>26,402,765</b></u>	<u><b>3,862,720</b></u>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<u><b>\$ 12,762,105</b></u>	<u><b>\$ 12,911,650</b></u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Interest paid	\$ 286,472	\$ 840,122
Income tax paid	16,297,192	10,906,660
<b>ACQUISITION OF PROPERTIES</b>		
Acquisition of properties	\$ 11,104,031	\$ 5,389,117
Decrease (increase) in payable on properties acquired	<u>(83,727)</u>	<u>231,327</u>
	<u><b>\$ 11,020,304</b></u>	<u><b>\$ 5,620,444</b></u>
<b>NONCASH FINANCING ACTIVITIES</b>		
Current portion of long-term loans	\$ 5,000,000	\$ -