

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

The Board of Directors and Stockholders
China Steel Corporation

We have reviewed the accompanying consolidated balance sheets of China Steel Corporation (the “Corporation”) and its subsidiaries as of June 30, 2006 and 2005, and the related consolidated statements of income, changes in stockholders’ equity and cash flows for the six months then ended. These consolidated financial statements are the responsibility of the Corporation’s management. Our responsibility is to issue a report on these consolidated financial statements based on our reviews.

We conducted our reviews in accordance with Statement on Auditing Standards No. 36 “Review of Financial Statements” issued by the Auditing Committee of the Accounting Research and Development Foundation of the Republic of China. A review consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in Republic of China, the objective of which is the expression of an opinion regarding the consolidated financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with accounting principles generally accepted in the Republic of China.

Effective 2006, as stated in Note 3 to the accompanying consolidated financial statements, the Corporation and its subsidiaries adopted the newly issued Statement of Financial Accounting Standards (SFAS) No. 34 “Accounting for the Financial Instruments,” SFASs No. 36 “Disclosure and Presentation of Financial Instruments” and the related revisions to other SFASs.

July 21, 2006

Notice to Readers

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

For the convenience of readers, the accountants’ review’ report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language accounts’ review report and financial statements shall prevail.

2006		2005		LIABILITIES AND STOCKHOLDERS' EQUITY	2006		2005	
Amount	%	Amount	%		Amount	%	Amount	%
49,437,929	14	\$ 83,358,991	23	CURRENT LIABILITIES				
33,078,405	9	22,398,953	6	Short-term loans and overdraft	\$ 31,027,092	9	\$ 27,901,833	8
10,772,880	3	7,503,415	2	Commercial paper payable	5,140,668	1	10,056,530	3
-	-	10,571	-	Financial liabilities at fair value through profit or loss	139	-	39,596	-
1,950	-	-	-	Notes and accounts payable	5,516,677	2	4,544,635	1
100,000	-	-	-	Income tax payable	4,038,843	1	11,705,305	3
				Accrued expenses	7,299,604	2	8,493,217	2
1,705,837	1	2,409,577	1	Other payable	45,580,621	13	45,111,349	12
				Bonds payable - current portion	5,425,000	2	10,745,343	3
				Long-term bank loans - current portion	2,712,160	1	1,780,628	1
				Reorganized loans payable - current portion	527,974	-	527,974	-
7,018,601	2	7,597,400	2	Other	<u>4,341,757</u>	<u>1</u>	<u>3,867,510</u>	<u>1</u>
1,660,922	1	2,735,284	1					
50,240,161	14	56,548,025	15	Total current liabilities	<u>111,610,535</u>	<u>32</u>	<u>124,773,920</u>	<u>34</u>
810,696	-	1,034,062	-	LONG-TERM LIABILITIES				
5,117,881	2	5,428,124	1	Bonds payable, net of current portion	8,100,000	2	5,425,000	1
2,932,458	<u>1</u>	<u>2,571,199</u>	<u>1</u>	Bank loans	13,196,027	4	16,776,894	5
162,877,720	<u>47</u>	<u>191,595,601</u>	<u>52</u>	Reorganized loans payable, net of current portion	<u>6,110,506</u>	<u>2</u>	<u>6,638,480</u>	<u>2</u>
138,383	-	164,266	-	Total long-term liabilities	<u>27,406,533</u>	<u>8</u>	<u>28,840,374</u>	<u>8</u>
2,839,135	1	1,001,210	-	RESERVE FOR LAND VALUE INCREMENT TAX	<u>2,171,124</u>	<u>1</u>	<u>2,171,124</u>	<u>-</u>
671,289	-	523,156	-					
6,956,538	2	7,708,008	2	OTHER LIABILITIES				
5,997,054	2	5,893,083	2	Accrued pension liabilities	1,041,509	-	903,288	-
4,952,540	<u>1</u>	<u>4,341,332</u>	<u>1</u>	Deferred income tax liabilities	3,239,863	1	3,837,874	1
21,554,939	<u>6</u>	<u>19,631,055</u>	<u>5</u>	Deferred credits - gain on intercompany transactions	9,118	-	12,278	-
				Other - mainly negative goodwill	<u>1,160,313</u>	<u>-</u>	<u>1,845,709</u>	<u>1</u>
16,208,587	5	18,738,241	5	Total other liabilities	<u>5,450,803</u>	<u>1</u>	<u>6,599,149</u>	<u>2</u>
4,278,875	1	4,646,271	1	Total liabilities	<u>146,638,995</u>	<u>42</u>	<u>162,384,567</u>	<u>44</u>
44,357,616	13	42,924,617	12	PARENT COMPANY IN STOCKHOLDERS' EQUITY				
258,919,289	74	255,345,423	69	Capital stock - authorized 10,600,000 thousand shares at NT\$10 par value				
16,070,607	4	14,946,793	4	Common shares - issued 10,545,975 thousand and 9,890,400 thousand				
7,320,846	<u>2</u>	<u>6,832,980</u>	<u>2</u>	shares as of June 30, 2006 and 2005, respectively	105,459,746	30	98,903,998	27
347,155,820	99	343,434,325	93	Preferred shares - issued 40,697 thousand and 40,714 thousand shares as				
17,541,220	<u>5</u>	<u>17,687,139</u>	<u>5</u>	of June 30, 2006 and 2005, respectively	<u>406,970</u>	<u>-</u>	<u>407,140</u>	<u>-</u>
364,697,040	104	361,121,464	98	Total capital stock	<u>105,866,716</u>	<u>30</u>	<u>99,311,138</u>	<u>27</u>
232,064,221	66	222,451,797	60	Capital surplus	<u>1,210,848</u>	<u>-</u>	<u>863,212</u>	<u>-</u>
1,705,719	<u>1</u>	<u>2,757,693</u>	<u>1</u>	Retained earnings	<u>63,219,176</u>	<u>18</u>	<u>78,836,214</u>	<u>21</u>
130,927,100	37	135,911,974	37	Other equity items				
26,561,057	<u>8</u>	<u>16,822,571</u>	<u>5</u>	Cumulative translation adjustments	(125,705)	-	(525,262)	-
157,488,157	<u>45</u>	<u>152,734,545</u>	<u>42</u>	Investees' unrecognized net loss on pension cost	(36,872)	-	(31,578)	-
				Unrealized gain (loss) on financial instruments	5,610,604	2	(446,463)	-
96,948	<u>-</u>	<u>109,678</u>	<u>-</u>	Revaluation increment on assets	<u>1,535,363</u>	<u>-</u>	<u>1,535,363</u>	<u>-</u>
				Total other equity items	<u>6,983,390</u>	<u>2</u>	<u>532,060</u>	<u>-</u>
241,915	-	3,292,507	1	Treasury stock - 81,818 thousand and 105,288 thousand shares as of June				
350,433	-	335,669	-	30, 2006 and 2005, respectively	<u>(1,347,356)</u>	<u>-</u>	<u>(1,635,075)</u>	<u>-</u>
200,997	-	271,821	-	Total parent company in stockholders' equity	175,932,774	50	177,907,549	48
7,765,119	<u>2</u>	<u>757,241</u>	<u>-</u>	MINORITY INTEREST	<u>28,004,459</u>	<u>8</u>	<u>28,436,001</u>	<u>8</u>
8,558,464	<u>2</u>	<u>4,657,238</u>	<u>1</u>					
				Total stockholders' equity	<u>203,937,233</u>	<u>58</u>	<u>206,343,550</u>	<u>56</u>
350,576,228	100	\$ 368,728,117	100	TOTAL	\$ 350,576,228	100	\$ 368,728,117	100

CHINA STEEL CORPORATION AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

SIX MONTHS ENDED JUNE 30, 2006 AND 2005

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

(Reviewed, Not Audited)

	2006		2005	
	Amount	%	Amount	%
REVENUES	\$ 129,365,757	100	\$ 152,592,086	100
COSTS OF REVENUES	<u>104,253,243</u>	<u>81</u>	<u>99,795,727</u>	<u>66</u>
GROSS PROFIT	25,112,514	19	52,796,359	34
UNREALIZED GAIN ON INTERCOMPANY TRANSACTIONS	<u>2,930</u>	<u>-</u>	<u>5,562</u>	<u>-</u>
REALIZED GROSS PROFIT	<u>25,109,584</u>	<u>19</u>	<u>52,790,797</u>	<u>34</u>
OPERATING EXPENSES				
Selling	1,972,310	1	2,244,584	1
General and administrative	2,066,740	2	2,293,007	2
Research and development	<u>543,399</u>	<u>-</u>	<u>607,999</u>	<u>-</u>
Total operating expenses	<u>4,582,449</u>	<u>3</u>	<u>5,145,590</u>	<u>3</u>
OPERATING INCOME	<u>20,527,135</u>	<u>16</u>	<u>47,645,207</u>	<u>31</u>
NONOPERATING INCOME AND GAINS				
Interest	429,875	-	341,348	-
Investment income under the equity method	72,000	-	73,174	-
Dividends	172,329	-	3,949	-
Gain on disposal of investments and appraisal of financial assets	251,504	-	542,455	-
Other	<u>804,314</u>	<u>1</u>	<u>999,366</u>	<u>1</u>
Total nonoperating income and gains	<u>1,730,022</u>	<u>1</u>	<u>1,960,292</u>	<u>1</u>
NONOPERATING EXPENSES AND LOSSES				
Interest	817,476	1	838,761	1
Impairment loss on financial assets carried at cost	-	-	1,173,010	1
Loss on physical inventories	173,162	-	184,350	-
Loss on inventory value decline	121,906	-	566,804	-
Impairment loss on properties	-	-	425,631	-
Other	<u>390,716</u>	<u>-</u>	<u>469,418</u>	<u>-</u>
Total nonoperating expenses and losses	<u>1,503,260</u>	<u>1</u>	<u>3,657,974</u>	<u>2</u>
CONSOLIDATED INCOME BEFORE INCOME TAX	20,753,897	16	45,947,525	30

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CHINA STEEL CORPORATION AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

SIX MONTHS ENDED JUNE 30, 2006 AND 2005

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

(Reviewed, Not Audited)

	2006		2005	
	Amount	%	Amount	%
INCOME TAX	<u>4,202,577</u>	<u>3</u>	<u>11,399,869</u>	<u>7</u>
NET INCOME BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	16,551,320	13	34,547,656	23
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	<u>2,769</u>	<u>-</u>	<u>-</u>	<u>-</u>
CONSOLIDATED NET INCOME	<u>\$ 16,554,089</u>	<u>13</u>	<u>\$ 34,547,656</u>	<u>23</u>
BELONG TO				
The Corporation's stockholders	\$ 13,859,656	11	\$ 32,785,301	22
Minority interest	<u>2,694,433</u>	<u>2</u>	<u>1,762,355</u>	<u>1</u>
	<u>\$ 16,554,089</u>	<u>13</u>	<u>\$ 34,547,656</u>	<u>23</u>
	2006		2005	
	Before Tax	After Tax	Before Tax	After Tax
EARNINGS PER SHARE				
Basic	\$ 1.58	\$ 1.32	\$ 4.05	\$ 3.14
Diluted	<u>\$ 1.58</u>	<u>\$ 1.32</u>	<u>\$ 4.03</u>	<u>\$ 3.13</u>

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

(With Deloitte & Touche review report dated July 21, 2006)

(Concluded)

d	Capital Surplus	Retained Earnings				Cumulative Translation Adjustments	Investees' Unrecognized Net Loss on Pension Cost	Unrealized Gain (Loss) on Financial Instrument	Revaluation Increment on Assets	Treasury Stock	Minority Interest	Total Stockholders' Equity
		Legal Reserve	Special Reserve	Unappropriated	Total							
80	\$ 1,209,378	\$ 30,614,261	\$ 8,467,340	\$ 51,026,001	\$ 90,107,602	\$ (335,992)	\$ (36,872)	\$ (446,483)	\$ 1,535,363	\$ (1,273,221)	\$ 26,655,971	\$ 223,282,462
10)	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	261,188	-	3,936,398	-	-	-	4,197,586
-	-	5,060,439	-	(5,060,439)	-	-	-	-	-	-	-	-
-	-	-	(22,347)	22,347	-	-	-	-	-	-	-	-
-	-	-	-	(137,302)	(137,302)	-	-	-	-	-	-	(137,302)
-	-	-	-	(915,350)	(915,350)	-	-	-	-	-	-	(915,350)
-	-	-	-	(152,618)	(152,618)	-	-	-	-	-	-	(152,618)
-	-	-	-	(39,541,401)	(39,541,401)	-	-	-	-	-	-	(39,541,401)
-	-	-	-	13,859,656	13,859,656	-	-	-	-	-	2,694,433	16,554,089
-	-	-	-	-	-	-	-	(228,442)	-	-	-	(228,442)
-	1,468	-	-	-	-	-	-	-	-	(42,039)	-	(40,571)
-	-	-	-	-	-	-	-	-	-	(32,096)	-	(32,096)
-	-	-	-	-	-	-	-	-	-	-	(1,345,945)	(1,345,945)
-	2	-	-	(1,411)	(1,411)	(50,901)	-	2,349,131	-	-	-	2,296,821
70	<u>\$ 1,210,848</u>	<u>\$ 35,674,700</u>	<u>\$ 8,444,993</u>	<u>\$ 19,099,483</u>	<u>\$ 63,219,176</u>	<u>\$ (125,705)</u>	<u>\$ (36,872)</u>	<u>\$ 5,610,604</u>	<u>\$ 1,535,363</u>	<u>\$ (1,347,356)</u>	<u>\$ 28,004,459</u>	<u>\$ 203,937,233</u>
70	\$ 833,146	\$ 25,452,594	\$ 8,030,816	\$ 52,159,008	\$ 85,642,418	\$ (365,599)	\$ (32,003)	\$ (454,039)	\$ 339,174	\$ (1,113,121)	\$ 893,107	\$ 185,054,221
30)	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	20,032,006	20,032,006
-	-	5,161,667	-	(5,161,667)	-	-	-	-	-	-	-	-
-	-	-	436,524	(436,524)	-	-	-	-	-	-	-	-
-	-	-	-	(138,243)	(138,243)	-	-	-	-	-	-	(138,243)
-	-	-	-	(714,035)	(714,035)	-	-	-	-	-	-	(714,035)
-	-	-	-	(158,785)	(158,785)	-	-	-	-	-	-	(158,785)
-	-	-	-	(38,572,559)	(38,572,559)	-	-	-	-	-	-	(38,572,559)
-	-	-	-	32,785,301	32,785,301	-	-	-	-	-	1,762,355	34,547,656
-	-	-	-	-	-	-	-	-	1,196,189	-	-	1,196,189
-	-	-	-	-	-	-	425	-	-	-	-	425
-	(988)	-	-	(7,883)	(7,883)	(159,663)	-	-	-	(546,153)	-	(714,687)
-	-	-	-	-	-	-	-	-	-	-	5,748,533	5,748,533
-	31,054	-	-	-	-	-	-	7,576	-	24,199	-	62,829
40	<u>\$ 863,212</u>	<u>\$ 30,614,261</u>	<u>\$ 8,467,340</u>	<u>\$ 39,754,613</u>	<u>\$ 78,836,214</u>	<u>\$ (525,262)</u>	<u>\$ (31,578)</u>	<u>\$ (446,463)</u>	<u>\$ 1,535,363</u>	<u>\$ (1,635,075)</u>	<u>\$ 28,436,001</u>	<u>\$ 206,343,550</u>

CHINA STEEL CORPORATION AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

SIX MONTHS ENDED JUNE 30, 2006 AND 2005

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Consolidated net income	\$ 16,554,089	\$ 34,547,656
Cumulative effect of changes in accounting principles	(2,769)	-
Adjustments		
Depreciation	6,367,599	6,581,706
Amortization	339,212	175,905
Deferred income tax	94,894	(364,007)
Loss on inventory value decline	121,906	566,804
Loss on physical inventories	173,162	184,350
Investment income under the equity method	(74,133)	(71,805)
Cash dividends from long-term investments under the equity method	24,768	-
Impairment loss on financial assets carried at cost	53,289	1,210,760
Loss (gains) on disposal of properties	12,116	(63,760)
Impairment loss on properties	-	425,631
Gains on disposal of investments and appraisal of financial assets	(632,149)	(681,177)
Effect of exchange rate changes on foreign-currency long-term debts	(282)	(224,480)
Other	1,215	(91,333)
Net cash provided by adjusted consolidated net income	23,032,917	42,196,250
Net changes in operating assets and liabilities		
Financial assets held for trading	(190,882)	706,410
Notes receivable	658,373	(278,724)
Accounts receivable	(379,041)	(334,161)
Other receivables	(840,729)	343,538
Inventories	7,354,906	(8,224,388)
Other current assets	51,991	158,253
Notes and accounts payable	866,039	(836,996)
Income tax payable	(5,420,985)	(186,734)
Accrued expenses	(2,433,647)	(1,039,451)
Other payable	1,141,623	5,106,936
Other current liabilities	179,633	(1,765,405)
Net cash provided by operating activities	24,020,198	35,845,528
CASH FLOWS FROM INVESTING ACTIVITIES		
Disposal of financial assets at fair value through profit or loss	10,026,747	43,356,521
Purchase of financial assets at fair value through profit or loss	(15,340,904)	(28,858,615)
Disposal of available-for-sale financial assets	7,383,468	6,064,065
Purchase of available-for-sale financial assets	(6,710,280)	(5,974,079)
Disposal of held-to-maturity investment	45,064	-
Purchase of held-to-maturity investment	(97,593)	(513,727)
Disposal of financial assets carried at cost	16,309	142,402
Purchase of financial assets carried at cost	(83,324)	-
Purchase of investment in bonds without quoted price	(34,535)	(3,238,702)
Increase in long-term stock investments under equity method	(396,868)	(1,749,964)

(Continued)

CHINA STEEL CORPORATION AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

SIX MONTHS ENDED JUNE 30, 2006 AND 2005

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	2006	2005
Proceeds from disposal of long-term investments under equity method	131,846	26,367
Proceeds from disposal of properties	10,733	89,051
Acquisitions of properties	(7,609,278)	(5,962,012)
Decrease in pledged time deposits	112,812	516,392
Increase in other assets	<u>(2,563,698)</u>	<u>(1,555,276)</u>
Net cash provided by (used in) investing activities	<u>(15,109,501)</u>	<u>2,342,423</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in commercial paper payable	(4,327,138)	(2,687,557)
Increase (decrease) in short-term bank loans and overdraft	(441,961)	9,014,044
Increase in bonds payable	8,100,000	-
Repayments of bonds payable	(5,000,000)	-
Increase in long-term loans	47,593	5,140,702
Repayments of long-term bank loans	(2,914,183)	(5,386,400)
Decrease in other liabilities	(275,198)	(317,870)
Cash dividends	(59,500)	-
Remuneration to directors and supervisors and bonus to employees	(12,773)	-
Purchase of treasury stocks	(32,096)	-
Increase (decrease) in minority interest- mainly capital increase of subsidiaries	<u>(1,345,945)</u>	<u>5,748,533</u>
Net cash provided by (used in) financing activities	<u>(6,261,201)</u>	<u>11,511,452</u>
EFFECT FROM SUBSIDIARIES CONSOLIDATED FOR THE FIRST TIME	<u>-</u>	<u>2,903,374</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,649,496	52,602,777
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>46,788,433</u>	<u>30,756,214</u>
CASH AND CASH EQUIVALENTS END OF PERIOD	<u>\$ 49,437,929</u>	<u>\$ 83,358,991</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW		
Interest paid, excluding capitalized interest	\$ 822,495	\$ 739,999
Income tax paid	9,528,668	11,950,610
PURCHASE OF PROPERTIES		
Acquisition of properties	\$ 7,796,365	\$ 6,128,904
Increase in payable on properties purchased	<u>(187,087)</u>	<u>(166,892)</u>
	<u>\$ 7,609,278</u>	<u>\$ 5,962,012</u>

(Continued)

CHINA STEEL CORPORATION AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

SIX MONTHS ENDED JUNE 30, 2006 AND 2005

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	2006	2005
NONCASH INVESTING AND FINANCING ACTIVITIES		
Cash dividends payable	\$ 41,031,043	\$ 40,249,357
Payable for remuneration to directors and supervisors and bonus to employees	1,220,049	903,098

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

(With Deloitte & Touche review report dated July 21, 2006)

(Concluded)