

The Board of Directors and Stockholders
China Steel Corporation

We have audited the accompanying consolidated balance sheets of China Steel Corporation (the “Corporation”) and its subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of income, changes in stockholders’ equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Corporation and its subsidiaries as of December 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the ROC.

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 Financial Instruments,” SFAS No. 36 “Disclosure and Presentation of Financial Instruments” and the related revisions to other SFASs.

February 7, 2007

Notice to Readers

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

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

CHINA STEEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars, Except Par Value)

ASSETS	2006		2005		LIABILITIES AND STOCKHOLDERS' EQUITY	2006		2005	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents	\$ 39,933,146	12	\$ 46,788,433	14	Short-term loans and overdraft	\$ 33,130,402	10	\$ 31,469,053	9
Financial assets at fair value through profit or loss - current	26,835,085	8	27,152,752	8	Commercial paper payable	3,106,645	1	9,467,806	3
Available-for-sale financial assets - current	10,091,165	3	6,773,602	2	Financial liabilities at fair value through profit or loss - current	13,128	-	1,192	-
Held-to -maturity investment - current	16,274	-	-	-	Hedge of derivative financial liabilities - current	8,235	-	56	-
Hedge of derivative financial assets - current	10,218	-	1,212	-	Notes and accounts payable	7,117,846	2	4,650,638	1
Investment in bonds without quoted price - current	-	-	98,260	-	Income tax payable	7,207,196	2	9,459,828	3
Notes receivable, net of allowance for doubtful accounts of \$4,753 thousand and \$2,528 thousand as of December 31, 2006, and 2005, respectively	1,857,189	1	2,364,210	1	Accrued expenses	10,718,011	3	9,733,251	3
Accounts receivable, net of allowance for doubtful accounts of \$544,594 thousand and \$564,116 thousand as of December 31, 2006 and 2005, respectively	8,316,204	2	6,639,560	2	Other payable	4,607,762	1	3,577,513	1
Other receivables	552,065	-	799,043	-	Bonds payable - current portion	-	-	10,425,000	3
Inventories	56,469,518	16	57,890,135	17	Long-term bank loans	2,138,742	1	2,476,354	1
Deferred income taxes	844,963	-	1,175,064	-	Reorganized loans payable - current portion	527,974	-	527,974	-
Restricted assets	4,066,502	1	5,204,884	1	Others	2,842,011	1	4,161,011	1
Others	2,094,460	1	2,973,886	1					
Total current assets	151,086,789	44	157,861,041	46	Total current liabilities	71,417,952	21	85,949,676	25
LONG-TERM INVESTMENTS					LONG-TERM LIABILITIES				
Financial assets at fair value through profit or loss - noncurrent	150,892	-	158,762	-	Hedge of derivative financial liabilities - noncurrent	16,074	-	-	-
Available-for-sale financial assets - noncurrent	3,969,212	1	1,140,584	1	Bonds payable, net of current portion	13,700,000	4	-	-
Held-to-maturity investment - noncurrent	945,655	-	626,044	-	Bank loans, net of current portion	13,710,405	4	16,066,548	4
Financial assets carried at cost - noncurrent	6,716,727	2	7,226,987	2	Reorganized loans payable, net of current portion	5,782,533	1	6,310,506	2
Investment in bonds without quoted price - noncurrent	5,565,913	2	5,962,519	2					
Long-term stock investment - equity method	4,913,596	1	4,257,565	1	Total long-term liabilities	33,209,012	9	22,377,054	6
Other noncurrent financial assets	8,873	-	13,685	-	RESERVE FOR LAND VALUE INCREMENT TAX	2,171,124	1	2,171,124	1
Total long-term investments	22,270,868	6	19,386,146	6	OTHER LIABILITIES				
PROPERTIES					Accrued pension liabilities	1,053,723	-	1,032,129	-
Land	16,485,078	5	16,112,414	5	Deferred income tax liabilities	3,335,890	1	3,573,884	1
Land improvements	4,279,663	1	4,496,716	1	Others - mainly deferred credits	903,820	-	1,443,753	1
Buildings and improvements	45,435,512	13	43,412,328	13					
Machinery and equipment	265,146,970	77	257,523,667	76	Total other liabilities	5,293,433	1	6,049,766	2
Transportation equipment	17,838,170	5	15,594,082	5					
Miscellaneous equipment	10,523,807	3	7,379,494	2	Total liabilities	112,091,521	32	116,547,620	34
Total cost	359,709,200	104	344,518,701	102	PARENT COMPANY IN STOCKHOLDERS' EQUITY				
Appreciation	17,249,891	5	17,668,482	5	Capital stock - authorized 12,000,000 thousand shares at NT\$10 par value				
Total cost and appreciation	376,959,091	109	362,187,183	107	Common shares - issued 11,053,758 thousand shares and 10,545,974 thousand shares as of December 31, 2006 and 2005, respectively	110,537,576	32	105,459,736	31
Less: Accumulated depreciation	235,548,525	68	226,649,665	67	Preferred shares - issued 40,694 thousand shares and 40,698 thousand shares as of December 31, 2006 and 2005, respectively	406,940	-	406,980	-
Accumulated impairment loss	2,375,660	1	2,150,858	1	Total capital stock	110,944,516	32	105,866,716	31
	139,034,906	40	133,386,660	39	Capital surplus	1,548,370	-	1,209,378	-
Construction in progress and prepayments for equipment	27,689,074	8	22,909,577	7	Retained earnings	83,429,463	24	90,107,602	27
					Other equity items				
Net properties	166,723,980	48	156,296,237	46	Cumulative translation adjustments	(62,787)	-	(335,992)	-
DEFERRED PENSION COST	84,487	-	96,948	-	Investees' unrecognized net loss on pension cost	(37,358)	-	(36,872)	-
OTHER ASSETS					Unrealized gain (loss) on financial instruments	7,533,737	2	(446,483)	-
Rental assets	201,968	-	2,966,644	1	Revaluation increment on assets	1,512,123	1	1,535,363	-
Refundable deposits	160,583	-	455,622	-	Total other equity items	8,945,715	3	716,016	-
Restricted assets - pledged deposits	217,705	-	296,401	-	Treasury stock - 82,780 thousand shares and 79,199 thousand shares as of December 31, 2006 and 2005, respectively	(1,334,892)	-	(1,273,221)	-
Unamortized repair costs and others	5,475,432	2	2,471,043	1					
Total other assets	6,055,688	2	6,189,710	2	Total parent company in stockholders' equity	203,533,172	59	196,626,491	58
TOTAL	\$ 346,221,812	100	\$ 339,830,082	100	MINORITY INTEREST	30,597,119	9	26,655,971	8
					Total stockholders' equity	234,130,291	68	223,282,462	66
					TOTAL	\$ 346,221,812	100	\$ 339,830,082	100

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

(With Deloitte & Touche audit report dated February 7, 2007)

CHINA STEEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME YEARS ENDED DECEMBER 31, 2006 AND 2005

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

	2006		2005	
	Amount	%	Amount	%
REVENUES	\$ 278,511,086	100	\$ 284,115,156	100
COSTS OF REVENUES	<u>212,538,735</u>	<u>76</u>	<u>202,361,655</u>	<u>71</u>
GROSS PROFIT	65,972,351	24	81,753,501	29
UNREALIZED (REALIZED) GAIN ON INTERCOMPANY TRANSACTIONS	<u>8,588</u>	<u>-</u>	<u>(527)</u>	<u>-</u>
REALIZED GROSS PROFIT	<u>65,963,763</u>	<u>24</u>	<u>81,754,028</u>	<u>29</u>
OPERATING EXPENSES				
Selling	4,104,010	2	4,086,078	2
General and administrative	4,380,129	2	4,755,298	2
Research and development	<u>1,282,235</u>	<u>-</u>	<u>1,214,949</u>	<u>-</u>
Total operating expenses	<u>9,766,374</u>	<u>4</u>	<u>10,056,325</u>	<u>4</u>
OPERATING INCOME	<u>56,197,389</u>	<u>20</u>	<u>71,697,703</u>	<u>25</u>
NONOPERATING INCOME AND GAINS				
Interest	844,891	-	800,993	-
Investment income under the equity method	19,970	-	-	-
Dividends	269,455	-	249,136	-
Gain on disposal of investments	142,763	-	198,769	-
Gain on appraisal of financial assets	338,864	-	597,446	-
Others	<u>1,804,949</u>	<u>1</u>	<u>2,285,702</u>	<u>1</u>
Total nonoperating income and gains	<u>3,420,892</u>	<u>1</u>	<u>4,132,046</u>	<u>1</u>
NONOPERATING EXPENSES AND LOSSES				
Interest	1,567,900	1	1,778,696	1
Investment loss under the equity method	-	-	7,078	-
Impairment loss on financial assets carried at cost	344,000	-	1,183,819	1
Provision for loss on inventories	-	-	3,975,663	1
Loss on purchase contract	-	-	954,190	-
Impairment loss on properties	850,590	-	576,113	-
Others	<u>838,648</u>	<u>-</u>	<u>1,154,385</u>	<u>-</u>
Total nonoperating expenses and losses	<u>3,601,138</u>	<u>1</u>	<u>9,629,944</u>	<u>3</u>
CONSOLIDATED INCOME BEFORE INCOME TAX	56,017,143	20	66,199,805	23

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CHINA STEEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME YEARS ENDED DECEMBER 31, 2006 AND 2005

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

	2006		2005	
	Amount	%	Amount	%
INCOME TAX	<u>11,682,703</u>	<u>4</u>	<u>16,822,268</u>	<u>6</u>
NET INCOME BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	44,334,440	16	49,377,537	17
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES (Net of \$64,547 thousand income tax benefit in 2006)	<u>2,769</u>	<u>-</u>	<u>-</u>	<u>-</u>
CONSOLIDATED NET INCOME	<u>\$ 44,337,209</u>	<u>16</u>	<u>\$ 49,377,537</u>	<u>17</u>
BELONGED TO				
The Corporation's stockholders	\$ 39,158,584	14	\$ 50,646,639	18
Minority interest	<u>5,178,625</u>	<u>2</u>	<u>(1,269,102)</u>	<u>(1)</u>
	<u>\$ 44,337,209</u>	<u>16</u>	<u>\$ 49,377,537</u>	<u>17</u>
	2006		2005	
	Before Tax	After Tax	Before Tax	After Tax
EARNINGS PER SHARE				
Basic	\$ 4.33	\$ 3.56	\$ 5.93	\$ 4.61
Diluted	\$ 4.32	\$ 3.56	\$ 5.91	\$ 4.60

(Concluded)

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

(With Deloitte & Touche audit report dated February 7, 2007)

CHINA STEEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars, Except Cash Dividends Per Share)

	Capital Stock			Retained Earnings				Revaluation	Unrealized Gain	Cumulative	Investees'			Total
	Common	Preferred	Capital	Legal	Special			Increment on	(Loss) on	Translation	Unrecognized	Treasury	Minority	Stockholders'
	Stock	Stock	Surplus	Reserve	Reserve	Unappropriated	Total	Assets	Instruments	Adjustments	Net Loss on Pension Cost	Stock	Interest	Equity
BALANCES, JANUARY 1, 2005	\$ 98,889,368	\$ 421,770	\$ 833,146	\$ 25,452,594	\$ 8,030,816	\$ 52,159,008	\$ 85,642,418	\$ 339,174	\$ (454,039)	\$ (365,599)	\$ (32,003)	\$ (1,113,121)	\$ 893,107	\$ 185,054,221
Conversion of preferred shares to common shares	14,790	(14,790)	-	-	-	-	-	-	-	-	-	-	-	-
Effect from subsidiaries consolidated for the first time	-	-	-	-	-	-	-	-	-	-	-	-	20,032,006	20,032,006
Adjustment of reserve for land value increment	-	-	-	-	-	-	-	1,196,189	-	-	-	-	-	1,196,189
Appropriations of 2004 earnings														
Legal reserve	-	-	-	5,161,667	-	(5,161,667)	-	-	-	-	-	-	-	-
Special reserve	-	-	-	-	436,524	(436,524)	-	-	-	-	-	-	-	-
Bonus to employees	1,590,021	-	-	-	-	(2,304,056)	(2,304,056)	-	-	-	-	-	-	(714,035)
Remuneration to directors and supervisors	-	-	-	-	-	(138,243)	(138,243)	-	-	-	-	-	-	(138,243)
Cash dividends to preferred stockholders - \$3.90 per share	-	-	-	-	-	(158,785)	(158,785)	-	-	-	-	-	-	(158,785)
Cash dividends to common stockholders - \$3.90 per share	-	-	-	-	-	(38,572,559)	(38,572,559)	-	-	-	-	-	-	(38,572,559)
Stock dividends to preferred stockholders - 5%	20,357	-	-	-	-	(20,357)	(20,357)	-	-	-	-	-	-	-
Stock dividends to common stockholders - 5%	4,945,200	-	-	-	-	(4,945,200)	(4,945,200)	-	-	-	-	-	-	-
Consolidated net income in 2005	-	-	-	-	-	50,646,639	50,646,639	-	-	-	-	-	(1,269,102)	49,377,537
Adjustment of equity in investees due to change in percentage of ownership	-	-	55,853	-	-	(42,255)	(42,255)	-	-	-	-	(213,620)	-	(200,022)
Reversal of unrealized loss on investees' long-term investments	-	-	-	-	-	-	-	-	7,556	-	-	-	-	7,556
Cumulative translation adjustments	-	-	-	-	-	-	-	-	-	29,607	-	-	-	29,607
Investees' unrecognized net loss on pension cost	-	-	-	-	-	-	-	-	-	-	(4,869)	-	-	(4,869)
Disposal of the Corporation's shares held by subsidiaries	-	-	34,425	-	-	-	-	-	-	-	-	60,955	-	95,380
Cash dividends declared by the Corporation and received by subsidiaries	-	-	285,954	-	-	-	-	-	-	-	-	-	-	285,954
Reacquired the Corporation's issued shares	-	-	-	-	-	-	-	-	-	-	-	(7,435)	-	(7,435)
Capital increase by subsidiaries and others	-	-	-	-	-	-	-	-	-	-	-	-	6,999,960	6,999,960
BALANCES, DECEMBER 31, 2005	105,459,736	406,980	1,209,378	30,614,261	8,467,340	51,026,001	90,107,602	1,535,363	(446,483)	(335,992)	(36,872)	(1,273,221)	26,655,971	223,282,462
Adjustment upon adoption of the newly issued Statement of Financial Accounting Standards No. 34	-	-	-	-	-	-	-	-	3,936,398	261,188	-	-	-	4,197,586
Conversion of preferred shares to common shares	40	(40)	-	-	-	-	-	-	-	-	-	-	-	-
Appropriations of 2005 earnings														
Legal reserve	-	-	-	5,060,439	-	(5,060,439)	-	-	-	-	-	-	-	-
Special reserve	-	-	-	-	(22,347)	22,347	-	-	-	-	-	-	-	-
Bonus to employees	1,373,025	-	-	-	-	(2,288,375)	(2,288,375)	-	-	-	-	-	-	(915,350)
Remuneration to directors and supervisors	-	-	-	-	-	(137,302)	(137,302)	-	-	-	-	-	-	(137,302)
Cash dividends to preferred stockholders - \$3.75 per share	-	-	-	-	-	(152,618)	(152,618)	-	-	-	-	-	-	(152,618)
Cash dividends to common stockholders - \$3.75 per share	-	-	-	-	-	(39,541,401)	(39,541,401)	-	-	-	-	-	-	(39,541,401)
Stock dividends to preferred stockholders - \$3.5 %	14,244	-	-	-	-	(14,244)	(14,244)	-	-	-	-	-	-	-
Stock dividends to common stockholders - \$3.5 %	3,690,531	-	-	-	-	(3,690,531)	(3,690,531)	-	-	-	-	-	-	-
Consolidated net income in 2006	-	-	-	-	-	39,158,584	39,158,584	-	-	-	-	-	5,178,625	44,337,209
Unrealized gain on available-for-sale financial assets	-	-	-	-	-	-	-	-	1,646,395	-	-	-	-	1,646,395
Reclassify to nonoperating income due to disposal of appreciated properties	-	-	-	-	-	-	-	(23,240)	-	-	-	-	-	(23,240)
Adjustment of equity in investees due to change in percentage of ownership	-	-	(78)	-	-	(12,252)	(12,252)	-	2,397,427	-	-	(71,556)	-	2,313,541
Cumulative translation adjustments on long-term investments	-	-	-	-	-	-	-	-	-	12,017	-	-	-	12,017
Investees' unrecognized net loss on pension cost	-	-	-	-	-	-	-	-	-	-	(486)	-	-	(486)
Reacquired the corporation's issued shares	-	-	-	-	-	-	-	-	-	-	-	(32,096)	-	(32,096)
Disposal of the Corporation's shares held by subsidiaries	-	-	38,071	-	-	-	-	-	-	-	-	41,981	-	80,052
Cash dividends declared by the Corporation and received by subsidiaries	-	-	300,999	-	-	-	-	-	-	-	-	-	-	300,999
Adjustment of minority interest	-	-	-	-	-	-	-	-	-	-	-	-	(1,237,477)	(1,237,477)
BALANCES, DECEMBER 31, 2006	\$ 110,537,576	\$ 406,940	\$ 1,548,370	\$ 35,674,700	\$ 8,444,993	\$ 39,309,770	\$ 83,429,463	\$ 1,512,123	\$ 7,533,737	\$ (62,787)	\$ (37,358)	\$ (1,334,892)	\$ 30,597,119	\$ 234,130,291

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

(With Deloitte & Touche audit report dated February 7, 2007)

CHINA STEEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2006 AND 2005

(In Thousands of New Taiwan Dollars)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Consolidated net income	\$ 44,337,209	\$ 49,377,537
Cumulative effect of changes in accounting principles	(2,769)	-
Adjustments		
Depreciation	13,096,086	12,953,151
Amortization	749,550	258,253
Deferred income tax	156,654	(768,999)
Provision for (recovery of) loss on inventories	(112,836)	3,975,663
Loss on purchase contract	-	954,190
Cash dividends from long-term investments under the equity method	24,768	2,828
Investment loss (income) under the equity method	(16,098)	18,414
Constructive dividends from investment in bonds without quoted price	399,050	102,951
Impairment loss on financial assets carried at cost	485,198	1,511,894
Loss (gains) on disposal of properties	36,939	(44,454)
Impairment loss on properties	850,590	576,113
Gains on disposal of investments and appraisal of financial assets	(1,491,056)	(1,681,087)
Others	174,931	474,189
Net changes in operating assets and liabilities		
Notes receivable	507,021	(233,357)
Accounts receivable	(1,676,644)	651,202
Other receivables	247,007	2,159,544
Inventories	1,442,402	(14,030,620)
Other current assets	877,002	(278,797)
Notes and accounts payable	2,467,208	(730,993)
Income tax payable	(2,252,632)	(2,432,211)
Accrued expenses	869,777	200,583
Other payable	(821,479)	2,992,132
Other current liabilities	(930,349)	(1,499,920)
Net cash provided by operating activities	<u>59,417,529</u>	<u>54,508,206</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of financial assets at fair value through profit or loss	(41,075,459)	(58,885,161)
Proceeds from disposal of financial assets at fair value through profit or loss	42,135,299	69,645,837
Purchase of available-for-sale financial assets	(12,333,441)	(11,342,307)
Proceeds from disposal of available-for-sale financial assets	15,381,385	12,169,655
Purchase of held-to-maturity investment	(548,372)	(565,411)
Proceeds from disposal of held-to-maturity investment	198,133	-
Purchase of financial assets carried at cost	(439,725)	(1,662,430)
Proceeds from disposal of financial assets carried at cost	57,536	91,061
Proceeds from reduced capital on financial assets carried at cost	25,486	-
Investment in bonds without quoted price	(2,445)	(3,349,944)
Proceeds from disposal of investment in bonds without quoted price	100,000	-
		(Continued)

CHINA STEEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2006 AND 2005

(In Thousands of New Taiwan Dollars)

	2006	2005
Decrease (increase) in other financial assets	\$ 4,812	\$ (13,685)
Increase in long-term stock investments under equity method	(569,868)	(28,829)
Proceeds from disposal of long-term stock investments under equity method	198,001	1,987,960
Proceeds from reduced capital on long-term stock investments under equity method	108,236	-
Acquisition of properties	(20,794,673)	(18,482,199)
Proceeds from disposal of properties	19,928	246,594
Decrease in pledged time deposits	1,163,497	618,392
Increase in other assets	(3,056,933)	(804,668)
Decrease (increase) in refundable deposits	<u>295,039</u>	<u>(322,587)</u>
Net cash used in investing activities	<u>(19,133,564)</u>	<u>(10,697,722)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term loans and overdraft	1,661,349	12,581,264
Decrease in commercial paper payable	(6,361,161)	(3,276,281)
Repayments of bonds payable	(10,425,000)	(10,425,000)
Increase in bonds payable	13,700,000	-
Repayments of long-term loans	(10,373,971)	(1,805,091)
Increase in long-term loans	7,222,242	5,516,085
Decrease in other liabilities	(598,555)	(720,633)
Purchase of treasury stocks	(32,096)	(7,435)
Cash dividends	(39,641,931)	(38,692,230)
Remuneration to directors and supervisors and bonus to employees	(1,052,652)	(852,278)
Increase (decrease) in minority interest	<u>(1,237,477)</u>	<u>6,999,960</u>
Net cash used in financing activities	<u>(47,139,252)</u>	<u>(30,681,639)</u>
EFFECT FROM SUBSIDIARIES CONSOLIDATED FOR THE FIRST TIME	<u>-</u>	<u>2,903,374</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(6,855,287)	16,032,219
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>46,788,433</u>	<u>30,756,214</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 39,933,146</u>	<u>\$ 46,788,433</u>
SUPPLEMENTAL INFORMATION		
Interest paid (exclusive of capitalized interest)	\$ 1,600,957	\$ 1,787,242
Income tax paid	13,778,681	20,023,478
PURCHASE OF PROPERTIES PAID BY CASH		
Acquisition of properties	\$ 22,372,733	\$ 18,648,854

(Continued)

CHINA STEEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2006 AND 2005

(In Thousands of New Taiwan Dollars)

	2006	2005
Increase in payable on properties purchased	<u>(1,578,060)</u>	<u>(166,655)</u>
	<u>\$ 20,794,673</u>	<u>\$ 18,482,199</u>
PAYMENT OF CASH DIVIDENDS		
Total cash dividends payable to stockholders	\$ 39,694,019	\$ 38,731,344
Increase in dividend payable	<u>(52,088)</u>	<u>(39,114)</u>
	<u>\$ 39,641,931</u>	<u>\$ 38,692,230</u>
NONCASH FINANCING ACTIVITIES		
Current portion of long-term liabilities	<u>\$ 2,666,716</u>	<u>\$ 13,429,328</u>

(Concluded)

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

(With Deloitte & Touche audit report dated February 7, 2007)