

# CHINA STEEL CORPORATION

## STATEMENTS OF CASH FLOWS

THREE MONTHS ENDED MARCH 31, 2006 AND 2005

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 5,488,268	\$ 15,390,141
Cumulative effect of changes in accounting principles	37,822	-
Adjustments		
Depreciation	2,280,292	2,410,276
Amortization	92,410	81,722
Deferred income tax	(28,584)	136,559
Investment income under the equity method	(1,887,903)	(1,956,706)
Unrealized gain or gain on disposal of financial instruments	(39,359)	(4,862)
Provision for pension costs	(264,234)	(166,792)
Unrealized gain (loss) on intercompany transaction	(201,612)	553,860
Effect of exchange rate changes on foreign-currency long-term debts	(43,125)	(149,960)
Cash dividends from long-term investments under the equity method	-	687,525
Others	45,360	226,952
Net cash provided by adjusted net income	<u>5,479,335</u>	<u>17,208,715</u>
Net changes in operating assets and liabilities		
Notes receivable	268,877	32,133
Accounts receivable	361,371	(362,884)
Other receivable	182,664	(161,857)
Inventories	2,045,006	352,842
Other current assets	450,913	(748,379)
Notes and accounts payable	37,448	(311,867)
Income tax payable	988,576	4,779,025
Accrued expenses	(2,963,892)	(2,233,926)
Other current liabilities	<u>(1,304,266)</u>	<u>(214,500)</u>
Net cash provided by operating activities	<u>5,546,032</u>	<u>18,339,302</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Increase in financial assets at fair value through profit or loss	(610,000)	(12,186,620)
Increase in long-term investments under the equity method	(100,553)	(1,056,975)
Acquisition of properties	(2,121,281)	(2,975,535)
Proceeds from disposal of properties	1,836	88,996
Decrease in pledged time deposits	-	100,000
Increase in other assets	<u>(2,718,560)</u>	<u>(19,912)</u>
Net cash used in investing activities	<u>(5,548,558)</u>	<u>(16,050,046)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Increase (decrease) in short-term bank loans and overdraft	4,383,580	(1,674,239)
Decrease in commercial paper payable	(1,499,376)	(799,130)
Purchase of treasury stocks	(32,096)	-
Cash dividends	(7,527)	(182,466)
Increase in of long-term loans	<u>-</u>	<u>972,510</u>

(Continued)

Net cash provided by (used in) financing activities	<u>2,844,581</u>	<u>(1,683,325)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,842,055	605,931
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>17,739,481</u>	<u>26,402,765</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 20,581,536</u>	<u>\$ 27,008,696</u>
SUPPLEMENTAL INFORMATION		
Interest paid	\$ 64,598	\$ 17,863
Income tax paid	13,453	15,184
PURCHASE OF PROPERTIES		
Acquisition of properties	\$ 2,149,983	\$ 3,172,921
Increase in payable on properties purchased	<u>(28,702)</u>	<u>(197,386)</u>
	<u>\$ 2,121,281</u>	<u>\$ 2,975,535</u>

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

(With Deloitte & Touche review report dated April 14, 2006) (Concluded)

## **INDEPENDENT ACCOUNTANTS' REVIEW REPORT**

The Board of Directors and Stockholders  
China Steel Corporation

We have reviewed the accompanying balance sheets of China Steel Corporation (the "Corporation") as of March 31, 2006 and 2005, and the related statements of income and cash flows for the three months then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to issue a report on these financial statements based on our reviews.

Except for the matters as described in the third paragraph, we conducted our reviews in accordance with Statement of 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 the Republic of China, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express an audit opinion.

As discussed in Note 11 to the accompany financial statements, we did not review certain investees' (all are non-listed companies) financial statements of long - term stock investments of the Corporation accounted for by the equity method. The aggregate carrying values of such long - term stock investments were NT\$54,523,449 thousand and NT\$36,720,301 thousand, respectively, as of March 31, 2006 and 2005, and the investment income amounted to NT\$1,549,940 thousand and 1,269,454 thousand, respectively, for the three months then ended, as well as the investees' information described in Note 28 were presented based on the investees' unreviewed financial statements for the same period.

Based on our reviews, except for the matters as described in the third paragraph, we are not aware of any material modifications that should be made to the financial statements referred to above for them to be in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

Effective 2006, as stated in Note 3 to the accompany financial statements, the Corporation adopted the newly-issued Statement of Financial Accounting Standard No. 34 "Accounting for Financial Instruments", No. 36 "Disclosure and Presentation of Financial Instruments" and other related revised Statements.

April 14, 2006

**CHINA STEEL CORPORATION****BALANCE SHEETS****MARCH 31, 2006 AND 2005****(In Thousands of New Taiwan Dollars, Except Par Value)****(Reviewed, Not Audited)**

ASSETS	2006		2005	
	Amount	%	Amount	%
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	\$ 20,581,536	8	\$ 27,008,696	11
Financial assets at fair value through profit or loss - current	11,780,888	4	34,828,361	14
Available-for-sale financial assets - current	4,576,565	2	1,218,156	-
Notes receivable	1,372,155	-	1,679,202	1
Accounts receivable, net of allowance for doubtful accounts of \$134 thousand as of March 31, 2005	1,673,258	1	2,425,047	1
Other receivables	363,342	-	388,037	-
Inventories	33,747,103	13	25,522,146	10
Deferred income tax	98,652	-	247,135	-
Pledged time deposits	4,600,000	2	4,600,000	2
Other	709,824	-	896,864	-
Total current assets	<u>79,503,323</u>	<u>30</u>	<u>98,813,644</u>	<u>39</u>
<b>LONG-TERM INVESTMENTS</b>				
Available-for-sale financial assets-noncurrent	1,826,278	1	1,001,210	1
Investment in financial asset-cost method	6,142,010	3	7,311,134	3
Investment in bonds without quoted price	5,881,375	2	2,634,381	1
Long-term stock investment - Equity method	<u>58,390,014</u>	<u>22</u>	<u>41,317,641</u>	<u>16</u>
Total long-term investments	<u>72,239,677</u>	<u>28</u>	<u>52,264,366</u>	<u>21</u>
<b>PROPERTIES</b>				
Land	7,994,055	3	7,712,475	3
Land improvements	4,216,794	2	4,231,666	2
Buildings and improvements	36,067,157	14	35,972,074	14
Machinery and equipment	213,461,770	81	211,420,928	83
Transportation equipment	1,468,566	-	1,529,915	1
Miscellaneous equipment	3,041,348	1	3,073,073	1
Total cost	266,249,690	101	263,940,131	104
Appreciation	<u>17,668,482</u>	<u>7</u>	<u>17,689,545</u>	<u>7</u>
	283,918,172	108	281,629,676	111
Less: Accumulated depreciation	<u>199,603,494</u>	<u>76</u>	<u>192,946,002</u>	<u>76</u>
	84,314,678	32	88,683,674	35
Constructions in progress	<u>21,096,699</u>	<u>8</u>	<u>11,093,362</u>	<u>4</u>
Net properties	<u>105,411,377</u>	<u>40</u>	<u>99,777,036</u>	<u>39</u>
<b>OTHER ASSETS</b>				
Rental assets - net	3,059,293	1	3,088,117	1
Refundable deposits	330,746	-	77,567	-
Restricted assets - pledged time deposits	31,694	-	31,694	-
Unamortized repair costs and others	<u>2,659,090</u>	<u>1</u>	<u>82,498</u>	<u>-</u>
Total other assets	<u>6,080,823</u>	<u>2</u>	<u>3,279,876</u>	<u>1</u>
<b>TOTAL</b>	<u>\$ 263,235,200</u>	<u>100</u>	<u>\$ 254,134,922</u>	<u>100</u>

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

(With Deloitte &amp; Touche reviewed report dated April 14, 2006)

# CHINA STEEL CORPORATION

## STATEMENTS OF INCOME

THREE MONTHS ENDED MARCH 31, 2006 AND 2005

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

(Reviewed, Not Audited)

	2006		2005	
	Amount	%	Amount	%
REVENUE	\$ 37,846,224	100	\$ 47,543,273	100
COST OF REVENUES	<u>32,158,065</u>	<u>85</u>	<u>27,100,865</u>	<u>57</u>
GROSS PROFIT	5,688,159	15	20,442,408	43
REALIZED (UNREALIZED) GAIN ON INTERCOMPANY TRANSACTIONS	<u>201,612</u>	<u>-</u>	<u>(553,860)</u>	<u>(1)</u>
REALIZED GROSS PROFIT	<u>5,889,771</u>	<u>15</u>	<u>19,888,548</u>	<u>42</u>
OPERATING EXPENSES				
Selling	506,822	1	569,692	1
General and administrative	432,063	1	647,288	1
Research and development	<u>234,804</u>	<u>1</u>	<u>281,819</u>	<u>1</u>
Total operating expenses	<u>1,173,689</u>	<u>3</u>	<u>1,498,799</u>	<u>3</u>
OPERATING INCOME	<u>4,716,082</u>	<u>12</u>	<u>18,389,749</u>	<u>39</u>
NONOPERATING INCOME AND GAINS				
Interest	78,375	-	84,161	-
Investment income under the equity method	1,887,903	5	1,956,706	4
Gain on appraisal of financial asset	39,359	-	-	-
Other	<u>187,127</u>	<u>1</u>	<u>297,903</u>	<u>1</u>
Total nonoperating income	<u>2,192,764</u>	<u>6</u>	<u>2,338,770</u>	<u>5</u>
NONOPERATING EXPENSES AND LOSSES				
Interest	147,891	-	173,075	-
Other	<u>261,420</u>	<u>1</u>	<u>234,535</u>	<u>1</u>
Total nonoperating expenses	<u>409,311</u>	<u>1</u>	<u>407,610</u>	<u>1</u>
INCOME BEFORE INCOME TAX	6,499,535	17	20,320,909	43
INCOME TAX	973,445	3	4,930,768	11

COMULATIVE EFFECT OF CHANGES IN  
ACCOUNTING PRINCIPLES

	<u>(37,822)</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET INCOME	<u>\$ 5,488,268</u>	<u>14</u>	<u>\$ 15,390,141</u>	<u>32</u>

(Continued)

	<u>2006</u>		<u>2005</u>	
	<b>Before Income Tax</b>	<b>After Income Tax</b>	<b>Before Income Tax</b>	<b>After Income Tax</b>
<b>EARNINGS PER SHARE</b>				
Basic	\$ 0.61	\$ 0.52	\$ 1.95	\$ 1.47
Diluted	0.61	0.52	1.94	1.47

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

Net Income	\$ 5,489,735	\$ 15,420,740
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Basic earnings per share based on weighted-average number of outstanding common shares of 10,544,375 thousand and 10,545,957 thousand as of March 31, 2006 and 2005, respectively

\$ 0.61	\$ 0.52	\$ 1.93	\$ 1.46
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Diluted earnings per share based on weighted-average number of outstanding common shares of 10,585,072 thousand and 10,586,672 thousand as of March 31, 2006 and 2005, respectively

\$ 0.60	\$ 0.52	\$ 1.92	\$ 1.46
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The accompanying notes are an integral part of the financial statements.

(With Deloitte & Touche reviewed report dated April 14, 2006)