

**POU CHEN CORPORATION AND  
SUBSIDIARIES**

**Consolidated Financial Statements for the  
Years Ended December 31, 2003 and 2002 and  
Independent Auditors' Report**

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of  
Pou Chen Corporation and subsidiaries:

We have audited the accompanying consolidated balance sheets of Pou Chen Corporation and subsidiaries (the "Company") as of December 31, 2003 and 2002, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended (all expressed in New Taiwan dollars). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with "Guidelines for Certified Public Accountants' Examinations of and Reports on Financial Statements" and auditing standards generally accepted in the Republic of China. Those guidelines and standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall 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 Company as of December 31, 2003 and 2002, and the results of their consolidated operations and their cash flows for the years then ended in conformity with "Regulations Governing the Preparation of Financial Statements of Public Companies" and accounting principles generally accepted in the Republic of China.

Effective from January 1, 2002, common shares of Pou Chen Corporation held by its subsidiaries are treated as treasury stock in compliance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 30. "Accounting for Treasury Stock". As a result, long-term investments and stockholders' equity as of December 31, 2002 were both decreased by \$2,067,060 and net income for the year ended December 31, 2002 was increased by \$10,253.

Deloitte & Touche  
Taipei, Taiwan  
Republic of China

March 15, 2004

*The accompanying consolidated financial statements, which have been translated into English for the convenience of readers outside the Republic of China, are not intended to present the consolidated financial position and results of consolidated operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying consolidated balance sheets of Pou Chen Corporation and subsidiaries and the related consolidated statements of income, changes in stockholders' equity and cash flows as of and for the years ended December 31, 2003 and 2002 are not designed for those who are not informed about accounting principles, procedures and practices in the Republic of China. The standards procedures and practices utilized in the Republic of China to audit such consolidated financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China.*

## POU CHEN CORPORATION AND SUBSIDIARIES

### CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2003 AND 2002 (In Thousands of New Taiwan Dollars)

ASSETS	2003	2002	LIABILITIES AND STOCKHOLDERS' EQUITY	2003	2002
<b>CURRENT ASSETS:</b>			<b>CURRENT LIABILITIES:</b>		
Cash and cash equivalents (Notes 2 and 3)	\$ 12,330,143	\$ 1,648,603	Short-term borrowings (Note 11)	\$ 7,877,803	\$ 4,605,802
Short-term investments (Notes 2 and 4)	5,132,643	3,407,426	Short-term bills (Note 12)	339,343	586,319
Notes receivable (Notes 2 and 5)	30,585	66,107	Notes payable	105,141	227,530
Notes receivable, affiliates (Notes 2, 5 and 26)	1,930	925	Notes payable, affiliates (Note 26)	74,356	62,549
Accounts receivable (Notes 2 and 6)	3,745,101	2,271,164	Accounts payable	2,996,461	1,638,597
Accounts receivable, affiliates (Notes 2, 6 and 26)	1,602,816	1,517,949	Accounts payable, affiliates (Note 26)	440,153	296,071
Other financial assets, current	3,038,189	899,166	Income tax payable (Notes 2 and 23)	69,776	78,277
Inventories (Notes 2 and 7)	2,412,079	2,395,732	Other payables	2,486,789	1,088,716
Deferred income tax assets (Note 23)	287,469	158,048	Current portion of long-term liabilities (Note 13)	3,487,500	5,124,419
Other current assets	270,475	149,282	Other current liabilities	98,505	96,250
<b>Total current assets</b>	<b>28,851,430</b>	<b>12,514,402</b>	<b>Total current liabilities</b>	<b>17,975,827</b>	<b>13,804,530</b>
<b>LONG-TERM EQUITY INVESTMENTS (Notes 2 and 8):</b>			<b>LONG-TERM LIABILITIES:</b>		
Long-term equity investments at equity method	34,079,207	32,795,615	Bonds payable (Notes 2 and 14)	15,191,000	3,422,937
Long-term equity investments at cost method	2,170,839	2,367,336	Long-term debt (Note 15)	7,251,707	8,401,624
<b>Total long-term equity investments</b>	<b>36,250,046</b>	<b>35,162,951</b>	Long-term installment payable (Note 16)	-	-
<b>OTHER FINANCIAL ASSETS, NONCURRENT</b>	<b>100,756</b>	<b>170,305</b>	Lease payable (Note 17)	-	7,996
<b>PROPERTY, PLANT AND EQUIPMENT (Notes 2 and 9):</b>			<b>Total long-term liabilities</b>	<b>22,442,707</b>	<b>11,832,557</b>
Cost	9,875,708	6,187,764	<b>RESERVE FOR LAND VALUE INCREMENT TAX</b>	<b>276,006</b>	<b>276,006</b>
Revalued appreciation	293,249	293,249	<b>OTHER LIABILITIES:</b>		
<b>Subtotal</b>	<b>10,168,957</b>	<b>6,481,013</b>	Accrued pension cost (Notes 2 and 18)	317,444	293,669
Less accumulated depreciation	(2,788,154)	(1,919,258)	Advance deposits from customers	2,659	296
Construction in progress and prepayments	2,207,041	814,598	Due to officer (Note 26)	20,873	29,173
<b>Property, plant and equipment, net</b>	<b>9,587,844</b>	<b>5,376,353</b>	Others (Notes 2 and 19)	2,281,802	269,947
<b>INTANGIBLE ASSETS:</b>			Minority interest	2,355,196	1,898,679
Deferred pension cost (Notes 2 and 18)	566	13,122	<b>Total other liabilities</b>	<b>4,977,974</b>	<b>2,491,764</b>
Goodwill (Note 2)	962,581	406,901	<b>Total liabilities</b>	<b>45,672,514</b>	<b>28,404,857</b>
<b>Total intangible assets</b>	<b>963,147</b>	<b>420,023</b>	<b>STOCKHOLDERS' EQUITY:</b>		
<b>OTHER ASSETS (Notes 2 and 10)</b>	<b>1,867,184</b>	<b>1,375,962</b>	Capital stock (Note 20)	18,847,994	16,325,822
<b>TOTAL</b>	<b>\$ 77,620,407</b>	<b>\$ 55,019,996</b>	Capital surplus	2,334,161	2,292,065
			Retained earnings (Note 20)	12,880,289	10,251,481
			Provision for decline in market value of long-term equity investments (Notes 2 and 8)	(1,198,824)	(1,237,403)
			Cumulative translation adjustments (Note 2)	1,139,592	1,703,119
			Net loss not recognized as pension cost	-	(70,403)
			Treasury stock (Notes 2 and 21)	(2,055,319)	(2,649,542)
			<b>Total stockholders' equity</b>	<b>31,947,893</b>	<b>26,615,139</b>
			<b>TOTAL</b>	<b>\$ 77,620,407</b>	<b>\$ 55,019,996</b>

See notes to consolidated financial statements.

## POU CHEN CORPORATION AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF INCOME YEARS ENDED DECEMBER 31, 2003 AND 2002

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

	2003	2002
GROSS SALES AND REVENUES EARNED	\$ 30,451,347	\$ 20,453,466
LESS SALES RETURNS AND ALLOWANCES	<u>(342,936)</u>	<u>(38,461)</u>
NET SALES AND REVENUES EARNED	30,108,411	20,415,005
COST OF GOODS SOLD	<u>25,544,078</u>	<u>16,680,838</u>
GROSS PROFIT BEFORE REALIZED GROSS PROFIT FROM INTER-AFFILIATE TRANSACTIONS	4,564,333	3,734,167
REALIZED GROSS PROFIT FROM INTER-AFFILIATE TRANSACTIONS	<u>8,719</u>	<u>25,305</u>
GROSS PROFIT	<u>4,573,052</u>	<u>3,759,472</u>
OPERATING EXPENSES:		
Selling expenses	897,708	1,367,564
General and administrative expenses	2,699,902	1,860,982
Research and development expenses	<u>1,181,078</u>	<u>349,857</u>
Total operating expenses	<u>4,778,688</u>	<u>3,578,403</u>
(LOSS) INCOME FROM OPERATIONS	<u>(205,636)</u>	<u>181,069</u>
NON-OPERATING INCOME:		
Interest income	77,360	36,064
Long-term equity investment income (Note 8)	4,312,292	4,591,367
Dividend income	63,221	12,862
Gain on disposal of investments (Note 8)	2,497,737	-
Foreign exchange gains, net	7,442	-
Rental income	54,426	25,635
Recovery from devaluation of short-term investments (Note 4)	261,961	217,524
Others	<u>543,310</u>	<u>314,022</u>
Total non-operating income	<u>7,817,749</u>	<u>5,197,474</u>
NON-OPERATING EXPENSES:		
Interest expense	747,289	963,145
Other investment losses (Note 8)	14,568	30,322
Loss on disposal of property, plant and equipment	36,824	1,852
Loss on disposal of investments	-	86,017
Foreign exchange losses, net	-	109,463
Loss in inventory devaluation	254,807	86,042
Others	<u>245,179</u>	<u>71,063</u>
Total non-operating expenses	<u>1,298,667</u>	<u>1,347,904</u>

(Continued)

## POU CHEN CORPORATION AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF INCOME YEARS ENDED DECEMBER 31, 2003 AND 2002

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

	2003		2002	
INCOME BEFORE INCOME TAX	6,313,446		4,030,639	
INCOME TAX BENEFIT (Notes 2 and 23)	52,440		5,863	
MINORITY INTEREST (INCOME) LOSS	<u>(17,527)</u>		<u>161,602</u>	
NET INCOME	<u>\$ 6,348,35</u>		<u>\$ 4,198,104</u>	
	<b>Before Income Tax</b>	<b>After Income Tax</b>	<b>Before Income Tax</b>	<b>After Income Tax</b>
EARNINGS PER SHARE (Notes 2 and 24):				
Basic	<u>\$3.54</u>	<u>\$3.56</u>	<u>\$2.29</u>	<u>\$2.38</u>
Diluted	<u>\$3.21</u>	<u>\$3.15</u>	<u>\$2.26</u>	<u>\$2.35</u>
Pro-forma information, assuming common shares of Pou Chen Corporation held by its subsidiaries were not treated as treasury stock:				
NET INCOME	<u>\$ 6,390,45</u>		<u>\$ 4,187,851</u>	
EARNINGS PER SHARE (Notes 2 and 24):				
Basic	<u>\$3.37</u>	<u>\$3.39</u>	<u>\$2.16</u>	<u>\$2.25</u>
Diluted	<u>\$3.08</u>	<u>\$3.03</u>	<u>\$2.14</u>	<u>\$2.22</u>

(Concluded)

See notes to consolidated financial statements.

# POU CHEN CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY YEARS ENDED DECEMBER 31, 2003 AND 2002 (In Thousands of New Taiwan Dollars)

	Capital Surplus							Retained Earnings			Other Adjustments of Stockholders' Equity			Common Shares of Pou Chen Corporation Held by its Subsidiary	Total	
	Capital Stock	Additional Paid-in Capital of Common Stock	Additional Paid-in Capital of Bonds Conversion	Trading on Treasury Stock	Revaluation Increment on Property, Plant and Equipment	Gain on Disposal of Property, Plant and Equipment	Effect of Transactions Relating to Long-term Equity Investments	Legal Reserve	Special Reserve	Unappropriated Earnings	Provision for Decline in Market Value of Long-Term Investments	Cumulative Translation Adjustments	Net Loss not Recognized as Pension Cost			Treasury Stock
BALANCE, JANUARY 1, 2002	\$ 13,520,921	\$ 2,119,380	\$ 1,439,788	\$ -	\$ 84,989	\$ 82,319	\$ 16,257	\$ 1,478,728	\$ 2,385,250	\$ 3,828,072	\$ (1,055,450)	\$ 1,788,100	\$ -	\$ (582,482)	\$ (1,155,401)	\$ 23,950,471
Capital surplus-gain on disposal of property, plant and equipment transferred to retained earnings (Note 2)						(82,319)				82,319						-
Reverse of special reserve to retained earnings (Note 2)									(2,385,250)	2,385,250						-
Appropriation of earnings:																
Legal reserve								311,818		(311,818)						-
Bonuses to directors and supervisors										(155,748)						(155,748)
Bonuses to employees	100,717									(100,717)						-
Stock dividends	1,352,092									(1,352,092)						-
Transfer of capital surplus to capital stock	1,352,092	(1,352,092)														-
Effect of change of ownership interest in investees							(16,257)			(112,435)						(128,692)
Provision of decline in market value of long-term equity investments											(181,953)					(181,953)
Translation adjustments on foreign long-term equity investments												(84,981)				(84,981)
Net loss not recognized as pension cost													(70,403)			(70,403)
Common shares held by subsidiaries														(2,067,060)	1,155,401	(911,659)
Net income for 2002										4,198,104						4,198,104
BALANCE, DECEMBER 31, 2002	16,325,822	767,288	1,439,788	-	84,989	-	-	1,790,546	-	8,460,935	(1,237,403)	1,703,119	(70,403)	(2,649,542)	-	26,615,139
Appropriation of earnings:																
Legal reserve								419,811		(419,811)						-
Bonuses to directors and supervisors										(113,349)						(113,349)
Bonuses to employees (Note 20)	73,299									(73,299)						-
Stock dividends (Note 20)	2,448,873									(2,448,873)						-
Cash dividends										(816,291)						(816,291)
Effect of change of ownership interest in investees										(124,657)						(124,657)
Cash dividends proceed by subsidiaries				42,096												42,096
Recovery from decline in market value of long-term equity investments (Note 8)											38,579					38,579
Translation adjustments on foreign long-term equity investments												(563,527)				(563,527)
Treasury stock transfer to employees										(143,082)				582,482		439,400
Recovery from net loss not recognized as pension cost													70,403			70,403
Decline in common shares held by subsidiaries														11,741		11,741
Net income for 2003										6,348,359						6,348,359
BALANCE, DECEMBER 31, 2003	\$ 18,847,994	\$ 767,288	\$ 1,439,788	\$ 42,096	\$ 84,989	\$ -	\$ -	\$ 2,210,357	\$ -	\$ 10,669,932	\$ (1,198,824)	\$ 1,139,592	\$ -	\$ (2,055,319)	\$ -	\$ 31,947,893

See notes to consolidated financial statements.

## POU CHEN CORPORATION AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2003 AND 2002 (In Thousands of New Taiwan Dollars)

	2003	2002
OPERATING ACTIVITIES:		
Net income	\$ 6,348,359	\$ 4,198,104
Income (loss) to minority interests	17,527	(161,602)
Depreciation and amortization	1,150,248	659,374
Amortization for the cost of issuing Euro Convertible Bonds	32,526	10,030
Amortization for unrealized interest expense	4,532	5,216
Loss on buying back Euro Convertible Bonds	14,623	-
Recovery from short-term investment devaluation	(261,961)	(217,524)
Loss on doubtful accounts	256,536	5,108
Loss on inventory devaluation	254,807	86,042
Provision of discarding inventory	14,250	251
Investment income recognized under equity method	(4,312,292)	(4,591,367)
Cash dividends received by investees under equity method	3,348,043	1,385,086
Realized gross profit from inter-affiliate transactions	(8,719)	(25,305)
Net (gain) loss on disposal of long-term equity investment	(2,751,630)	154,943
Permanent decline loss on long-term equity investment	369	200
Loss on reduction of capital in long-term equity investment	10,800	14,644
Loss on liquidation of long-term equity investment	3,399	15,478
Net loss on disposal of property, plant and equipment	40,693	5,194
(Recovery from) loss on idle asset devaluation	(11,158)	11,158
Changes in assets and liabilities provided (used) cash:		
Short-term investments	(1,140,450)	(548,522)
Notes receivables	35,522	189,128
Notes receivable, affiliates	(1,005)	5,614
Accounts receivable	(1,730,473)	(516,883)
Accounts receivable, affiliates	(84,867)	(315,941)
Other financial assets, current	(1,738,728)	(114,899)
Inventories	(285,404)	(879,404)
Deferred income tax asset, current	(129,421)	(20,155)
Other current assets	(121,193)	21,421
Other assets - long-term receivable	-	101,776
Deferred income tax asset, non-current	56,124	(114,571)
Other assets	42,083	32,677
Notes payable	(122,389)	88,605
Notes payable, affiliates	11,807	(6,052)
Accounts payable	1,357,864	352,169
Accounts payable, affiliates	144,082	(612,848)
Income tax payable	(8,501)	(80,568)
Other payables	1,263,541	(126,147)
Other current liabilities	2,255	(16,171)
Foreign exchange adjustment on Euro Convertible Bonds	(83,922)	(17,466)
Interest expense compensation payable	282,162	210,769

(Continued)

## POU CHEN CORPORATION AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2003 AND 2002**  
(In Thousands of New Taiwan Dollars)

	<b>2003</b>	<b>2002</b>
Reserve for income tax payable	-	53,479
Reserve for retirement plan	106,734	27,973
Other liabilities	(12,000)	13,895
Minority interests	<u>438,990</u>	<u>387,913</u>
Net cash provided by (used in) operating activities	<u>2,433,763</u>	<u>(329,178)</u>
<b>INVESTING ACTIVITIES:</b>		
Proceeds from disposal of long-term equity investments	3,376,670	68,457
Acquisition of property, plant and equipment	(5,378,897)	(1,036,577)
Proceeds from disposal of property, plant and equipment	158,596	96,134
Decrease in restricted assets	-	126,843
Receipts of refundable deposits	27,466	129,288
Increase in goodwill	(680,139)	(172,564)
Payments for deferred charges	<u>(310,045)</u>	<u>(151,084)</u>
Net cash used in investing activities	<u>(2,806,349)</u>	<u>(939,503)</u>
<b>FINANCING ACTIVITIES:</b>		
Increase in short-term borrowings	3,272,001	2,389,192
Decrease in short-term bills	(246,976)	(588,282)
Issued bonds	15,188,000	-
Redeemed overseas convertible bonds	(152,193)	-
Bonuses to directors and supervisors, as a distribution of retained earnings	(113,349)	(155,748)
Cash dividends	(816,291)	-
Decrease in long-term debt	(6,047,540)	(1,279,029)
Decrease in long-term installment payable	(20,054)	(7,840)
Decrease in lease payable	(4,573)	(20,793)
Decrease in shareholder accounts	(8,300)	-
Increase (decrease) in advance deposits from customers	2,363	(138)
Treasury stock transferred to employees	439,400	-
Decrease in capital stock held by subsidiaries	<u>-</u>	<u>14,986</u>
Net cash provided by financing activities	<u>11,492,488</u>	<u>352,348</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH	<u>(438,362)</u>	<u>(131,462)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	10,681,540	(1,047,795)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,648,603</u>	<u>2,696,398</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 12,330,143</u>	<u>\$ 1,648,603</u>

(Continued)

**POU CHEN CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2003 AND 2002**  
(In Thousands of New Taiwan Dollars)

	<b>2003</b>	<b>2002</b>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION -		
Cash paid during the year for:		
Interests (excluding amounts capitalized)	<u>\$ 742,694</u>	<u>\$ 904,617</u>
Income tax	<u>\$ 56,222</u>	<u>\$ 272,500</u>
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Long-term equity investment transfer into short-term investment	<u>\$ 68,913</u>	<u>\$ 1,936,478</u>
Recovery from (provision for) devaluation long-term equity investment	<u>\$ 38,579</u>	<u>\$ (181,953)</u>
Effect of change of ownership interest in investees	<u>\$ (124,657)</u>	<u>\$ (128,692)</u>
Transfer of current portion of long-term liabilities to current liabilities	<u>\$ 3,487,500</u>	<u>\$ 5,124,419</u>
Property, plant and equipment transfer to idle asset	<u>\$ -</u>	<u>\$ 24,077</u>
Cash dividends paid to subsidiaries	<u>\$ 42,096</u>	<u>\$ -</u>
Translation adjustments on foreign long-term investments	<u>\$ (563,527)</u>	<u>\$ (84,981)</u>
Adjustment of retained earnings due to the transferring of treasury stock to employees	<u>\$ (143,082)</u>	<u>\$ -</u>
Decrease (increase) in net loss not recognized as pension cost	<u>\$ 70,403</u>	<u>\$ (70,403)</u>
Cash paid during the year for acquisition of property, plant and equipment:		
Fair value of property, plant and equipment acquired	\$ 5,513,429	\$ 1,051,677
Add payables for acquisition of property, plant and equipment at beginning of year	57,213	42,113
Less payables for acquisition of property, plant and equipment at end of year	<u>(191,745)</u>	<u>(57,213)</u>
Cash paid during the year for acquisition of property, plant and equipment	<u>\$ 5,378,897</u>	<u>\$ 1,036,577</u>

(Concluded)

See notes to consolidated financial statements.

**POU CHEN CORPORATION AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2003 AND 2002**  
**(Amounts are Expressed in Thousands of New Taiwan Dollars and United States Dollars Except for Per Share Data and Other Specified Items)**

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**1. ORGANIZATION AND OPERATIONS**

Pou Chen Corporation (“Pou Chen”) was incorporated in September 1969 in the Republic of China (“ROC”). Pou Chen is located in Changhwa county and currently has two factories and nine trade departments. Pou Chen’s business activities include manufacturing and sales of various kinds of shoes and electronic peripheral components, and import and export of related products and materials. Pou Chen also invests significantly in electronic industries to diversify its businesses.

Pou Chen has its stock traded on the Taiwan Stock Exchange Corporation since January 1990.

Barits Development Corporation (“Barits Development”), a corporation incorporated in Republic of China and a 97.63%-owned subsidiary of Pou Chen, changed its original name from Barits Corporation to Barits Development in May 1998. It is engaged in leather manufacturing and investing activities.

Wealthplus Holdings Limited (“Wealthplus”), a British Virgin Islands corporation and a 100%-owned subsidiary of Pou Chen, is an investment holding company. Wealthplus commenced its operations in 1992 and invests in companies which are engaged in the design and sale of sports-footwear and electronic peripheral products. Wealthplus makes investments in the People’s Republic of China (the “PRC”) through an investment in Yue Yuen Industrial (Holdings) Limited (“Yue Yuen”), a Hong Kong listed company that invests in sports-footwear exporting factories in Guangdong Province of the PRC.

Pou Yuen Technology Co., Ltd. (“Pou Yuen Technology”), a corporation incorporated in the Republic of China and a 96.32%-owned subsidiary of Pou Chen, is engaged in designing, manufacturing and trading mold, magnesium alloy casing and data processing and storage equipments.

Pro Arch Technology Inc. (“Pro Arch Technology”), a corporation incorporated in the Republic of China and a 58.55%-owned subsidiary of Pou Chen, is engaged in manufacturing and sale of computer peripheral equipment and related spare parts.

Global Brands Manufacture Ltd. (“Global Brands Manufacture”), a corporation incorporated in the Republic of China and a 39.02%-owned subsidiary of Pou Chen, changed its original name from Cyber Solution Corporation to Global Brands Manufacture in May 2003. It is engaged in the manufacturing, assembly and sale of printed circuit boards and its stocks have been traded on the Over-the-Counter Exchange in Taiwan since February 1991.

Neso Technology Inc. (“Neso Technology”), a corporation incorporated in the Republic of China and a 77.38%-owned subsidiary of Pou Chen, is engaged in manufacturing sophisticated design and high performance CRT monitors.

As of December 31, 2003, there were 9,763 employees in Pou Chen and subsidiaries referred above.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying consolidation financial statements are prepared in conformity with accounting principles generally accepted in the Republic of China and “Regulations Governing the Preparation of Financial Statements of Public Companies”. Significant accounting policies and basis of measurement are summarized as follows:

### **Principles of Consolidation**

The accompanying consolidated financial statements include the accounts of Pou Chen and its over 50%-owned subsidiaries: Barits Development [including Song Ming Investment Corporation (including Pou Yi Construction Corporation), Wang Yi Construction Co., Ltd. and Top Score Investment Ltd. (“Top Score”)], Wealthplus [including Pou Tai, Go-Cheery, Exotic, Action Precise (including Best Position), Teter (including Ocean Grand, Star Eagle, Fixed, Upfront, Maple Star, and Best Status), Victorway, Best Standard (including CMK Global Brands Manufacture), and Crown Master (including Haicheng)], Pou Yuen Technology [including Kleine Developments Ltd. (“Kleine”)], Pro Arch Technology, Global Brands Manufacture (including Up First, Dynamic Skyline and Success Ocean), and Neso Technology (including Neso Technology Ltd.) (collectively, the “Company”). All significant intercompany balances and transactions have been eliminated. Minority interests shown in the accompanying financial statements represent that part of the net assets of subsidiaries attributable to interests which are not owned, directly or indirectly through subsidiaries, by the parent. Wealthplus, Top Score and Kleine have a September 30 fiscal year-end.

The financial statements of Win Fortune Investments Ltd., Pou Liang Technology Co., Ltd., Yue Yuen Entertainment Development Co., Ltd., Pou Shine Investments Co., Ltd., Ming Wang Investments Co., Ltd., Pan Asia Insurance Consulting Ltd., Tse Throw Technology Co., Ltd., VAC Corporation, and Yun Yang Investments Ltd., as permitted under the accounting principles generally accepted in the Republic of China (“ROC”), were not consolidated herein because total assets and total sales of each individual company were less than 10% of Pou Chen’s total assets and total sales, respectively, and the aggregate assets and sales of those companies were less than 30% of Pou Chen’s total assets and total sales.

For Comparative purposes, the consolidated financial statements of 2002 have been restated to exclude 67 subsidiaries of Welthplus, Top Score and Kleine due to such ownership was sold to Yue Yuen in 2003.

### **Classification of Current and Non-Current**

Assets expected to be converted into cash, sold, or consumed in a year are recorded as current assets. Liabilities expected to be liquidated in a year are recorded as current liabilities. Assets (liabilities) not being recorded as current assets (liabilities) are recorded as non-current assets (liabilities).

### **Cash and Cash Equivalents**

Cash includes cash on hand and unrestricted bank deposits. Cash equivalents refer to time certificates of deposit and commercial paper which can be readily converted into cash without significant penalty or the value will not be significantly affected by variation of interest.

### **Short-Term Investments**

Short-term investments are stated at the lower of aggregate cost or market. The cost of short-term investments sold is determined on the weighted-average method. Stock dividends received are not recognized as income, instead they are reflected as an increase in the number of shares held.

### **Allowance for Doubtful Accounts**

Allowance for doubtful accounts is provided based upon the management's evaluation of the collectibility and, past loss experience of notes and accounts receivable and other pertinent factors.

### **Inventories**

Inventories are stated at the lower of cost or market, with cost being determined based on the weighted- average method. Market values for raw materials are determined by averaging the unit purchase prices during the last month, while merchandise, finished goods and work-in-process are determined by their net realizable values.

Revenues, costs and profits arising from real estate development projects and construction contracts that take longer than one year to complete and can be reasonably estimated, are accounted for using the percentage-of-completion method. The percentage of completion is measured by comparing actual costs incurred in a period with the total estimated costs to be incurred on the project. All other real estate development projects and construction contracts are accounted for using the completed-contract method.

Construction in progress and advance construction receipts related to the same construction should be netted. If the netted amount is a debit balance, then it should be recorded in construction in progress, whereas a credit balance should be recorded in advance construction receipts.

### **Long-Term Equity Investments**

Investments in companies where the Company's ownership interest is 20% or more, or where the Company can exercise significant influence, are accounted for under the equity method. When equity method of accounting is used, purchased goodwill is amortized over a ten-year period.

If an investee company issues new shares and the Company does not purchase new shares proportionately, then the ownership percentage, and therefore the equity in net assets of the investee, will be changed. Such difference will be adjusted in the additional paid-in capital and the long-term equity investments accounts. If the adjustment stated above is to debit the additional paid-in capital account and the balance of additional paid-in capital from long-term equity investments is not enough to be offset, retained earnings should be debited.

All other long-term equity investments are valued at cost except for investments in listed companies, which are stated at the lower of cost or market value with the unrealized loss reflected as a separate component of stockholders' equity. If a decline in fair value below cost is judged other than temporary, the cost basis of individual security is written down to a new cost basis. The written-down amount is accounted for as a realized loss.

When long-term equity investments transfer into short-term investments, or vice versa, the market value and the cost of investments at the transfer date is compared. If the market value is lower than the cost, the loss is recognized immediately and the market value is adopted as the new cost.

Effective from January 1, 2002, common shares of the Company held by its subsidiaries are treated as treasury stock.

### **Property, Plant and Equipment**

Property, plant and equipment are stated at cost with revalued appreciation less accumulated depreciation. Expenditures that would increase the value or extend the useful lives of property, plant and equipment are capitalized. Interest costs are capitalized starting with the first expenditure related to construction of asset, and capitalization continues until such asset is substantially completed and ready for its intended use.

Depreciation is provided on the straight-line basis over the following estimated useful lives of the related assets, with an additional year for salvage:

<b>Items</b>	<b>Estimated Useful Lives</b>
Buildings and improvements	15-55 years
Machinery and equipments	2-13 years
Transportation equipments	3-5 years
Furniture, fixtures and office equipments	3-8 years
Others	2-11 years

An additional service life and a new residual value will be determined for any depreciable asset which is still in use after the end of its initially prescribed useful lives. Depreciation is computed using the straight-line method.

When assets are retired or disposed of, their costs and related accumulated depreciation are removed from the accounts. Any resulting gain or loss is credited to non-operating income or charged to non-operating expense.

In accordance with the Approval Documents Jing-Sun No. 90102050200 of Ministry of Economic Affairs, the Company reversed its capital reserves from gain on disposal of fixed assets accumulated in and before 2000, to retained earnings. Additional legal reserve and special reserve have been appropriated accordingly.

### **Leased Property**

A leased property is capitalized if the lease qualifies as a capital lease. The value of the leased property and lease payable is determined by the smaller of the present value of all future rental payments plus the bargain purchase price of lessee's guaranteed residual value and the leased property's market value at the inception date of the lease. The leased property should be depreciated over the estimated useful life.

The gain or loss resulting from the sale of property that is leased-back should be deferred as unrealized gain or loss on sales-leaseback. The amortization of the unrealized gain or loss on sales-leaseback depends on the nature of the lease.

## **Goodwill**

Goodwill on consolidated subsidiaries is amortized over ten years.

## **Deferred Charges**

Deferred charges except for issuing costs of bonds, are amortized on a straight-line basis over 3~5 years. Issuing costs of bonds are amortized on a straight-line basis over the term of the bonds.

## **Euro-Dollar Convertible Bonds**

The convertible bonds, issued by Pou Chen, contains put right. Each holder has the right, at the holder's option, to require Pou Chen to repurchase all or any portion of such holder's bonds, which is US\$1,000 or any integral multiples. The interest compensation, which is the amount of agreed put price over face value of such bonds, will be recognized as a liability under the interest method from the issue date to the date the put right expires. As of the balance-sheet-date, the convertible bonds are classified as either current liabilities or long-term liabilities based on the repurchase date and the maturity date, which ever is earlier.

When the holder exercises the conversion right, the net written-off amount of the unamortized issuing costs, accrued interest, accrued interest compensation and face value of convertible bonds will be the cost basis of entitlement certificates. The difference of the net written-off carrying amount of the convertible bonds over the par value of the entitlement certificates should be recognized as capital surplus.

## **Retirement Plan**

Pou Chen, Barits Development, Pou Yuen Technology, Pro Arch Technology, and Global Brands Manufacture, each has a retirement plan covering all eligible employees. Pension costs are assessed, funded and deposited with the Central Trust of China at 2% of monthly salaries and wages, in accordance with the Labor Standards Law.

Pou Chen, Barits Development, Pou Yuen Technology, Pro Arch Technology, and Global Brands Manufacture, adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 18, "Accounting for Pensions," which requires that pension expense shall be computed at actuarial basis.

## **Deferred Credit**

Deferred credit represents those unrealized profits resulting from transactions between the Company and its affiliated companies accounted for under the equity method.

## **Foreign Currency Transactions**

Foreign currency transactions are recorded in New Taiwan dollars at the exchange rates prevailing on the respective transaction date. Gains or losses, caused by different foreign exchange rates applied when foreign currency receivables and payables are settled, are credited or charged to income or expenses. Assets and liabilities denominated in foreign currencies are translated at the year-end exchange rates, and resulting gains or losses are credited or charged to current income or current expenses.

A forward exchange contract is recorded at the exchange rate as of the contract date if the contract is acquired for the purpose of hedging. The difference between the current spot rate at the contract date and the forward rate is amortized over the life of contract. Additionally, such contract should be adjusted at the current rate as at the balance sheet date. Any exchange gain or loss should be recognized in the current period.

### **Cumulative Translation Adjustments**

Long-term equity investments accounted for by the cost method and denominated in foreign currencies are restated to New Taiwan dollars at the balance-sheet-date exchange rates. The related translation adjustments are reported as a separate component of stockholders' equity. For consolidated subsidiaries and equity method investees denominated in foreign currency, assets and liabilities denominated in foreign currencies are translated at the balance-sheet-date exchange rates. Stockholders' equity accounts should be translated at the historical rate except for the beginning balance of the retained earnings, which is carried by the translated amount of the last period. Dividends are translated at the spot rate of the declared date. Income statement accounts are translated at the current rate or weighted-average rate of the current period.

### **Treasury Stock**

Treasury stock is the Company's own stock acquired according to the Stock Exchange Law. Treasury stock is recorded at purchasing cost, while fair value is adopted when stocks are received from donation. When the Company does not dispose or write off these stocks, their cost is listed as a deduction of stockholders' equity.

Effective from January 1, 2002, common shares of the Company held by its subsidiaries are treated as treasury stock in compliance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 30, "Accounting for Treasury Stock". As a result, long-term investments and stockholders' equity as of December 31, 2002 were both decreased by \$2,067,060 and the net income for the years ended December 31, 2003 and 2002 were decreased by \$42,096 and increased by \$10,253, respectively. Financial statements for periods prior to the effective date of SFAS 30 are not required to be restated for the effect of the change.

When treasury stock is retired, the book value of the treasury stock and the proportionate part of capital surplus-stock issuance premium are written-off. If the book value of the treasury stock is more than the total of the par value and related stock issuance premium, the difference is charged to the capital surplus of the same class of stock. If the capital surplus is not sufficient, retained earnings is debited. If the book value of the treasury stock is less than the total of the par value and related stock issuance premium, the difference is credited to the capital surplus of the same class of stock.

When treasury stock is disposed, if the disposal value is more than the book value of the treasury stock, the difference is credited to the capital surplus-treasury stock, while capital surplus-treasury stock is debited if the disposal value is less than the book value. If the capital surplus is not sufficient, retained earnings is debited.

### **Revenue Recognition**

Sales are recognized when title to the products and the risks of ownership are transferred to customers, primarily upon shipment. Sales returns and allowances are subtracted from sales when they occur and the related inventory costs are subtracted from cost of goods sold.

Service revenue is recognized when service is rendered and the collection is reasonably assured.

### **Income Tax**

The Company adopted the provisions of SFAS No. 22, "Accounting for Income Tax," which require an asset and liability approach to account for income tax. Deferred income tax assets and liabilities are computed for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established to reduce deferred tax assets to the amount expected to be realized, if needed. Income tax expense or benefit is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

Under the Amended Income Tax Law of the ROC, undistributed earnings of the Company from 1998 onward are subject to 10% additional income tax which will be shown as income tax expense in the following year when the decision to retain the earnings is made by the shareholders in their meeting.

### **Earnings Per Share**

Basic earnings per common share are calculated by dividing net earnings applicable to common stock by the weighted average number of common stocks outstanding.

On a diluted basis, both net earnings and shares outstanding are adjusted to assume the conversion of convertible bonds from the date of issue, and adopt the treasury stock method to calculate the stocks warrants' dilutive potential common shares. However, if the convertible bonds contain an anti-dilutive effect, they will be excluded from the calculation.

### **Derivative Financial Instruments**

Forward exchange contracts that are designated and effective as a hedge of net foreign assets or liabilities positions are recorded on the respective transaction date. The discounts or premiums (the differences between the contract rates and the spot rates on the date of purchase multiplied by principal amount of foreign currencies) involved in all forward contracts are separately accounted for and amortized to income over the duration of the contracts.

Losses, caused by forward exchange contracts which are effective as a hedge of recognizable foreign commitments, should be recognized in the current period. On the other hand, gain can be deferred to adjust strike price at the time the transactions are executed. If the principal amounts of forward exchange contracts are larger than recognizable foreign commitments, any excess is reflected directly to current income.

Receivables and payables from forward exchange contracts are shown on the accompanying balance sheets in net balance.

### **Non-Derivative Financial Instruments**

The recognition, valuation, and measurement of non-derivative financial assets and liabilities are made in accordance with the above accounting policies and accounting principles generally accepted in the Republic of China.

## **3. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents at December 31, 2003 and 2002 consist of the following :

	<b>2003</b>	<b>2002</b>
Cash on hand	\$ 5,976	\$ 5,042
Checking accounts	9,414	24,372
Savings accounts	505,294	321,570
Foreign-currency savings deposit	11,634,818	1,191,369
Time certificates of deposit	<u>174,641</u>	<u>106,250</u>
<b>Total</b>	<b><u>\$ 12,330,143</u></b>	<b><u>\$ 1,648,603</u></b>

The time certificates of deposit amounted to \$55,244 and \$56,544, included in other financial assets, noncurrent were pledged for employment of foreign labors, for polluted water treatment and for tax appealing on additional tax assessment at December 31, 2003 and 2002, respectively. Additionally, the savings accounts and time certificates of deposit amounted to \$5,000 and \$82,812, respectively, pledged for bank loans as at December 31, 2002, were included in other financial assets, current.

#### **4. SHORT-TERM INVESTMENTS**

The carrying value and market value of short-term investments at December 31, 2003 and 2002 are summarized as follows:

	<b>2003</b>		<b>2002</b>	
	<b>Carrying Value</b>	<b>Market Value</b>	<b>Carrying Value</b>	<b>Market Value</b>
Marketable equity securities	\$2,710,242	\$3,809,723	\$2,681,188	\$3,056,802
Foreign marketable equity securities	73,469	3,027	75,156	4,687
Open-ended mutual fund	<u>2,419,373</u>	<u>2,360,547</u>	<u>985,096</u>	<u>788,319</u>
Subtotal	5,203,084	6,173,297	3,741,440	3,849,808
Less valuation allowance	<u>(70,441)</u>	<u>-</u>	<u>(334,014)</u>	<u>-</u>
Net	<b><u>\$5,132,643</u></b>	<b><u>\$6,173,297</u></b>	<b><u>\$3,407,426</u></b>	<b><u>\$3,849,808</u></b>

Pou Chen, Barits Developments' and Global Brands Manufacture's market values of marketable equity securities are determined by averaging the daily market closing prices during December. The market values of open-ended mutual fund are determined by the net value at the end of December.

Wealthplus' market values of foreign marketable equity securities are determined by averaging the daily market closing prices during September.

Valuation allowance of \$70,441 (including cumulative translation adjustments \$(1,612)) was provided as at December 31, 2003. After considering the valuation allowance balance of \$334,014 as at December 31, 2002, the recovery amount of \$261,961 was included in recovery from devaluation of short-term investments.

#### **5. NOTES RECEIVABLE**

Notes receivable at December 31, 2003 and 2002 consist of the following:

	<b>2003</b>	<b>2002</b>
Notes receivable	\$ 30,655	\$ 66,177
Less allowance for doubtful accounts	<u>(70)</u>	<u>(70)</u>
Net	30,585	66,107
Notes receivable, affiliates (Note 26)	<u>1,930</u>	<u>925</u>
Total	<u><u>\$ 32,515</u></u>	<u><u>\$ 67,032</u></u>

## 6. ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2003 and 2002 consist of the following:

	<b>2003</b>	<b>2002</b>
Accounts receivable	\$ 4,054,133	\$ 2,303,877
Less allowance for doubtful accounts	<u>(309,032)</u>	<u>(32,713)</u>
Net	<u>3,745,101</u>	<u>2,271,164</u>
Accounts receivable, affiliates (Note 26)	1,603,223	1,518,330
Less allowance for doubtful accounts	<u>(407)</u>	<u>(381)</u>
Net	<u>1,602,816</u>	<u>1,517,949</u>
Total	<u><u>\$ 5,347,917</u></u>	<u><u>\$ 3,789,113</u></u>

## 7. INVENTORIES

Inventories at December 31, 2003 and 2002 consist of the following:

	<b>2003</b>	<b>2002</b>
Raw materials and supplies	\$ 1,695,437	\$ 1,331,339
Work-in-process	443,503	332,342
Finished goods	393,123	493,188
Merchandise	12,680	29,979
Goods in transit	18,520	36,308
Land for development	140,248	140,248
Land, buildings and improvements for sale	<u>155,165</u>	<u>184,370</u>
Total	2,858,676	2,547,774
Less valuation allowance	<u>(446,597)</u>	<u>(152,042)</u>
Net	<u><u>\$ 2,412,079</u></u>	<u><u>\$ 2,395,732</u></u>

As of December 31, 2003 and 2002, insurance coverage for inventories amounted to \$1,244,751 and \$474,670, respectively and construction insurance coverage for land, buildings and improvements for sale amounted to \$2,383,440 and \$2,664,440, respectively.

Land for development and land, buildings and improvements for sale belong to Pou Yi, which is owned by Song Ming.

As of December 31, 2003 and 2002, buildings and improvements for sale amounted to \$258,235 and \$268,923, respectively, were pledged as collateral to secure short-term bills (see note 27).

## 8. LONG-TERM EQUITY INVESTMENTS

Long-term equity investments at December 31, 2003 and 2002 are comprised of the following :

	2003			2002	
	Original Cost	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage
Accounted for under equity method:					
Win Fortune	\$ 3,230	\$ 614,771	100.00	\$ 542,362	100.00
Ming Wang	427,291	1	100.00	1	100.00
Tse Throw	58,000	25,435	100.00	16,994	91.67
Pou Liang	30,000	29,962	100.00	-	-
Yue Yuen Entertainment	100,000	98,505	100.00	-	-
Pro Arch Technology (BVI)	41,700	-	100.00	34,281	100.00
Pou Shine	195,000	407,186	99.99	465,197	99.99
Ming Chi	240,000	1	99.99	1	99.99
Ming Shun	200,000	240,376	99.99	248,169	99.99
Pan Asia Insurance Consulting	3,000	3,328	99.98	3,296	99.98
Yun Yang	93,797	101,312	91.15	91,731	91.15
VAC Corporation	80,000	40,995	61.54	-	-
Yue Yuen	22,864,947	28,664,645	48.59	19,543,860	39.97
Shinn Yuan Aluminium	52,500	58,678	35.00	59,807	35.00
Diverse Consultants	1	32,601	33.00	33,356	33.00
Global Biotech (BVI)	44,723	3,018	33.00	20,697	33.00
Great Team	139,000	88,962	31.75	122,157	31.75
Shian Yu	6,900	1	27.60	1	27.60
Global Biotech	216,571	118,966	27.32	49,108	23.63
Rising Developments	2,909	191,395	27.00	137,508	27.00
You Fu	195,401	199,077	19.53	215,496	19.53
Elitegroup Computer	3,271,018	3,159,992	13.57	3,376,225	13.88
Ray Systems	-	-	-	23,935	97.82
Pou Jen	-	-	-	24,938	72.95
Blessland	-	-	-	9,297	5.00
Cohen	-	-	-	35,174	5.00
Nan Pao Resins	-	-	-	37,413	5.00
Dragon Eyes	-	-	-	3,501	24.41
Optiwork Inc.	-	-	-	168,099	21.43
SMEC Media & Entertainment	-	-	-	36,740	20.00
Cyber Technology (Sichuan)	-	-	-	206,910	100.00
Fu Tai	-	-	-	898,503	100.00
Wellspeed	-	-	-	168,882	100.00
Pou Ming Paper	-	-	-	356,246	100.00
Murata	-	-	-	248,317	100.00
Pou Chien Chemical	-	-	-	205,159	100.00
Glenhurst	-	-	-	28,863	100.00
Escon	-	-	-	2,694,333	100.00
Bestful	-	-	-	493,056	100.00
Stencil	-	-	-	84,934	100.00
Patterns	-	-	-	385,008	100.00
Giacinto	-	-	-	445,473	100.00
Farquharson	-	-	-	199,002	100.00
Champolian	-	-	-	304,530	100.00

	2003			2002	
	Original Cost	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage
Pro Kingtex	-	-	-	1	100.00
Forearn	-	-	-	533,101	100.00
Bortum	-	-	-	200,523	100.00
Prepayments on investment - Global Biotech	-	-	-	43,430	-
Subtotal	<u>28,265,988</u>	<u>34,079,207</u>		<u>32,795,615</u>	
Accounted for under cost method:					
Da Tung Ho	39,069	39,069	18.18	30,461	15.38
IABOX (Originally known as Ying-Wei)	89,500	89,500	17.04	89,500	17.04
Chiang Yei	8,153	8,153	15.27	8,153	15.27
Barits Securities Investment & Trust	76,500	76,500	15.00	76,500	15.00
Ardentec	313,305	313,305	14.37	292,904	14.53
Golden Brands Developments	758,822	758,822	12.76	1,042,500	12.77
Central and South America	25,000	25,000	7.14	25,000	7.14
Toong Ya	71,050	-	6.88	-	6.88
Power World	50,000	50,000	5.68	50,000	5.68
Optrox	28,000	-	5.40	-	5.40
Media Reality	46,800	46,800	4.38	40,000	4.44
San Fang	194,945	194,945	3.67	194,945	3.67
L&C Aluminum	831	831	3.33	12,000	3.33
Bizlink	114,034	114,034	3.07	-	-
Kao Ping	42,300	42,300	3.00	42,300	3.00
Behavior Tech	368,164	368,164	1.58	368,164	1.86
Chi-Cheng	33,675	33,675	1.35	33,675	1.36
Shei Yue	320	320	1.07	320	1.07
Hwiang Shei	200	-	1.00	-	1.00
View Sonic	96,231	96,231	0.43	96,231	0.43
Eic Enterprise	65,743	65,743	2.67	67,253	2.67
Orbita Diversified Strategy Note	16,985	16,985	-	17,375	-
Orbita Capital Return Strategy Ltd.	50,955	50,955	-	52,125	-
Ensome	-	-	-	12,000	9.09
Wal Shiang	-	-	-	6,250	2.49
Fuhwa Financial Holdings	-	-	-	7,411	0.01
View Quest	-	-	-	33,603	4.22
Elec Vision	-	-	-	9,248	3.83
AREC	-	-	-	10,000	3.58
Less valuation allowance	-	(220,493)		(250,582)	
Subtotal	<u>2,490,582</u>	<u>2,170,839</u>		<u>2,367,336</u>	
Total	<u>\$ 30,756,570</u>	<u>\$ 36,250,046</u>		<u>\$ 35,162,951</u>	

The Company recognized long-term equity investment income (loss) under equity method as follows:

	2003	2002
Win Fortune	\$ 85,632	\$ 66,988
Pou Shine	(13,176)	90,558
Ming Wang	(29,515)	(48,542)
Ming Kang	-	(6,574)
Ming Chi	(4,428)	(7,492)
Ming Shun	7,515	17,054
Pan Asia Insurance Consulting	32	(492)
Tse Throw	1,803	(24,193)
Yun Yang	1,187	4,822

	<b>2003</b>	<b>2002</b>
Ray Systems	(2,712)	(72,364)
Pou Jen	(3,073)	(1,318)
Cohen	1,200	8,444
Blessland	208	1,357
Pou Liang	(38)	-
Yue Yuen Entertainment	(1,495)	-
VAC Corporation	(51,061)	-
Forearn	14,076	112,456
Bortum	7,931	41,942
Pro Arch Technology (BVI)	(43,490)	(7,397)
Pro Arch Technology (Japan)	-	(133)
Hung Fu	-	(5,370)
Pi Chan	-	(4)
Shinn Yuan Aluminium	447	6,553
Yue Yuen	4,398,407	2,825,960
Nan Pao Resins	742	8,255
Diverse Consultants	(6)	380
Global Biotech (BVI)	(17,468)	(6,299)
Barits Securities	-	114,593
Great Team	(30,056)	(11,715)
Dragon Eyes	-	196
Global Biotech	(10,961)	(23,875)
Rising Developments	58,063	37,194
Optiwork Inc.	(40,610)	(49,801)
You Fu	1,747	20,283
Elitegroup Computer	(127,188)	145,683
SMEC Media & Entertainment	(1,407)	465
Cyber Technology (Sichuan)	(18,489)	(14,937)
Fu Tai	43,833	380,726
Wellspeed	4,211	6,262
Pou Ming Paper	10,290	88,127
Murata	5,892	102,651
Pou Chien Chemical	(727)	7,296
Glenhurst	(1,039)	5,615
Escon	63,334	563,466
Bestful	2,875	32,019
Stencil	3,136	32,739
Patterns	11,065	59,157
Giacinto	10,803	78,944
Farquharson	9,219	64,228
Champolian	6,912	66,309
Pro Kingtex	<u>(41,329)</u>	<u>(118,849)</u>
<b>Total</b>	<b><u>\$4,312,292</u></b>	<b><u>\$4,591,367</u></b>

Win Fortune Investments Ltd. (“Win Fortune”), a 100%-owned subsidiary of Pou Chen, was incorporated in the British Virgin Islands. As the fiscal year end for Win Fortune is September 30, the Company accounted of its long-term investment income of Win Fortune based on Win Fortune’s financial results for the years ended September 30, 2003 and 2002.

Pou Shine Investments Ltd. (“Pou Shine”), Ming Chi Investments Ltd. (“Ming Chi”), Ming Shun Investments Ltd. (“Ming Shun”) and You Fu Investment Ltd. were established in March 1990, April 1998, and June 1998 and January 2000, respectively, in accordance with the Company Law of the ROC. At December 31, 2003 the outstanding capital stock of the investees are \$498,810, \$240,000, \$200,000 and \$1,000,000, respectively. They are all primarily engaged in investing activities.

Effective from January 1, 2002, common shares of Pou Chen held by its subsidiaries are treated as treasury stock. As a result, the book value of long-term equity investment in Ming Chi became negative. The Company reclassified the negative balance of \$180,593 to “other liabilities - others”, except keeping \$1 in the book value of long-term equity investment (see Note 19).

Ming Wang Investments Ltd. (“Ming Wang”) was established in September 1996 with an outstanding capital stock of \$195,000 and is primarily engaged in investing activities. In February 2001, Ming Wang decreased its capital to offset its accumulated deficit by \$91,650 and issued common stock \$95,000 at the same time. Additionally, in August 2002, Ming Wang merged Ming Kang Investments Co., Ltd. (“Ming Kang”), 100%-owned subsidiary of Pou Chen, at the common share exchange rate of 0.7631 Ming Wang share to 1 Ming Kang share. After such combination, the capital of Ming Wang becomes \$427,291. Effective from January 1, 2002, common shares of the Company held by its subsidiaries are treated as treasury stock. As a result, the book value of long-term equity investment in Ming Wang became negative. The Company reclassified the negative balance of \$65,982 to “other liabilities-others”, except keeping \$1 in the book value of long-term equity investment. (See Note 19)

Pou Liang Technology Co., Ltd. (“Pou Liang”) was established in January 2003, with an outstanding common stock of \$30,000 at December 31, 2003. It is engaged in manufacturing and sale of plastic products, machinery equipments and electronic components.

Yue Yuen Entertainment Development Co., Ltd. (“Yue Yuen Entertainment”) was established in July 2003, with an outstanding common stock of \$100,000 at par value \$10 per share at December 31, 2003. It is primarily engaged in investing and developing of real estate.

VAC Corporation was established in June 2003, with an outstanding common stock of \$130,000 at par value \$10 per share at December 31, 2003. It is primarily engaged in sale of computer peripheral equipment and related components.

Global Biotech Inc. (“Global Biotech”) was established in February 1998 and is engaged in researching of hereditary engineering and developing biological technology. As of December 31, 2003, Global Biotech had an outstanding common stock of \$425,000 at par value \$10 per share. In February 2003, Global Biotech issued an additional \$105,223 capital, of which the Company subscribed \$101,424. The Company’s ownership was increased to 27.32%.

Yue Yuen Industrial (Holdings) Ltd. (“Yue Yuen”) was incorporated in Bermuda. The shares of Yue Yuen are listed on The Stock Exchange of Hong Kong Limited. The Company accounted for its long-term investment income of Yue Yuen for 2003 and 2002 based on Yue Yuen’s fiscal years ended September 30, 2003 and 2002 as permitted under accounting principles generally accepted in the ROC.

The following companies were established in the British Virgin Islands and their main businesses are as follows:

Name	Core Operating Item
Diverse Consultants Ltd. (“Diverse”)	Consulting service about construction business
Global Biotech Inc. (BVI) [“Global Biotech (BVI)”]	Researching of hereditary engineering and developing biological technology
Rising Developments Ltd. (“Rising Developments”)	Trading of diesel / petroleum products
Great Team Backend Foundry Inc. (“Great Team”)	Investment holding

The fiscal year end of the above-listed BVI companies is September 30. In 2003 and 2002, the Company accounted for its long-term investment income (loss) of these companies based on these companies’ financial results for the years ended September 30, 2003 and 2002, as permitted under the accounting principles generally accepted in the ROC.

In order to pursue more efficient operation, upgrade the operating performance of the PCC group and to integrate vertically the shoe-making industry, Wealthplus Holdings Ltd., Kleine Developments Ltd. and Stable Future Trading Limited (Top Score’s subsidiary), had entered into an agreement with Yue Yuen to sell the shares of 67 subsidiaries (the “subsidiaries”) for a total consideration of US\$435,761 thousand. As of October 31, 2002, the book value of the subsidiaries amounted to US\$217,909 thousand. In accordance with the share-sale agreement, Yue Yuen issue 60 million shares to Wealthplus Holdings Ltd., which represented US\$186,800 thousand consideration. The remaining consideration, US\$248,961 thousand, was paid to Wealthplus Holdings Ltd., Kleine Developments Ltd. and Stable Future Trading Limited by cash. The above-mentioned transaction had been approved by Yue Yuen’s shareholders’ special general meeting held on October 29, 2002. The Company recognized the gain of the sale of shares of the Subsidiaries of US\$67,355 thousand, after the elimination of the unrealized portion.

Ray Systems Technology Inc. (“Ray Systems”) was established in January 2000 and is engaged in manufacturing and sale of optical instrument and computer peripheral equipment. As Ray Systems processed its dissolution on July 1, 2003, the Company recognized a liquidation loss of \$3,399 for the year ended December 31, 2003.

Elitegroup Computer Systems Co., Ltd. (“Elitegroup Computer”) is engaged in designing, manufacturing and sale of computer peripheral equipment. The shares of Elitegroup Computer are listed on the Taiwan Stock Exchange Corporation. Additionally, in August, 2003 as Elitegroup Computer issued common stock through stock dividends as bonuses to employees, the Company’s ownership was reduced to 13.57%. It has an outstanding common capital of \$5,740,321 at par value \$10 per share as at December 31, 2003.

Pou Jen Industrial Co., Ltd. (“Pou Jen”) was established in June 1999 and is engaged in manufacturing and sale of clothes and hats. In March 2003 the Company disposed of 7,660 thousand shares at \$2.65 per share (considering its net value) of Pou Jen to Pro Kingtex Industrial Co., Ltd. (related party).

Golden Brands Developments Ltd. is engaged in manufacturing and marketing computer products.

Behavior Tech Computer Corporation (“Behavior Tech”) was engaged in manufacturing, marketing and maintaining computer system. The shares of Behavior Tech are listed on Taiwan Stock Exchange Corporation. It had an outstanding capital of \$4,369,898 as at December 31, 2003.

San Fang Chemical Co., Ltd. (“San Fang”) is engaged in manufacturing and marketing leather. The shares of San Fang are listed on Taiwan Stock Exchange Corporation. It has an outstanding capital of \$2,069,490 as at December 31, 2003. The Company is one of the directors of San Fang.

View Quest Technologies Inc. (“View Quest”) was incorporated in August 1998 and is engaged in manufacturing and sale of electronic equipment. In January 2003, View Quest merged with Ability Enterprise Co., Ltd. Accordingly, the Company’s investment in View Quest has been converted into ownership interest in Ability Enterprise Co., Ltd. (listed Company in the Taiwan Stock Exchange) and the board of directors approved to treat such investments as short-term investment.

L&C Aluminum Corp. (“L&C Aluminum”) was incorporated in October 1987, with an outstanding capital stock of \$36,000 at December 31, 2003. L&C Aluminum is primarily engaged in manufacturing and sale of aluminum and steel products. Due to continuous deficit, L&C Aluminum decreased its capital to offset its accumulated deficit by \$64,800 and issued common stock \$28,000 at the same time in December 2003. As the Company did not participate in the cash subscription, its ownership in L&C Aluminum decreased to 3.33%. Accordingly, the Company recognized loss on capital reduction of \$10,800 and permanent value decline loss of \$369 in 2003.

Barits Securities Corp. (“Barits Securities”), established on July 3, 1989, is an underwriting, brokerage, and security dealer firm. On August 22, 2002, Barits Securities merged with Mega Financial Holding Co., Ltd. Accordingly, the Company’s investment in Barits Securities has been converted into ownership interest in Mega Financial Holding Co., Ltd., a listed company in Taiwan Stock Exchange. And the board of directors approved to treat such investments as short-term investment.

The movement of provision for decline in market value of long-term equity investment for the year ended December 31, 2003 is as follows:

	<b>Beginning Balance</b>	<b>Reverse</b>	<b>Ending Balance</b>
The Company	\$ 250,582	\$ (30,089)	\$ 220,493
Investees accounted for by equity method	<u>986,821</u>	<u>(8,490)</u>	<u>978,331</u>
Total	<u>\$ 1,237,403</u>	<u>\$ (38,579)</u>	<u>\$ 1,198,824</u>

## 9. PROPERTY, PLANT AND EQUIPMENT

A summary of property, plant and equipment at December 31, 2003 and 2002 is as follows:

	2003			2002	
	Cost	Reassessed Value Increment	Accumulated Depreciation	Carrying Value	Carrying Value
Land	\$ 1,533,002	\$ 248,187	\$ -	\$1,781,189	\$1,744,590
Buildings and improvements	2,106,878	45,062	653,731	1,498,209	1,099,678
Machinery and equipment	5,089,735	-	1,629,262	3,460,473	1,378,513
Transportation equipment	208,904	-	144,698	64,206	67,076
Furniture, fixtures and office equipment	399,083	-	205,854	193,229	119,997
Leased assets	67,745	-	38,042	29,703	38,874
Leasehold improvements	305,133	-	30,712	274,421	43,717
Other equipment	165,228	-	85,855	79,373	69,310
Prepayments on purchase of equipment and construction in progress	2,207,041	-	-	2,207,041	814,598
<b>Total</b>	<b>\$12,082,749</b>	<b>\$ 293,249</b>	<b>\$2,788,154</b>	<b>\$9,587,844</b>	<b>\$5,376,353</b>

Parts of the land and buildings are leased-out and classified as leased-out assets.

The Company recorded the appreciation in value of land in 1987 and 1991 to reflect the value appraised and published by the government. Reserve for land value increment tax, payable upon sale of land, is presented under long-term liabilities.

At December 31, 2003, land account includes two parcels of land located in Chang Hwa, which were purchased by the Company for \$22,187 in June 1990 and for \$33,668 in April 1997, respectively. However, due to certain restrictions under the land regulations, the ownership for these two parcels of land resides with a trustee through a trust agreement which prohibits the trustee from selling, pledging or hypothecating the property. According to related laws, the ownership for these two parcels of land should be transferred to the Company, but the registration procedures was not yet finished. Consequently, the two parcels of land amounted to \$55,855 are included in other assets (see Note 10).

In March 2002 and 2001, Pou Chen and Barits Development entered into a material purchase contract with non-related parties, China Wire & Cable Co., Ltd. and China Steel Structure Company Ltd. to build Pou Chen International Building, at a total price of \$452,500 and \$336,000, respectively. Pou Chen and Barits Development had already prepaid \$243,311 and \$284,379 as at December 31, 2002, respectively, which was recorded as "construction in progress".

As of December 31, 2003, Pou Yuen Technology leased certain machinery equipment with Chailease Finance Co., Ltd. under capital lease. The term of such lease is as follows:

Item	Cost	Bargain Purchase Price	Lease term	Notes payable at the inception date of the lease	Rental	Term of payment	Interest rate
Machinery	\$ 20,696	\$695	May 26,2000 -May 26,2004	\$24,611	\$24,611	Due in 16 quarterly payments	11.00% ~11.50%
Machinery	47,049	49	June 15,2000 -June 15,2004	58,559	58,559	Due in 16 quarterly payments of \$3,660 each	8.40% ~8.80%
Total	67,745						
Less accumulated depreciation	<u>(38,042)</u>						
Net	<u>\$ 29,703</u>						

The interest expense for the years ended December 31, 2003 and 2002 amounted to \$755,701 and \$969,758, respectively. Interest costs capitalized as part of the costs of property, plant and equipment for the years ended December 31, 2003 and 2002 amounted to \$8,412 and \$6,613, respectively. Interest rates were 2.40%~6.00% and 4.05%~6.00%, respectively.

At December 31, 2003 and 2002, certain property, plant and equipment and rental assets were pledged to secure short-term bills. The carrying values of collateralized real properties are as follows:

	2003	2002
Buildings and improvements	\$28,291	\$ 28,871
Leased-out assets	<u>53,825</u>	<u>555,031</u>
Total	<u>\$82,116</u>	<u>\$583,902</u>

At December 31, 2003 and 2002, insurance coverage for property, plant and equipment, excluding land, prepayments on purchase of equipment and construction in progress, amounted to \$6,973,638 and \$4,198,473, respectively.

## 10. OTHER ASSETS

Other assets at December 31, 2003 and 2002 consist of the following:

	2003	2002
Leased-out assets:		
Cost	\$ 1,320,200	\$ 891,144
Less accumulated depreciation	<u>(186,002)</u>	<u>(122,298)</u>
Carrying value	<u>1,134,198</u>	<u>768,846</u>
Deferred charges	360,714	259,333
Deferred tax assets (Note 23)	223,006	279,130
Land held by trustee (Note 9)	55,855	63,916

	<b>2003</b>	<b>2002</b>
Idle asset	120,478	9,756
Less:		
Accumulated depreciation	(57,250)	(41)
Allowance for valuation loss of idle asset	<u>(4,978)</u>	<u>(4,978)</u>
Carrying value	<u>58,250</u>	<u>4,737</u>
Others	<u>35,161</u>	<u>-</u>
Total	<u><u>\$1,867,184</u></u>	<u><u>\$1,375,962</u></u>

The Company recorded the appreciation in value of leased-out land in 1986 and 1988 to reflect the value appraised and published by the government.

As of December 31, 2002, portion of the leased-out land was pledged to secure long-term debt as discussed in Note 9.

## 11. SHORT-TERM BORROWINGS

Short-term borrowings at December 31, 2003 and 2002 consist of the following:

	<u>2003</u>		<u>2002</u>	
	Annual Interest Rate	Balance	Annual Interest Rate	Balance
Short-term borrowings:				
Procurement loans	1.50%~2.40%	\$2,011,378	1.00%~4.18%	\$1,568,684
Unsecured loans	1.41%~2.19%	<u>5,866,425</u>	1.93%~3.86%	<u>3,037,118</u>
Total		<u><u>\$7,877,803</u></u>		<u><u>\$4,605,802</u></u>

## 12. SHORT-TERM BILLS

Short-term bills at December 31, 2003 and 2002 consist of the following:

	<u>2003</u>		<u>2002</u>	
	Annual Interest Rate	Balance	Annual Interest Rate	Balance
Short-term bills:				
Commercial paper, credit	0.97%~1.25%	\$150,000	1.35%~2.45%	\$385,000
Commercial paper, secured	1.25%~1.26%	<u>190,000</u>	1.72%~2.02%	<u>204,000</u>
Subtotal		340,000		589,000
Less discount on commercial paper		<u>(657)</u>		<u>(2,681)</u>
Net		<u><u>\$339,343</u></u>		<u><u>\$586,319</u></u>

Commercial paper, secured as at December 31, 2003 and 2002 was secured by the inventory and fixed assets of the Company (see Notes 7 and 9).

### 13. CURRENT PORTION OF LONG-TERM LIABILITIES

Current portion of long-term liabilities at December 31, 2003 and 2002 consist of the following:

	2003	2002
Bonds payable (see Note 14)	\$ 3,479,504	\$ -
Long-term debt (see Note 15)	-	5,104,323
Long-term installment payable (see Note 16)	-	3,888
Lease payable (see Note 17)	<u>7,996</u>	<u>16,208</u>
Total	<u>\$ 3,487,500</u>	<u>\$ 5,124,419</u>

### 14. BONDS PAYABLE

	2003	2002
Euro convertible bonds	\$ 12,625,609	\$ 2,571,500
Add interest compensation and income tax payable	<u>1,044,895</u>	<u>851,437</u>
Subtotal	13,670,504	3,422,937
Less current portion	<u>(3,479,504)</u>	<u>-</u>
Net	10,191,000	3,422,937
Domestic secured bonds	<u>5,000,000</u>	<u>-</u>
Total	<u>\$ 15,191,000</u>	<u>\$ 3,422,937</u>

In September 2003, Pou Chen bought back its Euro Convertible Bonds with par value US\$3,000,000 from open market at cost of \$152,193 and Pou Chen recognized a loss of \$14,623.

#### **Euro-Dollar Convertible Bonds – First Issue**

- (a) Date of issuance: June 24, 1999
- (b) Par value: US\$1,000
- (c) Location of issuance: Luxemburg
- (d) Price of issuance: 100%
- (e) Total amount: US\$125,000,000, there are US\$71,000,000 not converted as at December 31, 2003
- (f) Interest rate: 1.5% per annum (after tax)
- (g) Date of maturity: June 15, 2006
- (h) Conversion Price:  
The initial price at which shares will be issued upon conversion is \$93.87 per share at the issue date. The above conversion price will be adjusted accordingly if there is a capital increase in cash or dividend distribution by Pou Chen. At December 31, 2003, the current adjusted conversion price is \$31.14 per share.
- (i) Redemption at the option of Pou Chen:  
The Notes may be redeemed at the option of Pou Chen, in whole but not in part, on not less than 30 nor more than 60 days, notice, at any time on or after June 15, 2002 at a

redemption price equal to 100% of the unpaid principal amount thereof plus the Redemption Premium (as defined below); provided that the Closing Price (translated into U.S. dollars at the prevailing rate) of the Shares on each of such 30 consecutive Trading Days is at least 145% of the Conversion Price (translated into U.S. dollars at the Exchange Rate, as defined below). Notwithstanding the foregoing, Pou Chen may redeem all of the Notes on or after June 15, 2002 if at least 95% in principal amount of the Notes has been redeemed, repurchased, canceled or converted at a redemption price equal to 100% of the unpaid principal amount thereof plus the Redemption Premium (as defined below). If, as a result of certain changes relating to the tax laws in the ROC or such other jurisdiction in which Pou Chen is then organized, Pou Chen becomes obligated to pay additional amounts, the Notes may be redeemed at the option of Pou Chen, in whole but not in part, at 100% of the unpaid principal amount thereof plus the Redemption Premium on the date of such redemption; provided that, with respect to payments of interest and Redemption Premium, Pou Chen shall not be entitled to redeem the Notes unless the relevant withholding or deduction giving rise to an obligation to pay additional amounts on such payments exceeds a rate of 20%. As used herein, "Redemption Premium" means an amount payable with respect to a repurchase or redemption of a Note which will provide a Holder who purchased such Note at the issue price on the Original Issue Date an annual yield (computed on a semi-annual bond equivalent basis), including interest paid and accrued, on the date of payment of such amount of (i) 7.100% per annum if such repurchase or redemption occurs on or before June 15, 2002, (ii) 7.800% per annum if such repurchase or redemption occurs after June 16, 2002 and on or before June 15, 2004 and (iii) 8.102% per annum if such repurchase or redemption occurs after June 16, 2004.

- (j) Repurchase of the Notes:
- (i) Each holder shall have the right, at such holder's option, to require Pou Chen to repurchase all or any portion which is US\$1,000 or any integral multiples of the Notes on June 15, 2002 and on June 15, 2004 at a price equal to 100% of the unpaid principal amount plus the redemption premium on the holders' put date.
  - (ii) In the event of a reduction to less than 25% of Pou Chen's ownership in Yue Yuen, 49.88% owned by Pou Chen as at December 31, 2003, each holder of the Notes will have the right, at such holder's option, to require Pou Chen to repurchase all of such holder's Notes on the date that is 50 days after the date on which such reduction of Pou Chen's ownership in Yue Yuen occurs at a price equal to 100% of the unpaid principal amount thereof plus the redemption premium.

#### **Euro-Dollar Convertible Bonds - Second Issue**

- (a) Date of issuance: November 4, 2003
- (b) Par value: US\$1,000
- (c) Location of issuance: Luxemburg
- (d) Price of issuance: 100%
- (e) Total amount: US\$300,000,000
- (f) Interest rate: 0%
- (g) Date of maturity: November 4, 2008
- (h) Conversion Price:  
The initial price at which shares will be issued upon conversion is \$47.285 per share at the issue date. The above conversion price will be adjusted accordingly if there is a capital increase in cash or dividend distribution by Pou Chen.

- (i) Redemption at maturity:  
Unless previously redeemed, repurchased and cancelled, or converted, the Bonds will be redeemed on November 4, 2008 at a price equal to 99.501% of the unpaid principal amount.
- (j) Redemption at the option of Pou Chen:
- (i) The Bonds may be redeemed, in whole or from time to time in part (in the principal amount of US\$1,000 or any integral multiple thereof), at the option of Pou Chen at any time on or after November 4, 2005, at a price equal to 100% of the unpaid principal amount thereof; provided that the closing price of the common shares (translated into US dollars at the prevailing rate) on each of 20 consecutive trading days, the last of which occurs not more than five days prior to the date on which notice of such redemption is given, is at least 130% of the conversion price (translated into US dollars at the fixed rate). Notwithstanding the foregoing, the Bonds may be redeemed in whole at the option of Pou Chen at any time at a price equal to 100% of the unpaid principal amount thereof if at least 95% in aggregate principal amount of the Bonds has already been redeemed, repurchased and cancelled, or converted.
- (ii) The Bonds may also be redeemed in whole at any time at the option of Pou Chen at a price equal to 100% of the unpaid principal amount thereof in the event of certain changes relating to taxation in the Republic of China or such other jurisdiction in which Pou Chen is then organized.
- (k) Repurchase at the option of holders:
- (i) Each holder has the right to require Pou Chen to repurchase all or any portion (in the principal amount of US\$1,000 or any integral multiple thereof) of such holder's bonds on November 4, 2005 at a price equal to 99.80% of the unpaid principal amount thereof.
- (ii) If the common shares cease to be listed or admitted to trading on the TSE for a period exceeding five consecutive trading days, then each holder will have the right, at such holder's option, to require Pou Chen to repurchase all of such holder's bonds at a price equal to 100% of the unpaid principal amount.
- (iii) Upon the occurrence of a change of control, each holder shall have the right, at such holder's option, to require Pou Chen to repurchase all of such holder's bonds at a price equal to 100% of the unpaid principal amount thereof on the date set by Pou Chen which is not less than 30 days nor more than 60 days following the date on which Pou Chen notifies the trustee of the change of control.
- A change of control means any of the following events:
- any person or persons, other than the Tsai Family or its affiliates, acting together, acquires or acquire legal or beneficial ownership of at least 50% of Pou Chen's capital stock; or
  - Pou Chen consolidates with or merges into or sells or transfers all or substantially all of its assets to any other person or persons (other than the Tsai Family or its affiliates), unless the consolidation, merger, sale or transfer will not result in the other person or persons acquiring control over Pou Chen or the successor entity.
- (iv) If Pou Chen ceases to hold, directly or indirectly, at least 33% of the outstanding capital stock of Yue Yuen, or if Pou Chen, together with the Tsai Family and its affiliates, ceases to hold, directly or indirectly, at least 51% of the outstanding capital stock of Yue Yuen, then each holder shall have the right, at such holder's option, to require Pou Chen to repurchase all of such holder's bonds at a price equal to 100% of the unpaid principal amount.

## Domestic Secured Bonds

The first secured bonds of 2003:

- (a) Pou Chen issued \$5,000,000 secured bonds from June 10, 2003 to June 13, 2003, for the purpose of repaying bank loan. The bonds were separated into 19 types (from “A” to “S”). The issued amount of type A, B, C, D, E, F, K, L, M, N, P, Q was \$300,000 and the other types was \$200,000. The par value of all types was \$10,000.
- (b) Date of maturity and price of issuance: from June 10, 2008 to June 13, 2008 and 100%
- (c) Interest rate:
  - Type A, F, K, P: 4.000%, minus floating rate
  - Type B, G, L, Q: 4.001%, minus floating rate
  - Type C, H, M, R: 4.002%, minus floating rate
  - Type D, I, N, S: 4.003%, minus floating rate
  - Type E, J, O: 4.004%, minus floating rateThe nominal interest rate of all types should be greater than 0%.  
The floating rate is determined on the Fixing Rate of USD 6-month LIBOR at 11:00 AM on the second London business day before the first day of each interest period on “LIBOR” page on the Reuters screen.

The secured bonds contain certain covenants, including a covenant that requires Pou Chen to maintain a consolidated tangible net worth of not less than \$18,000,000, and the following financial ratios: (i) a ratio of consolidated total liabilities to consolidated tangible net worth of not more than 2:1, (ii) a ratio of consolidated net income before interest, taxation, depreciation and amortization to consolidated interest of no less than 3:1, and (iii) on a yearly evaluation basis a ratio of consolidated current assets to consolidated current liabilities of not less than 0.8:1.

Additionally, the secured bonds also contain certain covenants that, among other things, limit the ability of Pou Chen, subject to certain conditions and limitations, to:

- (a) merge with any other company or spin off, unless Pou Chen being the existing company or majority lenders consent that such merger or spin off will not have a material adverse effect on Pou Chen;
- (b) change the scope or nature of its major business;
- (c) create any encumbrance over its assets, except for such encumbrance had been made before the agreement date and disclosed to lenders;
- (d) sell, lease out, transfer or dispose of all or substantially all of its assets nor of any part of its assets with a value greater than the amount equal to 35% of the consolidated assets. Nevertheless the limitation on the preceding sentence, the following disposals shall not be taken into account under this restriction:
  - (i) disposals in the ordinary course of business,
  - (ii) the payment of cash as consideration for the acquisition of any asset at arm’s length and on normal commercial terms,
  - (iii) the temporary application of funds not immediately required in the purchase or making of short-term investments, or the realization of such investments,
  - (iv) the disposal (for a consideration not exceeding a normal commercial consideration) of assets to its subsidiaries and/or Yue Yuen.
- (e) make loan, which according to procedures on fund and loans, in excess 20% of the issued capital;
- (f) trade with others in irregular course;
- (g) amend or change the contents, conditions or terms of the secured bonds, unless such amendment or change will not result in adverse effect to lenders;

- (h) provide guarantees in violation of the guidelines of endorsement and guarantees, which guidelines provide that aggregate endorsements and guarantees shall not exceed its 100% of net worth as shown in the most recent audited or reviewed financial statements.

## 15. LONG-TERM DEBT

Long-term debt as of December 31, 2003 and 2002 consist of the following:

	2003	2002
Citibank -		
Long-term debt, US\$190,000,000, with floating rate, due in 5 semiannual installments commencing March 22, 2005 and maturing March 22, 2007.	\$ 6,454,300	\$ 6,602,500
China Development Industrial Bank (Lead Lender) and other banks -		
Long-term debt, US\$23,200,000, due in 5 semiannual installments commencing September 5, 2006 and maturing September 5, 2008. Interest is paid monthly. Interest rate is 3-month floating LIBOR rate plus 1%.	788,104	-
Industrial Development Bureau interest-free loan (See Note 25)	9,303	-
Citibank (Lead lender) and other banks:		
Note Issuance Facility (“NIF”), \$700,000, due in 3 semiannual installments commencing March 29, 2003 and maturing March 29, 2004. Interest rate at December 31, 2002 was from 1.4217% to 1.4366%. Unsecured loan \$2,800,000, due in 3 semiannual installments commencing March 29, 2003 and maturing March 29, 2004. Interest is paid monthly. Interest rate at December 31, 2002 was 4.019%. Principal was fully repaid on June 27, 2003.	-	3,500,000
Less discount of NIF	-	(2,358)
Subtotal	-	3,497,642
Citibank (Lead lender) and other banks:		
Note Issuance Facility (“NIF”), \$1,200,000, due in 4 semiannual installments of \$300,000 each, commencing July 20, 2001; with interest rate 1.9148% at December 31, 2002.	-	300,000
Less discount of NIF	-	(445)
Subtotal	-	299,555
Chiao Tung Bank		

	<b>2003</b>	<b>2002</b>
Unsecured loan \$500,000 from May 15, 2001 to May 15, 2005, interest is paid monthly. Interest rate is determined at such bank's basic loan rate minus 2.25%. Principal was fully repaid on June 30, 2003.	-	500,000
Citibank		
Long-term debt, US\$180,000,000 with floating rate, principal due on May 30, 2003. Principal was repaid US\$105,000,000 in 2002.	<u>-</u>	<u>2,606,250</u>
Total	7,251,707	13,505,947
Less current portion	<u>-</u>	<u>(5,104,323)</u>
Net	<u>\$ 7,251,707</u>	<u>\$ 8,401,624</u>

#### **16. LONG-TERM INSTALLMENT PAYABLE**

Long-term installment payable at December 31, 2003 and 2002 consist of the following:

	<b>2003</b>	<b>2002</b>
Golden Asia Pacific Financing Co., Ltd.	\$ -	\$ 4,573
Less unrealized financing interest	-	(685)
Less current portion	<u>-</u>	<u>(3,888)</u>
Net	<u>\$ -</u>	<u>\$ -</u>

Pou Yuen Technology entered into a financing agreement with Golden Asia Pacific Financing Co., Ltd. on July 13, 2000 for \$20,000, with implicit interest rate of 10.85%. Amount is due in 36 monthly installments of principal and interest, commencing in August 2000.

#### **17. LEASE PAYABLE**

Lease payable at December 31, 2003 and 2002 consists of the following:

	<b>2003</b>	<b>2002</b>
Chailease Finance Co., Ltd.	\$ 3,248	\$ 8,212
Chailease Finance Co., Ltd.	<u>6,673</u>	<u>21,959</u>
Subtotal	9,921	30,171
Less unrealized interest	(1,925)	(5,967)
Less current portion	<u>(7,996)</u>	<u>(16,208)</u>
Net	<u>\$ -</u>	<u>\$ 7,996</u>

See Note 9 for term of payment and interest rate.

#### **18. PENSION PLAN**

Pou Chen, Barits Development, Pou Yuen Technology, Pro Arch Technology and Global Brands Manufacture each has a defined benefit pension plan covering all employees. The benefits are primarily based upon an employee's years of service and average compensation for the last six months before retirement.

Net pension cost for the year 2003 consists of the following:

	Pou Chen	Barits Development	Pou Yuen Technology	Pro Arch Technology	Global Brands Manufacture	Total
Service cost	\$ 87,986	\$ 8,927	\$ 8,040	\$ 3,734	\$ 1,875	\$ 110,562
Interest cost	36,917	2,483	1,706	288	162	41,556
Expected return on plan assets	(12,961)	(3,563)	(734)	(349)	(73)	(17,680)
Amortization of net transition obligation	(1,874)	646	215	43	656	(314)
Amortization of unrecognized prior service cost	-	-	795	-	-	795
Amortization of pension loss	23,219	(3,071)	424	-	(402)	20,170
Amortization of prior service cost	-	-	(20,206)	-	-	(20,206)
Net pension cost	<u>\$ 133,287</u>	<u>\$ 5,422</u>	<u>\$ (9,760)</u>	<u>\$ 3,716</u>	<u>\$ 2,218</u>	<u>\$ 134,883</u>

The following table sets forth the actuarial assumptions and plan's status at December 31, 2003:

	Pou Chen	Barits Development	Pou Yuen Technology	Pro Arch Technology	Global Brands Manufacture	Total
Weighted-average discount rate	3.25%	3.25%	3.25%	3.25%	3.00%	3.00%
Assumed rate of increase in salaries	3.75%	2.00%	3.00%	2.75%	4.00%	4.00%
Expected rate of return on plan assets	3.25%	3.25%	3.25%	3.25%	3.00%	3.00%

  

	Pou Chen	Barits Development	Pou Yuen Technology	Pro Arch Technology	Global Brands Manufacture	Total
Actuarial present value of benefit obligation:						
Vested benefits	\$ (80,063)	\$ (2,016)	\$ -	\$ -	\$ (962)	\$ (83,041)
Nonvested benefits	<u>(539,098)</u>	<u>(51,689)</u>	<u>(7,228)</u>	<u>(3,430)</u>	<u>(6,534)</u>	<u>(607,979)</u>
Accumulated benefit obligation	(619,161)	(53,705)	(7,228)	(3,430)	(7,496)	(691,020)
Additional benefits at future salaries	<u>(386,902)</u>	<u>(19,197)</u>	<u>(4,679)</u>	<u>(902)</u>	<u>(6,101)</u>	<u>(417,781)</u>
Projected benefit obligation	(1,006,063)	(72,902)	(11,907)	(4,332)	(13,597)	(1,108,801)
Plan assets at fair value	<u>344,741</u>	<u>97,261</u>	<u>18,042</u>	<u>11,569</u>	<u>2,629</u>	<u>474,242</u>
Projected benefit obligation in excess of plan assets	(661,322)	24,359	6,135	7,237	(10,968)	(634,559)
Net transition obligation not yet recognized	(15,872)	7,106	-	469	4,596	(3,701)
Unrecognized prior service costs	-	-	3,567	-	-	3,567
Net pension gain not yet recognized	<u>391,880</u>	<u>(56,919)</u>	<u>1,212</u>	<u>(7,140)</u>	<u>(304)</u>	<u>328,729</u>
Accrued pension cost	<u>\$ (285,314)</u>	<u>\$ (25,454)</u>	<u>\$ 10,914</u>	<u>\$ 566</u>	<u>\$ (6,676)</u>	<u>\$ (305,964)</u>

As at December 31, 2003, the net amount of accrued pension cost amounted to \$305,964 was recorded as deferred pension cost of \$566, prepaid pension cost of \$10,914 and accrued pension cost of \$317,444.

Pou Yuen Technology recognized non-operating income of \$9,760 in 2003 because some employees of Pou Yuen Technology transferred to other subsidiaries within PCC group.

## 19. OTHER LIABILITIES - OTHERS

Other liabilities - others at December 31, 2003 and 2002 consist of the following:

	<b>2003</b>	<b>2002</b>
Unrealized gross profit from inter-affiliate transactions	\$ 2,027,227	\$129,063
Liabilities on service after selling goods	8,000	20,000
Others (Note 8)	<u>246,575</u>	<u>120,884</u>
Total	<u>\$ 2,281,802</u>	<u>\$ 269,947</u>

## 20. STOCKHOLDERS' EQUITY

Pou Chen's registered and issued capital at December 31, 2003 and 2002 are summarized as follows:

	<b>2003</b>	<b>2002</b>
Registered capital:		
Shares (in thousands)	<u>3,028,000</u>	<u>2,303,500</u>
Par value	<u>\$ 10</u>	<u>\$ 10</u>
Capital	<u>\$ 30,280,000</u>	<u>\$ 23,035,000</u>
Issued capital:		
Shares (in thousands)	<u>1,884,799</u>	<u>1,632,582</u>
Par value	<u>\$ 10</u>	<u>\$ 10</u>
Capital	<u>\$ 18,847,994</u>	<u>\$ 16,325,822</u>

In August 2003, Pou Chen issued additional shares for \$2,522,172 through stock dividends, and bonuses to employees. Consequently, at December 31, 2003, Pou Chen's outstanding capital stock was increased to \$18,847,994, divided into 1,884,799 thousand common shares with a par value of \$10 each.

At the meeting on July 15, 2002, the Board of Directors of Pou Chen resolved to issue employee stock warrants in accordance with Securities and Exchange Law Article 28-3 within the quantity of 67,600 units. Each individual employee stock warrant is granted the right to purchase new issued common share for 1,000 shares. The exercise price is the closing price of Pou Chen's common shares at the employee stock warrants' issuance date. The warrant holder can exercise the right up to one-third of the granted warrant units no earlier than two years from the granted date. After four years from the granted date, the warrants holders are eligible to exercise all the warrants owned. As of August 6, 2002 and July 24, 2003, Pou Chen has issued 66,600 units and 1,000 units of employee stock warrants, respectively to the employees with an exercise price of \$23.30 and \$41.20 per unit, respectively.

The exercise price of such warrant has been retroactively restated as \$16.72 and \$35.84 per

share, respectively due to the stock dividends issued in 2003.

According to the Company Law of the ROC and Pou Chen's Articles of Incorporation, 10% of Pou Chen's annual earnings, after paying tax and offsetting deficit, if any, should first be appropriated as legal reserve until such reserve equals to the amount of Pou Chen's capital, and then appropriated necessary special reserve as regulated by laws or local authorities.

Any remaining balance, unless to be retained partially by Pou Chen or resolved otherwise by the stockholders, shall then be appropriated as follows:

- a. 3% bonuses to directors and supervisors,
- b. 1%~5% as bonuses to employees, after deducting the bonuses to directors and supervisors, and
- c. all or a part of the remainder as special reserve or as dividends to stockholders.

In accordance with the Approval Documents (89) Tai-Tsai-Tseng (1) No. 100116 of Securities and Futures Commission, public listed companies have to appropriate earnings for special reserve according to Article 41-1 of Securities Transaction Act, in addition to the appropriation for legal reserve, in amount equal to debit balances, if any, in stockholders' equity (such as unrealized loss of long-term investments and cumulative translation adjustments). The special reserve can be reversed and distributed as retained earnings if such deduction of stockholders' equity reversed.

Pou Chen's appropriation and distribution of 2003 retained earnings has not been proposed by the board of directors as at March 15, 2004, the date of the independent auditors' report. Regarding the 2002 retained earnings proposed by the board of directors and the approval by the stockholders' meeting, please refer to the Market Observation Post System ("MOPS") of Taiwan Stock Exchange.

Pou Chen's board of directors and shareholders have proposed and approved the 2002 earnings distribution of 7,329,890 shares to employees (represents 0.45% of the outstanding common shares at the end of 2002) and of \$113,349 as bonuses to directors and supervisors. In 2002, the earnings per share after income tax (before retroactive adjustment for stock dividend in 2003) was \$2.75; however, if the earnings distribution to employees, directors and supervisors are accounted for as expenses, the pro-forma earnings per share after income tax was \$2.63.

Wealthplus' outstanding capital stock as of September 30, 2003 and 2002 amounted to US\$937,362, with a par value of US\$1 each or 937,362 shares.

Barits Development's registered and issued capital as at December 31, 2003 and 2002 amounted to \$913,000, divided into 91,300 thousand common shares with a par value of \$10 each.

According to the Company Law of the ROC and Barits Development's Articles of Incorporation, 10% of Barits Development's annual earnings, after paying tax and offsetting deficit, if any, should first be appropriated as legal reserve. For the remaining balance, if any, 3% should be appropriated as bonuses to directors and supervisors, and 1% should be appropriated as bonuses to employees. The final remainder shall then be distributed in accordance with the resolution in the stockholders' meeting.

Pou Yuen Technology's registered and issued capital at December 31, 2003 and 2002 are summarized as follows:

**2003**

**2002**

Registered capital:		
Shares (in thousands)	<u>120,000</u>	<u>120,000</u>
Par value	<u>\$ 10</u>	<u>\$ 10</u>
Capital	<u>\$ 1,200,000</u>	<u>\$ 1,200,000</u>
Issued capital:		
Shares (in thousands)	<u>60,000</u>	<u>60,000</u>
Par value	<u>\$ 10</u>	<u>\$ 10</u>
Capital	<u>\$ 600,000</u>	<u>\$ 600,000</u>

According to the Company Law of the Republic of China and Pou Yuen Technology's Articles of Incorporation, 10% of Pou Yuen Technology's annual earnings, after paying tax and offsetting deficit, if any, should first be appropriated as legal reserve. For the remaining balance, if any, 3% should be appropriated as bonuses to directors and supervisors, and 1% should be appropriated as bonuses to employees. The final remainder shall then be distributed in accordance with the resolution in the stockholders' meeting.

Pro Arch Technology's registered and issued capital at December 31, 2003 and 2002 are summarized as follows:

	<b>2003</b>	<b>2002</b>
Registered capital:		
Shares (in thousands)	<u>268,000</u>	<u>154,687</u>
Par value	<u>\$ 10</u>	<u>\$ 10</u>
Capital	<u>\$ 2,680,000</u>	<u>\$ 1,546,870</u>
Issued capital:		
Shares (in thousands)	<u>268,000</u>	<u>154,687</u>
Par value	<u>\$ 10</u>	<u>\$ 10</u>
Capital	<u>\$ 2,680,000</u>	<u>\$ 1,546,870</u>

In order to invite and retain professionals and improve employees' centripetal force, Pro Arch Technology was approved by Securities and Futures Commission to issue employee stock warrants within the quantity of 5,000 units on October 11, 2002. Each individual employee stock warrant is granted the right to purchase new issued common shares for 1,000 shares. However, Pro Arch Technology has not issued the employee stock warrants as at December 31, 2003.

According to the Company Law of the ROC and Pro Arch Technology's Articles of Incorporation, 10% of Pro Arch Technology's annual earnings, after paying tax and offsetting deficit, if any, should first be appropriated as legal reserve. For the remaining balance, if any, 12% should be appropriated as bonuses to employees, and more than 1% should be appropriated as bonuses to directors and supervisors. The final remainder shall then be distributed in accordance with the resolution in the stockholders' meeting.

Global Brands Manufacture's registered and issued capital at December 31, 2003 and 2002

are summarized as follows:

	<b>2003</b>	<b>2002</b>
Authorized capital:		
Share (In Thousands)	<u>220,000</u>	<u>170,000</u>
Par value	<u>\$ 10</u>	<u>\$ 10</u>
Capital	<u>\$ 2,200,000</u>	<u>\$ 1,700,000</u>
Issued capital:		
Share (In Thousands)	<u>138,964</u>	<u>95,630</u>
Par value	<u>\$ 10</u>	<u>\$ 10</u>
Capital	<u>\$ 1,389,636</u>	<u>\$ 956,296</u>

Global Brands Manufacture was authorized to issue common stock of 20,000 thousand shares at \$20 per share on August 6, 2002, for repaying long-term borrowings. The issuance date was October 9, 2002.

Global Brands Manufacture was authorized to issue common stock of 13,340 thousand shares at \$30 per share on June 20, 2003, for repaying long-term borrowings and refunding operating capital. The issuance date was July 20, 2003.

Global Brands Manufacture was authorized to issue common stock of 30,000 thousand shares under private placement at \$40.48 per share in November 2003 for refunding operating capital. Such private placement shares and their distributed shares are not allowed to trade in the following 3 years of issuance.

At October 15, 2002 meeting, the Board of Directors of Global Brands Manufacture resolved to issue employee stock warrants in accordance with Securities and Exchange Law Article 28-3 within the quantity of 5,672 units. Each individual employee stock warrant is granted the right to purchase new issued common shares for 1,000 shares. The exercise price is the closing price of Global Brands Manufacture's common shares at the employee stock warrants' issuance date. The warrant holders can exercise the right up to one-third of the granted warrant units no earlier than two years from the granted date. After four years from the granted date, the warrants holders are eligible to exercise all the warrants owned. As of December 13, 2002 and September 22, 2003, Global Brands Manufacture issued 5,662 and 10 units, respectively, of employee stock warrants to the employees with an exercise price of \$29.50 and \$64 per unit. The exercise price will be adjusted according to calculating formula due to stock and cash dividends and issuance of capital stock.

At September 22, 2003 meeting, the Board of directors of Global Brands Manufacture resolved to issue another employee stock warrants with the quantity of 10,672 units. The issuing rules are the same as the first issuance mentioned above. Global Brands Manufacture issued all the employee stock warrants with an exercise price of \$50.5 per unit on November 12, 2003. The exercise price will be adjusted according to calculating formula due to stock and cash dividends and issuance of capital stock.

Global Brands Manufacture's stockholders approved to offset its accumulated deficit by additional paid-in capital of \$160,113 in May 2003.

According to the Company Law of the ROC and Global Brands Manufacture's Articles of Incorporation, 10% of Global Brands Manufacture's annual earnings, after paying tax and offsetting deficit, if any, should first be appropriated as legal reserve until such reserve equals to the amount of Global Brands Manufacture's capital, and then appropriate necessary special reserve and reverse the amount of capital surplus due to revaluation increment on property, plant and equipment, which offset accumulated deficit in prior years, if any, as regulated by laws or local authorities.

Any remaining balance, unless to be retained partially by Global Brands Manufacture or resolved otherwise by the stockholders, shall then be appropriated as follows:

- a. no more than 10% as bonuses to employees,
- b. 1% bonuses to directors and supervisors, and
- c. dividends to stockholders are proposed and approved by the Company's board of directors and stockholders.

Global Brands Manufacture's 2002 retained earnings was used to offset its accumulated deficit; no disclosure information of employee bonus and bonus to directors & supervisors was needed.

Neso Technology's registered and issued capital at December 31, 2003 and 2002 are summarized as follows:

	<b>2003</b>	<b>2002</b>
Registered capital:		
Shares (in thousands)	<u>44,800</u>	<u>44,800</u>
Par value	<u>\$ 10</u>	<u>\$ 10</u>
Capital	<u>\$ 448,000</u>	<u>\$ 448,000</u>
Issued capital:		
Shares (in thousands)	<u>25,760</u>	<u>44,800</u>
Par value	<u>\$ 10</u>	<u>\$ 10</u>
Capital	<u>\$ 257,600</u>	<u>\$ 448,000</u>

The meeting of shareholders of Neso Technology resolved to issue additional common stock of 32,800 thousand shares at \$10 per share on July 5, 2002, for refunding operating capital. The issuance date was July 24, 2002.

The meeting of shareholders of Neso Technology resolved to decrease its capital to offset its accumulated deficit by \$190,400.

According to the Company Law of the ROC and Neso Technology's Articles of Incorporation, 10% of Neso Technology's annual earnings, after paying tax and offsetting deficit, if any, should first be appropriated as legal reserve.

Any remaining balance shall then be appropriated as follows:

- a. less than 2% bonuses to directors and supervisors,
- b. less than 10% bonuses to employees, and
- c. after special reserve, the remainder shall then be distributed in accordance with resolution in stockholders' meeting.

## 21. TREASURY STOCK

The changes of treasury stock of 2003 is summarized as follows (in shares):

Reason	2003.1.1	Increase	Decrease	2003.12.31
Buy the stock back to distribute to employees	20,000,000	-	20,000,000	-
Common shares held by subsidiaries	87,950,402	13,182,407	556,286	100,576,523

According to the Stock Exchange Law of the ROC, the shares of treasury stock should not be over 10% of the Company's issued and outstanding shares and the amount of treasury stock should not be over the total of retained earnings and realized additional paid-in capital. The Company didn't hold any share of treasury stock on December 31, 2003. The 20,000,000 shares (amounted to \$582,482) of treasury stock on December 31, 2002 were distributed to employees on January 13, 2003 at \$21.97 per share, totally \$439,400. The difference of \$143,082 was debited to retained earnings.

According to the Stock Exchange Law of the ROC, the treasury stock of the Company should not be pledged and does not have the same right as the common stock does.

As of January 1, 2003, the subsidiaries held 87,950,402 shares of the Company's common stock in total, with carrying value of each share at \$23.50. As the disposal of the upstream subsidiaries for the first quarter of 2003, 556,286 shares held by the subsidiaries were deducted, and after the stock dividends were received by the other subsidiaries, 13,182,407 shares were added. Accordingly, as at December 31, 2003, the subsidiaries held 100,576,523 shares of the Company's common stock and \$2,055,319 in total.

Effective from January 1, 2002, common shares of the Company held by its subsidiaries are treated as treasury stock. As a result, long-term investments and stockholders' equity as of December 31, 2002 were both decreased by \$2,067,060 and net income for the years ended December 31, 2003 and 2002 was decreased by \$42,096 and increased by \$10,253, respectively.

## 22. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

Personnel, depreciation, and amortization expenses for the years ended December 31, 2003 and 2002 are summarized as follows:

Expense Item	Function	2003			2002		
		Operating Cost	Operating Expenses	Total	Operating Cost	Operating Expenses	Total
Personnel expense:							
Salaries		853,844	1,892,162	2,746,006	814,881	1,835,092	2,649,973
Labor insurance and health insurance		38,583	146,108	184,691	39,588	120,697	160,285
Pension cost		6,204	138,439	144,643	8,430	95,407	103,837
Others		26,776	97,229	124,005	26,092	67,831	93,923
Depreciation expenses		323,824	507,701	831,525	211,513	215,543	427,056
Amortization expenses		25,149	169,115	194,264	18,937	213,381	232,318

## 23. INCOME TAX

The Company's income tax benefit for the year ended December 31, 2003 is as follows:

Income tax benefit - current year	\$(170,035)
Investment tax credits	(91)
10% additional income tax on undistributed earnings of 2002	9,796
Adjustment of deferred tax asset	110,353
Adjustment of prior year's tax expenses	<u>(2,463)</u>
Income tax benefit	<u>\$ (52,440)</u>

The components of deferred tax assets as of December 31, 2003 are as follows:

Unrealized inventory devaluation losses	\$ 101,160
Unrealized gains on disposal of property, plant and equipment	1,702
Unrealized bad debt losses	75,780
Unrealized maintenance and repairs expenses	400
Unrealized pension expense	77,190
Unrealized profit from inter-affiliate transactions	2,600
Unrealized loss on liquidation of long-term equity investments	18,300
Unrealized net exchange loss	39,654
Unrealized provision for decline in value of idle assets	1,320
Permanent decline loss on long-term equity investments	17,840
Losses carryforward	401,840
Others	11,556
Less valuation allowance	<u>(238,867)</u>
Deferred tax assets	<u>\$ 510,475</u>
Deferred tax assets, current	<u>\$ 287,469</u>
Deferred tax assets, noncurrent	<u>\$ 223,006</u>

Income tax payable as at December 31, 2003 amounted to \$69,776.

Temporary tax payment as at December 31, 2003 amounted to \$16,094.

The income tax return of Pou Chen of the years through 2001 have been examined and approved by the tax authority.

The income tax return of Barits Development of the years through 2001 have been examined and approved by the tax authority.

Barits Development's salaries of staffs in foreign country and commission expenses in 1997 were disallowed by the tax authority. As a result, Barits Development was assessed for an additional income tax payment of approximately \$17,200. Barits Development does not agree with the assessment and has appealed for a reexamination. Additional provision has been recorded for such assessment for the year ended December 31, 2001.

The income tax return of Pou Yuen Technology, Global Brands Manufacture, Neso Technology, Song Ming and Wang Yi of the years through 2001 have been examined and approved by the tax authority.

The income tax return of Pou Yi of the years through 2001 (except for 1998) have been examined and approved by the tax authority.

The income tax return of Pro Arch Technology of the years through 2000 have been examined and approved by the tax authority.

At December 31, 2003, the amount and year of expiration of the Company's deductible loss carryforward and investment deduction are as follows by individual company.

	<b>Song Ming</b>	<b>Wang Yi</b>	<b>Pou Yuen Technology</b>		<b>Pro Arch Technology</b>	<b>Global Brands Manufacture</b>	<b>Neso Technology</b>
	<b>Loss Carry-Forward</b>	<b>Loss Carry-Forward</b>	<b>Loss Carry-Forward</b>	<b>Investment tax credits</b>	<b>Loss Carry-Forward</b>	<b>Loss Carry-Forward</b>	<b>Loss Carry-Forward</b>
2004	\$ -	\$ -	\$ 5,800	\$ -	\$ -	\$ -	\$ -
2005	-	-	12,500	-	-	-	-
2006	-	-	27,300	-	-	57,700	7,500
2007	50	1,240	20,000	3,500	53,084	-	28,900
2008	-	-	39,300	-	126,916	-	21,600
<b>Total</b>	<b>\$ 50</b>	<b>\$1,240</b>	<b>\$ 104,900</b>	<b>\$3,500</b>	<b>\$ 180,000</b>	<b>\$ 57,700</b>	<b>\$ 58,000</b>

The information of the integrated income tax system as of December 31, 2003 is as follows:

	<b>Pou Chen</b>	<b>Barits Development</b>	<b>Pou Yuen Technology</b>	<b>Pro Arch Technology</b>	<b>Neso Technology</b>	<b>Global Brands Manufacture</b>	<b>Song Ming</b>	<b>Pou Yi</b>	<b>Wang Yi</b>
IC Balance of Imputation Credit Account	\$ 269,631	\$ 116,792	\$ 1,227	\$ 610	\$ -	\$ 108	\$ 2,123	\$ 10,173	\$ 9,954
Undistributed earnings for the years of 1997 and before	\$ 310,501	\$ 515,118	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,176	\$ -
Undistributed earnings for the years of 1998 and after	\$ 10,359,431	\$ 807,028	\$ 322,240	\$ (1,087,363)	\$ (177,390)	\$ 345,284	\$ 9,867	\$ (47,433)	\$ (24,071)
Expected IC ratio on distributed earnings for the year of 2004	2.60%	16.97%	0.38%	-	-	0.03%	27.18%	-	-
Actual IC ratio on stock dividend distribution for the year of 2003	3.56%	14.22%	Undistributed	Undistributed	Undistributed	Undistributed	Undistributed	Undistributed	Undistributed

The expected IC ratio of the Company for the year of 2004 has considered the income tax payable for 2003.

## 24. EARNINGS PER SHARE

For the years ended December 31, 2003 and 2002, earnings per share before income tax and earnings per share after income tax are as follows:

	<b>2003</b>				
	<b>Income before Tax</b>	<b>Income after Tax</b>	<b>Weighted Average Number of Common Shares Outstanding (In Thousands)</b>	<b>Earnings Per Share</b>	
				<b>Income before Tax</b>	<b>Income after Tax</b>
Basic earnings per share - Net income	\$6,313,446	\$6,348,359	1,784,222	<u>\$ 3.54</u>	<u>\$ 3.56</u>
Effect of dilutive potential common shares:					
Employee stock option	-	-	34,956		
Convertible bonds	<u>639,901</u>	<u>481,473</u>	<u>349,013</u>		
Diluted earnings per share - Net income plus the effect of dilutive potential common shares	<u>\$6,953,347</u>	<u>\$6,829,832</u>	<u>2,168,191</u>	<u>\$ 3.21</u>	<u>\$ 3.15</u>
	<b>2002</b>				
	<b>Income before Tax</b>	<b>Income after Tax</b>	<b>Weighted Average Number of Common Shares Outstanding (In Thousands)</b>	<b>Earnings Per Share</b>	
				<b>Income before Tax</b>	<b>Income after Tax</b>
Basic earnings per share - Net income	\$4,030,639	\$4,198,104	1,763,858	<u>\$ 2.29</u>	<u>\$ 2.38</u>
Effect of dilutive potential common shares - Employee stock option	-	-	<u>19,450</u>		
Diluted earnings per share - Net income plus the effect of dilutive potential common shares	<u>\$4,030,639</u>	<u>\$4,198,104</u>	<u>1,783,308</u>	<u>\$ 2.26</u>	<u>\$ 2.35</u>

If the Company's common shares held by its subsidiaries were not accounted for as treasury stock, net income for the years ended December 31, 2003 and 2002 would be increased by \$42,096 and decreased by \$10,253, respectively. And the pro-forma earnings per share are as follows:

	2003				
	Income before Tax	Income after Tax	Weighted Average Number of Common Shares Outstanding (In Thousands)	Earnings Per Share	
				Income before Tax	Income after Tax
Basic earnings per share - Net income	\$6,355,542	\$6,390,455	1,884,799	<u>\$ 3.37</u>	<u>\$ 3.39</u>
Effect of dilutive potential common shares:					
Employee stock option	-	-	34,956		
Convertible bonds	<u>639,901</u>	<u>481,473</u>	<u>349,013</u>		
Diluted earnings per share - Net income plus the effect of dilutive potential common shares	<u>\$6,995,443</u>	<u>\$6,871,928</u>	<u>2,268,768</u>	<u>\$ 3.08</u>	<u>\$ 3.03</u>
	2002				
	Income before Tax	Income after Tax	Weighted Average Number of Common Shares Outstanding (In Thousands)	Earnings Per Share	
				Income before Tax	Income after Tax
Basic earnings per share - Net income	\$4,020,386	\$4,187,851	1,864,799	<u>\$ 2.16</u>	<u>\$ 2.25</u>
Effect of dilutive potential common shares - Employee stock option	-	-	19,450		
Diluted earnings per share - Net income plus the effect of dilutive potential common shares	<u>\$4,020,386</u>	<u>\$4,187,851</u>	<u>1,884,249</u>	<u>\$ 2.14</u>	<u>\$ 2.22</u>

## 25. GOVERNMENT FINANCIAL AIDS

In 2002, Pou Yuen Technology applied for governmental financial aids with respect to the “High Performance Linux Precision Controller” and “Shoe Mold Digital Design Innovation Technologic Plan” and was approved by Industrial Development Bureau in July and December, 2002. Accordingly, Pou Yuen Technology got two grants of \$24,846 totally from the government in 2003, which were recorded as “non-operating income - others”.

Additionally, Industrial Development Bureau also provided an interest-free loan of \$9,303 to Pou Yun Technology, which was recorded as “long-term debt”. Under such loan agreement, Pou Yuen Technology has to repay the loan by installments in three months, commencing with the new products finished and reimburse 2% of the sales revenue of new products (no more than 30% of the interest-free loan) since the first selling date of the new products.

## 26. RELATED PARTY TRANSACTIONS

Names and relationships of the related parties are as follows:

Name	Relationship
Win Fortune	The Company holds a 100.00% ownership interest
Pou Shine	The Company holds a 99.99% ownership interest
Ming Wang	The Company holds a 100.00% ownership interest
Yun Yang	The Company and Pou Shine hold a 100.00% ownership interest
Yue Yuen	A 49.88%-owned affiliate of Win Fortune and the Company
Pou Yuen Industrial (Holdings) Limited (“Pou Yuen”)	Yue Yuen holds a 100.00% ownership interest
Ming Chi	The Company holds a 99.99% ownership interest
Barits Securities	The Company and its affiliates hold 41.23% ownership interest on and before August 22, 2002.
Rising Developments	The Company holds a 27.00% ownership interest
Pou Yuen Vietnam Enterprise Ltd. (“Pou Yuen Vietnam”)	Pou Yuen holds a 100.00% ownership interest
Technic Holdings Corp. (“Technic”)	Pou Yuen holds a 100.00% ownership interest
Pou Chen Vietnam Enterprise Ltd. (“Pou Chen Vietnam”)	Pou Yuen holds a 100.00% ownership interest
P.T. Nikomas Gemilang (“P.T. Nikomas”)	Pou Yuen holds a 99.38% ownership interest
Ray Systems	The Company holds a 97.82% ownership interest
Pro Kingtex Industrial Co., Ltd. (“Pro Kingtex”)	Yue Yuen indirectly holds a 91.68% ownership interest
Prime Asia Leather Corporation, Taiwan Branch (“Prime Asia”)	A branch of a company, Yue Yuen indirectly holds a 100.00% ownership interest
Long King	Yue Yuen indirectly holds a 48.76% ownership interest
San Fang	Pou Chen is one of the directors
Pou Chien Chemical Co., Ltd. (“Pou Chien Chemical”)	Yue Yuen indirectly holds a 99.94% ownership interest
Fu Tai Co., Ltd. (“Fu Tai”)	Yue Yuen indirectly holds a 100.00% ownership interest
Twinways Investments Ltd. (“Twinways”)	Yue Yuen indirectly holds a 50.00% ownership interest
Mr. Chi-Jui Tsai	Brother of the chairman of Pou Chen
GNR Corporation	Related Party in Substance
ECS Holland	Related Party in Substance
GBM Periphery Technology Co., Ltd. (“GBM Periphery”)	Related Party in Substance

The Company's major transactions with the related parties are summarized as follows:

### Sales

Sales to related parties for the years ended December 31, 2003 and 2002 are summarized as follows:

	2003		2002	
	Amount	Percentage to Net Sales	Amount	Percentage to Net Sales
Pou Yuen	\$ 2,673,935	9	\$ 2,797,932	14
Yue Yuen	2,065,479	7	2,404,798	12
Pou Yuen Vietnam	1,887,045	6	1,500,710	7
P.T. Nikomas	1,063,042	4	1,011,843	5
Pou Chen Vietnam	836,086	3	625,969	3
GBM Periphery	626,984	2	-	-
Prime Asia	618,301	2	750,733	4
Technic	412,478	1	461,335	2
GNR Corporation	506,967	2	-	-
ECS Holland	152,098	1	-	-
Fu Tai	152,454	1	126,782	1
Twinways	104,460	-	97,587	-
Others	<u>703,612</u>	<u>2</u>	<u>550,383</u>	<u>3</u>
Total	<u>\$ 11,802,941</u>	<u>40</u>	<u>\$ 10,328,072</u>	<u>51</u>

The sale price and collection terms for both related parties and unrelated parties are similar.

### Technical Service Income

Technical service income from Yue Yuen for the years ended December 31, 2003 and 2002 amounted to \$313,570 and \$277,737, respectively.

In April 1997, Pou Chen entered into a technical service agreement with Yue Yuen. According to the agreement, the service fees that Pou Chen will receive from Yue Yuen is determined by:

- (a) For products developed by Pou Chen and sold by Yue Yuen, 0.5% of net sales invoice amounts.
- (b) For materials, machines and other goods purchased, inspected and arranged for shipment through Pou Chen from Taiwan suppliers, 1% of supplier's invoice amounts.
- (c) For materials, machines and other goods purchased from Taiwan or overseas directly by Yue Yuen through sourcing services provided by Pou Chen, 0.5% of the supplier's invoice amounts.

## Cost of Sales - Purchases

Purchases from related parties for the years ended December 31, 2003 and 2002 are summarized below:

	2003		2002	
	Amount	Percentage to Net Purchases	Amount	Percentage to Net Purchases
GBM Periphery	\$ 1,147,038	4	\$ -	-
San Fang	1,016,376	4	723,262	5
Yue Yuen	419,759	2	414,689	3
Long King	235,960	1	187,146	1
Pou Yuen	136,782	-	94,748	-
Pou Chien Chemical	4,452	-	147,397	1
Others	<u>965,273</u>	<u>4</u>	<u>157,417</u>	<u>1</u>
Total	<u>\$ 3,925,640</u>	<u>15</u>	<u>\$ 1,724,659</u>	<u>11</u>

The purchase price and payment terms for both related parties and unrelated are similar.

## Notes and Accounts Receivable

Notes and accounts receivable from affiliates at December 31, 2003 and 2002 are summarized as follows:

	2003	2002
Notes receivable:		
Pou Chien Chemical	\$ 1,847	\$ 925
Others	<u>83</u>	<u>-</u>
Total	<u>\$ 1,930</u>	<u>\$ 925</u>
Accounts receivable:		
Pou Yuen	\$ 272,686	\$ 403,404
Yue Yuen	239,453	197,802
Pou Chen Vietnam	143,455	181,390
P.T. Nikomas	142,493	142,874
Pou Yuen Vietnam	140,688	429,653
GBM Periphery	58,537	-
Technic	49,274	54,713
Others	556,637	108,494
Less allowance for doubtful accounts	<u>(407)</u>	<u>(381)</u>
Total	<u>\$ 1,602,816</u>	<u>\$ 1,517,949</u>

## Notes and Accounts Payable

Notes and accounts payable due to affiliates at December 31, 2003 and 2002 are summarized as follows:

	<b>2003</b>	<b>2002</b>
Notes payable:		
San Fang	\$ 73,754	\$ 60,270
Others	<u>602</u>	<u>2,279</u>
 Total	 <u>\$ 74,356</u>	 <u>\$ 62,549</u>
 Accounts payable:		
San Fang	\$ 82,317	\$ 76,920
Yue Yuen	66,981	95,504
GBM Periphery	66,339	-
Pou Shine	57,900	57,900
Pou Yuen	34,812	17,106
Long King	15,739	13,976
Others	<u>116,065</u>	<u>34,665</u>
 Total	 <u>\$440,153</u>	 <u>\$296,071</u>

## Stock Exchange Transaction

Stock exchange transaction with related parties for the years ended December 31, 2003 and 2002 are summarized below:

Related Party	<b>2003</b>	
	Items	Amount
Pou Chien Chemical	Sell 2,000 share of Pro Arch Technology	\$ 22
Pro Kingtex	Sell 7,660,000 share of Pou Jen	20,212
Related Party	<b>2002</b>	
	Items	Amount
Barits Securities	Buy 4,500,000 shares of Barits Securities Investment & Trust	\$76,500
Yun Yang	Buy 434,000 shares of You Fu	4,401
Ray Systems	Buy 2,000,000 shares of Neso Technology	14,000
Pou Chien Chemical	Sell 1,130,000 share of Pro Arch Technology	14,645

## Payment of Credit Guarantees

See Note 28.

## Due to Affiliate

As of December 31, 2003 and 2002, amounts due to affiliate are summarized as follows:

	2003	2002
Due to officer Mr. Chi – Jui Tsai	<u>\$20,873</u>	<u>\$29,173</u>

## 27. PLEDGED PROPERTIES

See Notes 7 and 9.

## 28. COMMITMENTS AND CONTINGENCIES

### Loan Guarantees

As of December 31, 2003, the Company issued certificates of guarantee of \$70,330 for the payment of loans.

### Letters of Credit

Outstanding letters of credit as at December 31, 2003 are as follows (unit : thousand dollars):

New Taiwan Dollars	\$ 754,998
U.S. Dollars	13,050
Japanese Yen	20,050
Euro Dollars	209

At December 31, 2003, the Company has guaranteed the payments of credit of related parties as follows:

Related Parties	Amount
Pou Shine	\$ 620,000
Ming Wang	238,000
Ming Chi	<u>200,000</u>
Total	<u>\$ 1,058,000</u>

## 29. SUBSEQUENT EVENT

On January 15, 2004, the Board of Directors of Pou Chen decided to invest \$136,500 in Techview International Technology Inc. which is mainly engaged in manufacturing and sale of electronic parts.

On January 15, 2004, the Board of Directors of Pou Chen decided to sell the shares of CMK Global Brands Manufacture Limited (a 51% owned subsidiary of Wealthplus) to Success Ocean Investments Limited (a 100% owned subsidiary of Global Brands Manufacture Ltd.) for US\$28,000,000. Pou Chen estimated the unrealized gain of the sale of shares of the subsidiary would be approximately US\$14,252,000.

On February 12, 2004, the Board of Directors of Pou Chen decided to invest \$960,000 in common stock of Elitegroup Computer of 40,000 thousand shares at \$24 per share under private placement.

On March 4, 2004, the Board of Directors of Pou Chen decided to invest US\$11,300,000 in Best Position Investments Ltd., a 100% owned subsidiary of Wealthplus.

### 30. OTHERS

In accordance with Statement of Financial Accounting Standards (“SFAS”) No. 27, “Disclosure of Financial Instruments,” derivative financial instruments of the Company at December 31, 2003 and 2002 are summarized as follows:

#### Management Objective and Strategy of Derivative Financial Instruments

Type	Purpose	Strategy
Interest rate swap contracts	To hedge the risk of change in interest rate from liabilities	Floating rates of underlying liabilities are transferred into fixed rates to lower the effect of interest rate changes to future earnings.
Forward exchange	To hedge foreign currency exposure of recognized assets or liabilities	Derivative financial instruments, which have strong negative correlation with the changes of underlying assets and liabilities fair value, are employed to be a hedge and evaluated periodically.

#### Reporting of Derivative Instruments in the Financial Statements

As of December 31, 2003 and 2002, the net of receivable and payable derived from foreign exchange contracts are summarized as follows:

Items	2003		2002	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Forward exchange contracts receivable	\$ 475,580	\$ 475,580	\$ -	\$ -
Less forward exchange contracts payable	<u>(476,000)</u>	<u>(476,000)</u>	<u>-</u>	<u>-</u>
Payable on forward exchange contracts, net	<u>\$ (420)</u>	<u>\$ (420)</u>	<u>\$ -</u>	<u>\$ -</u>

Interest income and foreign exchange gain of the Company from derivative financial instruments for the years ended December 31, 2003 and 2002 are summarized as follows:

Items	2003	2002	Description
Interest rate swap	\$40,806	\$ (4,242)	Recorded as "Non-operating income - interest income"
Forward exchange	(960)	20,235	Recorded as deduction to "Non-operating expenses (income) - foreign exchange losses (income)"

### Fair Value of Financial Instruments

The fair value of non-derivative financial instruments at December 31, 2003 and 2002 is summarized as follows:

Items	2003		2002	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets:				
Cash and cash equivalents	\$12,330,143	\$12,330,143	\$ 1,648,603	\$ 1,648,603
Short-term investments	5,132,643	6,173,297	3,407,426	3,849,808
Notes receivable	30,585	30,585	66,107	66,107
Notes receivable, affiliates	1,930	1,930	925	925
Accounts receivable	3,745,101	3,745,101	2,271,164	2,271,164
Accounts receivable, affiliates	1,602,816	1,602,816	1,517,949	1,517,949
Other financial assets, current	3,038,189	3,038,189	899,166	899,166
Long-term equity investments	36,250,046	85,954,179	35,162,951	49,201,961
Other financial assets, noncurrent	100,756	100,756	170,305	170,305
Liabilities:				
Short-term borrowings	7,877,803	7,877,803	4,605,802	4,605,802
Short-term bills	339,343	339,343	586,319	586,319
Notes payable	105,141	105,141	227,530	227,530
Notes payable, affiliates	74,356	74,356	62,549	62,549
Accounts payable	2,996,461	2,996,461	1,638,597	1,638,597
Accounts payable, affiliates	440,153	440,153	296,071	296,071
Other payables	2,486,789	2,486,789	1,088,716	1,088,716
Current portion of long-term liabilities	3,487,500	3,487,500	5,124,419	5,124,419
Bonds payable	15,191,000	15,191,000	3,422,937	3,422,937
Long-term borrowings	7,251,707	7,251,707	8,401,624	8,401,624
Other financial liabilities	2,659	2,659	296	296

Approaches and assumptions employed in assessing the fair value of financial instruments are summarized as follows:

Financial instruments classified as current assets and liabilities, cash and cash equivalents, notes receivable, notes receivable from affiliates, accounts receivable, accounts receivable from affiliates, short-term borrowings, short-term bills, notes payable, notes payable to affiliates, accounts payable, accounts payable to affiliates, other payables and other financial instruments, etc., whose expiry dates are short-term, recognize carrying value as fair value.

Short-term investments and long-term equity investments, provided market prices are available, are valued at market prices. Otherwise, available financial or other useful information is employed to compute fair value.

Long-term borrowings are stated at discount value.

Refundable deposits and advance deposits from customers, is stated at discount value.

The fair value of derivative financial instruments is the amount which the Company expects to receive or pay if the Company stops the contracts according to the agreement at the balance-sheet-date. Generally, the amounts included unrealized gain or loss on outstanding contracts and most of them have reference value from financial organizations.

### **31. RECLASSIFICATIONS**

Certain accounts in the 2002 financial statements have been reclassified to conform to the 2003 method of presentation.

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