

**POU CHEN CORPORATION AND
SUBSIDIARIES**

**Consolidated Financial Statements for the
Years Ended December 31, 2004 and 2003 and
Independent Auditors' Report**

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
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, 2004 and 2003, 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 consolidated 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 the Rules Governing the Audit of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Those rules and standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2004 and 2003, and the results of their consolidated operations and their cash flows for the years then ended in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

As described in Note 3 to the consolidated financial statements, effective December 31, 2004, the Company adopted the provision of Statement of Financial Accounting Standards No. 35, "Accounting for Asset Impairment".

March 25, 2005

Notice to Readers

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

For the convenience of readers, the auditors' report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail. Also, as stated in Note 2 to the financial statements, the additional footnote disclosures that are not required under generally accepted accounting principles were not translated into English.

POU CHEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2004 AND 2003

(In Thousands of New Taiwan Dollars)

ASSETS	2004		2003		LIABILITIES AND STOCKHOLDERS' EQUITY	2004		2003	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents (Notes 2 and 4)	\$ 22,640,527	16	\$ 24,912,968	19	Short-term borrowings (Note 12)	\$ 11,856,321	9	\$ 12,215,324	9
Short-term investments (Notes 2 and 5)	4,450,421	3	6,008,084	4	Short-term bills (Note 13)	429,283	-	339,343	-
Notes receivable (Notes 2 and 6)	79,531	-	30,585	-	Notes payable	101,510	-	105,141	-
Accounts receivable (Notes 2 and 7)	14,065,431	10	12,167,653	9	Notes payable, affiliates (Note 25)	96,206	-	73,753	-
Accounts receivable, affiliates (Notes 2, 7 and 25)	2,382,407	2	660,587	1	Accounts payable	7,919,217	6	6,073,762	5
Other financial assets, current	2,435,068	2	4,105,680	3	Accounts payable, affiliates (Note 25)	1,071,445	1	910,023	1
Inventories (Notes 2 and 8)	14,672,992	11	12,950,890	10	Income tax payable (Notes 2 and 23)	90,023	-	130,548	-
Deferred income tax assets, current (Notes 2 and 23)	-	-	270,891	-	Other payables	6,667,273	5	7,299,139	5
Other current assets	2,976,869	2	2,935,507	2	Current portion of long-term liabilities (Note 14)	11,657,995	8	4,053,678	3
Total current assets	63,703,246	46	64,042,845	48	Deferred income tax liability, current (Notes 2 and 23)	18,534	-	-	-
					Other current liabilities	776,398	-	685,761	1
LONG-TERM EQUITY INVESTMENTS (Notes 2 and 9)					Total current liabilities	40,684,205	29	31,886,472	24
Long-term equity investments under equity method	14,381,867	10	9,808,391	7					
Long-term equity investments under cost method	4,081,956	3	2,983,986	2	LONG-TERM LIABILITIES				
Total long-term equity investments	18,463,823	13	12,792,377	9	Bonds payable (Notes 2 and 15)	18,219,567	13	15,191,000	11
					Long-term debt (Note 16)	17,234,306	13	24,029,592	18
OTHER FINANCIAL ASSETS, NONCURRENT					Total long-term liabilities	35,453,873	26	39,220,592	29
	91,642	-	106,894	-					
PROPERTY, PLANT AND EQUIPMENT (Notes 2 and 10)					RESERVE FOR LAND VALUE INCREMENT TAX	136,199	-	276,006	-
Cost	65,211,592	47	63,481,147	47					
Revaluation increment	293,249	-	293,249	-	OTHER LIABILITIES				
	65,504,841	47	63,774,396	47	Accrued pension cost (Notes 2 and 18)	424,045	1	317,444	-
Less accumulated depreciation	(23,157,243)	(17)	(20,708,614)	(15)	Advance deposits from customers	5,158	-	2,659	-
Construction in progress and prepayments on purchase of equipment	3,632,926	3	3,450,955	3	Others (Notes 2 and 19)	290,508	-	270,776	-
Property, plant and equipment, net	45,980,524	33	46,516,737	35	Total other liabilities	719,711	1	590,879	-
					Total liabilities	76,993,988	56	71,973,949	53
INTANGIBLE ASSETS					STOCKHOLDERS' EQUITY				
Deferred pension cost (Notes 2 and 18)	341	-	566	-	Capital stock (Note 20)	20,936,734	15	18,847,994	14
Goodwill (Note 2)	7,957,654	6	8,383,194	6	Capital surplus	2,461,050	2	2,334,161	2
Total intangible assets	7,957,995	6	8,383,760	6	Retained earnings (Note 20)	12,854,470	9	12,880,289	10
					Provision for decline in market value of long-term equity investments (Notes 2 and 9)	(1,203,354)	(1)	(1,198,824)	(1)
OTHER ASSETS (Notes 2 and 11)					Cumulative translation adjustments (Note 2)	(1,220,643)	(1)	1,139,592	1
	2,148,158	2	2,806,884	2	Treasury stock (Notes 2 and 21)	(3,459,328)	(2)	(2,055,319)	(2)
					Minority interest	30,982,471	22	30,727,655	23
					Total stockholders' equity	61,351,400	44	62,675,548	47
TOTAL	\$ 138,345,388	100	\$ 134,649,497	100	TOTAL	\$ 138,345,388	100	\$ 134,649,497	100

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

(With Deloitte & Touche audit report dated March 25, 2005)

POU CHEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME YEARS ENDED DECEMBER 31, 2004 AND 2003 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2004		2003	
	Amount	%	Amount	%
GROSS SALES AND REVENUES EARNED	\$ 125,781,092	100	\$ 106,772,630	100
LESS SALES RETURNS AND ALLOWANCES	(320,434)	-	(317,402)	-
NET SALES AND REVENUES EARNED	125,460,658	100	106,455,228	100
COST OF GOODS SOLD	95,370,287	76	76,890,681	72
GROSS PROFIT BEFORE REALIZED GROSS PROFIT FROM INTER-AFFILIATE TRANSACTIONS	30,090,371	24	29,564,547	28
REALIZED GROSS PROFIT FROM INTER-AFFILIATE TRANSACTIONS	58	-	282	-
GROSS PROFIT	30,090,429	24	29,564,829	28
OPERATING EXPENSES				
Selling expenses	4,413,443	4	4,176,498	4
General and administrative expenses	11,619,228	9	11,369,539	11
Research and development expenses	4,057,595	3	4,084,104	4
Total operating expenses	20,090,266	16	19,630,141	19
INCOME FROM OPERATIONS	10,000,163	8	9,934,688	9
NON-OPERATING INCOME				
Interest income	136,734	-	75,960	-
Long-term equity investment income (Note 9)	713,215	1	293,512	-
Dividend income	243,301	-	63,221	-
Gain on disposal of property, plant and equipment	15,229	-	-	-
Gain on disposal of investments	-	-	2,623,615	3
Foreign exchange gains, net	550,424	1	3,552	-
Rental income	50,265	-	23,071	-
Recovery from devaluation of short-term investments (Note 5)	21,787	-	261,961	-
Gain on reversal of bad debts	24,840	-	-	-
Recovery from inventory devaluation	14,964	-	-	-
Others	456,483	-	522,843	1
Total non-operating income	2,227,242	2	3,867,735	4
NON-OPERATING EXPENSES				
Interest expense	1,119,306	1	1,277,251	1
Other investment losses	40,046	-	14,568	-
Loss on disposal of property, plant and equipment	8,332	-	44,149	-
Loss on disposal of investments	25,532	-	-	-

(Continued)

POU CHEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME YEARS ENDED DECEMBER 31, 2004 AND 2003 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2004		2003	
	Amount	%	Amount	%
Loss on inventory devaluation	\$ -	-	\$ 251,953	1
Loss on idle assets devaluation and depreciation	16,552	-	-	-
Loss on asset impairment (Note 3)	483,135	1	-	-
Others	206,898	-	211,116	-
Total non-operating expenses	<u>1,899,801</u>	<u>2</u>	<u>1,799,037</u>	<u>2</u>
INCOME BEFORE MINORITY INTEREST INCOME AND INCOME TAX	10,327,604	8	12,003,386	11
INCOME TAX (EXPENSE) BENEFIT (Notes 2 and 23)	(252,511)	-	48,545	-
MINORITY INTEREST INCOME	<u>(5,828,755)</u>	<u>(5)</u>	<u>(5,703,572)</u>	<u>(5)</u>
NET INCOME	<u>\$ 4,246,338</u>	<u>3</u>	<u>\$ 6,348,359</u>	<u>6</u>
	Before Minority Interest Income and Income Tax	After Income Tax	Before Minority Interest Income and Income Tax	After Income Tax
EARNINGS PER SHARE (Notes 2 and 24)				
Basic	<u>\$ 5.38</u>	<u>\$ 2.17</u>	<u>\$ 6.07</u>	<u>\$ 3.21</u>
Diluted	<u>\$ 4.56</u>	<u>\$ 1.87</u>	<u>\$ 5.39</u>	<u>\$ 2.85</u>
Pro-forma information, assuming common shares of the Company held by its subsidiaries were not treated as treasury stock:				
NET INCOME	<u>\$ 4,348,396</u>		<u>\$ 6,390,455</u>	
EARNINGS PER SHARE (Notes 2 and 24)				
Basic	<u>\$ 5.05</u>	<u>\$ 2.10</u>	<u>\$ 5.76</u>	<u>\$ 3.06</u>
Diluted	<u>\$ 4.39</u>	<u>\$ 1.83</u>	<u>\$ 5.15</u>	<u>\$ 2.73</u>

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

(With Deloitte & Touche audit report dated March 25, 2005)

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POU CHEN CORPORATION AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2004 AND 2003
(In Thousands of New Taiwan Dollars)**

	Capital Stock	Capital Surplus				Retained Earnings			Other Adjustments of Stockholders' Equity					Total
		Additional Paid-in Capital of Common Stock	Additional Paid-in Capital of Bonds Conversion	Transaction on Treasury Stock	Revaluation Increment on Property, Plant and Equipment	Legal Reserve	Special Reserve	Unappropriated Earnings	Provision for Decline in Market Value of Long-Term Equity Investments	Cumulative Translation Adjustments	Net Loss not Recognized as Pension Cost	Treasury Stock	Minority Interest	
BALANCE, JANUARY 1, 2003	\$ 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)	\$ 27,460,072	\$ 54,075,211
Appropriation of earnings	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Legal reserve	-	-	-	-	-	419,811	-	(419,811)	-	-	-	-	-	-
Bonuses to directors and supervisors	-	-	-	-	-	-	-	(113,349)	-	-	-	-	-	(113,349)
Bonuses to employees	73,299	-	-	-	-	-	-	(73,299)	-	-	-	-	-	-
Stock dividends	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 received by subsidiaries	-	-	-	42,096	-	-	-	-	-	-	-	-	-	42,096
Recovery from decline in market value of long-term equity investments	-	-	-	-	-	-	-	-	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
Decrease in common shares held by subsidiaries	-	-	-	-	-	-	-	-	-	-	-	11,741	-	11,741
Change of minority interest	-	-	-	-	-	-	-	-	-	-	-	-	3,267,583	3,267,583
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)	30,727,655	62,675,548
Appropriation of earnings	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Legal reserve	-	-	-	-	-	634,836	-	(634,836)	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	59,232	(59,232)	-	-	-	-	-	-
Bonuses to directors and supervisors	-	-	-	-	-	-	-	(169,629)	-	-	-	-	-	(169,629)
Bonuses to employees	164,540	-	-	-	-	-	-	(164,540)	-	-	-	-	-	-
Stock dividends	1,884,799	-	-	-	-	-	-	(1,884,799)	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	(1,884,799)	-	-	-	-	-	(1,884,799)
Effect of change of ownership interest in investees	-	-	-	-	-	-	-	(168,390)	-	-	-	-	-	(168,390)
Cash dividends received by subsidiaries	-	-	-	102,058	-	-	-	-	-	-	-	-	-	102,058
Provision of decline in market value of long-term equity investments (Note 9)	-	-	-	-	-	-	-	-	(4,530)	-	-	-	-	(4,530)
Translation adjustments on foreign long-term equity investments	-	-	-	-	-	-	-	-	-	(2,360,235)	-	-	-	(2,360,235)
Execution of employee stock warrants	39,401	24,831	-	-	-	-	-	-	-	-	-	-	-	64,232
Purchase of treasury stock (Note 21)	-	-	-	-	-	-	-	-	-	-	-	(1,404,009)	-	(1,404,009)
Change of minority interest	-	-	-	-	-	-	-	-	-	-	-	-	254,816	254,816
Net income for 2004	-	-	-	-	-	-	-	4,246,338	-	-	-	-	-	4,246,338
BALANCE, DECEMBER 31, 2004	\$ 20,936,734	\$ 792,119	\$ 1,439,788	\$ 144,154	\$ 84,989	\$ 2,845,193	\$ 59,232	\$ 9,950,045	\$ (1,203,354)	\$ (1,220,643)	\$ -	\$ (3,459,328)	\$ 30,982,471	\$ 61,351,400

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

(With Deloitte & Touche audit report dated March 25, 2005)

POU CHEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2004 AND 2003 (In Thousands of New Taiwan Dollars)

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 4,246,338	\$ 6,348,359
Income to minority interests	5,828,755	5,703,572
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	6,321,528	5,484,907
Amortization for the cost of issue Euro convertible bonds	77,054	32,526
Amortization for unrealized interest expense	1,925	4,532
Loss on buying back Euro convertible bonds	12,722	14,623
Loss on (recovery from) short-term investment devaluation	21,787	(261,961)
(Recovery from) loss on doubtful accounts	(24,840)	226,536
(Recovery from) loss on inventory devaluation	(14,964)	251,953
Provision of discarding inventory	6,208	14,250
Investment income recognized under equity method	(713,215)	(293,512)
Cash dividends distributed by investees under equity method	602,930	320,366
Realized gross profit from inter-affiliate transactions	(58)	(282)
Net loss (gain) on disposal of long-term equity investment	51,093	(2,736,547)
Permanent decline loss on long-term equity investment	-	369
Loss on reduction of capital in long-term equity investment	40,046	14,199
Loss on impairment asset	483,135	-
Net (gain) loss on disposal of property, plant and equipment	(6,897)	44,149
Loss on (recovery from) idle asset devaluation	16,552	(11,158)
Net changes in operating assets and liabilities		
Short-term investments	709,736	(1,407,453)
Notes receivable	(52,137)	21,731
Notes receivable, affiliates	-	137,292
Accounts receivable	(1,861,916)	(1,688,827)
Accounts receivable, affiliates	(1,729,651)	193,527
Other financial assets, current	(1,721,820)	(2,490,695)
Inventories	(1,684,452)	(1,727,522)
Deferred income tax asset, current	270,891	(143,307)
Other current assets	(37,423)	(206,377)
Deferred pension cost	225	-
Income tax prepayment	(3,957)	54,496
Deferred income tax assets, noncurrent	(33,516)	44,685
Other assets	(1,724)	(10,273)
Notes payable	(3,631)	(110,415)
Notes payable, affiliates	22,453	24,237
Accounts payable	1,845,455	842,498
Accounts payable, affiliates	161,422	(653,896)
Income tax payable	(40,525)	(30,351)
Other payables	(654,721)	711,869
Deferred income tax liability, current	18,534	-

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POU CHEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2004 AND 2003 (In Thousands of New Taiwan Dollars)

	2004	2003
Other current liabilities	\$ 90,637	\$ 495,182
Foreign exchange adjustment on Euro convertible bonds	(916,778)	(83,922)
Interest expense compensation payable	274,318	282,162
Reserve for retirement plan	106,601	104,520
Other liabilities	(1,064)	(12,788)
Minority interests	<u>(5,573,939)</u>	<u>(2,435,989)</u>
Net cash provided by operating activities	<u>6,133,117</u>	<u>7,067,265</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in long-term equity investments	(4,248,668)	(4,521,450)
Acquisition of property, plant and equipment	(8,122,055)	(11,134,515)
Proceeds from disposal of property, plant and equipment	1,326,064	611,784
Decrease in restricted assets	-	68,680
Decrease (increase) in refundable deposits	19,209	(4,038)
Increase in goodwill	(1,688,750)	(174,981)
Payments for deferred charges	<u>(248,299)</u>	<u>(269,786)</u>
Net cash used in investing activities	<u>(12,962,499)</u>	<u>(15,424,306)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
(Decrease) increase in short-term borrowings	(359,003)	2,762,649
Increase (decrease) in short-term bills	89,940	(246,977)
Issuance of bonds	9,947,522	15,188,000
Redemption of Euro convertible bonds	(254,293)	(152,193)
Bonuses to directors and supervisors, as a distribution of retained earnings	(169,629)	(113,349)
Cash dividends	(1,826,957)	(793,121)
Increase in long-term debt	809,031	4,225,316
Decrease in lease payable	(9,921)	(4,573)
Increase in advance deposits from customers	2,499	2,363
Execution of employee stock warrants	64,232	-
Treasury stock transferred to employees	-	439,400
Acquisition of treasury stock	<u>(1,404,009)</u>	<u>-</u>
Net cash provided by financing activities	<u>6,889,412</u>	<u>21,307,515</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH	<u>(2,332,471)</u>	<u>(484,802)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(2,272,441)	12,465,672
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>24,912,968</u>	<u>12,447,296</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 22,640,527</u>	<u>\$ 24,912,968</u>

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POU CHEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2004 AND 2003 (In Thousands of New Taiwan Dollars)

	2004	2003
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year		
Interests (excluding amounts capitalized)	\$ 1,086,135	\$ 1,110,324
Income tax	<u>\$ 288,310</u>	<u>\$ 103,250</u>
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Long-term equity investment transfer into short-term investment	<u>\$ 2,514</u>	<u>\$ -</u>
(Provision for) recovery from devaluation of long-term equity investment	<u>\$ (4,530)</u>	<u>\$ 38,579</u>
Effect of change of ownership interest in investees	<u>\$ (168,390)</u>	<u>\$ (124,657)</u>
Transfer of current portion of long-term liabilities to current liabilities	<u>\$ 11,657,995</u>	<u>\$ 4,053,678</u>
Cash dividends received by subsidiaries	<u>\$ 102,058</u>	<u>\$ 42,096</u>
Translation adjustments on foreign long-term investments	<u>\$ (2,360,235)</u>	<u>\$ (563,527)</u>
Adjustment of retained earnings due to transferring of treasury stock to employees	<u>\$ -</u>	<u>\$ (143,082)</u>
Recovery from net loss not recognized as pension cost	<u>\$ -</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	\$ 7,989,968	\$ 11,276,937
Add payables for acquisition of property, plant and equipment at beginning of year	209,259	66,837
Less payables for acquisition of property, plant and equipment at end of year	<u>(77,172)</u>	<u>(209,259)</u>
Cash paid during the year for acquisition of property, plant and equipment	<u>\$ 8,122,055</u>	<u>\$ 11,134,515</u>

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

(With Deloitte & Touche audit report dated March 25, 2005)

(Concluded)

POU CHEN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2004 AND 2003

(In Thousands of New Taiwan Dollars, Except for Per Share Data and As Stated Otherwise)

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 business operation.

The Company invested in Yue Yuen Industrial (Holdings) Limited and other footwear related companies through Wealthplus Holdings Limited.

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

Barits Development Corporation (“Barits Development”), a corporation incorporated in the ROC 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. As at December 31, 2004, Barits Development has an outstanding common stock of \$913,000 thousand.

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. As at December 31, 2004, Wealthplus has an outstanding common stock of US\$45,937 thousand.

Pou Yuen Technology Co., Ltd. (“Pou Yuen Technology”), a corporation incorporated in the ROC 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. As at December 31, 2004, Pou Yuen Technology has an outstanding common stock of \$600,000 thousand.

Pro Arch Technology Inc. (“Pro Arch Technology”), a corporation incorporated in the ROC and a 58.55%-owned subsidiary of Pou Chen, is engaged in manufacturing and sale of computer peripheral equipment and related spare parts. As at December 31, 2004, Pro Arch Technology has an outstanding common stock of \$464,800 thousand.

Global Brands Manufacture Ltd. (“Global Brands Manufacture”), a corporation incorporated in the ROC and a 54.15%-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 stock has been traded on the Over-the-Counter Exchange in Taiwan since February 1991. As at December 31, 2004, Global Brands Manufacture has an outstanding common stock of \$1,541,019 thousand.

As at December 31, 2004 and 2003, there were 269,405 and 251,754 employees in Pou Chen and subsidiaries referred above, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements have been prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the ROC. Under these guidelines and principles, the Company is required to make certain estimates and assumptions that could affect the amounts of allowance for doubtful accounts, loss on inventory devaluation, depreciation expenses, pension expenses, etc. Actual results could differ from these estimates.

For the convenience of readers, the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the ROC. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language financial statements shall prevail. However, the accompanying financial statements do not include English translation of the additional footnote disclosures that are not required under generally accepted accounting principles but are required by the Securities and Futures Bureau (SFB, formerly the “Securities and Futures Commission” before July 1, 2004) for their oversight purposes.

The Company and subsidiaries’ 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, Tetor, Victorway, Best Standard, Crown Master and Yue Yuen], Pou Yuen Technology [including Kleine Developments Ltd. (“Kleine”)], Pro Arch Technology, and Global Brands Manufacture (including Up First, Dynamic Skyline and Success Ocean) (collectively, the “Company”). All significant intercompany balances and transactions have been eliminated upon consolidation. Minority interests shown in the accompanying consolidated 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., 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., and Yun Yang Investments Ltd., as permitted under the accounting principles generally accepted in the ROC, were not consolidated herein because neither total assets nor total sales of each individual company reaches 10% of Pou Chen’s total assets or total sales, respectively, neither the aggregate assets nor sales of those companies reach 30% of Pou Chen’s total assets or total sales, respectively.

For comparative purposes, the consolidated financial statements of 2003 have been restated to include Yue Yuen in which the Company effectively holds over 50% ownership through Wealthplus, Win Fortune, and Top Scope in 2004 and exclude Neso Technology as the ownership was sold in 2004.

Classification of Current and Noncurrent Assets and Liabilities

Unrestricted cash or cash equivalents and assets expected to be converted into cash, or consumed in a year are recorded as current assets. Property, plant and equipment, intangible assets and other assets not being recorded as current assets are recorded as non-current assets. Liabilities expected to be liquidated in a year are recorded as current liabilities. Liabilities not being recorded as current liabilities are recorded as non-current 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 interest rate fluctuations.

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, they are instead reflected as an increase in the number of shares held.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is provided on the basis of 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 determined using the weighted-average method. Market values of raw materials are determined by averaging the unit purchase prices during the last month, while those of merchandise, finished goods and work-in-process are determined at 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 as construction in progress, whereas a credit balance should be recorded as 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 equity method. When equity method of accounting is adopted, purchased goodwill is amortized over a ten-year period. Effective December 31, 2004, impairment loss of purchased goodwill will be evaluated periodically, in accordance with the Statement of Financial Accounting Standards ("SFAS") No. 35, "Accounting for Asset Impairment".

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 will be debited for the remaining amount.

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 to be 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, Equipment and Leased Asset

Property, plant, equipment and leased assets 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:

Items	Estimated Useful Lives
Buildings and improvements	15~55 years
Machinery and equipment	2~13 years
Transportation equipment	3~5 years
Furniture, fixtures and office equipment	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.

Impairment loss is recognized immediately for any significant decline in the value of property, plant, equipment and leased asset. If the loss is reversed, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount should not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is immediately recognized as a gain.

If property, plant, equipment and leased asset revaluation based on certain regulations shows impairment loss, this loss should be recognized as a reduction of the capital surplus - property, plant and equipment revaluation increment. If the impairment loss is greater than this revaluation increment, the difference is recognized as a loss. A reversal of an impairment loss on a revalued asset is recognized as the addition to the revaluation increment. However, to the extent that a reversal of an impairment loss on the same revalued asset was previously recognized as loss, a reversal of the impairment loss on property, plant, equipment and leased asset revaluation is recognized as a gain.

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 sale-leaseback. The amortization of the unrealized gain or loss on sale-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, contain put right. Each holder has the right, at the holder's option, to request Pou Chen to repurchase all or any portion of such holder's bonds, which is US\$1,000 (dollars) 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, whichever 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 its 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 of ROC.

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 require that pension expense shall be computed at actuarial basis.

Deferred Credits

Deferred credits represent 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 at the exchange rates prevailing on the respective transaction date. Gains or losses resulting from the application of prevailing exchange rates 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 balance sheet exchange rates, and resulting gains or losses are credited or charged to current income or current expenses.

Forward exchange contract is recorded at the exchange rate as of the contract date if the contract is acquired for the hedging purpose. The difference between the current spot rate at the contract date and the forward rate is amortized over the life of the 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 under 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 preceding 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 stocks 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 SFAS No. 30, “Accounting for Treasury Stock”.

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 for the remaining amount. 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 for the remaining amount.

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 requires 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 provided for deferred tax assets with uncertain realizability. 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 issuance, 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. REASON AND EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE

Effective December 31, 2004, the Company adopted the provisions of Statement Financial Accounting Standards No. 35, "Accounting for Asset Impairment". As a result, the book value of long-term equity investment under equity method has decreased by \$560,403 thousand for impairment loss as at December 31, 2004; asset impairment loss amounted to \$483,135 thousand was recognized for the year ended December 31, 2004 while retained earnings was reduced by \$77,268 thousand as at December 31, 2004.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at December 31, 2004 and 2003 consist of the following :

	2004	2003
Cash on hand	\$ 69,188	\$ 38,950
Checking accounts	63,645	9,364
Savings accounts	2,970,962	500,365
Foreign-currency savings deposit	19,165,002	24,189,648
Time deposits	<u>371,730</u>	<u>174,641</u>
	<u>\$ 22,640,527</u>	<u>\$ 24,912,968</u>

The time deposits amounted to \$44,252 thousand and \$55,244 thousand, 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 as at December 31, 2004 and 2003, respectively.

5. SHORT-TERM INVESTMENTS

The carrying value and market value of short-term investments as at December 31, 2004 and 2003 are summarized as follows:

	2004		2003	
	Carrying Value	Market Value	Carrying Value	Market Value
Marketable equity securities	\$ 2,182,973	\$ 3,431,967	\$ 3,530,176	\$ 4,629,657
Foreign marketable equity securities	63,514	18,265	128,976	58,534
Open-ended mutual fund	<u>2,249,183</u>	<u>2,368,582</u>	<u>2,419,373</u>	<u>2,360,547</u>
	4,495,670	5,818,814	6,078,525	7,048,738
Less valuation allowance	<u>(45,249)</u>	<u>-</u>	<u>(70,441)</u>	<u>-</u>
	<u>\$ 4,450,421</u>	<u>\$ 5,818,814</u>	<u>\$ 6,008,084</u>	<u>\$ 7,048,738</u>

Pou Chen's, 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 on December 31.

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

Valuation allowance of \$45,249 thousand (including cumulative translation adjustments \$(3,405) thousand) was provided as at December 31, 2004. After considering the valuation allowance balance of \$70,441 thousand as at December 31, 2003, the recovery amount of \$21,787 thousand was included in recovery from devaluation of short-term investments.

6. NOTES RECEIVABLE

Notes receivable as at December 31, 2004 and 2003 consist of the following:

	2004	2003
Notes receivable	\$ 82,792	\$ 30,655
Less allowance for doubtful accounts	<u>(3,261)</u>	<u>(70)</u>
	<u>\$ 79,531</u>	<u>\$ 30,585</u>

7. ACCOUNTS RECEIVABLE

Accounts receivable as at December 31, 2004 and 2003 consist of the following:

	2004	2003
Accounts receivable	\$ 14,814,255	\$ 13,015,468
Less allowance for doubtful accounts	<u>(748,824)</u>	<u>(847,815)</u>
	<u>14,065,431</u>	<u>12,167,653</u>
Accounts receivable, affiliates (Note 25)	2,390,645	660,994
Less allowance for doubtful accounts	<u>(8,238)</u>	<u>(407)</u>
	<u>2,382,407</u>	<u>660,587</u>
	<u><u>\$ 16,447,838</u></u>	<u><u>\$ 12,828,240</u></u>

8. INVENTORIES

Inventories as at December 31, 2004 and 2003 consist of the following:

	2004	2003
Raw materials and supplies	\$ 8,671,513	\$ 7,894,628
Work-in-process	2,256,599	2,398,726
Finished goods	4,490,979	3,474,367
Merchandise	15,665	12,306
Goods in transit	61,906	18,520
Land for development	140,248	140,248
Land, buildings and improvements for sale	<u>135,809</u>	<u>155,165</u>
	15,772,719	14,093,960
Less valuation allowance	<u>(1,099,727)</u>	<u>(1,143,070)</u>
	<u><u>\$ 14,672,992</u></u>	<u><u>\$ 12,950,890</u></u>

As at December 31, 2004 and 2003, insurance coverage for inventories amounted to \$14,179,287 thousand and \$10,289,513 thousand, respectively, and construction insurance coverage for land, buildings and improvements for sale amounted to \$2,302,040 thousand and \$2,383,440 thousand, respectively.

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

As at December 31, 2003, buildings and improvements for sale amounted to \$258,235 thousand were pledged as collateral to secure short-term bills (see Note 26).

9. LONG-TERM EQUITY INVESTMENTS

Long-term equity investments as at December 31, 2004 and 2003 are comprised of the following:

	2004			2003	
	Original Cost	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage
Accounted for under equity method					
Win Fortune	\$ 3,230	\$ 651,272	100.00	\$ 614,771	100.00
Ming Wang	427,291	1	100.00	1	100.00
Tse Throw	58,000	27,761	100.00	25,435	100.00
Yue Yuen Entertainment	100,000	93,398	100.00	98,505	100.00
Bright Phoenix Investments Ltd.	341,441	317,727	100.00	-	100.00
Cheng Cheng Enterprise Co., Ltd.	444,394	301,230	100.00	-	100.00
Pro Arch Technology (BVI) Inc.	41,700	-	100.00	-	100.00
Ming Shun	200,000	271,528	100.00	240,376	99.99
Pou Shine	195,000	443,951	99.99	407,186	99.99
Ming Chi	240,000	1	99.99	1	99.99
Pan Asia Insurance Consulting	3,000	3,241	99.98	3,328	99.98
Yun Yang	101,791	97,174	91.15	101,312	91.15
Diverse Consultants Ltd.	2	5,064	65.00	64,235	65.00
Rising Developments Ltd.	4,916	228,760	50.00	352,014	50.00
Haicheng Information Technology Co., Ltd.	190,260	119,669	50.00	187,955	60.00
Silver Island Trading Ltd.	2	2	50.00	-	-
Best Focus Holdings Ltd.	317,100	251,194	50.00	245,963	50.00
Blessland Enterprises Limited	25,615	79,833	50.00	98,209	50.00
Cohen Enterprises Inc.	153,339	398,957	50.00	365,218	50.00
Coprospects Holdings Ltd.	9,338	6,989	50.00	6,618	50.00
Envopro Technology Limited	38,845	24,844	50.00	32,004	50.00
Ever Atlantic Investments Limited	208,924	176,161	50.00	-	-
Great Skill Industrial Limited	33,391	53,055	50.00	10,647	50.00
High Style Investments Limited	25,368	30,525	50.00	43,447	50.00
Hua Jian Industrial Holding Co., Ltd.	734,744	948,311	50.00	582,344	50.00
Ka Yuen Rubber Factory Limited	76,832	322,364	50.00	279,373	50.00
Optiyield Industrial Limited	35	35	50.00	19	50.00
Pou Thane Enterprise Co., Ltd.	5,474	9,770	50.00	13,751	50.00
PYGF Co., Ltd.	31,710	46,221	50.00	53,067	50.00
Topmost Industries Limited	25,851	78,257	50.00	75,129	50.00
Twinways Investments Limited	86,273	170,401	50.00	176,149	50.00
Up Front Technology Ltd.	158,550	158,550	50.00	169,850	50.00
Well Success Investment Limited	250,679	735,544	50.00	584,909	50.00
Yuen Thai Industrial Company Limited	20,421	4,589	50.00	-	-
Bigfoot Limited	174,554	205,654	48.76	231,094	48.76
Enthroned Group Limited	155	155	48.76	166	48.76
Original Designs Developments Limited	39,265	109,862	47.00	119,968	47.00
Supplyline Ltd.	103,116	103,096	46.12	110,983	46.12
Venture Well Holdings Ltd.	298,328	291,963	42.46	-	-
Partner Alliance Limited	3,781	4,379	41.25	3,527	41.25
Willpower Industries Limited	63,420	63,296	40.00	-	-
Just Lucky Investments Limited	43,252	44,692	38.30	42,620	38.30
Nan Pao Resins (Holdings) Limited	69,967	264,982	35.00	279,804	35.00
All Saints Enterprises Limited	77,436	82,756	37.00	72,107	37.00
Rising Sun Associates Limited	35,198	64,790	37.00	63,594	37.00
Pine Wood Industrial Limited	78,609	78,725	37.00	84,336	37.00
Natural Options Limited	10,897	20,679	38.30	28,182	38.30
Precise Zone Investments Limited	23,308	48,921	35.00	-	-
Global Biotech Inc.	40,811	1,352	33.00	3,018	33.00
San Fang	1,868,503	1,862,184	30.97	-	-
Eagle Nice (Int'l) Holdings Ltd.	453,017	488,167	30.88	-	-
Asia Air Tech Industrial (Pte) Ltd.	80,861	87,762	30.00	94,287	30.00
Prosperous Industrial (Holdings) Ltd.	570,780	584,764	30.00	-	-
Talent Pool Management Ltd.	-	1,407	30.00	-	-
Prolik Properties Management Ltd.	2,266	3,550	30.00	1,923	30.00

	2004			2003	
	Original Cost	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage
Central Honour Limited	5,074	4,237	26.00	-	-
Elitegroup Computer	5,077,706	4,391,250	24.59	3,159,992	13.57
Pou Liang	-	-	-	29,962	100.00
Neso Technology	-	-	-	115,817	77.38
VAC Corporation	-	-	-	40,995	61.54
Formosa Shinn Yuan Aluminium	-	-	-	58,678	35.00
Great Team Backend Foundry Inc.	-	-	-	88,962	31.75
Shian Yu	-	-	-	1	27.60
Global Biotech	-	-	-	118,966	27.32
You Fu	-	-	-	199,077	19.53
Cap Design	-	-	-	28,516	50.00
Less allowance for impairment loss	-	(483,135)		-	
	<u>13,673,820</u>	<u>14,381,867</u>		<u>9,808,391</u>	
Accounted for under cost method					
Techview International	136,500	136,500	19.50	-	-
Chiang Yei	8,153	8,153	15.27	8,153	15.27
Luen Thai Holdings Ltd.	1,083,750	1,083,750	9.90	-	-
Ardentec	268,768	268,768	9.13	325,848	14.37
Golden Brands Developments Ltd.	708,338	708,338	7.52	758,821	12.76
Optrox	28,000	-	5.40	-	5.40
Taiwan Paiho	131,386	131,386	4.02	-	-
L&C Aluminum	1,200	831	3.33	831	3.33
EIC Enterprise Ltd. - preferred stock	61,369	61,369	1.78	65,743	2.67
Media Reality	351	351	1.64	46,800	4.38
Shei Yue	320	320	1.07	320	1.07
Hwiang Shei	200	-	1.00	-	1.00
Quanta Display	836,514	836,514	0.90	-	-
View Sonic Corporation	96,231	96,231	0.43	96,231	0.43
Da Tung Ho	-	-	-	39,069	18.18
Digicube Technology	-	-	-	89,500	17.04
Barits Securities Investment & Trust	-	-	-	76,500	15.00
Central and South America	-	-	-	25,000	7.14
Toong Ya	-	-	-	-	6.88
Power World	-	-	-	50,000	5.68
San Fang	-	-	-	383,453	7.43
Bizlink Holding Inc.	-	-	-	114,034	3.07
Kao Ping	-	-	-	42,300	3.00
Behavior Tech	-	-	-	368,164	1.58
Chi-Cheng	-	-	-	33,675	1.35
Orbita Diversified Strategy Note	15,855	15,855	-	16,985	-
Orbita Capital Return Strategy Ltd.	16,215	16,215	-	50,955	-
Orbita Global Opportunities Strategy Ltd.	15,855	15,855	-	-	-
Orbita Asian Growth Strategy Capital Fund	15,855	15,855	-	-	-
Asia Pacific Genesis Venture Capital Fund	47,565	47,565	-	-	-
Eagle Nice (Int'l) Holdings Ltd. - convertible notes	842,783	842,783	-	-	-
Biam Umbrella Fund	-	-	-	604,733	9.91
Precise Zone Investments Ltd.	-	-	-	7,364	15.00
Less valuation allowance	-	(204,683)		(220,493)	
	<u>4,315,208</u>	<u>4,081,956</u>		<u>2,983,986</u>	
	<u>\$ 17,989,028</u>	<u>\$ 18,463,823</u>		<u>\$ 12,792,377</u>	

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

	2004	2003
Win Fortune	\$ 80,469	\$ 85,632
Ming Wang	21,840	(29,515)
Tse Throw	3,173	1,803
Yue Yuen Entertainment	(5,106)	(1,495)
Cheng Cheng Enterprise	190	-
Pro Arch Technology (BVI) Inc.	(59,006)	(43,490)
Ming Shun	32,749	7,515
Pan Shine	72,654	(13,176)
Ming Chi	(6,411)	(4,428)
Pan Asia Insurance Consulting	(87)	32
Yun Yang	1,244	1,187
Chifley Tower Limited	-	3,363
Diverse Consultants Limited	7,385	(6)
Rising Developments Limited	26,289	107,529
Haicheng Information Technology Co., Ltd.	(62,518)	(15,667)
Best Focus Holdings Ltd.	22,943	(59,410)
Blessland Enterprises Limited	52	16,194
Cohen Enterprises Inc.	34,907	48,711
Coprospects Holdings Ltd.	(1,478)	1,482
Envopro Technology Limited	(5,344)	(5,931)
Ever Atlantic Investments Limited	(34,808)	-
Great Skill Industrial Limited	20,541	361
High Style Investments Limited	(551)	12,855
Hua Jian Industrial Holding Co., Ltd.	212,228	65,743
Ka Yuen Rubber Factory Limited	99,618	67,682
Pou Thane Enterprise Co., Ltd.	1,697	4,913
PYGF Co., Ltd.	3,215	18,561
Topmost Industries Limited	29,353	26,851
Twinways Investments Limited	53,509	60,433
Well Success Investment Limited	267,064	188,644
Yuen Thai Industrial Company Limited	(16,821)	-
Bigfoot Limited	13,479	16,131
Original Designs Developments Limited	36,182	50,687
Supplyline Ltd.	-	(2,656)
Venture Well Holdings Ltd.	(7,047)	-
Partner Alliance Limited	347	37
Willpower Industries Limited	(132)	-
Just Lucky Investments Limited	7,279	(4,448)
Nan Pao Resins (Holdings) Limited	56,029	39,604
All Saints Enterprises Limited	16,411	11,480
Rising Sun Associates Limited	15,114	22,366
Natural Options Limited	9,188	13,890
Precise Zone Investments Limited	33,344	-
Global Biotech Inc.	(1,557)	(17,468)
Bright Phoenix Investments Ltd.	327	-
San Fang	(6,714)	-
SMEC Media & Entertainment	-	(1,407)
Cyber Technology (Sichuan)	-	(18,489)
Eagle Nice (Int'l) Holdings Ltd.	53,219	-
Asia Air Tech Industrial (Pte) Ltd.	(269)	8,032

	2004	2003
Prosperous Industrial (Holdings) Ltd.	14,857	-
Pou Liang	(4)	(38)
Prolik Properties Management Ltd.	674	382
Central Honour Limited	(888)	-
Elitegroup Computer	(294,635)	(127,188)
Neso Technology	(18,850)	(142,420)
VAC Corporation	(10,165)	(51,061)
Formosa Shinn Yuan Aluminium	1,456	447
Great Team Backend Foundry Inc.	(6,267)	(30,056)
Global Biotech	(3,050)	(10,961)
You Fu	(1,549)	1,747
Cap Design	5,952	12,369
Advantage Logistics Limited	-	808
Selangor Gold Limited	-	18,673
Optiwork Inc.	-	(40,610)
Talent Pool Management Ltd.	1,494	-
Ray Systems	-	(2,712)
	<u>\$ 713,215</u>	<u>\$ 293,512</u>

In March 2004, the Board of Directors of the Company resolved to dispose the following long-term equity investments to non-related party: Pou Liang Technology Co., Ltd., Neso Technology Inc., VAC Corporation, Formosa Shinn Yuan Aluminium Co., Ltd., Global Biotech Inc., You Fu Investment Co., Ltd., Da Tung Ho Semiconductor Co., Ltd., Digicube Technology Co., Ltd., Barits Securities Investment & Trust Co., Ltd., Ardentec Co., Ltd., Central and South America Development Co., Ltd., Power World Fund Inc., San Fang Chemical Industry Co., Ltd. (sold on open market), Toong Ya International Technology Co., Ltd., Kao Ping Taiwan Corp., Behavior Tech Computer Corp. (sold on open market), and Chi-Cheng Enterprise Co., Ltd. All proceeds from such disposal of long-term equity investments amounted to \$1,274,746 thousand. The Company recognized \$192,739 thousand loss on disposal of such investments for 2004.

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, 2004 and 2003.

Pou Shine Investments Ltd. (“Pou Shine”), Ming Chi Investments Ltd. (“Ming Chi”), Ming Shun Investments Ltd. (“Ming Shun”) and Ming Wang Investment Ltd. (“Ming Wang”) were established in June 1990, April 1998, and June 1998 and September 1996, respectively, in accordance with the Company Law of the ROC. At December 31, 2003 the outstanding capital stock of the investees are \$498,810 thousand, \$240,000 thousand, \$200,000 thousand and \$427,291 thousand, respectively. They are all primarily engaged in investing activities. Effective from January 1, 2002, common shares of the Company held by its subsidiaries are treated as treasury stock. As the book value of long-term equity investment in Ming Chi and Ming Wang became negative, the Company reclassified the negative balance of \$212,068 thousand to “other liabilities - others”, except retaining \$1 thousand in the book value of long-term equity investment. (See Note 19)

Yue Yuen Entertainment Development Co., Ltd. (“Yue Yuen Entertainment”) was established in July 2003, with an outstanding common stock of \$100,000 thousand at par value \$10 per share at December 31, 2004. It is primarily engaged in investing and developing of real estate.

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

Name	Core Operating Item	Location
Diverse Consultants Limited	Consulting service about construction business	British Virgin Islands
Global Biotech Inc.	Research of hereditary engineering and developing biological technology	British Virgin Islands
Rising Developments Limited	Trading of diesel / petroleum	British Virgin Islands
Haicheng Information Technology Co., Ltd.	Developing and manufacture of software	Shanghai City
Sliver Island Trading Ltd.	Sale of electronic parts	British Virgin Islands
Venture Well Holdings Ltd.	Investment holding	British Virgin Islands
All Saints Enterprises Limited	Investment holding	British Virgin Islands
Asia Air Tech Industrial (Pte) Ltd.	Investment holding	Singapore
Bigfoot Limited	Cloth product trading / cloth dyeing & processing cloth shoe material binding	British Virgin Islands
Eagle Nice (Int'l) Holdings Ltd.	Investment holding	Cayman Islands
Enthroned Group Limited	Investment holding	British Virgin Islands
Just Lucky Investments Limited	Properties holding	British Virgin Islands
Nan Pao Resins (Holdings) Limited	Investment holding	British Virgin Islands
Natural Options Limited	Manufacture of foamed cotton	British Virgin Islands
Original Designs Developments Limited	Manufacture of shoe lasts	British Virgin Islands
Pine Wood Industrial Limited	Investment holding	Cayman Islands
Prosperous Industrial (Holdings) Ltd.	Investment holding	British Kay Islands
Rising Sun Associates Limited	Investment holding	British Virgin Islands
Supplyline Ltd.	Provision of logistic service	Hong Kong
Talent Pool Management Ltd.	Provision of school service	British Virgin Islands
Best Focus Holdings Ltd.	Investment holding	British Virgin Islands
Blessland Enterprises Limited	Investment holding	British Virgin Islands
Central Honour Limited	Investment holding	British Virgin Islands
Cohen Enterprises Inc.	Manufacture and sales of leather products for shoes	British Virgin Islands
Coprospects Holdings Ltd.	Investment holding	British Virgin Islands
Envopro Technology Limited	Manufacture glues, plastics, and chemical products	British Virgin Islands
Ever Atlantic Investments Limited	Manufacture of apparel	British Virgin Islands
Great Skill Industrial Limited	Investment holding	British Virgin Islands
High Style Investments Limited	Manufacture halftone, printing ink	British Virgin Islands
Hua Jian Industrial Holding Co., Ltd.	Manufacture and sale of ladies shoes	British Virgin Islands

Name	Core Operating Item	Location
Ka Yuen Rubber Factory Limited	Manufacture and sale of rubber soles	British Virgin Islands
Optiyield Industrial Limited	Investment holding	British Virgin Islands
Partner Alliance Limited	Sale of tobacco and liquor	British Virgin Islands
Pou Thane Enterprise Co., Ltd.	Wholesale of common chemical material	British Virgin Islands
Precise Zone Investments Limited	Manufacture and processing of ironware and plastic products	British Virgin Islands
PYGF Co., Ltd.	Processing rubber	British Virgin Islands
Topmost Industries Limited	Manufacture of counters for shoes	British Virgin Islands
Twinways Investments Limited	Manufacture of injection moulds for shoe components	British Virgin Islands
Up Front Technology Ltd.	Investment holding	British Virgin Islands
Well Success Investment Limited	Investment holding	British Virgin Islands
Willpower Industries Limited	Investment holding	British Virgin Islands
Yuen Thai Industrial Company Limited	Manufacture and trading of sports and active wear	Hong Kong
Prolik Properties Management Ltd.	Properties management	British Virgin Islands

The fiscal year end of the above-listed companies is September 30. In 2004 and 2003, 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, 2004 and 2003, as permitted under the accounting principles generally accepted in the ROC.

Bright Phoenix Investments Ltd. ("Bright Phoenix") was incorporated in the British Virgin Islands in September 2004, with an outstanding capital stock of US\$10,010 thousand as at December 31, 2004. Bright Phoenix is primarily engaged in investments in electronic business.

Cheng Cheng Enterprise Co., Ltd. ("Cheng Cheng") was incorporated in August 2004, with an outstanding capital stock of \$240,000 thousand as at December 31, 2004. Cheng Cheng is primarily engaged in real estate renting.

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 February 2004, Elitegroup Computer issued additional \$1,200,000 thousand capital stock with \$1,680,000 thousand additional paid-in capital, of which \$960,000 thousand were subscribed by the Company, the Company's ownership was increased to 24.59%. It has an outstanding common stock of \$7,326,691 thousand as at December 31, 2004.

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

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 \$2,504,082 thousand as at December 31, 2004.

Ardentech Corp. (“Ardentech”) is engaged in manufacturing and sale of electronic parts. The shares of Ardentech are listed on the Emerging Over-The-Counter Stock Exchange of Taiwan. It has an outstanding common stock of \$2,745,023 thousand at par value \$10 per share as at December 31, 2004.

Techview International Technology Inc. (“Techview International”) is engaged in manufacturing and sale electronic parts. It has an outstanding common stock of \$700,000 thousand at par value \$10 per share as at December 31, 2004.

Luen Thai Holdings Ltd. is engaged in manufacturing ready-made garments. The shares of Luen Thai Holdings Ltd. are listed on the Hong Kong Exchanges and Clearing Limited. It has an outstanding common stock of US\$4,322 thousand.

In accordance with the Stock Exchange Law, the shares held by the Company under private placement are not allowed to trade in the open market in the following three years of issuance.

The movement of provision for decline in market value of long-term equity investment for the year ended December 31, 2004 is as follows:

	Beginning Balance	Provision (Reverse)	Ending Balance
The Company	\$ 220,493	\$ (21,973)	\$ 198,520
Investees accounted for by equity method	<u>978,331</u>	<u>26,503</u>	<u>1,004,834</u>
	<u>\$ 1,198,824</u>	<u>\$ 4,530</u>	<u>\$ 1,203,354</u>

10. PROPERTY, PLANT AND EQUIPMENT

A summary of property, plant and equipment as at December 31, 2004 and 2003 is as follows:

	<u>2004</u>			<u>2003</u>	
	Cost	Reassessed Value Increment	Accumulated Depreciation	Carrying Value	Carrying Value
Land	\$ 1,642,775	\$ 248,187	\$ -	\$ 1,890,962	\$ 1,781,189
Buildings and improvements	28,953,267	45,062	6,015,071	22,983,258	23,373,949
Machinery and equipment	30,081,782	-	14,309,918	15,771,864	16,236,081
Transportation equipment	907,758	-	630,026	277,732	278,726
Furniture, fixtures and office Equipment	3,403,086	-	2,091,059	1,312,027	1,286,761
Leased assets	-	-	-	-	29,703
Other equipment	222,924	-	111,169	111,755	79,373
Prepayments on purchase of equipment and construction in progress	<u>3,632,926</u>	<u>-</u>	<u>-</u>	<u>3,632,926</u>	<u>3,450,955</u>
	<u>\$ 68,844,518</u>	<u>\$ 293,249</u>	<u>\$ 23,157,243</u>	<u>\$ 45,980,524</u>	<u>\$ 46,516,737</u>

The Company recorded the land value increment 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, 2004, two parcels of land located in Changhwa were purchased by the Company for \$22,187 thousand in June 1990 and for \$33,668 thousand in April 1997. According to related laws, the ownership for these two parcels of land should be transferred to the Company. 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. Consequently, the two parcels of land amounted to \$55,855 thousand are included in other assets (see Note 11).

In March 2001 and 2002, 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 thousand and \$336,000 thousand, respectively. Pou Chen and Barits Development had already prepaid \$313,353 thousand and \$309,048 thousand as at December 31, 2004, respectively, which was recorded as "construction in progress".

As at 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	58,599	Due in 16 quarterly payments of \$3,660 thousand each	8.40%~ 8.80%
	<u>67,745</u>						
Less accumulated depreciation	<u>(38,042)</u>						
	<u>\$ 29,703</u>						

The interest expense for the years ended December 31, 2004 and 2003 amounted to \$1,121,300 thousand and \$1,285,663 thousand, respectively. Interest costs capitalized as part of the costs of property, plant and equipment for the years ended December 31, 2004 and 2003 amounted to \$1,994 thousand and \$8,412 thousand, respectively. Interest rates were 1.50%~2.50% and 2.40%~6.00%, respectively.

At December 31, 2003, 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
Buildings and improvements	\$28,291
Leased-out assets	<u>53,825</u>
	<u>\$82,116</u>

At December 31, 2004 and 2003, insurance coverage for property, plant and equipment, excluding land, prepayments on purchase of equipment and construction in progress, amounted to \$52,021,902 thousand and \$48,728,373 thousand, respectively.

11. OTHER ASSETS

Other assets as at December 31, 2004 and 2003 consist of the following:

	2004	2003
Leased-out assets		
Cost	\$ 1,703,885	\$ 2,459,146
Less accumulated depreciation	<u>(141,443)</u>	<u>(186,001)</u>
Carrying value	<u>1,562,442</u>	<u>2,273,145</u>
Deferred charges	374,690	351,743
Deferred tax assets (Note 23)	134,074	100,558
Land held by trustee (Note 10)	55,855	55,855
Idle asset	49,507	16,932
Less		
Accumulated depreciation	(27,977)	(11,954)
Allowance for valuation loss of idle asset	<u>(21,530)</u>	<u>(4,978)</u>
Carrying value	<u>-</u>	<u>-</u>
Others	<u>21,097</u>	<u>25,583</u>
	<u>\$ 2,148,158</u>	<u>\$ 2,806,884</u>

12. SHORT-TERM BORROWINGS

Short-term borrowings as at December 31, 2004 and 2003 consist of the following:

	<u>2004</u>		<u>2003</u>	
	Annual Interest Rate %	Balance	Annual Interest Rate %	Balance
Short-term borrowings				
Procurement loans	1.05~3.75	\$ 3,435,154	1.46~3.75	\$ 3,632,760
Unsecured loans	0.76~3.58	<u>8,421,167</u>	1.41~8.00	<u>8,582,564</u>
		<u>\$ 11,856,321</u>		<u>\$ 12,215,324</u>

13. SHORT-TERM BILLS

Short-term bills as at December 31, 2004 and 2003 consist of the following:

	<u>2004</u>		<u>2003</u>	
	<u>Annual Interest Rate %</u>	<u>Balance</u>	<u>Annual Interest Rate %</u>	<u>Balance</u>
Short-term bills				
Commercial paper, credit	1.02~1.28	\$ 430,000	0.97~1.25	\$ 150,000
Commercial paper, secured		<u>-</u>	1.25~1.26	<u>190,000</u>
		430,000		340,000
Less discount on commercial paper		<u>(717)</u>		<u>(657)</u>
		<u>\$ 429,283</u>		<u>\$ 339,343</u>

Commercial paper, secured as at December 31, 2003 was secured by the inventory and fixed assets of the Company (see Notes 8 and 10).

14. CURRENT PORTION OF LONG-TERM LIABILITIES

Current portion of long-term liabilities as at December 31, 2004 and 2003 consist of the following:

	<u>2004</u>	<u>2003</u>
Bonds payable (see Note 15)	\$ 9,513,000	\$ 3,479,504
Long-term debt (see Note 16)	2,144,995	566,178
Lease payable (see Note 17)	<u>-</u>	<u>7,996</u>
	<u>\$ 11,657,995</u>	<u>\$ 4,053,678</u>

15. BONDS PAYABLE

Bonds payable as at December 31, 2004 and 2003 consist of the following:

	<u>2004</u>	<u>2003</u>
Euro convertible bonds	\$ 21,494,252	\$ 12,625,609
Add interest compensation and income tax payable	<u>1,238,315</u>	<u>1,044,895</u>
	22,732,567	13,670,504
Less current portion	<u>(9,513,000)</u>	<u>(3,479,504)</u>
	13,219,567	10,191,000
Domestic secured bonds	<u>5,000,000</u>	<u>5,000,000</u>
	<u>\$ 18,219,567</u>	<u>\$ 15,191,000</u>

In 2004, Pou Chen bought back its Euro convertible bonds with par value US\$5,000 thousand from open market at cost of \$254,293 thousand and Pou Chen recognized a loss of \$12,722 thousand.

Euro-Dollar Convertible Bonds - First Issue

- (a) Date of issuance: June 24, 1999
- (b) Par value: US\$1,000 (dollars)
- (c) Location of issuance: Luxemburg
- (d) Price of issuance: 100%
- (e) Total amount: US\$125,000 thousand, there are US\$66,000 thousand not converted as at December 31, 2004
- (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, 2004, the current adjusted conversion price is \$28.12 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 (dollars) 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, 50.88% owned by Pou Chen as at December 31, 2004, 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 (dollars)
- (c) Location of issuance: Luxemburg
- (d) Price of issuance: 100%
- (e) Total amount: US\$300,000 thousand
- (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. At December 31, 2004, the current adjusted conversion price is \$34.90 per share.

- (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 (dollars) 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 (dollars) 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 thousand 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 thousand and the other types was \$200,000 thousand. The par value of all types was \$10,000 thousand.
- (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 rate

The 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 thousand, 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 of 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 100% of net worth as shown in the most recent audited or reviewed financial statements.

Euro-Dollar Convertible Bonds

First issued by Yue Yuen Industrial (Holdings) Ltd.

- (a) Date of issuance: December 23, 2003
- (b) Par value: US\$1,000 thousand
- (c) Location of issuance: Luxemburg
- (d) Price of issuance: 100%
- (e) Total amount: US\$317,000 thousand
- (f) Interest rate: 0%
- (g) Date of maturity: December 23, 2008
- (h) Conversion Price:
The initial price at which shares will be issued upon conversion is HK\$27.33 per share at the issue date.
- (i) Redemption at maturity:
Unless previously redeemed, repurchased and cancelled, or converted, the Bonds will be redeemed on December 23, 2008 at a price equal to 98.76% of the unpaid principal amount.
- (j) Redemption at the option of Yue Yuen:
The Bonds may be redeemed, in whole or from time to time in part, at the option of Yue Yuen at any time on or after December 31, 2005, at a price equal to 98.76% of the unpaid principal amount thereof; provided that the closing price of the common shares on each of 20 trading days within 30 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 120% of the conversion price (translated into US dollars at the fixed rate). Notwithstanding the foregoing, the Bonds may be redeemed in whole or in part at the option of Yue Yuen at any time at a price equal to 98.76% of the unpaid principal amount thereof if at least 90% in aggregate principal amount of the Bonds has already been redeemed, repurchased and cancelled, or converted.
- (k) Repurchase at the option of holders:
Each holder has the right to require Yue Yuen to repurchase all or any portion of such holder's bonds on or after December 31, 2005 at a price equal to 98.76% of the unpaid principal amount thereof.

16. LONG-TERM DEBT

Long-term debt as at December 31, 2004 and 2003 consists of the following:

	2004	2003
Citibank		
Long-term debt, US\$190,000 thousand, with floating rate, due in 5 semiannual installments commencing March 22, 2005 and maturing March 22, 2007.	\$ 6,024,900	\$ 6,454,300
China Development Industrial Bank (Lead Lender) and other banks		
Long-term debt, US\$23,200 thousand, 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%.	735,672	788,104
Industrial Development Bureau interest-free loan	9,268	9,303
Standard Chartered Bank (HK)		
Long-term debt US\$105,000 thousand. This period is from October 29, 2002 to October 29, 2005. Interest rate is 2.13188%. Interest is paid semi-annually. The principal is fully repaid upon maturity.	3,329,550	3,566,850
WestLB AG		
Long-term debt, US\$350,000 thousand. This period is from October 16, 2001 to October 16, 2006. Interest rate is 2.20521%. Interest is paid semi-annually. The principal is fully repaid upon maturity.	5,327,280	11,889,500
Bank of China		
Long-term debt, US\$4,000 thousand, due in quarterly installments commencing January 30, 2004 and maturing November 1, 2005. Interest rate is 2.16%. Interest is paid monthly.	79,275	135,880
China Trust Commercial Bank		
Long-term debt, US\$10,000 thousand, due in semiannual installments commencing June 6, 2004 and maturing December 6, 2007. Interest rate is 2.8%. Interest is paid monthly.	277,462	339,700
HSBC		
Long-term debt, US\$13,000 thousand, due in quarterly installments commencing April 15, 2004 and maturing January 15, 2008. Interest rate is 2.3975%. Interest is paid quarterly.	396,375	441,610
Natexis Banques Populaires		
Long-term debt, US\$3,924 thousand, due in semiannual installments commencing January 29, 2005 and maturing July 29, 2007. Interest rate is 2.7588%. Interest is paid semiannually.	124,430	126,809

	2004	2003
Chin Fon Commercial Bank		
Long-term debt, US\$10,000 thousand, due in semiannual installments commencing November 29, 2004 and maturing May 29, 2008. Interest rate is 2.8%. Interest is paid monthly.	317,100 (US\$ 10,000,000)	218,666 (US\$ 6,437,042)
ANZ Bank		
Long-term debt, US\$5,000 thousand, due in quarterly installments commencing January 20, 2006 and maturing October 20, 2008. Interest rate is 2.47%. Interest is paid quarterly.	158,550	-
Citi Bank		
Long-term debt, US\$8,900 thousand, due in quarterly installments commencing July 19, 2004 and maturing July 18, 2006. Interest rate is 2.43%. Interest is paid quarterly.	282,219	-
Standard Chartered Bank (HK)		
Long-term debt, US\$7,000 thousand, due in semiannual installments commencing May 9, 2007 and maturing May 9, 2008. Interest rate is 2.13%. Interest is paid monthly.	221,970 (US\$ 7,000,000)	149,468 (US\$ 4,400,000)
Citibank (HK)		
Long-term debt, US\$10,000 thousand, due in semiannual installments commencing February 11, 2004 and maturing February 11, 2009. Interest rate is 2.34%. Interest is paid monthly.	317,100	-
Citibank(Leader lender) and other banks		
Long-term debt, US\$55,000 thousand with floating rate, due in semiannual installments commencing November 8, 2004 and maturing November 8, 2009. Interest rate is 3.10%. Interest is paid semiannually.	1,778,150	-
Citibank N.A.		
Long-term debt, US\$17,933 thousand. This period is from December 19, 2000 to December 19, 2003. Interest rate is 9.00%. Interest is paid semi-annually. The principal is fully repaid upon maturity.	-	475,580
	19,379,301	24,595,770
Less current portion	<u>(2,144,995)</u>	<u>(566,178)</u>
	<u>\$ 17,234,306</u>	<u>\$ 24,029,592</u>

17. LEASE PAYABLE

Lease payable as at December 31, 2004 and 2003 consists of the following:

	2004	2003
Chailease Finance Co., Ltd.	\$ -	\$ 3,248
Chailease Finance Co., Ltd.	<u>-</u>	<u>6,673</u>
	-	9,921
Less unrealized interest	-	(1,925)
Less current portion	<u>-</u>	<u>(7,996)</u>
	<u>\$ -</u>	<u>\$ -</u>

See Note 10 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 2004 consists of the following:

	Pou Chen	Barits Development	Pou Yuen Technology	Pro Arch Technology	Global Brands Manufacture	Total
Service cost	\$ 91,521	\$ 9,177	\$ 4,260	\$ 1,986	\$ 3,344	\$ 110,288
Interest cost	32,297	2,368	387	141	392	35,585
Expected return on plan assets	(11,317)	(3,233)	(247)	(392)	(75)	(15,264)
Amortization of net transition obligation	(1,875)	646	(432)	42	656	(963)
Amortization of unrecognized prior service cost	-	-	204	-	-	204
Amortization of pension loss	16,182	-	-	(399)	-	15,783
Amortization of prior service cost	<u>-</u>	<u>(2,949)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,949)</u>
	<u>\$ 126,808</u>	<u>\$ 6,009</u>	<u>\$ 4,172</u>	<u>\$ 1,378</u>	<u>\$ 4,317</u>	<u>\$ 142,684</u>

The following table sets forth the actuarial assumptions and plan's status as at December 31, 2004:

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

	Pou Chen	Barits Development	Pou Yuen Technology	Pro Arch Technology	Global Brands Manufacture	Total
Actuarial present value of benefit obligation:						
Vested benefits	\$ (79,570)	\$ (2,873)	\$ -	\$ -	\$ (2,729)	\$ (85,172)
Nonvested benefits	<u>(573,047)</u>	<u>(53,051)</u>	<u>(8,168)</u>	<u>(1,434)</u>	<u>(14,139)</u>	<u>(649,839)</u>
Accumulated benefit obligation	(652,617)	(55,924)	(8,168)	(1,434)	(16,868)	(735,011)
Additional benefits at future salaries	<u>(422,746)</u>	<u>(20,513)</u>	<u>(6,296)</u>	<u>(424)</u>	<u>(12,537)</u>	<u>(462,516)</u>
Projected benefit obligation	(1,075,363)	(76,437)	(14,464)	(1,858)	(29,405)	(1,197,527)
Plan assets at fair value	<u>370,142</u>	<u>94,570</u>	<u>24,186</u>	<u>12,866</u>	<u>3,120</u>	<u>504,884</u>
Projected benefit obligation in excess of plan assets	(705,221)	18,133	9,722	11,008	(26,285)	(692,643)
Net transition (asset) obligation not yet recognized	(13,998)	6,460	-	426	-	(7,112)
Unrecognized prior service costs	-	-	3,364	-	-	3,364
Net pension gain not yet recognized	<u>336,682</u>	<u>(52,353)</u>	<u>(448)</u>	<u>(11,093)</u>	<u>12,537</u>	<u>285,325</u>
Accrued pension cost	<u>\$ (382,537)</u>	<u>\$ (27,760)</u>	<u>\$ 12,638</u>	<u>\$ 341</u>	<u>\$ (13,748)</u>	<u>\$ (411,066)</u>

As at December 31, 2004, the net amount of accrued pension cost amounted to \$411,066 thousand was recorded as deferred pension cost of \$341 thousand, prepaid pension cost of \$12,638 thousand and accrued pension cost of \$424,045 thousand.

19. OTHER LIABILITIES - OTHERS

Other liabilities - others as at December 31, 2004 and 2003 consist of the following:

	2004	2003
Unrealized gross profit from inter-affiliate transactions	\$ 13,658	\$ 13,717
Others (Note 9)	<u>276,850</u>	<u>257,059</u>
	<u>\$ 290,508</u>	<u>\$ 270,776</u>

20. STOCKHOLDERS' EQUITY

Pou Chen's registered and issued capital as at December 31, 2004 and 2003 are summarized as follows:

	2004	2003
Registered capital		
Shares (in thousands)	<u>3,475,000</u>	<u>3,028,000</u>
Par value	<u>\$ 10</u>	<u>\$ 10</u>
Capital	<u>\$ 34,750,000</u>	<u>\$ 30,280,000</u>
Issued capital		
Shares (in thousands)	<u>2,093,673</u>	<u>1,884,799</u>
Par value	<u>\$ 10</u>	<u>\$ 10</u>
Capital	<u>\$ 20,936,734</u>	<u>\$ 18,847,994</u>

At June 9, 2004, the Company's shareholders meeting resolved to issue additional \$2,049,339 thousand through stock dividends, and bonuses to employees. Consequently, as at December 31, 2004, the Company's outstanding capital stock was increased to \$20,936,734 thousand, divided into 2,093,673 thousand common shares with a par value of \$10 each.

Earnings per share are based upon the weighted average number of shares of stock outstanding during the year. For the year ended December 31, 2003, the weighted average number of shares used in the calculation of earnings per share has been restated for the retroactive effect of the stock dividends issued in 2004.

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 \$14.2 and \$31.4 per share, respectively due to the stock dividends issued in 2004. At December 31, 2004, the employee stock warrants of 66,600 units were executed for 3,940 thousand shares of common stock.

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 appropriate 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 2004 retained earnings has not been proposed by the board of directors as at March 25, 2005, the date of the independent auditors' report. Regarding the appropriation of 2003 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 2003 earnings distribution of 16,454 thousand shares to employees (represents 0.87% of the outstanding common shares at the end of 2003) and of \$169,629 thousand as bonuses to directors and supervisors. In 2003, the earnings per share after income tax (before retroactive adjustment for stock dividend in 2004) was \$3.56; 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 \$3.37.

Wealthplus' outstanding capital stock as of September 30, 2004 and 2003 amounted to US\$45,937 thousand and US\$937 thousand, with a par value of US\$1 each, 45,937 thousand and 937 thousand shares.

Barits Development's registered and issued capital as at December 31, 2004 and 2003 amounted to \$913,000 thousand, 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 after deducting the bonuses to directors and supervisors. The final remainder shall then be distributed in accordance with the resolution in the stockholders' meeting.

Pou Yuen Technology's registered and issued capital as at December 31, 2004 and 2003 are summarized as follows:

	2004	2003
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 as at December 31, 2004 and 2003 are summarized as follows:

	2004	2003
Registered capital		
Shares (in thousands)	<u>185,000</u>	<u>268,000</u>
Par value	<u>\$ 10</u>	<u>\$ 10</u>
Capital	<u>\$ 1,850,000</u>	<u>\$ 2,680,000</u>
Issued capital		
Shares (in thousands)	<u>46,480</u>	<u>154,687</u>
Par value	<u>\$ 10</u>	<u>\$ 10</u>
Capital	<u>\$ 464,800</u>	<u>\$ 1,546,870</u>

Pro Arch Technology's outstanding capital stock as at December 31, 2003 amounted to \$1,546,870 thousand. At the meeting on June 25, 2004, shareholders resolved to reduce its capital to offset its accumulated deficit by \$1,082,070 thousand. At December 31, 2004, the outstanding common stock was \$464,800 thousand at par value \$10 per share. Additionally, the Company issued additional capital stock \$608,954 thousand for funding operating capital and payment of bank loan.

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 as at December 31, 2004 and 2003 are summarized as follows:

	2004	2003
Authorized capital		
Share (in thousands)	<u>220,000</u>	<u>220,000</u>
Par value	<u>\$ 10</u>	<u>\$ 10</u>
Capital	<u>\$ 2,200,000</u>	<u>\$ 2,200,000</u>
Issued capital		
Share (in thousands)	<u>154,102</u>	<u>138,964</u>
Par value	<u>\$ 10</u>	<u>\$ 10</u>
Capital	<u>\$ 1,541,020</u>	<u>\$ 1,389,636</u>

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 funding 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 funding operating capital. Such private placement shares and their distributed shares are not allowed to trade in the following 3 years of issuance.

In June 2004, Global Brands Manufacture issued additional capital of \$151,384 thousand through stock dividends and bonuses to employees.

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 thousand 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 as proposed and approved by the Company's board of directors and stockholders.

Global Brands Manufacture's appropriation and distribution of 2003 retained earnings as approved by the stockholders' meeting were to issue additional capital of \$151,384 (including employees' bonuses of \$12,420 thousand and stockholders' dividends of \$138,964 thousand) and distribute directors' remuneration of \$2,485 thousand. The earnings per share after tax

was \$3.30 per share; if the bonuses to directors and supervisors and bonuses of employees were treated as expenses, the earnings per share would be \$3.16 per share. Regarding the 2003 retained earnings proposition by the board of directors and the approval by the stockholders, please refer to the Market Observation Post System (“MOPS”) of Taiwan Stock Exchange.

Global Brands Manufacture’s appropriation and distribution of 2004 retained earnings has not been proposed by the board of directors as at April 22, 2005, the date of the independent auditors’ report. Regarding the 2004 retained earnings proposition by the board of directors and the approval by the stockholders, please refer to the Market Observation Post System (“MOPS”) of Taiwan Stock Exchange.

21. TREASURY STOCK

The changes of treasury stock of 2004 are summarized as follows (in shares):

Reason	2004.1.1	Increase	Decrease	2004.12.31
Buy the stock back to transfer to employees	-	45,700,000	-	45,700,000
Common shares held by subsidiaries	100,576,523	10,209,521	-	110,786,044

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 held 45,700,000 shares (amounted to \$1,404,009 thousand) for treasury stock on December 31, 2004.

As at January 1, 2004, the subsidiaries held 100,576,523 shares of the Company’s common stock in total, and after the stock dividends were received by the subsidiaries, 10,209,521 shares were added. Accordingly, as at December 31, 2004, the subsidiaries held 110,786,044 shares of the Company’s common stock at cost of \$2,055,319 thousand in total.

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.

22. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

Personnel, depreciation, and amortization expenses for the years ended December 31, 2004 and 2003 are summarized as follows:

Category \ Function	2004				2003			
	Operating Cost	Operating Expenses	Non-Operating Expenses	Total	Operating Cost	Operating Expenses	Non-Operating Expenses	Total
Personnel expense								
Salaries	11,831,154	6,441,486	-	18,272,640	11,101,540	6,373,166	-	17,474,706
Labor insurance and health insurance	301,536	220,296	-	521,832	51,554	140,145	-	191,699
Pension cost	125,555	238,283	-	363,838	10,377	138,997	-	149,374
Others	29,576	71,747	-	101,323	31,138	92,509	-	123,647
Depreciation expenses	3,514,349	1,598,957	13,584	5,126,890	2,859,745	1,480,193	15,277	4,355,215
Amortization expenses	39,293	1,232,399	-	1,271,692	42,008	1,120,210	-	1,162,218

23. INCOME TAX

The Company's income tax expense for the year ended December 31, 2004 is as follows:

Income tax expense, current year	\$ 409,493
Losses carryforward	(50)
10% additional income tax on undistributed earnings of 2003	22,690
Adjustment of deferred tax asset	(80,297)
Adjustment of prior year's tax expenses	<u>(99,325)</u>
Income tax expense	<u>\$ 252,511</u>

The components of deferred tax assets (liabilities) as at December 31, 2004 are as follows:

Unrealized inventory devaluation losses	\$ 85,945
Unrealized gains on disposal of property, plant and equipment	1,325
Unrealized bad debt losses	57,900
Unrealized maintenance and repairs expenses	400
Unrealized pension expense	102,440
Unrealized profit from inter-affiliate transactions	2,150
Unrealized loss on liquidation of long-term equity investments	21,850
Unrealized net exchange gain	(182,990)
Unrealized provision for decline in value of idle assets	1,240
Losses carryforward	460,892
Investment tax credits	60,300
Others	(121,259)
Less valuation allowance	<u>(374,653)</u>
Deferred tax assets	<u>\$ 115,540</u>
Deferred tax liability, current	<u>\$ (18,534)</u>
Deferred tax assets, noncurrent	<u>\$ 134,074</u>

Income tax payable as at December 31, 2004 amounted to \$90,023 thousand.

Temporary tax payment as at December 31, 2004 amounted to \$19,736 thousand.

The income tax returns of Pou Chen for the years through 2002 have been examined and approved by the tax authority.

The income tax returns of Barits Development for the years through 2002 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 thousand. 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, 2004.

The income tax returns of Wang Yi for the years through 2002 have been examined and approved by the tax authority.

The income tax returns of Song Ming Investment for the years through 2002 have been examined and approved by the tax authority.

The income tax returns of Pou Yi for the years through 2002 have been examined and approved by the tax authority.

The income tax returns of Pro Arch Technology for the years through 2002 have been examined and approved by the tax authority.

The income tax returns of Global Brands Manufacture for the years through 2002 have been examined and approved by the tax authority.

At December 31, 2004, the amount and year of expiration of the Company's deductible loss carryforward and investment deduction are as follows by individual company.

	<u>Pou Yuen Technology</u>		<u>Pro Arch Technology</u>		<u>Global Brands Manufacture</u>
	<u>Loss Carryforward</u>	<u>Investment Tax Credits</u>	<u>Loss Carryforward</u>	<u>Investment Tax Credits</u>	<u>Loss Carryforward</u>
2005	\$ 12,500	\$ -	\$ -	\$ 22,400	\$ -
2006	27,300	-	-	17,700	1,892
2007	20,000	3,500	53,000	16,700	-
2008	41,600	-	131,000	-	-
2009	<u>32,600</u>	<u>-</u>	<u>141,000</u>	<u>-</u>	<u>-</u>
	<u>\$ 134,000</u>	<u>\$ 3,500</u>	<u>\$ 325,000</u>	<u>\$ 56,800</u>	<u>\$ 1,892</u>

The information of the integrated income tax system as at December 31, 2004 is as follows:

	<u>Pou Chen</u>	<u>Barits Development</u>	<u>Pou Yuen Technology</u>	<u>Pro Arch Technology</u>	<u>Global Brands Manufacture</u>	<u>Song Ming</u>	<u>Pou Yi</u>	<u>Wang Yi</u>
IC Balance of Imputation Credit Account	<u>\$ 161,851</u>	<u>\$ 152,225</u>	<u>\$ 1,227</u>	<u>\$ 537</u>	<u>\$ 66</u>	<u>\$ 2,647</u>	<u>\$ 13,471</u>	<u>\$ 10,067</u>
Undistributed earnings for the years of 1997 and before	<u>\$ 310,501</u>	<u>\$ 515,118</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,176</u>	<u>\$ -</u>
Undistributed earnings for the years of 1998 and after	<u>\$ 9,639,544</u>	<u>\$ 1,208,773</u>	<u>\$ (38,482)</u>	<u>\$ (524,873)</u>	<u>\$ (785,953)</u>	<u>\$ 10,375</u>	<u>\$ (33,222)</u>	<u>\$ (23,249)</u>
Expected IC ratio on distributed earnings for the year of 2005	<u>1.68%</u>	<u>13.81%</u>	<u>NA</u>	<u>NA</u>	<u>0.01%</u>	<u>33.48%</u>	<u>NA</u>	<u>NA</u>
Actual IC ratio on stock dividend distribution for the year of 2004	<u>2.68%</u>	<u>18.14%</u>	<u>NA</u>	<u>NA</u>	<u>0.03%</u>	<u>27.17%</u>	<u>NA</u>	<u>NA</u>

The expected IC ratio of the Company for the year of 2005 has considered the income tax payable for 2004.

24. EARNINGS PER SHARE

For the years ended December 31, 2004 and 2003, earnings per share before income tax and earnings per share after income tax are as follows:

	2004				
	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	\$10,327,604	\$ 4,246,338	1,956,536	<u>\$ 5.38</u>	<u>\$ 2.17</u>
Effect of dilutive potential common shares					
Employee stock option	-	-	36,201		
Convertible bonds	-	-	<u>272,579</u>		
Diluted earnings per share					
Net income plus the effect of dilutive potential common shares	<u>\$10,327,604</u>	<u>\$ 4,246,338</u>	<u>2,265,316</u>	<u>\$ 4.56</u>	<u>\$ 1.87</u>
	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	\$12,003,386	\$ 6,348,359	1,978,944	<u>\$ 6.07</u>	<u>\$ 3.21</u>
Effect of dilutive potential common shares:					
Employee stock option	-	-	34,983		
Convertible bonds	-	-	<u>214,127</u>		
Diluted earnings per share					
Net income plus the effect of dilutive potential common shares	<u>\$12,003,386</u>	<u>\$ 6,348,359</u>	<u>2,228,054</u>	<u>\$ 5.39</u>	<u>\$ 2.85</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, 2004 and 2003 would be increased by \$102,058 thousand and \$42,096 thousand, respectively. And the pro-forma earnings per share are as follows:

	2004				
	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	\$10,429,662	\$ 4,348,396	2,067,325	<u>\$ 5.05</u>	<u>\$ 2.10</u>
Effect of dilutive potential common shares					
Employee stock option	-	-	36,201		
Convertible bonds	-	-	<u>272,579</u>		
Diluted earnings per share					
Net income plus the effect of dilutive potential common shares	<u>\$10,429,662</u>	<u>\$ 4,348,396</u>	<u>2,376,105</u>	<u>\$ 4.39</u>	<u>\$ 1.83</u>

	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	\$12,045,485	\$ 6,390,455	2,089,733	<u>\$ 5.76</u>	<u>\$ 3.06</u>
Effect of dilutive potential common shares					
Employee stock option	-	-	34,983		
Convertible bonds	-	-	<u>214,127</u>		
Diluted earnings per share					
Net income plus the effect of dilutive potential common shares	<u>\$12,045,485</u>	<u>\$ 6,390,455</u>	<u>2,338,843</u>	<u>\$ 5.15</u>	<u>\$ 2.73</u>

25. RELATED PARTY TRANSACTIONS

Names and relationships of the related parties are as follows:

Name	Relationship
Pou Shine	The Company holds a 99.99% ownership interest
Ming Wang	The Company holds a 100.00% ownership interest
Ming Chi	The Company holds a 99.99% ownership interest
Ever Atlantic Investments Limited	The Company holds a 50.00% ownership interest.
Rising Developments	The Company holds a 50.00% ownership interest
CMK Corporation	CMK Corporation together with Global Brands Manufacture invest in CMK and GBM and holds 49.00% ownership interest of CMK GBM
CMKC (HK) Limited	CMK Corporation holds a 100.00% ownership interest
Ka Yuen Rubber Factory Limited	The Company holds a 50.00% ownership interest.
Eastlion Industrial Ltd.	The Company holds a 35.00% ownership interest.
Long King	Yue Yuen indirectly holds a 48.76% ownership interest
San Fang	The Company holds a 36.78% ownership interest
Twinways Investments Ltd. (“Twinways”)	Yue Yuen indirectly holds a 50.00% ownership interest
Advueu Technologies Inc.	Related party in substance
Teeming Trading Limited	Related party in substance
Global Brands Manufacture Ltd. (BVI) (“GBM”)	Related party in substance
Network Leader Limited	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, 2004 and 2003 are summarized as follows:

	<u>2004</u>		<u>2003</u>	
	<u>Amount</u>	<u>Percentage to Net Sales</u>	<u>Amount</u>	<u>Percentage to Net Sales</u>
Network Leader	\$ 1,818,160	2	\$ 272,292	-
CMKC	1,561,108	1	806,209	1
GBM	1,199,728	1	713,753	1
Others	<u>3,053,500</u>	<u>2</u>	<u>698,288</u>	<u>-</u>
	<u>\$ 7,632,496</u>	<u>6</u>	<u>\$ 2,490,542</u>	<u>2</u>

Cost of Sales - Purchases

Purchases from related parties for the years ended December 31, 2004 and 2003 are summarized below:

	<u>2004</u>		<u>2003</u>	
	<u>Amount</u>	<u>Percentage to Net Purchases</u>	<u>Amount</u>	<u>Percentage to Net Purchases</u>
Rising Developments	\$ 2,501,808	3	\$ 2,146,925	3
San Fang	1,103,446	1	1,100,710	1
Ka Yuen Rubber	944,668	1	955,547	1
Twinways Investment	696,170	1	617,759	1
Eastlion Industrial	620,401	-	592,937	1
Others	<u>1,599,342</u>	<u>2</u>	<u>2,255,196</u>	<u>3</u>
	<u>\$ 7,465,835</u>	<u>8</u>	<u>\$ 7,669,074</u>	<u>10</u>

Accounts Receivable

Accounts receivable from affiliates as at December 31, 2004 and 2003 are summarized as follows:

	<u>2004</u>	<u>2003</u>
Accounts receivable		
GBM	\$ 589,116	\$ 109,109
CMKC	411,473	-
Network Leader	271,036	265,535
Others	1,119,020	286,350
Less allowance for doubtful accounts	<u>(8,238)</u>	<u>(407)</u>
	<u>\$ 2,382,407</u>	<u>\$ 660,587</u>

Notes and Accounts Payable

Notes and accounts payable due to affiliates as at December 31, 2004 and 2003 are summarized as follows:

	2004	2003
Notes payable		
San Fang	\$ 90,059	\$ 73,753
Others	<u>6,147</u>	<u>-</u>
	<u>\$ 96,206</u>	<u>\$ 73,753</u>
Accounts payable		
Twinways Investment	\$ 160,992	\$ 113,426
Ka Yuen Rubber	159,121	142,097
Rising Developments	127,774	96,616
San Fang	60,968	82,137
Others	<u>562,590</u>	<u>475,747</u>
	<u>\$ 1,071,445</u>	<u>\$ 910,023</u>

26. PLEDGED PROPERTIES

See Notes 8 and 10.

27. COMMITMENTS AND CONTINGENCIES

Loan Guarantees

As at December 31, 2004, the Company issued certificates of guarantee of \$95,400 thousand for the payment of loans.

Letters of Credit

Outstanding letters of credit as at December 31, 2004 are as follows (unit: thousand dollars):

U.S. Dollars	\$ 18,211,304
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At December 31, 2003, the Company has guaranteed the payments of credit of related parties as follows:

Related Parties	Amount
Pou Shine	\$ 570,000
Ming Wang	188,000
Ming Chi	200,000
Venture Well Holdings Ltd.	213,911
Best Focus Holdings Ltd.	443,940
Hua Jian Industrial Holding Co., Ltd.	332,955
Cohen Enterprise Inc.	475,650
Ka Yuen Rubber Factory Ltd.	40,654
Pine Wood Industrial Ltd.	<u>59,367</u>
	<u>\$ 2,524,477</u>

28. SUBSEQUENT EVENT

On January 31, 2005, the Board of Directors of the Company resolved to invest US\$12,500 thousand in MindTech Display Co., Ltd., through Wealthplus. It is engaged in development, manufacture, and sale of liquid crystal module.

On November 29, 2004, the Board of Directors of Pro Arch Technology resolved to issue common stock of 123,520 thousand shares at \$4.93 per share. The issuance date was December 27, 2004. After increasing capital, it has on outstanding common stock of \$1,700,000 thousand at par value \$10 per share.

29. OTHERS

In accordance with Statement of Financial Accounting Standards (“SFAS”) No. 27, “Disclosure of Financial Instruments,” derivative financial instruments of the Company as at December 31, 2004 and 2003 are summarized as follows:

Management Objective and Strategy of Derivative Financial Instruments

Type	Purpose	Strategy
Interest rate swap contracts	To hedge the risk of fluctuation 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 at December 31, 2004 and 2003, the net of receivable and payable derived from foreign exchange contracts are summarized as follows:

	2004		2003	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Receivable	\$ 3,131,798	\$ 3,131,798	\$ 475,580	\$ 475,580
Payable	(3,142,668)	(3,142,668)	(476,000)	(476,000)
	<u>\$ (10,870)</u>	<u>\$ (10,870)</u>	<u>\$ (420)</u>	<u>\$ (420)</u>

Interest income and foreign exchange gain of the Company from derivative financial instruments for the years ended December 31, 2004 and 2003 are summarized as follows:

Items	2004	2003	Description
Interest rate swap	\$46,843	\$40,806	Recorded as "Non-operating income - interest income"
Exchange rate swap	(26,740)	420	Recorded as deduction to "Non-operating income - foreign exchange income"
Forward exchange	16,290	-	Recorded as "Non-operating income - foreign exchange income"

Fair Value of Financial Instruments

The fair value of non-derivative financial instruments as at December 31, 2004 and 2003 is summarized as follows:

	2004		2003	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
Cash and cash equivalents	\$22,640,527	\$22,640,527	\$24,912,968	\$24,912,968
Short-term investments	4,450,421	5,818,814	6,008,084	7,048,738
Notes receivable	79,531	79,531	30,585	30,585
Accounts receivable	14,065,431	14,065,431	12,167,653	12,167,653
Accounts receivable, affiliates	2,382,407	2,382,407	660,587	660,587
Other financial assets, current	2,435,068	2,435,068	4,105,680	4,105,680
Long-term equity investments	18,463,823	20,111,843	12,792,377	14,769,818
Other financial assets, noncurrent	91,642	91,642	106,894	106,894
Liabilities				
Short-term borrowings	11,856,321	11,856,321	12,215,324	12,215,324
Short-term bills	429,283	429,283	339,343	339,343
Notes payable	101,510	101,510	105,141	105,141
Notes payable, affiliates	96,206	96,206	73,753	73,753
Accounts payable	7,919,217	7,919,217	6,073,762	6,073,762
Accounts payable, affiliates	1,071,445	1,071,445	910,023	910,023
Other payables	6,667,273	6,667,273	7,299,139	7,299,139
Current portion of long-term liabilities	11,657,995	11,657,995	4,053,678	4,053,678
Bonds payable	18,219,567	18,219,567	15,191,000	15,191,000
Long-term borrowings	17,234,306	17,234,306	24,029,529	24,029,529
Other financial liabilities	5,158	5,158	2,659	2,659

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.

30. RECLASSIFICATIONS

Certain accounts in the 2003 financial statements have been reclassified to conform to the 2004 method of presentation.