

POU CHEN CORPORATION

**Financial Statements for the
Years Ended December 31, 2005 and 2004 and
Independent Auditors' Report**

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Pou Chen Corporation

We have audited the accompanying balance sheets of Pou Chen Corporation (the "Company") as of December 31, 2005 and 2004, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2005 and 2004, and the results of its operations and its 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 financial statements, effective December 31, 2004, the Company adopted the provisions of Statement of Financial Accounting Standards No. 35, "Accounting for Asset Impairment".

We have also audited the consolidated financial statements of the Company and its subsidiaries for the years ended December 31, 2005 and 2004 (not being accompanied herein) on which we have issued our report with modified unqualified opinion thereon dated March 3, 2006.

March 3, 2006

Notice to Readers

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

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

BALANCE SHEETS

DECEMBER 31, 2005 AND 2004

(In Thousands of New Taiwan Dollars)

ASSETS	2005		2004		LIABILITIES AND STOCKHOLDERS' EQUITY	2005		2004	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents (Notes 2 and 4)	\$ 1,019,762	2	\$ 4,108,890	8	Short-term borrowings (Note 12)	\$ 1,480,000	3	\$ -	-
Short-term investments (Notes 2 and 5)	1,315,930	3	2,567,984	5	Notes payable	48,023	-	61,572	-
Notes receivable (Notes 2 and 6)	10,589	-	10,239	-	Notes payable to affiliates (Note 23)	102,904	-	90,293	-
Notes receivable from affiliates (Notes 2, 6 and 23)	20,901	-	3,385	-	Accounts payable	1,316,470	3	857,482	2
Accounts receivable (Notes 2 and 7)	299,740	1	596,384	1	Accounts payable to affiliates (Note 23)	220,771	1	387,254	1
Accounts receivable from affiliates (Notes 2, 7 and 23)	1,982,833	4	1,351,479	3	Income tax payable (Notes 2 and 21)	31,183	-	-	-
Other financial assets, current	531,410	1	319,624	1	Other payables	602,811	1	434,627	1
Inventories (Notes 2 and 8)	1,074,879	2	484,251	1	Current portion of long-term liabilities (Note 13)	3,094,092	6	9,513,000	19
Deferred income tax assets (Note 21)	55,920	-	-	-	Deferred income tax liability	-	-	129,605	-
Other current assets	199,106	-	118,168	-	Other current liabilities	48,846	-	11,537	-
Total current assets	<u>6,511,070</u>	<u>13</u>	<u>9,560,404</u>	<u>19</u>	Total current liabilities	<u>6,945,100</u>	<u>14</u>	<u>11,485,370</u>	<u>23</u>
LONG-TERM EQUITY INVESTMENTS (Notes 2 and 9)					LONG-TERM LIABILITIES				
Long-term equity investments under equity method	37,853,436	74	34,795,251	69	Bonds payable (Notes 2 and 13)	5,150,453	10	8,272,045	16
Long-term equity investments under cost method	377,063	1	1,002,975	2	Long-term debt (Note 14)	4,500,000	9	-	-
Total long-term equity investments	<u>38,230,499</u>	<u>75</u>	<u>35,798,226</u>	<u>71</u>	Total long-term liabilities	<u>9,650,453</u>	<u>19</u>	<u>8,272,045</u>	<u>16</u>
OTHER FINANCIAL ASSETS, NONCURRENT	<u>38,275</u>	<u>-</u>	<u>45,491</u>	<u>-</u>	RESERVE FOR LAND VALUE INCREMENT TAX (Note 10)	86,547	-	136,199	-
PROPERTY, PLANT AND EQUIPMENT (Notes 2 and 10)					OTHER LIABILITIES				
Cost	3,677,355	7	3,523,030	7	Accrued pension cost (Notes 2 and 15)	476,947	1	382,537	1
Revaluation increment	293,249	1	293,249	-	Guarantee deposit received	1,000	-	1,000	-
	3,970,604	8	3,816,279	7	Others (Notes 2 and 16)	57,629	-	61,601	-
Less accumulated depreciation	(1,303,372)	(3)	(1,215,981)	(2)	Total other liabilities	<u>535,576</u>	<u>1</u>	<u>445,138</u>	<u>1</u>
Construction in progress	2,804,619	6	1,989,275	4	Total liabilities	<u>17,217,676</u>	<u>34</u>	<u>20,338,752</u>	<u>40</u>
Property, plant and equipment, net	<u>5,471,851</u>	<u>11</u>	<u>4,589,573</u>	<u>9</u>	STOCKHOLDERS' EQUITY				
OTHER ASSETS (Notes 2 and 11)					Capital stock (Note 17)	23,057,928	46	20,936,734	41
Leased assets	373,878	1	376,829	1	Capital surplus	2,646,622	5	2,461,050	5
Deferred charges	93,945	-	173,119	-	Retained earnings (Note 18)	12,875,934	25	12,854,470	25
Deferred income tax assets (Note 21)	123,000	-	99,725	-	Provision for decline in market value of long-term equity investments (Notes 2 and 9)	(1,470,331)	(3)	(1,203,354)	(2)
Others	61,477	-	64,314	-	Cumulative translation adjustments (Note 2)	35,494	-	(1,220,643)	(2)
Total other assets	<u>652,300</u>	<u>1</u>	<u>713,987</u>	<u>1</u>	Treasury stock (Notes 2 and 19)	(3,459,328)	(7)	(3,459,328)	(7)
TOTAL	<u>\$50,903,995</u>	<u>100</u>	<u>\$50,707,681</u>	<u>100</u>	Total stockholders' equity	<u>33,686,319</u>	<u>66</u>	<u>30,368,929</u>	<u>60</u>
					TOTAL	<u>\$50,903,995</u>	<u>100</u>	<u>\$50,707,681</u>	<u>100</u>

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

(With Deloitte & Touche audit report dated March 3, 2006)

POU CHEN CORPORATION

STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2005 AND 2004

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

	2005		2004	
	Amount	%	Amount	%
GROSS SALES AND REVENUES EARNED	\$ 13,852,484	101	\$ 17,198,372	100
LESS SALES RETURNS AND ALLOWANCES	<u>(92,565)</u>	<u>(1)</u>	<u>(56,648)</u>	<u>-</u>
NET SALES AND REVENUES EARNED	13,759,919	100	17,141,724	100
COST OF GOODS SOLD	<u>10,890,350</u>	<u>79</u>	<u>14,033,298</u>	<u>82</u>
GROSS PROFIT BEFORE REALIZED GROSS PROFIT FROM INTER-AFFILIATE TRANSACTIONS	2,869,569	21	3,108,426	18
UNREALIZED GROSS PROFIT FROM INTER-AFFILIATE TRANSACTIONS	(1,070)	-	-	-
REALIZED GROSS PROFIT FROM INTER-AFFILIATE TRANSACTIONS	<u>-</u>	<u>-</u>	<u>2,080</u>	<u>-</u>
GROSS PROFIT	<u>2,868,499</u>	<u>21</u>	<u>3,110,506</u>	<u>18</u>
OPERATING EXPENSES				
Selling expenses	273,839	2	274,155	2
General and administrative expenses	1,239,754	9	1,299,754	7
Research and development expenses	<u>899,456</u>	<u>7</u>	<u>819,699</u>	<u>5</u>
Total operating expenses	<u>2,413,049</u>	<u>18</u>	<u>2,393,608</u>	<u>14</u>
INCOME FROM OPERATIONS	<u>455,450</u>	<u>3</u>	<u>716,898</u>	<u>4</u>
NON-OPERATING INCOME				
Interest income	71,211	1	109,222	1
Long-term equity investment income (Note 9)	3,829,813	28	3,937,371	23
Dividend income	100,997	1	93,067	1
Gain on disposal of property, plant and equipment	5,379	-	7,160	-
Gain on disposal of investments	267,899	2	-	-
Foreign exchange gains, net	-	-	562,413	3
Rental income	35,397	-	34,586	-
Others (Note 13)	<u>314,106</u>	<u>2</u>	<u>204,385</u>	<u>1</u>
Total non-operating income	<u>4,624,802</u>	<u>34</u>	<u>4,948,204</u>	<u>29</u>
NON-OPERATING EXPENSES				
Interest expense	406,266	3	447,414	3
Other investment losses (Note 9)	846	-	-	-
Loss on disposal of property, plant and equipment	21,798	-	2,519	-
Loss on disposal of investments (Note 9)	-	-	314,618	2
Foreign exchange loss, net	589,444	4	-	-
Loss on inventory devaluation	-	-	42,300	-
Loss on asset impairment (Note 3)	-	-	483,135	3
Others	<u>6,106</u>	<u>-</u>	<u>39,498</u>	<u>-</u>
Total non-operating expenses	<u>1,024,460</u>	<u>7</u>	<u>1,329,484</u>	<u>8</u>

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POU CHEN CORPORATION

STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2005 AND 2004

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

	2005		2004	
	Amount	%	Amount	%
INCOME BEFORE INCOME TAX	\$ 4,055,792	30	\$ 4,335,618	25
INCOME TAX BENEFIT (EXPENSE) (Notes 2 and 21)	<u>172,150</u>	<u>1</u>	<u>(89,280)</u>	<u>-</u>
NET INCOME	<u>\$ 4,227,942</u>	<u>31</u>	<u>\$ 4,246,338</u>	<u>25</u>
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS PER SHARE (Notes 2 and 22)				
Basic	<u>\$ 1.90</u>	<u>\$ 1.98</u>	<u>\$ 2.01</u>	<u>\$ 1.97</u>
Diluted	<u>\$ 1.87</u>	<u>\$ 1.95</u>	<u>\$ 1.76</u>	<u>\$ 1.72</u>
Pro-forma information, assuming common shares of the Company held by its subsidiaries were not treated as treasury stock:				
NET INCOME	<u>\$ 4,338,885</u>		<u>\$ 4,348,396</u>	
EARNINGS PER SHARE (Notes 2 and 22)				
Basic	<u>\$ 1.84</u>	<u>\$ 1.92</u>	<u>\$ 1.95</u>	<u>\$ 1.91</u>
Diluted	<u>\$ 1.82</u>	<u>\$ 1.89</u>	<u>\$ 1.72</u>	<u>\$ 1.68</u>

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

(With Deloitte & Touche audit report dated March 3, 2006)

(Concluded)

POU CHEN CORPORATION

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY YEARS ENDED DECEMBER 31, 2005 AND 2004 (In Thousands of New Taiwan Dollars)

	Capital Surplus					Retained Earnings			Other Adjustments of Stockholders' Equity			Total	
	Capital Stock	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	Effect of Transactions Relating to Long-term Equity Investments	Legal Reserve	Special Reserve	Unappropriated Earnings	Provision for Decline in Market Value of Long-Term Equity Investment	Cumulative Translation Adjustments		Treasury Stock
BALANCE, JANUARY 1, 2004	\$ 18,847,994	\$ 767,288	\$ 1,439,788	\$ 42,096	\$ 84,989	\$ -	\$ 2,210,357	\$ -	\$ 10,669,932	\$ (1,198,824)	\$ 1,139,592	\$ (2,055,319)	\$ 31,947,893
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 for 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
Acquisition of treasury stocks (Note 19)	-	-	-	-	-	-	-	-	-	-	-	(1,404,009)	(1,404,009)
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)	30,368,929
Appropriation of earnings													
Legal reserve	-	-	-	-	-	-	424,633	-	(424,633)	-	-	-	-
Special reserve	-	-	-	-	-	-	-	2,364,765	(2,364,765)	-	-	-	-
Bonuses to directors and supervisors	-	-	-	-	-	-	-	-	(43,708)	-	-	-	(43,708)
Bonuses to employees	42,397	-	-	-	-	-	-	-	(42,397)	-	-	-	-
Stock dividends	2,049,657	-	-	-	-	-	-	-	(2,049,657)	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	-	(2,049,658)	-	-	-	(2,049,658)
Effect of change of ownership interest in investees	-	-	-	-	-	14,192	-	-	(21,058)	-	-	-	(6,866)
Cash dividends received by subsidiaries	-	-	-	110,943	-	-	-	-	-	-	-	-	110,943
Provision for decline in market value of long-term equity investments (Note 9)	-	-	-	-	-	-	-	-	-	(266,977)	-	-	(266,977)
Translation adjustments on foreign long-term equity investments	-	-	-	-	-	-	-	-	-	-	1,256,137	-	1,256,137
Execution of employee stock warrants	29,140	10,785	-	-	-	-	-	-	-	-	-	-	39,925
Adjustments for permanent reduction of land value increment tax (Note 10)	-	-	-	-	49,652	-	-	-	-	-	-	-	49,652
Net income for 2005	-	-	-	-	-	-	-	-	4,227,942	-	-	-	4,227,942
BALANCE, DECEMBER 31, 2005	\$ 23,057,928	\$ 802,904	\$ 1,439,788	\$ 255,097	\$ 134,641	\$ 14,192	\$ 3,269,826	\$ 2,423,997	\$ 7,182,111	\$ (1,470,331)	\$ 35,494	\$ (3,459,328)	\$ 33,686,319

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

(With Deloitte & Touche audit report dated March 3, 2006)

POU CHEN CORPORATION

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2005 AND 2004 (In Thousands of New Taiwan Dollars)

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 4,227,942	\$ 4,246,338
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	188,311	202,628
Amortization for the cost of issuing Euro convertible bonds	73,171	77,054
(Gain) loss on buying back Euro convertible bonds	(103,083)	12,722
Loss on doubtful accounts	5,900	2,300
Loss on inventory devaluation	-	42,300
Investment income recognized under equity method	(3,829,813)	(3,937,371)
Cash dividends distributed by investees under equity method	3,810,925	1,836,181
Unrealized (realized) gross profit from inter-affiliate transactions	1,070	(2,080)
Net loss on disposal of long-term equity investments	12,543	186,791
Loss on liquidation of long-term equity investments	846	-
Net loss (gain) on disposal of property, plant and equipment	16,419	(4,641)
Loss on asset impairment	-	483,135
Net changes in operating assets and liabilities		
Short-term investments	1,505,736	(407,228)
Notes receivable	(350)	(4,359)
Notes receivable from affiliates	(17,516)	(1,453)
Accounts receivable	290,744	(492,578)
Accounts receivable from affiliates	(631,354)	(281,062)
Other financial assets, current	(169,282)	177,544
Inventories	(590,628)	(391,392)
Deferred income tax asset, current	(55,920)	74,900
Other current assets	(80,938)	(75,532)
Deferred income tax asset, noncurrent	(23,275)	(15,375)
Income tax prepayment	-	(6,696)
Notes payable	(13,549)	29,821
Notes payable to affiliates	12,611	15,936
Accounts payable	458,988	165,897
Accounts payable to affiliates	(166,483)	148,845
Income tax payable	31,183	(46,039)
Other payables	42,142	32,035
Deferred income tax liability, current	(129,605)	129,605
Other current liabilities	37,309	(14,648)
Foreign exchange adjustment on Euro convertible bonds	789,358	(916,778)
Interest expense compensation payable	246,579	274,318
Reserve for retirement plan	94,410	97,223
Net cash provided by operating activities	<u>6,034,391</u>	<u>1,638,341</u>

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POU CHEN CORPORATION

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2005 AND 2004 (In Thousands of New Taiwan Dollars)

	2005	2004
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in long-term equity investments	\$ (1,633,445)	\$ (2,039,763)
Proceeds from disposal of long-term equity investments	-	1,287,525
Acquisition of property, plant and equipment	(960,998)	(1,326,687)
Proceeds from disposal of property, plant and equipment	44,384	28,071
Decrease in refundable deposits	7,216	9,514
Increase in deferred charges	(110,728)	(78,737)
	<u>(2,653,571)</u>	<u>(2,120,077)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Redemption of Euro convertible bonds	(10,396,507)	(254,293)
Increase in short-term borrowings	1,480,000	-
Increase in long-term debt	4,500,000	-
Decrease in guarantee deposits received	-	(20)
Acquisition of treasury stocks	-	(1,404,009)
Execution of employee stock warrants	39,925	64,232
Cash dividends	(2,049,658)	(1,884,799)
Bonuses to directors and supervisors, as distribution of retained earnings	(43,708)	(169,629)
	<u>(6,469,948)</u>	<u>(3,648,518)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(3,089,128)	(4,130,254)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>4,108,890</u>	<u>8,239,144</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,019,762</u>	<u>\$ 4,108,890</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year		
Interest (excluding interest capitalized)	\$ 274,738	\$ 449,480
Income tax	<u>\$ 5,467</u>	<u>\$ 6,696</u>
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Short-term investments transferred to long-term equity investments	<u>\$ -</u>	<u>\$ 2,514</u>
Long-term equity investments transferred to short-term investments	<u>\$ 253,681</u>	<u>\$ -</u>

(Continued)

POU CHEN CORPORATION

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2005 AND 2004 (In Thousands of New Taiwan Dollars)

	2005	2004
Provision for decline in market value of investees' and the Company's long-term equity investments	<u>\$ (266,977)</u>	<u>\$ (4,530)</u>
Effect of changes in ownership interest in investees	<u>\$ (6,866)</u>	<u>\$ (168,390)</u>
Cash dividend received by subsidiaries	<u>\$ 110,943</u>	<u>\$ 102,058</u>
Transfer of current portion of long-term liabilities to current liabilities	<u>\$ 3,094,092</u>	<u>\$ 9,513,000</u>
Translation adjustments on foreign long-term investments	<u>\$ 1,256,137</u>	<u>\$(2,360,235)</u>
Cash paid during the year for acquisition of property, plant and equipment		
Fair value of property, plant and equipment acquired	\$ 1,087,040	\$ 1,215,775
Add payables for acquisition of property, plant and equipment at beginning of year	51,500	162,412
Less payables for acquisition of property, plant and equipment at end of year	<u>(177,542)</u>	<u>(51,500)</u>
Cash paid during the year for acquisition of property, plant and equipment	<u>\$ 960,998</u>	<u>\$ 1,326,687</u>

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

(With Deloitte & Touche audit report dated March 3, 2006)

(Concluded)

POU CHEN CORPORATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2005 AND 2004

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. ORGANIZATION AND OPERATIONS

Pou Chen Corporation (the “Company”) was incorporated in September 1969. The Company is located in Changhwa County and currently has two factories and nine trade departments. The Company’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. The Company also invests significantly in shoes and electronic industry to diversify its business operation. As a result, investment income has become the Company’s major source of revenue.

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

In January 1990, the Company started to trade its stocks on the Taiwan Stock Exchange. As at December 31, 2005 and 2004, there were 2,948 and 2,730 employees of the Company, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements are prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China (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, impairment loss, and pension expenses, etc. However, actual results could differ from those estimates because of the uncertainty of circumstances.

For the convenience of readers, the accompanying 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’s significant accounting policies and basis of measurement are summarized as follows:

Current/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 and other assets not being recorded as current assets are recorded as noncurrent assets. Liabilities expected to be liquidated in a year are recorded as current liabilities. Liabilities not being recorded as current liabilities are recorded as noncurrent liabilities.

Cash and Cash Equivalents

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

Short-Term Investments

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

Allowance for Doubtful Accounts

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

Inventories

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

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 by 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 are transferred to 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.

When the accounting treatment of long-term equity investments change to equity method from cost method, the purchased goodwill is amortized over a ten-year period since the year of change.

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

Effective from the first half of 2005, the consolidated financial statements of the Company include the investees effectively controlled by the Company.

Property, Plant, Equipment and Leased Asset

Property, plant, equipment and leased asset 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	30~55 years
Machinery equipment	5~7 years
Transportation equipment	5 years
Furniture, fixtures and office equipment	3~5 years
Others	5 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 on 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.

Deferred Charges

Deferred charges, except for issuing costs of bonds, are amortized on a straight-line basis over five-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 the Company, contain put right. Each holder has the right, at the holder's option, to request the Company to repurchase all or any portion of such holder's bonds. 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

The Company has a defined benefit pension plan covering all eligible employees. The benefits are based primarily upon employees' years of service and average gross compensation for the six-month period before retirement. Based on the Labor Standards Law of the ROC, the Company's policy is to fund the plan at 6% of employees' salaries and wages. The fund is administered by a Pension Fund Administration Committee and is deposited in the Central Trust of China.

The Labor Pension Act (the "Act"), which took effect on July 1, 2005, provides for a new defined contribution pension plan. Employees who were subject to the Labor Standards Law before the enforcement of this Act and still work for the Company after the enforcement of this Act may choose to remain to be subject to the pension mechanism under the Labor Standards Law. If they choose to be subject to the Act, their service years before the enforcement of this Act will be retained. Employees who start to work for the Company after July 1, 2005 are only subject to the Act.

The Company adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 18, "Accounting for Pension", which require that pension expense shall be computed at actuarial basis.

Deferred Credits

Deferred credits represent those unrealized profit resulting from transactions between the Company and its affiliated companies accounted for under the equity method.

Foreign Currency Transactions

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

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. Under the equity method, investee's 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 purchase 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 established to reduce deferred tax assets to the amount expected to be realized, if needed. Income tax expense or benefit is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

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

Earnings Per Share

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

On a diluted basis, both net earnings and shares outstanding are adjusted to assume the conversion of convertible bonds from the date of 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 or 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 of 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 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, 2005 and 2004 consist of the following:

	2005	2004
Cash on hand	\$ 2,107	\$ 3,046
Checking accounts	393	797
Savings accounts	428,646	2,223,891
Foreign-currency savings deposit	<u>588,616</u>	<u>1,881,156</u>
	<u>\$1,019,762</u>	<u>\$4,108,890</u>

The time certificates of deposit of \$9,015 thousand and \$17,451 thousand, which are pledged for employment of foreign labors as at December 31, 2005 and 2004, respectively, are included in other financial assets, noncurrent.

5. SHORT-TERM INVESTMENTS

The carrying value and market value of short-term investments at December 31, 2005 and 2004 are summarized as follows:

	2005		2004	
	Carrying Value	Market Value	Carrying Value	Market Value
Marketable equity securities	\$ 907,984	\$ 1,370,861	\$ 907,984	\$ 1,345,271
Open-ended mutual fund	<u>407,946</u>	<u>411,159</u>	<u>1,660,000</u>	<u>1,779,399</u>
	1,315,930	1,782,020	2,567,984	3,124,670
Less valuation allowance	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,315,930</u>	<u>\$ 1,782,020</u>	<u>\$ 2,567,984</u>	<u>\$ 3,124,670</u>

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.

There was no valuation allowance provided as at December 31, 2005 and 2004.

6. NOTES RECEIVABLE

Notes receivable as at December 31, 2005 and 2004 consist of the following:

	2005	2004
Notes receivable	\$ 10,589	\$ 10,239
Notes receivable from affiliates (Note 23)	<u>20,901</u>	<u>3,385</u>
	<u>\$ 31,490</u>	<u>\$ 13,624</u>

7. ACCOUNTS RECEIVABLE

Accounts receivable as at December 31, 2005 and 2004 consist of the following:

	2005	2004
Accounts receivable	\$ 314,940	\$ 605,684
Less allowance for doubtful accounts	<u>(15,200)</u>	<u>(9,300)</u>
	299,740	596,384
Accounts receivable from affiliates (Note 23)	<u>1,982,833</u>	<u>1,351,479</u>
	<u>\$ 2,282,573</u>	<u>\$ 1,947,863</u>

8. INVENTORIES

Inventories as at December 31, 2005 and 2004 consist of the following:

	2005	2004
Raw materials	\$ 427,785	\$ 273,685
Supplies	4,666	8,562
Work-in-process	36,488	42,918
Finished goods	649,472	202,503
Merchandise	<u>8,768</u>	<u>8,883</u>
	1,127,179	536,551
Less valuation allowance	<u>(52,300)</u>	<u>(52,300)</u>
	<u>\$ 1,074,879</u>	<u>\$ 484,251</u>

As at December 31, 2005 and 2004, insurance coverage for inventories amounted to \$1,252,747 thousand and \$905,739 thousand, respectively.

9. LONG-TERM EQUITY INVESTMENTS

Long-term equity investments as at December 31, 2005 and 2004 consist of the following:

	2005			2004	
	Original Cost	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage
Accounted for under equity method					
Wealthplus	\$ 5,421,069	\$ 27,718,250	100.00	\$ 26,461,141	100.00
Win Fortune	3,230	614,331	100.00	651,272	100.00
Ming Wang	427,291	1	100.00	1	100.00
Yue Yuen Entertainment	100,000	83,138	100.00	93,398	100.00
Pou Shine	195,000	494,085	99.99	443,951	99.99
Pan Asia Insurance Consulting	3,000	3,253	99.98	3,241	99.98
Barits Development	1,780,331	2,183,258	98.34	1,995,115	97.63
Pou Yuen Technology	663,962	194,957	96.32	328,455	96.32
Yun Yang	98,413	115,738	91.15	101,791	91.15
Pro Arch Technology	1,627,663	211,277	88.59	148,113	58.55
Techview International	359,650	430,815	49.48	-	-
Global Brands Manufacture	1,976,272	2,273,603	37.30	1,406,405	38.71
Elitegroup Computer	4,618,697	4,009,706	19.69	3,612,388	17.31
Pou Yi	40,320	1	15.00	1	15.00
Wang Yi	7,315	4,158	7.32	5,353	7.32
Tse Throw	-	-	-	27,761	100.00
Less allowance for impairment loss	<u>-</u>	<u>(483,135)</u>		<u>(483,135)</u>	
	<u>17,322,213</u>	<u>37,853,436</u>		<u>34,795,251</u>	
Accounted for under cost method					
Quanta Display	811,314	811,314	0.78	811,314	0.87
Techview International	-	-	-	136,500	19.50
Ardentec	-	-	-	253,681	9.03
Less valuation allowance	<u>-</u>	<u>(434,251)</u>		<u>(198,520)</u>	
	<u>811,314</u>	<u>377,063</u>		<u>1,002,975</u>	
	<u>\$ 18,133,527</u>	<u>\$ 38,230,499</u>		<u>\$ 35,798,226</u>	

The Company recognized long-term equity investments income (loss) under equity method for 2005 and 2004 as follows:

	2005	2004
Wealthplus	\$3,591,119	\$4,031,515
Win Fortune	77,464	80,469
Ming Wang	(4,013)	21,840
Yue Yuen Entertainment	(10,261)	(5,106)
Pou Shine	42,810	72,654
Pan Asia Insurance Consulting	12	(87)
Barits Development	259,862	450,781
Pou Yuen Technology	(161,500)	(306,228)
Yun Yang	10,088	1,244
Pro Arch Technology	(456,895)	(330,915)
Techview International	73,289	-
Global Brands Manufacture	436,561	235,272
Pou Yi	(3,554)	5,286
Elitegroup Computer	(40,350)	(295,167)
Wang Yi	(1,265)	4,335
Tse Throw	16,446	3,173
Pou Liang	-	(4)
NESO Technology	-	(18,850)
VAC Corporation	-	(10,165)
Formosa Shinn Yuan Aluminium	-	1,455
Global Biotech	-	(2,582)
You Fu	-	(1,549)
	<u>\$3,829,813</u>	<u>\$3,937,371</u>

Wealthplus Holdings Ltd. (“Wealthplus”) and Win Fortune Investments Ltd. (“Win Fortune”), 100%-owned subsidiaries of the Company, were incorporated in the British Virgin Islands. These two companies primarily invest in companies which are engaged in the sports-footwear and make investment in the People’s Republic of China (“PRC”) through an investment in Yue Yuen Industrial (Holdings) Limited (“Yue Yuen”), a Hong Kong listed company. The Company also purchased stocks of Yue Yuen through Wealthplus, Win Fortune and Top Score Investments Ltd. (“Top Score”), 100% owned subsidiaries of Barits Development, in Hong Kong Stock Exchange. At December 31, 2005, the Company effectively holds 50.88% ownership in Yue Yuen.

In addition, Wealthplus is engaged in manufacturing and sale of TFT-LCD module through Digital Decade Limited and China Lion Associates Limited.

As the accounting year for these two investees is from October 1 of the preceding year to September 30 of the year. The Company accounted for its long-term investment income of these companies based on these companies’ financial results for the years ended September 30, 2005 and 2004, which was allowed by the accounting principles generally accepted in the ROC.

The primary income of Wealthplus and Win Fortune in 2005 and 2004 are summarized as follows:

	Wealthplus		Win Fortune	
	2005	2004	2005	2004
Equity in earnings of Yue Yuen	\$ 4,262,155	\$ 4,361,554	\$ 78,566	\$ 80,673
Equity in earnings of other overseas investees	(333,988)	(199,538)	-	-
Other	(337,048)	(130,501)	(1,102)	(204)
	\$ 3,591,119	\$ 4,031,515	\$ 77,464	\$ 80,469

In February 2005, Wealthplus transferred its additional paid-in capital of US\$123,285 thousand to capital stock. Accordingly, Wealthplus' capital stock as of September 30, 2005 amounted to US\$169,222 thousand. Additionally, Wealthplus distributed earnings amounted to US\$105,000 thousand (NT\$3,370,390 thousand) in 2005.

In February 2005, Win Fortune transferred its additional paid-in capital of US\$99,999 to capital stock. Accordingly, Win Fortune's capital stock as of September 30, 2005 amounted to US\$100,000. Additionally, Win Fortune distributed earnings amounted to US\$4,300 thousand (NT\$138,469 thousand) in 2005.

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 Ltd., Digidube 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.

Ming Wang Investments Co., Ltd. ("Ming Wang") was established in September 1996, with an outstanding common stock of \$427,291 thousand at par value of \$10 dollars per share at December 31, 2005 and is primarily engaged in investing activities. As the book value of long-term equity investment in Ming Wang became negative, the Company reclassified the negative balance of \$21,293 thousand to "other liabilities - others", except retaining \$1 thousand in the book value of long-term equity investment (see Note 16).

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 dollars per share as at December 31, 2005. It is primarily engaged in operating of hotel business and investing and developing of real estate.

Pou Shine Investments Co., Ltd. ("Pou Shine") was established in March 1990, with an outstanding common stock of \$573,632 thousand at par value of \$10 dollars per share at December 31, 2005. It is primarily engaged in investing activities.

Barits Development Corp.'s ("Barits Development") major operating activities include manufacturing leather and making investments. As at December 31, 2005, Barits Development has an outstanding common stock of \$913,000 thousand at par value \$10 dollars per share.

Pou Yuen Technology Co., Ltd. (“Pou Yuen Technology”) was established in December 1993, with an outstanding common stock of \$600,000 thousand as at December 31, 2005. Pou Yuen Technology is mainly engaged in designing, manufacturing and trading mold, magnesium alloy casing and data processing and storage equipment.

Pro Arch Technology Inc. (“Pro Arch Technology”) was established in June 1999 and is engaged in manufacturing and sale of computer peripheral equipment and related spare parts. In January 2005, Pro Arch Technology issued additional capital stock by \$1,235,200 thousand at a price of \$4.93 dollars per share, of which \$608,285 thousand were subscribed by the Company. Accordingly, the Company’s ownership was increased to 88.59%. Additionally, Pro Arch Technology decreased its capital to offset its accumulated deficit by \$524,873 thousand in November 2005. As at December 31, 2005, Pro Arch Technology has an outstanding common stock of \$1,175,127 thousand.

Global Brands Manufacture Ltd. (“Global Brands Manufacture”) is engaged in manufacturing, assembling and sale of printed circuit boards. The shares of Global Brands Manufacture are listed on the Over-The-Counter Stock Exchange of Taiwan. Global Brands Manufacture had an outstanding capital stock of \$2,054,381 thousand as at December 31, 2005. In August 2005, Global Brands Manufacture issued additional \$3,500,000 thousand capital stock at a price of \$37.5 dollars per share, of which \$412,927 thousand were subscribed by the Company. As at December 31, 2005, the Company’s ownership was increased to 37.30%.

Techview International Technology Inc. (“Techview International”) is engaged in manufacturing and sale of LCD display. It has an outstanding common stock of \$741,976 thousand at December 31, 2005. The Company purchased more Techview International’s shares from non-related party in February 2005. The Company’s ownership was increased to 49.48%, therefore accounting treatment of long-term investment in Techview International changed to equity method.

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, and the Company acquired additional 17,454 thousand shares of Elitegroup Computer from market in 2005, the Company’s ownership was increased to 19.69%. It has an outstanding common stock of \$7,326,691 thousand as at December 31, 2005. In accordance with the Stock Exchange Law, the shares held by the Company through private placement are not allowed to trade in the open market in the following three years upon issuance.

Pou Yi Construction Co., Ltd. (“Pou Yi”) was established in October 1996 and primarily engaged in constructing apartments and other buildings, with an outstanding common stock of \$350,000 thousand as at December 31, 2005. Effective January 1, 2002, common shares of the Company held by its subsidiaries are treated as treasury stock. As the book value of this long-term equity investment became negative, the Company reclassified the negative balance of \$8,859 thousand to “other liabilities - others”, except retaining \$1 thousand in the book value of long-term equity investment (see Note 16).

Tse Throw Technology Co., Ltd. (“Tse Throw”) was established in March 2001 and primarily engaged in manufacturing and sale of plastic goods and electronic parts. In October 2005, Tse Throw went into liquidation. Accordingly, the Company recognized \$846 thousand other investment loss in 2005.

Ardentec Corp. (“Ardentec”) was established in October 1999 and is engaged in manufacturing and sale of electronic parts. In January 2005, the shares of Ardentec are listed on the Over-the-Counter Stock Exchange of Taiwan. Accordingly, the Company reclassified all its shares to “short-term investment” and disposed all of the shares.

Quanta Display Inc. (“Quanta Display”) is engaged in manufacturing and sale of TFT-LCD module in monitors. The shares of Quanta Display are listed on Taiwan Stock Exchange Corporation. It has an outstanding common stock of \$45,638,200 thousand as at December 31, 2005. The Company acquired 33,800 thousand share of Quanta Display for \$811,314 thousand from the open market in 2004, and became a director in the Quanta Display’s Board of Directors.

The carrying value and market value of marketable equity securities which the Company accounted for under cost method at December 31, 2005 and 2004 are summarized as follows:

	2005		2004	
	Carrying Value	Market Value	Carrying Value	Market Value
Quanta Display	\$811,314	\$377,063	\$811,314	\$612,794
Less valuation allowance	<u>(434,251)</u>	<u>-</u>	<u>(198,520)</u>	<u>-</u>
	<u>\$377,063</u>	<u>\$377,063</u>	<u>\$612,794</u>	<u>\$612,794</u>

The movement of provision for decline in market value of long-term equity investments for the year ended December 31, 2005 is as follows:

	Beginning Balance	Provision (Reverse)	Ending Balance
The Company	\$ 198,520	\$235,731	\$ 434,251
Investees accounted for by equity method	<u>1,004,834</u>	<u>31,246</u>	<u>1,036,080</u>
	<u>\$1,203,354</u>	<u>\$266,977</u>	<u>\$1,470,331</u>

10. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as at December 31, 2005 and 2004 consist of the following:

	2005			2004	
	Cost	Reassessed Value Increment	Accumulated Depreciation	Carrying Value	Carrying Value
Land	\$1,486,498	\$ 248,187	\$ -	\$1,734,685	\$1,556,641
Buildings and improvements	1,295,097	45,062	638,550	701,609	783,572
Machinery equipment	418,962	-	316,445	102,517	117,621
Transportation equipment	174,569	-	129,363	45,206	47,543
Furniture, fixtures and office equipment	274,473	-	195,935	78,538	87,757
Other equipment	27,756	-	23,079	4,677	7,164
Construction in progress	<u>2,804,619</u>	<u>-</u>	<u>-</u>	<u>2,804,619</u>	<u>1,989,275</u>
	<u>\$6,481,974</u>	<u>\$ 293,249</u>	<u>\$1,303,372</u>	<u>\$5,471,851</u>	<u>\$4,589,573</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. Furthermore, in accordance with the amended Land Tax Law, the Company decreased its reserve for land value increment tax by \$49,652 thousand with an increase of property, plant and equipment revaluation increment for the year ended December 31, 2005.

Two parcels of land located in ChangHwa County 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 changed 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 at December 31, 2005 and 2004 are included in "other assets" (see Note 11).

In order to utilize efficiently and completely the Pou Chen International Building, the Company acquired 20% ownership of such building, including land and building (construction in progress) for \$442,978 thousand from the affiliate company, Barits Development and a parcel of land located in Taichung for \$15,267 thousand from Ming Wang, an affiliate company, in August 2004. Total expenditure amounted to \$458,245 thousand.

In September 1999 and February 2001, the Company and its affiliate company, Barits Development, entered into a contract with Wang Yi Construction Co., Ltd. ("Wang Yi", affiliate company) to build Pou Chen International Building, at a total price of \$364,226 thousand. In December 2004, the contract has been amended, and the total price changed to \$699,100 thousand. The Company had already prepaid \$589,046 thousand as at December 31, 2005, which was recorded as "construction in progress".

In March 2001 and 2002, the Company and its affiliate company, Barits Development, entered into two material purchase contracts 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. The Company had already prepaid \$349,334 thousand and \$324,499 thousand, as at December 31, 2005 and 2004, respectively, which was recorded as "construction in progress".

Total interest expense for the years ended December 31, 2005 and 2004 amounted to \$407,613 thousand and \$447,686 thousand, respectively. Interest costs capitalized as part of the costs of property, plant and equipment for the years ended December 31, 2005 and 2004 amounted to \$1,347 thousand and \$272 thousand, respectively, while interest rate of borrowings related to acquisition of property, plant and equipment were 2.50%.

At December 31, 2005 and 2004, insurance coverage for property, plant and equipment, excluding land, prepayment on purchase of equipment and construction in progress, amounted to \$956,184 thousand and \$1,237,581 thousand, respectively.

11. OTHER ASSETS

Other assets at December 31, 2005 and 2004 consist of the following:

	2005	2004
Leased-out assets		
Cost	\$415,351	\$415,351
Less accumulated depreciation	<u>(41,473)</u>	<u>(38,522)</u>
Carrying value	<u>373,878</u>	<u>376,829</u>
Deferred charges	93,945	173,119
Deferred income tax asset (Notes 2 and 21)	123,000	99,725
Other (Note 10)	55,855	55,855
Other - land and buildings for sale	<u>5,622</u>	<u>8,459</u>
	<u>\$652,300</u>	<u>\$713,987</u>

The Company leased its building acquired in June 1990 to Pou Chien Chemical Co., Ltd. (related party), under various noncancellable long-term operating lease terms. Rental income is determined by the rental space. Additionally, the Company leased its building acquired in October 2002 and June 2003 to related parties - Global Brands Manufacture Ltd., and non-related party Taiwan McDonald's. Rental income is based on the rental space, location, and rental price of vicinity.

Land and buildings for sale were acquired from the Company's investee - Hung Fu as distribution of liquidation dividend.

12. SHORT-TERM BORROWINGS

Short-term borrowings as at December 31, 2005 and 2004 consist of the following:

	2005		2004	
	Annual Interest Rate %	Balance	Annual Interest Rate %	Balance
Unsecured loans	1.45~1.69	\$ <u>1,480,000</u>	-	\$ <u>-</u>

13. BONDS PAYABLE

Bonds payable as at December 31, 2005 and 2004 consist of the following:

	2005	2004
Euro convertible bonds	\$ 1,966,295	\$ 11,546,730
Add interest compensation and income tax payable	<u>1,278,250</u>	<u>1,238,315</u>
	3,244,545	12,785,045
Less current portion	<u>(3,094,092)</u>	<u>(9,513,000)</u>
	150,453	3,272,045
Domestic secured bonds	<u>5,000,000</u>	<u>5,000,000</u>
	<u>\$ 5,150,453</u>	<u>\$ 8,272,045</u>

In 2005, the Company bought back its Euro Convertible Bonds with par value US\$305,825 thousand from open market at a consideration of \$10,396,507 thousand and the Company recognized a gain of \$103,083 thousand as non-operating income for 2005.

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\$55,595 thousand not converted as of December 31, 2005
- (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 dollars 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 the Company. As at December 31, 2005, the current adjusted conversion price is \$25.46 dollars per share.
- (i) Redemption at the option of the Company:

The Notes may be redeemed at the option of the Company, 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, the Company 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 the Company is then organized, the Company becomes obligated to pay additional amounts, the Notes may be redeemed at the option of the Company, 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, the Company 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 the Company 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 the Company's ownership in Yue Yuen, 50.88% owned by the Company as at December 31, 2005, each holder of the Notes will have the right, at such holder's option, to require the Company to repurchase all of such holder's Notes on the date that is 50 days after the date on which such reduction of the Company'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, there are US\$4,580 thousand not converted as of December 31, 2005.
- (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 dollars 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 the Company. At December 31, 2005, the current adjusted conversion price is \$31.40 dollars 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 the Company:
 - (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 the Company 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 the Company 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 the Company 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 the Company is then organized.
- (k) Repurchase at the option of holders:
 - (i) Each holder has the right to require the Company 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 the Company 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 the Company 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 the Company which is not less than 30 days nor more than 60 days following the date on which the Company 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 the Company's capital stock; or
 - The Company 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 the Company or the successor entity.
- (iv) If the Company ceases to hold, directly or indirectly, at least 33% of the outstanding capital stock of Yue Yuen, or if the Company, 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 the Company 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) The Company 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 the Company 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 the Company, subject to certain conditions and limitations, to:

- (a) merge with any other company or spin off, unless the Company being the existing company or majority lenders consent that such merger or spin off will not have a material adverse effect on the Company;

- (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, 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.

14. LONG-TERM DEBT

Long-term debt as at December 31, 2005 consists of the following:

	2005	2004
Citi Bank		
Long-term debt, \$6,500,000 thousand, due in semiannual installments commencing April 25, 2009 and maturing October 25, 2010. Interest rate is 1.857% and 1.915%	\$ 4,500,000	\$ -
Less current portion	<u>-</u>	<u>-</u>
	<u>\$ 4,500,000</u>	<u>\$ -</u>

15. PENSION PLAN

The Company 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 2005 consists of the following:

Service cost	\$ 78,857
Interest cost	35,018
Expected return on plan assets	(12,317)
Amortization of net transition obligation	(1,875)
Amortization of pension loss	<u>17,680</u>
	<u>\$ 117,363</u>

The following sets forth the actuarial assumptions and plan's status as at December 31, 2005:

Weighted-average discount rate	3.25%
Assumed rate of increase in salary	3.75%
Expected rate of return on plan assets	3.25%
Actuarial present value of benefit obligation	
Vested benefits	\$ (93,870)
Nonvested benefits	<u>(608,283)</u>
Accumulated benefit obligation	(702,153)
Additional benefits at future salaries	<u>(440,784)</u>
Projected benefit obligation	(1,142,937)
Plan assets at fair value	<u>381,825</u>
Projected benefit obligation in excess of plan assets	(761,112)
Net transition asset not yet recognized	(12,123)
Net pension loss not yet recognized	<u>296,288</u>
Accrued pension cost	<u>\$ (476,947)</u>

As at December 31, 2005, the vested benefit was \$120,339 thousand.

The Company recognized the pension cost expense of \$35,503 thousand based on 6% of the employees' monthly salaries and wages, under the Labor Pension Act in the second half of 2005.

16. OTHER LIABILITIES - OTHERS

Other liabilities - others as at December 31, 2005 and 2004 consist of the following:

	2005	2004
Unrealized gross profit from inter-affiliate transactions	\$27,477	\$15,182
Others (Note 9)	<u>30,152</u>	<u>46,419</u>
	<u>\$57,629</u>	<u>\$61,601</u>

17. CAPITAL STOCK

	2005	2004
Registered capital		
Shares (in thousands)	<u>3,800,000</u>	<u>3,475,000</u>
Par value	<u>\$ 10</u>	<u>\$ 10</u>
Capital	<u>\$38,000,000</u>	<u>\$34,750,000</u>
Issued capital		
Shares (in thousands)	<u>2,305,793</u>	<u>2,093,673</u>
Par value	<u>\$ 10</u>	<u>\$ 10</u>
Capital	<u>\$23,057,928</u>	<u>\$20,936,734</u>

As at June 14, 2005, the Company's shareholders meeting resolved to issue additional \$2,092,054 thousand through stock dividends, and bonuses to employees. Furthermore, employee stock warrants exercised 2,914 thousand shares during 2005. As a result, the Company's outstanding capital stock was increased to \$23,057,928 thousand divided into 2,305,793 thousand common shares with a par value of \$10 dollars each as at December 31, 2005.

Earnings per share are based upon the weighted average number of shares of stock outstanding during the year. For the year ended December 31, 2004, 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 2005.

At the meeting on July 15, 2002, the Board of Directors of the Company 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 the Company'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, the Company has issued 66,600 units and 1,000 units of employee stock warrants, respectively to the employees with an exercise price of \$23.30 dollars and \$41.20 dollars per share, respectively.

The exercise price of such warrant has been retroactively restated as \$12.00 dollars and \$27.60 dollars per share, respectively due to the stock dividends issued in 2005. At December 31, 2005, the employee stock warrants of 66,600 units were executed for 6,854 thousand shares of common stock.

18. RETAINED EARNINGS

According to the Company Law of the ROC and the Company's Articles of Incorporation, 10% of the Company'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 the Company's capital, and then appropriate necessary special reserve as regulated by laws or domestic authorities.

Any remaining balance, unless to be retained partially by the Company 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. the final remainder shall be distributed to stockholders unless deficit.

In accordance with the Approval Documents (89) Tai-Tsai-Tseng (1) No. 100116 of Securities and Futures Commission, public listed companies have to appropriate same amount of special reserve according to Article 41-1 of Securities Transaction Act, in addition to the appropriation of legal reserve, in the occurrence of the deduction of 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.

The Company's board of directors and shareholders have proposed and approved the 2004 earnings distribution of 4,240 thousand shares to employees (represents 0.20% of the outstanding common shares at the end of 2004) and of \$43,708 thousand as bonuses to directors and supervisors. In 2004, the earnings per share after income tax (before retroactive adjustment for stock dividend in 2005) was \$2.17 dollars; however, if the earnings distribution to employees, directors and supervisors are accounted for as expenses, the pro-forma earnings per share after income tax was \$2.13 dollars.

19. TREASURY STOCK

The changes of treasury stock of 2005 are summarized as follows (in shares):

Reason	2005.01.01	Increase	Decrease	2005.12.31
Buy the stock back to transfer to employees	45,700,000	-	-	45,700,000
Common shares held by subsidiaries	110,786,044	11,361,140	-	122,147,184

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) of treasury stock on December 31, 2005.

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.

In 2005, after the stock dividends were received by the subsidiaries, 11,361,140 shares were added. Accordingly, as at December 31, 2005, the subsidiaries held 122,147,184 shares of the Company's common stock and \$2,055,319 thousand in total.

20. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

Personnel, depreciation, and amortization expenses for the years ended December 31, 2005 and 2004 are summarized as follows:

Expense Item	Function	2005			2004		
		Operating Cost	Operating Expenses	Total	Operating Cost	Operating Expenses	Total
Personnel expense							
Salaries		93,844	1,362,765	1,456,609	116,236	1,295,002	1,411,238
Labor insurance and health insurance		6,889	144,710	151,599	9,707	127,219	136,926
Pension cost		4,681	148,185	152,866	4,591	122,217	126,808
Others		4,001	40,609	44,610	4,565	39,380	43,945
Depreciation expenses		5,138	143,289	148,427	8,227	158,733	166,960
Amortization expenses		66	112,989	113,055	-	112,722	112,722

21. INCOME TAX

The Company's income tax benefit for the year ended December 31, 2005 is as follows:

Income tax benefit current year	\$ 135,500
Investment tax credits	<u>36,650</u>
Income tax benefit	<u>\$ 172,150</u>

The components of deferred tax asset as at December 31, 2005 are as follows:

Deferred tax assets	
Unrealized inventory devaluation losses	\$ 13,075
Unrealized gain on disposal of property, plant and equipment	1,000
Unrealized bad debt losses	12,445
Unrealized maintenance and repairs expenses	400
Unrealized pension expense	121,600
Unrealized profit from inter-affiliate transactions	2,400
Unrealized loss on liquidation of long-term equity investments	18,300
Unrealized exchange losses	<u>9,700</u>
	178,920
Deferred tax assets, noncurrent	<u>(123,000)</u>
Deferred tax assets, current	<u>\$ 55,920</u>

Current income tax expense for the year ended December 31, 2005 and income tax payable as at December 31, 2005 is reconciled as follows:

Income tax expense at statutory rate of 25%	\$ 1,014,000
Permanent difference of long-term equity investments income accounted for under equity method	(957,400)
Dividend income - tax free	(25,200)
Cash dividends received by overseas investees under equity method	877,200
Gain on disposal of investments	(67,000)
Loss on reduction of capital in long-term equity investments accounted for under equity method	(71,300)
Income tax on interest compensation of bonds	12,400
Income from the business tax premium	(916,900)
Other	<u>(1,300)</u>
Current income tax benefit	(135,500)
Provision for (reversal of) deferred income tax asset	
Unrealized exchange loss	184,700
Unrealized pension expense	23,600
Unrealized loss on doubtful accounts	575
Other	<u>(75)</u>
Income tax payable	73,300
Less investment tax credits	(36,650)
Less current year's withholding income tax	<u>(5,467)</u>
Income tax payable as at December 31, 2005	<u>\$ 31,183</u>

Temporary tax payments of \$8,141 thousand as at December 31, 2005.

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

The information of the integrated income tax system as at December 31, 2005 is as follows:

Balance of Imputation Credit Account	<u>\$ 105,907</u>
Undistributed earnings for the years of 1997 and before	<u>\$ 310,501</u>
Undistributed earnings for the years of 1998 and thereafter	<u>\$6,871,610</u>
Expected IC ratio on distributed earnings for the year of 2006	<u>2.00%</u>
Actual IC ratio of stock dividend distribution for the year of 2005	<u>1.68%</u>

In the balance of imputation credit account as of December 31, 2005, the income tax payable for 2005 has been taken into account.

22. EARNINGS PER SHARE

For the years ended December 31, 2005 and 2004, earnings per share before income tax and earnings per share after income tax are as follows:

	<u>2005</u>				
	<u>Income Before Tax</u>	<u>Income After Tax</u>	<u>Weighted Average Number of Common Shares Outstanding (In Thousands)</u>	<u>Earnings Per Share</u>	
				<u>Income Before Tax</u>	<u>Income After Tax</u>
Basic earnings per share					
Net income	\$4,055,792	\$4,227,942	2,136,433	<u>\$ 1.90</u>	<u>\$ 1.98</u>
Effect of dilutive potential common shares					
Employee stock warrants	-	-	30,610		
Convertible bonds	<u>-</u>	<u>-</u>	<u>4,791</u>		
Diluted earnings per share					
Net income plus the effect of dilutive potential common shares	<u>\$4,055,792</u>	<u>\$4,227,942</u>	<u>2,171,834</u>	<u>\$ 1.87</u>	<u>\$ 1.95</u>

	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	\$4,335,618	\$4,246,338	2,154,384	<u>\$ 2.01</u>	<u>\$ 1.97</u>
Effect of dilutive potential common shares					
Employee stock warrants	-	-	36,201		
Convertible bonds	-	-	<u>272,579</u>		
Diluted earnings per share					
Net income plus the effect of dilutive potential common shares	<u>\$4,335,618</u>	<u>\$4,246,338</u>	<u>2,463,164</u>	<u>\$ 1.76</u>	<u>1.72</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, 2005 and 2004 would be increased by \$110,943 thousand and \$102,058 thousand, respectively. And the pro-forma earnings per share are as follows:

	2005				
	Income Before Tax	Income After Tax	Weighted Average Number of Common Shares Outstanding (In Thousands)	Earnings Per Share	
				Income Before Tax	Income After Tax
Basic earnings per share					
Net income	\$4,166,735	\$4,338,885	2,258,580	<u>\$ 1.84</u>	<u>\$ 1.92</u>
Effect of dilutive potential common shares					
Employee stock warrants	-	-	30,610		
Convertible bonds	-	-	<u>4,791</u>		
Diluted earnings per share					
Net income plus the effect of dilutive potential common shares	<u>\$4,166,735</u>	<u>\$4,338,885</u>	<u>2,293,981</u>	<u>\$ 1.82</u>	<u>\$ 1.89</u>

	2004				
	Income Before Tax	Income After Tax	Weighted Average Number of Common Shares Outstanding (In Thousands)	Income Before Tax	Income After Tax
Basic earnings per share					
Net income	\$4,437,676	\$4,348,396	2,276,531	<u>\$ 1.95</u>	<u>\$ 1.91</u>
Effect of dilutive potential common shares					
Employee stock warrants	-	-	36,201		
Convertible bonds	-	-	<u>272,579</u>		
Diluted earnings per share					
Net income plus the effect of dilutive potential common shares	<u>\$4,437,676</u>	<u>\$4,348,396</u>	<u>2,585,311</u>	<u>\$ 1.72</u>	<u>\$ 1.68</u>

23. RELATED PARTY TRANSACTIONS

Names and relationships of the related parties are as follows:

Name	Relationship
Wealthplus	The Company holds a 100% ownership interest
Pou Shine	The Company holds a 99.99% ownership interest
Ming Wang	The Company holds a 100% ownership interest
Pou Yuen Technology	The Company holds a 96.32% ownership interest
Barits Development	The Company holds a 98.34% ownership interest
Pou Yi	The Company and Song Ming hold a 90.00% ownership interest
Yue Yuen Industrial (Holdings) Limited (“Yue Yuen”)	The Company indirectly holds a 50.88% ownership interest
Ming Chi	Barits Development holds a 100.00% ownership interest
Wang Yi	Barits Development holds a 97.07% ownership interest
Pou Chien Chemical Co., Ltd. (“Pou Chien”)	Yue Yuen indirectly holds a 100% ownership interest
Pou Chien Technology Co., Ltd.	Yue Yuen indirectly holds a 100% ownership interest
Yue Dean Technology Co. (“Yue Dean”)	Yue Yuen indirectly holds a 100% ownership interest
Twinways Investments Ltd.	Yue Yuen indirectly holds a 50% ownership interest
Long King	Yue Yuen indirectly holds a 48.76% ownership interest

Name	Relationship
San Fang	Pou Chien and Yue Dean are both its directors
Global Brands Manufacture	The Company and its affiliates hold 52.03% ownership interest
Pro Arch Technology	The Company holds 88.59% ownership interest
Dynamic Skyline Ltd.	Global Brands Manufacture holds 100% ownership interest
Venture Well Holdings Ltd.	Wealthplus indirectly holds 43.08% ownership interest
Digital Decade Ltd. (“Digital”)	Wealthplus indirectly holds 100% ownership interest
Tetor Ventures Ltd.	Wealthplus holds 100% ownership interest
Global Brands Manufacture Ltd. (BVI) (“GBM”)	Related party in substance
Alpha Leader Ltd.	Wealthplus indirectly holds 43.08% ownership interest

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

Sales

Sales to related parties for the years ended December 31, 2005 and 2004 are summarized as follows:

	<u>2005</u>		<u>2004</u>	
	<u>Amount</u>	<u>Percentage to Net Sales</u>	<u>Amount</u>	<u>Percentage to Net Sales</u>
Yue Yuen	\$ 9,535,878	69	\$ 9,038,301	53
Pro Arch Technology	948,507	7	1,044,929	6
Twinways	70,417	1	126,467	1
Global Brands Manufacture	47,441	-	111,544	1
GBM	6,176	-	382,130	2
Others	<u>188,159</u>	<u>1</u>	<u>36,437</u>	<u>-</u>
	<u>\$ 10,796,578</u>	<u>78</u>	<u>\$ 10,739,808</u>	<u>63</u>

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

Technical Service Income

Technical service income from Yue Yuen for the years ended December 31, 2005 and 2004 amounted to \$371,941 thousand and \$344,922 thousand, respectively.

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

- (a) For products developed by the Company and sold by Yue Yuen, 0.5% of net sales invoice amounts.
- (b) For materials, machines and other goods purchased, inspected and arranged for shipment through the Company from Taiwan suppliers, 1% of supplier’s invoice amounts.

- (c) For materials, machines and other goods purchased from Taiwan or overseas directly by Yue Yuen through sourcing services provided by the Company, 0.5% of the supplier's invoice amounts.

Cost of Sales - Purchases and Cost of Processing

Purchases and cost of processing from related parties for the years ended December 31, 2005 and 2004 are summarized as follows:

	2005		2004	
	Amount	Percentage to Net Purchases	Amount	Percentage to Net Purchases
San Fang	\$ 656,316	6	\$ 884,967	6
Yue Yuen	574,417	5	719,615	5
Digital	552,677	5	462,632	3
Long King	210,865	2	185,069	1
Pro Arch Technology	78,099	1	584,747	4
Others	49,597	-	46,963	1
	<u>\$ 2,121,971</u>	<u>19</u>	<u>\$ 2,883,993</u>	<u>20</u>

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

Notes and Accounts Receivable

Notes and accounts receivable from affiliates as at December 31, 2005 and 2004 are summarized as follows:

	2005	2004
Notes receivable		
Pou Chien Technology	\$ 16,982	\$ -
Pou Chien	3,043	610
Yue Dean	873	2,489
Others	<u>3</u>	<u>286</u>
	<u>20,901</u>	<u>3,385</u>
Accounts receivable		
Yue Yuen	1,421,038	1,130,950
Pro Arch Technology	503,093	100,607
Global Brands Manufacture	-	107,779
Others	<u>58,702</u>	<u>12,143</u>
	<u>1,982,833</u>	<u>1,351,479</u>
	<u>\$ 2,003,734</u>	<u>\$ 1,354,864</u>

Notes and Accounts Payable

Notes and accounts payable due to related parties as at December 31, 2005 and 2004 are summarized as follows:

	2005	2004
Notes payable		
San Fang	\$ 102,579	\$ 90,059
Others	<u>325</u>	<u>234</u>
	<u>102,904</u>	<u>90,293</u>
Accounts payable		
Digital	69,775	61,336
Yue Yuen	65,936	100,290
San Fang	43,642	60,968
Long King	16,239	26,551
Pro Arch Technology	5,498	129,661
Others	<u>19,681</u>	<u>8,448</u>
	<u>220,771</u>	<u>387,254</u>
	<u>\$ 323,675</u>	<u>\$ 477,547</u>

Payment of Credit Guarantees

See Note 24.

Take Charge of Construction

See Note 10.

24. COMMITMENTS AND CONTINGENCIES

Loan Guarantees

As at December 31, 2005, the Company issued certificates of guarantee of \$60,000 thousand for the payment of loans.

The Company has guaranteed the payments of credit of related parties as follows:

Related Party	Amount
Wealthplus	\$ 10,052,714
Barits Development	1,568,000
Pou Shine	620,000
Pou Yuen Technology	977,080
Ming Wang	175,000
Pro Arch Technology	378,152
Ming Chi	200,000
Pou Yi	180,000
Venture Well Holdings Ltd.	315,375
Alpha Leader Ltd.	7,197

Related Party	Amount
Maple Star Investments Ltd.	13,385
Dynamic Skyline Ltd.	395,792
Tetor Ventures Ltd.	947,705
Kleine Developments Ltd.	<u>20,091</u>
	<u>\$ 15,850,491</u>

Letters of Credit

Outstanding letters of credit as at December 31, 2005 are as follows: (unit: dollar)

U.S. Dollars	\$ 1,399,720
Euro	107,000
Japanese Yen	3,536,000

25. OTHERS

In accordance with Statement of Financial Accounting Standards (“SFAS”) No. 27, “Disclosure of Financial Instruments,” derivative financial instruments of the Company at December 31, 2005 and 2004 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 future earnings.
Forward exchange	To hedge risk on 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 as hedge instruments, and evaluated periodically.

Reporting of Derivative Instruments in the Financial Statements

As at December 31, 2005 and 2004, the net of receivable and payable derived from foreign exchange rate and interest rate contracts are summarized as follows:

	2005		2004	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Receivable	\$ -	\$ -	\$ 443,940	\$ 443,940
Less payable	<u>-</u>	<u>-</u>	<u>(471,100)</u>	<u>(471,100)</u>
Payable, net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (27,160)</u>	<u>\$ (27,160)</u>

The contracts mentioned above had expired in November 2005.

Interest income and foreign exchange gain (loss) of the Company from derivative financial instruments for the years ended December 31, 2005 and 2004 are summarized as follows:

Items	2005	2004	Description
Interest rate swap	\$(54,537)	\$ 46,843	Recorded as "non-operating (expense) income - interest (expense) income"
Cross currency swap	(2,539)	26,740	Recorded as deduction to "non-operating (expense) income - foreign exchange (loss) gain"

Fair Value of Financial Instruments

The fair value of non-derivative financial instruments at December 31, 2005 and 2004 is summarized as follows:

	2005		2004	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
Cash and cash equivalents	\$ 1,019,762	\$ 1,019,762	\$ 4,108,890	\$ 4,108,890
Short-term investments	1,315,930	1,782,020	2,567,984	3,124,670
Notes receivable	10,589	10,589	10,239	10,239
Notes receivable from affiliates	20,901	20,901	3,385	3,385
Accounts receivable	299,740	299,740	596,384	596,384
Accounts receivable from affiliates	1,982,833	1,982,833	1,351,479	1,351,479
Other financial assets, current	531,410	531,410	319,624	319,624
Long-term equity investments	38,230,499	84,772,995	35,798,226	74,841,800
Other financial assets, noncurrent	38,275	38,275	45,491	45,491
Liabilities				
Short-term borrowings	1,480,000	1,480,000	-	-
Notes payable	48,023	48,023	61,572	61,572
Notes payable to affiliates	102,904	102,904	90,293	90,293
Accounts payable	1,316,470	1,316,470	857,482	857,482
Accounts payable to affiliates	220,771	220,771	387,254	387,254
Other payables	602,811	602,811	434,627	434,627
Current portion of long-term liabilities	3,094,092	3,094,092	9,513,000	9,513,000
Bonds payable	5,150,453	5,150,453	8,272,045	8,272,045
Long-term debt	4,500,000	4,500,000	-	-
Other financial liabilities	1,000	1,000	1,000	1,000

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

- (a) Financial instruments classified as current assets and liabilities, cash and cash equivalents, notes receivable, notes receivable from affiliates, accounts receivable, accounts receivable from affiliates, 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.
- (b) 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.

- (c) Long-term borrowings are stated at discount value.
- (d) Refundable deposits and advance deposits from customers, is stated at discount value.
- (e) 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.