

**POU CHEN CORPORATION AND
SUBSIDIARIES**

**Consolidated Financial Statements for the
Six Months Ended June 30, 2006 and 2005 and
Independent Accountants' Review Report**

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

The Board of Directors and Stockholders
Pou Chen Corporation and subsidiaries

We have reviewed the accompanying consolidated balance sheets of Pou Chen Corporation and subsidiaries (collectively, the "Company") as of June 30, 2006 and 2005, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the six months then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to issue a report based on our reviews.

We conducted our reviews in accordance with Statement on Auditing Standards No.36, "Review of Financial Statements," of the Republic of China. A review consists principally of applying analytical procedures to financial data and of making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying consolidated financial statements for them to be in conformity with accounting principles generally accepted in the Republic of China.

As described in Note 3 to the consolidated financial statements, effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 34, "Accounting for Financial Instruments," No. 36, "Disclosure and Presentation of Financial Instruments," and the related amendments to other Statement of Financial Accounting Standards.

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

August 4, 2006

Notice to Readers

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

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

POU CHEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

JUNE 30, 2006 AND 2005

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

ASSETS	2006		2005		LIABILITIES AND STOCKHOLDERS' EQUITY	2006		2005	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents (Notes 2 and 4)	\$ 13,605,829	9	\$ 20,251,114	14	Short-term borrowings (Note 15)	\$ 12,776,645	8	\$ 13,664,421	9
Financial assets measured at fair value through profit or loss, current (Notes 2, 3 and 5)	5,534,176	4	7,120,170	5	Short-term bills (Note 16)	1,643,809	1	1,128,421	1
Notes receivable (Notes 2 and 6)	90,100	-	70,606	-	Notes payable	75,931	-	112,324	-
Accounts receivable (Notes 2 and 7)	19,507,001	12	16,365,672	11	Notes payable to affiliates (Note 26)	30,933	-	49,493	-
Accounts receivable from affiliates (Notes 2, 7 and 26)	2,294,271	1	2,322,129	2	Accounts payable	12,619,428	8	9,509,252	7
Other financial assets, current	2,823,866	2	2,141,142	1	Accounts payable to affiliates (Note 26)	1,116,605	1	1,545,849	1
Inventories (Notes 2 and 8)	18,064,230	12	16,810,636	11	Income tax payable (Notes 2 and 23)	314,373	-	264,919	-
Other current assets	5,234,491	3	4,396,626	3	Financial liabilities measured at fair value through profit or loss, current (Notes 2 and 5)	52,642	-	5,880	-
Total current assets	67,153,964	43	69,478,095	47	Other payables	11,070,022	7	8,907,837	6
					Current portion of long-term liabilities (Note 17)	2,593,115	2	26,199,477	18
FUNDS AND LONG-TERM INVESTMENTS					Other current liabilities	1,892,726	1	823,858	1
Long-term investments at equity method (Notes 2 and 9)	22,505,288	14	15,574,468	11	Total current liabilities	44,186,229	28	62,211,731	43
Investments in real estate (Notes 2 and 10)	165,536	-	111,867	-					
Prepayments for long-term investments (Note 9)	-	-	75,888	-	LONG-TERM LIABILITIES				
Available-for-sale financial assets, noncurrent (Notes 2 and 11)	1,591,971	1	1,852,173	1	Bonds payable (Notes 2 and 18)	12,673,927	8	5,000,000	3
Financial assets carried at cost, noncurrent (Notes 2 and 12)	647,117	1	1,105,546	1	Long-term debt (Note 19)	29,928,652	19	17,135,835	12
Total funds and long-term investments	24,909,912	16	18,719,942	13	Derivative financial liabilities held for hedging (Notes 2 and 25)	168,109	-	28,420	-
					Total long-term liabilities	42,770,688	27	22,164,255	15
PROPERTY, PLANT AND EQUIPMENT (Notes 2 and 13)					RESERVE FOR LAND VALUE INCREMENT TAX (Note 13)	142,664	-	142,664	-
Cost	80,725,497	51	68,162,681	47					
Revaluation increment	279,008	-	293,249	-	OTHER LIABILITIES				
	81,004,505	51	68,455,930	47	Accrued pension cost (Note 2)	545,177	1	476,799	-
Less accumulated depreciation	(30,042,541)	(19)	(25,329,333)	(17)	Advance deposits from customers	5,181	-	6,619	-
Less accumulated impairment	(164,021)	-	(143,353)	-	Total other liabilities	550,358	1	483,418	-
Construction in progress and prepayments on purchase of equipment	4,769,134	3	5,431,335	3	Total liabilities	87,649,939	56	85,002,068	58
Property, plant and equipment, net	55,567,077	35	48,414,579	33					
					STOCKHOLDERS' EQUITY				
INTANGIBLE ASSETS (Note 2)					Capital stock (Note 20)	23,079,858	14	20,955,834	14
Goodwill	7,039,396	4	7,508,368	5	Stock dividends to be distributed (Note 20)	1,270,265	1	2,092,054	2
Deferred pension cost	16,343	-	4,356	-	Capital surplus	2,836,884	2	2,518,724	2
Total intangible assets	7,055,739	4	7,512,724	5	Retained earnings (Note 20)	12,037,627	7	10,608,533	7
					Cumulative translation adjustments (Note 2)	(478,082)	-	(1,342,177)	(1)
OTHER ASSETS (Notes 2 and 14)					Unrealized losses on financial instruments (Notes 2, 3 and 11)	(1,573,045)	(1)	(1,258,089)	(1)
	2,421,695	2	2,395,127	2	Treasury stock (Notes 2 and 21)	(3,459,328)	(2)	(3,459,328)	(2)
					Minority interest	35,744,269	23	31,402,848	21
TOTAL	\$ 157,108,387	100	\$ 146,520,467	100	Total stockholders' equity	69,458,448	44	61,518,399	42
					TOTAL	\$ 157,108,387	100	\$ 146,520,467	100

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

(With Deloitte & Touche review report dated August 4, 2006)

POU CHEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

SIX MONTHS ENDED JUNE 30, 2006 AND 2005

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

(Reviewed, Not Audited)

	2006		2005	
	Amount	%	Amount	%
GROSS SALES AND REVENUES EARNED	\$ 81,368,629	100	\$ 67,183,920	100
LESS SALES RETURNS AND ALLOWANCES	<u>(260,028)</u>	<u>-</u>	<u>(126,742)</u>	<u>-</u>
NET SALES AND REVENUES EARNED	81,108,601	100	67,057,178	100
COST OF GOODS SOLD	<u>64,454,881</u>	<u>79</u>	<u>52,955,348</u>	<u>79</u>
GROSS PROFIT	<u>16,653,720</u>	<u>21</u>	<u>14,101,830</u>	<u>21</u>
OPERATING EXPENSES				
Selling expenses	2,945,757	4	2,314,400	3
General and administrative expenses	6,687,105	8	5,898,146	9
Research and development expenses	<u>2,160,200</u>	<u>3</u>	<u>2,040,585</u>	<u>3</u>
Total operating expenses	<u>11,793,062</u>	<u>15</u>	<u>10,253,131</u>	<u>15</u>
INCOME FROM OPERATIONS	<u>4,860,658</u>	<u>6</u>	<u>3,848,699</u>	<u>6</u>
NON-OPERATING INCOME				
Interest income	225,963	-	149,630	-
Long-term equity investment income (Note 9)	858,061	1	485,598	1
Dividend income	7,170	-	2,955	-
Gain on disposal of property, plant and equipment	4,525	-	13,258	-
Gain on disposal of investments	-	-	237,806	1
Foreign exchange gains, net	153,360	-	129,650	-
Rental income	86,455	-	109,561	-
Revaluation gain on financial assets (Note 5)	540,554	1	-	-
Others	<u>1,387,421</u>	<u>2</u>	<u>1,552,620</u>	<u>2</u>
Total non-operating income	<u>3,263,509</u>	<u>4</u>	<u>2,681,078</u>	<u>4</u>
NON-OPERATING EXPENSES				
Interest expense	1,211,189	1	666,625	1
Other investment losses (Note 12)	521,943	1	-	-
Loss on disposal of property, plant and equipment	116,427	-	128,336	1
Loss on disposal of investments	90,176	-	60,809	-
Loss on inventory devaluation and obsolescence	107,607	-	3,595	-
Revaluation loss on financial liabilities (Note 5)	52,642	-	5,880	-
Others	<u>462,507</u>	<u>1</u>	<u>745,468</u>	<u>1</u>
Total non-operating expenses	<u>2,562,491</u>	<u>3</u>	<u>1,610,713</u>	<u>3</u>

(Continued)

POU CHEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

SIX MONTHS ENDED JUNE 30, 2006 AND 2005

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

(Reviewed, Not Audited)

	2006		2005	
	Amount	%	Amount	%
INCOME BEFORE INCOME TAX	\$ 5,561,676	7	\$ 4,919,064	7
INCOME TAX EXPENSE (Notes 2 and 23)	<u>(351,930)</u>	<u>(1)</u>	<u>(209,474)</u>	<u>-</u>
INCOME BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLE	5,209,746	6	4,709,590	7
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLE (Note 3)	<u>1,625,271</u>	<u>2</u>	<u>-</u>	<u>-</u>
CONSOLIDATED NET INCOME	<u>\$ 6,835,017</u>	<u>8</u>	<u>\$ 4,709,590</u>	<u>7</u>
ATTRIBUTED TO				
Parent Company's shareholders	\$ 3,968,040	5	\$ 1,992,257	3
Minority interest	<u>2,866,977</u>	<u>3</u>	<u>2,717,333</u>	<u>4</u>
	<u>\$ 6,835,017</u>	<u>8</u>	<u>\$ 4,709,590</u>	<u>7</u>
	2006		2005	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
BASIC EARNINGS PER SHARE (Notes 2 and 24)				
Income before cumulative effect of changes in accounting principle	\$ 2.60	\$ 2.44	\$ 2.30	\$ 2.21
Cumulative effect of changes in accounting principle	<u>0.76</u>	<u>0.76</u>	<u>-</u>	<u>-</u>
Included income for minority interest	<u>\$ 3.36</u>	<u>\$ 3.20</u>	<u>\$ 2.30</u>	<u>\$ 2.21</u>
Attributed to shareholders of the Parent Company		<u>\$ 1.86</u>		<u>\$ 0.93</u>
DILUTED EARNINGS PER SHARE (Notes 2 and 24)				
Income before cumulative effect of changes in accounting principle	\$ 2.56	\$ 2.40	\$ 2.04	\$ 1.95
Cumulative effect of changes in accounting principle	<u>0.75</u>	<u>0.75</u>	<u>-</u>	<u>-</u>
Included income for minority interest	<u>\$ 3.31</u>	<u>\$ 3.15</u>	<u>\$ 2.04</u>	<u>\$ 1.95</u>
Attributed to shareholders of the Parent Company		<u>\$ 1.83</u>		<u>\$ 0.83</u>

(Continued)

POU CHEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

SIX MONTHS ENDED JUNE 30, 2006 AND 2005

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

(Reviewed, Not Audited)

Pro-forma information, assuming common shares of the Parent Company held by its subsidiaries were not treated as treasury stock:

	2006		2005	
CONSOLIDATED NET INCOME ATTRIBUTED TO SHAREHOLDERS OF THE PARENT COMPANY	<u>\$ 3,968,040</u>		<u>\$ 1,992,257</u>	
	2006		2005	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
BASIC EARNINGS PER SHARE (Notes 2 and 24)				
Income before cumulative effect of changes in accounting principle	\$ 2.46	\$ 2.30	\$ 2.18	\$ 2.09
Cumulative effect of changes in accounting principle	<u>0.72</u>	<u>0.72</u>	<u>-</u>	<u>-</u>
Included income for minority interest	<u>\$ 3.18</u>	<u>\$ 3.02</u>	<u>\$ 2.18</u>	<u>\$ 2.09</u>
Attributed to shareholders of the Parent Company		<u>\$ 1.76</u>		<u>\$ 0.88</u>
DILUTED EARNINGS PER SHARE (Notes 2 and 24)				
Income before cumulative effect of changes in accounting principle	\$ 2.43	\$ 2.27	\$ 1.94	\$ 1.86
Cumulative effect of changes in accounting principle	<u>0.71</u>	<u>0.71</u>	<u>-</u>	<u>-</u>
Included income for minority interest	<u>\$ 3.14</u>	<u>\$ 2.98</u>	<u>\$ 1.94</u>	<u>\$ 1.86</u>
Attributed to shareholders of the Parent Company		<u>\$ 1.73</u>		<u>\$ 0.79</u>

(Concluded)

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

(With Deloitte & Touche review report dated August 4, 2006)

POU CHEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
SIX MONTHS ENDED JUNE 30, 2006 AND 2005
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	Capital Surplus					Retained Earnings					Other Adjustments of Stockholders' Equity			Total	
	Capital Stock	Stock Dividends to be Distributed	Additional Paid-in Capital of Common Stock	Additional Paid-in Capital of Bonds Conversion	Treasury Stock	Revaluation Increment on Property, Plant and Equipment	Long-Term Equity Investments	Legal Reserve	Special Reserve	Unappropriated Earnings	Cumulative Translation Adjustments	Unrealized Losses on Financial Instruments	Treasury Stock		Minority Interest
BALANCE, JANUARY 1, 2006	\$ 23,057,928	\$ -	\$ 802,904	\$ 1,439,788	\$ 255,097	\$ 134,641	\$ 14,192	\$ 3,269,826	\$ 2,423,997	\$ 7,182,111	\$ 35,494	\$ (1,470,331)	\$ (3,459,328)	\$ 34,959,505	\$ 68,645,824
Adjustments from first adoption of new and amended Financial Accounting Standards (Note 3)	-	-	-	-	-	-	-	-	-	-	-	(180,742)	-	-	(180,742)
Appropriation of earnings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Legal reserve	-	-	-	-	-	-	-	422,795	-	(422,795)	-	-	-	-	-
Special reserve	-	-	-	-	-	-	-	-	(989,158)	989,158	-	-	-	-	-
Bonuses to directors and supervisors	-	-	-	-	-	-	-	-	-	(143,829)	-	-	-	-	(143,829)
Bonuses to employees (Note 20)	-	139,514	-	-	-	-	-	-	-	(139,514)	-	-	-	-	-
Stock dividends (Note 20)	-	1,130,751	-	-	-	-	-	-	-	(1,130,751)	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	-	-	(3,392,253)	-	-	-	-	(3,392,253)
Effect of changes of ownership interest in investees	-	-	-	-	-	-	185,876	-	-	-	-	-	-	-	185,876
Translation adjustments on foreign long-term equity investments	-	-	-	-	-	-	-	-	-	-	(513,576)	-	-	-	(513,576)
Adjustments on changes of unrealized loss on cash flow hedge financial liability	-	-	-	-	-	-	-	-	-	-	-	63,241	-	-	63,241
Adjustments on changes of unrealized loss on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	-	-	14,787	-	-	14,787
Execution of employee stock warrants	21,930	-	4,386	-	-	-	-	-	-	-	-	-	-	-	26,316
Effect of change of minority interest	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,082,213)	(2,082,213)
Consolidated net income for the six months ended June 30, 2006	-	-	-	-	-	-	-	-	-	3,968,040	-	-	-	2,866,977	6,835,017
BALANCE, JUNE 30, 2006	\$ 23,079,858	\$ 1,270,265	\$ 807,290	\$ 1,439,788	\$ 255,097	\$ 134,641	\$ 200,068	\$ 3,692,621	\$ 1,434,839	\$ 6,910,167	\$ (478,082)	\$ (1,573,045)	\$ (3,459,328)	\$ 35,744,269	\$ 69,458,448
BALANCE, JANUARY 1, 2005	\$ 20,936,734	\$ -	\$ 792,119	\$ 1,439,788	\$ 144,154	\$ 84,989	\$ -	\$ 2,845,193	\$ 59,232	\$ 9,950,045	\$ (1,220,643)	\$ (1,203,354)	\$ (3,459,328)	\$ 30,290,009	\$ 60,658,938
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 (Note 20)	-	42,397	-	-	-	-	-	-	-	(42,397)	-	-	-	-	-
Stock dividends (Note 20)	-	2,049,657	-	-	-	-	-	-	-	(2,049,657)	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	-	-	(2,049,658)	-	-	-	-	(2,049,658)
Effect of changes of ownership interest in investees	-	-	-	-	-	-	-	-	-	(52,774)	-	-	-	-	(52,774)
Provision for decline in market value of available-for-sale financial assets	-	-	-	-	-	-	-	-	-	-	-	(54,735)	-	-	(54,735)
Translation adjustments on foreign long-term equity investments	-	-	-	-	-	-	-	-	-	-	(121,534)	-	-	-	(121,534)
Execution of employee stock warrants	19,100	-	8,022	-	-	-	-	-	-	-	-	-	-	-	27,122
Adjustments for permanent reduction of land value increment tax (Note 13)	-	-	-	-	-	49,652	-	-	-	-	-	-	-	-	49,652
Effect of change of minority interest	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,604,494)	(1,604,494)
Consolidated net income for the six months ended June 30, 2005	-	-	-	-	-	-	-	-	-	1,992,257	-	-	-	2,717,333	4,709,590
BALANCE, JUNE 30, 2005	\$ 20,955,834	\$ 2,092,054	\$ 800,141	\$ 1,439,788	\$ 144,154	\$ 134,641	\$ -	\$ 3,269,826	\$ 2,423,997	\$ 4,914,710	\$ (1,342,177)	\$ (1,258,089)	\$ (3,459,328)	\$ 31,402,848	\$ 61,518,399

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

(With Deloitte & Touche review report dated August 4, 2006)

POU CHEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS SIX MONTHS ENDED JUNE 30, 2006 AND 2005 (In Thousands of New Taiwan Dollars) (Reviewed, Not Audited)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Consolidated net income	\$ 6,835,017	\$ 4,709,590
Adjustments to reconcile net income to net cash provided by operating activities		
Cumulative effect of changes in accounting principle	(1,625,271)	-
Revaluation gain on financial assets	(540,554)	-
Revaluation loss on financial liabilities	52,642	5,880
Depreciation and amortization	3,050,579	3,312,022
Amortization of the cost of issuing Euro Convertible Bonds	26,628	37,988
Gain on redeeming and repurchasing Euro Convertible Bonds	(166,941)	(20,029)
Provision for doubtful accounts	126,542	66,101
Provision for inventory devaluation and obsolescence	107,607	3,595
Investment income recognized under equity method	(858,061)	(485,598)
Cash dividends received from investees under equity method	349,884	236,360
Net loss on disposal of long-term equity investments	98,318	11,530
Net loss on disposal of property, plant and equipment	111,902	115,078
Other investment losses	521,943	-
Net changes in operating assets and liabilities		
Notes receivable	(51,222)	11,790
Accounts receivable	(631,789)	(2,406,745)
Accounts receivable from affiliates	1,082,289	(230,872)
Other financial assets, current	147,947	(128,891)
Inventories	(820,352)	(2,148,917)
Other current assets	(425,254)	(1,615,777)
Deferred pension cost	(350)	(77)
Temporary income tax payment	2,124	(9,720)
Long-term accounts receivable	(41,316)	(194,331)
Deferred income tax asset, noncurrent	50,961	(19,705)
Other assets	(2,734)	18,453
Notes payable	3,901	2,352
Notes payable to affiliates	(71,754)	(46,558)
Accounts payable	890,074	1,574,575
Accounts payable to affiliates	(262,378)	1,083,675
Income tax payable	(18,055)	157,530
Other payables	(986,736)	(1,559,730)
Other current liabilities	694,139	3,325
Foreign exchange adjustment on Euro Convertible Bonds	(12,471)	(22,996)
Interest compensation payable	205,989	124,137
Reserve for retirement plan	21,530	52,753
Deferred income tax liability, noncurrent	-	10,925
Other liability	-	(42,284)
Minority interest	(2,082,213)	(1,604,494)
Net cash provided by operating activities	<u>5,782,565</u>	<u>1,000,935</u>

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POU CHEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS SIX MONTHS ENDED JUNE 30, 2006 AND 2005 (In Thousands of New Taiwan Dollars) (Reviewed, Not Audited)

	2006	2005
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease (increase) in financial assets measured at fair value through profit or loss	\$ 469,943	\$ (1,707,648)
Increase in long-term equity investments	(5,142,158)	(1,923,135)
Decrease in financial assets carried at cost, noncurrent	57,015	-
Decrease in investment in real estate	16,529	-
Acquisition of property, plant and equipment	(6,430,738)	(4,811,983)
Proceeds from disposal of property, plant and equipment	356,196	278,209
(Increase) decrease in refundable deposits	(129,707)	15,491
Increase in goodwill	(5,827)	(59,126)
Increase in deferred charges	<u>(25,862)</u>	<u>(148,579)</u>
Net cash used in investing activities	<u>(10,834,609)</u>	<u>(8,356,771)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term borrowings	761,865	1,520,101
Increase in short-term bills	448,468	29,672
Redeemed and repurchased overseas convertible bonds	(5,902,479)	(376,022)
Remuneration to directors and supervisors	-	(43,708)
Increase in long-term borrowings	4,452,524	3,297,833
Increase in advance deposits from customers	271	1,398
Execution of employee stock warrants	<u>26,316</u>	<u>27,122</u>
Net cash (used in) provided by financing activities	<u>(213,035)</u>	<u>4,456,396</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH	<u>770,291</u>	<u>(65,912)</u>
DECREASE IN CASH AND CASH EQUIVALENTS	(4,494,788)	(2,965,352)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>18,100,617</u>	<u>23,216,466</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 13,605,829</u>	<u>\$ 20,251,114</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period		
Interest (excluding interest capitalized)	<u>\$ 1,233,460</u>	<u>\$ 303,461</u>
Income tax	<u>\$ 287,200</u>	<u>\$ 43,752</u>
SUPPLEMENTAL DISCLOSURES OF NONCASH OPERATING, INVESTING AND FINANCING ACTIVITIES		
Adjustments of stockholders' equity from first adoption of new and amended Financial Accounting Standards	<u>\$ (180,742)</u>	<u>\$ -</u>

(Continued)

POU CHEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

SIX MONTHS ENDED JUNE 30, 2006 AND 2005

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	2006	2005
Recovery from (provision for) unrealized gain (loss) on available-for-sale financial assets	<u>\$ 14,787</u>	<u>\$ (54,735)</u>
Provision for unrealized loss on cash flow hedge financial liabilities	<u>\$ 63,241</u>	<u>\$ -</u>
Effect of changes in ownership interest in investees	<u>\$ 185,876</u>	<u>\$ (52,774)</u>
Long-term liabilities, current portion	<u>\$ 2,593,115</u>	<u>\$ 26,199,477</u>
Translation adjustments on foreign long-term investments	<u>\$ (513,576)</u>	<u>\$ (121,534)</u>
Bonuses to directors and supervisors	<u>\$ 143,829</u>	<u>\$ -</u>
Dividends payable	<u>\$ 3,392,253</u>	<u>\$ 2,049,658</u>
Cash paid during the period for acquisition of property, plant and equipment		
Fair value of property, plant and equipment acquired	\$ 7,151,396	\$ 4,895,305
Add payables for acquisition of property, plant and equipment, beginning of period	185,957	73,952
Less payables for acquisition of property, plant and equipment, end of period	<u>(906,615)</u>	<u>(157,274)</u>
Cash paid during the period for acquisition of property, plant and equipment	<u>\$ 6,430,738</u>	<u>\$ 4,811,983</u>

(Concluded)

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

(With Deloitte & Touche review report dated August 4, 2006)

POU CHEN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SIX MONTHS ENDED JUNE 30, 2006 AND 2005 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise) (Reviewed, Not Audited)

1. ORGANIZATION AND OPERATIONS

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

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

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

In addition to Pou Chen, the consolidated financial statements include the following subsidiaries:

Name	Location of Incorporation	Pou Chen and its Subsidiaries’ Ownership Percentage
Wealthplus Holdings Limited	British Virgin Islands	100.00
Win Fortune Investments Ltd.	British Virgin Islands	100.00
Ming Wang Investments Co., Ltd.	ROC	100.00
Windsor Entertainment Co., Ltd. (Original known as: Yue Yuen Entertainment Development Co., Ltd.)	ROC	100.00
Yun Yang Investments Co., Ltd.	ROC	100.00
Pou Shine Investments Co., Ltd.	ROC	100.00
Pan Asia Insurance Services Ltd. (Original known as: Pan Asia Insurance Consulting Ltd.)	ROC	99.98
Barits Development Corporation	ROC	98.46
Pou Yuen Technology Co., Ltd.	ROC	99.10
Pro Arch Technology Inc.	ROC	93.04
Global Brands Manufacture Ltd.	ROC	52.03

Wealthplus Holdings Limited (“Wealthplus”), a British Virgin Islands registered corporation, is an investment holding company. Wealthplus commenced its operations in 1991 and invests in companies which are engaged in the design and sale of footwear and electronic peripheral products. As at June 30, 2006, Wealthplus has an outstanding common stock of US\$169,222 thousand.

The information of Wealthplus' subsidiaries is as follows:

Name	Location of Incorporation	Ownership Percentage	Primary Operation Activities
Yue Yuen Industrial (Holdings) Limited	Bermuda	49.48	Manufacturing and sale of athletic and casual footwear and sports apparel
GBM Manufacturing Co., Ltd.	British Virgin Islands	100.00	Property management in the PRC
Upmost Smart Ltd.	British Virgin Islands	100.00	Manufacturing of electronic components
Gao Chen Technology Co., Ltd.	PRC	79.60	Manufacturing of electronic components
Mindtech Display Co., Ltd.	PRC	100.00	Assembly of TFT-LCD module
Digital Decade Ltd.	British Virgin Islands	100.00	Assembly and sale of TFT-LCD module
Pou Qiao Electronic Ltd.	PRC	100.00	Assembly of backlight units
China Lion Associates Ltd.	British Virgin Islands	51.00	Sale of backlight units
Yuen Lim Metal Industrial Ltd.	PRC	68.75	Manufacturing of electronic components
Go-Cheery Industrial Ltd.	Hong Kong	100.00	Management and office administration service
Crown Master Investments Ltd.	British Virgin Islands	100.00	Investment holding
Exotic Developments Ltd.	British Virgin Islands	100.00	Investment holding
Tetor Ventures Ltd.	British Virgin Islands	100.00	Investment holding
Star Eagle Consultants Ltd.	British Virgin Islands	100.00	Insurance agent
Diverse Consultants Ltd.	British Virgin Islands	65.00	Construction and consulting service

Win Fortune Investments Ltd. ("Win Fortune"), a British Virgin Islands registered corporation, is an investment holding company. Win Fortune commenced its operations in 1994 and invests in Yue Yuen Industrial (Holdings) Limited (as at June 30, 2006, the ownership percentage is 0.95%). As at June 30, 2006, Win Fortune has an outstanding common stock of US\$100 thousand.

Ming Wang Investments Co., Ltd. ("Ming Wang"), a corporation incorporated in the ROC, is an investment holding company. Ming Wang commenced its operations in 1996. It is engaged in investing activities. As at June 30, 2006, Ming Wang has an outstanding common stock of \$427,291 thousand.

Windsor Entertainments Co., Ltd. ("Windsor Entertainments"), a corporation incorporated in the ROC, commenced its operations in 2003. It is engaged in hotel and resort operation and real estate development. As at June 30, 2006, Windsor Entertainments has an outstanding common stock of \$100,000 thousand.

Yun Yang Investments Co., Ltd. ("Yun Yang") is a corporation incorporated in the ROC. Yun Yang commenced its operations in 1997. It is engaged in investment activities. As at June 30, 2006, Yun Yang has an outstanding common stock of \$75,000 thousand.

Pou Shine Investments Co., Ltd. ("Pou Shine") is a corporation incorporated in the ROC. Pou Shine commenced its operations in 1990. It is engaged in investing activities. As at June 30, 2006, Pou Shine has an outstanding common stock of \$573,632 thousand.

Pan Asia Insurance Services Ltd. (“Pan Asia Insurance Services”) is a corporation incorporated in the ROC. Pan Asia Insurance Services commenced its operations in 1999. It is engaged in agency of property and casualty insurance. As at June 30, 2006, Pan Asia Insurance Services has an outstanding common stock of \$3,000 thousand.

Barits Development Corporation (“Barits Development”), a corporation incorporated in the ROC. It is engaged in leather manufacturing and investing activities. As at June 30, 2006, Barits Development has an outstanding common stock of \$913,000 thousand.

The information of Barits Development’s subsidiaries is as follows:

Name	Location of Incorporation	Ownership Percentage	Primary Operation Activities
Top Score Investments Ltd.	British Virgin Islands	100.00	Investment holding
Song Ming Investment Corporation	ROC	100.00	Investment holding
Ming Chi Investments Ltd.	ROC	99.99	Investment holding
Ming Shun Investments Ltd.	ROC	100.00	Investment holding
Wang Yi Construction Co., Ltd.	ROC	89.75	Construction
Pou Yii Development Co., Ltd.	ROC	75.00	Rental and sale of real estate

Top Score Investments Ltd. invests in Yue Yuen Industrial (Holdings) Limited. As at June 30, 2006, the ownership percentage is 0.45%.

Pou Yuen Technology Co., Ltd. (“Pou Yuen Technology”), a corporation incorporated in the ROC, is engaged in designing, manufacturing and trading mold, magnesium alloy casing and data processing and storage equipment. As at June 30, 2006, Pou Yuen Technology has an outstanding common stock of \$600,000 thousand.

Details of Pou Yuen Technology’s subsidiaries are as follows:

Name	Place of Incorporation	Ownership Percentage	Principal Activities
Kleine Developments Ltd.	British Virgin Islands	100.00	Manufacturing and sale of electronic components
Dong Guan Pou Yuen Digital Technologic Ltd.	PRC	100.00	Manufacturing and sale of digital control and software
Kunshan Yuanying Electronics Technology Co., Ltd.	PRC	100.00	Manufacturing and sale of magnalium products

Pro Arch Technology Inc. (“Pro Arch Technology”), a corporation incorporated in the ROC and a 93.04%-owned subsidiary of Pou Chen and other subsidiaries, is engaged in manufacturing and sale of computer peripheral equipment and related spare parts. As at June 30, 2006, Pro Arch Technology has an outstanding common stock of \$1,175,127 thousand.

Details of Pro Arch Technology’s subsidiary are as follows:

Name	Place of Incorporation	Ownership Percentage	Principal Activities
Pro Arch Technology BVI Inc.	British Virgin Islands	100.00	Investment holding

Global Brands Manufacture Ltd. (“Global Brands Manufacture”), a corporation incorporated in the ROC, is engaged in the manufacturing, assembly and sale of printed circuit boards. Its stock has been traded on the Over-the-Counter Exchange in Taiwan since February 1991. As at June 30, 2006, Global Brands Manufacture has an outstanding common stock of \$2,054,382 thousand.

Details of Global Brands Manufacture’s subsidiaries are as follows:

Name	Place of Incorporation	Ownership Percentage	Principal Activities
Chuan Yi Computer (Shenzhen) Co., Ltd.	PRC	100.00	Manufacturing and sale of PCB
Yi Kuan Electronics (Shenzhen) Co., Ltd.	PRC	100.00	Manufacturing and sale of PCB
PC Asia Limited	British Virgin Islands	100.00	Sale of PCB
CMK Global Brands Manufacture Ltd.	British Virgin Islands	51.00	Manufacturing and sale of PCB
Atlantic Gateway Ltd.	British Virgin Islands	100.00	Rental of machinery
Dynamic Skyline Ltd.	British Virgin Islands	100.00	Assembly of PCB
Cheng Cheng Enterprise Co., Ltd.	ROC	100.00	Rental and development of real estate

As at June 30, 2006 and 2005, there were 307,600 and 279,207 employees in Pou Chen and subsidiaries referred above, respectively.

Pou Chen and its consolidated subsidiaries are hereafter collectively referred to as the “Company.”

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

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

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Pou Chen and its controlled subsidiaries. All significant intercompany balances and transactions have been eliminated upon consolidation. Minority interest presented in gross amount is included in “stockholders’ equity.”

Wealthplus, Win Fortune, Top Score Investments Ltd. and Kleine Developments Ltd. have their accounting year from October 1 of the preceding year to September 30 of the year.

Current/Noncurrent Assets and Liabilities

Cash or cash equivalents, assets held for trading and assets expected to be converted into cash, or consumed in 12 months after balance sheet date are recorded as current assets. Property, plant and equipment, intangible assets and other assets not being recorded as current assets are recorded as noncurrent assets. Liabilities occurred for trading and expected to be liquidated in 12 months after balance sheet date are recorded as current liabilities. Liabilities not being recorded as current liabilities are recorded as noncurrent liabilities.

Cash and Cash Equivalents

Cash includes unrestricted cash and bank deposits. Cash equivalents refer to short-term commercial papers whose carrying values approximate fair values.

Financial Instruments Measured at Fair Value through Profit or Loss

Financial instruments measured at fair value through profit or loss include financial assets or financial liabilities classified as held for trading and designated by the Company as at fair value through profit or loss upon initial recognition. Those financial instruments are initially recorded at fair value at the transaction date and continuously recorded at fair value with unrealized gains or losses reported as part of net income. Related transaction costs are expensed currently. Cash dividends are recognized as income when received.

Derivative financial instruments which do not qualify for hedge accounting are classified as financial instruments measured at fair value through profit or loss and are recorded as financial assets if their fair value is positive; otherwise are recorded as financial liabilities.

The fair value of listed and over-the-counter stocks and open-end fund are determined at their closing prices, and net asset values, respectively.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is provided on the basis of management’s evaluation of the collectibility and past loss experience of notes and accounts receivable and other pertinent factors.

Inventories

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

Revenues, costs and profits arising from real estate development projects and construction contracts that will take longer than one year to complete and can be reasonably estimated, are accounted for using the percentage-of-completion method. The percentage of completion is

measured by comparing actual costs incurred in a period with the total estimated costs to be incurred on the project. All other real estate development projects and construction contracts are accounted for using the completed-contract method.

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

Long-Term Investments at Equity Method

Investments in companies where the Company's ownership interest is 20% or more or the Company can exercise significant influence over the investees are accounted for by the equity method.

When the equity method is first adopted or the investment is first acquired, the difference between the underlying equity in net assets of the investee and the cost of the investment is amortized on a straight line basis over 10 years. However, effective January 1, 2006, the cost of the investment in excess of the fair value of investee's identifiable net assets is considered as goodwill in accordance with the amended SFAS. Goodwill is not amortized but impairment loss on goodwill should be evaluated periodically and not allowed to be reversed.

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

Impairment loss will be evaluated on the balance sheet date and recognized if there is objective evidence showing that the investment is impaired. The impairment losses of those investments in which the Company exercises significant influence but without controlling power are evaluated based on their respective carrying amount.

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

Investments in Real Estate

Depreciation of buildings under investments in real estate is provided over 55 years. Impairment loss is recognized immediately for any significant decline in the value of real estate investments. 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.

Available-for-Sale Financial Assets

Available-for-sale financial assets are initially recorded at fair value at the transaction date plus related transaction costs and continuously recorded at fair value with unrealized gains or losses recorded as a separate component of stockholders' equity until realized.

Cash dividends are recognized as income at the ex-dividend date but cash dividends resulting from net income before the investment date should be recorded as a decrease in the investment cost. Stock dividends received are not recognized as income; they are instead reflected as an increase in the number of shares held.

When a decline in the fair value of an available-for-sale financial asset has been recognized directly in equity and there is objective evidence showing that the asset is impaired, the cumulative loss that had been recognized directly in equity shall be removed from equity and recognized in profit or loss.

Financial Assets Carried at Cost, Noncurrent

Equity investments without reliable fair value are carried at their original cost. Cash dividends are recognized as income at the ex-dividend date but cash dividends resulting from net income before the investment date should be recorded as a decrease in the investment cost. Stock dividends received are not recognized as income; they are instead reflected as an increase in the number of shares held. If there is objective evidence showing that the asset is impaired, the impairment loss shall be recognized and not allowed to be reversed.

Property, Plant, Equipment and Leased Asset

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

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

Items	Estimated Useful Lives
Buildings and improvements	15~55 years
Machinery and equipment	2~13 years
Transportation equipment	3~5 years
Furniture, fixtures and office equipment	3~8 years
Others	2~11 years

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

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

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

Goodwill

Goodwill on consolidated subsidiaries is amortized over five to ten years. Effective January 1, 2006, goodwill is not amortized (negative goodwill is still amortized over five to ten years) but impairment loss on goodwill should be evaluated periodically.

Deferred Charges

Deferred charges are amortized on a straight-line basis over 3 to 5 years. However, the issue costs of convertible bonds issued before January 1, 2006 are amortized between the issue date and the expiration date of redemption.

Euro-Dollar Convertible Bonds

The convertible bonds, issued by the Company before January 1, 2006, 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, in amounts of US\$1,000 (dollars) or any integral multiples. The interest compensation, which is the amount of agreed put price over face value of such bonds, will be recognized as a liability under the interest method from the issue date to the date the put right expires. As at 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 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.

Pou Chen, Barits Development, Pou Yuen Technology, Pro Arch Technology, and Global Brands Manufacture each has its retirement plan covering all eligible employees. Pension costs are assessed, funded and deposited with the Central Trust of China at 2%~3% of monthly salaries and wages, in accordance with the Labor Standards Law of the ROC.

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

Foreign Currency Transactions

Foreign-currency transactions (except derivative transactions) are recorded in New Taiwan dollars at the exchange rates prevailing on the transaction date. Gains or losses resulting from the application of prevailing exchange rates when foreign-currency receivables and payables are settled are credited or charged to income. Assets and liabilities denominated in foreign currencies (except those on foreign long-term investments) are translated at the

balance sheet date exchange rates, and resulting gains or losses are credited or charged to current income.

Cumulative Translation Adjustments

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

Treasury Stock

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

Effective from January 1, 2002, common shares of the Company held by its subsidiaries are treated 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, debit is made to retained earnings 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, debit is made to retained earnings for the remaining amount.

Revenue Recognition

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

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

Income Tax

The Company adopted the provisions of SFAS No. 22, "Accounting for Income Tax," which requires an asset and liability approach to account for income tax. Deferred income tax assets and liabilities are computed for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are provided for deferred tax assets

with uncertain realizability. Income tax expense or benefit is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

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

Earnings Per Share

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

On a diluted basis, both net earnings and shares outstanding are adjusted to assume the conversion of convertible bonds from the date of issuance, and adopt the treasury stock method to calculate the stock 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 Held for Hedging

Financial instruments evaluated at fair value and a hedge of the exposure to exchanges in fair value shall be recognized in profit or loss or recognized as adjustments to stockholders' equity.

Reclassifications

Certain accounts in the consolidated financial statements for the six months ended June 30, 2005 have been reclassified to be consistent with the presentation of the financial statements for the six months ended June 30, 2006.

3. REASON AND EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE

Effective from 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 and property, plant and equipment have decreased by \$448,625 thousand and \$143,353 thousand, respectively for impairment loss as at June 30, 2005, while the Company's net income for the six months ended June 30, 2005 has increased by \$34,510 thousand.

Effective January 1, 2006, the Company adopted SFAS No. 34, "Accounting for Financial Instruments," No. 36, "Disclosure and Presentation of Financial Instruments," and related amendments in other Statement of Financial Accounting Standards.

Effect of Adoption of the New and Amended Financial Accounting Standards

The financial assets and liabilities (including derivative financial instruments) had been reclassified in accordance with the new and amended SFASs. The adjustments to the original carrying amount of financial instruments categorized as financial assets or financial liabilities at fair value through profit or loss are included in the cumulative effect of changes in accounting principle in the income statement; on the other hand, the adjustments to the original carrying amount of available-for-sale financial assets are recognized as adjustments to stockholders' equity.

The adjustment of the initial adoption of the newly released SFASs is summarized as follows:

	Recognized As Cumulative Effect of Changes in Accounting Principle (After Tax)	Recognized As Adjustment of Parent Company's Stockholders' Equity
Financial assets at fair value through profit or loss, current	\$ 1,625,271	\$ -
Available-for-sale financial assets, noncurrent	-	50,608
Derivative financial liabilities held for hedging, noncurrent	<u>-</u>	<u>(231,350)</u>
	<u>\$ 1,625,271</u>	<u>\$ (180,742)</u>

The change in accounting principle above increased the income from operation by \$540,554 thousand, the consolidated net income by \$2,165,825 thousand, basic earnings per share after tax by \$1.01 dollar and the adjustments of parent company stockholders' equity by \$78,028 thousand. The parent company stockholders' equity totally decreased by \$102,714 thousand as of June 30, 2006.

Reclassifications Due to Adoption of the New and Amended Financial Accounting Standards

According to the accounting pronouncement declared in 2005, the 2005 accounts should be reclassified to be consistent with the presentation of 2006 financial statements without retroactive adjustments. However, the valuation method of the same account in 2005 and 2006 may be different. Thus, the differences should be disclosed in the accompanying notes.

The Company adopted different accounting principles in valuing financial instruments in 2005 and 2006. The accounting principles adopted in 2005 were as follows:

Short-Term Investments

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

Long-Term Equity Investments

Long-term equity investments in listed or over-the-counter companies, in which the Company's ownership is less than 20% and the Company can not exercise significant influence, are stated at the lower of cost or market value with the unrealized loss reflected as a separate component of stockholders' equity. Market values of marketable equity securities are determined by averaging the daily market closing prices during the last month of the fiscal year.

Forward Exchange Contracts

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

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

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

The following were the accounts in the financial statements for the six months ended June 30, 2005 reclassified to be consistent with the new and amended SFASs effective January 1, 2006:

	2005 (Before Reclassification)	2005 (After Reclassification)
<u>Balance Sheets</u>		
Short-term investments	\$ 7,056,571	\$ -
Long-term equity investments at cost method	3,021,318	-
Financial assets measured at fair value through profit or loss	-	7,120,170
Available-for-sale financial assets, noncurrent	-	1,852,173
Financial assets carried at cost, noncurrent	-	1,105,546
Other payables	8,942,137	8,907,837
Financial liabilities measured at fair value through profit or loss, current	-	5,880
Financial liabilities held for hedging, noncurrent	-	28,420
<u>Income Statements</u>		
Foreign exchange gains, net	\$ 123,770	\$ 129,650
Revaluation loss on financial liabilities	-	(5,880)

Effective January 1, 2006, the Company adopted amended SFAS No. 1, "Conceptual Framework for Financial Accounting and Preparation of Financial Statements," No.5, "Long-term Investments under Equity Method," and No. 25, "Business Combinations." The major amendments in the above SFASs include the requirement that goodwill should not be amortized thereafter and the difference between the underlying equity in net assets of the investee and the cost of the investment should be analyzed first and the portion attributed to goodwill is not amortized but impairment loss on goodwill should be evaluated periodically. As a result, the Company's income from operation for the six months ended June 30, 2006 increased by \$534,691 thousand, basic earnings per share after tax by \$0.25 dollar (the effect of stock dividends to be distributed were not considered) and there was no cumulative effect of changes in accounting principle.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at June 30, 2006 and 2005 consist of the following:

	2006	2005
Cash on hand	\$ 51,024	\$ 52,727
Checking accounts	34,835	106,170
Savings accounts	420,663	1,201,196
Foreign-currency savings deposit	11,779,455	17,184,550
Time deposits	475,839	382,602
Commercial papers	<u>844,013</u>	<u>1,323,869</u>
	<u>\$ 13,605,829</u>	<u>\$ 20,251,114</u>

The time deposits amounted to \$49,409 thousand and \$27,902 thousand, included in other assets - refundable deposits were pledged for customs, employment of foreign labors and for tax appealing on additional tax assessment as at June 30, 2006 and 2005, respectively.

5. FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS, CURRENT

Financial instruments measured at fair value through profit or loss, current as of June 30, 2006 and 2005 were summarized as follows:

	2006	2005
Financial assets at fair value through profit or loss		
Marketable equity securities	\$ 4,901,258	\$ 2,751,097
Foreign marketable equity securities	-	745,474
Open-ended mutual funds	547,661	3,560,000
Foreign mutual funds	<u>85,257</u>	<u>63,599</u>
	<u>\$ 5,534,176</u>	<u>\$ 7,120,170</u>
Financial liabilities at fair value through profit or loss		
Forward exchange contracts	<u>\$ 52,642</u>	<u>\$ 5,880</u>

For the six months ended June 30, 2006 and 2005, the Company's strategy for forward exchange contracts is to hedge exposures to fluctuations of foreign exchange rate. The Company's financial risk management objective is to hedge most of the market price risk and cash flow risk.

The net gain (loss) from financial instruments measured at fair value through profit or loss, current for the six months ended June 30, 2006 and 2005 amounted to \$487,912 thousand and \$(5,880) thousand, respectively.

6. NOTES RECEIVABLE

Notes receivable as at June 30, 2006 and 2005 consist of the following:

	2006	2005
Notes receivable	\$91,000	\$71,007
Less allowance for doubtful accounts	<u>(900)</u>	<u>(401)</u>
	<u>\$90,100</u>	<u>\$70,606</u>

7. ACCOUNTS RECEIVABLE

Accounts receivable as at June 30, 2006 and 2005 consist of the following:

	2006	2005
Accounts receivable	\$ 20,345,934	\$ 17,086,782
Less allowance for doubtful accounts	<u>(838,933)</u>	<u>(721,110)</u>
	<u>19,507,001</u>	<u>16,365,672</u>
Accounts receivable from affiliates (Note 26)	2,393,668	2,330,004
Less allowance for doubtful accounts	<u>(99,397)</u>	<u>(7,875)</u>
	<u>2,294,271</u>	<u>2,322,129</u>
	<u>\$ 21,801,272</u>	<u>\$ 18,687,801</u>

8. INVENTORIES

Inventories as at June 30, 2006 and 2005 consist of the following:

	2006	2005
Raw materials and supplies	\$ 8,494,204	\$ 8,871,962
Work-in-process	3,530,529	3,098,533
Finished goods	6,350,617	4,800,109
Merchandise	13,709	58,477
Goods in transit	112,225	63,749
Land for development	140,072	140,248
Land, buildings and improvements for sale	119,281	123,724
Construction in process	<u>53,233</u>	<u>17,841</u>
	18,813,870	17,174,643
Less valuation allowance	<u>(749,640)</u>	<u>(364,007)</u>
	<u>\$ 18,064,230</u>	<u>\$ 16,810,636</u>

As at June 30, 2006 and 2005, insurance coverage for inventories amounted to \$18,294,167 thousand and \$15,008,099 thousand, respectively, and construction insurance coverage for land, buildings and improvements for sale and construction in process amounted to \$357,830 thousand and \$2,636,230 thousand, respectively.

Land for development and land, buildings and improvements for sale belong to Pou Yii Development Co., Ltd.

9. LONG-TERM INVESTMENTS AT EQUITY METHOD

Long-term investments at equity method as at June 30, 2006 and 2005 are comprised of the following:

	2006			2005	
	Original Cost	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage
Rising Developments Ltd.	\$ 5,019	\$ 64,353	50.00	\$ 234,264	50.00
Haicheng Information Technology Co., Ltd.	194,220	155,569	50.00	103,413	50.00
Silver Island Trading Ltd.	129,480	60,132	50.00	125,980	50.00
Best Focus Holdings Ltd.	323,700	412,385	50.00	267,479	50.00
Blessland Enterprises Limited	26,148	78,211	50.00	80,315	50.00
Cohen Enterprises Inc.	156,530	426,476	50.00	397,676	50.00
Coprosects Holdings Ltd.	9,532	7,409	50.00	8,601	50.00
Ever Atlantic Investments Limited	213,272	147,873	45.84	137,867	50.00
Great Skill Industrial Limited	34,086	87,347	50.00	60,255	50.00
High Style Investments Limited	25,896	36,863	50.00	36,930	50.00
Hua Jian Industrial Holding Co., Limited	769,774	1,340,777	50.00	1,045,414	50.00
Ka Yuen Rubber Factory Limited	78,431	484,478	50.00	339,522	50.00
Optiyield Industrial Limited	36	52	50.00	35	50.00
Pou Thane Enterprise Co., Ltd.	5,588	8,043	50.00	8,445	50.00
PYGF Co., Ltd.	32,370	37,337	50.00	40,351	50.00
Topmost Industries Limited	26,389	79,308	50.00	70,647	50.00
Twinways Investments Limited	88,069	194,271	50.00	168,694	50.00
Up Front Technology Ltd.	161,850	103,458	50.00	158,100	50.00
Well Success Investments Limited	255,897	1,148,928	40.00	796,311	40.00
Din Tsun Holdings Co., Limited	178,035	189,988	50.00	-	-
Bigfoot Limited	178,187	186,564	48.76	208,447	48.76
Enthroned Group Limited	158	158	48.76	154	48.76
Original Designs Developments Limited	40,082	111,570	47.00	99,969	47.00
Supplyline Ltd.	105,263	105	46.11	105,906	46.12
Venture Well Holdings Ltd.	332,023	305,871	43.08	296,755	42.46
Partner Alliance Limited	3,860	5,149	41.25	4,217	41.25
Willpower Industries Limited	103,584	96,788	40.00	99,173	40.00
Just Lucky Investments Limited	44,152	47,675	38.30	45,231	38.30
Nan Pao Resins (Holdings) Limited	71,424	283,045	35.00	249,488	35.00
All Saints Enterprises Limited	79,048	125,729	37.00	84,588	37.00
Rising Sun Associates Limited	35,931	89,699	37.00	68,300	37.00
Pine Wood Industrial Limited	92,222	80,891	37.00	78,502	37.00
Natural Options Limited	11,124	13,362	38.30	17,404	38.30
Precise Zone Investments Limited	41,585	35,709	47.65	51,248	47.65
San Fang Chemical Industrial Co., Ltd.	2,636,740	2,769,149	44.34	2,535,441	41.32
Eagle Nice (Int'l) Holdings Ltd.	1,322,771	1,492,949	44.96	1,358,246	44.96
Asia Air Tech Industrial (Pte.) Ltd.	82,544	73,080	30.00	80,194	30.00
Prosperous Industrial (Holdings) Ltd.	582,660	681,038	30.00	614,328	30.00
Talent Pool Management Ltd.	-	2,261	30.00	1,711	30.00
Prolik Properties Management Co., Ltd.	2,313	2,633	30.00	2,557	30.00
Central Honour Limited	5,179	6,649	50.00	4,586	50.00
Smart Shine Industries Limited	323,700	323,700	50.00	316,200	50.00
Liberty Bell Investments Limited	46,130	38,206	49.00	-	-
Oftenrich Holdings Limited	1,296,459	1,559,661	45.00	-	-
Profit Land Limited	37,387	37,426	35.00	-	-
Texas Clothing Holdings Corp.	1,942,200	1,879,595	39.80	-	-
Yuen Thai Industrial Company Limited	85,586	50,443	50.00	-	50.00
Zhong Ao Multiplex Management Limited	423,196	400,178	47.50	-	-
Yusong Chateau Enterprise Co., Ltd.	1,500	1,432	50.00	-	-
Eagle Great Investments Ltd.	78,840	62,650	40.00	-	-
Digital Sun Investments Ltd.	318,108	249,324	25.93	-	-

	2006			2005	
	Original Cost	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage
Centralian Investments Ltd.	318,108	300,770	32.73	-	-
China Ocean Resources Limited	242,775	249,352	50.00	-	-
Envopro Technology Limited	-	-	-	16,022	50.00
Elitegroup Computer Systems Co., Ltd.	5,992,988	5,647,908	21.15	5,246,079	30.21
Techview International Technology Inc.	611,650	714,446	49.62	392,558	50.00
Less allowance for impairment loss	-	(483,135)	-	(483,135)	-
	<u>20,203,799</u>	<u>22,505,288</u>		<u>15,574,468</u>	
Prepayment for long-term investments					
Eagle Great Investments Ltd.	-	-	-	75,888	-
	<u>\$ 20,203,799</u>	<u>\$ 22,505,288</u>		<u>\$ 15,650,356</u>	

The Company recognized long-term equity investment income (loss) under equity method for the six months ended June 30, 2006 and 2005 are summarized as follows:

	2006	2005
Rising Developments Ltd.	\$ 2,597	\$ 6,272
Haicheng Information Technology Co., Ltd.	38,951	(16,241)
Best Focus Holdings Ltd.	95,944	17,326
Blessland Enterprises Limited	5,005	3,945
Cohen Enterprises Inc.	17,359	(152)
Coprosects Holdings Ltd.	505	1,663
Ever Atlantic Investments Limited	5,793	(38,524)
Great Skill Industrial Limited	16,943	17,162
High Style Investments Limited	3,616	9,238
Hua Jian Industrial Holding Co., Limited	166,628	101,719
Ka Yuen Rubber Factory Limited	105,333	65,646
Pou Thane Enterprise Co., Ltd.	699	1,770
PYGF Co., Ltd.	211	597
Topmost Industries Limited	15,136	19,110
Twinways Investments Limited	32,361	30,983
Well Success Investments Limited	112,464	96,448
Yuen Thai Industrial Company Limited	(14,526)	(4,664)
Bigfoot Limited	8,045	13,485
Original Designs Developments Limited	15,763	12,956
Venture Well Holdings Ltd.	(4,483)	(24,923)
Partner Alliance Limited	411	(152)
Willpower Industries Limited	383	(1,923)
Just Lucky Investments Limited	705	678
Nan Pao Resins (Holdings) Limited	32,648	13,174
All Saints Enterprises Limited	7,564	2,107
Rising Sun Associates Limited	6,920	12,710
Natural Options Limited	(2,474)	2,217
Precise Zone Investments Limited	3,381	(549)
Global Biotech Inc.	-	(1,370)
San Fang Chemical Industrial Co., Ltd.	133,734	90,730
Silver Island Trading Ltd.	(69,806)	(509)
Eagle Nice (Int'l) Holdings Ltd.	101,389	51,253
Asia Air Tech Industrial (Pte.) Ltd.	(7,026)	(7,460)
Prosperous Industrial (Holdings) Ltd.	22,555	31,826
Prolik Properties Management Co., Ltd.	(19)	(992)
Central Honour Limited	1,166	367
Elitegroup Computer Systems Co., Ltd.	76,958	(44,626)

	2006	2005
Techview International Technology Inc.	32,166	32,908
Din Tsun Holdings Co., Limited	12,145	-
Eagle Great Investments Ltd.	(10,403)	-
Digital Sun Investments Ltd.	(67,654)	-
Centralian Investments Ltd.	(16,396)	-
Liberty Bell Investments Limited	(8,052)	-
Oftenrich Holdings Limited	193,428	-
Pine Wood Industrial Limited	(11,512)	-
Profit Land Limited	39	-
Supplyline Ltd.	(85,514)	-
Talent Pool Management Ltd.	254	-
Texas Clothing Holdings Corp.	(63,611)	-
Up Front Technology Ltd.	(32,890)	-
Zhong Ao Multiplex Management Limited	(23,387)	-
Yusong Chateau Enterprise Co., Ltd.	(68)	-
Envopro Technology Limited	-	(8,921)
China Ocean Resources Limited	6,683	-
Great Team Backend Foundry Inc.	-	314
	<u>\$ 858,061</u>	<u>\$ 485,598</u>

The names, main businesses, and place of incorporation of the equity-accounted investees are as follows:

Name	Core Operating Item	Place of Incorporation
Rising Developments Ltd.	Trading of diesel / petroleum	British Virgin Islands
Haicheng Information Technology Co., Ltd.	Developing and manufacture of software and electronic parts	Shanghai City
Sliver Island Trading Ltd.	Sale of electronic parts	British Virgin Islands
Venture Well Holdings Ltd.	Investment holding	British Virgin Islands
All Saints Enterprises Limited	Investment holding	British Virgin Islands
Asia Air Tech Industrial (Pte.) Ltd.	Investment holding	Singapore
Bigfoot Limited	Cloth product trading / cloth dyeing & processing / cloth shoe material binding	British Virgin Islands
Eagle Nice (Int'l) Holdings Ltd.	Investment holding	Cayman Islands
Enthroned Group Limited	Investment holding	British Virgin Islands
Just Lucky Investments Limited	Properties holding	British Virgin Islands
Nan Pao Resins (Holdings) Limited	Investment holding	British Virgin Islands
Natural Options Limited	Manufacture of foamed cotton	British Virgin Islands
Original Designs Developments Limited	Manufacture of shoe lasts	British Virgin Islands
Pine Wood Industrial Limited	Investment holding	British Virgin Islands
Prosperous Industrial (Holdings) Ltd.	Investment holding	Cayman Islands
Rising Sun Associates Limited	Investment holding	British Virgin Islands
Supplyline Ltd.	Provision of logistic service	Hong Kong
Talent Pool Management Ltd.	Provision of school service	British Virgin Islands
Best Focus Holdings Ltd.	Investment holding	British Virgin Islands
Blessland Enterprises Limited	Investment holding	British Virgin Islands

Name	Core Operating Item	Place of Incorporation
Central Honour Limited	Investment holding	British Virgin Islands
Cohen Enterprises Inc.	Manufacture and sales of leather products for shoes	British Virgin Islands
Coprospects Holdings Ltd.	Investment holding	British Virgin Islands
Envopro Technology Limited	Manufacture glues, plastic and chemical products	British Virgin Islands
Ever Atlantic Investments Limited	Manufacture of apparel	British Virgin Islands
Great Skill Industrial Limited	Investment holding	British Virgin Islands
High Style Investments Limited	Manufacture halftone, printing ink	British Virgin Islands
Hua Jian Industrial Holding Co., Limited	Manufacture and sale of ladies shoes	British Virgin Islands
Ka Yuen Rubber Factory Limited	Manufacture and sale of rubber soles	British Virgin Islands
Optiyield Industrial Limited	Investment holding	British Virgin Islands
Partner Alliance Limited	Sale of tobacco and liquor	British Virgin Islands
Pou Thane Enterprise Co., Ltd.	Wholesale of common chemical material	British Virgin Islands
Precise Zone Investments Limited	Manufacture and processing of ironware and plastic products	British Virgin Islands
PYGF Co., Ltd.	Processing rubber	British Virgin Islands
Topmost Industries Limited	Manufacture of counters for shoes	British Virgin Islands
Twinways Investments Limited	Manufacture of injection moulds for shoe components	British Virgin Islands
Up Front Technology Ltd.	Investment holding	British Virgin Islands
Well Success Investments Limited	Investment holding	British Virgin Islands
Willpower Industries Limited	Investment holding	British Virgin Islands
Yuen Thai Industrial Company Limited	Manufacture and trading of sports and active wear	Hong Kong
Prolik Properties Management Co., Ltd.	Properties management	British Virgin Islands
Smart Shine Industries Limited	Investment holding	British Virgin Islands
Din Tsun Holdings Co., Ltd.	Investment holding	British Virgin Islands
Liberty Bell Investments Limited	Manufacture of composed gum	British Virgin Islands
Oftenrich Holdings Limited	Investment holding	Bermuda
Profit Land Limited	Investment holding	British Virgin Islands
Texas Clothing Holdings Corp.	Investment holding	British Virgin Islands
Zhong Ao Multiplex Management Limited	Property management	Beijing
Eagle Great Investments Ltd.	Investment holding	British Virgin Islands
Digital Sun Investments Ltd.	Sale of PCB	British Virgin Islands
Centralian Investments Ltd.	Assembly of PCB	British Virgin Islands
China Ocean Resources Limited	Investment holding	British Virgin Islands

The fiscal year end of the above-listed companies is September 30. The Company accounted for the long-term investment income (loss) of these companies based on these companies' financial results for the six months ended March 31, 2006, as permitted under the accounting principles generally accepted in the ROC.

Techview International Technology Inc. ("Techview International") is engaged in manufacturing and sale of LCD display. It has an outstanding common stock of \$1,021,976 thousand at par value \$10.00 dollars per share as at June 30, 2006. Additionally, in March 2006, Techview International issued additional 28,000 thousand common stock with \$224,000 thousand additional paid-in capital, of which \$252,000 thousand were subscribed by the Company; the Company's ownership was increased to 49.62%.

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. It has an outstanding common stock of \$10,466,702 thousand as at June 30, 2006. It issued additional 314,001 thousand common stocks, to exchange the desktop department of Tatung Co., Ltd. The Company's ownership was decreased to 21.15%.

San Fang Chemical Industrial Co., Ltd. ("San Fang") is engaged in manufacturing and marketing leather. The shares of San Fang are listed on the Taiwan Stock Exchange Corporation. It has an outstanding capital of \$2,504,083 thousand as at June 30, 2006.

10. INVESTMENTS IN REAL ESTATE

Investments in real estate as at June 30, 2006 and 2005 are comprised of the following:

	2006			2005
	Cost	Accumulated Depreciation	Carrying Value	Carrying Value
Land	\$ 109,712	\$ -	\$ 109,712	\$ 109,712
Building (construction in progress)	<u>55,824</u>	<u>-</u>	<u>55,824</u>	<u>2,155</u>
	<u>\$ 165,536</u>	<u>\$ -</u>	<u>\$ 165,536</u>	<u>\$ 111,867</u>

11. AVAILABLE-FOR-SALE FINANCIAL ASSETS, NONCURRENT

Available-for-sale financial assets as of June 30, 2006 and 2005 are as follows:

	2006			2005	
	Original Investment Cost	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage
Marketable equity securities					
Quanta Display Inc.	\$ 919,542	\$ 492,685	0.78	\$ 639,610	0.96
Evermore Chemical Industry Co., Ltd.	2,872	2,978	0.28	-	-
Taiwan Paiho Limited	135,038	125,949	3.25	131,909	4.38
Foreign marketable equity securities					
Luen Thai Holdings Ltd.	1,106,307	966,345	8.98	1,080,654	9.90
Foreign mutual funds					
Investar Excelsus Venture Capital	<u>13,568</u>	<u>4,014</u>	-	<u>-</u>	<u>-</u>
	<u>\$ 2,177,327</u>	<u>\$ 1,591,971</u>		<u>\$ 1,852,173</u>	

Quanta Display Inc. is engaged in manufacturing and sale of TFT-LCD products. It has an outstanding common stock of \$51,639,233 thousand as at June 30, 2006. The Company is the director of Quanta Display Inc.

Luen Thai Holdings Ltd. is engaged in manufacturing ready-made garments. The shares of Luen Thai Holdings Ltd. are listed on the Hongkong Exchange and Clearing Limited. It has an outstanding common stock of US\$9,023 thousand as at June 30, 2006.

12. FINANCIAL ASSETS CARRIED AT COST, NONCURRENT

Financial assets carried at cost as of June 30, 2006 and 2005 were as follows:

	2006			2005	
	Original Investment Cost	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage
Chiang Yei Precision Industrial Co., Ltd.	\$ 8,153	\$ 8,153	15.27	\$ 8,153	15.27
Golden Brands Developments Ltd.	723,081	270,634	5.88	706,328	6.73
L&C Aluminium Corp.	1,200	831	3.33	831	3.33
Media Reality Technologies, Inc.	88	88	0.41	351	1.63
Shey Yu Co., Ltd.	320	320	1.07	320	1.07
Hwiang Shei Co., Ltd.	200	-	1.00	-	1.00
View Sonic Corporation	96,231	96,231	0.43	96,231	0.43
Taichung International Country Club	1,905	1,905	1.28	1,905	0.09
Redsun Electronic Co., Ltd.	28,000	-	5.39	-	-
Bizlink Holding Inc.	108,153	108,153	3.06	106,145	3.07
Great Team Backend Foundry Inc.	78,475	78,475	19.86	76,657	19.86
Eic Enterprise Ltd. - preferred stock	62,647	1,402	-	61,195	-
Asia Pacific Genesis Venture Capital Fund	80,925	80,925	-	47,430	-
	<u>\$ 1,189,378</u>	<u>\$ 647,117</u>		<u>\$ 1,105,546</u>	

The stocks and foreign mutual funds mentioned above do not have open pricing and reliable fair values, thus they are carried at cost. Due to the continuing operation losses of Golden Brands Developments Ltd. and Eic Enterprise Ltd., the Company recognized a permanent loss of \$521,943 thousand for the six months ended June 30, 2006, which was recorded as other investment loss.

13. PROPERTY, PLANT AND EQUIPMENT

A summary of property, plant and equipment as at June 30, 2006 and 2005 is as follows:

	2006				2005	
	Cost	Reassessed Value Increment	Accumulated Depreciation	Accumulated Impairment	Carrying Value	Carrying Value
Land	\$ 2,053,530	\$ 238,754	\$ -	\$ 162,740	\$ 2,129,544	\$ 2,265,319
Buildings and improvements	36,662,567	40,254	8,147,942	1,281	28,553,598	23,127,214
Machinery and equipment	36,417,807	-	18,465,772	-	17,952,035	15,769,200
Transportation equipment	980,028	-	681,341	-	298,687	299,812
Furniture, fixtures and office Equipment	4,026,507	-	2,544,976	-	1,481,531	1,348,606
Other equipment	585,058	-	202,510	-	382,548	173,093
Prepayments on purchase of equipment and construction in progress	4,769,134	-	-	-	4,769,134	5,431,335
	<u>\$85,494,631</u>	<u>\$ 279,008</u>	<u>\$30,042,541</u>	<u>\$ 164,021</u>	<u>\$55,567,077</u>	<u>\$48,414,579</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 six months ended June 30, 2006.

At June 30, 2006, two parcels of land located in Changhwa were purchased by the Company for \$22,187 thousand in June 1990 and for \$33,668 thousand in April 1997. According to related laws, the ownership for these two parcels of land should be transferred to the Company. However, due to certain restrictions under the land regulations, the ownership for these two parcels of land resides with a trustee through a trust agreement which prohibits the trustee from selling, pledging or hypothecating the property. Consequently, the two parcels of land amounted to \$55,855 thousand are included in other assets (see Note 14).

In April 2006, the construction of Pou Chen International Building was completed. The total price of land is \$907,582 thousand and the buildings are \$3,550,797 thousand, totaling \$4,458,379 thousand.

The interest expense for the six months ended June 30, 2006 and 2005 amounted to \$1,214,291 thousand and \$666,827 thousand, respectively. Interest costs capitalized as part of the costs of property, plant and equipment for the six months ended June 30, 2006 and 2005 amounted to \$3,102 thousand and \$202 thousand, respectively. Interest rates for capitalization were all 2.50%.

At June 30, 2006 and 2005, insurance coverage for property, plant and equipment, excluding land, prepayments on purchase of equipment and construction in progress, amounted to \$67,126,181 thousand and \$50,273,133 thousand, respectively.

14. OTHER ASSETS

Other assets as at June 30, 2006 and 2005 consist of the following:

	2006	2005
Leased-out assets		
Cost and revaluation increment	\$ 1,827,696	\$ 1,763,364
Less accumulated depreciation	<u>(204,386)</u>	<u>(150,211)</u>
	<u>1,623,310</u>	<u>1,613,153</u>
Refundable deposits	<u>76,968</u>	<u>59,069</u>
Deferred charges	<u>191,511</u>	<u>273,254</u>
Long-term receivables	<u>251,466</u>	<u>193,053</u>
Deferred tax assets (Note 23)	<u>173,784</u>	<u>154,128</u>
Land held by trustee (Note 13)	<u>55,855</u>	<u>55,855</u>
Idle asset	60,834	32,575
Less		
Accumulated depreciation	(41,102)	(16,023)
Allowance for valuation loss of idle asset	<u>(19,732)</u>	<u>(16,552)</u>
	<u>-</u>	<u>-</u>

	2006	2005
Prepaid pension cost	16,675	12,920
Others	5,598	5,646
Temporary tax payments	<u>26,528</u>	<u>28,049</u>
	<u>\$2,421,695</u>	<u>\$2,395,127</u>

15. SHORT-TERM BORROWINGS

Short-term borrowings as at June 30, 2006 and 2005 consist of the following:

	<u>2006</u>		<u>2005</u>	
	Annual Interest Rate %	Balance	Annual Interest Rate %	Balance
Short-term borrowings				
Procurement loans	0.81~6.65	\$ 2,619,926	1.83~4.875	\$ 4,651,688
Unsecured loans	1.50~5.88	<u>10,156,719</u>	1.65~4.80	<u>9,012,733</u>
		<u>\$12,776,645</u>		<u>\$13,664,421</u>

16. SHORT-TERM BILLS

Short-term bills as at June 30, 2006 and 2005 consist of the following:

	<u>2006</u>		<u>2005</u>	
	Annual Interest Rate %	Balance	Annual Interest Rate %	Balance
Short-term bills				
Commercial paper, credit	1.182~2.26	\$ 1,650,000	0.93~1.746	\$ 1,130,000
Less discount on commercial paper		<u>(6,191)</u>		<u>(1,579)</u>
		<u>\$ 1,643,809</u>		<u>\$ 1,128,421</u>

17. CURRENT PORTION OF LONG-TERM LIABILITIES

Current portion of long-term liabilities as at June 30, 2006 and 2005 consist of the following:

	2006	2005
Bonds payable (see Note 18)	\$ -	\$ 22,405,692
Long-term debt (see Note 19)	<u>2,593,115</u>	<u>3,793,785</u>
	<u>\$ 2,593,115</u>	<u>\$ 26,199,477</u>

18. BONDS PAYABLE

Bonds payable as at June 30, 2006 and 2005 consist of the following:

	2006	2005
Euro Convertible Bonds	\$ 7,576,198	\$ 21,192,608
Add interest compensation and income tax payable	<u>97,729</u>	<u>1,213,084</u>
	7,673,927	22,405,692
Less current portion	<u>-</u>	<u>(22,405,692)</u>
	7,673,927	-
Domestic secured bonds	<u>5,000,000</u>	<u>5,000,000</u>
	<u>\$ 12,673,927</u>	<u>\$ 5,000,000</u>

In 2006, the Company repurchased and redeemed at maturity its Euro Convertible Bonds with par value of US\$143,125 thousand from open market at cost of \$5,902,479 thousand and the Company recognized a gain of \$166,941 thousand for the six-month period.

In 2005, the Company repurchased its Euro Convertible Bonds with par value of US\$7,650 thousand from open market at cost of \$376,022 thousand and the Company recognized a gain of \$20,029 thousand for the six-month period.

Euro-Dollar Convertible Bonds - First Issued by Pou Chen

- (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, all are redeemed at maturity or repurchased as at June 15, 2006

Second Issued by Pou Chen

- (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\$2,580 thousand outstanding as at June 30, 2006
- (f) Interest rate: 0%
- (g) Date of maturity: November 4, 2008
- (h) Conversion Price:
The initial price at which shares will be issued upon conversion is \$47.285 per share at the issue date. The above conversion price will be adjusted accordingly if there is a capital increase in cash or dividend distribution by Pou Chen. At June 30, 2006, 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 Pou Chen:
- (i) The Bonds may be redeemed, in whole or from time to time in part (in the principal amount of US\$1,000 (dollars) or any integral multiple thereof), at the option of Pou Chen at any time on or after November 4, 2005, at a price equal to 100% of the unpaid principal amount thereof; provided that the closing price of the common shares (translated into US dollars at the prevailing rate) on each of 20 consecutive trading days, the last of which occurs not more than five days prior to the date on which notice of such redemption is given, is at least 130% of the conversion price (translated into US dollars at the fixed rate). Notwithstanding the foregoing, the Bonds may be redeemed in whole at the option of Pou Chen at any time at a price equal to 100% of the unpaid principal amount thereof if at least 95% in aggregate principal amount of the Bonds has already been redeemed, repurchased and cancelled, or converted.
 - (ii) The Bonds may also be redeemed in whole at any time at the option of Pou Chen at a price equal to 100% of the unpaid principal amount thereof in the event of certain changes relating to taxation in the Republic of China or such other jurisdiction in which Pou Chen is then organized.
- (k) Repurchase at the option of holders:
- (i) Each holder has the right to require Pou Chen to repurchase all or any portion (in the principal amount of US\$1,000 (dollars) or any integral multiple thereof) of such holder's bonds on November 4, 2005 at a price equal to 99.80% of the unpaid principal amount thereof.
 - (ii) If the common shares cease to be listed or admitted to trading on the TSE for a period exceeding five consecutive trading days, then each holder will have the right, at such holder's option, to require Pou Chen to repurchase all of such holder's bonds at a price equal to 100% of the unpaid principal amount.
 - (iii) Upon the occurrence of a change of control, each holder shall have the right, at such holder's option, to require Pou Chen to repurchase all of such holder's bonds at a price equal to 100% of the unpaid principal amount thereof on the date set by Pou Chen which is not less than 30 days nor more than 60 days following the date on which Pou Chen notifies the trustee of the change of control.
A change of control means any of the following events:
 - any person or persons, other than the Tsai Family or its affiliates, acting together, acquires or acquire legal or beneficial ownership of at least 50% of Pou Chen's capital stock; or
 - Pou Chen consolidates with or merges into or sells or transfers all or substantially all of its assets to any other person or persons (other than the Tsai Family or its affiliates), unless the consolidation, merger, sale or transfer will not result in the other person or persons acquiring control over Pou Chen or the successor entity.
 - (iv) If Pou Chen ceases to hold, directly or indirectly, at least 33% of the outstanding capital stock of Yue Yuen or if Pou Chen, together with the Tsai Family and its affiliates, ceases to hold, directly or indirectly, at least 51% of the outstanding capital stock of Yue Yuen, then each holder shall have the right, at such holder's option, to require Pou Chen to repurchase all of such holder's bonds at a price equal to 100% of the unpaid principal amount.

Domestic Secured Bonds

The first secured bonds of 2003:

- (a) Pou Chen issued \$5,000,000 thousand secured bonds from June 10, 2003 to June 13, 2003, for the purpose of repaying bank loan. The bonds were separated into 19 types (from "A" to "S"). The issued amount of type A, B, C, D, E, F, K, L, M, N, P, Q was \$300,000 thousand and the other types was \$200,000 thousand. The par value of all types was \$10,000 thousand.
- (b) Date of maturity and price of issuance: from June 10, 2008 to June 13, 2008 and 100%

(c) Interest rate:

Type A, F, K, P: 4.000%, minus floating rate

Type B, G, L, Q: 4.001%, minus floating rate

Type C, H, M, R: 4.002%, minus floating rate

Type D, I, N, S: 4.003%, minus floating rate

Type E, J, O: 4.004%, minus floating rate

The nominal interest rate of all types should be greater than 0%.

The floating rate is determined on the Fixing Rate of USD 6-month LIBOR at 11:00 AM on the second London business day before the first day of each interest period on "LIBOR" page on the Reuters screen.

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

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

- (a) merge with any other company or spin off, unless Pou Chen being the existing company or majority lenders consent that such merger or spin off will not have a material adverse effect on Pou Chen;
- (b) change the scope or nature of its major business;
- (c) create any encumbrance over its assets, except for such encumbrance that 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 Industrial.
- (e) make loan, which according to procedures on fund and loans, in excess of 20% of the issued capital;
- (f) trade with others in irregular course;
- (g) amend or change the contents, conditions or terms of the secured bonds, unless such amendment or change will not result in adverse effect to lenders;
- (h) provide guarantees in violation of the guidelines of endorsement and guarantees, which guidelines provide that aggregate endorsements and guarantees shall not exceed 100% of net worth as shown in the most recent audited or reviewed financial statements.

Euro-Dollar Convertible Bonds

First issued by Yue Yuen Industrial (Holdings) Ltd.

- (a) Date of issuance: December 23, 2003; there are US\$231,470 thousand outstanding as at June 30, 2006
- (b) Par value: US\$1,000 thousand
- (c) Location of issuance: Luxemburg
- (d) Price of issuance: 100%

- (e) Total amount: US\$317,000 thousand
- (f) Interest rate: 0%
- (g) Date of maturity: December 23, 2008
- (h) Conversion Price:
 HK\$27.33 dollars per share at the fixed rate of exchange of HK\$7.7622 dollars to US\$1 dollar which will be subject to adjustment for, among other things, subdivision or consolidation of shares, capital distributions, bonus issues, rights issues and other dilutive events.
- (i) Redemption at maturity:
 Unless previously redeemed, repurchased and cancelled, or converted, the Bonds will be redeemed on December 23, 2008 at a price equal to 98.76% of the unpaid principal amount.
- (j) Redemption at the option of Yue Yuen:
 On or at any time after December 23, 2005 (in the case of (i) below) and at any time (in the case of (ii) below) and (in either case) prior to December 16, 2008, Yue Yuen may redeem all (in the case of (ii) below) or, from time to time, some only (being US\$1,000,000 dollars in principal amount or an integral multiple thereof) of the Bonds, subject to giving not less than 30 nor more than 60 days' notice, at the Early Redemption Amount (as defined herein) on the Redemption Date if (i) the closing price of the Share (as derived from the Daily Quotations Sheet of the Hong Kong Stock Exchange or, as the case may be, the equivalent quotation sheet of an Alternative Stock Exchange), translated into United States dollars at the prevailing rate described herein, for each of any 20 Trading Days (as defined herein) during a 30 consecutive Trading Day period, the last day of which period occurring no more than five Trading Days prior to the date upon which such notice of redemption is given, was at least 120 per cent. of the Conversion Price in effect on each such Trading Day, translated into United States dollars at the rate of HK\$7.7622 dollars = US\$1.00 dollar or (ii) at least 90 per cent. in principal amount of the Bonds has already been converted, redeemed or purchased and cancelled.
- (k) Repurchase at the option of holders:
 Each holder has the right to require Yue Yuen to repurchase all or any portion of such holder's bonds on December 23, 2005 at a price equal to 99.50% of the unpaid principal amount thereof.
- (l) On 14th December 2005, Yue Yuen signed a put release agreement with a financial institution pursuant to which has agreed. On request of the holders of the Exercised Bonds, to revoke the Put Option exercised so that such CB will continue to be outstanding. In addition, Yue Yuen will make an additional payment to or to the order of the Financial Institution on maturity of the Exercised Bonds.

19. LONG-TERM DEBT

Long-term debt as at June 30, 2006 and 2005 consists of the following:

	2006	2005
China Development Industrial Bank (Lead Lender) and other banks		
Long-term debt, US\$23,200 thousand, due in 5 semiannual installments commencing September 5, 2006 and maturing September 5, 2008. Interest is paid monthly. Interest rate is 3-month floating LIBOR rate plus 1%.	\$ 750,984	\$ 733,584
Industrial Development Bureau interest-free loan	2,317	6,951

	2006	2005
Citibank (Lead Lender) and other banks Long-term debt, US\$300,000 thousand, due in semiannual installments commencing November 8, 2007 and maturing November 8, 2009. Interest rate is from 3.945% to 5.005%.	9,711,000	9,486,000
Bank of China Long-term debt, US\$420,000 thousand. The period is from June 1, 2005 to June 1, 2010. Interest rate is 4.70%. Interest is paid quarterly. The principal is fully repaid upon maturity.	11,336,401	-
China Trust Commercial Bank Long-term debt, US\$2,660 thousand, due in semiannual installments commencing September 21, 2005 and maturing September 21, 2008. Interest rate is 5.98%. Interest is paid monthly.	61,294	-
China Trust Commercial Bank Long-term debt, US\$2,000 thousand, due in semiannual installments commencing February 22, 2006 and maturing February 22, 2009. Interest rate is 5.51%. Interest is paid monthly.	55,491	-
Industrial Bank of Taiwan Mid-term debt, the term is from October 26, 2005 to October 25, 2008. Interest rate is 2.4894%. Interest is paid monthly. The principal is fully repaid upon maturity.	180,000	-
Citibank (Lead Lender) and other banks Long-term debt, with a total facility amount of NT\$6,500,000 thousand, due in semiannual commencing April 25, 2009 and maturing October 25, 2010. Interest rate is 1.985%~2.048%.	6,500,000	-
China Trust Commercial Bank Long-term debt, with a total facility amount of NT\$2,500,000 thousand, due in semiannual commencing December 9, 2009 and maturing June 9, 2011. Interest rate is 2.1395%.	2,500,000	-
Ta Chong Bank (Lead Lender) and other banks Long-term debt, with a total facility amount of US\$10,000 thousand, due in 5 semiannual installments commencing September 2, 2008 and maturing September 2, 2010. Interest rate is 1-month (2, 3 or 6-month) floating LIBOR rate plus 0.90%.	323,700	-
Standard Chartered Bank (HK) Long-term debt, US\$30,000 thousand. This term is from August 24, 2005 to August 24, 2010. Interest rate is USD 3-month floating LIBOR rate plus 0.90%. Interest is paid quarterly. The principal is repaid from August 24, 2008.	971,100	-

	2006	2005
<p>Ta Chong Bank (Lead Lender) and other banks Long-term debt, US\$4,000 thousand. The term is from November 14, 2005 to November 14, 2010. The principal is repaid from November 14, 2008. Interest rate is 3-month floating LIBOR rate plus 1%. Interest is paid quarterly.</p>	129,480	-
<p>Standard Chartered Bank (HK) Long-term debt, US\$105,000 thousand. The term is from October 29, 2002 to October 29, 2005. Interest rate is 3.11%. Interest is paid semi-annually. The principal was fully repaid in 2005.</p>	-	3,320,100
<p>WestLB AG Long-term debt, US\$350,000 thousand. The term is from October 16, 2001 to October 16, 2006. Interest rate is 3.22541%. Interest is paid semi-annually. The principal was fully repaid in 2005.</p>	-	5,312,160
<p>Bank of China Long-term debt, US\$4,000 thousand, due in quarterly installments commencing January 30, 2004 and maturing November 1, 2005. Interest rate is 3.1007%. Interest is paid monthly. The principal was fully repaid in 2005.</p>	-	47,430
<p>China Trust Commercial Bank Long-term debt, with a total facility amount of US\$10,000 thousand, due in semiannual installments commencing June 6, 2004 and maturing December 6, 2007. Interest rate is 3.759%. Interest is paid monthly. The principal was fully repaid in 2005.</p>	-	237,150
<p>HSBC Long-term debt, US\$13,000 thousand, due in quarterly installments commencing April 15, 2004 and maturing January 15, 2008. Interest rate is 2.87%. Interest is paid quarterly. The principal was fully repaid in 2005.</p>	-	379,440
<p>Natexis Banques Populaires Long-term debt with a total facility amount of US\$3,924 thousand, due in semiannual installments commencing January 29, 2005 and maturing July 29, 2007. Interest rate is 3.80%. Interest is paid semiannually. The principal was fully repaid in 2005.</p>	-	103,397
<p>Chin Fon Commercial Bank Long-term debt, with a total facility amount of US\$10,000 thousand, due in semiannual installments commencing November 29, 2004 and maturing May 29, 2008. Interest rate is 3.759%. Interest is paid monthly. The principal was fully repaid in 2005.</p>	-	276,675

	2006	2005
ANZ Bank		
Long-term debt, US\$5,000 thousand, due in quarterly installments commencing January 20, 2006 and maturing October 20, 2008. Interest rate is 2.92%. Interest is paid quarterly. The principal was fully repaid in 2005.	-	158,100
Citi Bank		
Long-term debt, US\$10,000 thousand, due in quarterly installments commencing July 19, 2004 and maturing July 18, 2006. Interest rate is 2.88%. Interest is paid quarterly. The principal was fully repaid in 2005.	-	211,854
Standard Chartered Bank, (HK)		
5 years long-term debt with a total facility amount of US\$7,000 thousand, due in semiannual installments commencing May 9, 2007 and maturing May 9, 2008. Interest rate is 3.19%. Interest is paid monthly. The principal was fully repaid in 2005.	-	221,340
Citibank (HK)		
5 years long-term debt, US\$10,000 thousand. The period is from February 11, 2004 to February 11, 2009. Interest rate is 3.19%. Interest is paid monthly. The principal was fully repaid in 2005.	-	316,200
China Trust Commercial Bank		
Long-term debt, US\$2,660 thousand, due in semiannual installments commencing September 21, 2005 and maturing September 21, 2008. Interest rate is 3.93%. Interest is paid monthly. The principal was fully repaid in 2005.	-	63,335
China Trust Commercial Bank		
Long-term debt, US\$1,768 thousand, due in semiannual installments commencing February 22, 2006 and maturing February 22, 2009. Interest rate is 4.40%. Interest is paid monthly. The principal was fully repaid in 2005.	-	55,904
	<u>32,521,767</u>	<u>20,929,620</u>
Less current portion	<u>(2,593,115)</u>	<u>(3,793,785)</u>
	<u>\$ 29,928,652</u>	<u>\$ 17,135,835</u>

20. STOCKHOLDERS' EQUITY

Pou Chen's registered and issued capital as at June 30, 2006 and 2005 are summarized as follows:

	2006	2005
Registered capital		
Shares (in thousands)	<u>3,800,000</u>	<u>3,195,357</u>
Par value (in dollars)	<u>\$ 10</u>	<u>\$ 10</u>
Capital	<u>\$ 38,000,000</u>	<u>\$ 31,953,574</u>
Issued capital		
Shares (in thousands)	<u>2,307,986</u>	<u>2,095,583</u>
Par value (in dollars)	<u>\$ 10</u>	<u>\$ 10</u>
Capital	<u>\$ 23,079,858</u>	<u>\$ 20,955,834</u>

At the June 14, 2005 meeting, Pou Chen's stockholders resolved to issue additional stock amounting to \$2,092,054 thousand through stock dividends, and bonuses to employees. As the legal registration process is not completed, it was included in stock dividends to be distributed as of June 30, 2005. However, it was considered as outstanding shares in calculating earnings per share as the legal process was completed on August 25, 2005.

The stockholders approved to issue additional stock amounting to \$1,270,265 thousand through stock dividends, and bonuses to employees at their regular meeting on June 14, 2006. As the legal registration process is not completed, it was included in stock dividends to be distributed as of June 30, 2006. It was not considered as outstanding shares as the legal process was not completed. However, if it was considered as outstanding shares in calculating earnings per share, the basis earnings per share before and after tax would be \$1.76, \$1.75 and \$0.91, \$0.88 per share, respectively, for the six months ended June 30, 2006 and 2005.

At the meeting on July 15, 2002, the Board of Directors of Pou Chen resolved to issue employee stock warrants in accordance with Securities and Exchange Law Article 28-3 within the quantity of 67,600 units. Each individual employee stock warrant is granted the right to purchase new issued common share for 1,000 shares. The exercise price is the closing price of Pou Chen's common shares at the employee stock warrants' issuance date. The warrant holder can exercise the right up to one-third of the granted warrant units no earlier than two years from the granted date. After four years from the granted date, the warrants holders are eligible to exercise all the warrants owned. As of August 6, 2002 and July 24, 2003, Pou Chen has issued 66,600 units and 1,000 units of employee stock warrants, respectively to the employees with an exercise price of \$23.30 dollars and \$41.20 dollars per unit, 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 distributed in 2006. At June 30, 2006, the employee stock warrants of 66,600 units were executed for 9,047 thousand shares of common stock.

According to the Company Law of the ROC and Pou Chen's Articles of Incorporation, 10% of Pou Chen's annual earnings, after paying tax and offsetting deficit, if any, should first be appropriated as legal reserve until such reserve equals to the amount of Pou Chen's capital,

and then appropriate necessary special reserve as regulated by laws or local authorities.

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

- a. 3% bonuses to directors and supervisors,
- b. 1%~5% as bonuses to employees, after deducting the bonuses to directors and supervisors, and
- c. the final remainder shall be distributed to stockholders unless deficit.

In accordance with the Approval Documents (95) Jin-Guan-Tseng (1) No. 0950000507 of Financial Supervisory Commission, Executive Yuan public listed companies have to appropriate earnings for special reserve according to Article 41-1 of Securities Transaction Act, in addition to the appropriation for legal reserve, in amount equal to debit balances, if any, in stockholders' equity (such as unrealized loss on financial assets and cumulative translation adjustments). The special reserve can be reversed and distributed as retained earnings if such deduction of stockholders' equity reversed.

Pou Chen's board of directors proposed and the shareholders approved the distribution from the 2005 earnings of 13,951 thousand shares to employees (represents 0.62% of the outstanding common shares at the end of 2005) and of \$143,829 thousand as bonuses to directors and supervisors. In 2005, the basic earnings per share after income tax (before retroactive adjustment for stock dividend in 2006) was \$1.98; however, if the earnings distribution to employees, directors and supervisors are accounted for as expenses, the pro-forma basic earnings per share after income tax was \$1.85. Regarding the appropriation of 2005 retained earnings proposed by the board of directors and approved by the shareholders' meeting, please refer to the Market Observation Post System ("MOPS") of Taiwan Stock Exchange.

Wealthplus' outstanding capital stock as of March 31, 2006 and 2005 amounted to US\$169,222 thousand, with a par value of US\$1 each, 169,222 thousand shares.

Additionally, Wealthplus' board of directors approved to distribute earnings amounted to US\$105,000 thousand in 2005.

Win Fortune's outstanding capital stock as of March 31, 2006 and 2005 amounted to US\$100 thousand, with a par value of US\$1 each, 100 thousand shares.

Additionally, Win Fortune's board of directors approved to distribute earnings amounted to US\$4,300 thousand in 2005.

Ming Wang's registered and issued capital as at June 30, 2006 and 2005 amounted to \$427,291 thousand, divided into 42,729 thousand common shares with a par value of \$10.00 dollars each.

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

Windsor Entertainment's registered and issued capital as at June 30, 2006 and 2005 amounted to \$100,000 thousand, divided into 10,000 thousand common shares with a par value of \$10.00 dollars each.

According to the Company Law of the ROC and Windsor Entertainment's Articles of Incorporation, 10% of Windsor Entertainment's annual earnings, after paying tax and offsetting deficit, if any, should first be appropriated as legal reserve. For the remaining balance, if any, 0.01% should be appropriated as bonuses to employees. The final remaining balance shall then be distributed in accordance with the resolution in the stockholders' meeting.

Yun Yang's registered and issued capital as at June 30, 2006 and 2005 amounted to \$75,000 thousand, divided into 7,500 thousand common shares with a par value of \$10.00 dollars each.

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

Pou Shine's registered and issued capital as at June 30, 2006 and 2005 amounted to \$573,632 thousand, divided into 57,363 thousand common shares with a par value of \$10.00 dollars each.

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

Pan Asia Insurance Services' issued capital as at June 30, 2006 and 2005 amounted to \$3,000 thousand.

According to the Company Law of the ROC and Pan Asia Insurance Services' Articles of Incorporation, 10% of Pan Asia Insurance Services' annual earnings, after paying tax and offsetting deficit, if any, should first be appropriated as legal reserve. For the remaining balance, if any, 95% should be distributed to shareholders, 2% should be appropriated as bonuses to employees, and 3% should be appropriated as bonuses to directors and supervisors.

Barits Development's registered and issued capital as at June 30, 2006 and 2005 amounted to \$913,000 thousand, divided into 91,300 thousand common shares with a par value of \$10 each.

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

Pou Yuen Technology's registered and issued capital as at June 30, 2006 and 2005 are summarized as follows:

	2006	2005
Registered capital		
Shares (in thousands)	<u>120,000</u>	<u>120,000</u>
Par value (in dollars)	<u>\$ 10</u>	<u>\$ 10</u>
Capital	<u>\$ 1,200,000</u>	<u>\$ 1,200,000</u>
Issued capital		
Shares (in thousands)	<u>60,000</u>	<u>60,000</u>
Par value (in dollars)	<u>\$ 10</u>	<u>\$ 10</u>
Capital	<u>\$ 600,000</u>	<u>\$ 600,000</u>

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

Pro Arch Technology's registered and issued capital as at June 30, 2006 and 2005 are summarized as follows:

	2006	2005
Registered capital		
Shares (in thousands)	<u>185,000</u>	<u>185,000</u>
Par value (in dollars)	<u>\$ 10</u>	<u>\$ 10</u>
Capital	<u>\$ 1,850,000</u>	<u>\$ 1,850,000</u>
Issued capital		
Shares (in thousands)	<u>117,513</u>	<u>170,000</u>
Par value (in dollars)	<u>\$ 10</u>	<u>\$ 10</u>
Capital	<u>\$ 1,175,127</u>	<u>\$ 1,700,000</u>

Pro Arch Technology's outstanding capital stock as at December 31, 2004 amounted to \$464,800 thousand. In January 2005, Pro Arch Technology issued additional 123,520 thousand shares at a price of \$4.93 dollars per share. Additionally, Pro Arch Technology decreased its capital to offset its accumulated deficit by \$524,873 thousand in November 2005. As at June 30, 2006, Pro Arch Technology has an outstanding common stock of \$1,175,127 thousand.

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

any, 12% should be appropriated as bonuses to employees, and more than 1% should be appropriated as bonuses to directors and supervisors. The final remainder shall then be distributed in accordance with the resolution in the stockholders' meeting.

Global Brands Manufacture's registered and issued capital as at June 30, 2006 and 2005 are summarized as follows:

	2006	2005
Authorized capital		
Share (in thousands)	<u>440,000</u>	<u>330,000</u>
Par value (in dollars)	<u>\$ 10</u>	<u>\$ 10</u>
Capital	<u>\$4,400,000</u>	<u>\$3,300,000</u>
Issued capital		
Share (in thousands)	<u>205,438</u>	<u>154,102</u>
Par value (in dollars)	<u>\$ 10</u>	<u>\$ 10</u>
Capital	<u>\$2,054,382</u>	<u>\$1,541,020</u>

Global Brands Manufacture was authorized to issue common stock of 30,000 thousand shares under private placement at \$40.48 per share for funding operating capital in November 2003. Such private placement shares and their distributed shares (36,300 thousand shares as of June 30, 2006) are not allowed to trade in the following 3 years of issuance.

Global Brands Manufacture's issued capital as at June 30, 2006 amounted to \$1,541,020 thousand, divided into 154,102 thousand common shares with a par value of \$10.00 dollars each.

Global Brands Manufacture was approved on May 27, 2005 by Financial Supervisory Commission, Executive Yuan to issue capital stock of \$350 million at \$37.50 dollars per share for paying off debt and for working capital. On June 10, 2005, Global Brands Manufacture issued additional capital of \$163,362 thousand through stockholders' dividends of \$154,102 thousand, and bonuses to employees of \$9,260 thousand. As a result, Global Brands Manufacture outstanding capital was increased to \$2,054,382 thousand divided into 205,438 thousand common shares with a par value of \$10.00 dollars each as at June 30, 2006.

At March 31, 2006 meeting, the Board of Directors of Global Brands Manufacture resolved to issue additional common stock of 33,000 thousand shares at \$45.50 dollars per share for funding operating capital and paying off debt. This issue was authorized by the regulatory authority at April 19, 2006. However, Global Brands Manufacture had not fully received the amount as of June 30, 2006.

In their October 15, 2002 meeting, the Board of Directors of Global Brands Manufacture resolved to issue employee stock warrants in accordance with Securities and Exchange Law Article 28-3 within the quantity of 5,672 units. Each stock warrant is granted the right to purchase 1,000 new issued common shares. The exercise price is the closing price of Global Brands Manufacture's common shares at the employee stock warrants' issuance date. The warrant holders can exercise the right up to one-third of the granted warrant units no earlier than two years from the granted date. After four years from the granted date, the warrants holders are eligible to exercise all the warrants owned. As of December 13, 2002 and September 22, 2003, Global Brands Manufacture issued 5,662 and 10 units, respectively, of

employee stock warrants to the employees with an exercise price of \$29.50 dollars and \$64 dollars per unit. The exercise price will be adjusted according to calculating formula due to stock and cash dividends and issuance of capital stock. As at June 30, 2006, the exercise price was \$23.10 dollars and \$45.50 dollars per unit.

On the September 22, 2003 meeting, the Board of Directors of Global Brands Manufacture resolved to issue another employee stock warrants with the quantity of 10,672 units. The issuing rules are the same as the first issuance mentioned above. Global Brands Manufacture issued all the employee stock warrants with an exercise price of \$50.50 dollars per unit on November 12, 2003. The exercise price will be adjusted according to calculating formula due to stock and cash dividends and issuance of capital stock. As at June 30, 2006, the exercise price is \$38.30 dollars per unit.

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

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

- a. 2%~10% as bonuses to employees,
- b. 1% bonuses to directors and supervisors, and
- c. dividends to stockholders as proposed and approved by the Global Brands Manufacture's board of directors and stockholders, nevertheless, the cash dividends shall not be more than 90% of the proposed dividends.

21. TREASURY STOCK

The changes of treasury stock in 2006 are summarized as follows (in shares):

Reason	2006.01.01	Increase	Decrease	2006.06.30
Buy the stock back to transfer to employees	45,700,000	-	-	45,700,000
Common shares held by subsidiaries	122,147,184	-	-	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 of treasury stock at the cost of \$1,404,009 thousand at June 30, 2006.

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

As at June 30, 2006, the subsidiaries held 122,147,184 shares of the Company's common stock at cost of \$2,055,319 thousand in total.

The information on the subsidiaries' holdings of the Company's common stock is summarized as follows:

Company's Name	Shares	Amount	Reason of Holding
Wealthplus	22,500,566	\$ 634,410	Secure the parent company's stockholders' equity
Pou Shine	11,625,241	292,736	The same as above
Ming Wang	22,161,240	495,703	The same as above
Barits Development	33,541,761	844,618	The same as above
Top Score	2,500,057	63,576	The same as above
Ming Chi	16,548,809	416,717	The same as above
Pou Yii	16,042,708	318,431	The same as above

22. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

Personnel, depreciation, and amortization expenses for the six months ended June 30, 2006 and 2005 are summarized as follows:

Category	Function	2006				2005			
		Operating Cost	Operating Expenses	Non-Operating Expenses	Total	Operating Cost	Operating Expenses	Non-Operating Expenses	Total
Personnel expense									
Salaries		8,019,376	3,748,096	-	11,767,472	5,222,419	3,089,367	-	8,311,786
Labor insurance and health insurance		230,709	146,713	-	377,422	163,138	119,216	-	282,354
Pension cost		7,292	89,355	-	96,647	81,294	61,031	-	142,325
Others		103,290	156,411	-	259,701	21,708	40,156	-	61,864
Depreciation expenses		2,124,678	809,317	5,049	2,939,044	1,768,629	753,167	5,967	2,527,763
Amortization expenses		25,765	112,398	-	138,163	5,727	816,520	-	822,247

23. INCOME TAX

The Company's income tax expense for the six months ended June 30, 2006 is as follows:

Income tax expense, current	\$ 194,301
10% basic tax expense	18,000
10% additional income tax on undistributed earnings of 2005	44,740
Adjustment of deferred tax asset and valuation allowance adjustment	97,454
Losses carryforward	<u>(2,565)</u>
Income tax expense	<u>\$ 351,930</u>

The components of deferred tax assets (liabilities) as at June 30, 2006 are as follows:

Unrealized inventory devaluation losses	\$ 31,200
Unrealized losses on disposal of property, plant and equipment	830
Unrealized bad debt losses	53,650
Unrealized maintenance and repairs expenses	410
Unrealized pension expense	134,070
Unrealized profit from inter-affiliate transactions	7,340
Unrealized loss on liquidation of long-term equity investments	22,010
Unrealized net exchange loss	1,890
Unrealized provision for decline in value of idle assets	1,240
Losses carryforward	646,444
Investment tax credits	20,200
Others	(120,228)
Less valuation allowance	<u>(517,620)</u>
Deferred tax assets	281,436
Deferred tax assets, current	<u>(107,652)</u>
Deferred tax assets, noncurrent	<u>\$ 173,784</u>

The Company's income tax expense for the six months ended June 30, 2006 and income tax payable as of June 30, 2006 were reconciled as follows:

Income tax expense at statutory rate of 25%	\$ 1,334,108
Income from revaluation on financial instruments measured at fair value through profit or loss	(135,138)
Income from long-term equity investment accounted for under equity method	(991,406)
Gain on disposal of security	(1,428)
Loss on disposal of land	5,830
Amortization of operating expense for disposal of land	2,432
Tax on the interest for bonds	6,500
Lease tax credit of enterprise operating headquarters	(48,700)
Others	<u>22,103</u>
Current income tax expense	194,301
Adjustment of deferred income tax asset	
Unrealized bad debt losses	11,895
Unrealized inventory devaluation losses	(7,115)
Unrealized pension expense	6,400
Unrealized net exchange gains	(27,300)
Unrealized profit from inter-affiliate transaction	(7,740)
Others	<u>32,599</u>
Income tax payable	203,040
Add 10% additional income tax on unappropriated earnings of 2005	44,740
Prior year's income tax payable	52,328
10% basic tax expense	18,000
Less temporary tax payment	<u>(3,735)</u>
Income tax payable as of June 30, 2006	<u>\$ 314,373</u>

The income tax returns of Pou Chen, Pou Yuen Technology, Pro Arch Technology, Global Brands Manufacture, Ming Wang, Ming Shun, Windsor Entertainment, Pou Shine, Pan Asia Insurance Services, Yun Yang, Song Ming Investment, Pou Yii Development, Ming Chi Investment and Wang Yi Construction for the years through 2003 have been examined and approved by the tax authority.

The income tax returns of Barits Development for the years through 2003 have been examined and approved by the tax authority.

Barits Development's salaries of staffs in foreign country and commission expenses in 1997 were disallowed by the tax authority. As a result, Barits Development was assessed for an additional income tax payment of approximately \$17,200 thousand. Barits Development does not agree with the assessment and has appealed for a reexamination. Additional provision has been recorded for such assessment for the six months ended June 30, 2006.

At June 30, 2006, the amount and year of expiration of deductible loss carryforward and investment deduction by individual company are as follows:

	<u>Pou Yuen Technology</u>		<u>Pro Arch Technology</u>		<u>Ming Wang</u>	<u>Windsor Entertainment</u>
	<u>Loss</u>	<u>Investment</u>	<u>Loss</u>	<u>Investment</u>	<u>Loss</u>	<u>Loss</u>
	<u>Carryforward</u>	<u>Tax Credits</u>	<u>Carryforward</u>	<u>Tax Credits</u>	<u>Carryforward</u>	<u>Carryforward</u>
2006	\$ 25,100	\$ -	\$ -	\$ -	\$ -	\$ -
2007	20,000	3,500	53,100	16,700	-	-
2008	41,600	-	131,300	-	4,200	370
2009	31,400	-	143,700	-	-	1,270
2010	7,900	-	161,800	-	-	2,490
2011	-	-	4,600	-	-	17,614
	<u>\$ 126,000</u>	<u>\$ 3,500</u>	<u>\$ 494,500</u>	<u>\$ 16,700</u>	<u>\$ 4,200</u>	<u>\$ 21,744</u>

The information of the integrated income tax system as at June 30, 2006 is as follows:

	<u>Pou Chen</u>	<u>Ming Wang</u>	<u>Windsor Entertainment</u>	<u>Pou Shine</u>	<u>Pan Asia Insurance</u>	<u>Barits Development</u>	<u>Song Ming</u>	<u>Pou Yii</u>
IC Balance of Imputation Credit Account	\$ 210,426	\$ 13,232	\$ -	\$ 15,026	\$ 82	\$ 136,632	\$ 3,785	\$ 15,907
Undistributed earnings for the years of 1997 and before	\$ 310,501	\$ -	\$ -	\$ -	\$ -	\$ 515,118	\$ -	\$ 7,176
Undistributed earnings for the years of 1998 and after	\$ 6,599,666	\$ (24,372)	\$ (85,229)	\$ 338,771	\$ (2,052)	\$ 2,278,686	\$ (26,541)	\$ (53,550)
Expected IC ratio on distributed earnings for the year of 2006	2.94%	-	-	14.43%	-	11.23%	-	-
Actual IC ratio on stock dividend distribution for the year of 2005	1.68%	-	-	22.45%	-	14.34%	-	-

	<u>Wang Yi</u>	<u>Ming Chi</u>	<u>Ming Shun</u>	<u>Pou Yuen</u>	<u>Yun Yang</u>	<u>Pro Arch</u>	<u>Global Brands Manufacture</u>	<u>Cheng Cheng</u>
IC Balance of Imputation Credit Account	\$ 12,659	\$ 8,429	\$ 2,793	\$ 1,106	\$ 1,179	\$ -	\$ 104,816	\$ -
Undistributed earnings for the years of 1997 and before	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Undistributed earnings for the years of 1998 and after	\$ 3,045	\$ (2,086)	\$ 228,273	\$ (185,689)	\$ 19,045	\$ (1,344,688)	\$ 1,429,830	\$ 565
Expected IC ratio on distributed earnings for the year of 2006	-	33.33%	4.84%	-	5.33%	-	12.46%	33.60%
Actual IC ratio on stock dividend distribution for the year of 2005	-	-	8.39%	-	11.75%	-	0.04%	29.82%

24. EARNINGS PER SHARE

For the six months ended June 30, 2006 and 2005, earnings per share before income tax and earnings per share after income tax are as follows:

	2006								
	<u>Income Before Tax (Including Income (Loss) for Minority Interest and Excluding Cumulative Effect of Changes in Accounting Principle)</u>	<u>Income After Tax (Including Income (Loss) for Minority Interest and Excluding Cumulative Effect of Changes in Accounting Principle)</u>	<u>Cumulative Effect of Changes in Accounting Principle</u>	<u>Income After Tax (Attributed to Pou Chen's Shareholders)</u>	<u>Weighted Average Number of Common Shares Outstanding (In Thousands)</u>	<u>Income Before Tax (Including Income (Loss) for Minority Interest and Excluding Cumulative Effect of Changes in Accounting Principle)</u>	<u>Income After Tax (Including Income (Loss) for Minority Interest and Excluding Cumulative Effect of Changes in Accounting Principle)</u>	<u>Cumulative Effect of Changes in Accounting Principle</u>	<u>Income After Tax (Attributed to Pou Chen's Shareholders)</u>
Basic earnings per share									
Net income	\$ 5,561,676	\$ 5,209,746	\$ 1,625,271	\$ 3,968,040	2,138,653	\$ 2.60	\$ 2.44	\$ 0.76	\$ 1.86
Effect of dilutive potential common shares									
Employee stock warrants	-	-	-	-	29,832				
Convertible bonds	-	-	-	-	2,660				
Diluted earnings per share									
Net income plus the effect of dilutive potential common shares	\$ 5,561,676	\$ 5,209,746	\$ 1,625,271	\$ 3,968,040	2,171,145	\$ 2.56	\$ 2.40	\$ 0.75	\$ 1.83

	2005									
						Earnings Per Share				
	Income Before Tax (Including Income (Loss) for Minority Interest and Excluding Cumulative Effect of Changes in Accounting Principle)	Income After Tax (Including Income (Loss) for Minority Interest and Excluding Cumulative Effect of Changes in Accounting Principle)	Cumulative Effect of Changes in Accounting Principle	Income After Tax (Attributed to Pou Chen's Shareholders)	Weighted Average Number of Common Shares Outstanding (In Thousands)	Income Before Tax (Including Income (Loss) for Minority Interest and Excluding Cumulative Effect of Changes in Accounting Principle)	Income After Tax (Including Income (Loss) for Minority Interest and Excluding Cumulative Effect of Changes in Accounting Principle)	Cumulative Effect of Changes in Accounting Principle	Income After Tax (Attributed to Pou Chen's Shareholders)	
Basic earnings per share										
Net income	\$ 4,919,064	\$ 4,709,590	\$ -	\$ 1,992,257	2,135,603	\$ 2.30	\$ 2.21	\$ -	\$ 0.93	
Effect of dilutive potential common shares										
Employee stock warrants	-	-	-	-	3,116					
Convertible bonds	-	-	-	-	271,805					
Diluted earnings per share										
Net income plus the effect of dilutive potential common shares	\$ 4,919,064	\$ 4,709,590	\$ -	\$ 1,992,257	2,410,524	\$ 2.04	\$ 1.95	\$ -	\$ 0.83	

If the Company's common shares held by its subsidiaries were not accounted for as treasury stock, the pro-forma earnings per share for the six months ended June 30, 2006 and 2005 are as follows:

	2006									
						Earnings Per Share				
	Income Before Tax (Including Income (Loss) for Minority Interest and Excluding Cumulative Effect of Changes in Accounting Principle)	Income After Tax (Including Income (Loss) for Minority Interest and Excluding Cumulative Effect of Changes in Accounting Principle)	Cumulative Effect of Changes in Accounting Principle	Income After Tax (Attributed to Pou Chen's Shareholders)	Weighted Average Number of Common Shares Outstanding (In Thousands)	Income Before Tax (Including Income (Loss) for Minority Interest and Excluding Cumulative Effect of Changes in Accounting Principle)	Income After Tax (Including Income (Loss) for Minority Interest and Excluding Cumulative Effect of Changes in Accounting Principle)	Cumulative Effect of Changes in Accounting Principle	Income After Tax (Attributed to Pou Chen's Shareholders)	
Basic earnings per share										
Net income	\$ 5,561,676	\$ 5,209,746	\$ 1,625,271	\$ 3,968,040	2,260,800	\$ 2.46	\$ 2.30	\$ 0.72	\$ 1.76	
Effect of dilutive potential common shares										
Employee stock warrants	-	-	-	-	29,832					
Convertible bonds	-	-	-	-	2,660					
Diluted earnings per share										
Net income plus the effect of dilutive potential common shares	\$ 5,561,676	\$ 5,209,746	\$ 1,625,271	\$ 3,968,040	2,293,292	\$ 2.43	\$ 2.27	\$ 0.71	\$ 1.73	

	2005									
						Earnings Per Share				
	Income Before Tax (Including Income (Loss) for Minority Interest and Excluding Cumulative Effect of Changes in Accounting Principle)	Income After Tax (Including Income (Loss) for Minority Interest and Excluding Cumulative Effect of Changes in Accounting Principle)	Cumulative Effect of Changes in Accounting Principle	Income After Tax (Attributed to Pou Chen's Shareholders)	Weighted Average Number of Common Shares Outstanding (In Thousands)	Income Before Tax (Including Income (Loss) for Minority Interest and Excluding Cumulative Effect of Changes in Accounting Principle)	Income After Tax (Including Income (Loss) for Minority Interest and Excluding Cumulative Effect of Changes in Accounting Principle)	Cumulative Effect of Changes in Accounting Principle	Income After Tax (Attributed to Pou Chen's Shareholders)	
Basic earnings per share										
Net income	\$ 4,919,064	\$ 4,709,590	\$ -	\$ 1,992,257	2,257,750	\$ 2.18	\$ 2.09	\$ -	\$ 0.88	
Effect of dilutive potential common shares										
Employee stock warrants	-	-	-	-	3,116					
Convertible bonds	-	-	-	-	271,805					
Diluted earnings per share										
Net income plus the effect of dilutive potential common shares	\$ 4,919,064	\$ 4,709,590	\$ -	\$ 1,992,257	2,532,671	\$ 1.94	\$ 1.86	\$ -	\$ 0.79	

25. DISCLOSURES FOR FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

The fair value of nonderivative and derivative financial instruments as of June 30, 2006 and 2005 is summarized as follows:

Nondervative Financial Instruments	2006		2005	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
Cash and cash equivalents	\$ 13,605,829	\$ 13,605,829	\$ 20,251,114	\$ 20,251,114
Financial assets measured at fair value through profit of loss, current	5,534,176	5,534,176	7,120,170	8,675,861
Notes and accounts receivable	19,597,101	19,597,101	16,436,278	16,436,278
Accounts receivable from affiliates	2,294,271	2,294,271	2,322,129	2,322,129
Other financial assets, current	2,823,866	2,823,866	2,141,142	2,141,142
Long-term equity investments at equity method	22,505,288	21,090,402	15,574,468	14,963,616
Available-for-sale financial assets, noncurrent	1,591,971	1,591,971	1,852,173	1,852,173
Financial assets carried at cost, noncurrent	647,117	647,117	1,105,546	1,105,546
Refundable deposits	76,968	76,968	59,069	59,069
Liabilities				
Short-term borrowings	12,776,645	12,776,645	13,664,421	13,664,421
Short-term bills	1,643,809	1,643,809	1,128,421	1,128,421
Notes and accounts payable	12,695,359	12,695,359	9,621,576	9,621,576
Notes and accounts payable to affiliates	1,147,538	1,147,538	1,595,342	1,595,342
Other payables	11,070,022	11,070,022	8,907,837	8,907,837
Current portion of long-term liabilities	2,593,115	2,593,115	26,199,477	26,199,477
Bonds payable	12,673,927	12,673,927	5,000,000	5,000,000
Long-term debt	29,928,652	29,928,652	17,135,835	17,135,835
Guarantee deposit received	5,181	5,181	6,619	6,619
Derivative Financial Instruments				
Interest rate swap contracts (financial liabilities held for hedging)	168,109	168,109	28,420	28,420
Forward exchange contracts (financial liabilities measured at fair value through profit or loss)	52,642	52,642	5,880	5,880

The Company adopted newly released SFAS No. 34, "Accounting for Financial Instruments," effective January 1, 2006. Please see Note 3 to the financial statements for the cumulative effect of changes in accounting principle and adjustments to stockholders' equity.

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

- (a) The fair value of cash and cash equivalents, notes and accounts receivable, short-term bank borrowings, short-term bills, and notes and accounts payable, approximates their carrying value due to the short-term maturities of these financial instruments.

- (b) The fair value of financial instruments at fair value through profit or loss, available-for-sale financial assets and derivative financial instruments are quoted by market price. The fair value of derivative financial instruments is measured, according to its specific contract's settlement rate, by the middle exchange rate and the discount rate quoted by Reuters.
- (c) The fair value of long-term debt and bond payables is estimated based on the net present value of expected cash flows.

The fair value of financial instruments that used the quoted market price in active market or other method of valuation is summarized as follows:

	Quoted Market Price in Active Market		Other Method of Valuation	
	2006	2005	2006	2005
Assets				
Financial assets measured at fair value through profit or loss, current	\$ 5,534,176	\$ 7,120,170	\$ -	\$ -
Available-for-sale financial assets, noncurrent	1,591,971	1,852,173	-	-
Liabilities				
Financial liabilities measured at fair value through profit or loss, current	-	-	52,642	5,880
Derivative financial liabilities held for hedging, noncurrent	-	-	168,109	28,420

The revaluation gain from changes of fair value for the six months ended June 30, 2006 was \$487,912 thousand.

As at June 30, 2006 and 2005, financial liabilities exposed to cash flow interest rate risk were \$9,250,000 thousand and \$5,000,000 thousand, respectively.

The Company recognized an unrealized gain of \$65,395 thousand in shareholder's equity for the changes in fair value of available-for-sale financial assets for the six months ended June 30, 2006.

Financial Risk Information

Market Risk

The risk the Company engaged in portfolios of marketable equity securities and open-ended mutual fund comes from changes of market price. One percentage decline in market rate will cause the fair value of financial instruments to decline by \$71,261 thousand.

Credit Risk

Financial instruments are evaluated for credit risk which represents the potential loss that would be incurred by the Company if the counter-parties or third-parties breached the contracts. The risk includes centralization of credit risk, components, contract figure, and its accounts receivable. Besides, the Company requires significant clients to provide guarantees or other rights of guarantee to reduce credit risk of the Company effectively.

Liquidity Risk

The Company has the ability to meet its financial obligations; thus, liquidity risks virtually do not exist.

Financial assets measured at fair value through profit or loss and available-for-sale financial assets of the Company are provided with effective market; thus, they can quickly and easily be sold with price close to fair value.

Cash Flow Interest Rate Risk

The Company engaged in floating-interest-rate long-term borrowings. Therefore, cash flows are expected to fluctuate due to changes in market interest rates. One percentage increase in market rate will cause the Company increase its cash-out by \$375,218 thousand.

26. RELATED PARTY TRANSACTIONS

Names and relationships of the related parties are as follows:

Name	Relationship
CMK Corporation (“CMK”)	CMK Corporation together with Global Brands Manufacture invest in CMK GBM and holds 49.00% ownership interest of CMK GBM
CMKC (HK) Limited (“CMKC”)	CMK Corporation holds a 100.00% ownership interest
Ka Yuen Rubber Factory Limited (“Ka Yuen Rubber”)	The Company holds a 50.00% ownership interest.
Techview International Technology Inc. (“Techview International”)	The Company holds a 49.62% ownership interest.
Twinways Investments Ltd. (“Twinways”)	The Company holds a 50.00% ownership interest
Digital Sun Investments Ltd. (“Digital Sun”)	The Company holds a 25.93% ownership interest
Bigfoot Limited (“Bigfoot”)	The Company holds a 48.76% ownership interest
Eastlion Industrial Ltd. (“Eastlion”)	The Company holds a 35.00% ownership interest
San Fang Chemical Industrial Co., Ltd. (“San Fang”)	The Company holds a 44.34% ownership interest
Global Brands Manufacture Ltd. (“GBM”)	Related party in substance
PGE Corporation (“PGE”)	Related party in substance
Keyplus Investments Limited	Related party in substance

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

Sales

Sales to related parties for the six months ended June 30, 2006 and 2005 are summarized as follows:

	<u>2006</u>		<u>2005</u>	
	<u>Amount</u>	<u>Percentage to Net Sales</u>	<u>Amount</u>	<u>Percentage to Net Sales</u>
CMKC	\$ 1,970,025	2	\$ 1,246,904	2
PGE	559,663	1	1,136,595	2
GBM	122,879	-	374,896	1
Others	<u>497,293</u>	<u>1</u>	<u>999,402</u>	<u>1</u>
	<u>\$ 3,149,860</u>	<u>4</u>	<u>\$ 3,757,797</u>	<u>6</u>

Cost of Sales - Purchases

Purchases from related parties for the six months ended June 30, 2006 and 2005 are summarized below:

	<u>2006</u>		<u>2005</u>	
	<u>Amount</u>	<u>Percentage to Net Purchases</u>	<u>Amount</u>	<u>Percentage to Net Purchases</u>
Ka Yuen Rubber	\$ 825,243	1	\$ 553,874	1
San Fang	527,234	1	596,046	1
CMKC	485,140	1	341,902	1
Twinways	391,819	1	392,087	1
Eastlion	384,846	1	337,575	-
Digital Sun	367,437	-	-	-
Bigfoot	214,006	-	108,857	-
Techview International	-	-	860,013	2
Others	<u>832,801</u>	<u>1</u>	<u>864,025</u>	<u>2</u>
	<u>\$ 4,028,526</u>	<u>6</u>	<u>\$ 4,054,379</u>	<u>8</u>

Accounts Receivable

Accounts receivable from affiliates as at June 30, 2006 and 2005 are summarized as follows:

	<u>2006</u>		<u>2005</u>	
	<u>Amount</u>	<u>Percentage to Accounts Receivable</u>	<u>Amount</u>	<u>Percentage to Accounts Receivable</u>
Accounts receivable				
PGE	\$ 1,013,574	5	\$ 979,188	5
CMKC	1,077,689	5	521,060	3
Others	302,405	1	829,756	4
Less allowance for doubtful accounts	<u>(99,397)</u>	<u>-</u>	<u>(7,875)</u>	<u>-</u>
	<u>\$ 2,294,271</u>	<u>11</u>	<u>\$ 2,322,129</u>	<u>12</u>

Notes and Accounts Payable

Notes and accounts payable due to affiliates as at June 30, 2006 and 2005 are summarized as follows:

	<u>2006</u>		<u>2005</u>	
	<u>Amount</u>	<u>Percentage to Notes and Accounts Payable</u>	<u>Amount</u>	<u>Percentage to Notes and Accounts Payable</u>
Notes payable				
San Fang	<u>\$ 30,933</u>	<u>29</u>	<u>\$ 49,493</u>	<u>31</u>
Accounts payable				
Ka Yuen Rubber	\$ 301,397	2	\$ 172,803	2
Twinways	171,690	1	146,084	1
San Fang	158,197	1	129,267	1
Techview International	113,420	1	612,656	6
Others	<u>371,901</u>	<u>3</u>	<u>485,039</u>	<u>4</u>
	<u>\$ 1,116,605</u>	<u>8</u>	<u>\$ 1,545,849</u>	<u>14</u>

Credit Guarantees

See Note 27.

Stock Exchange

In January 2006 the board of directors of Dynamic Skyline resolved to purchase 32.73% ownership interest of Centralian Investments Limited at a consideration of US\$9,800,000 dollars from its related party in substance, Keyplus Investments Limited.

27. COMMITMENTS AND CONTINGENCIES

Loan Guarantees

As at June 30, 2006, the Company issued certificates of guarantee of \$60,000 thousand for the payment of loans.

Letters of Credit

Outstanding letters of credit as at June 30, 2006 are as follows (unit: dollar):

U.S. Dollar	\$ 3,515,610
Euro	25,267
H.K. Dollar	126,800,000
Japanese Yen	870,146,000

At June 30, 2006, the Company has guaranteed the payments of credit of related parties as follows:

Related Parties	Amount
Venture Well Holdings Ltd.	\$ 247,454
Alpha Leader Ltd.	59,995
Best Focus Holdings Ltd.	485,550
Hua Jian Industrial Holding Co., Ltd.	663,585
Cohen Enterprises Inc.	485,550
Ka Yuen Rubber Factory Ltd.	41,500
Pine Wood Industries Ltd.	72,101
Yuen Thai Industrial Co., Ltd.	<u>83,000</u>
	<u>\$2,138,735</u>

28. SUBSEQUENT EVENT

On July 27, 2006, the Board of Directors of Pou Chen resolved to invest in Yang Zhou Pou Yi Shoe Manufacturing Ltd. for US\$6,000 thousand for a 50% ownership equity by its subsidiary, Yue Yuen.