

**POU CHEN CORPORATION AND
SUBSIDIARIES**

**Consolidated Financial Statements for the
Six-Month Period Ended June 30, 2005 and
Independent Accountants' Review Report**

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

The Board of Directors and Stockholders
Pou Chen Corporation and subsidiaries

We have reviewed the accompanying consolidated balance sheet of Pou Chen Corporation and subsidiaries (collectively, the "Company") as of June 30, 2005, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for six-month period then ended (all expressed in thousands of New Taiwan dollars). These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to issue a report based on our review.

We conducted our review 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 review, 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 December 31, 2004, the Company adopted the provisions of Statement of Financial Accounting Standards No. 35, Accounting for Asset Impairment.

As described in Note 2 to the consolidated financial statements, effective January 1, 2005, the Securities and Futures Bureau, Financial Supervisory Commission, Executive Yuan, ROC, requires public companies to prepare semi-annual consolidated financial statements. For initial compliance, a single period presentation without comparative data is permitted under the regulations.

August 15, 2005

Notice to Readers

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

JUNE 30, 2005

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

ASSETS	Amount	%	LIABILITIES AND STOCKHOLDERS' EQUITY	Amount	%
CURRENT ASSETS			CURRENT LIABILITIES		
Cash and cash equivalents (Notes 2 and 4)	\$ 20,251,114	14	Short-term borrowings (Note 12)	\$ 13,664,421	9
Short-term investments (Notes 2 and 5)	7,056,571	5	Short-term bills (Note 13)	1,128,421	1
Notes receivable (Notes 2 and 6)	70,606	-	Notes payable	112,324	-
Accounts receivable (Notes 2 and 7)	16,365,672	11	Notes payable to affiliates (Note 22)	49,493	-
Accounts receivable from affiliates (Notes 2, 7 and 22)	2,322,129	2	Accounts payable	9,509,252	7
Other financial assets, current	2,141,142	1	Accounts payable to affiliates (Note 22)	1,545,849	1
Inventories (Notes 2 and 8)	16,810,636	11	Income tax payable (Notes 2 and 20)	264,919	-
Other current assets	4,396,626	3	Other payables	8,942,137	6
Total current assets	69,414,496	47	Current portion of long-term liabilities (Note 14)	26,199,477	18
			Deferred income tax liability, current (Notes 2 and 20)	32,081	-
LONG-TERM INVESTMENTS (Notes 2 and 9)			Other current liabilities	791,777	1
Long-term equity investments			Total current liabilities	62,240,151	43
Long-term equity investments under equity method	15,574,468	11			
Long-term equity investments under cost method	3,021,318	2	LONG-TERM LIABILITIES		
	18,595,786	13	Bonds payable (Notes 2 and 15)	5,000,000	3
Prepayment on investments	75,888	-	Long-term debt (Note 16)	17,135,835	12
Real estate investments	111,867	-	Total long-term liabilities	22,135,835	15
Total long-term investments	18,783,541	13			
			RESERVE FOR LAND VALUE INCREMENT TAX	142,664	-
OTHER FINANCIAL ASSETS, NONCURRENT	280,171	-			
			OTHER LIABILITIES		
PROPERTY, PLANT AND EQUIPMENT (Notes 2 and 10)			Accrued pension cost (Note 2)	476,799	-
Cost	68,162,681	47	Advance deposits from customers	6,619	-
Revaluation increment	293,249	-	Total other liabilities	483,418	-
	68,455,930	47	Total liabilities	85,002,068	58
Less accumulated depreciation	(25,329,333)	(17)			
Less accumulated impairment loss	(143,353)	-	STOCKHOLDERS' EQUITY		
Construction in progress and prepayments on purchase of equipment	5,431,335	3	Capital stock (Note 17)	20,955,834	14
Property, plant and equipment, net	48,414,579	33	Stock dividends to be distributed	2,092,054	1
			Capital surplus	2,518,724	2
INTANGIBLE ASSETS (Note 2)			Retained earnings (Note 17)	10,608,533	7
Deferred pension cost	4,356	-	Provision for decline in market value of long-term equity investments (Notes 2 and 9)	(1,258,089)	(1)
Goodwill	7,508,368	5	Cumulative translation adjustments (Note 2)	(1,342,177)	(1)
Total intangible assets	7,512,724	5	Treasury stock (Notes 2 and 18)	(3,459,328)	(2)
			Minority interest	31,402,848	22
OTHER ASSETS (Notes 2 and 11)	2,114,956	2	Total stockholders' equity	61,518,399	42
TOTAL	\$ 146,520,467	100	TOTAL	\$ 146,520,467	100

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

(With Deloitte & Touche review report dated August 15, 2005)

POU CHEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME SIX-MONTH PERIOD ENDED JUNE 30, 2005 (In Thousands of New Taiwan Dollars, Except Earnings Per Share) (Reviewed, Not Audited)

	Amount	%
GROSS SALES AND REVENUES EARNED	\$67,183,920	100
LESS SALES RETURNS AND ALLOWANCES	<u>(126,742)</u>	<u>-</u>
NET SALES AND REVENUES EARNED	67,057,178	100
COST OF GOODS SOLD	<u>(52,955,348)</u>	<u>(79)</u>
GROSS PROFIT	<u>14,101,830</u>	<u>21</u>
OPERATING EXPENSES		
Selling expenses	2,314,400	3
General and administrative expenses	5,898,146	9
Research and development expenses	<u>2,040,585</u>	<u>3</u>
Total operating expenses	<u>10,253,131</u>	<u>15</u>
INCOME FROM OPERATIONS	<u>3,848,699</u>	<u>6</u>
NON-OPERATING INCOME		
Interest income	149,630	-
Long-term equity investment income (Note 9)	485,598	1
Dividend income	2,955	-
Gain on disposal of property, plant and equipment	13,258	-
Gain on disposal of investments	237,806	1
Foreign exchange gains, net	123,770	-
Rental income	109,561	-
Others	<u>1,552,620</u>	<u>2</u>
Total non-operating income	<u>2,675,198</u>	<u>4</u>
NON-OPERATING EXPENSES		
Interest expense	666,625	1
Loss on disposal of property, plant and equipment	128,336	1
Loss on disposal of investments	60,809	-
Loss on inventory devaluation	3,595	-
Others	<u>745,468</u>	<u>1</u>
Total non-operating expenses	<u>1,604,833</u>	<u>3</u>
INCOME BEFORE INCOME TAX	4,919,064	7
INCOME TAX EXPENSE (Notes 2 and 20)	<u>(209,474)</u>	<u>-</u>
NET INCOME	<u>\$ 4,709,590</u>	<u>7</u>
ATTRIBUTED TO		
Parent Company's shareholders	\$ 1,992,257	3
Minority interest	<u>2,717,333</u>	<u>4</u>
	<u>\$ 4,709,590</u>	<u>7</u>

(Continued)

POU CHEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME

SIX-MONTH PERIOD ENDED JUNE 30, 2005

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

(Reviewed, Not Audited)

	Before Minority Interest Income and Income Tax	After Income Tax (Contributed to the Parent Company's Shareholders)
EARNINGS PER SHARE (Notes 2 and 21)		
Basic	<u>\$ 2.54</u>	<u>\$ 1.03</u>
Diluted	<u>\$ 2.22</u>	<u>\$ 0.90</u>
Pro-forma information, assuming common shares of the parent Company held by its subsidiaries were not treated as treasury stock:		
NET INCOME	<u>\$1,992,257</u>	
EARNINGS PER SHARE (Notes 2 and 21)		
Basic	<u>\$ 2.40</u>	<u>\$ 0.97</u>
Diluted	<u>\$ 2.12</u>	<u>\$ 0.86</u>

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

(With Deloitte & Touche review report dated August 15, 2005)

(Concluded)

POU CHEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

SIX-MONTH PERIOD ENDED JUNE 30, 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	Legal Reserve	Special Reserve	Unappropriated Earnings	Unrealized Loss on Market Value Decline of Long-Term Investments	Cumulative Translation Adjustments	Treasury Stock		Minority Interest
BALANCE, JANUARY 1, 2005	\$20,936,734	\$ -	\$ 792,119	\$1,439,788	\$ 144,154	\$ 84,989	\$2,845,193	\$ 59,232	\$ 9,950,045	\$ (1,203,354)	\$ (1,220,643)	\$ (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 17)	-	42,397	-	-	-	-	-	-	(42,397)	-	-	-	-	-
Stock dividends (Note 17)	-	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 long-term equity investments (Note 9)	-	-	-	-	-	-	-	-	-	(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 10)	-	-	-	-	-	49,652	-	-	-	-	-	-	-	49,652
Effect of change of minority interest	-	-	-	-	-	-	-	-	-	-	-	-	1,112,839	1,112,839
Net income for the six-month period ended June 30, 2005	-	-	-	-	-	-	-	-	1,992,257	-	-	-	-	1,992,257
BALANCE, JUNE 30, 2005	<u>\$20,955,834</u>	<u>\$2,092,054</u>	<u>\$ 800,141</u>	<u>\$1,439,788</u>	<u>\$ 144,154</u>	<u>\$ 134,641</u>	<u>\$3,269,826</u>	<u>\$2,423,997</u>	<u>\$ 4,914,710</u>	<u>\$ (1,258,089)</u>	<u>\$ (1,342,177)</u>	<u>\$ (3,459,328)</u>	<u>\$31,402,848</u>	<u>\$61,518,399</u>

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

(With Deloitte & Touche review report dated August 15, 2005)

POU CHEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

SIX-MONTH PERIOD ENDED JUNE 30, 2005

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

CASH FLOWS FROM OPERATING ACTIVITIES

Consolidated net income	\$ 4,709,590
Adjustments to reconcile net income to net cash used in operating activities	
Depreciation and amortization	3,312,022
Amortization of the cost of issuing Euro Convertible Bonds	37,988
Gain on buying back Euro Convertible Bonds	(20,029)
Provision for doubtful accounts	66,101
Provision for inventory devaluation	3,595
Investment income recognized under equity method	(485,598)
Cash dividends received from investees under equity method	236,360
Net loss on disposal of long-term equity investments	11,530
Net loss on disposal of property, plant and equipment	115,078
Net changes in operating assets and liabilities	
Short-term investments	(1,707,648)
Notes receivable	11,790
Accounts receivable	(2,406,745)
Accounts receivable from affiliates	(230,872)
Other financial assets, current	(128,891)
Inventories	(2,148,917)
Other financial assets, noncurrent	(194,331)
Other current assets	(1,615,777)
Deferred pension cost	(77)
Temporary income tax payment	(9,720)
Deferred income tax asset, noncurrent	(19,705)
Other assets	18,453
Notes payable	2,352
Notes payable to affiliates	(46,558)
Accounts payable	1,574,575
Accounts payable to affiliates	1,083,675
Income tax payable	157,530
Other payables	(1,553,850)
Deferred income tax liability, current	2,438
Other current liabilities	887
Foreign exchange adjustment on Euro Convertible Bonds	(22,996)
Interest expense compensation payable	124,137
Reserve for retirement plan	52,753
Deferred income tax liability, noncurrent	10,925
Other liability	(42,284)
Minority interest	<u>(1,604,494)</u>
Net cash used in operating activities	<u>(706,713)</u>

(Continued)

POU CHEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

SIX-MONTH PERIOD ENDED JUNE 30, 2005

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

CASH FLOWS FROM INVESTING ACTIVITIES	
Increase in long-term equity investments	\$ (1,923,135)
Acquisition of property, plant and equipment	(4,811,983)
Proceeds from disposal of property, plant and equipment	278,209
Increase in restricted assets	(180)
Decrease in refundable deposits	15,671
Increase in goodwill	(59,126)
Increase in deferred charges	<u>(148,579)</u>
Net cash used in investing activities	<u>(6,649,123)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Increase in short-term borrowings	1,520,101
Increase in short-term bills	29,672
Redeemed overseas convertible bonds	(376,022)
Remuneration to directors and supervisors	(43,708)
Increase in long-term borrowings	3,297,833
Increase in advance deposits from customers	1,398
Execution of employee stock warrants	<u>27,122</u>
Net cash provided by financing activities	<u>4,456,396</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(65,912)
DECREASE IN CASH AND CASH EQUIVALENTS	(2,965,352)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>23,216,466</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 20,251,114</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION	
Cash paid during the period	
Interest (excluding interest capitalized)	<u>\$ 303,461</u>
Income tax	<u>\$ 43,752</u>
Cash paid during the period for acquisition of property, plant and equipment	
Fair value of property, plant and equipment acquired	\$ 4,895,305
Add payables for acquisition of property, plant and equipment, beginning of period	73,952
Less payables for acquisition of property, plant and equipment, end of period	<u>(157,274)</u>
Cash paid during the period for acquisition of property, plant and equipment	<u>\$ 4,811,983</u>

(Continued)

POU CHEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

SIX-MONTH PERIOD ENDED JUNE 30, 2005

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

SUPPLEMENTAL DISCLOSURES OF NONCASH OPERATING, INVESTING AND FINANCING ACTIVITIES

Long-term equity investments transfer into short-term investments	<u>\$ 253,681</u>
Provision for decline in market value of long-term equity investments	<u>\$ (54,735)</u>
Effect of changes in ownership interest in investees	<u>\$ (52,774)</u>
Long-term liabilities, current portion	<u>\$ 26,199,477</u>
Translation adjustments on foreign long-term investments	<u>\$ (121,534)</u>
Dividends payable	<u>\$ 2,049,658</u>

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

(With Deloitte & Touche review report dated August 15, 2005)

(Concluded)

POU CHEN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SIX-MONTH PERIOD ENDED JUNE 30, 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 (“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 operations.

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

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

Barits Development Corporation (“Barits Development”), a corporation incorporated in the ROC and a 97.90%-owned subsidiary of Pou Chen, changed its original name from Barits Corporation to Barits Development in May 1998. It is engaged in leather manufacturing and investing activities. As at June 30, 2005, Barits Development has an outstanding common stock of \$913,000 thousand.

Wealthplus Holdings Limited (“Wealthplus”), a British Virgin Islands corporation and a 100%-owned subsidiary of Pou Chen, is an investment holding company. Wealthplus commenced its operations in 1992 and invests in companies which are engaged in the design and sale of footwear and electronic peripheral products. As at June 30, 2005, Wealthplus has an outstanding common stock of US\$169,222 thousand.

Pou Yuen Technology Co., Ltd. (“Pou Yuen Technology”), a corporation incorporated in the ROC and a 96.32%-owned subsidiary of Pou Chen, is engaged in designing, manufacturing and trading mold, magnesium alloy casing and data processing and storage equipments. As at June 30, 2005, Pou Yuen Technology has an outstanding common stock of \$600,000 thousand.

Pro Arch Technology Inc. (“Pro Arch Technology”), a corporation incorporated in the ROC and a 88.59%-owned subsidiary of Pou Chen, is engaged in manufacturing and sale of computer peripheral equipment and related spare parts. As at June 30, 2005, Pro Arch Technology has an outstanding common stock of \$1,700,000 thousand.

Global Brands Manufacture Ltd. (“Global Brands Manufacture”), a corporation incorporated in the ROC and a 54.15%-owned subsidiary of Pou Chen, changed its original name from Cyber Solution Corporation to Global Brands Manufacture in May 2003. It is engaged in the manufacturing, assembly and sale of printed circuit boards and its stock has been traded on the Over-the-Counter Exchange in Taiwan since February 1991. As at June 30, 2005, Global Brands Manufacture has an outstanding common stock of \$1,541,020 thousand.

Win Fortune Investments Ltd. (“Win Fortune”), a British Virgin Islands corporation and a 100%-owned subsidiary of Pou Chen, is an investment holding company. Win Fortune commenced its operations in 1994 and invests in companies which are engaged in the design and sale of footwear. As at June 30, 2005, Win Fortune has an outstanding common stock of US\$100 thousand.

Ming Wang Investments Ltd. (“Ming Wang”), a corporation incorporated in the ROC and a 100%-owned subsidiary of Pou Chen, is an investment holding company. Ming Wang commenced its operations in 1996 and it is engaged in investing activities. As at June 30, 2005, Ming Wang has an outstanding common stock of \$427,291 thousand.

Yue Yuen Entertainment Development Co., Ltd. (“Yue Yuen Entertainment”) is a corporation incorporated in the ROC and a 100% owned subsidiary of Pou Chen. Yue Yuen Entertainment commenced its operations in 2003 and it is engaged in hotel and resort operation. As at June 30, 2005, Yue Yuen Entertainment has an outstanding common stock of \$100,000 thousand.

Tse Throw Technology Ltd. (“Tse Throw”) is a corporation incorporated in the ROC and a 100%-owned subsidiary of Pou Chen. Tse Throw commenced its operations in 2001 and it is engaged in manufacture of plastic products and electronic parts. As at June 30, 2005, Tse Throw has an outstanding common stock of \$60,000 thousand.

Pou Shine Investments Ltd. (“Pou Shine”) is a corporation incorporated in the ROC and a 99.99%-owned subsidiary of Pou Chen. Pou Shine commenced its operations in 1990 and it is engaged in investing activities. As at June 30, 2005, Pou Shine has an outstanding common stock of \$498,810 thousand.

Pan Asia Insurance Consulting Ltd. (“Pan Asia Insurance Consulting”) is a corporation incorporated in the ROC and a 99.98%-owned subsidiary of Pou Chen. Pan Asia Insurance Consulting commenced its operations in 1999 and it is engaged in agency of property insurance. As at June 30, 2005, Pan Asia Insurance Consulting has an outstanding common stock of \$5,000 thousand.

Yun Yang Investments Ltd. (“Yun Yang”) is a corporation incorporated in the ROC and a 91.15%-owned subsidiary of Pou Chen. Yun Yang commenced its operations in 1997 and it is engaged in investments activities. As at June 30, 2005, Yun Yang has an outstanding common stock of \$75,000 thousand.

As at June 30, 2005, there were 279,207 employees in Pou Chen and subsidiaries (collectively, the “Company”) referred above.

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, impairment loss and pension expenses, etc. Actual results could differ from these estimates.

Effective January 1, 2005, the Securities and Futures Bureau, Financial Supervisory Commission, Executive Yuan, ROC, requires public companies to prepare semi-annual consolidated financial statements. For initial compliance, a single period presentation without comparative data is permitted under the regulations.

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 subsidiaries: Barits Development [including Song Ming Investment Corporation (including Pou Yi Construction Corporation), Wang Yi Construction Co., Ltd., Top Score Investment Ltd. ("Top Score"), Ming Shun Investment Ltd., and Ming Chi Investment Ltd.], Wealthplus [including Pou Tai, Go-Cheery, Exotic, Action Precise, Tetor, Victorway, Best Standard, Crown Master and Yue Yuen Industrial], Pou Yuen Technology [including Kleine Developments Ltd. ("Kleine")], Pro Arch Technology, Win Fortune, Ming Wang, Yue Yuen Entertainment, Tse Throw, Pou Shine, Pan Asia Insurance Consulting and Yun Yang and Global Brands Manufacture (including Up First, Dynamic Skyline, Success Ocean, Bright Phoenix and Cheng Cheng Enterprise) (collectively, the "Company"). All significant intercompany balances and transactions have been eliminated upon consolidation. Minority interests shown in the accompanying consolidated financial statements represent that part of the net assets of subsidiaries attributable to interests which are not owned, directly or indirectly through subsidiaries, by the parent. Wealthplus, Win Fortune, Top Score and Kleine have a September 30 fiscal year-end.

Classification of Current and Noncurrent Assets and Liabilities

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

Cash and Cash Equivalents

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

Short-Term Investments

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

Allowance for Doubtful Accounts

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

Inventories

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

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

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

Long-Term Equity Investments

Investments in companies where the Company's ownership interest is 20% or more, or where the Company can exercise significant influence, are accounted for under equity method. When equity method of accounting is adopted, purchased goodwill is amortized over a ten-year period. From December 31, 2004, impairment loss of purchased goodwill will be evaluated periodically, in accordance with Statement of Financial Accounting Standards ("SFAS") No. 35, Accounting for Asset Impairment.

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

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

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

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

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

Property, Plant, Equipment and Leased Asset

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

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

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

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

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

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

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

Goodwill

Goodwill on consolidated subsidiaries is amortized over ten years.

Deferred Charges

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

Euro-Dollar Convertible Bonds

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

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

Retirement Plan

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

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

The Labor Pension Act of the ROC, a defined contribution pension plan was in effect on July 1, 2005. Those employees of the Company in the ROC have the option to participate in the new Act, which requires the Company to contribute at least 6% of employees' salaries and wages.

Foreign Currency Transactions

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

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

Cumulative Translation Adjustments

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

Treasury Stock

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

Effective from January 1, 2002, common shares of the Company held by its subsidiaries are treated as treasury stock in compliance with the provisions of SFAS No. 30, Accounting for Treasury Stock.

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

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

Revenue Recognition

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

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

Income Tax

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

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

Earnings Per Share

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

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

Derivative Financial Instruments

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

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

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

Non-Derivative Financial Instruments

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

3. REASON AND EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE

Effective from December 31, 2004, the Company adopted the provisions of Statement Financial Accounting Standards No. 35, Accounting for Asset Impairment. As a result, the book value of long-term equity investment under equity method 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-month period ended June 30, 2005 has increased by \$34,510 thousand.

4. CASH AND CASH EQUIVALENTS

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

Cash on hand	\$ 52,727
Checking accounts	106,170
Savings accounts	1,201,196
Foreign-currency savings deposit	17,184,550
Time deposits	382,602
Commercial papers	<u>1,323,869</u>
	<u>\$ 20,251,114</u>

The time deposits of \$27,902 thousand included in other noncurrent financial assets were pledged for employment of foreign labors and for tax appealing on additional tax assessment as at June 30, 2005.

5. SHORT-TERM INVESTMENTS

The carrying value and market value of short-term investments as at June 30, 2005 are summarized as follows:

	Carrying Value	Market Value
Marketable equity securities	\$ 2,751,097	\$ 4,285,765
Foreign marketable equity securities	790,594	745,473
Open-ended mutual fund	<u>3,560,000</u>	<u>3,581,024</u>
	7,101,691	8,612,262
Less valuation allowance	<u>(45,120)</u>	<u>-</u>
	<u>\$ 7,056,571</u>	<u>\$ 8,612,262</u>

The market values of marketable equity securities held by Pou Chen, Barits Developments, Global Brands Manufacture, Ming Wang, Yue Yuen Entertainment and Pou Shine are determined by averaging the daily market closing prices during June. The market values of open-ended mutual fund are determined by the net value on June 30.

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

Valuation allowance of \$45,249 thousand (including cumulative translation adjustments of \$129 thousand) was provided as at June 30, 2005. And the balance of valuation allowance at June 30, 2005 is the same as that at December 31, 2004.

6. NOTES RECEIVABLE

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

Notes receivable	\$71,007
Less allowance for doubtful accounts	<u>(401)</u>
	<u>\$70,606</u>

7. ACCOUNTS RECEIVABLE

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

Accounts receivable	\$ 17,086,782
Less allowance for doubtful accounts	<u>(721,110)</u>
	<u>16,365,672</u>
Accounts receivable from affiliates (Note 22)	2,330,004
Less allowance for doubtful accounts	<u>(7,875)</u>
	<u>2,322,129</u>
	<u>\$ 18,687,801</u>

8. INVENTORIES

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

Raw materials and supplies	\$ 8,871,962
Work-in-process	3,098,533
Finished goods	4,800,109
Merchandise	58,477
Goods in transit	63,749
Land for development	140,248
Land, buildings and improvements for sale	123,724
Construction in process	<u>17,841</u>
	17,174,643
Less valuation allowance	<u>(364,007)</u>
	<u>\$ 16,810,636</u>

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

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

9. LONG-TERM EQUITY INVESTMENTS

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

	Original Cost	Carrying Value	Ownership Percentage
Accounted for under equity method			
Rising Developments Ltd.	\$ 4,903	\$ 234,264	50.00
Haicheng Information Technology Co., Ltd.	189,720	103,413	50.00
Silver Island Trading Ltd.	126,480	125,980	50.00
Best Focus Holdings Ltd.	316,200	267,479	50.00
Blessland Enterprises Limited	25,542	80,315	50.00
Cohen Enterprises Inc.	152,903	397,676	50.00
Coprospects Holdings Ltd.	9,312	8,601	50.00
Envopro Technology Limited	38,735	16,022	50.00
Ever Atlantic Investments Limited	208,331	137,867	50.00
Great Skill Industrial Limited	33,296	60,255	50.00
High Style Investments Limited	25,296	36,930	50.00
Hua Jian Industrial Holding Co., Ltd.	732,658	1,045,414	50.00
Ka Yuen Rubber Factory Limited	76,614	339,522	50.00
Optiyield Industrial Limited	35	35	50.00
Pou Thane Enterprise Co., Ltd.	5,459	8,445	50.00
PYGF Co., Ltd.	31,620	40,351	50.00
Topmost Industries Limited	25,778	70,647	50.00
Twinways Investments Limited	86,028	168,694	50.00
Up Front Technology Ltd.	158,100	158,100	50.00
Well Success Investment Limited	249,968	796,311	40.00
Yuen Thai Industrial Company Limited	20,363	-	50.00
Bigfoot Limited	174,059	208,447	48.76
Enthroned Group Limited	154	154	48.76
Original Designs Developments Limited	39,153	99,969	47.00
Supplyline Ltd.	102,824	105,906	46.11
Venture Well Holding Ltd.	297,481	296,755	42.46
Partner Alliance Limited	3,771	4,217	41.25
Willpower Industries Limited	101,184	99,173	40.00
Just Lucky Investments Limited	43,129	45,231	38.30
Nan Pao Resins (Holdings) Limited	69,769	249,488	35.00
All Saints Enterprises Limited	77,216	84,588	37.00
Rising Sun Associates Limited	35,098	68,300	37.00
Pine Wood Industrial Limited	78,386	78,502	37.00
Natural Options Limited	10,866	17,404	38.30
Precise Zone Investments Limited	40,622	51,248	47.65
San Fang	2,452,730	2,535,441	41.32
Eagle Nice (Int'l) Holdings Ltd.	1,292,123	1,358,246	44.96
Asia Air Tech Industrial (Pte) Ltd.	80,631	80,194	30.00
Prosperous Industrial (Holdings) Ltd.	569,160	614,328	30.00
Talent Pool Management Ltd.	-	1,711	30.00
Prolik Properties Management Ltd.	2,259	2,557	30.00
Central Honour Limited	5,059	4,586	50.00
Smart Shine Industries Limited	316,200	316,200	50.00
Elitegroup Computer	5,992,988	5,246,079	30.21
Techview International Technology Inc.	359,650	392,558	50.00
Less allowance for impairment loss	-	(483,135)	
	<u>14,661,853</u>	<u>15,574,468</u>	

	Original Cost	Carrying Value	Ownership Percentage
Accounted for under cost method			
Chiang Yei	8,153	8,153	15.27
Luen Thai Holdings Ltd.	1,080,654	1,080,654	9.90
Golden Brands Developments Ltd.	706,328	706,328	6.73
Taiwan Paiho	131,909	131,909	4.38
L&C Aluminum	1,200	831	3.33
EIC Enterprise Ltd. - preferred stock	61,195	61,195	1.78
Media Reality	351	351	1.63
Shei Yue	320	320	1.07
Hwiang Shei	200	-	1.00
Quanta Display	919,541	919,541	0.96
View Sonic Corporation	96,231	96,231	0.43
Tai Chung International Country Club	1,905	1,905	0.09
Bizlink Holding Inc.	106,145	106,145	3.07
Orbita Diversified Strategy Note	15,810	15,810	-
Orbita Capital Return Strategy Ltd.	16,169	16,169	-
Orbita Global Opportunities Strategy Ltd.	15,810	15,810	-
Orbita Asian Growth Strategy Capital Fund	15,810	15,810	-
Asia Pacific Genesis Venture Capital Fund	47,430	47,430	-
Great Team Backend Foundry Inc.	76,657	76,657	19.86
Less valuation allowance	-	(279,931)	
	<u>3,301,818</u>	<u>3,021,318</u>	
Prepayment for long-term investments			
Eagle Great Investments Limited	<u>75,888</u>	<u>75,888</u>	
	<u>\$ 18,039,559</u>	<u>\$ 18,671,674</u>	

The Company recognized long-term equity investment income (loss) under equity method for the six-month period ended June 30, 2005 as follows:

	2005
Rising Developments Ltd.	\$ 6,272
Haicheng Information Technology Co., Ltd.	(16,241)
Best Focus Holdings Ltd.	17,326
Blessland Enterprises Limited	3,945
Cohen Enterprises Inc.	(152)
Coprosects Holdings Ltd.	1,663
Envopro Technology Limited	(8,921)
Ever Atlantic Investments Limited	(38,524)
Great Skill Industrial Limited	17,162
High Style Investments Limited	9,238
Hua Jian Industrial Holding Co., Ltd.	101,719
Ka Yuen Rubber Factory Limited	65,646
Pou Thane Enterprise Co., Ltd.	1,770
PYGF Co., Ltd.	597
Topmost Industries Limited	19,110
Twinways Investments Limited	30,983
Well Success Investment Limited	96,448
Yuen Thai Industrial Company Limited	(4,664)
Bigfoot Limited	13,485

	2005
Original Designs Developments Limited	12,956
Venture Well Holding Ltd.	(24,923)
Partner Alliance Limited	(152)
Willpower Industries Limited	(1,923)
Just Lucky Investments Limited	678
Nan Pao Resins (Holdings) Limited	13,174
All Saints Enterprises Limited	2,107
Rising Sun Associates Limited	12,710
Natural Options Limited	2,217
Precise Zone Investments Limited	(549)
Global Biotech Inc.	(1,370)
San Fang	90,730
Silver Island Trading Ltd.	(509)
Eagle Nice (Int'l) Holdings Ltd.	51,253
Asia Air Tech Industrial (Pte) Ltd.	(7,460)
Prosperous Industrial (Holdings) Ltd.	31,826
Prolik Properties Management Ltd.	(992)
Central Honour Limited	367
Elitegroup Computer	(44,626)
Techview International Inc.	32,908
Great Team Backend Foundry Inc.	<u>314</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 Limited	Trading of diesel / petroleum	British Virgin Islands
Haicheng Information Technology Co., Ltd.	Developing and manufacture of software	Shanghai City
Sliver Island Trading Ltd.	Sale of electronic parts	British Virgin Islands
Venture Well Holding 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

Name	Core Operating Item	Place of Incorporation
Supplyline Ltd.	Provision of logistic service	Hong Kong
Talent Pool Management Ltd.	Provision of school service	British Virgin Islands
Best Focus Holdings Ltd.	Investment holding	British Virgin Islands
Blessland Enterprises Limited	Investment holding	British Virgin Islands
Central Honour Limited	Investment holding	British Virgin Islands
Cohen Enterprises Inc.	Manufacture and sales of leather products for shoes	British Virgin Islands
Coprospects Holdings Ltd.	Investment holding	British Virgin Islands
Envopro Technology Limited	Manufacture glues, 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., Ltd.	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 Investment Limited	Investment holding	British Virgin Islands
Willpower Industries Limited	Investment holding	British Virgin Islands
Yuen Thai Industrial Company Limited	Manufacture and trading of sports and active wear	Hong Kong
Prolik Properties Management Ltd.	Properties management	British Virgin Islands
Smart Shine Industries Limited	Investment holding	British Virgin Islands

The fiscal year end of the above-listed companies is September 30. The Company accounted for its long-term investment income (loss) of these companies based on these companies' financial results for the six-month period ended March 31, 2005, 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 \$700,000 thousand at par value \$10 dollars per share as at June 30, 2005. The Company purchased Techview International’s shares from non-related party in February, 2005. The Company’s ownership was increased to 50.00%, therefore accounting treatment of long-term investment in Techview International changed to equity method.

Elitegroup Computer Systems Co., Ltd. (“Elitegroup Computer”) is engaged in designing, manufacturing and sale of computer peripheral equipment. The shares of Elitegroup Computer are listed on the Taiwan Stock Exchange Corporation. Additionally, in February 2004, Elitegroup Computer issued additional \$1,200,000 thousand capital stock with \$1,680,000 thousand additional paid-in capital, of which \$960,000 thousand were subscribed by the Company, the Company’s ownership was increased to 30.21%. It has an outstanding common stock of \$7,326,691 thousand as at June 30, 2005.

San Fang Chemical Co., Ltd. (“San Fang”) is engaged in manufacturing and marketing leather. The shares of San Fang are listed on Taiwan Stock Exchange Corporation. It has an outstanding capital of \$2,504,083 thousand as at June 30, 2005.

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

Luen Thai Holdings Ltd. is engaged in manufacturing ready-made garments. The shares of Luen Thai Holdings Ltd. are listed on the Hong Kong Exchanges and Clearing Limited. It has an outstanding common stock of US\$9,023 thousand.

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

The movement of unrealized loss on market value decline of long-term investments for the six-month period ended June 30, 2005 is as follows:

	Beginning Balance	Provision	Ending Balance
The Company	<u>\$ 1,203,354</u>	<u>\$ 54,735</u>	<u>\$ 1,258,089</u>

Real estate investments as at June 30, 2005 are comprised of the following:

	Cost	Accumulated Depreciation	Carrying Value
Land	\$ 109,712	\$ -	\$ 109,712
Building	<u>2,155</u>	<u>-</u>	<u>2,155</u>
	<u>\$ 111,867</u>	<u>\$ -</u>	<u>\$ 111,867</u>

10. PROPERTY, PLANT AND EQUIPMENT

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

	Cost	Reassessed Value Increment	Accumulated Depreciation	Carrying Value
Land	\$ 2,160,485	\$ 248,187	\$ -	\$ 2,408,672
Buildings and improvements	29,734,868	45,062	6,652,716	23,127,214
Machinery and equipment	31,362,091	-	15,592,891	15,769,200
Transportation equipment	954,340	-	654,528	299,812
Furniture, fixtures and office Equipment	3,647,819	-	2,299,213	1,348,606
Other equipment	303,078	-	129,985	173,093
Prepayments on purchase of equipment and construction in progress	5,431,335	-	-	5,431,335
Less Accumulated depreciation	<u>(143,353)</u>	<u>-</u>	<u>-</u>	<u>(143,353)</u>
	<u>\$73,450,663</u>	<u>\$ 293,249</u>	<u>\$25,329,333</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, 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-month period ended June 30, 2005.

At June 30, 2005 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. Due to certain restrictions of the land regulations, the ownership for these two parcels of land resides with trustees through trust agreements which prohibit the trustees from selling, pledging or hypothecating the property. Consequently, the two parcels of land amounted to \$55,855 thousand are included in other assets (see Note 11).

In March 2001 and 2002, Pou Chen and Barits Development entered into a material purchase contract with non-related parties, China Wire & Cable Co., Ltd. and China Steel Structure Company Ltd. to build Pou Chen International Building, at a total price of \$452,500 thousand and \$336,000 thousand, respectively. The Company had already prepaid \$328,270 thousand and \$309,048 thousand as at June 30, 2005, respectively which was recorded as "construction in progress".

Interest costs capitalized as part of the costs of property, plant and equipment for the six-month period ended June 30, 2005 amounted to \$202 thousand. Interest capitalization rate was 2.50%.

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

11. OTHER ASSETS

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

Leased-out assets	
Cost	\$ 1,763,364
Less accumulated depreciation	<u>(150,211)</u>
Carrying value	<u>1,613,153</u>
Deferred charges	273,254
Deferred tax assets (Note 20)	154,128
Land held by trustee (Note 10)	55,855
Idle asset	32,575
Less	
Accumulated depreciation	(16,023)
Allowance for valuation loss of idle asset	<u>(16,552)</u>
Carrying value	<u>-</u>
Prepaid pension cost	12,920
Others	<u>5,646</u>
	<u>\$ 2,114,956</u>

12. SHORT-TERM BORROWINGS

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

	Annual Interest Rate %	Balance
Short-term borrowings		
Procurement loans	1.83~4.875	\$ 4,651,688
Unsecured loans	1.65~4.80	<u>9,012,733</u>
		<u>\$ 13,664,421</u>

13. SHORT-TERM BILLS

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

	Annual Interest Rate %	Balance
Short-term bills		
Commercial paper, credit	0.93~1.746	\$ 1,130,000
Less discount on commercial paper		<u>(1,579)</u>
		<u>\$ 1,128,421</u>

14. CURRENT PORTION OF LONG-TERM LIABILITIES

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

Bonds payable (see Note 15)	\$ 22,405,692
Long-term debt (see Note 16)	<u>3,793,785</u>
	<u>\$ 26,199,477</u>

15. BONDS PAYABLE

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

Euro Convertible Bonds	\$ 21,192,608
Add interest compensation and income tax payable	<u>1,213,084</u>
	22,405,692
Less current portion	<u>(22,405,692)</u>
	-
Domestic secured bonds	<u>5,000,000</u>
	<u>\$ 5,000,000</u>

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

Euro-Dollar Convertible Bonds - First Issue

- (a) Date of issuance: June 24, 1999
- (b) Par value: US\$1,000 (dollars)
- (c) Location of issuance: Luxemburg
- (d) Price of issuance: 100%
- (e) Total amount: US\$125,000 thousand, there are US\$58,350 thousand not converted as at June 30, 2005
- (f) Interest rate: 1.5% per annum (after tax)
- (g) Date of maturity: June 15, 2006
- (h) Conversion Price:

The initial price at which shares will be issued upon conversion is \$93.87 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, 2005, the current adjusted conversion price is \$28.12 per share.

- (i) **Redemption at the option of Pou Chen:**
The Notes may be redeemed at the option of Pou Chen, in whole but not in part, on not less than 30 nor more than 60 days notice, at any time on or after June 15, 2002 at a redemption price equal to 100% of the unpaid principal amount thereof plus the Redemption Premium (as defined below); provided that the Closing Price (translated into U.S. dollars at the prevailing rate) of the Shares on each of such 30 consecutive Trading Days is at least 145% of the Conversion Price (translated into U.S. dollars at the Exchange Rate, as defined below). Notwithstanding the foregoing, Pou Chen may redeem all of the Notes on or after June 15, 2002 if at least 95% in principal amount of the Notes has been redeemed, repurchased, canceled or converted at a redemption price equal to 100% of the unpaid principal amount thereof plus the Redemption Premium (as defined below). If, as a result of certain changes relating to the tax laws in the ROC or such other jurisdiction in which Pou Chen is then organized, Pou Chen becomes obligated to pay additional amounts, the Notes may be redeemed at the option of Pou Chen, in whole but not in part, at 100% of the unpaid principal amount thereof plus the Redemption Premium on the date of such redemption; provided that, with respect to payments of interest and Redemption Premium, Pou Chen shall not be entitled to redeem the Notes unless the relevant withholding or deduction giving rise to an obligation to pay additional amounts on such payments exceeds a rate of 20%. As used herein, "Redemption Premium" means an amount payable with respect to a repurchase or redemption of a Note which will provide a Holder who purchased such Note at the issue price on the Original Issue Date an annual yield (computed on a semi-annual bond equivalent basis), including interest paid and accrued, on the date of payment of such amount of (i) 7.100% per annum if such repurchase or redemption occurs on or before June 15, 2002, (ii) 7.800% per annum if such repurchase or redemption occurs after June 16, 2002 and on or before June 15, 2004 and (iii) 8.102% per annum if such repurchase or redemption occurs after June 16, 2004.
- (j) **Repurchase of the Notes:**
- i) Each holder shall have the right, at such holder's option, to require Pou Chen to repurchase all or any portion which is US\$1,000 (dollars) or any integral multiples of the Notes on June 15, 2002 and on June 15, 2004 at a price equal to 100% of the unpaid principal amount plus the redemption premium on the holders' put date.
 - ii) In the event of a reduction to less than 25% of Pou Chen's ownership in Yue Yuen Industrial, 50.88% owned by Pou Chen as at June 30, 2005, each holder of the Notes will have the right, at such holder's option, to require Pou Chen to repurchase all of such holder's Notes on the date that is 50 days after the date on which such reduction of Pou Chen's ownership in Yue Yuen Industrial occurs at a price equal to 100% of the unpaid principal amount thereof plus the redemption premium.

Euro-Dollar Convertible Bonds - Second Issue

- (a) Date of issuance: November 4, 2003
- (b) Par value: US\$1,000 (dollars)
- (c) Location of issuance: Luxemburg
- (d) Price of issuance: 100%
- (e) Total amount: US\$300,000 thousand
- (f) Interest rate: 0%
- (g) Date of maturity: November 4, 2008
- (h) **Conversion Price:**
The initial price at which shares will be issued upon conversion is \$47.285 per share at the issue date. The above conversion price will be adjusted accordingly if there is a capital increase in cash or dividend distribution by Pou Chen. At June 30, 2005, the current adjusted conversion price is \$34.90 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 Industrial 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 Industrial, 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 rateThe nominal interest rate of all types should be greater than 0%.
The floating rate is determined on the Fixing Rate of USD 6-month LIBOR at 11:00 AM on the second London business day before the first day of each interest period on "LIBOR" page on the Reuters screen.

The secured bonds contain certain covenants, including a covenant that requires Pou Chen to maintain a consolidated tangible net worth of not less than \$18,000,000 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
 (b) Par value: US\$1,000 thousand
 (c) Location of issuance: Luxemburg
 (d) Price of issuance: 100%
 (e) Total amount: US\$317,000 thousand
 (f) Interest rate: 0%
 (g) Date of maturity: December 23, 2008
 (h) Conversion Price:
 The initial price at which shares will be issued upon conversion is HK\$27.33 dollars per share at the issue date.
 (i) Redemption at maturity:
 Unless previously redeemed, repurchased and cancelled, or converted, the Bonds will be redeemed on December 23, 2008 at a price equal to 98.76% of the unpaid principal amount.
 (j) Redemption at the option of Yue Yuen Industrial:
 The Bonds may be redeemed, in whole or from time to time in part, at the option of Yue Yuen Industrial at any time on or after December 23, 2005, at a price equal to 98.76% of the unpaid principal amount thereof; provided that the closing price of the common shares on each of 20 trading days within 30 consecutive trading days, the last of which occurs not more than five days prior to the date on which notice of such redemption is given, is at least 120% of the conversion price (translated into US dollars at the fixed rate). Notwithstanding the foregoing, the Bonds may be redeemed in whole or in part at the option of Yue Yuen Industrial at any time at a price equal to 98.76% of the unpaid principal amount thereof if at least 90% in aggregate principal amount of the Bonds has already been redeemed, repurchased and cancelled, or converted.
 (k) Repurchase at the option of holders:
 Each holder has the right to require Yue Yuen Industrial to repurchase all or any portion of such holder's bonds on December 23, 2005 at a price equal to 98.76% of the unpaid principal amount thereof.

16. LONG-TERM DEBT

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

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%.	\$ 733,584
Industrial Development Bureau interest-free loan	6,951

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 is fully repaid upon maturity.	3,320,100
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 is fully repaid upon maturity.	5,312,160
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.	47,430
China Trust Commercial Bank	
Long-term debt, US\$10,000 thousand, due in semiannual installments commencing June 6, 2004 and maturing December 6, 2007. Interest rate is 3.759%. Interest is paid monthly.	237,150
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.	379,440
Natexis Banques Populaires	
Long-term debt, US\$3,924 thousand, due in semiannual installments commencing January 29, 2005 and maturing July 29, 2007. Interest rate is 3.80%. Interest is paid semiannually.	103,397
Chin Fon Commercial Bank	
Long-term debt, US\$10,000 thousand, due in semiannual installments commencing November 29, 2004 and maturing May 29, 2008. Interest rate is 3.759%. Interest is paid monthly.	276,675
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.	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.	211,854

Standard Chartered Bank (HK)	
5 years long-term debt, US\$7,000 thousand, due in semiannual installments and maturing May 9, 2008. Interest rate is 3.19%. Interest is paid monthly.	221,340
Citibank (HK)	
5 years long-term debt, US\$10,000 thousand, due in semiannual installments and maturing February 11, 2009. Interest rate is 3.19%. Interest is paid monthly.	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.	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.	55,904
Citibank (Lead Lender) and other banks	
Long-term debt, US\$300,000 thousand with floating rate, due in semiannual installments commencing November 8, 2007 to November 8, 2009. Interest rate is from 3.035% to 3.245%.	<u>9,486,000</u>
	20,929,620
Less current portion	<u>(3,793,785)</u>
	<u>\$ 17,135,835</u>

17. STOCKHOLDERS' EQUITY

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

	2005
Registered capital	
Shares (in thousands)	<u>3,195,357</u>
Par value	<u>\$ 10</u>
Capital	<u>\$ 31,953,574</u>
Issued capital	
Shares (in thousands)	<u>2,095,583</u>
Par value	<u>\$ 10</u>
Capital	<u>\$ 20,955,834</u>

On June 14, 2005, the Pou Chen's shareholders meeting resolved to amend its Articles of Incorporation of registered capital from \$34,750,000 thousand to \$31,953,574 thousand and then increasing to \$38,000,000 thousand. The amendment was not authorized by the regulatory authority as at June 30, 2005.

The stockholders approved to issue additional stock amounting to \$2,092,054 thousand at their regular meeting on June 14, 2005. As the legal registration process is not completed, it was included in stock dividends to be distributed as of June 30, 2005. 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 earnings per share before and after tax would be \$2.25 and \$0.91 per share, respectively, for the six-month period ended June 30, 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 \$14.2 dollars and \$31.4 dollars per share, respectively due to the stock dividends distributed in 2005. At June 30, 2005, the employee stock warrants of 66,600 units were executed for 5,850 thousand shares of common stock.

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

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

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

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

Pou Chen's board of directors and shareholders have proposed and approved the 2004 earnings distribution of 4,240 thousand shares to employees (represents 0.20% of the outstanding common shares at the end of 2004) and of \$43,708 thousand as bonuses to directors and supervisors. In 2004, the earnings per share after income tax (before retroactive adjustment for stock dividend in 2005) was \$2.17; however, if the earnings distribution to employees, directors and supervisors are accounted for as expenses, the pro-forma earnings per share after income tax was \$2.13. Regarding the appropriation of 2004 retained earnings proposed by the board of directors and the approval 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, 2005 amounted to US\$169,222 thousand, with a par value of US\$1 each, 169,222 thousand shares.

Barits Development's registered and issued capital as at June 30, 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, 2005 are summarized as follows:

Registered capital	
Shares (in thousands)	<u>120,000</u>
Par value	<u>\$ 10</u>
Capital	<u>\$ 1,200,000</u>
Issued capital	
Shares (in thousands)	<u>60,000</u>
Par value	<u>\$ 10</u>
Capital	<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, 2005 are summarized as follows:

Registered capital	
Shares (in thousands)	<u>185,000</u>
Par value	<u>\$ 10</u>
Capital	<u>\$ 1,850,000</u>
Issued capital	
Shares (in thousands)	<u>170,000</u>
Par value	<u>\$ 10</u>
Capital	<u>\$ 1,700,000</u>

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, 2005 are summarized as follows:

Authorized capital	
Share (in thousands)	<u>330,000</u>
Par value	<u>\$ 10</u>
Capital	<u>\$ 3,300,000</u>
Issued capital	
Share (in thousands)	<u>154,102</u>
Par value	<u>\$ 10</u>
Capital	<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 in November 2003 for funding operating capital. Such private placement shares and their distributed shares are not allowed to trade in the following 3 years of issuance.

At April 22, 2005 meeting, the Board of Directors of Global Brands Manufacture resolved to issue additional common stock of 35,000 thousand shares for operating capital and prepayment of bank loans. The issue was authorized by the regulatory authority at May 27, 2005.

In June 2005, Global Brands Manufacture issued additional capital of \$163,362 thousand through stock dividends and bonuses to employees.

At October 15, 2002 meeting, the Board of Directors of Global Brands Manufacture resolved to issue employee stock warrants in accordance with Securities and Exchange Law Article 28-3 within the quantity of 5,672 units. Each individual employee stock warrant is granted the right to purchase new issued common shares for 1,000 shares. The exercise price is the closing price of Global Brands Manufacture's common shares at the employee stock warrants' issuance date. The warrant holders can exercise the right up to one-third of the granted warrant units no earlier than two years from the granted date. After four years from the granted date, the warrants holders are eligible to exercise all the warrants owned. As of December 13, 2002 and September 22, 2003, Global Brands Manufacture issued 5,662 and 10 units, respectively, of employee stock warrants to the employees with an exercise price of \$29.50 and \$64 per unit. The exercise price will be adjusted according to calculating formula due to stock and cash dividends and issuance of capital stock. The exercise price is \$26.60 and \$53.10 respectively at June 30, 2005.

At September 22, 2003 meeting, the Board of Directors of Global Brands Manufacture resolved to issue another employee stock warrants with the quantity of 10,672 units. The issuing rules are the same as the first issuance mentioned above. Global Brands Manufacture issued all the employee stock warrants with an exercise price of \$50.5 per unit on November 12, 2003. The exercise price will be adjusted according to calculating formula due to stock and cash dividends and issuance of capital stock. The exercise price is \$43.6 at June 30, 2005.

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

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

- a. 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.

Global Brands Manufacture's board of directors and shareholders have proposed and approved the 2004 earnings distribution of 926 thousand shares to employees (represents 0.60% of the outstanding common shares at the end of 2004) and of \$4,630 thousand as bonuses to directors and supervisors. In 2004, the earnings per share after income tax (before retroactive adjustment for stock dividend in 2005) was \$4.49; however, if the earnings distribution to employees, directors and supervisors are accounted for as expenses, the pro-forma earnings per share after income tax was \$4.39. Regarding the appropriation of 2004 retained earnings proposed by the board directors and the approval by the shareholders' meeting, please refer to the Market Observation Post System ("MOPS") of Taiwan Stock Exchange.

Win Fortune's outstanding capital stock as at June 30, 2005 amounted to US\$100 thousand, with a par value of US\$1 each, 100 thousand shares.

Ming Wang's registered and issued capital as at June 30, 2005 amounted to \$427,291 thousand, divided into 42,729 thousand common shares with a par value of \$10 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.

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

According to the Company Law of the ROC and Yue Yuen Entertainment's Articles of Incorporation, 10% of Yun Yuen'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 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.

Tse Throw's registered and issued capital as at June 30, 2005 amounted to \$60,000 thousand, divided into 6,000 thousand common shares with a par value of \$10 each.

According to the Company Law of the ROC and Tse Throw's Articles of Incorporation, 10% of Tse Throw'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 Consulting's issued capital as at June 30, 2005 amounted to \$3,000 thousand.

According to the Company Law of the ROC and Pan Asia Insurance Consulting's Articles of Incorporation, 10% of Pan Asia Insurance Consulting'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 2% 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.

Yun Yang's registered and issued capital as at June 30, 2005 amounted to \$75,000 thousand, divided into 7,500 thousand common shares with a par value of \$10 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 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.

18. TREASURY STOCK

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

Reason	2005.1.1	Increase	Decrease	2005.6.30
Buy the stock back to transfer to employees	45,700,000	-	-	45,700,000
Common shares held by subsidiaries	110,786,044	-	-	110,786,044

According to the Stock Exchange Law of the ROC, the shares of treasury stock should not be over 10% of the Company's issued and outstanding shares and the amount of treasury stock should not be over the total of retained earnings and realized additional paid-in capital. The Company held 45,700,000 shares (amounted to \$1,404,009 thousand) for treasury stock on June 30, 2005.

As at June 30, 2005, the subsidiaries held 110,786,044 shares of the Company's common stock at cost of \$2,055,319 thousand in total.

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

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	20,455,581	\$ 610,655	Secure the parent company's stockholders' equity
Pou Shine	10,568,670	292,736	The same as above
Ming Wang	20,147,095	495,703	The same as above
Barits Development	30,493,287	844,618	The same as above
Top Score	2,272,837	65,199	The same as above
Ming Chi	15,044,755	416,717	The same as above
Pou Yi	14,584,652	318,431	The same as above

19. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

Personnel, depreciation, and amortization expenses for the six-month period ended June 30, 2005 are summarized as follows:

Category \ Function	2005			
	Operating Cost	Operating Expenses	Non-Operating Expenses	Total
Personnel expense				
Salaries	5,222,419	3,089,367	-	8,311,786
Labor insurance and health insurance	163,138	119,216	-	282,354
Pension cost	81,294	61,031	-	142,325
Others	21,708	40,156	-	61,864
Depreciation expenses	1,768,629	753,167	5,967	2,527,763
Amortization expenses	5,727	816,520	-	822,247

20. INCOME TAX

The Company's income tax expense for the six-month period ended June 30, 2005 is as follows:

Income tax expense, current year	\$ 39,934
10% additional income tax on undistributed earnings of 2004	5,666
Adjustment of deferred tax asset	91,091
Adjustment of prior year's tax expenses	(720)
Others	<u>73,503</u>
Income tax expense	<u>\$ 209,474</u>

The components of deferred tax assets (liabilities) as at June 30, 2005 are as follows:

Unrealized inventory devaluation losses	\$ 78,165
Unrealized losses on disposal of property, plant and equipment	1,160
Unrealized bad debt losses	53,350
Unrealized maintenance and repairs expenses	400
Unrealized pension expense	115,250
Unrealized profit from inter-affiliate transactions	8,500
Unrealized loss on liquidation of long-term equity investments	22,010
Unrealized net exchange gain	(188,515)
Unrealized provision for decline in value of idle assets	1,240
Losses carryforward	554,200
Investment tax credits	60,300
Others	(111,580)
Less valuation allowance	<u>(472,433)</u>
Deferred tax assets	<u>\$ 122,047</u>
Deferred tax liability, current	<u>\$ (32,081)</u>
Deferred tax assets, noncurrent	<u>\$ 154,128</u>

The Company's income tax expense for the six-month period ended June 30, 2005 and income tax payable as of June 30, 2005 were reconciled as follows:

Income tax expense at statutory rate of 25%	\$ 530,844
Income from long-term equity investment accounted for under equity method	(434,101)
Gain on disposal of security	(59,450)
Loss on disposal of land	(465)
Amortization of operating expense for disposal of land	1,388
Cash dividend from overseas long-term equity investment accounted for under equity method	404,700
Tax on the interest for bonds	6,300
Lease tax credit of enterprise operating headquarters	(404,400)
Tax-exempt of dividend	(740)
Others	<u>(4,142)</u>
Current income tax expense	<u>\$ 39,934</u>

The income tax returns of Pou Chen, Pou Yuen Technology, Pro Arch Technology, Global Brands Manufacture, Ming Wang, Tse Throw, Pou Shine, Pan Asia Insurance Consulting, Yun Yang, Song Ming Investment, Pou Yi Development, Ming Chi Investment and Wang Yi Construction for the years through 2002 have been examined and approved by the tax authority.

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

Barits Development's salaries of staffs in foreign country and commission expenses in 1997 were disallowed by the tax authority. As a result, Barits Development was assessed for an additional income tax payment of approximately \$17,200 thousand. Barits Development does not agree with the assessment and has appealed for a reexamination. Additional provision has been recorded for such assessment for the six-month period ended June 30, 2005.

The income tax returns of Ming Shun Investment for the years through 2003 have been examined and approved by the tax authority.

At June 30, 2005, 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>	
	Loss Carryforward	Investment Tax Credits	Loss Carryforward	Investment Tax Credits
2005	\$ 12,500	\$ -	\$ -	\$ 22,400
2006	27,300	-	-	17,700
2007	20,000	3,500	53,000	16,700
2008	41,600	-	131,000	-
2009	31,600	-	141,000	-
2010	<u>14,000</u>	<u>-</u>	<u>82,200</u>	<u>-</u>
	<u>\$ 147,000</u>	<u>\$ 3,500</u>	<u>\$ 407,200</u>	<u>\$ 56,800</u>

The information of the integrated income tax system as at June 30, 2005 is as follows:

	<u>Pou Chen</u>	<u>Ming Wang</u>	<u>Yue Yuen Entertainment</u>	<u>Tse Throw</u>	<u>Pou Shine</u>	<u>Pan Asia Insurance</u>	<u>Barits Development</u>	<u>Song Ming</u>	<u>Pou Yi</u>
IC Balance of Imputation Credit Account	\$ 161,851	\$ 11,600	\$ -	\$ 321	\$ 12,833	\$ 82	\$ 129,954	\$ 3,401	\$ 15,004
Undistributed earnings for the years of 1997 and before	\$ 310,501	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 515,118	\$ -	\$ -
Undistributed earnings for the years of 1998 and after	\$ 4,604,209	(\$ 53,784)	(\$ 9,589)	(\$ 34,559)	\$ 47,256	(\$ 1,886)	\$ 948,237	(\$ 703)	(\$ 37,320)
Expected IC ratio on distributed earnings for the year of 2005	1.68%	-	-	-	22.45%	-	14.15%	33.26%	-
Actual IC ratio on stock dividend distribution for the year of 2004	2.68%	-	-	-	-	-	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	\$ 12,125	\$ 8,068	\$ 2,616	\$ 1,104	\$ 1,545	\$ 570	\$ 105	\$ 57
Undistributed earnings for the years of 1997 and before	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Undistributed earnings for the years of 1998 and after	(\$ 31,140)	(\$ 9,896)	\$ 32,650	(\$ 196,864)	\$ 16,094	(\$ 1,458,241)	\$ 684,200	\$ 1,116
Expected IC ratio on distributed earnings for the year of 2005	-	-	8.90%	-	11.75%	-	0.04%	28.82%
Actual IC ratio on stock dividend distribution for the year of 2004	-	-	8.39%	-	-	-	0.03%	-

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

21. EARNINGS PER SHARE

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

	2005			Earnings Per Share	
	Income Before Tax	Income After Tax	Weighted Average Number of Common Shares Outstanding (In Thousands)	Income Before Tax	Income After Tax
	Without Deduction of Minority Interest	Attributed to Parent Company's Shareholders		Without Deduction of Minority Interest	Attributed to Parent Company's Shareholders
Basic earnings per share					
Net income	\$ 4,919,064	\$ 1,992,257	1,937,756	<u>\$ 2.54</u>	<u>\$ 1.03</u>
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	<u>\$ 4,919,064</u>	<u>\$ 1,992,257</u>	<u>2,212,677</u>	<u>\$ 2.22</u>	<u>\$ 0.90</u>

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-month period ended June 30, 2005 are as follows:

	2005			Earnings Per Share	
	Income Before Tax	Income After Tax	Weighted Average Number of Common Shares Outstanding (In Thousands)	Income Before Tax	Income After Tax
	Without Deduction of Minority Interest	Attributed to Parent Company's Shareholders		Without Deduction of Minority Interest	Attributed to Parent Company's Shareholders
Basic earnings per share					
Net income	\$ 4,919,064	\$ 1,992,257	2,048,545	<u>\$ 2.40</u>	<u>\$ 0.97</u>
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	<u>\$ 4,919,064</u>	<u>\$ 1,992,257</u>	<u>2,323,466</u>	<u>\$ 2.12</u>	<u>\$ 0.86</u>

22. RELATED PARTY TRANSACTIONS

Names and relationships of the related parties are as follows:

Name	Relationship
CMK Corporation	CMK Corporation together with Global invest in CMK GBM and holds 49.00% ownership interest of CMK GBM (an indirectly 51.00% - owned subsidiary of Global Brands Manufacture)
CMKC (HK) Limited	CMK Corporation holds a 100.00% ownership interest
Ka Yuen Rubber Factory Limited	The Company holds a 50.00% ownership interest.
Techview International Technology Inc.	The Company holds a 50.00% ownership interest.
Twinways Investments Ltd. (“Twinways”)	Yue Yuen Industrial indirectly holds a 50.00% ownership interest
San Fang	The Company holds a 41.32% ownership interest
Global Brands Manufacture Ltd. (BVI) (“GBM”)	Related party in substance
PGE Corporation (“PGE”)	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-month period ended June 30, 2005 are summarized as follows:

	Amount	Percentage to Net Sales
CMKC	\$ 1,246,904	2
PGE	1,136,595	2
GBM	374,896	1
Others	<u>999,402</u>	<u>1</u>
	<u>\$ 3,757,797</u>	<u>6</u>

Cost of Sales - Purchases

Purchases from related parties for the six-month period ended June 30, 2005 are summarized below:

	Amount	Percentage to Net Purchases
Techview International	\$ 860,013	2
San Fang	596,046	1
Ka Yuen Rubber	553,874	1
Twinways	392,087	1
Others	<u>1,652,359</u>	<u>3</u>
	<u>\$4,054,379</u>	<u>8</u>

Accounts Receivable

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

Accounts receivable	
PGE	\$ 979,188
CMKC	521,060
GBM	99,240
Others	730,516
Less allowance for doubtful accounts	<u>(7,875)</u>
	<u>\$2,322,129</u>

Notes and Accounts Payable

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

Notes payable	
San Fang	<u>\$ 49,493</u>
Accounts payable	
Techview International	\$ 612,656
Ka Yuen Rubber	172,803
Twinways	146,084
San Fang	129,267
Others	<u>485,039</u>
	<u>\$1,545,849</u>

23. COMMITMENTS AND CONTINGENCIES

Loan Guarantees

As at June 30, 2005, 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, 2005 are as follows (unit: dollar):

U.S. Dollar	\$ 4,872,161
Japanese Yen	7,072,000

At June 30, 2005, the Company has guaranteed the payments of credit of related parties as follows:

Related Parties

Venture Well Holdings Ltd.	\$ 316,521
Best Focus Holdings Ltd.	474,300
Hua Jian Industrial Holding Co., Ltd.	332,010
Cohen Enterprise Inc.	474,300
Ka Yuen Rubber Factory Ltd.	40,538
Pine Wood Industrial Ltd.	70,430
	<u>\$ 1,708,099</u>

24. SUBSEQUENT EVENT

On April 22, 2005, the Board of Directors of Global Brands Manufacture resolved to issue common stock of 35,000 thousand shares at \$35 per share (but later the Board of Directors of the Company decided to adjust the price to \$37.5 per share). Up to the date of the review report, Global Brands Manufacture has not fully received the amount.

25. OTHERS

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 27, Disclosure of Financial Instruments, derivative financial instruments of the Company as at June 30, 2005 are summarized as follows:

Management Objective and Strategy of Derivative Financial Instruments

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

Reporting of Derivative Instruments in the Financial Statements

As at June 30, 2005, the net of receivable and payable derived from foreign exchange contracts are summarized as follows:

	Carrying Value	Fair Value
Receivable	\$ 2,442,645	\$ 2,442,645
Payable	<u>(2,476,945)</u>	<u>(2,476,945)</u>
	<u>\$ (34,300)</u>	<u>\$ (34,300)</u>

Interest income and foreign exchange gain of the Company from derivative financial instruments for the six-month period ended June 30, 2005 are summarized as follows:

Items	2005	Description
Interest rate swap	\$ (13,423)	Recorded as "Non-operating expenses - interest expense"
Exchange rate swap	(25,881)	Recorded as deduction to "Non-operating income - foreign exchange income"
Forward exchange	(5,880)	Recorded as deduction to "Non-operating income - foreign exchange income"

Fair Value of Financial Instruments

The fair value of non-derivative financial instruments as at June 30, 2005 is summarized as follows:

	Carrying Value	Fair Value
Assets		
Cash and cash equivalents	\$ 20,251,114	\$ 20,251,114
Short-term investments	7,056,571	8,612,262
Notes receivable	70,606	70,606
Accounts receivable	16,365,672	16,365,672
Accounts receivable from affiliates	2,322,129	2,322,129
Other financial assets, current	2,141,142	2,141,142
Long-term equity investments	18,671,674	18,060,822
Other financial assets, noncurrent	280,171	280,171
Liabilities		
Short-term borrowings	13,664,421	13,664,421
Short-term bills	1,128,421	1,128,421
Notes payable	112,324	112,324
Notes payable to affiliates	49,493	49,493
Accounts payable	9,509,252	9,509,252
Accounts payable to affiliates	1,545,849	1,545,849
Other payables	8,942,137	8,942,137
Current portion of long-term liabilities	26,199,477	26,199,477
Bonds payable	5,000,000	5,000,000
Long-term borrowings	17,135,835	17,135,835
Other financial liabilities	6,619	6,619

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

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

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

Long-term borrowings are stated at discount value.

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

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