

**POU CHEN CORPORATION AND
SUBSIDIARIES**

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

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Pou Chen Corporation and subsidiaries

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

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

As described in Note 2 to the consolidated financial statements, effective January 1, 2005, the Company adopted the amended Statement of Financial Accounting Standards No. 7, "Consolidated Financial Statements." For comparative purposes, the 2004 consolidated financial statements have been restated to include the entities previously excluded in the 2004 consolidated financial statements but included in 2005.

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

March 3, 2006

Notice to Readers

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

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

POU CHEN CORPORATION AND SUBSIDIARIES

**CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2005 AND 2004
(In Thousands of New Taiwan Dollars)**

ASSETS	2005		2004		LIABILITIES AND STOCKHOLDERS' EQUITY	2005		2004	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents (Notes 2 and 4)	\$ 18,100,617	12	\$ 23,216,466	17	Short-term borrowings (Note 12)	\$ 12,014,780	8	\$ 12,144,321	9
Short-term investments (Notes 2 and 5)	3,826,132	3	5,108,722	4	Short-term bills (Note 13)	1,195,342	1	1,098,748	1
Notes receivable (Notes 2 and 6)	38,878	-	79,531	-	Notes payable	72,030	-	101,508	-
Accounts receivable (Notes 2 and 7)	18,915,717	13	14,066,126	10	Notes payable to affiliates (Note 23)	102,687	-	90,059	-
Accounts receivable from affiliates (Notes 2, 7 and 23)	3,458,267	2	2,381,265	2	Accounts payable	11,729,354	8	7,929,693	6
Other financial assets, current	2,976,144	2	2,370,621	2	Accounts payable to affiliates (Note 23)	1,378,983	1	1,019,695	1
Inventories (Notes 2 and 8)	17,351,485	11	14,672,992	10	Income tax payable (Notes 2 and 21)	332,428	-	101,968	-
Deferred income tax assets, current (Notes 2 and 21)	138,452	-	-	-	Other payables	7,800,019	5	6,211,475	4
Other current assets	4,670,785	3	2,751,460	2	Current portion of long-term liabilities (Note 14)	16,015,247	10	11,657,995	8
Total current assets	69,476,477	46	64,647,183	47	Deferred income tax liability, current	-	-	18,374	-
					Other current liabilities	1,198,587	1	782,057	1
					Total current liabilities	51,839,457	34	41,155,893	30
LONG-TERM EQUITY INVESTMENTS (Notes 2 and 9)					LONG-TERM LIABILITIES				
Long-term equity investments under equity method	16,874,443	11	12,706,268	9	Bonds payable (Notes 2 and 15)	5,150,453	3	18,324,115	13
Long-term equity investments under cost method	2,914,161	2	3,303,626	2	Long-term debt (Note 16)	25,621,481	17	17,234,306	13
Investments in real estate	191,743	-	158,569	-	Total long-term liabilities	30,771,934	20	35,558,421	26
Prepayments for long-term investment	-	-	842,783	1					
Total long-term equity investments	19,980,347	13	17,011,246	12	RESERVE FOR LAND VALUE INCREMENT TAX (Note 10)	142,664	-	192,316	-
OTHER FINANCIAL ASSETS, NONCURRENT	520,871	-	250,196	-	OTHER LIABILITIES				
					Accrued pension cost (Notes 2 and 17)	523,646	1	424,045	-
PROPERTY, PLANT AND EQUIPMENT (Notes 2 and 10)					Advance deposits from customers	4,910	-	5,327	-
Cost	75,365,984	50	65,845,049	48	Total other liabilities	528,556	1	429,372	-
Revaluation increment	293,249	-	293,249	-	Total liabilities	83,282,611	55	77,336,002	56
	75,659,233	50	66,138,298	48					
Less accumulated depreciation	(28,589,657)	(19)	(23,234,774)	(17)	STOCKHOLDERS' EQUITY				
Less accumulated impairment	(164,021)	-	(143,353)	-	Capital stock (Note 18)	23,057,928	15	20,936,734	15
Construction in progress and prepayments on purchase of equipment	5,809,585	4	3,632,926	3	Capital surplus	2,646,622	2	2,461,050	2
Property, plant and equipment, net	52,715,140	35	46,393,097	34	Retained earnings (Note 18)	12,875,934	8	12,854,470	9
					Provision for decline in market value of long-term equity investments (Notes 2 and 9)	(1,470,331)	(1)	(1,203,354)	(1)
INTANGIBLE ASSETS					Cumulative translation adjustments (Note 2)	35,494	-	(1,220,643)	(1)
Deferred pension cost (Notes 2 and 17)	15,993	-	341	-	Treasury stock (Notes 2 and 19)	(3,459,328)	(2)	(3,459,328)	(2)
Goodwill (Note 2)	7,141,023	5	7,835,885	6					
Total intangible assets	7,157,016	5	7,836,226	6	Minority interest	33,686,319	22	30,368,929	22
						34,959,505	23	30,290,009	22
OTHER ASSETS (Notes 2 and 11)	2,078,584	1	1,856,992	1	Total stockholders' equity	68,645,824	45	60,658,938	44
TOTAL	\$ 151,928,435	100	\$ 137,994,940	100	TOTAL	\$ 151,928,435	100	\$ 137,994,940	100

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

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

POU CHEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME YEARS ENDED DECEMBER 31, 2005 AND 2004

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

	2005		2004	
	Amount	%	Amount	%
GROSS SALES AND REVENUES EARNED	\$ 151,085,701	100	\$ 125,781,092	100
LESS SALES RETURNS AND ALLOWANCES	<u>(282,853)</u>	-	<u>(320,434)</u>	-
NET SALES AND REVENUES EARNED	150,802,848	100	125,460,658	100
COST OF GOODS SOLD	<u>119,793,763</u>	<u>79</u>	<u>95,466,131</u>	<u>76</u>
GROSS PROFIT	<u>31,009,085</u>	<u>21</u>	<u>29,994,527</u>	<u>24</u>
OPERATING EXPENSES				
Selling expenses	5,077,977	3	4,412,447	4
General and administrative expenses	12,020,842	8	11,716,087	9
Research and development expenses	<u>4,136,307</u>	<u>3</u>	<u>4,057,595</u>	<u>3</u>
Total operating expenses	<u>21,235,126</u>	<u>14</u>	<u>20,186,129</u>	<u>16</u>
INCOME FROM OPERATIONS	<u>9,773,959</u>	<u>7</u>	<u>9,808,398</u>	<u>8</u>
NON-OPERATING INCOME				
Interest income	375,513	-	259,595	-
Long-term equity investment income (Note 9)	1,145,030	1	527,688	1
Dividend income	338,580	-	324,167	-
Gain on disposal of property, plant and equipment	19,845	-	15,229	-
Gain on disposal of investments (Note 9)	237,997	-	91,909	-
Foreign exchange gains, net	-	-	549,768	1
Rental income	127,001	-	62,522	-
Recovery from devaluation of short-term investments (Note 5)	7,479	-	21,787	-
Gain on reversal of bad debts	-	-	24,840	-
Recovery from inventory devaluation	158,339	-	14,964	-
Others	<u>552,407</u>	<u>1</u>	<u>458,165</u>	<u>-</u>
Total non-operating income	<u>2,962,191</u>	<u>2</u>	<u>2,350,634</u>	<u>2</u>
NON-OPERATING EXPENSES				
Interest expense	1,555,828	1	1,131,340	1
Other investment losses	6,074	-	40,046	-
Loss on disposal of property, plant and equipment	170,011	-	8,802	-
Foreign exchange losses, net	620,992	1	-	-
Loss on idle assets devaluation and depreciation	815	-	16,552	-
Loss on asset impairment (Note 3)	20,668	-	483,135	1
Others	<u>292,614</u>	<u>-</u>	<u>211,856</u>	<u>-</u>
Total non-operating expenses	<u>2,667,002</u>	<u>2</u>	<u>1,891,731</u>	<u>2</u>

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POU CHEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME YEARS ENDED DECEMBER 31, 2005 AND 2004

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

	2005		2004	
	Amount	%	Amount	%
INCOME BEFORE INCOME TAX	\$ 10,069,148	7	\$ 10,267,301	8
INCOME TAX EXPENSE (Notes 2 and 21)	<u>(150,462)</u>	-	<u>(265,364)</u>	-
CONSOLIDATED NET INCOME	<u>\$ 9,918,686</u>	<u>7</u>	<u>\$ 10,001,937</u>	<u>8</u>
ATTRIBUTED TO				
Parent Company's stockholders	\$ 4,227,942	3	\$ 4,246,338	3
Minority interest	<u>5,690,744</u>	<u>4</u>	<u>5,755,599</u>	<u>5</u>
	<u>\$ 9,918,686</u>	<u>7</u>	<u>\$ 10,001,937</u>	<u>8</u>

	2005		2004	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
BASIC EARNINGS PER SHARE (Notes 2 and 22)				
Included income for minority interest	<u>\$ 4.71</u>	<u>\$ 4.64</u>	<u>\$ 4.77</u>	<u>\$ 4.64</u>
Attributed to stockholders of the Parent Company		<u>\$ 1.98</u>		<u>\$ 1.97</u>
DILUTED EARNINGS PER SHARE (Notes 2 and 22)				
Included income for minority interest	<u>\$ 4.64</u>	<u>\$ 4.57</u>	<u>\$ 4.17</u>	<u>\$ 4.06</u>
Attributed to stockholders of the Parent Company		<u>\$ 1.95</u>		<u>\$ 1.72</u>

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

	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
BASIC EARNINGS PER SHARE (Notes 2 and 22)				
Included income for minority interest	<u>\$ 4.51</u>	<u>\$ 4.44</u>	<u>\$ 4.55</u>	<u>\$ 4.44</u>
Attributed to stockholders of the Parent Company		<u>\$ 1.92</u>		<u>\$ 1.91</u>
DILUTED EARNINGS PER SHARE (Notes 2 and 22)				
Included income for minority interest	<u>\$ 4.44</u>	<u>\$ 4.37</u>	<u>\$ 4.01</u>	<u>\$ 3.91</u>
Attributed to stockholders of the Parent Company		<u>\$ 1.89</u>		<u>\$ 1.68</u>

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

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

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POU CHEN CORPORATION AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2005 AND 2004**

(In Thousands of New Taiwan Dollars)

	Capital Surplus						Retained Earnings			Other Adjustments of Stockholders' Equity				Total
	Capital Stock	Additional Paid-in Capital of Common Stock	Additional Paid-in Capital of Bonds Conversion	Transaction on Treasury Stock	Revaluation Increment on Property, Plant and Equipment	Effect of Transaction Relating to Long-Term Equity Investments	Legal Reserve	Special Reserve	Unappropriated Earnings	Provision for Decline in Market Value of Long-Term Equity Investments	Cumulative Translation Adjustments	Treasury Stock	Minority Interest	
BALANCE, JANUARY 1, 2004	\$ 18,847,994	\$ 767,288	\$ 1,439,788	\$ 42,096	\$ 84,989	\$ -	\$ 2,210,357	\$ -	\$ 10,669,932	\$ (1,198,824)	\$ 1,139,592	\$ (2,055,319)	\$ 29,335,981	\$ 61,283,874
Appropriation of earnings														
Legal reserve	-	-	-	-	-	-	634,836	-	(634,836)	-	-	-	-	-
Special reserve	-	-	-	-	-	-	-	59,232	(59,232)	-	-	-	-	-
Bonuses to directors and supervisors	-	-	-	-	-	-	-	-	(169,629)	-	-	-	-	(169,629)
Bonuses to employees	164,540	-	-	-	-	-	-	-	(164,540)	-	-	-	-	-
Stock dividends	1,884,799	-	-	-	-	-	-	-	(1,884,799)	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	-	(1,884,799)	-	-	-	-	(1,884,799)
Effect of change of ownership interest in investees	-	-	-	-	-	-	-	-	(168,390)	-	-	-	-	(168,390)
Cash dividends received by subsidiaries	-	-	-	102,058	-	-	-	-	-	-	-	-	-	102,058
Provision of decline in market value of long-term equity investments (Note 9)	-	-	-	-	-	-	-	-	-	(4,530)	-	-	-	(4,530)
Translation adjustments on foreign long-term equity investments	-	-	-	-	-	-	-	-	-	-	(2,360,235)	-	-	(2,360,235)
Execution of employee stock warrants	39,401	24,831	-	-	-	-	-	-	-	-	-	-	-	64,232
Purchase of treasury stock (Note 19)	-	-	-	-	-	-	-	-	-	-	-	(1,404,009)	-	(1,404,009)
Change of minority interest	-	-	-	-	-	-	-	-	-	-	-	-	954,028	954,028
Net income for 2004	-	-	-	-	-	-	-	-	4,246,338	-	-	-	-	4,246,338
BALANCE, DECEMBER 31, 2004	20,936,734	792,119	1,439,788	144,154	84,989	-	2,845,193	59,232	9,950,045	(1,203,354)	(1,220,643)	(3,459,328)	30,290,009	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	42,397	-	-	-	-	-	-	-	(42,397)	-	-	-	-	-
Stock dividends	2,049,657	-	-	-	-	-	-	-	(2,049,657)	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	-	(2,049,658)	-	-	-	-	(2,049,658)
Effect of change of ownership interest in investees	-	-	-	-	-	14,192	-	-	(21,058)	-	-	-	-	(6,866)
Cash dividends received by subsidiaries	-	-	-	110,943	-	-	-	-	-	-	-	-	-	110,943
Provision of decline in market value of long-term equity investments (Note 9)	-	-	-	-	-	-	-	-	-	(266,977)	-	-	-	(266,977)
Translation adjustments on foreign long-term equity investments	-	-	-	-	-	-	-	-	-	-	1,256,137	-	-	1,256,137
Execution of employee stock warrants	29,140	10,785	-	-	-	-	-	-	-	-	-	-	-	39,925
Adjustments for permanent reduction of land value increment tax (Note 10)	-	-	-	-	49,652	-	-	-	-	-	-	-	-	49,652
Change of minority interest	-	-	-	-	-	-	-	-	-	-	-	-	4,669,496	4,669,496
Net income for 2005	-	-	-	-	-	-	-	-	4,227,942	-	-	-	-	4,227,942
BALANCE, DECEMBER 31, 2005	\$ 23,057,928	\$ 802,904	\$ 1,439,788	\$ 255,097	\$ 134,641	\$ 14,192	\$ 3,269,826	\$ 2,423,997	\$ 7,182,111	\$ (1,470,331)	\$ 35,494	\$ (3,459,328)	\$ 34,959,505	\$ 68,645,824

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

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

POU CHEN CORPORATION AND SUBSIDIARIES

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

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Consolidated net income	\$ 9,918,686	\$ 10,001,937
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	6,647,025	6,344,695
Amortization for the issue cost of Euro convertible bonds	73,171	77,054
Amortization for unrealized interest expense	-	1,925
(Gain) loss on buying back Euro convertible bonds	(103,083)	12,722
Recovery from short-term investment devaluation	(7,479)	(21,787)
Provision for (recovery from) doubtful accounts	256,594	(24,840)
Recovery from loss on inventory devaluation	(158,339)	(14,964)
Provision of discarding inventory	21,133	6,208
Investment income recognized under equity method	(1,145,030)	(527,688)
Cash dividends distributed by investees under equity method	504,482	537,234
Net (gain) loss on disposal of long-term equity investment	(18,734)	51,093
Loss on reduction of capital in long-term equity investment	6,074	40,046
Loss on impairment asset	20,668	483,135
Net loss (gain) on disposal of property, plant and equipment	150,166	(6,427)
Loss on idle asset devaluation	815	16,552
Net changes in operating assets and liabilities		
Short-term investments	1,290,069	1,004,176
Notes receivable	43,544	(52,137)
Accounts receivable	(4,130,482)	(1,862,611)
Accounts receivable from affiliates	(1,654,371)	(1,728,509)
Other financial assets, current	(763,506)	(1,735,059)
Inventories	(2,532,163)	(1,684,452)
Deferred income tax asset, current	(138,452)	270,891
Other current assets	(1,935,936)	43,583
Deferred pension cost	(15,652)	225
Deferred income tax assets, noncurrent	(90,671)	(33,516)
Other financial assets, noncurrent	(46,146)	(3,112)
Other assets	(2,317)	(1,724)
Notes payable	(29,481)	(3,633)
Notes payable to affiliates	3,779	16,306
Accounts payable	3,799,663	1,855,931
Accounts payable to affiliates	359,260	109,672
Income tax payable	229,935	(28,580)
Other payables	856,246	(2,403,725)
Deferred income tax liability, current	(18,374)	18,374
Other current liabilities	(1,272,010)	96,296
Foreign exchange adjustment on Euro convertible bonds	789,358	(916,778)
Interest expense compensation payable	246,579	274,318
Reserve for retirement plan	99,601	106,601
Minority interests	(1,021,248)	(4,801,571)
Net cash provided by operating activities	<u>10,233,374</u>	<u>5,517,861</u>

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POU CHEN CORPORATION AND SUBSIDIARIES

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

	2005	2004
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in long-term equity investments	\$ (2,249,633)	\$ (4,345,101)
Acquisition of property, plant and equipment	(11,259,298)	(8,122,665)
Proceeds from disposal of property, plant and equipment	334,565	1,326,217
Decrease in investment in real estate	66,071	-
Increase in refundable deposits	(29,937)	(140,190)
Increase in goodwill	(184,873)	(1,416,854)
Payments for deferred charges	<u>(150,385)</u>	<u>(318,548)</u>
Net cash used in investing activities	<u>(13,473,490)</u>	<u>(13,017,141)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in short-term borrowings	(129,541)	(71,003)
Increase in short-term bills	96,594	759,405
Issuance of bonds	-	10,052,070
Redemption of Euro convertible bonds	(10,396,507)	(254,293)
Bonuses to directors and supervisors, as a distribution of retained earnings	(43,708)	(169,629)
Cash dividends	(1,936,123)	(1,826,957)
Increase in long-term debt	10,889,415	809,031
Decrease in lease payable	-	(9,921)
(Decrease) increase in advance deposits from customers	(311)	2,668
Execution of employee stock warrants	39,925	64,232
Acquisition of treasury stock	<u>-</u>	<u>(1,404,009)</u>
Net cash (used in) provided by financing activities	<u>(1,480,256)</u>	<u>7,951,594</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH	<u>(395,477)</u>	<u>(2,289,280)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(5,115,849)	(1,836,966)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>23,216,466</u>	<u>25,053,432</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 18,100,617</u>	<u>\$ 23,216,466</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year		
Interests (excluding amounts capitalized)	<u>\$ 1,275,532</u>	<u>\$ 1,097,358</u>
Income tax	<u>\$ 326,436</u>	<u>\$ 290,812</u>

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POU CHEN CORPORATION AND SUBSIDIARIES

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

	2005	2004
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Short-term investment transferred to long-term equity investment	<u>\$ -</u>	<u>\$ 2,514</u>
Long-term equity investment transferred to short-term investment	<u>\$ 253,681</u>	<u>\$ -</u>
Provision for devaluation of long-term equity investment	<u>\$ (266,977)</u>	<u>\$ (4,530)</u>
Effect of change of ownership interest in investees	<u>\$ (6,866)</u>	<u>\$ (168,390)</u>
Transfer of current portion of long-term liabilities to current liabilities	<u>\$ 16,015,247</u>	<u>\$ 11,657,995</u>
Cash dividends received by subsidiaries	<u>\$ 110,943</u>	<u>\$ 102,058</u>
Translation adjustments on foreign long-term investments	<u>\$ 1,256,137</u>	<u>\$ (2,360,235)</u>
Cash paid during the year for acquisition of property, plant and equipment		
Fair value of property, plant and equipment acquired	\$ 11,374,737	\$ 7,990,578
Add payables for acquisition of property, plant and equipment at beginning of year	70,518	202,605
Less payables for acquisition of property, plant and equipment at end of year	<u>(185,957)</u>	<u>(70,518)</u>
Cash paid during the year for acquisition of property, plant and equipment	<u>\$ 11,259,298</u>	<u>\$ 8,122,665</u>

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

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

(Concluded)

POU CHEN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2005 AND 2004

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

1. ORGANIZATION AND OPERATIONS

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

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

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

Besides Pou Chen, the consolidated financial statements include the following subsidiaries:

Name	Location of Incorporation	Pou Chen and its Subsidiaries’ Ownership Percentage
Wealthplus Holdings Limited	British Virgin Islands	100.00
Win Fortune Investments Ltd.	British Virgin Islands	100.00
Ming Wang Investments Co., Ltd.	ROC	100.00
Yue Yuen Entertainment Development Co., Ltd.	ROC	100.00
Yun Yang Investments Co., Ltd.	ROC	100.00
Pou Shine Investments Co., Ltd.	ROC	99.99
Pan Asia Insurance Consulting Ltd.	ROC	99.98
Barits Development Corporation	ROC	98.46
Pou Yuen Technology Co., Ltd.	ROC	99.10
Pro Arch Technology Inc.	ROC	93.04
Global Brands Manufacture Ltd.	ROC	52.03

Wealthplus Holdings Limited (“Wealthplus”), a British Virgin Islands registered corporation, is an investment holding company. Wealthplus commenced its operations in 1992 and invests in companies which are engaged in the design and sale of footwear and electronic peripheral products. As at December 31, 2005, Wealthplus has an outstanding common stock of US\$169,222 thousand.

The information of Wealthplus' subsidiaries is as follows:

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

Win Fortune Investments Ltd. ("Win Fortune"), a British Virgin Islands registered corporation, is an investment holding company. Win Fortune commenced its operations in 1994 and invests in Yue Yuen Industrial (Holdings) Limited (as at December 31, 2005, the ownership percentage is 0.95%). As at December 31, 2005, Win Fortune has an outstanding common stock of US\$100 thousand.

Ming Wang Investments Co., Ltd. ("Ming Wang"), a corporation incorporated in the ROC, is an investment holding company. Ming Wang commenced its operations in 1996. It is engaged in investing activities. As at December 31, 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. Yue Yuen Entertainment commenced its operations in 2003. It is engaged in hotel and resort operation and real estate development. As at December 31, 2005, Yue Yuen Entertainment has an outstanding common stock of \$100,000 thousand.

Yun Yang Investments Co., Ltd. ("Yun Yang") is a corporation incorporated in the ROC. Yun Yang commenced its operations in 1997. It is engaged in investment activities. As at December 31, 2005, Yun Yang has an outstanding common stock of \$75,000 thousand.

Pou Shine Investments Co., Ltd. ("Pou Shine") is a corporation incorporated in the ROC. Pou Shine commenced its operations in 1990. It is engaged in investing activities. As at December 31, 2005, Pou Shine has an outstanding common stock of \$573,632 thousand.

Pan Asia Insurance Consulting Ltd. (“Pan Asia Insurance Consulting”) is a corporation incorporated in the ROC. Pan Asia Insurance Consulting commenced its operations in 1999. It is engaged in agency of property insurance. As at December 31, 2005, Pan Asia Insurance Consulting has an outstanding common stock of \$3,000 thousand.

Barits Development Corporation (“Barits Development”), a corporation incorporated in the ROC, changed its original name Barits Corporation to Barits Development in May 1998. It is engaged in leather manufacturing and investing activities. As at December 31, 2005, Barits Development has an outstanding common stock of \$913,000 thousand.

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

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

Top Score Investments Ltd. invests in Yue Yuen Industrial (Holding) Limited. As at December 31, 2005, the ownership percentage is 0.45%.

Pou Yuen Technology Co., Ltd. (“Pou Yuen Technology”), a corporation incorporated in the ROC, is engaged in designing, manufacturing and trading mold, magnesium alloy casing and data processing and storage equipment. As at December 31, 2005, Pou Yuen Technology has an outstanding common stock of \$600,000 thousand.

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

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

Pro Arch Technology Inc. (“Pro Arch Technology”), a corporation incorporated in the ROC and a 93.04%-owned subsidiary of Pou Chen and other subsidiaries, is engaged in manufacturing and sale of computer peripheral equipment and related spare parts. As at December 31, 2005, Pro Arch Technology has an outstanding common stock of \$1,175,127 thousand.

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

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

Global Brands Manufacture Ltd. ("Global Brands Manufacture"), a corporation incorporated in the ROC, is engaged in the manufacturing, assembly and sale of printed circuit boards. Its stock has been traded on the Over-the-Counter Exchange in Taiwan since February 1991. As at December 31, 2005, Global Brands Manufacture has an outstanding common stock of \$2,054,381 thousand.

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

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

As at December 31, 2005 and 2004, there were 289,250 and 269,409 employees in Pou Chen and subsidiaries referred above, respectively.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

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

The Company's significant accounting policies and basis of measurement are summarized as follows:

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Pou Chen and its controlled subsidiaries (collectively, the "Company"). All significant intercompany balances and transactions have been eliminated upon consolidation. Minority interest presented in gross amount is included in "stockholders' equity."

The financial statements of Win Fortune, Ming Wang, Tse Throw Technology Co., Ltd., Yue Yuen Entertainment, Pou Shine, Pan Asia Insurance Consulting, Yun Yang, Bright Phoenix Investments Ltd., Cheng Cheng Enterprise Co., Ltd. Pro Arch Technology BVI Inc. and Diverse Consultants Ltd. were not consolidated in 2004 because neither the total assets nor total sales of these subsidiaries individually reached at least 10% or collectively reached 30% of Pou Chen's total assets or total sales. Effective January 1, 2005, the Company adopted amended Statement of Financial Accounting Standards No. 7, "Consolidated Financial Statements," which requires that the consolidated financial statements should include the accounts of Pou Chen and its controlled subsidiaries. For comparative purposes, the consolidated financial statements of 2004 have been restated to include those subsidiaries excluded in the 2004 consolidated financial statements.

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

Current/Noncurrent Assets and Liabilities

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

Cash and Cash Equivalents

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

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

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

Long-Term Investments

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

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

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

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

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

Depreciation of buildings under investments in real estate is provided over 55 years. Impairment loss is recognized immediately for any significant decline in the value of real estate investments. If the loss is reversed, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount should not exceed the carrying amount that would have been determined had no impairment loss been

recognized for the asset in prior years. A reversal of an impairment loss is immediately recognized as a gain.

Effective from January 1, 2002, common shares of Pou Chen 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.

Goodwill

Goodwill on consolidated subsidiaries is amortized over five to 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, in amounts of US\$1,000 (dollars) or any integral multiples. The interest

compensation, which is the amount of agreed put price over face value of such bonds, will be recognized as a liability under the interest method from the issue date to the date the put right expires. As at the balance-sheet-date, the convertible bonds are classified as either current liabilities or long-term liabilities based on the repurchase date and the maturity date, whichever is earlier.

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

Retirement Plan

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

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

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

Foreign Currency Transactions

Foreign currency transactions 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.

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, debit is made to retained earnings for the remaining amount. If the book value of the treasury stock is less than the total of the par value and related stock issuance premium, the difference is credited to the capital surplus of the same class of stock.

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

Revenue Recognition

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

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

Income Tax

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

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

Earnings Per Share

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

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

Derivative Financial Instruments

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

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

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

Non-Derivative Financial Instruments

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

3. REASON AND EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE

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

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at December 31, 2005 and 2004 consist of the following:

	2005	2004
Cash on hand	\$ 47,821	\$ 69,260
Checking accounts	10,801	64,011
Savings accounts	1,053,797	3,077,582
Foreign-currency savings deposit	15,504,272	19,633,883
Time deposits	728,376	371,730
Commercial papers	<u>755,550</u>	<u>-</u>
	<u>\$ 18,100,617</u>	<u>\$ 23,216,466</u>

The time deposits amounted to \$27,902 thousand and \$44,252 thousand, included in other financial assets, noncurrent were pledged for employment of foreign labors, for polluted water treatment and for tax appealing on additional tax assessment as at December 31, 2005 and 2004, respectively.

5. SHORT-TERM INVESTMENTS

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

	2005		2004	
	Carrying Value	Market Value	Carrying Value	Market Value
Marketable equity securities	\$2,747,793	\$4,451,882	\$2,761,274	\$4,369,073
Foreign marketable equity securities	72,893	26,017	63,514	18,265
Open-ended mutual fund	<u>1,052,322</u>	<u>1,070,246</u>	<u>2,329,183</u>	<u>2,449,600</u>
	3,873,008	5,548,145	5,153,971	6,836,938
Less valuation allowance	<u>(46,876)</u>	<u>-</u>	<u>(45,249)</u>	<u>-</u>
	<u>\$3,826,132</u>	<u>\$5,548,145</u>	<u>\$5,108,722</u>	<u>\$6,836,938</u>

Pou Chen's and its Taiwan subsidiaries' market values of marketable equity securities are determined by averaging the daily market closing prices during December. The market values of open-ended mutual fund are determined by the net value on December 31.

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

Valuation allowance of \$46,876 thousand (including cumulative translation adjustments \$(9,106) thousand) was provided as at December 31, 2005. After considering the valuation allowance balance of \$45,249 thousand as at December 31, 2004, the recovery amount of \$7,479 thousand was included in recovery from devaluation of short-term investments.

6. NOTES RECEIVABLE

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

	2005	2004
Notes receivable	\$39,778	\$82,792
Less allowance for doubtful accounts	<u>(900)</u>	<u>(3,261)</u>
	<u>\$38,878</u>	<u>\$79,531</u>

7. ACCOUNTS RECEIVABLE

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

	2005	2004
Accounts receivable	\$ 19,844,921	\$ 14,814,950
Less allowance for doubtful accounts	<u>(929,204)</u>	<u>(748,824)</u>
	<u>18,915,717</u>	<u>14,066,126</u>
Accounts receivable from affiliates (Note 23)	3,475,957	2,389,503
Less allowance for doubtful accounts	<u>(17,690)</u>	<u>(8,238)</u>
	<u>3,458,267</u>	<u>2,381,265</u>
	<u>\$ 22,373,984</u>	<u>\$ 16,447,391</u>

8. INVENTORIES

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

	2005	2004
Raw materials and supplies	\$ 8,361,301	\$ 8,671,513
Work-in-process	2,676,297	2,256,599
Finished goods	6,854,461	4,490,979
Merchandise	15,253	15,665
Goods in transit	96,825	61,906
Land for development	140,248	140,248
Land, buildings and improvements for sale	123,724	135,809
Construction in process	<u>52,469</u>	<u>-</u>
	18,320,578	15,772,719
Less valuation allowance	<u>(969,093)</u>	<u>(1,099,727)</u>
	<u>\$ 17,351,485</u>	<u>\$ 14,672,992</u>

As at December 31, 2005 and 2004, insurance coverage for inventories amounted to \$19,879,561 thousand and \$14,179,287 thousand, respectively, and construction insurance coverage for land, buildings and improvements for sale amounted to \$2,609,090 thousand and \$2,302,040 thousand, respectively.

Land for development and land, buildings and improvements for sale belong to Pou Yii, which is owned by Barits Development.

Construction in process belongs to Wang Yi, which is owned by Barits Development.

9. LONG-TERM EQUITY INVESTMENTS

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

	2005			2004	
	Original Cost	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage
Accounted for under equity method					
Rising Developments Ltd.	\$ 5,093	\$ 111,988	50.00	\$ 228,760	50.00
Haicheng Information Technology Co., Ltd.	197,100	117,575	50.00	119,669	50.00
Silver Island Trading Ltd.	131,400	130,746	50.00	2	50.00
Best Focus Holdings Ltd.	328,500	322,672	50.00	251,194	50.00
Blessland Enterprises Limited	26,536	90,797	50.00	79,833	50.00
Cohen Enterprises Inc.	158,851	430,246	50.00	398,957	50.00
Coprospects Holdings Ltd.	9,674	7,014	50.00	6,989	50.00
Envopro Technology Limited	16	16	50.00	24,844	50.00
Ever Atlantic Investments Limited	216,435	146,067	50.00	176,161	50.00
Great Skill Industrial Limited	34,591	71,720	50.00	53,055	50.00
High Style Investments Limited	26,280	41,189	50.00	30,525	50.00
Hua Jian Industrial Holding Co., Limited	761,158	1,174,203	50.00	948,311	50.00
Ka Yuen Rubber Factory Limited	79,594	416,258	50.00	322,364	50.00
Optiyield Industrial Limited	36	53	50.00	35	50.00
Pou Thane Enterprise Co., Ltd.	5,671	8,793	50.00	9,770	50.00
PYGF Co., Ltd.	32,850	40,965	50.00	46,221	50.00
Topmost Industries Limited	26,781	86,719	50.00	78,257	50.00
Twinways Investments Limited	89,375	214,105	50.00	170,401	50.00
Up Front Technology Ltd.	164,250	137,842	50.00	158,550	50.00
Yuen Thai Industrial Company Limited	21,155	-	50.00	4,589	50.00
Bigfoot Limited	180,830	205,204	48.76	205,654	48.76
Enthroned Group Limited	160	160	48.76	155	48.76
Original Designs Developments Limited	40,676	125,272	47.00	109,862	47.00
Supplyline Ltd.	106,823	80,669	46.12	103,096	46.12
Venture Well Holdings Ltd.	332,492	315,797	43.08	291,963	42.46
Partner Alliance Limited	3,917	6,659	41.25	4,379	41.25
Well Success Investments Limited	259,691	1,256,184	40.00	735,544	40.00
Willpower Industries Limited	105,120	97,840	40.00	63,296	40.00
Just Lucky Investments Limited	44,807	47,677	38.30	44,692	38.30
Nan Pao Resins (Holdings) Limited	72,483	287,975	35.00	264,982	35.00
All Saints Enterprises Limited	80,220	120,038	37.00	82,756	37.00
Rising Sun Associates Limited	36,464	84,118	37.00	64,790	37.00
Pine Wood Industrial Limited	81,435	93,588	37.00	78,725	37.00
Natural Options Limited	11,289	19,952	38.30	20,679	38.30
Precise Zone Investments Limited	42,202	51,645	47.65	48,921	35.00
Global Biotech Inc.	-	-	-	1,352	33.00
San Fang Chemical Industrial Co., Ltd.	2,548,140	2,548,942	41.55	1,862,184	30.97
Eagle Nice (Int'l) Holdings Ltd.	1,342,386	1,462,623	44.96	488,167	30.88
Asia Air Tech Industrial (Pte) Ltd.	83,768	81,181	30.00	87,762	30.00
Prosperous Industrial (Holdings) Ltd.	591,300	668,609	30.00	584,764	30.00
Talent Pool Management Ltd.	-	2,040	30.00	1,407	30.00
Prolik Properties Management Co., Ltd.	2,347	2,675	30.00	3,550	30.00
Central Honour Limited	5,256	5,583	50.00	4,237	50.00
Smart Shine Industries Limited	328,500	328,500	50.00	-	-
Eagle Great Investments Limited	73,375	73,375	40.00	-	-
Elitegroup Computer Systems Co., Ltd.	5,992,988	5,411,489	30.21	4,927,999	27.82
Techview International Technology Inc.	359,650	430,815	49.48	-	-
Less allowance for impairment loss	-	(483,135)		(483,135)	
	<u>15,041,665</u>	<u>16,874,443</u>		<u>12,706,268</u>	
Accounted for under cost method					
Techview International Technology Inc.	-	-	-	136,500	19.50
Chiang Yei Co., Ltd.	8,153	8,153	15.27	8,153	15.27
Luen Thai Holdings Ltd.	1,122,712	1,122,712	9.90	1,083,750	9.90

	2005			2004	
	Original Cost	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage
Ardentec Co., Ltd.	-	-	-	268,768	9.13
Golden Brands Developments Ltd.	733,803	733,803	6.35	708,338	7.52
Taiwan Paiho	138,110	138,110	3.61	131,386	4.02
L&C Aluminum	1,200	831	3.33	831	3.33
Eic Enterprise Ltd. - preferred stock	63,576	63,576	1.78	61,369	1.78
Media Reality	88	88	0.42	351	1.64
Shei Yue	320	320	1.07	320	1.07
Hwiang Shei	200	-	1.00	-	1.00
Quanta Display	919,542	919,542	0.88	919,541	0.99
View Sonic Corporation	96,231	96,231	0.43	96,231	0.43
Taichung International Country Club	1,905	1,905	1.28	1,905	1.28
Bizlink Holding Inc.	109,756	109,756	3.06	-	-
Orbita Diversified Strategy Note	16,425	16,425	-	15,855	-
Orbita Capital Return Strategy Ltd.	16,798	16,798	-	16,215	-
Orbita Global Opportunities Strategy Ltd.	16,425	16,425	-	15,855	-
Orbita Asian Growth Strategy Capital Fund	16,425	16,425	-	15,855	-
Asia Pacific Genesis Venture Capital Fund	65,700	65,700	-	47,565	-
Great Team Backend Foundry Inc.	79,639	79,639	19.86	-	-
Less valuation allowance	-	(492,278)		(225,162)	
	<u>3,407,008</u>	<u>2,914,161</u>		<u>3,303,626</u>	
Prepayment for long-term investments					
Eagle Great Investments Limited	-	-		842,783	
	<u>\$ 18,448,673</u>	<u>\$ 19,788,604</u>		<u>\$ 16,852,677</u>	

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

	2005	2004
Rising Developments Limited	\$ 6,247	\$ 26,289
Haicheng Information Technology Co., Ltd.	(8,746)	(62,518)
Best Focus Holdings Ltd.	60,908	22,943
Blessland Enterprises Limited	11,098	52
Cohen Enterprises Inc.	16,528	34,907
Coprosects Holdings Ltd.	2,022	(1,478)
Envopro Technology Limited	(11,922)	(5,344)
Ever Atlantic Investments Limited	(38,031)	(34,808)
Great Skill Industrial Limited	25,956	20,541
High Style Investments Limited	11,937	(551)
Hua Jian Industrial Holdings Co., Ltd.	187,071	212,228
Ka Yuen Rubber Factory Limited	127,308	99,618
Pou Thane Enterprise Co., Ltd.	1,763	1,697
PYGF Co., Ltd.	(339)	3,215
Topmost Industries Limited	31,992	29,353
Twinways Investments Limited	68,691	53,509
Well Success Investments Limited	231,553	267,064
Yuen Thai Industrial Company Limited	(4,637)	(16,821)
Bigfoot Limited	11,775	13,479
Original Designs Developments Limited	33,766	36,182
Venture Well Holdings Ltd.	(16,082)	(7,047)
Partner Alliance Limited	(243)	347

	2005	2004
Willpower Industries Limited	(6,975)	(132)
Just Lucky Investments Limited	1,344	7,279
Nan Pao Resins (Holdings) Limited	41,169	56,029
All Saints Enterprises Limited	(6,846)	16,411
Rising Sun Associates Limited	25,471	15,114
Natural Options Limited	4,028	9,188
Precise Zone Investments Limited	(5,162)	33,344
Global Biotech Inc.	(1,367)	(1,557)
San Fang Chemical Industrial Co., Ltd.	69,458	(6,714)
Silver Island Trading Ltd.	(638)	-
Eagle Nice (Int'l) Holdings Ltd.	148,696	53,219
Asia Air Tech Industrial (Pte) Ltd.	(9,496)	(269)
Prosperous Industrial (Holdings) Ltd.	61,273	14,857
Prolik Properties Management Co., Ltd.	(968)	674
Central Honour Limited	1,164	(888)
Elitegroup Computer Systems Co., Ltd.	6,758	(328,747)
Techview International Technology Inc.	73,289	-
Eagle Great Investments Ltd.	(5,352)	-
Talent Pool Management Ltd.	569	1,494
Pou Liang Technology Co., Ltd.	-	(4)
Neso Technology Inc.	-	(18,850)
VAC Corporation	-	(10,165)
Formosa Shinn Yuan Aluminum Co., Ltd.	-	1,456
Great Team Backend Foundry Inc.	-	(6,267)
Global Biotech Inc.	-	(3,818)
You Fu Investment Co., Ltd.	-	(2,775)
Cap Design Studio Industrial Ltd.	-	5,952
	<u>\$ 1,145,030</u>	<u>\$ 527,688</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 sale of software and electronic parts	Shanghai City
Sliver Island Trading Ltd.	Sale of electronic parts	British Virgin Islands
Venture Well Holdings Ltd.	Investment holding	British Virgin Islands
All Saints Enterprises Limited	Investment holding	British Virgin Islands
Asia Air Tech Industrial (Pte) Ltd.	Investment holding	Singapore
Bigfoot Limited	Cloth product trading / cloth dyeing & processing cloth shoe material binding	British Virgin Islands
Eagle Nice (Int'l) Holdings Ltd.	Investment holding	Cayman Islands
Enthroned Group Limited	Investment holding	British Virgin Islands
Just Lucky Investments Limited	Properties holding	British Virgin Islands
Nan Pao Resins (Holdings) Limited	Investment holding	British Virgin Islands
Natural Options Limited	Manufacture of foamed cotton	British Virgin Islands

Name	Core Operating Item	Place of Incorporation
Original Designs Developments Limited	Manufacture of shoe lasts	British Virgin Islands
Pine Wood Industries Limited	Investment holding	British Virgin Islands
Prosperous Industrial (Holdings) Ltd.	Investment holding	Cayman Islands
Rising Sun Associates Limited	Investment holding	British Virgin Islands
Supplyline Ltd.	Provision of logistic service	Hong Kong
Talent Pool Management Ltd.	Provision of school service	British Virgin Islands
Best Focus Holdings Ltd.	Manufacture of carton boxes	British Virgin Islands
Blessland Enterprises Limited	Manufacture of shoe pads	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 Investments Limited	Investment holding	British Virgin Islands
Willpower Industries Limited	Investment holding	British Virgin Islands
Yuen Thai Industrial Company Limited	Manufacture and trading of sports and active wear	Hong Kong
Prolik Properties Management Co., Ltd.	Properties management	British Virgin Islands
Smart Shine Industries Limited	Investment holding	British Virgin Islands
Eagle Great Investments Limited	Investment holding	British Virgin Islands

The fiscal year end of the above-listed companies is September 30. In 2005 and 2004, the Company accounted for its long-term investment income (loss) of these companies based on these companies' financial results for the years ended September 30, 2005 and 2004.

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

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 \$10.00 dollars per share as at December 31, 2005. The Company purchased Techview International’s shares from non-related party in February, 2005. The Company’s ownership was increased to 49.48%, therefore accounting treatment of long-term investment in Techview International changed to equity method.

Elitegroup Computer Systems Co., Ltd. (“Elitegroup Computer”) is engaged in designing, manufacturing and sale of computer peripheral equipment. The shares of Elitegroup Computer are listed on the Taiwan Stock Exchange Corporation. Additionally, in February 2004, Elitegroup Computer issued additional \$1,200,000 thousand capital stock with \$1,680,000 thousand additional paid-in capital, of which \$960,000 thousand were subscribed by the Company, and the Company acquired additional 17,454 thousand shares of Elitegroup Computer from market in 2005; the Company’s ownership was increased to 30.21%. It has an outstanding common stock of \$7,326,691 thousand as at December 31, 2005. In accordance with the Stock Exchange Law, the shares held by the Company under private placement are not allowed to trade in the open market in the following three years of issuance.

San Fang Chemical Industrial 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 December 31, 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.

The movement of unrealized loss on market value decline of long-term investments for the year ended December 31, 2005 is as follows:

	Beginning Balance	Provision	Ending Balance
The Company	<u>\$ 1,203,354</u>	<u>\$ 266,977</u>	<u>\$ 1,470,331</u>

Real estate investments as at December 31, 2005 and 2004 are comprised of the following:

	2005			2004
	Cost	Accumulated Depreciation	Carrying Value	Carrying Value
Land	\$ 175,136	\$ -	\$ 175,136	\$ 124,704
Building	<u>18,590</u>	<u>1,983</u>	<u>16,607</u>	<u>33,865</u>
	<u>\$ 193,726</u>	<u>\$ 1,983</u>	<u>\$ 191,743</u>	<u>\$ 158,569</u>

Pou Shine sold the land in Chungho City to non-related party, the selling price and loss is \$69,143 thousand and \$10,033 thousand, which was accounted as “loss on disposal investments.”

10. PROPERTY, PLANT AND EQUIPMENT

A summary of property, plant and equipment as at December 31, 2005 and 2004 is as follows:

	2005					2004
	Cost	Reassessed Value Increment	Accumulated Depreciation	Accumulated Impairment	Carrying Value	Carrying Value
Land	\$ 2,119,677	\$ 248,187	\$ -	\$ 162,740	\$ 2,205,124	\$ 2,106,924
Buildings and improvements	32,853,350	45,062	7,578,312	1,281	25,318,819	23,155,907
Machinery and equipment	34,991,052	-	17,590,520	-	17,400,532	15,786,293
Transportation equipment	1,000,442	-	701,670	-	298,772	278,911
Furniture, fixtures and office Equipment	3,936,866	-	2,555,879	-	1,380,987	1,316,087
Other equipment	464,597	-	163,276	-	301,321	116,049
Prepayments on purchase of equipment and construction in progress	5,809,585	-	-	-	5,809,585	3,632,926
	<u>\$81,175,569</u>	<u>\$ 293,249</u>	<u>\$28,589,657</u>	<u>\$ 164,021</u>	<u>\$52,715,140</u>	<u>\$46,393,097</u>

The Company recorded the land value increment in 1987 and 1991 to reflect the value appraised and published by the government. Reserve for land value increment tax, payable upon sale of land, is presented under long-term liabilities. Furthermore, in accordance with the amended Land Tax Law, the Company decreased its reserve for land value increment tax by \$49,652 thousand with an increase of property, plant and equipment revaluation increment for the year ended December 31, 2005.

At December 31, 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. According to related laws, the ownership for these two parcels of land should be transferred to the Company. However, due to certain restrictions under the land regulations, the ownership for these two parcels of land resides with a trustee through a trust agreement which prohibits the trustee from selling, pledging or hypothecating the property. Consequently, the two parcels of land amounted to \$55,855 thousand are included in other assets (see Note 11).

In March 2001 and 2002, Pou Chen and Barits Development entered into a material purchase contract with non-related parties, China Wire & Cable Co., Ltd. and China Steel Structure Company Ltd. to build Pou Chen International Building, at a total price of \$452,500 thousand and \$336,000 thousand, respectively. Pou Chen and Barits Development had already prepaid \$349,334 thousand and \$324,499 thousand as at December 31, 2005, respectively, which was recorded as “construction in progress.”

The interest expense for the years ended December 31, 2005 and 2004 amounted to \$1,557,175 thousand and \$1,133,334 thousand, respectively. Interest costs capitalized as part of the costs of property, plant and equipment for the years ended December 31, 2005 and 2004 amounted to \$1,347 thousand and \$1,994 thousand, respectively. Interest rates were 2.50% and 1.50%~2.50%, respectively.

At December 31, 2005 and 2004, insurance coverage for property, plant and equipment, excluding land, prepayments on purchase of equipment and construction in progress, amounted to \$64,976,019 thousand and \$52,021,902 thousand, respectively.

11. OTHER ASSETS

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

	2005	2004
Leased-out assets		
Cost	\$ 1,621,941	\$ 1,342,470
Less accumulated depreciation	<u>(152,854)</u>	<u>(141,443)</u>
	<u>1,469,087</u>	<u>1,201,027</u>
Deferred charges	<u>303,812</u>	<u>444,939</u>
Deferred tax assets (Note 21)	<u>224,745</u>	<u>134,074</u>
Land held by trustee (Note 10)	<u>55,855</u>	<u>55,855</u>
Idle asset	65,342	49,507
Less accumulated depreciation	(38,489)	(27,977)
Less allowance for valuation loss of idle asset	<u>(22,345)</u>	<u>(21,530)</u>
	<u>4,508</u>	<u>-</u>
Prepaid pension cost (Note 17)	14,955	12,638
Others	<u>5,622</u>	<u>8,459</u>
	<u>\$ 2,078,584</u>	<u>\$ 1,856,992</u>

12. SHORT-TERM BORROWINGS

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

	2005		2004	
	Annual Interest Rate %	Balance	Annual Interest Rate %	Balance
Short-term borrowings				
Procurement loans	3.79~5.64	\$ 3,084,069	1.05~3.75	\$ 3,435,154
Unsecured loans	0.70~5.22	<u>8,930,711</u>	0.76~3.58	<u>8,709,167</u>
		<u>\$ 12,014,780</u>		<u>\$ 12,144,321</u>

13. SHORT-TERM BILLS

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

	<u>2005</u>		<u>2004</u>	
	<u>Annual Interest Rate %</u>	<u>Balance</u>	<u>Annual Interest Rate %</u>	<u>Balance</u>
Short-term bills				
Commercial paper, credit	1.03~1.51	\$ 1,200,000	0.95~1.28	\$ 1,100,000
Less discount on commercial paper		<u>(4,658)</u>		<u>(1,252)</u>
		<u>\$ 1,195,342</u>		<u>\$ 1,098,748</u>

14. CURRENT PORTION OF LONG-TERM LIABILITIES

Current portion of long-term liabilities as at December 31, 2005 and 2004 consist of the following:

	<u>2005</u>	<u>2004</u>
Bonds payable (see Note 15)	\$ 13,507,542	\$ 9,513,000
Long-term debt (see Note 16)	<u>2,507,705</u>	<u>2,144,995</u>
	<u>\$ 16,015,247</u>	<u>\$ 11,657,995</u>

15. BONDS PAYABLE

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

	<u>2005</u>	<u>2004</u>
Euro convertible bonds	\$ 12,379,745	\$ 21,598,800
Add interest compensation and income tax payable	<u>1,278,250</u>	<u>1,238,315</u>
	13,657,995	22,837,115
Less current portion	<u>(13,507,542)</u>	<u>(9,513,000)</u>
	150,453	13,324,115
Domestic secured bonds	<u>5,000,000</u>	<u>5,000,000</u>
	<u>\$ 5,150,453</u>	<u>\$ 18,324,115</u>

In 2005, Pou Chen bought back its Euro convertible bonds with par value US\$305,825 thousand from open market at cost of \$10,396,507 thousand and Pou Chen recognized a gain of \$103,083 thousand.

Euro-Dollar Convertible Bonds - First Issue

- (a) Date of issuance: June 24, 1999
- (b) Par value: US\$1,000 (dollars)

- (c) Location of issuance: Luxemburg
- (d) Price of issuance: 100%
- (e) Total amount: US\$125,000 thousand; there are US\$55,595 thousand not converted as at December 31, 2005
- (f) Interest rate: 1.5% per annum (after tax)
- (g) Date of maturity: June 15, 2006
- (h) Conversion Price:

The initial price at which shares will be issued upon conversion is \$93.87 dollars per share at the issue date. The above conversion price will be adjusted accordingly if there is a capital increase in cash or dividend distribution by Pou Chen. At December 31, 2005, the current adjusted conversion price is \$25.46 dollars 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 in amounts of US\$1,000 (dollars) or any integral multiples of the Notes on June 15, 2002 and on June 15, 2004 at a price equal to 100% of the unpaid principal amount plus the redemption premium on the holders' put date.
 - ii) In the event of a reduction to less than 25% of Pou Chen's ownership in Yue Yuen, 50.88% owned by Pou Chen as at December 31, 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 occurs at a price equal to 100% of the unpaid principal amount thereof plus the redemption premium.

Euro-Dollar Convertible Bonds - Second Issue

- (a) Date of issuance: November 4, 2003
- (b) Par value: US\$1,000 (dollars)
- (c) Location of issuance: Luxemburg

- (d) Price of issuance: 100%
- (e) Total amount: US\$300,000 thousand; there are US\$4,580 thousand not converted as at December 31, 2005.
- (f) Interest rate: 0%
- (g) Date of maturity: November 4, 2008
- (h) Conversion Price:
The initial price at which shares will be issued upon conversion is \$47.285 dollars per share at the issue date. The above conversion price will be adjusted accordingly if there is a capital increase in cash or dividend distribution by Pou Chen. At December 31, 2005, the current adjusted conversion price is \$31.40 dollars per share.
- (i) Redemption at maturity:
Unless previously redeemed, repurchased and cancelled, or converted, the Bonds will be redeemed on November 4, 2008 at a price equal to 99.501% of the unpaid principal amount.
- (j) Redemption at the option of Pou Chen:
(i) The Bonds may be redeemed, in whole or from time to time in part (in the principal amount of US\$1,000 (dollars) or any integral multiple thereof), at the option of Pou Chen at any time on or after November 4, 2005, at a price equal to 100% of the unpaid principal amount thereof; provided that the closing price of the common shares (translated into US dollars at the prevailing rate) on each of 20 consecutive trading days, the last of which occurs not more than five days prior to the date on which notice of such redemption is given, is at least 130% of the conversion price (translated into US dollars at the fixed rate). Notwithstanding the foregoing, the Bonds may be redeemed in whole at the option of Pou Chen at any time at a price equal to 100% of the unpaid principal amount thereof if at least 95% in aggregate principal amount of the Bonds has already been redeemed, repurchased and cancelled, or converted.
(ii) The Bonds may also be redeemed in whole at any time at the option of Pou Chen at a price equal to 100% of the unpaid principal amount thereof in the event of certain changes relating to taxation in the Republic of China or such other jurisdiction in which Pou Chen is then organized.
- (k) Repurchase at the option of holders:
(i) Each holder has the right to require Pou Chen to repurchase all or any portion (in the principal amount of US\$1,000 (dollars) or any integral multiple thereof) of such holder's bonds on November 4, 2005 at a price equal to 99.80% of the unpaid principal amount thereof.
(ii) If the common shares cease to be listed or admitted to trading on the TSE for a period exceeding five consecutive trading days, then each holder will have the right, at such holder's option, to require Pou Chen to repurchase all of such holder's bonds at a price equal to 100% of the unpaid principal amount.
(iii) Upon the occurrence of a change of control, each holder shall have the right, at such holder's option, to require Pou Chen to repurchase all of such holder's bonds at a price equal to 100% of the unpaid principal amount thereof on the date set by Pou Chen which is not less than 30 days nor more than 60 days following the date on which Pou Chen notifies the trustee of the change of control.
A change of control means any of the following events:
 - any person or persons, other than the Tsai Family or its affiliates, acting together, acquires or acquire legal or beneficial ownership of at least 50% of Pou Chen's capital stock; or
 - Pou Chen consolidates with or merges into or sells or transfers all or substantially all of its assets to any other person or persons (other than the Tsai Family or its affiliates), unless the consolidation, merger, sale or transfer will not result in the other person or persons acquiring control over Pou Chen or the successor entity.
- (iv) If Pou Chen ceases to hold, directly or indirectly, at least 33% of the outstanding capital stock of Yue Yuen, or if Pou Chen, together with the Tsai Family and its

affiliates, ceases to hold, directly or indirectly, at least 51% of the outstanding capital stock of Yue Yuen, then each holder shall have the right, at such holder's option, to require Pou Chen to repurchase all of such holder's bonds at a price equal to 100% of the unpaid principal amount.

Domestic Secured Bonds

The first secured bonds of 2003:

- (a) Pou Chen issued \$5,000,000 thousand secured bonds from June 10, 2003 to June 13, 2003, for the purpose of repaying bank loan. The bonds were separated into 19 types (from "A" to "S"). The issued amount of type A, B, C, D, E, F, K, L, M, N, P, Q was \$300,000 thousand and the other types was \$200,000 thousand. The par value of all types was \$10,000 thousand.
- (b) Date of maturity and price of issuance: from June 10, 2008 to June 13, 2008 and 100%
- (c) Interest rate:
 - Type A, F, K, P: 4.000%, minus floating rate
 - Type B, G, L, Q: 4.001%, minus floating rate
 - Type C, H, M, R: 4.002%, minus floating rate
 - Type D, I, N, S: 4.003%, minus floating rate
 - Type E, J, O: 4.004%, minus floating 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 had been made before the agreement date and disclosed to lenders;
- (d) sell, lease out, transfer or dispose of all or substantially all of its assets nor of any part of its assets with a value greater than the amount equal to 35% of the consolidated assets. Nevertheless the limitation on the preceding sentence, the following disposals shall not be taken into account under this restriction:
 - (i) disposals in the ordinary course of business,
 - (ii) the payment of cash as consideration for the acquisition of any asset at arm's length and on normal commercial terms,
 - (iii) the temporary application of funds not immediately required in the purchase or making of short-term investments, or the realization of such investments,
 - (iv) the disposal (for a consideration not exceeding a normal commercial consideration) of assets to its subsidiaries and/or Yue Yuen.
- (e) make loan, which according to procedures on fund and loans, in excess of 20% of the issued capital;

- (f) trade with others in irregular course;
- (g) amend or change the contents, conditions or terms of the secured bonds, unless such amendment or change will not result in adverse effect to lenders;
- (h) provide guarantees in violation of the guidelines of endorsement and guarantees, which guidelines provide that aggregate endorsements and guarantees shall not exceed 100% of net worth as shown in the most recent audited or reviewed financial statements.

Euro-Dollar Convertible Bonds

First issued by Yue Yuen Industrial (Holdings) Ltd.

- (a) Date of issuance: December 23, 2003
- (b) Par value: US\$1,000
- (c) Location of issuance: Luxemburg
- (d) Price of issuance: 100%
- (e) Total amount: US\$317,000 thousand
- (f) Interest rate: 0%
- (g) Date of maturity: December 23, 2008
- (h) Conversion Price:
 HK\$27.33 dollars per share at the fixed rate of exchange of HK\$7.7622 dollars to US\$1 dollar which will be subject to adjustment for, among other things, subdivision or consolidation of shares, capital distributions, bonus issues, rights issues and other dilutive events.
- (i) Redemption at maturity:
 Unless previously redeemed, repurchased and cancelled, or converted, the Bonds will be redeemed on December 23, 2008 at a price equal to 98.76% of the unpaid principal amount.
- (j) Redemption at the option of Yue Yuen:
 On or at any time after December 23, 2005 (in the case of (i) below) and at any time (in the case of (ii) below) and (in either case) prior to December 16, 2008, Yue Yuen may redeem all (in the case of (ii) below) or, from time to time, some only (being US\$1,000,000 dollars in principal amount or an integral multiple thereof) of the Bonds, subject to giving not less than 30 nor more than 60 days' notice, at the Early Redemption Amount (as defined herein) on the Redemption Date if (i) the closing price of the Share (as derived from the Daily Quotations Sheet of the Hong Kong Stock Exchange or, as the case may be, the equivalent quotation sheet of an Alternative Stock Exchange), translated into United States dollars at the prevailing rate described herein, for each of any 20 Trading Days (as defined herein) during a 30 consecutive Trading Day period, the last day of which period occurring no more than five Trading Days prior to the date upon which such notice of redemption is given, was at least 120 per cent. of the Conversion Price in effect on each such Trading Day, translated into United States dollars at the rate of HK\$7.7622 dollars = US\$1.00 dollar or (ii) at least 90 per cent. in principal amount of the Bonds has already been converted, redeemed or purchased and cancelled.
- (k) Repurchase at the option of holders:
 Each holder has the right to require Yue Yuen to repurchase all or any portion of such holder's bonds on or after December 23, 2005 at a price equal to 99.50% of the unpaid principal amount thereof.

16. LONG-TERM DEBT

Long-term debt as at December 31, 2005 and 2004 consists of the following:

	2005	2004
Citibank (Lead Lender) and other banks		
Long-term debt, US\$300,000 thousand with floating rate, due in semiannual installments commencing November 8, 2007 and maturing November 8, 2009. Interest rate is from 3.035% to 3.945%. Interest is paid semi-annually.	\$ 9,855,000	\$ 1,778,150
Bank of China		
Long-term debt, US\$420,000 thousand with floating rate. The period is from June 1, 2005 to June 1, 2010. Interest rate is 3.81%. Interest is paid quarterly.	11,504,497	-
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 4.98%. Interest is paid monthly.	74,635	-
China Trust Commercial Bank		
Long-term debt, US\$2,000 thousand, the period is from February 22, 2005 to February 22, 2009. Interest rate is 4.03%. Interest is paid monthly.	65,700	-
Industrial Bank of Taiwan		
Mid-term debt, the term is from October 26, 2005 to April 25, 2008. Interest rate is 2.32%. Interest is paid monthly. The principal is fully repaid upon maturity.	180,000	-
Citibank (Lead Lender) and other banks		
Long-term debt, NT\$6,500,000 thousand, due in semiannual commencing April 25, 2009 and maturing October 25, 2010. Interest rate is 1.857%~1.915%.	4,500,000	-
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%.	762,120	735,672
Ta Chong Bank (Lead Lender) and other banks		
Long-term debt, US\$10,000 thousand, due in 5 semiannual installments commencing September 2, 2008 and maturing September 2, 2010. Interest rate is 1-month (2, 3 or 6-month) floating LIBOR rate plus 0.90%.	328,500	-

	2005	2004
Standard Chartered Bank (HK) Long-term debt US\$22,000 thousand. This term is from August 24, 2005 to August 24, 2010. Interest rate is USD 3-month floating LIBOR rate plus 0.90%. Interest is paid quarterly. The principal is repaid from August 24, 2008.	722,700	-
Ta Chong Bank (Lead Lender) and other banks Long-term debt, US\$15,000 thousand. The term is from November 14, 2005 to November 14, 2010. The principal is repaid from November 14, 2008. Interest rate is 3-month floating LIBOR rate plus 1%. Interest is paid quarterly.	131,400	-
Citi Bank Long-term debt, US\$190,000 thousand, with floating rate, due in 5 semiannual installments commencing March 22, 2005 and maturing March 22, 2007. The principal was fully repaid in 2005.	-	6,024,900
Industrial Development Bureau interest-free loan	4,634	9,268
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 2.13188%. Interest is paid semi-annually. The principal was fully repaid in 2005.	-	3,329,550
WestLB AG Long-term debt, US\$350,000 thousand. The term is from October 16, 2001 to October 16, 2006. Interest rate is 2.20521%. Interest is paid semi-annually. The principal was fully repaid in 2005.	-	5,327,280
Bank of China Long-term debt, US\$4,000 thousand, due in quarterly installments commencing January 30, 2004 and maturing November 1, 2005. Interest rate is 2.16%. Interest is paid monthly. The principal was fully repaid in 2005.	-	79,275
China Trust Commercial Bank Long-term debt, US\$10,000 thousand, due in semiannual installments commencing June 6, 2004 and maturing December 6, 2007. Interest rate is 2.8%. Interest is paid monthly. The principal was fully repaid in 2005.	-	277,462
HSBC Long-term debt, US\$13,000 thousand, due in quarterly installments commencing April 15, 2004 and maturing January 15, 2008. Interest rate is 2.3975%. Interest is paid quarterly. The principal was fully repaid in 2005.	-	396,375

	2005	2004
Natexis Banques Populaires		
Long-term debt, US\$3,924 thousand, due in semiannual installments commencing January 29, 2005 and maturing July 29, 2007. Interest rate is 2.7588%. Interest is paid semiannually. The principal was fully repaid in 2005.	-	124,430
Chin Fon Commercial Bank		
Long-term debt, US\$10,000 thousand, due in semiannual installments commencing November 29, 2004 and maturing May 29, 2008. Interest rate is 2.8%. Interest is paid monthly. The principal was fully repaid in 2005.	-	317,100
ANZ Bank		
Long-term debt, US\$5,000 thousand, due in quarterly installments commencing January 20, 2006 and maturing October 20, 2008. Interest rate is 2.47%. Interest is paid quarterly. The principal was fully repaid in 2005.	-	158,550
Citi Bank		
Long-term debt, US\$8,900 thousand, due in quarterly installments commencing July 19, 2004 and maturing July 18, 2006. Interest rate is 2.43%. Interest is paid quarterly. The principal was fully repaid in 2005.	-	282,219
Standard Chartered Bank (HK)		
Long-term debt, US\$7,000 thousand, due in semiannual installments commencing May 9, 2007 and maturing May 9, 2008. Interest rate is 2.13%. Interest is paid monthly. The principal was fully repaid in 2005.	-	221,970
Citibank (HK)		
Long-term debt, US\$10,000 thousand. The term is from February 11, 2004 to February 11, 2009. Interest rate is 2.34%. Interest is paid monthly. The principal was fully repaid in 2005.	-	317,100
	<u>28,129,186</u>	<u>19,379,301</u>
Less current portion	<u>(2,507,705)</u>	<u>(2,144,995)</u>
	<u>\$ 25,621,481</u>	<u>\$ 17,234,306</u>

17. PENSION PLAN

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

Net pension cost for the year 2005 consists of the following:

	Pou Chen	Barits Development	Pou Yuen Technology	Pro Arch Technology	Global Brands Manufacture	Total
Service cost	\$ 78,857	\$ 6,274	\$ 2,571	\$ 820	\$ 3,443	\$ 91,965
Interest cost	35,018	2,359	470	60	877	38,784
Expected return on plan assets	(12,317)	(3,011)	(884)	(428)	(111)	(16,751)
Amortization of net transition obligation	(1,875)	646	-	43	657	(529)
Amortization of unrecognized prior service cost	-	-	204	-	-	204
Amortization of pension loss	17,680	(2,860)	-	(701)	568	14,687
Gain on curtailment of pension cost	-	-	-	(11,600)	-	(11,600)
	<u>\$ 117,363</u>	<u>\$ 3,408</u>	<u>\$ 2,361</u>	<u>\$ (11,806)</u>	<u>\$ 5,434</u>	<u>\$ 116,760</u>

Pro Arch Technology of gain on curtailment of pension cost, \$11,600 thousand, was due to decrease of participant of retirement plan. It was recorded as "non-operating income".

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

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

	Pou Chen	Barits Development	Pou Yuen Technology	Pro Arch Technology	Global Brands Manufacture	Total
Actuarial present value of benefit obligation:						
Vested benefits	\$ (93,870)	\$ (1,012)	\$ -	\$ -	\$ (2,846)	\$ (97,728)
Nonvested benefits	<u>(608,283)</u>	<u>(51,665)</u>	<u>(6,022)</u>	<u>(176)</u>	<u>(19,975)</u>	<u>(686,121)</u>
Accumulated benefit obligation	(702,153)	(52,677)	(6,022)	(176)	(22,821)	(783,849)
Additional benefits at future salaries	<u>(440,784)</u>	<u>(20,304)</u>	<u>(4,286)</u>	<u>(74)</u>	<u>(16,723)</u>	<u>(482,171)</u>
Projected benefit obligation	(1,142,937)	(72,981)	(10,308)	(250)	(39,544)	(1,266,020)
Plan assets at fair value	<u>381,825</u>	<u>94,081</u>	<u>29,249</u>	<u>13,620</u>	<u>4,117</u>	<u>522,892</u>
Projected benefit obligation in excess of plan assets	(761,112)	21,100	18,941	13,370	(35,427)	(743,128)
Net transition (asset) obligation not yet recognized	(12,123)	5,814	-	28	3,283	(2,998)
Unrecognized prior service costs	-	-	3,160	-	-	3,160
Unrecognized pension gain (loss)	296,288	(54,909)	(7,146)	(688)	18,653	252,198
Net pension gain not yet recognized	-	-	-	-	(1,930)	(1,930)
Accrued pension cost	<u>\$ (476,947)</u>	<u>\$ (27,995)</u>	<u>\$ 14,955</u>	<u>\$ 12,710</u>	<u>\$ (15,421)</u>	<u>\$ (492,698)</u>

As at December 31, 2005, the net amount of accrued pension cost amounted to \$492,698 thousand was recorded as deferred pension cost of \$15,993 thousand, prepaid pension cost of \$14,955 thousand and accrued pension cost of \$523,646 thousand.

18. STOCKHOLDERS' EQUITY

Pou Chen's registered and issued capital as at December 31, 2005 and 2004 are summarized as follows:

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

At the June 14, 2005 meeting, Pou Chen's stockholders resolved to issue additional \$2,092,054 thousand through stock dividends, and bonuses to employees. Furthermore, employee stock warrants exercised 2,914 thousand shares during 2005. As a result, as at December 31, 2005, Pou Chen's outstanding capital stock was increased to \$23,057,928 thousand, divided into 2,305,793 thousand common shares with a par value of \$10.00 dollars each.

Earnings per share are based upon the weighted average number of shares of stock outstanding during the year. For the year ended December 31, 2004, the weighted average number of shares used in the calculation of earnings per share has been restated for the retroactive effect of the stock dividends issued in 2005.

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

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

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

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

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

In accordance with the Approval Documents (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 proposed and the stockholders approved the distribution from the 2004 earnings of 4,240 thousand shares to employees (represents 0.20% of the outstanding common shares at the end of 2004) and of \$43,708 thousand as bonuses to directors and supervisors. In 2004, the earnings per share after income tax (before retroactive adjustment for stock dividend in 2005) was \$2.17 dollars; however, if the earnings distribution to employees, directors and supervisors are accounted for as expenses, the pro-forma earnings per share after income tax was \$2.13 dollars. Regarding the appropriation of 2004 retained earnings proposed by the board of directors and the approval by the shareholders, please refer to the Market Observation Post System ("MOPS") of Taiwan Stock Exchange.

Wealthplus's outstanding capital stock as of September 30, 2004 amounted to US\$45,937 thousand. In February 2005, Wealthplus transferred its additional paid-in capital of US\$123,285 thousand to capital stock. Accordingly, Wealthplus's capital stock as at September 30, 2005 amounted to US\$169,222 thousand.

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

Win Fortune's outstanding capital stock as of September 30, 2004 amounted to US\$1 dollar. In February 2005, Win Fortune transferred capital collected in advance US\$99,999 dollars to capital stock. Accordingly, Win Fortune's capital stock as at September 30, 2005 amounted to US\$100 thousand.

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

Ming Wang's registered and issued capital as at December 31, 2005 and 2004 amounted to \$427,291 thousand, divided into 42,729 thousand common shares with a par value of \$10.00 dollars each.

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

Yue Yuen Entertainment's registered and issued capital as at December 31, 2005 and 2004 amounted to \$100,000 thousand, divided into 10,000 thousand common shares with a par value of \$10.00 dollars each.

According to the Company Law of the ROC and 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.

Yun Yang's registered and issued capital as at December 31, 2005 and 2004 amounted to \$75,000 thousand, divided into 7,500 thousand common shares with a par value of \$10.00 dollars each.

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

Pou Shine's registered and issued capital as at December 31, 2004 amounted to \$498,810 thousand. In the June 2005 meeting, Pou Shine's stockholders resolved to issue additional \$74,822 thousand through stock dividends. As a result, Pou Shine's outstanding capital stock as at December 31, 2005 was increased to \$573,632 thousand, divided into 57,363 thousand common shares with a par value of \$10.00 dollars each.

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

Pan Asia Insurance Consulting's issued capital as at December 31, 2005 and 2004 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, 95% should be distributed to shareholders, 2% should be appropriated as bonuses to employees, and 3% should be appropriated as bonuses to directors and supervisors.

Barits Development's registered and issued capital as at December 31, 2005 and 2004 amounted to \$913,000 thousand, divided into 91,300 thousand common shares with a par value of \$10.00 dollars each.

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

Pou Yuen Technology's registered and issued capital as at December 31, 2005 and 2004 are summarized as follows:

	2005	2004
Registered capital		
Shares (in thousands)	<u>120,000</u>	<u>120,000</u>
Par value (in dollars)	<u>\$ 10</u>	<u>\$ 10</u>
Capital	<u>\$ 1,200,000</u>	<u>\$ 1,200,000</u>
Issued capital		
Shares (in thousands)	<u>60,000</u>	<u>60,000</u>
Par value (in dollars)	<u>\$ 10</u>	<u>\$ 10</u>
Capital	<u>\$ 600,000</u>	<u>\$ 600,000</u>

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

Pro Arch Technology's registered and issued capital as at December 31, 2005 and 2004 are summarized as follows:

	2005	2004
Registered capital		
Shares (in thousands)	<u>185,000</u>	<u>185,000</u>
Par value (in dollars)	<u>\$ 10</u>	<u>\$ 10</u>
Capital	<u>\$ 1,850,000</u>	<u>\$ 1,850,000</u>
Issued capital		
Shares (in thousands)	<u>117,513</u>	<u>46,480</u>
Par value (in dollars)	<u>\$ 10</u>	<u>\$ 10</u>
Capital	<u>\$ 1,175,127</u>	<u>\$ 464,800</u>

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

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

Global Brands Manufacture's registered and issued capital as at December 31, 2005 and 2004 are summarized as follows:

	2005	2004
Authorized capital		
Share (in thousands)	<u>330,000</u>	<u>220,000</u>
Par value (in dollars)	<u>\$ 10</u>	<u>\$ 10</u>
Capital	<u>\$ 3,300,000</u>	<u>\$ 2,200,000</u>
Issued capital		
Share (in thousands)	<u>205,438</u>	<u>154,102</u>
Par value (in dollars)	<u>\$ 10</u>	<u>\$ 10</u>
Capital	<u>\$ 2,054,382</u>	<u>\$ 1,541,020</u>

Global Brands Manufacture was authorized to issue common stock of 30,000 thousand shares under private placement at \$40.48 dollars per share for funding operating capital. Such private placement shares and their distributed shares (36,300 thousand shares as of December 31, 2005) are not allowed to trade in the following 3 years of issuance.

On June 3, 2004, Global Brands Manufacture issued additional capital of \$151,384 thousand through stockholders' dividends of \$138,964 thousand, and bonuses to employees of \$12,420 thousand.

Global Brands Manufacture was approved on May 27, 2005 by Financial Supervisory Commission, Executive Yuan to issue capital stock of \$350 million at \$37.50 dollars per share for paying off debt and for working capital. On June 10, 2005, Global Brands Manufacture issued additional capital of \$163,362 thousand through stockholders' dividends of \$154,102 thousand, and bonuses to employees of \$9,260 thousand. As a result, Global Brands Manufacture outstanding capital was increased to \$2,054,382 thousand divided into 205,438 thousand common shares with a par value of \$10.00 dollars each as at December 31, 2005.

In their October 15, 2002 meeting, the Board of Directors of Global Brands Manufacture resolved to issue employee stock warrants in accordance with Securities and Exchange Law Article 28-3 within the quantity of 5,672 units. Each stock warrant is granted the right to purchase 1,000 new issued common shares. The exercise price is the closing price of Global Brands Manufacture's common shares at the employee stock warrants' issuance date. The

warrant holders can exercise the right up to one-third of the granted warrant units no earlier than two years from the granted date. After four years from the granted date, the warrants holders are eligible to exercise all the warrants owned. As at December 13, 2002 and September 22, 2003, Global Brands Manufacture issued 5,662 and 10 units, respectively, of employee stock warrants to the employees with an exercise price of \$29.50 dollars and \$64.00 dollars per unit. The exercise price will be adjusted according to calculating formula due to stock and cash dividends and issuance of capital stock. As at December 31, 2005, the exercise price was \$23.10 dollars and \$45.50 dollars per unit.

On the September 22, 2003 meeting, the Board of Directors of Global Brands Manufacture resolved to issue another employee stock warrants with the quantity of 10,672 units. The issuing rules are the same as the first issuance mentioned above. Global Brands Manufacture issued all the employee stock warrants with an exercise price of \$50.50 dollars per unit on November 12, 2003. The exercise price will be adjusted according to calculating formula due to stock and cash dividends and issuance of capital stock. As at December 31, 2005, the exercise price was \$38.30 dollars per unit

Up First had an outstanding capital stock of US\$18,750.7 thousand as at December 31, 2004, and issued capital stock of US\$2,900 thousand in early 2005. Its outstanding capital stock was US\$21.650.7 thousand as at December 31, 2005.

Dynamic Skyline's outstanding capital stock as at December 31, 2005 and 2004 amounted to US\$3.5 million.

Success Ocean's outstanding capital stock as at December 31, 2005 and 2004 amounted to US\$28.5 million.

Cheng Cheng's outstanding capital stock as at December 31, 2005 and 2004 amounted to \$240 million, divided into 24 million common shares at a par value of \$10.00 dollars.

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

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

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

Regarding the 2005 retained earnings proposition by the board of directors and the approval by the stockholders, please refer to the Market Observation Post System ("MOPS") of Taiwan Stock Exchange.

Global Brands Manufacture's appropriation and distribution of 2004 retained earnings as approved in the stockholders' meeting was to issue additional capital of \$163,362 thousand (including employees' bonuses of \$9,260 thousand and stockholders' dividends of \$154,102 thousand) and distribute directors' remuneration of \$4,630 thousand and stockholders' cash dividend of \$154,102 thousand. The earnings per share after tax was \$4.49 dollars per share and if the bonuses to directors and supervisors and bonuses to employees were treated as period expenses, the earnings per share would be \$4.39 dollars per share.

19. TREASURY STOCK

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

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

According to the Stock Exchange Law of the ROC, the shares of treasury stock should not be over 10% of the Company's issued and outstanding shares and the amount of treasury stock should not be over the total of retained earnings and realized additional paid-in capital. The Company held 45,700,000 shares of treasury stock at the cost of \$1,404,009 thousand as at December 31, 2005.

As at December 31, 2005, the subsidiaries held 122,147,184 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	22,500,566	\$ 634,410	Secure the parent company's stockholders' equity
Pou Shine	11,625,241	292,736	The same as above
Ming Wang	22,161,240	495,703	The same as above
Barits Development	33,541,761	844,618	The same as above
Top Score	2,500,057	63,576	The same as above
Ming Chi	16,548,809	416,717	The same as above
Pou Yii	16,042,708	318,431	The same as above

20. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

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

Function Category	2005				2004			
	Operating Cost	Operating Expenses	Non-Operating Expenses	Total	Operating Cost	Operating Expenses	Non-Operating Expenses	Total
Personnel expense								
Salaries	13,452,222	6,734,123	-	20,186,345	11,831,154	6,466,575	-	18,297,729
Labor insurance and health insurance	358,481	243,872	-	602,353	301,536	220,829	-	522,365
Pension cost	84,964	84,776	-	169,740	125,555	238,499	-	364,054
Others	40,415	86,791	-	127,206	29,576	71,837	-	101,413
Depreciation expenses	3,718,530	1,457,139	11,510	5,187,179	3,518,742	1,608,134	13,584	5,140,460
Amortization expenses	26,633	1,506,384	-	1,533,017	39,293	1,241,996	-	1,281,289

21. INCOME TAX

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

Income tax expense, current year	\$ 72,692
Investment tax credits	(36,650)
10% additional income tax on undistributed earnings of 2004	5,117
Adjustment of deferred tax asset	109,057
Adjustment of prior year's tax expenses	<u>246</u>
Income tax expense	<u>\$ 150,462</u>

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

Unrealized inventory devaluation losses	\$ 38,315
Unrealized gains on disposal of property, plant and equipment	1,000
Unrealized bad debt losses	41,755
Unrealized maintenance and repairs expenses	400
Unrealized pension expense	127,670
Unrealized profit from inter-affiliate transactions	15,080
Unrealized loss on liquidation of long-term equity investments	22,010
Unrealized net exchange loss	29,190
Unrealized provision for decline in value of idle assets	1,240
Losses carryforward	630,195
Investment tax credits	37,900
Others	(126,577)
Less valuation allowance	<u>(454,981)</u>
Deferred tax assets	<u>363,197</u>
Deferred tax assets, current	<u>\$ 138,452</u>
Deferred tax assets, noncurrent	<u>\$ 224,745</u>

The Company's income tax expense for the year ended December 31, 2005 and income tax payable as of December 31, 2005 were reconciled as follows:

Income tax expense at statutory rate of 25%	\$ 1,459,434
Income from long-term equity investment accounted for under equity method	(1,148,762)
Gain on disposal of security	(67,297)
Loss on disposal of land	5,048
Amortization of operating expense for disposal of security and land	6,796
Loss on impairment	5,166
Loss on reduction of capital in long-term equity investment	(80,840)
Cash dividend from overseas long-term equity investment accounted for under equity method	887,150
Tax on the interest for bonds	12,400
Lease tax credit of enterprise operating headquarters	(916,900)
Tax-exempt of dividend	(103,075)
Others	<u>13,572</u>
Current income tax expense	72,692
Adjustment of deferred tax asset	
Unrealized bad debt losses	(16,145)
Unrealized inventory devaluation losses	(47,630)
Unrealized pension expense	25,230
Unrealized net exchange loss	212,180
Unrealized profit from inter-affiliate transactions	12,930
Losses carryforward	175,555
Others	<u>(3,465)</u>
Income tax payable	431,347
Add 10% additional income tax on undistributed earnings of 2004	5,117
Prior year's income tax payable	594
Investment tax credits	(36,650)
Temporary tax payment	<u>(67,980)</u>
Income tax payable as of December 31, 2005	<u>\$ 332,428</u>

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

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

Barits Development's salaries of staffs in foreign country and commission expenses in 1997 were disallowed by the tax authority. As a result, Barits Development was assessed for an additional income tax payment of approximately \$17,200 thousand. Barits Development does not agree with the assessment and has appealed for a reexamination. Additional provision has been recorded for such assessment for the year ended December 31, 2005.

At December 31, 2005, the amount and year of expiration of the Company's deductible loss carryforward and investment deduction are as follows by individual company.

	Pou Yuen Technology		Pro Arch Technology		Ming Wang	Yue Yuen Entertainment	Wang Yi
	Loss Carryforward	Investment Tax Credits	Loss Carryforward	Investment Tax Credits	Loss Carryforward	Loss Carryforward	Loss Carryforward
2006	\$ 27,300	\$ -	\$ -	\$ 17,700	\$ -	\$ -	\$ -
2007	20,000	3,500	53,100	16,700	-	-	-
2008	41,600	-	131,300	-	4,200	370	-
2009	31,800	-	143,700	-	-	1,270	-
2010	8,700	-	161,800	-	-	2,490	2,565
	<u>\$ 129,400</u>	<u>\$ 3,500</u>	<u>\$ 489,900</u>	<u>\$ 34,400</u>	<u>\$ 4,200</u>	<u>\$ 4,130</u>	<u>\$ 2,565</u>

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

	Pou Chen	Ming Wang	Yue Yuen Entertainment	Pou Shine	Pan Asia Insurance	Barits Development	Song Ming	Pou Yi i
	IC Balance of Imputation Credit Account	\$ 105,907	\$ 11,947	\$ -	\$ 13,267	\$ 82	\$ 134,974	\$ 3,795
Undistributed earnings for the years of 1997 and before	\$ 310,501	\$ -	\$ -	\$ -	\$ -	\$ 515,118	\$ -	\$ 7,176
Undistributed earnings for the years of 1998 and after	\$ 6,871,610	\$ (33,348)	\$ (16,862)	\$ 111,631	\$ (400)	\$ 1,265,416	\$ (1,425)	\$ (52,681)
Expected IC ratio on distributed earnings for the year of 2005	2.00%	-	-	14.25%	-	11.14%	-	-
Actual IC ratio on stock dividend distribution for the year of 2004	1.68%	-	-	22.45%	-	14.34%	33.26%	-

	Wang Yi	Ming Chi	Ming Shun	Pou Yuen	Yun Yang	Pro Arch	Global Brands Manufacture	Cheng Cheng
	IC Balance of Imputation Credit Account	\$ 12,659	\$ 6,406	\$ 2,952	\$ 1,106	\$ 1,329	\$ 650	\$ 199,428
Undistributed earnings for the years of 1997 and before	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Undistributed earnings for the years of 1998 and after	\$ (17,994)	\$ 3,209	\$ 61,701	\$ (205,208)	\$ 24,861	\$ (1,115,345)	\$ 1,473,751	\$ 1,344
Expected IC ratio on distributed earnings for the year of 2005	-	-	5.25%	-	5.39%	-	13.53%	33.63%
Actual IC ratio on stock dividend distribution for the year of 2004	-	-	8.39%	-	11.75%	-	0.04%	29.88%

The expected IC ratio of the Company for the year of 2006 has considered the income tax payable for 2005.

22. EARNINGS PER SHARE

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

	2005						
	Income Before Tax (Including Income (Loss) for Minority Interest)	Income After Tax (Including Income (Loss) for Minority Interest)	Income After Tax (Attributed to Pou Chen's Stockholders)	Weighted Average Number of Common Shares Outstanding (In Thousands)	Income Before Tax (Including Income (Loss) for Minority Interest)	Income After Tax (Including Income (Loss) for Minority Interest)	Income After Tax (Attributed to Pou Chen's Stockholders)
Basic earnings per share							
Net income	\$ 10,069,148	\$ 9,918,686	\$ 4,227,942	2,136,433	\$ 4.71	\$ 4.64	\$ 1.98
Effect of dilutive potential common shares							
Employee stock warrants	-	-	-	30,610			
Convertible bonds	-	-	-	4,791			
Diluted earnings per share							
Net income plus the effect of dilutive potential common shares	\$ 10,069,148	\$ 9,918,686	\$ 4,227,942	2,171,834	\$ 4.64	\$ 4.57	\$ 1.95

	2004						
	Income Before Tax (Including Income (Loss) for Minority Interest)	Income After Tax (Including Income (Loss) for Minority Interest)	Income After Tax (Attributed to Pou Chen's Stockholders)	Weighted Average Number of Common Shares Outstanding (In Thousands)	Earnings Per Share		
Income Before Tax (Including Income (Loss) for Minority Interest)					Income After Tax (Including Income (Loss) for Minority Interest)	Income After Tax (Attributed to Pou Chen's Stockholders)	
Basic earnings per share							
Net income	\$ 10,267,301	\$ 10,001,937	\$ 4,246,338	2,154,384	<u>\$ 4.77</u>	<u>\$ 4.64</u>	<u>\$ 1.97</u>
Effect of dilutive potential common shares							
Employee stock warrants	-	-	-	36,201			
Convertible bonds	-	-	-	272,579			
Diluted earnings per share							
Net income plus the effect of dilutive potential common shares	<u>\$ 10,267,301</u>	<u>\$ 10,001,937</u>	<u>\$ 4,246,338</u>	<u>2,463,164</u>	<u>\$ 4.17</u>	<u>\$ 4.06</u>	<u>\$ 1.72</u>

If the Company's common shares held by its subsidiaries were not accounted for as treasury stock, net income for the years ended December 31, 2005 and 2004 would be increased by \$110,943 thousand and \$102,058 thousand, respectively. And the pro-forma earnings per share are as follows:

	2005						
	Income Before Tax (Including Income (Loss) for Minority Interest)	Income After Tax (Including Income (Loss) for Minority Interest)	Income After Tax (Attributed to Pou Chen's Stockholders)	Weighted Average Number of Common Shares Outstanding (In Thousands)	Earnings Per Share		
Income Before Tax (Including Income (Loss) for Minority Interest)					Income After Tax (Including Income (Loss) for Minority Interest)	Income After Tax (Attributed to Pou Chen's Stockholders)	
Basic earnings per share							
Net income	\$ 10,180,091	\$ 10,029,629	\$ 4,338,885	2,258,580	<u>\$ 4.51</u>	<u>\$ 4.44</u>	<u>\$ 1.92</u>
Effect of dilutive potential common shares							
Employee stock warrants	-	-	-	30,610			
Convertible bonds	-	-	-	4,791			
Diluted earnings per share							
Net income plus the effect of dilutive potential common shares	<u>\$ 10,180,091</u>	<u>\$ 10,029,629</u>	<u>\$ 4,338,885</u>	<u>2,293,981</u>	<u>\$ 4.44</u>	<u>\$ 4.37</u>	<u>\$ 1.89</u>

	2004						
	Income Before Tax (Including Income (Loss) for Minority Interest)	Income After Tax (Including Income (Loss) for Minority Interest)	Income After Tax (Attributed to Pou Chen's Stockholders)	Weighted Average Number of Common Shares Outstanding (In Thousands)	Earnings Per Share		
Income Before Tax (Including Income (Loss) for Minority Interest)					Income After Tax (Including Income (Loss) for Minority Interest)	Income After Tax (Attributed to Pou Chen's Stockholders)	
Basic earnings per share							
Net income	\$ 10,369,359	\$ 10,103,995	\$ 4,348,396	2,276,531	<u>\$ 4.55</u>	<u>\$ 4.44</u>	<u>\$ 1.91</u>
Effect of dilutive potential common shares							
Employee stock warrants	-	-	-	36,201			
Convertible bonds	-	-	-	272,579			
Diluted earnings per share							
Net income plus the effect of dilutive potential common shares	<u>\$ 10,369,359</u>	<u>\$ 10,103,995</u>	<u>\$ 4,348,396</u>	<u>2,585,311</u>	<u>\$ 4.01</u>	<u>\$ 3.91</u>	<u>\$ 1.68</u>

23. RELATED PARTY TRANSACTIONS

Names and relationships of the related parties are as follows:

Name	Relationship
CMK Corporation (“CMK”)	CMK Corporation together with Global Brands Manufacture invest in CMK GBM and holds 49.00% ownership interest of CMK GBM
CMKC (HK) Limited (“CMKC”)	CMK Corporation holds a 100.00% ownership interest
Ka Yuen Rubber Factory Limited (“Ka Yuen Rubber”)	The Company holds a 50.00% ownership interest.
Techview International Technology Inc. (“Techview International”)	The Company holds a 49.48% ownership interest.
Eastlion Industrial Ltd. (“Eastlion Industrial”)	The Company holds a 35.00% ownership interest
Rising Developments Ltd. (“Rising Developments”)	The Company holds a 50.00% ownership interest
San Fang Chemical Industrial Co., Ltd. (“San Fang”)	The Company holds a 41.55% ownership interest
Twinways Investments Ltd. (“Twinways”)	The Company holds a 50.00% ownership interest
PGE Corporation (“PGE”)	Related party in substance
Global Brands Manufacture Ltd. (BVI) (“GBM”)	Related party in substance
Network Leader Limited (“Network Leader”)	Related party in substance

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

Sales

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

	<u>2005</u>		<u>2004</u>	
	Amount	Percentage to Net Sales	Amount	Percentage to Net Sales
CMKC	\$ 3,186,110	2	\$ 1,561,108	1
PGE	1,751,360	2	-	-
GBM	777,448	1	1,199,728	1
Techview International	100,745	-	-	-
Network Leader	-	-	1,818,160	2
Others	<u>2,886,632</u>	<u>1</u>	<u>3,053,500</u>	<u>2</u>
	<u>\$ 8,702,295</u>	<u>6</u>	<u>\$ 7,632,496</u>	<u>6</u>

Cost of Sales - Purchases

Purchases from related parties for the years ended December 31, 2005 and 2004 are summarized below:

	2005		2004	
	Amount	Percentage to Net Purchases	Amount	Percentage to Net Purchases
Techview International	\$ 1,575,035	1	\$ -	-
Ka Yuen Rubber	1,355,805	-	944,668	1
San Fang	1,116,827	1	1,103,446	1
CMKC	835,586	1	-	-
Twinways	755,984	-	696,170	1
Eastlion Industrial	715,549	-	620,401	-
Rising Developments	-	-	2,501,808	3
Others	2,130,253	4	1,599,342	2
	<u>\$ 8,485,039</u>	<u>7</u>	<u>\$ 7,465,835</u>	<u>8</u>

Accounts Receivable

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

	2005	2004
Accounts receivable		
PGE	\$ 1,480,190	\$ -
CMKC	1,157,535	411,473
GBM	101,801	589,116
Network Leader	-	271,036
Others	736,431	1,117,878
Less allowance for doubtful accounts	<u>(17,690)</u>	<u>(8,238)</u>
	<u>\$ 3,458,267</u>	<u>\$ 2,381,265</u>

Notes and Accounts Payable

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

	2005	2004
Notes payable		
San Fang	\$ 102,578	\$ 90,059
Others	<u>109</u>	<u>-</u>
	<u>\$ 102,687</u>	<u>\$ 90,059</u>
Accounts payable		
Techview International	\$ 516,010	\$ -
Ka Yuen Rubber	283,364	159,121
Twinways	134,389	160,992
San Fang	86,774	60,968
Rising Developments	-	127,774
Others	<u>358,446</u>	<u>510,840</u>
	<u>\$ 1,378,983</u>	<u>\$ 1,019,695</u>

24. COMMITMENTS AND CONTINGENCIES

Loan Guarantees

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

Letters of Credit

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

U.S. Dollars	\$ 2,480,966
Euros	107,000
Japanese Yen	202,438,228

At December 31, 2005, the Company has guaranteed the payments of credit of related parties as follows:

Related Parties	Amount
Venture Well Holdings Ltd.	\$ 315,375
Alpha Leader Ltd.	7,179
Best Focus Holdings Ltd.	492,750
Hua Jian Industrial Holding Co., Ltd.	344,925
Cohen Enterprises Inc.	492,750
Ka Yuen Rubber Factory Ltd.	42,115
Pine Wood Industries Ltd.	84,231
Yuen Thai Industrial Co., Ltd.	<u>73,170</u>
	<u>\$ 1,852,495</u>

25. SUBSEQUENT EVENT

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

In January 2006, the board of directors of Up First resolved to buy new additional shares of Digital Sun Investments Limited for US\$9,800,000 dollars, a 25.93% ownership equity interest.

26. OTHERS

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 27, "Disclosure of Financial Instruments," derivative financial instruments of the Company as at December 31, 2005 and 2004 are summarized as follows:

Management Objective and Strategy of Derivative Financial Instruments

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

Reporting of Derivative Instruments in the Financial Statements

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

	2005		2004	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Receivable	\$ 4,554,551	\$ 4,554,551	\$ 3,131,798	\$ 3,131,798
Payable	(4,580,933)	(4,580,933)	(3,142,668)	(3,142,668)
	<u>\$ (26,382)</u>	<u>\$ (26,382)</u>	<u>\$ (10,870)</u>	<u>\$ (10,870)</u>

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

Items	2005	2004	Description
Interest rate swap	\$ (54,537)	\$ 46,843	Recorded as "Non-operating (expense) income - interest (expense) income"
Exchange rate swap	(2,539)	26,740	Recorded as deduction to "Non-operating (expense) income - foreign exchange (loss) income"
Forward exchange	(26,382)	16,290	Recorded as "Non-operating (expense) income - foreign exchange (loss) income"

Fair Value of Financial Instruments

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

	2005		2004	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
Cash and cash equivalents	\$ 18,100,617	\$ 18,100,617	\$ 23,216,466	\$ 23,216,466
Short-term investments	3,826,132	5,548,145	5,108,722	6,836,938
Notes receivable	38,878	38,878	79,531	79,531
Accounts receivable	18,915,717	18,915,717	14,066,126	14,066,126
Accounts receivable from affiliates	3,458,267	3,458,267	2,381,265	2,381,265
Other financial assets, current	2,976,144	2,976,144	2,370,621	2,370,621
Long-term equity investments	19,788,604	20,387,442	16,852,677	16,852,677
Other financial assets, noncurrent	520,871	520,871	250,196	250,196
Liabilities				
Short-term borrowings	12,014,780	12,014,780	12,144,321	12,144,321
Short-term bills	1,195,342	1,195,342	1,098,748	1,098,748
Notes payable	72,030	72,030	101,508	101,508
Notes payable to affiliates	102,687	102,687	90,059	90,059
Accounts payable	11,729,354	11,729,354	7,929,693	7,929,693
Accounts payable to affiliates	1,378,983	1,378,983	1,019,695	1,019,695
Other payables	7,800,019	7,800,019	6,211,475	6,211,475
Current portion of long-term liabilities	16,015,247	16,015,247	11,657,995	11,657,995
Bonds payable	5,150,453	5,150,453	18,324,115	18,324,115
Long-term borrowings	25,621,481	25,621,481	17,234,306	17,234,306
Other financial liabilities	4,910	4,910	5,327	5,327

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

- (a) Financial instruments classified as current assets and liabilities, cash and cash equivalents, notes receivable, notes receivable from affiliates, accounts receivable, accounts receivable from affiliates, 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.
- (b) Short-term investments and long-term equity investments, provided market prices are available, are valued at market prices. Otherwise, available financial or other useful information is employed to compute fair value.
- (c) Long-term borrowings are stated at discount value.
- (d) Refundable deposits and advance deposits from customers, is stated at discount value.
- (e) The fair value of derivative financial instruments is the amount which the Company expects to receive or pay if the Company stops the contracts according to the agreement at the balance-sheet-date. Generally, the amounts included unrealized gain or loss on outstanding contracts and most of them have reference value from financial organizations.