

POU CHEN CORPORATION

**Financial Statements for the
Years Ended December 31, 2006 and 2005 and
Independent Auditors' Report**

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Pou Chen Corporation

We have audited the accompanying balance sheets of Pou Chen Corporation (the "Company") as of December 31, 2006 and 2005, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2006 and 2005, and the results of its operations and its cash flows for the years then ended in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

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

We have also audited the consolidated financial statements of the Company and its subsidiaries for the years ended December 31, 2006 and 2005 (not being accompanied herein) on which we have issued our report with modified unqualified opinion thereon dated February 15, 2007.

February 15, 2007

Notice to Readers

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

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

POU CHEN CORPORATION

BALANCE SHEETS

DECEMBER 31, 2006 AND 2005

(In Thousands of New Taiwan Dollars)

ASSETS	2006		2005		LIABILITIES AND STOCKHOLDERS' EQUITY	2006		2005	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents (Notes 2 and 4)	\$ 1,331,928	2	\$ 1,019,762	2	Short-term borrowings (Note 13)	\$ 3,290,000	6	\$ 1,480,000	3
Financial assets measured at fair value through profit or loss, current (Notes 2, 3 and 5)	2,030,131	4	1,315,930	3	Notes payable	98,811	-	48,023	-
Notes receivable (Notes 2 and 6)	11,054	-	10,589	-	Notes payable to affiliates (Note 25)	95,964	-	102,904	-
Notes receivable from affiliates (Notes 2, 6 and 25)	21,656	-	20,901	-	Accounts payable	646,098	1	1,316,470	3
Accounts receivable (Notes 2 and 7)	400,403	1	299,740	1	Accounts payable to affiliates (Note 25)	208,199	1	220,771	1
Accounts receivable from affiliates (Notes 2, 7 and 25)	1,180,901	2	1,982,833	4	Income tax payable (Notes 2 and 22)	1,892	-	31,183	-
Other financial assets, current	513,388	1	531,410	1	Other payables	529,680	1	602,811	1
Inventories (Notes 2 and 8)	99,878	-	1,074,879	2	Current portion of long-term liabilities (Note 14)	-	-	3,094,092	6
Other current assets (Notes 2 and 22)	110,720	-	255,026	-	Other current liabilities	92,373	-	48,846	-
Total current assets	5,700,059	10	6,511,070	13	Total current liabilities	4,963,017	9	6,945,100	14
FUNDS AND LONG-TERM INVESTMENTS					LONG-TERM LIABILITIES				
Long-term investments at equity method (Notes 2 and 9)	43,712,006	77	37,853,436	74	Bonds payable (Notes 2 and 14)	5,023,794	9	5,150,453	10
Available-for-sale financial assets, noncurrent (Notes 2, 3 and 10)	-	-	377,063	1	Long-term debt (Note 15)	9,000,000	16	4,500,000	9
Total funds and long-term investments	43,712,006	77	38,230,499	75	Derivate financial liabilities held for hedging (Notes 2 and 24)	167,839	-	-	-
PROPERTY, PLANT AND EQUIPMENT (Notes 2 and 11)					Total long-term liabilities	14,191,633	25	9,650,453	19
Cost	4,842,150	9	3,677,355	7	RESERVE FOR LAND VALUE INCREMENT TAX (Note 11)	86,547	-	86,547	-
Revaluation increment	279,008	-	293,249	1	OTHER LIABILITIES				
	5,121,158	9	3,970,604	8	Accrued pension cost (Notes 2 and 16)	539,641	1	476,947	1
Less accumulated depreciation	(1,374,792)	(3)	(1,303,372)	(3)	Advance deposits from customers	2,382	-	1,000	-
Construction in progress and prepayments on purchase of equipment	480,601	1	2,804,619	6	Others (Notes 2 and 17)	38,026	-	57,629	-
Property, plant and equipment, net	4,226,967	7	5,471,851	11	Total other liabilities	580,049	1	535,576	1
OTHER ASSETS (Notes 2 and 12)	3,237,808	6	690,575	1	Total liabilities	19,821,246	35	17,217,676	34
TOTAL	\$ 56,876,840	100	\$ 50,903,995	100	STOCKHOLDERS' EQUITY				
					Capital stock (Note 18)	24,426,857	43	23,057,928	46
					Capital surplus (Note 2)	2,527,272	4	2,511,981	5
					Retained earnings (Note 19)	13,841,558	24	12,875,934	25
					Cumulative translation adjustments (Note 2)	(201,358)	-	35,494	-
					Unrealized losses on financial instruments (Notes 2, 3 and 10)	(1,221,891)	(2)	(1,470,331)	(3)
					Unrealized revaluation increment	134,641	-	134,641	-
					Treasury stock (Notes 2 and 20)	(2,451,485)	(4)	(3,459,328)	(7)
					Total stockholders' equity	37,055,594	65	33,686,319	66
					TOTAL	\$ 56,876,840	100	\$ 50,903,995	100

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

(With Deloitte & Touche audit report dated February 15, 2007)

POU CHEN CORPORATION

STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2006 AND 2005

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

	2006		2005	
	Amount	%	Amount	%
GROSS SALES AND REVENUES EARNED	\$ 14,326,886	101	\$ 13,852,484	101
LESS SALES RETURNS AND ALLOWANCES	<u>(103,342)</u>	<u>(1)</u>	<u>(92,565)</u>	<u>(1)</u>
NET SALES AND REVENUES EARNED	14,223,544	100	13,759,919	100
COST OF GOODS SOLD	<u>11,581,536</u>	<u>81</u>	<u>10,890,350</u>	<u>79</u>
GROSS PROFIT BEFORE REALIZED GROSS PROFIT FROM INTER-AFFILIATE TRANSACTIONS	2,642,008	19	2,869,569	21
UNREALIZED GROSS PROFIT FROM INTER-AFFILIATE TRANSACTIONS	-	-	(1,070)	-
REALIZED GROSS PROFIT FROM INTER-AFFILIATE TRANSACTIONS	<u>5,604</u>	<u>-</u>	<u>-</u>	<u>-</u>
GROSS PROFIT	<u>2,647,612</u>	<u>19</u>	<u>2,868,499</u>	<u>21</u>
OPERATING EXPENSES				
Selling expenses	270,986	2	273,839	2
General and administrative expenses	1,254,016	9	1,236,804	9
Research and development expenses	<u>920,749</u>	<u>6</u>	<u>899,456</u>	<u>7</u>
Total operating expenses	<u>2,445,751</u>	<u>17</u>	<u>2,410,099</u>	<u>18</u>
INCOME FROM OPERATIONS	<u>201,861</u>	<u>2</u>	<u>458,400</u>	<u>3</u>
NON-OPERATING INCOME				
Interest income	11,529	-	71,211	1
Long-term equity investment income (Note 9)	5,381,711	38	3,829,813	28
Dividend income	97,590	1	100,997	1
Gain on disposal of property, plant and equipment	4,408	-	5,379	-
Gain on disposal of investments	5,703	-	267,899	2
Foreign exchange gains, net	6,166	-	-	-
Rental income (Note 25)	139,075	1	35,397	-
Reversal of provision for inventory valuation	25,300	-	-	-
Revaluation gain on financial assets (Note 5)	149,564	1	-	-
Others	<u>296,617</u>	<u>2</u>	<u>314,106</u>	<u>2</u>
Total non-operating income	<u>6,117,663</u>	<u>43</u>	<u>4,624,802</u>	<u>34</u>

(Continued)

POU CHEN CORPORATION

STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2006 AND 2005

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

	2006		2005	
	Amount	%	Amount	%
NON-OPERATING EXPENSES				
Interest expense	\$ 428,571	3	\$ 406,266	3
Other investment losses (Note 10)	334,258	2	846	-
Loss on disposal of property, plant and equipment	6,561	-	21,798	-
Foreign exchange loss, net	-	-	589,444	4
Others	<u>219,820</u>	<u>2</u>	<u>9,056</u>	<u>-</u>
Total non-operating expenses	<u>989,210</u>	<u>7</u>	<u>1,027,410</u>	<u>7</u>
INCOME FROM CONTINUING OPERATIONS, BEFORE INCOME TAX				
	5,330,314	38	4,055,792	30
INCOME TAX (EXPENSE) BENEFIT (Notes 2 and 22)				
	<u>(3,870)</u>	<u>-</u>	<u>172,150</u>	<u>1</u>
INCOME BEFORE CUMULATIVE EFFECTS OF CHANGES IN ACCOUNTING PRINCIPLES				
	5,326,444	38	4,227,942	31
CUMULATIVE EFFECTS OF CHANGES IN ACCOUNTING PRINCIPLES (Note 3)				
	<u>445,527</u>	<u>3</u>	<u>-</u>	<u>-</u>
NET INCOME				
	<u>\$ 5,771,971</u>	<u>41</u>	<u>\$ 4,227,942</u>	<u>31</u>
	2006		2005	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
BASIC EARNINGS PER SHARE (Notes 2 and 23)				
Income from continuing operations	<u>\$ 2.36</u>	\$ 2.36	<u>\$ 1.80</u>	\$ 1.87
Cumulative effect of changes in accounting principles		<u>0.19</u>		<u>-</u>
		<u>\$ 2.55</u>		<u>\$ 1.87</u>
DILUTED EARNINGS PER SHARE (Notes 2 and 23)				
Income from continuing operations	<u>\$ 2.32</u>	\$ 2.32	<u>\$ 1.76</u>	\$ 1.84
Cumulative effect of changes in accounting principles		<u>0.19</u>		<u>-</u>
		<u>\$ 2.51</u>		<u>\$ 1.84</u>

(Continued)

POU CHEN CORPORATION

STATEMENTS OF INCOME YEARS ENDED DECEMBER 31, 2006 AND 2005 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

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

	2006		2005	
NET INCOME	<u>\$ 5,955,304</u>		<u>\$ 4,338,885</u>	
	2006		2005	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
BASIC EARNINGS PER SHARE (Notes 2 and 23)				
Income from continuing operations	<u>\$ 2.31</u>	\$ 2.31	<u>\$ 1.75</u>	\$ 1.82
Cumulative effect of changes in accounting principles		<u>0.18</u>		<u>-</u>
		<u>\$ 2.49</u>		<u>\$ 1.82</u>
DILUTED EARNINGS PER SHARE (Notes 2 and 23)				
Income from continuing operations	<u>\$ 2.27</u>	\$ 2.27	<u>\$ 1.72</u>	\$ 1.79
Cumulative effect of changes in accounting principles		<u>0.18</u>		<u>-</u>
		<u>\$ 2.45</u>		<u>\$ 1.79</u>

(Concluded)

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

(With Deloitte & Touche audit report dated February 15, 2007)

POU CHEN CORPORATION

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY YEARS ENDED DECEMBER 31, 2006 AND 2005 (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	Treasury Stock	Long-Term Equity Investments	Legal Reserve	Special Reserve	Unappropriated Earnings	Cumulative Translation Adjustments	Unrealized Losses on Financial Instruments	Unrealized Revaluation Increment		Treasury Stock
BALANCE, JANUARY 1, 2005	\$ 20,936,734	\$ 792,119	\$ 1,439,788	\$ 144,154	\$ -	\$ 2,845,193	\$ 59,232	\$ 9,950,045	\$ (1,220,643)	\$ (1,203,354)	\$ 84,989	\$ (3,459,328)	\$ 30,368,929
Appropriation of earnings													
Legal reserve	-	-	-	-	-	424,633	-	(424,633)	-	-	-	-	-
Special reserve	-	-	-	-	-	-	2,364,765	(2,364,765)	-	-	-	-	-
Bonuses to directors and supervisors	-	-	-	-	-	-	-	(43,708)	-	-	-	-	(43,708)
Bonuses to employees (Note 19)	42,397	-	-	-	-	-	-	(42,397)	-	-	-	-	-
Stock dividends (Note 19)	2,049,657	-	-	-	-	-	-	(2,049,657)	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	(2,049,658)	-	-	-	-	(2,049,658)
Effect of changes of ownership interest in investees	-	-	-	-	14,192	-	-	(21,058)	-	-	-	-	(6,866)
Cash dividends received by subsidiaries	-	-	-	110,943	-	-	-	-	-	-	-	-	110,943
Provision for decline in market value of available-for-sale financial assets	-	-	-	-	-	-	-	-	-	(266,977)	-	-	(266,977)
Execution of employee stock warrants	29,140	10,785	-	-	-	-	-	-	-	-	-	-	39,925
Translation adjustments on foreign long-term equity investments	-	-	-	-	-	-	-	-	1,256,137	-	-	-	1,256,137
Adjustments for permanent reduction of land value increment tax (Note 11)	-	-	-	-	-	-	-	-	-	-	49,652	-	49,652
Net income for 2005	-	-	-	-	-	-	-	4,227,942	-	-	-	-	4,227,942
BALANCE, DECEMBER 31, 2005	23,057,928	802,904	1,439,788	255,097	14,192	3,269,826	2,423,997	7,182,111	35,494	(1,470,331)	134,641	(3,459,328)	33,686,319
Adjustments from first adoption of new and amended Financial Accounting Standards (Note 3)	-	-	-	-	-	-	-	-	-	(180,742)	-	-	(180,742)
Appropriation of earnings													
Legal reserve	-	-	-	-	-	422,795	-	(422,795)	-	-	-	-	-
Special reserve	-	-	-	-	-	-	(989,158)	989,158	-	-	-	-	-
Bonuses to directors and supervisors	-	-	-	-	-	-	-	(143,829)	-	-	-	-	(143,829)
Bonuses to employees (Note 19)	139,514	-	-	-	-	-	-	(139,514)	-	-	-	-	-
Stock dividends (Note 19)	1,130,751	-	-	-	-	-	-	(1,130,751)	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	(3,392,253)	-	-	-	-	(3,392,253)
Convertible bonds transferred to common stock (Note 14)	21,884	-	38,723	-	-	-	-	-	-	-	-	-	60,607
Effect of changes of ownership interest in investees	-	-	-	-	17,248	-	-	-	-	-	-	-	17,248
Treasury stock transferred to employees (Note 20)	-	-	-	(229,163)	-	-	-	-	-	-	-	1,007,843	778,680
Cash dividends received by subsidiaries	-	-	-	183,333	-	-	-	-	-	-	-	-	183,333
Adjustments on changes of unrealized loss on cash flow hedge financial liability	-	-	-	-	-	-	-	-	-	63,511	-	-	63,511
Adjustments on changes of unrealized loss on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	365,671	-	-	365,671
Execution of employee stock warrants	76,780	5,150	-	-	-	-	-	-	-	-	-	-	81,930
Translation adjustments on foreign long-term equity investments	-	-	-	-	-	-	-	-	(236,852)	-	-	-	(236,852)
Net income for 2006	-	-	-	-	-	-	-	5,771,971	-	-	-	-	5,771,971
BALANCE, DECEMBER 31, 2006	\$ 24,426,857	\$ 808,054	\$ 1,478,511	\$ 209,267	\$ 31,440	\$ 3,692,621	\$ 1,434,839	\$ 8,714,098	\$ (201,358)	\$ (1,221,891)	\$ 134,641	\$ (2,451,485)	\$ 37,055,594

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

(With Deloitte & Touche audit report dated February 15, 2007)

POU CHEN CORPORATION

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2006 AND 2005 (In Thousands of New Taiwan Dollars)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 5,771,971	\$ 4,227,942
Adjustments to reconcile net income to net cash provided by operating activities		
Cumulative effect of changes in accounting principles	(445,527)	-
Depreciation and amortization	321,000	261,482
Gain on redeemed and repurchased Euro convertible bonds	(152,864)	(103,083)
Loss on doubtful accounts	58,800	5,900
Reversal of provision for inventory devaluation	(25,300)	-
Investment income recognized under equity method	(5,381,711)	(3,829,813)
Cash dividends received from investees under equity method	499,531	3,810,925
(Realized) unrealized gross profit from inter-affiliate transactions	(5,604)	1,070
Net loss on disposal of long-term equity investments	-	12,543
Net loss on disposal of property, plant and equipment	2,153	16,419
Revaluation gain on financial assets	(149,564)	-
Loss on other investments	334,258	846
Net changes in operating assets and liabilities		
Notes receivable	(465)	(350)
Notes receivable from affiliates	(755)	(17,516)
Accounts receivable	(159,463)	290,744
Accounts receivable from affiliates	801,932	(631,354)
Other financial assets, current	29,270	(169,282)
Inventories	1,000,301	(590,628)
Other current assets	144,306	(136,858)
Deferred income tax asset, noncurrent	(15,060)	(23,275)
Income tax prepayment	6,394	-
Notes payable	50,788	(13,549)
Notes payable to affiliates	(6,940)	12,611
Accounts payable	(670,372)	458,988
Accounts payable to affiliates	(12,572)	(166,483)
Income tax payable	(29,291)	31,183
Other payables	(27,758)	42,142
Deferred income tax liability, current	-	(129,605)
Other current liabilities	43,527	37,309
Foreign exchange adjustment on Euro Convertible Bonds	(11,586)	789,358
Interest compensation payable	108,261	246,579
Reserve for retirement plan	62,694	94,410
Net cash provided by operating activities	<u>2,140,354</u>	<u>4,528,655</u>

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POU CHEN CORPORATION

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2006 AND 2005 (In Thousands of New Taiwan Dollars)

	2006	2005
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease in financial assets measured at fair value through profit or loss, current	\$ 357,946	\$ 1,505,736
Increase in long-term equity investments	(1,350,321)	(1,633,445)
Proceeds from disposal of long-term equity investments	295,756	-
Acquisition of property, plant and equipment	(1,616,460)	(960,998)
Proceeds from disposal of property, plant and equipment	9,885	44,384
Decrease in refundable deposits	7,217	7,216
Increase in deferred charges	<u>(64,647)</u>	<u>(110,728)</u>
Net cash used in investing activities	<u>(2,360,624)</u>	<u>(1,147,835)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term borrowings	1,810,000	1,480,000
Redeemed and repurchased overseas convertible bonds	(3,103,474)	(10,396,507)
Increase in long-term borrowings	4,500,000	4,500,000
Increase in advance deposits from customers	1,382	-
Transfer treasury stock to employees	778,680	-
Execution of employee stock warrants	81,930	39,925
Cash dividends	(3,392,253)	(2,049,658)
Bonuses to directors and supervisors, as distribution of retained earnings	<u>(143,829)</u>	<u>(43,708)</u>
Net cash provided by (used in) financing activities	<u>532,436</u>	<u>(6,469,948)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	312,166	(3,089,128)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,019,762</u>	<u>4,108,890</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,331,928</u>	<u>\$ 1,019,762</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year		
Interest (excluding interest capitalized)	<u>\$ 412,114</u>	<u>\$ 274,738</u>
Income tax	<u>\$ 31,038</u>	<u>\$ 5,467</u>
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Adjustments of stockholders' equity from first adoption of new and amended Financial Accounting Standards	<u>\$ (180,742)</u>	<u>\$ -</u>
Provision for unrealized loss on cash flow hedge financial liabilities	<u>\$ 63,511</u>	<u>\$ -</u>
Unrealized gain (loss) on available-for-sale financial assets	<u>\$ 365,671</u>	<u>\$ (266,977)</u>
Effect of changes in ownership interest in investees	<u>\$ 17,248</u>	<u>\$ (6,866)</u>
Cash dividend received by subsidiaries	<u>\$ 183,333</u>	<u>\$ 110,943</u>

(Continued)

POU CHEN CORPORATION

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2006 AND 2005 (In Thousands of New Taiwan Dollars)

	2006	2005
Long-term liabilities, current portion	<u>\$ -</u>	<u>\$ 3,094,092</u>
Translation adjustments on foreign long-term investments	<u>\$ (236,852)</u>	<u>\$ 1,256,137</u>
Convertible bonds transferred to common stock	<u>\$ 60,607</u>	<u>\$ -</u>
Treasury stock transferred to employees	<u>\$ (229,163)</u>	<u>\$ -</u>
Cash paid during the year for acquisition of property, plant and equipment		
Fair value of property, plant and equipment acquired	\$ 1,571,086	\$ 1,087,040
Add payables for acquisition of property, plant and equipment at beginning of year	177,542	51,500
Less payables for acquisition of property, plant and equipment at end of year	<u>(132,168)</u>	<u>(177,542)</u>
Cash paid during the year for acquisition of property, plant and equipment	<u>\$ 1,616,460</u>	<u>\$ 960,998</u>

(Concluded)

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

(With Deloitte & Touche audit report dated February 15, 2007)

POU CHEN CORPORATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2006 AND 2005

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

1. ORGANIZATION AND OPERATIONS

Pou Chen Corporation (the "Company") was incorporated in the Republic of China (ROC) in September 1969. The Company is located in Changhwa County and currently has three factories and nine trade departments. The Company's business activities include manufacturing and sales of various kinds of shoes and electronic peripheral components, and import and export of related products and materials. The Company also invests significantly in shoes and electronic industry to diversify its business operation. As a result, investment income has become the Company's major source of revenue.

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

In January 1990, the Company started to trade its stocks on the Taiwan Stock Exchange.

As at December 31, 2006 and 2005, there were 3,065 and 2,948 employees of the Company, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements have been prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the ROC. Under these guidelines, law 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 and impairment, amortization expenses and pension expenses, etc. Actual results could differ from these estimates.

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

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

Current/Noncurrent Assets and Liabilities

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

Cash and Cash Equivalents

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

Financial Instruments Measured at Fair Value through Profit or Loss

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

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

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

Allowance for Doubtful Accounts

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

Inventories

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

Long-Term Investments at Equity Method

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

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

If an investee company issues new shares and the Company does not purchase new shares proportionately, then the ownership percentage and the equity in net assets of the investee will be changed. Such difference will be adjusted in the additional paid-in capital and the long-term equity investments accounts. If the adjustment 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.

If the investor's equity interest in the investee is reduced to zero, additional losses are recognized and presented as liability if the investor has legal or constructive obligations or made payments on behalf of the investee. Otherwise, recognition of share in losses of the investee is discontinued. If the investee subsequently reports profits, the investor resumes recognizing its share of those profits only after the losses not previously recognized have been recovered.

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

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

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

Available-for-Sale Financial Assets

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

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

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

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	5~7 years
Transportation equipment	5 years
Furniture, fixtures and office equipment	3~5 years
Other equipment	5 years

An additional service life and a new residual value will be determined for any depreciable asset which is still in use after the end of its initially prescribed useful lives. Depreciation is computed 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 recoverable value below carrying amount of property, plant, equipment and leased asset. If the loss is reversed, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount should not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is immediately recognized as a gain.

Deferred Charges

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

Euro-Dollar Convertible Bonds

The convertible bonds, issued by the Company before January 1, 2006, contain put right. Each holder has the right, at the holder's option, to request the Company to repurchase all or any portion of such holder's bonds, in amounts of US\$1,000 (dollars) or any integral multiples. The interest compensation, which is the amount of agreed put price over face value of such bonds, will be recognized as a liability under the effective interest rate 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.

The Company has a defined benefit pension plan under the Labor Standards Law. The benefits are primarily based upon an employee's years of service and average compensation for the last six months before retirement.

The Company also has a defined contribution pension plan under the Act. Pension costs are recorded based on actual contributions made to employees' individual pension accounts in amounts equal to 6% of monthly salaries and wages after July 1, 2005.

The Company adopted the provisions of SFAS No. 18, "Accounting for Pensions," which require that pension expense shall be computed on actuarial basis.

Deferred Credits

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

Foreign Currency Transactions

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

Cumulative Translation Adjustments

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

Treasury Stock

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

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

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

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

Revenue Recognition

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

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

Income Tax

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

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

The ROC government enacted the Alternative Minimum Tax Act (the "AMT Act"), which became effective on January 1, 2006. The imposed tax under the AMT Act is a supplemental tax levied at a rate of 10% which is payable if the income tax payable determined pursuant to the Income Tax Law is below the minimum amount prescribed under the AMT Act. The taxable income for calculating the alternative minimum tax includes most of the income that is exempted from income tax under various laws and statutes. The Company has considered the impact of the AMT Act in the determination of its tax liabilities.

Earnings Per Share

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

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

Derivative Financial Instruments Held for Hedging

Financial instruments held for hedging are evaluated at fair value and changes in fair value shall be recognized in profit or loss or recognized as adjustments to stockholders' equity.

Reclassifications

Certain accounts in the financial statements for the year ended December 31, 2005 have been reclassified to be consistent with the presentation of the financial statements for the year ended December 31, 2006.

3. REASON AND EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE

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

Effect of Adoption of the New and Amended Financial Accounting Standards

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

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

	Recognized As Cumulative Effect of Changes in Accounting Principles (After Tax)	Recognized As Adjustment of Stockholders' Equity
Financial assets measured at fair value through profit or loss, current	\$ 445,527	\$ -
Available-for-sale financial assets, noncurrent	-	50,608
Derivative financial liabilities held for hedging, noncurrent	-	(231,350)
	<u>\$ 445,527</u>	<u>\$ (180,742)</u>

The change in accounting principle above increased the income from operation by \$1,690,347 thousand (including the amount due to the adoption of the same accounting principles by subsidiaries), the net income by \$2,135,874 thousand, basic earnings per share after tax by \$0.94 dollar and the adjustments of stockholders' equity by \$94,924 thousand. The stockholders' equity totally decreased by \$85,818 thousand as at December 31, 2006.

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

According to the accounting pronouncement declared in 2005, the 2005 accounts should be reclassified to be consistent with the presentation of 2006 financial statements without retroactive adjustments. The valuation methods in 2005 that were changed in 2006 due to the new SFASs are as follows:

Short-Term Investments

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

Long-Term Equity Investments

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

Forward Exchange Contracts

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

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

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

The following were the accounts in the financial statements for the year ended December 31, 2005 reclassified to be consistent with the new and amended SFASs effective January 1, 2006:

	Before Reclassification	After Reclassification
<u>Balance Sheets</u>		
Short-term investments	\$ 1,315,930	\$ -
Long-term equity investments at cost method	377,063	-
Provision for decline in market value of long-term equity investments	(1,470,331)	-
Financial assets measured at fair value through profit or loss	-	1,315,930
Available-for-sale financial assets, noncurrent	-	377,063
Unrealized losses on financial instruments	-	(1,470,331)

Effective January 1, 2006, the Company and its subsidiaries adopted amended SFAS No. 1, "Conceptual Framework for Financial Accounting and Preparation of Financial Statements," No. 5, "Long-term Investments under Equity Method," and No. 25, "Business Combinations." The major amendments in these SFASs include the requirement that goodwill should not be amortized and the difference between the underlying equity in net assets of the investee and the cost of the investment should be analyzed first and the portion attributed to goodwill is not amortized but evaluated periodically for impairment. As a result, the Company's income from operations for the year ended December 31, 2006 increased by \$1,013,339 thousand (including the amount due to the adoption of the same accounting principles by subsidiaries), basic earnings per share after tax by \$0.45 dollar and there was no cumulative effect of changes in accounting principle.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at December 31, 2006 and 2005 consist of the following:

	2006	2005
Cash on hand	\$ 1,896	\$ 2,107
Checking accounts	484	393
Savings accounts	321,877	428,646
Foreign-currency savings deposit	<u>1,007,671</u>	<u>588,616</u>
	<u>\$ 1,331,928</u>	<u>\$ 1,019,762</u>

The time deposits of \$9,714 thousand and \$9,015 thousand, included in other assets - refundable deposits were pledged for employment of foreign labors as at December 31, 2006 and 2005, respectively.

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

Financial assets measured at fair value through profit or loss, current as of December 31, 2006 and 2005 were summarized as follows:

	2006	2005
Financial assets at fair value through profit or loss		
Marketable equity securities	\$ 1,980,076	\$ 907,984
Open-ended mutual fund	<u>50,055</u>	<u>407,946</u>
	<u>\$ 2,030,131</u>	<u>\$ 1,315,930</u>

The net gain from financial assets measured at fair value through profit or loss, current for the year ended December 31, 2006 amounted to \$149,564 thousand.

6. NOTES RECEIVABLE

Notes receivable as at December 31, 2006 and 2005 consist of the following:

	2006	2005
Notes receivable	\$ 11,054	\$ 10,589
Less allowance for doubtful accounts	<u> -</u>	<u> -</u>
	<u>11,054</u>	<u>10,589</u>
Notes receivable from affiliates (Note 25)	21,656	20,901
Less allowance for doubtful accounts	<u> -</u>	<u> -</u>
	<u>21,656</u>	<u>20,901</u>
	<u><u>\$ 32,710</u></u>	<u><u>\$ 31,490</u></u>

7. ACCOUNTS RECEIVABLE

Accounts receivable as at December 31, 2006 and 2005 consist of the following:

	2006	2005
Accounts receivable	\$ 474,403	\$ 314,940
Less allowance for doubtful accounts	<u>(74,000)</u>	<u>(15,200)</u>
	<u>400,403</u>	<u>299,740</u>
Accounts receivable from affiliates (Note 25)	1,180,901	1,982,833
Less allowance for doubtful accounts	<u> -</u>	<u> -</u>
	<u>1,180,901</u>	<u>1,982,833</u>
	<u><u>\$ 1,581,304</u></u>	<u><u>\$ 2,282,573</u></u>

8. INVENTORIES

Inventories as at December 31, 2006 and 2005 consist of the following:

	2006	2005
Raw materials	\$ 73,340	\$ 427,785
Supplies	5,358	4,666
Work-in-process	4,025	36,488
Finished goods	34,372	649,472
Merchandise	<u>9,783</u>	<u>8,768</u>
	126,878	1,127,179
Less valuation allowance	<u>(27,000)</u>	<u>(52,300)</u>
	<u><u>\$ 99,878</u></u>	<u><u>\$ 1,074,879</u></u>

9. LONG-TERM INVESTMENTS AT EQUITY METHOD

Long-term investments at equity method as at December 31, 2006 and 2005 consist of the following:

	2006			2005	
	Original Cost	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage
Wealthplus	\$ 5,421,069	\$ 31,041,036	100.00	\$ 27,718,250	100.00
Win Fortune	3,230	712,300	100.00	614,331	100.00
Ming Wang	427,291	23,075	100.00	1	100.00
Windsor Entertainment (original known as: Yue Yuen Entertainment)	300,000	125,476	100.00	83,138	100.00
Pou Shine	195,000	815,057	100.00	494,085	99.99
Pan Asia Insurance Services (original known as: Pan Asia Insurance Consulting)	3,000	3,873	99.98	3,253	99.98
Barits Development	1,780,408	3,560,525	98.34	2,183,258	98.34
Pou Yuen Technology	663,981	171,877	96.32	194,957	96.32
Pro Arch Technology	1,914,453	19,897	95.57	211,277	88.59
Yun Yang	98,413	117,575	91.15	115,738	91.15
Global Brands Manufacture	2,587,707	3,291,107	37.37	2,273,603	37.30
Techview International	380,115	466,831	30.35	430,815	49.48
Pou Yii	40,320	1	15.00	1	15.00
Elitegroup Computer	4,618,697	3,358,131	11.73	3,526,571	19.69
Wang Yi	7,315	5,245	7.32	4,158	7.32
	<u>\$ 18,440,999</u>	<u>\$ 43,712,006</u>		<u>\$ 37,853,436</u>	

The Company's long-term equity investment income (loss) under equity method for the years ended December 31, 2006 and 2005 are summarized as follows:

	2006	2005
Wealthplus	\$ 3,686,216	\$ 3,591,119
Win Fortune	106,025	77,464
Ming Wang	5,450	(4,013)
Windsor Entertainment	(157,662)	(10,261)
Pou Shine	297,648	42,810
Pan Asia Insurance Services	620	12
Barits Development	1,408,526	259,862
Pou Yuen Technology	(21,365)	(161,500)
Pro Arch Technology	(466,467)	(456,895)
Yun Yang	7,665	10,088
Global Brands Manufacture	596,384	436,561
Techview International	82,281	73,289
Pou Yii	(821)	(3,554)
Elitegroup Computer	(163,817)	(40,350)
Wang Yi	1,028	(1,265)
Tse Throw	-	16,446
	<u>\$ 5,381,711</u>	<u>\$ 3,829,813</u>

Wealthplus Holdings Limited ("Wealthplus") and Win Fortune Investments Limited ("Win Fortune"), 100%-owned subsidiaries of the Company, were incorporated in the British Virgin Islands. These two companies primarily invest in companies which are engaged in the sports-footwear and make investment in the People's Republic of China (PRC) through an investment in Yue Yuen Industrial (Holdings) Limited ("Yue Yuen"), a Hong Kong listed company. The Company also purchased stocks of Yue Yuen through Wealthplus, Win Fortune and Top Score Investments Limited ("Top Score"), 100% owned subsidiary of Barits Development, in Hong Kong Stock Exchange. At December 31, 2006, the Company effectively holds 49.54% ownership in Yue Yuen.

As the accounting year for these two investees is from October 1 of the preceding year to September 30 of the year. The Company accounted for its long-term investment income from these companies based on these companies' financial results for the years ended September 30, 2006 and 2005, which was allowed by the accounting principles generally accepted in the ROC.

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

The primary income of Wealthplus and Win Fortune in 2006 and 2005 are summarized as follows:

	<u>Wealthplus</u>		<u>Win Fortune</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Equity in earnings of Yue Yuen	\$ 5,440,985	\$ 4,262,155	\$ 104,880	\$ 78,566
Equity in earnings of other overseas investees	(1,260,257)	(333,988)	-	-
Others	(494,512)	(337,048)	1,145	(1,102)
	<u>\$ 3,686,216</u>	<u>\$ 3,591,119</u>	<u>\$ 106,025</u>	<u>\$ 77,464</u>

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

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

Ming Wang Investments Co., Ltd. ("Ming Wang") was established in September 1996, with an outstanding common stock of \$427,291 thousand at par value of \$10 dollars per share at December 31, 2006 and is primarily engaged in investing activities.

Windsor Entertainment Co., Ltd. ("Windsor Entertainment") was established in July 2003 and is engaged in hotel and resort operation. Windsor Entertainment decreased its capital to offset its accumulated deficit by \$90,000 thousand and issued additional capital stock by \$200,000 thousand at a price of \$10 dollars per share in October 2006. As at December 31, 2006, Windsor Entertainment has an outstanding common stock of \$210,000 thousand.

Pou Shine Investments Co., Ltd. ("Pou Shine") was established in June 1990, with an outstanding common stock of \$573,632 thousand at December 31, 2006 and is primarily engaged in investing activities.

Pan Asia Insurance Services Co., Ltd. ("Pan Asia Insurance Services") was established in May 1999, with an outstanding common stock of \$3,000 thousand at December 31, 2006 and is primarily engaged in agency of property and casualty insurance.

Barits Development Corporation ("Barits Development") was established in November 1985, with an outstanding common stock of \$913,000 thousand at December 31, 2006 and is primarily engaged in leather manufacturing and investing activities.

Pou Yuen Technology Co., Ltd. (“Pou Yuen Technology”) was established in December 1993, with an outstanding common stock of \$600,000 thousand at December 31, 2006. Pou Yuen Technology is mainly engaged in designing, manufacturing and trading mold, magnesium alloy casing and data processing and storage equipment.

Pro Arch Technology Inc. (“Pro Arch Technology”) was established in June 1999, with an outstanding common stock of \$301,000 thousand at December 31, 2006. It is primarily engaged in manufacturing and sale of computer peripheral equipment and related spare parts. In September 2006, Pro Arch Technology decreased its capital to offset its accumulated deficit by \$1,174,127 thousand and issued additional capital stock by \$300,000 thousand at a price of \$10 dollars per share, of which \$286,790 thousand were subscribed by the Company. Accordingly, the Company’s ownership was increased to 95.57%.

Yun Yang Investments Co., Ltd. (“Yun Yang”) was established in April 1997, with an outstanding common stock of \$75,000 thousand at December 31, 2006 and is primarily engaged in investment activities.

Global Brands Manufacture Ltd. (“Global Brands Manufacture”) is engaged in manufacturing, assembling and sale of printed circuit boards. The shares of Global Brands Manufacture are listed on the Over-The-Counter Stock Exchange of Taiwan. Global Brands Manufacture had an outstanding capital stock of \$2,717,794 thousand at December 31, 2006. In August 2005, Global Brands Manufacture issued additional \$350,000 thousand capital stock at a price of \$37.5 dollars per share, of which \$412,927 thousand were subscribed by the Company. Additionally, Global Brands Manufacture issued additional \$330,000 thousand capital stock at a price of \$45.50 dollars per share, of which \$611,435 thousand were subscribed by the Company in August 2006. As at December 31, 2006, the Company’s ownership was increased to 37.37%.

Techview International Technology Inc. (“Techview International”) was established in November 2003, with an outstanding common stock of \$1,191,999 thousand at December 31, 2006 and is primarily engaged in development, sale and assembly of TFT-LCD display. In March 2006, Techview International issued additional capital stock of \$280,000 thousand at a price of \$18 dollars per share, of which \$252,000 thousand were subscribed by the Company. Additionally, the Company sold 22,039 thousand shares at a total price of \$295,755 thousand to subsidiaries of Barits Development and Pou Yuen Technology at net asset value per share of Techview International in December 2006. As at December 31, 2006, the Company’s ownership was decreased to 30.35%.

Pou Yii Development Co., Ltd. (“Pou Yii”) was established in October 1996 with an outstanding common stock of \$350,000 thousand at December 31, 2006, and is primarily engaged in constructing buildings and renting apartments. Effective January 1, 2002, common shares of the Company held by its subsidiaries are treated as treasury stock. As the book value of this long-term equity investment became negative, the Company reclassified the negative balance of \$6,056 thousand to “other liabilities - others,” except for \$1 thousand retained in the book value of long-term equity investment (see Note 17).

Elitegroup Computer Systems Co., Ltd. (“Elitegroup Computer”) is engaged in designing, manufacturing and sale of computer peripheral equipment. The shares of Elitegroup Computer are listed on the Taiwan Stock Exchange Corporation. It has an outstanding common stock of \$12,551,891 thousand as at December 31, 2006. In January 2006, Elitegroup Computer issued additional 314,001 thousand common stocks, to exchange the desktop department of Tatung Co.. Additionally, Elitegroup Computer merged with Uniwill Computer Corp. by issuing additional 184,931 thousand common stock in December 2006. As at December 31, 2006, the Company’s ownership was decreased to 11.73%.

Wang Yi Construction Co., Ltd. (“Wang Yi”) was established in May 1984, with an outstanding common stock of \$77,000 thousand at December 31, 2006, and is primarily engaged in management of and investment in construction projects.

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

10. AVAILABLE-FOR-SALE FINANCIAL ASSETS, NONCURRENT

Available-for-sale financial assets, noncurrent as at December 31, 2006 and 2005 consist of the follows:

	2006			2005	
	Original Investment Cost	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage
Marketable equity securities					
Quanta Display Inc.	\$ -	\$ -	-	\$ 377,063	0.78

Quanta Display Inc. is engaged in manufacturing and sale of TFT-LCD products. The shares of Quanta Display are listed on the Taiwan Stock Exchange Corporation. Quanta Display merged with AU Optronics Corporation (AUO), the survivor entity. The merger took effect on October 1, 2006. The share swap ratio was set at 3.5 Quanta Display shares for 1 AUO share. The Company acquired 10,183 thousand AUO shares according to the swap ratio on October 1, 2006, and the AUO shares of the Company were reclassified to “financial assets measured at fair value through profit or loss, current” in accordance with the market closing price on October 1, 2006. Therefore, the Company recognized loss of \$334,258 thousand for the year ended December 31, 2006, which was recorded as other investment losses.

11. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as at December 31, 2006 and 2005 consist of the following:

	2006			2005	
	Cost	Reassessed Value Increment	Accumulated Depreciation	Carrying Value	Carrying Value
Land	\$ 947,652	\$ 238,754	\$ -	\$1,186,406	\$1,734,685
Buildings and improvements	2,800,077	40,254	682,839	2,157,492	701,609
Machinery equipment	464,293	-	306,251	158,042	102,517
Transportation equipment	187,481	-	129,174	58,307	45,206
Furniture, fixtures and office equipment	354,999	-	224,851	130,148	78,538
Other equipment	87,648	-	31,677	55,971	4,677
Construction in progress and prepayments on purchase of equipment	480,601	-	-	480,601	2,804,619
	<u>\$5,322,751</u>	<u>\$ 279,008</u>	<u>\$1,374,792</u>	<u>\$4,226,967</u>	<u>\$5,471,851</u>

The Company recorded 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 a corresponding increase in property, plant and equipment revaluation increment for the year ended December 31, 2005.

Two parcels of land located in ChangHwa County were purchased by the Company for \$22,187 thousand in June 1990 and for \$33,668 thousand in April 1997. According to related laws, the ownership for these two parcels of land should be changed to the Company. However, due to certain restrictions under the land regulations, the ownership for these two parcels of land resides with a trustee through a trust agreement which prohibits the trustee from selling, pledging or hypothecating the property. Consequently, the two parcels of land amounted to \$55,855 thousand at December 31, 2006 and 2005 are included in "other assets – land held by trustee" (see Note 12).

In 2006 the construction of Pou Chen International Building was completed. The total price of land was \$907,582 thousand and the building was \$3,486,744 thousand, or total of \$4,394,326 thousand. Part of Pou Chen International Building, including the land which amounted to \$476,032 thousand and the building which amounted to \$1,956,054 thousand, or total of \$2,432,086 thousand, were leased to Windsor Entertainment to engage in resort operation and are included in "other asset - leased-out assets" (see Note 12).

The interest expense for the years ended December 31, 2006 and 2005 amounted to \$436,577 thousand and \$407,613 thousand, respectively. Interest costs capitalized as part of the costs of property, plant and equipment for the years ended December 31, 2006 and 2005 amounted to \$8,006 thousand and \$1,347 thousand, respectively. Interest rate for capitalization was 2.50% for both years.

12. OTHER ASSETS

Other assets as at December 31, 2006 and 2005 consist of the following:

	2006	2005
Leased-out assets		
Cost and revaluation increment	\$ 3,078,729	\$ 415,351
Less accumulated depreciation	<u>(139,501)</u>	<u>(41,473)</u>
	<u>2,939,228</u>	<u>373,878</u>
Refundable deposits	22,917	30,134
Deferred charges	74,427	93,945
Deferred income tax assets (Notes 2 and 22)	138,060	123,000
Land held by trustee (Note 11)	55,855	55,855
Others - land and buildings for sale	5,574	5,622
Temporary tax payments (Note 22)	<u>1,747</u>	<u>8,141</u>
	<u>\$ 3,237,808</u>	<u>\$ 690,575</u>

The Company leased its building to related party - Pou Chien Chemical Co., Ltd., Global Brands Manufacture Ltd. and non-related party - Taiwan McDonald's. Additionally, the Company rented part of Pou Chen International Building to related party - Windsor Entertainment in 2006. Rent income is determined by the rental space and local leasing market price.

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

13. SHORT-TERM BORROWINGS

Short-term borrowings as at December 31, 2006 and 2005 consist of the following:

	2006		2005	
	Annual Interest Rate %	Balance	Annual Interest Rate %	Balance
Unsecured loans	1.76~2.326	<u>\$ 3,290,000</u>	1.45~1.69	<u>\$ 1,480,000</u>

14. BONDS PAYABLE

Bonds payable as at December 31, 2006 and 2005 consist of the following:

	2006	2005
Euro convertible bonds	\$ 23,794	\$ 1,966,295
Add interest compensation and income tax payable	<u>-</u>	<u>1,278,250</u>
	23,794	3,244,545
Less current portion	<u>-</u>	<u>(3,094,092)</u>
	23,794	150,453
Domestic secured bonds	<u>5,000,000</u>	<u>5,000,000</u>
	<u>\$ 5,023,794</u>	<u>\$ 5,150,453</u>

In 2006, the Company repurchased and redeemed at maturity its Euro Convertible Bonds with par value US\$57,595 thousand from open market at cost of \$3,103,474 thousand and the Company recognized a gain of \$152,864 thousand as non-operating income for 2006. The holders of Euro Convertible Bonds converted Euro Convertible Bonds with par value US\$1,850 thousand into 2,188 thousand shares in 2006.

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

Euro-Dollar Convertible Bonds - First Issue

- (a) Date of issuance: June 24, 1999
- (b) Par value: US\$1,000 (dollars)
- (c) Location of issuance: Luxemburg
- (d) Price of issuance: 100%
- (e) Total amount: US\$125,000 thousand, all are redeemed at maturity or repurchased as at June 15, 2006.

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\$730 thousand not converted as at December 31, 2006.
- (f) Interest rate: 0%
- (g) Date of maturity: November 4, 2008
- (h) Conversion Price:
The initial price at which shares will be issued upon conversion is \$47.285 dollars per share at the issue date. The above conversion price will be adjusted accordingly if there is a capital increase in cash or dividend distribution by the Company. At December 31, 2006, the current adjusted conversion price is \$28.70 dollars per share.
- (i) Redemption at maturity:
Unless previously redeemed, repurchased and cancelled, or converted, the Bonds will be redeemed on November 4, 2008 at a price equal to 99.501% of the unpaid principal amount.
- (j) Redemption at the option of the Company:
(i) The Bonds may be redeemed, in whole or from time to time in part (in the principal amount of US\$1,000 (dollars) or any integral multiple thereof), at the option of the Company at any time on or after November 4, 2005, at a price equal to 100% of the unpaid principal amount thereof; provided that the closing price of the common shares (translated into US dollars at the prevailing rate) on each of 20 consecutive trading days, the last of which occurs not more than five days prior to the date on which notice of such redemption is given, is at least 130% of the conversion price (translated into US dollars at the fixed rate). Notwithstanding the foregoing, the Bonds may be redeemed in whole at the option of the Company at any time at a price equal to 100% of the unpaid principal amount thereof if at least 95% in aggregate principal amount of the Bonds has already been redeemed, repurchased and cancelled, or converted.
(ii) The Bonds may also be redeemed in whole at any time at the option of the Company at a price equal to 100% of the unpaid principal amount thereof in the event of certain changes relating to taxation in the Republic of China or such other jurisdiction in which the Company is then organized.
- (k) Repurchase at the option of holders:
(i) Each holder has the right to require the Company to repurchase all or any portion (in the principal amount of US\$1,000 (dollars) or any integral multiple thereof) of such holder's bonds on November 4, 2005 at a price equal to 99.80% of the unpaid principal amount thereof.
(ii) If the common shares cease to be listed or admitted to trading on the TSE for a period exceeding five consecutive trading days, then each holder will have the right, at such holder's option, to require the Company to repurchase all of such holder's bonds at a price equal to 100% of the unpaid principal amount.
(iii) Upon the occurrence of a change of control, each holder shall have the right, at such holder's option, to require the Company to repurchase all of such holder's bonds at a price equal to 100% of the unpaid principal amount thereof on the date set by the Company which is not less than 30 days nor more than 60 days following the date on which the Company notifies the trustee of the change of control.
A change of control means any of the following events:
- any person or persons, other than the Tsai Family or its affiliates, acting together, acquires or acquire legal or beneficial ownership of at least 50% of the Company's capital stock; or
 - The Company consolidates with or merges into or sells or transfers all or substantially all of its assets to any other person or persons (other than the Tsai Family or its affiliates), unless the consolidation, merger, sale or transfer will not result in the other person or persons acquiring control over the Company or the successor entity.

- (iv) If the Company ceases to hold, directly or indirectly, at least 33% of the outstanding capital stock of Yue Yuen, or if the Company, together with the Tsai Family and its affiliates, ceases to hold, directly or indirectly, at least 51% of the outstanding capital stock of Yue Yuen, then each holder shall have the right, at such holder's option, to require the Company to repurchase all of such holder's bonds at a price equal to 100% of the unpaid principal amount.

Domestic Secured Bonds

The first secured bonds of 2003:

- (a) The Company issued \$5,000,000 thousand secured bonds from June 10, 2003 to June 13, 2003, for the purpose of repaying bank loan. The bonds were separated into 19 types (from "A" to "S"). The issued amount of type A, B, C, D, E, F, K, L, M, N, P, Q was \$300,000 thousand and the other types was \$200,000 thousand. The par value of all types was \$10,000 thousand.
- (b) Date of maturity and price of issuance: from June 10, 2008 to June 13, 2008 and 100%
- (c) Interest rate:
 - Type A, F, K, P: 4.000%, minus floating rate
 - Type B, G, L, Q: 4.001%, minus floating rate
 - Type C, H, M, R: 4.002%, minus floating rate
 - Type D, I, N, S: 4.003%, minus floating rate
 - Type E, J, O: 4.004%, minus floating 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 the Company to maintain a consolidated tangible net worth of not less than \$18,000,000 thousand, and the following financial ratios: (i) a ratio of consolidated total liabilities to consolidated tangible net worth of not more than 2:1, (ii) a ratio of consolidated net income before interest, taxation, depreciation and amortization to consolidated interest of no less than 3:1, and (iii) on a yearly evaluation basis a ratio of consolidated current assets to consolidated current liabilities of not less than 0.8:1.

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

- (a) merge with any other company or spin off, unless the Company being the existing company or majority lenders consent that such merger or spin off will not have a material adverse effect on the Company;
- (b) change the scope or nature of its major business;
- (c) create any encumbrance over its assets, except for such encumbrance had been made before the agreement date and disclosed to lenders;
- (d) sell, lease out, transfer or dispose of all or substantially all of its assets nor of any part of its assets with a value greater than the amount equal to 35% of the consolidated assets. Nevertheless the limitation on the preceding sentence, the following disposals shall not be taken into account under this restriction:
 - (i) disposals in the ordinary course of business,
 - (ii) the payment of cash as consideration for the acquisition of any asset at arm's length and on normal commercial terms,
 - (iii) the temporary application of funds not immediately required in the purchase or making of short-term investments, or the realization of such investments,
 - (iv) the disposal (for a consideration not exceeding a normal commercial consideration) of assets to its subsidiaries and/or Yue Yuen.

- (e) make loan, according to procedures on fund and loans, in excess of 20% of the issued capital;
- (f) trade with others in irregular course;
- (g) amend or change the contents, conditions or terms of the secured bonds, unless such amendment or change will not result in adverse effect to lenders;
- (h) provide guarantees in violation of the guidelines of endorsement and guarantees, which guidelines provide that aggregate endorsements and guarantees shall not exceed 100% of net worth as shown in the most recent audited or reviewed financial statements.

15. LONG-TERM DEBT

Long-term debt as at December 31, 2006 and 2005 consists of the following:

	2006	2005
Citi Bank (Lead Lender) and other banks		
Long-term debt, \$6,500,000 thousand, due in semiannual repayments commencing April 25, 2009 and maturing October 25, 2010. Interest rates range from 2.128% to 2.196%.	\$ 6,500,000	\$ 4,500,000
China Trust Commercial Bank		
Long-term debt \$2,500,000 thousand, due in semiannual repayments commencing December 9, 2009 and maturing June 9, 2011. Interest rate is 2.204%	<u>2,500,000</u>	<u>-</u>
	9,000,000	4,500,000
Less current portion	<u>-</u>	<u>-</u>
	<u>\$ 9,000,000</u>	<u>\$ 4,500,000</u>

16. PENSION PLAN

The Company has a defined benefit pension plan covering all employees. The benefits are primarily based upon an employee's years of service and average compensation for the last six months before retirement.

Net pension cost for the year 2006 consists of the following:

Service cost	\$ 37,180
Interest cost	37,145
Expected return on plan assets	(12,920)
Amortization of net transition obligation	(1,875)
Amortization of pension loss	<u>10,111</u>
	<u>\$ 69,641</u>

The following sets forth the actuarial assumptions and plan's status as at December 31, 2006:

Weighted-average discount rate	2.75%
Assumed rate of increase in salary	3.00%
Expected rate of return on plan assets	2.75%
Actuarial present value of benefit obligation	
Vested benefits	\$ (116,375)
Nonvested benefits	<u>(573,727)</u>
Accumulated benefit obligation	(690,102)
Additional benefits at future salaries	<u>(318,482)</u>
Projected benefit obligation	(1,008,584)
Plan assets at fair value	<u>362,654</u>
Projected benefit obligation in excess of plan assets	(645,930)
Net transition asset not yet recognized	(10,248)
Net pension loss not yet recognized	<u>116,537</u>
Accrued pension cost	<u>\$ (539,641)</u>

As at December 31, 2006, the vested benefit was \$142,524 thousand.

The Company recognized the pension cost expense of \$82,268 thousand based on 6% of the employees' monthly salaries and wages, under the Labor Pension Act in 2006.

17. OTHER LIABILITIES - OTHERS

Other liabilities - others as at December 31, 2006 and 2005 consist of the following:

	2006	2005
Unrealized gross profit from inter-affiliate transactions	\$ 31,970	\$ 27,477
Others (Note 9)	<u>6,056</u>	<u>30,152</u>
	<u>\$ 38,026</u>	<u>\$ 57,629</u>

18. CAPITAL STOCK

	2006	2005
Registered capital		
Shares (in thousands)	<u>3,800,000</u>	<u>3,800,000</u>
Par value (in dollars)	<u>\$ 10</u>	<u>\$ 10</u>
Capital	<u>\$ 38,000,000</u>	<u>\$ 38,000,000</u>
Issued capital		
Shares (in thousands)	<u>2,442,686</u>	<u>2,305,793</u>
Par value (in dollars)	<u>\$ 10</u>	<u>\$ 10</u>
Capital	<u>\$ 24,426,857</u>	<u>\$ 23,057,928</u>

As at June 14, 2006, the Company's shareholders meeting resolved to issue additional capital stock of \$1,270,265 thousand through stock dividends of \$1,130,751 thousand, and bonuses to employees of \$139,514 thousand. Furthermore, employee stock warrants were exercised for 7,678 thousand shares and convertible debenture bonds were converted into 2,188 thousand shares of common stock during 2006. As a result, the Company's outstanding capital stock was increased to \$24,426,857 thousand divided into 2,442,686 thousand common shares with a par value of \$10 dollars per share as at December 31, 2006.

Earnings per share are based upon the weighted average number of shares of common stock outstanding during the year. For the year ended December 31, 2005, 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 2006.

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

The exercise price of such warrant has been retroactively restated as \$10.00 dollars and \$24.70 dollars per share, respectively due to the stock dividends issued in 2006. At December 31, 2006, the employee stock warrants of 66,600 units were executed for 14,532 thousand shares of common stock.

19. RETAINED EARNINGS

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

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

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

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

The Company's board of directors and stockholders in their meetings have proposed and approved the distribution from 2005 earnings of 13,951 thousand shares to employees (represents 0.62% of the outstanding common shares at the end of 2005) and of \$143,829 thousand as bonuses to directors and supervisors. In 2005, the basic earnings per share after income tax (before retroactive adjustment for stock dividend in 2006) was \$1.98 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 \$1.85 dollars. The appropriation of the 2006 retained earnings was not proposed by the board of directors as of February 15, 2007, the date of the auditors' report. For the appropriation of 2005 retained earnings proposed by the board of directors and approved in the stockholders' meeting, please refer to the Market Observation Post System (MOPS) of Taiwan Stock Exchange.

20. TREASURY STOCK

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

Reason	2006.01.01	Increase	Decrease	2006.12.31
Buy the stock back to transfer to employees	45,700,000	-	31,500,000	14,200,000
Common shares held by subsidiaries	122,147,184	6,289,231	-	128,436,415

In December 2006, the Company transferred 31,500 thousand shares of common stock to employees at a price of \$24.72 dollars per share, and the difference between the transferred value of \$778,680 thousand and the book value of \$1,007,843 thousand was \$229,163 thousand, which was recorded as capital surplus treasury stock.

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 14,200 thousand shares of treasury stock at the cost of \$396,166 thousand at December 31, 2006.

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

In 2006, after the stock dividends were received by the subsidiaries, 6,289,231 shares were added to treasury stock. Accordingly, as at December 31, 2006, the subsidiaries held 128,436,415 shares of the Company's common stock and \$2,055,319 thousand in total.

21. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

Personnel, depreciation, and amortization expenses for the years ended December 31, 2006 and 2005 are summarized as follows:

Category	Function	2006				2005			
		Operating Cost	Operating Expenses	Non-Operating Expenses	Total	Operating Cost	Operating Expenses	Non-Operating Expenses	Total
Personnel expense									
Salaries		110,462	1,386,146	-	1,496,608	93,844	1,362,765	-	1,456,609
Labor insurance and health insurance		8,789	147,850	-	156,639	6,889	144,710	-	151,599
Pension cost		4,343	147,566	-	151,909	4,681	148,185	-	152,866
Others		3,766	42,464	-	46,230	4,001	40,609	-	44,610
Depreciation expenses		8,675	178,575	50,066	237,316	5,138	140,339	2,950	148,427
Amortization expenses		-	83,684	-	83,684	66	112,989	-	113,055

22. INCOME TAX

The Company's income tax expense of \$3,870 thousand for the year ended December 31, 2006 is adjustment of deferred tax assets.

The components of deferred tax assets as at December 31, 2006 are as follows:

Deferred tax assets	
Unrealized inventory devaluation losses	\$ 6,750
Unrealized losses on disposal of property, plant and equipment	660
Unrealized bad debt losses	28,000
Unrealized maintenance and repairs expenses	400
Unrealized pension expense	137,000
Unrealized profit from inter-affiliate transactions	1,010
Unrealized net exchange loss	<u>1,230</u>
Deferred tax assets	175,050
Deferred tax assets, noncurrent	<u>(138,060)</u>
Deferred tax assets, current	<u>\$ 36,990</u>

The Company's current income tax for the year ended December 31, 2006 and income tax payable as at December 31, 2006 were reconciled as follows:

Income tax expense at statutory rate of 25%	\$ 1,332,600
Permanent difference of long-term equity investments income accounted for under equity method	(1,345,400)
Income from revaluation of financial instruments measured at fair value through profit or loss	(37,400)
Dividend income - tax free	(24,400)
Gain on disposal of investments	(1,400)
Loss on reduction of capital in long-term equity investments accounted for under equity method	(181,000)
Loss on other investment	83,600
Interest expenses for bonds	6,500
Others	2,200
Dividend income - tax free of losses carryforward	<u>164,700</u>
Current income tax	-
Provision for (reversal of) deferred income tax asset	
Unrealized inventory devaluation losses	(6,325)
Unrealized net exchange loss	(8,470)
Unrealized pension expense	15,400
Unrealized bad debt losses	15,555
Realized loss on liquidation of long-term equity investment	(18,300)
Others	<u>(1,730)</u>
Income tax payable	-
Add prior year's income tax payable	<u>1,892</u>
Income tax payable as at December 31, 2006	<u>\$ 1,892</u>

Temporary tax payments amounted to \$1,747 thousand as at December 31, 2006.

The income tax returns for the years through 2004 have been examined and approved by the tax authority.

The information of the integrated income tax system as at December 31, 2006 is as follows:

Balance of Imputation Credit Account	\$ 164,614
Undistributed earnings for the years of 1997 and before	<u>\$ 310,501</u>
Undistributed earnings for the years of 1998 and thereafter	<u>\$8,403,597</u>
Expected IC ratio on distributed earnings for the year of 2006	<u>1.96%</u>
Actual IC ratio of earnings distribution for the year of 2005	<u>2.94%</u>

23. EARNINGS PER SHARE

For the years ended December 31, 2006 and 2005, earnings per share before income tax and earnings per share after income tax are as follows:

	2006								
	Amount				Weighted Average Number of Common Shares Outstanding (In Thousands)	Earnings Per Share			
	Income from Continuing Operations Before Tax	Income from Continuing Operations After Tax	Cumulative Effect of Changes in Accounting Principle	Net Income		Income from Continuing Operations Before Tax	Income from Continuing Operations After Tax	Cumulative Effect of Changes in Accounting Principle	Net Income
Basic earnings per share									
Net income attributed to shareholders of common shares	\$ 5,330,314	\$ 5,326,444	\$ 445,527	\$ 5,771,971	2,260,894	<u>\$ 2.36</u>	<u>\$ 2.36</u>	<u>\$ 0.19</u>	<u>\$ 2.55</u>
Effect of dilutive potential common shares									
Employee stock warrants	-	-	-	-	35,661				
Convertible bonds	-	-	-	-	2,930				
Diluted earnings per share									
Net income attributed to shareholders of common shares plus the effect of dilutive potential common shares	<u>\$ 5,330,314</u>	<u>\$ 5,326,444</u>	<u>\$ 445,527</u>	<u>\$ 5,771,971</u>	<u>2,299,485</u>	<u>\$ 2.32</u>	<u>\$ 2.32</u>	<u>\$ 0.19</u>	<u>\$ 2.51</u>
	2005								
	Amount				Weighted Average Number of Common Shares Outstanding (In Thousands)	Earnings Per Share			
	Income from Continuing Operations Before Tax	Income from Continuing Operations After Tax	Cumulative Effect of Changes in Accounting Principle	Net Income		Income from Continuing Operations Before Tax	Income from Continuing Operations After Tax	Cumulative Effect of Changes in Accounting Principle	Net Income
Basic earnings per share									
Net income attributed to shareholders of common shares	\$ 4,055,792	\$ 4,227,942	\$ -	\$ 4,227,942	2,257,170	<u>\$ 1.80</u>	<u>\$ 1.87</u>	<u>\$ -</u>	<u>\$ 1.87</u>
Effect of dilutive potential common shares									
Employee stock warrants	-	-	-	-	35,556				
Convertible bonds	-	-	-	-	5,242				
Diluted earnings per share									
Net income attributed to shareholders of common shares plus the effect of dilutive potential common shares	<u>\$ 4,055,792</u>	<u>\$ 4,227,942</u>	<u>\$ -</u>	<u>\$ 4,227,942</u>	<u>2,297,968</u>	<u>\$ 1.76</u>	<u>\$ 1.84</u>	<u>\$ -</u>	<u>\$ 1.84</u>

Nonderivative Financial Instruments	2006		2005	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Liabilities				
Short-term borrowings	3,290,000	3,290,000	1,480,000	1,480,000
Notes and accounts payable	744,909	744,909	1,364,493	1,364,493
Notes and accounts payable to affiliates	304,163	304,163	323,675	323,675
Other payables	529,680	529,680	602,811	602,811
Current portion of long-term liabilities	-	-	3,094,092	3,094,092
Bonds payable	5,023,794	5,023,794	5,150,453	5,150,453
Long-term debt	9,000,000	9,000,000	4,500,000	4,500,000
Advance deposits from customers	2,382	2,382	1,000	1,000

Derivative Financial Instruments

Interest rate swap contracts (derivate financial liabilities held for hedging, noncurrent)	\$ 167,839	\$ 167,839	\$ -	\$ -
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The Company adopted newly released SFAS No. 34, "Accounting for Financial Instruments," effective January 1, 2006. Please see Note 3 to the financial statements for the cumulative effect of changes in accounting principle and adjustments to stockholders' equity.

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

- The fair value of cash and cash equivalents, notes and accounts receivable, short-term borrowings, and notes and accounts payable, approximates their carrying value due to the short-term maturities of these financial instruments.
- The fair value of financial instruments at fair value through profit or loss, available-for-sale financial assets and derivative financial instruments are quoted by market price. The fair value of derivative financial instruments is measured, according to its specific contract's settlement rate, by the middle exchange rate and the discount rate quoted by Reuters.
- The fair value of long-term debt and bond payables is estimated based on the net present value of expected cash flows.

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

	Quoted Market Price in Active Market		Other Method of Valuation	
	2006	2005	2006	2005
Assets				
Financial assets measured at fair value through profit or loss, current	\$ 2,030,131	\$ 1,782,020	\$ -	\$ -
Available-for-sale financial assets, noncurrent	-	377,063	-	-
Liabilities				
Derivative financial liabilities held for hedging, noncurrent	-	-	167,839	-

As at December 31, 2006 and 2005, financial liabilities exposed to cash flow interest rate risk were \$10,550,000 thousand and \$5,000,000 thousand, respectively.

The Company recognized an unrealized gain of \$434,251 thousand in stockholders' equity for the changes in fair value of available-for-sale financial assets for the year ended December 31, 2006.

Financial Risk Information

Market Risk

The risk the Company engaged in portfolios of marketable equity securities and open-ended mutual fund comes from changes of market price. One percentage decline in market rate will cause the fair value of financial instruments to decline by \$20,301 thousand.

Credit Risk

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

Liquidity Risk

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

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

Cash Flow Interest Rate Risk

The Company engaged in floating-interest-rate long-term borrowings. Therefore, cash flows are expected to fluctuate due to changes in market interest rates. One percentage increase in market rate will cause the Company to increase its cash-out by \$140,000 thousand.

25. RELATED PARTY TRANSACTIONS

Names and relationships of the related parties are as follows:

Name	Relationship
Wealthplus	The Company holds a 100% ownership interest
Pou Shine	The Company holds a 100% ownership interest
Ming Wang	The Company holds a 100% ownership interest
Windsor Entertainment	The Company holds a 100% ownership interest
Pou Yuen Technology	The Company holds a 96.32% ownership interest
Barits Development	The Company holds a 98.34% ownership interest
Pou Yii	The Company and Song Ming hold a 90.00% ownership interest
Yue Yuen Industrial (Holdings) Limited ("Yue Yuen")	The Company indirectly holds a 49.54% ownership interest

Name	Relationship
Ming Chi	Barits Development holds a 100.00% ownership interest
Pou Chien Chemical Co., Ltd. (“Pou Chien”)	Yue Yuen indirectly holds a 100% ownership interest
Pou Chien Technology Co., Ltd. (“Pou Chien Technology”)	Yue Yuen indirectly holds a 100% ownership interest
Yue Dean Technology Co. (“Yue Dean”)	Yue Yuen indirectly holds a 100% ownership interest
Long King	Yue Yuen indirectly holds a 48.76% ownership interest
San Fang	Pou Chien and Yue Dean are both its directors
Global Brands Manufacture	The Company and its affiliates hold a 51.77% ownership interest
Pro Arch Technology	The Company holds a 95.57% ownership interest
Dynamic Skyline Ltd.	Global Brands Manufacture holds a 100% ownership interest
Venture Well Holdings Ltd.	Wealthplus indirectly holds a 43.08% ownership interest
Digital Decade Limited (“Digital”)	Wealthplus indirectly holds a 100% ownership interest
Tetor Ventures Ltd.	Wealthplus holds a 100% ownership interest
Alpha Leader Ltd.	Wealthplus indirectly holds a 43.08% ownership interest.
Meple Star Investments Ltd.	Wealthplus holds a 79.60% ownership interest
Ventage Capital Investments Ltd.	Pou Yuen Technology indirectly holds a 100% ownership interest
Kleine Developments Ltd.	Pou Yuen Technology holds a 100% ownership interest
Beijing Advazone Electronic Co., Ltd.	Wealthplus indirectly holds a 43.08% ownership interest

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

Sales

Sales to related parties for the years ended December 31, 2006 and 2005 are as follows:

	<u>2006</u>		<u>2005</u>	
	Amount	Percentage to Net Sales	Amount	Percentage to Net Sales
Yue Yuen	\$ 8,729,842	63	\$ 9,535,878	69
Digital	1,238,090	9	-	-
Pro Arch Technology	708,125	5	948,507	7
Others	<u>205,280</u>	<u>1</u>	<u>312,193</u>	<u>2</u>
	<u>\$ 10,881,337</u>	<u>78</u>	<u>\$ 10,796,578</u>	<u>78</u>

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

Technical Service Income

	2006	2005
Yue Yuen	<u>\$ 393,638</u>	<u>\$ 371,941</u>

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

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

Cost of Sales - Purchases and Cost of Processing

Purchases and cost of processing from related parties for the years ended December 31, 2006 and 2005 are summarized as follows:

	2006		2005	
	Amount	Percentage to Net Purchases	Amount	Percentage to Net Purchases
Digital	\$ 1,318,869	13	\$ 552,677	5
Yue Yuen	571,942	5	574,417	5
San Fang	451,265	4	656,316	6
Long King	248,682	2	210,865	2
Others	<u>34,626</u>	<u>1</u>	<u>127,696</u>	<u>1</u>
	<u>\$ 2,625,384</u>	<u>25</u>	<u>\$ 2,121,971</u>	<u>19</u>

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

Rent Revenue

Rent revenue from related parties for the years ended December 31, 2006 and 2005 are summarized as follows:

	2006		2005	
	Amount	Percentage to Rent Revenue	Amount	Percentage to Rent Revenue
Windsor Entertainment	\$ 104,247	75	\$ -	-
Pou Chien	12,307	9	12,307	35
Pou Yuen Technology	7,062	5	7,726	22
Others	<u>9,794</u>	<u>7</u>	<u>11,826</u>	<u>33</u>
	<u>\$ 133,410</u>	<u>96</u>	<u>\$ 31,859</u>	<u>90</u>

Notes and Accounts Receivable

Notes and accounts receivable from affiliates as at December 31, 2006 and 2005 are summarized as follows:

	2006		2005	
	Amount	Percentage to Notes and Accounts Receivable	Amount	Percentage to Notes and Accounts Receivable
Notes receivable				
Pou Chien Technology	\$ 19,776	60	\$ 16,982	54
Pou Chien	1,321	4	3,043	10
Others	559	2	876	3
	21,656	66	20,901	67
Accounts receivable				
Yue Yuen	1,157,120	73	1,421,038	62
Pro Arch Technology	14,007	1	503,093	22
Others	9,774	1	58,702	3
	1,180,901	75	1,982,833	87
	<u>\$ 1,202,557</u>		<u>\$ 2,003,734</u>	

Notes and Accounts Payable

Notes and accounts payable to related parties as at December 31, 2006 and 2005 are summarized as follows:

	2006		2005	
	Amount	Percentage to Notes and Accounts Payable	Amount	Percentage to Notes and Accounts Payable
Notes payable				
San Fang	\$ 95,656	49	\$ 102,579	68
Others	308	-	325	-
	95,964	49	102,904	68
Accounts payable				
Yue Yuen	89,709	10	65,936	4
Digital	62,685	7	69,775	5
San Fang	32,428	4	43,642	3
Long King	23,068	3	16,239	1
Others	309	-	25,179	1
	208,199	24	220,771	14
	<u>\$ 304,163</u>		<u>\$ 323,675</u>	

Transaction of Stock

See Note 9.

Credit Guarantees

See Note 26.

26. COMMITMENTS AND CONTINGENCIES

Loan Guarantees

As at December 31, 2006, the Company issued certificates of guarantee of \$60,000 thousand for the payment of loans.

Letters of Credit

Outstanding letters of credit as at December 31, 2006 are as follows: (unit: dollar)

U.S. Dollars	\$ 321,920
Euro	25,267
Japanese Yen	7,752,000

At December 31, 2006, the Company has guaranteed the payments of credit of related parties as follows:

Related Party	Amount
Wealthplus	\$ 10,104,450
Barits Development	2,605,450
Pou Shine	620,000
Pou Yuen Technology	1,541,140
Ming Wang	300,000
Pro Arch Technology	2,200,000
Ming Chi	200,000
Pou Yii	200,000
Beijing Advazone Electronic Co., Ltd.	55,046
Dynamic Skyline Ltd.	302,482
Tetor Ventures Ltd.	647,011
Digital Decade Limited	3,011,778
Maple Star Investments Ltd.	529,669
Kleine Developments Ltd.	48,892
Vantage Capital Investments Ltd.	48,892
Venture Well Holdings Ltd.	412,653
Alpha Leader Ltd.	92,655
	<u>92,655</u>
	<u>\$ 22,920,118</u>

27. SUBSEQUENT EVENTS

On January 12, 2007, the Board of Directors resolved to dispose of 7,479 thousand shares of AUO common stock for the total price of \$333,906 thousand or \$44.65 dollars per share, and the Company recognized loss on disposal of investments of \$4,893 thousand.

On January 16, 2007, the Board of Directors resolved to invest in Fanchang Yue Xiang Enterprise Dev. Co. Ltd., Fanchang Yue Song Enterprise Dev. Co., Ltd. and Fanchang Pou Feng Development Co., Ltd. US\$13,872 thousand for 100% ownership equity through the Company's subsidiary, Yue Yuen.

On January 29, 2007, the Board of Directors resolved to subscribe to 26,007 thousand shares of Pou Yuen Technology for the total price of \$260,073 thousand or \$10 dollars per share.

On February 15, 2007, the Board of Directors resolved to invest in Sheng Dao Investments Co., Ltd. to become a holding company for the retailing of sports goods business in ROC through the Company's subsidiary, Yue Yuen. The Company's registered capital was US\$44,000 thousand.