

YEUN CHYANG INDUSTRIAL CO., LTD.

FINANCIAL STATEMENTS
FOR THE YEAR ENDED
DECEMBER 31, 2005 AND 2004
WITH
INDEPENDENT AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Yeun Chyang Industrial Co., Ltd.

We have audited the accompanying balance sheets of Yeun Chyang Industrial Co., Ltd. as of December 31, 2005 and 2004, and the related statements of income, changes in shareholders' 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 audit.

We conducted our audit 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 audit provides 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 Yeun Chyang Industrial Co., Ltd. as of December 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuer and accounting principles generally accepted in the Republic of China.

We have also audited the consolidated balance sheets of the company and its subsidiaries as of December 31, 2005 and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the years then ended. We have expressed unqualified opinions on those consolidated financial statements as of and for the years ended December 31, 2005.



Certified Public Accountants
Taipei, Taiwan R.O.C.
January 20, 2006

YEUN CHYANG INDUSTRIAL CO., LTD.
BALANCE SHEETS
DECEMBER 31, 2005 and 2004
(IN THOUSANDS OF NEW TAIWAN DOLLARS)

ASSETS	2005	%	2004	%
CURRENT ASSETS				
Cash and cash equivalents(Notes2&4)	\$130,217	2.76	\$86,686	2.08
Short-term investments(Notes2&5)	83,865	1.78	2,352	0.06
Notes receivable - net(Notes2&6)	144,643	3.06	179,455	4.31
Accounts receivable - net(Notes2&7)	604,815	12.82	677,624	16.29
Other receivables	99,015	2.10	80,063	1.93
Inventories(Notes2&8)	1,989,428	42.17	1,652,158	39.74
Prepayments	84,787	1.80	15,775	0.38
Other current assets(Note25)	3,883	0.08	678	0.02
Deferred income tax assets-current(Notes2&22)	1,913	0.04	5,699	0.14
Restricted Asssets(Notes9&26)	5,951	0.13	3,663	0.09
Total current assets	<u>3,148,517</u>	<u>66.74</u>	<u>2,704,153</u>	<u>65.04</u>
FUNDS AND INVESTMENTS(Notes2&10)				
Investments accounted for using equity method	80,116	1.70	159,028	3.83
Financial assets carried at cost - non-current	139,436	2.95	49,986	1.20
Total investments	<u>219,552</u>	<u>4.65</u>	<u>209,014</u>	<u>5.03</u>
PROPERTY, PLANT AND EQUIPMENT(Notes2、11&26)				
Land	678,605	14.38	671,587	16.16
Buildings	220,502	4.67	182,440	4.39
Machinery and equipment	620,196	13.15	569,680	13.70
Transportation equipment	34,523	0.73	58,502	1.41
Office equipment	9,850	0.21	9,284	0.22
Other equipment	83,345	1.77	81,438	1.96
Total cost	<u>1,647,021</u>	<u>34.91</u>	<u>1,572,931</u>	<u>37.84</u>
Less : accumulated depreciation	(439,254)	(9.31)	(432,625)	(10.41)
Construction in progress	21,467	0.46	0	0.00
Prepaid of equipment	39,322	0.83	35,381	0.85
Net property and equipment	<u>1,268,556</u>	<u>26.89</u>	<u>1,175,687</u>	<u>28.28</u>
INTANGIBLE ASSETS				
Deferred pension cost(Notes2&19)	20,620	0.44	21,722	0.52
Total intangible assets	<u>20,620</u>	<u>0.44</u>	<u>21,722</u>	<u>0.52</u>
OTHER ASSETS				
Refundable deposits	1,510	0.03	2,154	0.05
Deferred charges(Note2)	7,301	0.15	5,387	0.13
Receivable overdue(Note13)	0	0.00	0	0.00
Deferred income tax assets - non-current(Notes2&24)	20,535	0.44	16,383	0.40
Other assets(Note14)	31,111	0.66	22,890	0.55
Total other assets	<u>60,457</u>	<u>1.28</u>	<u>46,814</u>	<u>1.13</u>
TOTAL ASSETS	<u><u>\$4,717,702</u></u>	<u><u>100.00</u></u>	<u><u>\$4,157,390</u></u>	<u><u>100.00</u></u>

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

YEUN CHYANG INDUSTRIAL CO., LTD.
BALANCE SHEETS (CONTINUED)
DECEMBER 31, 2005 and 2004
(IN THOUSANDS OF NEW TAIWAN DOLLARS)

LIABILITIES AND SHAREHOLDERS' EQUITY	2005	%	2004	%
CURRENT LIABILITIES				
Short-term loans(Note14)	\$403,722	8.56	\$265,657	6.39
Short-term bills payable(Note15)	249,255	5.29	159,624	3.84
Notes payable	60,335	1.28	48,951	1.18
Accounts payable	95,602	2.03	185,262	4.46
Income taxes payable	17,857	0.38	127,411	3.06
Accrued expenses	85,604	1.81	92,482	2.22
Other payables	8,680	0.19	7,159	0.17
Advance receives	2,365	0.05	875	0.02
Current portion of long-term liabilities(Notes2&16)	247,080	5.23	87,500	2.10
Other current liabilities(Note25)	33,184	0.70	23,523	0.57
Total current liabilities	<u>1,203,684</u>	<u>25.52</u>	<u>998,444</u>	<u>24.01</u>
LONG-TERM LIABILITIES				
Bonds payable(Notes2、16&17)	0	0.00	193,133	4.65
Long-term loans(Notes16&18)	709,250	15.03	332,250	7.99
Total loan-term liabilities	<u>709,250</u>	<u>15.03</u>	<u>525,383</u>	<u>12.64</u>
RESERVE				
Reserve for increment tax on land revaluation	890	0.02	890	0.02
Total reserve	<u>890</u>	<u>0.02</u>	<u>890</u>	<u>0.02</u>
OTHER LIABILITIES				
Accrued pension liabilities(Notes2&19)	92,455	1.96	87,254	2.10
Guarantee deposits	1,120	0.02	7,600	0.18
Defferred credit(Notes2&10)	4,037	0.09	4,037	0.10
Total other liabilities	<u>97,612</u>	<u>2.07</u>	<u>98,891</u>	<u>2.38</u>
TOTAL LIABILITIES	<u>2,011,436</u>	<u>42.64</u>	<u>1,623,608</u>	<u>39.05</u>
SHAREHOLDERS' EQUITY				
Capital stock(Note20)				
Common stock	1,492,864	31.64	1,270,576	30.56
Capital collected in advance	0	0.00	22,121	0.53
Capital surplus(Note2)				
Additional paid-in capital	683,347	14.48	423,347	10.19
Premium of convertible bonds payable	75,537	1.60	75,203	1.81
Interest payable for convertible bond	360	0.01	356	0.01
Retained Earnings(Note23)				
Legal reserve	180,872	3.83	120,074	2.89
Unappropriated earnings	277,777	5.90	621,993	14.96
Othe equity				
Unrecognized net loss on pension cost(Notes2&21)	(4,603)	(0.10)	0	0.00
Reserve for assets revaluation	112	0.00	112	0.00
Total shareholders' equity	<u>2,706,266</u>	<u>57.36</u>	<u>2,533,782</u>	<u>60.95</u>
Total liabilities and shareholders' equity	<u>\$4,717,702</u>	<u>100.00</u>	<u>\$4,157,390</u>	<u>100.00</u>

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

YEUN CHYANG INDUSTRIAL CO., LTD.
STATEMENTS OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2005 and 2004
(IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT EARNING PER SHARE)

ITEMS	2005	%	2004	%
OPERATING REVENUES	\$8,688,594	100.29	\$7,859,971	100.32
Sales Returns	(20,936)	(0.24)	(16,750)	(0.21)
Sales Discounts	(4,289)	(0.05)	(8,281)	(0.11)
NET SALES	<u>8,663,369</u>	<u>100.00</u>	<u>7,834,940</u>	<u>100.00</u>
OPERATING COSTS	<u>(8,108,965)</u>	<u>(93.60)</u>	<u>(6,960,332)</u>	<u>(88.84)</u>
Cost of goods sold	<u>(8,108,965)</u>	<u>(93.60)</u>	<u>(6,960,332)</u>	<u>(88.84)</u>
GROSS PROFIT	554,404	6.40	874,608	11.16
Realized profit from affiliate	0	0.00	652	0.01
OPERATING EXPENSES				
Marketing	(257,845)	(2.98)	(222,508)	(2.84)
Administrative	(64,269)	(0.74)	(62,794)	(0.80)
TOTAL OPERATING EXPENSES	<u>(322,114)</u>	<u>(3.72)</u>	<u>(285,302)</u>	<u>(3.64)</u>
OPERATING INCOME	<u>232,290</u>	<u>2.68</u>	<u>589,958</u>	<u>7.53</u>
NON-OPERATING INCOME AND GAINS				
Interest income	293	0.00	161	0.00
Investment income	0	0.00	54,474	0.70
Gains on disposal of property, plant and equipment	2,048	0.02	4,034	0.05
Gains on disposal of investment	0	0.00	20,144	0.26
Gains on foreign exchange	16,447	0.19	0	0.00
Revenue from sales of scrap	147,847	1.71	114,828	1.47
Others	15,186	0.18	9,128	0.12
Total Non-Operating Income and gains	<u>181,821</u>	<u>2.10</u>	<u>202,769</u>	<u>2.60</u>
NON-OPERATING EXPENSES AND LOSSES				
Interest expenses	(26,649)	(0.31)	(20,343)	(0.26)
Investment loss	(45,226)	(0.52)	0	0.00
Losses on foreign exchange	0	0.00	(11,356)	(0.14)
Losses on disposal of investment	(2,339)	(0.03)	0	0.00
Losses on disposal of property, plant and equipment	(8,081)	(0.09)	(559)	(0.01)
Others	(18,951)	(0.22)	(2,145)	(0.03)
Total Non-Operating Expenses and losses	<u>(101,246)</u>	<u>(1.17)</u>	<u>(34,403)</u>	<u>(0.44)</u>
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAX	312,865	3.61	758,324	9.69
INCOME TAX EXPENSES(Notes 2&25)	<u>(80,317)</u>	<u>(0.93)</u>	<u>(150,339)</u>	<u>(1.92)</u>
INCOME FROM CONTINUING OPERATIONS	<u>232,548</u>	<u>2.68</u>	<u>607,985</u>	<u>7.77</u>
NET INCOME	<u>\$232,548</u>	<u>2.68</u>	<u>\$607,985</u>	<u>7.77</u>
Basic EPS(Note26)				
Net income	<u>\$2.22</u>	<u>\$1.65</u>	<u>\$6.35</u>	<u>\$5.09</u>
Diluted EPS(Note26)				
Net income	<u>\$2.14</u>	<u>\$1.59</u>	<u>\$6.06</u>	<u>\$4.86</u>

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

YEUN CHYANG INDUSTRIAL CO., LTD.
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2005 and 2004
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

ITEMS	Capital Stock		Capital Surplus	Retained Earnings		Translation adjustments	Unrecognized net loss on pension cost	TOTAL
	Common Stock	Capital collected in advance		Legal reserve	Unappropriated earnings			
BALANCE AT JANUARY 1,2004	\$1,117,600	\$0	\$138,659	\$103,715	\$166,674	\$300	\$0	\$1,526,948
APPROPRIATION AND DISTRIBUTION OF PRIOR YEAR'S EARNINGS								
Legal reserve				16,359	(16,359)			0
Cash dividend					(126,000)			(126,000)
Remuneration to directors an supervisors					(2,945)			(2,945)
Bonus to employees					(7,362)			(7,362)
Capital increase in cash and premium	142,400		284,800					427,200
Conversion of convertible bonds to capital stock and capital reserve	10,576	22,121	75,559					108,256
NET INCOME FOR 2004					607,985			607,985
Translation adjustments						(300)		(300)
BALANCE AT DECEMBER 31,2004	1,270,576	22,121	499,018	120,074	621,993	0	0	2,533,782
APPROPRIATION AND DISTRIBUTION OF PRIOR YEAR'S EARNINGS								
Legal reserve				60,798	(60,798)			0
Cash dividend					(477,663)			(477,663)
Remuneration to directors an supervisors					(10,944)			(10,944)
Bonus to employees					(27,359)			(27,359)
Capital increase in cash and premium	200,000		260,000					460,000
Conversion of convertible bonds to capital stock and capital reserve	22,288	(22,121)	338					505
NET INCOME FOR 2005					232,548			232,548
Unrecognized net loss on pension cost							(4,603)	(4,603)
BALANCE AT DECEMBER 31,2005	\$1,492,864	\$0	\$759,356	\$180,872	\$277,777	\$0	(\$4,603)	\$2,706,266

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

YEUN CHYANG INDUSTRIAL CO., LTD.
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2005 and 2004
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

ITEMS	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$232,548	\$607,985
Adjustments to reconcile net income to net cash provided by (used in) operating activities :		
Depreciation	78,956	72,475
Amortization	3,872	3,552
Realized gross profit	0	(652)
Investment (gain) loss—equity method	29,512	(56,365)
Losses on disposal of financial assets carried at cost	14,550	0
Cash dividends received from equity—method investees	49,400	9,880
Loss on disposal of long-term investments	0	441
Transfer of fixed assets to expense	18	73
Gains on disposal of property, plant and equipments	(2,048)	(4,034)
Losses on disposal of property, plant and equipments	8,081	559
(Increase) Decrease in notes receivable	34,812	(37,429)
(Increase) Decrease in accounts receivable	72,809	(177,909)
(Increase) Decrease in accounts receivable-affiliated company	0	14,295
(Increase) Decrease in other receivable:	(18,952)	(34,638)
(Increase) Decrease in inventories	(337,270)	(994,525)
(Increase) Decrease in prepayments	(69,012)	(5,358)
(Increase) Decrease in other current assets	(3,205)	(658)
Increase (Decrease) in notes payable	11,384	19,971
Increase (Decrease) in accounts payable	(89,660)	120,285
Increase (Decrease) in income tax payable	(109,554)	102,150
Increase (Decrease) in other payables	1,521	(74)
Increase (Decrease) in accrued expenses	(6,442)	38,370
Increase (Decrease) in advance receives	1,490	(125)
Increase (Decrease) in other current liabilities	9,670	(84,497)
Increase (Decrease) in Interest payable for convertible bonds	1,452	1,389
Increase in accrued pension liability	9,250	14,495
Payment for pension	(7,995)	(8,169)
(Increase) Decrease in deferred income tax assets	(366)	(1,751)
Net cash provided by (used in) operating activities	<u>(85,179)</u>	<u>(400,264)</u>
CASH FLOWS FROM INVESTING ACTIVITIES :		
(Increase) Decrease in short-term investments	(81,513)	26,623
(Increase) Decrease in restricted assets	(2,288)	(513)
Increase in investments accounted for using equity method	(104,000)	0
Additions to property, plant and equipment	(192,937)	(97,634)
Proceeds from disposal of property, plant and equipment	15,061	9,686
Proceeds from disposal of long-term investments	0	104,673
Increase in deferred charges	(5,786)	(2,689)
(Increase) Decrease in refundable deposits	644	(324)
Additions to other assets	(8,221)	(22,890)
Net cash provided by (used in) investing activities	<u>(379,040)</u>	<u>16,932</u>
CASH FLOW FROM FINANCING ACTIVITIES :		
Increase (Decrease) in short-term loans	138,065	(87,566)
Increase (Decrease) in short-term bills payable	89,631	367
Issue bonds payable	0	300,000
Increase in long-term loans	490,000	180,000
Payment in long-term loans	(147,500)	(286,485)
Increase (Decrease) in guarantee deposits	(6,480)	6,657
Capital increase in cash	460,000	427,200
Cash dividends	(477,663)	(126,000)
Remuneration to directors and supervisors	(10,944)	(2,945)
Bonus to employees	(27,359)	(7,362)
Net cash provided by (used in) financing activities	<u>507,750</u>	<u>403,866</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>43,531</u>	<u>20,534</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	<u>86,686</u>	<u>66,152</u>
CASH AND CASH EQUIVALENTS, END OF THE YEAR	<u><u>\$130,217</u></u>	<u><u>\$86,686</u></u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOWS :		
Cash paid during the period for :		
Interest (excluding amount capitalized)	\$25,038	\$19,053
Income tax	<u>\$190,237</u>	<u>\$49,942</u>
NON-CASH INVESTING AND FINANCING ACTIVITIES :		
Current portion of long-term liabilities	<u>\$247,080</u>	<u>\$87,500</u>
Conversion of convertible bonds to capital stock and capital reserves	<u>\$505</u>	<u>\$108,256</u>

The accompanying notes are an integral part of the financial statements

YEUNCHYANG INDUSTRIAL CO., LTD.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, UNLESS OTHERWISE STATED)

1. ORGANIZATION AND OPERATIONS

1. Yeun Chyang Industrial Co., Ltd (the "Company") was incorporated under the Company Law of the Republic of China on January 31, 1973. The company commercial items are as following:

- (1) Pipes, Stainless Steel pipes and parts manufacture and commerce.
 - (2) Stainless Steel material commerce.
 - (3) Stainless Steel sheet and stainless steel coil manufacture and commerce.
 - (4) Stainless steel angle bar, Stainless steel rod, and Stainless steel flat bar manufacture and commerce.
 - (5) Various manufacture machinery and install construction.
 - (6) Various pipes construction and project tenders.
 - (7) Agency for import and export commerce for the subject to item (6).
 - (8) Agency for the domestic ,international products and project tender for subject item (7).
 - (9) Pipe and tank manufacture install.
 - (10) Stainless sheets leveling.
 - (11) All above business transitions as allowed. Except the business under the commercial law in Taiwan, others prohibited.
2. As of December 31, 2005, the company had 457 employees.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the company are prepared in conformity with generally the "Guidelines Governing the Preparation of Financial Reports by Securities Issuers" and accounting principles generally accepted in the Republic of China.

Summary of significant accounting policies are as below :

(1) Cash equivalents

The Company considers all highly liquid instruments with maturity of three months or less to be cash equivalents.

(2) Short-term investments

For those investee companies' shares, traded in the OTC exchange or listed on a stock exchange, are stated at cost, and the lower of cost or market method is adopted at year end closing. Stock dividend received or shares acquired as the result of Capital surplus transferrrd to capital stock, only the addition of shares were recorded and cost per share for sales was re-calculated under weighted

average method.

(3) Allowance for doubtful accounts

Allowance for doubtful accounts is provided based on estimated collectability of notes and accounts receivable.

(4) Inventory

It is valued in accordance with the perpetual inventory method and booked at cost. The cost of inventory is based on the Weighted Average Method. For year-end inventory, allowance for loss of inventory in valuation is appropriated for decline of inventory value and obsolescence and the residual inventory is valued in accordance with the Lower of Cost or Market Value Method. Aggregate cost and market value of inventories are used as basis when evaluating lower of cost of market value. Market value refers to replacement cost for raw materials and supplies, and to net realizable value for all others.

(5) Investment accounted for using equity method

1. Investments accounted for using equity method is booked at cost. If the Company has less than 20% stock shares with votes of the invested company and does not have significant influence over the invested company and/or if the invested company is a listed/OTC company, it is valued in accordance with the Lower of Cost or Market Price Method; also, the unrealized losses on decline of investment value and obsolescence is debited to the Shareholder's Equity; on the other hand, if the invested company is not a listed/OTC company, it is valued in accordance with the Cost Method. If the impairment loss of investment value is evidenced and with small hope of recovery, the impairment loss should be recognized and the net investment face value shall be the final cost. Investment accounted for by using the equity method is booked at cost. If the Company has over 20% stock shares with votes of the invested company and does have significant influence over the invested company, it is valued in accordance with the Equity Method. If there is difference between investment cost and the net value of the invested company that is valued proportionally to shareholding, except for the land production, it is amortized in average in accordance with the remaining useful years (assets with depreciation) or five years (the cause of difference unknown); also, it is booked as investment gain/loss. The increase of stock shares from stock dividend or stock distribution for capitalization from additional paid-in capital is not booked as investment gain and the cost of sales is based on the Weighted Average Method.
2. The invested company that is with over 50% stock shares held by the Company is the subsidiary of the Company. In addition to have the subsidiary valued in accordance with the Equity Method, consolidated financial statements are composed accordingly.
3. The unrealized gain/loss of the transactions conducted between the Company and

the invested company that is valued with the Equity Method; also, the unrealized gain/loss of the transactions conducted among subsidiaries must be deferred. Trade gain/loss that is resulted from depreciative or amortized assets must be recognized annually while the trade gain/loss of other assets are recognized in the year of occurrence.

(6) Property, plant and equipment

1. Property, plant and equipment are stated at cost.
2. Major renewals and betterment which extend the life of an assets are capitalized, while repairs and maintenance are expensed as incurred.
3. Losses from disposal of property, plant and equipment are charged to non-operating expenses.

Any gains on disposal of property, plant and equipment shall be first credited to current income, and then transferred, net of applicable income tax, to capital reserve in the next year's financial statements. From 2001 onwards, these gains no longer need to be transferred to capital reserve.

(7) Deferred charges

Deferred charges are software, etc., which are stated at cost and are amortized over a period of three to five years.

(8) Convertible bonds payable

When bondholders exercise their conversion right, the number of shares converted is calculated using the par value of the convertible bonds and conversion price at the conversion date. The convertible bonds in excess of the par value of the convertible common stock, the related redemption premium payable, is recognized as capital surplus.

(9) Pension costs

The Company had labor Pension Committee organized in 1986 and with the Labor Pension Act stipulated for the protection of all official employees. According to the Labor Pension Act, the first fifteen service years of each employee is awarded with two points per year and then one point per year since the sixteenth year on and with a maximum of forty-five points granted to each employee. The payment of pension to employees is based on the total points received in the month of retirement. The Company contributes monthly an amount equal to 2% of salaries to pension fund. From Yr. 2000 January onward, the Company contributes monthly an amount equal to 5% of salaries and deposited in the Central Trust of China. As of December 31, 2005 and 2004, the Labor Pension Committee of the Company managed the pension independently for an amount of \$1,517 thousand and \$8,262 thousand, respectively. The Labor Pension Act was enforced on July 1, 2005. Employees who choose to be

subject to the pension mechanism under this Act and those who joined the company after the Act was enforced, the rate of an employer's monthly contribution should be at least 6% of the employee's monthly salaries, to the individual pension labor pension account. The Company has not yet revised its pension plan in coordination of the Act, thus any matters that is not covered by the pension plan are transacted in accordance to the act. The Company has accrued pension liabilities recognized and booked with the data of actuary and with relevant information disclosed in accordance with R.O.C SFAS No. 18 "Guidelines Governing Pension Accounting" since 1996. Net pension cost has been recognized since 1997.

(10) Asset impairment

The Company assesses at balance sheet date whether there is any indication that an asset (individual asset or cash-generating unit) other than goodwill may have been impaired. If any such indication exists, the Company estimates the recoverable amount of the asset.

The Company recognizes impairment loss for an asset whose carrying value is higher than the recoverable amount. If the recoverable value of the asset later increases, then losses recognized in previous years are reversible, but under the condition that the book value of the asset after the reversal may not exceed the asset's book value before the impairment losses were recognized, less required provision for depreciation or amortization.

(11) Income tax

1. The Company adopted the R.O.C SFAS No.22 "Accounting for Income Taxes" for inter-period and intra-period income tax allocation. Provision for income tax includes deferred income tax resulting from temporary differences, loss carry-forward and investment tax credits. Deferred income tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts in the financial statements using enacted tax rates and laws that will be in effect when the difference is expected to reverse. Valuation allowance on deferred income tax assets is provided to the extent that it is more likely than not that the tax benefits will not be realized.
2. According to the R.O.C SFAS No.12, the Company recognized the tax benefit from the purchase of equipment and technology, research and development expenditure, employee training, and certain equity investment, by the flow-through method.
3. Income tax (10%) on unappropriated earnings is recorded as expense in the year when the shareholders have resolved that the earnings shall be retained.

(12) Foreign currency transactions

1. The accounts of the Company are maintained in New Taiwan Dollars. Transactions settled in terms of foreign currencies are recorded in New Taiwan Dollars at the exchange rates when the transactions occurred. Gains or losses, caused by different foreign exchange rates applied when the foreign-currencies receivable or payable are settled, are credited to or charged against income in the year of actual settlement. Year-end balances of foreign currency assets and liabilities are revalued at year-end spot or forward exchange rate. The gains or losses incurred are credited to or charged against current year's income.
2. The investment of the Company in foreign business entities is valued in accordance with the Equity Method. The gain/loss of exchange resulted from the translation of financial statements in foreign currency to local currency is booked as the cumulative translation adjustment to Shareholder's Equity and it will be consolidated into the Income Statement once the foreign business entity is sold or liquidated.

(13) Capital surplus

Capital surplus can only be used to offset a deficit under the Company Law. However, the capital surplus generated from donations and the excess of the issuance price over the par value of capital stock may be appropriated as stock dividends.

3. Reasons for and Cumulative Effect of Accounting Principle Change

The company adopted Statement of Financial Accounting Standards No.35 "Accounting for Asset Impairment" in 2005. Pursuant to this new accounting standard, the company did not recognized any impairment loss based on the impairment test as of December 31,2005.

4. Cash and cash equivalents

	December 31	
	2005	2004
Cash on hand	\$198	\$230
Petty cash	230	230
Cash in banks-checking and saving account	129,789	86,226
Total	<u>\$130,217</u>	<u>\$86,686</u>

As of December 31,2005 and 2004,the above cash in banks-checking and saving account were not pledged as collateral.

5 .SHORT-TERM INVESTMENTS

	December 31	
	2005	2004
Listed stock	\$28,550	\$5,872
Bond fund beneficiary certificate	60,000	0
Total	88,550	5,872
Less : Allowance for valuation	(4,685)	(3,520)
Net	<u>\$83,865</u>	<u>\$2,352</u>

As of December 31,2005 and 2004,the above short-term investments were not pledged as collateral.

6 .NOTES RECEIVABLE-NET

	December 31	
	2005	2004
Notes receivable	\$145,370	\$180,356
Less : Allowance for doubtful accounts	(727)	(901)
Net	<u>\$144,643</u>	<u>\$179,455</u>

AS of December 31,2005 and 2004,the above notes reveivable were not pledged as collateral.

7 .ACCOUNTS RECEIVABLE-NET

	December 31	
	2005	2004
Accounts receivable	\$611,235	\$684,518
Less : Allowance for doubtful accounts	(6,420)	(6,894)
Net	<u>\$604,815</u>	<u>\$677,624</u>

AS of December 31,2005 and 2004,the above accounts receivable were not pledged as collateral.

8 .INVENTORIES

	December 31	
	2005	2004
Merchandise	\$743	\$1,642
Finished products	1,017,536	836,397
Work in process	61,764	67,937
Material	909,385	746,182
Total	<u>\$1,989,428</u>	<u>\$1,652,158</u>

- 1.As of December 31, 2005 and 2004, the above inventory was without insurance coverage.
- 2.As of December31,2005 and 2004 , the above inventories were not pledged as collateral.
- 3.As of December 31, 2005 and 2004, the above finished products inventory including finished products for exporting amounted to \$41,155 thousand and \$0, respectively.

9 .RESTRICTED ASSETS

	December 31	
	2005	2004
Bank savings pledged	\$5,951	\$3,663

Refer to note26 for information on assets pledged.

1 0 .FUNDS AND INVESTMENTS

INVESTEE	Valuation method	Percentang of ownership	Original of investment	December 31	
				2005	2004
Investments accounted for using equity method :					
Shin E Industrial Corporation Ltd.	equity method	99.725%	\$143,604	\$0	\$0
Ji-mao Investment corporation, Ltd.	equity method	98.80%	98,800	80,116	159,028
YEUN CHYANG TUBES & PIPES, Inc.	equity method	100.00%	6,474	0	0
Total				<u>80,116</u>	<u>159,028</u>
Investments accounted for using cost method :					
Digi Genomics Co.Ltd.	cost method	5.171%	14,550	0	14,550
Ab Genomics Corporation	cost method	3.64%	115,000 (2005)	115,000	0
		0.37%	11,000 (2004)	0	11,000
YEOUYIH Steel CO.,LTD.	cost method	7.832%	24,436	24,436	24,436
Total				<u>139,436</u>	<u>49,986</u>
TOTAL				<u>\$219,552</u>	<u>\$209,014</u>

- 1.Shin E Industrial Corporation Ltd. Had gone through liquidation process in February 10,2004 and the Company had recognized a liquidation loss of \$44 thousand.
- 2.The Company's investment in Ji-mao Investment Corporation, Ltd. is valued with the Equity Method. The 2005 and 2004 certified financial statements of the invested company were retrieved and with investment loss and investment income recognized for an amount of \$29,512 thousand and \$56,365 thousand, respectively.
- 3.YEUN CHYANG TUBES & PIPES, Inc. had gone through liquidation process in

December 2004 and the Company had recognized a liquidation loss of \$2,263 thousand. The Company also had acquire the investee company's financial report as of September 30, 2004 and recognized investment loss of 65 thousand.

4. As of December 31, 2005 and 2004, unrealized income for the sale of marketable security to the related party amounted to \$4,037 thousand, respectively, and was booked as "other liabilities."
5. Due to a poor business operation, the financial statements of Digi Genomics Co., Ltd. had shown insufficient current assets to cover current liabilities on the end of 2005. The Company had based on the principle of conservation to have the investment cost recognized and booked as permanent loss of long-term investment in valuation for an amount of \$14,550 thousand.
6. YEOU YIH Steel CO., LTD. has planned to its stock traded over-the-counter, the investee company resolved in the directors' resolution that all directors、supervisors and major stock holders shall cooperate to release stocks as required by the regulation, The Company has resolved in the directors' resolution to sell 672,000 shares at NT\$12 per share, to release shares to employees (or their appointed relatives) who are manger level or above to release stocks, \$1,931 thousand of gain on long term investment was recognized in 2004.
7. As of December 31, 2005 and 2004, the above investments were not pledged as collateral.

1 1 . PROPERTY, PLANT AND EQUIPMENT

ITEMS	December 31, 2005		
	Original cost	Accumulated depreciation	Book value
Land	\$678,605	\$0	\$678,605
Buildings	220,502	46,078	174,424
Machinery and equipment	620,196	321,104	299,092
Transportation equipment	34,523	12,555	21,968
Office equipment	9,850	8,247	1,603
Other equipment	83,345	51,270	32,075
Consturion in progress	21,467	0	21,467
Prepaid of equipment	39,322	0	39,322
Total	<u>\$1,707,810</u>	<u>\$439,254</u>	<u>\$1,268,556</u>

ITEMS	December 31, 2004		
	Original cost	Accumulated depreciation	Book value
Land	\$671,587	\$0	\$671,587
Buildings	182,440	38,171	144,269
Machinery and equipment	569,680	318,212	251,468
Transportation equipment	58,502	24,714	33,788
Office equipment	9,284	7,829	1,455
Other equipment	81,438	43,699	37,739
Prepaid of equipment	35,381	0	35,381
Total	<u>\$1,608,312</u>	<u>\$432,625</u>	<u>\$1,175,687</u>

1. The insurance coverage for property, plant and equipment were \$180,999 thousand and \$190,063 thousand as of December 31, 2005 and 2004.

2. Interest expenses capitalized for the year ended December 31, 2005 and 2004 amounted to \$1,135 thousand and \$617 thousand.

1 2. RECEIVABLE OVERDUE

	December 31	
	2005	2004
Receivable overdue	\$98	\$17,231
Less : Allowance for doubtful accounts	(98)	(17,231)
Net	<u>\$0</u>	<u>\$0</u>

As of Year 2005, doubtful accounts that can no longer be collected are written off by \$16,032 thousand.

1 3. OTHER ASSETS

	December 31	
	2005	2004
Other assets – Land	<u>\$31,111</u>	<u>\$22,890</u>

The aforementioned Other assets – Land meant for Lot 73 (9,621 m²) located at Jo-Mei Section, Shi-Jo Village, Changhua County and it is zoned for agriculture and ranch but used for a parking lot and finished goods storage, and delivery loading/unloading area ; moreover, the ownership to the lot cannot be transferred by law temporarily; therefore, it is registered in the name of Mr. G.Y. Chang, General manager of the Company. The said land are used as collateral for a mortgage loan for an amount of \$50,000 thousand.

1 4 .SHORT-TERM LOANS

ITEMS	Collateral	December 31	
		2005	2004
Short-term loans for material purchase	—	\$403,722	\$265,657

The interest rates of short-term loans ranged from 1.80%~5.27% and 1.45%~2.70% for 2005 and 2004 respectively.

1 5 .SHORT-TERM BILLS PAYABLE

Short-term bills payable	Underwrite	Collateral	December 31	
			2005	2004
Commercial paper	Chinatrust Bills Finance Corporation	—	\$30,000	\$30,000
	China Development Industrial Bank	—	70,000	70,000
	International Bills Financial Corporation	—	30,000	30,000
	Fubon Bill Finance	—	30,000	30,000
	Grand Bills Finance Corporation	—	30,000	0
	China Bills Finance Corporation	—	30,000	0
	Chung Hsing Bills Finance Corporation	—	30,000	0
Total			250,000	160,000
Unamortized discounts			(745)	(376)
Net			\$249,255	\$159,624

The interest rates of commercial paper ranged from 0.892%~1.330% and 0.77%~1.175% for 2005 and 2004 respectively.

1 6 .CURRENT PORTION OF LONG-TERM LIABILITIES

	December 31	
	2005	2004
Current portion of bonds payable	\$194,080	\$0
Current portion of long-term loan	53,000	87,500
Total	\$247,080	\$87,500

The information prefer to notes 17 and 18.

1 7 .BONDS PAYABLE

(1)

Bonds payable	Trustee	Coupon rate	December 31	
			2005	2004
YEUN CHYANG INDUSTRIAL CO., LTD. 1 st domestic unsecured bonds	Chinatrust Commercial Bank Corporate Trust Department	0%	\$300,000	\$300,000
Add : accrued interest compensation			2,840	1,388
Total			302,840	301,388
Less : Conversion of convertible bonds to capital stock and capital surplus			(108,760)	(108,255)
Net			194,080	193,133
Less : Current portion of long-term liabilities			(194,080)	0
Non-current portion			\$0	\$193,133

(2) On April 12, 2004, the company issued 1st domestic unsecured convertible bonds. Main issuance clauses are as follows :

1. Total issuance amount : NT\$300 million. The 1st domestic unsecured convertible bonds are issued at NT\$100,000 par in full value.
2. Issuance period : Five years from April 12, 2004 to April 11, 2009.
3. Redemption method : Except for redemption, call option, and conversion, the loan is paid in a lump sum on the due date.
4. Call option of the Company :

The Company may have the bonds called from creditors in the following occasions:

- (1) If the close-price of the Company's common stock exceeds the conversion price for over 50% thirty business days consecutively in the time period from the next day of the 1st domestic unsecured convertible bonds issued for one month to forty days prior to the expiration date, the Company may inform bondholders and GreTai Securities Market in writing in thirty business days thereafter to have the call price calculated in accordance with the call yield rate listed in clause (3) and to have all bonds called with cash.
- (2) If the outstanding 1st domestic unsecured convertible bonds is less than 10% of the total issuance in the time period from the next day of the 1st domestic unsecured convertible bonds issued for one month to forty days prior to the expiration date, the Company may inform bondholders and GreTai Securities Market in writing to have the call price calculated in accordance with the call yield rate listed in clause (3) and to have all bonds called with cash.
- (3) Call yield rate:
 - a. For the 1st domestic unsecured convertible bonds that are issued from the next day of the 1st domestic unsecured convertible bonds issued for one month to the end of the second year, the call yield rate is 0.75% bond yield to call rate.
 - b. For the 1st domestic unsecured convertible bonds that are issued from the next day of the 1st domestic unsecured convertible bonds issued for two years to the end of the third year, the call yield rate is

1.00% bond yield to call rate.

- c. For the 1st domestic unsecured convertible bonds that are issued from the next day of the 1st domestic unsecured convertible bonds issued for three years to forty days prior to the expiration date, the 1st domestic unsecured convertible bonds is called at the face value.

5. Put option of creditors :

Holder of the 1st domestic unsecured convertible bonds may request the Company to have the bonds called at 101.51% and 103.03% of the face value with cash thirty days prior to the bonds issued for two years and three years, respectively.

6. Conversion method :

- (1) Creditors may request to have the 1st domestic unsecured convertible bonds converted to the common stock shares of the Company in the time period from the day the bonds are issued for one month to ten days prior to the expiration date.

- (2) Conversion price: The conversion price at the time of issuance is \$42.6/share.

The conversion price was adjusted to \$33/share on July 26, 2004.

The conversion price was adjusted to \$31.7/share on April 6, 2005.

The conversion price was adjusted to \$30/share on June 6, 2005.

- (3) Conversion price adjustment:

Upon the issuance of the 1st domestic unsecured convertible bonds, except for the conversion to common stock of the Company's marketable security that is convertible to common stock or stock option, conversion price is to be adjusted according to the formula (adjusted down but not up) upon the change of the issued stock shares (processing depository receipts with cash capitalization, capitalization from retained earnings, capitalization from capital surplus, merger, stock split or cash capitalization at a price below the conversion price excluding the stock shares cancellation by the Company's call option). In addition to the aforementioned anti-dilution clauses for conversion price adjustment, conversion price is defined downwards (not upwards) in accordance with formula on the baseline date (cash dividend baseline date or stock dividend baseline date whichever is sooner, or, on September 30 if not stock dividend or cash dividend is distributed) that is also the cash dividend baseline date or stock dividend baseline date throughout the issuance period; however, the price may not be below 80% of conversion price (could be adjusted due to the change of the Company's total common stock shares) at the issuance time.

1.8 LONG-TERM LOANS

Creditor	Collateral	Contracts	December 31	
			2005	2004
China Development Industrial Bank	Land、buildings	Credit line amounted to \$350,000 thousand for a three-year term and to be paid in a lump sum for principal and interest on the due date.	\$160,000	\$120,000
Hua Nan bank	Land、buildings	Credit line amounted to \$160,000 thousand for a 5-year term and with 12 installments arranged for one in every three-month since November 8,2002.	0	38,500
Hua Nan bank	Land、buildings	Credit line amounted to \$350,000 thousand for a 5-year term and with 12 installments arranged for one in every three-month since November 9,2007.	350,000	0
Bank Of Taiwan	Land、buildings	Credit line amounted to \$120,000 thousand for a 5-year term from July 25,2004 and with 16 installments arranged for one in every three-month.	75,000	105,000
Bank Of Taiwan	Machinery and equipment	Credit line amounted to \$40,000 thousand for a 7-year term and with 20 installments arranged for one in every three-month since July 15,2004.	36,000	40,000
Taiwan Cooperative Bank	—	Credit line amounted to \$60,000 thousand for a 5-year term and with 16 installments arranged for one in every three-month. The first installment of principal is to be paid on October 15, 2004.	41,250	56,250
Chiao Tung Bank Co., Ltd	—	Credit line amounted to \$200,000 thousand (Unused credit lines are available for long-term borrowings and short-term borrowings – raw material purchase)for a three-year term and to be paid in a lump sum for principal and interest on the due date.	100,000	60,000
Total			762,250	419,750
Less : Current portion of long-term-loan			(53,000)	(87,500)
Long-term loans			<u>\$709,250</u>	<u>\$332,250</u>

The interest rate of long-term loans for 2005 and 2004 ranged from 1.82%~2.545% and 1.80%~2.85% respectively.

1 9 .ACCRUED PENSION AND DEFERRED PENSION COST

(1) The Company has pension arranged in accordance with R.O.C. SFAS No. 18 ; also, pension disclosure is made in accordance with the actuary's report:

1.The item of net periodic pension cost as of December 31,2005 and 2004 were as follows :

	December 31	
	2005	2004
Service cost	\$5,584	\$7,524
Interest cost	4,122	4,073
Projected return of pension assets	(201)	(329)
Amortization of net transition asset or obligation	3,651	3,703
Pension loss (income) amortization	400	575
Loss (income) reduction or liquidation	(4,306)	(1,051)
Net periodic pension cost	<u>\$9,250</u>	<u>\$14,495</u>

2.Reconciliation of funded status of the plan and accrued pension cost at December 31,2005 and 2004 :

	December 31	
	2005	2004
Benefit obligation :		
Vested benefit obligation	\$17,707	\$20,205
Non-vested benefit obligation	76,574	76,141
Accumulated benefit obligation	94,281	96,346
Additional benefit based on future salaries	24,982	24,900
Projected benefit obligation	119,263	121,246
Fair value of plan assets	(1,551)	(8,372)
Funded status	117,712	112,874
Unrecognized net transition obligation	(20,620)	(25,557)
Unrecognized net gain or loss	(29,585)	(21,065)
Deferred pension cost	20,620	21,722
Charge to stockholders' equity	4,603	0
Accrued pension cost	92,730	87,974
Pension yet to be appropriated and delivered to the bank account at year end	(275)	(720)
Accrued pension cost	<u>\$92,455</u>	<u>\$87,254</u>

Primary Actuarial assumptions :	December 31	
	2005	2004
Discount rate used in determining present values	3.50%	3.50%
Future salary increase rate	2.00%	2.00%
Expected rate of return on plan assets	2.50%	2.50%

2 0 .CAPITAL STOCK

- 1.As of December 31,2005 and 2004,at NT\$10 par value per share,the company's total authorized outstanding common stock consisted of 149,286,325 shares and 127,057,569 shares.
- 2.On March 14, 2004, the Board of Directors had resolved to have 14,240 thousand common stock shares issued for cash capitalization in order to pay back bank loan and improve financial structure. The issuing price of the common stock is \$30/per share and with \$427,200 thousand to be collected by this capitalization. The capitalization baseline date was set on June 21, 2004. The case of capitalization was approved and registered accordingly.
- 3.On April 12, 2004, the company issued 1st domestic unsecured convertible bonds. As of December 31, 2005, bondholders had converted to and registered 3,286,325 common stock shares at \$10 par for an amount of \$32,863 thousand. The remaining 1,304,155 shares of NT\$10 par value, amounting to \$13,042 thousand, due to not yet setting the capitalization baseline date, it is currently booked under capital collected in advance account.
- 4.On March 17, 2005, the Board of Directors had resolved to have 20,000 thousand common stock shares issued for cash capitalization in order to process new factory, purchase of machinery equipment, pay back bank loan and improve financial structure. The issuing price of the common stock is \$23/per share and with \$460,000 thousand to be collected by this capitalization. The capitalization baseline date set on June 16, 2005. The case of capitalization was approved and registered accordingly. The authorized stock capital is \$1,800,000 thousand after the capitalization with 180,000,000 shares issued at \$10 par and an amount of \$1,492,864 thousand collected.

2 1 .RETAINED EARNINGS

- (1) The net income of the Company, if there is any, is distributed in the order of: :
 - Paying taxes
 - Making up losses
 - Deduction 、 afterwards, Appropriating 10% of the balance as legal reserve.
 - Appropriating special reserve from the net income according to law or regulations, special reserve will be transferred to retained earnings for distribution once the conditions of appropriation are cancelled or reversed
 - Deducting to item and adding the appropriation of special surplus

reversed amount :

1. Remuneration to directors and supervisors — 2%.

2. Bonus to employees — 5%.

□ The balance of □ to □ item is partially or entirely distributed to shareholders proportionally to shareholdings.

(2) Dividend policy :

The Company is in a traditional business operation and is in a “mature” business lifecycle; therefore, a stable dividend policy is preferred. For the protection of shareholder’s equity and the working capital needed by the Company, shareholders bonus is distributed with \$0.5/per share in cash. If the Company is with significant expansion or transfer investment planned in the year of dividend distribution, the distribution of cash dividend can be adjusted proportionally or replaced by stock dividend for the fund demand of the Company.

(3) The distribution of 2004 retained earnings was resolved in the Shareholder’s Meeting on June 16, 2005. The distribution of dividend included cash dividend of 3.2 per share.

The distribution of 2003 retained earnings was resolved in the Shareholder’s Meeting on June 21, 2004. The distribution of dividend included cash dividend of 1 per share.

(4) The Board of Directors had not yet resolved regarding the distribution of 2005 retained earnings up to the issuance of day of the Independent Auditor’s Report issued; therefore, please refer to the Market Observation Post System for the distribution of bonus to employees and remunerations to the Directors and Supervisors drafted up by the Board of Directors and resolved by the Shareholder’s Meeting.

(5) The distribution of 2004 and 2003 retained earnings was resolved by the Shareholder’s Meeting on June 16, 2005 and June 21, 2004, respectively. Please refer to the resolved distribution of bonus to employees and remunerations to the Directors and Supervisors as follows :

	<u>2004</u>	<u>2003</u>
Remuneration to directors and supervisors	\$10,944	\$2,945
Bonus to employees	<u>27,359</u>	<u>7,362</u>
Total	<u>\$38,303</u>	<u>\$10,307</u>

If the aforementioned distribution of bonus to employees and remunerations to the Directors and Supervisors was expensed in the year the net income generated, the earnings per share after tax (without retrieval) of the year was \$4.77 and \$1.37, respectively.

Please refer to the Market Observation Post System for the distribution of bonus to employees and remunerations to the Directors and Supervisors drafted up by the Board of Directors and resolved by the Shareholder’s

Meeting.

2.2 INCOME TAX

(1) The company's income tax returns prior to 2003 have been finalized by authorities.

(2)

1. Income tax expense(or benefit) is comprised of the followings :

	<u>2005</u>	<u>2004</u>
Income tax-current	\$77,623	\$143,733
Deferred income tax(benefit) expense :		
Investment loss-equity method(overseas)	0	858
Reverse of prior unrealized profit from affiliate	0	163
Reverse of prior exchange loss	767	130
Allowance for bad debts(ratified amount)	4,132	44
Recognize permanent loss of investment in valuation (Cost Method)	(3,638)	0
Unrealized losses on short-term investments	(291)	(603)
Unrealized gains(losses) on foreign exchange	(822)	(767)
Accrued pension cost	(514)	(1,579)
Overestimated income tax of previous year	(633)	(10)
An additional 10% income tax was levied the portion of undistributed profits	3,693	8,370
Total	<u>\$80,317</u>	<u>\$150,339</u>

2. Deferred income tax assets(liabilities) arising from :

	<u>December 31</u>	
	<u>2005</u>	<u>2004</u>
Deferred tax assets(liabilities)-current :		
Unrealized losses on short-term investments	\$1,171	\$880
Unrealized losses on foreign exchange	822	768
Allowance for bad debts(ratified amount)	(80)	4,051
Net	<u>\$1,913</u>	<u>\$5,699</u>
Deferred tax assets-noncurrent :		
Recognize permanent loss of investment in valuation (Cost Method)	\$3,638	\$0
Accrued pension cost	18,229	16,383
Net	<u>\$21,867</u>	<u>\$16,383</u>

3. At December 31, 2005 and 2004 the related information of shareholders' deductible income tax is as follow :

	December 31	
	2005	2004
Shareholders' deductible income tax account	\$79,509	\$28,518
Creditable rate-predicated	33.33% ^(※1)	—
Creditable rate-real	—	24.97%

※1 : It is derived from the Shareholder's deductible income tax account on December 31, 2005 and tax payable of the year.

4 . The undivided profit information :

	December 31	
	2005	2004
Unappropriated earnings before 1997	\$0	\$0
Unappropriated earnings after 1998	277,777	621,993
Total	\$277,777	\$621,993

(3) Tax exempted income

An application for tax exemption was filed in accordance with Clause 9.2 of Business Upgrade Act and "Guidelines Governing Five-year Business Profit Tax Exemption for newly added Manufacturing & Innovative Services" and with the purchase of machinery equipment for an amount of \$83,220 thousand entitled to the privilege of five-year business profit tax exemption since January 1, 2004.

2 3 . EARNINGS PER SHARE

The capital structure of the company is relatively complicate. The potential common stocks were convertible bonds and with the earnings per share calculated on January 1~December 31, 2005 and 2004 as follows :

	Amounts(Numerator)		shares(Denominator) (Thousands)	EPS(NT\$)	
	Before Income tax	After Income tax		Before Income tax	After Income tax
For the year ended December 31,2005					
Basic EPS	\$312,865	\$232,548	140,663	\$2.22	\$1.65
Diluted EPS	\$314,313	\$233,634	147,049	\$2.14	\$1.59
For the year ended December 31,2004					
Basic EPS	\$758,324	\$607,985	119,452	\$6.35	\$5.09
Diluted EPS	\$759,356	\$608,759	125,273	\$6.06	\$4.86

2 4 .LABOR COST, DEPRECIATION AND AMORTIZATION EXPENSE :

	2005			2004		
	Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total
Labor cost						
Salary	\$178,191	\$73,851	\$252,042	\$196,992	\$76,838	\$273,830
Labor and health insurance	12,273	3,920	16,193	11,461	3,911	15,372
Pension	10,310	3,174	13,484	10,777	3,718	14,495
Other	30,632	8,991	39,623	24,638	8,082	32,720
Depreciation	70,884	8,072	78,956	63,662	8,813	72,475
Amortization	2,839	1,033	3,872	2,504	1,048	3,552

2 5 .RELATED PARTY TRANSACTIONS

(1)Related parties and relationship

<u>Name of related parties</u>	<u>Relationship</u>
Ji-Mao Investment Corporation.,Ltd	A company which is accounted for by equity method
YEUN CHYANG TUBES & PIPES, Inc	A company which is accounted for by equity method (Note 1)

Note 1 : The investee company was liquidated as of December 2004.

(2)Significant transactions with related parties

1.Assets and liabilities

Item	Name of related parties	December 31,2004	
		Amount	Percentage of account
Other receivable	YEUN CHYANG TUBES & PIPES, Inc.	\$483	0.60

The stock allocated to the company after liquidation of the investee company YEUN CHYANG TUBES & PIPES, Inc., they were received in 2005.

2.Others

Name of related parties	Item	2005		2004	
		Amount	Percentage of account	Amount	Percentage of account
Ji-Mao Investment Corporation, Ltd	Other revenue	\$36	0.02	\$36	0.03

2 6 .ASSETS PLEDGED OR MORTGAGED

	Book value		Mortgaged with
	December31,2005	December31,2004	
Land	\$671,587	\$671,587	Land and buildings were pledged or mortgaged for loans from Yuaulin Branch of Bank of Taiwan, Yuaulin Branch of Hua Nan Bank, and Taichung Branch of China Development Industrial Bank Machinery and equipment were pledged or mortgaged as collateral for loans from Yuaulin Branch of bank of Taiwan Restricted assets were pledged or mortgaged as collateral for guarantee and deposit for cash dividend distribution to International Commercial Bank of China and Yuaulin Branch of Hua Nan Bank
Buildings	112,162	139,517	
Machinery and equipment	45,448	52,141	
Restricted assets	5,951	3,663	
Total	<u>\$835,148</u>	<u>\$866,908</u>	

2 7 .COMMITMENTS AND CONTINGENT EVENTS

As of December 31, 2005, the following events were not included in the financial statements of the company:

1. The Company had issued guaranteed notes to banks and suppliers for an amount of \$2,353,000 thousand for loans and raw material acquisition.
2. As of December 31, 2005, the Company had two outstanding L/C issued for raw material acquisition for an amount of NT\$732,150 thousand and US\$78 thousand.
3. The company has bank guarantee from Yuaulin Branch of International Commercial Bank of China with amount \$2,346 thousand to Bureau of Employment and Vocational Training as a pledge for hiring foreign workers.

2 8 .OTHERS

Financial instrument at fair value :

- 1.The company's financial instrument in the year ended December 31,2005 and 2004 were as follow :

(1)Non-derivative financial investments

Assets	December 31			
	2005		2004	
	Book Value	Fair Value	Book Value	Fair Value
Cash and cash equivalents	\$130,217	\$130,217	\$86,686	\$86,686
Short-term investments	88,550	83,865	5,872	2,352
Notes receivable-net	144,643	144,643	179,455	179,455
Accounts receivable-net	604,815	604,815	677,624	677,624
Restricted assets	5,951	5,951	3,663	3,663
Funds and investments	219,552	219,552	209,014	209,014

Liabilities	Book Value	Fair Value	Book Value	Fair Value
Short-term loans(including current portion of long-term liabilities)	\$650,802	\$650,802	\$353,157	\$353,157
Short-term bills payable	249,255	249,255	159,624	159,624
Notes payable	60,335	60,335	48,951	48,951
Accounts payable	95,602	95,602	185,262	185,262
Bonds payable	0	0	193,133	193,133
Long-term loans	709,250	709,250	332,250	332,250

(2)Derivative financial instrument : NONE

2.The methods and significant assumptions applied in determining fair value of financial instruments were as follows :

- (1)The fair value of the short-term financial instrument is estimated according to the face valued on the Balance Sheet. Since the short-term financial instrument is with a relatively short due date, it is reasonable to have the fair value estimated according to the face value. The said method is applied for cash and cash equivalent, notes receivable and accounts receivable, short-term loans, short-term bills payable, and notes payable and accounts payable.
- (2) When market values are available, long term and short term investments are evaluated using market value, otherwise, the Company will based on financial or other information to estimate the fair value.
- (3) Fair value of Corporation bonds and long term loan are calculated using discounted expected cash flow. Discounted rate are based on the return rate of Corporation bonds and the long term loan borrowing rate as of Dec. 31st of 2005 and 2004.

29 .ADDITIONAL DISCLOSURE :

1. Significant transactions

No.	Items	Remark
1	Financing provided.	None
2	Endorsement/guarantee provide.	None
3	Marketable securities held.	Table 1
4	Marketable securities acquired and disposed of at costs or prices of at least \$100 million or 20% of the paid-in capital.	None
5	Acquisition of individual real estate at costs of at least \$100 million or 20% of the paid-in capital.	None
6	Disposal of individual real estate at price of at least \$100 million or 20% of the paid-in capital.	None
7	Total purchase from or sale to related parties amounting to at least \$100 million or 20% of the paid-in capital.	None
8	Receivables from related parties amounting to at least \$100 million or 20% of the paid-in capital.	None
9	Derivative transactions.	None

Tables 1 : Marketable securities held

Holding Company Name	Marketable securities type and name	Relationship with the company	Financial statement account	December 31,2005			
				(In thousands of New Taiwan dollors)			
				Shares/Units (thousands)	Book value	Percentage of ownership	Market value or net assets value
YEUNCHYANG INDUSTRIAL CO., LTD	Ji-Mao Investment Corporation,Ltd(common stock)	Investee accounted for using equity method	Long-term investment	9,880	\$80,116	98.800%	@8.11
YEUNCHYANG INDUSTRIAL CO., LTD	YEOU YIH STEEL CO., LTD (common stock)	—	Long-term investment	3,926	24,436	7.832%	—
YEUNCHYANG INDUSTRIAL CO., LTD	Digi Genomics Co.Ltd(common stock)	—	Long-term investment	1,000	0	5.171%	—
YEUNCHYANG INDUSTRIAL CO., LTD	ABGENOMICS INTERNATIONAL INC. (common stock)	—	Long-term investment	2,200	115,000	3.64%	—
YEUNCHYANG INDUSTRIAL CO., LTD	TA CHEN STAINLESS PIPE COMPANY LIMITED(common stock)	—	Short-term investment	1,000	18,569	—	16,090
YEUNCHYANG INDUSTRIAL CO., LTD	FROCH ENTERPRISE CO.,LTD(common stock)	—	Short-term investment	500	9,981	—	7,750
YEUNCHYANG INDUSTRIAL CO., LTD	TLAM Solomon Bond Fund	—	Short-term investment	2,609	30,000	—	30,011
YEUNCHYANG INDUSTRIAL CO., LTD	Capital Safe Income	—	Short-term investment	2,047	30,000	—	30,014
Ji-Mao Investment Corporation, Ltd	YEOU YIH STEEL CO., LTD (common stock)	—	Long-term investment	2,483	19,550	4.954%	—

Holding Company Name	Marketable securities type and name	Relationship with the company	Financial statement account	December 31,2005			
				(In thousands of New Taiwan dollors)			
				Shares/Units (thousands)	Book value	Percentage of ownership	Market value or net assets value
Ji-Mao Investment Corporation, Ltd	Digi Genomics Co.Ltd(common stock)	—	Long-term investment	1,250	0	6.463%	—
Ji-Mao Investment Corporation, Ltd	ABGENOMICS INTERNATIONAL INC. (common stock)	—	Long-term investment	700	35,400	1.157%	—
Ji-Mao Investment Corporation, Ltd	Taiwan Life Insurance CO.,Ltd (common stock)		Short-term investment	250	12,442	—	10,713

2.Name,Locations and related information of investee over which the company exercises significant influence

Investor	Investee	Location	Main business and products	Original investment amount		Balance as of December 31,2006			Shareholding rate * invested company's year end net value	Net income (loss) of the investment	Investment Income(loss)	The invested company's dividend distribution of the year		Note
				December 31,2005	December 31,2004	Shares (thousands)	Percentage of ownership	Book value				Stock dividend	Cash dividend	
YEUN CHYANG INDUSTRIAL CO.,LTD	Ji-Mao Investment Corporation,Ltd	Chang-Hwa ,Taiwan	Investment	98,800	159,028	9,880	98.80%	80,116	80,116	(29,467)	(29,512)	0	49,400	

3 0 .SEGMENT INFORMATION

1.Industry : The company is in business for the production and sales of stainless steel and steel roll; also, stainless steel shearing, in other words, a mono-industry.

2.Foreign operations : The company currently has no foreign branches.

3.Export sales :

Total export sales for 2005 and 2004 are as follows :

Area	Amount	
	2005	2004
Asia	\$2,657,210	\$1,902,545
America	680,789	353,327
Europe	525,216	643,807
Australia	904,532	681,200
Africa	283,565	207,906
Total	<u>\$5,051,312</u>	<u>\$3,788,785</u>

4.Major customers :

The company had no customers with exceeding 10% of the total not operating revenues for 2005 and 2004.

3 1 .RECLASSIFICATION

To Conform with the presentation of financial statements of 2005,certain accounts of the 2004 financial statements has been reclassified.