

**POU CHEN CORPORATION AND
SUBSIDIARIES**

**Consolidated Financial Statements for the
Six Months Ended June 30, 2007 and 2006 and
Independent Accountants' Review Report**

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

The Board of Directors and Stockholders
Pou Chen Corporation and subsidiaries

We have reviewed the accompanying consolidated balance sheets of Pou Chen Corporation and subsidiaries (collectively, the "Company") as of June 30, 2007 and 2006, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the six months then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to issue a report based on our reviews.

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

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying consolidated financial statements for them to be in conformity with 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 consolidated financial statements, effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 34, "Accounting for Financial Instruments," No. 36, "Disclosure and Presentation of Financial Instruments," and the related amendments to other Statement of Financial Accounting Standards.

August 10, 2007

Notice to Readers

The accompanying consolidated financial statements are intended to be in conformity with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to review such consolidated financial statements are those generally accepted and applied in the Republic of China.

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

POU CHEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

JUNE 30, 2007 AND 2006

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

ASSETS	2007		2006		LIABILITIES AND STOCKHOLDERS' EQUITY	2007		2006	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents (Notes 2 and 4)	\$ 27,735,638	15	\$ 13,605,829	9	Short-term borrowings (Note 15)	\$ 17,791,434	9	\$ 12,776,645	8
Financial assets measured at fair value through profit or loss, current (Notes 2, 3 and 5)	7,671,712	4	5,534,176	4	Short-term bills (Note 16)	978,108	1	1,643,809	1
Notes receivable (Notes 2 and 6)	100,446	-	90,100	-	Notes payable	169,628	-	75,931	-
Accounts receivable (Notes 2 and 7)	24,532,608	13	19,507,001	12	Notes payable to affiliates (Note 26)	72,770	-	30,933	-
Accounts receivable from affiliates (Notes 2, 7 and 26)	1,460,637	1	2,294,271	1	Accounts payable	13,918,708	7	12,619,428	8
Other financial assets, current	4,038,988	2	2,823,866	2	Accounts payable to affiliates (Note 26)	1,025,263	1	1,116,605	1
Inventories (Notes 2 and 8)	20,398,542	11	18,064,230	12	Income tax payable (Notes 2 and 23)	896,153	-	314,373	-
Other current assets (Notes 2 and 23)	6,529,332	3	5,234,491	3	Financial liabilities measured at fair value through profit or loss, current (Notes 2 and 5)	1,372,959	1	52,642	-
Total current assets	92,467,903	49	67,153,964	43	Derivative financial liabilities held for hedging, current (Notes 2 and 25)	96,712	-	-	-
FUNDS AND LONG-TERM INVESTMENTS					Other payables	17,072,648	9	11,070,022	7
Long-term investments at equity method (Notes 2 and 9)	25,012,760	13	22,505,288	14	Current portion of long-term liabilities (Note 17)	5,335,632	3	2,593,115	2
Investments in real estate (Notes 2 and 10)	265,751	-	165,536	-	Other current liabilities	2,260,343	1	1,892,726	1
Available-for-sale financial assets, noncurrent (Notes 2, 3 and 11)	1,572,726	1	1,591,971	1	Total current liabilities	60,990,358	32	44,186,229	28
Hedging derivative financial asset, noncurrent (Notes 2 and 25)	36,816	-	-	-	LONG-TERM LIABILITIES				
Financial assets carried at cost, noncurrent (Notes 2 and 12)	754,575	-	647,117	1	Bonds payable (Notes 2 and 18)	15,770,071	9	12,673,927	8
Total funds and long-term investments	27,642,628	14	24,909,912	16	Long-term debt (Note 19)	30,767,048	16	29,928,652	19
PROPERTY, PLANT AND EQUIPMENT (Notes 2 and 13)					Derivative financial liabilities held for hedging, noncurrent (Notes 2 and 25)	-	-	168,109	-
Cost	88,332,599	47	76,885,735	49	Total long-term liabilities	46,537,119	25	42,770,688	27
Revaluation increment	279,008	-	279,008	-	RESERVE FOR LAND VALUE INCREMENT TAX (Note 13)	142,664	-	142,664	-
	88,611,607	47	77,164,743	49	OTHER LIABILITIES				
Less accumulated depreciation	(34,953,662)	(18)	(30,042,541)	(19)	Accrued pension cost (Note 2)	570,982	-	545,177	1
Less accumulated impairment	(164,021)	-	(164,021)	-	Advance deposits from customers	11,868	-	5,181	-
Construction in progress and prepayments on purchase of equipment	2,893,114	1	4,769,134	3	Total other liabilities	582,850	-	550,358	1
Property, plant and equipment, net	56,387,038	30	51,727,315	33	Total liabilities	108,252,991	57	87,649,939	56
INTANGIBLE ASSETS (Note 2)					STOCKHOLDERS' EQUITY				
Goodwill	7,002,191	4	7,039,396	4	Capital stock (Note 20)	24,452,459	13	23,079,858	14
Deferred pension cost	16,451	-	16,343	-	Stock dividends to be distributed (Note 20)	637,714	-	1,270,265	1
Total intangible assets	7,018,642	4	7,055,739	4	Capital surplus	3,984,037	2	2,702,243	2
OTHER ASSETS (Notes 2 and 14)					Retained earnings (Note 20)	10,546,121	6	12,037,627	7
	6,575,150	3	6,261,457	4	Cumulative translation adjustments (Note 2)	135,410	-	(478,082)	-
					Unrealized losses on financial instruments (Notes 2, 3 and 11)	(911,503)	(1)	(1,573,045)	(1)
					Unrealized revaluation increment	134,641	-	134,641	-
					Treasury stock (Notes 2 and 21)	(1,914,924)	(1)	(3,459,328)	(2)
					Minority interest	44,774,415	24	35,744,269	23
					Total stockholders' equity	81,838,370	43	69,458,448	44
TOTAL	\$ 190,091,361	100	\$ 157,108,387	100	TOTAL	\$ 190,091,361	100	\$ 157,108,387	100

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

(With Deloitte & Touche review report dated August 10, 2007)

POU CHEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

SIX MONTHS ENDED JUNE 30, 2007 AND 2006

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

(Reviewed, Not Audited)

	2007		2006	
	Amount	%	Amount	%
GROSS SALES AND REVENUES EARNED	\$ 88,203,901	100	\$ 81,368,629	100
LESS SALES RETURNS AND ALLOWANCES	<u>(220,709)</u>	<u>-</u>	<u>(260,028)</u>	<u>-</u>
NET SALES AND REVENUES EARNED	87,983,192	100	81,108,601	100
COST OF GOODS SOLD	<u>70,286,702</u>	<u>80</u>	<u>64,454,881</u>	<u>79</u>
GROSS PROFIT	<u>17,696,490</u>	<u>20</u>	<u>16,653,720</u>	<u>21</u>
OPERATING EXPENSES				
Selling expenses	3,274,323	4	2,945,757	4
General and administrative expenses	6,682,372	7	6,684,561	8
Research and development expenses	<u>2,327,944</u>	<u>3</u>	<u>2,160,200</u>	<u>3</u>
Total operating expenses	<u>12,284,639</u>	<u>14</u>	<u>11,790,518</u>	<u>15</u>
INCOME FROM OPERATIONS	<u>5,411,851</u>	<u>6</u>	<u>4,863,202</u>	<u>6</u>
NON-OPERATING INCOME				
Interest income	373,632	-	225,963	-
Long-term equity investment income (Note 9)	524,707	1	858,061	1
Dividend income	27,200	-	7,170	-
Gain on disposal of property, plant and equipment	4,779	-	4,525	-
Gain on disposal of investments	80,322	-	-	-
Foreign exchange gains, net	350,884	-	153,360	-
Rental income	100,372	-	86,455	-
Reversal of provision for bad debts	21,686	-	-	-
Revaluation gain on financial assets (Notes 3 and 5)	-	-	540,554	1
Others	<u>1,282,530</u>	<u>2</u>	<u>1,387,421</u>	<u>2</u>
Total non-operating income	<u>2,766,112</u>	<u>3</u>	<u>3,263,509</u>	<u>4</u>
NON-OPERATING EXPENSES				
Interest expense	1,527,867	2	1,211,189	1
Other investment losses (Note 12)	-	-	521,943	1
Loss on disposal of property, plant and equipment	85,253	-	116,427	-
Loss on disposal of investments	-	-	90,176	-
Loss on inventory devaluation and obsolescence	14,417	-	107,607	-
Revaluation loss on financial assets (Note 5)	221,400	-	-	-
Revaluation loss on financial liabilities (Note 5)	132,580	-	52,642	-
Others	<u>155,407</u>	<u>-</u>	<u>465,051</u>	<u>1</u>
Total non-operating expenses	<u>2,136,924</u>	<u>2</u>	<u>2,565,035</u>	<u>3</u>

(Continued)

POU CHEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

SIX MONTHS ENDED JUNE 30, 2007 AND 2006

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

(Reviewed, Not Audited)

	2007		2006	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
BASIC EARNINGS PER SHARE (Notes 2 and 24)				
Income from continuing operations	<u>\$ 2.47</u>	\$ 2.14	<u>\$ 2.27</u>	\$ 2.13
Cumulative effect of changes in accounting principles		-		0.66
Included income for minority interest		<u>\$ 2.14</u>		<u>\$ 2.79</u>
Attributed to shareholders of the Parent Company		<u>\$ 0.80</u>		<u>\$ 1.62</u>
DILUTED EARNINGS PER SHARE (Notes 2 and 24)				
Income from continuing operations	<u>\$ 2.43</u>	\$ 2.11	<u>\$ 2.23</u>	\$ 2.09
Cumulative effect of changes in accounting principles		-		0.65
Included income for minority interest		<u>\$ 2.11</u>		<u>\$ 2.74</u>
Attributed to shareholders of the Parent Company		<u>\$ 0.79</u>		<u>\$ 1.59</u>

(Concluded)

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

(With Deloitte & Touche review report dated August 10, 2007)

POU CHEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY SIX MONTHS ENDED JUNE 30, 2007 AND 2006 (In Thousands of New Taiwan Dollars) (Reviewed, Not Audited)

	Capital Surplus						Retained Earnings			Other Adjustments of Stockholders' Equity					Total
	Capital Stock	Stock Dividends to be Distributed	Additional Paid-in Capital of Common Stock	Additional Paid-in Capital of Bonds Conversion	Treasury Stock	Long-Term Equity Investments	Legal Reserve	Special Reserve	Unappropriated Earnings	Cumulative Translation Adjustments	Unrealized Losses on Financial Instruments	Unrealized Revaluation Increment	Treasury Stock	Minority Interest	
BALANCE, JANUARY 1, 2007	\$ 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)	\$ 39,735,100	\$ 76,790,694
Appropriation of earnings	-	-	-	-	-	-	577,197	-	(577,197)	-	-	-	-	-	-
Legal reserve	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	-	(11,589)	11,589	-	-	-	-	-	-
Bonuses to directors and supervisors	-	-	-	-	-	-	-	-	(156,191)	-	-	-	-	-	(156,191)
Bonuses to employees (Note19)	-	151,505	-	-	-	-	-	-	(151,505)	-	-	-	-	-	-
Stock dividends (Note19)	-	486,209	-	-	-	-	-	-	(486,209)	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	-	(4,375,883)	-	-	-	-	-	(4,375,883)
Convertible bonds transferred to common stock (Note 16)	4,732	-	-	8,356	-	-	-	-	-	-	-	-	-	-	13,088
Effect of changes of ownership interest in investees	-	-	-	-	-	1,380,672	-	-	-	-	-	-	-	-	1,380,672
Treasury stock transferred to employees (Note 21)	-	-	-	-	(57,638)	-	-	-	-	-	-	396,166	-	-	338,528
Adjustments on changes of unrealized loss on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	174,581	-	-	-	-	174,581
Adjustments on changes of unrealized loss on cash flow hedge financial liability	-	-	-	-	-	-	-	-	-	113,231	-	-	-	-	113,231
Sales of parent company's stock by subsidiary (Note 21)	-	-	-	-	125,375	-	-	-	-	22,576	-	140,395	-	-	288,346
Execution of employee stock warrants	20,870	-	-	-	-	-	-	-	-	-	-	-	-	-	20,870
Translation adjustments on foreign long-term equity investments	-	-	-	-	-	-	-	-	-	336,768	-	-	-	-	336,768
Change of minority interest	-	-	-	-	-	-	-	-	-	-	-	-	-	1,694,730	1,694,730
Consolidated net income for the six months ended June 30, 2007	-	-	-	-	-	-	-	-	1,874,351	-	-	-	-	3,344,585	5,218,936
BALANCE, JUNE 30, 2007	\$ 24,452,459	\$ 637,714	\$ 808,054	\$ 1,486,867	\$ 277,004	\$ 1,412,112	\$ 4,269,818	\$ 1,423,250	\$ 4,853,053	\$ 135,410	\$ (911,503)	\$ 134,641	\$ (1,914,924)	\$ 44,774,415	\$ 81,838,370
BALANCE, JANUARY 1, 2006	\$ 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)	\$ 34,959,505	\$ 68,645,824
Adjustments from first adoption of new and amended Financial Accounting Standards (Note 3)	-	-	-	-	-	-	-	-	-	-	(180,742)	-	-	-	(180,742)
Appropriation of earnings	-	-	-	-	-	-	422,795	-	(422,795)	-	-	-	-	-	-
Legal reserve	-	-	-	-	-	-	-	-	989,158	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	-	-	(143,829)	-	-	-	-	-	(143,829)
Bonuses to directors and supervisors	-	-	-	-	-	-	-	-	(139,514)	-	-	-	-	-	-
Bonuses to employees (Note19)	-	139,514	-	-	-	-	-	-	(1,130,751)	-	-	-	-	-	-
Stock dividends (Note19)	-	1,130,751	-	-	-	-	-	-	(3,392,253)	-	-	-	-	-	(3,392,253)
Cash dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Effect of changes of ownership interest in investees	-	-	-	-	-	185,876	-	-	-	-	-	-	-	-	185,876
Adjustments on changes of unrealized loss on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	14,787	-	-	-	-	14,787
Adjustments on changes of unrealized loss on cash flow hedge financial liability	-	-	-	-	-	-	-	-	-	63,241	-	-	-	-	63,241
Execution of employee stock warrants	21,930	-	4,386	-	-	-	-	-	-	-	-	-	-	-	26,316
Translation adjustments on foreign long-term equity investments	-	-	-	-	-	-	-	-	-	(513,576)	-	-	-	-	(513,576)
Change of minority interest	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,082,213)	(2,082,213)
Consolidated net income for the six months ended June 30, 2006	-	-	-	-	-	-	-	-	3,968,040	-	-	-	-	2,866,977	6,835,017
BALANCE, JUNE 30, 2006	\$ 23,079,858	\$ 1,270,265	\$ 807,290	\$ 1,439,788	\$ 255,097	\$ 200,068	\$ 3,692,621	\$ 1,434,839	\$ 6,910,167	\$ (478,082)	\$ (1,573,045)	\$ 134,641	\$ (3,459,328)	\$ 35,744,269	\$ 69,458,448

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

(With Deloitte & Touche review report dated August 10, 2007)

POU CHEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS SIX MONTHS ENDED JUNE 30, 2007 AND 2006 (In Thousands of New Taiwan Dollars) (Reviewed, Not Audited)

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Consolidated net income	\$ 5,218,936	\$ 6,835,017
Adjustments to reconcile net income to net cash provided by operating activities		
Cumulative effect of changes in accounting principle	-	(1,625,271)
Revaluation loss (gain) on financial assets	221,400	(540,554)
Revaluation loss on financial liabilities	132,580	52,642
Depreciation and amortization	3,263,188	3,077,207
Amortization of the cost of issuing Euro Convertible Bonds	360,778	-
Gain on redeeming and repurchasing Euro Convertible Bonds	-	(166,941)
(Recovery from) provision for doubtful accounts	(21,686)	126,542
Provision for inventory devaluation and obsolescence	14,417	107,607
Investment income recognized under equity method	(524,707)	(858,061)
Cash dividends received from investees under equity method	248,395	349,884
Net (gain) loss on disposal of long-term equity investments	(88,204)	98,318
Net loss on disposal of property, plant and equipment	80,474	111,902
Recovery from loss on devaluation and depreciation of idle assets	(3,659)	-
Other investment losses	-	521,943
Net changes in operating assets and liabilities		
Notes receivable	(17,313)	(51,222)
Accounts receivable	(323,017)	(631,789)
Accounts receivable from affiliates	763,982	1,082,289
Other financial assets, current	(364,230)	147,947
Inventories	(1,232,947)	(820,352)
Other current assets	(2,560,514)	(425,254)
Deferred pension cost	-	(350)
Temporary income tax payment	(1,260)	2,124
Long-term accounts receivable	(8,963)	(41,316)
Deferred income tax asset, noncurrent	(7,818)	50,961
Other assets	-	(2,734)
Notes payable	44,946	3,901
Notes payable to affiliates	(22,886)	(71,754)
Accounts payable	(1,246,026)	890,074
Accounts payable to affiliates	77,310	(262,378)
Income tax payable	583,890	(18,055)
Other payables	5,347,069	(986,736)
Other current liabilities	548,394	694,139
Foreign exchange adjustment on Euro Convertible Bonds	(25,417)	(12,471)
Interest compensation payable	-	205,989
Reserve for retirement plan	8,325	21,530
Minority interest	<u>1,694,730</u>	<u>(2,082,213)</u>
Net cash provided by operating activities	<u>12,160,167</u>	<u>5,782,565</u>

(Continued)

POU CHEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS SIX MONTHS ENDED JUNE 30, 2007 AND 2006 (In Thousands of New Taiwan Dollars) (Reviewed, Not Audited)

	2007	2006
CASH FLOWS FROM INVESTING ACTIVITIES		
(Increase) decrease in financial assets measured at fair value through profit or loss	\$ (2,066,302)	\$ 469,943
Increase in long-term equity investments	(835,868)	(5,142,158)
Decrease in available-for-sale financial assets, noncurrent	191,199	-
(Increase) decrease in financial assets carried at cost, noncurrent	(71,112)	57,015
(Increase) decrease in investment in real estate	(93,687)	16,529
Acquisition of property, plant and equipment	(5,128,008)	(6,430,738)
Proceeds from disposal of property, plant and equipment	332,939	356,196
Increase in refundable deposits	(11,240)	(129,707)
Increase in goodwill	(73,268)	(5,827)
Increase in deferred charges	<u>(161,309)</u>	<u>(25,862)</u>
Net cash used in investing activities	<u>(7,916,656)</u>	<u>(10,834,609)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term borrowings	2,357,842	761,865
(Decrease) increase in short-term bills	(576,052)	448,468
Issued overseas convertible bonds	8,824,511	-
Redeemed and repurchased overseas convertible bonds	-	(5,902,479)
Remuneration to directors and supervisors	(156,191)	-
(Decrease) increase in long-term borrowings	(2,176,336)	4,452,524
Increase in advance deposits from customers	5,941	271
Execution of employee stock warrants	20,870	26,316
Transfer treasury stock to employees	<u>338,528</u>	<u>-</u>
Net cash provided by (used in) financing activities	<u>8,639,113</u>	<u>(213,035)</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH	<u>258,788</u>	<u>770,291</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	13,141,412	(4,494,788)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>14,594,226</u>	<u>18,100,617</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 27,735,638</u>	<u>\$ 13,605,829</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period		
Interest (excluding interest capitalized)	<u>\$ 1,733,023</u>	<u>\$ 1,233,460</u>
Income tax	<u>\$ 232,368</u>	<u>\$ 287,200</u>

(Continued)

POU CHEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

SIX MONTHS ENDED JUNE 30, 2007 AND 2006

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	2007	2006
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Adjustments of stockholders' equity from first adoption of new and amended Financial Accounting Standards	\$ -	\$ (180,742)
Recovery from unrealized loss on available-for-sale financial assets	\$ 174,581	\$ 14,787
Recovery from unrealized loss on cash flow hedge financial liabilities	\$ 113,231	\$ 63,241
Effect of changes in ownership interest in investees	\$ 1,380,672	\$ 185,876
Long-term liabilities, current portion	\$ 5,335,632	\$ 2,593,115
Translation adjustments on foreign long-term equity investments	\$ 336,768	\$ (513,576)
Bonuses to directors and supervisors	\$ -	\$ 143,829
Dividends payable	\$ 4,375,883	\$ 3,392,253
Adjustments in stockholders' equity on disposal of investments in the parent company of subsidiaries	\$ 288,346	\$ -
Convertible bonds transferred to common stock	\$ 13,088	\$ -
Treasury stock transferred to employees	\$ (57,638)	\$ -
Cash paid during the period for acquisition of property, plant and equipment		
Fair value of property, plant and equipment acquired	\$ 5,074,051	\$ 7,151,396
Add payables for acquisition of property, plant and equipment, beginning of period	425,467	185,957
Less payables for acquisition of property, plant and equipment, end of period	(371,510)	(906,615)
Cash paid during the period for acquisition of property, plant and equipment	\$ 5,128,008	\$ 6,430,738

(Concluded)

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

(With Deloitte & Touche review report dated August 10, 2007)

POU CHEN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SIX MONTHS ENDED JUNE 30, 2007 AND 2006 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise) (Reviewed, Not Audited)

1. ORGANIZATION AND OPERATIONS

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

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

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

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

Name	Location of Incorporation	Pou Chen and its Subsidiaries’ Ownership Percentage
Wealthplus Holdings Limited	British Virgin Islands	100.00
Win Fortune Investments Limited	British Virgin Islands	100.00
Ming Wang Investments Co., Ltd.	ROC	100.00
Windsor Entertainment Co., Ltd.	ROC	100.00
Yun Yang Investments Co., Ltd.	ROC	100.00
Pou Shine Investments Co., Ltd.	ROC	100.00
Pan Asia Insurance Services Co., Ltd.	ROC	99.98
Barits Development Corporation	ROC	98.46
Pou Yuen Technology Co., Ltd.	ROC	99.38
Pro Arch Technology Inc.	ROC	99.93
Global Brands Manufacture Ltd.	ROC	51.91

Wealthplus Holdings Limited (“Wealthplus”), a British Virgin Islands registered corporation, is an investment holding company. Wealthplus commenced its operations in 1991 and invests in companies which are engaged in the design and sale of footwear and electronic peripheral products. As at June 30, 2007, Wealthplus has an outstanding common stock of US\$169,222 thousand.

The information of Wealthplus' subsidiaries is as follows:

Name	Location of Incorporation	Ownership Percentage	Primary Operation Activities
Yue Yuen Industrial (Holdings) Limited	Bermuda	48.17	Manufacturing and sale of athletic and casual footwear and sports apparel
GBM Manufacturing Co., Ltd.	British Virgin Islands	100.00	Property management in the People's Republic of China (PRC)
Upmost Smart Limited	British Virgin Islands	100.00	Manufacturing of electronic components
Gao Chen Technology Co., Ltd.	PRC	79.60	Manufacturing and sale of plastic products and electronic components
Mindtech Display Co., Ltd.	PRC	100.00	Assembly and sale of TFT-LCD module
Digital Decade Limited	British Virgin Islands	100.00	Assembly and sale of TFT-LCD module
Pou Qiao Electronic Limited	PRC	100.00	Assembly of backlight units
China Lion Associates Limited	British Virgin Islands	51.00	Sale of backlight units
Yuen Lim Metal Industrial Limited	PRC	100.00	Manufacturing of electronic components
Go-Cheery Industrial Limited	Hong Kong	100.00	Management and office administration service
Crown Master Investments Limited	British Virgin Islands	100.00	Investment holding
Exotic Developments Limited	British Virgin Islands	100.00	Investment holding
Tetor Ventures Ltd.	British Virgin Islands	100.00	Investment holding
Star Eagle Consultants Limited	British Virgin Islands	100.00	Insurance agent
Diverse Consultants Limited	British Virgin Islands	65.00	Construction and consulting service

Win Fortune Investments Limited ("Win Fortune"), a British Virgin Islands registered corporation, is an investment holding company. Win Fortune commenced its operations in 1994 and invests in Yue Yuen Industrial (Holdings) Limited (as at June 30, 2007, the ownership percentage is 0.93%). As at June 30, 2007, Win Fortune has an outstanding common stock of US\$100 thousand.

Ming Wang Investments Co., Ltd. ("Ming Wang"), a corporation incorporated in the ROC, is an investment holding company. Ming Wang commenced its operations in 1996. It is engaged in investing activities. As at June 30, 2007, Ming Wang has an outstanding common stock of \$427,291 thousand.

Windsor Entertainment Co., Ltd. ("Windsor Entertainment"), a corporation incorporated in the ROC, commenced its operations in 2003. It is engaged in hotel and resort operation. As at June 30, 2007, Windsor Entertainment has an outstanding common stock of \$210,000 thousand.

Yun Yang Investments Co., Ltd. ("Yun Yang") is a corporation incorporated in the ROC. Yun Yang commenced its operations in 1997. It is engaged in investment activities. As at June 30, 2007, Yun Yang has an outstanding common stock of \$75,000 thousand.

Pou Shine Investments Co., Ltd. (“Pou Shine”) is a corporation incorporated in the ROC. Pou Shine commenced its operations in 1990. It is engaged in investing activities. As at June 30, 2007, Pou Shine has an outstanding common stock of \$573,632 thousand.

Pan Asia Insurance Services Co., Ltd. (“Pan Asia Insurance Services”) is a corporation incorporated in the ROC. Pan Asia Insurance Services commenced its operations in 1999. It is engaged in agency of property and casualty insurance. As at June 30, 2007, Pan Asia Insurance Services has an outstanding common stock of \$3,000 thousand.

Barits Development Corporation (“Barits Development”) is a corporation incorporated in the ROC. It is engaged in leather manufacturing and investing activities. As at June 30, 2007, Barits Development has an outstanding common stock of \$913,000 thousand.

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

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

Top Score Investments Ltd. invests in Yue Yuen Industrial (Holdings) Limited. As at June 30, 2007, the ownership percentage is 0.44%.

Pou Yuen Technology Co., Ltd. (“Pou Yuen Technology”), a corporation incorporated in the ROC, is engaged in designing, manufacturing and trading mold, magnesium alloy casing and data processing and storage equipment. As at June 30, 2007, Pou Yuen Technology has an outstanding common stock of \$900,000 thousand.

The information of Pou Yuen Technology’s subsidiaries is as follows:

Name	Location of Incorporation	Ownership Percentage	Principal Operation Activities
Kleine Developments Ltd.	British Virgin Islands	100.00	Manufacturing and sale of electronic components and investment holding
Dong Guan Pou Yuen Digital Technology Co., Ltd.	PRC	100.00	Manufacturing and sale of digital controller and software
Kunshan Yuanying Electronics Technology Co., Ltd.	PRC	100.00	Manufacturing and sale of magnalium products
Dong Guan Pou Yuen Precision Industry Co., Ltd.	PRC	100.00	Manufacturing and sale of magnalium products, plastic parts, precision stamping mold and mobile communication products

Pro Arch Technology Inc. (“Pro Arch Technology”), a corporation incorporated in the ROC, is engaged in manufacturing and sale of computer peripheral equipment and related spare parts. As at June 30, 2007, Pro Arch Technology has an outstanding common stock of \$301,000 thousand.

The information of Pro Arch Technology's subsidiary is as follows:

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

Global Brands Manufacture Ltd. ("Global Brands Manufacture"), a corporation incorporated in the ROC, is engaged in the manufacturing, assembly and sale of printed circuit boards. Its stock has been traded on the Over-the-Counter Exchange in Taiwan since February 1991. As at June 30, 2007, Global Brands Manufacture has an outstanding common stock of \$2,717,794 thousand.

The information of Global Brands Manufacture's subsidiaries is as follows:

Name	Location of Incorporation	Ownership Percentage	Principal Operation Activities
Chuan Yi Computer (Shenzhen) Co., Ltd.	PRC	100.00	Manufacturing and sale of PCB
Yi Kuan Electronics (Shenzhen) Co., Ltd.	PRC	100.00	Manufacturing and sale of PCB
PC Asia Limited	British Virgin Islands	100.00	Sale of PCB
CMK Global Brands Manufacture Ltd.	British Virgin Islands	51.00	Manufacturing and sale of PCB
Atlantic Gateway Ltd.	British Virgin Islands	100.00	Rental of machinery
Dynamic Skyline Ltd.	British Virgin Islands	100.00	Assembly of PCB
Success Ocean Investments Ltd.	British Virgin Islands	100.00	Investing in business of electronic peripheral products
Cheng Cheng Enterprise Co., Ltd.	ROC	100.00	Rental and development of real estate
Solar Link Technologies, Inc.	USA	100.00	Assembly of TFT-LCD and Liquid Crystal on Silicon

As at June 30, 2007 and 2006, there were 309,221 and 307,600 employees, respectively, in Pou Chen and subsidiaries referred above.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

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

Principles of Consolidation

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

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

Current/Noncurrent Assets and Liabilities

Cash or cash equivalents, assets held for 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 values, with cost determined using the weighted- average method. Market values of raw materials are determined by averaging the unit purchase prices during the last month, while those of merchandise, finished goods and work-in-process are determined at their net realizable values.

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

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

Long-Term Investments at Equity Method

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

When the equity method is first adopted or the investment is first acquired, the difference between the underlying equity in net assets of the investee and the cost of the investment is amortized on a straight line basis over 10 years. However, effective January 1, 2006, the cost of the investment in excess of the fair value of investee's identifiable net assets is considered as goodwill in accordance with the amended 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 stated above is to debit the additional paid-in capital account and the balance of additional paid-in capital from long-term equity investments is not enough to be offset, retained earnings will be debited for the remaining amount.

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.

Investments in Real Estate

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

Available-for-Sale Financial Assets

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

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

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

Financial Assets Carried at Cost, Noncurrent

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

Property, Plant, Equipment and Leased Asset

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

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

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

An additional service life and a new residual value will be determined for any depreciable asset which is still in use after the end of its initially prescribed useful life. 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.

Goodwill

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

Deferred Charges

Deferred charges are amortized on a straight-line basis over three to five 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

Convertible bonds issued before January 1, 2006

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.

Convertible bonds issued after January 1, 2006

The face value of convertible bonds issued after January 1, 2006 is calculated by subtracting (1) the fair value of the embedded financial derivative, and (2) the cost of any other non-derivative liability elements from the issuing price. Related interest and gain or loss at redemption are recognized in the income statement. If the convertible bond holders were to exercise their options, the common stocks received would be recorded by the Company at current book value as of the date of conversion.

The issue costs of convertible bonds issued before January 1, 2006 are amortized on a straight-line basis between the issue date and the expiration date of redemption option. Under the new amended Financial Accounting Standards, the issue costs of convertible bonds issued after January 1, 2006 are allocated to liability according to its original listed ratio.

Retirement Plan

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

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

Pou Chen and its subsidiaries each has 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.

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

Foreign Currency Transactions

Foreign-currency transactions (except derivative transactions) are recorded in New Taiwan dollars at the exchange rates prevailing on the transaction date. Gains or losses resulting from the application of prevailing exchange rates when foreign-currency receivables and payables are settled are credited or charged to income. Assets and liabilities denominated in foreign currencies (except 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 alternative minimum tax imposed 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 consolidated financial statements for the six months ended June 30, 2006 have been reclassified to be consistent with the presentation of the consolidated financial statements for the six months ended June 30, 2007.

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 principle in the income statement; on the other hand, the adjustments to the original carrying amount of available-for-sale financial assets are recognized as adjustments to stockholders' equity.

The adjustment at 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 Parent Company's Stockholders' Equity
Financial assets measured at fair value through profit or loss, current	\$ 1,625,271	\$ -
Available-for-sale financial assets, noncurrent	-	50,608
Derivative financial liabilities held for hedging, noncurrent	-	(231,350)
	<u>\$ 1,625,271</u>	<u>\$ (180,742)</u>

The change in accounting principle above increased the income from operation by \$540,554 thousand, the consolidated net income by \$2,165,825 thousand, basic earnings per share after tax by \$1.01 dollar (the effect of stock dividends to be distributed were not considered) and the adjustments of parent company stockholders' equity by \$78,028 thousand. The parent company stockholders' equity totally decreased by \$102,714 thousand as at June 30, 2006.

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

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at June 30, 2007 and 2006 consist of the following:

	2007	2006
Cash on hand	\$ 59,610	\$ 51,024
Checking accounts	39,784	34,835
Savings accounts	1,323,246	420,663
Foreign-currency savings deposit	23,771,265	11,779,455
Time deposits	1,785,953	475,839
Commercial papers	<u>755,780</u>	<u>844,013</u>
	<u>\$ 27,735,638</u>	<u>\$ 13,605,829</u>

The time deposits of \$28,601 thousand and \$49,409 thousand, included in other assets - refundable deposits were pledged for employment of foreign labors and for tax appealing on additional tax assessment as at June 30, 2007 and 2006, respectively.

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

Financial instruments measured at fair value through profit or loss, current as at June 30, 2007 and 2006 were summarized as follows:

	2007	2006
Financial assets at fair value through profit or loss		
Marketable equity securities	\$ 7,275,865	\$ 4,901,258
Open-ended mutual funds	299,414	547,661
Foreign mutual funds	<u>96,433</u>	<u>85,257</u>
	<u>\$ 7,671,712</u>	<u>\$ 5,534,176</u>
Financial liabilities at fair value through profit or loss		
Euro-Dollar Convertible Bonds with options	\$ 1,372,959	\$ -
Forward exchange contracts	<u>-</u>	<u>52,642</u>
	<u>\$ 1,372,959</u>	<u>\$ 52,642</u>

The Company's strategy for forward exchange contracts is to hedge exposures to fluctuations of foreign exchange rate. The Company's financial risk management objective is to hedge most of the market price risk and cash flow risk.

The net gain (loss) from financial instruments measured at fair value through profit or loss, current for the six months ended June 30, 2007 and 2006 amounted to \$(353,980) thousand and \$487,912 thousand, respectively.

6. NOTES RECEIVABLE

Notes receivable as at June 30, 2007 and 2006 consist of the following:

	2007	2006
Notes receivable	\$ 101,346	\$ 91,000
Less allowance for doubtful accounts	<u>(900)</u>	<u>(900)</u>
	<u>\$ 100,446</u>	<u>\$ 90,100</u>

7. ACCOUNTS RECEIVABLE

Accounts receivable as at June 30, 2007 and 2006 consist of the following:

	2007	2006
Accounts receivable	\$ 24,993,782	\$ 20,345,934
Less allowance for doubtful accounts	<u>(461,174)</u>	<u>(838,933)</u>
	<u>24,532,608</u>	<u>19,507,001</u>
Accounts receivable from affiliates (Note 26)	1,465,755	2,393,668
Less allowance for doubtful accounts	<u>(5,118)</u>	<u>(99,397)</u>
	<u>1,460,637</u>	<u>2,294,271</u>
	<u>\$ 25,993,245</u>	<u>\$ 21,801,272</u>

8. INVENTORIES

Inventories as at June 30, 2007 and 2006 consist of the following:

	2007	2006
Raw materials and supplies	\$ 8,879,527	\$ 8,494,204
Work-in-process	3,381,675	3,530,529
Finished goods	8,644,485	6,350,617
Merchandise	135,536	13,709
Goods in transit	73,670	112,225
Land for development	140,072	140,072
Land, buildings and improvements for sale	80,536	119,281
Construction in process	<u>43,162</u>	<u>53,233</u>
	21,378,663	18,813,870
Less valuation allowance	<u>(980,121)</u>	<u>(749,640)</u>
	<u>\$ 20,398,542</u>	<u>\$ 18,064,230</u>

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

Construction in progress belongs to Wang Yi Construction Co., Ltd.

9. LONG-TERM INVESTMENTS AT EQUITY METHOD

Long-term investments at equity method as at June 30, 2007 and 2006 are comprised of the following:

	2007			2006	
	Original Cost	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage
<u>Shoes, shoe materials and athletic products companies</u>					
All Saints Enterprises Limited	\$ 80,244	\$ 136,135	37.00	\$ 125,729	37.00
Eagle Nice (Int'l) Holdings Ltd.	1,342,795	1,499,656	44.96	1,492,949	44.96
Nan Pao Resins (Holdings) Limited	72,505	267,713	35.00	283,045	35.00
Pine Wood Industrial Limited	93,618	82,116	37.00	80,891	37.00
Prosperous Industrial (Holdings) Ltd.	591,480	761,956	30.00	681,038	30.00
Rising Sun Associates Limited	36,475	85,702	37.00	89,699	37.00
Best Focus Holdings Ltd.	328,600	421,825	50.00	412,385	50.00
Blessland Enterprises Limited	26,544	72,933	50.00	78,211	50.00
Central Honour Limited	5,258	7,957	50.00	6,649	50.00
Great Skill Industrial Limited	34,602	69,280	50.00	87,347	50.00
Up Front Technology Ltd.	164,300	88,594	50.00	103,458	50.00
Willpower Industries Limited	105,152	113,702	40.00	96,788	40.00
Smart Shine Industries Limited	-	418,921	50.00	323,700	50.00
Din Tsun Holding Co., Ltd.	289,045	321,147	50.00	189,988	50.00
Profit Land Limited	69,006	63,691	35.00	37,426	35.00
Texas Clothing Holdings Corp.	1,971,600	1,704,645	39.40	1,879,595	39.52
China Ocean Resources Limited	591,480	475,621	50.00	249,352	50.00
I-Tech Enterprises Ltd.	10,269	8,982	50.00	-	-
Bigfoot Limited	180,885	154,719	48.76	186,564	48.76
Natural Options Limited	11,292	8,308	38.30	13,362	38.30
Original Designs Developments Limited	40,689	130,397	47.00	111,570	47.00
Cohen Enterprises Inc.	158,900	432,209	50.00	426,476	50.00
Ever Atlantic Investments Limited	216,501	126,639	50.00	147,873	50.00
Hua Jian Industrial Holding Co., Limited	781,427	1,623,300	50.00	1,340,777	50.00
Ka Yuen Rubber Factory Limited	79,618	576,900	50.00	484,478	50.00
Topmost Industries Limited	26,789	85,378	50.00	79,308	50.00
Twinways Investments Limited	89,402	187,556	50.00	194,271	50.00
Yuen Thai Industrial Company Limited	86,882	-	50.00	50,443	50.00
Oftenrich Holdings Limited	1,412,531	1,845,680	45.00	1,559,661	45.00
New Peak Services Limited	252,453	266,358	50.00	-	-
PT. GF Indonesia Ltd.	73,935	27,551	45.00	-	-
Just Lucky Investments Limited	44,820	49,753	38.30	47,675	38.30
High Style Investments Limited	26,288	31,344	50.00	36,863	50.00
Pou Thane Enterprise Co., Ltd.	5,673	8,619	50.00	8,043	50.00
Precise Zone Investments Limited	42,215	41,383	47.65	35,709	47.65
PYGF Co., Ltd.	32,860	47,546	50.00	37,337	50.00
Liberty Bell Investments Limited	257,866	216,546	49.00	38,206	49.00
Jumbo Power Enterprises Limited	197,160	193,110	50.00	-	-
Farsighted Int'l Limited	185,330	200,097	30.00	-	-
Evermore Chemical Industry Co., Ltd.	256,692	269,696	20.75	-	-
San Fang Chemical Industry Co., Ltd.	2,700,198	2,903,417	44.72	2,769,149	44.34
<u>Electronic companies</u>					
Haicheng Information Technology Co., Ltd.	197,160	158,778	50.00	155,569	50.00
Silver Island Trading Ltd.	131,440	55,866	50.00	60,132	50.00
Venture Well Holdings Ltd.	337,049	311,555	43.08	305,871	43.08

	2007			2006	
	Original Cost	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage
Prime World International Ltd.	111,724	115,455	34.34	-	-
Digital Sun Investments Ltd.	317,226	176,040	25.93	249,324	25.93
Centralian Investments Limited	650,993	612,600	49.64	300,770	32.73
Eagle Great Investments Limited	-	-	-	62,650	40.00
Elitegroup Computer Systems Co., Ltd.	6,033,250	4,745,606	17.98	5,164,773	21.15
Techview International Technology Inc.	665,348	751,375	48.84	714,446	49.62
<u>Investment holding and other companies</u>					
Ace Top Group Limited	1,544	3,523	40.00	-	-
Asia Air Tech Industrial (Pte) Ltd.	83,793	65,895	30.00	73,080	30.00
Enthroned Group Limited	160	160	48.76	158	48.76
Coprospects Holdings Ltd.	7,377	11,650	50.00	7,409	50.00
Full Pearl International Ltd.	246,090	246,090	47.95	-	-
Optiyield Industrial Limited	36	-	50.00	52	50.00
Well Success Investments Limited	259,770	1,052,539	40.00	1,148,928	40.00
Rising Developments Ltd.	5,095	72,224	50.00	64,353	50.00
Supplyline Ltd.	106,856	4,981	49.00	105	49.00
Talent Pool Management Ltd.	-	1,219	30.00	2,261	30.00
Partner Alliance Limited	3,918	966	50.00	5,149	50.00
Pou Lik Properties Management Co., Ltd.	780	1,190	30.00	2,633	30.00
Chuhai Prolik Properties Management Co., Ltd.	8,337	26,606	40.00	-	-
Yusong Chateau Enterprise Co., Ltd.	1,500	810	50.00	1,432	50.00
Zhong Ao Multiplex Management Limited	530,373	570,550	47.50	400,178	47.50
	<u>\$ 22,673,198</u>	<u>\$ 25,012,760</u>		<u>\$ 22,505,288</u>	

The details of Company's long-term equity investment income (loss) under equity method for the six months ended June 30, 2007 and 2006 are summarized as follows:

	2007	2006
<u>Shoes, shoe materials and athletic products companies</u>		
All Saints Enterprises Limited	\$ (4,345)	\$ 7,564
Eagle Nice (Int'l) Holdings Ltd.	63,223	101,389
Nan Pao Resins (Holdings) Limited	4,214	32,648
Pine Wood Industrial Limited	-	(11,512)
Prosperous Industrial (Holdings) Ltd.	34,914	22,555
Rising Sun Associates Limited	8,102	6,920
Best Focus Holdings Ltd.	21,122	95,944
Blessland Enterprises Limited	3,406	5,005
Central Honour Limited	1,038	1,166
Great Skill Industrial Limited	14,546	16,943
Up Front Technology Ltd.	-	(32,890)
Willpower Industries Limited	6,141	383
Smart Shine Industries Limited	57,440	-
Din Tsun Holding Co., Ltd.	13,143	12,145
Profit Land Limited	(5,324)	39
Texas Clothing Holdings Corp.	(162,984)	(63,611)
China Ocean Resources Limited	(73,458)	6,683
I-Tech Enterprise Ltd.	(859)	-
Bigfoot Limited	(3,437)	8,045
Natural Options Limited	(4,115)	(2,474)
Original Designs Developments Limited	11,010	15,763
Cohen Enterprises Inc.	18,290	17,359

	2007	2006
Ever Atlantic Investments Limited	-	5,793
Hua Jian Industrial Holdings Co., Limited	183,405	166,628
Ka Yuen Rubber Factory Limited	54,189	105,333
Topmost Industries Limited	5,196	15,136
Twinways Investments Limited	18,803	32,361
Yuen Thai Industrial Company Limited	-	(14,526)
Oftenrich Holdings Limited	59,135	193,428
PT. GF Indonesia Ltd.	(26,789)	-
Just Lucky Investments Limited	794	705
High Style Investments Limited	(1,414)	3,616
Pou Thane Enterprise Co., Ltd.	52	699
Precise Zone Investments Limited	2,193	3,381
PYGF Co., Ltd.	7,933	211
Liberty Bell Investments Limited	(26,746)	(8,052)
Jumbo Power Enterprises Limited	(4,054)	-
Farsighted Int'l Limited	14,781	-
Evermore Chemical Industry Co., Ltd.	13,016	-
San Fang Chemical Industry Co., Ltd.	126,221	133,734
 <u>Electronic companies</u>		
Haicheng Information Technology Co., Ltd.	(11,049)	38,951
Silver Island Trading Ltd.	(14,180)	(69,806)
Venture Well Holdings Ltd.	7,110	(4,483)
Prime World International Ltd.	3,016	-
Digital Sun Investments Ltd.	(25,613)	(67,654)
Centralian Investments Limited	(24,960)	(16,396)
Eagle Great Investments Ltd.	684	(10,403)
Elitegroup Computer Systems Co., Ltd.	12,759	76,958
Techview International Technology Inc.	(690)	32,166
 <u>Investment holding and other companies</u>		
Ace Top Group Limited	1,981	-
Asia Air Tech Industrial (Pte) Ltd.	(5,644)	(7,026)
Coprosects Holdings Ltd.	2,343	505
Well Success Investments Limited	60,167	112,464
Rising Developments Limited	3,176	2,597
Supplyline Ltd.	-	(85,514)
Talent Pool Management Ltd.	469	254
Partner Alliance Limited	200	411
Pou Lik Properties Management Co., Ltd.	(15)	(19)
Chuhai Prolik Properties Management Co., Ltd.	18,286	-
Yusong Chateau Enterprise Co., Ltd.	(86)	(68)
Zhong Ao Multiplex Management Limited	67,971	(23,387)
	<u>\$ 524,707</u>	<u>\$ 858,061</u>

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

Name	Core Operating Item	Place of Incorporation
All Saints Enterprises Limited	Manufacture and sale of paint	British Virgin Islands
Eagle Nice (Int'l) Holdings Ltd.	Manufacture and trading sportswear and garments	Cayman Islands
Nan Pao Resins (Holdings) Limited	Manufacture and sale of paint	British Virgin Islands
Pine Wood Industrial Limited	Manufacture and sale of cloth	British Virgin Islands
Prosperous Industrial (Holdings) Ltd.	Manufacture and sale of sports bags	Cayman Islands
Rising Sun Associates Limited	Manufacture and sale of paint	British Virgin Islands
Best Focus Holdings Ltd.	Manufacture and sale of paper carton boxes	British Virgin Islands
Blessland Enterprises Limited	Manufacturing and sale of shoe pads	British Virgin Islands
Central Honour Limited	Shoe injection	British Virgin Islands
Great Skill Industrial Limited	Manufacture and sale of plastic shoe injection	British Virgin Islands
Up Front Technology Ltd.	Shoe injection	British Virgin Islands
Willpower Industries Limited	Manufacture and sale of cartons	British Virgin Islands
Smart Shine Industries Limited	Manufacture and sale of shoes and apparel	British Virgin Islands
Din Tsun Holdings Co., Ltd.	Manufacture and sale of apparel	British Virgin Islands
Profit Land Limited	Manufacture and sale of paint	British Virgin Islands
Texas Clothing Holdings Corp.	Manufacture and sale of apparel	British Virgin Islands
China Ocean Resources Limited	Sales of sports goods	British Virgin Islands
I-Tech Enterprises Ltd.	Sales of plastic grain	British Virgin Islands
Bigfoot Limited	Cloth product trading / cloth dyeing & processing / cloth shoe material binding	British Virgin Islands
Natural Options Limited	Manufacture of foamed cotton	British Virgin Islands
Original Designs Developments Limited	Manufacture of shoe lasts	British Virgin Islands
Cohen Enterprises Inc.	Manufacture and sale of leather products for shoes	British Virgin Islands
Ever Atlantic Investments Limited	Manufacture of apparel	British Virgin Islands
Hua Jian Industrial Holding Co., Limited	Manufacture and sale of ladies shoes	British Virgin Islands
Ka Yuen Rubber Factory Limited	Manufacture and sale of rubber soles	British Virgin Islands
Topmost Industries Limited	Manufacture of counters for shoes	British Virgin Islands
Twinways Investments Limited	Manufacture and sale of injection molds for shoes components	British Virgin Islands

Name	Core Operating Item	Place of Incorporation
Yuen Thai Industrial Company Limited	Manufacture and trading of sports and active wear	Hong Kong
Oftenrich Holdings Limited	Manufacture and sale of safety and casual shoes	Bermuda
New Peak Services Limited	Manufacture and sale of shoes	British Virgin Islands
PT. GF Indonesia Ltd.	Sale of shoes and active wear	Indonesia
Just Lucky Investments Limited	Manufacture and sale of shoes material	British Virgin Islands
High Style Investments Limited	Manufacture halftone, printing ink	British Virgin Islands
Pou Thane Enterprise Co., Ltd.	Sales of plastic grain	British Virgin Islands
Precise Zone Investments Limited	Manufacture and processing of ironware and plastic products	British Virgin Islands
PYGF Co., Ltd.	Processing rubber	British Virgin Islands
Liberty Bell Investments Limited	Manufacture of composed and sale of chemical for leathe use	British Virgin Islands
Jumbo Power Enterprises Limited	Sales of sports goods	British Virgin Islands
Envopro Technology Limited	Manufacture glues, plastics, and chemical products	British Virgin Islands
Haicheng Information Technology Co., Ltd.	Developing and manufacture of software and electronic parts	Shanghai City
Sliver Island Trading Ltd.	Sale of electronic parts	British Virgin Islands
Venture Well Holdings Ltd.	Sale of electronic parts	British Virgin Islands
Prime World International Ltd.	Sale of electronic parts	British Virgin Islands
Digital Sun Investments Ltd.	Sale of printed circuit boards	British Virgin Islands
Centralian Investments Ltd.	Assembly of printed circuit boards	British Virgin Islands
Farsighted Int'l Limited	Sales of sports goods	British Virgin Islands
Ace Top Group Limited	Investment holding	British Virgin Islands
Asia Air Tech Industrial (Pte) Ltd.	Manufacture and sale of air conditioner	Singapore
Enthroned Group Limited	Investment holding	British Virgin Islands
Coprospects Holdings Ltd.	Investment holding	British Virgin Islands
Eagle Great Investments Ltd.	Assembly of printed circuit boards	British Virgin Islands
Full Pearl International Limited	Investment holding	British Virgin Islands
Optiyield Industrial Limited	Investment holding	British Virgin Islands
Well Success Investments Limited	Investment holding	British Virgin Islands
Rising Developments Ltd.	Trading of diesel / petroleum	British Virgin Islands
Supplyline Ltd.	Provision of logistic service	Hong Kong
Talent Pool Management Ltd.	Provision of school service	British Virgin Islands
Partner Alliance Limited	Sale of tobacco and liquor	British Virgin Islands
Pou Lik Properties Management Co., Ltd.	Properties management	British Virgin Islands
Chuhai Prolik Properties Management Co., Ltd.	Properties management	British Virgin Islands
Zhong Ao Multiplex Management Limited	Properties management	Beijing

The fiscal year end of the above-listed companies is September 30. The Company accounted for the long-term investment income (loss) of these companies based on these companies' financial results for the six months ended March 31, 2007, as permitted under the accounting principles generally accepted in the ROC.

Techview International Technology Inc. ("Techview International") is engaged in sale and assembly of TFT-LCD display. It has an outstanding common stock of \$1,191,999 thousand as at June 30, 2007.

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 June 30, 2007. In January 2006, Elitegroup computer issued additional 314,001 thousand common stocks, to exchange the desktop department of Tatung Co. In addition, Elitegroup computer merged with Uniwill Computer Corp. by issuing additional 184,931 thousand shares of common stock in December 2006.

San Fang Chemical Industry Co., Ltd. ("San Fang") is engaged in manufacturing and marketing leather. The shares of San Fang are listed on the Taiwan Stock Exchange Corporation. It has an outstanding capital of \$2,504,083 thousand as at June 30, 2007.

Evermore Chemical Industry Co., Ltd. ("Evermore Chemical") is engaged in manufacturing and selling of melamine resin and phthali dnhydride resin. The shares of Evermore Chemical are listed on the Taiwan Stock Exchange Corporation. It has an outstanding capital of \$897,000 thousand as at June 30, 2007.

10. INVESTMENTS IN REAL ESTATE

Investments in real estate as at June 30, 2007 and 2006 are comprised of the following:

	2007			2006
	Cost	Accumulated Depreciation	Carrying Value	Carrying Value
Land	\$ 172,712	\$ -	\$ 172,712	\$ 109,712
Building (construction in progress)	93,039	-	93,039	55,824
	<u>\$ 265,751</u>	<u>\$ -</u>	<u>\$ 265,751</u>	<u>\$ 165,536</u>

11. AVAILABLE-FOR-SALE FINANCIAL ASSETS, NONCURRENT

Available-for-sale financial assets, noncurrent as at June 30, 2007 and 2006 are as follows:

	2007			2006	
	Original Investment Cost	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage
Taiwan marketable equity securities					
Asia Vital Components Co., Ltd.	\$ 221,568	\$ 486,400	6.05	\$ -	-
Taiwan Paiho Limited	139,539	207,599	3.01	125,949	3.25
Quanta Display Inc.	-	-	-	492,685	0.78
Evermore Chemical Industry Co., Ltd.	-	-	-	2,978	0.28
Mutual fund					
Reliance Forever fund	39,758	39,758	-	-	-

	2007			2006	
	Original Investment Cost	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage
Foreign marketable equity securities					
Luen Thai Holdings Ltd.	1,123,054	430,904	8.98	966,345	8.98
Symphony Holdings Ltd.	299,047	399,172	5.05	-	-
Foreign mutual funds					
Investar Excelsus Venture Capital	8,893	8,893	-	4,014	-
	<u>\$ 1,831,859</u>	<u>\$ 1,572,726</u>		<u>\$ 1,591,971</u>	

Asia Vital Components Co., Ltd. is engaged in manufacturing and selling of semiconductors electronic connectors, computer connectors and communication products. The shares of Asia Vital Components are listed on the Taiwan Stock Exchange Corporation. It has an outstanding common stock of \$2,513,021 thousand as at June 30, 2007.

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 Company acquired on October 1, 2006 the AUO shares at share swap ratio of 3.5 Quanta Display shares for 1 AUO share, and the AUO shares 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 \$378,972 thousand for the year ended December 31, 2006, which was recorded as other investment losses.

Luen Thai Holdings Ltd. is engaged in manufacturing ready-made garments. The shares of Luen Thai Holdings Ltd. are listed on the Hongkong Exchange and Clearing Limited. It has an outstanding common stock of US\$9,925 thousand as at June 30, 2007.

Symphony Holdings Ltd. is engaged in manufacturing and sales of footwear. The shares of Symphony Holdings Ltd. are listed on the Hong Kong Exchange and Clearing Limited. It has an outstanding common stock of HK\$435,836 thousand as at June 30, 2007.

12. FINANCIAL ASSETS CARRIED AT COST, NONCURRENT

Financial assets carried at cost, noncurrent as at June 30, 2007 and 2006 were as follows:

	2007			2006	
	Original Investment Cost	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage
Chiang Yei Precision Industrial Co., Ltd.	\$ 8,153	\$ 8,153	15.27	\$ 8,153	15.27
Golden Brands Developments Ltd.	734,027	274,731	5.88	270,634	5.88
L&C Aluminium Corp.	1,200	831	3.33	831	3.33
Media Reality Technologies, Inc.	88	88	0.41	88	0.41
Shey Yu Co., Ltd.	320	320	1.07	320	1.07
Hwiang Shei Co., Ltd.	200	-	1.00	-	1.00
View Sonic Corporation	96,231	96,231	0.42	96,231	0.43
Taichung International Country Club	1,905	1,905	0.09	1,905	1.28
Redsun Electronic Co., Ltd.	14,000	-	5.40	-	5.39
Bizlink Holding Inc.	109,790	109,790	3.06	108,153	3.06
Great Team Backend Foundry Inc.	79,663	79,663	11.57	78,475	19.86
DTE Technologies Corp.	50,000	50,000	10.14	-	-
Eic Enterprise Ltd. - preferred stock	63,595	1,423	-	1,402	-
Asia Pacific Genesis Venture Capital Fund	131,440	131,440	-	80,925	-
	<u>\$ 1,290,612</u>	<u>\$ 754,575</u>		<u>\$ 647,117</u>	

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

13. PROPERTY, PLANT AND EQUIPMENT

A summary of property, plant and equipment as at June 30, 2007 and 2006 is as follows:

	2007				2006	
	Cost	Reassessed Value Increment	Accumulated Depreciation	Accumulated Impairment	Carrying Value	Carrying Value
Land	\$ 2,003,433	\$ 238,754	\$ -	\$ 162,739	\$ 2,079,448	\$ 2,129,544
Buildings and improvements	38,907,810	40,254	9,483,534	1,282	29,463,248	24,713,836
Machinery and equipment	41,072,096	-	21,407,779	-	19,664,317	17,952,035
Transportation equipment	1,048,902	-	703,875	-	345,027	298,687
Furniture, fixtures and office equipment	4,616,321	-	3,047,295	-	1,569,026	1,481,531
Other equipment	684,037	-	311,179	-	372,858	382,548
Construction in progress and prepayments on purchase of equipment	2,893,114	-	-	-	2,893,114	4,769,134
	<u>\$91,225,713</u>	<u>\$ 279,008</u>	<u>\$34,953,662</u>	<u>\$ 164,021</u>	<u>\$56,387,038</u>	<u>\$51,727,315</u>

The Pou Chen recorded the land value increment in 1987 and 1991 to reflect the value appraised and published by the government. Reserve for land value increment tax, payable upon sale of land, is presented under long-term liabilities. Furthermore, in accordance with the amended Land Tax Law, the Pou Chen 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 six months ended June 30, 2005.

Two parcels of land located in Changhwa County were purchased by the Pou Chen for \$22,187 thousand in June 1990 and for \$33,668 thousand in April 1997. According to related laws, the ownership for these two parcels of land should be transferred to the Company. However, due to certain restrictions under the land regulations, the ownership for these two parcels of land resides with a trustee through a trust agreement which prohibits the trustee from selling, pledging or hypothecating the property. Consequently, the two parcels of land valued at \$55,855 thousand as at June 30, 2007 and 2006 are included in "other assets - land held by trustee" (see Note 14).

In 2006, the construction of Pou Chen International Building was completed. The total price of land and buildings was \$4.4 billion.

The interest expense for the six months ended June 30, 2007 and 2006 amounted to \$1,529,091 and \$1,214,291 thousand, respectively. Interest costs capitalized as part of the costs of property, plant and equipment for the six months ended June 30, 2007 and 2006 amounted to \$1,224 thousand and \$3,102 thousand, respectively. The rates of capitalized interest were 2.50% for both years.

14. OTHER ASSETS

Other assets as at June 30, 2007 and 2006 consist of the following:

	2007	2006
Leased-out assets		
Cost and revaluation increment	\$ 2,521,795	\$ 1,827,696
Less accumulated depreciation	<u>(132,867)</u>	<u>(204,386)</u>
	<u>2,388,928</u>	<u>1,623,310</u>
Refundable deposits	<u>83,837</u>	<u>76,968</u>
Deferred charges	<u>3,647,179</u>	<u>4,031,273</u>
Long-term receivables	<u>273,986</u>	<u>251,466</u>
Deferred tax assets (Note 23)	<u>76,168</u>	<u>173,784</u>
Land held by trustee (Note 13)	<u>55,855</u>	<u>55,855</u>
Idle asset	85,698	60,834
Less		
Accumulated depreciation	(48,063)	(41,102)
Allowance for valuation loss of idle asset	<u>(37,635)</u>	<u>(19,732)</u>
	<u>-</u>	<u>-</u>
Prepaid pension cost	36,467	16,675
Others - land and building for sale	5,550	5,598
Temporary tax payments	<u>7,180</u>	<u>26,528</u>
	<u>\$ 6,575,150</u>	<u>\$ 6,261,457</u>

15. SHORT-TERM BORROWINGS

Short-term borrowings as at June 30, 2007 and 2006 consist of the following:

	<u>2007</u>		<u>2006</u>	
	Interest Rate %	Balance	Interest Rate %	Balance
Short-term borrowings				
Procurement loans	5.87~6.43	\$ 686,757	0.81~6.65	\$ 2,619,926
Unsecured loans	1.88~6.12	<u>17,104,677</u>	1.50~5.88	<u>10,156,719</u>
		<u>\$ 17,791,434</u>		<u>\$ 12,776,645</u>

16. SHORT-TERM BILLS

Short-term bills as at June 30, 2007 and 2006 consist of the following:

	2007		2006	
	Interest Rate %	Balance	Interest Rate %	Balance
Short-term bills				
Commercial paper, credit	1.710~2.660	\$ 980,000	1.182~2.260	\$ 1,650,000
Less discount on commercial paper		<u>(1,892)</u>		<u>(6,191)</u>
		<u>\$ 978,108</u>		<u>\$ 1,643,809</u>

17. CURRENT PORTION OF LONG-TERM LIABILITIES

Current portion of long-term liabilities as at June 30, 2007 and 2006 consist of the following:

	2007	2006
Domestic secured bonds (see Note 18)	\$ 5,000,000	\$ -
Long-term debt (see Note 19)	<u>335,632</u>	<u>2,593,115</u>
	<u>\$ 5,335,632</u>	<u>\$ 2,593,115</u>

18. BONDS PAYABLE

Bonds payable as at June 30, 2007 and 2006 consist of the following:

	2007	2006
Euro Convertible Bonds	\$ 15,111,997	\$ 7,576,198
Add interest compensation and income tax payable	<u>658,074</u>	<u>97,729</u>
	15,770,071	7,673,927
Less current portion	<u>-</u>	<u>-</u>
	<u>15,770,071</u>	<u>7,673,927</u>
Domestic secured bonds	5,000,000	5,000,000
Less current portion	<u>(5,000,000)</u>	<u>-</u>
	<u>-</u>	<u>5,000,000</u>
	<u>\$ 15,770,071</u>	<u>\$ 12,673,927</u>

In 2007, the holders of Euro Convertible Bonds converted Euro Convertible Bonds with par value US\$400 thousand into 473 thousand shares of Pou Chen's common stock.

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

Euro-Dollar Convertible Bonds

First Issued by Pou Chen

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

Second Issued by Pou Chen

- (a) Date of issuance: November 4, 2003
- (b) Par value: US\$1,000 (dollars)
- (c) Location of issuance: Luxemburg
- (d) Price of issuance: 100%
- (e) Total amount: US\$300,000 thousand issued; there are US\$330 thousand outstanding as at June 30, 2007
- (f) Interest rate: 0%
- (g) Date of maturity: November 4, 2008
- (h) Conversion Price:

The initial price at which shares will be issued upon conversion is \$47.285 per share at the issue date. The above conversion price will be adjusted accordingly if there is a capital increase in cash or dividend distribution by Pou Chen. As at August 10, 2007, the date of the independent accountants' review report, the current adjusted conversion price is \$27.40 dollars per share.
- (i) Redemption at maturity:

Unless previously redeemed, repurchased and cancelled, or converted, the Bonds will be redeemed on November 4, 2008 at a price equal to 99.501% of the unpaid principal amount.
- (j) Redemption at the option of Pou Chen:
 - (i) The Bonds may be redeemed, in whole or from time to time in part (in the principal amount of US\$1,000 (dollars) or any integral multiple thereof), at the option of Pou Chen at any time on or after November 4, 2005, at a price equal to 100% of the unpaid principal amount thereof; provided that the closing price of the common shares (translated into US dollars at the prevailing rate) on each of 20 consecutive trading days, the last of which occurs not more than five days prior to the date on which notice of such redemption is given, is at least 130% of the conversion price (translated into US dollars at the fixed rate). Notwithstanding the foregoing, the Bonds may be redeemed in whole at the option of Pou Chen at any time at a price equal to 100% of the unpaid principal amount thereof if at least 95% in aggregate principal amount of the Bonds has already been redeemed, repurchased and cancelled, or converted.
 - (ii) The Bonds may also be redeemed in whole at any time at the option of Pou Chen at a price equal to 100% of the unpaid principal amount thereof in the event of certain changes relating to taxation in the Republic of China or such other jurisdiction in which Pou Chen is then organized.
- (k) Repurchase at the option of holders:
 - (i) Each holder has the right to require Pou Chen to repurchase all or any portion (in the principal amount of US\$1,000 (dollars) or any integral multiple thereof) of such holder's bonds on November 4, 2005 at a price equal to 99.80% of the unpaid principal amount thereof.

- (ii) If the common shares cease to be listed or admitted to trading on the TSE for a period exceeding five consecutive trading days, then each holder will have the right, at such holder's option, to require Pou Chen to repurchase all of such holder's bonds at a price equal to 100% of the unpaid principal amount.
- (iii) Upon the occurrence of a change of control, each holder shall have the right, at such holder's option, to require Pou Chen to repurchase all of such holder's bonds at a price equal to 100% of the unpaid principal amount thereof on the date set by Pou Chen which is not less than 30 days nor more than 60 days following the date on which Pou Chen notifies the trustee of the change of control.
A change of control means any of the following events:
 - any person or persons, other than the Tsai Family or its affiliates, acting together, acquires or acquire legal or beneficial ownership of at least 50% of Pou Chen's capital stock; or
 - Pou Chen consolidates with or merges into or sells or transfers all or substantially all of its assets to any other person or persons (other than the Tsai Family or its affiliates), unless the consolidation, merger, sale or transfer will not result in the other person or persons acquiring control over Pou Chen or the successor entity.
- (iv) If Pou Chen ceases to hold, directly or indirectly, at least 33% of the outstanding capital stock of Yue Yuen or if Pou Chen, together with the Tsai Family and its affiliates, ceases to hold, directly or indirectly, at least 51% of the outstanding capital stock of Yue Yuen, then each holder shall have the right, at such holder's option, to require Pou Chen to repurchase all of such holder's bonds at a price equal to 100% of the unpaid principal amount.

Domestic Secured Bonds

The first secured bonds of 2003:

- (a) Pou Chen issued \$5,000,000 thousand secured bonds from June 10, 2003 to June 13, 2003, for the purpose of repaying bank loan. The bonds were separated into 19 types (from "A" to "S"). The issued amount of type A, B, C, D, E, F, K, L, M, N, P, Q was \$300,000 thousand and the other types was \$200,000 thousand. The par value of all types was \$10,000 thousand.
- (b) Date of maturity and price of issuance: from June 10, 2008 to June 13, 2008 and 100%
- (c) Interest rate:
 - Type A, F, K, P: 4.000%, minus floating rate
 - Type B, G, L, Q: 4.001%, minus floating rate
 - Type C, H, M, R: 4.002%, minus floating rate
 - Type D, I, N, S: 4.003%, minus floating rate
 - Type E, J, O: 4.004%, minus floating rate
 The nominal interest rate of all types should be greater than 0%.
 The floating rate is determined on the Fixing Rate of USD 6-month LIBOR at 11:00 AM on the second London business day before the first day of each interest period on "LIBOR" page on the Reuters screen.

The secured bonds contain certain covenants on a yearly evaluation basis, including a covenant that requires Pou Chen to maintain a consolidated tangible net worth of not less than \$18,000,000 thousand, and the following financial ratios: (i) a ratio of consolidated total liabilities including contingent 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) a ratio of consolidated current assets to consolidated current liabilities of not less than 0.8:1.

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

- (a) merge with any other company or spin off, unless Pou Chen being the existing company or majority lenders consent that such merger or spin off will not have a material adverse effect on Pou Chen;
- (b) change the scope or nature of its major business;
- (c) create any encumbrance over its assets, except for such encumbrance that had been made before the agreement date and disclosed to lenders;
- (d) sell, lease out, transfer or dispose of all or substantially all of its assets nor of any part of its assets with a value greater than the amount equal to 35% of the consolidated assets. Nevertheless the limitation on the preceding sentence, the following disposals shall not be taken into account under this restriction:
 - (i) disposals in the ordinary course of business,
 - (ii) the payment of cash as consideration for the acquisition of any asset at arm's length and on normal commercial terms,
 - (iii) the temporary application of funds not immediately required in the purchase or making of short-term investments, or the realization of such investments,
 - (iv) the disposal (for a consideration not exceeding a normal commercial consideration) of assets to its subsidiaries and/or Yue Yuen.
- (e) make loan, which according to procedures on fund and loans, in excess of 20% of the issued capital;
- (f) trade with others in irregular course;
- (g) amend or change the contents, conditions or terms of the secured bonds, unless such amendment or change will not result in adverse effect to lenders;
- (h) provide guarantees in violation of the guidelines of endorsement and guarantees, which guidelines provide that aggregate endorsements and guarantees shall not exceed 100% of net worth as shown in the most recent audited or reviewed financial statements.

Euro-Dollar Convertible Bonds

First issue by Yue Yuen Industrial (Holdings) Limited

- (a) Date of issuance: December 23, 2003
- (b) Par value: US\$1,000 thousand
- (c) Location of issuance: Luxemburg
- (d) Price of issuance: 100%
- (e) Total amount: US\$317,000 thousand issued; there are US\$231,470 thousand outstanding as at June 30, 2007
- (f) Interest rate: 0%
- (g) Date of maturity: December 23, 2008
- (h) Conversion Price:
 HK\$27.33 dollars per share at the fixed rate of exchange of HK\$7.7622 dollars to US\$1 dollar which will be subject to adjustment for, among other things, subdivision or consolidation of shares, capital distributions, bonus issues, rights issues and other dilutive events.
- (i) Redemption at maturity:
 Unless previously redeemed, repurchased and cancelled, or converted, the Bonds will be redeemed on December 23, 2008 at a price equal to 98.76% of the unpaid principal amount.
- (j) Redemption at the option of Yue Yuen:
 On or at any time after December 23, 2005 (in the case of (i) below) and at any time (in the case of (ii) below) and (in either case) prior to December 16, 2008, Yue Yuen may redeem all (in the case of (ii) below) or, from time to time, some only (being US\$1,000,000 dollars in principal amount or an integral multiple thereof) of the Bonds, subject to giving not less than 30 nor more than 60 days' notice, at the Early Redemption Amount on the Redemption Date if (i) the closing price of the Share (as derived from the Daily Quotations Sheet of the Hong Kong Stock Exchange or, as the case may be, the equivalent quotation sheet of an Alternative Stock Exchange), translated into United

States dollars at the prevailing rate described herein, for each of any 20 Trading Days during a 30 consecutive Trading Day period, the last day of which period occurring no more than five Trading Days prior to the date upon which such notice of redemption is given, was at least 120 per cent. of the Conversion Price in effect on each such Trading Day, translated into United States dollars at the rate of HK\$7.7622 dollars = US\$1.00 dollar or (ii) at least 90 per cent. in principal amount of the Bonds has already been converted, redeemed or purchased and cancelled.

- (k) Repurchase at the option of holders:
Each holder has the right to require Yue Yuen to repurchase all or any portion of such holder's bonds on December 23, 2005 at a price equal to 99.50% of the unpaid principal amount thereof.
- (l) On December 14, 2005, Yue Yuen signed a put release agreement with a financial institution pursuant to which has request of the holders of the Exercised Bonds, to revoke the Put Option exercised so that such CB will continue to be outstanding. In addition, Yue Yuen will make an additional payment to or to the order of the Financial Institution on maturity of the Exercised Bonds.

Second issue by Yue Yuen Industrial (Holdings) Limited

- (a) Date of issuance: November 17, 2006
- (b) Par value: HK\$10 thousand
- (c) Location of issuance: Hong Kong
- (d) Price of issuance: 100%
- (e) Total amount: HK\$2,100,000 thousand issued.
- (f) Interest rate: 0%
- (g) Date of maturity: November 17, 2011
- (h) Conversion Price:
HK\$26.75 dollars per share which will be subject to adjustment for, among other things, subdivision or consolidation of shares, capital distributions, bonus issues, rights issues and other dilutive events.
- (i) Redemption at maturity:
Unless previously redeemed, repurchased and cancelled, or converted, the Bonds will be redeemed on November 17, 2011 at a price equal to 113.227% of the unpaid principal amount.
- (j) Redemption at the option of Yue Yuen:
On or at any time after November 17, 2007 (in the case of (i) below) and at any time (in the case of (ii) and (iii) below) and (in either case) prior to November 17, 2011, Yue Yuen may redeem all of the Bonds at the Early Redemption Amount on the Redemption Date if (i) the closing price of the Share (as derived from the Daily Quotations Sheet of the Hong Kong Stock Exchange or, as the case may be, the equivalent quotation sheet of an Alternative Stock Exchange) for each of the 30 consecutive Trading Day prior to the date upon which notice of such redemption is given, was at least 120 per cent. of the Conversion Price in effect on each such Trading Day or (ii) at least 90 per cent. in principal amount of the Bonds has already been converted, redeemed or purchased and cancelled or (iii) in the event of certain changes relating to Bermuda or Hong Kong taxation law (each holder may, after Yue Yuen exercised such redemption option, elect to refuse all or a portion of its Bonds shall not be redeemed by Yue Yuen).
- (k) Repurchase at the option of holders:
- (i) Each holder has the right to require Yue Yuen to repurchase all or any portion of such holder's bonds on November 17, 2009 at a price equal to 107.738% of the unpaid principal amount thereof.
- (ii) If the common shares of Yue Yuen cease to be listed or admitted to trading on the Hong Kong Stock Exchange, each holder has the right to require Yue Yuen to repurchase all of such holder's bonds.
- (iii) Upon the occurrence of a change of control, each holder has the right to require Yue Yuen to repurchase all of such holder's bonds.

19. LONG-TERM DEBT

Long-term debt as at June 30, 2007 and 2006 consist of the following:

	2007	2006
China Development Industrial Bank (Lead Lender) and other banks Long-term debt, US\$23,200 thousand, due in 5 semiannual installments commencing September 5, 2006 and maturing September 5, 2008. Interest rate is 3-month LIBOR rate plus 1%. Interest is paid monthly. The installment due in September 2007 was fully prepaid in March 2007.	\$ 304,941	\$ 750,984
Industrial Development Bureau interest-free loan	-	2,317
Citibank (Lead Lender) and other banks Long-term debt, US\$300,000 thousand, due in semiannual installments commencing November 8, 2007 and maturing November 8, 2009. Interest rate is 5.745%.	9,858,000	9,711,000
Bank of China Long-term debt, US\$420,000 thousand. The period is from June 1, 2005 to June 1, 2010. Interest rate is 5.59%. Interest is paid quarterly. The principal will be fully repaid upon maturity.	9,207,794	11,336,401
China Trust Commercial Bank Long-term debt, US\$2,660 thousand, due in semiannual installments commencing September 21, 2005 and maturing September 21, 2008. Interest rate is 6.71%. Interest is paid monthly.	37,333	61,294
China Trust Commercial Bank Long-term debt, US\$2,000 thousand, due in semiannual installments commencing February 22, 2005 and maturing February 22, 2009. Interest rate is 5.51%. Interest is paid monthly. The principal was full prepaid in 2006.	-	55,491
Industrial Bank of Taiwan Mid-term debt, the term is from October 26, 2005 to October 25, 2008. Interest rate is 2.8911%. Interest is paid monthly. The principal will be fully repaid upon maturity.	180,000	180,000
Citibank (Lead Lender) and other banks Long-term debt, NT\$6,500,000 thousand, due in semiannual repayments commencing April 25, 2009 and maturing October 25, 2010. Interest rate range from 2.225% to 2.296%.	6,500,000	6,500,000

	2007	2006
China Trust Commercial Bank		
Long-term debt, NT\$2,500,000 thousand, due in semiannual repayments commencing December 9, 2009 and maturing June 9, 2011. Interest rate is 3.0433 %.	2,500,000	2,500,000
Ta Chong Bank (Lead Lender) and other banks		
Long-term debt, US\$30,000 thousand, due in 5 semiannual installments commencing September 2, 2008 and maturing September 2, 2010. Interest rate is 1-month (2, 3 or 6-month) LIBOR rate plus 0.90%.	985,800	323,700
Standard Chartered Bank (HK)		
Long-term debt, US\$30,000 thousand. The term is from August 24, 2005 to August 24, 2010. Interest rate is USD 3-month LIBOR rate plus 0.90%. Interest is paid quarterly. The principal is due in semiannual installments commencing from August 24, 2008.	985,800	971,100
Ta Chong Bank (Lead Lender) and other banks		
Long-term debt, US\$15,000 thousand. The term is from November 14, 2005 to November 14, 2010. The principal is due in semiannual installments commencing from November 14, 2008. Interest rate is 3-month LIBOR rate plus 1%. Interest is paid quarterly.	131,440	129,480
Agricultural Bank of China		
Mid-term debt, US\$3,883 thousand. The term is from February 28, 2007 to January 8, 2010. The principal is due in semiannual installments commencing from July 8, 2008. Interest rate is 6.08%. Interest is paid quarterly.	95,699	-
Cathay United Bank		
Long-term debt, US\$9,750 thousand, due in monthly repayments commencing from June 20, 2006 and maturing May 20, 2013. Interest rate is 6.25%. Interest is paid monthly.	315,873	-
	<hr/>	<hr/>
	31,102,680	32,521,767
Less current portion	<u>(335,632)</u>	<u>(2,593,115)</u>
	<u>\$ 30,767,048</u>	<u>\$ 29,928,652</u>

20. CAPITAL STOCK AND RETAINED EARNINGS

Pou Chen's registered and issued capital as at June 30, 2007 and 2006 are summarized as follows:

	2007	2006
Registered capital		
Shares (in thousands)	3,800,000	3,800,000
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)	2,445,246	2,307,986
Par value (in dollars)	<u>\$ 10</u>	<u>\$ 10</u>
Capital	<u>\$ 24,452,459</u>	<u>\$ 23,079,858</u>

Pou Chen's outstanding capital stock amounted to \$23,079,858 thousand as at June 30, 2006. At the June 14, 2006 meeting, Pou Chen's stockholders resolved to issue additional capital stock amounting to \$1,270,265 thousand through stockholders' dividends of \$1,130,751 thousand, and bonuses to employees of \$139,514 thousand. Furthermore, employee stock warrants were exercised for 7,572 thousand shares and convertible bonds were exercised for 2,661 thousand shares during 2006. As a result, Pou Chen's outstanding capital stock was increased to \$24,452,459 thousand, divided into 2,445,246 thousand common shares with a par value of \$10.00 dollars each as at June 30, 2007.

As at April 24, 2007 meeting, the stockholders approved to issue additional capital stock amounting to \$637,714 thousand through stock dividends of \$486,209 thousand, and bonuses to employees of \$151,505 thousand. As the legal registration process is not completed, it was included in stock dividends to be distributed as at June 30, 2007 as outstanding shares. However, it will be taken into consideration as outstanding shares in calculating earnings per share as the legal process was completed on July 25, 2007.

As at June 14, 2006 meeting, Pou Chen's shareholders resolved to issue additional capital stock amounting to \$1,270,265 thousand through stockholders' dividends of \$1,130,751 thousand, and bonuses to employees of \$139,514 thousand. As the legal registration process is not completed, it was included in stock dividends to be distributed as at June 30, 2006.

Earnings per share are based upon the weighted average number of shares of common stock outstanding during the year. For the six months ended June 30, 2006, 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 2007.

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

The exercise price of such warrant has been retroactively restated as \$10.00 dollars and \$22.30 dollars per share, respectively due to the stock dividends distributed in 2007. At June 30, 2007, the employee stock warrants of 66,600 units were executed for 16,619 thousand shares of common stock.

Information about Pou Chen's outstanding stock warrants for the six months ended June 30, 2007 and 2006 was as follows:

	2007		2006	
	Number of Stock Warrants (Units)	Weighted-average Exercise Price (NT\$)	Number of Stock Warrants (Units)	Weighted-average Exercise Price (NT\$)
Employee Stock Warrants				
Balance, beginning of period	53,068	\$ 10.28	60,746	\$ 12.26
Stock warrants exercised	<u>(4,017)</u>	10.00	<u>(2,193)</u>	10.00
Balance, end of period	<u>49,051</u>	10.25	<u>58,553</u>	12.27
Exercisable stock warrants at end of period	<u>67,267</u>		<u>44,733</u>	

As at June 30, 2007 and 2006, information about Pou Chen's outstanding and exercisable stock warrants was as follows:

Range of Exercise Price (NT\$)	Stock Warrants Outstanding			Stock Warrants Exercisable	
	Number of Stock Warrants (Units)	Weighted-average Remaining Contractual Life (NT\$) (Years)	Weighted-average Exercise Price (NT\$)	Number of Stock Warrants (Units)	Weighted-average Exercise Price (NT\$)
<u>2007</u>					
\$10.00~\$22.30	<u>49,051</u>	<u>5.10</u>	<u>\$ 10.25</u>	<u>67,267</u>	<u>\$ 10.12</u>
<u>2006</u>					
\$12.00~\$27.60	<u>58,553</u>	<u>6.10</u>	<u>\$ 12.27</u>	<u>44,733</u>	<u>\$ 12.12</u>

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

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

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

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

Pou Chen's board of directors proposed and the shareholders approved the distribution from the 2006 earnings of 15,151 thousand shares to employees (represents 0.67% of the outstanding common shares at the end of 2006) and of \$156,191 thousand as bonuses to directors and supervisors. In 2006, the basic earnings per share after income tax (before retroactive adjustment for stock dividend in 2007) was \$2.55 dollars; however, if the earnings distribution to employees, directors and supervisors are accounted for as expenses, the pro-forma basic earnings per share after income tax was \$2.42 dollars. For the appropriation of 2006 retained earnings proposed by the board of directors and approved in the shareholders' meeting, please refer to the Market Observation Post System ("MOPS") of Taiwan Stock Exchange.

Wealthplus' outstanding capital stock as at March 31, 2007 and 2006 amounted to US\$169,222 thousand, with a par value of US\$1 dollar each, 169,222 thousand shares.

Additionally, Wealthplus' board of directors approved to distribute earnings in the amount of US\$120,000 thousand in 2007.

Win Fortune's outstanding capital stock as at March 31, 2007 and 2006 amounted to US\$100 thousand, with a par value of US\$1 dollar each, 100 thousand shares.

Ming Wang's registered and issued capital as at June 30, 2007 and 2006 amounted to \$427,291 thousand, divided into 42,729 thousand common shares with a par value of \$10.00 dollars each.

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

Windsor Entertainment's registered and issued capital as at June 30, 2006 amounted to \$100,000 thousand, divided into 10,000 thousand common shares with a par value of \$10.00 dollars each. Additionally, Windsor Entertainment decreased its capital to offset its accumulated deficit by \$90,000 thousand and issued additional capital stock for \$200,000 thousand at a price of \$10.00 dollars per share in October 2006. As at June 30, 2007, Windsor Entertainment's registered and issued capital amounted to \$210,000 thousand, divided into 21,000 thousand common shares with a par value of \$10.00 dollars each.

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

Yun Yang's registered and issued capital as at June 30, 2007 and 2006 amounted to \$75,000 thousand, divided into 7,500 thousand common shares with a par value of \$10.00 dollars each.

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

Pou Shine's registered and issued capital as at June 30, 2007 and 2006 amounted to \$573,632 thousand, divided into 57,363 thousand common shares with a par value of \$10.00 dollars each.

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

Pan Asia Insurance Services' issued capital as at June 30, 2007 and 2006 amounted to \$3,000 thousand.

According to the Company Law of the ROC and Pan Asia Insurance Services' Articles of Incorporation, 10% of Pan Asia Insurance Services' annual earnings, after paying tax and offsetting deficit, if any, should first be appropriated as legal reserve. From the remaining balance, if any, at least 0.1% should be appropriated as bonuses to employees. The final remaining balance shall then be distributed in accordance with the resolution in the stockholders' meeting.

Barits Development's registered and issued capital as at June 30, 2007 and 2006 amounted to \$913,000 thousand, divided into 91,300 thousand common shares with a par value of \$10.00 dollars each.

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

Pou Yuen Technology's registered and issued capital as at June 30, 2007 and 2006 are summarized as follows:

	2007	2006
Registered capital		
Shares (in thousands)	<u>120,000</u>	<u>120,000</u>
Par value (in dollars)	<u>\$ 10</u>	<u>\$ 10</u>
Capital	<u>\$ 1,200,000</u>	<u>\$ 1,200,000</u>
Issued capital		
Shares (in thousands)	<u>90,000</u>	<u>60,000</u>
Par value (in dollars)	<u>\$ 10</u>	<u>\$ 10</u>
Capital	<u>\$ 900,000</u>	<u>\$ 600,000</u>

Pou Yuen Technology's outstanding capital stock as at December 31, 2006 amounted to \$600,000 thousand. In January 2007, Pou Yuen Technology issued additional capital stock for 30,000 thousand shares at a price of \$10.00 dollars per share. As at June 30, 2007, Pou Yuen Technology has an outstanding common stock of \$900,000 thousand with a par value of \$10.00 dollars each.

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

Pro Arch Technology's registered and issued capital as at June 30, 2007 and 2006 are summarized as follows:

	2007	2006
Registered capital		
Shares (in thousands)	<u>185,000</u>	<u>185,000</u>
Par value (in dollars)	<u>\$ 10</u>	<u>\$ 10</u>
Capital	<u>\$ 1,850,000</u>	<u>\$ 1,850,000</u>
Issued capital		
Shares (in thousands)	<u>30,100</u>	<u>117,513</u>
Par value (in dollars)	<u>\$ 10</u>	<u>\$ 10</u>
Capital	<u>\$ 301,000</u>	<u>\$ 1,175,127</u>

Pro Arch Technology's outstanding capital stock as at June 30, 2006 amounted to \$1,175,127 thousand. In September 2006, Pro Arch Technology decreased its capital to offset its accumulated deficit by \$1,174,127 thousand and issued additional capital stock for 30,000 thousand shares at a price of \$10.00 dollars per share. As at June 30, 2007, Pro Arch Technology has an outstanding common stock of \$301,000 thousand with a par value of \$10.00 dollars each.

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

Global Brands Manufacture's registered and issued capital as at June 30, 2007 and 2006 are summarized as follows:

	2007	2006
Authorized capital		
Share (in thousands)	<u>430,000</u>	<u>430,000</u>
Par value (in dollars)	<u>\$ 10</u>	<u>\$ 10</u>
Capital	<u>\$ 4,300,000</u>	<u>\$ 4,300,000</u>
Issued capital		
Share (in thousands)	<u>271,779</u>	<u>205,438</u>
Par value (in dollars)	<u>\$ 10</u>	<u>\$ 10</u>
Capital	<u>\$ 2,717,794</u>	<u>\$ 2,054,382</u>

Global Brands Manufacture was authorized to issue common stock of 30,000 thousand shares under private placement at \$40.48 dollars per share for funding operating capital in November 2003. The private placement shares referred above had been allowed to trade by Financial Supervisory Commission, Executive Yuan in January 2007.

Global Brands Manufacture's issued capital as at June 30, 2006 amounted to \$2,054,382 thousand, divided into 205,438 thousand common shares with a par value of \$10.00 dollars each.

Global Brands Manufacture was approved on April 19, 2006 by Financial Supervisory Commission, Executive Yuan to issue capital stock of 33,000 thousand shares at \$45.50 dollars each for paying off debt and for working capital. On June 9, 2006, Global Brands Manufacture issued additional capital stock amounting to \$333,412 thousand through stockholders' dividends of \$308,157 thousand, and bonuses to employees of \$25,255 thousand. As a result, Global Brands Manufacture's outstanding capital was increased to \$2,717,794 thousand divided into 271,779 thousand common shares with a par value of \$10.00 dollars each as at June 30, 2007.

In their October 15, 2002 meeting, the Board of Directors of Global Brands Manufacture resolved to issue employee stock warrants in accordance with Securities and Exchange Law Article 28-3 within the quantity of 5,672 units. Each stock warrant is granted the right to purchase 1,000 new issued common shares. The exercise price is the closing price of Global Brands Manufacture's common shares at the employee stock warrants' issuance date. The warrant holders can exercise the right up to one-third of the granted warrant units no earlier than two years from the granted date. After four years from the granted date, the warrants holders are eligible to exercise all the warrants owned. As of December 13, 2002 and September 22, 2003, Global Brands Manufacture issued 5,662 and 10 units, respectively, of employee stock warrants to the employees with an exercise price of \$29.50 dollars and \$64.00 dollars per unit. The exercise price will be adjusted according to calculating formula subject to stock and cash distributions and issuance of capital stock. As at June 30, 2007, the exercise price was \$14.10 dollars and \$31.40 dollars per unit.

On their September 22, 2003 meeting, the Board of Directors of Global Brands Manufacture resolved to issue another employee stock warrants with the quantity of 10,672 units. The issuing rules are the same as the first issuance mentioned above. Global Brands Manufacture issued all the employee stock warrants with an exercise price of \$50.50 dollars per unit on November 12, 2003. The exercise price will be adjusted according to calculating formula subject to stock and cash distributions and issuance of capital stock. As at June 30, 2007, the exercise price was \$25.90 dollars per unit and total unsubscribed shares available for sale amounted to 16,981 thousand shares.

Information about Global Brands Manufacture's outstanding stock warrants for the six months ended June 30, 2007 and 2006 was as follows:

	2007		2006	
	Number of Stock Warrants (Units)	Weighted-average Exercise Price (NT\$)	Number of Stock Warrants (Units)	Weighted-average Exercise Price (NT\$)
Employee Stock Options				
Balance, beginning of period	16,344	\$ 28.06	16,344	\$ 38.59
Stock warrants issued	-	-	-	-
Stock warrants expired	-	-	-	-
Balance, end of period	<u>16,344</u>	23.30	<u>16,344</u>	34.16
Exercisable stock warrants at end of period	<u>12,783</u>		<u>7,335</u>	

As at June 30, 2007 and 2006, information about Global Brands Manufacture's outstanding and exercisable stock warrants was as follows:

Range of Exercise Price (NT\$)	Stock Warrants Outstanding			Stock Warrants Exercisable	
	Number of Stock Warrants (Units)	Weighted-average Remaining Contractual Life (Years)	Weighted-average Exercise Price (NT\$)	Number of Stock Warrants (Units)	Weighted-average Exercise Price (NT\$)
<u>2007</u>					
\$14.10~\$31.40	<u>16,344</u>	<u>6.27</u>	<u>\$ 23.30</u>	<u>12,783</u>	<u>\$ 23.37</u>
<u>2006</u>					
\$18.20~\$37.40	<u>16,344</u>	<u>7.23</u>	<u>\$ 34.16</u>	<u>7,335</u>	<u>\$ 33.10</u>

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

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

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

21. TREASURY STOCK

The changes in treasury stock in 2007 are summarized as follows (in shares):

Reason	2007.01.01	Increase	Decrease	2007.06.30
Buy the stock back to transfer to employees	14,200,000	-	14,200,000	-
Common shares held by subsidiaries	128,436,415	-	7,650,000	120,786,415

In May 2007, the Pou Chen transferred 14,200 thousand shares of common stock to employees at a price of \$23.84 dollars per share, and the difference between the transferred value (\$338,528 thousand) and the book value (\$396,166 thousand) of \$57,638 thousand, was recorded as capital surplus - treasury stock.

In 2007, after the sale of part of shares by the subsidiary - Ming Wang, 7,650,000 shares were deducted from treasury stock. Accordingly, as at June 30, 2007, the subsidiaries held 120,786,415 shares of the Pou Chen's common stock at cost of \$1,914,924 thousand in total.

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

Subsidiary	Shares	Amount
Wealthplus	23,625,009	\$ 634,410
Pou Shine	12,206,200	292,736
Ming Wang	15,618,725	355,308
Barits Development	35,217,976	844,618
Top Score	2,624,995	63,576
Ming Chi	17,375,819	416,717
Pou Yii	16,844,426	318,431

22. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

Personnel, depreciation, and amortization expenses for the six months ended June 30, 2007 and 2006 are summarized as follows:

Category	Function	2007				2006			
		Operating Cost	Operating Expenses	Non-Operating Expenses	Total	Operating Cost	Operating Expenses	Non-Operating Expenses	Total
Personnel expense									
Salaries		9,469,206	4,249,804	-	13,719,010	8,019,376	3,748,096	-	11,767,472
Labor insurance and health insurance		292,084	158,966	-	451,050	230,709	146,713	-	377,422
Pension cost		88,540	166,628	-	255,168	7,292	89,355	-	96,647
Others		32,168	54,344	-	86,512	103,290	156,411	-	259,701
Depreciation expenses		2,324,466	793,880	15,959	3,134,305	2,124,678	806,773	7,593	2,939,044
Amortization expenses		75,565	53,318	-	128,883	25,765	112,398	-	138,163

23. INCOME TAX

The Company's income tax expense for the six months ended June 30, 2007 is as follows:

Income tax expense, current	\$ 475,265
10% basic tax expense	347,607
10% additional income tax on undistributed earnings of 2006	64,065
Investment tax credits	(75,682)
Adjustment of deferred tax asset and valuation allowance	10,848
Income tax expense	<u>\$ 822,103</u>

The components of deferred tax assets (liabilities) as at June 30, 2007 are as follows:

Unrealized inventory devaluation losses	\$ 24,250
Unrealized losses on disposal of property, plant and equipment	520
Unrealized bad debt losses	70,230
Unrealized maintenance and repairs expenses	400
Unrealized pension expense	145,800
Unrealized profit from inter-affiliate transactions	1,080
Unrealized loss on decline in market value of long-term equity investments	3,550
Unrealized net exchange gain	(2,580)
Unrealized provision for decline in value of idle assets	1,240
Losses carryforward	668,300
Investment tax credits	29,697
Others	(144,017)
Less valuation allowance	<u>(624,556)</u>
Deferred tax assets	173,914
Deferred tax assets, current	<u>(97,746)</u>
Deferred tax assets, noncurrent	<u>\$ 76,168</u>

The Company's income tax expense for the six months ended June 30, 2007 and income tax payable as at June 30, 2007 were reconciled as follows:

Income tax expense at statutory rate of 25%	\$ 995,557
Income from revaluation on financial instruments measured at fair value through profit or loss	56,572
Income from long-term equity investment accounted for under equity method	(653,090)
Gain on disposal of security	(49,954)
Loss on disposal of land	655
Amortization of operating expense for disposal of land and securities	3,290
Tax on the interest for bonds	144
Cash dividends received by overseas investees under equity method	983,900
Income from the business tax premium	(865,600)
Others	<u>3,791</u>
Current income tax expense	475,265
Provision for (reversal of) of deferred income tax asset	
Reversal of unrealized provision for bad debts	(1,090)
Reversal of unrealized inventory devaluation losses	(4,675)
Unrealized pension expense	2,350
Unrealized net exchange gains	(590)
Others	<u>12,923</u>
Income tax payable	484,183
Add 10% additional income tax on unappropriated earnings of 2006	64,065
Prior year's income tax payable	86,111
10% tax expense	347,607
Less investment tax credits	(75,682)
Less temporary tax payment	<u>(10,131)</u>
Income tax payable as at June 30, 2007	<u>\$ 896,153</u>

The income tax returns of Pou Chen, Pou Yuen Technology, Pro Arch Technology, Global Brands Manufacture, Cheng Cheng, Ming Wang, Pou Shine, Yun Yang, Song Ming Investment, Ming Shun, Windsor Entertainment, Pou Yii Development, Ming Chi Investment and Wang Yi Construction for the years through 2004 have been examined and approved by the tax authority. The income tax returns of Pan Asia Insurance Services for the years through 2005 have been examined and approved by the tax authority.

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

Barits Development's salaries of staffs in foreign country and commission expenses in 1997 were disallowed by the tax authority. As a result, Barits Development was assessed for an additional income tax payment of approximately \$17,200 thousand. Barits Development did not agree with the assessment and has appealed on first instance. Barits Development lost the lawsuit. Additional provision has been recorded for such assessment for the six months ended June 30, 2007.

At June 30, 2007, the amount and year of expiration of deductible loss carryforward and investment deduction by individual company are as follows:

	<u>Pou Yuen Technology</u>	<u>Pro Arch Technology</u>		<u>Ming Wang</u>	<u>Windsor Entertainment</u>	<u>Global Brands Manufacture</u>
	<u>Loss Carryforward</u>	<u>Loss Carryforward</u>	<u>Investment Tax Credits</u>	<u>Loss Carryforward</u>	<u>Loss Carryforward</u>	<u>Investment Tax Credits</u>
2007	\$ 18,180	\$ 53,100	\$ 4,180	\$ 4,200	\$ -	\$ -
2008	41,600	131,300	-	-	370	-
2009	31,400	143,700	-	-	1,270	-
2010	8,820	161,800	-	-	2,490	-
2011	-	14,740	-	-	39,870	24,835
2012	-	-	-	-	15,460	682
	<u>\$ 100,000</u>	<u>\$ 504,640</u>	<u>\$ 4,180</u>	<u>\$ 4,200</u>	<u>\$ 59,460</u>	<u>\$ 25,517</u>

The information of the integrated income tax system as at June 30, 2007 is as follows:

	<u>Pou Chen</u>	<u>Ming Wang</u>	<u>Windsor Entertainment</u>	<u>Pou Shine</u>	<u>Pan Asia Insurance</u>	<u>Barits Development</u>	<u>Song Ming</u>	<u>Pou Yii</u>
IC Balance of Imputation Credit Account	\$ 230,227	\$ 15,043	\$ -	\$ 15,792	\$ 212	\$ 19,402	\$ 3,642	\$ 17,761
Undistributed earnings for the years of 1997 and before	\$ 310,501	\$ -	\$ -	\$ -	\$ -	\$ 515,118	\$ -	\$ 7,176
Undistributed earnings for the years of 1998 and after	\$ 4,542,552	\$ 112,085	\$ (145,916)	\$ 89,036	\$ (1,636)	\$ 877,612	\$ (7,719)	\$ (47,356)
Expected IC ratio on distributed earnings of 2007	3.06%	33.33%	-	4.66%	33.33%	5.60%	12.22%	-
Actual IC ratio of earnings distribution for the year of 2006	2.94%	-	-	14.42%	-	11.23%	-	-

	<u>Wang Yi</u>	<u>Ming Chi</u>	<u>Ming Shun</u>	<u>Pou Yuen</u>	<u>Yun Yang</u>	<u>Pro Arch</u>	<u>Global Brands Manufacture</u>	<u>Cheng Cheng</u>
IC Balance of Imputation Credit Account	\$ 14,812	\$ 9,231	\$ 2,913	\$ 1,949	\$ 1,975	\$ 650	\$ 295,796	\$ 301
Undistributed earnings for the years of 1997 and before	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Undistributed earnings for the years of 1998 and after	\$ (21,235)	\$ (2,521)	\$ 3,004	\$ (295,612)	\$ 18,438	\$ (276,946)	\$ 1,848,806	\$ 718
Expected IC ratio on distributed earnings of 2007	-	33.33%	1.30%	-	10.64%	-	12.94%	28.40%
Actual IC ratio of earnings distribution for the year of 2006	-	33.33%	5.29%	-	5.33%	-	12.46%	33.60%

24. EARNINGS PER SHARE

For the six months ended June 30, 2007 and 2006, earnings per share before income tax and earnings per share after income tax are as follows:

	2007							
	Income				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 Principles	Income After Tax (Attributed to Pou Chen's Shareholders)		Income from Continuing Operations Before Tax	Income from Continuing Operations After Tax	Cumulative Effect of Changes in Accounting Principles
Net income	\$ 6,041,039	\$ 5,218,936	\$ -	\$ 1,874,351				
Basic earnings per share								
Net income	\$ 6,041,039	\$ 5,218,936	\$ -	\$ 1,874,351	2,372,068	\$ 2.55	\$ 2.20	\$ -
Effect of dilutive potential common shares								
Employee stock warrants	-	-	-	-	37,075			
Convertible bonds	-	-	-	-	396			
Diluted earnings per share								
Net income plus the effect of dilutive potential common shares	\$ 6,041,039	\$ 5,218,936	\$ -	\$ 1,874,351	2,409,539	\$ 2.51	\$ 2.17	\$ -

	2006								
					Earnings Per Share				
	Income from Continuing Operations Before Tax	Income from Continuing Operations After Tax	Cumulative Effect of Changes in Accounting Principles	Income After Tax (Attributed to Pou Chen's Shareholders)	Weighted Average Number of Common Shares Outstanding (In Thousands)	Income from Continuing Operations Before Tax	Income from Continuing Operations After Tax	Cumulative Effect of Changes in Accounting Principles	Income After Tax (Attributed to Pou Chen's Shareholders)
Net income	<u>\$ 5,561,676</u>	<u>\$ 5,209,746</u>	<u>\$ 1,625,271</u>	<u>\$ 3,968,040</u>					
Basic earnings per share									
Net income	\$ 5,561,676	\$ 5,209,746	\$ 1,625,271	\$ 3,968,040	2,320,610	<u>\$ 2.40</u>	<u>\$ 2.25</u>	<u>\$ 0.70</u>	<u>\$ 1.71</u>
Effect of dilutive potential common shares									
Employee stock warrants	-	-	-	-	34,670				
Convertible bonds	-	-	-	-	3,048				
Diluted earnings per share									
Net income plus the effect of dilutive potential common shares	<u>\$ 5,561,676</u>	<u>\$ 5,209,746</u>	<u>\$ 1,625,271</u>	<u>\$ 3,968,040</u>	<u>2,358,328</u>	<u>\$ 2.36</u>	<u>\$ 2.21</u>	<u>\$ 0.69</u>	<u>\$ 1.68</u>

If the Company's common shares held by its subsidiaries were not accounted for as treasury stock, the pro-forma earnings per share for the six months ended June 30, 2007 and 2006 are as follows:

	2007								
					Earnings Per Share				
	Income from Continuing Operations Before Tax	Income from Continuing Operations After Tax	Cumulative Effect of Changes in Accounting Principles	Income After Tax (Attributed to Pou Chen's Shareholders)	Weighted Average Number of Common Shares Outstanding (In Thousands)	Income from Continuing Operations Before Tax	Income from Continuing Operations After Tax	Cumulative Effect of Changes in Accounting Principles	Income After Tax (Attributed to Pou Chen's Shareholders)
Net income	<u>\$ 6,166,414</u>	<u>\$ 5,344,311</u>	<u>\$ -</u>	<u>\$ 1,999,726</u>					
Basic earnings per share									
Net income	\$ 6,166,414	\$ 5,344,311	\$ -	\$ 1,999,726	2,495,904	<u>\$ 2.47</u>	<u>\$ 2.14</u>	<u>\$ -</u>	<u>\$ 0.80</u>
Effect of dilutive potential common shares									
Employee stock warrants	-	-	-	-	37,075				
Convertible bonds	-	-	-	-	396				
Diluted earnings per share									
Net income plus the effect of dilutive potential common shares	<u>\$ 6,166,414</u>	<u>\$ 5,344,311</u>	<u>\$ -</u>	<u>\$ 1,999,726</u>	<u>2,533,375</u>	<u>\$ 2.43</u>	<u>\$ 2.11</u>	<u>\$ -</u>	<u>\$ 0.79</u>

	2006								
					Earnings Per Share				
	Income from Continuing Operations Before Tax	Income from Continuing Operations After Tax	Cumulative Effect of Changes in Accounting Principles	Income After Tax (Attributed to Pou Chen's Shareholders)	Weighted Average Number of Common Shares Outstanding (In Thousands)	Income from Continuing Operations Before Tax	Income from Continuing Operations After Tax	Cumulative Effect of Changes in Accounting Principles	Income After Tax (Attributed to Pou Chen's Shareholders)
Net income	<u>\$ 5,561,676</u>	<u>\$ 5,209,746</u>	<u>\$ 1,625,271</u>	<u>\$ 3,968,040</u>					
Basic earnings per share									
Net income	\$ 5,561,676	\$ 5,209,746	\$ 1,625,271	\$ 3,968,040	2,451,598	<u>\$ 2.27</u>	<u>\$ 2.13</u>	<u>\$ 0.66</u>	<u>\$ 1.62</u>
Effect of dilutive potential common shares									
Employee stock warrants	-	-	-	-	34,670				
Convertible bonds	-	-	-	-	3,048				
Diluted earnings per share									
Net income plus the effect of dilutive potential common shares	<u>\$ 5,561,676</u>	<u>\$ 5,209,746</u>	<u>\$ 1,625,271</u>	<u>\$ 3,968,040</u>	<u>2,489,316</u>	<u>\$ 2.23</u>	<u>\$ 2.09</u>	<u>\$ 0.65</u>	<u>\$ 1.59</u>

25. DISCLOSURES FOR FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

The fair value of nonderivative and derivative financial instruments as at June 30, 2007 and 2006 are summarized as follows:

Nonderivative Financial Instruments	2007		2006	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
Cash and cash equivalents	\$27,735,638	\$27,735,638	\$13,605,829	\$13,605,829
Financial assets measured at fair value through profit of loss, current	7,671,712	7,671,712	5,534,176	5,534,176
Notes and accounts receivable	24,633,054	24,633,054	19,597,101	19,597,101
Accounts receivable from affiliates	1,460,637	1,460,637	2,294,271	2,294,271
Other financial assets, current	4,038,988	4,038,988	2,823,866	2,823,866
Long-term investments at equity method	25,012,760	24,010,940	22,505,288	21,090,402
Available-for-sale financial assets, noncurrent	1,572,726	1,572,726	1,591,971	1,591,971
Financial assets carried at cost, noncurrent	754,575	-	647,117	-
Refundable deposits	83,837	83,837	76,968	76,968
Long-term receivables	273,986	273,986	251,466	251,466
Liabilities				
Short-term borrowings	17,791,434	17,791,434	12,776,645	12,776,645
Short-term bills	978,108	978,108	1,643,809	1,643,809
Notes and accounts payable	14,088,336	14,088,336	12,695,359	12,695,359
Notes and accounts payable to affiliates	1,098,033	1,098,033	1,147,538	1,147,538
Other payables	17,072,648	17,072,648	11,070,022	11,070,022
Current portion of long-term liabilities	5,335,632	5,335,632	2,593,115	2,593,115
Bonds payable	15,770,071	15,770,071	12,673,927	12,673,927
Long-term debt	30,767,048	30,767,048	29,928,652	29,928,652
Advance deposits from customers	11,868	11,868	5,181	5,181
Derivative Financial Instruments				
	2007		2006	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Interest rate swap contracts (derivative financial assets held for hedging, noncurrent)	\$ 36,816	\$ 36,816	\$ -	\$ -
Euro - dollar convertible bonds with options (financial liabilities measured at fair value through profit or loss, current)	1,372,959	1,372,959	-	-
Forward exchange contracts (financial liabilities measured at fair value through profit or loss)	-	-	52,642	52,642
Interest rate swap contracts and forward exchange contracts (derivative financial liabilities held for hedging, current)	96,712	96,712	-	-
Interest rate swap contracts (financial liabilities held for hedging, noncurrent)	-	-	168,109	168,109

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

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

- (a) The fair value of cash and cash equivalents, notes and accounts receivable, short-term bank borrowings, short-term bills, and notes and accounts payable, approximates their carrying value due to the short-term maturities of these financial instruments.
- (b) The fair value of financial instruments at fair value through profit or loss, available-for-sale financial assets and derivative financial instruments are quoted by market price. The fair value of derivative financial instruments is measured, according to specific contract's settlement rate, by the middle exchange rate, and the discount rate quoted by Reuters.
- (c) Financial assets carried at cost and investments under equity method are equity instrument investments which fair value could not be measured reliably, including non-public stocks and TIGER stocks. The fair value of these instruments is determined at their carrying value.
- (d) 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	
	2007	2006	2007	2006
Assets				
Financial assets measured at fair value through profit or loss, current	\$ 7,671,712	\$ 5,534,176	\$ -	\$ -
Available-for-sale financial assets, noncurrent	1,572,726	1,591,971	-	-
Derivative financial assets held for hedging, noncurrent	-	-	36,816	-
Liabilities				
Financial liabilities measured at fair value through profit or loss, current	-	-	1,372,959	52,642
Derivative financial liabilities held for hedging, current	-	-	96,712	-
Derivative financial liabilities held for hedging, noncurrent	-	-	-	168,109

As at June 30, 2007 and 2006, financial liabilities exposed to cash flow interest rate risk were \$10,550,000 thousand and \$9,250,000 thousand, respectively.

The Company recognized an unrealized gain of \$174,581 thousand and \$65,395 thousand, respectively, in equity for the changes in fair value of available-for-sale financial assets for the six months ended June 30, 2007 and 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 \$92,444 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 accounts receivable. Besides, the Company requires counter - parties has strong capacity to meet its financial commitments to reduce credit risk of the Company effectively.

Liquidity Risk

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

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

Cash Flow Interest Rate Risk

The Company engaged in floating-interest-rate short-term and 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 \$488,941 thousand.

26. RELATED PARTY TRANSACTIONS

Names and relationships of the related parties are as follows:

Name	Relationship
CMK Corporation (“CMK”)	CMK Corporation together with Global Brands Manufacture invest in CMK GBM and holds 49.00% ownership interest of CMK GBM
CMKC (HK) Limited (“CMKC”)	CMK Corporation holds a 100.00% ownership interest
Ka Yuen Rubber Factory Limited (“Ka Yuen”)	The Company holds a 50.00% ownership interest.
Techview International Technology Inc. (“Techview International”)	The Company holds a 48.84% ownership interest.
Twinways Investments Ltd. (“Twinways”)	The Company holds a 50.00% ownership interest
Digital Sun Investments Ltd. (“Digital Sun”)	The Company holds a 25.93% ownership interest
Eastlion Industrial Ltd. (“Eastlion”)	The Company holds a 35.00% ownership interest

Name	Relationship
San Fang Chemical Industry Co., Ltd. (“San Fang”) Venture Well Holdings Ltd.	The Company holds a 44.72% ownership interest
Alpha Leader Ltd.	The Company holds a 43.08% ownership interest
Beijing Advazone Electronic Co., Ltd.	The Company holds a 43.08% ownership interest
Best Focus Holdings Ltd.	The Company holds a 50.00% ownership interest
Hua Jian Industrial Holdings Co., Ltd.	The Company holds a 50.00% ownership interest
Cohen Enterprises Inc.	The Company holds a 50.00% ownership interest
Pine Wood Industries Limited	The Company holds a 37.00% ownership interest
Yuen Thai Industrial Co., Limited	The Company holds a 50.00% ownership interest
New Peak Services Limited	The Company holds a 50.00% ownership interest
Liberty Bell Investments Limited	The Company holds a 49.00% ownership interest
Oftenrich Holdings Ltd.	The Company holds a 45.00% ownership interest
PGE Corporation (“PGE”) Keyplus Investments Limited	Related party in substance before 2006 Related party in substance

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

Sales

Sales to related parties for the six months ended June 30, 2007 and 2006 are summarized as follows:

	<u>2007</u>		<u>2006</u>	
	Amount	Percentage to Net Sales	Amount	Percentage to Net Sales
CMKC	\$ 2,306,863	3	\$ 1,970,025	2
PGE	-	-	559,663	1
Others	<u>555,052</u>	<u>-</u>	<u>620,172</u>	<u>1</u>
	<u>\$ 2,861,915</u>	<u>3</u>	<u>\$ 3,149,860</u>	<u>4</u>

Cost of Sales - Purchases

Purchases from related parties for the six months ended June 30, 2007 and 2006 are summarized below:

	<u>2007</u>		<u>2006</u>	
	<u>Amount</u>	<u>Percentage to Net Purchases</u>	<u>Amount</u>	<u>Percentage to Net Purchases</u>
Ka Yuen	\$ 960,256	1	\$ 825,243	1
San Fang	553,021	1	527,234	1
CMKC	536,540	1	485,140	1
Digital Sun	407,923	1	367,437	-
Eastlion	338,043	1	384,846	1
Twinways	313,639	-	391,819	1
Bigfoot	235,950	-	214,006	-
Others	<u>887,612</u>	<u>1</u>	<u>832,801</u>	<u>1</u>
	<u>\$4,232,984</u>	<u>6</u>	<u>\$4,028,526</u>	<u>6</u>

Accounts Receivable

Accounts receivable from affiliates as at June 30, 2007 and 2006 are summarized as follows:

	<u>2007</u>		<u>2006</u>	
	<u>Amount</u>	<u>Percentage to Accounts Receivable</u>	<u>Amount</u>	<u>Percentage to Accounts Receivable</u>
Accounts receivable				
CMKC	\$ 1,315,021	5	\$ 1,077,689	5
PGE	-	-	1,013,574	5
Others	150,734	1	302,405	1
Less allowance for doubtful accounts	<u>(5,118)</u>	<u>-</u>	<u>(99,397)</u>	<u>-</u>
	<u>\$1,460,637</u>	<u>6</u>	<u>\$2,294,271</u>	<u>11</u>

Notes and Accounts Payable

Notes and accounts payable due to affiliates as at June 30, 2007 and 2006 are summarized as follows:

	2007		2006	
	Amount	Percentage to Notes and Accounts Payable	Amount	Percentage to Notes and Accounts Payable
Notes payable				
San Fang	\$ 72,770	30	\$ 30,933	29
Accounts payable				
Ka Yuen	\$ 321,634	2	\$ 301,397	2
San Fang	161,272	1	158,197	1
Digital Sun	124,995	1	17,796	-
Twinways	106,692	1	171,690	1
Techview International	-	-	113,420	1
Others	310,670	2	354,105	3
	\$ 1,025,263	7	\$ 1,116,605	8

Credit Guarantees

See Note 27.

Stock Exchange

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

27. COMMITMENTS AND CONTINGENCIES

Loan Guarantees

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

Letters of Credit

Outstanding letters of credit as at June 30, 2007 are as follows (unit: dollar):

U.S. Dollar	\$ 6,486,016
Japanese Yen	17,136,000

On April 4, 2007 the Board of Directors of Global Brands Manufacturing Ltd. resolved to invest Chuan Yi Computer (Shenzhen) Co., Ltd. through its subsidiary Up First Investments Ltd. and Dynamic Skyline Ltd and to purchase shares of Centralian Investments Limited from Keyplus Investments Limited, a related party in substance, with US\$9,050 thousand and US\$543 thousand, respectively. The ownership equity in the two invested companies approximated 100% and 51% respectively. These transactions are still undergoing examination by the Investment Commission, MOEA.

At June 30, 2007, the Company has guaranteed the payments of credit of related parties as follows:

Related Parties	Amount
Beijing Advazone Electronic Co., Ltd.	\$ 55,494
Venture Well Holdings Ltd.	416,008
Alpha Leader Ltd.	93,408
Best Focus Holdings Ltd.	492,900
Hua Jian Industrial Holding Co., Ltd.	837,930
Cohen Enterprises Inc.	542,190
Ka Yuen Rubber Factory Limited	42,128
Pine Wood Industries Limited	79,258
Yuen Thai Industrial Co., Limited	126,385
New Peak Services Limited	82,150
Liberty Bell Investments Limited	96,608
Oftenrich Holdings Ltd.	<u>177,444</u>
	<u>\$ 3,041,903</u>

In May 2007, Chuan Yi Computer (Shenzhen) Co., Ltd. violated the governmental sewage emission, and its permit to emit revoked and fined RMB¥846 thousand by the local environmental official. Chuan Yi Computer (Shenzhen) Co., Ltd. had made every effort to ameliorate the condition and obtained temporary emission permit. Chuan Yi Computer (Shenzhen) Co., Ltd. is also vigorously engaging in energy and water conserving constructions, and is expecting to once again obtain the formal sewage emission permit in September 2007.

28. SIGNIFICANT SUBSEQUENT EVENTS

On July 20, 2007, the Board of Directors of Pou Chen resolved to invest in Zhejiang Jinguan Development Co., Ltd., Zhejiang Yichuan Sporting Goods Chain Co., Ltd., Hefei Tengrui Sports Goods Co., Ltd., Jilin New Orientation Sports Co., Ltd., Jilin LINGPAO Sporting Goods Co., Ltd., HEBEI ZHANXIN Sports Development Co., Ltd., Shanxi Extreme Longyue Sports Articles Co., Ltd., with RMB¥40,026 thousand for equity through its subsidiary, Yue Yuen.

On July 20, 2007, the Board of Directors of Pou Chen resolved to acquire 31.80% ownership interest in Leader Sporting Goods Co., Ltd. with RMB¥42,535 thousand through its subsidiary, Yue Yuen.

On July 17, 2007, seven subsidiaries of the Company, including Wealthplus, sold 122,490 thousand shares of Pou Chen's common stock in exchange for around \$4.5 billion, with each stock sold at an average price of \$36.90 dollars per share. Capital gain was approximately \$1.6 billion which was recorded as capital surplus - treasury stock.

On August 8, 2007, the Board of Directors of Kleine resolved to issue additional capital stock for US\$15,300 thousand which was fully subscribed by Foxlink Image Technology Co., Ltd. and thus obtaining 50% ownership equity in Kleine.