

## **Pou Chen Corporation and Subsidiaries**

**Consolidated Financial Statements for the  
Six Months Ended June 30, 2010 and 2009 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, 2010 and 2009, 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 July 1, 2008, the Company adopted the newly amended SFAS No. 34, "Financial Instruments: Recognition and Measurement". The amendments to SFAS 34 mainly deal with reclassifications of financial assets at fair value through profit or loss that are held for trading.

August 10, 2010

### 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, 2010 AND 2009**  
(In Thousands of New Taiwan Dollars)  
(Reviewed, Not Audited)

ASSETS	2010		2009		LIABILITIES AND STOCKHOLDERS' EQUITY	2010		2009	
	Amount	%	Amount	%		Amount	%	Amount	%
<b>CURRENT ASSETS</b>					<b>CURRENT LIABILITIES</b>				
Cash and cash equivalents (Notes 2 and 4)	\$ 44,197,380	19	\$ 29,658,516	13	Short-term loans (Note 16)	\$ 16,198,125	7	\$ 26,834,154	12
Financial assets at fair value through profit or loss, current (Notes 2, 5 and 27)	1,622,008	1	1,325,703	1	Short-term bills payable (Note 17)	1,186,315	-	1,691,339	1
Available-for-sale financial assets, current (Notes 2, 3 and 6)	7,966,461	4	6,946,952	3	Notes payable	46,000	-	60,125	-
Notes receivable (Notes 2 and 7)	38,000	-	52,870	-	Notes payable to affiliates (Note 28)	69,127	-	37,219	-
Accounts receivable (Notes 2 and 8)	18,430,715	8	24,429,932	11	Accounts payable	10,423,051	4	12,930,152	6
Accounts receivable from affiliates (Notes 2, 8 and 28)	475,763	-	945,616	-	Accounts payable to affiliates (Note 28)	1,379,274	1	1,134,318	-
Other receivables	5,782,152	3	6,419,575	3	Income tax payable (Notes 2 and 25)	1,884,611	1	621,307	-
Inventories					Financial liabilities at fair value through profit or loss, current (Notes 2, 5 and 27)	855,833	-	573,256	-
Inventories - manufacturing (Notes 2 and 9)	22,325,353	10	24,454,521	11	Hedging derivative liabilities, current (Notes 2 and 27)	15,556	-	41,268	-
Inventories - construction (Notes 2 and 9)	3,947,664	1	3,694,363	1	Other payables (Note 18)	16,147,299	7	13,470,893	6
Investments accounted for by the equity method held for sale (Note 10)	176,150	-	-	-	Progressive billings in excess of construction in progress (Notes 2 and 9)	98,907	-	37,527	-
Other current assets (Notes 2 and 25)	6,799,629	3	7,316,777	3	Current portion of long-term liabilities (Note 19)	12,839,806	6	19,520,582	9
					Other current liabilities	1,766,914	1	2,276,770	1
Total current assets	<u>111,761,275</u>	<u>49</u>	<u>105,244,825</u>	<u>46</u>	Total current liabilities	<u>62,910,818</u>	<u>27</u>	<u>79,228,910</u>	<u>35</u>
<b>FUNDS AND LONG-TERM INVESTMENTS</b>					<b>LONG-TERM LIABILITIES</b>				
Investments accounted for by the equity method (Notes 2 and 10)	32,761,445	14	32,416,623	14	Bonds payable (Notes 2 and 20)	8,388,642	4	-	-
Investments in real estate (Notes 2 and 11)	186,123	-	-	-	Long-term debt (Note 21)	42,059,293	18	37,863,761	17
Financial assets at fair value through profit or loss, noncurrent (Notes 2, 5 and 27)	1,755,229	1	1,962,464	1	Hedging derivative liabilities, noncurrent (Notes 2 and 27)	88,262	-	126,017	-
Available-for-sale financial assets, noncurrent (Notes 2 and 12)	1,964,558	1	572,229	-	Total long-term liabilities	<u>50,536,197</u>	<u>22</u>	<u>37,989,778</u>	<u>17</u>
Financial assets carried at cost, noncurrent (Notes 2 and 13)	1,291,549	1	1,536,134	1	<b>RESERVE FOR LAND VALUE INCREMENT TAX (Note 14)</b>	<u>86,547</u>	<u>-</u>	<u>142,664</u>	<u>-</u>
Total funds and long-term investments	<u>37,958,904</u>	<u>17</u>	<u>36,487,450</u>	<u>16</u>	<b>OTHER LIABILITIES</b>				
<b>PROPERTY, PLANT AND EQUIPMENT (Notes 2 and 14)</b>					Accrued pension cost (Note 2)	662,131	-	609,489	-
Cost	101,237,327	44	108,393,827	48	Guarantee deposits received	4,651	-	4,403	-
Revaluation increment	293,323	-	293,323	-	Deferred income tax liability, noncurrent (Notes 2 and 25)	780,281	1	-	-
	101,530,650	44	108,687,150	48	Others (Notes 2 and 10)	70,215	-	-	-
Less accumulated depreciation	(43,640,554)	(19)	(44,540,356)	(20)	Total other liabilities	<u>1,517,278</u>	<u>1</u>	<u>613,892</u>	<u>-</u>
Less accumulated impairment	(101,596)	-	(246,980)	-	Total liabilities	<u>115,050,840</u>	<u>50</u>	<u>117,975,244</u>	<u>52</u>
Construction in progress and prepayments for equipment	2,410,762	1	5,816,373	3	<b>STOCKHOLDERS' EQUITY</b>				
Property, plant and equipment, net	<u>60,199,262</u>	<u>26</u>	<u>69,716,187</u>	<u>31</u>	Capital stock (Note 22)	28,431,097	13	27,055,675	12
<b>INTANGIBLE ASSETS (Note 2)</b>					Stock dividends to be distributed (Note 22)	559,962	-	1,372,183	1
Goodwill	7,858,050	3	7,257,436	3	Capital surplus	7,745,290	3	7,075,706	3
<b>OTHER ASSETS (Notes 2, 15 and 25)</b>	<u>11,588,977</u>	<u>5</u>	<u>8,854,200</u>	<u>4</u>	Retained earnings (Note 22)	16,865,850	7	13,329,648	6
					Cumulative translation adjustments (Note 2)	128,441	-	1,268,168	-
					Net loss net recognized as pension cost	(40,706)	-	-	-
					Unrealized losses on financial instruments (Note 2)	(1,060,513)	-	(2,413,906)	(1)
					Unrealized revaluation increment	134,641	-	134,641	-
					Treasury stock (Notes 2 and 23)	(1,241,416)	-	(1,241,416)	(1)
					Minority interest	62,792,982	27	63,004,155	28
					Total stockholders' equity	<u>114,315,628</u>	<u>50</u>	<u>109,584,854</u>	<u>48</u>
<b>TOTAL</b>	<u>\$ 229,366,468</u>	<u>100</u>	<u>\$ 227,560,098</u>	<u>100</u>	<b>TOTAL</b>	<u>\$ 229,366,468</u>	<u>100</u>	<u>\$ 227,560,098</u>	<u>100</u>

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

(With Deloitte & Touche review report dated August 10, 2010)

## POU CHEN CORPORATION AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF INCOME

SIX MONTHS ENDED JUNE 30, 2010 AND 2009

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

(Reviewed, Not Audited)

	2010		2009	
	Amount	%	Amount	%
GROSS SALES AND REVENUES EARNED	\$ 96,335,788	100	\$ 103,600,300	100
LESS SALES RETURNS AND ALLOWANCES	<u>(71,218)</u>	<u>-</u>	<u>(187,315)</u>	<u>-</u>
NET SALES AND REVENUES EARNED	96,264,570	100	103,412,985	100
COST OF GOODS SOLD	<u>70,645,171</u>	<u>73</u>	<u>78,053,874</u>	<u>76</u>
GROSS PROFIT	<u>25,619,399</u>	<u>27</u>	<u>25,359,111</u>	<u>24</u>
OPERATING EXPENSES				
Selling expenses	7,123,789	7	7,068,272	7
General and administrative expenses	8,593,584	9	9,219,995	9
Research and development expenses	<u>2,559,899</u>	<u>3</u>	<u>2,445,373</u>	<u>2</u>
Total operating expenses	<u>18,277,272</u>	<u>19</u>	<u>18,733,640</u>	<u>18</u>
INCOME FROM OPERATIONS	<u>7,342,127</u>	<u>8</u>	<u>6,625,471</u>	<u>6</u>
NON-OPERATING INCOME				
Interest income	144,512	-	280,865	-
Investment income recognized under equity method (Note 10)	1,648,383	2	760,090	1
Dividend income	3,039	-	1,583	-
Gain on disposal of property, plant and equipment	120,562	-	978	-
Gain on disposal of investments	806,173	1	-	-
Foreign exchange gains, net	107,993	-	93,267	-
Rental income	33,207	-	156,644	-
Valuation gain on financial assets (Note 5)	637,803	1	-	-
Valuation gain on financial liabilities (Note 5)	-	-	812,044	1
Others	<u>223,838</u>	<u>-</u>	<u>335,391</u>	<u>-</u>
Total non-operating income	<u>3,725,510</u>	<u>4</u>	<u>2,440,862</u>	<u>2</u>
NON-OPERATING EXPENSES				
Interest expense	926,612	1	1,648,749	2
Loss on disposal of property, plant and equipment	138,942	-	276,888	-
Loss on disposal of investments	-	-	51,455	-
Impairment loss (Note 10)	79,915	-	-	-
Valuation loss on financial assets (Note 5)	-	-	226,080	-

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# POU CHEN CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME

SIX MONTHS ENDED JUNE 30, 2010 AND 2009

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

(Reviewed, Not Audited)

	2010		2009	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
BASIC EARNINGS PER SHARE (Notes 2 and 26)				
Included income attributed to minority interest	<u>\$ 3.27</u>	<u>\$ 2.72</u>	<u>\$ 2.36</u>	<u>\$ 2.22</u>
Attributed to shareholders of the Parent Company		<u>\$ 1.47</u>		<u>\$ 1.02</u>
DILUTED EARNINGS PER SHARE (Notes 2 and 26)				
Included income attributed to minority interest	<u>\$ 3.23</u>	<u>\$ 2.69</u>	<u>\$ 2.34</u>	<u>\$ 2.20</u>
Attributed to shareholders of the Parent Company		<u>\$ 1.45</u>		<u>\$ 1.01</u>

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

(With Deloitte & Touche review report dated August 10, 2010)

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**POU CHEN CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**SIX MONTHS ENDED JUNE 30, 2010 AND 2009**  
(In Thousands of New Taiwan Dollars)  
(Reviewed, Not Audited)

	Capital Surplus						Retained Earnings			Other Equity					Minority Interest	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	Net Loss Not Recognized as Pension Cost	Unrealized Losses on Financial Instruments	Unrealized Revaluation Increment	Treasury Stock		
BALANCE, JANUARY 1, 2010	\$ 28,430,847	\$ -	\$ 812,890	\$ 1,447,492	\$ 1,438,517	\$ 3,754,538	\$ 5,248,562	\$ 2,599,633	\$ 9,585,573	\$ (127,367)	\$ (40,706)	\$ (364,936)	\$ 134,641	\$ (1,241,416)	\$ 66,094,967	\$ 117,773,235
Appropriation of earnings	-	-	-	-	-	-	702,124	-	(702,124)	-	-	-	-	-	-	-
Legal reserve	-	-	-	-	-	-	-	-	2,201,265	-	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	-	(2,201,265)	-	-	-	-	-	-	-	-
Stock dividends (Note 22)	-	559,962	-	-	-	-	-	-	(559,962)	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	-	(4,199,715)	-	-	-	-	-	-	(4,199,715)
Effect of changes of ownership interest in investees	-	-	-	-	-	291,853	-	-	-	-	-	-	-	-	-	291,853
Adjustments on changes of unrealized loss on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	-	-	(190,937)	-	-	-	(190,937)
Adjustments on changes of investee's unrealized loss on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	-	-	(529,494)	-	-	-	(529,494)
Adjustments on changes of unrealized loss on cash flow hedge financial liability	-	-	-	-	-	-	-	-	-	-	-	24,854	-	-	-	24,854
Execution of employee stock warrants (Note 22)	250	-	-	-	-	-	-	-	-	-	-	-	-	-	-	250
Translation adjustments on foreign long-term equity investments	-	-	-	-	-	-	-	-	-	255,808	-	-	-	-	-	255,808
Change of minority interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(6,885,943)	(6,885,943)
Consolidated net income for the six months ended June 30, 2010	-	-	-	-	-	-	-	-	4,191,759	-	-	-	-	-	3,583,958	7,775,717
BALANCE, JUNE 30, 2010	<u>\$ 28,431,097</u>	<u>\$ 559,962</u>	<u>\$ 812,890</u>	<u>\$ 1,447,492</u>	<u>\$ 1,438,517</u>	<u>\$ 4,046,391</u>	<u>\$ 5,950,686</u>	<u>\$ 398,368</u>	<u>\$ 10,516,796</u>	<u>\$ 128,441</u>	<u>\$ (40,706)</u>	<u>\$ (1,060,513)</u>	<u>\$ 134,641</u>	<u>\$ (1,241,416)</u>	<u>\$ 62,792,982</u>	<u>\$ 114,315,628</u>
BALANCE, JANUARY 1, 2009	\$ 27,400,055	\$ -	\$ 793,573	\$ 1,465,950	\$ 1,574,683	\$ 3,410,318	\$ 4,749,843	\$ 110,153	\$ 8,214,800	\$ 1,416,859	\$ -	\$ (4,151,134)	\$ 134,641	\$ (1,499,640)	\$ 62,116,713	\$ 105,736,814
Appropriation of earnings	-	-	-	-	-	-	498,719	-	(498,719)	-	-	-	-	-	-	-
Legal reserve	-	-	-	-	-	-	-	-	2,489,480	-	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	-	-	(1,331,134)	-	-	-	-	-	-	-
Stock dividends (Note 22)	-	1,331,134	-	-	-	-	-	-	(1,331,134)	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	-	(1,331,134)	-	-	-	-	-	-	(1,331,134)
Transfer of employee bonuses to common stock (Note 22)	-	41,049	29,308	-	-	-	-	-	-	-	-	-	-	-	-	70,357
Effect of changes of ownership interest in investees	-	-	-	-	-	(28,734)	-	-	(1)	-	-	-	-	-	-	(28,735)
Adjustments on changes of unrealized loss on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	-	-	582,634	-	-	-	582,634
Adjustments on changes of investee's unrealized loss on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	-	-	1,132,562	-	-	-	1,132,562
Adjustments on changes of unrealized loss on cash flow hedge financial liability	-	-	-	-	-	-	-	-	-	-	-	22,032	-	-	-	22,032
Execution of employee stock warrants (Note 22)	620	-	-	-	-	-	-	-	-	-	-	-	-	-	-	620
Translation adjustments on foreign long-term equity investments	-	-	-	-	-	-	-	-	-	(148,691)	-	-	-	-	-	(148,691)
Acquisition of treasury stock - 17,300 thousand shares	-	-	-	-	-	-	-	-	-	-	-	-	-	(256,168)	-	(256,168)
Retirement of treasury stock - 34,500 thousand shares	(345,000)	-	(9,992)	(18,458)	(140,942)	-	-	-	-	-	-	-	-	514,392	-	-
Change of minority interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,546,939)	(2,546,939)
Consolidated net income for the six months ended June 30, 2009	-	-	-	-	-	-	-	-	2,917,121	-	-	-	-	-	3,434,381	6,351,502
BALANCE, JUNE 30, 2009	<u>\$ 27,055,675</u>	<u>\$ 1,372,183</u>	<u>\$ 812,889</u>	<u>\$ 1,447,492</u>	<u>\$ 1,433,741</u>	<u>\$ 3,381,584</u>	<u>\$ 5,248,562</u>	<u>\$ 2,599,633</u>	<u>\$ 5,481,453</u>	<u>\$ 1,268,168</u>	<u>\$ -</u>	<u>\$ (2,413,906)</u>	<u>\$ 134,641</u>	<u>\$ (1,241,416)</u>	<u>\$ 63,004,155</u>	<u>\$ 109,584,854</u>

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

(With Deloitte & Touche review report dated August 10, 2010)

# POU CHEN CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

SIX MONTHS ENDED JUNE 30, 2010 AND 2009

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Consolidated net income	\$ 7,775,717	\$ 6,351,502
Adjustments to reconcile net income to net cash provided by operating activities		
Valuation (gain) loss on financial assets	(637,803)	226,080
Valuation loss (gain) on financial liabilities	515,108	(812,044)
Depreciation and amortization	3,692,450	3,940,669
Compensation cost of employee stock options	13,266	86,353
Provision for bad debts allowance	100,311	67,506
Investment income recognized under equity method	(1,648,383)	(760,090)
Cash dividends received from investees under equity method	952,776	686,068
Gain (loss) on disposal of investments	(806,173)	51,455
Net loss on disposal of property, plant and equipment	18,380	275,910
Provision for (reversal) impairment loss	79,915	(2,392)
Net changes in operating assets and liabilities		
Notes receivable	(24,907)	5,330
Accounts receivable	(1,494,275)	3,091,495
Accounts receivable from affiliates	218,297	527,351
Other receivables	387,637	(1,813,761)
Inventories	(746,022)	3,190,339
Other current assets	(471,590)	1,254,359
Temporary income tax payment	(623)	889
Deferred income tax asset, noncurrent	13,294	(13,524)
Other assets	(53,886)	(37,553)
Notes payable	2,851	(10,535)
Notes payable to affiliates	11,374	(19,078)
Accounts payable	208,926	(1,314,453)
Accounts payable to affiliates	124,552	213,910
Income tax payable	1,284,425	100,362
Other payables	(1,803,429)	(1,234,917)
Progressive billings in excess of construction in progress	42,061	37,527
Other current liabilities	(382,088)	708,689
Deferred income tax liabilities - noncurrent	(7,657)	(2,577)
Reserve for retirement plan	17,367	13,235
Minority interest	(2,001,532)	(2,616,218)
Net cash provided by operating activities	<u>5,380,339</u>	<u>12,191,887</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Decrease (increase) in financial assets at fair value through profit or loss	9,074	(344,349)
Increase in investments accounted for by the equity method	(413,076)	(210,031)
(Increase) decrease in available-for-sale financial assets, noncurrent	(4,768)	4,034
(Increase) decrease in financial assets carried at cost, noncurrent	(18,890)	253,973

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# POU CHEN CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS SIX MONTHS ENDED JUNE 30, 2010 AND 2009 (In Thousands of New Taiwan Dollars) (Reviewed, Not Audited)

	2010	2009
Increase in held-to-maturity financial assets, noncurrent	\$ (9,111)	\$ -
Acquisitions of leased assets	-	(634)
Acquisitions of property, plant and equipment	(4,151,509)	(7,079,795)
Proceeds from disposal of property, plant and equipment	433,593	333,903
Decrease in refundable deposits	154,295	816,535
Decrease in goodwill	-	2,382
Increase in deferred charges	<u>(62,737)</u>	<u>(518,992)</u>
Net cash used in investing activities	<u>(4,063,129)</u>	<u>(6,742,974)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Decrease in short-term loans	(4,574,485)	(2,049,738)
(Decrease) increase in short-term bills payable	(592,759)	838,799
Redeemed overseas convertible bonds	(561,972)	(8,870,253)
(Decrease) increase in long-term debt	(354,569)	7,343,949
Increase in guarantee deposits received	5,568	816
Execution of employee stock warrants	250	620
Acquisitions of treasury stock	<u>-</u>	<u>(256,168)</u>
Net cash used in financing activities	<u>(6,077,967)</u>	<u>(2,991,975)</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH	<u>570,039</u>	<u>(245,458)</u>
CASH PAID FOR ACQUISITIONS OF SUBSIDIARIES	<u>(8,496)</u>	<u>(89,511)</u>
CASH RECEIVED FROM DISPOSAL OF SUBSIDIARIES	<u>757,130</u>	<u>-</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(3,442,084)	2,121,969
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>47,639,464</u>	<u>27,536,547</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 44,197,380</u>	<u>\$ 29,658,516</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash paid during the period		
Interest (excluding interest capitalized)	<u>\$ 924,198</u>	<u>\$ 1,569,586</u>
Income tax	<u>\$ 57,620</u>	<u>\$ 304,529</u>
<b>SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
Unrealized (loss) gain on available-for-sale financial assets	<u>\$ (720,431)</u>	<u>\$ 1,715,196</u>
Unrealized gain on cash flow hedge financial liabilities	<u>\$ 24,854</u>	<u>\$ 22,032</u>
Effect of changes in ownership interest in investees	<u>\$ 291,853</u>	<u>\$ (28,735)</u>

(Continued)

# POU CHEN CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

SIX MONTHS ENDED JUNE 30, 2010 AND 2009

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	2010	2009
Current portion of long-term liabilities	<u>\$ 12,839,806</u>	<u>\$ 19,520,582</u>
Translation adjustments on foreign long-term equity investments	<u>\$ 255,808</u>	<u>\$ (148,691)</u>
Dividends payable	<u>\$ 4,199,715</u>	<u>\$ 1,331,134</u>
Retirement of treasury stock	<u>\$ -</u>	<u>\$ 514,392</u>
Transfer of the unappropriated earnings and the bonus to employees to capital stock	<u>\$ 559,962</u>	<u>\$ 1,401,491</u>
<b>CASH PAID DURING THE PERIOD FOR ACQUISITIONS OF PROPERTY, PLANT AND EQUIPMENT</b>		
Fair value of property, plant and equipment acquired	\$ 4,337,341	\$ 7,168,235
Add payables for acquisitions of property, plant and equipment, beginning of period	183,739	199,051
Less payables for acquisitions of property, plant and equipment, end of period	<u>(369,571)</u>	<u>(287,491)</u>
Cash paid during the period for acquisitions of property, plant and equipment	<u>\$ 4,151,509</u>	<u>\$ 7,079,795</u>

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

(With Deloitte & Touche review report dated August 10, 2010)

(Concluded)

# POU CHEN CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SIX MONTHS ENDED JUNE 30, 2010 AND 2009

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

(Reviewed, Not Audited)

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### 1. ORGANIZATION AND OPERATIONS

Pou Chen Corporation (“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 (“Yue Yuen”) and other footwear - related companies through Wealthplus Holdings Limited. Effective June 6, 2008, Pou Sheng International (Holdings) Limited (“Pou Sheng”), the subsidiary of Yue Yuen, has been listed on the Hong Kong Exchange and Clearing Limited.

In January 1990, Pou Chen started to trade its stock on the Taiwan Stock Exchange Corporation.

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.	Republic of China (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	100.00
Proshine Healthcare Co., Ltd.	ROC	100.00
Vistas Design Co., Ltd.	ROC	100.00
Pro Arch International Development Enterprise Inc. (formerly known as: Pro Arch Technology Inc.)	ROC	99.99
Barits Development Corporation	ROC	99.59
Pou Yuen Technology Co., Ltd.	ROC	99.39
LNC Technology Co., Ltd.	ROC	85.41
The Right and Great Asia-Pacific Realty Development Co., Ltd.	ROC	70.00

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, 2010, Wealthplus has an outstanding common stock of US\$9,222 thousand.

The information of Wealthplus's major subsidiaries is as follows:

<b>Name</b>	<b>Location of Incorporation</b>	<b>Ownership Percentage</b>	<b>Primary Operation Activities</b>
Yue Yuen Industrial (Holdings) Limited	Bermuda	48.60	Manufacturing and sale of athletic and casual footwear and sports apparel
Pou Sheng International (Holdings) Limited	Bermuda	27.28	Manufacturing and sale of athletic and casual footwear and sportswear retailer and distributor business
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
Digital Decade Limited	British Virgin Islands	100.00	Assembly and sale of TFT-LCD module
Pou Qiao Technology Electronic Limited	PRC	100.00	Assembly of backlight units
China Lion Associates Limited	British Virgin Islands	51.00	Sale of backlight units
Go-Cheery Industrial Limited	Hong Kong	100.00	Management and office administration service
Crown Master Investments Limited	British Virgin Islands	100.00	Investment holding
Tetor Ventures Limited	British Virgin Islands	100.00	Investment holding
Star Eagle Consultants Limited	British Virgin Islands	100.00	Insurance agent
Pou Yu Biotechnology Co., Ltd.	ROC	68.55	Manufacturing and sale of medical appliance
Dong Guan Pou Yu Precision Ceramics Industrial Co., Ltd.	PRC	68.55	Designing and manufacturing medical appliance

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 (as at June 30, 2010, the ownership percentage is 0.94%). As at June 30, 2010, 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, 2010, Ming Wang has an outstanding common stock of \$681,192 thousand.

Windsor Entertainment Co., Ltd. ("Windsor Entertainment"), a corporation incorporated in the ROC, commenced its operations in 2003. It is engaged in entertainment and resort operation. As at June 30, 2010, Windsor Entertainment has an outstanding common stock of \$210,000 thousand.

Yun Yang Investments Co., Ltd. ("Yun Yang"), a corporation incorporated in the ROC, commenced its operations in 1997. It is engaged in investment activities. As at June 30, 2010, Yun Yang has an outstanding common stock of \$92,792 thousand.

Pou Shine Investments Co., Ltd. ("Pou Shine"), a corporation incorporated in the ROC, commenced its operations in 1990. It is engaged in investing activities. As at June 30, 2010, Pou Shine has an outstanding common stock of \$709,594 thousand.

Pan Asia Insurance Services Co., Ltd. (“Pan Asia Insurance Services”), a corporation incorporated in the ROC, commenced its operations in 1999. It is engaged in agency of property and casualty insurance. As at June 30, 2010, Pan Asia Insurance Services has an outstanding capital of \$3,000 thousand.

Proshine Healthcare Co., Ltd. (“Proshine Healthcare”), a corporation incorporated in the ROC, commenced its operations in 2007. It is engaged in sale of medical devices and precision instruments. In August 2009, Proshine Healthcare’s board of directors decided to decrease and return its capital, amounting to \$120,000 thousand at a price of \$10 dollars per share. As at June 30, 2010, Proshine Healthcare has an outstanding common stock of \$160,000 thousand.

Vistas Design Co., Ltd. (“Vistas Design”), a corporation incorporated in the ROC, commenced its operations in 2008. It is engaged in interior decorating and design services, and consulting in artistry. As at June 30, 2010, Vistas Design has an outstanding common stock of \$5,000 thousand.

Pro Arch International Development Enterprise Inc. (“Pro Arch International”), formerly known as Pro Arch Technology Inc., a corporation incorporated in the ROC. It is engaged in manufacturing and sale of computer peripheral equipment and related spare parts, and started to engage in real estate development business in September 2009. As at June 30, 2010, Pro Arch International has an outstanding common stock of \$313,419 thousand. In July 2009, Pro Arch International decreased its capital to offset its accumulated deficit by \$237,581 thousand, and issued additional capital stock of \$250,000 thousand at a price of \$10 dollars per share.

The information of Pro Arch International’s subsidiary is as follows:

<b>Name</b>	<b>Location of Incorporation</b>	<b>Ownership Percentage</b>	<b>Primary Operation Activities</b>
Pro Arch Technology BVI Inc.	British Virgin Islands	100.00	Investment holding

Barits Development Corporation (“Barits Development”), a corporation incorporated in the ROC, commenced its operations in 1985. It is engaged in leather manufacturing and investing activities. As at June 30, 2010, Barits Development has an outstanding common stock of \$1,329,328 thousand.

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

<b>Name</b>	<b>Location of Incorporation</b>	<b>Ownership Percentage</b>	<b>Primary Operation Activities</b>
Top Score Investments Ltd.	British Virgin Islands	100.00	Investment holding
Song Ming Investments Co., Ltd.	ROC	100.00	Investment holding
Ming Chi Investments Co., Ltd.	ROC	100.00	Investment holding
Ming Shun Investments Co., Ltd.	ROC	100.00	Investment holding
Wang Yi Construction Co., Ltd.	ROC	89.75	Construction
Pou Chin Development Co., Ltd.	ROC	85.71	Agency of land demarcation
Pou Yii Development Co., Ltd.	ROC	75.00	Rental and sale of real estate

Top Score Investments Ltd. (“Top Score”) invests in Yue Yuen as at June 30, 2010, the ownership percentage is 0.44%.

Pou Yuen Technology Co., Ltd. (“Pou Yuen Technology”), a corporation incorporated in the ROC, commenced its operations in 1993. It is engaged in tooling design software and information technology software services. As at June 30, 2010, Pou Yuen Technology has an outstanding common stock of \$900,000 thousand.

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

<b>Name</b>	<b>Location of Incorporation</b>	<b>Ownership Percentage</b>	<b>Primary Operation Activities</b>
Vantage Capital Investments Ltd.	British Virgin Islands	100.00	Information Software Services

LNC Technology Co., Ltd. ("LNC Technology"), a corporation incorporated in the ROC, commenced its operations in 2007. It is engaged in manufacturing and sale of precision instruments, equipment and computer numerical controlled machine. As at June 30, 2010, LNC Technology has an outstanding common stock of \$600,000 thousand.

The information of LNC Technology's major subsidiaries is as follows:

<b>Name</b>	<b>Location of Incorporation</b>	<b>Ownership Percentage</b>	<b>Primary Operation Activities</b>
Success Dragon Holdings Ltd.	British Virgin Islands	100.00	Investment Holding
Dong Guan Pou Yuen Digital Technology, Co., Ltd.	PRC	100.00	Manufacturing and sale of computer numerical controlled machine

The Right and Great Asia-Pacific Realty Development Co., Ltd. ("Right and Great Asia-Pacific"), a corporation incorporated in the ROC, commenced its operations in 2008. It is primarily engaged in real estate development and investing activities business. As at June 30, 2010, Right and Great Asia-Pacific has an outstanding common stock of \$600,000 thousand.

Global Brands Manufacture Ltd. is engaged in manufacturing and selling of printed circuit board. The shares of Global Brands Manufacture Ltd. are listed on the Taiwan Stock Exchange Corporation.

On March 16, 2010, the board of directors of Pou Chen had decided to auction the 40% ownership of Global Brands Manufacture Ltd. owned by Pou Chen, Pou Shine, Barits Development, and Pou Yuen Technology, which amounted to 166,500 thousand shares. On March 24, 2010, the deal was made at \$28.75 per share, total amounted to \$4,765,693 thousand with \$333,931 thousand profit recognized as gain on disposal of investments. Pou Chen lost the controlling power over Global Brands Manufacture Ltd. after the transaction. Therefore, Global Brands Manufacture Ltd. is no longer included as a consolidated entity in the consolidated financial statements. However, profit or loss during January 1 and March 23, 2010 are still included in the consolidated financial statement. The Company reclassified unsold shares to available-for-sale financial assets, noncurrent, see Note 12 to the consolidated financial statements.

As at June 30, 2010 and 2009, there were 315,048 and 345,108 employees, in Pou Chen and subsidiaries referred above, respectively.

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

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Basis of Presentation**

The accompanying consolidated financial statements have been prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the ROC. Under these guidelines and principles, the Company is required to make certain estimates and assumptions that could affect the amounts of allowance for doubtful accounts, loss on inventory devaluation, depreciation expenses and impairment, amortization expenses, pension expenses and the provision for bonuses to employees and supervisors, 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 interpretations 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 and Top Score have their accounting year from October 1 of the preceding year to September 30 of the year. Therefore, the semi-annual information of above-mentioned companies indicated information of the period from October 1, 2009 to March 31, 2010.

In 2010, Vantage Capital Investments Ltd. ("Vantage") changed the balance sheet date of accounting year from September 30 to December 31. Therefore, the 2010 and 2009 semi-annual information of Vantage indicated information of the period from January 1, 2010 to June 30, 2010 and October 1, 2008 to March 31, 2009, respectively.

### **Current/Noncurrent Assets and Liabilities**

Cash or cash equivalents, assets held for operating purposes and assets expected to be converted into cash, or consumed within one year from the 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 within one year from the balance sheet date are recorded as current liabilities. Liabilities not being recorded as current liabilities are recorded as noncurrent liabilities.

For the Company's construction related business, which has an operating cycle over one year, the length of the operating cycle is the basis for classifying the Company's construction assets and liabilities as current or noncurrent.

### **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 Assets at Fair Value through Profit or Loss**

Financial instruments 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. On derecognition of a financial asset or a financial liability, the difference between its carrying amount and the sum of the consideration received and receivable or consideration paid and payable is recognized in profit or loss. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

Derivative financial instruments which do not qualify for hedge accounting are classified as financial instruments 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.

Fair values of financial assets and financial liabilities at the balance sheet date are determined as follows: Publicly traded stocks - at closing prices; open-end mutual funds - at net asset values; bonds - at prices quoted by the Taiwan GreTai Securities Market; and financial assets and financial liabilities without quoted prices in an active market - at values determined by using valuation techniques.

## **Available-for-sale Financial Assets**

Available-for-sale financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are remeasured at fair value, with changes in fair value recognized in equity until the financial assets are disposed of, at which time, the cumulative gain or loss previously recognized in equity is included in profit or loss for the year. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

The recognition, derecognition and the fair value bases of available-for-sale financial assets are similar to those of financial assets at fair value through profit or loss.

Cash dividends are recognized on the ex-dividend date, except for dividends distributed from the pre-acquisition profit, which are treated as a reduction of investment cost. Stock dividends are not recognized as investment income but are recorded as an increase in the number of shares. The total number of shares subsequent to the increase is used for recalculation of cost per share.

An impairment loss is recognized when there is objective evidence that the financial asset is impaired. Any subsequent decrease in impairment loss for an equity instrument classified as available-for-sale is recognized directly in equity.

## **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 consist of raw materials, supplies, work-in-process and finished goods. Prior to January 1, 2009, inventories were stated at the lower of cost or market value. Any write-down was made on a category by category basis. Market value meant average purchase cost in the last month for raw materials and supplies and net realizable value for finished goods and work in process. As stated in Note 3 to the consolidated financial statements, effective January 1, 2009, inventories are stated at the lower of cost or net realizable value. Inventory write-downs are made item by item, except where it may be appropriate to group similar or related items. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Inventories are recorded at approximate weighted-average cost on the balance sheet date.

Revenues, costs and profits arising from real estate development projects are measured by the ratio of actual costs incurred in a period to the total estimated costs to be incurred on the project. Borrowing costs incurred on and before the completion of a project are capitalized as part of the project costs.

For construction projects, costs are recorded as "Construction costs" and billings are recorded as "Progress billings". For the same project, any excess of costs over billings is reported as "Construction cost in excess of billings", an asset account; otherwise, the excess of billings over costs is reported as "Billings in excess of costs", a liability account.

## **Investments Accounted for by the 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 investee 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.

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

If an adjustment resulted from the changes in unrealized loss on available-for-sale financial assets of an investee, the adjustment is reported as a separate component of stockholders' equity.

When the Company's share in losses of an equity-method investee equals its investment in that investee plus any advances made to the investee, the Company discontinues applying the equity method. The Company continues to recognize its share in losses of the investee if (a) the Company commits to provide further financial support to the investee or (b) the losses of the investee are considered to be temporary and sufficient evidence shows imminent return to profitability.

When the Company's share in losses of an investee over which the Company has control exceeds its investment in the investee, unless the other shareholders of the investee have assumed legal or constructive obligations and have demonstrated the ability to make payments on behalf of the investee, the Company has to bear all of the losses in excess of the capital contributed by shareholders of the investee. If the investee subsequently reports profits, such profits are first attributed to the Company to the extent of the excess losses previously borne by the Company.

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.

Investment accounted for assets held for sale is determined by whether the Company could sell it immediately under the conventional business conditions and finish the deal within one year. The evaluation method is the lower of book value and net fair value, and listed under current assets.

### **Investments in Real Estate**

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.

### **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:

<u>Items</u>	<u>Estimated Useful Lives</u>
Buildings and improvements	15-55 years
Machinery and equipment	5-12 years
Transportation equipment	3-5 years
Furniture, fixtures and office equipment	3-7 years
Other equipment	3-10 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.

## **Goodwill**

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

## **Deferred Charges**

Deferred charges are amortized on a straight-line basis over three to five years. However, the deferred financial fee of the long-term debt is amortized over the loan term.

## **Impairment of Assets**

If the recoverable amount of an asset (mainly property, plant and equipment, leased assets and investments accounted for by the equity method) is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is charged to earnings unless the asset is carried at a revalued amount, in which case the impairment loss is first treated as a deduction to the unrealized revaluation increment and any remaining loss is charged to earnings.

If an impairment loss subsequently reverses, the carrying amount of the asset is increased accordingly, but the increased carrying amount may 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 recognized in earnings, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is first recognized as gains to the extent that an impairment loss on the same revalued asset was previously charged to earnings. Any excess amount is treated as an increase in the unrealized revaluation increment.

For the purpose of impairment testing, goodwill is allocated to each of the relevant cash-generating units ("CGU(s)") that are expected to benefit from the synergies of the acquisition. A CGU to which goodwill has been allocated is tested for impairment annually or whenever there is an indication that the CGU may be impaired. If the recoverable amount of the CGU becomes less than its carrying amount, the impairment is allocated to first reduce the carrying amount of the goodwill allocated to the CGU and then to the other assets of the CGU pro rata on the basis of the carrying amount of each asset in the CGU. A reversal of an impairment loss on goodwill is disallowed.

For long term equity investments for which the Company has significant influence but with no control, the carrying amount (including goodwill) of each investment is compared with its own recoverable amount for the purpose of impairment testing.

## **Convertible Bonds**

The face value of convertible bonds issued by consolidated subsidiaries 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.

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.

## **Stock-based Compensation**

Employee stock options granted on or after January 1, 2008 are accounted for under SFAS No. 39, "Accounting for Share-based Payment". Under SFAS No. 39, the value of the stock options granted, which is equal to the best available estimate of the number of stock options expected to vest multiplied by the grant-date fair value, is expensed on a straight-line basis over the vesting period, with a corresponding adjustment to capital surplus - employee stock options. The estimate is revised if subsequent information indicates that the number of stock options expected to vest differs from previous estimates.

Employee stock options granted between January 1, 2004 and December 31, 2007 were accounted for under the interpretations issued by the Accounting Research and Development Foundation ("ARDF"). The Company adopted the intrinsic value method, under which compensation cost was recognized on a straight-line basis over the vesting period.

## **Pension Cost**

Pou Chen, Barits Development, and Pou Yuen Technology, 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 Labor Pension 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, and Pro Arch International, adopted the provisions of SFAS No. 18, "Accounting for Pensions", which require that pension expense shall be computed on actuarial basis.

The subsidiaries in overseas have a defined contribution plan and recognize net periodic pension costs at monthly contribution in compliance with local laws.

## **Foreign Currencies**

Non-derivative foreign-currency transactions are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Exchange differences arising from settlement of foreign-currency assets and liabilities are recognized in profit or loss.

At the balance sheet date, foreign-currency monetary assets and liabilities are revalued using prevailing exchange rates and the exchange differences are recognized in profit or loss.

At the balance sheet date, foreign-currency nonmonetary assets (such as equity instruments) and liabilities that are measured at fair value are revalued using prevailing exchange rates, with the exchange differences treated as follows:

- a. Recognized in shareholders' equity if the changes in fair value are recognized in shareholders' equity;
- b. Recognized in profit and loss if the changes in fair value is recognized in profit or loss.

Foreign-currency nonmonetary assets and liabilities that are carried at cost continue to be stated at exchange rates at trade dates.

## **Cumulative Translation Adjustments**

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.

If the functional currency of an equity-method investee is a foreign currency, translation adjustments will result from the translation of the investee's financial statements into the reporting currency of the Company. Such adjustments are accumulated and reported as a separate component of shareholders' equity.

## **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.

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.

The Company undertakes long-term construction contract. When the duration of the contract is more than one year or one accounting period, and project profit or loss can be reasonably estimated, adopt the percentage-of-completion method, otherwise, the completed-contract method will be adopted. "Construction in progress" is debited when cost occurred, and "advance construction receipts" is credited when the project payment is received in advance. Under the percentage-of-completion method, contract profit for the current period is the difference between the cumulative profit based on the percentage of completion at the end of the current period and the cumulative profit recognized in prior periods. However, if the cumulative profit recognized in prior periods is greater than the cumulative profit calculated based on the percentage of completion at the end of the current period, the excess should be recorded as a loss in the current period. If a contract is estimated to bear a loss prior to completion, the full amount of the loss should be recognized immediately. However, if the loss is estimated to be smaller in future years, the difference should be reversed and recognized as a gain in that year. Construction contract within one year should adopt the completed-contract method. The percentage of completion is

calculated based on the construction cost incurred this year as a percentage of the total estimated cost. Sales revenue and cost of goods sold are estimated by gross price method.

### **Income Tax**

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

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

### **Earnings Per Share**

Basic earnings per common share are calculated by dividing net earnings applicable to common stock by the weighted average number of common stocks outstanding. On a diluted basis, both net earnings and shares outstanding are adjusted to assume the conversion of convertible bonds, employee stock options and stock bonus to employees 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, employee stock and stock bonus to employees options contain an anti-dilutive effect, they will be excluded from the calculation.

### **Hedging Derivative Financial Instruments**

Derivatives that qualify as effective hedging instruments are measured at fair value, with subsequent changes in fair value recognized either in profit or loss, or in shareholders' equity, depending on the nature of the hedging relationship.

### **Reclassifications**

Certain accounts in the consolidated financial statements as of and for the six months ended June 30, 2009 have been reclassified to conform to the presentation of the consolidated financial statements as of and for the six months ended June 30, 2010.

## **3. REASON AND EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE**

### **Accounting for Financial Instruments**

On July 1, 2008, the Company adopted the newly amended SFAS No. 34, "Financial Instruments: Recognition and Measurement". The amendments to SFAS 34 mainly deal with reclassifications of financial assets at fair value through profit or loss that are held for trading. Please see Note 27 to the consolidated financial statements for relevant information.

The effects resulted from this accounting change were as follows:

	<b>Six Months Ended June 30, 2009</b>
Decrease in consolidated net income from continuing operations	<u>\$ 1,687,013</u>
Decrease in net consolidated income	<u>\$ 1,687,013</u>
Decrease in basic earnings per share (after income tax)	<u>\$0.60</u>

## Accounting for Inventories

On January 1, 2009, the Company adopted the newly revised SFAS No. 10, "Accounting for Inventories". The main revisions are (1) inventories are stated at the lower of cost or net realizable value, and inventories are written down to net realizable value item-by-item except when the grouping of similar or related items is appropriate; (2) unallocated overheads are recognized as expenses in the period in which they are incurred; and (3) abnormal costs, write-downs of inventories and any reversal of write-downs are recorded as cost of goods sold for the period. The adoption did not result in significant effect in the consolidated financial statements of the Company as of and for the six months ended June 30, 2009.

## 4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at June 30, 2010 and 2009 consist of the following:

	<b>2010</b>	<b>2009</b>
Cash on hand	\$ 80,678	\$ 100,379
Checking accounts	488	37,625
Savings accounts	466,511	1,322,061
Foreign-currency savings deposit	41,132,078	26,406,335
Time deposits	2,404,125	1,654,554
Commercial papers	<u>113,500</u>	<u>137,562</u>
	<u>\$ 44,197,380</u>	<u>\$ 29,658,516</u>

## 5. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial instruments at fair value through profit or loss as at June 30, 2010 and 2009 were summarized as follows:

	<b>2010</b>	<b>2009</b>
Financial assets at fair value through profit or loss, current		
HKD Call Option	\$ 1,041,660	\$ 217,793
Open-ended mutual funds	458,595	932,851
Foreign mutual funds	54,645	33,055
Forward exchange contracts	32,257	40,258
JV Call Option	30,318	-
Structured deposit	4,533	-
Marketable bonds	<u>-</u>	<u>101,746</u>
	<u>\$ 1,622,008</u>	<u>\$ 1,325,703</u>
Financial assets at fair value through profit or loss, noncurrent		
JV Call Option	<u>\$ 1,755,229</u>	<u>\$ 1,962,464</u>
Financial liabilities at fair value through profit or loss, current		
Euro-dollar convertible bonds with options	\$ 805,936	\$ 533,392
Forward exchange contracts	<u>49,897</u>	<u>39,864</u>
	<u>\$ 855,833</u>	<u>\$ 573,256</u>

In October 2007, Pou Sheng entered into call option agreements with the shareholders, (the “Relevant Partners”) of certain associates, jointly controlled entities and subsidiaries (the “Relevant Companies”), in return for a premium to each of the Relevant Partners (the “Option Premium”). Pou Sheng has the right but not the obligation exercisable at its discretion to acquire from each of the Relevant Partners their respective equity interests, in the Relevant Companies (the “JV Call Options”).

- a. **Term:** The JV Call Option is exercisable within five years commencing from the expiry of the first six months after the dealing of the shares of Pou Sheng on the Stock Exchange had commenced (December 6, 2008).
- b. **The Option Premium:** The Option Premium was determined with reference to 15% of the agreed estimated consideration for the acquisition of the Relevant Equity Interests on the date of the JV Call Option agreements.
- c. **Settlement:** The Option Premium was settled by the issue of shares of Pou Sheng and the number of shares issued was determined with reference to the offering price upon the global offering of Pou Sheng’s shares on the Stock Exchange.

Each of the Relevant Partners has agreed not to transfer or sell the Relevant Equity Interests during the Call Options exercisable period without Pou Sheng’s prior written consent.

On March 10, 2008, Yue Yuen entered into a derivative contract with an independent third party to acquire the cash-settled call option for the notional amount of approximately HK\$2,100,000 thousand (equivalent to US\$269,231 thousand). Yue Yuen paid a premium of US\$27,994 thousand included in financial assets at fair value through profit or loss, current on the HKD Call Option.

- a. **Term:** Yue Yuen has the right but not the obligation, from time to time on or after March 14, 2008 up to November 7, 2011.
- b. **Settlement price:** Yue Yuen will settle the net difference between the market value of one share of Yue Yuen, and the agreed price of HK\$26.75 per share for each option exercised in United States dollars.
- c. **Total amount:** The total number of HKD Call Option that can be exercised by Yue Yuen is equivalent to 78,504,672 ordinary shares at HK\$0.25 each.
- d. **The HKD Call Option is not an option to acquire or dispose of shares of Yue Yuen.** The option will be automatically exercised if the share price of Yue Yuen rises and remains above certain agreed levels for 30 consecutive days from May 17, 2008 to November 17, 2011, the range of share price level is from HK\$33.319 to HK\$36.346.

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.

Major terms of foreign currency forward contracts as at June 30, 2010 were as below:

<b>Aggregate Notional Amount</b>	<b>Maturity</b>	<b>Forward Exchange Rates</b>
US\$ 90,000,000	September 2010 - March 2011	Sell USD/buy RMB at 6.7152 to 6.8130
US\$ 69,000,000	September 2010 - March 2011	Sell RMB/buy USD at 6.5750 to 6.6840
US\$ 1,000,000	July 2010	Sell USD/buy NTD at 32.4150

At June 30, 2010, the fair values of the above forward contracts were determined based on valuations provided by counterparty bank using valuation techniques.

The net gain (loss) from financial instruments at fair value through profit or loss for the six months ended June 30, 2010 and 2009 amounted to \$122,695 thousand and \$585,964 thousand, respectively.

## 6. AVAILABLE-FOR-SALE FINANCIAL ASSETS, CURRENT

	2010	2009
Marketable equity securities	<u>\$ 7,966,461</u>	<u>\$ 6,946,952</u>

## 7. NOTES RECEIVABLE

Notes receivable as at June 30, 2010 and 2009 consist of the following:

	2010	2009
Notes receivable	\$ 38,000	\$ 52,870
Less allowance for doubtful accounts	<u>-</u>	<u>-</u>
	<u>\$ 38,000</u>	<u>\$ 52,870</u>

## 8. ACCOUNTS RECEIVABLE

Accounts receivable as at June 30, 2010 and 2009 consist of the following:

	2010	2009
Accounts receivable	\$ 19,154,111	\$ 25,305,242
Less allowance for doubtful accounts	<u>(723,396)</u>	<u>(875,310)</u>
	<u>18,430,715</u>	<u>24,429,932</u>
Accounts receivable from affiliates (Note 28)	491,410	945,616
Less allowance for doubtful accounts	<u>(15,647)</u>	<u>-</u>
	<u>475,763</u>	<u>945,616</u>
	<u>\$ 18,906,478</u>	<u>\$ 25,375,548</u>

The Company has entered into a factoring agreement with banks. According to the agreement, credit risk is transferred to the factor when accounts are sold and assigned to the factor. However, banks may charge back to the Company for any account not paid in full because of due for any reason other than credit risk.

Factored accounts receivable in 2009 were as follows:

Counter-parties	Receivables Sold at Year-beginning	Receivables Sold	Amounts Collected	Receivables Sold at Year-end	Credit Line	Pledge
<u>Six months ended June 30, 2009</u>						
Taishin Commercial Bank	\$ 78,327	\$ 155,340	\$ 129,934	\$ 103,733		Promissory note
	US\$ 2,388,021	US\$ 4,647,919	US\$ 3,874,327	US\$ 3,161,613	US\$ 8,500,000	US\$ 8,500,000

The above credit lines are allowed to be used on a revolving basis, and for the six months ended June 30, 2009, the above credit lines were unused.

## 9. INVENTORIES

a. Inventories - manufacturing as at June 30, 2010 and 2009 consist of the following:

	<b>2010</b>	<b>2009</b>
Raw materials and supplies	\$ 6,601,444	\$ 6,323,334
Work-in-process	3,643,808	3,982,430
Finished goods	12,066,462	13,991,847
Merchandises	4,774	18,031
Goods in transit	<u>8,865</u>	<u>138,879</u>
	<u>\$ 22,325,353</u>	<u>\$ 24,454,521</u>

- 1) As of June 30, 2010 and 2009, the allowance for manufacturing inventory devaluation was \$1,360,312 thousand and \$1,411,392 thousand, respectively.
- 2) The cost of manufacturing inventories recognized as cost of goods sold for the six months ended June 30, 2010 and 2009 was \$70,398,732 thousand and \$78,053,874 thousand, respectively, which included \$381,631 thousand and \$795,053 thousand, respectively, due to write-downs of inventories.

b. Inventories - construction as at June 30, 2010 and 2009 consist of the following:

	<b>2010</b>	<b>2009</b>
Land and buildings for development	\$ 3,636,923	\$ 3,425,376
Land, buildings and improvements for sale	101,736	101,259
Construction site	132,066	132,066
Construction in process	<u>76,939</u>	<u>35,662</u>
	<u>\$ 3,947,664</u>	<u>\$ 3,694,363</u>

- 1) As of June 30, 2010 and 2009, the allowance for construction inventory devaluation was \$26,065 thousand and \$24,740, respectively.
- 2) The cost of manufacturing inventories recognized as cost of goods sold for the six months ended June 30, 2010 and 2009 was \$246,439 thousand and \$0 thousand, respectively, which included \$288 thousand and \$0 thousand, due to write-downs of inventories, respectively.

3) Land and buildings for development as at June 30, 2010 and 2009 consist of the following:

<b>Company</b>	<b>2010</b>			<b>2009</b>
	<b>Land</b>	<b>Building</b>	<b>Carrying Value</b>	<b>Carrying Value</b>
Barits Development Right and Great	\$ 1,986,598	\$ 11,532	\$ 1,998,130	\$ 1,798,886
Asia-Pacific	1,428,202	-	1,428,202	1,416,146
Pou Chin Development	<u>210,591</u>	<u>-</u>	<u>210,591</u>	<u>210,344</u>
	<u>\$ 3,625,391</u>	<u>\$ 11,532</u>	<u>\$ 3,636,923</u>	<u>\$ 3,425,376</u>

4) At June 30, 2010, according to the loan agreement, the secured borrowings were secured by part of the land and buildings for development of the Company. Please see Note 29 to the consolidated financial statements.

5) Land and buildings for development as at June 30, 2010 and 2009 consist of the following:

Company	2010		2009	
	Land	Building	Carrying Value	Carrying Value
Barits Development	\$ 11,410	\$ 12,930	\$ 24,340	\$ 35,892
Pou Chin Development	<u>77,396</u>	<u>-</u>	<u>77,396</u>	<u>65,367</u>
	<u>\$ 88,806</u>	<u>\$ 12,930</u>	<u>\$ 101,736</u>	<u>\$ 101,259</u>

6) Land, buildings and improvements for sale and construction site are inventories of Pou Yii Development Co., Ltd.

7) Net amount of construction in process and progressive billings as at June 30, 2010 and 2009 consist of the following:

Company	Name of Construction	2010		
		Construction in Process	Progressive Billings	Net Amount
Wang Yi	Construction for demarcation of real estate in Anhe district, Taichung City I	<u>\$ 460,189</u>	<u>\$ 383,250</u>	<u>\$ 76,939</u>
	Construction for demarcation of real estate in Anhe district, Taichung City II	<u>\$ 107,628</u>	<u>\$ 206,535</u>	<u>\$ (98,907)</u>
Company	Name of Construction	2009		
		Construction in Process	Progressive Billings	Net Amount
Pou Chin Development	Consultant for demarcation of real estate in Anhe district, Taichung City	<u>\$ 77,498</u>	<u>\$ 41,836</u>	<u>\$ 35,662</u>
Wang Yi	Construction for demarcation of real estate in Anhe district, Taichung City I & II	<u>\$ 21,577</u>	<u>\$ 59,104</u>	<u>\$ (37,527)</u>

## 10. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

Investments accounted for by the equity method as at June 30, 2010 and 2009 are comprised of the following:

	2010			2009	
	Original Cost	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage
<u>Shoes, shoe materials and athletic products companies</u>					
Best Focus Holdings Ltd.	\$ 324,300	\$ 650,171	50.00	\$ 654,833	50.00
Bigfoot Limited	138,772	168,614	48.76	148,527	48.76
Blessland Enterprises Limited	26,196	60,666	50.00	71,246	50.00
Central Honour Limited	5,189	13,937	50.00	12,683	50.00
China Ocean Resources Limited	821,131	448,704	50.00	336,183	50.00
Cohen Enterprises Inc.	156,820	597,225	50.00	568,161	50.00
Din Tsun Holding Co., Ltd.	251,211	776,909	50.00	561,092	50.00
Eagle Nice (International) Holdings Limited	1,325,223	1,851,498	38.42	1,817,127	38.42
Enthroned Group Limited	158	157	48.76	160	48.76
Farsighted International Limited	-	-	-	1,070,381	30.00
Full Pearl International Ltd.	242,784	254,973	28.75	212,613	47.90
Fuzhou Fubao Paper Packaging Co., Ltd.	118,574	145,137	50.00	146,030	50.00
Good Assets Management Limited	8,200	6,885	50.00	8,181	50.00
Great Skill Industrial Limited	34,149	51,952	50.00	57,642	50.00
Guiyang Baoshang Sports Goods Company Limited	47,776	64,978	50.00	55,987	50.00
Hangzhou Baohong Sports Goods Company Limited	58,445	46,816	50.00	37,695	50.00
Harbin Shenge Sports Chain Company Limited	382,051	574,561	45.00	490,557	45.00
Hebei Zhanxin Sports Development Company Limited	312,477	388,718	45.00	378,668	45.00
Hefei Tengrei Sports Goods Company Limited	297,290	475,783	50.00	281,894	50.00
High Style Investments Limited	19,458	17,815	50.00	20,131	50.00
Hua Jian Industrial Holding Co., Limited	771,201	2,284,475	50.00	2,303,197	50.00
Hubei Jiezhixing Clothing And Accessories Company Limited	413,786	176,150	50.00	691,063	50.00
Intelligent Plus Limited	48,989	55,539	45.90	43,214	45.90
i-Tech Enterprises Ltd.	10,134	6,606	50.00	7,517	50.00
Jilin Lingpao Sports Goods Company Limited	277,158	748,134	50.00	493,359	50.00
Jilin Xinfangwei Sports Goods Company Limited	588,286	635,571	50.00	634,501	50.00
Jumbo Power Enterprises Limited	325,388	535,856	50.00	486,333	50.00
Just Lucky Investments Limited	31,794	58,275	38.30	59,098	38.30
Ka Yuen Rubber Factory Limited	32,727	613,052	50.00	675,154	50.00
Keen Idea Group Limited	82,656	43,592	40.00	63,282	40.00
Liberty Bell Investments Limited	318,234	158,521	49.00	97,296	49.00
Luen Thai Holdings Limited	394,437	489,336	8.98	459,035	8.98
Natural Options Limited	11,144	5,902	38.30	5,796	38.30
Oftenrich Holdings Limited	1,368,875	1,799,396	45.00	2,190,831	45.00
Original Designs Developments Limited	40,156	114,534	49.47	124,762	49.47
Pine Wood Industrial Limited	92,393	80,342	37.00	81,991	37.00
Precise Zone Investments Limited	41,662	47,959	47.65	48,664	47.65
Prosperous Industrial (Holdings) Ltd.	583,740	974,422	30.00	911,891	30.00
PT. GF Indonesia Ltd.	-	-	-	85,306	45.00
PYGF Co., Ltd.	32,430	51,969	50.00	67,441	50.00
Rise Mount Limited	-	-	-	4,903	26.00
Shaanxi Jixian Longyue Sports Goods Company Limited	139,042	215,520	50.00	203,159	50.00

(Continued)

	2010			2009	
	Original Cost	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage
Shaanxi Wuhuan Shengdao Sports Production Development Company Limited	\$ 199,248	\$ 259,248	40.00	\$ 74,755	40.00
Smart Shine Industries Limited	-	98,570	50.00	173,430	50.00
Suzhou Xinjun Trading Development Company Limited	196,875	250,273	49.00	287,039	49.00
Texas Clothing Holdings Corp.	3,425,070	1,311,282	39.80	1,004,721	39.80
Topmost Industries Limited	26,438	85,172	50.00	95,247	50.00
Twinways Investments Limited	88,232	238,097	50.00	212,133	50.00
Up Front Technology Ltd.	-	-	-	49,908	50.00
Wellmax Business Group Limited	211,823	211,823	50.00	-	-
Wenzhou Baofeng Trading Company Limited	41,335	67,677	50.00	59,047	50.00
Willpower Industries Limited	224,339	350,393	40.00	170,461	40.00
Yuen Thai Industrial Company Limited	85,745	117,030	50.00	95,745	50.00
Zhejiang Baohong Sports Goods Company Limited	211,394	262,330	49.00	162,732	49.00
Zhejiang Jinguan Enterprise Development Company Limited	348,085	364,185	50.00	427,290	50.00
Zhejiang Yichuan Sports Goods Chain Company Limited	599,419	829,789	50.00	838,279	50.00
Evermore Chemical Industry Co., Ltd.	253,333	308,879	20.75	272,641	20.75
San Fang Chemical Industry Co., Ltd.	2,677,576	3,560,028	44.72	3,197,718	44.72
Nan Pao Resins Chemical Co., Ltd.	539,797	592,940	22.15	528,161	22.15
<u>Electronic companies</u>					
Digital Sun Investments Ltd.	-	-	-	291,287	41.67
Haicheng Information Technology Co., Ltd.	194,580	138,688	50.00	143,606	50.00
Kleine Developments Ltd.	335,317	109,579	50.00	228,088	50.00
Silver Island Trading Ltd.	129,720	50,753	50.00	51,816	50.00
Venture Well Holdings Ltd.	332,638	357,029	31.55	363,874	30.09
Elitegroup Computer Systems Co., Ltd.	6,036,400	5,090,052	18.59	4,980,435	17.90
Techview International Technology Inc.	676,760	-	48.31	19,783	48.31
<u>Investment holding and other companies</u>					
Ace Top Group Limited	1,574	39,372	40.00	46,442	40.00
Asia Air Tech Industrial (Pte) Ltd.	82,697	52,706	30.00	57,921	30.00
Coprospects Holdings Ltd.	8,117	6,880	50.00	26,701	50.00
Mega Atlas International Limited	3,041	259	40.00	3,407	40.00
Most Honour International Limited	1,640	3,534	50.00	3,240	50.00
Partner Alliance Limited	3,237	6,365	50.00	7,687	50.00
Poulik Properties Management Co., Ltd.	-	551	30.00	562	30.00
Prosperlink Limited	6,078	6,199	38.00	-	-
Rise Bloom International Limited	24,312	24,428	47.00	-	-
Rising Developments Ltd.	5,028	35,865	50.00	91,105	50.00
Supplyline Logistics Ltd.	197,107	26,609	49.00	20,725	49.00
Talent Pool Management Ltd.	-	3,412	30.00	4,137	30.00
Well Success Investment Limited	198,731	1,041,725	40.00	1,024,392	40.00
Zhuhai Poulik Properties Management Co., Ltd.	4,952	93,362	40.00	35,417	40.00
Zhong Ao Multiplex Management Limited	<u>1,002,199</u>	<u>1,251,861</u>	46.82	<u>699,107</u>	47.50
	28,547,273	32,937,595		32,416,623	
Reclassified to long-term investment held for sale	<u>(413,786)</u>	<u>(176,150)</u>		<u>-</u>	
	<u>\$ 28,133,487</u>	<u>\$ 32,761,445</u>		<u>\$ 32,416,623</u>	

(Concluded)

The details of Company's investment income (loss) recognized under equity method for the six months ended June 30, 2010 and 2009 are summarized as follows:

	<b>2010</b>	<b>2009</b>
<u>Shoes, shoe materials and athletic products companies</u>		
All Saints Enterprises Limited	\$ -	\$ (653)
Best Focus Holdings Ltd.	19,925	78,936
Bigfoot Limited	27,532	21,380
Blessland Enterprises Limited	(30)	5,282
Central Honour Limited	512	623
China Ocean Resources Limited	-	(136,431)
Cohen Enterprises Inc.	23,856	68,779
Din Tsun Holding Co., Ltd.	104,511	120,554
Eagle Nice (International) Holdings Limited	19,324	101,208
Farsighted International Limited	-	45,338
Full Pearl International Limited	(13,380)	(25,155)
Fuzhou Fubao Paper Packaging Co., Ltd.	(503)	3,819
Good Assets Management Limited	(1,141)	(11)
Great Skill Industrial Limited	922	5,057
Guiyang Baoshang Sports Goods Company Limited	2,737	2,299
Hangzhou Baohong Sports Goods Company Limited	(8,233)	1,938
Harbin Shenge Sports Chain Company Limited	8,800	12,259
Hebei Zhanxin Sports Development Company Limited	(23,243)	13,480
Hefei Tengrei Sports Goods Company Limited	4,337	32,025
High Style Investments Limited	385	426
Hua Jian Industrial Holding Co., Limited	131,835	22,362
Hubei Jiezhixing Clothing And Accessories Company Limited	47,716	210,827
Intelligent Plus Limited	3,439	(2,201)
i-Tech Enterprise Ltd.	(190)	(457)
Jilin Lingpao Sports Goods Company Limited	43,596	54,805
Jilin Xinfangwei Sports Goods Company Limited	(9,628)	(3,473)
Jumbo Power Enterprises Limited	109,061	64,600
Just Lucky Investments Limited	4,391	4,704
Ka Yuen Rubber Factory Limited	72,332	143,049
Keen Idea Group Limited	(13,371)	1,249
Liberty Bell Investments Limited	(4,565)	(38,505)
Luen Thai Holdings Limited	26,580	14,131
Natural Options Limited	219	145
Oftenrich Holdings Limited	116,702	87,357
Original Designs Developments Limited	11,958	7,877
Precise Zone Investments Limited	(2,808)	(102)
Profit Land Limited	-	(453)
Prosperous Industrial (Holdings) Ltd.	25,703	53,160
PYGF Co., Ltd.	11,160	9,608
Rise Bloom International Limited	(6)	-
Rise Mount Limited	-	(613)
Shaanxi Jixian Longyue Sports Goods Company Limited	4,283	17,486
Shaanxi Wuhuan Shengdao Sports Production Development Company Limited	11,679	7,736
Smart Shine Industries Limited	4,943	(73,966)
Suzhou Xinjun Trading Development Company Limited	(6,821)	21,504

(Continued)

	2010	2009
Texas Clothing Holdings Corp.	\$ 187,664	\$ (446,510)
Topmost Industries Limited	9,411	7,941
Twinways Investments Limited	50,205	19,782
Wenzhou Baofeng Trading Company Limited	350	7,969
Willpower Industries Limited	26,253	17,755
Yuen Thai Industrial Company Limited	21,515	32,005
Zhejiang Jinguan Enterprise Development Company Limited	24,474	105,643
Zhejiang Baohong Sports Goods Company Limited	8,859	6,847
Zhejiang Yichuan Sports Goods Chain Company Limited	44,019	96,862
Evermore Chemical Industry Co., Ltd.	6,525	(3,928)
San Fang Chemical Industry Co., Ltd.	230,460	207,309
Nan Pao Resins Chemical Co., Ltd.	10,387	25,020

Electronic companies

Digital Sun Investments Ltd.	-	(40,594)
Haicheng Information Technology Co., Ltd.	170	(27)
Kleine Developments Limited	(37,301)	(51,310)
Silver Island Trading Ltd.	(21)	(122)
Venture Well Holdings Ltd.	(3,093)	(13,880)
Elitegroup Computer Systems Co., Ltd.	77,607	129,057
Techview International Technology Inc.	47,911	(143,395)

Investment holding and other companies

Ace Top Group Limited	(7,806)	3,728
Asia Air Tech Industrial (Pte) Ltd.	(2,806)	(5,861)
Coprospets Holdings Ltd.	(68)	(2,333)
Mega Atlas International Limited	(338)	295
Most Honour International Limited	(246)	248
Partner Alliance Limited	46	163
Prosperlink Limited	91	-
Rising Developments Ltd.	1,178	5,631
Talent Pool Management Ltd.	2,598	1,564
Well Success Investment Limited	12,276	(164,607)
Zhuhai Poulik Properties Management Co., Ltd.	73,086	3,115
Zhong Ao Multiplex Management Limited	<u>110,458</u>	<u>9,740</u>
	<u>\$ 1,648,383</u>	<u>\$ 760,090</u> (Concluded)

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

<u>Name</u>	<u>Core Operating Item</u>	<u>Location of Incorporation</u>
Ace Top Group Limited	Investment holding	British Virgin Islands
All Saints Enterprises Limited	Manufacture and sale of paint	British Virgin Islands
Asia Air Tech Industrial (Pte) Ltd.	Manufacture and sale of air conditioner	Singapore
Best Focus Holdings Ltd.	Manufacture and sale of paper carton	British Virgin Islands

(Continued)

<u>Name</u>	<u>Core Operating Item</u>	<u>Location of Incorporation</u>
Bigfoot Limited	Cloth product trading/cloth dyeing & processing/cloth shoe material binding	British Virgin Islands
Blessland Enterprises Limited	Manufacturing and sale of shoe pads	British Virgin Islands
Central Honour Limited	Shoe injection	British Virgin Islands
China Ocean Resources Limited	Sales of sports goods	British Virgin Islands
Cohen Enterprises Inc.	Manufacture and sale of leather products for shoes	British Virgin Islands
Coprospets Holdings Ltd.	Investment holding	British Virgin Islands
Digital Sun Investments Ltd.	Sale of printed circuit boards	British Virgin Islands
Din Tsun Holding Co., Ltd.	Manufacture and sale of apparel	British Virgin Islands
Eagle Nice (International) Holdings Limited	Manufacture and sale of apparel	Cayman Islands
Enthroned Group Limited	Investment holding	British Virgin Islands
Farsighted International Limited	Sales of sport goods	British Virgin Islands
Full Pearl International Limited	Investment holding	British Virgin Islands
Fuzhon Fubao Paper Packing Co., Ltd.	Print and manufacture of paper	PRC
Good Assets Management Limited	Investment holding	British Virgin Islands
Great Skill Industrial Limited	Manufacture and sale of plastic shoe injection	British Virgin Islands
Guiyang Baoshang Sports Goods Company Limited	Sales of sport goods	PRC
Haicheng Information Technology Co., Ltd.	Developing and manufacture of software and electronic parts	PRC
Hangzhou Baohong Sports Goods Company Limited	Sales of sport goods	PRC
Harbin Shenge Sports Chain Company Limited	Sales of sport goods	PRC
Hebei Zhanxin Sports Development Company Limited.	Sales of sport goods	PRC
Heifei Tengrei Sports Goods Company Limited	Sales of sport goods	PRC
High Style Investments Limited	Manufacture halftone, printing ink	British Virgin Islands
Hua Jian Industrial Holding Co., Limited	Manufacture and sale of ladies shoes	British Virgin Islands
Hubei Jiezhixing Clothing And Accessories Company Limited	Sales of sport goods	PRC
Intelligent Plus Limited	Manufacture and sale of chemical material	British Virgin Islands
i-Tech Enterprises Ltd.	Sales of plastic grain	British Virgin Islands
Jilin Lingpao Sports Goods Company Limited	Sales of sport goods	PRC
Jilin Xinfangwei Sports Goods Company Limited	Sales of sport goods	PRC
Jumbo Power Enterprises Limited	Manufacture and sales of sports goods	British Virgin Islands
Just Lucky Investments Limited	Manufacture and sale of shoes material	British Virgin Islands
Ka Yuen Rubber Factory Limited	Manufacture and sale of rubber soles	British Virgin Islands

(Continued)

<b>Name</b>	<b>Core Operating Item</b>	<b>Location of Incorporation</b>
Keen Idea Group Limited	Manufacture and sale of hats	British Virgin Islands
Kleine Developments Ltd.	Manufacture and sale of electronic parts and investment holding	British Virgin Islands
Liberty Bell Investments Limited	Manufacture and sale of chemical for leather use	British Virgin Islands
Luen Thai Holdings Ltd.	Manufacture and trading of apparel	Hong Kong
Mega Atlas International Limited	Investment holding	British Virgin Islands
Most Honour International Limited	Investment holding	British Virgin Islands
Natural Options Limited	Manufacture of foamed cotton	British Virgin Islands
Oftenrich Holdings Limited	Manufacture and sale of safety and casual shoes	Bermuda
Original Designs Developments Limited	Manufacture of shoe lasts	British Virgin Islands
Partner Alliance Limited	Sale of tobacco and liquor	British Virgin Islands
Pine Wood Industries Limited	Manufacture and sale of cloth	British Virgin Islands
Poulik Properties Management Co., Ltd.	Properties management	British Virgin Islands
Precise Zone Investments Limited	Manufacture and processing of ironware and plastic products	British Virgin Islands
Prosperlink Limited	Investment holding	Samoa
Profit Land Limited	Manufacture and sale of paint	British Virgin Islands
Prosperous Industries (Holdings) Ltd.	Manufacture and sale of sports bags	Cayman Islands
PT. GF Indonesia Ltd.	Sale of shoes and active wear	Indonesia
PYGF Co., Ltd.	Processing rubber	British Virgin Islands
Rise Bloom International Limited	Investment holding	Hong Kong
Rise Mount Limited	Investment holding	British Virgin Islands
Rising Developments Ltd.	Trading of diesel/petroleum	British Virgin Islands
Shaanxi Jixian Longyue Sports Goods Company Limited	Sales of sport goods	PRC
Shaanxi Wuhuan Shengdao Sports Production Development Company Limited	Sales of sport goods	PRC
Sliver Island Trading Ltd.	Sale of electronic parts	British Virgin Islands
Smart Shine Industries Limited	Manufacture and sale of shoes and apparel	British Virgin Islands
Supplyline Logistics Ltd.	Provision of logistic service	Hong Kong
Suzhou Xinjun Trading Development Company Limited	Sales of sport goods	PRC
Talent Pool Management Ltd.	Provision of kindergarten service	British Virgin Islands
Texas Clothing Holdings Corp.	Manufacture and sale of apparel	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
Up Front Technology Ltd.	Shoe injection	British Virgin Islands
Venture Well Holdings Ltd.	Sale of electronic parts	British Virgin Islands
Wellmax Business Group Limited	Investment holding	British Virgin Islands
Well Success Investment Limited	Investment holding	British Virgin Islands
Wenzhou Baofeng Trading Co., Ltd.	Sales of sport goods	PRC

(Continued)

<u>Name</u>	<u>Core Operating Item</u>	<u>Location of Incorporation</u>
Willpower Industries Limited	Manufacture and sale of cartons	British Virgin Islands
Yuen Thai Industrial Company Limited	Manufacture and trading of sports and active wear	Hong Kong
Zhejiang Baohong Sports Goods Company Limited	Sales of sport goods	PRC
Zhejiang Jinguan Enterprise Development Company Limited	Sales of sport goods	PRC
Zhejiang Yichuan Sports Goods Chain Company Limited	Sales of sport goods	PRC
Zhong Ao Multiplex Management Limited	Properties management	PRC
Zhuhai Pouluk Properties Management Co., Ltd.	Properties management	British Virgin Islands

(Concluded)

Except Venture Well Holdings Ltd. and Kleine Development Ltd., the fiscal year end of the above-listed companies is September 30. The Company accounted for the investment income (loss) from these companies based on these companies' financial results for the six months ended March 31, 2010 and 2009, as permitted under the accounting principles generally accepted in the ROC.

Techview International Technology Inc. ("Techview International") was established in November 2003, and is primarily engaged in development, sale and assembly of TFT-LCD display. In July 2009, Techview International decreased its capital to offset its accumulated deficit by 1,213,000 thousand. As at June 30, 2010, Techview International has an outstanding common stock of \$124,622 thousand. Due to the book value of the investment as at June 30, 2010 is negative, the Company reclassified \$70,215 thousand to other liabilities.

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 \$12,331,937 thousand as at June 30, 2010.

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 \$2,971,094 thousand as at June 30, 2010.

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 \$932,880 thousand as at June 30, 2010.

Nan Pao Resins Chemical Co., Ltd. ("Nan Pao Resins") was established in October 1963, and is engaged in manufacturing and sale of chemical material. It has an outstanding common stock of \$370,092 thousand as at June 30, 2010.

Luen Thai Holdings Ltd. ("Luen Thai") is engaged in manufacturing ready-made garments. The shares of Luen Thai are listed on the Hong Kong Exchange and Clearing Limited. It has an outstanding common stock of US\$9,925 thousand as at June 30, 2010.

Eagle Nice (International) Holdings Ltd. ("Eagle Nice") is engaged in manufacturing and sale of apparel. The shares of Eagle Nice are listed on the Hong Kong Exchange and Clearing Limited. It has an outstanding common stock of HK\$4,997 thousand as at June 30, 2010.

On March 31, 2010, the Company had decided to sell the 50% ownership of Hubei Jiezhixing Clothing And Accessories Company Limited, yet it had completed the transfer of the ownership as of June 30, 2010. Due to its net realizable value was lower than the book value, such investments has been reclassified into long-term investment held for sale as its net realizable value \$176,150 thousand. The Company also recognized \$53,962 thousand as impairment losses, recorded into “non-operating income - impairment losses”.

## 11. INVESTMENTS IN REAL ESTATE

Investments in real estate as at June 30, 2010 and 2009 are comprised of the following:

	2010	2009
Land	<u>\$ 186,123</u>	<u>\$ -</u>

Pou Chen purchased the land located in Guangshun section, Xitun District, Taichung from Barits Development in September 2009. The consideration of land is based on the amount Barits Development paid plus cost of capital.

## 12. AVAILABLE-FOR-SALE FINANCIAL ASSETS, NONCURRENT

Available-for-sale financial assets, noncurrent as at June 30, 2010 and 2009 are as follows:

	2010			2009	
	Original Cost	2010 Carrying Value	Ownership Percentage	2009 Carrying Value	Ownership Percentage
<u>Taiwan marketable equity securities</u>					
Asia Vital Components Co., Ltd.	\$ 221,568	\$ 644,968	6.10	\$ 277,103	5.91
Taiwan Paiho Limited	142,259	225,999	2.97	87,537	2.99
Global Brands Manufacture Ltd.	983,018	766,938	8.40	-	-
<u>Mutual funds</u>					
Taishin Lucky Fund	-	-	-	147,842	-
Cathay Bond fund	163,131	163,131	-	-	-
<u>Foreign marketable equity securities</u>					
Symphony Holdings Ltd.	<u>298,501</u>	<u>163,522</u>	4.82	<u>59,747</u>	4.82
	<u>\$ 1,808,477</u>	<u>\$ 1,964,558</u>		<u>\$ 572,229</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 Co., Ltd. are listed on the Taiwan Stock Exchange Corporation. It has an outstanding common stock of \$2,723,000 thousand as at June 30, 2010.

Taiwan Paiho Limited is engaged in manufacturing and selling of touch fasteners and webbings. The shares of Taiwan Paiho Limited are listed on the Taiwan Stock Exchange Corporation. It has an outstanding common stock of \$2,794,961 thousand as at June 30, 2010.

Global Brands Manufacture Ltd. is engaged in manufacturing and selling of printed circuit board. The shares of Global Brands Manufacture Ltd. are listed on the Taiwan Stock Exchange Corporation. It has on outstanding commons stock of \$4,160,225 thousand as at June 30, 2010.

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\$436,011 thousand as at June 30, 2010.

### 13. FINANCIAL ASSETS CARRIED AT COST, NONCURRENT

Financial assets carried at cost, noncurrent as at June 30, 2010 and 2009 were as follows:

	2010	2009
Chiang Yei Precision Industrial Co., Ltd.	\$ -	\$ 8,153
Golden Brands Developments Ltd.	219,713	224,224
L&C Aluminium Corp.	-	831
Shey Yu Co., Ltd.	320	320
View Sonic Corporation	96,231	96,231
Taichung International Entertainment Corporation	1,905	1,905
Bizlink Holdings Inc.	107,418	109,623
Great Team Backend Foundry Inc.	77,942	79,542
First Dynamic International Ltd.	40,804	-
Ryco Investment Ltd.	32,150	32,810
DTE Technologies Corp.	-	-
Asia Pacific Genesis Venture Capital Fund	123,420	147,645
Cid Greater China Vanture Capital Fund	211,697	196,860
Prodigy Fund Strategic Investment Fund II	283,092	259,374
Prodigy Strategic Investment Fund XXII Segregated Portfolio	96,857	98,845
Uis - Trusted Money Fund	-	279,771
	<u>\$ 1,291,549</u>	<u>\$ 1,536,134</u>

The stocks and mutual funds mentioned above do not have public offering price and reliable fair values, thus they are carried at cost. Due to the continuing operation losses of DTE Technologies Corp., the Company had assessed the unrecoverable amount of investment cost, and recognized its impairment loss equal to the carrying amount in 2008.

### 14. PROPERTY, PLANT AND EQUIPMENT

A summary of property, plant and equipment as at June 30, 2010 and 2009 is as follows:

	2010					2009
	Cost	Reassessed Value Increment	Accumulated Depreciation	Accumulated Impairment	Carrying Value	Carrying Value
Land	\$ 2,171,111	\$ 248,261	\$ -	\$ 15,806	\$ 2,403,566	\$ 2,620,894
Buildings	53,082,457	45,062	14,934,875	55,395	38,137,249	37,993,252
Machinery and equipment	38,682,962	-	23,817,325	27,711	14,837,926	20,587,600
Transportation equipment	1,237,094	-	847,832	-	389,262	331,852
Furniture, fixtures and office equipment	5,810,717	-	3,825,657	458	1,984,602	2,112,724
Other equipment	252,986	-	214,865	2,226	35,895	253,492
Construction in progress and prepayments for equipment	<u>2,410,762</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,410,762</u>	<u>5,816,373</u>
	<u>\$ 103,648,089</u>	<u>\$ 293,323</u>	<u>\$ 43,640,554</u>	<u>\$ 101,596</u>	<u>\$ 60,199,262</u>	<u>\$ 69,716,187</u>

Pou Chen recorded land value increment in 1987 and 1991 to reflect the value appraised and published by the government. Reserve for land value increment tax, payable upon sale of land, is presented under long-term liabilities. Furthermore, in accordance with the amended Land Tax Law, Pou Chen decreased its reserve for land value increment tax by \$49,652 thousand with a corresponding increase in adjustments of stockholders' equity for the six months ended June 30, 2005.

The interest expense for the six months ended June 30, 2009 amounted to \$1,658,273 thousand. Interest costs capitalized as part of the costs of property, plant and equipment for the six months ended June 30, 2009 amounted to \$9,524 thousand. The rate of capitalized interest for the period was 2.286%.

## 15. OTHER ASSETS

Other assets as at June 30, 2010 and 2009 consist of the following:

	<b>2010</b>	<b>2009</b>
Leased-out assets		
Cost and revaluation increment	\$ 1,763,995	\$ 1,811,710
Less:		
Accumulated depreciation	(35,828)	(34,189)
Allowance for valuation loss of idle assets	<u>(1,440)</u>	<u>(2,477)</u>
	<u>1,726,727</u>	<u>1,775,044</u>
Idle assets	85,446	85,680
Less:		
Accumulated depreciation	(68,728)	(65,599)
Allowance for valuation loss of idle asset	<u>(16,718)</u>	<u>(20,081)</u>
	<u>-</u>	<u>-</u>
Refundable deposits	1,663,627	1,945,172
Deferred charges	7,826,060	4,970,867
Deferred tax assets (Note 25)	132,383	5,328
Land held by trustee	73,713	73,713
Prepaid pension cost	95,723	75,145
Others - land and building for sale	5,406	5,454
Temporary tax payments	4,874	3,477
Others	<u>60,464</u>	<u>-</u>
	<u>\$ 11,588,977</u>	<u>\$ 8,854,200</u>

Three parcels of land located in Changhwa County were purchased by Pou Chen for \$22,187 thousand in June 1990, for \$33,668 thousand in April 1997, and for \$17,858 thousand in July 2007. According to related laws, the ownership for these three parcels of land should be changed to the Company. However, due to certain restrictions under the land regulations, the ownership for these three parcels of land resides with a trustee through a trust agreement which prohibits the trustee from selling, pledging or hypothecating the property. Consequently, the three parcels of land amounted to \$73,713 thousand at June 30, 2010, are included in "other assets - land held by trustee".

## 16. SHORT-TERM LOANS

Short-term loans as at June 30, 2010 and 2009 consist of the following:

	2010		2009	
	Interest Rate %	Balance	Interest Rate %	Balance
Procurement loans	-	\$ -	1.10-3.32	\$ 2,176,059
Unsecured loans	0.55-5.67	<u>16,198,125</u>	0.76-9.36	<u>24,658,095</u>
		<u>\$ 16,198,125</u>		<u>\$ 26,834,154</u>

## 17. SHORT-TERM BILLS PAYABLE

Short-term bills payable as at June 30, 2010 and 2009 consist of the following:

	2010		2009	
	Interest Rate %	Balance	Interest Rate %	Balance
Commercial paper, credit	0.40-0.65	\$ 1,187,000	0.26-2.11	\$ 1,695,000
Less discount on commercial paper		<u>(685)</u>		<u>(3,661)</u>
		<u>\$ 1,186,315</u>		<u>\$ 1,691,339</u>

## 18. OTHER PAYABLES

	2010	2009
Cash dividends payable (Note 22)	\$ 4,199,715	\$ 1,331,134
Due to directors and supervisors (Note 22)	484,092	310,244
Salary and wages payable	4,753,921	3,784,143
Interest payable	117,326	340,114
Employee bonus payable (Note 22)	357,927	177,535
Payables on machinery and equipment	369,571	287,491
Other accrued expenses	<u>5,864,747</u>	<u>7,240,232</u>
	<u>\$ 16,147,299</u>	<u>\$ 13,470,893</u>

## 19. CURRENT PORTION OF LONG-TERM LIABILITIES

Current portion of long-term liabilities as at June 30, 2010 and 2009 consist of the following:

	2010	2009
Euro convertible bonds (see Note 20)	\$ -	\$ 8,648,519
Long-term debt (see Note 21)	<u>12,839,806</u>	<u>10,872,063</u>
	<u>\$ 12,839,806</u>	<u>\$ 19,520,582</u>

## 20. BONDS PAYABLE

Bonds payable as at June 30, 2010 and 2009 consist of the following:

	<b>2010</b>	<b>2009</b>
Euro Convertible Bonds	\$ 8,388,642	\$ 8,648,519
Less current portion (see Note 19)	<u>                  -</u>	<u>(8,648,519)</u>
	<u>\$ 8,388,642</u>	<u>\$                  -</u>

The covenants of overseas unsecured convertible bonds second issued by Yu Yuen in 2007 are as followed:

- 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:

- 1) Each holder has the put option 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. This portion of bonds holder required to repurchase on November 17, 2009, amounted to \$559,701 thousand (US\$17,496 thousand).
- 2) 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.
- 3) 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.

## 21. LONG-TERM DEBT

Long-term debt as at June 30, 2010 and 2009 consist of the following:

	2010	2009
Citibank (Lead Lender) Syndication Loan		
Long-term debt, US\$350,000 thousand, due in semiannual installments commencing January 11, 2011 and maturing July 11, 2012. Interest rate is 0.549%.	\$ 10,963,150	\$ 11,188,210
Bank of China		
Long-term debt, US\$420,000 thousand. The period is from June 1, 2005 to June 1, 2010. Interest rate is 0.69%. Interest is paid quarterly. The principal will be fully repaid upon maturity.	9,008,880	13,787,221
The Hong Kong and Shanghai Banking Corporation Limited		
Mid-term debt, RMB40,000 thousand. The term is from March 31, 2007 to March 31, 2012. The principal is due in semiannual installments commencing from March 2010. Interest rate is 6.08%. Interest is paid semiannual.	150,719	153,584
Taipei Fubon Bank		
Long-term debt, US\$150,000 thousand. The principal due in semiannual installments commencing from May 2012. Interest rate is 1.21%. Interest is paid quarterly.	4,822,500	4,921,500
Bank of China		
Long-term debt, US\$500,000 thousand. The period is from April 21, 2009 to April 20, 2012. Interest rate is 1.90%. Interest is paid quarterly. The principal will be fully repaid upon maturity.	16,101,974	-
Cathay Bank		
Long-term debt, US\$9,750 thousand, due in 84 monthly repayments commencing from May 20, 2006 and maturing May 19, 2013. Interest rate is 6.25%. Interest is paid monthly.	278,065	297,128
DBS Bank		
Long-term debt, RMB130,000 thousand. The term is from August 26, 2009 to September 15, 2012. Due in semiannual installment commencing September 15, 2010. Interest rate is 5.67%. Interest is paid semiannually.	612,361	-

(Continued)

	2010	2009
Bank of China (HK) Long-term debt, US\$15,000 thousand. Interest rate is 1.65%. The term is from October 2009 to October 2012. The repayment of US\$6,000 thousand due on October 2011 and (the others) mature October 2012.	\$ 482,250	\$ -
CITIC Bank Long-term debt, US\$30,000 thousand. The term is from March 5, 2010 to March 4, 2013. The principal is due in semiannual installments commencing from September 2011. Interest rate is 2.05%. Interest is paid quarterly.	964,500	-
Citibank (Lead Lender) Syndication Loan Long-term debt, NT\$6,500,000 thousand, due in semiannual repayments commencing April 25, 2009 and maturing October 25, 2010. Interest rate ranges from 0.94%-0.911% as at June 30, 2010.	1,625,000	4,875,000
China Trust Commercial Bank (Lead Lender) Syndication Loan Long-term debt, NT\$2,500,000 thousand, due in semiannual repayments commencing December 9, 2009 and maturing June 9, 2011. Interest rate is 0.9376% as at June 30, 2010.	1,250,000	2,500,000
China Trust Commercial Bank (Lead Lender) Syndication Loan Long-term debt, NT\$7,000,000 thousand, due in semiannual repayments commencing November 16, 2011 and maturing May 16, 2013. Interest rate is 1.0011% as at June 30, 2010.	7,000,000	7,000,000
China Trust Commercial Bank (Lead Lender) Syndication Loan Long-term debt, NT\$10,000,000 thousand, due in semiannual repayments commencing June 2, 2013 and maturing December 2, 2014. Interest rate is 1.60% as at June 30, 2010.	500,000	-
Bank of Kaohsiung Secured Mid-term debt, NT\$300,000 thousand. The term is from September 26, 2008 to September 26, 2015. The principal is due in quarterly installments commencing from December 26, 2011. Interest is paid monthly. Interest rate is 1.53% as at June 30, 2010.	300,000	300,000
Ta Chong Bank (Lead Lender) Syndication Loan 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%.	-	590,580
Standard Chartered Bank Syndication Loan Long-term debt, US\$30,000 thousand. The term is from August 24, 2005 to August 24, 2010. Interest rate is USD 1-month (2, 3 or 6-month) LIBOR rate plus 0.90%. The principal is due in semiannual installments commencing from August 24, 2008.	-	590,580
Ta Chong Bank (Lead Lender) Syndication Loan Long-term debt, US\$14,000 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 USD 1-month (2, 3 or 6-month) LIBOR rate plus 1%.	-	275,604

(Continued)

	<b>2010</b>	<b>2009</b>
KBC (Shanghai) Bank (Lead Lender) Syndication Loan		
Long-term debt, US\$36,000 thousand. The term is from December 3, 2007 to December 2, 2010. The principal is due in semiannual installments commencing from November 18, 2009. Interest rate is USD 1-month (2, 3 or 6-month) LIBOR rate plus 0.85%.	\$ -	\$ 1,181,160
Land Bank of Taiwan		
Unsecured Mid-term debt, NT\$1,000,000 thousand. The principal had been fully prepaid in December 2009. Interest is paid monthly.	-	25,257
Cathay United Bank		
Secured long-term debt, NT\$1,050,000 thousand. The term is from May 9, 2008 to May 9, 2011. Interest rate is 1.9% as at June 30, 2010. Interest is paid monthly.	<u>839,700</u>	<u>1,050,000</u>
	54,899,099	48,735,824
Less current portion (see Note 19)	<u>(12,839,806)</u>	<u>(10,872,063)</u>
	<u>\$ 42,059,293</u>	<u>\$ 37,863,761</u>
		(Concluded)

The current portion of Citibank and China Trust Commercial Bank Syndication loan of which balances were \$1,625,000 thousand and \$1,250,000 thousand, respectively had been refinanced and was recorded as long-term debt.

Please see Note 29 to the consolidated financial statement for the information about the Company's mortgaged pledged assets under the long-term loan agreement.

## 22. CAPITAL STOCK AND RETAINED EARNINGS

Pou Chen's registered and issued capital as at June 30, 2010 and 2009 are summarized as follows:

	<b>2010</b>	<b>2009</b>
Registered capital		
Shares (in thousands)	<u>4,500,000</u>	<u>4,500,000</u>
Par value (in dollars)	<u>\$ 10</u>	<u>\$ 10</u>
Capital	<u>\$ 45,000,000</u>	<u>\$ 45,000,000</u>
Issued capital		
Shares (in thousands)	<u>2,843,110</u>	<u>2,705,568</u>
Par value (in dollars)	<u>\$ 10</u>	<u>\$ 10</u>
Capital	<u>\$ 28,431,097</u>	<u>\$ 27,055,675</u>

Pou Chen's outstanding capital stock was \$27,055,675 thousand as at June 30, 2009. On June 16, 2009, Pou Chen's shareholders in their meeting resolved to issue additional capital stock of \$1,372,183 thousand through unappropriate earnings of \$1,331,134 thousand, and bonuses to employees of \$41,049 thousand. The employee stock bonus of 4,105 thousand shares amounted to \$41,049 thousand were determined by dividing the amount of bonuses to employees resolved in the shareholders' meeting by the closing price of the shares on the day preceding the shareholders' meeting. Furthermore, employee stock warrants were exercised for 324 thousand shares (amounted to \$3,239 thousand) in the period of time from July 1, 2009 to June 30, 2010. As a result, Pou Chen's outstanding capital stock was \$28,431,097 thousand, divided into 2,843,110 thousand common shares with a par value of \$10 dollars per share as at June 30, 2010.

As at June 17, 2010, the stockholders' meeting approved to issue additional capital stock through unappropriated earnings of \$559,962 thousand. As the legal registration is not completed, it is included in "stock dividend to be distributed" temporarily. Since the ex-dividend date of appropriations of earnings for 2009 is July 28, 2010, the shares of additional capital stock mentioned above is included in the weight average number of shares outstanding for the six months ended June 30, 2010 when calculating earnings per share.

As at June 16, 2009, the stockholders meeting approved to issue additional capital stock amounting to \$1,372,183 thousand through stock dividends of \$1,331,134 thousand, and bonuses to employees of \$41,049 thousand. As the legal registration process is not completed, it was included in "stock dividends to be distributed" account as at June 30, 2009.

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, 2009, 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 2010.

As at 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 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 August 6, 2002 and July 24, 2003, Pou Chen has issued 66,600 units and 1,000 units of employee stock warrants to the employees with an exercise price of \$23.30 dollars and \$41.20 dollars per unit, respectively. The exercise price of the warrant as at June 30, 2010 has been retroactively restated as \$10.00 dollars and \$17.80 dollars per share, respectively, due to the stock dividends issued.

Additionally, as at November 6, 2007, Pou Chen has issued 125,500,000 units of employee stock warrants to the employees with an exercise price of \$29.80 dollars per share. Each of the aforementioned individual employee stock warrant is granted the right to purchase one newly issued common share.

If Pou Chen resolved to increase additional capital stock through stock dividends or issue of new shares, the exercise price will be retroactively restated. Additionally, the share of employee stock warrant is granted but not exercised will also be adjusted. After the aforementioned adjustment, the exercise price and issued units of employee stock warrants were \$24.10 and 146,506,295 units, respectively.

At June 30, 2010, the employee stock warrants issued in 2002 were executed for 23,222 thousand shares of common stock.

Information about Pou Chen's outstanding stock warrants for the six months ended June 30, 2010 and 2009 was as follows:

	2010		2009	
	Number of Stock Purchasable (Thousand Shares)	Weighted-average Exercise Price (NT\$)	Number of Stock Purchasable (Thousand Shares)	Weighted-average Exercise Price (NT\$)
<b>Employee Stock Warrants</b>				
Balance, beginning of period	190,910	\$ 20.86	184,200	\$ 22.09
Stock warrants exercised	<u>(25)</u>	10.00	<u>(62)</u>	10.00
Balance, end of period	<u>190,885</u>	20.86	<u>184,138</u>	22.09
Exercisable stock warrants at end of period	<u>93,213</u>		<u>44,702</u>	

As at June 30, 2010 and 2009, 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 Purchasable (Thousand Shares)	Weighted-average Remaining Contractual Life (Years)	Weighted-average Exercise Price (NT\$)	Number of Stock Purchasable (Thousand Shares)	Weighted-average Exercise Price (NT\$)
<u>2010</u>					
\$10.00-\$24.10	<u>190,885</u>	<u>6.13</u>	<u>\$ 20.86</u>	<u>93,213</u>	<u>\$ 17.47</u>
<u>2009</u>					
\$10.00-\$25.90	<u>184,138</u>	<u>7.08</u>	<u>\$ 22.09</u>	<u>44,702</u>	<u>\$ 10.21</u>

If the compensation cost based on the fair value method is accounted for as expenses, the pro-forma results of Pou Chen for the six months ended June 30, 2010 and 2009 would have been as follows:

	2010	2009
Income from continuing operations before income tax - attributed to shareholders of the Parent Company	<u>\$ 4,551,659</u>	<u>\$ 2,688,723</u>
Net income - attributed to shareholders of the Parent Company	<u>\$ 4,058,729</u>	<u>\$ 2,646,791</u>
Basic earnings per share (in dollars)	<u>1.43</u>	<u>0.93</u>

In the aforementioned employee stock warrant plan, Pou Chen adopted the Black-Scholes options pricing model to estimate the fair value of warrants on the grant dates, and the factors were as follows:

	Grant Dates		
	August 6, 2002	July 24, 2003	November 6, 2007
Dividend rate	-	-	-
Expected volatility of price	42.16%	44.17%	34.83%
Risk-free interest rate	2.61%	1.68%	2.70%
Expected life	6.5 years	6.5 years	6.5 years
Stock warrants issued (thousand shares)	66,600	1,000	139,436
Weighted average fair value (in dollars)	\$10.70	\$18.87	\$11.93

Under the Company Law of the ROC and Pou Chen's Articles of Incorporation, the annual earnings should be appropriated as follows:

- a. for paying tax,
- b. for offsetting deficit,
- c. 10% of the annual earnings as legal reserve,
- d. less than 3% as bonus to directors and supervisors after the three above are appropriated,
- e. 1% -5% as bonus to employees after the four above are appropriated,
- f. as special reserve or being retained partially, and
- g. dividends to stockholders as proposed according to stock ownership proportion.
- h. for share bonus to qualified requirements of employees, including the employees of subsidiaries of the company meeting specific requirements. Regarding the terms and proportion, the board of directors of the Company is authorized to resolve.

For the six months ended June 30, 2010 and 2009, the bonus to employees was \$98,485 thousand and \$122,625 thousand, respectively, and the remuneration to directors and supervisors was \$49,992 thousand and \$126,418 thousand, respectively. The bonus to employees and remuneration to directors and supervisors both of the base amount determined according to the Articles of incorporation (net of the bonus to employees and bonus to directors and supervisors). The amounts were estimated based on past experience. If bonus shares are resolved to be distributed to employees, the number of shares is determined by dividing the amount of bonus by the closing price (after considering the effect of cash and stock dividends) of the shares of the day preceding the shareholders' meeting.

The appropriations of earnings for 2009 and 2008 had been approved in the shareholders' meetings on June 17, 2010 and June 16, 2009, respectively. The appropriations and dividends per share were as follows:

	<b>Appropriation of Earnings</b>		<b>Dividends Per Share (NT\$)</b>	
	<b>For Year 2009</b>	<b>For Year 2008</b>	<b>For Year 2009</b>	<b>For Year 2008</b>
Legal reserve	\$ 702,124	\$ 498,719	\$ -	\$ -
Cash dividends	4,199,715	1,331,134	1.50	0.50
Stock dividends	559,962	1,331,134	0.20	0.50

The bonus to employees of \$251,777 thousand and the remuneration to directors and supervisors of \$127,805 thousand for 2009 were approved in the stockholders' meeting on June 17, 2010. The approved amounts of the bonus to employees and the remuneration to directors and supervisors were not different from the accrual amounts, reflected in the financial statements for the year ended December 31, 2009.

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.

On May 14, 2008, Pou Sheng adopted ten-year pre-IPO share subscription plans. The warrants of plans issued to the eligible persons are 64,500 thousand. Each warrant is granted to have the right to purchase one common share. The warrants holders could subscribe the given number of stock options during each exercising period over 10 years.

Information about the exercise period and the percentage of stock warrants is as follow:

<b>Exercise Period</b>	<b>Percentage of Warrant Exercised</b>
21/01/2011-20/01/2018	15%
21/01/2012-20/01/2018	15%
21/01/2013-20/01/2018	30%
21/01/2014-20/01/2018	40%

Pou Sheng has issued the aforementioned subscription on January 21, 2010. As at March 31, 2010 the exercise price was HK\$1.62 per unit.

Information about Pou Sheng's pre-IPO subscription plan for the six months ended March 31, 2010 was as follows:

<b>Employee Stock Warrants</b>	<b>Ten Years Plan</b>	
	<b>Number of Stock Purchasable (Thousand Shares)</b>	<b>Weighted -average Exercise Price (HK\$)</b>
Balance, beginning of period	-	\$ -
Stock warrants granted	64,500	1.62
Stock warrants terminated	<u>(750)</u>	1.62
Balance, end of period	<u>63,750</u>	-
Exercisable stock warrants, end of period	<u>        -</u>	

Information about outstanding employee stock option as at March 31, 2010, are summarized as follows:

<b>Range of Exercise Price (HK\$)</b>	<b>Stock Warrants Outstanding</b>			<b>Stock Warrants Exercisable</b>	
	<b>Outstanding Shares to Subscribe (Thousand Shares)</b>	<b>Weighted- average Predicted Remaining Period of Exercise (Years)</b>	<b>Weighted- average Exercise Price (HK\$)</b>	<b>Number of Stock Purchasable (Thousand Shares)</b>	<b>Weighted- average Exercise Price (HK\$)</b>
<u>Ten-year subscription plan</u>					
\$1.62	<u>63,750</u>	<u>6.81</u>	<u>\$ 1.62</u>	<u>9,563</u>	<u>\$ 1.62</u>

In the aforementioned subscription plans, Pou Sheng adopted the Binomial options pricing model to estimate the fair value of warrants on the grant dates, and the factors were as follows:

**Ten-year Plan**

Dividend rate	1%
Expected volatility of price	54%
Risk-free interest rate	1.66%-2.13%
Expected life	The vesting period plus one half of exercise period
Weighted average fair value	HK\$0.75

Compensation cost recognized was NT\$13,266 thousand (US\$413 thousand) for the six months ended March 31, 2010.

**23. TREASURY STOCK**

The changes in treasury stock for the six months ended June 30, 2010 are summarized as follows (in shares):

Reason	2010.01.01	Increase	Decrease	2010.06.30
For transfer to employees	43,300,000	-	-	43,300,000
Common shares held by subsidiaries	<u>10,032,712</u>	<u>-</u>	<u>-</u>	<u>10,032,712</u>
	<u>53,332,712</u>	<u>-</u>	<u>-</u>	<u>53,332,712</u>

Article 28-2 of the Securities and Exchange Law stipulates that the number of treasury shares held by the Company should not exceed 10% of the number of shares issued and that the cost for acquisition of treasury shares should not exceed the total of retained earnings, additional-paid-in capital and other realized capital surplus. Treasury stock of \$1,086,041 thousand (43,300 thousand common shares) was purchased by Pou Chen, at June 30, 2010.

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

As at June 30, 2010, the subsidiaries held 10,032,712 shares of the Company's common stock at cost of \$155,375 thousand in total. The Company had adjusted the carrying value according to the percentage of the subsidiaries holding shares.

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

Subsidiary	Shares	Amount
Wealthplus	141,362	\$ 3,181
Pou Shine	2,009,787	40,919
Ming Wang	1,506,251	27,242
Barits Development	4,732,903	96,361
Top Score	153,124	3,311
Ming Chi	89,308	1,818
Pou Yii	1,583,641	25,415

## 24. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

Personnel, depreciation, and amortization expenses for the six months ended June 30, 2010 and 2009 are summarized as follows:

Category \ Function	2010				2009			
	Operating Cost	Operating Expenses	Construction in Progress	Total	Operating Cost	Operating Expenses	Construction in Progress	Total
Personnel expense								
Salaries	\$ 12,462,465	\$ 5,928,057	\$ 3,433	\$ 18,393,955	\$ 12,697,324	\$ 5,731,404	\$ 7,414	\$ 18,436,142
Labor insurance and health insurance	466,607	245,203	260	712,070	446,818	190,125	384	637,327
Pension cost	156,336	361,109	237	517,682	201,570	373,309	258	575,137
Others	4,567	31,162	110	35,839	29,336	47,518	178	77,032
Depreciation expenses	2,371,586	1,220,907	-	3,592,493	2,546,814	1,353,501	1,289	3,901,604
Amortization expenses	7,267	92,690	-	99,957	18,813	20,234	18	39,065

## 25. INCOME TAX

The Company's income tax expense for the six months ended June 30, 2010 is as follows:

Income tax expense, current	\$ 257,000
Basic tax payable	107,694
10% additional income tax on undistributed earnings of 2009	376,705
Adjustment of deferred tax asset and valuation allowance	(16,759)
Adjustment of prior year's income tax expense	802,447
Effect of tax law changes on deferred in income tax	<u>25,291</u>
Income tax expense, net	<u>\$ 1,552,378</u>

The Legislative Yuan continually passed the amendment of Article as follows:

- a. In May 2009, the Legislative Yuan passed the amendment of Article 5 of the Income Tax Law, which reduces a profit-seeking enterprise's income tax rate from 25% to 20%, effective 2010.
- b. In May 2010, the Legislative Yuan passed the amendment of Article 5 of the Income Tax Law, which reduces a profit-seeking enterprise's income tax rate from 20% to 17%, effective 2010. The Company recalculated its deferred tax assets and liabilities in accordance with the amended Article and recorded the resulting differences as a deferred income tax benefit or expense.

The components of deferred tax liabilities as at June 30, 2010 are as follows:

Unrealized inventory devaluation losses	\$ 11,788
Unrealized gains on disposal of property, plant and equipment	90
Unrealized bad debt losses	102,175
Unrealized impairment loss	8,500
Unrealized maintenance and repairs expense	240
Unrealized pension expense	107,160
Unrealized gross profit	1,420
Unrealized loss on decline in market value of long-term investments	2,410
Unrealized net exchange gain	(4,499)
Losses carryforward	351,753
Investment tax credits	23,440
Others	(779,771)
Less valuation allowance	<u>(444,664)</u>
Deferred tax liabilities, noncurrent	<u>\$ (619,958)</u>

The detail is as follows:

Deferred tax assets, current	\$ 27,940
Deferred tax assets, noncurrent	132,383
Deferred tax liabilities, noncurrent	<u>(780,281)</u>
	<u>\$ (619,958)</u>

The Company's current income tax for the six months ended June 30, 2010 and income tax payable as at June 30, 2010 were reconciled as follows:

Income tax expense at statutory rate	\$ 1,066,636
Investment income recognized under equity method	(728,756)
Gain on sale of investments	(56,941)
Others	<u>(23,939)</u>
Current income tax expense	257,000
Provision for (reversal of) of deferred income tax asset	
Unrealized provision for bad debts	12,782
Reversal of unrealized inventory devaluation losses	60
Unrealized net exchange loss	(567)
Loss carryforward	(27,061)
Others	<u>354,780</u>
Income tax payable	596,994
Add 10% additional income tax on unappropriated earnings of 2009	376,705
Add basic tax payable	107,694
Add prior year's income tax payable	808,362
Less investment tax credits	(3,000)
Less temporary tax payment	<u>(2,144)</u>
Income tax payable as at June 30, 2010	<u>\$ 1,884,611</u>

The income tax payment amounted to \$4,803 thousand (listed "other assets") for the six months ended June 30, 2010, and is current year and previous years' withholding tax.

The information about Pou Chen's integrated income tax system as at June 30, 2010 is as follows:

IC Balance of Imputation Credit Account	<u>\$ 235,531</u>
Undistributed earnings for the years of 1997 and before	<u>\$ 310,501</u>
Undistributed earnings for the years of 1998 and thereafter	<u>\$ 10,206,295</u>
Expected IC ratio on distributed earnings for the year of 2009	<u>2.54%</u>
Actual IC ratio on distributed earnings for the year of 2008	<u>4.51%</u>

As at June 30, 2010, the amount and year of expiration of investment tax credits by Pou Yuen Technology and LNC Technology are as follows:

<b>Expiry Year</b>	<b>Amount</b>
2012	\$ 10,269
2013	<u>13,171</u>
	<u>\$ 23,440</u>

As at June 30, 2010, the amount and year of expiration of deductible loss carryforward by Pro Arch International, Windsor Entertainment, Proshine Healthcare, and Right and Great Asia-Pacific are as follows:

<b>Expiry Year</b>	<b>Amount</b>
2013	\$ 57,880
2014	98,580
2015	106,060
2016	36,770
2017	20,910
2018	20,783
2019	8,880
2020	<u>1,890</u>
	<u>\$ 351,753</u>

The income tax return of Pou Chen for the year through 2006 have been examined and approved by the tax authority.

The income tax returns of Pou Yuen Technology, Barits Development, Pro Arch International, Ming Wang, Pou Shine, Yun Yang, Proshine Healthcare, Right and Great Asia-Pacific, Vistas Design, Windsor Entertainment, Ming Chi, Wang Yi, LNC Technology and Pan Asia Insurance Services for the years through 2007 have been examined and approved by the tax authority. The income tax returns of Song Ming, Ming Shun, Pou Yii and Pou Chin Development for the years through 2008 have been examined and approved by tax authority.

From March 2004 to March 2008, the Hong Kong Inland Revenue Department (the “HKIRD”) issued protective profits tax assessments, in aggregate, of approximately HK\$1,051,943 thousand (equivalent to approximately US\$135,729 thousand) relating to the years of assessment 1997/1998 to 2001/2002, that is, for the financial years ended September 30, 1997 to 2001, against certain wholly-owned subsidiaries of Yue Yuen Industrial (Holding) Limited. Yue Yuen Industrial (Holding) Limited lodged objections with the HKIRD against these protective assessments. The HKIRD agreed to hold over the tax claimed completely subject to the subsidiaries in question purchasing the Tax Reserve Certificate (“TRC”) of HK\$314,526 thousand (equivalent to approximately US\$40,582 thousand) for those five years of assessment. These TRC were purchased.

In March 2009, the HKIRD further issued protective profits tax assessments of approximately HK\$236,777 thousand (equivalent to approximately US\$30,553 thousand) relating to the year of assessment 2002/2003, that is for the financial year ended September 30, 2002. Yue Yuen Industrial (Holding) Limited lodged objections with the HKIRD against these protective assessments. The HKIRD agreed to hold over the tax claim subject to the purchasing of TRC of HK\$118,389 thousand (equivalent to approximately US\$15,275 thousand). Yue Yuen Industrial (Holding) Limited has not purchased these TRC and, in May 2009, filed an application to High Court of Hong Kong for a judicial review on the protective assessment and holdover notices relating to the years of assessment 1997/1998 to 2002/2003.

Against this background and following subsequent negotiations with the HKIRD, a compromised settlement has been reached with the HKIRD in early June 2010 at a sum of US\$25 million as a full and final settlement of the whole case for the years of assessment 1997/1998 to 2008/2009, that is for the financial years ended September 30, 1997 to 2008. This sum payable has been charged to the condensed consolidated income statement for the period ended March 31, 2010.

## 26. EARNINGS PER SHARE

For the six months ended June 30, 2010 and 2009, earnings per share before income tax and earnings per share after income tax are as follows:

	2010						
	Amount			Weighted Average Number of Common Shares Outstanding (In Thousands)	Earnings Per Share		
	Income from Continuing Operations Before Tax	Income from Continuing Operations After Tax	Income After Tax (Attributed to Pou Chen's Stockholders)		Income from Continuing Operations Before Tax	Income from Continuing Operations After Tax	Income After Tax (Attributed to Pou Chen's Stockholders)
Basic earnings per share							
Net income	\$ 9,328,095	\$ 7,775,717	\$ 4,191,759	2,845,560	<u>\$ 3.28</u>	<u>\$ 2.73</u>	<u>\$ 1.47</u>
Effect of dilutive potential common shares							
Bonus to employee	-	-	-	3,916			
Employee stock warrants	-	-	-	32,334			
Diluted earnings per share							
Net income plus the effect of dilutive potential common shares	<u>\$ 9,328,095</u>	<u>\$ 7,775,717</u>	<u>\$ 4,191,759</u>	<u>2,881,810</u>	<u>\$ 3.24</u>	<u>\$ 2.70</u>	<u>\$ 1.45</u>
	2009						
	Amount			Weighted Average Number of Common Shares Outstanding (In Thousands)	Earnings Per Share		
	Income from Continuing Operations Before Tax	Income from Continuing Operations After Tax	Income After Tax (Attributed to Pou Chen's Stockholders)		Income from Continuing Operations Before Tax	Income from Continuing Operations After Tax	Income After Tax (Attributed to Pou Chen's Stockholders)
Basic earnings per share							
Net income	\$ 6,756,031	\$ 6,351,502	\$ 2,917,121	2,846,697	<u>\$ 2.37</u>	<u>\$ 2.23</u>	<u>\$ 1.02</u>
Effect of dilutive potential common shares							
Bonus to employee	-	-	-	6,101			
Employee stock warrants	-	-	-	19,255			
Diluted earnings per share							
Net income plus the effect of dilutive potential common shares	<u>\$ 6,756,031</u>	<u>\$ 6,351,502</u>	<u>\$ 2,917,121</u>	<u>2,872,053</u>	<u>\$ 2.35</u>	<u>\$ 2.21</u>	<u>\$ 1.02</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, 2010 and 2009 are as follows:

	2010						
	Amount			Weighted Average Number of Common Shares Outstanding (In Thousands)	Earnings Per Share		
	Income from Continuing Operations Before Tax	Income from Continuing Operations After Tax	Income After Tax (Attributed to Pou Chen's Stockholders)		Income from Continuing Operations Before Tax	Income from Continuing Operations After Tax	Income After Tax (Attributed to Pou Chen's Stockholders)
Basic earnings per share							
Net income	\$ 9,328,095	\$ 7,775,717	\$ 4,191,759	2,855,793	<u>\$ 3.27</u>	<u>\$ 2.72</u>	<u>\$ 1.47</u>
Effect of dilutive potential common shares							
Bonus to employee	-	-	-	3,916			
Employee stock warrants	-	-	-	32,334			
Diluted earnings per share							
Net income plus the effect of dilutive potential common shares	<u>\$ 9,328,095</u>	<u>\$ 7,775,717</u>	<u>\$ 4,191,759</u>	<u>2,892,043</u>	<u>\$ 3.23</u>	<u>\$ 2.69</u>	<u>\$ 1.45</u>

	2009						
	Amount			Weighted Average Number of Common Shares Outstanding (In Thousands)	Earnings Per Share		
	Income from Continuing Operations Before Tax	Income from Continuing Operations After Tax	Income After Tax (Attributed to Pou Chen's Stockholders)		Income from Continuing Operations Before Tax	Income from Continuing Operations After Tax	Income After Tax (Attributed to Pou Chen's Stockholders)
Basic earnings per share							
Net income	\$ 6,756,031	\$ 6,351,502	\$ 2,917,121	2,856,931	<u>\$ 2.36</u>	<u>\$ 2.22</u>	<u>\$ 1.02</u>
Effect of dilutive potential common shares							
Bonus to employee	-	-	-	6,101			
Employee stock warrants	-	-	-	19,255			
Diluted earnings per share							
Net income plus the effect of dilutive potential common shares	<u>\$ 6,756,031</u>	<u>\$ 6,351,502</u>	<u>\$ 2,917,121</u>	<u>2,882,287</u>	<u>\$ 2.34</u>	<u>\$ 2.20</u>	<u>\$ 1.01</u>

Potential shares from bonus to employees which will be distributed in shares will be included in the weighted average number of shares outstanding in calculation of diluted earning per share, if the shares have a dilutive effect. The number of shares is estimated by dividing the amount of bonus to employees by the closing price of the common shares on the balance sheet date. The dilutive effect of the potential shares needs to be considered until the dilutive earning per share be estimated before the shares of employee bonus are resolved in the shareholders' meeting in the following year.

## 27. DISCLOSURES FOR FINANCIAL INSTRUMENTS

### Fair Value of Financial Instruments

The fair value of nonderivative and derivative financial instruments as at June 30, 2010 and 2009 are summarized as follows:

Nonderivative Financial Instruments	2010		2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
Cash and cash equivalents	\$ 44,197,380	\$ 44,197,380	\$ 29,658,516	\$ 29,658,516
Financial assets at fair value through profit of loss, current	513,240	513,240	1,067,652	1,067,652
Available-for-sale financial assets, current	7,966,461	7,966,461	6,946,952	6,946,952
Notes and accounts receivable	18,468,715	18,468,715	24,482,802	24,482,802
Accounts receivable from affiliates	475,763	475,763	945,616	945,616
Other receivable	5,782,152	5,782,152	6,419,575	6,419,575
Investment accounted for by the equity method held for sale	176,150	176,150	-	-
Investment accounted for by the equity method	32,761,445	30,873,459	32,416,623	29,312,698
Available-for-sale financial assets, noncurrent	1,964,558	1,964,558	572,229	572,229
Financial assets carried at cost, noncurrent	1,291,549	-	1,536,134	-
Refundable deposits	1,663,627	1,663,627	1,945,172	1,945,172

(Continued)

<b>Nonderivative Financial Instruments</b>	<b>2010</b>		<b>2009</b>	
	<b>Carrying Value</b>	<b>Fair Value</b>	<b>Carrying Value</b>	<b>Fair Value</b>
<b>Liabilities</b>				
Short-term loans	\$ 16,198,125	\$ 16,198,125	\$ 26,834,154	\$ 26,834,154
Short-term bills payable	1,186,315	1,186,315	1,691,339	1,691,339
Notes and accounts payable	10,469,051	10,469,051	12,990,277	12,990,277
Notes and accounts payable to affiliates	1,448,401	1,448,401	1,171,537	1,171,537
Other payables	16,147,299	16,147,299	13,470,893	13,470,893
Current portion of long-term liabilities	12,839,806	12,839,806	19,520,582	19,520,582
Bonds payable	8,388,642	8,388,642	-	-
Long-term debt	42,059,293	42,059,293	37,863,761	37,863,761
Guarantee deposits receivable	4,651	4,651	4,403	4,403
				(Concluded)

<b>Derivative Financial Instruments</b>	<b>2010</b>		<b>2009</b>	
	<b>Carrying Value</b>	<b>Fair Value</b>	<b>Carrying Value</b>	<b>Fair Value</b>
HKD call option (financial assets at fair value through profit or loss, current)	\$ 1,041,660	\$ 1,041,660	\$ 217,793	\$ 217,793
Forward exchange contracts (financial assets at fair value through profit or loss, current)	32,257	32,257	40,258	40,258
JV call option (financial assets at fair value through profit or loss, current)	30,318	30,318	-	-
Structured bank deposits (financial assets at fair value through profit or loss, current)	4,533	4,533	-	-
JV call option (financial assets at fair value through profit or loss, noncurrent)	1,755,229	1,755,229	1,962,464	1,962,464
Euro convertible bonds with options (financial liabilities at fair value through profit or loss, current)	805,936	805,936	533,392	533,392
Forward exchange contracts (financial liabilities at fair value through profit or loss, current)	49,897	49,897	39,864	39,864
Interest rate swap contracts (hedging derivative liabilities, current)	15,556	15,556	41,268	41,268
Interest rate swap contracts (hedging derivative liabilities, noncurrent)	88,262	88,262	126,017	126,017

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 loans, short-term bills payable, and notes and accounts payable, refundable deposits, and guarantee deposits receivable approximates their carrying value due to the short-term maturities of these financial instruments.
- b. The fair values of financial assets at fair value through profit or loss, and available-for-sale financial assets are quoted by market price. For those instruments with no quoted market prices, their fair values are determined using valuation techniques incorporating estimates and assumptions consistent with those generally used by other market participants to price financial instruments.

Fair values of derivatives are based on their quoted prices in an active market. For those derivatives with no quoted market prices, their fair values are determined using valuation techniques incorporating estimates and assumptions consistent with those generally used by other market participants to price financial instruments.

- c. The fair value of investments accounted for by the equity method are based on their quoted prices in an active market. For those investments with no quoted market prices, their fair values are based on the net price per share in the financial report verified and certified by a certifying accountant issued as at June 30, 2010.
- d. Financial assets carried at cost are investments in unquoted shares, which have no quoted prices in an active market and entail an unreasonably high cost to obtain verifiable fair values. Therefore, no fair value is presented.
- e. 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:

	<b>Quoted Market Price in</b>		<b>Other Method of Valuation</b>	
	<b>Active Market</b>			
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
<b>Assets</b>				
Financial assets at fair value through profit or loss, current	\$ 513,240	\$ 1,067,652	\$ 1,108,768	\$ 258,051
Financial assets at fair value through profit or loss, noncurrent	-	-	1,755,229	1,962,464
Available-for-sale financial assets, current	7,966,461	6,946,952	-	-
Available-for-sale financial assets, noncurrent	1,964,558	572,229	-	-
<b>Liabilities</b>				
Financial liabilities at fair value through profit or loss, current	-	-	855,833	573,256
Hedging derivative financial liabilities, current	-	-	15,556	41,268
Hedging derivative financial liabilities, noncurrent	-	-	88,262	126,017

As at June 30, 2010 and 2009, financial liabilities exposed to cash flow interest rate risk were \$72,283,539 thousand and \$77,261,317 thousand, respectively.

The Company recognized an unrealized (loss) gain of \$(720,431) thousand and \$1,715,196 thousand, respectively, in equity for the changes in fair value of available-for-sale financial assets for the six months ended June 30, 2010 and 2009.

### Financial Risk Information

a. 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 \$198,561 thousand.

b. Credit risk

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

c. Liquidity risk

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

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

d. 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 \$722,835 thousand.

e. Reclassifications

In view of the Company's intention of not selling the above mentioned financial assets held for trading within a short period of time as a result of the economic instability and deterioration of the world's financial markets that has occurred during 2008, the Company reclassified these held for trading financial assets to available-for-sale financial assets.

The carrying amounts and fair values of the reclassified financial assets as at June 30, 2009 were as follows:

	<b>Carrying Amount</b>	<b>Fair Value</b>
Available-for-sale financial assets	<u>\$ 6,946,952</u>	<u>\$ 6,946,952</u>

The changes in fair value recognized in profit and loss or shareholders' equity from the reclassification for the six months ended June 30, 2009 and pro-forma information assuming no reclassifications were made were as follows:

	<b>Pro-forma Information Assuming No Reclassification Recognized in Profit and Loss</b>
Available-for-sale financial assets	<u>\$ 1,687,013</u>

## 28. RELATED PARTY TRANSACTIONS

Names and relationships of the related parties are as follows:

<u>Name</u>	<u>Relationship</u>
CMKC (HK) Limited (“CMKC”)	Related party in substance before March 24, 2010
Ka Yuen Rubber Factory Limited (“Ka Yuen”)	The Company holds a 50.00% ownership interest
Digital Sun Investments Ltd. (“Digital Sun”)	The Company holds a 41.67% ownership interest
Twinways Investments Ltd. (“Twinways”)	The Company holds a 50.00% ownership interest
Best Focus Holdings Ltd. (“Best Focus”)	The Company holds a 50.00% ownership interest
Hua Jian Industrial Holding Co., Ltd. (“Hua Jian”)	The Company holds a 50.00% ownership interest
Cohen Enterprises Inc. (“Cohen”)	The Company holds a 50.00% ownership interest
Bandwidth Trading Ltd. (“Bandwidth”)	Ka Yuen Rubber Factory Limited holds a 50.00% ownership interest
Pine Wood Industries Limited (“Pine Wood”)	The Company holds a 37.00% ownership interest
Vietnam Tiong Liong Industrial Co., Ltd. (“Vietnam Tiong Liong”)	Pine Wood Industries Limited holds a 37.00% ownership interest
Bigfoot Limited (“Bigfoot”)	The Company holds a 48.76% ownership interest
Yuen Thai Industrial Co., Limited (“Yuen Thai”)	The Company holds a 50.00% ownership interest
Liberty Bell Investments Limited (“Liberty Bell”)	The Company holds a 49.00% ownership interest
Oftentimes Holdings Ltd. (“Oftentimes”)	The Company holds a 45.00% ownership interest
San Fang Chemical Industry Co., Ltd. (“San Fang”)	The Company holds a 44.72% ownership interest
Eastlion Industrial Ltd. (“Eastlion”)	The Company indirect holds a 35.00% ownership interest
Great Skill Industrial Limited (“Great Skill”)	The Company holds a 50.00% ownership interest
i-Tech Enterprises Ltd. (“i-Tech”)	The Company holds a 50.00% ownership interest
Topmost Industries Ltd. (“Topmost”)	The Company holds a 50.00% ownership interest
Willpower Industries Limited (“Willpower”)	The Company holds a 40.00% ownership interest
Yuen Foong Yu Paper (Dong Nai) Co., Ltd. (“Yuen Foong Yu”)	Willpower holds a 100.00% ownership interest
Hubei Jiezhixing Clothing and Accessories Company Limited (“Hubei Jiezhixing”)	The Company holds a 50.00% ownership interest
Harbin Shenge Sports Chain Company Limited (“Harbin Shenge”)	The Company holds a 45.00% ownership interest
Zhejiang Yichuan Sports Goods Chain Company Limited (“Zhejiang Yichuan”)	The Company holds a 50.00% ownership interest
Jilin Lingpao Sports Goods Company Limited (“Jilin Lingpao”)	The Company holds a 50.00% ownership interest

(Continued)

Name	Relationship
Shaanxi Jixian Longyue Sports Goods Company Limited("Shaanxi Jixian Longyue")	The Company holds a 50.00% ownership interest
Full Pearl International Ltd.("Full Pearl")	The Company holds a 28.75% ownership interest
Hebei Zhanxin Sports Development Company Limited ("Hebei Zhanxin")	The Company holds a 45.00% ownership interest
PT KA Yuen Indonesia ("PT KA Yuen")	Ka Yuen Rubber Factory Limited holds a 50.00% ownership interest
Din Tsun Holding Co., Ltd. ("Din Tsun")	The Company holds a 50.00% ownership interest
Hefei Tengjieau Sports Goods Company Limited ("Hefei Tengjieau")	The Company holds a 50.00% ownership interest
Intelligent Plus Ltd. ("Intelligent Plus")	The Company holds a 45.90% ownership interest
Shaanxi Wuhuan Shengdao Sports Production Development Company Limited (Shaanxi Wuhuan Shengdao)	The Company holds a 40.00% ownership interest
Platinum Long John Co., Ltd. ("Platinum Long John")	The Company holds a 48.76% ownership interest (Concluded)

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, 2010 and 2009 are summarized as follows:

	2010		2009	
	Amount	Percentage to Net Sales	Amount	Percentage to Net Sales
CMKC	\$ 475,096	1	\$ 1,029,880	1
Others	<u>782,994</u>	<u>1</u>	<u>800,899</u>	<u>1</u>
	<u>\$ 1,258,090</u>	<u>2</u>	<u>\$ 1,830,779</u>	<u>2</u>

Terms of sales from related parties were similar to those from third parties.

#### Cost of Sales - Purchases

Purchases from related parties for the six months ended June 30, 2010 and 2009 are summarized below:

	2010		2009	
	Amount	Percentage to Net Purchases	Amount	Percentage to Net Purchases
Ka Yuen	\$ 1,196,534	2	\$ 1,155,451	1
Twinways	403,556	1	391,164	1
San Fang	749,039	1	410,141	1
Eastlion	321,457	-	347,385	-
Platinum Long John	237,046	-	199,576	-
Bigfoot	107,698	-	101,950	-

(Continued)

	<u>2010</u>		<u>2009</u>	
	<b>Amount</b>	<b>Percentage to Net Purchases</b>	<b>Amount</b>	<b>Percentage to Net Purchases</b>
Digital Sun	\$ -	-	\$ 431,706	1
CMKC	108,645	-	108,210	-
Others	<u>721,961</u>	<u>2</u>	<u>1,168,401</u>	<u>2</u>
	<u>\$ 3,845,936</u>	<u>6</u>	<u>\$ 4,313,984</u>	<u>6</u>

(Concluded)

Terms of purchases from related parties were similar to those from third parties.

### Accounts Receivable

Accounts receivable from affiliates as at June 30, 2010 and 2009 are summarized as follows:

	<u>2010</u>		<u>2009</u>	
	<b>Amount</b>	<b>Percentage to Accounts Receivable</b>	<b>Amount</b>	<b>Percentage to Accounts Receivable</b>
Accounts receivable				
Shaanxi Wuhuan Shengdao	\$ 138,837	1	\$ 67,253	-
CMKC	-	-	525,863	2
Others	352,573	2	352,500	2
Less allowance for doubtful accounts	<u>(15,647)</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 475,763</u>	<u>3</u>	<u>\$ 945,616</u>	<u>4</u>

### Notes and Accounts Payable

Notes and accounts payable due to affiliates as at June 30, 2010 and 2009 are summarized as follows:

	<u>2010</u>		<u>2009</u>	
	<b>Amount</b>	<b>Percentage to Notes and Accounts Payable</b>	<b>Amount</b>	<b>Percentage to Notes and Accounts Payable</b>
Notes payable				
San Fang	<u>\$ 69,127</u>	<u>60</u>	<u>\$ 37,219</u>	<u>38</u>
Accounts payable				
Ka Yuen	\$ 468,666	4	\$ 424,348	3
Twinways	196,595	2	130,410	1
San Fang	193,253	1	178,123	1
Great Skill	59,835	1	32,539	-
Digital Sun	-	-	80,115	1
Others	<u>460,925</u>	<u>4</u>	<u>288,783</u>	<u>2</u>
	<u>\$ 1,379,274</u>	<u>12</u>	<u>\$ 1,134,318</u>	<u>8</u>

## Credit Guarantees

See Note 29.

## 29. MORTGAGED PLEDGED ASSETS

June 30, 2010

Land for development \$ 1,804,791

Under the long-term loan agreement, the above mentioned assets had been mortgaged as collateral.

## 30. COMMITMENTS AND CONTINGENCIES

### Letters of Credit

Outstanding letters of credit as at June 30, 2010 are as follows (unit: Amount of currency):

Amount

U.S. Dollars \$ 570,647

Pou Chen has a letter of guarantee for purchasing materials amounted to \$60,000 thousand as at June 30, 2010.

As at June 30, 2010, the Company has guaranteed the payments of credit of related parties amounted to \$37,244,035 as follows:

Related Parties	Guaranteed the Payments of Credit of Subsidiary Amount	Guaranteed the Payments of Credit of Investment Company Amount
Wealthplus	\$ 11,525,775	\$ -
Barits Development	7,014,600	-
Pou Shine	1,050,000	-
Pou Yuen Technology	1,554,320	-
Ming Wang	650,000	-
Ming Chi	250,000	-
Pou Yii	400,000	-
Tetor Ventures	711,801	-
Digital Decade	6,343,195	-
Maple Stare	1,606,214	-
Vantage	41,795	-
Mindtech	450,100	-
LNC Technology	57,529	-
Windsor Entertainment	100,000	-
Pou Yu Biotechnology Co., Ltd.	5,525	-
Best Focus	-	485,577
Hua Jian	-	906,412

(Continued)

<b>Related Parties</b>	<b>Guaranteed the Payments of Credit of Subsidiary Amount</b>	<b>Guaranteed the Payments of Credit of Investment Company Amount</b>
Cohen	\$ -	\$ 728,367
Ka Yuen	-	62,254
Bandwidth	-	40,465
PT Ka Yuen	-	32,372
Yuen Thai	-	373,521
i-Tech	-	16,186
Topmost	-	16,186
Din Tsun	-	16,186
Vietnam Tiong Liong	-	29,944
Pine Wood	-	159,075
Liberty Bell	-	253,795
Oftenrich	-	386,034
Yuen Foong Yu	-	129,487
Harbin Shenge	-	256,061
Zhejiang Yichuan	-	355,641
Hebei Zhanxin	-	128,031
Jilin Lingpao	-	95,021
Shaanxi Jixian Longyue	-	71,144
Full Pearl	-	46,535
Intelligent Plus	-	59,435
Pou Chin Development	<u>835,452</u>	<u>-</u>
	<u>\$ 32,596,306</u>	<u>\$ 4,647,729</u> (Concluded)

### 31. SUBSEQUENT EVENTS

- a. Pursuant to an option agreement dated March 31, 2010, subject to the approvals obtained from certain authorities, Yue Yuen Industrial (Holdings) Limited granted an option to a financial institution, pursuant to which the financial institution has the right, from time to time during the period from May 10, 2010 to March 31, 2015, to require Yue Yuen Industrial (Holdings) Limited to issue up to a maximum of 92,247,920 ordinary shares of HK\$0.25 each in Yue Yuen Industrial (Holdings) Limited at an agreed exercise price of US\$4.21 per share.

On April 20, 2010, the conditions were fulfilled and Yue Yuen Industrial (Holdings) Limited received a cash premium of US\$18.3 million upon the completion of the issuance of the option.

- b. On June 14, 2010, Yue Yuen Industrial (Holdings) Limited drew a three years loan equivalent to US\$300 million in total. The loan agreement contains specific performance obligations on Pou Chen Corporation ("PCC"), a substantial shareholder of Yue Yuen Industrial (Holdings) Limited, requiring PCC together with member of the family of Tsai to maintain control in Yue Yuen Industrial (Holdings) Limited. Under these obligation, Yue Yuen Industrial (Holdings) Limited shall be (a) controlled by PCC together with members of the family of Tsai; or (b) an entity being consolidated in the consolidated accounts of PCC. The loan was raised to repay part of the existing bank debt, which is at higher funding costs.