

**POU CHEN CORPORATION AND
SUBSIDIARIES**

**Consolidated Financial Statements for the
Years Ended December 31, 2008 and 2007 and
Independent Auditors' Report**

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Pou Chen Corporation and subsidiaries

We have audited the accompanying consolidated balance sheets of Pou Chen Corporation and subsidiaries (collectively, the "Company") as of December 31, 2008 and 2007, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2008 and 2007, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

As described in Note 3 to the consolidated financial statements, effective January 1, 2008, the Company adopted Interpretation 96-052, "Accounting for Bonuses to Employees, Directors and Supervisors", which requires that earnings distribution to employees, directors and supervisors should be accounted for as expenses, and also adopted the related amendments to other Statement of Financial Accounting Standards.

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.

March 6, 2009

Notice to Readers

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

For the convenience of readers, the independent auditors’ report and the accompanying 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 auditors’ report and consolidated financial statements shall prevail. Also, as stated in Note 2 to the consolidated financial statements, the additional footnote disclosures that are not required under generally accepted accounting principles were not translated into English.

POU CHEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2008 AND 2007 (In Thousands of New Taiwan Dollars)

ASSETS	2008		2007		LIABILITIES AND STOCKHOLDERS' EQUITY	2008		2007	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents (Notes 2 and 4)	\$ 27,536,547	12	\$ 22,182,017	11	Short-term loans (Note 16)	\$ 28,883,892	13	\$ 19,261,143	10
Financial assets at fair value through profit or loss, current (Notes 2, 3 and 5)	3,200,066	1	9,164,993	4	Short-term bills payable (Note 17)	852,539	-	777,108	-
Available-for-sale financial assets, current (Notes 2, 3 and 6)	5,259,939	2	-	-	Notes payable	70,659	-	77,698	-
Notes receivable (Notes 2 and 7)	58,200	-	270,762	-	Notes payable to affiliates (Note 28)	56,296	-	53,616	-
Accounts receivable (Notes 2 and 8)	27,590,251	12	27,290,876	14	Accounts payable	14,249,054	6	17,308,849	9
Accounts receivable from affiliates (Notes 2, 8 and 28)	1,472,203	1	1,253,041	1	Accounts payable to affiliates (Note 28)	920,407	1	1,118,153	1
Other receivables	4,606,608	2	4,302,312	2	Income tax payable (Notes 2 and 25)	520,946	-	1,067,438	1
Inventories (Notes 2 and 9)	29,872,065	13	21,157,229	11	Financial liabilities at fair value through profit or loss, current (Notes 2, 5 and 27)	1,382,367	1	779,358	-
Other current assets	8,489,735	4	6,499,542	3	Hedging derivative financial liabilities, current (Notes 2 and 27)	25,822	-	45,962	-
Total current assets	<u>108,085,614</u>	<u>47</u>	<u>92,120,772</u>	<u>46</u>	Other payables	13,519,401	6	10,449,986	5
					Current portion of long-term liabilities (Note 18)	14,071,611	6	14,021,742	7
FUNDS AND LONG-TERM INVESTMENTS					Other current liabilities	<u>1,570,741</u>	<u>1</u>	<u>2,148,296</u>	<u>1</u>
Investments accounted for by the equity method (Notes 2 and 10)	31,686,734	14	27,828,293	14	Total current liabilities	<u>76,123,735</u>	<u>34</u>	<u>67,109,349</u>	<u>34</u>
Investments in real estate (Notes 2 and 11)	1,457,296	1	754,543	-					
Available-for-sale financial assets, noncurrent (Notes 2 and 12)	811,757	-	1,052,475	1	LONG-TERM LIABILITIES				
Hedging derivative assets, noncurrent (Notes 2 and 27)	-	-	39,812	-	Bonds payable (Notes 2 and 19)	8,379,711	4	7,826,754	4
Financial assets carried at cost, noncurrent (Notes 2 and 13)	<u>1,510,292</u>	<u>1</u>	<u>923,100</u>	-	Long-term debt (Note 20)	36,008,075	16	31,475,222	16
Total funds and long-term investments	<u>35,466,079</u>	<u>16</u>	<u>30,598,223</u>	<u>15</u>	Hedging derivative liabilities, noncurrent (Notes 2 and 27)	<u>163,495</u>	-	-	-
					Total long-term liabilities	<u>44,551,281</u>	<u>20</u>	<u>39,301,976</u>	<u>20</u>
PROPERTY, PLANT AND EQUIPMENT (Notes 2 and 14)					RESERVE FOR LAND VALUE INCREMENT TAX (Note 14)	<u>142,664</u>	-	<u>142,664</u>	-
Cost	103,985,706	46	95,393,246	48					
Revaluation increment	<u>293,323</u>	-	<u>293,323</u>	-	OTHER LIABILITIES				
	104,279,029	46	95,686,569	48	Accrued pension cost (Notes 2 and 21)	596,253	-	575,955	-
Less accumulated depreciation	(41,916,484)	(18)	(36,411,221)	(18)	Guarantee deposits received	3,873	-	19,787	-
Less accumulated impairment	(246,954)	-	(164,021)	-	Deferred income tax liability, noncurrent (Notes 2 and 25)	<u>265,024</u>	-	-	-
Construction in progress and prepayments for equipment	<u>5,073,762</u>	<u>2</u>	<u>3,065,117</u>	<u>1</u>	Total other liabilities	<u>865,150</u>	-	<u>595,742</u>	-
Property, plant and equipment, net	<u>67,189,353</u>	<u>30</u>	<u>62,176,444</u>	<u>31</u>	Total liabilities	<u>121,682,830</u>	<u>54</u>	<u>107,149,731</u>	<u>54</u>
INTANGIBLE ASSETS (Note 2)					STOCKHOLDERS' EQUITY				
Goodwill	7,259,818	3	7,051,133	4	Capital stock (Note 22)	27,400,055	12	25,118,540	12
Deferred pension cost	-	-	<u>1,970</u>	-	Capital surplus (Note 2)	7,244,524	3	5,422,033	3
Total intangible assets	<u>7,259,818</u>	<u>3</u>	<u>7,053,103</u>	<u>4</u>	Retained earnings (Note 22)	13,074,796	6	13,472,020	7
					Cumulative translation adjustments (Note 2)	1,416,859	1	(157,084)	-
OTHER ASSETS (Notes 2 and 15)	<u>9,418,780</u>	<u>4</u>	<u>6,825,901</u>	<u>4</u>	Unrealized losses on financial instruments (Note 2)	(4,151,134)	(2)	(87,710)	-
					Unrealized revaluation increment	134,641	-	134,641	-
					Treasury stock (Notes 2 and 23)	(1,499,640)	(1)	(155,375)	-
					Minority interest	<u>62,116,713</u>	<u>27</u>	<u>47,877,647</u>	<u>24</u>
					Total stockholders' equity	<u>105,736,814</u>	<u>46</u>	<u>91,624,712</u>	<u>46</u>
TOTAL	<u>\$ 227,419,644</u>	<u>100</u>	<u>\$ 198,774,443</u>	<u>100</u>	TOTAL	<u>\$ 227,419,644</u>	<u>100</u>	<u>\$ 198,774,443</u>	<u>100</u>

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

(With Deloitte & Touche audit report dated March 6, 2009)

POU CHEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME YEARS ENDED DECEMBER 31, 2008 AND 2007

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

	2008		2007	
	Amount	%	Amount	%
GROSS SALES AND REVENUES EARNED	\$208,950,288	100	\$197,212,685	100
LESS SALES RETURNS AND ALLOWANCES	<u>(477,181)</u>	<u>-</u>	<u>(503,680)</u>	<u>-</u>
NET SALES AND REVENUES EARNED	208,473,107	100	196,709,005	100
COST OF GOODS SOLD	<u>160,363,652</u>	<u>77</u>	<u>155,031,874</u>	<u>79</u>
GROSS PROFIT	<u>48,109,455</u>	<u>23</u>	<u>41,677,131</u>	<u>21</u>
OPERATING EXPENSES				
Selling expenses	11,815,492	6	8,467,065	4
General and administrative expenses	15,790,172	8	13,241,730	7
Research and development expenses	<u>5,218,503</u>	<u>2</u>	<u>4,936,217</u>	<u>2</u>
Total operating expenses	<u>32,824,167</u>	<u>16</u>	<u>26,645,012</u>	<u>13</u>
INCOME FROM OPERATIONS	<u>15,285,288</u>	<u>7</u>	<u>15,032,119</u>	<u>8</u>
NON-OPERATING INCOME				
Interest income	649,957	1	743,496	1
Investment income recognized under equity method (Note 10)	1,496,256	1	512,755	-
Dividend income	620,085	-	576,960	1
Gain on disposal of property, plant and equipment	22,895	-	6,522	-
Gain on disposal of investments	393,833	-	144,939	-
Rental income	41,026	-	13,856	-
Reversal of provision for bad debts	-	-	69,259	-
Valuation gain on financial liabilities (Note 5)	-	-	469,482	-
Others	<u>435,101</u>	<u>-</u>	<u>559,807</u>	<u>-</u>
Total non-operating income	<u>3,659,153</u>	<u>2</u>	<u>3,097,076</u>	<u>2</u>
NON-OPERATING EXPENSES				
Interest expense	3,494,892	2	3,199,328	2
Loss on other investments	-	-	50,319	-
Loss on disposal of property, plant and equipment	348,289	-	161,805	-
Foreign exchange loss, net	193,601	-	122,512	-
Provision for loss on inventories	192,768	-	58,744	-
Impairment loss	1,253,117	1	-	-
Valuation loss on financial assets (Note 5)	184,003	-	899,007	1
Valuation loss on financial liabilities (Note 5)	565,594	-	-	-
Others	<u>603,568</u>	<u>-</u>	<u>388,921</u>	<u>-</u>
Total non-operating expenses	<u>6,835,832</u>	<u>3</u>	<u>4,880,636</u>	<u>3</u>

(Continued)

POU CHEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME YEARS ENDED DECEMBER 31, 2008 AND 2007

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

	2008		2007	
	Amount	%	Amount	%
INCOME BEFORE INCOME TAX	\$ 12,108,609	6	\$ 13,248,559	7
INCOME TAX EXPENSE (Notes 2 and 25)	<u>(945,342)</u>	<u>(1)</u>	<u>(1,455,197)</u>	<u>(1)</u>
CONSOLIDATED NET INCOME	<u>\$ 11,163,267</u>	<u>5</u>	<u>\$ 11,793,362</u>	<u>6</u>
ATTRIBUTED TO				
Parent Company's stockholders	\$ 5,071,488	2	\$ 4,800,250	2
Minority interest	<u>6,091,779</u>	<u>3</u>	<u>6,993,112</u>	<u>4</u>
	<u>\$ 11,163,267</u>	<u>5</u>	<u>\$ 11,793,362</u>	<u>6</u>
	2008		2007	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
BASIC EARNINGS PER SHARE (Notes 2 and 26)				
Included income for minority interest	<u>\$ 4.41</u>	<u>\$ 4.07</u>	<u>\$ 4.89</u>	<u>\$ 4.35</u>
Attributed to stockholders of the Parent Company		<u>\$ 1.85</u>		<u>\$ 1.77</u>
DILUTED EARNINGS PER SHARE (Notes 2 and 26)				
Included income for minority interest	<u>\$ 4.36</u>	<u>\$ 4.02</u>	<u>\$ 4.82</u>	<u>\$ 4.29</u>
Attributed to stockholders of the Parent Company		<u>\$ 1.83</u>		<u>\$ 1.75</u>

(Continued)

POU CHEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME YEARS ENDED DECEMBER 31, 2008 AND 2007

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

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

	2008		2007	
CONSOLIDATED NET INCOME ATTRIBUTED TO STOCKHOLDERS OF THE PARENT COMPANY	<u>\$ 5,080,172</u>		<u>\$ 6,406,465</u>	
	2008		2007	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
BASIC EARNINGS PER SHARE (Notes 2 and 26)				
Included income for minority interest	<u>\$ 4.40</u>	<u>\$ 4.06</u>	<u>\$ 5.35</u>	<u>\$ 4.82</u>
Attributed to stockholders of the Parent Company		<u>\$ 1.84</u>		<u>\$ 2.31</u>
DILUTED EARNINGS PER SHARE (Notes 2 and 26)				
Included income for minority interest	<u>\$ 4.35</u>	<u>\$ 4.01</u>	<u>\$ 5.27</u>	<u>\$ 4.75</u>
Attributed to stockholders of the Parent Company		<u>\$ 1.82</u>		<u>\$ 2.27</u>

(Concluded)

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

(With Deloitte & Touche audit report dated March 6, 2009)

POU CHEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY YEARS ENDED DECEMBER 31, 2008 AND 2007 (In Thousands of New Taiwan Dollars)

	Capital Surplus				Retained Earnings			Other Equity					Total	
	Capital Stock	Additional Paid-in Capital of Common Stock	Additional Paid-in Capital of Bonds Conversion	Treasury Stock	Long-Term Equity Investments	Legal Reserve	Special Reserve	Unappropriated Earnings	Cumulative Translation Adjustments	Unrealized Losses on Financial Instruments	Unrealized Revaluation Increment	Treasury Stock		Minority Interest
BALANCE, JANUARY 1, 2007	\$ 24,426,857	\$ 808,054	\$ 1,478,511	\$ 209,267	\$ 31,440	\$ 3,692,621	\$ 1,434,839	\$ 8,714,098	\$ (201,358)	\$ (1,221,891)	\$ 134,641	\$ (2,451,485)	\$ 39,735,100	\$ 76,790,694
Appropriation of earnings	-	-	-	-	-	577,197	-	(577,197)	-	-	-	-	-	-
Legal reserve	-	-	-	-	-	-	-	11,589	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	(11,589)	-	-	-	-	-	-	-
Bonuses to directors and supervisors	-	-	-	-	-	-	-	(156,191)	-	-	-	-	-	(156,191)
Bonuses to employees	151,505	-	-	-	-	-	-	(151,505)	-	-	-	-	-	-
Stock dividends	486,209	-	-	-	-	-	-	(486,209)	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	(4,375,883)	-	-	-	-	-	(4,375,883)
Convertible bonds transferred to common stock	8,129	-	14,189	-	-	-	-	-	-	-	-	-	-	22,318
Effect of changes of ownership interest in investees	-	-	-	-	1,331,995	-	-	-	-	-	-	-	-	1,331,995
Treasury stock transferred to employees	-	-	-	(57,638)	-	-	-	-	-	-	-	396,166	-	338,528
Cash dividends received by subsidiaries	-	-	-	15,121	-	-	-	-	-	-	-	-	-	15,121
Adjustments on changes of unrealized loss on cash flow hedge financial liability	-	-	-	-	-	-	-	-	-	161,690	-	-	-	161,690
Adjustments on changes of unrealized loss on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	53,706	-	-	-	53,706
Sale of parent company's stock by subsidiaries	-	-	-	1,591,094	-	-	-	-	-	918,785	-	1,899,944	-	4,409,823
Execution of employee stock warrants	45,840	-	-	-	-	-	-	-	-	-	-	-	-	45,840
Translation adjustments on foreign long-term equity investments	-	-	-	-	-	-	-	-	44,274	-	-	-	-	44,274
Change of minority interest	-	-	-	-	-	-	-	-	-	-	-	-	1,149,435	1,149,435
Consolidated net income for 2007	-	-	-	-	-	-	-	4,800,250	-	-	-	-	6,993,112	11,793,362
BALANCE, DECEMBER 31, 2007	25,118,540	808,054	1,492,700	1,757,844	1,363,435	4,269,818	1,423,250	7,778,952	(157,084)	(87,710)	134,641	(155,375)	47,877,647	91,624,712
Appropriation of earnings	-	-	-	-	-	480,025	-	(480,025)	-	-	-	-	-	-
Legal reserve	-	-	-	-	-	-	-	1,313,097	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	(1,313,097)	-	-	-	-	-	-	-
Bonuses to directors and supervisors	-	-	-	-	-	-	-	(169,000)	-	-	-	-	-	(169,000)
Bonuses to employees (Note 22)	273,216	-	-	-	-	-	-	(273,216)	-	-	-	-	-	-
Stock dividends (Note 22)	2,471,099	-	-	-	-	-	-	(2,471,099)	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	(2,471,099)	-	-	-	-	-	(2,471,099)
Effect of changes of ownership interest in investees	-	-	-	-	2,046,883	-	-	-	-	-	-	-	-	2,046,883
Adjustments on change of investee's unappropriated earnings	-	-	-	-	-	-	-	(84,298)	-	-	-	-	-	(84,298)
Cash dividends received by subsidiaries	-	-	-	8,684	-	-	-	-	-	-	-	-	-	8,684
Adjustments on changes of unrealized loss on cash flow hedge financial liability	-	-	-	-	-	-	-	-	-	(183,168)	-	-	-	(183,168)
Adjustments on changes of investee's unrealized loss on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	(2,526,524)	-	-	-	(2,526,524)
Adjustments on changes of unrealized loss on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	(1,353,732)	-	-	-	(1,353,732)
Execution of employee stock warrants (Note 22)	37,200	-	-	-	-	-	-	-	-	-	-	-	-	37,200
Translation adjustments on foreign long-term equity investments	-	-	-	-	-	-	-	-	1,573,943	-	-	-	-	1,573,943
Acquisition of treasury stock - 110,500 thousand shares (Note 23)	-	-	-	-	-	-	-	-	-	-	-	(2,077,341)	-	(2,077,341)
Retirement of treasury stock - 50,000 thousand shares (Note 23)	(500,000)	(14,481)	(26,750)	(191,845)	-	-	-	-	-	-	-	733,076	-	-
Change of minority interest	-	-	-	-	-	-	-	-	-	-	-	-	8,147,287	8,147,287
Consolidated net income for 2008	-	-	-	-	-	-	-	5,071,488	-	-	-	-	6,091,779	11,163,267
BALANCE, DECEMBER 31, 2008	\$ 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

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

(With Deloitte & Touche audit report dated March 6, 2009)

POU CHEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2008 AND 2007 (In Thousands of New Taiwan Dollars)

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Consolidated net income	\$ 11,163,267	\$ 11,793,362
Adjustments to reconcile consolidated net income to net cash provided by operating activities		
Depreciation and amortization	6,929,937	6,807,185
Valuation loss on financial assets	184,003	899,007
Valuation loss (gain) on financial liabilities	565,594	(469,482)
Provision for (reversal of) bad debts	500,672	(69,259)
Provision for loss on inventories	192,768	58,744
Investment income recognized under equity method	(1,496,256)	(512,755)
Cash dividends received from investees under equity method	901,341	575,154
Net gain on disposal of investments	(393,833)	(144,939)
Provision for (reversal of) impairment loss	1,253,117	(7,332)
Net loss on disposal of property, plant and equipment	325,394	155,283
Loss on other investments	-	50,319
Net changes in operating assets and liabilities		
Notes receivable	(21,579)	(192,221)
Notes receivable from affiliates	(5,129)	4,592
Accounts receivable	(1,992,683)	(3,033,712)
Accounts receivable from affiliates	(429,839)	971,577
Other receivables	1,689,791	(627,554)
Inventories	(9,490,836)	(2,035,961)
Other current assets	(1,960,816)	(2,530,724)
Prepaid pension cost	-	(7,006)
Deferred income tax asset, noncurrent	(215,814)	29,912
Long-term receivable	-	(62,462)
Other assets	(31,363)	2,432
Notes payable	(6,752)	(46,984)
Notes payable to affiliates	2,306	(42,040)
Accounts payable	(1,348,208)	2,144,114
Accounts payable to affiliates	(212,770)	170,200
Income tax payable	(550,701)	755,175
Other payables	4,124,883	2,647,939
Other current liabilities	(375,590)	436,349
Foreign exchange adjustment on Euro convertible bonds	76	27,256
Interest compensation payable	859,769	772,660
Deferred income tax liability, noncurrent	265,024	-
Reserve for retirement plan	24,649	13,298
Minority interest	8,147,287	1,149,435
Net cash provided by operating activities	<u>18,597,709</u>	<u>19,681,562</u>

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POU CHEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2008 AND 2007 (In Thousands of New Taiwan Dollars)

	2008	2007
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in financial assets at fair value through profit or loss, current	\$ (3,506,484)	\$ (4,254,602)
Increase in investments accounted for by the equity method	(2,674,137)	(2,846,372)
(Increase) decrease in available-for-sale financial assets, noncurrent	(370,739)	206,182
Increase in financial assets carried at cost, noncurrent	(710,373)	(289,956)
Acquisitions of property, plant and equipment	(13,603,019)	(14,829,196)
Proceeds from disposal of property, plant and equipment	549,126	589,557
Increase in investment in real estate	(675,902)	(578,027)
Increase in refundable deposits	(1,976,096)	(705,008)
Increase in goodwill	(133,917)	(123,139)
Increase in deferred charges	<u>(717,552)</u>	<u>(376,081)</u>
Net cash used in investing activities	<u>(23,819,093)</u>	<u>(23,206,642)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term loans	10,619,095	3,827,551
Increase (decrease) in short-term bills payable	75,432	(777,052)
Increase (decrease) in long-term debt	8,865,362	(983,754)
Increase in guarantee deposits received	5,337	29,376
Repurchased Euro convertible bonds and domestic secured bonds	(5,001,698)	-
Issuance of bonds payable	-	8,606,800
Bonuses to directors and supervisors as distribution of retained earnings	(169,000)	(156,191)
Cash dividend	(2,471,099)	(4,375,883)
Execution of employee stock warrants	37,200	45,840
Cash paid for acquisition of treasury stock	(2,077,341)	-
Premium received on call option	856,080	-
Transfer of treasury stock to employees	-	338,528
Proceeds from disposal of treasury stock by subsidiary	<u>-</u>	<u>4,513,700</u>
Net cash provided by financing activities	<u>10,739,368</u>	<u>11,068,915</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH	<u>562,178</u>	<u>43,956</u>
EFFECT OF DISPOSAL OF SUBSIDIARY	<u>(725,632)</u>	<u>-</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	5,354,530	7,587,791
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>22,182,017</u>	<u>14,594,226</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 27,536,547</u>	<u>\$ 22,182,017</u>

(Continued)

POU CHEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2008 AND 2007 (In Thousands of New Taiwan Dollars)

	2008	2007
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year		
Interest (excluding interest capitalized)	<u>\$ 2,832,910</u>	<u>\$ 3,363,359</u>
Income tax	<u>\$ 1,809,972</u>	<u>\$ 825,040</u>
SUPPLEMENTAL DISCLOSURES OF NONCASH OPERATING, INVESTING AND FINANCING ACTIVITIES		
Adjustments on changes of unrealized loss on cash flow hedge financial liabilities	<u>\$ (183,168)</u>	<u>\$ 161,690</u>
Adjustments on changes of unrealized loss on available-for-sale financial assets	<u>\$ (3,880,256)</u>	<u>\$ 53,706</u>
Effect of changes in ownership interest in investees	<u>\$ 1,962,585</u>	<u>\$ 1,331,995</u>
Cash dividends received by subsidiaries	<u>\$ 8,684</u>	<u>\$ 15,121</u>
Translation adjustments on foreign long-term equity investments	<u>\$ 1,573,943</u>	<u>\$ 44,274</u>
Current portion of long-term liabilities	<u>\$ 14,071,611</u>	<u>\$ 14,021,742</u>
Convertible bonds transferred to common stock	<u>\$ -</u>	<u>\$ 22,318</u>
Treasury stock transferred to employees	<u>\$ -</u>	<u>\$ (57,638)</u>
Retirement of treasury stock	<u>\$ (733,076)</u>	<u>\$ -</u>
CASH PAID DURING THE YEAR FOR ACQUISITIONS OF PROPERTY, PLANT AND EQUIPMENT		
Fair value of property, plant and equipment acquired	\$ 13,482,534	\$ 14,723,265
Add payables for acquisitions of property, plant and equipment, beginning of year	319,536	425,467
Less payables for acquisitions of property, plant and equipment, end of year	<u>(199,051)</u>	<u>(319,536)</u>
Cash paid during the year for acquisitions of property, plant and equipment	<u>\$ 13,603,019</u>	<u>\$ 14,829,196</u>

(Concluded)

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

(With Deloitte & Touche audit report dated March 6, 2009)

POU CHEN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2008 AND 2007

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

1. ORGANIZATION AND OPERATIONS

Pou Chen Corporation (“Pou Chen”) was incorporated in the Republic of China (the “ROC”) in September 1969. 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.	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
Pro Arch Technology Inc.	ROC	99.99
Barits Development Corporation	ROC	99.59
Pou Yuen Technology Co., Ltd.	ROC	99.38
LNC Technology Co., Ltd.	ROC	85.41
The Right and Great Asia-Pacific Realty Development Co., Ltd.	ROC	70.00
Vistas Design Co., Ltd.	ROC	65.00
Global Brands Manufacture Ltd.	ROC	49.33

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. Wealthplus’s board of directors decided to decrease and return its capital, amounting to US\$60,000 thousand (NT\$1,922,115 thousand) and US\$100,000 thousand (NT\$3,203,525, thousand), respectively, in March and December 2008. As at December 31, 2008, Wealthplus has an outstanding common stock of US\$9,222 thousand.

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

Name	Location of Incorporation	Ownership Percentage	Primary Operation Activities
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	27.07	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	68.42	Manufacturing and sale of medical appliance
Dong Guan Pou Yu Precision Ceramics Industrial Co., Ltd.	PRC	68.42	Designing and manufacturing medical appliance
Pou Chen Asia - Pacific Property Holdings Company Limited	British Virgin Islands	49.30	Property management

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 December 31, 2008, the ownership percentage is 0.94%). As at December 31, 2008, Win Fortune has an outstanding common stock of US\$100 thousand.

Ming Wang Investments Co., Ltd. ("Ming Wang"), a corporation incorporated in the ROC, is an investment holding company. Ming Wang commenced its operations in 1996. It is engaged in investing activities. As at December 31, 2008, 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. Windsor Entertainment decreased its capital to offset its accumulated deficit by \$200,000 thousand and issued additional capital stock of \$200,000 thousand at a price of \$10 dollars per share in June 2008. As at December 31, 2008, 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 December 31, 2008, 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 December 31, 2008, 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 December 31, 2008, Pan Asia Insurance Services has an outstanding common stock 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. As at December 31, 2008, Proshine Healthcare has an outstanding common stock of \$280,000 thousand.

Pro Arch Technology Inc. (“Pro Arch Technology”), a corporation incorporated in the ROC, is engaged in manufacturing and sale of computer peripheral equipment and related spare parts. In December 2008, Pro Arch Technology decreased its capital to offset its accumulated deficit by \$300,000 thousand and issued additional capital stock of \$300,000 thousand at a price of \$10 dollars per share. As at December 31, 2008, Pro Arch Technology has an outstanding common stock of \$301,000 thousand.

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

Name	Location of Incorporation	Ownership Percentage	Primary Operation Activities
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 December 31, 2008, Barits Development has an outstanding common stock of \$1,186,900 thousand.

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

Name	Location of Incorporation	Ownership Percentage	Primary Operation Activities
Top Score Investments Co., 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	Land consolidated agent
Pou Yii Development Co., Ltd.	ROC	75.00	Rental and sale of real estate

Top Score Investments Co., Ltd. (“Top Score”) invests in Yue Yuen as at December 31, 2008, 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 manufacturing computer peripheral and data storage media and information technology services. As at December 31, 2008, Pou Yuen Technology has an outstanding common stock of \$900,000 thousand.

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

Name	Location of Incorporation	Ownership Percentage	Primary Operation Activities
Vantage Capital Investments Ltd.	British Virgin Islands	100.00	Investment holding

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. In November 2008, LNC Technology issued additional capital stock of \$30,000 thousand at a price of \$10 dollars per share. As at December 31, 2008, LNC Technology has an outstanding common stock of \$600,000 thousand.

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

Name	Location of Incorporation	Ownership Percentage	Primary Operation Activities
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”), incorporated in the ROC, commenced its operations in 2008. It is primarily engaged in real estate development and investing activities business. As at December 31, 2008, Right and Great Asia-Pacific has an outstanding common stock of \$600,000 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 December 31, 2008, Vistas Design has an outstanding common stock of \$5,000 thousand.

Global Brands Manufacture Ltd. (“Global Brands Manufacture”), incorporated in the ROC, is engaged in the manufacturing, assembly and sale of printed circuit boards. Its stock has been traded on the Taiwan Stock Exchange Corporation. As at December 31, 2008, Global Brands Manufacture has an outstanding common stock of \$3,778,923 thousand.

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

Name	Location of Incorporation	Ownership Percentage	Primary Operation Activities
Up First Investments Ltd.	British Virgin Islands	100.00	Sale of PCB
Chuan Yi Computer (Shenzhen) Co., Ltd.	PRC	100.00	Manufacturing and sale of PCB
Yi Kuan Electronics (Shenzhen) Co., Ltd.	PRC	100.00	Manufacturing and sale of PCB
PC Asia Limited	British Virgin Islands	100.00	Sale of PCB
CMK Global Brands Manufacture Ltd.	British Virgin Islands	51.00	Manufacturing and sale of PCB
Dynamic Skyline Ltd.	British Virgin Islands	100.00	Assembly of PCB
Success Ocean Investments Ltd.	British Virgin Islands	100.00	Investing in business of electronic peripheral products
Cheng Cheng Enterprise Co., Ltd.	ROC	100.00	Rental and development of real estate
Solar Link Technologies, Inc.	USA	100.00	Assembly of TFT-LCD and Liquid Crystal on Silicon TV
Kunshan Yuansong Electronics Technology Co., Ltd.	PRC	100.00	Assembly and sale of PCB
Centralian Investments Ltd.	British Virgin Islands	100.00	Sale of PCB
Always Up Investments Ltd.	Hong Kong	100.00	Investment Holding
Dong Guan Xiangcheng Technology Ltd.	PRC	100.00	Manufacturing and sale of PCB

As at December 31, 2008 and 2007, there were 345,185 and 337,670 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, Top Score and Vantage Capital Investments Ltd. have their accounting year from October 1 of the preceding year to September 30 of the year.

Current/Noncurrent Assets and Liabilities

Cash or cash equivalents, assets held for operating purposes and assets expected to be converted into cash, or consumed 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.

Cash and Cash Equivalents

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

Financial Instruments 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.

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.

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.

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

Allowance for Doubtful Accounts

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

Inventories

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

Revenues, costs and profits arising from real estate development projects are measured by the percentage of actual costs incurred in a period with the total estimated costs to be incurred on the project.

Borrowing cost incurred before the completion of estates are capitalized as part of the estates' cost.

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 investment is first acquired, the difference between the underlying equity in net assets of the investee and the cost of the investment is amortized on a straight line basis over 10 years. However, effective January 1, 2006, the cost of the investment in excess of the fair value of investee's identifiable net assets is considered as goodwill in accordance with the amended Statement of Financial Accounting Standards (SFAS). Goodwill is not amortized.

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.

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.

Investments in Real Estate

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

Financial Assets Carried at Cost, Noncurrent

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

Property, Plant, Equipment and Leased Asset

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

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

Items	Estimated Useful Lives
Buildings and improvements	15~55 years
Machinery and equipment	5~12 years
Transportation equipment	3~5 years
Furniture, fixtures and office equipment	3~5 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.

Impairment loss is recognized immediately for any significant decline in recoverable value below carrying amount of property, plant, equipment and leased asset. If the loss is reversed, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount should not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is immediately recognized as a gain.

Goodwill

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

Deferred Charges

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

Euro-Dollar Convertible Bonds

Convertible bonds issued before January 1, 2006

The convertible bonds, issued by the Company before January 1, 2006, contain put right. Each holder has the right, at the holder's option, to request the Company to repurchase all or any portion of such holder's bonds, in amounts of US\$1,000 (dollars) or any integral multiples. The interest compensation, which is the amount of agreed put price over face value of such bonds, will be recognized as a liability under the effective interest rate method from the issue date to the date the put right expires. As at the balance-sheet-date, the convertible bonds are classified as either current liabilities or long-term liabilities based on the repurchase date and the maturity date, whichever is earlier.

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

The transaction cost of the convertible bonds are amortized on a straight-line basis over the period of issuance date and the date which the holders could exercise the conversion rights.

Convertible bonds issued after January 1, 2006

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

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.

Retirement Plan

Pou Chen, Barits Development, Pou Yuen Technology, Pro Arch Technology, and Global Brands Manufacture each has retirement plan covering all eligible employees. The benefits are primarily based upon an employee's years of service and average compensation for the last six months before retirement. Pou Chen and its subsidiaries each has defined contribution pension plan under the 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, Pro Arch Technology, and Global Brands Manufacture, adopted the provisions of SFAS No. 18, "Accounting for Pensions", which require that pension expense shall be computed on actuarial basis.

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

Foreign Currency Transactions

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.

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

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

3. REASON AND EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE

Accounting for Bonuses to Employees, Directors and Supervisors

Effective January 1, 2008, the Company adopted Interpretation 96-052, "Accounting for Bonuses to Employees, Directors and Supervisors", which requires that earnings distribution to employees, directors and supervisors should be accounted for as expenses. This change in accounting principle decreased the net income before income tax by \$154,811 thousand, consolidated net income by \$116,109 thousand and basic earnings per share by \$0.04.

Accounting for Share-based Payment

Effective January 1, 2008, the Company adopted Statement of Financial Accounting Standards No. 39, "Accounting for Share-based Payment". There was no effect to the consolidated financial statements of the Company as of and for the year ended December 31, 2008.

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 regarding reclassifications of financial instruments.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at December 31, 2008 and 2007 consisted of the following:

	2008	2007
Cash on hand	\$ 112,747	\$ 60,860
Checking accounts	33,975	86,803
Savings accounts	2,661,234	2,503,076
Foreign-currency savings deposit	20,971,836	16,215,882
Time deposits	2,630,593	2,569,506
Commercial papers	<u>1,126,162</u>	<u>745,890</u>
	<u>\$ 27,536,547</u>	<u>\$ 22,182,017</u>

The time deposits of \$18,570 thousand, included in other assets - refundable deposits, were pledged for employment of foreign labors and for tax appealing on additional tax assessment as at December 31, 2007.

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

Financial instruments at fair value through profit or loss, current as at December 31, 2008 and 2007 were summarized as follows:

	2008	2007
Financial assets at fair value through profit or loss		
Marketable bonds	\$ 99,999	\$ -
Marketable equity securities	-	8,445,802
Open-ended mutual funds	448,953	427,534
Foreign mutual funds	213,680	190,313
JV Call Option	1,959,600	-
HKD Call Option	426,910	-
Forward exchange contracts	<u>50,924</u>	<u>101,344</u>
	<u>\$ 3,200,066</u>	<u>\$ 9,164,993</u>
Financial liabilities at fair value through profit or loss		
Euro convertible bonds with options	\$ 1,294,223	\$ 771,769
Forward exchange contracts	<u>88,144</u>	<u>7,589</u>
	<u>\$ 1,382,367</u>	<u>\$ 779,358</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.
- 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 Shen’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 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 December 31, 2008 were as below:

Aggregate Principal Amount	Maturity	Forward Exchange Rates
US\$ 274,800,000	From October 2008 to October 2009	Sell USD/buy RMB at 6.5113 to 7.2155
US\$ 79,800,000	From October 2008 to July 2009	Sell RMB/buy USD at 6.3485 to 7.0460
US\$ 11,500,000	From January 2009 to June 2009	Sell USD/buy RMB at 6.4067 to 6.6190

At December 31, 2008, the fair values of the above forward contracts were determined based on valuations provided by counterparty bank using valuation techniques.

The net loss from financial instruments at fair value through profit or loss, current for the years ended December 31, 2008 and 2007 amounted to \$749,597 thousand and \$429,525 thousand, respectively.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS, CURRENT

	2008	2007
Marketable equity securities	<u>\$5,259,939</u>	<u>\$ -</u>

Effective July 1, 2008, the Company adopted the amendments of Statement of Financial Accounting Standards No. 34, "Financial Instruments: Recognition and Measurement". On August 29, 2008, the Company reclassified the interests in Mega Financial Holding Company and Taiwan Paiho Limited from held for trading financial assets to available-for-sale financial assets, based on the closing price on that date. Please see Note 27 to the consolidated financial statements for the relevant information.

7. NOTES RECEIVABLE

Notes receivable as at December 31, 2008 and 2007 consisted of the following:

	2008	2007
Notes receivable	\$ 58,200	\$ 271,662
Less allowance for doubtful accounts	<u>-</u>	<u>(900)</u>
	<u>\$ 58,200</u>	<u>\$ 270,762</u>

8. ACCOUNTS RECEIVABLE

Accounts receivable as at December 31, 2008 and 2007 consisted of the following:

	2008	2007
Accounts receivable	\$ 28,403,788	\$ 27,462,465
Less allowance for doubtful accounts	<u>(813,537)</u>	<u>(171,589)</u>
	<u>27,590,251</u>	<u>27,290,876</u>
Accounts receivable from affiliates (Note 28)	1,472,203	1,269,061
Less allowance for doubtful accounts	<u>-</u>	<u>(16,020)</u>
	<u>1,472,203</u>	<u>1,253,041</u>
	<u>\$ 29,062,454</u>	<u>\$ 28,543,917</u>

Factored accounts receivable were as follows:

Counter-parties	Receivables Sold at Year- Beginning	Receivables Sold	Amounts Collected	Receivables Sold at Year-End	Credit Line	Pledge
<u>Year ended December 31, 2008</u>						
Taishin Commercial Bank	\$ 199,479 US\$ 6,239,684	\$ 300,675 US\$ 9,526,936	\$ 421,827 US\$ 13,378,599	\$ 78,327 US\$ 2,388,021	US\$ 8,500,000	Promissory note US\$ 8,500,000
<u>Year ended December 31, 2007</u>						
Taishin Commercial Bank	-	\$ 424,306 US\$ 13,083,745	\$ 224,827 US\$ 6,844,061	\$ 199,479 US\$ 6,239,684	US\$ 8,000,000	Promissory note US\$ 8,000,000

The above credit lines are allowed to be used on a circulating basis.

9. INVENTORIES

Inventories as at December 31, 2008 and 2007 consisted of the following:

	2008	2007
Raw materials and supplies	\$ 10,252,014	\$ 9,022,016
Work-in-process	4,067,576	3,143,582
Finished goods	14,611,912	9,195,039
Merchandise	31,561	53,917
Goods in transit	151,819	305,440
Land for development	1,560,016	155,035
Land, buildings and improvements for sale	79,758	80,536
Prepayment for land	<u>40,005</u>	<u>-</u>
	30,794,661	21,955,565
Less valuation allowance	<u>(922,596)</u>	<u>(798,336)</u>
	<u>\$ 29,872,065</u>	<u>\$ 21,157,229</u>

Land for development and land, buildings and improvements for sale belong to Right and Great Asia-Pacific and Pou Yii Development Co., Ltd. Prepayment for land belongs to Pou Chin Development Co., Ltd.

At December 31, 2008, according to the loan agreement, the secured borrowings were secured by the land for development of the Company. Please see Note 29 to the consolidated financial statements for the relevant information.

10. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

Investments accounted for by the equity method as at December 31, 2008 and 2007 are comprised of the following:

	2008			2007	
	Original Cost	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage
<u>Shoes, shoe materials and athletic products companies</u>					
All Saints Enterprises Limited	\$ 79,194	\$ 171,698	37.00	\$ 142,772	37.00
Eagle Nice (International) Holdings Limited	1,325,223	1,811,413	38.42	1,595,525	38.42
Nan Pao Resins (Holdings) Limited	-	-	-	276,322	35.00
Pine Wood Industries Limited	92,393	81,966	37.00	81,041	37.00
Prosperous Industrial (Holdings) Ltd.	583,740	840,296	30.00	784,263	30.00
Rising Sun Associates Limited	-	-	-	95,913	37.00
Best Focus Holdings Ltd.	324,300	581,878	50.00	433,117	50.00
Blessland Enterprises Limited	26,196	89,008	50.00	76,879	50.00
Central Honour Limited	5,189	12,068	50.00	9,273	50.00
Great Skill Industrial Limited	34,149	69,068	50.00	77,387	50.00
Up Front Technology Ltd.	144,314	70,393	50.00	87,435	50.00
Willpower Industries Limited	103,766	153,009	40.00	122,557	40.00
Smart Shine Industries Limited	-	246,396	50.00	840,484	50.00
Din Tsun Holding Co., Ltd.	251,211	475,581	50.00	360,151	50.00
Profit Land Limited	68,103	69,166	35.00	59,741	35.00
Texas Clothing Holdings Corp.	3,089,175	1,148,000	39.80	1,431,217	39.10
China Ocean Resources Limited	532,226	468,465	50.00	-	-

	2008			2007	
	Original Cost	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage
i-Tech Enterprises Ltd.	10,134	7,973	50.00	8,320	50.00
Bigfoot Limited	151,730	150,937	48.76	160,255	48.76
Natural Options Limited	11,144	5,652	38.30	5,951	38.30
Original Designs Developments Limited	40,156	163,262	47.00	148,662	47.00
Cohen Enterprises Inc.	156,820	500,586	50.00	416,587	50.00
Ever Atlantic Investments Limited	-	-	-	124,982	50.00
Hua Jian Industrial Holding Co., Ltd.	771,201	2,277,636	50.00	1,808,968	50.00
Ka Yuen Rubber Factory Limited	32,719	620,043	50.00	530,324	50.00
Topmost Industries Limited	26,438	103,836	50.00	95,401	50.00
Twinways Investments Limited	88,232	217,283	50.00	189,076	50.00
Yuen Thai Industrial Company Limited	85,745	64,351	50.00	-	50.00
Oftenrich Holdings Limited	1,368,875	2,104,555	45.00	2,038,697	45.00
New Peak Services Limited	429,742	249,922	50.00	70,677	50.00
Keen Idea Group Limited	82,656	62,039	40.00	-	-
Good Assets Management Limited	8,200	8,189	50.00	-	-
PT. GF Indonesia	115,608	42,640	45.00	28,015	45.00
Just Lucky Investments Limited	44,234	57,266	38.30	49,685	38.30
High Style Investments Limited	25,944	29,547	50.00	29,665	50.00
Precise Zone Investments Limited	41,662	56,298	47.65	42,865	47.65
PYGF Co., Ltd.	32,430	58,006	50.00	53,930	50.00
Liberty Bell Investments Limited	254,492	135,001	49.00	191,657	49.00
Jumbo Power Enterprises Ltd.	414,870	412,329	50.00	250,474	50.00
Farsighted International Limited	422,365	681,538	30.00	194,657	30.00
Guiyang Baoshang Sports Goods Company Limited	47,776	53,639	50.00	23,763	50.00
Guizhou Shengdao Sports Goods Development Company Ltd.	-	-	-	(129)	40.00
Hangzhou Baohong Sports Goods Company Limited	35,018	35,731	50.00	35,001	50.00
Harbin Shenge Sports Chain Company Limited	381,094	477,704	45.00	95,545	45.00
Hebei Zhanxin Sports Development Company Limited	311,826	363,951	45.00	187,448	45.00
Heifei Tengrei Sports Goods Company Limited	303,896	356,833	50.00	73,731	50.00
Hubei Jiezhixing Clothing and Accessories Company Limited	412,949	548,540	50.00	584,655	50.00
Jilin Xingfangwei Sports Goods Company Limited	586,769	636,831	50.00	323,416	50.00
Jilin Lingpao Sports Goods Company Limited	276,580	438,783	50.00	224,665	50.00
Shaanxi Jixian Longyue Sports Goods Company Limited	138,763	171,296	50.00	44,534	50.00
Shaanxi Wuhuan Shengdao Sports Production Development Company Limited	43,631	69,986	40.00	32,826	50.00
Suzhou Xinjun Trading Development Company Limited	187,120	206,953	49.00	86,694	49.00
Wenzhou Baofeng Trading Co., Ltd.	41,335	51,133	50.00	12,959	50.00
Zhejiang Jinguan Enterprise Development Company Limited	253,464	494,851	50.00	201,067	50.00
Enthroned Group Limited	158	160	48.76	158	48.76
Rise Mount Limited	5,518	5,501	26.00	-	-
Zhejiang Baohong Sports Goods Co., Ltd.	127,024	155,744	49.00	126,728	49.00
Zhejiang Yichuan Sports Goods Chain Company Limited	598,204	782,355	50.00	472,435	50.00
Luen Thai Holdings Limited	394,437	488,252	8.98	394,437	8.98
Evermore Chemical Industry Co., Ltd.	253,333	290,667	20.75	280,383	20.75
San Fang Chemical Industry Co., Ltd.	2,677,576	3,024,903	44.72	2,789,048	44.72
Full Pearl International Ltd.	242,784	236,553	47.90	237,715	47.95

	2008			2007	
	Original Cost	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage
Fuzhou Fubao Paper Packaging Co., Ltd.	118,574	142,078	50.00	-	-
<u>Electronic companies</u>					
Haicheng Information Technology Co., Ltd.	194,580	144,066	50.00	143,859	50.00
Silver Island Trading Ltd.	129,720	51,920	50.00	51,322	50.00
Venture Well Holdings Ltd.	332,638	375,794	28.52	330,935	43.08
Prime World International Ltd.	-	-	-	112,376	34.34
Kleine Developments Ltd.	335,317	275,136	50.00	438,760	50.00
Digital Sun Investments Ltd.	788,061	330,900	41.67	134,127	25.93
Elitegroup Computer Systems Co., Ltd.	6,033,249	4,850,754	17.92	4,912,004	17.98
Techview International Technology Inc.	676,760	163,180	48.31	595,906	48.31
<u>Investment holding and other companies</u>					
Asia Air Tech Industrial (Pte) Ltd.	82,697	63,524	30.00	61,424	30.00
Most Honour International Limited	1,640	2,960	50.00	-	-
Coprosects Holdings Ltd.	8,117	28,979	50.00	11,126	50.00
Well Success Investments Limited	198,731	1,190,619	40.00	1,187,600	40.00
Rising Developments Ltd.	5,028	85,559	50.00	78,635	50.00
Supplyline Ltd.	189,197	17,483	46.12	9,811	46.12
Talent Pool Management Ltd.	-	4,468	30.00	2,152	30.00
Partner Alliance Limited	4,936	7,524	50.00	4,993	50.00
Pou Lik Properties Management Co., Ltd.	-	561	30.00	518	30.00
Ace Top Group Limited	1,574	42,689	40.00	15,254	40.00
Zhuhai Pou Lik Properties Management Co., Ltd.	4,952	32,310	40.00	28,845	40.00
Yusong Chateau Enterprise Co., Ltd.	-	-	-	831	50.00
Zhong Ao Multiplex Management Limited	523,432	688,570	47.50	567,811	47.50
	<u>\$ 28,223,034</u>	<u>\$ 31,686,734</u>		<u>\$ 27,828,293</u>	

The Company's investment income (loss) recognized under equity method for the years ended December 31, 2008 and 2007 is summarized as follows:

	2008	2007
<u>Shoes, shoe materials and athletic products companies</u>		
All Saints Enterprises Limited	\$ 7,732	\$ (1,953)
Eagle Nice (International) Holdings Limited	253,147	175,521
Nan Pao Resins (Holdings) Limited	37,830	33,259
Prosperous Industrial (Holdings) Ltd.	60,700	65,553
Rising Sun Associates Limited	4,780	19,637
Best Focus Holdings Ltd.	127,216	39,624
Blessland Enterprises Limited	21,755	8,394
Central Honour Limited	2,574	2,483
Great Skill Industrial Limited	22,584	23,738
Willpower Industries Limited	27,806	16,666
Smart Shine Industries Limited	(79,611)	78,871
Din Tsun Holding Co., Ltd.	139,496	57,084
Profit Land Limited	(7,287)	(9,838)
Full Pearl International Ltd.	(10,700)	(7,804)
Fuzhou Fubao Paper Packaging Co., Ltd.	14,906	-

	2008	2007
Texas Clothing Holdings Corp.	(681,343)	(831,822)
China Ocean Resources Limited	(62,291)	(73,614)
i-Tech Enterprises Ltd.	(446)	(1,414)
Bigfoot Limited	16,911	5,525
Natural Options Limited	(351)	(6,409)
Original Designs Developments Limited	30,053	31,331
Cohen Enterprises Inc.	107,230	27,975
Hua Jian Industrial Holding Co., Ltd.	265,142	249,989
Ka Yuen Rubber Factory Limited	127,149	105,280
Topmost Industries Limited	7,031	16,529
Twinways Investments Limited	24,930	22,883
Yuen Thai Industrial Company Limited	61,585	-
Oftenrich Holdings Limited	206,387	279,569
New Peak Services Limited	(2,061)	(195,337)
PT. GF Indonesia	(25,466)	(25,891)
Just Lucky Investments Limited	6,712	1,388
High Style Investments Limited	(438)	(2,707)
Pou Thane Enterprise Co., Ltd.	-	(71)
Precise Zone Investments Limited	12,388	4,254
PYGF Co., Ltd.	9,589	15,071
Liberty Bell Investments Limited	(56,313)	(49,219)
Jumbo Power Enterprises Ltd.	13,468	(47,352)
Keen Idea Group Ltd.	(19,731)	-
Good Assets Management Limited	(10)	-
Farsighted International Limited	217,097	3,454
Guiyang Baoshong Sports Goods Company Limited	3,221	-
Guizhou Shengdao Sports Goods Development Company Ltd.	-	(149)
Hangzhou Baohong Sports Goods Company Limited	1,573	4
Harbin Shenge Sports Chain Company Limited	42,107	30,871
Hebei Zhanxin Sports Development Company Limited	33,398	3,765
Heifei Tengrei Sports Goods Company Limited	35,409	4,831
Hubei Jiezhixing Clothing and Accessories Company Limited	102,089	10,523
Jilin Xingfangwei Sports Goods Company Limited	35,512	(495)
Jilin Lingpao Sports Goods Company Limited	129,553	9,140
Shaanxi Jixian Longyue Sports Goods Company Limited	24,106	1,149
Shaanxi Wuhuan Shengdao Sports Production Development Company Limited	19,872	428
Suzhou Xinjun Trading Development Company Limited	9,601	2,831
Wenzhou Baofeng Trading Co., Ltd.	7,377	(3)
Zhejiang Jinguan Enterprise Development Company Limited	175,231	26,696
Zhejiang Baohong Sports Goods Co., Ltd.	13,728	(300)
Zhejiang Yichuan Sports Goods Chain Company Limited	132,340	11,327
Rise Mount Ltd.	(16)	-
Luen Thai Holdings Limited	44,318	-
San Fang Chemical Industry Co., Ltd.	306,353	217,894
Evermore Chemical Industry Co., Ltd.	8,745	21,782
 <u>Electronic companies</u>		
Haicheng Information Technology Co., Ltd.	(14,503)	(28,501)
Silver Island Trading Ltd.	12	(18,085)

	2008	2007
Venture Well Holdings Ltd.	52,123	22,821
Prime World International Ltd.	296	1,428
Digital Sun Investments Ltd.	(136,661)	(65,601)
Eagle Great Investments Ltd.	-	680
Kleine Developments Limited	(161,558)	(32,008)
Elitegroup Computer Systems Co., Ltd.	93,384	155,050
Techview International Technology Inc.	(430,131)	(146,769)
 <u>Investment holding and other companies</u>		
Asia Air Tech Industrial (Pte) Ltd.	(8,450)	(12,860)
Coprosects Holdings Ltd.	16,964	1,971
Well Success Investments Limited	(20,455)	160,856
Rising Developments Ltd.	5,767	10,660
Talent Pool Management Ltd.	1,993	1,375
Partner Alliance Limited	822	1,025
Pou Lik Properties Management Co., Ltd.	(13)	(49)
Ace Top Group Limited	23,161	13,511
Zhuhai Pou Lik Properties Management Co., Ltd.	310	23,684
Most Honour International Limited	1,001	-
Zhong Ao Multiplex Management Limited	67,656	52,691
Yusong Chateau Enterprise Co., Ltd.	(129)	(65)
	<u>\$1,496,256</u>	<u>\$ 512,755</u>

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

Name	Core Operating Item	Location of Incorporation
All Saints Enterprises Limited	Manufacture and sale of paint	British Virgin Islands
Eagle Nice (International) Holdings Limited	Manufacture and trading sportswear and garments	Cayman Islands
Nan Pao Resins (Holdings) Limited	Manufacture and sale of paint	British Virgin Islands
Pine Wood Industries Limited	Manufacture and sale of cloth	British Virgin Islands
Prosperous Industrial (Holdings) Ltd.	Manufacture and sale of sports bags	Cayman Islands
Rising Sun Associates Limited	Manufacture and sale of paint	British Virgin Islands
Best Focus Holdings Ltd.	Manufacture and sale of paper cartons	British Virgin Islands
Blessland Enterprises Limited	Manufacture and sale of shoe pads	British Virgin Islands
Central Honour Limited	Shoe injection	British Virgin Islands
Great Skill Industrial Limited	Manufacture and sale of plastic shoe injection	British Virgin Islands
Up Front Technology Ltd.	Shoe injection	British Virgin Islands
Willpower Industries Limited	Manufacture and sale of cartons	British Virgin Islands
Smart Shine Industries Limited	Manufacture and sales of shoes and apparel	British Virgin Islands
Din Tsun Holding Co., Ltd.	Manufacture and sale of apparel	British Virgin Islands
Profit Land Limited	Manufacture and sale of paint	British Virgin Islands
Texas Clothing Holdings Corp.	Manufacture and sale of apparel	British Virgin Islands
China Ocean Resources Limited	Retailing of sportswear	British Virgin Islands
i-Tech Enterprises Ltd.	Sale of plastic grain	British Virgin Islands

Name	Core Operating Item	Location of Incorporation
Bigfoot Limited	Cloth product trading / cloth dyeing and processing cloth shoe material binding	British Virgin Islands
Natural Options Limited	Manufacture of foamed cotton	British Virgin Islands
Original Designs Developments Limited	Manufacture of shoe lasts	British Virgin Islands
Cohen Enterprises Inc.	Manufacture and sales of leather products for shoes	British Virgin Islands
Ever Atlantic Investments Limited	Manufacture of apparel	British Virgin Islands
Hua Jian Industrial Holding Co., Ltd.	Manufacture and sale of ladies shoes	British Virgin Islands
Ka Yuen Rubber Factory Limited	Manufacture and sale of rubber soles	British Virgin Islands
Keen Idea Group Limited	Manufacture and sale of hats	British Virgin Islands
Topmost Industries Limited	Manufacture of counters for shoes	British Virgin Islands
Twinways Investments Limited	Manufacture and sales of injection moulds for shoe components	British Virgin Islands
Yuen Thai Industrial Company Limited	Manufacture and trading of sports and active wear	Hong Kong
Oftenrich Holdings Limited	Manufacture and sale of safety and casual shoes	Bermuda
New Peak Services Limited	Manufacture and sale of shoes	British Virgin Islands
PT. GF Indonesia	Sale of shoes and active wear	Indonesia
Just Lucky Investments Limited	Manufacture and sale of shoes material	British Virgin Islands
High Style Investments Limited	Manufacture halftone, printing ink	British Virgin Islands
Precise Zone Investments Limited	Manufacture and processing of ironware and plastic products	British Virgin Islands
PYGF Co., Ltd.	Processing rubber	British Virgin Islands
Liberty Bell Investments Limited	Manufacture and sale of chemical for leather use	British Virgin Islands
Jumbo Power Enterprises Ltd.	Manufacture and sale of shoes	British Virgin Islands
Guiyang Baoshang Sports Goods Company Limited	Retailing of sportswear	PRC
Farsighted International Limited	Retailing of sportswear	British Virgin Islands
Guizhou Shengdao Sports Goods Development Company Ltd.	Retailing of sportswear	PRC
Hangzhou Baohong Sports Goods Company Limited	Retailing of sportswear	PRC
Harbin Shenge Sports Chain Company Limited	Retailing of sportswear	PRC
Hebei Zhanxin Sports Development Company Limited	Retailing of sportswear	PRC
Heifei Tengrei Sports Goods Company Limited	Retailing of sportswear	PRC
Hubei Jiezhixing Clothing and Accessories Company Limited	Retailing of sportswear	PRC
Jilin Xingfangwei Sports Goods Company Limited	Retailing of sportswear	PRC
Jilin Lingpao Sports Goods Company Limited	Retailing of sportswear	PRC
Shaanxi Jixian Longyue Sports Goods Company Limited	Retailing of sportswear	PRC
Shaanxi Wuhuan Shengdao Sports Production Development Company Limited	Retailing of sportswear	PRC

Name	Core Operating Item	Location of Incorporation
Suzhou Xinjun Trading Development Company Limited	Retailing of sportswear	PRC
Wenzhou Baofeng Trading Co., Ltd.	Retailing of sportswear	Wenzhou
Zhejiang Jinguang Enterprise Development Company Limited	Retailing of sportswear	PRC
Zhejiang Baohong Sports Goods Co., Ltd.	Retailing of sportswear	PRC
Zhejiang Yichuan Sports Goods Chain Company Limited	Retailing of sportswear	PRC
Haicheng Information Technology Co., Ltd.	Developing and manufacture of software and electronic parts	PRC
Silver Island Trading Ltd.	Sale of electronic parts	British Virgin Islands
Venture Well Holdings Ltd.	Sale of electronic parts	British Virgin Islands
Prime World International Ltd.	Sale of electronic parts	British Virgin Islands
Kleine Developments Ltd.	Manufacturing and trading of computer peripheral equipment and investment holding	British Virgin Islands
Luen Thai Holdings Ltd.	Manufacturing and trading of apparel	Cayman Islands
Digital Sun Investments Ltd.	Sale of PCB	British Virgin Islands
Ace Top Group Limited	Investment holding	British Virgin Islands
Asia Air Tech Industrial (Pte) Ltd.	Manufacture and sale of air conditioner	Singapore
Coprospects Holdings Ltd.	Investment holding	British Virgin Islands
Enthroned Group Limited	Investment holding	British Virgin Islands
Full Pearl International Ltd.	Investment holding	British Virgin Islands
Good assets Management Limited	Investment holding	British Virgin Islands
Most Honour International Limited	Investment holding	British Virgin Islands
Partner Alliance Limited	Sale of tobacco and liquor	British Virgin Islands
Poulik Properties Management Co., Ltd.	Properties management	British Virgin Islands
Rise Mount Limited	Investment holding	British Virgin Islands
Rising Developments Ltd.	Trading of diesel / petroleum	British Virgin Islands
Supplyline Ltd.	Provision of logistic service	Hong Kong
Talent Pool Management Ltd.	Provision of Pre-k education	British Virgin Islands
Well Success Investments Limited	Investment holding	British Virgin Islands
Zhuhai Pou Lik Properties Management Co., Ltd.	Properties management	British Virgin Islands
Zhong Ao Multiplex Management Limited	Properties management	PRC
Fuzhou Fubao Paper Packaging Co., Ltd.	Print and manufacture of paper	PRC

Except Venture Well Holdings Ltd. and Kleine Developments, 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 years ended September 30, 2008 and 2007 as permitted under the accounting principles generally accepted in the ROC.

Techview International Technology Inc. ("Techview International") is engaged in development, sale and assembly of TFT-LCD display. It has an outstanding common stock of \$1,337,622 thousand as at December 31, 2008.

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 \$12,794,827 thousand as at December 31, 2008.

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 \$2,629,287 thousand as at December 31, 2008.

Evermore Chemical Industry Co., Ltd. (“Evermore Chemical”) is engaged in manufacturing and selling of melamine resin and phthali anhydride 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 December 31, 2008.

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 December 31, 2008. The Company’s investment in Luen Thai was reclassified to investments accounted for by the equity method.

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 December 31, 2008.

11. INVESTMENTS IN REAL ESTATE

Investments in real estate as at December 31, 2008 and 2007 are comprised of the following:

	2008			2007
	Cost	Accumulated Depreciation	Carrying Value	Carrying Value
Land	\$ 1,432,457	\$ -	\$ 1,432,457	\$ 664,621
Building	<u>25,251</u>	<u>412</u>	<u>24,839</u>	<u>89,922</u>
	<u>\$ 1,457,708</u>	<u>\$ 412</u>	<u>\$ 1,457,296</u>	<u>\$ 754,543</u>

The land investment is primarily located in Taichung City, and will be for sale after erecting buildings. As at December 31, 2008, the relevant information for the investments in real estate, which were pledged for long-term debt, please see Note 29 to the consolidated financial statements.

12. AVAILABLE-FOR-SALE FINANCIAL ASSETS, NONCURRENT

Available-for-sale financial assets, noncurrent as at December 31, 2008 and 2007 are comprised of the following:

	2008			2007	
	Original Investment Cost	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage
Taiwan marketable equity securities					
Asia Vital Components Co., Ltd.	\$ 221,568	\$ 205,717	5.91	\$ 347,320	6.03
Taiwan Paiho Limited	142,259	119,303	2.99	348,933	2.99
Taiwan mutual funds					
Taishin Lucky Fund	87,526	84,192	-	-	-
Foreign marketable equity securities					
Symphony Holdings Ltd.	298,501	83,682	4.82	308,712	4.82
Foreign mutual funds					
Investar Excelsus Venture Capital	-	-	-	487	-
Fund-bank of china	39,191	39,191	-	-	-
Uis-Trusted Money Fund	279,672	279,672	-	47,023	-
	<u>\$ 1,068,717</u>	<u>\$ 811,757</u>		<u>\$ 1,052,475</u>	

Asia Vital Components Co., Ltd. is engaged in manufacturing and selling of semiconductors electronic connectors, computer connectors and communication products. The shares of Asia Vital Components are listed on the Taiwan Stock Exchange Corporation. It has an outstanding common stock of \$2,600,171 thousand as at December 31, 2008.

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 \$2,854,391 thousand as at December 31, 2008.

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 December 31, 2008.

The Company recognized an impairment loss of \$730,257 thousand for the year ended December 31, 2008.

13. FINANCIAL ASSETS CARRIED AT COST, NONCURRENT

Financial assets carried at cost, noncurrent as at December 31, 2008 and 2007 are comprised of the following:

	2008	2007
Chiang Yei Precision Industrial Co., Ltd.	\$ 8,153	\$ 8,153
Golden Brands Developments Ltd.	224,155	221,626
L&C Aluminium Corp.	831	831
Nan Pao Resins Chemical Co., Ltd.	352,291	-
Shey Yu Co., Ltd.	320	320
View Sonic Corporation	96,231	96,231
Taichung International Entertainment Corporation	1,905	1,905
Bizlink Holding Inc.	109,589	108,353
Great Team Backend Foundry Inc.	79,518	78,621
DTE Technologies Corp.	-	130,000
Eic Enterprise Ltd. - preferred stock	389	1,405
Asia Pacific Genesis Venture Capital Fund	147,600	145,935
CID Greater Venture Capital Fund	196,800	129,720
Prodigy Strategic Investment Fund XXII Segregated Portfolio	98,815	-
Prodigy Fund Spc-Prodigy Strategic Investment Fund	193,695	-
	<u>\$ 1,510,292</u>	<u>\$ 923,100</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 recognized its impairment of \$130,000 thousand for the year ended December 31, 2008, which was recorded as impairment loss.

14. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as at December 31, 2008 and 2007 consisted of the following:

	2008				2007	
	Cost	Reassessed Value Increment	Accumulated Depreciation	Accumulated Impairment	Carrying Value	Carrying Value
Land	\$ 2,531,773	\$ 248,261	\$ -	\$ 213,737	\$ 2,566,297	\$ 2,645,262
Buildings and improvements	47,666,498	45,062	12,452,229	1,898	35,257,433	33,154,971
Machinery and equipment	46,407,417	-	24,774,799	28,271	21,604,347	20,781,370
Transportation equipment	1,163,628	-	793,381	309	369,938	366,249
Furniture, fixtures and office equipment	5,520,796	-	3,476,693	468	2,043,635	1,796,184
Other equipment	695,594	-	419,382	2,271	273,941	367,291
Construction in progress and prepayments for equipment	5,073,762	-	-	-	5,073,762	3,065,117
	<u>\$ 109,059,468</u>	<u>\$ 293,323</u>	<u>\$ 41,916,484</u>	<u>\$ 246,954</u>	<u>\$ 67,189,353</u>	<u>\$ 62,176,444</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 year ended December 31, 2005.

The interest expense for the years ended December 31, 2008 and 2007 amounted to \$3,495,135 thousand and \$3,201,054 thousand, respectively. Interest costs capitalized as part of the costs of property, plant and equipment for the years ended December 31, 2008 and 2007 amounted to \$243 thousand and \$1,726 thousand, respectively. Interest rate for capitalization was 2.60% and 2.50% for 2008 and 2007, respectively.

15. OTHER ASSETS

Other assets as at December 31, 2008 and 2007 consisted of the following:

	2008	2007
Leased-out assets		
Cost and revaluation increment	\$ 1,799,045	\$ 1,720,902
Less accumulated depreciation	(33,276)	(30,610)
Less allowance for valuation loss of leased-out assets	(109)	-
	<u>1,765,660</u>	<u>1,690,292</u>
Idle asset	85,677	85,546
Less accumulated depreciation	(63,207)	(51,737)
Less allowance for valuation loss of idle asset	(22,470)	(33,809)
	<u>-</u>	<u>-</u>

	2008	2007
Refundable deposits	2,761,707	777,604
Deferred charges	4,480,498	3,851,402
Long-term receivables	-	327,485
Deferred tax assets (Note 25)	254,251	38,437
Land held by trustee	73,713	73,713
Prepaid pension cost (Note 21)	73,107	57,954
Others - land and building for sale	5,478	5,526
Temporary tax payments	<u>4,366</u>	<u>3,488</u>
	<u><u>\$9,418,780</u></u>	<u><u>\$6,825,901</u></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 December 31, 2008, are included in "other assets - land held by trustee".

16. SHORT-TERM LOANS

Short-term loans as at December 31, 2008 and 2007 consisted of the following:

	<u>2008</u>		<u>2007</u>	
	Annual Interest Rate %	Balance	Annual Interest Rate %	Balance
Procurement loans	1.96~5.81	\$ 2,668,040	1.28~6.43	\$ 1,303,549
Unsecured loans	1.43~9.36	<u>26,215,852</u>	2.15~8.15	<u>17,957,594</u>
		<u><u>\$28,883,892</u></u>		<u><u>\$19,261,143</u></u>

17. SHORT-TERM BILLS PAYABLE

Short-term bills payable as at December 31, 2008 and 2007 consisted of the following:

	<u>2008</u>		<u>2007</u>	
	Annual Interest Rate %	Balance	Annual Interest Rate %	Balance
Commercial paper, credit	1.50~2.11	\$ 855,000	2.31~2.768	\$ 780,000
Less discount on commercial paper		<u>(2,461)</u>		<u>(2,892)</u>
		<u><u>\$ 852,539</u></u>		<u><u>\$ 777,108</u></u>

18. CURRENT PORTION OF LONG-TERM LIABILITIES

Current portion of long-term liabilities as at December 31, 2008 and 2007 consists of the following:

	2008	2007
Domestic secured bonds (see Note 19)	\$ -	\$ 5,000,000
Euro convertible bonds (see Note 19)	8,681,514	8,193,564
Long-term debt (see Note 20)	<u>5,390,097</u>	<u>828,178</u>
	<u>\$ 14,071,611</u>	<u>\$ 14,021,742</u>

19. BONDS PAYABLE

Bonds payable as at December 31, 2008 and 2007 consisted of the following:

	2008	2007
Euro convertible bonds	\$ 16,498,537	\$ 14,930,383
Add interest compensation and income tax payable	<u>562,688</u>	<u>1,089,935</u>
	17,061,225	16,020,318
Less current portion (Note 18)	<u>(8,681,514)</u>	<u>(8,193,564)</u>
	<u>8,379,711</u>	<u>7,826,754</u>
Domestic secured bonds	-	5,000,000
Less current portion (Note 18)	<u>-</u>	<u>(5,000,000)</u>
	<u>-</u>	<u>-</u>
	<u>\$ 8,379,711</u>	<u>\$ 7,826,754</u>

In 2007, the holders converted their Euro convertible bonds with par value of US\$680 thousand into 813 thousand shares of the Company. Additionally, Euro convertible bonds with par value of US\$50 thousand were redeemed in 2008. As at December 31, 2008, the Euro convertible bonds were fully redeemed by the Company.

Domestic Secured Bonds

The first secured bonds of 2003

- (a) Pou Chen issued \$5,000,000 thousand secured bonds from June 10, 2003 to June 13, 2003, for the purpose of repaying bank loan. The bonds were separated into 19 types (from "A" to "S"). The issued amount of type A, B, C, D, E, F, K, L, M, N, P, Q was \$300,000 thousand and the other types was \$200,000 thousand. The par value of all types was \$10,000 thousand.
- (b) Date of maturity and price of issuance: from June 10, 2008 to June 13, 2008 and 100%. Additional, Pou Chen redeemed all the secured bonds in June 2008.

(c) Interest rate:

Type A, F, K, P: 4.000%, minus floating rate

Type B, G, L, Q: 4.001%, minus floating rate

Type C, H, M, R: 4.002%, minus floating rate

Type D, I, N, S: 4.003%, minus floating rate

Type E, J, O: 4.004%, minus floating rate

The nominal interest rate of all types should be greater than 0%.

The floating rate is determined on the Fixing Rate of USD 6-month LIBOR at 11:00 AM on the second London business day before the first day of each interest period on "LIBOR" page on the Reuters screen.

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

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

Additionally, the secured bonds also contain certain covenants on a yearly evaluation basis, including a covenant that requires Pou Chen to maintain a consolidated tangible net worth of not less than \$18,000,000 thousand, and the following financial ratios: (i) a ratio of consolidated total liabilities including contingent liabilities to consolidated tangible net worth of not more than 2:1, (ii) a ratio of consolidated net income before interest, taxation, depreciation and amortization to consolidated interest of no less than 3:1, and (iii) a ratio of consolidated current assets to consolidated current liabilities of not less than 0.8:1.

Euro-Dollar Convertible Bonds

First issue by Yue Yuen

- (a) Date of issuance: December 23, 2003
- (b) Par value: US\$1,000 thousand
- (c) Location of issuance: Luxemburg
- (d) Price of issuance: 100%

- (e) Total amount: US\$317,000 thousand issued; there are US\$231,470 thousand outstanding as at September 30, 2008.
- (f) Interest rate: 0%
- (g) Date of maturity: December 23, 2008. Additional, Yue Yuen redeemed all the convertible bonds in December 2008.
- (h) Conversion price:
HK\$27.33 dollars per share at the fixed rate of exchange of HK\$7.7622 dollars to US\$1 dollar which will be subject to adjustment for, among other things, subdivision or consolidation of shares, capital distributions, bonus issues, rights issues and other dilutive events.
- (i) Redemption at maturity:
Unless previously redeemed, repurchased and cancelled, or converted, the bonds will be redeemed on December 23, 2008 at a price equal to 98.76% of the unpaid principal amount.
- (j) Redemption at the option of Yue Yuen:
On or at any time after December 23, 2005 (in the case of (i) below) and at any time (in the case of (ii) below) and (in either case) prior to December 16, 2008, Yue Yuen may redeem all (in the case of (ii) below) or, from time to time, some only (being US\$1,000,000 dollars in principal amount or an integral multiple thereof) of the Bonds, subject to giving not less than 30 nor more than 60 days' notice, at the Early Redemption Amount on the Redemption Date if (i) the closing price of the Share (as derived from the Daily Quotations Sheet of the Hong Kong Stock Exchange or, as the case may be, the equivalent quotation sheet of an Alternative Stock Exchange), translated into United States dollars at the prevailing rate described herein, for each of any 20 Trading Days during a 30 consecutive Trading Day period, the last day of which period occurring no more than five Trading Days prior to the date upon which such notice of redemption is given, was at least 120 per cent. of the Conversion Price in effect on each such Trading Day, translated into United States dollars at the rate of HK\$7.7622 dollars = US\$1.00 dollar or (ii) at least 90 per cent. in principal amount of the bonds has already been converted, redeemed or purchased and cancelled.
- (k) Repurchase at the option of holders:
Each holder has the right to require Yue Yuen to repurchase all or any portion of such holder's bonds on December 23, 2005 at a price equal to 99.50% of the unpaid principal amount thereof.
- (l) On December 14, 2005, Yue Yuen signed a put release agreement with a financial institution and pursuant to which has agreed, on request of the holders of the Exercised Bonds, to revoke the Put Option exercised so that such CB will continue to be outstanding. In addition, Yue Yuen will make an additional payment to or to the order of the Financial Institution on maturity of the Exercised Bonds.

Second issue by Yue Yuen

- (a) Date of issuance: November 17, 2006
- (b) Par value: HK\$10 thousand
- (c) Location of issuance: Hong Kong
- (d) Price of issuance: 100%
- (e) Total amount: HK\$2,100,000 thousand issued.
- (f) Interest rate: 0%
- (g) Date of maturity: November 17, 2011
- (h) Conversion price:
HK\$26.75 dollars per share which will be subject to adjustment for, among other things, subdivision or consolidation of shares, capital distributions, bonus issues, rights issues and other dilutive events.

- (i) Redemption at maturity:
Unless previously redeemed, repurchased and cancelled, or converted, the bonds will be redeemed on November 17, 2011 at a price equal to 113.227% of the unpaid principal amount.
- (j) Redemption at the option of Yue Yuen:
On or at any time after November 17, 2007 (in the case of (i) below) and at any time (in the case of (ii) and (iii) below) and (in either case) prior to November 17, 2011, Yue Yuen may redeem all of the bonds at the Early Redemption Amount on the Redemption Date if (i) the closing price of the Share (as derived from the Daily Quotations Sheet of the Hong Kong Stock Exchange or, as the case may be, the equivalent quotation sheet of an Alternative Stock Exchange) for each of the 30 consecutive Trading Day prior to the date upon which notice of such redemption is given, was at least 120 per cent. of the Conversion Price in effect on each such Trading Day or (ii) at least 90 per cent. in principal amount of the bonds has already been converted, redeemed or purchased and cancelled or (iii) in the event of certain changes relating to Bermuda or Hong Kong taxation law (each holder may, after Yue Yuen exercised such redemption option, elect to refuse all or a portion of its Bonds shall not be redeemed by Yue Yuen).
- (k) Repurchase at the option of holders:
- (i) Each holder has the 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.
 - (ii) If the common shares of Yue Yuen cease to be listed or admitted to trading on the Hong Kong Stock Exchange, each holder has the right to require Yue Yuen to repurchase all of such holder's bonds.
 - (iii) Upon the occurrence of a change of control, each holder has the right to require Yue Yuen to repurchase all of such holder's bonds.

20. LONG-TERM DEBT

Long-term debt as at December 31, 2008 and 2007 consisted of the following:

	2008	2007
Bank of China		
Long-term debt, US\$420,000 thousand. The period is from June 1, 2005 to June 1, 2010. Interest rate is 3.44% as at September 30, 2008. Interest is paid quarterly.	\$ 9,217,192	\$ 9,087,323
China Trust Commercial Bank		
Long-term debt, US\$2,660 thousand, due in semiannual installments commencing September 21, 2005 and matured September 21, 2008. The principal had been fully repaid in 2008.	-	24,563
Industrial Bank of Taiwan		
Mid-term debt, the term is from October 26, 2005 to October 25, 2008. Interest is paid monthly. The principal had been fully repaid upon maturity.	-	180,000
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%.	787,200	972,900

	2008	2007
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 1-month (2, 3 or 6-month) LIBOR rate plus 0.90%. Interest is paid quarterly. The principal is due in semiannual installments commencing from August 24, 2008.	787,200	972,900
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 due in semiannual installments commencing from November 14, 2008. Interest rate is 1-month (2, 3 or 6-month) LIBOR rate plus 1%.	367,360	454,020
Agricultural Bank of China Mid-term debt. The period is from February 28, 2007 to July 10, 2010. The principal is due in semiannual installments commencing from July 8, 2008. Interest is paid quarterly. The principal was fully prepaid in July 2008.	-	129,616
Cathay United Bank Long-term debt, US\$9,750 thousand, with floating rate, due in 84 monthly installments commencing June 20, 2006 and maturing May 20, 2013. Interest rate is 6.25% as at September 30, 2008. Interest is paid monthly.	306,718	309,047
KBC (Shanghai) Syndication loan Mid-term debt, US\$36,000 thousand. The term is from December 3, 2007 to December 2, 2010. The principal will be due in 4 installments commencing from November 18, 2009. Interest rate is 1-month (2, 3 or 6-month) LIBOR rate plus 0.85%.	1,180,800	616,170
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 3.0475% as at September 30, 2008.	11,184,800	9,729,000
The Hong Kong and Shanghai Banking Corporation Limited Mid-term debt, RMB40,000 thousand. The period is from March 31, 2007 to March 31, 2012. The principal is due in semiannual installments commencing from March 31, 2010. Interest rate is 6.08% as at September 30, 2008. Interest is paid quarterly.	191,645	172,822
Standard Charter Bank Mid-term debt. The period is from September 30, 2007 to September 30, 2010. The principal is due in annual installments commencing from September 30, 2008.	-	544,388

	2008	2007
The Hong Kong and Shanghai Banking Corporation Limited Mid-term debt. The period is from September 21, 2007 to September 21, 2010. The principal is due in annual installments commencing from September 21, 2008.	-	110,651
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 September 26, 2010. Interest is paid monthly. Interest rate is 2.08% as at December 31, 2008.	300,000	-
Land Bank of Taiwan Unsecured Mid-term debt, NT\$1,000,000 thousand. Interest rate is 3.76% as at December 31, 2008. 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 3.05% as at December 31, 2008. Interest is paid monthly.	1,050,000	-
Citibank (Lead Lender) Syndication Loan Long-term debt, NT\$6,500,000 thousand, due in semiannual installments commencing April 25, 2009 and maturing October 25, 2010. Interest rates range from 2.586% to 2.668% as at December 31, 2008.	6,500,000	6,500,000
China Trust Commercial Bank (Lead Lender) Syndication Loan Long-term debt, NT\$2,500,000 thousand, due in semiannual installments commencing December 9, 2009 and maturing June 9, 2011. Interest rate is 2.3795% as at December 31, 2008.	2,500,000	2,500,000
China Trust China Bank (Lead Lender) Syndication Loan Long-term debt, NT\$7,000,000 thousand, due in semiannual installments commencing November 16, 2011 and maturing May 16, 2013. Interest rate is 2.3964% as at December 31, 2008.	<u>7,000,000</u>	<u>-</u>
	41,398,172	32,303,400
Less current portion (see Note 18)	<u>(5,390,097)</u>	<u>(828,178)</u>
	<u>\$ 36,008,075</u>	<u>\$ 31,475,222</u>

21. PENSION PLAN

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

Net pension cost for the year 2008 consists of the following:

	Pou Chen	Barits Development	Pou Yuen Technology	Pro Arch Technology	Global Brands Manufacture	Total
Service cost	\$ 28,056	\$ 1,750	\$ 99	\$ -	\$ 614	\$ 30,519
Interest cost	30,944	1,279	335	1	1,352	33,911
Expected return on plan assets	(10,564)	(2,666)	(1,072)	(404)	(166)	(14,872)
Amortization of net transition (asset) obligation	(1,875)	646	-	-	657	(572)
Amortization of unrecognized prior service cost	-	-	204	-	-	204
Amortization of pension loss (gain)	6,131	(1,547)	(91)	-	1,059	5,552
Effect of employees transfer	-	-	-	572	-	572
Gain on curtailment of pension cost	-	-	(9,840)	(230)	-	(10,070)
	<u>\$ 52,692</u>	<u>\$ (538)</u>	<u>\$ (10,365)</u>	<u>\$ (61)</u>	<u>\$ 3,516</u>	<u>\$ 45,244</u>

The following table sets forth the actuarial assumptions and plan's status as at December 31, 2008:

	Pou Chen	Barits Development	Pou Yuen Technology	Pro Arch Technology	Global Brands Manufacture
Weighted-average discount rate	2.75%	2.75%	2.75%	2.75%	3.00%
Assumed rate of increase in salaries	2.75%	2.50%	3.75%	2.50%	3.00%
Expected rate of return on plan assets	2.75%	2.75%	2.75%	2.75%	4.00%

The following is pension fund distribution table as at December 31, 2008:

	Pou Chen	Barits Development	Pou Yuen Technology	Pro Arch Technology	Global Brands Manufacture	Total
Actuarial present value of benefit obligation:						
Vested benefits	\$ (213,988)	\$ -	\$ (693)	\$ -	\$ -	\$ (214,681)
Nonvested benefits	(636,273)	(38,305)	(1,602)	(438)	(24,701)	(701,319)
Accumulated benefit obligation	(850,261)	(38,305)	(2,295)	(438)	(24,701)	(916,000)
Additional benefits at future salaries	(377,371)	(16,312)	(2,516)	(135)	(24,039)	(420,373)
Projected benefit obligation	(1,227,632)	(54,617)	(4,811)	(573)	(48,740)	(1,336,373)
Plan assets at fair value	384,600	100,514	40,350	16,109	6,324	547,897
Projected benefit obligation in excess of plan assets	(843,032)	45,897	35,539	15,536	(42,416)	(788,476)
Net transition (asset) obligation not yet recognized	(6,499)	1,985	-	-	1,313	(3,201)
Unrecognized prior service costs	-	-	964	-	-	964
Unrecognized pension loss (gain)	-	(24,660)	(2,150)	(4)	22,097	(4,717)
Net pension gain not yet recognized	272,284	-	-	-	-	272,284
Prepaid pension cost (accrued pension cost)	<u>\$ (577,247)</u>	<u>\$ 23,222</u>	<u>\$ 34,353</u>	<u>\$ 15,532</u>	<u>\$ (19,006)</u>	<u>\$ (523,146)</u>

As at December 31, 2008, the amount of accrued pension cost of \$523,146 thousand was the net of prepaid pension cost of \$73,107 thousand, and accrued pension cost of \$596,253 thousand.

22. CAPITAL STOCK AND RETAINED EARNINGS

Pou Chen's registered and issued capital as at December 31, 2008 and 2007 are summarized as follows:

	2008	2007
Registered capital		
Shares (in thousands)	4,500,000	3,800,000
Par value (in dollars)	<u>\$ 10</u>	<u>\$ 10</u>
Capital	<u>\$45,000,000</u>	<u>\$38,000,000</u>
Issued capital		
Shares (in thousands)	2,740,006	2,511,854
Par value (in dollars)	<u>\$ 10</u>	<u>\$ 10</u>
Capital	<u>\$27,400,055</u>	<u>\$25,118,540</u>

Pou Chen's outstanding capital stock was \$25,118,540 thousand as at January 1, 2008. On June 13, 2008, Pou Chen's shareholders in their meeting resolved to issue additional capital stock of \$2,744,315 thousand through stock dividends of \$2,471,099 thousand, and bonuses to employees of \$273,216 thousand. Furthermore, employee stock warrants were exercised for 3,720 thousand shares (amounted to \$37,200 thousand) during 2008. Additionally, Pou Chen retired the treasury stock of 50,000 thousand shares (amounted \$500,000 thousand) and decreased the capital in December 2008. As a result, Pou Chen's outstanding capital stock was \$27,400,055 thousand, divided into 2,740,006 thousand common shares with a par value of \$10 dollars per share as at December 31, 2008.

Earnings per share are based upon the weighted average number of shares of common stock outstanding during the year. For the year ended December 31, 2007, 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 2008.

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 holder can exercise the right up to one-third of the granted warrant units no earlier than two years from the granted date. After four years from the granted date, the warrants holders are eligible to exercise all the warrants owned. As of August 6, 2002, and July 24, 2003, Pou Chen has issued 66,600 units, and 1,000 units of employee stock warrants, respectively, to the employees with an exercise price of \$23.30 dollars, and \$41.20 dollars per share, respectively. The exercise price of the warrant in 2008 has been retroactively restated as \$10.00 dollars and \$19.20 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 \$25.90 dollars and 139,435,520 shares, respectively.

Information about Pou Chen's outstanding stock warrants for the years ended December 31, 2008 and 2007 was as follows:

	2008		2007	
	Number of Stock Purchasable (Thousand Shares)	Weighted-Average Exercise Price (NT\$)	Number of Stock Purchasable (Thousand Shares)	Weighted-Average Exercise Price (NT\$)
Employee Stock Warrants				
Balance, beginning of year	173,984	\$24.35	53,068	\$10.28
Stock warrants granted	-	-	125,500	29.80
Adjustment from ownership dilution	13,936	25.90	-	-
Stock warrants exercised	<u>(3,720)</u>	10.00	<u>(4,584)</u>	10.00
Balance, end of year	<u>184,200</u>	22.09	<u>173,984</u>	24.35
Exercisable stock warrants, end of year	<u>44,764</u>		<u>48,484</u>	

As at December 31, 2008 and 2007, 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>2008</u>					
\$10.00~\$25.90	<u>184,200</u>	<u>7.58</u>	<u>\$ 22.09</u>	<u>44,764</u>	<u>\$ 10.21</u>
<u>2007</u>					
\$10.00~\$29.80	<u>173,984</u>	<u>8.50</u>	<u>\$ 24.35</u>	<u>48,484</u>	<u>\$ 10.25</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 year ended December 31, 2008 would have been as follows:

	2008	2007
Income before income tax	<u>\$4,504,297</u>	<u>\$5,132,583</u>
Net income	<u>\$4,530,827</u>	<u>\$4,709,223</u>
Basic earnings per share (in dollars)	<u>\$1.65</u>	<u>\$1.74</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, 2008
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. 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.

The bonus to employees of \$64,171 thousand and to directors and supervisors of \$66,156 thousand, respectively, were recognized for the year ended December 31, 2008. which representing 3% of net income (net of the bonus to employees and bonus to directors and supervisors), respectively. 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.

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

The appropriations of earnings for 2007 and 2006 had been approved in the shareholders' meetings on June 13, 2008 and April 24 2007, respectively. The appropriations and dividends per share were as follows:

	Appropriation of Earnings		Dividends Per Share (NT\$)	
	For Year 2007	For Year 2006	For Year 2007	For Year 2006
Legal reserve	\$ 480,025	\$ 577,197	\$ -	\$ -
Cash dividends	2,471,099	4,375,883	1.00	1.79
Stock dividends	2,471,099	486,209	1.00	0.20
Bonus to employees - stock	273,216	151,505	-	-
Bonus to directors and supervisors - cash	169,000	156,191	-	-

Wealthplus's outstanding capital stock as at September 30, 2007 amounted to US\$169,222 thousand, In March 2008, Wealthplus decided to decrease and return its capital US\$60,000 thousand (NT\$1,922,115 thousand dollars). Accordingly, Wealthplus's outstanding capital stock as at September 30, 2008 amounted to US\$109,222 thousand with a par value of US\$1 dollar each, 109,222 thousand shares. Additional, Wealthplus decided to decrease and return its capital US\$100,000 thousand (NT\$3,203,525 thousand) in December 2008.

Win Fortune's outstanding capital stock as at September 30, 2008 and 2007 amounted to US\$100 thousand, with a par value of US\$1 dollar each, 100 thousand shares.

Ming Wang's registered and issued capital as at January 1, 2008 amounted to \$427,291 thousand, divided into 42,729 thousand common shares with a par value of \$10.00 dollars each. In June 2008, the regular meeting of Ming Wang's stockholder resolved to issue additional capital stock of \$253,901 thousand through stock dividends. As a result, Ming Wang's registered and issued capital stock as at December 31, 2008 was increased to \$681,192 thousand, divided into 68,119 thousand common shares, with a par value of \$10.00 dollars each.

According to the Company Law of the ROC and Ming Wang's Articles of Incorporation, 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. 3% as bonus to directors and supervisors after the three above-mentioned are appropriated,
- e. 1% as bonus to employees after the four above-mentioned are appropriated,
- f. as special reserve or being retained partially by Ming Wang, and
- g. dividends to stockholders as proposed according to stock proportion.

Windsor Entertainment's registered and issued capital as at January 1, 2008 amounted to \$210,000 thousand, divided into 21,000 thousand common shares with a par value of \$10.00 dollars each. Additionally, Windsor Entertainment decreased its capital to offset its accumulated deficit of \$200,000 thousand, and issued additional capital stock for \$200,000 thousand at a price of \$10.00 dollars per share in June 2008. As at December 31, 2008, Windsor Entertainment's registered and issued capital amounted to \$210,000 thousand, divided into 21,000 thousand common shares with a par value of \$10.00 dollars each.

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

Yun Yang's registered and issued capital as at January 1, 2008 amounted to \$82,561 thousand, divided into 8,256 thousand common shares with a par value of \$10.00 dollars each. In June, 2008, Yun Yang's stockholders in their meeting resolved to issue additional capital stock of \$10,231 thousand through stock dividends. As a result, Yun Yang's registered and issued capital stock as at December 31, 2008 was increased to \$92,792 thousand, divided into 9,279 thousand common shares, with a par value of \$10.00 dollars each.

According to the Company Law of the ROC and Yun Yang's Articles of Incorporation, 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. 3% as bonus to directors and supervisors after the three above-mentioned are appropriated,
- e. 1% as bonus to employees after the four above-mentioned are appropriated,
- f. as special reserve or being retained partially by Yun Yang, and
- g. dividends to stockholders as proposed according to stock proportion.

Pou Shine's registered and issued capital as at January 1, 2008 amounted to \$573,632 thousand, divided into 57,363 thousand common shares with a par value of \$10.00 dollars each. In June 2008, Pou Shine's stockholder in the meeting resolved to issue additional capital stock of \$135,962 thousand through stock dividends. As a result, Pou Shine's registered and issued capital stock as at December 31, 2008 was increased to \$709,594 thousand, divided into 70,959 thousand common shares, with a par value of \$10.00 dollars each.

According to the Company Law of the ROC and Pou Shine's Articles of Incorporation, 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. 3% as bonus to directors and supervisors after the three above-mentioned are appropriated,
- e. 1% as bonus to employees after the four above-mentioned are appropriated,
- f. as special reserve or being retained partially by Pou Shine, and
- g. dividends to stockholders as proposed according to stock proportion.

Pan Asia Insurance Services' issued capital as at December 31, 2008 amounted to \$3,000 thousand.

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

Proshine Healthcare's registered and issued capital as at December 31, 2008 and 2007 are summarized as follows:

	2008	2007
Registered capital		
Shares (in thousands)	<u>50,000</u>	<u>50,000</u>
Par value (in dollars)	<u>\$ 10</u>	<u>\$ 10</u>
Capital	<u>\$ 500,000</u>	<u>\$ 500,000</u>
Issued capital		
Shares (in thousands)	<u>28,000</u>	<u>28,000</u>
Par value (in dollars)	<u>\$ 10</u>	<u>\$ 10</u>
Capita	<u>\$ 280,000</u>	<u>\$ 280,000</u>

Under the Company Law of the ROC and Proshine Healthcare'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. 3% as bonus to directors and supervisors after the three above - mentioned are appropriated,
- e. 1% as bonus to employees after the four above - mentioned are appropriated,
- f. as special reserve or being retained partially by Proshine Healthcare, and
- g. dividends to stockholders as proposed according to stock proportion.

Pro Arch Technology's registered and issued capital as at December 31, 2008 and 2007 are summarized as follows:

	2008	2007
Registered capital		
Shares (in thousands)	<u>185,000</u>	<u>185,000</u>
Par value (in dollars)	<u>\$ 10</u>	<u>\$ 10</u>
Capital	<u>\$ 1,850,000</u>	<u>\$ 1,850,000</u>
Issued capital		
Shares (in thousands)	<u>30,100</u>	<u>30,100</u>
Par value (in dollars)	<u>\$ 10</u>	<u>\$ 10</u>
Capital	<u>\$ 301,000</u>	<u>\$ 301,000</u>

Pro Arch Technology's outstanding capital stock as at January 1, 2008 amounted to \$301,000 thousand. In November 2008, Pro Arch Technology decreased its capital to offset its accumulated deficit of \$300,000 thousand, and issued additional capital stock for \$300,000 thousand at a price of \$10.00 dollars per share. As at December 31, 2008, Pro Arch Technology has an outstanding common stock of \$301,000 thousand, with a par value of \$10.00 dollars each.

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

Barits Development's registered and issued capital as at December 31, 2008 and 2007 are summarized as follows:

	2008	2007
Registered capital		
Shares (in thousands)	<u>200,000</u>	<u>150,000</u>
Par value (in dollars)	<u>\$ 10</u>	<u>\$ 10</u>
Capital	<u>\$ 2,000,000</u>	<u>\$ 1,500,000</u>
Issued capital		
Shares (in thousands)	<u>118,690</u>	<u>91,300</u>
Par value (in dollars)	<u>\$ 10</u>	<u>\$ 10</u>
Capita	<u>\$ 1,186,900</u>	<u>\$ 913,000</u>

Barits Development issued capital as at January 1, 2008 amounted to \$913,000 thousand, divided into 91,300 thousand common shares with a par value of \$10.00 dollars each. In June 2008, Barits Development's stockholder in their meeting resolved to issue additional capital stock of \$273,900 thousand through stock dividends. As a result, Barits Development's registered and issued capital stock as at December 31, 2008 was \$1,186,900 thousand, divided into 118,690 thousand common shares, with a par value of \$10.00 dollars each.

According to the Company Law of the ROC and Barits Development's Articles of Incorporation, 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. 3% as bonus to directors and supervisors after the three above-mentioned are appropriated,
- e. 1% as bonus to employees after the four above-mentioned are appropriated,
- f. as special reserve or being retained partially by Barits Development, and
- g. dividends to stockholders as proposed according to stock proportion.

Pou Yuen Technology's registered and issued capital as at December 31, 2008 and 2007 are summarized as follows:

	2008	2007
Registered capital		
Shares (in thousands)	<u>190,000</u>	<u>190,000</u>
Par value (in dollars)	<u>\$ 10</u>	<u>\$ 10</u>
Capital	<u>\$ 1,900,000</u>	<u>\$ 1,900,000</u>
Issued capital		
Shares (in thousands)	<u>90,000</u>	<u>90,000</u>
Par value (in dollars)	<u>\$ 10</u>	<u>\$ 10</u>
Capital	<u>\$ 900,000</u>	<u>\$ 900,000</u>

According to the Company Law of the ROC and Pou Yuen Technology'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. 3% as bonus to directors and supervisors after the three above - mentioned are appropriated,
- e. 1% as bonus to employees after the four above - mentioned are appropriated,
- f. as special reserve or being retained partially by Pou Yuen Technology, and
- g. dividends to stockholders as proposed according to stock proportion.

LNC Technology's registered and issued capital as at December 31, 2008 and 2007 are summarized as follows:

	<u>2008</u>	<u>2007</u>
Registered capital		
Shares (in thousands)	<u>80,000</u>	<u>60,000</u>
Par value (in dollars)	<u>\$ 10</u>	<u>\$ 10</u>
Capital	<u>\$ 800,000</u>	<u>\$ 600,000</u>
Issued capital		
Shares (in thousands)	<u>60,000</u>	<u>57,000</u>
Par value (in dollars)	<u>\$ 10</u>	<u>\$ 10</u>
Capita	<u>\$ 600,000</u>	<u>\$ 570,000</u>

LNC Technology's issued capital as of January 1, 2008 amounted to \$570,000 thousand divided into 57,000 thousand common shares with a par value of \$10.00 dollars each. In November 2008, LNC Technology issued capital stock for \$30,000 thousand at a price of \$10.00 dollars per share. As at December 31, 2008, LNC Technology has an outstanding common stock of \$600,000 thousand, with a par value of \$10.00 dollars each.

Under the Company Law of the ROC and LNC Technology'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. 3% as bonus to directors and supervisors after the three above - mentioned are appropriated,
- e. 1% as bonus to employees after the four above - mentioned are appropriated,
- f. as special reserve or being retained partially by LNC Technology, and
- g. dividends to stockholders as proposed according to stock proportion.

Right and Great Asia-Pacific's registered and issued capital as at December 31, 2008 amounted to \$600,000 thousand, divided into 60,000 thousand common shares with a par value of \$10.00 dollars each.

Under the Company Law of the ROC and Right and Great Asia-Pacific'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. 3% as bonus to directors and supervisors after the three above-mentioned are appropriated,
- e. 1% as bonus to employees after the four above-mentioned are appropriated,
- f. as special reserve or being retained partially by Right and Great Asia-Pacific, and
- g. dividends to stockholders as proposed according to stock proportion.

Vistas Design's registered and issued capital as at December 31, 2008 amounted to \$5,000 thousand, divided into 500 thousand common shares with a par value of \$10.00 dollars each.

Under the Company Law of the ROC and Vistas Design'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. 3% as bonus to directors and supervisors after the three above-mentioned are appropriated,
- e. 1% as bonus to employees after the four above-mentioned are appropriated,
- f. as special reserve or being retained partially by Vistas Design, and
- g. dividends to stockholders as proposed according to stock proportion.

Global Brands Manufacture's registered and issued capital as at December 31, 2008 and 2007 are summarized as follows:

	2008	2007
Authorized capital		
Share (in thousands)	<u>500,000</u>	<u>430,000</u>
Par value (in dollars)	<u>\$ 10</u>	<u>\$ 10</u>
Capital	<u>\$ 5,000,000</u>	<u>\$ 4,300,000</u>
Issued capital		
Share (in thousands)	<u>377,892</u>	<u>309,400</u>
Par value (in dollars)	<u>\$ 10</u>	<u>\$ 10</u>
Capital	<u>\$ 3,778,923</u>	<u>\$ 3,094,008</u>

Global Brands Manufacture's outstanding capital was \$3,094,008 thousand divided into 309,400 thousand common shares with a par value of \$10.00 dollars each as at January 1, 2008. As at May 30, 2008, Global Brands Manufacture's shareholders in their meeting resolved to issue additional capital stock of \$684,915 thousand through stock dividends of \$618,802 thousand and bonuses to employees of 66,113 thousand. Accordingly, Global Brands Manufacture's outstanding capital stock was amounted to \$3,778,923 thousand divided into 377,892 thousand common shares with a par value of \$10 dollars per share as at December 31, 2008.

At the meeting on October 15, 2002, the board of directors of Global Brands Manufacture resolved to issue employee stock warrants in accordance with the Securities and Exchange Law Article 28-3 within the quantity of 5,672 units. Each stock warrant is granted the right to purchase 1,000 new issued common shares. The exercise price is the closing price of Global Brands Manufacture's common shares at the employee stock warrants' issuance date. The warrant holders can exercise the right up to one-third of the granted warrant units no earlier than two years from the granted date. After four years from the granted date, the warrants holders are eligible to exercise all the warrants owned. As of December 13, 2002 and September 22, 2003, Global Brands Manufacture issued 5,662 units and 10 units, respectively, of employee stock warrants to the employees with an exercise price of \$29.50 dollars and \$64 dollars per unit. The exercise price will be adjusted according to calculating formula subject to stock and cash dividends and issuance of capital stock. In 2007, the warrants exercised were 4,350 units and 10 units, respectively. As at December 31, 2008, the outstanding warrants were 1,312 units, and the exercise price was \$10.30 dollars per unit.

At the meeting on September 22, 2003, the board of directors of Global Brands Manufacture resolved to issue another employee stock warrants with the quantity of 10,672 units. The issuing rules are the same as the first issuance mentioned above. Global Brands Manufacture issued all the employee stock warrants with an exercise price of \$50.50 dollars per unit on November 12, 2003. The exercise price will be adjusted according to calculating formula subject to stock and cash distributions and issuance of capital stock. As at December 31, 2008, the exercise price was \$20 dollars per unit and total unsubscribed shares available for sale were 16,599 thousand shares.

At the meeting on December 5, 2007, the board of directors of Global Brands Manufacture resolved to issue another employee stock warrants with the quantity of 15,000 units. Each of the employee stock warrant is granted the right to purchase one new issued common share. The issuing rules are the same as the first issuance mentioned above. Global Brands Manufacture issued all the employee stock warrants with an exercise price of \$41.55 dollars per unit on December 24, 2007. The exercise price will be adjusted according to calculating formula subject to stock and cash distributions and issuance of capital stock. As at December 31, 2008, the exercise price was \$32.30 dollars per unit and total unsubscribed shares available for sale were 18,321 thousand shares.

Information about employee stock option plans in 2008 and 2007 was as follows:

Employee Stock Warrants	2008		2007	
	Number of Stock Purchasable (Thousand Shares)	Weighted-average Exercise Price (NT\$)	Number of Stock Purchasable (Thousand Shares)	Weighted-average Exercise Price (NT\$)
Balance, beginning of year	29,903	\$33.23	20,885	\$27.68
Stock warrants granted	-	-	15,000	17.62
Adjustment from ownership dilution	6,329	-	1,678	-
Stock warrants exercised	-	-	(7,660)	(19.21)
Balance, end of year	<u>36,232</u>	25.87	<u>29,903</u>	33.23
Exercisable stock warrants, end of year	<u>17,911</u>	19.29	<u>14,903</u>	24.86

Information about outstanding and exercisable options as of December 31, 2008 and 2007 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>2008</u>					
\$10.30~\$32.30	<u>36,232</u>	<u>6.99</u>	<u>\$ 25.87</u>	<u>17,911</u>	<u>\$ 19.29</u>
<u>2007</u>					
\$14.10~\$41.55	<u>29,903</u>	<u>7.96</u>	<u>\$ 33.23</u>	<u>14,903</u>	<u>\$ 24.86</u>

If the compensation cost based on the fair value method is accounted for as expenses, the pro-forma results of Global Brands Manufacturing for the year ended December 31, 2008 would have been as follows:

Assumptions	
Risk-free interest rate	2.5%
Expected life	6.5 years
Expected volatility	38.07
Dividend rate	-
Net income	
As reported	\$ 505,556
Pro-forma	\$ 410,115
Basic earnings per share (in dollar)	
As reported	\$1.35
Pro-forma	\$1.10
Diluted earnings per share (in dollar)	
As reported	\$1.33
Pro-forma	\$1.08

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

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

23. TREASURY STOCK

The changes in treasury stock in 2008 are summarized as follows (in shares):

Reason	2008.01.01	Increase	Decrease	2008.12.31
For transfer to employees	-	43,300,000	-	43,300,000
To maintain the Company's credibility and shareholders' interest	-	67,200,000	50,000,000	17,200,000
Common shares held by subsidiaries	<u>8,626,368</u>	<u>928,597</u>	<u>-</u>	<u>9,554,965</u>
	<u>8,626,368</u>	<u>111,428,597</u>	<u>50,000,000</u>	<u>70,054,965</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 \$1,344,265 thousand (60,500 thousand common shares) was purchased by Pou Chen.

The Company wrote off 50,000 thousand shares in December 2008, and got the approval of the Ministry of Economic Affairs with a document No. 09801011170 as at January 16, 2009.

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.

In 2008, after the stock dividends were received by the subsidiaries, 928,597 shares were added to treasury stock. As at December 31, 2008, the subsidiaries held 9,554,965 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:

Company's Name	Shares	Amount
Wealthplus	134,631	\$ 3,181
Pou Shine	1,914,083	40,919
Ming Wang	1,434,525	27,242
Barits Development	4,507,527	96,361
Top Score	145,832	3,311
Ming Chi	85,086	1,818
Pou Yii	1,508,230	25,415

24. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

Personnel, depreciation, and amortization expenses for the years ended December 31, 2008 and 2007 are summarized as follows:

Category \ Function	2008			2007		
	Operating Cost	Operating Expenses	Total	Operating Cost	Operating Expenses	Total
Personnel expense						
Salaries	\$24,327,237	10,246,272	34,573,509	20,445,004	8,827,986	29,272,990
Labor insurance and health insurance	765,624	339,315	1,104,939	620,272	326,135	946,407
Pension cost	295,903	654,013	949,916	214,485	336,493	550,978
Others	107,142	122,028	229,170	90,520	115,575	206,095
Depreciation expenses	4,661,701	2,135,589	6,797,290	4,840,489	1,826,335	6,666,824
Amortization expenses	18,016	114,631	132,647	10,086	130,275	140,361

25. INCOME TAX

The Company's income tax expense for the year ended December 31, 2008 is as follows:

Income tax expense, current	\$ 881,842
10% additional income tax on undistributed earnings of 2007	53,069
Adjustment of deferred tax asset and valuation allowance	24,886
Adjustment of prior year's income tax expense	<u>(14,455)</u>
Income tax expense	<u>\$ 945,342</u>

The components of deferred tax assets (liabilities) as at December 31, 2008 are as follows:

Unrealized inventory devaluation losses	\$ 21,394
Unrealized bad debt losses	119,296
Unrealized pension expense	154,830
Unrealized loss on decline in market value of long-term investments	3,550
Losses carryforward	589,954
Others	(198,988)
Less valuation allowance	<u>(641,314)</u>
Deferred tax assets	48,722
Deferred tax assets, current	(59,495)
Deferred tax assets, noncurrent	<u>(254,251)</u>
Deferred tax liabilities, noncurrent	<u>\$ (265,024)</u>

The Company's income tax expense for the year ended December 31, 2008 and income tax payable as at December 31, 2008 were reconciled as follows:

Income tax expense at statutory rate of 25%	\$ 2,174,045
Investment income recognized under equity method	(1,221,338)
Income from incentive of taxation for business operating headquarter	(169,724)
Dividend income - tax free	(149,573)
Others	<u>248,432</u>
Current income tax expense	881,842
Provision for (reversal of) deferred income tax asset	
Unrealized bad debt losses	68,300
Unrealized inventory devaluation losses	(1,050)
Unrealized pension expense	5,500
Unrealized net exchange loss	(15,751)
Unrealized sales allowance	2,900
Losses carryforward	(23,316)
Others	<u>(423,157)</u>
Income tax payable	495,268
Add 10% additional income tax on unappropriated earnings of 2007	53,069
Add prior year's income tax payable	20,214
Less temporary tax payment	<u>(47,605)</u>
Income tax payable as at December 31, 2008	<u>\$ 520,946</u>

The income tax returns of Pou Chen and Pan Asia Insurance Services for the years through 2005 have been examined and approved by the tax authority. The income tax returns of Pou Yuen Technology, Barits Development, Pro Arch Technology, Global Brands Manufacture, Cheng Cheng, Ming Wang, Pou Shine, Yun Yang, Song Ming, Ming Shun, Windsor Entertainment, Pou Yii, Ming Chi and Wang Yi for the years through 2006 have been examined and approved by the tax authority.

As at December 31, 2008, the amount and year of expiration of deductible loss carryforward by individual company are as follows:

	Pou Yuen Technology	Pro Arch Technology	Windsor Entertainment	Proshine Healthcare	Wang Yi Construction	Right and Great Asia-Pacific	Vistas Design
2013	\$ 6,600	\$ 131,320	\$ 370	\$ -	\$ -	\$ -	\$ -
2014	31,400	143,690	1,270	-	-	-	-
2015	-	153,480	2,490	-	-	-	-
2016	-	14,340	39,270	-	-	-	-
2017	-	1,350	29,300	238	-	-	-
2018	-	11,580	14,570	3,950	3,273	928	535
	<u>\$ 38,000</u>	<u>\$ 455,760</u>	<u>\$ 87,270</u>	<u>\$ 4,188</u>	<u>\$ 3,273</u>	<u>\$ 928</u>	<u>\$ 535</u>

The information of the integrated income tax system as at December 31, 2008 is as follows:

	Pou Chen	Ming Wang	Windsor Entertainment	Pou Shine	Pan Asia Insurance Service	Barits Development	Song Ming	Pou Yii	Wang Yi	Ming Chi
IC Balance of Imputation Credit Account	\$ 342,988	\$ 5,879	\$ -	\$ 19,266	\$ 179	\$ 135,245	\$ 23,368	\$ 3,389	\$ 17,643	\$ 2,427
Undistributed earnings for the years of 1997 and before	\$ 310,501	\$ -	\$ -	\$ -	\$ -	\$ 515,118	\$ -	\$ 7,176	\$ -	\$ -
Undistributed earnings for the years of 1998 and after	\$ 7,904,299	\$ 31,366	\$ (62,313)	\$ 71,846	\$ 419	\$ 1,437,407	\$ 5,939	\$ (2,831)	\$ (12,921)	\$ 27,086
Expected IC ratio on distributable earnings of 2008	4.34%	22.08%	-	26.82%	33.33%	11.72%	33.33%	-	-	11.68%
Actual IC ratio of earnings distribution for the year of 2007	6.94%	12.76%	-	10.62%	33.33%	7.19%	0.30%	17.84%	Non-distribution	5.60%

	Right and Great Asia-Pacific	Ming Shun	Pou Chin	Pou Yuen Technology	Yun Yang	Pro Arch Technology	Global Brands Manufacture	Cheng Cheng	Proshine Healthcare	LCN Technology	Vistas Design
IC Balance of Imputation Credit Account	\$ 147	\$ 5,574	\$ 51	\$ 9,337	\$ 2,565	\$ 730	\$ 235,480	\$ 175	\$ 120	\$ 465	\$ -
Undistributed earnings for the years of 1997 and before	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Undistributed earnings for the years of 1998 and after	\$ (3,219)	\$ 12,847	\$ 1,216	\$ (542,548)	\$ 16,172	\$ (237,582)	\$ 1,676,421	\$ 1,384	\$ (18,368)	\$ (70,927)	\$ (2,232)
Expected IC ratio on distributable earnings of 2008	-	33.33%	17.93%	-	16.20%	-	15.34%	24.43%	-	-	-
Actual IC ratio of earnings distribution for the year of 2007	-	-	-	-	9.37%	-	18.96%	26.01%	-	-	-

In the balance of imputation credit account as at December 31, 2008, the income tax payable for 2008 has been taken into account.

26. EARNINGS PER SHARE

For the years ended December 31, 2008 and 2007, earnings per share before income tax and earnings per share after income tax are as follows:

	2008						
	Amount		Income After Tax (Attributed to Pou Chen's Stockholders)	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 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	\$ 12,108,609	\$ 11,163,267	\$ 5,071,488	2,744,189	\$ 4.41	\$ 4.07	\$ 1.85
Effect of dilutive potential common shares							
Bonus to employee	-	-	-	4,380			
Employee stock warrants	-	-	-	26,638			
Diluted earnings per share							
Net income plus the effect of dilutive potential common shares	\$ 12,108,609	\$ 11,163,267	\$ 5,071,488	2,775,207	\$ 4.36	\$ 4.02	\$ 1.83

	2007						
	Amount		Income After Tax (Attributed to Pou Chen's Stockholders)	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 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	\$ 13,248,559	\$ 11,793,362	\$ 4,800,250	2,708,259	\$ 4.89	\$ 4.35	\$ 1.77
Effect of dilutive potential common shares							
Employee stock warrants	-	-	-	40,137			
Convertible bonds	-	-	-	66			
Diluted earnings per share							
Net income plus the effect of dilutive potential common shares	\$ 13,248,559	\$ 11,793,362	\$ 4,800,250	2,748,462	\$ 4.82	\$ 4.29	\$ 1.75

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 years ended December 31, 2008 and 2007 are as follows:

	2008						
	Amount		Income After Tax (Attributed to Pou Chen's Stockholders)	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 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	\$ 12,117,293	\$ 11,171,951	\$ 5,080,172	2,753,744	\$ 4.40	\$ 4.06	\$ 1.84
Effect of dilutive potential common shares							
Bonus to employee	-	-	-	4,380			
Employee stock warrants	-	-	-	26,638			
Diluted earnings per share							
Net income plus the effect of dilutive potential common shares	\$ 12,117,293	\$ 11,171,951	\$ 5,080,172	2,784,762	\$ 4.35	\$ 4.01	\$ 1.82

	2007						
	Amount		Income After Tax (Attributed to Pou Chen's Stockholders)	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 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	\$ 14,854,774	\$ 13,399,577	\$ 6,406,465	2,778,049	\$ 5.35	\$ 4.82	\$ 2.31
Effect of dilutive potential common shares							
Employee stock warrants	-	-	-	40,137			
Convertible bonds	-	-	-	66			
Diluted earnings per share							
Net income plus the effect of dilutive potential common shares	\$ 14,854,774	\$ 13,399,577	\$ 6,406,465	2,818,252	\$ 5.27	\$ 4.75	\$ 2.27

27. DISCLOSURES FOR FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

The fair value of nonderivative and derivative financial instruments as at December 31, 2008 and 2007 is summarized as follows:

Nonderivative Financial Instruments	2008		2007	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
Cash and cash equivalents	\$27,536,547	\$27,536,547	\$22,182,017	\$22,182,017
Financial assets at fair value through profit of loss, current	762,632	762,632	9,063,649	9,063,649
Available-for-sale financial assets, current	5,259,939	5,259,939	-	-
Notes and accounts receivable	27,648,451	27,648,451	27,561,638	27,561,638
Accounts receivable from affiliates	1,472,203	1,472,203	1,253,041	1,253,041
Other receivables	4,606,608	4,606,608	4,302,312	4,302,312
Investments accounted for by the equity method	31,686,734	25,985,396	27,828,293	25,655,507
Available-for-sale financial assets, noncurrent	811,757	811,757	1,052,475	1,052,475
Financial assets carried at cost, noncurrent	1,510,292	-	923,100	-
Refundable deposits	2,761,707	2,761,707	777,604	777,604
Long-term receivables	-	-	327,485	327,485
Liabilities				
Short-term loans	28,883,892	28,883,892	19,261,143	19,261,143
Short-term bills payable	852,539	852,539	777,108	777,108
Notes and accounts payable	14,319,713	14,319,713	17,386,547	17,386,547
Notes and accounts payable to affiliates	976,703	976,703	1,171,769	1,171,769
Other payables	13,519,401	13,519,401	10,449,986	10,449,986
Current portion of long-term liabilities	14,071,611	14,071,611	14,021,742	14,021,742
Bonds payable	8,379,711	8,379,711	7,826,754	7,826,754
Long-term debt	36,008,075	36,008,075	31,475,222	31,475,222
Guarantee deposits received	3,873	3,873	19,787	19,787
Derivative Financial Instruments				
JV Call option (financial assets at fair value through profit or loss, current)	1,959,600	1,959,600	-	-
HKD Call option (financial assets at fair value through profit or loss, current)	426,910	426,910	-	-
Forward exchange contracts (financial assets at fair value through profit or loss, current)	50,924	50,924	101,344	101,344
Interest rate swap contracts (hedging financial assets - noncurrent)	-	-	39,812	39,812
Euro convertible bonds with options (financial liabilities at fair value through profit or loss, current)	1,294,223	1,294,223	771,769	771,769
Forward exchange contracts (financial liabilities at fair value through profit or loss, current)	88,144	88,144	7,589	7,589
Interest rate swap contracts (hedging financial liabilities, current)	25,822	25,822	45,962	45,962
Interest rate swap contracts (hedging financial liabilities, noncurrent)	163,495	163,495	-	-

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, 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) 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.
- (d) The fair value of long-term debt and bond payables is estimated based on the net present value of expected cash flows.

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

	Quoted Market Price in Active Market		Other Method of Valuation	
	2008	2007	2008	2007
Assets				
Financial assets at fair value through profit or loss, current	\$ 762,632	\$9,063,649	\$2,437,434	\$ 101,344
Available-for-sale financial assets, current	5,259,939	-	-	-
Available-for-sale financial assets, noncurrent	811,757	1,052,475	-	-
Hedging derivative financial assets, noncurrent	-	-	-	39,812
Liabilities				
Financial liabilities at fair value through profit or loss, current	-	-	1,382,367	779,358
Hedging derivative financial liabilities, current	-	-	25,822	45,962
Hedging derivative financial liabilities, noncurrent	-	-	163,495	-

As at December 31, 2008 and 2007, financial liabilities exposed to cash flow interest rate risk were \$71,134,603 thousand and \$52,341,651 thousand, respectively.

The Company recognized an unrealized adjustment of \$(3,880,256) thousand and \$53,706 thousand, respectively, in equity for the changes in fair value of available-for-sale financial assets for the years ended December 31, 2008 and 2007.

Financial Risk Information

Market Risk

The risk that the Company engaged in portfolios of marketable equity securities and 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 \$115,990 thousand.

Credit Risk

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

Liquidity Risk

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

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

Cash Flow Risk on Interest Rat

The Company engaged in floating-interest-rate long-term borrowings. Therefore, cash flows are expected to fluctuate due to changes in market interest rates. One percentage increase in market rate will cause the Company to increase its cash-out by \$711,346 thousand.

Reclassifications

On August 29, 2008, the Company reclassified its financial assets in accordance with the newly amended SFAS No. 34, "Financial Instruments: Recognition and Measurement". The fair values at the reclassification date were as follows:

	Before Reclassifications	After Reclassifications
Financial assets at fair value through profit or loss - held for trading	\$ 9,200,548	\$ -
Available-for-sale financial assets	<u>-</u>	<u>9,200,548</u>
	<u>\$ 9,200,548</u>	<u>\$ 9,200,548</u>

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 December 31, 2008 were as follows:

	Carrying Amount	Fair Value
Available-for-sale financial assets	<u>\$ 5,259,939</u>	<u>\$ 5,259,939</u>

The changes in fair value of the reclassified financial assets recognized in profit and loss or shareholders' equity were as follows:

	Year Ended December 31, 2008			
	Before Reclassifications		After Reclassifications	
	Valuation Loss on Financial Assets	Recognized in Shareholders' Equity	Valuation Loss on Financial Assets	Recognized in Shareholders' Equity
Held for trading financial assets	\$ (25,301)	\$ -	\$ -	\$ -
Available-for-sale financial assets	-	-	-	(3,886,608)

The changes in fair value recognized in profit and loss or shareholders' equity from the reclassification date to December 31, 2008 and pro-forma information assuming no reclassifications were made were as follows:

	Pro-Forma Information Assuming No Reclassification Recognized in Profit and Loss
Available-for-sale financial assets	<u>\$ (3,911,909)</u>

28. RELATED PARTY TRANSACTIONS

Names and relationships of the related parties are as follows:

Name	Relationship
CMKC (HK) Limited ("CMKC")	CMK Corporation (CMK Corporation together with Global Brands Manufacture invest in CMK GBM and holds 49.00% ownership interest of CMK GBM) holds a 100.00% ownership interest
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

Name	Relationship
Bandwidth Trading Ltd. (“Bandwidth”)	The Company holds a 50.00% ownership interest
Dalian Dongzhijie Sports Industry Development Co., Ltd. (“Dalian Dongzhijie”)	The Company holds a 30.00% ownership interest
Vietnam Tiong Liong Industrial Co., Ltd. (“Vietnam Tiong Liong”)	The Company holds a 37.00% ownership interest
Pine Wood Industries Limited (“Pine Wood”)	The Company holds a 37.00% ownership interest
Yuen Thai Industrial Co., Limited (“Yuen Thai”)	The Company holds a 50.00% ownership interest
New Peak Services Limited (“New Peak”)	The Company holds a 69.99% ownership interest
Liberty Bell Investments Limited (“Liberty Bell”)	The Company holds a 49.00% ownership interest
Oftenrich Holdings Ltd. (“Oftenrich”)	The Company holds a 45.00% ownership interest
San Fang Chemical Industry Co., Ltd. (“San Fang”)	The Company holds a 44.72% 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
Shaanxi Jixian Longyue Sports Goods Company Limited (“Shaanxi Jixian”)	The Company holds a 50.00% ownership interest
Full Pearl International Ltd. (“Full Pearl”)	The Company holds a 47.90% ownership interest
i-Tech Enterprises Ltd. (“i-Tech”)	The Company holds a 50.00% ownership interest
Topmost Industries Limited (“Topmost”)	The Company holds a 50.00% ownership interest
Din Tsun Holding Co., Ltd. (“Din Tsun”)	The Company holds a 50.00% ownership interest
Hebei Zhanxin Sports Development Company Limited (“Hebei Zhanxin”)	The Company holds a 45.00% ownership interest
Zhejiang Jinguan Enterprise Development Company Limited (“Zhejiang Jinguan”)	The Company holds a 50.00% ownership interest
Yuen Foong Yu Paper (Dong Nai) Co., Ltd. (“Yuen Foong Yu”)	The Company holds a 40.00% ownership interest
PT KA Yuen Indonesia (“PT KA Yuen”)	The Company holds a 50.00% ownership interest

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

Sales

Sales to related parties for the years ended December 31, 2008 and 2007 are summarized as follows:

	<u>2008</u>		<u>2007</u>	
	Amount	Percentage to Net Sales	Amount	Percentage to Net Sales
CMKC	\$ 3,753,040	2	\$ 4,683,823	2
Others	<u>1,737,075</u>	<u>1</u>	<u>1,718,587</u>	<u>1</u>
	<u>\$ 5,490,115</u>	<u>3</u>	<u>\$ 6,402,410</u>	<u>3</u>

Cost of Sales - Purchases

Purchases from related parties for the years ended December 31, 2008 and 2007 are summarized as follows:

	<u>2008</u>		<u>2007</u>	
	Amount	Percentage to Net Purchases	Amount	Percentage to Net Purchases
Ka Yuen	\$ 1,923,108	1	\$ 2,053,738	1
Digital Sun	1,436,001	1	1,158,781	1
San Fang	1,332,125	1	1,206,044	1
Twinways	771,974	-	744,362	-
CMKC	728,884	-	1,019,995	1
Others	<u>4,826,483</u>	<u>4</u>	<u>3,375,947</u>	<u>2</u>
	<u>\$ 11,018,575</u>	<u>7</u>	<u>\$ 9,558,867</u>	<u>6</u>

Accounts Receivable

Accounts receivable from affiliates as at December 31, 2008 and 2007 are summarized as follows:

	<u>2008</u>		<u>2007</u>	
	Amount	Percentage to Accounts Receivable	Amount	Percentage to Accounts Receivable
CMKC	\$ 893,095	3	\$ 1,073,172	4
Others	579,108	2	195,889	-
Less allowance for doubtful accounts	<u>-</u>	<u>-</u>	<u>(16,020)</u>	<u>-</u>
	<u>\$ 1,472,203</u>	<u>5</u>	<u>\$ 1,253,041</u>	<u>4</u>

Notes and Accounts Payable

Notes and accounts payable to affiliates as at December 31, 2008 and 2007 are summarized as follows:

	<u>2008</u>		<u>2007</u>	
	<u>Amount</u>	<u>Percentage to Notes and Accounts Payable</u>	<u>Amount</u>	<u>Percentage to Notes and Accounts Payable</u>
Notes payable				
San Fang	<u>\$ 56,296</u>	<u>44</u>	<u>\$ 53,616</u>	<u>41</u>
Accounts payable				
Ka Yuen	\$ 332,192	2	\$ 328,483	2
Twinways	152,752	2	128,118	1
Digital Sun	61,433	-	143,195	1
San Fang	34,479	-	159,590	1
Others	<u>339,551</u>	<u>2</u>	<u>358,767</u>	<u>1</u>
	<u>\$ 920,407</u>	<u>6</u>	<u>\$ 1,118,153</u>	<u>6</u>

Credit Guarantees

See Note 30.

29. MORTGAGED PLEDGED ASSETS

	<u>Amount</u>
Land for development	\$ 1,404,981
Investment in real estate - land	<u>376,589</u>
	<u>\$ 1,781,570</u>

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 December 31, 2008 are as follows (unit: dollar):

U.S. Dollars	\$ 2,531,886
Japanese Yen	¥ 78,945,786

As at December 31, 2008, the Company has guaranteed the payments of credit of related parties amounted to \$5,148,980 thousand as follows:

Related Parties	Amount
Best Focus	\$ 484,714
Hua Jian	1,227,943
Cohen	452,400
Ka Yuen	62,143
Bandwidth	40,393
PT KA Yuen	32,314
Yuen Thai	372,857
New Peak	161,572
i-Tech	16,157
Topmost	16,157
Din Tsun	16,157
Vietnam Tiong Liong	24,510
Pine Wood	84,340
Liberty Bell	285,012
Oftenrich	363,536
Yuen Foong Yu	129,257
Full Pearl	77,393
Hubei Jiezhixing	306,109
Harbin Shenge	254,306
Zhejiang Yichuan	358,350
Hebei Zhanxin	127,153
Jilin Lingpao	70,641
Shaanxi Jixian	70,641
Zhejiang Jinguan	94,188
Dalian Dongzhijie	<u>56,513</u>
	<u>\$5,184,756</u>

31. SUBSEQUENT EVENTS

On February 4, 2009, for the reason of securing the Company's credibility and shareholders' equity, the board of directors of Pou Chen resolved to acquire Pou Chen's common stocks from the public during the period from February 5 to April 4 in 2009. The expected purchasing price interval was from \$11 dollars to \$20 dollars per share and the ceiling of quantity to be purchased was 22,500 thousand shares. At the date of the independent auditors' report, Pou Chen purchased 6,700 thousand shares, which amounted to \$98,899 thousand.

On January 21, 2009, the board of directors of Dynamic Skyline Ltd., the subsidiary of Global Brands Manufacturing, resolved to acquire 100% ownership in Class Choice Limited, through its subsidiary, High Class Properties Ltd., for US\$29,000 thousand, with a par value of US\$1 each share.

In October 2008, the board of directors of Yue Yuen resolved to repurchase 14,700,500 shares of its own stock through the Hong Kong Stock Exchange at an aggregate consideration of US\$30,366 thousand. The repurchased shares were subsequently cancelled on November 24, 2008.

As detailed in Note 19 to the consolidated financial statements, convertible bonds had matured on December 23, 2008 and were fully redeemed by Yue Yuen at the aggregate redemption amount of US\$264,829 thousand. On November 27, 2008, Yue Yuen obtained a loan facility of US\$150,000 thousand which has been used to redeem the convertible bonds.