

POU CHEN CORPORATION

**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

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

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

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

As described in Note 3 to the financial statements, effective January 1, 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 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.

We have also audited the consolidated financial statements of the Company and its subsidiaries for the years ended December 31, 2008 and 2007 (not being accompanied herein) on which we have issued our reports with a modified unqualified opinion and an unqualified opinion, respectively, thereon dated March 6, 2009.

March 6, 2009

Notice to Readers

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

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

POU CHEN CORPORATION

BALANCE SHEETS

DECEMBER 31, 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)	\$ 3,202,146	5	\$ 1,068,587	2	Short-term loans (Note 14)	\$ 3,560,000	6	\$ 3,160,000	5
Financial assets at fair value through profit or loss, current (Notes 2, 3 and 5)	99,999	-	3,079,767	5	Notes payable	36,045	-	53,017	-
Available-for-sale financial assets, current (Notes 2, 3 and 6)	1,821,838	3	-	-	Notes payable to affiliates (Note 26)	56,296	-	53,616	-
Notes receivable (Notes 2 and 7)	37,027	-	381	-	Accounts payable	648,320	1	831,652	1
Notes receivable from affiliates (Notes 2, 7 and 26)	2,527	-	26,525	-	Accounts payable to affiliates (Note 26)	122,757	-	417,896	1
Accounts receivable (Notes 2 and 8)	198,763	-	416,906	-	Income tax payable (Notes 2 and 23)	513	-	418,736	1
Accounts receivable from affiliates (Notes 2, 8 and 26)	1,071,999	2	1,359,283	2	Hedging derivative liabilities, current (Notes 2 and 25)	25,822	-	45,962	-
Other receivables	451,113	1	441,585	1	Other payables	720,402	1	530,282	1
Inventories (Notes 2 and 9)	148,804	-	134,798	-	Current portion of long-term liabilities (Note 15)	3,875,000	6	5,001,622	8
Other current assets (Notes 2 and 23)	81,497	-	97,181	-	Other current liabilities	24,672	-	53,439	-
Total current assets	7,115,713	11	6,625,013	10	Total current liabilities	9,069,827	14	10,566,222	17
FUNDS AND LONG-TERM INVESTMENTS					LONG-TERM LIABILITIES				
Investments accounted for by the equity method (Notes 2 and 10)	51,460,023	78	49,898,897	78	Long-term debt (Note 17)	12,125,000	19	9,000,000	14
Hedging derivative asset, noncurrent (Notes 2 and 25)	-	-	39,812	-	Hedging derivative liabilities, noncurrent (Notes 2 and 25)	163,495	-	-	-
Financial assets carried at cost, noncurrent (Notes 2 and 11)	-	-	50,000	-	Total long-term liabilities	12,288,495	19	9,000,000	14
Total funds and long-term investments	51,460,023	78	49,988,709	78	RESERVE FOR LAND VALUE INCREMENT TAX (Note 12)	86,547	-	86,547	-
PROPERTY, PLANT AND EQUIPMENT (Notes 2 and 12)					OTHER LIABILITIES				
Cost	5,403,492	8	5,412,243	9	Accrued pension cost (Notes 2 and 18)	577,247	1	554,295	1
Revaluation increment	279,008	1	279,008	-	Guarantee deposits received	2,288	-	2,696	-
	5,682,500	9	5,691,251	9	Others (Note 2)	30,754	-	29,169	-
Less accumulated depreciation	(1,750,214)	(3)	(1,572,374)	(2)	Total other liabilities	610,289	1	586,160	1
Construction in progress and prepayments for equipment	-	-	27,896	-	Total liabilities	22,055,158	34	20,238,929	32
Property, plant and equipment, net	3,932,286	6	4,146,773	7	STOCKHOLDERS' EQUITY				
OTHER ASSETS (Notes 2 and 13)	3,167,237	5	3,225,499	5	Capital stock (Note 19)	27,400,055	42	25,118,540	39
					Capital surplus (Note 2)	7,244,524	11	5,422,033	8
					Retained earnings (Note 20)	13,074,796	20	13,472,020	21
					Cumulative translation adjustments (Note 2)	1,416,859	2	(157,084)	-
					Unrealized losses on financial instruments (Note 2)	(4,151,134)	(7)	(87,710)	-
					Unrealized revaluation increment	134,641	-	134,641	-
					Treasury stock (Notes 2 and 21)	(1,499,640)	(2)	(155,375)	-
					Total stockholders' equity	43,620,101	66	43,747,065	68
TOTAL	\$ 65,675,259	100	\$ 63,985,994	100	TOTAL	\$ 65,675,259	100	\$ 63,985,994	100

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

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

POU CHEN CORPORATION

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 (Notes 2 and 26)	\$ 11,434,115	100	\$ 12,743,679	101
LESS SALES RETURNS AND ALLOWANCES	<u>(42,365)</u>	<u>-</u>	<u>(70,627)</u>	<u>(1)</u>
NET SALES AND REVENUES EARNED	11,391,750	100	12,673,052	100
COST OF GOODS SOLD (Note 26)	<u>8,643,780</u>	<u>76</u>	<u>9,911,390</u>	<u>78</u>
GROSS PROFIT BEFORE UNREALIZED OR REALIZED GROSS PROFIT FROM INTER-AFFILIATE TRANSACTIONS	2,747,970	24	2,761,662	22
(UNREALIZED) REALIZED GROSS PROFIT FROM INTER-AFFILIATE TRANSACTIONS	<u>(2,460)</u>	<u>-</u>	<u>1,584</u>	<u>-</u>
GROSS PROFIT	<u>2,745,510</u>	<u>24</u>	<u>2,763,246</u>	<u>22</u>
OPERATING EXPENSES				
Selling expenses	218,462	2	233,444	2
General and administrative expenses	1,428,706	13	1,309,104	10
Research and development expenses	<u>858,013</u>	<u>7</u>	<u>843,943</u>	<u>7</u>
Total operating expenses	<u>2,505,181</u>	<u>22</u>	<u>2,386,491</u>	<u>19</u>
INCOME FROM OPERATIONS	<u>240,329</u>	<u>2</u>	<u>376,755</u>	<u>3</u>
NON-OPERATING INCOME				
Interest income	8,215	-	59,308	1
Investment income recognized under equity method (Note 10)	4,936,429	43	5,073,067	40
Dividend income	198,718	2	184,376	1
Gain on disposal of property, plant and equipment	1,971	-	2,036	-
Rental income (Note 26)	172,432	2	187,212	2
Reversal of provision for bad debts	1,146	-	7,500	-
Others	<u>131,102</u>	<u>1</u>	<u>169,864</u>	<u>1</u>
Total non-operating income	<u>5,450,013</u>	<u>48</u>	<u>5,683,363</u>	<u>45</u>
NON-OPERATING EXPENSES				
Interest expense	475,179	4	406,810	3
Loss on disposal of property, plant and equipment	1,893	-	1,427	-
Loss on disposal of investments	12,944	-	20,936	-
Foreign exchange loss, net	24,962	-	36,425	-
Impairment loss (Note 11)	50,000	-	-	-

(Continued)

POU CHEN CORPORATION

STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2008 AND 2007

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

	2008		2007	
	Amount	%	Amount	%
Provision for loss on inventories	\$ 15,000	-	\$ 1,000	-
Valuation loss on financial assets (Note 5)	589	-	305,365	3
Others	<u>64,817</u>	<u>1</u>	<u>64,545</u>	<u>1</u>
Total non-operating expenses	<u>645,384</u>	<u>5</u>	<u>836,508</u>	<u>7</u>
INCOME BEFORE INCOME TAX	5,044,958	45	5,223,610	41
INCOME TAX BENEFIT (EXPENSE) (Notes 2 and 23)	<u>26,530</u>	<u>-</u>	<u>(423,360)</u>	<u>(3)</u>
NET INCOME	<u>\$ 5,071,488</u>	<u>45</u>	<u>\$ 4,800,250</u>	<u>38</u>

	2008		2007	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
BASIC EARNINGS PER SHARE (Notes 2 and 24)	<u>\$ 1.84</u>	<u>\$ 1.85</u>	<u>\$ 1.93</u>	<u>\$ 1.77</u>
DILUTED EARNINGS PER SHARE (Notes 2 and 24)	<u>\$ 1.82</u>	<u>\$ 1.83</u>	<u>\$ 1.90</u>	<u>\$ 1.75</u>

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

	2008		2007	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
NET INCOME	<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 24)	<u>\$ 1.84</u>	<u>\$ 1.84</u>	<u>\$ 2.46</u>	<u>\$ 2.31</u>
DILUTED EARNINGS PER SHARE (Notes 2 and 24)	<u>\$ 1.81</u>	<u>\$ 1.82</u>	<u>\$ 2.42</u>	<u>\$ 2.27</u>

(Concluded)

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

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

POU CHEN CORPORATION

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	
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)	\$ 37,055,594
Appropriation of earnings													
Legal reserve	-	-	-	-	-	577,197	-	(577,197)	-	-	-	-	-
Special reserve	-	-	-	-	-	-	(11,589)	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
Net income for 2007	-	-	-	-	-	-	-	4,800,250	-	-	-	-	4,800,250
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)	43,747,065
Appropriation of earnings													
Legal reserve	-	-	-	-	-	480,025	-	(480,025)	-	-	-	-	-
Special reserve	-	-	-	-	-	-	(1,313,097)	1,313,097	-	-	-	-	-
Bonuses to directors and supervisors	-	-	-	-	-	-	-	(169,000)	-	-	-	-	(169,000)
Bonuses to employees (Note 19)	273,216	-	-	-	-	-	-	(273,216)	-	-	-	-	-
Stock dividends (Note 19)	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
Adjustment 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 19)	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 21)	-	-	-	-	-	-	-	-	-	-	-	(2,077,341)	(2,077,341)
Retirement of treasury stock - 50,000 thousand shares (Note 21)	(500,000)	(14,481)	(26,750)	(191,845)	-	-	-	-	-	-	-	733,076	-
Net income for 2008	-	-	-	-	-	-	-	5,071,488	-	-	-	-	5,071,488
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)	\$ 43,620,101

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

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

POU CHEN CORPORATION

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

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 5,071,488	\$ 4,800,250
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	385,256	376,066
Impairment loss	50,000	-
Loss on disposal of investments	12,944	20,936
Reversal of bad debts	(1,146)	(7,500)
Provision for loss on inventory devaluation	15,000	1,000
Investment income recognized under equity method	(4,936,429)	(5,073,067)
Cash dividends received from investees under equity method	237,987	5,823,758
Unrealized (realized) gross profit from inter-affiliate transactions	2,460	(1,584)
Net gain on disposal of property, plant and equipment	(78)	(609)
Valuation loss on financial assets	589	305,365
Net changes in operating assets and liabilities		
Notes receivable	(36,646)	10,673
Notes receivable from affiliates	23,998	(4,869)
Accounts receivable	219,289	(9,003)
Accounts receivable from affiliates	287,284	(178,382)
Other receivables	(9,528)	71,803
Inventories	(29,006)	(35,920)
Other current assets	6,571	75,280
Deferred income tax asset, noncurrent	(18,010)	(3,610)
Income tax prepayment	258	-
Notes payable	(16,972)	(45,794)
Notes payable to affiliates	2,680	(42,348)
Accounts payable	(183,332)	185,554
Accounts payable to affiliates	(295,139)	209,697
Income tax payable	(418,223)	416,844
Other payables	213,832	104,151
Other current liabilities	(28,767)	(38,934)
Foreign exchange adjustment on Euro convertible bonds	76	145
Reserve for retirement plan	22,952	14,654
Net cash provided by operating activities	<u>579,388</u>	<u>6,974,556</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in financial assets at fair value through profit or loss, current	(209,335)	(1,375,938)
Increase in investments accounted for by the equity method	(969,637)	(1,088,718)
Proceeds from disposal of long-term equity investments	5,125,640	-
Increase in financial assets carried at cost, noncurrent	-	(50,000)
Acquisitions of property, plant and equipment	(84,003)	(391,050)
Acquisitions of leased assets	(2,686)	-
Proceeds from disposal of property, plant and equipment	33,765	2,822
Proceeds from disposal of leased assets	1,894	-
(Increase) decrease in refundable deposits	(83)	11,872
Increase in deferred charges	(59,038)	(69,493)
Net cash provided by (used in) investing activities	<u>3,836,517</u>	<u>(2,960,505)</u>

(Continued)

POU CHEN CORPORATION

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

	2008	2007
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in short-term loans	\$ 400,000	\$ (130,000)
Repurchased Euro convertible bonds and domestic secured bonds	(5,001,698)	-
Increase in long-term debt	7,000,000	-
(Decrease) increase in guarantee deposits received	(408)	314
Transfer of treasury stock to employees	-	338,528
Execution of employee stock warrants	37,200	45,840
Cash dividends	(2,471,099)	(4,375,883)
Bonuses to directors and supervisors, as distribution of retained earnings	(169,000)	(156,191)
Cash paid for acquisition of treasury stock	<u>(2,077,341)</u>	<u>-</u>
Net cash used in financing activities	<u>(2,282,346)</u>	<u>(4,277,392)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,133,559	(263,341)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,068,587</u>	<u>1,331,928</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 3,202,146</u>	<u>\$ 1,068,587</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year		
Interest (excluding interest capitalized)	<u>\$ 466,541</u>	<u>\$ 403,157</u>
Income tax	<u>\$ 417,965</u>	<u>\$ 6,556</u>
SUPPLEMENTAL DISCLOSURES OF NONCASH 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 dividend received by subsidiaries	<u>\$ 8,684</u>	<u>\$ 15,121</u>
Current portion of long-term liabilities	<u>\$ 3,875,000</u>	<u>\$ 5,001,622</u>
Translation adjustments on foreign long-term equity investments	<u>\$ 1,573,943</u>	<u>\$ 44,274</u>
Convertible bonds transferred to common stock	<u>\$ -</u>	<u>\$ 22,318</u>
Treasury stock transferred to employees	<u>\$ -</u>	<u>\$ (57,638)</u>
Adjustments of stockholders' equity from sale of parent company's stock by subsidiaries	<u>\$ -</u>	<u>\$ 4,409,823</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	\$ 60,290	\$ 287,501
Add payables for acquisitions of property, plant and equipment at beginning of year	28,619	132,168
Less payables for acquisitions of property, plant and equipment at end of year	<u>(4,906)</u>	<u>(28,619)</u>
Cash paid during the year for acquisitions of property, plant and equipment	<u>\$ 84,003</u>	<u>\$ 391,050</u>

(Concluded)

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

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

POU CHEN CORPORATION

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

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, a subsidiary of Yue Yuen, has listed on Hong Kong Exchange and Clearing Limited.

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

As at December 31, 2008 and 2007, there were 3,058 and 3,079 employees of the Company, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements have been prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the ROC. Under these guidelines, law and principles, the Company is required to make certain estimates and assumptions that could affect the amounts of allowance for doubtful accounts, loss on inventory devaluation, depreciation expenses and impairment, amortization expenses, pension expense and the provision for bonuses to employees and supervisors, etc. Actual results could differ from these estimates.

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

The Company’s significant accounting policies are summarized as follows:

Current/Noncurrent Assets and Liabilities

Cash or cash equivalents, assets held for operating purposes and assets expected to be converted into cash, or consumed within one year from the balance sheet date are recorded as current assets. Property, plant and equipment 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 Measured 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.

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 in profit or 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, 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.

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 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.

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

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

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

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

An additional service life and a new residual value will be determined for any depreciable asset which is still in use after the end of its initially prescribed useful lives. Depreciation is computed using the straight-line method.

When assets are retired or disposed of, their costs and related accumulated depreciation are removed from the accounts. Any resulting gain or loss is credited to non-operating income or charged to non-operating expense.

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

Deferred Charges

Deferred charges are amortized on a straight-line basis over 5 years. However, the deferred financial fee of the long-term debt is amortized over the loan term.

Euro-Dollar Convertible Bonds

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

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

carrying amount of the convertible bonds over the par value of the entitlement certificates should be recognized as capital surplus.

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." According to the statement, 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

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

The Company also has a defined contribution pension plan under the 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.

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

Deferred Credits

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

Foreign Currency Transactions

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

Cumulative Translation Adjustments

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.

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

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

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

Revenue Recognition

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

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

Income Tax

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

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

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 and employee stock options 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 and employee stock 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 (including the effect of the subsidiaries' adoption of the same accounting change) decreased the income before income tax and net income both by \$147,739 thousand, and decreased basic earnings per share by \$0.05.

Accounting for Share-based Payment

Effective January 1, 2008, the Company adopted Statement of Financial Accounting Standards No. 39, "Accounting for Share-based Payment". This had no significant effect to the 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 25 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	\$ 2,073	\$ 1,922
Checking accounts	507	438
Savings accounts	2,173,567	339,568
Foreign-currency savings deposit	<u>1,025,999</u>	<u>726,659</u>
	<u>\$ 3,202,146</u>	<u>\$ 1,068,587</u>

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

	2008	2007
Marketable bonds	\$ 99,999	\$ -
Marketable equity securities	-	3,034,267
Open-ended mutual fund	-	45,500
	<u>\$ 99,999</u>	<u>\$ 3,079,767</u>

The net loss from financial assets at fair value through profit or loss, current for the years ended December 31, 2008 and 2007 amounted to \$589 and \$305,365 thousand, respectively.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS, CURRENT

	2008	2007
Marketable equity securities	<u>\$ 1,821,838</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 25 for the relevant information.

7. NOTES RECEIVABLE

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

	2008	2007
Notes receivable	\$ 37,027	\$ 381
Less allowance for doubtful accounts	<u>-</u>	<u>-</u>
	<u>37,027</u>	<u>381</u>
Notes receivable from affiliates (Note 26)	2,527	26,525
Less allowance for doubtful accounts	<u>-</u>	<u>-</u>
	<u>2,527</u>	<u>26,525</u>
	<u>\$ 39,554</u>	<u>\$ 26,906</u>

8. ACCOUNTS RECEIVABLE

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

	2008	2007
Accounts receivable	\$ 202,763	\$ 422,052
Less allowance for doubtful accounts	<u>(4,000)</u>	<u>(5,146)</u>
	<u>198,763</u>	<u>416,906</u>
Accounts receivable from affiliates (Note 26)	1,071,999	1,359,283
Less allowance for doubtful accounts	<u>-</u>	<u>-</u>
	<u>1,071,999</u>	<u>1,359,283</u>
	<u><u>\$ 1,270,762</u></u>	<u><u>\$ 1,776,189</u></u>

9. INVENTORIES

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

	2008	2007
Raw materials	\$ 118,240	\$ 95,018
Supplies	6,921	4,028
Work-in-process	24,488	6,067
Finished goods	38,569	54,501
Merchandise	<u>3,586</u>	<u>3,184</u>
	191,804	162,798
Less valuation allowance	<u>(43,000)</u>	<u>(28,000)</u>
	<u><u>\$ 148,804</u></u>	<u><u>\$ 134,798</u></u>

10. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

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

	2008			2007	
	Original Cost	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage
Wealthplus	\$ 295,429	\$ 38,200,876	100.00	\$ 34,381,524	100.00
Win Fortune	3,230	1,016,413	100.00	849,901	100.00
Ming Wang	427,291	404,297	100.00	769,140	100.00
Windsor Entertainment	500,000	147,687	100.00	8,501	100.00
Pou Shine	195,000	452,712	100.00	930,736	100.00
Pan Asia Insurance Services	3,000	4,147	100.00	4,200	100.00
Proshine Healthcare	280,000	261,679	100.00	279,012	100.00
Barits Development	1,836,345	2,852,609	99.47	4,276,080	98.34
Pou Yuen Technology	962,699	35,647	97.40	268,565	97.40
Pro Arch Technology	2,202,473	61,301	96.01	24,516	95.57
Yun Yang	98,413	128,918	91.15	128,273	91.15
LNC Technology	512,430	462,198	85.41	509,896	89.47

	2008			2007	
	Original Cost	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage
Right and Great Asia-Pacific	420,000	417,747	70.00	-	-
Vistas Design	3,250	1,799	65.00	-	-
Global Brands Manufacture	2,587,707	3,438,810	35.51	3,533,901	36.11
Techview International	380,115	104,802	30.02	373,117	30.02
Pou Yii	40,320	34,087	15.00	75,153	15.00
Elitegroup Computer	4,618,697	3,429,607	11.68	3,480,593	11.73
Wang Yi	7,315	4,687	7.32	5,789	7.32
	<u>\$ 15,373,714</u>	<u>\$ 51,460,023</u>		<u>\$ 49,898,897</u>	

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

	2008	2007
Wealthplus	\$ 5,166,846	\$ 5,004,501
Win Fortune	91,616	110,666
Ming Wang	30,750	(66,409)
Windsor Entertainment	(60,813)	(116,976)
Pou Shine	18,078	13,154
Pan Asia Insurance Services	418	524
Proshine Healthcare	(17,381)	(987)
Barits Development	151,947	(210,799)
Pou Yuen Technology	(110,825)	(215,754)
Pro Arch Technology	(248,552)	4,107
Yun Yang	5,189	10,693
LNC Technology	(63,421)	(118)
Right and Great Asia-Pacific	(1,865)	-
Vistas Design	(1,451)	-
Global Brands Manufacture	192,722	542,371
Techview International	(266,701)	(87,880)
Pou Yii	1,143	(4,555)
Elitegroup Computer	49,801	90,016
Wang Yi	(1,072)	513
	<u>\$ 4,936,429</u>	<u>\$ 5,073,067</u>

Wealthplus Holdings Limited ("Wealthplus") and Win Fortune Investments Limited ("Win Fortune"), 100%-owned subsidiaries of the Company, were incorporated in the British Virgin Islands. These two companies primarily invest in companies which are engaged in the manufacturing and sales of sports-footwear and making investments in the People's Republic of China (PRC) through an investment in Yue Yuen Industrial (Holdings) Limited ("Yue Yuen"), a Hong Kong listed company. The Company also purchased stocks of Yue Yuen through Wealthplus, Win Fortune and Top Score Investments Limited ("Top Score"), 100% owned subsidiary of Barits Development. As of December 31, 2008, the Company effectively holds 49.98% ownership in Yue Yuen.

As the accounting year for these two investees is from October 1 of the preceding year to September 30 of the year. The Company accounted for its investment income recognized under equity method from these companies based on these companies' financial results for the years ended September 30, 2008 and 2007, which was allowed by the accounting principles generally accepted in the ROC.

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

The primary income of Wealthplus and Win Fortune in 2008 and 2007 are summarized as follows:

	<u>Wealthplus</u>		<u>Win Fortune</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Equity in earnings of Yue Yuen	\$ 5,171,203	\$ 5,661,036	\$ 99,676	\$ 109,117
Equity in earnings of other overseas investees	438,472	(80,242)	-	-
Others	<u>(442,829)</u>	<u>(576,293)</u>	<u>(8,060)</u>	<u>1,549</u>
	<u>\$ 5,166,846</u>	<u>\$ 5,004,501</u>	<u>\$ 91,616</u>	<u>\$ 110,666</u>

Wealthplus's distributed earnings amounted to US\$120,000 thousand (NT\$3,935,633 thousand) in 2007.

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.

Ming Wang Investments Co., Ltd. ("Ming Wang") was established in September 1996, with an outstanding common stock of \$681,192 thousand at par value of \$10 dollars per share at December 31, 2008, and is primarily engaged in investing activities.

Windsor Entertainment Co., Ltd. ("Windsor Entertainment") was established in July 2003, and 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.

Pou Shine Investments Co., Ltd. ("Pou Shine") was established in March 1990, with an outstanding common stock of \$709,594 thousand at December 31, 2008, and is primarily engaged in investing activities.

Pan Asia Insurance Services Co., Ltd. ("Pan Asia Insurance Services") was established in May 1999, with an outstanding common stock of \$3,000 thousand at December 31, 2008, and is primarily engaged in agency of property and casualty insurance.

Proshine Healthcare Co., Ltd. ("Proshine Healthcare") was established in November 2007, with an outstanding common stock of \$280,000 thousand at December 31, 2008, and is primarily engaged in sale of medical devices and precision instruments.

Barits Development Corporation ("Barits Development") was established in November 1985, with an outstanding common stock of \$1,186,900 thousand at December 31, 2008, and is primarily engaged in leather manufacturing and investing activities. In June 2008, the Company purchased 1,028 thousand shares for \$55,937 thousand. Accordingly, the Company's ownership was increased from 98.34% to 99.47%.

Pou Yuen Technology Co., Ltd. ("Pou Yuen Technology") was established in December 1993, with an outstanding common stock of \$900,000 thousand at December 31, 2008. Pou Yuen Technology is mainly engaged in manufacturing computer peripheral and data storage media and information technology service. In January 2007, Pou Yuen Technology issued additional capital stock by \$300,000 thousand at a price of \$10 dollars per share, of which \$298,598 thousand was subscribed by the Company.

Pro Arch Technology Inc. (“Pro Arch Technology”) was established in June 1999, with an outstanding common stock of \$301,000 thousand at December 31, 2008. It is primarily 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, of which \$288,020 thousand was subscribed by the Company. Accordingly, the Company’s ownership was increased from 95.57% to 96.01%.

Yun Yang Investments Co., Ltd. (“Yun Yang”) was established in April 1997, with an outstanding common stock of \$92,792 thousand at December 31, 2008, and is primarily engaged in investing activities.

LNC Technology Co., Ltd. (“LNC Technology”) was established in August 2007, with an outstanding common stock of \$600,000 thousand at December 31, 2008, and is primarily engaged in manufacturing and sale of precision instruments 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, of which \$2,430 thousand was subscribed by the Company. Accordingly, the Company’s ownership was decreased from 89.47% to 85.41%.

The Right and Great Asia-Pacific Realty Development Co., Ltd. (“Right and Great Asia-Pacific”) was established in March 2008, with an outstanding common stock of \$600,000 thousand at December 31, 2008, and is primarily engaged in real estate development and investing activities. The Company as one of the original shareholders invested \$170,000 thousand for ownership of 48.57%. In September 2008, Right and Great Asia-Pacific issued additional capital stock of \$250,000 thousand at a price of \$10 dollars per share, which was fully subscribed by the Company. Accordingly, the Company’s ownership was increased from 48.57% to 70.00%.

Vistas Design Co., Ltd. (“Vistas Design”) was established in June 2008, with an outstanding common stock of \$5,000 thousand at December 31, 2008, and primarily engaged in product design, interior decorating and design services, and consulting in artistry. The Company as one of the original shareholders invested \$3,250 thousand in June 2008. As at December 31, 2008, the Company’s ownership was 65.00%.

Global Brands Manufacture Ltd. (“Global Brands Manufacture”) is engaged in manufacturing, assembling and sale of printed circuit boards. The shares of Global Brands Manufacture are listed on the Taiwan Stock Exchange Corporation. Global Brands Manufacture had an outstanding capital stock of \$3,778,923 thousand at December 31, 2008.

Techview International Technology Inc. (“Techview International”) was established in November 2003, with an outstanding common stock of \$1,337,622 thousand at December 31, 2008, and is primarily engaged in development, sale and assembly of TFT-LCD display.

Pou Yii Development Co., Ltd. (“Pou Yii”) was established in October 1996 with an outstanding common stock of \$525,000 thousand at December 31, 2008, and is primarily engaged in constructing buildings, selling and renting apartments, real estate investment analysis and consulting services.

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.

Wang Yi Construction Co., Ltd. (“Wang Yi”) was established in May 1984, with an outstanding common stock of \$77,000 thousand at December 31, 2008, and is primarily engaged in management of and investment in construction projects.

11. FINANCIAL ASSETS CARRIED AT COST, NONCURRENT

Financial assets carried at cost, noncurrent as at December 31, 2008 and 2007 consisted of the follows:

	2008	2007
DTE Technology Corp.	\$ <u> -</u>	\$ <u> 50,000</u>

The stocks mentioned above do not have public offering pricing and reliable fair values, thus they are carried at cost.

Due to the operation losses of DTE Technology Corp., the Company evaluated the investment and concluded its impairment, thus recognized a loss of \$50,000 for the year ended December 31, 2008, which was recorded as impairment loss.

12. PROPERTY, PLANT AND EQUIPMENT

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

	2008			2007	
	Cost	Reassessed Value Increment	Accumulated Depreciation	Carrying Value	Carrying Value
Land	\$ 976,670	\$ 238,754	\$ -	\$1,215,424	\$1,212,578
Buildings and improvements	3,248,526	40,254	930,032	2,358,748	2,471,273
Machinery equipment	517,783	-	363,659	154,124	168,156
Transportation equipment	204,357	-	147,578	56,779	73,252
Furniture, fixtures and office equipment	377,876	-	264,830	113,046	147,606
Other equipment	78,280	-	44,115	34,165	46,012
Construction in progress and prepayments for equipment	<u> -</u>	<u> -</u>	<u> -</u>	<u> -</u>	<u> 27,896</u>
	<u>\$5,403,492</u>	<u>\$ 279,008</u>	<u>\$1,750,214</u>	<u>\$3,932,286</u>	<u>\$4,146,773</u>

The Company recorded land value increment in 1987 and 1991 to reflect the value appraised and published by the government. Reserve for land value increment tax, payable upon sale of land, is presented under long-term liabilities. Furthermore, in accordance with the amended Land Tax Law, the Company decreased its reserve for land value increment tax by \$49,652 thousand with a corresponding increase in 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 \$475,422 thousand and \$408,536 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. The rates of capitalized interest for the year were 2.60% and 2.50%, respectively.

13. OTHER ASSETS

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

	2008	2007
Leased-out assets		
Cost and revaluation increment	\$ 3,146,129	\$ 3,145,337
Less accumulated depreciation	<u>(266,044)</u>	<u>(203,494)</u>
	<u>2,880,085</u>	<u>2,941,843</u>
Refundable deposits	11,128	11,045
Deferred charges	35,664	49,955
Deferred income tax assets (Note 23)	159,680	141,670
Land held by trustee	73,713	73,713
Others - land and buildings for sale	5,478	5,526
Temporary tax payments (Note 23)	<u>1,489</u>	<u>1,747</u>
	<u>\$ 3,167,237</u>	<u>\$ 3,225,499</u>

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

Three parcels of land located in Changhwa County were purchased by the Company 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".

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

14. SHORT-TERM LOANS

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

	2008		2007	
	Annual Interest Rate %	Balance	Annual Interest Rate %	Balance
Unsecured loans	1.43~2.78	<u>\$ 3,560,000</u>	2.30~2.70	<u>\$ 3,160,000</u>

15. CURRENT PORTION OF LONG-TERM LIABILITIES

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

	2008	2007
Euro convertible bonds (see Note 16)	\$ -	\$ 1,622
Domestic secured bonds (see Note 16)	-	5,000,000
Long-term debt (see Note 17)	<u>3,875,000</u>	<u>-</u>
	<u>\$ 3,875,000</u>	<u>\$ 5,001,622</u>

16. BONDS PAYABLE

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

	2008	2007
Euro convertible bonds	\$ -	\$ 1,622
Less current portion (see Note 15)	<u>-</u>	<u>(1,622)</u>
	<u>-</u>	<u>-</u>
Domestic secured bonds	-	5,000,000
Less current portion (see Note 15)	<u>-</u>	<u>(5,000,000)</u>
	<u>-</u>	<u>-</u>
	<u>\$ -</u>	<u>\$ -</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

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

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

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

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

17. LONG-TERM DEBT

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

	2008	2007
Citibank (Lead Lender) Syndication Loan		
Long-term debt, \$6,500,000 thousand, due in semiannual repayments commencing April 25, 2009 and maturing October 25, 2010. Interest rates range from 2.586% to 2.668%.	\$ 6,500,000	\$ 6,500,000
China Trust Commercial Bank (Lead Lender) Syndication Loan		
Long-term debt, \$2,500,000 thousand, due in semiannual repayments commencing December 9, 2009 and maturing June 9, 2011. Interest rate is 2.3795%.	2,500,000	2,500,000

	2008	2007
China Trust Commercial Bank (Lead Lender) Syndication Loan Long-term debt, \$7,000,000 thousand, due in semiannual repayments commencing November 16, 2011 and maturing May 16, 2013. Interest rate is 2.3964%.	<u>7,000,000</u>	<u>-</u>
	16,000,000	9,000,000
Less current portion (see Note 15)	<u>(3,875,000)</u>	<u>-</u>
	<u>\$ 12,125,000</u>	<u>\$ 9,000,000</u>

18. PENSION PLAN

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

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

Service cost	\$ 28,056
Interest cost	30,944
Expected return on plan assets	(10,564)
Amortization of net transition asset	(1,875)
Amortization of pension loss	<u>6,131</u>
	<u>\$ 52,692</u>

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

Weighted-average discount rate	2.75%
Assumed rate of increase in salary	2.75%
Expected rate of return on plan assets	2.75%
Actuarial present value of benefit obligation	
Vested benefits	\$ (213,988)
Nonvested benefits	<u>(636,273)</u>
Accumulated benefit obligation	(850,261)
Additional benefits at future salaries	<u>(377,371)</u>
Projected benefit obligation	(1,227,632)
Plan assets at fair value	<u>384,600</u>
Projected benefit obligation in excess of plan assets	(843,032)
Net transition asset not yet recognized	(6,499)
Net pension loss not yet recognized	<u>272,284</u>
Accrued pension cost	<u>\$ (577,247)</u>

As at December 31, 2008, the vested benefit was \$287,593 thousand.

The Company recognized the pension cost expense of \$89,883 thousand based on 6% of the employees' monthly salaries and wages, under the Labor Pension Act in 2008.

19. CAPITAL STOCK

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

The Company's outstanding capital stock was \$25,118,540 thousand as at January 1, 2008. On June 13, 2008, the Company'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, the Company retired the treasury stock of 50,000 thousand shares (amounted \$500,000 thousand) and decreased the capital in December 2008. As a result, the Company'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 the Company resolved to issue employee stock warrants in accordance with Securities and Exchange Law Article 28-3 within the quantity of 67,600 units. Each individual employee stock warrant is granted the right to purchase new issued common share for 1,000 shares. The exercise price is the closing price of the Company's common shares at the employee stock warrants' issuance date. The warrant holder can exercise the right up to one-third of the granted warrant units no earlier than two years from the granted date. After four years from the granted date, the warrants holders are eligible to exercise all the warrants owned. As of August 6, 2002, and July 24, 2003, the Company has issued 66,600 units, and 1,000 units of employee stock warrants, respectively, to the employees with an exercise price of \$23.30 dollars, and \$41.20 dollars per share, respectively. The exercise price of 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, the Company 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 for 1 share.

If the Company 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 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.

As at December 31, 2008, the employee stock warrants issued in 2002 have been exercised for 22,836 thousand shares.

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

	<u>2008</u>		<u>2007</u>	
	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 the Company's outstanding and exercisable stock warrants was as follows:

Range of Exercise Price (NT\$)	<u>Stock Warrants Outstanding</u>			<u>Stock Warrants Exercisable</u>	
	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 the Company for the year ended December 31, 2008 would have been as follows:

	<u>2008</u>	<u>2007</u>
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, the Company adopted the Black-Scholes options pricing model to estimate the fair value of warrants on the grant dates, and the factors were as follows:

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

20. RETAINED EARNINGS

Under the Company Law of the ROC and the Company'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 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:

	<u>Appropriation of Earnings</u>		<u>Dividends Per Share (NT\$)</u>	
	<u>For</u>	<u>For</u>	<u>For</u>	<u>For</u>
	<u>Year 2007</u>	<u>Year 2006</u>	<u>Year 2007</u>	<u>Year 2006</u>
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	-	-

21. 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 the Company.

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.

22. 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	Non-Operating Expenses	Total	Operating Cost	Operating Expenses	Non-Operating Expenses	Total
Personnel expense									
Salaries		130,538	1,515,214	-	1,645,752	134,231	1,351,045	-	1,485,276
Labor insurance and health insurance		10,323	103,173	-	113,496	9,955	152,432	-	162,387
Pension cost		4,773	137,802	-	142,575	4,633	124,736	-	129,369
Others		4,592	37,799	-	42,391	3,651	39,813	-	43,464
Depreciation expenses		14,959	225,257	62,598	302,814	12,188	221,129	63,325	296,642
Amortization expenses		4,579	77,863	-	82,442	780	78,644	-	79,424

23. INCOME TAX

The Company's income tax benefit for the year ended December 31, 2008 is \$26,530 thousand.

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

Deferred tax assets	
Unrealized pension expense	\$ 146,660
Unrealized bad debt losses	26,670
Unrealized impairment loss	12,500
Unrealized inventory devaluation losses	10,750
Unrealized profit from inter-affiliate transactions	1,240
Unrealized maintenance and repairs expenses	380
Unrealized losses on disposal of property, plant and equipment	140
Unrealized net exchange loss	<u>3,280</u>
Deferred tax assets	201,620
Deferred tax assets, noncurrent	<u>(159,680)</u>
Deferred tax assets, current	<u>\$ 41,940</u>

The Company's current income tax 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%	\$ 1,261,200
Loss on disposal of investments	3,200
Dividend income - tax free	(49,700)
Income from operational headquarter incentive of taxation	(169,724)
Investments income recognized under equity method	(1,234,100)
Others	<u>189,124</u>
Income tax payable	-
Add: Prior year's income tax payable	<u>513</u>
Income tax payable as at December 31, 2008	<u>\$ 513</u>

Temporary tax payments amounted to \$1,489 thousand as at December 31, 2008.

The income tax returns for the years through 2005 have been examined and approved by the tax authority.

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

Balance of Imputation Credit Account	<u>\$ 342,988</u>
Undistributed earnings for the years of 1997 and before	<u>\$ 310,501</u>
Undistributed earnings for the years of 1998 and thereafter	<u>\$ 7,904,299</u>
Expected IC ratio on distributed earnings for the year of 2008	<u>4.34%</u>
Actual IC ratio of earnings distribution for the year of 2007	<u>6.94%</u>

24. 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				
	Amounts		Weighted Average Number of Common Shares Outstanding (In Thousands)	Earnings Per Share	
	Before Income Tax	After Income Tax		Before Income Tax	After Income Tax
Basic earnings per share					
Net income attributed to shareholders of common shares	\$ 5,044,958	\$ 5,071,488	2,744,189	<u>\$ 1.84</u>	<u>\$ 1.85</u>
Effect of dilutive potential common shares					
Bonus to employees	-	-	4,380		
Employee stock warrants	-	-	<u>26,638</u>		
Diluted earnings per share					
Net income attributed to shareholders of common shares plus the effect of dilutive potential common shares	<u>\$ 5,044,958</u>	<u>\$ 5,071,488</u>	<u>2,775,207</u>	<u>\$ 1.82</u>	<u>\$ 1.83</u>
	2007				
	Amounts		Weighted Average Number of Common Shares Outstanding (In Thousands)	Earnings Per Share	
	Before Income Tax	After Income Tax		Before Income Tax	After Income Tax
Basic earnings per share					
Net income attributed to shareholders of common shares	\$ 5,223,610	\$ 4,800,250	2,708,259	<u>\$ 1.93</u>	<u>\$ 1.77</u>
Effect of dilutive potential common shares					
Employee stock warrants	-	-	40,137		
Convertible bonds	-	-	<u>66</u>		
Diluted earnings per share					
Net income attributed to shareholders of common shares plus the effect of dilutive potential common shares	<u>\$ 5,223,610</u>	<u>\$ 4,800,250</u>	<u>2,748,462</u>	<u>\$ 1.90</u>	<u>\$ 1.75</u>

25. 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:

Nondervative Financial Instruments	2008		2007	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
Cash and cash equivalents	\$ 3,202,146	\$ 3,202,146	\$ 1,068,587	\$ 1,068,587
Financial assets at fair value through profit or loss, current	99,999	99,999	3,079,767	3,079,767
Available-for-sale financial assets, current	1,821,838	1,821,838	-	-
Notes and accounts receivable	235,790	235,790	417,287	417,287
Note and accounts receivable from affiliates	1,074,526	1,074,526	1,385,808	1,385,808
Other receivables	451,113	451,113	441,585	441,585
Investments accounted for by the equity method	51,460,023	47,847,470	49,898,897	88,116,071
Financial assets carried at cost, noncurrent	-	-	50,000	-
Refundable deposits	11,128	11,128	11,045	11,045
Liabilities				
Short-term loans	3,560,000	3,560,000	3,160,000	3,160,000
Notes and accounts payable	684,365	684,365	884,669	884,669
Notes and accounts payable to affiliates	179,053	179,053	471,512	471,512
Other payables	720,402	720,402	530,282	530,282
Current portion of long-term liabilities	3,875,000	3,875,000	5,001,622	5,001,622
Long-term debt	12,125,000	12,125,000	9,000,000	9,000,000
Guarantee deposits received	2,288	2,288	2,696	2,696
Derivative Financial Instruments	2008		2007	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Interest rate swap contracts (hedging derivative assets, noncurrent)	\$ -	\$ -	\$ 39,812	\$ 39,812
Interest rate swap contracts (hedging derivative liabilities, current)	25,822	25,822	45,962	45,962
Interest rate swap contracts (hedging derivative liabilities, noncurrent)	163,495	163,495	-	-

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

- The fair value of cash and cash equivalents, notes and accounts receivable, short-term loans, and notes and accounts payable, approximates their carrying value due to the short-term maturities of these financial instruments.
- The fair value of financial instruments at fair value through profit or loss, available-for-sale financial assets and derivative financial instruments are quoted by market price. The fair value of derivative financial instruments is measured, according to its specific contract's settlement rate, by the middle exchange rate and the discount rate quoted by Reuters.
- The fair values of investments accounted for by the equity method are based on their quoted prices in the active market. For those investments with no quoted market prices, their fair values are based on the net price per share in the financial report verified and certified by an independent accountant issued as at December 31, 2008.

- (d) Financial assets carried at cost are investments in unquoted shares, which have no quoted prices in an active market and entail an unreasonably high cost to obtain verifiable fair values. Therefore, no fair value is presented.
- (e) The fair value of long-term debt and bond payables is estimated based on the net present value of expected cash flows:

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

	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	\$ 99,999	\$3,079,767	\$ -	\$ -
Available-for-sale financial assets, current	1,821,838	-	-	-
Hedging derivative assets, noncurrent	-	-	-	39,812
Liabilities				
Hedging derivative liabilities, current	-	-	25,822	45,962
Hedging derivative liabilities, noncurrent	-	-	163,495	-

As at December 31, 2008 and 2007, financial liabilities exposed to cash flow interest rate risk were \$19,560,000 thousand and \$12,160,000 thousand, respectively.

Financial Risk Information

Market Risk

The risk that the Company engaged in portfolios of marketable equity securities and open-ended mutual fund comes from changes of market price. One percentage decline in market rate will cause the fair value of financial instruments to decline by \$40,774 thousand.

Credit Risk

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

Liquidity Risk

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

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

Cash Flow Interest Rate Risk

The Company engaged in floating-interest-rate, short-term and long-term borrowings. Therefore, cash flows are expected to fluctuate due to changes in market interest rates. One percentage increase in market rate will cause the Company to increase its cash-out by \$195,600 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	\$ 3,175,570	\$ -
Available-for-sale financial assets	<u>-</u>	<u>3,175,570</u>
	<u>\$ 3,175,570</u>	<u>\$ 3,175,570</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>\$ 1,821,838</u>	<u>\$ 1,821,838</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	Investment Income or Loss Recognized under Equity Method	Recognized in Shareholders' Equity	Valuation Loss on Financial Assets	Investment Income or Loss Recognized under Equity Method	Recognized in Shareholders' Equity
Held for trading financial assets	\$ (5,088)	\$ (20,213)	-	\$ -	\$ -	-
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		
	Valuation Loss on Financial Assets	Investment Income or Loss Recognized under Equity Method	Total
Available-for-sale financial assets	<u>\$ (1,358,820)</u>	<u>\$ (2,553,089)</u>	<u>\$ (3,911,909)</u>

26. RELATED PARTY TRANSACTIONS

Names and relationships of the related parties are as follows:

Name	Relationship
Wealthplus Holdings Limited (“Wealthplus”)	The Company holds a 100% ownership interest
Pou Shine Investments Co., Ltd. (“Pou Shine”)	The Company holds a 100% ownership interest
Ming Wang Investments Co., Ltd. (“Ming Wang”)	The Company holds a 100% ownership interest
Pou Yuen Technology Co., Ltd. (“Pou Yuen Technology”)	The Company holds a 97.40% ownership interest
Barits Development Corporation (“Barits Development”)	The Company holds a 99.47% ownership interest
Pou Yii Development Co., Ltd. (“Pou Yii”)	The Company and Song Ming hold a 90.00% ownership interest
Yue Yuen Industrial (Holdings) Limited (“Yue Yuen”)	The Company indirectly holds a 49.98% ownership interest
Ming Chi Investment Co., Ltd. (“Ming Chi”)	Barits Development holds a 100% ownership interest
Windsor Entertainment Co., Ltd. (“Windsor Entertainment”)	The Company holds a 100% ownership interest
Pou Chien Chemical Co., Ltd. (“Pou Chien Chemical”)	Yue Yuen indirectly holds a 100% ownership interest
Yue Dean Technology Co. (“Yue Dean”)	Yue Yuen indirectly holds a 100% ownership interest
San Fang Chemical Industry Co., Ltd. (“San Fang”)	Pou Chien and Yue Dean are its directors
Pro Arch Technology Inc. (“Pro Arch Technology”)	The Company holds a 96.01% ownership interest
Platinum Long John Co., Ltd. (“Platinum Long John”)	Yue Yuen indirectly holds a 48.76% ownership interest
Digital Decade Limited (“Digital Decade”)	Wealthplus indirectly holds a 100% ownership interest
Tetor Ventures Ltd. (“Tetor Ventures”)	Wealthplus holds a 100% ownership interest
Maple Star Investments Ltd. (“Maple Star”)	Wealthplus indirectly holds a 79.60% ownership interest
Vantage Capital Investments Ltd. (“Vantage Capital”)	Pou Yuen Technology indirectly holds a 100% ownership interest
Pou Chien Technology Co., Ltd. (“Pou Chien Technology”)	Yue Yuen indirectly holds a 100% ownership interest
Mindtech Investments Limited (“Mindtech”)	Wealthplus indirectly holds a 100% ownership interest
LNC Technology Co., Ltd. (“LNC Technology”)	The Company holds a 85.41% ownership interest

The Company's major transactions with the related parties are summarized as following:

Sales

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

	<u>2008</u>		<u>2007</u>	
	Amount	Percentage to Net Sales	Amount	Percentage to Net Sales
Yue Yuen	\$ 9,800,809	90	\$ 9,727,964	76
Others	<u>27,179</u>	<u>-</u>	<u>210,369</u>	<u>2</u>
	<u>\$ 9,827,988</u>	<u>90</u>	<u>\$ 9,938,333</u>	<u>78</u>

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

Technical Service Income

	2008	2007
Yue Yuen	<u>\$480,492</u>	<u>\$434,542</u>

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

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

Cost of Sales - Purchases and Cost of Processing

Purchases and cost of processing from related parties for the years ended December 31, 2008 and 2007 are summarized as following:

	<u>2008</u>		<u>2007</u>	
	Amount	Percentage to Net Purchases	Amount	Percentage to Net Purchases
San Fang	\$ 572,236	7	\$ 448,425	4
Yue Yuen	521,428	6	581,823	6
Platinum Long John	320,980	4	263,588	3
Digital Decade	74,201	1	1,934,210	20
Others	<u>180</u>	<u>-</u>	<u>2,746</u>	<u>-</u>
	<u>\$ 1,489,025</u>	<u>18</u>	<u>\$ 3,230,792</u>	<u>33</u>

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

Rent Revenue

Rent revenue from related parties for the years ended December 31, 2008 and 2007 are summarized as following:

	<u>2008</u>		<u>2007</u>	
	<u>Amount</u>	<u>Percentage to Rent Revenue</u>	<u>Amount</u>	<u>Percentage to Rent Revenue</u>
Windsor Entertainment	\$ 107,169	62	\$ 130,928	70
Pou Chien Chemical	14,442	8	17,027	9
Others	<u>38,434</u>	<u>23</u>	<u>27,399</u>	<u>15</u>
	<u>\$ 160,045</u>	<u>93</u>	<u>\$ 175,354</u>	<u>94</u>

Notes and Accounts Receivable

Notes and accounts receivable from affiliates as at December 31, 2008 and 2007 are summarized as following:

	<u>2008</u>		<u>2007</u>	
	<u>Amount</u>	<u>Percentage to Notes and Accounts Receivable</u>	<u>Amount</u>	<u>Percentage to Notes and Accounts Receivable</u>
Notes receivable				
Pou Chien Technology	\$ 2,435	6	\$ 24,986	93
Pou Chien Chemical	-	-	1,305	5
Others	<u>92</u>	<u>-</u>	<u>234</u>	<u>1</u>
	<u>2,527</u>	<u>6</u>	<u>26,525</u>	<u>99</u>
Accounts receivable				
Yue Yuen	1,061,060	84	1,330,366	75
Others	<u>10,939</u>	<u>1</u>	<u>28,917</u>	<u>1</u>
	<u>1,071,999</u>	<u>85</u>	<u>1,359,283</u>	<u>76</u>
	<u>\$ 1,074,526</u>		<u>\$ 1,385,808</u>	

Notes and Accounts Payable

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

	2008		2007	
	Amount	Percentage to Notes and Accounts Payable	Amount	Percentage to Notes and Accounts Payable
Notes payable				
San Fang	\$ 56,296	61	\$ 53,616	50
Accounts payable				
Yue Yuen	57,994	8	73,351	6
San Fang	34,479	4	47,998	4
Platinum Long John	30,277	4	21,833	2
Digital Decade	-	-	274,678	22
Others	7	-	36	-
	<u>122,757</u>	<u>16</u>	<u>417,896</u>	<u>34</u>
	<u>\$ 179,053</u>		<u>\$ 471,512</u>	

Compensation of Directors, Supervisors and Management Personnel

	Years Ended December 31	
	2008	2007
Salaries	\$ 18,457	\$ 21,614
Incentives	66,156	169,000
Special compensation	4,178	4,208
Bonus	6,769	15,595
	<u>\$ 95,560</u>	<u>\$ 210,417</u>

The compensation of directors, supervisors and management personnel for the year ended December 31, 2007 included the bonuses appropriated from earnings for 2007 which had been approved by shareholders in their annual meeting held in 2008.

Credit Guarantees

See Note 27.

27. COMMITMENTS AND CONTINGENCIES

Letters of Credit

Outstanding letters of credit as at December 31, 2008 are as follows: (unit: dollar)

U.S. Dollars \$ 130,800

At December 31, 2008 the Company has guaranteed the payments of credit of related parties as follows:

Related Party	Amount
Wealthplus	\$ 11,867,040
Barits Development	5,746,400
Pou Shine	1,000,000
Pou Yuen Technology	1,882,960
Ming Wang	700,000
Pro Arch Technology	1,433,550
LNC Technology	58,692
Windsor Entertainment	100,000
Ming Chi	200,000
Pou Yii	450,000
Tetor Ventures	742,592
Digital Decade	5,480,800
Maple Star	733,408
Vantage Capital	42,640
Mindtech	462,400
	<u>\$ 30,900,482</u>

28. SUBSEQUENT EVENTS

On February 4, 2009, for securing the Company's credibility and shareholders' equity, the board of directors of the Company resolved to buy back the Company's common stocks from the public market during the period from February 5 to April 4, 2009. In this project, the expected purchasing price interval was from \$11 dollars to \$20 dollars, and the upper limit of quantity to be purchased was 22,500 thousand shares. At the date of the auditors' report issued, the Company has purchased 6,700 thousand shares at cost of \$98,899 thousand in total.