

**POU CHEN CORPORATION AND
SUBSIDIARIES**

**Consolidated Financial Statements for the
Six Months Ended June 30, 2008 and 2007 and
Independent Accountants' Review Report**

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

The Board of Directors and Stockholders
Pou Chen Corporation and subsidiaries

We have reviewed the accompanying consolidated balance sheets of Pou Chen Corporation and subsidiaries (collectively, the "Company") as of June 30, 2008 and 2007, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the six months then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to issue a report based on our reviews.

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

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying consolidated financial statements for them to be in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

As described in Note 3 to the consolidated financial statements, effective January 1, 2008, the Company adopted Interpretation 96-052, "Accounting for Bonuses to Employees, Directors and Supervisors", which provides 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.

August 11, 2008

Notice to Readers

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

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

POU CHEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS JUNE 30, 2008 AND 2007 (In Thousands of New Taiwan Dollars) (Reviewed, Not Audited)

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)	\$ 23,374,675	11	\$ 27,735,638	15	Short-term loans (Note 15)	\$ 31,816,858	15	\$ 17,791,434	9
Financial assets at fair value through profit or loss, current (Notes 2 and 5)	15,687,315	7	7,671,712	4	Short-term bills payable (Note 16)	1,116,232	1	978,108	1
Notes receivable (Notes 2 and 6)	82,689	-	100,446	-	Notes payable	119,276	-	169,628	-
Accounts receivable (Notes 2 and 7)	29,213,682	14	24,532,608	13	Notes payable to affiliates (Note 26)	46,667	-	72,770	-
Accounts receivable from affiliates (Notes 2, 7 and 26)	1,354,646	1	1,460,637	1	Accounts payable	15,468,130	7	13,918,708	7
Other receivables	3,576,029	2	4,038,988	2	Accounts payable to affiliates (Note 26)	1,005,190	1	1,025,263	1
Inventories (Notes 2 and 8)	23,430,440	11	20,398,542	11	Income tax payable (Notes 2 and 23)	630,325	-	896,153	-
Other current assets (Notes 2 and 23)	9,822,230	4	6,529,332	3	Financial liabilities at fair value through profit or loss, current (Notes 2 and 5)	2,956,636	1	1,372,959	1
Total current assets	106,541,706	50	92,467,903	49	Hedging derivative liabilities, current (Notes 2 and 25)	-	-	96,712	-
					Other payables	12,781,774	6	17,072,648	9
FUNDS AND LONG-TERM INVESTMENTS					Current portion of long-term liabilities (Note 17)	10,271,901	5	5,335,632	3
Investments accounted for by the equity method (Notes 2 and 9)	29,248,874	14	25,012,760	13	Other current liabilities	4,738,829	2	2,260,343	1
Investments in real estate (Notes 2 and 10)	1,510,335	1	265,751	-	Total current liabilities	80,951,818	38	60,990,358	32
Available-for-sale financial assets, noncurrent (Notes 2 and 11)	902,384	-	1,572,726	1					
Hedging derivative asset, noncurrent (Notes 2 and 25)	52,389	-	36,816	-	LONG-TERM LIABILITIES				
Financial assets carried at cost, noncurrent (Notes 2 and 12)	1,179,824	-	754,575	-	Bonds payable (Notes 2 and 18)	7,520,679	4	15,770,071	9
Total funds and long-term investments	32,893,806	15	27,642,628	14	Long-term debt (Note 19)	34,785,671	16	30,767,048	16
					Total long-term liabilities	42,306,350	20	46,537,119	25
PROPERTY, PLANT AND EQUIPMENT (Notes 2 and 13)					RESERVE FOR LAND VALUE INCREMENT TAX (Note 13)	142,664	-	142,664	-
Cost	93,416,481	44	88,332,599	47	OTHER LIABILITIES				
Revaluation increment	293,323	-	279,008	-	Accrued pension cost (Note 2)	587,908	-	570,982	-
	93,709,804	44	88,611,607	47	Guarantee deposits received	29,386	-	11,868	-
Less accumulated depreciation	(36,285,616)	(17)	(34,953,662)	(18)	Total other liabilities	617,294	-	582,850	-
Less accumulated impairment	(164,021)	-	(164,021)	-	Total liabilities	124,018,126	58	108,252,991	57
Construction in progress and prepayments for equipment	3,532,354	2	2,893,114	1					
Property, plant and equipment, net	60,792,521	29	56,387,038	30	STOCKHOLDERS' EQUITY				
					Capital stock (Note 20)	25,136,070	12	24,452,459	13
INTANGIBLE ASSETS (Note 2)					Stock dividends to be distributed (Note 20)	2,744,315	1	637,714	-
Goodwill	6,568,944	3	7,002,191	4	Capital surplus	5,795,974	3	3,984,037	2
Deferred pension cost	1,970	-	16,451	-	Retained earnings (Note 20)	12,387,016	6	10,546,121	5
Total intangible assets	6,570,914	3	7,018,642	4	Cumulative translation adjustments (Note 2)	(2,460,619)	(1)	135,410	-
					Unrealized losses on financial instruments (Notes 2 and 11)	(164,222)	-	(911,503)	-
OTHER ASSETS (Notes 2 and 14)					Unrealized revaluation increment	134,641	-	134,641	-
	7,104,912	3	6,575,150	3	Treasury stock (Notes 2 and 21)	(1,241,416)	(1)	(1,914,924)	(1)
					Minority interest	47,553,974	22	44,774,415	24
					Total stockholders' equity	89,885,733	42	81,838,370	43
TOTAL	\$ 213,903,859	100	\$ 190,091,361	100	TOTAL	\$ 213,903,859	100	\$ 190,091,361	100

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

(With Deloitte & Touche review report dated August 11, 2008)

POU CHEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

SIX MONTHS ENDED JUNE 30, 2008 AND 2007

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

(Reviewed, Not Audited)

	2008		2007	
	Amount	%	Amount	%
GROSS SALES AND REVENUES EARNED	\$ 104,806,378	100	\$ 89,572,949	100
LESS SALES RETURNS AND ALLOWANCES	<u>(130,052)</u>	<u>-</u>	<u>(220,709)</u>	<u>-</u>
NET SALES AND REVENUES EARNED	104,676,326	100	89,352,240	100
COST OF GOODS SOLD	<u>80,904,166</u>	<u>77</u>	<u>70,445,594</u>	<u>79</u>
GROSS PROFIT	<u>23,772,160</u>	<u>23</u>	<u>18,906,646</u>	<u>21</u>
OPERATING EXPENSES				
Selling expenses	5,523,914	5	3,274,323	4
General and administrative expenses	7,729,467	7	6,682,372	7
Research and development expenses	<u>2,549,089</u>	<u>3</u>	<u>2,327,944</u>	<u>3</u>
Total operating expenses	<u>15,802,470</u>	<u>15</u>	<u>12,284,639</u>	<u>14</u>
INCOME FROM OPERATIONS	<u>7,969,690</u>	<u>8</u>	<u>6,622,007</u>	<u>7</u>
NON-OPERATING INCOME				
Interest income	307,979	-	373,632	-
Investment income recognized under equity method (Note 9)	629,997	1	524,707	1
Dividend income	16,885	-	27,200	-
Gain on disposal of property, plant and equipment	26,518	-	4,779	-
Gain on disposal of investments	8,496	-	80,322	-
Foreign exchange gains, net	-	-	11,851	-
Rental income	24,431	-	5,287	-
Reversal of provision for bad debts	-	-	21,686	-
Valuation gain on financial assets (Note 5)	1,889,604	2	-	-
Others	<u>137,851</u>	<u>-</u>	<u>506,492</u>	<u>1</u>
Total non-operating income	<u>3,041,761</u>	<u>3</u>	<u>1,555,956</u>	<u>2</u>
NON-OPERATING EXPENSES				
Interest expense	1,852,424	2	1,527,867	2
Loss on disposal of property, plant and equipment	108,814	-	85,253	-
Foreign exchange loss, net	357,482	1	-	-
Provision for loss on inventory	32,955	-	14,417	-
Valuation loss on financial assets (Note 5)	-	-	221,400	-
Valuation loss on financial liabilities (Note 5)	16,659	-	132,580	-
Others	<u>159,609</u>	<u>-</u>	<u>155,407</u>	<u>-</u>
Total non-operating expenses	<u>2,527,943</u>	<u>3</u>	<u>2,136,924</u>	<u>2</u>

(Continued)

POU CHEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

SIX MONTHS ENDED JUNE 30, 2008 AND 2007

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

(Reviewed, Not Audited)

	2008		2007	
	Amount	%	Amount	%
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAX	\$ 8,483,508	8	\$ 6,041,039	7
INCOME TAX EXPENSE (Notes 2 and 23)	<u>(454,472)</u>	<u>-</u>	<u>(822,103)</u>	<u>(1)</u>
CONSOLIDATED NET INCOME	<u>\$ 8,029,036</u>	<u>8</u>	<u>\$ 5,218,936</u>	<u>6</u>
ATTRIBUTED TO				
Parent Company's shareholders	\$ 4,299,410	4	\$ 1,874,351	2
Minority interest	<u>3,729,626</u>	<u>4</u>	<u>3,344,585</u>	<u>4</u>
	<u>\$ 8,029,036</u>	<u>8</u>	<u>\$ 5,218,936</u>	<u>6</u>
	2008		2007	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
BASIC EARNINGS PER SHARE (Notes 2 and 24)				
Included income for minority interest	<u>\$ 3.09</u>	<u>\$ 2.92</u>	<u>\$ 2.29</u>	<u>\$ 1.98</u>
Attributed to shareholders of the Parent Company		<u>\$ 1.56</u>		<u>\$ 0.71</u>
DILUTED EARNINGS PER SHARE (Notes 2 and 24)				
Included income for minority interest	<u>\$ 3.04</u>	<u>\$ 2.88</u>	<u>\$ 2.26</u>	<u>\$ 1.95</u>
Attributed to shareholders of the Parent Company		<u>\$ 1.54</u>		<u>\$ 0.70</u>

Pro-forma information, assuming common shares of the Parent 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
CONSOLIDATED NET INCOME ATTRIBUTED TO SHAREHOLDERS OF THE PARENT COMPANY	<u>\$ 4,299,410</u>		<u>\$ 1,999,726</u>	
	2008		2007	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
BASIC EARNINGS PER SHARE (Notes 2 and 24)				
Included income for minority interest	<u>\$ 3.08</u>	<u>\$ 2.91</u>	<u>\$ 2.23</u>	<u>\$ 1.93</u>
Attributed to shareholders of the Parent Company		<u>\$ 1.56</u>		<u>\$ 0.72</u>
DILUTED EARNINGS PER SHARE (Notes 2 and 24)				
Included income for minority interest	<u>\$ 3.03</u>	<u>\$ 2.87</u>	<u>\$ 2.20</u>	<u>\$ 1.90</u>
Attributed to shareholders of the Parent Company		<u>\$ 1.53</u>		<u>\$ 0.71</u>

(Concluded)

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

(With Deloitte & Touche audit report dated August 11, 2008)

POU CHEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY SIX MONTHS ENDED JUNE 30, 2008 AND 2007 (In Thousands of New Taiwan Dollars) (Reviewed, Not Audited)

	Capital Surplus					Retained Earnings			Other Items of Stockholders' Equity					Total	
	Capital Stock	Stock Dividends to be Distributed	Additional Paid-in Capital of Common Stock	Additional Paid-in Capital of Bonds Conversion	Treasury Stock	Long-Term Equity Investments	Legal Reserve	Special Reserve	Unappropriated Earnings	Cumulative Translation Adjustments	Unrealized Losses on Financial Instruments	Unrealized Revaluation Increment	Treasury Stock		Minority Interest
BALANCE, JANUARY 1, 2008	\$ 25,118,540	\$ -	\$ 808,054	\$ 1,492,700	\$ 1,757,844	\$ 1,363,435	\$ 4,269,818	\$ 1,423,250	\$ 7,778,952	\$ (157,084)	\$ (87,710)	\$ 134,641	\$ (155,375)	\$ 47,877,647	\$ 91,624,712
Appropriation of earnings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
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 20)	-	273,216	-	-	-	-	-	-	(273,216)	-	-	-	-	-	-
Stock dividends (Note 20)	-	2,471,099	-	-	-	-	-	-	(2,471,099)	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	-	(2,471,099)	-	-	-	-	-	(2,471,099)
Acquisition of treasury stock (Note 21)	-	-	-	-	-	-	-	-	-	-	-	-	(1,086,041)	-	(1,086,041)
Effect of changes of ownership interest in investees	-	-	-	-	-	373,941	-	-	-	-	-	-	-	-	373,941
Adjustments on changes of unrealized loss on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	(135,051)	-	-	-	-	(135,051)
Adjustments on changes of unrealized loss on cash flow hedge financial liability	-	-	-	-	-	-	-	-	-	58,539	-	-	-	-	58,539
Execution of employee stock warrants (Note 20)	17,530	-	-	-	-	-	-	-	-	-	-	-	-	-	17,530
Translation adjustments on foreign long-term equity investments	-	-	-	-	-	-	-	-	-	(2,303,535)	-	-	-	-	(2,303,535)
Change of minority interest	-	-	-	-	-	-	-	-	-	-	-	-	-	(4,053,299)	(4,053,299)
Consolidated net income for the six months ended June 30, 2008	-	-	-	-	-	-	-	-	4,299,410	-	-	-	-	3,729,626	8,029,036
BALANCE, JUNE 30, 2008	\$ 25,136,070	\$ 2,744,315	\$ 808,054	\$ 1,492,700	\$ 1,757,844	\$ 1,737,376	\$ 4,749,843	\$ 110,153	\$ 7,527,020	\$ (2,460,619)	\$ (164,222)	\$ 134,641	\$ (1,241,416)	\$ 47,553,974	\$ 89,885,733
BALANCE, JANUARY 1, 2007	\$ 24,426,857	\$ -	\$ 808,054	\$ 1,478,511	\$ 209,267	\$ 31,440	\$ 3,692,621	\$ 1,434,839	\$ 8,714,098	\$ (201,358)	\$ (1,221,891)	\$ 134,641	\$ (2,451,485)	\$ 39,735,100	\$ 76,790,694
Appropriation of earnings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Legal reserve	-	-	-	-	-	-	577,197	-	(577,197)	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	-	(11,589)	11,589	-	-	-	-	-	-
Bonuses to directors and supervisors	-	-	-	-	-	-	-	-	(156,191)	-	-	-	-	-	(156,191)
Bonuses to employees (Note 20)	-	151,505	-	-	-	-	-	-	(151,505)	-	-	-	-	-	-
Stock dividends (Note 20)	-	486,209	-	-	-	-	-	-	(486,209)	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	-	(4,375,883)	-	-	-	-	-	(4,375,883)
Convertible bonds transferred to common stock (Note 18)	4,732	-	-	8,356	-	-	-	-	-	-	-	-	-	-	13,088
Effect of changes of ownership interest in investees	-	-	-	-	-	1,380,672	-	-	-	-	-	-	-	-	1,380,672
Treasury stock transferred to employees	-	-	-	-	(57,638)	-	-	-	-	-	-	-	396,166	-	338,528
Adjustments on changes of unrealized loss on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	174,581	-	-	-	-	174,581
Adjustments on changes of unrealized loss on cash flow hedge financial liability	-	-	-	-	-	-	-	-	-	113,231	-	-	-	-	113,231
Sales of parent company's stock by subsidiary	-	-	-	-	125,375	-	-	-	-	-	22,576	-	140,395	-	288,346
Execution of employee stock warrants	20,870	-	-	-	-	-	-	-	-	-	-	-	-	-	20,870
Translation adjustments on foreign long-term equity investments	-	-	-	-	-	-	-	-	-	336,768	-	-	-	-	336,768
Change of minority interest	-	-	-	-	-	-	-	-	-	-	-	-	-	1,694,730	1,694,730
Consolidated net income for the six months ended June 30, 2007	-	-	-	-	-	-	-	-	1,874,351	-	-	-	-	3,344,585	5,218,936
BALANCE, JUNE 30, 2007	\$ 24,452,459	\$ 637,714	\$ 808,054	\$ 1,486,867	\$ 277,004	\$ 1,412,112	\$ 4,269,818	\$ 1,423,250	\$ 4,853,053	\$ 135,410	\$ (911,503)	\$ 134,641	\$ (1,914,924)	\$ 44,774,415	\$ 81,838,370

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

(With Deloitte & Touche review report dated August 11, 2008)

POU CHEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS SIX MONTHS ENDED JUNE 30, 2008 AND 2007 (In Thousands of New Taiwan Dollars) (Reviewed, Not Audited)

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Consolidated net income	\$ 8,029,036	\$ 5,218,936
Adjustments to reconcile net income to net cash provided by operating activities		
Valuation (gain) loss on financial assets	(1,889,604)	221,400
Valuation loss on financial liabilities	16,659	132,580
Depreciation and amortization	3,368,169	3,263,188
Amortization of the cost of issuing Euro Convertible Bonds	417,251	360,778
Provision for (reversal of) bad debts	135,211	(21,686)
Provision for loss on inventory	32,955	14,417
Investment income recognized under equity method	(629,997)	(524,707)
Cash dividends received from investees under equity method	-	248,395
Gain on disposal of investments	(8,496)	(88,204)
Net loss on disposal of property, plant and equipment	82,296	80,474
Recovery from loss on devaluation and depreciation of idle assets	(3,642)	(3,659)
Net changes in operating assets and liabilities		
Notes receivable	188,073	(17,313)
Accounts receivable	(2,058,017)	(323,017)
Accounts receivable from affiliates	(101,605)	763,982
Other receivables	726,283	(364,230)
Inventories	(2,306,166)	(1,232,947)
Other current assets	(3,322,688)	(2,560,514)
Temporary income tax payment	578	(1,260)
Long-term accounts receivable	(27,327)	(8,963)
Deferred income tax asset, noncurrent	(22,231)	(7,818)
Other assets	352	-
Notes payable	41,578	44,946
Notes payable to affiliates	(6,949)	(22,886)
Accounts payable	(1,840,719)	(1,246,026)
Accounts payable to affiliates	(112,963)	77,310
Income tax payable	(437,113)	583,890
Other payables	2,523,059	5,347,069
Other current liabilities	2,590,533	548,394
Reserve for retirement plan	11,953	8,325
Minority interest	(4,053,299)	1,694,730
Net cash provided by operating activities	<u>1,343,170</u>	<u>12,185,584</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in financial assets at fair value through profit or loss	(2,463,625)	(2,066,302)
Increase in investments accounted for by the equity method	(1,516,662)	(835,868)
(Increase) decrease in available-for-sale financial assets, noncurrent	(116,445)	191,199
Increase in financial assets carried at cost, noncurrent	(256,724)	(71,112)
Increase in investment in real estate	(830,634)	(93,687)

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POU CHEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS SIX MONTHS ENDED JUNE 30, 2008 AND 2007 (In Thousands of New Taiwan Dollars) (Reviewed, Not Audited)

	2008	2007
Acquisitions of property, plant and equipment	\$ (5,610,445)	\$ (5,128,008)
Proceeds from disposal of property, plant and equipment	297,842	332,939
Increase in refundable deposits	(333,477)	(11,240)
Decrease (increase) in goodwill	482,189	(73,268)
Increase in deferred charges	<u>(65,192)</u>	<u>(161,309)</u>
Net cash used in investing activities	<u>(10,413,173)</u>	<u>(7,916,656)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term loans	12,555,715	2,357,842
Increase (decrease) in short-term bills payable	339,124	(576,052)
Issued overseas convertible bonds	-	8,824,511
Redeemed domestic convertible bonds	(5,000,000)	-
Remuneration to directors and supervisors	-	(156,191)
Increase (decrease) in long-term debt	3,310,449	(2,176,336)
Increase in guarantee deposits received	9,599	5,941
Execution of employee stock warrants	17,530	20,870
Transfer treasury stock to employees	-	338,528
Acquisition of treasury stock	<u>(1,086,041)</u>	<u>-</u>
Net cash provided by financing activities	<u>10,146,376</u>	<u>8,639,113</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH	<u>116,285</u>	<u>233,371</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,192,658	13,141,412
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>22,182,017</u>	<u>14,594,226</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 23,374,675</u>	<u>\$ 27,735,638</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period		
Interest (excluding interest capitalized)	<u>\$ 1,896,220</u>	<u>\$ 1,733,023</u>
Income tax	<u>\$ 678,863</u>	<u>\$ 232,368</u>
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Unrealized (loss) gain on available-for-sale financial assets	<u>\$ (135,051)</u>	<u>\$ 174,581</u>
Unrealized gain on cash flow hedge financial liabilities	<u>\$ 58,539</u>	<u>\$ 113,231</u>
Effect of changes in ownership interest in investees	<u>\$ 373,941</u>	<u>\$ 1,380,672</u>
Current portion of long-term liabilities	<u>\$ 10,271,901</u>	<u>\$ 5,335,632</u>
Translation adjustments on foreign long-term equity investments	<u>\$ (2,303,535)</u>	<u>\$ 336,768</u>
Bonuses to directors and supervisors	<u>\$ 169,000</u>	<u>\$ -</u>

(Continued)

POU CHEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

SIX MONTHS ENDED JUNE 30, 2008 AND 2007

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	2008	2007
Dividends payable	<u>\$ 2,471,099</u>	<u>\$ 4,375,883</u>
Adjustments in stockholders' equity on disposal of investments in the parent company of subsidiaries	<u>\$ -</u>	<u>\$ 288,346</u>
Convertible bonds transferred to common stock	<u>\$ -</u>	<u>\$ 13,088</u>
Adjustments in capital surplus from treasury stock transferred to employees	<u>\$ -</u>	<u>\$ (57,638)</u>
Cash paid during the period for acquisitions of property, plant and equipment		
Fair value of property, plant and equipment acquired	\$ 5,417,957	\$ 5,074,051
Add payables for acquisitions of property, plant and equipment, beginning of period	319,536	425,467
Less payables for acquisitions of property, plant and equipment, end of period	<u>(127,048)</u>	<u>(371,510)</u>
Cash paid during the period for acquisitions of property, plant and equipment	<u>\$ 5,610,445</u>	<u>\$ 5,128,008</u>
		(Concluded)

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

(With Deloitte & Touche review report dated August 11, 2008)

POU CHEN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SIX MONTHS ENDED JUNE 30, 2008 AND 2007 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise) (Reviewed, Not Audited)

1. ORGANIZATION AND OPERATIONS

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

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

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

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

Name	Location of Incorporation	Pou Chen and its Subsidiaries’ Ownership Percentage
Wealthplus Holdings Limited	British Virgin Islands	100.00
Win Fortune Investments Limited	British Virgin Islands	100.00
Ming Wang Investments Co., Ltd.	ROC	100.00
Windsor Entertainment Co., Ltd.	ROC	100.00
Yun Yang Investments Co., Ltd.	ROC	100.00
Pou Shine Investments Co., Ltd.	ROC	100.00
Pan Asia Insurance Services Co., Ltd.	ROC	100.00
Proshine Healthcare Co., Ltd.	ROC	100.00
Barits Development Corporation	ROC	99.59
Pro Arch Technology Inc.	ROC	99.93
Pou Yuen Technology Co., Ltd.	ROC	99.39
LNC Technology Co., Ltd.	ROC	89.47
Vistas Design Co., Ltd.	ROC	65.00
Global Brands Manufacture Ltd.	ROC	50.16

Wealthplus Holdings Limited (“Wealthplus”), a British Virgin Islands registered corporation, is an investment holding company. Wealthplus commenced its operations in 1991 and invests in companies which are engaged in the design and sale of footwear and electronic peripheral products. As at June 30, 2008, Wealthplus has an outstanding common stock of US\$109,222 thousand. Additionally, Wealthplus’ board of directors decided to decrease and return its capital, amounting to US\$60,000 thousand in March 2008.

The information of Wealthplus' subsidiaries is as follows:

Name	Location of Incorporation	Ownership Percentage	Primary Operation Activities
Yue Yuen Industrial (Holdings) Limited	Bermuda	48.17	Manufacturing and sale of athletic and casual footwear and sports apparel
GBM Manufacturing Co., Ltd.	British Virgin Islands	100.00	Property management in the People's Republic of China (PRC)
Upmost Smart Limited	British Virgin Islands	100.00	Manufacturing of electronic components
Gao Chen Technology Co., Ltd.	PRC	79.60	Manufacturing and sale of plastic products and electronic components
Digital Decade Limited	British Virgin Islands	100.00	Assembly and sale of TFT-LCD module
Pou Qiao Electronic Limited	PRC	100.00	Assembly of backlight units
China Lion Associates Limited	British Virgin Islands	51.00	Sale of backlight units
Yuen Lim Metal Industrial Limited	PRC	100.00	Manufacturing of electronic components
Go-Cheery Industrial Limited	Hong Kong	100.00	Management and office administration service
Crown Master Investments Limited	British Virgin Islands	100.00	Investment holding
Tetor Ventures Ltd.	British Virgin Islands	100.00	Investment holding
Star Eagle Consultants Limited	British Virgin Islands	100.00	Insurance agent
Pou Yu Biotechnology Co., Ltd.	ROC	68.42	Manufacturing and sale of medical appliance
Dong Guan Pou Yu Precision Ceramics Industrial Co., Ltd.	PRC	100.00	Designing and manufacturing of tooth mold

Win Fortune Investments Limited ("Win Fortune"), a British Virgin Islands registered corporation, is an investment holding company. Win Fortune commenced its operations in 1994 and invests in Yue Yuen (as at June 30, 2008, the ownership percentage is 0.93%). As at June 30, 2008, Win Fortune has an outstanding common stock of US\$100 thousand.

Ming Wang Investments Co., Ltd. ("Ming Wang"), a corporation incorporated in the ROC, is an investment holding company. Ming Wang commenced its operations in 1996. It is engaged in investing activities. As at June 30, 2008, Ming Wang has an outstanding common stock of \$427,291 thousand.

Windsor Entertainment Co., Ltd. ("Windsor Entertainment"), a corporation incorporated in the ROC, commenced its operations in 2003. Windsor Entertainment decreased its capital to offset its accumulated deficit by \$200,000 thousand and issued additional capital stock for \$200,000 thousand at a price of \$10 dollars per share in June 2008. It is engaged in hotel and resort operation. As at June 30, 2008, Windsor Entertainment has an outstanding common stock of \$210,000 thousand.

Yun Yang Investments Co., Ltd. ("Yun Yang"), a corporation incorporated in the ROC, commenced its operations in 1997. It is engaged in investment activities. As at June 30, 2008, Yun Yang has an outstanding common stock of \$82,561 thousand.

Pou Shine Investments Co., Ltd. (“Pou Shine”), a corporation incorporated in the ROC, commenced its operations in 1990. It is engaged in investing activities. As at June 30, 2008, Pou Shine has an outstanding common stock of \$573,632 thousand.

Pan Asia Insurance Services Co., Ltd. (“Pan Asia Insurance Services”), a corporation incorporated in the ROC, commenced its operations in 1999. It is engaged in agency of property and casualty insurance. As at June 30, 2008, Pan Asia Insurance Services has an outstanding capital of \$3,000 thousand.

Proshine Healthcare Co., Ltd. (“Proshine Healthcare”), a corporation incorporated in the ROC, commenced its operations in 2007. It is engaged in sale of medical devices and precision instruments. As at June 30, 2008, Proshine Healthcare has an outstanding common stock of \$280,000 thousand.

Barits Development Corporation (“Barits Development”) is a corporation incorporated in the ROC. It is engaged in leather manufacturing and investing activities. As at June 30, 2008, Barits Development has an outstanding common stock of \$913,000 thousand.

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

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

Top Score Investments Ltd. invests in Yue Yuen as at June 30, 2008, the ownership percentage is 0.44%.

Pro Arch Technology Inc. (“Pro Arch Technology”), a corporation incorporated in the ROC, is engaged in manufacturing and sale of computer peripheral equipment and related spare parts. As at June 30, 2008, Pro Arch Technology has an outstanding common stock of \$301,000 thousand.

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

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

Pou Yuen Technology Co., Ltd. (“Pou Yuen Technology”), a corporation incorporated in the ROC, is engaged in designing, manufacturing and trading mold, data processing and storage equipment and sale of medical devices. As at June 30, 2008, Pou Yuen Technology has an outstanding common stock of \$900,000 thousand.

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

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

LNC Technology Co., Ltd. ("LNC Technology"), a corporation incorporated in the ROC, commenced its operations in 2007. It is engaged in manufacturing and sale of precision instruments, equipment and computer numerical controlled machine. As at June 30, 2008, LNC Technology has an outstanding common stock of \$570,000 thousand.

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

Name	Location of Incorporation	Ownership Percentage	Primary Operation Activities
Success Dragon Holdings Ltd.	British Virgin Islands	100.00	Investment holding
Dongguan Pou Yuen Digital Technology Co., Ltd.	PRC	100.00	Manufacturing and sale of computer numerical controlled machine

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

Global Brands Manufacture Ltd. ("Global Brands Manufacture"), a corporation incorporated in the ROC, is engaged in the manufacturing, assembly and sale of printed circuit boards. Its stock has been traded on the Taiwan Stock Exchange Corporation in Taiwan since October 2007. As at June 30, 2008, Global Brands Manufacture has an outstanding common stock of \$3,094,008 thousand.

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

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

As at June 30, 2008 and 2007, there were 333,147 and 309,221 employees, respectively, in Pou Chen and its subsidiaries referred above.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

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

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

Principles of Consolidation

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

Wealthplus, Win Fortune, Top Score Investments Ltd., and Vantage Capital Investments Ltd. have their accounting year from October 1 of the preceding year to March 31 of the year.

Current/Noncurrent Assets and Liabilities

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

Cash and Cash Equivalents

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

Financial Instruments Measured at Fair Value through Profit or Loss

Financial instruments measured at fair value through profit or loss include financial assets or financial liabilities classified as held for trading and designated by the Company as at fair value through profit or loss upon initial recognition. Those financial instruments are initially recorded at fair value at the transaction date and continuously recorded at fair value with unrealized gains or losses reported as part of net income. Related transaction costs are expensed currently. Cash dividends are recognized as income when received.

Derivative financial instruments which do not qualify for hedge accounting are classified as financial instruments measured at fair value through profit or loss and are recorded as financial assets if their fair value is positive; otherwise are recorded as financial liabilities.

The fair values of listed and over-the-counter stocks and open-end fund are determined at their closing prices, and net asset values, respectively.

Allowance for Doubtful Accounts

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

Inventories

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

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

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

Investments Accounted for by the Equity Method

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

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

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

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

Investments in Real Estate

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

Available-for-Sale Financial Assets

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

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

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

Financial Assets Carried at Cost, Noncurrent

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

Property, Plant, Equipment and Leased Asset

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

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

Items	Estimated Useful Lives
Buildings and improvements	15~55 years
Machinery and equipment	5~12 years
Transportation equipment	3~5 years
Furniture, fixtures and office equipment	3~5 years
Other equipment	3~5 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 life. Depreciation is computed using the straight-line method.

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

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

Goodwill

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

Deferred Charges

Deferred charges are amortized on a straight-line basis over three to five years. However, the issue costs of convertible bonds issued before January 1, 2006 are amortized between the issue date and the expiration date of redemption option.

Euro-Dollar Convertible Bonds

Convertible bonds issued before January 1, 2006

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

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

Convertible bonds issued after January 1, 2006

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

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

Stock-Based Compensation

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

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

Retirement Plan

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

Pou Chen and its subsidiaries each has defined contribution pension plan under the Act. Pension costs are recorded based on actual contributions made to employees' individual pension accounts in amounts equal to 6% of monthly salaries and wages after July 1, 2005.

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

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

Foreign Currency Transactions

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

Cumulative Translation Adjustments

Long-term equity investments accounted for under the cost method and denominated in foreign currencies are restated to New Taiwan dollars at the balance-sheet-date exchange rates. The related translation adjustments are reported as a separate component of stockholders' equity. For consolidated subsidiaries and equity method investees denominated in foreign currency, assets and liabilities denominated in foreign currencies are translated at the balance-sheet-date exchange rates. Stockholders' equity accounts should be translated at the historical rate except for the beginning balance of the retained earnings, which is carried by the translated amount of the preceding period. Dividends are translated at the spot rate of the declared date. Income statement accounts are translated at the current rate or weighted-average rate of the current period.

Treasury Stock

Treasury stock is the Company's own stocks acquired according to the Stock Exchange Law. Treasury stock is recorded at purchasing cost, while fair value is adopted when stocks are received from donation. When the Company does not dispose or write off these stocks, their cost is listed as a deduction of stockholders' equity.

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

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

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

Revenue Recognition

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

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

Income Tax

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

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

Earnings Per Share

Basic earnings per common share are calculated by dividing net earnings applicable to common stock by the weighted average number of common stocks outstanding.

On a diluted basis, both net earnings and shares outstanding are adjusted to assume the conversion of convertible bonds from the date of issuance, and adopt the treasury stock method to calculate the stock warrants' dilutive potential common shares. However, if the convertible bonds contain an anti-dilutive effect, they will be excluded from the calculation.

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.

Reclassifications

Certain accounts in the consolidated financial statements for the six months ended June 30, 2007 have been reclassified to be consistent with the presentation of the consolidated financial statements for the six months ended June 30, 2008.

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 provides that earnings distribution to employees, directors and supervisors should be accounted for as expenses. This change in accounting principle decreased the net income by \$135,990 thousand, and increased bonuses to employees by \$56,433 thousand and directors and supervisors by \$79,557 thousand for the six months ended June 30, 2008.

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 is no significant effect to the consolidated financial statements of the Company as of and for the six months ended June 30, 2008.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at June 30, 2008 and 2007 consist of the following:

	2008	2007
Cash on hand	\$ 32,223	\$ 59,610
Checking accounts	99,002	39,784
Savings accounts	1,727,517	1,323,246
Foreign-currency savings deposit	18,675,913	23,771,265
Time deposits	2,760,020	1,785,953
Commercial papers	<u>80,000</u>	<u>755,780</u>
	<u>\$ 23,374,675</u>	<u>\$ 27,735,638</u>

The time deposits of \$18,570 thousand and \$28,601 thousand, included in other assets - refundable deposits were pledged for employment of foreign labors and for tax appealing on additional tax assessment as at June 30, 2008 and 2007, respectively.

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

Financial instruments at fair value through profit or loss, current as at June 30, 2008 and 2007 were summarized as follows:

	2008	2007
Financial assets at fair value through profit or loss		
Marketable equity securities	\$ 10,332,123	\$ 7,275,865
Open-ended mutual funds	1,873,427	299,414
Foreign mutual funds	179,945	96,433
Forward exchange contracts	<u>3,301,820</u>	<u>-</u>
	<u>\$ 15,687,315</u>	<u>\$ 7,671,712</u>
Financial liabilities at fair value through profit or loss		
Euro - dollar convertible bonds with options	\$ 1,842,214	\$ 1,372,959
Forward exchange contracts	<u>1,114,422</u>	<u>-</u>
	<u>\$ 2,956,636</u>	<u>\$ 1,372,959</u>

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

The net gain (loss) from financial instruments at fair value through profit or loss, current for the six months ended June 30, 2008 and 2007 amounted to \$1,872,945 thousand and \$(353,980) thousand, respectively.

6. NOTES RECEIVABLE

Notes receivable as at June 30, 2008 and 2007 consist of the following:

	2008	2007
Notes receivable	\$ 82,689	\$ 101,346
Less allowance for doubtful accounts	<u>-</u>	<u>(900)</u>
	<u>\$ 82,689</u>	<u>\$ 100,446</u>

7. ACCOUNTS RECEIVABLE

Accounts receivable as at June 30, 2008 and 2007 consist of the following:

	2008	2007
Accounts receivable	\$ 29,566,975	\$ 24,993,782
Less allowance for doubtful accounts	<u>(353,293)</u>	<u>(461,174)</u>
	<u>29,213,682</u>	<u>24,532,608</u>
Accounts receivable from affiliates (Note 26)	1,355,476	1,465,755
Less allowance for doubtful accounts	<u>(830)</u>	<u>(5,118)</u>
	<u>1,354,646</u>	<u>1,460,637</u>
	<u>\$ 30,568,328</u>	<u>\$ 25,993,245</u>

8. INVENTORIES

Inventories as at June 30, 2008 and 2007 consist of the following:

	2008	2007
Raw materials and supplies	\$ 9,573,860	\$ 8,879,527
Work-in-process	3,798,379	3,381,675
Finished goods	10,752,991	8,644,485
Merchandise	51,840	135,536
Goods in transit	202,546	73,670
Land, buildings and improvements for sale	79,758	80,536
Land for development	155,035	140,072
Construction in process	<u>-</u>	<u>43,162</u>
	24,614,409	21,378,663
Less valuation allowance	<u>(1,183,969)</u>	<u>(980,121)</u>
	<u>\$ 23,430,440</u>	<u>\$ 20,398,542</u>

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

9. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

Investments accounted for by the equity method as at June 30, 2008 and 2007 are comprised of the following:

	2008			2007	
	Original Cost	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage
<u>Shoes, shoe materials and athletic products companies</u>					
All Saints Enterprises Limited	\$ 79,194	\$ 152,559	37.00	\$ 136,135	37.00
Eagle Nice (Int'l) Holdings Ltd.	1,325,223	1,537,578	38.42	1,499,656	44.96
Nan Pao Resins (Holdings) Limited	71,556	261,010	35.00	267,713	35.00
Pine Wood Industrial Limited	92,393	75,819	37.00	82,116	37.00
Prosperous Industrial (Holdings) Ltd.	583,740	717,327	30.00	761,956	30.00
Rising Sun Associates Limited	35,997	85,932	37.00	85,702	37.00
Best Focus Holdings Ltd.	324,300	474,939	50.00	421,825	50.00
Blessland Enterprises Limited	26,196	72,384	50.00	72,933	50.00
Central Honour Limited	5,189	10,343	50.00	7,957	50.00
Great Skill Industrial Limited	34,149	53,728	50.00	69,280	50.00
Up Front Technology Ltd.	162,150	81,800	50.00	88,594	50.00
Willpower Industries Limited	103,776	120,450	40.00	113,702	40.00
Smart Shine Industries Limited	25,308	239,980	50.00	418,921	50.00
Din Tsun Holding Co., Ltd.	285,262	378,129	50.00	321,147	50.00
Profit Land Limited	68,103	60,673	35.00	63,691	35.00
Texas Clothing Holdings Corp.	2,806,275	1,446,591	38.40	1,704,645	39.40
China Ocean Resources Limited	492,581	492,581	50.00	475,621	50.00
i-Tech Enterprises Ltd.	10,134	7,566	50.00	8,982	50.00
Bigfoot Limited	168,168	160,224	48.76	154,719	48.76
Natural Options Limited	11,144	7,041	38.30	8,308	38.30
Original Designs Developments Limited	40,156	137,823	47.00	130,397	47.00
Cohen Enterprises Inc.	156,820	433,397	50.00	432,209	50.00
Ever Atlantic Investments Limited	216,037	116,928	50.00	126,639	50.00
Hua Jian Industrial Holdings Co., Limited	771,201	1,920,376	50.00	1,623,300	50.00
Ka Yuen Rubber Factory Limited	35,674	517,039	50.00	576,900	50.00
Topmost Industries Limited	26,438	96,281	50.00	85,378	50.00
Twinways Investments Limited	88,232	199,129	50.00	187,556	50.00
Yuen Thai Industrial Company Limited	85,745	20,567	50.00	-	50.00
Oftenrich Holdings Limited	1,394,047	2,038,397	45.00	1,845,680	45.00
New Peak Services Limited	249,150	30,657	50.00	266,358	50.00
PT. GF Indonesia Ltd.	72,968	22,339	45.00	27,551	45.00
Just Lucky Investments Limited	44,234	46,451	38.30	49,753	38.30
High Style Investments Limited	25,944	27,504	50.00	31,344	50.00
Pou Thane Enterprise Co., Ltd.	-	-	-	8,619	50.00
Precise Zone Investments Limited	41,662	37,004	47.65	41,383	47.65
PYGF Co., Ltd.	32,430	46,181	50.00	47,546	50.00
Liberty Bell Investments Limited	254,492	152,113	49.00	216,546	49.00
Jumbo Power Enterprises Limited	291,870	254,302	50.00	193,110	50.00
Farsighted Int'l Limited	343,951	343,951	30.00	200,097	30.00
Guiyang Poushang Sporting Goods Co., Ltd.	23,763	23,618	50.00	-	-
Hangzhou Pouhong Sporting Goods Co., Ltd.	35,017	29,545	50.00	-	-
Harbin Sego Sports Multiple Shop Ltd.	393,715	423,603	45.00	-	-
Hebei Zhanxin Sports Goods Development Ltd.	297,492	333,081	45.00	-	-
Hefei Tengrui Sports Goods Co., Ltd.	194,595	213,838	50.00	-	-
Hubei Jiezhixing Clothing Co., Ltd.	547,073	587,816	50.00	-	-
Jilin New Orientation Sports Co., Ltd.	339,687	333,398	50.00	-	-
Jilin Lingpao Sporting Goods Co., Ltd.	267,811	314,763	50.00	-	-

	2008			2007	
	Original Cost	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage
Shanxi Extreme Longyue Sports Articles Co., Ltd.	129,585	135,184	50.00	-	-
Shanxi Wuhuanshengdao Sports Development Co., Ltd.	42,789	50,086	40.00	-	-
Suzhou Xinjun Trading Development Co., Ltd.	142,345	158,964	49.00	-	-
Wenzhou Poufeng Trading Co., Ltd.	25,942	26,808	50.00	-	-
Yangzhou Longsheng Sporting Goods Co., Ltd.	244,602	333,653	50.00	-	-
Zhejiang Pouhong Sporting Goods Co., Ltd.	127,024	135,978	49.00	-	-
Zhejiang Yichuan Sporting Goods Chain Co., Ltd.	579,112	630,208	50.00	-	-
Luen Thai Holdings Ltd.	394,437	421,118	8.98	-	-
Evermore Chemical Industry Co., Ltd.	253,333	281,580	20.75	269,696	20.75
San Fang Chemical Industry Co., Ltd.	2,676,402	2,800,847	44.72	2,903,417	44.72

Electronic companies

Haicheng Information Technology Co., Ltd.	194,580	131,561	50.00	158,778	50.00
Silver Island Trading Ltd.	129,720	48,026	50.00	55,866	50.00
Venture Well Holdings Ltd.	332,638	348,665	28.52	311,555	43.08
Prime World International Ltd.	-	65	34.34	115,455	34.34
Kleine Developments Ltd.	335,317	367,597	50.00	-	-
Digital Sun Investments Ltd.	317,226	554,805	41.67	176,040	25.93
Centralian Investments Limited	-	-	-	612,600	49.64
Elitegroup Computer Systems Co., Ltd.	6,033,249	4,923,586	17.98	4,745,606	17.98
Techview International Technology Inc.	665,348	323,938	48.31	751,375	48.84

Investment holding and other companies

Ace Top Group Limited	1,574	30,974	40.00	3,523	40.00
Asia Air Tech Industrial (Pte) Ltd.	82,697	56,389	30.00	65,895	30.00
Enthroned Group Limited	158	148	48.76	160	48.76
Coprospects Holdings Ltd.	8,054	5,523	50.00	11,650	50.00
Full Pearl International Ltd.	242,784	232,542	47.95	246,090	47.95
Optiyield Industrial Limited	-	-	-	-	50.00
Well Success Investments Limited	202,446	1,118,973	40.00	1,052,539	40.00
Rising Developments Ltd.	5,028	76,787	50.00	72,224	50.00
Supplyline Ltd.	179,815	13,071	46.12	4,981	49.00
Talent Pool Management Ltd.	-	3,345	30.00	1,219	30.00
Partner Alliance Limited	3,270	5,133	50.00	966	50.00
Poulik Properties Management Co., Ltd.	50	506	30.00	1,190	30.00
Zhuhai Poulik Properties Management Co., Ltd.	4,952	32,229	40.00	26,606	40.00
Fuzhou Fubao Paper Packing Co., Ltd.	94,882	103,872	50.00	-	-
Pou Chen Asia-Pacific Property Holdings Company Limited	12,642	12,642	75.00	-	-
Yusong Chateau Enterprise Co., Ltd.	1,500	755	50.00	810	50.00
Zhong Ao Multiplex Management Limited	523,432	577,002	47.50	570,550	47.50
The Right & Great Asia-Pacific Realty Development Co., Ltd.	170,000	169,559	48.57	-	-
	<u>\$ 27,137,975</u>	<u>\$ 29,248,874</u>		<u>\$ 25,012,760</u>	

The details of Company's investment income (loss) recognized under equity method for the six months ended June 30, 2008 and 2007 are summarized as follows:

	2008	2007
<u>Shoes, shoe materials and athletic products companies</u>		
All Saints Enterprises Limited	\$ 6,059	\$ (4,345)
Eagle Nice (Int'l) Holdings Ltd.	102,608	63,223
Nan Pao Resins (Holdings) Limited	18,861	4,214
Prosperous Industrial (Holdings) Ltd.	(22,402)	34,914
Rising Sun Associates Limited	4,870	8,102
Best Focus Holdings Ltd.	66,065	21,122
Blessland Enterprises Limited	11,678	3,406
Central Honour Limited	1,758	1,038
Great Skill Industrial Limited	12,299	14,546
Willpower Industries Limited	6,105	6,141
Smart Shine Industries Limited	(57,441)	57,440
Din Tsun Holding Co., Ltd.	43,415	13,143
Profit Land Limited	(1,285)	(5,324)
Texas Clothing Holdings Corp.	(367,083)	(162,984)
China Ocean Resources Limited	-	(73,458)
i-Tech Enterprise Ltd.	(227)	(859)
Bigfoot Limited	16,280	(3,437)
Natural Options Limited	1,553	(4,115)
Original Designs Developments Limited	16,710	11,010
Cohen Enterprises Inc.	46,018	18,290
Hua Jian Industrial Holdings Co., Limited	120,878	183,405
Ka Yuen Rubber Factory Limited	69,992	54,189
Topmost Industries Limited	7,408	5,196
Twinways Investments Limited	23,440	18,803
Yuen Thai Industrial Company Limited	21,679	-
Oftenrich Holdings Limited	138,173	59,135
New Peak Services Limited	(37,382)	-
PT. GF Indonesia Ltd.	(4,047)	(26,789)
Just Lucky Investments Limited	(34)	794
High Style Investments Limited	(263)	(1,414)
Pou Thane Enterprise Co., Ltd.	-	52
Precise Zone Investments Limited	(3,266)	2,193
PYGF Co., Ltd.	1,891	7,933
Liberty Bell Investments Limited	(28,662)	(26,746)
Jumbo Power Enterprises Limited	6,848	(4,054)
Farsighted Int'l Limited	68,079	14,781
Guiyang Poushang Sporting Goods	(21)	-
Hangzhou Pouhong Sporting Goods Co., Ltd.	(5,470)	-
Harbin Sego Sports Multiple Shop Ltd.	(7,925)	-
Hebei Zhanxin Sports Goods Development Ltd.	37,479	-
Hefei Tengrui Sports Goods Co., Ltd.	13,647	-
Hubei Jiezhixing Clothing Co., Ltd.	53,134	-
Jilin New Orientation Sports Co., Ltd.	9,426	-
Jilin Lingpao Sporting Goods Co., Ltd.	46,754	-
Shanxi Extreme Longyue Sports Articles Co., Ltd.	3,528	-
Shanxi Wuhuanshengdao Sports Development Co., Ltd.	6,457	-
Suzhou Xinjun Trading Development Co., Ltd.	17,231	-
Wenzhou Poufeng Trading Co., Ltd.	2,736	-
Yangzhou Longsheng Sporting Goods Co., Ltd.	74,081	-

	2008	2007
Zhejiang Pouhong Sporting Goods Chain Co., Ltd.	9,137	-
Zhejiang Yichuan Sporting Goods Chain Co., Ltd.	52,610	-
Luen Thai Holdings Ltd.	42,694	-
Evermore Chemical Industry Co., Ltd.	2,644	13,016
San Fang Chemical Industry Co., Ltd.	176,587	126,221
<u>Electronic companies</u>		
Haicheng Information Technology Co., Ltd.	(12,586)	(11,049)
Silver Island Trading Ltd.	12	(14,180)
Venture Well Holdings Ltd.	43,937	7,110
Prime World International Ltd.	301	3,016
Digital Sun Investments Ltd.	(32,513)	(25,613)
Centralian Investments Limited	-	(24,960)
Eagle Great Investments Ltd.	-	684
Kleine Developments Limited	(45,075)	-
Elitegroup Computer Systems Co., Ltd.	70,401	12,759
Techview International Technology Inc.	(271,969)	(690)
<u>Investment holding and other companies</u>		
Ace Top Group Limited	15,748	1,981
Asia Air Tech Industrial (Pte) Ltd.	(8,786)	(5,644)
Coprosects Holdings Ltd.	(5,150)	2,343
Full Pearl International Ltd.	7,214	-
Well Success Investments Limited	8,337	60,167
Rising Developments Limited	3,393	3,176
Talent Pool Management Ltd.	1,254	469
Partner Alliance Limited	487	200
Poulik Properties Management Co., Ltd.	(13)	(15)
Zhuhai Poulik Properties Management Co., Ltd.	3,524	18,286
Fuzhou Fubao Paper Packing Co., Ltd.	9,476	-
Yusong Chateau Enterprise Co., Ltd.	(76)	(86)
Zhong Ao Multiplex Management Limited	17,218	67,971
The Right & Great Asia-Pacific Realty Development Co., Ltd.	(441)	-
	<u>\$ 629,997</u>	<u>\$ 524,707</u>

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

Name	Core Operating Item	Place of Incorporation
All Saints Enterprises Limited	Manufacture and sale of paint	British Virgin Islands
Eagle Nice (Int'l) Holdings Ltd.	Manufacture and trading sportswear and garments	Cayman Islands
Nan Pao Resins (Holdings) Limited	Manufacture and sale of paint	British Virgin Islands
Pine Wood Industrial Limited	Manufacture and sale of cloth	British Virgin Islands
Prosperous Industrial (Holdings) Ltd.	Manufacture and sale of sports bags	Cayman Islands

Name	Core Operating Item	Place of Incorporation
Rising Sun Associates Limited	Manufacture and sale of paint	British Virgin Islands
Best Focus Holdings Ltd.	Manufacture and sale of paper carton boxes	British Virgin Islands
Blessland Enterprises Limited	Manufacturing and sale of shoe pads	British Virgin Islands
Central Honour Limited	Shoe injection	British Virgin Islands
Great Skill Industrial Limited	Manufacture and sale of plastic shoe injection	British Virgin Islands
Up Front Technology Ltd.	Shoe injection	British Virgin Islands
Willpower Industries Limited	Manufacture and sale of cartons	British Virgin Islands
Smart Shine Industries Limited	Manufacture and sale of shoes and apparel	British Virgin Islands
Din Tsun Holdings Co., Ltd.	Manufacture and sale of apparel	British Virgin Islands
Profit Land Limited	Manufacture and sale of paint	British Virgin Islands
Texas Clothing Holdings Corp.	Manufacture and sale of apparel	British Virgin Islands
China Ocean Resources Limited	Sales of sports goods	British Virgin Islands
i-Tech Enterprises Ltd.	Sales of plastic grain	British Virgin Islands
Bigfoot Limited	Cloth product trading / cloth dyeing & processing / cloth shoe material binding	British Virgin Islands
Natural Options Limited	Manufacture of foamed cotton	British Virgin Islands
Original Designs Developments Limited	Manufacture of shoe lasts	British Virgin Islands
Cohen Enterprises Inc.	Manufacture and sale of leather products for shoes	British Virgin Islands
Ever Atlantic Investments Limited	Manufacture of apparel	British Virgin Islands
Hua Jian Industrial Holdings Co., Limited	Manufacture and sale of ladies shoes	British Virgin Islands
Ka Yuen Rubber Factory Limited	Manufacture and sale of rubber soles	British Virgin Islands
Topmost Industries Limited	Manufacture of counters for shoes	British Virgin Islands
Twinways Investments Limited	Manufacture and sale of injection molds for shoes components	British Virgin Islands
Yuen Thai Industrial Company Limited	Manufacture and trading of sports and active wear	Hong Kong
Oftnerich Holdings Limited	Manufacture and sale of safety and casual shoes	Bermuda
New Peak Services Limited	Manufacture and sale of shoes	British Virgin Islands
PT. GF Indonesia Ltd.	Sale of shoes and active wear	Indonesia
Just Lucky Investments Limited	Manufacture and sale of shoes material	British Virgin Islands
High Style Investments Limited	Manufacture halftone, printing ink	British Virgin Islands
Pou Thane Enterprise Co., Ltd.	Sales of plastic grain	British Virgin Islands
Precise Zone Investments Limited	Manufacture and processing of ironware and plastic products	British Virgin Islands

Name	Core Operating Item	Place of Incorporation
PYGF Co., Ltd.	Processing rubber	British Virgin Islands
Liberty Bell Investments Limited	Manufacture and sale of chemical for leather use	British Virgin Islands
Jumbo Power Enterprises Limited	Sales of sports goods	British Virgin Islands
Farsighted International Limited	Sales of sport goods	British Virgin Islands
Guiyang Poushang Sporting Goods Co., Ltd.	Sales of sport goods	PRC
Hangzhou Pouhong Sporting Goods Co., Ltd.	Sales of sport goods	PRC
Harbin Segoo Sports Multiple Shop Ltd.	Sales of sport goods	PRC
Hebei Zhanxin Sports Goods Development Ltd.	Sales of sport goods	PRC
Hefei Tengrui Sports Goods Co., Ltd.	Sales of sport goods	PRC
Hubei Jiezhixing Clothing Co., Ltd.	Sales of sport goods	PRC
Jilin New Orientation Sports Co., Ltd.	Sales of sport goods	PRC
Jilin Lingpao Sporting Goods Co., Ltd.	Sales of sport goods	PRC
Shanxi Extreme Longyue Sports Articles Co., Ltd.	Sales of sport goods	PRC
Shanxi Wuhuanshengdao Sports Development Co., Ltd.	Sales of sport goods	PRC
Suzhou Xinjun Trading Development Co., Ltd.	Sales of sport goods	PRC
Wenzhou Poufeng Trading Co., Ltd.	Sales of sport goods	PRC
Yangzhou Longsheng Sporting Goods Co., Ltd.	Sales of sport goods	PRC
Zhejiang Pouhong Sporting Goods Co., Ltd.	Sales of sport goods	PRC
Zhejiang Yichuan Sporting Goods Chain Co., Ltd.	Sales of sport goods	PRC
Luen Thai Holdings Ltd.	Manufacture of apparel	Hong Kong
Haicheng Information Technology Co., Ltd.	Developing and manufacture of software and electronic parts	PRC
Sliver Island Trading Ltd.	Sale of electronic parts	British Virgin Islands
Venture Well Holdings Ltd.	Sale of electronic parts	British Virgin Islands
Prime World International Ltd.	Sale of electronic parts	British Virgin Islands
Kleine Developments Ltd.	Manufacture and sale of electronic parts and investment holding	British Virgin Islands
Digital Sun Investments Ltd.	Sale of printed circuit boards	British Virgin Islands
Centralian Investments Ltd.	Assembly of printed circuit boards	British Virgin Islands
Eagle Great Investments Ltd.	Assembly of printed circuit boards	British Virgin Islands
Ace Top Group Limited	Investment holding	British Virgin Islands
Asia Air Tech Industrial (Pte) Ltd.	Manufacture and sale of air conditioner	Singapore
Enthroned Group Limited	Investment holding	British Virgin Islands
Coprospects Holdings Ltd.	Investment holding	British Virgin Islands
Full Pearl International Limited	Investment holding	British Virgin Islands
Optiyield Industrial Limited	Investment holding	British Virgin Islands
Well Success Investments Limited	Investment holding	British Virgin Islands
Rising Developments Ltd.	Trading of diesel / petroleum	British Virgin Islands
Supplyline Ltd.	Provision of logistic service	Hong Kong
Talent Pool Management Ltd.	Provision of school service	British Virgin Islands

Name	Core Operating Item	Place of Incorporation
Partner Alliance Limited	Sale of tobacco and liquor	British Virgin Islands
Poulik Properties Management Co., Ltd.	Properties management	British Virgin Islands
Zhuhai Poulik Properties Management Co., Ltd.	Properties management	British Virgin Islands
Fuzhon Fubao Paper Packing Co., Ltd.	Print and manufacture of paper	PRC
Pou Chen Asia-Pacific Property Holdings Company Ltd.	Land development	British Virgin Islands
Zhong Ao Multiplex Management Limited	Properties management	PRC

The fiscal year end of the above-listed companies is September 30. The Company accounted for the investment income (loss) from these companies based on these companies' financial results for the six months ended March 31, 2008 and 2007, as permitted under the accounting principles generally accepted in the ROC.

Techview International Technology Inc. ("Techview International") is engaged in sale and assembly of TFT-LCD display. It has an outstanding common stock of \$1,337,622 thousand as at June 30, 2008.

Elitegroup Computer Systems Co., Ltd. ("Elitegroup Computer") is engaged in designing, manufacturing and sale of computer peripheral equipment. The shares of Elitegroup Computer are listed on the Taiwan Stock Exchange Corporation. It has an outstanding common stock of \$12,551,891 thousand as at June 30, 2008.

San Fang Chemical Industry Co., Ltd. ("San Fang") is engaged in manufacturing and marketing leather. The shares of San Fang are listed on the Taiwan Stock Exchange Corporation. It has an outstanding capital of \$2,504,083 thousand as at June 30, 2008.

Evermore Chemical Industry Co., Ltd. ("Evermore Chemical") is engaged in manufacturing and selling of melamine resin and phthali dnhydride resin. The shares of Evermore Chemical are listed on the Taiwan Stock Exchange Corporation. It has an outstanding capital of \$897,000 thousand as at June 30, 2008.

Luen Thai Holdings Ltd. ("Luen Thai") is engaged in manufacturing ready-made garments. The shares of Luen Thai are listed on the Hong Kong Exchange and Clearing Limited. It has an outstanding common stock of US\$9,925 thousand as at June 30, 2008. Since September 2007, the Company's investment in Luen Thai was reclassified to investments accounted for by the equity method.

Eagle Nice (Int'l) Holdings Ltd. ("Eagle Nice") is engaged in manufacturing and sale of apparel. The shares of Eagle Nice are listed on the Hong Kong Exchange and Clearing Limited. It has an outstanding common stock of HK\$4,997 thousand as at June 30, 2008.

10. INVESTMENTS IN REAL ESTATE

Investments in real estate as at June 30, 2008 and 2007 are comprised of the following:

	2008			2007
	Cost	Accumulated Depreciation	Carrying Value	Carrying Value
Land	\$ 1,433,716	\$ -	\$ 1,433,716	\$ 172,712
Building	78,420	1,801	76,619	93,039
	<u>\$ 1,512,136</u>	<u>\$ 1,801</u>	<u>\$ 1,510,335</u>	<u>\$ 265,751</u>

The land investment is primarily located in Taichung City, and will be for sale after erecting buildings.

11. AVAILABLE-FOR-SALE FINANCIAL ASSETS, NONCURRENT

Available-for-sale financial assets, noncurrent as at June 30, 2008 and 2007 are as follows:

	2008			2007	
	Original Cost	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage
<u>Taiwan marketable equity securities</u>					
Asia Vital Components Co., Ltd.	\$ 221,568	\$ 276,640	6.03	\$ 486,400	6.05
Taiwan Paiho Limited	139,006	266,327	2.99	207,599	3.01
<u>Mutual fund</u>					
Reliance Forever fund	-	-	-	39,758	-
<u>Foreign marketable equity securities</u>					
Luen Thai Holdings Ltd.	-	-	-	430,904	8.98
Symphony Holdings Ltd.	295,134	199,805	4.82	399,172	5.05
<u>Foreign mutual funds</u>					
Investar Excelsus Venture Capital	-	-	-	8,893	-
Uis-Trusted Money Fund	135,010	159,612	-	-	-
	<u>\$ 790,718</u>	<u>\$ 902,384</u>		<u>\$ 1,572,726</u>	

Asia Vital Components Co., Ltd. is engaged in manufacturing and selling of semiconductors electronic connectors, computer connectors and communication products. The shares of Asia Vital Components Co., Ltd. are listed on the Taiwan Stock Exchange Corporation. It has an outstanding common stock of \$2,519,971 thousand as at June 30, 2008.

Taiwan Paiho Limited is engaged in manufacturing and selling of touch fasteners and webbings. The shares of Taiwan Paiho Limited are listed on the Taiwan Stock Exchange Corporation. It has an outstanding common stock of \$2,581,165 thousand as at June 30, 2008.

Symphony Holdings Ltd. is engaged in manufacturing and sales of footwear. The shares of Symphony Holdings Ltd. are listed on the Hong Kong Exchange and Clearing Limited. It has an outstanding common stock of HK\$436,011 thousand as at June 30, 2008.

12. FINANCIAL ASSETS CARRIED AT COST, NONCURRENT

Financial assets carried at cost, noncurrent as at June 30, 2008 and 2007 were as follows:

	2008	2007
Chiang Yei Precision Industrial Co., Ltd.	\$ 8,153	\$ 8,153
Golden Brands Developments Ltd.	207,344	274,731
L&C Aluminium Corp.	831	831
Media Reality Technologies, Inc.	-	88
Shey Yu Co., Ltd.	320	320
View Sonic Corporation	96,231	96,231
Taichung International Entertainment Corporation	1,905	1,905
Bizlink Holdings Inc.	101,370	109,790
Great Team Backend Foundry Inc.	73,554	79,663
DTE Technologies Corp.	130,000	50,000
Eic Enterprise Ltd. - Preferred Stock	1,314	1,423
Asia Pacific Genesis Venture Capital Fund	136,530	131,440
Cid Greater China Vanture Capital Fund	151,700	-
Prodigy Strategic Investment Fund XXII Segregated Portfolio	91,404	-
Prodigy Fund Spc-Prodigy Strategic Investment Fund	<u>179,168</u>	<u>-</u>
	<u>\$ 1,179,824</u>	<u>\$ 754,575</u>

The stocks and foreign mutual funds mentioned above do not have open pricing and reliable fair values, thus they are carried at cost.

13. PROPERTY, PLANT AND EQUIPMENT

A summary of property, plant and equipment as at June 30, 2008 and 2007 is as follows:

	2008				2007	
	Cost	Reassessed Value Increment	Accumulated Depreciation	Accumulated Impairment	Carrying Value	Carrying Value
Land	\$ 2,555,211	\$ 248,260	\$ -	\$ 162,739	\$ 2,640,732	\$ 2,079,448
Buildings and improvements	42,827,243	45,063	10,609,502	1,282	32,261,522	29,463,248
Machinery and equipment	41,413,959	-	21,428,408	-	19,985,551	19,664,317
Transportation equipment	1,076,369	-	702,795	-	373,574	345,027
Furniture, fixtures and office equipment	4,827,588	-	3,146,376	-	1,681,212	1,569,026
Other equipment	716,111	-	398,535	-	317,576	372,858
Construction in progress and prepayments for equipment	<u>3,532,354</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,532,354</u>	<u>2,893,114</u>
	<u>\$96,948,835</u>	<u>\$ 293,323</u>	<u>\$36,285,616</u>	<u>\$ 164,021</u>	<u>\$60,792,521</u>	<u>\$56,387,038</u>

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

Three parcels of land located in Changhwa County were purchased by Pou Chen for \$22,187 thousand in June 1990, for \$33,668 thousand in April 1997, and for \$17,858 thousand in July 2007. According to related laws, the ownership for these three parcels of land should be transferred 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 valued at \$73,713 thousand as at June 30, 2008 are included in "other assets - land held by trustee" account (see Note 14).

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

The interest expense for the six months ended June 30, 2008 and 2007 amounted to \$1,852,732 thousand and \$1,529,091 thousand, respectively. Interest costs capitalized as part of the costs of property, plant and equipment for the six months ended June 30, 2008 and 2007 amounted to \$308 thousand and \$1,224 thousand, respectively. The rates of capitalized interest for the period were 2.51% to 2.56% and 2.50%, respectively.

14. OTHER ASSETS

Other assets as at June 30, 2008 and 2007 consist of the following:

	2008	2007
Leased-out assets		
Cost and revaluation increment	\$ 1,625,026	\$ 2,521,795
Less accumulated depreciation	<u>(31,944)</u>	<u>(132,867)</u>
	<u>1,593,082</u>	<u>2,388,928</u>
Idle asset	89,782	85,698
Less		
Accumulated depreciation	(55,379)	(48,063)
Allowance for valuation loss of idle asset	<u>(34,403)</u>	<u>(37,635)</u>
	<u>-</u>	<u>-</u>
Refundable deposits	1,111,082	83,837
Deferred charges	3,845,517	3,647,179
Long-term receivables	354,812	273,986
Deferred tax assets (Note 23)	60,668	76,168
Land held by trustee (Note 13)	73,713	55,855
Prepaid pension cost	57,954	36,467
Others - land and building for sale	5,502	5,550
Temporary tax payments	<u>2,582</u>	<u>7,180</u>
	<u>\$ 7,104,912</u>	<u>\$ 6,575,150</u>

15. SHORT-TERM LOANS

Short-term loans as at June 30, 2008 and 2007 consist of the following:

	2008		2007	
	Interest Rate %	Balance	Interest Rate %	Balance
Procurement loans	1.55~4.20	\$ 2,823,085	5.87~6.43	\$ 686,757
Unsecured loans	1.90~7.47	<u>28,993,773</u>	1.88~6.12	<u>17,104,677</u>
		<u>\$ 31,816,858</u>		<u>\$ 17,791,434</u>

16. SHORT-TERM BILLS PAYABLE

Short-term bills payable as at June 30, 2008 and 2007 consist of the following:

	2008		2007	
	Interest Rate %	Balance	Interest Rate %	Balance
Commercial paper, credit	2.08~2.77	\$ 1,120,000	1.71~2.66	\$ 980,000
Less discount on commercial paper		<u>(3,768)</u>		<u>(1,892)</u>
		<u>\$ 1,116,232</u>		<u>\$ 978,108</u>

17. CURRENT PORTION OF LONG-TERM LIABILITIES

Current portion of long-term liabilities as at June 30, 2008 and 2007 consist of the following:

	2008	2007
Euro convertible bonds (see Note 18)	\$ 7,848,717	\$ -
Domestic secured bonds (see Note 18)	-	5,000,000
Long-term debt (see Note 19)	<u>2,423,184</u>	<u>335,632</u>
	<u>\$ 10,271,901</u>	<u>\$ 5,335,632</u>

18. BONDS PAYABLE

Bonds payable as at June 30, 2008 and 2007 consist of the following:

	2008	2007
Euro Convertible Bonds	\$ 13,968,172	\$ 15,111,997
Add interest compensation and income tax payable	<u>1,401,224</u>	<u>658,074</u>
	15,369,396	15,770,071
Less current portion (see Note 17)	<u>(7,848,717)</u>	<u>-</u>
	<u>7,520,679</u>	<u>15,770,071</u>
Domestic secured bonds	-	5,000,000
Less current portion (see Note 17)	<u>-</u>	<u>(5,000,000)</u>
	<u>-</u>	<u>-</u>
	<u>\$ 7,520,679</u>	<u>\$ 15,770,071</u>

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

Euro-Dollar Convertible Bonds

First Issued by Pou Chen in 2003

- (a) Date of issuance: November 4, 2003
- (b) Par value: US\$1,000 (dollars)
- (c) Location of issuance: Luxemburg
- (d) Price of issuance: 100%
- (e) Total amount: US\$300,000 thousand issued; there are US\$50 thousand and US\$330 thousand, respectively outstanding as at June 30, 2008 and 2007.
- (f) Interest rate: 0%
- (g) Date of maturity: November 4, 2008
- (h) Conversion Price:

The initial price at which shares will be issued upon conversion is \$47.285 per share at the issue date. The above conversion price will be adjusted accordingly if there is a capital increase in cash or dividend distribution by Pou Chen. As at August 11, 2008, the date of the independent accountants' review report, the current adjusted conversion price is \$24.50 dollars per share.
- (i) Redemption at maturity:

Unless previously redeemed, repurchased and cancelled, or converted, the Bonds will be redeemed on November 4, 2008 at a price equal to 99.501% of the unpaid principal amount.
- (j) Redemption at the option of Pou Chen:
 - (i) The Bonds may be redeemed, in whole or from time to time in part (in the principal amount of US\$1,000 (dollars) or any integral multiple thereof), at the option of Pou Chen at any time on or after November 4, 2005, at a price equal to 100% of the unpaid principal amount thereof; provided that the closing price of the common shares (translated into US dollars at the prevailing rate) on each of 20 consecutive trading days, the last of which occurs not more than five days prior to the date on which notice of such redemption is given, is at least 130% of the conversion price (translated into US dollars at the fixed rate). Notwithstanding the foregoing, the Bonds may be redeemed in whole at the option of Pou Chen at any time at a price equal to 100% of the unpaid principal amount thereof if at least 95% in aggregate

principal amount of the Bonds has already been redeemed, repurchased and cancelled, or converted.

- (ii) The Bonds may also be redeemed in whole at any time at the option of Pou Chen at a price equal to 100% of the unpaid principal amount thereof in the event of certain changes relating to taxation in the ROC or such other jurisdiction in which Pou Chen is then organized.
- (k) Repurchase at the option of holders:
 - (i) Each holder has the right to require Pou Chen to repurchase all or any portion (in the principal amount of US\$1,000 (dollars) or any integral multiple thereof) of such holder's bonds on November 4, 2005 at a price equal to 99.80% of the unpaid principal amount thereof.
 - (ii) If the common shares cease to be listed or admitted to trading on the TSE for a period exceeding five consecutive trading days, then each holder will have the right, at such holder's option, to require Pou Chen to repurchase all of such holder's bonds at a price equal to 100% of the unpaid principal amount.
 - (iii) Upon the occurrence of a change of control, each holder shall have the right, at such holder's option, to require Pou Chen to repurchase all of such holder's bonds at a price equal to 100% of the unpaid principal amount thereof on the date set by Pou Chen which is not less than 30 days nor more than 60 days following the date on which Pou Chen notifies the trustee of the change of control.

A change of control means any of the following events:

- any person or persons, other than the Tsai Family or its affiliates, acting together, acquires or acquire legal or beneficial ownership of at least 50% of Pou Chen's capital stock; or
 - Pou Chen consolidates with or merges into or sells or transfers all or substantially all of its assets to any other person or persons (other than the Tsai Family or its affiliates), unless the consolidation, merger, sale or transfer will not result in the other person or persons acquiring control over Pou Chen or the successor entity.
- (iv) If Pou Chen ceases to hold, directly or indirectly, at least 33% of the outstanding capital stock of Yue Yuen or if Pou Chen, together with the Tsai Family and its affiliates, ceases to hold, directly or indirectly, at least 51% of the outstanding capital stock of Yue Yuen, then each holder shall have the right, at such holder's option, to require Pou Chen to repurchase all of such holder's bonds at a price equal to 100% of the unpaid principal amount.

Domestic Secured Bonds

The first secured bonds of 2003

- (a) Pou Chen issued \$5,000,000 thousand secured bonds from June 10, 2003 to June 13, 2003, for the purpose of repaying bank loan. The bonds were separated into 19 types (from "A" to "S"). The issued amount of type A, B, C, D, E, F, K, L, M, N, P, Q was \$300,000 thousand and the other types was \$200,000 thousand. The par value of all types was \$10,000 thousand.
- (b) Date of maturity and price of issuance: from June 10, 2008 to June 13, 2008 and 100%. Additionally, Pou Chen redeemed all the secured bonds in June 2008.
- (c) Interest rate:
 - Type A, F, K, P: 4.000%, minus floating rate
 - Type B, G, L, Q: 4.001%, minus floating rate
 - Type C, H, M, R: 4.002%, minus floating rate
 - Type D, I, N, S: 4.003%, minus floating rate
 - Type E, J, O: 4.004%, minus floating 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 on a yearly evaluation basis, including a covenant that requires Pou Chen to maintain a consolidated tangible net worth of not less than \$18,000,000 thousand, and the following financial ratios: (i) a ratio of consolidated total liabilities including contingent liabilities to consolidated tangible net worth of not more than 2:1, (ii) a ratio of consolidated net income before interest, taxation, depreciation and amortization to consolidated interest of no less than 3:1, and (iii) a ratio of consolidated current assets to consolidated current liabilities of not less than 0.8:1.

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

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

Euro-Dollar Convertible Bonds

First issue by Yue Yuen

- (a) Date of issuance: December 23, 2003
- (b) Par value: US\$1,000 thousand
- (c) Location of issuance: Luxemburg
- (d) Price of issuance: 100%
- (e) Total amount: US\$317,000 thousand issued; there are US\$231,470 thousand outstanding as at June 30, 2008.
- (f) Interest rate: 0%
- (g) Date of maturity: December 23, 2008
- (h) Conversion Price:
HK\$27.33 dollars per share at the fixed rate of exchange of HK\$7.7622 dollars to US\$1 dollar which will be subject to adjustment for, among other things, subdivision or consolidation of shares, capital distributions, bonus issues, rights issues and other dilutive events.

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

Second issue by Yue Yuen

- (a) Date of issuance: November 17, 2006
- (b) Par value: HK\$10 thousand
- (c) Location of issuance: Hong Kong
- (d) Price of issuance: 100%
- (e) Total amount: HK\$2,100,000 thousand issued; there are HK\$2,100,000 thousand outstanding as at June 30, 2008.
- (f) Interest rate: 0%
- (g) Date of maturity: November 17, 2011
- (h) Conversion Price:
HK\$26.75 dollars per share which will be subject to adjustment for, among other things, subdivision or consolidation of shares, capital distributions, bonus issues, rights issues and other dilutive events.
- (i) Redemption at maturity:
Unless previously redeemed, repurchased and cancelled, or converted, the Bonds will be redeemed on November 17, 2011 at a price equal to 113.227% of the unpaid principal amount.
- (j) Redemption at the option of Yue Yuen:
On or at any time after November 17, 2007 (in the case of (i) below) and at any time (in the case of (ii) and (iii) below) and (in either case) prior to November 17, 2011, Yue Yuen may redeem all of the Bonds at the Early Redemption Amount on the Redemption Date if (i) the closing price of the Share (as derived from the Daily Quotations Sheet of the Hong Kong Stock Exchange or, as the case may be, the equivalent quotation sheet of an Alternative Stock Exchange) for each of the 30 consecutive Trading Day prior to the date upon which notice of such redemption is given, was at least 120 per cent. of the

Conversion Price in effect on each such Trading Day or (ii) at least 90 per cent. in principal amount of the Bonds has already been converted, redeemed or purchased and cancelled or (iii) in the event of certain changes relating to Bermuda or Hong Kong taxation law (each holder may, after Yue Yuen exercised such redemption option, elect to refuse all or a portion of its Bonds shall not be redeemed by Yue Yuen).

(k) Repurchase at the option of holders:

- (i) Each holder has the right to require Yue Yuen to repurchase all or any portion of such holder's bonds on November 17, 2009 at a price equal to 107.738% of the unpaid principal amount thereof.
- (ii) If the common shares of Yue Yuen cease to be listed or admitted to trading on the Hong Kong Exchange and Clearing Limited, each holder has the right to require Yue Yuen to repurchase all of such holder's bonds.
- (iii) Upon the occurrence of a change of control, each holder has the right to require Yue Yuen to repurchase all of such holder's bonds.

19. LONG-TERM DEBT

Long-term debt as at June 30, 2008 and 2007 consist of the following:

	2008	2007
Citibank (Lead Lender) Syndication Loan Long-term debt, US\$350,000 thousand, due in semiannual installments commencing January 11, 2011 and maturing July 11, 2012. Interest rate is 3.235%. Part of the principal, US\$9,000 thousand, was prepaid in July 2008.	\$ 10,619,000	\$ -
Citibank (Lead Lender) Syndication Loan Long-term debt, US\$300,000 thousand, due in semiannual installments commencing November 8, 2007 and maturing November 8, 2009. Interest rate is 5.745%. The principal was fully prepaid in July 2007.	-	9,858,000
Bank of China Long-term debt, US\$280,213 thousand. The period is from June 1, 2005 to June 1, 2010. Interest rate is 5.24%. Interest is paid quarterly. The principal will be fully repaid upon maturity.	8,501,677	9,207,794
The Hong Kong and Shanghai Banking Corporation Limited Mid-term debt, US\$5,704 thousand. The term is from March 31, 2007 to March 31, 2012. The principal is due in semiannual installments commencing from March 31, 2010. Interest rate is 5.83%. Interest is paid quarterly.	173,070	-
China Trust Commercial Bank Long-term debt, US\$379 thousand, due in semiannual installments commencing September 21, 2005 and maturing September 21, 2008. Interest rate is 6.44%. Interest is paid monthly.	11,490	37,333

	2008	2007
Agricultural Bank of China Mid-term debt, US\$4,278 thousand. The term is from February 28, 2007 to July 10, 2010. The principal is due in semiannual installments commencing from January 11, 2009. Interest rate is 5.80%.	129,802	95,699
Cathay United Bank Long-term debt, US\$9,750 thousand, due in monthly repayments commencing from June 20, 2006 and maturing May 19, 2013. Interest rate is 6.25%. Interest is paid monthly.	286,416	315,873
Industrial Bank of Taiwan Mid-term debt, the term is from October 26, 2005 to October 25, 2008. Interest rate is 2.9651%. Interest is paid monthly. The principal will be fully repaid upon maturity.	150,000	180,000
Citibank (Lead Lender) Syndication Loan Long-term debt, NT\$6,500,000 thousand, due in semiannual repayments commencing April 25, 2009 and maturing October 25, 2010. Interest rate range from 2.815% to 2.728%.	6,500,000	6,500,000
China Trust Commercial Bank (Lead Lender) Syndication Loan Long-term debt, NT\$2,500,000 thousand, due in semiannual repayments commencing December 9, 2009 and maturing June 9, 2011. Interest rate is 2.8340%.	2,500,000	2,500,000
China Trust Commercial Bank (Lead Lender) Syndication Loan Long-term debt, NT\$7,000,000 thousand, due in semiannual repayments commencing November 16, 2011 and maturing May 16, 2013. Interest rate range from 2.9767% to 2.9873%.	5,000,000	-
Ta Chong Bank (Lead Lender) Syndication Loan Long-term debt, US\$30,000 thousand, due in 5 semiannual installments commencing September 2, 2008 and maturing September 2, 2010. Interest rate is 1-month (2, 3 or 6-month) LIBOR rate plus 0.90%.	910,200	985,800
Standard Chartered Bank (HK) (Lead Lender) Syndication Loan Long-term debt, US\$30,000 thousand. The term is from August 26, 2005 to August 26, 2010. Interest rate is USD 1-month (2, 3 or 6-month) LIBOR rate plus 0.90%. The principal is due in semiannual installments commencing from August 26, 2008.	910,200	985,800

	2008	2007
Ta Chong Bank (Lead Lender) Syndication Loan Long-term debt, US\$14,000 thousand. The term is from November 14, 2005 to November 14, 2010. The principal is due in semiannual installments commencing from November 14, 2008. Interest rate is USD 1-month (2, 3 or 6-month) LIBOR rate plus 1%.	424,760	131,440
KBC Bank (Lead Lender) Syndication Loan Long-term debt, US\$36,000 thousand. The term is from December 3, 2007 to December 2, 2010. The principal is due in semiannual installments commencing from November 19, 2009. Interest rate is USD 1 month (2, 3 or 6-month) LIBOR rate plus 1%	1,092,240	-
China Development Industrial Bank (Lead Lender) Syndication Loan Long-term debt, US\$23,200 thousand, due in 5 semiannual installments commencing September 5, 2006 and maturing September 5, 2008. Interest rate is 3-month LIBOR rate plus 1%. Interest is paid monthly. The installment due in 2008 was fully paid in October 2007.	-	304,941
	37,208,855	31,102,680
Less current portion (see Note 17)	<u>(2,423,184)</u>	<u>(335,632)</u>
	<u>\$ 34,785,671</u>	<u>\$ 30,767,048</u>

20. CAPITAL STOCK AND RETAINED EARNINGS

Pou Chen's registered and issued capital as at June 30, 2008 and 2007 are summarized as follows:

	2008	2007
Registered capital		
Shares (in thousands)	3,800,000	3,800,000
Par value (in dollars)	<u>\$ 10</u>	<u>\$ 10</u>
Capital	<u>\$ 38,000,000</u>	<u>\$ 38,000,000</u>
Issued capital		
Shares (in thousands)	2,513,607	2,445,246
Par value (in dollars)	<u>\$ 10</u>	<u>\$ 10</u>
Capital	<u>\$ 25,136,070</u>	<u>\$ 24,452,459</u>

Pou Chen's outstanding capital stock amounted to \$24,452,459 thousand as at June 30, 2007. At the April 24, 2007 meeting, Pou Chen's stockholders resolved to issue additional capital stock amounting to \$637,714 thousand through stockholders' dividends of \$486,209 thousand, and bonuses to employees of \$151,505 thousand. Furthermore, employee stock warrants were exercised for 4,250 thousand shares (amounting to \$42,500 thousand) and convertible bonds were exercised for 340 thousand shares (amounting to \$3,397 thousand) during 2007. As a result, Pou Chen's outstanding capital stock was increased to \$25,136,070 thousand, divided into 2,513,607 thousand common shares with a par value of \$10.00 dollars each as at June 30, 2008.

As at June 13, 2008, Pou Chen's shareholders meeting resolved to issue additional capital stock amounting to \$2,744,315 thousand through stockholders' dividends of \$2,471,099 thousand, and bonuses to employees of \$273,216 thousand. As the legal registration process is not completed, it was included in "stock dividends to be distributed" account as at June 30, 2008.

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

Earnings per share are based upon the weighted average number of shares of common stock outstanding during the year. For the six months ended June 30, 2008, the weighted average number of shares used in the calculation of earnings per share has been restated for the retroactive effect of the stock dividends issued in 2008.

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

Additionally, as at November 6, 2007, Pou Chen has issued 125,500,000 units of employee stock warrants to the employees with an exercise price of \$29.80 dollars per share. Each of the aforementioned individual employee stock warrant is granted the right to purchase new issued common share for 1 share. As at August 11, 2008, the date of the independent accountant's review report, the exercise price of the aforementioned warrant has been retroactively restated at \$10 dollars, \$19.20 dollars, and \$25.85 dollars, respectively, due to the stock dividends distributed in 2008.

At June 30, 2008, the employee stock warrants were executed for 21,791 thousand shares of common stock.

Information about Pou Chen's outstanding stock warrants for the six months ended June 30, 2008 and 2007 was as follows:

	2008		2007	
	Number of Stock Purchasable (Thousand Shares)	Weighted-Average Exercise Price (NT\$)	Number of Stock Purchasable (Thousand Shares)	Weighted-Average Exercise Price (NT\$)
Employee Stock Warrants				
Balance, beginning of period	173,984	\$ 24.35	53,068	\$ 10.28
Stock warrants exercised	<u>(2,675)</u>	10.00	<u>(4,017)</u>	10.00
Balance, end of period	<u>171,309</u>	21.67	<u>49,051</u>	10.25
Exercisable stock warrants at end of period	<u>45,809</u>		<u>48,718</u>	

As at June 30, 2008 and 2007, information about Pou Chen's outstanding and exercisable stock warrants was as follows:

Range of Exercise Price (NT\$)	Stock Warrants Outstanding			Stock Warrants Exercisable	
	Number of Stock Purchasable (Thousand Shares)	Weighted-average Remaining Contractual Life (Years)	Weighted-average Exercise Price (NT\$)	Number of Stock Purchasable (Thousand Shares)	Weighted-average Exercise Price (NT\$)
<u>2008</u>					
\$10.00~\$25.85	<u>171,309</u>	<u>7.96</u>	<u>\$ 21.67</u>	<u>45,809</u>	<u>\$ 10.20</u>
<u>2007</u>					
\$10.00~\$22.30	<u>49,051</u>	<u>5.12</u>	<u>\$ 10.25</u>	<u>48,718</u>	<u>\$ 10.17</u>

If the compensation cost based on the fair value method is accounted for as expenses, the pro-forma results of Pou Chen for the six months ended June 30, 2008 and 2007 would have been as follows:

	2008	2007
Income from continuing operations before income tax - attributed to shareholders of the Parent Company	<u>\$ 4,022,330</u>	<u>\$ 2,274,574</u>
Net income - attributed to shareholders of the Parent Company	<u>\$ 4,029,080</u>	<u>\$ 1,870,944</u>
Basic earnings per share (in dollars)	<u>\$ 1.47</u>	<u>\$ 0.71</u>

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

	Grant Dates		
	August 6, 2002	July 24, 2003	November 6, 2007
Dividend rate	-	-	-
Expected volatility of price	42.16%	44.17%	34.83%
Risk-free interest rate	2.61%	1.68%	2.70%
Expected life	6.5 years	6.5 years	6.5 years
Stock warrants issued (thousand shares)	66,600	1,000	125,500
Weighted average fair value (in dollars)	\$10.70	\$18.87	\$11.93

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

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

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

For the six months ended June 30, 2008, the bonus to employees and bonus to directors and supervisors, both representing 3% of net income (net of the bonus to employees and bonus to directors and supervisors), were estimated based on past experiences. Material differences between such estimated amounts and the amounts proposed by the board of directors in the following year are adjusted for in the current year. If the actual amounts subsequently resolved by the shareholders differ from the proposed amounts, the differences are recorded in the year of shareholders' resolution as a change in accounting estimate. 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-Tseng (1) No. 0950000507 of Financial Supervisory Commission, Executive Yuan public listed companies have to appropriate earnings for special reserve according to Article 41-1 of Securities Transaction Act, in addition to the appropriation for legal reserve, an amount equal to debit balances, if any, in stockholders' equity (such as unrealized loss on financial assets and cumulative translation adjustments). The special reserve can be reversed and distributed as retained earnings if such deduction of stockholders' equity reversed.

Pou Chen's board of directors proposed and the shareholders in their meetings have proposed and approved the distribution from the 2007 earnings of 27,322 thousand shares to employees (represents 1.09% of the outstanding common shares at the end of 2007) and of \$169,000 thousand as bonuses to directors and supervisors. In 2007, the basic earnings per share after income tax (before retroactive adjustment for stock dividend in 2008) was \$1.97 dollars. However, if the earnings distribution to employees, directors and supervisors are accounted for as expenses, the pro-forma basic earnings per share after income tax was \$1.79 dollars. For the appropriation of 2007 retained earnings proposed by the board of directors and approved in the shareholders' meeting, please refer to the Market Observation Post System ("MOPS") of Taiwan Stock Exchange.

Wealthplus' outstanding capital stock as at March 31, 2008 and 2007 amounted to US\$109,222 thousand and US\$169,222 thousand, divided into 109,222 thousand shares and 169,222 thousand shares, with a par value of US\$1 dollar each, respectively.

Additionally, Wealthplus' board of directors decided to decrease and return its capital, amounting to US\$60,000 thousand in March 2008.

Win Fortune's outstanding capital stock as at March 31, 2008 and 2007 both amounted to US\$100 thousand, with a par value of US\$1 dollar each, 100 thousand shares.

Ming Wang's registered and issued capital as at June 30, 2008 and 2007 both amounted to \$427,291 thousand, divided into 42,729 thousand common shares with a par value of \$10.00 dollars each.

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

Windsor Entertainment's registered and issued capital as at June 30, 2007 amounted to \$210,000 thousand, divided into 21,000 thousand common shares with a par value of \$10.00 dollars each. Additionally, Windsor Entertainment decreased its capital to offset its accumulated deficit by \$200,000 thousand and issued additional capital stock for \$200,000 thousand at a price of \$10.00 dollars per share in June 2008. As at June 30, 2008, Windsor Entertainment's registered and issued capital amounted to \$210,000 thousand, divided into 21,000 thousand common shares with a par value of \$10.00 dollars each.

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

Yun Yang's registered and issued capital as at June 30, 2007 amounted to \$75,000 thousand, divided into 7,500 thousand common shares with a par value of \$10.00 dollars each. In 2007, Yun Yang's stockholders meeting resolved to issue additional capital stock of \$7,561 thousand through stock dividends. As a result, Yun Yang's registered and issued capital stock as at June 30, 2008 was increased to \$82,561 thousand, divided into 8,256 thousand common shares, with a par value of \$10.00 dollars each.

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

Pou Shine's registered and issued capital as at June 30, 2008 and 2007 both amounted to \$573,632 thousand, divided into 57,363 thousand common shares with a par value of \$10.00 dollars each.

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

Pan Asia Insurance Services' issued capital as at June 30, 2008 and 2007 both amounted to \$3,000 thousand.

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

Proshine Health care commenced its operations in November 2007. Proshine Healthcare's registered and issued capital as at June 30, 2008 amounted to \$500,000 thousand and \$280,000 thousand, respectively. Issued capital was divided into 28,000 thousand common shares with a par value of \$10.00 dollars each.

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

- a. for paying tax,
- b. for offsetting deficit,
- c. 10% of the annual earnings as legal reserve,

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

Barits Development's registered and issued capital as at June 30, 2008 and 2007 are summarized as follows:

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

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

Pou Yuen Technology's registered and issued capital as at June 30, 2008 and 2007 are summarized as follows:

	2008	2007
Registered capital		
Shares (in thousands)	<u>190,000</u>	<u>120,000</u>
Par value (in dollars)	<u>\$ 10</u>	<u>\$ 10</u>
Capital	<u>\$ 1,900,000</u>	<u>\$ 1,200,000</u>
Issued capital		
Shares (in thousands)	<u>90,000</u>	<u>90,000</u>
Par value (in dollars)	<u>\$ 10</u>	<u>\$ 10</u>
Capital	<u>\$ 900,000</u>	<u>\$ 900,000</u>

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

Pro Arch Technology's registered and issued capital as at June 30, 2008 and 2007 are summarized as follows:

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

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

LNC Technology commenced its operation in August 2007. LNC Technology's registered and issued capital as at June 30, 2008 amounted to \$600,000 thousand and \$570,000 thousand, respectively. Issued capital was divided into 57,000 thousand common shares with a par value of \$10.00 dollars each.

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

- a. for paying tax,
- b. for offsetting deficit,
- c. 10% of the annual earnings as legal reserve,
- d. 3% as bonus to directors and supervisors after the three above are appropriated,
- e. 1% as bonus to employees after the four above are appropriated,
- f. as special reserve or being retained partially by LNC Technology, and
- g. dividends to stockholders as proposed according to stock ownership proportion.

Vistas Design's commenced its operation in June 2008. Vistas Design's registered and issued capital as at June 30, 2008 amounted to \$5,000 thousand, divided into 500 thousand common shares with a par value of \$10.00 dollars each.

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

- a. for paying tax,
- b. for offsetting deficit,
- c. 10% of the annual earnings as legal reserve,
- d. 3% as bonus to directors and supervisors after the three items above are appropriated,
- e. 1% as bonus to employees after the four items above are appropriated,
- f. as special reserve or being retained partially by Vistas Design, and
- g. dividends to stockholders as proposed according to stock ownership proportion.

Global Brands Manufacture's registered and issued capital as at June 30, 2008 and 2007 are summarized as follows:

	2008	2007
Registered capital		
Share (in thousands)	<u>500,000</u>	<u>430,000</u>
Par value (in dollars)	<u>\$ 10</u>	<u>\$ 10</u>
Capital	<u>\$ 5,000,000</u>	<u>\$ 4,300,000</u>
Issued capital		
Share (in thousands)	<u>309,400</u>	<u>271,779</u>
Par value (in dollars)	<u>\$ 10</u>	<u>\$ 10</u>
Capital	<u>\$ 3,094,008</u>	<u>\$ 2,717,794</u>

Global Brands Manufacture was authorized to issue common stock of 30,000 thousand shares under private placement at \$40.48 dollars per share for funding operating capital in November 2003. Such private placement shares and their distributed shares were 41,745 thousand shares. The private placement shares referred above had been allowed to trade by Financial Supervisory Commission, Executive Yuan in January 2007.

As at April 30, 2007, Global Brands Manufacture's shareholders meeting resolved to issue additional capital stock of \$299,614 thousand through stock dividends of \$271,779 thousand, and bonuses to employees of \$27,835 thousand. Furthermore, employee stock warrants were exercised for 7,660 thousand shares of common stock during 2007. As a result, Global Brands Manufacture's outstanding capital stock was increased to \$3,094,008 thousand, divided into 309,400 thousand common shares, with a par value of \$10 dollars per share as at June 30, 2008.

At the meeting on October 15, 2002, the board of directors of Global Brands Manufacture resolved to issue employee stock warrants in accordance with the Securities and Exchange Law Article 28-3 within the quantity of 5,672 units. Each stock warrant is granted the right to purchase new issued common shares for 1,000 shares. The exercise price is the closing price of Global Brands Manufacture's common shares at the employee stock warrants' issuance date. The warrant holders can exercise the right up to one-third of the granted warrant units no earlier than two years from the granted date. After four years from the granted date, the warrants holders are eligible to exercise all the warrants owned. As of December 13, 2002 and September 22, 2003, Global Brands Manufacture issued 5,662 units and 10 units, respectively, of employee stock warrants to the employees with an exercise price of \$29.50 dollars and \$64 dollars per unit. The exercise price will be adjusted according to calculating formula subject to stock and cash dividends and issuance of capital stock. In 2007, the warrants exercised were 4,350 units and 10 units, respectively. As at June 30, 2008, the outstanding warrants were 1,312 units, and the exercise price was \$14.10 dollars per unit.

At the meeting on September 22, 2003, the board of directors of Global Brands Manufacture resolved to issue another employee stock warrants with the quantity of 10,672 units. The issuing rules are the same as the first issuance mentioned above. Global Brands Manufacture issued all the employee stock warrants with an exercise price of \$50.50 dollars per unit on November 12, 2003. The exercise price will be adjusted according to calculating formula subject to stock and cash distributions and issuance of capital stock. As at June 30, 2008, the exercise price was \$25.90 dollars per unit, and total unsubscribed shares available for sale were 13,591 thousand shares.

At the meeting on December 5, 2007, the board of directors of Global Brands Manufacture resolved to issue another employee stock warrants with the quantity of 15,000 units. Each of the employee stock warrant is granted the right to purchase new issued common share for 1 share. The issuing rules are the same as the first issuance mentioned above. Global Brands Manufacture issued all the employee stock warrants with an exercise price of \$41.55 dollars per unit on December 24, 2007. The exercise price will be adjusted according to calculating formula subject to stock and cash distributions and issuance of capital stock. As at June 30, 2008, the exercise price was \$41.55 dollars per unit and total unsubscribed shares available for sale were 15,000 thousand shares.

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

	2008		2007	
	Number of Stock Purchasable (Thousand Shares)	Weighted-average Exercise Price (NT\$)	Number of Stock Purchasable (Thousand Shares)	Weighted-average Exercise Price (NT\$)
Employee Stock Warrants				
Balance, beginning of period	29,903	\$ 33.23	20,885	\$ 27.68
Stock warrants granted	-	-	-	-
Stock warrants exercised	-	-	-	-
Balance, end of period	<u>29,903</u>	33.23	<u>20,885</u>	27.68
Exercisable stock warrants at end of period	<u>14,903</u>	24.86	<u>15,811</u>	26.55

Information about outstanding and exercisable options as of June 30, 2008 and 2007 was as follows:

Range of Exercise Price (NT\$)	Stock Warrants Outstanding			Stock Warrants Exercisable	
	Number of Stock Purchasable (Thousand Shares)	Weighted-average Remaining Contractual Life (Years)	Weighted-average Exercise Price (NT\$)	Number of Stock Purchasable (Thousand Shares)	Weighted-average Exercise Price (NT\$)
<u>2008</u>					
\$14.10~\$41.55	<u>29,903</u>	<u>7.46</u>	<u>\$ 33.23</u>	<u>14,903</u>	<u>\$ 24.86</u>
<u>2007</u>					
\$14.10~\$31.40	<u>20,885</u>	<u>6.25</u>	<u>\$ 27.68</u>	<u>15,811</u>	<u>\$ 26.55</u>

If the compensation cost based on the fair value method is accounted for as expenses, the pro-forma results of Global Brands Manufacturing for the six months ended June 30, 2008 would have been as follows:

Assumptions		
Risk-free interest rate		2.5%
Expected life		6.5 years
Expected volatility		38.07%
Dividend rate		-
Net income		
As reported		\$ 258,019
Pro-forma		\$ 210,298
Basic earnings per share (in dollar)		
As reported		\$0.68
Pro-forma		\$0.56
Diluted earnings per share (in dollar)		
As reported		\$0.67
Pro-forma		\$0.55

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

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

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

21. TREASURY STOCK

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

Reason	2008.01.01	Increase	Decrease	2008.06.30
Buy the stock back to transfer to employees	-	43,300,000	-	43,300,000
Common shares held by subsidiaries	8,626,368	-	-	8,626,368

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

Accordingly, as at June 30, 2008, the subsidiaries held 8,626,368 shares of Pou Chen's common stock at cost of \$155,375 thousand in total.

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

Subsidiary	Shares	Amount
Wealthplus	122,393	\$ 3,181
Pou Shine	1,740,095	40,919
Ming Wang	1,304,128	27,242
Barits Development	4,097,797	96,361
Top Score	132,576	3,311
Ming Chi	77,325	1,818
Pou Yii	1,371,134	25,415

22. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

Personnel, depreciation, and amortization expenses for the six months ended June 30, 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	11,334,499	5,031,185	-	16,365,684	9,469,206	4,249,804	-	13,719,010
Labor insurance and health insurance	356,369	165,865	-	522,234	292,084	158,966	-	451,050
Pension cost	103,273	238,380	-	341,653	88,540	166,628	-	255,168
Others	66,696	57,719	-	124,415	32,168	54,344	-	86,512
Depreciation expenses	2,400,765	896,326	-	3,297,091	2,324,466	809,839	-	3,134,305
Amortization expenses	7,519	63,559	-	71,078	75,565	53,318	-	128,883

23. INCOME TAX

The Company's income tax expense for the six months ended June 30, 2008 is as follows:

Income tax expense, current	\$ 407,859
10% additional income tax on undistributed earnings of 2007	53,177
Adjustment of deferred tax asst and valuation allowance	(6,750)
Adjustment of prior year's income tax expense	<u>186</u>
Income tax expense	<u>\$ 454,472</u>

The components of deferred tax assets (liabilities) as at June 30, 2008 are as follows:

Unrealized inventory devaluation losses	\$ 16,269
Unrealized losses on disposal of property, plant and equipment	250
Unrealized bad debt losses	64,552
Unrealized maintenance and repairs expenses	390
Unrealized pension expense	150,083
Unrealized sales allowance	580
Unrealized loss on decline in market value of long-term investments	3,550
Unrealized net exchange loss	7,308
Unrealized provision for decline in value of idle assets	1,240
Losses carryforward	598,129
Investment tax credits	19,756
Others	(153,669)
Less valuation allowance	<u>(591,147)</u>
Deferred tax assets	117,291
Deferred tax assets, current	<u>(56,623)</u>
Deferred tax assets, noncurrent	<u>\$ 60,668</u>

The Company's current income tax for the six months ended June 30, 2008 and income tax payable as at June 30, 2008 were reconciled as follows:

Income tax expense at statutory rate of 25%	\$ 1,781,409
Income from valuation on financial instruments at fair value through profit or loss	(433,226)
Investment income recognized under equity method	(1,057,459)
Gain on disposal of land	(3,312)
Amortization of operating expense for disposal of land and securities	1,890
Others	<u>118,557</u>
Current income tax expense	407,859
Provision for (reversal of) of deferred income tax asset	
Unrealized provision for bad debts	9,987
Reversal of unrealized inventory devaluation losses	(4,423)
Unrealized pension expense	2,948
Unrealized net exchange loss	6,880
Free of tax income	(84,911)
Loss carryforward	(10,199)
Others	<u>232,698</u>
Income tax payable	560,839
Add 10% additional income tax on unappropriated earnings of 2007	53,177
Add prior year's income tax payable	27,344
Less temporary tax payment	<u>(11,035)</u>
Income tax payable as at June 30, 2008	<u>\$ 630,325</u>

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

At June 30, 2008, the amount and year of expiration of deductible loss carryforward and investment deduction by individual company are as follows:

	Pou Yuen Technology	Pro Arch Technology	Windsor Entertainment	Proshine Healthcare	LNC Technology
2008	\$ 31,600	\$ 131,300	\$ 370	\$ -	\$ -
2009	31,400	143,700	1,270	-	-
2010	-	153,480	2,490	-	-
2011	-	14,350	39,270	-	-
2012	-	1,350	29,300	238	28
2013	-	8,298	7,620	2,065	-
	<u>\$ 63,000</u>	<u>\$ 452,478</u>	<u>\$ 80,320</u>	<u>\$ 2,303</u>	<u>\$ 28</u>

The information of the integrated income tax system as at June 30, 2008 is as follows:

	Pou Chen	Ming Wang	Windsor Entertainment	Pou Shine	Pan Asia Insurance Service	Barits Development	Song Ming	Pou Yui
IC Balance of Imputation Credit Account	\$ 587,134	\$ 37,511	\$ -	\$ 5,964	\$ 144	\$ 119,085	\$ 504	\$ 36,016
Undistributed earnings for the years of 1997 and before	\$ 310,501	\$ -	\$ -	\$ -	\$ -	\$ 515,118	\$ -	\$ 7,176
Undistributed earnings for the years of 1998 and after	\$ 7,216,519	\$ 159,918	\$ (32,039)	\$ 265,540	\$ (1,831)	\$ 1,836,407	\$ 50,000	\$ 51,537
Expected IC ratio on distributable earnings of 2008	6.94%	12.76%	-	10.62%	-	7.19%	0.30%	17.23%

	Wang Yi	Ming Chi	Ming Shun	Pou Yuen Technology	Yun Yang	Pro Arch Technology	Global Brands Manufacture	Cheng Cheng
IC Balance of Imputation Credit Account	\$ 16,561	\$ 11,577	\$ 3,133	\$ 6,707	\$ 2,142	\$ 730	\$ 378,170	\$ -
Undistributed earnings for the years of 1997 and before	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Undistributed earnings for the years of 1998 and after	\$ (10,474)	\$ 57,077	\$ 60,869	\$ (358,373)	\$ 14,519	\$ (387,744)	\$ 1,558,184	\$ 1,321
Expected IC ratio on distributable earnings of 2008	-	5.60%	-	-	9.37%	-	15.34%	24.43%

	Proshine Healthcare	LNC Technology	Vistas Design
IC Balance of Imputation Credit Account	\$ -	\$ 22	\$ -
Undistributed earnings for the years of 1997 and before	\$ -	\$ -	\$ -
Undistributed earnings for the years of 1998 and after	\$ (10,311)	\$ (43,505)	\$ -
Expected IC ratio on distributable earnings of 2008	-	-	-

24. EARNINGS PER SHARE

For the six months ended June 30, 2008 and 2007, earnings per share before income tax and earnings per share after income tax are as follows:

	2008						
	Income from Continuing Operations Before Tax	Income from Continuing Operations After Tax	Income After Tax (Attributed to Pou Chen's Shareholders)	Weighted Average Number of Common Shares Outstanding (In Thousands)	Income from Continuing Operations Before Tax	Income from Continuing Operations After Tax	Income After Tax (Attributed to Pou Chen's Shareholders)
Net income	\$ 8,483,508	\$ 8,029,036	\$ 4,299,410				
Basic earnings per share							
Net income	\$ 8,483,508	\$ 8,029,036	\$ 4,299,410	2,748,806	\$ 3.09	\$ 2.92	\$ 1.56
Effect of dilutive potential common shares							
Employee stock warrants	-	-	-	42,728			
Convertible bonds	-	-	-	62			
Diluted earnings per share							
Net income plus the effect of dilutive potential common shares	\$ 8,483,508	\$ 8,029,036	\$ 4,299,410	2,791,596	\$ 3.04	\$ 2.88	\$ 1.54

	2007						
	Income from Continuing Operations Before Tax	Income from Continuing Operations After Tax	Income After Tax (Attributed to Pou Chen's Shareholders)	Weighted Average Number of Common Shares Outstanding (In Thousands)	Earnings Per Share		
					Income from Continuing Operations Before Tax	Income from Continuing Operations After Tax	Income After Tax (Attributed to Pou Chen's Shareholders)
Net income	<u>\$ 6,041,039</u>	<u>\$ 5,218,936</u>	<u>\$ 1,874,351</u>				
Basic earnings per share							
Net income	\$ 6,041,039	\$ 5,218,936	\$ 1,874,351	2,636,771	<u>\$ 2.29</u>	<u>\$ 1.98</u>	<u>\$ 0.71</u>
Effect of dilutive potential common shares							
Employee stock warrants	-	-	-	37,162			
Convertible bonds	-	-	-	443			
Diluted earnings per share							
Net income plus the effect of dilutive potential common shares	<u>\$ 6,041,039</u>	<u>\$ 5,218,936</u>	<u>\$ 1,874,351</u>	<u>2,674,376</u>	<u>\$ 2.26</u>	<u>\$ 1.95</u>	<u>\$ 0.70</u>

If the Company's common shares held by its subsidiaries were not accounted for as treasury stock, the pro-forma earnings per share for the six months ended June 30, 2008 and 2007 are as follows:

	2008						
	Income from Continuing Operations Before Tax	Income from Continuing Operations After Tax	Income After Tax (Attributed to Pou Chen's Shareholders)	Weighted Average Number of Common Shares Outstanding (In Thousands)	Earnings Per Share		
					Income from Continuing Operations Before Tax	Income from Continuing Operations After Tax	Income After Tax (Attributed to Pou Chen's Shareholders)
Net income	<u>\$ 8,483,508</u>	<u>\$ 8,029,036</u>	<u>\$ 4,299,410</u>				
Basic earnings per share							
Net income	\$ 8,483,508	\$ 8,029,036	\$ 4,299,410	2,758,295	<u>\$ 3.08</u>	<u>\$ 2.91</u>	<u>\$ 1.56</u>
Effect of dilutive potential common shares							
Employee stock warrants	-	-	-	42,728			
Convertible bonds	-	-	-	62			
Diluted earnings per share							
Net income plus the effect of dilutive potential common shares	<u>\$ 8,483,508</u>	<u>\$ 8,029,036</u>	<u>\$ 4,299,410</u>	<u>2,801,085</u>	<u>\$ 3.03</u>	<u>\$ 2.87</u>	<u>\$ 1.53</u>

	2007						
	Income from Continuing Operations Before Tax	Income from Continuing Operations After Tax	Income After Tax (Attributed to Pou Chen's Shareholders)	Weighted Average Number of Common Shares Outstanding (In Thousands)	Earnings Per Share		
					Income from Continuing Operations Before Tax	Income from Continuing Operations After Tax	Income After Tax (Attributed to Pou Chen's Shareholders)
Net income	<u>\$ 6,166,414</u>	<u>\$ 5,344,311</u>	<u>\$ 1,999,726</u>				
Basic earnings per share							
Net income	\$ 6,166,414	\$ 5,344,311	\$ 1,999,726	2,770,335	<u>\$ 2.23</u>	<u>\$ 1.93</u>	<u>\$ 0.72</u>
Effect of dilutive potential common shares							
Employee stock warrants	-	-	-	37,162			
Convertible bonds	-	-	-	443			
Diluted earnings per share							
Net income plus the effect of dilutive potential common shares	<u>\$ 6,166,414</u>	<u>\$ 5,344,311</u>	<u>\$ 1,999,726</u>	<u>2,807,940</u>	<u>\$ 2.20</u>	<u>\$ 1.90</u>	<u>\$ 0.71</u>

25. DISCLOSURES FOR FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

The fair value of nonderivative and derivative financial instruments as at June 30, 2008 and 2007 are summarized as follows:

Nonderivative Financial Instruments	2008		2007	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
Cash and cash equivalents	\$23,374,675	\$23,374,675	\$27,735,638	\$27,735,638
Financial assets at fair value through profit of loss, current	15,687,315	15,687,315	7,671,712	7,671,712
Notes and accounts receivable	29,296,371	29,296,371	24,633,054	24,633,054
Accounts receivable from affiliates	1,354,646	1,354,646	1,460,637	1,460,637
Other receivable	3,576,029	3,576,029	4,038,988	4,038,988
Investment accounted for by the equity method	29,248,874	26,288,289	25,012,760	24,010,940
Available-for-sale financial assets, noncurrent	902,384	902,384	1,572,726	1,572,726
Financial assets carried at cost, noncurrent	1,179,824	-	754,575	-
Refundable deposits	1,111,082	1,111,082	83,837	83,837
Long-term receivables	354,812	354,812	273,986	273,986
Liabilities				
Short-term loans	31,816,858	31,816,858	17,791,434	17,791,434
Short-term bills payable	1,116,232	1,116,232	978,108	978,108
Notes and accounts payable	15,587,406	15,587,406	14,088,336	14,088,336
Notes and accounts payable to affiliates	1,051,857	1,051,857	1,098,033	1,098,033
Other payables	12,781,774	12,781,774	17,072,648	17,072,648
Current portion of long-term liabilities	10,271,901	10,271,901	5,335,632	5,335,632
Bonds payable	7,520,679	7,520,679	15,770,071	15,770,071
Long-term debt	34,785,671	34,785,671	30,767,048	30,767,048
Guarantee deposits receivable	29,386	29,386	11,868	11,868

Derivative Financial Instruments	2008		2007	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Interest rate swap contracts (hedging derivative, noncurrent)	\$ 52,389	\$ 52,389	\$ 36,816	\$ 36,816
Euro - dollar convertible bonds with options (financial liabilities at fair value through profit or loss, current)	1,842,214	1,842,214	1,372,959	1,372,959
Forward exchange contracts (financial liabilities at fair value through profit or loss, current)	1,114,422	1,114,422	-	-
Interest rate swap contracts and forward exchange contracts (hedging derivative liabilities, current)	-	-	96,712	96,712

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

- The fair value of cash and cash equivalents, notes and accounts receivable, short-term loans, short-term bills payable, and notes and accounts payable, approximates their carrying value due to the short-term maturities of these financial instruments.
- The fair value of financial instruments at fair value through profit or loss, available-for-sale financial assets and derivative financial instruments are quoted by market price. The fair value of derivative financial instruments is measured, according to specific contract's settlement rate, by the middle exchange rate, and the discount rate quoted by Reuters.
- The fair value of investments accounted for by the equity method are based on their quoted prices in an active market. For those investments with no quoted market prices, their fair values are based on the net price per share in the financial report verified and certified by a certifying accountant issued as at June 30, 2008.
- Financial assets carried at cost which fair value could not be measured reliably, including non-public stocks and TIGER stocks. The fair value of these instruments is determined at their carrying value.
- The fair value of long-term debt and bond payables is estimated based on the net present value of expected cash flows.

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

	Quoted Market Price in Active Market		Other Method of Valuation	
	2008	2007	2008	2007
Assets				
Financial assets at fair value through profit or loss, current	\$ 12,385,495	\$ 7,671,712	\$ 3,301,820	\$ -
Available-for-sale financial assets, noncurrent	902,384	1,572,726	-	-
Hedging derivative financial assets, noncurrent	-	-	52,389	36,816
Liabilities				
Financial liabilities at fair value through profit or loss, current	-	-	2,956,636	1,372,959
Hedging derivative financial liabilities, current	-	-	-	96,712

As at June 30, 2008 and 2007, financial liabilities exposed to cash flow interest rate risk were \$70,141,945 thousand and \$49,872,222 thousand, respectively.

The Company recognized an unrealized (loss) gain of \$(135,051) thousand and \$174,581 thousand, respectively, in equity for the changes in fair value of available-for-sale financial assets for the six months ended June 30, 2008 and 2007.

Financial Risk Information

Market Risk

The risk the Company engaged in portfolios of marketable equity securities and open-ended mutual fund comes from changes of market price. One percentage decline in market rate will cause the fair value of financial instruments to decline by \$132,879 thousand.

Credit Risk

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

Liquidity Risk

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

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

Cash Flow Interest Rate Risk

The Company engaged in floating-interest-rate short-term and long-term borrowings. Therefore, cash flows are expected to fluctuate due to changes in market interest rates. One percentage increase in market rate will cause the Company to increase its cash-out by \$701,419 thousand.

26. RELATED PARTY TRANSACTIONS

Names and relationships of the related parties are as follows:

Name	Relationship
CMKC (HK) Limited (“CMKC”)	CMK Corporation (CMK Corporation together with Global Brands Manufacture invest in CMK GBM and holds 49.00% ownership interest of CMK GBM) holds a 100.00% ownership interest
Ka Yuen Rubber Factory Limited (“Ka Yuen”)	The Company holds a 50.00% ownership interest
Digital Sun Investments Ltd. (“Digital Sun”)	The Company holds a 41.67% ownership interest
Twinways Investments Ltd. (“Twinways”)	The Company holds a 50.00% ownership interest

Name	Relationship
Best Focus Holdings Ltd. (“Best Focus”)	The Company holds a 50.00% ownership interest
Hua Jian Industrial Holdings Co., Ltd. (“Hua Jian”)	The Company holds a 50.00% ownership interest
Cohen Enterprises Inc. (“Cohen”)	The Company holds a 50.00% ownership interest
Bandwidth Trading Ltd. (“Bandwidth”)	The Company holds a 50.00% ownership interest
Dalian Dongzhijie Sports Industry Development Co., Ltd. (“Dalian Dongzhijie”)	The Company holds a 30.00% ownership interest
Vietnam Tiong Liong Industrial Co., Ltd. (“Vietnam Tiong Liong”)	The Company holds a 37.00% ownership interest
Pine Wood Industries Limited (“Pine Wood”)	The Company holds a 37.00% ownership interest
Yuen Thai Industrial Co., Limited (“Yuen Thai”)	The Company holds a 50.00% ownership interest
New Peak Services Limited (“New Peak”)	The Company holds a 50.00% ownership interest
Liberty Bell Investments Limited (“Liberty Bell”)	The Company holds a 49.00% ownership interest
Oftenrich Holdings Ltd. (“Oftenrich”)	The Company holds a 45.00% ownership interest
San Fang Chemical Industry Co., Ltd. (“San Fang”)	The Company holds a 44.72% ownership interest
Eastlion Industrial Ltd. (“Eastlion”)	The Company indirect holds a 35.00% ownership interest
Crystalyte Industrial Ltd	The Company holds a 50.00% ownership interest
Chigwell Industrial Ltd.	The Company holds a 50.00% ownership interest
i-Tech Enterprises Ltd.	The Company holds a 50.00% ownership interest
Topmost Industries Ltd.	The Company holds a 50.00% ownership interest
Yuen Foong Yu Paper (Dong Nai) Co., Ltd.	The Company holds a 40.00% ownership interest

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

Sales

Sales to related parties for the six months ended June 30, 2008 and 2007 are summarized as follows:

	2008		2007	
	Amount	Percentage to Net Sales	Amount	Percentage to Net Sales
CMKC	\$ 2,027,190	2	\$ 2,306,863	3
Others	110,518	-	555,052	-
	<u>\$ 2,137,708</u>	<u>2</u>	<u>\$ 2,861,915</u>	<u>3</u>

Cost of Sales - Purchases

Purchases from related parties for the six months ended June 30, 2008 and 2007 are summarized below:

	2008		2007	
	Amount	Percentage to Net Purchases	Amount	Percentage to Net Purchases
Ka Yuen	\$ 826,874	1	\$ 960,256	1
Digital Sun	712,206	1	407,923	1
San Fang	598,687	1	553,021	1
CMKC	514,947	1	536,540	1
Twinways	403,555	-	313,639	-
Eastlion	304,385	-	338,043	1
Bigfoot	138,089	-	235,950	-
Others	1,075,007	2	887,612	1
	<u>\$4,573,750</u>	<u>6</u>	<u>\$4,232,984</u>	<u>6</u>

Accounts Receivable

Accounts receivable from affiliates as at June 30, 2008 and 2007 are summarized as follows:

	2008		2007	
	Amount	Percentage to Accounts Receivable	Amount	Percentage to Accounts Receivable
Accounts receivable				
CMKC	\$ 854,886	3	\$ 1,315,021	5
Others	500,590	1	150,734	1
Less allowance for doubtful accounts	<u>(830)</u>	<u>-</u>	<u>(5,118)</u>	<u>-</u>
	<u>\$ 1,354,646</u>	<u>4</u>	<u>\$ 1,460,637</u>	<u>6</u>

Notes and Accounts Payable

Notes and accounts payable due to affiliates as at June 30, 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	<u>\$ 46,667</u>	<u>28</u>	<u>\$ 72,770</u>	<u>30</u>
Accounts payable				
Ka Yuen	\$ 298,984	2	\$ 321,634	2
Twinways	184,015	1	106,692	1
Digital Sun	120,334	1	124,995	1
San Fang	53,399	-	161,272	1
Others	348,458	2	310,670	2
	<u>\$ 1,005,190</u>	<u>6</u>	<u>\$ 1,025,263</u>	<u>7</u>

Credit Guarantees

See Note 27.

27. COMMITMENTS AND CONTINGENCIES

Letters of Credit

Outstanding letters of credit as at June 30, 2008 are as follows (unit: amount of currency):

U.S. Dollar	\$ 6,379,251
Euro	€ 25,267
Japanese Yen	¥ 9,792,000

Chuan Yi Computer (Shenzhen) Co., Ltd. (“Chuan Yi”) was fined of \$846 thousand by local government due to its water pollution that went over the limit in May 2007. By making urgent improvements, Chuan Yi had received the permit again in November 2007.

On January 31, 2008 meeting, the board of directors of Success Ocean Investments Limited resolved to invest in GMB Mobile Solutions through Always Up Investments Limited US\$19,800 thousand, which was approved by the Investment Commission, MOEA.

Chuan Yi leases several parcels of land, office premises and dormitory in PRC. These operating leases expire on various dates from 2009 to 2024, and could be renewed upon expiration. As of June 30, 2008, future lease payments were as follows:

	Amount	Present Value
2008	\$ 23,520	\$ -
2009	35,592	-
2010	24,814	-
2011	25,224	-
2012	25,957	-
2013 to 2017	93,778	58,490
2018 to 2022	90,037	37,868
2023 to 2024	<u>19,995</u>	<u>6,541</u>
	<u>\$ 338,917</u>	<u>\$ 102,899</u>

Chuan Yi and CMK Global Brands Manufacture Ltd. had construction agreements for \$100,343 thousand and \$68,165 thousand, respectively. As of June 30, 2008, the payments made on the construction agreements were \$89,781 thousand and \$61,250 thousand, respectively.

At June 30, 2008, the Company has guaranteed the payments of credit of related parties as follows:

Related Parties	Amount
Best Focus Holdings Ltd./Crystalyte Industrial Ltd./Chigwell Industrial Ltd.	\$ 455,100
Hua Jian Industrial Holdings Co., Ltd.	1,152,920
Cohen Enterprises Inc.	576,460
Ka Yuen Rubber Factory Limited	38,897
Bandwidth Trading Ltd.	37,925
Yuen Thai Industrial Co., Limited	350,077
New Peak Services Limited	151,700
i-Tech Enterprises Ltd.	15,170
Topmost Industries Ltd.	15,170
Vietnam Tiong Liong Industrial Co., Ltd.	17,399
Pine Wood Industries Limited	73,575
Liberty Bell Investments Limited	148,666
Oftenrich Holdings Ltd.	341,325
Dalian Dongzhijie Sports Industry Development Co., Ltd.	42,278
Yuen Foong Yu Paper (Dong Nai) Co., Ltd.	<u>121,360</u>
	<u>\$ 3,538,022</u>

28. SIGNIFICANT SUBSEQUENT EVENTS

On July 10, 2008, the board of directors of Pou Chen resolved to acquire ownership interest in Yangxin Pou Jia Shoes Manufacturing Co., Ltd. of US\$5,945 thousand through its subsidiary, Yue Yuen.

On July 4, 2008, the board of directors of Global Brands Manufacture resolved to buy back its common stocks from the public market during July 7 to September 5, 2008. In this project, the expected purchasing price interval was \$22.50 dollars to \$50 dollars, with a quantity ceiling of 10,000 thousand shares.

On July 4, 2008, the board of directors of Dynamic Skyline Ltd. (“Dynamic Skyline”) resolved to acquire 49% of Centralian Investments Ltd. (“Centralian Investments”), for US\$17,052 thousand from its related party in substance, Keyplus Investments Limited. After the aforementioned transaction, Dynamic Skyline effectively holds 100% ownership in Centralian Investments.