

**POU CHEN CORPORATION AND
SUBSIDIARIES**

**Consolidated Financial Statements for the
Years Ended December 31, 2007 and 2006 and
Independent Auditors' Report**

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Pou Chen Corporation and subsidiaries

We have audited the accompanying consolidated balance sheets of Pou Chen Corporation and subsidiaries (collectively, the "Company") as of December 31, 2007 and 2006, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2007 and 2006, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

As described in Note 3 to the consolidated financial statements, effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 34, "Accounting for Financial Instruments" and No. 36, "Disclosure and Presentation of Financial Instruments", and the related amendments to other Statement of Financial Accounting Standards.

February 29, 2008

Notice to Readers

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

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

POU CHEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2007 AND 2006 (In Thousands of New Taiwan Dollars)

ASSETS	2007		2006		LIABILITIES AND STOCKHOLDERS' EQUITY	2007		2006	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents (Notes 2 and 4)	\$ 22,182,017	11	\$ 14,594,226	9	Short-term loans (Note 15)	\$ 19,261,143	10	\$ 15,433,592	9
Financial assets at fair value through profit or loss, current (Notes 2, 5 and 26)	9,164,993	4	5,826,810	4	Short-term bills payable (Note 16)	777,108	-	1,554,160	1
Notes receivable (Notes 2 and 6)	270,762	-	83,133	-	Notes payable	77,698	-	124,682	-
Accounts receivable (Notes 2 and 7)	27,290,876	14	24,187,905	14	Notes payable to affiliates (Note 27)	53,616	-	95,656	-
Accounts receivable from affiliates (Notes 2, 7 and 27)	1,253,041	1	2,224,619	1	Accounts payable	17,308,849	9	15,164,734	9
Other receivables	4,302,312	2	3,674,758	2	Accounts payable to affiliates (Note 27)	1,118,153	1	947,953	1
Inventories (Notes 2 and 8)	21,157,229	11	19,180,012	12	Income tax payable (Notes 2 and 24)	1,067,438	1	312,263	-
Other current assets	6,499,542	3	3,968,818	2	Financial liabilities at fair value through profit or loss, current (Notes 2, 5 and 26)	779,358	-	26,565	-
Total current assets	92,120,772	46	73,740,281	44	Hedging derivative financial liabilities, current (Notes 2 and 26)	45,962	-	-	-
FUNDS AND LONG-TERM INVESTMENTS					Other payables	10,449,986	5	9,084,593	5
Investments accounted for by the equity method (Notes 2 and 9)	27,828,293	14	23,864,121	14	Current portion of long-term liabilities (Note 17)	14,021,742	7	2,463,335	2
Investments in real estate (Notes 2 and 10)	754,543	-	172,065	-	Other current liabilities	2,148,296	1	1,711,949	1
Available-for-sale financial assets, noncurrent (Notes 2 and 11)	1,052,475	1	1,502,932	1	Total current liabilities	67,109,349	34	46,919,482	28
Hedging derivative assets, noncurrent (Notes 2 and 26)	39,812	-	-	-	LONG-TERM LIABILITIES				
Financial assets carried at cost, noncurrent (Notes 2 and 12)	923,100	-	683,463	1	Bonds payable (Notes 2 and 18)	7,826,754	4	12,863,751	8
Total funds and long-term investments	30,598,223	15	26,222,581	16	Long-term debt (Note 19)	31,475,222	16	30,815,681	18
PROPERTY, PLANT AND EQUIPMENT (Notes 2 and 13)					Hedging derivative liabilities, noncurrent (Notes 2 and 26)	-	-	167,839	-
Cost	95,393,246	48	84,116,388	50	Total long-term liabilities	39,301,976	20	43,847,271	26
Revaluation increment	293,323	-	293,323	-	RESERVE FOR LAND VALUE INCREMENT TAX (Note 13)	142,664	-	142,664	-
	95,686,569	48	84,409,711	50	OTHER LIABILITIES				
Less accumulated depreciation	(36,411,221)	(18)	(32,553,624)	(19)	Accrued pension cost (Notes 2 and 20)	575,955	-	562,657	-
Less accumulated impairment	(164,021)	-	(164,021)	-	Guarantee deposits received	19,787	-	5,927	-
Construction in progress and prepayments for equipment	3,065,117	1	3,842,377	2	Total other liabilities	595,742	-	568,584	-
Property, plant and equipment, net	62,176,444	31	55,534,443	33	Total liabilities	107,149,731	54	91,478,001	54
INTANGIBLE ASSETS					STOCKHOLDERS' EQUITY				
Goodwill (Note 2)	7,051,133	4	6,927,994	4	Capital stock (Note 21)	25,118,540	12	24,426,857	15
Deferred pension cost (Notes 2 and 20)	1,970	-	2,626	-	Capital surplus (Note 2)	5,422,033	3	2,527,272	1
Total intangible assets	7,053,103	4	6,930,620	4	Retained earnings (Note 21)	13,472,020	7	13,841,558	8
OTHER ASSETS (Notes 2 and 14)	6,825,901	4	5,840,770	3	Cumulative translation adjustments (Note 2)	(157,084)	-	(201,358)	-
					Unrealized losses on financial instruments (Note 2)	(87,710)	-	(1,221,891)	(1)
					Unrealized revaluation increment	134,641	-	134,641	-
					Treasury stock (Notes 2 and 22)	(155,375)	-	(2,451,485)	(1)
					Minority interest	47,877,647	24	39,735,100	24
					Total stockholders' equity	91,624,712	46	76,790,694	46
TOTAL	\$ 198,774,443	100	\$ 168,268,695	100	TOTAL	\$ 198,774,443	100	\$ 168,268,695	100

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

(With Deloitte & Touche audit report dated February 29, 2008)

POU CHEN CORPORATION AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2007 AND 2006
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)**

	2007		2006	
	Amount	%	Amount	%
GROSS SALES AND REVENUES EARNED	\$197,212,685	100	\$187,957,902	100
LESS SALES RETURNS AND ALLOWANCES	<u>(503,680)</u>	<u>-</u>	<u>(463,654)</u>	<u>-</u>
NET SALES AND REVENUES EARNED	196,709,005	100	187,494,248	100
COST OF GOODS SOLD	<u>155,031,874</u>	<u>79</u>	<u>151,746,219</u>	<u>81</u>
GROSS PROFIT	<u>41,677,131</u>	<u>21</u>	<u>35,748,029</u>	<u>19</u>
OPERATING EXPENSES				
Selling expenses	8,467,065	4	6,175,519	3
General and administrative expenses	13,241,730	7	12,904,541	7
Research and development expenses	<u>4,936,217</u>	<u>2</u>	<u>4,426,310</u>	<u>2</u>
Total operating expenses	<u>26,645,012</u>	<u>13</u>	<u>23,506,370</u>	<u>12</u>
INCOME FROM OPERATIONS	<u>15,032,119</u>	<u>8</u>	<u>12,241,659</u>	<u>7</u>
NON-OPERATING INCOME				
Interest income	743,496	1	493,622	-
Investment income recognized under equity method (Note 9)	512,755	-	1,695,225	1
Dividend income	576,960	1	375,399	-
Gain on disposal of property, plant and equipment	6,522	-	17,801	-
Gain on disposal of investments	144,939	-	-	-
Rental income	13,856	-	8,772	-
Reversal of provision for bad debts	69,259	-	203,264	-
Valuation gain on financial assets (Note 5)	-	-	534,446	-
Valuation gain on financial liabilities (Note 5)	469,482	-	-	-
Others	<u>559,807</u>	<u>-</u>	<u>748,549</u>	<u>1</u>
Total non-operating income	<u>3,097,076</u>	<u>2</u>	<u>4,077,078</u>	<u>2</u>
NON-OPERATING EXPENSES				
Interest expense	3,199,328	2	2,649,355	2
Loss on other investments (Note 12)	50,319	-	1,071,254	1
Loss on disposal of property, plant and equipment	161,805	-	274,697	-
Loss on disposal of investments	-	-	29,998	-
Foreign exchange loss, net	122,512	-	44,909	-
Provision for loss on inventories	58,744	-	242,638	-
Impairment loss on idle assets	-	-	18,831	-
Valuation loss on financial assets (Note 5)	899,007	1	-	-

(Continued)

POU CHEN CORPORATION AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2007 AND 2006
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)**

	2007		2006	
	Amount	%	Amount	%
Valuation loss on financial liabilities (Note 5)	\$ -	-	\$ 26,565	-
Others	<u>388,921</u>	-	<u>407,038</u>	-
Total non-operating expenses	<u>4,880,636</u>	<u>3</u>	<u>4,765,285</u>	<u>3</u>
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAX	13,248,559	7	11,553,452	6
INCOME TAX EXPENSE (Notes 2 and 24)	<u>(1,455,197)</u>	<u>(1)</u>	<u>(711,928)</u>	-
INCOME BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	11,793,362	6	10,841,524	6
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES (Note 3)	<u>-</u>	<u>-</u>	<u>1,625,271</u>	<u>1</u>
CONSOLIDATED NET INCOME	<u>\$ 11,793,362</u>	<u>6</u>	<u>\$ 12,466,795</u>	<u>7</u>
ATTRIBUTED TO				
Parent Company's stockholders	\$ 4,800,250	2	\$ 5,771,971	3
Minority interest	<u>6,993,112</u>	<u>4</u>	<u>6,694,824</u>	<u>4</u>
	<u>\$ 11,793,362</u>	<u>6</u>	<u>\$ 12,466,795</u>	<u>7</u>
	2007		2006	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
BASIC EARNINGS PER SHARE (Notes 2 and 25)				
Income from continuing operations	<u>\$ 5.44</u>	\$ 4.85	<u>\$ 4.97</u>	\$ 4.66
Cumulative effect of changes in accounting principles		<u>-</u>		<u>0.70</u>
Included income for minority interest		<u>\$ 4.85</u>		<u>\$ 5.36</u>
Attributed to stockholders of the Parent Company		<u>\$ 1.97</u>		<u>\$ 2.48</u>
DILUTED EARNINGS PER SHARE (Notes 2 and 25)				
Income from continuing operations	<u>\$ 5.36</u>	\$ 4.77	<u>\$ 4.89</u>	\$ 4.59
Cumulative effect of changes in accounting principles		<u>-</u>		<u>0.69</u>
Included income for minority interest		<u>\$ 4.77</u>		<u>\$ 5.28</u>
Attributed to stockholders of the Parent Company		<u>\$ 1.94</u>		<u>\$ 2.44</u>

(Continued)

POU CHEN CORPORATION AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2007 AND 2006
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)**

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

	2007		2006	
CONSOLIDATED NET INCOME ATTRIBUTED TO STOCKHOLDERS OF THE PARENT COMPANY	<u>\$ 6,406,465</u>		<u>\$ 5,955,304</u>	
	2007		2006	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
BASIC EARNINGS PER SHARE (Notes 2 and 25)				
Income from continuing operations	<u>\$ 5.93</u>	\$ 5.35	<u>\$ 4.78</u>	\$ 4.49
Cumulative effect of changes in accounting principles		<u>-</u>		<u>0.66</u>
Included income for minority interest		<u>\$ 5.35</u>		<u>\$ 5.15</u>
Attributed to stockholders of the Parent Company		<u>\$ 2.56</u>		<u>\$ 2.43</u>
DILUTED EARNINGS PER SHARE (Notes 2 and 25)				
Income from continuing operations	<u>\$ 5.84</u>	\$ 5.27	<u>\$ 4.71</u>	\$ 4.42
Cumulative effect of changes in accounting principles		<u>-</u>		<u>0.65</u>
Included income for minority interest		<u>\$ 5.27</u>		<u>\$ 5.07</u>
Attributed to stockholders of the Parent Company		<u>\$ 2.52</u>		<u>\$ 2.39</u>

(Concluded)

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

(With Deloitte & Touche audit report dated February 29, 2008)

POU CHEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY YEARS ENDED DECEMBER 31, 2007 AND 2006

(In Thousands of New Taiwan Dollars)

	Capital Surplus					Retained Earnings			Other Equity					Total
	Capital Stock	Additional Paid-in Capital of Common Stock	Additional Paid-in Capital of Bonds Conversion	Treasury Stock	Long-Term Equity Investments	Legal Reserve	Special Reserve	Unappropriated Earnings	Cumulative Translation Adjustments	Unrealized Losses on Financial Instruments	Unrealized Revaluation Increment	Treasury Stock	Minority Interest	
BALANCE, JANUARY 1, 2006	\$ 23,057,928	\$ 802,904	\$ 1,439,788	\$ 255,097	\$ 14,192	\$ 3,269,826	\$ 2,423,997	\$ 7,182,111	\$ 35,494	\$ (1,470,331)	\$ 134,641	\$ (3,459,328)	\$ 34,959,505	\$ 68,645,824
Adjustments from first adoption of new and amended Financial Accounting Standards (Note 3)	-	-	-	-	-	-	-	-	-	(180,742)	-	-	-	(180,742)
Appropriation of earnings	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Legal reserve	-	-	-	-	-	422,795	-	(422,795)	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	(989,158)	989,158	-	-	-	-	-	-
Bonuses to directors and supervisors	-	-	-	-	-	-	-	(143,829)	-	-	-	-	-	(143,829)
Bonuses to employees	139,514	-	-	-	-	-	-	(139,514)	-	-	-	-	-	-
Stock dividends	1,130,751	-	-	-	-	-	-	(1,130,751)	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	(3,392,253)	-	-	-	-	-	(3,392,253)
Convertible bonds transferred to common stock	21,884	-	38,723	-	-	-	-	-	-	-	-	-	-	60,607
Effect of changes of ownership interest in investees	-	-	-	-	17,248	-	-	-	-	-	-	-	-	17,248
Treasury stock transferred to employees	-	-	-	(229,163)	-	-	-	-	-	-	-	1,007,843	-	778,680
Cash dividends received by subsidiaries	-	-	-	183,333	-	-	-	-	-	-	-	-	-	183,333
Adjustments on changes of unrealized loss on cash flow hedge financial liability	-	-	-	-	-	-	-	-	-	63,511	-	-	-	63,511
Adjustments on changes of unrealized loss on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	365,671	-	-	-	365,671
Execution of employee stock warrants	76,780	5,150	-	-	-	-	-	-	-	-	-	-	-	81,930
Translation adjustments on foreign long-term equity investments	-	-	-	-	-	-	-	-	(236,852)	-	-	-	-	(236,852)
Change of minority interest	-	-	-	-	-	-	-	-	-	-	-	-	(1,919,229)	(1,919,229)
Consolidated net income for 2006	-	-	-	-	-	-	-	5,771,971	-	-	-	-	6,694,824	12,466,795
BALANCE, DECEMBER 31, 2006	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 21)	151,505	-	-	-	-	-	-	(151,505)	-	-	-	-	-	-
Stock dividends (Note 21)	486,209	-	-	-	-	-	-	(486,209)	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	(4,375,883)	-	-	-	-	-	(4,375,883)
Convertible bonds transferred to common stock (Note 18)	8,129	-	14,189	-	-	-	-	-	-	-	-	-	-	22,318
Effect of changes of ownership interest in investees	-	-	-	-	1,331,995	-	-	-	-	-	-	-	-	1,331,995
Treasury stock transferred to employees (Note 22)	-	-	-	(57,638)	-	-	-	-	-	-	-	396,166	-	338,528
Cash dividends received by subsidiaries	-	-	-	15,121	-	-	-	-	-	-	-	-	-	15,121
Adjustments on changes of unrealized loss on cash flow hedge financial liability	-	-	-	-	-	-	-	-	-	161,690	-	-	-	161,690
Adjustments on changes of unrealized loss on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	53,706	-	-	-	53,706
Sale of parent company's stock by subsidiaries (Note 22)	-	-	-	1,591,094	-	-	-	-	-	918,785	-	1,899,944	-	4,409,823
Execution of employee stock warrants (Note 21)	45,840	-	-	-	-	-	-	-	-	-	-	-	-	45,840
Translation adjustments on foreign long-term equity investments	-	-	-	-	-	-	-	-	44,274	-	-	-	-	44,274
Change of minority interest	-	-	-	-	-	-	-	-	-	-	-	-	1,149,435	1,149,435
Consolidated net income for 2007	-	-	-	-	-	-	-	4,800,250	-	-	-	-	6,993,112	11,793,362
BALANCE, DECEMBER 31, 2007	\$ 25,118,540	\$ 808,054	\$ 1,492,700	\$ 1,757,844	\$ 1,363,435	\$ 4,269,818	\$ 1,423,250	\$ 7,778,952	\$ (157,084)	\$ (87,710)	\$ 134,641	\$ (155,375)	\$ 47,877,647	\$ 91,624,712

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

(With Deloitte & Touche audit report dated February 29, 2008)

POU CHEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2007 AND 2006 (In Thousands of New Taiwan Dollars)

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Consolidated net income	\$ 11,793,362	\$ 12,466,795
Adjustments to reconcile net income to net cash provided by operating activities		
Cumulative effect of changes in accounting principles	-	(1,625,271)
Depreciation and amortization	6,807,185	6,435,606
Gain on redeemed and repurchased Euro convertible bonds	-	(166,855)
Valuation loss (gain) on financial assets	899,007	(534,446)
Valuation (gain) loss on financial liabilities	(469,482)	26,565
Reversal of bad debts	(69,259)	(203,264)
Provision for loss on inventories	58,744	242,638
Investment income recognized under equity method	(512,755)	(1,695,225)
Cash dividends received from investees under equity method	575,154	821,647
Net gain on disposal of investments	(144,939)	(6,391)
(Reversal of) provision for impairment loss	(7,332)	18,831
Net loss on disposal of property, plant and equipment	155,283	256,896
Loss on other investments	50,319	1,071,254
Net changes in operating assets and liabilities		
Notes receivable	(192,221)	(44,255)
Notes receivable from affiliates	4,592	-
Accounts receivable	(3,033,712)	(4,940,170)
Accounts receivable from affiliates	971,577	1,133,256
Other receivables	(627,554)	(726,975)
Inventories	(2,035,961)	(2,071,165)
Other current assets	(2,530,724)	840,419
Prepaid pension cost	(7,006)	(458)
Deferred income tax asset, noncurrent	29,912	156,395
Long-term receivable	(62,462)	(54,872)
Other assets	2,432	1,306
Notes payable	(46,984)	52,652
Notes payable to affiliates	(42,040)	(7,031)
Accounts payable	2,144,114	3,435,380
Accounts payable to affiliates	170,200	(431,030)
Income tax payable	755,175	(20,165)
Other payables	2,647,939	1,403,876
Other current liabilities	436,349	513,362
Foreign exchange adjustment on Euro convertible bonds	27,256	(11,586)
Interest compensation payable	772,660	108,261
Reserve for retirement plan	13,298	39,011
Minority interest	<u>1,149,435</u>	<u>(1,919,229)</u>
Net cash provided by operating activities	<u>19,681,562</u>	<u>14,565,762</u>

(Continued)

POU CHEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2007 AND 2006 (In Thousands of New Taiwan Dollars)

	2007	2006
CASH FLOWS FROM INVESTING ACTIVITIES		
(Increase) decrease in financial assets at fair value through profit or loss, current	\$ (4,254,602)	\$ 699,609
Increase in investments accounted for by the equity method	(2,846,372)	(5,880,683)
Decrease (increase) in available-for-sale financial assets, noncurrent	206,182	(110,233)
Increase in financial assets carried at cost, noncurrent	(289,956)	(686,286)
Acquisitions of property, plant and equipment	(14,829,196)	(12,934,521)
Proceeds from disposal of property, plant and equipment	589,557	564,090
(Increase) decrease in investment in real estate	(578,027)	10,163
(Increase) decrease in refundable deposits	(705,008)	209,386
(Increase) decrease in goodwill	(123,139)	17,961
Increase in deferred charges	<u>(376,081)</u>	<u>(296,865)</u>
Net cash used in investing activities	<u>(23,206,642)</u>	<u>(18,407,379)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term loans	3,827,551	3,418,812
(Decrease) increase in short-term bills payable	(777,052)	358,818
(Decrease) increase in long-term debt	(983,754)	5,149,830
Increase in guarantee deposits received	13,859	1,018
Redeemed and repurchased Euro convertible bonds	-	(5,902,478)
Issuance of bonds payable	8,606,800	-
Remuneration to directors and supervisors	(156,191)	(143,829)
Payment of cash dividend	(4,360,366)	(3,204,970)
Execution of employee stock warrants	45,840	81,930
Transfer of treasury stock to employees	338,528	778,680
Proceeds from disposal of treasury stock by subsidiary	<u>4,513,700</u>	<u>-</u>
Net cash provided by financing activities	<u>11,068,915</u>	<u>537,811</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH	<u>43,956</u>	<u>(202,585)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	7,587,791	(3,506,391)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>14,594,226</u>	<u>18,100,617</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 22,182,017</u>	<u>\$ 14,594,226</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year		
Interest (excluding interest capitalized)	<u>\$ 3,363,359</u>	<u>\$ 2,546,043</u>
Income tax	<u>\$ 825,040</u>	<u>\$ 993,389</u>

(Continued)

POU CHEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2007 AND 2006

(In Thousands of New Taiwan Dollars)

	2007	2006
SUPPLEMENTAL DISCLOSURES OF NONCASH OPERATING, INVESTING AND FINANCING ACTIVITIES		
Adjustments of stockholders' equity from first adoption of new and amended Financial Accounting Standards	<u>\$ -</u>	<u>\$ (180,742)</u>
Recovery from unrealized loss on cash flow hedge financial liabilities	<u>\$ 161,690</u>	<u>\$ 63,511</u>
Recovery from unrealized loss on available-for-sale financial assets	<u>\$ 53,706</u>	<u>\$ 365,671</u>
Effect of changes in ownership interest in investees	<u>\$ 1,331,995</u>	<u>\$ 17,248</u>
Translation adjustments on foreign long-term equity investments	<u>\$ 44,274</u>	<u>\$ (236,852)</u>
Current portion of long-term liabilities	<u>\$ 14,021,742</u>	<u>\$ 2,463,335</u>
Convertible bonds transferred to common stock	<u>\$ 22,318</u>	<u>\$ 60,607</u>
Treasury stock transferred to employees	<u>\$ (57,638)</u>	<u>\$ (229,163)</u>
CASH PAID DURING THE YEAR FOR ACQUISITIONS OF PROPERTY, PLANT AND EQUIPMENT		
Fair value of property, plant and equipment acquired	\$ 14,723,265	\$ 13,174,031
Add payables for acquisitions of property, plant and equipment, beginning of year	425,467	185,957
Less payables for acquisitions of property, plant and equipment, end of year	<u>(319,536)</u>	<u>(425,467)</u>
Cash paid during the year for acquisitions of property, plant and equipment	<u>\$ 14,829,196</u>	<u>\$ 12,934,521</u>

(Concluded)

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

(With Deloitte & Touche audit report dated February 29, 2008)

POU CHEN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2007 AND 2006

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

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. As at December 12, 2007, Yue Yuen resolved that Pou Sheng International (Holdings) Limited (“Pou Sheng”), a wholly owned subsidiary of Yue Yuen, shall submit and had submitted an advance booking to the Stock Exchange of Hong Kong as an application for the listing of the ordinary shares of Pou Sheng on the Main Board of the Stock Exchange.

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	98.46
Pou Yuen Technology Co., Ltd.	ROC	99.39
Pro Arch Technology Inc.	ROC	99.93
LNC Technology Co., Ltd.	ROC	89.47
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 December 31, 2007, Wealthplus has an outstanding common stock of US\$169,222 thousand.

The information of Wealthplus' major subsidiaries is as follows:

Name	Location of Incorporation	Ownership Percentage	Primary Operation Activities
Yue Yuen Industrial (Holdings) Limited	Bermuda	48.17	Manufacturing and sale of athletic and casual footwear and sports apparel
GBM Manufacturing Co., Ltd.	British Virgin Islands	100.00	Property management in the People's Republic of China (PRC)
Upmost Smart Limited	British Virgin Islands	100.00	Manufacturing of electronic components
Gao Chen Technology Co., Ltd.	PRC	79.60	Manufacturing and sale of plastic products and electronic components
Mindtech Display Co., Ltd.	PRC	100.00	Assembly and sale of TFT-LCD module
Digital Decade Limited	British Virgin Islands	100.00	Assembly and sale of TFT-LCD module
Pou Qiao Technology 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 Limited	British Virgin Islands	100.00	Investment holding
Star Eagle Consultants Limited	British Virgin Islands	100.00	Insurance agent
Pou Yu Biotechnology Co., Ltd.	ROC	68.42	Manufacturing and sale of medical appliance
Dong Guan Pou Yu Precision Ceramics Industrial Co., Ltd.	PRC	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 December 31, 2007, the ownership percentage is 0.93%). As at December 31, 2007, Win Fortune has an outstanding common stock of US\$100 thousand.

Ming Wang Investments Co., Ltd. ("Ming Wang"), a corporation incorporated in the ROC, is an investment holding company. Ming Wang commenced its operations in 1996. It is engaged in investing activities. As at December 31, 2007, Ming Wang has an outstanding common stock of \$427,291 thousand.

Windsor Entertainment Co., Ltd. ("Windsor Entertainment"), a corporation incorporated in the ROC, commenced its operations in 2003. It is engaged in Entertainment and resort operation. As at December 31, 2007, Windsor Entertainment has an outstanding common stock of \$210,000 thousand.

Yun Yang Investments Co., Ltd. ("Yun Yang"), a corporation incorporated in the ROC, commenced its operations in 1997. It is engaged in investment activities. As at December 31, 2007, 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 December 31, 2007, 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, Pan Asia Insurance Services commenced its operations in 1999. It is engaged in agency of property and casualty insurance. As at December 31, 2007, Pan Asia Insurance Services has an outstanding common stock of \$3,000 thousand.

Proshine Healthcare Co., Ltd. (“Proshine Healthcare”), a corporation incorporated in the ROC, commenced its operations in 2007. It is engaged in sale of medical devices and precision instruments. As at December 31, 2007, Proshine Healthcare has an outstanding common stock of \$280,000 thousand.

Barits Development Corporation (“Barits Development”), a corporation incorporated in the ROC. It is engaged in leather manufacturing and investing activities. As at December 31, 2007, Barits Development has an outstanding common stock of \$913,000 thousand.

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

Name	Location of Incorporation	Ownership Percentage	Primary Operation Activities
Top Score Investments Co., Ltd.	British Virgin Islands	100.00	Investment holding
Song Ming Investments Co., Ltd.	ROC	100.00	Investment holding
Ming Chi Investments Co., Ltd.	ROC	100.00	Investment holding
Ming Shun Investments Co., Ltd.	ROC	100.00	Investment holding
Wang Yi Construction Co., Ltd.	ROC	89.75	Construction
Pou Yii Development Co., Ltd.	ROC	75.00	Rental and sale of real estate
Pou Chin Development Co., Ltd.	ROC	99.99	Construction

Top Score Investments Ltd. invests in Yue Yuen as at December 31, 2007, the ownership percentage is 0.44%.

Pou Yuen Technology Co., Ltd. (“Pou Yuen Technology”), a corporation incorporated in the ROC, is engaged in designing, manufacturing and trading mold, and data processing and storage equipment. As at December 31, 2007, Pou Yuen Technology has an outstanding common stock of \$900,000 thousand.

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

Name	Location of Incorporation	Ownership Percentage	Primary Operation Activities
Vantage Capital Investments 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

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 December 31, 2007, Pro Arch Technology has an outstanding common stock of \$301,000 thousand.

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

Name	Location of Incorporation	Ownership Percentage	Primary Operation Activities
Pro Arch Technology BVI Inc.	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 December 31, 2007, LNC Technology has an outstanding common stock of \$570,000 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 since October 2007. As at December 31, 2007, Global Brands Manufacture has an outstanding common stock of \$3,094,008 thousand.

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

Name	Location of Incorporation	Ownership Percentage	Primary 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 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 December 31, 2007 and 2006, there were 337,670 and 305,059 employees in Pou Chen and subsidiaries referred above, respectively.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements have been prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the ROC. Under these guidelines, law and principles, the Company is required

to make certain estimates and assumptions that could affect the amounts of allowance for doubtful accounts, loss on inventory devaluation, depreciation expenses and impairment, amortization expenses, and pension expenses, etc. Actual results could differ from these estimates.

For the convenience of readers, the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the ROC. If there is any conflict between the English version and the original Chinese version or any difference in the 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 September 30 of the year.

Current/Noncurrent Assets and Liabilities

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

Cash and Cash Equivalents

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

Financial Instruments 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 but impairment loss on goodwill should be evaluated periodically and not allowed to be reversed.

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

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

Effective from January 1, 2002, common shares of Pou Chen held by its subsidiaries are treated as treasury stock.

Investments in Real Estate

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

Available-for-Sale Financial Assets

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

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

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

Financial Assets Carried at Cost, Noncurrent

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

Property, Plant, Equipment and Leased Asset

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

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

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

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

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

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

Goodwill

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

Deferred Charges

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

Euro-Dollar Convertible Bonds

Convertible bonds issued before January 1, 2006

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

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

Convertible bonds issued after January 1, 2006

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

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

Stock-Based Compensation

Employee stock option plans with a grant or amendment date on or after January 1, 2004 is 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 is recognized on a straight-line basis over the vesting period.

Retirement Plan

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

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

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

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

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.

The ROC government enacted the Alternative Minimum Tax Act (the "AMT Act"), which became effective on January 1, 2006. The alternative minimum tax imposed under the AMT Act is a supplemental tax levied at a rate of 10% which is payable if the income tax payable determined pursuant to the Income Tax Law is below the minimum amount prescribed under

the AMT Act. The taxable income for calculating the alternative minimum tax includes most of the income that is exempted from income tax under various laws and statutes. The Company has considered the impact of the AMT Act in the determination of its tax liabilities.

Earnings Per Share

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

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

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 year ended December 31, 2006 have been reclassified to be consistent with the presentation of the consolidated financial statements for the year ended December 31, 2007.

3. REASON AND EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE

Effective January 1, 2006, the Company adopted SFAS No. 34, "Accounting for Financial Instruments" and No. 36, "Disclosure and Presentation of Financial Instruments", and related amendments to other SFASs.

The financial assets and liabilities (including derivative financial instruments) had been reclassified in accordance with the new and amended SFASs. The adjustments to the original carrying amount of financial instruments categorized as financial assets or financial liabilities at fair value through profit or loss are included in the cumulative effect of changes in accounting principle in the income statement; on the other hand, the adjustments to the original carrying amount of available-for-sale financial assets are recognized as adjustments to stockholders' equity.

The adjustment at the initial adoption of the newly released SFASs is summarized as follows:

	Recognized As Cumulative Effect of Changes in Accounting Principles (After Tax)	Recognized As Adjustment of Parent Company's Stockholders' Equity
Financial assets at fair value through profit or loss, current	\$ 1,625,271	\$ -
Available-for-sale financial assets, noncurrent	-	50,608
Derivative financial liabilities held for hedging, noncurrent	-	(231,350)
	<u>\$ 1,625,271</u>	<u>\$ (180,742)</u>

The change in accounting principle above increased the income from operation by \$507,881 thousand, the consolidated net income by \$2,133,152 thousand, basic earnings per share after tax by \$0.94 dollar and the adjustments of parent company stockholders' equity by \$94,924 thousand. The parent company stockholders' equity totally decreased by \$85,818 thousand as at December 31, 2006.

Effective January 1, 2006, the Company adopted amended SFAS No. 1, "Conceptual Framework for Financial Accounting and Preparation of Financial Statements" and No. 5, "Long-term Investments under Equity Method", and No. 25, "Business Combinations". The major amendments in these SFASs include the requirement that goodwill should not be amortized thereafter and the difference between the underlying equity in net assets of the investee and the cost of the investment should be analyzed first and the portion attributed to goodwill is not amortized but evaluated periodically for impairment. As a result, the Company's income from operations for the year ended December 31, 2006 increased by \$1,013,339 thousand, basic earnings per share after tax by \$0.45 dollar and there was no cumulative effect of changes in accounting principle.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at December 31, 2007 and 2006 consist of the following:

	2007	2006
Cash on hand	\$ 60,860	\$ 72,099
Checking accounts	86,803	26,544
Savings accounts	2,503,076	1,703,727
Foreign-currency savings deposit	16,215,882	10,418,584
Time deposits	2,569,506	1,623,587
Commercial papers	<u>745,890</u>	<u>749,685</u>
	<u>\$ 22,182,017</u>	<u>\$ 14,594,226</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 December 31, 2007 and 2006, respectively.

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

Financial assets at fair value through profit or loss, current as at December 31, 2007 and 2006 were summarized as follows:

	2007	2006
Financial assets at fair value through profit or loss		
Marketable equity securities	\$ 8,445,802	\$ 5,431,735
Open-ended mutual funds	427,534	395,075
Foreign mutual funds	190,313	-
Forward exchange contracts	<u>101,344</u>	<u>-</u>
	<u>\$ 9,164,993</u>	<u>\$ 5,826,810</u>
Financial liabilities at fair value through profit or loss		
Euro convertible bonds with options	\$ 771,769	\$ -
Forward exchange contracts	<u>7,589</u>	<u>26,565</u>
	<u>\$ 779,358</u>	<u>\$ 26,565</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 fluctuation and cash flow risk.

The net (loss) gain from financial instruments at fair value through profit or loss, current for the years ended December 31, 2007 and 2006 amounted to \$(429,525) thousand and \$507,881 thousand, respectively.

6. NOTES RECEIVABLE

Notes receivable as at December 31, 2007 and 2006 consist of the following:

	2007	2006
Notes receivable	\$ 271,662	\$ 84,033
Less allowance for doubtful accounts	<u>(900)</u>	<u>(900)</u>
	<u>\$ 270,762</u>	<u>\$ 83,133</u>

7. ACCOUNTS RECEIVABLE

Accounts receivable as at December 31, 2007 and 2006 consist of the following:

	2007	2006
Accounts receivable	\$ 27,462,465	\$ 24,710,990
Less allowance for doubtful accounts	<u>(171,589)</u>	<u>(523,085)</u>
	<u>27,290,876</u>	<u>24,187,905</u>
Accounts receivable from affiliates (Note 27)	1,269,061	2,333,734
Less allowance for doubtful accounts	<u>(16,020)</u>	<u>(109,115)</u>
	<u>1,253,041</u>	<u>2,224,619</u>
	<u>\$ 28,543,917</u>	<u>\$ 26,412,524</u>

8. INVENTORIES

Inventories as at December 31, 2007 and 2006 consist of the following:

	2007	2006
Raw materials and supplies	\$ 9,022,016	\$ 8,885,082
Work-in-process	3,143,582	3,333,136
Finished goods	9,195,039	7,038,931
Merchandise	53,917	15,249
Goods in transit	305,440	462,310
Land for development	155,035	140,072
Land, buildings and improvements for sale	80,536	96,855
Construction in process	<u>-</u>	<u>53,035</u>
	21,955,565	20,024,670
Less valuation allowance	<u>(798,336)</u>	<u>(844,658)</u>
	<u>\$ 21,157,229</u>	<u>\$ 19,180,012</u>

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

Construction in process belongs to Wang Yi Construction Co., Ltd., and was completed in 2007.

9. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

Investments accounted for by the equity method as at December 31, 2007 and 2006 are comprised of the following:

	2007			2006	
	Original Cost	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage
<u>Shoes, shoe materials and athletic products companies</u>					
All Saints Enterprises Limited	\$ 79,194	\$ 142,772	37.00	\$ 134,833	37.00
Eagle Nice (Int'l) Holdings Ltd.	1,325,223	1,595,525	38.42	1,473,149	44.96
Nan Pao Resins (Holdings) Limited	71,556	276,322	35.00	294,462	35.00
Pine Wood Industries Limited	92,393	81,041	37.00	81,454	37.00
Prosperous Industrial (Holdings) Ltd.	583,740	784,263	30.00	721,210	30.00
Rising Sun Associates Limited	35,997	95,913	37.00	86,027	37.00
Best Focus Holdings Ltd.	324,300	433,117	50.00	397,490	50.00
Blessland Enterprises Limited	26,196	76,879	50.00	85,267	50.00
Central Honour Limited	5,189	9,273	50.00	6,864	50.00
Great Skill Industrial Limited	34,149	77,387	50.00	80,381	50.00
Up Front Technology Ltd.	162,150	87,435	50.00	87,880	50.00
Willpower Industries Limited	103,776	122,557	40.00	106,699	40.00
Smart Shine Industries Limited	392,698	840,484	50.00	358,618	50.00
Din Tsun Holdings Co., Ltd.	285,262	360,151	50.00	222,414	50.00
Profit Land Limited	68,103	59,741	35.00	67,886	35.00
Texas Clothing Holdings Corp.	2,351,175	1,431,217	39.10	1,852,420	49.40
China Ocean Resources Limited	-	-	-	544,585	50.00
i-Tech Enterprises Ltd.	10,134	8,320	50.00	9,761	50.00
Bigfoot Limited	178,518	160,255	48.76	163,821	48.76
Natural Options Limited	11,144	5,951	38.30	12,319	38.30
Original Designs Developments Limited	40,156	148,662	47.00	133,754	47.00
Cohen Enterprises Inc.	156,820	416,587	50.00	417,116	50.00
Ever Atlantic Investments Limited	213,668	124,982	50.00	125,618	50.00
Hua Jian Industrial Holding Co., Limited	771,201	1,808,968	50.00	1,428,449	50.00
Ka Yuen Rubber Factory Limited	78,576	530,324	50.00	518,545	50.00
Topmost Industries Limited	26,438	95,401	50.00	92,578	50.00
Twinways Investments Limited	88,232	189,076	50.00	224,450	50.00
Yuen Thai Industrial Company Limited	85,745	-	50.00	-	50.00
Oftenrich Holdings Limited	1,394,047	2,038,697	45.00	1,918,868	45.00
New Peak Services Limited	249,150	70,677	50.00	264,210	50.00
PT. GF Indonesia Ltd.	72,968	28,015	45.00	53,877	45.00
Just Lucky Investments Limited	44,234	49,685	38.30	48,566	38.30
High Style Investments Limited	25,944	29,665	50.00	40,642	50.00
Pou Thane Enterprise Co., Ltd.	-	-	-	8,498	50.00
Precise Zone Investments Limited	41,662	42,865	47.65	38,876	47.65
PYGF Co., Ltd.	32,430	53,930	50.00	42,559	50.00
Liberty Bell Investments Limited	254,492	191,657	49.00	88,272	49.00
Jumbo Power Enterprises Limited	291,870	250,474	50.00	-	-
Farsighted International Limited	191,258	194,657	30.00	-	-
Guiyang Poushang Sporting Goods Co., Ltd.	23,763	23,763	50.00	-	-
Guiyang Shengdao Sports Development Co., Ltd.	17	(129)	40.00	-	-
Hangzhou Poughong Sporting Goods Co., Ltd.	34,996	35,001	50.00	-	-
Harbin Sego Sports Multiple Shop Ltd.	65,170	95,545	45.00	-	-

	2007			2006	
	Original Cost	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage
Hebei Zhanxin Sports Goods Development Ltd.	183,744	187,448	45.00	-	-
Hefei Tengrui Sports Goods Co., Ltd.	68,978	73,731	50.00	-	-
Hubei Jiezhixing Clothing Co., Ltd.	574,301	584,655	50.00	-	-
Jilin New Orientation Sports Co., Ltd.	323,903	323,416	50.00	-	-
Jilin Lingpao Sporting Goods Co., Ltd.	215,672	224,665	50.00	-	-
Shanxi Extreme Longyue Sports Articles Co., Ltd.	43,404	44,534	50.00	-	-
Shanxi Wuhuanshengdao Sports Development Co., Ltd.	32,404	32,826	50.00	-	-
Suzhou Xinjun Trading Development Co., Ltd.	83,909	86,694	49.00	-	-
Wenzhou Poufeng Trading Co., Ltd.	12,962	12,959	50.00	-	-
Zhejiang Jinguan Investments and Development Co., Ltd.	174,801	201,067	50.00	-	-
Zhejiang Pouhong Sporting Goods Chain Co., Ltd.	127,024	126,728	49.00	-	-
Zhejiang Yichuan Sporting Goods Chain Co., Ltd.	461,291	472,435	50.00	-	-
Luen Thai Holdings Ltd.	394,437	394,437	8.98	-	-
Evermore Chemical Industry Co., Ltd.	253,333	280,383	20.75	240,202	20.31
San Fang Chemical Industry Co., Ltd.	2,661,915	2,789,048	44.72	2,731,559	44.34

Electronic companies

Haicheng Information Technology Co., Ltd.	194,580	143,859	50.00	165,115	50.00
Silver Island Trading Ltd.	129,720	51,322	50.00	69,468	50.00
Venture Well Holdings Ltd.	332,638	330,935	43.08	305,442	43.08
Prime World International Ltd.	110,262	112,376	34.34	111,535	34.34
Kleine Developments Ltd.	335,317	438,760	50.00	-	-
Digital Sun Investments Ltd.	317,226	134,127	25.93	199,905	25.93
Centralian Investments Limited	-	-	-	632,300	49.64
Eagle Great Investments Limited	-	-	-	73,102	40.00
Elitegroup Computer Systems Co., Ltd.	6,033,249	4,912,004	17.98	4,707,190	17.98
Techview International Technology Inc.	665,348	595,906	48.31	752,064	48.84

Investment holding and other companies

Asia Air Tech Industrial (PTE) Ltd.	82,697	61,424	30.00	70,957	30.00
Enthroned Group Limited	158	158	48.76	159	48.76
Coprospects Holdings Ltd.	7,280	11,126	50.00	9,234	50.00
Optiyield Industrial Limited	-	-	-	-	50.00
Well Success Investments Limited	256,371	1,187,600	40.00	984,423	40.00
Rising Developments Ltd.	5,028	78,635	50.00	68,494	50.00
Supplyline Ltd.	105,458	9,811	46.12	-	46.12
Talent Pool Management Ltd.	-	2,152	30.00	2,388	30.00
Partner Alliance Limited	3,867	4,993	50.00	5,931	50.00
Poulik Properties Management Co., Ltd.	769	518	30.00	2,751	30.00
Ace Top Group Limited	1,574	15,254	40.00	-	-
Full Pearl International Limited	242,784	237,715	47.95	-	-
Zhuhai Poulik Properties Management Co., Ltd.	4,952	28,845	40.00	-	-
Yusong Chateau Enterprise Co., Ltd.	1,500	831	50.00	896	50.00
Zhong Ao Multiplex Management Limited	523,432	567,811	47.50	498,588	47.50
	<u>\$ 25,290,022</u>	<u>\$ 27,828,293</u>		<u>\$ 23,864,121</u>	

The Company's investment income (loss) recognized under equity method for the years ended December 31, 2007 and 2006 is summarized as follows:

	2007	2006
<u>Shoes, shoe materials and athletic products companies</u>		
All Saints Enterprises Limited	\$ (1,953)	\$ 11,559
Eagle Nice (Int'l) Holdings Ltd.	175,521	111,466
Nan Pao Resins (Holdings) Limited	33,259	68,471
Pine Wood Industries Limited	-	(11,442)
Prosperous Industrial (Holdings) Ltd.	65,553	56,876
Rising Sun Associates Limited	19,637	2,569
Best Focus Holdings Ltd.	39,624	78,675
Blessland Enterprises Limited	8,394	11,506
Central Honour Limited	2,483	1,329
Great Skill Industrial Limited	23,738	25,590
Up Front Technology Ltd.	-	(49,035)
Willpower Industries Limited	16,666	9,646
Smart Shine Industries Limited	78,871	421,471
Din Tsun Holdings Co., Ltd.	57,084	18,873
Profit Land Limited	(9,838)	(565)
Texas Clothing Holdings Corp.	(831,822)	(102,160)
China Ocean Resources Limited	(73,614)	(40,001)
i-Tech Enterprise Ltd.	(1,414)	(426)
Bigfoot Limited	5,525	(7,978)
Natural Options Limited	(6,409)	(3,598)
Original Designs Developments Limited	31,331	37,138
Cohen Enterprises Inc.	27,975	35,948
Ever Atlantic Investments Limited	-	17,834
Hua Jian Industrial Holdings Co., Limited	249,989	325,630
Ka Yuen Rubber Factory Limited	105,280	165,340
Topmost Industries Limited	16,529	27,800
Twinways Investments Limited	22,883	61,077
Yuen Thai Industrial Company Limited	-	(65,380)
Oftenrich Holdings Limited	279,569	372,540
New Peak Services Limited	(195,337)	13,833
PT. GF Indonesia Ltd.	(25,891)	(16,247)
Just Lucky Investments Limited	1,388	1,262
High Style Investments Limited	(2,707)	7,127
Pou Thane Enterprise Co., Ltd.	(71)	1,448
Precise Zone Investments Limited	4,254	6,288
PYGF Co., Ltd.	15,071	5,187
Liberty Bell Investments Limited	(49,219)	(14,523)
Jumbo Power Enterprises Limited	(47,352)	-
Farsighted International Limited	3,454	-
Guiyang Shengdao Sports Development Co., Ltd.	(149)	-
Hangzhou Pouhong Sporting Goods Co., Ltd.	4	-
Harbin Segoo Sports Multiple Shop Ltd.	30,871	-
Hebei Zhanxin Sports Goods Development Ltd.	3,765	-
Hefei Tengrui Sports Goods Co., Ltd.	4,831	-
Hubei Jiezhixing Clothing Co., Ltd.	10,523	-
Jilin New Orientation Sports Co., Ltd.	(495)	-
Jilin Lingpao Sporting Goods Co., Ltd.	9,140	-
Shanxi Extreme Longyue Sports Articles Co., Ltd.	1,149	-
Shanxi Wuhuanshengdao Sports Development Co., Ltd.	428	-

	2007	2006
Suzhou Xinjun Trading Development Co., Ltd.	2,831	-
Wenzhou Poufeng Trading Co., Ltd.	(3)	-
Zhejiang Jinguan Investments and Development Co., Ltd.	26,696	-
Zhejiang Pouhong Sporting Goods Chain Co., Ltd.	(300)	-
Zhejiang Yichuan Sporting Goods Chain Co., Ltd.	11,327	-
San Fang Chemical Industry Co., Ltd.	217,894	185,655
Evermore Chemical Industry Co., Ltd.	21,782	-
 <u>Electronic companies</u>		
Haicheng Information Technology Co., Ltd.	(28,501)	44,872
Silver Island Trading Ltd.	(18,085)	(60,439)
Venture Well Holdings Ltd.	22,821	(6,707)
Prime World International Ltd.	1,428	714
Digital Sun Investments Ltd.	(65,601)	(119,294)
Centralian Investments Limited	-	(14,908)
Eagle Great Investments Ltd.	680	(2,220)
Kleine Development Limited	(32,008)	-
Elitegroup Computer Systems Co., Ltd.	155,050	(226,221)
Techview International Technology Inc.	(146,769)	82,281
 <u>Investment holding and other companies</u>		
Asia Air Tech Industrial (PTE) Ltd.	(12,860)	(11,899)
Coprosects Holdings Ltd.	1,971	2,281
Well Success Investments Limited	160,856	354,245
Rising Developments Limited	10,660	6,286
Supply Line Ltd.	-	(90,233)
Talent Pool Management Ltd.	1,375	365
Partner Alliance Limited	1,025	1,156
Poulik Properties Management Co., Ltd.	(49)	77
Ace Top Group Limited	13,511	-
Full Pearl International Ltd.	(7,804)	-
Zhuhai Poulik Properties Management Co., Ltd.	23,684	-
Zhong Ao Multiplex Management Limited	52,691	(35,310)
Yusong Chateau Enterprise Co., Ltd.	(65)	(604)
	<u>\$ 512,755</u>	<u>\$ 1,695,225</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
Nan Pao Resins (Holdings) Limited	Manufacture and sale of paint	British Virgin Islands
Pine Wood Industries Limited	Manufacture and sale of cloth	British Virgin Islands
Prosperous Industrial (Holdings) Ltd.	Manufacture and sale of sports bags	Cayman Islands
Rising Sun Associates Limited	Manufacture and sale of paint	British Virgin Islands
Best Focus Holdings Ltd.	Manufacture and sale of cartons	British Virgin Islands
Blessland Enterprises Limited	Manufacturing and sale of shoe pads	British Virgin Islands
Central Honour Limited	Shoe injection	British Virgin Islands

Name	Core Operating Item	Place of Incorporation
Great Skill Industrial Limited	Manufacture and sale of plastic shoe injection	British Virgin Islands
Up Front Technology Ltd.	Manufacture and sale of 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 sales of apparel	British Virgin Islands
Profit Land Limited	Manufacture and sale of paint	British Virgin Islands
Texas Clothing Holdings Corp.	Manufacture and sales of apparel	British Virgin Islands
i-Tech Enterprises Ltd.	Sale 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 sales of leather products for shoes	British Virgin Islands
Ever Atlantic Investments Limited	Manufacture of apparel	British Virgin Islands
Hua Jian Industrial Holding Co., Limited	Manufacture and sale of ladies shoes	British Virgin Islands
Ka Yuen Rubber Factory Limited	Manufacture and sale of rubber soles	British Virgin Islands
Topmost Industries Limited	Manufacture of counters for shoes	British Virgin Islands
Twinways Investments Limited	Manufacture of injection moulds for shoe components	British Virgin Islands
Yuen Thai Industrial Company Limited	Manufacture and trading of sports and active wear	Hong Kong
Oftenrich Holdings Limited	Manufacture and sale of shoes	Bermuda
New Peak Services Limited	Manufacture and sale of shoes	British Virgin Islands
PT. GF Indonesia Ltd.	Sale of shoes and active wear	Indonesia
Just Lucky Investments Limited	Manufacture and sale of shoes material	British Virgin Islands
High Style Investments Limited	Manufacture halftone, printing ink	British Virgin Islands
Pou Thane Enterprise Co., Ltd.	Sales of plastic grain	British Virgin Islands
Precise Zone Investments Limited	Manufacture and processing of ironware and plastic products	British Virgin Islands
PYGF Co., Ltd.	Processing rubber	British Virgin Islands
Liberty Bell Investments Limited	Manufacture 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 sports goods	British Virgin Islands
Guiyang Poushang Sporting Goods Co., Ltd.	Sales of sports goods	PRC
Guiyang Shengdao Sports Development Co., Ltd.	Sales of sports goods	PRC

Name	Core Operating Item	Place of Incorporation
Hangzhou Pouhong Sporting Goods Co., Ltd.	Sales of sports goods	PRC
Harbin Sego Sports Multiple Shop Ltd.	Sales of sports goods	PRC
Hebei Zhanxin Sports Goods Development Ltd.	Sales of sports goods	PRC
Hefei Tengrui Sports Goods Co., Ltd.	Sales of sports goods	PRC
Hubei Jiezhixing Clothing Co., Ltd.	Sales of sports goods	PRC
Jilin New Orientation Sports Co., Ltd.	Sales of sports goods	PRC
Jilin Lingpao Sporting Goods Co., Ltd.	Sales of sports goods	PRC
Shanxi Extreme Longyue Sports Articles Co., Ltd.	Sales of sports goods	PRC
Shanxi Wuhuanshengdao Sports Development Co., Ltd.	Sales of sports goods	PRC
Zhuhai Poulik Properties Management Co., Ltd.	Properties management	British Virgin Islands
Suzhou Xinjun Trading Development Co., Ltd.	Sales of sports goods	PRC
Wenzhou Poufeng Trading Co., Ltd.	Sales of sports goods	PRC
Zhejiang Jinguan Investments and Development Co., Ltd.	Sales of sports goods	PRC
Zhejiang Pouhong Sporting Goods Chain Co., Ltd.	Sales of sports goods	PRC
Zhejiang Yichuan Sporting Goods Chain Co., Ltd.	Sales of sports goods	PRC
Haicheng Information Technology Co., Ltd.	Developing and manufacture of software and electronic parts	PRC
Silver Island Trading Ltd.	Sale of electronic parts	British Virgin Islands
Digital Sun Investments Ltd.	Sale of printed circuit boards	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
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
Coprosects 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
Partner Alliance Limited	Sale of tobacco and liquor	British Virgin Islands
Poulik Properties Management Co., Ltd.	Properties management	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 years ended September 30, 2007 and 2006 as permitted under the accounting principles generally accepted in the ROC.

Techview International Technology Inc. ("Techview International") is engaged in development, sale and assembly of TFT-LCD display. It has an outstanding common stock of \$1,337,622 thousand as at December 31, 2007.

Elitegroup Computer Systems Co., Ltd. ("Elitegroup Computer") is engaged in designing, manufacturing and sale of computer peripheral equipment. The shares of Elitegroup Computer are listed on the Taiwan Stock Exchange Corporation. It has an outstanding common stock of \$12,551,891 thousand as at December 31, 2007.

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 December 31, 2007.

Evermore Chemical Industry Co., Ltd. ("Evermore Chemical") is engaged in manufacturing and selling of melamine resin and phthali anhydride resin. The shares of Evermore Chemical are listed on the Taiwan Stock Exchange Corporation. It has an outstanding capital of \$897,000 thousand as at December 31, 2007.

Luen Thai Holdings Ltd. ("Luen Thai") is engaged in manufacturing ready-made garments. The shares of Luen Thai are listed on the Hong Kong Exchange and Clearing Limited. It has an outstanding common stock of US\$9,925 thousand as at December 31, 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 December 31, 2007.

10. INVESTMENTS IN REAL ESTATE

Investments in real estate as at December 31, 2007 and 2006 are comprised of the following:

	2007			2006
	Cost	Accumulated Depreciation	Carrying Value	Carrying Value
Land	\$ 664,621	\$ -	\$ 664,621	\$ 109,712
Building	90,681	759	89,922	62,353
	\$ 755,302	\$ 759	\$ 754,543	\$ 172,065

11. AVAILABLE-FOR-SALE FINANCIAL ASSETS, NONCURRENT

Available-for-sale financial assets, noncurrent as at December 31, 2007 and 2006 are comprised of the following:

	2007			2006	
	Original Investment Cost	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage
Taiwan marketable equity securities					
Asia Vital Components Co., Ltd.	\$ 221,568	\$ 347,320	6.03	\$ 487,555	9.78
Taiwan Paiho Limited	137,713	348,933	2.99	130,787	3.24
Foreign marketable equity securities					
Luen Thai Holdings Ltd.	-	-	-	525,663	8.98
Symphony Holdings Ltd.	295,134	308,712	4.82	355,009	5.05
Foreign mutual funds					
Investar Excelsus Venture Capital	487	487	-	3,918	-
Uis-Trusted Money Fund	47,023	47,023	-	-	-
	<u>\$ 701,925</u>	<u>\$ 1,052,475</u>		<u>\$ 1,502,932</u>	

Asia Vital Components Co., Ltd. is engaged in manufacturing and selling of semiconductors electronic connectors, computer connectors and communication products. The shares of Asia Vital Components are listed on the Taiwan Stock Exchange Corporation. It has an outstanding common stock of \$2,519,971 thousand as at December 31, 2007.

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 December 31, 2007.

Symphony Holdings Ltd. is engaged in manufacturing and sales of footwear. The shares of Symphony Holdings Ltd. are listed on the Hong Kong Exchange and Clearing Limited. It has an outstanding common stock of HK\$436,011 thousand as at December 31, 2007.

12. FINANCIAL ASSETS CARRIED AT COST, NONCURRENT

Financial assets carried at cost, noncurrent as at December 31, 2007 and 2006 are comprised of the following:

	2007	2006
Chiang Yei Precision Industrial Co., Ltd.	\$ 8,153	\$ 8,153
Golden Brands Developments Ltd.	221,626	272,516
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 Holding Inc.	108,353	108,904
Great Team Backend Foundry Inc.	78,621	79,021
DTE Technologies Corp.	130,000	-
Eic Enterprise Ltd. - preferred stock	1,405	1,412
Asia Pacific Genesis Venture Capital Fund	145,935	114,082
CID Greater Venture Capital Fund	129,720	-
	<u>\$ 923,100</u>	<u>\$ 683,463</u>

The stocks and foreign mutual funds mentioned above do not have public offering price and reliable fair values, thus they are carried at cost. Due to the continuing operation losses of Golden Brands Developments Ltd. and Eic Enterprise Ltd., the Company recognized a loss of \$518,769 thousand for the year ended December 31, 2006, which was recorded as other investment losses.

13. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as at December 31, 2007 and 2006 consist of the following:

	2007				2006	
	Cost	Reassessed Value Increment	Accumulated Depreciation	Accumulated Impairment	Carrying Value	Carrying Value
Land	\$ 2,559,740	\$ 248,261	\$ -	\$ 162,739	\$ 2,645,262	\$ 2,548,713
Buildings and improvements	43,660,749	45,062	10,549,558	1,282	33,154,971	27,823,776
Machinery and equipment	42,316,136	-	21,534,766	-	20,781,370	19,123,721
Transportation equipment	1,093,802	-	727,553	-	366,249	335,017
Furniture, fixtures and office equipment	5,033,311	-	3,237,127	-	1,796,184	1,499,012
Other equipment	729,508	-	362,217	-	367,291	361,827
Construction in progress and prepayments for equipment	<u>3,065,117</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,065,117</u>	<u>3,842,377</u>
	<u>\$98,458,363</u>	<u>\$ 293,323</u>	<u>\$36,411,221</u>	<u>\$ 164,021</u>	<u>\$62,176,444</u>	<u>\$55,534,443</u>

Pou Chen recorded land value increment in 1987 and 1991 to reflect the value appraised and published by the government. Reserve for land value increment tax, payable upon sale of land, is presented under long-term liabilities. Furthermore, in accordance with the amended Land Tax Law, Pou Chen decreased its reserve for land value increment tax by \$49,652 thousand with a corresponding increase in adjustments of stockholders' equity for the year ended December 31, 2005.

Three parcels of land located in Changhwa County were purchased by Pou Chen for \$22,187 thousand in June 1990, for \$33,668 thousand in April 1997, and for \$17,858 thousand in July 2007. According to related laws, the ownership for these three parcels of land should be changed to the Company. However, due to certain restrictions under the land regulations, the ownership for these three parcels of land resides with a trustee through a trust agreement which prohibits the trustee from selling, pledging or hypothecating the property. Consequently, the three parcels of land amounted to \$73,713 thousand at December 31, 2007, are included in "other assets - land held by trustee" (see Note 14).

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

The interest expense for the years ended December 31, 2007 and 2006 amounted to \$3,201,054 thousand and \$2,657,361 thousand, respectively. Interest costs capitalized as part of the costs of property, plant and equipment for the years ended December 31, 2007 and 2006 amounted to \$1,726 thousand and \$8,006 thousand, respectively. Interest rate for capitalization was 2.50% for both years.

14. OTHER ASSETS

Other assets as at December 31, 2007 and 2006 consist of the following:

	2007	2006
Leased-out assets		
Cost and revaluation increment	\$ 1,720,902	\$ 1,810,313
Less accumulated depreciation	<u>(30,610)</u>	<u>(108,835)</u>
	<u>1,690,292</u>	<u>1,701,478</u>
Idle asset	85,546	85,604
Less accumulated depreciation	(51,737)	(44,405)
Less allowance for valuation loss of idle asset	<u>(33,809)</u>	<u>(41,199)</u>
	<u>-</u>	<u>-</u>
Refundable deposits	777,604	72,596
Deferred charges	3,851,402	3,615,682
Long-term receivables	327,485	265,023
Deferred tax assets (Note 24)	38,437	68,350
Land held by trustee (Note 13)	73,713	55,855
Prepaid pension cost (Note 20)	57,954	50,292
Others - land and building for sale	5,526	5,574
Temporary tax payments	<u>3,488</u>	<u>5,920</u>
	<u>\$ 6,825,901</u>	<u>\$ 5,840,770</u>

15. SHORT-TERM LOANS

Short-term loans as at December 31, 2007 and 2006 consist of the following:

	<u>2007</u>		<u>2006</u>	
	Annual Interest Rate %	Balance	Annual Interest Rate %	Balance
Procurement loans	1.28~6.43	\$ 1,303,549	1.17~6.88	\$ 1,414,160
Unsecured loans	2.15~8.15	<u>17,957,594</u>	1.65~8.30	<u>14,019,432</u>
		<u>\$ 19,261,143</u>		<u>\$ 15,433,592</u>

16. SHORT-TERM BILLS PAYABLE

Short-term bills payable as at December 31, 2007 and 2006 consist of the following:

	<u>2007</u>		<u>2006</u>	
	<u>Annual Interest Rate %</u>	<u>Balance</u>	<u>Annual Interest Rate %</u>	<u>Balance</u>
Commercial paper, credit	2.31~2.768	\$ 780,000	1.37~2.31	\$ 1,560,000
Less discount on commercial paper		<u>(2,892)</u>		<u>(5,840)</u>
		<u>\$ 777,108</u>		<u>\$ 1,554,160</u>

17. CURRENT PORTION OF LONG-TERM LIABILITIES

Current portion of long-term liabilities as at December 31, 2007 and 2006 consists of the following:

	<u>2007</u>	<u>2006</u>
Domestic secured bonds (see Note 18)	\$ 5,000,000	\$ -
Euro convertible bonds (see Note 18)	8,193,564	-
Long-term debt (see Note 19)	<u>828,178</u>	<u>2,463,335</u>
	<u>\$ 14,021,742</u>	<u>\$ 2,463,335</u>

18. BONDS PAYABLE

Bonds payable as at December 31, 2007 and 2006 consist of the following:

	<u>2007</u>	<u>2006</u>
Euro convertible bonds	\$ 14,930,383	\$ 7,568,526
Add interest compensation and income tax payable	<u>1,089,935</u>	<u>295,225</u>
	16,020,318	7,863,751
Less current portion	<u>(8,193,564)</u>	<u>-</u>
	<u>7,826,754</u>	<u>7,863,751</u>
Domestic secured bonds	5,000,000	5,000,000
Less current portion	<u>(5,000,000)</u>	<u>-</u>
	-	5,000,000
	<u>\$ 7,826,754</u>	<u>\$ 12,863,751</u>

In 2007, the holders of Euro convertible bonds converted Euro convertible bonds with par value of US\$680 thousand into 813 thousand shares of Pou Chen's common stock.

In 2006, the Company repurchased and redeemed at maturity its Euro convertible bonds with par value of US\$143,125 thousand from open market at cost of \$5,902,479 thousand and the Company recognized a gain of \$166,855 thousand. Furthermore, the holders of Euro convertible bonds converted Euro convertible bonds with par value of US\$1,850 thousand into 2,188 thousand shares of Pou Chen's common stock in 2006.

Euro-Dollar Convertible Bonds

First Issue 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 not converted as at December 31, 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 December 31, 2007, the current adjusted conversion price is \$27.40 dollars per share.
- (i) Redemption at maturity:

Unless previously redeemed, repurchased and cancelled, or converted, the bonds will be redeemed on November 4, 2008 at a price equal to 99.501% of the unpaid principal amount.
- (j) Redemption at the option of Pou Chen:
 - (i) The bonds may be redeemed, in whole or from time to time in part (in the principal amount of US\$1,000 (dollars) or any integral multiple thereof), at the option of Pou Chen at any time on or after November 4, 2005, at a price equal to 100% of the unpaid principal amount thereof; provided that the closing price of the common shares (translated into US dollars at the prevailing rate) on each of 20 consecutive trading days, the last of which occurs not more than five days prior to the date on which notice of such redemption is given, is at least 130% of the conversion price (translated into US dollars at the fixed rate). Notwithstanding the foregoing, the bonds may be redeemed in whole at the option of Pou Chen at any time at a price equal to 100% of the unpaid principal amount thereof if at least 95% in aggregate principal amount of the bonds has already been redeemed, repurchased and cancelled, or converted.
 - (ii) The bonds may also be redeemed in whole at any time at the option of Pou Chen at a price equal to 100% of the unpaid principal amount thereof in the event of certain changes relating to taxation in the 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%
- (c) Interest rate:
Type A, F, K, P: 4.000%, minus floating rate
Type B, G, L, Q: 4.001%, minus floating rate
Type C, H, M, R: 4.002%, minus floating rate
Type D, I, N, S: 4.003%, minus floating rate
Type E, J, O: 4.004%, minus floating rate
The nominal interest rate of all types should be greater than 0%.
The floating rate is determined on the Fixing Rate of USD 6-month LIBOR at 11:00 AM on the second London business day before the first day of each interest period on "LIBOR" page on the Reuters screen.

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

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

- (a) merge with any other company or spin off, unless Pou Chen being the existing company or majority lenders consent that such merger or spin off will not have a material adverse effect on Pou Chen;
- (b) change the scope or nature of its major business;

- (c) create any encumbrance over its assets, except for such encumbrance that had been made before the agreement date and disclosed to lenders;
- (d) sell, lease out, transfer or dispose of all or substantially all of its assets nor of any part of its assets with a value greater than the amount equal to 35% of the consolidated assets. Nevertheless the limitation on the preceding sentence, the following disposals shall not be taken into account under this restriction:
 - (i) disposals in the ordinary course of business,
 - (ii) the payment of cash as consideration for the acquisition of any asset at arm's length and on normal commercial terms,
 - (iii) the temporary application of funds not immediately required in the purchase or making of short-term investments, or the realization of such investments,
 - (iv) the disposal (for a consideration not exceeding a normal commercial consideration) of assets to its subsidiaries and/or Yue Yuen.
- (e) make loan, 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 September 30, 2007
- (f) Interest rate: 0%
- (g) Date of maturity: December 23, 2008
- (h) Conversion price:
 HK\$27.33 dollars per share at the fixed rate of exchange of HK\$7.7622 dollars to US\$1 dollar which will be subject to adjustment for, among other things, subdivision or consolidation of shares, capital distributions, bonus issues, rights issues and other dilutive events.
- (i) Redemption at maturity:
 Unless previously redeemed, repurchased and cancelled, or converted, the bonds will be redeemed on December 23, 2008 at a price equal to 98.76% of the unpaid principal amount.
- (j) Redemption at the option of Yue Yuen:
 On or at any time after December 23, 2005 (in the case of (i) below) and at any time (in the case of (ii) below) and (in either case) prior to December 16, 2008, Yue Yuen may redeem all (in the case of (ii) below) or, from time to time, some only (being US\$1,000,000 dollars in principal amount or an integral multiple thereof) of the Bonds, subject to giving not less than 30 nor more than 60 days' notice, at the Early Redemption Amount on the Redemption Date if (i) the closing price of the Share (as derived from the Daily Quotations Sheet of the Hong Kong Stock Exchange or, as the case may be, the equivalent quotation sheet of an Alternative Stock Exchange), translated into United States dollars at the prevailing rate described herein, for each of any 20 Trading Days during a 30 consecutive Trading Day period, the last day of which period occurring no more than five Trading Days prior to the date upon which such notice of redemption is given, was at least 120 per cent. of the Conversion Price in effect on each such Trading

Day, translated into United States dollars at the rate of HK\$7.7622 dollars = US\$1.00 dollar or (ii) at least 90 per cent. in principal amount of the bonds has already been converted, redeemed or purchased and cancelled.

(k) Repurchase at the option of holders:

Each holder has the right to require Yue Yuen to repurchase all or any portion of such holder's bonds on December 23, 2005 at a price equal to 99.50% of the unpaid principal amount thereof.

- (l) On December 14, 2005, Yue Yuen signed a put release agreement with a financial institution and pursuant to which has agreed, on request of the holders of the Exercised Bonds, to revoke the Put Option exercised so that such CB will continue to be outstanding. In addition, Yue Yuen will make an additional payment to or to the order of the Financial Institution on maturity of the Exercised Bonds.

Second issue by Yue Yuen

(a) Date of issuance: November 17, 2006

(b) Par value: HK\$10 thousand

(c) Location of issuance: Hong Kong

(d) Price of issuance: 100%

(e) Total amount: HK\$2,100,000 thousand issued.

(f) Interest rate: 0%

(g) Date of maturity: November 17, 2011

(h) Conversion price:

HK\$26.75 dollars per share which will be subject to adjustment for, among other things, subdivision or consolidation of shares, capital distributions, bonus issues, rights issues and other dilutive events.

(i) Redemption at maturity:

Unless previously redeemed, repurchased and cancelled, or converted, the bonds will be redeemed on November 17, 2011 at a price equal to 113.227% of the unpaid principal amount.

(j) Redemption at the option of Yue Yuen:

On or at any time after November 17, 2007 (in the case of (i) below) and at any time (in the case of (ii) and (iii) below) and (in either case) prior to November 17, 2011, Yue Yuen may redeem all of the bonds at the Early Redemption Amount on the Redemption Date if (i) the closing price of the Share (as derived from the Daily Quotations Sheet of the Hong Kong Stock Exchange or, as the case may be, the equivalent quotation sheet of an Alternative Stock Exchange) for each of the 30 consecutive Trading Day prior to the date upon which notice of such redemption is given, was at least 120 per cent. of the Conversion Price in effect on each such Trading Day or (ii) at least 90 per cent. in principal amount of the bonds has already been converted, redeemed or purchased and cancelled or (iii) in the event of certain changes relating to Bermuda or Hong Kong taxation law (each holder may, after Yue Yuen exercised such redemption option, elect to refuse all or a portion of its Bonds shall not be redeemed by Yue Yuen).

(k) Repurchase at the option of holders:

(i) Each holder has the put option to require Yue Yuen to repurchase all or any portion of such holder's bonds on November 17, 2009 at a price equal to 107.738% of the unpaid principal amount thereof.

(ii) If the common shares of Yue Yuen cease to be listed or admitted to trading on the Hong Kong Stock Exchange, each holder has the right to require Yue Yuen to repurchase all of such holder's bonds.

(iii) Upon the occurrence of a change of control, each holder has the right to require Yue Yuen to repurchase all of such holder's bonds.

19. LONG-TERM DEBT

Long-term debt as at December 31, 2007 and 2006 consist of the following:

	2007	2006
Bank of China Long-term debt, US\$420,000 thousand. The period is from June 1, 2005 to June 1, 2010. Interest rate is 5.67%. Interest is paid quarterly.	\$ 9,087,323	\$ 11,415,193
China Trust Commercial Bank Long-term debt, US\$2,660 thousand, due in semiannual installments commencing September 21, 2005 and maturing September 21, 2008. Interest rate is 6.47%. Interest is paid monthly.	24,563	49,381
Industrial Bank of Taiwan Mid-term debt, the term is from October 26, 2005 to October 25, 2008. Interest rate is 3.0497%. Interest is paid monthly. The principal will be fully repaid upon maturity.	180,000	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 rates range from 2.653% to 2.737%.	6,500,000	6,500,000
China Trust Commercial Bank 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 2.7696%.	2,500,000	2,500,000
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%.	972,900	977,850
Standard Chartered Bank Syndication Loan Long-term debt, US\$30,000 thousand. The term is from August 24, 2005 to August 24, 2010. Interest rate is USD 3-month LIBOR rate plus 0.90%. Interest is paid quarterly. The principal is due in semiannual installments commencing from August 24, 2008.	972,900	977,850
Ta Chong Bank (Lead Lender) Syndication Loan Long-term debt, US\$15,000 thousand. The term is from November 14, 2005 to November 14, 2010. The principal due in semiannual installments commencing from November 14, 2008. Interest rate is 3-month LIBOR rate plus 1%. Interest is paid quarterly.	454,020	130,380

	2007	2006
Agricultural Bank of China Mid-term debt, US\$3,997 thousand. The term is from February 28, 2007 to January 8, 2010. The principal is due in semiannual installments commencing from July 8, 2008. Interest rate is 6.08% as at September 30, 2007. Interest is paid quarterly.	129,616	-
Cathay United Bank Long-term debt, US\$9,750 thousand, due in monthly repayments commencing June 20, 2006 and maturing May 20, 2013. Interest rate is floating. Interest is paid monthly.	309,047	316,139
KBC (Shanghai) Mid-term debt, US\$19,000 thousand. The term is from December 3, 2007 to December 2, 2010. The principal will be fully repaid upon maturity. Interest rate is 3-month LIBOR rate plus 1%.	616,170	-
Citibank (Lead lender) Syndication Loan Syndication loan, US\$350,000 thousand, due in semiannual installments commencing January 11, 2011 and maturing July 11, 2012. Interest rate is 5.379% as at September 30, 2007.	9,729,000	-
The Hong Kong and Shanghai Banking Corporation Limited Mid-term debt, US\$5,329 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% as at September 30, 2007. Interest is paid quarterly.	172,822	-
Standard Charter Bank Mid-term debt, US\$16,787 thousand. The term is from September 30, 2007 to September 30, 2010. The principal is due in annual installments commencing from September 30, 2008. Interest rate is 6.72% as at September 30, 2007. Interest is paid semiannually.	544,388	-
The Hong Kong and Shanghai Banking Corporation Limited Mid-term debt, US\$3,412 thousand. The term is from September 21, 2007 to September 21, 2010. The principal is due in annual installments commencing from September 21, 2008. Interest rate is 6.72% as at September 30, 2007. Interest is paid semiannually.	110,651	-

	2007	2006
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 5.74188%. The principal was fully prepaid in 2007.	-	9,778,500
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 prepaid in October 2007.	-	453,723
	32,303,400	33,279,016
Less current portion	(828,178)	(2,463,335)
	<u>\$ 31,475,222</u>	<u>\$ 30,815,681</u>

20. PENSION PLAN

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

Net pension cost for the year 2007 consists of the following:

	Pou Chen	Barits Development	Pou Yuen Technology	Pro Arch Technology	Global Brands Manufacture	Total
Service cost	\$ 28,717	\$ 1,770	\$ 74	\$ -	\$ 1,082	\$ 31,643
Interest cost	27,736	1,138	292	4	1,472	30,642
Expected return on plan assets	(10,345)	(2,608)	(971)	(393)	(170)	(14,487)
Amortization of net transition obligation (asset)	(1,875)	646	-	-	657	(572)
Amortization of unrecognized prior service cost	-	-	204	-	-	204
Amortization of pension loss (gain)	922	(2,216)	(176)	-	1,304	(166)
Gain on curtailment of pension cost	-	-	-	(335)	-	(335)
	<u>\$ 45,155</u>	<u>\$ (1,270)</u>	<u>\$ (577)</u>	<u>\$ (724)</u>	<u>\$ 4,345</u>	<u>\$ 46,929</u>

The following table sets forth the actuarial assumptions and plan's status as at December 31, 2007:

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

The following is pension fund distribution table as at December 31, 2007:

	Pou Chen	Barits Development	Pou Yuen Technology	Pro Arch Technology	Global Brands Manufacture	Total
Actuarial present value of benefit obligation:						
Vested benefits	\$ (160,045)	\$ -	\$ (688)	\$ -	\$ -	\$ (160,733)
Nonvested benefits	<u>(623,536)</u>	<u>(35,367)</u>	<u>(5,548)</u>	<u>(29)</u>	<u>(25,990)</u>	<u>(690,470)</u>
Accumulated benefit obligation	(783,581)	(35,367)	(6,236)	(29)	(25,990)	(851,203)
Additional benefits at future salaries	<u>(341,640)</u>	<u>(11,146)</u>	<u>(5,937)</u>	<u>(23)</u>	<u>(19,071)</u>	<u>(377,817)</u>
Projected benefit obligation	(1,125,221)	(46,513)	(12,173)	(52)	(45,061)	(1,229,020)
Plan assets at fair value	<u>368,682</u>	<u>95,954</u>	<u>37,587</u>	<u>14,634</u>	<u>4,330</u>	<u>521,187</u>
Projected benefit obligation in excess of plan assets	(756,539)	49,441	25,414	14,582	(40,731)	(707,833)
Net transition (asset) obligation not yet recognized	(8,373)	2,631	-	-	1,970	(3,772)
Unrecognized prior service costs	-	-	2,751	-	-	2,751
Unrecognized pension loss (gain)	210,617	(31,262)	(5,569)	(34)	21,451	195,203
Net pension gain not yet recognized	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,380)</u>	<u>(2,380)</u>
Prepaid pension cost (accrued pension cost)	<u>\$ (554,295)</u>	<u>\$ 20,810</u>	<u>\$ 22,596</u>	<u>\$ 14,548</u>	<u>\$ (19,690)</u>	<u>\$ (516,031)</u>

As at December 31, 2007, the amount of accrued pension cost of \$516,031 thousand was the net of deferred pension cost of \$1,970 thousand, prepaid pension cost of \$57,954 thousand, and accrued pension cost of \$575,955 thousand.

21. CAPITAL STOCK AND RETAINED EARNINGS

Pou Chen's registered and issued capital as at December 31, 2007 and 2006 are summarized as follows:

	2007	2006
Registered capital		
Shares (in thousands)	<u>3,800,000</u>	<u>3,800,000</u>
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)	<u>2,511,854</u>	<u>2,442,686</u>
Par value (in dollars)	<u>\$ 10</u>	<u>\$ 10</u>
Capital	<u>\$ 25,118,540</u>	<u>\$ 24,426,857</u>

At the April 24, 2007, Pou Chen's stockholders meeting resolved to issue additional capital stock of \$637,714 thousand through stock dividends of \$486,209 thousand and bonuses to employees of \$151,505 thousand. Furthermore, employee stock warrants were exercised for 4,584 thousand shares and convertible Euro dollar bonds were exercised for 813 thousand shares during 2007. As a result, Pou Chen's outstanding capital stock was increased to \$25,118,540 thousand, divided into 2,511,854 thousand common shares with a par value of \$10.00 dollars each as at December 31, 2007.

Earnings per share are based upon the weighted average number of shares of stock outstanding during the year. For the year ended December 31, 2006, the weighted average number of shares used in the calculation of earnings per share has been restated for the retroactive effect of the stock dividends issued in 2007.

At the meeting on July 15, 2002, the board of directors of Pou Chen resolved to issue employee stock warrants in accordance with Securities and Exchange Law Article 28-3 within the quantity of 67,600 units. Each individual employee stock warrant is granted the right to purchase new issued common share for 1,000 shares. The exercise price is the closing price of Pou Chen's common shares at the employee stock warrants' issuance date. The warrant holder can exercise the right up to one-third of the granted warrant units no earlier than two years from the granted date. After four years from the granted date, the warrants holders are eligible to exercise all the warrants owned. As of August 6, 2002 and July 24, 2003, Pou Chen has issued 66,600 units and 1,000 units of employee stock warrants, respectively to the employees with an exercise price of \$23.30 dollars and \$41.20 dollars per unit, respectively. The exercise price of such warrant has been retroactively restated as \$10.00 dollars and \$22.30 dollars per share, respectively due to the stock dividends issued in 2007.

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.

At December 31, 2007, the employee stock warrants were executed for 19,116 thousand shares of common stock.

Information about Pou Chen's outstanding stock warrants for the years ended December 31, 2007 and 2006 was as follows:

	2007		2006	
	Number of Stock Purchasable (Thousand Shares)	Weighted-average Exercise Price (NT\$)	Number of Stock Purchasable (Thousand Shares)	Weighted-average Exercise Price (NT\$)
Employee Stock Warrants				
Balance, beginning of year	53,068	\$ 10.28	60,746	\$ 12.26
Stock warrants granted	125,500	29.80	-	-
Stock warrants exercised	(4,584)	10.00	(7,678)	10.00
Balance, end of year	<u>173,984</u>	24.35	<u>53,068</u>	10.28
Exercisable stock warrants at end of year	<u>48,484</u>		<u>52,735</u>	

As at December 31, 2007 and 2006, information about Pou Chen's outstanding and exercisable stock warrants was as follows:

Range of Exercise Price (NT\$)	Stock Warrants Outstanding			Stock Warrants Exercisable	
	Number of Stock 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>2007</u>					
\$10.00~\$29.80	<u>173,984</u>	<u>8.50</u>	<u>\$ 24.35</u>	<u>48,484</u>	<u>\$ 10.25</u>
<u>2006</u>					
\$10.00~\$24.70	<u>53,068</u>	<u>5.64</u>	<u>\$ 10.28</u>	<u>52,735</u>	<u>\$ 10.19</u>

If the compensation cost based on the fair value method is accounted for as expenses, the pro forma results of Pou Chen for the year ended December 31, 2007 would have been as follows:

Net income		
As reported		\$4,800,250
Pro forma		\$4,709,223
Basic earnings per share (in dollar)		
As reported		\$1.97
Pro forma		\$1.93
Diluted earnings per share (in dollar)		
As reported		\$1.94
Pro forma		\$1.91

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 (units)	66,600	1,000	125,500,000
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:

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

In accordance with the Approval Documents (95) Jin-Guan-Tseng (1) No. 0950000507 of Financial Supervisory Commission, Executive Yuan public companies have to appropriate earnings for special reserve according to Article 41-1 of Securities Transaction Act, in addition to the appropriation for legal reserve, in amount equal to debit balances, if any, in stockholders' equity (such as unrealized loss 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 and stockholders in their meetings have proposed and approved the distribution from the 2006 earnings of 15,151 thousand shares to employees (represents 0.67% of the outstanding common shares at the end of 2006) and of \$156,191 thousand as bonuses to directors and supervisors. In 2006, the basic earnings per share after income tax was \$2.55 dollars; however, if the earnings distribution to employees, directors and supervisors are accounted for as expenses, the pro-forma basic earnings per share after income tax was \$2.42 dollars. For the appropriation of 2006 retained earnings proposed by the board of directors and approved in the shareholders' meeting, please refer to the Market Observation Post System ("MOPS") of Taiwan Stock Exchange.

Wealthplus' outstanding capital stock as at September 30, 2007 and 2006 amounted to US\$169,222 thousand, with a par value of US\$1 dollar each, 169,222 thousand shares.

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

Win Fortune's outstanding capital stock as at September 30, 2007 and 2006 amounted to US\$100 thousand, with a par value of US\$1 dollar each, 100 thousand shares.

Ming Wang's registered and issued capital as at December 31, 2007 and 2006 amounted to \$427,291 thousand, divided into 42,729 thousand common shares with a par value of \$10.00 dollars each.

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

Windsor Entertainment's registered and issued capital as at December 31, 2006 amounted to \$100,000 thousand, divided into 10,000 thousand common shares with a par value of \$10.00 dollars each. Additionally, Windsor Entertainment decreased its capital to offset its accumulated deficit by \$90,000 thousand, and issued additional capital stock for \$200,000 thousand at a price of \$10.00 dollars per share in October 2006. As at December 31, 2007, Windsor Entertainment's registered and issued capital amounted to \$210,000 thousand, divided into 21,000 thousand common shares with a par value of \$10.00 dollars each.

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

Yun Yang's registered and issued capital as at December 31, 2006 amounted to \$75,000 thousand, divided into 7,500 thousand common shares with a par value of \$10.00 dollars each. In June, 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 December 31, 2007 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 December 31, 2007 and 2006 amounted to \$573,632 thousand, divided into 57,363 thousand common shares with a par value of \$10.00 dollars each.

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

Pan Asia Insurance Services' issued capital as at December 31, 2007 and 2006 amounted to \$3,000 thousand.

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

Proshine Healthcare's registered and issued capital as at December 31, 2007 amounted to \$500,000 thousand and \$280,000, 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 - mentioned are appropriated,
- e. 1% as bonus to employees after the four above - mentioned are appropriated,
- f. as special reserve or being retained partially by Proshine Healthcare, and
- g. dividends to stockholders as proposed according to stock proportion.

Barits Development's registered and issued capital as at December 31, 2007 and 2006 are summarized as follows:

	2007	2006
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>
Capita	<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 December 31, 2007 and 2006 are summarized as follows:

	2007	2006
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>60,000</u>
Par value (in dollars)	<u>\$ 10</u>	<u>\$ 10</u>
Capital	<u>\$ 900,000</u>	<u>\$ 600,000</u>

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

According to the Company Law of the 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 December 31, 2007 and 2006 are summarized as follows:

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

Pro Arch Technology's outstanding capital stock as at December 31, 2006 amounted to \$1,175,127 thousand. In September 2006, Pro Arch Technology decreased its capital to offset its accumulated deficit by \$1,174,127 thousand, and issued additional capital stock for \$300,000 thousand at a price of \$10.00 dollars per share. As at December 31, 2007, Pro Arch Technology has an outstanding common stock of \$301,000 thousand, with a par value of \$10.00 dollars each.

According to the Company Law of the ROC and Pro Arch Technology's Articles of Incorporation, 10% of Pro Arch Technology's annual earnings, after paying tax and offsetting deficit, if any, should first be appropriated as legal reserve. From the remaining balance, if any, 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's registered and issued capital as at December 31, 2007 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 - mentioned are appropriated,
- e. 1% as bonus to employees after the four above - mentioned are appropriated,
- f. as special reserve or being retained partially by LNC Technology, and
- g. dividends to stockholders as proposed according to stock proportion.

Global Brands Manufacture's registered and issued capital as at December 31, 2007 and 2006 are summarized as follows:

	2007	2006
Authorized capital		
Share (in thousands)	<u>430,000</u>	<u>430,000</u>
Par value (in dollars)	<u>\$ 10</u>	<u>\$ 10</u>
Capital	<u>\$4,300,000</u>	<u>\$4,300,000</u>
Issued capital		
Share (in thousands)	<u>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.

Global Brands Manufacture was approved on April 19, 2006 by Financial Supervisory Commission, Executive Yuan to issue capital stock of 33,000 thousand shares at \$45.50 dollars each for paying off debt and for working capital. On June 9, 2006, Global Brands Manufacture issued additional capital stock amounting to \$333,412 thousand through stockholders' dividends of \$308,157 thousand, and bonuses to employees of \$25,255 thousand. As a result, Global Brands Manufacture's outstanding capital was increased to \$2,717,794 thousand divided into 271,779 thousand common shares with a par value of \$10.00 dollars each as at December 31, 2006.

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 December 31, 2007.

At the meeting on October 15, 2002, the board of directors of Global Brands Manufacture resolved to issue employee stock warrants in accordance with the Securities and Exchange Law Article 28-3 within the quantity of 5,672 units. Each stock warrant is granted the right to purchase 1,000 new issued common shares. The exercise price is the closing price of Global Brands Manufacture's common shares at the employee stock warrants' issuance date. The warrant holders can exercise the right up to one-third of the granted warrant units no earlier than two years from the granted date. After four years from the granted date, the warrants holders are eligible to exercise all the warrants owned. As of December 13, 2002 and September 22, 2003, Global Brands Manufacture issued 5,662 units and 10 units, respectively, of employee stock warrants to the employees with an exercise price of \$29.50 dollars and \$64 dollars per unit. The exercise price will be adjusted according to calculating formula subject to stock and cash dividends and issuance of capital stock. In 2007, the warrants exercised were 4,350 units and 10 units, respectively. As at December 31, 2007, the outstanding warrants were 1,312 units, and the exercise price was \$14.1 dollars per unit.

At the meeting on September 22, 2003, the board of directors of Global Brands Manufacture resolved to issue another employee stock warrants with the quantity of 10,672 units. The issuing rules are the same as the first issuance mentioned above. Global Brands Manufacture issued all the employee stock warrants with an exercise price of \$50.50 dollars per unit on November 12, 2003. The exercise price will be adjusted according to calculating formula subject to stock and cash distributions and issuance of capital stock. As at December 31, 2007, the exercise price was \$25.90 dollars per unit and total unsubscribed shares available for sale were 13,590 thousand shares.

At the meeting on December 5, 2007, the board of directors of Global Brands Manufacture resolved to issue another employee stock warrants with the quantity of 15,000 units. Each of the employee stock warrant is granted the right to purchase one new issued common share. The issuing rules are the same as the first issuance mentioned above. Global Brands Manufacture issued all the employee stock warrants with an exercise price of \$41.55 dollars per unit on December 24, 2007. The exercise price will be adjusted according to calculating formula subject to stock and cash distributions and issuance of capital stock. As at December 31, 2007, 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 2007 and 2006 was as follows:

	2007		2006	
	Number of Stock Purchasable (Thousand Shares)	Weighted-average Exercise Price (NT\$)	Number of Stock Purchasable (Thousand Shares)	Weighted-average Exercise Price (NT\$)
Employee Stock Warrants				
Balance, beginning of year	20,885	\$ 27.68	18,761	\$ 33.72
Stock warrants granted	15,000		-	
Stock warrants exercised	(7,660)		-	
Adjustment from ownership dilution	1,678		2,124	
Balance, end of year	<u>29,903</u>	33.23	<u>20,885</u>	27.68
Exercisable stock warrants, end of year	<u>14,903</u>	24.86	<u>15,811</u>	26.55
Weighted-average fair value of stock warrants granted	<u>\$ 17.62</u>		<u>\$ -</u>	

Information about outstanding and exercisable options as of December 31, 2007 and 2006 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>2007</u>					
\$14.10~\$41.55	<u>29,903</u>	<u>7.96</u>	<u>\$ 33.23</u>	<u>14,903</u>	<u>\$ 24.86</u>
<u>2006</u>					
\$18.20~\$37.40	<u>20,885</u>	<u>6.73</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 year ended December 31, 2007 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		\$ 1,469,188
Pro forma		\$ 1,469,188
Basic earnings per share (in dollar)		
As reported		\$4.85
Pro forma		\$4.85
Diluted earnings per share (in dollar)		
As reported		\$4.70
Pro forma		\$4.70

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.

22. TREASURY STOCK

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

	2007.01.01	Increase	Decrease	2007.12.31
Buy the stock back to transfer to employees	14,200,000	-	14,200,000	-
Common shares held by subsidiaries	128,436,415	168,031	119,978,078	8,626,368

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

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

In 2007, after the stock dividends were received by the subsidiaries, 168,031 shares were added to treasury stock. Besides, after the sale of part of shares by the subsidiaries - Wealthplus, etc., 119,978,078 shares were deducted from treasury stock, and the gain of \$1,591,094 thousand was recognized as the capital surplus from treasury stock transactions, the adjustment of shareholders' equity. As at December 31, 2007, the subsidiaries held 8,626,368 shares of Pou Chen's common stock at cost of \$155,375 thousand in total. Pou Chen had adjusted the carried value according to the percentage of the subsidiaries holding shares.

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

Company's Name	Shares	Amount
Wealthplus	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

23. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

Personnel, depreciation, and amortization expenses for the years ended December 31, 2007 and 2006 are summarized as follows:

Category	Function	2007				2006			
		Operating Cost	Operating Expenses	Non-Operating Expenses	Total	Operating Cost	Operating Expenses	Non-Operating Expenses	Total
Personnel expense									
Salaries		20,445,004	8,827,986	-	29,272,990	17,251,497	7,953,262	-	25,204,759
Labor insurance and health insurance		620,272	326,135	-	946,407	495,304	313,986	-	809,290
Pension cost		214,485	336,493	-	550,978	217,327	416,282	-	633,609
Others		90,520	115,575	-	206,095	51,515	108,392	-	159,907
Depreciation expenses		4,840,489	1,760,096	66,239	6,666,824	4,281,073	1,634,235	59,997	5,975,305
Amortization expenses		10,086	130,275	-	140,361	131,247	329,054	-	460,301

24. INCOME TAX

The Company's income tax expense for the year ended December 31, 2007 is as follows:

Income tax expense, current	\$ 899,667
10% basic tax expense	478,918
10% additional income tax on undistributed earnings of 2006	63,305
Losses carryforward	(15,067)
Investment tax credits	(26,350)
Adjustment of deferred tax asset and valuation allowance	58,464
Adjustment of prior year's income tax expense	<u>(3,740)</u>
Income tax expense	<u>\$ 1,455,197</u>

The components of deferred tax assets as at December 31, 2007 are as follows:

Unrealized inventory devaluation losses	\$ 22,490
Unrealized bad debt losses	61,092
Unrealized pension expense	147,140
Unrealized loss on decline in market value of long-term investments	3,550
Unrealized impairment loss of idle assets	1,240
Losses carryforward	588,796
Others	(142,934)
Less valuation allowance	<u>(579,109)</u>
Deferred tax assets	102,265
Deferred tax assets, current	<u>(63,828)</u>
Deferred tax assets, noncurrent	<u>\$ 38,437</u>

The Company's income tax expense for the year ended December 31, 2007 and income tax payable as at December 31, 2007 were reconciled as follows:

Income tax expense at statutory rate of 25%	\$ 2,746,259
Investment income recognized under equity method	(1,633,038)
Valuation loss on financial assets	252,395
Gain on disposal of security	(365,205)
Cash dividends received by oversea investee under equity method	983,900
Income from incentive of taxation for business operating headquarter	(1,018,000)
Dividend income - tax free	(126,231)
Others	<u>59,587</u>
Current income tax expense	899,667
Provision for (reversal of) deferred income tax asset	
Unrealized bad debt losses	(10,298)
Unrealized inventory devaluation losses	(6,435)
Unrealized pension expense	4,510
Unrealized net exchange loss	1,910
Unrealized sales allowance	(1,800)
Losses carryforward	(15,067)
Others	<u>10,871</u>
Income tax payable	883,358
Add 10% additional income tax on unappropriated earnings of 2006	63,305
Add prior year's income tax payable	9,625
Add 10% basic tax expense	478,918
Less investment tax credit	(26,350)
Less temporary tax payment	<u>(341,418)</u>
Income tax payable as at December 31, 2007	<u>\$ 1,067,438</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 Yii, Ming Chi and Wang Yi for the years through 2005 have been examined and approved by the tax authority.

As at December 31, 2007, the amount and year of expiration of deductible loss carryforward by individual company are as follows:

	Pou Yuen Technology	Pro Arch Technology	Windsor Entertainment	Proshine Healthcare	LNC Technology
2008	\$ 41,600	\$ 131,300	\$ 370	\$ -	\$ -
2009	31,400	143,700	1,270	-	-
2010	-	153,480	2,490	-	-
2011	-	14,350	39,270	-	-
2012	-	-	29,300	238	28
	<u>\$ 73,000</u>	<u>\$ 442,830</u>	<u>\$ 72,700</u>	<u>\$ 238</u>	<u>\$ 28</u>

The information of the integrated income tax system as at December 31, 2007 is as follows:

	Pou Chen	Ming Wang	Windsor Entertainment	Pou Shine	Pan Asia Insurance Service	Barits Development	Song Ming	Pou Yii	Wang Yi
IC Balance of Imputation Credit Account	\$ 169,321	\$ 16,144	\$ -	\$ 13,362	\$ 367	\$ 94,249	\$ 531	\$ 20,100	\$ 15,775
Undistributed earnings for the years of 1997 and before	\$ 310,501	\$ -	\$ -	\$ -	\$ -	\$ 515,118	\$ -	\$ 7,176	\$ -
Undistributed earnings for the years of 1998 and after	\$ 7,468,451	\$ 293,777	\$ (201,500)	\$ 213,525	\$ 525	\$ 1,655,180	\$ 165,482	\$ 201,895	\$ 2,259
Expected IC ratio on distributable earnings of 2007	7.87%	33.33%	-	10.37%	33.33%	7.19%	0.40%	17.57%	33.33%
Actual IC ratio of earnings distribution for the year of 2006	3.06%	-	-	4.71%	33.33%	5.60%	12.22%	-	-

	Ming Chi	Ming Shun	Pou Yuen Technology	Yun Yang	Pro Arch Technology	Global Brands Manufacture	Cheng Cheng	Proshine Healthcare	LNC Technology
IC Balance of Imputation Credit Account	\$ 3,491	\$ 3,183	\$ 5,316	\$ 2,117	\$ 650	\$ 400,426	\$ 350	\$ -	\$ -
Undistributed earnings for the years of 1997 and before	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Undistributed earnings for the years of 1998 and after	\$ 206,581	\$ (11,349)	\$ (449,105)	\$ 22,850	\$ (277,303)	\$ 2,609,323	\$ 1,431	\$ (987)	\$ (132)
Expected IC ratio on distributable earnings of 2007	5.61%	-	-	9.39%	-	15.34%	24.46%	-	-
Actual IC ratio of earnings distribution for the year of 2006	33.35%	1.30%	-	10.64%	-	12.94%	28.40%	-	-

In the balance of imputation credit account as at December 31, 2007, the income tax payable for 2007 has been taken into account.

26. DISCLOSURES FOR FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

The fair value of nonderivative and derivative financial instruments as at December 31, 2007 and 2006 is summarized as follows:

Nonderivative Financial Instruments	2007		2006	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
Cash and cash equivalents	\$22,182,017	\$22,182,017	\$14,594,226	\$14,594,226
Financial assets at fair value through profit of loss, current	9,063,649	9,063,649	5,826,810	5,826,810
Notes and accounts receivable	27,561,638	27,561,638	24,271,038	24,271,038
Accounts receivable from affiliates	1,253,041	1,253,041	2,224,619	2,224,619
Other receivables	4,302,312	4,302,312	3,674,758	3,674,758
Investments accounted for by the equity method	27,828,293	25,655,507	23,864,121	23,719,858
Available-for-sale financial assets, noncurrent	1,052,475	1,052,475	1,502,932	1,502,932
Financial assets carried at cost, noncurrent	923,100	-	683,463	-
Refundable deposits	777,604	777,604	72,596	72,596
Long-term receivables	327,485	327,485	265,023	265,023
Liabilities				
Short-term loans	19,261,143	19,261,143	15,433,592	15,433,592
Short-term bills payable	777,108	777,108	1,554,160	1,554,160
Notes and accounts payable	17,386,547	17,386,547	15,289,416	15,289,416
Notes and accounts payable to affiliates	1,171,769	1,171,769	1,043,609	1,043,609
Other payables	10,449,986	10,449,986	9,084,593	9,084,593
Current portion of long-term liabilities	14,021,742	14,021,742	2,463,335	2,463,335
Bonds payable	7,826,754	7,826,754	12,863,751	12,863,751
Long-term debt	31,475,222	31,475,222	30,815,681	30,815,681
Guarantee deposits received	19,787	19,787	5,927	5,927
Derivative Financial Instruments				
Forward exchange contracts (financial assets at fair value through profit or loss, current)	101,344	101,344	-	-
Interest rate swap contracts (hedging financial assets - noncurrent)	39,812	39,812	-	-
Euro convertible bonds with options (financial liabilities at fair value through profit or loss, current)	771,769	771,769	-	-
Forward exchange contracts (financial liabilities at fair value through profit or loss, current)	7,589	7,589	26,565	26,565
Interest rate swap contracts (hedging financial liabilities, current)	45,962	45,962	-	-
Interest rate swap contracts (hedging financial liabilities, noncurrent)	-	-	167,839	167,839

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

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

- (a) The fair value of cash and cash equivalents, notes and accounts receivable, short-term loans, short-term bills payable, and notes and accounts payable, approximates their carrying value due to the short-term maturities of these financial instruments.
- (b) The fair value of financial assets at fair value through profit or loss, available-for-sale financial assets and derivative financial instruments are quoted by market price. The fair value of derivative financial instruments is measured, according to its specific contract's settlement rate, by the middle exchange rate and the discount rate quoted by Reuters.
- (c) Financial assets carried at cost and investments accounted for by the equity method are equity instrument investments which fair value could not be measured reliably, including non-public stocks and TIGER stocks. The fair value of these instruments is determined at their carrying value.
- (d) The fair value of long-term debt and bond payables is estimated based on the net present value of expected cash flows.

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

	<u>Quoted Market Price in Active Market</u>		<u>Other Method of Valuation</u>	
	2007	2006	2007	2006
Assets				
Financial assets at fair value through profit or loss, current	\$ 9,063,649	\$ 5,826,810	\$ 101,344	\$ -
Available-for-sale financial assets, noncurrent	1,052,475	1,502,932	-	-
Hedging derivative financial assets, noncurrent	-	-	39,812	-
Liabilities				
Financial liabilities at fair value through profit or loss, current	-	-	779,358	26,565
Hedging derivative financial liabilities, current	-	-	45,962	-
Hedging derivative financial liabilities, noncurrent	-	-	-	167,839

As at December 31, 2007 and 2006, financial liabilities exposed to cash flow interest rate risk were \$52,341,651 thousand and \$50,266,768 thousand, respectively.

The Company recognized an unrealized gain of \$53,706 thousand and \$365,671 thousand, respectively, in equity for the changes in fair value of available-for-sale financial assets for the years ended December 31, 2007 and 2006.

Financial Risk Information

Market Risk

The risk the Company engaged in portfolios of marketable equity securities and open-ended mutual fund comes from changes of market price. One percentage decline in market rate will cause the fair value of financial instruments to decline by \$101,161 thousand.

Credit Risk

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

Liquidity Risk

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

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

Cash Flow Risk on Interest Rat

The Company engaged in floating-interest-rate long-term borrowings. Therefore, cash flows are expected to fluctuate due to changes in market interest rates. One percentage increase in market rate will cause the Company to increase its cash-out by \$523,417 thousand.

27. 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 25.93% ownership interest
Twinways Investments Ltd. (“Twinways”)	The Company holds a 50.00% ownership interest
Venture Well Holdings Ltd. (“Venture Well”)	The Company holds a 43.08% ownership interest
Alpha Leader Ltd. (“Alpha Leader”)	The Company holds a 43.08% ownership interest
Beijing Advazone Electronic Co., Ltd. (“Beijing Advazone”)	The Company holds a 43.08% ownership interest
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

Name	Relationship
Dalian Dongzhijie Sports Industry Development Co., Ltd. (“Dalian Dongzhijie”)	interest 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
Global Brands Manufacture Ltd. (“GBM”)	Related party in substance

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

Sales

Sales to related parties for the years ended December 31, 2007 and 2006 are summarized as follows:

	<u>2007</u>		<u>2006</u>	
	Amount	Percentage to Net Sales	Amount	Percentage to Net Sales
CMKC	\$ 4,683,823	2	\$ 4,254,258	2
GBM	164,833	-	343,830	-
Others	<u>1,553,754</u>	<u>1</u>	<u>2,375,967</u>	<u>2</u>
	<u>\$ 6,402,410</u>	<u>3</u>	<u>\$ 6,974,055</u>	<u>4</u>

Cost of Sales - Purchases

Purchases from related parties for the years ended December 31, 2007 and 2006 are summarized below:

	2007		2006	
	Amount	Percentage to Net Purchases	Amount	Percentage to Net Purchases
Ka Yuen	\$ 2,053,738	1	\$ 1,613,644	1
San Fang	1,206,044	1	1,072,963	1
Digital Sun	1,158,781	1	834,897	1
CMKC	1,019,995	1	1,085,930	1
Eastlion	776,986	-	771,549	-
Twinways	744,362	-	706,398	-
Others	2,598,961	2	1,958,961	1
	<u>\$ 9,558,867</u>	<u>6</u>	<u>\$ 8,044,342</u>	<u>5</u>

Accounts Receivable

Accounts receivable from affiliates as at December 31, 2007 and 2006 are summarized as follows:

	2007		2006	
	Amount	Percentage to Accounts Receivable	Amount	Percentage to Accounts Receivable
CMKC	\$ 1,073,172	4	\$ 1,021,305	4
Others	195,889	-	1,312,429	4
Less allowance for doubtful accounts	(16,020)	-	(109,115)	-
	<u>\$ 1,253,041</u>	<u>4</u>	<u>\$ 2,224,619</u>	<u>8</u>

Notes and Accounts Payable

Notes and accounts payable to affiliates as at December 31, 2007 and 2006 are summarized as follows:

	2007		2006	
	Amount	Percentage to Notes and Accounts Payable	Amount	Percentage to Notes and Accounts Payable
Notes payable				
San Fang	<u>\$ 53,616</u>	<u>41</u>	<u>\$ 95,656</u>	<u>44</u>
Accounts payable				
Ka Yuen	\$ 328,483	2	\$ 272,786	2
San Fang	159,590	1	120,113	-
Digital Sun	143,195	1	92,619	-
Twinways	128,118	1	111,739	-
Others	358,767	1	350,696	4
	<u>\$ 1,118,153</u>	<u>6</u>	<u>\$ 947,953</u>	<u>6</u>

Credit Guarantees

See Note 28.

28. COMMITMENTS AND CONTINGENCIES

Loan Guarantees

As at December 31, 2007, the Company issued certificates of guarantee of \$60,000 thousand for the payment of loans.

Letters of Credit

Outstanding letters of credit as at December 31, 2007 are as follows (unit: dollar):

U.S. Dollar	\$ 4,771,745
Japanese Yen	\$ 13,668,000

On December 5, 2007 the board of directors of Global Brands Manufacturing resolved to invest Kunshan Yuanmao Electronics Technology Co., Ltd. through its subsidiary Up First Investments Ltd., with US\$15,200 thousand. These transactions are still undergoing examination by the Investment Commission, MOEA.

As at December 31, 2007, the Company has guaranteed the payments of credit of related parties as follows:

Related Parties	Amount
Venture Well	\$ 410,564
Alpha Leader	78,493
Beijing Advazone	54,768
Best Focus	486,450
Hua Jian	1,151,265
Cohen	535,095
Bandwidth	40,538
Dalian Dongzhijie	45,191
Vietnam Tiong Liong	14,399
Ka Yuen	41,577
Pine Wood	132,879
Yuen Thai	249,462
New Peak	162,150
Liberty Bell	158,907
Oftenrich	175,122
	<u>\$ 3,736,860</u>

29. SUBSEQUENT EVENTS

On January 29, 2008, for the reason of securing the credit and shareholders' equity, the board of directors of Pou Chen resolved to purchase back Pou Chen's common stocks from the public during January 30 to March 29 in 2008. In this project, the expected purchasing price interval was \$17 dollars to \$42 dollars and the upper limit of quantity to be purchased was 50,000 thousand shares. At the date of the auditors' report, Pou Chen purchased 41,300 thousand shares, which amounted to \$1,031,697 thousand.

On January 31, 2008, the board of directors of Success Ocean Investments Ltd., the subsidiary of Global Brands Manufacturing, resolved to invest CMB Mobile Solutions Electronics Technology Co., Ltd. through its subsidiary, Always Up Investments Ltd., with US\$19,800 thousand. At the date of the auditors' report, the aforementioned transactions are still undergoing examination by the Investment Commission, MOEA.