

POU CHEN CORPORATION

**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

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

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

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

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

We have also audited the consolidated financial statements of the Company and its subsidiaries for the years ended December 31, 2007 and 2006 (not being accompanied herein) on which we have issued our reports with an unqualified opinion and a modified unqualified opinion, respectively, thereon dated February 29, 2008.

February 29, 2008

Notice to Readers

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

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

POU CHEN CORPORATION

BALANCE SHEETS

DECEMBER 31, 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)	\$ 1,068,587	2	\$ 1,331,928	2	Short-term loans (Note 13)	\$ 3,160,000	5	\$ 3,290,000	6
Financial assets at fair value through profit or loss, current (Notes 2 and 5)	3,079,767	5	2,030,131	4	Notes payable	53,017	-	98,811	-
Notes receivable (Notes 2 and 6)	381	-	11,054	-	Notes payable to affiliates (Note 25)	53,616	-	95,964	-
Notes receivable from affiliates (Notes 2, 6 and 25)	26,525	-	21,656	-	Accounts payable	831,652	1	646,098	1
Accounts receivable (Notes 2 and 7)	416,906	-	400,403	1	Accounts payable to affiliates (Note 25)	417,896	1	208,199	1
Accounts receivable from affiliates (Notes 2, 7 and 25)	1,359,283	2	1,180,901	2	Income tax payable (Notes 2 and 22)	418,736	1	1,892	-
Other receivables	441,585	1	513,388	1	Hedging derivative liabilities, current (Notes 2 and 24)	45,962	-	-	-
Inventories (Notes 2 and 8)	134,798	-	99,878	-	Other payables	530,282	1	529,680	1
Other current assets (Notes 2 and 22)	97,181	-	110,720	-	Current portion of long-term liabilities (Note 14)	5,001,622	8	-	-
					Other current liabilities	53,439	-	92,373	-
Total current assets	6,625,013	10	5,700,059	10	Total current liabilities	10,566,222	17	4,963,017	9
FUNDS AND LONG-TERM INVESTMENTS					LONG-TERM LIABILITIES				
Investments accounted for by the equity method (Notes 2 and 9)	49,898,897	78	43,712,006	77	Bonds payable (Notes 2 and 14)	-	-	5,023,794	9
Hedging derivative asset, noncurrent (Notes 2 and 24)	39,812	-	-	-	Long-term debt (Note 15)	9,000,000	14	9,000,000	16
Financial assets carried at cost, noncurrent (Notes 2 and 10)	50,000	-	-	-	Hedging derivative liabilities, noncurrent (Notes 2 and 24)	-	-	167,839	-
Total funds and long-term investments	49,988,709	78	43,712,006	77	Total long-term liabilities	9,000,000	14	14,191,633	25
PROPERTY, PLANT AND EQUIPMENT (Notes 2 and 11)					RESERVE FOR LAND VALUE INCREMENT TAX (Note 11)	86,547	-	86,547	-
Cost	5,412,243	9	4,842,150	9	OTHER LIABILITIES				
Revaluation increment	279,008	-	279,008	-	Accrued pension cost (Notes 2 and 16)	554,295	1	539,641	1
	5,691,251	9	5,121,158	9	Guarantee deposits received	2,696	-	2,382	-
Less accumulated depreciation	(1,572,374)	(2)	(1,374,792)	(3)	Others (Notes 2 and 17)	29,169	-	38,026	-
Construction in progress and prepayments for equipment	27,896	-	480,601	1	Total other liabilities	586,160	1	580,049	1
Property, plant and equipment, net	4,146,773	7	4,226,967	7	Total liabilities	20,238,929	32	19,821,246	35
OTHER ASSETS (Notes 2 and 12)					STOCKHOLDERS' EQUITY				
	3,225,499	5	3,237,808	6	Capital stock (Note 18)	25,118,540	39	24,426,857	43
					Capital surplus (Note 2)	5,422,033	8	2,527,272	4
					Retained earnings (Note 19)	13,472,020	21	13,841,558	24
					Cumulative translation adjustments (Note 2)	(157,084)	-	(201,358)	-
					Unrealized losses on financial instruments (Note 2)	(87,710)	-	(1,221,891)	(2)
					Unrealized revaluation increment	134,641	-	134,641	-
					Treasury stock (Notes 2 and 20)	(155,375)	-	(2,451,485)	(4)
					Total stockholders' equity	43,747,065	68	37,055,594	65
TOTAL	\$ 63,985,994	100	\$ 56,876,840	100	TOTAL	\$ 63,985,994	100	\$ 56,876,840	100

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

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

POU CHEN CORPORATION

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 (Notes 2 and 25)	\$ 12,743,679	101	\$ 14,326,886	101
LESS SALES RETURNS AND ALLOWANCES	<u>(70,627)</u>	<u>(1)</u>	<u>(103,342)</u>	<u>(1)</u>
NET SALES AND REVENUES EARNED	12,673,052	100	14,223,544	100
COST OF GOODS SOLD (Note 25)	<u>9,911,390</u>	<u>78</u>	<u>11,581,536</u>	<u>81</u>
GROSS PROFIT BEFORE REALIZED GROSS PROFIT FROM INTER-AFFILIATE TRANSACTIONS	2,761,662	22	2,642,008	19
REALIZED GROSS PROFIT FROM INTER-AFFILIATE TRANSACTIONS	<u>1,584</u>	<u>-</u>	<u>5,604</u>	<u>-</u>
GROSS PROFIT	<u>2,763,246</u>	<u>22</u>	<u>2,647,612</u>	<u>19</u>
OPERATING EXPENSES				
Selling expenses	233,444	2	270,986	2
General and administrative expenses	1,309,104	10	1,254,016	9
Research and development expenses	<u>843,943</u>	<u>7</u>	<u>920,749</u>	<u>6</u>
Total operating expenses	<u>2,386,491</u>	<u>19</u>	<u>2,445,751</u>	<u>17</u>
INCOME FROM OPERATIONS	<u>376,755</u>	<u>3</u>	<u>201,861</u>	<u>2</u>
NON-OPERATING INCOME				
Interest income	59,308	1	11,529	-
Investment income recognized under equity method (Note 9)	5,073,067	40	5,381,711	38
Dividend income	184,376	1	97,590	1
Gain on disposal of property, plant and equipment	2,036	-	4,408	-
Gain on disposal of investments	-	-	5,703	-
Foreign exchange gains, net	-	-	6,166	-
Rental income (Note 25)	187,212	2	139,075	1
Reversal of provision for bad debts	7,500	-	-	-
Reversal of provision for inventory devaluation	-	-	25,300	-
Valuation gain on financial assets (Note 5)	-	-	149,564	1
Others (Note 14)	<u>169,864</u>	<u>1</u>	<u>296,617</u>	<u>2</u>
Total non-operating income	<u>5,683,363</u>	<u>45</u>	<u>6,117,663</u>	<u>43</u>

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POU CHEN CORPORATION

STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2007 AND 2006

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

	2007		2006	
	Amount	%	Amount	%
NON-OPERATING EXPENSES				
Interest expense	\$ 406,810	3	\$ 428,571	3
Other investment losses	-	-	334,258	2
Loss on disposal of property, plant and equipment	1,427	-	6,561	-
Loss on disposal of investments	20,936	-	-	-
Foreign exchange loss, net	36,425	-	-	-
Provision for loss on inventories	1,000	-	-	-
Valuation loss on financial assets (Note 5)	305,365	3	-	-
Others	<u>64,545</u>	<u>1</u>	<u>219,820</u>	<u>2</u>
Total non-operating expenses	<u>836,508</u>	<u>7</u>	<u>989,210</u>	<u>7</u>
INCOME FROM CONTINUING OPERATIONS				
BEFORE INCOME TAX	5,223,610	41	5,330,314	38
INCOME TAX EXPENSE (Notes 2 and 22)	<u>(423,360)</u>	<u>(3)</u>	<u>(3,870)</u>	<u>-</u>
INCOME BEFORE CUMULATIVE EFFECTS OF CHANGES IN ACCOUNTING PRINCIPLES	4,800,250	38	5,326,444	38
CUMULATIVE EFFECTS OF CHANGES IN ACCOUNTING PRINCIPLES (Note 3)	<u>-</u>	<u>-</u>	<u>445,527</u>	<u>3</u>
NET INCOME	<u>\$ 4,800,250</u>	<u>38</u>	<u>\$ 5,771,971</u>	<u>41</u>
	2007		2006	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
BASIC EARNINGS PER SHARE (Notes 2 and 23)				
Income from continuing operations	<u>\$ 2.15</u>	\$ 1.97	<u>\$ 2.29</u>	\$ 2.29
Cumulative effect of changes in accounting principles		<u>-</u>		<u>0.19</u>
		<u>\$ 1.97</u>		<u>\$ 2.48</u>
DILUTED EARNINGS PER SHARE (Notes 2 and 23)				
Income from continuing operations	<u>\$ 2.12</u>	\$ 1.94	<u>\$ 2.26</u>	\$ 2.25
Cumulative effect of changes in accounting principles		<u>-</u>		<u>0.19</u>
		<u>\$ 1.94</u>		<u>\$ 2.44</u>

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POU CHEN CORPORATION

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 Company held by its subsidiaries were not treated as treasury stock:

	2007		2006	
NET INCOME	<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 23)				
Income from continuing operations	<u>\$ 2.73</u>	\$ 2.56	<u>\$ 2.25</u>	\$ 2.25
Cumulative effect of changes in accounting principles		<u>-</u>		<u>0.18</u>
		<u>\$ 2.56</u>		<u>\$ 2.43</u>
DILUTED EARNINGS PER SHARE (Notes 2 and 23)				
Income from continuing operations	<u>\$ 2.69</u>	\$ 2.52	<u>\$ 2.21</u>	\$ 2.21
Cumulative effect of changes in accounting principles		<u>-</u>		<u>0.18</u>
		<u>\$ 2.52</u>		<u>\$ 2.39</u>

(Concluded)

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

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

POU CHEN CORPORATION

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
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)	\$ 33,686,319
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)
Net income for 2006	-	-	-	-	-	-	-	5,771,971	-	-	-	-	5,771,971
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)	37,055,594
Appropriation of earnings													
Legal reserve	-	-	-	-	-	577,197	-	(577,197)	-	-	-	-	-
Special reserve	-	-	-	-	-	-	(11,589)	11,589	-	-	-	-	-
Bonuses to directors and supervisors	-	-	-	-	-	-	-	(156,191)	-	-	-	-	(156,191)
Bonuses to employees (Note 18)	151,505	-	-	-	-	-	-	(151,505)	-	-	-	-	-
Stock dividends (Note 18)	486,209	-	-	-	-	-	-	(486,209)	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	(4,375,883)	-	-	-	-	(4,375,883)
Convertible bonds transferred to common stock (Note 14)	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 20)	-	-	-	(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 20)	-	-	-	1,591,094	-	-	-	-	-	918,785	-	1,899,944	4,409,823
Execution of employee stock warrants (Note 18)	45,840	-	-	-	-	-	-	-	-	-	-	-	45,840
Translation adjustments on foreign long-term equity investments	-	-	-	-	-	-	-	-	44,274	-	-	-	44,274
Net income for 2007	-	-	-	-	-	-	-	4,800,250	-	-	-	-	4,800,250
BALANCE, DECEMBER 31, 2007	\$ 25,118,540	\$ 808,054	\$ 1,492,700	\$ 1,757,844	\$ 1,363,435	\$ 4,269,818	\$ 1,423,250	\$ 7,778,952	\$ (157,084)	\$ (87,710)	\$ 134,641	\$ (155,375)	\$ 43,747,065

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

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

POU CHEN CORPORATION

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

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 4,800,250	\$ 5,771,971
Adjustments to reconcile net income to net cash provided by operating activities		
Cumulative effect of changes in accounting principles	-	(445,527)
Depreciation and amortization	376,066	321,000
Loss (gain) on disposal of investments	20,936	(5,703)
Gain on redeemed and repurchased Euro convertible bonds	-	(152,864)
(Reversal of) provision for bad debts	(7,500)	58,800
Provision for (reversal of) loss on inventory devaluation	1,000	(25,300)
Investment income recognized under equity method	(5,073,067)	(5,381,711)
Cash dividends received from investees under equity method	5,823,758	499,531
Realized gross profit from inter-affiliate transactions	(1,584)	(5,604)
Net (gain) loss on disposal of property, plant and equipment	(609)	2,153
Valuation loss (gain) on financial assets	305,365	(149,564)
Loss on other investments	-	334,258
Net changes in operating assets and liabilities		
Notes receivable	10,673	(465)
Notes receivable from affiliates	(4,869)	(755)
Accounts receivable	(9,003)	(159,463)
Accounts receivable from affiliates	(178,382)	801,932
Other receivables	71,803	29,270
Inventories	(35,920)	1,000,301
Other current assets	75,280	144,306
Deferred income tax asset, noncurrent	(3,610)	(15,060)
Income tax prepayment	-	6,394
Notes payable	(45,794)	50,788
Notes payable to affiliates	(42,348)	(6,940)
Accounts payable	185,554	(670,372)
Accounts payable to affiliates	209,697	(12,572)
Income tax payable	416,844	(29,291)
Other payables	104,151	(27,758)
Other current liabilities	(38,934)	43,527
Foreign exchange adjustment on Euro convertible bonds	145	(11,586)
Interest compensation payable	-	108,261
Reserve for retirement plan	14,654	62,694
	<u>6,974,556</u>	<u>2,134,651</u>
Net cash provided by operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
(Increase) decrease in financial assets at fair value through profit or loss, current	(1,375,938)	363,649
Increase in investments accounted for by the equity method	(1,088,718)	(1,350,321)
Increase in financial assets carried at cost, noncurrent	(50,000)	-
Proceeds from disposal of long-term equity investments	-	295,756

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POU CHEN CORPORATION

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

	2007	2006
Acquisitions of property, plant and equipment	\$ (391,050)	\$ (1,616,460)
Proceeds from disposal of property, plant and equipment	2,822	9,885
Decrease in refundable deposits	11,872	7,217
Increase in deferred charges	<u>(69,493)</u>	<u>(64,647)</u>
Net cash used in investing activities	<u>(2,960,505)</u>	<u>(2,354,921)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
(Decrease) increase in short-term loans	(130,000)	1,810,000
Redeemed and repurchased Euro convertible bonds	-	(3,103,474)
Increase in long-term debt	-	4,500,000
Increase in guarantee deposits received	314	1,382
Transfer of treasury stock to employees	338,528	778,680
Execution of employee stock warrants	45,840	81,930
Cash dividends	(4,375,883)	(3,392,253)
Bonuses to directors and supervisors, as distribution of retained earnings	<u>(156,191)</u>	<u>(143,829)</u>
Net cash (used in) provided by financing activities	<u>(4,277,392)</u>	<u>532,436</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(263,341)	312,166
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,331,928</u>	<u>1,019,762</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,068,587</u>	<u>\$ 1,331,928</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year		
Interest (excluding interest capitalized)	<u>\$ 403,157</u>	<u>\$ 412,114</u>
Income tax	<u>\$ 6,556</u>	<u>\$ 31,038</u>
SUPPLEMENTAL DISCLOSURES OF NONCASH 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>
Cash dividend received by subsidiaries	<u>\$ 15,121</u>	<u>\$ 183,333</u>
Current portion of long-term liabilities	<u>\$ 5,001,622</u>	<u>\$ -</u>
Translation adjustments on foreign long-term equity investments	<u>\$ 44,274</u>	<u>\$ (236,852)</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>

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POU CHEN CORPORATION

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

	2007	2006
Adjustments of stockholders' equity from sale of parent company's stock by subsidiaries	<u>\$ 4,409,823</u>	<u>\$ -</u>
CASH PAID DURING THE YEAR FOR ACQUISITIONS OF PROPERTY, PLANT AND EQUIPMENT		
Fair value of property, plant and equipment acquired	\$ 287,501	\$ 1,571,086
Add payables for acquisitions of property, plant and equipment at beginning of year	132,168	177,542
Less payables for acquisitions of property, plant and equipment at end of year	<u>(28,619)</u>	<u>(132,168)</u>
Cash paid during the year for acquisitions of property, plant and equipment	<u>\$ 391,050</u>	<u>\$ 1,616,460</u>

(Concluded)

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

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

POU CHEN CORPORATION

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

The Company invested in Yue Yuen Industrial (Holdings) Limited and other footwear related companies through Wealthplus Holdings Limited.

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

As at December 31, 2007 and 2006, there were 3,079 and 3,065 employees of the Company, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

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

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

Current/Noncurrent Assets and Liabilities

Cash or cash equivalents, assets held for operating purposes and assets expected to be converted into cash, or consumed within one year from the balance sheet date are recorded as current assets. Property, plant and equipment, 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 at fair value through profit or loss include financial assets or financial liabilities classified as held for trading and designated by the Company as at fair value through profit or loss upon initial recognition. Those financial instruments are initially recorded at fair value at the transaction date and continuously recorded at fair value with unrealized gains or losses reported as part of net income. Related transaction costs are expensed currently. Cash dividends are recognized as income when received.

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

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

Investments Accounted for by the Equity Method

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

When the equity method is first adopted or the investment is first acquired, the difference between the underlying equity in net assets of the investee and the cost of the investment is amortized on a straight line basis over 10 years. However, effective January 1, 2006, the cost of the investment in excess of the fair value of investee's identifiable net assets is considered as goodwill in accordance with the amended Statement of Financial Accounting Standards (SFAS). Goodwill is not amortized 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 is to debit the additional paid-in capital account and the balance of additional paid-in capital from long-term equity investments is not enough to be offset, retained earnings will be debited for the remaining amount.

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

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

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

Financial Assets Carried at Cost, Noncurrent

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

Property, Plant, Equipment and Leased Asset

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

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

Items	Estimated Useful Lives
Buildings and improvements	15~55 years
Machinery and equipment	5~7 years
Transportation equipment	5 years
Furniture, fixtures and office equipment	3~5 years
Other equipment	5 years

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

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

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

Deferred Charges

Deferred charges are amortized on a straight-line basis over 5 years. However, the 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

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

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

Stock-Based Compensation

Employee stock 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.

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

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

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

Deferred Credits

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

Foreign Currency Transactions

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

Cumulative Translation Adjustments

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 imposed tax 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 financial statements for the year ended December 31, 2006 have been reclassified to be consistent with the presentation of the 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 principles 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 of 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 Stockholders' Equity
Financial assets at fair value through profit or loss, current	\$ 445,527	\$ -
Available-for-sale financial assets, noncurrent	-	50,608
Hedging derivative financial liabilities, noncurrent	-	(231,350)
	<u>\$ 445,527</u>	<u>\$ (180,742)</u>

The change in accounting principle above increased the income from operation by \$1,690,347 thousand (including the amount due to the adoption of the same accounting principles by subsidiaries), the net income by \$2,135,874 thousand, basic earnings per share after tax by \$0.94 dollar and the adjustments of stockholders' equity by \$94,924 thousand. The stockholders' equity totally decreased by \$85,818 thousand as at December 31, 2006.

Effective January 1, 2006, the Company and its subsidiaries 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 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 (including the amount due to the adoption of the same accounting principles by the Company's subsidiaries), 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	\$ 1,922	\$ 1,896
Checking accounts	438	484
Savings accounts	339,568	321,877
Foreign-currency savings deposit	<u>726,659</u>	<u>1,007,671</u>
	<u>\$ 1,068,587</u>	<u>\$ 1,331,928</u>

The time deposits of \$9,714 thousand, included in other assets - refundable deposits were pledged for employment of foreign labors as at December 31, 2006.

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

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

	2007	2006
Financial assets at fair value through profit or loss		
Marketable equity securities	\$ 3,034,267	\$ 1,980,076
Open-ended mutual fund	<u>45,500</u>	<u>50,055</u>
	<u>\$ 3,079,767</u>	<u>\$ 2,030,131</u>

The net (loss) gain from financial assets at fair value through profit or loss, current for the years ended December 31, 2007 and 2006 amounted to \$(305,365) thousand and \$149,564 thousand, respectively.

6. NOTES RECEIVABLE

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

	2007	2006
Notes receivable	\$ 381	\$ 11,054
Less allowance for doubtful accounts	<u>-</u>	<u>-</u>
	<u>381</u>	<u>11,054</u>
Notes receivable from affiliates (Note 25)	26,525	21,656
Less allowance for doubtful accounts	<u>-</u>	<u>-</u>
	<u>26,525</u>	<u>21,656</u>
	<u>\$ 26,906</u>	<u>\$ 32,710</u>

7. ACCOUNTS RECEIVABLE

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

	2007	2006
Accounts receivable	\$ 422,052	\$ 474,403
Less allowance for doubtful accounts	<u>(5,146)</u>	<u>(74,000)</u>
	<u>416,906</u>	<u>400,403</u>
Accounts receivable from affiliates (Note 25)	1,359,283	1,180,901
Less allowance for doubtful accounts	<u>-</u>	<u>-</u>
	<u>1,359,283</u>	<u>1,180,901</u>
	<u><u>\$ 1,776,189</u></u>	<u><u>\$ 1,581,304</u></u>

8. INVENTORIES

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

	2007	2006
Raw materials	\$ 95,018	\$ 73,340
Supplies	4,028	5,358
Work-in-process	6,067	4,025
Finished goods	54,501	34,372
Merchandise	<u>3,184</u>	<u>9,783</u>
	162,798	126,878
Less valuation allowance	<u>(28,000)</u>	<u>(27,000)</u>
	<u><u>\$ 134,798</u></u>	<u><u>\$ 99,878</u></u>

9. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

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

	2007			2006	
	Original Cost	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage
Wealthplus	\$ 5,421,069	\$ 34,381,524	100.00	\$ 31,041,036	100.00
Win Fortune	3,230	849,901	100.00	712,300	100.00
Ming Wang	427,291	769,140	100.00	23,075	100.00
Windsor Entertainment	300,000	8,501	100.00	125,476	100.00
Pou Shine	195,000	930,736	100.00	815,057	100.00
Pan Asia Insurance Services	3,000	4,200	100.00	3,873	99.98
Proshine Healthcare	280,000	279,012	100.00	-	-
Barits Development	1,780,408	4,276,080	98.34	3,560,525	98.34
Pou Yuen Technology	962,699	268,565	97.40	171,877	96.32
Pro Arch Technology	1,914,453	24,516	95.57	19,897	95.57
Yun Yang	98,413	128,273	91.15	117,575	91.15
LNC Technology	510,000	509,896	89.47	-	-

	2007			2006	
	Original Cost	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage
Global Brands Manufacture	2,587,707	3,533,901	36.11	3,291,107	37.37
Techview International	380,115	373,117	30.02	466,831	30.35
Pou Yii	40,320	75,153	15.00	1	15.00
Elitegroup Computer	4,618,697	3,480,593	11.73	3,358,131	11.73
Wang Yi	7,315	5,789	7.32	5,245	7.32
	<u>\$ 19,529,717</u>	<u>\$ 49,898,897</u>		<u>\$ 43,712,006</u>	

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

	2007	2006
Wealthplus	\$ 5,004,501	\$ 3,686,216
Win Fortune	110,666	106,025
Ming Wang	(66,409)	5,450
Windsor Entertainment	(116,976)	(157,662)
Pou Shine	13,154	297,648
Pan Asia Insurance Services	524	620
Proshine Healthcare	(987)	-
Barits Development	(210,799)	1,408,526
Pou Yuen Technology	(215,754)	(21,365)
Pro Arch Technology	4,107	(466,467)
Yun Yang	10,693	7,665
LNC Technology	(118)	-
Global Brands Manufacture	542,371	596,384
Techview International	(87,880)	82,281
Pou Yii	(4,555)	(821)
Elitegroup Computer	90,016	(163,817)
Wang Yi	<u>513</u>	<u>1,028</u>
	<u>\$ 5,073,067</u>	<u>\$ 5,381,711</u>

Wealthplus Holdings Limited ("Wealthplus") and Win Fortune Investments Limited ("Win Fortune"), 100%-owned subsidiaries of the Company, were incorporated in the British Virgin Islands. These two companies primarily invest in companies which are engaged in the manufacturing and sales of sports-footwear and making investments in the People's Republic of China (PRC) through an investment in Yue Yuen Industrial (Holdings) Limited ("Yue Yuen"), a Hong Kong listed company. The Company also purchased stocks of Yue Yuen through Wealthplus, Win Fortune and Top Score Investments Limited ("Top Score"), 100% owned subsidiary of Barits Development. As of December 31, 2007, the Company effectively holds 49.54% ownership in Yue Yuen.

As the accounting year for these two investees is from October 1 of the preceding year to September 30 of the year. The Company accounted for its investment income recognized under equity method from these companies based on these companies' financial results for the years ended September 30, 2007 and 2006, which was allowed by the accounting principles generally accepted in the ROC.

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

The primary income of Wealthplus and Win Fortune in 2007 and 2006 are summarized as follows:

	<u>Wealthplus</u>		<u>Win Fortune</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Equity in earnings of Yue Yuen	\$ 5,661,036	\$ 5,440,985	\$ 109,117	\$ 104,880
Equity in earnings of other overseas investees	(80,242)	(1,260,257)	-	-
Others	<u>(576,293)</u>	<u>(494,512)</u>	<u>1,549</u>	<u>1,145</u>
	<u>\$ 5,004,501</u>	<u>\$ 3,686,216</u>	<u>\$ 110,666</u>	<u>\$ 106,025</u>

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

Ming Wang Investments Co., Ltd. (“Ming Wang”) was established in September 1996, with an outstanding common stock of \$427,291 thousand at par value of \$10 dollars per share at December 31, 2007, and is primarily engaged in investing activities.

Windsor Entertainment Co., Ltd. (“Windsor Entertainment”) was established in July 2003, and is engaged in Entertainment and resort operation. Windsor Entertainment decreased its capital to offset its accumulated deficit by \$90,000 thousand and issued additional capital stock by \$200,000 thousand at a price of \$10 dollars per share in October 2006. As at December 31, 2007, Windsor Entertainment has an outstanding common stock of \$210,000 thousand.

Pou Shine Investments Co., Ltd. (“Pou Shine”) was established in March 1990, with an outstanding common stock of \$573,632 thousand at December 31, 2007, and is primarily engaged in investing activities.

Pan Asia Insurance Services Co., Ltd. (“Pan Asia Insurance Services”) was established in May 1999, with an outstanding common stock of \$3,000 thousand at December 31, 2007, and is primarily engaged in agency of property and casualty insurance.

Barits Development Corporation (“Barits Development”) was established in November 1985, with an outstanding common stock of \$913,000 thousand at December 31, 2007, and is primarily engaged in leather manufacturing and investing activities.

Proshine Healthcare Co., Ltd. (“Proshine Healthcare”) was established in November 2007, with an outstanding common stock of \$280,000 thousand at December 31, 2007, and is primarily engaged in sale of medical devices and precision instruments. The Company was the original shareholder and invested \$280,000 thousand. As at December 31, 2007, the Company’s ownership was 100.00%.

Pou Yuen Technology Co., Ltd. (“Pou Yuen Technology”) was established in December 1993, with an outstanding common stock of \$900,000 thousand at December 31, 2007. Pou Yuen Technology is mainly engaged in designing, manufacturing and trading mold, and data processing and storage equipment. In January 2007, Pou Yuen Technology issued additional capital stock by \$300,000 thousand at a price of \$10 dollars per share, of which \$298,598 thousand was subscribed by the Company. Accordingly, the Company’s ownership was increased from 96.32% to 97.40%.

Pro Arch Technology Inc. (“Pro Arch Technology”) was established in June 1999, with an outstanding common stock of \$301,000 thousand at December 31, 2007. It is primarily engaged in manufacturing and sale of computer peripheral equipment and related spare parts.

In September 2006, Pro Arch Technology decreased its capital to offset its accumulated deficit by \$1,174,127 thousand and issued additional capital stock by \$300,000 thousand at a price of \$10 dollars per share, of which \$286,790 thousand was subscribed by the Company.

Yun Yang Investments Co., Ltd. (“Yun Yang”) was established in April 1997, with an outstanding common stock of \$82,561 thousand at December 31, 2007, and is primarily engaged in investing activities.

LNC Technology Co., Ltd. (“LNC Technology”) was established in August 2007, with an outstanding common stock of \$570,000 thousand at December 31, 2007, and is primarily engaged in manufacturing and sale of precision instruments and computer numerical controlled machine. The Company was the original shareholder and invested \$510,000 thousand. As at December 31, 2007, the Company’s ownership was 89.47%.

Global Brands Manufacture Ltd. (“Global Brands Manufacture”) is engaged in manufacturing, assembling and sale of printed circuit boards. The shares of Global Brands Manufacture are listed on the Taiwan Stock Exchange Corporation. Global Brands Manufacture had an outstanding capital stock of \$3,094,008 thousand at December 31, 2007. In August 2006, Global Brands Manufacture issued additional \$330,000 thousand capital stock at a price of \$45.5 dollars per share, of which \$611,435 thousand was subscribed by the Company. As at December 31, 2007, the Company’s ownership was decreased to 36.11%.

Techview International Technology Inc. (“Techview International”) was established in November 2003, with an outstanding common stock of \$1,337,622 thousand at December 31, 2007, and is primarily engaged in development, sale and assembly of TFT-LCD display. In March 2006, Techview International issued additional capital stock of \$280,000 thousand at a price of \$18 dollars per share, of which \$252,000 thousand were subscribed by the Company. Additionally, the Company sold 22,039 thousand shares at a total price of \$295,755 thousand to the subsidiaries of Barits Development and Pou Yuen Technology at net asset value per share of Techview International in December 2006. As at December 31, 2007, the Company’s ownership was decreased to 30.02%.

Pou Yii Development Co., Ltd. (“Pou Yii”) was established in October 1996 with an outstanding common stock of \$350,000 thousand at December 31, 2007, and is primarily engaged in constructing buildings and renting apartments.

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.

Wang Yi Construction Co., Ltd. (“Wang Yi”) was established in May 1984, with an outstanding common stock of \$77,000 thousand at December 31, 2007, and is primarily engaged in management of and investment in construction projects.

10. FINANCIAL ASSETS CARRIED AT COST, NONCURRENT

Financial assets carried at cost, noncurrent as at December 31, 2007 and 2006 consist of the follows:

	2007	2006
DTE Technology Corp.	<u>\$ 50,000</u>	<u>\$ -</u>

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

11. 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	Carrying Value	Carrying Value
Land	\$ 973,824	\$ 238,754	\$ -	\$1,212,578	\$1,186,406
Buildings and improvements	3,234,819	40,254	803,800	2,471,273	2,157,492
Machinery equipment	502,695	-	334,539	168,156	158,042
Transportation equipment	209,966	-	136,714	73,252	58,307
Furniture, fixtures and office equipment	400,608	-	253,002	147,606	130,148
Other equipment	90,331	-	44,319	46,012	55,971
Construction in progress and prepayments for equipment	27,896	-	-	27,896	480,601
	<u>\$5,440,139</u>	<u>\$ 279,008</u>	<u>\$1,572,374</u>	<u>\$4,146,773</u>	<u>\$4,226,967</u>

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

Three parcels of land located in Changhwa County were purchased by the Company for \$22,187 thousand in June 1990, for \$33,668 thousand in April 1997, and for \$17,858 thousand in July 2007. According to related laws, the ownership for these three parcels of land should be changed to the Company. However, due to certain restrictions under the land regulations, the ownership for these three parcels of land resides with a trustee through a trust agreement which prohibits the trustee from selling, pledging or hypothecating the property. Consequently, the three parcels of land amounted to \$73,713 thousand at December 31, 2007, are included in "other assets - land held by trustee" (see Note 12).

In 2006 the construction of Pou Chen International Building was completed. The total cost of land and building was \$4.4 billion. Part of Pou Chen International Building, including the land which amounted to \$450,044 thousand and the building which amounted to \$2,019,349 thousand, totaling of \$2,469,393 thousand, were leased to Windsor Entertainment to engage in resort operation and are included in "other assets - leased-out assets" (see Note 12).

The interest expense for the years ended December 31, 2007 and 2006 amounted to \$408,536 thousand and \$436,577 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.

12. OTHER ASSETS

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

	2007	2006
Leased-out assets		
Cost and revaluation increment	\$ 3,145,337	\$ 3,078,729
Less accumulated depreciation	<u>(203,494)</u>	<u>(139,501)</u>
	<u>2,941,843</u>	<u>2,939,228</u>
Refundable deposits	11,045	22,917
Deferred charges	49,955	74,427
Deferred income tax assets (Note 22)	141,670	138,060
Land held by trustee (Note 11)	73,713	55,855
Others - land and buildings for sale	5,526	5,574
Temporary tax payments (Note 22)	<u>1,747</u>	<u>1,747</u>
	<u>\$ 3,225,499</u>	<u>\$ 3,237,808</u>

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

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

13. SHORT-TERM LOANS

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

	2007		2006	
	Annual Interest Rate %	Balance	Annual Interest Rate %	Balance
Unsecured loans	2.30~2.70	\$ <u>3,160,000</u>	1.76~2.326	\$ <u>3,290,000</u>

14. BONDS PAYABLE

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

	2007	2006
Euro convertible bonds	\$ 1,622	\$ 23,794
Add interest compensation and income tax payable	<u>-</u>	<u>-</u>
	1,622	23,794
Less current portion	<u>(1,622)</u>	<u>-</u>
	<u>-</u>	<u>23,794</u>
Domestic secured bonds	5,000,000	5,000,000
Less current portion	<u>(5,000,000)</u>	<u>-</u>
	<u>-</u>	<u>5,000,000</u>
	<u>\$ -</u>	<u>\$ 5,023,794</u>

The holders of Euro convertible bonds converted Euro convertible bonds with par value of US\$1,850 thousand into 2,188 thousand shares of the Company in 2006. Additionally, the holders of Euro convertible bonds converted Euro convertible bonds with par value of US\$680 thousand into 813 thousand shares of the Company in 2007.

In 2006, the Company repurchased and redeemed at maturity its Euro convertible bonds with par value of US\$57,595 thousand from open market at cost of \$3,103,474 thousand, and the Company recognized a gain of \$152,864 thousand, recorded as non-operating income for 2006.

Euro-Dollar Convertible Bonds

- (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, there are US\$50 thousand and US\$730 thousand not converted as at December 31, 2007 and 2006, respectively.
- (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 dollars 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 the Company. 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 the Company:
 - (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 the Company 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 the Company 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 the Company 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 the Company is then organized.
- (k) Repurchase at the option of holders:
 - (i) Each holder has the right to require the Company 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 the Company 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 the Company 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 the Company which is not less than 30 days nor more than 60 days following the date on which the Company 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 the Company's capital stock; or
 - The Company 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 the Company or the successor entity.
- (iv) If the Company ceases to hold, directly or indirectly, at least 33% of the outstanding capital stock of Yue Yuen, or if the Company, 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 the Company 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) The Company issued \$5,000,000 thousand secured bonds from June 10, 2003 to June 13, 2003, for the purpose of repaying bank loan. The bonds were separated into 19 types (from "A" to "S"). The issued amount of type A, B, C, D, E, F, K, L, M, N, P, Q was \$300,000 thousand and the other types was \$200,000 thousand. The par value of all types was \$10,000 thousand.
- (b) Date of maturity and price of issuance: from June 10, 2008 to June 13, 2008 and 100%
- (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, including a covenant that requires the Company to maintain a consolidated tangible net worth of not less than \$18,000,000 thousand, and the following financial ratios: (i) a ratio of consolidated total liabilities to consolidated tangible net worth of not more than 2:1, (ii) a ratio of consolidated net income before interest, taxation, depreciation and amortization to consolidated interest of no less than 3:1, and (iii) on a yearly evaluation basis a ratio of consolidated current assets to consolidated current liabilities of not less than 0.8:1.

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

- (a) merge with any other company or spin off, unless the Company being the existing company or majority lenders consent that such merger or spin off will not have a material adverse effect on the Company;
- (b) change the scope or nature of its major business;
- (c) create any encumbrance over its assets, except for such encumbrance had been made before the agreement date and disclosed to lenders;

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

15. LONG-TERM DEBT

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

	2007	2006
Citi Bank (Lead Lender) and other banks		
Syndication loans, \$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 (Lead Lender) and other banks		
Syndication loans, \$2,500,000 thousand, due in semiannual repayments commencing December 9, 2009 and maturing June 9, 2011. Interest rate is 2.7696%	<u>2,500,000</u>	<u>2,500,000</u>
	9,000,000	9,000,000
Less current portion	<u>-</u>	<u>-</u>
	<u>\$ 9,000,000</u>	<u>\$ 9,000,000</u>

16. PENSION PLAN

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

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

Service cost	\$ 28,717
Interest cost	27,736
Expected return on plan assets	(10,345)
Amortization of net transition asset	(1,875)
Amortization of pension loss	<u>922</u>
	<u>\$ 45,155</u>

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

Weighted-average discount rate	2.75%
Assumed rate of increase in salary	3.00%
Expected rate of return on plan assets	2.75%
Actuarial present value of benefit obligation	
Vested benefits	\$ (160,045)
Nonvested benefits	<u>(623,536)</u>
Accumulated benefit obligation	(783,581)
Additional benefits at future salaries	<u>(341,640)</u>
Projected benefit obligation	(1,125,221)
Plan assets at fair value	<u>368,682</u>
Projected benefit obligation in excess of plan assets	(756,539)
Net transition asset not yet recognized	(8,373)
Net pension loss not yet recognized	<u>210,617</u>
Accrued pension cost	<u>\$ (554,295)</u>

As at December 31, 2007, the vested benefit was \$206,187 thousand.

The Company recognized the pension cost expense of \$84,214 thousand based on 6% of the employees' monthly salaries and wages, under the Labor Pension Act in 2007.

17. OTHER LIABILITIES - OTHERS

Other liabilities - others as at December 31, 2007 and 2006 consist of the following:

	2007	2006
Unrealized gross profit from inter-affiliate transactions	\$29,169	\$31,970
Others	<u>-</u>	<u>6,056</u>
	<u>\$29,169</u>	<u>\$38,026</u>

18. CAPITAL STOCK

	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>

The Company's outstanding capital stock was \$24,426,857 thousand as at December 31, 2006. As at April 24, 2007, the Company's shareholders 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 converted into 813 thousand shares of common stock during 2007. As a result, the Company'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 dollars per share as at December 31, 2007.

Earnings per share are based upon the weighted average number of shares of common stock outstanding during the year. For the year ended December 31, 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 the Company resolved to issue employee stock warrants in accordance with Securities and Exchange Law Article 28-3 within the quantity of 67,600 units. Each individual employee stock warrant is granted the right to purchase new issued common share for 1,000 shares. The exercise price is the closing price of the Company's common shares at the employee stock warrants' issuance date. The warrant holder can exercise the right up to one-third of the granted warrant units no earlier than two years from the granted date. After four years from the granted date, the warrants holders are eligible to exercise all the warrants owned. As of August 6, 2002, and July 24, 2003, the Company has issued 66,600 units, and 1,000 units of employee stock warrants, respectively, to the employees with an exercise price of \$23.30 dollars, and \$41.20 dollars per share, respectively. The exercise price of the warrant in 2007 has been retroactively restated as \$10.00 dollars and \$22.30 dollars per share, respectively, due to the stock dividends issued.

Additionally, as at November 6, 2007, the Company has issued 125,500,000 units of employee stock warrants to the employees with an exercise price of \$29.80 dollars per share. Each of the aforementioned individual employee stock warrant is granted the right to purchase new issued common share for 1 share.

Information about the Company'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, end of year	<u>48,484</u>		<u>52,735</u>	

As at December 31, 2007 and 2006, information about the Company'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 the Company 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, the Company adopted the Black-Scholes options pricing model to estimate the fair value of warrants on the grant dates, and the factors were as follows:

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

19. RETAINED EARNINGS

According to the Company Law of the ROC and the Company's Articles of Incorporation, 10% of the Company'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 the Company's capital, and then appropriate necessary special reserve as regulated by laws or domestic authorities.

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

The Company's board of directors and stockholders in their meetings have proposed and approved the distribution from 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 earnings per share after income tax was \$2.42 dollars. The appropriation of the 2007 retained earnings was not proposed by the board of directors as of February 29, 2007, the date of the auditors' report. For the appropriation of 2006 retained earnings proposed by the board of directors and approved in the stockholders' meeting, please refer to the Market Observation Post System (MOPS) of Taiwan Stock Exchange.

20. TREASURY STOCK

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

Reason	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, the Company 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 of \$338,528 thousand and the book value of \$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 the Company 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 the Company's common stock at cost of \$155,375 thousand in total. The Company had adjusted the carried value according to the percentage of the subsidiaries holding shares.

21. 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		134,231	1,351,045	-	1,485,276	110,462	1,386,146	-	1,496,608
Labor insurance and health insurance		9,955	152,432	-	162,387	8,789	150,175	-	158,964
Pension cost		4,633	124,736	-	129,369	4,343	147,566	-	151,909
Others		3,651	39,813	-	43,464	3,766	42,464	-	46,230
Depreciation expenses		12,188	221,129	63,325	296,642	8,675	178,575	50,066	237,316
Amortization expenses		780	78,644	-	79,424	-	83,684	-	83,684

22. INCOME TAX

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

Income tax expense, current	\$ 39,400
10% additional income tax on undistributed earnings of 2006	2,500
Investment tax credits	(20,900)
10% basic tax expense	404,252
Adjustment of income tax from previous year	<u>(1,892)</u>
Income tax expense	<u>\$ 423,360</u>

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

Deferred tax assets	
Unrealized inventory devaluation losses	\$ 7,000
Unrealized losses on disposal of property, plant and equipment	360
Unrealized bad debt losses	25,720
Unrealized maintenance and repairs expenses	390
Unrealized pension expense	140,920
Unrealized profit from inter-affiliate transactions	620
Unrealized net exchange loss	<u>80</u>
Deferred tax assets	175,090
Deferred tax assets, noncurrent	<u>(141,670)</u>
Deferred tax assets, current	<u>\$ 33,420</u>

The Company's current income tax 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%	\$ 1,305,900
Cash dividends received by oversea investees under equity method	983,900
Loss from revaluation of financial instruments at fair value through profit or loss	76,300
Loss on disposal of investments	5,200
Dividend income - tax free	(46,100)
Income from operational headquarter incentive of taxation	(1,018,000)
Investments income recognized under equity method	(1,268,300)
Others	<u>500</u>
Current income tax	39,400
Provision for (reversal of) deferred income tax asset	
Unrealized inventory devaluation losses	250
Unrealized net exchange loss	(1,150)
Unrealized bad debt losses	(2,280)
Unrealized pension expense	3,920
Others	<u>(700)</u>
Income tax payable	39,440
Add additional income tax on undistributed earnings of 2006	2,500
Add 10% basic tax expense	404,252
Less investment tax credits	(20,900)
Less temporary tax payment	<u>(6,556)</u>
Income tax payable as at December 31, 2007	<u>\$ 418,736</u>

Temporary tax payments amounted to \$1,747 thousand as at December 31, 2007.

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

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

Balance of Imputation Credit Account	\$ 169,321
Undistributed earnings for the years of 1997 and before	<u>\$ 310,501</u>
Undistributed earnings for the years of 1998 and thereafter	<u>\$ 7,468,451</u>
Expected IC ratio on distributed earnings for the year of 2007	<u>7.87%</u>
Actual IC ratio of earnings distribution for the year of 2006	<u>3.06%</u>

The computation for the IC ratio on distribution of earnings of 2007 is included the estimated income tax payable as at December 31, 2007.

23. EARNINGS PER SHARE

For the years ended December 31, 2007 and 2006, earnings per share before income tax and earnings per share after income tax are as follows:

	2007								
	Amount				Weighted Average Number of Common Shares Outstanding (In Thousands)	Earnings Per Share			
	Income from Continuing Operations Before Tax	Income from Continuing Operations After Tax	Cumulative Effect of Changes in Accounting Principle	Net Income		Income from Continuing Operations Before Tax	Income from Continuing Operations After Tax	Cumulative Effect of Changes in Accounting Principle	Net Income
Basic earnings per share									
Net income attributed to shareholders of common shares	\$ 5,233,610	\$ 4,800,250	\$ -	\$ 4,800,250	2,433,828	<u>\$ 2.15</u>	<u>\$ 1.97</u>	<u>\$ -</u>	<u>\$ 1.97</u>
Effect of dilutive potential common shares									
Employee stock warrants	-	-	-	-	38,190				
Convertible bonds	-	-	-	-	59				
Diluted earnings per share									
Net income attributed to shareholders of common shares plus the effect of dilutive potential common shares	<u>\$ 5,233,610</u>	<u>\$ 4,800,250</u>	<u>\$ -</u>	<u>\$ 4,800,250</u>	<u>2,472,077</u>	<u>\$ 2.12</u>	<u>\$ 1.94</u>	<u>\$ -</u>	<u>\$ 1.94</u>
	2006								
	Amount				Weighted Average Number of Common Shares Outstanding (In Thousands)	Earnings Per Share			
	Income from Continuing Operations Before Tax	Income from Continuing Operations After Tax	Cumulative Effect of Changes in Accounting Principle	Net Income		Income from Continuing Operations Before Tax	Income from Continuing Operations After Tax	Cumulative Effect of Changes in Accounting Principle	Net Income
Basic earnings per share									
Net income attributed to shareholders of common shares	\$ 5,330,314	\$ 5,326,444	\$ 445,527	\$ 5,771,971	2,324,666	<u>\$ 2.29</u>	<u>\$ 2.29</u>	<u>\$ 0.19</u>	<u>\$ 2.48</u>
Effect of dilutive potential common shares									
Employee stock warrants	-	-	-	-	35,661				
Convertible bonds	-	-	-	-	2,930				
Diluted earnings per share									
Net income attributed to shareholders of common shares plus the effect of dilutive potential common shares	<u>\$ 5,330,314</u>	<u>\$ 5,326,444</u>	<u>\$ 445,527</u>	<u>\$ 5,771,971</u>	<u>2,363,257</u>	<u>\$ 2.26</u>	<u>\$ 2.25</u>	<u>\$ 0.19</u>	<u>\$ 2.44</u>

If the Company's common shares held by its subsidiaries were not accounted for as treasury stock, the pro-forma earnings per share for the years ended December 31, 2007 and 2006 are as follows:

Derivative Financial Instruments	2007		2006	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Interest rate swap contracts (hedging derivative assets, noncurrent)	\$ 39,812	\$ 39,812	\$ -	\$ -
Interest rate swap contracts (hedging derivative liabilities, current)	45,962	45,962	-	-
Interest rate swap contracts (hedging derivative 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, 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 instruments at fair value through profit or loss, available-for-sale financial assets and derivative financial instruments are quoted by market price. The fair value of derivative financial instruments is measured, according to its specific contract's settlement rate, by the middle exchange rate and the discount rate quoted by Reuters.
- (c) The fair value of long-term debt and bond payables is estimated based on the net present value of expected cash flows.

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

	Quoted Market Price in Active Market		Other Method of Valuation	
	2007	2006	2007	2006
Assets				
Financial assets at fair value through profit or loss, current	\$ 3,079,767	\$ 2,030,131	\$ -	\$ -
Hedging derivative assets, noncurrent	-	-	39,812	-
Liabilities				
Hedging derivative liabilities, current	-	-	45,962	-
Hedging derivative liabilities, noncurrent	-	-	-	167,839

As at December 31, 2007 and 2006, financial liabilities exposed to cash flow interest rate risk were \$12,160,000 thousand and \$12,290,000 thousand, respectively.

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 \$30,798 thousand.

Credit Risk

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

Liquidity Risk

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

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

Cash Flow Interest Rate Risk

The Company engaged in floating-interest-rate 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 \$121,600 thousand.

25. RELATED PARTY TRANSACTIONS

Names and relationships of the related parties are as follows:

Name	Relationship
Wealthplus Holdings Limited ("Wealthplus")	The Company holds a 100% ownership interest
Pou Shine Investments Co., Ltd. ("Pou Shine")	The Company holds a 100% ownership interest
Ming Wang Investments Co., Ltd. ("Ming Wang")	The Company holds a 100% ownership interest
Pou Yuen Technology Co., Ltd. ("Pou Yuen Technology")	The Company holds a 97.40% ownership interest
Barits Development Corporation ("Barits Development")	The Company holds a 98.34% ownership interest
Pou Yii Development Co., Ltd. ("Pou Yii")	The Company and Song Ming hold a 90.00% ownership interest
Yue Yuen Industrial (Holdings) Limited ("Yue Yuen")	The Company indirectly holds a 49.54% ownership interest
Ming Chi Investment Co., Ltd. ("Ming Chi")	Barits Development holds a 100% ownership interest
Windsor Entertainment Co., Ltd. ("Windsor Entertainment")	The Company holds a 100% ownership interest

Name	Relationship
Pou Chien Chemical Co., Ltd. (“Pou Chien Chemical”)	Yue Yuen indirectly holds a 100% ownership interest
Yue Dean Technology Co. (“Yue Dean”)	Yue Yuen indirectly holds a 100% ownership interest
San Fang Chemical Industry Co., Ltd. (“San Fang”)	Pou Chien and Yue Dean are both its directors
Pro Arch Technology Inc. (“Pro Arch Technology”)	The Company holds a 95.57% ownership interest
Global Brands Manufacture Ltd. (“Global Brands Manufacture”)	The Company and its affiliates hold a 50.16% ownership interest
Dynamic Skyline Ltd. (“Dynamic Skyline”)	Global Brands Manufacture holds a 100% ownership interest
Platinum Long John Co., Ltd. (“Platinum Long John”)	Yue Yuen indirectly holds a 48.76% ownership interest
New Peak Services Ltd. (“New Peak”)	Yue Yuen indirectly holds a 50% ownership interest
Venture Well Holdings Ltd. (“Venture Well”)	Wealthplus indirectly holds a 43.08% ownership interest
Digital Decade Limited (“Digital”)	Wealthplus indirectly holds a 100% ownership interest
Tetor Ventures Ltd. (“Tetor Ventures”)	Wealthplus holds a 100% ownership interest
Alpha Leader Ltd. (“Alpha Leader”)	Wealthplus indirectly holds a 43.08% ownership interest
Maple Star Investments Ltd. (“Maple Star”)	Wealthplus indirectly holds a 79.60% ownership interest
Vantage Capital Investments Ltd. (“Vantage Capital”)	Pou Yuen Technology indirectly holds a 100% ownership interest
Pou Chien Technology Co., Ltd. (“Pou Chien Technology”)	Yue Yuen indirectly holds a 100% ownership interest
Mindtech Investments Limited (“Mindtech”)	Wealthplus indirectly holds a 100% ownership interest
Kleine Developments Ltd. (“Kleine”)	Pou Yuen Technology holds a 50% ownership interest
Beijing Advazone Electronic Co., Ltd. (“Beijing Advazone”)	Wealthplus indirectly holds a 43.08% ownership interest
Mindtech Display Co., Ltd. (“Mindtech Display”)	Wealthplus indirectly holds a 100% ownership interest

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

Sales

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

	2007		2006	
	Amount	Percentage to Net Sales	Amount	Percentage to Net Sales
Yue Yuen	\$ 9,727,964	76	\$ 8,729,842	61
New Peak	100,040	1		
Digital	-	-	1,238,090	9
Pro Arch Technology	-	-	708,125	5
Others	110,329	1	205,280	2
	<u>\$ 9,938,333</u>	<u>78</u>	<u>\$ 10,881,337</u>	<u>77</u>

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

Technical Service Income

	2007	2006
Yue Yuen	<u>\$434,542</u>	<u>\$393,638</u>

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

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

Cost of Sales - Purchases and Cost of Processing

Purchases and cost of processing from related parties for the years ended December 31, 2007 and 2006 are summarized as follows:

	2007		2006	
	Amount	Percentage to Net Purchases	Amount	Percentage to Net Purchases
Digital	\$ 1,934,210	20	\$ 1,318,869	13
Yue Yuen	581,823	6	571,942	5
San Fang	448,425	4	451,265	4
Platinum Long John	263,588	3	248,682	2
Others	<u>2,746</u>	<u>-</u>	<u>34,626</u>	<u>1</u>
	<u>\$ 3,230,792</u>	<u>33</u>	<u>\$ 2,625,384</u>	<u>25</u>

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

Rent Revenue

Rent revenue from related parties for the years ended December 31, 2007 and 2006 are summarized as follows:

	2007		2006	
	Amount	Percentage to Rent Revenue	Amount	Percentage to Rent Revenue
Windsor Entertainment	\$ 130,928	70	\$ 104,247	75
Pou Chien Chemical	17,027	9	12,307	9
Others	<u>27,399</u>	<u>15</u>	<u>16,856</u>	<u>12</u>
	<u>\$ 175,354</u>	<u>94</u>	<u>\$ 133,410</u>	<u>96</u>

Notes and Accounts Receivable

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

	2007		2006	
	Amount	Percentage to Notes and Accounts Receivable	Amount	Percentage to Notes and Accounts Receivable
Notes receivable				
Pou Chien Technology	\$ 24,986	93	\$ 19,776	60
Pou Chien Chemical	1,305	5	1,321	4
Others	<u>234</u>	<u>1</u>	<u>559</u>	<u>2</u>
	<u>26,525</u>	<u>99</u>	<u>21,656</u>	<u>66</u>
Accounts receivable				
Yue Yuen	1,330,366	75	1,157,120	73
New Peak	7,380	-	-	-
Others	<u>21,537</u>	<u>1</u>	<u>23,781</u>	<u>2</u>
	<u>1,359,283</u>	<u>76</u>	<u>1,180,901</u>	<u>75</u>
	<u>\$ 1,385,808</u>		<u>\$ 1,202,557</u>	

Notes and Accounts Payable

Notes and accounts payable to related parties 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	\$ 53,616	50	\$ 95,656	49
Others	<u>-</u>	<u>-</u>	<u>308</u>	<u>-</u>
	<u>53,616</u>	<u>50</u>	<u>95,964</u>	<u>49</u>
Accounts payable				
Digital	274,678	22	62,685	7
Yue Yuen	73,351	6	89,709	10
San Fang	47,998	4	32,428	4
Platinum Long John	21,833	2	23,068	3
Others	<u>36</u>	<u>-</u>	<u>309</u>	<u>-</u>
	<u>417,896</u>	<u>34</u>	<u>208,199</u>	<u>24</u>
	<u>\$ 471,512</u>		<u>\$ 304,163</u>	

Transaction of Stock

See Note 9.

Credit Guarantees

See Note 26.

26. 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. Dollars	\$ 504,513
Japanese Yen	\$ 13,668,000

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

Related Party	
Wealthplus	\$ 12,754,395
Barits Development	3,514,650
Pou Shine	1,000,000
Pou Yuen Technology	1,738,076
Ming Wang	700,000
Pro Arch Technology	1,748,931
Ming Chi	400,000
Pou Yii	500,000
Beijing Advazone	54,768
Tetor Ventures	961,549
Digital	3,168,411
Maple Star	789,995
Vantage Capital	42,159
Venture Well	410,564
Alpha Leader	78,493
Mindtech	1,621,500
Mindtech Display	648,600
	<u>\$ 30,132,091</u>

27. SUBSEQUENT EVENTS

On January 29, 2008, for securing the credit and shareholders' equity, the board of directors of the Company resolved to buy back the Company's common stocks from the public market 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 purchased was 50,000 thousand shares. At the date of the auditors' report issued, the Company purchased 41,300 thousand shares at cost of \$1,031,697 thousand in total.