

Pou Chen Corporation

**Financial Statements for the
Years Ended December 31, 2009 and 2008 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, 2009 and 2008, 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, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

As described in Note 3 to the financial statements, effective January 1, 2008, the Company adopted Interpretation 2007-052, "Accounting for Bonuses to Employees, Directors and Supervisors", which requires that earnings distribution to employees, directors and supervisors should be accounted for as expenses, and also adopted the related amendments to other Statement of Financial Accounting Standards.

As described in Note 3 to the financial statements, effective July 1, 2008, the Company adopted the newly amended SFAS No. 34, "Financial Instruments: Recognition and Measurement". The amendments to SFAS 34 mainly deal with reclassifications of financial assets at fair value through profit or loss that are held for trading.

We have also audited the consolidated financial statements of the Company and its subsidiaries for the years ended December 31, 2009 and 2008 (not being accompanied herein) on which we have issued our reports with an unqualified opinion and a modified unqualified opinion, respectively, thereon dated March 30, 2010.

March 30, 2010

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, 2009 AND 2008
(In Thousands of New Taiwan Dollars)

ASSETS	2009		2008		LIABILITIES AND STOCKHOLDERS' EQUITY	2009		2008	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents (Notes 2 and 4)	\$ 613,704	1	\$ 3,202,146	5	Short-term loans (Note 15)	\$ 4,441,000	6	\$ 3,560,000	6
Financial assets at fair value through profit or loss, current (Notes 2, 3 and 5)	-	-	99,999	-	Notes payable	37,572	-	36,045	-
Available-for-sale financial assets, current (Notes 2, 3 and 6)	2,949,928	4	1,821,838	3	Notes payable to affiliates (Note 29)	58,253	-	56,296	-
Notes receivable (Notes 2 and 7)	2,670	-	37,027	-	Accounts payable	1,123,012	2	648,320	1
Notes receivable from affiliates (Notes 2, 7 and 29)	-	-	2,527	-	Accounts payable to affiliates (Note 29)	177,579	1	122,757	-
Accounts receivable (Notes 2 and 8)	100,767	-	198,763	-	Income tax payable (Notes 2 and 26)	55,788	-	513	-
Accounts receivable from affiliates (Notes 2, 8 and 29)	1,533,474	2	1,071,999	2	Hedging derivative liabilities, current (Notes 2 and 28)	33,310	-	25,822	-
Other receivables	250,108	1	451,113	1	Other payables (Note 16)	867,817	1	720,402	1
Inventories (Notes 2 and 9)	174,777	-	148,804	-	Current portion of long-term liabilities (Note 17)	-	-	3,875,000	6
Other current assets (Notes 2 and 26)	62,499	-	81,497	-	Other current liabilities	22,252	-	24,672	-
Total current assets	5,687,927	8	7,115,713	11	Total current liabilities	6,816,583	10	9,069,827	14
FUNDS AND LONG-TERM INVESTMENTS					LONG-TERM LIABILITIES				
Investments accounted for by the equity method (Notes 2 and 10)	58,838,850	82	51,460,023	78	Long-term debt (Note 18)	12,125,000	17	12,125,000	19
Investments in real estate (Notes 2 and 11)	187,371	1	-	-	Hedging derivative liabilities, noncurrent (Notes 2 and 28)	95,361	-	163,495	-
Financial assets carried at cost, noncurrent (Notes 2 and 12)	-	-	-	-	Total long-term liabilities	12,220,361	17	12,288,495	19
Total funds and long-term investments	59,026,221	83	51,460,023	78	RESERVE FOR LAND VALUE INCREMENT TAX (Note 13)	86,547	-	86,547	-
PROPERTY, PLANT AND EQUIPMENT (Notes 2 and 13)					OTHER LIABILITIES				
Cost	5,381,340	8	5,403,492	8	Accrued pension cost (Notes 2 and 19)	645,274	1	577,247	1
Revaluation increment	279,008	-	279,008	1	Guarantee deposits received	2,288	-	2,288	-
	5,660,348	8	5,682,500	9	Others (Notes 2 and 20)	100,935	-	30,754	-
Less accumulated depreciation	(1,919,833)	(3)	(1,750,214)	(3)	Total other liabilities	748,497	1	610,289	1
Construction in progress and prepayments for equipment	406	-	-	-	Total liabilities	19,871,988	28	22,055,158	34
Property, plant and equipment, net	3,740,921	5	3,932,286	6	STOCKHOLDERS' EQUITY				
OTHER ASSETS (Notes 2, 14 and 26)	3,095,187	4	3,167,237	5	Capital stock (Note 20)	28,430,847	40	27,400,055	42
					Capital surplus (Note 2)	7,453,437	10	7,244,524	11
					Retained earnings (Note 23)	17,433,768	24	13,074,796	20
					Cumulative translation adjustments (Note 2)	(127,367)	-	1,416,859	2
					Net loss not recognized as pension cost	(40,706)	-	-	-
					Unrealized losses on financial instruments (Note 2)	(364,936)	-	(4,151,134)	(7)
					Unrealized revaluation increment	134,641	-	134,641	-
					Treasury stock (Notes 2 and 24)	(1,241,416)	(2)	(1,499,640)	(2)
					Total stockholders' equity	51,678,268	72	43,620,101	66
TOTAL	<u>\$ 71,550,256</u>	<u>100</u>	<u>\$ 65,675,259</u>	<u>100</u>	TOTAL	<u>\$ 71,550,256</u>	<u>100</u>	<u>\$ 65,675,259</u>	<u>100</u>

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

(With Deloitte & Touche audit report dated March 30, 2010)

POU CHEN CORPORATION

STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2009 AND 2008

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

	2009		2008	
	Amount	%	Amount	%
GROSS SALES AND REVENUES EARNED (Notes 2 and 29)	\$ 10,903,599	100	\$ 11,434,115	100
LESS SALES RETURNS AND ALLOWANCES	<u>(14,975)</u>	<u>-</u>	<u>(42,365)</u>	<u>-</u>
NET SALES AND REVENUES EARNED	10,888,624	100	11,391,750	100
COST OF GOODS SOLD (Note 29)	<u>8,214,995</u>	<u>75</u>	<u>8,658,747</u>	<u>76</u>
GROSS PROFIT BEFORE UNREALIZED GROSS PROFIT FROM INTER-AFFILIATE TRANSACTIONS	2,673,629	25	2,733,003	24
UNREALIZED GROSS PROFIT FROM INTER-AFFILIATE TRANSACTIONS	<u>(807)</u>	<u>-</u>	<u>(2,460)</u>	<u>-</u>
GROSS PROFIT	<u>2,672,822</u>	<u>25</u>	<u>2,730,543</u>	<u>24</u>
OPERATING EXPENSES				
Selling expenses	137,753	1	218,462	2
General and administrative expenses	1,544,085	14	1,428,706	13
Research and development expenses	<u>853,689</u>	<u>8</u>	<u>858,013</u>	<u>7</u>
Total operating expenses	<u>2,535,527</u>	<u>23</u>	<u>2,505,181</u>	<u>22</u>
INCOME FROM OPERATIONS	<u>137,295</u>	<u>2</u>	<u>225,362</u>	<u>2</u>
NON-OPERATING INCOME				
Interest income	5,525	-	8,215	-
Investment income recognized under equity method (Note 10)	7,011,220	64	4,936,429	43
Dividend income	39,938	-	198,718	2
Gain on disposal of property, plant and equipment	1,182	-	1,971	-
Gain on disposal of investments	3,583	-	-	-
Rental income (Note 29)	169,237	2	172,432	2
Reversal of provision for bad debts	-	-	1,146	-
Others	<u>192,921</u>	<u>2</u>	<u>131,069</u>	<u>1</u>
Total non-operating income	<u>7,423,606</u>	<u>68</u>	<u>5,449,980</u>	<u>48</u>
NON-OPERATING EXPENSES				
Interest expense	316,263	3	475,179	4
Loss on disposal of property, plant and equipment	2,907	-	1,893	-

(Continued)

POU CHEN CORPORATION

STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2009 AND 2008

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

	2009		2008	
	Amount	%	Amount	%
Loss on disposal of investments	\$ -	-	\$ 12,944	-
Foreign exchange loss, net	61,345	-	24,962	-
Impairment loss (Note 12)	-	-	50,000	-
Valuation loss on financial assets (Note 5)	-	-	589	-
Others	64,368	1	64,817	1
Total non-operating expenses	444,883	4	630,384	5
INCOME BEFORE INCOME TAX	7,116,018	66	5,044,958	45
INCOME TAX (EXPENSE) BENEFIT (Notes 2 and 26)	(90,000)	(1)	26,530	-
NET INCOME	\$ 7,026,018	65	\$ 5,071,488	45

	2009		2008	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
BASIC EARNINGS PER SHARE (Notes 2 and 27)	\$ 2.55	\$ 2.52	\$ 1.75	\$ 1.76
DILUTED EARNINGS PER SHARE (Notes 2 and 27)	\$ 2.52	\$ 2.49	\$ 1.73	\$ 1.74

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

	2009		2008	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
NET INCOME	\$7,030,794		\$5,080,172	
BASIC EARNINGS PER SHARE (Notes 2 and 27)	\$ 2.54	\$ 2.51	\$ 1.75	\$ 1.76
DILUTED EARNINGS PER SHARE (Notes 2 and 27)	\$ 2.51	\$ 2.48	\$ 1.73	\$ 1.74

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

(With Deloitte & Touche audit report dated March 30, 2010)

(Concluded)

POU CHEN CORPORATION

**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2009 AND 2008
(In Thousands of New Taiwan Dollars)**

	Capital Stock	Capital Surplus				Retained Earnings			Other Equity					Total
		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	Net Loss Not Recognized as Pension Cost	Unrealized Losses on Financial Instruments	Unrealized Revaluation Increment	Treasury Stock	
BALANCE, JANUARY 1, 2008	\$ 25,118,540	\$ 808,054	\$ 1,492,700	\$ 1,757,844	\$ 1,363,435	\$ 4,269,818	\$ 1,423,250	\$ 7,778,952	\$ (157,084)	\$ -	\$ (87,710)	\$ 134,641	\$ (155,375)	\$ 43,747,065
Appropriation of earnings	-	-	-	-	-	480,025	-	(480,025)	-	-	-	-	-	-
Legal reserve	-	-	-	-	-	-	-	1,313,097	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	(1,313,097)	-	-	-	-	-	-	-
Bonuses to directors and supervisors	-	-	-	-	-	-	-	(169,000)	-	-	-	-	-	(169,000)
Bonuses to employees (Note 23)	273,216	-	-	-	-	-	-	(273,216)	-	-	-	-	-	-
Stock dividends (Note 23)	2,471,099	-	-	-	-	-	-	(2,471,099)	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	(2,471,099)	-	-	-	-	-	(2,471,099)
Effect of changes of ownership interest in investees	-	-	-	-	2,046,883	-	-	-	-	-	-	-	-	2,046,883
Adjustment on change of investee's unappropriated earnings	-	-	-	-	-	-	-	(84,298)	-	-	-	-	-	(84,298)
Cash dividends received by subsidiaries	-	-	-	8,684	-	-	-	-	-	-	-	-	-	8,684
Adjustments on changes of unrealized loss on cash flow hedge financial liability	-	-	-	-	-	-	-	-	-	-	(183,168)	-	-	(183,168)
Adjustments on changes of investee's unrealized loss on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	-	(2,526,524)	-	-	(2,526,524)
Adjustments on changes of unrealized loss on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	-	(1,353,732)	-	-	(1,353,732)
Execution of employee stock warrants (Note 22)	37,200	-	-	-	-	-	-	-	-	-	-	-	-	37,200
Translation adjustments on foreign long-term equity investments	-	-	-	-	-	-	-	-	1,573,943	-	-	-	-	1,573,943
Acquisition of treasury stock - 110,500 thousand shares (Note 24)	-	-	-	-	-	-	-	-	-	-	-	-	(2,077,341)	(2,077,341)
Retirement of treasury stock - 50,000 thousand shares (Note 24)	(500,000)	(14,481)	(26,750)	(191,845)	-	-	-	-	-	-	-	-	733,076	-
Net income for 2008	-	-	-	-	-	-	-	5,071,488	-	-	-	-	-	5,071,488
BALANCE, DECEMBER 31, 2008	27,400,055	793,573	1,465,950	1,574,683	3,410,318	4,749,843	110,153	8,214,800	1,416,859	-	(4,151,134)	134,641	(1,499,640)	43,620,101
Appropriation of earnings	-	-	-	-	-	498,719	-	(498,719)	-	-	-	-	-	-
Legal reserve	-	-	-	-	-	-	-	2,489,480	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	-	(2,489,480)	-	-	-	-	-	-
Stock dividends (Note 23)	1,331,134	-	-	-	-	-	-	(1,331,134)	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	(1,331,134)	-	-	-	-	-	(1,331,134)
Transfer of employee bonuses to common stock	41,049	29,309	-	-	-	-	-	-	-	-	-	-	-	70,358
Effect of changes of ownership interest in investees	-	-	-	-	344,220	-	-	-	-	-	-	-	-	344,220
Adjustment on change of investee's unappropriated earnings	-	-	-	-	-	-	-	(4,778)	-	-	-	-	-	(4,778)
Cash dividends received by subsidiaries	-	-	-	4,776	-	-	-	-	-	-	-	-	-	4,776
Adjustments on changes of unrealized loss on cash flow hedge financial liability	-	-	-	-	-	-	-	-	-	-	60,645	-	-	60,645
Adjustments on changes of unrealized loss on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	-	1,128,090	-	-	1,128,090
Change in net loss not recognized as pension cost	-	-	-	-	-	-	-	-	-	(40,706)	-	-	-	(40,706)
Execution of employee stock warrants (Note 22)	3,609	-	-	-	-	-	-	-	-	-	-	-	-	3,609
Translation adjustments on foreign long-term equity investments	-	-	-	-	-	-	-	-	(1,544,226)	-	-	-	-	(1,544,226)
Adjustments on changes of investee's unrealized loss on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	-	2,597,463	-	-	2,597,463
Acquisition of treasury stock - 17,300 thousand shares (Note 24)	-	-	-	-	-	-	-	-	-	-	-	-	(256,168)	(256,168)
Retirement of treasury stock - 34,500 thousand shares (Note 24)	(345,000)	(9,992)	(18,458)	(140,942)	-	-	-	-	-	-	-	-	514,392	-
Net income for 2009	-	-	-	-	-	-	-	7,026,018	-	-	-	-	-	7,026,018
BALANCE, DECEMBER 31, 2009	<u>\$ 28,430,847</u>	<u>\$ 812,890</u>	<u>\$ 1,447,492</u>	<u>\$ 1,438,517</u>	<u>\$ 3,754,538</u>	<u>\$ 5,248,562</u>	<u>\$ 2,599,633</u>	<u>\$ 9,585,573</u>	<u>\$ (127,367)</u>	<u>\$ (40,706)</u>	<u>\$ (364,936)</u>	<u>\$ 134,641</u>	<u>\$ (1,241,416)</u>	<u>\$ 51,678,268</u>

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

(With Deloitte & Touche audit report dated March 30, 2010)

POU CHEN CORPORATION

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2009 AND 2008 (In Thousands of New Taiwan Dollars)

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 7,026,018	\$ 5,071,488
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	325,678	385,256
Impairment loss	-	50,000
(Gain) loss on disposal of investments	(3,583)	12,944
Provision for (reversal of) bad debts	1,907	(1,146)
Investment income recognized under equity method	(7,011,220)	(4,936,429)
Cash dividends received from investees under equity method	1,221,766	237,987
Unrealized gross profit from inter-affiliate transactions	807	2,460
Net loss (gain) on disposal of property, plant and equipment	1,725	(78)
Valuation loss on financial assets	-	589
Net changes in operating assets and liabilities		
Decrease (increase) in financial assets at fair value through profit or loss, current	103,582	(209,335)
Notes receivable	34,357	(36,646)
Notes receivable from affiliates	2,527	23,998
Accounts receivable	96,089	219,289
Accounts receivable from affiliates	(461,475)	287,284
Other receivables	204,111	(9,528)
Inventories	(25,973)	(14,006)
Deferred income tax asset, current	9,440	-
Other current assets	10,595	6,571
Deferred income tax asset, noncurrent	26,480	(18,010)
Income tax prepayment	-	258
Notes payable	1,527	(16,972)
Notes payable to affiliates	1,957	2,680
Accounts payable	474,691	(183,332)
Accounts payable to affiliates	54,822	(295,139)
Income tax payable	55,275	(418,223)
Other payables	216,997	213,832
Other current liabilities	(2,420)	(28,767)
Foreign exchange adjustment on Euro convertible bonds	-	76
Reserve for retirement plan	27,321	22,952
Net cash provided by operating activities	<u>2,393,001</u>	<u>370,053</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in investments accounted for by the equity method	(242,510)	(969,637)
Proceeds from disposal of long-term equity investments	120,000	5,125,640
Increase in investment in real estate	(187,371)	-
Acquisitions of property, plant and equipment	(44,999)	(84,003)
Acquisitions of leased assets	(153)	(2,686)
Proceeds from disposal of property, plant and equipment	3,785	33,765

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POU CHEN CORPORATION

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2009 AND 2008 (In Thousands of New Taiwan Dollars)

	2009	2008
Proceeds from disposal of leased assets	\$ -	\$ 1,894
Decrease (increase) in refundable deposits	292	(83)
Increase in deferred charges	<u>(52,794)</u>	<u>(59,038)</u>
Net cash (used in) provided by investing activities	<u>(403,750)</u>	<u>4,045,852</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term loans	881,000	400,000
Repayment of Euro convertible bonds and domestic secured bonds	-	(5,001,698)
(Decrease) increase in long-term debt	(3,875,000)	7,000,000
Decrease in guarantee deposits received	-	(408)
Execution of employee stock warrants	3,609	37,200
Cash dividends	(1,331,134)	(2,471,099)
Bonuses to directors and supervisors, as distribution of retained earnings	-	(169,000)
Cash paid for acquisition of treasury stock	<u>(256,168)</u>	<u>(2,077,341)</u>
Net cash used in financing activities	<u>(4,577,693)</u>	<u>(2,282,346)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(2,588,442)	2,133,559
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>3,202,146</u>	<u>1,068,587</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 613,704</u>	<u>\$ 3,202,146</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year		
Interest (excluding interest capitalized)	<u>\$ 343,050</u>	<u>\$ 466,541</u>
Income tax	<u>\$ 561</u>	<u>\$ 417,965</u>
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Adjustments on changes of unrealized gain (loss) on cash flow hedge financial liabilities	<u>\$ 60,645</u>	<u>\$ (183,168)</u>
Adjustments on changes of unrealized gain (loss) on available-for-sale financial assets	<u>\$ 3,725,553</u>	<u>\$ (3,880,256)</u>
Effect of changes in ownership interest in investees	<u>\$ 339,442</u>	<u>\$ 1,962,585</u>
Cash dividend received by subsidiaries	<u>\$ 4,776</u>	<u>\$ 8,684</u>
Current portion of long-term liabilities	<u>\$ -</u>	<u>\$ 3,875,000</u>
Translation adjustments on foreign long-term equity investments	<u>\$ (1,544,226)</u>	<u>\$ 1,573,943</u>
Retirement of treasury stock	<u>\$ 514,393</u>	<u>\$ 733,076</u>

(Continued)

POU CHEN CORPORATION

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2009 AND 2008 (In Thousands of New Taiwan Dollars)

	2009	2008
CASH PAID DURING THE YEAR FOR ACQUISITIONS OF PROPERTY, PLANT AND EQUIPMENT		
Fair value of property, plant and equipment acquired	\$ 45,775	\$ 60,290
Add payables for acquisitions of property, plant and equipment at beginning of year	4,906	28,619
Less payables for acquisitions of property, plant and equipment at end of year	<u>(5,682)</u>	<u>(4,906)</u>
Cash paid during the year for acquisitions of property, plant and equipment	<u>\$ 44,999</u>	<u>\$ 84,003</u>

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

(With Deloitte & Touche audit report dated March 30, 2010)

(Concluded)

POU CHEN CORPORATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2009 AND 2008

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

1. ORGANIZATION AND OPERATIONS

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

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

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

As at December 31, 2009 and 2008, there were 2,971 and 3,058 employees of the Company, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

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

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

Current/Noncurrent Assets and Liabilities

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

Cash and Cash Equivalents

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

Financial Instruments Measured at Fair Value through Profit or Loss

Financial instruments at fair value through profit or loss include financial assets or financial liabilities classified as held for trading and designated by the Company as at fair value through profit or loss upon initial recognition. Those financial instruments are initially recorded at fair value at the transaction date and continuously recorded at fair value with unrealized gains or losses reported as part of net income. Related transaction costs are expensed currently. Cash dividends are recognized as income when received. On derecognition of a financial asset or a financial liability, the difference between its carrying amount and the sum of the consideration received and receivable or consideration paid and payable is recognized in profit or loss. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

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

Fair values of financial assets and financial liabilities at the balance sheet date are determined as follows: Publicly traded stocks - at closing prices; open-end mutual funds - at net asset values; bonds - at prices quoted by the Taiwan GreTai Securities Market.

Available-for-sale Financial Assets

Available-for-sale financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are remeasured at fair value, with changes in fair value recognized in equity until the financial assets are disposed of, at which time, the cumulative gain or loss previously recognized in equity is included in profit or loss for the year. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

The recognition, derecognition and the fair value bases of available-for-sale financial assets are the same with those of financial assets at fair value through profit or loss.

Cash dividends are recognized on the ex-dividend date, except for dividends distributed from the pre-acquisition profit, which are treated as a reduction of investment cost. Stock dividends are not recognized as investment income but are recorded as an increase in the number of shares. The total number of shares subsequent to the increase is used for recalculation of cost per share.

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

Allowance for Doubtful Accounts

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

Inventories

Inventories consist of raw materials, supplies, finished goods and work-in-process. Prior to January 1, 2009, inventories were stated at the lower of cost or market value. Any write-down was made on a category by category basis. Market value meant average purchase cost in the last month for raw materials and supplies, and net realizable value for finished goods and work in process. As stated in Note 3 to the financial statements, effective January 1, 2009, inventories are stated at the lower of cost or net realizable value. Inventory write-downs are made item by item. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Inventories are recorded at approximate weighted-average cost on the balance sheet date.

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.

Profits from downstream transactions with an equity-method investee are eliminated in proportion to the Company's percentage of ownership in the investee; however, if the Company has control over the investee, all the profits are eliminated. Profits from upstream transactions with an equity-method investee are eliminated in proportion to the Company's percentage of ownership in the investee.

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 an adjustment resulted from the changes in unrealized loss on available-for-sale financial assets of an investee, the adjustment is reported as a separate component of stockholders' equity.

If 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.

Investments in Real Estate

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

Financial Assets Carried at Cost, Noncurrent

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

Property, Plant, Equipment and Leased Asset

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

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

Items	Estimated Useful Lives
Buildings and improvements	15-55 years
Machinery and equipment	5-7 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 of Assets

If the recoverable amount of an asset (mainly property, plant and equipment, leased assets and investments accounted for by the equity method) is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is charged to earnings unless the asset is carried at a revalued amount, in which case the impairment loss is first treated as a deduction to the unrealized revaluation increment and any remaining loss is charged to earnings.

If an impairment loss subsequently reverses, the carrying amount of the asset is increased accordingly, but the increased carrying amount may 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 recognized in earnings, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is first recognized as gains to the extent that an impairment loss on the same revalued asset was previously charged to earnings. Any excess amount is treated as an increase in the unrealized revaluation increment.

For the purpose of impairment testing, goodwill is allocated to each of the relevant cash-generating units (“CGU(s)”) that are expected to benefit from the synergies of the acquisition. A CGU to which goodwill has been allocated is tested for impairment annually or whenever there is an indication that the CGU may be impaired. If the recoverable amount of the CGU becomes less than its carrying amount, the impairment is allocated to first reduce the carrying amount of the goodwill allocated to the CGU and then to the other assets of the CGU pro rata on the basis of the carrying amount of each asset in the CGU. A reversal of an impairment loss on goodwill is disallowed.

For long term equity investments for which the Company has significant influence but with no control, the carrying amount (including goodwill) of each investment is compared with its own recoverable amount for the purpose of impairment testing.

Deferred Charges

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

Stock-based Compensation

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

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

Retirement Plan

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

The Company also has a defined contribution pension plan under the Labor Pension Act. Pension costs are recorded based on actual contributions made to employees’ individual pension accounts in amounts equal to 6% of monthly salaries and wages.

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

Deferred Credits

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

Foreign Currency Transactions

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

Cumulative Translation Adjustments

For consolidated subsidiaries and equity method investees denominated in foreign currency, assets and liabilities denominated in foreign currencies are translated at the balance-sheet-date exchange rates. Stockholders' equity accounts should be translated at the historical rate except for the beginning balance of the retained earnings, which is carried by the translated amount of the preceding period. Dividends are translated at the spot rate of the declared date. Income statement accounts are translated at the current rate or weighted-average rate of the current period.

If the functional currency of an equity-method investee is a foreign currency, translation adjustments will result from the translation of the investee's financial statements into the reporting currency of the Company. Such adjustments are accumulated and reported as a separate component of shareholders' equity.

Treasury Stock

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

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

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

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

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.

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.

Earnings Per Share

Basic earnings per common share are calculated by dividing net earnings applicable to common stock by the weighted average number of common stocks outstanding. On a diluted basis, both net earnings and shares outstanding are adjusted to assume the conversion of convertible bonds and employee stock options from the date of issuance, and adopt the treasury stock method to calculate the stock warrants' dilutive potential common shares. However, if the convertible bonds and employee stock options contain an anti-dilutive effect, they will be excluded from the calculation.

Hedging Derivative Financial Instruments

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

Reclassifications

Certain accounts in the financial statements as of and for the year ended December 31, 2008 have been reclassified to conform to the presentation of the financial statements as of and for the year ended December 31, 2009.

3. REASON AND EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE

Accounting for Bonuses to Employees, Directors and Supervisors

Effective January 1, 2008, the Company adopted Interpretation 2007-052, "Accounting for Bonuses to Employees, Directors and Supervisors", which requires that earnings distribution to employees, directors and supervisors should be accounted for as expenses. This change in accounting principle (including the effect of the subsidiaries' adoption of the same accounting change) decreased the income before income tax and net income both by \$147,739 thousand, and decreased basic earnings per share by \$0.05.

Accounting for Share-based Payment

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

Accounting for Financial Instruments

On July 1, 2008, the Company adopted the newly amended SFAS No. 34, "Financial Instruments: Recognition and Measurement". The amendments to SFAS 34 mainly deal with reclassifications of financial assets at fair value through profit or loss that are held for trading. Please see Note 28 to the financial statements for relevant information regarding reclassifications of financial instruments.

The effects resulted from this accounting change were as follows:

	Year Ended December 31, 2008
Increase in net income from continuing operations	<u>\$ 3,886,608</u>
Increase in net income	<u>\$ 3,886,608</u>
Increase in basic earnings per share (after income tax)	<u>\$1.35</u>

Accounting for Inventories

On January 1, 2009, the Company adopted the newly revised SFAS No. 10, "Accounting for Inventories". The main revisions are (1) inventories are stated at the lower of cost or net realizable value, and inventories are written down to net realizable value item-by-item except when the grouping of similar or related items is appropriate; (2) unallocated overheads are recognized as expenses in the period in which they are incurred; and (3) abnormal costs, write-downs of inventories and any reversal of write-downs are recorded as cost of goods sold for the period. The adoption did not result in significant effect in the financial statements for the year ended December 31, 2009.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at December 31, 2009 and 2008 consisted of the following:

	2009	2008
Cash on hand	\$ 1,802	\$ 2,073
Checking accounts	3,819	507
Savings accounts	111,962	2,173,567
Foreign-currency savings deposit	<u>496,121</u>	<u>1,025,999</u>
	<u>\$ 613,704</u>	<u>\$ 3,202,146</u>

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

	2009	2008
Marketable bonds	<u>\$ -</u>	<u>\$ 99,999</u>

The net loss from financial assets at fair value through profit or loss, current for the years ended December 31, 2009 and 2008 amounted to \$0 thousand and \$589 thousand, respectively.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS, CURRENT

	2009	2008
Marketable equity securities	<u>\$ 2,949,928</u>	<u>\$ 1,821,838</u>

Effective July 1, 2008, the Company adopted the amendments of Statement of Financial Accounting Standards No. 34, "Financial Instruments: Recognition and Measurement". On August 29, 2008, the Company reclassified the interests in Mega Financial Holding Company and Taiwan Paiho Limited from held for trading financial assets to available-for-sale financial assets based on the closing price on that date. Please see Note 28 to the financial statements for the relevant information.

7. NOTES RECEIVABLE

Notes receivable as at December 31, 2009 and 2008 consisted of the following:

	2009	2008
Notes receivable	\$ 2,670	\$ 37,027
Less allowance for doubtful accounts	<u>-</u>	<u>-</u>
	<u>2,670</u>	<u>37,027</u>
Notes receivable from affiliates (Note 29)	-	2,527
Less allowance for doubtful accounts	<u>-</u>	<u>-</u>
	<u>-</u>	<u>2,527</u>
	<u>\$ 2,670</u>	<u>\$ 39,554</u>

8. ACCOUNTS RECEIVABLE

Accounts receivable as at December 31, 2009 and 2008 consisted of the following:

	2009	2008
Accounts receivable	\$ 104,618	\$ 202,763
Less allowance for doubtful accounts	<u>(3,851)</u>	<u>(4,000)</u>
	<u>100,767</u>	<u>198,763</u>
Accounts receivable from affiliates (Note 29)	1,533,474	1,071,999
Less allowance for doubtful accounts	<u>-</u>	<u>-</u>
	<u>1,533,474</u>	<u>1,071,999</u>
	<u>\$ 1,634,241</u>	<u>\$ 1,270,762</u>

9. INVENTORIES

Inventories as at December 31, 2009 and 2008 consisted of the following:

	2009	2008
Raw materials	\$ 111,299	\$ 88,146
Supplies	3,795	4,893
Work-in-process	9,860	24,326
Finished goods	46,716	28,178
Merchandise	<u>3,107</u>	<u>3,261</u>
	<u>\$ 174,777</u>	<u>\$ 148,804</u>

As of December 31, 2009 and 2008, the allowance for inventory devaluation was \$35,000 thousand and \$43,000 thousand, respectively.

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2009 and 2008 was \$8,214,995 thousand and \$8,658,747 thousand, respectively.

The cost of inventories recognized as cost of goods sold for the year ended December 31, 2009 included the gain of \$8,000 thousand, which was due to the reversal of write-downs of inventories. The cost of inventories recognized as cost of good sold in the year ended December 31, 2008 included the loss of \$15,000 thousand, which was due to write-down of inventories.

10. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

Investments accounted for by the equity method as at December 31, 2009 and 2008 consisted of the following:

	2009			2008	
	Original Investment Cost	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage
Wealthplus	\$ 295,429	\$ 42,508,167	100.00	\$ 38,200,876	100.00
Win Fortune	3,230	1,125,637	100.00	1,016,413	100.00
Ming Wang	427,291	709,718	100.00	404,297	100.00
Windsor Entertainment	500,000	99,042	100.00	147,687	100.00
Pou Shine	195,000	887,560	100.00	452,712	100.00
Pan Asia Insurance Services	3,000	4,112	100.00	4,147	100.00
Proshine Healthcare	160,000	142,005	100.00	261,679	100.00
Barits Development	1,836,345	4,732,268	99.47	2,852,609	99.47
Pou Yuen Technology	962,699	81,382	97.40	35,647	97.40
Pro Arch International (formerly know as Pro Arch Technology)	2,443,485	250,363	96.32	61,301	96.01
Yun Yang	98,413	134,605	91.15	128,918	91.15
LNC Technology	512,470	467,802	85.41	462,198	85.41
Right and Great Asia-Pacific	420,000	416,045	70.00	417,747	70.00
Vistas Design	4,708	5,505	100.00	1,799	65.00
Global Brands Manufacture	2,587,707	3,665,923	35.53	3,438,810	35.51
Techview International	380,115	-	30.02	104,802	30.02
Pou Yii	40,320	71,375	15.00	34,087	15.00
Elitegroup Computer	4,618,697	3,531,806	12.12	3,429,607	11.68
Wang Yi	7,315	5,535	7.32	4,687	7.32
	<u>\$ 15,496,224</u>	<u>\$ 58,838,850</u>		<u>\$ 51,460,023</u>	

The Company's investment income (loss) recognized under equity method for the years ended December 31, 2009 and 2008 are summarized as follows:

	2009	2008
Wealthplus	\$ 6,533,677	\$ 5,166,846
Win Fortune	135,080	91,616
Ming Wang	4,382	30,750
Windsor Entertainment	(48,645)	(60,813)
Pou Shine	40,077	18,078
Pan Asia Insurance Services	342	418
Proshine Healthcare	306	(17,381)
Barits Development	204,528	151,947
Pou Yuen Technology	(42,430)	(110,825)
Pro Arch International	(54,587)	(248,552)
Yun Yang	8,187	5,189
LNC Technology	7,008	(63,421)
Right and Great Asia-Pacific	(1,701)	(1,865)
Vistas Design	2,252	(1,451)
Global Brands Manufacture	289,673	192,722
Techview International	(167,843)	(266,701)
Pou Yii	1,659	1,143
Elitegroup Computer	98,447	49,801
Wang Yi	808	(1,072)
	<u>\$ 7,011,220</u>	<u>\$ 4,936,429</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, 2009, the Company effectively holds 49.98% ownership in Yue Yuen.

As the accounting year for these two investees is from October 1 of the preceding year to September 30 of the year. The Company accounted for its investment income recognized under equity method from these companies based on these companies’ financial results for the years ended September 30, 2009 and 2008, which was allowed by the accounting principles generally accepted in the ROC.

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

The primary income of Wealthplus and Win Fortune in 2009 and 2008 are summarized as follows:

	<u>Wealthplus</u>		<u>Win Fortune</u>	
	2009	2008	2009	2008
Equity in earnings of Yue Yuen	\$ 7,552,121	\$ 5,171,203	\$ 145,571	\$ 99,676
Equity in earnings of other overseas investees	(768,312)	438,472	-	-
Others	<u>(250,132)</u>	<u>(442,829)</u>	<u>(10,491)</u>	<u>(8,060)</u>
	<u>\$ 6,533,677</u>	<u>\$ 5,166,846</u>	<u>\$ 135,080</u>	<u>\$ 91,616</u>

Wealthplus’s distributed earnings amounted to US\$35,000 thousand (NT\$1,137,500 thousand) in October 2009.

Wealthplus’s board of directors decided to decrease and return its capital, amounting to US\$60,000 thousand (NT\$1,922,115 thousand) and US\$100,000 thousand (NT\$3,203,525 thousand), respectively, in March and December 2008.

Ming Wang Investments Co., Ltd. (“Ming Wang”) was established in September 1996, with an outstanding common stock of \$681,192 thousand at par value of \$10 dollars per share at December 31, 2009, and is primarily engaged in investing activities.

Windsor Entertainment Co., Ltd. (“Windsor Entertainment”) was established in July 2003, and is engaged in entertainment and resort operation. Windsor Entertainment decreased its capital to offset its accumulated deficit by \$200,000 thousand and issued additional capital stock of \$200,000 thousand at a price of \$10 dollars per share in June 2008. As at December 31, 2009, Windsor Entertainment has an outstanding common stock of \$210,000 thousand.

Pou Shine Investments Co., Ltd. (“Pou Shine”) was established in March 1990, with an outstanding common stock of \$709,594 thousand at December 31, 2009, 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, 2009, and is primarily engaged in agency of property and casualty insurance.

Proshine Healthcare Co., Ltd. (“Proshine Healthcare”) was established in November 2007. It is primarily engaged in sale of medical devices and precision instruments. Proshine Healthcare’s board of directors decided to decrease and return its capital amounting to \$120,000 thousand at a price of \$10 dollars per share. As at December 31, 2009, Proshine Healthcare has on outstanding common stock of \$160,000 thousand.

Vistas Design Co., Ltd. (“Vistas Design”) was established in June 2008, with an outstanding common stock of \$5,000 thousand at December 31, 2009, and primarily engaged in product purchased, interior decorating and design services, and consulting in artistry. In July 2009, the Company purchased 175 thousand shares for \$1,458 thousand from non-related parties. Accordingly, the Company’s ownership was increased from 65.00% to 100.00%.

Barits Development Corporation (“Barits Development”) was established in November 1985, with an outstanding common stock of \$1,329,328 thousand at December 31, 2009, and is primarily engaged in leather manufacturing and investing activities. In June 2008, the Company purchased 1,028 thousand shares for \$55,937 thousand. Accordingly, the Company’s ownership was increased from 98.34% to 99.47%.

Pou Yuen Technology Co., Ltd. (“Pou Yuen Technology”) was established in December 1993, with an outstanding common stock of \$900,000 thousand at December 31, 2009. Pou Yuen Technology is mainly engaged in tooling design software and information technology software service.

Pro Arch International Development Enterprise Inc. (“Pro Arch International”) was established in June 1999, with an outstanding common stock of \$313,419 thousand at December 31, 2009. It is primarily engaged in manufacturing and sale of computer peripheral equipment and related spare parts and started to engaged in real estate development business from September 2009. In December 2008, Pro Arch International decreased its capital to offset its accumulated deficit by \$300,000 thousand and issued additional capital stock of \$300,000 thousand at a price of \$10 dollars per share, of which \$288,020 thousand was subscribed by the Company. Accordingly, the Company’s ownership was increased from 95.57% to 96.01%. In July 2009, Pro Arch International decreased its capital to offset its accumulated deficit by \$237,581 thousand and issued additional capital stock of \$250,000 at a price of \$10 dollars per share, of which \$241,012 thousand was subscribed by the Company. Accordingly, the Company’s ownership was increased from 96.01% to 96.32%. In September 2009, Pro Arch International’s stockholders’ meeting decided to rename its as Pro Arch International Development Enterprise Inc.

Yun Yang Investments Co., Ltd. (“Yun Yang”) was established in April 1997, with an outstanding common stock of \$92,792 thousand at December 31, 2009, and is primarily engaged in investing activities.

LNC Technology Co., Ltd. (“LNC Technology”) was established in August 2007, with an outstanding common stock of \$600,000 thousand at December 31, 2009, and is primarily engaged in manufacturing and sale of precision instruments and computer numerical controlled machine. In November 2008, LNC Technology issued additional capital stock of \$30,000 thousand at a price of \$10 dollars per share, the Company didn’t subscribed. Accordingly, the Company’s ownership was decreased from 89.47% to 85.41%. In November 2008 and January 2009, the Company purchased 243 thousand shares for \$2,430 thousand and 4 thousand shares for \$40 thousand from non-related parties, respectively.

The Right and Great Asia-Pacific Realty Development Co., Ltd. (“Right and Great Asia-Pacific”) was established in March 2008, with an outstanding common stock of \$600,000 thousand at December 31, 2009, and is primarily engaged in real estate development and investing activities.

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 \$4,153,407 thousand at December 31, 2009. The Company disposed the common shares of Global Brands Manufacture Ltd. on March 24, 2010. Please see Note 31 to the financial statements for the relevant information.

Techview International Technology Inc. (“Techview International”) was established in November 2003, and is primarily engaged in development, sale and assembly of TFT-LCD display. In July 2009, Techview International decreased its capital to offset its accumulated deficit by 1,213,000 thousand. As at December 31, 2009, Techview International has an outstanding common stock of \$124,622 thousand. Because the book value of the investment as at December 31, 2009 is negative, the Company reclassified \$69,409 thousand to other liabilities. Please see Note 20 to the financial statements for the relevant information.

Pou Yii Development Co., Ltd. (“Pou Yii”) was established in October 1996 with an outstanding common stock of \$525,000 thousand at December 31, 2009, and is primarily engaged in constructing buildings, selling and renting apartments, real estate investment analysis and consulting services.

Elitegroup Computer Systems Co., Ltd. (“Elitegroup Computer”) is engaged in designing, manufacturing and sale of computer peripheral equipment. The shares of Elitegroup Computer are listed on the Taiwan Stock Exchange Corporation. It has an outstanding common stock of \$12,331,937 thousand as at December 31, 2009.

Wang Yi Construction Co., Ltd. (“Wang Yi”) was established in May 1984, with an outstanding common stock of \$77,000 thousand at December 31, 2009, and is primarily engaged in management of and investment in construction projects.

11. INVESTMENT IN REAL ESTATE

	2009	2008
Land	<u>\$ 187,371</u>	<u>\$ -</u>

For urban redevelopment of Taichung, the Company purchased the land located on Guangshun section, Xitun District, Taichung from Barits Development in September 2009. The consideration of land is based on the amount Barits Development paid plus cost of capital.

12. FINANCIAL ASSETS CARRIED AT COST, NONCURRENT

Financial assets carried at cost, noncurrent as at December 31, 2009 and 2008 consisted of the follows:

	2009	2008
DTE Technology Corp.	<u>\$ -</u>	<u>\$ -</u>

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

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

13. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as at December 31, 2009 and 2008 consist of the following:

	2009				2008
	Cost	Reassessed Value Increment	Accumulated Depreciation	Carrying Value	Carrying Value
Land	\$ 976,670	\$ 238,754	\$ -	\$ 1,215,424	\$ 1,215,424
Buildings and improvements	3,251,184	40,254	1,057,228	2,234,210	2,358,748
Machinery equipment	519,906	-	381,263	138,643	154,124
Transportation equipment	201,215	-	155,748	45,467	56,779
Furniture, fixtures and office equipment	352,687	-	271,165	81,522	113,046
Other equipment	79,678	-	54,429	25,249	34,165
Construction in progress and prepayments for equipment	406	-	-	406	-
	<u>\$ 5,381,746</u>	<u>\$ 279,008</u>	<u>\$ 1,919,833</u>	<u>\$ 3,740,921</u>	<u>\$ 3,932,286</u>

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

The interest expense for the years ended December 31, 2009 and 2008 amounted to \$316,272 thousand and \$475,422 thousand, respectively. Interest costs capitalized as part of the costs of property, plant and equipment for the years ended December 31, 2009 and 2008 amounted to \$9 thousand and \$243 thousand, respectively. The rates of capitalized interest for the year were 2.29% and 2.60%, respectively.

14. OTHER ASSETS

Other assets as at December 31, 2009 and 2008 consisted of the following:

	2009	2008
Leased-out assets		
Cost and revaluation increment	\$ 3,146,282	\$ 3,146,129
Less accumulated depreciation	<u>(328,724)</u>	<u>(266,044)</u>
	<u>2,817,558</u>	<u>2,880,085</u>
Refundable deposits	10,836	11,128
Deferred charges	52,961	35,664
Deferred income tax assets (Note 26)	133,200	159,680
Land held by trustee	73,713	73,713
Others - land and buildings for sale	5,430	5,478
Temporary tax payments (Note 26)	<u>1,489</u>	<u>1,489</u>
	<u>\$ 3,095,187</u>	<u>\$ 3,167,237</u>

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

Three parcels of land located in Changhwa County were purchased by the Company for \$22,187 thousand in June 1990, for \$33,668 thousand in April 1997, and for \$17,858 thousand in July 2007. According to related laws, the ownership for these three parcels of land should be changed to the Company. However, due to certain restrictions under the land regulations, the ownership for these three parcels of land resides with a trustee through a trust agreement which prohibits the trustee from selling, pledging or hypothecating the property. Consequently, the three parcels of land amounted to \$73,713 thousand at December 31, 2009, are included in "other assets - land held by trustee".

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

15. SHORT-TERM LOANS

Short-term loans as at December 31, 2009 and 2008 consisted of the following:

	2009		2008	
	Annual Interest Rate %	Balance	Annual Interest Rate %	Balance
Unsecured loans	0.75-0.85	<u>\$ 4,441,000</u>	1.43-2.78	<u>\$ 3,560,000</u>

16. OTHER PAYABLES

	2009	2008
Employee bonus payable (Note 23)	\$ 251,777	\$ 64,171
Salary and wages payable	245,954	194,628
Commensation due to directors and supervisors (Note 23)	127,805	66,156
Interest payable	25,002	51,789
Payables on machinery and equipment	5,682	4,906
Other accrued expenses	<u>211,597</u>	<u>338,752</u>
	<u>\$ 867,817</u>	<u>\$ 720,402</u>

17. CURRENT PORTION OF LONG-TERM LIABILITIES

Current portion of long-term liabilities as at December 31, 2009 and 2008 consisted of the following:

	2009	2008
Long-term debt (see Note 18)	<u>\$ -</u>	<u>\$ 3,875,000</u>

18. LONG-TERM DEBT

Long-term debt as at December 31, 2009 and 2008 consisted of the following:

	2009	2008
Citibank (lead lender) Syndication Loan Long-term debt, \$6,500,000 thousand, due in semiannual repayments commencing April 25, 2009 and maturing October 25, 2010. Interest rates range from 0.890% to 0.919%.	\$ 3,250,000	\$ 6,500,000
China Trust Commercial Bank (lead lender) Syndication Loan Long-term debt, \$2,500,000 thousand, due in semiannual repayments commencing December 9, 2009 and maturing June 9, 2011. Interest rate is 0.9144%.	1,875,000	2,500,000
China Trust Commercial Bank (lead lender) Syndication Loan Long-term debt, \$7,000,000 thousand, due in semiannual repayments commencing November 16, 2011 and maturing May 16, 2013. Interest rate is 0.9778%.	<u>7,000,000</u>	<u>7,000,000</u>
	12,125,000	16,000,000
Less current portion (see Note 17)	<u>-</u>	<u>(3,875,000)</u>
	<u>\$ 12,125,000</u>	<u>\$ 12,125,000</u>

The current portion of Citibank and China Trust Commercial Bank syndication loan had been refinanced, and was recorded as long-term debt.

19. 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 2009 consisted of the following:

Service cost	\$ 27,532
Interest cost	33,760
Expected return on plan assets	(10,993)
Amortization of net transition asset	(1,875)
Amortization of pension loss	<u>8,307</u>
	<u>\$ 56,731</u>

The following sets forth the actuarial assumptions and plan's status as at December 31, 2009:

Weighted-average discount rate	2.00%
Assumed rate of increase in salary	2.50%
Expected rate of return on plan assets	2.00%

Actuarial present value of benefit obligation	
Vested benefits	\$ (295,244)
Nonvested benefits	<u>(738,767)</u>
Accumulated benefit obligation	(1,034,011)
Additional benefits at future salaries	<u>(336,180)</u>
Projected benefit obligation	(1,370,191)
Plan assets at fair value	<u>388,737</u>
Projected benefit obligation in excess of plan assets	(981,454)
Net transition asset not yet recognized	(4,624)
Net pension loss not yet recognized	381,510
Additional pension liability	<u>(40,706)</u>
Accrued pension cost	<u>\$ (645,274)</u>

As at December 31, 2009, the vested benefit was \$364,454 thousand.

In 2009, the Company recognized the pension cost expense of \$92,385 thousand based on 6% of the employees' monthly salaries and wages, under the Labor Pension Act.

20. OTHER LIABILITIES

	2009	2008
Unrealized gross profit from inter-affiliate transactions	\$ 31,526	\$ 30,754
Others (Note 10)	<u>69,409</u>	<u>-</u>
	<u>\$ 100,935</u>	<u>\$ 30,754</u>

21. CAPITAL STOCK

	2009	2008
Registered capital		
Shares (in thousands)	<u>4,500,000</u>	<u>4,500,000</u>
Par value (in dollars)	<u>\$ 10</u>	<u>\$ 10</u>
Capital	<u>\$ 45,000,000</u>	<u>\$ 45,000,000</u>
Issued capital		
Shares (in thousands)	<u>2,843,085</u>	<u>2,740,006</u>
Par value (in dollars)	<u>\$ 10</u>	<u>\$ 10</u>
Capital	<u>\$ 28,430,847</u>	<u>\$ 27,400,055</u>

The Company's outstanding capital stock was \$27,400,055 thousand as at January 1, 2009. As at June 16, 2009, the stockholders' meeting approved to issue additional capital stock of \$1,372,183 thousand through unappropriated earnings of \$1,331,134 thousand and bonuses to employees of \$41,049 thousand. The employee stock bonus of 4,105 thousand shares amounted to \$41,049 thousand were determined by dividing the amount of bonuses to employees resolved in the shareholders' meeting by the closing price of the shares on the day preceding the shareholders' meeting. Furthermore, employee stock warrants were exercised for 361 thousand shares (amounted to \$3,609 thousand) during 2009. Additionally, the Company retired the treasury stock of 34,500 thousand shares (amounted to \$345,000 thousand) and decreased the capital in 2009. As a result, the Company's outstanding capital stock was \$28,430,847 thousand, divided into 2,843,085 thousand common shares with a par value of \$10 dollars per share as at December 31, 2009.

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, 2008, the weighted average number of shares used in the calculation of earnings per share has been restated for the retroactive effect of the stock dividends issued in 2009.

22. EMPLOYEE STOCK OPTION PLANS

As at July 15, 2002, the board of directors of the Company resolved to issue employee stock warrants in accordance with Securities and Exchange Law Article 28-3 within the quantity of 67,600 units. Each individual employee stock warrant is granted the right to purchase new issued common share for 1,000 shares. The exercise price is the closing price of the Company's common shares at the employee stock warrants' issuance date. The warrant holder can exercise the right up to one-third of the granted warrant units no earlier than two years from the granted date. After four years from the granted date, the warrants holders are eligible to exercise all the warrants owned. As of August 6, 2002, and July 24, 2003, the Company has issued 66,600 units, and 1,000 units of employee stock warrants, respectively, to the employees with an exercise price of \$23.30 dollars, and \$41.20 dollars per share, respectively. The exercise price of the warrant in 2009 has been retroactively restated as \$10.00 dollars and \$17.80 dollars per share, respectively, due to the stock dividends issued.

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

If the Company resolved to increase additional capital stock through stock dividends or issue of new shares, the exercise price will be retroactively restated. Additionally, the share of employee stock warrant granted but not exercised will also be adjusted. After the aforementioned adjustment, the exercise price and issued units of employee stock warrants were \$24.10 dollars and 146,506,295 shares, respectively.

As at December 31, 2009, the employee stock warrants issued in 2002 were executed for 23,197 thousand shares of common stock.

Information about the Company's outstanding stock warrants for the years ended December 31, 2009 and 2008 was as follows:

	2009		2008	
	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	184,200	\$ 22.09	173,984	\$ 24.35
Stock warrants granted	-	-	-	-
Adjustment from ownership dilution	7,071	24.10	13,936	25.90
Stock warrants exercised	<u>(361)</u>	10.00	<u>(3,720)</u>	10.00
Balance, end of year	<u>190,910</u>	20.86	<u>184,200</u>	22.09
Exercisable stock warrants, end of year	<u>93,238</u>		<u>44,764</u>	

As at December 31, 2009 and 2008, 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>2009</u>					
\$10.00-\$24.10	<u>190,910</u>	<u>6.63</u>	<u>\$ 20.86</u>	<u>93,238</u>	<u>\$ 17.47</u>
<u>2008</u>					
\$10.00-\$25.90	<u>184,200</u>	<u>7.58</u>	<u>\$ 22.09</u>	<u>44,764</u>	<u>\$ 10.21</u>

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, 2009 would have been as follows:

	2009	2008
Income before income tax	<u>\$ 6,612,958</u>	<u>\$ 4,504,297</u>
Net income	<u>\$ 6,522,958</u>	<u>\$ 4,530,827</u>
Basic earnings per share (in dollars)	<u>\$ 2.34</u>	<u>\$ 1.57</u>

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

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

23. RETAINED EARNINGS

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

- For paying tax,
- For offsetting deficit,
- 10% of the annual earnings as legal reserve,
- Less than 3% as bonus to directors and supervisors after the three above are appropriated,
- 1% -5% as bonus to employees after the four above are appropriated,

- f. As special reserve or being retained partially, and
- g. Dividends to stockholders as proposed according to stock ownership proportion.
- h. For share bonus to qualified employees, including the employees of subsidiaries of the company meeting specific requirements. Regarding the terms and proportion, the board of directors of the Company is authorized to resolve.

For the years ended December 31, 2009 and 2008, the bonus to employees was \$251,777 thousand and \$70,357 thousand, respectively, and the remuneration to directors and supervisors was \$127,805 thousand and \$59,970 thousand, respectively. The bonus to employees and remuneration to directors and supervisors both depended on the base amount determined according to the articles of incorporation (net of the bonus to employees and bonus to directors and supervisors). The amounts were estimated based on past experience. If bonus shares are resolved to be distributed to employees, the number of shares is determined by dividing the amount of bonus by the closing price (after considering the effect of cash and stock dividends) of the shares of the day preceding the shareholders' meeting.

The appropriations of earnings for 2008 and 2007 had been approved in the shareholders' meetings on June 16, 2009 and June 13, 2008, respectively. The appropriations and dividends per share were as follows:

	<u>Appropriation of Earnings</u>		<u>Dividends Per Share (NT\$)</u>	
	For Year 2008	For Year 2007	For Year 2008	For Year 2007
Legal reserve	\$ 498,719	\$ 480,025	\$ -	\$ -
Cash dividends	1,331,134	2,471,099	0.50	1.00
Stock dividends	1,331,134	2,471,099	0.50	1.00
Bonus to employees - stock	-	273,216	-	-
Bonus to directors and supervisors - cash	-	169,000	-	-

The bonus to employees of \$70,357 thousand and the remuneration to directors and supervisors of \$59,970 thousand for 2008 were approved in the stockholders' meeting on June 16, 2009. The number of shares of 4,105 thousand was determined by dividing the amount of bonus to employees by the closing price of shares on the day preceding the stockholders' meeting. The approved amounts of the bonus to employees and the remuneration to directors and supervisors were not different from the accrual amounts, reflected in the financial statements for the year ended December 31, 2008.

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

24. TREASURY STOCK

The changes in treasury stock in 2009 are summarized as follows (in shares):

Reason	2009.01.01	Increase	Decrease	2009.12.31
For transfer to employees	43,300,000	-	-	43,300,000
To maintain the Company's credibility and shareholders' interest	17,200,000	17,300,000	34,500,000	-
Common shares held by subsidiaries	<u>9,554,965</u>	<u>477,747</u>	<u>-</u>	<u>10,032,712</u>
	<u>70,054,965</u>	<u>17,777,747</u>	<u>34,500,000</u>	<u>53,332,712</u>

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

The Company wrote off 27,500 thousand shares in March 2009 and 7,000 thousand shares in April 2009, and got the approval of the Ministry of Economic Affairs with a document No. 09801074100 on April 14 and No. 09801098500 on May 19, 2009 and finished registering in capital reduction.

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 2009, after the stock dividends were received by the subsidiaries, 477,747 shares were added to treasury stock. As at December 31, 2009, the subsidiaries held 10,032,712 shares of the Company's common stock at cost of \$155,375 thousand in total. The Company had adjusted the carrying value according to the percentage of the subsidiaries holding shares.

25. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

Personnel, depreciation, and amortization expenses for the years ended December 31, 2009 and 2008 are summarized as follows:

Function Category	2009				2008			
	Operating Cost	Operating Expenses	Non- operating Expenses	Total	Operating Cost	Operating Expenses	Non- operating Expenses	Total
Personnel expense								
Salaries	\$ 137,350	\$ 1,828,200	\$ -	\$ 1,969,550	\$ 130,538	\$ 1,515,214	\$ -	\$ 1,645,752
Labor insurance and health insurance	11,032	62,822	-	73,854	10,323	103,173	-	113,496
Pension cost	5,566	143,550	-	149,116	4,773	137,802	-	142,575
Others	3,169	36,687	-	39,856	4,592	37,799	-	42,391
Depreciation expenses	15,130	213,360	62,727	291,217	14,959	225,257	62,598	302,814
Amortization expenses	8,553	25,908	-	34,461	4,579	77,863	-	82,442

26. INCOME TAX

The Company's income tax expense for the year ended December 31, 2009 is as follows:

Basic tax payable	\$ 54,088
Adjustment of deferred tax asset and valuation allowance	(5,510)
Effect of tax law changes on deferred income tax	41,430
Adjustment of prior year's income tax expense	<u>(8)</u>
Income tax expense	<u>\$ 90,000</u>

In May 2009, the Legislative Yuan passed the amendment of Article 5 of the Income Tax Law, which reduces a profit-seeking enterprise's income tax rate from 25% to 20%, effective 2010. The Company recalculated its deferred tax assets and liabilities in accordance with the amended Article and recorded the resulting difference as a deferred income tax benefit or expense.

The components of deferred tax assets as at December 31, 2009 are as follows:

Deferred tax assets	
Unrealized pension expense	\$ 122,800
Unrealized bad debt losses	21,060
Unrealized impairment loss	10,000
Unrealized inventory devaluation losses	7,000
Unrealized profit from inter-affiliate transactions	1,150
Unrealized maintenance and repairs expenses	290
Unrealized gain on disposal of property, plant and equipment	110
Unrealized net exchange loss	<u>3,290</u>
Deferred tax assets	165,700
Deferred tax assets, current	<u>(32,500)</u>
Deferred tax assets, noncurrent	<u>\$ 133,200</u>

The Company's current income tax for the year ended December 31, 2009 and income tax payable as at December 31, 2009 were reconciled as follows:

Income tax expense at statutory rate of 25%	\$ 1,779,000
Investments income recognized under equity method	(1,752,800)
Gain on disposal of investments	(900)
Dividend income - tax free	(10,000)
Investees decreased capital to offset its accumulated deficit	(165,200)
Others	<u>149,900</u>
Income tax payable	-
Add: Income tax under the Alternative Minimum Tax Act	54,088
Add: Prior year's income tax payable	2,261
Less: Temporary tax payment	<u>(561)</u>
Income tax payable as at December 31, 2009	<u>\$ 55,788</u>

Temporary tax payments amounted to \$1,489 thousand as at December 31, 2009.

The income tax returns for the years through 2006 have been examined and approved by the tax authority.

The information of the integrated income tax system as at December 31, 2009 is as follows:

Balance of Imputation Credit Account	<u>\$ 180,160</u>
Undistributed earnings for the years of 1997 and before	<u>\$ 310,501</u>
Undistributed earnings for the years of 1998 and thereafter	<u>\$ 9,275,072</u>
Expected IC ratio on distributed earnings for the year of 2009	<u>2.53%</u>
Actual IC ratio of earnings distribution for the year of 2008	<u>4.51%</u>

The expected IC ratio on distributed earnings for the year of 2009 has considered income tax payable as at December 31, 2009.

27. EARNINGS PER SHARE

For the years ended December 31, 2009 and 2008, earnings per share before income tax and earnings per share after income tax are as follows:

	2009				
	Amounts		Weighted Average Number of Common Shares Outstanding (In Thousands)	Earnings Per Share	
	Before Income Tax	After Income Tax		Before Income Tax	After Income Tax
Basic earnings per share					
Net income attributed to shareholders of common shares	\$ 7,116,018	\$ 7,026,018	2,790,177	<u>\$ 2.55</u>	<u>\$ 2.52</u>
Effect of dilutive potential common shares					
Bonus to employees	-	-	9,912		
Employee stock warrants	<u>-</u>	<u>-</u>	<u>22,376</u>		
Diluted earnings per share					
Net income attributed to shareholders of common shares plus the effect of dilutive potential common shares	<u>\$ 7,116,018</u>	<u>\$ 7,026,018</u>	<u>2,822,465</u>	<u>\$ 2.52</u>	<u>\$ 2.49</u>
	2008				
	Amounts		Weighted Average Number of Common Shares Outstanding (In Thousands)	Earnings Per Share	
	Before Income Tax	After Income Tax		Before Income Tax	After Income Tax
Basic earnings per share					
Net income attributed to shareholders of common shares	\$ 5,044,958	\$ 5,071,488	2,876,825	<u>\$ 1.75</u>	<u>\$ 1.76</u>
Effect of dilutive potential common shares					
Bonus to employees	-	-	4,380		
Employee stock warrants	<u>-</u>	<u>-</u>	<u>26,638</u>		
Diluted earnings per share					
Net income attributed to shareholders of common shares plus the effect of dilutive potential common shares	<u>\$ 5,044,958</u>	<u>\$ 5,071,488</u>	<u>2,907,843</u>	<u>\$ 1.73</u>	<u>\$ 1.74</u>

28. DISCLOSURES FOR FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

The fair value of nonderivative and derivative financial instruments as at December 31, 2009 and 2008 is summarized as follows:

Nonderivative Financial Instruments	2009		2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
Cash and cash equivalents	\$ 613,704	\$ 613,704	\$ 3,202,146	\$ 3,202,146
Financial assets at fair value through profit or loss, current	-	-	99,999	99,999
Available-for-sale financial assets, current	2,949,928	2,949,928	1,821,838	1,821,838
Notes and accounts receivable	103,437	103,437	235,790	235,790
Note and accounts receivable from affiliates	1,533,474	1,533,474	1,074,526	1,074,526
Other receivables	250,108	250,108	451,113	451,113
Investments accounted for by the equity method	58,835,850	58,806,710	51,460,023	47,847,470
Refundable deposits	10,836	10,836	11,128	11,128
Liabilities				
Short-term loans	4,441,000	4,441,000	3,560,000	3,560,000
Notes and accounts payable	1,160,584	1,160,584	684,365	684,365
Notes and accounts payable to affiliates	235,832	235,832	179,053	179,053
Other payables	867,817	867,817	720,402	720,402
Current portion of long-term liabilities	-	-	3,875,000	3,875,000
Long-term debt	12,125,000	12,125,000	12,125,000	12,125,000
Guarantee deposits received	2,288	2,288	2,288	2,288
Derivative Financial Instruments	2009		2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Interest rate swap contracts (hedging derivate liabilities, current)	\$ 33,310	\$ 33,310	\$ 25,822	\$ 25,822
Interest rate swap contracts (hedging derivate liabilities, noncurrent)	95,361	95,361	163,495	163,495

The information about derivative financial instruments is summarized as follows:

Bank	Derivative Financial Instruments	Principal	Maturity Date	Pay Rate (Fixed Rate)	Received Rate (Floating Rate)	Fair Value
Citibank	Interest rate swap	\$ 475,000	2010.10.25	2.07%	0.494%	\$ (5,330)
ANZ Bank	"	650,000	2010.10.25	2.0475%	0.494%	(7,094)
Standard Chartered Bank	"	500,000	2010.10.25	2.07%	0.494%	(5,555)
Deutsche Bank	"	500,000	2010.10.25	2.005%	0.494%	(5,356)
China Trust Commercial Bank	"	975,000	2011.06.09	2.24%	0.49%	(14,962)
Citibank	"	2,000,000	2013.05.16	2.26%, 2.28%, 2.46% and 2.48%	0.49%	(59,922)
China Trust Commercial Bank	"	1,000,000	2013.05.16	2.28% and 2.48%	0.49%	(30,452)
		<u>6,100,000</u>				<u>(128,671)</u>
Less current portion		<u>(2,775,000)</u>				<u>33,310</u>
		<u>\$ 3,325,000</u>				<u>\$ (95,361)</u>

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

- The fair value of cash and cash equivalents, notes and accounts receivable, short-term loans, and notes and accounts payable, approximates their carrying value due to the short-term maturities of these financial instruments.
- The fair value of financial instruments at fair value through profit or loss, available-for-sale financial assets and derivative financial instruments are quoted by market price. The fair value of derivative financial instruments is measured, according to its specific contract's settlement rate, by the middle exchange rate and the discount rate quoted by Reuters.
- The fair values of investments accounted for by the equity method are based on their quoted prices in the active market. For those investments with no quoted market prices, their fair values are based on the net price per share in the financial report verified and certified by an independent accountant issued as at December 31, 2009.
- The fair value of long-term debt is estimated based on the net present value of expected cash flows.

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

	Quoted Market Price in Active Market		Other Method of Valuation	
	2009	2008	2009	2008
Assets				
Financial assets at fair value through profit or loss, current	\$ -	\$ 99,999	\$ -	\$ -
Available-for-sale financial assets, current	2,949,928	1,821,838	-	-
Liabilities				
Hedging derivative liabilities, current	-	-	33,310	25,822
Hedging derivative liabilities, noncurrent	-	-	95,361	163,495

As at December 31, 2009 and 2008, financial liabilities exposed to cash flow interest rate risk were \$16,566,000 thousand and \$19,560,000 thousand, respectively.

Financial Risk Information

a. Market risk

The risk that the Company engaged in portfolios of marketable equity securities and open-ended mutual fund comes from changes of market price. One percentage decline in market rate will cause the fair value of financial instruments to decline by \$90,226 thousand.

b. 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.

c. 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.

d. Cash flow interest rate risk

The Company engaged in floating-interest-rate, short-term and long-term borrowings. Therefore, cash flows are expected to fluctuate due to changes in market interest rates. One percentage increase in market rate will cause the Company to increase its cash-out by \$165,660 thousand.

Reclassifications

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

	Before Reclassifications	After Reclassifications
Financial assets at fair value through profit or loss - held for trading	\$ 3,175,570	\$ -
Available-for-sale financial assets	<u>-</u>	<u>3,175,570</u>
	<u>\$ 3,175,570</u>	<u>\$ 3,175,570</u>

In view of the Company's intention of not selling the above mentioned financial assets held for trading within a short period of time as a result of the economic instability and deterioration of the world's financial markets that has occurred during 2008, the Company reclassified these held for trading financial assets to available-for-sale financial assets.

The carrying amounts and fair values of the reclassified financial assets as at December 31, 2009 and 2008 were as follows:

	2009		2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Available-for-sale financial assets	\$ 2,949,928	\$ 2,949,928	\$ 1,821,838	\$ 1,821,838

The gains or losses recorded for the reclassified financial assets (excluding those that had been derecognized before December 31, 2009 and 2008, respectively) for the years ended December 31, 2009 and 2008 and the pro forma gains or losses assuming no reclassifications had been made were as follows:

	Years Ended December 31			
	2009		2008	
	Gains (Losses) Recorded	Pro Forma Gains (Losses)	Gains (Losses) Recorded	Pro Forma Gains (Losses)
Available-for-sale financial assets	\$ -	\$ 3,235,950	\$ (25,301)	\$ (3,911,909)

29 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
Windsor Entertainment Co., Ltd. (“Windsor Entertainment”)	The Company holds a 100% ownership interest
Pou Yuen Technology Co., Ltd. (“Pou Yuen Technology”)	The Company holds a 97.40% ownership interest
Barits Development Corporation (“Barits Development”)	The Company holds a 99.47% ownership interest
Pou Yii Development Co., Ltd. (“Pou Yii”)	The Company and Song Ming hold a 89.69% ownership interest
LNC Technology Co., Ltd. (“LNC Technology”)	The Company holds a 85.41% ownership interest
Yue Yuen Industrial (Holdings) Limited (“Yue Yuen”)	The Company indirectly holds a 49.98% ownership interest
Ming Chi Investment Co., Ltd. (“Ming Chi”)	Barits Development holds a 100% ownership interest
Pou Chien Chemical Co., Ltd. (“Pou Chien Chemical”)	Yue Yuen indirectly holds a 100% ownership interest
Pou Chien Technology Co., Ltd. (“Pou Chien Technology”)	Yue Yuen indirectly holds a 100% ownership interest
Pou Yu Biotechnology Co., Ltd. (“Pou Yu Biotechnology”)	Wealthplus indirectly holds a 68.55% ownership interest
Yue Dean Technology Co. (“Yue Dean”)	Yue Yuen indirectly holds a 100% ownership interest

(Continued)

Name	Relationship
San Fang Chemical Industry Co., Ltd. (“San Fang”) Pro Arch International Development Enterprise Inc. (formerly know as Pro Arch Technology) (“Pro Arch International”)	Pou Chien and Yue Dean are its directors The Company holds a 96.32% ownership interest
Platinum Long John Co., Ltd. (“Platinum Long John”)	Yue Yuen indirectly holds a 48.76% ownership interest
Digital Decade Limited (“Digital Decade”)	Wealthplus indirectly holds a 100% ownership interest
Tetor Ventures Ltd. (“Tetor Ventures”) Mindtech Investments Limited (“Mindtech”)	Wealthplus holds a 100% ownership interest Wealthplus indirectly holds a 100% ownership interest
Maple Star Investments Ltd. (“Maple Star”)	Wealthplus indirectly holds a 79.60% ownership interest
Vantage Capital Investments Ltd. (“Vantage Capital”)	Pou Yuen Technology indirectly holds a 100% ownership interest

(Concluded)

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

Sales and Technical Service Income

Sales to related parties for the years ended December 31, 2009 and 2008 are as following:

	2009		2008	
	Amount	Percentage to Net Sales	Amount	Percentage to Net Sales
Yue Yuen	\$ 9,724,121	90	\$ 10,281,301	90
Others	<u>39,716</u>	<u>-</u>	<u>27,179</u>	<u>-</u>
	<u>\$ 9,763,837</u>	<u>90</u>	<u>\$ 10,308,480</u>	<u>90</u>

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

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, 2009 and 2008 are summarized as following:

	2009		2008	
	Amount	Percentage to Net Purchases	Amount	Percentage to Net Purchases
San Fang	\$ 552,346	7	\$ 572,236	7
Yue Yuen	490,739	6	521,428	6
Platinum Long John	513,246	6	320,980	4
Digital Decade	-	-	74,201	1
Others	<u>1,031</u>	<u>-</u>	<u>180</u>	<u>-</u>
	<u>\$ 1,557,362</u>	<u>19</u>	<u>\$ 1,489,025</u>	<u>18</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, 2009 and 2008 are summarized as following:

	2009		2008	
	Amount	Percentage to Rent Revenue	Amount	Percentage to Rent Revenue
Windsor Entertainment	\$ 106,968	63	\$ 107,169	62
Pou Chien Chemical	14,554	9	14,442	8
Others	<u>34,951</u>	<u>21</u>	<u>38,434</u>	<u>23</u>
	<u>\$ 156,473</u>	<u>93</u>	<u>\$ 160,045</u>	<u>93</u>

Notes and Accounts Receivable

Notes and accounts receivable from affiliates as at December 31, 2009 and 2008 are summarized as following:

	2009		2008	
	Amount	Percentage to Notes and Accounts Receivable	Amount	Percentage to Notes and Accounts Receivable
Notes receivable				
Pou Chien Technology	\$ -	-	\$ 2,435	6
Others	<u>-</u>	<u>-</u>	<u>92</u>	<u>-</u>
	<u>-</u>	<u>-</u>	<u>2,527</u>	<u>6</u>
Accounts receivable				
Yue Yuen	1,526,835	93	1,061,060	84
Others	<u>6,639</u>	<u>-</u>	<u>10,939</u>	<u>1</u>
	<u>1,533,474</u>	<u>93</u>	<u>1,071,999</u>	<u>85</u>
	<u>\$ 1,533,474</u>		<u>\$ 1,074,526</u>	

Notes and Accounts Payable

Notes and accounts payable to related parties as at December 31, 2009 and 2008 are summarized as follows:

	2009		2008	
	Amount	Percentage to Notes and Accounts Payable	Amount	Percentage to Notes and Accounts Payable
Notes payable				
San Fang	<u>\$ 58,253</u>	<u>61</u>	<u>\$ 56,296</u>	<u>61</u>
Accounts payable				
Yue Yuen	69,709	5	57,994	8
San Fang	49,425	4	34,479	4
Platinum Long John	58,175	5	30,277	4
Others	<u>270</u>	<u>-</u>	<u>7</u>	<u>-</u>
	<u>177,579</u>	<u>14</u>	<u>122,757</u>	<u>16</u>
	<u>\$ 235,832</u>		<u>\$ 179,053</u>	

Compensation of Directors, Supervisors and Management Personnel

	Years Ended December 31	
	2009	2008
Salaries	\$ 19,850	\$ 18,457
Incentives	127,805	59,970
Bonus	10,630	8,793
Other	<u>5,296</u>	<u>5,481</u>
	<u>\$ 163,581</u>	<u>\$ 92,701</u>

The compensation of directors, supervisors and management personnel for the years ended December 31, 2009 and 2008 included the bonuses appropriated from earnings for 2009 and 2008 proposed to or approved by shareholders in their annual meeting is going to hold or held in 2010 and 2009.

Acquisition of Individual Real Estate

The Company purchased the part of land at Guangshun section, Situn District, Taichung from Barits Development. The price of \$187,309 is based on the amount Barits Development paid formerly plus cost of capital. It is recorded as investment in real estate.

Credit Guarantees

See Note 30.

30. COMMITMENTS AND CONTINGENCIES

Letters of Credit

Outstanding letters of credit as at December 31, 2009 are as follows:

U.S. Dollars	<u>\$ 159,224</u> (dollar)
N.T. Dollars	<u>25,735</u>

Outstanding letters of guarantee for raw materials purchasing as at December 31, 2009 are \$30,000 thousand.

At December 31, 2009 the Company has guaranteed the payments of credit of related parties as follows:

Related Party	Amount
Wealthplus	\$ 11,468,415
Barits Development	6,746,560
Pou Shine	1,050,000
Pou Yuen Technology	1,502,368
Ming Wang	650,000
Pro Arch International	528,000
LNC Technology	57,243
Windsor Entertainment	100,000
Ming Chi	211,000
Pou Yii	400,000
Pou Yu Biotechnology	5,525
Tetor Ventures	612,289
Digital Decade	6,250,846
Maple Star	1,166,355
Vantage Capital	41,587
Mindtech	<u>447,860</u>
	<u>\$ 31,238,048</u>

31. SUBSEQUENT EVENTS

On March 16, 2010, the Company's board of directors decided to dispose common shares of Global Brands Manufacture Ltd. held by the Company and its subsidiaries', - Pou Shine Investments Co., Ltd., Barits Development Corporation and Pou Yuen Technology Co., Ltd., etc. On March 24, 2010, the Company's 147,589 thousand shares, Pou Shine Investments Co., Ltd.'s 13,167 thousand shares, Barits Development Corporation's 2,900 thousand shares and Pou Yuen Technology Co., Ltd.'s 2,844 thousand shares were sold by \$28.75 per share. The disposal gain was \$333,931 thousand approximately.