

Pou Chen Corporation and Subsidiaries

**Consolidated Financial Statements for the
Years Ended December 31, 2010 and 2009 and
Independent Auditors' Report**

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Pou Chen Corporation

We have audited the accompanying consolidated balance sheets of Pou Chen Corporation and subsidiaries (collectively, the "Company") as of December 31, 2010 and 2009, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2010 and 2009, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

March 25, 2011

Notice to Readers

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

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

POU CHEN CORPORATION AND SUBSIDIARIES

**CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2010 AND 2009
(In Thousands of New Taiwan Dollars)**

ASSETS	2010		2009		LIABILITIES AND STOCKHOLDERS' EQUITY	2010		2009	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents (Notes 2 and 4)	\$ 24,199,996	12	\$ 47,639,464	19	Short-term loans (Note 16)	\$ 14,326,192	7	\$ 25,410,495	10
Financial assets at fair value through profit or loss, current (Notes 2 and 5)	1,434,448	1	968,493	-	Short-term bills payable (Note 17)	1,364,378	1	1,779,074	1
Available-for-sale financial assets, current (Notes 2 and 6)	10,344,804	5	8,519,459	4	Notes payable	47,988	-	45,379	-
Financial assets carried at cost, current (Notes 2 and 7)	239,664	-	-	-	Notes payable to affiliates (Note 30)	48,791	-	58,253	-
Notes receivable (Notes 2 and 8)	31,649	-	23,128	-	Accounts payable	12,095,473	6	14,236,670	6
Notes receivable from affiliates (Notes 2, 8 and 30)	5,771	-	-	-	Accounts payable to affiliates (Note 30)	1,397,807	1	1,171,890	-
Accounts receivable (Notes 2 and 8)	21,285,066	10	22,380,032	9	Income tax payable (Notes 2 and 26)	945,370	-	665,657	-
Accounts receivable from affiliates (Notes 2, 8 and 30)	491,800	-	978,847	-	Financial liabilities at fair value through profit or loss, current (Notes 2 and 5)	787,714	-	361,551	-
Other receivables	5,008,524	3	6,236,861	3	Hedging derivative liabilities, current (Notes 2 and 28)	20,017	-	33,310	-
Inventories (Notes 2 and 9)					Other payables (Note 18)	12,016,619	6	14,581,896	6
Inventories - manufacturing	23,154,951	11	24,716,162	10	Progressive billings in excess of construction in progress (Notes 2 and 9)	53,745	-	56,846	-
Inventories - construction	3,926,336	2	3,854,912	2	Current portion of long-term liabilities (Note 19)	16,402,595	8	11,434,614	5
Construction in progress in excess of progressive bills (Notes 2 and 9)	48,376	-	-	-	Other current liabilities	2,192,221	1	2,219,238	1
Other current assets	6,283,906	3	6,611,798	3	Total current liabilities	61,698,910	30	72,054,873	29
Total current assets	96,455,291	47	121,929,156	50					
FUNDS AND LONG-TERM INVESTMENTS					LONG-TERM LIABILITIES				
Financial assets at fair value through profit or loss, noncurrent (Notes 2 and 5)	1,340,679	1	1,769,719	1	Bonds payable (Notes 2 and 20)	-	-	8,120,369	3
Available-for-sale financial assets, noncurrent (Notes 2 and 10)	1,729,260	1	1,085,863	-	Long-term debt (Note 21)	29,657,749	14	45,909,621	19
Financial assets carried at cost, noncurrent (Notes 2 and 11)	1,176,622	1	1,275,782	1	Hedging derivative liabilities, noncurrent (Notes 2 and 28)	52,502	-	95,362	-
Investments accounted for by the equity method (Notes 2 and 12)	30,122,903	14	32,345,322	13	Total long-term liabilities	29,710,251	14	54,125,352	22
Investments in real estate (Notes 2 and 13)	186,123	-	186,123	-					
Prepayments for investments (Note 12)	559,967	-	-	-	RESERVE FOR LAND VALUE INCREMENT TAX (Note 14)	86,547	-	142,664	-
Total funds and long-term investments	35,115,554	17	36,662,809	15					
PROPERTY, PLANT AND EQUIPMENT (Notes 2 and 14)					OTHER LIABILITIES				
Cost	95,210,027	46	109,529,128	45	Accrued pension cost (Notes 2 and 22)	694,613	-	666,253	-
Revaluation increment	293,323	-	293,323	-	Guarantee deposits received	6,146	-	5,834	-
	95,503,350	46	109,822,451	45	Deferred income tax liability, noncurrent (Notes 2 and 26)	730,435	1	834,715	1
Less accumulated depreciation	(41,801,465)	(20)	(45,977,027)	(19)	Others	11,412	-	118,126	-
Less accumulated impairment	(39,205)	-	(244,532)	-	Total other liabilities	1,442,606	1	1,624,928	1
Construction in progress and prepayments for equipment	3,291,092	2	3,791,114	1	Total liabilities	92,938,314	45	127,947,817	52
Property, plant and equipment, net	56,953,772	28	67,392,006	27					
INTANGIBLE ASSETS (Note 2)					STOCKHOLDERS' EQUITY				
Goodwill	7,099,349	3	7,819,026	3	Capital stock (Note 23)	28,997,559	14	28,430,847	12
Other intangible assets	2,122,073	1	2,515,177	1	Capital surplus (Note 2)	8,063,112	4	7,453,437	3
Total intangible assets	9,221,422	4	10,334,203	4	Retained earnings (Note 23)	20,569,705	10	17,433,768	7
OTHER ASSETS (Notes 2 and 15)					Cumulative translation adjustments (Note 2)	(4,563,813)	(2)	(127,367)	-
	9,134,954	4	9,402,878	4	Net loss not recognized as pension cost (Notes 2 and 22)	(57,341)	-	(40,706)	-
					Unrealized gain (loss) on financial instruments (Note 2)	1,202,722	1	(364,936)	-
					Unrealized revaluation increment	134,641	-	134,641	-
					Treasury stock (Notes 2 and 24)	(1,241,416)	(1)	(1,241,416)	(1)
					Minority interest	60,837,510	29	66,094,967	27
					Total stockholders' equity	113,942,679	55	117,773,235	48
TOTAL	\$ 206,880,993	100	\$ 245,721,052	100	TOTAL	\$ 206,880,993	100	\$ 245,721,052	100

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

POU CHEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME YEARS ENDED DECEMBER 31, 2010 AND 2009

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

	2010		2009	
	Amount	%	Amount	%
GROSS SALES AND REVENUES EARNED (Notes 2 and 30)	\$ 193,236,801	100	\$ 206,821,443	100
LESS SALES RETURNS AND ALLOWANCES	<u>(79,901)</u>	<u>-</u>	<u>(381,552)</u>	<u>-</u>
NET SALES AND REVENUES EARNED	193,156,900	100	206,439,891	100
COST OF GOODS SOLD (Note 30)	<u>145,209,724</u>	<u>75</u>	<u>155,744,458</u>	<u>76</u>
GROSS PROFIT	<u>47,947,176</u>	<u>25</u>	<u>50,695,433</u>	<u>24</u>
OPERATING EXPENSES				
Selling expenses	14,401,867	8	13,814,497	7
General and administrative expenses	14,327,360	7	17,182,421	8
Research and development expenses	<u>5,151,476</u>	<u>3</u>	<u>4,897,480</u>	<u>2</u>
Total operating expenses	<u>33,880,703</u>	<u>18</u>	<u>35,894,398</u>	<u>17</u>
INCOME FROM OPERATIONS	<u>14,066,473</u>	<u>7</u>	<u>14,801,035</u>	<u>7</u>
NON-OPERATING INCOME				
Interest income	389,663	-	345,693	-
Investment income recognized under equity method (Note 12)	3,228,878	2	2,341,381	1
Dividend income	517,916	-	131,317	-
Gain on disposal of property, plant and equipment	129,050	-	15,688	-
Gain on disposal of investments (Note 1)	800,882	-	-	-
Foreign exchange gain	245,559	-	255,274	-
Valuation gain on financial assets (Note 5)	464,959	-	-	-
Valuation gain on financial liabilities (Note 5)	-	-	1,010,730	-
Others (Note 2)	<u>1,020,635</u>	<u>1</u>	<u>1,067,973</u>	<u>1</u>
Total non-operating income	<u>6,797,542</u>	<u>3</u>	<u>5,168,056</u>	<u>2</u>
NON-OPERATING EXPENSES				
Interest expense	1,679,306	1	2,660,002	1
Loss on disposal of property, plant and equipment	288,819	-	383,092	-
Loss on disposal of investments	-	-	24,860	-
Impairment loss	62,828	-	712,943	1
Valuation loss on financial assets (Note 5)	-	-	181,917	-
Valuation loss on financial liabilities (Note 5)	520,528	-	-	-
Others	<u>176,481</u>	<u>-</u>	<u>602,093</u>	<u>-</u>
Total non-operating expenses	<u>2,727,962</u>	<u>1</u>	<u>4,564,907</u>	<u>2</u>

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POU CHEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME YEARS ENDED DECEMBER 31, 2010 AND 2009

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

	2010		2009	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
BASIC EARNINGS PER SHARE (Notes 2 and 27)				
Included income for minority interest	<u>\$ 6.36</u>	<u>\$ 5.61</u>	<u>\$ 5.39</u>	<u>\$ 5.22</u>
Attributed to shareholders of the Parent Company		<u>\$ 2.77</u>		<u>\$ 2.46</u>
DILUTED EARNINGS PER SHARE (Notes 2 and 27)				
Included income for minority interest	<u>\$ 6.24</u>	<u>\$ 5.51</u>	<u>\$ 5.33</u>	<u>\$ 5.16</u>
Attributed to shareholders of the Parent Company		<u>\$ 2.72</u>		<u>\$ 2.43</u>

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

(Concluded)

POU CHEN CORPORATION AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2010 AND 2009
(In Thousands of New Taiwan Dollars)**

	Capital Surplus					Retained Earnings			Other Equity					Total	
	Capital Stock	Additional Paid-in Capital of Common Stock	Additional Paid-in Capital of Bonds Conversion	Treasury Stock	Long-term Equity Investments	Legal Reserve	Special Reserve	Unappropriated Earnings	Cumulative Translation Adjustments	Net Loss not Recognized as Pension Cost	Unrealized Gain (Loss) on Financial Instruments	Unrealized Revaluation Increment	Treasury Stock		Minority Interest
BALANCE, JANUARY 1, 2009	\$ 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)	\$ 62,116,713	\$ 105,736,814
Appropriation of 2008 earnings (Note 23)															
Legal reserve	-	-	-	-	-	498,719	-	(498,719)	-	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	2,489,480	(2,489,480)	-	-	-	-	-	-	-
Stock dividends	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
Investee's unappropriated earnings	-	-	-	-	-	-	-	(4,778)	-	-	-	-	-	-	(4,778)
Cash dividends received by subsidiaries	-	-	-	4,776	-	-	-	-	-	-	-	-	-	-	4,776
Unrealized gain on cash flow hedge financial liability	-	-	-	-	-	-	-	-	-	-	60,645	-	-	-	60,645
Unrealized gain on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	-	1,128,090	-	-	-	1,128,090
Investee's unrealized gain on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	-	2,597,463	-	-	-	2,597,463
Change in net loss not recognized as pension cost	-	-	-	-	-	-	-	-	-	(40,706)	-	-	-	-	(40,706)
Execution of employee stock warrants (Note 23)	3,609	-	-	-	-	-	-	-	-	-	-	-	-	-	3,609
Translation adjustments on foreign long-term equity investments	-	-	-	-	-	-	-	-	(1,544,226)	-	-	-	-	-	(1,544,226)
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	-	-
Change of minority interest	-	-	-	-	-	-	-	-	-	-	-	-	-	(3,889,706)	(3,889,706)
Consolidated net income for 2009	-	-	-	-	-	-	-	7,026,018	-	-	-	-	-	7,867,960	14,893,978
BALANCE, DECEMBER 31, 2009	28,430,847	812,890	1,447,492	1,438,517	3,754,538	5,248,562	2,599,633	9,585,573	(127,367)	(40,706)	(364,936)	134,641	(1,241,416)	66,094,967	117,773,235
Appropriation of 2009 earnings (Note 23)															
Legal reserve	-	-	-	-	-	702,124	-	(702,124)	-	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	(2,201,265)	2,201,265	-	-	-	-	-	-	-
Stock dividends	559,962	-	-	-	-	-	-	(559,962)	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	(4,199,715)	-	-	-	-	-	-	(4,199,715)
Effect of changes of ownership interest in investees	-	-	-	-	594,628	-	-	-	-	-	-	-	-	-	594,628
Cash dividends received by subsidiaries	-	-	-	15,047	-	-	-	-	-	-	-	-	-	-	15,047
Unrealized gain on cash flow hedge financial liability	-	-	-	-	-	-	-	-	-	-	56,153	-	-	-	56,153
Unrealized gain on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	-	630,910	-	-	-	630,910
Investee's unrealized gain on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	-	880,595	-	-	-	880,595
Change in net loss not recognized as pension cost	-	-	-	-	-	-	-	-	-	(16,635)	-	-	-	-	(16,635)
Execution of employee stock warrants (Note 23)	6,750	-	-	-	-	-	-	-	-	-	-	-	-	-	6,750
Translation adjustments on foreign long-term equity investments	-	-	-	-	-	-	-	-	(4,436,446)	-	-	-	-	-	(4,436,446)
Change of minority interest	-	-	-	-	-	-	-	-	-	-	-	-	-	(13,372,386)	(13,372,386)
Consolidated net income for 2010	-	-	-	-	-	-	-	7,895,614	-	-	-	-	-	8,114,929	16,010,543
BALANCE, DECEMBER 31, 2010	\$ 28,997,559	\$ 812,890	\$ 1,447,492	\$ 1,453,564	\$ 4,349,166	\$ 5,950,686	\$ 398,368	\$ 14,220,651	\$ (4,563,813)	\$ (57,341)	\$ 1,202,722	\$ 134,641	\$ (1,241,416)	\$ 60,837,510	\$ 113,942,679

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

POU CHEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2010 AND 2009 (In Thousands of New Taiwan Dollars)

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Consolidated net income	\$ 16,010,543	\$ 14,893,978
Adjustments to reconcile consolidated net income to net cash provided by operating activities		
Depreciation and amortization	7,073,174	7,981,120
Valuation (gain) loss on financial assets	(464,959)	181,917
Valuation loss (gain) on financial liabilities	520,528	(1,010,730)
Provision for doubtful accounts	315,146	69,544
Investment income recognized under equity method	(3,228,878)	(2,341,381)
Cash dividends received from investees under equity method	2,242,088	1,186,523
Net (gain) loss on disposal of investments	(800,882)	24,860
Provision for impairment loss	62,828	712,943
Net loss on disposal of property, plant and equipment	159,769	367,404
Compensation expense	578,674	415,822
Amortization of Euro Convertible Bonds	479,566	503,935
Net changes in operating assets and liabilities		
Financial assets at fair value through profit or loss, current	182,095	198,782
Notes receivable	(8,521)	25,856
Notes receivable from affiliates	(5,771)	-
Accounts receivable	779,820	4,854,553
Accounts receivable from affiliates	487,047	514,667
Other receivables	1,228,337	(224,563)
Inventories	1,489,787	4,645,141
Construction in progress in excess of progressive bills	(48,376)	-
Other current assets	287,037	1,875,514
Deferred income tax asset	29,384	64,282
Other assets	(504,437)	(66,627)
Notes payable	2,609	(25,714)
Notes payable to affiliates	(9,462)	2,390
Accounts payable	(2,141,197)	(8,123)
Accounts payable to affiliates	225,917	251,724
Income tax payable	279,713	(14,992)
Other payables	(2,310,915)	(370,799)
Progressive billings in excess of construction in progress	(3,101)	56,846
Other current liabilities	(461,974)	651,191
Deferred income tax liability	330,677	(117,823)
Accrued pension cost	28,360	29,294
Other liabilities	(106,714)	-
Minority interest	(2,828,732)	(5,848,950)
Net cash provided by operating activities	<u>19,869,180</u>	<u>29,478,584</u>

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POU CHEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2010 AND 2009 (In Thousands of New Taiwan Dollars)

	2010	2009
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease (increase) in investments accounted for by the equity method	\$ 674,343	\$ (80,146)
Decrease (increase) in available-for-sale financial assets	229,669	(29,098)
Increase in financial assets carried at cost	(280,631)	(81,252)
Acquisition of property, plant and equipment	(10,486,678)	(9,815,004)
Proceeds from disposal of property, plant and equipment	558,497	383,417
Proceeds from disposal of land and buildings for sale	119	-
Increase in investment in real estate	-	(1,373)
Decrease in refundable deposits	393,908	971,182
Decrease in intangible assets	1,112,781	163,253
Increase in deferred charges	<u>(1,652,379)</u>	<u>(1,369,763)</u>
Net cash used in investing activities	<u>(9,450,371)</u>	<u>(9,858,784)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in short-term loans	(11,084,303)	(4,160,715)
(Decrease) increase in short-term bills payable	(414,696)	926,535
(Decrease) increase in long-term debt	(18,549,935)	15,386,362
Increase in guarantee deposits received	312	1,970
Redemption of Euro Convertible Bonds	(591,722)	(8,794,971)
Cash dividend	(4,184,390)	(1,326,269)
Execution of employee stock warrants	6,750	3,609
Cash paid for acquisition of treasury stock	<u>-</u>	<u>(256,168)</u>
Net cash (used in) provided by financing activities	<u>(34,817,984)</u>	<u>1,780,353</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH	<u>211,073</u>	<u>242,387</u>
CASH PAID FOR ACQUISITION OF SUBSIDIARIES	<u>(8,496)</u>	<u>(1,543,553)</u>
CASH RECEIVED FROM DISPOSAL OF SUBSIDIARIES	<u>757,130</u>	<u>3,930</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(23,439,468)	20,102,917
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>47,639,464</u>	<u>27,536,547</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 24,199,996</u>	<u>\$ 47,639,464</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year		
Interest (excluding interest capitalized)	<u>\$ 1,695,932</u>	<u>\$ 2,737,762</u>
Income tax	<u>\$ 603,338</u>	<u>\$ 568,780</u>

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POU CHEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2010 AND 2009 (In Thousands of New Taiwan Dollars)

	2010	2009
SUPPLEMENTAL DISCLOSURES OF NONCASH OPERATING, INVESTING AND FINANCING ACTIVITIES		
Unrealized gain on cash flow hedge financial liabilities	<u>\$ 56,153</u>	<u>\$ 60,645</u>
Unrealized gain on available-for-sale financial assets	<u>\$ 630,910</u>	<u>\$ 1,128,090</u>
Investee's unrealized gain on available-for-sale financial assets	<u>\$ 880,595</u>	<u>\$ 2,597,463</u>
Effect of changes in ownership interest in investees	<u>\$ 594,628</u>	<u>\$ 344,220</u>
Investee's unappropriated earnings	<u>\$ -</u>	<u>\$ (4,778)</u>
Cash dividends received by subsidiaries	<u>\$ 15,047</u>	<u>\$ 4,776</u>
Translation adjustments on foreign long-term equity investments	<u>\$ (4,436,446)</u>	<u>\$ (1,544,226)</u>
Current portion of long-term liabilities	<u>\$ 16,402,595</u>	<u>\$ 11,434,614</u>
Retirement of treasury stock	<u>\$ -</u>	<u>\$ 514,392</u>
Property, plant and equipment was transferred from leased assets	<u>\$ 322</u>	<u>\$ -</u>
CASH PAID DURING THE YEAR FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT		
Fair value of property, plant and equipment acquired	\$ 10,741,040	\$ 9,799,692
Add payables for acquisition of property, plant and equipment, beginning of year	183,739	199,051
Less payables for acquisition of property, plant and equipment, end of year	<u>(438,101)</u>	<u>(183,739)</u>
Cash paid during the year for acquisition of property, plant and equipment	<u>\$ 10,486,678</u>	<u>\$ 9,815,004</u>

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

(Concluded)

POU CHEN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

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

1. ORGANIZATION AND OPERATIONS

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

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

In January 1990, Pou Chen started to trade its stock on the Taiwan Stock Exchange.

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

Name of Subsidiary	Location of Incorporation	2010.12.31 Ownership Percentage (%)	2009.12.31 Ownership Percentage (%)
Wealthplus Holdings Limited	British Virgin Islands	100.00	100.00
Win Fortune Investments Limited	British Virgin Islands	100.00	100.00
Ming Wang Investments Co., Ltd.	ROC	100.00	100.00
Windsor Entertainment Co., Ltd.	ROC	100.00	100.00
Yun Yang Investments Co., Ltd.	ROC	100.00	100.00
Pou Shine Investments Co., Ltd.	ROC	100.00	100.00
Pan Asia Insurance Services Co., Ltd.	ROC	100.00	100.00
Proshine Healthcare Co., Ltd.	ROC	100.00	100.00
Vistas Design Co., Ltd.	ROC	100.00	100.00
Pro Arch International Development Enterprise Inc. (formerly known as Pro Arch Technology Inc.)	ROC	99.99	99.99
Barits Development Corporation	ROC	99.59	99.59
Pou Yuen Technology Co., Ltd.	ROC	99.39	99.38
LNC Technology Co., Ltd.	ROC	85.41	85.41
The Right and Great Asia-Pacific Realty Development Co., Ltd.	ROC	70.00	70.00
Global Brands Manufacture Ltd.	ROC	Note 1	49.37

Note 1: Global Brands Manufactures Ltd. was no longer included as a consolidated entity in the consolidated financial statements since March 24, 2010.

Wealthplus Holdings Limited (“Wealthplus”), a British Virgin Islands registered corporation, is an investment holding company. Wealthplus commenced its operations in 1991 and invests in companies which are engaged in the design and sale of footwear and electronic peripheral products. As at December 31, 2010, Wealthplus has an outstanding common stock of US\$9,222 thousand.

The information of Wealthplus's major subsidiaries is as follows:

Name of Subsidiary	Location of Incorporation	2010.12.31 Ownership Percentage (%)	2009.12.31 Ownership Percentage (%)	Primary Operation Activities
Yue Yuen Industrial (Holdings) Limited ("Yue Yuen")	Bermuda	48.93 (Note 2)	48.60	Manufacturing and sale of athletic and casual footwear and sports apparel
Pou Sheng International (Holdings) Limited ("Pou Sheng")	Bermuda	27.46	27.28	Manufacturing and sale of OEM footwear, retailing of sportswear and distribution business
GBM Manufacturing Co., Ltd.	British Virgin Islands	100.00	100.00	Property management in the People's Republic of China (PRC)
Upmost Smart Limited	British Virgin Islands	-	100.00	Investment holding
Gao Chen Technology Co., Ltd.	PRC	79.60	79.60	Manufacturing and sale of plastic products and electronic components
Digital Decade Limited	British Virgin Islands	100.00	100.00	Assembly and sale of TFT-LCD module
Pou Qiao Technology Electronic Limited	PRC	100.00	100.00	Assembly of backlight units
Go-Cheery Industrial Limited	Hong Kong	100.00	100.00	Management and office administration service
Crown Master Investments Limited	British Virgin Islands	100.00	100.00	Investment holding
Tetor Ventures Ltd.	British Virgin Islands	100.00	100.00	Investment holding
Star Eagle Consultants Limited	British Virgin Islands	100.00	100.00	Insurance agent
Pou Yu Biotechnology Co., Ltd.	ROC	69.18	68.55	Manufacturing and sale of medical appliance
Dong Guan Pou Yu Precision Ceramics Industrial Co., Ltd.	PRC	69.18	68.55	Designing and manufacturing medical appliance

Note 2: Top Score Investments Limited sold its ordinary shares of Yue Yuen to Wealthplus and Win Fortune on August 24, 2010. Accordingly, Wealthplus' ownership in Yue Yuen was increased from 48.60% to 48.93%, and Win Fortune ownership in Yue Yuen was increased from 0.94% to 1.05%, as well.

Win Fortune Investments Limited ("Win Fortune"), a British Virgin Islands registered corporation, is an investment holding company. Win Fortune commenced its operations in 1994 and invests in Yue Yuen (as at December 31, 2010, the ownership percentage is 1.05%). As at December 31, 2010, Win Fortune has an outstanding common stock of US\$100 thousand.

Ming Wang Investments Co., Ltd. ("Ming Wang"), a corporation incorporated in the ROC, is an investment holding company. Ming Wang commenced its operations in 1996. It is engaged in investing activities. As at December 31, 2010, Ming Wang has an outstanding common stock of \$681,192 thousand.

Windsor Entertainment Co., Ltd. ("Windsor Entertainment"), a corporation incorporated in the ROC, commenced its operations in 2003. It is engaged in entertainment and resort operation. As at December 31, 2010, Windsor Entertainment has an outstanding common stock of \$210,000 thousand.

Yun Yang Investments Co., Ltd. ("Yun Yang"), a corporation incorporated in the ROC, commenced its operations in 1997. It is engaged in investment activities. As at December 31, 2010, Yun Yang has an outstanding common stock of \$92,792 thousand.

Pou Shine Investments Co., Ltd. ("Pou Shine"), a corporation incorporated in the ROC, commenced its operations in 1990. It is engaged in investing activities. As at December 31, 2010, Pou Shine has an outstanding common stock of \$709,594 thousand.

Pan Asia Insurance Services Co., Ltd. ("Pan Asia Insurance Services"), a corporation incorporated in the ROC, commenced its operations in 1999. It is engaged in agency of property and casualty insurance. As at December 31, 2010, Pan Asia Insurance Services has an outstanding capital of \$3,000 thousand.

Proshine Healthcare Co., Ltd. (“Proshine Healthcare”), a corporation incorporated in the ROC, commenced its operations in 2007. It is engaged in sale of medical devices and precision instruments. In August 2009 and October 2010, Proshine Healthcare’s board of directors decided to decrease and return its capital, amounted to \$120,000 thousand and \$50,000 thousand, respectively. As at December 31, 2010, Proshine Healthcare has an outstanding common stock of \$110,000 thousand.

Pro Arch International Development Enterprise Inc. (“Pro Arch International”), formerly know as Pro Arch Technology Inc., a corporation incorporated in the ROC. Pro Arch International commenced its operations in 1999, and engaged in real estate development business. 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 thousand, at a price of \$10 dollars per share. Additionally, Pro Arch International decreased its capital to offset it is accumulated deficit by \$56,415 thousand in June 2010, accordingly, Pro Arch International has an outstanding common stock of \$257,004 thousand as at December 31, 2010.

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

Name of Subsidiary	Location of Incorporation	2010.12.31 Ownership Percentage (%)	2009.12.31 Ownership Percentage (%)	Primary Operation Activities
Pro Arch Technology BVI Inc.	British Virgin Islands	100.00	100.00	Investment holding

Barits Development Corporation (“Barits Development”), a corporation incorporated in the ROC, commenced its operations in 1985. It is engaged in leather manufacturing and investing activities. As at December 31, 2010, Barits Development has an outstanding common stock of \$1,528,727 thousand.

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

Name of Subsidiary	Location of Incorporation	2010.12.31 Ownership Percentage (%)	2009.12.31 Ownership Percentage (%)	Primary Operation Activities
Top Score Investments Limited	British Virgin Islands	100.00	100.00	Investing activities
Song Ming Investments Co., Ltd.	ROC	100.00	100.00	Investing activities
Ming Chi Investments Co., Ltd.	ROC	100.00	100.00	Investing activities
Ming Shun Investments Co., Ltd.	ROC	100.00	100.00	Investing activities
Wang Yi Construction Co., Ltd.	ROC	89.75	89.75	Construction
Pou Chin Development Co., Ltd.	ROC	100.00	85.71	Agency of demarcation
Pou Yii Development Co., Ltd.	ROC	75.00	75.00	Rental and sale of real estate

Pou Yuen Technology Co., Ltd. (“Pou Yuen Technology”), a corporation incorporated in the ROC, commenced its operations in 1993. It is engaged in tooling design software and information technology software services. As at December 31, 2010, Pou Yuen Technology has an outstanding common stock of \$900,000 thousand.

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

Name of Subsidiary	Location of Incorporation	2010.12.31 Ownership Percentage (%)	2009.12.31 Ownership Percentage (%)	Primary Operation Activities
Vantage Capital Investments Ltd.	British Virgin Islands	100.00	100.00	Information software services

LNC Technology Co., Ltd. (“LNC Technology”), a corporation incorporated in the ROC, commenced its operations in 2007. It is engaged in manufacturing and sale of precision instruments, equipment and computer numerical controlled machine. As at December 31, 2010, LNC Technology has an outstanding common stock of \$600,000 thousand.

The information of LNC Technology’s major subsidiaries is as follows:

Name of Subsidiary	Location of Incorporation	2010.12.31 Ownership Percentage (%)	2009.12.31 Ownership Percentage (%)	Primary Operation Activities
Success Dragon Holdings Ltd.	British Virgin Islands	100.00	100.00	Investment Holding
Dong Guan Pou Yuen Digital Technology, Co., Ltd.	PRC	100.00	100.00	Manufacturing and sale of computer numerical controlled machine

The Right and Great Asia-Pacific Realty Development Co., Ltd. (“Right and Great Asia-Pacific”), incorporated in the ROC, commenced its operations in 2008. It is primarily engaged in real estate development and investing activities business. As at December 31, 2010, Right and Great Asia-Pacific has an outstanding common stock of \$600,000 thousand.

Vistas Design Co., Ltd. (“Vistas Design”), a corporation incorporated in the ROC, commenced its operations in 2008. It is engaged in interior decorating and design services. As at December 31, 2010, Vistas Design has an outstanding common stock of \$5,000 thousand.

Global Brands Manufacture Ltd. (“Global Brands Manufacture”) is engaged in the manufacturing, assembly and sale of printed circuit boards. Its stock has been traded on the Taiwan Stock Exchange.

On March 16, 2010, the board of directors of the Company had decided to auction the 40% ownership of Global Brands Manufacture, owned by Pou Chen, Pou Shine, Barits Development, and Pou Yuen Technology, which amounted to 166,500 thousand shares. On March 24, 2010, the deal was made at \$28.75 per share, total amounted to \$4,765,693 thousand with \$333,931 thousand profit recognized as gain on disposal of investments. The Company lost the controlling power over Global Brands Manufacture after the transaction. Therefore, Global Brands Manufacture was no longer included as a consolidated entity in the consolidated financial statements since then. However, profit or loss of Global Brands Manufacture during January 1 and March 23, 2010 are still included in the consolidated financial statements. The Company reclassified unsold shares to available-for-sale financial assets, noncurrent, based on the book value on the trading day. Please see Note 10 to the consolidated financial statements for further information.

As at December 31, 2010 and 2009, there were 344,528 and 332,653 employees in Pou Chen and subsidiaries referred above, respectively.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

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

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

Principles of Consolidation

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

Originally, Wealthplus, Win Fortune and Top Score Investments Limited, had their accounting year from October 1 of the preceding year to September 30 of the year. These three companies had changed its accounting year to fiscal year in 2010. Therefore, the 2010 and 2009 annual information of above-mentioned companies indicated information of the period from October 1, 2009 to December 31, 2010 and October 1, 2008 to September 30, 2009, respectively.

Additionally, Vantage Capital Investments Ltd. ("Vantage Capital") had its accounting year from October 1 of the preceding year to September 30 of the year. Vantage Capital had changed its accounting year to fiscal year in 2009. Therefore, the 2010 and 2009 annual information of Vantage Capital indicated information of the period from January 1, 2010 to December 31, 2010 and October 1, 2008 to December 31, 2009, respectively.

Yue Yuen and Pou Sheng have their accounting year from October 1 of the preceding year to September 30, of the year. Therefore, the 2010 and 2009 annual information of the two companies indicated information of the period from October 1, 2009 to September 30, 2010 and October 1, 2008 to September 30, 2009, respectively.

Current/Noncurrent Assets and Liabilities

Current assets include cash and cash equivalents, and those assets held primarily for trading purposes or to be realized, sold or consumed within one year from the balance sheet date. All other assets such as property, plant and equipment, intangible assets and other assets are classified as noncurrent. Current liabilities are obligations incurred for trading purposes or to be settled within one year from the balance sheet date. All other liabilities are classified as noncurrent.

For the Company's construction related business, which has an operating cycle of over one year, the length of the operating cycle is the basis for classifying the Company's construction assets and liabilities as current or noncurrent.

Cash Equivalents

Cash equivalents, consisting of commercial paper, bank acceptances and repurchase agreements collateralized by bonds, are highly liquid financial instruments with maturities of three months or less when acquired and with carrying amounts that approximate their fair values.

Financial Assets and Liabilities at Fair Value through Profit or Loss

Financial instruments classified as financial assets or financial liabilities at fair value through profit or loss ("FVTPL") include financial assets or financial liabilities held for trading and those designated as at FVTPL on initial recognition. The Company recognizes a financial asset or a financial liability on its balance sheet when the Company becomes a party to the contractual provisions of the financial instrument. A financial asset is derecognized when the Company has lost control of its contractual rights over the financial asset. A financial liability is derecognized when the obligation specified in the relevant contract is discharged, cancelled or expired.

Financial instruments at FVTPL are initially measured at fair value plus transaction costs. At each balance sheet date subsequent to initial recognition, financial assets or financial liabilities at FVTPL are remeasured at fair value, with changes in fair value recognized directly in profit or loss in the year in which they arise. Cash dividends received subsequently (including those received in the year of investment) are recognized as income for the year. 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.

A derivative that does not meet the criteria for hedge accounting is classified as a financial asset or a financial liability held for trading. If the fair value of the derivative is positive, the derivative is recognized as a financial asset; otherwise, the derivative is recognized as a financial liability.

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 Securities Market; and financial assets and financial liabilities without quoted prices in an active market - at values determined using valuation techniques.

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 FVTPL.

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.

An impairment loss is recognized when there is objective evidence that the financial asset is impaired. Any subsequent decrease in impairment loss for an equity instrument classified as available-for-sale is recognized directly in equity.

Financial Assets Carried at Cost

Investments in equity instruments with no quoted prices in an active market and with fair values that cannot be reliably measured, such as non-publicly traded stocks and stocks traded in the Emerging Stock Market, are measured at their original cost. The accounting treatment for dividends on financial assets carried at cost is the same with that for dividends on available-for-sale financial assets. An impairment loss is recognized when there is objective evidence that the asset is impaired. A reversal of this impairment loss is disallowed.

Allowance for Doubtful Accounts

An allowance for doubtful accounts is provided on the basis of a review of the collectibility of accounts receivable. The Company assesses the probability of collections of accounts receivable by examining the aging analysis of the outstanding receivables.

Inventories

Inventories consist of raw materials, supplies, finished goods, work-in-process and merchandise, and are stated at the lower of cost or net realizable value. Inventory write-downs are made item by item, except where it may be appropriate to group similar or related items. 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.

Revenues, costs and profits arising from real estate development projects are measured by the ratio of actual costs incurred in a period to the total estimated costs to be incurred on the project. Borrowing costs incurred on and before the completion of a project are capitalized as part of the project costs.

For construction projects, costs are recorded as “construction in progress” and billings are recorded as “progressive billings.” For the same project, any excess of costs over billings is reported as “construction in progress in excess of progressive billings,” an asset account; otherwise, the excess of billings over costs is reported as “progressive billings in excess of construction in progress,” a liability account.

Investments Accounted for by the Equity Method

Investments in which the Company holds 20 percent or more of the investees’ voting shares or exercises significant influence over the investees’ operating and financial policy decisions are accounted for by the equity method.

The acquisition cost is allocated to the assets acquired and liabilities assumed on the basis of their fair values at the date of acquisition, and the acquisition cost in excess of the fair value of the identifiable net assets acquired is recognized as goodwill. Goodwill is not being amortized.

When the Company subscribes for its investee’s newly issued shares at a percentage different from its percentage of ownership in the investee, the Company records the change in its equity in the investee’s net assets as an adjustment to investments, with a corresponding amount credited or charged to capital surplus. When the adjustment should be debited to capital surplus, but the capital surplus arising from long-term investments is insufficient, the shortage is debited to retained earnings.

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

When the Company’s share in losses of an investee over which the Company has significant influence equals its investment in that investee plus any advances made to the investee, the Company discontinues applying the equity method. The Company continues to recognize its share in losses of the investee if (a) the Company commits to provide further financial support to the investee or (b) the losses of the investee are considered to be temporary and sufficient evidence shows imminent return to profitability.

When the Company’s share in losses of an investee over which the Company has control exceeds its investment in the investee, unless the other shareholders of the investee have assumed legal or constructive obligations and have demonstrated the ability to make payments on behalf of the investee, the Company has to bear all of the losses in excess of the capital contributed by shareholders of the investee. If the investee subsequently reports profits, such profits are first attributed to the Company to the extent of the excess losses previously borne by the Company.

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.

Property, Plant, Equipment and Leased Asset

Property, plant and equipment and leased assets are stated at cost plus revaluation increment less accumulated depreciation and accumulated impairment losses. Borrowing costs directly attributable to the acquisition or construction of property, plant and equipment are capitalized as part of the cost of those assets. Major additions and improvements to the related assets are capitalized, while costs of repairs and maintenance are expensed currently.

Depreciation is provided on the straight-line basis over the following estimated useful lives of the related assets:

<u>Items</u>	<u>Estimated Useful Lives</u>
Buildings and improvements	15-55 years
Machinery and equipment	5-12 years
Transportation equipment	3-8 years
Furniture, fixtures and office equipment	3-8 years
Other equipment	3-10 years
Leased assets	15-55 years

Property, plant and equipment and leased assets still in use beyond their original estimated useful lives are further depreciated over their newly estimated useful lives. Depreciation of revaluated assets is provided on a straight-line basis over their remaining estimated useful lives determined at the time of revaluation.

The related cost (including revaluation increment), accumulated depreciation, accumulated impairment losses and any unrealized revaluation increment of an item of the assets are derecognized from the balance sheet upon its disposal. Any gain or loss on disposal of the asset is included in nonoperating gains or losses in the year of disposal.

Intangible Assets

Intangible assets acquired are initially recorded at cost and are amortized on a straight-line basis over their estimated useful lives. Patents are amortized over their legal useful lives. Goodwill arising on acquisition of other company is not amortized, and instead is tested for impairment annually.

Deferred Charges

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

Impairment of Assets

If the recoverable amount of an asset (mainly property, plant and equipment, leased assets, financial assets carried at cost, 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.

Convertible Bonds

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

Under the new amended Financial Accounting Standards, the issue costs of convertible bonds issued after January 1, 2006 are allocated to liability according to its original listed ratio.

Stock-based Compensation

Employee stock options granted on or after January 1, 2008 are accounted for under SFAS No. 39, "Accounting for Share-based Payment". Under 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.

Pension Cost

Cost of Pou Chen, Barits Development, Pou Yuen Technolog and Pro Arch International, which under a defined benefit plan are determined by actuarial valuations.

Pou Chen and its subsidiaries each has defined contribution pension plan under the Labor Pension Act. Pension costs are based on contributions made under a defined contribution plan are recognized as pension cost during the year in which employees render services.

Curtailment or settlement gains or losses of the defined benefit plan are recognized as part of the net periodic pension cost for the year.

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

Treasury Stock

Treasury stock is stated at cost and shown as a deduction in shareholders’ equity.

The Company accounts for its stock held by subsidiaries as treasury stock. The recorded cost of the stock is based on its carrying amount as of January 1, 2002.

Income Tax

The Company adopted the provisions of SFAS No. 22, “Accounting for Income Tax”, which requires the Company applies the inter-year allocation methods to its income tax, whereby deferred income tax assets and liabilities are recognized for the tax effects of temporary differences, unused loss carryforward and unused tax credits. Valuation allowances are provided to the extent, if any, that it is more likely than not that deferred income tax assets will not be realized.

If the Company can control the timing of the reversal of a temporary difference arising from the difference between the book value and the tax basis of a long-term equity investment in a foreign subsidiary and if the temporary difference is not expected to reverse in the foreseeable future and will, in effect, exist indefinitely, then a deferred income tax liability or asset is not recognized. However, deferred income tax liability is recognized, if the overseas subsidiary plan to distribute their earnings.

Tax credits for purchases of machinery, equipment and technology, research and development expenditures, and personnel training expenditures are recognized using the flow-through method.

Adjustments of prior years’ tax liabilities are added to or deducted from the current year’s tax provision.

According to the Income Tax Law of the ROC, an additional tax at 10% of unappropriated earnings is provided for as income tax in the year the shareholders approve to retain the earnings.

Foreign Currency Transactions

Non-derivative foreign currency transactions are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Exchange differences arising from settlement of foreign-currency assets and liabilities are recognized in profit or loss.

At the balance sheet date, foreign-currency monetary assets and liabilities are revalued using prevailing exchange rates and the exchange differences are recognized in profit or loss. At the balance sheet date, foreign-currency nonmonetary assets (such as equity instruments) and liabilities that are measured at fair value are revalued using prevailing exchange rates, with the exchange differences treated as follows:

- a. Recognized in shareholders' equity if the changes in fair value are recognized in shareholders' equity;
- b. Recognized in profit and loss if the changes in fair value is recognized in profit or loss.

Foreign-currency nonmonetary assets and liabilities that are carried at cost continue to be stated at exchange rates at trade dates.

Cumulative Translation Adjustments

The financial statements of foreign operations are translated into New Taiwan dollars at the following exchange rates:

- a. Assets and liabilities - at exchange rates prevailing on the balance sheet date;
- b. Shareholders' equity - at historical exchange rates;
- c. Dividends - at the exchange rate prevailing on the dividend declaration date; and
- d. Income and expenses - at average exchange rates for the year.

Exchange differences arising from the translation of the financial statements of foreign operations are recognized as a separate component of shareholders' equity. Such exchange differences are recognized in profit or loss in the year in which the foreign operations are disposed of. 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.

Revenue Recognition

Revenue from sales of goods is recognized when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods, primarily upon shipment, because the earnings process has been completed and the economic benefits associated with the transaction have been realized or are realizable. 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.

The Company undertakes long-term construction contract. When the duration of the contract is more than one year or one accounting period, and project profit or loss can be reasonably estimated, adopt the percentage-of-completion method, otherwise, the completed-contract method. Debit "construction in progress" when cost occurred, and "progressive billings" when the project payment is paid in advance. At the end of each accounting period, the accumulated construction profit not calculated based on the percentage-of-completion subtracts which at the beginning of the year, and the difference is recognized as construction profit or loss. If the construction contract is estimated to have loss, the loss should be recognized right in the period. If the amount of loss is estimated to reduce in the future, then the difference should be recognized as profit of that year. Construction contract within one year should adopt the completed-contract method. The percentage of completion is calculated based on the construction cost incurred this year as a percentage of the total estimated cost. Sales revenue and cost of goods sold are estimated by gross price method.

Government Grant Revenue

The Company adopted the provisions of SFAS No. 29, "Accounting for Government Grants and Disclosure of Government Assistance". The government grants should be not recognized until the Company has reasonable assurance that the related conditions for the government grants are met and the government grants will be received. The Government grants related to assets should be presented in financial statement either as deferred revenue or as a reduction to the carrying amount of related assets. The government grants related to income that are realized should be recognized as revenue for the year. If the government grants that are not yet realized should be presented as deferred revenue.

When a government grant becomes repayable, it should be debited to deferred government grant revenue. If the repayment exceeds deferred revenue or if there is no deferred revenue, the amount of repayment over deferred revenue should be immediately recognized as an expense.

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 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 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 consolidated financial statements as of and for the year ended December 31, 2009 have been reclassified to conform to the presentation of the consolidated financial statements as of and for the year ended December 31, 2010.

3. REASON AND EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE

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 consolidated financial statements for the year ended December 31, 2009.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at December 31, 2010 and 2009 consisted of the following:

	2010	2009
Cash on hand	\$ 43,404	\$ 40,734
Checking accounts	323	24,945
Savings accounts	299,642	1,834,147
Foreign-currency savings deposit	23,633,327	43,698,245
Time deposits	136,300	1,905,872
Cash equivalents - repurchase agreements collateralized by bonds	<u>87,000</u>	<u>135,521</u>
	<u>\$ 24,199,996</u>	<u>\$ 47,639,464</u>

5. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial instruments at fair value through profit or loss as at December 31, 2010 and 2009 were summarized as follows:

	2010	2009
Financial assets at fair value through profit or loss, current		
Open-ended mutual funds	\$ 278,585	\$ 485,972
HKD Call option	932,160	388,567
Forward exchange contracts	70,895	46,928
Foreign mutual funds	152,808	36,251
Structured deposit	<u>-</u>	<u>10,775</u>
	<u>\$ 1,434,448</u>	<u>\$ 968,493</u>
Financial assets at fair value through profit or loss, noncurrent		
JV Call Option	<u>\$ 1,340,679</u>	<u>\$ 1,769,719</u>
Financial liabilities at fair value through profit or loss, current		
Euro-Dollar Convertible Bonds with options	\$ 723,084	\$ 338,070
Forward exchange contracts	<u>64,630</u>	<u>23,481</u>
	<u>\$ 787,714</u>	<u>\$ 361,551</u>

In October 2007, Pou Sheng entered into call option agreements with the shareholders, (the "Relevant Partners") of certain associates, jointly controlled entities and subsidiaries (the "Relevant Companies"), in return for a premium to each of the Relevant Partners (the "Option Premium"). Pou Sheng has the right but not the obligation exercisable at its discretion to acquire from each of the Relevant Partners their respective equity interests, in the Relevant Companies (the "JV Call Option").

- a. Term: Five years. The JV Call Option is exercisable within five years commencing from the expiry of the first six months after the dealing of the shares of Pou Sheng on the Hong Kong Exchange and Clearing Limited had commenced.
- b. The Option Premium: The Option Premium was determined based on the actual profit of the Relevant Companies attributable to the Relevant Partners during the pre-determined evaluation periods and the price earnings ratio of Pou Sheng during a specified period and after certain discount agreed between the Company and the Relevant Partners.

- c. Settlement: The Option Premium was settled by the issue of shares of Pou Sheng and the number of shares issued was determined with reference to the offering price upon the global offering of Pou Sheng's shares on the Stock Exchange.

Each of the Relevant Partners has agreed not to transfer or sell the Relevant Equity Interests during the Call Options exercisable period without Pou Shen's prior written consent.

On March 10, 2008, Yue Yuen entered into a derivative contract with an independent third party to acquire the cash-settled call option for the notional amount of approximately HK\$2,100,000 thousand (US\$269,231 thousand). Yue Yuen paid a premium of US\$27,994 thousand on the HKD Call Option, recording under financial assets at fair value through profit or loss.

- a. Term: Yue Yuen has the right but not the obligation, from time to time on or after March 14, 2008 up to November 7, 2011.
- b. Settlement price: Yue Yuen will settle the net difference between the market value of one share of Yue Yuen, and the agreed price of HK\$26.75 per share for each option exercised in United States dollars.
- c. Total amount: The total number of HKD Call Option that can be exercised by Yue Yuen is equivalent to 78,504,672 shares, at HK\$0.25 each.
- d. The HKD Call Option is not an option to acquire or dispose of shares of Yue Yuen. The option will be automatically exercised if the share price of Yue Yuen rises and remains above certain agreed levels for 30 consecutive days from May 17, 2008 to November 17, 2011; the range of share price level is from HK\$33.319 to HK\$36.346.

Pursuant to the derivative contract, a number of 5,024,299 call options was reduced as a result of a knock-out event on November 17, 2009. As at December 31, 2010, the outstanding number of HKD Call Option unexercised is equivalent to 73,480,373 shares.

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

Major terms of foreign currency forward contracts will maturities within one year from December 31, 2010 were as below:

Aggregate Notional Amount	Forward Exchange Rates
US\$ 170,000,000	Sell USD/buy RMB at 6.6790 to 6.8057
US\$ 14,000,000	Sell RMB/buy USD at 6.5995 to 6.6700
US\$ 6,000,000	Sell USD/buy RMB at the exchange rate plus 0.032 to 6.8822

Major terms of foreign currency forward contracts will maturities within one year from December 31, 2009 were as below:

Aggregate Notional Amount	Forward Exchange Rates
US\$ 44,000,000	Sell USD/buy RMB at 6.7790 to 7.2980

At December 31, 2010 and 2009, the fair values of the above forward contracts were determined based on valuations provided by counterparty bank using valuation techniques.

The net (loss) gain from financial instruments at fair value through profit or loss, for the years ended of 2010 and 2009 amounted to \$(55,569) thousand and \$828,813 thousand, respectively.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS, CURRENT

Available-for-sale financial assets, current as at December 31, 2010 and 2009 consisted of the following:

	2010			2009	
	Original Cost	Carrying Value	Percentage of Ownership	Carrying Value	Percentage of Ownership
Marketable equity securities					
Taiwan Paiho Limited	\$ 23,456	\$ 42,954	0.45	\$ 33,421	0.45
Mega Financial Holding Company	<u>9,171,466</u>	<u>10,301,850</u>	4.16	<u>8,486,038</u>	4.16
	<u>\$ 9,194,922</u>	<u>\$ 10,344,804</u>		<u>\$ 8,519,459</u>	

7. FINANCIAL ASSETS CARRIED AT COST, CURRENT

Financial assets carried at cost, current as at December 31, 2010 and 2009 consisted of the follows:

	2010	2009
Foreign mutual funds	<u>\$ 239,664</u>	<u>\$ -</u>

The above mutual funds do not have public offering price and reliable fair values, thus they are carried at cost.

8. RECEIVABLE AND RECEIVABLE-RELATED PARTIES

Notes receivable as at December 31, 2010 and 2009 consisted of the following:

	2010	2009
Notes receivable	\$ 31,649	\$ 23,128
Less allowance for doubtful accounts	<u>-</u>	<u>-</u>
	<u>31,649</u>	<u>23,128</u>
Notes receivable from affiliates (Note 30)	5,771	-
Less allowance for doubtful accounts	<u>-</u>	<u>-</u>
	<u>5,771</u>	<u>-</u>
	<u>\$ 37,420</u>	<u>\$ 23,128</u>
Accounts receivable	\$ 22,133,593	\$ 23,159,239
Less allowance for doubtful accounts	<u>(848,527)</u>	<u>(779,207)</u>
	<u>21,285,066</u>	<u>22,380,032</u>
Accounts receivable from affiliates (Note 30)	498,945	978,847
Less allowance for doubtful accounts	<u>(7,145)</u>	<u>-</u>
	<u>491,800</u>	<u>978,847</u>
	<u>\$ 21,776,866</u>	<u>\$ 23,358,879</u>

The Company has entered into a factoring agreement with banks. According to the agreement, credit risk is transferred to the factor when accounts are sold and assigned to the factor. However, banks may charge back to the Company for any account not paid in full because of due for any reason other than credit risk. Factored accounts receivable were as follows:

Counter-parties	Receivables Sold at Year - Beginning	Receivables Sold	Amounts Collected	Receivables Sold at Year - End	Credit Line	Pledge
<u>Year ended December 31, 2009</u>						
Taishin Commercial Bank	\$ 78,327 US\$ 2,388,021	\$ 278,214 US\$ 8,381,904	\$ 326,950 US\$ 9,844,924	\$ 29,591 US\$ 925,001	US\$ 8,500,000	Promissory note US\$ 8,500,000

The above credit lines are allowed to be used on a revolving basis, and for the year ended December 31, 2009, the above credit lines were unused.

9. INVENTORIES

a. Inventories - manufacturing as at December 31, 2010 and 2009 consist of the following:

	2010	2009
Raw materials and supplies	\$ 7,114,508	\$ 7,290,647
Work-in-process	3,944,961	3,340,000
Finished goods	12,079,804	14,053,235
Merchandises	15,678	9,752
Goods in transit	<u>-</u>	<u>22,528</u>
	<u>\$ 23,154,951</u>	<u>\$ 24,716,162</u>

- As of December 31, 2010 and 2009, the allowance for manufacturing inventories devaluation was \$835,068 thousand and \$1,050,977 thousand, respectively.
- The cost of manufacturing inventories recognized as cost of goods sold for the years ended December 31, 2010 and 2009 was \$144,766,308 thousand and \$155,448,279 thousand, respectively, which included the gain of \$143,613 thousand, which was due to the reversal of write-down inventories, and the loss of \$250,451 thousand, which was due to write-downs of inventories, respectively.

b. Inventories - construction as at December 31, 2010 and 2009 consist of the following:

	2010	2009
Land and buildings for development	\$ 3,684,943	\$ 3,634,943
Land, buildings and improvements for sale	109,326	87,902
Construction site	<u>132,067</u>	<u>132,067</u>
	<u>\$ 3,926,336</u>	<u>\$ 3,854,912</u>

- As of December 31, 2010 and 2009, the allowance for construction inventory devaluation was \$24,943 thousand and \$24,987 thousand, respectively.
- The cost of construction inventories as cost of goods sold for the years ended December 31, 2010 and 2009 was \$443,416 thousand and \$296,179, respectively, which included \$288 thousand and \$0 thousand, respectively, due to write-downs of inventories.

- 3) Land and buildings for development as at December 31, 2010 and 2009 consist of the following:

	2010		2009
	Land	Building	Carrying Value
Barits Development Right and Great	\$ 2,036,598	\$ 11,532	\$ 2,048,130
Asia-Pacific	1,426,222	-	1,426,222
Pou Chin Development	<u>210,591</u>	<u>-</u>	<u>210,591</u>
	<u>\$ 3,673,411</u>	<u>\$ 11,532</u>	<u>\$ 3,684,943</u>

- 4) At December 31, 2010 and 2009, according to the loan agreement, the secured borrowings were secured by the land and buildings for development of the Company. Please see Note 31 to the consolidated financial statements.
- 5) Land, buildings and improvements for sale as at December 31, 2010 and 2009 consist of the following:

Company	2010		2009
	Land	Building	Carrying Value
Barits Development	\$ 11,410	\$ 12,930	\$ 24,340
Pou Yii Development	<u>84,986</u>	<u>-</u>	<u>84,986</u>
	<u>\$ 96,396</u>	<u>\$ 12,930</u>	<u>\$ 109,326</u>

- 6) Construction site amounted to \$132,067 thousand are inventories of Pou Yii Development.
- 7) Net amount of construction in process and progressive billings as at December 31, 2010 and 2009 were as follows:

Company	Name of Construction	2010		Net Amount
		Construction in Process	Progressive Billings	
Wang Yi Construction	Construction for demarcation of real estate in Anhe district, Taichung City I (recording under "construction in progress in excess of progressive billings")	<u>\$ 626,866</u>	<u>\$ 578,490</u>	<u>\$ 48,376</u>
	Construction for demarcation of real estate in Anhe district, Taichung City II (recording under "progressive billings in excess of construction in progress")	<u>\$ 152,790</u>	<u>\$ 206,535</u>	<u>\$ (53,745)</u>

Company	Name of Construction	2009		
		Construction in Process	Progressive Billings	Net Amount
Wang Yi Construction	Construction for demarcation of real estate in Anhe district, Taichung city I and II (recording under “progressive billings in excess of construction in progress”)	<u>\$ 310,985</u>	<u>\$ 367,831</u>	<u>\$ (56,846)</u>

10. AVAILABLE-FOR-SALE FINANCIAL ASSETS, NONCURRENT

Available-for-sale financial assets, noncurrent as at December 31, 2010 and 2009 consist of the following:

	2010			2009	
	Original Cost	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage
Domestic marketable equity securities					
Asia Vital Components Co., Ltd.	\$ 104,145	\$ 272,550	2.89	\$ 663,206	6.10
Taiwan Paiho Limited	127,102	253,093	3.03	148,059	2.97
Global Brands Manufacture Ltd.	960,036	871,390	9.18	-	-
Domestic mutual funds					
Taishin Lucky Fund	-	-	-	156,704	-
Cathay Bond fund	207,115	210,831	-	-	-
Foreign marketable equity securities					
Symphony Holdings Ltd.	<u>265,102</u>	<u>121,396</u>	4.82	<u>117,894</u>	4.82
	<u>\$ 1,663,500</u>	<u>\$ 1,729,260</u>		<u>\$ 1,085,863</u>	

Asia Vital Components Co., Ltd. is engaged in manufacturing and selling of semiconductors electronic connectors, computer connectors and communication products. The shares of Asia Vital Components Co., Ltd. are listed on the Taiwan Stock Exchange. It has an outstanding common stock of \$2,726,001 thousand as at December 31, 2010.

Taiwan Paiho Limited is engaged in manufacturing and selling of touch fasteners and webbings. The shares of Taiwan Paiho Limited are listed on the Taiwan Stock Exchange. It has an outstanding common stock of \$2,934,709 thousand as at December 31, 2010.

Global Brands Manufacture Ltd. is engaged in manufacturing and selling of printed circuit board. The shares of Global Brands Manufacture Ltd. are listed on the Taiwan Stock Exchange. It has on outstanding commons stock of \$4,703,164 thousand as at December 31, 2010.

Symphony Holdings Ltd. is engaged in manufacturing and sales of footwear. The shares of Symphony Holdings Ltd. are listed on the Hong Kong Exchange and Clearing Limited. It has an outstanding common stock of HK\$436,011 thousand as at December 31, 2010.

11. FINANCIAL ASSETS CARRIED AT COST, NONCURRENT

Financial assets carried at cost, noncurrent as at December 31, 2010 and 2009 consist of the following:

	2010	2009
Unquoted common stocks		
Chiang Yei Precision Industrial Co., Ltd.	\$ -	\$ 8,153
Golden Brands Developments Ltd.	172,354	218,620
L&C Aluminium Corp.	-	831
Shey Yu Co., Ltd.	320	320
View Sonic Corporation	96,231	96,231
Taichung International Entertainment Corporation	1,905	1,905
Bizlink Holding Inc.	97,327	106,883
Great Team Backend Foundry Inc.	70,621	77,554
First Dynamic International Ltd.	36,971	40,601
Ryco Investment Ltd.	2,913	31,990
DTE Technologies Corp.	-	-
Foreign mutual funds		
Asia Pacific Genesis Venture Capital Fund, L.P.	71,607	132,784
CID Greater China Venture Capital Fund II. L.P.	194,724	210,643
Prodigy Strategic Investment Fund XXII Segregated Portfolio	431,649	96,375
UIS - Trusted Money Fund	-	-
	<u>\$ 1,176,622</u>	<u>\$ 1,275,782</u>

The stocks and mutual funds mentioned above do not have public offering price and reliable fair values, thus they are carried at cost. Due to the continuing operation losses of DTE Technologies Corp., the Company had assessed the unrecoverable amount of investment cost \$130,000 thousand, and recognized its impairment loss equal to the carrying amount.

12. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

Investments accounted for by the equity method as at December 31, 2010 and 2009 are comprised of the following:

	2010			2009	
	Original Cost	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage
<u>Shoes, shoe materials and athletic products companies</u>					
Best Focus Holdings Ltd.	\$ 324,300	\$ 537,684	50.00	\$ 626,242	50.00
Beijing Baojing Kangtai Trading Co., Ltd.	205,960	198,177	50.00	-	-
Bigfoot Limited	138,772	163,844	48.76	152,889	48.76
Blessland Enterprises Limited	26,196	59,432	50.00	76,390	50.00
Central Honour Limited	5,189	13,821	50.00	13,358	50.00
China Ocean Resources Limited	821,131	406,555	50.00	446,471	50.00
Cohen Enterprises Inc.	156,820	540,762	50.00	570,493	50.00
Din Tsun Holding Co., Ltd.	251,211	716,019	50.00	668,408	50.00
Eagle Nice (International) Holdings Limited	1,325,223	1,790,639	38.42	1,928,481	38.42
Enthroned Group Limited	158	142	48.76	156	48.76
Faith Year Investments Ltd.	68,853	73,352	30.00	-	-
Full Pearl International Ltd.	381,878	377,750	40.04	226,462	47.90

(Continued)

	2010			2009	
	Original Cost	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage
Fuzhou Fubao Paper Packaging Co., Ltd.	\$ 118,574	\$ 132,730	50.00	\$ 144,875	50.00
Good Assets Management Limited	8,200	5,257	50.00	7,987	50.00
Great Skill Industrial Limited	34,149	55,312	50.00	60,372	50.00
Guiyang Baoshang Sports Goods Company Limited	47,776	63,029	50.00	61,910	50.00
Hangzhou Baohong Sports Goods Company Limited	58,908	38,228	50.00	54,763	50.00
Harbin Shenge Sports Chain Company Limited	-	-	-	562,756	45.00
Hebei Zhanxin Sports Development Company Limited	316,554	312,067	45.00	409,792	45.00
Hefei Tengrei Sports Goods Company Limited.	319,323	402,437	50.00	305,260	50.00
High Style Investments Limited	19,458	16,987	50.00	17,343	50.00
Hua Jian Industrial Holding Co., Limited	771,201	2,188,226	50.00	2,300,436	50.00
Hubei Jiezhixing Clothing and Accessories Company Limited	-	-	-	552,609	50.00
Intelligent Plus Limited	48,989	51,752	45.90	48,452	45.90
i-Tech Enterprises Ltd.	10,134	6,103	50.00	6,782	50.00
Jilin Lingpao Sports Goods Company Limited	280,911	526,039	50.00	583,949	50.00
Jilin Xinfangwei Sports Goods Company Limited	597,802	616,290	50.00	641,787	50.00
Jumbo Power Enterprises Limited	438,315	684,988	50.00	560,380	50.00
Just Lucky Investments Limited	26,204	48,390	38.30	65,883	38.30
Ka Yuen Rubber Factory Limited	32,727	602,517	50.00	537,961	50.00
Keen Idea Group Limited	62,976	16,171	40.00	56,692	40.00
Liberty Bell Investments Limited	318,234	135,223	49.00	162,279	49.00
Luen Thai Holdings Limited	394,437	527,639	8.98	462,823	8.98
Natural Options Limited	11,144	5,841	38.30	5,655	38.30
Oftenrich Holdings Limited	931,070	1,427,932	45.00	2,106,077	45.00
Original Designs Developments Limited	40,156	132,380	49.47	141,595	49.47
Pine Wood Industries Limited	92,393	72,795	37.00	79,942	37.00
Precise Zone Investments Limited	41,662	42,720	47.65	50,517	47.65
Prosperous Industrial (Holdings) Ltd.	583,740	970,588	30.00	986,880	30.00
PYGF Co., Ltd.	32,430	55,433	50.00	72,585	50.00
Rise Mount Limited	-	-	-	4,204	26.00
Shaanxi Jixian Longyue Sports Goods Company Limited	140,790	207,413	50.00	210,115	50.00
Shaanxi Wuhuan Shengdao Sports Production Development Company Limited	202,256	251,427	40.00	246,252	40.00
Smart Shine Industries Limited	-	90,605	50.00	93,315	50.00
Suzhou Xinjun Trading Development Company Limited	254,935	283,043	49.00	246,365	49.00
Texas Clothing Holdings Corp.	3,425,070	1,341,183	39.80	1,089,476	39.80
Topmost Industries Limited	26,438	93,159	50.00	97,148	50.00
Twinways Investments Limited	88,232	263,383	50.00	226,506	50.00
Wenzhou Baofeng Trading Company Limited	41,335	37,118	50.00	66,970	50.00
Willpower Industries Limited	221,001	351,952	44.84	190,244	40.00
Yuen Thai Industrial Company Limited	85,745	129,193	50.00	95,019	50.00
Zhejiang Baohong Sports Goods Company Limited	213,025	198,924	49.00	252,123	49.00
Zhejiang Jinguan Enterprise Development Company Limited	-	-	-	269,705	50.00
Zhejiang Yichuan Sports Goods Chain Company Limited	607,031	609,470	50.00	877,510	50.00
Prosperlink Ltd.	6,078	5,636	38.00	6,078	38.00

(Continued)

	2010			2009	
	Original Cost	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage
Rise Bloom International Ltd.	\$ 24,312	\$ 22,094	47.00	\$ 24,312	47.00
Supplyline Logistics Ltd.	201,321	26,963	49.00	23,352	49.00
Well Success Investments Limited	198,731	950,598	40.00	1,004,034	40.00
San Fang Chemical Industry Co., Ltd.	2,677,576	3,231,529	44.72	3,291,171	44.72
Evermore Chemical Industry Co., Ltd.	253,333	267,402	20.75	293,754	20.75
Nan Pao Resins Chemical Co., Ltd.	539,797	570,337	22.15	575,590	22.15
<u>Electronic companies</u>					
Digital Sun Investments Ltd.	-	-	-	331,902	41.67
Haicheng Information Technology Co., Ltd.	194,580	130,534	50.00	137,758	50.00
Kleine Developments Ltd.	335,317	50,890	50.00	146,111	50.00
Silver Island Trading Ltd.	129,720	45,966	50.00	50,522	50.00
Venture Well Holdings Ltd.	332,638	291,873	31.55	358,616	30.21
Techview International Technology Inc.	671,618	-	50.00	-	48.31
Elitegroup Computer Systems Co., Ltd.	6,036,400	4,789,878	18.59	5,024,448	18.59
<u>Investment holding and other companies</u>					
Ace Top Group Limited	15,865	53,612	40.00	47,914	40.00
Asia Air Tech Industrial (Pte) Ltd.	82,697	45,556	30.00	55,232	30.00
Coprospects Holdings Ltd.	-	842	50.00	26,108	50.00
Mega Atlas International Ltd.	3,041	235	40.00	595	40.00
Most Honour International Limited	1,640	3,790	50.00	3,760	50.00
Partner Alliance Limited	3,237	4,787	50.00	6,288	50.00
Poulik Properties Management Co., Ltd.	-	510	30.00	548	30.00
Rising Developments Ltd.	5,028	34,191	50.00	34,514	50.00
Talent Pool Management Ltd.	-	4,277	30.00	5,026	30.00
Zhuhai Poulik Properties Management Co., Ltd.	4,952	40,006	40.00	38,843	40.00
Zhong Ao Multiplex Management Limited	1,002,199	1,187,408	46.82	1,136,202	47.50
Ruen Chen Investment Holding Co., Ltd.	<u>500,000</u>	<u>491,868</u>	20.00	-	-
	27,869,096	30,122,903		32,345,322	
Prepayments for investments	-	<u>559,967</u>		-	
	<u>\$ 27,869,096</u>	<u>\$ 30,682,870</u>		<u>\$ 32,345,322</u>	

(Concluded)

The Company's investment income (loss) recognized under equity method for the years ended December 31, 2010 and 2009 is summarized as follows:

	2010	2009
<u>Shoes, shoe materials and athletic products companies</u>		
All Saints Enterprises Limited	\$ -	\$ (648)
Best Focus Holdings Ltd.	31,622	67,267
Beijing Baojing Kangtai Trading Co., Ltd.	6,297	-
Bigfoot Limited	47,125	33,435
Blessland Enterprises Limited	4,824	12,430
Central Honour Limited	1,802	1,648
China Ocean Resources Limited	-	(219,330)
Cohen Enterprises Inc.	23,127	135,222
Din Tsun Holding Co., Ltd.	179,869	245,361
Eagle Nice (International) Holdings Limited	207,935	325,818

(Continued)

	2010	2009
Farsighted International Limited	\$ -	\$ 47,239
Faith Year Investments Ltd.	4,891	-
Full Pearl International Limited.	(3,219)	(4,705)
Fuzhou Fubao Paper Packaging Co., Ltd.	(1,739)	6,216
Good Assets Management Limited	(2,192)	-
Great Skill Industrial Limited	9,867	9,348
Guiyang Baoshang Sports Goods Company Limited	5,815	9,797
Hangzhou Baohong Sports Goods Company Limited	(13,547)	(3,739)
Harbin Shenge Sports Chain Company Limited	69,399	99,044
Hebei Zhanxin Sports Development Company Limited	(30,147)	55,813
Hefei Tengrei Sports Goods Company Limited	18,530	62,965
High Style Investments Limited	1,299	(1,949)
Hua Jian Industrial Holdings Co., Limited	371,547	76,145
Hubei Jiezhixing Clothing and Accessories Company Limited	47,048	102,871
Intelligent Plus Limited	3,082	(557)
i-Tech Enterprise Ltd.	(23)	(1,001)
Jilin Lingpao Sports Goods Company Limited	89,508	160,465
Jilin Xingfangwei Sports Goods Company Limited	20,715	19,686
Jumbo Power Enterprises Limited	154,691	167,132
Just Lucky Investments Limited	11,057	13,246
Ka Yuen Rubber Factory Limited	122,474	224,592
Keen Idea Group Limited	(19,542)	(3,960)
Liberty Bell Investments Limited	(13,641)	(33,312)
Luen Thai Holdings Ltd.	47,804	34,614
Natural Options Limited	752	148
Oftenrich Holdings Limited	322,521	204,979
Original Designs Developments Limited	42,256	25,886
Precise Zone Investments Limited	(3,046)	3,462
Profit Land Limited	-	(449)
Prosperous Industrial (Holdings) Ltd.	122,775	156,338
PYGF Co., Ltd.	20,077	16,623
Rise Mount Limited	-	(1,205)
Shaanxi Jixian Longyue Sports Goods Company Limited	12,803	44,143
Shaanxi Wuhuan Shengdao Sports Production Development Company Limited	33,610	26,065
Smart Shine Industries Limited	4,979	(58,059)
Suzhou Xinjun Trading Development Company Limited	(7,555)	45,573
Texas Clothing Holdings Corp.	364,706	(365,653)
Topmost Industries Limited	26,360	12,324
Twinways Investments Limited	101,053	40,359
Wenzhou Baofeng Trading Co., Ltd.	(17,519)	17,581
Willpower Industries Limited	63,365	44,111
Yuen Thai Industrial Company Limited	46,389	33,487
Zhejiang Baohong Sports Goods Company Limited	(6,312)	16,037
Zhejiang Jinguan Enterprise Development Company Limited	36,768	147,758
Zhejiang Yichuan Sports Goods Chain Company Limited	75,080	157,470
Prosperlink Limited	110	-
Rise Bloom International Limited	(49)	-
Well Success Investment Limited	15,259	(160,168)
San Fang Chemical Industry Co., Ltd.	420,563	398,800
Evermore Chemical Industry Co., Ltd.	13,005	17,222
Nan Pao Resins Chemical Co., Ltd.	(47,539)	107,279

(Continued)

	2010	2009
<u>Electronic companies</u>		
Digital Sun Investments Ltd.	\$ -	\$ 9,475
Haicheng Information Technology Co., Ltd.	773	(2,512)
Kleine Developments Ltd.	(93,017)	(126,936)
Silver Island Trading Ltd.	(42)	(121)
Venture Well Holdings Ltd.	(42,072)	(3,835)
Techview International Technology Inc.	75,241	(271,058)
Elitegroup Computer Systems Co., Ltd.	49,122	167,989
<u>Investment holding and other companies</u>		
Ace Top Group Limited	(3,782)	6,353
Asia Air Tech Industrial (Pte) Ltd.	(6,021)	(7,159)
Coprospets Holdings Ltd.	88	(2,238)
Mega Atlas International Limited	(334)	(2,540)
Most Honour International Limited	314	863
Partner Alliance Limited	515	646
Rising Developments Ltd.	3,004	7,318
Talent Pool Management Ltd.	3,832	2,574
Zhuhai Poulik Properties Management Co., Ltd.	67,134	7,522
Zhong Ao Multiplex Management Limited	145,566	(16,224)
Ruen Chen Investment Holding Co., Ltd.	(8,132)	-
	<u>\$ 3,228,878</u>	<u>\$ 2,341,381</u> (Concluded)

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

<u>Name</u>	<u>Core Operating Item</u>	<u>Location of Incorporation</u>
Ace Top Group Limited	Investment holding	British Virgin Islands
All Saints Enterprises Limited	Manufacture and sale of paint	British Virgin Islands
Asia Air Tech Industrial (Pte) Ltd.	Manufacture and sale of air conditioner	Singapore
Best Focus Holdings Ltd.	Manufacture and sale of paper carton	British Virgin Islands
Beijing Baojing Kangtai Trading Co., Ltd.	Retailing of sportswear	PRC
Bigfoot Limited	Cloth product trading/cloth dyeing and processing /cloth shoe material binding	British Virgin Islands
Blessland Enterprises Limited	Manufacture and sale of shoe pads	British Virgin Islands
Central Honour Limited	Shoe injection	British Virgin Islands
China Ocean Resources Limited	Sales of sports goods	British Virgin Islands
Cohen Enterprises Inc.	Manufacture and sales of leather products for shoes	British Virgin Islands
Coprospets Holdings Ltd.	Investment holding	British Virgin Islands
Digital Sun Investments Ltd.	Sale of Printed Circuit Boards	British Virgin Islands
Din Tsun Holding Co., Ltd.	Manufacture and sale of apparel	British Virgin Islands
Eagle Nice (International) Holdings Limited	Manufacture and sale of apparel	Cayman Islands
Enthroned Group Limited	Investment holding	British Virgin Islands
Faith Year Investments Ltd.	Manufacture and sale of apparel	British Virgin Islands
Farsighted International Limited	Sales of sports goods	British Virgin Islands

(Continued)

Name	Core Operating Item	Location of Incorporation
Full Pearl International Limited	Retailing of ladies shoes	British Virgin Islands
Fuzhou Fubao Paper Packaging Co., Ltd.	Print and manufacture of paper	PRC
Good Assets Management Limited	Investment holding	British Virgin Islands
Great Skill Industrial Limited	Manufacture and sale of plastic shoe injection	British Virgin Islands
Guiyang Baoshang Sports Goods Company Limited	Retailing of sportswear	PRC
Haicheng Information Technology Co., Ltd.	Developing and manufacture of software and electronic parts	PRC
Hangzhou Baohong Sports Goods Company Limited	Retailing of sportswear	PRC
Harbin Shenge Sports Chain Company Limited	Retailing of sportswear	PRC
Hebei Zhanxin Sports Development Company Limited	Retailing of sportswear	PRC
Hefei Tengrei Sports Goods Company Limited	Retailing of sportswear	PRC
High Style Investments Limited	Manufacture halftone, printing ink	British Virgin Islands
Hua Jian Industrial Holding Co., Limited	Manufacture and sale of ladies shoes	British Virgin Islands
Hubei Jiezhixing Clothing and Accessories Company Limited	Retailing of sportswear	PRC
Intelligent Plus Limited	Manufacturing and sale of chemical materials	British Virgin Islands
i-Tech Enterprises Ltd.	Sale of plastic grain	British Virgin Islands
Jilin Lingpao Sports Goods Company Limited	Retailing of sportswear	PRC
Jilin Xinfangwei Sports Goods Company Limited	Retailing of sportswear	PRC
Jumbo Power Enterprises Limited	Manufacture and sale of footwear	British Virgin Islands
Just Lucky Investments Limited	Property management	British Virgin Islands
Ka Yuen Rubber Factory Limited	Manufacture and sale of rubber soles	British Virgin Islands
Keen Idea Group Limited	Investment holding	British Virgin Islands
Kleine Developments Ltd.	Manufacture and sale of electronic parts and investment holding	British Virgin Islands
Liberty Bell Investments Limited	Manufacture and sale of chemical for leather use	British Virgin Islands
Luen Thai Holdings Ltd.	Manufacturing of apparel	Cayman Islands
Mega Atlas International Ltd.	Investment Holding	British Virgin Islands
Most Honour International Limited	Investment holding	British Virgin Islands
Natural Options Limited	Manufacture of foamed cotton	British Virgin Islands
Oftenrich Holdings Limited	Manufacture and sale of safety and casual shoes	Bermuda
Original Designs Developments Limited	Manufacture of shoe lasts	British Virgin Islands
Partner Alliance Limited	Sale of tobacco and liquor	British Virgin Islands
Pine Wood Industries Limited	Manufacture and sale of cloths	British Virgin Islands
Poulik Properties Management Co., Ltd.	Properties management	British Virgin Islands
Precise Zone Investments Limited	Manufacture and processing of ironware and plastic products	British Virgin Islands
Profit Land Limited	Manufacture and sale of paint	Samoa
Prosperlink Ltd.	Investment Holding	Samoa
Prosperous Industrial (Holdings) Ltd.	Manufacture and sale of sports bags	Cayman Islands
PYGF Co., Ltd.	Processing rubber	British Virgin Islands
Rise Mount Limited	Investment holding	British Virgin Islands
Rise Bloom International Ltd.	Investment Holding	Hong Kong
Rising Developments Ltd.	Trading of diesel/petroleum	British Virgin Islands
Shaanxi Jixian Longyue Sports Goods Company Limited	Retailing of sportswear	PRC

(Continued)

Name	Core Operating Item	Location of Incorporation
Shaanxi Wuhuan Shengdao Sports Production Development Company Limited	Retailing of sportswear	PRC
Silver Island Trading Ltd.	Sale of electronic parts	British Virgin Islands
Smart Shine Industries Limited	Manufacture and sales of shoes and apparel	British Virgin Islands
Supplyline Logistics Ltd.	Provision of logistic service	Hong Kong
Suzhou Xinjun Trading Development Company Limited	Retailing of sportswear	PRC
Talent Pool Management Ltd.	Provision of kindergarten service	British Virgin Islands
Texas Clothing Holdings Corp.	Manufacture and sale of apparel	British Virgin Islands
Topmost Industries Limited	Manufacture of counters for shoes	British Virgin Islands
Twinways Investments Limited	Manufacture and sales of injection moulds for shoe components	British Virgin Islands
Venture Well Holdings Ltd.	Sale of electronic parts	British Virgin Islands
Well Success Investment Limited	Investment holding	British Virgin Islands
Wenzhou Baofeng Trading Co., Ltd.	Retailing of sportswear	PRC
Willpower Industries Limited	Manufacture and sale of paper product	British Virgin Islands
Yuen Thai Industrial Company Limited	Manufacture and trading of sports and active wear	Hong Kong
Zhejiang Baohong Sports Goods Co., Ltd.	Retailing of sportswear	PRC
Zhejiang Jinguan Enterprise Development Company Limited	Retailing of sportswear	PRC
Zhejiang Yichuan Sports Goods Chain Company Limited	Retailing of sportswear	PRC
Zhuhai Poulik Properties Management Co., Ltd.	Properties management	British Virgin Islands
Zhong Ao Multiplex Management Limited	Properties management	PRC

(Concluded)

Except Venture Well Holdings Ltd. and Kleine Developments, Ltd., the accounting year of the above-listed companies is ended on September 30. The Company accounted for the investment income (loss) from these companies based on their financial results for the period from October 1, 2009 to September 30, 2010 and October 1, 2008 to September 30, 2009, respectively.

Haicheng Information Technology Co., Ltd. and Silver Island Trading Ltd. had their accounting year from October 1 of the preceding year to September 30 of the year. The two companies had changed its accounting year to fiscal year in 2010. Therefore, the Company recognized investment income (loss) in 2010 and 2009 for Haicheng Information Technology Co., Ltd. and Silver Island Trading Ltd. based on their financial results for the period from October 1, 2009 to December 31, 2010 and October 1, 2008 to September 30, 2009, respectively.

Techview International Technology Inc. (“Techview International”) was established in November 2003, and is primarily engaged in development, sale and assembly of TFT-LCD display.

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. It has an outstanding common stock of \$12,331,937 thousand as at December 31, 2010.

San Fang Chemical Industry Co., Ltd. (“San Fang”) is engaged in manufacturing and marketing leather. The shares of San Fang are listed on the Taiwan Stock Exchange. It has an outstanding capital of \$3,119,649 thousand as at December 31, 2010.

Evermore Chemical Industry Co., Ltd. (“Evermore Chemical”) is engaged in manufacturing and selling of melamine resin and phthali anhydride resin. The shares of Evermore Chemical are listed on the Taiwan Stock Exchange. It has an outstanding capital of \$932,880 thousand as at December 31, 2010.

Nan Pao Resins Chemical Co., Ltd. (“Nan Pao Resins”) was established in October 1963. It is engaged in manufacturing chemical materials. It has an outstanding common stock of \$370,092 thousand as at December 31, 2010.

Luen Thai Holdings Ltd. (“Luen Thai”) is engaged in manufacturing ready-made garments. The shares of Luen Thai are listed on the Hong Kong Exchange and Clearing Limited. It has an outstanding common stock of US\$9,927 thousand as at December 31, 2010.

Eagle Nice (International) Holdings Ltd. (“Eagle Nice”) is engaged in manufacturing and sale of apparel. The shares of Eagle Nice are listed on the Hong Kong Exchange and Clearing Limited. It has an outstanding common stock of HK\$4,997 thousand as at December 31, 2010.

On March 11, 2010, the Company decided to dispose the 50% ownership of Hubei Jiezhixing Clothing and Accessories Company Limited, and Zhejiang Jinguan Enterprise Development Company Limited, and the disposal was completed in June 2010.

Ruen Chen Investment Holding Co., Ltd. (“Ruen Chen”) was established in November 2010, with an outstanding common stock of \$2,500,000 thousand at December 31, 2010, and is primarily engaged in investing activities. The Company was one of the original stockholders and has invest \$500,000 thousand. Its ownership was 20%.

The Prepayments for investments as at December 31, 2010, represented the consideration paid \$559,967 thousand for acquisition of the remaining 50% ownership of Zhejiang Yichuan Sports Goods Chain Company Limited (“Zhejiang Yichuan”).

13. INVESTMENTS IN REAL ESTATE

Investments in real estate as at December 31, 2010 and 2009 are comprised of the following:

	2010	2009
Land	<u>\$ 186,123</u>	<u>\$ 186,123</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.

14. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as at December 31, 2010 and 2009 consisted of the following:

	Cost	Revaluation Increment	2010		Carrying Value	2009
			Accumulated Depreciation	Accumulated Impairment		Carrying Value
Land	\$ 2,199,966	\$ 248,261	\$ -	\$ 15,806	\$ 2,432,421	\$ 2,619,196
Buildings and improvements	49,065,271	45,062	14,769,655	13,408	34,327,270	38,889,112
Machinery and equipment	36,911,869	-	22,381,351	9,413	14,521,105	19,423,436
Transportation equipment	1,227,661	-	809,977	-	417,684	330,889
Furniture, fixtures and office equipment	5,599,618	-	3,659,945	395	1,939,278	2,076,902
Other equipment	205,642	-	180,537	183	24,922	261,357
Construction in progress and prepayments for equipment	<u>3,291,092</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,291,092</u>	<u>3,791,114</u>
	<u>\$ 98,501,119</u>	<u>\$ 293,323</u>	<u>\$ 41,801,465</u>	<u>\$ 39,205</u>	<u>\$ 56,953,772</u>	<u>\$ 67,392,006</u>

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

The interest expense before capitalization for the year ended December 31, 2009 amounted to \$2,677,273 thousand. Interest costs capitalized as part of the costs of property, plant and equipment for the year ended December 31, 2009 amounted to \$17,271 thousand. The rate of capitalized interest for the year ended December 31, 2009 was 1.11% to 2.29%.

15. OTHER ASSETS

Other assets as at December 31, 2010 and 2009 consisted of the following:

	2010	2009
Leased assets		
Cost and revaluation increment	\$ 1,446,315	\$ 1,773,839
Less accumulated depreciation	(2,477)	(35,566)
Less allowance for valuation loss of leased assets	<u>(2,562)</u>	<u>(2,230)</u>
	<u>1,441,276</u>	<u>1,736,043</u>
Idle asset	62,083	85,389
Less accumulated depreciation	(58,083)	(78,697)
Less allowance for valuation loss of idle asset	<u>(4,000)</u>	<u>(6,692)</u>
	<u>-</u>	<u>-</u>
Refundable deposits	1,396,617	1,790,525
Deferred charges	5,367,928	5,463,085
Deferred income tax assets-noncurrent (Note 26)	201,440	189,969
Land held by trustee	73,713	73,713
Prepaid pension cost (Note 22)	97,594	95,784
Land and building for sale	5,300	5,430
Temporary tax payments	4,821	4,265
Others	<u>546,265</u>	<u>44,064</u>
	<u>\$ 9,134,954</u>	<u>\$ 9,402,878</u>

Three parcels of land located in Changhwa County were purchased by Pou Chen for \$22,187 thousand in June 1990, for \$33,668 thousand in April 1997, and for \$17,858 thousand in July 2007. According to related laws, the ownership for these three parcels of land should be changed to Pou Chen. 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, 2010, are included in "other assets - land held by trustee".

16. SHORT-TERM LOANS

Short-term loans as at December 31, 2010 and 2009 consisted of the following:

	2010		2009	
	Annual Interest Rate %	Balance	Annual Interest Rate %	Balance
Procurement loans	-	\$ -	0.75-1.60	\$ 2,590,794
Unsecured loans	0.72-6.08	<u>14,326,192</u>	0.74-7.20	<u>22,819,701</u>
		<u>\$ 14,326,192</u>		<u>\$ 25,410,495</u>

17. SHORT-TERM BILLS PAYABLE

Short-term bills payable as at December 31, 2010 and 2009 consisted of the following:

	2010		2009	
	Annual Interest Rate %	Balance	Annual Interest Rate %	Balance
Commercial paper	0.50-0.67	\$ 1,365,000	0.30-0.75	\$ 1,780,000
Less discount on commercial paper		<u>(622)</u>		<u>(926)</u>
		<u>\$ 1,364,378</u>		<u>\$ 1,779,074</u>

18. OTHER PAYABLES

Other payable as at December 31, 2010 and 2009 consists of the following:

	2010	2009
Salary and wages payable	\$ 5,169,133	\$ 4,873,257
Payables on machinery and equipment	438,101	183,739
Compensation due to directors and supervisors	251,290	335,322
Employee bonus payable	154,313	258,575
Interest payable	100,567	155,668
Other accrued expenses	<u>5,903,215</u>	<u>8,775,325</u>
	<u>\$ 12,016,619</u>	<u>\$ 14,581,896</u>

19. CURRENT PORTION OF LONG-TERM LIABILITIES

Current portion of long-term liabilities as at December 31, 2010 and 2009 consists of the following:

	2010	2009
Euro Convertible Bonds (Note 20)	\$ 7,825,745	\$ 559,701
Long-term debt (Note 21)	<u>8,576,850</u>	<u>10,874,913</u>
	<u>\$ 16,402,595</u>	<u>\$ 11,434,614</u>

20. BONDS PAYABLE

Bonds payable as at December 31, 2010 and 2009 consisted of the following:

	2010	2009
Euro Convertible Bonds	\$ 7,825,745	\$ 8,680,070
Less current portion (Note 19)	<u>(7,825,745)</u>	<u>(559,701)</u>
	<u>\$ -</u>	<u>\$ 8,120,369</u>

The covenants of overseas unsecured Convertible Bonds issued by Yu Yuen in 2007 are as followed:

- a. Date of issuance: November 17, 2006
- b. Par value: HK\$10 thousand
- c. Location of issuance: Hong Kong
- d. Price of issuance: 100%
- e. Total amount: HK\$2,100,000 thousand issued.
- f. Interest rate: 0%
- g. Term: Five years; date of maturity: November 17, 2011
- h. Conversion price:

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

- i. Redemption at maturity:

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

- j. Redemption at the option of Yue Yuen:

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

k. Repurchase at the option of holders:

- 1) Each holder has the put option to require Yue Yuen to repurchase all or any portion of such holder's bonds on November 17, 2009 at a price equal to 107.738% of the unpaid principal amount thereof. On November 17, 2009, an aggregate principal approximately \$559,701 thousand (US\$17,343 thousand) was redeemed by the request of the bondholders. Accordingly, the redeemed amount of \$559,701 thousand is classified as current liabilities for the year ended September 30, 2009.
- 2) If the common shares of Yue Yuen cease to be listed or admitted to trading on the Hong Kong Stock Exchange, each holder has the right to require Yue Yuen to repurchase all of such holder's bonds.
- 3) Upon the occurrence of a change of control, each holder has the right to require Yue Yuen to repurchase all of such holder's bonds.

21. LONG-TERM DEBT

Long-term debt as at December 31, 2010 and 2009 consist of the following:

	2010	2009
Taipei Fubon Bank		
Long-term debt, US\$150,000 thousand. The principal due in semiannual installments commencing from May 2012. Interest rate is 1.25%. Interest is paid quarterly.	\$ 4,369,500	\$ 4,798,500
Bank of China		
Long-term debt, US\$420,000 thousand. The term is from June 1, 2005 to June 1, 2010. The principal will be fully repaid at maturity. Interest is paid quarterly. The principal had been fully repaid in June 2010.	-	8,964,029
Bank of China		
Long-term debt, US\$500,000 thousand. The term is from April 21, 2009 to April 20, 2012. Interest is paid quarterly. The principal had been fully prepaid in June 2010.	-	16,021,159
Cathay United Bank		
Long-term debt, US\$9,750 thousand, due in 84 monthly repayments commencing from May 20, 2006 and maturing May 19, 2013. Interest is paid monthly. The principal had been fully prepaid in July 2010.	-	286,475
Ta Chong Bank (Lead Lender) Syndication Loan		
Long-term debt, US\$30,000 thousand, due in 5 semiannual installments commencing September 2, 2008 and maturing September 2, 2010. The principal had been fully repaid upon due September 2010.	-	383,880
Citibank		
Long-term debt, facility is US\$300,000 thousand including US\$248,500 thousand and HK\$401,700 thousand. The term is from May 20, 2010 to May 20, 2013. The principal will be fully repaid upon due. Interest rate is 1.24%. Interest is paid semiannually.	8,742,510	-

(Continued)

	2010	2009
Citic Bank		
Long-term debt, US\$30,000 thousand. The term is from March 5, 2010 to March 4, 2013. The principal is due in semiannual installments commencing from September 2011. Interest rate is 2.05%. Interest is paid quarterly.	\$ 873,900	\$ -
Bank of China (HK)		
Long-term debt, US\$15,000 thousand. The term is from June 1, 2009 to June 1, 2012. The principal due in semiannual installments commencing from October 1, 2011. Interest rate is 1.93%. Interest is paid monthly.	436,950	-
Standard Chartered Bank Syndication Loan		
Long-term debt, US\$30,000 thousand. The term is from August 24, 2005 to August 24, 2010. The principal was due in semiannual installments commencing from August 24, 2008. The principal had been fully repaid in August 2010.	-	383,880
Ta Chong Bank (Lead Lender) Syndication Loan		
Long-term debt, US\$14,000 thousand. The term is from November 14, 2005 to November 14, 2010. The principal was due in semiannual installments commencing from November 14, 2008. The principal had been fully repaid in November 2010.	-	179,144
DBS Bank		
Long-term debt, RMB130,000 thousand. The term is from August 26, 2009 to September 15, 2012. Due in semiannual installment commencing September 15, 2010. Interest rate is 5.67%. Interest is paid semiannually.	509,829	609,110
KBC (Shanghai) Bank (Lead Lender) Syndication Loan		
Long-term debt, US\$36,000 thousand. The term is from December 3, 2007 to December 2, 2010. The principal was due in semiannual installments commencing from November 18, 2009. The principal had been fully repaid in December 2010.	-	806,148
Citibank (Lead Lender) Syndication Loan		
Long-term debt, US\$350,000 thousand. The term is from July 11, 2007 to July 11, 2012. Due in semiannual installments commencing January 11, 2011. Interest rate is 0.56%.	9,933,330	10,908,590
The Hong Kong and Shanghai Banking Corporation Limited		
Mid-term debt, RMB40,000 thousand. The term is from March 31, 2007 to March 31, 2012. The principal is due in semiannual installments commencing from March 2010. Interest rate is 6.08%. Interest is paid semiannual.	104,580	187,419
Bank of Kaohsiung		
Secured Mid-term debt, \$300,000 thousand. The term is from September 26, 2008 to September 26, 2015. The principal is due in quarterly installments commencing from September 26, 2010. Interest rate is 1.65%. Interest is paid monthly.	285,000	300,000
Cathay United Bank		
Mid-term debt, \$1,050,000 thousand (including secured debt \$849,000 thousand and unsecured debt \$201,000 thousand). The term is from May 9, 2008 to May 9, 2011. The principal will be fully repaid upon due. Interest rate is 2.14%. Interest is paid monthly.	854,000	831,200

(Continued)

	2010	2009
Citibank (Lead Lender) Syndication Loan		
Long-term debt, \$6,500,000 thousand, due in semiannual repayments commencing April 25, 2009 and due on October 25, 2010. The principal was fully repaid in October 2010.	\$ -	\$ 3,250,000
China Trust Commercial Bank (Lead Lender) Syndication Loan		
Long-term debt, \$2,500,000 thousand, due in semiannual repayments commencing December 2, 2009 and due on June 9, 2011. Interest rate is 1.05%.	625,000	1,875,000
China Trust Commercial Bank (Lead Lender) Syndication Loan		
Long-term debt, \$7,000,000 thousand, due in semiannual repayments commencing November 16, 2011 and due on May 16, 2013. Interest rate is 1.12%.	7,000,000	7,000,000
China Trust Commercial Bank (Lead Lender) Syndication Loan		
Long-term debt, \$10,000,000 thousand, due in semiannual repayments commencing June 2013 and due on December 2, 2014. Interest rate is between 1.28%-1.32%.	<u>4,500,000</u>	<u>-</u>
	38,234,599	56,784,534
Less current portion (Note 19)	<u>(8,576,850)</u>	<u>(10,874,913)</u>
	<u>\$ 29,657,749</u>	<u>\$ 45,909,621</u> (Concluded)

China Trust Commercial Bank syndication loan of which balances was \$625,000 thousand, since the Company had refinanced, and was recorded as long-term debt, accordingly.

The Company provided collateral in accordance with requirement of the bank, please see Note 31 to the consolidated financial statement for the relevant information.

22. PENSION PLAN

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

Net pension cost for the year 2010 consists of the following:

	Pou Chen	Barits Development	Pou Yuen Technology	Pro Arch International	Total
Service cost	\$ 28,030	\$ 1,407	\$ 28	\$ -	\$ 29,465
Interest cost	27,404	942	112	14	28,472
Expected return on plan assets	(8,072)	(2,032)	(837)	(324)	(11,265)
Amortization of net transition (asset) obligation	(1,875)	646	-	-	(1,229)
Amortization of unrecognized prior service cost	-	-	204	-	204
Amortization of pension loss (gain)	<u>16,299</u>	<u>(51)</u>	<u>-</u>	<u>-</u>	<u>16,248</u>
	<u>\$ 61,786</u>	<u>\$ 912</u>	<u>\$ (493)</u>	<u>\$ (310)</u>	<u>\$ 61,895</u>

Net pension cost for the year 2009 consists of the following:

	Pou Chen	Barits Development	Pou Yuen Technology	Pro Arch International	Global Brands Manufacture	Total
Service cost	\$ 27,532	\$ 1,704	\$ 28	\$ -	\$ 780	\$ 30,044
Interest cost	33,760	1,501	132	16	1,462	36,871
Expected return on plan assets	(10,993)	(2,789)	(1,122)	(443)	(228)	(15,575)
Amortization of net transition (asset) obligation	(1,875)	646	-	-	657	(572)
Amortization of unrecognized prior service cost	-	-	204	-	-	204
Amortization of pension loss (gain)	8,307	(859)	-	-	861	8,309
Gain on curtailment of pension cost	<u>-</u>	<u>(19,270)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(19,270)</u>
	<u>\$ 56,731</u>	<u>\$ (19,067)</u>	<u>\$ (758)</u>	<u>\$ (427)</u>	<u>\$ 3,532</u>	<u>\$ 40,011</u>

The following table sets forth the actuarial assumptions as at December 31, 2010:

	Pou Chen	Barits Development	Pou Yuen International	Pro Arch International
Weighted-average discount rate	2.00%	2.00%	2.00%	2.00%
Assumed rate of increase in salaries	2.25%	2.50%	3.00%	2.25%
Expected rate of return on plan assets	2.00%	2.00%	2.00%	2.00%

The following table sets forth the actuarial assumptions as at December 31, 2009:

	Pou Chen	Barits Development	Pou Yuen International	Pro Arch International	Global Brands Manufacture
Weighted-average discount rate	2.00%	2.00%	2.00%	2.00%	2.50%
Assumed rate of increase in salaries	2.50%	2.00%	3.25%	2.25%	2.50%
Expected rate of return on plan assets	2.00%	2.00%	2.00%	2.00%	3.50%

The plan's status as at December 31, 2010:

	Pou Chen	Barits Development	Pro Arch International	Pro Arch Technology	Total
Actuarial present value of benefit obligation:					
Vested benefits	\$ (399,474)	\$ (2,079)	\$ (801)	\$ -	\$ (402,354)
Nonvested benefits	<u>(703,058)</u>	<u>(40,313)</u>	<u>(2,503)</u>	<u>(567)</u>	<u>(746,441)</u>
Accumulated benefit obligation	(1,102,532)	(42,392)	(3,304)	(567)	(1,148,795)
Additional benefits at future salaries	<u>(284,278)</u>	<u>(15,431)</u>	<u>(2,331)</u>	<u>(160)</u>	<u>(302,200)</u>
Projected benefit obligation	(1,386,810)	(57,823)	(5,635)	(727)	(1,450,995)
Plan assets at fair value	<u>407,919</u>	<u>103,019</u>	<u>42,881</u>	<u>16,373</u>	<u>570,192</u>
Projected benefit obligation in excess of plan assets	(978,891)	45,196	37,246	15,646	(880,803)
Net transition (asset) obligation not yet recognized	(2,749)	355	-	-	(2,394)
Unrecognized prior service costs	-	-	557	-	557
Unrecognized pension loss (gain)	344,368	(1,103)	(616)	313	342,962
Additional pension liability	<u>(57,341)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(57,341)</u>
Prepaid pension cost (accrued pension cost)	<u>\$ (694,613)</u>	<u>\$ 44,448</u>	<u>\$ 37,187</u>	<u>\$ 15,959</u>	<u>\$ (597,019)</u>

The following is pension fund distribution table as at December 31, 2009:

	Pou Chen	Barits Development	Pou Yuen Technology	Pro Arch International	Global Brands Manufacture	Total
Actuarial present value of benefit obligation:						
Vested benefits	\$ (295,244)	\$ (1,876)	\$ (850)	\$ -	\$ (1,634)	\$ (299,604)
Nonvested benefits	<u>(738,767)</u>	<u>(34,293)</u>	<u>(2,242)</u>	<u>(567)</u>	<u>(26,624)</u>	<u>(802,493)</u>
Accumulated benefit obligation	(1,034,011)	(36,169)	(3,092)	(567)	(28,258)	(1,102,097)
Additional benefits at future salaries	<u>(336,180)</u>	<u>(10,906)</u>	<u>(2,516)</u>	<u>(146)</u>	<u>(21,930)</u>	<u>(371,678)</u>
Projected benefit obligation	(1,370,191)	(47,075)	(5,608)	(713)	(50,188)	(1,473,775)
Plan assets at fair value	<u>388,737</u>	<u>100,888</u>	<u>41,423</u>	<u>16,215</u>	<u>7,913</u>	<u>555,176</u>
Projected benefit obligation in excess of plan assets	(981,454)	53,813	35,815	15,502	(42,275)	(918,599)
Net transition (asset) obligation not yet recognized	(4,624)	1,000	-	-	657	(2,967)
Unrecognized prior service costs	-	-	761	-	-	761
Unrecognized pension loss (gain)	381,510	(10,904)	(660)	457	20,639	391,042
Additional pension liability	<u>(40,706)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(40,706)</u>
Prepaid pension cost (accrued pension cost)	<u>\$ (645,274)</u>	<u>\$ 43,909</u>	<u>\$ 35,916</u>	<u>\$ 15,959</u>	<u>\$ (20,979)</u>	<u>\$ (570,469)</u>

As at December 31, 2010, the amount of accrued pension cost of \$597,019 thousand was the net of prepaid pension cost of \$97,594 thousand, and accrued pension cost of \$694,613 thousand.

As at December 31, 2009, the amount of accrued pension cost of \$570,469 thousand was the net of prepaid pension cost of \$95,784 thousand, and accrued pension cost of \$666,253 thousand.

23. CAPITAL STOCK AND RETAINED EARNINGS

Pou Chen's registered and issued capital as at December 31, 2010 and 2009 are summarized as follows:

	2010	2009
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>2,899,756</u>	<u>2,843,085</u>
Par value (in dollars)	<u>\$ 10</u>	<u>\$ 10</u>
Capital	<u>\$ 28,997,559</u>	<u>\$ 28,430,847</u>

Pou Chen's outstanding capital stock was \$28,430,847 thousand as at January 1, 2010. As at June 17, 2010, Pou Chen's stockholder in their meeting approved to issue additional capital stock of \$559,962 thousand through unappropriated earnings. Furthermore, employee stock warrants were exercised for 675 thousand shares (amounted to \$6,750 thousand) during 2010. As a result, Pou Chen's outstanding capital stock was \$28,997,559 thousand, divided into 2,899,756 thousand common shares, with a par value of \$10.00 per share, as at December 31, 2010.

The weighted average number of shares outstanding for the year ended December 31, 2009 has been retroactively adjusted for the stock dividends issued in 2010.

As at July 15, 2002, the board of directors of Pou Chen resolved to issue employee stock warrants in accordance with Securities and Exchange Law Article 28-3 within the quantity of 67,600 units. Each individual employee stock warrant is granted the right to purchase new issued common share for 1,000 shares. The exercise price is the closing price of Pou Chen's common shares at the employee stock warrants' issuance date. The warrant holders can exercise the right up to one-third of the granted warrant units no earlier than two years from the granted date. After four years from the granted date, the warrants holders are eligible to exercise all the warrants owned. As of August 6, 2002, and July 24, 2003, Pou Chen has issued 66,600 units, and 1,000 units of employee stock warrants, respectively, to the employees with an exercise price of \$23.30 dollars, and \$41.20 dollars per share, respectively. The exercise price of the warrant in 2010 has been retroactively restated as \$10.00 dollars and \$16.00 per share, respectively, due to the stock dividends issued.

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

If Pou Chen 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 \$22.30 and 149,392,469 shares, respectively.

As at December 31, 2010, the employee stock warrants issued in 2002 were executed for 23,872 thousand shares of common stock.

Information about Pou Chen's outstanding stock warrants for the years ended December 31, 2010 and 2009 was as follows:

	2010		2009	
	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	190,910	\$ 20.86	184,200	\$ 22.09
Adjustment from ownership dilution	2,886	22.30	7,071	24.10
Stock warrants exercised	<u>(675)</u>	10.00	<u>(361)</u>	10.00
Balance, end of year	<u>193,121</u>	19.55	<u>190,910</u>	20.86
Exercisable stock warrants, end of year	<u>92,563</u>		<u>93,238</u>	

As at December 31, 2010 and 2009, information about Pou Chen's outstanding and exercisable stock warrants was as follows:

Range of Exercise Price (NT\$)	Stock Warrants Outstanding			Stock Warrants Exercisable	
	Number of Stock Purchasable (Thousand Shares)	Weighted- average Remaining Contractual Life (Years)	Weighted- average Exercise Price (NT\$)	Number of Stock Purchasable (Thousand Shares)	Weighted- average Exercise Price (NT\$)
<u>2010</u>					
\$10.00-\$22.30	<u>193,121</u>	<u>5.66</u>	<u>\$ 19.55</u>	<u>92,563</u>	<u>\$ 16.55</u>
<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>

If the compensation cost based on the fair value method is accounted for as expenses, the pro-forma results of Pou Chen for the years ended December 31, 2010 and 2009 would have been as follows:

	2010	2009
Income before tax-attributed to shareholders of the Parent Company	<u>\$ 8,572,966</u>	<u>\$ 6,612,958</u>
Net income-attributed to shareholders of the Parent Company	<u>\$ 7,629,556</u>	<u>\$ 6,522,958</u>
Basic earnings per share - attributed to shareholders of the Parent Company (in dollars)	<u>\$ 2.68</u>	<u>\$ 2.29</u>

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

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

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

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

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

For the years ended December 31, 2010 and 2009, the bonus to employees was \$124,720 thousand and \$251,777 thousand, respectively, and the remuneration to directors and supervisors was \$63,309 thousand and \$127,805 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 2009 and 2008 had been approved by Pou Chen's shareholders in their meetings on June 17, 2010 and June 16, 2009, respectively. The appropriations and dividends per share were as follows:

	Appropriation of Earnings		Dividends Per Share (NT\$)	
	For Year 2009	For Year 2008	For Year 2009	For Year 2008
Legal reserve	\$ 702,124	\$ 498,719	\$ -	\$ -
Cash dividends	4,199,715	1,331,134	1.50	0.50
Stock dividends	559,962	1,331,134	0.20	0.50

The bonus to employees of \$251,777 thousand and the remuneration to directors and supervisors of \$127,805 thousand for 2009 were approved by Pou Chen's stockholders in their meeting on June 17, 2010. The resolved amounts of the bonus to employees and the remuneration to directors and supervisors were as same as the accrual amounts, which were reflected in the financial statements for the year ended December 31, 2009.

Information for Pou Chen about the bonus to employees, directors and supervisors is available on the Market Observation Post System website of the Taiwan Stock Exchange.

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.

On May 14, 2008, Pou Sheng adopted a five- years and a ten- years pre-IPO share subscription plans. The warrants of plans issued to the eligible persons are 71,001 thousand and 53,251 thousand, respectively. Each warrant is granted to have the right to purchase one common share. The plan to be subscribed were as follows:

- a. Five- years pre-IPO share subscription plans: 10% of the plan shares was to be subscribed within five year period after each anniversary of June 8, 2008, the date of Pou Sheng on the Hong Kong Exchange and Clearing Limited had commenced.

- b. Ten- years pre-IPO share subscription plans: 10% of the plan shares was to be subscribed within ten year period after each anniversary of June 8, 2008, the date of Pou Sheng on the Hong Kong Exchange and Clearing Limited had commenced.

On September 4, 2009, Pou Sheng and all grantees of the plan agreed to terminate all the existing outstanding subscriptions.

Pou Sheng's share option scheme (the "Pou Sheng Scheme") was adopted on May 14, 2008, and will be expire on May 13, 2018. Under the Pou Sheng Scheme, the board of directors of Pou Sheng may grant options to eligible participants, including directors and employees of Pou Sheng and its subsidiaries, to subscribe. The plan to be subscribed under were as follows:

- a. Without prior approval from Pou Sheng's shareholders, the number of granted shares:
- 1) The total number of shares in respect of which options may be granted under the Pou Sheng Scheme is not permitted to exceed 10% of the shares of Pou Sheng at any point in time;
 - 2) The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any twelve-month period is not permitted to exceed 1% of the shares of Pou Sheng at any point in time.
 - 3) Options in excess of 0.1% of Pou Sheng's share capital or with a value in excess of HK\$5 million (US\$0.6 million) may not be granted to substantial shareholders or independent non-executive directors.
- b. Exercise price:

The exercise price is to be determined by the directors of Pou Sheng, and will not be less than the highest of (i) the closing price of Pou Sheng's shares on the date of grant, (ii) the average closing price of Pou Sheng's shares for the five business days immediately proceeding the date of grant; and (iii) the nominal value of Pou Sheng's share.

Information about the Pou Sheng Scheme for the year ended September 30, 2010 was as follows:

	Pou Sheng Scheme	
	Number of Stock Purchasable (Thousand Shares)	Weighted- average Exercise Price (HK\$)
Employee Stock Warrants		
Balance, beginning of year	-	\$ -
Stock warrants granted	64,500	1.62
Stock warrants terminated	<u>(4,990)</u>	1.62
Balance, end of year	<u>59,510</u>	1.62
Exercisable stock warrants, end of year	<u><u>-</u></u>	

Information about Pou Sheng Scheme outstanding employee stock option as at September 30, 2010, are summarized as follows:

Range of Exercise Price (HK\$)	Stock Warrants Outstanding			Stock Warrants Exercisable	
	Outstanding Shares to Subscribe (Thousand Shares)	Weighted- average Predicted Period of Exercise (Years)	Weighted- average Exercise Price (HK\$)	Number of Stock Purchasable (Thousand Shares)	Weighted- average Exercise Price (HK\$)
\$1.62	<u>59,510</u>	<u>4.77</u>	<u>\$ 1.62</u>	<u>-</u>	<u>\$ -</u>

In the aforementioned subscription plans, Pou Sheng adopted the Black-Scholes options pricing model to estimate the fair value of warrants on the grant dates, and the factors were as follows:

	Share Options with a Vesting Period of One Year	Share Options with a Vesting Period of Two Years	Share Options with a Vesting Period of Three Years	Share Options with a Vesting Period of Four Years
Exercise price	HK\$1.62	HK\$1.62	HK\$1.62	HK\$1.62
Share price at date of grant	HK\$1.62	HK\$1.62	HK\$1.62	HK\$1.62
Expected life of share options	4.5 years	5.0 years	5.5 years	6.0 years
Expected volatility	54%	54%	54%	54%
Expected dividend yield	1%	1%	1%	1%
Risk free years	1.7%	1.8%	2.0%	2.1%
Fair value per share option	HK\$0.69	HK\$0.72	HK\$0.75	HK\$0.78

Pou Sheng recognized a total expense of \$49,975 thousand (US\$1,578 thousand) for the year ended September 30, 2010.

24. TREASURY STOCK

The changes in treasury stock of Pou Chen in 2010 and 2009 are summarized as follows (in shares):

Purpose of Treasury Stock	Number of Shares, Beginning of Year	Addition During the Year	Reduction During the Year	Number of Shares, End of Year
<u>Year ended December 31, 2010</u>				
For transfer to employees Common shares held by subsidiaries	43,300,000	-	-	43,300,000
	<u>10,032,712</u>	<u>200,816</u>	<u>-</u>	<u>10,233,528</u>
	<u>53,332,712</u>	<u>200,816</u>	<u>-</u>	<u>53,533,528</u>
				(Continued)

Purpose of Treasury Stock	Number of Shares, Beginning of Year	Addition During the Year	Reduction During the Year	Number of Shares, End of Year
<u>Year ended December 31, 2009</u>				
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>
				(Concluded)

Article 28-2 of the Securities and Exchange Law stipulates that the number of treasury shares held by the Company should not exceed 10% of the number of shares issued and that the cost for acquisition of treasury shares should not exceed the total of retained earnings, additional-paid-in capital and other realized capital surplus. Treasury stock of \$1,086,041 thousand (43,300 thousand common shares) was purchased by Pou Chen for the years ended December 31, 2010 and 2009.

Pou Chen wrote off 27,500 thousand and 7,000 thousand shares in March and April 2009, respectively, 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 Pou Chen should not be pledged and does not have the same right as the common stock.

In 2010 and 2009, after the stock dividends were received by the subsidiaries of Pou Chen, 200,816 shares and 477,747 shares, respectively, were added to treasury stock. As at December 31, 2010 and 2009, the subsidiaries held 10,233,528 shares and 10,032,712 shares of the Pou Chen's common stock, respectively, at cost of \$155,375 thousand in total. Pou Chen had adjusted the carrying value according to the percentage of the subsidiaries holding shares.

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

Company's Name	Shares	Amount
Wealthplus	144,189	\$ 3,181
Pou Shine	2,049,982	40,919
Ming Wang	1,536,376	27,242
Barits Development	4,827,561	96,361
Top Score	156,187	3,311
Ming Chi	91,094	1,818
Pou Yii	1,615,313	25,415

25. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

Function Category	2010			2009		
	Operating Cost	Operating Expenses	Total	Operating Cost	Operating Expenses	Total
Personnel expense						
Salaries	\$ 27,373,264	\$ 10,534,285	\$ 37,907,549	\$ 25,059,661	\$ 10,893,828	\$ 35,953,489
Labor insurance and health insurance	1,009,568	527,751	1,537,319	890,751	358,159	1,248,910
Pension cost	490,144	738,567	1,228,711	424,896	717,816	1,142,712
Others	10,118	65,948	76,066	152,610	85,778	238,388
Depreciation expenses	4,495,312	2,386,615	6,881,927	5,337,584	2,519,670	7,857,254
Amortization expenses	8,460	182,787	191,247	20,271	103,595	123,866

26. INCOME TAX

The Company's income tax expense (income) for the year ended December 31, 2010 is as follows:

Income tax expense, current	\$ 920,346
Basic tax expense	47,971
10% additional income tax on undistributed earnings of 2009	377,185
Adjustment of deferred income tax asset and valuation allowance	(41,333)
Effect of tax law change on deferred income tax	105,700
Adjustment of prior year's income tax expense	<u>715,641</u>
Income tax expense	<u>\$ 2,125,510</u>

During the years ended December 31, 2010 and 2009, the Legislative Yuan passed the following amendments to tax laws:

- a. 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 January 1, 2010. In May 2010, 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 20% to 17%, effective January 1, 2010. The Company recalculated its deferred income tax assets and liabilities in accordance with the amended Article and recorded the resulting difference as a deferred income tax benefit or expense.
- b. Under Article 10 of the Statute for Industrial Innovation (SII) passed by the Legislative Yuan in April 2010, a profit-seeking enterprise may deduct up to 15% of its research and development expenditures from its income tax payable for the fiscal year in which these expenditures are incurred, but this deduction should not exceed 30% of the income tax payable for that fiscal year. This incentive took effect from January 1, 2010, and is effective till December 31, 2019.
- c. The Legislative Yuan passed the amendment of Article 39 of the Income Tax Law in January 2009, which extended the loss carryforward period of the profit-seeking enterprises from five to ten years.

The components of deferred income tax assets (liabilities) as at December 31, 2010 are as follows:

Unrealized inventory devaluation loss	\$ 11,879
Unrealized bad debt loss	117,757
Unrealized impairment loss	22,820
Unrealized pension expense	109,940
Unrealized exchange loss	11,647
Losses carryforward	392,210
Investment tax credits	21,540
Temporary differences from investment income of foreign subsidiaries	(469,090)
Others	(658,678)
Less valuation allowance	<u>(535,977)</u>
 Deferred income tax liabilities, net	 <u>\$ (975,952)</u>

The detail is as follows:

Deferred income tax assets, current (recording under "other current assets")	\$ 2,933
Deferred income tax assets, noncurrent	201,440
Deferred income tax liabilities, current (recording under "other current liabilities ")	(449,890)
Deferred income tax liabilities, noncurrent	<u>(730,435)</u>
	<u>\$ (975,952)</u>

The Company's income tax expense for the year ended December 31, 2010 and income tax payable as at December 31, 2010 were reconciled as follows:

Income tax expense at statutory rate of 17%	\$ 2,740,068
Permanent differences from investment income recognized under equity method	(912,129)
Gain on disposal of investments	(88,513)
Dividend income - tax free	(86,424)
Investees decreased capital to offset its accumulated deficit	(50,036)
Others	<u>(682,620)</u>
Income tax expense, current	920,346
Provision for deferred income tax asset (liabilities)	
Unrealized bad debt loss	(15,655)
Unrealized inventory devaluation loss	(578)
Unrealized pension expense	5,560
Unrealized exchange loss	12,647
Losses carryforward	442
Investment income recognized under equity method from foreign subsidiaries	(469,090)
Others	<u>68,475</u>
Income tax payable	522,147
Add: 10% additional income tax on unappropriated earnings of 2009	377,185
Basic tax payable	47,971
Prior year's income tax payable	1,988
Less: Investment tax credits	(3,654)
Temporary tax payment	<u>(267)</u>
 Income tax payable as at December 31, 2010	 <u>\$ 945,370</u>

The information of Pou Chen's integrated income tax system as at December 31, 2010 is as follows:

Balance of Imputation Credit Account	<u>\$ 276,993</u>
Undistributed earnings for the years of 1997 and before	<u>\$ 310,501</u>
Undistributed earnings for the years of 1998 and thereafter	<u>\$ 13,910,150</u>
Expected IC ratio on distributed earnings for the year of 2010	<u>5.09%</u>
Actual IC ratio of earnings distribution for the year of 2009	<u>2.52%</u>

The expected IC ratio on distributed earnings for the year of 2010 has considered income tax payable as at December 31, 2010.

As at December 31, 2010, the amount and year of expiration of investment tax credits by Pou Yuen Technology and LNC Technology are as follows:

Expiry Year	Amount
2013	\$ 14,169
2014	<u>7,371</u>
	<u>\$ 21,540</u>

As at December 31, 2010, the amount and year of expiration of deductible loss carryforward by Pou Yuen Technology, Pro Arch International, Windsor Entertainment, Proshine Healthcare and Right and Great Asia-Pacific are as follows:

Expiry Year	Amount
2013	\$ 52,900
2014	119,233
2015	106,060
2016	36,770
2017	20,910
2018	20,791
2019	8,880
2020	<u>26,666</u>
	<u>\$ 392,210</u>

The income tax returns of Pou Chen for the years through 2007 have been examined and approved by the tax authority. The income tax returns of Pro Arch International for the years through 2007 (but 2006 not yet) have been examined and approved by the tax authority. The income tax returns of Barits Development, Ming Wang, Pou Shine, Yun Yang, Proshine Healthcare, Right and Great Asia-Pacific, Vistas Design, Windsor Entertainment, Ming Chi, Wang Yi Construction, LNC Technology, Pan Asia Insurance Services, Song Ming, Ming Shun, Pou Yii Development and Pou Chen Development for the years through 2008 have been examined and approved by the tax authority.

Since 2004, the Hong Kong Inland Revenue Department (the "HKIRD") continually issued protective profits tax assessments relating to the years of assessment of 1997 to 2001 for Yue Yuen. In March 2009, the HKIRD further issued protective profits tax assessments of approximately HK\$236,777 thousand (US\$30,553 thousand) relating to the years of assessment of 2002. Yue Yuen lodged with HKIRD objections against the protective assessments. The HKIRD agreed to hold over the tax claim subject to the purchasing of Tax Reserve Certificate. Yue Yuen has filed an application to High Court for a judicial review of the assessment

In June 2010, a compromised settlement has been reached with the HKIRD in June 2010 at a sum of US\$22,176 thousand, for the years of assessment.

27. EARNINGS PER SHARE

For the years ended December 31, 2010 and 2009, earnings per share (EPS) before income tax and after income tax are as follows:

	2010						
	Amount			Weighted Average Number of Common Shares Outstanding (In Thousands)	EPS		
	Income Before Tax	Income After Tax	Income After Tax (Attributed to Pou Chen's Shareholders)		Income Before Tax	Income After Tax	Income After Tax (Attributed to Pou Chen's Shareholders)
Basic earnings per share							
Net income	\$ 18,136,053	\$ 16,010,543	\$ 7,895,614	2,845,728	<u>\$ 6.37</u>	<u>\$ 5.63</u>	<u>\$ 2.77</u>
Effect of dilutive potential Common shares							
Bonus to employee	-	-	-	4,628			
Employee stock warrants	-	-	-	49,258			
Diluted earnings per share							
Net income plus the effect of dilutive potential common shares	<u>\$ 18,136,053</u>	<u>\$ 16,010,543</u>	<u>\$ 7,895,614</u>	<u>2,899,614</u>	<u>\$ 6.25</u>	<u>\$ 5.52</u>	<u>\$ 2.72</u>
	2009						
	Amount			Weighted Average Number of Common Shares Outstanding (In Thousands)	EPS		
	Income Before Tax	Income After Tax	Income After Tax (Attributed to Pou Chen's Shareholders)		Income Before Tax	Income After Tax	Income After Tax (Attributed to Pou Chen's Shareholders)
Basic earnings per share							
Net income	\$ 15,404,184	\$ 14,893,978	\$ 7,026,018	2,846,173	<u>\$ 5.41</u>	<u>\$ 5.23</u>	<u>\$ 2.47</u>
Effect of dilutive potential Common shares							
Bonus to employee	-	-	-	9,912			
Employee stock warrants	-	-	-	22,376			
Diluted earnings per share							
Net income plus the effect of dilutive potential common shares	<u>\$ 15,404,184</u>	<u>\$ 14,893,978</u>	<u>\$ 7,026,018</u>	<u>2,878,461</u>	<u>\$ 5.35</u>	<u>\$ 5.17</u>	<u>\$ 2.44</u>

If Pou Chen's common shares held by its subsidiaries were not accounted for as treasury stock, the pro-forma earnings per share for the years ended December 31, 2010 and 2009 are as follows:

	2010						
	Amount			Weighted Average Number of Common Shares Outstanding (In Thousands)	EPS		
	Income Before Tax	Income After Tax	Income After Tax (Attributed to Pou Chen's Shareholders)		Income Before Tax	Income After Tax	Income After Tax (Attributed to Pou Chen's Shareholders)
Basic earnings per share							
Net income	\$ 18,151,100	\$ 16,025,590	\$ 7,910,661	2,855,962	<u>\$ 6.36</u>	<u>\$ 5.61</u>	<u>\$ 2.77</u>
Effect of dilutive potential Common shares							
Bonus to employee	-	-	-	4,628			
Employee stock warrants	-	-	-	49,258			
Diluted earnings per share							
Net income plus the effect of dilutive potential common shares	<u>\$ 18,151,100</u>	<u>\$ 16,025,590</u>	<u>\$ 7,910,661</u>	<u>2,909,848</u>	<u>\$ 6.24</u>	<u>\$ 5.51</u>	<u>\$ 2.72</u>

	2009						
	Amount			Weighted Average Number of Common Shares Outstanding (In Thousands)	EPS		
	Income Before Tax	Income After Tax	Income After Tax (Attributed to Pou Chen's Shareholders)		Income Before Tax	Income After Tax	Income After Tax (Attributed to Pou Chen's Shareholders)
Basic earnings per share							
Net income	\$ 15,408,960	\$ 14,898,754	\$ 7,030,794	2,856,206	<u>\$ 5.39</u>	<u>\$ 5.22</u>	<u>\$ 2.46</u>
Effect of dilutive potential Common shares							
Bonus to employee	-	-	-	9,912			
Employee stock warrants	-	-	-	22,376			
Diluted earnings per share							
Net income plus the effect of dilutive potential common shares	<u>\$ 15,408,960</u>	<u>\$ 14,898,754</u>	<u>\$ 7,030,794</u>	<u>2,888,494</u>	<u>\$ 5.33</u>	<u>\$ 5.16</u>	<u>\$ 2.43</u>

The Company presume that the entire amount of the bonus will be settled in shares and the potential shares should be included in the weighted average number of shares outstanding used in the calculation of diluted EPS, if the shares have a dilutive effect. The number of shares is estimated by dividing the entire amount of the bonus by the closing price of the shares at the balance sheet date. Such dilutive effect of the potential shares should be included in the calculation of diluted EPS until the shareholders resolve the number of shares to be distributed to employees at their meeting in the following year.

28. DISCLOSURES FOR FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

The fair value of nonderivative and derivative financial instruments as at December 31, 2010 and 2009 is summarized as follows:

Nonderivative Financial Instruments	2010		2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
Cash and cash equivalents	\$ 24,199,996	\$ 24,199,996	\$ 47,639,464	\$ 47,639,464
Financial assets at fair value through profit of loss, current	431,393	431,393	522,223	522,223
Available-for-sale financial assets, current	10,344,804	10,344,804	8,519,459	8,519,459
Financial asset carried at cost, current	239,664	-	-	-
Notes and accounts receivable	21,316,715	21,316,715	22,403,160	22,403,160
Accounts receivable from affiliates	497,571	497,571	978,847	978,847
Other receivables	5,008,524	5,008,524	6,236,861	6,236,861
Available-for-sale financial assets, noncurrent	1,729,260	1,729,260	1,085,863	1,085,863
Financial assets carried at cost, noncurrent	1,176,622	-	1,275,782	-
Investments accounted for by the equity method	30,122,903	29,351,649	32,345,322	32,894,597
Prepayments for investments	559,967	559,967	-	-
Refundable deposits	1,396,617	1,396,617	1,790,525	1,790,525

(Continued)

Nonderivative Financial Instruments	2010		2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Liabilities				
Short-term loans	\$ 14,326,192	\$ 14,326,192	\$ 25,410,495	\$ 25,410,495
Short-term bills payable	1,364,378	1,364,378	1,779,074	1,779,074
Notes and accounts payable	12,143,461	12,143,461	14,282,049	14,282,049
Notes and accounts payable to affiliates	1,446,598	1,446,598	1,230,143	1,230,143
Other payables	12,016,619	12,016,619	14,581,896	14,581,896
Current portion of long-term liabilities	16,402,595	16,402,595	11,434,614	11,434,614
Bonds payable	-	-	8,120,369	8,120,369
Long-term debt	29,657,749	29,657,749	45,909,621	45,909,621
Guarantee deposits received	6,146	6,146	5,834	5,834
				(Concluded)

Derivative Financial Instruments	2010		2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
HKD Call option (financial assets at fair value through profit or loss, current)	\$ 932,160	\$ 932,160	\$ 388,567	\$ 388,567
Forward exchange contracts (financial assets at fair value through profit or loss, current)	70,895	70,895	46,928	46,928
Structured deposits (financial assets at fair value through profit or loss, current)	-	-	10,775	10,775
JV Call option (financial assets at fair value through profit or loss, noncurrent)	1,340,679	1,340,679	1,769,719	1,769,719
Euro Convertible Bonds with options (financial liabilities at fair value through profit or loss, current)	723,084	723,084	338,070	338,070
Forward exchange contracts (financial liabilities at fair value through profit or loss, current)	64,630	64,630	23,481	23,481
Interest rate swap contracts (hedging financial liabilities, current)	20,017	20,017	33,310	33,310
Interest rate swap contracts (hedging financial liabilities, noncurrent)	52,502	52,502	95,362	95,362

The information about derivative financial instruments as at December 31, 2010 and 2009 is summarized as follows:

December 31, 2010

Bank	Derivative Financial Instruments	Principal	Maturity Date	Pay Rate (Fixed Rate)	Received Rate (Floating Rate)	Fair Value
China Trust Commercial Bank	Interest rate swap	\$ 325,000	2011.06.09	2.24%	0.622%	\$ (2,516)
China Trust Commercial Bank	"	500,000	2013.05.16	2.48%	0.624%	(12,925)
China Trust Commercial Bank	"	500,000	2013.05.16	2.28%	0.624%	(11,250)
Citibank	"	500,000	2013.05.16	2.48%	0.624%	(12,341)
Citibank	"	500,000	2013.05.16	2.26%	0.624%	(10,573)
Citibank	"	500,000	2013.05.16	2.46%	0.624%	(12,180)
Citibank	"	500,000	2013.05.16	2.28%	0.624%	(10,734)
		3,325,000				(72,519)
Less current portion		(1,075,000)				20,017
		<u>\$ 2,250,000</u>				<u>\$ (52,502)</u>

December 31, 2009

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)
		6,100,000				(128,671)
Less current portion		(2,775,000)				33,310
		<u>\$ 3,325,000</u>				<u>\$ (95,361)</u>

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

- The fair value of cash and cash equivalents, receivable, short-term loans, short-term bills payable, payable, refundable deposits, and guarantee deposits, approximates their carrying value due to the short-term maturities of these financial instruments.
- The fair values of financial assets at fair value through profit or loss, and available-for-sale financial assets are quoted by market price. For those instruments with no quoted market prices, their fair values are determined using valuation techniques incorporating estimates and assumptions consistent with those generally used by other market participants to price financial instruments.

Fair values of derivatives are based on their quoted prices in an active market. For those derivatives with no quoted market prices, their fair values are determined using valuation techniques incorporating estimates and assumptions consistent with those generally used by other market participants to price financial instruments.

- c. 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 equity value in the financial report verified and certified by an independent accountant issued as at December 31, 2010.
- d. Financial assets carried at cost are investments in unquoted shares, which have no quoted prices in an active market and entail an unreasonably high cost to obtain verifiable fair values. Therefore, no fair value is presented.
- e. The fair value of long-term debt and bond payables is estimated based on the net present value of expected cash flows.

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

	Quoted Market Price in		Other Method of Valuation	
	2010	2009	2010	2009
Assets				
Financial assets at fair value through profit or loss, current	\$ 431,393	\$ 522,223	\$ 1,003,055	\$ 446,270
Financial assets at fair value through profit or loss, noncurrent	-	-	1,340,679	1,769,719
Available-for-sale financial assets, current	10,344,804	8,519,459	-	-
Available-for-sale financial assets, noncurrent	1,729,260	1,085,863	-	-
Liabilities				
Financial liabilities at fair value through profit or loss, current	-	-	787,714	361,551
Hedging derivative financial liabilities, current	-	-	20,017	33,310
Hedging derivative financial liabilities, noncurrent	-	-	52,502	95,362

As at December 31, 2010 and 2009, financial liabilities exposed to cash flow interest rate risk were \$53,925,169 thousand and \$83,974,103 thousand, respectively.

The Company recognized an unrealized adjustment of \$1,511,505 thousand and \$3,725,553 thousand, respectively, in equity for the changes in fair value of available-for-sale financial assets for the years ended December 31, 2010 and 2009.

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 \$223,413 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 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 \$539,252 thousand.

29. OTHERS

For the years ended December 31, 2010 and 2009, significant foreign currency financial assets and liabilities are as follows:

Unit: In Dollars of Foreign Currencies/In Thousand of New Taiwan Dollars

	2010			2009		
	Foreign Currencies	Exchange Rate	New Taiwan Dollars	Foreign Currencies	Exchange Rate	New Taiwan Dollars
<u>Financial assets</u>						
Monetary items						
USD	\$ 1,924,853,138	29.13	\$ 56,070,972	\$ 2,242,620,800	31.99	\$ 71,741,439
HKD	22,637	3.75	85	44,433	4.13	184
Investments accounted for by the equity method						
USD	732,298,524	29.13	21,331,856	723,987,465	31.99	23,160,359
<u>Financial liabilities</u>						
Monetary items						
USD	2,229,148,213	29.13	64,935,087	2,694,283,041	31.99	86,190,115
HKD	54,233	3.75	203	1,460	4.13	6
JPY	4,895,917	0.36	1,763	4,359,600	0.35	1,526
GBP	-	45.19	-	12,489	51.60	644
EUR	-	38.92	-	2,358	46.10	109

30. RELATED PARTY TRANSACTIONS

Names and relationships of the related parties are as follows:

Name	Relationship
CMKC (HK) Limited (“CMKC”)	The Company’s substantive related party before March 24, 2010
Ka Yuen Rubber Factory Limited (“Ka Yuen”)	The Company holds a 50.00% ownership interest

(Continued)

Name	Relationship
Digital Sun Investments Ltd. (“Digital Sun”)	The Company’s substantive related party before March 24, 2010
Twinways Investments Ltd. (“Twinways”)	The Company holds a 50.00% ownership interest
Best Focus Holdings Ltd. (“Best Focus”)	The Company holds a 50.00% ownership interest
Hua Jian Industrial Holding Co., Ltd. (“Hua Jian”)	The Company holds a 50.00% ownership interest
Cohen Enterprises Inc. (“Cohen”)	The Company holds a 50.00% ownership interest
Bandwidth Trading Ltd. (“Bandwidth”)	The Company holds a 50.00% ownership interest
Vietnam Tiong Liong Industrial Co., Ltd. (“Vietnam Tiong Liong”)	The Company holds a 37.00% ownership interest
Pine Wood Industries Limited (“Pine Wood”)	The Company holds a 37.00% ownership interest
Yuen Thai Industrial Company Limited (“Yuen Thai”)	The Company holds a 50.00% ownership interest
Liberty Bell Investments Limited (“Liberty Bell”)	The Company holds a 49.00% ownership interest
Oftenerich Holdings Ltd. (“Oftenerich”)	The Company holds a 45.00% ownership interest
Full Pearl International Ltd. (“Full Pearl”)	The Company holds a 40.04% ownership interest
i-Tech Enterprises Ltd. (“i-Tech”)	The Company holds a 50.00% ownership interest
Topmost Industries Limited (“Topmost”)	The Company holds a 50.00% ownership interest
Din Tsun Holding Co., Ltd. (“Din Tsun”)	The Company holds a 50.00% ownership interest
Yuen Foong Yu Paper (Dong Nai) Co., Ltd. (“Yuen Foong Yu”)	The Company holds a 44.84% ownership interest
PT KA Yuen Indonesia (“PT KA Yuen”)	The Company holds a 50.00% ownership interest
Intelligent Plus Ltd. (“Intelligent Plus”)	The Company holds a 45.90% ownership interest
San Fang Chemical Industry Co., Ltd. (“San Fang”)	The Company holds a 44.72% ownership interest and director of the Company
Jilin Lingpao Sports Goods Company Limited (“Jilin Lingpao”)	The Company holds a 50.00% ownership interest
Shaanxi Jixian Longyue Sports Goods Company Limited (“Shaanxi Jixian”)	The Company holds a 50.00% ownership interest
Hebei Zhanxin Sports Development Company Limited (“Hebei Zhanxin”)	The Company holds a 45.00% ownership interest
Shaanxi Wuhuan Shengdao Sports Production Development Company Limited (“Shaanxi Wuhuan Shengdao”)	The Company holds a 40.00% ownership interest
Dong Guan Pou Chien Shoe Materials Company Limited (“Dong Guan Pou Chien”)	The Company holds a 49.00% ownership interest
Sheachang Enterprise Co., Ltd. (“Sheachang”)	Related party in substance
Jombo Power Enterprises Limited (“Jombo Power”)	The Company holds a 50.00% ownership interest (Concluded)

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

Sales

Sales to related parties for the years ended December 31, 2010 and 2009 are summarized as follows:

	2010		2009	
	Amount	Percentage	Amount	Percentage
CMKC	\$ 475,096	-	\$ 2,596,493	1
Sheachang	105,904	-	86,865	-
Others	<u>1,423,015</u>	<u>1</u>	<u>1,903,443</u>	<u>1</u>
	<u>\$ 2,004,015</u>	<u>1</u>	<u>\$ 4,586,801</u>	<u>2</u>

Cost of Sales - Purchases

Purchases from related parties for the years ended December 31, 2010 and 2009 are summarized as follows:

	2010		2009	
	Amount	Percentage	Amount	Percentage
Ka Yuen	\$ 2,598,365	2	\$ 2,014,817	1
San Fang	1,491,140	1	1,313,087	1
Twinways	842,105	-	702,823	-
Digital Sun	-	-	1,081,492	1
Others	<u>2,713,588</u>	<u>2</u>	<u>3,576,148</u>	<u>3</u>
	<u>\$ 7,645,198</u>	<u>5</u>	<u>\$ 8,688,367</u>	<u>6</u>

Accounts Receivable

Accounts receivable from affiliates as at December 31, 2010 and 2009 are summarized as follows:

	2010		2009	
	Amount	Percentage	Amount	Percentage
Notes receivable				
Sheachang	\$ 5,685	15	\$ -	-
Others	<u>86</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>5,771</u>	<u>15</u>	<u>-</u>	<u>-</u>
Accounts receivable				
CMKC	-	-	601,009	3
Others	498,945	2	377,838	1
Less allowance for doubtful accounts	<u>(7,145)</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>491,800</u>	<u>2</u>	<u>978,847</u>	<u>4</u>
	<u>\$ 497,571</u>		<u>\$ 978,847</u>	

Notes and Accounts Payable

Notes and accounts payable to affiliates as at December 31, 2010 and 2009 are summarized as follows:

	2010		2009	
	Amount	Percentage	Amount	Percentage
Notes payable				
San Fang	\$ <u>48,791</u>	<u>50</u>	\$ <u>58,253</u>	<u>56</u>
Accounts payable				
Ka Yuen	542,721	4	414,341	3
San Fang	237,584	2	129,629	1
Twinways	188,822	1	194,028	1
Digital Sun	-	-	126,437	1
Others	<u>428,680</u>	<u>3</u>	<u>307,455</u>	<u>2</u>
	<u>1,397,807</u>	<u>10</u>	<u>1,171,890</u>	<u>8</u>
	<u>\$ 1,446,598</u>		<u>\$ 1,230,143</u>	

Compensation of Directors, Supervisors and Management Personnel

	2010	2009
Salaries	\$ 160,257	\$ 172,977
Incentives	63,309	127,805
Bonus	7,200	10,630
Others	<u>7,414</u>	<u>5,376</u>
	<u>\$ 238,180</u>	<u>\$ 316,788</u>

Credit Guarantees

See Note 32.

31. MORTGAGED PLEDGED ASSETS

	2010	2009
Land for development	<u>\$ 1,802,811</u>	<u>\$ 1,802,811</u>

Under the long-term loan agreement, the above assets had been mortgaged as collateral.

32. COMMITMENTS AND CONTINGENCIES

Letters of Credit

Outstanding letters of credit of the Company as at December 31, 2010 are as follows:

U.S. dollars (in dollars)	<u>\$415,399</u>
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The Company has a letter of guarantee for purchasing materials amounted to \$30,000 thousand as at December 31, 2010.

LNC Technology, Pou Yuen and Pou Yu Biotechnology (the “three companies”) entered into project agreements with Institute for Information Industry (“III”) and China Productivity Center (“CPC”), respectively. According to the project agreements, the three companies have to provide promissory notes to the III and the CPC as guarantee.

In addition, Citibank and Australia and New Zealand Bank (“the banks”) guarantee the three companies will accomplish such agreements, once the contracts was breached, the banks will convert the guarantee as a credit loan, otherwise the companies have to repay to the banks immediately.

As at December 31, 2010, the Company has guaranteed the payments of credit of related parties amounted to \$30,555,538 thousand as follows:

Related Parties	Guaranteed the Payments of Credit of Subsidiary Amount	Guaranteed the Payments of Credit of Investment Company Amount
<u>Guaranteed by Pou Chen</u>		
Wealthplus	\$ 13,178,412	\$ -
Barits Development	6,401,515	-
Pou Shine	1,050,000	-
Pou Yuen Technology	1,525,259	-
Ming Wang	650,000	-
LNC Technology	49,760	-
Windsor Entertainment	100,000	-
Ming Chi	200,000	-
Pou Yii Development	400,000	-
Pou Yu Biotechnology	5,525	-
Digital Decade	2,767,350	-
Maple Star	378,690	-
Vantage Capital	37,869	-
<u>Guaranteed by Yue Yuen</u>		
Best Focus	-	131,035
Hua Jian	-	917,239
Cohen	-	737,067
Ka Yuen	-	62,997
Bandwidth	-	40,948
PT Ka Yuen	-	32,759
Yuen Thai	-	377,983
i-Tech	-	16,379
Topmost	-	16,379
Din Tsun	-	16,379
Jumbo Power	-	163,793
Vietnam Tiong Liong	-	30,302
Pine Wood	-	160,976
Liberty Bell	-	288,930
Oftenrich	-	176,896
Yuen Foong Yu	-	146,889
Dong Guan Pou Chien	-	64,660
Hebei Zhanxin	-	132,308
Jilin Lingpao	-	98,006
Shaanxi Jixian Longyue	-	73,505
Full Pearl	-	65,583
Intelligent Plus	-	60,145
	<u>\$ 26,744,380</u>	<u>\$ 3,811,158</u>

33. SUBSEQUENT EVENTS

On January 21, 2011, Pou Chen's board of directors decided to transfer 43,300 thousand share of treasury stocks to the employees by \$21.73 per share, amounted to \$940,909 thousand in total. The grant date was February 21, 2011. Pou Chen recognized the expenses for the transaction, amounting to \$257,635 thousand, according to the SFAS No. 39, "Accounting for Share-based Payment".

On March 2, 2011, Pou Chen's board of directors decided to participate the acquisition of Nan Shan Life Insurance Company, Ltd. ("Nan Shan"), through investment in Ruen Chen Investment Holding Co., Ltd. ("Ruen Chen"), for a consideration of US\$2.16 billion (the price will be adjusted subject to the contract). Pou Chen owns 20% interest in Ruen Chen. Pou Chen will invest approximately US\$432 million in Ruen Chen in proportion to its shareholdings.

On January 19, 2011, Yue Yuen's board of directors decided to distribute earnings amounting to HK\$1,484,036 thousand (\$5,565,135 thousand).