

Pou Chen Corporation and Subsidiaries

**Consolidated Financial Statements for the
Six Months Ended June 30, 2011 and 2010 and
Independent Accountants' Review Report**

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

The Board of Directors and Stockholders
Pou Chen Corporation

We have reviewed the accompanying consolidated balance sheets of Pou Chen Corporation and subsidiaries (collectively, the "Company") as of June 30, 2011 and 2010, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the six months then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to issue a report based on our reviews.

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

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

August 15, 2011

Notice to Readers

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

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

POU CHEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

JUNE 30, 2011 AND 2010

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

ASSETS	2011		2010		LIABILITIES AND STOCKHOLDERS' EQUITY	2011		2010	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents (Notes 2 and 4)	\$ 24,903,074	11	\$ 44,197,380	19	Short-term loans (Note 17)	\$ 17,816,940	8	\$ 16,198,125	7
Financial assets at fair value through profit or loss, current (Notes 2 and 5)	2,896,927	1	1,622,008	1	Short-term bills payable (Note 18)	1,948,499	1	1,186,315	-
Available-for-sale financial assets, current (Notes 2 and 6)	11,652,392	5	7,966,461	4	Notes payable	70,976	-	46,000	-
Financial assets carried at cost, current (Notes 2 and 7)	87,616	-	-	-	Notes payable to affiliates (Note 30)	43,203	-	69,127	-
Notes receivable (Notes 2 and 8)	43,283	-	38,000	-	Accounts payable	12,457,969	6	10,423,051	4
Notes receivable from affiliates (Notes 2, 8 and 30)	14,130	-	-	-	Accounts payable to affiliates (Note 30)	1,361,366	1	1,379,274	1
Accounts receivable (Notes 2 and 8)	19,647,128	9	18,430,715	8	Income tax payable (Notes 2 and 26)	537,222	-	1,884,611	1
Accounts receivable from affiliates (Notes 2, 8 and 30)	590,942	-	475,763	-	Financial liabilities at fair value through profit or loss, current (Notes 2 and 5)	226,338	-	855,833	-
Other receivables	4,719,174	2	5,782,152	3	Hedging derivative liabilities, current (Notes 2 and 28)	24,869	-	15,556	-
Inventories (Notes 2 and 9)					Other payables (Note 19)	15,739,212	7	16,147,299	7
Inventories - manufacturing	28,192,794	13	22,325,353	10	Progressive billings in excess of construction in progress (Notes 2 and 10)	130,989	-	98,907	-
Inventories - construction	4,128,286	2	3,870,725	1	Current portion of long-term liabilities (Note 20)	9,957,561	5	12,839,806	6
Construction in progress in excess of progressive billings (Notes 2 and 10)	42,664	-	76,939	-	Other current liabilities (Notes 2 and 26)	<u>2,653,930</u>	<u>1</u>	<u>1,766,914</u>	<u>1</u>
Investments accounted for by the equity method held for sale (Note 11)	-	-	176,150	-	Total current liabilities	<u>62,969,074</u>	<u>29</u>	<u>62,910,818</u>	<u>27</u>
Noncurrent assets classified as held for sale (Note 15)	1,033,468	1	-	-	LONG-TERM LIABILITIES				
Other current assets (Notes 2, 26 and 31)	<u>7,798,136</u>	<u>4</u>	<u>6,812,221</u>	<u>3</u>	Bonds payable (Notes 2 and 21)	-	-	8,388,642	4
Total current assets	<u>105,750,014</u>	<u>48</u>	<u>111,773,867</u>	<u>49</u>	Long-term debt (Note 22)	38,026,434	17	42,059,293	18
FUNDS AND LONG-TERM INVESTMENTS					Hedging derivative liabilities, noncurrent (Notes 2 and 28)	24,869	-	88,262	-
Investments accounted for by the equity method (Notes 2 and 11)	31,080,854	14	32,761,445	14	Long-term payable (Note 11)	<u>90,168</u>	<u>-</u>	<u>-</u>	<u>-</u>
Investments in real estate (Notes 2 and 12)	186,123	-	186,123	-	Total long-term liabilities	<u>38,141,471</u>	<u>17</u>	<u>50,536,197</u>	<u>22</u>
Financial assets at fair value through profit or loss, noncurrent (Notes 2 and 5)	954,948	-	1,755,229	1	RESERVE FOR LAND VALUE INCREMENT TAX (Note 15)	<u>86,547</u>	<u>-</u>	<u>86,547</u>	<u>-</u>
Available-for-sale financial assets, noncurrent (Notes 2 and 13)	1,652,327	1	1,964,558	1	OTHER LIABILITIES				
Financial assets carried at cost, noncurrent (Notes 2 and 14)	<u>1,063,933</u>	<u>1</u>	<u>1,291,549</u>	<u>1</u>	Accrued pension cost (Note 2)	707,498	-	662,131	-
Total funds and long-term investments	<u>34,938,185</u>	<u>16</u>	<u>37,958,904</u>	<u>17</u>	Guarantee deposits received	7,031	-	4,651	-
PROPERTY, PLANT AND EQUIPMENT (Notes 2 and 15)					Deferred income tax liability, noncurrent (Notes 2 and 26)	968,693	1	780,281	1
Cost	97,155,350	44	101,237,327	44	Others	<u>11,412</u>	<u>-</u>	<u>70,215</u>	<u>-</u>
Revaluation increment	<u>293,323</u>	<u>-</u>	<u>293,323</u>	<u>-</u>	Total other liabilities	<u>1,694,634</u>	<u>1</u>	<u>1,517,278</u>	<u>1</u>
	97,448,673	44	101,530,650	44	Total liabilities	<u>102,891,726</u>	<u>47</u>	<u>115,050,840</u>	<u>50</u>
Less accumulated depreciation	(42,808,703)	(19)	(43,640,554)	(19)	STOCKHOLDERS' EQUITY				
Less accumulated impairment	(35,819)	-	(101,596)	-	Capital stock (Note 23)	29,004,359	13	28,431,097	13
Construction in progress and prepayments for equipment	<u>4,766,631</u>	<u>2</u>	<u>2,410,762</u>	<u>1</u>	Stock dividends to be distributed (Note 23)	-	-	559,962	-
Property, plant and equipment, net	<u>59,370,782</u>	<u>27</u>	<u>60,199,262</u>	<u>26</u>	Capital surplus (Note 2)	8,298,957	4	7,745,290	3
INTANGIBLE ASSETS (Note 2)					Retained earnings (Note 23)	19,830,359	9	16,865,850	7
Goodwill	7,416,271	3	7,858,050	3	Cumulative translation adjustments (Note 2)	(5,061,682)	(2)	128,441	-
Other intangible assets	<u>3,281,331</u>	<u>2</u>	<u>2,307,553</u>	<u>1</u>	Net loss not recognized as pension cost (Note 2)	(57,341)	-	(40,706)	-
Total intangible assets	<u>10,697,602</u>	<u>5</u>	<u>10,165,603</u>	<u>4</u>	Unrealized gain (loss) on financial instruments (Note 2)	2,290,789	1	(1,060,513)	-
OTHER ASSETS (Notes 2 and 16)					Unrealized revaluation increment	134,641	-	134,641	-
	<u>9,032,897</u>	<u>4</u>	<u>9,268,832</u>	<u>4</u>	Treasury stock (Notes 2 and 24)	(155,375)	-	(1,241,416)	-
					Minority interest	<u>62,613,047</u>	<u>28</u>	<u>62,792,982</u>	<u>27</u>
					Total stockholders' equity	<u>116,897,754</u>	<u>53</u>	<u>114,315,628</u>	<u>50</u>
TOTAL	<u>\$ 219,789,480</u>	<u>100</u>	<u>\$ 229,366,468</u>	<u>100</u>	TOTAL	<u>\$ 219,789,480</u>	<u>100</u>	<u>\$ 229,366,468</u>	<u>100</u>

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

POU CHEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME SIX MONTHS ENDED JUNE 30, 2011 AND 2010 (In Thousands of New Taiwan Dollars, Except Earnings Per Share) (Reviewed, Not Audited)

	2011		2010	
	Amount	%	Amount	%
GROSS SALES AND REVENUES EARNED (Notes 2 and 30)	\$ 96,759,049	100	\$ 96,335,788	100
LESS SALES RETURNS AND ALLOWANCES	<u>(12,765)</u>	<u>-</u>	<u>(71,218)</u>	<u>-</u>
NET SALES AND REVENUES EARNED	96,746,284	100	96,264,570	100
COST OF GOODS SOLD (Note 30)	<u>73,389,037</u>	<u>76</u>	<u>70,645,171</u>	<u>73</u>
GROSS PROFIT	<u>23,357,247</u>	<u>24</u>	<u>25,619,399</u>	<u>27</u>
OPERATING EXPENSES				
Selling expenses	7,734,025	8	7,123,789	7
General and administrative expenses (Note 24)	7,078,455	7	8,593,584	9
Research and development expenses	<u>2,615,229</u>	<u>3</u>	<u>2,559,899</u>	<u>3</u>
Total operating expenses	<u>17,427,709</u>	<u>18</u>	<u>18,277,272</u>	<u>19</u>
INCOME FROM OPERATIONS	<u>5,929,538</u>	<u>6</u>	<u>7,342,127</u>	<u>8</u>
NON-OPERATING INCOME				
Interest income	165,992	-	144,512	-
Investment income recognized under equity method (Note 11)	841,309	1	1,648,383	2
Dividend income	3,222	-	3,039	-
Gain on disposal of property, plant and equipment and leased-out assets	158,058	-	120,562	-
Gain on disposal of investments (Note 1)	953	-	806,173	1
Foreign exchange gains	261,615	-	107,993	-
Valuation gain on financial assets (Note 5)	-	-	637,803	1
Valuation gain on financial liabilities (Note 5)	540,820	1	-	-
Others (Note 2)	<u>371,712</u>	<u>-</u>	<u>257,045</u>	<u>-</u>
Total non-operating income	<u>2,343,681</u>	<u>2</u>	<u>3,725,510</u>	<u>4</u>
NON-OPERATING EXPENSES				
Interest expense	759,544	1	926,612	1
Loss on disposal of property, plant and equipment and leased-out assets	3,122	-	138,942	-
Impairment loss (Notes 11 and 14)	56,563	-	79,915	-
Valuation loss on financial assets (Note 5)	620,625	-	-	-

(Continued)

POU CHEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

SIX MONTHS ENDED JUNE 30, 2011 AND 2010

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

(Reviewed, Not Audited)

	2011		2010	
	Amount	%	Amount	%
Valuation loss on financial liabilities (Note 5)	\$ -	-	\$ 515,108	1
Others	<u>71,334</u>	-	<u>78,965</u>	-
Total non-operating expenses	<u>1,511,188</u>	<u>1</u>	<u>1,739,542</u>	<u>2</u>
INCOME BEFORE INCOME TAX	6,762,031	7	9,328,095	10
INCOME TAX EXPENSE (Notes 2 and 26)	<u>(582,220)</u>	<u>(1)</u>	<u>(1,552,378)</u>	<u>(2)</u>
CONSOLIDATED NET INCOME	<u>\$ 6,179,811</u>	<u>6</u>	<u>\$ 7,775,717</u>	<u>8</u>
ATTRIBUTED TO				
Parent Company's shareholders	\$ 2,741,177	3	\$ 4,191,759	4
Minority interest	<u>3,438,634</u>	<u>3</u>	<u>3,583,958</u>	<u>4</u>
	<u>\$ 6,179,811</u>	<u>6</u>	<u>\$ 7,775,717</u>	<u>8</u>

	2011		2010	
	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>\$ 2.35</u>	<u>\$ 2.15</u>	<u>\$ 3.28</u>	<u>\$ 2.73</u>
Attributed to shareholders of the Parent Company		<u>\$ 0.95</u>		<u>\$ 1.47</u>
DILUTED EARNINGS PER SHARE (Notes 2 and 27)				
Included income for minority interest	<u>\$ 2.30</u>	<u>\$ 2.10</u>	<u>\$ 3.24</u>	<u>\$ 2.70</u>
Attributed to shareholders of the Parent Company		<u>\$ 0.93</u>		<u>\$ 1.45</u>

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

	2011	2010
CONSOLIDATED NET INCOME ATTRIBUTED TO SHAREHOLDERS OF THE PARENT COMPANY	<u>\$ 2,741,177</u>	<u>\$ 4,191,759</u>

(Continued)

POU CHEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

SIX MONTHS ENDED JUNE 30, 2011 AND 2010

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

(Reviewed, Not Audited)

	2011		2010	
	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>\$ 2.34</u>	<u>\$ 2.14</u>	<u>\$ 3.27</u>	<u>\$ 2.72</u>
Attributed to shareholders of the Parent Company		<u>\$ 0.95</u>		<u>\$ 1.47</u>
DILUTED EARNINGS PER SHARE (Notes 2 and 27)				
Included income for minority interest	<u>\$ 2.29</u>	<u>\$ 2.10</u>	<u>\$ 3.23</u>	<u>\$ 2.69</u>
Attributed to shareholders of the Parent Company		<u>\$ 0.93</u>		<u>\$ 1.45</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
SIX MONTHS ENDED JUNE 30, 2011 AND 2010
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	Capital Surplus							Other Equity							Total		
	Capital Stock	Stock Dividends to be Distributed	Additional Paid-in Capital of Common Stock	Additional Paid-in Capital of Bonds Conversion	Treasury Stock	Employee Stock Options	Long-term Equity Investments	Retained Earnings			Cumulative Translation Adjustments	Net Loss Not Recognized as Pension Cost	Unrealized Gain (Loss) on Financial Instruments	Unrealized Revaluation Increment		Treasury Stock	Minority Interest
								Legal Reserve	Special Reserve	Unappropriated Earnings							
BALANCE, JANUARY 1, 2011	\$ 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
Appropriation of 2010 earnings (Note 23)																	
Legal reserve	-	-	-	-	-	-	-	789,561	-	(789,561)	-	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	-	-	2,885,424	(2,885,424)	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	-	-	(3,480,523)	-	-	-	-	-	-	(3,480,523)
Effect of changes of ownership interest in investees	-	-	-	-	-	-	126,164	-	-	-	-	-	-	-	-	-	126,164
Adjustments on changes of unrealized gain on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	-	-	-	419,488	-	-	-	419,488
Adjustments on changes of investee's unrealized gain on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	-	-	-	645,799	-	-	-	645,799
Adjustments on changes of unrealized gain on cash flow hedge financial liability	-	-	-	-	-	-	-	-	-	-	-	-	22,780	-	-	-	22,780
Execution of employee stock warrants (Note 23)	6,800	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	6,800
Translation adjustments on foreign long-term equity investments	-	-	-	-	-	-	-	-	-	(497,869)	-	-	-	-	-	-	(497,869)
Compensation cost of treasury stock transfer to employees (Note 24)	-	-	-	-	-	257,635	-	-	-	-	-	-	-	-	-	-	257,635
Treasury stock transfer to employees - 43,300 thousand shares (Note 24)	-	-	-	-	109,681	(257,635)	-	-	-	-	-	-	-	1,086,041	-	-	938,087
Change of minority interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,663,097)	(1,663,097)
Consolidated net income for the six months ended June 30, 2011	-	-	-	-	-	-	-	-	-	2,741,177	-	-	-	-	-	3,438,634	6,179,811
BALANCE, JUNE 30, 2011	\$ 29,004,359	\$ -	\$ 812,890	\$ 1,447,492	\$ 1,563,245	\$ -	\$ 4,475,330	\$ 6,740,247	\$ 3,283,792	\$ 9,806,320	\$ (5,061,682)	\$ (57,341)	\$ 2,290,789	\$ 134,641	\$ (155,375)	\$ 62,613,047	\$ 116,897,754
BALANCE, JANUARY 1, 2010	\$ 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	-	-	-	-	-	-	291,853	-	-	-	-	-	-	-	-	-	291,853
Adjustments on changes of unrealized loss on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	-	-	-	(190,937)	-	-	-	(190,937)
Adjustments on changes of investee's unrealized loss on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	-	-	-	(529,494)	-	-	-	(529,494)
Adjustments on changes of unrealized gain on cash flow hedge financial liability	-	-	-	-	-	-	-	-	-	-	-	-	24,854	-	-	-	24,854
Execution of employee stock warrants (Note 23)	250	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	250
Translation adjustments on foreign long-term equity investments	-	-	-	-	-	-	-	-	-	-	255,808	-	-	-	-	-	255,808
Change of minority interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(6,885,943)	(6,885,943)
Consolidated net income for the six months ended June 30, 2010	-	-	-	-	-	-	-	-	-	4,191,759	-	-	-	-	-	3,583,958	7,775,717
BALANCE, JUNE 30, 2010	\$ 28,431,097	\$ 559,962	\$ 812,890	\$ 1,447,492	\$ 1,438,517	\$ -	\$ 4,046,391	\$ 5,950,686	\$ 398,368	\$ 10,516,796	\$ 128,441	\$ (40,706)	\$ (1,060,513)	\$ 134,641	\$ (1,241,416)	\$ 62,792,982	\$ 114,315,628

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

POU CHEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS SIX MONTHS ENDED JUNE 30, 2011 AND 2010 (In Thousands of New Taiwan Dollars) (Reviewed, Not Audited)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Consolidated net income	\$ 6,179,811	\$ 7,775,717
Adjustments to reconcile consolidated net income to net cash provided by operating activities		
Depreciation and amortization	3,366,810	3,692,450
Valuation loss (gain) on financial assets	620,625	(637,803)
Valuation (gain) loss on financial liabilities	(540,820)	515,108
Compensation cost of employee stock options	35,465	13,266
Provision for doubtful accounts	140,053	100,311
Investment income recognized under equity method	(841,309)	(1,648,383)
Cash dividends received from investees under equity method	347,997	952,776
Gain on disposal of investments	(953)	(806,173)
Net (gain) loss on disposal of property, plant, equipment and leased-out assets	(154,936)	18,380
Provision for impairment loss	56,563	79,915
Compensation cost of treasury stock transfer to employees	257,635	-
Amortization of Euro Convertible Bonds	227,112	241,478
Net changes in operating assets and liabilities		
Financial instruments at fair value through profit or loss, current	(1,986,884)	9,074
Notes receivable	(11,634)	(24,907)
Notes receivable from affiliates	(8,359)	-
Accounts receivable	1,497,885	(1,494,275)
Accounts receivable from affiliates	(99,142)	218,297
Other receivables	289,350	387,637
Inventories	(5,239,793)	(669,083)
Construction in progress in excess of progressive bills	5,712	(76,939)
Other current assets	(1,514,353)	(471,590)
Income tax payment	1,103	(623)
Deferred income tax asset	26,595	13,294
Other assets	(147,157)	(53,886)
Notes payable	22,988	2,851
Notes payable to affiliates	(5,588)	11,374
Accounts payable	362,496	208,926
Accounts payable to affiliates	(36,441)	124,552
Income tax payable	(408,148)	1,284,425
Other payables	(127,979)	(1,803,429)
Progressive billings in excess of construction in progress	77,244	42,061
Other current liabilities	150,550	(382,088)
Long-term payable	90,168	-
Deferred income tax liability	549,417	(7,657)
Accrued pension cost	12,885	17,367
Minority interest	(1,531,810)	(2,001,532)
Net cash provided by operating activities	<u>1,663,158</u>	<u>5,630,891</u>

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POU CHEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS SIX MONTHS ENDED JUNE 30, 2011 AND 2010 (In Thousands of New Taiwan Dollars) (Reviewed, Not Audited)

	2011	2010
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in investments accounted for by the equity method	\$ (892,838)	\$ (413,076)
Increase in available-for-sale financial assets	(24,866)	(4,768)
Decrease (increase) in financial assets carried at cost	145,672	(18,890)
Acquisitions of property, plant and equipment	(7,135,658)	(4,151,509)
Proceeds from disposal of property, plant and equipment	818,067	433,593
(Increase) decrease in refundable deposits	(135,854)	154,295
Increase in goodwill	(316,922)	-
Increase in other intangible assets	(1,244,557)	-
Increase in deferred charges	<u>(52,895)</u>	<u>(62,737)</u>
Net cash used in investing activities	<u>(8,839,851)</u>	<u>(4,063,092)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in short-term loans	3,490,748	(4,574,485)
Increase (decrease) in short-term bills payable	584,121	(592,759)
Redeemed of Euro Convertible Bonds	-	(561,972)
Increase (decrease) in long-term debt	1,831,199	(354,569)
Increase in guarantee deposits received	885	5,568
Execution of employee stock warrants	6,800	250
Treasury stock transferred to employees	<u>938,087</u>	<u>-</u>
Net cash provided by (used in) financing activities	<u>6,851,840</u>	<u>(6,077,967)</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH	<u>983,425</u>	<u>319,450</u>
CASH PAID FOR ACQUISITIONS OF SUBSIDIARIES	<u>44,506</u>	<u>(8,496)</u>
CASH RECEIVED FROM DISPOSAL OF SUBSIDIARIES	<u>-</u>	<u>757,130</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	703,078	(3,442,084)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>24,199,996</u>	<u>47,639,464</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 24,903,074</u>	<u>\$ 44,197,380</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period		
Interest (excluding interest capitalized)	<u>\$ 760,340</u>	<u>\$ 924,198</u>
Income tax	<u>\$ 599,455</u>	<u>\$ 57,620</u>

(Continued)

POU CHEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS SIX MONTHS ENDED JUNE 30, 2011 AND 2010 (In Thousands of New Taiwan Dollars) (Reviewed, Not Audited)

	2011	2010
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Unrealized gain (loss) on available-for-sale financial assets	<u>\$ 419,488</u>	<u>\$ (190,937)</u>
Investee's unrealized gain (loss) on available-for-sale financial assets	<u>\$ 645,799</u>	<u>\$ (529,494)</u>
Unrealized gain on cash flow hedge financial liabilities	<u>\$ 22,780</u>	<u>\$ 24,854</u>
Effect of changes in ownership interest in investees	<u>\$ 126,164</u>	<u>\$ 291,853</u>
Translation adjustments on foreign long-term equity investments	<u>\$ (497,869)</u>	<u>\$ 255,808</u>
Current portion of long-term liabilities	<u>\$ 9,957,561</u>	<u>\$ 12,839,806</u>
Cash dividends payable	<u>\$ 3,480,523</u>	<u>\$ 4,199,715</u>
Transfer of the unappropriated earnings to capital stock	<u>\$ -</u>	<u>\$ 559,962</u>
Adjustments on capital surplus from treasury stock transfer to employees	<u>\$ 109,681</u>	<u>\$ -</u>
CASH PAID DURING THE PERIOD FOR ACQUISITIONS OF PROPERTY, PLANT AND EQUIPMENT		
Fair value of property, plant and equipment acquired	\$ 7,505,707	\$ 4,337,341
Add payables for acquisitions of property, plant and equipment at beginning of period	438,101	183,739
Less payables for acquisitions of property, plant and equipment at end of period	<u>(808,150)</u>	<u>(369,571)</u>
Cash paid during the period for acquisitions of property, plant and equipment	<u>\$ 7,135,658</u>	<u>\$ 4,151,509</u>

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

(Concluded)

POU CHEN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS SIX MONTHS ENDED JUNE 30, 2011 AND 2010 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise) (Reviewed, Not Audited)

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 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. Yue Yuen and Pou Sheng International (Holdings) Limited (“Pou Sheng”), a subsidiary of Yue Yuen, are 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	2011.6.30 Ownership Percentage (%)	2010.6.30 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.	ROC	99.99	99.99
Barits Development Corporation	ROC	99.59	99.59
Pou Yuen Technology Co., Ltd.	ROC	99.39	99.39
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	Note 1

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 June 30, 2011, 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	2011.6.30 Ownership Percentage (%)	2010.6.30 Ownership Percentage (%)	Primary Operation Activities
Yue Yuen Industrial (Holdings) Limited	Bermuda	48.93 (Note 2)	48.60	Manufacturing and sale of athletic and casual footwear and sports apparel
Pou Sheng International (Holdings) Limited	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	99.99	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	69.27	68.55	Manufacturing and sale of medical appliance
Dong Guan Pou Yu Precision Ceramics Industrial Co., Ltd.	PRC	69.27	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's 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 June 30, 2011, the ownership percentage is 1.05%). As at June 30, 2011, Win Fortune has an outstanding common stock of US\$100 thousand.

Ming Wang Investments Co., Ltd. ("Ming Wang"), a corporation incorporated in the ROC, is an investment holding company. Ming Wang commenced its operations in 1996. It is engaged in investing activities. As at June 30, 2011, 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 June 30, 2011, Windsor Entertainment has an outstanding common stock of \$210,000 thousand.

Yun Yang Investments Co., Ltd. ("Yun Yang"), a corporation incorporated in the ROC, commenced its operations in 1997. It is engaged in investment activities. As at June 30, 2011, 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 June 30, 2011, 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 June 30, 2011, 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 October 2010, Proshine Healthcare’s board of directors decided to decrease and return its capital, amounted to \$50,000 thousand. As at June 30, 2011, Proshine Healthcare has an outstanding common stock of \$110,000 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 June 30, 2011, Vistas Design has an outstanding common stock of \$5,000 thousand.

Pro Arch International Development Enterprise Inc. (“Pro Arch International”), a corporation incorporated in the ROC, commenced its operations in 1999. It is engaged in real estate development business. Pro Arch International decreased its capital to offset its accumulated deficit by \$56,415 thousand in June 2010. Accordingly, Pro Arch International has an outstanding common stock of \$257,004 thousand as at June 30, 2011.

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

Name of Subsidiary	Location of Incorporation	2011.6.30 Ownership Percentage (%)	2010.6.30 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 June 30, 2011, 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	2011.6.30 Ownership Percentage (%)	2010.6.30 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 June 30, 2011, 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	2011.6.30 Ownership Percentage (%)	2010.6.30 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 June 30, 2011, 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	2011.6.30 Ownership Percentage (%)	2010.6.30 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”), a company incorporated in the ROC, commenced its operations in 2008. It is primarily engaged in real estate development and investing activities business. As at June 30, 2011, Right and Great Asia-Pacific has an outstanding common stock of \$600,000 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 13 to the consolidated financial statements for further information.

Pou Chen and its consolidated subsidiaries are hereafter collectively referred to as “the Company”. As at June 30, 2011 and 2010, there were 344,155 and 315,048 employees in the Company, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements have been prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, and accounting principles generally accepted in the ROC. 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 2011 and 2010 semi-annual information of above-mentioned companies indicated information of the period from January 1 to June 30, 2011 and October 1, 2009 to March 31, 2010, 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 2011 and 2010 semi-annual information of the two companies indicated information of the period from October 1, 2010 to March 31, 2011 and October 1, 2009 to March 31, 2010, respectively.

Foreign Currencies

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 period.

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 period 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 in proportion to the Company's percentage of ownership in the investee, as a separate component of shareholders' equity.

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.

Accounting Estimates

Under above guidelines and principles, certain estimates and assumptions have been used for the allowance for doubtful accounts, allowance for loss on inventories, depreciation and impairment of property, plant and equipment, amortization expenses, income tax, pension cost, long-term construction contracts, bonuses to employees, directors and supervisors, etc. Actual results may differ from these estimates.

For readers' convenience, the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the ROC. If inconsistencies arise between the English version and the Chinese version or if differences arise in the interpretations between the two versions, the Chinese version of the consolidated financial statements shall prevail.

Current and 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 and 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.

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 and Cash Equivalents

Cash includes unrestricted cash and bank deposits. 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 Instruments 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 period in which they arise. Cash dividends received subsequently (including those received in the year of investment) are recognized as income for the period. 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 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 period. 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.

Hedge Accounting

Derivatives that are designated and effective as hedging instruments are measured at fair value, with subsequent changes in fair value recognized either in profit or loss, or in shareholders' equity, depending on the nature of the hedging relationship.

Hedge accounting recognizes the offsetting effects on profit or loss of changes in the fair values of the hedging instrument and the hedged item as follows:

a. Fair value hedge

The gain or loss from remeasuring the hedging instrument at fair value and the gain or loss on the hedged item attributable to the hedged risk are recognized in profit or loss.

b. Cash flow hedge

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized in shareholders' equity. The amount recognized in shareholders' equity is recognized in profit or loss in the same period during which the hedged forecast transaction or an asset or liability arising from the hedged forecast transaction affects profit or loss. However, if all or a portion of a loss recognized in shareholders' equity is not expected to be recovered in the future, the amount that is not expected to be recovered is reclassified into profit or loss.

c. Hedge of a net investment in a foreign operation

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized in shareholders' equity. The amount recognized in shareholders' equity is recognized in profit or loss on disposal of the foreign operation.

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.

Impairment of Accounts Receivable

An allowance for doubtful accounts is provided on the basis of a review of the collectibility of accounts receivable. As discussed in Note 3 to the consolidated financial statements, from January 1, 2011, the Company adopted the third-time revised Statement of Financial Accounting Standards (SFAS) No. 34, "Financial Instruments: Recognition and Measurement". One of the main revisions is that the impairment of receivables originated by the Company should be covered by SFAS No. 34.

The amount of the impairment loss recognized is the difference between the asset carrying amount and the present value of estimated future cash flows, discounted at the receivable's original effective interest rate. The carrying amount of the accounts receivable is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized as bad debt in profit or loss.

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.

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 ("CGUs") 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.

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.

Long-term Construction Contract

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. The contract profit for the current period is the difference between the cumulative profit based on the percentage of completion at the end of the current period and prior periods. However, if the cumulative profit recognized in prior periods is greater than the cumulative profit of the current period, the excess should be recorded as a loss. If a contract is estimated to bear a loss prior to completion, the full amount of the loss should be recognized immediately. However, if the loss is estimated to be smaller in future years, the difference should be reversed and recognized as a gain in that period. Construction contract within one year should adopt the completed-contract method. The percentage of completion is calculated based on the construction cost incurred this period as a percentage of the total estimated cost. Sales revenue and cost of goods sold are estimated by gross price method.

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% 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 and 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 the assets 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 the 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 unrealized revaluation increment 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 period 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 periodically.

Deferred Charges

Deferred charges are amortized on a straight-line basis over their estimated useful lives.

Convertible Bonds

The face value of convertible bonds issued by the Company 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 are allocated to liability component according to its original listed ratio.

Pension Cost

Cost of Pou Chen, Barits Development, Pou Yuen Technology 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 period 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 period.

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

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 research and development 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.

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.

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.

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.

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 period. 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.

Reclassifications

Certain accounts in the consolidated financial statements as of and for the six months ended June 30, 2010 have been reclassified to conform to the presentation of the consolidated financial statements as of and for six months ended June 30, 2011.

3. EFFECTS OF CHANGES IN ACCOUNTING PRINCIPLES

Financial Instruments

On January 1, 2011, the Company adopted the newly revised SFAS No. 34, "Financial Instruments: Recognition and Measurement". The main revision is loans and receivables originated by the Company are now covered by SFAS No. 34. The adoption did not result in significant effect in the consolidated financial statements for the six months ended June 30, 2011.

Operating Segments

On January 1, 2011, the Company adopted the newly issued SFAS No. 41, "Operating Segments". The statement requires that segment information be disclosed based on the information about the components of the Company that management uses to make operating decisions. SFAS No. 41 requires identification of operating segments on the basis of internal reports that are regularly reviewed by the Company's chief operating decision maker in order to allocate resources to the segments and assess their performance. This statement supersedes SFAS No. 20, "Segment Reporting". For this accounting change, the Company restated the segment information as of and for the six months ended June 30, 2010 to conform to the disclosures as of and for the six months ended June 30, 2011.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at June 30, 2011 and 2010 consist of the following:

	2011	2010
Cash on hand	\$ 54,147	\$ 80,678
Checking accounts	314	488
Savings accounts	287,782	466,511
Foreign-currency savings deposit	21,583,388	41,132,078
Time deposits	248,800	2,404,125
Cash equivalents - repurchase agreements collateralized by bonds	<u>2,728,643</u>	<u>113,500</u>
	<u>\$ 24,903,074</u>	<u>\$ 44,197,380</u>

5. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial instruments at fair value through profit or loss as at June 30, 2011 and 2010 were summarized as follows:

	2011	2010
Financial assets at fair value through profit or loss, current		
HKD Call Option	\$ 407,647	\$ 1,041,660
Domestic open-ended mutual funds	810,676	458,595
Foreign mutual funds	154,587	54,645
Forward exchange contracts	71,972	32,257
JV Call Option	-	30,318
Structured deposit	<u>1,452,045</u>	<u>4,533</u>
	<u>\$ 2,896,927</u>	<u>\$ 1,622,008</u>
Financial assets at fair value through profit or loss, noncurrent		
JV Call Option	<u>\$ 954,948</u>	<u>\$ 1,755,229</u>
Financial liabilities at fair value through profit or loss, current		
Euro Convertible Bonds with options	\$ 206,748	\$ 805,936
Forward exchange contracts	<u>19,590</u>	<u>49,897</u>
	<u>\$ 226,338</u>	<u>\$ 855,833</u>

In October 2007, Pou Sheng entered into call option (the “JV 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.

- 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 Hong Kong Exchange and Clearing Limited.

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.

In October 2010, Pou Sheng exercised part of the JV Call Option to acquire 50% ownership of Zhejiang Yichuan Sports Goods Chain Company Limited (“Zhejiang Yichuan”). Please see Note 11 to the consolidated financial statements for the further information.

On March 10, 2008, Yue Yuen entered into a derivative contract with an independent third party to acquire the cash-settled call option (the “HKD 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 HKD Call Option was reduced as a result of a knock-out event on November 17, 2009. As at June 30, 2011, the unexercised number of HKD Call Option 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 June 30, 2011 were as below:

Aggregate Notional Amount	Forward Exchange Rates
US\$ 89,000,000	Sell USD/buy RMB at 6.5104 to 6.7740
US\$ 33,000,000	Sell USD/buy NTD at 28.502 to 29.269

Major terms of foreign currency forward contracts will maturities within one year from June 30, 2010 were as below:

Aggregate Notional Amount	Forward Exchange Rates
US\$ 90,000,000	Sell USD/buy RMB at 6.7152 to 6.8130
US\$ 69,000,000	Sell RMB/buy USD at 6.5750 to 6.6840
US\$ 1,000,000	Sell USD/buy NTD at 32.4150

As at June 30, 2011 and 2010, 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 six months ended June 30, 2011 and 2010 amounted to \$(79,805) thousand and \$122,695 thousand, respectively.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS, CURRENT

Available-for-sale financial assets, current as at June 30, 2011 and 2010 consisted of the following:

	2011		2010	
	Carrying Value	Percentage of Ownership	Carrying Value	Percentage of Ownership
Marketable equity securities				
Mega Financial Holding Company	\$ 11,520,115	4.16	\$ 7,934,279	4.16
Bizlink Holding Inc.	91,467	2.70	-	-
Taiwan Paiho Limited	<u>40,810</u>	0.45	<u>32,182</u>	0.45
	<u>\$ 11,652,392</u>		<u>\$ 7,966,461</u>	

Bizlink Holding Inc. has been IPO in Taiwan on April 21, 2011. The Company reclassified the owned shares from “financial assets carried at cost, noncurrent” to “available-for-sale financial assets, current”. Please see Note 14 to the consolidated financial statements for the further information.

7. FINANCIAL ASSETS CARRIED AT COST, CURRENT

Financial assets carried at cost, current as at June 30, 2011 and 2010 consisted of the follows:

	2011	2010
Foreign mutual funds	<u>\$ 87,616</u>	<u>\$ -</u>

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

8. NOTES AND ACCOUNTS RECEIVABLE

Notes receivable as at June 30, 2011 and 2010 consist of the following:

	2011	2010
Notes receivable	\$ 43,283	\$ 38,000
Less allowance for doubtful accounts	<u>-</u>	<u>-</u>
	<u>43,283</u>	<u>38,000</u>
Notes receivable from affiliates (Note 30)	14,130	-
Less allowance for doubtful accounts	<u>-</u>	<u>-</u>
	<u>14,130</u>	<u>-</u>
	<u>\$ 57,413</u>	<u>\$ 38,000</u>

Accounts receivable as at June 30, 2011 and 2010 consist of the following:

	2011	2010
Accounts receivable	\$ 20,623,186	\$ 19,154,111
Less allowance for doubtful accounts	<u>(976,058)</u>	<u>(723,396)</u>
	<u>19,647,128</u>	<u>18,430,715</u>
Accounts receivable from affiliates (Note 30)	610,458	491,410
Less allowance for doubtful accounts	<u>(19,516)</u>	<u>(15,647)</u>
	<u>590,942</u>	<u>475,763</u>
	<u>\$ 20,238,070</u>	<u>\$ 18,906,478</u>

9. INVENTORIES

a. Inventories - manufacturing as at June 30, 2011 and 2010 consist of the following:

	2011	2010
Raw materials and supplies	\$ 8,984,384	\$ 6,601,444
Work-in-process	4,613,638	3,643,808
Finished goods	14,574,711	12,066,462
Merchandises	20,061	4,774
Goods in transit	<u>-</u>	<u>8,865</u>
	<u>\$ 28,192,794</u>	<u>\$ 22,325,353</u>

- 1) As of June 30, 2011 and 2010, the allowance for manufacturing inventory devaluation was \$1,086,901 thousand and \$1,360,312 thousand, respectively.
- 2) The cost of manufacturing inventories recognized as cost of goods sold for the six months ended June 30, 2011 and 2010 was \$73,268,451 thousand and \$70,398,732 thousand, respectively, which included \$251,833 thousand and \$381,631 thousand, respectively, due to write-downs of inventories.

b. Inventories - construction as at June 30, 2011 and 2010 consist of the following:

	2011	2010
Land and buildings for development	\$ 3,912,938	\$ 3,636,923
Land, buildings and improvements for sale	88,690	101,736
Construction site	<u>126,658</u>	<u>132,066</u>
	<u>\$ 4,128,286</u>	<u>\$ 3,870,725</u>

- 1) As of June 30, 2011 and 2010, the allowance for construction inventory devaluation was \$22,602 thousand and \$26,065 thousand, respectively.
- 2) The cost of construction inventories as cost of goods sold for the six months ended June 30, 2011 and 2010 was \$120,586 thousand and \$246,439 thousand, respectively, which included \$0 thousand and \$288 thousand, respectively, due to write-downs of inventories.
- 3) Land and buildings for development as at June 30, 2011 and 2010 consist of the following:

Company	2011			2010
	Land	Building	Carrying Value	Carrying Value
Barits Development Right and Great	\$ 2,264,593	\$ 11,532	\$ 2,276,125	\$ 1,998,130
Asia-Pacific	1,426,222	-	1,426,222	1,428,202
Pou Chin Development	<u>210,591</u>	<u>-</u>	<u>210,591</u>	<u>210,591</u>
	<u>\$ 3,901,406</u>	<u>\$ 11,532</u>	<u>\$ 3,912,938</u>	<u>\$ 3,636,923</u>

As at June 30, 2011 and 2010, according to the loan agreement, the secured borrowings were secured by part of the land and buildings for development of the Company. Please see Note 31 to the consolidated financial statements for the further information.

- 4) Land, buildings and improvements for sale as at June 30, 2011 and 2010 consist of the following:

Company	2011			2010
	Land	Building	Carrying Value	Carrying Value
Barits Development	\$ 11,490	\$ 12,930	\$ 24,420	\$ 24,340
Pou Yii Development	<u>30,308</u>	<u>33,962</u>	<u>64,270</u>	<u>77,396</u>
	<u>\$ 41,798</u>	<u>\$ 46,892</u>	<u>\$ 88,690</u>	<u>\$ 101,736</u>

- 5) Construction site are inventories of Pou Yii Development. As at June 30, 2011 and 2010, construction site amount was \$126,658 thousand and \$132,066 thousand, respectively.

10. CONSTRUCTION IN PROCESS AND PROGRESSIVE BILLINGS

Net amount of construction in process and progressive billings as at June 30, 2011 and 2010 consist of the following:

Company	Name of Construction	2011		
		Construction in Process	Progressive Billings	Net Amount
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>\$ 693,466</u>	<u>\$ 650,802</u>	<u>\$ 42,664</u>
	Construction for demarcation of real estate in Anhe district, Taichung City II (recording under “progressive billings in excess of construction in progress”)	<u>\$ 213,236</u>	<u>\$ 344,225</u>	<u>\$ (130,989)</u>

Company	Name of Construction	2010		
		Construction in Process	Progressive Billings	Net Amount
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>\$ 460,189</u>	<u>\$ 383,250</u>	<u>\$ 76,939</u>
	Construction for demarcation of real estate in Anhe district, Taichung City II (recording under “progressive billings in excess of construction in progress”)	<u>\$ 107,628</u>	<u>\$ 206,535</u>	<u>\$ (98,907)</u>

11. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

Investments accounted for by the equity method as at June 30, 2011 and 2010 are comprised of the following:

	Original Cost	2011		2010	
		Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage
<u>Shoes, shoe materials and athletic products companies</u>					
Best Focus Holdings Ltd.	\$ 324,300	\$ 526,288	50.00	\$ 650,171	50.00
Beijing Baojing Kangtai Trading Co., Ltd.	205,960	193,577	50.00	211,823	50.00
Bigfoot Limited	138,772	151,294	48.76	168,614	48.76

(Continued)

	2011			2010	
	Original Cost	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage
Blessland Enterprises Limited	\$ 26,196	\$ 54,584	\$ 50.00	\$ 60,666	\$ 50.00
Central Honour Limited	-	-	-	13,937	50.00
China Ocean Resources Limited	821,131	400,903	50.00	448,704	50.00
Cohen Enterprises Inc.	156,820	508,320	50.00	597,225	50.00
Din Tsun Holding Co., Ltd.	251,211	754,946	50.00	776,909	50.00
Eagle Nice (International) Holdings Limited	1,325,223	1,750,505	38.42	1,851,498	38.42
Enthroned Group Limited	158	140	48.76	157	48.76
Faith Year Investments Ltd.	68,853	66,858	30.00	-	-
Full Pearl International Ltd.	381,878	381,245	40.04	254,973	28.75
Fuzhou Fubao Paper Packaging Co., Ltd.	103,048	117,811	50.00	145,137	50.00
Good Assets Management Limited	8,200	5,178	50.00	6,885	50.00
Great Skill Industrial Limited	34,149	59,799	50.00	51,952	50.00
Guiyang Baoshang Sports Goods Company Limited	47,776	61,696	50.00	64,978	50.00
Hangzhou Baohong Sports Goods Company Limited	59,334	20,045	50.00	46,816	50.00
Harbin Shenge Sports Chain Company Limited	-	-	-	574,561	45.00
Hebei Zhanxin Sports Development Company Limited	320,388	332,417	45.00	388,718	45.00
Hefei Tengrei Sports Goods Company Limited	258,178	335,680	50.00	475,783	50.00
High Style Investments Limited	19,458	18,331	50.00	17,815	50.00
Hua Jian Industrial Holding Co., Limited	771,201	2,229,802	50.00	2,284,475	50.00
Hubei Jiezhixing Clothing And Accessories Company Limited	-	-	-	176,150	50.00
Intelligent Plus Limited	48,989	49,609	45.90	55,539	45.90
i-Tech Enterprises Ltd.	10,134	6,654	50.00	6,606	50.00
Jilin Lingpao Sports Goods Company Limited	370,534	601,533	50.00	748,134	50.00
Jilin Xinfangwei Sports Goods Company Limited	606,747	552,177	50.00	635,571	50.00
Jumbo Power Enterprises Limited	438,315	637,224	50.00	535,856	50.00
Just Lucky Investments Limited	26,204	52,204	38.30	58,275	38.30
Ka Yuen Rubber Factory Limited	32,727	681,149	50.00	613,052	50.00
Keen Idea Group Limited	62,976	15,992	40.00	43,592	40.00
Liberty Bell Investments Limited	318,234	120,837	49.00	158,521	49.00
Luen Thai Holdings Ltd.	394,437	546,724	8.98	489,336	8.98
Natural Options Limited	11,144	5,724	38.30	5,902	38.30
Oftenrich Holdings Limited	931,070	1,518,028	45.00	1,799,396	45.00
Original Designs Developments Limited	40,156	117,382	49.47	114,534	49.47
Pine Wood Industries Limited	92,393	80,362	37.00	80,342	37.00
Precise Zone Investments Limited	41,662	38,704	47.65	47,959	47.65
Prosperlink Limited	6,078	5,548	38.00	6,199	38.00
Prosperous Industrial (Holdings) Ltd.	583,740	998,424	30.00	974,422	30.00
PYGF Co., Ltd.	32,430	67,882	50.00	51,969	50.00
Rise Bloom International Limited	24,312	14,924	47.00	24,428	47.00
Shaanxi Jixian Longyue Sports Goods Company Limited	142,433	200,128	50.00	215,520	50.00
Shaanxi Wuhuan Shengdao Sports Production Development Company Limited	205,085	266,947	40.00	259,248	40.00
Smart Shine Industries Limited	-	87,619	50.00	98,570	50.00
SupplyLINE Logistics Ltd.	204,155	29,389	49.00	26,609	49.00
Suzhou Xinjun Trading Development Company Limited	258,091	259,298	49.00	250,273	49.00
Texas Clothing Holdings Corp.	3,425,070	1,482,162	39.80	1,311,282	39.80

(Continued)

	2011			2010	
	Original Cost	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage
Topmost Industries Limited	\$ 26,438	\$ 74,577	50.00	\$ 85,172	50.00
Twinways Investments Limited	88,232	258,117	50.00	238,097	50.00
Well Success Investment Limited	198,731	1,020,600	40.00	1,041,725	40.00
Wenzhou Baofeng Trading Co., Ltd.	41,335	-	50.00	67,677	50.00
Willpower Industries Limited	221,001	372,979	44.84	350,393	44.84
Yuen Thai Industrial Company Limited	85,745	141,614	50.00	117,030	50.00
Zhejiang Baohong Sports Goods Company Limited	214,569	170,828	49.00	262,330	49.00
Zhejiang Jinguan Enterprise Development Company Limited	-	-	-	364,185	50.00
Zhejiang Yichuan Sports Goods Chain Company Limited	-	-	-	829,789	50.00
Evermore Chemical Industry Co., Ltd.	253,333	278,941	20.75	308,879	20.75
San Fang Chemical Industry Co., Ltd.	2,677,576	3,393,024	44.72	3,560,028	44.72
Nan Pao Resins Chemical Co., Ltd.	539,797	544,065	22.15	592,940	22.15
<u>Electronic companies</u>					
Haicheng Information Technology Co., Ltd.	194,580	131,245	50.00	138,688	50.00
Kleine Developments Ltd.	335,317	55,939	33.33	109,579	50.00
Silver Island Trading Ltd.	129,720	45,327	50.00	50,753	50.00
Venture Well Holdings Ltd.	332,638	289,610	31.55	357,029	31.55
Elitegroup Computer Systems Co., Ltd.	6,036,400	4,807,513	18.59	5,090,052	18.59
Techview International Technology Inc.	671,618	-	50.00	-	48.31
<u>Investment holding and other companies</u>					
Ace Top Group Limited	15,865	61,386	40.00	39,372	40.00
Asia Air Tech Industrial (Pte) Ltd.	82,697	44,922	30.00	52,706	30.00
Coprospects Holdings Ltd.	-	852	50.00	6,880	50.00
Mega Atlas International Limited	3,041	-	40.00	259	40.00
Most Honour International Limited	1,640	3,515	50.00	3,534	50.00
Partner Alliance Limited	3,237	4,820	50.00	6,365	50.00
Poulik Properties Management Co., Ltd.	-	513	30.00	551	30.00
Rising Developments Ltd.	5,028	34,524	50.00	35,865	50.00
Talent Pool Management Ltd.	-	2,189	30.00	3,412	30.00
Zhuhai Poulik Properties Management Co., Ltd.	14,374	57,050	40.00	93,362	40.00
Zhong Ao Multiplex Management Limited	1,002,199	1,194,841	46.82	1,251,861	46.82
Ruen Chen Investment Holding Co., Ltd.	<u>1,700,000</u>	<u>1,685,820</u>	20.00	-	-
	28,504,461	31,080,854		32,937,595	
Reclassified to long-term investment held for sale	-	-		(176,150)	
	<u>\$ 28,504,461</u>	<u>\$ 31,080,854</u>		<u>\$ 32,761,445</u>	

(Concluded)

The Company's investment income (loss) recognized under equity method for the six months ended June 30, 2011 and 2010 is summarized as follows:

	2011	2010
<u>Shoes, shoe materials and athletic products companies</u>		
Best Focus Holdings Ltd.	\$ 60,552	\$ 19,925
Beijing Baojing Kangtai Trading Co., Ltd.	(6,573)	-
Bigfoot Limited	12,613	27,532
Blessland Enterprises Limited	(154)	(30)
Central Honour Limited	(56)	512
Cohen Enterprises Inc.	(25,454)	23,856
Din Tsun Holding Co., Ltd.	49,869	104,511
Eagle Nice (International) Holdings Limited	74,704	19,324
Faith Year Investments Ltd.	(8,632)	-
Full Pearl International Limited	3,933	(13,380)
Fuzhou Fubao Paper Packaging Co., Ltd.	(1,685)	(503)
Good Assets Management Limited	(6)	(1,141)
Great Skill Industrial Limited	5,319	922
Guiyang Baoshang Sports Goods Company Limited	(1,671)	2,737
Hangzhou Baohong Sports Goods Company Limited	(4,028)	(8,233)
Harbin Shenge Sports Chain Company Limited	-	8,800
Hebei Zhanxin Sports Development Company Limited	17,907	(23,243)
Hefei Tengrei Sports Goods Company Limited	(11,750)	4,337
High Style Investments Limited	1,599	385
Hua Jian Industrial Holding Co., Limited	32,800	131,835
Hubei Jiezhixing Clothing And Accessories Company Limited	-	47,716
Intelligent Plus Limited	(3,065)	3,439
i-Tech Enterprise Ltd.	640	(190)
Jilin Lingpao Sports Goods Company Limited	(11,503)	43,596
Jilin Xinfangwei Sports Goods Company Limited	(67,448)	(9,628)
Jumbo Power Enterprises Limited	(48,863)	109,061
Just Lucky Investments Limited	4,540	4,391
Ka Yuen Rubber Factory Limited	88,053	72,332
Keen Idea Group Limited	47	(13,371)
Liberty Bell Investments Limited	(12,657)	(4,565)
Luen Thai Holdings Limited	27,347	26,580
Natural Options Limited	(36)	219
Oftenrich Holdings Limited	111,269	116,702
Original Designs Developments Limited	20,574	11,958
Pine Wood Industries Limited	8,682	-
Precise Zone Investments Limited	(4,057)	(2,808)
Prosperlink Limited	(10)	91
Prosperous Industrial (Holdings) Ltd.	35,970	25,703
PYGF Co., Ltd.	13,378	11,160
Rise Bloom International Limited	(6,945)	(6)
Shaanxi Jixian Longyue Sports Goods Company Limited	(8,399)	4,283
Shaanxi Wuhuan Shengdao Sports Production Development Company Limited	14,769	11,679
Smart Shine Industries Limited	(2,623)	4,943
Suzhou Xinjun Trading Development Company Limited	(8,028)	(6,821)
Texas Clothing Holdings Corp.	142,615	187,664
Topmost Industries Limited	3,907	9,411
Twinways Investments Limited	33,840	50,205

(Continued)

	2011	2010
Well Success Investment Limited	\$ 61,197	\$ 12,276
Wenzhou Baofeng Trading Co., Ltd.	(30,277)	350
Willpower Industries Limited	26,232	26,253
Yuen Thai Industrial Company Limited	14,388	21,515
Zhejiang Jinguan Enterprise Development Company Limited	-	24,474
Zhejiang Baohong Sports Goods Company Limited	(15,138)	8,859
Zhejiang Yichuan Sports Goods Chain Company Limited	-	44,019
Evermore Chemical Industry Co., Ltd.	4,793	6,525
San Fang Chemical Industry Co., Ltd.	204,604	230,460
Nan Pao Resins Chemical Co., Ltd.	10,695	10,387

Electronic companies

Haicheng Information Technology Co., Ltd.	(278)	170
Kleine Developments Ltd.	(36,184)	(37,301)
Silver Island Trading Ltd.	-	(21)
Venture Well Holdings Ltd.	4,055	(3,093)
Elitegroup Computer Systems Co., Ltd.	21,472	77,607
Techview International Technology Inc.	-	47,911

Investment holding and other companies

Ace Top Group Limited	7,488	(7,806)
Asia Air Tech Industrial (Pte) Ltd.	-	(2,806)
Coprospects Holdings Ltd.	23	(68)
Mega Atlas International Limited	(234)	(338)
Most Honour International Limited	(299)	(246)
Partner Alliance Limited	101	46
Rising Developments Ltd.	817	1,178
Talent Pool Management Ltd.	525	2,598
Zhuhai Poulik Properties Management Co., Ltd.	17,033	73,086
Zhong Ao Multiplex Management Limited	25,059	110,458
Ruen Chen Investment Holding Co., Ltd.	(6,047)	-
	<u>\$ 841,309</u>	<u>\$ 1,648,383</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
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	Manufacture and sale of module	British Virgin Islands
China Ocean Resources Limited	Sales of sports goods	British Virgin Islands

(Continued)

Name	Core Operating Item	Location of Incorporation
Cohen Enterprises Inc.	Manufacture and sales of leather products for shoes	British Virgin Islands
Coprosects Holdings Ltd.	Investment holding	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
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
Prosperlink Limited	Investment Holding	Samoa
Prosperous Industrial (Holdings) Ltd.	Manufacture and sale of sports bags	Cayman Islands

(Continued)

Name	Core Operating Item	Location of Incorporation
PYGF Co., Ltd.	Processing rubber	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
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	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., Limited	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, 2010 to March 1, 2011 and October 1, 2009 to March 1, 2010, respectively.

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

Elitegroup Computer Systems Co., Ltd. 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 June 30, 2011.

San Fang Chemical Industry Co., Ltd. is engaged in manufacturing and marketing leather. The shares of San Fang are listed on the Taiwan Stock Exchange. It has an outstanding common stock of \$3,119,649 thousand as at June 30, 2011.

Evermore Chemical Industry Co., Ltd. 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 common stock of \$932,880 thousand as at June 30, 2011.

Nan Pao Resins Chemical Co., Ltd. was established in October 1963, and is engaged in manufacturing chemical materials. It has an outstanding common stock of \$370,092 thousand as at June 30, 2011.

Luen Thai Holdings Ltd. 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 June 30, 2011.

Eagle Nice (International) Holdings Ltd. is engaged in manufacturing and sale of apparel. The shares of Eagle Nice are listed on the Hong Kong Exchange and Clearing Limited. It has an outstanding common stock of HK\$4,997 thousand as at June 30, 2011.

Ruen Chen Investment Holding Co., Ltd. (“Ruen Chen”) was established in November 2010. Pou Chen was one of the original stockholders and has invested \$500,000 thousand. Pou Chen holds 20% of Ruen Chen’s voted shares. In June 2011, Ruen Chen issued additional capital stock of \$6,000,000 thousand at \$10 per share, of which \$1,200,000 thousand was subscribed by Pou Chen in proportion to the percentage of ownership. Ruen Chen primarily engages in investing Nan Shan Life Insurance Co., Ltd. It has an outstanding common stock of \$8,500,000 thousand as at June 30, 2011.

In October 2010, Pou Sheng decided to pay \$1,851,901 thousand (US\$64,470 thousand) for acquisition of the remaining 50% equity ownership of Zhejiang Yichuan. The consideration amounting to \$180,336 thousand (US\$6,278 thousand) has not been paid, of which \$90,168 thousand (US\$3,139 thousand) and \$90,168 thousand (US\$3,139 thousand) is payable before September 30, 2012 and 2011, respectively. As of June 30, 2011, the unpaid consideration was recorded under “other payables” and “long-term payable”, respectively.

On March 31, 2010, Pou Sheng had decided to sell the 50% ownership of Hubei Jiezhixing Clothing and Accessories Company Limited. Due to its net realizable value was lower than the book value, such investments has been reclassified into “long-term investment held for sale” as its net realizable value \$176,150 thousand. The Company also recognized \$53,962 thousand as impairment losses, recorded under “non-operating expenses - impairment losses”. The transaction had completed during the nine months ended September 30, 2010.

12. INVESTMENTS IN REAL ESTATE

Investments in real estate as at June 30, 2011 and 2010 are comprised of the following:

	2011	2010
Land	<u>\$ 186,123</u>	<u>\$ 186,123</u>

For urban redevelopment of Taichung, Pou Chen purchased the land located on Guangshun section, Xitun District, Taichung.

13. AVAILABLE-FOR-SALE FINANCIAL ASSETS, NONCURRENT

Available-for-sale financial assets, noncurrent as at June 30, 2011 and 2010 are as follows:

	2011		2010	
	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage
<u>Domestic marketable equity securities</u>				
Asia Vital Components Co., Ltd.	\$ 263,397	2.83	\$ 644,968	6.10
Taiwan Paiho Limited	294,544	3.03	225,999	2.97
Global Brands Manufacture Ltd.	739,648	9.09	766,938	9.26
<u>Domestic mutual funds</u>				
Cathay Bond Fund	226,083	-	163,131	-
<u>Foreign marketable equity securities</u>				
Symphony Holdings Ltd.	<u>128,655</u>	4.82	<u>163,522</u>	4.82
	<u>\$ 1,652,327</u>		<u>\$ 1,964,558</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 \$3,035,601 thousand as at June 30, 2011.

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 June 30, 2011.

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 an outstanding commons stock of \$4,746,184 thousand as at June 30, 2011.

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\$130,803 thousand as at June 30, 2011.

14. FINANCIAL ASSETS CARRIED AT COST, NONCURRENT

Financial assets carried at cost, noncurrent as at June 30, 2011 and 2010 were as follows:

	2011	2010
Golden Brands Developments Ltd.	\$ 159,655	\$ 219,713
Shey Yu Co., Ltd.	320	320
View Sonic Corporation	96,231	96,231
Taichung International Entertainment Corporation	1,905	1,905

(Continued)

	2011	2010
Bizlink Holding Inc.	\$ -	\$ 107,418
Great Team Backend Foundry Inc.	69,639	77,942
First Dynamic International Ltd.	36,457	40,804
Ryco Investment Ltd.	-	32,150
DTE Technologies Corp.	-	-
Asia Pacific Genesis Venture Capital Fund, L. P.	64,827	123,420
CID Greater China Vanture Capital Fund II, L. P.	209,252	211,697
Prodigy Strategic Investment Fund XXII Segregated Portfolio	425,647	379,949
UIS-Trusted Money Fund	<u>-</u>	<u>-</u>
	<u>\$ 1,063,933</u>	<u>\$ 1,291,549</u>

(Concluded)

The stocks and mutual funds mentioned above do not have public offer by active market and reliable fair values, thus they are carried at cost.

The shares of Bizlink Holding Inc. have been IPO in Taiwan on April 21, 2011. Accordingly, the Company reclassified the owned shares from “financial assets carried at cost, noncurrent” to “available-for-sale financial assets, current”.

The Company had recorded impairment equal to the investment cost of Ryco Investment Ltd., UIS - Trusted Money Fund, and DTE Technologies Corp.

15. PROPERTY, PLANT AND EQUIPMENT

A summary of property, plant and equipment as at June 30, 2011 and 2010 is as follows:

	2011				2010	
	Cost	Revaluation Increment	Accumulated Depreciation	Accumulated Impairment	Carrying Value	Carrying Value
Land	\$ 2,199,966	\$ 248,261	\$ -	\$ 15,806	\$ 2,432,421	\$ 2,403,566
Buildings	49,778,380	45,062	15,560,516	11,302	34,251,624	38,137,249
Machinery and equipment	37,933,129	-	22,493,799	8,261	15,431,069	14,837,926
Transportation equipment	1,273,802	-	829,142	-	444,660	389,262
Furniture, fixtures and office equipment	5,823,991	-	3,797,282	297	2,026,412	1,984,602
Other equipment	146,082	-	127,964	153	17,965	35,895
Construction in progress and prepayments for equipment	<u>4,766,631</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,766,631</u>	<u>2,410,762</u>
	<u>\$ 101,921,981</u>	<u>\$ 293,323</u>	<u>\$ 42,808,703</u>	<u>\$ 35,819</u>	<u>\$ 59,370,782</u>	<u>\$ 60,199,262</u>

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

In November 2010, Pou Sheng had decide to sell buildings and land use rights amounting to \$1,033,468 thousand (US\$35,978 thousand). At June 30, 2011, the Company recorded the above-mentioned assets under “noncurrent assets classified as held for sale”.

16. OTHER ASSETS

Other assets as at June 30, 2011 and 2010 consist of the following:

	2011	2010
Leased-out assets		
Cost and revaluation increment	\$ 1,209,392	\$ 1,763,995
Less:		
Accumulated depreciation	(2,694)	(35,828)
Allowance for valuation loss	(4,903)	(1,440)
	<u>1,201,795</u>	<u>1,726,727</u>
Idle assets	62,083	85,446
Less:		
Accumulated depreciation	(59,390)	(68,728)
Allowance for valuation loss of idle asset	(2,693)	(16,718)
	<u>-</u>	<u>-</u>
Refundable deposits	1,532,471	1,663,627
Deferred charges	5,249,916	5,518,017
Deferred tax assets - noncurrent (Note 26)	174,968	132,383
Land held by trustee	73,713	73,713
Prepaid pension cost	53,207	95,723
Land and building for sale	5,277	5,406
Temporary tax payments (Note 26)	3,718	4,874
Restricted assets - noncurrent	372,092	-
Long-term receivable	321,146	-
Others	44,594	48,362
	<u>\$ 9,032,897</u>	<u>\$ 9,268,832</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 June 30, 2011, are included in "other assets - land held by trustee".

17. SHORT-TERM LOANS

Short-term loans as at June 30, 2011 and 2010 consist of the following:

	2011		2010	
	Annual Interest Rate %	Balance	Annual Interest Rate %	Balance
Secured loans	2.37-3.93	\$ 50,572	-	\$ -
Unsecured loans	0.66-7.63	<u>17,766,368</u>	0.55-5.67	<u>16,198,125</u>
		<u>\$ 17,816,940</u>		<u>\$ 16,198,125</u>

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

18. SHORT-TERM BILLS PAYABLE

Short-term bills payable as at June 30, 2011 and 2010 consist of the following:

	2011		2010	
	Annual Interest Rate %	Balance	Annual Interest Rate %	Balance
Commercial paper, credit	0.70-0.85	\$ 1,950,000	0.40-0.65	\$ 1,187,000
Less discount on commercial paper		<u>(1,501)</u>		<u>(685)</u>
		<u>\$ 1,948,499</u>		<u>\$ 1,186,315</u>

19. OTHER PAYABLES

Other payables as at June 30, 2011 and 2010 consist of the following:

	2011	2010
Salary and wages payable	\$ 4,668,809	\$ 4,753,921
Cash dividends payable (Note 23)	3,480,523	4,199,715
Payables on machinery and equipment	808,150	369,571
Compensation due to directors and supervisors	294,727	484,092
Employee bonus payable	227,800	357,927
Interest payable	100,577	117,326
Payables for acquisitions of subsidiary (Note 11)	90,168	-
Other accrued expenses	<u>6,068,458</u>	<u>5,864,747</u>
	<u>\$ 15,739,212</u>	<u>\$ 16,147,299</u>

20. CURRENT PORTION OF LONG-TERM LIABILITIES

Current portion of long-term liabilities as at June 30, 2011 and 2010 consist of the following:

	2011	2010
Euro Convertible Bonds (see Note 21)	\$ 7,918,197	\$ -
Long-term debt (see Note 22)	<u>2,039,364</u>	<u>12,839,806</u>
	<u>\$ 9,957,561</u>	<u>\$ 12,839,806</u>

21. BONDS PAYABLE

Bonds payable as at June 30, 2011 and 2010 consist of the following:

	2011	2010
Euro Convertible Bonds	\$ 7,918,197	\$ 8,388,642
Less current portion (see Note 20)	<u>(7,918,197)</u>	<u>-</u>
	<u>\$ -</u>	<u>\$ 8,388,642</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 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.
- 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.

22. LONG-TERM DEBT

Long-term debt as at June 30, 2011 and 2010 consist of the following:

	2011	2010
Taipei Fubon Bank		
Long-term debt, US\$150,000 thousand. The principal due in semiannual installments commencing from May 2012. Interest rate is 1.41%. Interest is paid quarterly.	\$ 4,308,750	\$ 4,822,500
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 2010.	-	9,008,880
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 2010.	-	16,101,974
Cathay 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.	-	278,065
Citibank		
Long-term debt, facility is US\$300,000 thousand including HK\$401,700 thousand and US\$248,500 thousand. The term is from May 20, 2010 to May 20, 2013. The principal will be fully repaid upon due. Interest rate is 1.04%. Interest is paid semiannually.	8,620,960	-
Citic Bank		
Long-term debt, US\$30,000 thousand. The term is from March 5, 2010 to September 4, 2012. The principal is due in semiannual installments commencing from March 2011. Interest rate is 2.05%. Interest is paid quarterly.	718,096	964,500
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 1.70%. Interest is paid monthly.	430,875	482,250
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.	455,605	612,361
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 0.49%.	7,346,419	10,963,150
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.	70,093	150,719

(Continued)

	2011	2010
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 is paid monthly. Interest rate is 1.79%.	\$ 255,000	\$ 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, 2011 to May 9, 2014. The principal will be fully repaid upon due. Interest rate is 2.60%. Interest is paid monthly.	860,000	839,700
Citibank (Lead Lender) Syndication Loan		
Long-term debt, \$6,500,000 thousand, due in semiannual repayments commencing April 25, 2009 and maturing October 25, 2010. The principal had been fully repaid in October 2010.	-	1,625,000
China Trust Commercial Bank (Lead Lender) Syndication Loan		
Long-term debt, \$2,500,000 thousand, due in semiannual repayments commencing December 2, 2009 and maturing June 9, 2011. The principal had been fully repaid in June 2011.	-	1,250,000
China Trust Commercial Bank (Lead Lender) Syndication Loan		
Long-term debt, \$7,000,000 thousand, due in semiannual repayments commencing November 16, 2011 and maturing May 16, 2013. Interest rate is 1.28%.	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 2, 2013 and maturing December 2, 2014. Interest rate is between 1.42%-1.47%.	<u>10,000,000</u>	<u>500,000</u>
	40,065,798	54,899,099
Less current portion (see Note 20)	<u>(2,039,364)</u>	<u>(12,839,806)</u>
	<u>\$ 38,026,434</u>	<u>\$ 42,059,293</u>
		(Concluded)

Regarding the current portion of Citibank and China Trust Commercial Bank syndication loan, since the Company had refinanced before June 30, 2011, such loans were recorded under "long-term debt", accordingly.

Regarding the current portion of Citibank and China Trust Commercial Bank syndication loan, since the Company had refinanced before June 30, 2010, such loans were recorded under "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 further information.

23. CAPITAL STOCK AND RETAINED EARNINGS

Pou Chen's registered and issued capital as at June 30, 2011 and 2010 are summarized as follows:

	2011	2010
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>2,900,436</u>	<u>2,843,110</u>
Par value (in dollars)	<u>\$ 10</u>	<u>\$ 10</u>
Capital	<u>\$ 29,004,359</u>	<u>\$ 28,431,097</u>

Pou Chen's outstanding capital stock was \$28,431,097 thousand as at June 30, 2010. On June 17, 2010, Pou Chen's stockholders in their meeting approved to issue additional capital stock of \$559,962 thousand through unappropriated earnings. Furthermore, employee stock warrants were exercised for 1,330 thousand shares (amounted to \$13,300 thousand) in the period of time from July 1, 2010 to June 30, 2011. As a result, Pou Chen's outstanding capital stock was \$29,004,359 thousand, divided into 2,900,436 thousand common shares, with a par value of \$10.00 per share, as at June 30, 2011.

As at June 17, 2010, the stockholders meeting approved to issue additional capital stock through unappropriated earnings of \$559,962 thousand. As the legal registration is not completed, it is included in "stock dividend to be distributed" temporarily.

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 and \$41.20 per share, respectively. The exercise price of the warrant in 2011 has been retroactively restated as \$10.00 and \$14.80 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 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 \$21.30 and 149,392,469 shares, respectively.

At June 30, 2011, the employee stock warrants issued in 2002 were executed for 24,552 thousand shares of common stock.

Information about Pou Chen's outstanding stock warrants for the six months ended June 30, 2011 and 2010 was as follows:

Employee Stock Warrants	2011		2010	
	Number of Stock Purchasable (Thousand Shares)	Weighted-average Exercise Price (NT\$)	Number of Stock Purchasable (Thousand Shares)	Weighted-average Exercise Price (NT\$)
Balance, beginning of period	193,121	\$ 19.55	190,910	\$ 20.86
Stock warrants exercised	<u>(680)</u>	10.00	<u>(25)</u>	10.00
Balance, end of period	<u>192,441</u>	18.80	<u>190,885</u>	20.86
Exercisable stock warrants, end of period	<u>142,643</u>		<u>93,213</u>	

As at June 30, 2011 and 2010, 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>2011</u>					
\$10.00-\$21.30	<u>192,441</u>	<u>5.18</u>	<u>\$ 18.80</u>	<u>142,643</u>	<u>\$ 17.92</u>
<u>2010</u>					
\$10.00-\$24.10	<u>190,885</u>	<u>6.13</u>	<u>\$ 20.86</u>	<u>93,213</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 six months ended June 30, 2011 and 2010 would have been as follows:

	2011	2010
Income before tax-attributed to shareholders of the Parent Company	<u>\$ 2,827,176</u>	<u>\$ 4,551,659</u>
Net income-attributed to shareholders of the Parent Company	<u>\$ 2,688,193</u>	<u>\$ 4,058,729</u>
Basic earnings per share - attributed to shareholders of the Parent Company (in dollars)	<u>\$0.93</u>	<u>\$1.43</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 six months ended June 30, 2011 and 2010, the bonus to employees was \$90,342 thousand and \$98,485 thousand, respectively, and the remuneration to directors and supervisors was \$45,858 thousand and \$49,992 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 2010 and 2009 had been approved by Pou Chen's shareholders in their meetings on June 15, 2011 and June 17, 2010, respectively. The appropriations and dividends per share were as follows:

	Appropriation of Earnings		Dividends Per Share (NT\$)	
	For Year 2010	For Year 2009	For Year 2010	For Year 2009
Legal reserve	\$ 789,561	\$ 702,124	\$ -	\$ -
Cash dividends	3,480,523	4,199,715	1.20	1.50
Stock dividends	-	559,962	-	0.20

The bonus to employees of \$124,720 thousand and the remuneration to directors and supervisors of \$63,309 thousand for 2010 were approved by Pou Chen's stockholders in their meeting on June 15, 2011. 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, 2010.

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.

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

Pou 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 six months ended March 31, 2011 was as follows:

	Pou Sheng Scheme	
	Number of Stock Purchasable (Thousand Shares)	Weighted- average Exercise Price (HK\$)
Employee Stock Warrants		
Balance, beginning of period	59,510	\$ 1.62
Stock warrants granted	55,000	1.23
Stock warrants terminated	<u>(4,155)</u>	1.62
Balance, end of period	<u>110,355</u>	1.43
Exercisable stock warrants, end of period	<u>8,303</u>	

Information about Pou Sheng Scheme outstanding employee stock option as at March 31, 2011, are summarized as follows:

Range of Exercise Price (HK\$)	Stock Warrants Outstanding			Stock Warrants Exercisable	
	Number of Stock Purchasable (Thousand Shares)	Weighted- average Remaining Contractual Life (Years)	Weighted- average Exercise Price (HK\$)	Number of Stock Purchasable (Thousand Shares)	Weighted- average Exercise Price (HK\$)
\$1.23-\$1.62	<u>110,355</u>	<u>4.77</u>	<u>\$ 1.43</u>	<u>8,303</u>	<u>\$ 1.62</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
<u>Granted in 2011 semi-annual</u>				
Exercise price	HK\$1.23	HK\$1.23	HK\$1.23	HK\$1.23
Share price at date of grant	HK\$1.23	HK\$1.23	HK\$1.23	HK\$1.23
Expected life of share options	4.5 years	5.0 years	5.5 years	6.0 years
Expected volatility	50%	50%	50%	50%
Expected dividend yield	-	-	-	-
Risk free yields	1.55%	1.71%	1.80%	1.97%
Fair value per share option	HK\$0.52	HK\$0.55	HK\$0.58	HK\$0.60
<u>Granted in 2010 semi-annual</u>				
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 yields	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 \$35,465 thousand for the six months ended March 31, 2011.

Pou Sheng recognized a total expense of \$13,266 thousand for the six months ended March 31, 2010.

24. TREASURY STOCK

The changes in treasury stock of Pou Chen in 2011 and 2010 are summarized as follows (in shares):

Purpose of Treasury Stock	Number of Shares, Beginning of Period	Addition During the Period	Reduction During the Period	Number of Shares, End of Period
<u>Six months ended June 30, 2011</u>				
For transfer to employees	43,300,000	-	43,300,000	-
Common shares held by subsidiaries	<u>10,233,528</u>	<u>108</u>	<u>-</u>	<u>10,233,636</u>
	<u>53,533,528</u>	<u>108</u>	<u>43,300,000</u>	<u>10,233,636</u>
<u>Six months ended June 30, 2010</u>				
For transfer to employees	43,300,000	-	-	43,300,000
Common shares held by subsidiaries	<u>10,032,712</u>	<u>-</u>	<u>-</u>	<u>10,032,712</u>
	<u>53,332,712</u>	<u>-</u>	<u>-</u>	<u>53,332,712</u>

Article 28-2 of the Securities and Exchange Law stipulates that the number of treasury shares held by the Company should not exceed 10% of the number of shares issued and that the cost for acquisition of treasury shares should not exceed the total of retained earnings, additional-paid-in capital and other realized capital surplus. The maximum of treasury stock, amounting to \$1,086,041 thousand (43,300 thousand common shares), was purchased by Pou Chen for the six months ended June 30, 2011 and 2010.

On January 21, 2011, the board of directors of Pou Chen decided to transfer 43,300 thousand shares of treasury stocks to employees by \$21.73 per share, deducting \$2,822 thousand of stock income tax, amounted to \$938,087 thousand. The grant date was February 21, 2011. Pou Chen recognized compensation cost for the transaction, amounting to \$257,635 thousand, according to the SFAS No. 39, "Accounting for Share-based Payment", which recorded under "salaries expense".

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.

As at June 30, 2010, the subsidiaries held 10,032,712 shares of Pou Chen's common stock. After the stock dividends 200,816 shares were received by the subsidiaries in 2010 and increase 108 shares as adjustment of the subsidiaries' ownership, there were 200,924 shares added to treasury stock. As at June 30, 2011, the subsidiaries hold 10,233,636 shares of Pou Chen's commons stock, at cost of \$155,375 thousand in total.

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

Personnel, depreciation, and amortization expenses for the six months ended June 30, 2011 and 2010 are summarized as follows:

Function Category	2011			2010		
	Operating Cost	Operating Expenses	Total	Operating Cost	Operating Expenses	Total
Personnel expense						
Salaries	\$ 15,459,111	\$ 5,661,743	\$ 21,120,854	\$ 12,462,465	\$ 5,931,490	\$ 18,393,955
Labor insurance and health insurance	591,394	283,917	875,311	466,607	245,463	712,070
Pension cost	213,384	328,361	541,745	156,336	361,346	517,682
Others	2,947	33,848	36,795	4,567	31,272	35,839
Depreciation expenses	2,002,400	1,182,649	3,185,049	2,371,586	1,220,907	3,592,493
Amortization expenses	169,324	12,437	181,761	7,267	92,690	99,957

26. INCOME TAX

The Company's income tax expense (income) for the period ended June 30, 2011 is as follows:

Income tax expense, current	\$ 582,813
10% additional income tax on undistributed earnings of 2010	80,976
Adjustment of deferred income tax assets (liabilities)	(90,038)
Adjustment of prior year's income tax expense	<u>8,469</u>
Income tax expense	<u>\$ 582,220</u>

Under Article 10 of the Statute for Industrial Innovation 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.

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 components of deferred income tax assets (liabilities) as at June 30, 2011 are as follows:

Unrealized inventory devaluation loss	\$ 9,084
Unrealized bad debt loss	113,447
Unrealized impairment loss	9,220
Unrealized pension expense	112,320
Unrealized exchange loss	3,707
Losses carryforward	380,100
Investment tax credits	166,261
Temporary differences from investment income of foreign subsidiaries	(919,987)
Others	(942,559)
Less valuation allowance	<u>(483,557)</u>
 Deferred income tax liabilities, net	 <u>\$ (1,551,964)</u>

The detail is as follows:

Deferred income tax assets, current (recording under "other current assets")	\$ 2,810
Deferred income tax assets, noncurrent	174,968
Deferred income tax liabilities, current (recording under "other current liabilities")	(761,049)
Deferred income tax liabilities, noncurrent	<u>(968,693)</u>
	<u>\$ (1,551,964)</u>

The Company's income tax expense for the six months ended June 30, 2011 and income tax payable as at June 30, 2011 were reconciled as follows:

Income tax expense at statutory rate of 17%	\$ 950,300
Permanent differences from investment income recognized under equity method	(371,304)
Others	<u>3,817</u>
Income tax expense, current	582,813
Provision for deferred income tax assets (liabilities)	
Reversal of unrealized inventory devaluation loss	2,532
Unrealized pension expense	2,384
Unrealized reversal of bad debt	(4,311)
Unrealized exchange gain	(9,067)
Losses carryforward	(11,559)
Investment income recognized under equity method from foreign subsidiaries	(134,547)
Others	<u>66,475</u>
Income tax payable	494,720
Add 10% additional income tax on unappropriated earnings of 2010	80,976
Add prior year's income tax payable	128
Less investment tax credits	(38,165)
Less temporary tax payment	<u>(437)</u>
 Income tax payable as at June 30, 2011	 <u>\$ 537,222</u>

The temporary payments amounted to \$3,718 thousand (recorded under "other assets") for the six months ended June 30, 2011, is the current and previous year's withholding tax.

The information of Pou Chen's integrated income tax as at June 30, 2011 was as follows:

Balance of Imputation Credit Account	<u>\$ 599,523</u>
Undistributed earnings for the years of 1997 and before	<u>\$ 310,501</u>
Undistributed earnings for the years of 1998 and thereafter	<u>\$ 9,495,819</u>
Expected IC ratio on distributed earnings for the year of 2010	4.31%
Actual IC ratio of earnings distribution for the year of 2009	<u>2.52%</u>

As at June 30, 2011, the amount and year of expiration of investment tax credits by the Company is as follows:

Expiry Year	Amount
2012	\$ 4,990
2013	<u>161,271</u>
	<u>\$ 166,261</u>

As at June 30, 2011, the amount and year of expiration of deductible loss carryforward by the Company is as follows:

Expiry Year	Amount
2013	\$ 52,900
2014	109,388
2015	106,060
2016	36,770
2017	20,910
2018	20,791
2019	8,880
2020	<u>24,401</u>
	<u>\$ 380,100</u>

The income tax returns of Pou Chen and Pro Arch International for the years through 2007 have been examined and approved by the tax authority. The income tax returns of Pou Yuen Technology, Barits Development and LNC Technology for the years through 2008 have been examined and approved by the tax authority. The income tax returns of Ming Wang, Pou Shine, Right and Great Asia-Pacific, Vistas Design, Windsor Entertainment, Ming Chi, Wang Yi Construction, Pan Asia Insurance Services, Song Ming, Ming Shun, Pou Yii Development, Pou Chin Development, Yun Yang and Proshine Healthcare for the years through 2009 have been examined and approved by the tax authority.

27. EARNINGS PER SHARE

For the six months ended June 30, 2011 and 2010, earnings per share (EPS) before income tax and earnings per share after income tax are as follows:

	2011						
	Amount			Weighted Average Number of Common Shares Outstanding (In Thousands)	EPS		
	Income Before Income Tax	Income After Income Tax	Income After Income Tax (Attributed to Pou Chen's Stockholders)		Income Before Income Tax	Income After Income Tax	Income After Income Tax (Attributed to Pou Chen's Stockholders)
Basic earnings per share							
Net income	\$ 6,762,031	\$ 6,179,811	\$ 2,741,177	2,877,631	<u>\$ 2.35</u>	<u>\$ 2.15</u>	<u>\$ 0.95</u>
Effect of dilutive potential common shares							
Employee stock warrants	-	-	-	58,496			
Bonus to employee	-	-	-	3,409			
Diluted earnings per share							
Net income plus the effect of dilutive potential common shares	<u>\$ 6,762,031</u>	<u>\$ 6,179,811</u>	<u>\$ 2,741,177</u>	<u>2,939,536</u>	<u>\$ 2.30</u>	<u>\$ 2.10</u>	<u>\$ 0.93</u>
	2010						
	Amount			Weighted Average Number of Common Shares Outstanding (In Thousands)	EPS		
	Income Before Income Tax	Income After Income Tax	Income After Income Tax (Attributed to Pou Chen's Stockholders)		Income Before Income Tax	Income After Income Tax	Income After Income Tax (Attributed to Pou Chen's Stockholders)
Basic earnings per share							
Net income	\$ 9,328,095	\$ 7,775,717	\$ 4,191,759	2,845,560	<u>\$ 3.28</u>	<u>\$ 2.73</u>	<u>\$ 1.47</u>
Effect of dilutive potential common shares							
Employee stock warrants	-	-	-	32,334			
Bonus to employee	-	-	-	3,916			
Diluted earnings per share							
Net income plus the effect of dilutive potential common shares	<u>\$ 9,328,095</u>	<u>\$ 7,775,717</u>	<u>\$ 4,191,759</u>	<u>2,881,810</u>	<u>\$ 3.24</u>	<u>\$ 2.70</u>	<u>\$ 1.45</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.

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 six months ended June 30, 2011 and 2010 are as follows:

	2011						
	Amount			Weighted Average Number of Common Shares Outstanding (In Thousands)	EPS		
	Income Before Income Tax	Income After Income Tax	Income After Income Tax (Attributed to Pou Chen's Stockholders)		Income Before Income Tax	Income After Income Tax	Income After Income Tax (Attributed to Pou Chen's Stockholders)
Basic earnings per share							
Net income	\$ 6,762,031	\$ 6,179,811	\$ 2,741,177	2,887,865	<u>\$ 2.34</u>	<u>\$ 2.14</u>	<u>\$ 0.95</u>
Effect of dilutive potential common shares							
Employee stock warrants	-	-	-	58,496			
Bonus to employee	-	-	-	3,409			
Diluted earnings per share							
Net income plus the effect of dilutive potential common shares	<u>\$ 6,762,031</u>	<u>\$ 6,179,811</u>	<u>\$ 2,741,177</u>	<u>2,949,770</u>	<u>\$ 2.29</u>	<u>\$ 2.10</u>	<u>\$ 0.93</u>

	2010						
	Amount			Weighted Average Number of Common Shares Outstanding (In Thousands)	EPS		
	Income Before Income Tax	Income After Income Tax	Income After Income Tax (Attributed to Pou Chen's Stockholders)		Income Before Income Tax	Income After Income Tax	Income After Income Tax (Attributed to Pou Chen's Stockholders)
Basic earnings per share							
Net income	\$ 9,328,095	\$ 7,775,717	\$ 4,191,759	2,855,793	<u>\$ 3.27</u>	<u>\$ 2.72</u>	<u>\$ 1.47</u>
Effect of dilutive potential common shares							
Employee stock warrants	-	-	-	32,334			
Bonus to employee	-	-	-	<u>3,916</u>			
Diluted earnings per share							
Net income plus the effect of dilutive potential common shares	<u>\$ 9,328,095</u>	<u>\$ 7,775,717</u>	<u>\$ 4,191,759</u>	<u>2,892,043</u>	<u>\$ 3.23</u>	<u>\$ 2.69</u>	<u>\$ 1.45</u>

28. DISCLOSURES FOR FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

The fair value of nonderivative and derivative financial instruments as at June 30, 2011 and 2010 is summarized as follows:

Nonderivative Financial Instruments	2011		2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
Cash and cash equivalents	\$ 24,903,074	\$ 24,903,074	\$ 44,197,380	\$ 44,197,380
Financial assets at fair value through profit or loss, current	965,263	965,263	513,240	513,240
Available-for-sale financial assets, current	11,652,392	11,652,392	7,966,461	7,966,461
Financial assets carried at cost, current	87,616	-	-	-
Notes and accounts receivable	19,690,411	19,690,411	18,468,715	18,468,715
Notes and accounts receivable from affiliates	605,072	605,072	475,763	475,763
Other receivables	4,719,174	4,719,174	5,782,152	5,782,152
Investment accounted for by the equity method held for sale	-	-	176,150	176,150
Investment accounted for by the equity method	31,080,854	28,831,636	32,761,445	30,873,459
Available-for-sale financial assets, noncurrent	1,652,327	1,652,327	1,964,558	1,964,558
Financial assets carried at cost, noncurrent	1,063,933	-	1,291,549	-
Refundable deposits	1,532,471	1,532,471	1,663,627	1,663,627

(Continued)

Nonderivative Financial Instruments	2011		2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Liabilities				
Short-term loans	\$ 17,816,940	\$ 17,816,940	\$ 16,198,125	\$ 16,198,125
Short-term bills payable	1,948,499	1,948,499	1,186,315	1,186,315
Notes and accounts payable	12,528,945	12,528,945	10,469,051	10,469,051
Notes and accounts payable to affiliates	1,404,569	1,404,569	1,448,401	1,448,401
Other payables	15,739,212	15,739,212	16,147,299	16,147,299
Current portion of long-term liabilities	9,957,561	9,957,561	12,839,806	12,839,806
Bonds payable	-	-	8,388,642	8,388,642
Long-term debt	38,026,434	38,026,434	42,059,293	42,059,293
Long-term payable	90,168	90,168	-	-
Guarantee deposits received	7,031	7,031	4,651	4,651
				(Concluded)

Derivative Financial Instruments	2011		2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
HKD Call Option (financial assets at fair value through profit or loss, current)	\$ 407,647	\$ 407,647	\$ 1,041,660	\$ 1,041,660
Forward exchange contracts (financial assets at fair value through profit or loss, current)	71,972	71,972	32,257	32,257
JV Call Option (financial assets at fair value through profit or loss, current)	-	-	30,318	30,318
Structured deposits (financial assets at fair value through profit or loss, current)	1,452,045	1,452,045	4,533	4,533
JV Call Option (financial assets at fair value through profit or loss, noncurrent)	954,948	954,948	1,755,229	1,755,229
Euro Convertible Bonds with options (financial liabilities at fair value through profit or loss, current)	206,748	206,748	805,936	805,936
Forward exchange contracts (financial liabilities at fair value through profit or loss, current)	19,590	19,590	49,897	49,897
Interest rate swap contracts (hedging derivative liabilities, current)	24,869	24,869	15,556	15,556
Interest rate swap contracts (hedging derivative liabilities, noncurrent)	24,869	24,869	88,262	88,262

The information about derivative financial instruments as at June 30, 2011 and 2010 is summarized as follows:

June 30, 2011

Bank	Derivative Financial Instruments	Principal	Maturity Date	Pay Rate (Fixed Rate)	Received Rate (Floating Rate)	Fair Value
China Trust Commercial Bank	Interest rate swap	\$ 500,000	2013.05.16	2.48%	0.775%	\$ (8,951)
China Trust Commercial Bank	"	500,000	2013.05.16	2.28%	0.775%	(7,769)
Citibank	"	500,000	2013.05.16	2.48%	0.775%	(8,905)
Citibank	"	500,000	2013.05.16	2.46%	0.775%	(8,787)
Citibank	"	500,000	2013.05.16	2.28%	0.775%	(7,722)
Citibank	"	<u>500,000</u>	2013.05.16	2.26%	0.775%	<u>(7,604)</u>
		3,000,000				(49,738)
Less current portion		<u>(1,500,000)</u>				<u>24,869</u>
		<u>\$ 1,500,000</u>				<u>\$ (24,869)</u>

June 30, 2010

Bank	Derivative Financial Instruments	Principal	Maturity Date	Pay Rate (Fixed Rate)	Received Rate (Floating Rate)	Fair Value
Citibank	Interest rate swap	\$ 237,500	2010.10.25	2.07%	0.514%	\$ (1,805)
ANZ Bank	"	325,000	2010.10.25	2.0475%	0.514%	(2,434)
Standard Chartered Bank	"	250,000	2010.10.25	2.07%	0.514%	(1,890)
Deutsche Bank	"	250,000	2010.10.25	2.005%	0.514%	(1,784)
China Trust Commercial Bank	"	650,000	2011.06.09	2.24%	0.512%	(7,643)
Citibank	"	2,000,000	2013.05.16	2.26%, 2.28%, 2.46% and 2.48%	0.512%	(58,548)
China Trust Commercial Bank	"	1,000,000	2013.05.16	2.28% and 2.48%	0.512%	(29,714)
		<u>4,712,500</u>				(103,818)
Less current portion		<u>(1,712,500)</u>				<u>15,556</u>
		<u>\$ 3,000,000</u>				<u>\$ (88,262)</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, guarantee deposits and investment accounted for by the equity method held for sale, approximates their carrying value due to the short-term maturities of these financial instruments.
- The fair values of financial instruments 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 value of investments accounted for by the equity method are based on their quoted prices in an active market. For those investments with no quoted market prices, their fair values are based on the net price per share in the financial report audited or reviewed by a certifying accountant issued as at June 30, 2011.
- 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	
	Active Market			
	2011	2010	2011	2010
Assets				
Financial assets at fair value through profit or loss, current	\$ 965,263	\$ 513,240	\$ 1,931,664	\$ 1,108,768
Financial assets at fair value through profit or loss, noncurrent	-	-	954,948	1,755,229
Available-for-sale financial assets, current	11,652,392	7,966,461	-	-
Available-for-sale financial assets, noncurrent	1,652,327	1,964,558	-	-
Liabilities				
Financial liabilities at fair value through profit or loss, current	-	-	226,338	855,833
Hedging derivative financial liabilities, current	-	-	24,869	15,556
Hedging derivative financial liabilities, noncurrent	-	-	24,869	88,262

As at June 30, 2011 and 2010, financial liabilities exposed to cash flow interest rate risk were \$59,831,237 thousand and \$72,283,539 thousand, respectively.

The Company recognized an unrealized adjustment of \$1,065,287 thousand and \$(720,431) thousand, respectively, in equity for the changes in fair value of available-for-sale financial assets for the six months ended June 30, 2011 and 2010.

Financial Risk Information

a. Market risk

The risk the Company engaged in portfolios of marketable equity securities and open-ended mutual fund comes from changes of market price. One percentage decline in market rate will cause the fair value of financial instruments to decline by \$227,975 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 quickly and easily be 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 \$598,312 thousand.

29. OTHERS

For the six months ended June 30, 2011 and 2010, significant foreign currency financial assets and liabilities are as follows:

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

	2011			2010		
	Foreign Currencies	Exchange Rate	New Taiwan Dollars	Foreign Currencies	Exchange Rate	New Taiwan Dollars
<u>Financial assets</u>						
Monetary items						
USD	\$ 1,876,291,092	28.725	\$ 53,896,462	\$ 2,319,771,890	32.15	\$ 74,580,666
Investments accounted for by the equity method						
USD	709,190,248	28.725	20,371,490	721,914,323	32.15	23,209,545
<u>Financial liabilities</u>						
Monetary items						
USD	2,367,363,948	28.725	68,002,529	2,648,528,063	32.15	85,150,177
EUR	-	41.63	-	11,610	39.32	457

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
Twinways Investments Ltd. (“Twinways”)	The Company holds a 50.00% ownership interest
Ka Yuen Rubber Factory Limited (“Ka Yuen”)	The Company holds a 50.00% ownership interest

(Continued)

Name	Relationship
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
PT KA Yuen Indonesia (“PT KA Yuen”)	The Company holds a 50.00% ownership interest
Yuen Thai Industrial Company Limited (“Yuen Thai”)	The Company holds a 50.00% ownership interest
Din Tsun Holding Co., Ltd. (“Din Tsun”)	The Company holds a 50.00% ownership interest
Jombo Power Enterprises Limited (“Jombo Power”)	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
Liberty Bell Investments Limited (“Liberty Bell”)	The Company holds a 49.00% ownership interest
Oftenrich Holdings Ltd. (“Oftenrich”)	The Company holds a 45.00% ownership interest
Yuen Foong Yu Paper (Dong Nai) Co., Ltd. (“Yuen Foong Yu”)	The Company holds a 44.84% ownership interest
Full Pearl International Limited (“Full Pearl”)	The Company holds a 40.04% 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
Platinum Long John Co., Ltd. (“Platinum Long John”)	The Company holds a 48.76% ownership interest
Sheachang Enterprise Co., Ltd. (“Sheachang”)	Related party in substance
Dong Guan Pou Chien Shoe Materials Company Limited (“Dong Guan Pou Chien”)	The Company holds a 49.00% ownership interest
Hebei Zhanxin Sports Development Company Limited (“Hebei Zhanxin”)	The Company holds a 45.00% ownership interest
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
Hubei Shengdao Sports Goods company Limited (“Hubei Shengdao”)	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 six months ended June 30, 2011 and 2010 are summarized as follows:

	2011		2010	
	Amount	Percentage	Amount	Percentage
CMKC	\$ -	-	\$ 475,096	1
Sheachang	38,849	-	6,870	-
Others	<u>611,820</u>	<u>1</u>	<u>776,124</u>	<u>1</u>
	<u>\$ 650,669</u>	<u>1</u>	<u>\$ 1,258,090</u>	<u>2</u>

Terms of sales from related parties were similar to those from third parties.

Cost of Sales - Purchases

Purchases from related parties for the six months ended June 30, 2011 and 2010 are summarized below:

	2011		2010	
	Amount	Percentage	Amount	Percentage
Ka Yuen	\$ 1,252,684	2	\$ 1,196,534	2
San Fang	687,007	1	749,039	1
Twinways	369,276	1	403,556	1
Platinum Long John	190,112	-	237,046	-
Others	<u>952,847</u>	<u>2</u>	<u>1,259,761</u>	<u>2</u>
	<u>\$ 3,451,926</u>	<u>6</u>	<u>\$ 3,845,936</u>	<u>6</u>

Terms of purchases from related parties were similar to those from third parties.

Notes and Accounts Receivable

Notes and accounts receivable from affiliates as at June 30, 2011 and 2010 are summarized as follows:

	2011		2010	
	Amount	Percentage	Amount	Percentage
Notes receivable				
Sheachang	\$ 13,592	24	\$ -	-
Others	<u>538</u>	<u>1</u>	<u>-</u>	<u>-</u>
	<u>\$ 14,130</u>	<u>25</u>	<u>\$ -</u>	<u>-</u>
Accounts receivable				
Others	\$ 610,458	3	\$ 491,410	3
Less allowance for doubtful accounts	<u>(19,516)</u>	<u>-</u>	<u>(15,647)</u>	<u>-</u>
	<u>\$ 590,942</u>	<u>3</u>	<u>\$ 475,763</u>	<u>3</u>

Notes and Accounts Payable

Notes and accounts payable to affiliates as at June 30, 2011 and 2010 are summarized as follows:

	2011		2010	
	Amount	Percentage	Amount	Percentage
Notes payable				
San Fang	<u>\$ 43,203</u>	<u>38</u>	<u>\$ 69,127</u>	<u>60</u>

	2011		2010	
	Amount	Percentage	Amount	Percentage
Accounts payable				
Ka Yuen	\$ 538,278	4	\$ 468,666	4
Twinways	248,816	2	196,595	2
San Fang	174,300	1	193,253	2
Platinum Long John	44,486	-	47,309	-
Others	<u>355,486</u>	<u>3</u>	<u>473,451</u>	<u>4</u>
	<u>\$ 1,361,366</u>	<u>10</u>	<u>\$ 1,379,274</u>	<u>12</u>

Credit Guarantees

See Note 32.

31. MORTGAGED PLEDGED ASSETS

	2011	2010
Land for development	\$ 1,802,811	\$ 1,804,791
Restricted assets - current (recording under "other current assets")	<u>50,771</u>	<u>-</u>
	<u>\$ 1,853,582</u>	<u>\$ 1,804,791</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 June 30, 2011 are as follows:

U.S. dollars (in dollars) \$ 183,282

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 June 30, 2011, the Company has guaranteed the payments of credit of related parties amounted to \$38,130,650 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	\$ 21,145,909	
Barits Development	6,811,750	
Pou Shine	1,050,000	
Pou Yuen Technology	1,810,768	
Ming Wang	650,000	
Ming Chi	200,000	
Pou Yii Development	400,000	
LNC Technology	49,068	
Pou Yu Biotechnology	4,361	
Windsor Entertainment	100,000	
Tetor Ventures	172,350	
Digital Decade	1,522,425	
Vantage Capital	37,342	
<u>Guaranteed by Yue Yuen</u>		
Best Focus		\$ 145,732
Hua Jian		744,851
Cohen		728,658
Ka Yuen		127,048
Bandwidth		40,481
PT Ka Yuen		32,385
Yuen Thai		373,671
Din Tsun		16,192
Jumbo Power		161,924
Vietnam Tiong Liong		46,132
Pine Wood		192,690
Liberty Bell		285,634
Oftenrich		174,878
Yuen Foong Yu		145,214
Full Pearl		64,834
Intelligent Plus		59,459
Dong Guan Pou Chien		67,073
Hebei Zhanxin		133,007
Jilin Lingpao		98,524
Shaanxi Jixian Longyue		136,422
Hubei Shengdou		401,868
	<u>\$ 33,953,973</u>	<u>\$ 4,176,677</u>

33. SUBSEQUENT EVENTS

In August 2011, Pou Chen has provided the guarantees to Ruen Chen, amounted to \$7,500,000 thousand, in proportion to Pou Chen's percentage of ownership.

In August 2011, Ruen Chen issued additional capital stock of \$32,500,000 thousand, of which 650,000 thousand shares (amounted to \$6,500,000 thousand) was subscribed by Pou Chen in proportion to its ownership. Accordingly, Pou Chen holds 820,000 thousand shares (amounted to \$8,200,000 thousand) of Ruen Chen. Pou Chen's ownership is 20%.