

Pou Chen Corporation and Subsidiaries

**Consolidated Financial Statements for the
Years Ended December 31, 2011 and 2010 and
Independent Auditors' Report**

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Pou Chen Corporation

We have audited the accompanying consolidated balance sheets of Pou Chen Corporation and subsidiaries (collectively, the "Company") as of December 31, 2011 and 2010, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. As mentioned in Note 11 to the accompanying consolidated financial statements, the 2011 financial statements of Ruen Chen Investment Holding Co. Ltd., an investee of the Company accounted for under the equity method, were audited by other auditors. Our opinion, insofar as it relates to Ruen Chen Investment Holding Co. Ltd., is based solely on the report of other auditors. The carrying value of such long-term investment was 3.73% (\$8,939,565 thousand) of the total consolidated assets as of December 31, 2011, and the investment income recognized under the equity method was 5.71% (\$805,060 thousand) of the consolidated income before income tax in 2011.

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

In our opinion, based on our audits and the report of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2011 and 2010, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, and accounting principles generally accepted in the Republic of China.



March 28, 2012

Notice to Readers

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

For the convenience of readers, the independent auditors' report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language independent auditors' report and consolidated financial statements shall prevail.

POU CHEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2011 AND 2010
(In Thousands of New Taiwan Dollars)

	2011		2010		2011		2010	
	Amount	%	Amount	%	Amount	%	Amount	%
ASSETS								
CURRENT ASSETS								
Cash and cash equivalents (Notes 2 and 4)	\$ 25,276,926	11	\$ 24,199,996	12	\$ 18,972,990	8	\$ 14,326,192	7
Financial assets at fair value through profit or loss, current (Notes 2 and 5)	714,547	-	1,645,279	1	2,818,143	1	1,364,378	1
Available-for-sale financial assets, current (Notes 2 and 6)	10,745,285	4	10,344,804	5	90,598	-	47,988	-
Financial assets carried at cost, current (Notes 2 and 7)	28,399	-	239,664	-	25,843	-	48,791	-
Notes receivable (Notes 2 and 8)	57,726	-	31,649	-	14,327,808	6	12,095,473	6
Notes receivable from affiliates (Notes 2, 8 and 30)	43,887	-	5,771	-	1,923,445	1	1,397,807	1
Accounts receivable (Notes 2 and 8)	23,140,654	10	21,285,066	10	1,054,772	1	945,370	1
Accounts receivable from affiliates (Notes 2, 8 and 30)	704,875	-	491,800	-	448,579	-	787,714	-
Other receivables	3,882,001	2	5,736,774	3	22,901	-	20,017	-
Inventories (Notes 2 and 9)	33,294,122	14	23,154,951	11	15,265,607	6	12,016,619	6
Inventories - manufacturing	4,198,877	2	3,926,336	2	59,260	-	53,745	-
Inventories - construction	-	-	48,376	-	3,354,105	1	16,402,595	8
Construction in progress in excess of progressive bills (Notes 2 and 10)	3,170,549	1	-	-	1,167,101	1	-	-
Noncurrent assets classified as held for sale (Note 15)	7,167,596	3	6,169,075	3	2,958,333	1	2,192,221	1
Other current assets (Notes 2 and 27)	-	-	-	-	-	-	-	-
Total current assets	112,425,444	47	97,279,541	47	62,489,485	26	61,698,910	30
FUNDS AND LONG-TERM INVESTMENTS								
Investments accounted for by the equity method (Notes 2 and 11)	40,988,524	17	30,122,903	14	-	-	-	-
Investments in real estate (Notes 2 and 12)	186,123	-	186,123	-	48,981,374	20	29,657,749	14
Prepayments for investments (Note 11)	131,575	-	559,967	-	11,450	-	52,502	-
Financial assets at fair value through profit or loss, noncurrent (Notes 2 and 5)	677,040	-	1,340,679	1	-	-	-	-
Available-for-sale financial assets, noncurrent (Notes 2 and 13)	460,759	-	1,518,429	1	-	-	-	-
Financial assets carried at cost, noncurrent (Notes 2 and 14)	822,120	1	1,176,622	1	48,992,824	20	29,710,251	14
Total funds and long-term investments	43,266,141	18	34,804,723	17	86,547	-	86,547	-
PROPERTY, PLANT AND EQUIPMENT (Notes 2 and 15)								
Cost	106,617,502	45	95,210,027	46	779,728	-	694,613	-
Revaluation increment	293,323	-	293,323	-	6,885	-	6,146	-
Less accumulated depreciation	106,910,825	45	95,503,350	46	1,041,884	1	730,435	1
Less accumulated impairment	(47,465,693)	(20)	(41,801,465)	(20)	11,412	-	11,412	-
Construction in progress and prepayments for equipment	4,672,457	2	3,291,092	2	1,839,909	1	1,442,606	1
Property, plant and equipment, net	64,110,239	27	56,953,772	28	113,408,765	47	92,938,314	45
INTANGIBLE ASSETS (Note 2)								
Goodwill	7,831,554	3	7,099,349	3	29,241,469	12	28,997,559	14
Other intangible assets	9,352,235	4	7,552,954	4	8,556,321	4	8,063,112	4
Total intangible assets	17,183,789	7	14,652,303	7	22,895,905	9	20,569,705	10
Other ASSETS (Notes 2 and 16)	2,726,707	1	3,090,654	1	(2,154,982)	(1)	(4,563,813)	(2)
	-	-	-	-	(57,341)	-	(57,341)	-
	-	-	-	-	(993,798)	-	1,202,722	1
	-	-	-	-	134,641	-	134,641	-
	-	-	-	-	(155,375)	-	(1,241,416)	(1)
	-	-	-	-	68,893,609	29	60,837,510	29
Total stockholders' equity	126,303,555	53	113,942,679	55	126,303,555	53	113,942,679	55
TOTAL	\$ 239,712,320	100	\$ 206,880,993	100	\$ 239,712,320	100	\$ 206,880,993	100

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

(With Deloitte & Touche audit report dated March 28, 2012)

POU CHEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME YEARS ENDED DECEMBER 31, 2011 AND 2010

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

	2011		2010	
	Amount	%	Amount	%
GROSS SALES AND REVENUES EARNED (Notes 2 and 30)	\$ 208,472,705	100	\$ 193,236,801	100
LESS SALES RETURNS AND ALLOWANCES	<u>(33,550)</u>	-	<u>(79,901)</u>	-
NET SALES AND REVENUES EARNED	208,439,155	100	193,156,900	100
COST OF GOODS SOLD (Note 30)	<u>159,597,756</u>	<u>76</u>	<u>145,209,724</u>	<u>75</u>
GROSS PROFIT	<u>48,841,399</u>	<u>24</u>	<u>47,947,176</u>	<u>25</u>
OPERATING EXPENSES				
Selling expenses	16,191,312	8	14,401,867	8
General and administrative expenses (Note 25)	15,663,258	7	14,327,360	7
Research and development expenses	<u>5,515,233</u>	<u>3</u>	<u>5,151,476</u>	<u>3</u>
Total operating expenses	<u>37,369,803</u>	<u>18</u>	<u>33,880,703</u>	<u>18</u>
INCOME FROM OPERATIONS	<u>11,471,596</u>	<u>6</u>	<u>14,066,473</u>	<u>7</u>
NON-OPERATING INCOME				
Interest income	383,096	-	389,663	-
Investment income recognized under equity method (Note 11)	2,674,626	1	3,228,878	2
Dividend income	483,568	-	517,916	-
Gain on disposal of property, plant and equipment and leased-out assets	260,819	-	129,050	-
Gain on disposal of investments (Note 1)	49,117	-	800,882	-
Foreign exchange gain	1,321,968	1	245,559	-
Valuation gain on financial assets (Note 5)	-	-	465,206	-
Valuation gain on financial liabilities (Note 5)	348,893	-	-	-
Others (Note 2)	<u>830,099</u>	<u>1</u>	<u>1,020,388</u>	<u>1</u>
Total non-operating income	<u>6,352,186</u>	<u>3</u>	<u>6,797,542</u>	<u>3</u>
NON-OPERATING EXPENSES				
Interest expense	1,555,163	1	1,679,306	1
Loss on disposal of property, plant and equipment and leased-out assets	25,386	-	288,819	-
Impairment loss (Note 14)	575,993	-	62,828	-
Valuation loss on financial assets (Note 5)	1,430,504	1	-	-
Valuation loss on financial liabilities (Note 5)	-	-	520,528	-
Others	<u>140,116</u>	<u>-</u>	<u>176,481</u>	<u>-</u>
Total non-operating expenses	<u>3,727,162</u>	<u>2</u>	<u>2,727,962</u>	<u>1</u>

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POU CHEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME YEARS ENDED DECEMBER 31, 2011 AND 2010

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

	2011		2010	
	Amount	%	Amount	%
INCOME BEFORE INCOME TAX	\$ 14,096,620	7	\$ 18,136,053	9
INCOME TAX EXPENSE (Notes 2 and 27)	<u>(1,206,083)</u>	<u>(1)</u>	<u>(2,125,510)</u>	<u>(1)</u>
CONSOLIDATED NET INCOME	<u>\$ 12,890,537</u>	<u>6</u>	<u>\$ 16,010,543</u>	<u>8</u>
ATTRIBUTED TO				
Parent Company's shareholders	\$ 5,806,723	3	\$ 7,895,614	4
Minority interest	<u>7,083,814</u>	<u>3</u>	<u>8,114,929</u>	<u>4</u>
	<u>\$ 12,890,537</u>	<u>6</u>	<u>\$ 16,010,543</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 28)				
Included income for minority interest	<u>\$ 4.88</u>	<u>\$ 4.47</u>	<u>\$ 6.37</u>	<u>\$ 5.63</u>
Attributed to shareholders of the Parent Company		<u>\$ 2.01</u>		<u>\$ 2.77</u>
DILUTED EARNINGS PER SHARE (Notes 2 and 28)				
Included income for minority interest	<u>\$ 4.80</u>	<u>\$ 4.38</u>	<u>\$ 6.25</u>	<u>\$ 5.52</u>
Attributed to shareholders of the Parent Company		<u>\$ 1.98</u>		<u>\$ 2.72</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>\$ 5,819,001</u>	<u>\$ 7,910,661</u>

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POU CHEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME YEARS ENDED DECEMBER 31, 2011 AND 2010

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

	2011		2010	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
BASIC EARNINGS PER SHARE (Notes 2 and 28)				
Included income for minority interest	<u>\$ 4.87</u>	<u>\$ 4.46</u>	<u>\$ 6.36</u>	<u>\$ 5.61</u>
Attributed to shareholders of the Parent Company		<u>\$ 2.01</u>		<u>\$ 2.77</u>
DILUTED EARNINGS PER SHARE (Notes 2 and 28)				
Included income for minority interest	<u>\$ 4.78</u>	<u>\$ 4.37</u>	<u>\$ 6.24</u>	<u>\$ 5.51</u>
Attributed to shareholders of the Parent Company		<u>\$ 1.97</u>		<u>\$ 2.72</u>

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

(With Deloitte & Touche audit report dated March 28, 2012)

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POU CHEN CORPORATION AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2011 AND 2010
(In Thousands of New Taiwan Dollars)**

	Capital Surplus				Long-term Equity Investments	Retained Earnings	Unappropriated Earnings	Cumulative Translation Adjustments	Net Loss not Recognized as Pension Cost	Other Equity			Total		
	Capital Stock	Additional Paid-in Capital of Common Stock	Paid-in Capital of Bonds Conversion	Treasury Stock						Employee Stock Options	Legal Reserve	Special Reserve		Unrealized Gain (Loss) on Financial Instruments	Unrealized Revaluation Increment
BALANCE, JANUARY 1, 2010	\$ 28,430,847	\$ 812,890	\$ 1,447,492	\$ 1,438,517	\$ -	\$ 5,248,562	\$ 9,585,573	\$ (127,367)	\$ (40,706)	\$ (364,916)	\$ -	\$ 134,641	\$ (1,241,416)	\$ 66,094,567	\$ 117,773,235
Appropriation of 2009 earnings (Note 24)	-	-	-	-	-	702,124	(702,124)	-	-	-	-	-	-	-	-
Legal reserve	-	-	-	-	-	2,201,265	2,201,265	-	-	-	-	-	-	-	-
Special reserve	559,962	-	-	-	-	(2,201,265)	(359,962)	-	-	-	-	-	-	-	-
Stock dividends	-	-	-	-	-	-	(4,199,715)	-	-	-	-	-	-	-	(4,199,715)
Cash dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Execution of employee stock warrants (Note 24)	6,750	-	-	-	-	-	-	-	-	-	-	-	-	-	6,750
Cash dividends received by subsidiaries	-	-	-	15,047	-	-	-	-	-	-	-	-	-	-	15,047
Effect of changes of ownership interest in investees	-	-	-	-	594,628	-	-	-	-	-	-	-	-	-	594,628
Translation adjustments on foreign long-term equity investments	-	-	-	-	-	-	-	(4,436,446)	(16,635)	-	-	-	-	-	(4,436,446)
Change in net loss not recognized as pension cost	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(16,635)
Unrealized gain on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	630,910	-	-	-	-	630,910
Investee's unrealized gain on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	880,595	-	-	-	-	880,595
Unrealized gain on cash flow hedge financial liability	-	-	-	-	-	-	-	-	-	56,153	-	-	-	-	56,153
Change of minority interest	-	-	-	-	-	-	-	-	-	-	-	-	-	(13,372,386)	(13,372,386)
Consolidated net income for 2010	-	-	-	-	-	7,895,614	7,895,614	-	-	-	-	-	-	8,114,922	16,910,543
BALANCE, DECEMBER 31, 2010	28,997,559	812,890	1,447,492	1,453,564	4,349,166	5,950,666	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 24)	-	-	-	-	-	789,561	(789,561)	-	-	-	-	-	-	-	-
Legal reserve	-	-	-	-	-	2,865,424	(2,865,424)	-	-	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	(3,680,523)	-	-	-	-	-	-	-	(3,680,523)
Cash dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Execution of employee stock warrants (Note 24)	243,910	-	-	-	-	-	-	-	-	-	-	-	-	-	243,910
Cash dividends received by subsidiaries	-	-	-	12,278	-	-	-	-	-	-	-	-	-	-	12,278
Effect of changes of ownership interest in investees	-	-	-	-	371,250	-	-	-	-	-	-	-	-	-	371,250
Translation adjustments on foreign long-term equity investments	-	-	-	-	-	-	-	2,408,831	(56,894)	-	-	-	-	-	2,408,831
Change in net loss not recognized as pension cost	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(56,894)
Unrealized loss on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	(298,376)	-	-	-	-	(298,376)
Investee's unrealized loss on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	(1,936,312)	-	-	-	-	(1,936,312)
Unrealized gain on cash flow hedge financial liability	-	-	-	-	-	-	-	-	-	38,168	-	-	-	-	38,168
Unrealized gain on cash flow hedge financial liability	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Compensation cost of employee stock options (Note 25)	-	-	-	257,635	-	-	-	-	-	-	-	-	-	-	257,635
Transfer of treasury stock - 43,200 thousand shares (Note 25)	-	-	-	(257,635)	-	-	-	-	-	-	-	-	1,086,041	-	938,087
Change of minority interest	-	-	-	-	-	-	-	-	-	-	-	-	-	972,285	972,285
Consolidated net income for 2011	-	-	-	-	-	5,806,723	5,806,723	-	-	-	-	-	-	7,083,814	12,890,517
BALANCE, DECEMBER 31, 2011	\$ 29,241,469	\$ 812,890	\$ 1,447,492	\$ 1,575,523	\$ 4,720,416	\$ 6,740,247	\$ 12,871,866	\$ (2,154,982)	\$ (114,233)	\$ (993,798)	\$ -	\$ 134,641	\$ (153,275)	\$ 68,893,609	\$ 126,303,555

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

(With Deloitte & Touche audit report dated March 28, 2012)

POU CHEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2011 AND 2010 (In Thousands of New Taiwan Dollars)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Consolidated net income	\$ 12,890,537	\$ 16,010,543
Adjustments to reconcile consolidated net income to net cash provided by operating activities		
Depreciation	7,030,589	6,881,927
Amortization	370,103	191,247
Valuation loss (gain) on financial assets	1,430,504	(465,206)
Valuation (gain) loss on financial liabilities	(348,893)	520,528
Investment income recognized under equity method	(2,674,626)	(3,228,878)
Cash dividends received from investees under equity method	1,071,508	2,242,088
Net gain on disposal of investments	(49,117)	(800,882)
Provision for impairment loss	575,993	62,828
Net (gain) loss on disposal of property, plant and equipment and leased-out assets	(235,433)	159,769
Compensation expense	72,684	578,674
Compensation cost of transfer to employees of treasury stock	257,635	-
Amortization of Euro Convertible Bonds	466,784	479,566
Net changes in operating assets and liabilities		
Financial instruments at fair value through profit or loss, current	(19,392)	182,342
Notes receivable	(26,077)	(8,521)
Notes receivable from affiliates	(38,116)	(5,771)
Accounts receivable	(1,855,588)	1,094,966
Accounts receivable from affiliates	(213,075)	487,047
Other receivables	1,854,773	1,228,337
Inventories	(10,411,712)	1,489,787
Construction in progress in excess of progressive bills	48,376	(48,376)
Other current assets	(998,674)	290,999
Deferred income tax asset	(16,969)	29,384
Other assets	(113,392)	(504,437)
Notes payable	42,610	2,609
Notes payable to affiliates	(22,948)	(9,462)
Accounts payable	2,232,335	(2,141,197)
Accounts payable to affiliates	525,638	225,917
Income tax payable	109,402	279,713
Other payables	2,745,795	(2,310,915)
Progressive billings in excess of construction in progress	5,515	(3,101)
Other current liabilities	754,636	(461,974)
Deferred income tax liability	322,925	330,677
Accrued pension cost	85,115	28,360
Other liabilities	-	(106,714)
Minority interest	978,387	(2,828,732)
Net cash provided by operating activities	<u>16,847,832</u>	<u>19,873,142</u>

(Continued)

POU CHEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2011 AND 2010 (In Thousands of New Taiwan Dollars)

	2011	2010
CASH FLOWS FROM INVESTING ACTIVITIES		
(Increase) decrease in investments accounted for by the equity method	\$ (8,453,479)	\$ 674,343
(Increase) decrease in available-for-sale financial assets	(562,562)	229,669
Increase in financial assets carried at cost	(26,618)	(280,631)
Acquisition of property, plant and equipment and leased-out assets	(14,245,338)	(10,486,678)
Proceeds from disposal of property, plant and equipment	1,317,893	558,497
Proceeds from disposal of land and buildings for sale	-	119
Decrease in refundable deposits	2,690	882,476
Increase in goodwill	(445,130)	-
(Increase) decrease in intangible assets	(1,523,495)	687,774
Increase in deferred charges	<u>(859,577)</u>	<u>(1,719,902)</u>
Net cash used in investing activities	<u>(24,795,616)</u>	<u>(9,454,333)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in short-term loans	4,646,798	(11,084,303)
Increase (decrease) in short-term bills payable	1,453,765	(414,696)
Increase (decrease) in long-term debt	14,100,880	(18,549,935)
Increase in guarantee deposits received	739	312
Redemption of Euro Convertible Bonds	(8,292,529)	(591,722)
Cash dividend	(3,470,432)	(4,184,390)
Execution of employee stock warrants	243,910	6,750
Transfer treasury stock to employees	<u>938,087</u>	<u>-</u>
Net cash provided by (used in) financing activities	<u>9,621,218</u>	<u>(34,817,984)</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH	<u>(641,913)</u>	<u>211,073</u>
CASH RECEIVED (PAID) IN ACQUISITION OF SUBSIDIARIES	<u>45,409</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	1,076,930	(23,439,468)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>24,199,996</u>	<u>47,639,464</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 25,276,926</u>	<u>\$ 24,199,996</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year		
Interest (excluding interest capitalized)	<u>\$ 1,529,321</u>	<u>\$ 1,695,932</u>
Income tax	<u>\$ 1,144,039</u>	<u>\$ 603,338</u>

(Continued)

POU CHEN CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2011 AND 2010 (In Thousands of New Taiwan Dollars)

	<u>2011</u>	<u>2010</u>
SUPPLEMENTAL DISCLOSURES OF NONCASH OPERATING, INVESTING AND FINANCING ACTIVITIES		
Cash dividends received by subsidiaries	<u>\$ 12,278</u>	<u>\$ 15,047</u>
Effect of changes in ownership interest in investees	<u>\$ 371,250</u>	<u>\$ 594,628</u>
Translation adjustments on foreign long-term equity investments	<u>\$ 2,408,831</u>	<u>\$ (4,436,446)</u>
Unrealized (loss) gain on available-for-sale financial assets	<u>\$ (298,376)</u>	<u>\$ 630,910</u>
Investee's unrealized (loss) gain on available-for-sale financial assets	<u>\$ (1,936,312)</u>	<u>\$ 880,595</u>
Unrealized gain on cash flow hedge financial liabilities	<u>\$ 38,168</u>	<u>\$ 56,153</u>
Current portion of long-term liabilities	<u>\$ 3,354,105</u>	<u>\$ 16,402,595</u>
Adjustments on capital surplus from transfer of treasury stock to employees	<u>\$ 109,681</u>	<u>\$ -</u>
CASH PAID DURING THE YEAR FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT		
Fair value of property, plant and equipment acquired	\$ 14,748,531	\$ 10,741,040
Add payables for acquisition of property, plant and equipment, beginning of year	438,101	183,739
Less payables for acquisition of property, plant and equipment, end of year	<u>(941,294)</u>	<u>(438,101)</u>
Cash paid during the year for acquisition of property, plant and equipment	<u>\$ 14,245,338</u>	<u>\$ 10,486,678</u>

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

(With Deloitte & Touche audit report dated March 28, 2012)

(Concluded)

POU CHEN CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

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

1. ORGANIZATION AND OPERATIONS

Pou Chen Corporation (“Pou Chen”) was incorporated in the Republic of China (“ROC”). Pou Chen is located in Changhwa County, Taiwan, and currently has three factories and nine trade departments. Pou Chen’s business activities include manufacturing and sales of various kinds of shoes and electronic peripheral components, and import and export of related products and materials. Pou Chen also invests significantly in shoes and electronics 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	2011.12.31 Ownership Percentage (%)	2010.12.31 Ownership Percentage (%)
Wealthplus Holdings Limited	British Virgin Islands	100.00	100.00
Win Fortune Investments Limited	British Virgin Islands	100.00	100.00
Ming Wang Investments Co., Ltd.	ROC	100.00	100.00
Windsor Entertainment Co., Ltd.	ROC	100.00	100.00
Yun Yang Investments Co., Ltd.	ROC	100.00	100.00
Pou Shine Investments Co., Ltd.	ROC	100.00	100.00
Pan Asia Insurance Services Co., Ltd.	ROC	100.00	100.00
Proshine Healthcare Co., Ltd.	ROC	100.00	100.00
Vistas Design Co., Ltd.	ROC	100.00	100.00
Pro Arch International Development Enterprise Inc.	ROC	99.99	99.99
Pou Yuen Technology Co., Ltd.	ROC	99.78	99.39
Barits Development Corporation	ROC	99.60	99.59
LNC Technology Co., Ltd.	ROC	76.96	85.41
The Right and Great Asia-Pacific Realty Development Co., Ltd.	ROC	70.00	70.00
Global Brands Manufacture Ltd. (Note 1)	ROC	-	-

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 electronics peripheral products. As at December 31, 2011, Wealthplus had outstanding common stock of US\$9,222 thousand.

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

Name of Subsidiary	Location of Incorporation	2011.12.31 Ownership Percentage (%)	2010.12.31 Ownership Percentage (%)	Primary Operation Activities
Yue Yuen Industrial (Holdings) Limited ("Yue Yuen") (Note 2)	Bermuda	48.93	48.93	Manufacturing and sale of athletic and casual footwear and sports apparel
Pou Sheng International (Holdings) Limited ("Pou Sheng")	Bermuda	27.43	27.46	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)
Gao Chen Technology Co., Ltd.	PRC	100.00	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	69.39	69.18	Manufacturing and sale of medical appliance
Dong Guan Pou Yu Precision Ceramics Industrial Co., Ltd.	PRC	69.39	69.18	Designing and manufacturing medical appliance

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

Because of the Company's investment in Nan Shan Life Insurance Co., Ltd. through Ruen Chen Investment Holding Co., Ltd. ("Ruen Chen"), the Company received a request by Insurance Bureau of Executive Yuan Financial Supervisory Commission ("FSC") for the Company to provide 61,295 thousand ordinary shares of Yue Yuen in the custody of the Trust Department of Mega International Commercial Bank.

Win Fortune Investments Limited ("Win Fortune"), a British Virgin Islands registered corporation, is an investment holding company. Win Fortune commenced its operations in 1994 and invests in Yue Yuen (as at December 31, 2011, the ownership percentage was 1.05%). As at December 31, 2011, Win Fortune had outstanding common stock of US\$100 thousand.

Ming Wang Investments Co., Ltd. ("Ming Wang") was established in September 1996, with an outstanding common stock of \$681,192 thousand at December 31, 2011, and is primarily engaged in investing activities.

Windsor Entertainment Co., Ltd. ("Windsor Entertainment") was established in July 2003, with an outstanding common stock of \$210,000 thousand at December 31, 2011, and is primarily engaged in entertainment and resort operation.

Yun Yang Investments Co., Ltd. ("Yun Yang") was established in April 1997, and is primarily engaged in investing activities. In December 2011, Yun Yang issued additional capital stock of \$15,000 thousand at \$10 per share. Yun Yang has an outstanding common stock of \$107,792 thousand at December 31, 2011.

Pou Shine Investments Co., Ltd. ("Pou Shine") was established in March 1990, with an outstanding common stock of \$709,594 thousand at December 31, 2011, and is primarily engaged in investing activities.

Pan Asia Insurance Services Co., Ltd. (“Pan Asia Insurance Services”) was established in May 1999, with an outstanding capital of \$3,000 thousand at December 31, 2011, and is primarily engaged in agency of property and casualty insurance.

Proshine Healthcare Co., Ltd. (“Proshine Healthcare”) was established in November 2007, and is primarily engaged in the rental and sale of medical devices. Proshine Healthcare’s board of directors decided to decrease and return its capital in the amount of \$50,000 thousand in October 2010. As at December 31, 2011, Proshine Healthcare has an outstanding common stock of \$110,000 thousand.

Vistas Design Co., Ltd. (“Vistas Design”) was established in June 2008, with an outstanding common stock of \$5,000 thousand at December 31, 2011, and is primarily engaged in interior decorating and design services.

Pro Arch International Development Enterprise Inc. (“Pro Arch International”) was established in June 1999. It is primarily engaged in real estate development business. Pro Arch International’s board of directors decreased its capital to offset its accumulated deficit by \$56,415 thousand in June 2010. As at December 31, 2011, Pro Arch International has an outstanding common stock of \$257,004 thousand.

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

Name of Subsidiary	Location of Incorporation	2011.12.31 Ownership Percentage (%)	2010.12.31 Ownership Percentage (%)	Primary Operation Activities
Pro Arch Technology BVI Inc.	British Virgin Islands	100.00	100.00	Investment holding

Pou Yuen Technology Co., Ltd. (“Pou Yuen Technology”) was established in December 1993, and is primarily engaged in tooling design software and information technology software service. Pou Yuen Technology’s board of directors decided to decrease its capital to offset its accumulated deficit by \$609,300 thousand in September 2011. As at December 31, 2011, Pou Yuen Technology has an outstanding common stock of \$290,700 thousand.

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

Name of Subsidiary	Location of Incorporation	2011.12.31 Ownership Percentage (%)	2010.12.31 Ownership Percentage (%)	Primary Operation Activities
Vantage Capital Investments Ltd.	British Virgin Islands	100.00	100.00	Investment holding

Barits Development Corporation (“Barits Development”) was established in November 1985, with an outstanding common stock of \$1,528,727 thousand at December 31, 2011, and is primarily engaged in leather manufacturing and investing activities.

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

Name of Subsidiary	Location of Incorporation	2011.12.31 Ownership Percentage (%)	2010.12.31 Ownership Percentage (%)	Primary Operation Activities
Top Score Investments Limited	British Virgin Islands	100.00	100.00	Investing activities
Song Ming Investments Co., Ltd.	ROC	100.00	100.00	Investing activities
Ming Chi Investments Co., Ltd.	ROC	100.00	100.00	Investing activities
Ming Shun Investments Co., Ltd.	ROC	100.00	100.00	Investing activities
Pou Chin Development Co., Ltd.	ROC	100.00	100.00	Agency of land readjustment
Wang Yi Construction Co., Ltd.	ROC	89.75	89.75	Construction
Pou Yii Development Co., Ltd.	ROC	75.00	75.00	Rental and sale of real estate

LNC Technology Co., Ltd. (“LNC Technology”) was established in August 2007, with an outstanding common stock of \$500,000 thousand at December 31, 2011, and is primarily engaged in manufacturing and sale of precision instruments and computer numerical controlled machine. In October 2011, LNC Technology’s board of directors approved to decrease and return its capital in the amount of \$100,000 thousand.

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

Name of Subsidiary	Location of Incorporation	2011.12.31 Ownership Percentage (%)	2010.12.31 Ownership Percentage (%)	Primary Operation Activities
Success Dragon Holdings Ltd.	British Virgin Islands	100.00	100.00	Investment Holding
Dong Guan Pou Yuen Digital Technology, Co., Ltd.	PRC	100.00	100.00	Manufacturing and sale of computer numerical controlled machine

The Right and Great Asia-Pacific Realty Development Co., Ltd. (“Right and Great Asia-Pacific”) was established in March 2008, with an outstanding common stock of \$600,000 thousand at December 31, 2011, and is primarily engaged in real estate development and investing activities.

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 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 the period from January 1 to March 23, 2010 was 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.

As at December 31, 2011 and 2010, there were 484,035 and 360,828 employees in Pou Chen and subsidiaries referred above, respectively.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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.

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 their accounting year to calendar year in 2010. The 2011 and 2010 annual information from the three companies indicated information for the periods from January 1, 2011 to December 31, 2011 and from October 1, 2009 to December 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 annual information of the two companies indicated information for the periods from October 1, 2010 to September 30, 2011 and October 1, 2009 to September 30, 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 year.

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

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 are 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.

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.

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.

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, 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 has an operating cycle of over one year; thus, 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 year in which they arise. Cash dividends received subsequently (including those received in the year of investment) are recognized as income for the year. On derecognition of a financial asset or a financial liability, the difference between its carrying amount and the sum of the consideration received and receivable or consideration paid and payable is recognized in profit or loss. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

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

Fair values of financial assets and financial liabilities at the balance sheet date are determined as follows: Publicly traded stocks - at closing prices; open-end mutual funds - at net asset values; 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 impairment of receivables originated by the Company should be covered by SFAS No. 34.

The amount of 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, the percentage-of-completion method is adopted, otherwise, 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. Costs incurred on a project are debited to "construction in progress" when incurred and billings for payments on projects are credited to "progressive billings" when billed. 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 of the 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 with a one year period should adopt the completed-contract method. 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 investment cost is allocated to the assets and liabilities of the investee on the basis of their fair values at the date of investment, and the investment cost in excess of the fair value of the identifiable net assets of the investee is recognized as goodwill. Goodwill is not 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	5 years
Furniture, fixtures and office equipment	3-7 years
Other equipment	3-10 years
Leased assets	10-55 years

Property, plant and equipment and leased assets still in use beyond their original estimated useful lives are further depreciated over their new 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 year of disposal.

Intangible Assets

Intangible assets acquired are initially recorded at cost and are amortized on a straight-line basis over their estimated useful lives. Patents are amortized over their legal useful lives. Goodwill arising on acquisition of other company is not amortized, and instead is tested for impairment 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 applicable financial accounting standards, the transaction costs of convertible bonds are allocated in proportion to the liability and equity components of the bonds.

Pension Cost

Pension cost of Pou Chen, Barits Development, Pou Yuen Technology and Pro Arch International, which are under defined benefit plans are determined by actuarial valuations.

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

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

Income Tax

The Company adopted the provisions of SFAS No. 22, "Accounting for Income Tax", which requires the Company to apply 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 allowance is 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 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 plans to distribute 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 not be 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. 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 year ended December 31, 2010 have been reclassified to conform to the presentation of the consolidated financial statements as of and for year ended December 31, 2011.

3. EFFECTS OF CHANGES IN ACCOUNTING PRINCIPLES

Financial Instruments

On January 1, 2011, the Company adopted the newly revised Statement of Financial Accounting Standards (SFAS) No. 34, "Financial Instruments: Recognition and Measurement." The main revisions include: 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 year ended December 31, 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 in the consolidated financial statements, as of and for the year ended December 31, 2010 to conform to the disclosures as of and for the year ended December 31, 2011.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at December 31, 2011 and 2010 consisted of the following:

	2011	2010
Cash on hand	\$ 59,197	\$ 43,404
Checking accounts and savings accounts	92,997	299,965
Foreign-currency savings deposit	24,628,889	23,633,327
Time deposits	428,960	136,300
Cash equivalents - repurchase agreements collateralized by bonds	<u>66,883</u>	<u>87,000</u>
	<u>\$ 25,276,926</u>	<u>\$ 24,199,996</u>

5. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial instruments at fair value through profit or loss as at December 31, 2011 and 2010 consisted of the following:

	2011	2010
Financial assets at fair value through profit or loss, current		
Open-ended mutual funds	\$ 548,987	\$ 489,416
Foreign mutual funds	158,756	152,808
Forward exchange contracts	6,804	70,895
HKD Call Option	<u>-</u>	<u>932,160</u>
	<u>\$ 714,547</u>	<u>\$ 1,645,279</u>
Financial assets at fair value through profit or loss, noncurrent		
JV Call Option	<u>\$ 677,040</u>	<u>\$ 1,340,679</u>
Financial liabilities at fair value through profit or loss, current		
Forward exchange contracts	\$ 404,780	\$ 64,630
Exchange rate option contracts	27,309	-
Interest rate swap contracts	16,490	-
Euro-Dollar Convertible Bonds with options	<u>-</u>	<u>723,084</u>
	<u>\$ 448,579</u>	<u>\$ 787,714</u>

- a. 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.

- 1) 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.
- 2) 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.
- 3) 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 Sheng's prior written consent.

In 2011, Pou Sheng exercised part of the JV Call Option to acquire the ownership of Zhejiang Yichuan Sports Goods Chain Company Limited and Hebei Zhanxin Sports Development Company Limited. Please see Note 11 to the consolidated financial statements for further information.

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

- 1) Term: Yue Yuen has the right to exercise the option to acquire equity interests from the Relevant Partners, from time to time on or after March 14, 2008 up to November 7, 2011.
- 2) 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.
- 3) Total amount: The total number of HK\$ Call Option that can be exercised by Yue Yuen is equivalent to 78,504,672 shares, at HK\$0.25 each.
- 4) The HKD Call Option is not an option to acquire or dispose the 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 total of 5,024,299 call options has been reduced as a result of a knock-out event on November 17, 2009. As at December 31, 2011, the HK\$ Call Option had expired.

- c. The Company is engaged in exchange rate option contracts and interest rate swap contracts mainly to circumvent the risk due to exchange rate and interest rate fluctuations. The Company's financial hedging strategies are to circumvent the risk of fluctuations in market price or cash flow.
- d. Major terms of foreign currency forward contracts with maturities within one year from December 31, 2011 were summarized as follows:

Aggregate Notional Amount	Forward Exchange Rates
US\$ 11,000,000	Sell USD/buy RMB at 6.5104 to 6.5454
US\$ 2,150,783	Sell RMB/buy USD at 6.3980 to 6.4096

Major terms of foreign currency forward contracts with maturities within one year from December 31, 2010 were summarized as follows:

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

At December 31, 2011 and 2010, the fair values of the above forward contracts were determined based on valuations provided by counterparty bank using valuation techniques.

- e. Major terms of exchange rate option contracts with maturities within one year from December 31, 2011 were summarized as follows:

Item	Type	Buy/Sale	Premium Amount	Contract Amount	Market Value
Exchange rate option contracts	Put	Sell	\$ -	US\$ 115,000,000	\$ 1,652
//	Put	Sell	1,974	9,000,000	(508)
//	Put	Sell	1,974	9,000,000	(508)
//	Put	Sell	-	120,000,000	<u>(27,945)</u>
					<u>\$ (27,309)</u>

- f. The information of interest rate swap contracts as at December 31, 2011 was summarized as follows:

Bank	Item	Principal	Maturity Date	Pay Rate (Fixed Rate)	Received Rate (Floating Rate)	Fair Value
Chinatrust Commercial Bank	Interest rate swap	\$ 750,000	2014.12.02	1.135	0.861	\$ (4,705)
Chinatrust Commercial Bank	//	500,000	2014.12.02	0.935	0.861	(906)
Citibank	//	750,000	2014.12.02	1.135	0.861	(4,680)
Citibank	//	500,000	2014.12.02	0.843	0.839	109
Taipei Fubon Bank	//	500,000	2014.12.02	1.140	0.861	(3,164)
E.SUN Bank	//	<u>500,000</u>	2014.12.02	1.140	0.861	<u>(3,144)</u>
		<u>\$ 3,500,000</u>				<u>\$ (16,490)</u>

The net loss from financial instruments at fair value through profit or loss for the years ended December 31, 2011 and 2010 was \$1,081,611 thousand and \$55,322 thousand, respectively.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS, CURRENT

Available-for-sale financial assets, current as at December 31, 2011 and 2010 consisted of the following:

	2011		2010
	Original Cost	Carrying Value	Carrying Value
Marketable equity securities			
Mega Financial Holding Company	\$ 9,171,466	\$ 9,453,202	\$ 10,301,850
Taiwan Paiho Limited	23,456	30,542	42,954
Global Brands Manufacture Ltd.	959,809	583,130	-
Bizlink Holding Inc.	111,661	41,849	-
Sun Art Retail Group Ltd.	<u>517,337</u>	<u>636,562</u>	<u>-</u>
	<u>\$ 10,783,729</u>	<u>\$ 10,745,285</u>	<u>\$ 10,344,804</u>

7. FINANCIAL ASSETS CARRIED AT COST, CURRENT

Financial assets carried at cost, current as at December 31, 2011 and 2010 consisted of the following:

	2011	2010
Foreign mutual funds	<u>\$ 28,399</u>	<u>\$ 239,664</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 - RELATED PARTIES

Notes receivable and accounts receivable as at December 31, 2011 and 2010 consisted of the following:

	2011	2010
Notes receivable	\$ 57,726	\$ 31,649
Less allowance for doubtful accounts	<u>-</u>	<u>-</u>
	<u>57,726</u>	<u>31,649</u>
Notes receivable from affiliates (Note 30)	43,887	5,771
Less allowance for doubtful accounts	<u>-</u>	<u>-</u>
	<u>43,887</u>	<u>5,771</u>
	<u>\$ 101,613</u>	<u>\$ 37,420</u>
Accounts receivable	\$ 24,106,686	\$ 22,133,593
Less allowance for doubtful accounts	<u>(966,032)</u>	<u>(848,527)</u>
	<u>23,140,654</u>	<u>21,285,066</u>
Accounts receivable from affiliates (Note 30)	725,444	498,945
Less allowance for doubtful accounts	<u>(20,569)</u>	<u>(7,145)</u>
	<u>704,875</u>	<u>491,800</u>
	<u>\$ 23,845,529</u>	<u>\$ 21,776,866</u>

9. INVENTORIES

a. Inventories - manufacturing as at December 31, 2011 and 2010 consisted of the following:

	2011	2010
Raw materials and supplies	\$ 10,429,147	\$ 7,114,508
Work-in-process	4,769,579	3,944,961
Finished goods	18,080,603	12,079,804
Merchandise	<u>14,793</u>	<u>15,678</u>
	<u>\$ 33,294,122</u>	<u>\$ 23,154,951</u>

- 1) As of December 31, 2011 and 2010, the allowance for manufacturing inventory devaluation was \$957,975 thousand and \$835,068 thousand, respectively.
- 2) The cost of manufacturing inventories recognized as cost of goods sold for the years ended December 31, 2011 and 2010 was \$159,551,709 thousand and \$144,764,452 thousand, respectively, which included \$122,907 thousand write-downs of inventories, and \$143,613 thousand reversal of write-down inventories, respectively.

b. Inventories - construction as at December 31, 2011 and 2010 consisted of the following:

	2011	2010
Land and buildings for development	\$ 4,007,949	\$ 3,684,943
Land, buildings and improvements for sale	64,270	109,326
Construction site	<u>126,658</u>	<u>132,067</u>
	<u>\$ 4,198,877</u>	<u>\$ 3,926,336</u>

- 1) As of December 31, 2011 and 2010, the allowance for construction inventory devaluation was \$22,602 thousand and \$24,943 thousand, respectively.
- 2) The cost of construction inventories recognized as cost of goods sold for the years ended December 31, 2011 and 2010 was \$46,047 thousand and \$445,272 thousand, respectively, which included zero and \$288 thousand write-downs of inventories, respectively.
- 3) Land and buildings for development as at December 31, 2011 and 2010 consisted of the following:

	2011	2010
Barits Development	\$ 2,371,136	\$ 2,048,130
Right and Great Asia-Pacific	1,426,222	1,426,222
Pou Chin Development	<u>210,591</u>	<u>210,591</u>
	<u>\$ 4,007,949</u>	<u>\$ 3,684,943</u>

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

- 4) Land, buildings and improvements for sale as at December 31, 2011 and 2010 consisted of the following:

Company	2011			2010
	Land	Building	Carrying Value	Carrying Value
Pou Yii Development	\$ 30,308	\$ 33,962	\$ 64,270	\$ 84,986
Barits Development	<u>-</u>	<u>-</u>	<u>-</u>	<u>24,340</u>
	<u>\$ 30,308</u>	<u>\$ 33,962</u>	<u>\$ 64,270</u>	<u>\$ 109,326</u>

- 5) As of December 31, 2011 and 2010, the construction site in the amount of \$126,658 thousand and \$132,067 thousand, respectively, was an inventory of Pou Yii Development.

10. CONSTRUCTION IN PROCESS AND PROGRESSIVE BILLINGS

Net amount of construction in process and progressive billings as at December 31, 2011 and 2010 consisted of the following:

Company	Name of Construction	2011		Net Amount
		Construction in Process	Progressive Billings	
Wang Yi Construction	Construction of demarcation of real estate in Anhe district, Taichung City I (recorded under "progressive billings in excess of construction in progress")	<u>\$ 669,111</u>	<u>\$ 672,495</u>	<u>\$ (3,384)</u>
	Construction of demarcation of real estate in Anhe district, Taichung City II (recorded under "progressive billings in excess of construction in progress")	<u>\$ 311,298</u>	<u>\$ 367,174</u>	<u>\$ (55,876)</u>
Company	Name of Construction	2010		Net Amount
Wang Yi Construction	Construction of demarcation of real estate in Anhe district, Taichung City I (recorded under "construction in progress in excess of progressive billings")	<u>\$ 626,866</u>	<u>\$ 578,490</u>	<u>\$ 48,376</u>

(Continued)

Company	Name of Construction	2010		
		Construction in Process	Progressive Billings	Net Amount
	Construction of demarcation of real estate in Anhe district, Taichung City II (recorded under "progressive billings in excess of construction in progress")	\$ 152,790	\$ 206,535	\$ (53,745)
				(Concluded)

11. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

Investments accounted for by the equity method as at December 31, 2011 and 2010 consisted of the following:

	2011			2010	
	Original Cost	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage
<u>Shoes, shoe materials and athletic products companies</u>					
Best Focus Holdings Ltd.	\$ 324,300	\$ 424,211	50.00	\$ 537,684	50.00
Beijing Baojing Kangtai Trading Co., Ltd.	205,960	221,155	50.00	198,177	50.00
Bigfoot Limited	138,772	159,485	48.76	163,844	48.76
Blessland Enterprises Limited	26,196	65,520	50.00	59,432	50.00
Central Honour Limited	-	-	-	13,821	50.00
China Ocean Resources Limited	821,131	422,535	50.00	406,555	50.00
Cohen Enterprises Inc.	156,820	570,015	50.00	540,762	50.00
Din Tsun Holding Co., Ltd.	251,211	829,089	50.00	716,019	50.00
Eagle Nice (International) Holdings Limited	1,325,223	1,963,226	38.42	1,790,639	38.42
Enthroned Group Limited	158	148	48.76	142	48.76
Faith Year Investments Ltd.	68,853	97,475	30.00	73,352	30.00
Full Pearl International Ltd.	381,878	376,476	40.04	377,750	40.04
Fuzhou Fubao Paper Packaging Co., Ltd.	103,048	122,360	50.00	132,730	50.00
Good Assets Management Limited	8,200	5,459	50.00	5,257	50.00
Great Skill Industrial Limited	34,149	73,983	50.00	55,312	50.00
Guiyang Baoshang Sports Goods Company Limited	47,776	68,836	50.00	63,029	50.00
Hangzhou Baohong Sports Goods Company Limited	59,916	32,252	50.00	38,228	50.00
Hebei Zhanxin Sports Development Company Limited	306,990	293,657	45.00	312,067	45.00
Hefei Tengrei Sports Goods Company Limited	270,307	382,188	50.00	402,437	50.00
High Style Investments Limited	19,458	18,555	50.00	16,987	50.00
Hua Jian Industrial Holding Co., Limited	771,201	2,460,310	50.00	2,188,226	50.00
Intelligent Plus Limited	48,989	58,288	45.90	51,752	45.90
i-Tech Enterprises Ltd.	10,134	7,910	50.00	6,103	50.00
Jilin Lingpao Sports Goods Company Limited	369,604	678,434	50.00	526,039	50.00
Jilin Xinfangwei Sports Goods Company Limited	618,968	587,525	50.00	616,290	50.00
					(Continued)

	2011			2010	
	Original Cost	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage
Jumbo Power Enterprises Limited	\$ 438,315	\$ 659,433	50.00	\$ 684,988	50.00
Just Lucky Investments Limited	26,204	61,140	38.30	48,390	38.30
Ka Yuen Rubber Factory Limited	32,727	709,857	50.00	602,517	50.00
Keen Idea Group Limited	62,976	16,861	40.00	16,171	40.00
Liberty Bell Investments Limited	318,234	129,532	49.00	135,223	49.00
Luen Thai Holdings Ltd.	394,437	600,139	8.98	527,639	8.98
Natural Options Limited	11,144	6,077	38.30	5,841	38.30
Oftenrich Holdings Limited	1,339,783	2,000,242	45.00	1,427,932	45.00
Original Designs Developments Limited	40,156	147,810	49.47	132,380	49.47
Pine Wood Industries Limited	92,393	103,055	37.00	72,795	37.00
Precise Zone Investments Limited	41,662	32,617	47.65	42,720	47.65
Prosperlink Limited	6,078	5,737	38.00	5,636	38.00
Prosperous Industrial (Holdings) Ltd.	583,740	1,071,750	30.00	970,588	30.00
Pygf Co., Ltd.	32,430	58,782	50.00	55,433	50.00
Rise Bloom International Limited	24,312	15,497	47.00	22,094	47.00
Shaanxi Jixian Longyue Sports Goods Company Limited	144,678	238,829	50.00	207,413	50.00
Shaanxi Wuhuan Shengdao Sports Production Development Company Limited	208,949	319,018	40.00	251,427	40.00
Smart Shine Industries Limited	-	94,669	50.00	90,605	50.00
Supplyline Logistics Ltd.	207,127	33,936	49.00	26,963	49.00
Suzhou Xinjun Trading Development Company Limited	151,894	156,106	49.00	283,043	49.00
Texas Clothing Holdings Corp.	3,425,070	1,653,622	49.71	1,341,183	39.80
Topmost Industries Limited	26,438	79,444	50.00	93,159	50.00
Twinways Investments Limited	88,232	319,321	50.00	263,383	50.00
Well Success Investment Limited	161,515	1,299,111	40.00	950,598	40.00
Wenzhou Baofeng Trading Co., Ltd.	41,335	-	50.00	37,118	50.00
Willpower Industries Limited	221,001	383,296	44.84	351,952	44.84
Yuen Thai Industrial Company Limited	85,745	133,096	50.00	129,193	50.00
Zhejiang Baohong Sports Goods Company Limited	201,618	163,047	49.00	198,924	49.00
Zhejiang Yichuan Sports Goods Chain Company Limited	-	-	-	609,470	50.00
Evermore Chemical Industry Co., Ltd.	253,333	279,372	20.75	267,402	20.75
San Fang Chemical Industry Co., Ltd.	2,677,576	3,510,983	44.72	3,231,529	44.72
Nan Pao Resins Chemical Co., Ltd.	539,797	669,276	22.15	570,337	22.15

Electronics companies

Haicheng Information Technology Co., Ltd.	194,580	138,996	50.00	130,534	50.00
Kleine Developments Ltd.	335,317	17,754	33.33	50,890	50.00
Silver Island Trading Ltd.	129,720	47,751	50.00	45,966	50.00
Venture Well Holdings Ltd.	332,638	325,123	31.55	291,873	31.55
Techview International Technology Inc.	671,618	-	50.00	-	50.00
Elitegroup Computer Systems Co., Ltd.	6,036,400	5,207,760	19.38	4,789,878	18.59

Investment holding and other companies

Ace Top Group Limited	15,865	75,007	40.00	53,612	40.00
Asia Air Tech Industrial (Pte) Ltd.	-	-	-	45,556	30.00
Coprospects Holdings Ltd.	-	904	50.00	842	50.00
Mega Atlas International Limited	3,041	-	40.00	235	40.00
Most Honour International Limited	1,640	3,908	50.00	3,790	50.00
Partner Alliance Limited	3,237	5,460	50.00	4,787	50.00
Poulik Properties Management Co., Ltd.	-	554	30.00	510	30.00
Rising Developments Ltd.	5,028	24,367	50.00	34,191	50.00
Talent Pool Management Ltd.	-	2,567	30.00	4,277	30.00

(Continued)

	2011			2010	
	Original Cost	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage
Zhuhai Poulik Properties Management Co., Ltd.	\$ 14,374	\$ 57,122	40.00	\$ 40,006	40.00
Zhong Ao Multiplex Management Limited	1,002,199	1,270,939	46.82	1,187,408	46.82
Ruen Chen Investment Holding Co., Ltd.	<u>9,000,000</u>	<u>8,939,565</u>	20.00	<u>491,868</u>	20.00
	35,993,798	40,988,524		30,122,903	
Prepayments for investments	-	<u>131,575</u>		<u>559,967</u>	
	<u>\$ 35,993,798</u>	<u>\$ 41,120,099</u>		<u>\$ 30,682,870</u>	

(Concluded)

The Company's investment income (loss) recognized under equity method for the years ended December 31, 2011 and 2010 was summarized as follows:

	2011	2010
<u>Shoes, shoe materials and athletic products companies</u>		
Best Focus Holdings Ltd.	\$ 75,445	\$ 31,622
Beijing Baojing Kangtai Trading Co., Ltd.	5,641	6,297
Bigfoot Limited	21,351	47,125
Blessland Enterprises Limited	7,467	4,824
Central Honour Limited	(57)	1,802
Cohen Enterprises Inc.	7,254	23,127
Din Tsun Holding Co., Ltd.	142,020	179,869
Eagle Nice (International) Holdings Limited	133,352	207,935
Faith Year Investments Ltd.	16,692	4,891
Full Pearl International Ltd.	(29,255)	(3,219)
Fuzhou Fubao Paper Packaging Co., Ltd.	(6,395)	(1,739)
Good Assets Management Limited	(4)	(2,192)
Great Skill Industrial Limited	16,016	9,867
Guiyang Baoshang Sports Goods Company Limited	354	5,815
Hangzhou Baohong Sports Goods Company Limited	(8,791)	(13,547)
Harbin Shenge Sports Chain Company Limited	-	69,399
Hebei Zhanxin Sports Development Company Limited	(4,550)	(30,147)
Hefei Tengrei Sports Goods Company Limited	(2,001)	18,530
High Style Investments Limited	874	1,299
Hua Jian Industrial Holding Co., Limited	174,349	371,547
Hubei Jiezhixing Clothing And Accessories Company Limited	-	47,048
Intelligent Plus Limited	468	3,082
i-Tech Enterprises Ltd.	1,519	(23)
Jilin Lingpao Sports Goods Company Limited	22,499	89,508
Jilin Xinfangwei Sports Goods Company Limited	(77,642)	20,715
Jumbo Power Enterprises Limited	(72,432)	154,691
Just Lucky Investments Limited	10,531	11,057
Ka Yuen Rubber Factory Limited	81,214	122,474
Keen Idea Group Limited	53	(19,542)
Liberty Bell Investments Limited	(10,685)	(13,641)
Luen Thai Holdings Ltd.	54,539	47,804
Natural Options Limited	6	752
Oftenrich Holdings Limited	236,592	322,521

(Continued)

	2011	2010
Original Designs Developments Limited	\$ 42,978	\$ 42,256
Pine Wood Industries Limited	26,599	-
Precise Zone Investments Limited	(12,731)	(3,046)
Prosperlink Limited	(117)	110
Prosperous Industrial (Holdings) Ltd.	99,337	122,775
Pygf Co., Ltd.	1,136	20,077
Rise Bloom International Limited	(7,248)	(49)
Shaanxi Jixian Longyue Sports Goods Company Limited	12,835	12,803
Shaanxi Wuhuan Shengdao Sports Production Development Company Limited	43,931	33,610
Smart Shine Industries Limited	(1,658)	4,979
Suzhou Xinjun Trading Development Company Limited	(13,183)	(7,555)
Texas Clothing Holdings Corp.	266,843	364,706
Topmost Industries Limited	3,903	26,360
Twinways Investments Limited	79,500	101,053
Well Success Investment Limited	66,706	15,259
Wenzhou Baofeng Trading Co., Ltd.	(28,681)	(17,519)
Willpower Industries Limited	57,854	63,365
Yuen Thai Industrial Company Limited	(1,140)	46,389
Zhejiang Baohong Sports Goods Company Limited	(23,208)	(6,312)
Zhejiang Jinguan Enterprise Development Company Limited	-	36,768
Zhejiang Yichuan Sports Goods Chain Company Limited	-	75,080
Evermore Chemical Industry Co., Ltd.	4,506	13,005
San Fang Chemical Industry Co., Ltd.	309,385	420,563
Nan Pao Resins Chemical Co., Ltd.	79,540	(47,539)
 <u>Electronics companies</u>		
Haicheng Information Technology Co., Ltd.	(2,622)	773
Kleine Developments Ltd.	(76,448)	(93,017)
Silver Island Trading Ltd.	(21)	(42)
Venture Well Holdings Ltd.	18,057	(42,072)
Techview International Technology Inc.	-	75,241
Elitegroup Computer Systems Co., Ltd.	98,684	49,122
 <u>Investment holding and other companies</u>		
Ace Top Group Limited	15,994	(3,782)
Asia Air Tech Industrial (Pte) Ltd.	-	(6,021)
Coprospects Holdings Ltd.	28	88
Mega Atlas International Limited	(237)	(334)
Most Honour International Limited	(325)	314
Partner Alliance Limited	471	515
Rising Developments Ltd.	(10,842)	3,004
Talent Pool Management Ltd.	739	3,832
Zhuhai Poulik Properties Management Co., Ltd.	13,268	67,134
Zhong Ao Multiplex Management Limited	9,309	145,566
Ruen Chen Investment Holding Co., Ltd.	<u>805,060</u>	<u>(8,132)</u>
	<u>\$ 2,674,626</u>	<u>\$ 3,228,878</u> (Concluded)

The names, main businesses, and place of incorporation of the equity-accounted investees were 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	Shoe injection	British Virgin Islands
China Ocean Resources Limited	Sales of sports goods	British Virgin Islands
Cohen Enterprises Inc.	Manufacture and sales of leather products for shoes	British Virgin Islands
Coprospects 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

(Continued)

<u>Name</u>	<u>Core Operating Item</u>	<u>Location of Incorporation</u>
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 Ltd.	Investment Holding	Samoa
Prosperous Industrial (Holdings) Ltd.	Manufacture and sale of sports bags	Cayman Islands
PYGF Co., Ltd.	Processing rubber	British Virgin Islands
Rise 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 and apparel	British Virgin Islands
Supplyline Logistics Ltd.	Provision of logistic service	Hong Kong
Suzhou Xinjun Trading Development Company Limited	Retailing of sportswear	PRC
Talent Pool Management Ltd.	Provision of kindergarten service	British Virgin Islands
Texas Clothing Holdings Corp.	Manufacture and sale of apparel	British Virgin Islands
Topmost Industries Limited	Manufacture of counters for shoes	British Virgin Islands
Twinways Investments Limited	Manufacture and sales of injection moulds for shoe components	British Virgin Islands
Venture Well Holdings Ltd.	Sale of electronic parts	British Virgin Islands
Well Success Investment Limited	Investment holding	British Virgin Islands
Wenzhou Baofeng Trading Co., Ltd.	Retailing of sportswear	PRC
Willpower Industries Limited	Manufacture and sale of paper product	British Virgin Islands
Yuen Thai Industrial Company Limited	Manufacture and trading of sports and active wear	Hong Kong
Zhejiang Baohong Sports Goods Co., Ltd.	Retailing of sportswear	PRC
Zhejiang Jinguan Enterprise Development Company Limited	Retailing of sportswear	PRC
Zhejiang Yichuan Sports Goods Chain Company Limited	Retailing of sportswear	PRC
Zhuhai Poulik Properties Management Co., Ltd.	Properties management	British Virgin Islands
Zhong Ao Multiplex Management Limited	Properties management	PRC

(Concluded)

Except Venture Well Holdings Ltd. and Kleine Developments, Ltd., the accounting year of the above-listed companies ends 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 September 30, 2011 and October 1, 2009 to September 30, 2010, respectively.

Eagle Nice (International) Holdings Ltd. (“Eagle Nice”) is engaged in manufacturing and sale of apparel. The shares of Eagle Nice are listed on the Hong Kong Exchange and Clearing Limited. It has an outstanding common stock of HK\$4,997 thousand as at December 31, 2011.

Luen Thai Holdings Ltd. (“Luen Thai”) is engaged in manufacturing ready-made garments. The shares of Luen Thai are listed on the Hong Kong Exchange and Clearing Limited. It has an outstanding common stock of US\$9,927 thousand as at December 31, 2011.

Evermore Chemical Industry Co., Ltd. (“Evermore Chemical”) is engaged in manufacturing and selling of melamine resin and phthali anhydride resin. The shares of Evermore Chemical are listed on the Taiwan Stock Exchange. As of October 25, 2011, the board of directors decided to write off 1,500 thousand shares of treasury stock. It has an outstanding capital of \$917,880 thousand as at December 31, 2011.

San Fang Chemical Industry Co., Ltd. (“San Fang”) is engaged in manufacturing and marketing of leather. The shares of San Fang are listed on the Taiwan Stock Exchange. It has an outstanding capital of \$3,431,614 thousand as at December 31, 2011.

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

Elitegroup Computer Systems Co., Ltd. (“Elitegroup Computer”) is engaged in designing, manufacturing and sale of computer peripheral equipment, and has an outstanding common stock of \$11,831,937 thousand as at December 31, 2011. The shares of Elitegroup Computer are listed on the Taiwan Stock Exchange Corporation. On August 24, 2011, Elitegroup Computer’s board of directors decided to cancel 50,000 thousand shares of treasury shares under the Company law. Accordingly, the Company’s ownership in Elitegroup Computer was increased from 18.59% to 19.38%.

Nan Pao Resins Chemical Co., Ltd. (“Nan Pao Resins”) was established in October 1963. It is engaged in manufacturing chemical materials. It has an outstanding common stock of \$740,184 thousand as at December 31, 2011.

Ruen Chen Investment Holding Co., Ltd. was established in November 2010. Pau Chen was one of the original stockholders and has invested \$500,000 thousand, representing 20% ownership. In 2011, Ruen Chen issued additional capital stock of \$42,500,000 thousand at \$10 per share, of which \$8,500,000 thousand was subscribed by Pou Chen in proportion to the percentage of ownership. Ruen Chen primarily engages in investing in Nan Shan Life Insurance Co., Ltd. Ruen Chen had an outstanding common stock of \$45,000,000 thousand as at December 31, 2011.

In addition, Pou Chen has provided 820,000 thousand shares of Ruen Chen as collateral of the long-term loans made by Ruen Chen from Taiwan Cooperative Bank and other syndication banks. Please see Note 30 to the consolidated financial statements for the relevant information.

In October 2010, Pou Sheng decided to pay \$1,851,901 thousand (US\$64,470,000) for the remaining equity ownership of Zhejiang Yichuan. On December 31, 2010, the prepayment for this investment amounted to \$559,967 thousand. The unpaid consideration in the amount of \$95,033 thousand (US\$3,139,000) will be payable by September 30, 2012, and was recorded under “other payables” as at December 31, 2011. Please see Note 19 to the consolidated financial statements for further information.

The prepayments for investments in the amount of \$131,575 thousand as at December 31, 2011 represented the consideration paid for the remaining ownership of Hebei Zhanxin Sports Development Company Limited and the business of Shanghai Pengda Sports Goods Company Limited.

12. INVESTMENTS IN REAL ESTATE

Investments in real estate as at December 31, 2011 and 2010 consisted of the following:

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

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

13. AVAILABLE-FOR-SALE FINANCIAL ASSETS, NONCURRENT

Available-for-sale financial assets, noncurrent as at December 31, 2011 and 2010 consisted of the following:

	2011		2010
	Original Cost	Carrying Value	Carrying Value
<u>Domestic marketable equity securities</u>			
Asia Vital Components Co., Ltd.	\$ 124,957	\$ 184,333	\$ 272,550
Taiwan Paiho Limited	127,102	185,867	253,093
Global Brands Manufacture Ltd.	-	-	871,390
<u>Foreign marketable equity securities</u>			
Symphony Holdings Ltd.	305,986	90,559	121,396
<u>Foreign mutual funds</u>			
Investar Excelsus Venture Capital	-	-	-
	<u>\$ 558,045</u>	<u>\$ 460,759</u>	<u>\$ 1,518,429</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 had outstanding common stock of \$3,347,711 thousand as at December 31, 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 had outstanding common stock of \$2,934,709 thousand as at December 31, 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 had outstanding common stock of \$5,006,564 thousand as at December 31, 2011.

In September 2011, the Company reclassified the shares of Global Brands Manufacture Ltd. from available-for-sale financial assets, noncurrent to available-for-sale financial assets, current in consideration of the purpose and intent. Please see Note 6 to the consolidated financial statements for further information.

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 December 31, 2011.

14. FINANCIAL ASSETS CARRIED AT COST, NONCURRENT

Financial assets carried at cost, noncurrent as at December 31, 2011 and 2010 consisted of the following:

	2011	2010
<u>Non-publicly traded common stocks</u>		
Golden Brands Developments Ltd.	\$ 168,270	\$ 172,354
Shey Yu Co., Ltd.	320	320
View Sonic Corporation	19,246	96,231
Taichung International Entertainment Corporation	1,905	1,905
Bizlink Holding Inc.	-	97,327
Great Team Backend Foundry Inc.	73,396	70,621
First Dynamic International Ltd.	38,424	36,971
Ryco Investment Ltd.	-	2,913
DTE Technologies Corp.	-	-
Zhi Yuen Venture Capital Corporation	60,000	-
<u>Foreign mutual funds</u>		
Asia Pacific Genesis Venture Capital Fund, L.P.	39,675	71,607
CID Greater China Venture Capital Fund II. L.P.	226,598	194,724
Prodigy Strategic Investment Fund XXII Segregated Portfolio	194,286	431,649
UIS - Trusted Money Fund	<u>-</u>	<u>-</u>
	<u>\$ 822,120</u>	<u>\$ 1,176,622</u>

- a. The stocks and mutual funds mentioned above do not have public offering active market and reliable fair values; thus, they are carried at cost.
- b. The Company recognized an impairment loss of \$461,458 thousand on the investment of Prodigy Strategic Investment Fund XXII segregated portfolio for the year ended December 31, 2011.
- c. The shares of Bizlink Holding Inc. have been offered in an 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. Please see Note 6 to the consolidated financial statements for further information.
- d. The Company had recorded impairment loss equal to the investment cost for DTE Technologies Corp., Ryco Investment Ltd. and Uis-Trusted Money Fund, respectively.

15. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as at December 31, 2011 and 2010 consisted of the following:

	2011				2010	
	Cost	Revaluation Increment	Accumulated Depreciation	Accumulated Impairment	Carrying Value	Carrying Value
Land	\$ 2,182,938	\$ 248,261	\$ -	\$ 5,241	\$ 2,425,958	\$ 2,432,421
Buildings and improvements	54,470,445	45,062	17,334,458	1,898	37,179,151	34,327,270
Machinery and equipment	41,827,446	-	24,823,314	-	17,004,132	14,521,105
Transportation equipment	1,391,336	-	892,579	-	498,757	417,684
Furniture, fixtures and office equipment	6,594,422	-	4,285,388	11	2,309,023	1,939,278
Other equipment	150,915	-	129,954	-	20,961	24,922
Construction in progress and prepayments for equipment	<u>4,672,257</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,672,257</u>	<u>3,291,092</u>
	<u>\$ 111,289,759</u>	<u>\$ 293,323</u>	<u>\$ 47,465,693</u>	<u>\$ 7,150</u>	<u>\$ 64,110,239</u>	<u>\$ 56,953,772</u>

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

In 2011, Yue Yuen and Pou Sheng had decided to sell partial assets of an investee in the amount of \$2,003,448 thousand (US\$66,175 thousand). The Company had reclassified the associated assets and liabilities to "noncurrent assets/liabilities classified as held for sale".

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

16. OTHER ASSETS

Other assets as at December 31, 2011 and 2010 consisted of the following:

	2011	2010
Leased assets		
Cost and revaluation increment	\$ 801,762	\$ 1,446,315
Less accumulated depreciation	(6,984)	(2,477)
Less allowance for valuation loss of leased assets	<u>(15,468)</u>	<u>(2,562)</u>
	<u>779,310</u>	<u>1,441,276</u>
Idle asset	62,083	62,083
Less accumulated depreciation	(60,609)	(58,083)
Less allowance for valuation loss of idle asset	<u>(1,474)</u>	<u>(4,000)</u>
	<u>-</u>	<u>-</u>
Refundable deposits	177,109	179,799
Deferred charges	710,641	540,446
Deferred income tax assets, noncurrent (Note 27)	218,562	201,440
Land held by trustee	73,713	73,713
Prepaid pension cost (Note 23)	99,640	97,594
Land and building for sale	5,254	5,300
Temporary tax payments	5,135	4,821
Others	<u>657,343</u>	<u>546,265</u>
	<u>\$ 2,726,707</u>	<u>\$ 3,090,654</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 transferred 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 in the amount of \$73,713 thousand at December 31, 2011, are included in "other assets - land held by trustee".

17. SHORT-TERM LOANS

Short-term loans as at December 31, 2011 and 2010 consisted of the following:

	2011		2010	
	Annual Interest Rate %	Balance	Annual Interest Rate %	Balance
Procurement loans	3.93	\$ 63,401	-	\$ -
Unsecured loans	0.95-7.63	<u>18,909,589</u>	0.72-6.08	<u>14,326,192</u>
		<u>\$ 18,972,990</u>		<u>\$ 14,326,192</u>

The Company provided collateral in accordance with the requirements of the bank. Please see Note 31 to the consolidated financial statements for relevant information.

18. SHORT-TERM BILLS PAYABLE

Short-term bills payable as at December 31, 2011 and 2010 consisted of the following:

	2011		2010	
	Annual Interest Rate %	Balance	Annual Interest Rate %	Balance
Commercial paper	0.82-0.90	\$ 2,821,000	0.50-0.67	\$ 1,365,000
Less discount on commercial paper		<u>(2,857)</u>		<u>(622)</u>
		<u>\$ 2,818,143</u>		<u>\$ 1,364,378</u>

19. OTHER PAYABLES

Other payable as at December 31, 2011 and 2010 consisted of the following:

	2011	2010
Salary and wages payable	\$ 6,426,530	\$ 5,169,133
Payables on machinery and equipment	941,294	438,101
Compensation due to directors and supervisors	256,485	251,290
Employee bonus payable	177,656	154,313
Interest payable	128,361	100,567
Payable for acquisition of subsidiary (Note 11)	95,033	-
Other accrued expenses	<u>7,240,248</u>	<u>5,903,215</u>
	<u>\$ 15,265,607</u>	<u>\$ 12,016,619</u>

20. CURRENT PORTION OF LONG-TERM LIABILITIES

Current portion of long-term liabilities as at December 31, 2011 and 2010 consisted of the follows:

	2011	2010
Euro Convertible Bonds (Note 21)	\$ -	\$ 7,825,745
Long-term debt (Note 22)	<u>3,354,105</u>	<u>8,576,850</u>
	<u>\$ 3,354,105</u>	<u>\$ 16,402,595</u>

21. BONDS PAYABLE

Bonds payable as at December 31, 2011 and 2010 consisted of the following:

	2011	2010
Euro Convertible Bonds	\$ -	\$ 7,825,745
Less current portion (Note 20)	<u>-</u>	<u>(7,825,745)</u>
	<u>\$ -</u>	<u>\$ -</u>

The covenants of overseas unsecured Convertible Bonds issued by Yu Yuen were as follows:

- Date of issuance: November 17, 2006
- Par value: HK\$10 thousand
- Location of issuance: Hong Kong
- Price of issuance: 100%
- Total amount: HK\$2,100,000 thousand issued
- Interest rate: 0%
- Term: Five years; date of maturity: November 17, 2011
- 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.

- 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.

- 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 (after Yue Yuen exercised such redemption option, each bondholder may elect to refuse such redemption).

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 \$591,722 thousand (US\$18,684 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.

The Euro Convertible Bonds issued by Yue Yuen have been redeemed according to the covenants on November 17, 2011.

22. LONG-TERM DEBT

Long-term debt as at December 31, 2011 and 2010 consisted of the following:

	2011	2010
China Trust Commercial Bank (lead lender) syndication loan Long-term debt, US\$300,000 thousand. The term is from May 12, 2011 to June 10, 2016. The principal is due in semiannual installment commencing from January 2015. Interest is paid semiannually. Interest rate is between 0.81%-0.93%.	\$ 9,082,500	\$ -
Taipei Fubon Bank Long-term debt, US\$2,500 thousand. The term is from July 22, 2011 to July 22, 2014. The principal is due in quarterly installment commencing from November 2012. Interest is paid monthly. Interest rate is 2.26%.	75,688	-
Taipei Fubon Bank Long-term debt, US\$150,000 thousand. The principal due in semiannual installments commencing from May 2012. Interest is paid quarterly. Interest rate is 1.46%.	4,541,250	4,369,500
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 maturity. Interest is paid semiannually. Interest rate is 0.97%.	9,086,146	8,742,510 (Continued)

	2011	2010
Citic Bank		
Long-term debt, US\$30,000 thousand. The term is from September 8, 2009 to September 7, 2012. The principal is due in semiannual installments commencing from March 2011. Interest is paid quarterly. Interest rate is 2.05%.	\$ 605,439	\$ 873,900
Bank of China (HK)		
Long-term debt, US\$15,000 thousand. The term is from June 1, 2009 to June 1, 2012. The principal is due in semiannual installments commencing from October 1, 2011. Interest is paid monthly.	-	436,950
DBS Bank		
Secured long-term debt, RMB130,000 thousand. The term is from August 26, 2009 to September 15, 2012. The principal is due in semiannual installments commencing from September 2010. Interest is paid semiannually. Interest rate is 5.67%.	430,715	509,829
The Hong Kong and Shanghai Banking Corporation Limited		
Medium-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 is paid semiannually. Interest rate is 6.08%.	37,865	104,580
Bank of Kaohsiung		
Secured medium-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. The principal had been fully prepaid in July 2011.	-	285,000
Cathay United Bank		
Medium-term debt, facility is \$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 maturity. Interest is paid monthly. Interest rate is 2.68%.	860,000	-
Cathay United Bank		
Medium-term debt, facility is \$1,050,000 thousand including secured debt \$849,000 thousand and unsecured debt \$201,000 thousand. The term is from May 9, 2008 to May 9, 2011. The principal will be fully repaid upon maturity. Interest is paid monthly. The principal had been fully repaid in May 2011.	-	854,000
Citibank (lead lender) syndication loan		
Long-term debt, facility is US\$350,000 thousand including HK\$2,028,000 thousand and US\$90,000 thousand. The term is from October 20, 2011 to October 20, 2014. The principal will be fully repaid upon maturity. Interest is paid semiannually. Interest rate is between 1.64%-1.86%.	10,615,876	-
Citibank (lead lender) syndication loan		
Long-term debt, US\$350,000 thousand. The term is from July 11, 2007 to July 11, 2012. The principal is due in semiannual installments commencing from January 2011. The principal had been fully prepaid in July 2011.	-	9,933,330

(Continued)

	2011	2010
Chinatrust 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 was fully repaid in June 2011.	\$ -	\$ 625,000
Chinatrust 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 1.37%.	5,250,000	7,000,000
Chinatrust 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 1.52%-1.57%.	10,000,000	4,500,000
First Commercial Bank (lead lender) syndicated loan Long-term debt, \$13,000,000 thousand, due in semiannual repayments commencing March 27, 2015 and maturing September 29, 2016. Interest rate is 1.50%.	<u>1,750,000</u>	<u>-</u>
	52,335,479	38,234,599
Less current portion (Note 20)	<u>(3,354,105)</u>	<u>(8,576,850)</u>
	<u>\$ 48,981,374</u>	<u>\$ 29,657,749</u> (Concluded)

Since the Company had refinanced the loans before December 31, 2011 and 2010, respectively, the current portion of the syndication loans from China Trust Commercial Bank was recorded under “long-term debt”, accordingly.

The Company provided collateral in accordance with the requirements of the banks. Please see Note 31 to the consolidated financial statements for relevant information.

23. PENSION PLAN

Pou Chen, Barits Development, Pou Yuen Technology and Pro Arch International each have a defined benefit pension plan covering all employees.

The pension plan under the Labor Pension Act (the “LPA”) is a defined contribution plan. Based on the LPA, the Company makes monthly contributions to employees’ individual pension accounts at 6% of monthly salaries and wages.

Based on the defined benefit plan under the LSL, pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement.

Information about the defined benefit plan was as follows:

a. Components of net periodic pension cost for the year 2011 consisted of the following:

	Pou Chen	Barits Development	Pou Yuen Technology	Pro Arch International	Total
Service cost	\$ 23,553	\$ 1,576	\$ 25	\$ -	\$ 25,154
Interest cost	27,736	1,156	113	15	29,020
Expected return on plan assets	(8,457)	(2,075)	(865)	(327)	(11,724)
Amortization of net transition (asset) obligation	(1,875)	355	-	-	(1,520)
Amortization of unrecognized prior service cost	-	-	204	-	204
Amortization of pension loss (gain)	<u>15,822</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,822</u>
	<u>\$ 56,779</u>	<u>\$ 1,012</u>	<u>\$ (523)</u>	<u>\$ (312)</u>	<u>\$ 56,956</u>

Components of net pension cost for the year 2010 consisted of the following:

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

b. Reconciliation of funded status of the plan and accrued pension cost as of December 31, 2011 was as follows:

	Pou Chen	Barits Development	Pou Yuen Technology	Pro Arch International	Total
Actuarial present value of benefit obligation:					
Vested benefits	\$ (451,461)	\$ (5,022)	\$ (832)	\$ -	\$ (457,315)
Nonvested benefits	<u>(687,569)</u>	<u>(40,772)</u>	<u>(2,141)</u>	<u>(1,330)</u>	<u>(731,812)</u>
Accumulated benefit obligation	(1,139,030)	(45,794)	(2,973)	(1,330)	(1,189,127)
Additional benefits at future salaries	<u>(238,082)</u>	<u>(14,980)</u>	<u>(1,763)</u>	<u>(560)</u>	<u>(255,385)</u>
Projected benefit obligation	(1,377,112)	(60,774)	(4,736)	(1,890)	(1,444,512)
Plan assets at fair value	<u>359,302</u>	<u>104,682</u>	<u>44,159</u>	<u>16,682</u>	<u>524,825</u>
Funded status	(1,017,810)	43,908	39,423	14,792	(919,687)
Net transition (asset) obligation not yet recognized	(874)	-	-	-	(874)
Unrecognized prior service costs	-	-	353	-	353
Unrecognized pension loss (gain)	353,191	993	(1,309)	1,480	354,355
Additional pension liability	<u>(114,235)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(114,235)</u>
Prepaid pension cost (accrued pension cost)	<u>\$ (779,728)</u>	<u>\$ 44,901</u>	<u>\$ 38,467</u>	<u>\$ 16,272</u>	<u>\$ (680,088)</u>
Vested benefit	<u>\$ 547,994</u>	<u>\$ 5,615</u>	<u>\$ 1,088</u>	<u>\$ -</u>	<u>\$ 554,697</u>

Reconciliation of funded status of the plan and accrued pension cost as of December 31, 2010 was as follows:

	Pou Chen	Barits Development	Pou Yuen Technology	Pro Arch Technology	Total
Actuarial present value of benefit obligation:					
Vested benefits	\$ (399,474)	\$ (2,079)	\$ (801)	\$ -	\$ (402,354)
Nonvested benefits	<u>(703,058)</u>	<u>(40,313)</u>	<u>(2,503)</u>	<u>(567)</u>	<u>(746,441)</u>
Accumulated benefit obligation	(1,102,532)	(42,392)	(3,304)	(567)	(1,148,795)
Additional benefits at future salaries	<u>(284,278)</u>	<u>(15,431)</u>	<u>(2,331)</u>	<u>(160)</u>	<u>(302,200)</u>
Projected benefit obligation	(1,386,810)	(57,823)	(5,635)	(727)	(1,450,995)
Plan assets at fair value	<u>407,919</u>	<u>103,019</u>	<u>42,881</u>	<u>16,373</u>	<u>570,192</u>
Funded status	(978,891)	45,196	37,246	15,646	(880,803)
Net transition (asset) obligation not yet recognized	(2,749)	355	-	-	(2,394)
Unrecognized prior service costs	-	-	557	-	557
Unrecognized pension loss (gain)	344,368	(1,103)	(616)	313	342,962
Additional pension liability	<u>(57,341)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(57,341)</u>
Prepaid pension cost (accrued pension cost)	<u>\$ (694,613)</u>	<u>\$ 44,448</u>	<u>\$ 37,187</u>	<u>\$ 15,959</u>	<u>\$ (597,019)</u>
Vested benefit	<u>\$ 489,215</u>	<u>\$ 2,320</u>	<u>\$ 1,041</u>	<u>\$ -</u>	<u>\$ 492,576</u>

As at December 31, 2011, the amount of accrued pension cost of \$680,088 thousand was the net amount of prepaid pension cost of \$99,640 thousand, and accrued pension cost of \$779,728 thousand.

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

c. Actuarial assumptions as at December 31, 2011 were as follows:

	Pou Chen	Barits Development	Pou Yuen Technology	Pro Arch International
Weighted-average discount rate	2.00%	2.00%	2.00%	2.00%
Assumed rate of increase in salaries	2.00%	2.50%	2.75%	2.25%
Expected rate of return on plan assets	2.00%	2.00%	2.00%	2.00%

Actuarial assumptions as at December 31, 2010 were as follows:

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

d. Contributions to the fund for the years 2011 and 2010 were as follows:

	Pou Chen	Barits Development	Pou Yuen Technology	Pro Arch International	Total
2011	<u>\$ 28,558</u>	<u>\$ 1,465</u>	<u>\$ 757</u>	<u>\$ -</u>	<u>\$ 30,780</u>
2010	<u>\$ 29,081</u>	<u>\$ 1,451</u>	<u>\$ 778</u>	<u>\$ -</u>	<u>\$ 31,310</u>

e. Payments from the fund for the years 2011 and 2010 were as follows:

	Pou Chen	Barits Development	Pou Yuen Technology	Pro Arch International	Total
2011	<u>\$ 81,785</u>	<u>\$ 1,045</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 82,830</u>
2010	<u>\$ 16,315</u>	<u>\$ 978</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,293</u>

24. CAPITAL STOCK AND RETAINED EARNINGS

Pou Chen's registered and issued capital as at December 31, 2011 and 2010 were 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>2,924,147</u>	<u>2,899,756</u>
Par value (in dollars)	<u>\$ 10</u>	<u>\$ 10</u>
Capital	<u>\$ 29,241,469</u>	<u>\$ 28,997,559</u>

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

Furthermore, employee stock warrants were exercised for 24,391 thousand shares (amounted to \$243,910 thousand) during 2011. As a result, Pou Chen's outstanding common stock was \$29,241,469 thousand, divided into 2,924,147 thousand common shares, with a par value of \$10.00 per share, as at December 31, 2011.

As at July 15, 2002, the board of directors of Pou Chen resolved to issue employee stock warrants in accordance with Securities and Exchange Law Article 28-3 within the quantity of 67,600 units. Each individual employee stock warrant is granted the right to purchase new issued common share for 1,000 shares. The exercise price is the closing price of Pou Chen's common shares at the employee stock warrants' issuance date. The warrant holders can exercise the right up to one-third of the granted warrant units no earlier than two years from the granted date. After four years from the granted date, the warrants holders are eligible to exercise all the warrants owned. As of August 6, 2002, and July 24, 2003, Pou Chen has issued 66,600 units, and 1,000 units of employee stock warrants, respectively, to the employees with an exercise price of \$23.30 dollars and \$41.20 dollars per share, respectively. The exercise price of the warrant in 2011 has been retroactively restated as \$10.00 dollars 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 dollars per share. Each of the aforementioned individual employee stock warrant is granted the right to purchase one newly issued common share.

If Pou Chen resolved to increase additional capital stock through stock dividends or issue of new shares, the exercise price will be retroactively restated. Additionally, the share of employee stock warrant granted but not exercised will also be adjusted. After the aforementioned adjustment, the exercise price and issued units of employee stock warrants were \$21.30 and 149,392,469 units, respectively.

As at December 31, 2011, the employee stock warrants issued in 2002 were executed for 48,263 thousand shares of common stock.

Information about Pou Chen's outstanding stock warrants for the years ended December 31, 2011 and 2010 was as follows:

	2011		2010	
	Number of Stock Purchasable (Thousand Shares)	Weighted-average Exercise Price (NT\$)	Number of Stock Purchasable (Thousand Shares)	Weighted-average Exercise Price (NT\$)
Employee Stock Warrants				
Balance, beginning of year	193,121	\$ 19.55	190,910	\$ 20.86
Adjustment from ownership dilution	-	-	2,886	22.30
Stock warrants exercised	<u>(24,391)</u>	10.00	<u>(675)</u>	10.00
Balance, end of year	<u>168,730</u>	20.03	<u>193,121</u>	19.55
Exercisable stock warrants, end of year	<u>168,730</u>		<u>141,399</u>	

As at December 31, 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>168,730</u>	<u>5.25</u>	<u>\$ 20.03</u>	<u>168,730</u>	<u>\$ 20.03</u>
<u>2010</u>					
\$10.00-\$22.30	<u>193,121</u>	<u>5.66</u>	<u>\$ 19.55</u>	<u>141,399</u>	<u>\$ 18.54</u>

If the compensation cost based on the fair value method is accounted for as expenses, the pro-forma results of Pou Chen for the years ended December 31, 2011 and 2010 would have been as follows:

	2011	2010
Income before tax-attributed to shareholders of the Parent Company	<u>\$ 5,958,700</u>	<u>\$ 8,572,966</u>
Net income-attributed to shareholders of the Parent Company	<u>\$ 5,700,756</u>	<u>\$ 7,629,556</u>
Basic earnings per share - attributed to shareholders of the Parent Company (in dollars)	<u>\$ 1.98</u>	<u>\$ 2.68</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.

Under the Company Law, capital surplus can only be used to offset a deficit. However, the capital surplus from shares issued in excess of par (additional paid-in capital from issuance of common shares, and treasury stock transactions) and donations may be capitalized, which however is limited to a certain percentage of the Company's paid-in capital. Under the revised Company Law issued on January 4, 2012, the aforementioned capital surplus also may be distributed in cash. The capital surplus from long-term investments may not be used for any purpose.

According to the newly amended Company Law, when the legal reserve has exceeded 25% of the Company's paid-in capital, the excess may be transferred to capital or distributed in cash.

For the years ended December 31, 2011 and 2010, the bonus to employees was \$159,022 thousand and \$124,720 thousand, respectively, and the remuneration to directors and supervisors was \$80,722 thousand and \$63,309 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 in the shareholders' meetings of Pou Chen 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 remuneration to directors and supervisors of \$63,309 thousand for 2010 were approved in the stockholders' meeting of Pou Chen on June 15, 2011. The resolved amounts of the bonus to employees and the remuneration to directors and supervisors were the 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 in the stockholders' meeting of Pou Chen on June 17, 2010. The resolved amounts of the bonus to employees and the remuneration to directors and supervisors were the same as the accrual amounts, which were reflected in the financial statements for the year ended December 31, 2009.

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

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

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 eligible participants, including directors and employees of Pou Sheng and its subsidiaries, options to subscribe. The details of the plan under the scheme were as follows:

- a. Without prior approval from Pou Sheng's shareholders, the number shares that may be of granted:
 - 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 were 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 preceding the date of grant; and (iii) the nominal value of Pou Sheng's share.

Information about the Pou Sheng Scheme for the years ended September 30, 2011 and 2010 was as follows:

	2011		2010	
	Number of Stock Purchasable (Thousand Shares)	Weighted-average Exercise Price (HK\$)	Number of Stock Purchasable (Thousand Shares)	Weighted-average Exercise Price (HK\$)
Employee Stock Warrants				
Balance, beginning of year	59,510	\$ 1.62	-	\$ -
Stock warrants granted	55,000	1.23	64,500	1.62
Stock warrants terminated	(12,145)	1.62	(4,990)	1.62
Balance, end of year	<u>102,365</u>	1.41	<u>59,510</u>	1.62
Exercisable stock warrants, end of year	<u>7,105</u>		<u>-</u>	

Information about Pou Sheng Scheme outstanding employee stock options as at September 30, 2011 and 2010, was summarized as follows:

Range of Exercise Price (HK\$)	Stock Warrants Outstanding			Stock Warrants Exercisable	
	Outstanding Shares to Subscribe (Thousand Shares)	Weighted-average Predicted Period of Exercise (Years)	Weighted-average Exercise Price (HK\$)	Number of Stock Purchasable (Thousand Shares)	Weighted-average Exercise Price (HK\$)
<u>2011</u>					
\$1.23-\$1.62	<u>102,365</u>	<u>4.23</u>	<u>\$ 1.41</u>	<u>7,105</u>	<u>\$ 1.62</u>
<u>2010</u>					
\$1.62	<u>59,510</u>	<u>4.77</u>	<u>\$ 1.62</u>	<u>-</u>	<u>\$ -</u>

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

	Share Options with a Vesting Period of One Year	Share Options with a Vesting Period of Two Years	Share Options with a Vesting Period of Three Years	Share Options with a Vesting Period of Four Years
<u>Granted in 2011</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 yield	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

Granted in 2010

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 yield	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 \$72,684 thousand compensation cost of the transaction (US\$2,473 thousand) for the year ended September 30, 2011.

Pou Sheng recognized \$49,975 thousand compensation cost of the transaction (US\$1,578 thousand) for the year ended September 30, 2010.

25. TREASURY STOCK

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

Purpose of Treasury Stock	Number of Shares, Beginning of Year	Addition During the Year	Reduction During the Year	Number of Shares, End of Year
<u>Year ended December 31, 2011</u>				
For transfer to employees	43,300,000	-	43,300,000	-
Common shares held by subsidiaries	<u>10,233,528</u>	<u>277</u>	<u>-</u>	<u>10,233,805</u>
	<u>53,533,528</u>	<u>277</u>	<u>43,300,000</u>	<u>10,233,805</u>

(Continued)

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

Article 28-2 of the Securities and Exchange Law stipulates that the number of treasury shares held by the Company should not exceed 10% of the number of shares issued and that the cost for acquisition of treasury shares should not exceed the total of retained earnings, additional-paid-in capital and other realized capital surplus. Treasury stock of \$1,086,041 thousand (43,300 thousand common shares) was purchased by Pou Chen for the years ended December 31, 2011 and 2010.

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

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

After the 200,816 shares of dividends received by the subsidiaries of Pou Chen in 2010, and the 277 shares adjustment of the subsidiaries' ownership in 2011, the subsidiaries held 10,233,805 shares and 10,233,528 shares of Pou Chen's common stock, respectively, both at cost of \$155,375 thousand in total.

The information about the subsidiaries' holdings of Pou Chen's common stock was 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

26. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

Function Category	2011			2010		
	Operating Cost	Operating Expenses	Total	Operating Cost	Operating Expenses	Total
Personnel expense						
Salaries	\$ 33,569,671	\$ 11,937,350	\$ 45,507,021	\$ 27,373,264	\$ 10,534,285	\$ 37,907,549
Labor insurance and health insurance	1,344,510	620,601	1,965,111	1,009,568	527,751	1,537,319
Pension cost	543,345	829,102	1,372,447	490,144	738,567	1,228,711
Others	6,331	64,333	70,664	10,118	65,948	76,066
Depreciation expenses	4,384,461	2,646,128	7,030,589	4,495,312	2,386,615	6,881,927
Amortization expenses	2,224	367,879	370,103	8,460	182,787	191,247

27. INCOME TAX

The Company's income tax expense for the years ended December 31, 2011 and 2010 was as follows:

	2011	2010
Income tax expense, current	\$ 1,578,903	\$ 920,346
Basic tax expense	240	47,971
10% additional income tax on undistributed earnings	80,843	377,185
Adjustment of deferred income tax asset and valuation allowance	(511,045)	(41,333)
Effect of tax law change on deferred income tax	-	105,700
Adjustment of prior year's income tax expense	<u>57,142</u>	<u>715,641</u>
Income tax expense, net	<u>\$ 1,206,083</u>	<u>\$ 2,125,510</u>

Under Article 10 of the Statute for Industrial Innovation (SII) passed by the Legislative Yuan in April 2010, a profit-seeking enterprise may deduct up to 15% of its research and development expenditures from its income tax payable for the fiscal year in which these expenditures are incurred, but this deduction should not exceed 30% of the income tax payable for that fiscal year. This incentive took effect from January 1, 2010 and is effective till December 31, 2019.

In May 2010, the Legislative Yuan passed the amendment of Article 5 of the Income Tax Law, which reduced 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 December 31, 2011 and 2010 were as follows:

	2011	2010
Unrealized inventory devaluation loss	\$ 18,590	\$ 11,879
Unrealized bad debt loss	109,217	117,757
Unrealized impairment loss	21,587	22,820
Unrealized pension expense	114,734	109,940
Unrealized exchange (gain) loss	(3,924)	11,647
Losses carryforward	355,698	392,210
Investment tax credits	10,530	21,540
Unrealized investment income under equity method from foreign subsidiaries	(469,090)	(469,090)
Others	(973,246)	(658,678)
Less valuation allowance	<u>(466,004)</u>	<u>(535,977)</u>
Deferred income tax liabilities, net	<u>\$ (1,281,908)</u>	<u>\$ (975,952)</u>

The detail was as follows:

	2011	2010
Deferred income tax assets, current (recorded under "other current assets")	\$ 2,780	\$ 2,933
Deferred income tax assets, noncurrent	218,562	201,440
Deferred income tax liabilities, current (recorded under "other current liabilities")	(461,366)	(449,890)
Deferred income tax liabilities, noncurrent	<u>(1,041,884)</u>	<u>(730,435)</u>
	<u>\$ (1,281,908)</u>	<u>\$ (975,952)</u>

The Company's current income tax expense for the years ended December 31, 2011 and 2010 and income tax payable as at December 31, 2011 and 2010 were reconciled as follows:

	2011	2010
Income tax expense at statutory rate of 17%	\$ 1,911,945	\$ 2,740,068
Gain on disposal of investments	(707)	(88,513)
Dividend income - tax free	(76,573)	(86,424)
Loss from investees which decreased capital to offset accumulated deficit	(113,647)	(50,036)
Investment income recognized under equity method	(482,032)	(912,129)
Others	<u>339,917</u>	<u>(682,620)</u>
Income tax expense, current	1,578,903	920,346
Provision (reversal) for deferred income tax asset (liabilities)		
Unrealized (reversal of) inventory devaluation loss	7,549	(578)
Unrealized pension expense	4,798	5,560
Investment income recognized under equity method from foreign subsidiaries	-	(469,090)
Reversal of unrealized bad debt loss	(6,257)	(15,655)
Loss carryforward	(64,865)	442
Unrealized exchange (gain) loss	(15,165)	12,647
Others	<u>(354,214)</u>	<u>68,475</u>
Income tax payable	1,150,749	522,147
Add: Basic tax payable	240	47,971
10% additional income tax on unappropriated earnings	80,843	377,185
Prior year's income tax payable	48,637	1,988
Less: Investment tax credits	(222,199)	(3,654)
Temporary tax payment	<u>(3,498)</u>	<u>(267)</u>
Income tax payable	<u>\$ 1,054,772</u>	<u>\$ 945,370</u>

Loss carryforward as of December 31, 2011 comprised of:

Expiry Year	Amount
2013	\$ 42,702
2014	103,826
2015	106,060
2016	27,015
2017	20,907

(Continued)

Expiry Year	Amount
2018	\$ 14,958
2019	8,880
2020	24,915
2021	<u>6,435</u>
	<u>\$ 355,698</u> (Concluded)

Tax credits as of December 31, 2011 comprised of the following:

Expiry Year	Amount
2012	\$ 2,495
2013	<u>8,035</u>
	<u>\$ 10,530</u>

Income tax payment of \$5,135 thousand (recorded under "other assets") as at December 31, 2011 was previous withholding tax.

The income tax returns of Pou Chen for the years through 2009 (except 2008) had been examined and approved by the tax authority. The income tax returns of Pou Yuen Technology for the years through 2008 had been examined and approved by the tax authority. The income tax returns of Barits Development, LNC Technology, Pro Arch International, Ming Wang, Pou Shine, Yun Yang, Proshine Healthcare, 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 and Pou Chin Development for the years through 2009 had been examined and approved by the tax authority.

The information of Pou Chen's integrated income tax system as at December 31, 2011 was as follows:

Balance of Imputation Credit Account	<u>\$ 331,528</u>
Undistributed earnings for the years 1997 and before	<u>\$ 221,425</u>
Undistributed earnings for the years 1998 and thereafter	<u>\$ 12,650,441</u>
Expected IC ratio on distribution of earnings for the year 2011	<u>6.23%</u>
Actual IC ratio on distribution of earnings for the year 2010	<u>4.32%</u>

The expected IC ratio on distribution of earnings for the year 2011 considered income tax payable as at December 31, 2011.

28. EARNINGS PER SHARE

For the years ended December 31, 2011 and 2010, the amounts of earnings per share (EPS) before income tax and after income tax were as follows:

	2011						
	Amount			Shares (In Thousands)	EPS		
	Income Before Tax	Income After Tax	Income After Tax (Attributed to Pou Chen's Shareholders)		Income Before Tax	Income After Tax	Income After Tax (Attributed to Pou Chen's Shareholders)
Basic earnings per share							
Net income	\$ 14,096,620	\$ 12,890,537	\$ 5,806,723	2,886,017	\$ 4.88	\$ 4.47	\$ 2.01
Effect of dilutive potential							
Common shares							
Bonus to employee	-	-	-	6,399			
Employee stock warrants	-	-	-	47,286			
Diluted earnings per share							
Net income plus the effect of dilutive potential common shares	\$ 14,096,620	\$ 12,890,537	\$ 5,806,723	2,939,702	\$ 4.80	\$ 4.38	\$ 1.98
	2010						
	Amount			Shares (In Thousands)	EPS		
	Income Before Tax	Income After Tax	Income After Tax (Attributed to Pou Chen's Shareholders)		Income Before Tax	Income After Tax	Income After Tax (Attributed to Pou Chen's Shareholders)
Basic earnings per share							
Net income	\$ 18,136,053	\$ 16,010,543	\$ 7,895,614	2,845,728	\$ 6.37	\$ 5.63	\$ 2.77
Effect of dilutive potential							
Common shares							
Bonus to employee	-	-	-	4,628			
Employee stock warrants	-	-	-	49,258			
Diluted earnings per share							
Net income plus the effect of dilutive potential common shares	\$ 18,136,053	\$ 16,010,543	\$ 7,895,614	2,899,614	\$ 6.25	\$ 5.52	\$ 2.72

The Company presumes 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 years ended December 31, 2011 and 2010 would have been as follows:

	2011						
	Amount			Shares (In Thousands)	EPS		
	Income Before Tax	Income After Tax	Income After Tax (Attributed to Pou Chen's Shareholders)		Income Before Tax	Income After Tax	Income After Tax (Attributed to Pou Chen's Shareholders)
Basic earnings per share							
Net income	\$ 14,108,898	\$ 12,902,815	\$ 5,819,001	2,896,251	\$ 4.87	\$ 4.46	\$ 2.01
Effect of dilutive potential							
Common shares							
Bonus to employee	-	-	-	6,399			
Employee stock warrants	-	-	-	47,286			
Diluted earnings per share							
Net income plus the effect of dilutive potential common shares	\$ 14,108,898	\$ 12,902,815	\$ 5,819,001	2,949,936	\$ 4.78	\$ 4.37	\$ 1.97

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

29. DISCLOSURES FOR FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

The fair value of nonderivative and derivative financial instruments as at December 31, 2011 and 2010 was summarized as follows:

Nonderivative Financial Instruments	2011		2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
Cash and cash equivalents	\$ 25,276,926	\$ 25,276,926	\$ 24,199,996	\$ 24,199,996
Financial assets at fair value through profit of loss, current	707,743	707,743	642,224	642,224
Available-for-sale financial assets, current	10,745,285	10,745,285	10,344,804	10,344,804
Financial asset carried at cost, current	28,399	-	239,664	-
Notes and accounts receivable	23,198,380	23,198,380	21,316,715	21,316,715
Notes and accounts receivable from affiliates	748,762	748,762	497,571	497,571
Other receivables	3,882,001	3,882,001	5,736,774	5,736,774
Investments accounted for by the equity method	40,998,524	35,775,489	30,122,903	29,351,649
Prepayments for investments	131,575	131,575	559,967	559,967
Available-for-sale financial assets, noncurrent	460,759	460,759	1,518,429	1,518,429
Financial assets carried at cost, noncurrent	822,120	-	1,176,622	-
Refundable deposits	177,109	177,109	179,799	179,799
Liabilities				
Short-term loans	18,972,990	18,972,990	14,326,192	14,326,192
Short-term bills payable	2,818,143	2,818,143	1,364,378	1,364,378
Notes and accounts payable	14,418,406	14,418,406	12,143,461	12,143,461
Notes and accounts payable to affiliates	1,949,288	1,949,288	1,446,598	1,446,598

(Continued)

Nonderivative Financial Instruments	2011		2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Other payables	\$ 15,265,607	\$ 15,265,607	\$ 12,016,619	\$ 12,016,619
Current portion of long-term liabilities	3,354,105	3,354,105	16,402,595	16,402,595
Bonds payable	-	-	-	-
Long-term debt	48,981,374	48,981,374	29,657,749	29,657,749
Guarantee deposits received	6,885	6,885	6,146	6,146
				(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)	\$ -	\$ -	\$ 932,160	\$ 932,160
Forward exchange contracts (financial assets at fair value through profit or loss, current)	6,804	6,804	70,895	70,895
JV Call option (financial assets at fair value through profit or loss, noncurrent)	677,040	677,040	1,340,679	1,340,679
Euro Convertible Bonds with options (financial liabilities at fair value through profit or loss, current)	-	-	723,084	723,084
Forward exchange contracts (financial liabilities at fair value through profit or loss, current)	404,780	404,780	64,630	64,630
Interest rate swap contracts (financial liabilities at fair value through profit or loss, current)	16,490	16,490	-	-
Foreign currency option contracts (financial liabilities at fair value through profit or loss, current)	27,309	27,309	-	-
Interest rate swap contracts (hedging derivative liabilities, current)	22,901	22,901	20,017	20,017
Interest rate swap contracts (hedging derivative liabilities, noncurrent)	11,450	11,450	52,502	52,502

The information about derivatives that were designated and effective as hedging instruments as at December 31, 2011 and 2010 was summarized as follows:

December 31, 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	\$ 375,000	2013.05.16	2.48	0.861	\$ (6,126)
China Trust Commercial Bank	"	375,000	2013.05.16	2.28	0.861	(5,380)
Citibank	"	375,000	2013.05.16	2.48	0.861	(6,122)
Citibank	"	375,000	2013.05.16	2.46	0.861	(6,047)
Citibank	"	375,000	2013.05.16	2.28	0.861	(5,375)
Citibank	"	<u>375,000</u>	2013.05.16	2.26	0.861	<u>(5,301)</u>
		2,250,000				(34,351)
Less current portion		<u>(1,500,000)</u>				<u>22,901</u>
		<u>\$ 750,000</u>				<u>\$ (11,450)</u>

December 31, 2010

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

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

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

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

- c. The fair values of investments accounted for by the equity method are based on their quoted prices in the active market. For those investments with no quoted market prices, their fair values are based on the net equity value in the financial report verified and certified by an independent accountant.
- 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 bonds payable 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 was summarized as follows:

	Quoted Market Price in Active Market		Other Method of Valuation	
	2011	2010	2011	2010
<u>Assets</u>				
Financial assets at fair value through profit or loss, current	\$ 707,743	\$ 642,224	\$ 6,804	\$ 1,003,055
Financial assets at fair value through profit or loss, noncurrent	-	-	677,040	1,340,679
Available-for-sale financial assets, current	10,745,285	10,344,804	-	-
Available-for-sale financial assets, noncurrent	460,759	1,518,429	-	-
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss, current	-	-	448,579	787,714
Hedging derivative financial liabilities, current	-	-	22,901	20,017
Hedging derivative financial liabilities, noncurrent	-	-	11,450	52,502

As at December 31, 2011 and 2010, financial liabilities exposed to cash flow interest rate risk were \$74,126,612 thousand and \$53,925,169 thousand, respectively.

The Company recognized an unrealized adjustment of \$(2,234,688) thousand and \$1,511,505 thousand, respectively, in equity for the changes in fair value of available-for-sale financial assets for the years ended December 31, 2011 and 2010.

Financial Risk Information

a. Market risk

The risk that the Company has on portfolios of marketable equity securities and open-ended mutual fund comes from changes in market price. If one percentage decline in market rate would cause the fair value of financial instruments to decline by \$182,622 thousand and \$223,413 thousand, respectively, as at December 31, 2011 and 2010.

b. Credit risk

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

c. Liquidity risk

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

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

d. Cash flow interest rate risk

The Company engaged in floating-interest-rate short-term and long-term borrowings. Therefore, cash flows are expected to fluctuate due to changes in market interest rates. If one percentage increase in market rate would cause the Company to increase its cash-out by \$741,266 thousand and \$539,252 thousand, respectively, in 2011 and 2010.

30. RELATED PARTY TRANSACTIONS

Names and relationships of the related parties are as follows:

<u>Name</u>	<u>Relationship</u>
CMKC (HK) Limited ("CMKC")	The Company's substantive related party before March 24, 2010
Ka Yuen Rubber Factory Limited ("Ka Yuen")	The Company holds a 50.00% ownership interest
Twinways Investments Ltd. ("Twinways")	The Company holds a 50.00% ownership interest
Best Focus Holdings Ltd. ("Best Focus")	The Company holds a 50.00% ownership interest
Hua Jian Industrial Holding Co., Ltd. ("Hua Jian")	The Company holds a 50.00% ownership interest
Cohen Enterprises Inc. ("Cohen")	The Company holds a 50.00% ownership interest
Bandwidth Trading Ltd. ("Bandwidth")	The Company holds a 50.00% ownership interest
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
Oftentimes Holdings Ltd. ("Oftentimes")	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
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
Sheachang Enterprise Co., Ltd. ("Sheachang")	Related party in substance
Ruen Chen Investment Holding Co., Ltd. ("Ruen Chen")	The Company holds a 20.00% ownership interest

(Continued)

Name	Relationship
Dong Guan Pou Chien Shoe Materials Company Limited (“Dong Guan Pou Chien”)	The Company holds a 49.00% 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

(Concluded)

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

Sales

Sales to related parties for the years ended December 31, 2011 and 2010 were summarized as follows:

	2011		2010	
	Amount	Percentage	Amount	Percentage
CMKC	\$ -	-	\$ 475,096	-
Sheachang	186,906	-	105,904	-
Others	<u>1,494,439</u>	<u>1</u>	<u>1,423,015</u>	<u>1</u>
	<u>\$ 1,681,345</u>	<u>1</u>	<u>\$ 2,004,015</u>	<u>1</u>

Cost of Sales - Purchases and Cost of Processing

Purchases and cost of processing from related parties for the years ended December 31, 2011 and 2010 were summarized as follows:

	2011		2010	
	Amount	Percentage	Amount	Percentage
Ka Yuen	\$ 3,125,674	2	\$ 2,598,365	2
San Fang	1,308,084	1	1,491,140	1
Twinways	939,101	1	842,105	-
Others	<u>2,618,386</u>	<u>2</u>	<u>2,713,588</u>	<u>2</u>
	<u>\$ 7,991,245</u>	<u>6</u>	<u>\$ 7,645,198</u>	<u>5</u>

Accounts Receivable

Accounts receivable from affiliates as at December 31, 2011 and 2010 were summarized as follows:

	2011		2010	
	Amount	Percentage	Amount	Percentage
Notes receivable				
Sheachang	\$ 43,684	43	\$ 5,685	15
Others	<u>203</u>	<u>-</u>	<u>86</u>	<u>-</u>
	<u>43,887</u>	<u>43</u>	<u>5,771</u>	<u>15</u>
Accounts receivable				
Others	725,444	3	498,945	2
Less allowance for doubtful accounts	<u>(20,569)</u>	<u>-</u>	<u>(7,145)</u>	<u>-</u>
	<u>704,875</u>	<u>3</u>	<u>491,800</u>	<u>2</u>
	<u>\$ 748,762</u>		<u>\$ 497,571</u>	

Notes and Accounts Payable

Notes and accounts payable to affiliates as at December 31, 2011 and 2010 were summarized as follows:

	2011		2010	
	Amount	Percentage	Amount	Percentage
Notes payable				
San Fang	\$ 25,843	22	\$ 48,791	50
Accounts payable				
Ka Yuen	881,928	5	542,721	4
Twinways	397,265	2	237,584	2
San Fang	212,316	1	188,822	1
Others	431,936	4	428,680	3
	<u>1,923,445</u>	<u>12</u>	<u>1,397,807</u>	<u>10</u>
	<u>\$ 1,949,288</u>		<u>\$ 1,446,598</u>	

Compensation of Directors, Supervisors and Management Personnel

Compensation of directors, supervisors and management personnel for the years ended December 31, 2011 and 2010 was as follows:

	2011	2010
Salaries	\$ 137,723	\$ 160,257
Incentives	80,722	63,309
Bonus	10,400	10,400
Others	<u>7,244</u>	<u>7,211</u>
	<u>\$ 236,089</u>	<u>\$ 241,177</u>

Property Guarantees

Pou Chen has provided 820,000 thousand shares of Ruen Chen as collateral of the long-term loans made by Ruen Chen from banks. The maximum amount guaranteed by Pou Chen was set at \$7,500,000 thousand.

Credit Guarantees

See Note 32.

31. MORTGAGED OR PLEDGED ASSETS

	2011	2010
Land for development	\$ 1,426,222	\$ 1,802,811
Restricted assets - current (recorded under "other current assets")	64,604	10,371
Property, plant and equipment	117,104	113,054
Other intangible assets	515,038	485,568
Restricted assets - noncurrent (recorded under "other assets")	<u>405,726</u>	<u>32,282</u>
	<u>\$ 2,528,694</u>	<u>\$ 2,444,086</u>

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

32. COMMITMENTS AND CONTINGENCIES

Letters of Credit

Outstanding letters of credit of the Company as at December 31, 2011 were as follows:

U.S. dollars (in dollars) \$ 225,401

Per the request from FSC and other authorities, Pou Chen guaranteed that the shares of Yue Yuen owned by its subsidiary, Wealthplus, for custody will not be disposed or pledged during the custody period in connection with the investment in Nan Shan Life Insurance Co., Ltd. through Ruen Chen.

Pou Yuen and Pou Yu Biotechnology (the “two companies”) entered into project agreements with Institute for Information Industry (“III”) and China Productivity Center (“CPC”), respectively. According to the project agreements, the two companies have to provide promissory notes to III and CPC as guarantee. In addition, Citibank and Australia and New Zealand Bank (“the banks”) guarantee the two companies will accomplish such agreements; if the contracts are breached, the banks will convert the guarantee into a credit loan, otherwise the companies have to repay to the banks immediately.

As at December 31, 2011, the Company had guaranteed the payments of credit of related parties which amounted to \$38,085,460 thousand as follows:

Related Parties	Amount of Credit of Subsidiary Guaranteed for Payment	Amount of Credit of Investment Company Guaranteed for Payment
<u>Guaranteed by Pou Chen</u>		
Wealthplus	\$ 14,762,090	
Barits Development	6,658,250	
Pro Arch	450,000	
Pou Shine	1,050,000	
Pou Yuen Technology	1,742,107	
Ming Wang	650,000	
Ming Chi	200,000	
Pou Yii Development	400,000	
LNC Technology	46,599	
Pou Yu Biotechnology	3,265	
Tetor Ventores	420,823	
Digital Decade	96,880	
Ruen Chen		\$ 7,500,000
<u>Guaranteed by Yue Yuen</u>		
Best Focus		226,972
Hua Jian		745,766
Cohen		729,554
Ka Yuen		127,204
Bandwidth		40,531
PT Ka Yuen		32,425
Yuen Thai		374,130

(Continued)

Related Parties	Amount of Credit of Subsidiary Guaranteed for Payment	Amount of Credit of Investment Company Guaranteed for Payment
Din Tsun		\$ 16,212
Jumbo Power		162,123
Vietnam Tiong Liong		46,191
Pine Wood		216,921
Liberty Bell		285,985
Oftenrich		175,093
Yuen Foong Yu		145,392
Intelligent Plus		59,532
Dong Guan Pou Chien		67,155
Jilin Lingpao		102,629
Shaanxi Jixian Longyue		141,115
Hubei Shengdao		410,516
	<u>\$ 26,480,014</u>	<u>\$ 11,605,446</u> (Concluded)

33. SUBSEQUENT EVENTS

On December 29, 2011, the board of directors of Yue Yuen decided to distribute earnings in the amount of HK\$1,648,928 thousand (\$6,425,874 thousand).

On March 5, 2012, the board of directors of Pou Chen resolved to acquire 18,000 thousand shares of Right and Great Asia-Pacific, from non-related parties at \$18.00 per share. As at March 27, 2012, Pou Chen has acquired 16,000 thousand shares, while 2,000 thousand shares were not yet registered, for a total consideration of \$288,000 thousand.

Furthermore, the board of directors of Right and Great Asia-Pacific resolved to sell the land located in Huimin section, Xitun District, Taichung to non-related parties for a total consideration of \$2,268,638 thousand. As at March 27, 2012, the transaction was not yet registered.

34. OPERATING SEGMENT FINANCIAL INFORMATION

The Company's reportable segments under SFAS No. 41 were summarized as follows:

- Manufacturing of footwear and apparel
- Retailing of sportswear and brand licensing business
- Others

Principles of measuring reportable segments, profit, assets and liabilities:

- a. The significant accounting principles of each operating segment are the same as those stated in Note 2 to the consolidated financial statements. The Company's operating segment profit or loss represents the profit or loss earned by each segment. The profit or loss is controllable by segment managers and is the basis for assessment of segment performance.

- b. Individual segment assets are disclosed as zero since those measures are not reviewed by the chief operating decision maker. Major liabilities are arranged based on the capital cost and deployment of the whole company, which are not controlled by individual segment managers.

1) Segment revenues and operating results:

	<u>Segment Revenue</u>		<u>Segment Profit and Loss</u>	
	<u>Years Ended December 31</u>		<u>Years Ended December 31</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Manufacturing of footwear and apparel	\$ 163,008,811	\$ 143,904,679	\$ 24,316,769	\$ 26,616,668
Retailing of sportswear and brand licensing business	42,352,901	37,846,283	2,157,505	1,342,048
Others	<u>3,077,443</u>	<u>11,405,938</u>	<u>660,580</u>	<u>435,117</u>
Total segment revenue	<u>\$ 208,439,155</u>	<u>\$ 193,156,900</u>	27,134,854	28,393,833
Administrative and support expenses			(15,663,258)	(14,327,360)
Interest income			383,096	389,663
Investment income recognized under the equity method			2,674,626	3,228,878
Dividend income			483,568	517,916
Gain on disposal of property, plant and equipment and leased-out assets			235,433	(159,769)
Gain on disposal of investments			49,117	800,882
Foreign exchange gain, net			1,321,968	245,559
Valuation on financial instruments			(1,081,611)	(55,322)
Others			830,099	1,020,388
Interest expense			(1,555,163)	(1,679,306)
Impairment loss			(575,993)	(62,828)
Others			<u>(140,116)</u>	<u>(176,481)</u>
Income before tax			<u>\$ 14,096,620</u>	<u>\$ 18,136,053</u>

2) Segment assets:

	<u>2011</u>	<u>2010</u>
Assets allocated to reportable segments	\$ -	\$ -
Assets used jointly by reportable segments	<u>239,712,320</u>	<u>206,880,993</u>
Consolidated assets	<u>\$ 239,712,320</u>	<u>\$ 206,880,993</u>

3) Export sales information:

The Company's export sales by geographical location for the years ended December 31, 2011 and 2010 amounted to \$203,146,504 thousand and \$187,499,946 thousand, respectively, were as follows:

	2011	2010
Asia	\$ 79,839,614	\$ 75,311,410
United States	72,837,832	69,866,846
Europe	45,399,827	37,606,410
Others	<u>5,069,231</u>	<u>4,715,280</u>
	<u>\$ 203,146,504</u>	<u>\$ 187,499,946</u>

4) Major customers:

Customers accounting for at least 10% net sales for the years ended December 31, 2011 and 2010 were as follows:

	2011		2010	
	Sales	Percentage %	Sales	Percentage %
Customers A	\$ 45,992,802	22	\$ 41,449,753	21
Customers B	<u>33,901,812</u>	<u>16</u>	<u>29,867,252</u>	<u>16</u>
	<u>\$ 79,894,614</u>	<u>38</u>	<u>\$ 71,317,005</u>	<u>37</u>

35. OTHERS

For the years ended December 31, 2011 and 2010, significant foreign currency financial assets and liabilities were 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	\$ 1,869,910,428	30.275	\$ 56,611,538	\$ 1,925,012,055	29.13	\$ 56,075,601
HKD	216,721	3.897	845	22,637	3.75	85
Investments accounted for by the equity method						
USD	743,630,454	30.275	22,513,412	732,298,524	29.13	21,331,856
<u>Financial liabilities</u>						
Monetary items						
USD	2,581,330,914	30.275	78,149,793	2,229,148,213	29.13	64,935,087
HKD	-	3.897	-	54,233	3.75	203
JPY	-	0.391	-	4,895,917	0.36	1,763

36. PRE-DISCLOSURE OF THE ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

According to the Rule No. 0990004943 issued by the FSC on February 2, 2010, the Company's pre-disclosure information regarding the adoption of International Financial Reporting Standards (IFRSs) was as follows:

- a. On May 14, 2009, the FSC announced the "Framework for Adoption of International Financial Reporting Standards by Companies in the ROC." In this framework, starting 2013, companies with shares listed on the TSE or traded on the Taiwan GreTai Securities Market or Emerging Stock Market should prepare their financial statements in accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, International Financial Reporting Standards, International Accounting Standards, Interpretations and related guidance translated by the ARDF and issued by the FSC. To comply with this framework, the Company has set up a project team and made a plan to adopt the IFRSs. The main contents of the plan, anticipated schedule and status of execution as of December 31, 2011 were as follows:

<u>Contents of Plan</u>	<u>Responsible Department</u>	<u>Status of Execution</u>
<u>Assessing phase</u>		
• Setting up a project team and making a plan to adopt the IFRSs	Accounting division	Completed
• Processing the first phase internal training for employees	Accounting division	Completed
• Comparing and analyzing the difference between the existing accounting policies and IFRSs	Accounting division	Completed
• Assessing the adjustments for the existing accounting policies	Accounting division	Completed
• Assessing the adjustments to the information systems	Accounting division and information division	Completed
• Assessing the adjustments to the internal controls	Accounting division and internal audit division	Completed
<u>Preparing phase</u>		
• Deciding how to adjust existing accounting policies according to IFRSs	Accounting division	Completed
• Deciding how to adopt IFRS1 "First-time Adoption of International Financial Reporting Standards"	Accounting division	Completed
• Adjusting related information systems	Accounting division and information division	Completed
• Processing the second phase internal training for employees	Accounting division	Completed
• Adjusting internal controls	Accounting division and internal audit division	In progress as planned

(Continued)

Contents of Plan	Responsible Department	Status of Execution
<u>Implementing phase</u>		
• Testing the operation of related information system	Information division	Completed
• Collecting materials and preparing to draw up the opening balance for balance sheet and comparative financial statements	Accounting division	In progress as planned
• Drawing up financial statements according to IFRSs	Accounting division	In progress as planned (Concluded)

- b. As at December 31, 2011, the significant differences between the Company's current accounting policies under ROC GAAP and under IFRSs were stated as follows:

Accounting Issues	Description of Differences
Impairment loss and gain or loss on disposal of property, plant and equipment	<p>1) Under ROC GAAP, impairment loss is recognized in non-operating losses.</p> <p>2) Under IFRSs, impairment loss shall be separately presented in the financial report in which the Company adopted functional classification.</p>
The term of time deposit with maturities over three months	<p>1) Under ROC GAAP, time deposits which would be cancellable but without any loss of principal are classified as cash.</p> <p>2) Under IFRSs, time deposit with no quoted prices in an active market shall be classified as other instruments.</p>
Deferred tax assets and liabilities	<p>1) Under ROC GAAP, a deferred tax asset or liability is classified as current or noncurrent in accordance with the classification of its related asset or liability.</p> <p>2) Under IFRSs, deferred tax assets or liabilities should be classified as noncurrent assets or liabilities. Allowance for deferred tax asset is not allowed.</p>
Investment property	<p>1) Under ROC GAAP, the leased-out assets are classified as other assets.</p> <p>2) Under IFRSs, property held by the owner or by the lessee under a finance lease, to earn rentals, or for capital appreciation, or both is classified as investment property. Investment property shall be presented separately as in the financial reports.</p>

(Continued)

<u>Accounting Issues</u>	<u>Description of Differences</u>
Land-use rights	<ol style="list-style-type: none"> 1) Under ROC GAAP, land-use rights are recorded as intangible assets. 2) Under IFRSs, land-use rights should be recorded as long-term prepayment.
Employee pension plan (under defined benefit plan)	<ol style="list-style-type: none"> 1) Under ROC GAAP, the gain or loss due to the changes of actuarial assumptions should be amortized to current income or loss. 2) Under IFRSs, all actuarial gains and losses could be recognized immediately as other comprehensive income. 3) On the date of transition to IFRSs, the above-mentioned unrecognized transition obligation should be recognized as deduction of retained earnings.
Minimum pension liability (under defined benefit plan)	<ol style="list-style-type: none"> 1) Under ROC GAAP, the excess of the accumulated benefit obligation over the pension plan assets at the balance sheet date would be recognized as minimum pension liability. 2) On the date of transition to IFRSs, the above-mentioned minimum pension liability should be reversed.
Employee benefits - accumulating compensated absences	<ol style="list-style-type: none"> 1) Under ROC GAAP, there was no accounting standard for accumulating compensated absences. 2) Under IFRSs, accumulating compensated absences are recognized as salary expense attributing to services rendered by employees during that period.
Deemed cost for property, plant and equipment	<p>On the date of transition to IFRSs, the Company will elect to use ROC GAAP revaluation as deemed cost. The unrealized revaluation increment will be recognized as addition to retained earnings, and reserve for land valuation increment tax will be classified as deferred tax liabilities.</p>
Cumulative translation adjustments	<p>Factors under ROC GAAP and under IFRS are different. On the date of transition to IFRSs, the above-mentioned cumulative translation adjustments should be recognized as deduction to retained earnings.</p>

(Continued)

Accounting Issues	Description of Differences
Adjustment to capital surplus	<ol style="list-style-type: none"> 1) Under ROC GAAP, the Company recorded the change in its equity as an adjustment to investments, with a corresponding amount credited or charged to capital surplus. 2) Under IFRSs, changes in the Company's ownership interest in subsidiaries that do not result in losing control over subsidiaries are accounted for as equity transactions. When the Company loses control over subsidiaries, the profit or loss are recognized in the period. 3) On the date of transition to IFRSs, the capital surplus which does not qualify in the definition of IFRSs should be adjusted. <p style="text-align: right;">(Concluded)</p>

The Company has prepared the above assessments in accordance with (a) the 2010 version of the IFRSs translated by the ARDF and issued by the FSC and (b) the Guidelines Governing the Preparation of Financial Reports by Securities Issuers amended and issued by the FSC on December 22, 2011. These assessments may be changed as the FSC may issue new rules governing the adoption of IFRSs, and as other laws and regulations may be amended to comply with the adoption of IFRSs. Actual results may differ from these assessments.