

# **Gintech Energy Corporation**

**Financial Statements for the Year Ended  
December 31, 2006 and the Period from  
August 10, 2005 (Date of Incorporation) to  
December 31, 2005 and  
Independent Auditors' Report**

## **INDEPENDENT AUDITORS' REPORT**

The Board of Directors and Stockholders  
Gintech Energy Corporation

We have audited the accompanying balance sheets of Gintech Energy Corporation (the "Company") as of December 31, 2006 and 2005, and the related statements of income, changes in stockholders' equity, and cash flows for the year ended December 31, 2006 and the period from August 10, 2005 (date of incorporation) to December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Gintech Energy Corporation as of December 31, 2006 and 2005 and the results of its operations and its cash flows for the year ended December 31, 2006 and the period from August 10, 2005 (date of incorporation) to December 31, 2005, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

As described in Note 3, on January 1, 2006, Gintech Energy Corporation adopted the newly released Statement of Financial Accounting Standards ("SFAS") No. 34 - "Accounting for Financial Instruments," No. 36 - "Disclosure and Presentation of Financial Instruments" and related revisions of previously released SFASs.

We have also audited the consolidated financial statements of Gintech Energy Corporation and subsidiary as of and for the year ended December 31, 2006 (not presented with this report) and have expressed a modified unqualified opinion on those financial statements.

January 31, 2007

Notice to Readers

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

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

# GINTECH ENERGY CORPORATION

## BALANCE SHEETS

DECEMBER 31, 2006 AND 2005

(In Thousands of New Taiwan Dollars)

ASSETS	2006		2005 (Development Stage)		LIABILITIES AND STOCKHOLDERS' EQUITY	2006		2005 (Development Stage)	
	Amount	%	Amount	%		Amount	%	Amount	%
<b>CURRENT ASSETS</b>					<b>CURRENT LIABILITIES</b>				
Cash and cash equivalents (Notes 2 and 5)	\$ 1,053,095	25	\$ 53,332	8	Short-term bank loans (Notes 10 and 18)	\$ 942,275	23	\$ -	-
Accounts receivable, net (Notes 2 and 6)	9,330	-	-	-	Notes payable	-	-	41	-
Other receivables	776	-	2,088	-	Accounts payable	41,168	1	-	-
Other receivables from related parties (Note 17)	2,728	-	-	-	Accounts payable to related parties (Note 17)	541,437	13	-	-
Inventories, net (Notes 2 and 7)	720,502	17	20,921	3	Accrued expenses (Note 15)	31,581	1	4,028	1
Prepayments	150,461	4	13	-	Other payables	122,799	3	590	-
Deferred income tax assets - current (Notes 2 and 14)	3,227	-	2,534	1	Lease payable - current (Notes 2 and 9)	377	-	95	-
Pledged current assets (Note 18)	147,545	4	388,574	61	Other current liabilities	1,456	-	207	-
Other current assets	28,879	1	1,295	-					
Total current assets	2,116,543	51	468,757	73	Total current liabilities	1,681,093	41	4,961	1
<b>LONG-TERM INVESTMENTS (Notes 2 and 8)</b>					<b>LONG-TERM LIABILITIES</b>				
Investments accounted for using equity method	521	-	1,000	-	Lease payable, net of current portion (Notes 2 and 9)	516	-	191	-
					Long-term bank loans (Notes 11 and 18)	780,000	19	-	-
<b>PROPERTY, PLANT AND EQUIPMENT (Notes 2, 9 and 18)</b>					Total long-term liabilities	780,516	19	191	-
Cost					Total liabilities	2,461,609	60	5,152	1
Buildings	86,459	2	-	-	<b>STOCKHOLDERS' EQUITY</b>				
Machinery	539,206	13	-	-	Capital stock (Note 12)	782,222	19	660,000	102
Transportation equipment	751	-	-	-	Capital collected in advance (Notes 2 and 11)	903,022	22	-	-
Furniture and office equipment	15,240	-	1,858	1	Capital surplus (Notes 2 and 12)				
Leased assets	1,013	-	309	-	Employee stock option	2,084	-	-	-
Other equipment	187,242	5	120	-	Accumulated deficit (Note 12)	(20,226)	(1)	(21,194)	(3)
	829,911	20	2,287	1	Total stockholders' equity	1,667,102	40	638,806	99
Less accumulated depreciation	(40,111)	(1)	(188)	-					
Construction-in-progress and prepayments for purchase of equipment	485,513	12	168,886	26					
Property, plant and equipment, net	1,275,313	31	170,985	27					
<b>OTHER ASSETS</b>									
Refundable deposits (Notes 17 and 19)	726,983	18	1,612	-					
Deferred charges (Note 2)	9,335	-	1,604	-					
Deferred income tax assets - noncurrent (Notes 2 and 14)	16	-	-	-					
Total other assets	736,334	18	3,216	-					
<b>TOTAL</b>	<b>\$ 4,128,711</b>	<b>100</b>	<b>\$ 643,958</b>	<b>100</b>	<b>TOTAL</b>	<b>\$ 4,128,711</b>	<b>100</b>	<b>\$ 643,958</b>	<b>100</b>

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

(With Deloitte & Touche audit report dated January 31, 2007)



## GINTECH ENERGY CORPORATION

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
 YEAR ENDED DECEMBER 31, 2006 AND PERIOD FROM AUGUST 10, 2005 (DATE OF INCORPORATION) TO DECEMBER 31, 2005  
 DEVELOPMENT STAGE FROM AUGUST 10, 2005 TO JULY 31, 2006  
 (In Thousands of New Taiwan Dollars)

	Capital			Accumulated Deficit in the Development Stage	Accumulated Deficit	Total
	Common Stock	Capital Collected in Advance	Capital Surplus			
BALANCE, AUGUST 10, 2005	\$ 66,000	\$ -	\$ -	\$ -	\$ -	\$ 66,000
Issuance of common stock for cash	594,000	-	-	-	-	594,000
Net loss for the period from August 10, 2005 to December 31, 2005	-	-	-	(21,194)	-	(21,194)
BALANCE, DECEMBER 31, 2005	660,000	-	-	(21,194)	-	638,806
Issuance of common stock for cash (Note 12)	122,222	903,022	-	-	-	1,025,244
Carry-over of accumulated deficit during development stage	-	-	-	21,194	(21,194)	-
Issuance for employee stock option (Note 12)	-	-	2,084	-	-	2,084
Net income for the year ended December 31, 2006	-	-	-	-	968	968
BALANCE, DECEMBER 31, 2006	<u>\$ 782,222</u>	<u>\$ 903,022</u>	<u>\$ 2,084</u>	<u>\$ -</u>	<u>\$ (20,226)</u>	<u>\$ 1,667,102</u>

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

(With Deloitte & Touche audit report dated January 31, 2007)

# GINTECH ENERGY CORPORATION

## STATEMENTS OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2006 AND PERIOD FROM AUGUST 10, 2005 (DATE OF INCORPORATION) TO DECEMBER 31, 2005

DEVELOPMENT STAGE FROM AUGUST 10, 2005 TO JULY 31, 2006

(In Thousands of New Taiwan Dollars)

	2006	August 10, 2005 (Date of Incorporation) to December 31, 2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss)	\$ 968	\$ (21,194)
Adjustments to reconcile net income (loss) to net cash used in operating activities		
Depreciation	40,015	188
Amortization	1,609	198
Employee compensatory stock option	2,084	-
Allowance for inventory valuation and obsolescence loss	7,634	-
Loss on disposal of property, plant and equipment, net	22	-
Investment loss recognized by the equity method	479	-
Deferred income tax benefit	(709)	(2,534)
Net changes in operating assets and liabilities		
Accounts receivable	(9,330)	-
Other receivables	1,312	(2,088)
Inventories	(707,215)	(20,921)
Prepayments	(150,448)	(1,308)
Other current assets	(27,584)	-
Notes payable	(41)	41
Accounts payable	41,168	-
Accounts payable to related parties	541,437	-
Accrued expenses	27,553	4,028
Other payables	5,530	51
Other current liabilities	1,249	207
Net cash used in operating activities	<u>(224,267)</u>	<u>(43,332)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Increase in other receivables from related parties	(2,728)	-
Decrease (increase) in pledged current assets	241,029	(388,574)
Acquisition of long-term equity investments	-	(1,000)
Acquisition of property, plant and equipment	(1,027,080)	(170,348)
Increase in refundable deposits	(725,371)	(1,612)
Increase in deferred charges	(9,339)	(1,802)
Net cash used in investing activities	<u>(1,523,489)</u>	<u>(563,336)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase in short-term bank loans	942,275	-
Increase in long-term bank loans	780,000	-
Issuance of common stock for cash	122,222	660,000
Capital collected in advance	903,022	-
Net cash provided by financing activities	<u>2,747,519</u>	<u>660,000</u>

(Continued)

# GINTECH ENERGY CORPORATION

## STATEMENTS OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2006 AND PERIOD FROM AUGUST 10, 2005 (DATE OF INCORPORATION) TO DECEMBER 31, 2005

DEVELOPMENT STAGE FROM AUGUST 10, 2005 TO JULY 31, 2006

(In Thousands of New Taiwan Dollars)

	2006	August 10, 2005 (Date of Incorporation) to December 31, 2005
NET INCREASE IN CASH AND CASH EQUIVALENTS	999,763	53,332
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR/PERIOD	<u>53,332</u>	<u>-</u>
CASH AND CASH EQUIVALENTS, END OF YEAR/PERIOD	<u>\$ 1,053,095</u>	<u>\$ 53,332</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year/period		
Interest paid during the year/period	\$ 12,413	\$ 8
Deduct capitalized amount	<u>(3,732)</u>	<u>-</u>
Interest (excluding amounts capitalized)	<u>\$ 8,681</u>	<u>\$ 8</u>
Income tax	<u>\$ 513</u>	<u>\$ 4</u>
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Current portion of lease payable	<u>\$ 377</u>	<u>\$ 95</u>
ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT		
Increase in property, plant and equipment	\$ 1,144,366	\$ 171,173
Add payables for construction and equipment (recorded as other payables), beginning of period	539	-
Add lease payable, beginning of year/period	286	-
Deduct payables for construction and equipment (recorded as other payables), end of year/period	(117,218)	(539)
Deduct lease payable end of year/period	<u>(893)</u>	<u>(286)</u>
Acquisition of property, plant and equipment	<u>\$ 1,027,080</u>	<u>\$ 170,348</u>

(Concluded)

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

(With Deloitte & Touche audit report dated January 31, 2007)

# **GINTECH ENERGY CORPORATION**

## **NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED DECEMBER 31, 2006 AND PERIOD FROM AUGUST 10, 2005 (DATE OF INCORPORATION) TO DECEMBER 31, 2005**

**DEVELOPMENT STAGE FROM AUGUST 10, 2005 TO JULY 31, 2006**

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

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### **1. ORGANIZATION AND OPERATIONS**

Gintech Energy Corporation (the “Company”) was incorporated on August 10, 2005. The Company was in development stage from August 10, 2005 to July 31, 2006. Starting from August 1, 2006, the Company is engaged mainly in the manufacturing and selling of solar cells and materials. During the development stage, ended July 31, 2006, the Company focused on financial planning, capital collection, research and development, business development, acquisition of plant equipment and other operating assets, recruitment and training of employees, market research and development, production start-up, etc.

Public issuance of the Company’s stock was approved by the Securities and Futures Bureau of the Financial Supervisory Commission under the Executive Yuan on May 17, 2006.

As of December 31, 2006 and 2005, the Company had 196 and 17 employees.

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Basis of Presentation**

The accompanying financial statements have been prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China (ROC). In preparing financial statements in conformity with these guidelines and principles, the Company is required to make certain estimates and assumptions that could affect allowance for inventory devaluation, property depreciation, amortization of deferred charges, loss on asset impairment and pension. Actual results could differ from these estimates.

For the convenience of readers, the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the 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 financial statements shall prevail. However, the accompanying financial statements do not include English translation of the additional footnote disclosures that are not required under generally accepted accounting principles but are required by the Securities and Futures Bureau (SFB), for their oversight purposes.

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

#### **Current/Noncurrent Assets and Liabilities**

Current assets, which are held mainly for operating purposes, include unrestricted cash and cash equivalents and other assets to be converted to cash or consumed within 12 months from the balance sheet date. Current liabilities include obligations or instruments payable mainly for operating purposes and those to be paid off or settled within 12 months from the balance sheet date. All other assets and liabilities are classified as noncurrent.

## **Cash Equivalents**

Bankers' acceptances, commercial paper and treasury bills with maturities of less than three months from the date of purchase are classified as cash equivalents. Their book value approximates their fair value.

## **Inventories**

Inventories are recorded at cost and stated at the lower of weighted average cost or market value. Market value of raw materials is the last purchase price of raw materials and that of work in process and merchandise is the median of replacement cost, net realizable value, and net realizable value less normal profit.

The Company assesses the impact of changing technology on its inventories on hand and writes off inventories that are considered obsolete. Year-end inventories are evaluated for estimated excess quantities and obsolescence based on a demand forecast within a specific time horizon, which is generally 365 days or less. Estimated losses on raw materials and slow-moving items are recognized and included in the allowance for losses.

## **Investments Accounted for Using Equity Method**

Investments are accounted for by the equity method when the ownership interest of the Company, or of the Company and its subsidiary, is 20% or more, or when the Company and/or its subsidiary has significant influence on the investee. If an investee issues additional shares and the Company subscribes for these shares at a percentage different from its current equity in the investee, the resulting increase in the Company's equity in the investee's net assets is credited to capital surplus. Any decrease in the Company's equity in the investee's net assets is debited to capital surplus. Any remaining difference is debited to unappropriated retained earnings if capital surplus is not enough for debiting purposes.

## **Property, Plant and Equipment**

Property, plant and equipment are stated at cost or at cost less accumulated depreciation. Major additions, replacements and improvements are capitalized, while regular repairs and maintenance are expensed in the period incurred. The expenses related to trial run phase were recorded as trial run costs. Trial run costs were recorded as machinery after the trial run phase. Products produced during the trial run phase were recorded as product - related trial run expenses. Product-related expenses were recorded as inventory after the trial run phase.

Interest is capitalized during the construction period or before a capital asset is substantially completed and ready for its intended use.

A capital lease asset (with the Company as lessee) is recorded at the lower of (a) the present value of all future rental payments (less the Company's executory costs) plus the bargain purchase price or (b) the asset market value at the start of the lease. Any leased liability is also recognized at the same time. The implicit interest on a lease expenditure for each period is recognized as a current interest expense.

Depreciation is computed using the straight-line method over the following estimated useful lives: buildings - 5~10 years; machinery - 5~8 years; transportation equipment - 5 years; furniture and office equipment - 3 years; leased assets - 3 years; and other equipment - 3~10 years. If a fixed asset is still used in operations beyond its initially estimated service life, it is depreciated over its newly estimated service life. Any gain or loss from sale of assets is recorded as nonoperating income or expense in the current year.

## **Deferred Charges**

Deferred charges, which are mainly capitalized building decoration costs, software expenditures and wire engineering costs, are stated at cost and amortized on a straight-line basis over three to five years.

## **Recognition of Revenue**

Revenues are recognized when they are realized or realizable or are earned, primarily upon shipment.

## **Stock-based Compensation**

Employee stock option plans that are amended or have options granted on or after January 1, 2004 are accounted for by the interpretations issued by the Accounting Research and Development Foundation. The Company adopted the fair value method and any compensation cost determined using this method is charged to expense over the employee vesting period.

## **Foreign-currency Transactions**

Foreign-currency transactions, except derivative transactions, are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Exchange gains or losses derived from foreign-currency transactions or monetary assets and liabilities denominated in foreign currencies are recognized in current income. On the balance sheet date, monetary assets and liabilities denominated in foreign currencies are revalued at prevailing exchange rates with the resulting gains or losses recognized in current income.

## **Pension Plan**

The Company has a defined contribution pension plan. Under this plan, pension costs are recorded on the basis of the Company's required monthly contributions to employees' individual pension accounts. These contributions are recorded as current expense.

## **Asset Impairment**

An impairment loss is recognized when the recoverable amount of assets, mainly for fixed assets, deferred charges and equity-method investments, is less than their carrying amount. A reversal of the impairment loss is recognized if the value of the asset recovers. However, the resulting increased carrying value cannot exceed the original cost (net of depreciation) had no impairment loss been recognized.

## **Income Tax**

The Company applies to its income tax the intra-period and inter-period allocation methods, under which (a) a portion of current income tax expense is allocated to the cumulative effect of changes in accounting principles; and (b) deferred income tax assets and liabilities are recognized for the tax effects of temporary differences and unused tax credits, respectively. Valuation allowances are provided to the extent, if any, that it is more likely than not that deferred income tax assets will not be realized. A deferred tax asset or liability is classified as current or noncurrent in accordance with the classification of the related asset or liability for financial reporting. However, if a deferred tax asset or liability does not relate to an asset or liability in the financial statements, then it is classified as current or noncurrent on the basis of the expected length of the realization or settlement period.

Any tax credits arising from purchases of machinery, equipment and technology, research and development expenditures and personnel training are recognized using the flow-through method.

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

Under the ROC income tax law, unappropriated retained earnings that remain undistributed to stockholders after the stockholder's meeting in the following year are subject to a 10% income surtax. This surtax should be recognized as a component of income tax expense in the year when the stockholders' meeting was held.

### **Nonderivative Financial Instruments**

The recognition and valuation of nonderivative financial assets and liabilities and the recognition of profits or losses as a result of the valuation are based on the Company's foregoing accounting policies and the accounting principles generally accepted in the ROC.

### **3. ACCOUNTING CHANGES**

On January 1, 2006, the Company adopted the newly released Statement of Financial Accounting Standards ("SFAS") No. 34 - "Accounting for Financial Instruments" and No. 36 - "Disclosure and Presentation of Financial Instruments" and related revisions of previously released SFASs. These changes had no significant effect on the Company's financial statements as of and for the year ended December 31, 2006.

### **4. REVENUES AND EXPENSES IN THE DEVELOPMENT STAGE**

	<b>From January 1, 2006 to July 31, 2006</b>	<b>Accumulated Revenues and Expenses from August 10, 2005 to July 31, 2006</b>
Operating revenues	\$ 10,952	\$ 10,952
Cost of operating revenues	<u>9,819</u>	<u>9,819</u>
Gross profit	<u>1,133</u>	<u>1,133</u>
Operating expenses		
Selling expenses	1,202	1,202
General and administrative expenses	53,986	69,677
Research and development expenses	<u>613</u>	<u>613</u>
	<u>55,801</u>	<u>71,492</u>
Operating loss	(54,668)	(70,359)
Nonoperating income and gains	11,075	13,209
Nonoperating expenses and losses	<u>1,681</u>	<u>11,852</u>
Accumulated deficit before income tax in the development stage	(45,274)	(69,002)
Income tax	<u>4,450</u>	<u>1,916</u>
Accumulated deficit after income tax in the development stage	<u>\$ (49,724)</u>	<u>\$ (70,918)</u>

## 5. CASH AND CASH EQUIVALENTS

	December 31	
	2006	2005
Cash on hand	\$ 100	\$ 100
Savings deposits	929,294	52,340
Foreign savings deposits	122,174	20
Checking deposits	800	872
Time deposits	<u>727</u>	<u>-</u>
	<u>\$ 1,053,095</u>	<u>\$ 53,332</u>

## 6. ACCOUNTS RECEIVABLE

	December 31	
	2006	2005
Accounts receivable	\$ 9,330	\$ -
Less allowance for uncollectible accounts receivable	-	-
Less allowance for sales return and sales allowance	<u>-</u>	<u>-</u>
	<u>\$ 9,330</u>	<u>\$ -</u>

## 7. INVENTORIES, NET

	December 31	
	2006	2005
Raw materials	\$ 595,922	\$ 20,921
Supplies	14,972	-
Work in process	24,614	-
Finished goods	<u>92,628</u>	<u>-</u>
	728,136	20,921
Less allowance for decline in value	<u>(7,634)</u>	<u>-</u>
	<u>\$ 720,502</u>	<u>\$ 20,921</u>

As of December 31, 2006, insurance coverage for inventories amounted to \$350,000 thousand.

## 8. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

The Company's long-term equity investment accounted for by the equity method as of December 31, 2006 and 2005 was summarized as follows:

Investee	2006		2005	
	Amount	Ownership Percentage	Amount	Ownership Percentage
Gintech Material Co.	<u>\$ 521</u>	<u>100</u>	<u>\$ 1,000</u>	<u>100</u>

The Company's equity in the equity-method investee's earnings for the year ended December 31, 2006 and the period from August 10, 2005 (date of incorporation) to December 31, 2005 was summarized as follows:

Investee	Year Ended December 31, 2006			August 10, 2005 (Date of Incorporation) to December 31, 2005		
	Net Loss	Average Ownership Percentage	Equity in Loss	Net Loss	Average Ownership Percentage	Equity in Loss
Gintech Material Co.	<u>\$ (479)</u>	<u>100</u>	<u>\$ (479)</u>	<u>\$ -</u>	<u>100</u>	<u>\$ -</u>

The calculation of the above equity in Gintech Material Co.'s earnings was based on this investee's unaudited financial statements. Under the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, the financial statements of Gintech Material Co., need not be audited.

## 9. PROPERTY, PLANT AND EQUIPMENT, NET

A summary of property, plant and equipment was as follows:

	December 31			
	2006			2005
	Cost	Accumulated Depreciation	Carrying Value	Carrying Value
Buildings	\$ 86,459	\$ 4,781	\$ 81,678	\$ -
Machinery	539,206	24,963	514,243	-
Transportation equipment	751	52	699	-
Furniture and office equipment	15,240	1,824	13,416	1,719
Leased assets	1,013	91	922	290
Other equipment	187,242	8,400	178,842	90
Construction-in-progress and prepayments for purchase of equipment	<u>485,513</u>	<u>-</u>	<u>485,513</u>	<u>168,886</u>
	<u>\$ 1,315,424</u>	<u>\$ 40,111</u>	<u>\$ 1,275,313</u>	<u>\$ 170,985</u>

Interest capitalized for the year ended December 31, 2006 was as follows:

Total interest	<u>\$ 12,413</u>
Capitalized interest (recognized as construction-in-progress and prepayments for purchase of equipment)	<u>\$ 3,732</u>
Capitalized interest rates	<u>2.38%-3.22%</u>

As of December 31, 2006 and 2005, insurance coverage for property, plant and equipment amounted to \$768,893 thousand and \$3,393 thousand, respectively.

The leased assets were printers under capital lease agreements with a leasing company. They were recorded at the present value of each lease payable in the future, net of the executory costs. Their depreciation was calculated using the straight-line method over the lease period. The related transactions were summarized as follows:

<b>December 31, 2006</b>				
<b>Lessor</b>	<b>Leased Assets</b>	<b>Cost</b>	<b>Period</b>	<b>Terms</b>
Far Eastern Leasing Corporation	Printer	\$ 304	2006.12.01~ 2009.12.01	Payable in 36 monthly installments from December 1, 2006. As of December 31, 2006, the book value of the leased asset was \$297 thousand
Far Eastern Leasing Corporation	Printer	206	2006.01.04~ 2009.01.03	Payable in 36 monthly installments from January 4, 2006. As of December 31, 2006, the book value of the leased asset was \$156 thousand
Far Eastern Leasing Corporation	Printer	200	2006.05.01~ 2009.05.01	Payable in 36 monthly installments from May 1, 2006. As of December 31, 2006, the book value of the leased asset was \$173 thousand
Far Eastern Leasing Corporation	Printer	303	2006.12.01~ 2009.12.01	Payable in 36 monthly installments from December 1, 2006. As of December 31, 2006, the book value of the leased asset was \$297 thousand
		<u>\$ 1,013</u>		

<b>December 31, 2005</b>				
<b>Lessor</b>	<b>Leased Assets</b>	<b>Cost</b>	<b>Period</b>	<b>Terms</b>
Far Eastern Leasing Corporation	Printer	<u>\$ 309</u>	2005.09.26~ 2008.09.26	Payable in 36 monthly installments from September 26, 2005. As of December 31, 2005, the book value of the leased asset was \$290 thousand

### Lease Payable

	<b>December 31</b>	
	<b>2006</b>	<b>2005</b>
Machinery - implied interest in 36 monthly installment from 2005 to 2009	\$ 893	\$ 286
Less current portion of lease payable	<u>(377)</u>	<u>(95)</u>
	<u>\$ 516</u>	<u>\$ 191</u>

As of December 31, 2006, future principal repayments for the leased assets were as follows:

Year of Repayment	Amount
2007	\$ 377
2008	293
2009	<u>223</u>
	<u>\$ 893</u>

Collaterals for the bank loans are shown in Note 18.

## 10. SHORT-TERM BANK LOANS

A summary of short-term bank loans was as follows:

	December 31			
	2006		2005	
	Amount	Interest Rate %	Amount	Interest Rate %
Credit loan	<u>\$ 942,275</u>	2.20~3.25 Floating rate	<u>\$ -</u>	-

As of December 31, 2006, the Company had unused credit line for short-term bank loans of approximately \$115,235 thousand; collaterals for the short-term bank loans were shown in Note 18; guarantee provider was shown in Note 17.

## 11. LONG-TERM BANK LOANS

Year of Repayment	December 31, 2006
Long-term bank loans	<u>\$ 780,000</u>
Syndicated loan - First Commercial Bank and other 11 domestic banks	

On October 5, 2006, the Company entered into a long-term syndicated loan agreement led by First Bank and jointly lent by 11 domestic banks. The Agreement provides for a \$20 billion secured revolving credit facility. As of December 31, 2006, the used credits were as follows:

Item	Total Credit Line	Used Credit Line	Term of Agreement	Interest Rate	Repayment Schedule
1	\$ 800,000	\$ -	5 years since borrowings	-	Commencing one year since borrowings, Principal payments are due in 17 quarterly installments.
2	1,200,000	780,000	From November 29, 2006 to November 28, 2011, every borrowing due in 90 days, with revolving credit facility.	3.39%~3.41% Floating rate	Principal payments are due upon maturity. The credit line will be decreased 25% periodically starting November 29, 2009.
	<u>\$ 2,000,000</u>	<u>\$ 780,000</u>			

The collaterals for the long-term bank loans are shown in Note 18. The Company's chairman, Scott Kuo, had guaranteed the short-term and long-term bank loans as shown in Note 17. Since 2007, according to the syndicated loan agreement, the Company shall maintain the following financial status:

- a. The ratio of current assets to current liabilities shall be not less than 100%;
- b. The ratio of the aggregate of its total liabilities and contingent liabilities to its tangible net worth shall not exceed 130% in 2007, and shall not exceed 100% starting 2008;
- c. The interest coverage ratio shall be not less than 400%; and
- d. Tangible net worth shall be not less \$20 billion.

## 12. COMMON STOCK / NET LOSS PER SHARE

### Common Stock

As of December 31, 2006, the Company had 120,000,000 authorized shares (including 2,000,000 shares for employee stock options) and 78,222,220 issued and outstanding common shares, with \$10.00 par value. Common stock issuance as of December 31, 2006 was summarized as follows:

Initial issuance for cash	\$ 66,000
Subsequent issuance for cash	<u>716,222</u>
	<u>\$782,222</u>

The Company was incorporated on August 10, 2005 with an initial capital of \$66,000 thousand. At the special stockholders' meeting or the board of directors' meetings on August 21, 2005, September 12, 2005, December 24, 2005, and October 31, 2006, it was resolved that common shares be issued at par value NT\$10.00 for amounts totaling \$264,000 thousand (26,400,000 shares), \$330,000 thousand (33,000,000 shares), \$44,000 thousand (4,400,000 shares), and \$78,222 thousand (7,822,200 shares), respectively. The base dates for these issuances were October 31, 2005, December 6, 2005, February 8, 2006 and November 27, 2006. As of December 31, 2006, \$78,222 thousand (7,822,200 shares in private placement issued on November 27, 2006) was not traded publicly.

The board of directors' meetings on November 29, 2006 resolved that common shares be issued at a price of NT\$125 per share to total of \$1,500,000 thousand (12,000,000 shares). The base date for the issuances was January 9, 2007. As of December 31, 2006, the capital collected in advance was \$903,022 thousand.

### Employee Stock Option Plan

For incentive to employees' loyalty to the Company and retain excellent professional personnel, the Company Employee Stock Option Plan (the "Plan") under the 2006 plan was approved by the SFB in October 2006. The maximum number of options authorized to be granted under the 2006 plan was 2,000 thousand with each option eligible to subscribe for one common share when exercisable. Under the terms of the Plan, the options are granted at an exercise price which shall not be less than the net worth which has been audited or equal to the par value of the common shares. During the term of the Plan, if the Company is in a public-listed status, its exercise price shall not be less than the closing price of the Company's common shares listed on the TSE on the grant date.

The options of the 2006 plan are valid for four years, during the term of the Plan, the options are not allowed to be transferred, except for those left to a descendant. The options are exercisable at certain percentages subsequent to the second anniversary of the grant date as below, except for employees who may elect to discontinue their participation in the 2006 plan.

- a. Options are exercisable at 50% subsequent to the second anniversary of the grant date.
- b. Options are exercisable at 100% subsequent to the third anniversary of the grant date.

As of October 5, 2006, 1,119 thousand options had been granted to employees. The exercise price will be adjusted for the effect of changes of common shares, such as cash issues of shares, retained earnings issues of shares, additional paid-in capital issues of shares, merger or accepted others' new shares, shares spin-off and cash issues for overseas depositary receipts, etc, on a pro rata basis.

Information about outstanding stock options for the years ended December 31, 2006 was as follows:

	<b>Number of Options (in Thousands)</b>	<b>Weighted- Average Exercise Price (NT\$)</b>
<u>Year ended December 31, 2006</u>		
Balance, beginning of year	-	\$ -
Options granted	1,119	10
Options exercised	<u>-</u>	-
Balance, end of year	<u><u>1,119</u></u>	
Fair value under the 2006 plan		9.03

As of December 31, 2006, information about outstanding and exercisable options was as follows:

<b>Range of Exercise Price (NT\$)</b>	<b>Options Outstanding</b>			<b>Options Exercisable</b>	
	<b>Number of Options (in Thousands)</b>	<b>Weighted-av erage Remaining Contractual Life (Years)</b>	<b>Weighted- average Exercise Price (NT\$)</b>	<b>Number of Options (in Thousands)</b>	<b>Weighted- average Exercise Price (NT\$)</b>
\$10	1,119	3.75	\$10	1,119	\$10

The Company calculated the fair value of each option grant on the date of grant using the Black-Scholes option pricing model and recognized the compensation expense of \$2,084 thousand for the year ended December 31, 2006.

Net gain (loss) per share for the years ended December 31, 2006 and 2005 was calculated as follows:

	<b>2006</b>	<b>2005</b>
Gain(Loss) before income tax	\$ 259	\$ (23,728)
Net gain (net loss)	\$ 968	\$ (21,194)
Weighted average number of shares outstanding (in thousand)	69,942	31,029
Basic net gain (net loss) per share before tax	<u>\$ -</u>	<u>\$ (0.76)</u>
Basic net gain (net loss) per share after tax	<u><u>\$ 0.01</u></u>	<u><u>\$ (0.68)</u></u>

### 13. EARNINGS APPROPRIATION

Under the Company's original Articles of Incorporation, 10% of the Company's annual net income less any prior year's deficit should be appropriated as legal reserve until this reserve equals the Company's paid-in capital. The allocation of the remaining balance, to be proposed by the board of directors and resolved by the stockholders in their meeting, should include bonuses to employees of at least 3%.

Under the Company's Articles of Incorporation, as amended by the stockholders in their meeting on April 27, 2006, when the Company has earnings within a period, the Company should use these earnings to pay tax and to settle any prior period's deficit. From the remaining earnings, 10% should be set aside as legal reserve. The allocation of earnings is proposed by the board of directors and resolved by the stockholders in their meeting. Earnings appropriation should include the following:

- (a) Remuneration to directors and supervisors, which should not exceed 5%;
- (b) Bonus to employees of between 3% and 5%.

To meet its operating needs as well as maximize stockholders' profit, the Company will distribute dividends on the basis of the budget for future capital expenditures and financing needs. Stock dividends should be at least 10% of total dividends.

However, the type of distributed dividends and the allocation rate are subject to adjustment by the stockholders depending on the results of a year's operations and the need for capital.

The balance of unappropriated earnings on December 31, 2006 was negative; thus, the Company had no earnings to distribute to employees, directors and supervisors.

### 14. INCOME TAX

The ROC government enacted the Alternative Minimum Tax Act (the AMT Act), which became effective on January 1, 2006. The alternative minimum tax (AMT) imposed under the AMT Act is a supplemental tax levied at a rate of 10% which is payable if the income tax payable determined pursuant to the Income Tax Law is below the minimum amount prescribed under the AMT Act. The taxable income for calculating the AMT includes most of the income that were exempted from income tax under various laws and statutes. The Company has considered the impact of the AMT Act in the determination of its tax liabilities.

The reconciliation of income tax expense based on "income before income tax" at statutory rate (25%) and current income tax was as follows:

	Year Ended December 31, 2006	August 10, 2005 (Date of Incorporation) To December 31, 2005
Income tax expense based on "income before income tax" at statutory rate (25%)	\$ 259	\$ (23,728)
Temporary and permanent differences	<u>(6,345)</u>	<u>10,435</u>
	(6,086)	(13,293)
Income tax rate	<u>25%</u>	<u>25%</u>
Current income tax	<u>\$ -</u>	<u>\$ -</u>

As of December 31, 2006 and 2005, net deferred income tax assets and liabilities were as follows:

	<b>2006</b>	<b>2005</b>
<u>Current</u>		
Deferred tax assets		
Operating loss carryforward	\$ 4,815	\$ 2,534
Others	6	-
Deferred tax liabilities		
Unrealized foreign exchange gain	<u>(1,594)</u>	<u>-</u>
	<u>\$ 3,227</u>	<u>\$ 2,534</u>
<u>Noncurrent</u>		
Deferred tax assets		
Investment tax credits	\$ 41,434	\$ -
Others	<u>16</u>	<u>3,324</u>
	41,450	3,324
Deduct valuation allowance for deferred tax assets	<u>(41,434)</u>	<u>(3,324)</u>
	<u>\$ 16</u>	<u>\$ -</u>

Under the Statute for Upgrading Industries and the approval of the authorities concerned, the Company is eligible for tax exemption for its industry type. However, as of December 31, 2006, the investment plan pertaining to this exemption was still being developed and the stockholders had not decided when to use this tax exemption.

As of December 31, 2006, investment tax credits consisted of the following:

<b>Regulation</b>	<b>Item</b>	<b>Total Creditable Amount</b>	<b>Remaining Creditable Amount</b>	<b>Expiry Year</b>
Statute for Upgrading Industries	Purchase of machinery and equipment	<u>\$ 41,434</u>	<u>\$ 41,434</u>	2010

Under the Income Tax Law, the operating loss carryforwards were summarized as follows:

<b>Year</b>	<b>Tax Credits Obtained</b>	<b>Unused Tax Credits</b>	<b>Expiry Year</b>
2005.08.10~2005.12.31	\$ 13,174	\$ 13,174	2010
2006.01.01~2006.12.31	<u>6,086</u>	<u>6,086</u>	2011
	<u>\$ 19,260</u>	<u>\$ 19,260</u>	

As of December 31, 2006, the Company's income tax had not been assessed and cleared by the tax authorities.

Information on the integrated income tax system is as follows:

	<u>December 31</u>	
	<u>2006</u>	<u>2005</u>
Balance of the imputed credit account	\$ <u>          -</u>	\$ <u>          -</u>
The imputed credit rate	<u>          -</u>	<u>          -</u>
Unappropriated earnings (loss) From 1998	\$ <u> (20,226)</u>	\$ <u> (21,194)</u>

Under the integrated income tax system, ROC resident stockholders are allowed income tax credits for the income tax paid by the Company on annual earnings generated since January 1, 1998. The Company maintains an imputation credit account (ICA) for the income tax and the tax credit allocated to each stockholder. The tax credit allocation is at a ratio set on the dividend distribution date. The maximum credit allocated to each stockholder cannot exceed the balance shown in the ICA on the dividend distribution date.

Under the Income Tax Law of the ROC, the income tax credit from dividends and earnings (except the 10% additional income tax levied on distributable earnings) distributed by ROC firms cannot be used to reduce the withheld taxes on net dividends and net earnings of nonresident individuals and firms with no domicile in the ROC.

## 15. PENSION PLAN

The Labor Pension Act (the "Act"), which took effect on July 1, 2005, provides for a pension mechanism, which is deemed a defined contribution plan. Based on the Act, the rate of the Company's monthly contributions to employees' individual pension accounts is at 6% of monthly salaries. The Company's monthly contributions to employees' pension accounts for the year ended December 31, 2006 amounted to \$4,352 thousand, which was recognized as pension cost.

## 16. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

A summary of employee, depreciation and amortization expenses for the year ended December 31, 2006 was as follows:

	<u>Year Ended December 31, 2006</u>			<u>August 10 (Date of Incorporation) to December 31, 2005</u>		
	<u>Manufacturing Cost</u>	<u>Operating Expenses</u>	<u>Total</u>	<u>Manufacturing Cost</u>	<u>Operating Expenses</u>	<u>Total</u>
Employee expenses						
Salaries	\$ 43,339	\$ 48,958	\$ 92,297	\$ -	\$ 8,813	\$ 8,813
Labor and health	3,350	2,642	5,992	-	336	336
Pension expenses	2,305	2,047	4,352	-	302	302
Other employee expenses	<u>1,536</u>	<u>2,174</u>	<u>3,710</u>	<u>-</u>	<u>124</u>	<u>124</u>
	<u>\$ 50,530</u>	<u>\$ 55,821</u>	<u>\$ 106,351</u>	<u>\$ -</u>	<u>\$ 9,575</u>	<u>\$ 9,575</u>
Depreciation	<u>\$ 36,900</u>	<u>\$ 3,115</u>	<u>\$ 40,015</u>	<u>\$ -</u>	<u>\$ 188</u>	<u>\$ 188</u>
Amortization	<u>\$ 632</u>	<u>\$ 977</u>	<u>\$ 1,609</u>	<u>\$ -</u>	<u>\$ 198</u>	<u>\$ 198</u>

## 17. RELATED-PARTY TRANSACTIONS

The Company's related parties are as follows:

Related Party	Relationship with the Company
Gintech Material Co.	Equity-method investee
MEMC TTE, Ltd.	A significant shareholder of the Company
MEMC Electronic Materials, Inc. (MEMC)	Parent company of MEMC TTE, Ltd.
Scott Kuo	The Company's chairman

Major related-party transactions and the related balances were as follows:

### Other Receivable

		December 31			
		2006		2005	
		Amount	%	Amount	%
Gintech Material Co.	Prepayment for machinery	\$ 2,728	100	\$ -	-

### Refundable Deposits and Purchase

		December 31			
		2006		2005	
		Amount	%	Amount	%
MEMC	Refundable deposits	\$562,191	77	\$ -	-
	Purchase	\$541,437	50	\$ -	-

### Accounts Payable

		December 31			
		2006		2005	
		Amount	%	Amount	%
MEMC		\$541,437	100	\$ -	-

### Rental Revenue

		Year Ended December 31, 2006		August 10, 2005 (Date of Incorporation) to December 31, 2005	
		Amount	%	Amount	%
Gintech Material Co.		\$ 210	100	\$ -	-

For the year ended December 31, 2006, the Company rented part of its office space to Gintech Material Co. The terms of the rent were similar to those for third parties, but the Company will get the rental payment at the end of the lease period.

Chairman Scott Kuo had guaranteed to the short-term and long-term bank loans shown in Note 11.

## 18. PLEDGED ASSETS

Certain assets had been pledged as collaterals, as follows:

	<b>December 31</b>	
	<b>2006</b>	<b>2005</b>
Pledged current assets		
Certificates of deposit: pledged for issuance of letters of credit (EUR1,400 thousand, at EUR1:NT\$42.95, the exchange rate as of December 31, 2006)	\$ 60,131	\$ 388,574
Savings deposits	<u>87,444</u>	<u>-</u>
	<u>147,545</u>	<u>388,574</u>
Property, plant and equipment		
Machinery	<u>510,140</u>	<u>-</u>
	<u>\$ 657,685</u>	<u>\$ 388,574</u>

## 19. COMMITMENTS AND CONTINGENCIES

On July 27, 2006 the Company entered into an agreement of purchase with Deutsche Solar AG (D. Solar). According to the agreement, the Company will purchase Solar Wafers from D. Solar from January 1, 2009 to January 1, 2019 for total amount of EUR€2 billion. As of December 31, 2006, the Company had paid EUR€3,600 thousand (NT\$155,340 thousand), which was recorded as refundable deposits.

On October 25, 2006, the Company entered into an agreement of purchase with MEMC Electronic Materials (MEMC). According to the agreement, the Company will purchase Solar Wafer materials from MEMC from August 1, 2009 to July 31, 2017 for total amount of not less than US\$27 billion. As of December 31, 2006, the Company had paid US\$16,875 thousand (NT\$562,191 thousand), which was recorded as refundable deposits.

As of December 31, 2006, the Company had outstanding contracts for property, plant and equipment purchases totaling \$76,172 thousand. The Company had issued promissory notes totaling \$3,245,000 thousand to guarantee short-term and long-term bank loans. The Company had also issued unused letters of credit totaling EUR€2,590 thousand.

For the year ended December 31, 2006, the rental for the Company's office and factory space was \$7,955 thousand. As of December 31, 2006, the Company's operating lease commitments on its office and factory space were as follows:

<b>Year</b>	<b>Amount</b>
2007	\$ 9,309
2008	8,305
2009	7,379
2010	7,379
2011	<u>6,565</u>
	<u>\$ 38,937</u>

## 20. MAJOR SUBSEQUENT EVENT

Nil.

## 21. FINANCIAL INSTRUMENTS

### Fair Values

As of December 31, 2006 and 2005, fair values of nonderivative financial instruments were as follows:

	2006		2005	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
Cash	\$ 1,053,095	\$ 1,053,095	\$ 53,332	\$ 53,332
Receivables (including income tax refund receivable, other receivables, and other receivables from related parties)	13,353	13,353	2,092	2,092
Pledged current assets	147,545	147,545	388,574	388,574
Investments accounted for using equity method	521	521	1,000	1,000
Refundable deposits	726,983	726,983	1,612	1,612
Financial liabilities				
Short-term bank loans	942,275	942,275	-	-
Long-term bank loans	780,000	780,000	-	-
Payables (including notes payables, accounts payable, accrued expenses and other payables)	736,985	736,985	4,659	4,659
Lease payable (including current portion)	893	893	286	286

Fair values are determined as follows:

- The carrying amounts of cash, receivables, pledged current assets, short-term bank loans and payables, and long-term bank loans, approximate fair values because of the short-term maturities of these instruments.
- The fair value of an equity-method investment in a company with issued shares that are not publicly traded is based on the investee's book value.
- Fair values of refundable deposits are measured at their book values.
- The carrying value of a lease payable approximates fair value, which is based on the present value of the future cash outflows discounted at the implicit rate set by the lessor.
- As of December 31, 2006 and 2005, the interest income recognized was not valued at fair value but for the fair value change of \$3,884 thousand and \$2,134 thousand, respectively, and interest expense of \$8,681 thousand and \$8 thousand, respectively.
- As of December 31, 2006, financial assets exposed to fair value interest rate risk were \$60,131 thousand and \$0, respectively, financial liabilities exposed to cash flow interest rate risk were \$1,722,275 thousand and \$0, respectively.

(g) Information on financial risk is as follows:

i) Market price risk

The Company entered into fixed-rate time deposit investment, the fluctuations in market interest rates would result in changes in fair value.

ii) Credit risk

Credit risk represents the loss that would be incurred by the Company if the counter-parties default on contracts, which might be affected by the condition of credit risk concentration, factors, contract amount, accounts receivable, and refundable deposit.

In order to reduce the credit risk, the Company evaluates its customers' financial conditions. As of December 31, 2006, the Company had the condition of credit risk concentration because approximately sixty-six percent of accounts receivable resulted from two major customers and approximately ninety-nine percent of refundable deposits derived from two major suppliers.

iii) Cash flow risk

The Company has continuously increased capital to provide sufficient operating capital to meet cash demand and obligation of contracts.

iv) Cash flow interest rate risk

The Company entered float rate bank loans. The fluctuations in market interest rates would result in changes in cash flow.

## 22. BUSINESS SEGMENT INFORMATION

### Business Segments

The Company is mainly engaged in the manufacturing, selling of solar cells and materials and focused on one business industry.

### Geographical Information

The Company does not have any overseas operations.

### Export Sales Information

	<b>Year Ended December 31, 2006</b>
Asia	\$ 40,572
America	4,984
Europe	<u>492,759</u>
	<u>\$ 538,315</u>

**Important Customers' Information**

	<b>Year Ended December 31, 2006</b>
A Customer	\$ 192,381
B Customer	<u>170,026</u>
	<u>\$ 362,407</u>