

# **Gintech Energy Corporation**

**Financial Statements for the  
Years Ended December 31, 2007 and 2006 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, 2007 and 2006, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the Rules Governing the Audit of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Those rules and standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from 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, 2007 and 2006 and the results of its operations and its cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

As described in Note 3 to the financial statements, the Company adopted the newly released Statement of Financial Accounting Standard ("SFAS") No. 37 - "Intangible Assets" and related revisions of previously released SFASs on January 1, 2007 .

As also described in Note 3 to the financial statements, the Company adopted the newly released SFAS No. 34 - "Financial Instruments: Recognition and Measurement", SFAS No. 36 - "Financial Instruments: Disclosure and Presentation" and related revisions of previously released SFASs on January 1, 2006.

We have also audited the consolidated financial statements of Gintech Energy Corporation and its subsidiaries as of and for the year ended December 31, 2007 and 2006 and have expressed a modified unqualified opinion on those financial statements (not presented here with).

February 14, 2008

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, 2007 AND 2006

(In Thousands of New Taiwan Dollars)

ASSETS	2007		2006		LIABILITIES AND STOCKHOLDERS' EQUITY	2007		2006	
	Amount	%	Amount	%		Amount	%	Amount	%
<b>CURRENT ASSETS</b>					<b>CURRENT LIABILITIES</b>				
Cash and cash equivalents (Notes 2 and 4)	\$ 125,871	1	\$ 1,053,095	26	Short-term loans (Notes 13 and 21)	\$ 1,289,600	11	\$ 942,275	23
Available-for-sale financial assets - current (Notes 2 and 6)	9,200	-	-	-	Notes payable	24	-	-	-
Accounts receivable, net (Notes 2 and 7)	747,217	6	9,330	-	Accounts payable	674,619	6	41,168	1
Income tax refund receivable (Notes 2 and 17)	67,968	1	519	-	Accounts payable to related parties (Note 20)	-	-	541,437	13
Other receivables (Note 2)	1,484	-	776	-	Income tax payable (Notes 2 and 17)	15,543	-	-	-
Other receivables from related parties (Note 20)	8,973	-	2,728	-	Accrued expenses	163,688	1	31,581	1
Inventories, net (Notes 2 and 8)	1,043,428	9	720,502	17	Other payables	303,606	3	122,799	3
Prepaid expense (Note 2)	75,999	1	12,744	-	Receipts in advance (Note 2)	21,247	-	2	-
Prepayments (Notes 2 and 22)	2,803,355	23	137,717	3	Long-term bank loans - current portion (Note 14)	160,000	1	-	-
Deferred income tax assets - current (Notes 2 and 17)	12,184	-	3,227	-	Obligations under capital leases - current portion (Notes 2 and 11)	345	-	377	-
Restricted assets - current (Note 21)	101,898	1	147,545	4	Other current liabilities (Note 2)	7,383	-	1,454	-
Other current assets	50,705	-	28,360	1					
<b>Total current assets</b>	<b>5,048,282</b>	<b>42</b>	<b>2,116,543</b>	<b>51</b>	<b>Total current liabilities</b>	<b>2,636,055</b>	<b>22</b>	<b>1,681,093</b>	<b>41</b>
<b>LONG-TERM INVESTMENTS</b>					<b>LONG-TERM LIABILITIES</b>				
Investments accounted for using equity method (Notes 2 and 9)	-	-	521	-	Long-term bank loans (Notes 14, 20 and 21)	2,600,000	22	780,000	19
Financial assets carried at cost - noncurrent (Notes 2 and 10)	80,000	1	-	-	Obligations under capital leases - long-term portion (Notes 2 and 11)	242	-	516	-
<b>Total long-term investments</b>	<b>80,000</b>	<b>1</b>	<b>521</b>	<b>-</b>	<b>Total long-term liabilities</b>	<b>2,600,242</b>	<b>22</b>	<b>780,516</b>	<b>19</b>
<b>PROPERTY, PLANT AND EQUIPMENT (Notes 2, 11 and 21)</b>					<b>OTHER LIABILITIES</b>				
Cost					Guarantee deposits received	19,485	-	-	-
Machinery	1,818,273	15	539,206	13	Others (Notes 2 and 9)	1,428	-	-	-
Transportation equipment	3,628	-	751	-	<b>Total other liabilities</b>	<b>20,913</b>	<b>-</b>	<b>-</b>	<b>-</b>
Office equipment	27,462	-	15,240	-	<b>Total liabilities</b>	<b>5,257,210</b>	<b>44</b>	<b>2,461,609</b>	<b>60</b>
Leased assets	1,013	-	1,013	-	<b>STOCKHOLDERS' EQUITY</b>				
Leasehold improvements	98,860	1	86,459	2	Common stock (Note 15)	1,142,087	9	782,222	19
Other equipment	99,180	1	187,242	5	Advance receipts for common stock (Note 15)	-	-	903,022	22
	2,048,416	17	829,911	20	Capital surplus (Notes 2 and 15)				
Less accumulated depreciation	(208,472)	(2)	(40,111)	(1)	Additional paid-in capital	5,115,014	43	-	-
Construction-in-progress and prepayments for equipment	2,135,481	18	485,513	12	Employee stock option	5,156	-	2,084	-
<b>Total property, plant and equipment</b>	<b>3,975,425</b>	<b>33</b>	<b>1,275,313</b>	<b>31</b>	Unappropriated earnings (accumulated deficit) (Notes 16 and 17)	466,774	4	(20,226)	(1)
<b>INTANGIBLE ASSETS (Notes 2 and 12)</b>	<b>5,689</b>	<b>-</b>	<b>4,688</b>	<b>-</b>	Unrealized loss on financial instruments (Notes 2 and 15)	(300)	-	-	-
<b>OTHER ASSETS</b>					<b>Total stockholders' equity</b>	<b>6,728,731</b>	<b>56</b>	<b>1,667,102</b>	<b>40</b>
Refundable deposits (Notes 20 and 22)	2,861,840	24	726,983	18					
Deferred charges (Notes 2 and 20)	14,239	-	4,647	-	<b>TOTAL</b>	<b>\$ 11,985,941</b>	<b>100</b>	<b>\$ 4,128,711</b>	<b>100</b>
Deferred income tax assets - noncurrent (Notes 2 and 17)	466	-	16	-					
<b>Total other assets</b>	<b>2,876,545</b>	<b>24</b>	<b>731,646</b>	<b>18</b>					
<b>TOTAL</b>	<b>\$ 11,985,941</b>	<b>100</b>	<b>\$ 4,128,711</b>	<b>100</b>					

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

(With Deloitte & Touche audit report dated February 14, 2008)

# GINTECH ENERGY CORPORATION

## STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2007 AND 2006

(Period from January 1, 2006 to July 31, 2006 was Development Stage)

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

	2007		2006	
	Amount	%	Amount	%
OPERATING REVENUES (Note 2)				
Sales	\$ 6,914,182	8,136	\$ 563,545	-
Sales returns	<u>(84,982)</u>	<u>(100)</u>	<u>-</u>	<u>-</u>
Net sales	6,829,200	8,036	563,545	-
OPERATING COSTS (Note 20)	<u>6,010,325</u>	<u>7,072</u>	<u>464,228</u>	<u>-</u>
GROSS PROFIT	<u>818,875</u>	<u>964</u>	<u>99,317</u>	<u>-</u>
OPERATING EXPENSES (Notes 12, 19 and 22)				
Selling expenses	36,829	43	8,163	-
General and administrative expenses	139,019	164	75,295	-
Research and development expenses	<u>33,620</u>	<u>40</u>	<u>22,030</u>	<u>-</u>
Total operating expenses	<u>209,468</u>	<u>247</u>	<u>105,488</u>	<u>-</u>
OPERATING INCOME (LOSS)	<u>609,407</u>	<u>717</u>	<u>(6,171)</u>	<u>-</u>
NONOPERATING INCOME AND GAINS				
Interest income (Notes 5 and 20)	5,990	7	3,884	-
Gain on disposal of property, plant and equipment	229	-	-	-
Gain on sale of investments (Note 5)	5,968	7	-	-
Exchange gain, net (Note 2)	-	-	10,536	-
Rental income (Note 20)	1,200	2	210	-
Other income	<u>7,590</u>	<u>9</u>	<u>8,961</u>	<u>-</u>
Total nonoperating income and gains	<u>20,977</u>	<u>25</u>	<u>23,591</u>	<u>-</u>
NONOPERATING EXPENSES AND LOSSES				
Interest expense (Notes 2 and 11)	76,286	90	8,681	-
Investment loss recognized under equity method (Notes 2 and 9)	1,949	2	479	-
Loss on disposal of property, plant and equipment	1,042	1	-	-
Loss on physical inventory	21	-	61	-
Foreign exchange loss, net (Note 2)	28,551	34	-	-
Provision for loss on inventories (Notes 2 and 8)	28,156	33	7,634	-
Other expenses	<u>596</u>	<u>1</u>	<u>306</u>	<u>-</u>
Total nonoperating expenses and losses	<u>136,601</u>	<u>161</u>	<u>17,161</u>	<u>-</u>
INCOME BEFORE INCOME TAX	493,783	581	259	-
INCOME TAX (EXPENSE) BENEFIT (Notes 2 and 17)	<u>(6,783)</u>	<u>(8)</u>	<u>709</u>	<u>-</u>
NET INCOME	<u>\$ 487,000</u>	<u>573</u>	<u>\$ 968</u>	<u>-</u>

(Continued)

# GINTECH ENERGY CORPORATION

## STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2007 AND 2006

(Period from January 1, 2006 to July 31, 2006 was Development Stage)

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

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	2007		2006	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
BASIC EARNINGS PER SHARE (Note 15)	<u>\$ 5.03</u>	<u>\$ 4.96</u>	<u>\$ -</u>	<u>\$ 0.01</u>
DILUTED EARNINGS PER SHARE (Note 15)	<u>\$ 4.96</u>	<u>\$ 4.89</u>	<u>\$ -</u>	<u>\$ 0.01</u>

(Concluded)

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

(With Deloitte & Touche audit report dated February 14, 2008)

## GINTECH ENERGY CORPORATION

**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**YEARS ENDED DECEMBER 31, 2007 AND 2006**  
 (Period from January 1, 2006 to July 31, 2006 was Development Stage)  
 (In Thousands of New Taiwan Dollars)

	Common Stock	Preferred Stock	Advance Receipts for Common Stock	Capital Surplus	Accumulated Deficit in the Development Stage	(Accumulated Deficit) Unappropriated Earnings	Unrealized Loss on Financial Instruments	Total
BALANCE, JANUARY 1, 2006	\$ 660,000	\$ -	\$ -	\$ -	\$ (21,194)	\$ -	\$ -	\$ 638,806
Issuance of common stock for cash (Note 15)	122,222	-	903,022	-	-	-	-	1,025,244
Accumulated deficit during development stage	-	-	-	-	21,194	(21,194)	-	-
Recognition of stock-based compensation (Note 15)	-	-	-	2,084	-	-	-	2,084
Net income for the year ended December 31, 2006	-	-	-	-	-	968	-	968
BALANCE, DECEMBER 31, 2006	782,222	-	903,022	2,084	-	(20,226)	-	1,667,102
Issuance of common stock and preferred stock for cash (Note 15)	312,990	46,875	(903,022)	5,115,014	-	-	-	4,571,857
Conversion of preferred stock (Note 16)	46,875	(46,875)	-	-	-	-	-	-
Recognition of stock-based compensation (Note 15)	-	-	-	3,072	-	-	-	3,072
Net income for the year ended December 31, 2007	-	-	-	-	-	487,000	-	487,000
Unrealized loss on financial instruments(Note 15)	-	-	-	-	-	-	(300)	(300)
BALANCE, DECEMBER 31, 2007	<u>\$ 1,142,087</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,120,170</u>	<u>\$ -</u>	<u>\$ 466,774</u>	<u>\$ (300)</u>	<u>\$ 6,728,731</u>

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

(With Deloitte & Touche audit report dated February 14, 2008)

# GINTECH ENERGY CORPORATION

## STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2007 AND 2006

(Period from January 1, 2006 to July 31, 2006 was Development Stage)

(In Thousands of New Taiwan Dollars)

	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 487,000	\$ 968
Adjustments to reconcile net income to net cash used in operating activities		
Depreciation	168,893	40,015
Amortization	4,505	1,609
Equity-settled share-based payment expenses	3,072	2,084
Provision for loss on inventories	28,156	7,634
Gain on sale of investment	(2,161)	-
Loss on disposal of property, plant and equipment, net	813	22
Investment loss recognized under equity method	1,949	479
Deferred income tax	(9,407)	(709)
Net changes in operating assets and liabilities		
Accounts receivable (Note 2)	(737,887)	(9,330)
Income tax receivable (Note 2)	(67,449)	(515)
Other receivable	(708)	1,308
Inventories	(344,693)	(707,215)
Prepaid expenses (Note 2)	(63,255)	(137,717)
Prepayments (Note 2)	(2,665,638)	(12,731)
Other current assets	(22,345)	(27,065)
Notes payable	24	(41)
Accounts payable	633,451	41,168
Accounts payable to related parties	(541,437)	541,437
Income tax payable	15,543	-
Accrued expenses	132,107	27,553
Other payables	(5,511)	5,530
Receipts in advance (Note 2)	21,245	2
Other current liabilities	5,929	1,247
Net cash used in operating activities	<u>(2,957,804)</u>	<u>(224,267)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of available-for-sale financial assets	(2,311,945)	-
Proceeds from disposal of available-for-sale financial assets	2,304,606	-
Increase in other receivables from related parties	(6,245)	(2,728)
Decrease in restricted assets	45,647	241,029
Acquisition of financial assets carried at cost	(80,000)	-
Acquisition of property, plant and equipment	(2,684,146)	(1,027,080)
Proceeds from disposal of property, plant and equipment	340	-
Acquisition of intangible assets (Note 2)	(2,920)	(5,181)
Increase in refundable deposits	(2,141,246)	(725,371)
Increase in deferred charges (Note 2)	(12,178)	(4,158)
Net cash used in investing activities	<u>(4,888,087)</u>	<u>(1,523,489)</u>

(Continued)

# GINTECH ENERGY CORPORATION

## STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2007 AND 2006

(Period from January 1, 2006 to July 31, 2006 was Development Stage)

(In Thousands of New Taiwan Dollars)

	2007	2006
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase in short-term loans	\$ 347,325	\$ 942,275
Increase in long-term bank loans	1,980,000	780,000
Increase in guarantee deposits received	19,485	-
Issuance of common stock for cash	<u>4,571,857</u>	<u>1,025,244</u>
Net cash provided by financing activities	<u>6,918,667</u>	<u>2,747,519</u>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>		
	(927,224)	999,763
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>		
	<u>1,053,095</u>	<u>53,332</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>		
	<u>\$ 125,871</u>	<u>\$ 1,053,095</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash paid during the year		
Interest paid during the year	\$ 68,318	\$ 12,413
Deduct capitalized amount	<u>-</u>	<u>(3,732)</u>
Interest (excluding amounts capitalized)	<u>\$ 68,318</u>	<u>\$ 8,681</u>
Income tax paid during the year	<u>\$ 647</u>	<u>\$ -</u>
<b>NON-CASH INVESTING AND FINANCING ACTIVITIES</b>		
Deferred charges transferred to intangible assets	<u>\$ 4,688</u>	<u>\$ 4,760</u>
Refundable deposits transferred to raw materials	<u>\$ 6,389</u>	<u>\$ -</u>
Long-term bank loans - current portion	<u>\$ 160,000</u>	<u>\$ -</u>
Obligation under capital leases - current portion	<u>\$ 345</u>	<u>\$ 377</u>
<b>ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT</b>		
Increase in property, plant and equipment	\$ 2,870,158	\$ 1,144,366
Add payables for construction and equipment (recorded as other payables), beginning of year	117,218	539
Add lease payable, beginning of year	893	286
Deduct payables for construction and equipment (recorded as other payables), end of year	(303,536)	(117,218)
Deduct lease payable end of year	<u>(587)</u>	<u>(893)</u>
Acquisition of property, plant and equipment	<u>\$ 2,684,146</u>	<u>\$ 1,027,080</u>

(Concluded)

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

(With Deloitte & Touche audit report dated February 14, 2008)

# GINTECH ENERGY CORPORATION

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2007 AND 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 its development stage from August 10, 2005 to July 31, 2006. Starting from August 1, 2006, the Company engages mainly in the manufacturing and selling of solar cells and materials. During its development stage which ended on July 31, 2006, the Company focused on financial planning, capital collection, research and development, business development, acquisition of plant equipment and other operating assets, recruiting 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. Its shares had been traded on the Emerging Stock Market of the Taiwan GreTai Securities Market since December 12, 2006.

The IPO measure of Gintech Energy was passed by the Board of Directors of Taiwan Stock Exchange (“TSE”) on September 18, 2007. Its shares had been listed on the TSE since November 2, 2007.

As of December 31, 2007 and 2006, the Company had 494 and 196 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, Business Accounting Law, Guidelines Governing Business Accounting, and accounting principles generally accepted in the Republic of China (“ROC”). Under these guidelines, law and principles, certain estimates and assumptions have been used for the allowance for loss on inventories, depreciation of property, plant and equipment, amortization of deferred charges, pension cost, loss on assets impairment, provision for product warranties, etc. Actual results may differ from these estimates.

For convenience of readers, the accompanying 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 financial statements shall prevail.

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

#### Current/Noncurrent Assets and Liabilities

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

## **Cash Equivalents**

Cash equivalents, are highly liquid financial instruments with maturities of three months or less when acquired and with carrying amounts that approximate their fair values.

## **Financial Assets and Liabilities at Fair Value through Profit or Loss**

Financial instruments classified as financial assets or financial liabilities at fair value through profit or loss (“FVTPL”) include financial assets or financial liabilities held for trading and those designated as at FVTPL on initial recognition.

Financial instruments at FVTPL are initially measured at fair value. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss. 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.

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.

## **Available-for-Sale Financial Assets**

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

The recognition, derecognition and the fair value bases of available-for-sale financial assets are similar to those of financial assets at FVTPL.

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. If the fair value of a debt instrument classified as available-for-sale subsequently increases as a result of an event which occurred after the impairment loss was recognized, the decrease in impairment loss is reversed to profit.

## **Allowance for Doubtful Receivables**

An allowance for doubtful receivables is provided based on a review of the collectibility of accounts receivable. The Company determines the amount of allowance for doubtful receivables by examining the aging analysis of outstanding accounts receivable and current trends in the credit quality of its customers as well as its internal credit policies.

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

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.

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.

### **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 similar to 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.

### **Property, Plant and Equipment**

Property, plant and equipment are stated at cost less accumulated depreciation. Borrowing costs directly attributable to the acquisition or construction of property, plant and equipment are capitalized as part of the cost of those assets. Major additions and improvements to property, plant and equipment are capitalized, while costs of repairs and maintenance are expensed currently. Cost incurred during the trial run phase was expensed and were capitalized as machinery upon completion of 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.

Assets held under capital leases are initially recognized as assets of the Company at the lower of their fair value at the inception of the lease or the present value of the minimum lease payments; the corresponding liability is included in the balance sheet as obligations under capital leases. The interest included in lease payments is expensed when paid.

Depreciation is provided on a straight-line basis over estimated useful lives as follows: machinery - 5~8 years; transportation equipment - 5 years; office equipment - 3 years; leased assets - 3 years; leasehold improvements - 5~10 years; and other equipment - 3~10 years. Property, plant and equipment still in use beyond their original estimated useful lives are further depreciated over their newly estimated useful lives.

The related cost and accumulated depreciation of property, plant and equipment 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. Computer software is amortized over 3 years.

Effective January 1, 2007, the Company adopted the newly released SFAS No. 37, "Accounting for Intangible Assets". Expenditure on research activities is recognized as an expense when incurred. An internally-generated intangible asset arising from development activities is capitalized and then amortized on a straight-line basis over its useful life if the recognition criteria for intangible asset have been met; otherwise, the development expenditure is recognized as an expense when incurred.

### **Deferred Charges**

Deferred charges, which are mainly construction - related costs, is stated at cost and amortized on a straight-line basis over three to five years.

### **Recognition of Revenue**

Revenue is recognized when it is realized or realizable or is earned, primarily upon shipment.

### **Stock-based Compensation**

Employee stock option plans with a grant or amendment date on or after January 1, 2004 is accounted for under the interpretations issued by the Accounting Research and Development Foundation ("ARDF"). The Company adopted the fair value method, under which compensation cost is recognized on a straight-line basis over the vesting year.

### **Foreign Currencies**

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 recognized in shareholders' equity if the changes in fair value are recognized in shareholders' equity and recognized in profit and loss if the changes in fair value is recognized in profit or loss.

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

### **Pension Cost**

Contributions made under a defined contribution plan are recognized as pension cost during the year in which employees render services.

## **Impairment of Assets**

If the recoverable amount of an asset (mainly property, plant and equipment, intangible assets, deferred charges 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.

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.

## **Income Tax**

The Company applies intra-year and inter-year allocations for its income tax, whereby deferred income tax assets and liabilities are recognized for the tax effects of temporary differences, unused loss carryforward and unused tax credits. Valuation allowances are provided to the extent, if any, that it is more likely than not that deferred income tax assets will not be realized. A deferred tax asset or liability is classified as current or noncurrent in accordance with the classification of its related asset or liability. However, if a deferred income tax asset or liability does not relate to an asset or liability in the financial statements, then it is classified as either current or noncurrent based on the expected length of time before it is realized or settled.

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

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

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

## **Reclassifications**

Certain accounts in the financial statements as of and for the year ended December 31, 2006 have been reclassified to conform with the presentation of the financial statements as of and for the year ended December 31, 2007.

### **3. ACCOUNTING CHANGES**

#### **Adoption of New and Revised Standards**

a. SFAS No. 37 - "Accounting for Intangible Assets"

Effective January 1, 2007, the Company adopted the newly released SFAS No. 37 - "Accounting for Intangible Assets" and reassessed the useful lives and the amortization method for its recognized intangible assets as of the same date. The accounting change had no material effect on the financial statements as of and for the year ended December 31, 2007.

b. SFAS No. 34 - "Financial Instruments: Recognition and Measurement" and SFAS No. 36 - "Financial Instruments: Disclosure and Presentation"

On January 1, 2006, the Company adopted the newly released SFAS No. 34 - "Financial Instruments: Recognition and Measurement" and SFAS No. 36 - "Financial Instruments: Disclosure and Presentation". These changes had no significant effect on the Company's financial statements as of and for the year ended December 31, 2006.

#### Recent Accounting Pronouncements

In March 2007, the ARDF issued an interpretation that requires companies to recognize as compensation expenses bonuses paid to employees, directors and supervisors beginning January 1, 2008. These bonuses are currently recorded as appropriations from earnings.

#### 4. CASH AND CASH EQUIVALENTS

	<u>December 31</u>	
	<u>2007</u>	<u>2006</u>
Cash on hand	\$ 150	\$ 100
Cash in banks		
Savings deposits	36,678	929,294
Foreign saving deposits	55,807	122,174
Checking deposits	616	800
Time deposits	<u>32,620</u>	<u>727</u>
	<u>\$ 125,871</u>	<u>\$ 1,053,095</u>

As of December 31, 2007 and 2006, time deposits of U.S. dollar and Euro dollar with interest rates from 4.05% to 4.70% and of 2.1%, respectively.

#### 5. FINANCIAL INSTRUMENTS AT FVTPL

The Company entered into derivative contracts during the year ended December 31, 2007 to manage exposures due to exchange rate fluctuations. The financial risk management objective of the Company is to minimize risks due to changes in fair value or cash flows.

Net gains of \$3,901 thousand on financial assets held for trading - forward exchange contracts for the year ended December 31, 2007 were included as gain on sale of investment. During the year ended December 31, 2007, the Company entered into structured contracts amounted to \$32,445 thousand. Net gains of \$94 thousand on these structured contracts were included as interest income for the year ended December 31, 2007. There was no outstanding structured contracts as of December 31, 2007.

#### 6. AVAILABLE-FOR-SALE FINANCIAL ASSETS - CURRENT

	<u>December 31</u>	
	<u>2007</u>	<u>2006</u>
Domestic quoted stocks		
Formosa Sumco Technology Co., Ltd.	<u>\$ 9,200</u>	<u>\$ -</u>

## 7. ACCOUNTS RECEIVABLE

	<u>December 31</u>	
	<u>2007</u>	<u>2006</u>
Accounts receivable	\$ 747,217	\$ 9,330
Less: allowance for doubtful accounts	<u>-</u>	<u>-</u>
	<u>\$ 747,217</u>	<u>\$ 9,330</u>

## 8. INVENTORIES

	<u>December 31</u>	
	<u>2007</u>	<u>2006</u>
Materials	\$ 64,493	\$ -
Raw materials - wafer	86,251	595,922
Supplies and spare parts	72,157	14,972
Work in process	283,172	24,614
Finished goods	249,418	92,628
Raw materials in transit	<u>323,727</u>	<u>-</u>
	1,079,218	728,136
Less: allowance for loss	<u>(35,790)</u>	<u>(7,634)</u>
	<u>\$ 1,043,428</u>	<u>\$ 720,502</u>

## 9. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

The Company's long-term equity investment accounted for by the equity method as of December 31, 2007 and 2006 was summarized as follows:

Investee	<u>2007</u>		<u>2006</u>	
	Amount	Ownership Percentage	Amount	Ownership Percentage
Gintech Silicon Material Co.	\$ <u>-</u>	100	\$ <u>521</u>	100

The Company's equity in the equity-method investee's loss for the years ended December 31, 2007 and 2006 was summarized as follows:

Investee	<u>2007</u>			<u>2006</u>		
	Net Loss	Average Ownership Percentage	Equity in Loss	Net Loss	Average Ownership Percentage	Equity in Loss
Gintech Silicon Material Co.	\$ <u>(1,949)</u>	<u>100</u>	\$ <u>(1,949)</u>	\$ <u>(479)</u>	<u>100</u>	\$ <u>(479)</u>

The calculation of the above equity in Gintech Silicon 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 Silicon Material Co., need not be audited.

Investment loss recognized by the Company exceeded the cost of investment amounting of \$1,428 thousand, which had been classified as other liability as of December 31, 2007.

#### 10. FINANCIAL ASSETS CARRIED AT COST

	<u>December 31</u>	
	<u>2007</u>	<u>2006</u>
Domestic unquoted common stocks		
Eversol Corp.	\$ 80,000	\$ -

The above equity investments, which had no quoted prices in an active market and of which fair values could not be reliably measured, were carried at cost.

#### 11. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment as of December 31, 2007 and 2006 were as follows:

	<u>2007</u>							
	<u>Machinery</u>	<u>Transportation Equipment</u>	<u>Office Equipment</u>	<u>Leased Assets</u>	<u>Leasehold Improvements</u>	<u>Other Equipment</u>	<u>Construction -in-Progress and Prepayments for Equipment</u>	<u>Total</u>
<u>Cost</u>								
Balance, beginning of year	\$ 539,206	\$ 751	\$ 15,240	\$ 1,013	\$ 86,459	\$ 187,242	\$ 485,513	\$ 1,315,424
Additions	13,861	4,151	10,544	-	1,069	5,363	2,835,170	2,870,158
Disposals	-	-	(242)	-	(1,225)	(218)	-	(1,685)
Reclassifications	<u>1,265,206</u>	<u>(1,274)</u>	<u>1,920</u>	<u>-</u>	<u>12,557</u>	<u>(93,207)</u>	<u>(1,185,202)</u>	<u>-</u>
Balance, End of year	<u>1,818,273</u>	<u>3,628</u>	<u>27,462</u>	<u>1,013</u>	<u>98,860</u>	<u>99,180</u>	<u>2,135,481</u>	<u>4,183,897</u>
<u>Accumulated depreciation</u>								
Balance, beginning of year	24,963	52	1,824	91	4,781	8,400	-	40,111
Depreciation expenses	127,716	260	4,788	253	13,552	22,324	-	168,893
Disposals	-	-	(131)	-	(340)	(61)	-	(532)
Reclassifications	<u>17,149</u>	<u>(71)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(17,078)</u>	<u>-</u>	<u>-</u>
Balance, end of year	<u>169,828</u>	<u>241</u>	<u>6,481</u>	<u>344</u>	<u>17,993</u>	<u>13,585</u>	<u>-</u>	<u>208,472</u>
Net book value, end of year	<u>\$ 1,648,445</u>	<u>\$ 3,387</u>	<u>\$ 20,981</u>	<u>\$ 669</u>	<u>\$ 80,867</u>	<u>\$ 85,595</u>	<u>\$ 2,135,481</u>	<u>\$ 3,975,425</u>

2006

	Machinery	Transportation Equipment	Office Equipment	Leased Assets	Leasehold Improvements	Other Equipment	Construction -in-Progress and Prepayments for Equipment	Total
<u>Cost</u>								
Balance, beginning of year	\$ -	\$ -	\$ 1,858	\$ 309	\$ -	\$ 120	\$ 168,886	\$ 171,173
Additions	78	-	9,271	619	86,459	16,550	1,031,389	1,144,366
Disposals	-	-	-	(115)	-	-	-	(115)
Reclassifications	539,128	751	4,111	200	-	170,572	(714,762)	-
Balance, End of year	539,206	751	15,240	1,013	86,459	187,242	485,513	1,315,424
<u>Accumulated depreciation</u>								
Balance, beginning of year	-	-	139	19	-	30	-	188
Depreciation expenses	24,963	52	1,678	164	4,781	8,377	-	40,015
Disposals	-	-	-	(92)	-	-	-	(92)
Reclassifications	-	-	7	-	-	(7)	-	-
Balance, end of year	24,963	52	1,824	91	4,781	8,400	-	40,111
Net book value, end of year	<u>\$ 514,243</u>	<u>\$ 699</u>	<u>\$ 13,416</u>	<u>\$ 922</u>	<u>\$ 81,678</u>	<u>\$ 178,842</u>	<u>\$ 485,513</u>	<u>\$ 1,275,313</u>

Information on capitalized interest was as follows:

	<b>For the Year Ended December 31, 2006</b>
Total interest	<u>\$ 12,413</u>
Capitalized interest (recognized as construction-in-progress and prepayments for equipment)	<u>\$ 3,732</u>
Capitalization	<u>2.38%~3.22%</u>

There was no interest capitalized for the year ended December 31, 2007.

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, 2007</b>				
Lessor	Leased Assets	Cost	Period	Terms
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, 2007, the book value of the leased asset was \$221 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,

**December 31, 2007**

Lessor	Leased Assets	Cost	Period	Terms
Far Eastern Leasing Corporation	Printer	200	2006.05.01~ 2009.05.01	2007, the book value of the leased asset was \$104 thousand Payable in 36 monthly installments from May 1, 2006. As of December 31, 2007, the book value of the leased asset was \$123 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, 2007, the book value of the leased asset was \$221 thousand
		<u>\$ 1,013</u>		

**December 31, 2006**

Lessor	Leased Assets	Cost	Period	Terms
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 \$155 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>		

**Obligations under Capital Leases**

	<b>December 31</b>	
	<b>2007</b>	<b>2006</b>
Machinery, - lease period from 2005 to 2009 with installment payable monthly	\$ 587	\$ 893
Less: current portion	<u>(345)</u>	<u>(377)</u>
	<u>\$ 242</u>	<u>\$ 516</u>

As of December 31, 2007, present value of lease obligations were as follows:

<b>Year of Repayment</b>	<b>Amount</b>
2008	\$ 345
2009	<u>242</u>
	<u>\$ 587</u>

Collaterals for the bank loans are shown in Note 21.

## 12. INTANGIBLE ASSETS

	<u>Software</u>	
	<u>Years Ended December 31</u>	
	<u>2007</u>	<u>2006</u>
<u>Cost</u>		
Balance, beginning of year	\$ 5,235	\$ 54
Additions	<u>2,920</u>	<u>5,181</u>
Balance, end of year	<u>8,155</u>	<u>5,235</u>
<u>Accumulated amortization</u>		
Balance, beginning of year	547	5
Amortization	<u>1,919</u>	<u>542</u>
Balance, end of year	<u>2,466</u>	<u>547</u>
Net book value, end of year	<u>\$ 5,689</u>	<u>\$ 4,688</u>

Research and development costs of the Company recognized as operating expenses were \$33,620 thousand and \$22,030 thousand the years ended December 31, 2007 and 2006, respectively.

## 13. SHORT-TERM LOANS

A summary of short-term loans was as follows:

	<u>December 31</u>			
	<u>2007</u>		<u>2006</u>	
	<u>Amount</u>	<u>Interest Rate %</u>	<u>Amount</u>	<u>Interest Rate %</u>
Credit loan	\$ 670,000	2.65~2.98	\$ 942,275	2.20~3.25
Pledged loan	<u>619,600</u>	2.73~2.89	<u>-</u>	
		Floating rate		
	<u>\$ 1,289,600</u>		<u>\$ 942,275</u>	

As of December 31, 2007, unused short-term loans credit line amounted to \$1,997,400 thousand; collaterals for the short-term loans were shown in Note 21.

#### 14. LONG-TERM BANK LOANS

	<u>December 31</u>	
	<u>2007</u>	<u>2006</u>
Syndicated loan - First Commercial Bank and 11 other domestic banks	\$ 760,000	\$ 780,000
Syndicated loan - First Commercial Bank and 12 other domestic banks	2,000,000	-
Less: current portion	<u>(160,000)</u>	<u>-</u>
	<u>\$2,600,000</u>	<u>\$ 780,000</u>

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"). The Agreement provides for a \$2 billion secured revolving credit facility. As of December 31, 2007, the used credits were as follows:

Item	Total Credit Line	Used Credit Line	Credit Period	Interest Rate	Repayment Term
1	\$ 800,000	\$ 760,000	For 5 years from the first drawdown date of November 29, 2006 of Item 2 below.	3.8383% Floating rate	Initial repayment due 1 year from date of first drawn down; subsequent repayments in 17 installments payable quarterly.
2	1,200,000	-	For 5 years from the first drawdown date of November 29, 2006; revolving on a 90-days basis.	Floating rate	Repayment in full upon end of the credit period. The credit line will subsequent be decreased by 25% at end of year 3 from the first drawdown date, ie, November 29, 2009.
Less: current portion	<u>-</u>	<u>(160,000)</u>			
	<u>\$ 2,000,000</u>	<u>\$ 600,000</u>			

On July 4, 2007, the Company entered into a long-term syndicated loan agreement led by First Bank and jointly lent by 12 domestic banks (the “2007 Agreement”). The 2007 Agreement provides for a \$4.5 billion secured revolving credit facility. As of December 31, 2007, the used credits were as follows:

Item	Total Credit Line	Used Credit Line	Credit Period	Interest Rate	Repayment Term
1	\$ 2,200,000	\$ -	For 5 years from the first drawdown date of July 20, 2007 of Item 2 below	Floating rate	Initial repayment due 1 year from the first drawdown date; subsequent repayments in 17 installments payable quarterly.
2	1,500,000	1,200,000	For 5 years from the first drawdown date of July 20, 2007; revolving on a 90-days basis.	2.9482% Floating rate	Repayment in full upon end of credit period.
3	800,000	800,000	For 5 years from the first drawdown date of July 20, 2007 of Item 2 above; revolving on a 90-days basis	3.0085% Floating rate	Repayment in full upon end of the credit period. The credit line will subsequently be decreased evenly over 5 periods starting July 20, 2010.
Less: current portion	-	-			
	<u>\$ 4,500,000</u>	<u>\$ 2,000,000</u>			

The collaterals for the long-term bank loans are shown in Note 21. The Company’s director, Scott Kuo, had guaranteed the long-term bank loans as shown in Note 20. According to the syndicated loan agreement, the Company shall maintain the following financial covenants in respect of its annual and semi-annual financial statements:

- The ratio of current assets to current liabilities shall not be less than 100%;
- The ratio of the aggregate of its total liabilities and contingent liabilities to its tangible net assets shall not exceed 130% in 2007, and shall not exceed 100% starting 2008;
- The interest coverage ratio shall not be less than 400%; and
- Tangible net assets shall not be less \$3 billion.

## 15. STOCKHOLDERS’ EQUITY

### Common Stock and Preferred Stock

As of December 31, 2007, and 2006, the Company had 200,000,000 and 120,000,000 authorized shares, respectively, (including 10,000,000 shares and 2,000,000 shares for employee stock options as of December 31, 2007 and 2006, respectively), with NT\$10.00 par value.

The Company modified its Articles to increase its authorized shares to 200,000,000 shares in the shareholders’ meeting on December 25, 2007, and completed the registration on January 22, 2008.

As of December 31, 2005, the Company's issued capital was \$66,000 thousand, representing 66,000 thousand common shares, On October 31, 2005, November 5, 2005, February 8, 2006, November 27, 2006, January 9, 2007, March 7, 2007, May 16, 2007, and November 1, 2007, the issued share capital was increased by issuance of shares at par value of \$10 amounted to \$264,000 thousand (common shares), \$330,000 thousand (common shares), \$44,000 thousand (common shares), \$78,222 thousand (private placements common shares), \$120,000 thousand (common shares), \$10,000 thousand (private placement common shares), \$72,000 thousand (common shares), \$46,875 thousand (preferred shares) and \$110,990 thousand (common shares), respectively.

As of December 31, 2007, the Company's issued capital was \$1,142,087 thousand, representing 114,208.7 thousand common shares, of which 8,822.2 thousand common shares issued through private placements have not been publicly traded.

Capital as of December 31, 2007 was summarized as follows:

Initial issuance for cash	\$ 66,000
Subsequent issuance for cash	<u>1,076,087</u>
	<u>\$ 1,142,087</u>

### Preferred Shares

- a. Par value: \$10
- b. Issue value: \$128
- c. Shares: 4,687.5 thousand shares
- d. Amounts: \$600,000 thousand
- e. Distribution in dividend and bonus: The preferred shares with 0% dividend rate and can participate in the distribution of common share's earnings.
- f. Liquidation preference: Upon the occurrence of a Liquidation Event, the Company shall be liquidated, wound up and dissolved., and in connection therewith, the Preferred Shares holders shall be entitled to first, received 100% of the investment amount and plus any declared but unpaid dividends, and other distributions, proportionately adjusted for share splits, share dividends, before common stockholders (the "Preference Amount") After payment in full of the Preference Amount to the Preferred Shares holders, any remaining assets of the Company to be distributed to any stockholder shall be distributed to all stockholders, including the Preferred Shares holders on a pro rata basis.

A "Liquidation Event" shall include a liquidation, winding-up or dissolution of the Company, a merger, acquisition or change of control, a sale of all or substantially all of the assets of the Company or the exclusive licensing of substantially all of the Company's intellectual property.

- g. Voting rights: The Preferred Shares holders shall be entitled to vote on all matters submitted to a vote of the stockholders and will be entitled to the number of votes equal to the number of common shares underlying their preferred shares.
- h. Pre-emptive right: The Preferred Shares holders have pre-emptive right with respect to any primary of the Company's shares or securities convertible or exercisable into shares, on a pro rata basis with all the other stockholders.
- i. Conversion into common shares: Preferred shares shall be convertible into ordinary shares of the Company (the "common shares") at a conversion ratio of 1-for-1 under the following circumstances:

- (i) Mandatory conversion: Immediately prior to Qualified IPO, preferred shares shall be converted into common shares.
- (ii) Voluntary conversion: each holder of preferred shares will have the right, at its sole discretion, to convert all or any portion of its preferred shares into common shares at any time before Qualified IPO.

The IPO measure of the Company had been passed by the Board of Directors of TSE on September 18, 2007. The Company reserved the date of preferred shares converted on October 17, 2007 in the provisional board of directors' meeting on October 9, 2007, and completed the register of conversion on October 26, 2007.

### Capital Surplus

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 donations may be capitalized, which however is limited to a certain percentage of the Company's paid-in capital and once a year. Also, the capital surplus from long-term investments may not be used for any purpose.

### Employee Stock Option Plan

As an incentive to employees' loyalty to the Company and to retain excellent professional personnel, the Company's Employee Stock Option Plan was approved by the SFB in October 2006 (the "2006 Plan"). 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 2006 Plan, the options are granted at an exercise price which shall not be less than the audited net worth of the Company or equal to the par value of the common shares. During the term of the 2006 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 its 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.

On October 5, 2006 and August 21, 2007, 1,119 thousand options and 881 thousand options, respectively, were granted to qualified employees of the Company. 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 of outstanding stock options as of December 31, 2007 and 2006 was as follows:

	2007		2006	
	Number of Options (in Thousands)	Weighted-Average Exercise Price (NT\$)	Number of Options (in Thousands)	Weighted-Average Exercise Price (NT\$)
Balance, beginning of year	1,119	\$ 10	-	\$ -
Options granted	881	40	1,119	10

	2007		2006	
	Number of Options (in Thousands)	Weighted- Average Exercise Price (NT\$)	Number of Options (in Thousands)	Weighted- Average Exercise Price (NT\$)
Options expired	(139)		-	
Balance, end of year	1,861	23.65	1,119	10
Options exercisable, end of year	-	-	-	-
Weighted-average fair value of options granted	\$ 16.68		\$ 4.47	

Information about outstanding and exercisable options as of December 31, 2007 was as follows:

Range of Exercise Price (NT\$)	Options Outstanding			Options Exercisable	
	Number of Options (in Thousands)	Remaining Contractual Life (Years)	Weighted- average Exercise Price (NT\$)	Number of Options (in Thousands)	Exercise Price (NT\$)
\$ 10	1,014	2.75	\$ 10	-	\$ -
40	847	3.58	40	-	-

The Company calculated the fair value of each option on the grant date using the Black-Scholes option pricing model and recognized the compensation expense of \$3,072 thousand and 2,084 thousand for the year ended December 31, 2007 and 2006.

Net earnings per share for the years ended December 31, 2007 and 2006 was calculated as follows:

	2007		2006	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
Basic earnings per share	\$ 5.03	\$ 4.96	\$ -	\$ 0.01
Diluted earnings per share	\$ 4.96	\$ 4.89	\$ -	\$ 0.01

	Year Ended December 31, 2007				
	Amounts (Numerators)			EPS (In Dollars)	
	Income before Income Tax	Income after Income Tax	Number of Shares (Denominator) (In Thousands)	Before Income Tax	After Income Tax
Basic EPS	\$ 493,783	\$ 487,000	98,185	\$ 5.03	\$ 4.96
Employee stock options Preferred shares	-	-	1,422		
Diluted EPS	\$ 493,783	\$ 487,000	99,607	\$ 4.96	\$ 4.89

	Year Ended December 31, 2006				
	Amounts (Numerators)		Number of Shares (Denominator) (In Thousands)	EPS (In Dollars)	
	Income before Income Tax	Income after Income Tax		Before Income Tax	After Income Tax
Basic EPS	\$ 259	\$ 968	69,942	\$ -	\$ 0.01
Diluted EPS	\$ 259	\$ 968	69,942	\$ -	\$ 0.01

### Unrealized Gain or Loss on Financial Instruments

For the year ended December 31, 2007, movements of unrealized gain or loss on financial instruments were as follows:

	Available- for-Sale Financial Assets
Balance, beginning of year	\$ -
Fair value change	(92)
Gain realized upon disposal	<u>(208)</u>
Balance, end of year	<u>\$ (300)</u>

For the year ended December 31, 2006, there was no movements of unrealized gain or loss on financial instruments.

## 16. EARNINGS APPROPRIATION

Under the Company's Articles of Incorporation, as amended by the stockholders in their meeting on December 25, 2007, the Company should make appropriations from its net income less any deficit in the following order:

- (a) Tax payment;
- (b) Settle any prior period's deficit;
- (c) 10% should be set aside as legal reserve;
- (d) Appropriation or reversed special reserve;
- (e) The remaining earnings should include of bonus to employees and remuneration to directors and supervisors, and should also include the accumulated unappropriated earnings generated from prior years, and the earnings appropriation should be proposed by the Board of Directors and approved by the stockholders in their annual meeting.
  - (i) Remuneration to directors and supervisors should not exceed 5%.
  - (ii) Bonus rate to employees between 3% and 8%, if stock dividends are distributed, the target employees should include the employees of the subsidiary who meet certain criteria.

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

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

Based on a directive issued by the SFB, an amount equal to the net debit balance of certain shareholders' equity accounts (including unrealized revaluation increment, unrealized gain or loss on financial instruments, net loss not recognized as pension cost, cumulative transaction adjustments) shall be transferred from unappropriated earnings to a special reserve. Any special reserve appropriated may be reversed to the extent of the decrease in the net debit balance.

The appropriation for legal capital reserve shall be made until the reserve equals the Company's paid-in capital. The reserve may be used to offset a deficit, or be distributed as dividends and bonuses for the portion in excess of 50% of the paid-in capital if the Company has no unappropriated earnings and the reserve balance has exceeded 50% of the Company's paid-in capital. The Company Law also prescribes that, when the reserve has reached 50% of the Company's paid-in capital, up to 50% of the reserve may be transferred to capital.

As of February 14, 2008, the date of independent auditor's report, the appropriation of the 2007 earnings had not been proposed by the Board of Directors. Information on the approval of the stockholders' meeting can be accessed online through the Market Observation Post System on the Web site of the Taiwan Stock Exchange.

## 17. 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.

Income tax payable as of December 31, 2007 and 2006 were computed as follows:

	2007	2006
Income before income tax	\$ 493,783	\$ 259
Permanent differences		
Losses on equity-method investments	1,949	479
Gain on sale of investments	(2,067)	-
Tax-exempt income	(392,149)	-
Others	-	(2)
Temporary differences		
Unrealized reserve for warranty expense	1,825	-
Unrealized provision for loss on inventories	28,156	7,634
Unrealized (realized) foreign exchange loss	15,764	(10,137)
Realized (unrealized) foreign exchange gain	3,533	(6,378)
Others	(25)	2,059
Total income (loss)	150,769	(6,086)
Less: operating loss carryforward	(21,215)	-
Taxable income (Assessable loss)	129,554	(6,086)
Tax rate (less income tax credit \$10 thousand)	25%	25%
	32,379	-
Less: investment tax credits	(16,189)	-
Additional income tax under AMT	-	-

	<b>2007</b>	<b>2006</b>
Current income tax expense	16,190	-
Deferred income tax benefit	<u>(9,407)</u>	<u>(709)</u>
Income tax expense (benefit)	6,783	(709)
Deferred income tax benefit	9,407	709
Less: prepaid and withhold income tax	<u>(647)</u>	<u>(513)</u>
Income tax payable (receivable)	<u>\$ 15,543</u>	<u>\$ (513)</u>

As of December 31, 2007 and 2006, net deferred income tax assets and liabilities were as follows:

	<b>2007</b>	<b>2006</b>
Deferred income tax assets		
Unrealized reserve for warranty expense	\$ 456	\$ -
Unrealized loss on provision of inventories	8,948	-
Unrealized foreign exchange loss	4,007	-
Operating loss carryforward	-	4,815
Investment tax credits	63,054	41,434
Others	<u>16</u>	<u>22</u>
	76,481	46,271
Less: valuation allowance	<u>(63,054)</u>	<u>(41,434)</u>
Deferred income tax assets, net	<u>\$ 13,427</u>	<u>\$ 4,837</u>
Deferred income tax liabilities		
Unrealized foreign exchange gains	<u>\$ 777</u>	<u>\$ 1,594</u>

As of December 31, 2007 and 2006, net deferred income tax assets and liabilities were as follows:

	<b>2007</b>	<b>2006</b>
Deferred tax assets - current	\$ 12,961	\$ 4,821
Deferred tax liabilities - current	<u>(777)</u>	<u>(1,594)</u>
Deferred tax assets - current, net	<u>\$ 12,184</u>	<u>\$ 3,227</u>
Deferred tax assets - noncurrent	\$ 63,520	\$ 41,450
Less: valuation allowance	<u>(63,054)</u>	<u>(41,434)</u>
Deferred tax assets - noncurrent, net	<u>\$ 466</u>	<u>\$ 16</u>

As of December 31, 2007, profits attributable to the following expansion and construction projects were exempted from income tax for a five-year period:

<b>Expansion of Construction Project</b>	<b>Tax-Exemption Year</b>
Solar Cells	2007.01.01~2011.12.31

As of December 31, 2007, investment tax credits consisted of the following:

Regulation	Item	Total Creditable Amount	Remaining Creditable Amount	Expiry Year
Statute for Upgrading Industries	Purchase of machinery and equipment	\$ 41,434	\$ 25,245	2010
Statute for Upgrading Industries	Purchase of machinery and equipment	<u>37,809</u>	<u>37,809</u>	2011
		<u>\$ 79,243</u>	<u>\$ 63,054</u>	

The tax authorities have examined income tax returns of the Company's through 2005.

Information about integrated income tax was as follows:

	December 31	
	2007	2006
Balance of the imputed credit account	<u>\$ 647</u>	<u>\$ -</u>
The imputed credit ratio	<u>0.14%</u>	<u>-</u>
Unappropriated earnings (loss) from 1998	<u>\$ 466,774</u>	<u>\$ (20,226)</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.

## 18. 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 years ended December 31, 2007 and 2006 amounted to \$10,048 thousand and \$4,352 thousand, which was recognized as pension cost.

## 19. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

A summary of employee, depreciation and amortization expenses for the years ended December 31, 2007 and 2006 was as follows:

	2007			2006		
	Classified as Operating Costs	Classified as Operating Expenses	Total	Classified as Operating Costs	Classified as Operating Expenses	Total
Personnel						
Salary	\$ 143,287	\$ 85,217	\$ 228,504	\$ 43,339	\$ 48,958	\$ 92,297
Pension	6,777	3,271	10,048	2,305	2,047	4,352
Meals	4,621	1,747	6,368	1,410	121	1,531
Welfare	60	4,490	4,550	2	1,003	1,005
Insurance	10,022	4,314	14,336	3,350	2,642	5,992
Others	168	77	245	124	1,050	1,174
	<u>\$ 164,935</u>	<u>\$ 99,116</u>	<u>\$ 264,051</u>	<u>\$ 50,530</u>	<u>\$ 55,821</u>	<u>\$ 106,351</u>
Depreciation	<u>\$ 159,492</u>	<u>\$ 9,401</u>	<u>\$ 168,893</u>	<u>\$ 36,900</u>	<u>\$ 3,115</u>	<u>\$ 40,015</u>
Amortization	<u>\$ 1,814</u>	<u>\$ 2,691</u>	<u>\$ 4,505</u>	<u>\$ 632</u>	<u>\$ 977</u>	<u>\$ 1,609</u>

## 20. RELATED-PARTY TRANSACTIONS

The Company's related parties are as follows:

Related Party	Relationship with the Company
Gintech Silicon Material Co. MEMC TTE. Ltd.	Equity-method investee A significant shareholder of the Company ( Shareholding from August 10, 2005 to January 9, 2007 was 10 % ; shareholding after January 9, 2007 < 10 % )
MEMC Electronic Materials, Inc. ("MEMC")	Parent Company of MEMC TTE, Ltd.
Scott Kuo Aurora Systems Corp.	The Company's director The Company's President was also the CEO of Aurora Systems Corp from April 6, 2007 to November 5, 2007 )

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

### Other Receivable

		December 31			
		2007		2006	
		Amount	%	Amount	%
Gintech Silicon Material Co.	Prepayment for machinery and interest receivable	\$ 7,713	86	\$ 2,728	100
	Rental receivable	<u>1,260</u>	<u>14</u>	<u>-</u>	<u>-</u>
		<u>\$ 8,973</u>	<u>100</u>	<u>\$ 2,728</u>	<u>100</u>

Interest income for the year ended December 31, 2007 and 2006 amounts of \$186 and \$1 thousand, respectively, and interest rate ranged from 2.05% to 3.22%.

### Refundable Deposits and Purchases

		<u>December 31, 2006</u>	
		<u>Amount</u>	<u>%</u>
MEMC	Refundable deposits	<u>\$562,191</u>	<u>77</u>
	Purchases	<u>\$541,437</u>	<u>50</u>

### Accounts Payable

		<u>December 31, 2006</u>	
		<u>Amount</u>	<u>%</u>
MEMC		<u>\$541,437</u>	<u>100</u>

### Rental Revenue

	<u>Years Ended December 31</u>			
	<u>2007</u>		<u>2006</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Gintech Silicon Material Co.	<u>\$ 1,200</u>	<u>100</u>	<u>\$ 210</u>	<u>100</u>

For the year ended December 31, 2007, the Company rented part of its office space to Gintech Silicon 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.

### Property Transaction

In August 2007, the Company entered into a building circuit contract with Aurora Systems Corporation for a total amount of NT\$2,600 thousand (US\$80 thousand). The amount was fully settled in 2007.

The long-term bank loans shown in Note 14 was guaranteed by a Director of the Company, Scott Kuo.

## 21. PLEDGED ASSETS

Certain assets had been pledged as collaterals, as follows:

	<u>December 31</u>	
	<u>2007</u>	<u>2006</u>
Pledged current assets		
Time deposits	\$ 5,859	\$ 60,131
Savings deposits	<u>96,039</u>	<u>87,414</u>
	<u>101,898</u>	<u>147,545</u>
Property, plant and equipment		
Machinery	<u>926,116</u>	<u>510,140</u>
	<u>\$1,028,014</u>	<u>\$ 657,685</u>

## 22. COMMITMENTS AND CONTINGENCIES

On July 27, 2006, the Company entered into a purchase agreement with Deutsche Solar AG (“D. Solar”). According to the agreement, the Company will purchase Solar Wafers from D. Solar for the period from January 1, 2009 to December 31, 2018 for a total amount of EUR€2 hundred million. As of December 31, 2007, the Company had paid deposits amounted to EUR€10,800 thousand (NT\$501,300 thousand) which was recorded as refundable deposits. The Company shall pay additional deposits of EUR€7,200 thousand (NT\$345,960 thousand) before December 4, 2008.

On October 25, 2006, the Company entered into a purchase agreement with MEMC. According to the agreement, the Company will purchase Solar Wafers from MEMC for the period from August 1, 2007 to July 31, 2017 for a total amount of not less than US\$27 hundred million. As of December 31, 2007, the Company had paid deposits amounted to US\$67,269 thousand (NT\$2,220,351 thousand) which was recorded as refundable deposits. According to the purchase agreement, the Company shall pay US\$18,800 thousand to US\$45,000 thousand (NT\$617,768 thousand to NT\$1,478,700 thousand) as refundable deposits every year to MEMC. MEMC will pay back a portion of the refundable deposits with no interest starting the second year of the purchase agreement.

The Company entered into a supplemental purchase agreement with MEMC on October 25, 2007. According to the supplemental purchase agreement, the Company shall additionally pay US\$15,000 thousand to US\$37,500 thousand (NT\$486,450 thousand to NT\$1,216,125 thousand) as refundable deposits to MEMC every year. MEMC will pay back a portion of the refundable deposits with no interest starting the second year of the supplemental purchase agreement. As of December 31, 2007, the Company had paid refundable deposits amounted to US\$3,750 thousand (NT\$121,894 thousand).

On August 15, 2007, the Company entered into a purchase agreement with Chuan-Yi Investment Co. Ltd. (“Chuan-Yi”). According to the agreement, the rights and obligations for the 4<sup>th</sup> quarter of 2007 specified in the purchasing agreement signed between Chuan-Yi and LDK solar Hi-tech Co., Ltd. (“LDK”) will be transferred to the Company. On December 25, 2007, the Company entered into another purchase agreement with Chuan-Yi. According to the agreement, the rights and obligations from the 2<sup>nd</sup> to 4<sup>th</sup> quarter of 2008 specified in the purchasing agreement signed between Chuan-Yi and LDK were transferred to the Company. According to the agreement, the Company shall prepay for the purchases. As of December 31, 2007, the Company had prepaid US\$61,194 thousand (NT\$1,998,859 thousand) for purchases from LDK. The amount prepaid was recorded as prepayments.

In September 2007, the Company entered into a purchase agreement with a supplier. According to the agreement, the supplier will supply 3,000 thousand pieces of solar wafers to the Company and the Company shall prepay for the purchases. As of December 31, 2007, Gintech Energy had prepaid US\$1,260 thousand (NT\$41,126 thousand) for the purchases. The amount prepaid was recorded as prepayments.

As of December 31, 2007, the Company had entered into contracts for purchases of property, plant and equipment amounted to NT\$3,331,959 thousand (US\$102,743 thousand).

As of December 31, 2007, promissory notes issued by the Company for short-term loans and long-term bank loans amounted to NT\$4,968,040 thousand (US\$153,193 thousand) and NT\$6,500,000 thousand (US\$200,432 thousand), respectively. As of December 31, 2007, letters of credit amounted to approximately EUR€5,676 thousand.

For the year ended December 31, 2007, operating lease payments for the Company's office and factory premises was NT\$17,714 thousand (US\$546 thousand). As of December 31, 2007, the Company's operating lease commitments on its office and factory premises were as follows:

Year	Amount
2008	\$ 18,899
2009	16,813
2010	15,884
2011 and thereafter	<u>96,205</u>
	<u>\$ 147,801</u>

### 23. MAJOR SUBSEQUENT EVENT

The Company anticipates issue of Global Depository Receipts by common share issuance for cash during 2008.

### 24. FINANCIAL INSTRUMENTS

#### Fair Values

As of December 31, 2007 and 2006, fair values of nonderivative financial instruments were as follows:

	<u>2007</u>		<u>2006</u>	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<u>Financial assets</u>				
Cash and cash equivalents	\$ 125,871	\$ 125,871	\$ 1,053,095	\$ 1,053,095
Available-for-sale financial assets	9,200	9,200	-	-
Receivables (including income tax refund receivable, other receivables, and other receivables from related parties)	825,642	825,642	13,353	13,353
Restricted assets - current	101,898	101,898	147,545	147,545
Financial assets carried at cost - noncurrent	80,000	-	-	-
Refundable deposits	2,861,840	2,861,840	726,983	726,983
<u>Financial liabilities</u>				
Short-term loans	1,289,600	1,289,600	942,275	942,275
Long-term bank loans (including current portion)	2,760,000	2,760,000	780,000	780,000
Payables (including notes payables, accounts payable, accrued expenses, income tax payable, and other payables)	1,157,480	1,157,480	736,985	736,985
Obligations under capital leases (including current portion)	587	587	893	893
Guarantee deposits received	19,485	19,485	-	-

Methods and assumptions used to estimate the fair values of financial instruments were as follows:

- (a) The carrying amounts of the following short-term financial instruments approximated their fair values because of their short maturities: Cash and cash equivalents, receivables, restricted assets - current, short-term loans and payables.
- (b) Available-for-sale financial assets were based on their quoted market prices in an active market. For those instruments with no quoted market prices, their fair values were determined using valuation techniques incorporating estimates and assumptions consistent with those generally used by other market participants to price financial instruments.
- (c) 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.
- (d) Fair values of refundable deposits were measured at their book values.
- (e) Fair value of long-term bank loans was measured at their book values because of the floating interest rates.
- (f) The carrying value of obligations under capital leases approximates their fair value, which was based on the present value of the future cash outflows discounted at the implicit rate set by the lessor.
- (g) Fair values of financial assets and liabilities based on quoted market prices or valuation techniques were as follows:

	<u>Quoted Market Prices</u>		<u>Estimated Market Prices</u>	
	<u>December 31</u>		<u>December 31</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
<u>Financial assets</u>				
Available-for-sale financial assets	\$ 9,200	\$ -	\$ -	\$ -
<u>Financial liabilities</u>				
Long-term bank loans (including current portion)	-	-	2,760,000	780,000
Obligations under capital leases (including current portion)	-	-	587	893

- (h) For the years ended December 31, 2007 and 2006, the interest income associated with financial assets, other than those at FVTPL, was \$5,896 thousand and \$3,884 thousand, respectively, and interest expense (including capitalized interest) was \$76,286 thousand and \$12,413 thousand, respectively.
- (i) As of December 31, 2007 and 2006, financial assets exposed to fair value interest rate risk amounted to \$38,479 thousand and \$60,858 thousand, respectively, financial liabilities exposed to cash flow interest rate risk amount to \$4,049,600 thousand and \$1,722,275 thousand, respectively.

(j) Financial risk :

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 its credit risk, the Company evaluates its customers' financial conditions. As of December 31, 2007, the Company had the condition of credit risk concentration because approximately fifty-eight percent of the accounts receivable were derived from two major customers, approximately ninety-eight percent of the prepayments was paid to one major supplier, and approximately ninety-nine percent of the refundable deposits was 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.

## 25. SEGMENT INFORMATION

### Business Segments

No business segments information is presented as the Group is mainly engaged in the manufacturing of solar cells and materials.

### Geographical Information

No geographical segments information is presented as the Group does not have any overseas operations.

### Export Sales Information

Export revenues in 2007 and 2006 were as follows:

	2007	2006
Europe	\$4,612,480	\$ 492,759
Asia	1,786,997	40,572
America	<u>707</u>	<u>4,984</u>
	<u>\$6,400,184</u>	<u>\$ 538,315</u>

### **Important Customers' Information**

Sales to major customers in 2007 and 2006 were as follows:

	<b>2007</b>	<b>2006</b>
A Customer	\$ 1,562,720	\$ -
B Customer	1,419,963	170,026
C Customer	721,745	23,405
D Customer	<u>-</u>	<u>192,381</u>
	<u>\$ 3,704,428</u>	<u>\$ 385,812</u>