

FORMOSA TAFFETA CO., LTD.

**FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT ACCOUNTANTS**

DECEMBER 31, 2008 AND 2007

For the convenience of readers and for information purpose only, 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. In the event of any discrepancy between the English version and the original Chinese version or any differences in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.

Report of Independent Accountants Translated from Chinese

To the Board of Directors and Shareholders of FORMOSA TAFFETA CO., LTD.

We have audited the accompanying balance sheets of FORMOSA TAFFETA CO., LTD as of December 31, 2008, and the related statements of income, of changes in stockholders' equity and of cash flows for the year 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 audit. We did not audit the 2008 financial statements of certain investees accounted for under the equity method. These long-term investments amounted to \$2,892,364 thousand as of December 31, 2008, and the related investment loss was \$88,640 thousand for the year then ended. The financial statements of these investee companies were audited by other auditors whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for these long-term investments, is based solely on the reports of the other auditors. The financial statements of FORMOSA TAFFETA CO., LTD. as of December 31, 2007 were audited by other auditors whose report, dated March 5, 2008, expressed a modified unqualified opinion as the financial statements of certain investees accounted for under the equity method were audited by other auditors.

We conducted our audit in accordance with the "Rules Governing the Examination of Financial Statements by Certified Public Accountants" and generally accepted auditing standards in the Republic of China. Those 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 audit and the reports of other auditors provide a reasonable basis for our opinion.

The accompanying financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the audit of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of FORMOSA TAFFETA CO., LTD. as of December 31, 2008 , and the results of its operations and its cash flows for the year then ended in conformity with the “Rules Governing the Preparation of Financial Statements by Securities Issuers”, “Business Entity Accounting Law”, “Regulation on Business Entity Accounting Handling” and generally accepted accounting principles in the Republic of China.

We have also audited the consolidated financial statements of FORMOSA TAFFETA CO., LTD. and subsidiaries as of and for the year ended December 31, 2008. In our report dated March 16, 2009, we expressed a modified unqualified opinion on the consolidated financial statements as the financial statements of certain subsidiaries were audited by other auditors.

PricewaterhouseCoopers, Taiwan

March 16, 2009

The accompanying financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the audit of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.

FORMOSA TAFFETA CO., LTD.
BALANCE SHEETS
DECEMBER 31
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

ASSETS

Current Assets

Cash and cash equivalents (Note 4(1))	\$	1,941,230	\$	753,467
Financial assets at fair value through profit or loss - current (Note 4(2))		33,801		448,739
Available-for-sale financial assets - current (Note 4(3))		458,778		888,060
Notes receivable, net (Note 4(5))		174,527		189,697
Notes receivable, net - related parties (Note 5)		20,095		25,036
Accounts receivable, net (Note 4(5))		2,355,659		2,600,756
Accounts receivable, net - related parties (Note 5)		245,369		298,402
Other receivables (Notes 4(6) and 5)		304,904		376,795
Inventories (Note 4(7))		4,471,622		5,341,528
Prepayments		146,532		437,261
Deferred income tax assets - current (Note 4(20))		205,637		195,306
Other current assets - other		181,804		236,956
Total current assets		<u>10,539,958</u>		<u>11,792,003</u>

Funds and Investments

Available-for-sale financial assets - non-current (Note 4(3))		25,810,111		39,720,601
Financial assets carried at cost - non-current (Notes 4(4) and 8)		162,106		1,096,002
Long-term equity investments accounted for under the equity method (Note 4(8))		9,931,873		9,711,289
Other financial assets - non-current (Notes 6 and 7)		20,061		17,963
Total funds and investments		<u>35,924,151</u>		<u>50,545,855</u>

Property, Plant and Equipment, Net (Notes 4(9), 5 and 6)

Cost

Land		1,228,175		1,228,175
Land improvements		58,836		55,790
Buildings		5,372,195		5,382,948
Machinery and equipment		13,183,113		12,377,328
Transportation equipment		152,003		151,817
Other equipment		<u>5,133,503</u>		<u>5,050,048</u>
Cost and revaluation increments		25,127,825		24,246,106
Less: Accumulated depreciation	(	17,206,030)	(	16,981,410)
Construction in progress and prepayments for equipment		<u>1,159,245</u>		<u>1,527,551</u>
Total property, plant and equipment, net		<u>9,081,040</u>		<u>8,792,247</u>

Intangible assets

Deferred pension costs (Note 4(14))		63,451		69,880
Other intangible assets - other (Note 4(10))		<u>19,571</u>		<u>22,797</u>
Total intangible assets		<u>83,022</u>		<u>92,677</u>

Other Assets

Assets leased to others (Note 4(9))		317,892		113,443
Deferred expenses		4,338		10,438
Deferred income tax assets - non-current (Note 4(20))		377,206		514,164
Other assets - other (Notes 4(9) and 7)		<u>915,213</u>		<u>1,157,965</u>

Total other assets

		<u>1,614,649</u>		<u>1,796,010</u>
--	--	------------------	--	------------------

TOTAL ASSETS	\$	<u>57,242,820</u>	\$	<u>73,018,792</u>
--------------	----	-------------------	----	-------------------

(Continued)

FORMOSA TAFFETA CO., LTD.
BALANCE SHEETS(CONTINUED)
DECEMBER 31

(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	2008	2007
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Short-term loans (Note 4(11))	\$ 837,000	\$ 211,909
Financial liabilities at fair value through profit or loss - current (Note 4(12))	-	27,407
Notes payable	11,448	27,392
Notes payable - related parties (Note 5)	193,333	342,292
Accounts payable	514,910	830,009
Accounts payable - related parties (Note 5)	680,413	947,105
Income tax payable (Note 4(20))	123,257	438,871
Accrued expenses (Note 5)	748,456	957,734
Other payables (Notes 4(18) and 5)	52,069	54,461
Long-term liabilities - current portion (Notes 4(13) and 6)	113,712	37,578
Other current liabilities	101,284	98,479
Total current liabilities	<u>3,375,882</u>	<u>3,973,237</u>
Long-term Liabilities		
Long-term loans (Notes 4(13) and 6)	<u>9,354,848</u>	<u>7,175,781</u>
Total long-term liabilities	<u>9,354,848</u>	<u>7,175,781</u>
Other Liabilities		
Accrued pension liabilities (Note 4(14))	858,094	1,000,814
Other liabilities - other (Note 4(18))	73,994	59,248
Total other liabilities	<u>932,088</u>	<u>1,060,062</u>
Total liabilities	<u>13,662,818</u>	<u>12,209,080</u>
Stockholders' Equity		
Capital		
Common stock (Note 4(15))	16,846,646	16,846,646
Capital Reserves (Note 4(16))		
Capital reserve from donated assets	2,032	2,032
Capital reserve from long-term investments (Note 4(8))	696,659	696,936
Retained Earnings		
Legal reserve (Note 4(17))	4,776,711	4,039,332
Special reserve (Note 4(18))	1,675,123	1,294,725
Undistributed earnings (Note 4(18))	4,455,263	8,010,571
Other Adjustments to Stockholders' Equity		
Unrealized gain or loss on financial instruments (Notes 4(3) and 8)	15,054,257	30,058,121
Cumulative translation adjustments (Note 4(8))	237,050	274,490
Unrecognized pension cost (Note 4(14))	(137,251)	(386,653)
Treasury stock (Notes 4(8)(19))	(26,488)	(26,488)
Total stockholders' equity	<u>43,580,002</u>	<u>60,809,712</u>
Commitments and Contingent Liabilities (Note 7)		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 57,242,820</u>	<u>\$ 73,018,792</u>

The accompanying notes are an integral part of these financial statements.
See report of independent accountants dated March 16, 2009.

FORMOSA TAFFETA CO., LTD.
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT EARNINGS PER SHARE)

	2008		2007	
Operating Revenue (Note 5)				
Sales	\$	28,196,863	\$	29,186,989
Sales returns	(	212,657)	(	50,055)
Sales discounts	(	62,090)	(	52,421)
Net Sales		27,922,116		29,084,513
Service income		197,902		167,783
Net Operating Revenues		28,120,018		29,252,296
Operating Costs (Notes 4(22) and 5)				
Cost of goods sold	(	25,141,020)	(	26,217,934)
Service costs	(	160,654)	(	138,976)
Net Operating Costs	(	25,301,674)	(	26,356,910)
Gross profit		2,818,344		2,895,386
Operating Expenses (Notes 4(22) and 5)				
Sales and marketing expenses	(	1,426,499)	(	1,570,788)
General and administrative expenses	(	475,037)	(	554,907)
Total Operating Expenses	(	1,901,536)	(	2,125,695)
Operating income		916,808		769,691
Non-operating Income and Gains				
Interest income		42,606		13,400
Gain on valuation of financial assets (Note 4(2))		8,260		10,408
Gain on valuation of financial liabilities (Note 4(2))		54,492		187,196
Investment income accounted for under the equity method (Note 4(8))		-		993,380
Dividend income (Note 4(8))		2,502,425		2,561,749
Gain on disposal of property, plant and equipment (Note 5)		21,223		-
Gain on disposal of investments (Notes 4(2)(3)(8))		171,309		3,758,438
Foreign exchange gain, net		96,923		8,869
Other non-operating income (Note 5)		238,875		167,252
Non-operating Income and Gains		3,136,113		7,700,692
Non-operating Expenses and Losses				
Interest expense (Note 4(9))	(	252,498)	(	315,013)
Investment loss accounted for under the equity method (Note 4(8))	(	8,478)		-
Loss on disposal of property, plant and equipment		-	(	945)
Loss on physical inventory	(	17,244)	(	45,206)
Loss on market price decline and obsolete and slow-moving inventories (Note 4(7))	(	129,716)	(	333,779)
Impairment losses (Notes 4(4) and (9))	(	77,857)	(	3,579)
Other non-operating losses (Note 7)	(	288,946)	(	156,679)
Non-operating Expenses and Losses	(	774,739)	(	855,201)
Income from continuing operations before income tax		3,278,182		7,615,182
Income tax expense (Note 4(20))	(	276,184)	(	241,391)
Net income	\$	3,001,998	\$	7,373,791
	Before Tax	After Tax	Before Tax	After Tax
Basic earnings per share (Note 4(21))				
Net income	\$ 1.95	\$ 1.79	\$ 4.53	\$ 4.38
Assuming shares held by subsidiary not deemed as treasury stock				
Net income	\$ 3,278,182	\$ 3,001,998	\$ 7,615,182	\$ 7,373,791
Basic earnings per share				
Net income	\$ 1.94	\$ 1.78	\$ 4.52	\$ 4.38

The accompanying notes are an integral part of these financial statements.
See report of independent accountants dated March 16, 2009.

FORMOSA TAFFETA CO., LTD.
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	Capital Reserves		Retained Earnings				Unrealized gain or loss on financial instruments	Cumulative translation adjustments	Unrecognized pension cost	Treasury stock	Total
	Common stock	Capital reserve from donated assets	Capital reserve from long-term investments	Legal reserve	Special reserve	Undistributed earnings					
Year 2007											
Balance at January 1, 2007	\$ 16,846,646	\$ 2,032	\$ 95,596	\$ 3,698,943	\$ 927,946	\$ 3,713,182	\$ 23,623,890	\$ 166,312	(\$ 107,583)	(\$ 26,488)	\$ 48,940,476
Appropriations of 2007 earnings											
Appropriation of legal reserve	-	-	-	340,389	-	(340,389)	-	-	-	-	-
Appropriation of special reserve	-	-	-	-	682,971	(682,971)	-	-	-	-	-
Issuance of common stock for cash	-	-	-	-	-	(2,358,530)	-	-	-	-	(2,358,530)
Appropriation of remuneration to directors and supervisors and employee bonuses	-	-	-	-	-	(10,704)	-	-	-	-	(10,704)
Transfer of special reserve to undistributed earnings	-	-	-	-	(316,192)	316,192	-	-	-	-	-
Distribution of stock dividends	-	-	-	-	-	-	-	108,178	-	-	108,178
Transfer of unrealized valuation on investee companies	-	-	617,859	-	-	-	-	-	-	-	617,859
Transfer of unrealized valuation losses on long-term equity investments	-	-	-	-	-	-	(139,872)	-	-	-	(139,872)
Unrealized gain or loss on financial instrument in available-for-sale securities	-	-	-	-	-	-	6,574,103	-	-	-	6,574,103
Unrecognized pension cost due to sale of proportional share in investees	-	-	-	-	-	-	-	-	279,070)	-	(279,070)
Net income for 2007	-	-	(16,519)	-	-	-	-	-	-	-	(16,519)
Balance at December 31, 2007	\$ 16,846,646	\$ 2,032	\$ 696,936	\$ 4,039,332	\$ 1,294,725	\$ 8,010,571	\$ 30,058,121	\$ 274,490	(\$ 386,653)	(\$ 26,488)	\$ 60,809,712

The accompanying notes are an integral part of these financial statements.
See report of independent accountants dated March 16, 2009.

FORMOSA TAFFETA CO., LTD.
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	Common stock	Capital Reserves			Retained Earnings			Unrealized gain or loss on financial instruments	Cumulative translation adjustments	Unrecognized pension cost	Treasury stock	Total
		Capital reserve from donated assets	Capital reserve from long-term investments	Legal reserve	Special reserve	Undistributed earnings						
Year 2008												
Balance at January 1, 2008	\$ 16,846,646	\$ 2,032	\$ 696,936	\$ 4,039,332	\$ 1,294,725	\$ 8,010,571	\$ 30,058,121	\$ 274,490	(\$ 386,653)	(\$ 26,488)	\$ 60,809,712	
Appropriations of 2008 Earnings												
Appropriation of legal Reserve	-	-	-	737,379	-	(737,379)	-	-	-	-	-	-
Appropriation of special Reserve	-	-	-	-	894,042	(894,042)	-	-	-	-	-	-
Issuance of common stock for cash	-	-	-	-	-	(5,390,927)	-	-	-	-	(5,390,927)	
Appropriation of remuneration to directors and supervisors and employee bonuses	-	-	-	-	-	(48,602)	-	-	-	-	(48,602)	
Transfer of special reserve to undistributed earnings	-	-	-	-	(513,644)	513,644	-	-	-	-	-	-
Cumulative translation Adjustment	-	-	-	-	-	-	(37,440)	-	-	-	(37,440)	
Unrealized gain or loss on financial instrument in available-for-sale securities	-	-	-	-	-	-	(14,620,943)	-	-	-	(14,620,943)	
Transfer of unrealized valuation losses on long-term equity investments	-	(277)	-	-	-	-	(382,921)	-	-	249,402	(383,198)	
Unrecognized pension cost	-	-	-	-	-	-	-	-	-	-	249,402	
Net income for 2008	-	-	-	-	-	3,001,998	-	-	-	-	-	3,001,998
Balance at December 31, 2008	\$ 16,846,646	\$ 2,032	\$ 696,659	\$ 4,776,711	\$ 1,675,123	\$ 4,455,263	\$ 15,054,257	\$ 237,050	(\$ 137,251)	(\$ 26,488)	\$ 43,580,002	

The accompanying notes are an integral part of these financial statements.
See report of independent accountants dated March 16, 2009.

FORMOSA TAFFETA CO., LTD.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

	2008	2007
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Net income	\$ 3,001,998	\$ 7,373,791
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	920,761	839,986
Amortization	16,634	21,152
Gain on valuation of financial assets and liabilities	(62,752)	(197,604)
Investment loss accounted for under the equity method	8,478	(993,380)
Cash dividends from investees accounted for under the equity method	959,235	569,315
Provision for inventory obsolescence	129,716	333,779
Gain on disposal of investments	(171,309)	(3,758,438)
(Gain) loss on disposal of property, plant and equipment	(21,223)	945
Loss on investment company's reduction in capital	-	3,579
Impairment losses on land	77,857	-
Loss on disposal of property, plant and equipment	11,900	-
Other valuation losses	-	56,310
Other non-operating expenses	165,796	-
Changes in assets and liabilities		
Notes and accounts receivable	318,241	(225,432)
Other receivables	65,624	31,713

(Continued)

FORMOSA TAFFETA CO., LTD.
STATEMENTS OF CASH FLOWS(CONTINUED)
FOR THE YEARS ENDED DECEMBER 31
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS,)

	2008	2007
Financial assets and liabilities at fair value through profit or loss	\$ 450,283	\$ 765,297
Inventories	740,190	(407,627)
Prepaid expenses	290,729	(148,806)
Deferred tax assets	126,627	(205,281)
Other current assets	55,152	(162,406)
Notes and accounts receivable	(746,694)	(368,033)
Accrued expenses	(209,278)	117,152
Other payables	(2,392)	(15,962)
Income tax payable	(315,614)	301,460
Other current liabilities	2,805	13,727
Accrued pension liabilities	113,111	72,386
Net cash provided by operating activities	<u>5,925,875</u>	<u>4,017,623</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Increase in available-for-sale financial assets	(372,221)	(1,165,452)
Decrease in available-for-sale financial assets	262,359	679,046
Increase in financial assets at cost	(76,032)	(138,412)
Increase in long-term equity investments accounted for under the equity method	(599,007)	(105,414)
Proceeds from disposal of long-term equity investments	-	4,495,074
Acquisition of property, plant and equipment	(1,430,280)	(1,527,179)
Proceeds from disposal of property, plant and equipment	25,600	10,510
Acquisition of idle property, plant and equipment	(149)	(3,042)
Increase in intangible assets	(1,143)	(1,828)
Increase in deferred expenses	(6,165)	(10,257)
Increase in other financial assets-non current	(2,098)	(13,484)
Decrease in refundable deposits	4,843	47,782
Decrease in other assets	672	13,056
Net cash (used in) provided by investing activities	<u>(2,193,621)</u>	<u>2,280,400</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Payment of cash dividends	(5,390,927)	(2,352,895)
Payment of directors' compensation and employees' bonus	(48,602)	(10,704)
Increase (decrease) in short-term loans	625,091	(199,811)
Decrease in short-term notes and bills payable	-	(599,012)
Increase in long-term loans	2,990,681	539,114
Decrease in long-term loans	(756,029)	(3,920,784)
Decrease in deposits received	(5,071)	(20,302)
Other liabilities	19,817	4,037
Net cash used in financing activities	<u>(2,565,040)</u>	<u>(6,560,357)</u>
Effect due to foreign exchange changes	20,549	16,999
Increase (decrease) in cash and cash equivalents	1,187,763	(245,335)
Cash and cash equivalents at beginning of year	753,467	998,802
Cash and cash equivalents at end of year	<u>\$ 1,941,230</u>	<u>\$ 753,467</u>
<u>Supplemental disclosures of cash flow information</u>		
Cash paid during the year for interest	<u>\$ 262,929</u>	<u>\$ 318,664</u>
Cash paid during the year for income tax	<u>\$ 465,171</u>	<u>\$ 145,212</u>

The accompanying notes are an integral part of these financial statements.
See report of independent accountants dated March 16, 2009.

FORMOSA TAFFETA CO., LTD.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007
(EXPRESSED IN NEW TAIWAN DOLLARS,
EXCEPT AS OTHERWISE INDICATED)

1. HISTORY AND ORGANIZATION

Formosa Taffeta Co., Ltd. (the “Company”) was incorporated on April 19, 1973 under the provisions of the Company Law of the Republic of China (R.O.C.). The major operations of the Company are production and sales of nylon fabrics, tire cord, high density ethylene, yarns, mixed woven yarns, artificial yarns, synthetic fiber yarns, woven fabrics, dyeing, bulletproof vests, jackets, industrial work clothes and refinery operations of gasoline, diesel fuel, etc. Formosa Chemicals & Fiber Corp. has significant control over the Company since Formosa Chemicals & Fiber Corp. holds over half of the seats in the Board of Directors after the stockholder’s meeting on June 27, 2008. Since June 27, 2008, the Company and subsidiaries are included in the consolidated financial statements, and Formosa Chemicals & Fiber Corp. became the parent company of the Company. As of December 31, 2008, the Company has 3,547 employees.

The details of each department are as follows:

<u>Business departments</u>	<u>Major activities</u>
The first department	Amine fabrics, polyester fabrics, cotton fabrics, blending fabrics and umbrella ribs.
The second department	Cord, plastics bags
Petroleum department	Refineries for gasoline, diesel, crude oil and the related petroleum products
Others	Cotton fibers, blending fibers and protection fibers.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements are prepared in accordance with the “Rules Governing the Preparation of Financial Statements by Securities Issuers”, “Business Entity Accounting Law”, “Regulation on Business Entity Accounting Handling” and accounting principles generally accepted in the Republic of China. The Company’s significant accounting policies are as follows:

1) Foreign currency transactions

- a) The Company maintains its accounts in New Taiwan dollars. Transactions denominated in foreign currencies are translated into New Taiwan dollars at the spot exchange rates prevailing at the transaction dates. Exchange gains or losses due to the difference between the exchange rates on the transaction date and the exchange rates on the date of actual receipt and payment are recognized in current year's profit or loss.
- b) Receivables, other monetary assets and liabilities denominated in foreign currencies are translated at the spot exchange rates prevailing at the balance sheet date. Exchange gains or losses are recognized in profit or loss.
- c) At the end of the year, foreign currency non-monetary assets and liabilities, which are recognized in profit or loss based on fair value measurement and changes, are evaluated for adjustments at the spot exchange rates prevailing at the balance sheet date. Exchange gains or losses on adjustments are recognized in the current year's profit or loss; foreign currency non-monetary assets and liabilities, which are recognized in "stockholders' equity adjustments" based on fair value measurement and changes, are evaluated for adjustments at the spot exchange rates prevailing at the balance sheet date. Exchange gains or losses on adjustments are recognized as "stockholders' equity adjustments"; foreign currency non-monetary assets and liabilities, which are not measured based on fair value, are evaluated using the historical exchange rate at the date of the transaction.

2) Criteria for classifying assets and liabilities as current or non-current items

- a) Assets that meet one of the following criteria are classified as current assets; otherwise they are classified as non-current assets:
 - (1) Assets arising from operating activities that are expected to be realized or consumed, or are intended to be sold within the normal operating cycle;
 - (2) Assets held mainly for trading purposes;
 - (3) Assets that are expected to be realized within twelve months from the balance sheet date; and
 - (4) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to pay off liabilities more than twelve months after the balance sheet date.
- b) Liabilities that meet one of the following criteria are classified as current liabilities; otherwise they are classified as non-current liabilities:
 - (1) Liabilities arising from operating activities that are expected to be paid off within the normal operating cycle;
 - (2) Liabilities arising mainly from trading activities;

- (3) Liabilities that are to be paid off within twelve months from the balance sheet date; and
- (4) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date.

3) Cash and cash equivalents

Cash and cash equivalents include cash on hand and in banks and other short-term highly liquid investments which are readily convertible to known amount of cash and which are subject to insignificant risk of changes in value resulting from fluctuations in interest rates.

4) Financial assets and financial liabilities at fair value through profit or loss

- a) Financial assets and financial liabilities at fair value through profit or loss for equity financial instruments, beneficiary certificate and derivative financial instruments are recognized and derecognized as of the trade date at fair value.
- b) These financial instruments are subsequently evaluated and stated at fair value, and the gain or loss are recognized in profit or loss. The fair value of listed stocks, OTC stocks and closed-end mutual funds are based on latest quoted fair prices of the accounting period. The fair value of open-end and balanced mutual funds is based on the net asset value at the balance sheet date.
- c) Financial instruments that meet any of the following criteria are designated as financial assets or financial liabilities at fair value through profit or loss.
 - (1) The instrument is a mixed financial instrument;
 - (2) The instrument is designated as a financial asset or liability at fair value through profit or loss in order to eliminate or substantially reduce the inconsistency in accounting measurement or recognition;
 - (3) The instrument is managed in accordance with the Company's documented risk management and investment strategies, and its performance is evaluated on a fair value basis.

5) Available-for-sale financial assets

- a) Available-for-sale financial assets are recognized and derecognized using trade date accounting and are initially stated at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset.
- b) The financial assets are evaluated and stated at fair value, and the gain or loss is recognized in equity, until the financial asset is derecognized, at which time the cumulative gain or loss previously recognized in equity shall be recognized in profit or loss. The fair value of listed stocks, OTC stocks and closed-end mutual funds are based on latest quoted fair prices of the accounting period. The fair values of open-end and balanced mutual funds are based on the net asset value at the balance sheet date.

- c) If there is any objective evidence that the financial asset is impaired, the cumulative loss that had been recognized directly in equity shall be transferred from equity to profit or loss. When the fair value of an equity instrument subsequently increases, impairment losses recognized previously in profit or loss shall not be reversed. When the fair value of a debt instrument subsequently increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss shall be reversed to the extent of the loss recognized in profit or loss.
- 6) Financial assets and financial liabilities carried at costs
- a) Investment in financial instruments without active markets is recognized and derecognized using trade date accounting and is stated initially at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset.
 - b) If there is any objective evidence that the financial asset is impaired, the impairment loss is recognized in profit or loss. Such impairment loss shall not be reversed when the fair value of the asset subsequently increases.
- 7) Accounts receivable
- Accounts receivable are claims resulting from the sale of goods or services. The fair value of accounts receivable is calculated based on the imputed interest rate. Accounts receivable which are collectible within one year, and where the difference between the fair value and the value at maturity is insignificant are measured at carrying value.
- 8) Allowance of doubtful accounts
- Allowance for doubtful accounts is provided based on the results of evaluating the collectability of notes, accounts and other receivables, taking into account the bad debts incurred in prior years and the aging analysis of the receivables.
- 9) Inventories
- The perpetual inventory system is adopted for inventory recognition. Inventories are stated at cost. Cost is determined based on the weighted-average method. At the end of year, inventories are evaluated at the lower of aggregate cost or market value. The market value is based on the replacement cost for raw materials and supplies and net realizable value for work in process, finished goods and merchandise. Allowance for slow moving items and decline in the market value is provided when necessary.

10) Long-term equity investments accounted for under the equity method

- a) Long-term equity investments in which the Company holds more than 20% of the investee company's voting shares or has the ability to exercise significant influence on the investee's operational decisions are accounted for under the equity method. The excess of the initial investment cost over the acquired net asset value of the investee attributable to goodwill is no longer amortized, retrospective adjustment of the amount of goodwill amortized in previous years are not required. The excess of acquired net asset value of investee over the initial investment cost is allocated proportionately and applied as a reduction to the book values of identifiable non-current assets, and any remaining amount of such excess after this allocation is credited to extraordinary gains. Majority owned subsidiaries, in which the Company owns more than 50% of the investee companies' voting rights or has significant control ability on the investee's operations are accounted for under the equity method and included in quarterly consolidated financial statements.
- b) Exchange differences arising from translation of the financial statements of overseas investee companies accounted for under the equity method are recorded as "cumulative translation adjustments" under stockholders' equity.
- c) The unrealized gains or losses between the Company and investees or subsidiaries are eliminated.

11) Property, plant and equipment

- a) Property, plant and equipment are stated at cost. Interest incurred during the construction or installation of the assets is capitalized.
- b) Depreciation is provided under the straight-line method based on the estimated economic service lives of the assets. Salvage value of fully depreciated assets that are still in use is depreciated over the re-estimated useful lives. The estimated useful lives are 25-60 years for main buildings and 3-11 years for subsidiary buildings, and 2-10 years for other property, plant and equipment.
- c) Major renewals and improvements are capitalized and depreciated accordingly. Maintenance and repairs are expensed as incurred. Gain (loss) on disposal of property, plant and equipment is recorded in the current year's non-operating income (loss).
- d) Assets leased to others are reclassified to "other assets" at book value. Depreciation provided on these assets is charged to non-operating expenses and losses.
- e) Property, plant and equipment that are idle or have no value in use are reclassified to "other assets" at the lower of the fair value less costs to sell or book value. The resulting difference is included in current operations. Depreciation provided on these assets is charged to non-operating expense.

12) Intangible assets

Intangible assets, mainly gas station licensing fee and the alienation of the land-use rights, are amortized over the estimated life of 10 to 20 years.

13) Deferred assets

Deferred assets, mainly technical support costs and circuit support costs, are amortized on a straight-line basis over their estimated useful lives.

14) Impairment of non-financial assets

- a) The Company recognizes impairment loss when there is indication that the recoverable amount of an asset is less than its carrying amount. The recoverable amount is the higher of the fair value less costs to sell and value in use. The fair value less costs to sell is the amount obtainable from the sale of the asset in an arm's length transaction after deducting any direct incremental disposal costs. The value in use is the present value of estimated future cash flows to be derived from continuing use of the asset and from its disposal at the end of its useful life.
- b) When the impairment no longer exists, the impairment loss recognized in prior years shall be recovered.

15) Derivative financial instruments

- a) The Company has utilized derivative instruments like forward exchange contracts and interest rate exchange contracts to hedge risk exposure of interest rates and foreign currency exchange rates. The Company recognized those derivatives instruments at their fair value initially and subsequently. Derivative instruments are recognized as an asset when the fair value is positive and as a liability when the fair value is negative.
- b) If derivative instruments do not meet the hedging accounting requirements, the variation of fair value will be recognized as profit or loss.

16) Retirement plan and pension reserve

Under the defined benefit pension plan, net periodic pension costs are recognized in accordance with the actuarial calculations. The net periodic pension costs include service cost, interest cost, and expected return on plan assets, and amortization of unrecognized net transition obligation and gains or losses on plan assets. Under the defined contribution pension plan, net periodic pension costs are recognized as incurred.

17) Income tax

- a) Provision for income tax includes deferred income tax resulting from temporary differences, investment tax credits and loss carry forward. Valuation allowance on deferred tax assets is provided to the extent that it is more likely than not that the tax benefit will not be realized. Over or under provision of prior years' income tax liabilities is included in current year's income tax.
- b) Investment tax credits arising from expenditures incurred on acquisitions of equipment or technology, research and development, employees' training, and equity investments are recognized in the year the related expenditures are incurred.
- c) An additional 10% tax is levied on the undistributed retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.
- d) If the regular income tax is equal or more than the basic tax, the income tax payable shall be calculated in accordance with the Income Tax Act and other relevant laws. Whereas the regular income tax is less than the basic tax, the income tax payable shall be equal to the basic tax.

18) Treasury stock

Since year 2002, the Company has adopted the accounting treatment that stocks held by the subsidiaries are accounted for as treasury stocks when recognizing investment revenues and preparing the financial statements since year 2002. Costs of treasury stocks are considered deductions to stockholders' equity.

19) Employees' bonuses and directors' and supervisors' remuneration

Effective January 1, 2008, pursuant to EITF 96-052 of the Accounting Research and Development Foundation, R.O.C., dated March 16, 2007, "Accounting for Employees' Bonuses and Directors' and Supervisors' Remuneration", the costs of employees' bonuses and directors' and supervisors' remuneration are accounted for as expenses and liabilities, provided that such recognition is required under legal or constructive obligation and the amounts can be estimated reasonably. However, if the accrued amounts for employees' bonuses and directors' and supervisors' remuneration are significantly different from the actual distributed amounts resolved by the stockholders at their annual stockholders' meeting subsequently, the differences shall be recognized as gain or loss in the following year. In addition, according to EITF 97-127 of the Accounting Research and Development Foundation, R.O.C., dated March 31, 2008, "Criteria for Listed Companies in Calculating the Number of Shares of Employees' Stock Bonus", the Company calculates the number of shares of employees' stock bonus based on the closing price of the Company's common stock at the previous day of the stockholders' meeting held in the year following the financial reporting year, and after taking into account the effects of ex-rights and ex-dividends.

20) Earnings per share

Simple earnings per share are calculated based on the weighted-average number of outstanding shares during the period. The number of shares outstanding should be retroactively adjusted if the number of shares outstanding increases as a result of stock dividends.

21) Recognition of revenues, costs and expenses

Revenues are recognized when the earning process is substantially completed and are realized or realizable. Costs are recognized when the related revenues are incurred. Expenses are recognized as incurred under the accrual basis.

22) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statement, and the amounts of revenues and expenses reported during the period. Actual results could differ from those assumptions and estimates.

3. CHANGE IN ACCOUNTING PRINCIPLES

1) Intangible assets

Effective January 1, 2007, the Company adopted the R.O.C. Statement of Financial Accounting Standards No. 37, "Accounting for Intangible Assets". This change in accounting principle had no significant effect on the financial statements as of and for the year ended December 31, 2007.

2) Employees' bonuses and directors' and supervisors' remuneration

Effective January 1, 2008, the Company adopted EITF 96-052 of the Accounting Research and Development Foundation, R.O.C., dated March 16, 2007. As a result of the adoption of EITF 96-052, net income decreased by \$43,956(in thousand dollars) and earnings per share decreased by \$0.03(in dollars) for the year ended December 31, 2008.

4. DETAILS OF SIGNIFICANT ACCOUNTS

1) Cash and cash equivalents

	December 31,	
	2008	2007
Cash on hand	\$ 7,811,744	\$ 7,609,751
Checking and demand deposits	1,737,632,681	712,198,296
Time deposits	11,000,000	16,670,086
Cash equivalents-commercial paper	184,785,776	16,988,649
	<u>\$ 1,941,230,201</u>	<u>\$ 753,466,782</u>

2) Financial assets at fair value through profit or loss

	December 31,	
	2008	2007
Financial assets held for trading		
Beneficiary certificate	\$ -	\$ 439,165,231
Derivatives	33,800,757	6,716,270
	33,800,757	445,881,501
Adjustment of financial assets held for trading	-	2,858,362
	<u>\$ 33,800,757</u>	<u>\$ 448,739,863</u>

a) The Company recognized net gain of \$62,751,490 and \$197,604,510 for the years ended December 31, 2008 and 2007, respectively.

b) The trading items and contract information of derivatives were as follows:

December 31, 2008			
	Contract Amount	Fair value	Contract Period
Financial assets			
Forward exchange contracts	Buy USD 5,308,602.72	-	97.9~98.4
	JPY 113,800,000.00		
	NTD 105,078,723.00	-	
	Sell USD 4,329,716.92	-	97.9~98.4
	JPY 519,300,000.00	-	
Interest rate Swap Futures	NTD 3,500,000,000.00	\$ 33,800,757	93.9~98.11
December 31, 2007			
	Contract Amount	Fair value	Contract Period
Financial assets			
Forward exchange contracts	Buy USD 3,307,071.35	-	96.9~97.3
	JPY 84,500,000.00	-	
	NTD 82,907,239.00	-	
	Sell USD 3,299,208.54	-	96.9~97.3
	JPY 373,000,000.00	-	
Interest rate Swap Futures	NTD 2,500,000,000.00	\$ 6,716,270	93.7~98.11

- c) The forward exchange contracts are bought (sold) to hedge the change of exchange rate due to import and export, but not adopting the hedging accounting.
- d) The interest rate swap contracts entered with financial institutions are received and paid according to floating interest rate and fixed interest rate to hedge the change of interest rate, but not adopting the hedging accounting.
- e) Unsettled forward exchange contracts expected cash inflow is USD 5,308,602.72; JPY 113,800,000 and \$105,078,723 and cash out-flow is USD 4,329,716.92; JPY 519,300,000 in the future .

3) Available-for-sale financial assets

	December 31,	
	2008	2007
Current items:		
Listed (TSE and OTC) stocks	\$ 895,893,009	\$ 821,570,595
Adjustment of available-for-sale financial assets	(437,115,075)	66,490,263
	<u>\$ 458,777,934</u>	<u>\$ 888,060,858</u>
Non-current items:		
Listed (TSE and OTC) stocks	\$ 9,851,826,839	\$ 9,644,978,020
Adjustment of available-for-sale financial assets	<u>15,958,284,685</u>	<u>30,075,622,899</u>
	<u>\$25,810,111,524</u>	<u>\$39,720,600,919</u>

The Company's disposal of Formosa Petrochemical Corp.'s stocks for the years ended December 31, 2008 and 2007 are detailed as follows:

	2008	2007
Number of shares disposed	<u>2,608,000</u>	<u>2,680,000</u>
Selling price	\$ 207,464,517	\$ 200,625,806
Original cost	(41,074,450)	(39,385,082)
Gain on disposal	<u>\$ 166,390,067</u>	<u>\$ 161,240,724</u>

For the years ended December 31, 2008 and 2007, the Company received cash dividends from these investments, please see Note 4 (8).

4) Financial assets carried at cost-non-current

	December 31,	
	2008	2007
Unlisted stocks	<u>\$ 162,105,778</u>	<u>\$ 1,096,002,064</u>

- a) These investments were measured at cost since its fair value cannot be measured reliably.
- b) The parent company and the Company invested in Formosa Industry Corporation, which voting shares have the ability to exercise significant influence. Hence, it is reclassified as long-term equity investments accounted for under the equity method as of June 30, 2008, please see Note 4(8).

- c) The Company was approved by the MOEAIC to invest in Genesis Semiconductor Inc., and as of December 31, 2008, the Company had remitted USD 175,000.
- d) Terax Communication Technologies Inc., shown as a financial asset measured at cost-non-current, has decreased its capital by \$245,000,000 as approved at the shareholders' meeting on October 5, 2006. The rate of capital decrease was 50%. On September 27, 2007, a capital decrease of \$148,575,000, or a rate of 42.45%, was approved at the shareholders' meeting. After the capital decrease, the Company held 837,352 shares and the original cost was reduced to \$7,884,018.

5) Notes and accounts receivable, net

	December 31,	
	2008	2007
Notes receivable	\$ 176,492,844	\$ 191,612,839
Less: Allowance for doubtful accounts	(1,965,882)	(1,916,128)
	<u>\$ 174,526,962</u>	<u>\$ 189,696,711</u>
Accounts receivable	\$2,414,164,966	\$2,663,146,944
Less: Allowance for doubtful accounts	(58,505,756)	(62,391,007)
	<u>\$2,355,659,210</u>	<u>\$2,600,755,937</u>

6) Other receivables

	December 31,	
	2008	2007
Other receivables	\$ 43,652,409	\$ 53,042,100
Other receivables-related parties	264,023,820	323,753,163
	307,676,229	376,795,263
Less: Allowance for doubtful accounts	(2,772,220)	-
	<u>\$ 304,904,009</u>	<u>\$ 376,795,263</u>

7) Inventories

	December 31,	
	2008	2007
Raw materials	\$ 470,031,902	\$ 518,972,392
Supplies	167,558,206	279,541,944
Working in process	1,256,347,741	1,345,586,531
Finished goods	3,104,801,184	3,283,343,020
Inventory in transit	262,959,072	571,086,561
Consigned out finished goods and raw materials	132,538,611	135,897,125
	5,394,236,716	6,134,427,573
Less: Allowance for obsolescence and market price decline	(922,615,192)	(792,899,580)
	<u>\$4,471,621,524</u>	<u>\$5,341,527,993</u>

The Company recognized provision for loss on inventory obsolescence and market price declines amounting to \$129,715,612 and \$333,779,375 for the years ended December 31, 2008 and 2007, respectively.

8) Long-term equity investments accounted for under the equity method

a) The details are as follows:

Investee Company	December 31,			
	2008		2007	
	Cost	%	Cost	%
Formosa Development Co., Ltd.	\$ 165,764,156	99.40	\$ 148,128,240	99.40
Formosa Taffeta (Hong Kong) Co., Ltd.	327,602,450	99.86	474,365,058	99.86
Formosa Advanced Technologies Co., Ltd.	5,251,910,851	65.68	5,900,411,889	65.68
F.T.C International S.r.l.	3,100,975	100.00	3,206,934	100.00
Formosa Taffeta (Zhong Shan) Co., Ltd.	1,459,995,358	100.00	1,689,539,652	100.00
Formosa Taffeta Vietnam Co., Ltd.	730,482,731	100.00	893,497,731	100.00
Xiamen Xiangyu Formosa Import & Export Trading Co., Ltd.	11,227,505	100.00	10,368,321	100.00
Schoeller F.T.C. (Hong Kong) Co., Ltd.	11,398,486	43.00	16,750,802	43.00
Kuang Yueh Co., Ltd.	135,042,147	24.13	98,858,404	24.49
Taffeta (Dong Nai) Co., Ltd.	714,204,820	100.00	476,162,398	100.00
Formosa Industry Co., Ltd.	1,121,143,739	10.00	-	-
	<u>\$ 9,931,873,218</u>		<u>\$ 9,711,289,432</u>	

b) Investment income (loss) accounted for under the equity method for the years ended December 31, 2008 and 2007 are set forth below:

Investee Company	2008	2007
Formosa Development Co., Ltd.	\$ 17,635,916	(\$ 11,469,818)
Formosa Taffeta (Hong Kong) Co., Ltd.	(234,893,648)	(62,511,517)
Formosa Advanced Technologies Co., Ltd.	663,906,113	1,257,399,068
F.T.C International S.r.l.	-	-
Formosa Taffeta (Zhong Shan) Co., Ltd.	(348,850,926)	(186,084,523)
Formosa Taffeta Vietnam Co., Ltd.	(83,721,308)	(42,512,673)
Xiamen Xiangyu Formosa Import & Export Trading Co., Ltd.	14	(1,894,965)
Schoeller F.T.C. (Hong Kong) Co., Ltd.	13,602,500	13,172,058
Kuang Yueh Co., Ltd.	32,672,227	19,367,495
Taffeta (Dong Nai) Co., Ltd.	(30,553,679)	7,915,024
Formosa Industry Co., Ltd.	(38,275,348)	-
	<u>(\$ 8,478,139)</u>	<u>\$ 993,380,149</u>

The investment income (loss) of the investee companies accounted for under the equity method were based on financial reports furnished by other auditors for the years 2008 and 2007, except for Formosa Taffeta (Hong Kong) Co., Ltd., Formosa Advanced Technologies Co., Ltd., and Formosa Taffeta (Zhong Shan) Co., Ltd.

- c) The effect of foreign currency exchange translation of long-term investments under the equity method as of December 31, 2008 and 2007 are summarized as follows:

Investee Company	December 31,	
	2008	2007
Formosa Taffeta (Hong Kong) Co., Ltd.	\$ 99,726,801	\$ 11,595,761
F.T.C International S.r.l.	441,698	547,657
Formosa Taffeta (Zhong Shan) Co., Ltd.	423,153,606	303,846,974
Formosa Taffeta Vietnam Co., Ltd.	(135,470,527)	(56,176,835)
Xiamen Xiangyu Formosa Import & Export Trading Co., Ltd.	6,203,310	5,344,140
Schoeller F.T.C. (Hong Kong) Co., Ltd.	(2,460,883)	(1,805,757)
Kuang Yueh Co., Ltd.	5,967,825	347,408
Taffeta (Dong Nai) Co., Ltd.	(48,906,321)	10,791,017
Formosa Industry Co., Ltd.	(111,605,330)	-
	<u>\$ 237,050,179</u>	<u>\$ 274,490,365</u>

- d) The Company received cash dividends in 2008 as follows:

Investee Company	Dividend Income	Long-term Investments Credit Balance
Equity method:		
Formosa Advanced Technologies Co., Ltd.	\$ -	\$ 929,486,310
Kuang Yueh Co., Ltd.	-	11,449,000
Schoeller F.T.C. (Hong Kong) Co., Ltd.	-	18,299,693
Available-for-sale financial assets:		
Formosa Chemicals & Fiber Corporation Corp.	71,242,920	-
Formosa Plastics Corp.	3,859	-
Nan Ya Plastics Corp.	3,105,551	-
Cost method:		
Wk Technology Fund IV	6,690,134	-
Asia Pacific Investment Co.	40,000,000	-
Formosa Petrochemical Corp.	2,378,357,391	-
Others	3,024,563	-
	<u>\$ 2,502,424,418</u>	<u>\$ 959,235,003</u>

The Company received cash dividends in 2007 as follows:

<u>Investee Company</u>	<u>Dividend Income</u>	<u>Long-term Investments Credit Balance</u>
Equity method:		
Formosa Advanced Technologies Co., Ltd.	\$ -	\$ 553,265,662
Schoeller F.T.C. (Hong Kong) Co., Ltd.	-	8,607,396
Kuang Yueh Co., Ltd.	-	7,441,850
Available-for-sale financial assets:		
Nan Ya Technology Corp.	935,448,287	-
Formosa Petrochemical Corp.	1,554,831,146	-
Nan Ya Plastics Corp.	317,575	-
Formosa Plastics Corp.	2,534	-
Formosa Chemicals & Fiber Corporation Corp.	18,444,288	-
Inotera Memories, Inc.	5,667,500	-
Cost method:		
Wk Technology Fund IV	4,683,094	-
Toa Resin Co., Ltd.	2,160,000	-
Shin Yun Gas Co., Ltd.	194,345	-
Asia Pacific Investment Co.	40,000,000	-
	<u>\$ 2,561,748,769</u>	<u>\$ 569,314,908</u>

- e) The Company has adopted the revised R.O.C. Statement of Financial Accounting Standards No. 7 "Consolidation of Financial Statements" to account for equity investments above 50%, directly or indirectly, or for investment holdings of less than 50% but with significant influence on the operation of the investees, in the consolidation report for the years ended December 31, 2008 and 2007. The consolidated subsidiaries do not include Kuang Yueh Co., Ltd. and Formosa Industry Co., Ltd.

- f) The Company was approved by the MOEAIC to invest as follows:

<u>Investee Company</u>	<u>Investment Amount</u>
Formosa Taffeta (Hong Kong) Co., Ltd.	HKD 147,190,000
F.T.C. International S.r.l.	EUR 99,000
Formosa Taffeta (Zhong Shan) Co., Ltd.	USD 46,400,000
Formosa Taffeta Vietnam Co., Ltd.	USD 49,000,000 NTD 74,000,000
Xiamen Xiangyu Formosa Import & Export Trading Co., Ltd.	USD 570,000
Schoeller F.T.C. (Hong Kong)	USD 86,000
Taffeta (Dong Nai) Co., Ltd.	USD 25,000,000
Formosa Industry Co., Ltd.	USD 38,100,000

- g) Formosa Chemicals & Fiber Corp., Nan Ya Plastics Corp., King Car Food Industrial Co. and the Company incorporated Formosa Industry Corporation. For the year ended December 31, 2008, the parent company and the Company hold more than 50 percent of the shares in Formosa Industry Corporation, and it is reclassified from financial assets carried at cost (USD27,710,000) to long-term equity investments under the equity method.
- h) (1) The Formosa Advanced Technologies Co., Ltd. had a capital injection in 2007. The Company did not subscribe to the new capital issued based on a pro rata basis and this resulted in the net share difference amount of \$601,340,240 to be recognized as Capital surplus.
- (2) The Company sold 56,810,000 common shares of Formosa Advanced Technologies Co., Ltd. in 2007. Total amount of sale is \$4,495,074,200. The Company recognized a gain on disposal of investments amounting to \$3,484,808,693.

- i) As of December 31, 2008, the Company recognized \$382,920,841 as unrealized gain or loss on financial instruments of Formosa Advanced Technologies Co., the percentage of holding qualifies as a stockholders' equity adjustment item. As of December 31, 2007, the Company recognized \$113,019,848 and \$26,851,632 as unrealized gain on financial instruments of Formosa Advanced Technologies Co. and Formosa Development Co., Ltd., the percentage of holding qualifies as a stockholders' equity adjustment item.
- j) Formosa Development Co., Ltd., one of the Company's subsidiaries, had held the Company's stocks since January 1, 2002. Those stocks were accounted for as treasury stocks at the cost price, please see Note 4(19).

9) Property, plant and equipment

Asset	December 31, 2008		
	Cost	Accumulated Depreciation	Net Book Value
Land	\$ 1,228,174,897	\$ -	\$ 1,228,174,897
Land improvements	58,835,353	(53,112,651)	5,722,702
Buildings	5,372,195,249	(2,139,345,088)	3,232,850,161
Machinery and equipment	13,183,113,351	(10,581,182,043)	2,601,931,308
Transportation equipment	152,003,292	(145,282,563)	6,720,729
Other equipment	5,133,502,384	(4,287,107,523)	846,394,861
Prepayments for equipment and construction in progress	<u>1,159,245,162</u>	<u>-</u>	<u>1,159,245,162</u>
	<u>\$26,287,069,688</u>	<u>(\$ 17,206,029,868)</u>	<u>\$ 9,081,039,820</u>

Asset	December 31, 2007		
	Cost	Accumulated Depreciation	Net Book Value
Land	\$ 1,228,174,897	\$ -	\$ 1,228,174,897
Land improvements	55,790,111	(52,239,368)	3,550,743
Buildings	5,382,947,611	(1,964,240,612)	3,418,706,999
Machinery and equipment	12,377,327,879	(10,758,583,611)	1,618,744,268
Transportation equipment	151,816,757	(143,214,834)	8,601,923
Other equipment	5,050,048,382	(4,063,131,531)	986,916,851
Prepayments for equipment and construction in progress	<u>1,527,551,404</u>	<u>-</u>	<u>1,527,551,404</u>
	<u>\$ 25,773,657,041</u>	<u>(\$ 16,981,409,956)</u>	<u>\$ 8,792,247,085</u>

- a) The Company provides fixed assets as a pledge to secure bank loans, please see Note 6.
- b) Interest expense before capitalization amounted to \$260,402,878 and \$315,013,191, and interest capitalized to property, plant and equipment amounted to \$7,904,728 and \$0, at the rate of approximately 0.6025%~3.0966% and 0%, for the years ended December 31, 2008 and 2007, respectively.

- c) As of December 31, 2008 and 2007, prepayments for lands were \$255,981,158 and \$333,671,298, respectively, net of accumulated impairment loss – property, plant and equipment of \$77,857,047 and \$0 respectively. The titles of the land had not yet been transferred to the Company, which registered parcels of the land with total costs of \$242,329,252 and \$320,168,150 on December 31, 2008 and 2007, respectively, under the name of a trustee. The land is used for agricultural purposes and was reclassified as other assets-other, setting the amounts at \$526,350,000 and \$516,350,000 as of December 31, 2008 and 2007, respectively.
- d) As of December 31, 2008 and 2007, land and prepayments for land were \$608,349,068 and \$608,200,310, respectively (representing net amounts of \$686,081,015 and \$608,200,310 after subtracting impairment losses on idle assets of \$77,880,705 and \$0, respectively). Land and prepayments for land that were not used for the business operations were reclassified as other assets-land.
- e) As of December 31, 2008 and 2007, \$317,891,974 and \$113,442,914 of lands, buildings and prepayments for lands leased to Formosa Advanced Technologies Co., Ltd. were reclassified as other assets - assets leased to others.

10) Intangible assets

Intangible assets, mainly consists of gas station licensing fees and the alienation of the land-use rights, and are amortized based on their contracts. As of December 31, 2008 and 2007, the amounts of unamortized land-use rights were \$19,571,234 and \$22,796,546, respectively.

11) Short-term loans

	December 31,	
	2008	2007
Purchase loans	\$ -	\$ 11,909,319
Unsecured loans	837,000,000	200,000,000
Interest rates	\$ 837,000,000	\$ 211,909,319
Unused credit lines	1.75%~2.06%	1.21%~6.04%
	<u>\$ 6,613,934,344</u>	<u>\$ 7,329,066,579</u>

12) Financial liabilities designated as at fair value through profit or loss

	December 31,	
	2008	2007
Financial liabilities held for trading		
Interest rate swap contract	\$ -	\$ 27,407,268

The trading items and contract information of derivatives were as follows:

	December 31,			
	2008		2007	
	Contract Amount	Contract Period	Contract Amount	Contract Period
Interest rate swap contract	-	-	<u>\$1,000,000,000</u>	93.7~98.11

The interest rate swap contracts entered with financial institutions are received and paid according to floating interest rate and fixed interest rate to hedge the change of interest rate, but not adopting the hedging accounting.

13) Long-term loans

Types of loans	Way of Repayment	December 31,	
		2008	2007
Secured bank loans	Installment	\$ 568,560,439	\$ 413,359,535
Unsecured bank loans	Maturity	<u>8,900,000,000</u>	<u>6,800,000,000</u>
		9,468,560,439	7,213,359,535
Less: Current portion		(113,712,088)	(37,578,140)
		<u>\$ 9,354,848,351</u>	<u>\$ 7,175,781,395</u>
Interest rate		<u>0.6025%~3.0966%</u>	<u>1.0465%~5.3541%</u>

Please see Note 6 for the carrying amounts of the pledged assets.

Long-term loans as of December 31, 2008 and 2007 will be repaid in five years, the details are as follows:

	December 31,	
	2008	2007
January 1, 2008~December 31, 2008	\$ -	\$ 37,578,140
January 1, 2009~December 31, 2009	113,712,088	4,960,870,563
January 1, 2010~December 31, 2010	6,013,765,106	1,860,870,563
January 1, 2011~December 31, 2011	3,113,765,106	160,870,563
January 1, 2012~December 31, 2012	113,765,106	193,169,706
After January 1, 2013	<u>113,553,033</u>	-
	<u>\$ 9,468,560,439</u>	<u>\$ 7,213,359,535</u>

14) Pension plans

- a) The Company has a non-contributory and funded defined benefit pension plan in accordance with the Labor Standards Law, covering all regular employees. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a

maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Company contributes monthly an amount equal to 2% of the employees' monthly salaries and wages to the retirement fund deposited with the trust department of Bank of Taiwan, formerly Central Trust of China, the trustee, under the name of the independent retirement fund committee.

The following sets forth the pension information based on the actuarial report:

I) Actuarial assumptions are as follows :

For the years ended December 31, 2008 and 2007, the discount rates are 2.50% and 2.75%, respectively, expected rate of return on plan assets are 2.50% and 2.75%, respectively, and adjustment of salary are 1.50% and 1.75%, respectively. Unrecognized net transition obligation is amortized on a straight-line basis over 23 years.

II) Funded status of the pension plan

	December 31,	
	2008	2007
Benefit obligation:		
Vested benefit obligation	\$ 467,213,000	\$ 444,894,000
Non-vested benefit obligation	<u>1,016,074,000</u>	<u>1,184,277,000</u>
Accumulated benefit obligation	1,483,287,000	1,629,171,000
Additional benefits based on future salaries	<u>413,227,000</u>	<u>421,279,000</u>
Projected benefit obligation	1,896,514,000	2,050,450,000
Plan assets at fair value	(625,192,000)	(628,357,000)
Funded status	1,271,322,000	1,422,093,000
Unrecognized net transition obligation	(63,451,000)	(69,880,000)
Unrecognized (gain) loss on plan assets	(550,479,000)	(807,932,000)
Additional minimum pension liability	<u>200,702,000</u>	<u>456,533,000</u>
Accrued pension liabilities	<u>\$ 858,094,000</u>	<u>\$ 1,000,814,000</u>
Vested benefit	<u>\$ 467,213,000</u>	<u>\$ 374,753,000</u>

III) The components of the net periodic pension cost recognized by the Company were summarized as follows:

	For the years ended December 31,	
	2008	2007
Service cost	\$ 56,235,000	\$ 47,682,000
Interest cost	55,178,000	44,443,000
Expected return on plan assets	(16,417,000)	(17,205,000)
Amortizations and deferrals	<u>41,178,000</u>	<u>22,446,000</u>
Net periodic pension cost	<u>\$ 136,174,000</u>	<u>\$ 97,366,000</u>

- b) Effective July 1, 2005, the Company has established a funded defined contribution pension plan (the “New Plan”) under the Labor Pension Act. Employees have the option to be covered under the New Plan. Under the New plan, the Company contributes monthly an amount based on 6% of the employees’ monthly salaries and wages to the employees’ individual pension accounts at the Bureau of Labor Insurance. The pension cost recognized under the New Plan for the years ended December 31, 2008 and 2007 are \$48,378,414 and \$48,594,007, respectively.

15) Common stock

As of December 31, 2008, the Company’s authorized and issued capital was \$16,846,646,370 consisting of 1,684,665,000 shares of common stocks, with a par value of \$10 per share.

16) Capital reserve

The Securities and Exchange Law and the Company Law requires that capital reserve shall be exclusively used to cover accumulated deficits or to increase capital and shall not be used for any other purpose. However, capital reserve arising from paid-in capital in excess of par value on issuance of common stock and donations can be capitalized once a year, provided that the Company has no accumulated deficits and the amount to be capitalized does not exceed 10% of the paid-in capital.

17) Legal reserve

The R.O.C. Company Law requires that the Company should appropriate 10% of the net income as the legal reserve until the reserve is equal to the capital. Legal reserves can only be used to offset a deficit, and cannot be distributed as cash dividends. Once the legal reserve is over 50% of the capital, the excess amount can be transferred to capital after offsetting deficits, if any exist.

18) Retained earnings

- a) According to the Securities Exchange Law No. 41, a company should reserve the amount equal to any valuation or contra-account in the stockholders' equity in the fiscal year from the net income and prior unappropriated earnings as special reserve. If the valuation or contra-account in stockholders' equity belongs to prior periods, the same amount from prior period earnings should be considered special reserve and cannot be distributed.

According to the R.O.C. Company Law and the Company's articles of incorporation, investment income recognized based on the equity method, and the unused deferred income tax assets recognized for unused investment credits are deemed unrealized and should be transferred to special reserve. Such investment gain can be transferred to unappropriated earnings only when realized, that is, when investee

companies declare dividends or investment credits are used, the current year's earnings, if any, shall first be used to pay all taxes and offset prior year's operating losses and then 10% of the remaining amount shall be set aside as legal reserve. Appropriation of the remainder shall be proposed by the Board of Directors and resolved by the stockholders. The special reserve includes: i) reserve for special purposes, ii) investment income recognized under equity method, iii) net proceeds from the recognition of financial assets transactions; only when the accumulated value decreases should the special reserve be adjusted by the same amount, subject to the provisions in this section, iv) other special reserve set out by legal provisions; the Company shall distribute earnings after annual interest has been deducted, distributing up to 1% as remuneration of the directors, and 0.1% to 1% of the employee bonus, this amount shall be set aside as the annual expense.

b) The Company's dividend policy is summarized below:

As the Company operates in a volatile business environment and is in the stable growth stage, the dividend policy includes cash dividends, stock dividends and capital increase by earnings recapitalization. At least 50% of the Company's distributable earnings shall be appropriated as dividends after deducting the legal reserves, directors' and supervisors' remuneration, employee bonus and special reserves. The Company would prefer distributing cash dividends. However, if significant investment measures are taken or financial structure needs to be improved, part of the dividends would be in the form of stock dividends but not to exceed 50% of the total dividends. The Board of Directors' meeting held on March 27, 2008 approved the dividend policy mentioned above, and was revised on June 27, 2008.

c) The appropriation of 2007 and 2006 earnings had been resolved at the stockholders' meeting on June 27, 2008 and June 28, 2007, respectively. Details are summarized below:

	2007 earnings		2006 earnings	
	Amount (in thousands of dollars)	Dividends per share (in dollars)	Amount (in thousands of dollars)	Dividends per share (in dollars)
Legal reserve	\$ 737,379		\$ 340,389	
Special dividends	894,042		682,971	
Cash dividends	5,390,927	\$ 3.20	2,358,530	\$ 1.40
Directors' and supervisors' remuneration	16,201		3,568	
Employees' cash bonus	<u>32,401</u>		<u>7,136</u>	
Total	<u>\$ 7,070,950</u>		<u>\$ 3,392,594</u>	

The abovementioned 2007 and 2006 earnings appropriations are the same with that proposed by the Board of Directors. As of March 16, 2009, the appropriation of 2008 earnings had not been resolved by the Board of Directors. Information on the

appropriation of the Company's earnings as resolved by the Board of Directors and approved by the stockholders will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

d) The appropriation of 2007 earnings had been resolved at the Board of Directors' and stockholders' meeting, and the appropriation for employees' cash bonus is \$32,401,376 and directors' and supervisors' remuneration is \$16,200,688. The basic earnings per share after tax without adjustments is \$4.38. If the employees' cash bonus and directors' and supervisors' remuneration are recognized as expense for the year, the pro forma information of basic earnings per share after tax would be \$4.35. Detailed information of the appropriation will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

e) The appropriation of 2006 earnings had been resolved at the Board of Directors' and stockholders' meeting, and the appropriation for employees' cash bonus is \$7,135,996 and directors' and supervisors' remuneration is \$3,567,998. The basic earnings per share after tax without adjustments is \$2.02. If the employees' cash bonus and directors' and supervisors' remuneration are recognized as expense for the year, the pro forma information of basic earnings per share after tax would be \$2.01. Detailed information of the appropriation will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

f) The estimated employees' bonus and directors' and supervisors' remuneration of 2008 amounted to \$48,000,000. The estimated amounts were based on 0.1%~1% and 1% of the net income, net of legal reserve. The Company distributes employees' bonus and directors' and supervisors' remuneration by cash, and were recognized as operating costs or operating expenses in 2008. However, if the estimated amounts are different from the amounts approved by the stockholders subsequently, the difference is recognized as gain or loss in 2009.

g) Until December 31, 2008 and 2007, unpaid stock dividends amounting to \$30,466,789 and \$25,744,812 were classified as other payables and other liabilities.

19) Treasury stock

Formosa Development Co., Ltd., one of the Company's investee companies, held 3,043,228 common shares of the Company at the book value of \$8.76 per share, as of December 31, 2008 and 2007. As of December 31, 2008 and 2007, the closing market prices were \$17.00 and \$32.70 per share, respectively.

20) Income tax

a) Income tax expense and tax payable are reconciled as follows:

	<u>For the years ended December 31,</u>	
	<u>2008</u>	<u>2007</u>
Tax determined by applying statutory rate to income before income tax	\$ 819,535,494	\$ 1,903,785,574
Tax effect of permanent differences	(685,974,968)	(1,982,741,683)
Tax effect of investment tax credits	(84,771,297)	(56,685,563)
Under provision of prior year's income tax	25,386,113	3,922,055
Tax effect of minimum tax	81,981,838	279,701,470
10% additional income tax on prior year's undistributed earnings	119,688,325	92,730,569
Separate income tax	<u>338,043</u>	<u>678,595</u>
Income tax expense	276,183,548	241,391,017
Less : Net change in deferred income tax assets and liabilities	(126,626,176)	205,280,799
Prepaid and withholding taxes	(576,197)	(3,200,459)
Separate income tax	(338,043)	(678,595)
Under provision of prior year's income tax	(<u>25,386,113</u>)	(<u>3,922,055</u>)
Income tax payable	<u>\$ 123,257,019</u>	<u>\$ 438,870,707</u>

b) Deferred income tax assets and liabilities

	<u>December 31,</u>	
	<u>2008</u>	<u>2007</u>
Deferred income tax assets - current	\$ 219,260,255	\$ 197,907,528
Deferred income tax assets - non - current	514,636,712	651,594,607
Deferred income tax liabilities - current	(13,622,939)	(2,601,931)
Deferred income tax liabilities - non - current	(129,470,663)	(129,470,663)
Valuation allowance for deferred income tax assets	(<u>7,960,192</u>)	(<u>7,960,192</u>)
	<u>\$ 582,843,173</u>	<u>\$ 709,469,349</u>

- c) Details of temporary differences and investment tax credits resulting in deferred income tax assets and liabilities are as follows:

	December 31,			
	2008		2007	
	Amount	Tax effect	Amount	Tax effect
<u>Current</u>				
Investment tax credits	\$ -	\$ -	\$ 17,694,989	\$ 17,694,989
Allowance for bad debts in excess of tax-deductible limit	41,979,479	10,494,869	40,157,640	10,039,410
Provision for inventory obsolescence	802,557,008	200,639,252	672,841,396	168,210,349
Others	(21,987,222)	(5,496,805)	(2,566,604)	(639,151)
		<u>\$205,637,316</u>		<u>\$195,305,597</u>
<u>Non-current</u>				
Provision for pension	\$593,994,794	\$148,498,699	\$480,883,456	\$120,220,864
Investment tax credits	103,545,895	103,545,895	344,097,380	344,097,379
Cumulative effect of changes in accounting principle	-	-	208,247,272	52,061,818
Investment loss (income)	500,645,055	125,161,263	(222,047,340)	(55,511,835)
Unrealized loss on short-term notes	-	-	135,301,401	33,825,350
Others	31,840,768	7,960,192	109,721,471	27,430,368
Valuation allowance	(31,840,768)	(7,960,192)	(31,840,768)	(7,960,192)
		<u>\$377,205,857</u>		<u>\$514,163,752</u>

- d) As of December 31, 2008, the Company's income tax returns until 2005 have been assessed and approved by the Tax Authority.
- e) As of December 31, 2008, according to the "Statute for Upgrading Industries," the Company had investment tax credits as follows:

<u>Qualifying Item</u>	<u>Income tax credits</u>	<u>Unused income tax credits</u>	<u>Expiration year</u>
Research and development expenditures	<u>\$ 17,156,897</u>	<u>\$ 17,156,897</u>	2012
<u>Qualifying Item</u>	<u>Income tax credits</u>	<u>Unused income tax credits</u>	<u>Expiration year</u>
Machinery and equipment	\$ 60,322,443	\$ 34,398,445	2011
Machinery and equipment	<u>50,859,711</u>	<u>50,859,711</u>	2012
	<u>\$ 111,182,154</u>	<u>\$ 85,258,156</u>	

<u>Qualifying Item</u>	<u>Income tax credits</u>	<u>Unused income tax credits</u>	<u>Expiration year</u>
Employees' training	<u>\$ 1,130,842</u>	<u>\$ 1,130,842</u>	2012

f) Unappropriated retained earnings:

	<u>December 31,</u>	
	<u>2008</u>	<u>2007</u>
Earnings generated in and before 1997	\$ -	\$ -
Earnings generated in and after 1998	<u>4,455,262,980</u>	<u>8,010,570,217</u>
	<u>\$ 4,455,262,980</u>	<u>\$ 8,010,570,217</u>

- g) The actual tax rate of distributed earnings in 2007 was 12.21%. As of December 31, 2008, the tax credit account balance was \$178,511,440 and the estimated tax rate was 6.77% for 2008.

21) Earnings per share

	<u>For the year ended December 31, 2008</u>				
	<u>Amount</u>		<u>Weighted-average outstanding common shares (in thousands of shares)</u>	<u>Earnings per share (in dollars)</u>	
	<u>Before tax (in thousands of dollars)</u>	<u>After tax (in thousands of dollars)</u>		<u>Before tax</u>	<u>After tax</u>
Basic earnings per share:					
Net income	<u>\$ 3,278,182</u>	<u>\$ 3,001,998</u>	<u>1,681,622</u>	<u>\$ 1.95</u>	<u>\$ 1.79</u>

The following sets forth the assumption that Formosa Development Co., Ltd's investment in the Company's stocks is not deemed as treasury stock:

	<u>For the year ended December 31, 2008</u>				
	<u>Amount</u>		<u>Weighted-average outstanding common shares (in thousands of shares)</u>	<u>Earnings per share (in dollars)</u>	
	<u>Before tax (in thousands of dollars)</u>	<u>After tax (in thousands of dollars)</u>		<u>Before tax</u>	<u>After tax</u>
Net income attributable to common stockholders	<u>\$ 3,278,182</u>	<u>\$ 3,001,998</u>	<u>1,684,655</u>	<u>\$ 1.94</u>	<u>\$ 1.78</u>

	For the year ended December 31, 2007				
	Amount		Weighted-average outstanding common shares (in thousands of shares)	Earnings per share (in dollars)	
	Before tax	After tax		Before tax	After tax
	(in thousands of dollars)	(in thousands of dollars)			
Basic earnings per share:					
Net income	<u>\$ 7,615,182</u>	<u>\$ 7,373,791</u>	<u>1,681,622</u>	<u>\$ 4.53</u>	<u>\$ 4.38</u>

The following sets forth the assumption that Formosa Development Co., Ltd's investment in the Company's stocks is not deemed as treasury stock:

	For the year ended December 31, 2007				
	Amount		Weighted-average outstanding common shares (in thousands of shares)	Earnings per share (in dollars)	
	Before tax	After tax		Before tax	After tax
	(in thousands of dollars)	(in thousands of dollars)			
Net income attributable to common stockholders	<u>\$ 7,615,182</u>	<u>\$ 7,373,791</u>	<u>1,684,665</u>	<u>\$ 4.52</u>	<u>\$ 4.38</u>

Effective January 1, 2008, if the employees' bonuses were paid by issuance of stocks, it would have no significant effect on the financial statements as of December 31, 2008, and no significant effect on earnings per share.

22) Personnel, depreciation and amortization expenses:

Personnel, depreciation and amortization expenses are summarized as follows:

	For the year ended December 31, 2008		
	Operating costs	Operating expenses	Total
Personnel expenses			
Salaries	\$ 1,779,422,691	\$ 632,251,393	\$ 2,411,674,084
Labor and health insurances	116,357,435	49,639,046	165,996,481
Pension and retirement	154,340,766	30,211,648	184,552,414
Others	67,664,634	22,822,554	90,487,188
Depreciation (Note 1)	715,486,004	205,274,780	920,760,784
Amortization	12,204,333	4,429,476	16,633,809

	For the year ended December 31, 2007		
	<u>Operating costs</u>	<u>Operating expenses</u>	<u>Total</u>
Personnel expenses			
Salaries	\$ 2,033,809,846	\$ 572,650,961	\$ 2,606,460,807
Labor and health insurances	118,075,601	61,527,664	179,603,265
Pension and retirement	121,698,088	24,261,919	145,960,007
Others	70,904,319	25,850,242	96,754,561
Depreciation (Note 1)	628,479,937	211,506,391	839,986,328
Amortization	17,395,869	3,756,253	21,152,122

Note 1 : Including depreciation - assets leased to others which for the years ended December 31, 2008 and 2007 amounted to \$18,606,832 and \$11,513,712, respectively.

5. RELATED PARTY TRANSACTIONS

1) Names and relationship of related parties

<u>Names of related parties</u>	<u>Relationship with the Company</u>
Formosa Chemicals & Fiber Corp.	Parent company (Note)
Formosa Plastics Corp.	The managing director is the chairman of the Company
Nan Ya Plastics Corp.	The managing director is the chairman of the Company
Formosa Petrochemical Corp.	The president is a second degree relative of the chairman of the Company
Great King Garment Co., Ltd.	The director is the Company's general manager
Kong You Industrial Co., Ltd.	The director is the Company's general manager
Bellmart Industrial Co., Ltd.	The chairman is the Company's general manager
Yugen Co., Ltd.	The Yugen chairman is a member of the immediate family of the Company's person in charge.
Yumaowu Enterprise Co., Ltd.	The chairman is the Company's president
Toa Resin Co., Ltd.	The Company is the managing director of Toa Resin Co., Ltd.
Formosa Taffeta (Hong Kong) Co., Ltd.	Investee accounted for under the equity method
Formosa Advanced Technologies Co., Ltd.	Investee accounted for under the equity method
F.T.C. International S.r.l.	Investee accounted for under the equity method

<u>Names of related parties</u>	<u>Relationship with the Company</u>
Formosa Taffeta (Zhong Shan) Co., Ltd.	Investee accounted for under the equity method
Formosa Taffeta Vietnam Co., Ltd.	Investee accounted for under the equity method
Xiamen Xiangyu Formosa Import & Export Trading Co., Ltd.	Investee accounted for under the equity method
Formosa Development Co., Ltd.	Investee accounted for under the equity method
Kuang Yueh Co., Ltd.	Investee accounted for under the equity method
Schoeller F.T.C. (Hong Kong) Co., Ltd.	Investee accounted for under the equity method
Formosa Taffeta (Dong Nai) Co., Ltd.	Investee accounted for under the equity method
Formosa Taffeta (Changshu) Co., Ltd.	The Company is the parent company
Yu Maown Complex Co., Ltd.	The chairman is the Company's managing director
Director, supervisors, general manager and vice general managers	
Others (amount not over by 10% of the related party account for two years)	Related parties defined by R.O.C. SFAS No. 6

(Note) Formosa Chemicals & Fiber Corp. has exercised significant control over the Company since Formosa Chemicals & Fiber Corp. holds 5 of the 9 Board of Directors' seats after the stockholders' meeting on June 27, 2008. Before June 27, 2008, Formosa Chemicals & Fiber Corp. accounted for the Company under equity method, and had no significant influence over the Company.

2) Significant transactions and balances with related parties

a) Sales

	For the years ended December 31,			
	2008		2007	
	Amount	Percentage of net sales	Amount	Percentage of net sales
Kuang Yueh Co., Ltd.	\$ 336,496,159	1.20	\$ 161,582,670	0.55
Yugen Co., Ltd.	325,897,170	1.16	300,138,095	1.03
Schoeller F.T.C. (Hong Kong) Co., Ltd.	159,668,083	0.57	173,972,467	0.59
Kong You Industrial Co., Ltd.	153,920,196	0.55	151,920,512	0.52
Formosa Taffeta Vietnam Co., Ltd.	100,108,023	0.36	111,201,498	0.38
Formosa Chemicals & Fiber Corp.	93,206,173	0.33	52,528,717	0.18
Bellmart Industrial Co., Ltd.	70,675,305	0.25	62,772,095	0.21
Formosa Taffeta (Zhong Shan) Co., Ltd.	66,465,601	0.24	134,449,685	0.46
Formosa Taffeta (Changshu) Co., Ltd.	46,205,429	0.16	108,128,322	0.37
Others	<u>73,596,265</u>	<u>0.25</u>	<u>109,408,165</u>	<u>0.38</u>
	<u>\$ 1,426,238,404</u>	<u>5.07</u>	<u>\$ 1,366,102,226</u>	<u>4.67</u>

- (1) The collection terms from Kuang Yueh Co., Ltd. and Schoeller F.T.C. (Hong Kong) Co., Ltd. are 60 days, and from Formosa Taffeta (Zhong Shan) Co., Ltd., Formosa Taffeta Vietnam Co., Ltd., Formosa Taffeta (Dong Nai) Co., Ltd., and Formosa Taffeta (Changshu) Co., Ltd. are collected after 120 days of the delivery. The selling prices and collection terms of sales to other related parties were the same as those for non-related clients, that is, collection periods last two months.
- (2) Being under expansion, Formosa Taffeta (Zhong Shan) Co., Ltd., Formosa Taffeta Vietnam Co., Ltd., Formosa Taffeta (Changshu) Co., Ltd., made agreements with the Company to adjust collection periods to have longer terms.

b) Purchases and processing charges

For the years ended December 31,				
2008			2007	
	Amount	Percentage of net purchases	Amount	Percentage of net purchases
Formosa Petrochemical Corp.	\$ 9,140,986,341	44.58	\$ 10,289,882,482	44.49
Formosa Chemicals & Fiber Corp.	3,811,781,514	18.59	3,902,321,490	16.88
Nan Ya Plastics Corp.	939,765,720	4.58	996,998,751	4.31
Formosa Plastics Corp.	365,193,479	1.78	332,819,299	1.87
Toa Resin Co., Ltd.	73,409,242	0.36	77,118,586	0.43
Formosa Taffeta (Dong Nai) Co., Ltd.	89,750,557	0.44	86,513,267	0.37
Formosa Taffeta Vietnam Co., Ltd.	80,597,582	0.39	42,336,638	0.18
Others	9,563,711	0.05	32,299,969	0.39
	<u>\$ 14,511,048,146</u>	<u>70.77</u>	<u>\$ 15,760,290,482</u>	<u>68.92</u>

- (1) The purchases from Formosa Petrochemical Corp. were for gasoline. The payments were made every other month and half month, respectively.
- (2) The purchases from Formosa Chemicals & Fiber Corp. were for raw materials. The payment term was about two months.
- (3) The purchases from Nan Ya Plastics Corp. were for raw materials. The payment date was on the 15th of the following month.
- (4) The purchases from Formosa Plastics Corp. were for raw material. The payment date was on the 15th of the following month.
- (5) The purchases from Toa Resin Co., Ltd. were for raw materials. The payment date was on the 22nd of the following month.
- (6) The Company engaged with Formosa Taffeta Vietnam Co, Ltd. and Formosa Taffeta (Dong Nai) Co., Ltd. to process its raw material, supplies and work in process. When the goods are finished, they will be transported to the Company. The payment was made after the goods were received and accepted.
- (7) The prices and payment terms for related parties were not significantly different from those of non-related general suppliers.

c) Receivables

a) Notes receivable

December 31,				
2008			2007	
	Amount	Percentage of net receivable	Amount	Percentage of net receivable
Kong You Industrial Co., Ltd.	\$ 18,789,736	9.56	\$ 18,492,102	8.54
Kuang Yueh Co., Ltd.	1,041,513	0.53	5,807,330	2.68
Others	264,102	0.13	735,828	0.34
	<u>\$ 20,095,351</u>	<u>10.22</u>	<u>\$ 25,035,260</u>	<u>11.56</u>

b) Accounts receivable

December 31,				
2008			2007	
	Amount	Percentage of accounts and others receivables	Amount	Percentage of accounts and others receivables
Yugen Co., Ltd.	\$ 129,032,739	4.35	\$ 120,875,686	3.68
Kong You Industrial Co., Ltd.	18,438,714	0.63	-	-
Formosa Taffeta (Zhong Shan) Co., Ltd.	98,932,159	3.33	40,037,140	1.22
Schoeller F.T.C. (Hong Kong) Co., Ltd.	14,683,292	0.50	15,459,797	0.47
Formosa Taffeta Vietnam Co., Ltd.	28,874,197	0.97	29,684,874	0.90
Bellmart Industrial Co., Ltd.	10,334,139	0.35	14,612,318	0.44
Formosa Taffeta (Changshu) Co., Ltd.	32,649,660	1.10	76,953,828	2.34
Formosa Taffeta (Dong Nai) Co., Ltd.	161,281	-	18,658,991	0.57

(Continued)

December 31, (Continued)				
	2008		2007	
	Amount	Percentage of Accounts and Others receivables	Amount	Percentage of Accounts and Others receivables
Formosa Taffeta (Hong Kong) Co., Ltd.	30,743,635	1.03	46,108,124	1.41
Formosa Chemicals & Fiber Corp.	\$ 2,685,133	0.09	\$ -	-
Others	15,212,700	0.51	38,826,349	1.18
	381,747,649	12.86	401,217,107	12.21
Less: Overdue accounts receivable reclassified to "other receivables"	(136,378,728)	(4.59)	(102,814,686)	(3.13)
	<u>\$ 245,368,921</u>	<u>8.27</u>	<u>\$ 298,402,421</u>	<u>9.08</u>

In accordance with EITF 93-167 of the R.O.C. Accounting Research and Development Foundation, dated July 9, 2004, the overdue accounts receivable from related parties were reclassified to "other receivables". The following sets forth the aging analysis of the overdue accounts receivable from related parties:

	December 31, 2008				
	60-90 days	90-120 days	121-360 days	360 days and above	Total
Yugen Co., Ltd.	\$ -	\$ -	\$ 6,466,865	\$ -	\$ 6,466,865
Formosa Taffeta (Zhong Shan) Co., Ltd.	-	-	40,624,020	44,964,498	85,588,518
Formosa Taffeta (Hong Kong) Co., Ltd.	-	-	-	30,743,635	30,743,635
Formosa Taffeta Vietnam Co., Ltd.	-	-	-	1,686,152	1,686,152
Kong You Industrial Co., Ltd.	-	-	1,439,960	-	1,439,960

(Continued)

December 31, 2008 (Continued)					
	60-90 days	90-120 days	121-360 days	360 days and above	Total
Formosa Taffeta (Dong Nai) Co., Ltd.	-	-	-	161,281	161,281
Formosa Taffeta (Changshu) Co., Ltd.	-	-	7,607,184	-	7,607,184
Others	-	<u>2,685,133</u>	-	-	<u>2,685,133</u>
	<u>\$ -</u>	<u>\$2,685,133</u>	<u>\$56,138,029</u>	<u>\$77,555,566</u>	<u>\$136,378,728</u>

December 31, 2007					
	60-90 days	90-120 days	121-360 days	360 days and above	Total
Yugen Co., Ltd.	\$ -	\$ -	\$14,983,270	\$ -	\$ 14,983,270
Formosa Taffeta (Zhong Shan) Co., Ltd.	-	-	198,009	39,839,131	40,037,140
Formosa Taffeta (Hong Kong) Co., Ltd.	-	-	-	46,108,124	46,108,124
Formosa Taffeta Vietnam Co., Ltd.	-	-	-	<u>1,686,152</u>	<u>1,686,152</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$15,181,279</u>	<u>\$ 87,633,407</u>	<u>\$102,814,686</u>

d) Payments

a) Notes payable

December 31,				
	2008		2007	
	Amount	Percentage of notes payable	Amount	Percentage of notes payable
Formosa Chemicals & Fiber Corp.	\$ 193,214,226	94.35	\$ 339,297,245	91.78
Others	<u>118,248</u>	<u>0.06</u>	<u>2,994,470</u>	<u>0.81</u>
	<u>\$ 193,332,474</u>	<u>94.41</u>	<u>\$ 342,291,715</u>	<u>92.59</u>

b) Accounts payable

December 31,				
	2008		2007	
	Amount	Percentage of accounts payable	Amount	Percentage of accounts payable
Formosa Petrochemical Corp.	\$ 241,050,990	20.17	\$ 429,378,415	24.16
Formosa Chemicals & Fiber Corp.	318,333,382	26.63	367,286,821	20.67
Nan Ya Plastics Corp.	40,705,154	3.41	87,341,707	4.91
Formosa Plastics Corp.	29,563,271	2.47	-	-
Formosa Taffeta Vietnam Co., Ltd.	22,323,539	1.87	8,459,980	0.48
Formosa Taffeta (Dong Nai) Co., Ltd.	19,419,265	1.62	8,050,227	0.45
Others	9,017,433	0.75	46,588,300	2.62
	<u>\$ 680,413,034</u>	<u>56.92</u>	<u>\$ 947,105,450</u>	<u>53.29</u>

e) Acquisitions and disposals of property, plant and equipment

The Company purchased raw materials for related parties and sold fixed assets to the related parties. Any gain or loss from such transactions is recorded as non-operating income (expense). Details are as follows:

December 31, 2008				
	Item	Book value	Sales price	Gain
Formosa Taffeta (Zhong Shan) Co., Ltd.	Purchase of raw materials and supplies	\$ 46,408,959	\$ 47,447,881	\$ 1,038,922
Formosa Taffeta Vietnam Co., Ltd.	Purchase of raw materials and supplies	4,892,624	5,075,036	182,412
Formosa Taffeta (Dong Nai) Co., Ltd.	Purchase of raw materials and supplies	48,543,831	50,645,789	2,101,958
Formosa Taffeta Vietnam Co., Ltd.	Disposal of property, plant and equipment	22,812	32,027	9,215
Formosa Taffeta (Dong Nai) Co., Ltd.	Disposal of property, plant and equipment	<u>2,645,652</u>	<u>4,394,529</u>	<u>1,748,877</u>
		<u>\$ 102,513,878</u>	<u>\$ 107,595,262</u>	<u>\$ 5,081,384</u>

		December 31, 2007		
	Item	Book value	Sales price	Gain (Loss)
Formosa Taffeta (Zhong Shan) Co., Ltd.	Purchase of raw materials and supplies	\$119,859,970	\$122,545,789	\$ 2,685,819
Formosa Taffeta Vietnam Co., Ltd.	Purchase of raw materials and supplies	41,687,096	42,754,782	1,067,686
Formosa Taffeta (Changshu) Co., Ltd.	Purchase of raw material and supplies	28,400	40,000	11,600
Formosa Taffeta (Dong Nai) Co., Ltd.	Purchase of raw materials and supplies	4,090,447	4,475,702	385,255
Formosa Taffeta Vietnam Co., Ltd.	Disposal of property, plant and equipment	<u>194,207</u>	<u>314,126</u>	<u>119,919</u>
		<u>\$ 165,860,120</u>	<u>\$ 170,130,399</u>	<u>\$ 4,270,279</u>

As of December 31, 2008 and 2007, the receivables include the considerations for purchases of raw materials, property, plant and equipment, and supplies on behalf of the related parties. The details are as follows (shown as other receivables):

	December 31,			
	2008		2007	
	Amount	Percentage of other receivables	Amount	Percentage of other receivables
Formosa Taffeta (Zhong Shan) Co., Ltd.	\$ 96,519,591	31.37	\$ 198,960,274	52.80
Formosa Taffeta Vietnam Co., Ltd.	2,330,184	0.76	5,556,567	1.47
Formosa Taffeta (Dong Nai) Co., Ltd.	22,307,751	7.25	2,401,163	0.64
Formosa Taffeta (Changshu) Co., Ltd.	-	-	37,366	0.01
	<u>\$ 121,157,526</u>	<u>39.38</u>	<u>\$ 206,955,370</u>	<u>54.92</u>

The Company received gasoline tickets issued by Formosa Petrochemical Corp. in 2008 and 2007. The Company paid for the gasoline and is expected to be reimbursed. The receivables from the above transactions amounted to \$2,769,407 and \$10,028,954 as of December 31, 2008 and 2007, respectively (shown as other receivables).

6) Commission expenses

The Company paid commissions to Formosa Taffeta (Hong Kong) Co., Ltd. and Yugen Co., Ltd. for 2.5% and 3% of sales rendered. Details are as follows: (shown as sales and marketing expenses):

	<u>For the years ended December 31,</u>	
	<u>2008</u>	<u>2007</u>
Formosa Taffeta (Hong Kong) Co., Ltd.	\$ 8,041,455	\$ 11,533,476
Yugen Co., Ltd.	<u>2,984,193</u>	<u>8,978,038</u>
	<u>\$ 11,025,648</u>	<u>\$ 20,511,514</u>

The balances of commission payable (shown as accrued expenses) consisted of the following:

	<u>December 31,</u>			
	<u>2008</u>		<u>2007</u>	
	<u>Amount</u>	<u>Percentage of accrued expenses</u>	<u>Amount</u>	<u>Percentage of accrued expenses</u>
Formosa Taffeta (Hong Kong) Co., Ltd.	\$ 1,499,259	0.20	\$ 1,424,538	0.15
Yugen Co., Ltd.	<u>-</u>	<u>-</u>	<u>4,493,626</u>	<u>0.47</u>
	<u>\$ 1,499,259</u>	<u>0.20</u>	<u>\$ 5,918,164</u>	<u>0.62</u>

g) Endorsements and guarantees

	<u>December 31,</u>	
	<u>2008</u>	<u>2007</u>
Formosa Taffeta (Zhong Shan) Co., Ltd.	\$ 3,611,387,000	\$ 2,976,916,000
Formosa Taffeta Vietnam Co., Ltd.	2,795,635,000	2,813,876,000
Formosa Development Co., Ltd.	35,000,000	35,000,000
Formosa Taffeta (Changshu) Co., Ltd.	3,086,207,000	2,830,290,000
Formosa Taffeta (Dong Nai) Co., Ltd.	<u>2,442,209,000</u>	<u>1,396,865,000</u>
	<u>\$ 11,970,438,000</u>	<u>\$ 10,052,947,000</u>

h) Assets leased to others

The Company rents out buildings located on No. 329, Henan St., Douliu City, Yunlin County, and land on No. 497-1 Neilin section, to Formosa Advanced Technologies Co., Ltd. The lessee pays the Company the rent at the beginning of every month. For the years ended December 31, 2008 and 2007, rental income amounted to \$19,769,544 for both years. As of December 31, 2008 and 2007, the balances of rental income receivable (shown as other receivable) were \$3,718,159 and \$1,837,187, respectively. Please see Note 4(9).

9) Remuneration information of key management (including directors, supervisors, general manager and vice general managers)

	For the years ended December 31,	
	2008	2007
Salaries and bonuses	\$ 30,584,101	\$ 32,363,578
Services fees	480,000	500,000
Distribution of earnings	-	16,235,744
	<u>\$ 31,064,101</u>	<u>\$ 49,099,322</u>

- (1) Salaries include wages allowance and retirement pension, etc.
- (2) Bonus includes all kinds of incentives.
- (3) Service fees include traveling allowance and subsidies, etc.
- (4) Distribution of earnings include directors' and supervisors' remuneration and employees' bonus.
- (5) For the related information, please refer to the annual report.

10) OTHERS

- 1) For the years ended December 31, 2008, and 2007, the Company collected accounts receivable on behalf of the related parties. The payments collected should be transferred to the account of:

	For the years ended December 31,	
	2008	2007
Formosa Taffeta (Zhong Shan) Co., Ltd.	<u>\$ 7,573,323</u>	<u>\$ 6,308,683</u>

6. PLEDGED OR RESTRICTED ASSETS

	<u>Book Value</u>		
	<u>December 31,</u>		
<u>Item</u>	<u>2008</u>	<u>2007</u>	<u>Purpose</u>
Property, plant and equipment	\$ -	\$ 30,685,000	Security for contingent liability for litigation
Other financial assets - non-current	<u>20,060,724</u>	<u>17,963,106</u>	Security for lines of credit
	<u>\$ 20,060,724</u>	<u>\$ 48,648,106</u>	

As of December 31, 2008, the Company pledged property, plant and equipment for loans amounting to \$976,331,554, and completed the pledge procedure on February 17, 2009.

7. COMMITMENTS AND CONTINGENT LIABILITIES

The Company's commitments and contingent liabilities are as follows:

- 1) As of December 31, 2008, endorsements for other companies or affiliates amounted to \$11,970,438,000. Please see Note 5.
- 2) As of December 31, 2008, the unused portion of the outstanding letters of credit for importing raw materials and equipment amounted to \$ 3,068,544.
- 3) The Company had a contract with Yi-To Co., Ltd., and paid \$30,000,000 and \$20,000,000 as guarantee deposit during the years ended December 31, 1992 and 1993, respectively. Due to a conflict between the parties, the relationship was terminated. However, the Company was unsuccessful in retrieving the guarantee deposit paid. This loss was accounted for as non-operating expense.

8. MAJOR CATASTROPHE

None.

9. SUBSEQUENT EVENT

None.

10. OTHERS

- 1) Certain accounts in the 2007 financial statements were reclassified to conform with the 2008 financial statement presentation.
- 2) The Company purchased short-term notes at face value of US\$10,000,000 from French Eastern Bank (H.K. Branch) on January 10, 1997 and January 30, 1997, issued by One Holding Co. (Thailand). The amount of the short-term investment totaled \$270,602,801 (USD9, 838,339.96), interests excluded. The French Eastern Bank would be obliged to pay the nominal amount at maturity on April 10, 1997 and April 11, 1997, respectively.

Due to the financial crisis of One Holding Co. (Thailand), the French Eastern Bank was not able to pay on time. The Company appointed H.K. lawyers to file a lawsuit against French Eastern Bank. As per discussion with lawyers, the collection outlook is optimistic. However, the Company recognized fifty percent of the investment loss in 1997 (\$135, 301,401, shown as non-operating loss) and transferred the total amount of respective notes to miscellaneous assets for conservatism purposes. Subsequently, the Company charged the remaining amount (shown as Other assets – Other receivables) to losses (Other expenses) totaling to \$165,795,973 for the year ended December 31, 2008. As of December 31, 2008, the lawsuit was still pending. Because the losing party must pay all counsel fees and court fees, the Company provided deposits of HKD4,408,392.10 (\$18,660,724) (shown as Other financial assets - non-current) and L/C HKD4,321,170.5 as a guarantee.

3) The fair values of the financial instruments

	December 31, 2008		
		Fair value	
	Book value	Quotations in an active market	Estimated using a valuation technique
<u>Non-derivative financial instruments</u>			
<u>Assets</u>			
Financial assets with fair values equal to book values	\$ 5,123,666,462	\$ -	\$5,123,666,462
Available-for-sale financial instruments-current	458,777,934	458,777,934	-
Available-for-sale financial instruments-non-current	25,810,111,524	25,810,111,524	-
Financial assets carries at cost-current	162,105,778	-	-
<u>Liabilities</u>			
Financial liabilities with fair values equal to book values	12,661,248,509	-	12,661,248,509
<u>Derivative financial instruments</u>			
<u>Assets</u>			
Interest rate swap (Financial assets at fair value)	33,800,757	-	33,800,757

	December 31, 2007		
	Fair value		
	Book value	Quotations in an active market	Estimated using a valuation technique
<u>Non-derivative financial instruments</u>			
<u>Assets</u>			
Financial assets with fair values equal to book values	\$ 4,328,780,266	\$ -	\$4,328,780,266
Financial assets at fair value through profit or loss-current	442,023,593	442,023,593	-
Available-for-sale financial instruments-current	888,060,858	888,060,858	-
Available-for-sale financial instruments-non-current	39,720,600,919	39,720,600,919	-
Financial assets carries at cost-current	1,096,002,064	-	-
<u>Liabilities</u>			
Financial liabilities with fair values equal to book values	11,087,413,225	-	11,087,413,225
<u>Derivative financial instruments</u>			
<u>Assets</u>			
Interest rate swap (Financial assets at fair value)	6,716,270	-	6,716,270
Interest rate swap (Financial liabilities at fair value)	27,407,268	-	27,407,268

The methods and assumptions used to estimate the fair values of the above financial instruments are summarized below:

- (1) For short-term instruments, the fair values were determined based on their carrying values because of the short maturities of the instruments. This method was applied to Cash and cash equivalents, Notes receivable, Accounts receivable (including related parties), Other receivables, Short-term loans, Notes payable, Accounts payable (including related parties), Income tax payable, Accrued expense, Other payables, and Long-term liabilities - current portion.
- (2) Financial assets and liabilities at fair value through profit or loss and available-for-sale financial instruments are regarded as quoted in an active market.
- (3) Financial assets carried at cost consists of equity stocks with no active market and no fair value. Hence, such financial assets are stated at cost.
- (4) The fair value of other financial assets - non-current, refundable deposits (shown as

other assets- other) and Guarantee deposits received (shown as other liabilities – other) were based on the present value of expected cash flow amount. The discount rate was the one-year deposit rate of the Directorate General of Postal Remittances and Savings Bank. The Company uses the carrying value if the difference of the present value amount is not significant.

- (5) As floating interest rates are adopted for most of the long-term loans, their fair value is based on their book value.
- (6) The fair values of derivative financial instruments which include unrealized gains or losses on unsettled contracts were determined based upon the amounts to be received or paid assuming that the contracts were settled as of the reporting date.

4) Information on significant gain/loss on financial instruments and equity items

For available-for-sale financial assets, during the years ended December 31, 2008 and 2007, the amount of gain (loss) recognized directly in equity were (\$14,620,943,552) and \$6,574,102,843, respectively.

5) Procedures of financial risk control and hedge

A) The Company's management considers economic environment, competition and market value risk to achieve the best position of investment risk, maximize the investment of excess liquidity and control the overall market risk. The Company adopts the following strategies to control financial risk:

a) Foreign exchange risk

The Company engages in a number of foreign-currency transactions. Therefore, the Company hedges risk naturally, and observes the exchange rates on a continual and timely basis to mitigate foreign exchange risks.

b) Interest rate risk

The expected domestic interest rate will not change drastically. However, the Company continues to observe the movement of interest rate to prevent costs to incur due to changes in interest rate.

c) Cash flow risk

The Company sets up short and long term funding schedule on a regular timely basis to ensure that all the obligations could be complied.

d) Credit risk

The Company has a stringent credit policy in place. Transactions are conducted only with counterparties with good credit conditions. Appropriate measures are also undertaken where necessary to protect the Company's credit rights and thereby mitigate credit risk.

B) The Board of Directors is responsible for supervising usual business operations, and authorizing management to perform daily operations under acceptable risk. Internal auditor shall review reports prepared by management on a timely basis to evaluate the effectiveness of management. If the internal auditor discovers any irregular circumstances, he or she should inform the Board of Directors immediately and perform necessary protective measures.

6) Information of material financial risk

a) Market risk

- (1) The Company is exposed to equity financial assets and financial assets carried at cost price risk because of investments held by the Group and classified on the consolidated balance sheet either as available-for-sale or at fair value through profit or loss. The Group sets limits to control the transaction volume and stop-loss amount of derivatives to reduce its market risk.
- (2) The Company's interest rate risk arises from floating rate from borrowings, due to changes in market interest rate and adjustment fixed and floating borrowings. The Company could exercise its market risk adequately.
- (3) The Company's major import and export transactions are conducted in United States dollars. The change in fair value will be caused by fluctuations in the foreign exchange rate. However, the amounts and periods of the Company's accounts receivable and accounts payable are equivalent, so the market risk could be offset. If the gap is raised, the Company would adopt the forward contract to hedge the risk, so the Company estimates there would be no material risk.

b) Credit risk

- (1) The Company invests in equity stocks in Stock Exchange markets, over-the counter markets or enters into agreements with credit-worthy counterparties. As such, the Company estimates there would be no material risk. Before investing in financial assets carried at cost, the Company evaluates the counterparties. As such, the Company expects no breach in contracts, and estimates there would be lower credit risk.
- (2) The Company has lower significant concentrations of credit risk. It has policies in place to ensure that wholesale sales of products are made to customers with an appropriate credit history. The maximum loss to the Group is the total amount of all book value of accounts receivable.

- (3) Loan guarantees provided by the Company are in compliance with the Company's "Procedures for Provision of Endorsements and Guarantees" and are only provided to affiliated companies of which the Company owns directly or indirectly more than 50% ownership or a company which trades with the Company. As the Company is fully aware of the credit conditions of these related parties, it has not asked for collateral for the loan guarantees provided. In the event that these related parties fail to comply with loan agreements with banks, the maximum loss to the Company is the total amount of loan guarantees as listed above.

c) Liquidity risk

- (1) The Company is exposed to a higher liquidity risk since investment securities have no active market. However, the Company has no intention to hold these financial assets for trading and does not expect to sell those financial assets frequently. Therefore, the exposure to liquidity risk would be effectively reduced.
- (2) The Company's funds arises from capital infusions and operations, The Company has a good credit history with banks and the money market. Therefore, the Company expects no significant liquidity risk since it has sufficient working capital to meet commitments associated with receivable and payment contracts.

d) Cash flow risk due to changes in interest rates

- (1) The Company's receivables and payments are current. The Company expects no significant cash flow risk due to changes in interest rates.
- (2) The Company's interest rate risk arises from borrowings. Borrowings issued at variable rates expose the Company to cash flow interest rate risk. The amount of cash flow would be decreased by \$103,056,000 which was based on the assumption that interest rate is raised by 1% on balance sheet date.
- (3) The Company invests in equity financial assets and financial assets carried at cost that are not interest-bearing financial assets. Hence, the Company estimates there would be no cash flow risk due to change in interest rates.

11. SEGMENT INFORMATION

1) Financial information by industry

For the year ended December 31, 2008						
	Div. I	Div. II.	Cotton textile factory	Special textile factory	Gasoline	Total
Revenues from outside clients	\$ 10,009,208	\$ 7,968,931	\$ 420,354	\$ 584,624	\$ 9,136,901	\$ 28,120,018
Operating income	\$ 661,166	\$ 579,788	\$ 22,079	\$ 124,112	\$ 4,700	1,391,845
General corporate expenses						(475,037)
Investment gain, net						(8,478)
Interest expense, net						(209,892)
Non-operating expense, net						2,579,744
Income from continuing operations before income taxes						\$ 3,278,182
Identifiable assets	\$ 6,849,761	\$ 5,182,764	\$ 404,193	\$ 349,745	\$ 1,633,354	\$ 14,419,817
Long-term investments						\$ 9,931,873
Other assets						47,310,947
Total assets						\$ 57,242,820
Depreciation						
Each segment	\$ 370,220	\$ 226,468	\$ 23,809	\$ 8,321	\$ 116,396	\$ 745,214
Company total						\$ 175,547
Capital expenditures						
Each segment	\$ 615,509	\$ 605,346	\$ 41,533	\$ 27,322	\$ 67,410	\$ 1,357,120
Company total						\$ 73,160

For the year ended December 31, 2007						
	Div. I	Div. II.	Cotton textile factory	Special textile factory	Gasoline	Total
Revenues from outside clients	\$ 10,366,553	\$ 7,179,959	\$ 358,147	\$ 481,409	\$ 10,866,228	\$ 29,252,296
Operating income	\$ 797,974	\$ 431,545	\$ 24,474	\$ 96,867	\$ (26,262)	1,324,598
General corporate expenses						(554,907)
Investment gain, net						993,380
Interest expense, net						(301,613)
Non-operating expense, net						6,153,724
Income from continuing operations before income taxes						\$ 7,615,182
Identifiable assets	\$ 7,288,905	\$ 4,634,141	\$ 373,420	\$ 336,196	\$ 1,744,592	\$ 14,377,254
Long-term investments						\$ 9,711,289
Other assets						63,307,503
Total assets						\$ 73,018,792
Depreciation						
Each segment	\$ 335,613	\$ 143,653	\$ 36,932	\$ 4,483	\$ 145,510	\$ 666,191
Company total						\$ 173,795
Capital expenditures						
Each segment	\$ 468,106	\$ 876,544	\$ 54,680	\$ 9,181	\$ 69,751	\$ 1,478,262
Company total						\$ 48,917

The direct-allocated operating costs will be allocated to the respective division. Except for the cost from the engineering division which was allocated based on the electricity kilowatt-hour, the other

indirect costs would be allocated in proportion to the division's operating costs.

2) Financial information by geographic area

The Company had not set up any overseas branch offices or divisions as of December 31, 2008 and 2007.

3) Export sales by geographic area(in thousands of New Taiwan dollars):

<u>Geographic area</u>	<u>2008</u>	<u>2007</u>
Asia area	\$ 7,155,856	\$ 6,223,860
Hong Kong	3,847,550	3,971,638
Japan	591,732	530,088
Other areas	<u>633,791</u>	<u>603,500</u>
Total	<u>\$ 12,228,929</u>	<u>\$ 11,329,086</u>

4) Major customers

As of December 31, 2008 and 2007, sales to any individual customer did not exceed 10% of the Company's net sales.