

**FORMOSA PETROCHEMICAL CORPORATION  
AND SUBSIDIARIES  
CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED  
DECEMBER 31, 2006 AND 2007  
With  
Report of Independent Auditors**

*The reader is advised that these financial statements have been prepared originally in Chinese. In the event of a conflict between these financial statements and the original Chinese version or difference in interpretation between the two versions, the Chinese language financial statements shall prevail.*

## **English Translation of a Report Originally Issued in Chinese**

### **Report of Independent Auditors**

To the Board of Directors and Stockholders of  
Formosa Petrochemical Corporation

We have audited the accompanying consolidated balance sheets of Formosa Petrochemical Corporation (the "Company") and subsidiaries as of December 31, 2006 and 2007, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Formosa Petrochemical Corporation and subsidiaries as of December 31, 2006 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with Business Entity Accounting Act, rules related to financial accounting principles in Regulation on Business Entity Accounting Handling, the "Guidelines Governing the Preparation of Financial Reports by Securities Issuers" and Accounting Principles Generally Accepted in the Republic of China on Taiwan.

As described in Note 3.1 to the financial statements, effective from January 1, 2006, the Company and subsidiaries adopted the R.O.C. Statement of Financial Accounting Standards No. 34, "Accounting for Financial Instruments," and No. 36, "Disclosure and Presentation of Financial Instruments".

As described in Note 3.2 to the financial statements, effective from January 1, 2006, the Company changed its estimate in the economic service lives of machinery and equipment from 25 years to 15 years.

March 5, 2008  
Taipei, Taiwan  
Republic of China

#### **Notice to Readers**

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

English Translation of Financial Statements Originally Issued in Chinese

**FORMOSA PETROCHEMICAL CORPORATION**

**CONSOLIDATED BALANCE SHEETS**

**DECEMBER 31, 2006 AND 2007**

**(Expressed in Thousands of Dollars )**

ASSETS	Notes	2006	2007	
		NTD	NTD	USD
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	2 & 4.1	\$8,607,504	\$12,007,732	\$370,118
Available-for-sale financial assets-current	2 & 4.2 & 10	18,851,135	29,898,028	921,556
Derivative financial assets for hedging-current	2 & 4.3 & 10	52,288	779	24
Notes receivable, net	2 & 4.4	3,211,445	3,567,601	109,965
Accounts receivable, net	2 & 4.4	27,446,749	44,485,732	1,371,197
Accounts receivable from related parties, net	2 & 4.4 & 5	17,313,817	30,674,888	945,501
Other receivables	4.5	2,180,922	4,038,775	124,488
Other receivables from related parties	4.5 & 5	524,971	1,740,183	53,638
Other financial assets - current	6	3,150	1,150	35
Inventories	2 & 4.6	48,401,186	52,749,251	1,625,905
Prepayments	4.7	10,439,596	8,742,322	269,467
Other current assets	4.26	274,587	257,544	7,939
Total current assets		<u>137,307,350</u>	<u>188,163,985</u>	<u>5,799,833</u>
<b>FUND AND LONG-TERM INVESTMENTS</b>				
Financial assets at fair value through profit or loss-non-current	2 & 4.8 & 10	308,288	408,257	12,584
Derivative financial assets for hedging-non-current	2 & 4.9 & 10	849,912	418,005	12,884
Assets carried at cost-non-current	2 & 4.10	1,250,897	1,250,897	38,557
Long-term equity investments-equity method	2 & 4.10	12,777,330	13,244,696	408,245
Other financial assets - non-current	6	2,000	4,000	123
Total fund and long-term investments		<u>15,188,427</u>	<u>15,325,855</u>	<u>472,393</u>
<b>PROPERTY, PLANT AND EQUIPMENT</b>				
	2 & 4.11			
Land		1,596,927	19,444,663	599,348
Buildings		32,100,654	37,091,529	1,143,283
Machinery and equipment		225,908,372	284,535,852	8,770,331
Transportation equipment		723,150	711,320	21,925
Other equipment		2,609,232	2,785,764	85,867
Leasehold Improvement		256,956	324,733	10,010
Total cost		263,195,291	344,893,861	10,630,764
Less: Accumulated depreciation		(61,935,367)	(81,072,769)	(2,498,930)
Construction in progress		55,871,314	14,646,614	451,457
Prepayments on purchase of equipment and land		22,946,427	3,988,553	122,940
Total property, plant and equipment, net		<u>280,077,665</u>	<u>282,456,259</u>	<u>8,706,231</u>
<b>INTANGIBLE ASSETS</b>				
Deferred pension costs		7,745	5,150	159
<b>OTHER ASSETS</b>				
Property held for leasing, net	2 & 4.12	110,880	-	-
Idle assets, net	2 & 4.12	835,177	557,408	17,181
Refundable deposits		519,828	506,483	15,611
Deferred expenses	2 & 4.13	4,663,462	4,009,856	123,597
Deferred income tax assets	2 & 4.26	511,773	374,403	11,541
Other miscellaneous assets	4.12	425,993	207,539	6,397
Total other assets		<u>7,067,113</u>	<u>5,655,689</u>	<u>174,327</u>
<b>TOTAL ASSETS</b>		<u><b>\$439,648,300</b></u>	<u><b>\$491,606,938</b></u>	<u><b>\$15,152,943</b></u>

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

(Forward)

**English Translation of Financial Statements Originally Issued in Chinese**

**FORMOSA PETROCHEMICAL CORPORATION**

**CONSOLIDATED BALANCE SHEETS**

**DECEMBER 31, 2006 AND 2007**

**(Expressed in Thousands of Dollars )**

<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>Notes</b>	<b>2006</b>	<b>2007</b>	
		<b>NTD</b>	<b>NTD</b>	<b>USD</b>
<b>CURRENT LIABILITIES</b>				
Short-term loans	4.14	\$10,138,222	\$11,579,059	\$356,905
Commercial paper payable	4.14	-	598,981	18,463
Derivative financial liabilities for hedging-current	2 & 4.3 & 10	41,569	15,157	467
Notes payable		48,956	49,993	1,541
Accounts payable	4.15	15,373,535	18,379,288	566,510
Accounts payable to related parties	4.15 & 5	1,522,667	3,052,451	94,087
Income tax payable	4.26	2,663,170	7,973,005	245,754
Accrued expenses	4.16	7,899,149	7,816,441	240,928
Other payables	4.17	5,255,514	6,328,644	195,069
Other payables to related parties	4.17 & 5	17,310,822	13,287,980	409,579
Revenues received in advance		127,686	71,900	2,216
Current portion of long-term debts	4.18 & 19	17,751,330	29,578,140	911,696
Other current liabilities		71,219	89,414	2,756
Total current liabilities		<u>78,203,839</u>	<u>98,820,453</u>	<u>3,045,971</u>
<b>LONG-TERM LIABILITIES</b>				
Financial liabilities at fair value through profit or loss-non-current	2 & 4.8 & 10	258,168	27,296	841
Derivative financial liabilities for hedging-non-current	2 & 4.9 & 10	1,200,662	410,821	12,663
Bonds payable	4.18	76,350,000	59,975,000	1,848,627
Long-term loans	4.19	44,539,025	57,555,485	1,774,049
Long-term notes payable	4.19	19,739,598	13,694,736	422,117
Total long-term liabilities		<u>142,087,453</u>	<u>131,663,338</u>	<u>4,058,297</u>
<b>OTHER LIABILITIES</b>				
Accrued pension liability	2 & 4.20	1,454,311	1,767,358	54,476
Guarantee deposits received		29,036	1,049,872	32,361
Other miscellaneous liabilities		121,480	73,623	2,269
Total other liabilities		<u>1,604,827</u>	<u>2,890,853</u>	<u>89,106</u>
Total Liabilities		<u>221,896,119</u>	<u>233,374,644</u>	<u>7,193,374</u>
<b>STOCKHOLDERS' EQUITY</b>				
Capital stock				
Common stock	4.21	92,485,045	92,485,045	2,850,693
Capital surplus	4.22			
Additional paid-in capital		24,864,000	24,864,000	766,390
Additional paid-in capital from conversion of bonds		6,379,284	6,379,284	196,631
Long-term investments		36	36	1
Retained earnings	4.23			
Legal reserve		15,124,268	19,571,903	603,270
Special reserve		4,065,167	3,582,123	110,413
Unappropriated earnings		69,935,484	94,858,618	2,923,855
Unrealized gain or loss on financial instruments	2 & 4.24	4,868,228	16,457,563	507,276
Cumulative translation adjustments	2	-	(8)	-
Total Stockholders' Equity of Parent Company		<u>217,721,512</u>	<u>258,198,564</u>	<u>7,958,529</u>
Minority Interests		30,669	33,730	1,040
Total Stockholders' Equity		<u>217,752,181</u>	<u>258,232,294</u>	<u>7,959,569</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>		<u><u>\$439,648,300</u></u>	<u><u>\$491,606,938</u></u>	<u><u>\$15,152,943</u></u>

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

**English Translation of Financial Statements Originally Issued in Chinese**  
**FORMOSA PETROCHEMICAL CORPORATION**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2007**  
**(Expressed in Thousands of Dollars, Except for Earnings per Share)**

	Notes	2006	2007	
		NTD	NTD	USD
OPERATING REVENUES	2 & 4.25	\$531,522,973	\$701,194,860	\$21,613,133
OPERATING COSTS	2 & 4.28	466,693,382	613,797,571	18,919,261
GROSS PROFIT		64,829,591	87,397,289	2,693,872
OPERATING EXPENSES	2 & 4.28			
Selling and marketing		7,778,187	7,830,597	241,365
General and administrative		3,620,024	3,577,756	110,278
Research and development		1,826	2,024	62
Total operating expenses		11,400,037	11,410,377	351,705
OPERATING INCOME		53,429,554	75,986,912	2,342,167
NON-OPERATING INCOME				
Interest income		190,418	403,767	12,445
Investment income under the equity method	2 & 4.10	1,651,691	1,570,164	48,398
Dividend income		1,233,195	1,674,176	51,604
Gain on disposal of property, plant and equipment		432	250,711	7,728
Gain on disposal of investments		1,408	2,480	76
Gain on physical inventory		424,916	444,189	13,691
Foreign exchange gain		526,589	-	-
Rental income		993,081	1,158,219	35,700
Gain on valuation of financial assets	2	119,800	269,821	8,317
Gain on valuation of financial liabilities	2	269,785	274,800	8,470
Others		1,429,654	2,038,801	62,843
Total non-operating income		6,840,969	8,087,128	249,272
NON-OPERATING EXPENSES				
Interest expense		3,613,646	4,515,989	139,198
Loss on disposal of property, plant and equipment		634	66,246	2,042
Foreign exchange loss		-	188,586	5,813
Financial expense		144,131	153,247	4,723
Impairment loss	2 & 4.12	443,332	102,680	3,165
Others		2,407,108	478,950	14,763
Total non-operating expenses		6,608,851	5,505,698	169,704
INCOME FROM CONTINUING OPERATIONS		53,661,672	78,568,342	2,421,735
BEFORE INCOME TAX				
INCOME TAX EXPENSE	2 & 4.26	(8,711,117)	(8,951,377)	(275,911)
INCOME FROM CONTINUING OPERATIONS		44,950,555	69,616,965	2,145,824
Cumulative effects of changes in accounting principles		(470,921)	-	-
CONSOLIDATED NET INCOME		\$44,479,634	\$69,616,965	\$2,145,824
Of which				
Stockholders of the Parent Company		\$44,476,349	\$69,610,794	\$2,145,634
Minority Interests		3,285	6,171	190
		\$44,479,634	\$69,616,965	\$2,145,824
EARNINGS PER SHARE	2 & 4.27			
Basic earnings per share (in dollars)				
Consolidated earnings per share				
Of which				
Stockholders of the Parent Company		\$4.81	\$7.53	\$0.23
Minority Interests		-	-	-
		\$4.81	\$7.53	\$0.23
Diluted earnings per share (in dollars)				
Consolidated earnings per share				
Of which				
Stockholders of the Parent Company		\$4.81	\$7.53	\$0.23
Minority Interests		-	-	-
		\$4.81	\$7.53	\$0.23

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

**English Translation of Financial Statements Originally Issued in Chinese**  
FORMOSA PETROCHEMICAL CORPORATION  
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2007  
(Expressed in Thousands of Dollars)

New Taiwan Dollars	Common Stock	Capital Surplus	Retained Earnings			Unrealized gain or or loss on financial instruments	Cumulative Translation Adjustments	Stockholders' Equity of Parent Company	Minority Interest	Total Stockholders' Equity
			Legal Reserve	Special Reserve	Unappropriated Earnings					
Balance at December 31, 2005 (NTD)	\$89,695,828	\$30,902,871	\$9,399,253	\$7,663,440	\$72,530,984	\$-	\$(1,984)	\$210,190,392	\$27,757	\$210,218,149
Effect of change in adopting SFAS No. 34 since 2006						1,639,764		1,639,764		1,639,764
Appropriation of 2005 earnings:										
Legal reserve			5,725,015		(5,725,015)			-		-
Special reserve				1,629,011	(1,629,011)			-		-
Cash dividends					(42,201,914)			(42,201,914)		(42,201,914)
Capitalization of retained earnings	2,693,739				(2,693,739)			-		-
Remuneration paid to directors and supervisors					(15,800)			(15,800)		(15,800)
Employees' bonuses					(33,654)			(33,654)		(33,654)
Special reserve reclassified to retained earnings				(5,227,284)	5,227,284			-		-
Net income for 2006					44,476,349			44,476,349		44,476,349
Common stock converted from convertible bonds	95,478							95,478		95,478
Additional paid-in capital from conversion of bonds		340,449						340,449		340,449
Unrealized gain or loss on financial instruments						3,228,464		3,228,464		3,228,464
Cumulative translation adjustments							1,984	1,984		1,984
Changes in Minority Interest								-	2,912	2,912
Balance at December 31, 2006 (NTD)	92,485,045	31,243,320	15,124,268	4,065,167	69,935,484	4,868,228	-	217,721,512	30,669	217,752,181
Appropriation of 2006 earnings:										
Legal reserve			4,447,635		(4,447,635)			-		-
Special reserve								-		-
Cash dividends					(40,693,420)			(40,693,420)		(40,693,420)
Remuneration paid to directors and supervisors					(15,800)			(15,800)		(15,800)
Employees' bonuses					(13,849)			(13,849)		(13,849)
Special reserve reclassified to retained earnings				(483,044)	483,044			-		-
Net income for 2007					69,610,794			69,610,794		69,610,794
Unrealized gain or loss on financial instruments						11,589,335		11,589,335	-	11,589,335
Cumulative translation adjustments							(8)	(8)		(8)
Changes in Minority Interest								-	3,061	3,061
Balance at December 31, 2007 (NTD)	\$92,485,045	\$31,243,320	\$19,571,903	\$3,582,123	\$94,858,618	\$16,457,563	\$(8)	\$258,198,564	\$33,730	\$258,232,294
Balance at December 31, 2007 (USD)	\$2,850,693	\$963,022	\$603,270	\$110,413	\$2,923,855	\$507,276	\$-	\$7,958,529	\$1,040	\$7,959,569

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

**English Translation of Financial Statements Originally Issued in Chinese**

**FORMOSA PETROCHEMICAL CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2007**  
**(Expressed in Thousands of Dollars)**

	<b>2006</b>	<b>2007</b>	
	<b>NTD</b>	<b>NTD</b>	<b>USD</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income	\$44,479,634	\$69,616,965	\$2,145,824
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity method investment incomes	(512,858)	(144,460)	(4,453)
Cumulative effects of changes in accounting principles	470,921	-	-
Gain on valuation of financial assets	(119,800)	(269,821)	(8,317)
Gain on valuation of financial liabilities	(269,785)	(274,800)	(8,470)
Gain on selling Long-term investment	(1,407)	(2,480)	(76)
Loss on disposal of property, plant and equipment	2,328	66,246	2,042
Gain on disposal of property, plant and equipment	(431)	(250,711)	(7,728)
Depreciation	16,678,065	19,398,287	597,919
Impairment loss	443,332	102,680	3,165
Loss on obsolescence of equipment	809,117	720	22
Amortization	2,129,478	1,577,282	48,617
Increase in notes receivable	(77,848)	(356,156)	(10,978)
(Increase) decrease in accounts receivable (including related parties)	(2,980,986)	(28,296,034)	(872,177)
(Increase) decrease in other receivables (including related parties)	2,245,900	(1,921,015)	(59,212)
(Increase) decrease in inventories	(2,760,747)	(4,303,275)	(132,641)
(Increase) decrease in prepayments	(3,311,930)	1,697,274	52,316
Decrease in other current assets	98,282	30,128	928
Increase in notes payable	6,383	1,037	32
Increase (decrease) in accounts payable (including related parties)	(5,724,160)	2,554,554	78,740
Increase in income tax payable	2,663,170	5,309,836	163,667
Increase (decrease) in accrued expenses	1,141,385	(263,109)	(8,110)
Increase (decrease) in revenues received in advance	8,494	(55,786)	(1,720)
(Increase) decrease in receivable overdue	-	1,731	53
Increase in accrued pension liability	297,196	315,641	9,729
Decrease in deferred income tax assets / liabilities	523,005	49,190	1,516
Net cash provided by operating activities	<u>56,236,738</u>	<u>64,583,924</u>	<u>1,990,688</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
(Increase) decrease in available-for-sale financial asset-current	(1,343,535)	75,951	2,341
Settlement of derivative financial instruments (net)	424,100	213,780	6,590
(Increase) decrease in other receivables-due from affiliates	49,900	(1,102,800)	(33,992)
Proceeds from disposal of property, plant and equipment	2,120	1,999,797	61,640
(Increase) decrease in long-term investment	(87,353)	(103,679)	(3,196)
Acquisition of property, plant and equipment	(31,603,651)	(23,289,617)	(717,862)
(Increase) decrease in refundable deposits	(22,595)	13,345	411
(Increase) decrease in other miscellaneous assets	(50,285)	199,377	6,146
(Increase) decrease in deferred expenses	(3,441,519)	(923,676)	(28,471)
Net cash used in investing activities	<u>(36,072,818)</u>	<u>(22,917,522)</u>	<u>(706,393)</u>

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

(Forward)

**English Translation of Financial Statements Originally Issued in Chinese**

**FORMOSA PETROCHEMICAL CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2007  
(Expressed in Thousands of Dollars)**

	<u>2006</u>	<u>2007</u>	
	<u>NTD</u>	<u>NTD</u>	<u>USD</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Increase in short-term loans	\$987,448	\$1,440,837	\$44,411
Increase (decrease) in commercial papers payable	(599,936)	598,981	18,463
Increase (decrease) in due to affiliates	2,313,200	(2,985,200)	(92,014)
Increase (decrease) in other payables (including related parties)	(456,711)	34,701	1,070
Increase (decrease) in other current liabilities	(74,948)	19,039	587
Increase in guarantee deposits received	12,507	1,020,836	31,466
Payment of cash dividends	(42,205,914)	(40,695,633)	(1,254,373)
Increase (decrease) in other miscellaneous liabilities	(4,196)	(92,646)	(2,856)
Increase in bonds payable	29,000,000	-	-
Increase in long-term loan	22,773,584	19,630,774	605,085
Payment of director's and supervisors' remuneration and employees' bonuses	(42,954)	(29,653)	(914)
Repayment of long-term loan	(8,212,500)	-	-
Repayment of current portion of long-term debts	(20,158,617)	(17,208,210)	(530,414)
Net cash used in financing activities	<u>(16,669,037)</u>	<u>(38,266,174)</u>	<u>(1,179,489)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,494,883	3,400,228	104,806
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>5,112,621</u>	<u>8,607,504</u>	<u>265,312</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u><u>\$8,607,504</u></u>	<u><u>\$12,007,732</u></u>	<u><u>\$370,118</u></u>
<b>SUPPLEMENTAL INFORMATION:</b>			
Interest paid (excluding capitalized interest)	<u>\$3,633,757</u>	<u>\$4,596,625</u>	<u>\$141,683</u>
Income tax refunded	<u>\$5,356,533</u>	<u>\$3,585,196</u>	<u>\$110,508</u>
<b>INVESTING AND FINANCING ACTIVITIES NOT AFFECTING CASH FLOWS:</b>			
Undistributed remuneration to directors/supervisors and bonus to employees	<u>\$6,500</u>	<u>\$787</u>	<u>\$24</u>
Reclassification of long-term bonds payable due within one year to current liabilities	<u>\$1,075,000</u>	<u>\$16,375,000</u>	<u>\$504,731</u>
Reclassification of long-term debts due within one year to current liabilities	<u>\$14,980,330</u>	<u>\$12,660,020</u>	<u>\$390,223</u>
Reclassification of idle assets to property, plant and equipment	<u>\$189</u>	<u>\$-</u>	<u>\$-</u>
Reclassification of property, plant and equipment and rental assets to idle assets	<u>\$1,167,504</u>	<u>\$169,060</u>	<u>\$5,211</u>
Reclassification of other assets to property, plant and equipment	<u>\$17,346</u>	<u>\$-</u>	<u>\$-</u>
Conversion of bonds	<u>\$435,927</u>	<u>\$-</u>	<u>\$-</u>
Unrealized gains on available-for-sale financial assets	<u>\$5,001,117</u>	<u>\$11,121,332</u>	<u>\$342,796</u>
Unrealized loss on derivative financial instruments	<u>\$(255,023)</u>	<u>\$249,628</u>	<u>\$7,694</u>
Deferred income tax assets arising from unrealized loss on derivative financial instruments	<u>\$90,367</u>	<u>\$(83,209)</u>	<u>\$(2,565)</u>

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

**Formosa Petrochemical Corporation**  
**Notes to Consolidated Financial Statements**  
**For the Year ended December 31, 2006 and 2007**  
**(All amounts expressed in New Taiwan thousand dollars**  
**Except for earnings per share information or unless otherwise stated)**

**1. ORGANIZATION AND OPERATIONS**

Formosa Petrochemical Corporation (the "Company") was incorporated on April 6, 1992 and is located in the No.6 Naphtha Cracker Complex in Mailiao of Yunlin County. The major stockholders of the Company are Formosa Plastics Corporation, Nan Ya Plastics Corporation and Formosa Chemicals & Fibre Corporation with an equity interest of 29.31%, 23.84% and 24.90%, respectively, as of December 31, 2007.

The Company's shares were approved to be listed on the Taiwan Stock Exchange on November 12, 2003 and were traded publicly starting from December 26, 2003.

As of December 31, 2006 and 2007, the numbers of employees of the Company and subsidiaries were 6,112 and 6,189.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying financial statements are prepared in accordance with Business Entity Accounting Act, rules related to financial accounting principles in Regulation on Business Entity Accounting Handling, the "Guidelines Governing the Preparation of Financial Reports by Securities Issuers", and accounting principles generally accepted in the Republic of China on Taiwan. Significant accounting policies are summarized as follows:

**(1) General Descriptions of Reporting Entities**

- A. Investees in which the Company, directly or indirectly, holds more than 50% of voting rights or controls more than half of the members of board of directors, by whom the investee is controlled, are consolidated into the Company's financial statements in accordance with the R.O.C. SFAS No. 7.

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Subsidiaries introduced in the consolidated financial statements are as follows:

Investor	Subsidiaries	Business Nature	Percentage of ownership (%)	
			December 31, 2006	December 31, 2007
The Company	Formosa Oil (Asia Pacific) Corp.	Sales Retailer	100%	100%
The Company	Formosa Petrochemical Transportation Corp.	Transportation Service	88%	88%
The Company	Formosa Marketing & Consulting Corporation	Management & Consulting	-	100%
The Company	FPCC USA, INC	Oil exploration & production	-	100%

B. Subsidiaries are excluded from the consolidated financial statements and the reason are as follows:

Investor	Subsidiaries	Business Nature	Percentage of ownership (%)		Reason
			December 31, 2006	December 31, 2007	
Formosa Oil (Asia Pacific) Corp.	Whale Home International Co.	Sales Retailer	49%	49%	Note1
Formosa Petrochemical Transportation Corp.	Whale Home International Co.	Sales Retailer	15.69%	15.69%	Note1

Note1 : Whale Home International Co., Ltd., a subsidiary of Formosa Oil (Asia Pacific) Corporation and Formosa Petrochemical Transportation Corporation, was not included in the consolidated financial statements because its total assets, liabilities and net income accounted for 0.11% and 0.07%; 0.02% and 0.1%; 0.06% and 0.02% of the Company's corresponding accounts as of December 31, 2006 and 2007. The total percentage of ownership of Formosa Oil (Asia Pacific) Corporation and Formosa Petrochemical Transportation Corporation in Whale Home International Co., Ltd. was 64.69% as of December 31, 2006 and 2007, respectively.

## **English Translation of Financial Statements Originally Issued in Chinese**

- C. The different adjustments and arrangements of fiscal year between the subsidiaries and the parent company: not applicable
- D. The different adjustments and arrangements of accounting policies between the subsidiaries and the parent company: not applicable
- E. The limitation under certain regulations and contracts for appropriation of retained earning: none

### **(2) Principles of consolidation**

The consolidated financial statements were prepared in conformity with the R.O.C SFAS No.7; all intercompany accounts and transactions have been eliminated in the consolidated financial statements.

The Company consolidates investees into the consolidated financial statements if the Company holds more than 50% of investee's voting shares, including the Company and its subsidiaries who owns currently exercisable or convertible potential voting shares. However, if the investees in which the Company holds less than 50% of voting shares but one of the following five conditions is met. The Company is considered having the control power over these investees and the parent-subsiidiary relationship is constructed. These investees are consolidated into the Company's consolidated financial statements.

- A. Under an agreement of other investor, the Company is able to control more than 50% of the investee's voting shares.
- B. Under regulations or contracts, the Company is able to control functions of finance, operation, and personnel resources of the investee.
- C. The Company has the right to assign more than 50% of seats of the investee's board of directors (or equivalent unit), which controls the business.
- D. The Company can dedicate more than 50% of voting right of the investee's board of directors (or equivalent unit), which controls the business.
- E. Other kind of controlling power.

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### **(3) Cash equivalents**

The Company and subsidiaries consider all highly liquid investments that are readily convertible to cash with insignificant interest risk and an original maturity period of three months or less when purchased to be cash equivalents.

### **(4) Financial assets and financial liabilities**

Financial assets in the scope of SFAS No. 34 are classified as either financial assets at fair value through profit or loss, held-to-maturity investments, derivative financial assets for hedging, non-marketable bonds, available-for-sale financial assets, or assets carried at cost, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. Financial liabilities are classified as either financial liabilities at fair value through profit or loss, derivative financial liabilities for hedging, or financial liabilities at amortized cost.

Regular way purchases or sales of financial assets shall be recognized and derecognized using trade date accounting (for equity instruments) or settlement date accounting (for debt instruments, beneficial certificates and derivatives). Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

#### **A. Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss are subsequently measured at fair value and changes in fair value are recognized in profit and loss. Financial assets at fair value through profit or loss include instruments held for trading and designated as at fair value through profit or loss.

#### **B. Available-for-sale financial assets**

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in financial assets at fair value through profit or loss, held-to-maturity investments, non-marketable bonds and financial assets carried at cost. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognized as a separate component of equity until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement.

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### C. Derivatives designated as for hedge

Derivatives designated as for hedge shall be measured at fair value.

### D. Financial assets carried at cost

Equity instruments that are not quoted in an active market and derivatives that are linked to and must be settled by delivery of such unquoted equity instrument and whose fair value cannot be reliably measured shall be classified as financial assets carried at cost and measured at cost.

### E. Subsequent measurement of financial liabilities

After initial recognition, the Company measures all financial liabilities at amortized cost, except for financial liabilities at fair value through profit or loss and derivative financial liabilities for hedging, which shall be measured at fair value.

The fair value of investments is determined by reference to the closing price at the balance sheet date for listed shares, or the net asset value for open-end funds.

## **(5) Allowances for doubtful accounts**

The allowance for doubtful accounts is provided based on history of bad debts, aging reports and evaluation of the collectibility of notes and accounts receivables.

## **(6) Inventories**

Inventories are stated at the lower of cost or market value using the gross comparison method. Replacement cost is used to determine the market value. Costs for raw materials, work in process and finished goods are determined using the Last-in First-out method, while supplies are by the weighted-average method.

## **(7) Long-term equity investments-equity method**

The difference between the acquisitions cost and the Company's share of net assets of the associate is amortized over 5 years. However, effective from January 1, 2006, such a difference is no longer amortized. Newly acquired difference is analyzed and accounted for in the manner similar to acquisition cost allocation as provided in SFAS No.25 "Business Combination-Accounting Treatment under Purchase Method," under which goodwill is not amortized.

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Foreign-currency-denominated investments which are accounted for by equity method shall be translated at each balance sheet date using the prevailing exchange rate. Any translation difference is recorded as "cumulative translation adjustment", which is a component of stockholders' equity.

Investments where the percentage of ownership exceeds 20%, or where the Company has significant influence on the operating and financial policies of the investee companies are accounted for by the equity method in accordance with the SFAS No. 5.

The cost of long-term equity investments sold is calculated based on the moving average method. Stock dividends are booked as an increase in the number of share held. The cost of stock sold and gain or loss on disposal of stock are calculated based on the weighted-average method.

The unrealized profits and losses from intercompany transactions between an investor company and investee company during the current year shall be eliminated. If the transaction profits and losses come from depreciated, depleted, or amortized fixed assets, the recognition of such profits and losses shall be spread over the useful lives of such assets; otherwise, the recognition shall be in the year when profits or losses are realized.

### **(8) Property, plant and equipment**

Property, plant and equipment ("PP&E") are stated at cost. Major renewals and improvements are capitalized, while ordinary maintenances and repairs are expensed as incurred. Interest expenses incurred in the period when such fixed assets are in construction or installation are capitalized. Costs of PP&E, less salvage value, are depreciated on the straight-line basis over the economic service lives of the PP&E. PP&E still in use after its service life are further depreciated over the newly estimated remaining useful lives. Upon disposal, the original cost and accumulated depreciation of PP&E are eliminated with any gains or losses recorded in the income statement.

PP&E that is leased out on a long-term basis is recorded under "other assets – property held for leasing" and its depreciation is classified as non-operating expense.

## English Translation of Financial Statements Originally Issued in Chinese

### **(9) Deferred expenses**

#### A. Technology license fees

Technology license fees resulting from the technology transfer agreements entered into by the Company with overseas companies are amortized on a straight-line basis over five years from the commencement of operation of each plant.

#### B. Unamortized expenses

(a) The expenses of the investigations on air and noise pollutions and vibration for the No. 6 Naphtha Cracking Project were amortized over five years from the inception date of the Company.

(b) The catalyst for the operations was amortized on a straight-line basis over the life of the catalyst.

(c) The annual repair expense of the No.6 Naphtha Cracking Project District was amortized on a straight-line basis over its useful life.

(d) The expenses incurred on the syndicated loan for the expansion of the No. 6 Naphtha Cracking Project were amortized on a straight-line basis over ten years.

#### C. Bonds issuance costs

(a) The underwriting fees incurred on the issuance of domestic bonds are amortized on a straight-line basis over the issue period.

(b) The costs incurred on the issuance of euro convertible bonds are amortized on a straight-line basis over the period from the issue date to the expiry date (7 years).

### **(10) Convertible bonds**

Convertible bonds issued after January 1, 2006:

(a) The components of compound financial instrument are separated by the Company on initial recognition. The liability component is measured first, and the difference between the proceeds of the bond issued and the fair value of the liability is accounted for as the equity component.

## **English Translation of Financial Statements Originally Issued in Chinese**

- (b) The present value of the liability component is calculated using the market interest rate for similar debt without conversion options.
- (c) The liability component is subsequently measured at amortized cost, and changes in fair value of the equity component are not recognized.

### **(11) Pensions**

The Company and subsidiaries have established a pension plan for their employees, and a pension supervisory committee was set up by each company in accordance with the Labor Standards Law in January 1997. Under the plan, the Company and subsidiaries contribute a certain percentage of the total salaries and wages to the pension fund on a monthly basis. The pension funds are independent to the Company and subsidiaries and are administered by the Central Trust of China.

Pursuant to the Statement of Financial Accounting Standards (“SFAS”) No. 18, “Accounting for Pensions”, the net periodic pension costs are recognized on the basis of actuarial calculation, for a defined benefit pension plan. Pension costs normally include service cost for the current period, interest cost, expected return on plan assets, unrecognized net transitional obligations and amortization of pension benefits. Unrecognized net transitional obligations are amortized on a straight-line basis over 10 years. For defined contribution plans, the Company and subsidiaries record, on an accrual basis, the contributions in profit and loss.

The Labor Pension Act of R.O.C. (“the Act”), which adopted a defined contribution scheme, became effective on July 1, 2005. In accordance with the Act, employees of the Company and subsidiaries may elect to be subject to either the Act, and maintain their seniority before the enforcement of the Act, or the pension mechanism of the Labor Standards Law. For employees subject to the Act, the Company and subsidiaries shall make monthly contributions to the employees’ individual pension accounts on a basis no less than 6% of the employees’ monthly wages.

### **(12) Income taxes**

Inter-period and intra-period income taxes are allocated in accordance with the SFAS No.22, “Accounting for Income Taxes”. Income tax effects arising from taxable temporary differences are recognized as deferred income tax liabilities. Income tax effects arising from deductible temporary differences, loss carry forwards and income tax credits are recognized as deferred income tax assets, and a valuation allowance is provided based on the expected realizability of the deferred income tax assets.

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Income tax credits arising from acquisitions of equipment or technology, research and development, personnel training, and equity investments are recognized in the current year.

The additional 10% undistributed earnings tax is recorded in the year which the shareholders resolve the earnings shall be retained.

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

### **(13) Derecognition of financial assets and liabilities**

#### **A. Financial assets**

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when the transferor surrenders control over those financial assets, and shall be accounted for as a sale.

If a transfer of financial assets in exchange for cash or other consideration (other than beneficial interests in the transferred assets) does not meet the criteria for a sale, the Company accounted for the transfer as a borrowing with collateral.

#### **B. Financial liabilities**

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

**(14) Impairment of financial assets**

The Company and subsidiaries assess at each balance sheet date whether a financial asset or group of financial assets is impaired.

A. Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset, reversal for such loss is prohibited.

B. Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value or recoverable amount, less any impairment loss previously recognized in profit or loss, is transferred from equity to the income statement. Reversals in respect of equity instruments classified as available-for-sale are not recognized in profit. Reversals of impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

**(15) Derivative financial instruments and hedging**

The Company and subsidiaries use derivative financial instruments such as forward currency contracts, interest rate swaps and energy commodity swaps to hedge its risks associated with foreign currency, interest rate and petroleum prices fluctuations. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to net profit or loss for the year.

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For the purpose of hedge accounting, hedges are classified as:

- A. Fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability;
- B. Cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a forecast transaction.

At the inception of a hedge relationship, the Company and subsidiaries formally designate and document hedge relationship to which the Company and subsidiaries wish to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

- A. Fair value hedges

Fair value hedges are hedges of the Company's exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss. For fair value hedges, the carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged, the derivative is remeasured at fair value and gains and losses from both are taken to profit or loss.

For fair value hedges relating to items carried at amortized cost, the adjustment to carrying value is amortized through profit or loss over the remaining term to maturity. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortized to profit or loss. Amortization may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

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When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as an asset or liability with a corresponding gain or loss recognized in profit or loss. The changes in the fair value of the hedging instrument are also recognized in profit or loss.

The Company discontinues fair value hedge accounting:

- (a) If the hedging instrument expires or is sold, terminated or exercised.
- (b) The hedge no longer meets the criteria for hedge accounting
- (c) The Company revokes the designation.

### **B. Cash flow hedges**

Cash flow hedges are a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction and could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognized directly in equity, while the ineffective portion is recognized in profit or loss.

Amounts taken to equity are transferred to the income statement when the hedged transaction affects profit or loss, such as when hedged financial income or financial expense is recognized or when a forecast sale or purchase occurs. Where the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction is no longer expected to occur, amounts previously recognized in equity are transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognized in equity remain in equity until the forecast transaction occurs. If the related transaction is not expected to occur, the amount is taken to profit or loss.

**(16) Foreign currency transactions**

Foreign currency transactions other than derivative financial instruments are recorded at the exchange rate prevailing at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the balance sheet date at the spot exchange rate prevailing at that date. At each balance sheet date, non-monetary items that are measured at fair value in a foreign currency shall be translated using the exchange rates at the date when the fair value was determined. When a gain or loss on a non-monetary item is recognized directly in equity, and exchange component of that gain or loss shall be recognized directly in equity. When a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss shall be recognized in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of the transaction.

The Company and subsidiaries adopted the SFAS No.34 “Accounting for Financial Instruments” to account for foreign currency transactions of derivative financial instruments.

**(17) Earnings per share (EPS)**

The Company and subsidiaries adopt the SFAS No.24, "Accounting for Earnings Per Shares." Basic EPS should be calculated by dividing the net income (or loss) for the reporting period attributable to common stockholders by the weighted-average number of common shares outstanding during that period. Diluted EPS should be calculated by dividing the net income (or loss) for the reporting period attributable to common stockholders, adjusted by dividends on dilutive potential common shares, interest recognized in the period for the dilutive potential common shares as well as any other changes in income or expense that would result from the conversion of the dilutive potential common shares, by the weighted-average number of common shares outstanding during that period, plus the weighted-average number of common shares which would be issued on the conversion of all the dilutive potential common shares into common shares.

Where new shares are issued for cash injection, convertible bonds are converted into the Company’s common shares, the employees exercise their stock options or the Company buys back the treasury stock, the number of common shares outstanding during the period should be computed on a weighted-average basis according to the length of the circulation period of these common shares. Additionally, the basic earnings per share and diluted earnings per share should be adjusted retroactively when stock dividends are distributed.

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### **(18) Classification of current and non-current assets and liabilities**

Assets that are expected to be converted into cash, sold, or consumed within twelve months from the balance sheet date are classified as current assets. Liabilities that are to be paid off within twelve months from the balance sheet date or within the current business cycle are classified as current liabilities. Assets or liabilities that do not fall into the above categories are classified as non-current assets or liabilities.

### **(19) Revenue recognition**

Revenue is recognized when the title and risk of the products are transferred to the customers and revenue is realized or realizable.

### **(20) Differentiation between capital expenditure and revenue expenditure**

Material expenditures with economic life over two years are capitalized.

### **(21) Asset Impairment**

Pursuant to the Statement of Financial Accounting Standards No. 35, “Accounting for Asset Impairment”, the Company and subsidiaries assess indicators for impairment for all its assets within the scope of SFAS No. 35 at each balance sheet date. If impairment indicators exist, the Company and subsidiaries shall then compare the carrying amount with the recoverable amount of the assets or the cash-generating unit (“CGU”) and write down the carrying amount to the recoverable amount where applicable. Recoverable amount is defined as the higher of fair values less costs to sell and the values in use.

For previously recognized losses, the Company and subsidiaries shall assess, at each balance sheet date, whether there is any indication that the impairment loss may no longer exist or may have decreased. If there is any such indication, the Company and subsidiaries have to recalculate the recoverable amount of the asset. If the recoverable amount increases as a result of the increase in the estimated service potential of the assets, the Company and subsidiaries shall reverse the impairment loss to the extent that the carrying amount after the reversal would not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the assets in prior years.

Impairment loss (reversal) is classified as non-operating losses/(income).

**3. CHANGES IN ACCOUNTING PRINCIPLES**

(1) The Company and subsidiaries adopted the R.O.C. Statement of Financial Accounting Standards No. 34, “Accounting for Financial Instruments” (“SFAS No.34,”) and No. 36, “Disclosure and Presentation of Financial Instruments” to account for financial instruments for its financial statements beginning on and after January 1, 2006 (the “effective date”). Transitional arrangement for instruments outstanding at the effective date is summarized as follows:

A. Hedging transactions prior to the effective date of the SFAS No. 34

For hedging instruments designated before the effective date but failing the criteria of a hedge, hedge accounting no longer applies. Retrospective adjustment is not needed.

B. Derivatives

Derivatives outstanding at the effective date shall be measured at fair value and recognized as either assets or liabilities. The difference between previous carrying amount and fair value of derivatives other than those designated as hedging instruments shall be recognized as cumulative effects of changes in accounting principles.

C. Instruments measured at fair value and amortized cost

At the effective date, the Company and subsidiaries shall remeasure and reclassify financial assets and liabilities that should be measured at fair value or amortized cost as appropriate according to SFAS No. 34. Any resulting adjustment shall be recognize as either cumulative effects of changes in accounting principles or a component of equity, depending on the classification of the instruments:

- (a) Cumulative effects of changes in accounting principles: for financial assets or liabilities at fair value through profit or loss and derivatives designated as fair value hedges.
- (b) A component of equity: for financial assets carried at amortized cost, available-for-sale financial assets and derivatives designated as cash flow hedges or net investment hedges.

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### D. Cash flow hedges

Profit or loss deferred as a result of cash flow hedges designated prior to the effective date shall be reclassified to equity provided the hedge meets hedge criteria.

### E. Non-monetary financial assets

Non-monetary financial assets carried at cost shall be re-translated using a historical rate. Previously recognized cumulative translation adjustments shall be offset against long-term investment account.

The above changes in accounting principles decreased the Company and subsidiaries' cumulative effects of changes in accounting principles by \$470,921 thousand and earnings per share by \$0.05, and increased deferred income tax assets by \$394,788 thousand, current assets by \$2,334,713 thousand, fund and long-term investments by \$1,105,754 thousand, long-term liabilities by \$2,114,966 thousand, unrealized gain or loss on financial instruments by 1,641,570 thousand, and decreased non-current assets by \$549,640 thousand on January 1, 2006.

- (2) Effective from January 1, 2006, the Company had an accounting estimate change in the economic service lives of machinery and equipment from 25 years to 15 years on Naphtha Cracking plant, Refinery plant and Utilities Supply plant. Such a change in accounting estimate decreased the company's net income and earnings per share by \$5,122,683 thousand (tax rate 25%) and \$0.56, respectively, for the year ended December 31, 2006.

## 4. DETAILS OF SIGNIFICANT ACCOUNTS

### (1) Cash and cash equivalents

	December 31,		
	2006	December 31, 2007	
	NTD	NTD	USD
Cash on hand and petty cash	\$153,325	\$336,513	\$10,373
Cash in banks	1,358,966	5,236,854	161,417
Time deposits	6,051,672	5,692,460	175,460
Commercial papers	74,941	-	-
Repurchase Bonds	968,600	741,905	22,868
Total	<u>\$8,607,504</u>	<u>\$12,007,732</u>	<u>\$370,118</u>

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- A. The above assets have not been pledged for any loans.
- B. Repurchased Bonds and commercial papers included highly liquid investments that are readily convertible to cash with an original maturity of three months or less when purchased.

### (2) Available-for-sale financial asset-current

	December 31,		
	2006	December 31, 2007	
	NTD	NTD	USD
Listed securities	\$18,777,824	\$29,898,028	\$921,556
Mutual funds	73,311	-	-
Total	\$18,851,135	\$29,898,028	\$921,556

No investments other than the shares described in Note 6 have been pledged for loans.

### (3) Derivative financial assets for hedging-current

- A. As of December 31, 2007, there were 9 energy commodity swap contracts outstanding. The Company used these contracts to hedge the fluctuations of international petroleum product prices and the crude oil prices. The swap contracts entered into by the Company are highly correlated with the price movement of the hedged items and periodic reviews are conducted on the swap contracts undertaken. The Company has not entered into any swap contracts for purposes other than hedging. Please refer to Note 10 for details of financial risk management objectives and policies.

- B. As of December 31, 2006, the outstanding swap contracts were as follows:

Type of Transaction	Pricing Period	Notional Quantity	Book Value	
			Asset NTD	Liability NTD
Jet fuel/Dubai Crack Swap	Oct. 1, 2006~Dec. 31, 2007	425 (1,000 bbls)	\$16,411	\$5,427
Gasoil /Dubai Crack Swap	Oct. 1~Dec.31, 2006	162 (1,000 bbls)	7,950	5,379
Singapore fuel Outright Swap	Dec. 1~Dec. 31,2006	140 (1,000 bbls)	18,564	24,154
Singapore jet kerosene/ Dubai Crack Swap	Nov. 1~Dec. 31, 2006	125 (1,000 bbls)	9,363	4,816
Saudi CP	Feb. 1~Feb. 28, 2007	10 (1,000 tonnes)	-	1,793
			\$52,288	\$41,569

**English Translation of Financial Statements Originally Issued in Chinese**

C. As of December 31, 2007, the outstanding swap contracts were as follows:

Type of Transaction	Pricing Period	Notional Quantity	Book Value			
			Asset		Liability	
			NTD	USD	NTD	USD
Jet fuel/Dubai Crack Swap	Jan. 1.2008~Dec. 31, 2008	255 (1,000 bbls)	\$-	\$-	\$(9,285)	\$(286)
Singapore fuel Outright Swap	Mar. 1.2008~Dec. 31,2007	275 (1,000 bbls)	779	24	(5,872)	(181)
			<u>\$779</u>	<u>\$24</u>	<u>\$(15,157)</u>	<u>\$(467)</u>

**(4) Notes and accounts receivable**

	December 31, 2006	December 31, 2007	
	NTD	NTD	USD
A. Notes receivable	\$3,243,832	\$3,603,595	\$111,074
Less: Allowance for doubtful accounts	(32,387)	(35,994)	(1,109)
Notes receivable, net	<u>\$3,211,445</u>	<u>\$3,567,601</u>	<u>\$109,965</u>
 B. Accounts receivable	 \$27,917,580	 \$45,263,346	 \$1,395,165
Less: Allowance for doubtful accounts	(470,831)	(777,614)	(23,968)
Accounts receivable, net	<u>\$27,446,749</u>	<u>\$44,485,732</u>	<u>\$1,371,197</u>
 C. Accounts receivable - related parties	 \$17,313,817	 \$30,674,888	 \$945,501
Less: allowance for doubtful accounts	-	-	-
Accounts receivable - related parties, net	<u>\$17,313,817</u>	<u>\$30,674,888</u>	<u>\$945,501</u>

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**(5) Other receivables**

A. Other receivables - non-related parties

	December 31,	
	2006	December 31, 2007
	NTD	NTD      USD
Due from affiliates	\$95,200	\$2,000      \$62
Receivable from Energy Funds	861,681	1,148,035      35,386
Business tax refund receivable	962,662	2,573,899      79,336
Rental receivable	159,574	226,710      6,988
Income tax refund receivable	6,415	-      -
Others	95,390	88,131      2,716
<b>Total</b>	<b>\$2,180,922</b>	<b>\$4,038,775      \$124,488</b>

Details of due from affiliates were as follows:

	December 31,	
	2006	December 31, 2007
	NTD	NTD      USD
Asia Pacific Investment Corporation	\$-	\$1,600      \$50
Formosa Automobile sales Corporation		400      12
Chang Gung Biotechnology Co., Ltd.	95,200	-      -
<b>Total</b>	<b>\$95,200</b>	<b>\$2,000      62</b>

B. Other receivables - related parties

	December 31,	
	2006	December 31, 2007
	NTD	NTD      USD
Due from affiliates	\$499,000	\$1,695,000      \$52,245
Receivables from sales of supplies	3,507	18,876      582
Others	22,464	26,307      811
<b>Total</b>	<b>\$524,971</b>	<b>\$1,740,183      \$53,638</b>

Please refer to Note 5 for details of related party transactions.

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**(6) Inventories**

	December 31,	
	2006	December 31, 2007
	NTD	NTD      USD
Raw materials	\$19,022,757	\$19,049,464      \$587,167
Supplies	5,822,837	6,630,235      204,366
Work in process	7,248,189	8,617,746      265,627
Finished goods	11,908,312	16,479,117      507,940
Goods in transit	4,117,005	1,619,541      49,920
By-product	270,245	352,827      10,875
Consignment raw materials	11,787	-      -
Consignment inventories	54	321      10
Less: Allowance for inventory valuation	-	-      -
<b>Total</b>	<b>\$48,401,186</b>	<b>\$52,749,251      \$1,625,905</b>

Certain inventories have been pledged as collaterals for the USD400 million medium-term syndicated loans with Chinatrust Commercial Bank since the third quarter of 2004. Please see Note 6(1) for details.

**(7) Prepayments**

	December 31,	
	2006	December 31, 2007
	NTD	NTD      USD
Prepayments for purchases	\$5,597,654	\$6,016,178      \$185,438
Prepaid maintenance fees	3,475,164	1,056,335      32,560
Prepaid rent	758,221	733,590      22,612
Input value-added tax paid	164,923	-      -
Prepaid insurance premium	60,997	77,290      2,382
Other prepaid expenses	382,637	858,929      26,475
<b>Total</b>	<b>\$10,439,596</b>	<b>\$8,742,322      269,467</b>

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**(8) Financial assets at fair value through profit or loss-non-current**

**A. Long-term forward contracts**

a. In order to hedge the exchange rate risk arising from US loan-term syndicated loan for No. 6 Naphtha Cracking Project, as of December 31, 2007, the Company has signed 33 long-term forward contracts with ABN-AMRO Bank and the other seven banks. However, hedge accounting was not applied to these contracts as they failed the strict hedge criteria. Accordingly, these contracts were treated as for trading. Please refer to Note 10 for details of financial risk management objectives and policies.

b. As of December 31, 2006, the details of the outstanding long-term forward were as follows:

Bank	Period	Principal	Book Value	
			Asset	Liability
			NID	NID
ABN-AMRO Bank	Aug. 2003 – Jun. 2011	US\$105,000	\$32,874	\$(105,495)
Deutsche Bank	Oct. 2003 – Jun. 2011	90,000	85,767	(35,214)
HSBC	Apr. 2004 – Jun. 2011	59,000	85,692	(8,314)
Chinatrust Commercial Bank	Apr. 2004 – Jun. 2011	72,000	-	(52,191)
Mega International Commercial Bank	Apr. 2004 – Jun. 2011	36,000	44,166	(3,437)
BNP Paribas	Nov. 2004 – Jun. 2011	63,000	5,214	(32,590)
Barclays Bank	Nov. 2004 – Jun. 2011	36,000	519	(12,757)
Citybank	Mar. 2005 – Jun. 2011	18,000	37,985	-
		US\$479,000	\$292,217	\$(249,998)

c. As of December 31, 2007, the details of the outstanding long-term forward were as follows:

Bank	Period	Principal	Book Value			
			Asset		Liability	
			NID	USD	NID	USD
ABN-AMRO Bank	Aug. 2003 – Jun. 2011	US\$81,667	\$41,945	\$1,293	\$(23,489)	\$(724)
Deutsche Bank	Oct. 2003 – Jun. 2011	70,000	101,328	3,123	(2,980)	(92)
HSBC	Apr. 2004 – Jun. 2011	46,000	103,460	3,189	-	-

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Bank	Period	Principal	Book Value			
			Asset		Liability	
			NID	USD	NID	USD
Chinatrust Commercial Bank	Apr. 2004 – Jun. 2011	56,000	11,661	360	(827)	(25)
Mega International Commercial Bank	Apr. 2004 – Jun. 2011	28,000	56,043	1,727	-	-
BNP Paribas	Nov. 2004 – Jun. 2011	49,000	16,642	513	-	-
Barclays Bank	Nov. 2004 – Jun. 2011	28,000	10,102	311	-	-
Citybank	Mar. 2005 – Jun. 2011	14,000	42,971	1,325	-	-
Total		US\$372,667	\$384,152	\$11,841	\$(27,296)	\$(841)

### B. Interest rate swap contracts

- a. In order to hedge the cash flow interest rate risk arising from long-term syndicated loan for No. 6 Naphtha Cracking Project, as of December 31, 2007, the company has entered into 13 New Taiwan dollar interest rate swap (IRS) contracts, nominal amount of 7,600 million, with ABN-AMRO Bank and the other four banks. However, the company revokes the designation as a result of the repayment of partial syndicated loan effective from April 1, 2006. Accordingly, these contracts were treated as for trading and previously recognized, as derivative financial assets (liability) for hedging-non-current shall be reclassified to financial assets (liability) at fair value through profit or loss-non-current and the changes in the fair value of the hedging instrument previously recognized in equity are transferred to profit or loss. Please refer to Note 10 for details of financial risk management objectives and policies.

- b. As of December 31, 2006, the details of the outstanding IRS were as follows:

Bank	Period	Principal	Book Value	
			Asset	Liability
			NID	NID
ABN-AMRO Bank	Mar. 4, 2008	\$500,000	\$-	\$(1,167)
HSBC	Apr. 15, 2008-Aug. 18, 2008	3,300,000	8,442	(1,038)
Bank of America	Mar. 4, 2008-Jun. 10, 2008	3,000,000	7,629	(1,595)
Taishin International Bank	Aug. 18, 2008	300,000	-	(1,597)
Credit Lyonnais	Aug. 8, 2008	500,000	-	(2,773)
Total		\$7,600,000	\$16,071	\$(8,170)

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c. As of December 31, 2007, the details of the outstanding IRS were as follows:

Bank	Period	Principal	Book Value			
			Asset		Liability	
			NTD	USD	NTD	USD
ABN-AMRO Bank	Mar. 4, 2008	\$500,000	\$316	\$10	\$-	\$-
HSBC	Apr. 15, 2008-Aug. 18, 2008	3,300,000	14,675	452	-	-
Bank of America	Mar. 4, 2008-Jun. 10, 2008	3,000,000	7,893	243	-	-
Taishin International Bank	Aug. 18, 2008	300,000	531	17	-	-
Credit Lyonnais	Aug. 8, 2008	500,000	690	21	-	-
Total		\$7,600,000	\$24,105	\$743	\$-	\$-

**(9) Derivative financial assets ( liabilities ) for hedging-noncurrent**

A. In order to hedge the cash flow interest rate risk arising from long-term Syndicated loan for No. 6 Naphtha Cracking Project and domestic unsecured unconvertible bonds, as of December 31, 2007, the Company has entered into 49 New Taiwan dollar interest rate swap (IRS) contracts with Deutsche Bank and the other ten banks to swap its floating rate obligation with fixed rate obligation. Please refer to Note 10 for details of financial risk management objectives and policies.

B.

	December 31, 2006		December 30, 2007			
	Asset	Liability	Asset		Liability	
	NTD	NTD	NTD	USD	NTD	USD
Fair value of interest rate swap contracts for long-term syndicated loan for No. 6 Naphtha Cracking Project	\$-	\$(350,750)	\$14,623	\$451	\$(7,439)	\$(229)
Fair value of interest rate swap contracts for domestic unsecured convertible bonds	160,573	(689,339)	23,767	732	(379,615)	(11,701)
Fair value of derivatives embedded in unsecured unconvertible bonds	689,339	(160,573)	379,615	11,701	(23,767)	(733)
	\$849,912	\$(1,200,662)	\$418,005	\$12,884	\$(410,821)	\$(12,663)

The above interest rate swap contracts offset the risk exposure of derivatives embedded in unsecured unconvertible bonds.

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C. As of December 31, 2006, the details of the outstanding IRS for loan-term syndicated loan for No. 6 Naphtha Cracking Project were as follows:

Bank	Settlement date	Principal	Book Value	
			Asset	Liability
			NTD	NTD
Deutsche Bank	May 7, 2007	\$2,000,000	\$-	\$(26,250)
Citibank	May 7, 2007-Dec. 31, 2008	5,440,000	-	(68,495)
Taipei Fubon Bank	Jun. 10, 2007-Nov. 5, 2007	7,100,000	-	(80,560)
ABN-AMRO Bank	May 14, 2007-Dec. 3, 2008	5,576,923	-	(70,172)
HSBC	Sep. 6, 2007- Sep. 2, 2008	8,600,000	-	(52,550)
Taishin International Bank	Aug. 18, 2008-Sep. 10, 2008	4,900,000	-	(39,756)
Credit Lyonnais	Aug. 18, 2008	2,000,000	-	(12,967)
total		\$35,616,923	\$-	\$(350,750)

As of December 31, 2007, the details of the outstanding IRS for loan-term syndicated loan for No. 6 Naphtha Cracking Project were as follows:

Bank	Settlement date	Principal	Book Value			
			Asset		Liability	
			NTD	USD	NTD	USD
Citibank	Dec. 3, 2008	\$220,000	\$-	\$-	\$(2,146)	\$(66)
ABN-AMRO Bank	Dec. 3, 2008	538,462	-	-	-	-
HSBC	Aug. 18, 2008- Sep. 2, 2008	3,200,000	9,242	285	(5,293)	(163)
Taishin International Bank	Aug. 18, 2008-Sep. 10, 2008	4,900,000	4,069	125	-	-
Credit Lyonnais	Aug. 18, 2008	2,000,000	1,312	41	-	-
total		\$10,858,462	\$14,623	\$451	\$(7,439)	\$(229)

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D. As of December 31, 2006, the details of the outstanding IRS for domestic unsecured unconvertible bonds were as follows:

Bank	Period	Principal	Book Value	
			Asset	Liability
			NID	NID
Deutsche Bank	Jul. 1, 2008	\$3,500,000	\$-	\$(107,364)
ABN-AMRO Bank	Aug. 27, 2009-Aug. 30, 2009	2,000,000	21,910	(6,307)
HSBC	May 20, 2009-Aug. 25, 2009	2,000,000	55,919	(22,672)
Bank of America	May 19, 2010	1,000,000	-	(35,291)
BNP Paribas	Jul. 1, 2008-Aug. 11, 2010	8,500,000	-	(408,399)
Taishin International Bank	May 3, 2009-May 14, 2009	2,500,000	-	(92,087)
Chinatrust Commercial Bank	May 19, 2009-May 20, 2009	3,000,000	43,262	(17,219)
E.Sun Bank	Jul. 1, 2008-Aug. 25, 2009	1,000,000	39,482	-
Total		\$23,500,000	\$160,573	\$(689,339)

As of December 31, 2007, the details of the outstanding IRS for domestic unsecured unconvertible bonds were as follows:

Bank	Period	Principal	Book Value			
			Asset		Liability	
			NID	USD	NID	USD
Deutsche Bank	Jul. 1, 2008	\$3,500,000	\$-	\$-	\$(54,875)	\$(1,692)
ABN-AMRO Bank	Aug. 27, 2009-Aug. 30, 2009	2,000,000	1455	44	(4,681)	(144)
HSBC	May 20, 2009-Aug. 25, 2009	2,000,000	419	13	(9,603)	(296)
Bank of America	May 19, 2009	1,000,000	-	-	(16,200)	(499)
BNP Paribas	Jul. 1, 2008-Aug. 11, 2010	8,500,000	-	-	(218,832)	(6,745)
Taishin International Bank	May 3, 2009-May 14, 2009	2,500,000	-	-	(41,735)	(1,287)
Chinatrust Commercial Bank	May 19, 2009-May 20, 2009	3,000,000	-	-	(33,689)	(1,038)
E.Sua Bank	Jul. 1, 2008-Aug. 25, 2009	1,000,000	21,893	675	-	-
Total		\$23,500,000	\$23,767	\$732	\$(379,615)	\$(11,701)

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### (10) Fund and long-term investments

#### A. Assets carried at cost-non-current

Investee	December 31, 2006		December 31, 2007		
	NTD	Percentage of Ownership (%)	NTD	USD	Percentage of Ownership (%)
Asia Pacific Investment Corporation	\$117,500	2.11%	\$117,500	\$3,622	2.11%
Formosa Network Technology Corporation	13,331	12.50%	13,331	411	12.50%
Formosa Heavy Industries Corporation	116,955	1.26%	116,955	3,605	1.26%
Formosa Ocean Group Marine Investment Corporation	856,949	19.00%	856,949	26,414	19.00%
Gala Channel	91,162	6.25%	91,162	2,810	6.25%
Pu hwa corporation	5,000	7.50%	5,000	154	4.99%
Amtrust Capital 1 Corporation	50,000	3.91%	50,000	1,541	3.91%
Subtotal	1,250,897		1,250,897	38,557	
Less: Allowance for loss on decline in market value	-		-		
Total	<u>\$1,250,897</u>		<u>\$1,250,897</u>	<u>\$38,557</u>	

#### B. Long-term equity investments-equity method

Investee	December 31, 2006		December 31, 2007		
	NTD	Percentage of Ownership (%)	NTD	USD	Percentage of Ownership (%)
Mai-Liao Power Corporation	\$9,501,298	24.94%	\$9,445,025	\$291,127	24.94%
Yi-Chi Construction Corporation	93,139	40.55%	93,858	2,893	40.55%
Mailiao Harbor Administratino Corporation	2,169,238	44.96%	2,258,879	69,626	44.98%
Formosa Development Corporation	400,413	45.99%	619,564	19,097	20.00%
Formosa Marine Corpoation	14,984	20.00%	138,600	4,272	20.00%
Simosa Oil corporation	134,195	20.00%	148,910	4,590	20.00%
Formosa Environmental Technology Corporation	152,648	24.34%	115,418	3,557	24.34%
Caltex Taiwan Corporation	81,682	50.00%	87,789	2,706	50.00%
Whale Home International Corp.	207,659	63.04%	210,975	6,503	63.04%
TMS Corp.	22,074	49.00%	21,958	677	49.00%
Neumin Oil and Gas, LLC	-	-	103,720	3,197	50.00%
Subtotal	<u>\$12,777,330</u>		<u>\$13,244,696</u>	<u>\$408,245</u>	

(a) Long-term equity investments accounted for under the equity method as of December 31, 2006 and 2007 and their associated gains (losses) for the year then ended were as follows:

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Item	December 31, 2006		December 31, 2007	
	Investment gain (loss) recognized in the current year		Investment gain (loss) recognized in the current year	
	NTD		NTD	USD
Long-term equity investments, net	\$12,777,330		\$13,244,696	\$408,245
Investment gains	\$1,639,267		\$1,570,164	\$48,398
Add: Recognition of investment income realized in previous years	12,424			
Total	\$1,651,691			

(b) For those investees accounted for under the equity method, the unrealized intercompany profit for the years ended December 31, 2006 and 2007 amounted to \$531 thousand and \$3,277 thousand, respectively. The prior years' unrealized intercompany profit, which was deemed realized for the years ended December 31, 2006, amounted to \$12,424 thousand.

(c) Please refer to Note 6 for details of long-term equity investments pledged as collaterals for bank loans.

**(11) Property, plant and equipment**

	December 31, 2006	December 31, 2007	
	NTD	NTD	USD
Cost			
Land	\$1,596,927	\$19,444,663	\$599,348
Buildings	32,100,654	37,091,529	1,143,283
Machinery and equipment	225,908,372	284,535,852	8,770,331
Transportation equipment	723,150	711,320	21,925
Other equipment	2,609,232	2,785,764	85,867
Leasehold Improvement	256,956	324,733	10,010
Construction in progress	55,871,314	14,646,614	451,457
Prepayment for purchase of equipment	2,412,304	1,513,718	46,657
Prepayment for purchase of land	20,534,123	2,474,835	76,283
Subtotal	342,013,032	363,529,028	11,205,161

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	December 31,	December 31, 2007	
	2006	NTD	USD
Accumulated depreciation			
Buildings	\$(6,441,608)	\$(7,636,275)	\$(235,375)
Machinery and equipment	(53,574,828)	(71,297,413)	(2,197,621)
Transportation equipment	(563,596)	(583,029)	(17,971)
Other equipment	(1,279,850)	(1,449,604)	(44,682)
Leasehold Improvement	(75,485)	(106,448)	(3,281)
Subtotal	<u>(61,935,367)</u>	<u>(81,072,769)</u>	<u>(2,498,930)</u>
Property, plant and equipment, net	<u>\$280,077,665</u>	<u>\$282,456,259</u>	<u>\$8,706,231</u>

A. In order to reflect the reasonable economic service lives of machinery and equipment, the company had an accounting estimation change in the economic service lives of machinery and equipment from 25 years to 15 years on Naphtha Cracking plant, Refinery plant and Utilities Supply plant as a result of the geographical features of Mailiao area and the improvement of technology effective from January 1, 2006. Such a change in accounting estimation decreased the Company's net income and earnings per share by \$5,122,683 thousand (tax rate 25%) and \$0.56 respectively, for the year ended December 31, 2006.

The above change in accounting estimation was approved by the Securities and Futures Bureau of Financial Supervisory Commission, Executive Yuan, on January 20, 2006.

B. Please refer to Note 6 for details of the property, plant and equipment pledged as collaterals.

C. Interest expenses before capitalization for the years ended December 31, 2006 and 2007 were \$4,579,389 thousand and \$5,238,767 thousand, respectively. Interest expenses capitalized amounted to \$965,863 thousand and \$722,778 thousand, respectively. The capitalized interest rates were in the range of 2.49%-3.09% and 2.55%-3.18%, respectively.

D. Prepayment for land represented the amount paid for the land situated in Mailiao and Haifong in the offshore industrial zones in Yunlin County.

E. Please refer to Note 5 for assets purchased from and sold to related parties.

**(12) Property held for leasing, idle assets and prepayment for land**

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A. Property held for leasing

	December 31, 2006	December 31, 2007	
	NTD	NTD	USD
Cost	\$120,603	\$-	\$-
Less: Accumulated depreciation	(9,723)	-	-
Property held for leasing, net	<u>\$110,880</u>	<u>\$-</u>	<u>-</u>

B. Idle assets

	December 31, 2006	December 31, 2007	
	NTD	NTD	USD
Land	\$1,315,484	\$1,118,599	\$34,479
Buildings	34,570	40,081	1,236
Machinery and equipment	617,070	124,856	3,848
Other equipment	17,842	910	28
Subtotal	1,984,966	1,284,446	39,591
Less: Accumulated depreciation	(136,457)	(54,358)	(1,676)
Less: Accumulated impairment	(1,013,332)	(672,680)	(20,734)
Idle assets, net	<u>\$835,177</u>	<u>\$557,408</u>	<u>\$17,181</u>

The Company recognized impairment loss of \$443,332 thousand and \$102,680 thousand for the above idle assets for the years ended December 31, 2006 and 2007, respectively, in accordance with SFAS No. 35 "Accounting for the impairment of assets".

C. Other miscellaneous assets - prepayment for land

	December 31, 2006	December 31, 2007	
	NTD	NTD	USD
Prepayment for land	<u>\$88,137</u>	<u>\$70,791</u>	<u>\$2,182</u>

The above land was registered under a third party's name. To protect the interest of the Company, the land has been mortgaged to the Company through the Land Administration Bureau of Government. As of December 31, 2006 and 2007, registered amount of the mortgage were \$26,000 thousand and \$70,791 thousand, respectively.

**(13) Deferred expenses**

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	December 31,	
	2006	December 31, 2007
	NTD	NTD      USD
Technology license fee	\$266,872	\$166,019      \$5,117
Unamortized expenses	4,273,926	3,756,949      115,802
Bonds issuance costs	122,664	86,888      2,678
<b>Total</b>	<b>\$4,663,462</b>	<b>\$4,009,856      \$123,597</b>

**(14) Short-term loans**

A.

	December 31, 2006		December 31, 2007		
	Interest Rate	NTD	Interest Rate	NTD	USD
Mortgage loans	Floating rate	\$1,759,800	Floating rate	\$1,800,000	\$55,482
Unsecured loans	Floating rate	8,283,000	Floating rate	9,661,100	297,787
Others	1.36%-1.70%	95,422	1.36%-1.70%	117,959	3,636
<b>Total</b>		<b>\$10,138,222</b>		<b>\$11,579,059</b>	<b>\$356,905</b>

B.

	December 31,	
	2006	December 31, 2007
	NTD	NTD      USD
Commercial paper payable		\$600,      \$18
Less: Discount		(1,      )
<b>Total</b>		<b>\$598,      \$18</b>

**(15) Accounts payable**

A. Accounts payable - non-related parties

	December	December 31, 2007	
	31, 2006	NTD	USD
	NTD	NTD	USD
Accounts payable – open account	\$15,333,241	\$18,369,008	\$566,193
Accounts payable – bankers' acceptances	-	1,111	34
Accounts payable – purchase of machinery	309	-	-
Other accounts payable	39,985	9,169	283
<b>Total</b>	<b>\$15,373,535</b>	<b>\$18,379,288</b>	<b>\$566,510</b>

B. Accounts payable – related parties

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	December	
	31, 2006	December 31, 2007
	NTD	NTD      USD
Accounts payable - raw materials and supplies	\$1,522,667	\$3,052,451      \$94,087

**(16) Accrued expenses**

	December 31,	December 31, 2007	
	2006	NTD	USD
	NTD	NTD	USD
Accrued commodity tax	\$2,126,475	\$1,755,969	\$54,125
Accrued payrolls and bonuses	1,747,562	1,829,841	56,402
Accrued interest expenses	1,093,306	1,014,149	31,259
Accrued freight expenses	805,226	819,503	25,260
Accrued sales discounts	507,854	496,328	15,298
Accrued usage fare for facilities	-	315,203	9,716
Accrued marketing expense	102,313	245,554	7,569
Accrued pollution prevention expenses	102,747	127,416	3,927
Accrued loading/discharging expense (harbor)	110,688	80,530	2,482
Accrued utility expenses	206,054	19,498	601
Other accrued expense	1,096,924	1,112,450	34,289
<b>Total</b>	<b>\$7,899,149</b>	<b>\$7,816,441</b>	<b>\$240,928</b>

**(17) Other payables**

	December 31,	December 31, 2007	
	2006	NTD	USD
	NTD	NTD	USD
Due to affiliates	\$3,297,500	\$4,342,400	\$133,847
Payable for purchase of machinery	1,364,911	409,534	12,623
Payable for purchase of equipment - open account	555,191	1,540,916	47,496
Others	37,912	35,794	1,104
<b>Subtotal</b>	<b>5,255,514</b>	<b>6,328,644</b>	<b>195,070</b>
Construction materials payable to related parties	170,522	177,780	5,480
Due to affiliates	17,140,300	13,110,200	404,099
<b>Subtotal</b>	<b>17,310,822</b>	<b>13,287,980</b>	<b>409,579</b>
<b>Total</b>	<b>\$22,566,336</b>	<b>\$19,616,624</b>	<b>\$604,649</b>

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**(18) Bonds payable**

	December 31, 2006	December 31, 2007	
	NTD	NTD	USD
Domestic secured unconvertible bonds	\$7,200,000	\$7,200,000	\$221,928
Domestic unsecured unconvertible bonds	70,225,000	69,150,000	2,131,430
Unsecured euro convertible bonds	-	-	-
Less: current portion	(1,075,000)	(16,375,000)	(504,751)
Long-term bonds payable	<u>\$76,350,000</u>	<u>\$59,975,000</u>	<u>\$1,848,627</u>

As of December 31, 2007, the terms of the domestic bonds were as follows:

A. Domestic secured unconvertible bonds

Item	Secured Bonds No.5
Issue date	May 29 - Jun 12, 2001
Principal amount	NTD7.2 billion
Outstanding amount	NTD7.2 billion
Face value of each unit	NTD1 million
Issue price	At par value
Maturity	10 years
Coupon rate	4.46%
Interest payment	Annually
Repayment	Repay 25% of the principal at the end of the 7 <sup>th</sup> , 8 <sup>th</sup> , 9 <sup>th</sup> and 10 <sup>th</sup> year
Guarantor	Mega International Commercial Bank and other participating banks
Conversion, exchange or stock warrants	Not applicable
Callable or redeemable provision	None

The above bonds were issued to finance the constructions of the plants and buildings under the No.6 Naphtha Cracking Project, please refer to Note 4.(19).

B.(b).

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Item	Unsecured Bonds No.6	Unsecured Bonds No.7	Unsecured Bonds No.8	Unsecured Bonds No.9	Unsecured Bonds No.10	Unsecured Bonds No.11	Unsecured Bonds No.12	Unsecured Bonds No.13	Unsecured Bonds No.14	Unsecured Bonds No.15	Unsecured Bonds No.16	Unsecured Bonds No.17	Unsecured Bonds No.18
Issue date	Aug. 16-30, 2002	Jul. 1-16, 2003	Jul. 17 - Aug 6, 2003	Aug. 11-21, 2003	May 3-14, 2004	May 19-21, 2004	Aug. 24-30, 2004	Jul. 21-28, 2005	Apr. 28, 2006	Mar. 26, 2006	Aug. 11, 2006	Oct. 20, 2006	Nov. 2, 2006
Principal amount	NTD4.3 billion	NTD6 billion	NTD5 billion	NTD6 billion	NTD5 billion	NTD5 billion	NTD5 billion	NTD6 billion	NTD6 billion	NTD6 billion	NTD5 billion	NTD6 billion	NTD6 billion
Ending balance	NTD2.15 billion	NTD6 billion	NTD5 billion	NTD6 billion	NTD5 billion	NTD5 billion	NTD5 billion	NTD6 billion	NTD6 billion	NTD6 billion	NTD5 billion	NTD6 billion	NTD6 billion
Face value	NTD1 million	NTD5 millions	NTD5 million	NTD5 millions	NTD5 millions	NTD10 million	NTD10 million	NTD1 million	NTD1 million	NTD1 million	NTD1 million	NTD1 million	NTD1 million
Issue price	Par value	Par value	Par value	Par value	Par value	Par value	Par value	Par value	Par value	Par value	Par value	Par value	Par value
Maturity	7 years	5 years	5 years	7 years	5 years	5 years	5 years	5 years	5 years	5 years	5 years	5 years	5 years
Coupon rate	Simple rate of 3.05% p.a.	Floating rate (1.58% on average)	Compounded semi-annually at 1.48% or simple rate of 1.4855% p.a.	Floating rate (1.58% on average)	Floating rate (1.496% on average)	Floating rate (1.54% on average)	Floating rate (2.18% on average)	Fixed rate of 1.8415%- 1.85%	Fixed rate of 1.93%	Fixed rate of 1.91%	Fixed rate of 2.35%	Fixed rate of 2.09%	Fixed rate of 2.12%
Interest payment	Annually	Semi- annually	Annually	Semi- annually	Semi- annually	Semi- annually	Semi- annually	Annually	Annually	Annually	Annually	Annually	Annually
Repayment	Repay 25% of the principal at the end of the 4 <sup>th</sup> , 5 <sup>th</sup> , 6 <sup>th</sup> and 7 <sup>th</sup> year	Payable at maturity	Payable at maturity	Payable at maturity	Payable at maturity	Payable at maturity	Repay 50% of the principal at the end of the 4 <sup>th</sup> and 5 <sup>th</sup> year	Repay 50% of the principal at the end of the 4 <sup>th</sup> and 5 <sup>th</sup> year	Repay 50% of the principal at the end of the 4 <sup>th</sup> and 5 <sup>th</sup> year	Repay 50% of the principal at the end of the 4 <sup>th</sup> and 5 <sup>th</sup> year	Repay 50% of the principal at the end of the 4 <sup>th</sup> and 5 <sup>th</sup> year	Repay 50% of the principal at the end of the 4 <sup>th</sup> and 5 <sup>th</sup> year	Payable at maturity
Conversion, exchange or stock warrants	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable

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**(19) Long-term loans**

A. Long-term loans

Banks	Types	December 31,		
		2006	December 31, 2007	
		NTD	NTD	USD
Mega International Commercial Bank and the other 31 banks	Syndicated loan	\$33,518,579	\$25,789,403	\$794,914
Mega International Commercial Bank and the other 34 banks	Expansion syndicated loan	19,326,374	14,613,114	450,424
Mega International Commercial Bank and the other 25 banks	Expansion syndicated loan	15,000,000	34,690,000	1,069,260
ChinaTrust Commercial Bank and the other 12 banks	Medium-term syndicated loan	7,900,000	7,900,000	243,504
Bank of Taiwan	Medium-term credit loan	5,000,000	1,250,000	38,529
China Development Industrial Bank	Medium-term credit loan	210,000	210,000	6,473
		80,954,953	84,452,517	2,603,104
Less: Current portion reclassified to current liability		(10,630,624)	(7,157,434)	(220,615)
Less: Current portion reclassified to notes payable		(6,045,706)	(6,045,706)	(186,349)
Less: Long-term loans reclassified to notes payable		(19,739,598)	(13,693,892)	(422,091)
Long-term loans - due after one year		<u>\$44,539,025</u>	<u>\$57,555,485</u>	<u>\$1,774,049</u>

The details of long-term loans were as follows:

- (a) Syndicated loan with Mega International Commercial Bank and the other 33 participating banks for the No.6 Naphtha Cracking Project

In order to finance the construction of the No.6 Naphtha Cracking Project, the Company signed a syndicated loan contract with Mega International Commercial Bank and the other 33 banks on April 28, 1994. On April 21, 1999, the contract was amended and the number of participating banks reduced to 32. The details of the latest terms of the contract were as follows:

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(In millions of dollars)

Item	Pledged Assets	Total Amended Credit Line Amount	Outstanding Loans as of December 31, 2006	Outstanding Loans as of December 31, 2007	Repayment Method
(A)	Land	8,440	2,180	1,156	The first installment of \$0.462 billion was paid on December 30, 1999. The remaining principal was to be repaid semi-annually in 20 installments of during Jun. 30, 2000 and Dec. 31, 2006, the repaid amount was 0.446 billion per each installment. During Jun. 30, 2007 and 2009, the repaid amount will be \$0.289014 billion per each installment. On Dec. 31, 2009 the repayment will amount to 0.28893 billion.
(B)	Plants	9,880	5,126.99	4,182.71	The first installment of \$0.545 billion was paid on July 15, 2002. The remaining principal was to be repaid semi-annually in 20 installments of during Jan. 15, 2003 and 2007, the repaid amount to \$0.526 billion for each installment. During July 15, 2007 and January 15, 2012 the repayments will amount to 0.41815 billion.
(C)	Domestically manufactured automatic equipment	19,160	9,120 (Fully repaid by notes)	7,296 (Fully repaid by notes)	The first installment of \$0.92 billion was paid on December 3, 2001. The remaining principal was to be repaid semi-annually in 20 installments of \$0.912 billion each.
(D)	Imported automatic equipment	USD\$1,162	16,223.03 (US\$497.70)	12,558.69 (US\$387.10)	The first installment of USD56 million was paid on June 10, 2001. The remaining principal was to be repaid semi-annually in 20 installments of USD55.3 million each.
(E)	Pollution prevention equipment	510	204 (Fully repaid by notes)	153 (Fully repaid by notes)	From January 15, 2001, the principal was repaid quarterly in 40 installments of \$12.75 million each.
(F)-1	Domestically manufactured non-automatic equipment	1,883	664.56 (Fully repaid by notes)	443.04 (Fully repaid by notes)	The first installment of \$0.11084 billion was paid on August 30, 2001. The remaining principal was to be repaid semi-annually in 16 installments of \$0.11076 billion each.

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(i) The details of collaterals

Item	Collaterals
(A)	Land in Mailioa and Haifong acquired using the proceeds of the loan
(B)	The factory in Mailiao and Haifong acquired using the proceeds of the loan
(C)	The equipment acquired using the proceeds of the loan
(D)	The equipment acquired using the proceeds of the loan
(E)	The equipment acquired using the proceeds of the loan
(F)-1	The equipment acquired using the proceeds of the loan

(ii) The syndicated loan agreement includes covenants requiring the Company to maintain a debt ratio (total liabilities/net assets) under 200% and a current ratio (current assets/current liabilities) above 100%. As of December 31, 2007, the Company was in compliance with the covenants.

(b) Syndicated loan with Mega International Commercial Bank and the other 34 participating banks for the expansion of the No.6 Naphtha Cracker Complex

In order to finance the expansion of the No.6 Naphtha Cracker Complex, the Company entered into a syndicated loan agreement with Mega International Commercial Bank and the other 34 banks on December 6, 2000. The terms of the agreement are set forth below:

(In millions of dollars)

Item	Pledged Assets	Total Amended Credit Line Amount	Outstanding Loans as of December 31, 2006	Outstanding Loans as of December 31, 2007	Repayment Method
(A)	Plants and relating equipment	5,433	3,413.53	2,675.26	The first installment of \$0.416 billion was paid on July 31, 2004. The remaining principal was to be repaid semi-annually in 14 installments. During Jan. 31, 2005 and Jan. 31, 2007, the repaid amount was \$0.403 billion per each installment. During July 31, 2007 and Jan. 31, 2011, the repaid amount will be \$0.334421 billion per each installment. On July 31, 2011, the repayment will amount to \$0.334309 billion.

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Item	Pledged Assets	Total Amended Credit Line Amount	Outstanding Loans as of December 31, 2006	Outstanding Loans as of December 31, 2007	Repayment Method
(B)	Domestically manufactured and imported equipment	29,619	15,796.744 (Fully repaid by notes)	11,847.6 (Fully repaid by notes)	The first installment of \$1.983 billion was paid on December 26, 2003. The remaining principal was to be repaid semi-annually in 14 installments of \$1.974 billion each.
		14,896	7,200 (Recorded under bonds payable)	7,200 (Recorded under bonds payable)	Repay 25% of the principal at the end of the 7 <sup>th</sup> , 8 <sup>th</sup> , 9 <sup>th</sup> and 10 <sup>th</sup> year.
(C)	Pollution prevention equipment	350	116.1	90.3	The first installment of \$0.0384 billion was paid on Mar. 30, 2004. The remaining principal was to be repaid semi-annually in 14 installments. During Sep. 30, 2004 and Oct. 1, 2006, the repaid amount was \$0.0389 billion per each installment. During Mar. 30, 2007 and Mar. 30, 2011, the repaid amount will be \$0.0129 billion per each installment.

(i) The above item (B) is a credit facility used to finance the purchase of domestically manufactured and imported equipment. The Company utilized the facility by issuing secured corporate bonds. Please refer to Note 4.(18).

(ii) The details of collaterals

Item	Collaterals
(A)	The plant in Mailiao and the related equipment acquired using the proceeds of the loan
(B)	The equipment acquired using the proceeds of the loan
(C)	The equipment acquired using the proceeds of the loan

(iii) The syndicated loan agreement includes financial covenants requiring the Company to maintain a debt ratio (total liabilities/net assets) under 200% and a current ratio (current assets/ current liabilities) above 100%. As of December 31, 2007, the Company was in compliance with the covenants.

(c) Syndicated loan with Mega International Commercial Bank and the other 25 participating banks for the Construction of Phase IV of the No.6 Naphtha Cracking Project.

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In order to finance the Construction of Phase IV of the No.6 Naphtha Cracking Project, the Company signed a syndicated loan contract with Mega International Commercial Bank and the other 25 banks on December 30, 2004. The details of the latest terms of the contract were as follows:

(In millions of dollars)

Item	Pledged Assets	Total Amended Credit Line Amount	Outstanding Loans as of December 31, 2006	Outstanding Loans as of December 31, 2007	Repayment Method
(A)	Plants and relating equipment	7,553	-	6,790	The first installment will be paid three years from July 16, 2007. The principal will be repaid semi-annually in 14 installments, each in equal amount.
(B)	Domestically manufactured and imported equipment	29,602	14,400	26,640	The first installment will be paid three years from August 8, 2006. The principal will be repaid semi-annually in 14 installments, each in equal amount.
(C)	Domestically manufactured automatic equipment	400	360	360	The first installment will be paid three years from August 28, 2007. The principal will be repaid semi-annually in 14 installments, each in equal amount.
(D)	Pollution prevention equipment	1,000	240	900	The first installment will be paid three years from August 8, 2006. The principal will be repaid semi-annually in 14 installments, each in equal amount.

(i) The details of collaterals

Item	Collaterals
(B)	The equipment acquired using the proceeds of the loan
(C)	The equipment acquired using the proceeds of the loan
(D)	The equipment acquired using the proceeds of the loan

(ii) The syndicated loan agreement includes financial covenants requiring the Company to maintain a debt ratio (total liabilities/net assets) under 195% and a current ratio (current assets/ current liabilities) above 100%. As of December 31, 2007, the Company was in compliance with the covenants.

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- (d) Medium-term syndicated loan with Chinatrust Commercial Bank and the other 12 participating banks

Pursuant to the first amendment of the syndicated loan, the total credit limit of this medium-term syndicated facility is USD800 million and is divided into two categories (A and B). Under Category A of USD 400 million credit Limit, the Company can utilize the facility for issuance of stand-by letters of credit for purchase of oil products. Under Category B of USD 400 million credit Limit, the Company can borrow loans within the credit limit for its working capital demand. The credit limit is revolving during the loan period with the monthly interest payment. The interest rate on the loan is based on London Inter Bank Offered Rate (LIBOR) or Commercial Paper Rate (CP) plus 0.25% and the outstanding loans as of December 31, 2007 is \$7,900 million.

- (e) Medium-term credit Loan with Bank of Taiwan

The total credit limit of this medium-term credit loan is \$5,000 million and the outstanding loan as of December 31, 2007 is \$1,250 million. The loan period starts from September 30, 2005 and ends on June 30, 2008.

From December 30, 2006, actually repaid in January, 2007, the principal is repaid semi-annually in 4 installments of 1,250 million each. The interest is repaid monthly and the interest rate of the loan is based on the Banks of Taiwan's interest rate of 2-year time deposit plus 0.25%.

- (f) Medium-term credit loan with China Development Industrial Bank.

The total credit limit of this medium-term credit loan is \$2,000 million and the outstanding loan as of December 31 2006 is \$210 million. The loan period starts from September 30, 2005 and ends on September 30, 2008. Interest is payable monthly and the interest rate is based on the average rate of short-term bills plus 0.65%.

The details of loan-term loans include long-term notes payable as of December 31, 2007 were as follows:

<u>Period</u>	<u>NT</u>
2008.1.1~2008.12.31	\$13,203,140
2009.1.1~2009.12.31	20,643,055
2010.1.1~2010.12.31	14,256,259
2011.1.1~2011.12.31	8,448,963
2012 and thereafter	27,901,100
	<u>\$84,452,517</u>

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### (20) Pensions

A. The Company and subsidiaries adopted the SFAS No.18, "Accounting for Pensions" to account for its deferred pension costs and accrued pension liability. As of December 31, 2006 and 2007, the deferred pension costs were \$7,745 thousand and \$5,150 thousand, respectively, while the accrued pension liability was \$1,454,311 thousand and \$1,767,358 thousand, respectively.

B. As of December 31, 2006 and 2007, reconciliation of the funded status to the carrying amount of accrued pension liability was as follows:

#### (a) Net pension costs

	2006	2007	
	NTD	NTD	USD
(1) Service cost	\$271,301	\$259,545	\$8,000
(2) Interest cost	62,031	81,939	2,526
(3) Expected return on plan assets	(9,464)	(10,908)	(336)
(4) Amortization of pension losses	13,017	23,124	713
(5) Net transitional obligations/amortization of net assets	9,550	1,363	42
Net pension costs (1+2-3+4+5)	<u>\$346,435</u>	<u>\$355,063</u>	<u>\$10,944</u>

#### (b) Actuarial assumptions

	Dec. 31, 2006	Dec. 31, 2007
Discount rates	3.00%	3.00%
Rates of increase in future salary level	3.50%	3.50%
Expected long-term rates of return on plan assets	3.00%	3.00%

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(c) Reconciliation of the funded status to accrued pension liability is as follows:

	Dec. 31, 2006	Dec. 31, 2007	
	NTD	NTD	USD
Benefit obligations:			
Vested benefit obligation	\$(570,165)	\$(293,100)	\$(9,035)
Non-vested benefit obligation	(838,923)	(1,091,108)	(33,632)
Accumulated benefit obligation	(1,409,088)	(1,384,208)	(42,667)
Effects of future salary increments	(1,322,215)	(1,060,328)	(32,682)
Projected benefit obligation	(2,731,303)	(2,444,536)	(75,349)
Fair value of plan assets	338,926	374,034	11,529
Funded status	(2,392,377)	(2,070,502)	(63,820)
Unrecognized transitional obligations	43,265	41,480	1,279
Unrecognized prior service costs	-	342	11
Unamortized pension cost	1,400	-	-
Unrecognized pension gain	901,146	266,472	8,213
Additional provision for accrued pension liability	(7,745)	(5,150)	(159)
Accrued pension liability	\$(1,454,311)	\$(1,767,358)	\$(54,476)

C. As of December 31, 2006 and 2007, the vested benefit obligation was \$664,217 thousand and \$319,430 thousand, respectively.

D. As of December 31, 2006 and 2007, the pension fund deposited in the Central Trust of China, excluding the interest accrued for the second half of the year, was \$329,344 thousand and \$358,845 thousand, respectively; the pension reserve not yet deposited in the Central Trust of China was \$4,082 thousand and \$4,157 thousand, respectively, which was recorded as accrued expenses.

**(21) Capital stock**

A. As of January 1, 2006, the Company's issued capital was \$89,695,828 thousand, divided into 8,969,583 thousand shares. In 2006, the Company's stockholders resolved to increase capital through capitalization of retained earnings of \$2,693,739 thousand (0.3 dollars per share), representing 269,374 thousand shares. The effective capital increase date was set on July 24, 2006. The increase was approved by the Department of Commerce, Ministry of Economic Affairs on August 3, 2006.

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- B. As of March 31, 2006, the conversion of ECBs has all been complete. In 2006 and 2005, the amount of the Company's shares converted from the ECBs was \$95,478 (divided into 9,548 thousand shares) and \$889,477 thousand (divided into 88,948 thousand shares), respectively. The last capital increase resulting from the conversion of ECBs was approved by the Department of Commerce, Ministry of Economic Affairs on April 4, 2006.
- C. As of December 31, 2006 and 2007, the Company's issued capital amounted to \$92,485,045 thousand, were divided into 9,248,505 thousand shares at \$10 par value each.

### **(22) Capital surplus**

	Additional paid-in capital	Additional paid-in capital from conversion of bonds	Reserve for gain on long-term investments	Total
Balance at December 31, 2007	\$24,864,000	\$6,379,284	\$36	\$31,243,320
Balance at December 31, 2007	USD766,390	USD196,631	USD1	USD963,022

As regulated by laws, capital surplus can only be used to offset accumulated deficits. However, if no deficit occurs, the stockholders may resolve to capitalize part or the entire capital surplus. Capitalization of capital surplus is limited to share issue premium and donations.

### **(23) Retained earnings**

#### A. Dividend policy

The dividend policy as set forth in the Articles of Incorporation provides that the Company may distribute earnings in the form of cash dividends, stock dividends or a combination of both. After making provisions for the legal reserve and special reserve, the earnings shall be first used to distribute cash dividends. The annual total amount of earnings distributed should be at least 50% of the earnings available for distribution, provided that the total amount of earnings and capital surplus capitalized do not exceed 50% of the total dividends distributed in the current year.

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### B. Appropriation of earnings

Pursuant to the Company's Articles of Incorporation, current year's earnings, if any, shall be appropriated in the following order:

- (a) Payments of all taxes, if any
- (b) To offset prior year's deficit, if any
- (c) To set aside 10% of the remaining amount as legal reserve after deducting items (a) and (b)
- (d) To set aside special reserve, if required
- (e) To distribute at most 1% of the remaining amount as directors' and supervisors' remuneration, and 0.1%~0.5% as employees' bonus.

C. The appropriation of earnings in 2006, \$4.4 cash dividend per share, was resolved by stockholders' meeting on May 31, 2007. The appropriation was the same as that stated in the board of directors' resolution dated March 13, 2007. The ex-dividend date was on June 26, 2007.

### D. Employees' bonus, and directors' and supervisors' remuneration

(a) Information on the appropriation of the Company's earnings can be found at the following website:

<http://newmops.tse.com.tw/>.

(b) Information of the employees' bonus and directors' and supervisors' remuneration for 2006 was as follows:

	2006			
	Actual Amounts	Proposed Amounts	Difference	Reason
1. Appropriation				
(1) Employees' cash bonus	\$13,849	\$27,261	-	
(2) Employees' stock bonus	-	-	-	
(3) Directors' and supervisors' remuneration	\$15,800	\$15,800	-	
2. Info of EPS				
(1) Actual EPS	\$4.81	\$4.81	-	
(2) Estimated EPS	\$4.81	\$4.81	-	

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(c) Appropriation of the employees' bonus and directors' and supervisors' remuneration for 2005 is as follows:

	2005			
	Actual Amounts	Proposed Amounts	Difference	Reason
1. Appropriation				
(1) Employees' cash bonus	\$33,654	\$33,654	-	
(2) Employees' stock bonus	-	-	-	
(3) Directors' and supervisors' remuneration	\$15,800	\$15,800	-	
2. Info of EPS				
(1) Actual EPS	\$6.40	\$6.40	-	
(2) Estimated EPS	\$6.40	\$6.40	-	

**(24) Unrealized gain or loss on financial instruments**

	December 31,		USD	
	2006	December 31, 2007		
	NTD	NTD		
Available-for-sale financial asset-current	\$5,000,203	\$16,121,535	\$496,919	
Net derivative financial asset (liability) for hedging-current	8,040	(10,784)	(333)	
Net derivative financial asset (liability) for hedging-non-current	(263,063)	5,389	166	
Unrealized gain on financial instruments recognized on long-term investments in proportion to their equity interests in the investees	123,048	341,423	10,524	
Total	<u>\$4,868,228</u>	<u>\$16,457,563</u>	<u>\$507,276</u>	

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**(25) Operating revenues**

	December 31, 2006	December 31, 2007	
	NTD	NTD	USD
Net sales			
Gasoline	\$113,513,503	\$131,405,055	\$4,050,336
Petrochemical products (ethylene and propylene, etc.)	139,911,084	202,957,069	6,255,805
Diesel oil	133,387,399	175,373,998	5,405,604
Jet fuel	38,455,323	44,386,711	1,368,144
Others	78,080,919	115,082,204	3,547,212
Subtotal	<u>503,348,228</u>	<u>669,205,037</u>	<u>20,627,101</u>
Service revenues	<u>1,973,199</u>	<u>1,258,431</u>	<u>38,789</u>
Other operating revenues, net			
Electricity	19,406,979	21,366,637	658,590
Steam	5,455,520	7,903,794	243,621
Others	1,339,047	1,460,961	45,032
Subtotal	<u>26,201,546</u>	<u>30,731,392</u>	<u>947,243</u>
Total	<u>\$531,522,973</u>	<u>\$701,194,860</u>	<u>\$21,613,133</u>

**(26) Income taxes**

A. Reconciliation of pre-tax income to provision for income tax was as follows:

	2006	2007	
	NTD	NTD	USD
Income before income tax (the Company)	\$53,627,386	\$78,529,202	\$2,420,528
Less: Cumulative effects of changes in accounting principles	(627,895)	-	
Permanent differences			
Income from disposal of investments in mutual funds	1,207,321	1,512,294	46,614
Non-taxable dividends income	(2,449,461)	(3,186,341)	(98,214)
Separate income tax	(159)	-	-
Equity-accounted investment income	(1,743,634)	(1,670,027)	(51,476)
Impairment loss on land	443,332	(340,652)	(10,500)
Other	4,668	105,719	3,259
Temporary differences			
Unrealized gain from downstream transaction	45,321	27,802	857
Realized gain from downstream transaction	(44,836)	(45,321)	(1,397)

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	2006	2007	
	NTD	NTD	USD
Unrealized exchange losses(gains)/ accounted for under SFAS No. 14 (short-term)	(49,285)	(71,765)	(2,212)
Reversal of realized exchange gains/(losses) accounted for under SFAS No. 14	153,427	49,285	1,519
Unrealized exchange losses/(gains) accounted for under SFAS No. 14 (long-term)	360,147	210,015	6,473
Reversal of realized exchange gains/(losses) accounted for under SFAS No. 14	(282,528)	(360,147)	(11,101)
Accrued pension liability not yet contributed	293,719	300,341	9,257
Unrealized allowance for doubtful account	-	20,251	624
Sales discounts are eliminated in the current year and will be while recognized supporting documents are received in next year	725,603	714,488	22,023
Reversal of sale discount eliminated in the previous year	(486,888)	(725,603)	(22,365)
Loss on valuation of financial assets and Liabilities	(50,120)	(380,961)	(11,742)
Provision of investment loss from foreign investment	-	(21,544)	(664)
Other	(10,096)	(110,457)	(3,404)
Income before adjustment	51,116,022	74,556,579	2,298,079
Gain on disposal of stock	-	(1,248)	(39)
Loss on disposal of land	-	50,436	1,555
Taxable income	51,116,022	74,605,767	2,299,595
Income tax	12,778,995	18,651,432	574,898
10% corporate tax on unappropriated	658,653	-	-
Less: Investment tax credits	5,436,527	9,799,390	302,049
Income tax payable	8,001,121	8,852,042	272,849
Less: Withholding tax	17,010	35,108	1,082
Provisional income tax	5,344,087	899,156	27,715
Income tax (refund) payable (receivable)	\$2,640,024	\$7,917,778	\$244,052
Income tax (refund) payable of subsidiary	\$23,146	\$55,227	\$1,702

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	2006	2007	
	NTD	NTD	USD
Taxable income	\$51,116,022	\$74,605,767	\$2,299,595
Gain on disposal of stock exchange was duty-free	-	1,248	39
Basic taxable income	51,116,022	74,607,015	2,299,634
less: basic tax decline	(2,000)	(2,000)	(62)
Basal tariff	10%	10%	10%
Income tax (refund) payable (receivable)	\$5,111,402	\$7,460,502	\$229,957

B. Reconciliation of provision for tax to current income tax is as follows:

	2006	2007	
	NTD	NTD	USD
Income tax payable for continuing operations	\$8,001,121	\$8,852,042	\$272,849
Deferred income tax expense (benefit) arising from realized or unrealized exchange gains/losses accounted for under SFAS No.14	(45,441)	43,153	1,330
Deferred income tax expense arising from unrealized gain/loss of financial assets/ liabilities	12,530	95,240	2,936
Deferred income tax benefit arising from realized gain/loss of financial assets/ liabilities	-	(12,530)	(386)
Deferred income tax expense (benefit) arising from investment tax credits	678,160	-	-
Deferred income tax expense (benefit) arising from sales discounts	(58,548)	2,779	86
Deferred tax expense arising from unrealized investment loss from foreign investment	-	5,386	166
Deferred tax benefit arising from other temporary differences	(74,777)	(48,154)	(1,484)
Separate income tax	32	-	-
Difference arising from reconciliation in 2005	10,065	(19,508)	(601)

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	2006	2007	
	NTD	NTD	USD
Income tax expense of Formosa Oil Asia Pacific Corp.	22,938	17,238	531
Income tax expense of Petrochemical Transportation Corp.	8,063	16,650	513
Income Tax expense of FPCC USA, INC.	-	(919)	(28)
Income Tax Expense, net	8,554,143	8,951,377	275,911
Deferred income tax assets arising from realized cumulative effects of changes in accounting principles	156,974	-	-
Income tax expense of continuing operations, net	<u>\$8,711,117</u>	<u>\$8,951,377</u>	<u>\$275,911</u>

C. Deferred income tax liabilities and assets

	December 31, 2006	December 31, 2007	
	NTD	NTD	USD
Deferred income tax liabilities	\$27,531	\$146,010	\$4,501
Deferred income tax assets	767,332	749,496	23,101
Valuation allowance for deferred income tax assets	38,184	34,267	1,056

D. Temporary differences resulting in deferred income tax assets and liabilities

	December 31, 2006	December 31, 2007	
	NTD	NTD	USD
a. Deferred income tax assets arising from investment tax credits	\$38,184	\$34,267	\$1,056
b. Deductible temporary differences arising from downstream transactions' unrealized gain	\$73,390	\$55,871	\$1,722
c. Taxable temporary differences arising from short-term unrealized exchange loss accounted for under SFAS No.14	\$(49,285)	\$(71,765)	\$(2,212)

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	December 31, 2006	December 31, 2007	
	NTD	NTD	USD
d. Taxable temporary differences arising from long-term unrealized exchange loss accounted for under SFAS No.14	\$360,147	\$210,014	\$6,473
e. Taxable temporary differences arising from forward currency contracts	\$(42,219)	\$(356,856)	\$(10,999)
f. Taxable temporary differences arising from interest rate swap contracts	\$(7,901)	\$(24,105)	\$(743)
g. Excess of accrued pension liability recognized according to actuarial report over contribution	\$1,358,136	\$1,661,702	\$51,219
h. Deductible temporary differences arising from sales discounts	\$727,185	\$714,488	\$22,023
i. Deductible (taxable) temporary differences arising from revenue of sale credit card	-	\$(109,772)	\$(3,384)
j. Taxable temporary differences arising from unrealized investment loss of foreign investment	-	\$(21,544)	\$(664)
k. Deductible temporary differences arising from others	\$46,985	\$211,650	\$6,524
l. Deferred income tax asset (liabilities)-current arising from net derivative financial asset for hedging	\$(2,680)	\$3,595	\$111
m. Deferred income tax assets-liabilities non-current arising from net derivative financial liability for hedge (IRS)	\$87,688	\$(1,796)	\$(55)

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E. Deferred income tax assets – current

	December 31, 2006	December 31, 2007	
	NTD	NTD	USD
Deferred income tax assets	\$243,029	\$274,467	\$8,460
Valuation allowance for deferred income tax assets	38,184	(34,267)	(1,056)
Net deferred income tax assets	204,845	240,200	7,404
Deferred income tax liabilities	(15,001)	(45,384)	(1,399)
Net deferred income tax assets / liabilities	\$189,844	\$194,816	\$6,005

F. Deferred income tax assets (liabilities) - non-current

	December 31, 2006	December 31, 2007	
	NTD	NTD	USD
Deferred income tax assets	\$524,303	\$475,029	\$14,642
Valuation allowance for deferred income tax assets	-	-	
Net deferred income tax assets	524,303	475,029	14,642
Deferred income tax liabilities	(12,530)	(100,626)	(3,102)
Net deferred income tax assets / liabilities	\$511,773	\$374,403	\$11,540

G. If the difference between accrued income tax and actual income tax paid results from incorrect estimate, it will be debited to current year's income tax. If the difference results from incorrect calculation, it will be adjusted to the prior year's net income/loss.

H. The tax authorities have assessed the income tax returns of the Company through 2003.

I. As of December 31, 2006 and 2007, the account balance of imputation tax credit was \$5,406,941 thousand and \$4,103,595 thousand, respectively.

J. As of December 31, 2006 and 2007, the accumulated retained earnings were \$69,935,484 thousand and \$94,858,618 thousand, respectively, of which \$70,699 thousand was generated prior to 1997. The remaining was generated after 1998.

K. The estimated (actual) tax credit rate for individual stockholders were as follow:

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Year	Tax Credit Rate	Estimated/Actual
2006	11.52 %	Actual
2007	12.68 %	Estimated

**(27) Earnings per share**

	2006		2007	
	Income before income taxes	Net income	Income before income taxes	Net income
Consolidated net income	\$53,661,672	\$44,479,634	\$78,568,342	\$69,616,965
Consolidated net income of which:				
Stockholders of the Parent Company		\$44,476,349		\$69,610,794
Minority Interests		3,285		6,171
Total		<u>\$44,479,634</u>		<u>\$69,616,965</u>
Weighted-average number of common shares outstanding (In thousand shares)		9,247,709		9,248,505

	2006		2007	
	Income before income taxes	Net income	Income before income taxes	Net income
Earning per share(in dollars)	<u>\$5.80</u>	<u>\$4.81</u>	<u>\$8.50</u>	<u>\$7.53</u>

**Basic earnings per share (in dollars)**

	2006	2007
Consolidated earnings per share of which		
Stockholders of the Parent Company	\$4.81	\$7.53
Minority Interests	-	-
Total	<u>\$4.81</u>	<u>\$7.53</u>

**Diluted earnings per share (in dollars)**

	2006	2007
Consolidated earnings per share of which		
Stockholders of the Parent Company	\$4.81	\$7.53
Minority Interests	-	-
Total	<u>\$4.81</u>	<u>\$7.53</u>

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The weighted-average number of shares outstanding was calculated as follows:

(In thousand shares)

	2006	2007
Beginning balance of common shares outstanding	8,969,583	9,248,505
Capitalization of retained earnings in 2005	269,374	-
Common shares converted from ECBs	8,752	-
Weighted-average number of common shares outstanding	9,247,709	9,248,505
Potential common shares with dilutive effect: Assuming the ECBs had all been converted at beginning of the year	796	-
Weighted-average number of common shares outstanding (including potential common shares)	9,248,505	9,248,505

**(28) Expenses relating to employment, depreciation and amortization summarized by function were as follows:**

Description \ Function	For the year Ended December 31, 2006			
	Operating Cost (NTD)	Operating Expense (NTD)	Total (NTD)	Total (USD)
Employment				
Salaries and wages	\$2,586,133	\$1,847,571	\$4,433,704	\$136,020
Labor and health insurance	154,611	124,770	279,381	8,571
Pension	265,677	117,467	383,144	11,754
Others	95,615	61,547	157,162	4,822
Subtotal	\$3,102,036	\$2,151,355	\$5,253,391	\$161,167
Depreciation	\$15,869,120	\$789,870	\$16,658,990	\$511,075
Amortization	\$1,959,377	\$133,358	\$2,092,735	\$64,202

Description \ Function	For the year Ended December 31, 2007			
	Operating Cost (NTD)	Operating Expense (NTD)	Total (NTD)	Total (USD)
Employment				
Salaries and wages	\$3,060,540	\$1,984,913	\$5,045,453	\$155,517
Labor and health insurance	163,207	21,374	284,581	8,771
Pension	293,793	97,971	391,764	12,075
Others	97,357	56,179	153,536	4,732
Subtotal	\$3,614,897	\$2,260,437	\$5,875,334	181,097
Depreciation	\$18,582,612	\$807,191	\$19,389,809	597,658
Amortization	\$1,401,056	\$130,977	\$1,532,033	47,222

**5. RELATED PARTY TRANSACTIONS**

**(1) Names of the related parties and their relationship with the Company and subsidiaries**

<u>Related Parties</u>	<u>Relationship</u>
Formosa Plastics Corporation	Stockholder of the Company
Nan Ya Plastics Corporation	Stockholder of the Company
Formosa Chemicals & Fibre Corporation	Stockholder of the Company
Formosa Heavy Industries Corporation	Investment of stockholder of the Company
Formosa Plastics Marine Corporation	Investment of investee accounted for by the equity method
Nan Chung Petrochemical Corporation	The Company's Chairman is also the Chairman of this company (Note)
Formosa Automobile Corporation	The Company's Chairman is also the Chairman of this company (Note)
Yi-Jin Development Corporation	Investee accounted for by the equity method
Mai-Liao Power Corporation	Investee accounted for by the equity method
Mai-Liao Harbor Administration Corporation	Investee accounted for by the equity method
Formosa Marine Corporation	Investee accounted for by the equity method
Formosa Development Corporation	Investee accounted for by the equity method
Simosa Oil Corporation	Investee accounted for by the equity method
Formosa Environmental Technology Corporation	Investee accounted for by the equity method
Caltex Taiwan Corporation	Investee accounted for by the equity method
Formosa Taffeta Co., Ltd	The Chairman of this company is a relative of the Company's general manager.
Formosa Plastics Transport Corporation	The subsidiary's chairman is also the chairman of this company
Formosa Plastics Transport Corporation	The subsidiary's chairman is also the chairman of this company
Plastics-Chemical Transport Corporation	The subsidiary's chairman is also the chairman of this company
Whale Home International Co., Ltd.	Indirect subsidiary of the Company

(Note: After re-election of company's chairman in June 9, 2006, the two companies listed above no longer existed as related parties.)

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### (2) Significant transactions with related parties

#### A. Sales and accounts receivable

##### (a) Sales

Related Parties	2006		2007		
	Amount	% of	Amount		% of
	NTD	Total Net Sales	NTD	USD	Total Net Sales
Formosa Plastics Corporation	\$73,107,397	13.75	\$86,141,006	\$2,655,149	12.29
Formosa Chemicals & Fibre Corporation	76,380,552	14.37	115,837,623	3,570,497	16.52
Nan Ya Plastics Corporation	28,481,791	5.36	44,403,697	1,368,668	6.33
Formosa Taffeta Corporation	9,335,381	1.76	10,303,530	317,589	1.47
Caltex Taiwan Corporation	4,429,643	0.83	5,431,026	167,402	0.78
Simosa Oil Corporation	1,339,807	0.25	1,284,658	39,597	0.18
Whale Home International Co., Ltd.	1,112,034	0.21	1,301,003	40,101	0.19
Mai-Liao Power Corporation	112,841	0.02	157,878	4,867	0.02
Other related parties	235,892	0.05	255,104	7,863	0.03
<b>Total</b>	<b>\$194,535,338</b>	<b>36.60</b>	<b>\$265,115,525</b>	<b>\$8,171,733</b>	<b>37.81</b>

The terms and conditions of sales to related parties are similar to those with non-related parties. The credit term is 30 days from the day when the counterparty receives the payment advice.

##### (b) Accounts receivable

Related Parties	December 31, 2006		December 31, 2007		
	Amount	%	Amount		%
	NTD		NTD	USD	
Formosa Plastics Corporation	\$6,986,531	15.45	\$9,067,499	\$279,490	12.06
Formosa Chemicals & Fibre Corporation	6,441,227	14.24	14,221,828	438,364	18.92
Nan Ya Plastics Corporation	2,731,600	6.04	6,084,679	187,550	8.09
Formosa Taffeta Corporation	539,548	1.19	463,824	14,297	0.62
Caltex Taiwan Corporation	363,936	0.80	570,977	17,599	0.76
Simosa Oil Corporation	160,680	0.36	142,734	4,399	0.19
Whale Home International Co., Ltd.	62,748	0.14	59,960	1,848	0.08
Mai-Liao Power Corporation	12,592	0.03	49,826	1,536	0.07
Other related parties	14,955	0.03	13,561	418	0.02
<b>Total</b>	<b>\$17,313,817</b>	<b>38.28</b>	<b>\$30,674,888</b>	<b>945,501</b>	<b>40.81</b>

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### B. Purchases and accounts payable

#### (a) Purchases

Related Parties	2006		2007		
	Amount	%	Amount		%
	NTD		NTD	USD	
Formosa Chemicals & Fibre Corporation	\$8,312,935	1.70	\$12,471,631	384,416	1.99
Formosa Plastics Corporation	6,843,113	1.40	8,428,060	259,780	1.34
Nan Ya Plastics Corporation	1,489,416	0.30	1,399,447	43,136	0.22
Whale Home International Co., Ltd.	98,785	0.02	82,857	2,554	0.02
Formosa Plastics Transport Corp.	39,146	0.01	46,022	1,419	-
Total	<u>\$16,783,395</u>	<u>3.43</u>	<u>\$22,428,017</u>	<u>\$691,305</u>	<u>3.57</u>

The Company and subsidiaries did not receive special discounts when purchasing from the related parties, payment term is 30 days after receiving the goods.

#### (b) Accounts payable

Related Parties	December 31, 2006		December 31, 2007		
	Amount	%	Amount		%
	NTD		NTD	USD	
Formosa Chemicals & Fibre Corporation	\$897,839	5.31	\$2,019,592	\$62,251	9.42
Formosa Plastics Corporation	511,588	3.03	861,915	26,567	4.02
Nan Ya Plastics Corporation	107,960	0.64	165,325	5,096	0.77
Formosa Plastics Transport Corp.	5,280	0.03	5,619	173	0.03
Total	<u>\$1,522,667</u>	<u>9.01</u>	<u>\$3,052,451</u>	<u>\$94,087</u>	<u>14.24</u>

### C. Transactions of property, plant, equipment and construction in progress

#### (a) Purchases of construction in progress

The Company bought construction in progress from related parties for the No. 6 Naphtha Cracking Project in the offshore industrial zones in Mailiao of Yunlin County. Details were as follows:

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Related Parties	Items	2006	2007	
		NTD	NTD	USD
Formosa Heavy Industries Corporation	Construction in progress	\$4,905,859	\$2,549,557	\$78,586
Nan Ya Plastics Corporation	Construction in progress	448,379	511,022	15,751
Total		\$5,354,238	\$3,060,579	94,337

Purchases of the construction in progress from Nan Ya Plastics Corporation and Formosa Heavy Industries Corporation were based on general terms and conditions. Payment is made within one month after the project is completed and inspected by the Company.

- (b) On February 26, 2007, the Company sold its land at 113 Liou-Ching Sec, Mai-Liao Township and transferred its ownership to Simosa Oil Corporation where the land cost was \$1,734 thousand and soil improvement cost was \$99,938 thousand (recorded under prepayment for land), the selling price of this real estate contract amounted to \$101,672 thousand.
- (c) The Company entered into a real estate contract with Formosa Plastics Corporation on December 27, 2006 for selling the land located at 117 Liou-Ching Sec, Mai-Liao Township, Yunlin County. The selling price was \$472,837 thousand and as of June 30, 2007, the transfer of ownership of the land was completed and the total amount was collected.
- (d) On March 26, 2007, the Company sold its land, building, machinery and miscellaneous equipment at Long De storage transport station and transferred the ownership of those properties to Formosa Chemicals & Fibre Corporation. The transaction caused a loss of \$443,332 thousand after the cost of land, \$127,209 thousand, the cost of building and equipment, \$465,919 thousand, and relevant tax expense, \$3,803 thousand were deducted from the selling price, \$153,599. However, the loss was reversed by the impairment recognized in 2006.
- (e) The Company entered into a building contract with Formosa Plastics Corporation, Nan Ya Plastics Corporation, Formosa Chemicals & Fibre Corporation, Mai-Liao Power Corporation, and Formosa Heavy Industries Corporation in June, 2007 for selling the buildings of the No.6 Naphtha Cracker Complex Life Plaza including the Administration Building, Welfare Building, The Third Single Dormitory, and The Single Dormitory of A, B, C, D, E, and H located at 34 and 36 Liou-Ching Sec, Mai-Liao Township, Yunlin County. The selling prices were \$293,396, \$263,165, \$269,216, \$127,718, and \$46,112 thousand, respectively. As of December 31, 2007, the transfer of ownership of these buildings had completed.

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D. Financing

(a) Due from affiliates

2006							
Related Parties	Highest Balance (NTD)	Date of Highest Balance	Ending Balance		Interest Rate	Interest Received	
			(NTD)			for the Year	
						NTD	
Formosa Plastics Corporation	\$7,383,500	8/15	\$-		2.139-2.765	\$898	
Formosa Chemicals & Fibre Corporation	918,900	12/29	199,000		2.139-2.765	1,373	
Nan Ya Plastics Corporation	36,800	12/25	-		2.139-2.765	2	
Formosa Marine Corporation	300,000	2/6	300,000		2.139-2.765	7,324	
Formosa Plastics Marine Corporation							
Formosa Petrochemical Transportation Corporation	1,000	1/3	-		2.139-2.765	-	
Total			<u>\$499,000</u>			<u>\$9,597</u>	
2007							
Related Parties	Highest Balance (NTD)	Date of Highest Balance	Ending Balance		Interest Rate	Interest Received	
			NTD	USD		NTD	USD
Formosa Plastics Corporation	\$550,600	3/22	\$-	\$-	2.256%-2.947%	\$17	\$5
Formosa Chemicals & Fibre Corporation	11,423,600	5/18	1,395,000	42,998	2.256%-2.947%	42,37	1,306
Nan Ya Plastics Corporation	1,469,300	4/16	-	-	2.256%-2.947%	55	17
Formosa Marine Corporation	300,000	1/1	300,000	9,247	2.256%-2.947%	7,71	238
Mni-Liao Power Corporation	293,100	2/27	-	-	2.256%-2.947%	6	2
Total			<u>\$1,695,000</u>	<u>\$52,245</u>		<u>\$50,87</u>	<u>\$1,568</u>

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(b) Due to affiliates

2006							
Related Parties	Highest	Date of	Ending	Interest Rate	Interest paid		
	Balance	Highest	Balance		for the Year		
	(NTD)	Balance	(NTD)		NTD		
Formosa Plastics Transportation Corporation	\$15,085,500	10/31	\$11,137,600	2.139-2.765	\$141,655		
Nan Ya Plastics Corporation	24,281,400	9/6	2,145,700	2.139-2.765	258,119		
Formosa Chemicals & Fibre Corporation	4,700,000	8/29	-	2.139-2.765	7,677		
Mai-Liao Harbor Administration Corporation	1,189,600	7/21	385,500	2.139-2.765	14,815		
Formosa Heavy Industries Corporation	600,000	9/19	580,700	2.139-2.765	10,504		
Mai-Liao Power Corporation	2,890,800	12/28	2,890,800	2.139-2.765	5,463		
Total			<u>\$17,140,300</u>		<u>\$438,233</u>		
2007							
Related Parties	Highest Balance (NTD)	Date of Highest Balance	Ending Balance		Interest Rate	Interest Received for the Year	
			NTD	USD		NTD	USD
Formosa Plastics Transportation Corporation	\$16,091,700	1/12	\$2,850,700	\$87,867	2.256%-2.947%	\$127,463	\$3,929
Nan Ya Plastics Corporation	14,763,400	8/3	8,646,100	266,501	2.256%-2.947%	75,874	2,338
Formosa Chemicals & Fibre Corporation	25,700	4/27	-	-	2.256%-2.947%	5	1
Mai-Liao Harbor Administration Corporation	1,043,100	5/28	813,400	25,072	2.256%-2.947%	15,964	492
Formosa Heavy Industries Corporation	800,000	1/19	800,000	24,659	2.256%-2.947%	20,368	628
Mai-Liao Power Corporation	4,272,800	1/3	-	-	2.256%-2.947%	3,797	117
Total			<u>\$13,110,200</u>	<u>\$404,099</u>		<u>\$243,471</u>	<u>\$7,505</u>

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E. Other receivables, other payables and revenues received in advance

Receivables from / payables to related parties bear no interest.

(a) Other receivables - sale of raw materials

Related Parties	December 31, 2006		December 31, 2007		
	Amount	%	Amount		%
	NTD		NTD	USD	
Formosa Plastics Corporation	\$2,067	0.08	\$16,417	\$506	0.28
Nan Ya Plastics Corporation	1,399	0.05	6,981	215	0.12
Formosa Chemicals & Fibre Corporation	9,449	0.35	7,028	217	0.12
Mai-Liao Harbor Administration Corporation	311	0.01	314	10	0.01
Formosa Heavy Industries Corporation	124	-	5,696	176	0.10
Mai-Liao Power Corporation	2,571	0.10	1,073	33	0.02
Simosa Oil Corporation	1,746	0.06	1,820	56	0.03
Caltex Taiwan Corporation	6,297	0.23	5,096	157	0.09
Other related parties	2,007	0.08	758	23	0.01
Total	\$25,971	0.96	\$45,183	\$1,393	0.78

The receive term for selling raw materials is 30 days under confirmation with the counterparty.

(b) Other payables

Related Parties	December 31, 2006		December 31, 2007		
	Amount	%	Amount		%
	NTD		NTD	USD	
Nan Ya Plastics Corporation	\$56,095	0.25	\$45,350	\$1,398	0.23
Formosa Plastics Corporation	44,517	0.20	27,888	859	0.14
Formosa Heavy Industries Corporation	69,323	0.31	100,465	3,097	0.51
Formosa Chemicals & Fibre Corporation	587	-	4,077	126	0.02
Total	\$170,522	0.76	\$177,780	\$5,480	0.90

Other payables are from purchasing raw materials for construction. The payment term is 30 days after checking and accepting the materials.

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(c) Revenues received in advance

Related Parties	Dec. 31, 2006		Dec. 31, 2007		
	Amount	%	Amount		%
	NTD		NTD	USD	
Simosa Oil Corp.	\$54,000	42.29	\$-	\$-	-

The above amounts resulted from the payments received in advance for the sale of land located in the No.6 Naphtha Cracker Complex. The transfer of ownership of this land had completed. Please see Note 5 C. (b).

F. Other related party transactions

(a) The details of use of the related parties' labor force were as follows:

Related Parties	Items	2006	2007	
		NTD	NTD	USD
Mai-Liao Harbor Administration Corporation	Harbor Labor force	\$1,381,772	\$1,563,911	\$48,205
Formosa Marine Corporation	Labor force	626,677	420,545	12,963
Caltax Taiwan Corporation	Labor force	41,026	40,265	1,241
Formosa Plastics Marine Corporation	Labor force	1,920	1,270	39
Formosa Plastics Transport Corp.	Labor force	34,654	47,771	1,472
Total		\$2,086,049	\$2,073,762	\$63,920

The payment of above labor usage including harbor usage, towage, and fuel delivery for previous month is made in the following month under the agreement between two parties.

(b) Sale of materials

The details of sales of materials to related parties for the year ended December 31, 2007 were as follows:

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Related Parties	Cost	Selling Price	Gains (Losses) on Sale
Formosa Plastics Corporation	\$90,804	\$87,026	\$(3,778)
Formosa Chemicals & Fibre Corporation	79,132	74,652	(4,480)
Nan Ya Plastics Corporation	61,748	58,471	(3,277)
Mai-Liao Power Corporation	76,014	71,406	(4,608)
Formosa Heavy Industries Corporation	15,754	14,723	(1,031)
Mai-Liao Harbor Administration Corporation	354	354	-
Formosa Plastics Transport Corporation	9,128	9,227	99
<b>Total</b>	<b>\$332,934</b>	<b>\$315,859</b>	<b>\$(7,013)</b>

### (c) Rental expenses

Details of the office premises leased from related parties were as follows:

Related Parties	2006		2007		
	Amount	%	Amount		%
	NTD		NTD	USD	
Formosa Plastics Corporation	\$16,794	0.99	\$16,160	498	1.38
Nan Ya Plastics Corporation	16,614	0.97	16,055	495	1.38
Formosa Chemicals & Fibre Corporation	20,163	1.18	19,603	604	1.68
Formosa Plastics Transport Corp.	3,366	0.20	4,275	132	0.37
<b>Total</b>	<b>\$56,937</b>	<b>3.34</b>	<b>\$56,093</b>	<b>\$1,729</b>	<b>4.81</b>

Rents on the office premises leased from related parties are based on the local standard, and are payable semi-annually except from Formosa Plastics Transport Corp. are paid monthly.

### (d) Endorsements and guarantees

Related Parties	December 31,	December 31, 2007	
	2006	NTD	USD
Simosa Oil Corporation	\$99,000	\$99,000	\$3,052
Whale Home International Co., Ltd.	80,000	80,000	2,466
<b>Total</b>	<b>\$179,000</b>	<b>\$179,000</b>	<b>\$5,517</b>

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### (e) Rental income

The following sets forth the rental income derived from the lease of oil storage facilities to related parties.

Related Parties	2006		2007		
	Amount	%	Amount		%
	NTD		NTD	USD	
Formosa Plastics Corporation	\$58,687	7.17	\$15,696	\$484	1.35
Nan Ya Plastics Corporation	80,883	9.89	42,764	1,318	3.69
Formosa Chemicals & Fibre Corporation	33,294	4.07	49,419	1,523	4.27
Simosa Oil Corporation	9,934	1.21	9,936	306	0.86
<b>Total</b>	<b>\$182,800</b>	<b>22.34</b>	<b>\$117,815</b>	<b>\$3,631</b>	<b>10.17</b>

### (f) Stocks pledged to related parties (in thousand shares)

Pledged Assets	Contents	December 31,	December 31,
		2006	2007
Available-for sale financial asset-current	Stocks of Nan Ya Plastics Corporation	\$1,746	\$1,746
Available-for sale financial asset-current	Stocks of Formosa Chemicals & Fibre Corporation	36	36
<b>Total</b>		<b>\$1,782</b>	<b>\$1,782</b>

The above stocks were pledged to Formosa Oil (Asia Pacific) Corporation as collaterals for bank loans in May 2003.

## 6. PLEDGED ASSETS

- (1) As of December 31, 2006 and 2007, the following assets were pledged as collaterals for bank loans:

Pledged Assets	Contents	Thousand Shares	
		December 31, 2006	December 31, 2007
Available-for-sale financial asset-current	Stock of Nan Ya Plastics Corporation	79,500	79,500

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Pledged Assets	Contents	December 31,		
		2006	December 31, 2007	
		NTD	NTD	USD
Inventories	Crude oil and oil products	\$24,043,203	\$19,079,882	\$588,106
Other financial assets - current	Certificates of time deposit	\$3,150	\$1,150	\$35
Other financial assets - non-current	Certificates of time deposit	\$2,000	\$4,000	\$123
Property, plant and equipment	Plant	\$19,858,301	\$19,858,301	\$612,098
	Machinery	180,704,008	215,555,076	6,644,117
	Total	\$200,562,309	\$235,413,377	\$7,256,215

### 7. COMMITMENTS AND CONTINGENT LIABILITIES

As of December 31, 2006 and 2007, the Company and subsidiaries' commitments and contingent liabilities were as follows:

- (1) The guarantees provided by the Company and subsidiaries for other companies in the same industry and related parties amounted to \$219,000 thousand, respectively.
- (2) Guarantee notes received and guarantee notes receivable from clients for operational needs were \$3,310,772 thousand and \$3,072,943 thousand, respectively.
- (3) Guarantee notes issued and guarantee notes payable for borrowings were \$28,626,136 thousand and \$76,436,770 thousand, respectively.
- (4) The unutilized portion of letters of credit issued by banks for importing raw materials was \$9,517,587 thousand and \$19,902,558 thousand, respectively.
- (5) On June 4, 2004, the Company's Board resolved the arrangement of a seven-year syndicated loan of 35.4 billion Japanese yen to be extended by a syndicate of six banks, including BNP Paribas and Chinatrust Commercial Bank, to Formosa Group Ocean Marine Investment Corporation, an investee of the Company. The loan is used to finance the construction of five vessels for petroleum products, two crude oil tankers and two bulk carriers. The Company intends to enter into a seven-year lease agreement with the companies that will own these ships and to issue a letter of consent on the transfer of those companies' right to receive lease payments to the bank syndicate.

**8. SIGNIFICANT DISASTER LOSSES**

None.

**9. SIGNIFICANT SUBSEQUENT EVENTS**

Effective from January 1, 2008, according to the resolution of the board of directors dated on December 21, 2007, the depreciation method of fixed assets as the related machine, transporting, other equipments, etc. for Refinery and Oil products Division in Mailiao (except refining the Utilities factory and oil factory ), Petrochemical Olefins Division, Maintenance Center such for will be changed from the Straight-line Method to Fixed-Percentage-On-Declining-Base Method.

**10. OTHERS**

**(1) Financial risk management objectives and policies**

A. The Company and subsidiaries' principal financial instruments, other than derivatives, comprise bank loans, bonds payable, and cash and cash equivalents. The main purpose of these financial instruments is to finance the Company and subsidiaries' operations. The Company and subsidiaries have various other financial assets and liabilities such as accounts receivable and accounts payable, which arise directly from its operations.

The Company and subsidiaries also enter into derivative transactions, including principally energy commodity swap contracts, interest rate swap contracts and forward currency contracts. The purpose is to manage the interest rate and currency risks arising from the Company's operations and its sources of finance. It is the Company's policy that no trading in financial instruments shall be undertaken. Hedges that fail the strict criteria of hedge accounting are treated as for trading.

The main risks arising from the Company and subsidiaries' financial instruments are cash flow interest rate risk, liquidity risk, foreign currency risk and credit risk. Financial risk management objectives and policies permitted by the Board of Directors are summarized below:

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### (a) Cash flow interest rate risk

The Company is exposed to the risk of changes in market interest rates related primarily to the Company's long-term loans and bonds payable with a floating interest rate.

To manage the risk of cash flow interest rate, the Company and subsidiaries take a combination of loans with fixed and variable rate and enters into interest rate swaps, in which the Company and subsidiaries agree to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to hedge underlying debt obligations.

### (b) Foreign currency risk

In order to hedge against the exchange rate risk arising from the long-term syndicated loan and foreign currency demand, the Company enters into long-term forward contract (LTF).

### (c) Commodity price risk

The Company's refining margin fluctuates with the difference between international petroleum product price and the crude oil price. In order to keep the refining margin and cash flows stable, the Company, based on its annual logistic plan, has entered into cash settled derivatives, such as the Gasoil vs. Crude and Jet/Kero vs. Crude swaps.

### (d) Credit risk

The Company and subsidiaries trade only with recognizable creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the likelihood of credit risk occurrence is minimal.

With respect to credit risk arising from the other financial assets of the Company and subsidiaries, which comprise cash and cash equivalents, available-for-sale financial assets and certain derivative instruments, the Company and subsidiaries' exposure to credit risk arises from default of the counterparty with a maximum exposure equal to the carrying amount of these instruments.

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### (e) Liquidity risk

The Company and subsidiaries' objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans, debentures, and cash and cash equivalents.

## (2) Financial instruments

### A. Fair value

	December 31, 2006			
	Book value		Fair value	
	NTD		NTD	
<u>Derivative financial instruments</u>				
Asset				
Forward currency contracts	\$292,217		\$292,217	
Energy commodity swap contracts	52,288		52,288	
Interest rate swap contracts	865,982		865,982	
Liability				
Forward currency contracts	249,998		249,998	
Energy commodity swap contracts	41,569		41,569	
Interest rate swap contracts	1,208,832		1,208,832	
	December 31, 2007			
	Book value		Fair value	
	NTD	USD	NTD	USD
<u>Derivative financial instruments</u>				
Asset				
Forward currency contracts	\$384,152	\$11,841	\$384,152	\$11,841
Energy commodity swap contracts	779	24	779	24
Interest rate swap contracts	442,110	13,627	442,110	13,627
Liability				
Forward currency contracts	27,296	841	27,296	841
Energy commodity swap contracts	15,157	467	15,157	467
Interest rate swap contracts	410,821	12,663	410,821	12,663

The fair value of other non-derivative financial assets and liabilities are similar to their book value.

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Methodologies and assumptions for the fair values of financial instruments are based as followings:

- (a) The fair values of the short-term financial instruments are determined by the carrying amounts due to their short maturities and more reasonable valuation basis. The Company applied this methodology on cash and cash equivalents, notes and accounts receivable, restricted certificates of time deposits, short-term loans and notes and accounts payable.
- (b) The fair values of available-for sale investments are determined by their publicly traded market value. Values of derivative, long-term loans and bonds payable are determined by discounting future cash flows based on current market rates.
- (c) The fair value of long-term loans is determined by discounting future cash flows. The discounting rate is based on the long-term loans interest rate which Company can be granted under the similar conditions (similar maturity). Beside, once the long-term loans interest rate is floating, the fair value is equal to the book value.

Fair values determined by reference to public price quotations in an active market or using a valuation technique are shown as below:

	December 31, 2006		December 31, 2007		
	Published price		Published price		USD
	quotations in an active market	Estimated using a valuation technique	quotations in an active market	Estimated using a valuation technique	
	NTD	NTD	NTD	NTD	
<u>Derivative financial instruments</u>					
Asset					
Forward currency contracts	\$-	\$292,217	\$-	\$384,152	\$11,841
Energy commodity swap contracts	-	52,288	-	779	24
Interest rate swap contracts	-	865,982	-	442,110	13,627
Liability					
Forward currency contracts	-	249,998	-	27,296	841
Energy commodity swap contracts	-	41,569	-	15,157	467
Interest rate swap contracts	-	1,208,832	-	410,821	12,663

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The others financial instruments estimated using a valuation technique the fair value are similar to their book value, except the fair values of available-for sale investments are determined by their publicly traded market value .

### B. Interest rate risk

The following table sets out the carrying amount, by maturity, of the Company and subsidiaries' financial instruments that are exposed to interest rate risk as of December 31, 2007:

#### (a) Fixed rate

	<u>1 year</u>	<u>1-2 years</u>	<u>2-3 years</u>	<u>3-4 years</u>	<u>4-5 years</u>	<u>Above 5 years</u>	<u>Total</u>
Convertible Bonds	\$(16,375,000)	\$(18,375,000)	\$(22,300,000)	\$(13,300,000)	\$(6,000,000)	\$-	\$(76,350,000)
Other financial assets- current	1,150	-	-	-	-	-	1,150
Other financial asset-noncurrent	-	-	4,000	-	-	-	4,000
Commercial paper payable	(598,981)	-	-	-	-	-	(598,981)
Bank loans	(3,280,910)	(3,280,874)	(2,961,223)	(1,331,163)	(334,434)	-	(11,188,604)

#### (b) Floating rate

	<u>1 year</u>	<u>1-2 years</u>	<u>2-3 years</u>	<u>3-4 years</u>	<u>4-5 years</u>	<u>Above 5 years</u>	<u>Total</u>
Cash and equivalents	\$12,007,732	\$-	\$-	\$-	\$-	\$-	\$17,007,732
Long-term loans	(21,502,133)	(17,362,181)	(11,295,036)	(7,117,800)	(3,814,667)	(23,751,999)	(84,843,816)

Interest on financial instruments classified as floating rate is reprised at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument. The other financial instruments of the Company and subsidiaries that are not included in the above tables are non-interest bearing and are therefore not subject to interest rate risk.

### C. Credit risk

The likelihood of significant concentrations of credit risk is minimal.

D. Hedging policies

Cash flow hedging

(a) As of December 31, 2007, the Company had two groups of interest rate swap contracts, one group of which according to Financial Supervisory Commission, Executive Yuan, the company is required to alter a inverse floating rate to a positive floating rate with a nominal amount of \$23,500,000 thousand whereby it receives a floating rate and pays a fixed rate of 1.496%~2.18% on the nominal amount and it is being used to hedge against the cash flow interest rate risk arisen from domestic unsecured unconvertible bonds. The bonds and interest rate swap contracts have the same critical terms.

The other group is with a nominal amount of \$10,858,462 thousand whereby it receives floating Commercial paper Rate and pays a fixed rate of 1.42%~3.69% on the nominal amount and it is being used to hedge against the cash flow interest rate risk arisen from long-term syndicated loan for No.6 Naphtha cracking Project. The cash flow hedge was assessed to be highly effective and an unrealized loss of \$5,389 thousand is included in equity as of December 31, 2007.

(b) As of December 31, 2007, the unsettled position of energy commodity swaps were 0.53 million barrels and Saudi CP 10 thousand tons, which was used to hedge the risk of the cash flow uncertainty due from the fluctuations of petroleum price. The hedge was assessed to be highly effective. As of December 31, 2007, an unrealized gain of \$10,784 thousand was included in equity.

**(3) Significant contracts**

The agreements entered into by the Company with the Bureau of Energy, Ministry of Economic Affairs under the government's scheme for purchase, storage and administration of petroleum are set forth below:

(a) The agreement for the 2003 No.1 bid for purchase of 150,000 KL of crude oil is effective from May 6, 2004 to April 30, 2008.

(b) The agreement for the 2004 No.1 bid for purchase of 500,000 KL of crude oil is effective from September 2004 to September 9, 2008.

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- (c) The agreement for the 2004 No.1-3 bid for purchase of 250,000 KL of crude oil is effective from October 2004 to October 9, 2008.
- (d) The agreement for the 2004 No.1-4 bid for purchase of 100,000 KL of crude oil is effective from November 2004 to November 9, 2008.
- (e) The agreement for the 2004 No.5 bid for purchase of 20,000 KL of the 95 unleaded gasoline is effective from November 18, 2004 to November 11, 2008.
- (f) The agreement for the 2004 No.6 bid for purchase of 20,000 KL of jet fuel is effective from November 15, 2004 to November 14, 2008.
- (g) The agreement for the 2004 No.6-1 bid for purchase of 30,000 KL of jet fuel is effective from November 24, 2004 to November 23, 2008.
- (h) The agreement for the 2004 No.4-1 bid for purchase of 50,000 KL of diesel oil is effective from December 2, 2004 to November 24, 2008.
- (i) The agreement for the 2004 No.4-2 bid for purchase of 50,000 KL of diesel oil is effective from December 14, 2004 to December 13, 2008.
- (j) The agreement for the 2004 No.3-1 bid for purchase of 50,000 KL of fuel oil is effective from December 2, 2004 to November 24, 2008.
- (k) The agreement for the 2007 No.3 bid for purchase of 50,000 KL of petroleum gas is effective from November 1, 2007 to October 31, 2011.

The Company is obliged to store a determined quantity of petroleum as specified in the above agreements during the contract period and a fee is charged to the government on the storage of petroleum.

## **11. SEGMENT INFORMATION**

### **(1) Information by industry**

- A. Information for the year ended December 31, 2006 (expressed in thousands of NT dollars)

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	Petrochemical Division	Utility Division	Others	Consolidated Amount
Revenues from outside parties	\$482,230,136	\$25,915,377	\$23,377,460	\$531,522,973
Inter-company revenues	57,653,473	4,592,698	(62,246,171)	-
Total revenues	<u>\$539,883,609</u>	<u>\$30,508,075</u>	<u>\$(38,868,711)</u>	<u>\$531,522,973</u>
Operating income	<u>\$50,805,965</u>	<u>\$5,884,905</u>	<u>\$360,534</u>	\$57,051,404
General expenses				(3,621,850)
Interest income (expense)				(3,423,228)
Non-operating income, net				<u>3,655,346</u>
Income before income tax from continuing operations				<u>\$53,661,672</u>
Identifiable assets	<u>\$237,825,828</u>	<u>\$53,022,256</u>	<u>\$14,684,340</u>	\$305,532,424
Long-term investments				15,188,427
General assets				<u>118,927,449</u>
Total assets				<u>\$439,648,300</u>
Depreciation	<u>\$11,725,941</u>	<u>\$4,192,221</u>	<u>\$740,828</u>	
Capital expenditure	<u>\$24,649,302</u>	<u>\$3,076,275</u>	<u>\$3,878,074</u>	

### B. Information for the year ended December 31, 2007 (expressed in thousands of NT dollars)

	Petrochemical Division	Utility Division	Others	Consolidated Amount
Revenues from outside parties	\$646,483,421	\$30,416,850	\$24,294,589	\$701,194,860
Inter-company revenues	69,066,293	5,813,686	(74,879,979)	-
Total revenues	<u>\$715,549,714</u>	<u>\$36,230,536</u>	<u>\$(50,585,390)</u>	<u>\$701,194,860</u>
Operating income	<u>\$73,994,718</u>	<u>\$5,456,901</u>	<u>\$115,073</u>	\$79,566,692
General expenses				(3,579,780)
Interest income (expense)				(4,112,222)
Non-operating income, net				<u>6,693,652</u>
Income before income tax from continuing operations				<u>\$78,568,342</u>
Identifiable assets	<u>\$246,764,194</u>	<u>\$51,272,202</u>	<u>\$33,180,561</u>	\$331,216,957
Long-term investments				15,325,860
General assets				<u>476,281,083</u>
Total assets				<u>\$491,606,803</u>
Depreciation	<u>\$14,103,658</u>	<u>\$4,451,166</u>	<u>\$834,979</u>	
Capital expenditure	<u>\$18,898,438</u>	<u>\$2,669,350</u>	<u>\$1,721,829</u>	

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**(2) Geographic information**

The Company does not have overseas operating units.

**(3) Export sales**

Area	2006	2007	
	NTD	NTD	USD
Asia	\$149,648,128	\$220,480,610	\$6,795,938
America	13,754,547	25,799,490	795,225
Europe	11,200,365	15,353,324	473,240
Others	36,597,683	37,401,405	1,152,834
Total	<u>\$211,200,723</u>	<u>\$299,034,829</u>	<u>\$9,217,237</u>

**(4) Major customers**

A. For the year ended December 31, 2006

Customer	Sales Amount (NTD)	%	Division
Formosa Chemicals & Fibre Corp.	\$76,380,552	14.37	Petrochemical and utility divisions
Formosa Plastics Corp.	73,107,397	13.75	Petrochemical and utility divisions
Nan Ya Plastics Corp.	28,481,791	5.36	Petrochemical and utility divisions
	<u>\$177,969,740</u>	<u>33.48</u>	

B. For the year ended December 31, 2007

Customer	Sales Amount		%	Division
	NTD	USD		
Formosa Plastics Corp.	\$115,837,623	\$3,570,497	16.52	Petrochemical and utility divisions
Formosa Chemicals & Fibre Corp.	86,141,006	2,655,149	12.29	Petrochemical and utility divisions
Nan Ya Plastics Corp.	44,403,697	1,368,668	6.33	Petrochemical and utility divisions
	<u>\$246,382,326</u>	<u>\$7,594,314</u>	<u>35.14</u>	