

TOPCO SCIENTIFIC CO., LTD.
Financial Statements
December 31, 2008 and 2007
(With Independent Auditors' Report Thereon)



安侯建業會計師事務所

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Independent Auditors' Report

The Board of Directors
Topco Scientific Co., Ltd.:

We have audited the accompanying balance sheets of Topco Scientific Co., Ltd. as of December 31, 2008 and 2007, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements for certain long-term equity investments accounted for under the equity method, which amounted to \$575,312,000 and \$684,574,000, constituting 8.90% and 9.30% of the total assets, as of December 31, 2008 and 2007, respectively, and for which the related investment income amounted to \$67,131,000 and 94,524,000, constituting 16.32% and 12.15% of net income before tax, for 2008 and 2007, respectively. These financial statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts of long-term equity investments and investment income included for these investees, is based solely on the reports of the other auditors.

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

In our opinion, based on our audits and the aforementioned, reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Topco Scientific Co., Ltd. as of December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, the related financial accounting standards of the "Business Entity Accounting Act" and of the "Regulation on Business Entity Accounting Handling", and accounting principles generally accepted in the Republic of China.



March 20, 2009

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

The auditors' report and the accompanying financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of, the English and Chinese language auditors' report and financial statements, the Chinese version shall prevail.

TOPCO SCIENTIFIC CO., LTD.

Balance Sheets

December 31, 2008 and 2007
(expressed in thousands of New Taiwan dollars)

Assets	2008		2007		Liabilities and Stockholders' Equity	2008		2007	
	Amount	%	Amount	%		Amount	%	Amount	%
Current assets:					Current liabilities:				
Cash and cash in bank (note 4)	\$ 117,054	2	73,448	1	Short-term loans (note 12)	\$ 969,835	15	686,158	9
Financial assets at fair value through profit or loss – current (note 5)	404	-	2,626	-	Notes and accounts payable	1,093,726	17	1,614,573	22
Notes and accounts receivable, net (note 6)	1,456,795	23	2,216,310	30	Notes and accounts payable – related parties (note 18)	145,627	2	780,043	11
Notes and accounts receivable, net – related parties (note 18)	11,968	-	146,645	2	Accrued expenses and other current liabilities (note 18)	185,514	3	323,739	5
Other current financial assets (note 19)	251,485	4	124,721	1	Advance collections (notes 18 and 21)	337,275	5	259,877	4
Inventories, net (note 7)	1,353,384	21	1,691,482	23	Advance construction receipts in excess of construction in progress (note 8)	50,300	1	10,426	-
Construction in progress in excess of advance construction receipts (note 8)	702,918	11	280,694	4		<u>2,782,277</u>	<u>43</u>	<u>3,674,816</u>	<u>51</u>
Prepayments and other current assets (notes 15 and 18)	89,334	1	284,880	4	Long-term and other liabilities:				
	<u>3,983,342</u>	<u>62</u>	<u>4,820,806</u>	<u>65</u>	Accrued pension liabilities (note 13)	45,077	-	42,035	1
					Deferred credits and others (note 18)	109,243	2	15,537	-
						<u>154,320</u>	<u>2</u>	<u>57,572</u>	<u>1</u>
Funds and investments:					Total liabilities	<u>2,936,597</u>	<u>45</u>	<u>3,732,388</u>	<u>52</u>
Long-term investment under equity method (note 9)	1,452,210	22	1,250,555	17	Stockholders' equity (note 14):				
Financial assets carried at cost – non-current (note 5)	314,812	5	440,562	6	Common stock	1,401,388	22	1,336,299	18
	<u>1,767,022</u>	<u>27</u>	<u>1,691,117</u>	<u>23</u>	Capital surplus:				
					Paid-in capital in excess of par value	1,358,598	21	1,358,598	18
Property, plant and equipment (note 10):					Others	9,555	-	9,547	-
Land	237,894	4	237,894	3		<u>1,368,153</u>	<u>21</u>	<u>1,368,145</u>	<u>18</u>
Buildings	346,511	5	346,511	5	Retained earnings:				
Other equipment	70,424	1	72,177	1	Legal reserve	339,316	5	283,350	4
	654,829	10	656,582	9	Unappropriated retained earnings	388,200	7	624,867	8
Less: accumulated depreciation	(68,411)	(1)	(51,351)	(1)		<u>727,516</u>	<u>12</u>	<u>908,217</u>	<u>12</u>
	<u>586,418</u>	<u>9</u>	<u>605,231</u>	<u>8</u>	Foreign currency translation adjustment	28,461	-	13,584	-
Intangible assets and other assets:					Total stockholders' equity				
Rental assets (note 10)	49,231	1	49,970	1	Commitments and contingencies (note 20)				
Long-term accounts receivable, net (note 11)	-	-	143,351	2		<u>3,525,518</u>	<u>55</u>	<u>3,626,245</u>	<u>48</u>
Deferred income tax asset and others (note 15)	76,102	1	48,158	1					
	<u>125,333</u>	<u>2</u>	<u>241,479</u>	<u>4</u>	Total liabilities and stockholders' equity	<u>\$ 6,462,115</u>	<u>100</u>	<u>7,358,633</u>	<u>100</u>
Total assets	<u>\$ 6,462,115</u>	<u>100</u>	<u>7,358,633</u>	<u>100</u>					

See accompanying notes to financial statements.

TOPCO SCIENTIFIC CO., LTD.

Statements of Income

For the years ended December 31, 2008 and 2007
(expressed in thousands of New Taiwan dollars, except net income per share amounts)

	2008		2007	
	Amount	%	Amount	%
Operating revenues (note 18):				
Sales	\$ 11,485,888	88	11,509,666	86
Less: sales returns and allowances	<u>84,411</u>	<u>1</u>	<u>118,114</u>	<u>1</u>
	11,401,477	87	11,391,552	85
Construction revenue	1,163,503	9	1,254,241	9
Service revenue	400,250	3	489,124	4
Other operating revenue	<u>126,019</u>	<u>1</u>	<u>233,839</u>	<u>2</u>
	<u>13,091,249</u>	<u>100</u>	<u>13,368,756</u>	<u>100</u>
Operating costs (notes 18 and 21):				
Cost of goods sold	10,569,096	81	10,641,022	80
Construction costs	1,109,609	8	1,153,166	9
Other operating costs	<u>121,851</u>	<u>1</u>	<u>173,882</u>	<u>1</u>
	<u>11,800,556</u>	<u>90</u>	<u>11,968,070</u>	<u>90</u>
	1,290,693	10	1,400,686	10
Realized (unrealized) profit on intercompany sales	<u>3,026</u>	<u>-</u>	<u>(14,885)</u>	<u>-</u>
Gross profit	<u>1,293,719</u>	<u>10</u>	<u>1,385,801</u>	<u>10</u>
Operating expenses (note 21):				
Selling expenses	529,628	4	339,703	3
General and administrative expenses	<u>288,177</u>	<u>3</u>	<u>321,031</u>	<u>2</u>
	<u>817,805</u>	<u>7</u>	<u>660,734</u>	<u>5</u>
	<u>475,914</u>	<u>3</u>	<u>725,067</u>	<u>5</u>
Operating income				
Non-operating income:				
Interest income	4,282	-	2,183	-
Investment income recognized under the equity method, net (note 9)	39,193	-	156,833	1
Gain on sale of financial assets	213,909	2	855	-
Other income (note 5)	<u>33,499</u>	<u>-</u>	<u>25,110</u>	<u>-</u>
	<u>290,883</u>	<u>2</u>	<u>184,981</u>	<u>1</u>
Non-operating expenses and losses:				
Interest expense	17,521	-	32,024	-
Foreign currency exchange loss, net	88,268	1	26,037	-
Loss on inventory valuation and obsolescence	179,026	1	32,474	-
Asset impairment losses (note 5)	30,000	-	27,500	-
Other losses (note 18)	<u>40,765</u>	<u>-</u>	<u>13,973</u>	<u>-</u>
	<u>355,580</u>	<u>2</u>	<u>132,008</u>	<u>-</u>
Income before income tax	411,217	3	778,040	6
Income tax expense (note 15)	<u>103,439</u>	<u>1</u>	<u>163,506</u>	<u>1</u>
Net income	<u>\$ 307,778</u>	<u>2</u>	<u>614,534</u>	<u>5</u>
			Before	After
			income tax	income tax
Basic net income per share (note 16)			<u>\$ 2.93</u>	<u>2.20</u>
Basic net income per share calculated by adjusting dividends declared retroactively				<u>\$ 5.55</u>
Diluted net income per share			<u>\$ 2.92</u>	<u>2.19</u>
Diluted net income per share calculated by adjusting dividends declared retroactively				<u>\$ 5.55</u>
				<u>4.38</u>

See accompanying notes to financial statements.

TOPCO SCIENTIFIC CO., LTD.

Statements of Changes in Stockholders' Equity

For the years ended December 31, 2008 and 2007

(expressed in thousands of New Taiwan dollars)

	<u>Common stock</u>	<u>Capital surplus</u>	<u>Retained earnings</u>		<u>Foreign currency translation adjustment</u>	<u>Total</u>
			<u>Legal reserve</u>	<u>Unappropriated</u>		
Balance on January 1, 2007	\$ 1,230,186	1,429,654	239,467	399,262	4,966	3,303,535
Appropriation of 2006 net income:						
Legal reserve	-	-	43,883	(43,883)	-	-
Directors' and supervisors' remuneration	-	-	-	(7,500)	-	(7,500)
Employee bonuses (cash and stock)	20,000	-	-	(30,000)	-	(10,000)
Dividends (cash and stock)	24,604	-	-	(307,546)	-	(282,942)
Capital surplus transferred to common stock	61,509	(61,509)	-	-	-	-
Foreign currency translation adjustment	-	-	-	-	8,618	8,618
Net income for the year ended December 31, 2007	-	-	-	614,534	-	614,534
Balance on December 31, 2007	<u>1,336,299</u>	<u>1,368,145</u>	<u>283,350</u>	<u>624,867</u>	<u>13,584</u>	<u>3,626,245</u>
Appropriation of 2007 net income:						
Legal reserve	-	-	55,966	(55,966)	-	-
Directors' and supervisors' remuneration	-	-	-	(7,500)	-	(7,500)
Employee bonuses (cash and stock)	25,000	-	-	(40,000)	-	(15,000)
Dividends (cash and stock)	40,089	-	-	(440,979)	-	(400,890)
Adjustment for changes in investee company's stockholders' equity	-	8	-	-	-	8
Foreign currency translation adjustment	-	-	-	-	14,877	14,877
Net income for the year ended December 31, 2008	-	-	-	307,778	-	307,778
Balance on December 31, 2008	<u>\$ 1,401,388</u>	<u>1,368,153</u>	<u>339,316</u>	<u>388,200</u>	<u>28,461</u>	<u>3,525,518</u>

See accompanying notes to financial statements.

TOPCO SCIENTIFIC CO., LTD.

Statements of Cash Flows

For the years ended December 31, 2008 and 2007
(expressed in thousands of New Taiwan dollars)

	2008	2007
Cash flows from operating activities:		
Net income	\$ 307,778	614,534
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	29,450	25,792
Gain on sale of financial assets	(213,909)	(855)
Investment income recognized under the equity method, net	(39,193)	(156,833)
Cash dividends received from long-term equity investments	19,118	12,745
Asset impairment losses	30,000	27,500
Allowance for doubtful accounts	177,970	-
Loss on inventory valuation and obsolescence	179,026	32,474
Decrease (increase) in notes and accounts receivable	865,816	(751,371)
Decrease in other current financial assets	32,665	34,558
Decrease (increase) in inventories	159,072	(573,908)
Decrease (increase) in construction in progress in excess of advance construction receipts	(382,350)	62,829
Decrease (increase) in prepayments and other current assets	202,362	(34,340)
Increase (decrease) in notes and accounts payable	(1,155,263)	928,661
Increase (decrease) in accrued expenses and other current liabilities	(138,225)	94,838
Increase in advance collections	77,398	61,393
Decrease (increase) in deferred tax assets, net	(36,022)	4,178
Others	1,860	21,795
Net cash provided by operating activities	<u>117,553</u>	<u>403,990</u>
Cash flows from investing activities:		
Proceeds from sale of financial assets	406,615	6,767
Acquisition of long-term investments	(161,736)	(150,000)
Additions to property, plant and equipment	(1,994)	(13,612)
Increase in restricted assets	(165,672)	(66,800)
Decrease (increase) in refundable deposits	(3,957)	4,253
Others	(7,264)	462
Net cash provided by (used in) investing activities	<u>65,992</u>	<u>(218,930)</u>
Cash flows from financing activities:		
Increase in short-term loans	283,677	8,584
Cash dividends	(400,890)	(282,942)
Directors' and supervisors' remuneration	(22,500)	(17,500)
Others	(226)	(1,329)
Net cash used in financing activities	<u>(139,939)</u>	<u>(293,187)</u>
Net increase (decrease) in cash and cash in bank	43,606	(108,127)
Cash and cash in bank at beginning of year	73,448	181,575
Cash and cash in bank at end of year	<u>\$ 117,054</u>	<u>73,448</u>
Supplementary disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$ 17,489	36,657
Income taxes	\$ 179,183	127,756

See accompanying notes to financial statements.

TOPCO SCIENTIFIC CO., LTD.

Notes to Financial Statements

December 31, 2008 and 2007

(expressed in thousands of New Taiwan dollars unless otherwise specified)

(1) Organization

Topco Scientific Co., Ltd. (the Company) was incorporated on February 17, 1990, under the provisions of the Company Act of the Republic of China (R.O.C.). The Company engages in the trading of electronics products, high technology products and related technology, and pollution prevention equipment, as well as the design and installation of water purification and recycling systems.

As of December 31, 2008 and 2007, the Company had approximately 404 and 375 employees, respectively.

(2) Summary of Significant Accounting Policies

The financial statements are prepared in accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, the Business Entity Accounting Act, the Regulation on Business Entity Accounting Handling, and accounting principles and practices generally accepted in the Republic of China. The financial statements of the Company have been prepared in the local currency and in Chinese. The financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of, the English and Chinese language financial statements, the Chinese version shall prevail. The significant accounting policies and measurement basis adopted in preparing the accompanying financial statements are summarized as follows:

(a) Accounting estimates

The preparation of financial statements in conformity with the aforementioned guidelines and principles requires management to make reasonable assumptions and estimates of matters that are inherently uncertain. The actual results may differ from management's estimates.

(b) Foreign currency transactions and translation

The Company's reporting currency is the New Taiwan dollar. Non-derivative foreign currency transactions are recorded at the exchange rates prevailing at the transaction date. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated using the exchange rates on that date. The resulting unrealized exchange income (loss) from such translations is reflected in the accompanying statements of income. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the transaction date. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the exchange rate at the balance sheet date. If the non-monetary assets or liabilities are measured at fair value through profit or loss, the resulting unrealized exchange income (loss) from such translations is reflected in the accompanying statements of income. If the non-monetary assets or liabilities are measured at fair

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TOPCO SCIENTIFIC CO., LTD.**Notes to Financial Statements**

value through stockholders' equity, the resulting unrealized exchange income (loss) from such translations is recorded as a separate component of stockholders' equity.

Foreign investees, which are accounted for by the equity method, record their books in the local currency. All non-functional-currency transactions are translated into the functional currency at the rate prevailing on the transaction date, and the resulting unrealized gains or losses are taken directly to the income statement. Translation adjustments resulting from the translation of functional-currency financial statements into the Company's reporting currency are accounted for as translation adjustment, which is a separate component of stockholders' equity.

(c) Distinction between current and non-current assets and liabilities

Current assets are unrestricted cash and cash equivalents and other assets to be realized in cash, sold, or consumed (prepaid items) within 12 months of the balance sheet date. Current liabilities are obligations to be paid or settled within 12 months of the balance sheet date. All other assets or liabilities are classified as non-current.

When the construction period exceeds one year, the construction in progress, advance contract receipts, accounts receivable (payable), and restricted deposits for construction are recognized currently based on the operating cycle.

(d) Impairment of assets

The Company assesses at each balance sheet date whether there is any indication that an asset (individual asset or cash-generating unit) other than goodwill may have been impaired. If any such indication exists, the Company estimates the recoverable amount of the asset. The Company recognizes impairment loss for an asset whose carrying value is higher than the recoverable amount.

The Company reverses an impairment loss recognized in prior periods for assets other than goodwill if there is any indication that the impairment loss recognized no longer exists or has decreased. The carrying value after the reversal should not exceed the recoverable amount or the depreciated or amortized balance of the assets assuming no impairment loss was recognized in prior periods.

The Company assesses goodwill and intangible assets which have indefinite useful lives and are not available for use on an annual basis and recognizes an impairment loss on the excess of carrying value over the recoverable amount.

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TOPCO SCIENTIFIC CO., LTD.**Notes to Financial Statements****(e) Financial assets**

The Company classifies financial assets into “financial assets measured at fair value through profit or loss” and “financial assets carried at cost”.

The Company adopted transaction-date accounting for financial instrument transactions. At the beginning of recognition, financial instruments are measured at fair value. Except for trading-purpose financial instruments, the original cost of financial instruments should include the cost of acquisition or issuance.

The financial instruments the Company held or issued are classified into the following accounts in accordance with the purpose of holding or issuing after the original recognition:

- a. Financial assets measured at fair value through profit or loss: The main purposes of the financial instruments are selling or repurchasing in the short term. The derivative instruments held by the Company are classified into this account except if they are designated and effective hedging instruments.
- b. Financial assets carried at cost: Equity investments which cannot be evaluated at fair value are booked at original cost. If there is evidence of impairment, impairment loss should be recognized, and the impairment amount cannot be reversed.

(f) Derivative financial instruments and hedging

The derivative financial instruments held by the Company are for hedging the risk of changes in foreign currency exchange rates resulting from operating, financing and investing activities. Under the Company’s policy, the purpose of the derivative financial instruments is hedging. The derivatives are recognized as financial instruments held for trading when they do not meet the criteria for hedge accounting.

(g) Allowance for doubtful accounts

The allowance for doubtful accounts is generally based on management’s evaluation of the likelihood of collection of the Company’s accounts receivable balances. The management’s evaluation considers past experience in the collection of the Company’s accounts receivable balances, the credit rating of the customers, aging analysis of outstanding accounts receivable, and the credit policy of the Company.

(h) Inventories

Inventories are stated at the lower of cost or market value. Market value is based on net realizable value. Cost is determined by using the weighted-average method.

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TOPCO SCIENTIFIC CO., LTD.**Notes to Financial Statements****(i) Long-term construction contracts**

Contract costs include direct material and labor costs and related construction expenses categorized by project. Costs of uncompleted contracts in excess of related billings are classified under current assets, whereas billings on uncompleted contracts in excess of related costs are classified under current liabilities.

The completed-contract method of accounting for long-term construction projects is adopted when the construction period is within one year. The percentage-of-completion method of accounting for long-term construction projects is adopted when the construction period exceeds one year and the contract price, the completion cost, and the extent of construction progress can be reasonably estimated. The construction costs incurred are recorded as "construction in progress". Advance receipts on construction contracts are recorded as "advance contract receipts". At each year-end, the percentage-of-completion method is used for estimating aggregate contract gain less aggregate contract gain recognized in prior period, and the resulting difference is recognized currently. When a loss is estimated on construction contracts, the entire estimated loss should be recognized immediately.

Changes in contract price or estimated total cost are treated as changes in accounting estimate.

(j) Long-term equity investments

Long-term investments are accounted for under the equity method when the percentage of ownership held by the Company and its subsidiaries exceeds 20%.

The Company adopted amended ROC Statement of Financial Accounting Standards No. 5 (SFAS 5) "Long-Term Investment and Equity Method". The difference between the cost of the investment and the amount of underlying equity in net assets of an investee attributed to depreciable, depletable, or amortizable assets is amortized over the estimated remaining economic years. The difference attributed to the carrying amount in excess of or lower than the fair value of assets is written off entirely when the difference disappears. The cost of investment in excess of the fair value of identifiable net assets is recognized as goodwill and is no longer amortized. The difference attributed to the fair value of identifiable net assets in excess of the cost of investment causes a proportional decrease in the carrying amount of non-current assets. When the carrying amount of non-current assets is decreased to zero, the remaining difference is through extraordinary gain or loss.

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TOPCO SCIENTIFIC CO., LTD.**Notes to Financial Statements**

The difference between the disposal price and carrying amount of long-term equity investment under the equity method on the disposal date is recognized as gain or loss from disposal of long-term equity investment. The associated capital surplus resulting from long-term equity investment is reclassified into current gain or loss in proportion to disposal of long-term equity investment. If an investee company accounted for under the equity method issues new shares and the Company does not purchase new shares proportionately, then the investment percentage, and therefore the equity in net assets for the investment, will be changed. Such difference shall be used to adjust capital surplus or retained earnings and long-term equity investments.

When the equity adjustment accounts of investee companies accounted under the equity method, including unrealized gain or loss on financial instruments, accumulated currency translation adjustments, and unrecognized net pension cost, are changed, the change is reflected in those accounts, and long-term equity investment under the equity method based on the percentage of ownership.

Unrealized inter-company profits or losses resulting from transactions between the Company and its subsidiaries and investees accounted for under the equity method are deferred until realized, or are amortized based on the useful lives of the assets that give rise to such unrealized profits or losses.

The Company prepares consolidated financial statements for the first six months and annually each year, and prepares consolidated financial statements by quarter beginning in 2008. The investees over which the Company has control are consolidated into the Company's consolidated financial statements.

(k) Property, plant and equipment, leased assets, and depreciation

Property and equipment are stated at cost and can be revalued at government-declared values or indexes. Major renewals and improvements are capitalized and depreciated accordingly; repairs and maintenance are charged to expenses as incurred. Gains or losses on disposal of property, plant and equipment are recorded as nonoperating gains or losses.

Excluding land, depreciation of property and equipment is provided using the straight-line method over the estimated useful lives of the respective assets. The useful lives of respective assets are summarized as follows:

1. Buildings: 35~50 years.
2. Office and other equipment: 2~8 years.

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TOPCO SCIENTIFIC CO., LTD.

Notes to Financial Statements

Property, plant and equipment leased to other parties under operating leases are classified as leased assets. Rental income received by the Company is recorded as non-operating income. The related depreciation is accounted for as a reduction of rental income. Related taxation, utility expenses, and maintenance expenses are recorded as current administrative expenses, unless the contract calls for the lessee to pay these expenses.

(l) Intangible assets

Effective from January 1, 2007, the Company adopted SFAS No. 37 "Intangible Assets". In accordance with SFAS No. 37, other than an intangible asset acquired by way of a government grant, which should be measured at its fair value, an intangible asset shall be measured initially at cost. After initial recognition, an intangible asset shall be measured at its cost plus revaluation increment revalued in accordance with the laws, less any accumulated amortization and any accumulated impairment losses.

The depreciable amount of an intangible asset is determined by the original cost less its residual value. Amortization is provided for by using the straight-line method over the estimated useful lives of intangible assets from the date that they are available for use. The cost of computer software for internal use is amortized by using the straight-line method over three years.

The residual value, the amortization period, and the amortization method for an intangible asset with a finite useful life shall be reviewed at least at each financial year-end. Any changes shall be accounted for as changes in accounting estimates.

(m) Deferred charges

Deferred charges including network installation expense are stated at cost and amortized using the straight-line method over 3~5 years.

(n) Retirement plan

The Company has established an employee noncontributory defined benefit retirement plan covering all regular employees. According to this plan, employees are eligible for retirement or are required to retire after meeting certain age or service requirements. Payments of employee retirement benefits are based on the years of service and the average salary for the six months before the employee's retirement. Each employee who qualifies for retirement is entitled to receive retirement benefits equal to two months' salary for the first 15 years of service and one month's salary for each service year after the sixteenth year. The maximum benefit is 45 months of salary.

The new Labor Pension Act, became effective on July 1, 2005, and prescribes a defined contribution pension plan for all new employees and for any employees employed before that date who opted to adopt it.

(Continued)

TOPCO SCIENTIFIC CO., LTD.**Notes to Financial Statements**

The Company contributes an amount equal to 2% of salaries and wages to the pension fund maintained with Bank of Taiwan (originally the "Central Trust of China".) The employee retirement benefits are initially paid out of the pension fund and then by the Company if the fund is insufficient.

Under this defined benefit pension plan, the pension liabilities are actuarially calculated at the year-end date, and the Company recognizes net periodic pension costs, including service cost, interest cost, expected return on plan assets, and amortization of net unrecognized transaction assets over the average remaining service period of the employees of 18 years.

Under this defined contribution pension plan, the Company contributes monthly an amount equal to 6% of salaries and wages to employees' individual pension fund accounts with the Bureau of Labor Insurance, and the contribution is recorded as pension expenses in the accompanying statements of income.

(o) Share-based payment

The employee stock options granted before January 1, 2008, are accounted for by Interpretations (92) 070, 071, and 072 issued by the Accounting Research and Development Foundation (ARDF). The Company adopts the intrinsic value method for the employee stock options. Compensation costs are the excess, if any, of the fair value of the stock at the measurement date over the amount employees must pay to acquire the stock. Meanwhile, the compensation costs mentioned above are recorded as current expense and a separate component of stockholders' equity during the service period of the employees specified in the employee stock option plan. According to ROC SFAS No. 39 "Share-based Payment", the Company need not apply SFAS No. 39 retroactively to the share-based payments that were granted before January 1, 2008; however, the pro forma net income and net income per share should be disclosed.

(p) Employee bonuses and directors' and supervisors' remuneration

Employee bonuses and directors' and supervisors' remuneration based on the ROC Company Act and the Company's articles of incorporation and appropriated after January 1, 2008, are accounted for by Interpretation (96) 052 issued by the ARDF. The Company estimates the amount of employee bonuses and directors' and supervisors' remuneration according to the Interpretation and recognize it as expenses. Differences between the amount approved in the shareholders' meeting and recognized in the financial statements, if any, are accounted for as changes in accounting estimates and recognized as profit or loss.

(Continued)

TOPCO SCIENTIFIC CO., LTD.

Notes to Financial Statements

(q) Income taxes

Income tax is calculated based on accounting income. The amount of deferred tax liabilities and assets is calculated by applying the provisions of enacted tax law to determine the amount of tax payable or refundable, currently or in future years. The tax effects of taxable temporary differences are recorded as deferred tax liabilities. The tax effects of deductible temporary differences, net operating losses, and income tax credits are recognized as deferred income tax assets. An allowance is provided for deferred tax assets that may not be realized in the future.

Deferred income tax assets or liabilities are classified as current or non-current based on the classification of the asset or liability that resulted in the deferred item or, for certain transactions not directly related to an asset or liability, based on the timing of the expected reversal date.

Investment tax credits are accounted for using the flow-through method. Therefore, income tax credits generated from employee training are recognized in the year in which the credit arises.

The 10% surtax on unappropriated earnings is recorded as current income tax expense in the following year when the shareholders resolve not to distribute the earnings.

(r) Revenue recognition

Revenues on construction contracts are recognized in accordance with R.O.C. SFAS No. 11 "Construction Contracts". Revenue derived from product sales is recognized when products are shipped and the significant risks and rewards are transferred to the buyer. Costs and expenses are recognized when revenue is earned.

(s) Net income per share

Net income per share of common stock is computed based on the weighted-average number of common shares outstanding during the period. Net income per share for the prior period is retroactively adjusted to reflect the effects of new shares issued by transferring capital surplus, retained earnings, and employee bonuses approved in the annual stockholders' meetings held before and in 2008.

The employee stock options issued by the Company and employee stock bonuses which could be declared in the form of stock dividends and have not yet been approved by the stockholders' meeting are potential common shares. Basic net income per share will be disclosed if there is no dilution effect. Otherwise, both basic and diluted net income per share shall be disclosed. For the purpose of calculating diluted net income per share, the potential common shares should be deemed to have been converted into common stock at the beginning of the period, and the effect on net income of the additional common shares outstanding should be considered accordingly.

(Continued)

TOPCO SCIENTIFIC CO., LTD.

Notes to Financial Statements

(3) Changes in Accounting Policy and Their Influence

- (a) Effective from January 1, 2007, the Company adopted SFAS No. 37 "Intangible Assets". In accordance with SFAS No. 37, the Company reevaluated the useful lives and the amortization method used for recognized intangible assets at the beginning of the financial year, and there was no need to change the useful lives or the amortization method. Such changes in accounting policy did not have a material effect on the Company's financial statements as of and for the year ended December 31, 2007.
- (b) Effective from January 1, 2008, the Company adopted SFAS No. 39 and Interpretation (96) 052 issued by the ARDF. In accordance with SFAS No. 39 and the above Interpretation, the Company classified, measured and disclosed the share-based payment transactions, employee bonuses, and directors' and supervisors' remuneration. Accordingly, net income decreased by \$13,477 and basic net income per share decreased by 0.1 New Taiwan dollars for the year ended December 31, 2008. In accordance with the Interpretation issued by the ARDF, the new shares issued as employee bonuses in 2008 and later year are no longer retroactively adjusted when calculating basic net income per share and diluted net income per share. If the employee bonuses issued in stock have a dilution effect, it should be considered when calculating diluted net income per share.

(4) Cash and Cash in Bank

	December 31, 2008	December 31, 2007
Cash on hand	\$ 10,259	1,821
Checking accounts and demand deposits	<u>106,795</u>	<u>71,627</u>
	<u>\$ 117,054</u>	<u>73,448</u>

(5) Financial Assets**(a) Non-derivative financial instruments**

The non-derivative financial instruments held by the Company as of December 31, 2008 and 2007, were as follows:

	December 31, 2008	December 31, 2007
Financial assets at fair value through profit or loss – current:		
Convertible bonds	\$ <u>-</u>	<u>2,136</u>

(Continued)

TOPCO SCIENTIFIC CO., LTD.

Notes to Financial Statements

December 31, 2008 December 31, 2007

Financial assets carried at cost—non-current:

Shin-Etsu Handotal Taiwan Co., Ltd. (Shin-Etsu)	\$ 120,000	120,000
Ultra Chip Inc. (Ultra)	21,062	51,062
Top Taiwan V Venture Capital Co., Ltd.	50,000	50,000
Neo Solar Power Corporation (Neo Solar)	54,250	150,000
Others	<u>69,500</u>	<u>69,500</u>
	\$ <u>314,812</u>	<u>440,562</u>

1. The net gain or loss on financial assets through profit or loss resulting from changes in fair value amounted to a loss of \$226 and \$264 for the years ended December 31, 2008 and 2007, respectively.
2. The Company's investments in Shin-Etsu and others had no publicly traded price, and their fair values were difficult to determine. Therefore, the investments were stated at cost.
3. The Company disposed of all its equity ownership classified as financial assets carried at cost of Cyber Key Technology Corporation (Cyber Key) and Vtera Technology Inc. (Vtera), and disposed of parts of its equity in Ultra in the year ended December 31, 2007. The total disposal gain thereon amounted to \$229.
4. The Company bought 6,000 thousand shares of Neo Solar from Topco International Investment Co., Ltd. (Topco International) for \$150,000. The Company disposed of part of its equity to Topco International and third parties in the year ended December 31, 2008, with a selling price amounting to \$406,615. The cost and disposal gain amounted to \$95,750 and \$310,860, respectively. In accordance with accounting principles, the Company deferred gain of \$114,253 resulting from selling to Topco International to the following years. Please see note 18.
5. The value of financial assets carried at cost declined materially and permanently. Following the prudence principle, the Company recognized impairment losses thereon for the years ended December 31, 2008 and 2007, amounting to \$30,000 and \$27,500, respectively.

(Continued)

TOPCO SCIENTIFIC CO., LTD.

Notes to Financial Statements

(b) Derivative financial instruments

As of December 31, 2008 and 2007, the derivative financial instruments held by the Company were as follows:

	December 31, 2008		December 31, 2007	
	Book value	Nominal amount	Book value	Nominal amount
Derivative financial assets:				
USD forward foreign currency exchange contracts sold (USD/JPY)	\$ <u>316</u>	USD <u>5,500,000</u>	<u>159</u>	USD <u>250,000</u>
USD forward foreign currency exchange contracts bought (USD/NTD)	\$ <u>26</u>	USD <u>1,000,000</u>	<u>-</u>	<u>-</u>
JPY forward foreign currency exchange contracts bought (JPY/NTD)	\$ <u>62</u>	JPY <u>50,000,000</u>	<u>331</u>	JPY <u>85,000,000</u>

The above derivative financial instruments were accounted for as financial assets at fair value through profit or loss.

The Company entered into forward foreign currency exchange contracts with several banks in the years ended December 31, 2008 and 2007. The main purpose of the contracts was to hedge foreign currency risk. The net gain or loss resulting from changes in fair value of the foreign currency exchange contracts were a gain of \$3,328 and a loss of \$1,537 for the years ended December 31, 2008 and 2007, respectively (recorded as other income).

(6) Notes and Accounts Receivable – Third Parties

	December 31, 2008	December 31, 2007
Notes receivable	\$ 51,020	84,780
Accounts receivable	<u>1,476,398</u>	<u>2,163,641</u>
	1,527,418	2,248,421
Less: allowance for doubtful accounts	<u>(70,623)</u>	<u>(32,111)</u>
	\$ <u>1,456,795</u>	<u>2,216,310</u>

(Continued)

TOPCO SCIENTIFIC CO., LTD.

Notes to Financial Statements

(7) Inventories

	December 31, 2008	December 31, 2007
Merchandise inventories	\$ 1,597,884	1,756,956
Less: allowance for inventory valuation and obsolescence loss	<u>(244,500)</u>	<u>(65,474)</u>
	\$ <u>1,353,384</u>	<u>1,691,482</u>

(8) Construction in Progress and Advance Construction Receipts

	December 31, 2008	December 31, 2007
Cost of construction in progress	\$ 2,324,705	1,496,861
Net accumulated contract gain	<u>(73,008)</u>	<u>(30,698)</u>
	2,251,697	1,466,163
Advance construction receipts	<u>(1,599,079)</u>	<u>(1,195,895)</u>
	\$ <u>652,618</u>	<u>270,268</u>
Construction in progress in excess of advance construction receipts	702,918	280,694
Advance construction receipts in excess of construction in progress	<u>(50,300)</u>	<u>(10,426)</u>
	\$ <u>652,618</u>	<u>270,268</u>

The construction in progress as of December 31, 2008 and 2007, is summarized below (contract price in excess of \$150,000):

2008.12.31					
Construction item	Estimated construction revenue	Estimated construction cost	% of completion	Estimated year of completion	Accumulated gain (loss)
W06021	\$ 578,300	566,020	63.57	2009	7,806
W03007	439,857	527,376	95.25	2009	(87,519)
W08016	350,375	325,524	0.75	2009	-
W08006	295,000	341,000	62.26	2009	(46,000)
W08012	182,800	179,128	30.74	2009	1,128
W05007	164,566	167,890	99.10	2009	(3,324)
W04018	155,886	168,335	99.30	2009	(12,449)
W07016	150,000	113,040	80.73	2009	29,842

(Continued)

TOPCO SCIENTIFIC CO., LTD.

Notes to Financial Statements

2007.12.31					
Construction item	Estimated construction revenue	Estimated construction cost	% of completion	Estimated year of completion	Accumulated gain (loss)
W03007	\$ 439,857	527,376	94.27	2008	(87,519)
W05007	172,953	170,857	96.34	2008	2,019
W04018	155,886	168,335	98.75	2008	(12,449)
W07016	150,000	113,040	5.00	2008	-

(9) Long-term Equity Investments

	December 31, 2008		December 31, 2007	
	%	Amount	%	Amount
Topco Quartz Products Co., Ltd. (Topco Quartz)	40	\$ 299,458	40	\$ 285,782
Taiwan E&M Systems, Inc. (Taiwan E&M)	100	311,380	100	326,615
Fortune Energy Corporation (Fortune Energy)	25	203,116	25	179,697
Topco Group Ltd. (Topco Group)	100	352,434	100	253,206
Topco International	100	227,907	100	195,519
Topco Investment Co., Ltd. (Topco Investment)	100	9,181	100	9,736
Chien Yueh Technology Engineering Co., Ltd. (Chien Yueh)	100	<u>48,734</u>	-	<u>-</u>
		\$ 1,452,210		\$ 1,250,555

- (a) The investment income on long-term equity investments recognized under the equity method for the years ended December 31, 2008 and 2007, amounted to \$39,193 and \$156,833, respectively.
- (b) For China business needs, the Company increased investments in Suzhou Topco Construction Ltd. (Topco Suzhou), Topco Scientific (Ningbo) Co., Ltd. (Topco Ningbo) and Topco Scientific (Shanghai) Co., Ltd. (Topco Shanghai) in the amount of US\$1,200,000, \$500,000, and \$1,800,000, respectively, through increasing investments in Topco Group in the amount of \$111,736 (US\$3,500,000).

As of December 31, 2008, the Company had invested \$302,937 (US\$9,210,000) in Topco Group.

- (c) The Company recently invested \$50,000 in Chien Yueh in August 2008. The major business activities of Jian Yue are the construction of water purification and recycling systems and clean rooms.

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TOPCO SCIENTIFIC CO., LTD.

Notes to Financial Statements

(10) Property, Plant and Equipment, and Rental Assets

(a) As of December 31, 2008 and 2007, the rental assets consisted of the following:

	December 31, 2008	December 31, 2007
Land	\$ 30,590	30,590
Buildings	25,428	25,428
Less: accumulated depreciation	<u>(6,787)</u>	<u>(6,048)</u>
	<u>\$ 49,231</u>	<u>49,970</u>

The Company had leased part of its land and plant starting from June 2005. The net rental income from leased assets was \$3,461 and \$3,456 for the years 2008 and 2007, respectively. According to the existing rental contracts, the expected rental income to be received in future years is as follows:

<u>Period</u>	<u>Amount</u>
2009.01.01~2009.12.31	\$ 4,200
2010.01.01~2010.05.31	<u>1,750</u>
	<u>\$ 5,950</u>

(b) The Company does not provide property, plant and equipment or rental assets as collateral for its loans.

(11) Long-term Accounts Receivable

	December 31, 2008	December 31, 2007
Long-term accounts receivable	\$ 251,026	261,162
Less: allowance for doubtful accounts	<u>(251,026)</u>	<u>(117,811)</u>
	<u>\$ -</u>	<u>143,351</u>

The long-term accounts receivable were agreed with customers who had already provided 64,283 thousand shares of another company's securities as collateral in 2007. The customer has not made payment according to the settlement agreement, and the estimated value of collateral securities declined materially and permanently. Following the prudence principle, the Company recognized a fully allowance of \$133,215 and \$0 as operating expense – selling expense for the years ended December 31, 2008 and 2007, respectively.

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TOPCO SCIENTIFIC CO., LTD.

Notes to Financial Statements

(12) Short-Term Loans

	December 31, 2008	December 31, 2007
Loans for purchase of materials	\$ 724,835	586,158
Credit loan	165,000	-
Commercial paper payable	<u>80,000</u>	<u>100,000</u>
	<u>\$ 969,835</u>	<u>686,158</u>
Unused credit lines	<u>\$ 2,351,000</u>	<u>1,541,684</u>
Range of interest rates during the year	<u>0.59%~6.35%</u>	<u>0.98%~6.725%</u>

The loans for purchase of materials and commercial paper payable were credit loans as of December 31, 2008 and 2007.

(13) Pension

- (a) The Company had an actuarial valuation of its pension plan as of December 31, 2008 and 2007. According to the actuarial reports, the funded status was reconciled with accrued pension liabilities as follows:

	December 31, 2008	December 31, 2007
Benefit obligation:		
Vested benefit obligation	\$ (14,801)	(2,890)
Non-vested benefit obligation	<u>(44,491)</u>	<u>(48,360)</u>
Accumulated benefit obligation	(59,292)	(51,250)
Projected future employee compensation increases	<u>(54,587)</u>	<u>(46,506)</u>
Projected benefit obligation	(113,879)	(97,756)
Fair value of plan assets	<u>27,396</u>	<u>23,151</u>
Funded status	(86,483)	(74,605)
Net unrecognized transition obligation	1,966	2,457
Unrecognized pension loss	<u>39,440</u>	<u>30,113</u>
Accrued pension liabilities	<u>\$ (45,077)</u>	<u>(42,035)</u>

As of December 31, 2008 and 2007, the vested benefits of the Company were approximately \$20,863 and \$3,476, respectively.

(Continued)

TOPCO SCIENTIFIC CO., LTD.

Notes to Financial Statements

(b) The net pension costs in 2008 and 2007 consisted of the following:

	2008	2007
Net pension expense of defined benefit pension plan:		
Service cost	\$ 2,758	2,554
Interest cost	2,688	3,118
Actual return on plan assets	(875)	(999)
Amortization	<u>1,841</u>	<u>2,378</u>
	<u>\$ 6,412</u>	<u>7,051</u>
Net pension expense of defined contribution pension plan	<u>\$ 16,154</u>	<u>14,308</u>

(c) Actuarial assumptions were as follows:

	2008	2007
Discount rate	2.50%	2.75%
Future salary increase rate	Note	5.00%
Expected long-term rate of return on plan assets	2.50%	2.75%

Note: Future salary increase rate within one year is 0%; future salary increase rate after one year is 5%.

(14) Stockholders' Equity

(a) Common stock

Based on a resolution of the annual stockholders' meeting held on June 15, 2007, the Company increased its authorized common stock to \$1,600,000, declared a 2.3 New Taiwan dollar cash dividend per share, which amounted to \$282,942, and increased its common stock through the issuance of stock dividends and employees' bonuses by transferring retained earnings and capital surplus amounting to \$106,113. The registration procedures related to the issuance have been completed.

Based on a resolution of the annual stockholders' meeting held on June 13, 2008, the Company increased its authorized common stock to \$1,700,000 and reserved \$100,000 for employee stock options, declared a 3 New Taiwan dollar cash dividend per share, which amounted to \$400,890, and increased its common stock through the issuance of stock dividends and employee bonuses by transferring retained earnings amounting to \$65,089. Except for the authorized common stock, the registration procedures related to the issuance mentioned above have been completed.

As of December 31, 2008 and 2007, the authorized common stock was \$1,600,000 (including \$100,000 and \$45,000 of employee stock options, respectively), with a par value of \$10 (dollars) per share.

(Continued)

TOPCO SCIENTIFIC CO., LTD.

Notes to Financial Statements

(b) Capital surplus

Pursuant to the ROC Company Act, capital surplus can only be used to offset a deficit or to increase common stock. Cash dividends cannot be declared out of capital surplus. According to the Regulations Governing the Offering and Issuance of Securities by Securities Issuers, capital increases through the capitalization of paid-in capital in excess of par value should not exceed 10% of total common stock outstanding. In addition, capital increases through the capitalization of paid-in capital in excess of par value can only commence in the year following the initial year.

(c) Employee stock options

In the meeting of the board of directors held on October 26, 2007, the board decided to issue 4,500 units of stock options, with an exercisable right of one thousand shares of the Company's common stock per unit. The information on total options issued was as follows:

<u>Date of issuance</u>	<u>2008</u>				
	<u>2008.1.1 Outstanding units</u>	<u>Current units granted</u>	<u>Current units exercised</u>	<u>2008.12.31 Outstanding units</u>	<u>2008.12.31 Exercisable units</u>
December 24, 2007	<u>4,500</u>	<u>-</u>	<u>-</u>	<u>4,500</u>	<u>-</u>
<u>Date of issuance</u>	<u>2007</u>				
	<u>2007.1.1 Outstanding units</u>	<u>Current units granted</u>	<u>Current units exercised</u>	<u>2007.12.31 Outstanding units</u>	<u>2007.12.31 Exercisable units</u>
December 24, 2007	<u>-</u>	<u>4,500</u>	<u>-</u>	<u>4,500</u>	<u>-</u>

The issuance terms of the stock options are as follows.

- (i) Exercise price: After the adjustment for stock dividends over the years, the exercise price was \$55.97 (dollars).
- (ii) Exercisable duration: After two years, the employees who received stock options can exercise a specific percentage in each period as below. The exercisable duration of the options is six years. No transfer, pledge, donation or other methods of disposal are allowed except for inheritance.

<u>Period to exercise options</u>	<u>Exercisable percentage (cumulative)</u>
2 years after options received	40%
3 years after options received	70%
4 years after options received	100%

(Continued)

TOPCO SCIENTIFIC CO., LTD.

Notes to Financial Statements

- (iii) Exercise method: The Company would issue new shares as the options are exercised.
- (iv) Exercise procedure: In accordance with the Company's issuance and exercise rules, the entitlement certification of stock options exercised is registered as common stock four times a year.

The compensation cost of the stock options issued before December 31, 2007, was computed by the intrinsic value method. Because the fair value of the Company's common stock on the measurement date was not in excess of the exercise price of the stock options, the Company did not need to recognize compensation cost. If the compensation cost of the issued stock options were computed by the fair value method, the pro forma information would be as follows:

- A. The compensation cost for the years ended December 31, 2008 and 2007, would be \$24,469 and \$536, respectively, if the Company used the fair value method instead. The Company adopted the Black-Scholes model to compute the fair value on the grant date, and the assumptions are summarized as follows:

Original exercise price (dollars)	\$58.7
Fair price of the Company's stock at the measurement date (dollars)	\$58.7
Expected cash dividend yield rate	3%
Expected volatility	36.2%
Risk-free interest rate	2.765%
Expected life of the option	4 years

- B. The pro forma information on compensation cost by using the fair value method on net income and earnings per share would be as follows:

		2008	2007
Net income	Actual	\$ 307,778	614,534
	Pro forma	283,309	613,998
Basic net income per share	Actual (dollars)	2.20	4.60
	Pro forma (dollars)	2.02	4.59
Diluted net income per share	Actual (dollars)	2.19	4.60
	Pro forma (dollars)	2.01	4.59

(Continued)

TOPCO SCIENTIFIC CO., LTD.

Notes to Financial Statements

(d) Legal reserve and limitation on distribution of retained earnings

Pursuant to the ROC Company Act, the legal reserve must be used exclusively to offset losses and cannot be used for any other purpose, except that one-half of the legal reserve may be capitalized based on a resolution of the stockholders' meeting when it equals at least 50% of paid-in capital.

In accordance with the Company's articles of incorporation, 10% of the Company's annual net income, after paying all taxes and deducting losses of prior years, if any, should be set aside as legal reserve. The unappropriated earnings after legal reserve shall be allocated as follows:

- a. At least 2% of the balance as employee bonuses (based on a resolution of the annual stockholders' meeting held on June 13, 2008, the Company revised the articles of incorporation to no less than 5%);
- b. No more than 3% of the balance as remuneration to directors and supervisors; and
- c. The remaining portion shall be distributed as dividends to all stockholders in proportion to their individual holding as proposed by the board of directors and approved at the stockholders' meeting. No less than 10% of total stockholders dividends may be distributed in the form of cash dividends.

In the case of employee stock bonuses, the employees of the subsidiaries meeting certain terms set by the board of directors are included.

- (e) Based on the resolution approved by the stockholders during their annual stockholders' meetings on June 13, 2008, and June 15, 2007, the employee bonuses and directors' and supervisors' remuneration were appropriated from the distributable retained earnings of 2007 and 2006 as follows:

	2007	2006
Employee bonuses – stock (at par value)	\$ 25,000	20,000
Employee bonuses – cash	15,000	10,000
Directors' and supervisors' remuneration	<u>7,500</u>	<u>7,500</u>
	<u>\$ 47,500</u>	<u>37,500</u>

The earnings distribution for fiscal year 2008 is still subject to being determined by a meeting of the board of directors and approved in a stockholders' meeting. The related information about earnings distribution can be accessed from the "Market Observation Post System" after the holding of these meetings.

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TOPCO SCIENTIFIC CO., LTD.

Notes to Financial Statements

- (f) The Company estimates the amount of employee bonuses and directors' and supervisors' remuneration according to the ROC Company Act and the Company's articles of incorporation for the financial statements. The Company recognized employee bonuses and directors' and supervisors' remuneration of \$18,006 for the year ended December 31, 2008, which were a specific percentage, approved by the Company's management, of net income after deducting the legal reserve. The number of shares of the dividend distribution is based on the closing price of the day before the shareholders' meeting and considering the ex-rights and ex-dividend effects. Differences between the amount approved in the shareholders' meeting and recognized in the financial statements, if any, are accounted for as changes in accounting estimates and recognized as profit or loss in 2009.

(15) Income Taxes

- (a) The operations of the Company are subject to income tax at a rate of 25%. The Company has applied the "Income Basic Tax Act" starting from January 1, 2006, to calculate its income tax. The components of income tax expense of the Company for the years ended December 31, 2008 and 2007, were as follows:

	2008	2007
Current income tax expense	\$ 132,452	158,685
10% surtax on unappropriated earnings	<u>7,009</u>	<u>1,530</u>
	<u>139,461</u>	<u>160,215</u>
Deferred income tax expense (benefit)		
Loss on inventory valuation and obsolescence	(44,757)	(8,118)
Investment income under equity method for foreign investment, net	(7,950)	13,919
Increase in unrealized foreign currency exchange loss, net	(10,667)	(4,800)
Increase in valuation allowance	72,249	6,231
Allowance for doubtful accounts	(46,643)	1,747
Others	<u>1,746</u>	<u>(5,688)</u>
	<u>(36,022)</u>	<u>3,291</u>
Total income tax expense	\$ <u>103,439</u>	<u>163,506</u>

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TOPCO SCIENTIFIC CO., LTD.

Notes to Financial Statements

- (b) The income tax computed at the statutory rate of 25% was reconciled with the actual income tax expense for the years ended December 31, 2008 and 2007, as follows:

	2008	2007
Income tax calculated on pre-tax financial income	\$ 102,794	194,500
10% surtax on unappropriated earnings	7,009	1,530
Loss (gain) on disposal of securities exempt from tax	(53,662)	368
Domestic investment income, net	(17,750)	(25,290)
Investment tax credits	(486)	(14,884)
Prior year's tax assessment difference adjustment	(7,925)	(1,200)
Increase in valuation allowance	72,249	6,231
Impairment loss on financial assets	7,500	6,875
Other	(6,290)	(4,624)
Income tax expense	<u>\$ 103,439</u>	<u>163,506</u>

- (c) The components of deferred income tax assets (liabilities) as of December 31, 2008 and 2007, were as follows:

	December 31, 2008	December 31, 2007
Deferred income tax assets:		
Loss on inventory valuation and obsolescence	\$ 61,125	16,368
Unrealized gross profit	13,718	18,290
Allowance for doubtful accounts	77,481	30,838
Unrealized pension expense	11,269	8,567
Unrealized foreign currency exchange loss	17,005	6,338
Others	13,232	7,643
	<u>193,830</u>	<u>88,044</u>
Less: valuation allowance	(81,394)	(9,145)
Net deferred income tax assets	<u>112,436</u>	<u>78,899</u>
Deferred income tax liabilities:		
Foreign currency translation adjustments	(9,487)	(4,528)
Investment gain on foreign equity investment	(3,055)	(11,005)
Reserve for loss on outward investment	(5,587)	-
Others	-	(122)
	<u>(18,129)</u>	<u>(15,655)</u>
Net deferred income tax assets	<u>94,307</u>	<u>63,244</u>
Net deferred income tax assets – current	55,604	48,788
Net deferred income tax assets – non-current	38,703	14,456
Net deferred income tax assets	<u>\$ 94,307</u>	<u>63,244</u>

- (d) The ROC tax authorities have examined the Company's income tax returns through 2006.

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TOPCO SCIENTIFIC CO., LTD.

Notes to Financial Statements

(e) Imputation credit account and creditable ratio

	December 31, 2008	December 31, 2007
Unappropriated earnings retained prior to January 1, 1998	\$ 10,333	10,333
Unappropriated earnings retained after January 1, 1998	<u>377,867</u>	<u>614,534</u>
Total	<u>\$ 388,200</u>	<u>624,867</u>
ICA balance	<u>\$ 142,682</u>	<u>129,822</u>
	2008	2007
Creditable ratio for earnings distribution	<u>36.08%</u> (expected)	<u>33.33%</u> (actual)

(16) Net Income per Share

Net income per share for the years ended December 31, 2008 and 2007, was computed as follows. All net income per share amounts are expressed in dollars.

	2008		2007	
	<u>Before income tax</u>	<u>After income tax</u>	<u>Before income tax</u>	<u>After income tax</u>
Basic net income per share:				
Net income	\$ <u>411,217</u>	<u>307,778</u>	<u>778,040</u>	<u>614,534</u>
Weighted-average number of shares outstanding, before retroactive adjustments (thousands)	<u>140,139</u>	<u>140,139</u>	<u>133,630</u>	<u>133,630</u>
Net income per share before retroactive adjustments	\$ <u>2.93</u>	<u>2.20</u>	<u>5.82</u>	<u>4.60</u>
Weighted-average number of shares outstanding, after retroactive adjustments (thousands)			<u>140,139</u>	<u>140,139</u>
Net income per share after retroactive adjustments			\$ <u>5.55</u>	<u>4.39</u>
Diluted net income per share:				
Weighted-average number of shares outstanding, before retroactive adjustments (thousands)	140,139	140,139	133,630	133,630
Effects of dilutive potential common stock:				
Employee stock options	-	-	47	47
Employee bonuses	<u>485</u>	<u>485</u>	-	-
Weighted-average number of shares outstanding, before retroactive adjustments (thousands)	<u>140,624</u>	<u>140,624</u>	<u>133,677</u>	<u>133,677</u>
Net income per share before retroactive adjustments	\$ <u>2.92</u>	<u>2.19</u>	<u>5.82</u>	<u>4.60</u>

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TOPCO SCIENTIFIC CO., LTD.

Notes to Financial Statements

	2008		2007	
	<u>Before income tax</u>	<u>After income tax</u>	<u>Before income tax</u>	<u>After income tax</u>
Effects of dilutive potential common stock:				
Weighted-average number of shares outstanding, after retroactive adjustments (thousands)			140,139	140,139
Effects of dilutive potential common stock:				
Employee stock options			<u>47</u>	<u>47</u>
Weighted-average number of shares outstanding, after retroactive adjustments (thousands)			<u>140,186</u>	<u>140,186</u>
Diluted net income per share after retroactive adjustments			\$ <u>5.55</u>	<u>4.38</u>

The employee stock options issued by the Company were potential common shares on December 31, 2007. The employee stock options had no dilution effect for the year ended December 31, 2008. Therefore, when the Company calculated the effects of dilutive potential common stock for 2008, the employee stock options were not considered.

(17) Related Information about Financial Instruments**(a) Fair value of financial instruments**

As of December 31, 2008 and 2007, the details of fair value of financial assets and financial liabilities were as follows:

	<u>December 31, 2008</u>		<u>December 31, 2007</u>	
	<u>Book Value</u>	<u>Fair Value</u>	<u>Book Value</u>	<u>Fair Value</u>
Financial assets:				
Financial assets at fair value through profit or loss – current	\$ -	-	2,136	2,136
Forward foreign currency exchange contracts	404	404	490	490
Financial assets carried at cost – non-current	314,812	-	440,562	-
Long-term accounts receivable	-	-	143,351	143,351

(b) The following methods and assumptions were used in estimating fair values:

1. The book value of short-term financial instruments is considered to be the fair value due to the short-term nature of these instruments, and the book value method is considered to be a reasonable basis to assess the fair value. Such method is applicable to cash and cash in bank, notes and accounts receivable/payable, other current financial assets (except derivative financial instruments), short-term loans, and accrued expenses and other current liabilities.

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TOPCO SCIENTIFIC CO., LTD.

Notes to Financial Statements

2. If public quoting of financial assets and liabilities is available, then the quoted price will be the fair value.
 3. None of the Company's financial assets carried at cost are publicly listed. No publicly quoted prices are available for these investments.
 4. The fair value of the long-term accounts receivable was based on the credit rating of the debtor, the payment of principal, and the currency.
- (c) The fair value of financial assets and financial liabilities evaluated by the Company under public quoting or an assessment method was as follows:

	<u>December 31, 2008</u>		<u>December 31, 2007</u>	
	<u>Public quote value</u>	<u>Assessment value</u>	<u>Public quote value</u>	<u>Assessment value</u>
Financial assets:				
Financial assets at fair value through profit or loss – current	\$ -	-	2,136	-
Forward foreign currency exchange contracts	-	404	-	490

The net gain or loss resulting from an assessment method were a gain of \$3,328 and a loss of \$1,537 for the years ended December 31, 2008 and 2007, respectively.

(d) Information about financial risk

1. Market risk

The purpose of the derivative financial instruments is to hedge. Therefore, the gains or losses resulting from changes in exchange rates will be offset by those from the hedged item. Management believes that the related market risk is not significant.

2. Credit risk

- (i) The amount of the credit risk is a potential loss of the Company if the counterpart involved in that transaction defaults. Since the Company's derivative financial instrument agreements are entered into with financial institutions with good credit ratings, management does not believe that there is significant credit risk from these transactions.

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TOPCO SCIENTIFIC CO., LTD.

Notes to Financial Statements

(ii) The primary potential credit risk is from financial instruments like cash, cash in bank, and accounts receivable. The Company deposits cash in different financial institutions. The Company manages credit risk exposure related to each financial institution and believes that there is no significant credit risk of cash. The aggregation of sales to the Company's major customers exceeding 10% of the Company total sales accounted for 30% and 47% of the total net sales for the years ended December 31, 2008 and 2007, respectively. In order to reduce credit risk, the Company assesses the financial status of the customers and the possibility of collection of receivables in order to estimate an adequate allowance for doubtful accounts on a regular basis. The customers have a good credit and profit record. The Company has never been exposed to significant credit risk.

3. Liquidity risk

The Company will have cash inflows and outflows within the periods shown below. There are no significant financing risks due to expected sufficient capital. Management believes that the cash flow risk is not significant because the contracted foreign currency exchange rates are fixed.

December 31, 2008			
<u>Financial instruments</u>	<u>Date</u>	<u>Cash outflow</u>	<u>Cash inflow</u>
Forward foreign currency exchange contracts sold – (USD/JPY)	January 21~ March 31, 2009	USD 5,500,000	JPY 496,590,000
Forward foreign currency exchange contracts bought – (USD/NTD)	February 9~ March 30, 2009	NTD32,782,000	USD 1,000,000
Forward foreign currency exchange contracts bought – (JPY/NTD)	January 20, 2009	NTD18,150,000	JPY 50,000,000
December 31, 2007			
<u>Financial instruments</u>	<u>Date</u>	<u>Cash outflow</u>	<u>Cash inflow</u>
Forward foreign currency exchange contracts sold – (USD/JPY)	January 18, 2008	USD 250,000	JPY 28,500,000
Forward foreign currency exchange contracts sold – (JPY/NTD)	January 18, 2008	NTD24,302,000	JPY 85,000,000

The Company is exposed to a higher liquidity risk since a portion of equity investments, recorded as financial assets carried at cost – non-current, have no active market.

4. Cash flow risk arising from variation in interest rates

The Company's short-term loans are floating-rate debts. Changes in market interest rates cause changes in the effective interest rates of short-term loans and variations in future cash flows. Based on the short-term loans balance as of December 31, 2008, for every 1% increase in market interest rates, the cash outflows of the Company would increase by \$9,698.

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TOPCO SCIENTIFIC CO., LTD.

Notes to Financial Statements

(18) Related-party Transactions

(a) Name of the related parties and relationship

Related Party	Relationship with the Company
Topco Quartz	Investee company accounted for under the equity method
Fortune Energy	"
Shin-Etsu	The Company's chairman is a director
Shin-Etsu Opto Electronic Co., Ltd. (Shin-Etsu Opto)	The Company's chairman is a director
Taiwan E&M	Subsidiary of the Company
Topco International	"
Topco Investment	"
Topco Group	"
Chien Yueh	"
Cai Yan International Co., Ltd.	Subsidiary of Topco International
Topco Scientific Co., Ltd. (Japan) (Topco Japan)	"
Kuan Yueh Technology Engineering Co., Ltd. (Kuan Yueh)	"
Jia Yi Energy Co., Ltd. (Jia Yi)	"
Asia IC Mic-process, Inc. (Asia IC)	Investee company of Topco International accounted for under the equity method
Asia Topco Investment Ltd.	Subsidiary of Topco Group
Topscience (s) Pte. Ltd. (Topscience (s))	"
Topco Ningbo	Subsidiary of Asia Topco Investment Ltd.
Topco Shanghai	"
Topco Suzhou	"
Vtera	Related party in essence
Khg Technology Co., Ltd. (Khg)	"
The board of directors, supervisors, chief executive officer, and executive vice president	The Company's main management

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TOPCO SCIENTIFIC CO., LTD.

Notes to Financial Statements

(b) Summary of significant transactions with related parties

1. Sales

(i) Sales to related parties for the years ended December 31, 2008 and 2007, were as follows:

	<u>2008</u>		<u>2007</u>	
	<u>Amount</u>	<u>% of net sales</u>	<u>Amount</u>	<u>% of net sales</u>
Vtera	\$ 437,987	3	331,826	2
Topco Shanghai	55,427	-	107,056	1
Shin-Etsu	51,908	-	73,966	1
Topco Ningbo	-	-	35,861	-
Taiwan E&M	11,685	-	6,222	-
Others	393	-	6,029	-
	<u>\$ 557,400</u>	<u>3</u>	<u>560,960</u>	<u>4</u>

Selling prices for related parties were similar to those for other customers. The terms of collection for related parties were within 60 to 90 days after monthly closing, and within 30 to 90 days after monthly for third parties.

(ii) Service revenue – commission and other

	<u>2008</u>		<u>2007</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Shin-Etsu	\$ 225,383	2	317,863	2
Topco Quartz	52,529	-	57,300	1
Others	3,256	-	4,531	-
	<u>\$ 281,168</u>	<u>2</u>	<u>379,694</u>	<u>3</u>

The prices and collection terms in the contracts were similar to those for other customers.

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TOPCO SCIENTIFIC CO., LTD.

Notes to Financial Statements

(iii) Construction revenue

The Company signed a construction contract with Topco Quartz to build its new factory, and the price and collection terms were negotiated by the two parties. For the year ended December 31, 2007, the Company recognized construction revenue amounting to \$340,000. The construction was finished in 2007, and the construction profit was \$37,983. In accordance with accounting principles, the Company deferred the related profit of \$15,129 calculated on the basis of the percentage of ownership and is recognizing the deferred profit over a certain period. The profit recognized amounted to \$3,026 and \$0 for the years ended December 31, 2008 and 2007, respectively. As of December 31, 2008 and 2007, the deferred profit recorded as deferred credits and others amounted to \$12,103 and \$15,129, respectively.

2. Purchases

Purchases from related parties for the years ended December 31, 2008 and 2007, were as follows:

	2008		2007	
	Amount	% of net purchases	Amount	% of net purchases
Shin-Etsu	\$ 1,703,321	16	3,757,130	33
Khg	583,858	6	-	-
Topco Quartz	328,972	3	351,016	3
Shin-Etsu Opto	39,803	-	108,871	1
Topscience (s)	85,308	1	52,224	1
Taiwna E&M	164	-	51,407	-
Asia IC	15	-	60,118	1
Others	2,376	-	2,149	-
	\$ 2,743,817	26	4,382,915	39

Purchase prices from related parties were similar to those from third-party suppliers. The payment periods were within 45 to 60 days after monthly closing for related parties, and within 30 to 60 days after monthly closing for third parties.

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TOPCO SCIENTIFIC CO., LTD.

Notes to Financial Statements

4. Loss on inventory contract

The Company signed an inventory indemnification contract with Topco Quartz on July 1, 2002, to cover any excess customized inventory ordered. In 2008 and 2007, the estimated loss on claims under the inventory contract was \$1,360 and \$1,150, respectively, recorded as non-operating losses. As of December 31, 2008 and 2007, the claims payable were \$1,360 and \$1,150, respectively, recorded under accrued expenses and other current liabilities.

5. Stock transaction

In 2007, the Company bought 6,000 thousand shares of Neo Solar from Topco International for \$150,000, and recorded it as financial assets carried at cost. The Company sold part of its shares to Topco International based on the market price amounting to \$148,428. As of December 31, 2008, the receivable had been fully collected. In accordance with accounting principles, the Company deferred the gain on sale of financial assets amounting to \$114,253. Topco International had sold part of its shares; therefore, the unrealized gain as of December 31, 2008, was \$96,956, recorded as deferred credits and others.

In 2007, the Company sold a portion of equity investment in Ultra and Cyber Key recorded as financial assets carried at cost to Topco International at the book value of \$6,538. All of the receivables had been collected.

6. Guarantees

	December 31, 2008	December 31, 2007	Subject
Fortune Energy	\$ 426,800	502,500	Guarantees for secured loans
Topco Ningbo	163,383	162,150	"(note 2)
Topco Shanghai	139,400	137,827	"(note 1)
Topco Suzhou	139,400	72,968	"(note 1)
Taiwan E&M	30,000	-	"
Topco Japan	-	17,382	"
Topco Shanghai	-	22,198	Guarantees for a selling agent
	<u>\$ 898,983</u>	<u>915,025</u>	

Note 1: As of December 31, 2008 and 2007, Topco Shanghai and Topco Suzhou jointly shared credit lines of loans and trading of financial instruments of \$147,600 and \$145,935, respectively.

Note 2: As of December 31, 2008, the Company had provided time deposits of \$163,672 for the guarantee of Topco Ningbo's bank loans and credit lines.

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TOPCO SCIENTIFIC CO., LTD.

Notes to Financial Statements

(c) Salaries and remuneration of main management

The Company paid salaries and remuneration to the directors, supervisors, chief executive officer, and executive vice president in 2008 and 2007 as follows:

	2008	2007
Salaries	\$ 41,605	41,064
Incentives	17,763	17,520
Special compensation	67	-
Employee bonus	7,329	38,648

Note: The directors' and supervisors' remuneration and employee bonus for 2008 were an estimate as stated in note 13.

(19) Pledged Assets

The book value of assets pledged as collateral as of December 31, 2008 and 2007, is summarized as follows:

Assets	Subject	December 31, 2008	December 31, 2007
Other current financial assets – time deposits	Lawsuit deposits	\$ 70,000	68,000
Other current financial assets – time deposits	Guarantees for Topco Ningbo's bank loans and credit lines	<u>163,672</u>	<u>-</u>
		\$ <u><u>233,672</u></u>	<u><u>68,000</u></u>

(20) Commitments and Contingencies

As of December 31, 2008, the details of commitments and contingencies other than guarantees for related parties mentioned in note 18 and the contract dispute mentioned in note 21 were as follows:

- (a) The Company had outstanding notes payable for guarantees under various construction contracts amounting to \$2,723.
- (b) The Company had unused and outstanding letters of credit of approximately \$226,666.
- (c) The Company had outstanding commitments for construction contracts amounting to \$749,258, net of the payment made and accrued payment.

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TOPCO SCIENTIFIC CO., LTD.

Notes to Financial Statements

- (d) The Company had entered into line of credit agreements with several banks to guarantee payments under various construction contracts. As of December 31, 2008, the total amount was \$97,573.

(21) Others

- (a) Employee expenses, depreciation expenses, and amortization expenses for the years ended December 31, 2008 and 2007, were as follows:

	Cost of sales	2008 Operating expenses	Total	Cost of sales	2007 Operating expenses	Total
Employee expenses						
Salaries and wages	41,726	307,732	349,458	46,112	359,394	405,506
Labor and health insurance	-	21,682	21,682	-	20,070	20,070
Pension expense	127	22,439	22,566	-	21,359	21,359
Other	-	23,277	23,277	-	23,314	23,314
Depreciation expenses	5,549	15,028	20,577	-	17,843	17,843
Amortization expenses	-	8,134	8,134	-	7,949	7,949

Note: Depreciation expenses excluded the depreciation of rental assets amounting to \$739 in both 2008 and 2007, recorded as a reduction of rental income.

(b) Dispute on contract performance

- In November 2005, the Company entered into a "Turnkey Engineering Procurement and Construction Contract" (the Construction Contract) amounting to US\$14,000,000 and an "Agreement for Purchase and Installation of Equipment" (the Equipment Contract) amounting to US\$27,000,000 with a certain customer (the Customer). The Company performed its obligations based on the contracts and the Customer's purchase orders, and recorded the related revenue and cost starting from December 2005. However, due to different understandings of the contract details, the contract was suspended. On December 21, 2006, the Customer's attorney informed the Company that the Company had not performed certain terms of the construction contracts and ended the contracts as well as cancelling the related purchase orders. In January and March 2007, the Customer also filed an attachment of the Company's property amounting to US\$1,800,000 and US\$135,000, respectively, with the Taiwan Shihlin District Court. In April 2007, the Company submitted pledged deposits of US\$1,800,000 and US\$135,000 as counter-security to the Court for lifting the attachment.

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2. The Company's attorney issued an opinion on February 13, 2008, stating that the above contracts are based on Hong Kong laws and the analysis is solely based on the terms of the contracts. According to the attorney's analysis, the Company had the right to suspend the contract since the Customer did not perform related matters under the contracts and is unable to identify any contract violations by the Company. In addition, based on the attorney's analysis, the attribution of the Customer's payments under the Construction Contract and the Equipment Contract (recorded as advance collection) amounting to \$197,057 are explained as follows:

(i) The Construction Contract

Even on the assumption that the Company or the Customer has violated the contract, the Company will still be able to retain the amount the Customer had already paid under the contract except if the courts issue an unfavorable final judgment.

(ii) The Equipment Contract

The Company can keep the payment from the Customer as compensation if the Company proves that the actual loss is higher than the amount received after the Equipment Contract is ended, unless the related laws of Hong Kong specify differently.

3. Concerning the aforementioned contractual dispute, the Customer filed an application for arbitration against the Company with the International Chamber of Commerce (ICC) on February 8, 2008, in accordance with the arbitration provisions under the relevant contracts. The Customer alleged that the Company is obligated to return the amount paid and claimed compensation for the business loss. A three-arbitrator team has been formed. Both parties have submitted answers and witness testimony to arbitrators and to each other. The arbitration court held a hearing from March 2 to 11, 2009, at the ICC. According to the legal opinion issued on February 25, 2009 by the Hong Kong attorney designated by the Company, it is premature to predict the outcome of arbitration and the amount involved because the procedure of arbitration is yet to finish. The Company estimates that there is no probable future material loss arising from the aforementioned arbitration.

(c) Reserve for loss on outward investment

The Company has provided for a loss reserve on outward investment, in accordance with the "Statute for Upgrading Industries". The amount was computed at 20% of the total amount of outward investment, which is the limit stipulated by the "Statute for Upgrading Industries". The statute also stipulates that if there are no actual losses in the five years after the initial provision for the reserve, the loss reserve should be reversed and recognized as revenue in the fifth year. However, as such reserve is not in accordance with generally accepted accounting principles, the loss reserve is reversed during the preparation of the financial statements, but the Company does not adjust the books. Accordingly, the net income and the retained earnings on the Company's books were decreased by the following amounts:

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	2008	2007
Net income	\$ 22,347	-
Retained earnings	22,347	-

(d) Other

On April 8, 2008, the procurator unit and Bureau of Investigation investigated the restatement of the Company's financial statements because the Company's officials in charge of the sale contracts had provided inconsistent accounting records for the transactions mentioned in (b), and the revenues and costs were improperly recognized in 2005 and 2006. The Company provided related documents and explanations for investigation. The investigation is currently in progress. Based on the prudence principle and the principle of financial transparency, the Company actively restated the first-, second-, and third-quarter financial statements for 2006. The Company believes that the restatement of financial statement mentioned above has no effect on the subsequent financial statements. The investigation mentioned above has no material effect on the Company's operations as well.

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Notes to Financial Statements

(22) Segment Information

(a) Industrial information

2008

	<u>Advanced Material Division</u>	<u>Semiconductor Division</u>	<u>Environmental Engineering Division</u>	<u>Electronics Division</u>	<u>Wafer Materials Division</u>	<u>Other Divisions</u>	<u>Total</u>
Division revenue	\$ <u>2,643,263</u>	<u>2,471,138</u>	<u>1,166,648</u>	<u>1,142,701</u>	<u>4,825,510</u>	<u>841,989</u>	<u>13,091,249</u>
Division income (loss)	\$ <u>198,134</u>	<u>306,524</u>	<u>(4,957)</u>	<u>81,076</u>	<u>274,559</u>	<u>(379,422)</u>	475,914
Investment income							39,193
Interest expense							(17,521)
Expenses (including non-operating), net							<u>(86,369)</u>
Income before taxes							
Identifiable assets	\$ <u>470,079</u>	<u>1,158,236</u>	<u>974,368</u>	<u>431,936</u>	<u>240,592</u>	<u>249,854</u>	\$ <u>411,217</u>
Long-term investments							3,525,065
General assets							1,452,210
Total assets							<u>1,484,840</u>
Depreciation expense							\$ <u>6,462,115</u>
Capital expenditure							\$ <u>20,577</u>
							\$ <u>1,994</u>

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	2007						
	Advanced Material Division	Semiconductor Division	Environmental Engineering Division	Electronics Division	Wafer Materials Division	Other Divisions	Total
Division revenue	\$ <u>2,415,689</u>	<u>655,965</u>	<u>1,266,555</u>	<u>1,068,018</u>	<u>4,209,007</u>	<u>3,753,522</u>	<u>13,368,756</u>
Division income	\$ <u>142,691</u>	<u>109,177</u>	<u>32,693</u>	<u>103,328</u>	<u>267,235</u>	<u>69,943</u>	725,067
Investment income							156,833
Interest expense							(32,024)
Expenses (including non-operating), net							(71,836)
Income before taxes							
Identifiable assets	\$ <u>734,218</u>	<u>1,293,286</u>	<u>683,049</u>	<u>566,058</u>	<u>1,093,294</u>	<u>549,139</u>	\$ <u>778,040</u>
Long-term investments							4,919,044
General assets							1,250,555
Total assets							<u>1,189,034</u>
Depreciation expense							\$ <u>7,358,633</u>
Capital expenditure							\$ <u>17,843</u>
							\$ <u>13,612</u>

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(b) Geographic information

The Company has no foreign operating segment; thus, no geographic information is provided.

(c) Export sales

Export sales to geographic areas constituting over 10% of the total revenue in 2008 and 2007 were as follows:

	<u>2008</u>		<u>2007</u>	
	<u>Amount</u>	<u>% of net sales</u>	<u>Amount</u>	<u>% of net sales</u>
Asia	\$ <u>2,716,893</u>	<u>21</u>	<u>1,456,455</u>	<u>11</u>

(d) Major customers

Sales to individual customers clients constituting over 10% of the total revenue in 2008 and 2007 were as follows:

	<u>2008</u>		<u>2007</u>	
	<u>Amount</u>	<u>% of net sales</u>	<u>Amount</u>	<u>% of net sales</u>
A Company	\$ 1,676,770	13	1,716,562	13
B Company	<u>2,265,880</u>	<u>17</u>	<u>4,545,124</u>	<u>34</u>
	\$ <u>3,942,650</u>	<u>30</u>	<u>6,261,686</u>	<u>47</u>