OFFERING CIRCULAR

18,000,000 Global Depositary Shares
Representing 18,000,000 Common Shares

Motech Industries Inc.

(incorporated in Taiwan, the Republic of China)

We are offering 18,000,000 of our common shares in the form of global depositary shares, or GDSs. Each GDS represents the right to receive one common share.

Subject to certain restrictions described in this offering circular, you can withdraw interests in the underlying common shares represented by the GDSs from the fifth business day in the Republic of China following the closing date of this offering.

Our common shares are listed on the GreTai Securities Market. On May 3, 2007, the closing price of our common shares on the GreTai Securities Market was NT$399.00 per share. We have applied to list the GDSs offered on the Official List of the Luxembourg Stock Exchange and to trade the GDSs on the Euro MTF Market of the Luxembourg Stock Exchange. We expect the GDSs offered in reliance on Rule 144A to be eligible for trading in the PORTAL Market, and the GDSs offered in reliance on Regulation S to be eligible for trading on the International Order Book of the London Stock Exchange. Prior to this offering, there has been no market anywhere for the GDSs.

Investing in the GDSs involves risks. See "Risk Factors" beginning on page 12.

GDS Offer Price: US$11.71 per GDS

The selling shareholders disclosed in this offering circular have granted the initial purchasers a 30-day option to purchase up to 700,000 additional GDSs at the initial offering price less the discount to initial purchasers.

The GDSs and the underlying common shares have not been and will not be registered under the Securities Act of 1933, as amended (the "Securities Act") and, subject to certain exceptions, may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons, except to qualified institutional buyers in reliance on the exemption from registration provided under Rule 144A under the Securities Act and to certain persons in offshore transactions in reliance on Regulation S under the Securities Act. The GDSs are not being offered in Taiwan. See "Transfer Restrictions" and "Plan of Distribution."

Delivery of the GDSs is expected to be made in book-entry form through the facilities of DTC, Euroclear and Clearstream on or about May 9, 2007.

Joint Bookrunners

Credit Suisse **Morgan Stanley**

May 4, 2007

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You should rely only on the information contained in this offering circular. Neither we, nor the initial purchasers, have authorized anyone to provide you with different information. Neither we, nor the initial purchasers, are making an offer of these securities in any state or jurisdiction where the offer is not permitted. This offering circular does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the securities to which it relates or an offer to sell or the solicitation of an offer to buy such securities by any person in any circumstances in which such offer or solicitation is unlawful. You should not assume that the information contained in this offering circular is accurate as of any date other than the date of this offering circular. Our business, financial condition, results of operations and prospects may have changed since that date.

NO UNITED STATES FEDERAL, STATE OR FOREIGN SECURITIES COMMISSION OR REGULATORY AUTHORITY HAS RECOMMENDED THE GDSS OR REVIEWED, PASSED ON, DETERMINED OR CONFIRMED THE ACCURACY OR ADEQUACY OF THIS OFFERING CIRCULAR. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

We accept responsibility for the information contained in this offering circular. We, having made all reasonable enquiries, confirm that this offering circular contains all information with respect to us, our subsidiaries, the GDSs and our shares that is material in the context of the issue and offering of the GDSs, that the information contained in this offering circular is true and accurate in all material respects and is not misleading, that the opinions and intentions expressed are honestly held and have been reached after considering all relevant circumstances and are based on reasonable assumptions, that there are no other facts, the omission of which would, in the context of the issue and offering of the GDSs, make this offering circular as a whole or any of such information or the expression of any such opinions or intentions misleading in any material respects and that all reasonable enquiries have been made by us to verify the accuracy of such information and that this offering circular does not contain an untrue statement of a material fact or omit to state a material fact required to be stated or necessary in order to make the statements, in the light of the circumstances under which they are made, not misleading. We accept responsibility for and confirm that the information contained in each of the sections entitled "Appendix A: The Securities Markets of the ROC" and "Appendix B: Foreign Investment and Exchange Controls in the ROC" has been accurately extracted from the GTSM Monthly Review and the laws and regulations of the ROC. However, such information has not been verified by us, the initial purchasers or any of our or the initial purchasers' respective affiliates or advisors in connection with this Offering.

The distribution of this offering circular and the offering and sale of the GDSs and the shares represented thereby in certain jurisdictions may be restricted by law. Persons into whose possession this offering circular comes are required by us and the initial purchasers to inform themselves about and to observe any such restrictions. For a description of certain further restrictions on the offering and sale of the GDSs and the shares represented thereby and distribution of this offering circular, see "Plan of Distribution" and "Transfer Restrictions." This offering circular does not constitute an offer of, or an invitation by or on behalf of us or the initial purchasers to subscribe for or purchase any of the GDSs and the shares represented thereby in any jurisdiction in which such offer or invitation would be unlawful. This offering circular may be used only for the purposes for which it has been published.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This offering circular contains forward-looking statements that relate to our current expectations and views of future events. The forward-looking statements are contained principally in the sections entitled "Offering Circular Summary," "Risk Factors," "Use of Proceeds," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business." These statements relate to events that involve known and unknown risks, uncertainties and other factors, including those listed under "Risk Factors," which may cause our actual results, performance or achievements to be materially different from any future results, performances or achievements expressed or implied by the forward-looking statements.

In some cases, these forward-looking statements can be identified by words or phrases such as "aim," "anticipate," "believe," "continue," "estimate," "expect," "intend," "is/are likely to," "may," "plan," "potential," "will" or other similar expressions. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. These forward-looking statements include, among other things, statements relating to:

- our expectations regarding the worldwide demand for electricity and the market for solar energy;
- our beliefs regarding the effects of environmental regulation, lack of infrastructure reliability and long-term fossil fuel supply constraints;
- our beliefs regarding the inability of traditional fossil fuel-based generation technologies to meet the demand for electricity;
- our beliefs regarding the importance of environmentally friendly power generation;

- our expectations regarding governmental support for the deployment of solar energy;
- our beliefs regarding the acceleration of adoption of PV technologies;
- our expectations with respect to advancements in our technologies;
- our beliefs regarding the competitiveness of our PV products;
- our expectations regarding the scalability of our manufacturing capacity and our vertical integration;
- our expectations with respect to increased revenue growth;
- our expectations with respect to our ability to secure raw materials, especially silicon raw materials, in the future;
- our future business development, results of operations and financial condition; and
- competition from other manufacturers of PV products and conventional energy suppliers.

This offering circular also contains data related to the PV market worldwide. This market data, including market data from Solarbuzz and Photon Consulting, an independent solar energy research firm, include projections that are based on a number of assumptions. The PV market may not grow at the rates projected by the market data, or at all. The failure of the market to grow at the projected rates may have a material adverse effect on our business and the market price of our GDSs. In addition, the rapidly changing nature of the PV market subjects any projections or estimates relating to the growth prospects or future condition of our market to significant uncertainties. If any one or more of the assumptions underlying the market data turns out to be incorrect, actual results may differ from the projections based on these assumptions. You should not place undue reliance on these forward-looking statements.

The forward-looking statements made in this offering circular relate only to events or information as of the date on which the statements are made in this offering circular. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, after the date on which the statements are made or to reflect the occurrence of unanticipated events. You should read this offering circular completely and with the understanding that our actual future results may be materially different from what we expect.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER, OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

AVAILABLE INFORMATION

If, at any time, we are neither subject to Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, (the "Exchange Act") nor exempt from reporting pursuant to Rule 12g3-2(b) of the Exchange Act, we will furnish, upon request, to any person in whose name a GDR is registered on the books of the Depositary, any holder of any beneficial interest in any GDR or any prospective purchaser designated by a holder, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act. Alternatively, a holder may obtain such information at the offices of our Luxembourg intermediary, The Bank of New York (Luxembourg) S.A., as such information will be provided free of charge to any person in Luxembourg who requests it.

ENFORCEABILITY OF FOREIGN JUDGMENTS IN THE ROC

We are a company limited by shares and incorporated under ROC Company Law. Most of our directors, executive officers and supervisors and certain of the experts named in this offering circular are residents of the ROC and substantially all of our assets and such persons are located in the ROC. As a result, it may be difficult for investors to enforce judgments obtained outside the ROC against us or such persons in the ROC, including those predicated upon the civil liability provisions of the federal securities laws of the United States. Any final judgment obtained against us in any court other than the courts of the ROC in respect of any legal suit or proceeding arising out of or relating to our shares or GDSs will be recognized by the courts of the ROC without further review of the merits only if the court of the ROC in which enforcement is sought is satisfied that:

- the court rendering the judgment had jurisdiction over the subject matter according to the laws of the ROC;
- the judgment and the court procedure resulting in the judgment were not contrary to the public order or good morals of the ROC;
- if the judgment was rendered by default by the court rendering the judgment, (i) process was duly served on us or such persons within a reasonable period of time within the jurisdiction of such court in accordance with the laws and regulations of such jurisdiction or (ii) process was served on us or such persons with judicial assistance of the ROC; and
- judgments of the courts of the ROC would be recognized in the jurisdiction of the court rendering the judgment on a reciprocal basis.

A party seeking to enforce a foreign judgment in the ROC would, except under limited circumstances, be required to obtain foreign exchange approval from the Central Bank of China (“CBC”) for the remittance out of the ROC of any amounts recovered in respect of such judgment denominated in a currency other than NT dollars.

CERTAIN CONVENTIONS AND OTHER DATA

Unless otherwise indicated, references in this offering circular to:

- “$”, “US$” and “US dollars” are to the legal currency of the United States;
- “capacity” of a particular production line or factory are to its year-end annual installed production capacity, unless otherwise stated;
- “China” and the “PRC” are to the People’s Republic of China, excluding, for the purpose of this offering circular, the island of Taiwan and other areas under the effective control of the Republic of China, and the special administrative regions of Hong Kong and Macau;
- “conversion efficiency” are to the ability of photovoltaic, or PV, products to convert sunlight into electricity, and “conversion efficiency rates” are commonly used in the PV industry to measure the percentage of light energy from the sun that is actually converted into electricity;
- “cost per watt” and “price per watt” are to the method by which the cost and price of PV products, respectively, are commonly measured in the PV industry. A PV product is priced based on the number of watts of electricity it can generate;

- "GDRs" are to the Global depositary receipts that evidence our GDSs;
- "GDSs" are to our Global depositary shares, each of which represents one common share;
- "GW" are to gigawatt, representing 1,000,000,000 watts, a unit of power-generating capacity or consumption;
- "maximum power" are to the highest amount of power generated, given the range of conversion efficiencies and the size of the PV cell;
- "MW" are to megawatt, representing 1,000,000 watts, a unit of power-generating capacity or consumption;
- "NT$" and "NT dollars" are to New Taiwan dollars, the lawful currency of the ROC;
- "off-grid system" are to a PV system that operates on a stand-alone basis to provide electricity independent of an electricity transmission grid;
- "on-grid system" are to a PV system that is connected to an electricity transmission grid and feeds electricity into the electricity transmission grid;
- "PV" are to photovoltaic; the photovoltaic effect is a process by which sunlight is converted into electricity;
- "PV cell" are to a device made from a silicon wafer that converts sunlight into electricity through a process known as the photovoltaic effect;
- "PV module" are to an assembly of PV cells that have been electrically interconnected and laminated in a durable and weather-proof package;
- "PV system" are to a package of one or more PV modules that are physically mounted and electrically interconnected, with system components such as batteries and power electronics, to produce and reserve electricity;
- "RMB" and "Renminbi" are to the legal currency of China;
- "ROC" and "Taiwan" are to the island of Taiwan and other areas under the effective control of the Republic of China;
- "shares" or "common shares" are to our common shares, par value NT$10 per share;
- "thin film technology" are to the PV technology that involves depositing several thin layers of silicon or more complex materials on a substrate such as glass to make a PV cell;
- "tons" are to metric tons. One metric is equal to 1,000 kilograms;
- "turnkey production line" are to a production line manufactured and supplied by a equipment supplier which provides its customers with all equipment, supplies and training needed to establish a photovoltaic manufacturing line; and
- "wafer capacity" are to the lesser of our ingot, slicing and band saw capacity.

References in this offering circular to our annual manufacturing or production capacity assume 24 hours of operation per day for 360 days per year.

Unless the context indicates otherwise, “we,” “us,” “our company,” “our” and “Motech” refer to Motech Industries Inc., and, as the context may require, our subsidiaries.

Any discrepancies in any table between totals and sums of the amounts listed are due to rounding. We publish our financial statements in New Taiwan dollars, the lawful currency of the ROC. Unless otherwise noted, all translations from NT dollars to US dollars were made at the noon buying rate in The City of New York for cable transfers in NT dollars per US dollar as certified for customs purposes by the Federal Reserve Bank of New York, or the Noon Buying Rate, as of March 30, 2007 which was NT$33.01 = US$1.00 as of that date. All amounts translated into US dollars in this offering circular are provided solely for your convenience and no representation is made that the NT dollar or US dollar amounts referred to in this offering circular could have been or could be converted into US dollars or NT dollars, as the case may be, at any particular rate or at all. For further information relating to exchange rates, see “Exchange Rates.” On May 3, 2007, the Noon Buying Rate was NT$33.30 = US$1.00.

Market data and certain industry forecasts used throughout this offering circular were obtained from internal surveys, reports and studies, where appropriate, as well as market research, publicly available information and industry publications, including publicly available information from Financial Supervisory Commission of the ROC, the GreTai Securities Market and the Taiwan Securities Association. Industry publications generally state that the information they contain has been obtained from sources they believe to be reliable, but that the accuracy and completeness of such information is not guaranteed. Similarly, internal surveys, estimates and market research, while believed to be reliable, have not been independently verified, and we do not make any representation as to the accuracy of such information.

OFFERING CIRCULAR SUMMARY

This summary highlights information contained elsewhere in this offering circular. This summary may not contain all of the information that you should consider before deciding to invest in the GDSs. We urge you to read this entire offering circular carefully, including the "Risk Factors" section on page 12 and our financial statements and related notes thereto located elsewhere in this offering circular.

Overview

We are one of the world's top 10 manufacturers of photovoltaic, or PV, cells as measured by production capacity and output in 2006, according to Solarbuzz. We design, develop, manufacture and sell a variety of high quality monocrystalline and multicrystalline PV cells. Since we entered the PV market in 2000, we have focused on and developed an industry-leading manufacturing system featuring advanced process technologies that result in highly efficient, customized, automated production lines. We are an early adopter of innovative and unique process technologies that have enhanced our production efficiency and the quality of our products. We sell our PV cells to leading PV module manufacturers and integrated systems providers throughout the world.

The strong execution capabilities of our experienced management team and the efficiency of our manufacturing system have allowed us to rapidly expand our production capacity and output without compromising quality. Our total production output increased from 35 MW in 2004 to 102 MW in 2006, representing a compound annual growth rate ("CAGR") of 70.7%. Our total production output was 37 MW for the three months ended March 31, 2007. As of March 31, 2007, our total annual installed PV cell production capacity reached 240 MW. The customized production line in Fab 2 of our Tainan, Taiwan factory has an annual PV cell capacity of approximately 80 MW compared to 25 MW to 30 MW for a comparable turnkey production line. We expect to increase our annual installed PV cell production capacity to approximately 280 MW by the end of 2007 and to approximately 400 MW by the end of 2008. The conversion efficiency of our monocrystalline and multicrystalline PV cells reached 16.7% and 15.8%, respectively, as of March 31, 2007.

To accelerate our growth and maintain an optimal cost structure, we intend to vertically integrate by significantly increasing our existing wafer production capacity and expanding into the polysilicon feedstock market. As of the date of this offering circular, we have secured the supply of over 70% of the silicon raw materials necessary to support our anticipated PV cell production in 2007. We have also secured supplies from leading suppliers, including REC Scanwafer AS, ReneSola Ltd. and LDK Solar Hi-tech Co., Ltd., to support our anticipated 2007 and 2008 production. We also enter into OEM arrangements pursuant to which we secure wafers from our customers and provide PV cells to them. We intend to build a new wafer production facility in China. We expect our new China wafer facility and our existing Tainan wafer facility to have a total annual installed production capacity of approximately 100 MW by December 31, 2008, or approximately 25% of our anticipated total annual installed PV cell production capacity. In December 2006, we entered into a seven-year polysilicon supply contract with AE Polysilicon Corporation ("AE Polysilicon"), a New Jersey, United States-based company that will utilize cost-efficient close-loop fluidized-bed-reactor ("FBR") technology to produce polysilicon. AE Polysilicon is currently building a production facility in the United States that is expected to commence polysilicon production in late 2008. We expect AE Polysilicon to commence delivery of polysilicon to us beginning in early 2009, in amounts to be increased to 2,500 tons of polysilicon per year by the end of 2011.

We have achieved significant revenue and earnings growth since we began selling PV cells in 2000. Our consolidated net revenues increased from NT$2,467.1 million in 2004 to NT$8,203.4 million (US$248.5 million) in 2006, representing a CAGR of 82.4%, and our unconsolidated net revenues increased from NT$710.0 million for the three months ended March 31, 2006 to NT$3,308.3 million (US$100.2 million) for the three months ended March 31, 2007. Our consolidated net income increased from NT$559.6 million in 2004 to NT$2,257.9 million (US$68.4 million) in 2006, representing a CAGR of 100.9%, and our unconsolidated net income increased from NT$50.1 million for the three months ended March 31, 2006 to NT$766.6 million (US$23.2 million) for the three months ended March 31, 2007. Our customers include Aleo Solar AG ("Aleo"), Aplicaciones Técnicas de la Energía SL ("Atersa"), GE Energy, Scheuten Solar Germany GmbH ("Scheuten"), Siliken, SL ("Siliken") and Total Energie SA ("Tenesol").

We commenced operations in 1981 as a test and measurement company. We entered the PV market in 2000, and in 2002 sales from our PV products and services contributed to approximately 71.2% of our net revenues. In 2006, sales from our PV products and services accounted for over 97% of our net revenues. We continue to sell test and measurement products as well as PV systems.

Industry Background

According to Photon Consulting, an independent solar energy research firm, the global solar power market as measured by annual solar power production increased by 41.7% from 1.2 GW in 2004 to 1.7 GW in 2005. During the same period, solar power industry revenues grew from approximately US$8 billion in 2004 to US$12 billion in 2005. Photon Consulting projects that solar power industry revenues and solar power production will reach US$72 billion and 10.4 GW, respectively, by 2010. Solar power production is expected to grow at a CAGR of 43.7% from 2005 to 2010, driven largely by rising grid prices, government incentives and new distribution channels, according to Photon Consulting.

The PV cell market comprises over 100 manufacturers but is currently dominated by a small number of players. According to Solarbuzz, the top ten PV cell manufacturers accounted for 75% of the total PV cells produced worldwide in 2006.

We believe that rising energy demand, the increasing scarcity of traditional energy resources coupled with rising prices, the growing adoption of government incentives for solar energy and a growing awareness of the advantages of solar energy will continue to drive the growth of the solar industry.

Our Competitive Strengths

We believe that the following strengths enable us to compete effectively and to capitalize on opportunities in the rapidly growing solar power market:

- strong execution capability demonstrated by significant operational and financial achievements;
- industry-leading manufacturing system with efficient cost structure;
- extensive relationships with leading module manufacturers and systems integrators; and
- experienced and stable management team with proven track record.

Our Strategies

Our goal is to be the leading cost-efficient producer of high quality PV cells in the world. We also plan to lower solar electricity prices to levels approaching those of conventional energy sources. We intend to achieve these goals by pursuing the following strategies:

- expand our vertically integrated manufacturing capabilities;

- significantly increase our wafer production business;
- expand into upstream silicon feedstock market;
- enhance innovation and efficiency through increasing research and development; and
- broaden our geographical revenue base and enhance brand recognition.

Our Challenges

We believe that the following are some of the major risks and uncertainties that may materially affect our business, financial condition, results of operations and prospects:

- we may be unable to significantly increase our manufacturing capacity and our total output;
- we may be unable to obtain silicon raw materials in sufficient quantities or at acceptable prices;
- we may face intense competition from both conventional and alternative energy sources and technologies;
- we may be adversely affected by the reduction or elimination of government subsidies and economic incentives for on-grid energy applications;
- we may not succeed in significantly increasing our wafer production and penetrating the silicon feedstock market to implement our vertical integration strategy;
- we may not be able to further refine our technology and develop and introduce new products; and
- solar power technology may not be suitable for widespread adoption, or sufficient demand for solar power products may not develop or may take longer to develop than anticipated.

Corporate Information

We were incorporated in Taiwan in 1981 under the name Meter International Corporation. We changed our name to Motech Industries Inc. in 1998. We became a publicly traded company listed on the GreTai Securities Market ("GTSM") in May, 2003 with the trading code of 6244. Our principal executive and registered office is located at 6F, No. 248, Section 3, Pei-Shen Road, Sheng-Keng Hsiang, Taipei Hsien 222, Taiwan, Republic of China, and our telephone number at the above address is (886-2) 2662-5093. Taiwan International Securities Corporation acts as our share registrar and maintains the register of our shareholders at its offices in Taipei, Taiwan. Our uniform registry number is 20889546.

The Offering

The Company	Motech Industries Inc.
The Offering	18,000,000 GDSs representing 18,000,000 common shares to qualified institutional buyers in reliance on Rule 144A under the Securities Act and to non-U.S. persons in offshore transactions in reliance on Regulation S under the Securities Act.
Common Shares Outstanding Before The Offering	144,530,404 common shares*
Common Shares Outstanding Immediately After This Offering	162,530,404 common shares*
Over-allotment Option	Certain shareholders have granted the initial purchasers a 30-day option to purchase up to 700,000 additional GDSs at the initial offering price less the discount to initial purchasers.
The GDSs	Each GDS represents one common share. The GDSs will be issued pursuant to the deposit agreements. The GDSs issued in reliance on Rule 144A, or the Rule 144A GDSs, are issued pursuant to the Rule 144A Deposit Agreement and the GDSs issued in reliance on Regulation S, or the International GDSs, are issued pursuant to the International Deposit Agreement. We will deposit the common shares to be represented by GDSs with Citibank, N.A. (Taipei Branch), as custodian, under the deposit agreements, for Citibank, N.A., as the depositary, which in turn will deliver the GDSs. The Rule 144A GDSs will be evidenced by the Rule 144A Master GDR referred to below. The International GDSs will be evidenced by the International Master GDR referred to below. Except in the limited circumstances described in this offering circular, separate definitive global depositary receipts, or GDRs, will not be issued in exchange for beneficial interests in the Rule 144A Master GDR or the International Master GDR.
Offering Price	US$11.71 per GDS
Form	We will deposit the common shares to be represented by GDSs by delivering a certificate of payment evidencing the irrevocable right to receive share certificates to Citibank, N.A. (Taipei Branch), as custodian for Citibank, N.A., as the depositary, which in turn will deliver the GDSs. Upon receipt by the custodian of the certificate of payment, the depositary will deliver a Master Rule 144A GDR evidencing the Rule 144A GDSs and a Master International GDR

* Includes 138,352 common shares in connection with conversion of convertible bonds and exercise of employee stock options, which registration is pending government approval.

evidencing the International GDSs, to be issued to the Depository Trust Company (“DTC”) or its nominee. Ownership interests in the Master Rule 144A GDR and the Master International GDR will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct and indirect participants, including Euroclear Bank S.A./N.V., as operator of the Euroclear System (“Euroclear”), and Clearstream Banking, *société anonyme*, (“Clearstream”).

Delivery of the GDSs is expected to be made in book-entry form through the facilities of DTC, Euroclear and Clearstream on or about May 9, 2007.

Under the ROC Securities and Exchange Law and applicable regulations, we are required to deliver the physical share certificates representing these new shares or credit the new shares in scripless form through the book entry system maintained by Taiwan Depositary & Clearing Corporation (“TDCC”), to the custodian in exchange for the certificate of payment within 30 days after receiving approval from the Ministry of Economic Affairs of the ROC (the “ROC MOEA”), of the amendment of our corporate registration with the ROC MOEA. Subject to the provisions of the deposit agreements, we will, no later than the 60th calendar day after the closing date of this offering, issue and deliver to the custodian the physical share certificates evidencing the common shares or credit the new shares in scripless form through the book entry system maintained by TDCC in exchange for the certificate of payment deposited on the closing date.

Withdrawal of Common Shares .... From the fourth ROC business day after the closing date of this offering, subject to the listing approval from the GTSM and provisions of the deposit agreements, you are entitled to surrender your GDSs for withdrawal of the interests in the scripless individual certificate(s) of payment representing the underlying common shares. The scripless individual certificate(s) of payment carry the same rights as those attaching to common shares in respect of dividends and are eligible for trading on the GTSM in the same manner as common shares.

Issue of Additional GDSs .... Under the terms of the deposit agreements, after we deposit the shares to be represented by GDSs in this offering, no additional GDSs may be issued without receiving specific ROC regulatory approval, except for additional GDSs to be issued in connection with (i) dividends on, or free distributions of, common shares, (ii) the exercise by holders of existing GDSs of their pre-emptive rights in connection with rights offerings or in the event of a capital increase for cash, (iii) to the extent previously issued GDSs have been cancelled, the purchase, directly or through the depositary, of our common shares on the GTSM and the deposit thereof with the custodian or the deposit of our common shares held by a shareholder with the custodian; provided that the total amount of GDSs outstanding after the issuance described in (iii) does not exceed the number of issued GDS previously approved by the Financial Supervisory Commission

	("FSC") (plus any GDSs created pursuant to clauses (i), (ii) and (iv)) (iv) subject in each case to receipt of all applicable approvals in the ROC, to the extent we issue any securities convertible into GDSs, the conversion of such securities into GDSs or (v) upon exchange of Rule 144A GDSs for International GDSs and vice versa. See "Description of Global Depositary Shares—Deposit and Withdrawal" and "Appendix B: Foreign Investment and Exchange Controls in the ROC—Depositary Receipts."
Voting Rights	Holders of GDSs may not have the same voting rights as the holders of our common shares and may not receive voting materials in time to exercise their right to vote. See "Description of Global Depositary Shares—Voting of Deposited Securities" and "Risk Factors—Risks Relating to the GDSs" and "Shares—You will have limited voting rights as a holder of GDSs."
Dividends	Subject to the terms of the deposit agreements, holders of the GDSs will be entitled to receive dividends, to the same extent as the holders of common shares, less the fees and expenses payable under the deposit agreements and any ROC tax applicable to such dividends. See "Dividends and Dividend Policy," "Description of the Global Depositary Shares—Dividends," "—Other Distribution," and "Taxation—ROC Taxation—Dividends."
ROC Taxes	Dividends (whether in cash or common shares) declared by us out of retained earnings and distributed to non-ROC holders in respect of common shares represented by GDSs are subject to ROC withholding tax. The current rate of withholding tax for non-ROC holders is 20% of the amount of the distribution (in the case of cash dividends) or the par value of the common shares (in the case of stock dividends). We are required to pay a 10% ROC retained earnings tax on any undistributed after-tax earnings, and upon the payment of this tax, we will apply a credit of up to 10% of the gross amount of any dividends declared out of those earnings to the amount of withholding tax we otherwise are required to withhold from payments of dividends to non-ROC holders. This tax credit will effectively reduce the 20% withholding tax imposed on those distributions. Distributions of common shares declared by us out of capital reserves are not subject to ROC tax. Under ROC law, capital gains derived from sales of common shares are exempt from income tax. Capital gains derived from sales of GDSs are not subject to ROC income tax. The depositary is subject to either a securities transaction tax on the gross amount received upon sale of statutory subscription rights in a rights offering for cash, if such subscription rights are evidenced by securities, or a capital gains tax on the gains realized, if such subscription rights are not evidenced by securities. Holders of GDSs are responsible for such taxes under the deposit agreements. See "Taxation—ROC Taxation."

Exchange Controls	Under existing ROC laws and regulations relating to foreign exchange controls, the depositary is not required to obtain foreign exchange approval from the CBC for the conversion into foreign currencies of (i) any net proceeds realized from the sale of any or all of the common shares, (ii) the proceeds received from the sale of shares received as stock dividends in respect of such common shares and deposited into the depositary receipt facilities, or (iii) any cash dividends or cash distribution relating to the common shares. In addition, the depositary may convert inward remittances of payments into NT dollars for purchase of shares for deposit in the applicable depositary receipt facility against the issuance of additional GDSs without applying for any such approvals. A holder of GDSs, after becoming a holder of common shares, may without obtaining further approval from the CBC convert NT dollars into other currencies, including US dollars, from proceeds from the sale of any underlying shares withdrawn from the depositary receipt facility or any cash dividends or distributions received and the subscription payment for rights offering. However, the depositary must obtain foreign exchange approval from the CBC on a payment-by-payment basis for conversion from NT dollars into foreign currencies in respect of the sale of subscription rights for common shares. See "Appendix B: Foreign Investment and Exchange Controls in the ROC—Depositary Receipts."
Settlement	We have applied to DTC for acceptance of the GDSs being offered in its book-entry settlement system. The GDSs will be evidenced by a master Rule 144A GDR and a master international GDR in each case to be registered in the name of DTC or its nominee. Your interests in the book-entry GDSs will be represented by book-entry positions maintained through financial institutions acting on your behalf as direct and indirect participants in DTC. DTC settlement practices apply to the GDSs held in DTC. The GDSs have been accepted for clearance through Euroclear and Clearstream, as participants in DTC, in each case on a book-entry basis. Initial settlement of the GDSs sold to non-U.S. persons outside the United States in reliance on Regulation S may take place through Euroclear and Clearstream in accordance with the settlement procedures applicable to equity securities in the Euromarket. Euroclear and Clearstream will initially hold GDSs on behalf of their participants through their respective depositaries of Euroclear and Clearstream that are participants in DTC. Transfers within DTC, Euroclear and Clearstream will be in accordance with the rules and operating procedures of the relevant system. Cross-market transfers between investors who hold or who will hold GDSs through DTC and investors who hold or who will hold GDSs through Euroclear and/or Clearstream will be effected in DTC through the respective depositaries of Euroclear and Clearstream.
Lock-up	For a period of 120 days after the date of this offering circular, we have agreed that, without the prior consent of Credit Suisse and

Morgan Stanley (the “Representatives”), we will not, directly or indirectly, take any of the following actions with respect to any of our securities, or any securities convertible into or exchangeable or exercisable for any of its securities (“Lock-up Securities”): (i) offer, sell, issue, contract to sell, pledge or otherwise dispose of Lock-up Securities, (ii) offer, sell, issue, contract to sell, contract to purchase or grant any option, right or warrant to purchase Lock-up Securities, (iii) enter into any swap, hedge or any other agreement that transfers, in whole or in part, the economic consequences of ownership of Lock-up Securities, whether any such aforementioned transaction is to be settled by delivery of our common shares, GDSs, or such other securities, in cash, or otherwise, (iv) establish or increase a put equivalent position or liquidate or decrease a call equivalent position in Lock-up Securities within the meaning of Section 16 of the Exchange Act, or (v) file with the U.S. Securities and Exchange Commission a registration statement under the Securities Act relating to Lock-up Securities or publicly disclose the intention to take any such action, except for this offering and sale of the GDSs, issuances of Lock-up Securities pursuant to the exercise of outstanding options or the conversion of outstanding convertible bonds, issuances of employee stock options pursuant to the existing stock option plan, and issuances of stock dividends pursuant to the resolution of the 2007 ordinary shareholders’ meeting.

Certain of our directors and supervisors have agreed that, for a 120-day period following the date of this offering circular, without the prior written consent of the Representatives, each of such directors and supervisors will not, directly or indirectly: (1) offer for sale, pledge, encumber, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend, or otherwise transfer or dispose of (or enter into any transaction or device which is designed to, or could be expected to, result in the disposition by any person at any time in the future of), directly or indirectly, any (A) common shares of our company, GDSs or securities convertible into or exercisable or exchangeable for common shares of our company or GDSs, (B) securities of the same class as our common shares or GDSs or (C) other instruments representing interests in securities of the same class as our common shares or GDSs, including but not limited to any securities that are owned by him or her immediately after the completion of this offering or thereafter acquired, or with respect to which he or she has the beneficial ownership within the rules and regulations of the U.S. Securities and Exchange Commission; or (2) sell, grant or enter into any option, right, warrant, swap or other arrangement that are with respect to, or transfers to another, in whole or in part, any of the economic consequences of ownership of our common shares or GDSs, whether any such transaction described in clause (1) or (2) above is to be settled by delivery of our common shares, GDSs or such other securities, in cash or otherwise. In addition, each of such directors and supervisors has agreed not to

	announce his or her intention or make any application or filing with any applicable regulatory authority for any of such transactions described in clause (1) or (2) above without the prior written consent of the Representatives for a 120-day period. The preceding sentences, however, shall not apply to this offering and sale of the GDSs, disposal of any common shares or securities as a bona fide gift by such director or supervisor, or disposal of any common shares or securities to any trust for the direct or indirect benefit of such director or supervisor.
Use of Proceeds	The net proceeds to be received by us for this offering of GDSs, after deducting underwriting discounts and estimated offering expenses payable by us, will be not less than US$206.1 million. We intend to use the net proceeds to finance purchases of raw materials, equipment and machinery in connection with our capacity expansion. Pending any use as described above, we intend to invest the net proceeds in short-term, liquid investments. We will not receive any of the net proceeds from the sale of GDSs by the selling shareholders.
Listing	Our common shares are listed on the GTSM under the number "6244." See "Market Price Information." Prior to the offering, there has been no trading market for the GDSs. We cannot assure you that any market for the GDSs will develop. We have applied to list the GDSs offered on the Official List of the Luxembourg Stock Exchange and to trade the GDSs on the Euro MTF Market of the Luxembourg Stock Exchange. We expect the GDSs offered in reliance on Rule 144A to be eligible for trading in the PORTAL Market, and the GDSs offered in reliance on Regulation S to be eligible for trading on the International Order Book of the London Stock Exchange.
Depositary	Citibank, N.A. 388 Greenwich Street, 14th Floor, New York, New York 10013
Custodian	Citibank, N.A. (Taipei Branch) 9F, 16, Nan-king East Road, Section A, Taipei, Taiwan, Republic of China
Listing Agent	The Bank of New York (Luxembourg) S.A.
Risk Factors	For a discussion of certain risk factors that you should consider in connection with an investment in the GDSs, see "Risk Factors."

SUMMARY FINANCIAL AND OPERATING DATA

The following table presents our summary financial and operating data. The summary consolidated financial data as of and for the years ended December 31, 2004, 2005 and 2006 set forth below are qualified by reference to, and should be read in conjunction with, our audited consolidated financial statements included elsewhere in this offering circular. Our consolidated financial statements as of and for the years ended December 31, 2004, 2005 and 2006 have been audited. The summary unconsolidated statement of financial and operating data for the three months ended March 31, 2006 and 2007 and the summary unconsolidated balance sheet data as of March 31, 2006 and 2007 are derived from our unaudited unconsolidated financial statements included elsewhere in this offering circular and contain normal recurring adjustments which are, in the opinion of management, necessary for a fair presentation of the results for such unaudited periods. Results for the three months ended March 31, 2007 are not necessarily indicative of the results that may be expected for the year ended December 31, 2007.

These financial statements have been prepared and presented on a consolidated and unconsolidated basis and in accordance with generally accepted accounting principles in the Republic of China ("ROC GAAP"). ROC GAAP differs in certain material respects from generally accepted accounting principles in the United States ("US GAAP"), including with respect to the rules regarding the presentation of consolidated and unconsolidated financial statements. See "Summary of Certain Differences Between ROC GAAP and US GAAP." You should also read the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section, which describes a number of factors that have affected our financial results, including, among other things, demand for our products, the prices of raw materials and machinery and equipment, the average realized sales price of our products and the appreciation or depreciation of the NT dollar against the US dollar.

	Consolidated				Unconsolidated		
	As of and for the Year Ended December 31,				As of and for the Three Months Ended March 31,		
	2004	2005	2006		2006	2007	
	NT$	NT$	NT$	US$	NT$	NT$	US$
	(in millions, except percentages and share data)						
Statement of Operations Data							
Net revenues	2,467.1	4,456.2	8,203.4	248.5	710.0	3,308.3	100.2
Gross profit	718.8	1,502.8	2,516.3	76.2	113.5	808.2	24.5
Operating expenses	(174.5)	(238.8)	(329.5)	(10.0)	(49.8)	(105.0)	(3.2)
Income from operations	544.3	1,264.0	2,186.8	66.2	63.7	703.2	21.3
Net income	559.6	1,159.4	2,257.9	68.4	50.1	766.6	23.2
Share Data							
Basic earnings per common share(1)	4.66	8.52	16.01	0.49	0.36	5.32	0.16
Diluted earnings per common share(1)	3.89	7.95	15.31	0.46	0.34	5.12	0.15
Shares used in computation (in thousands):							
Basic	120,085	136,139	141,015	141,015	140,103	144,175	144,175
Diluted	144,889	146,078	147,511	147,511	146,226	149,867	149,867
Dividends per common share	5.20	8.61	10.89	0.33	—	—	—

	Consolidated				Unconsolidated		
	As of and for the Year Ended December 31,				As of and for the Three Months Ended March 31,		
	2004	2005	2006		2006	2007	
	NT$	NT$	NT$	US$	NT$	NT$	US$
	(in millions, except percentages and share data)						
Financial Data							
Gross margin (in %)	29.1	33.7	30.7	30.7	16.0	24.4	24.4
Operating margin (in %)	22.1	28.4	26.7	26.7	9.0	21.3	21.3
Net margin (in %)	22.7	26.0	27.5	27.5	7.1	23.2	23.2
Net cash from (used in) operating activities	766.5	90.9	1,455.5	44.1	(385.4)	(946.3)	(28.7)
Net cash from (used in) investing activities	(303.6)	(244.7)	(3,256.1)	(98.6)	(175.4)	(467.3)	(14.2)
Net cash from (used in) financing activities	(151.2)	(15.6)	3,124.4	94.7	612.7	666.3	20.2
Capital expenditures(2)	540.1	466.8	1,712.1	51.9	202.4	330.3	10.0
Selected Operating Data (Unaudited)							
Amount of PV cells produced (in MW)	35	60	102	—	8	37	—
Average selling price of PV cells (in NT$ per cell)	153.8	180.8	241.0	7.3	221.9	274.9	8.3
Balance Sheet Data							
Cash and cash equivalents	455.2	288.0	1,612.5	48.6	291.1	817.4	24.8
Notes and net accounts receivable	264.0	312.8	1,083.7	32.8	373.0	1,728.7	52.4
Inventories	256.1	1,187.9	1,288.2	39.0	1,527.9	1,482.9	44.9
Net property, plant and equipment	771.2	1,021.7	2,610.0	79.1	1,293.9	2,807.0	85.0
Total assets	2,091.6	3,373.6	9,061.7	274.5	4,067.1	10,320.3	312.6
Notes and accounts payable	202.8	205.0	326.4	9.9	179.0	254.3	7.7
Accrued expenses and other current liabilities	214.5	345.0	408.8	12.4	400.5	309.3	9.4
Long-term borrowings	27.5	73.9	2,075.7	62.9	148.8	2,669.9	80.9
Total liabilities	751.2	868.7	3,502.2	106.1	1,506.4	3,987.1	120.8
Total stockholders' equity	1,340.4	2,504.9	5,559.5	168.4	2,560.7	6,333.2	191.9

(1) Reflects earnings per common share after tax.
(2) Capital expenditures is defined as purchases of property, plant and equipment.

RISK FACTORS

You should pay particular attention to the fact that we are an ROC company and are subject to a legal and regulatory environment that in some respects may be different from that prevailing in other countries. You should consider carefully all the information included in this offering circular (including the consolidated and where relevant, unconsolidated financial statements) and, in particular, should evaluate the following risks before deciding to invest in the GDSs.

Risks Relating to Our Company and Industry

Our future success substantially depends on our ability to significantly increase both our manufacturing capacity and total output of PV cells, which exposes us to a number of risks and uncertainties.

As of March 31, 2007, we had annual installed PV cell production capacity of 240 MW, and we expect to add 40 MW of additional capacity by the end of 2007 and another 120 MW by the end of 2008. Our future success depends on our ability to significantly increase both our manufacturing capacity and total output. If we are unable to do so, we may be unable to expand our business, decrease our costs per watt, maintain our competitive position and improve our profitability. Our ability to establish additional manufacturing capacity and increase output is subject to significant risks and uncertainties, including:

- the need to raise significant additional funds, which we may be unable to obtain on commercially viable terms or at all, to purchase raw materials or to build additional manufacturing facilities;
- delays and cost overruns as a result of a number of factors, many of which are beyond our control, such as increases in the price of silicon raw materials and problems with equipment vendors;
- delays or denial of required approvals by relevant government authorities;
- diversion of significant management attention; and
- the ability to secure sufficient silicon raw materials to support our expanded manufacturing capacity.

If we are unable to establish or successfully operate additional manufacturing capacity, or if we encounter any of the risks described above, we may be unable to expand our business as planned. Moreover, we cannot assure you that if we do expand our manufacturing capacity as planned, we will be able to generate sufficient customer demand for our solar power products to support our increased production levels.

We are currently experiencing an industry-wide shortage of silicon wafers. The prices that we pay for silicon wafers have increased in the past and we expect prices may continue to increase in the future, which may materially and adversely affect our revenue growth and decrease our gross profit margins and profitability.

Polysilicon is an essential raw material in our production of PV cells, and is also used in the semiconductor industry. Polysilicon is created by refining quartz sand. In order to manufacture PV cells, polysilicon is melted and processed into crystalline silicon ingots, which are then sliced into wafers. We primarily purchase wafers from third-party suppliers to manufacture our PV cells. We also procure polysilicon, silicon ingots and other silicon-based raw materials from various suppliers, and convert these materials into silicon wafers internally and through toll manufacturing arrangements with third parties. The procurement costs of silicon wafers and other silicon-based raw materials have accounted for a substantial majority of our cost of goods sold since we began our commercial production of PV cells in 2000. In contrast to some of our vertically-integrated competitors who can obtain polysilicon supplies internally at a lower than market price, we do not currently have any polysilicon manufacturing facility. We will not in the foreseeable future have any polysilicon manufacturing facility.

The global supply of polysilicon is controlled by a limited number of producers and there is currently an industry-wide shortage of polysilicon due to the growing demand for solar power products and the continuing expansion of the semiconductor industry. According to Solarbuzz, the average long-term supply contract price of polysilicon increased from approximately US$28 to US$32 per kilogram in 2004 to US$50 to US$55 per kilogram in 2006 and was expected to increase to US$60 to US$65 per kilogram in 2007. In addition, according to Solarbuzz, spot prices for polysilicon, in some cases, reached US$300 per kilogram in 2006. These increases in the price of silicon raw materials have in the past increased our production costs and may continue to impact our cost of goods sold and net income. According to Solarbuzz, the polysilicon shortage is expected to last through at least 2008. We do not expect that the supply shortage of polysilicon and silicon-based raw materials, including crystalline silicon ingots and silicon wafers, will be remedied in the near term.

Partly as a result of the industry-wide shortage, we have, from time to time, faced a shortage of silicon raw materials and experienced late delivery from suppliers and increased supply costs. Currently, we procure a substantial portion of our silicon wafer or other silicon-based raw material supplies via short-term supply contracts. We cannot assure you that our procurement efforts will be successful in ensuring an adequate supply of silicon raw materials at commercially viable prices or at satisfactory quality to meet our PV cell production requirements. If we are unable to meet customer demand for our products, or if our products are only available at a higher cost because of a shortage of silicon raw materials, we could lose customers, market share and revenues. This would materially and adversely affect our business, financial condition and results of operations.

Our dependence on a limited number of third-party suppliers for key raw materials and customized manufacturing equipment could prevent the timely delivery by us of our products to our customers in the required quantities, which could result in order cancellations and reduced revenues.

We purchase silicon raw materials from a limited number of third-party suppliers. Our top five suppliers supplied approximately 49.4% and 51.5% of our total silicon raw material needs in 2006 and the three months ended March 31, 2007. If we fail to develop or maintain our relationships with our current and future major suppliers, we may be unable to manufacture our products or our products may only be available at a higher cost or after a long delay, and we could be prevented from delivering our products to our customers in the required quantities and at prices that are profitable. Problems of this kind could cause order cancellations and loss of market share. The failure of a supplier to supply materials and components that meet our quality, quantity and cost requirements in a timely manner could impair our ability to manufacture our products or increase our costs, particularly if we are unable to obtain these materials and components from alternative sources on a timely basis or on commercially reasonable terms.

In addition, certain of our manufacturing equipment has been designed and made specifically for us. As a result, such equipment is not readily available from multiple vendors and would be difficult to repair or replace. Any significant damage to, or breakdown of, our customized manufacturing equipment could cause material interruptions to our operations and consequently could have a material adverse effect on our business and results of operations.

Our advance payments to most of our silicon raw material suppliers expose us to the credit risk of such suppliers, which may materially and adversely affect our financial condition and results of operations.

In order to secure more supply of silicon raw materials, we make advance payments to most of our silicon raw material suppliers, which is consistent with the industry practice. Our advances to suppliers on a consolidated basis were approximately NT$760.5 million (US$23.0 million) as of December 31, 2006. Our advances to suppliers on an unconsolidated basis were NT$1,531.7 million (US$46.4 million) as of March 31, 2007. We depend on a limited number of suppliers and we make such advance payments without receiving collateral. As a result, our claims for such advance payments would rank only as unsecured claims, which exposes us to the credit risks of the suppliers in the case of their insolvency or bankruptcy. We may not be able to recover such advance payments and would suffer losses should the suppliers fail to fulfill their delivery obligations under the contracts. Accordingly, defaults by our suppliers may materially and adversely affect our financial condition and results of operations.

We have limited insurance coverage and we are subject to the risk of damage due to fires or explosions.

We do not maintain any product liability insurance. As with other PV product manufacturers, we are exposed to risks associated with product liability claims if the use of our PV products results in injury. Since our products generate electricity, it is possible that users could be injured or killed by our products as a result of product malfunctions, defects, improper installation or other causes. We did not enter the PV market until 2000 and we only began producing monocrystalline PV cells in 2003. Because of our limited operating history, we cannot predict whether product liability claims will be brought against us in the future or the effect of any resulting negative publicity on our business. The successful assertion of product liability claims against us could result in potentially significant monetary damages and require us to make significant payments.

Furthermore, we are subject to the risk of explosions and fires, as highly flammable gases, such as nitrogen, are generated by our manufacturing processes. We maintain various safety measures to minimize the risk of explosions and fires. However, in November 2005, a gas bottle exploded in Fab 1 of our Tainan, Taiwan facility and one of our employees died in the ensuing fire. As a result of this incident, we had entered into a settlement with the family of the deceased employee. In addition, we were subject to a summary proceeding for such incident on the basis that the facility did not obtain the required safety permits for handling highly flammable gasses. As a result, we have paid a fine of NT$150,000. Our chief executive officer was also fined NT$1,000,000 in a separate order granting a deferred prosecution subject to certain conditions issued by the Prosecutors' Office of the Tainan District Court. As a result of the fire, production at Fab 1 was shut down for approximately three months and our output was reduced by approximately 20 MW. At the time the fire occurred we maintained fire insurance but we did not maintain business interruption insurance, although most of the damages were covered by the fire insurance. Although we now maintain business interruption insurance as well as fire insurance this may not be sufficient to cover all of our potential losses due to a future explosion or fire. Moreover, if any of our production lines or equipment were to be damaged or cease operation as a result of a future explosion or fire, it would temporarily reduce our manufacturing capacity and may result in investigations or penalties by relevant regulatory authorities, which could materially and adversely affect our business, financial condition and results of operations.

The reduction or elimination of government subsidies and economic incentives for on-grid solar energy applications could cause demand for our products and our revenues to decline.

Almost all of our PV cells sold are eventually utilized in the on-grid market, where solar power is used to replace or supplement a customer's electricity purchased from the utility grid. We believe that the near-term growth of the market for on-grid applications depends in large part on the availability and size of government subsidies and economic incentives. The reduction or elimination of subsidies and economic incentives may adversely affect the growth of this market or result in increased price competition, either of which could cause our revenues to decline.

Today, when upfront system costs are factored into cost per kilowatt, the cost of solar power substantially exceeds the cost of power furnished by the electric utility grid in many locations. As a result, national and local governmental bodies in many countries, most notably in Germany, Spain, Italy, Japan, the United States and China, have provided subsidies and economic incentives in the form of feed-in tariffs, rebates, tax credits and other incentives to distributors, system integrators and manufacturers of solar power products to promote the use of solar energy in on-grid applications and to reduce dependence on other forms of energy. These government economic incentives could potentially be reduced or eliminated altogether. For example, Germany has been a strong supporter of solar power products and systems, and is a significant market for our customers that engage in PV module and system integration businesses. Utilities in Germany are generally obligated to purchase electricity generated from grid-connected PV systems at defined feed-in tariff rates, which will decline over time according to a predetermined schedule. Any political or market changes in Germany could result in significant reductions or eliminations of subsidies or economic incentives, such as a more accelerated reduction of feed-in tariffs than as planned according to the current schedule. The solar power industry is currently moving towards the economies of scale necessary for solar power to become cost-effective in a non-subsidized market.

Reductions in, or eliminations of, subsidies and economic incentives for on-grid solar energy applications could result in decreased demand for our products. Decreased demand for our products could cause the prices of our PV cells and our revenues to decline. If our revenues declined we could have to reduce our operating costs in order to sustain our margins and profitability. If our revenues declined and we were not able to reduce our costs sufficiently our profitability would also decline.

We may be unable to significantly increase our wafer production business.

We plan to significantly expand silicon wafer production at our existing Tainan, Taiwan facility and to commence wafer production at new facilities in China. If we do not successfully execute our plans, including for reasons beyond our control, such as failure to obtain the necessary governmental approvals or natural events, we may suffer losses to the extent we have already incurred capital expenditures or other project-related costs. We may also have to procure silicon wafers from alternative sources, including through short-term contracts and the spot market. These sources may be insufficient to meet our requirements and/or we may only be able to procure silicon wafers at a price considerably higher than would have been available to us if we had successfully executed our wafer production expansion plans. If we are unable to meet customer demand for our products, or if our products are only available at a higher cost because of a shortage of silicon raw materials, we could lose customers, market share and revenues. This would materially and adversely affect our business, financial condition and results of operations.

We may not realize the expected benefits of our silicon supply agreement with AE Polysilicon, and our investment in AE Polysilicon and our advance payment under the supply agreement are subject to significant risks.

In December 2006, we entered into an agreement to invest US$2.0 million in Series A convertible preferred stock of AE Polysilicon, a New Jersey, United States-based company, which is equivalent to an approximately 12.9% shareholding on an as-converted basis, and we paid the purchase price in full in January 2007. In December 2006, we also entered into a seven-year polysilicon supply contract with AE Polysilicon. Under the supply contract, AE Polysilicon has agreed to commence delivery of polysilicon to us beginning in early 2009, in amounts to be increased to 2,500 tons of polysilicon per year by the end of 2011. AE Polysilicon is a startup company with no operating history and limited capital and other resources. It plans to utilize FBR technology to produce polysilicon; however, such technology is complex and requires relatively more costly equipment and is still being tested for yields and product performance. AE Polysilicon is also highly dependent on a number of key employees. As a start up company, AE Polysilicon will require additional financing as it increases its production capacity. If AE Polysilicon is unable to obtain sufficient funding in the future at reasonable terms, it may be unable to sustain its operating activities and growth, and our investment in, as well as our supply arrangement (including an agreed advance payment of US$30.0 million, which we made an initial advance payment of US$15.0 million in January 2007, in connection with future deliveries of polysilicon by AE Polysilicon to us) with, AE Polysilicon, could be jeopardized. The timing, volume and pricing of any future supply of polysilicon from AE Polysilicon to us is therefore subject to significant risks and uncertainties. If we have to procure silicon raw materials from alternative sources, including under short-term contracts and in the spot market, these sources could be insufficient to meet our requirements and/or the spot market price could be greater than the price pursuant to the supply agreement with AE Polysilicon. If we are unable to meet customer demand for our products, or if our products are only available at a higher cost because of a shortage of silicon raw materials, we could lose customers, market share and revenues. This would materially and adversely affect our business, financial condition and results of operations.

Certain shareholders of AE Polysilicon may have potential conflicts of interest with us.

We entered into an agreement to invest US$2.0 million in December 2006 in Series A convertible preferred stock of AE Polysilicon. In January 2007, we paid the US$2.0 million purchase price and also made an advance payment of US$15.0 million to AE Polysilicon, in connection with future deliveries of polysilicon by AE Polysilicon to us. Several of our directors, including our chief executive officer, Dr. Simon Tsuo, and supervisors, and their relatives, have directly or indirectly invested in substantially all of the common stock or Series A convertible preferred stock of AE Polysilicon. Dr. York Tsuo, a major shareholder of AE Polysilicon and the chairman and president of AE Polysilicon, is the brother of Dr. Simon Tsuo. AE Polysilicon's board of directors currently has five directors, consisting of two directors designated by the holders of AE Polysilicon's Series A convertible preferred stock, two directors designated by a company beneficially owned by Dr. Simon Tsuo and Dr. York Tsuo, and one director designated by the chief executive officer of AE Polysilicon. Conflicts of interests between the dual roles of Dr. Simon Tsuo and our other directors and supervisors who have a stake in AE Polysilicon could arise. We are not able to assure you that in the event a conflict of interest does arise, any or all of these individuals will act in the best interests of our company or that such conflict of interest will be resolved in our favor. Furthermore, AE Polysilicon's current financing arrangements may cause us to consolidate AE Polysilicon's financial statements into ours.

If PV technology is not suitable for widespread adoption, or if sufficient demand for PV products does not develop or takes longer to develop than we anticipate, our revenues may not continue to increase or may even decline, and we may be unable to achieve or sustain our profitability.

The PV market is at a relatively early stage of development, and the extent of acceptance of PV products is uncertain. Historical and current market data on the PV industry are not as readily available as those for other more established industries where trends can be assessed more reliably from data gathered over a longer period of time. In addition, demand for PV products may not develop or may develop to a lesser extent than we anticipate. Many factors may affect the viability of widespread adoption of PV technology and demand for PV products, including:

- cost-effectiveness, performance and reliability of PV products compared to conventional and other renewable energy sources and products;
- success of other alternative energy generation technologies, such as wind power, hydroelectric power and biomass;
- fluctuations in economic and market conditions that affect the viability of conventional and other renewable energy sources, such as increases or decreases in the prices of oil and other fossil fuels or decreases in capital expenditures by end users of PV products; and
- deregulation of the electric power industry and the broader energy industry.

If PV technology is not viable for widespread adoption or sufficient demand for PV products does not develop or develops to a lesser extent than we anticipate, our revenues may suffer and we may be unable to sustain our profitability. The demand for PV products may also develop in an uneven manner. Even though demand for PV products has been generally expanding over the last few years, abrupt declines in the market can still occur, e.g., the decline in PV module orders that occurred in Germany during the third quarter of 2006. A reduction in demand by end-users for the products of our PV module customers may result in excess PV module and PV cell inventory for these companies. This in turn can lead to an increased level of returns of PV cells by our PV module customers to us, as well as reduced future orders, which may cause our revenues to suffer.

Because the markets in which we compete are highly competitive and many of our competitors have greater resources than we do, we may not be able to compete successfully and we may lose or be unable to gain market share.

The market for PV products is highly competitive and continually evolving. We expect to face increased competition, which may result in price reductions, reduced margins or loss of market share. Our competitors include solar power divisions of large conglomerates such as BP Solar, Kyocera, Sanyo and Sharp Corporation, as well as specialized PV cell manufacturers such as Q-Cells AG, Suntech Power Holdings Co., Ltd., E-Ton Solar Tech. Co., Ltd. and Sunpower Corporation. Some of our competitors have also become vertically integrated, from upstream polysilicon manufacturing to PV system integration, such as Renewable Energy Corporation ASA and Solarworld AG. During the current period of silicon supply shortage, their internally produced raw materials may enable them to realize higher margins in comparison with other PV cell manufacturers. Many of our competitors have a stronger market position than ours and have larger resources and better name recognition than we have. Further, many of our competitors are developing and are currently producing products based on alternative solar power technologies, such as thin-film technologies, which may ultimately have costs similar to, or lower than, our projected costs. There are also other companies planning to enter into the PV cell business. For example, we may face competition from semiconductor manufacturers, a few of which have already announced their intention to start producing PV cells. In addition, the entire PV industry faces competition from conventional and non-solar renewable energy technologies. Due to the relatively high manufacturing costs compared to most other energy sources, solar energy is currently not competitive without government subsidies and economic incentives.

Many of our existing and potential competitors have substantially greater financial, technical, manufacturing and other resources than we do. Our competitors' greater size in some cases provides them with a competitive advantage with respect to manufacturing costs due to their economies of scale and their ability to purchase raw materials at lower prices. For example, those of our competitors that also manufacture semiconductors may source both semiconductor grade silicon wafers and solar grade silicon wafers from the same supplier. As a result, such competitors may have stronger bargaining power with the supplier and have an advantage over us in pricing as well as obtaining silicon wafer supplies at times of materials shortage. Many of our competitors also have more established distribution networks and larger customer bases. In addition, many of our competitors have well-established relationships with our customers and have extensive knowledge of our target markets. As a result, they may be able to devote greater resources to the research, development, promotion and sale of their products or respond more quickly to evolving industry standards and changes in market conditions than we can. It is possible that new competitors or alliances among existing competitors could emerge and rapidly acquire significant market share, which would harm our business. If we fail to compete successfully, our business would suffer and we may lose or be unable to gain market share.

Our profitability depends on our ability to respond to rapid market changes in the solar energy industry, including by developing new technologies and offering additional products and services.

The solar energy industry is characterized by rapid increases in the diversity and complexity of technologies, products and services. In particular, the ongoing evolution of technological standards requires products with improved features, such as more efficient and higher power output and improved aesthetics. As a result, we expect that we will need to constantly offer more sophisticated products and services in order to respond to competitive industry conditions and customer demands. If we fail to develop, or obtain access to, advances in technologies, or if we are not able to offer more sophisticated products and services, we may become less competitive and less profitable. In addition, advances in technology typically lead to declining average selling prices for products using older technologies. As a result, if we are not able to reduce the costs associated with our products, the profitability of any given product, and our overall profitability, may decrease over time. Furthermore, technologies developed by our competitors may provide more advantages than ours for the commercialization of PV products, and to the extent we are not able to refine our technology and develop new PV products, our existing products may become uncompetitive and obsolete.

In addition, we will need to invest significant financial resources in research and development to maintain our competitiveness and keep pace with technological advances in the solar energy industry. However, commercial acceptance by customers of new products we offer may not occur at the rate or level expected, and we may not be able to successfully adapt existing products to effectively and economically meet customer demands, thus impairing the return from our investments. We may also be required under the applicable accounting standards to recognize a charge for the impairment of assets to the extent our existing products become uncompetitive or obsolete, or if any new products fail to achieve commercial acceptance. Any such charge may have a material adverse effect on our financial condition and results of operations.

Our business depends substantially on the continuing efforts of our executive officers and key employees, and our business may be severely disrupted if we lose their services.

Our future success depends substantially on the continued services of our executive officers and key employees, especially Mr. Fu-Tien Cheng, our chairman and president, Dr. Simon Tsuo, our chief executive officer, Dr. Kuo En Chang, our chief technology officer, and Dr. Paul Cheng, our chief operating officer. If one or more of our executive officers or key employees were unable or unwilling to continue in their present positions, we might not be able to replace them easily, timely, or at all. Our business may be severely disrupted, our financial conditions and results of operations may be materially and adversely affected and we may incur additional expenses to recruit, train and retain personnel. If any of our executive officers or key employees joins a competitor or forms a competing company, we may lose customers, suppliers, know-how and key professionals and staff members. Each of our executive officers and key employees has entered into an employment agreement with us, which contains non-competition provisions.

Our dependence on a limited number of customers may cause significant fluctuations or declines in our revenues.

Although we target a diversified sales mix, we currently sell a substantial portion of our PV cells to a limited number of customers. In 2006 and for the three months ended March 31, 2007, our top five customers contributed to 40.9% of our consolidated net revenues and 47.9% of our unconsolidated net revenues, respectively.

Sales to our customers are typically made through non-exclusive arrangements. We anticipate that our dependence on a limited number of customers will continue for the foreseeable future. Consequently, any one of the following events may cause material fluctuations or declines in our revenues:

- reduction, delay or cancellation of orders from one or more of our significant customers;
- loss of one or more of our significant customers and our failure to identify additional or replacement customers; and
- failure of any of our significant customers to make timely payment for our products.

Even though our top five customers have contributed to a significant portion of our revenues, we have experienced changes in our top customers. As we continue to grow our business and operations, we expect our top customers may continue to change. We cannot assure you that we will be able to develop a consistent customer base.

We require a significant amount of cash to fund our operations as well as meet future capital requirements. If we cannot obtain additional capital when we need it, our growth prospects and future profitability may be materially and adversely affected.

We typically require a significant amount of cash to fund our operations, especially prepayments to suppliers to secure our silicon wafer requirements. We also require cash generally to meet future capital requirements, which are difficult to plan in the rapidly changing PV industry. In particular, we will need capital to fund the expansion of our existing facilities, the construction of new facilities, and research and development activities in order to remain competitive. We believe that our current cash and cash equivalents, cash flow from operations and the proceeds from this offering will be sufficient to meet our anticipated needs for at least 12 months following this offering, including for working capital and capital expenditure requirements. However, future acquisitions, expansions, or market changes or other developments may cause us to require additional funds. Our ability to obtain external financing in the future is subject to a variety of uncertainties, including:

- Our future financial condition, results of operations and cash flows;
- general market conditions for financing activities by manufacturers of PV and related products; and
- economic, political and other conditions in Taiwan and elsewhere.

If we are unable to obtain funding in a timely manner or on commercially acceptable terms, or at all, our growth prospects and future profitability may decrease materially.

Our costs and expenses may be greater than those of competitors as a result of entering into fixed-price, prepaid arrangements with our suppliers.

We plan to secure a portion of our supply of silicon raw materials through fixed-price, prepaid supply arrangements with both overseas and domestic suppliers. If the prices of silicon raw materials were to decrease in the future and we were locked into fixed-price, prepaid arrangements, our cost of goods sold may be greater than that of our competitors. Additionally, if demand for our PV cells decreases, we may incur costs associated with carrying excess inventory, which may have a material adverse effect on our cash flows. To the extent we would not be able to pass these increased costs and expenses on to our customers, our business, results of operations and financial condition may be materially and adversely affected.

We may experience difficulty in achieving acceptable yields and product performance as a result of manufacturing problems.

The technology for the manufacture of PV cells is highly complex, and is continuously being modified in an effort to improve yields and product performance. Microscopic impurities such as dust and other contaminants, difficulties in the manufacturing process, or malfunctions of the equipment or facilities used can lower yields, cause quality control problems, interrupt production or result in losses of products in process.

Because our manufacturing capabilities are concentrated in our manufacturing facilities in Tainan, Taiwan, any problem in our facilities may limit our ability to manufacture products. We may encounter problems in our manufacturing facilities as a result of, among other things, production failures, construction delays, human errors, equipment malfunction or process contamination, which could seriously harm our operations. We may also experience losses of water supply, power losses and similar events beyond our control that would affect our facilities. A disruption to any step of the manufacturing process would affect our yields and the performance of our products.

If we fail to manage our growth and expansion effectively, our business may be adversely affected.

We have experienced a period of rapid growth and expansion that has placed, and continues to place, significant strain on our management personnel, systems and resources. To accommodate our growth, we anticipate that we will need to implement a variety of new and upgraded operational and financial systems, procedures and controls, including the improvement of our accounting and other internal management systems, all of which require substantial management efforts. We also will need to continue to expand, train, manage and motivate our workforce, manage our customer relationships and manage our relationships with raw material suppliers. All of these endeavors will require substantial management effort and skill and the incurrence of additional expenditures. If we fail to manage our growth effectively, that failure may have a material adverse effect on our business. We plan to significantly expand our PV cell, wafer and ingot capacity. We cannot assure you that this will not result in overcapacity with respect to any or all of the foregoing. If we have significant overcapacity our competitive position and profitability would be adversely affected.

Limited operating history as a solar cell manufacturing company in a newly developed market.

We commenced operations in 1981. However, we only commenced commercial shipments of our multicrystalline and monocrystalline PV cells in 2000 and 2003, respectively. Our PV business has grown and evolved at a rapid rate. As a result, our historical operating results may not provide a meaningful basis for evaluating our business, financial performance and prospects and we may not be able to achieve a similar growth rate in future periods. You should therefore consider our business and prospects in light of the risks, expenses and challenges that we will face as a company with a relatively short operating history in the competitive PV cell market, which is at a relatively early stage of development, and you should not rely on our past results or our historic rate of growth as an indication of our future performance.

Future acquisitions may have an adverse effect on our ability to manage our business.

If we are presented with appropriate opportunities, we may acquire technologies, businesses or assets that are complementary to our business. Future acquisitions would expose us to potential risks, including risks associated with the assimilation of new personnel, unforeseen or hidden liabilities, the diversion of management attention and resources from our existing business and the inability to generate sufficient revenues to offset the costs and expenses of acquisitions. Any difficulties encountered in the acquisition and integration process may have an adverse effect on our ability to manage our business.

We face risks associated with the marketing, distribution and sale of our PV products internationally, and if we are unable to effectively manage these risks, they could impair our ability to expand our business abroad.

In 2006 and the three months ended March 31, 2007, we sold most of our PV products to customers outside of Taiwan. We intend to expand our sales internationally, particularly to customers located in Europe, the United States and Japan. The marketing, distribution and sale of our PV products in the international markets expose us to a number of risks, including:

- fluctuations in the currency exchange rates;
- increased costs associated with maintaining marketing efforts in various countries;
- difficulty and costs relating to compliance with the different commercial and legal requirements of the overseas markets in which we offer our products;
- difficulty in engaging and retaining sales personnel who are knowledgeable about, and can function effectively in, overseas markets; and
- trade barriers such as export requirements, tariffs, taxes and other restrictions and expenses, which could increase the prices of our products and make us less competitive in some countries.

If we are unable to attract, train and retain qualified personnel, our business may be materially and adversely affected.

Our future success depends, to a significant extent, on our ability to attract, train and retain qualified personnel, particularly technical personnel with expertise in the PV industry. Since our industry is characterized by high demand and intense competition for talent, there can be no assurance that we will be able to attract or retain qualified technical staff or other highly-skilled employees that we will need to achieve our strategic objectives. As our business has grown rapidly, our ability to train and integrate new employees into our operations may not meet the growing demands of our business. If we are unable to attract and retain qualified personnel, our business may be materially and adversely affected.

Our failure to protect our intellectual property rights may undermine our competitive position, and litigation to protect our intellectual property rights may be costly.

We rely primarily on trade secrets, patent laws and other contractual restrictions to protect our intellectual property. Nevertheless, these afford only limited protection and the actions we take to protect our intellectual property rights may not be adequate to provide us with meaningful protection or commercial advantage. We cannot assure you that our patent applications will be eventually issued with claims sufficiently broad for our business. As a result, third parties may be able to use the technologies that we have developed and compete with us, which could have a material adverse effect on our business, financial condition or operating results.

In addition, litigation may be necessary to enforce our intellectual property rights. We cannot assure you that the outcome of such potential litigation will be in our favor. Such litigation may be costly and may divert management attention as well as expend our other resources away from our business. In addition, we have no insurance coverage against litigation costs and would have to bear all costs arising from such litigation to the extent we are unable to recover them from other parties. The occurrence of any of the foregoing could have a material adverse effect on our business, results of operations and financial condition.

We may be exposed to infringement or misappropriation claims by third parties, which, if determined adversely to us, could cause us to pay significant damage awards.

Our success depends largely on our ability to use and develop our technology and know-how without infringing the intellectual property rights of third parties. The validity and scope of claims relating to PV technology patents involve complex scientific, legal and factual questions and analysis and, therefore, may be highly uncertain. We may be subject to litigation involving claims of patent infringement or violation of other intellectual property rights of third parties. The defense and prosecution of intellectual property suits, patent opposition proceedings and related legal and administrative proceedings can be both costly and time-consuming and may significantly divert the efforts and resources of our technical and management personnel. An adverse determination in any such litigation or proceedings to which we may become a party could subject us to significant liability to third parties, require us to seek licenses from third parties, to pay ongoing royalties, or to redesign our products or subject us to injunctions prohibiting the manufacture and sale of our products or the use of our technologies. Protracted litigation could also result in our customers or potential customers deferring or limiting their purchase or use of our products until resolution of such litigation.

Changes to existing regulations and policies may present technical, regulatory and economic barriers to the purchase and use of PV products, which may significantly reduce demand for our products.

The market for electricity generation products is heavily influenced by government regulations and policies concerning the electric utility industry, as well as policies adopted by electric utilities. These regulations and policies often relate to electricity pricing and technical requirements regarding the interconnection between customer-owned electricity generation and the grid. In a number of countries, these regulations and policies are being modified and may continue to be modified. Customer purchases of, or further investment in the research and development of, alternative energy sources, including PV technology, could be deterred by these regulations and policies, which could result in a significant reduction in the potential demand for our products. For example, without a regulatory mandated exception for PV systems, utility customers are often charged interconnection or standby fees for putting distributed power generation on the electric utility grid. These fees could increase the cost to customers of using our PV products and make them less desirable, thereby harming our business, prospects, results of operations and financial condition.

We anticipate that our products and their installation will be subject to oversight and regulation in accordance with national and local regulations relating to building codes, safety, environmental protection, utility interconnection and metering and related matters. It is difficult to track the requirements of individual jurisdictions and to design products that comply with the varying standards. Any new government regulations or utility policies pertaining to our PV products may result in significant additional expenses to us and, as a result, could cause a significant reduction in demand for our solar power products.

Fluctuations in exchange rates could adversely affect our business.

A major portion of our sales is denominated in US dollars, with the remainder in NT dollars. A major portion of our costs and expenses is denominated in US dollars, with the remainder in NT dollars and Euros. Fluctuations in exchange rates, particularly between the NT dollar and the US dollar or the Euro, could affect our gross margin and operating profit and could result in foreign exchange losses and operating losses.

We recorded consolidated net foreign exchange gains of NT$12.8 million and NT$72.7 million (US$2.2 million) for the years ended 2004 and 2006, respectively, as compared to a net foreign exchange loss of NT$1.1 million in 2005. We recorded unconsolidated net foreign exchange gains of NT$18.6 million and NT$67.8 (US$2.1 million) for the three months ended March 31, 2006 and 2007, respectively. We cannot predict the impact of future exchange rate fluctuations on our results of operations and may incur net foreign exchange losses in the future.

Compliance with environmental regulations can be expensive, and noncompliance with these regulations may result in adverse publicity and potentially significant monetary damages and fines.

As our manufacturing processes generate noise, waste water, gaseous and other industrial wastes, we are required to comply with all national and local regulations in Taiwan regarding protection of the environment. We are generally in compliance with present environmental protection requirements and have all necessary environmental permits to conduct our business. However, if more stringent regulations are adopted in the future, the costs of compliance with these new regulations could be substantial. We believe that we have all of the permits necessary to conduct our business as it is presently conducted. If we fail to comply with present or future environmental regulations, however, we may be required to pay substantial fines, suspend production or cease operations. We use, generate and discharge toxic, volatile and otherwise hazardous chemicals and wastes in our research and development and manufacturing activities. Any failure by us to control the use of, or to restrict adequately the discharge of, hazardous substances could subject us to potentially significant monetary damages and fines or suspensions in our business operations.

Problems with product quality or product performance may damage our market reputation, prevent us from achieving increased sales and market share and lead to claims against us.

Our products may contain defects that are not detected until after they are shipped or are installed because we cannot test for all possible scenarios. Our sales contracts do not provide for a warranty for the performance of our PV cells. However, widespread product failures may still damage our market reputation, reduce our market share and cause our sales to decline, as well as lead to claims against us.

We may not be able to comply with the financial covenants in our domestic syndicated loan.

On July 21, 2006, we entered into a three-year NT$3.4 billion (US$103.0 million) domestic syndicated loan, for which Hua Nan Commercial Bank acted as facility agent, primarily to fulfil our commitments under certain of our crystalline raw materials supply agreements. The loan agreement requires that we meet the following semi-annual and annual financial ratios starting from the fiscal year 2006: (i) tangible net assets must exceed NT$3.5 billion (US$106.0 million) for 2006 and NT$8.0 billion for 2007; (ii) the liability ratio must be below 200% for 2006, 160% for 2007 and 120% for 2008; and (iii) the interest coverage ratio must be not less than 5.0 for 2006, 2007 and 2008. The failure to maintain these covenants may expose us to penalty charges and could result in acceleration of obligations under this loan agreement, which could give rise to cross-defaults of our other indebtedness and restrict our access to the un-drawn facility which would otherwise be available. As of March 31, 2007, approximately NT$2.6 billion (US$77.4 million) had been drawn down and was outstanding.

We have significant outstanding bank borrowings, and we may not be able to arrange adequate financing when they mature.

As of December 31, 2006, we had, on a consolidated basis, NT$1,612.5 million (US$48.9 million) in cash and cash equivalents, and NT$2,099.1 million (US$63.6 million) in outstanding long-term borrowings, of which approximately NT$23.4 million (US$710,000) was due within one year. As of March 31, 2007, we had, on an unconsolidated basis, NT$817.4 million (US$24.8 million) in cash and cash equivalents and NT$2,693.3 million (US$81.6 million) in outstanding long-term borrowings, of which approximately NT$23.4 million (US$710,000) was due within one year. In addition, we had, on a consolidated basis, NT$450.0 million (US$13.6 million) in short-term borrowings outstanding as of December 31, 2006 and, on an unconsolidated basis, NT$520.0 million (US$15.8 million) in short-term borrowings outstanding as of March 31, 2007. We cannot assure you that we will be able to obtain extensions of these facilities as they mature. In the event we are unable to obtain extensions of these facilities, or if we are unable to obtain sufficient alternative funding at reasonable terms to make repayments, we will have to repay these borrowings with cash generated by our operating activities. We cannot assure you that our business will generate sufficient cash flow from operations to repay these borrowings. Repaying these borrowings with cash generated by our operating activities will divert our financial resources from the requirements of our ongoing operations and future growth, and would have a material adverse effect on our business, financial condition and future prospects. In addition, we may also need additional financing to support our expansion plans. We cannot assure you that we will be able to obtain future financings on terms acceptable to us or at all. If we are unable to generate or otherwise procure sufficient capital for our expansion plans on acceptable terms, we may be required to curtail or delay our expansion plans.

Our quarterly operating results may fluctuate from period to period in the future.

Purchases of PV products tend to decrease during the winter months. Our quarterly operating results may fluctuate from period to period based on the seasonality of industry demand for PV products. Our operating results may also fluctuate more frequently. As a result, you may not be able to rely on period to period comparisons of our operating results as an indication of our future performance.

Risks Relating to Taiwan, Republic of China

Strained relations between the Republic of China and the People's Republic of China could negatively affect our business and the market price of our securities.

We are incorporated in Taiwan, and most of our assets are located in Taiwan. The ROC has a unique international political status. Since 1949, Taiwan and the Chinese mainland have been separately governed. The PRC regards Taiwan as a renegade province and does not recognize the legitimacy of the ROC. Although significant economic and cultural relations have been established during recent years between the ROC and the PRC, relations have often been strained. The government of the PRC has not renounced the use of military force to gain control over Taiwan, particularly under what it considers as highly provocative circumstances, such as a declaration of independence by Taiwan or the refusal by the ROC to accept the PRC's stated "one China" policy. Furthermore, the PRC government passed the Anti-Secession Law in March 2005, which authorizes non-peaceful means and other necessary measures should Taiwan move to gain independence from the PRC. Past developments in relations between the ROC and the PRC have on occasion depressed the market prices of the securities of Taiwanese companies. Relations between the ROC and the PRC and other factors affecting military, political or economic conditions in Taiwan could materially adversely affect our financial condition and results of operations, as well as the market price and the liquidity of our securities.

As substantially all of our production facilities are located in Taiwan, we are vulnerable to earthquakes, floods, droughts and other natural disasters, which could severely disrupt normal operations and harm our business.

Substantially all of our production facilities are located in Tainan, Taiwan. As a result, a natural disaster in or around Taiwan could result in damages to our production facilities. A natural disaster could also cause power outages, which may disrupt our operations. Taiwan is particularly susceptible to earthquakes (because most of Taiwan is located in a collision zone between the Philippine Sea plate and the Eurasian plate) and typhoons. On December 27, 2006, an earthquake of magnitude 7.1 measured by the US Geological Survey struck off the island's southern coast. The earthquake did not result in any damage to our property. In late 1999, Taiwan suffered severe earthquakes that caused significant property damage and loss of life, particularly in the central part of Taiwan. A major earthquake, flood, drought or other natural disaster in Taiwan could severely disrupt the normal operation of business and have a material adverse effect on our financial condition and results of operations along with the market prices of our common shares or the GDSs. Although we maintain property and business interruption insurance for such risks, there is no guarantee that future damages or business loss from a natural disaster will be covered by such insurance, that we will be able to collect from our insurance carriers, should we choose to claim under our insurance policies, or that such coverage will be sufficient.

Changes in ROC GAAP may have a material adverse impact on our results of operations.

We used to categorize securities we owned as either short-term investments or long-term investments. Short-term investments were recorded at cost when acquired and stated at the lower of aggregate cost or market value ("LCM"). Long-term investments were stated at cost when acquired and evaluated under the LCM method or equity method, depending on the percentage of our shareholding. Stock dividends received were not recorded as investment income, but were reflected as an increase in the number of shares held. However, according to the ROC Statement of Financial Accounting Standards ("ROC SFAS") No. 34, Financial Instruments: Recognition and Measurement, beginning in 2006, investments in debt and equity securities are classified into four categories: at-fair-value-through-profit-or-loss (the "FVTPL"), available-for-sale, loans and receivables, and held-to-maturity. Changes in the values of securities in the FVTPL portfolio are recognized in the profit and loss accounts immediately; changes in the values of available-for-sale category are reported in a separate component of shareholders' equity; loans and receivables and held-to-maturity securities are recorded under the amortized cost method. In a departure from previous ROC GAAP, which treated derivatives as off-balance sheet items, ROC SFAS 34 requires all derivatives to be recorded on the balance sheet at fair value and establishes "hedge accounting" for three different types of hedges: fair-value hedge, cash-flow hedge and foreign-currency net investment hedge. Under hedge accounting, the effective portion of gains or losses from the hedging transactions are either recognized as earnings or charged to stockholders' equity, as applicable. Changes in the fair value of derivatives that do not meet the criteria of one of these three categories of hedges are recorded directly in earnings. We cannot assure you that the implementation of ROC SFAS 34 will not have a material adverse effect on our results of operations or financial condition. In the future, there may be other changes in financial accounting standards, such as those in connection with employee bonuses, which could have a material adverse effect on our results of operations or financial condition.

Risks Relating to Doing Business in the PRC

Uncertainties with respect to the PRC legal system could adversely affect us.

We lease facilities in Ningbo, China with a total site area of 850 square meters. Our Motech Instruments unit produces test and measurement instruments at this site. We are in the process of acquiring 140 acres in China, where we intend to construct a crystal growth and wafer slicing facility. Our operations in China are generally subject to laws and regulations applicable to foreign investment in China and, in particular, laws applicable to wholly foreign-owned enterprises. The PRC legal system is based on written statutes, and prior court decisions may be cited for reference but have limited precedential value. Since 1979, PRC legislation and regulations have significantly enhanced the protections afforded to various forms of foreign investments in China. However, since these laws and regulations are relatively new and the PRC legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involve uncertainties, which may limit legal protections available to us. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention.

We face risks related to health epidemics and other outbreaks.

Adverse public health epidemics or pandemics could disrupt business and the economics of the PRC and other countries where we do business. From December 2002 to June 2003, China and other countries experienced an outbreak of a highly contagious form of atypical pneumonia now known as severe acute respiratory syndrome, or SARS. On July 5, 2003, the World Health Organization declared that the SARS outbreak had been contained. However, a number of isolated new cases of SARS were subsequently reported, most recently in central China in April 2004. During May and June of 2003, many businesses in China were closed by the PRC government to prevent transmission of SARS. Moreover, some Asian countries, including China, have recently encountered incidents of the H5N1 strain of bird flu, or avian flu. We are unable to predict the effect, if any, that avian flu may have on our business. In particular, any future outbreak of SARS, avian flu or other similar adverse public developments may, among other things, significantly disrupt our business, including limiting our ability to travel or ship our products within or outside China and forcing us to temporarily close our manufacturing facilities. Furthermore, an outbreak may severely restrict the level of economic activity in affected areas, which may in turn materially and adversely affect our financial condition and results of operations. We have not adopted any written preventive measures or contingency plans to combat any future outbreak of avian flu, SARS or any other epidemic.

Risks Relating to the GDSs and the Shares

There may be no active market for the GDSs, which may cause the price of the GDSs to fall.

No assurance can be given as to the liquidity or sustainability of the trading market for the GDSs, the ability of holders of the GDSs to sell their GDSs or the price at which holders of the GDSs will be able to sell their GDSs. If a market for the GDSs fails to be sustained, the trading price of the GDSs could fall. In addition, it is possible that the GDSs could trade at prices that may be lower than the initial offer price of the GDSs. The initial purchasers have no obligation to make a market for the GDSs. The market for debt and equity securities in emerging markets has been subject to disruptions that have caused substantial volatility in the prices of securities similar to the GDSs. There can be no assurance that the markets for the GDSs, if any, will not be subject to similar disruptions. Any disruptions in these markets may have an adverse effect on the market price of the GDSs.

You will have limited voting rights as a holder of GDSs.

Holders of GDSs may exercise voting rights with respect to the underlying shares only in accordance with the provisions of the deposit agreements. Subject to the provisions of the deposit agreements, if so instructed by holders of GDSs of at least 51% of the GDSs outstanding at the relevant record date specified by the depositary, the depositary will be required to cause the underlying shares to be voted for or against resolutions at shareholders' meetings in accordance with the instructions the depositary receives from such GDS holders, subject to certain conditions. In the absence of clear instructions from at least 51% of the holders of GDSs outstanding at the relevant time, the holders of GDSs shall be deemed to have instructed the depositary to authorize and appoint our chairman (or such person as the chairman of our board of directors may designate) as the voting representative of the depositary and the holders of GDSs to vote all the underlying shares represented by the GDSs in any manner such person deems appropriate at his or her discretion, which may not be in the interests of the holders of GDSs.

You may not be able to participate in rights offerings and may experience dilution of your holdings as a result.

We may, from time to time, distribute rights to our shareholders, including rights to acquire securities. If registration is required in any jurisdiction with respect to the offer of rights to holders of GDSs, or the sale by the depositary, of such rights or the securities or other relevant property to which such rights relate, the depositary will not effect such offer or sale with respect to the relevant tranche of GDSs, unless we have obtained an exemption from or effected a registration, in accordance with the requirements of such jurisdiction. However, under the deposit agreements, we are under no obligation to register such rights, securities or other property. Accordingly, holders of GDSs may be unable to participate in our rights offerings and may experience dilution of their holdings as a result.

If the depositary is unable to sell rights that are not exercised or not distributed or if the sale is not lawful or reasonably practicable, it will allow the rights to lapse, in which case you will receive no value for these rights.

Non-ROC Holders of GDSs who withdraw shares will be required to register with the Taiwan Stock Exchange and appoint a local agent and a tax guarantor in the ROC.

Under current ROC law, if you wish to withdraw and hold underlying shares from a depositary receipt facility, you will be required to register with the TSE for making investments in the ROC securities market prior to withdrawing shares. In addition, you will be required to appoint an eligible agent in the ROC to open a securities trading account with a local brokerage firm (with qualifications set by the ROC Securities and Futures Bureau of the FSC ("ROC SFB")) and a bank account to pay ROC taxes, remit funds, exercise shareholders' rights and perform such other functions as you may designate upon such withdrawal. In addition, you will be required to appoint a custodian bank to hold the securities in safekeeping, make confirmation and settle trades and report all relevant information. Without meeting these requirements, the withdrawing holder would be unable to hold or subsequently sell the underlying Shares withdrawn from the depositary receipt facility on the GTSM or otherwise. In addition, these regulations may change from time to time. We cannot assure you that you will be able to register with the TSE and open the requisite accounts in a timely manner or that current ROC law will remain in effect or that future changes in ROC law will not adversely affect your ability to withdraw our Shares from the GDR facilities.

Holders of GDSs withdrawing shares represented by GDSs are also required under current ROC law and regulations to appoint an agent in the ROC for filing tax returns and making tax payments. There can be no assurance that you will be able to appoint and obtain approval for such agent in a timely manner.

A holder of GDSs or its designee requesting the withdrawal of the shares represented by the GDSs may be required to provide certain information to us or the depositary, and failure to provide such information may result in a delay of the withdrawal.

A holder of GDSs or its designee requesting the withdrawal of the shares represented by the GDSs may be required to provide certain information to us or the depositary, including the name and nationality of the person to be registered as the shareholder and the number of Shares to be acquired by such person and the number of Shares acquired by such person in the past through the date of the withdrawal of the shares underlying the GDSs. Under applicable ROC laws, we are required to report to the ROC SFB if the person to be registered as a shareholder is a ''related party'' of ours as defined in the ROC Statement of Financial Accounting Standard No. 6 or will hold, immediately following such withdrawal, more than 10% of the shares represented by GDSs. Failure to provide such information may cause the delay of such withdrawal of the shares represented by the GDSs.

The existence of shares eligible for future sale could adversely affect the market price and dilute the value of our shares and GDSs.

As of March 31, 2007, we had 144,392,052 common shares issued, including 351,783 common shares converted from outstanding convertible bonds and common shares issued upon exercise of employees' stock options, which registration was pending government approval. We and a number of our directors and supervisors have agreed under written lock-up agreements, subject to certain exceptions, not to sell our shares or GDSs representing these shares for 120 days following the date of this offering circular. See "Plan of Distribution." The market prices of our shares underlied by our GDSs could decline if substantial amounts of our shares or GDSs are sold after the closing of this Offering, or if there is a perception that these sales could occur. In addition, this could make it more difficult for us to raise funds through future sales of shares or GDSs.

Restrictions on the ability to deposit our common shares into GDS program may adversely affect the liquidity and sale of our GDS.

Under the deposit agreements, no deposits of common shares may be made in the depositary receipt facilities, and no GDSs may be issued against such deposits, without the deemed approval of the ROC SFB, except for the offering and the issuance of additional GDSs in connection with (i) stock dividends on, or free distributions of, common shares, (ii) the exercise by holders of existing GDSs of their pre-emptive rights in connection with rights offerings or in the event of a capital increase for cash, (iii) to the extent previously issued GDSs have been canceled, the deposit of shares owned or purchased directly by a person or through the depositary on the GTSM for deposit in the applicable depositary receipt facility, (iv) subject in each case to receipt of all applicable approvals in the ROC, to the extent we issue any securities convertible into GDSs, the conversion of such securities or (v) upon exchange of Rule 144A GDSs for International GDSs and vice versa, provided that the total number of GDSs outstanding after an issuance described in clause (iii) does not exceed the number of GDSs issued and previously approved by the ROC SFB plus any GDSs created under clauses (i), (ii) and (iv) above. As a result of the limitations on the deposit of common shares into our GDS programs, the liquidity of our GDSs may be reduced if a significant number of withdrawal transactions are effected and no additional GDSs are issued against corresponding deposits of our common shares.

The value of your investment may be adversely affected by the volatility of the ROC securities market.

The ROC securities market is smaller and more volatile than the securities markets in the United States, Europe and certain other countries. Our shares trade on one of the ROC's two major exchanges, the GTSM. As of March 31, 2007, the aggregate market capitalization of the GTSM was NT$2,074.5 billion (US$62.8 billion). The GTSM has had substantial fluctuations in the prices of traded securities. Since its inception in 1995 at 100, the GTSM Index peaked at 343.99 points in August 1997, but closed at 104.93 points as of the end of 2000. As of March 31 2007, the GTSM Index closed at 174.95 points. Such market size and volatility could adversely affect the market price and liquidity of the securities of ROC companies in both domestic and international markets.

We may be classified as a passive foreign investment company, which could result in adverse United States federal income tax consequences to U.S. holders.

Based on the price of the GDSs in this offering and the expected price of our GDSs and common shares following this offering, and the composition of our income and assets, we do not expect to be considered a passive foreign investment company ("PFIC") for United States federal income tax purposes for our current taxable year ending December 31, 2007. However, we must make a separate determination each year as to whether we are a PFIC (after the close of each taxable year). Accordingly, we cannot assure you that we will not be a PFIC for our current taxable year or any future taxable year. A non-U.S. corporation will be considered a PFIC for any taxable year if either (1) at least 75% of its gross income is passive income or (2) at least 50% of the value of its assets (based on an average of the quarterly values of the assets during a taxable year) is attributable to assets that produce or are held for the production of passive income. The value of our assets generally will be determined by reference to the market price of our GDSs and common shares, which may fluctuate considerably. In addition, the composition of our income and assets will be affected by how, and how quickly, we spend the cash we raise in any offering. If we were to be treated as a PFIC for any taxable year during which a U.S. Holder holds a GDS or a common share, certain adverse United States federal income tax consequences could apply to the U.S. Holder. See "Taxation—United States Federal Income Taxation—Passive Foreign Investment Company."

You may not be able to enforce a judgment of a foreign court in the ROC.

We are a company limited by shares incorporated under ROC Company Law. Most of our assets and most of our directors, supervisors and executive officers and experts named in the registration statement are located in Taiwan. As a result, it may be difficult for you to enforce judgments obtained outside Taiwan upon us or such persons in Taiwan. We have been advised by our ROC counsel that any judgment obtained against us in any court outside the ROC arising out of or relating to the GDSs will be recognized by the courts of the ROC if any of the following situations shall apply to such final judgment:

- the court rendering the judgment had jurisdiction over the subject matter according to the laws of the ROC;
- the judgment and the court procedure resulting in the judgment were not contrary to the public order or good morals of the ROC;
- if the judgment was rendered by default by the court rendering the judgment, (i) process was duly served on us or such persons within a reasonable period of time within the jurisdiction of such court in accordance with the laws and regulations of such jurisdiction or (ii) process was served on us or such persons with judicial assistance of the ROC; and
- judgments of the courts of the ROC would be recognized in the jurisdiction of the court rendering the judgment on a reciprocal basis.

USE OF PROCEEDS

The net proceeds to be received by us from this offering of 18,000,000 GDSs, after deducting underwriting discounts and estimated offering expenses payable by us, will be not less than US$206.1 million. We intend to use the net proceeds to finance purchases of raw materials, equipment and machinery in connection with our capacity expansion. Pending any use as described above we intend to invest the net proceeds in short-term liquid investments. We will not receive any of the net proceeds from the sale of GDSs by the selling shareholders.

MARKET PRICE INFORMATION

Our common shares have been listed on the GTSM since May 2003. The table below sets forth, for the periods indicated, the high and low closing prices and the average daily volume of trading activity on the GTSM for our common shares and the highest and lowest of the daily closing values of the GTSM for the periods indicated. The GTSM Index is calculated on the basis of a wide selection of listed shares weighted according to the number of shares outstanding. This weighted average method is also used for the Standard and Poor's Index in the United States and the Nikkei Stock Average in Japan. The GTSM Index is compiled by dividing the market value by the base day's total market value for the index shares. The weighting of shares in the index is fixed as long as the number of shares outstanding remains constant. When the total number of shares outstanding changes, the weight of each stock is adjusted. Stock splits and stock dividends are adjusted automatically. Cash dividends are not included in the calculation. The last reported closing price for our common shares on the GTSM on May 3, 2007 was NT$399.00 per common share.

	Closing Price per Share(1)		Adjusted Closing Price per Share(2)		Adjusted Average Daily Trading	GTSM Index	
	High	Low	High	Low	Volume(2)	High	Low
	NT$	NT$	NT$	NT$	(in thousands of shares)		
2003							
Second Quarter	66.62	40.16	15.95	9.61	1,323	102.66	79.56
Third Quarter	87.37	59.86	23.37	14.33	884	113.47	102.25
Fourth Quarter	90.09	71.20	25.88	20.45	433	117.49	108.76
2004							
First Quarter	83.31	74.59	23.93	21.43	580	152.13	119.66
Second Quarter	89.12	73.62	25.60	21.15	411	160.13	116.09
Third Quarter	122.34	69.34	46.46	23.65	1,031	121.38	105.24
Fourth Quarter	188.21	126.30	71.47	47.96	1,798	118.33	107.36
2005							
First Quarter	394.25	174.34	149.72	66.21	4,216	123.66	108.67
Second Quarter	464.59	344.72	176.43	130.91	2,806	124.54	111.04
Third Quarter	690.44	355.08	285.74	165.14	3,567	132.10	113.83
Fourth Quarter	532.13	347.13	321.83	209.94	5,025	133.34	103.57
2006							
First Quarter	896.16	480.90	542.00	290.85	4,865	140.23	126.94
Second Quarter	925.00	603.74	559.44	365.14	2,351	148.35	118.97
July	809.63	633.58	489.66	383.19	3,222	132.38	124.31
August	827.53	716.13	500.49	433.12	2,677	137.80	130.17
September	522.00	468.00	522.00	468.00	2,152	140.08	133.28
October	455.00	403.00	455.00	403.00	1,814	143.33	139.15
November	508.00	463.00	508.00	463.00	2,156	153.87	142.06
December	466.50	373.00	466.50	373.00	2,030	163.91	151.54
2007							
January	472.00	383.00	472.00	383.00	2,568	167.83	161.43
February	519.00	475.00	519.00	475.00	3,125	167.34	161.10
March	482.00	415.00	482.00	415.00	2,007	174.95	157.52
April	445.00	400.00	445.00	400.00	1,311	177.99	171.62
May (through May 3)	411.00	399.00	411.00	399.00	2,537	172.60	169.72

(1) As reported.

(2) As adjusted retroactively for issuances of new shares, including stock dividends, capitalization of employee stock bonuses and capital reserve. See "Changes in Issued Capital."

The GTSM has experienced substantial fluctuations in the prices of listed securities and there are currently limits on the range of daily price movements. See "Risk Factors—Risks Relating to the GDSs and the Shares—The value of your investment may be adversely affected by the volatility of the ROC securities market" and "Appendix A: The Securities Markets of the ROC-The ROC GreTai Securities Market."

EXCHANGE RATES

The following table sets forth the average rates, high, low and period-end Noon Buying Rate in the City of New York for cable transfers between NT dollars and US dollars (in NT dollars per US dollar) for the periods indicated. No representation is made that the NT dollar amounts actually represent such US dollar amounts or could have been, or could be, converted into US dollars at the rate indicated, at any other rate or at all.

	NT Dollar/US Dollar Noon Buying Rate			
	Average	High	Low	Period End
2000	31.26	30.35	33.25	33.17
2001	33.82	32.23	35.13	35.00
2002	34.54	32.85	35.16	34.70
2003	34.40	33.72	34.98	33.99
2004	33.37	31.74	34.16	31.74
2005	32.13	30.65	33.77	32.80
2006	32.51	31.28	33.31	32.59
2007				
January	32.77	32.38	32.99	32.95
February	32.97	32.86	33.08	32.98
March	33.01	32.84	33.13	33.01
April	33.15	33.05	33.33	33.33
May (through May 3)	33.33	33.30	33.35	33.30

DIVIDENDS AND DIVIDEND POLICY

According to our articles of incorporation, 10% of the earnings for each fiscal year, after paying taxes and making up losses of the previous years, shall be set aside as legal reserve. The remainder may be further retained as a special reserve upon the resolution of our board of directors, when necessary, and thereafter no less than 1% will be distributed as bonuses to employees. The balance shall be appropriated pursuant to the resolution adopted by the board of directors. In addition, our articles of incorporation provides that we are not permitted to distribute dividends or make other distributions to shareholders in respect of any year in which we have no earnings; provided that our articles of incorporation permits us to make distributions by capitalizing our legal reserve. However, the capitalization of the legal reserve can only be effected when the accumulated legal reserve exceeds 50% of our paid-in capital. The dividends may be distributed in the form of cash or common shares, provided that dividends distributed in form of cash shall be no more than 90% of the total dividends. In the event that we have no earnings or the amount of our earnings is far below that of our distributed earnings in the previous year, or taking into account our financial, business and operational conditions, we may distribute all or part of our reserves in accordance with applicable laws and regulations or rules of the regulatory authorities. The following table sets forth the aggregate number of outstanding shares entitled to dividends, as well as the cash dividend paid and stock dividends distributed on each share, during each of the years indicated. Figures represent dividends in respect of the prior fiscal year paid in the then current fiscal year.

Year	Aggregate Number of Shares Outstanding on Record Date	Stock Dividend per Share	Cash Dividend per Share
		NT$	NT$
2004	32,565,542	3.22	1.98
2005	50,369,242	5.93	2.68
2006	84,771,577	6.53	4.36

In March 2007, our board approved a stock dividend of NT$2.40 per share and a cash dividend of NT$9.60 per share. The distribution of such dividends is subject to the approval of our shareholders in our ordinary shareholders' meeting.

Except in limited circumstances, under ROC Company Law we are not permitted to distribute dividends or make other distributions to shareholders in respect of any year in which we have no current or retained earnings (excluding reserves). ROC Company Law also requires that 10% of annual net income (less tax due and prior years' losses) be set aside as a legal reserve until such time as the accumulated legal reserve equals our paid-in capital. See "Description of Share Capital."

Holders of our outstanding common shares on a dividend record date (including subsidiaries holding our common shares) will be entitled to the full dividend declared without regard to any subsequent transfer of such common shares. Holders of our GDSs on the relevant dividend record date will be entitled to receive dividends, subject to the terms of the deposit agreement relating to the GDSs, to the same extent as the holders of our common shares. Any cash dividends will be paid to Citibank, N.A., as our depositary, in NT dollars and, except as otherwise described under "Description of the Global Depositary Shares—Dividends, Other Distributions and Rights," will be converted by the depositary into US dollars and paid to holders of our GDSs. Common share dividends will be distributed to the depositary and, except as otherwise described under "Description of the Global Depositary Shares—Dividends, Other Distributions and Rights," will be distributed by the depositary in the form of additional GDSs to the owners of the GDSs.

CAPITALIZATION

The following table sets forth our unconsolidated short-term and long-term indebtedness and total capitalization as of March 31, 2007 under ROC GAAP (i) on an actual basis, and (ii) on an adjusted basis to give effect to this offering of 18,000,000 GDSs. This table should be read in conjunction with our financial statements, including the notes to those statements, included elsewhere in this offering circular.

	As of March 31, 2007			
	Actual		As Adjusted	
	NT$	US$	NT$ (unaudited)	US$
	(in millions)			
Short-term borrowings[1]	543.4	16.5	543.4	16.5
Convertible bonds and interest premium payable	69.4	2.1	69.4	2.1
Long-term bank loans[2]	2,669.9	80.9	2,669.9	80.9
Shareholders' equity:				
Common shares, par value NT$10, 200,000,000 shares authorized, 144,040,269 shares issued	1,440.4	43.6	1,620.4	49.1
Convertible bonds and employee stock options awaiting government approval for conversion into common shares	3.5	0.1	3.5	0.1
Capital surplus	1,652.7	50.1	8,334.2	252.5
Retained earnings	3,235.0	98.0	3,235.0	98.0
Other shareholders' equity adjustment	1.6	0.1	1.6	0.1
Total shareholders' equity	6,333.2	191.9	13,194.7	399.8
Total capitalization	9,615.9	291.4	16,477.4	499.3

(1) Includes current portion of long-term bank loans.

(2) Excludes current portion of long-term bank loans.

SELECTED FINANCIAL AND OPERATING DATA

The following table presents our selected financial and operating data. The selected consolidated financial data as of and for the years ended December 31, 2004, 2005 and 2006 set forth below are qualified by reference to, and should be read in conjunction with, our audited consolidated financial statements included elsewhere in this offering circular. Our consolidated financial statements as of and for the years ended December 31, 2004, 2005 and 2006 have been audited. The selected unconsolidated statement of financial and operating data for the three months ended March 31, 2006 and 2007 and the selected unconsolidated balance sheet data as of March 31, 2006 and 2007 are derived from our unaudited unconsolidated financial statements included elsewhere in this offering circular and contain normal recurring adjustments which are, in the opinion of management, necessary for a fair presentation of the results for such unaudited periods. Results for the three months ended March 31, 2007 are not necessarily indicative of the results that may be expected for the year ended December 31, 2007.

Our financial statements have been prepared and presented on a consolidated and unconsolidated basis and in accordance with ROC GAAP. ROC GAAP differs in certain material respects from US GAAP, including with respect to the rules regarding the presentation of consolidated and unconsolidated financial statements. See "Summary of Certain Differences Between ROC GAAP and US GAAP." You should also read the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section, which describes a number of factors that have affected our financial results, including, among other things, demand for our products, the prices of raw materials and machinery and equipment, the average realized sales price of our products and the appreciation or depreciation of the NT dollar against the US dollar.

	Consolidated				Unconsolidated		
	As of and for the Year Ended December 31,				As of and for the Three Months Ended March 31,		
	2004	2005	2006		2006	2007	
	NT$	NT$	NT$	US$	NT$	NT$	US$
	(in millions, except percentages and share data)						
Statement of Operations Data							
Net revenues	2,467.1	4,456.2	8,203.4	248.5	710.0	3,308.3	100.2
Cost of goods sold	(1,748.4)	(2,953.4)	(5,687.1)	(172.3)	(599.3)	(2,500.3)	(75.7)
Gross profit	718.8	1,502.8	2,516.3	76.2	113.5	808.2	24.5
Operating expenses:							
Selling expenses	(60.5)	(82.9)	(78.5)	(2.4)	(10.3)	(22.2)	(0.7)
General and administrative expenses	(80.2)	(121.9)	(205.8)	(6.2)	(30.6)	(57.4)	(1.7)
Research and development expenses	(33.8)	(34.1)	(45.2)	(1.4)	(8.9)	(25.5)	(0.8)
Total operating expenses	(174.5)	(238.8)	(329.5)	(10.0)	(49.8)	(105.0)	(3.2)
Income from operations	544.3	1,264.0	2,186.8	66.2	63.7	703.2	21.3
Total non-operating income	26.4	18.9	128.9	3.9	31.8	88.9	2.7
Total non-operating expenses	(10.5)	(115.7)	(52.2)	(1.6)	(45.4)	(25.4)	(0.8)
Income before income tax	560.2	1,167.1	2,263.6	68.6	50.1	766.6	23.2
Income tax expenses	(0.5)	(7.7)	(5.7)	(0.2)	—	—	—
Net income	559.6	1,159.4	2,257.9	68.4	50.1	766.6	23.2

	Consolidated				Unconsolidated		
	As of and for the Year Ended December 31,				As of and for the Three Months Ended March 31,		
	2004	2005	2006		2006	2007	
	NT$	NT$	NT$	US$	NT$	NT$	US$
	(in millions, except percentages data)						
Share Data							
Basic earnings per common share[(1)]	4.66	8.52	16.01	0.49	0.36	5.32	0.16
Diluted earnings per common share[(1)]	3.89	7.95	15.31	0.46	0.34	5.12	0.15
Shares used in computation (in thousands):							
Basic	120,085	136,139	141,015	141,015	140,103	144,175	144,175
Diluted	144,889	146,078	147,511	147,511	146,226	149,867	149,867
Dividends per common share	5.20	8.61	10.89	0.33	—	—	—
Financial Data							
Gross margin (in %)	29.1	33.7	30.7	30.7	16.0	24.4	24.4
Operating margin (in %)	22.1	28.4	26.7	26.7	9.0	21.3	21.3
Net margin (in %)	22.7	26.0	27.5	27.5	7.1	23.2	23.2
Net cash from (used in) operating activities	766.5	90.9	1,455.5	44.1	(385.4)	(946.3)	(28.7)
Net cash from (used in) investing activities	(303.6)	(244.7)	(3,256.1)	(98.6)	(175.4)	(467.3)	(14.2)
Net cash from (used in) financing activities	(151.2)	(15.6)	3,124.4	94.7	612.7	666.2	20.2
Capital expenditures[(2)]	540.1	466.8	1,712.1	51.9	202.4	330.3	10.0
Selected Operating Data (Unaudited)							
Amount of PV cells sold (in MW)	35	60	102	—	8	37	—
Average selling price of PV cells (in NT$ per cell)	153.8	180.8	241.0	7.3	221.9	274.9	8.3
Balance Sheet Data							
Cash and cash equivalents	455.2	288.0	1,612.5	48.9	291.1	817.4	24.8
Notes and net accounts receivable	264.0	312.8	1,083.7	32.8	373.0	1,728.7	52.4
Inventories	256.1	1,187.9	1,288.2	39.0	1,527.9	1,482.9	44.9
Net property, plant and equipment	771.2	1,021.7	2,610.0	79.1	1,293.9	2,807.0	85.0
Total assets	2,091.6	3,373.6	9,061.7	274.5	4,067.1	10,320.3	312.6
Notes and accounts payable	202.8	205.0	326.4	9.9	179.0	254.3	7.7
Accrued expenses and other current liabilities	214.5	345.0	408.8	12.4	400.5	309.3	9.4
Long-term borrowings	27.5	73.9	2,075.7	62.9	148.8	2,669.9	80.9
Total liabilities	751.2	868.7	3,502.2	106.1	1,506.4	3,987.1	120.8
Stockholders' equity	1,340.4	2,504.9	5,559.5	168.4	2,560.7	6,333.2	191.9

(1) Reflects earnings per common share after tax.

(2) Capital expenditures is defined as purchases of property, plant and equipment.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with "Selected Financial and Operating Data," our audited consolidated and unconsolidated financial statements as of and for the years ended December 31, 2004, 2005 and 2006 and our unaudited financial statements as of and for the three months ended March 31, 2006 and 2007, including the notes to those unconsolidated financial statements, included elsewhere in this offering circular. Our financial statements have been prepared and presented in accordance with ROC GAAP, which differs in certain material respects from US GAAP, as discussed under "Summary of Certain Differences Between ROC GAAP and US GAAP."

Overview

We are one of the world's top 10 manufacturers of PV cells as measured by production capacity and output in 2006, according to Solarbuzz. We design, develop, manufacture and sell a variety of high quality monocrystalline and multicrystalline PV cells. Since we entered the PV market in 2000, we have focused on and developed an industry-leading manufacturing system featuring advanced process technologies that result in highly efficient, customized, automated production lines. We are an early adopter of innovative and unique process technologies that have enhanced our production efficiency and the quality of our products. We sell our PV cells to leading PV module manufacturers and integrated systems providers throughout the world.

The strong execution capabilities of our experienced management team and the efficiency of our manufacturing system have allowed us to rapidly expand our production capacity and output without compromising quality. Our total production output increased from 35 MW in 2004 to 102 MW in 2006, representing a CAGR of 70.7%. Our total production output was 37 MW for the three months ended March 31, 2007. As of March 31, 2007, our total annual installed PV cell production capacity reached 240 MW. The customized production line in Fab 2 of our Tainan, Taiwan factory has an annual PV cell capacity of approximately 80 MW, compared to 25 MW to 30 MW for a comparable turnkey production line. We expect to increase our annual installed PV cell production capacity to approximately 280 MW by the end of 2007 and to approximately 400 MW by the end of 2008. The conversion efficiency of our monocrystalline and multicrystalline PV cells reached 16.7% and 15.8%, respectively, as of March 31, 2007.

To accelerate our growth and maintain an optimal cost structure, we intend to vertically integrate by significantly increasing our existing wafer production capacity and expanding into the polysilicon feedstock market. As of the date of this offering circular, we have secured the supply of over 70% of the silicon raw materials necessary to support our anticipated PV cell production in 2007. We have also secured supplies from leading suppliers, including, REC Scanwafer AS, ReneSola Ltd. and LDK Solar Hi-tech Co., Ltd., to support our anticipated 2007 and 2008 production. We also enter into OEM arrangements pursuant to which we secure wafers from our customers and provide PV cells to them. We intend to build a new wafer production facility in China. We expect our new China wafer facility and our existing Tainan wafer facility to have a total annual installed production capacity of approximately 100 MW by December 31, 2008, or approximately 25% of our anticipated total annual installed PV cell production capacity. In December 2006, we entered into a seven-year polysilicon supply contract with AE Polysilicon, a New Jersey, United States-based company that will utilize cost-efficient FBR technology to produce polysilicon. AE Polysilicon is currently building a production facility in the United States that is expected to commence polysilicon production in late 2008. We expect AE Polysilicon to commence delivery of polysilicon to us beginning in early 2009, in amounts to be increased to 2,500 tons of polysilicon per year by the end of 2011.

Our consolidated net revenues increased from NT$2,467.1 million in 2004 to NT$8,203.4 million (US$248.5 million) in 2006, representing a CAGR of 82.4% and our unconsolidated net revenues increased from NT$710.0 million for the three months ended March 31, 2006 to NT$3,308.3 million (US$100.2 million) for the three months ended March 31, 2007. Our consolidated net income increased from NT$559.6 million in 2004 to NT$2,257.9 million (US$68.4 million) in 2006, representing a CAGR of 100.9% and our unconsolidated net income increased from NT$50.1 million for the three months ended March 31, 2006 to NT$766.6 million (US$23.2 million) for the three months ended March 31, 2007. Our customers include Aleo, Atersa, GE Energy, Scheuten, Siliken and Tenesol.

The most significant factors that affect our financial performance and results of operations are:

- production capacity and output;
- average selling price of our PV cells;
- availability and price of silicon raw materials;
- industry demand;
- government incentives; and
- process technologies.

Manufacturing Capacity

Production capacity is a key driver of our net revenue and gross profit. In order to accommodate the growing demand for our products, we have expanded, and plan to continue to expand, our PV cell, ingot and wafer manufacturing capacity. We expect to use part of the net proceeds from this offering to fund these contemplated expansions in production capacity. An increase in production capacity has a significant effect on our financial results, both by allowing us to produce and sell more PV cells and achieve higher net revenues, and by lowering our manufacturing costs as a result of increased economies of scale.

We produced 102 MW of PV cells at our Tainan, Taiwan facility in 2006 (despite a fire at Fab 1 in November 2005 which resulted in a forced shutdown of Fab 1 for approximately three months), compared to 60 MW in 2005 and 35 MW in 2004, representing a CAGR of 70.7%. Our total production output for the three months ended March 31, 2007 was 37 MW. As of December 31, 2006 and March 31, 2007, our total annual installed PV cell production capacity was 240 MW, compared to 100 MW as of December 31, 2005 and 50 MW as of December 31, 2004. We believe Fab 1 at our Tainan facility is operating at its maximum capacity. We expect to increase our annual installed PV cell production capacity to approximately 280 MW by the end of 2007 and to approximately 400 MW by the end of 2008.

Average Selling Price of Our PV Cells

Our PV cells are priced based on the number of watts of electricity they can generate. Pricing of PV cells is principally affected by manufacturing costs, including the cost of silicon wafers, and overall demand. Increased economies of scale and process technologies advancements in the past resulted in a steady reduction in manufacturing costs and the prices of PV cells. However, since 2004, prices of PV cells began rising gradually due to rapid growth in worldwide demand and increased costs resulting from shortages of silicon raw materials. According to Solarbuzz, the average selling price of PV cells increased from the fourth quarter of 2004 to the fourth quarter of 2005 by approximately 20% to 25%, depending on the size of the PV cells and the type of technology; mainstream multicrystalline silicon cell prices increased from the first quarter of 2006 to the first quarter of 2007 by an average of 8%, while monocrystalline silicon PV cell prices increased by a similar proportion.

We determine the power output of our PV cells based on their size and measured conversion efficiencies. We generally price our PV cells based on the prevailing market prices when we enter into sales contracts with our customers or when our customers place purchase orders with us, taking into account the size of the contract or the purchase order, the strength and history of our relationship with the customer and our costs. The average selling prices of our PV cells were NT$153.8 per cell, NT$180.8 per cell, NT$241.0 (US$7.3) and NT$274.9 (US$8.3) per cell in 2004, 2005, 2006 and the three months ended March 31, 2007, respectively.

Most of our PV cell sales are conducted via short-term purchase orders placed by our customers. We sometimes enter into short-term sales contracts with terms ranging from six months to one year with our customers under which we are obligated to sell our products at a fixed price during the term of the contract. Our sales contracts typically require our customers purchasing pursuant to a short-term arrangement to make a prepayment of the total contract price depending on their credit status, general market demand and terms of the contracts, with the remaining price to be paid shortly after shipment. Depending our customer's credit history with us, we may also grant customers credit terms up to 60 days. From time to time, we enter into longer-term sales contracts up to 10 years with pricing based on a fixed schedule, in order to hedge any decreases in PV cell prices in the future.

Availability and Price of Silicon Raw Materials

Silicon wafers are the most important raw materials for manufacturing PV cells, and substantially all of our raw materials costs are attributable to silicon wafers. There is currently an industry-wide shortage of polysilicon due to the growing demand for PV products and the continuing expansion of the semiconductor industry, which has resulted in significant price increases for, and a shortage of, polysilicon in 2004, 2005 and 2006. According to Solarbuzz, the average long-term supply contract price of polysilicon increased from approximately US$28 to US$32 per kilogram delivered in 2004 to US$50 to US$55 per kilogram delivered in 2006, and was expected to increase to US$60 to US$65 per kilogram delivered in 2007. In addition, according to Solarbuzz, spot prices for polysilicon, in some cases, reached US$300 per kilogram in 2006. We believe that the average price of polysilicon and silicon wafers will remain at historically high levels or even increase in the foreseeable future until a significant portion of polysilicon manufacturing capacity currently under construction becomes available. We procure silicon wafers from wafer manufacturers and trading companies.

Some of our silicon wafers and other silicon-based raw materials are supplied pursuant to supply contracts with one year or shorter terms or purchase orders. We also enter into long-term contracts for the procurement of silicon wafers with terms ranging from three to ten years. These contracts generally require us to make an advance payment of a certain negotiated amount. The prices of the wafers are fixed, subject to pricing adjustments based on adjustments in length and thickness of the wafers to be delivered as silicon wafer manufacturing technology advances, as well as changes in the price of silicon raw materials. Partly as a result of the industry-wide shortage, we have, from time to time, faced a shortage of silicon raw materials and experienced late delivery from suppliers and increased supply costs.

From time to time, to address wafer shortage issues, we enter into OEM arrangements with customers. Under a wafer consignment transaction, we manufacture PV cells with silicon wafers provided by a customer. We ship the cell products back to the customer or to a third party designated by the customer. The only revenue we recognize under this type of transaction is the service fee we receive for our engineering services. We also enter into another type of transaction under which we purchase silicon wafers from a customer. We then sell cell products back to the customer or to a third-party designated by the customer. In addition to procuring silicon wafers, we also procure polysilicon, ingots and other silicon-based raw materials throughout the various segments of the supply chain, and convert these materials into silicon wafers. We produce a portion of our silicon ingot requirements and convert these ingots into wafers.

The procurement costs of silicon raw materials have accounted for a substantial majority of our cost of goods sold since we began our commercial shipment of PV cells in 2000. Increases in the price of silicon raw materials have previously increased our cost of goods sold and may continue to impact our cost of goods sold and net income. From time to time, we were able to absorb such increases in silicon raw material costs by, to a large extent, increasing the selling prices of our PV cells, improving our process technologies and increasing our manufacturing capacity. However, we cannot ensure that we will be able to improve our gross margin in the future.

Given the current state of the industry, suppliers of silicon raw materials typically require customers to make payments in advance of shipment. Our suppliers generally require us to make a prepayment at a certain percentage of the order value prior to shipping. As a result our purchases of silicon raw materials have required, and we anticipate will continue to require, us to make significant working capital commitments beyond the capital generated from our cash flow from operations. We are required to manage our borrowings and equity contributions to support our raw material purchases.

Industry Demand

Our business and revenue growth have been primarily driven by the growing industry demand and our ability to attract new customers and expand our manufacturing capacity at the same time. There has been significant growth in the PV market in the past decade. According to Photon Consulting, the global solar power market as measured by annual solar power production increased by 41.7% from 1.2 GW in 2004 to 1.7 GW in 2005. During the same period, solar power industry revenues grew from approximately US$8 billion in 2004 to US$12 billion in 2005. Photon Consulting projects that solar power industry revenues and solar power production will reach US$72 billion and 10.4 GW, respectively, by 2010. Solar power production is expected to grow at a CAGR of 43.7% from 2005 to 2010, driven largely by rising grid prices, government incentives and new distribution channels, according to Photon Consulting. In addition, we believe that industry demand may be affected by seasonality. Demand tends to be lower in the first quarter than in the subsequent three quarters, primarily because of adverse weather conditions in certain regions that complicate the installation of PV systems.

Government Incentives

We believe that the near-term growth of the market for on-grid applications depends in large part on the availability and size of government subsidies and other economic incentives. Today, the cost of implementing and operating a solar power system substantially exceeds the cost of purchasing power provided by the electric utility grid in many locations. As a result, federal, state and local governmental bodies in many countries, most notably Germany, Spain, the United States, Japan and China, have provided subsidies and other economic incentives to reduce dependency on conventional sources of energy. These have come in the form of rebates, tax credits and other incentives to end users, distributors, system integrators and manufacturers of solar power products, to promote the use of solar energy in on-grid and, to a lesser extent, off-grid applications. The demand for our PV cells is affected significantly by these government subsidies and other economic incentives. Any reductions or eliminations in government subsidies and economic incentives could reduce demand for our products and affect our revenues.

Process Technologies

Our PV cells are priced based on the number of watts of electricity they can generate. Process technologies advancement is important because it helps increase conversion efficiencies of PV cells, thereby generating higher revenues per PV cell, and helps reduce the manufacturing cost of PV cells per watt. For this reason, solar energy companies, including us, are continuously developing advanced process technologies for large-scale manufacturing while reducing costs to maintain and improve profit margins. Process technologies advancement has improved our manufacturing productivity and reduced our per unit raw materials usage. We have pioneered, or been early adopters or, advanced process technologies such as acidic texturization, back side etching and sputter AR coating.

We have increased the average daily output of our PV cell production lines to 160,000 cells as of December 31, 2006 and 200,000 cells as of March 31, 2007, compared to 60,000 cells as of December 31, 2004. The conversion efficiency of our monocrystalline and multicrystalline PV cells reached 16.7% and 15.8%, respectively, as of March 31, 2007, compared to 15.8% and 15.0%, respectively, as of December 31, 2004. We have reduced our multicrystalline and monocrystalline PV cell thickness to 200 microns and 200 microns, respectively, as of December 31, 2006 compared to 330 microns and 300 microns, respectively, as of December 31, 2004.

Key Financial Measures

We evaluate our business using a variety of key financial measures as follows:

Net Revenues

Our solar division accounted for over 97% of our consolidated net revenues in 2006, and 95.9% of our unconsolidated net revenues for the three months ended March 31, 2007. Our solar division generates product revenue from the sale of PV cells to third parties. It also generates service revenue in the form of service fees received for converting silicon wafers into cells on a consignment basis. Our instruments division generates revenue from the sale of solar inverters and test and measurement instruments and our power systems division generates revenue from the sale of PV systems. Sales of PV cells to our customers are typically made through non-exclusive, short-term arrangements. We require payment of a deposit of a certain percentage of the contract price from our customers which we record under customer deposits on our consolidated balance sheet. Once the revenue recognition criteria are met, we then recognize these payments as net revenue. We record revenue net of sales returns and sales allowances, which are any reduction in the selling price of goods due to breakage, quality deficiency or incorrect quantity. As of December 31, 2004, 2005 and 2006, we had received deposits on a consolidated basis of NT$14.1 million, NT$4.4 million and NT$140.2 million (US$4.2 million), respectively. As of March 31, 2007, we had received deposits on an unconsolidated basis of NT$178.4 million (US$5.4 million).

Sales to our top five customers accounted for more than 50.3%, 40.2% and 40.9% of our consolidated net revenues for the years ended December 31, 2004, 2005 and 2006, respectively, and 49.3% and 47.9% of our unconsolidated net revenues for the three months ended March 31, 2006 and 2007, respectively.

We currently make a majority of our sales to customers located in China and Germany. The following table sets forth by region our net revenues derived from sales of our products for the periods indicated:

	Consolidated						Unconsolidated			
	Year Ended December 31,						Three Months Ended March 31,			
	2004		2005		2006		2006		2007	
	(in millions, except percentages)									
Europe										
Germany	NT$1,070.7	43.4%	NT$1,298.3	29.1%	NT$1,464.9	17.9%	NT$115.8	16.3%	NT$ 615.1	18.6%
Others	71.8	2.9%	75.8	1.7%	889.6	10.8%	24.9	3.5%	707.7	21.4%
Europe total	1,142.5	46.3%	1,374.1	30.8%	2,354.5	28.7%	140.7	19.8%	1,322.8	40.0%
Asia										
Japan	180.2	7.3%	308.0	6.9%	110.6	1.3%	40.9	5.8%	—	—
China	869.2	35.3%	2,049.7	46.0%	3,183.0	38.8%	265.9	37.5%	859.7	26.0%
Others	129.5	5.2%	297.0	6.6%	1,361.4	16.6%	125.1	17.6%	489.8	14.8%
Asia total	1,178.9	47.8%	2,654.7	59.6%	4,655.0	56.7%	432.0	60.9%	1,349.5	40.8%
United States.	16.3	0.7%	83.6	1.9%	674.0	8.2%	43.5	6.1%	354.2	10.7%
Africa and others	129.5	5.2%	343.8	7.8%	519.9	6.4%	94.0	13.2%	281.7	8.5%
Net revenues	NT$2,467.2	100.0%	NT$4,456.2	100.0%	NT$8,203.4	100.0%	NT$710.0	100.0%	NT$3,308.3	100.0%

Although we anticipate that our dependence on a limited number of customers in a few concentrated geographic regions will continue for the foreseeable future, we are actively expanding our customer base and geographic coverage through various marketing efforts, especially in other developing European PV markets, such as Italy and Spain, and the U.S. markets.

From time to time, to address wafer shortage issues, we enter into OEM arrangements with customers. Under a wafer consignment transaction, we manufacture PV cells with silicon wafers provided by a customer. We ship the cell products back to the customer or to a third party designated by the customer. The only revenue we recognize under this type of transaction is the service fee we receive for our engineering services. Our cost of goods sold consists primarily of the costs associated with providing the engineering services. We also enter into another type of transaction under which we purchase silicon wafers from a customer. We then sell cells back to the customer or to a third-party designated by the customer. Our cost of goods sold consists primarily of the cost of the silicon wafers and other raw materials. In 2004, 2005 and 2006 and the three months ended March 31, 2007, 4.2%, 7.9%, 21.5% and 13.7%, respectively, of our solar division's revenues were generated through OEM arrangements.

Our other sources of revenue are sales of solar inverters and high-end test and measurement instruments as well as integrated PV systems.

Cost of Goods Sold

Our cost of goods sold includes the cost of raw materials used for our PV cell production and PV cell processing, such as silicon wafers, and other direct raw materials and components. In addition to procuring silicon wafers, we also procure polysilicon, ingots and other silicon-based raw materials throughout the various segments of the supply chain. We expect the cost of silicon wafers, our primary raw material for the manufacturing of PV products, will continue to constitute a substantial portion of our cost of goods sold in the near future. We also purchase raw materials for the manufacturing of test and measurement instruments.

Other items contributing to our cost of goods sold include direct labor, which includes salaries and benefits for personnel directly involved in manufacturing activities, manufacturing overhead, which consists of utility, maintenance of production equipment, shipping and handling costs for materials purchased by us, and other support expenses associated with the manufacturing of our PV products and depreciation and amortization of manufacturing equipment and facilities.

We expect our cost of goods sold to increase in absolute terms as we increase our capacity and production volume. Potential increases in the cost of silicon wafers as well as the potential increase in shipping costs for our PV products may also contribute to higher cost of goods sold.

Silicon wafers are the most important raw materials for our products. We record the purchase price of silicon wafers and other raw materials initially as inventory in our consolidated balance sheets, and then transfer this amount to cost of goods sold after the raw materials are consumed in our manufacturing process and the finished products are sold and delivered.

Operating Expenses

Our operating expenses consist of selling expenses, general and administrative expenses and research and development expenses. We expect our operating expenses to increase in absolute terms as we increase our capacity and production volume.

Selling Expenses. Our selling expenses primarily consist of shipping costs for our products, advertising and other promotional expenses, commissions, traveling expenses and salaries and benefits for our sales and marketing personnel. As we intend to pursue an aggressive marketing strategy to promote our products in different geographic markets, we expect that our selling expenses will increase for the immediate future. Our consolidated selling expenses were NT$60.5 million, NT$82.9 million and NT$78.5 million (US$2.4 million) for the years ended December 31, 2004, 2005 and 2006, respectively. Our unconsolidated selling expenses were

NT$10.3 million and NT$22.2 million (US$0.7 million) for the three months ended March 31, 2006 and 2007, respectively.

General and Administrative Expenses. Our general and administrative expenses primarily consist of salaries and benefits of our administrative staff, depreciation charges of fixed assets used for administrative purposes, professional service fees as well as administrative office expenses including, among others, consumables, traveling expenses, insurance and sundry purchases. Our consolidated general and administrative expenses were NT$80.2 million, NT$121.9 million and NT$205.8 million (US$6.2 million) for the years ended December 31, 2004, 2005 and 2006, respectively. Our unconsolidated general and administrative expenses were NT$30.6 million and NT$57.4 million (US$1.7 million) for the three months ended March 31, 2006 and 2007, respectively. We expect our general and administrative expenses to increase as we hire additional personnel and incur expenses to support our operations as we grow.

Research and Development Expenses. Our research and development expenses primarily consist of salaries and benefits of our research and development staff, other expenses including depreciation, materials used for research and development purposes. Our consolidated research and development expenses were NT$33.8 million, NT$34.1 million and NT$45.2 million (US$1.4 million) for the years ended December 31, 2004, 2005 and 2006, respectively. Our unconsolidated research and development expenses were NT$8.9 million and NT$25.5 million (US$0.8 million) for the three months ended March 31, 2006 and 2007, respectively. We believe that research and development is critical to our strategic objectives of enhancing our technologies, improving our manufacturing process, reducing costs and meeting the changing requirements of our customers. As a result, we expect that our total research and development expenses will increase in absolute terms in the future.

Taxation

The corporate income tax rate in Taiwan that applies to us is 25%. We have to date incurred only minimal current income tax expenses as we have applied corporate income tax exemptions and investment tax credits that we accumulated from previous years to offset the tax liability to which we would otherwise have been subject.

Based on our status as a company engaged in the high technology business in Taiwan, we benefit from certain ROC corporate income tax credits or exemptions. The income attributable to the use of equipment that we purchase, in part or in whole, with proceeds we raise through share offerings, may be exempted from corporate income tax in Taiwan if our shareholders do not use these tax exemptions themselves. In addition, income attributable to the use of equipment that we purchase, in whole or in part, with retained earnings that we capitalize, may be exempted from corporate income tax in Taiwan. These exemptions typically apply for five consecutive years, commencing in a year to be designated by us within two years following the commencement of commercial production using such equipment.

If we make a qualified rights offering, our shareholders will be entitled to elect to receive a tax credit of up to 10% (in the case of an individual shareholder) or 20% (in the case of a corporate shareholder) of their subscription amount. The tax credit may be used against taxes payable within the five-year period following the first three years of investment, provided that shareholders elect to receive the tax credit pursuant to a majority vote at a shareholders' meeting held within two years of the rights offering.

Tax Credits and Holidays

We benefit from tax credits that we may apply to reduce our tax liabilities. We were granted investment tax credits for investment in certain high-tech industries for purchases of automatic machinery and equipment and for expenditures on research and development. These investment tax credits can be used to reduce the income tax liability in the current year and in the following four years at an amount not exceeding 50% of the income tax liability for each year during the first four years, with full utilization of the balance of any remaining unused investment tax credits in the final year. We had accumulated, on a consolidated basis, NT$126.3 million (US$3.8 million) of these tax credits as of December 31, 2006 and, on an unconsolidated basis, NT$147.6 million (US$4.5 million), as of March 31, 2007. Prior to 2006, tax credits were scheduled to expire four years from the end of the year in which we received the equipment. After 2006, tax credits are expected to expire four years from the end of the year in which the order was placed for the equipment. As of March 31, 2007, NT$6.5 million (US$0.2 million), NT$22.4 million (US$0.7 million), NT$80.3 million (US$2.4 million) and NT$38.4 million (US$1.2 million) of these tax credits are expected to expire in 2008, 2009, 2010 and 2011, respectively.

Based on our status as a company engaged in the high technology business in Taiwan, we have been able to benefit from certain ROC corporate tax credits or exemptions. The Statute of Upgrading Industries, or the SUI, provides tax credit to companies for the purchase of certain types of machinery and equipment, investment in research and development and personnel training. The rate of the tax credit for the machinery and equipment is announced by the ROC Executive Yuan. Starting from January 2004, if the costs for certain qualifying equipment in any taxable year exceed NT$0.6 million, the purchase of this equipment is entitled to a 11% tax credit. From January 2006 to December 2007, this tax credit has been reduced to 7%.

In addition, we have applied for and were authorized a five-year tax holiday for our production and sales of PV cells and templates during January 2002 to December 2006, January 2005 to December 2009, July 2005 to June 2010 and October 16, 2006 to October 15, 2011.

The income tax laws of the ROC were amended in December 2005, and a new tax regime was enacted to impose an alternative minimum tax at 10% on the "basic taxable income" of companies in Taiwan determined pursuant to a certain formula. To calculate such basic taxable income, companies in Taiwan are required to add back certain income which was exempted from income tax pursuant to tax holidays granted under ROC tax laws. Companies in Taiwan are required to pay the higher of the two amounts of tax payable determined under this alternative minimum tax calculation and the regular income tax calculation. As a result, our ability to enjoy the tax holidays in the future will be reduced if our income tax determined under the alternative minimum tax regime is higher than the amount of income tax determined under the regular regime. This new alternative minimum tax started to apply to our taxable income in 2006. However, certain tax holiday benefits granted prior to the effectiveness of the new tax regime are grandfathered and are not required to be included in our basic taxable income. As a result, our current five-year tax holiday benefit enables us to exempt a large proportion of our income from the calculation of basic taxable income under the alternative tax regime, and we believe the impact of such new tax on our tax liability will be insignificant during such holiday period. However, we cannot assure you that such new tax regime will not affect our ability to enjoy tax holidays in the future.

Tax on Retained Earnings

In 1997, the ROC Income Tax Law was amended to integrate the corporate income tax and shareholder dividend tax. Under the amendment, after-tax earnings generated from January 1, 1998 and not distributed to shareholders as dividends in the following fiscal year will be assessed a 10% retained earnings tax. See "Taxation—ROC Taxation—Dividends on our common shares." As a result, if we do not distribute as dividends in any fiscal year all of our annual retained earnings generated in the preceding fiscal year, our applicable corporate income tax rate may exceed 25% for such fiscal year.

Critical Accounting Policies

The preparation of our financial statements and related disclosures in conformity with ROC GAAP requires us to make estimates, assumptions and judgments that affect the amounts reported in our financial statements and the accompanying notes. The amounts of assets and liabilities reported in our balance sheets and the amounts of revenues and expenses reported for each of the periods are affected by estimates, assumptions and judgments which are used for, but not limited to, accounting for asset impairment, allowance for doubtful accounts, provision for inventory obsolescence, and valuation allowance for deferred tax assets. These estimates are based on historical experience, forecasted future events and various other assumptions that we believe to be reasonable under the circumstances. Estimates and judgments may differ under different assumptions or conditions. We evaluate our estimates, assumptions and judgments on an ongoing basis. Actual results may differ from these estimates. Any change to our judgments, assumptions or estimates may also have a material impact on our financial statements. Note 2 to our audited consolidated financial statements for the years ended December 31, 2004, 2005 and 2006 included elsewhere in this offering circular describe the significant accounting policies and methods used in the preparation of our financial statements. The following critical accounting policies are significantly affected by judgments, assumptions and estimates used in the preparation of our financial statements.

Asset Impairment

We review assets (asset or cash generating units other than goodwill) for impairment in accordance with ROC SFAS No. 35, which became effective with respect to our financial year commencing January 1, 2005. We review asset or cash generating units other than goodwill on each balance sheet date where there are circumstances which indicate that the carrying value of an asset may not be recoverable. We estimate the recoverable value of these assets using an income approach. Under the income approach, we calculate the recoverable value of a reporting unit based on the present value of estimated future cash flows. We recognize an impairment loss when the estimated recoverable value of the asset is less than the carrying value. We are also permitted to reverse impairment losses (except for impairments of goodwill) under limited circumstances.

Determining the recoverable value of a reporting unit or an asset is judgmental in nature and involves the use of significant estimates and assumptions. These estimates and assumptions include revenue growth rates and operating margins used to calculate projected future cash flows, risk-adjusted discount rates, future economic and market conditions, and determination of appropriate market comparables. We base our fair value estimates on assumptions we believe to be reasonable but that are unpredictable and inherently uncertain. Actual future results may differ from those estimates.

Allowance for Doubtful Accounts

We evaluate our outstanding accounts receivable balance on a monthly basis for collectibility purposes. Such evaluation includes an analysis of the number of days outstanding for each outstanding accounts receivable account. When appropriate, we provide a provision that is principally based on the number of days for which the account has been outstanding. The provision provided on each aged account is based on our average historical loss experience over the previous year.

Also, we record specific provisions for individual accounts when we become aware of a customer's inability to meet its financial obligations to us, such as in the case of bankruptcy filings or deterioration in the customer's operating results or financial position. If circumstances related to customers change, our estimates of the recoverability of receivables would be further adjusted, either upward or downward.

Provision for Inventory Obsolescence

Provisions for inventory obsolescence and devaluation are recorded when we determine that the fair values of inventories are less than their cost basis, which may be affected by the number of months of inventory items that remain unsold. Additionally, our analysis of our provision for obsolete and devalued inventory is partially based upon forecasts of demand for our products and any change to these forecasts. Factors influencing these forecasts include changes in demand, rapid technological changes, product life cycle and development plans, component cost trends, product pricing, physical deterioration and quality issues. Such provisions can be reversed in whole or in part if we further determine that the fair values of inventories are greater than their cost basis.

Valuation Allowance for Deferred Tax Assets

We have a significant amount of potential deferred tax assets as a result of the various tax credits available to us under ROC governmental tax incentive programs. ROC GAAP applies less stringent criteria to determine such valuation allowance, compared to accounting requirements in certain other countries. The recognition of net deferred tax assets under ROC GAAP results primarily from the projection of income before tax for future accounting periods. We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. We have considered future market growth, forecasted earnings, future taxable income, the mix of earnings in the jurisdictions in which we operate, and prudent and feasible tax planning strategies in determining the need for a valuation allowance. In the event we were to determine that we would not be able to realize all or part of our net deferred tax assets in the future, an adjustment to the deferred tax assets would be charged to earnings in the period in which we make such determination. Likewise, if we later determine that it is more likely than not that the net deferred tax assets would be realized, we would reverse the applicable portion of the previously provided valuation allowance. In order for us to realize our deferred tax assets we must be able to generate sufficient taxable income in the tax jurisdictions in which the deferred tax assets are located. We calculate our current and deferred tax provision based on estimates and assumptions that could differ from the actual results reflected in income tax returns filed during the subsequent year. Adjustments based on filed returns are recorded when identified.

Selected Quarterly Results of Operations

The following table sets forth unaudited unconsolidated financial information for the nine fiscal quarters ended March 31, 2007. We believe that all necessary adjustments, consisting only of normal recurring adjustments, have been included in the amounts stated below to present fairly the selected quarterly information. Our results of operations have varied and may continue to vary significantly from quarter to quarter and are not necessarily indicative of the results of any future period. Accordingly, we believe that period-to-period comparisons should not be relied upon as an indication of future performance.

	Quarter Ended								
	March 31, 2005	June 30, 2005	September 30, 2005	December 31, 2005	March 31, 2006	June 30, 2006	September 30, 2006	December 31, 2006	March 31, 2007
	NT$	NT$	NT$	NT$	NT$ (unaudited) (in millions)	NT$	NT$	NT$	NT$
Net revenues	799.5	1,020.9	1,396.3	1,087.5	710.0	2,095.0	2,216.0	3,078.4	3,308.3
Cost of goods sold	558.5	689.4	973.2	659.8	598.9	1,396.5	1,525.4	2,098.2	(2,500.3)
Gross profit	241.0	331.5	423.1	427.7	111.1	698.5	690.6	980.2	808.2
Operating expenses:									
Selling expenses	16.6	23.5	25.5	24.6	10.3	15.0	18.3	18.2	(22.2)
General and administrative expenses	18.4	30.7	30.9	33.9	30.6	47.3	48.2	69.7	(57.4)
Research and development expenses	7.0	9.0	9.3	8.8	8.9	13.1	10.3	12.9	(25.5)
Total operating expenses	42.0	63.1	65.7	67.3	49.8	75.4	76.8	100.8	(105.0)
Income from operations	199.0	268.4	357.4	360.4	61.3	623.1	613.8	879.4	703.2
Net non-operating income (expenses)	2.7	13.3	46.9	(81.5)	(11.2)	16.8	84.8	(5.4)	63.4
Income before income tax	201.7	281.7	404.3	278.9	50.1	639.9	698.6	874.0	766.6
Income tax expenses	0.2	7.0	0.0	0.0	0.0	4.6	0.0	0.0	0.0
Net income	201.5	274.7	404.3	278.9	50.1	635.2	698.6	874.0	766.6

The following table summarizes our unaudited unconsolidated financial information as a percentage of net revenues for the nine fiscal quarters ended March 31, 2007.

	Quarter Ended								
	March 31, 2005	June 30, 2005	September 30, 2005	December 31, 2005	March 31, 2006	June 30, 2006	September 30, 2006	December 31, 2006	March 31, 2007
Net revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	69.9	67.5	69.7	60.7	84.4	66.7	68.8	68.2	75.6
Gross profit	30.1	32.5	30.3	39.3	15.6	33.3	31.2	31.8	24.4
Operating expenses:									
Selling expenses	2.1	2.3	1.8	2.3	1.5	0.7	0.8	0.6	0.7
General and administrative expenses	2.3	3.0	2.2	3.1	4.3	2.3	2.2	2.3	1.7
Research and development expenses	0.9	0.9	0.7	0.8	1.3	0.6	0.5	0.4	0.8
Total operating expenses	5.3	6.2	4.7	6.2	7.0	3.6	3.5	3.3	3.2
Income from operations	24.9	26.3	25.6	33.1	8.6	29.7	27.7	28.6	21.3
Net non-operating income (expenses)	0.3	1.3	3.4	(7.5)	(1.6)	0.8	3.8	(0.2)	1.9
Income before income tax	25.2	27.6	29.0	25.6	7.1	30.5	31.5	28.4	23.2
Income tax expenses	0.0	0.7	0.0	0.0	0.0	0.2	0.0	0.0	—
Net income	25.2%	26.9%	29.0%	25.6%	7.1%	30.3%	31.5%	28.4%	23.2%

Results of Operations

Unconsolidated Statements of Income for the Three Months Ended March 31, 2006 and 2007

The following table sets forth selected statement of operations data as a percentage of our net revenues for periods indicated.

	For the Three Months Ended March 31,	
	2006	2007
Net revenues	100.0%	100.0%
Cost of goods sod	84.4	75.6
Gross profit	16.0	24.4
Operating expenses:		
Selling expenses	1.4	0.7
General and administrative expenses	4.3	1.7
Research and development expenses	1.2	0.8
Total operating expenses	7.0	3.2
Income from operations	9.0	21.3
Non-operating income	4.5	2.7
Non-operating expenses	6.4	0.8
Income before income tax	7.1	23.2
Income tax expenses	—	—
Net income	7.1%	23.2%

Three Months Ended March 31, 2006 Compared to Three Months Ended March 31, 2007

Net Revenues. Our net revenues increased by 360.0%, or NT$2,598.3 million (US$78.7 million), from NT$710.0 million for the three months ended March 31, 2006 to NT$3,308.3 million (US$100.2 million) for the three months ended March 31, 2007. The increase was due primarily to a significant increase in our capacity and the volume of our products manufactured from 8 MW for the three months ended March 31, 2006 to 37 MW for the three months ended March 31, 2007. The significant increase in our capacity and the volume of our products manufactured from period to period was driven primarily by the work stoppage during the shutdown period in the first quarter of 2006 due to the fire in Fab 1 and a significant increase in market demand for our products, especially in the European, Asian and United States markets. Our net revenues from sales in Europe increased by 840.8%, or NT$1,182.2 million (US$35.8 million), from NT$140.6 million for the three months ended March 31, 2006 to NT$1,322.8 million (US$40.1 million) for the three months ended March 31, 2007 as a result of an increased recognition of our brand, acceptance of our products in Europe and expansion of our European markets to include Spain, Italy and France. Our net revenues from sales in Asia increased by 212.4%, or NT$917.5 million (US$27.8 million), from NT$432.0 million for the three months ended March 31, 2006 to NT$1,349.5 million (US$40.9 million) for the three months ended March 31, 2007, as a result of the increased number of module manufacturers in the region. Our net revenues from sales in the United States increased by 714.3%, or NT$310.7 million (US$9.4 million), from NT$43.5 million for the three months ended March 31, 2006 to NT$354.2 million (US$10.7 million) for the three months ended March 31, 2007 as a result of an increased recognition of our brand and acceptance of our products in the United States. The increase in our net revenues was also attributable to an increase in the average selling price of our PV cells from NT$221.9 per cell for the three months ended March 31, 2006, respectively, to NT$274.9 (US$8.3) per cell for the three months ended March 31, 2007, respectively.

Cost of Goods Sold and Gross Profit. Our cost of goods sold increased by 317.2%, or NT$1,900.9 million (US$57.6 million), from NT$599.3 million for the three months ended March 31, 2006 to NT$2,500.3 million (US$75.7 million) for the three months ended March 31, 2007. Cost of goods sold as a percentage of our net revenues decreased from 84.4% for the three months ended March 31, 2006 to 75.6% for the three months ended

March 31, 2007. The increase in our cost of goods sold in absolute terms from period to period was due primarily to the work stoppage during the shutdown period in the first quarter of 2006 due to the fire in Fab 1 and a significant increase in the volume of PV cells we sold. Our average cost of silicon wafers increased for the three months ended March 31, 2007 over the same period for the three months ended March 31, 2006 due to supply shortages and the rising market price of silicon wafers as a result of silicon raw material costs. The effect of unit cost increase was partially offset by decreases in wafer usage per watt because we were able to manufacture PV products with higher conversion efficiencies for the three months ended March 31, 2007. As a result of the foregoing, our gross margin increased from 16.0% for the three months ended March 31, 2006 to 24.4% for the three months ended March 31, 2007. Our gross profit increased by 612.1%, or NT$694.7 million (US$21.3 million), from NT$113.5 million for the three months ended March 31, 2006 to NT$808.2 million (US$24.5 million) for the three months ended March 31, 2007.

Operating Expenses. Our operating expenses increased by 111.0%, or NT$55.2 million (US$1.7 million), from NT$49.8 million for the three months ended March 31, 2006 to NT$105.0 million (US$3.2 million) for the three months ended March 31, 2007. Our operating expenses as a percentage of our net revenues decreased from 7.0% for the three months ended March 31, 2006 to 3.2% for the three months ended March 31, 2007.

- *Selling Expenses.* Our selling expenses increased by 115.5%, or NT$11.9 million (US$360,000), from NT$10.3 million for the three months ended March 31, 2006 to NT$22.2 million (US$671,000) for the three months ended March 31, 2007. This increase was attributable to an increase in shipping and other transportation expenses and salary. Selling expenses as a percentage of our net revenues decreased from 1.4% for the three months ended March 31, 2006 to 0.7% for the three months ended March 31, 2007.
- *General and Administrative Expenses*. Our general and administrative expenses increased by 87.3%, or NT$26.7 million (US$810,000), from NT$30.6 million for the three months ended March 31, 2006 to NT$57.4 million (US$1.7 million) for the three months ended March 31, 2007. This increase was attributable to increases in salary and benefits to our administration staff, insurance premium, depreciation and management fees to Southern Taiwan Science Park. General and administrative expenses as a percentage of our net revenues decreased from 4.3% for the three months ended March 31, 2006 to 1.7% for the three months ended March 31, 2007.
- *Research and Development Expenses*. Our research and development expenses increased by 187.6%, or NT$16.6 million (US$503,000), from NT$8.9 million for the three months ended March 31, 2006 to NT$25.5 million (US$772,000) for the three months ended March 31, 2007. The increase was due primarily to increases in salary of our research and development personnel, depreciation on equipment and inventory expenses related to our research and development activities. Research and development expenses decreased as a percentage of our net revenues from 1.2% for the three months ended March 31, 2006 to 0.8% for the three months ended March 31, 2007.

Non-operating Income. Our non-operating income increased 179.5%, or NT$57.1 million (US$1.8 million), from NT$31.8 million for the three months ended March 31, 2006 to NT$88.9 million (US$2.7 million) for the three months ended March 31, 2007, due primarily to NT$67.8 million (US$2.1 million) net foreign exchange gain recorded in the three months ended March 31, 2007 as a result of appreciation of U.S. dollars and increase in interest income from our deposit as security under our supply agreement with REC Scanwafer AS.

Non-operating Expenses. Our non-operating expenses decreased 44.0%, or NT$19.9 million (US$603,000), from NT$45.4 million for the three months ended March 31, 2006 to NT$25.4 million (US$771,000) for the three months ended March 31, 2007 due primary to decreases in miscellaneous losses, including a one-time settlement payment due to the fire in November 2005, and losses from work stoppage incurred during the shutdown period resulting from the fire at our Tainan fab, offset, in part, by increases in interest expenses due to our increased borrowings and investment losses from our China subsidiaries.

Income Tax Expenses. We did not record any income tax expense in the three months ended March 31, 2006 due to the effects of tax credits and holidays.

Net Income. As a result of the cumulative effect of the above factors, our net income increased 142.9%, or NT$716.4 million (US$21.7 million), from NT$50.1 million for the three months ended March 31, 2006 to NT$766.6 million (US$23.2 million) for the three months ended March 31, 2007.

Consolidated Statements of Income for the Years Ended December 31, 2004, 2005 and 2006

The following table summarizes our consolidated results of operations as a percentage of net revenues for the periods shown:

	For the Year Ended December 31,		
	2004	2005	2006
Net revenues	100.0%	100.0%	100.0%
Cost of goods sold	70.9	66.3	69.3
Gross profit	29.1	33.7	30.7
Operating expenses:			
Selling expenses	2.5	1.9	1.0
General and administrative expenses	3.3	2.7	2.5
Research and development expenses	1.4	0.8	0.6
Total operating expenses	7.1	5.4	4.0
Income from operations	22.1	28.4	26.7
Non-operating income	1.1	0.4	1.6
Non-operating expenses	0.4	2.6	0.7
Income before income tax	22.7	26.2	27.6
Income tax expenses	—	(0.2)	(0.1)
Net income	22.7%	26.0%	27.5%

Year Ended December 31, 2005 Compared to the Year Ended December 31, 2006

Net Revenues. Our net revenues increased by 84.1%, or NT$3,747.2 million (US$113.5 million), from NT$4,456.2 million for the year ended December 31, 2005 to NT$8,203.4 million (US$248.5 million) for the year ended December 31, 2006. The increase was due primarily to a significant increase in our production capacity and the volume of our products manufactured from 60 MW for the year ended December 31, 2005 to 102 MW for the year ended December 31, 2006. The significant increase in our production capacity and the volume of our products manufactured was driven primarily by a significant increase in market demand for our products, especially in the European, Asian and United States markets. Our net revenues from sales in Europe increased by 71.3%, or NT$980.4 million (US$29.7 million), from NT$1,374.1 million for the year ended December 31, 2005 to NT$2,354.5 million (US$71.3 million) for the year ended December 31, 2006 as a result of an increased recognition of our brand, acceptance of our products in Europe and expansion of our European markets to include Spain, Italy and France. Our net revenues from sales in Asia increased by 75.4%, or NT$2,000.3 million (US$60.6 million), from NT$2,654.7 million for the year ended December 31, 2005 to NT$4,655.0 million (US$141.0 million) for the year ended December 31, 2006, as a result of the increased number of module manufacturers in the region. Our net revenues from sales in the United States increased by 706.2%, or NT$590.4 million (US$17.9 million), from NT$83.6 million for the year ended December 31, 2005 to NT$674.0 million (US$20.4 million) for the year ended December 31, 2006 as a result of an increased recognition of our brand and acceptance of our products in the United States. The increase in our net revenues was also attributable to an increase in the average selling price of our PV cells from NT$180.8 per cell for the year ended December 31, 2005, respectively, to NT$241.0 (US$7.3) per cell for the year ended December 31, 2006, respectively.

Cost of Goods Sold and Gross Profit. Our cost of goods sold increased by 92.6%, or NT$2,733.7 million (US$82.8 million), from NT$2,953.4 million for the year ended December 31, 2005 to NT$5,687.1 million (US$172.3 million) for the year ended December 31, 2006. Cost of goods sold as a percentage of our net revenues increased from 66.3% for the year ended December 31, 2005 to 69.3% for the year ended December 31, 2006. The increase in our cost of goods sold in absolute terms was due primarily to a significant increase in the volume of PV cells we sold. Our average cost of silicon wafers increased for the year ended December 31, 2006 over the same period for the year ended December 31, 2005 due to supply shortages and the rising market price of silicon wafers as a result of silicon raw material costs. The effect of unit cost increase was partially offset by decreases in wafer usage per watt because we were able to manufacture PV products with higher conversion efficiencies for the year ended December 31, 2006. As a result of the foregoing, our gross margin decreased from 33.7% for the year ended December 31, 2005 to 30.7% for the year ended December 31, 2006. Our gross profit increased by 67.4%, or NT$1,013.5 million (US$30.7 million), from NT$1,502.8 million for the year ended December 31, 2005 to NT$2,516.3 million (US$76.2 million) for the year ended December 31, 2006.

Operating Expenses. Our operating expenses increased by 38.0%, or NT$90.7 million (US$2.7 million), from NT$238.8 million for the year ended December 31, 2005 to NT$329.5 million (US$10.0 million) for the year ended December 31, 2006. Our operating expenses as a percentage of our net revenues decreased from 5.4% for the year ended December 31, 2005 to 4.0% for the year ended December 31, 2006. The increase in our operating expenses was due primarily to significant increases in our general and administrative expenses and, to a lesser extent, an increase in our research and development expenses, which are partially offset by decreases in selling expenses.

- *Selling Expenses.* Our selling expenses decreased by 5.3%, or NT$4.4 million (US$133,000), from NT$82.9 million for the year ended December 31, 2005 to NT$78.5 million (US$2.4 million) for the year ended December 31, 2006. This decrease was attributable to reduced shipping expenses and reduced commissions at our Motech Instruments division due to a change in compensation structure. Selling expenses as a percentage of our net revenues decreased from 1.9% for the year ended December 31, 2005 to 1.0% for the year ended December 31, 2006.
- *General and Administrative Expenses.* Our general and administrative expenses increased by 68.9%, or NT$83.9 million (US$2.5 million), from NT$121.9 million for the year ended December 31, 2005 to NT$205.8 million (US$6.2 million) for the year ended December 31, 2006. This increase was attributable to an increase in administrative office expenses, increases in salary and benefits of our administration staff, depreciation charges of fixed assets used for administrative purposes, labor service expenses and travel expenses. General and administrative expenses as a percentage of our net revenues decreased from 2.7% for the year ended December 31, 2005 to 2.5% for the year ended December 31, 2006.
- *Research and Development Expenses.* Our research and development expenses increased by 32.6%, or NT$11.1 million (US$340,000), from NT$34.1 million for the year ended December 31, 2005 to NT$45.2 million (US$1.4 million) for the year ended December 31, 2006. The increase was due primarily to increases in salary expenses of our research and development personnel and raw material and finished goods costs related to our research and development activities. Research and development expenses decreased as a percentage of our net revenues from 0.8% for the year ended December 31, 2005 to 0.6% for the year ended December 31, 2006.

Non-operating Income. Our non-operating income increased 582.5%, or NT$110.1 million (US$3.3 million), from NT$18.9 million for the year ended December 31, 2005 to NT$128.9 million (US$3.9 million) for the year ended December 31, 2006, due primarily to NT$72.7 million (US$2.2 million) net foreign exchange gain recorded in 2006, increases in interest income and miscellaneous income, which are primarily comprised of the insurance income for the damage caused by the fire at Fab 1 of our Tainan, Taiwan facility in November 2005, partially offset by a decrease in gain on disposal of marketable securities from 2005 to 2006.

Non-operating Expenses. Our non-operating expenses decreased 54.9%, or NT$63.5 million (US$1.9 million), from NT$115.7 million for the year ended December 31, 2005 to NT$52.2 million (US$1.6 million) for the year ended December 31, 2006 due principally to decreases in losses from work stoppage incurred during the shutdown period resulting from the fire at our Tainan fab, offset, in part, by increases in interest expenses due to our increased borrowings and miscellaneous losses, including a one-time settlement payment due to the fire in November 2005.

Income Tax Expenses. We recorded an income tax expense of NT$7.7 million in the year ended December 31, 2005 compared with an income tax expense of NT$5.7 million (US$0.17 million) in the corresponding period in 2006. This decrease was primarily due to benefits from a combination of tax credits and tax holidays despite an increase in our income before income taxes during the year ended December 31, 2006. See "—Taxation" and note 4 to our financial statements.

Net Income. As a result of the cumulative effect of the above factors, our net income increased 94.7%, or NT$1,098.5 million (US$33.3 million), from NT$1,159.4 million for the year ended December 31, 2005 to NT$2,257.9 million (US$68.4 million) for the year ended December 31, 2006.

Year Ended December 31, 2004 Compared to Year Ended December 31, 2005

Net Revenues. Our net revenues increased by 80.6%, or NT$1,989.1 million, from NT$2,467.1 million for the year ended December 31, 2004 to NT$4,456.2 million for the year ended December 31, 2005. The increase was due primarily to a significant increase in our production capacity and the volume of our products manufactured from 35 MW for the year ended December 31, 2004 to 60 MW for the year ended December 31, 2005. The significant increase in our production capacity and the volume of our products manufactured was driven primarily by a significant increase in market demand for our products, especially in the European and Asian markets. Our net revenues from sales in Europe increased by 20.3%, or NT$231.6 million, from NT$1,142.5 million for the year ended December 31, 2004 to NT$1,374.1 million for the year ended December 31, 2005 as a result of an increased recognition of our brand and acceptance of our products in Europe and an increase in market demand for solar products in general. Our net revenues from sales in Asia increased by 125.2%, or NT$1,475.8 million, from NT$1,178.9 million for the year ended December 31, 2004 to NT$2,654.7 million for the year ended December 31, 2005, as a result of the increased number of module manufacturers in the region. The increase in our net revenues was also attributable to an increase in the average selling price of our PV cells from NT$153.8 per cell for the year ended December 31, 2004, respectively, to NT$180.8 per cell for the year ended December 31, 2005, respectively.

Cost of Goods Sold and Gross Profit. Our cost of goods sold increased by 68.9%, or NT$1,205.0 million, from NT$1,748.4 million for the year ended December 31, 2004 to NT$2,953.4 million for the year ended December 31, 2005. However, cost of goods sold as a percentage of our net revenues decreased from 70.9% for the year ended December 31, 2004 to 66.3% for the year ended December 31, 2005. The increase in our cost of goods sold in absolute terms was due primarily to a significant increase in the volume of PV cells we sold. Our average cost of silicon wafers increased for the year ended December 31, 2005 over the same period for the year ended December 31, 2004 due to supply shortages and the rising market price of silicon wafers (due to rising silicon raw material costs). The effect of unit cost increase was partially offset by decreases in wafer usage per watt because we were able to manufacture PV products with higher conversion efficiencies for the year ended December 31, 2005. As a result of the foregoing, our gross margin increased from 29.1% for the year ended December 31, 2004 to 33.7% for the year ended December 31, 2005. Our gross profit increased by 109.1%, or NT$784.0 million, from NT$718.8 million for the year ended December 31, 2004 to NT$1,502.8 million for the year ended December 31, 2005.

Operating Expenses. Our operating expenses increased by 36.8%, or NT$64.3 million, from NT$174.5 million for the year ended December 31, 2004 to NT$238.8 million for the year ended December 31, 2005. Our operating expenses as a percentage of our net revenues decreased from 7.1% for the year ended December 31, 2004 to 5.4% for the year ended December 31, 2005. The increase in our operating expenses was due primarily to significant increases in our general and administrative expenses and selling expenses and, to a lesser extent, an increase in our and research and development expenses.

- *Selling Expenses.* Our selling expenses increased by 37.0%, or NT$22.4 million, from NT$60.5 million for the year ended December 31, 2004 to NT$82.9 million for the year ended December 31, 2005. This increase was attributable to increases in shipping costs, salary and benefits paid to our sales and marketing personnel, advertising and other selling expenses, insurance premiums and travel expenses. However, selling expenses as a percentage of our net revenues decreased from 2.5% for the year ended December 31, 2004 to 1.9% for the year ended December 31, 2005.
- *General and Administrative Expenses.* Our general and administrative expenses increased by 52.0%, or NT$41.7 million, from NT$80.2 million for the year ended December 31, 2004 to NT$121.9 million for the year ended December 31, 2005. This increase was attributable to increases in administrative office expenses, salaries and benefits of our administrative staff, depreciation charges of fixed assets used for administrative purposes and labor service expenses. General and administrative expenses as a percentage of our net revenues decreased from 3.3% for the year ended December 31, 2004 to 2.7% for the year ended December 31, 2005.
- *Research and Development Expenses.* Our research and development expenses increased by 0.9%, or NT$0.3 million, from NT$33.8 million for the year ended December 31, 2004 to NT$34.1 million for the year ended December 31, 2005. The increase was due primarily to increases in salary and benefit expenses for our research and development personnel and raw material costs related to research and development activities. Research and development expenses decreased as a percentage of our net revenues increased from 1.4% for the year ended December 31, 2004 to 0.8% for the year ended December 31, 2005.

Non-operating Income. Our non-operating income decreased 28.4%, or NT$7.5 million, from NT$26.4 million for the year ended December 31, 2004 to NT$18.9 million for the year ended December 31, 2005, due primarily to a decrease of net foreign exchange gain, which was partially offset by increases in insurance income, interest income and long-term investment income from 2004 to 2005.

Non-operating Expenses. Our non-operating expenses increased 1,001.9%, or NT$105.2 million, from NT$10.5 million for the year ended December 31, 2004 to NT$115.7 million for the year ended December 31, 2005 due principally to an estimated fire damage and losses on work stoppage during the shutdown period, which aggregated to NT$107.8 million, net of insurance compensation. We also experienced a foreign exchange loss, net, and loss on inventory valuation and obsolescence. Such increase was offset in part by a decrease in interest expenses due to decreased borrowings.

Income Tax Expenses. We recorded an income tax expense of NT$0.5 million in the year ended December 31, 2004 compared with an income tax expense of NT$7.7 million in the corresponding period in 2005. This significant increase was primarily the result of our increased income before income tax and lower non-taxable income in 2005 due to a decrease of tax free equipment in the calculation of tax holdings. We continue to benefit from a combination of tax credits and tax holidays. See "—Taxation" and note 4 to our financial statements.

Net Income. As a result of the cumulative effect of the above factors, our net income increased 107.2%, or NT$599.8 million, from NT$559.6 million for the year ended December 31, 2004 to NT$1,159.4 million for the year ended December 31, 2005.

Liquidity and Capital Resources

Cash Flows and Working Capital

To date, we have financed our operations primarily through cash flows from equity contributions by our shareholders, operations, short-term borrowings and long-term loan facilities. As of March 31, 2007, we had, on an unconsolidated basis, cash and cash equivalents of NT$817.4 million (US$24.8 million), outstanding borrowings of NT$3,213.3 million (US$97.3 million) and NT$69.4 million (US$2.1 million) in convertible bonds outstanding. As of December 31, 2004, 2005 and 2006, we had, on a consolidated basis, NT$455.2 million, NT$288.0 million and NT$1,612.5 million (US$48.9 million), respectively, in cash and cash equivalents, NT$36.9 million, NT$211.7 million and NT$2,549.2 million (US$77.2 million), respectively, in outstanding borrowings, and NT$273.2 million, NT$82.3 million and NT$72.0 million (US$2.2 million), respectively, in convertible bonds. Our cash and cash equivalents consist of cash on hand, savings, checking and term deposits, highly liquid debt instruments with original maturities of three months or less, as well as other highly liquid investments that do not have a significant level of risk related to potential interest rate changes.

As of March 31, 2007, NT$520.0 million (US$15.8 million) of our outstanding short-term borrowings were due within one year (excluding current portion of long-term borrowings). Our short-term borrowings outstanding as of March 31, 2007 bore annual interest rates of 1.63% to 2.16%. As of December 31, 2005 and 2006, NT$115.0 million and NT$450.0 million (US$13.6 million), respectively, of our outstanding borrowings were due within one year (excluding current portion of long-term borrowings). We had no short-term borrowings for the year ended December 31, 2004. Each of these borrowings expires at various times throughout the year. Our short-term borrowings outstanding as of December 31, 2005 and 2006 bore annual interest rates of 1.53% to 2.10% and 1.63%, respectively.

We have a mid- to long-term loan facility with a maximum borrowing amount of NT$264.0 million, of which approximately NT$100.0 million (US$3.0 million) and NT$100.0 million (US$3.0 million) had not been utilized as of December 31, 2006 and March 31, 2007, respectively. This facility is non-revolving and secured with our manufacturing equipment in the Southern Taiwan Science Park, and has a 7-year term expiring in November 2012. The loan facility is based on floating interest rates comprising a spread over the bank's base rate and bore an interest rate of 2.20~2.38% as of December 31, 2006.

On July 21, 2006, we entered into a three-year NT$3.4 billion (US$103.0 million) domestic syndicated loan, for which Hua Nan Commercial Bank acted as facility agent, primarily to fulfil our commitments under certain of our crystalline raw materials supply agreements. The loan agreement requires that we meet the following semi-annual and annual financial ratios starting from the fiscal year 2006: (i) tangible net assets must exceed NT$3.5 billion (US$106.0 million) for 2006 and NT$8.0 billion for 2007; (ii) the liability ratio must be below 200% for 2006, 160% for 2007 and 120% for 2008; and (iii) the interest coverage ratio must be not less than 5.0 for 2006, 2007 and 2008. The failure to maintain these covenants may expose us to penalty charges and could result in acceleration of obligations under this loan agreement, which could give rise to cross-defaults of our other indebtedness and restrict our access to the un-drawn facility which would otherwise be available. As of December 31, 2006 and March 31, 2007, approximately NT$2.0 billion (US$59.2 million) and NT$2.6 billion (US$77.4 million), respectively, had been drawn down and were outstanding.

In December 2003, we issued domestic zero coupon convertible bonds due 2008 with an aggregate principal amount of NT$550.0 million in order to finance the expansion for the production line for PV cells and the establishment of the wafer factory. The bondholders have the right to convert the bonds into our common shares from March 2004 to November 2008. The initial conversion price was set at NT$75.50 per common share, subject to adjustments upon the occurrence of certain events set forth in the offering circular. As of March 31, 2007, the conversion price was NT$18.60 per share. The convertible bonds are redeemable by us under certain circumstances from March 2004 to October 2008. As of December 31, 2006 and March 31, 2007, we had NT$72.0 million (US$2.2 million) and NT$69.4 million (US$2.1 million), respectively, of the convertible bonds outstanding. If all the outstanding convertible bonds were converted into our common shares at the current conversion price, approximately 3.7 million common shares would be issuable as of March 31, 2007.

We have significant working capital commitments because suppliers of silicon wafers and other silicon-based raw materials require us to make prepayments in advance of shipment. Due to the industry-wide shortage of silicon raw materials, working capital and access to financings for the purchase of silicon raw materials are critical to growing our business. Our advances to suppliers on a consolidated basis increased significantly from NT$22.4 million as of December 31, 2004 to NT$308.7 million as of December 31, 2005 and NT$764.4 million (US$23.2 million) as of December 31, 2006 due to the significant growth of our PV cell business. As of March 31, 2007, our advances to suppliers on an unconsolidated basis were NT$1,531.7 million (US$46.4 million).

Inventories, one of the principal components of our current assets, increased significantly, on a consolidated basis, from NT$256.1 million as of December 31, 2004 to NT$1,187.9 million as of December 31, 2005 to NT$1,288.2 million (US$39.5 million) as of December 31, 2006 due to increased sales volume. As of March 31, 2007, our inventories amounted to NT$1,482.9 million (US$44.9 million) on an unconsolidated basis. We expect that our inventories will continue to increase as our net revenues increase.

We generally require prepayments depending on the credit status of our customers, general market demand and terms of the contracts.

The following table sets forth a summary of our cash flows for the periods indicated:

	Consolidated				Unconsolidated		
	Year Ended December 31,				Three Months Ended March 31,		
	2004	2005	2006		2006	2007	
	NT$	NT$	NT$	US$	NT$	NT$	US$
			(in millions)				
Net cash provided by (used in) operating activities	776.5	90.9	1,455.5	44.1	(385.4)	(946.3)	(28.7)
Net cash provided by (used in) investing activities	(303.6)	(244.7)	(3,256.1)	(98.6)	(175.4)	(467.3)	(14.2)
Net cash provided by (used in) financing activities	(151.2)	(15.6)	3,124.4	94.7	612.7	666.3	20.2
Net increase (decrease) in cash and cash equivalents	310.7	(167.2)	1,324.5	40.1	51.9	(747.3)	(22.6)
Cash and cash equivalents at the beginning of the year	144.6	455.2	288.0	8.7	239.1	1,564.7	47.4
Cash and cash equivalents at the end of the year	455.2	288.0	1,612.5	48.9	291.1	817.4	24.8

Net Cash Provided by/Used in Operating Activities

Net cash used in operating activities on an unconsolidated basis was NT$946.3 million (US$28.7 million) for the three months ended March 31, 2007, which was derived from a net income of NT$766.6 million (US$23.2 million) adjusted for non-cash items, including primarily NT$78.9 million (US$2.4 million) in depreciation, NT$673.7 million (US$20.4 million) increase in notes and accounts receivable, NT$222.0 million (US$6.7 million) and NT$553.1 million (US$16.8 million) increase in short-term and long-term prepayments, respectively, to suppliers of raw materials and NT$215.5 million (US$6.5 million) increase in inventories and other current assets. Net cash used in operating activities on an unconsolidated basis was NT$385.4 million for the three months ended March 31, 2006, which was derived from a net income of NT$50.1 million adjusted for non-cash items, including primarily NT$23.1 million in loss on work stoppages due the fire at Fab 1 in November 2005, NT$19.5 million in depreciation, NT$83.8 million increase in notes and accounts receivable, NT$357.4 million increase in inventories and NT$91.1 million increase in prepayments and other current assets.

Net cash provided by operating activities, on a consolidated basis, was NT$1,455.5 million (US$44.1 million) for the year ended December 31, 2006, which was derived from a net income of NT$2,257.9 million (US$68.4 million) adjusted for non-cash items, including primarily NT$178.2 million (US$5.4 million) depreciation due to greater equipment purchases, NT$304.6 million (US$9.2 million) increase in prepayments and other current assets, NT$121.5 million (US$3.7 million) increase in notes and accounts payable, NT$770.9 million (US$23.4 million) increase in notes and accounts and accounts receivable due to higher sales, NT$161.1 million (US$4.9 million) increase in prepayment to suppliers for purposes of purchasing silicon and wafers and a reduction in increase in inventories as our use of inventory returned to normal compared to 2005.

Net cash provided by operating activities, on a consolidated basis, was NT$90.9 million for the year ended December 31, 2005, which was derived from a net income of NT$1,159.4 million, adjusted for non-cash items, including primarily NT$133.6 million depreciation due to greater equipment purchases, NT$931.8 million increase in inventories as a result of accumulation of raw materials due to the work stoppage resulting from the fire at our Tainan, Taiwan facility, a NT$167.4 million increase in prepayments and other current assets, and NT$122.9 million increase in prepayments to suppliers for purposes of purchasing silicon and silicon wafers.

Net cash provided by operating activities, on a consolidated basis, was NT$766.5 million for the year ended December 31, 2004, which was derived from a net income of NT$559.6 million, adjusted for non-cash items, including primarily a NT$115.0 million increase in notes and accounts payable, and NT$160.6 million increase in accrued expenses and other current liabilities.

Net Cash Used in Investing Activities

Net cash used in investing activities on an unconsolidated basis was NT$467.3 million (US$14.2 million) for the three months ended March 31, 2007, consisting primarily of purchases of property, plant and equipment of NT$330.3 million (US$10.0 million) in connection with our manufacturing facility expansion, and increase in long-term investment of NT$105.8 million (US$3.2 million) in connection with our investments in AE Polysilicon and our facility in China. Net cash used in investing activities on an unconsolidated basis was NT$175.4 million for the three months ended March 31, 2006, consisting primarily of purchases of property, plant and equipment of NT$202.5 million in connection with our manufacturing capacity expansion in Fab 1 and Fab 2, and purchases of available-for-sale financial assets of NT$15.0 million.

Net cash used in investing activities on a consolidated basis, was NT$3,256.1 million (US$98.6 million) for the year ended December 31, 2006, consisting primarily of purchases of property, plant and equipment of NT$1,712.1 million (US$51.9 million) as we expanded our manufacturing capacity in Fab 1 and Fab 2 and purchases of restricted long-term assets of NT$1,536.1 million (US$46.5 million), which are funds set aside to guarantee raw material purchases for a long-term contract. Net cash used in investing activities on a consolidated basis, was NT$244.7 million for the year ended December 31, 2005, consisting primarily of purchases of property, plant and equipment of NT$466.8 million for expanding our manufacturing capacity in Fab 1. Net cash used in investing activities on a consolidated basis, was NT$303.6 million for the year ended December 31, 2004, consisting primarily of purchases of property, plant and equipment of NT$540.1 million for the same reason as above.

Net Cash Provided by / Used in Financing Activities

Net cash provided by financing activities on an unconsolidated basis was NT$666.3 million (US$20.2 million) for the three months ended March 31, 2007, consisting primarily of proceeds from long-term borrowings of NT$600.0 million (US$18.2 million). Net cash provided by financing activities on an unconsolidated basis was NT$612.7 million for the three months ended March 31, 2006, consisting primarily of increase in short-term borrowings of NT$520.0 million and long-term debt of NT$94.0 million.

Net cash provided by financing activities on a consolidated basis, was NT$3,124.4 million (US$94.7 million) for the year ended December 31, 2006, consisting primarily of proceeds of NT$335.0 million (US$10.1 million) from short-term borrowings, NT$2,049.2 million (US$62.1 million) from long-term borrowings, NT$1,260.0 million (US$38.2 million) from issuance of capital stock, partially offset by NT$80.0 million

(US$2.4 million) payments of employees' bonuses and NT$369.1 million (US$11.2 million) payments of cash dividends. Net cash used in financing activities on a consolidated basis was NT$15.6 million for the year ended December 31, 2005, reflecting primarily of proceeds of NT$115.0 million from short-term borrowings and NT$70.0 million from long-term borrowing, partly offset by payments of NT$40.2 million in employee bonuses and NT$134.8 million in cash dividends. Net cash used in financing activities on a consolidated basis was NT$151.2 million for the year ended December 31, 2004, consisting primarily of repayment of NT$59.4 million in long-term borrowings, payments of NT$15.3 million in employee bonuses and NT$64.6 million in cash dividends.

We believe that our current cash and cash equivalents, proceeds form borrowings anticipated cash flow from operations and net proceeds from this offering will be sufficient to meet our anticipated cash needs, including our cash needs for working capital and capital expenditures for 2007. We may, however, require additional cash due to changing business conditions or other future developments, including any investments or acquisitions we may decide to pursue. If our existing cash is insufficient to meet our requirements, we may seek to sell additional equity securities, debt securities or borrow from lending institutions. Financing may be unavailable in the amounts we need or on terms acceptable to us, if at all. The sale of additional equity securities, including convertible debt securities, would dilute our earnings per share. The incurrence of debt would divert cash for working capital and capital expenditures to service debt obligations and could result in operating and financial covenants that restrict our operations and our ability to pay dividends to our shareholders. If we are unable to obtain additional equity or debt financing as required, our business operations and prospects may suffer.

Capital Expenditures

We incurred capital expenditures on a consolidated basis of NT$540.1 million, NT$466.8 million and NT$1,712.1 million (US$51.9 million) for the years ended December 31, 2004, 2005 and 2006, respectively and on an unconsolidated basis of NT$330.3 million (US$10.0 million) for the three months ended March 31, 2007. Our capital expenditures have been used primarily to construct our plant and purchase equipment for our PV cell manufacturing lines. We estimate that our capital expenditures in 2007 (excluding our advance payment of US$30.0 million to AE Polysilicon in 2007 for long-term supply of polysilicon) will be approximately NT$1.0 billion, and will be used primarily to purchase equipment for the expansion of our PV cell and wafer manufacturing lines. We expect to fund our budget and our advance payment to AE Polysilicon primarily with cash flow from operations, short-term borrowings, long-term loan facilities and external financing, including proceeds from this offering. In the future, we may consider additional debt or equity financing, depending on market conditions, our financial performance and other relevant factors. We also expect our capital expenditures to increase in 2008, due primarily to equipment purchases for further expansion of our PV cell and wafer production facilities. See "Business—Manufacturing" for our detailed capacity expansion plan.

Contractual Obligations and Commercial Commitments

The following table sets forth our contractual obligations as of December 31, 2006:[(1)]

	Payment Due by Period				
	Total	Less Than 1 Year	1 to 3 Years	3 to 5 Years	More Than 5 Years
	NT$	NT$	NT$ (in thousands)	NT$	NT$
Purchase obligations relating to machinery and equipment	369,431	369,431	—	—	—
Purchase obligations relating to raw materials	31,783,169	2,360,429	6,207,580	13,393,577	9,821,583
Other long-term liabilities reflected on the balance sheet	2,099,149	23,429	2,002,077	46,857	26,784
Total	34,251,749	2,753,289	8,209,657	13,440,434	9,848,367

(1) NT$72.0 million of our convertible bonds have been excluded on the basis that we do not intend to exercise the redemption option.

Certain of our purchase obligations relating to raw materials are linked to the future price of polysilicon. While these contracts specify base future delivery prices, such prices may be increased or decreased, depending on whether the market price for polysilicon in a particular year is above or below the base price in that year. The actual obligations we incur in the future with respect to the purchase obligations described in the table above may therefore be different from the figures set forth therein.

Off-Balance Sheet Arrangements

As of December 31, 2004, 2005 and 2006, we had off-balance sheet letters of credit on a consolidated basis in the amount of NT$88.7 million, NT$192.5 million and NT$324.5 million (US$9.8 million), respectively. As of March 31, 2007, we had off-balance sheet letters of credit on an unconsolidated basis in the amount of NT$143.1 million (US$4.3 million).

Market Risks

Our exposure to financial market risks derives primarily from changes in interest rates and foreign exchange rates.

Interest Rate Risks

Our exposure to interest rate risks relates primarily to our long-term borrowings, which are normally entered into to support our corporate activities, primarily for advances required by the terms of wafer supply agreements. We have not entered into derivative transactions to hedge our interest rate risks.

We are exposed to interest rate risk on our existing floating rate debt and on additional debt financing that may be periodically needed for the capital expenditures associated with our capacity expansion and new fabrication facility. Upward fluctuations in interest rates increase the costs of both existing and new debt. The interest rate that we will be able to obtain in a new debt financing will depend on market conditions at that time and may differ from the rates we have secured on our current debt. Currently, we do not have any outstanding fixed-rate, long-term debt obligations. Our loan facilities are based on floating rates of interest, with rates generally based on a spread over the banks' deposit or base rates. The following table sets forth the repayment schedule of our long-term borrowings as of the periods indicated:

	Long-term Borrowings								
	Expected Maturity Date								
	2007	2008	2009	2010	2011	2012	Total	Fair Value	Interest Rate Range
	(in millions of NT$)								
As of December 31, 2006	23.4	23.4	1,978.7	23.4	23.4	26.8	2,099.1	2,099.1	2.20-2.46%
As of March 31, 2007	23.4	23.4	2,578.7	23.4	23.4	20.9	2,693.3	2,693.3	2.40-2.52%

Foreign Exchange Gains or Losses

The majority of our net sales is denominated in US dollars, with the remaining portion denominated in NT dollars. The majority of our costs of sales is denominated in US dollars, with the remaining portion in NT dollars and Euros. Our financial statements are expressed in NT dollars. We record a foreign currency denominated transaction on the date it occurs in NT dollars using the prevailing exchange rate for such date. The realized gains or losses resulting from the application of a different foreign exchange rate when the transaction is settled and the amount received or paid in settlement is converted into or from NT dollars and credited or charged to income. At the end of each period, we restate the balances of foreign currency assets and liabilities at the period-end spot rate of exchange and credit or charge to income for such period the resulting foreign exchange gains or losses, as the case may be. See note 2(c) to our annual financial statements. As a result, changes in the rate of exchange between the NT dollar and the US dollar or the Euro affect our gross margin and operating profit and could result in foreign exchange and operating losses. We recorded consolidated net foreign exchange gains of NT$12.8 million and NT$72.7 million (US$2.2 million) for the years ended 2004 and 2006, respectively, as compared to a net foreign exchange loss of NT$1.1 million in 2005. We recorded unconsolidated net foreign exchange gains of NT$67.8 million (US$2.1 million) for the three months ended March 31, 2007.

To the extent we experience foreign exchange exposure in US dollars or Euros, we attempt to hedge such exposure through forward exchange contracts. Net exchange gains (losses) from forward exchange contracts for the years ended 2004, 2005 and 2006 were NT$(3.9) million, NT$0.9 million and nil. We closed all of our forward exchange contract positions in 2006 and did not have any derivatives outstanding since then. We cannot predict the impact of future exchange rate fluctuations on our results of operations and may incur net foreign currency losses in the future. As our sales are denominated in other foreign currencies, such as Euros, are continuing to grow, we will use derivative instruments in 2007 to hedge our exposure to foreign currency exchange risk.

Recent Accounting Pronouncements

Disclosure and Presentation of Financial Instruments

ROC SFAS No. 36, which became effective in 2006, contains requirements for the presentation of financial instruments and identifies the information that should be disclosed about them. ROC SFAS No. 36 requires an issuer of a financial instrument to classify the financial instrument, or its component parts, as financial liabilities or equity in accordance with the substance of the contractual arrangement and the definitions of financial liabilities and an equity instrument. The governing principles are that if the issuer does not have an unconditional right to avoid the obligation to deliver cash, and if the contract does not, in substance, evidence a residual interest in the net assets of the issuer after deducting all of its liabilities, the instrument is not an equity.

Some financial instruments—sometimes called compound instruments—have both a liability component and an equity component from the issuer's perspective. In such case, this standard requires that the component parts be accounted for and presented separately according to their substance based on the definitions of liabilities and equity. The split is made at the issuance of financial instruments and not revised for subsequent changes in market interest rates, share prices, or other event that changes the likelihood that the conversion option will be exercised. Thus, our convertible debt instruments issued after the effective date of this standard should be split into its liability and equity components, with the liability measured at fair value and the equity component representing the residual; convertible debt instruments issued before the effective date were still classified entirely as a liability.

ROC SFAS No. 36 also requires disclosure of information about factors that affect the amount, timing and certainty of an entity's future cash flows relating to financial instruments and the accounting policies applied to those instruments, as well as information about the nature and extent of an entity's use of financial instruments, the business purposes they serve, the risks associated with them and management's policies for controlling those risks.

Recognition and Measurement of Financial Instrument Transactions

Beginning in 2006, ROC SFAS No.34 requires that all entities recognize derivative instruments as assets and liabilities in the statement of financial position and subsequently measure them at fair value. If certain conditions are met, entities may elect to designate a derivative instrument as one of the following:

- Fair value hedge—a hedge of the exposures to changes (that are attributable to a particular risk) in the fair value of (1) a recognized asset or liability or (2) an unrecognized firm commitment;
- Cash-flow hedge—a hedge of the exposure to variability that is attributable to a particular risk in the cash flows of a forecasted transaction; and
- Foreign-currency net investment hedge—a hedge of the foreign-currency exposure of a net investment in a foreign operation.

In addition, investments in marketable equity securities are classified in one of four categories: FVTPL, loans and receivables, held-to-maturity or available-for-sale. Marketable securities that are held principally for selling them in the near term or for speculative purposes should be classified as FVTPL, while debt securities wherein the holder has the intent and ability to hold the securities to maturity can be classified as held-to-maturity. Loans and receivables and held-to-maturity securities are carried at amortized cost. FVTPL securities are carried at fair value with changes in fair value reported in current earning. Available-for-sale securities are carried at fair value with changes in fair value reported as a separate component of equity until the securities mature or are sold. Common share cash dividends and interest received on marketable securities are recorded as investment income.

Intangible Assets

SFAS No. 37—"Accounting for Intangible Assets" was issued in July 2006 and became effective on January 1, 2007.

An intangible asset is initially recognized at cost if all of the following criteria are met:

- the asset meets the definition of an intangible asset i.e. it is identifiable and controlled by the entity;
- it is probable that future economic benefits that are attributable to the asset will flow to the entity; and
- the cost of the asset can be measured reliably.

Internally generated goodwill, brands, mastheads, publishing titles, customer lists and similar items are not recognized as assets. Expenditure on research is recognized as an expense. There is no recognition of an intangible asset derived from research. An intangible asset derived from development is recognized only if specified criteria are met.

If an intangible item does not meet the criteria for recognition as an asset, the expenditure is recognized as an expense when incurred. Expenditure that was initially recognized as an expense is not included in the cost of an intangible asset at a later date.

Subsequent to initial recognition, an intangible asset is carried at cost, less any accumulated amortization and any accumulated impairment losses.

An entity assesses whether the useful life of an intangible asset is definite or indefinite; the useful life is indefinite if there is no foreseeable limit to the period over which the asset is expected to generate net cash flows. The depreciable amount of an intangible asset with a definite life is amortized on a systematic basis over its useful life. An intangible asset with an indefinite useful life is not amortized, but is tested for impairment at least annually. Impairment of intangible assets is recognized in accordance with SFAS No. 35 Impairment of Assets.

The gain or loss on de-recognition of an intangible asset is the difference between the net disposal proceeds, if any, and the carrying amount of the item. The gain or loss is recognized in profit or loss.

BUSINESS

Overview

We are one of the world's top 10 manufacturers of PV cells as measured by production capacity and output in 2006, according to Solarbuzz. We design, develop, manufacture and sell a variety of high quality monocrystalline and multicrystalline PV cells. Since we entered the PV market in 2000, we have focused on and developed an industry-leading manufacturing system featuring advanced process technologies that result in highly efficient, customized, automated production lines. We are an early adopter of innovative and unique process technologies that have enhanced our production efficiency and the quality of our products. We sell our PV cells to leading PV module manufacturers and integrated systems providers throughout the world.

The strong execution capabilities of our experienced management team and the efficiency of our manufacturing system have allowed us to rapidly expand our production capacity and output without compromising quality. Our total production output increased from 35 MW in 2004 to 102 MW in 2006, representing a CAGR 70.7%. Our total production output was 37 MW for the three months ended March 31, 2007. As of March 31, 2007, our total annual installed PV cell production capacity reached 240 MW. The customized production line in Fab 2 of our Tainan, Taiwan factory has an annual PV cell capacity of approximately 80 MW, compared to 25 MW to 30 MW for a comparable turnkey production line. We expect to increase our annual installed PV cell production capacity to approximately 280 MW by the end of 2007 and to approximately 400 MW by the end of 2008. The conversion efficiency of our monocrystalline and multicrystalline PV cells reached 16.7% and 15.8%, respectively, as of Mach 31, 2007.

To accelerate our growth and maintain an optimal cost structure, we intend to vertically integrate by significantly increasing our existing wafer production capacity and expanding into the polysilicon feedstock market. As of the date of this offering circular, we have secured the supply of over 70% of the silicon raw materials necessary to support our anticipated PV cell production in 2007. We have also secured supplies from leading suppliers, including REC Scanwafer AS, ReneSola Ltd. and LDK Solar Hi-tech Co., Ltd. to support our anticipated 2008 production. We also enter into OEM arrangements pursuant to which we secure wafers from our customers and provide PV cells to them. We intend to build a new wafer production facility in China. We expect our new China wafer facility and our existing Tainan wafer facility to have a total installed production capacity of approximately 100 MW by December 31, 2008, or approximately 25% of our anticipated total annual installed PV cell production capacity. In December 2006, we entered into a seven-year polysilicon supply contract with AE Polysilicon, a New Jersey, United States-based company that will utilize cost-efficient FBR technology to produce polysilicon. AE Polysilicon is currently building a production facility in the United States that is expected to commence polysilicon production in late 2008. We expect AE Polysilicon to commence delivery of polysilicon to us beginning in early 2009, in amounts to be increased to 2,500 tons of polysilicon per year by the end of 2011.

We have achieved significant revenue and earnings growth since we began selling PV cells in 2000. Our consolidated net revenues increased from NT$2,467.1 million in 2004 to NT$8,203.4 million (US$248.5 million) in 2006, representing a CAGR of 82.4% and our unconsolidated net revenues increased from NT$710.0 million for the three months ended March 31, 2006 to NT$3,308.3 million (US$100.2 million) for the three months ended March 31, 2007. Our consolidated net income increased from NT$559.6 million in 2004 to NT$2,257.9 million (US$68.4 million) in 2006, representing a CAGR of 100.9% and our unconsolidated net income increased from NT$50.1 million for the three months ended March 31, 2006 to NT$766.6 million (US$23.2 million) for the three months ended March 31, 2007. Our customers include Aleo, Atersa, GE Energy, Scheuten, Siliken and Tensol.

We commenced operations in 1981 as a test and measurement company. We entered the PV market in 2000, and in 2002 sales from our PV products and services contributed to approximately 71.2% of our net revenues. In 2006 sales from our PV products and services accounted for over 97% of our net revenues. We continue to sell test and measurement products as well as PV systems.

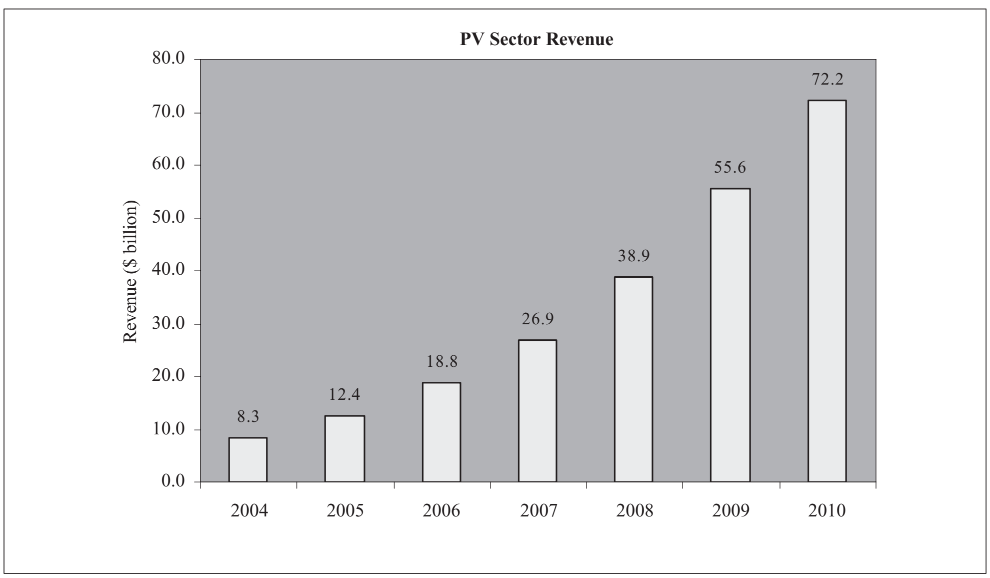
Our Industry

Solar power is the generation of electricity from sunlight through a process known as the photovoltaic effect. PV cells convert sunlight directly into electricity. Multiple PV cells are interconnected and laminated into PV modules, which are mounted in areas with exposure to the sun. PV systems, which are comprised of multiple PV modules and system components such as batteries, inverters, electronic components and supporting structures are used in residential, commercial and industrial applications.

The Global PV Market

The PV market has grown rapidly over the past several years. According to Photon Consulting, an independent solar energy research firm, the global demand for PV cells/modules was approximately 5GW in 2006 and is expected to grow to 13GW in 2010, representing a CAGR of 27.0%. Over the same period, the global PV industry revenue would grow from US$18.8 billion in 2006 to US$72.2 billion in 2010, representing a CAGR of 40.0%.

The following diagram sets forth the actual and estimated global PV market size as measured by total sector revenue from 2004 to 2010.



Source: Photon Consulting 2006

Photon Consulting is anticipating rapid growth in the global PV cell/module production, from an estimated 2.4GW in 2006 to 10.4GW in 2010, representing a CAGR of 44.3% as demand is expected to outstrip supply through at least 2008, and possibly 2010.

Key Growth Drivers

We believe the following factors have driven, and will continue to drive, the growth of the solar power industry.

Growing Electric Power Demand, Supply Constraints and Desire for Energy Security. The world's total net electricity consumption is expected to double from 14.8 trillion kilowatt-hours in 2003 to 30.1 trillion kilowatt-hours in 2030, according to the U.S. Energy Information Administration. It is also projected that fossil fuels such as coal, natural gas and oil would make up approximately 80.0% of the worldwide electricity production by the end of 2030.

Declining fossil fuel reserves and escalating electricity consumption are driving up wholesale electricity prices, resulting in higher electricity costs for consumers and highlighting the need to develop technologies for reliable and sustainable electricity generation. In addition to generation challenges, the electric grid infrastructure in many parts of the world is in need of substantial upgrades. Further, many governments are attempting to reduce their dependence on foreign sources of energy because of the political and economic instability in the fossil fuel producing regions of the world. Expanding domestic sources of power generation, particularly solar power and other renewable resources, is a key element of many government strategies to increase energy security.

Government Incentives for Solar Power. Increasing environmental concerns and climate change risks associated with fossil fuel-based power generation have created political momentum for and pressure to implement greenhouse gas reduction strategies. Many countries have agreed to reduce emissions of carbon dioxide and other gases through international treaties such as the Kyoto Protocol. In addition, national and regional air pollution regulations also restrict the release of carbon dioxide and other gases. Solar power and other renewable sources, such as wind power, hydroelectric power and biomass, help address these environmental concerns.

Governments around the world have implemented a variety of policy initiatives to accelerate the development and adoption of solar power and other renewable energy sources. According to Photon Consulting's estimate, government support globally for solar power will increase from US$1.8 billion in 2005 to US$7.2 billion in 2008. Renewable energy policies are in place in many European countries, certain Asian countries, many of the states and provinces in Australia, Canada and the United States and in certain Latin American countries. Examples of customer-focused financial incentives include capital cost rebates, net metering, feed-in tariffs, renewable portfolio standards and tax credits. Capital cost rebates provide money to partially offset the consumer's upfront investment in a PV system. Under net metering, excess power generated by a consumer's PV system will turn the customer's home or business electricity meter backwards by such excess amount, reducing the customer's electricity bill. Feed-in tariffs require utilities to pay customers for the electricity they generate with PV systems based on kilowatt-hours produced, at a rate generally guaranteed for a period of time. Renewable portfolio standards require electricity suppliers to have a certain percentage of renewable power in their mix.

Growing Awareness of the Advantages of Solar Energy. Solar power has several advantages over both conventional and other forms of renewable energy:

- *Renewability and Environmental Friendliness*. Solar energy is derived from non-depleting sources. PV systems consume no fuel and produce no air, water or noise emissions.
- *No Fuel Risk Advantage*. Unlike traditional energy sources, such as fossil and nuclear fuels, solar energy is not subject to fuel price volatility or delivery risk. Although the amount and timing of sunlight vary over the day, season and year, a well configured system could provide a reliable, long-term supply source for fixed price electricity.

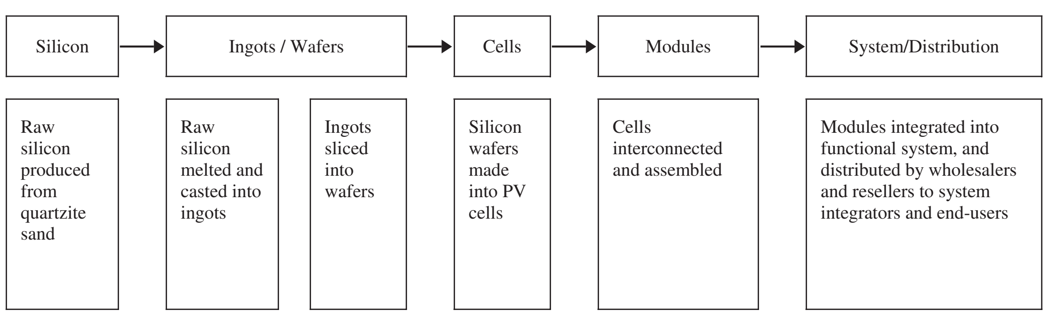
- *Peak Energy Generation*. Given that maximum sunlight hours correspond to peak electricity demand periods, PV panels generate the highest amount of electricity when electricity prices reach their highest levels.
- *Location Advantage*. Given the universal availability of sunlight, PV systems are generally installed at a customer's site. Therefore solar power does not face the same expenses and energy losses associated with transmission and distribution from large scale power generation plants to the end users. In addition, solar power often is regarded as an attractive, and sometimes the only viable, choice among renewable energy sources for retail customers given its universal location availability.
- *Relatively Minimal Infrastructure Investment*. PV systems can be deployed for large-scale residential and commercial applications very quickly, typically without the construction of a complex infrastructure.
- *Modularity*. PV systems can be deployed in many sizes and configurations to meet the specific needs of customers.
- *Dual Use*. In addition to power generation, PV panels can be used as the exterior of a building and are increasingly installed on the roofs and facades of commercial and residential buildings.
- *Durability*. Accelerated aging tests have shown that, without the need for major maintenance, solar power systems can operate for 25 or more years.

PV Industry Value Chain

The crystalline silicon-based PV manufacturing value chain starts with the processing of quartzite sand to produce metallurgical-grade silicon. This material is then further purified to polysilicon feedstock. Polysilicon feedstock is then formed into multicrystalline ingots or monocrystalline ingots through a crystallization process. Ingots are then sliced into wafers.

Silicon wafers are manufactured into PV cells through a multiple-step manufacturing process. Multiple PV cells are interconnected to form PV modules, which together with system components are distributed by wholesalers and resellers, to installers, systems integrators, service providers or directly to end-users, for installation in PV systems.

The following diagram illustrates the stages of the PV electricity generation value chain.



PV Cell Technologies

Crystalline silicon PV cell technology

The significant majority of installed PV systems employ crystalline silicon technology. According to Solarbuzz, crystalline silicon technology represented 92% of the PV cell market in 2006. Crystalline silicon technology uses either monocrystalline silicon or multicrystalline silicon.

With monocrystalline technology, the silicon material used in the production of PV cells is produced from a single crystal. Monocrystalline silicon wafers are more expensive to produce than multicrystalline silicon wafers of similar dimensions. However, PV cells made from monocrystalline wafers yield higher energy conversion efficiency rates, which measure the ability of PV cells to convert sunlight into electricity, than PV cells made from multicrystalline wafers.

Multicrystalline silicon consists of numerous smaller crystals. While multicrystalline silicon wafers are less expensive to produce than monocrystalline silicon wafers of similar dimensions, they generally contain more impurities and crystal defects that impede energy conversion than monocrystalline silicon wafers.

Thin-film PV cell technologies

A small portion of the installed PV systems use thin-film technologies. Thin-film technologies include the use of amorphous silicon, copper indium, or cadmium telluride in the production of PV cells, instead of bulk crystalline silicon. As compared to crystalline silicon technology, thin-film technologies may allow for lower production costs by using smaller amounts of semiconductor material; however the conversion efficiencies of PV cells using thin-film technologies are typically lower than for crystalline silicon-based PV cells. Further, thin-film production typically requires higher investment costs for production equipment. Thin-film PV cells typically achieve energy conversion efficiencies of between 7% and 10%.

Challenges Facing Solar Power

Despite the benefits, the solar power industry must overcome the following challenges to achieve the widespread commercialization of its products.

Shortages of Polysilicon. There currently exists, and is expected in the near term to continue to exist, an industry-wide shortage of polysilicon, an essential raw material in the PV supply chain. According to Solarbuzz, the polysilicon shortage is expected to last through at least 2008, when additional polysilicon manufacturing capacity is expected to become available. The increase in polysilicon manufacturing capacity is expected to come from the expansion of existing plants and new plants which will employ existing, well-proven technologies as well as new technologies expected to offer the potential for lower cost polysilicon. Given the current demand and supply imbalance, effective supply chain management is a critical element for the continued growth of the PV industry and for controlling silicon raw material costs.

Higher Cost to Consumers. For most on-grid applications, the current overall cost of generating solar power electricity, when upfront capital costs are factored into cost-per-kilowatt, is greater than the cost of purchasing retail electricity from a utility grid. While government programs and consumer awareness have accelerated the use of solar power for on-grid applications, higher costs of PV products remain one of the impediments to growth. To provide an economically attractive alternative to conventional grid power, the PV industry must continually reduce manufacturing and installation costs and find ways to make the use of solar power cost-effective over time without government incentives or subsidies. We believe that when the cost of electricity generated from solar power approaches the cost of electricity purchased from conventional sources of power, or grid parity, solar power will become more attractive to consumers and result in greater demand for solar power than currently estimated.

Achieving Higher Conversion Efficiencies at Lower Cost. PV modules are typically measured and sold on the basis of cost per watt of power output. As a result, increasing the conversion efficiency of solar cells used in PV modules while holding constant or reducing material and assembly costs required to build PV modules will increase the attractiveness of PV modules to consumers. In addition, increased conversion efficiency of PV cells will also reduce the size and space required for a PV system, thereby lowering the cost of installation for a consumer.

Our Competitive Strengths

We believe that the following strengths enable us to compete effectively and to capitalize on opportunities in the rapidly growing solar power market.

Strong Execution Capability Demonstrated by Significant Operational and Financial Achievements

We are one of the world's top ten manufacturers of PV cells as measured by production capacity and output in 2006, according to Solarbuzz. Our total annual output increased from 35 MW in 2004 to 102 MW in 2006, representing a CAGR of 70.7%. As of March 31, 2006, our total annual installed PV cell production capacity reached 240 MW. We expect to increase our annual installed PV cell production capacity to approximately 280 MW by the end of 2007 and to approximately 400 MW by the end of 2008. The conversion efficiency of our monocrystalline and multicrystalline PV cells reached 16.7% and 15.8%, respectively, as of March 31, 2007. We have achieved and maintained profitability while rapidly expanding our operations. We achieved consolidated net income of NT$559.6 million, NT$1,159.4 million and NT$2,257.9 (US$68.4 million) for the years ended December 31, 2004, 2005 and 2006, respectively, and unconsolidated net income of NT$766.6 million (US$23.2 million) for the three months ended March 31, 2007.

These achievements reflect the efficiency of our manufacturing system, our ability to establish extensive relationships with leading PV module manufacturers and systems integrators and the execution of our experienced management team. We believe we are well-positioned to leverage these strengths to continue our growth momentum while maintaining and further increasing our profitability.

Industry-Leading Manufacturing System with Efficient Cost Structure

We have developed an industry-leading manufacturing system featuring advanced process technologies that result in highly efficient, customized, automated production lines. Our workforce of 970 employees, on a consolidated basis, as of December 31, 2006 included over 116 engineers. We have a dedicated team of four research and development engineers and 14 production technology engineers who focus on the continuous improvement of our manufacturing system to maximize efficiency. This team works in close cooperation with our equipment suppliers to design our customized manufacturing system.

Many of our competitors utilize turnkey production lines that have been purchased from a single supplier. Our customized production system features equipment layout and process flow which we believe is superior to these turnkey systems. We have also pioneered, or been early adopters of, innovative and unique process technologies such as acidic texturization, AR (anti-reflection) coating and in-line production. These process technologies have enhanced our production efficiency and the quality of our products. The customized production line in Fab 2 of our Tainan, Taiwan factory has an annual PV cell capacity of approximately 80 MW, compared to 25 MW to 30 MW for a comparable turnkey production line. This production line is fully-automated and can operate 24 hours a day, allowing for continuous production. We believe our lower unit cost has allowed us to consistently generate superior margins. We also believe that, in the event PV cell prices decline, our lower cost base and superior production system will allow us to maintain our price competitiveness in the global solar market.

To continue to improve our cost structure, we have leveraged our PV cell manufacturing know-how to master wafer slicing and ingot growth, which we commenced in 2004 and mid-2006, respectively. As of December 31, 2006, we were operating two furnaces and three wire slicers at our Tainan, Taiwan facility, with an annual capacity of 24 MW, based on the capacity of our wire slicers. We have improved the yield of our in-house wafer production from approximately 80% as of December 31, 2004 to over 94% as of March 31, 2007. We believe our capability in wafer slicing and ingot growth will facilitate our upstream expansion to becoming a more vertically integrated producer.

Extensive Relationships with Leading Module Manufacturers and Systems Integrators

We supply our products to leading PV module manufacturers and systems integrators throughout the world, including Europe, Asia and the United States. In 2006, our customers in Europe, Asia and Americas contributed to 28.7%, 56.7% and 8.2%, respectively, of our net revenues. We have strategically chosen not to diversify into PV module manufacturing because we believe our core competency is the design and production of PV cells and we do not wish to compete with our customers. Our continuous presence in the industry has also allowed us to nurture deep relationships with our customers.

Our customers include some of the solar industry's most prominent PV module manufacturers, such as Trina Solar Limited, GE Energy, Canadian Solar Inc., Aleo Solar AG and Tenesol (Total Energie SA), and systems integrators. These PV module customers certify their modules with our PV cells. Certification is time-consuming and expensive, with a single product certification costing around €50,000 (US$65,985). We believe that customers who are willing to undergo certification are more likely to be long term market participants in the global PV industry. We expect to retain these customers and develop more leading PV module manufacturers and systems integrators as our customers.

Experienced and Stable Management Team with Proven Track Record

Our management team has extensive experience in the PV industry with a proven record of execution. We have experienced no attrition in our management team. Our chief executive officer and our chief technology officer have both been with us since 1999 and have built numerous relationships throughout the PV industry. Our management team successfully grew Motech during the prolonged cycle of slower growth and less favorable global PV cell prices from 2001 to 2003 into one of the leading PV cell manufacturers today.

Our management team has deep operational and technical expertise as well as significant international experience. Our president, Mr. Fu-Tien Cheng, has over ten years of experience in the PV industry. Our chief executive officer, Dr. Simon Tsuo, has more than 27 years experience in the field of photovoltaics and has worked at the National Renewable Energy Laboratory at the United States Department of Energy and the Stanford Research Institute. Our chief technology officer, Dr. Kuo En Chang, has more than eight years experience in the industry. Our chief operating officer, Dr. Paul Cheng, has over 30 years of experience in engineering and operations at Lockheed Martin Corporation. We believe that the breadth and depth of our management team's international experience, coupled with its stability, provide us with significant competitive advantages over other companies in the PV industry.

Our Strategies

Our goal is to be the leading global cost-efficient producer of high quality PV cells in the world. We also plan to lower solar electricity prices to levels approaching those of conventional energy sources. We intend to achieve these goals by pursuing the following strategies:

Expand Our Vertically Integrated Manufacturing Capabilities

We plan to expand our vertically integrated manufacturing capabilities to leverage the strength of our industry-leading manufacturing system and realize other technical and cost synergies. Firstly, we will continue to improve our manufacturing system and systematically increase our production capacity. As of March 31, 2007, the annual installed PV cell production capacity at our Tainan factory was 240 MW, comprising of 160 MW at Fab 1 and 80 MW at Fab 2. We believe Fab 1 is operating at its maximum capacity. Fab 2 is large enough to accommodate a total of four PV cell production lines. We expect to add 40 MW of PV cell production capacity at Fab 2 during 2007, bringing total annual installed PV cell production capacity at Fab 1 and Fab 2 to approximately 280 MW by the end of 2007. We expect to add 120 MW of PV cell production capacity at Fab 2 during 2008, bringing total annual installed PV cell production capacity at Fab 1 and Fab 2 to approximately 400 MW by the end of 2008. We also plan to install wafer production capacity in our new facilities in China. We plan to increase our annual installed wafer production capacity to 100 MW by the end of 2008.

Secondly, we believe that attractive expansion opportunities exist upstream in the silicon and wafer segments of the PV value chain. We intend to vertically integrate by significantly increasing our existing wafer production capacity and expanding into the polysilicon feedstock market. With our track record of successfully manufacturing PV cells, ingots and wafers, we believe that we will be able to efficiently manage a vertically integrated production system and realize other technical and cost synergies. We believe that vertically integrating upstream components of the PV value chain will allow us to:

- *Secure dependable silicon supply*. We believe we can secure a more dependable supply of silicon raw materials by producing these ourselves. We also believe we will be able to control more of the manufacturing process and reduce the costs associated with our dependence on third party suppliers;
- *Realize cost reduction.* We believe that vertical integration will help us achieve higher efficiency and lower costs by streamlining our in-house production process, reducing production cycle time and allowing us to capture value along the supply chain.
- *Achieve greater quality control*. We believe it is difficult for high-volume producers to effectively test and verify the technical parameters of materials procured from third-party suppliers. Upstream vertical integration will increase our ability to produce these materials in-house at a known and uniform quality and reduce the need to rely on quality assurances of third-parties.

Significantly Increase Our Wafer Production Business

We believe it is critical to secure a dependable supply of wafers and wafer materials to support our expansion strategy. In-house wafer production allows us to standardize inputs by driving uniform wafer sizes with a uniform silicon grade through our production line, increasing throughput and yield.

We have been casting silicon ingots and slicing wafers since mid-2006 and 2004, respectively. As of March 31, 2007, we were operating two furnaces with a total annual capacity of approximately 112.5 tons of ingots, which typically yields 10 MW of PV cells based on our current manufacturing processes. As of March 31, 2007, we were operating three wire slicers with a capacity of 6.4 million wafers, or 24 MW, per year. We intend to increase our wafer capacity in Tainan Taiwan to approximately 40 MW by December 31, 2008. We are in the process of acquiring 140 acres of land located in China and we intend to construct a 240 MW crystal growth and wafer slicing facility at this site. We expect to commence production in mid-2008. This facility will leverage the ingot casting and slicing capabilities we have developed at our Tainan facility. We expect installed wafer capacity at this facility to reach approximately 60 MW per year by December 31, 2008. We expect the total installed wafer capacity of our Tainan and China wafer facilities to reach approximately 100 MW per year, or approximately 25% of our anticipated total annual installed PV cell production capacity by December 31, 2008, compared to approximately 4% in 2006.

Expand into Upstream Silicon Feedstock Market

We believe it is important to secure a dependable supply of silicon and that attractive expansion opportunities exist upstream in the silicon feedstock segment of the PV value chain. In December 2006, as part of our vertical integration strategy, we entered into a seven-year polysilicon supply contract with AE Polysilicon, a New Jersey, United States-based company. AE Polysilicon will utilize cost-efficient FBR technology to produce polysilicon. AE Polysilicon's team includes engineers with many years of experience in building power plants as well as engineers with experience in polysilicon production using the Siemens process and research and development using the FBR technology. We believe that FBR technology may be superior to the process developed by Siemens because it permits the re-use of raw materials in the production process, thereby lowering costs and increasing efficiency. AE Polysilicon is currently building a production facility in the United States that is expected to commence polysilicon production in late 2008. We expect AE Polysilicon to commence delivery of polysilicon to us beginning in early 2009, in amounts to be increased to 2,500 tons of polysilicon per year by the end of 2011. Our agreement also provides for volume and pricing adjustments if the commercial launch does not occur based on the expected schedule. We believe our partnership with AE Polysilicon, including our supply contract and our equity investment in the company, will provide us with a dependable ongoing source of silicon, accelerate our growth and differentiate us from many of our competitors.

Enhance Innovation and Efficiency through Increasing Research and Development

We have devoted significant research and development resources to our manufacturing system. We will continue to focus on improving this system, in particular by increasing the yield of our wafer production and by reducing breakage. We currently have more than five ongoing development projects that focus on improving our manufacturing system. We also plan to increase our expenditure in PV cell research and development. We intend to improve our conversion efficiency and further reduce the thickness of our wafers, without compromising quality.

We plan to construct a research and development center at our facility in Tainan in the near future. We expect to hire additional engineers for this facility, which will focus on next generation PV cell technologies such as thin-film silicon multicrystalline cells. We will also continue to monitor new developments, attend solar conferences and maintain relationships with leading academics in the PV industry, to ensure that we are aware of technological changes taking place in the solar industry.

Broaden Our Geographical Revenue Base and Enhance Brand Recognition

We plan to broaden the geographical distribution of our sales to capitalize on new market opportunities, minimize our risk of dependence on any particular geographic region and achieve a more balanced distribution of our products. We are skilled at opportunistically penetrating new markets. We believe the United States PV cell market is poised for significant growth and we have increasingly targeted this market. In 2004, we did not have any sales in the United States. For the year ended December 31, 2006 we had increased our sales in the United States to NT$674.0 million (US$20.4 million), or 8.2% of our consolidated net revenues. For the three months ended March 31, 2007, our sales in the United States were NT$354.2 million (US$10.7 million), or 10.7% of our unconsolidated net revenues. We believe that greater customer and geographic diversification will help us minimize our business volatility.

We plan to further enhance our "Motech" brand by selectively targeting the rapidly growing sub-segments of the downstream market, such as solar inverters. We believe that our presence in these sub-segments adds to our growth and increases our brand recognition and the depth of our technical capabilities, without distracting us from our core competency.

Our Products

We primarily design, develop, manufacture and sell PV cells. We also manufacture ingots and wafers for our own use. We produce both multicrystalline and monocrystalline silicon PV cells. The following table sets forth a sample of the types of PV cells we offer with the parameters as of March 31, 2007.

Cell Type	Dimensions (mm×mm)	Conversion Efficiency (%)	Thickness (microns)	Maximum Power (W)
Multicrystalline silicon PV cell	103 x 103	15.3 - 15.8	240 - 200	1.62 - 1.68
	125 x 125	15.3 - 15.8	240 - 200	2.39 - 2.47
	150 x 150	15.3 - 15.8	240 - 200	3.44 - 3.56
	156 x 156	15.3 - 15.8	240 - 200	3.72 - 3.85
Monocrystalline silicon PV cell	103 x 103	16.2 - 16.7	240 - 200	1.72 - 1.77
	125 x 125	16.2 - 16.7	240 - 200	2.53 - 2.61
	156 x 156	16.2 - 16.7	240 - 200	3.94 - 4.06

The key technical efficiency measurement of PV cells is the conversion efficiency rate. A higher conversion efficiency rate is one of the factors that reduces the production cost per watt of PV cells because more power can be incorporated into a given size cell. The conversion efficiency rate of our monocrystalline and multicrystalline PV cells reached 16.7% and 15.8%, respectively, as of March 31, 2007, compared to 15.8% and 15.0%, respectively, as of December 31, 2004. Our PV cells range from 240 microns to 200 microns in thickness. In order to further lower our production costs, we intend to focus on producing thinner PV cells.

We also design, manufacture, market and sell high-end test and measurement instruments. We have been active in the test and measurement industry since 1981. We were able to leverage our experience in the test and measurement industry to successfully enter the PV market in 2000. Our two principal product lines are solar inverters and other test and measurement instruments. Inverters transform DC electricity produced by solar panels into the more common form of AC electricity. Inverters are used in virtually every on-grid PV system and typically feed power either directly into the home electrical circuit or into the utility grid. We sell a line of branded inverters in the European markets specifically designed for use in residential and commercial systems. We aim to leverage our industry-leading process know-how to manufacture inverters with superior performance but at a mid-range price. Our inverter product line-up currently includes three models spanning a power range of 3.3 to 5.1 kilowatts. Our products have high performance even in low irradiation conditions and are highly reliable. We also manufacture test and measurement products for the educational and commercial market.

In addition, we design, manufacture, market and sell PV systems. The first step in constructing one of our PV systems is to sell our PV cells to a third party who builds PV modules for us. We then use these PV modules to produce PV systems. For the year ended December 31, 2006, we were the largest PV system provider in Taiwan with a market share in excess of 50%. Our PV systems have been used in high-profile projects such as the national legislature in Taipei and internationally.

Manufacturing

We manufacture PV cells, ingots and wafers. Our facilities included PV cell and wafer production lines with an annual installed production capacity of 240 MW and 10 MW, respectively, as of December 31, 2006 and March 31, 2007. We expect to increase our annual installed PV cell manufacturing capacity to approximately 280 MW by the end of 2007 and approximately 400 MW by the end of 2008. We expect to increase our annual installed wafer manufacturing capacity to approximately 100 MW by the end of 2008. The following table shows our major installed production capacity objectives as of the dates indicated, based on our expansion strategy.

	As of December 31, 2004	As of December 31, 2005	As of December 31, 2006 and March 31, 2007	As of December 31, 2007	As of December 31, 2008
Annual PV cell production capacity (in MW)(1)					
Fab 1 – Tainan, Taiwan	50	100	160	160	160
Fab 2 – Tainan, Taiwan	—	—	80	120	240
Total annual PV cell production capacity	50	100	240	280	400
Annual wafer production capacity (in MW)					
Tainan, Taiwan	—	—	10	20	40
China	—	—	—	NA(2)	60
Total annual wafer production capacity	—	—	10	NA(2)	100
Total annual wafer production capacity/ cell production capacity (in %)	0%	0%	4.2%	NA(2)	25.0%

(1) Amounts for 2007 and 2008 are estimates, assuming 24 hours of operation per day for 350 days per year.
(2) The installed manufacturing capacity has not been determined.

PV Cell Manufacturing

We use high precision manufacturing equipment sourced worldwide to enhance the quality of our finished products. We use customized designs and streamlined process flow to improve the efficiency of our manufacturing system. We have a dedicated research and development team of four research and development engineers and 14 production technology engineers who focus on the continuous improvement of our manufacturing system to maximize efficiency. This team works in close cooperation with Centrotherm and Rena, our principal equipment suppliers. We have also pioneered, or been early adopters of, innovative production techniques including the following:

- *Acidic texturization*. In 2004, we were one of the first companies in the industry to switch from alkaline texturing of multicrystalline cells to acidic texturization. Acidic texturization can increase cell conversion efficiency by up to 50 basis points;

- *Sputter AR coating*. We use an advanced sputter AR (anti-reflection) coating technique to apply a layer of silicon nitride to our PV cells. We adopted AR coating in 2000, significantly before it was adopted by the rest of the industry; and, in 2006, we introduced in-line sputter technology to our PV cell production line; and

- *In-line production*. We have been utilizing in-line (fully-automated) production systems since 2006.

Our PV cell manufacturing process includes the following main steps:

- *Chemical treatment of silicon wafers*. We first fabricate a textured structure on the wafer surface through chemical treatment to reduce the reflection of sunlight. The chemical treatment process for monocrystalline silicon wafers produces a "pyramid-textured surface," which traps sunlight into the silicon. For multicrystalline silicon wafers, a similar type of surface structure cannot be readily formed with traditional process technology. We adopt an advanced process that allows the formation on multicrystalline silicon wafers of a similar surface structure to that of monocrystalline silicon wafers. We believe that this technology helps us to achieve high conversion efficiencies for the multicrystalline silicon PV cells that we manufacture.

- *Diffusion process*. Diffusion is a thermal process through which we selectively incorporate impurities into the silicon wafer and form an electrical field within the surface region of the wafer. We have developed different diffusion processing parameters for refined low-grade silicon wafers and off-specification wafers in order to achieve the optimal efficiency for these wafers.

- *Edge isolation*. We achieve electrical isolation between the front and back surfaces of the silicon wafer through a process known as edge isolation. We currently use the conventional method of edge isolation, which is etching the edge with plasma. We are also exploring the use of laser etching technology, which is more appropriate for the treatment of off-specification wafer, and should decrease manufacturing costs and reduce waste gas emissions.

- *Surface passivation*. Surface passivation refers to the process of applying an anti-reflection coating to the front surface of the PV cell to reduce the chemical reaction detrimental to the formation of the electrical current. Our surface passivation technology ensures the appropriate thickness and refractive index of the coating to achieve high conversion efficiencies.

- *Screen printing and firing*. We screen print negative and positive metal contacts, or electrodes, on the PV cell. Silicon and metal electrodes are then connected through an electrode firing process in a furnace at a high temperature. The match between the printing parameters and firing conditions is crucial for the PV cell performance. We have developed proprietary technology in this respect which facilitates our usage of silicon wafers as thin as 200 microns.

Ingot and Wafer Manufacturing

We have leveraged our manufacturing know-how to master wafer slicing and ingot growth.

- *Ingots.* We began manufacturing ingots in mid-2006. As of March 31, 2007, we were operating two furnaces with a total annual capacity of approximately 112.5 tons of ingots, which typically yields 10 MW of PV cells based on our current manufacturing processes.

  To produce monocrystalline silicon ingots, silicon raw materials are first melted in a quartz crucible in the pulling machine, which acts as a furnace. Then, a thin crystal seed is dipped into the melted material to determine the crystal orientation. The seed is rotated and then slowly extracted from the melted material which solidifies on the seed to form a single crystal.

- *Wafers.* We began manufacturing wafers in 2004. Ingots are squared and then sliced into wafers by high-precision cutting techniques using steel wires and silicon carbide powder. After being inserted into frames, the wafers go through a cleansing process to remove debris from the previous processes, and are then dried. As of March 31, 2007, we were operating three wire slicers with an annual capacity of 6.4 million wafers, or 24 MW. We expect to increase the annual installed ingot and wafer capacity at our Tainan facility to approximately 40 MW by the end of 2008. We intend to construct a 240 MW crystal growth and wafer slicing facility in China. We expect our China facility to increase our annual installed wafer manufacturing capacity by approximately 60 MW by December 31, 2008.

Currently, one kilogram of round ingot yields up to 27 wafers, and we expect to increase the number of wafers to 34 by the end of 2008. We are able to process thin silicon wafers and maintain a low breakage rate.

Raw Materials

Silicon wafers are the most important raw materials for producing PV cells, with multicrystalline and monocrystalline silicon wafers as the most commonly used materials. We can produce PV cells with either of these types of silicon wafers, and this dual capability provides us with flexibility in raw material procurement.

We seek to procure silicon wafers from various suppliers, including manufacturers and trading companies. In addition, we procure polysilicon, silicon ingots and other silicon-based raw materials throughout the various segments of the supply chain, and convert these materials into silicon wafers. We also produce a portion of our silicon ingot requirements and convert these ingots into wafers internally. In order to meet a portion of our raw material requirements, we also enter into OEM arrangements with some of our customers, under which we secure silicon wafers from some of our customers and provide PV cells to them, or a third party designated by them, in return.

Our principal suppliers of silicon wafers and other silicon-based raw materials currently include LDK Solar Hi-tech Co., Ltd., REC Scanwafer AS and ReneSola Ltd. Our top five suppliers supplied approximately 49.4% and 51.5% of our total silicon raw material needs in the year ended 2006 and the three months ended March 31, 2007, respectively. A minority of our silicon wafers and other silicon-based raw materials are supplied pursuant to supply contracts with one year or shorter terms or purchase orders. As of the date of this offering circular, we have secured the supply of over 70% of the silicon raw materials necessary to support our anticipated cell production in 2007. We enter into long-term supply contracts with fixed price, subject to adjustments under certain conditions, and with terms ranging from three to ten years with our leading suppliers. These contracts generally require us to make an advance payment of a certain negotiated amount. We are also in active discussions with several other silicon and silicon wafer suppliers to secure additional long-term supply contracts, while actively managing our supply to avoid locking in our raw material supply at high prices.

In December 2006, we entered into a seven-year polysilicon supply contract with AE Polysilicon, a New Jersey, United States-based startup company that plans to utilize FBR technology to produce polysilicon. AE Polysilicon is currently building a production facility in the United States that is expected to commence polysilicon production towards the end of 2008. Under the supply contract, AE Polysilicon has agreed to commence delivery of polysilicon to us beginning in early 2009, in amounts to be increased to 2,500 tons of polysilicon per year by the end of 2011. As part of our agreement with AE Polysilicon, we have agreed to make an advance payment of US$30.0 million (the “Advance”) in connection with future deliveries of polysilicon by AE Polysilicon to us. The Advance will be offset against payments due from us to AE Polysilicon for future polysilicon deliveries. In January 2007, we made an initial payment of US$15.0 million of the Advance to AE Polysilicon. We will make the remaining US$15 million of the Advance after AE Polysilicon fulfills certain preconditions under the agreement. In addition, we have the right to convert up to 50% of the amount outstanding under the Advance into equity of AE Polysilicon in the next round of new equity issuance by AE Polysilicon, at the same price and on the same terms as the investors in such future round.

Our manufacturing process also involves metallic paste, chemicals and other materials. We secure these raw materials from multiple vendors who have demonstrated quality control and reliability.

Equipment

Our engineers work closely with our equipment suppliers to design our customized manufacturing system. In addition, certain of our manufacturing equipment has been designed and made specifically for us. Our principal equipment suppliers are RENA Sondermaschinen GmbH, Centrotherm Systemtechnik GmbH and Applied Materials, Inc. Our aggregate expenditure on new equipment on a consolidated basis in 2005 and 2006 was NT$466.8 million and NT$1,712.1 million (US$51.9 million), respectively. Our aggregate expenditure on new equipment on an unconsolidated basis was NT$330.3 million (US$10.0 million) for the three months ended March 31, 2007. Our specialized equipment includes automated cleaning and etching wet benches from RENA Sondermaschinen GmbH, PCVD (plasma-activated chemical vapor deposition) machines from Centrotherm Systemtechnik GmbH and Applied Materials, Inc., vacuum coating systems from Applied Materials, Inc., diffusion furnaces from Centrotherm Systemtechnik GmbH and automatic screen printing systems from Baccini S.P.A.

Quality Assurance and Customer Support and Service

Our quality control consists of three components: incoming inspection through which we ensure the quality of the raw materials that we source from third parties, in-process quality control of our manufacturing processes, and output quality control of finished products through inspection and testing. We have received international certifications for our quality assurance programs, including ISO 9001:2000 for our quality management system, ISO 14001:2004 for our environmental management system and OHSAS 18001:1999 for our occupational health and safety management system, which we believe demonstrate our technological capabilities as well as instill customer confidence.

We pride ourselves on our customer support and service. We emphasize gathering customer feedback on our products and addressing customer concerns in a timely manner. Our customer support and service team also provides our customers with technical training and consultation with respect to the application of our products.

We do not currently offer a warranty for technical defects in our products. Rather, we work with our customers to timely address any product issues that may arise post-sale. Our expense for product returns from customers was, on a consolidated basis, NT$3.2 million, NT$9.1 million and NT$6.6 million (US$0.2 million) for the years ended December 31, 2004, December 31, 2005 and December 31, 2006, respectively and, on an unconsolidated basis, NT$5.5 million (US$167,000) for the three months ended March 31, 2007.

Customers and Markets

We sell our PV cells primarily to module manufacturers and systems integrators, who assemble our cells into PV modules and PV systems for use in various markets. Our major customers include Aleo, Atersa, GE Energy, Scheuten, Siliken and Tenesol. In 2006 and for the three months ended March 31, 2007, sales to our top five customers accounted for 40.9% of our consolidated net revenues and 47.9% of our unconsolidated net revenues, respectively. During 2006, we had one customer who accounted for over 10% of our net revenues. Sales to this customer accounted for 12.4% of our consolidated net revenues in 2006. During the three months ended March 31, 2007, we had three customers accounting for over 10% of our unconsolidated net revenues. Sales to these customers accounted for 11.1%, 10.5% and 10.3% of our unconsolidated net revenues during this period.

We currently make a majority of our sales to customers located in China and Germany. The following table sets forth by region our net revenues derived from sales of our products for the periods indicated:

	Consolidated						Unconsolidated			
	Year Ended December 31,						Three Months Ended March 31,			
	2004		2005		2006		2006		2007	
	(in millions, except percentages)									
Europe										
Germany	NT$1,070.7	43.4%	NT$1,298.3	29.1%	NT$1,464.9	17.9%	NT$115.8	16.3%	NT$ 615.1	18.6%
Others	71.8	2.9%	75.8	1.7%	889.6	10.8%	24.9	3.5%	707.7	21.4%
Europe Total	1,142.5	46.3%	1,374.1	30.8%	2,354.5	28.7%	140.7	19.8%	1,322.8	40.0%
Asia										
Japan	180.2	7.3%	308.0	6.9%	110.6	1.3%	40.9	5.8%	—	—
China	869.2	35.3%	2,049.7	46.0%	3,183.0	38.8%	256.9	37.5%	859.7	26.0%
Others	129.5	5.2%	297.0	6.6%	1,361.4	16.6%	125.1	17.6%	489.8	14.8%
Asia Total	1,178.9	47.8%	2,654.7	59.6%	4,655.0	56.7%	432.0	60.9%	1,349.5	40.8%
United States.	16.3	0.7%	83.6	1.9%	674.0	8.2%	43.5	6.1%	354.2	10.7%
Africa and others	129.5	5.2%	343.8	7.8%	519.9	6.4%	94.0	13.2%	281.7	8.5%
Net revenues	NT$2,467.2	100.0%	NT$4,456.2	100.0%	NT$8,203.4	100.0%	NT$710.0	100.0%	NT$3,308.3	100.0%

We have endeavored to avoid over-dependence on any single customer or on any single country. For example, the German market accounted for approximately 56% of the overall PV industry revenues in 2006 according to Solarbuzz, but this market accounted for only 17.9% of our consolidated net revenues in 2006 and 18.6% of our unconsolidated net revenues for the three months ended March 31, 2007. In order to continue growing our sales and to reduce our reliance on any particular market segment, we intend to further broaden our geographic presence and customer base.

We sell our products primarily under supply contracts, purchase orders and OEM arrangements, which are as follows:

- *Supply contracts and purchase orders*. Historically, we entered into supply contracts of various terms with our customers and were obligated to deliver PV cells according to a pre-agreed price and schedule during the term of the contract. Given the strong industry demand for PV cells and volatilities in average selling price of silicon raw materials and PV cells in recent periods, most of our contracts now provide for re-negotiation of price terms based on pricing regular reviews every three or six months. Depending on the credit status of our customers, market demand and the term of the contracts, we generally require our customers to prepay based on their credit status, general market demand and terms of the contracts, with the remaining balance due shortly after notice of shipment. We also, from time to time, enter into longer-term sales contracts with pricing based on a fixed schedule. We also sell our PV cells via purchase orders placed by our customers.
- *OEM arrangements*. From time to time, to address wafer shortage issues, we enter into OEM arrangements with customers. Under a wafer consignment transaction, we manufacture PV cells with silicon wafers provided by a customer. We ship the cell products back to the customer or to a third party designated by the customer. The only revenue we recognize under this type of transaction is the service fee we receive for our engineering services. We also enter into another type of transaction under which we purchase silicon wafers from a customer. We then sell cells back to the customer or to a third-party designated by the customer.

Sales and Marketing

We market and sell our solar power products worldwide through our direct sales team, which is based in Taiwan. Each member of our sales team is dedicated to a particular region. Our marketing programs include industrial conferences, trade fairs, sales training, advertising and public relations events. Our sales and marketing team works closely with our research and development and manufacturing teams to coordinate our product development activities, product launches and ongoing demand and supply planning.

We aim to develop long-term strategic relationships with key customers that are market leaders or niche players in their respective industrial or geographic segments. We particularly target module customers who certify their modules with our PV cells. Certification is time-consuming and expensive, with a single product certification costing around €50,000 (US$65,985). We believe that customers who are willing to undergo certification are more likely to be long term market participants in the global PV industry.

Research and Development

Our research and development efforts concentrate on lowering production costs per watt by increasing the conversion efficiency of our products and reducing silicon usage by reducing thickness of PV cells. The efforts of our research and development staff have resulted in a PV cell product with high efficiency at a very competitive price. The customized production line in Fab 2 of our Tainan factory has an annual PV cell capacity of approximately 80 MW, compared to 25 MW to 30 MW for a comparable turnkey production line.

We plan to construct a research and development center at our facility at Tainan in the near future. We expect to hire additional engineers for this facility, which will focus on next generation PV cell technologies such as thin-film silicon multicrystalline cells. We also monitor new developments, send many of our engineers to conferences and maintain relationships with leading academics in the PV industry, to ensure that we are aware of technological changes taking place in the solar industry.

Our gross expenditures on research and development were, on a consolidated basis, NT$33.8 million, NT$34.1 million and NT$45.2 million (US$1.4 million) in the years ended 2004, 2005 and 2006, respectively, and, on an unconsolidated basis, NT$25.5 million (US$772,000) for the three months ended March 31, 2007.

Intellectual Property

Our success depends to a significant degree on our design, engineering and manufacturing know-how. We intend to continue to assess appropriate opportunities for patent protection of those aspects of our technology that we believe provide significant competitive advantages to us.

We also rely on a combination of trade secrets and employee contractual protections to establish and protect our proprietary rights. We believe that many elements of our solar power products and manufacturing processes involve proprietary know-how, technology or data that are not covered by patents or patent applications, including technical processes, equipment designs, algorithms and procedures. We have taken security measures to protect these elements. All of our research and development personnel have entered into confidentiality and proprietary information agreements with us. These agreements address intellectual property protection issues and require our employees to assign to us all of their inventions, designs and technologies that they develop, primarily utilizing our resources or when performing their duties during their employment. Our supply contracts with our customers also typically include confidentiality undertakings.

We may be required to expend significant resources to monitor and protect our intellectual property rights. In addition, litigation may be necessary to enforce these rights. We cannot assure you that the outcome of any such potential litigation will be in our favor.

Competition

Due to various government incentive programs implemented in Europe, the United States, Japan and other countries, the global solar market has been rapidly evolving and has become highly competitive. In particular, a large number of manufacturers have entered the solar market. According to Solarbuzz, there are over 100 companies engaged in PV products manufacturing or that have announced plans to do so. We expect to face increased competition, which may result in price reductions, reduced margins or loss of market share. We believe that the key competitive factors in the market for PV cells include:

- manufacturing efficiency;
- conversion efficiency and performance;
- price;
- strength of supplier relationships; and
- reputation.

Our competitors include solar power divisions of large conglomerates such as BP Solar, Kyocera, Sanyo and Sharp Corporation, specialized cell manufacturers such as Q-Cells AG, Suntech Power Holdings Co., Ltd., E-Ton Solar Tech. Co., Ltd. and Sunpower Corporation. Some of our competitors have also become vertically integrated, from upstream polysilicon manufacturing to PV system integration, such as Renewable Energy Corporation ASA and Solarworld AG.

Many of our competitors are developing or currently producing products based on alternative PV technologies, such as thin-film technologies, which may ultimately have costs similar to, or lower than, our projected costs. However, we believe our products have higher efficiencies and longer lifetimes than products based on those technologies. We expect that we will also need to compete with new entrants to the solar power market. In addition, the entire PV industry also faces competition from conventional and non-solar renewable energy technologies.

Many of our existing and potential competitors have substantially greater financial, technical, manufacturing and other resources than we do. Our competitors' greater size in some cases provides them with a competitive advantage with respect to manufacturing costs due to their economies of scale and their ability to purchase raw materials at lower prices. Many of our competitors also have more established distribution networks and larger customer bases. As a result, they may be able to devote greater resources to the research, development, promotion and sale of their products or respond more quickly to evolving industry standards and changes in market conditions than we can.

Environmental Matters

Our manufacturing processes generate noise, waste water, gaseous wastes and other industrial wastes. We have installed various types of anti-pollution equipment in our facilities to reduce, treat, and where feasible, recycle the wastes generated in our manufacturing process. We outsource the treatment of some of our wastes via third party contracts. Our operations are subject to regulation and periodic monitoring by local environmental protection authorities.

Employees

We had 970 full-time employees, on a consolidated basis, as of December 31, 2006 and 914 full-time employees, on an unconsolidated basis, as of March 31, 2007. The following table sets forth the number of our full-time employees by function as of the period indicated.

	Consolidated	Unconsolidated
	As December 31, 2006 (1)	As March 31, 2007 (2)
Manufacturing and engineering	651	643
General and administrative	99	67
Quality control	66	54
Research and development	116	118
Procurement, marketing and sales	38	32
Total	970	914

(1) Including employees of our subsidiaries for our operations in China.
(2) Excluding employees of our subsidiaries for our operations in China.

Our continued success is dependent in large part on our ability to attract, retain, train and motivate qualified operational, technical and management personnel. In 2004, 2005 and 2006, the annual turnover rate for our employees was 3.9%, 1.7% and 1.1%, respectively. As of December 31, 2006 and March 31, 2007, the average age of our employees was approximately 28.7 and 28.9, respectively. As of December 31, 2006 and March 31, 2007, over 37.6% and 39.3%, respectively, of our employees have received bachelor or higher educational degrees. We conduct campus recruiting and publish job postings on the Internet. We believe that we offer total compensation packages comparable to those of our competitors.

Our employees are not covered by any collective bargaining agreements. We consider our relationship with our employees to be good. We provide free physical examinations, overseas company trips, scholarships, employee training and continuing education programs to our full-time employees. In compliance with ROC law, we also provide health benefits to our employees under the National Universal Health Plan and the Labor Health Plan. To date, we have not experienced any major labor disputes.

In addition to base salary each of our full-time employees is eligible for an annual merit-based cash bonus, which is funded from a pool the size of which is determined by our performance in the preceding year. The amount of this bonus is typically equivalent to at least four months of base salary. We have also implemented a profit sharing plan for our full-time employees under which no less than 1% of our annual net income (after provision for tax due and losses) incurred in prior years, deduction of the legal reserve and other necessary reserve is allocated as a special bonus to employees in the form of stock.

We maintain a pension plan for our employees in accordance with the ROC Labor Standards Law (the “ROC Labor Law”). Pursuant to the ROC’s Rules for the Allocation and Management of Employees’ Retirement Fund (the “ROC Labor Rules”), an employer has an obligation to contribute on a monthly basis an amount between 2% to 15% of an employee’s total monthly wage payment to the retirement fund of our pension plan. The applicable rate of contribution under the ROC Labor Rules is determined by taking into account the seniority of employees, the wage structure, the employee turnover rate, the employee retiring rate and the amount of funds that were in our retirement account prior to the adoption of the ROC Labor Rules. There are currently two schemes under ROC labor laws. Some of our employees are enrolled in old schemes, under which we are required to provide benefits to any participating employee who has reached the age of 60, has worked for us for more than 25 years and has voluntarily retired or has reached the age of 55 after working for us for more than 15 years. On reaching the prescribed age or service period, an employee becomes eligible for a lump-sum payment upon retirement. The contribution rate used by us, determined in accordance with the ROC Labor Rules and approved by the relevant government authorities, was 2% in each of the last three years. Actual payment of pensions under the old scheme is financed by the pension fund and any insufficiency is required to be funded by us. In addition, we have an obligation under the Labor Pension Act which became effective on July 1, 2005. Some of our employees are currently enrolled in the new pension scheme prescribed by the Labor Pension Act, under which we are required to contribute on a monthly basis an amount equal to at least 6% of each employee's monthly wage into an account in each employee's individual name maintained with the Bureau of Labor Insurance. As the pension fund will be deposited in each employee's individual account, such pension fund is portable with each employee. Employees who joined us on or after July 1, 2005 have to enroll in the new plan while those who joined us before that date may choose within the next five years to enroll in either the new one or the old one. For those employees who choose to enroll in the new plan and to keep certain benefits under the old plan, in addition to the contribution of at least 6% of each employee's monthly wage payment as required by the Labor Pension Act, we also have to deposit a certain percentage of these employees' total monthly wage based on actuarial calculations into our pension fund account maintained with Central Trust of China as required by the Labor Law after July 1, 2005. Alternatively, we may also provide private pension insurance programs to employees upon satisfying certain requirements under the Labor Pension Act. In that case, we will need to pay the premiums at the amount not lower than 6% of the employees' monthly wages.

Employee Stock Option Plans

We have implemented three employee stock option plans. We have reserved 2,678, 1,322 and 1,500 units of options, respectively, with each unit representing 1,000 shares of common stock, for a total of 5,500,000 shares for issuance. 20% of these options shall vest on the second anniversary following the issuance of the options. The remaining 80% will vest ratably in 20% increments over the next four years. The options must be exercised within one year after the options are vested. The exercise price is initially the market price on the issuance date, subject to adjustments for certain dilutive events, and cannot all below NT$10. As of March 31, 2007, 212.0 units of options had been exercised and 3,133.8 units of options were outstanding.

Insurance

We maintain property insurance policies with insurance companies covering our equipment, facilities, buildings and their improvements. These insurance policies cover losses due to fire, earthquake, flood and a wide range of other natural disasters. We also maintain business interruption insurance. Insurance coverage for our fixed assets in Taiwan amounted to approximately NT$3,005.0 million (US$91.0 million) as of March 31, 2007. We also maintain director and officer liability insurance for our directors and executive officers. We do not have product liability insurance or key-man life insurance. We consider our insurance coverage to be in line with other manufacturing companies of similar size in Taiwan.

Facilities

We conduct our research and development activities and manufacture PV cells at our facilities in Tainan, Taiwan, where we occupy an aggregate site area of approximately 32,113 square meters. These facilities include manufacturing facilities with sufficient space to accommodate up to 560 MW of installed PV cell production capacity.

We own a facility in Taipei, Taiwan with a total site area of approximately 2,235 square meters. This facility is used by our Motech Instruments unit and our Motech Power unit. We lease a facility in Ningbo, China with a total site area of 850 square meters. Our Motech Instruments unit also produces test and measurement instruments at this site.

We are in the process of acquiring 140 acres of land in China, where we intend to construct a crystal growth and wafer slicing facility. We expect this facility will have an installed production capacity of 60 MW per year by December 31, 2008.

Legal Proceedings

We are not involved in any litigation or other legal matters that would have a material adverse impact on our business or operations, except for the following:

In November 2005, a gas bottle exploded in Fab 1 of our Tainan, Taiwan facilities and one of our employees died in the ensuing fire. As a result of this incident, we had entered into a settlement with the family of the deceased employee. In addition, we are subject to a summary proceeding for such incident on the basis that the facility did not obtain the required safety permits for handling highly flammable gasses. As a result, we have paid a fine of NT$150,000. Our chief executive officer was also fined NT$1,000,000 in a separate order granting a deferred prosecution subject to certain conditions issued by the Prosecutors' Office of the Tainan District Court.

Subsidiaries and Affiliates

We maintain shareholdings in our subsidiaries and affiliates for long-term strategic investment purposes. Such strategic investments enable us to streamline our assembly and final testing requirements, strengthening our marketing ties with our module service providers and our foundry customers, and developing new foundry service customer relationships with various fabless semiconductor designs.

The following table sets forth certain information as of the dates indicated regarding our subsidiaries in which we hold a significant equity interest (all issued shares in these subsidiaries are fully paid and non-assessable):

Name and Registered Address	Book Value of Our Investments as of December 31, 2006	Book Value of Our Investments as of March 31, 2007	Percentage of Common Shares Owned by Us as of December 31, 2006 and March 31, 2007(1)	Date of Incorporation	Principal Business
	(in thousands)	(in thousands)			
Think Global Enterprises Limited P.O. Box 957, Offshore Incorporation Centre, Road Town, Tortola, British Virgin Islands	NT$ 46,874	NT$ 48,531	100%	January 29, 2002	Trading company
Power Islands Limited TrustNet Chambers, Lotemau Centre, P.O. Box 1225, Apia, Samoa	51,925	153,700	100%	January 23, 2002	Holding company
Motech (Ningbo) Trade Co., Ltd. F1, A1 Building, High-New Science and Technology Park, West Area of NFTZ, Ningbo, PRC	(1,650.3)	(4,439.5)	100%	January 16, 2004	Trading company
Motech (Ningbo) Electronic Co., Ltd. F1, A1 Building, High-New Science and Technology Park, West Area of NFTZ, Ningbo, PRC	53,585	54,080	100%	December 23, 2003	Sales and marketing of electronic measuring instruments and equipments and solar power products
Cheer View Investment Limited Portcullis TrustNet(BVI) Limited, Portcullis TrustNet Chambers, P.O. Box 3444, Road Town, Tortola, British Virgin Islands	—(2)	64,361	100%	September 18, 2006	Holding company
Motech (Suzhou) New Energy Co., Ltd. 339 Highway North, Zhangjiagang River East, Yushan Town, Kunshan City, Jiangsu Province, PRC	—(2)	39,708	100%	December 31, 2006	Manufacturing, processing and marketing of silicon-based products

(1) Including common shares held directly by us and indirectly through our subsidiaries. See note 1 to our financial statements included elsewhere in this offering circular.

(2) Initial investments made in the subsidiary occurred in the three months ended March 31, 2007.

In addition to the shareholdings in the above named companies, we also hold 20.0% of the outstanding Series A convertible preferred stock of AE Polysilicon (12.9% of the total outstanding shares on an as-converted basis). AE Polysilicon's registered address is 100 Passaic Avenue, Suite 2, Chatham, New Jersey 07928, USA.

MANAGEMENT

Directors and Supervisors

ROC Company Law and our articles of incorporation provide that our directors are to be elected by our shareholders for three-year terms in a ordinary shareholders' meeting at which a quorum, consisting of shareholders holding a majority of all issued and outstanding common shares, is present. The chairman is a director elected by and from our board. Our board of directors is responsible for the management of our business. Our articles of incorporation provide for a board comprising seven directors, two of whom are independent.

We currently have three supervisors. Each supervisor is elected by our shareholders for a three-year term at the ordinary shareholders' meeting. The supervisors' duties and powers include, but are not limited to, investigation of our business and financial condition, inspection of our corporate records, verification of some statements by our board of directors at shareholders' meetings, calling of shareholders' meetings, representing us in negotiations with our directors and notification, when appropriate, to the board of directors to cease acting in contravention of any applicable law or regulation or in contravention of our articles of incorporation or beyond our scope of business. In accordance with the laws of the ROC relating to corporations, a supervisor cannot concurrently serve as a director, managerial officer or other staff member. ROC Company Law requires at least one supervisor be appointed at all times.

Directors and supervisors may serve any number of consecutive terms and may be removed from office at any time for a bona fide reason, including breach of duties, by a resolution adopted at a ordinary shareholders' meeting. Our current directors and supervisors were elected in the ordinary shareholders' meeting on June 18, 2004, and their terms expire on June 17, 2007.

The following table shows certain specified information with respect to each director and supervisor:

Name	Age	Position	Number of Common Shares Held as of April 14, 2007(1)	Percentage of Common Shares Held as of April 14, 2007(1)
Mr. Fu-Tien Cheng	59	Chairman	12,668,085	8.76%
Dr. Simon Y.H. Tsuo	59	Director	2,359,378	1.63%
Mr. Yung-Hui Tseng	52	Director	7,810,712	5.40%
Mr. Ming-Shiaw Lu	54	Director	1,803,170	1.25%
Ms. Wen-Chun Tsai	50	Director	650,997	0.45%
Dr. San-Boh Lee	59	Director	117,544	0.08%
Mr. Cheng-Ching Wu	59	Director	144,915	0.10%
Mr. Chih-Kaou Lee	60	Supervisor	2,538,257	1.76%
Ms. Shu-Chun Wang	58	Supervisor	677,821	0.47%
Ms. Hsin-Hsin Tsai	49	Supervisor	—	—

(1) As of the most recent record date.

Mr. Fu-Tien Cheng has been our chairman and president since April 1, 1982. Before joining our company, Mr. Cheng worked with Galaxy Far East Corp. as President. He is also a director of Galaxy Far East Corp. and CReTe System Inc. Mr. Cheng graduated with a bachelor's degree in Physics from Fu Jen Catholic University, Taiwan.

Dr. Simon Y.H. Tsuo has been our director since June 26, 2001 and Chief Executive Officer of Motech Solar Electricity Division since July 20, 1999. Prior to joining our company, Dr. Tsuo worked with the U.S. Department of Energy's National Renewable Energy Laboratory in Golden, Colorado. Dr. Tsuo obtained a Ph.D. in Physics from Yeshiva University, New York.

Mr. Yung-Hui Tseng has been our director since June 26, 2001. Mr. Tseng joined our company in April 24, 1981 and has served as Chief Executive Officer of Motech Instruments Division since July 1, 2004. Mr. Tseng graduated from China Institute of Technology, Taiwan.

Mr. Ming-Shiaw Lu has been our director since June 26, 2001. He is also a director of Galaxy Far East Corp. Mr. Lu graduated from Taipei Institute of Technology, Taiwan.

Ms. Wen-Chun Tsai has been our director since June 26, 2001. She is also a supervisor of Galaxy Far East Corp. Ms. Tsai majored in Accounting and graduated from Hsing Wu College of Commerce, Taiwan.

Dr. San-Boh Lee has been our director since June 10, 2002. Dr. Lee is a professor of Materials Science and Engineering at National Tsing Hua University, Taiwan. Dr. Lee graduated with a Ph.D. in Materials Science from the University of Rochester, New York.

Mr. Cheng-Ching Wu has been our director since June 10, 2002. Mr. Wu has extensive experience in Taiwan's financial sector. Mr. Wu is the executive vice president of Taipei Fubon Commercial Bank Co., Ltd. Mr. Wu graduated with a master's degree in Financial Engineering from National Taiwan University, Taiwan.

Mr. Chih-Kaou Lee has been our supervisor since June 26, 2001. Mr. Lee is the president of Consumer Product Resources International Corporation. Mr. Lee graduated with a bachelor's degree in Physics from Tamkang University, Taiwan.

Ms. Shu-Chun Wang has been our supervisor since June 10, 2002. Ms. Wang graduated from Shih Chien College of Home Economics.

Ms. Hsin-Hsin Tsai has been our supervisor since June 10, 2002. Ms. Tsai is a director of Farcent Enterprise Co., Ltd. Ms. Tsai graduated with a bachelor's degree in Banking and Insurance from National Taiwan University, Taiwan.

The business address of our directors and supervisors is our registered address.

Executive Officers

The following table sets forth certain information relating to our executive officers:

Name	Age	Position	Number of Common Shares Held as of April 14, 2007(1)	Percentage of Common Shares Held as of April 14, 2007(1)
Mr. Fu-Tien Cheng	59	President	12,668,085	8.76%
Dr. Simon Y.H. Tsuo	59	Chief Executive Officer of Motech Solar Electricity Division	2,359,378	1.63%
Mr. Luke Chang	59	Chief Executive Officer of Motech Power Division	28,690	0.02%
Mr. Yung-Hui Tseng	52	Chief Executive Officer of Motech Instruments Division	7,810,712	5.40%
Mr. Jerry Su	47	Chief Financial Officer	7,000	0.00%
Dr. Paul Cheng	58	Chief Operating Officer	4,000	0.00%
Dr. Kuo En Chang	46	Chief Technology Officer	121,975	0.08%

(1) As of the most recent record date.

Mr. Luke Chang has been our chief executive officer of Motech Power Division since January 1, 2004. Mr. Chang graduated with a bachelor's degree in Physics from Fu Jen Catholic University, Taiwan.

Mr. Jerry Su has been our chief financial officer since March 1, 2006. Before joining our company, Mr. Su was Chief Financial Officer of Universal Scientific Industrial Co., Ltd. Mr. Su graduated from National Chengchi University with an EMBA degree in Technology Management.

Dr. Paul Cheng has been our chief operating officer since May 18, 2006. Before joining our company, Dr. Cheng worked for 25 years at an aerospace company in Colorado, USA. Dr. Cheng graduated from Northwestern University with a Ph.D. in Theoretical and Applied Mechanics.

Dr. Kuo En Chang has been our chief technology officer since May 18, 2006. Dr. Chang joined our company in March 1999 to serve as our Factory Director and became our Chief Technology Officer since May 18, 2006. Before joining our company, Dr. Chang worked at the Industrial Technology Research Institute (ITRI) for more than three years. Dr. Chang graduated from University of Alabama with a Ph.D. in Metallurgical and Materials Engineering.

The business address of our executive officers is our registered address.

Compensation of Directors, Supervisors and Executive Officers

Our directors, supervisors and executive officers, in such capacities, received aggregate remuneration or benefits in kind from us of approximately NT$31.4 million (US$951,000) in 2006. In March 2007, our board resolved to propose an aggregate remuneration or benefits in kind to the supervisors and directors of NT$40.7 million (US$1.2 million) for 2007. Such proposal is still subject to the approval of our shareholders in our ordinary shareholders' meeting. Remuneration or benefits in kind paid by our company to our directors, supervisors and executive officers, each as a group, were NT$22.0 million, NT$9.4 million and NT$30.1 million, respectively in 2006. Remuneration or benefits in kind paid by our company to our executive officers for the three months ended March 31, 2007 were NT$3.2 million. As of December 31, 2006 and March 31, 2007, our executive officers held an aggregate of 565 and 543 units of options, respectively, that were not exercised. Each unit represents 1,000 shares of common stock. There are no outstanding loans granted by us to any of the directors, supervisors or executive officers and there are no outstanding guarantees provided by us for the benefit of any of the directors, supervisors or executive officers.

PRINCIPAL AND SELLING SHAREHOLDERS

The following table sets forth certain information as of April 14, 2007, the most recent record date, with respect to the common shares owned by each of our ten largest shareholders, according to our records, and by all directors, supervisors and executive officers as a group:

Name of Shareholder	Number of Common Shares Held as of April 14, 2007	Percentage of Common Shares Held as of April 14, 2007
Fu-Tien Cheng	12,668,085	8.76%
Yung-Hui Tseng	7,810,712	5.40%
JP Morgan Administered Fidelity Funds—Growth & Income Fund	6,300,000	4.36%
Chih-Kaou Lee	2,538,257	1.76%
Simon Y.H. Tsuo	2,359,378	1.63%
Standard Chartered Trust—Fidelity Contrafund Investment Account	2,337,342	1.62%
Mei Li	2,120,611	1.47%
Jui Chi Kuo Lin	1,950,627	1.35%
Taiwan Post Co., Ltd.	1,825,000	1.26%
Ming-Shiaw Lu	1,803,170	1.25%
Directors, supervisors and executive officers, as a group(1)	33,141,853	22.94%

(1) As of April 14, 2007, our directors, supervisors and executive officers, in each case together with members of their spouses and minor children and the government or corporate shareholders represented by them, owned of record 29,000,387 common shares, 3,970,785 common shares and 170,681 common shares, respectively, or approximately 20.07%, 2.75% and 0.12%, respectively, of our total issued shared. As of April 14, 2007, our directors, supervisors and executive officers hold outstanding options in respect of 573,000 common shares.

As of April 14, 2007, approximately 20.12% of our common shares were held of record by shareholders located outside Taiwan. All holders of our common shares have the same voting rights with respect to their shares.

Certain shareholders have granted the initial purchasers a 30-day option to purchase up to 700,000 additional GDSs at the initial offering price less the discount to initial purchasers. The table below set forth the ownership of our common shares by the selling shareholders prior to this offering and after giving effect to the sale of the GDSs offered in this offering should the option be exercised.

		Before This Offering		After This Offering	
Selling Shareholder	Position	Number of Common Shares	Percentage of Common Shares Held as of April 14, 2007	Number of Common Shares	Percentage of Total Outstanding Common Shares
Fu-Tien Cheng	Chairman and President	12,668,085	8.76%	12,518,085	7.70%
Simon Y.H. Tsuo	Director and Chief Executive Officer of Motech Solar	2,359,378	1.63%	2,259,378	1.39%
Yung-Hui Tseng	Director and Chief Executive Officer of Motech Instruments	7,810,712	5.40%	7,710,712	4.74%
Ming-Shiaw Lu	Director	1,803,170	1.25%	1,733,170	1.07%
Wen-Chun Tsai	Director	650,997	0.45%	570,997	0.35%
Cheng-Ching Wu	Director	144,915	0.10%	124,915	0.08%
Chih-Kaou Lee	Supervisor	2,538,257	1.76%	2,438,257	1.50%
Shu-Chun Wang	Supervisor	677,821	0.47%	597,821	0.37%

RELATED PARTY TRANSACTIONS

We have, from time to time, engaged in various transactions with related parties. Certain of our directors, supervisors and executive officers may serve as directors, supervisors or executive officers of companies with which we do business. These companies include our affiliates. See note 5 to our annual financial statements. Subject to certain exceptions, our policy on transactions with related parties is that such transactions shall be conducted on a basis substantially as favorable to us as would be obtainable in a comparable arm's length transaction with a person other than a related party. Our directors, supervisors, executive officers and other members of our management and administrative staff do not have any interests, other than in the ordinary course of business, in our business transactions.

During 2004 we acquired office buildings from CReTE Systems Inc ("CReTE") for an aggregate purchase price of NT$24.0 million. Our chairman is a member of the board of directors of CReTE. Our chairman was not involved in the negotiations for the properties and the purchase price was fully paid by us. During 2004 we also made purchases in the amount of NT$0.4 million from Galaxy Far East Corporation ("Galaxy"). Our chairman is a member of the board of directors of Galaxy. The purchase prices for the purchases from Galaxy were not materially different from those of non-related general suppliers.

In December 2006, we entered into a seven-year polysilicon supply contract with AE Polysilicon, a New Jersey, United States-based startup company that plans to utilize FBR technology to produce polysilicon. AE Polysilicon is currently building a production facility in the United States that is expected to commence polysilicon production towards the end of 2008. Under the supply contract, AE Polysilicon has agreed to commence delivery of polysilicon to us beginning in early 2009, in amounts to be increased to 2,500 tons of polysilicon per year by the end of 2011. As part of our agreement with AE Polysilicon, we have agreed to make an advance payment of US$30.0 million (the "Advance") in connection with future deliveries of polysilicon by AE Polysilicon to us. The Advance will be offset against payments due from us to AE Polysilicon for future polysilicon deliveries. In January 2007, we made an initial payment of US$15.0 million of the Advance to AE. We will make the remaining US$15 million of the Advance after AE Polysilicon fulfills certain preconditions under the agreement. In addition, we have the right to convert up to 50% of the amount outstanding under the Advance into equity of AE Polysilicon in the next round of new equity issuance by AE Polysilicon, at the same price and on the same terms as the investors in such future round. We also entered into an agreement to invest US$2.0 million in December 2006 in Series A convertible preferred stock of AE Polysilicon, which is equivalent to an approximately 12.9% shareholding on an as-converted basis, and we paid the purchase price in full in January 2007. Several of our directors, including Dr. Simon Tsuo, our chief executive officer, and supervisors, and their relatives, have directly or indirectly invested in the common stock or Series A convertible preferred stock of AE Polysilicon. Dr. York Tsuo, a major shareholder of AE Polysilicon and the chairman and president of AE Polysilicon, is also the brother of Dr. Simon Tsuo, our chief executive officer. AE Polysilicon's board of directors currently has five directors, consisting of two directors designated by the holders of AE Polysilicon's Series A convertible preferred stock, two directors designated by a company beneficially owned by Dr. Simon Tsuo and Dr. York Tsuo, and one director designated by the chief executive officer of AE Polysilicon.

Except as disclosed above, we did not enter into any transactions with our directors, supervisors or executive officers or any other companies or entities on which they serve which are unusual in their nature or conditions in 2004, 2005, 2006 or the three months ended March 31, 2007.

CHANGES IN ISSUED SHARE CAPITAL

Changes in our issued share capital in the previous three years up to April 14, 2007, the most recent record date, are set forth below:

Issue Date	Type of Issue	Number of Common Shares Issued	Number of Common Shares Outstanding After the Issue
September 2003 . .	Issuance of 5,357,026 common shares out of retained earnings and issuance of 150,538 employee bonus shares	5,507,564	32,292,695
December 2004 . . .	Issuance of 10,495,126 common shares our of retained earnings, issuance of 444,772 employee bonus shares, and issuance of 4,915,569 common shares in connection with conversion of convertible bonds	15,855,467	48,148,162
December 2005 . . .	Issuance of 29,851,860 common shares of retained earnings, issuance of 1,004,460 employee bonus shares, and issuance of 4,886,358 common shares in connection with conversion of convertible bonds and exercise of employee stock options	35,742,678	83,890,840
March 2006	Issuance of 487,600 common shares in connection with conversion of convertible bonds and exercise of employee stock options	487,600	84,378,440
June 2006	Issuance of 130,000 common shares in connection with conversion of convertible bonds and exercise of employee stock options	130,000	84,508,440
September 2006 . .	Issuance of 55,367,940 common shares of retained earnings and issuance of 889,000 employee bonus shares	56,256,940	140,765,380
October 2006	Issuance of 263,137 common shares in connection with conversion of convertible bonds and exercise of employee stock options	263,137	141,028,517
December 2006 . . .	Issuance of 3,000,000 common shares in connection with issuance of new shares and conversion of 11,752 convertible bonds and exercise of employee stock options	3,011,752	144,040,269
March 2007	Issuance of 351,783 common shares in connection with conversion of convertible bonds and exercise of employee stock options	351,783	144,392,052
April 2007 . . . . (through April 14)	Issuance of 138,352 common shares in connection with conversion of convertible bonds and exercise of employee stock options, which registration is pending government approval	138,352	144,530,404

DESCRIPTION OF SHARE CAPITAL

Set forth below is certain information relating to our share capital, including brief summaries of certain provisions of our articles of incorporation, ROC Securities and Exchange Law and the regulations promulgated thereunder and ROC Company Law, all as currently in effect.

General

We were incorporated on June 3, 1981 as a company limited by shares under ROC Company Law. As of March 31, 2007, our authorized share capital consists of 200,000,000 common shares of par value NT$10 per share. We do not have any equity in the form of preference shares or otherwise outstanding as of the date of this offering circular. As of March 31, 2007, we had 144,392,052 common shares issued, including 351,783 common shares converted from outstanding convertible bonds and common shares issued upon exercise of employees' stock options, which registration was pending government approval. We have implemented three employee stock plans. As of March 31, 2007, under these three employee stock option plans, 3,133.8 units of options to subscribe for 3,133,800 newly issued and previously repurchased and reserved common shares were outstanding. 9,000,000 shares of our authorized share capital are currently reserved for issuance pursuant to our stock option plans and exercise of warrants attached to bonds. We had outstanding convertible bonds of NT$69.4 million (US$2.1 million) as of March 31, 2007. If all the outstanding convertible bonds were converted at their applicable conversion prices, an additional 3.7 million common shares would be issuable.

Dividends and Distributions

Except in limited circumstances under ROC Company Law, we are not permitted to distribute dividends or make other distributions to shareholders in respect of any year in which we have no current or retained earnings (excluding reserves). ROC Company Law also requires that 10% of annual net income, after deduction of taxes due and prior year's losses, be set aside as a legal reserve until the accumulated legal reserve equals our paid-in capital. According to our articles of incorporation, 10% of the earnings for each fiscal year, after paying taxes and making up losses of the previous years, shall be set aside as legal reserve. The remainder shall be appropriated pursuant to the resolution adopted by the board of directors. When necessary, the balance of the earnings may be further retained as a special reserve upon the resolution of our board of directors, and thereafter no less than 1% of the remainder will be distributed as bonuses to employees. In addition, our articles of incorporation provides that we are not permitted to distribute dividends or make other distributions to shareholders in respect of any year in which we have no earnings; provided that our articles of incorporation permits us to make distributions by capitalizing our legal reserve. However, the capitalization of the legal reserve can only be effected when the accumulated legal reserve exceeds 50% of our paid-in capital. The dividends may be distributed in the form of cash or common shares, provided that dividends distributed in form of cash shall be no more than 90% of the total dividends. In the event that we have no earnings or the amount of our earnings is far below that of our distributed earnings in the previous year, or taking into account our financial, business and operational conditions, we may distribute all or part of our reserves in accordance with applicable laws and regulations or rules of the regulatory authorities. See "Dividends and Dividend Policy" and note 4(j) to our annual financial statements.

At the ordinary meeting of our shareholders, our board of directors submits to the shareholders for their approval our financial statements for the preceding fiscal year and any proposal for the distribution of the dividend or the making of any other distribution to shareholders from our retained earnings (subject to compliance with the requirements mentioned above) for the preceding fiscal year. All common shares issued and outstanding and fully paid as of the relevant record date are entitled to share equally in any dividend or other distribution approved by our shareholders. Dividends may be distributed in cash, in the form of common shares or a combination thereof as determined by the shareholders at such meeting. Under current ROC law, cash dividends which are unclaimed for a period of five years from the date of the relevant notice of distribution may no longer be claimed. Such unclaimed cash dividends will, upon expiry of such five-year period, remain our property. However, stock dividends are not subject to any prescription period under ROC law. Thus, uncollected stock dividends will remain in our safekeeping and continue to be claimable by the relevant shareholders.

In addition to permitting dividends to be paid out of retained earnings, ROC Company Law permits us to make distributions to our shareholders of additional common shares by capitalizing reserves (including the legal reserve, any special reserve and capital reserve). However, the capitalized portion payable out of our legal reserve is limited to 50% of the total accumulated legal reserve and such capitalization can only be effected when the accumulated legal reserve exceeds 50% of our paid-in capital. In addition, the capitalized portion payable out of our capital reserves is limited to the aggregate of the premium from issuing stock and earnings from gifts received.

In 2004, we distributed a share dividend of 10.5 million common shares, which was paid out of our retained earnings, and a cash dividend of NT$64.6 million. In 2005, we distributed a share dividend of 29.9 million common shares, which was paid out of our retained earnings, and a cash dividend of NT$134.8 million. In 2006, we distributed a share dividend of 55.4 million common shares, which was paid out of our retained earnings, and a cash dividend of NT$369.1 million.

Changes in Share Capital and Pre-emptive Rights

ROC Company Law and ROC Securities and Exchange Law provides that any change in the authorized share capital of a company limited by shares, such as our company, requires an amendment to the articles of incorporation (which requires approval at a shareholders' meeting). In addition, any change in the issued share capital of a public company, such as our company, requires the deemed approval of the FSC and, in our case, the approval of the ROC MOEA. Authorized but unissued common shares may be issued at such times and, subject to the provisions of ROC Company Law and ROC Securities and Exchange Law mentioned below, upon such terms as our board of directors may determine.

Under ROC Company Law, when we issue new shares for cash, our existing shareholders who are listed on our shareholders' register as of the record date have pre-emptive rights to subscribe for the new issue in proportion to their existing stockholdings. In addition, our employees, whether or not they are shareholders, have rights to subscribe for 10% to 15% of the new issue. Any new shares that remain unsubscribed at the expiration of the subscription period may be offered to the public or privately placed by us. The pre-emptive rights provisions will not apply to the offering of new shares in certain limited circumstances, such as a private placement approved by the shareholders at a meeting of shareholders. With respect to this Offering, the pre-emptive rights of our current shareholders to subscribe for the new shares issued thereunder have been waived in full.

In addition, in accordance with ROC Securities and Exchange Law, a public company, such as our company, that intends to offer new shares for cash must offer to the public at least 10% of these shares except under certain circumstances or when exempted by the FSC. This percentage can be increased by a resolution passed at a shareholders' meeting, thereby diminishing the number of new shares subject to the pre-emptive rights of existing shareholders.

Meetings of Shareholders

Meetings of shareholders may be ordinary or extraordinary. We are required to hold one ordinary shareholders' meeting within six months following the end of each fiscal year. Extraordinary meetings may be convened by the board of directors by resolution or upon the written request of any shareholder holding 3% or more of the issued and outstanding common shares for more than one year. Extraordinary meetings may also be convened by a supervisor when our board of directors does not or cannot convene a shareholders' meeting and/or when such meeting is necessary for our benefit. Notice in writing of meetings of shareholders of a public company, such as our company, stating the place, time and purpose thereof, must be dispatched to each shareholder at least 30 days (in case of ordinary meetings) and 15 days (in case of extraordinary meetings) prior to the date set for such meeting.

Voting Rights

Each common share is entitled to one vote except for those held by us or directly or indirectly held by our controlling companies or affiliates. Except as otherwise provided by law or our articles of incorporation, a resolution can be adopted by the holders of a simple majority of the total issued and outstanding common shares represented at a shareholders' meeting at which the holders of 50% or more of all issued and outstanding common shares are present. The election of directors and supervisors by our shareholders may be conducted by means of cumulative voting or other voting mechanisms adopted in our articles of incorporation. Under ROC Company Law, however, in order to approve certain major corporate actions, including (a) any amendment to our articles of incorporation (which is required, inter alia, for any increase in authorized share capital) (b) entering into, modification or termination of any contract regarding leasing all our business, outsourcing our operations or forming joint operations with others, (c) our dissolution, amalgamation or spin-off, the transfer of all or a material part of our business or our property, (d) the taking over of the whole of the business or property of any other entity which would have a significant impact on our operations, (e) the removal of directors and supervisors, and (f) the distribution of any stock dividend, a meeting of the shareholders must be convened with a quorum of holders of at least two-thirds of all issued and outstanding common shares at which the holders of at least a majority of the common shares represented at the meeting vote in favor thereof. Alternatively, ROC Company Law provides that in the case of a public company, such as our company, such a resolution may be adopted by the holders of at least two-thirds of the common shares represented at a meeting of shareholders at which holders of at least a majority of issued and outstanding common shares are present, unless otherwise provided in our articles of incorporation.

A shareholder may be represented at an ordinary or extraordinary shareholders' meeting by proxy if a valid proxy form is delivered to us at least five days prior to the commencement of the ordinary or extraordinary shareholders' meeting. Voting rights attaching to our common shares exercised through a proxy are subject to the proxy regulations promulgated by the FSC.

Any shareholder with a personal interest in a matter to be discussed at a shareholders' meeting, the outcome of which may impair the company's interests, may not vote or exercise voting rights on behalf of another shareholder on any such matter.

Owners of GDSs may exercise voting rights with respect to the common shares represented by the GDSs, as described in "Description of the Global Depositary Shares—Voting of Deposited Securities." In the case of an election of directors and supervisors, a list of proposed candidates will be furnished by us to the depositary. See "Description of the Global Depositary Shares—Voting of Deposited Securities." Such list may differ from the list of all nominated candidates voted on at the shareholders' meeting, as described above.

Register of Shareholders and Record Dates

Taiwan International Securities Corporation acts as our share registrar and maintains the register of our shareholders at its offices in Taipei, Taiwan, and enters transfers of common shares in such register upon presentation of, among other documents, certificates in respect of the common shares transferred, other than those transferred through book-entry system.

Under ROC Company Law, we are required to, by giving advance public notice, set a record date and/or close the register of our shareholders for a specified period (60 days, 30 days and five days, respectively, immediately before each ordinary meeting of shareholders, extraordinary meeting of shareholders and the relevant record date) in order for us to determine the shareholders that are entitled to certain rights pertaining to the common shares.

Other Rights of Shareholders

Under ROC Company Law, dissenting shareholders are entitled to appraisal rights in certain major corporate actions such as a proposed amalgamation by the company. A dissenting shareholder may request the company to redeem all of the shares owned by such shareholder at a fair price to be determined by mutual agreement or a court order if such agreement cannot be reached. Such shareholder may exercise such appraisal right by serving written notice on the company prior to the related shareholders' meeting and/or by raising and registering such objection at such shareholders' meeting. In addition to appraisal rights, any shareholder has the right to sue for the annulment of any resolution adopted at a shareholders' meeting where the procedures were legally defective within 30 days after the date of such shareholders' meeting. One or more shareholders who have held more than 3% of the issued and outstanding shares for over a year may require a supervisor to bring a derivative action against a director for such director's liability to the company as a result of such director's unlawful actions or failure to act. In addition, one or more shareholders who have held more than 3% of the issued and outstanding common shares of a company for more than one year may require the board of directors to convene an extraordinary shareholders' meeting by sending a written request to the board of directors.

ROC Company Law has been newly amended to allow shareholders holding 1% or more of the total issued shares of a company to submit, during the period of time prescribed by the company, one proposal in writing for discussion at the ordinary shareholders' meeting. The amendment also provides that a company may adopt a nomination procedure for election of directors or supervisors. If a company wishes to adopt the nomination procedure, it must be stipulated in its articles of incorporation. With such provision in the articles of incorporation of a company, shareholders representing 1% or more of the total issued shares of such company may submit a candidate list to the company along with relevant information and supporting documents.

Financial Statements

From at least ten days before the ordinary meeting of shareholders, our annual financial statements must be available at our principal office in 6F, No. 248, Section 3, Pei-Shen Road, Sheng-Keng Hsiang, Taipei Hsien 222, Taiwan, ROC and our share registrar in Taipei for inspection by the shareholders.

Transfer of Common Shares

Under ROC Company Law, a public company, such as our company, may issue one master share certificate, individual share certificates or no share certificate at all. The transfer of common shares evidenced by individual share certificates is effected by endorsement and delivery of the related share certificates but, in order to assert shareholders' rights against us, the transferee must have its name and address registered on our register of shareholders. Shareholders are required to file the respective specimen seals with us. The settlement of trading of common shares on the GTSM is carried out on the book-entry system maintained by TDCC.

Acquisition of Common Shares by Us

We may not acquire our own common shares except in certain limited circumstances. Under ROC Securities and Exchange Law, we may, by a board resolution adopted by majority consent at a meeting with two-thirds of our directors present, purchase our common shares on the GTSM or by a tender offer, in accordance with the procedures prescribed by the FSC, for the following purposes: (1) to transfer shares to our employees; (2) to convert bonds with warrants, preferred shares with warrants, convertible bonds, convertible preferred shares or certificates of warrants issued by us into our common shares; and (3) if necessary, to maintain our credit and our shareholders' equity; provided that the common shares so purchased shall be cancelled thereafter. The common shares purchased by us in the case of clauses (1) and (2) above are to be transferred to the intended transferees within three years from the repurchase, failing which they will be cancelled and we will be required to complete an amendment registration for the cancellation. In the case of clauses (3) above, the common shares purchased by us must be cancelled within six months after the repurchase.

We are not allowed to purchase more than 10% of our total issued and outstanding common shares. In addition, we may not spend more than the aggregate amount of the retained earnings, the premium from issuing shares and the realized portion of the capital reserve to purchase our common shares.

We may not pledge or hypothecate any purchased common shares. In addition, we may not exercise any shareholders' rights attaching to such common shares. In the event that we purchase our common shares on the GTSM, our affiliates, directors, supervisors, managers and their respective spouses and minor children and/or nominees are prohibited from selling any of our common shares during the period in which we purchase our common shares.

The recent amendment to ROC Company Law prohibits our subsidiaries from acquiring our common shares if such subsidiaries are majority-owned, directly or indirectly, by us.

Liquidation Rights

In the event of our liquidation, the assets remaining after payment of all debts, liquidation expenses, taxes and distribution to holders of preferred shares, if any, will be distributed pro rata to the shareholders in accordance with ROC Company Law.

Transfer Restrictions

ROC Securities and Exchange Law and regulations (1) requires each director, supervisor, manager or shareholder, together with his or her spouse, minor children or nominees, holding more than 10% of the shares of a public company to report the change in such person's holding to the company and (2) limits the number of shares that can be sold or transferred on the TSE or on the GTSM by such person per day, unless the number of shares to be transferred is less than 10,000 shares. Pursuant to the listing rules of the GTSM, common shares originally held by persons who were directors, supervisors or 10% shareholders (including several persons who are currently our principal shareholders) at the time the common shares were listed and commenced trading on the GTSM are subject to certain restrictions on transfer. Currently, none of our issued and outstanding common shares remain subject to such restrictions.

DESCRIPTION OF THE GLOBAL DEPOSITARY SHARES

Citibank has agreed to act as the Depositary for the Global Depositary Shares. Citibank's depositary offices are located at 388 Greenwich Street, 14th Floor, New York, New York 10013. Rule 144A and International Global Depositary Shares are referred to as "Rule 144A GDSs" and "International GDSs," respectively. In this summary, we intend to use the term "GDSs" to refer to the Rule 144A GDSs and to the International GDSs. Unless we state otherwise, you should assume that the term "GDSs" encompasses both Rule 144A GDSs and International GDSs. GDSs are evidenced by Global Depositary Receipt, or GDR, certificates. The GDSs we are selling in the United States are referred to and will be issued as Rule 144A GDSs and the GDSs we are selling outside the United States are referred to and will be issued as International GDSs. GDSs represent ownership interests in securities that are on deposit with the Depositary.

The Depositary has appointed a Custodian to hold the securities on deposit in safekeeping. In this case, the Custodian is Citibank, N.A. (Taipei Branch), having its principal office at 9F, 16, Nan-King East Road, Section 4, Taipei, Taiwan.

We have appointed Citibank as Depositary pursuant to two separate Deposit Agreements, one for the Rule 144A GDSs, the Rule 144A Deposit Agreement, and one for the International GDSs, the International Deposit Agreement, both to be dated as of May 9, 2007. A copy of the Deposit Agreements and any supplements or amendments thereto may be obtained from the Depositary. This is a summary description of the material terms of the GDSs and of your material rights as an owner of GDSs. Please remember that summaries by their nature lack the precision of the information summarized and that the rights and obligations of an owner of GDSs will be determined by reference to the terms of the applicable Deposit Agreement and not by this summary. We urge you to review the Deposit Agreements in their entirety. Statements printed in italics in this description are provided for your information but may not be contained in the Deposit Agreements.

Each GDS represents the right to receive one common share, or evidence of the right to receive one common share, on deposit with the Custodian. A GDS will also represent the right to receive any other property received by the Depositary or the Custodian on behalf of the owner of the GDS but that has not been distributed to the owner of the GDSs because of legal restrictions or practical considerations. *On the date that we receive proceeds from this offering, or the Closing Date, we will deliver to the Custodian a certificate of payment evidencing the irrevocable right to receive the underlying shares until the Master Certificate of Payment (as defined herein) is listed on the GreTai Securities Market, or the GTSM. On the first ROC Business Day (as defined herein) following the Closing Date, we will apply to the GTSM for listing of a master certificate of payment in scripless form or in physical form, or the Master Certificate of Payment, evidencing the irrevocable right to receive the underlying shares offered by us evidenced by individual certificates of payments in scripless form, or the Individual Scripless Certificates of Payment. It is expected that the GTSM will approve the listing of the Master Certificate of Payment on the fourth ROC Business Day following the Closing Date. Immediately upon the listing of the Master Certificate of Payment on the GTSM, the Certificate of Payment we deliver to the Custodian on the Closing Date will be replaced by the Master Certificate of Payment. As used herein, "ROC Business Day" means a day (other than a Saturday or Sunday) on which commercial banks are open for business in Taipei, ROC.*

If you become an owner of GDSs, you will become a party to the applicable Deposit Agreement and therefore will be bound to its terms and to the terms of the GDR certificate that evidences your GDSs. The Deposit Agreements and the GDR certificates specify our rights and obligations as well as your rights and obligations as an owner of GDSs and those of the Depositary. As a GDS owner you appoint the Depositary to act on your behalf for the shares represented by your GDSs, either upon (1) your specific instructions when we call a meeting of shareholders, or make a rights offering, or (2) the specific terms of the applicable Deposit Agreement to receive any dividends we distribute in NT dollars or shares and to convert the NT dollars received. The Deposit Agreements are governed by New York law. However, our obligations to the holders of shares will continue to be governed by ROC laws, which may be different from the laws in the United States. In addition, we note that ROC laws and regulations may restrict the deposit and withdrawal of the shares into or from the depositary receipt facilities.

Under the laws and regulations of the Republic of China, as currently in effect, and the Deposit Agreement after the Initial Deposit (as defined below), without obtaining regulatory approval from the FSC, no shares may be accepted for deposit and no GDSs may be issued under the terms of the Deposit Agreements except in the following circumstances:

> *(1) upon a stock dividend on, or a free distribution of, shares to existing shareholders;*
>
> *(2) upon the exercise by existing shareholders of their pre-emptive rights in connection with capital increases for cash;*
>
> *(3) as permitted under the Deposit Agreements and the custody agreement by and between the custodian bank and the depositary, the purchase directly by a person or through the Depositary of shares on the GTSM or the delivery by any person of shares held by such person for deposit in the depositary receipt facility, provided that the total amount of GDSs outstanding after the issuance described in this clause (3) does not exceed the number of issued GDSs previously approved by the FSC (plus any GDSs created pursuant to clauses (1) and (2), above and clause (4) below);*
>
> *(4) subject in each case to receipt of all applicable approvals in the ROC, to the extent we issue securities convertible for GDSs as approved by the FSC, the conversion of such securities into GDSs; and*
>
> *(5) upon the exchange of Rule 144A GDSs for International GDSs and vice versa;*

provided that the deposit described in clause (3) may only be made to the extent previously issued GDSs have been canceled; and provided, further, that the Depositary will refuse to accept shares for deposit under clause (3) if such deposit is not permitted under any restriction notified by the Company to the Depositary from time to time, which restriction may specify blackout periods during which deposits may not be made, time periods during which deposits may be made, minimum and maximum size and frequency of deposits.

Under the laws and regulations of the ROC, the shares deposited under the Deposit Agreements may be withdrawn upon cancellation of the corresponding GDSs pursuant to the respective Deposit Agreement, subject to the following conditions:

- *the deposit of deliverable definitive shares or interests in the Master Certificate of Payment with the Custodian, which we expect to occur on the fourth ROC Business Day after the Closing Date;*
- *the appointment of an eligible agent in the ROC to open (1) a securities trading account with an ROC brokerage firm approved by applicable ROC authorities and (2) a bank account to pay ROC taxes, remit funds, exercise shareholders' rights and perform such other functions as you may designate upon such withdrawal;*
- *the appointment of a tax guarantor in the ROC; and*
- *the appointment of a custodian bank to hold the securities in safekeeping, make confirmations, settle trades and report relevant information.*

In addition, you will be required to register with the Taiwan Stock Exchange, or the TSE, for making investments in the ROC securities market prior to withdrawing shares.

For a more complete description of these deposit or withdrawal restrictions see "Appendix B—Foreign Investment and Exchange Controls in the ROC—Depositary Receipts."

Presently, you may hold your GDSs only through a brokerage or safekeeping account. As such, you must rely on the procedures of your broker or bank to assert your rights as a GDS owner. Please consult with your broker or bank to determine what those procedures are. When we refer to "you," we assume the reader owns

GDSs and will own GDSs at the relevant time. When we refer to a "holder," we assume the person owns GDSs and such person's agent, which may be a broker, custodian, bank or trust company, is the holder of the applicable GDR certificate.

Distinctions Between Rule 144A GDSs and International GDSs

The Rule 144A GDSs and the International GDSs are similar in many ways but are different primarily on account of the requirements of the U.S. securities laws. The Rule 144A GDSs are "restricted securities" under the U.S. securities laws and as such are subject to limitations on their issuance, transfer and cancellation. The International GDSs are not per se "restricted securities" under the U.S. securities laws, but we have imposed certain contractual restrictions on the International GDSs in an effort to prevent the transfer of International GDSs in violation of the U.S. securities laws. The restrictions we impose on the International GDSs will be in place for a period of 40 days after the later of the commencement of the offering and the Closing Date described in this offering memorandum. We will refer to this 40-day period as the "restricted period."

The differences between the International GDSs and the Rule 144A GDSs and the restrictions imposed on the Rule 144A GDSs and the International GDSs cover primarily the following:

- The persons who may own and trade the GDSs:
  - only "Qualified Institutional Buyers" (as defined in Rule 144A) and persons other than "U.S. persons" (as defined in Regulation S) may own and trade Rule 144A GDSs,
  - during the "restricted period" applicable to this offering only persons other than "U.S. persons" (as defined in Regulation S) may own and trade the International GDSs offered herein and only outside the United States, and
  - upon the expiration of the "restricted period" applicable to this offering any person may own and trade International GDSs offered herein but must do so outside the United States.
- The persons who may create additional GDSs:
  - only persons other than "U.S. persons" (as defined in Regulation S) may deposit shares to receive International GDSs, and
  - only "Qualified Institutional Buyers" (as defined in Rule 144A) and persons other than "U.S. persons" may deposit shares to receive Rule 144A GDSs.
- The persons to whom you may transfer the GDSs, upon sale or otherwise:
  - you may transfer Rule 144A GDSs only to "Qualified Institutional Buyers" (as defined in Rule 144A) or to persons other than "U.S. persons" (as defined in Regulation S), and
  - during the "restricted period" applicable to this offering you may transfer the International GDSs offered herein only outside the United States (in compliance with Regulation S) and to persons other than "U.S. persons" (as defined in Regulation S) or to "Qualified Institutional Buyers" (as defined in Rule 144A) but in this latter case only after "converting" the International GDSs into Rule 144A GDSs.
- The restrictions on the transfers and withdrawal of the shares represented by the GDSs.
  - Please refer to "—Legends" below.
- The eligibility for book-entry transfer.
  - Please refer to "—Clearance, Settlement and Safekeeping" below.

These distinctions and the requirements of the U.S. securities laws may require us and the Depositary to treat the International GDSs and the Rule 144A GDSs differently at any time in the future. There can be no guarantee that holders of Rule 144A GDSs will receive the same entitlements as holders of International GDSs and vice versa.

Clearance, Settlement and Safekeeping

Rule 144A GDSs

The Depositary has made arrangements with DTC to act as securities depository for the Rule 144A GDSs. All Rule 144A GDSs issued in this offering will be registered in the name of Cede & Co., DTC's nominee. One Master Rule 144A GDR certificate will represent all Rule 144A GDSs issued to and registered in the name of Cede & Co. Transfers of ownership interests in Rule 144A GDSs are to be accomplished by entries made on the books of DTC and of the participants in DTC acting on behalf of Rule 144A GDS owners. Owners of Rule 144A GDSs will not receive physical certificates evidencing their ownership interests in the Rule 144A GDSs, except in the event that DTC no longer acts as securities depository and a successor securities depository cannot be appointed. *The laws of some jurisdictions require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer Rule 144A GDSs evidenced by the Master Rule 144A GDR certificate to such persons may be limited. Because DTC can only act on behalf of direct participants ("Direct Participants"), who in turn act on behalf of indirect participants ("Indirect Participants"), the ability of a person owning Rule 144A GDSs evidenced by the Master Rule 144A GDR certificate to pledge such interest to persons or entities that do not participate in the DTC system, or otherwise take action in respect of such interest, may be affected by the lack of physical individual definitive securities in respect of such interest.*

So long as DTC, or its nominee, is the registered holder of the Master Rule 144A GDR certificate, DTC or such nominee, as the case may be, will be considered the sole holder of the Rule 144A GDSs evidenced thereby for all purposes under the Rule 144A Deposit Agreement and the Rule 144A GDSs.

DTC may discontinue providing its services as securities depository with respect to the Rule 144A GDSs at any time by giving reasonable notice to the Depositary. Under such circumstances, in the event that a successor securities depository cannot be appointed within 90 days, Rule 144A GDR certificates will be printed and delivered to the applicable Rule 144A GDS owners.

DTC is a limited-purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities that the Direct Participants deposit and facilitates the clearance and settlement of securities transactions among Direct Participants in such securities through electronic computerized book-entry changes in accounts of Direct Participants, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations, some of whom own DTC, and may include the initial purchasers (and/or their affiliates). Indirect access to the DTC system is also available to others that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly, or the Indirect Participants. Transfers of ownership or other interests in DTC are to be accomplished by entries made on the books of Direct Participants or Indirect Participants acting on behalf of beneficial owners of GDSs. In addition, beneficial owners of GDSs in DTC will receive all distributions of dividends, GDSs, shares, rights and other distributions, if any, on the GDSs from the Depositary through Direct Participants and Indirect Participants.

International GDSs

Arrangements have been made with DTC, Clearstream and Euroclear to act as securities depositories for the International GDSs. All International GDSs issued in this offering will be registered in the name of Cede & Co., DTC's nominee. One Master International GDR certificate will represent all International GDSs issued to and registered in the name of Cede & Co. Transfers of ownership interests in International GDSs are to be accomplished by entries made on the books of Clearstream and Euroclear and participants in Clearstream and Euroclear and on the books of DTC and of the participants in DTC, acting on behalf of International GDS owners. Owners of International GDSs will not receive physical certificates representing their ownership interests in the International GDSs, except in the event that use of the DTC book-entry system for the International GDSs is discontinued. *The laws of some jurisdictions require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer International GDSs evidenced by the Master International GDR certificate to such persons may be limited. Because DTC can only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, the ability of a person owning International GDSs evidenced by the Master International GDR certificate to pledge such interest to persons or entities that do not participate in the DTC system, or otherwise take action in respect of such interest, may be affected by the lack of physical individual definitive securities in respect of such interest.*

So long as DTC, or its nominee, is the registered holder of the Master International GDR certificate, DTC or such nominee, as the case may be, will be considered the sole holder of the International GDSs evidenced thereby for all purposes under the International Deposit Agreement and the International GDSs.

DTC may discontinue providing its services as securities depository with respect to the International GDSs at any time by giving reasonable notice to the Depositary. Under such circumstances, in the event that a successor securities depository cannot be appointed within 90 days, International GDR certificates will be printed and delivered to the applicable International GDS owners.

If at any time Clearstream, Euroclear or DTC, as the case may be, cease to make its respective book-entry settlement systems available for the International GDSs, we and the Depositary will attempt to make other arrangements for book-entry settlement. If alternative book-entry settlement arrangements cannot be made, the Depositary will make available International GDSs in physical certificated form.

Settlement

Settlement for the GDSs will be made by the initial purchasers in immediately available funds. So long as the GDSs are evidenced by Master GDR certificates registered in the name of DTC or its nominee, the GDSs will settle in DTC's Same-Day Funds Settlement System and secondary market trading activity in the GDSs will be required by DTC to settle in immediately available funds.

Subject to compliance with the transfer restrictions applicable to the GDSs described below, cross-market transfers between DTC participants, on the one hand, and directly or indirectly through Clearstream or Euroclear account-holders, on the other, will be effected through DTC in accordance with DTC rules on behalf of Clearstream or Euroclear, as the case may be, by its respective depository; however, such cross-market transactions will require delivery of instructions to Clearstream or Euroclear, as the case may be, by the counterparty in such system in accordance with its rules and procedures and within its established deadlines. Clearstream or Euroclear, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to its respective depository to take action to effect final settlement on its behalf by delivering or receiving interests in the GDSs, as the case may be, and making or receiving payment in accordance with normal procedures for settlement applicable to DTC. Clearstream and Euroclear account-holders may not deliver instructions directly to the depositories for Clearstream or Euroclear.

Because of time zone differences, the securities of a Clearstream or Euroclear account-holder purchasing an interest in a security from a DTC participant will be credited during the securities settlement processing day (which must be a business day for Clearstream or Euroclear, as the case may be) immediately following the DTC settlement date and such credit of any transactions in interests in such securities settled during such processing day will be reported to the relevant Clearstream or Euroclear account-holder on such day. Cash received by Clearstream or Euroclear as a result of sales of interests in securities by or through a Clearstream or Euroclear *account-holder to a DTC participant will be received for value on the DTC settlement date but will be available in the relevant Clearstream or Euroclear cash account only as of the business day following settlement in DTC.*

DTC will take any action permitted to be taken by an owner of GDSs only at the direction of one or more DTC participants to whose account or accounts with DTC interests in the GDSs evidenced by the Master GDR certificates are credited and only in respect of such portion of the number of GDSs as to which such DTC participant or DTC participants has or have given such direction. Owners of indirect interests in securities evidenced by the Master GDR certificates through DTC participants have no direct rights to enforce such interests while the securities are in global form.

Although DTC, Clearstream and Euroclear have agreed to the foregoing procedures in order to facilitate the transfer of interests in the Master GDR certificates among participants of DTC, Clearstream and Euroclear, they are under no obligation to perform or continue to perform such procedures and such procedures may be discontinued at any time. None of us, the Depositary, the Custodian or any of their agents will have any responsibility for the performance by DTC, Clearstream or Euroclear or their respective participants of their respective obligations under the rules and procedures governing their operations.

Transfer Restrictions

The GDSs may be resold, pledged or otherwise transferred only in compliance with the U.S. securities laws and are subject to the following restrictions:

Rule 144A GDSs	International GDSs
The Rule 144A GDSs may be resold, pledged or otherwise transferred only:	During the “restricted period” applicable to this offering International GDSs offered herein may be resold, pledged or otherwise transferred only
(i) outside the United States to a person other than a U.S. person (as defined in Regulation S under the Securities Act) in accordance with Regulation S;	(i) outside the United States to a person other than a U.S. person (as defined in Regulation S under the Securities Act) in accordance with Regulation S;
or	or
(ii) to a “Qualified Institutional Buyer” (as defined in Rule 144A) in a transaction meeting the requirements of Rule 144A;	(ii) to a “Qualified Institutional Buyer” (as defined in Rule 144A) in a transaction meeting the requirements of Rule 144A;
or	or
(iii) pursuant to Rule 144 under the U.S. Securities Act of 1933, if available;	(iii) pursuant to Rule 144 under the U.S. Securities Act of 1933, if available;
or	or
(iv) pursuant to an effective registration statement under the U.S. Securities Act of 1933.	(iv) pursuant to an effective registration statement under the U.S. Securities Act of 1933.
	If the International GDSs are transferred to a “Qualified Institutional Buyer” in a transaction meeting the requirements of Rule 144A, the transferor is required to convert the International GDSs into Rule 144A GDSs and make delivery of the Rule 144A GDSs to the transferee.
	After the “restricted period” applicable to this offering, the International GDSs offered herein shall be freely transferable.

Rule 144A GDSs	International GDSs
Shares will be accepted for deposit only if delivered by, or on behalf of, a person that is:	Shares will be accepted for deposit only if delivered by, or on behalf of, a person that is:
(a) not us or our affiliate or a person acting on behalf of us or our affiliate,	(a) not us or our affiliate or a person acting on behalf of us or our affiliate,
(b) is (i) a "Qualified Institutional Buyer" (as defined in Rule 144A), or (ii) a person other than a "U.S. Person" (as defined in Regulation S).	(b) is a person other than a "U.S. Person" (as defined in Regulation S).
Shares may be withdrawn from the Rule 144A Deposit agreement only by:	During the "restricted period" applicable to this offering, shares may be withdrawn under the International Deposit Agreement only by:
(i) a person other than a "U.S. Person" (as defined in Regulation S) who will be the beneficial owner of the shares upon withdrawal;	(i) a person other than a "U.S. Person" (as defined in Regulation S) (x) who will be the beneficial owner of the shares upon withdrawal and agrees prior to the expiration of the "restricted period" to observe the transfer restrictions applicable to the International GDSs in respect of the shares so withdrawn or (y) who has sold the shares to a person other than a U.S. Person or to a "Qualified Institutional Buyer" (as defined in Rule 144A), in which case shares will be deposited under the Rule 144A Deposit Agreement and delivered to the purchaser in the form of Rule 144A GDSs,
or	or
(ii) a "Qualified Institutional Buyer" (as defined in Rule 144A) who:	(ii) a "Qualified Institutional Buyer" (as defined in Rule 144A) who will take all action necessary to deposit the shares withdrawn under the Rule 144A Deposit Agreement and to take delivery in the form of Rule 144A GDSs.
(x) has sold the Rule 144A GDSs to another "Qualified Institutional Buyer" (as defined in Rule 144A), in a transaction meeting the requirements of Rule 144A, or to a person other than a "U.S. Person" (as defined in Regulation S) in accordance with Regulation S,	After the "restricted period" applicable to this offering, shares may be withdrawn by any person and are freely transferable.
or	
(y) will be the beneficial owner of the shares and agrees to observe the transfer restrictions applicable to Rule 144A GDSs in respect of the shares so withdrawn.	

Dividends and Distributions

As a holder, you generally have the right to receive the distributions we make on the securities deposited with the Custodian. Your receipt of these distributions may be limited, however, by practical considerations and legal limitations. Holders will receive such distributions under the terms of the Deposit Agreements in proportion to the number of GDSs held as of a specified record date.

Distributions of Cash

Subject always to the laws and regulations of the ROC, whenever we make a cash distribution for the securities on deposit with the Custodian, we will notify the Depositary and deposit the funds with the Custodian. Upon receipt of such notice and of confirmation of the deposit of the requisite funds, the Depositary will arrange for the funds to be converted into U.S. dollars and for the distribution of the U.S. dollars to the holders, subject to the laws and regulations of the ROC.

The conversion into U.S. dollars will take place only if practicable and if the U.S. dollars are transferable to the United States. The amounts distributed to holders will be net of the fees, expenses, taxes and governmental charges payable by holders under the terms of the Deposit Agreements. The Depositary will apply the same method for distributing the proceeds of the sale of any property (such as undistributed rights) held by the Custodian in respect of securities on deposit.

The distribution of cash will be made net of the fees, expenses, taxes and governmental charges payable by holders under the terms of the Deposit Agreements.

Distributions of Shares

Subject always to the laws and regulations of the ROC, whenever we make a free distribution of shares for the securities on deposit with the Custodian, we will notify the Depositary and deposit the applicable number of shares with the Custodian. Upon receipt of notice of such deposit, the Depositary will either distribute to holders new GDSs representing the shares deposited or to the extent permitted by law, modify the GDS-to-shares ratio, in which case each GDS you hold will represent rights and interests in the additional shares so deposited. Only whole new GDSs will be distributed. Fractional entitlements will be sold and the proceeds of such sale will be distributed as in the case of a cash distribution.

The distribution of new GDSs or the modification of the GDS-to-shares ratio upon a distribution of shares will be made net of the fees, expenses, taxes and governmental charges payable by holders under the terms of the Deposit Agreements. In order to pay such taxes or governmental charges, the Depositary may sell all or a portion of the new shares so distributed.

No such distribution of new GDSs will be made if it would violate U.S. law, including the U.S. securities laws, or if it is not operationally practicable. If the Depositary does not distribute new GDSs as described above, it will use its best efforts to sell the shares received and will distribute the proceeds of the sale as in the case of a distribution of cash.

Distributions of Rights

Subject always to the laws and regulations of the ROC, whenever we intend to distribute rights to purchase additional shares, we will give prior notice to the Depositary and will assist the Depositary in determining whether it is lawful and reasonably practicable to distribute rights to purchase additional GDSs to holders.

The Depositary, with our assistance, will establish procedures to distribute rights to purchase additional GDSs to holders and to enable such holders to exercise such rights if it is lawful and reasonably practicable to make the rights available to holders of GDSs, and if we provide all of the documentation contemplated in the applicable Deposit Agreement (such as opinions to address the lawfulness of the transaction). You may have to pay fees, expenses, taxes and other governmental charges to subscribe for the new GDSs upon the exercise of your rights. The Depositary is not obligated to establish procedures to facilitate the distribution and exercise by holders of rights to purchase new shares other than in the form of GDSs.

The Depositary will not distribute the rights to you if:

- We do not timely request that the rights be distributed to you; or
- We fail to deliver satisfactory documents to the Depositary; or
- It is not reasonably practicable to distribute the rights.

If registration of the rights or the securities to which such rights relate may be required under the Securities Act or any other applicable law in order for us to offer such rights or such securities to holders and to sell the securities represented by such rights, the Depositary will not distribute rights to holders of GDSs unless and until a registration statement under the Securities Act covering such offering is in effect. We have no obligation under the Deposit Agreements to prepare and file a registration statement for any purpose.

The Depositary will sell the rights that are not exercised or not distributed if such sale is lawful and reasonably practicable. The proceeds of such sale will be distributed to holders as in the case of a cash distribution. If the Depositary is unable to sell the rights, it will allow the rights to lapse.

Other Distributions

Subject always to the laws and regulations of the ROC, whenever we intend to distribute property other than cash, shares or rights to purchase additional shares, we will notify the Depositary in advance and will indicate whether we wish such distribution to be made to you. If so, we will assist the Depositary in determining whether such distribution to holders is lawful and reasonably practicable.

If it is reasonably practicable to distribute such property to you and if we provide all of the documentation contemplated in the Deposit Agreements, the Depositary will distribute the property to the holders in a manner it deems practicable.

The distribution will be made net of fees, expenses, taxes and governmental charges payable by holders under the terms of the Deposit Agreements. In order to pay such taxes and governmental charges, the Depositary may sell all or a portion of the property received.

The Depositary will not distribute the property to you and will sell the property if:

- We do not request that the property be distributed to you or if we ask that the property not be distributed to you; or
- We do not deliver satisfactory documents to the Depositary; or
- The Depositary determines that all or a portion of the distribution to you is not reasonably practicable.

The proceeds of such a sale will be distributed to holders as in the case of a cash distribution. If the Depositary is unable to sell such property, the Depositary may dispose of such property in any way it deems practicable under the circumstances.

Changes Affecting Shares

The shares held on deposit for your GDSs are subject to change from time to time. For example, there may be a change in nominal or par value, a split-up, cancellation, consolidation or reclassification of such shares or a recapitalization, reorganization, merger, consolidation or sale of assets.

If any such change were to occur, your GDSs would, to the extent permitted by law, represent the right to receive the property received or exchanged in respect of the shares held on deposit. The Depositary may in such circumstances deliver new GDSs to you or call for the exchange of your existing GDSs for new GDSs. If the

Depositary may not lawfully distribute such property to you, the Depositary may sell such property and distribute the net proceeds to you as in the case of a cash distribution.

Issuance of GDSs Upon Deposit of Shares

In connection with the issuance by a ROC company of new shares for cash, such as the shares underlying the GDSs, settlement is initially made by delivery to the persons purchasing the new shares of a Certificate of Payment evidencing the right to receive the definitive share certificates evidencing the shares. The initial deposit of shares offered by us in connection with this offering will be made by the delivery to the Custodian of a Certificate of Payment evidencing the right to receive the definitive share certificates evidencing the shares offered by us, which shares will be registered in the name of the Depositary or its nominee, as representatives of the holders of the GDSs. On the first ROC Business Day following the Closing Date, we will apply to the GTSM for listing of a Master Certificate of Payment. It is expected that the GTSM will approve the listing of the Master Certificate of Payment on the fourth ROC Business Day following the Closing Date. Immediately upon such listing, the Certificate of Payment we deliver to the Custodian on the Closing Date will be replaced by the Master Certificate of Payment. The initial deposit of the Certificate of Payment and the subsequent deposit of shares in exchange therefor by us in connection with this offering are collectively referred to herein as the "Initial Deposit."

Under the ROC Securities and Exchange Law and applicable regulations, we are required to deliver the underlying shares in physical certificate form or scripless form to the Custodian within 30 days after receiving approval from the relevant governmental authority of our corporate amendment registration. We are required under the ROC Company Law to file an amendment to our corporate registration within 15 days after receiving the proceeds from this offering. Prior to the issue of the underlying shares in physical certificate form or scripless form, we will apply for and obtain approval to list the underlying shares on the TSE. We have agreed to issue and deliver the underlying shares in physical certificate form or scripless form in respect of the Master Certificate of Payment in connection with this offering no later than the 60th calendar day after the Closing Date subject to obtaining approvals from the relevant governmental authority and the GTSM. Until the underlying shares have been so issued and delivered, the GDSs will represent shares evidenced by the Certificate of Payment (from the Closing Date to the date immediately prior to the listing of the Master Certificate of Payment) or the Master Certificate of Payment on or after the date of listing of the Master Certificate of Payment. The Individual Scripless Certificates of Payment, which are without physical form and are issued only in book-entry form through Taiwan Depository & Clearing Corporation, the book-entry settlement system of the ROC, carry the same rights as those attaching to the shares in respect of dividends and are eligible for trading on the GTSM in the same manner as the shares.

Under the Deposit Agreements, after the Initial Deposit, no deposits of shares may be made in a depositary receipt facility, and no GDSs may be issued against such deposits, without specific approval of the FSC, except in connection with the offering and the issuance of additional GDSs in connection with (i) stock dividends on, or free distributions of, shares, (ii) the exercise by holders of existing GDSs of their pre-emptive rights in the event of rights offerings or capital increases for cash, (iii) subject in each case to receipt of all applicable approvals in the ROC, the issuance of shares by the Company to holders of bonds in connection with the exercise of conversion rights of such bond holders, (iv) to the extent that previously issued GDSs have been canceled, reissuances of GDSs up to an aggregate amount of outstanding GDSs equal to the total number of GDSs (subject to adjustment for the issuances described in clauses (i), (ii) and (iii)) that were originally approved by the FSC or (v) the exchange of Rule 144A GDSs for International GDSs and vice versa; provided, that the Depositary will refuse to accept shares for deposit under clause (iv) if such deposit is not permitted under any restriction notified by the Company to the Depositary from time to time, which restriction may specify blackout periods during which deposits may not be made, time periods during which deposits may be made, and minimum and maximum size and frequency of deposits.

The Depositary and the Custodian will refuse to accept shares for deposit whenever they are notified in writing that such deposit would result in any violation of applicable laws, including ownership restrictions under the laws of the ROC. The Depositary will also refuse (i) to accept certain shares for deposit under the Rule 144A Deposit Agreement if notified in writing that such shares are listed on a U.S. securities exchange or quoted on a U.S. automated inter-dealer quotation system, unless accompanied by evidence satisfactory to the Depositary that any shares presented for deposit are eligible for resale pursuant to Rule 144A, or (ii) to issue GDSs representing the new shares that are separate and distinct from GDSs representing the existing shares. In addition, the Depositary will refuse to accept shares for deposit under clause (iv) of the immediately preceding paragraph if such deposit is not permitted under any restriction notified by the Company to the Depositary from time to time, which restriction may specify blackout periods during which deposits may not be made, time periods during which deposits may be made, and minimum and maximum size and frequency of deposits.

The issuance of GDSs may be delayed until the Depositary or the Custodian receives confirmation that all required approvals have been given and that the shares have been duly transferred to the Custodian. The Depositary will only issue GDSs in whole numbers.

When you make a deposit of shares, you will be responsible for transferring good and valid title to the Depositary. As such, you will be deemed to represent and warrant that:

- Such shares are duly authorized, validly issued, fully paid, non-assessable and legally obtained.
- All pre-emptive (and similar) rights, if any, with respect to such shares have been validly waived or exercised.
- You are duly authorized to deposit such shares.
- The shares presented for deposit are free and clear of any lien, encumbrance, security interest, charge, mortgage or adverse claim, and, in the case of International GDSs, are not, and the International GDSs issuable upon such deposit will not be, "restricted securities" (as defined in the International Deposit Agreement).
- The shares presented for deposit have not been stripped of any rights or entitlements.

If any of the representations or warranties is incorrect in any way, we and the Depositary may, at your cost and expense, take any and all actions necessary to correct the consequences of the misrepresentations.

When you deposit shares to receive Rule 144A GDSs, you will be required to provide the Depositary with a deposit certification stating, inter alia, that:

- you acknowledge that the shares and the Rule 144A GDSs have not been and will not be registered under the Securities Act or with any securities regulatory authority in any state or other jurisdiction in the United States; and
- you are not an "affiliate" of ours and you are not acting on behalf of us or one of our "affiliates"; and
- you certify that you are, or are acting on behalf of, (i) a "Qualified Institutional Buyer" (as defined in Rule 144A), or (ii) a person other than a U.S. Person (as defined in Regulation S); and
- you agree, as the owner of the Rule 144A GDSs, to offer, sell, pledge and otherwise transfer the Rule 144A GDSs or the shares represented by the Rule 144A GDSs in accordance with the applicable U.S. state securities laws and only:
    - to a "Qualified Institutional Buyer" (as defined in Rule 144A) in a transaction meeting the requirements of Rule 144A, or
    - outside the United States to a person other than a "U.S. Person" (as defined in Regulation S) in accordance with Regulation S, or

- in accordance with Rule 144 under the Securities Act, if available, or
- pursuant to an effective registration statement under the Securities Act.

A copy of the form of deposit certification for Rule 144A GDSs is attached to the Rule 144A Deposit Agreement and may be obtained from the Depositary upon request.

When you deposit shares to receive International GDSs, you will be required to provide the Depositary with a deposit certificate stating, inter alia, that:

- you acknowledge that the shares and the International GDSs have not been and will not be registered under the Securities Act or with any securities regulatory authority in any state or other jurisdiction in the United States; and
- you are not an "affiliate" of ours and you are not acting on behalf of us or one of our "affiliates"; and
- you certify that you are, or are acting on behalf of, (i) a person other than a U.S. Person (as defined in Regulation S); and
- you agree, as the owner of the International GDSs (or the person you are acting on behalf of has confirmed its agreement to you), to offer, sell, pledge and otherwise transfer the International GDSs or the shares represented by the International GDSs in accordance with the applicable U.S. state securities laws and during the applicable "restricted period" only:
  - to a "Qualified Institutional Buyer" (as defined in Rule 144A) in a transaction meeting the requirements of Rule 144A, in which case you or such person are required to "convert" the International GDSs into Rule 144A GDSs prior to making delivery to the transferee, or
  - outside the United States to a person other than a "U.S. Person" (as defined in Regulation S) in accordance with Regulation S, or
  - in accordance with Rule 144 under the Securities Act, if available, or
  - pursuant to an effective registration statement under the Securities Act.

A copy of the form of deposit certification for International GDSs is attached to the International Deposit Agreement and may be obtained from the Depositary upon request.

Withdrawal of Shares Upon Cancellation of GDSs

On or after approximately the fourth ROC Business Day from the Closing Date, subject to receipt of approval from the GTSM of the listing of the Master Certificate of Payment and the relevant provisions of the Deposit Agreements, a holder may withdraw and hold the underlying shares or, as the case may be, the Individual Scripless Certificates of Payment, or request Citibank, N.A., as Depositary, acting pursuant to the Deposit Agreement, to sell or cause to be sold on behalf of such holders of the underlying shares or, as the case may be, the Individual Scripless Certificates of Payment. The Individual Scripless Certificates of Payment, which are without physical form and settle through the book-entry system, carry the same rights as those attaching to the underlying shares in respect of dividends and are eligible for trading on the GTSM in the same manner as the underlying shares. Your ability to withdraw the shares may be limited by U.S. and ROC law considerations applicable at the time of withdrawal.

Under current ROC law, if you (other than PRC persons) wish to withdraw and hold underlying shares or, as the case may be, the Individual Scripless Certificates of Payment from a depositary receipt facility, you will be required to register with the TSE for making investments in the ROC securities market prior to withdrawing shares. In addition, you will be required to appoint an eligible agent in the ROC to open a securities trading account with a local brokerage firm (after receiving approval from the TSE) and a bank account (the securities trading account and the bank account collectively, the "Accounts"), to pay ROC taxes, remit funds, exercise shareholders' rights and perform such other functions as you may designate upon such withdrawal. In addition, you will be required to appoint a custodian bank to hold the securities in safekeeping, make confirmation and settle trades and report all relevant information. Without meeting these requirements, the applicable withdrawing GDS holder would be unable to hold or subsequently sell the underlying shares withdrawn from the depositary receipt facility on the GTSM or otherwise. These laws may change from time to time. We cannot assure you that current ROC law will remain in effect or that future changes in ROC law will not adversely affect your ability to withdraw our shares from the applicable GDS facility.

Holders of GDSs withdrawing shares represented by GDSs are also required under current ROC law and regulations to appoint an agent in the ROC for filing tax returns and making tax payments. Such agent must meet certain qualifications set by the Ministry of Finance and, upon appointment, becomes a guarantor of such withdrawing owner's ROC tax obligations. Evidence of the appointment of such agent and the approval of such appointment by the ROC tax authorities may be required as conditions to such withdrawing holder's repatriation of the proceeds from the sale of the withdrawn shares. There can be no assurance that such withdrawing holder will be able to appoint and obtain approval for such agent in a timely manner.

Subject to the withdrawal of deposited property being permitted under ROC law and regulations, you may also request that our shares or Individual Scripless Certificates of Payment represented by your GDSs be sold on your behalf. The Depositary may require that you deliver your request for sale in writing. Any sale of our shares will be conducted according to applicable ROC law through a securities company in the ROC on the TSE or in another manner as is permitted under applicable ROC law. Any sale will be at your risk and expense. You may also be required to enter into a separate agreement to cover the terms of the sale of our shares or Individual Scripless Certificates of Payment.

Upon receipt of any proceeds from any sale, subject to any restrictions imposed by ROC law and regulations, the Depositary shall convert the proceeds into U.S. dollars and distribute the proceeds to you, net of any fees, expenses, taxes or governmental charges (including, without limitation, any ROC and U.S. taxes) incurred in connection with the sale. Although sales of GDSs by a non-resident individual or a corporation that has no fixed place of business or other permanent establishment or business agent in the territory of the ROC are not currently subject to ROC taxation on capital gains, sales of our shares or Individual Scripless Certificates of Payment by such individual or corporation may in the future be subject to ROC taxation on capital gains and will be subject to a securities transaction tax in the ROC.

In order to withdraw or instruct the sale of the shares or Individual Scripless Certificates of Payment represented by your GDSs, you will be required to pay to the Depositary the fees for cancellation of GDSs and any charges and taxes payable upon the transfer of the shares or Individual Scripless Certificates of Payment being withdrawn and you will be required to provide to the Depositary the applicable withdrawal certification. You assume the risk for delivery of all funds and securities upon withdrawal. Once canceled, the GDSs will not have any rights under the corresponding Deposit Agreement.

If you hold a GDR certificate registered in your name, the Depositary may ask you to provide proof of identity and genuineness of any signature and such other documents as the Depositary may deem appropriate before it will cancel your GDSs. The withdrawal of the shares or Individual Scripless Certificates of Payment represented by your GDSs may be delayed until the Depositary receives satisfactory evidence of compliance with all applicable laws and regulations. Please keep in mind that the Depositary will only accept GDSs for cancellation that represent a whole number of securities on deposit.

We have reporting obligations under ROC law in respect of the GDS facilities. In order to enable us to gather the information necessary for these reporting obligations, you will be asked to complete and sign a certification upon withdrawal of shares or Individual Scripless Certificates of Payment from the applicable GDS facility. In this certification you will be asked to disclose, among other information, the name, nationality and *address of the beneficial owner of the GDSs presented for cancellation, the number of shares withdrawn by the beneficial owner and whether certain affiliations exist between the beneficial owner and us. The Depositary will refuse to release shares or Individual Scripless Certificates of Payment to you until you deliver a completed and signed certification to it.*

If the shares or Individual Scripless Certificates of Payment are withdrawn from either depositary facility, such holder will be required to provide information to enable our compliance with our obligations set forth under the laws and regulations of the ROC, including:

- whether the holder is or is not a "related person" to us, as such term is defined in the applicable Deposit Agreement, to us;
- the aggregate number of shares withdrawn by the holder since the execution of the Deposit Agreements as well as the aggregate number of shares withdrawn during that calendar month by the holder;
- confirmation that the holder, or the person on whose account he acts, is the beneficial owner of the GDSs surrendered to the Depositary thereby;
- the name, address and nationality of the beneficial owner of the GDSs, as included upon presentation of GDSs for cancellation, is true and correct;
- the number of GDSs surrendered and the number of shares withdrawn, as included upon presentation of GDSs for cancellation, is true and correct; and
- if the presenter is a broker-dealer, that the owner of the account for which he is acting has confirmed the accuracy of the above representations.

In addition, such holder may be required to certify as to other information that we or the Depositary may deem necessary or desirable to comply with any ROC disclosure or reporting requirement.

You will have the right to withdraw the shares represented by the GDSs unless there are:

- temporary delays because (1) the transfer books for our shares or GDSs are closed, or (2) our shares are frozen due to a shareholders' meeting or a payment of dividends;
- obligations to pay fees, taxes and similar charges; and
- restrictions imposed by law or regulation.

When you request the withdrawal of the shares represented by your Rule 144A GDSs, you will be required to provide the Depositary with a withdrawal certification stating, inter alia, that:

- you acknowledge that the shares represented by your Rule 144A GDSs have not been and will not be registered under the Securities Act or with any securities regulatory authority in any state or other jurisdiction in the United States; and
- you certify that either:

(X) you are a "Qualified Institutional Buyer" (as defined in Rule 144A) who is the beneficial owner of the Rule 144A GDSs presented for cancellation, or you are acting on behalf of a Qualified Institutional Buyer who is the beneficial owner of the Rule 144A GDSs presented for cancellation and

(1) you have, or the person on whose behalf you are acting has, sold or agreed to sell the Rule 144A GDSs or shares to a person other than a "U.S. Person" (as defined in Regulation S) in accordance with Regulation S, or

(2) you have, or the person on whose behalf you are acting has, sold or agreed to sell the Rule 144A GDSs or shares to another "Qualified Institutional Buyer" (as defined in Rule 144A) in a transaction meeting the requirements of Rule 144A, or

(3) you (or the person on whose behalf you are acting) will be the beneficial owner of the shares upon withdrawal and you (or the person on whose behalf you are acting) (x) will not deposit the shares in any depositary receipt facility that is not a "restricted" depositary receipt facility and (y) will sell the shares only

(a) to another Qualified Institutional Buyer (as defined in Rule 144A) in a transaction meeting the requirements of Rule 144A, or

(b) outside the United States to a person other than a "U.S. Person" (as defined in Regulation S) in accordance with Regulation S, or

(c) in accordance with Rule 144 (if available), or

(d) pursuant to an effective registration statement under the Securities Act; OR

(Y) you are a person other than a "U.S. Person" (as defined in Regulation S) and you acquired or agreed to acquire the Rule 144A GDSs or shares outside the United States and will be the beneficial owner of the Rule 144A GDSs or shares upon withdrawal.

When you request the withdrawal of the shares represented by your International GDSs at any time during the "restricted period," you will be required to provide the Depositary with a withdrawal certification stating, inter alia, that:

- you acknowledge that the shares represented by your International GDSs have not been and will not be registered under the Securities Act or with any securities regulatory authority in any state or other jurisdiction in the United States; and
- you certify that either:

(X) you are, or are acting on behalf of, a person other than a "U.S. Person" (as defined in Regulation S) who is the beneficial owner of the International GDSs presented for cancellation, and either

(1) you have sold or agreed to sell the International GDSs or shares to a person other than a "U.S. Person" (as defined in Regulation S) in accordance with Regulation S, or

(2) you have sold or agreed to sell the International GDSs or shares to a "Qualified Institutional Buyer" (as defined in Rule 144A) in a transaction meeting the requirements of Rule 144A, and will make delivery thereof in the form of Rule 144A GDSs, or

(3) in accordance with Rule 144 (if available), or

(4) pursuant to an effective registration statement under the Securities Act, or

(5) you (or the person on whose behalf you are acting) will be the beneficial owner of the shares upon withdrawal and you (or the person on whose behalf you are acting) will at any time during the "restricted period" sell the shares only

(a) to a Qualified Institutional Buyer (as defined in Rule 144A) in a transaction meeting the requirements of Rule 144A, or

(b) to a person other than a "U.S. Person" (as defined in Regulation S) in accordance with Regulation S, or

(c) in accordance with Rule 144 (if available), or

(d) pursuant to an effective registration statement under the Securities Act; OR

(Y) you are a "Qualified Institutional Buyer" (as defined in Rule 144A), acting on your own behalf or on behalf of Qualified Institutional Buyers, and you (or the person on whose behalf you are acting) have agreed to acquire the International GDSs or the shares in a transaction made in reliance on Rule 144A and you (or the person on whose behalf you are acting) will take all action necessary to cause the shares to be withdrawn and deposited under the Rule 144A Deposit Agreement for the purpose of receiving Rule 144A GDSs.

Voting Rights

Except as described below, you generally have no right under the Deposit Agreements to instruct the Depositary to exercise the voting rights for the shares represented by your GDSs. Instead, by accepting GDSs or any beneficial interest in GDSs, you will be deemed to have authorized and directed the Depositary to appoint our chairman or a person designated by our chairman for a particular meeting of shareholders as representative (the "Voting Representative") to represent you at our shareholders' meeting and to vote the shares deposited with the Custodian according to the terms of the GDSs. The voting rights of holders of shares are described in "Description of Share Capital—Voting Rights."

The Depositary will mail to you any notice of shareholders' meeting received from us together with information explaining how to instruct the Depositary to exercise the voting rights of the securities represented by GDSs.

If we fail to provide in a timely manner the Depositary with an English language translation of our notice of meeting or other materials related to any meeting of owners of shares, the Depositary will endeavor to cause all the deposited securities represented by GDSs to be present at the applicable meeting, insofar as practicable and permitted under applicable law, but will not cause those securities to be voted. *According to the ROC Company Law, a shareholder's voting rights must, as to all matters brought to a vote of shareholders, be exercised as to all shares held by the shareholder in the same manner, except in the case of an election of directors and supervisors, which may be conducted by means of cumulative voting or other mechanisms adopted in our Articles of Incorporation. Pursuant to ROC Company Law and our Articles of Incorporation, the election of directors and supervisors is by means of cumulative voting.*

If the Depositary receives in a timely manner voting instructions from holders of at least 51.0% of the outstanding GDSs to vote in the same direction regarding one or more resolutions to be considered at the meeting, including the election of directors and supervisors, the Depositary will notify the Voting Representative of the instructions and appoint the Voting Representative as the representative of the Depositary and such holders to attend the meeting and vote all the securities represented by the holders' GDSs, in accordance with the direction received from holders of at least 51.0% of the outstanding GDSs.

If we have provided in a timely manner the Depositary with the materials described in the applicable Deposit Agreement and the Depositary has not timely received instructions from holders of at least 51.0% of the outstanding GDSs to vote in the same direction regarding any resolution to be considered at the meeting, including the election of directors and supervisors, then you will be deemed to have authorized and directed the Depositary to authorize and appoint the Voting Representative as the representative of the Depositary and the holders to attend and vote at the meeting all the securities represented by your GDSs in any manner the Voting Representative deems appropriate with respect to such resolution or resolutions, which may not be in the interests of GDS holders, except for any resolution proposed at the meeting but not set forth in the shareholder notice.

If we have not timely provided the Depositary with the materials described in the applicable Deposit Agreement, the Depositary shall endeavor to cause all shares represented by GDSs to be present at the relevant shareholders' meeting but will not cause the shares represented by the GDSs to be voted.

As a GDS holder, you will not be able to exercise cumulative voting rights on an individual basis in the elections of directors and supervisors under the Deposit Agreements. Instead, if at least 51.0% of the votes represented by outstanding GDSs are cast for particular directors or supervisors in an election, the Depositary shall, subject to the terms of the Deposit Agreements, instruct all of the shares underlying the outstanding GDSs to be voted in favor of such directors and supervisors. If less than 51.0% of all votes represented by outstanding

GDSs are cast for particular directors or supervisors, the Depositary shall, subject to the terms of the Deposit Agreements, authorize the Voting Representative to vote all the shares on deposit at his or her discretion.

By accepting and continuing to hold GDSs or any interest therein, a holder will be deemed to have agreed to the voting provisions set forth in the applicable Deposit Agreement, as such provisions may be amended from time to time to comply with applicable ROC law.

Please note that the ability of the Depositary to carry out voting instructions may be limited by practical and legal limitations and the terms of the securities on deposit. We cannot assure you that you will receive voting materials in time to enable you to return voting instructions to the Depositary in a timely manner.

In addition, the Deposit Agreements provide that holders together holding at least 51% of the aggregate number of GDSs outstanding may submit a proposal in writing containing no more than 300 words (Chinese characters) to the Depositary, accompanied by the certificate required by the Depositary at least two business days prior to the expiry of the time period prescribed by us, as informed by the Depositary, for our shareholders to submit such proposal for voting at an ordinary shareholders' meeting; provided that each holder is entitled to submit only one proposal and any fees and expenses so incurred to the Depositary shall be borne by the proposing holder. The Depositary shall then submit such proposal to us within the foregoing time period. This provision shall not apply at times when the common shares registered in the name of the Depositary as representative of the holders of GDSs constitute less than one percent of our total issued and outstanding common shares as of the relevant record date applicable to our shareholders.

Furthermore, under the Deposit Agreements, holders together holding at least 51% of the aggregate number of GDSs outstanding may submit a proposal containing the required information in writing of only one nomination for each meeting involving the election of independent directors at least two business days prior to the expiration of the period for submission of nominations prescribed by us. The Depositary shall then submit such proposal to us within the foregoing time period. Any fees and expenses so incurred to the Depositary shall be borne by the proposing holders. This provision shall not apply at times when the common shares registered in the name of the Depositary as representative of the holders of GDSs constitute less than one percent of our total issued and outstanding common shares as of the relevant record date applicable to our shareholders or our articles of incorporation no longer provide the candidate nomination system for election of independent directors.

Fees and Charges

As a GDS holder, you will be required to pay the following service fees to the Depositary:

Service	Fees
Issuance of GDSs	Up to US$0.05 per GDS issued
Cancellation of GDSs	Up to US$0.05 per GDS canceled
Distribution of GDSs pursuant to securities dividends, free securities distributions or exercise of rights	Up to US$0.05 per GDS held
Distribution of cash dividends or other cash distributions	Up to US$0.05 per GDS held
Distribution of securities other than GDSs or rights to purchase additional GDSs	Up to US$0.05 per share (or share equivalent) held
Depositary services fee	US$0.05 per GDS held as of a record date established by the Depositary
Transfer of GDR certificates	US$1.50 per certificate presented for transfer

As a GDS holder you will also be responsible to pay certain fees and expenses incurred by the Depositary and certain taxes and governmental charges such as:

- fees for the transfer and registration of shares charged by the registrar and transfer agent for the shares in the ROC upon deposits and withdrawals of shares;
- expenses incurred for converting foreign currency into U.S. dollars;
- expenses for cable, telex and fax transmissions and for delivery of securities;
- taxes and duties upon the transfer of securities when shares are deposited or withdrawn from deposit.

We have agreed to pay certain other charges and expenses of the Depositary. Note that the fees and charges you may be required to pay may vary over time and may be changed by us and by the Depositary. You will receive prior notice of such changes.

Amendments and Termination

We may agree with the Depositary to modify the Deposit Agreements at any time without your consent. We undertake to give GDS holders 30 days' prior notice of any modifications that would materially prejudice any of their substantial rights under the Deposit Agreements. We will not consider to be materially prejudicial to your substantial rights any modifications or supplements that are reasonably necessary for the (i) GDSs to be registered under the Securities Act, and (ii) GDSs to be settled in electronic book-entry form, in each case without imposing or increasing the fees and charges you are required to pay. In addition, we may not be able to provide you with prior notice of any modifications or supplements that are required to accommodate compliance with applicable provisions of law.

You will be bound by the modifications to the Deposit Agreements if you continue to hold your GDSs after the modifications to the applicable Deposit Agreements become effective. The Deposit Agreements cannot be amended to prevent you from withdrawing the shares represented by your GDSs (except as mandated by law).

We have the right to direct the Depositary to terminate the Deposit Agreements. Similarly, the Depositary may in certain circumstances on its own initiative terminate the Deposit Agreements. In either case, the Depositary must give notice to the holders at least 30 days before termination.

Upon termination, the following will occur under the applicable Deposit Agreement:

- For a period of six months after termination, you will be able to request the cancellation of your GDSs and the withdrawal of the shares represented by your GDSs and the delivery of all other property held by the Depositary in respect of those shares on the same terms as prior to the termination. During such six-month period the Depositary will continue to collect all distributions received on the shares on deposit, including dividends, but will not distribute any such property to you until you request the cancellation of your GDSs.
- After the expiration of such six-month period, the Depositary may sell the securities held on deposit. The Depositary will hold the proceeds from such sale and any other funds then held for the holders of GDSs in a non-interest bearing account. At that point, the Depositary will have no further obligations to holders other than to account for the funds then held for the holders of GDSs still outstanding.

Books of the Depositary

The Depositary will maintain GDS holder records at its depositary office. You may inspect such records at such office during regular business hours but solely for the purpose of communicating with other holders in the interest of business matters relating to the GDSs and the Deposit Agreements.

The Depositary will maintain in New York facilities to record and process the issuance, cancellation, combination, split-up and transfer of GDSs. These facilities may be closed from time to time, to the extent not prohibited by law.

Limitations on Obligations and Liabilities

The Deposit Agreements limit our obligations and the Depositary's obligations to you. Please note the following:

- We and the Depositary are obligated only to take the actions specifically stated in the Deposit Agreements without negligence or bad faith.
- The Depositary disclaims any liability for any failure to carry out voting instructions, for any manner in which a vote is cast or for the effect of any vote, provided it acts in good faith and in accordance with the terms of the Deposit Agreements.

- The Depositary disclaims any liability for any failure to determine the lawfulness or practicality of any action, for the content of any document forwarded to you on our behalf or for the accuracy of any translation of such a document, for the investment risks associated with investing in shares, for the validity or worth of the shares, for any tax consequences that result from the ownership of GDSs, for the credit-worthiness of any third party, for allowing any rights to lapse under the terms of the Deposit Agreements, for the timeliness of any of our notices or for our failure to give notice or for our failure of the Company to exchange the Certificate of Payment into shares.
- We and the Depositary will not be obligated to perform any act that is inconsistent with the terms of the Deposit Agreements.
- We and the Depositary disclaim any liability if we are prevented or forbidden from acting on account of any law or regulation, any provision of our Articles of Incorporation, any provision of any securities on deposit or by reason of any act of God or war or terrorism or other circumstances beyond our control.
- We and the Depositary disclaim any liability by reason of any exercise of, or failure to exercise, any discretion provided for in the Deposit Agreements or in our Articles of Incorporation or in any provisions of securities on deposit.
- We and the Depositary further disclaim any liability for any action or inaction in reliance on the advice or information received from legal counsel, accountants, any person presenting shares for deposit, any holder of GDSs or authorized representatives thereof, or any other person believed by either of us in good faith to be competent to give such advice or information.
- We and the Depositary also disclaim liability for the inability by a holder to benefit from any distribution, offering, right or other benefit which is made available to holders of shares but is not, under the terms of the Deposit Agreements, made available to you.
- We and the Depositary may rely without any liability upon any written notice, request or other document believed to be genuine and to have been signed or presented by the proper parties.
- We and the Depositary also disclaim any liability for consequential or punitive damages for any breach of the terms of the applicable Deposit Agreements.

Pre-Release Transactions

To the extent permitted by applicable laws and regulations, the Depositary may, in certain circumstances, issue GDSs before receiving a deposit of shares. These transactions are commonly referred to as "pre-release transactions." The Deposit Agreements limit the aggregate size of pre-release transactions and impose a number of conditions on such transactions, including the need to receive collateral, the type of collateral required and the representations required from brokers. The Depositary may retain the compensation received from the pre-release transactions.

Taxes

You will be responsible for the taxes and other governmental charges payable on the GDSs and the securities represented by the GDSs. We, the Depositary and the Custodian may deduct from any distribution the taxes and governmental charges payable by holders and may sell any and all property on deposit to pay the taxes and governmental charges payable by holders. You will be liable for any deficiency if the sale proceeds do not cover the taxes that are due.

The Depositary may refuse to issue GDSs, to deliver, transfer, split and combine GDR certificates or to release securities on deposit until all taxes and charges are paid by the applicable holder. The Depositary and the Custodian may take reasonable administrative actions to obtain tax refunds and reduced tax withholding for any distributions on your behalf. However, you may be required to provide to the Depositary and to the Custodian proof of taxpayer status and residence and such other information as the Depositary and the Custodian may require to fulfill legal obligations. You are required to indemnify us, the Depositary and the Custodian for any claims with respect to taxes based on any tax benefit obtained for you.

Foreign Currency Conversion

Subject to ROC law, the Depositary will arrange for the conversion of all foreign currency received into U.S. dollars if such conversion is practicable, and it will distribute the U.S. dollars in accordance with the terms of the Deposit Agreements. You may have to pay fees and expenses incurred in converting foreign currency, such as fees and expenses incurred in complying with currency exchange controls and other governmental requirements.

If the conversion of foreign currency is not practicable or lawful, or if any required approvals are denied or not obtainable at a reasonable cost or within a reasonable period, the Depositary may take the following actions in its discretion:

- convert the foreign currency to the extent practicable and lawful and distribute the U.S. dollars to the holders for whom the conversion and distribution is lawful and practicable;
- distribute the foreign currency to holders for whom the distribution is lawful and practicable; or
- hold the foreign currency (without liability for interest) for the applicable holders.

Legends

The Rule 144A GDR certificate(s) issued to represent the Rule 144A GDSs offered for sale herein shall contain, and all owners of Rule 144A GDSs shall be bound by the terms of, the following legend:

NEITHER THIS RULE 144A GDR CERTIFICATE, NOR THE RULE 144A GDSs EVIDENCED HEREBY, NOR THE RULE 144A DEPOSITED SECURITIES REPRESENTED THEREBY, HAVE BEEN OR WILL BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE OFFER, SALE, PLEDGE OR OTHER TRANSFER OF THIS RULE 144A GDR CERTIFICATE, THE RULE 144A GDSs EVIDENCED HEREBY AND THE RULE 144A DEPOSITED SECURITIES REPRESENTED THEREBY IS SUBJECT TO CERTAIN CONDITIONS AND RESTRICTIONS. THE HOLDERS AND THE BENEFICIAL OWNERS HEREOF, BY PURCHASING OR OTHERWISE ACQUIRING THIS RULE 144A GDR CERTIFICATE AND THE RULE 144A GDSs EVIDENCED HEREBY, ACKNOWLEDGE THAT SUCH RULE 144A GDR CERTIFICATE, THE RULE 144A GDSs EVIDENCED HEREBY AND THE RULE 144A DEPOSITED SECURITIES REPRESENTED THEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT AND AGREE FOR THE BENEFIT OF THE COMPANY AND THE DEPOSITARY THAT THIS RULE 144A GDR CERTIFICATE, THE RULE 144A GDSs EVIDENCED HEREBY AND THE RULE 144A DEPOSITED SECURITIES REPRESENTED THEREBY MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND APPLICABLE LAWS OF THE STATES, TERRITORIES AND POSSESSIONS OF THE UNITED STATES GOVERNING THE OFFER AND SALE OF SECURITIES AND ONLY (1) OUTSIDE THE UNITED STATES TO A PERSON OTHER THAN A U.S. PERSON (AS SUCH TERMS ARE DEFINED IN REGULATION S UNDER THE SECURITIES ACT) IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES ACT, (2) TO A PERSON WHOM THE HOLDER AND THE BENEFICIAL OWNER REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ANOTHER QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE

SECURITIES ACT PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), OR (4) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT. EACH HOLDER AND BENEFICIAL OWNER, BY ITS ACCEPTANCE OF THIS RULE 144A GDR CERTIFICATE OR A BENEFICIAL INTEREST IN THE RULE 144A GDSs EVIDENCED HEREBY, AS THE CASE MAY BE, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING RESTRICTIONS.

THE BENEFICIAL OWNER OF RULE 144A DEPOSITED SECURITIES RECEIVED UPON CANCELLATION OF ANY RULE 144A GDS MAY NOT DEPOSIT OR CAUSE TO BE DEPOSITED SUCH RULE 144A DEPOSITED SECURITIES INTO ANY DEPOSITARY RECEIPT FACILITY ESTABLISHED OR MAINTAINED BY A DEPOSITARY BANK, OTHER THAN A RULE 144A RESTRICTED DEPOSITARY RECEIPT FACILITY, SO LONG AS SUCH RULE 144A DEPOSITED SECURITIES ARE "RESTRICTED SECURITIES" WITHIN THE MEANING OF RULE 144(a)(3) UNDER THE SECURITIES ACT. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALE OF THE RULE 144A DEPOSITED SECURITIES OR THE RULE 144A GDSs.

EACH HOLDER AND BENEFICIAL OWNER, BY ITS ACCEPTANCE OF THIS RULE 144A GDR CERTIFICATE OR A BENEFICIAL INTEREST IN THE RULE 144A GDSs EVIDENCED HEREBY, AS THE CASE MAY BE, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING RESTRICTIONS.

The International GDR certificate(s) issued to represent the International GDSs offered for sale herein shall contain, and all owners of International GDSs shall be bound by the terms of, the following legend:

NEITHER THIS INTERNATIONAL GDR CERTIFICATE, NOR THE INTERNATIONAL GDSs EVIDENCED HEREBY, NOR THE INTERNATIONAL DEPOSITED SECURITIES REPRESENTED THEREBY HAVE BEEN OR WILL BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE OFFER, SALE, PLEDGE OR OTHER TRANSFER OF THIS INTERNATIONAL GDR CERTIFICATE, THE INTERNATIONAL GDSs EVIDENCED HEREBY AND THE INTERNATIONAL DEPOSITED SECURITIES REPRESENTED THEREBY IS SUBJECT TO CERTAIN CONDITIONS AND RESTRICTIONS. THE HOLDERS AND THE BENEFICIAL OWNERS HEREOF, BY PURCHASING OR OTHERWISE ACQUIRING THIS INTERNATIONAL GDR CERTIFICATE AND THE INTERNATIONAL GDSs EVIDENCED HEREBY, ACKNOWLEDGE THAT SUCH INTERNATIONAL GDR CERTIFICATE, THE INTERNATIONAL GDSs EVIDENCED HEREBY AND THE INTERNATIONAL DEPOSITED SECURITIES REPRESENTED THEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT AND AGREE FOR THE BENEFIT OF THE COMPANY AND THE DEPOSITARY THAT THIS INTERNATIONAL GDR CERTIFICATE, THE INTERNATIONAL GDSs EVIDENCED HEREBY AND THE INTERNATIONAL DEPOSITED SECURITIES REPRESENTED THEREBY MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND APPLICABLE LAWS OF THE STATES, TERRITORIES AND POSSESSIONS OF THE UNITED STATES GOVERNING THE OFFER AND SALE OF SECURITIES AND, PRIOR TO THE EXPIRATION OF THE RESTRICTED PERIOD (DEFINED AS 40 DAYS AFTER THE LATER OF (I) THE COMMENCEMENT OF THE OFFERINGS OF (A) INTERNATIONAL GDSs OUTSIDE THE UNITED STATES IN RELIANCE ON REGULATION S AND ANY OTHER APPLICABLE LAW IN TRANSACTIONS EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT AND (B) RULE 144A GDSs IN THE UNITED STATES TO QUALIFIED INSTITUTIONAL BUYERS IN RELIANCE ON REGULATION S AND (II) THE CLOSING DATE WITH RESPECT TO THE INTERNATIONAL GDSs) ONLY (1) OUTSIDE THE UNITED STATES TO A PERSON OTHER THAN A U.S. PERSON (AS SUCH TERMS ARE DEFINED IN REGULATION S UNDER THE SECURITIES ACT) IN ACCORDANCE WITH REGULATION S UNDER THE SECURITIES

ACT, (2) TO A PERSON WHOM THE HOLDER AND THE BENEFICIAL OWNER REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ANOTHER QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), OR (4) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT; PROVIDED THAT IN CONNECTION WITH ANY TRANSFER UNDER (2) ABOVE, THE TRANSFEROR SHALL, PRIOR TO THE SETTLEMENT OF SUCH SALE, WITHDRAW THE INTERNATIONAL DEPOSITED SECURITIES REPRESENTED BY SUCH INTERNATIONAL GDSs IN ACCORDANCE WITH THE TERMS AND CONDITIONS OF THE INTERNATIONAL DEPOSIT AGREEMENT AND INSTRUCT THAT SUCH INTERNATIONAL DEPOSITED SECURITIES BE DELIVERED TO THE CUSTODIAN UNDER THE RULE 144A DEPOSIT AGREEMENT FOR ISSUANCE, IN ACCORDANCE WITH THE TERMS AND CONDITIONS THEREOF, OF RULE 144A GDSs TO OR FOR THE ACCOUNT OF SUCH QUALIFIED INSTITUTIONAL BUYER.

UPON THE EXPIRATION OF THE RESTRICTED PERIOD, THIS INTERNATIONAL GDR CERTIFICATE, THE INTERNATIONAL GDSs EVIDENCED HEREBY AND THE INTERNATIONAL DEPOSITED SECURITIES REPRESENTED THEREBY SHALL NO LONGER BE SUBJECT TO THE RESTRICTIONS ON TRANSFER PROVIDED IN THIS LEGEND; PROVIDED THAT AT THE TIME OF SUCH EXPIRATION THE OFFER AND SALE OF THE INTERNATIONAL GDSs EVIDENCED HEREBY AND THE INTERNATIONAL DEPOSITED SECURITIES REPRESENTED THEREBY BY THE HOLDER THEREOF IN THE UNITED STATES WOULD NOT BE RESTRICTED UNDER THE SECURITIES LAWS OF THE UNITED STATES OR ANY STATE, TERRITORY OR POSSESSION OF THE UNITED STATES.

EACH HOLDER AND BENEFICIAL OWNER, BY ITS ACCEPTANCE OF THIS INTERNATIONAL GDR CERTIFICATE OR A BENEFICIAL INTEREST IN THE INTERNATIONAL GDSs EVIDENCED HEREBY, AS THE CASE MAY BE, AT ANY TIME DURING THE RESTRICTED PERIOD, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING RESTRICTIONS.

TRANSFER RESTRICTIONS

The GDSs and the shares represented by such GDSs have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, United States persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

The GDSs are not being offered or sold in the United States except through the U.S. selling agents of certain of the initial purchasers only to qualified institutional buyers, as defined in Rule 144A, in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A.

The GDSs sold outside the United States and the ROC will be offered by the initial purchasers to non-U.S. persons in offshore transactions in reliance on Regulation S under the Securities Act.

Except in certain limited circumstances, interests in the GDSs may only be held through owning beneficial interests in the master global depositary receipts, or master GDRs. Such interests in the master GDRs will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct and indirect participants, including Euroclear and Clearstream.

Any resale or other transfer, or attempted resale or other transfer, made other than in compliance with the restrictions described below will not be recognized by us or the depositary, as the case may be.

Transfer Restrictions on the Rule 144A GDSs

Each owner of an interest in a Rule 144A GDS, by its acceptance thereof, will be deemed to have acknowledged and represented to and agreed with us, the depositary and the initial purchasers that (terms used herein that are defined in Rule 144A or Regulation S are used as defined therein):

1. the Rule 144A GDSs and the common shares represented thereby have not been and are not expected to be registered under the Securities Act or with any securities regulatory authority of any state of the United States and are subject to significant restrictions on transfer;

2. such owner is purchasing the Rule 144A GDSs for:

   - its own account or an account and it is a QIB; or
   - an account with respect to which it exercises sole investment discretion or for transfer to an account as it may lawfully direct the depositary and that such account is a QIB;

3. such owner is aware that the transferor of such securities is relying on the exemption from registration under the Securities Act provided by Rule 144A for the transfer;

4. such owner will not offer, sell, pledge or otherwise transfer any interest in the Rule 144A GDSs or common shares represented thereby except as permitted by the applicable legend set forth in paragraph (5) below;

5. the Rule 144A GDRs will bear legends to the following effect, unless we and the depositary determine otherwise in compliance with applicable law, and that such owner will observe the restrictions contained therein:

THIS RULE 144A GLOBAL DEPOSITARY RECEIPT ("GDR"), THE RULE 144A GLOBAL DEPOSITARY SHARES ("RULE 144A GDSs") EVIDENCED HEREBY AND THE UNDERLYING SHARES OF MOTECH INDUSTRIES INC. (THE "SHARES") REPRESENTED THEREBY HAVE NOT BEEN, AND ARE NOT EXPECTED TO BE, REGISTERED UNDER THE UNITED STATES U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "U.S. SECURITIES ACT"), AND SUCH SECURITIES MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED

EXCEPT (1) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A UNDER THE U.S. SECURITIES ACT TO A PERSON THAT IS (A) A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A UNDER THE U.S. SECURITIES ACT) OR A PURCHASER THAT THE SELLER AND ANY PERSON ACTING ON THE SELLER'S BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER, IN EACH CASE PURCHASING FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, AND (B) AWARE THAT THE OFFER, SALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (2) IN AN OFFSHORE TRANSACTION MEETING THE REQUIREMENTS OF REGULATION S UNDER THE U.S. SECURITIES ACT, (3) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE U.S. SECURITIES ACT OR (4) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE U.S. SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND OTHER JURISDICTIONS. EACH OWNER AND BENEFICIAL OWNER, BY ITS ACCEPTANCE OF THIS RULE 144A GDR OR AN INTEREST IN THE RULE 144A GDSs EVIDENCED HEREBY, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING AND FOLLOWING RESTRICTIONS AND THAT NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 FOR RESALES OF THIS SECURITY OR THE SHARES REPRESENTED THEREBY.

NOTWITHSTANDING ANYTHING TO THE CONTRARY IN THE FOREGOING, THE SHARES REPRESENTED BY THE RULE 144A GDSs EVIDENCED HEREBY MAY NOT BE DEPOSITED INTO ANY UNRESTRICTED DEPOSITARY RECEIPT FACILITY IN RESPECT OF THE SHARES ESTABLISHED OR MAINTAINED BY A DEPOSITARY BANK (INCLUDING THE BANK OF NEW YORK (LUXEMBOURG) S.A.), UNLESS AND UNTIL SUCH TIME AS SUCH SHARES ARE NO LONGER "RESTRICTED SECURITIES" WITHIN THE MEANING OF THE U.S. SECURITIES ACT.

6. the Rule 144A GDSs offered in this offering of GDSs will be evidenced by a master Rule 144A GDR and before any beneficial interest in the Rule 144A GDSs evidenced by such master Rule 144A GDR may be sold or otherwise transferred to a person who takes delivery in the form of a beneficial interest in the international GDSs evidenced by the master international GDR, the transferor will be required to provide a written certification, in the form provided in the Rule 144A deposit agreement, and, as long as a registration statement on Form F-6 under the Securities Act has not been declared effective, the transferee will be required to provide a written certification in the form provided in the international deposit agreement; and

7. any resale or other transfer, or attempted resale or other transfer, of the Rule 144A GDSs or common shares represented thereby made other than in compliance with the above-stated restrictions shall not be recognized by us or by the depositary in respect of the Rule 144A GDSs or the common shares represented thereby.

Transfer Restrictions on the International GDSs

Each owner of an interest in an international GDS, by its acceptance thereof, will be deemed to have acknowledged and represented to and agreed with us, the depositary and the initial purchasers that (terms used herein that are defined in Rule 144A or Regulation S are used as defined therein):

1. the international GDSs and the common shares represented thereby have not been and are not expected to be registered under the Securities Act or with any securities regulatory authority of any state of the United States and are subject to significant restrictions on transfer;

2. each owner purchasing during the 40-day period commencing on the later of the commencement of this offering and the last related closing (the "Distribution Compliance Period") is purchasing the international GDSs in an offshore transaction meeting the requirements of Regulation S;

3. such owner will not offer, sell, pledge or otherwise transfer any interest in the international GDSs or common shares represented thereby except as permitted by the applicable legend set forth in paragraph (4) below;

4. the international GDRs will bear legends to the following effect, unless we and the depositary determine otherwise in compliance with applicable law, and that such owner will observe the restrictions contained therein:

THIS INTERNATIONAL GLOBAL DEPOSITARY RECEIPT (“GDR”), THE INTERNATIONAL GLOBAL DEPOSITARY SHARES (“INTERNATIONAL GDSs”) EVIDENCED HEREBY AND THE UNDERLYING SHARES OF MOTECH INDUSTRIES INC. (THE “SHARES”) REPRESENTED THEREBY HAVE NOT BEEN AND ARE NOT EXPECTED TO BE REGISTERED UNDER THE UNITED STATES U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “U.S. SECURITIES ACT”), AND PRIOR TO THE EXPIRATION OF 40-DAY PERIOD FOLLOWING THE LATER OF THE OFFERING OF SHARES BY THE COMPANY OR ITS AFFILIATES, OR SECURITIES CONVERTIBLE, EXERCISABLE, OR EXCHANGEABLE INTO SHARES, PURSUANT TO WHICH OFFERING OF SECURITIES THIS GDR IS DELIVERED, AND THE RELATED CLOSING (THE “DISTRIBUTION COMPLIANCE PERIOD”) SUCH SECURITIES MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A UNDER THE U.S. SECURITIES ACT TO A PERSON THAT IS (A) A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A UNDER THE U.S. SECURITIES ACT) OR A PURCHASER THAT THE SELLER AND ANY PERSON ACTING ON THE SELLER’S BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER, IN EACH CASE PURCHASING FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, AND (B) AWARE THAT THE OFFER, SALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, OR (2) IN AN OFFSHORE TRANSACTION MEETING THE REQUIREMENTS OF REGULATION S UNDER THE U.S. SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND OTHER JURISDICTIONS AND FURTHER PROVIDED THAT, IN CONNECTION WITH ANY TRANSFER UNDER (1) ABOVE, THE TRANSFEROR SHALL, PRIOR TO THE SETTLEMENT OF SUCH SALE, WITHDRAW THE SHARES FROM DEPOSIT UNDER THE INTERNATIONAL DEPOSIT AGREEMENT AND CAUSE INSTRUCTIONS TO BE GIVEN TO THE CUSTODIAN FOR THE DEPOSIT OF SUCH SHARES IN THE RULE 144A DEPOSIT AGREEMENT AND TO THE DEPOSITARY FOR THE ISSUANCE OF RULE 144A GDRs TO OR FOR THE ACCOUNT OF SUCH QUALIFIED INSTITUTIONAL BUYER, ALL IN ACCORDANCE WITH THE PROVISIONS OF THE RULE 144A DEPOSIT AGREEMENT. EACH OWNER AND BENEFICIAL OWNER, BY ITS ACCEPTANCE OF THIS INTERNATIONAL GDR OR AN INTEREST IN THE INTERNATIONAL GDSs EVIDENCED HEREBY, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING AND FOLLOWING RESTRICTIONS.

UPON THE EXPIRATION OF THE DISTRIBUTION COMPLIANCE PERIOD, THE INTERNATIONAL GDSs EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY SHALL NO LONGER BE SUBJECT TO THE RESTRICTIONS PROVIDED IN THIS LEGEND, PROVIDED THAT AT SUCH TIME AND THEREAFTER THE OFFER OR SALE OF THE INTERNATIONAL GDSs EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY BY THE OWNER HEREOF IN THE UNITED STATES WOULD NOT BE RESTRICTED UNDER ANY APPLICABLE SECURITIES LAWS OF THE UNITED STATES OR THE STATES OR TERRITORIES OF THE UNITED STATES.

5. the international GDSs offered in this offering of GDSs will be evidenced by a master international GDR and, prior to the expiration of the distribution compliance period, before any beneficial interest in the international GDSs evidenced by such master international GDR may be sold or otherwise transferred to a person who takes delivery in the form of a beneficial interest in the Rule 144A GDSs evidenced by the master Rule 144A GDR, the transferor will be required to provide a written certification in the form provided in the international deposit agreement and the transferee will be required to provide a written certification in the form provided in the Rule 144A deposit agreement; and

6. any resale or other transfer, or attempted resale or other transfer, of international GDSs or common shares represented thereby made other than in compliance with the above stated restrictions shall not be recognized by us or by the depositary in respect of the international GDSs or the common shares represented thereby.

TAXATION

ROC Taxation

The following is a summary under present law of the principal ROC tax consequences to a Non-Resident Individual or a Non-Resident Entity (which we refer to collectively as a non-ROC holder) of the ownership and disposition of the GDSs or common shares. As used in the preceding sentence:

- a "Non-Resident Individual" is a foreign national individual who owns the common shares or GDSs and is not physically present in the ROC for 183 days or more during any calendar year; and
- a "Non-Resident Entity" is a corporation or a non-corporate body that owns the GDSs or common shares, is organized under the laws of a jurisdiction other than ROC and has no fixed place of business or business agent in the ROC.

You should consult your tax advisors concerning the ROC tax consequences of owning the GDSs or common shares and the laws of any other relevant taxing jurisdiction to which you are subject.

Dividends

Dividends (whether in cash or common shares) declared by us out of retained earnings and distributed to a non-ROC holder in respect of common shares, including common shares that are represented by GDSs, are subject to ROC withholding tax, currently at the rate of 20%, on the amount of the distribution in the case of cash dividends or on the par value of the common shares in the case of stock dividends. We are required to pay a 10% ROC retained earnings tax on our after-tax earnings generated after January 1, 1998 that are not distributed in the following year, and upon the payment of this tax, we will apply a credit of up to 10% of the gross amount of any dividends declared out of those earnings to the amount of withholding tax we otherwise are required to withhold. This will effectively reduce the 20% ROC tax imposed on those distributions.

Distributions of shares declared by us out of our capital reserves are not subject to ROC withholding tax.

Capital Gains

Under ROC law, capital gains derived from sales of common shares are exempt from income tax. Capital gains derived from sales of GDSs are not subject to ROC income tax.

Preemptive Rights

Distributions of statutory subscription rights to our shareholders for purchase of common shares in compliance with ROC law are not subject to any ROC tax. Proceeds derived from sales of statutory subscription rights evidenced by securities are currently exempted from income tax but are subject to securities transaction tax at the rate of 0.3% of the gross amount received. Proceeds derived from sales of statutory subscription rights that are not evidenced by securities are subject to capital gains tax at the rate of:

- 35% of the gains realized by a Non-Resident Individual; or
- 25% of the gains realized by a Non-Resident Entity.

Subject to compliance with ROC law, we, at our sole discretion, can determine whether statutory subscription rights shall be evidenced by issuance of securities. The depositary, upon sale at the instruction of a non-ROC holder of statutory subscription rights evidenced by securities, will be subject to securities transaction tax at the rate of 0.3% of the gross amount received. Upon sale at the instruction of a non-ROC holder of statutory subscription rights not evidenced by securities, the depositary will be deemed as a non-ROC entity and will be subject to ROC withholding tax at the rate of 25% of the gains realized. Such taxes are payable by the non-ROC holder to the depositary under the terms of the deposit agreements.

Securities Transaction Tax

A securities transaction tax, at the rate of 0.3% of the gross amount received, is generally applicable to a sale of common shares in the ROC. A transfer of GDSs, however, is not subject to this tax, nor is a withdrawal of common shares from the deposit facility.

Estate and Gift Tax

Subject to allowable exclusions, deductions and exemptions, ROC estate tax is payable on any property within the ROC of a deceased Non-Resident Individual, and ROC gift tax is payable on any property within the ROC donated by a Non-Resident Individual. Estate tax is currently payable at rates ranging from 2% of the first NT$670,000 to 50% of amounts over NT$111,320,000. Gift tax is payable at rates ranging from 4% of the first NT$670,000 to 50% of amounts over NT$50,090,000. Under ROC estate and gift tax laws, common shares issued by ROC companies are deemed located in the ROC regardless of the location of the holder. Holders of GDSs are urged to consult their own tax advisors regarding the effects on them of ROC estate and gift tax.

Tax Treaties

At present, the ROC does not have a double taxation treaty with the United States, but does have double taxation treaties with Indonesia, Singapore, South Africa, Australia, Vietnam, New Zealand, Malaysia, Macedonia, Swaziland, Gambia, Senegal, Sweden, the United Kingdom, Belgium, Denmark and the Netherlands that may limit the rate of ROC withholding tax on dividends paid with respect to common shares in ROC companies. Holders of GDSs who may otherwise be entitled to the benefits of a relevant income tax treaty are urged to consult their own tax advisors concerning their eligibility for benefits with respect to the GDSs.

United States Federal Income Taxation

TO COMPLY WITH INTERNAL REVENUE SERVICE CIRCULAR 230, PROSPECTIVE INVESTORS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF UNITED STATES FEDERAL TAX ISSUES CONTAINED OR REFERRED TO IN THIS OFFERING CIRCULAR IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED BY PROSPECTIVE INVESTORS, FOR THE PURPOSES OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON THEM UNDER THE UNITED STATES INTERNAL REVENUE CODE; (B) SUCH DISCUSSION IS BEING USED IN CONNECTION WITH THE PROMOTION OR MARKETING BY US OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) PROSPECTIVE INVESTORS SHOULD SEEK ADVICE BASED ON THE TAXPAYER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

The following discussion describes certain material United States federal income tax consequences to U.S. Holders (defined below) under present law of an investment in the GDSs or common shares. This summary applies only to investors that hold the GDSs or common shares as capital assets and that have the US dollar as their functional currency. This discussion is based on the tax laws of the United States as in effect on the date of this offering circular and on U.S. Treasury regulations in effect or, in some cases, proposed, as of the date of this offering circular, as well as judicial and administrative interpretations thereof available on or before such date. All of the foregoing authorities are subject to change, which change could apply retroactively and could affect the tax consequences described below.

The following discussion does not address the tax consequences to any particular investor or to persons in special tax situations such as:

- banks;
- certain financial institutions;
- insurance companies;
- broker dealers;

- U.S. expatriates;
- traders that elect to mark-to-market;
- tax-exempt entities;
- persons liable for the alternative minimum tax;
- persons holding a GDS or common share as part of a straddle, hedging, conversion or integrated transaction;
- persons that actually or constructively own 10% or more of our voting stock; or
- persons holding GDSs or common shares through partnerships or other pass-through entities.

PROSPECTIVE PURCHASERS ARE URGED TO CONSULT THEIR TAX ADVISORS ABOUT THE APPLICATION OF THE UNITED STATES FEDERAL TAX RULES TO THEIR PARTICULAR CIRCUMSTANCES AS WELL AS THE STATE AND LOCAL, FOREIGN AND OTHER TAX CONSEQUENCES TO THEM OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF GDSs OR COMMON SHARES.

The discussion below of the United States federal income tax consequences to "U.S. Holders" will apply to you if you are a beneficial owner of GDSs or common shares and you are, for United States federal income tax purposes,

- an individual who is a citizen or resident of the United States;
- a corporation (or other entity taxable as a corporation) organized under the laws of the United States, any state thereof or the District of Columbia;
- an estate whose income is subject to United States federal income taxation regardless of its source; or
- a trust that (1) is subject to the primary supervision of a court within the United States and the control of one or more U.S. persons for all substantial decisions of the trust or (2) has a valid election in effect under the applicable U.S. Treasury regulations to be treated as a U.S. person.

If you are a partner in a partnership or other entity taxable as a partnership that holds GDSs or common shares, your tax treatment generally will depend on your status and the activities of the partnership.

The discussion below assumes that the representations contained in the deposit agreement are true and that the obligations in the deposit agreement and any related agreement will be complied with in accordance with their terms. Although not free from doubt, if you hold GDSs, you should be treated as the holder of the underlying common shares represented by those GDSs for United States federal income tax purposes.

The U.S. Treasury has expressed concerns that parties to whom GDSs are pre-released may be taking actions that are inconsistent with the claiming, by U.S. Holders of GDSs, of foreign tax credits for United States federal income tax purposes. Accordingly, the analysis of the creditability of ROC taxes described below could be affected by future actions that may be taken by the U.S. Treasury or parties to whom GDSs are pre-released.

Taxation of Dividends and Other Distributions on the GDSs or Common Shares

Subject to the passive foreign investment company rules discussed below, the gross amount of all our distributions to you with respect to the GDSs or common shares (including the amount of any ROC taxes withheld therefrom), other than certain pro rata distributions of common shares to all shareholders, generally will be included in your gross income as foreign source ordinary dividend income on the date of receipt by the depositary, in the case of GDSs, or by you, in the case of common shares, but only to the extent that the distribution is paid out of our current or accumulated earnings and profits (as determined under United States federal income tax principles). To the extent that the amount of the distribution exceeds our current and accumulated earnings and profits, it will be treated first as a tax-free return of your tax basis in your GDSs or common shares, and to the extent the amount of the distribution exceeds your tax basis, the excess will be taxed as capital gain. However, we do not intend to calculate our earnings and profits under United States federal income tax principles. Therefore, you should expect that a distribution will generally be treated as a dividend even if that distribution would otherwise be treated as a non-taxable return of capital or as capital gain under the rules described above.

We do not expect that dividends paid by us will represent “qualified dividend income” and therefore dividends will be subject to United States federal income tax at the regular rates applicable to ordinary income. The dividends will not be eligible for the dividends-received deduction generally allowed to corporations in respect of dividends received from other U.S. corporations.

The amount of any distribution paid in NT dollars will be equal to the US dollar value of such NT dollars on the date such distribution is received by the depositary, in the case of GDSs, or by you, in the case of common shares, regardless of whether the payment is in fact converted into US dollars at that time. Gain or loss, if any, realized on the sale or other disposition of such NT dollars (including the conversion of NT dollars into US dollars by the depositary) generally will be U.S. source ordinary income or loss. The amount of any distribution of property other than cash will be the fair market value of such property on the date of distribution.

It is possible that distributions of common shares or GDSs that are received as part of a pro rata distribution to all of our shareholders may not be subject to United States federal income tax. In such event, the basis of the common shares or GDSs so received generally will be determined by allocating the U.S. Holder’s adjusted tax basis in the old common shares or GDSs between the old common shares or GDSs and the common shares or GDSs received, based on their relative fair market values on the date of distribution. The U.S. Holder’s holding period for the common shares or GDSs will be the same as the holder’s holding period for the old common shares or GDSs.

Subject to certain limitations, ROC taxes withheld from a distribution may be eligible for credit against your United States federal income tax liability. If a refund of the tax withheld is available to you under the laws of the ROC, the amount of tax withheld that is refundable will not be eligible for such credit against your United States federal income tax liability (and will not be eligible for the deduction against your United States federal taxable income). The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For taxable years beginning after December 31, 2006, dividends distributed with respect to the GDSs or common shares would generally constitute “passive category income” but could, in the case of certain U.S. Holders, constitute “general category income.” If you do not elect to claim a foreign tax credit with respect to any foreign taxes for a given taxable year, you may instead claim an itemized deduction for all foreign taxes paid in that taxable year. If ROC taxes are withheld on a distribution of common shares that is not taxable for United States federal income tax purposes, you may not be able to use the credit attributable to such ROC taxes unless you have other foreign source income in the appropriate U.S. foreign tax credit limitation category. You should note that any ROC securities transaction tax generally will not be treated as a creditable foreign tax for United States federal income tax purposes. The rules relating to the determination of the U.S. foreign tax credit are complex and U.S. Holders should consult their tax advisors to determine whether and to what extent a credit, or a deduction in lieu of a credit, would be available in their particular circumstances.

Taxation of a Disposition of GDSs or Common Shares

Subject to the passive foreign investment company rules discussed below, you generally will recognize capital gain or loss on any sale or other taxable disposition of a GDS or common share equal to the difference between the US dollar value of the amount realized for the GDS or common share and your tax basis in the GDS or common share. Your tax basis in the GDS or common share generally will equal the US dollar value of the cost of such GDS or common share, as applicable. If you are a non-corporate U.S. Holder (including an individual U.S. Holder) who has held the GDS or common share for more than one year, capital gain on a disposition of the GDS or common share generally will be subject to United States federal income tax at a preferential rate. The deductibility of capital losses is subject to limitations. Any such gain or loss that you recognize generally will be treated as U.S. source income or loss for foreign tax credit limitation purposes.

Passive Foreign Investment Company

We do not expect to be a passive foreign investment company, or PFIC, for United States federal income tax purposes for our current taxable year ending December 31, 2007. Our expectation for our current taxable year is based in part on our estimates of the value of our assets as determined based on the price of the GDSs and our common shares in this offering and the expected price of the GDSs and our common shares following the offering. Our actual PFIC status for the current taxable year will not be determinable until the close of such year, and, accordingly, there is no guarantee that we will not be a PFIC for the current taxable year.

A non - U.S. corporation is considered to be a PFIC for any taxable year if either:

- at least 75% of its gross income is passive income, or
- at least 50% of the value of its assets (based on an average of the quarterly values of the assets during a taxable year) is attributable to assets that produce or are held for the production of passive income (the "asset test").

We will be treated as owning our proportionate share of the assets and earning our proportionate share of the income of any other corporation in which we own, directly or indirectly, 25% or more (by value) of the stock.

We must make a separate determination each year as to whether we are a PFIC. As a result, our PFIC status may change. In particular, because the total value of our assets for purposes of the asset test generally will be calculated using the market price of our GDSs and common shares, our PFIC status will depend in large part on the market price of our GDSs and common shares, which may fluctuate considerably. Accordingly, fluctuations in the market price of the GDSs and common shares may result in our being a PFIC for any year. In addition, the composition of our income and assets will be affected by how, and how quickly, we spend the cash we raise in this offering.

If we are a PFIC for any taxable year during which you hold GDSs or common shares, you will be subject to special tax rules with respect to any "excess distribution" that you receive and any gain you realize from a sale or other disposition (including a pledge) of the GDSs or common shares, unless you make a "mark-to-market" election as discussed below. Distributions you receive in a taxable year that are greater than 125% of the average annual distributions you received during the shorter of the three preceding taxable years or your holding period for the GDSs or common shares will be treated as an excess distribution. Under these special tax rules:

- the excess distribution or gain will be allocated ratably over your holding period for the GDSs or common shares,
- the amount allocated to the current taxable year, and any taxable year prior to the first taxable year in which we became a PFIC, will be treated as ordinary income, and
- the amount allocated to each other year will be subject to the highest tax rate in effect for that year and the interest charge generally applicable to underpayments of tax will be imposed on the resulting tax attributable to each such year.

The tax liability for amounts allocated to years prior to the year of disposition or "excess distribution" cannot be offset by any net operating losses for such years, and gains (but not losses) realized on the sale of the GDSs or common shares cannot be treated as capital, even if you hold the GDSs or common shares as capital assets.

If we are a PFIC for any year during which you hold GDSs or common shares, we generally will continue to be treated as a PFIC with respect to you for all succeeding years during which you hold GDSs or common shares. However, if we cease to be a PFIC you may avoid some of the adverse effects of the PFIC regime by making a deemed sale election with respect to the GDSs or common shares, as applicable. We do not intend to prepare or provide the information that would enable you to make a qualified electing fund election.

A U.S. Holder of "marketable stock" (as defined below) in a PFIC may make a mark-to-market election with respect to such stock to elect out of the tax treatment discussed above. If you make a valid mark-to-market election for the GDSs or common shares, you will include in income each year an amount equal to the excess, if any, of the fair market value of the GDSs or common shares as of the close of your taxable year over your adjusted basis in such GDSs or common shares. You are allowed a deduction for the excess, if any, of the adjusted basis of the GDSs or common shares over their fair market value as of the close of the taxable year. However, deductions are allowable only to the extent of any net mark-to-market gains on the GDSs or common shares included in your income for prior taxable years. Amounts included in your income under a mark-to-market election, as well as gain on the actual sale or other disposition of the GDSs or common shares, are treated as ordinary income. Ordinary loss treatment also applies to the deductible portion of any mark-to-market loss on the GDSs or common shares, as well as to any loss realized on the actual sale or disposition of the GDSs or common shares, to the extent that the amount of such loss does not exceed the net mark-to-market gains previously included for such GDSs or common shares. Your basis in the GDSs or common shares will be adjusted to reflect any such income or loss amounts. If you make such an election, the tax rules that apply to distributions by corporations that are not PFICs generally would apply to distributions by us.

The mark-to-market election is available only for "marketable stock," which is stock that is traded in other than *de minimis* quantities on at least 15 days during each calendar quarter on a qualified exchange or other market, as defined in the applicable U.S. Treasury regulations. Our common shares are listed on the GTSM and we expect that the GDSs will be listed on the Official List of the Luxembourg Stock Exchange and traded on the Euro MTF Market of the Luxembourg Stock Exchange. Under applicable Treasury regulations, a "qualified exchange" includes a foreign exchange that is regulated by a governmental authority in the jurisdiction in which the exchange is located and in respect of which certain other requirements are met. U.S. Holders of GDSs or ordinary shares should consult their own tax advisors as to whether the GDSs or ordinary shares would qualify for the mark-to-market election.

If you hold GDSs or common shares in any year in which we are a PFIC, you will be required to file Internal Revenue Service Form 8621 regarding distributions received on the GDSs or common shares and any gain realized on the disposition of the GDSs or common shares. You are urged to consult your tax advisor regarding the application of the PFIC rules to your investment in GDSs or common shares.

Information Reporting and Backup Withholding

Dividend payments with respect to GDSs or common shares and proceeds from the sale, exchange or redemption of GDSs or common shares may be subject to information reporting to the Internal Revenue Service and possible U.S. backup withholding at a current rate of 28%. Backup withholding will not apply, however, to a U.S. Holder who furnishes a correct taxpayer identification number and makes any other required certification or who is otherwise exempt from backup withholding. U.S. Holders who are required to establish their exempt status generally must provide such certification on Internal Revenue Service Form W-9. U.S. Holders should consult their tax advisors regarding the application of the U.S. information reporting and backup withholding rules.

Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against your United States federal income tax liability, and you may obtain a refund of any excess amounts withheld under the backup withholding rules by timely filing the appropriate claim for refund with the Internal Revenue Service and furnishing any required information.

PLAN OF DISTRIBUTION

Under the terms and conditions contained in a purchase agreement dated May 4, 2007, we have agreed to sell to initial purchasers named below, for whom Credit Suisse (Hong Kong) Limited and Morgan Stanley Services Limited are acting as representatives (the "Representatives") the following numbers of GDSs:

Initial Purchasers	Number of GDSs
Credit Suisse (Hong Kong) Limited	9,000,000
Morgan Stanley Services Limited	9,000,000
Total	18,000,000

The purchase agreement provides that the initial purchasers are obligated, severally and not jointly, to purchase all of the GDSs if any are purchased, other than those GDSs covered by the over-allotment option described below. The purchase agreement also provides that the obligations of the initial purchasers to pay and accept delivery of the GDSs offered by this offering circular are subject to the approval of certain legal matters by their counsel and to certain other conditions.

The initial purchasers propose to offer the GDSs initially at the offering price on the cover page of this offering circular and may include selling group members who would be granted a selling concession. After the initial offering, the offering price and other selling terms with respect to the GDSs may be varied by the Representatives.

Certain shareholders have granted the initial purchasers a 30-day option to purchase up to 700,000 additional GDSs at the initial offering price less the discount to initial purchasers. To the extent the option is exercised, each initial purchaser will become obligated, subject to certain conditions, to purchase the same percentage of the additional GDSs as the number next to such initial purchaser's name in the preceding table bears to the total number of GDSs listed next to the names of all initial purchasers in the preceding table.

We have agreed to indemnify the initial purchasers against liabilities or to contribute to payments which they may be required to make in that respect.

The GDSs are a new issue of securities for which there currently is no market. We have applied to list the GDSs offered on the Official List of the Luxembourg Stock Exchange and trade the GDSs on the Euro MTF Market of the Luxembourg Stock Exchange. We expect the GDSs offered in reliance on Rule 144A to be eligible for trading in the PORTAL market, and the GDSs offered in reliance on Regulation S to be eligible for trading on the International Order Book of the London Stock Exchange. The initial purchasers have advised us that they presently intend to make a market in the GDSs as permitted by applicable laws and regulations. They are not obligated, however, to make a market in the GDSs and any market-making may be discontinued at any time at their sole discretion. Accordingly, no assurance can be given as to the development or liquidity of any market for the GDSs.

Purchasers of GDSs sold outside the United States may be required to pay stamp taxes and other charges in compliance with the laws and practices of the country of purchase in addition to the price to investors on the cover page of this offering circular.

We expect that delivery of the GDSs will be made against payment therefor on or about the closing date specified on the cover page of this offering circular.

The Representatives may engage in over-allotment, stabilizing transactions, covering transactions and penalty bids.

- Over-allotment involves sales in excess of the offering size, which creates a short position for the initial purchasers.
- Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum.
- Covering transactions involve purchases of the GDSs in the open market after the distribution has been completed in order to cover short positions.
- Penalty bids permit the initial purchasers to reclaim a selling concession from a broker/dealer when the GDSs originally sold by such broker/dealer are purchased in a stabilizing or covering transaction to cover short positions.

These stabilizing transactions, covering transactions and penalty bids may cause the price of the GDSs to be higher than it would otherwise be in the absence of these transactions. These Representatives are not required to engage in these activities, and, these transactions if commenced, may be discontinued at any time.

For a period of 120 days after the date of this offering circular, we have agreed that, without the prior consent of the Representatives, we will not, directly or indirectly, take any of the following actions with respect to any of our securities, or any securities convertible into or exchangeable or exercisable for any of its securities ("Lock-up Securities"): (i) offer, sell, issue, contract to sell, pledge or otherwise dispose of Lock-up Securities, (ii) offer, sell, issue, contract to sell, contract to purchase or grant any option, right or warrant to purchase Lock-up Securities, (iii) enter into any swap, hedge or any other agreement that transfers, in whole or in part, the economic consequences of ownership of Lock-up Securities, whether any such aforementioned transaction is to be settled by delivery of our common shares, GDSs, or such other securities, in cash, or otherwise, (iv) establish or increase a put equivalent position or liquidate or decrease a call equivalent position in Lock-up Securities within the meaning of Section 16 of the Exchange Act, or (v) file with the U.S. Securities and Exchange Commission a registration statement under the Securities Act relating to Lock-up Securities or publicly disclose the intention to take any such action, except for this offering and sale of GDSs, issuances of Lock-up Securities pursuant to the exercise of outstanding options or the conversion of outstanding convertible bonds, issuances of employee stock options pursuant to the existing stock option plan, and issuances of stock dividends pursuant to the resolution of the 2007 ordinary shareholders' meeting.

Certain of our directors and supervisors have agreed that, for a 120-day period following the date of this offering circular, without the prior written consent of the Representatives, each of such directors and supervisors will not, directly or indirectly: (1) offer for sale, pledge, encumber, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend, or otherwise transfer or dispose of (or enter into any transaction or device which is designed to, or could be expected to, result in the disposition by any person at any time in the future of), directly or indirectly, any (A) common shares of our company, GDSs or securities convertible into or exercisable or exchangeable for common shares of our company or GDSs, (B) securities of the same class as our common shares or GDSs or (C) other instruments representing interests in securities of the same class as our common shares or GDSs, including but not limited to any securities that are owned by him or her immediately after the completion of this offering or thereafter acquired, or with respect to which it or he has the beneficial ownership within the rules and regulations of the U.S. Securities and Exchange Commission; or (2) sell, grant or enter into any option, right, warrant, swap or other arrangement that are with respect to, or transfers to another, in whole or in part, any of the economic consequences of ownership of our common shares or GDSs, whether any such transaction described in clause (1) or (2) above is to be settled by delivery of our common shares, GDSs or such other securities, in cash or otherwise. In addition, each of such directors and supersvisors have agreed not to announce his or her intention or make any application or filing with any applicable regulatory authority for any of such transactions described in clause (1) or (2) above without the prior written consent of the Representatives for a 120-day period. The preceding sentences, however, shall not apply to this offering and sale of the GDSs, disposal of any common shares or securities as a bona fide gift by such director or supervisor, or disposal of any common shares or securities to any trust for the direct or indirect benefit of such director or supervisor.

From time to time, the initial purchasers have provided, and continue to provide, investment banking and other services to us.

United States. The GDSs and the common shares have not been and will not be registered under the Securities Act for offer or sale as part of their distribution and may not be offered or sold in the United States or to, or for the account or benefit of, U.S. persons except, in either case, pursuant to an effective registration statement or in accordance with an applicable exemption from the registration requirements of the Securities Act. Accordingly, the GDSs are being offered and sold by the initial purchasers only (1) in the United States to qualified institutional buyers pursuant to Rule 144A under the Securities Act and (2) outside the United States in reliance upon Regulation S.

Each initial purchaser has agreed that it will not offer, sell or deliver any GDS (1) as part of its distribution at any time or (2) otherwise until 40 days after the later of the commencement of this offering and the completion of the distribution of the GDSs, within the United States or to, or for the account or benefit of, U.S. persons except, in either case, in accordance with Regulation S or to persons who it reasonably believes to be qualified institutional buyers pursuant to Rule 144A.

In addition, until the expiration of the 40-day period referred to above, an offer or sale of the GDSs within the United States by a dealer (whether or not participating in this offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than pursuant to Rule 144A or pursuant to another exemption from registration under the Securities Act. As used in this paragraph and the immediately preceding paragraph, the terms United States and "U.S. person" have the meanings given to them by Regulation S under the Securities Act.

European Economic Area. In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State"), an offer to the public of any GDSs which are the subject of the offering contemplated by this offering circular may not be made in that Relevant Member State, except that an offer to the public in that Relevant Member State of any GDSs may be made at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

1. to legal entities that are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;

2. to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;

3. to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the Joint Bookrunners; or

4. in any other circumstances falling within Article 3(2) of the Prospectus Directive. provided that no such offer of GDSs shall result in a requirement for the publication by us or any initial purchaser of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of the GDSs to the public" in relation to any of the GDSs in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the GDSs to be offered so as to enable an investor to decide to purchase or subscribe for the GDSs, as the same may be varied in that Relevant Member State, by any measure implementing the Prospectus Directive in that Relevant Member State, and the expression "Prospectus Directive" means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

United Kingdom. Each initial purchaser (i) has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 or the FSMA) to persons who are investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 or in circumstances in which Section 21 of the FSMA does not apply to us, and (ii) has complied with, and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the GDSs in from or otherwise involving the United Kingdom.

Republic of China. No GDSs have been or will be offered or sold, directly or indirectly, in the ROC.

Japan. The GDSs have not been and will not be registered under the Securities and Exchange Law of Japan, and may not be offered or sold, directly or indirectly, in Japan or for the account of any resident of Japan except (1) pursuant to an exemption from the registration requirements of the Securities and Exchange Law of Japan and (2) otherwise in compliance with the applicable provisions of Japanese law.

Hong Kong. The GDSs may not be offered or sold by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), or (ii) to professional investors within the meaning of the Securities and Futures Ordinance (Cap.571, Laws of Hong Kong) and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a prospectus within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), and no advertisement, invitation or document relating to the GDSs may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to GDSs which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap.571, Laws of Hong Kong) and any rules made thereunder.

Singapore. This offering circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this offering circular and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the GDSs may not be circulated or distributed, nor may the GDSs be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor or other person specified in Section 274 of the Securities and Futures Act, Chapter 289 of Singapore, or the SFA, (ii) to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

SUMMARY OF CERTAIN SIGNIFICANT DIFFERENCES BETWEEN ROC GAAP AND US GAAP

The financial statements of Motech included elsewhere in the offering memorandum have been prepared in conformity with ROC GAAP, which differ in certain significant respects from US GAAP. A brief description of certain significant differences between ROC GAAP and US GAAP as they may apply to Motech are set out below. The regulatory organizations that promulgate ROC GAAP and US GAAP have projects ongoing that could have a significant impact on future comparisons such as the comparison below.

The summary is not intended to provide a comprehensive listing of all existing or future differences between ROC GAAP and US GAAP, including those specifically related to Motech or to the industries in which Motech operates. No attempt has been made to identify (a) future differences between ROC GAAP and US GAAP that may arise as a result of prescribed changes in accounting standards, or (b) disclosure, presentation or classification differences that would affect the manner in which transactions and events are reflected in our financial statements, or the financial statements of any of our subsidiaries, or the respective notes thereto. Further, had Motech undertaken to identify the differences specifically affecting the financial statements presented in this offering memorandum, other potentially significant differences may have come to the attention of Motech, which are not provided in the following summary. Accordingly, this summary is not intended to provide a complete description of all differences which may have a significant impact on the financial statements of Motech. US GAAP is generally more restrictive and comprehensive than ROC GAAP regarding the recognition and measurement of transactions, account classification and disclosure requirements.

Motech has not quantified the effects of the differences between ROC GAAP and US GAAP on its financial results or equity.

The following discussion refers to the historical practices of Motech in preparing financial statements in accordance with ROC GAAP. The management of Motech expect to follow comparable practices when preparing financial statements of Motech in the future.

Subject	ROC GAAP	US GAAP
1. Presentation of Unconsolidated Financial Statements	Under ROC GAAP requirements, non-consolidated financial statements of a company are presented as the primary financial statements and consolidated financial statements as supplemental financial statements.	Under US GAAP, parent-company's consolidated financial statements are presented as the primary financial statements for any period.
2. Short-term Investments in Marketable Securities	Prior to January 1, 2006, short-term investments in marketable securities were initially stated at cost and restated at the lower of cost or market value at year-end. Subsequent recovery of fair value could be recognized as a gain to the extent that the fair value does not exceed the original cost of the investments. Effective January 1, 2006, when the new SFAS No. 34 "Accounting for Financial Instruments" takes effect, equity securities, other than those accounted for under the equity method are classified and accounted for in the same way as US GAAP.	Under US GAAP, investments in equity securities that have readily determinable fair values are classified in two categories: trading and available-for-sale. Marketable equity securities classified as trading securities are reported at fair value with unrealized gains and losses recognized in earnings; marketable debt securities classified as held-to-maturity are reported at amortized cost; and marketable debt securities and marketable equity securities classified as available-for-sale securities are reported at fair value with unrealized gains and losses reported as a separate component of stockholders' equity.

Subject	ROC GAAP	US GAAP
3. Bonuses to Employees, Directors and Supervisors	According to ROC regulations and our articles of incorporation, a portion of distributable earnings should be appropriated as bonuses to employees, directors and supervisors. Bonuses to directors and supervisors are required to be paid in cash, while bonuses to employees may be granted in cash or shares or both. All of these appropriations, including stock bonuses, which are valued at par value of NT$10, are charged against retained earnings under ROC GAAP, after such appropriations are formally approved by the shareholders in the following year.	Under US GAAP, such bonuses and remuneration are charged against income. Shares issued as part of those bonuses are recorded at fair market value. However, since the amount and form of such bonuses are not finally determinable until the shareholders' meeting in the subsequent year, the total amount of such bonuses is initially accrued based on management's estimate of the value of the award. Any difference between the initially accrued amount and the fair market value of the bonuses upon the issuance of shares is recognized in the year of shareholder approval. As the incremental compensation is not deductible for tax purposes, no tax benefit is recognized.
4. Earnings Per Share	The stock bonus to employees is given retroactive effect in the computation of earnings per share.	The stock bonus to employees is given only prospective effect in the computation of earnings per share.
5. Stock Dividends	Stock dividends are recorded as a reduction to retained earnings for the par value of the stock issued, and a like amount is recorded to the capital stock account.	Under US GAAP, when the ratio of distribution is less than 25% of shares of the same class outstanding, stock dividends are generally recorded based on the fair value method, with the par value recorded in the capital stock account and the excess of fair value over the par value recorded as additional paid-in capital. Distribution in excess of 25% is generally considered as stock split.
6. Accounting for pensions	ROC SFAS No. 18 is equivalent to FASB Statement No. 87 but has not been amended to conform with FASB issued SFAS No. 158.	In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans: amendment of FASB Statement No.87", which requires an employer to recognize the over funded or under funded status of defined benefit and other postretirement plans as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through an adjustment to comprehensive income. This new pronouncement was effective for an entity with fiscal year ending after December 15, 2006.

Subject	ROC GAAP	US GAAP
7. Convertible Bonds	When convertible bonds are issued, any beneficial conversion feature embedded in the bonds is not recognized for instruments issued prior to January 1, 2007. Under the terms of our convertible bonds, interest expense previously accrued but unpaid upon expiration of the holder's redemption option is forfeited. Under ROC GAAP, such forfeited accrued interest is transferred to capital surplus, if the market value of the underlying shares is greater than the redemption price of the bonds upon expiration of the holder's redemption option. If the market price of exchangeable common stock is lower than the specified redemption price of the bond expiration of the redemption period, the forfeited accrued interest is amortized to capital surplus over the remaining term of bonds using the effective interest method.	Under US GAAP, beneficial conversion features should be recognized and measured by allocating a portion of the proceeds equal to the intrinsic value of that feature to capital surplus. The amount of the beneficial conversion feature is calculated at the issuance date as the difference between the conversion price and the fair value of the common stock, multiplied by the number of shares into which the security is convertible. As a result of allocating a portion of the proceeds equal to the intrinsic value of the beneficial conversion feature to capital surplus, a discount on the bonds is recognized. The discount resulting form such allocation is recognized as interest expense over the life of the convertible debt. Under US GAAP, upon expiration of the holder's redemption option the related interest expense previously accrued is credited to current earnings.
8. Zero Coupon Bonds Issued	Prior to January 1, 2006, there were no specific rules requiring the imputation of interest costs on non-interest bearing debt. Upon adoption of SFAS No. 34 from January 1, 2006, the accounting treatment for zero rate coupon bonds issued is the same as US GAAP.	Under US GAAP, when debt is non-interest bearing or carries a non-market rate of interest, or when the cash value of the consideration received is different from the face amount of the debt, interest should be imputed at an appropriate rate and the debt recorded at its fair value.
9. Derivative Financial Instrument Transactions	ROC SFAS 34, which takes effect commencing from January 1, 2006, requires accounting treatment for derivate instruments similar to those required under US SFAS 133 and 138. Before January 1, 2006, a company could choose its own accounting policies for derivative instruments, except (1) foreign-currency forward contracts that should be accounted for in a manner similar to that required under US SFAS 52, which in respect of measurement of foreign-currency forward contracts has been superseded by US SFAS 133, and (2) foreign-currency options bought or written for trading purposes, which, pursuant to an interpretation issued by the Accounting Research and	Under US GAAP, accounting for derivative instruments is covered under US SFAS 133, as amended by US SFAS 138, which requires that all entities recognize derivative instruments as assets and liabilities in the statement of financial position and subsequently measure them at fair value. If certain conditions are met, entities may elect to designate a derivative instrument as fair value hedge, cash-flow hedge, or a foreign-currency hedge.

Subject	ROC GAAP	US GAAP
	Development Foundation, should be stated at fair value.	
10. Income Tax	ROC SFAS No. 22 "Accounting for Income Taxes" which was issued in June 1994 is substantially similar to U.S. GAAP. However, under ROC GAAP, the criteria for determining whether a valuation allowance is required are less restrictive as compared to U.S. GAAP. Under ROC GAAP, in accordance with ROC SFAS No. 22, there are no differences in the calculation of income tax provision and the same corporate income tax rate of 25% is adopted for both periods between annual financial statements and interim quarterly financial statements.	Under US GAAP, a valuation allowance is provided on deferred tax assets to the extent that it is not "more likely than not" that such deferred tax assets will be realized. A change in tax rate or law requires an adjustment to such deferred tax assets and liabilities in the period of enactment, and is reported as a part of results of operations. Under US GAAP, tax provisions in interim quarterly financial statements are provided based on an estimated effective tax rate expected to be applicable to the full fiscal year. Such estimated effective tax rate takes into account all anticipated tax attributes for the full fiscal year.
11. Retained Earnings Tax	Companies in the ROC are subject to a 10% surtax on profits retained and earned after December 31, 1997. If the retained profits are distributed to the shareholders in the following fiscal year, no 10% surtax is due. Under ROC GAAP, income tax expense relating to the 10% surtax is recorded in the results of operations in the following fiscal year if the earnings are not distributed to the shareholders.	Under US GAAP, income tax expense relating to the 10% surtax is recorded in the results of operations in the year that the profits were earned. Any tax reduction upon shareholders' approval for distribution of earnings is recognized under US GAAP as a tax credit in the period of such approval.
12. Investment tax credits	Companies in the ROC generally record the benefits of investment tax credits in the year when the related acquired asset is placed in service.	Under U.S. GAAP, the benefit of the investment tax credit should reduce the basis in the long-lived asset acquired and should be reflected in net income over the productive life of the acquired long-lived asset.
13. Employee Stock Options	There was no specific ROC accounting standard regarding employee stock option (or share-based payment transaction) until January 1, 2004 when the "Interpretation Rule" of the ROC Financial Accounting Standards Committee on employee stock option plans came into effect. This interpretation rule is similar in all respects to US SFAS 123 and APB Opinion No. 25. However, compliance with the "Interpretation	Under US GAAP, as prescribed in US SFAS 123, compensation cost is recognized over the service period for employee stock options using the fair value based method of accounting or the intrinsic value based method of accounting described in APB Opinion No. 25. Under the intrinsic value based method, compensation cost is measured as the difference between the fair value of the underlying shares at the grant date

Subject	ROC GAAP	US GAAP
	Rule" is required for companies that issue stock options commencing from January 1, 2004 or those companies that issued stock options before January 1, 2004 but amend their stock option plan commencing from January 1, 2004. Under ROC GAAP, share-based payment transaction can be accounted for under either of the fair value method or intrinsic value method.	and exercise price, is amortized to expense over the requisite service period. However, under US SFAS 123 as revised in December 2004, employee stock options granted after the required effective date can only be accounted for using the fair value based method of accounting, the required effective date refers to the beginning of the first interim or annual reporting period that begins after January 1, 2006 for public entities that do not file as small business issuers.
14. Functional Currency	Under the ROC GAAP, the local currency of New Taiwan dollar is adopted as the functional currency of the Company only (excluding its offshore subsidiaries), despite the fact that substantial portion of its revenue and expenses are denominated in foreign currency.	Under US GAAP, management must make an assessment of the functional currency of a company and its subsidiaries. Such assessment is based on the primary economic environment in which the company and /or its subsidiaries operate.
15. Proposed Dividends	Under ROC GAAP, dividends are charged against retained earnings when they are formally approved by stockholders.	Under US GAAP, dividends are charged against retained earnings when they are formally approved by the board of directors.

LEGAL MATTERS

Certain legal matters in connection with this offering as to ROC law will be passed upon for us by Lee and Li, Taipei, Taiwan. Certain legal matters in connection with this offering as to New York state and United States federal law will be passed upon for the initial purchasers by Latham & Watkins LLP.

INDEPENDENT AUDITORS

Our consolidated financial statements and our unconsolidated financial statements as of and for the years ended December 31, 2004, 2005 and 2006 included in this offering circular have been audited by KPMG Certified Public Accountants, independent auditors, as indicated in their reports with respect thereto, included herein. Such reports express an unqualified opinion on the financial statements and include an explanatory paragraph referring to certain inventory, plant and equipment of the Tainan factory which were destroyed by fire on November 23, 2005. The estimated fire damage and losses on work stoppage incurred during the shutdown period amounted to NT$107,795 thousands, net of insurance compensation. KPMG Certified Public Accountants is located at 68/F., Taipei 101 Tower, No. 7, Section 5, Xinyi Road, Taipei 11049 Taiwan, Republic of China. They are a member of the Taiwan CPA Association.

GENERAL INFORMATION

1. We are a company limited by shares and incorporated under the laws of the ROC on June 3, 1981. As of March 31, 2007, our authorized share capital was 200,000,000 common shares, NT$10 par value, with an issued fully paid-up share capital of 144,392,052 common shares, par value NT$10 per share, including 351,783 common shares converted from outstanding convertible bonds and common shares issued upon exercise of employees' stock options, which registration was pending government approval. Our registered and principal executive office is located at 6F, No. 248, Section 3, Pei-Shen Road, Shen-Keng Hsiang, Taipei Hsien, Taiwan, ROC, and our telephone number at the above address is (886-2) 2662-5097. We are registered with the Department of Commence, Ministry of Economic Affairs of the ROC, and our registration number is 20889546. According to Article Two of our articles of incorporation, our business scope is (i) manufacturing of instruments; (ii) manufacturing of electric power supply, electric transmission and power distribution machinery; (iii) manufacturing of wired communication equipment and apparatus; (iv) manufacturing of wireless equipment and apparatus; (v) manufacturing of electronic parts and components; (vi) cell manufacturing; (vii) manufacturing of computers and computing peripheral equipment; (viii) wholesale of precision instruments; (ix) retail sale of precision instruments; (x) wholesale of cells; (xi) retail sale of cells; (xii) wholesale of computing and business machinery equipment; (xiii) retail sale of computing and business machinery equipment; (xiv) wholesale of electronic materials; (xv) retail sale of electronic materials; (xvi) wholesale of telecommunication instruments; (xvii) retail sale of telecommunication instruments; (xviii) energy technical services; (xix) international trade; and other business not prohibited or limited by applicable laws and regulations.

2. We have applied to list the GDSs on the Official List of the Luxembourg Stock Exchange and to trade the GDSs on the Euro MTF Market of the Luxembourg Stock Exchange.

3. The GDSs have been accepted for clearance and settlement through the facilities of DTC (and its direct and indirect participants, including Euroclear and Clearstream). Relevant trading information is set forth below.

GDSs	ISIN	CUSIP	Common Code
International GDSs	US6197312019	619731 201	029910162
Rule 144A GDSs	US6197311029	619731 102	029910073

Trades on the Euro MTF Market of the Luxembourg Stock Exchange will be settled through Euroclear or Clearstream. Euroclear and Clearstream have only accepted for clearance those GDSs represented by the master international GDR. Owners of Rule 144A GDSs represented by the Rule 144A GDRs evidenced by the master Rule 144A GDR wishing to effect trades on the Euro MTF Market of the Luxembourg Stock Exchange will first have to exchange their relevant holding from the master Rule 144A GDR to the master international GDR in accordance with the deposit agreements.

4. Application has been made to admit the GDSs being offered on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF Market of the Luxembourg Stock Exchange.

5. The issuance of the GDSs was authorized by resolutions of our shareholders dated February 5, 2007 and by resolutions of our directors dated December 19, 2006, March 1, 2007 and April 12, 2007. We have obtained all necessary consents, approvals and authorizations as may be required in connection with the issue, and performance, if applicable, of the GDSs.

6. Neither we nor our subsidiaries are involved in any material litigation or arbitration proceedings that may have, or have had during the 12 months preceding the date of this document, a material adverse effect on our financial position or the financial position of our company and our subsidiaries, taken as a whole, nor, so far as we or our subsidiaries are aware, are there any such proceedings pending or threatened.

7. For so long as the GDSs are traded on the Euro MTF Market of the Luxembourg Stock Exchange, The Bank of New York (Luxembourg) S.A. will, in its capacity as listing agent, serve as the intermediary among the Luxembourg Stock Exchange, any party having an interest in the issuance and listing of the GDSs, including holders thereof, and us. For so long as the GDSs are traded on the Euro MTF Market of the Luxembourg Stock

Exchange, a copy of our articles of incorporation, the bylaws of the depositary, the deposit agreements and the purchase agreement will be available for inspection free of charge during usual business hours on any weekday (except public holidays) at the offices of The Bank of New York (Luxembourg) S.A., currently located at Aerogolf Center, 1A, Hoehenhof, L-1736 Senningerberg, Luxembourg, as the listing agent in Luxembourg. As long as the GDSs remains outstanding, copies of our annual report in English containing our audited consolidated and non-consolidated financial statements, copies of our semi-annual unaudited consolidated (if and when these become available) and non-consolidated financial statements and copies of our interim quarterly unaudited non-consolidated financial statements in English will be delivered to and be obtainable free of charge, and copies of this offering circular will be obtainable free of charge from the specified offices of The Bank of New York (Luxembourg) S.A. We are not statutorily required to prepare, and accordingly do not prepare or make available to investors, consolidated interim quarterly reports. For as long as the GDSs are traded on the Euro MTF Market, we will publish all notices to holders of the GDSs, in a newspaper with general circulation in Luxembourg, which is expected to be D'Wort, or on the website of the Luxembourg Stock Exchange, which is *www.bourse.lu*.

8. Except as disclosed herein, there has been no significant change in our financial position since December 31, 2006, the date of our last audited consolidated financial statements. There has been no material adverse change in our financial condition, capitalization or prospects since March 31, 2007.

9. We have prepared financial statements on an unconsolidated basis as of and for the years ended December 31, 2004, 2005 and 2006 and the three months ended March 31, 2006 and 2007 in accordance with generally accepted accounting principles in the ROC. For 2004, 2005 and 2006, we met the requirements of preparing our financial statements on a consolidated basis. As a result, we have also prepared our financial statements on a consolidated basis as of and for the years ended December 31, 2004, 2005 and 2006.

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Audited Financial Results

Unaudited Financial Results

Independent Auditors' Report

The Board of Directors
MOTECH Industries Inc.

We have audited the consolidated balance sheets of MOTECH Industries Inc. and subsidiaries as of December 31, 2004, 2005 and 2006, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years ended December 31, 2004, 2005 and 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and "Rules Governing Auditing and Certification of Financial Statements by Certified Public Accountants" in the Republic of China. Those standards and rules require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of MOTECH Industries Inc. and subsidiaries as of December 31, 2004, 2005 and 2006, and the consolidated results of their operations and their cash flows for the years ended December 31, 2004, 2005 and 2006, in conformity with Republic of China generally accepted accounting principles.

The accompanying consolidated financial statements as of and for the year ended December 31, 2006, have been translated into United States dollars solely for the convenience of the readers. We have audited the translation, and in our opinion, the financial statements expressed in New Taiwan dollars have been translated into United States dollars on the basis set forth in note 2(b) to the accompanying financial statements.

As stated in note 8 to consolidated financial statements, certain inventory, plant and equipment of the Tainan factory were destroyed by fire on November 23, 2005. The estimated fire damage and losses on work stoppage incurred during the shutdown period amounted to NT$107,795 thousands, net of insurance compensation.

KPMG Certified Public Accountants
Taipei, Taiwan (the Republic of China)
February 7, 2007 except as Note 2(b)
which is as of April 14, 2007

MOTECH INDUSTRIES INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2004, 2005 AND 2006
(Amounts expressed in thousands of New Taiwan dollars and U.S. dollars)

	2004	2005	2006	
	NT$	NT$	NT$	US$
Assets				
Current assets:				
Cash and cash equivalents (note 4(a))	$ 455,210	288,019	1,612,544	48,850
Available-for-sale financial assets—current (note 4(b))	282,502	63,078	49,859	1,511
Notes and accounts receivable, net of allowance for doubtful accounts of $3,501, $4,168 and $4,062 in 2004, 2005 and 2006, respectively	263,981	312,781	1,083,699	32,829
Other financial assets—current (note 8)	12,323	152,999	10,727	325
Inventories (note 4(c))	256,065	1,187,889	1,288,174	39,024
Prepayments and other current assets	24,650	192,044	496,660	15,045
Deferred income tax assets (note 4(i))	12,856	11,758	46,372	1,405
Total current assets	1,307,587	2,208,568	4,588,035	138,989
Funds and investments:				
Other financial assets—noncurrent	3,127	3,719	7,091	215
Property, plant and equipment (notes 4(d), 6, 7, and 8):				
Land	27,823	27,823	27,823	843
Buildings	103,924	131,919	447,285	13,550
Machinery and equipment	419,309	660,240	1,064,880	32,259
Transportation equipment	5,600	6,050	8,401	254
Office equipment	2,856	4,322	15,436	468
Other equipment	91,384	101,031	401,740	12,170
	650,896	931,385	1,965,565	59,544
Less: accumulated depreciation	(119,893)	(241,474)	(436,088)	(13,210)
Prepayments for construction in progress and equipment	240,198	331,819	1,080,522	32,733
Net property, plant and equipment	771,201	1,021,730	2,609,999	79,067
Intangible assets:				
Deferred pension cost (note 4(h))	3,240	1,707	8,164	247
Other assets:				
Deferred charges	3,978	5,474	22,189	672
Deferred income tax assets—noncurrent (note 4(i))	2,421	9,572	6,145	186
Restricted long-term assets (note 6)	—	—	1,536,146	46,536
Other assets	—	122,854	283,943	8,602
Total other assets	6,399	137,900	1,848,423	55,996
Total Assets	**$2,091,554**	**3,373,624**	**9,061,712**	**274,514**

See accompanying notes to consolidated financial statements.

MOTECH INDUSTRIES INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS—(Continued)
DECEMBER 31, 2004, 2005 AND 2006
(Amounts expressed in thousands of New Taiwan dollars and U.S. dollars)

	2004	2005	2006	
	NT$	NT$	NT$	US$
Liabilities and Stockholders' Equity				
Current liabilities:				
Short-term borrowings (note 4(e))	$ —	115,000	450,000	13,632
Notes and accounts payable	202,800	204,962	326,447	9,889
Accrued expenses and other current liabilities (notes 4(l) and 8)	214,513	345,041	408,841	12,386
Convertible bonds and interest premium payable—current (note 4(g))	273,173	82,346	72,000	2,181
Current portion of long-term borrowings (notes 4(f) and 6)	9,400	22,733	23,429	710
Total current liabilities	699,886	770,082	1,280,717	38,798
Long-term liabilities:				
Long-term borrowings (notes 4(f) and 6)	27,500	73,933	2,075,720	62,881
Other liabilities:				
Provision for retirement benefits (note 4(h))	23,772	24,702	33,775	1,023
Advance sales receipts-noncurrent	—	—	111,962	3,392
Total other liabilities	23,772	24,702	145,737	4,415
Total liabilities	751,158	868,717	3,502,174	106,094
Stockholders' equity (notes 4(g), 4(h), 4(i), and 4(j)):				
Capital stock:				
Common stock	463,857	838,908	1,440,403	43,635
Convertible bonds awaiting government approval for conversion to common stock	17,624	—	—	—
	481,481	838,908	1,440,403	43,635
Capital surplus	262,525	411,404	1,651,393	50,027
Retained earnings:				
Legal reserve	36,348	92,310	208,253	6,309
Special reserve	—	1,428	—	—
Unappropriated earnings	561,470	1,159,862	2,260,174	68,469
	597,818	1,253,600	2,468,427	74,778
Other stockholders' equity adjustment:				
Cumulative translation adjustments	(1,428)	995	1,914	58
Net unrecognized pension cost	—	—	(2,951)	(89)
Unrealized gain on available- for-sale financial assets	—	—	352	11
	(1,428)	995	(685)	(20)
Total stockholders' equity	1,340,396	2,504,907	5,559,538	168,420
Commitments and contingencies (note 7)				
Total Liabilities and Stockholders' Equity	**$2,091,554**	**3,373,624**	**9,061,712**	**274,514**

See accompanying notes to consolidated financial statements.

MOTECH INDUSTRIES INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2004, 2005 AND 2006
(Amounts expressed in thousands of New Taiwan dollars and U.S. dollars, except earnings per share)

	2004	2005	2006	
	NT$	NT$	NT$	US$
Operating revenues	$ 2,484,094	4,478,038	8,216,630	248,913
Less: sales returns	(3,179)	(9,053)	(6,647)	(201)
sales allowances	(13,792)	(12,822)	(6,575)	(199)
Net revenues	2,467,123	4,456,163	8,203,408	248,513
Costs of goods sold	(1,748,355)	(2,953,353)	(5,687,089)	(172,284)
Gross profit	718,768	1,502,810	2,516,319	76,229
Operating expenses:				
Selling expenses	(60,473)	(82,917)	(78,521)	(2,379)
General and administrative expenses	(80,185)	(121,863)	(205,787)	(6,234)
Research and development expenses	(33,845)	(34,054)	(45,198)	(1,369)
	(174,503)	(238,834)	(329,506)	(9,982)
Income from operation	544,265	1,263,976	2,186,813	66,247
Non-operating income:				
Interest income	1,778	2,622	32,722	991
Gain on disposal of marketable securities	3,683	3,642	1,488	45
Foreign exchange gain, net (note 4(l))	12,768	—	72,680	2,202
Miscellaneous income	8,142	12,597	22,016	667
	26,371	18,861	128,906	3,905
Non-operating expenses:				
Interest expenses	(7,687)	(3,425)	(34,585)	(1,048)
Loss on disposal of property, plant and equipment	(88)	(45)	(442)	(13)
Foreign exchange loss, net (note 4(l))	—	(1,122)	—	—
Loss on inventory valuation and obsolescence	—	(1,320)	(2,931)	(89)
Miscellaneous loss	(2,701)	(2,026)	(14,188)	(430)
Loss on fire damage (note 8)	—	(107,795)	—	—
	(10,476)	(115,733)	(52,146)	(1,580)
Income before income taxes	560,160	1,167,104	2,263,573	68,572
Income tax expenses (note 4(i))	(540)	(7,677)	(5,666)	(171)
Consolidated net income	**$ 559,620**	**1,159,427**	**2,257,907**	**68,401**
Earnings per common share (note 4(k)) (in New Taiwan dollars and US dollars):				
Basic earnings per share:				
Before income tax	**$ 4.66**	**8.57**	**16.05**	**0.49**
After income tax	**$ 4.66**	**8.52**	**16.01**	**0.49**
Diluted earnings per share:				
Before income tax	**$ 3.91**	**8.01**	**15.35**	**0.46**
After income tax	**$ 3.89**	**7.95**	**15.31**	**0.46**

See accompanying notes to consolidated financial statements.

MOTECH INDUSTRIES INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2004, 2005 AND 2006
(Amounts expressed in thousands of New Taiwan dollars and U.S. dollars)

		Common stock	Convertible bonds awaiting government approval for conversion to common stock	Capital surplus	Legal reserve	Special reserve	Unappropriated earnings	Cumulative translation adjustment	Net loss not recognized as pension cost	Unrealized gain on available-for- sale financial assets	Total stockholders' equity
Balance at January 1, 2004	NT$	322,927	—	28,000	14,384	—	222,014	—	—	—	587,325
Appropriation of earnings approved by stockholders' during their meeting in 2004:											
Legal reserve		—	—	—	21,964	—	(21,964)	—	—	—	—
Stock dividends to stockholders		104,951	—	—	—	—	(104,951)	—	—	—	—
Cash dividends to stockholders		—	—	—	—	—	(64,586)	—	—	—	(64,586)
Stock and cash dividends to employees as bonus		4,447	—	—	—	—	(19,768)	—	—	—	(15,321)
Directors' and supervisors' remuneration		—	—	—	—	—	(8,895)	—	—	—	(8,895)
Cumulative translation adjustment resulting from long-term equity investment		—	—	—	—	—	—	(1,428)	—	—	(1,428)
Convertible bonds payable converted into common stock and capital surplus		31,532	17,624	234,525	—	—	—	—	—	—	283,681
Net income for the year ended December 31, 2004		—	—	—	—	—	559,620	—	—	—	559,620
Balance at December 31, 2004	NT$	463,857	17,624	262,525	36,348	—	561,470	(1,428)	—	—	1,340,396
Appropriation of earnings approved by stockholders' during their meeting in 2005:											
Legal reserve		—	—	—	55,962	—	(55,962)	—	—	—	—
Special reserve		—	—	—	—	1,428	(1,428)	—	—	—	—
Stock dividends to stockholders		298,518	—	—	—	—	(298,518)	—	—	—	—
Cash dividends to stockholders		—	—	—	—	—	(134,815)	—	—	—	(134,815)
Stock and cash dividends to employees as bonus		10,045	—	—	—	—	(50,223)	—	—	—	(40,178)
Directors' and supervisors' remuneration		—	—	—	—	—	(20,089)	—	—	—	(20,089)
Convertible bonds payable converted into common stock and capital surplus		61,762	(17,624)	148,879	—	—	—	—	—	—	193,017
Issuance of common stock from exercise of stock option		4,726	—	—	—	—	—	—	—	—	4,726
Cumulative translation adjustment resulting from long-term equity investment		—	—	—	—	—	—	2,423	—	—	2,423
Net income for the year ended December 31, 2005		—	—	—	—	—	1,159,427	—	—	—	1,159,427
Balance at December 31, 2005	NT$	838,908	—	411,404	92,310	1,428	1,159,862	995	—	—	2,504,907

MOTECH INDUSTRIES INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY—(Continued)
FOR THE YEARS ENDED DECEMBER 31, 2004, 2005 AND 2006
(Amounts expressed in thousands of New Taiwan dollars and U.S. dollars)

		Common stock	Convertible bonds awaiting government approval for conversion to common stock	Capital surplus	Legal reserve	Special reserve	Unappropriated earnings	Cumulative translation adjustment	Net loss not recognized as pension cost	Unrealized gain on available-for-sale financial assets	Total stockholders' equity
Issuance of common stock		30,000	—	1,230,000	—	—	—	—	—	—	1,260,000
Appropriation of earnings approved by stockholders' during their meeting in 2006:											
Legal reserve		—	—	—	115,943	—	(115,943)	—	—	—	—
Special reserve		—	—	—	—	(1,428)	1,428	—	—	—	—
Stock dividends to stockholders		553,680	—	—	—	—	(553,680)	—	—	—	—
Cash dividends to stockholders		—	—	—	—	—	(369,120)	—	—	—	(369,120)
Stock and cash dividends to employees as bonus		8,890	—	—	—	—	(88,903)	—	—	—	(80,013)
Directors' and supervisors' remuneration		—	—	—	—	—	(31,377)	—	—	—	(31,377)
Convertible bonds payable converted into common stock and capital surplus		2,629	—	5,863	—	—	—	—	—	—	8,492
Interest premium payable converted into capital surplus		—	—	2,978	—	—	—	—	—	—	2,978
Issuance of common stock from exercise of stock option		6,296	—	1,148	—	—	—	—	—	—	7,444
Cumulative translation adjustment resulting from long-term equity investment		—	—	—	—	—	—	919	—	—	919
Net unrecognized pension cost		—	—	—	—	—	—	—	(2,951)	—	(2,951)
Unrealized gain on available-for-sale financial assets		—	—	—	—	—	—	—	—	352	352
Net income for the year ended December 31, 2006		—	—	—	—	—	2,257,907	—	—	—	2,257,907
Balance at December 31, 2006	NT$	**1,440,403**	**—**	**1,651,393**	**208,253**	**—**	**2,260,174**	**1,914**	**(2,951)**	**352**	**5,559,538**

See accompanying notes to consolidated financial statements.

MOTECH INDUSTRIES INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY—(Continued)
FOR THE YEARS ENDED DECEMBER 31, 2004, 2005 AND 2006
(Amounts expressed in thousands of New Taiwan dollars and U.S. dollars)

		Common stock	Convertible bonds awaiting government approval for conversion to common stock	Capital surplus	Legal reserve	Special reserve	Unappropriated earnings	Cumulative translation adjustment	Net loss not recognized as pension cost	Unrealized gain on available-for- sale financial assets	Total stockholders' equity
Balance at December 31, 2005	US$	25,414	—	12,463	2,797	43	35,136	30	—	—	75,883
Issuance of common stock for cash		909	—	37,261	—	—	—	—	—	—	38,170
Appropriation of earnings approved by stockholders' during their meeting in 2006:											
Legal reserve		—	—	—	3,512	—	(3,512)	—	—	—	—
Special reserve		—	—	—	—	(43)	43	—	—	—	—
Stock dividends to stockholders		16,773	—	—	—	—	(16,773)	—	—	—	—
Cash dividends to stockholders		—	—	—	—	—	(11,182)	—	—	—	(11,182)
Stock and cash dividends to employees as bonus		269	—	—	—	—	(2,693)	—	—	—	(2,424)
Directors' and supervisors' remuneration		—	—	—	—	—	(951)	—	—	—	(951)
Convertible bonds payable converted into common stock and capital surplus		79	—	178	—	—	—	—	—	—	257
Interest premium payable converted into capital surplus		—	—	90	—	—	—	—	—	—	90
Issuance of common stock from exercise of stock option		191	—	35	—	—	—	—	—	—	226
Cumulative translation adjustment resulting from long-term equity investment		—	—	—	—	—	—	28	—	—	28
Net unrecognized pension cost		—	—	—	—	—	—	—	(89)	—	(89)
Unrealized gain on available-for-sale financial assets		—	—	—	—	—	—	—	—	11	11
Net income for the year ended December 31, 2006		—	—	—	—	—	68,401	—	—	—	68,401
Balance at December 31, 2006	US$	**43,635**	**—**	**50,027**	**6,309**	**—**	**68,469**	**58**	**(89)**	**11**	**168,420**

See accompanying notes to consolidated financial statements.

MOTECH INDUSTRIES INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2004, 2005 AND 2006
(Amounts expressed in thousands of New Taiwan dollars and U.S. dollars)

	2004	2005	2006	
	NT$	NT$	NT$	US$
Cash flows from operating activities:				
Consolidated net income	$ 559,620	1,159,427	2,257,907	68,401
Adjustments:				
Depreciation	44,605	133,626	178,153	5,397
Loss on work stoppages—depreciation	—	13,279	23,234	704
Amortization	1,563	3,669	4,092	124
Gain on disposal of available-for-sale financial assets—current	(3,683)	(4,084)	(1,488)	(45)
Loss on disposal of property, plant and equipment	88	45	442	13
Loss on fire damage—property, plant and equipment	—	56,726	—	—
Miscellaneous loss—loss on idle assets valuation loss	2,661	—	—	—
Gain on of idle assets recoveries	—	—	(1,241)	(38)
Fixed assets charged to expenses	—	122	—	—
Increase in accrued interest premium	6,345	2,190	1,125	34
Deferred income tax benefit	(1,044)	(6,053)	(31,187)	(945)
Increase in notes and accounts receivable	(43,919)	(48,800)	(770,918)	(23,354)
Decrease (increase) in other financial assets	(5,992)	(140,676)	142,272	4,310
Increase in inventories	(51,919)	(931,824)	(100,285)	(3,038)
Increase in prepayments and other current assets	(22,346)	(167,394)	(304,616)	(9,228)
Increase in prepayments to suppliers—noncurrent	—	(122,854)	(161,089)	(4,880)
Increase in notes and accounts payable	115,035	2,162	121,485	3,681
Increase (decrease) in accrued expenses and other current liabilities	160,558	138,905	(14,029)	(425)
Increase (decrease) in accrued pension liability	4,947	2,463	(355)	(11)
Increase in advance sales receipts—noncurrent	—	—	111,962	3,392
Net cash provided by operating activities	766,519	90,929	1,455,464	44,092
Cash flows from investing activities:				
Proceeds from sales of available-for-sale financial assets—current	476,099	424,508	235,059	7,121
Purchases of available-for-sale financial assets—current	(234,920)	(201,000)	(220,000)	(6,664)
Purchases of property, plant and equipment	(540,142)	(466,802)	(1,712,088)	(51,867)
Proceeds from sales of property, plant and equipment	1,167	—	1,202	36
Addition to deferred charges	(3,376)	(787)	(20,785)	(629)
Addition to restricted long-term assets	—	—	(1,536,146)	(46,536)
Addition to other financial assets—noncurrent	(2,381)	(592)	(3,372)	(102)
Net cash used in investing activities	(303,553)	(244,673)	(3,256,130)	(98,641)
Cash flows from financing activities:				
Increase (decrease) in short-term borrowings	(2,986)	115,000	335,000	10,148
Proceeds from long-term debt	—	70,000	2,049,220	62,079
Principal payments on long-term debt	(59,400)	(10,234)	(46,737)	(1,416)
Cash received from issuance of capital stock	—	—	1,260,000	38,170
Cash received from issuance of capital stock due to exercise of employee stock options	—	4,726	7,444	226
Payments of employees' bonuses	(15,321)	(40,178)	(80,013)	(2,424)
Payments of directors' and supervisors' remuneration	(8,895)	(20,089)	(31,377)	(951)
Payments of cash dividends	(64,586)	(134,815)	(369,120)	(11,182)
Net cash provided by (used in) financing activities	(151,188)	(15,590)	3,124,417	94,650
Effect of exchange rate changes on cash and cash equivalents	(1,120)	2,143	774	24
Increase (decrease) in cash and cash equivalents	310,658	(167,191)	1,324,525	40,125
Cash and cash equivalents at beginning of year	144,552	455,210	288,019	8,725
Cash and cash equivalents at end of year	**$ 455,210**	**288,019**	**1,612,544**	**48,850**

See accompanying notes to consolidated financial statements.

MOTECH INDUSTRIES INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS—(Continued)
FOR THE YEARS ENDED DECEMBER 31, 2004, 2005 AND 2006
(Amounts expressed in thousands of New Taiwan dollars and U.S. dollars)

	2004	2005	2006	
	NT$	NT$	NT$	US$
Supplemental cash flow information:				
Interest paid	$ 1,395	1,088	26,535	804
Income tax paid	$ 1,441	7,490	16,384	496
Supplemental schedule of non-cash investing and financing activities:				
Increase (decrease) in deferred pension cost	$ (1,444)	(1,533)	6,457	196
Current portion of long-term borrowings reclassified to current liabilities	$ 9,400	22,733	23,429	710
Cumulative translation adjustments	$ (1,428)	2,423	919	28
Convertible bonds converted into common stock	$280,600	189,200	8,200	248
Interest premium payable converted into capital surplus	$ —	—	2,978	90
Inventories transferred from fixed assets	$ 41	—	—	—
Payable for machinery and equipment	$ 8,746	369	78,197	2,369
Deferred charges transferred from fixed assets	$ —	4,324	—	—
Unrealized gains on financial instruments	$ —	—	352	11
Fixed assets transferred from idle assets	$ —	—	1,241	38

See accompanying notes to consolidated financial statements.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004, 2005 AND 2006
(All amounts expressed in thousands of New Taiwan dollars and U.S. dollars, except earnings per share information or unless otherwise specified)

(1) Description of Business

MOTECH Industries Inc. (the Company) was incorporated on June 3, 1981, as a company limited by shares under the laws of the Republic of China (ROC). The Company's major operating departments and activities were as follows:

Departments	Major operating activities
Solar	Manufacturing, marketing, and sale of solar cells
Instruments	Manufacturing and marketing of measurement instruments
Power	Marketing, design, and installation of solar electricity systems

As of December 31, 2004, 2005 and 2006, the consolidated financial statements include the accounts of the Company and its subsidiaries (hereinafter referred to as the "Consolidated Companies"). The Consolidated Companies are located in various locations such as in Taiwan, China, the British Virgin Islands and Western Samoa. The subsidiaries, which are classified according to their primary business activity, are as follows:

Nature of Primary Business Activity	Percentage of direct and indirect ownership by the Company at December 31, 2006 (%)
1. Solar products and instruments used in manufacturing and marketing —Motech (Ningbo) Electronic Co., Ltd. (Ningbo Electronic)	100
2. Commission trade, goods delivery and trading	
—Think Global Enterprise Limited (Think Global)	100
—Motech (Ningbo) Trade Co., Ltd. (Ningbo Trade)	100
3. Overseas holding company	
—Power Islands Limited (Power Islands)	100

As of December 31, 2004, 2005 and 2006, the Consolidated Companies had 493, 680 and 970 employees, respectively.

(2) Summary of Significant Accounting Policies

The Consolidated Companies prepared the accompanying financial statements in accordance with ROC generally accepted accounting principles. The major accounting policies and basis of measurement used in preparing these consolidated financial statements are as follows:

(a) Consolidation policies

The consolidated financial statements include the accounts of the Company and subsidiaries in which the Company is able to exercise control directly or indirectly over the subsidiary's operations and financial policies, or to influence the financial, operating and human resource policies of the subsidiary so as to obtain benefits from its activities.

All inter-company transactions and unrealized gain (loss) from transactions among the Company and subsidiaries are eliminated in the consolidated financial statements.

(b) Convenience translation into U.S. dollars

The financial statements are stated in New Taiwan Dollars. Translation of the 2006 New Taiwan dollar amounts into U.S. dollar amounts is included solely for the convenience of the readers, using the Federal Reserve exchange rate on March 30, 2007 of NT$33.01 to US$1 uniformly applied for all the financial statements' accounts. The convenience translations should not be construed as representations that the New Taiwan Dollar amounts have been, could have been, or could in the future be, converted into U.S. dollars at this rate or any other rate of exchange.

(c) Translation of foreign currency transactions

The Consolidated Companies record transactions in their respective local currencies. 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 into New Taiwan dollars at the exchange rate prevailing on the balance sheet date, and the resulting translation gains or losses are recognized as non-operating income or expenses.

For purposes of preparing the consolidated financial statements, all foreign subsidiaries translate their foreign currency financial statements into the Company's reporting currency (New Taiwan dollars). If the local currency is not the functional currency of the subsidiary, the subsidiary's financial statements are remeasured into the functional currency prior to the translation into New Taiwan dollars. Any remeasurement differences are accounted for as exchange gains or losses in the accompanying consolidated statements of income. The foreign currency assets and liabilities are translated into New Taiwan Dollars using year-end exchange rates except for stockholders' equity, which is translated using historical exchange rates. The foreign currency income statements are translated using the average exchange rates used during the year. Translation adjustments resulting from the translation of foreign currency financial statements into New Taiwan Dollars are recorded for as a separate component of stockholders' equity.

(d) Criterion for classifying assets and liabilities as current or non-current

Current assets are cash and other assets that will be converted to cash or used within a relatively short period of time, one year or one operating cycle, whichever is longer. Current liabilities are debts due within one year or one operating cycle, whichever is longer.

Financial liabilities due within 12 months after the balance sheet date are classified as non-current under the following conditions:

(1) the original term covers a period longer than 12 months,

(2) the Consolidated Companies have intention to refinance on a long-term basis, and

(3) an agreement to refinance, or to reschedule payments, on a long-term basis, is completed after the balance sheet date, or the Consolidated Companies expect, and have the discretion, to refinance or roll over financial liabilities to at least 12 months after the balance sheet date under an existing loan facility.

(e) Asset impairment

Effective January 1, 2005, the Consolidated Companies adopted the Statement of Financial Accounting Standards No. 35 (SFAS 35) "Accounting for Asset Impairment". In accordance with SFAS 35, the Consolidated

Companies assess 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 Consolidated Companies estimate the recoverable amount of the asset. The Consolidated Companies recognize impairment loss for an asset whose carrying value is higher than the recoverable amount. An impairment loss recognized in prior periods is reversed 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 Consolidated Companies perform an asset impairment test annually on the cash-generating unit to which goodwill is allocated and recognize an impairment loss on the excess of the carrying value over the recoverable amount of an asset.

(f) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, savings and checking deposits, fixed time deposits, miscellaneous petty cash. Cash equivalents represent highly liquid debt instruments, such as commercial paper and bank acceptances with original maturities of three months or less. Cash equivalents also include other highly liquid investments which do not have a significant level of market risk related to potential interest rate changes.

(g) Financial assets

Before 2006, the investments of the Consolidated Companies were classified into short-term investments and long-term investments, depending on the purpose of holding. Investments were accounted for at acquisition cost and were evaluated at the lower of cost or market value. The market value used for valuing investments in publicly listed stocks was determined based on the average closing price of the last month of the year. The market value adopted for valuing investments in open-end mutual funds was determined based on the net asset value of mutual funds on the balance sheet date. Devaluation loss on long-term investments was recorded under stockholders' equity. Devaluation loss on short-term investments was recorded in the accompanying statements of income.

Commencing from January 1, 2006, the Consolidated Companies adopted the SFAS No. 34 "Accounting for Financial Instruments". Under SFAS No. 34, financial assets are classified into four categories: financial assets reported at fair value through profit or loss; available-for-sale financial assets; held-to-maturity investments and financial assets carried at cost.

The Consolidated Companies adopted transaction-date accounting for financial instrument transactions. Upon initial recognition, financial instruments are evaluated at fair value. Except for financial instruments held for trading, the acquisition cost or issuance cost of financial instrument is included in its initially recognized amount.

Subsequent to their initial recognition, the financial instruments, which are being held or issued by the Consolidated Companies are classified into the following categories in accordance with the purpose of holding or issuing and/or measured as follows:

1. Financial assets/liabilities reported at fair value through profit or loss: The financial instruments are classified in this category if they are acquired or incurred principally for the purpose of selling or repurchasing

them in the near term. Except for the derivatives held for hedging purposes and the hedging results are considered effective, all other derivatives are classified into this account.

2. Available-for-sale financial assets: These financial assets are evaluated at fair value, and changes in fair value are recorded as a separate component of stockholders' equity. If there is evidence of impairment, impairment loss is recognized. Impairment losses recognized in profit or loss for an investment in an equity instrument classified as available for sale are not reversed. If in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed, with the amount of the reversal recognized in profit or loss.

3. Financial assets carried at cost: Equity investments which cannot be evaluated at fair value are carried at original cost. If there is evidence of impairment, impairment loss is recognized, but such loss provision is not reversed.

4. Held-to-maturity investments: These investments are non-derivative financial assets with fixed or determinable payments and fixed maturity for which the Consolidated Companies have the positive intention and ability to hold to maturity. If there is objective evidence that an impairment loss on held-to-maturity investments carried at amortized cost 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 financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through use of an allowance account. The amount of the loss is recognized in profit or loss. If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed either directly or by adjusting an allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date when the impairment is reversed. The amount of the reversal is recognized in profit or loss.

(h) Allowance for doubtful accounts

Allowance for doubtful accounts is provided based on the results of the analysis of aging, collectibility, past experience, and quality of receivables.

(i) Inventories

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

(j) Property, plant and equipment

Property, plant and equipment are stated at cost. Interest expense related to the construction of property and equipment is capitalized and included in the cost of the related assets. Significant additions, improvements and replacements are capitalized. Maintenance and repair costs are expensed in the period incurred.

Property, plant and equipment are depreciated over their estimated useful lives using the straight-line method. The estimated useful lives of the respective classes of assets are as follows:

(1) Buildings: 6 to 51 years

(2) Machinery and equipment: 4 to 11 years

(3) Transportation equipment: 6 to 7 years

(4) Office and other equipment: 4 to 11 years

Gains or losses on the disposal of such assets are accounted for as non-operating income or expenses.

(k) Deferred charges

(1) Syndicated financing fees

Syndicated financing fees are related to leading bank fees, accrediting fees (including participating and commitment fees) and others fees incurred in securing the credit line approval for syndicated loans. These fees are deferred and amortized over the terms of syndicated loans using the straight-line method.

(2) Other deferred expenses consist primarily of the capitalized costs of software purchase, fire control construction, and high voltage circuit construction. These deferred expenses are amortized using the straight-line method over their economic useful lives of 2 to 5 years.

(l) Derivative financial instruments and hedging activities

Prior to January 1, 2006, foreign currency forward contracts were accounted for as follows:

Foreign currency forward contracts were intended to hedge foreign currency fluctuation risk from foreign currency receivables and payables. These foreign currency forward contracts were translated into functional currencies at the exchange rates prevailing on the balance sheet date, and the resulting translation differences were recorded as current exchange gains or losses. Differences between the forward rates and spot rates on contract dates were recognized as exchange gains or losses during the contract period. The foreign currency receivables were offset against foreign currency payables, and the net amount was recorded as other current assets or other current liabilities on the balance sheet.

Commencing from January 1, 2006, the Consolidated Companies have adopted the SFAS No. 34 "Accounting for Financial Instruments". Under SFAS No. 34, all derivative instruments are recorded on the balance sheet at fair value. If a derivative instrument is designated as a cash flow hedge, the effective portion of the change in its fair value is recorded as a separate component of stockholders' equity and is recognized in the statement of operations when the hedged item affects earnings. Ineffective portion of the change in the fair value of cash flow hedge is immediately recognized in earnings. If a derivative is designated as a fair value hedge, the change in its fair value and of the hedged item attributable to the hedged risk is recognized in earnings in the current period. For derivative instruments not designated as hedging instruments under SFAS No. 34, changes in their fair values are recognized in current operating results.

(m) Employee retirement plan

In 1987, the Company established an employee noncontributory defined benefit retirement plan (the "Plan") covering its full-time employees in the ROC. In accordance with the Plan, employees are eligible for retirement or are required to retire after meeting certain age or service requirements. Payments of retirement benefits are based on the employee's years of service. Under this retirement plan, the Company is responsible for making the entire pension payment.

The Company accounts for its employee defined retirement benefit plan in accordance with ROC SFAS No. 18, "Accounting for Pensions". SFAS No. 18 requires a company to have an actuarial calculation of its pension liability using the year-end date as the measurement date. The Company recognizes a minimum pension liability equal to the amount by which the actuarial present value of the accumulated benefit obligation exceeds the fair value of the retirement plan's assets. Minimum pension liability is determined based on the minimum amount of pension liability that is required to be recognized on the balance sheet. The excess of minimum amount of pension liability over the sum of unrecognized prior service cost and unrecognized transitional net benefit obligation is accounted for as net loss from unrecognized pension cost, which is classified as a reduction of stockholders' equity. On the other hand, the excess of the sum of unrecognized prior service cost and unrecognized transitional net benefit obligation over the minimum amount of pension liability is charged to deferred pension cost account, which is classified as an intangible asset.

The Company also recognizes the net periodic pension cost using actuarial techniques. The unrecognized transitional net benefit obligation and unrecognized pension gain or losses are amortized on a straight-line basis over the average remaining service period of employees still in service and expected to receive benefits, and such amortization is included in the net pension cost. The Company contributes an amount to the retirement fund monthly based on government-approved rate of 2% of paid salaries and wages. This fund is deposited with the Central Trust of China.

Starting from July 1, 2005, the enforcement rules of the newly enacted Labor Pension Act (the "New Act") require the following categories of employees to adopt the defined contribution plan:

(1) employees who originally adopted the Plan and opted to be subject to the pension mechanism under the New Act; and

(2) employees who commenced working after the enforcement date of the New Act.

In accordance with the New Act, the Company contributes monthly to the Bureau of Labor Insurance an amount equal to 6% of the worker's monthly wages. This contribution is recognized as expense when incurred.

The subsidiaries are located offshore. As of December 31, 2004, 2005 and 2006, in accordance with local laws and regulations, the subsidiaries, Motech (Ningbo) Trade Co., Ltd. and Motech (Ningbo) Electronic Co., Ltd., adopted a defined contribution scheme, under which they provide monthly pro rata contributions. Those contributions are charged to expense as incurred.

(n) Convertible bonds

Prior to January 1, 2006, the Company issued Taiwan domestic convertible bonds at par value. Interest expense thereon is determined based on par value and nominal interest rate. The difference between the specified redemption price and par value of convertible bonds with a redemption option is amortized by using the interest method and recognized as a liability over the period from the issuance date of the bonds to the expiry date of the redemption option.

Upon exercise of the conversion option, interest payable, pay-back interest from the holder, recognized interest premium, and par value of the convertible bonds are transferred to paid-in capital. The excess of the net carrying amount of the converted bonds over the par value of the common stock exchange certificate or common stock issued is recognized as capital surplus.

If the holder of convertible bonds with a redemption option does not exercise the option by the expiry date, the interest premium, which is recognized as a liability, is forfeited and amortized over the period from the expiry date of the redemption option to the maturity date of the convertible bonds by using the interest method, provided that the market price of exchangeable common stock is lower than the specified redemption price of the bond on expiry date of the redemption option, otherwise, is reclassified as capital surplus.

Effective January 1, 2006, the Company adopted ROC SFAS No. 36 "Disclosure and Presentation of Financial Instruments". In accordance with ROC SFAS No. 36, paragraph 124, the embedded derivative in hybrid instruments issued prior to the effective date of this new accounting standard (January 1, 2006), which include the equity and liability components, is not separated from the host contract. However, this new standard is not applicable to instruments issued prior to its adoption, and the accumulated effect of the adoption of this new accounting standard need not be calculated or accounted for. The Company's convertible bonds were issued in December 2003.

(o) Employee stock options

Employee stock option plans which are amended or options granted on or after January 1, 2004, are accounted for in accordance with the interpretation issued by the Accounting Research and Development Foundation. Under this interpretation, the Company adopts the intrinsic value method to account for the compensation cost. The measurement date for determining compensation cost is determined based on the date when the number of shares and exercise price are known. The compensation cost is measured by the difference between the quoted market price of the stock at the measurement date and the exercise price. An employee stock option granted for the employee's past service is recognized as expense on the date of grant. If it is intended for the employee's future service, the cost thereof is amortized as compensation expense over the employee's service period as stated in the stock option plan.

If a portion of stock options is not exercised because an employee fails to fulfill the requirement for minimum number of service years or other terms, the estimated compensation expense recorded in the previous period is adjusted by decreasing the compensation expense in the period of forfeiture.

(p) Revenue recognition

Revenue from sales of products is recognized upon delivery and the significant risks and rewards of ownership are transferred to customers.

(q) Income taxes

Income taxes are accounted for under the asset and liability method. Deferred income taxes are determined based on differences between the financial statements and tax basis of assets and liabilities using enacted tax rates in effect during the years in which the differences are expected to reverse. The income tax effects resulting from taxable temporary differences are recognized as deferred income tax liabilities. The income tax effects resulting from deductible temporary differences, loss carryforwards, and investment tax credits are recognized as deferred income tax assets. The realization of the deferred income tax assets is evaluated, and if it is considered more likely than not that the deferred tax assets will not be realized, a valuation allowance is recognized accordingly.

The classification of deferred income tax assets or liabilities as current or non-current is based on the classification of the related asset or liability. If a deferred income tax asset or liability is not directly related to a specific asset or liability, then the classification is based on the expected realization date of such deferred income tax asset or liability.

According to the ROC Income Tax Law, the Company's undistributed earnings, if any, earned after December 31, 1997, are subject to an additional 10% surtax. The surtax is accounted for as income tax expenses in the following year when the shareholders' meeting approves a resolution not to distribute the earnings.

Income tax is reduced by investment tax credits in the year when the credit arises.

(r) Earnings per common share (EPS)

The earnings per share are computed by dividing the amount of net income attributable to common stock outstanding for the period by the weighted-average number of common shares outstanding during the period, which includes the shares related to bonds already applied by bondholders for conversion to shares but the Company has not yet secured the government final approval for the registration of those shares. The number of outstanding shares is retroactively adjusted for the distribution of stock dividends from retained earnings, capital surplus, employees' bonus or stock split. Similarly, the number of outstanding shares is also retroactively adjusted for reduction in common shares outstanding from a reverse stock split or capital deduction due to offsetting with losses. If these changes occur after the balance sheet date but before the date of issuance of the financial statements, such EPS are also retroactively adjusted.

The calculation of diluted EPS is consistent with the calculation of EPS while giving the effects of all dilutive potential common shares that were outstanding during the reporting period. If the employee stock options and convertible bonds issued by the Company have dilutive effect, they are deemed to have been converted into common shares on the date of issue.

(3) Reason for and Effect of Accounting Changes

The Consolidated Companies adopted the ROC SFAS No. 34 "Accounting for Financial Instruments", ROC SFAS No. 36 "Disclosure and Presentation of Financial Instruments", and amended SFAS No. 1 "Conceptual Framework of Financial Accounting and Preparation of Financial Statements," SFAS No. 5 "Long-term Investments in Equity Securities," and amended SFAS No. 14 "Foreign Currency Translation" commencing from January 1, 2006. The adoption of these new accounting policies did not significantly impact the consolidated net income and stockholders' equity as of and for the year ended December 31, 2006.

Commencing from 2005, the Consolidated Companies adopted the ROC SFAS No. 35 "Accounting for Asset Impairment". After performing an asset impairment test, the Consolidated Companies determined that no impairment loss would be recognized as of December 31, 2005 and 2006.

(4) Significant Account Disclosures

(a) Cash and cash equivalents

The components as of December 31, 2004, 2005 and 2006 were as follows:

	2004.12.31	2005.12.31	2006.12.31	
	NT$	NT$	NT$	US$
Cash on hand and petty cash	$ 1,460	1,183	1,107	33
Savings and checking deposits	453,750	286,836	1,611,437	48,817
	$455,210	**288,019**	**1,612,544**	**48,850**

(b) Financial instruments

The components as of December 31, 2004, 2005 and 2006 were as follows:

	2004.12.31	2005.12.31	2006.12.31	
	NT$	NT$	NT$	US$
Available-for-sale financial assets—current:				
Investments in bonds with resale agreements	$ 42,920	—	—	—
Open-end mutual funds	239,582	63,078	49,859	1,511
	$282,502	**63,078**	**49,859**	**1,511**

Based on the interpretation of the ROC Accounting Research and Development Foundation, the Consolidated Companies reclassified their 2004 and 2005 financial statements in accordance with ROC SFAS No. 34. As of December 31, 2004 and 2005, investments originally accounted for under the lower-of-cost-or-market method amounting to $282,502 and $63,078, respectively, were reclassified to available-for-sale financial assets—current.

(c) Inventories

The components as of December 31, 2004, 2005 and 2006, were as follows:

	2004.12.31	2005.12.31	2006.12.31	
	NT$	NT$	NT$	US$
Merchandise	$ 20,050	16,560	30,814	934
Finished goods	18,321	53,789	356,016	10,785
Work in process	75,728	177,760	386,850	11,719
Raw materials and supplies	146,686	945,820	523,465	15,858
Less: provision for loss on inventory devaluation	(4,720)	(6,040)	(8,971)	(272)
	$256,065	**1,187,889**	**1,288,174**	**39,024**

As of December 31, 2004, 2005 and 2006, insurance coverage for inventories amounted to $217,000, $819,000 and $1,724,000, respectively.

(d) Property, plant and equipment

As of December 31, 2004, 2005 and 2006, the insurance coverage for property, plant and equipment amounted to $588,000, $702,700 and $2,943,000, respectively.

(e) Short-term borrowings

The components as of December 31, 2005 and 2006, were as follows:

	2005.12.31	2006.12.31	
	NT$	NT$	US$
Credit loans	**$115,000**	**450,000**	**13,632**

There were no short-term borrowings in 2004. The short-term loans bore interest at annual rates of 1.53%-2.10% in 2005 and 1.63% in 2006.

As of December 31, 2004, 2005 and 2006, the unused credit line for short-term borrowings amounted to $469,458, $953,469 and $1,450,000, respectively.

(f) Long-term borrowings

The components as of December 31, 2004, 2005 and 2006, were as follows:

	2004.12.31	2005.12.31	2006.12.31	
	NT$	NT$	NT$	US$
Syndicated loan	$ —	—	1,955,220	59,231
Mortgage loans	36,900	96,666	143,929	4,360
	36,900	96,666	2,099,149	63,591
Less: Current portion	(9,400)	(22,733)	(23,429)	(710)
	$27,500	**73,933**	**2,075,720**	**62,881**

(1) Syndicated loan agreement

On July 21, 2006, the Company entered into a three-year domestic syndicated loan agreement with nine banks, under which Hong Kong and Shanghai Banking Corporation (HSBC) and Hua Nan Commercial Bank represented as the lead bank and arranger, respectively, for the financial commitments under some of crystalline raw materials supply agreements. The significant terms of this agreement are as follows:

(i) Total credit facility: $3,400,000.

(ii) Credit term: Three years starting from the initial drawdown of the credit facility on July 24, 2006. The credit term for each loan facility drawdown will be 30 days, 60 days, 90 days, or 180 days, which will be decided by the Company. Other credit term beyond any of these periods will be agreed by the Company and the arranger.

(iii) The Company should maintain the following financial covenants in its semi-annual and annual consolidated financial statements starting from 2006:

A. Total tangible net assets at the end of the reporting period should exceed $3,500,000 in 2006 and $8,000,000 in 2007.

B. Liability ratio (total liabilities/total tangible net assets) at the end of the reporting period should be lower than 200% in 2006, 160% in 2007 and 120% in 2008.

C. The interest coverage ratio [(income before income tax (excluding extraordinary gains, interest expenses, amortization and depreciation expenses)/interest expenses] for the reporting period should not be lower than 5 times.

If the Company fails to maintain the above covenants, the Company might be exposed to penalty charges, required to accelerate payment of the obligations under this loan agreement, and restricted from having access to the unutilized facility which would otherwise be available. As of December 31, 2006, the Company was in compliance with the above covenants.

For the year ended December 31, 2006, the annual interest rates for the above loan ranged from 2.404% to 2.46%. As of December 31, 2006, the unused credit line was $1,444,780. Although each of the facility drawings from the above syndicated loan will mature in 2007, it was classified under long-term liabilities because the Company intends to refinance this loan at maturity on a long-term basis, aside from the fact that the credit facility under this syndicated loan will mature on July 23, 2009.

(2) Mortgage loan

The components as of December 31, 2004, 2005 and 2006 were as follows:

Bank	Nature	Repayment period	Interest rate 2004.1.1 - 2004.12.31	Interest rate 2005.1.1- 2005.12.31	Interest rate 2006.1.1- 2006.12.31	Loan balance 2004.12.31	Loan balance 2005.12.31	Loan balance 2006.12.31	
						NT$	NT$	NT$	US$
Chang Hwa Bank	Mortgage loan	Dec. 15, 2000~ Dec. 15, 2007	2.30%	2.30%	—	$26,900	17,500	(Note)	—
China Development Industrial Bank	Mortgage loan	Dec. 15, 2003~ Dec. 15, 2008	2.89%	3.21%	—	10,000	9,166	(Note)	—
The Shanghai Commercial and Savings Bank	Mortgage loan	Nov. 2, 2005~ Nov. 2, 2012	—	2.20%	2.20-2.38%	—	70,000	60,000	1,818
The Shanghai Commercial and Savings Bank	Mortgage loan	Feb. 27, 2006~ Feb. 27, 2013	—	—	2.20-2.38%	—	—	44,643	1,352
The Shanghai Commercial and Savings Bank	Mortgage loan	Mar. 14, 2006~ Mar. 14, 2013	—	—	2.20-2.38%	—	—	39,286	1,190
						36,900	96,666	143,929	4,360
Less: current portion						(9,400)	(22,733)	(23,429)	(710)
						$27,500	**73,933**	**120,500**	**3,650**

Note: Redeemable ahead of maturity.

As of December 31, 2004, 2005 and 2006, the unused credit line for long-term borrowings amounted to $61,000, $264,000 and $100,000, respectively.

As of December 31, 2006, the remaining balances of the borrowings were due as follows:

Year due	NT$	US$
January 1, 2007~December 31, 2007	$ 23,429	710
January 1, 2008~December 31, 2008	23,429	710
January 1, 2009~December 31, 2009	1,978,649	59,940
January 1, 2010~December 31, 2010	23,429	710
January 1, 2011~December 31, 2011	23,429	710
After January 1, 2012	26,784	811
	$2,099,149	**63,591**

(g) Convertible bonds payable and interest premium payable

The components as of December 31, 2004, 2005 and 2006, were as follows:

	2004.12.31	2005.12.31	2006.12.31	
	NT$	NT$	NT$	US$
Principal	$ 550,000	550,000	550,000	16,662
Cumulative amount converted into common stock	(280,600)	(469,800)	(478,000)	(14,481)
Convertible bonds payable	269,400	80,200	72,000	2,181
Interest premium payable	3,773	2,146	—	—
	$ 273,173	**82,346**	**72,000**	**2,181**

On December 5, 2003, the Company issued Taiwan domestic convertible bonds with an aggregate principal amount of $550,000 in order to finance the expansion of the production line for solar cells and the establishment of the wafer factory. The final terms and conditions are as follows:

(1) Coupon rate: 0%

(2) Issue period: From December 5, 2003, to December 4, 2008

(3) Conversion

(i) The bondholders can convert the convertible bonds into common stock during the period from three months after the issue date to ten days before the maturity date. The equivalent number of shares is determined by dividing the outstanding principal amount of convertible debt by the conversion price per share.

(ii) Conversion price:

As of December 31, 2004, 2005 and 2006 the conversion price was set at NT$56, NT$34 and NT$18.6 per share, respectively. The initial conversion price was set at NT$75.5 per share. The conversion price is subject to adjustments in the event of any change in the capital structure, as defined, except for the capital increase in cash.

(4) Redemption at the option of the Company: The Company may redeem the bonds in whole, but not in part, during the period from three months after the issue date to forty days before the maturity date, provided that (1) the closing price of the common shares on the Taiwan Stock Exchange for 30 consecutive trading days is at least 50% of the conversion price then in effect, or (2) the bonds outstanding are less than 10% of the issue amount.

The Company can redeem the bonds in whole after making an announcement to the bondholders. The redemption price is calculated using formulas summarized as follows, and the bonds are redeemable in cash:

(i) From the day immediately following three months after the issue date to the day two years after the issue date, the redemption interest is calculated at the rate of 1.25% per annum.

(ii) From the day immediately following two years after the issue date to the day three years after the issue date, the redemption interest is calculated at the rate of 1.5% per annum.

(iii) From the day immediately following three years after the issue date to forty days prior to the maturity date, all bonds are redeemable at their face value in cash.

(5) Redemption at the option of the bondholders: The Company will, at the option of the bondholders, redeem such bond on the second or before 30 days before the third anniversary of the issue date at par value plus interest premium in cash (cumulative interest is 2.51% of par value after two years, with annual yield rate of 1.25% and cumulative interest is 4.57% of par value after three years since the issue date, with annual yield rate of 1.50%).

The convertible bonds redeemable at the option of the bondholders are accounted for as current liabilities.

For the years ended December 31, 2004, 2005 and 2006, the aggregate par value of convertible bonds converted into common stock amounted to $280,600, $189,200 and $8,200, respectively, and the related interest premium payable transferred to capital surplus was $3,081, $3,817 and $292, respectively. The excess of the carrying value of convertible bonds (including the related interest premium payable) over the par value of common stock issued from the conversion of bonds to common stock amounted to $234,525, $148,879 and $5,863, respectively, which was transferred to capital surplus.

On December 4, 2006, the bonds had been issued for three years. In accordance with the agreement, the Company may redeem the bonds at par value during the period from three years after the issue date to forty days before the maturity date. The related interest premium payable of $2,978 was fully transferred to capital surplus when the bondholders were unable to exercise their option for the redemption of the bonds on maturity, aside from the fact that the market value of the shares was greater than the conversion price of the bonds on maturity of the option.

(h) Retirement plans

(1) The following table sets forth the details of the reconciliation of funded status to accrued pension liability as of December 31, 2004, 2005 and 2006:

	2004.12.31	2005.12.31	2006.12.31	
	NT$	NT$	NT$	US$
Benefit obligation:				
Vested benefit obligation	$ (3,913)	(3,254)	(17,130)	(519)
Non-vested benefit obligation	(28,281)	(31,543)	(32,328)	(979)
Accumulated benefit obligation	(32,194)	(34,797)	(49,458)	(1,498)
Projected compensation increase	(15,384)	(17,089)	(22,583)	(684)
Projected benefit obligation	(47,578)	(51,886)	(72,041)	(2,182)
Fair value of retirement plan assets	8,422	10,095	15,683	475
Funded status	(39,156)	(41,791)	(56,358)	(1,707)
Unrecognized net transition benefit obligation	9,526	8,845	8,164	247
Unrecognized pension gain or losses	9,098	9,951	25,534	774
Additional minimum pension liabilities	(3,240)	(1,707)	(11,115)	(337)
Provision for retirement benefits	**$(23,772)**	**(24,702)**	**(33,775)**	**(1,023)**

(2) The components of the net periodic pension cost for 2004, 2005 and 2006 were as follows:

	2004	2005	2006	
	NT$	NT$	NT$	US$
Service cost	$5,291	4,186	2,694	82
Interest cost	1,370	1,665	1,816	55
Actual return on retirement plan assets	(82)	(136)	(293)	(9)
Amortization	688	654	743	22
Net pension cost	**$7,267**	**6,369**	**4,960**	**150**

(3) The actuarial assumptions at December 31, 2004, 2005 and 2006, were as follows:

	2004	2005	2006
Discount rate	3.50%	3.50%	2.75%
Rate of increase in future compensation levels	3.00%	3.00%	3.00%
Expected long-term rate of return on plan assets	3.50%	3.50%	2.75%

As of December 31, 2004, 2005 and 2006, the actuarial present value of the vested benefits for the Company's employees in accordance with the retirement benefit plan was approximately $4,493, $3,583 and $21,205, respectively.

(4) For the years ended December 31, 2004, 2005 and 2006, the defined contribution pension plan costs were as follows:

	2004	2005	2006	
	NT$	NT$	NT$	US$
Defined contribution pension plan cost	$124	7,023	14,917	452

(i) Income tax

(1) Each consolidated entity files its own separate income tax return. The Company is subject to ROC income tax at a maximum rate of 25%. Commencing from January 1, 2006, the Company is covered by the "Alternative Minimum Tax Statutes." This new Act has been enacted to impose an alternative minimum tax at the rate of 10% on the "basic taxable income" of any profit seeking enterprise in Taiwan determined pursuant to a certain formula. Ningbo Trade is subject to its local income tax at the rate of 33%. Ningbo Electronic is subject to its local income tax at the rate of 16.5% but is exempt from income tax for the first two years after it starts to make a profit, and is taxed at the rate of 50% of the statutory rate from the third year to the fifth year. Ningbo Electronic applied an income tax rate of 0%, 0% and 8.25% for the years ended December 31, 2004, 2005 and 2006 respectively. In addition, two other consolidated entities, Power Islands and Think Global, located in Western Samoa and British Virgin Islands, respectively, which are tax-free jurisdictions, are exempted from income tax. The tax exemption status of these entities is subject to change at any time at the discretion of relevant authority.

(2) For the years ended December 31, 2004, 2005 and 2006, the components of estimated income tax expense were as follows:

	2004	2005	2006	
	NT$	NT$	NT$	US$
Income tax expense—current	$ 1,584	13,730	36,853	1,116
Income tax benefit—deferred	(1,044)	(6,053)	(31,187)	(945)
Income tax expense	**$ 540**	**7,677**	**5,666**	**171**

The components of deferred income tax benefits for the years ended December 31, 2004, 2005 and 2006 were as follows:

	2004	2005	2006	
	NT$	NT$	NT$	US$
Change in unrealized inventory provisions	$ —	(330)	(733)	(22)
Change in unrealized foreign exchange gain	890	(47)	(3,295)	(100)
Change in allowance for doubtful accounts and discount	(1,636)	1,590	211	6
Provision for retirement benefits	(1,237)	(616)	84	3
Net investment gain recognized by the equity method	4,916	14,847	2,126	64
Change in unrealized inter-company profits	(1,155)	(521)	(147)	(5)
Unused investment tax credits	(43,690)	(7,251)	(38,700)	(1,172)
Change in valuation allowance for deferred income tax assets	41,998	(14,309)	9,760	296
Others	(1,130)	584	(493)	(15)
	$ (1,044)	**(6,053)**	**(31,187)**	**(945)**

(3) The estimated income tax calculated on pre-tax income at the Consolidated Companies' statutory income tax rate was reconciled with the actual income tax expense reported in the accompanying consolidated statements of income for the years ended December 31, 2004, 2005 and 2006, as follows:

	2004	2005	2006	
	NT$	NT$	NT$	US$
Estimated income tax calculated on pre-tax income at statutory income tax rate	$ 139,941	292,140	566,661	17,166
Gain on disposal of marketable securities not subject to income tax	(920)	(910)	(372)	(11)
Others	1,461	7,342	4,449	134
Current investment tax credits	(51,102)	(10,363)	(69,887)	(2,117)
10% surtax on undistributed earnings	238	2,542	183	6
Tax effect of income covered by a five-year tax holiday	(131,076)	(268,765)	(505,128)	(15,302)
Change in valuation allowance for deferred income tax assets	41,998	(14,309)	9,760	295
Income tax expense	**$ 540**	**7,677**	**5,666**	**171**

(4) The components of deferred income tax assets (liabilities) as of December 31, 2004, 2005 and 2006, were as follows:

	2004.12.31	2005.12.31	2006.12.31	
	NT$	NT$	NT$	US$
Deferred income tax assets—current:				
Provision for inventory obsolescence	$ 1,180	1,510	2,243	68
Allowance for doubtful accounts and discount	1,801	211	—	—
Unrealized profits from affiliated companies	1,155	1,676	1,823	55
Investment tax credits	9,599	9,599	40,786	1,236
Unrealized foreign exchange loss	—	—	897	27
Others	1,566	1,160	623	19
Net deferred income tax assets—current	15,301	14,156	46,372	1,405
Deferred income tax liabilities—current:				
Unrealized foreign exchange gain	(2,445)	(2,398)	—	—
Deferred income tax assets, net—current	**$ 12,856**	**11,758**	**46,372**	**1,405**
Deferred income tax assets—noncurrent:				
Provision for retirement benefits	5,133	5,749	5,665	172
Investment tax credits	70,707	77,958	85,471	2,589
Others	665	487	1,516	46
Valuation allowance	(69,168)	(54,859)	(64,619)	(1,958)
Net deferred income tax assets—noncurrent	7,337	29,335	28,033	849
Deferred income tax liabilities—noncurrent:				
Net investment gain recognized by the equity method	$ (4,916)	(19,763)	(21,888)	(663)
Deferred income tax assets, net—noncurrent	**$ 2,421**	**9,572**	**6,145**	**186**

(5) The Company was granted investment tax credits for investment in certain high-tech industries, for purchases of automatic machinery and equipment, and for expenditures on research and development and employee training. These investment tax credits can be used to reduce the income tax liability in the current year and in the following four years at an amount not exceeding 50% of the income tax liability for each year during the first four years, with full utilization of the balance of any remaining unused investment tax credits in the final year.

As of December 31, 2006, unused investment tax credits available to the Company were as follows:

Filing Year	Unused investment tax credits NT$	Unused investment tax credits US$	Expiry
2004 (reported)	$ 23,553	714	2008
2005 (reported)	22,379	678	2009
2006 (estimated)	80,325	2,433	2010
	$126,257	**3,825**	

In addition, the Company was granted a five-year tax holiday under the ROC tax law on its incremental profits arising from the sale of the following products produced from its expansion and construction projects as follows:

Approved tax holiday product	Tax holiday period
Solar cells and solar templates	2002.1.1~2006.12.31
Solar cells and solar templates	2005.1.1~2009.12.31
Solar cells and solar templates	2005.7.1~2010.6.30
Solar cells and solar templates	2006.10.16~2011.10.15

(6) Imputation credit account (ICA) and creditable ratio

	2004.12.31	2005.12.31	2006.12.31	
	NT$	NT$	NT$	US$
Unappropriated earnings before 1998	$ —	—	—	—
Unappropriated earnings in 1998 and thereafter	561,470	1,159,862	2,260,174	68,469
	561,470	**1,159,862**	**2,260,174**	**68,469**
Balance of ICA	**$ 19**	**363**	**103**	**3**

	2004 (actual)	2005 (actual)	2006 (estimated)
Creditable ratio for earnings distribution to domestic stockholders	**1.30%**	**1.28%**	**1.01%**

Nonresident stockholders are not eligible for the imputation tax credit. Nevertheless, the 10% income surtax paid can be offset against the tax to be withheld from payment of dividend to nonresident stockholders upon distribution of earnings.

(7) The Company's income tax returns have been examined by the local tax authorities through 2003.

(j) Stockholders' equity

(1) Common stock

As of December 31, 2004, 2005 and 2006, the Company's authorized share capital of $610,000, $1,200,000 and $2,000,000, respectively, with par value of NT$10 per share, divided into 46,386 thousand, 83,891 thousand and 144,040 thousand shares, respectively, were issued and outstanding. As of December 31, 2006, $90,000 of the Company's authorized share capital was reserved for stock options and convertible bonds.

The Company's stockholders, during their meeting on June 9, 2006, approved a resolution to distribute from unapproriated retained earnings, stock dividends aggregating to $562,570, of which 55,368 thousand common shares were distributed as stock dividends to shareholders and $8,890 divided into 889 thousand shares of common stock as bonus to employees. The aforementioned issuance was approved by and registered with the government authorities on September 9, 2006.

The Company's directors, during their meeting on August 24, 2006, approved a resolution to issue for cash at the price of NT$420 per share, new 3 million common shares with par value of NT$10 per share, aggregating to $1,260,000. The aforementioned issuance was approved by and registered with the government authorities on December 8, 2006.

The Company's stockholders, during their meeting on June 17, 2005, approved a resolution to distribute from unapproriated retained earnings, stock dividends aggregating to $308,563, of which 29,852 thousand common shares were distributed as stock dividends to shareholders and $10,045 divided into 1,004 thousand shares of common stock as bonus to employees. The aforementioned issuance was approved by and registered with the government authorities on August 17, 2005.

The Company's stockholders, during their meeting on June 18, 2004, approved a resolution to distribute from unappropriated earnings, stock dividends aggregating to $109,399, of which 10,495 thousand shares of common stock were distributed as stock dividends to shareholders and $4,448 divided into 445 thousand shares of common stock as bonus to the employees. The aforementioned issuance was approved by and registered with the government authorities on August 10, 2004.

(2) Capital surplus

The ROC Company Law stipulates that realized capital surplus cannot be used to increase capital except for purposes of covering the accumulated deficit of the Company. The realized capital surplus includes the premiums from issuance of shares over their par value. In addition, the capital surplus from issuance of shares or other events, in accordance with Article 8 of the ROC Securities and Exchange Law and the ROC Company Law can be credited or transferred to capital provided that the transfer of such capital surplus to capital has been approved by and registered with the competent authority in prior year.

Furthermore, the capital surplus arising from the issuance of shares in excess of par value and from gifts received which are credited to capital should not exceed 10 percent of the amount of paid-in capital every year.

The components as of December 31, 2004, 2005 and 2006, were as follows:

	2004.12.31	2005.12.31	2006.12.31	
	NT$	NT$	NT$	US$
Additional paid-in capital	$ 28,000	28,000	1,259,148	38,144
Additional paid-in capital—bond conversion	234,525	383,404	392,245	11,883
	$262,525	**411,404**	**1,651,393**	**50,027**

(3) Legal reserve, and restrictions on appropriations of earnings

(i) Legal reserve

The ROC Company Law stipulates that the Company must retain 10% of its annual earnings, as defined in the Law, until such retention equals the amount of authorized share capital. This retention is accounted for by transfers to legal reserve, upon approval by the stockholders during their meeting. Legal reserve can be used to offset an accumulated deficit or to (a) increase common stock when it reaches an amount equal to one-half of the paid-in capital, but only 50% of it can be transferred to common stock; and (b) distribute dividends and bonuses when it exceeds one-half of paid-in capital but such dividends and bonuses can be distributed only from the excess portion of the legal reserve.

(ii) Restrictions on appropriations of earnings:

The Company's articles of incorporation stipulate that the Company must retain 10% of its annual income after deducting accumulated deficit, if any, as a legal reserve. The remaining balance can be distributed as dividends to shareholders and appropriated as bonus to employees. However, the appropriation for employees' bonuses shall not be less than 1% of earnings of each year.

The Company's dividend policy was as follows:

(a) The Company appropriates cash dividends and stock dividends in consideration of the budgets for capital expenditures, financial condition, and future operating cash flow.

(b) Dividends cannot be distributed if the Company has no unappropriated earnings; however, when legal reserve exceeds an amount equal to one-half of the paid-in share capital, the excess amount can be distributed as cash or share dividends. The ratio for distributing cash dividends shall not be more than 90% of total distribution.

(c) If the Company has no unappropriated earnings, or if the Company has unappropriated earnings which are much less than the earnings distributed last year, or in consideration of finance, business, and operations, then all of the capital surplus or a part of the legal reserve or capital reserve can be distributed according to the law or government regulations.

(4) Special reserve

Under the ROC Securities Exchange Law, a company is required to appropriate a special reserve from unappropriated earnings at an amount equal to the net debit balance of those accounts in the stockholders' equity, such as cumulative translation adjustment and unrealized loss from revaluation of long-term investment. This special reserve cannot be distributed as dividends. When those stockholders' equity accounts with debit balances are reversed, the special reserve is also reversed by the same amount against unappropriated earnings.

(5) Appropriated earnings

The employees' bonuses and directors' and supervisors' remuneration appropriated from 2003, 2004 and 2005 earnings were as follows:

	2003	2004	2005	
			NT$	US$
Employees' bonuses—stock (par value)	$ 4,447	10,045	8,890	269
Employees' bonuses—cash	15,321	40,178	80,013	2,424
Stock dividends	104,951	298,518	553,680	16,773
Cash dividends	64,586	134,815	369,120	11,182
Directors' and supervisors' remuneration	8,895	20,089	31,377	951
	$198,200	**503,645**	**1,043,080**	**31,599**

The appropriation of earnings did not differ from the resolutions made by the Company's directors. Stock dividends distributed to employees aggregated to 444.7 thousand, 1,004.5 thousand and 889 thousand shares, representing 1.38%, 2.17% and 1.06% of the outstanding common shares as of December 31, 2003, 2004 and 2005, respectively. Assuming the above remuneration of directors and supervisors and the employees' bonuses are paid in cash and expensed in the year when the earnings are recognized, the basic earnings per share (after tax), not computed retroactively, for the years 2003, 2004 and 2005 would be reduced to NT$9.51 (US$0.29), NT$10.95 (US$0.33), and NT$13.08 (US$0.40), respectively.

The appropriation for the 2006 employees' bonuses and directors' and supervisors' remuneration is subject to the resolutions of the Company's directors and stockholders and related information can be accessed from the website of the Market Observation Post System after the meetings.

(6) Employee stock options

(i) In order to attract and retain employees, the Company issues employee stock options based on a resolution approved by the Company's board of directors. Each unit of these stock options bears the right to purchase 1,000 shares of the Company's common stock, under the employee stock option plan. The details of employee stock options issued are as follows:

Item	Resolution date of the board of directors	Approval date by Securities and Futures Bureau	Issue date	Expected number of units	Actual number of units	Purchase price per share	
						NTD	USD
Employee stock options in 2002	2002.11.27	2003.01.08	2003.02.12	2,678	2,678	$10.0 (Note 1)	0.3
Employee stock options in 2003	2003 04.03	2003.04.25	2004.04 23	1,322	290	23.3 (Note 1)	0.7
Employee stock options in 2005:							
—1st	2005.12.22	2006.01.09	2006.06.14	1,500	1,210	424.1 (Note)	12.8
—2nd	2005.12.22	2006.01.09	2006.12.19	Note 2	270	388.0	11.8

Note1: Purchase price per share had been retroactively adjusted by the distribution of stock dividends, however, the adjusted amount can not be less than the par value of NT$10 per share.

Note2: The expected number of units were included in 2005—1st employee stock option.

The aforementioned options are valid for seven years and the compensation cost for stock options was accounted for using the intrinsic value method. Because the option exercise price was equal to the stock market price on grant date, the compensation costs were both $0 for the years ended December 31, 2004 and 2006. There were no stock options issued in 2005. Under the employee stock option plan, the holder of a stock option can exercise 20% of the options each year beginning two years after the grant date.

(ii) If the employee stock option plans of the Company were accounted for using the fair value method, the compensation costs would be $5,797 and $48,243 for the years ended December 31, 2004 and 2006, respectively.

The stock options should be exercised completely within one year from exercisable date, or the holders are deemed to have abandoned the right to subscribe.

If the Company adopted the fair value method when accounting for compensation cost for the stock options in 2003 and 2005, and the Black-Scholes option valuation method was used to estimate the fair value of the option on grant date, the assumptions and the fair value of these options would be as follows:

	Employee stock option in 2003	Employee stock option in 2005-1st	Employee stock option in 2005-2nd
Dividend yield	5.80%	1.95%	1.72%
Expected volatility	43%	95%	86%
Risk-free interest rate	2.00%	2.02%	2.23%
Fair value per share on grant date (dollars)	$19.99	470	265
Market price per share on grant date (dollars)	86	710	388

The Company's stock option plan was accounted for as a compensatory plan. The weighted-average exercise price and outstanding units were as follows:

	2004		2005		2006		
	Shares (thousand)	Weighted-average exercise price NTD per share	Shares (thousand)	Weighted-average exercise price NTD per share	Shares (thousand)	Weighted-average exercise price NTD per share	Weighted-average exercise price USD per share
Options outstanding at January 1	2,678	$13.27	2,968.0	15.28	2,495.4	13.34	0.40
Granted	290	86.00	—	—	1,480.0	651.26	19.73
Exercised	—	—	(472.6)	10.00	(629.6)	11.82	0.36
Forfeited	—	—	—	—	—	—	—
Options outstanding at December 31	**2,968**	**15.28**	**2,495.4**	**13.34**	**3,345.8**	191.26	5.79
Fair value of stock options issued in current period (thousand)	**$5,797**		**—**		**640,250**		

As of December 31, 2006, the Company's outstanding stock options accounted for as a compensatory plan were as follows:

Issue date	Options outstanding as of December 31, 2006				Options exercisable	
	Range of exercise price	Shares	Weighted-average remaining contractual life	Weighted-average exercise price	Shares	Weighted-average exercise price
	(dollars)	(thousand)	(years)	(dollars)	(thousand)	(dollars)
2003.02.12	$ 10.0	1,615.8	3.12 years	$ 10.0	9	10.0
2004.04.23	23.3~38.7	250.0	4.31 years	23.3	18	23.3
2006.06.14	424.1~710	1,210.0	6.45 years	424.1	—	—
2006.12.19	388.0	270.0	6.96 years	388.0	—	—

If the compensatory employee stock option plan of the Company was accounted for using the fair value method, the pro-forma net income and EPS for the years 2004, 2005 and 2006 would be as follows:

		2004	2005	2006	
		NT$	NT$	NT$	US$
Net Income	Net income in statement of income	$559,620	1,159,427	2,257,907	68,401
	Pro-forma net income	555,272	1,159,427	2,221,725	67,305
Basic EPS (dollars)	EPS in consolidated statement of income (after income tax)	4.66	8.52	16.01	0.49
	Pro-forma EPS	4.62	8.52	15.76	0.48
Diluted EPS (dollars)	EPS in consolidated statement of income (after income tax)	3.89	7.95	15.31	0.46
	Pro-forma EPS	3.86	7.95	15.07	0.46

(k) Earnings per share (EPS)

For the years ended December 31, 2004, 2005 and 2006, the Consolidated Companies' earnings per share were calculated as follows:

	2004		2005		2006			
	Before income taxes	After income taxes	Before income taxes	After income taxes	Before income taxes		After income taxes	
	NT$	NT$	NT$	NT$	NT$	US$	NT$	US$
Basic EPS:								
Net income	**$560,160**	**559,620**	**1,167,104**	**1,159,427**	**2,263,573**	**68,572**	**2,257,907**	**68,401**
Weighted-average number of shares outstanding during the year (thousand shares)	**120,085**	**120,085**	**136,139**	**136,139**	**141,015**	**141,015**	**141,015**	**141,015**
Basic EPS (dollars)	**4.66**	**4.66**	**8.57**	**8.52**	**16.05**	**0.49**	**16.01**	**0.49**
Diluted EPS:								
Net income	$560,160	559,620	1,167,104	1,159,427	2,263,573	68,572	2,257,907	68,401
Effect of common stock with dilution potential—convertible bonds	5,833	4,375	2,502	1,877	1,149	35	862	26
Net income plus the effect of common stock with dilution potential	**$565,993**	**563,995**	**1,169,606**	**1,161,304**	**2,264,722**	**68,607**	**2,258,769**	**68,427**
Weighted-average number of shares outstanding during the year (thousand shares)	120,085	120,085	136,139	136,139	141,015	141,015	141,015	141,015
Effect of common stock with dilution potential:								
Stock options	2,534	2,534	2,530	2,530	2,495	2,495	2,495	2,495
Convertible bonds	22,270	22,270	7,409	7,409	4,001	4,001	4,001	4,001
Weighted-average number of shares outstanding for calculating diluted EPS (thousand shares)	**144,889**	**144,889**	**146,078**	**146,078**	**147,511**	**147,511**	**147,511**	**147,511**
Diluted EPS (dollars)	**$ 3.91**	**3.89**	**8.01**	**7.95**	**15.35**	**0.46**	**15.31**	**0.46**

(l) Financial instruments

(1) Forward exchange contracts

The Consolidated Companies use foreign exchange forward contracts to hedge the risk of foreign currency assets and liabilities or foreign currency cash flows resulting from anticipated transactions. The purpose of the strategy is to hedge the majority of the market risk.

There were no forward exchange contract transactions for the year ended December 31, 2006.

As of December 31, 2005, the Company entered into several outstanding forward exchange contracts amounting to EURO 920,000, and the net payable arising from these contracts of $320 was recorded under accrued expenses and other current liabilities. Net exchange gains from forward exchange contracts for the year ended December 31, 2005 amounted to $916, which were accounted for under foreign exchange loss—net, in the consolidated statements of income.

All of the forward exchange contracts for the year ended December 31, 2004 have matured. Net exchange loss realized thereon amounted to $3,869, which was classified under foreign exchange gains—net, in the consolidated statements of income for the year ended December 31, 2004.

The counter-parties to the forward transactions are international financial institutions with excellent reputations. Management believes that the risk of loss due to non-performance of the counter-parties is remote. Even in the unlikely event that these institutions defaulted on their contracts, management does not believe the loss would result in a material effect on the consolidated financial statements. In addition, the market risk arising from the hedging instruments will be offset by changes in foreign currency exchange rate resulting from hedged items.

(2) Fair value of financial instruments

As of December 31, 2004, 2005 and 2006, fair value of financial assets and liabilities of the Consolidated Companies were as follows:

	2004.12.31		2005.12.31		2006.12.31			
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount		Fair value	
					NT$	US$	NT$	US$
Financial assets:								
Cash and cash equivalents	455,210	455,210	288,019	288,019	1,612,544	48,850	1,612,544	48,850
Bond funds	282,502	284,995	63,078	64,073	49,859	1,511	49,859	1,511
Notes and accounts receivable	263,981	263,981	312,781	312,781	1,083,699	32,829	1,083,699	32,829
Other financial assets—current	12,323	12,323	152,999	152,999	10,727	325	10,727	325
Other financial assets—noncurrent	3,127	3,127	3,719	3,719	7,091	215	7,091	215
Restricted long-term assets	—	—	—	—	1,536,146	46,536	1,536,146	46,536
Financial liabilities:								
Short-term borrowings (including long-term borrowings—current portion)	9,400	9,400	137,733	137,733	473,429	14,342	473,429	14,342
Notes and accounts payable	202,800	202,800	204,962	204,962	326,447	9,889	326,447	9,889
Accrued expense and other current liabilities	214,513	214,513	345,041	345,041	408,841	12,386	408,841	12,386
Convertible bonds and interest premium payable	273,173	924,042	82,346	1,070,670	72,000	2,181	1,893,600	57,364
Long-term borrowings (less long-term borrowings—current portion)	27,500	27,500	73,933	73,933	2,075,720	62,881	2,075,720	62,881

(ii) Methods and assumptions to measure the fair value of financial instruments

a. Because the maturity dates of short-term financial instruments, including cash and cash equivalents, notes and accounts receivable/payable, short-term borrowings (including long-term borrowings—current portion), other financial assets—current, accrued expenses and other current liabilities, are within one year of the balance sheet date, their book value is assumed to be equal to their fair value.

b. If the publicly quoted market price for financial assets and liabilities is available, then the quoted price will be used as the fair value. If market value is not available, an assessment method will be used. The assumptions used should be the same as those used by financial market traders when quoting their prices.

c. Because the fair value of long-term borrowings is determined based on the discounted future cash flows and the discount rates are floating, the carrying value of long-term borrowings approximates the market value.

d. The fair value of convertible bonds is determined based on market price.

(iii) As of December 31, 2006, the fair values of financial assets and liabilities evaluated under the publicly quoted market price and an assessment method were as follows:

	2006			
	Public quote value		Assessment value	
	NT$	US$	NT$	US$
Financial assets:				
Cash and cash equivalents	$ —	—	1,612,544	48,850
Bond funds	49,859	1,511	—	—
Notes and accounts receivables	—	—	1,083,699	32,829
Other financial assets—current	—	—	10,727	325
Restricted long-term assets	—	—	1,536,146	46,536
Financial liabilities:				
Short-term borrowings (including long-term borrowings—current portion)	—	—	473,429	14,342
Notes and accounts payable	—	—	326,477	9,889
Accrued expense and other current liabilities	—	—	408,841	12,386
Convertible bonds and interest premium payable			1,893,600	57,364
Long-term borrowings (less long-term borrowings—current portion)	—	—	2,075,720	62,881

(iv) The valuation of available-for-sale financial assets resulted in unrealized gain of $352 (US$11), which was recorded under stockholders' equity as unrealized gain on available-for-sale financial assets as of December 31, 2006. Also, the disposal of available-for-sale financial assets resulted in a realized gain of $1,488 (US$45), which was credited to profit and loss in 2006 against unrealized gain on available-for-sale financial asset.

(v) Disclosure of financial risks

a. Market risk

The equity instruments held by the Consolidated Companies' were classified as available-for-sale financial assets and were evaluated at fair value. Therefore, the Company was exposed to the risk of price fluctuation.

b. Concentrations of credit risk

The Consolidated Companies' cash and cash equivalents, securities, and accounts receivable involve potential credit risk. Cash is deposited in different financial institutions to diverge from the credit risk. Securities consist of publicly traded good rating bonds, which were purchased to reduce the credit risk. Therefore, the Consolidated Companies consider the credit risk involving cash and securities not significant.

Concentrations of credit risk exist if the financial instrument transactions are obviously concentrated on a few counter-parties, or the counter-parties are engaged in similar business activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The Consolidated Companies' accounts receivable were obviously concentrated on 5, 5 and 7 customers, whose accounts represented 64.63%, 44.40% and 69.20% of total accounts receivable, as of December 31, 2004, 2005 and 2006, respectively.

c. Cash flow risk related to the fluctuation of interest rates

The Consolidated Companies' short-term and long-term borrowings carried floating interest rates. As a result, the effective rate changes along with the fluctuation of the market interest rate and thereby influences the Consolidated Companies' future cash flow. If the market interest rate increases by 1%, the Consolidated Companies' future cash outflow would increase by approximately $25,491.

d. Liquidity risk

The Consolidated Companies' capital and operating funds are sufficient to meet all financial obligations. Therefore, the Consolidated Companies do not expect to have liquidity risk.

(5) Related-party Transactions

(a) Names and relationship of related parties

Name	Relationship with the Company
Galaxy Far East Corp. (Galaxy)	The Company's chairman is a member of the Board of Directors
CReTE Systems Inc (CReTE)	The Company's chairman is a member of the Board of Directors
AE Polysilicon Corporation	The Company's CEO is the relative of AE's president

(b) Significant transactions with related parties

(i) Purchases and accounts payable

In 2004, the Consolidated Companies' purchases from Galaxy, which amounted to $352 were fully paid for by the Company. There was no similar transaction in 2005 and 2006.

The purchase prices for the purchases from Galaxy were not materially different from those of non-related general suppliers.

(ii) Property transactions

In 2004, the Consolidated Companies bought office buildings from CReTE for $23,952, which was fully paid by the Consolidated Companies. There were no similar transactions in 2005 and 2006.

(iii) Other

On December 29, 2006, the Company entered into a Strategic Supply Agreement with AE. Under this agreement, the Company will acquire AE's Series A convertible preferred stock for US$2,000 and will prepay US$30,000 for the long-term supply of materials. On January 23, 2007, the Company remitted the payment for the stock purchase price of US$2,000 through Cheer View Investment Limited (Cheer View). Cheer View will become a subsidiary of Power Islands in 2007, and made the first prepayment of US$15,000 for the long-term supply of materials on January 31, 2007. The remaining advanced payment for material costs of US$15,000 will be paid on March 15, 2007. The agreement also grants the Company the right to convert up to half of its advanced payment for material costs into AE's new shares based on AE's offering price or to partially deduct it from the material purchase costs beginning from the year 2011 until 2013. The purchase quantities are fixed, but the prices are subject to open market adjustment.

(6) Pledged Assets

As of December 31, 2004, 2005 and 2006, the book values of pledged assets were as follows:

Pledged assets	Pledged to secure	2004.12.31	2005.12.31	2006.12.31	
		NT$	NT$	NT$	US$
Machinery and equipment	Long-term borrowings	$97,337	277,999	137,785	4,174
Time deposit	Long-term raw material supply contract	—	—	1,536,146	46,536
		$97,337	**277,999**	**1,673,931**	**50,710**

(7) Commitments and Contingencies

(a) As of December 31, 2004, 2005 and 2006, the unused letters of credit for purposes of purchasing materials, machinery, and equipment, amounted to $88,747, $192,487 and $324,501, respectively.

(b) As of December 31, 2004, 2005 and 2006, the Company had entered into certain contracts amounting to $590,016, $719,917 and $1,393,330, respectively, for purposes of expanding the factory building and acquiring machinery and equipment. As of December 31, 2004, 2005 and 2006, the unpaid contract price thereon amounted to $354,903, $395,780 and $369,431, respectively.

(c) The Company rents its Tainan branch office premises in the Tainan Science Park. Future minimum lease payments from these leases were as follows:

2007.1.1-2007.12.31	$ 3,145
2008.1.1-2008.12.31	3,145
2009.1.1-2009.12.31	3,145
2010.1.1-2010.12.31	3,145
2011.1.1-2011.12.31	3,145
After 2012.1.1	29,245
	$44,970

When the government announces the current land value in accordance with the ROC Land law, the above lease payments will be adjusted in the month following this government announcement.

(d) To overcome the short supply of materials, the Company entered into long-term material supply contracts with suppliers in 2005 and 2006, under which, the purchase quantities are fixed and prices will be adjusted based on changes in material costs structure.

(e) In 2006, the Company entered into long-term sales contracts with two customers to sell merchandise to these customers, under which, the sales quantities are fixed and prices will be adjusted according to market price conditions quarterly.

(f) In 2006, the Company entered into a contract with Renewable Energy Corporation (REC) to purchase solar energy material from REC totaling $10,000,000 for 5 years commencing from January 1, 2007. As HSBC provided a bank guarantee for this purchase contract, the Company pledged its time deposit of US$47,127,750 (equal to $1,536,146), as a collateral to HSBC. Refer to Note (6) for details.

(8) Significant Disaster Loss

On November 23, 2005, certain inventory, plant and equipment of the Tainan factory were destroyed by fire. The estimated fire damage and losses on work stoppage during the shutdown period, which aggregated to $107,795 (net of estimated insurance compensation), were recorded as loss on fire damage. As of December 31, 2006, the receivable from insurance claim of $144,602 was recorded as other financial assets—current. The related provision for fire damage and losses was recorded as accrued expenses and other current liabilities.

(9) Subsequent Events:

The Company's shareholders, during their Special Shareholders' Meeting on February 5, 2007, approved the offering of Global Depository shares (GDS) by issuing new Company shares of not more than 18 million shares, with par value of NT$10 per share. Except for the 10% of these new shares allocated for priority purchase by the employees, the remaining shares representing the GDS would be issued to the public when the original shareholders waived their rights to subscribe to these new shares in accordance with Securities and Exchanges Act. The aforementioned proposed offering was approved by the stockholders on February 5, 2007, but has not been approved yet by the government authorities on the date of the issuance of these financial reports.

(10) Other

(a) Total personnel, depreciation and amortization expenses incurred for the years ended December 31, 2004, 2005 and 2006, were as follows:

	2004		
	Operating costs	Operating expenses	Total
		NT$	
Personnel:			
Salaries	180,208	74,366	254,574
Labor and health insurance	7,533	3,611	11,144
Pension	4,035	3,356	7,391
Others	8,884	1,759	10,643
Depreciation	35,858	8,747	44,605
Amortization	67	1,496	1,563

	2005		
	Operating costs	Operating expenses	Total
		NT$	
Personnel:			
Salaries	206,708	91,312	298,020
Labor and health insurance	10,459	5,171	15,630
Pension	8,425	3,770	12,195
Others	6,796	2,638	9,434
Depreciation	123,428	10,198	133,626
Amortization	1,481	2,188	3,669

	2006		
	Operating costs	Operating expenses	Total
		NT$	
Personnel:			
Salaries	279,391	121,567	400,958
Labor and health insurance	16,508	6,768	23,276
Pension	13,026	5,304	18,330
Others	10,110	3,774	13,884
Depreciation	163,884	14,269	178,153
Amortization	1,483	2,609	4,092

	2006		
	Operating costs	Operating expenses	Total
		US$	
Personnel:			
Salaries	8,464	3,683	12,147
Labor and health insurance	500	205	705
Pension	395	160	555
Others	306	115	421
Depreciation	4,965	432	5,397
Amortization	45	79	124

(b) Reclassification

Certain accounts in 2004 and 2005 consolidated financial statements have been reclassified to conform with the financial statements presentation adopted in 2006. These reclassifications have no significant impact on the financial statements.

(11) Segment Financial Information

(a) Industry segment

Industry segment data as of and for the years ended December 31, 2004, 2005, and 2006, were as follows:

	2004				
	Solar	**Instruments**	**Power**	**Eliminations**	**Consolidated**
			NT$		
Revenue from outside customers	$2,276,547	143,797	46,779	—	2,467,123
Revenue from parent and consolidated subsidiaries	398,249	36,768	—	(435,017)	—
Net revenues	**$2,674,796**	**180,565**	**46,779**	**(435,017)**	**2,467,123**
Segment income (losses)	**$ 529,959**	**20,708**	**(6,402)**	—	544,265
Marketable securities income					3,683
General income					22,688
General expense					(2,789)
Interest expense					(7,687)
Income before income taxes					**$ 560,160**
Segment identifiable assets	**$1,582,856**	**420,955**	**84,503**	**—**	**2,088,314**
Depreciation	**$ 37,968**	**6,485**	**152**	**—**	**44,605**
Capital expenditures	**$ 493,567**	**45,868**	**707**	**—**	**540,142**

	2005				
	Solar	**Instruments**	**Power**	**Eliminations**	**Consolidated**
			NT$		
Revenue from outside customers	$4,174,328	165,933	115,902	—	4,456,163
Revenue from parent and consolidated subsidiaries	368,043	50,860	—	(418,903)	—
Net revenue	**$4,542,371**	**216,793**	**115,902**	**(418,903)**	**4,456,163**
Segment income (losses)	**$1,240,813**	**25,912**	**(2,749)**	—	1,263,976
Marketable securities income					3,642
General income					15,219
General expense					(112,308)
Interest expense					(3,425)
Income before income taxes					**$1,167,104**
Segment identifiable assets	**$3,018,649**	**255,384**	**97,884**	**—**	**3,371,917**
Depreciation	**$ 139,976**	**6,722**	**207**	**—**	**146,905**
Capital expenditures	**$ 460,970**	**5,662**	**170**	**—**	**466,802**

MOTECH INDUSTRIES INC. AND SUBSIDIARIES

Notes to Financial Statements—(Continued)

	2006				
	Solar	Instruments	Power	Eliminations	Consolidated
			NT$		
Revenue from outside customers	$7,966,823	179,325	57,260	—	8,203,408
Revenue from parent and consolidated subsidiaries	123,631	40,640	—	(164,271)	—
Net revenue	**$8,090,454**	**219,965**	**57,260**	**(164,271)**	**8,203,408**
Segment income (losses)	**$2,187,199**	**8,304**	**(8,690)**	—	2,186,813
Marketable securities income					1,488
General income					127,418
General expense					(17,561)
Interest expense					(34,585)
Income before income taxes					**$2,263,573**
Segment identifiable assets	**$7,517,870**	**1,431,085**	**104,593**	**—**	**9,053,548**
Depreciation	**$ 193,260**	**7,938**	**189**	**—**	**201,387**
Capital expenditures	**$1,702,892**	**9,196**	**—**	**—**	**1,712,088**

	2006				
	Solar	Instruments	Power	Eliminations	Consolidated
			US$		
Revenue from outside customers	$241,346	5,432	1,735	—	248,513
Revenue from parent and consolidated subsidiaries	3,836	1,231	—	(5,067)	—
Net revenue	**$245,182**	**6,663**	**1,735**	**(5,067)**	**248,513**
Segment income (losses)	**$ 66,258**	**252**	**(263)**	**—**	66,247
Marketable securities income					45
General income					3,860
General expense					(532)
Interest expense					(1,048)
Income before income taxes					**$ 68,572**
Segment identifiable assets	**$227,745**	**43,353**	**3,169**	**—**	**274,267**
Depreciation	**$ 5,855**	**240**	**6**	**—**	**6,101**
Capital expenditures	**$ 51,587**	**279**	**—**	**—**	**51,866**

(b) Geographic areas

Segment information by geographic areas as of and for the years ended December 31, 2004, 2005 and 2006, were as follows:

	2004				
	Taiwan	Asia	Other	Eliminations	Consolidated
			NT$		
Revenue from outside customers	$2,235,245	224,963	6,915	—	2,467,123
Revenue from parent and consolidated subsidiaries	215,129	6,938	212,950	(435,017)	—
Net revenue	**$2,450,374**	**231,901**	**219,865**	**(435,017)**	**2,467,123**
Area income (loss)	**$ 536,655**	**4,171**	**3,439**	**—**	544,265
Marketable securities income					3,683
General income					22,688
General expense					(2,789)
Interest expense					(7,687)
Income before income taxes					**$ 560,160**
Area identifiable assets	**$2,033,454**	**42,525**	**15,575**	**—**	**2,091,554**
Depreciation	**$ 44,157**	**448**	**—**	**—**	**44,605**
Capital expenditures	**$ 535,487**	**4,655**	**—**	**—**	**540,142**

	2005				
	Taiwan	Asia	Other	Eliminations	Consolidated
			NT$		
Revenue from outside customers	$4,146,144	291,958	18,061	—	4,456,163
Revenue from parent and consolidated subsidiaries	158,091	62,309	198,503	(418,903)	—
Net revenue	**$4,304,235**	**354,267**	**216,564**	**(418,903)**	**4,456,163**
Area income (loss)	**$1,227,350**	**31,932**	**4,694**	**—**	1,263,976
Marketable securities income					3,642
General income					15,219
General expense					(112,308)
Interest expense					(3,425)
Income before income taxes					**$1,167,104**
Area identifiable assets	**$3,272,381**	**77,105**	**24,138**	**—**	**3,373,624**
Depreciation	**$ 146,151**	**754**	**—**	**—**	**146,905**
Capital expenditures	**$ 465,033**	**1,769**	**—**	**—**	**466,802**

	2006				
	Taiwan	Asia	Other	Eliminations	Consolidated
			NT$		
Revenue from outside customers	$8,020,395	166,102	16,911	—	8,203,408
Revenue from parent and consolidated subsidiaries	79,095	6,670	78,506	(164,271)	—
Net revenue	**$8,099,490**	**172,772**	**95,417**	**(164,271)**	**8,203,408**
Area income (loss)	**$2,177,621**	**5,117**	**4,075**	**—**	2,186,813
Marketable securities income					1,488
General income					127,418
General expense					(17,561)
Interest expense					(34,585)
Income before income taxes					**$2,263,573**
Area identifiable assets	**$8,948,234**	**90,549**	**22,929**	**—**	**9,061,712**
Depreciation	**$ 200,277**	**1,110**	**—**	**—**	**201,387**
Capital expenditures	**$1,710,381**	**1,707**	**—**	**—**	**1,712,088**

	2006				
	Taiwan	Asia	Other	Eliminations	Consolidated
			US$		
Revenue from outside customers	$242,969	5,032	512	—	248,513
Revenue from parent and consolidated subsidiaries	2,396	202	2,378	(4,976)	—
Net revenue	**$245,365**	**5,234**	**2,890**	**(4,976)**	**248,513**
Area income (loss)	**$ 65,969**	**155**	**123**	**—**	66,247
Marketable securities income					45
General income					3,860
General expense					(532)
Interest expense					(1,048)
Income before income taxes					**$ 68,572**
Area identifiable assets	**$271,076**	**2,743**	**695**	**—**	**274,514**
Depreciation	**$ 6,067**	**34**	**—**	**—**	**6,101**
Capital expenditures	**$ 51,814**	**52**	**—**	**—**	**51,866**

(c) Export sales

The export sales of the Company in 2004, 2005 and 2006 were as follows:

Area	2004 Amount	2004 Percentage of net sales	2005 Amount	2005 Percentage of net sales	2006 Amount		2006 Percentage of net sales
	NT$		NT$		NT$	US$	
Asia	$1,045,450	43.38	2,264,402	50.82	3,512,898	106,419	42.82
Europe	1,142,481	46.31	1,374,136	30.84	2,354,550	71,328	28.70
Americas	29,085	1.18	87,313	1.96	679,406	20,582	8.28
Other	116,678	4.73	340,050	7.63	514,430	15,584	6.27
	$2,333,694	**95.60**	**4,065,902**	**91.25**	**7,061,284**	**213,913**	**86.07**

(d) Major customers

For the years ended December 31, 2004, 2005 and 2006, sales to customers representing greater than 10% of net revenue were as follows:

Customer	2004 Net revenue amount	2004 Percentage of net revenue	2005 Net revenue amount	2005 Percentage of net revenue	2006 Net revenue amount		2006 Percentage of net revenue
	NT$		NT$		NT$	US$	
W	$113,701	4.61	231,394	5.19	1,017,209	30,815	12.40
X	513,307	20.81	636,101	14.27	565,304	17,125	6.89
Y	317,059	12.85	126,828	2.85	311,951	9,450	3.80
	$944,067	**38.27**	**994,323**	**22.31**	**1,894,464**	**57,390**	**23.09**

Independent Auditors' Report

The Board of Directors
MOTECH Industries Inc.

We have audited the balance sheets of MOTECH Industries Inc. as of December 31, 2004, 2005 and 2006, and the related statements of income, changes in stockholders' equity, and cash flows for the years ended December 31, 2004, 2005 and 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and "Rules Governing Auditing and Certification of Financial Statements by Certified Public Accountants" in the Republic of China. Those standards and rules 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 MOTECH Industries Inc. as of December 31, 2004, 2005 and 2006, and the results of its operations and its cash flows for the years ended December 31, 2004, 2005 and 2006, in conformity with Republic of China generally accepted accounting principles.

The accompanying financial statements as of and for the year ended December 31, 2006, have been translated into United States dollars solely for the convenience of the readers. We have audited the translation, and in our opinion, the financial statements expressed in New Taiwan dollars have been translated into United States dollars on the basis set forth in note 2(a) to the accompanying financial statements.

As stated in note 8 to financial statements, certain inventory, plant and equipment of the Tainan factory were destroyed by fire on November 23, 2005. The estimated fire damage and losses on work stoppage incurred during the shutdown period amounted to NT$107,795 thousands, net of insurance compensation.

We have also audited the consolidated financial statements of MOTECH Industries Inc. and subsidiaries as of and for the years ended December 31, 2004, 2005 and 2006. Based on our audits, we have issued an unqualified, modified unqualified and modified unqualified audit report on these consolidated financial statements as of and for the years ended December 31, 2004, 2005 and 2006, respectively.

KPMG Certified Public Accountants
Taipei, Taiwan (the Republic of China)
February 7, 2007, except as Note 2(a)
which is as of April 14, 2007

MOTECH INDUSTRIES INC.

BALANCE SHEETS
DECEMBER 31, 2004, 2005 AND 2006
(Amounts expressed in thousands of New Taiwan dollars and U.S. dollars)

	2004	2005	2006	
	NT$	NT$	NT$	US$
Assets				
Current assets:				
Cash and cash equivalents (note 4(a))	$ 425,146	239,147	1,564,683	47,400
Available-for-sale financial assets—current (note 4(b))	282,502	63,078	49,859	1,511
Notes and accounts receivable, net of allowance for doubtful accounts of $3,501, $4,168 and $4,062 in 2004, 2005 and 2006, respectively	254,146	289,237	1,055,066	31,962
Accounts receivable—related parties (note 5)	30,739	10,199	3,416	103
Other financial assets—current	12,323	152,999	10,727	325
Inventories (note 4(c))	243,621	1,170,482	1,267,412	38,395
Prepayments and other current assets	23,969	186,916	487,243	14,760
Deferred income tax assets—current (note 4(j))	12,856	11,758	46,372	1,405
Total current assets	1,285,302	2,123,816	4,484,778	135,861
Funds and investments:				
Long-term equity investments under equity method (note 4(d))	27,567	89,378	98,799	2,993
Other financial assets—noncurrent	3,127	3,719	6,876	208
Total funds and investments	30,694	93,097	105,675	3,201
Property, plant and equipment (notes 4(e), 5, 6, 7, and 8):				
Land	27,823	27,823	27,823	843
Buildings	103,924	131,919	447,285	13,550
Machinery and equipment	419,308	660,240	1,064,881	32,259
Transportation equipment	5,600	6,050	8,401	254
Office equipment	2,856	4,322	15,436	468
Other equipment	86,962	94,540	393,376	11,917
	646,473	924,894	1,957,202	59,291
Less: accumulated depreciation	(119,467)	(240,254)	(433,736)	(13,139)
Prepayments for construction in progress and equipment	240,198	331,819	1,080,522	32,733
Net property, plant and equipment	767,204	1,016,459	2,603,988	78,885
Intangible assets:				
Deferred pension cost (note 4(i))	3,240	1,707	8,164	247
Other assets:				
Deferred charges	2,899	4,454	21,612	655
Deferred income tax assets—noncurrent (note 4(j))	2,421	9,572	6,145	186
Restricted long-term assets (note 6)	—	—	1,536,146	46,536
Other assets	—	122,854	283,943	8,602
Total other assets	5,320	136,880	1,847,846	55,979
Total Assets	$2,091,760	3,371,959	9,050,451	274,173

See accompanying notes to financial statements.

MOTECH INDUSTRIES INC.

BALANCE SHEETS—(Continued)
DECEMBER 31, 2004, 2005 AND 2006
(Amounts expressed in thousands of New Taiwan dollars and U.S. dollars)

	2004	2005	2006	
	NT$	NT$	NT$	US$
Liabilities and Stockholders' Equity				
Current liabilities:				
Short-term borrowings (note 4(f))	$ —	115,000	450,000	13,632
Notes and accounts payable—current	202,790	203,835	321,899	9,752
Accrued expenses and other current liabilities (notes 5 and 7)	214,729	344,503	402,128	12,182
Convertible bonds and interest premium payable (note 4(h))	273,173	82,346	72,000	2,181
Current portion of long-term borrowings (notes 4(g) and 6)	9,400	22,733	23,429	710
Total current liabilities	700,092	768,417	1,269,456	38,457
Long-term liabilities:				
Long-term borrowings (notes 4(g) and 6)	27,500	73,933	2,075,720	62,881
Other liabilities:				
Provision for retirement benefits (note 4(i))	23,772	24,702	33,775	1,023
Advance sales receipts—noncurrent	—	—	111,962	3,392
Total other liabilities	23,772	24,702	145,737	4,415
Total liabilities	751,364	867,052	3,490,913	105,753
Stockholders' equity (notes4(h), 4(i), 4(j), and 4(k)):				
Capital stock:				
Common stock	463,857	838,908	1,440,403	43,635
Convertible bonds awaiting government approval for conversion to common stock	17,624	—	—	—
	481,481	838,908	1,440,403	43,635
Capital surplus	262,525	411,404	1,651,393	50,027
Retained earnings:				
Legal reserve	36,348	92,310	208,253	6,309
Special reserve	—	1,428	—	—
Unappropriated earnings	561,470	1,159,862	2,260,174	68,469
	597,818	1,253,600	2,468,427	74,778
Other stockholders' equity adjustment:				
Cumulative translation adjustments	(1,428)	995	1,914	58
Net unrecognized pension cost	—	—	(2,951)	(89)
Unrealized gain on available- for-sale financial assets	—	—	352	11
	(1,428)	995	(685)	(20)
Total stockholders' equity	1,340,396	2,504,907	5,559,538	168,420
Commitments and contingencies (note 7)				
Total Liabilities and Stockholders' Equity	$2,091,760	3,371,959	9,050,451	274,173

See accompanying notes to financial statements.

MOTECH INDUSTRIES INC.

STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2004, 2005 AND 2006
(Amounts expressed in thousands of New Taiwan dollars and U.S. dollars, except earnings per share)

	2004	2005	2006	
	NT$	NT$	NT$	US$
Operating revenues	$ 2,467,345	4,326,110	8,112,714	245,765
Less: sales returns	(3,179)	(9,053)	(6,648)	(201)
sales allowances	(13,792)	(12,822)	(6,575)	(199)
Net revenues (note 5)	2,450,374	4,304,235	8,099,491	245,365
Costs of goods sold (note 5)	(1,749,658)	(2,860,744)	(5,618,471)	(170,205)
Unrealized profit from affiliated companies (note 5)	(4,619)	(2,086)	(587)	(18)
Gross profit	696,097	1,441,405	2,480,433	75,142
Operating expenses:				
Selling expenses (note 5)	(63,743)	(90,248)	(61,826)	(1,873)
General and administrative expenses	(73,344)	(113,858)	(195,789)	(5,931)
Research and development expenses	(33,845)	(34,055)	(45,198)	(1,369)
	(170,932)	(238,161)	(302,813)	(9,173)
Income from operation	525,165	1,203,244	2,177,620	65,969
Non-operating income:				
Interest income	1,760	2,390	32,412	982
Investment income recognized under equity method (note 4(d))	19,663	59,388	8,502	258
Gain on disposal of marketable securities	3,683	3,642	1,488	45
Foreign exchange gain, net (note 4(m))	12,768	—	72,680	2,201
Miscellaneous income	7,162	12,206	21,061	638
	45,036	77,626	136,143	4,124
Non-operating expenses:				
Interest expenses	(7,687)	(3,425)	(34,585)	(1,048)
Loss on disposal of property, plant and equipment	(88)	(45)	(442)	(13)
Foreign exchange loss, net (note 4(m))	—	(1,122)	—	—
Loss on inventory valuation and obsolescence	—	(1,320)	(2,931)	(89)
Miscellaneous loss	(2,660)	(544)	(13,254)	(401)
Loss on fire damage (note 8)	—	(107,795)	—	—
	(10,435)	(114,251)	(51,212)	(1,551)
Income before income taxes	559,766	1,166,619	2,262,551	68,542
Income tax expenses (note 4(j))	(146)	(7,192)	(4,644)	(141)
Net income	**$ 559,620**	**1,159,427**	**2,257,907**	**68,401**
Earnings per common share (note 4(l)) (in New Taiwan dollars and US dollars):				
Basic earnings per share:				
Before income tax	**$ 4.66**	**8.57**	**16.04**	**0.49**
After income tax	**$ 4.66**	**8.52**	**16.01**	**0.49**
Diluted earnings per share:				
Before income tax	**$ 3.90**	**8.00**	**15.35**	**0.46**
After income tax	**$ 3.89**	**7.95**	**15.31**	**0.46**

See accompanying notes to financial statements.

MOTECH INDUSTRIES INC.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2004, 2005 AND 2006
(Amounts expressed in thousands of New Taiwan dollars and U.S. dollars)

		Common stock	Convertible bonds awaiting government approval for conversion to common stock	Capital surplus	Legal reserve	Special reserve	Unappropriated earnings	Cumulative translation adjustment	Net loss not recognized as pension cost	Unrealized gain on available-for-sale financial assets	Total stockholders' equity
Balance at January 1, 2004	NT$	322,927	—	28,000	14,384	—	222,014	—	—	—	587,325
Appropriation of earnings approved by stockholders' during their meeting in 2004:											
Legal reserve		—	—	—	21,964	—	(21,964)	—	—	—	—
Stock dividends to stockholders		104,951	—	—	—	—	(104,951)	—	—	—	—
Cash dividends to stockholders		—	—	—	—	—	(64,586)	—	—	—	(64,586)
Stock and cash dividends to employees as bonus		4,447	—	—	—	—	(19,768)	—	—	—	(15,321)
Directors' and supervisors' remuneration		—	—	—	—	—	(8,895)	—	—	—	(8,895)
Cumulative translation adjustment resulting from long-term equity investment		—	—	—	—	—	—	(1,428)	—	—	(1,428)
Convertible bonds payable converted into common stock and capital surplus		31,532	17,624	234,525	—	—	—	—	—	—	283,681
Net income for the year ended December 31, 2004		—	—	—	—	—	559,620	—	—	—	559,620
Balance at December 31, 2004	NT$	463,857	17,624	262,525	36,348	—	561,470	(1,428)	—	—	1,340,396
Appropriation of earnings approved by stockholders' during their meeting in 2005:											
Legal reserve		—	—	—	55,962	—	(55,962)	—	—	—	—
Special reserve		—	—	—	—	1,428	(1,428)	—	—	—	—
Stock dividends to stockholders		298,518	—	—	—	—	(298,518)	—	—	—	—
Cash dividends to stockholders		—	—	—	—	—	(134,815)	—	—	—	(134,815)
Stock and cash dividends to employees as bonus		10,045	—	—	—	—	(50,223)	—	—	—	(40,178)
Directors' and supervisors' remuneration		—	—	—	—	—	(20,089)	—	—	—	(20,089)
Convertible bonds payable converted into common stock and capital surplus		61,762	(17,624)	148,879	—	—	—	—	—	—	193,017
Issuance of common stock from exercise of stock option		4,726	—	—	—	—	—	—	—	—	4,726
Cumulative translation adjustment resulting from long-term equity investment		—	—	—	—	—	—	2,423	—	—	2,423
Net income for the year ended December 31, 2005		—	—	—	—	—	1,159,427	—	—	—	1,159,427
Balance at December 31, 2005	NT$	838,908	—	411,404	92,310	1,428	1,159,862	995	—	—	2,504,907

See accompanying notes to financial statements.

MOTECH INDUSTRIES INC.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY—(Continued)
FOR THE YEARS ENDED DECEMBER 31, 2004, 2005 AND 2006
(Amounts expressed in thousands of New Taiwan dollars and U.S. dollars)

	Common stock	Convertible bonds awaiting government approval for conversion to common stock	Capital surplus	Legal reserve	Special reserve	Unappropriated earnings	Cumulative translation adjustment	Net loss not recognized as pension cost	Unrealized gain on available-for-sale financial assets	Total stockholders' equity
Issuance of common stock	30,000	—	1,230,000	—	—	—	—	—	—	1,260,000
Appropriation of earnings approved by stockholders' during their meeting in 2006:										
Legal reserve	—	—	—	115,943	—	(115,943)	—	—	—	—
Special reserve	—	—	—	—	(1,428)	1,428	—	—	—	—
Stock dividends to stockholders	553,680	—	—	—	—	(553,680)	—	—	—	—
Cash dividends to stockholders	—	—	—	—	—	(369,120)	—	—	—	(369,120)
Stock and cash dividends to employees as bonus	8,890	—	—	—	—	(88,903)	—	—	—	(80,013)
Directors' and supervisors' remuneration	—	—	—	—	—	(31,377)	—	—	—	(31,377)
Convertible bonds payable converted into common stock and capital surplus	2,629	—	5,863	—	—	—	—	—	—	8,492
Interest premium payable converted into capital surplus	—	—	2,978	—	—	—	—	—	—	2,978
Issuance of common stock from exercise of stock option	6,296	—	1,148	—	—	—	—	—	—	7,444
Cumulative translation adjustment resulting from long-term equity investment	—	—	—	—	—	—	919	—	—	919
Net unrecognized pension cost	—	—	—	—	—	—	—	(2,951)	—	(2,951)
Unrealized gain on available-for-sale financial assets	—	—	—	—	—	—	—	—	352	352
Net income for the year ended December 31, 2006	—	—	—	—	—	2,257,907	—	—	—	2,257,907
Balance at December 31, 2006	**NT$ 1,440,403**	**—**	**1,651,393**	**208,253**	**—**	**2,260,174**	**1,914**	**(2,951)**	**352**	**5,559,538**

See accompanying notes to financial statements.

MOTECH INDUSTRIES INC.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY—(Continued)
FOR THE YEARS ENDED DECEMBER 31, 2004, 2005 AND 2006
(Amounts expressed in thousands of New Taiwan dollars and U.S. dollars)

		Common stock	Convertible bonds awaiting government approval for conversion to common stock	Capital surplus	Legal reserve	Special reserve	Unappropriated earnings	Cumulative translation adjustment	Net loss not recognized as pension cost	Unrealized gain on available-for-sale financial assets	Total stockholders' equity
Balance at December 31, 2005	US$	25,414	—	12,463	2,797	43	35,136	30	—	—	75,883
Issuance of common stock		909	—	37,261	—	—	—	—	—	—	38,170
Appropriation of earnings approved by stockholders' during their meeting in 2006:											
Legal reserve		—	—	—	3,512	—	(3,512)	—	—	—	—
Special reserve		—	—	—	—	(43)	43	—	—	—	—
Stock dividends to stockholders		16,773	—	—	—	—	(16,773)	—	—	—	—
Cash dividends to stockholders		—	—	—	—	—	(11,182)	—	—	—	(11,182)
Stock and cash dividends to employees as bonus		269	—	—	—	—	(2,693)	—	—	—	(2,424)
Directors' and supervisors' remuneration		—	—	—	—	—	(951)	—	—	—	(951)
Convertible bonds payable converted into common stock and capital surplus		79	—	178	—	—	—	—	—	—	257
Interest premium payable converted into capital surplus		—	—	90	—	—	—	—	—	—	90
Issuance of common stock from exercise of stock option		191	—	35	—	—	—	—	—	—	226
Cumulative translation adjustment resulting from long-term equity investment		—	—	—	—	—	—	28	—	—	28
Net unrecognized pension cost		—	—	—	—	—	—	—	(89)	—	(89)
Unrealized gain on available-for-sale financial assets		—	—	—	—	—	—	—	—	11	11
Net income for the year ended December 31, 2006		—	—	—	—	—	68,401	—	—	—	68,401
Balance at December 31, 2006	**US$**	**43,635**	**—**	**50,027**	**6,309**	**—**	**68,469**	**58**	**(89)**	**11**	**168,420**

See accompanying notes to financial statements.

MOTECH INDUSTRIES INC.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2004, 2005 AND 2006
(Amounts expressed in thousands of New Taiwan dollars and U.S. dollars)

	2004	2005	2006	
	NT$	NT$	NT$	US$
Cash flows from operating activities:				
Net income	$ 559,620	1,159,427	2,257,907	68,401
Adjustments:				
Depreciation	44,157	132,872	177,043	5,363
Loss on work stoppages—depreciation	—	13,279	23,234	704
Amortization	1,145	3,018	3,627	110
Gain on disposal of available-for-sale financial assets—current	(3,683)	(4,084)	(1,488)	(45)
Loss on disposal of property, plant and equipment	88	45	442	13
Loss on fire damage—property, plant and equipment	—	56,726	—	—
Miscellaneous loss—loss on idle assets valuation loss	2,661	—	—	—
Gain on of idle assets recoveries	—	—	(1,241)	(38)
Fixed assets charged to expenses	—	122	—	—
Investment income recognized under equity method	(19,663)	(59,388)	(8,502)	(258)
Increase in accrued interest premium	6,345	2,190	1,125	34
Deferred income tax benefit	(1,044)	(6,053)	(31,187)	(945)
Increase in notes and accounts receivable	(34,084)	(35,091)	(765,829)	(23,200)
Decrease (increase) in accounts receivable—related parties	(30,739)	20,540	6,783	206
Decrease (increase) in other financial assets—current	(5,992)	(140,676)	142,272	4,310
Increase in inventories	(39,434)	(926,861)	(96,930)	(2,936)
Increase in prepayments and other current assets	(21,665)	(162,947)	(300,327)	(9,098)
Increase in prepayments to suppliers—noncurrent	—	(122,854)	(161,089)	(4,880)
Increase in notes and accounts payable	115,025	1,045	118,064	3,577
Increase (decrease) in accrued expenses and other current liabilities	160,774	138,151	(20,204)	(612)
Increase (decrease) in accrued pension liability	4,947	2,463	(335)	(10)
Increase in advance sales receipts—noncurrent	—	—	111,962	3,392
Net cash provided by operating activities	738,458	71,924	1,455,327	44,088
Cash flows from investing activities:				
Proceeds from sales of available-for-sale financial assets—current	476,099	424,508	235,059	7,121
Purchases of available-for-sale financial assets—current	(234,920)	(201,000)	(220,000)	(6,664)
Purchases of property, plant and equipment	(535,487)	(465,000)	(1,710,381)	(51,814)
Proceeds from sales of property, plant and equipment	1,167	—	1,202	36
Addition to deferred charges	(1,822)	(249)	(20,785)	(630)
Addition to restricted long-term assets	—	—	(1,536,146)	(46,536)
Addition to other financial assets—noncurrent	(2,381)	(592)	(3,157)	(96)
Increase in long-term investment	(9,332)	—	—	—
Net cash used in investing activities	(306,676)	(242,333)	(3,254,208)	(98,583)
Cash flows from financing activities:				
Increase (decrease) in short-term borrowings	(2,986)	115,000	335,000	10,148
Proceeds from long-term debt	—	70,000	2,049,220	62,079
Principal payments on long-term debt	(59,400)	(10,234)	(46,737)	(1,416)
Cash received from issuance of capital stock	—	—	1,260,000	38,170
Cash received from issuance of capital stock due to exercise of employee stock options	—	4,726	7,444	226
Payments of employees' bonuses	(15,321)	(40,178)	(80,013)	(2,424)
Payments of directors' and supervisors' remuneration	(8,895)	(20,089)	(31,377)	(951)
Payments of cash dividends	(64,586)	(134,815)	(369,120)	(11,182)
Net cash provided by (used in) financing activities	(151,188)	(15,590)	3,124,417	94,650
Increase (decrease) in cash and cash equivalents	280,594	(185,999)	1,325,536	40,155
Cash and cash equivalents at beginning of year	144,552	425,146	239,147	7,245
Cash and cash equivalents at end of year	**$ 425,146**	**239,147**	**1,564,683**	**47,400**

See accompanying notes to financial statements.

MOTECH INDUSTRIES INC.

STATEMENTS OF CASH FLOWS—(Continued)
FOR THE YEARS ENDED DECEMBER 31, 2004, 2005 AND 2006
(Amounts expressed in thousands of New Taiwan dollars and U.S. dollars)

	2004	2005	2006	
	NT$	NT$	NT$	US$
Supplemental cash flow information:				
Interest paid	$ 1,395	1,088	26,535	804
Income tax paid	$ 1,047	7,382	15,361	465
Supplemental schedule of non-cash investing and financing activities:				
Increase (decrease) in deferred pension cost	$ (1,444)	(1,533)	6,457	196
Current portion of long-term borrowings reclassified to current liabilities	$ 9,400	22,733	23,429	710
Cumulative translation adjustments	$ (1,428)	2,423	919	28
Convertible bonds converted into common stock	$280,600	189,200	8,200	248
Interest premium payable converted into capital surplus	$ —	—	2,978	90
Inventories transferred from fixed assets	$ 41	—	—	—
Payable for machinery and equipment	$ 8,746	369	78,197	2,369
Deferred charges transferred from fixed assets	$ —	4,324	—	—
Unrealized gains on financial instruments	$ —	—	352	11
Fixed assets transferred from idle assets	$ —	—	1,241	38

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004, 2005 AND 2006
(All amounts expressed in thousands of New Taiwan dollars and U.S. dollars, except earnings per share information or unless otherwise specified)

(1) Description of Business

MOTECH Industries Inc. (the Company) was incorporated on June 3, 1981, as a company limited by shares under the laws of the Republic of China (ROC). The Company's major operating departments and activities were as follows:

Departments	Major operating activities
Solar	Manufacturing, marketing, and sale of solar cells
Instruments	Manufacturing and marketing of measurement instruments
Power	Marketing, design, and installation of solar electricity systems

As of December 31, 2004, 2005 and 2006, the Company had 447, 610 and 905 employees, respectively.

(2) Summary of Significant Accounting Policies

The Company prepared the accompanying financial statements in accordance with the ROC generally accepted accounting principles. The major accounting policies and basis of measurement used in preparing these financial statements are as follows:

(a) Convenience translation into U.S. dollars

The financial statements are stated in New Taiwan Dollars. Translation of the 2006 New Taiwan dollar amounts into U.S. dollar amounts is included solely for the convenience of the readers, using the Federal Reserve exchange rate on March 30, 2007 of NT$33.01 to US$1 uniformly applied for all the financial statements' accounts. The convenience translations should not be construed as representations that the New Taiwan Dollar amounts have been, could have been, or could in the future be, converted into U.S. dollars at this rate or any other rate of exchange.

(b) Translation of foreign currency transactions

The Company records its transactions in New Taiwan dollars. 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 into New Taiwan dollars at the exchange rate prevailing on the balance sheet date, and the resulting translation gains or losses are recognized as non-operating income or expenses.

(c) Criterion for classifying assets and liabilities as current or non-current

Current assets are cash and other assets that will be converted to cash or used within a relatively short period of time, one year or one operating cycle, whichever is longer. Current liabilities are debts due within one year or one operating cycle, whichever is longer.

Financial liabilities due within 12 months after the balance sheet date are classified as noncurrent under the following conditions:

(1) the original term cover a period longer than 12 months,

(2) the Company has intention to refinance on a long-term basis, and

(3) an agreement to refinance, or to reschedule payments, on a long-term basis, is completed after the balance sheet date, or the Company expects, and has the discretion, to refinance or roll over financial liabilities to at least 12 months after the balance sheet date under an existing loan facility.

(d) Asset impairment

Effective January 1, 2005, the Company adopted the Statement of Financial Accounting Standards No. 35 (SFAS 35) "Accounting for Asset Impairment". In accordance with SFAS 35, 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. An impairment loss recognized in prior periods is reversed 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 performs an asset impairment test annually on the cash-generating unit to which goodwill is allocated and recognizes an impairment loss on the excess of the carrying value over the recoverable amount of an asset.

(e) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, savings and checking deposits, fixed time deposits, miscellaneous petty cash. Cash equivalents represent highly liquid debt instruments, such as commercial paper and bank acceptances with original maturities of three months or less. Cash equivalents also include other highly liquid investments which do not have a significant level of market risk related to potential interest rate changes.

(f) Financial assets

Before 2006, the investments of the Company were classified into short-term investments and long-term investments, depending on the purpose of holding. Investments were accounted for at acquisition cost and were evaluated at the lower of cost or market value. The market value used for valuing investments in publicly listed stocks was determined based on the average closing price of the last month of the year. The market value adopted for valuing investments in open-end mutual funds was determined based on the net asset value of mutual funds on the balance sheet date. Devaluation loss on long-term investments was recorded under stockholders' equity. Devaluation loss on short-term investments was recorded in the accompanying statements of income.

Commencing from January 1, 2006, the Company adopted the SFAS No. 34 "Accounting for Financial Instruments". Under SFAS No. 34, financial assets are classified into four categories: financial assets reported at fair value through profit or loss; available-for-sale financial assets; held-to-maturity investments and financial assets carried at cost.

The Company adopted transaction-date accounting for financial instrument transactions. Upon initial recognition, financial instruments are evaluated at fair value. Except for financial instruments held for trading, the acquisition cost or issuance cost of financial instrument is included in its initially recognized amount.

Subsequent to their initial recognition, the financial instruments, which are being held or issued by the Company are classified into the following categories in accordance with the purpose of holding or issuing and/or measured as follows:

1. Financial assets/liabilities reported at fair value through profit or loss: The financial instruments are classified in this category if they are acquired or incurred principally for the purpose of selling or repurchasing them in the near term. Except for the derivatives held for hedging purposes and the hedging results are considered effective, all other derivatives are classified into this account.

2. Available-for-sale financial assets: These financial assets are evaluated at fair value, and changes in fair value are recorded as a separate component of stockholders' equity. If there is evidence of impairment, impairment loss is recognized. Impairment losses recognized in profit or loss for an investment in an equity instrument classified as available for sale are not reversed. If in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed, with the amount of the reversal recognized in profit or loss.

3. Financial assets carried at cost: Equity investments which cannot be evaluated at fair value are carried at original cost. If there is evidence of impairment, impairment loss is recognized, but such loss provision is not reversed.

4. Held-to-maturity investments: These investments are non-derivative financial assets with fixed or determinable payments and fixed maturity for which the Company has the positive intention and ability to hold to maturity. If there is objective evidence that an impairment loss on held-to-maturity investments carried at amortized cost 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 financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through use of an allowance account. The amount of the loss is recognized in profit or loss. If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed either directly or by adjusting an allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date when the impairment is reversed. The amount of the reversal is recognized in profit or loss.

(g) Allowance for doubtful accounts

Allowance for doubtful accounts is provided based on the results of the analysis of aging, collectibility, past experience, and quality of receivables.

(h) Inventories

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

(i) Long-term equity investments

Long-term equity investments in which the Company, directly or indirectly, own 20% or more of the investee's voting shares are accounted for by the equity method.

When a long-term equity investment is sold, the difference between the selling price and carrying value of the long-term equity investment under the equity method is recognized as disposal gain or loss in the accompanying statements of income. If there is a capital surplus relating to the long-term equity investment sold, such capital surplus is debited to disposal gain/loss based on the disposal ratio.

Unrealized inter-company transaction gains or losses between the Company and its investees accounted for by the equity method are deferred. Unrealized inter-company gains or losses derived from transactions involving depreciable or amortizable assets are amortized over the useful lives of the related assets. Gains or losses from other transactions are recognized when realized.

(j) Property, plant and equipment

Property, plant and equipment are stated at cost. Interest expense related to the construction of property and equipment is capitalized and included in the cost of the related assets. Significant additions, improvements and replacements are capitalized. Maintenance and repair costs are expensed in the period incurred.

Property, plant and equipment are depreciated over their estimated useful lives using the straight-line method. The estimated useful lives of the respective classes of assets are as follows:

(1) Buildings: 6 to 51 years

(2) Machinery and equipment: 4 to 11 years

(3) Transportation equipment: 6 to 7 years

(4) Office and other equipment: 4 to 11 years

Gains or losses on the disposal of such assets are accounted for as non-operating income or expenses.

(k) Deferred charges

(1) Syndicated financing fees

Syndicated financing fees are related to leading bank fees, accrediting fees (including participating and commitment fees) and others fees incurred in securing the credit line approval for syndicated loans. These fees are deferred and amortized over the terms of syndicated loans using the straight-line method.

(2) Other deferred expenses consist primarily of the capitalized costs of software purchase, fire control construction, and high voltage circuit construction. These deferred expenses are amortized using the straight-line method over their economic useful lives of 2 to 5 years.

(l) Derivative financial instruments and hedging activities

Prior to January 1, 2006, foreign currency forward contracts were accounted for as follows:

Foreign currency forward contracts were intended to hedge foreign currency fluctuation risk from foreign currency receivables and payables. These foreign currency forward contracts were translated into functional currencies at the exchange rates prevailing on the balance sheet date, and the resulting translation differences were recorded as current exchange gains or losses. Differences between the forward rates and spot rates on contract dates were recognized as exchange gains or losses during the contract period. The foreign currency receivables were offset against foreign currency payables, and the net amount was recorded as other current assets or other current liabilities on the balance sheet.

Commencing from January 1, 2006, the Company had adopted the SFAS No. 34 "Accounting for Financial Instruments". Under SFAS No. 34, all derivative instruments are recorded on the balance sheet at fair value. If a derivative instrument is designated as a cash flow hedge, the effective portion of the change in its fair value is recorded as a separate component of stockholders' equity and is recognized in the statement of operations when the hedged item affects earnings. Ineffective portion of the change in the fair value of cash flow hedge is immediately recognized in earnings. If a derivative is designated as a fair value hedge, the change in its fair value and of the hedged item attributable to the hedged risk is recognized in earnings in the current period. For derivative instruments not designated as hedging instruments under SFAS No. 34, changes in their fair values are recognized in current operating results.

(m) Employee retirement plan

In 1987, the Company established an employee noncontributory defined benefit retirement plan (the "Plan") covering its full-time employees in the ROC. In accordance with the Plan, employees are eligible for retirement or are required to retire after meeting certain age or service requirements. Payments of retirement benefits are based on the employee's years of service. Under this retirement plan, the Company is responsible for making the entire pension payment.

The Company accounts for its employee defined retirement benefit plan in accordance with ROC SFAS No. 18, "Accounting for Pensions". SFAS No. 18 requires a company to have an actuarial calculation of its pension liability using the year-end date as the measurement date. The Company recognizes a minimum pension liability equal to the amount by which the actuarial present value of the accumulated benefit obligation exceeds the fair value of the retirement plan's assets. Minimum pension liability is determined based on the minimum amount of pension liability that is required to be recognized on the balance sheet. The excess of minimum amount of pension liability over the sum of unrecognized prior service cost and unrecognized transitional net benefit obligation is accounted for as net loss from unrecognized pension cost, which is classified as a reduction of stockholders' equity. On the other hand, the excess of the sum of unrecognized prior service cost and unrecognized transitional net benefit obligation over the minimum amount of pension liability is charged to deferred pension cost account, which is classified as an intangible asset.

The Company also recognizes the net periodic pension cost using actuarial techniques. The unrecognized transitional net benefit obligation and unrecognized pension gain or losses are amortized on a straight-line basis over the average remaining service period of employees still in service and expected to receive benefits, and such amortization is included in the net pension cost. The Company contributes an amount to the retirement fund monthly based on government-approved rate of 2% of paid salaries and wages. This fund is deposited with the Central Trust of China.

Starting from July 1, 2005, the enforcement rules of the newly enacted Labor Pension Act (the "New Act") require the following categories of employees to adopt the defined contribution plan:

(1) employees who originally adopted the Plan and opted to be subject to the pension mechanism under the New Act; and

(2) employees who commenced working after the enforcement date of the New Act.

In accordance with the New Act, the Company contributes monthly to the Bureau of Labor Insurance an amount equal to 6% of the worker's monthly wages. This contribution is recognized as expense when incurred.

(n) Convertible bonds

Prior to January 1, 2006, the Company issued Taiwan domestic convertible bonds at par value. Interest expense thereon is determined based on par value and nominal interest rate. The difference between the specified redemption price and par value of convertible bonds with a redemption option is amortized by using the interest method and recognized as a liability over the period from the issuance date of the bonds to the expiry date of the redemption option.

Upon exercise of the conversion option, interest payable, pay-back interest from the holder, recognized interest premium, and par value of the convertible bonds are transferred to paid-in capital. The excess of the net carrying amount of the converted bonds over the par value of the common stock exchange certificate or common stock issued is recognized as capital surplus.

If the holder of convertible bonds with a redemption option does not exercise the option by the expiry date, the interest premium, which is recognized as a liability, is forfeited and amortized over the period from the expiry date of the redemption option to the maturity date of the convertible bonds by using the interest method, provided that the market price of exchangeable common stock is lower than the specified redemption price of the bond on expiry date of the redemption option, otherwise, is reclassified as capital surplus.

Effective January 1, 2006, the Company adopted ROC SFAS No. 36 "Disclosure and Presentation of Financial Instruments". In accordance with ROC SFAS No. 36, paragraph 124, the embedded derivative in hybrid instruments issued prior to the effective date of this new accounting standard (January 1, 2006), which include the equity and liability components, is not separated from the host contract. However, this new standard is not applicable to instruments issued prior to its adoption, and the accumulated effect of the adoption of this new accounting standard need not be calculated or accounted for. The Company's convertible bonds were issued in December 2003.

(o) Employee stock options

Employee stock option plans which are amended or options granted on or after January 1, 2004, are accounted for in accordance with the interpretation issued by the Accounting Research and Development Foundation. Under this interpretation, the Company adopts the intrinsic value method to account for the compensation cost. The measurement date for determining compensation cost is determined based on the date when the number of shares and exercise price are known. The compensation cost is measured by the difference between the quoted market price of the stock at the measurement date and the exercise price. An employee stock option granted for the employee's past service is recognized as expense on the date of grant. If it is intended for the employee's future service, the cost thereof is amortized as compensation expense over the employee's service period as stated in the stock option plan.

If a portion of stock options is not exercised because an employee fails to fulfill the requirement for minimum number of service years or other terms, the estimated compensation expense recorded in the previous period is adjusted by decreasing the compensation expense in the period of forfeiture.

(p) Revenue recognition

Revenue from sales of products is recognized upon delivery and the significant risks and rewards of ownership are transferred to customers.

(q) Income taxes

Income taxes are accounted for under the asset and liability method. Deferred income taxes are determined based on differences between the financial statements and tax basis of assets and liabilities using enacted tax rates in effect during the years in which the differences are expected to reverse. The income tax effects resulting from taxable temporary differences are recognized as deferred income tax liabilities. The income tax effects resulting from deductible temporary differences, loss carryforwards, and investment tax credits are recognized as deferred income tax assets. The realization of the deferred income tax assets is evaluated, and if it is considered more likely than not that the deferred tax assets will not be realized, a valuation allowance is recognized accordingly.

The classification of deferred income tax assets or liabilities as current or non-current is based on the classification of the related asset or liability. If a deferred income tax asset or liability is not directly related to a specific asset or liability, then the classification is based on the expected realization date of such deferred income tax asset or liability.

According to the ROC Income Tax Law, the Company's undistributed earnings, if any, earned after December 31, 1997, are subject to an additional 10% surtax. The surtax is accounted for as income tax expenses in the following year when the shareholders' meeting approves a resolution not to distribute the earnings.

Income tax is reduced by investment tax credits in the year when the credit arises.

(r) Earnings per common share (EPS)

The earnings per share are computed by dividing the amount of net income attributable to common stock outstanding for the period by the weighted-average number of common shares outstanding during the period, which includes the shares related to bonds already applied by bondholders for conversion to shares but the Company has not yet secured the government final approval for the registration of those shares. The number of outstanding shares is retroactively adjusted for the distribution of stock dividends from retained earnings, capital surplus, employees' bonus or stock split. Similarly, the number of outstanding shares is also retroactively adjusted for reduction in common shares outstanding from a reverse stock split or capital deduction due to offsetting with losses. If these changes occur after the balance sheet date but before the date of issuance of the financial statements, such EPS are also retroactively adjusted.

The calculation of diluted EPS is consistent with the calculation of EPS while giving the effects of all dilutive potential common shares that were outstanding during the reporting period. If the employee stock options and convertible bonds issued by the Company have dilutive effect, they are deemed to have been converted into common shares on the date of issue.

(3) Reason for and Effect of Accounting Changes

The Company adopted the ROC SFAS No. 34 "Accounting for Financial Instruments", ROC SFAS No. 36 "Disclosure and Presentation of Financial Instruments", and amended SFAS No. 1 "Conceptual Framework of

Financial Accounting and Preparation of Financial Statements," SFAS No. 5 "Long-term Investments in Equity Securities," and amended SFAS No. 14 "Foreign Currency Translation" commencing from January 1, 2006. The adoption of these new accounting policies did not significantly impact the net income and stockholders' equity as of and for the year ended December 31, 2006.

Commencing from 2005, the Company adopted the ROC SFAS No. 35 "Accounting for Asset Impairment". After performing an asset impairment test, the Company determined that no impairment loss would be recognized as of December 31, 2005 and 2006.

(4) Significant Account Disclosures

(a) Cash and cash equivalents

The components as of December 31, 2004, 2005 and 2006 were as follows:

	2004.12.31	2005.12.31	2006.12.31	
	NT$	NT$	NT$	US$
Cash on hand and petty cash	$ 1,255	962	941	28
Savings and checking deposits	423,891	238,185	1,563,742	47,372
	$425,146	**239,147**	**1,564,683**	**47,400**

(b) Financial instruments

The components as of December 31, 2004, 2005 and 2006 were as follows:

	2004.12.31	2005.12.31	2006.12.31	
	NT$	NT$	NT$	US$
Available-for-sale financial assets—current:				
Investments in bonds with resale agreements	$ 42,920	—	—	—
Open-end mutual funds	239,582	63,078	49,859	1,511
	$282,502	**63,078**	**49,859**	**1,511**

Based on the interpretation of the ROC Accounting Research and Development Foundation, the Company reclassified its 2004 and 2005 financial statements in accordance with ROC SFAS No. 34. As of December 31, 2004 and 2005, investments originally accounted for under the lower-of-cost-or-market method amounting to $282,502 and $63,078, respectively, were reclassified to available-for-sale financial assets—current.

(c) Inventories

The components as of December 31, 2004, 2005 and 2006, were as follows:

	2004.12.31	2005.12.31	2006.12.31	
	NT$	NT$	NT$	US$
Merchandise	$ 15,959	16,187	21,530	652
Finished goods	16,038	50,400	352,418	10,676
Work in process	74,246	175,945	384,696	11,654
Raw materials and supplies	142,098	933,990	517,739	15,685
Less: provision for loss on inventory devaluation	(4,720)	(6,040)	(8,971)	(272)
	$243,621	**1,170,482**	**1,267,412**	**38,395**

As of December 31, 2004, 2005 and 2006, insurance coverage for inventories amounted to $217,000, $819,000 and $1,724,000, respectively.

(d) Long-term equity investments under equity method

The components as of December 31, 2004, 2005 and 2006, were as follows:

	2004.12.31			
Investee	**Shareholding percentage**	**Acquisition cost**	**Ending balance**	**Investment income**
		NT$	**NT$**	**NT$**
Accounted for under equity method:				
Think Global Enterprises Limited	100.00%	$ 333	14,490	14,919
Power Islands Limited	100.00%	8,999	13,077	4,744
		$9,332	**27,567**	**19,663**

	2005.12.31			
Investee	**Shareholding percentage**	**Acquisition cost**	**Ending balance**	**Investment income**
		NT$	**NT$**	**NT$**
Accounted for under equity method:				
Think Global Enterprises Limited	100.00%	$ 333	43,320	27,819
Power Islands Limited	100.00%	8,999	46,058	31,569
		$9,332	**89,378**	**59,388**

	2006.12.31			
Investee	**Shareholding percentage**	**Acquisition cost**	**Ending balance**	**Investment income**
		NT$	**NT$**	**NT$**
Accounted for under equity method:				
Think Global Enterprises Limited	100.00%	$ 333	46,874	3,847
Power Islands Limited	100.00%	8,999	51,925	4,655
		$9,332	**98,799**	**8,502**

	2006.12.31			
Investee	**Shareholding percentage**	**Acquisition cost**	**Ending balance**	**Investment income**
		US$	**US$**	**US$**
Accounted for under equity method:				
Think Global Enterprises Limited	100.00%	$ 10	1,420	117
Power Islands Limited	100.00%	270	1,573	141
		$280	**2,993**	**258**

In March 2004, the Company invested $8,999 (US$ 270) for 100% equity ownership in Motech (Ningbo) Electronic Co., Ltd. and Motech (Ningbo) Trade Co., Ltd. in China through Power Islands Limited (located in Western Samoa).

In February 2004, the Company invested $333 (US$10) for 100% equity ownership in Think Global Enterprises Limited.

(e) Property, plant and equipment

As of December 31, 2004, 2005 and 2006, the insurance coverage for property, plant and equipment amounted to $588,000, $702,700 and $2,943,000, respectively.

(f) Short-term borrowings

The components as of December 31, 2005 and 2006, were as follows:

	2005.12.31	2006.12.31	
	NT$	NT$	US$
Credit loans	**$115,000**	**450,000**	**13,632**

There were no short-term borrowings in 2004. The short-term loans bore interest at annual rates of 1.53%-2.10% in 2005 and 1.63% in 2006.

As of December 31, 2004, 2005 and 2006, the unused credit line for short-term borrowings amounted to $469,458, $953,469 and $1,450,000, respectively.

(g) Long-term borrowings

The components as of December 31, 2004, 2005 and 2006, were as follows:

	2004.12.31	2005.12.31	2006.12.31	
	NT$	NT$	NT$	US$
Syndicated loan	$ —	—	1,955,220	59,231
Mortgage loans	36,900	96,666	143,929	4,360
	36,900	96,666	2,099,149	63,591
Less: Current portion	(9,400)	(22,733)	(23,429)	(710)
	$27,500	**73,933**	**2,075,720**	**62,881**

(1) Syndicated loan agreement

On July 21, 2006, the Company entered into a three-year domestic syndicated loan agreement with nine banks, under which, Hong Kong and Shanghai Banking Corporation (HSBC) and Hua Nan Commercial Bank represented as the lead bank and arranger, respectively, for the financial commitments under some of crystalline raw materials supply agreements. The significant terms of this agreement are as follows:

(i) Total credit facility: $3,400,000.

(ii) Credit term: Three years starting from the initial drawdown of the credit facility on July 24, 2006. The credit term for each loan facility drawdown will be 30 days, 60 days, 90 days, or 180 days, which will be decided by the Company. Other credit term beyond any of these periods will be agreed by the Company and the arranger.

(iii) The Company should maintain the following financial covenants in its semi-annual and annual consolidated financial statements starting from 2006:

A. Total tangible net assets at the end of the reporting period should exceed $3,500,000 in 2006 and $8,000,000 in 2007.

B. Liability ratio (total liabilities/total tangible net assets) at the end of the reporting period should be lower than 200% in 2006, 160% in 2007 and 120% in 2008.

C. The interest coverage ratio [(income before income tax (excluding extraordinary gains, interest expenses, amortization and depreciation expenses)/interest expenses] for the reporting period should not be less than 5 times.

If the Company fails to maintain the above covenants, the Company might be exposed to penalty charges, required to accelerate payment of the obligations under this loan agreement, and restricted from having access to the unutilized facility which would otherwise be available. As of December 31, 2006, the Company was in compliance with the above covenants.

For the year ended December 31, 2006, the annual interest rates for the above loan ranged from 2.404% to 2.46%. As of December 31, 2006, the unused credit line was $1,444,780. Although each of the facility drawings from the above syndicated loan will mature in 2007, it was classified under long-term liabilities because the Company intends to refinance this loan at maturity on a long-term basis, aside from the fact that the credit facility under this syndicated loan will mature on July 23, 2009.

(2) Mortgage loan

The components as of December 31, 2004, 2005 and 2006 were as follows:

			Interest rate			Loan balance			
Bank	**Nature**	**Repayment period**	**2004.1.1-2004.12.31**	**2005.1.1-2005.12.31**	**2006.1.1-2006.12.31**	**2004.12.31**	**2005.12.31**	**2006.12.31**	
						NT$	**NT$**	**NT$**	**US$**
Chang Hwa Bank	Mortgage loan	Dec. 15, 2000~ Dec. 15, 2007	2.30%	2.30%	—	$26,900	17,500	(Note)	—
China Development Industrial Bank	Mortgage loan	Dec. 15, 2003~ Dec. 15, 2008	2.89%	3.21%	—	10,000	9,166	(Note)	—
The Shanghai Commercial and Savings Bank	Mortgage loan	Nov. 2, 2005~ Nov. 2, 2012	—	2.20%	2.20-2.38%	—	70,000	60,000	1,818
The Shanghai Commercial and Savings Bank	Mortgage loan	Feb. 27, 2006~ Feb. 27, 2013	—	—	2.20-2.38%	—	—	44,643	1,352
The Shanghai Commercial and Savings Bank	Mortgage loan	Mar. 14, 2006~ Mar. 14, 2013	—	—	2.20-2.38%	—	—	39,286	1,190
						36,900	96,666	143,929	4,360
Less: current portion						(9,400)	(22,733)	(23,429)	(710)
						$27,500	**73,933**	**120,500**	**3,650**

Note: Redeemable ahead of maturity.

As of December 31, 2004, 2005 and 2006, the unused credit line for long-term borrowings amounted to $61,000, $264,000 and $100,000, respectively.

As of December 31, 2006, the remaining balances of the borrowings were due as follows:

Year due	**NT$**	**US$**
January 1, 2007~December 31, 2007	$ 23,429	710
January 1, 2008~December 31, 2008	23,429	710
January 1, 2009~December 31, 2009	1,978,649	59,940
January 1, 2010~December 31, 2010	23,429	710
January 1, 2011~December 31, 2011	23,429	710
After January 1, 2012	26,784	811
	$2,099,149	**63,591**

(h) Convertible bonds payable and interest premium payable

The components as of December 31, 2004, 2005 and 2006, were as follows:

	2004.12.31	2005.12.31	2006.12.31	
	NT$	NT$	NT$	US$
Principal	$ 550,000	550,000	550,000	16,662
Cumulative amount converted into common stock	(280,600)	(469,800)	(478,000)	(14,481)
Convertible bonds payable	269,400	80,200	72,000	2,181
Interest premium payable	3,773	2,146	—	—
	$ 273,173	**82,346**	**72,000**	**2,181**

On December 5, 2003, the Company issued Taiwan domestic convertible bonds with an aggregate principal amount of $550,000 in order to finance the expansion of the production line for solar cells and the establishment of the wafer factory. The final terms and conditions are as follows:

(1) Coupon rate: 0%

(2) Issue period: From December 5, 2003, to December 4, 2008

(3) Conversion

(i) The bondholders can convert the convertible bonds into common stock during the period from three months after the issue date to ten days before the maturity date. The equivalent number of shares is determined by dividing the outstanding principal amount of convertible debt by the conversion price per share.

(ii) Conversion price:

As of December 31, 2004, 2005 and 2006, the conversion price was set at NT$56, NT$34 and NT$18.6 per share, respectively. The initial conversion price was set at NT$75.5 per share. The conversion price is subject to adjustments in the event of any change in the capital structure, as defined, except for the capital increase in cash.

(4) Redemption at the option of the Company: The Company may redeem the bonds in whole, but not in part, during the period from three months after the issue date to forty days before the maturity date, provided that (1) the closing price of the common shares on the Taiwan Stock Exchange for 30 consecutive trading days is at least 50% of the conversion price then in effect, or (2) the bonds outstanding are less than 10% of the issue amount.

The Company can redeem the bonds in whole after making an announcement to the bondholders. The redemption price is calculated using formulas summarized as follows, and the bonds are redeemable in cash:

(i) From the day immediately following three months after the issue date to the day two years after the issue date, the redemption interest is calculated at the rate of 1.25% per annum.

(ii) From the day immediately following two years after the issue date to the day three years after the issue date, the redemption interest is calculated at the rate of 1.5% per annum.

(iii) From the day immediately following three years after the issue date to forty days prior to the maturity date, all bonds are redeemable at their face value in cash.

(5) Redemption at the option of the bondholders: The Company will, at the option of the bondholders, redeem such bond on the second or before 30 days before the third anniversary of the issue date at par value plus

interest premium in cash (cumulative interest is 2.51% of par value after two years, with annual yield rate of 1.25% and cumulative interest is 4.57% of par value after three years since the issue date, with annual yield rate of 1.50%).

The convertible bonds redeemable at the option of the bondholders are accounted for as current liabilities.

For the years ended December 31, 2004, 2005 and 2006, the aggregate par value of convertible bonds converted into common stock amounted to $280,600, $189,200 and $8,200, respectively, and the related interest premium payable transferred to capital surplus was $3,081, $3,817 and $292, respectively. The excess of the carrying value of convertible bonds (including the related interest premium payable) over the par value of common stock issued from the conversion of bonds to common stock amounted to $234,525, $148,879 and $5,863, respectively, which was transferred to capital surplus.

On December 4, 2006, the bonds had been issued for three years. In accordance with the agreement, the Company may redeem the bonds at par value during the period from three years after the issue date to forty days before the maturity date. The related interest premium payable of $2,978 was fully transferred to capital surplus when the bondholders were unable to exercise their option for the redemption of the bonds on maturity, aside from the fact that the market value of the shares was greater than the conversion price of the bonds on maturity of the option.

(i) Retirement plans

(1) The following table sets forth the details of the reconciliation of funded status to accrued pension liability as of December 31, 2004, 2005 and 2006:

	2004.12.31	2005.12.31	2006.12.31	
	NT$	NT$	NT$	US$
Benefit obligation:				
Vested benefit obligation	$ (3,913)	(3,254)	(17,130)	(519)
Non-vested benefit obligation	(28,281)	(31,543)	(32,328)	(979)
Accumulated benefit obligation	(32,194)	(34,797)	(49,458)	(1,498)
Projected compensation increase	(15,384)	(17,089)	(22,583)	(684)
Projected benefit obligation	(47,578)	(51,886)	(72,041)	(2,182)
Fair value of retirement plan assets	8,422	10,095	15,683	475
Funded status	(39,156)	(41,791)	(56,358)	(1,707)
Unrecognized net transition benefit obligation	9,526	8,845	8,164	247
Unrecognized pension gain or losses	9,098	9,951	25,534	774
Additional minimum pension liabilities	(3,240)	(1,707)	(11,115)	(337)
Provision for retirement benefits	**$(23,772)**	**(24,702)**	**(33,775)**	**(1,023)**

(2) The components of the net periodic pension cost for 2004, 2005 and 2006 were as follows:

	2004	2005	2006	
	NT$	NT$	NT$	US$
Service cost	$5,291	4,186	2,694	82
Interest cost	1,370	1,665	1,816	55
Actual return on retirement plan assets	(82)	(136)	(293)	(9)
Amortization	688	654	743	22
Net pension cost	**$7,267**	**6,369**	**4,960**	**150**

(3) The actuarial assumptions at December 31, 2004, 2005 and 2006, were as follows:

	2004	2005	2006
Discount rate	3.50%	3.50%	2.75%
Rate of increase in future compensation levels	3.00%	3.00%	3.00%
Expected long-term rate of return on plan assets	3.50%	3.50%	2.75%

As of December 31, 2004, 2005 and 2006, the actuarial present value of the vested benefits for the Company's employees in accordance with the retirement benefit plan was approximately $4,493, $3,583 and $21,205, respectively.

(4) For the years ended December 31, 2004, 2005 and 2006, the defined contribution pension plan costs were as follows:

	2004	2005	2006	
	NT$	NT$	NT$	US$
Defined contribution pension plan cost	$—	6,351	14,204	430

(j) Income tax

(1) The Company is subject to ROC income tax at a minimum rate of 25%. Commencing from January 1, 2006, the Company is covered by the "Alternative Minimum Tax Statute." This new Act has been enacted to impose an alternative minimum tax at the rate of 10% on the "basic taxable income" of any profit seeking enterprise in Taiwan determined pursuant to a certain formula. For the years ended December 31, 2004, 2005 and 2006, the components of estimated income tax expense were as follows:

	2004	2005	2006	
	NT$	NT$	NT$	US$
Income tax expense—current	$ 1,190	13,245	35,831	1,086
Income tax benefit—deferred	(1,044)	(6,053)	(31,187)	(945)
Income tax expense	**$ 146**	**7,192**	**4,644**	**141**

The components of deferred income tax benefits for the years ended December 31, 2004, 2005 and 2006 were as follows:

	2004	2005	2006	
	NT$	NT$	NT$	US$
Change in unrealized inventory provisions	$ —	(330)	(733)	(22)
Change in unrealized foreign exchange gain	890	(47)	(3,295)	(100)
Change in allowance for doubtful accounts and discount	(1,636)	1,590	211	6
Provision for retirement benefits	(1,237)	(616)	84	3
Net investment gain recognized by the equity method	4,916	14,847	2,126	64
Change in unrealized inter-company profits	(1,155)	(521)	(147)	(5)
Unused investment tax credits	(43,690)	(7,251)	(38,700)	(1,172)
Change in valuation allowance for deferred income tax assets	41,998	(14,309)	8,280	251
Others	(1,130)	584	987	30
	$ (1,044)	**(6,053)**	**(31,187)**	**(945)**

(2) The estimated income tax calculated on pre-tax income at the Company' statutory income tax rate was reconciled with the actual income tax expense reported in the accompanying statement of income for the years ended December 31, 2004, 2005 and 2006, as follows:

	2004	2005	2006	
	NT$	NT$	NT$	US$
Estimated income tax calculated on pre-tax income at statutory income tax rate	$ 139,941	291,655	565,638	17,135
Gain on disposal of marketable securities not subject to income tax	(920)	(910)	(372)	(11)
Others	1,067	7,342	5,930	179
Current investment tax credits	(51,102)	(10,363)	(69,887)	(2,117)
10% surtax on undistributed earnings	238	2,542	183	6
Tax effect of income covered by a five-year tax holiday	(131,076)	(268,765)	(505,128)	(15,302)
Change in valuation allowance for deferred income tax assets	41,998	(14,309)	8,280	251
Income tax expense	**$ 146**	**7,192**	**4,644**	**141**

(3) The components of deferred income tax assets (liabilities) as of December 31, 2004, 2005 and 2006, were as follows:

	2004.12.31		2005.12.31		2006.12.31			
	NT$		NT$		NT$		US$	
	Amount	Effects on Income tax	Amount	Effects on Income tax	Amount	Effects on Income tax	Amount	Effects on Income tax
Deferred income tax assets—current:								
Provision for inventory obsolescence	4,720	$ 1,180	6,040	1,510	8,971	2,243	272	68
Allowance for doubtful accounts and discount	7,203	1,801	846	211	—	—	—	—
Unrealized profits from affiliated companies	4,619	1,155	6,705	1,676	7,292	1,823	221	55
Investment tax credits	9,599	9,599	9,599	9,599	40,786	40,786	1,236	1,236
Unrealized foreign exchange loss	—	—	—	—	3,590	897	109	27
Others	6,263	1,566	4,636	1,160	2,491	623	75	19
Net deferred income tax assets—current		15,301		14,156		46,372		1,405
Deferred income tax liabilities—current:								
Unrealized foreign exchange gain	(9,779)	$ (2,445)	(9,592)	(2,398)	—	—	—	—
Deferred income tax assets, net—current		**$ 12,856**		**11,758**		**46,372**		**1,405**
Deferred income tax assets—noncurrent:								
Provision for retirement benefits	20,532	$ 5,133	22,995	5,749	22,660	5,665	686	172
Investment tax credits	70,707	70,707	77,958	77,958	85,471	85,471	2,589	2,589
Others	2,661	665	1,951	487	146	36	4	1
Valuation allowance		(69,168)		(54,859)		(63,139)		(1,913)
Net deferred income tax assets—noncurrent		7,337		29,335		28,033		849
Deferred income tax liabilities—noncurrent:								
Net investment gain recognized by the equity method	(19,663)	(4,916)	(79,051)	(19,763)	(87,553)	(21,888)	(2,652)	(663)
Deferred income tax assets, net—noncurrent		**$ 2,421**		**9,572**		**6,145**		**186**

(4) The Company was granted investment tax credits for investment in certain high-tech industries, for purchases of automatic machinery and equipment, and for expenditures on research and development and employee training. These investment tax credits can be used to reduce the income tax liability in the current year and in the following four years at an amount not exceeding 50% of the income tax liability for each year during the first four years, with full utilization of the balance of any remaining unused investment tax credits in the final year.

As of December 31, 2006, unused investment tax credits available to the Company were as follows:

Filing Year	Unused investment tax credits NT$	US$	Expiry
2004 (reported)	$ 23,553	714	2008
2005 (reported)	22,379	678	2009
2006 (estimated)	80,325	2,433	2010
	$126,257	**3,825**	

In addition, the Company was granted a five-year tax holiday under the ROC tax law on its incremental profits arising from the sale of the following products produced from its expansion and construction projects as follows:

Approved tax holiday product	Tax holiday period
Solar cells and solar templates	2002.1.1~ 2006.12.31
Solar cells and solar templates	2005.1.1~ 2009.12.31
Solar cells and solar templates	2005.7.1~ 2010.6.30
Solar cells and solar templates	2006.10.16~ 2011.10.15

(5) Imputation credit account (ICA) and creditable ratio

	2004.12.31	2005.12.31	2006.12.31	
	NT$	NT$	NT$	US$
Unappropriated earnings before 1998	$ —	—	—	—
Unappropriated earnings in 1998 and thereafter	561,470	1,159,862	2,260,174	68,469
	561,470	**1,159,862**	**2,260,174**	**68,469**
Balance of ICA	**$ 19**	**363**	**103**	**3**

	2004 (actual)	2005 (actual)	2006 (estimated)
Creditable ratio for earnings distribution to domestic stockholders	**1.30%**	**1.28%**	**1.01%**

Nonresident stockholders are not eligible for the imputation tax credit. Nevertheless, the 10% income surtax paid can be offset against the tax to be withheld from payment of dividend to nonresident stockholders upon distribution of earnings.

(6) The Company's income tax returns have been examined by the local tax authorities through 2003.

(k) Stockholders' equity

(1) Common stock

As of December 31, 2004, 2005 and 2006, the Company's authorized share capital of $610,000, $1,200,000 and $2,000,000, respectively, with par value of NT$10 per share, divided into 46,386 thousand, 83,891 thousand and 144,040 thousand shares, respectively, were issued and outstanding. As of December 31, 2006, $90,000 of the Company's authorized share capital was reserved for stock options and convertible bonds.

The Company's stockholders, during their meeting on June 9, 2006, approved a resolution to distribute from unapproriated retained earnings, stock dividends aggregating to $562,570, of which 55,368 thousand common shares were distributed as stock dividends to shareholders and $8,890 divided into 889 thousand shares of common stock as bonus to employees. The aforementioned issuance was approved by and registered with the government authorities on September 9, 2006.

The Company's directors, during their meeting on August 24, 2006, approved a resolution to issue for cash at the price of NT$420 per share, new 3 million common shares with par value of NT$10 per share, aggregating to $1,260,000. The aforementioned issuance was approved by and registered with the government authorities on December 8, 2006.

The Company's stockholders, during their meeting on June 17, 2005, approved a resolution to distribute from unapproriated retained earnings, stock dividends aggregating to $308,563, of which 29,852 thousand common shares were distributed as stock dividends to shareholders and $10,045 divided into 1,004 thousand shares of common stock as bonus to employees. The aforementioned issuance was approved by and registered with the government authorities on August 17, 2005.

The Company's stockholders, during their meeting on June 18, 2004, approved a resolution to distribute from unappropriated earnings, stock dividends aggregating to $109,399, of which 10,495 thousand shares of common stock were distributed as stock dividends to shareholders and $4,448 divided into 445 thousand shares of common stock as bonus to the employees. The aforementioned issuance was approved by and registered with the government authorities on August 10, 2004.

(2) Capital surplus

The ROC Company Law stipulates that realized capital surplus cannot be used to increase capital except for purposes of covering the accumulated deficit of the Company. The realized capital surplus includes the premiums from issuance of shares over their par value. In addition, the capital surplus from issuance of shares or other events in accordance with Article 8 of the ROC Securities and Exchange Law and the ROC Company Law can be credited or transferred to capital provided that the transfer of such capital surplus to capital has been approved by and registered with the competent authority in prior year.

Furthermore, the capital surplus arising from the issuance of shares in excess of par value and from gifts received which are credited to capital should not exceed 10 percent of the amount of paid-in capital every year.

The components as of December 31, 2004, 2005 and 2006, were as follows:

	2004.12.31	2005.12.31	2006.12.31	
	NT$	NT$	NT$	US$
Additional paid-in capital	$ 28,000	28,000	1,259,148	38,144
Additional paid-in capital—bond conversion	234,525	383,404	392,245	11,883
	$262,525	**411,404**	**1,651,393**	**50,027**

(3) Legal reserve, and restrictions on appropriations of earnings

(i) Legal reserve

The ROC Company Law stipulates that the Company must retain 10% of its annual earnings, as defined in the Law, until such retention equals the amount of authorized share capital. This retention is accounted for by transfers to legal reserve, upon approval by the stockholders during their meeting. Legal reserve can be used to offset an accumulated deficit or to (a) increase common stock when it reaches an amount equal to one-half of the paid-in capital, but only 50% of it can be transferred to common stock; and (b) distribute dividends and bonuses when it exceeds one-half of paid-in capital but such dividends and bonuses can be distributed only from the excess portion of the legal reserve.

(ii) Restrictions on appropriations of earnings:

The Company's articles of incorporation stipulate that the Company must retain 10% of its annual income after deducting accumulated deficit, if any, as a legal reserve. The remaining balance can be distributed as dividends to shareholders and appropriated as bonus to employees. However, the appropriation for employees' bonuses shall not be less than 1% of earnings of each year.

The Company's dividend policy was as follows:

(a) The Company appropriates cash dividends and stock dividends in consideration of the budgets for capital expenditures, financial condition, and future operating cash flow.

(b) Dividends cannot be distributed if the Company has no unappropriated earnings; however, when legal reserve exceeds an amount equal to one-half of the paid-in share capital, the excess amount can be distributed as cash or share dividends. The ratio for distributing cash dividends shall not be more than 90% of total distribution.

(c) If the Company has no unappropriated earnings, or if the Company has unappropriated earnings which are much less than the earnings distributed last year, or in consideration of finance, business, and operations, then all of the capital surplus or a part of the legal reserve or capital reserve can be distributed according to the law or government regulations.

(4) Special reserve

Under the ROC Securities Exchange Law, a company is required to appropriate a special reserve from unappropriated earnings at an amount equal to the net debit balance of those accounts in the stockholders' equity, such as cumulative translation adjustment and unrealized loss from revaluation of long-term investment. This special reserve cannot be distributed as dividends. When those stockholders' equity accounts with debit balances are reversed, the special reserve is also reversed by the same amount against unappropriated earnings.

(5) Appropriated earnings

The employees' bonuses and directors' and supervisors' remuneration appropriated from 2003, 2004 and 2005 earnings were as follows:

	2003	2004	2005	
			NT$	US$
Employees' bonuses—stock (par value)	$ 4,447	10,045	8,890	269
Employees' bonuses—cash	15,321	40,178	80,013	2,424
Stock dividends	104,951	298,518	553,680	16,773
Cash dividends	64,586	134,815	369,120	11,182
Directors' and supervisors' remuneration	8,895	20,089	31,377	951
	$198,200	**503,645**	**1,043,080**	**31,599**

The appropriation of earnings did not differ from the resolutions made by the Company's directors. Stock dividends distributed to employees aggregated to 444.7 thousand, 1,004.5 thousand and 889 thousand shares, representing 1.38%, 2.17% and 1.06% of the outstanding common shares as of December 31, 2003 ,2004 and 2005, respectively. Assuming the above remuneration of directors and supervisors and the employees' bonuses are paid in cash and expensed in the year when the earnings are recognized, the basic earnings per share (after tax), not computed retroactively, for the years 2003, 2004 and 2005 would be reduced to NT$9.51 (US$0.29), NT$10.95 (US$0.33), and NT$13.08 (US$0.40), respectively.

The appropriation for the 2006 employees' bonuses and directors' and supervisors' remuneration is subject to the resolutions of the Company's directors and stockholders and related information can be accessed from the website of the Market Observation Post System after their meetings.

(6) Employee stock options

(i) In order to attract and retain employees, the Company issues employee stock options based on a resolution approved by the Company's board of directors. Each unit of these stock options bears the right to purchase 1,000 shares of the Company's common stock, under the employee stock option plan. The details of employee stock options issued are as follows:

Item	Resolution date of the board of directors	Approval date by Securities and Futures Bureau	Issue date	Expected number of units	Actual number of units	Purchase price per share	
						NTD	USD
Employee stock options in 2002	2002.11.27	2003.01.08	2003.02.12	2,678	2,678	$ 10.0 (Note 1)	0.3
Employee stock options in 2003	2003 04.03	2003.04.25	2004.04 23	1,322	290	23.3 (Note 1)	0.7
Employee stock options in 2005:							
—1st	2005.12.22	2006.01.09	2006.06.14	1,500	1,210	424.1(Note 1)	12.8
—2nd	2005.12.22	2006.01.09	2006.12.19	Note 2	270	388.0	11.8

Note1: Purchase price per share had been retroactively adjusted by the distribution of stock dividends, however, the adjusted amount can not be less than the par value of NT$10 per share.
Note2: The expected number of units were included in 2005—1st employee stock option.

The aforementioned options are valid for seven years and the compensation cost for stock options was accounted for using the intrinsic value method. Because the option exercise price was equal to the stock market price on grant date, the compensation costs were both $0 for the years ended December 31, 2004 and 2006. There were no stock options issued in 2005. Under the employee stock option plan, the holder of a stock option can exercise 20% of the options each year beginning two years after the grant date.

If the employee stock option plans of the Company were accounted for using the fair value method, the compensation costs would be $5,797 and $48,243 for the years ended December 31, 2004 and 2006, respectively.

The stock options should be exercised completely within one year from exercisable date, or the holders are deemed to have abandoned the right to subscribe.

If the Company adopted the fair value method when accounting for compensation cost for the stock options in 2003 and 2005, and the Black-Scholes option valuation method was used to estimate the fair value of the option on grant date, the assumptions and the fair value of these options would be as follows:

	Employee stock option in 2003	Employee stock option in 2005-1st	Employee stock option in 2005-2nd
Dividend yield	5.80%	1.95%	1.72%
Expected volatility	43%	95%	86%
Risk-free interest rate	2.00%	2.02%	2.23%
Fair value per share on grant date (dollars)	$19.99	470	265
Market price per share on grant date (dollars)	86	710	388

The Company's stock option plan was accounted for as a compensatory plan. The weighted-average exercise price and outstanding units were as follows:

	2004		2005		2006		
	Shares (thousand)	Weighted-average exercise price NTD per share	Shares (thousand)	Weighted-average exercise price NTD per share	Shares (thousand)	Weighted-average exercise price NTD per share	Weighted-average exercise price USD per share
Options outstanding at January 1	2,678	$13.27	2,968.0	15.28	2,495.4	13.34	0.40
Granted	290	86.00	—	—	1,480.0	651.26	19.73
Exercised	—	—	(472.6)	10.00	(629.6)	11.82	0.36
Forfeited	—	—	—	—	—	—	—
Options outstanding at December 31	2,968	15.28	2,495.4	13.34	3,345.8	191.26	5.79
Fair value of stock options issued in current period (thousand)	$5,797		—		640,250		

As of December 31, 2006, the Company's outstanding stock options accounted for as a compensatory plan were as follows:

	Options outstanding as of December 31, 2006				Options exercisable	
Issue date	Range of exercise price (dollars)	Shares (thousand)	Weighted-average remaining contractual life (years)	Weighted-average exercise price (dollars)	Shares (thousand)	Weighted-average exercise price (dollars)
2003.02.12	$ 10.0	1,615.8	3.12 years	$ 10.0	9	10.0
2004.04.23	23.3~38.7	250.0	4.31 years	23.3	18	23.3
2006.06.14	424.1~710	1,210.0	6.45 years	424.1	—	—
2006.12.19	388.0	270.0	6.96 years	388.0	—	—

If the compensatory employee stock option plan of the Company was accounted for using the fair value method, the pro-forma net income and EPS for the years 2004, 2005 and 2006 would be as follows:

		2004	2005	2006	
		NT$	NT$	NT$	US$
Net Income	Net income in statement of income	$559,620	1,159,427	2,257,907	68,401
	Pro-forma net income	555,272	1,159,427	2,221,725	67,305
Basic EPS (dollars)	EPS in statement of income (after income tax)	4.66	8.52	16.01	0.49
	Pro-forma EPS	4.62	8.52	15.76	0.48
Diluted EPS (dollars)	EPS in statement of income (after income tax)	3.89	7.95	15.31	0.46
	Pro-forma EPS	3.86	7.95	15.07	0.46

(l) Earnings per share (EPS)

For the years ended December 31, 2004, 2005 and 2006, the Company' earnings per share were calculated as follows:

	2004		2005		2006			
	Before income taxes	After income taxes	Before income taxes	After income taxes	Before income taxes		After income taxes	
	NT$	NT$	NT$	NT$	NT$	US$	NT$	US$
Basic EPS:								
Net income	$559,766	559,620	1,166,619	1,159,427	2,262,551	68,542	2,257,907	68,401
Weighted-average number of shares outstanding during the year (thousand shares)	**120,085**	**120,085**	**136,139**	**136,139**	**141,015**	**141,015**	**141,015**	**141,015**
Basic EPS (dollars)	**4.66**	**4.66**	**8.57**	**8.52**	**16.04**	**0.49**	**16.01**	**0.49**
Diluted EPS:								
Net income	$559,766	559,620	1,166,619	1,159,427	2,262,551	68,542	2,257,907	68,401
Effect of common stock with dilution potential—convertible bonds	5,833	4,375	2,502	1,877	1,149	35	862	26
Net income plus the effect of common stock with dilution potential	**$565,599**	**563,995**	**1,169,121**	**1,161,304**	**2,263,700**	**68,577**	**2,258,769**	**68,427**
Weighted-average number of shares outstanding during the year (thousand shares)	120,085	120,085	136,139	136,139	141,015	141,015	141,015	141,015
Effect of common stock with dilution potential:								
Stock options	2,534	2,534	2,530	2,530	2,495	2,495	2,495	2,495
Convertible bonds	22,270	22,270	7,409	7,409	4,001	4,001	4,001	4,001
Weighted-average number of shares outstanding for calculating diluted EPS (thousand shares)	**144,889**	**144,889**	**146,078**	**146,078**	**147,511**	**147,511**	**147,511**	**147,511**
Diluted EPS (dollars)	**$ 3.90**	**3.89**	**8.00**	**7.95**	**15.35**	**0.46**	**15.31**	**0.46**

(m) Financial instruments

(i) Forward exchange contracts

The Company utilizes foreign exchange forward contracts to hedge the risk of foreign currency assets and liabilities or foreign currency cash flows resulting from anticipated transactions. The purpose of the strategy is to hedge the majority of the market risk.

There were no forward exchange contract transactions for the year ended December 31, 2006.

As of December 31, 2005, the Company entered into several outstanding forward exchange contracts amounting to EURO 920,000, and the net payable arising from these contracts of $320 was recorded under accrued expenses and other current liabilities. Net exchange gains from forward exchange contracts for the year ended December 31, 2005 amounted to $916, which were accounted for under foreign exchange loss—net, in the statements of income.

All of the forward exchange contracts for the year ended December 31, 2004 have matured. Net exchange loss realized thereon amounted to $3,869, which was classified under foreign exchange gains—net, in the statement of income for the year ended December 31, 2004.

The counter-parties to the forward transactions are international financial institutions with excellent reputations. Management believes that the risk of loss due to non-performance of the counter-parties is remote. Even in the unlikely event that these institutions defaulted on their contracts, management does not believe the loss would result in a material effect on the financial statements. In addition, the market risk arising from the hedging instruments will be offset by changes in foreign currency exchange rate resulting from hedged items.

(ii) Fair value of financial instruments

(i) As of December 31, 2004, 2005 and 2006, fair value of financial assets and liabilities of the Company were as follows:

	2004.12.31		2005.12.31		2006.12.31			
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount		Fair value	
					NT$	US$	NT$	US$
Financial assets:								
Cash and cash equivalents	425,146	425,146	239,147	239,147	1,564,683	47,400	1,564,683	47,400
Bond funds	282,502	284,955	63,078	64,073	49,859	1,511	49,859	1,511
Notes and accounts receivable (including receivables from related parties)	284,885	284,885	299,436	299,436	1,058,482	32,065	1,058,482	32,065
Other financial assets—current	12,323	12,323	152,999	152,999	10,727	325	10,727	325
Other financial assets—noncurrent	3,127	3,127	3,719	3,719	6,876	208	6,876	208
Long-term equity investments under equity method	27,567	27,567	89,378	89,378	98,799	2,993	98,799	2,993
Restricted long-term assets	—	—	—	—	1,536,146	46,536	1,536,146	46,536
Financial liabilities:								
Short-term borrowings (including long-term borrowings—current portion)	9,400	9,400	137,733	137,733	473,429	14,342	473,429	14,342
Notes and accounts payable	202,790	202,790	203,835	203,835	321,899	9,752	321,899	9,752
Accrued expense and other current liabilities	214,729	214,729	344,503	344,503	402,128	12,182	402,128	12,182
Convertible bonds and interest premium payable	273,173	924,042	82,346	1,070,670	72,000	2,181	1,893,600	57,364
Long-term borrowings (less long-term borrowings—current portion)	27,500	27,500	73,933	73,933	2,075,720	62,881	2,075,720	62,881

(ii) Methods and assumptions to measure the fair value of financial instruments

a. Because the maturity dates of short-term financial instruments, including cash and cash equivalents, notes and accounts receivable/payable, short-term borrowings (including long-term borrowings—current portion), other financial assets—current, accrued expenses and other current liabilities, are within one year of the balance sheet date, their book value is assumed to be equal to their fair value.

b. If the publicly quoted market price for financial assets and liabilities is available, then the quoted price will be used as the fair value. If market value is not available, an assessment method will be used. The assumptions used should be the same as those used by financial market traders when quoting their prices.

c. Because the fair value of long-term borrowings is determined based on the discounted future cash flows and the discount rates are floating, the carrying value of long-term borrowings approximates the market value.

d. The fair value of convertible bonds is determined based on market price.

(iii) As of December 31, 2006, the fair values of financial assets and liabilities evaluated under the publicly quoted market price and an assessment method were as follows:

	2006			
	Publicly quoted value		Assessment value	
	NT$	US$	NT$	US$
Financial assets:				
Cash and cash equivalents	$ —	—	1,564,683	47,400
Bond funds	49,859	1,511	—	—
Notes and accounts receivables (including receivable from related parties)	—	—	1,058,482	32,065
Other financial assets—current	—	—	10,727	325
Long-term equity investments under equity method	—	—	98,799	2,993
Restricted long-term assets	—	—	1,536,146	46,536
Financial liabilities:				
Short-term borrowings (including long-term borrowings—current portion)	—	—	473,429	14,342
Notes and accounts payable	—	—	321,899	9,752
Accrued expense and other current liabilities	—	—	402,128	12,182
Convertible bonds and interest premium payable	—	—	1,893,600	57,364
Long-term borrowings (less long-term borrowings—current portion)	—	—	2,075,720	62,881

(iv) The valuation of available-for-sale financial assets resulted in unrealized gain of $352 (US$11), which was recorded under stockholders' equity as unrealized gain on available-for-sale financial assets as of December 31, 2006. Also, the disposal of available-for-sale financial assets resulted in a realized gain of $1,488 (US$45), which was credited to profit and loss in 2006 against unrealized gain on available-for-sale financial asset.

(v) Disclosure of financial risks

a. Market risk

The equity instruments held by the Company's were classified as available-for-sale financial assets and were evaluated at fair value. Therefore, the Company was exposed to the risk of price fluctuation.

b. Concentrations of credit risk

The Company's cash and cash equivalents, securities, and accounts receivable involve potential credit risk. Cash is deposited in different financial institutions to diverge from the credit risk. Securities consist of publicly traded good rating bonds, which were purchased to reduce the credit risk. Therefore, the Company considers the credit risk involving cash and securities not significant.

Concentrations of credit risk exist if the financial instrument transactions are obviously concentrated on a few counter-parties, or the counter-parties are engaged in similar business activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The Company's accounts receivable were obviously concentrated on 5, 5 and 7 customers, whose accounts represented 64.94%, 47.96% and 71.07% of total accounts receivable, as of December 31, 2004, 2005 and 2006, respectively.

c. Cash flow risk related to the fluctuation of interest rates

The Company's short-term and long-term borrowings carried floating interest rates. As a result, the effective rate changes along with the fluctuation of the market interest rate and thereby influences the Company's future cash flow. If the market interest rate increases by 1%, the Company's future cash outflow would increase by approximately $25,491.

d. Liquidity risk

The Company's capital and operating funds are sufficient to meet all financial obligations. Therefore, the Company does not expect to have liquidity risk.

(5) Related-party Transactions

(a) Names and relationship of related parties

Name	Relationship with the Company
Think Global Enterprises Limited (Think Global)	A 100%-owned subsidiary of the Company
Power Islands Limited (Power Islands)	A 100%-owned subsidiary of the Company
Motech (Ningbo) Electronic Co., Ltd. (Ningbo Electronic)	A 100%-owned subsidiary indirectly owned through Power Islands
Motech (Ningbo) Trade Co., Ltd. (Ningbo Trade)	A 100%-owned subsidiary indirectly owned through Power Islands
Galaxy Far East Corp. (Galaxy)	The Company's chairman is a member of the Board of Directors
CReTE Systems Inc (CReTE)	The Company's chairman is a member of the Board of Directors
AE Polysilicon Corporation (AE)	The Company's CEO is the relative of AE's president

(b) Significant transactions with related parties

(i) Purchases and accounts payable

Significant purchases from and accounts payable to related parties as of and for the years ended December 31, 2004, 2005 and 2006, were as follows:

	2004		2005		2006		
	Amount	% of net purchases	Amount	% of net purchases	Amount		% of net purchases
	NT$		NT$		NT$	US$	
Purchase:							
Galaxy	$ 352	—	—	—	—	—	—
Ningbo Electronic	2,124	—	—	—	—	—	—
Think Global	814	—	51,421	1.65	5,988	181	0.13
	$3,290	**—**	**51,421**	**1.65**	**5,988**	**181**	**0.13**

The purchase prices for the purchases from related parties are not materially different from those for non-related general suppliers. The Company purchases materials from suppliers in Mainland China through a subsidiary. As of December 31, 2004, 2005 and 2006, the balances of accounts payable resulting from the aforementioned transactions were offset against accounts receivable.

(ii) Sales and accounts receivable

For the years ended December 31, 2004, 2005 and 2006, the Company's sales to Think Global amounted to $251,129, $158,091 and $79,095 representing 8.78%, 3.67% and 0.98%, respectively of net sales. As of December 31, 2004, 2005 and 2006, the balances of accounts receivable resulting from the aforementioned transactions were $30,690, $10,149 and $3,373, respectively. Trading terms of sales transactions with related parties require payment within 60 to 90 days. Trading terms with non-related parties require payment within 60 days.

For the years ended December 31, 2004, 2005 and 2006, the Company sold inventories to Ningbo Trade and Ningbo Electronic through Think Global, which resulted in unrealized gains thereon of $4,619, $2,086 and $587, respectively. As of December 31, 2004, 2005 and 2006, the balances of the deferred credits of $4,619, $6,705 and $7,292, respectively, arising from these inter-company transactions were recorded as accrued expense and other current liabilities.

(iii) Property transactions

In 2004, the Company bought factory buildings from CReTE for $23,952 thousand and it was fully paid by the Company. There were no similar transactions in 2005 and 2006.

(iii) Other receivables

The components of other receivables as of December 31, 2004, 2005 and 2006, were as follows:

	2004.12.31	2005.12.31	2006.12.31	
	NT$	NT$	NT$	US$
Power Islands	**$49**	**50**	**43**	**1**

(v) Other

a. The Company paid commission expense to Think Global for acting as an agent in the transactions between Ningbo Trade and its customers in Mainland China. The Company's commission expense (recorded as selling expenses) and commission payable for inventories sold by Ningbo Trade in Mainland China, through Think Global, as of and for the years ended December 31, 2004, 2005 and 2006, were as follows:

	2004		2005		2006			
	Commission expense	Accounts payable	Commission expense	Accounts payable	Commission expense		Accounts payable	
	NT%	NT$	NT$	NT$	NT$	US$	NT$	US$
Think Global	$11,490	—	24,105	—	611	19	—	—

b. On December 29, 2006, the Company entered into a Strategic Supply Agreement with AE. Under this agreement, the Company will acquire AE's Series A convertible preferred stock for US$2,000 and will prepay US$30,000 for the long-term supply of materials. On January 23, 2007, the Company remitted the payment for the stock purchase price of US$2,000 through Cheer View Investment Limited (Cheer View). Cheer View will become a subsidiary of Power Islands in 2007, and made the first prepayment of US$15,000 for the long-term supply of materials on January 31, 2007. The remaining advance payment for material costs of US$15,000 will be paid on March 15, 2007. The agreement also grants the Company the right to convert up to half of its advanced payment for material costs into AE's new shares based on AE's offering price or to partially deduct it from the material purchase costs beginning from the year 2011 until 2013. The purchase quantities are fixed, but the prices are subject to open market adjustment.

(vi) As of December 31, 2004, 2005 and 2006, the receivables and payables from related parties resulting from the above transactions were as follows:

	2004.12.31	2005.12.31	2006.12.31	
	NT$	NT$	NT$	US$
Account receivable-related parties:				
Accounts receivable	$30,690	10,149	3,373	102
Other receivable	49	50	43	1
	$30,739	**10,199**	**3,416**	**103**

(6) Pledged Assets

As of December 31, 2004, 2005 and 2006, the book values of pledged assets were as follows:

Pledged assets	Pledged to secure	2004.12.31	2005.12.31	2006.12.31	
		NT$	NT$	NT$	US$
Machinery and equipment	Long-term borrowings	$97,337	277,999	137,785	4,174
Time deposit	Long-term raw material supply contract	—	—	1,536,146	46,536
		$97,337	**277,999**	**1,673,931**	**50,710**

(7) Commitments and Contingencies

(a) As of December 31, 2004, 2005 and 2006, the unused letters of credit for purposes of purchasing materials, machinery, and equipment, amounted to $88,747, $192,487 and $324,501, respectively.

(b) As of December 31, 2004, 2005 and 2006, the Company had entered into certain contracts amounting to $590,016, $719,917 and $1,393,330, respectively, for purposes of expanding the factory building and acquiring machinery and equipment. As of December 31, 2004, 2005 and 2006, the unpaid contract price thereon amounted to $354,903, $395,780 and $369,431, respectively.

(c) The Company rents its Tainan branch office premises in the Tainan Science Park. Future minimum lease payments from these leases were as follows:

2007.1.1-2007.12.31	$ 3,145
2008.1.1-2008.12.31	3,145
2009.1.1-2009.12.31	3,145
2010.1.1-2010.12.31	3,145
2011.1.1-2011.12.31	3,145
After 2012.1.1	29,245
	$44,970

When the government announces the current land value in accordance with the ROC Land law, the above lease payments will be adjusted in the month following this government announcement.

(d) To overcome the short supply of materials, the Company entered into long-term material supply contracts with suppliers in 2005 and 2006, under which, the purchase quantities are fixed and prices will be adjusted based on changes in material costs structure.

(e) In 2006, the Company entered into long-term sales contracts with two customers to sell merchandise to these customers, under which, the sales quantities are fixed and prices will be adjusted according to market price conditions quarterly.

(f) In 2006, the Company entered into a contract with Renewable Energy Corporation (REC) to purchase solar energy material from REC totaling $10,000,000 for 5 years commencing from January 1, 2007. As HSBC provided a bank guarantee for this purchase contract, the Company pledged its time deposit of US$47,127,750 dollars (equal to $1,536,146), as a collateral to HSBC. Refer to Note (6) for details.

(8) Significant Disaster Loss

On November 23, 2005, certain inventory, plant and equipment of the Tainan factory were destroyed by fire. The estimated fire damage and losses on work stoppage during the shutdown period, which aggregated to $107,795 (net of estimated insurance compensation), were recorded as loss on fire damage. As of December 31, 2006, the receivable from insurance claim of $144,602 was recorded as other financial assets—current. The related provision for fire damage and losses was recorded as accrued expenses and other current liabilities.

(9) Subsequent Events:

The Company's shareholders, during their Special Shareholders' Meeting on February 5, 2007, approved the offering of Global Depository shares (GDS) by issuing new Company shares of not more than 18 million shares, with par value of NT$10 per share. Except for the 10% of these new shares allocated for priority purchase by the employees, the remaining shares representing the GDS would be issued to the public when the original shareholders waived their rights to subscribe to these new shares in accordance with Securities and Exchanges Act. The aforementioned proposed offering was approved by the stockholders on February 5, 2007, but has not been approved yet by the government authorities on the date of the issuance of these financial reports.

(10) Other

(a) Total personnel, depreciation and amortization expenses incurred for the years ended December 31, 2004, 2005 and 2006, were as follows:

	2004		
	Operating costs	Operating expenses	Total
		NT$	
Personnel:			
Salaries	179,103	70,983	250,086
Labor and health insurance	7,533	3,541	11,074
Pension	4,035	3,232	7,267
Others	8,884	1,749	10,633
Depreciation	35,696	8,461	44,157
Amortization	—	1,145	1,145

	2005		
	Operating costs	Operating expenses	Total
		NT$	
Personnel:			
Salaries	203,130	82,137	285,267
Labor and health insurance	10,321	4,948	15,269
Pension	8,215	3,308	11,523
Others	6,719	2,150	8,869
Depreciation	123,142	9,730	132,872
Amortization	1,321	1,697	3,018

	2006		
	Operating costs	Operating expenses	Total
		NT$	
Personnel:			
Salaries	275,914	115,264	391,178
Labor and health insurance	16,310	6,497	22,807
Pension	12,731	4,887	17,618
Others	9,703	2,856	12,559
Depreciation	163,290	13,753	177,043
Amortization	1,441	2,186	3,627

	2006		
	Operating costs	Operating expenses	Total
		US$	
Personnel:			
Salaries	8,358	3,492	11,850
Labor and health insurance	494	197	691
Pension	386	148	534
Others	294	86	380
Depreciation	4,947	416	5,363
Amortization	44	66	110

(b) Reclassification

Certain accounts in 2004 and 2005 financial statements have been reclassified to conform with the financial statements presentation adopted in 2006. These reclassifications have no significant impact on the financial statements.

(11) Segment Financial Information

(a) Industry segment

Industry segment data as of and for the years ended December 31, 2004, 2005, and 2006, were as follows:

	2004			
	Solar	Instruments	Power	Consolidated
		NT$		
Total revenues	$2,267,470	136,125	46,779	2,450,374
Segment income (losses)	$ 515,177	13,378	(3,390)	525,165
Marketable securities income				3,683
Investment income recognized under equity method				19,663
General income				21,690
General expense				(2,748)
Interest expense				(7,687)
Income before income taxes				$ 559,766
Segment identifiable assets	$1,567,860	408,590	84,503	2,060,953
Depreciation	$ 37,968	6,037	152	44,157
Capital expenditures	$ 492,431	42,349	707	535,487

	2005			
	Solar	Instruments	Power	Consolidated
		NT$		
Total revenues	$4,056,536	131,797	115,902	4,304,235
Segment income (losses)	$1,188,577	17,416	(2,749)	1,203,244
Marketable securities income				3,642
Investment income recognized under equity method				59,388
General income				14,596
General expense				(110,826)
Interest expense				(3,425)
Income before income taxes				$1,166,619
Segment identifiable assets	$2,947,442	235,548	97,884	3,280,874
Depreciation	$ 139,976	5,968	207	146,151
Capital expenditures	$ 460,970	3,860	170	465,000

	2006			
	Solar	Instruments	Power	Consolidated
		NT$		
Total revenues	$7,915,510	126,721	57,260	8,099,491
Segment income (losses)	$2,172,682	13,628	(8,690)	2,177,620
Marketable securities income				1,488
Investment income recognized under equity method				8,502
General income				126,153
General expense				(16,627)
Interest expense				(34,585)
Income before income taxes				$2,262,551
Segment identifiable assets	$7,482,099	1,356,796	104,593	8,943,488
Depreciation	$ 193,259	6,829	189	200,277
Capital expenditures	$1,702,892	7,489	—	1,710,381

	2006			
	Solar	Instruments	Power	Consolidated
		US$		
Total revenues	$239,791	3,839	1,735	245,365
Segment income (losses)	$ 65,819	413	(263)	65,969
Marketable securities income				45
Investment income recognized under equity method				258
General income				3,821
General expense				(503)
Interest expense				(1,048)
Income before income taxes				$ 68,542
Segment identifiable assets	$226,662	41,102	3,169	270,933
Depreciation	$ 5,854	207	6	6,067
Capital expenditures	$ 51,587	227	—	51,814

(b) Geographic segment information

No geographic segment information was disclosed because the Company has no overseas segment.

(c) Export sales

The export sales of the Company in 2004, 2005 and 2006 were as follows:

Area	2004 Amount	2004 Percentage of net sales	2005 Amount	2005 Percentage of net sales	2006 Amount		2006 Percentage of net sales
	NT$		NT$		NT$	US$	
Asia	$1,045,450	42.66	2,264,402	52.61	3,512,898	106,419	43.37
Europe	1,142,481	46.62	1,374,137	31.92	2,354,550	71,328	29.07
Americas	29,085	1.19	87,313	2.03	679,406	20,582	8.39
Other	116,678	4.76	340,050	7.90	514,430	15,584	6.35
	$2,333,694	**95.23**	**4,065,902**	**94.46**	**7,061,284**	**213,913**	**87.18**

(d) Major customers

For the years ended December 31, 2004, 2005 and 2006, sales to customers representing greater than 10% of net revenue were as follows:

Customer	2004 Net revenue amount	2004 Percentage of net revenue	2005 Net revenue amount	2005 Percentage of net revenue	2006 Net revenue amount		2006 Percentage of net revenue
	NT$		NT$		NT$	US$	
W	$113,701	4.64	231,394	5.37	1,017,209	30,815	12.56
X	513,307	20.95	636,101	14.78	565,304	17,125	6.98
Y	317,059	12.94	126,858	2.95	311,951	9,450	3.85
	$944,067	**38.53**	**994,353**	**23.10**	**1,894,464**	**57,390**	**23.39**

Independent Accountants' Review Report

The Board of Directors
MOTECH Industries Inc.

We have reviewed the accompanying balance sheets of MOTECH Industries Inc. (the "Company") as of March 31, 2006 and 2007, and the related statements of income and cash flows for the three months then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these financial statements based on our reviews.

Except as mentioned in the third paragraph, we conducted our reviews in accordance with Republic of China Statement on Auditing Standards No. 36, "Review of Financial Statements". A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

The Company's long-term equity investments of NT$93,420 thousand and NT$162,506 thousand (US$4,923 thousand), deferred inter-company profit of NT$3,852 thousand and NT$7,120 thousand (US$217 thousand), which were recorded as accrued expenses and other current liabilities and foreign currency translation adjustments with debit balance of NT$9 thousand and with credit balance of NT$4,000 thousand (US$121 thousand) as of March 31, 2006 and 2007, respectively, the related net investment income of NT$5,046 thousand for the three months ended March 31, 2006 and net investment loss of NT$4,465 thousand (US$135 thousand) for the three months ended March 31, 2007, and the unrealized inter-company profit of NT$ 2,854 thousand and NT$172 thousand (US$5 thousand) for the three months ended March 31, 2006 and 2007, respectively, were determined by evaluation made in accordance with the equity method based on the financial statements of the related investees of the Company, which were not reviewed by independent auditors. Therefore, we were unable to evaluate the effect on the Company's financial statements referred to in the first paragraph if such investees' financial statements were reviewed by independent auditors, nor were we able to satisfy ourselves as to these amounts by other review procedures.

Based on our reviews, except for the effects of such adjustments, if any, had the investees' financial statements been reviewed by independent auditors as discussed in the preceding paragraph, we are not aware of any material modifications that should be made to the financial statements referred to in the first paragraph in order for them to be in conformity with accounting principles generally accepted in the Republic of China.

The accompanying financial statements as of and for the three months ended March 31, 2007, have been translated into United States dollars solely for the convenience of the readers. We have reviewed the translation, and based on our review, we are not aware of any modifications that should be made to the financial statements expressed in New Taiwan dollars, which have been translated into United States dollars on the basis set forth in note 2(a) to the accompanying financial statements.

KPMG Certified Public Accountants
Taipei, Taiwan (the Republic of China)
April 14, 2007

Note to Readers

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

Reviewed only, not audited in accordance with generally accepted auditing standards

MOTECH INDUSTRIES INC.

BALANCE SHEETS
MARCH 31, 2006 AND 2007
(Amounts expressed in thousands of New Taiwan dollars and U.S. dollars)

	2006	2007	
	NT$	NT$	US$
Assets			
Current assets:			
Cash and cash equivalents (note 4(a))	$ 291,050	817,351	24,761
Available-for-sale financial assets—current (note 4(b))	32,807	50,046	1,516
Notes and accounts receivable, net of allowance for doubtful accounts both of $4,062 in 2006 and 2007	372,991	1,728,746	52,370
Accounts receivable—related parties (note 5)	50	9,558	290
Other financial assets—current	25,073	7,241	219
Inventories (note 4(c))	1,527,852	1,482,900	44,923
Prepayments and other current assets	277,984	709,272	21,486
Deferred income tax assets—current (note 4(j))	12,644	57,256	1,735
Total current assets	2,540,451	4,862,370	147,300
Funds and investments:			
Long-term equity investments under equity method (note 4(d))	93,420	162,506	4,923
Prepayment for long-term investments (note 4(d))	—	39,725	1,203
Other financial assets—noncurrent	4,696	8,782	266
Total funds and investments	98,116	211,013	6,392
Property, plant and equipment (notes 4(e), 6 and 7):			
Land	27,823	27,823	843
Buildings	131,919	447,285	13,550
Machinery and equipment	660,588	1,064,982	32,263
Transportation equipment	6,772	8,951	271
Office equipment	4,626	15,548	471
Other equipment	169,071	466,057	14,119
	1,000,799	2,030,646	61,517
Less: accumulated depreciation	(282,444)	(512,005)	(15,511)
Prepayments for construction in progress and equipment	575,569	1,288,387	39,030
Net property, plant and equipment	1,293,924	2,807,028	85,036
Intangible assets:			
Deferred pension cost (note 4(i))	1,707	8,164	248
Other assets:			
Deferred charges	7,061	25,116	761
Deferred income tax assets—noncurrent (note 4(j))	13,188	10,102	306
Restricted long-term assets (note 6 and 7)	—	1,559,457	47,242
Other assets (note 5)	112,650	837,043	25,357
Total other assets	132,899	2,431,718	73,666
Total Assets	**$4,067,097**	**10,320,293**	**312,642**

See accompanying notes to financial statements.

Reviewed only, not audited in accordance with generally accepted auditing standards

MOTECH INDUSTRIES INC.

BALANCE SHEETS
MARCH 31, 2006 AND 2007
(Amounts expressed in thousands of New Taiwan dollars and U.S. dollars)

	2006	2007	
	NT$	NT$	US$
Liabilities and Stockholders' Equity			
Current liabilities:			
Short-term borrowings (note 4(f))	$ 635,000	520,000	15,753
Notes and accounts payable	179,001	254,297	7,703
Account payable—related parties (note 5)	1,090	—	—
Accrued expenses and other current liabilities (note 5)	400,499	309,283	9,370
Convertible bonds and interest premium payable—current (note 4(h))	80,849	69,400	2,102
Current portion of long-term borrowings (notes 4(g) and 6)	36,162	23,428	710
Total current liabilities	1,332,601	1,176,408	35,638
Long-term liabilities:			
Long-term borrowings (notes 4(g) and 6)	148,821	2,669,863	80,881
Other liabilities:			
Provision for retirement benefits (note 4(i))	24,959	33,211	1,006
Advance sales receipts—noncurrent	—	107,638	3,261
Total other liabilities	24,959	140,849	4,267
Total liabilities	1,506,381	3,987,120	120,786
Stockholders' equity (notes4(h), 4(j) ,4(i), and 4(k)):			
Capital stock:			
Common stock	843,784	1,440,403	43,635
Convertible bonds and employee's stock options awaiting government approval for conversion to common stock	—	3,518	107
	843,784	1,443,921	43,742
Capital surplus	412,651	1,652,662	50,065
Retained earnings:			
Legal reserve	92,310	208,253	6,309
Special reserve	1,428	—	—
Unappropriated earnings	1,209,994	3,026,750	91,692
	1,303,732	3,235,003	98,001
Other stockholders' equity adjustments:			
Cumulative translation adjustments	(9)	4,000	121
Net unrecognized pension cost	—	(2,951)	(89)
Unrealized gain on available- for-sale financial assets	558	538	16
	549	1,587	48
Total stockholders' equity	2,560,716	6,333,173	191,856
Commitments and contingencies (note 7)			
Total Liabilities and Stockholders' Equity	**$4,067,097**	**10,320,293**	**312,642**

See accompanying notes to financial statements.

Reviewed only, not audited in accordance with generally accepted auditing standards

MOTECH INDUSTRIES INC.

STATEMENTS OF INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2006 AND 2007
(Amounts expressed in thousands of New Taiwan dollars and U.S. dollars, except earnings per share)

	2006	2007	
	NT$	NT$	US$
Operating revenues	$ 713,082	3,323,670	100,687
Less: sales returns	(2,758)	(5,534)	(168)
sales allowances	(339)	(9,871)	(299)
Net revenues (note 5)	709,985	3,308,265	100,220
Costs of goods sold (note 5)	(599,346)	(2,500,266)	(75,742)
Unrealized profit from affiliated companies (note 5)	2,854	172	5
Gross profit	113,493	808,171	24,483
Operating expenses:			
Selling expenses (note 5)	(10,284)	(22,161)	(671)
General and administrative expenses	(30,629)	(57,374)	(1,738)
Research and development expenses	(8,858)	(25,476)	(772)
	(49,771)	(105,011)	(3,181)
Income from operation	63,722	703,160	21,302
Non-operating income:			
Interest income	2	20,536	622
Investment income recognized under equity method (note 4(d))	5,046	—	—
Gain on disposal of marketable securities	609	—	—
Foreign exchange gain, net	18,569	67,826	2,055
Miscellaneous income	7,569	490	15
	31,795	88,852	2,692
Non-operating expenses:			
Interest expenses	(2,419)	(19,300)	(585)
Loss on disposal of property, plant and equipment	(18)	—	—
Investment loss recognized under equity method (note 4(d))	—	(4,465)	(135)
Loss on inventory valuation and obsolescence	—	(1,336)	(41)
Miscellaneous loss	(42,948)	(335)	(10)
	(45,385)	(25,436)	(771)
Income before income taxes	50,132	766,576	23,223
Income tax expenses (note 4(j))	—	—	—
Net income	**$ 50,132**	**766,576**	**23,223**
Earnings per common share (note 4(l)) (in New Taiwan dollars and US dollars):			
Basic earnings per share:			
Before income tax	**$ 0.36**	**5.32**	**0.16**
After income tax	**$ 0.36**	**5.32**	**0.16**
Diluted earnings per share:			
Before income tax	**$ 0.34**	**5.12**	**0.15**
After income tax	**$ 0.34**	**5.12**	**0.15**

See accompanying notes to financial statements.

Reviewed only, not audited in accordance with generally accepted auditing standards

MOTECH INDUSTRIES INC.

STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2006 AND 2007
(Amounts expressed in thousands of New Taiwan dollars and U.S. dollars)

	2006	2007	
	NT$	NT$	US$
Cash flows from operating activities:			
Net income	$ 50,132	766,576	23,223
Adjustments:			
Depreciation	19,524	78,931	2,391
Loss on work stoppages—depreciation	23,106	—	—
Amortization	911	1,129	34
Amortization recorded as interest expense	—	1,417	43
Gain on disposal of available-for-sale financial assets—current	(609)	—	—
Loss on disposal of property, plant and equipment	18	—	—
Investment loss (income) recognized under equity method	(5,046)	4,465	135
Increase in accrued interest premium	251	—	—
Deferred income tax benefit	(4,502)	(14,841)	(450)
Increase in notes and accounts receivable	(83,754)	(673,680)	(20,408)
Decrease (increase) in accounts receivable—related parties	10,149	(6,142)	(186)
Decrease (increase) in other financial assets—current	(10,344)	3,486	106
Increase in inventories	(357,370)	(215,488)	(6,528)
Increase in prepayments and other current assets	(91,068)	(222,029)	(6,726)
Decrease (increase) in prepayments to suppliers—noncurrent	10,204	(553,100)	(16,756)
Decrease in notes and accounts payable	(24,834)	(67,602)	(2,048)
Increase in account payable—related parties	1,090	—	—
Increase (decrease) in accrued expenses and other current liabilities	76,528	(44,558)	(1,349)
Increase (decrease) in accrued pension liability	257	(564)	(17)
Decrease in advance sales receipts—noncurrent	—	(4,324)	(131)
Net cash used in operating activities	(385,357)	(946,324)	(28,667)
Cash flows from investing activities:			
Proceeds from sales of available-for-sale financial assets—current	46,438	—	—
Purchases of available-for-sale financial assets—current	(15,000)	—	—
Purchases of property, plant and equipment	(202,446)	(330,258)	(10,005)
Proceeds from sales of property, plant and equipment	70	—	—
Addition to deferred charges	(3,518)	(6,050)	(183)
Addition to restricted long-term assets	—	(23,311)	(706)
Addition to other financial assets—noncurrent	(977)	(1,906)	(58)
Increase in long-term investment	—	(105,811)	(3,205)
Net cash used in investing activities	(175,433)	(467,336)	(14,157)
Cash flows from financing activities:			
Increase in short-term borrowings	520,000	70,000	2,121
Proceeds from long-term debt	94,000	600,000	18,176
Principal payments on long-term debt	(5,683)	(5,858)	(178)
Cash received from issuance of capital stock due to exercise of employee stock options	4,376	2,186	66
Net cash provided by financing activities	612,693	666,328	20,185
Increase (decrease) in cash and cash equivalents	51,903	(747,332)	(22,639)
Cash and cash equivalents at beginning of period	239,147	1,564,683	47,400
Cash and cash equivalents at end of period	**$ 291,050**	**817,351**	**24,761**
Supplemental cash flow information:			
Interest paid	**$ 2,168**	**13,689**	**415**
Income tax paid	**$ —**	**—**	**—**
Supplemental schedule of non-cash investing and financing activities:			
Current portion of long-term borrowings reclassified to current liabilities	**$ 36,162**	**23,428**	**710**
Cumulative translation adjustments	**$ (1,004)**	**2,086**	**63**
Convertible bonds converted into common stock	**$ 1,700**	**2,600**	**79**
Payable for machinery and equipment	**$ 118,106**	**29,910**	**906**
Unrealized gains on financial instruments	**$ 558**	**187**	**6**

See accompanying notes to financial statements.

MOTECH INDUSTRIES INC.

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2006 AND 2007
(All amounts expressed in thousands of New Taiwan dollars and U.S. dollars, except earnings per share information or unless otherwise specified)

(1) Description of Business

MOTECH Industries Inc. (the Company) was incorporated on June 3, 1981, as a company limited by shares under the laws of the Republic of China (ROC). The Company's major operating departments and activities were as follows:

Departments	Major operating activities
Solar	Manufacturing, marketing, and sale of solar cells
Instruments	Manufacturing and marketing of measurement instruments
Power	Marketing, design, and installation of solar electricity systems

As of March 31, 2006 and 2007, the Company had 625 and 914 employees, respectively.

(2) Summary of Significant Accounting Policies

The Company prepared the accompanying financial statements in accordance with ROC generally accepted accounting principles. The major accounting policies and basis of measurement used in preparing these financial statements are as follows:

(a) Convenience translation into U.S. dollars

The financial statements are stated in New Taiwan Dollars. Translation of the 2007 New Taiwan dollar amounts into U.S. dollar amounts is included solely for the convenience of the readers, using the Federal Reserve exchange rate on March 30, 2007 of NT$33.01 to US$1 uniformly applied for all the financial statements' accounts. The convenience translations should not be construed as representations that the New Taiwan Dollar amounts have been, could have been, or could in the future be, converted into U.S. dollars at this rate or any other rate of exchange.

(b) Translation of foreign currency transactions

The Company records its transactions in New Taiwan dollars. 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 into New Taiwan dollars at the exchange rate prevailing on the balance sheet date, and the resulting translation gains or losses are recognized as non-operating income or expenses.

(c) Criterion for classifying assets and liabilities as current or non-current

Current assets are cash and other assets that will be converted to cash or used within a relatively short period of time, one year or one operating cycle, whichever is longer. Current liabilities are debts due within one year or one operating cycle, whichever is longer.

Financial liabilities due within 12 months after the balance sheet date are classified as non-current under the following conditions:

(1) the original term covers a period longer than 12 months,

(2) the Company has intention to refinance on a long-term basis, and

(3) an agreement to refinance, or to reschedule payments, on a long-term basis, is completed after the balance sheet date, or the Company expects, and has the discretion, to refinance or roll over financial liabilities to at least 12 months after the balance sheet date under an existing loan facility.

(d) Asset impairment

Effective January 1, 2005, the Company adopted the Statement of Financial Accounting Standards No. 35 (SFAS 35) "Accounting for Asset Impairment". In accordance with SFAS 35, 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. An impairment loss recognized in prior periods is reversed 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 performs an asset impairment test annually on the cash-generating unit to which goodwill is allocated and recognizes an impairment loss on the excess of the carrying value over the recoverable amount of an asset.

(e) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, savings and checking deposits, fixed time deposits, miscellaneous petty cash, and other cash equivalents. Cash equivalents represent highly liquid debt instruments, such as commercial paper and bank acceptances with original maturities of three months or less. Cash equivalents also include other highly liquid investments which do not have a significant level of market risk related to potential interest rate changes.

(f) Financial assets

Commencing from January 1, 2006, the Company adopted the SFAS No. 34 "Accounting for Financial Instruments". Under SFAS No. 34, financial assets are classified into four categories: financial assets reported at fair value through profit or loss; available-for-sale financial assets; held-to-maturity investments and financial assets carried at cost.

The Company adopted transaction-date accounting for financial instrument transactions. Upon initial recognition, financial instruments are evaluated at fair value. Except for financial instruments held for trading, the acquisition cost or issuance cost of financial instrument is included in its initially recognized amount.

Subsequent to their initial recognition, the financial instruments, which are being held or issued by the Company are classified into the following categories in accordance with the purpose of holding or issuing and/or measured as follows:

1. Financial assets/liabilities reported at fair value through profit or loss: The financial instruments are classified in this category if they are acquired or incurred principally for the purpose of selling or repurchasing them in the near term. Except for the derivatives held for hedging purposes and the hedging results are considered effective, all other derivatives are classified into this account.

2. Available-for-sale financial assets: These financial assets are evaluated at fair value, and changes in fair value are recorded as a separate component of stockholders' equity. If there is evidence of impairment, impairment loss is recognized. Impairment losses recognized in profit or loss for an investment in an equity

instrument classified as available for sale are not reversed. If in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed, with the amount of the reversal recognized in profit or loss.

3. Financial assets carried at cost: Equity investments which cannot be evaluated at fair value are carried at original cost. If there is evidence of impairment, impairment loss is recognized, but such loss provision is not reversed.

4. Held-to-maturity investments: These investments are non-derivative financial assets with fixed or determinable payments and fixed maturity for which the Company has the positive intention and ability to hold to maturity. If there is objective evidence that an impairment loss on held-to-maturity investments carried at amortized cost 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 financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through use of an allowance account. The amount of the loss is recognized in profit or loss. If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed either directly or by adjusting an allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date when the impairment is reversed. The amount of the reversal is recognized in profit or loss.

(g) Allowance for doubtful accounts

Allowance for doubtful accounts is provided based on the results of the analysis of aging, collectibility, past experience, and quality of receivables.

(h) Inventories

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

(i) Long-term equity investments

Long-term equity investments in which the Company, directly or indirectly, owns 20% or more of the investee's voting shares are accounted for by the equity method.

When a long-term equity investment is sold, the difference between the selling price and carrying value of the long-term equity investment under the equity method is recognized as disposal gain or loss in the accompanying statements of income. If there is a capital surplus relating to the long-term equity investment sold, such capital surplus is debited to disposal gain/loss based on the disposal ratio.

Unrealized inter-company transaction gains or losses between the Company and its investees accounted for by the equity method are deferred. Unrealized inter-company gains or losses derived from transactions involving depreciable or amortizable assets are amortized over the useful lives of the related assets. Gains or losses from other transactions are recognized when realized.

(j) Property, plant and equipment

Property, plant and equipment are stated at cost. Interest expense related to the construction of property and equipment is capitalized and included in the cost of the related assets. Significant additions, improvements and replacements are capitalized. Maintenance and repair costs are expensed in the period incurred.

Property, plant and equipment are depreciated over their estimated useful lives using the straight-line method. The estimated useful lives of the respective classes of assets are as follows:

(1) Buildings: 6 to 51 years

(2) Machinery and equipment: 4 to 11 years

(3) Transportation equipment: 6 to 7 years

(4) Office and other equipment: 4 to 11 years

Gains or losses on the disposal of such assets are accounted for as non-operating income or expenses.

(k) Deferred charges

(1) Syndicated financing fees

Syndicated financing fees are related to leading bank fees, accrediting fees (including participating and commitment fees) and others fees incurred in securing the credit line approval for syndicated loans. These fees are deferred and amortized over the terms of syndicated loans using the straight-line method.

(2) Other deferred expenses consist primarily of the capitalized costs of software purchase, fire control construction, and high voltage circuit construction. These deferred expenses are amortized using the straight-line method over their economic useful lives of 2 to 5 years.

(l) Derivative financial instruments and hedging activities

Commencing from January 1, 2006, the Company had adopted the SFAS No. 34 “Accounting for Financial Instruments”. Under SFAS No. 34, all derivative instruments are recorded on the balance sheet at fair value. If a derivative instrument is designated as a cash flow hedge, the effective portion of the change in its fair value is recorded as a separate component of stockholders’ equity and is recognized in the statement of operations when the hedged item affects earnings. Ineffective portion of the change in the fair value of cash flow hedge is immediately recognized in earnings. If a derivative is designated as a fair value hedge, the change in its fair value and of the hedged item attributable to the hedged risk is recognized in earnings in the current period. For derivative instruments not designated as hedging instruments under SFAS No. 34, changes in their fair values are recognized in current operating results.

(m) Employee retirement plan

In 1987, the Company established an employee noncontributory defined benefit retirement plan (the “Plan”) covering its full-time employees in the ROC. In accordance with the Plan, employees are eligible for retirement or are required to retire after meeting certain age or service requirements. Payments of retirement benefits are based on the employee’s years of service. Under this retirement plan, the Company is responsible for making the entire pension payment.

The Company accounts for its employee defined retirement benefit plan in accordance with ROC SFAS No. 18, “Accounting for Pensions”. SFAS No. 18 requires a company to have an actuarial calculation of its pension liability using the year-end date as the measurement date. The Company recognizes a minimum pension liability equal to the amount by which the actuarial present value of the accumulated benefit obligation exceeds the fair value of the retirement plan’s assets. Minimum pension liability is determined based on the minimum amount of pension liability that is required to be recognized on the balance sheet. The excess of minimum amount of pension liability over the sum of unrecognized prior service cost and unrecognized transitional net benefit obligation is accounted for as net loss from unrecognized pension cost, which is classified as a reduction of stockholders' equity. On the other hand, the excess of the sum of unrecognized prior service cost and unrecognized transitional net benefit obligation over the minimum amount of pension liability is charged to deferred pension cost account, which is classified as an intangible asset.

The Company also recognizes the net periodic pension cost using actuarial techniques. The unrecognized transitional net benefit obligation and unrecognized pension gain or losses are amortized on a straight-line basis over the average remaining service period of employees still in service and expected to receive benefits, and such amortization is included in the net pension cost. The Company contributes an amount to the retirement fund monthly based on government-approved rate of 2 % of paid salaries and wages. This fund is deposited with the Central Trust of China.

Starting from July 1, 2005, the enforcement rules of the newly enacted Labor Pension Act (the "New Act") require the following categories of employees to adopt the defined contribution plan:

(1) employees who originally adopted the Plan and opted to be subject to the pension mechanism under the New Act; and

(2) employees who commenced working after the enforcement date of the New Act.

In accordance with the New Act, the Company contributes monthly to the Bureau of Labor Insurance an amount equal to 6% of the worker's monthly wages. This contribution is recognized as expense when incurred.

The Company compiles interim financial statements in accordance with ROC SFAS No. 23, "Interim Financial Reporting and Disclosures". Under SFAS No. 23, the Company is not required to disclose pension information as required under ROC SFAS No. 18, "Accounting for Pensions".

(n) Convertible bonds

Prior to January 1, 2006, the Company issued Taiwan domestic convertible bonds at par value. Interest expense thereon is determined based on par value and nominal interest rate. The difference between the specified redemption price and par value of convertible bonds with a redemption option is amortized by using the interest method and recognized as a liability over the period from the issuance date of the bonds to the expiry date of the redemption option.

Upon exercise of the conversion option, interest payable, pay-back interest from the holder, recognized interest premium, and par value of the convertible bonds are transferred to paid-in capital. The excess of the net carrying amount of the converted bonds over the par value of the common stock exchange certificate or common stock issued is recognized as capital surplus.

If the holder of convertible bonds with a redemption option does not exercise the option by the expiry date, the interest premium, which is recognized as a liability, is forfeited and amortized over the period from the expiry date of the redemption option to the maturity date of the convertible bonds by using the interest method, provided that the market price of exchangeable common stock is lower than the specified redemption price of the bond on expiry date of the redemption option, otherwise, is reclassified as capital surplus.

Effective January 1, 2006, the Company adopted ROC SFAS No. 36 "Disclosure and Presentation of Financial Instruments". In accordance with ROC SFAS No. 36, paragraph 124, the embedded derivative in hybrid instruments issued prior to the effective date of this new accounting standard (January 1, 2006), which include the equity and liability components, is not separated from the host contract. However, this new standard is not applicable to instruments issued prior to its adoption, and the accumulated effect of the adoption of this new accounting standard need not be calculated or accounted for. The Company's convertible bonds were issued in December 2003.

(o) Employee stock options

Employee stock option plans which are amended or options granted on or after January 1, 2004, are accounted for in accordance with the interpretation issued by the Accounting Research and Development Foundation. Under this interpretation, the Company adopts the intrinsic value method to account for the compensation cost. The measurement date for determining compensation cost is determined based on the date when the number of shares and exercise price are known. The compensation cost is measured by the difference between the quoted market price of the stock at the measurement date and the exercise price. An employee stock option granted for the employee's past service is recognized as expense on the date of grant. If it is intended for the employee's future service, the cost thereof is amortized as compensation expense over the employee's service period as stated in the stock option plan.

If a portion of stock options is not exercised because an employee fails to fulfill the requirement for minimum number of service years or other terms, the estimated compensation expense recorded in the previous period is adjusted by decreasing the compensation expense in the period of forfeiture.

(p) Revenue recognition

Revenue from sales of products is recognized upon delivery and the significant risks and rewards of ownership are transferred to customers.

(q) Income taxes

Income taxes are accounted for under the asset and liability method. Deferred income taxes are determined based on differences between the financial statements and tax basis of assets and liabilities using enacted tax rates in effect during the years in which the differences are expected to reverse. The income tax effects resulting from taxable temporary differences are recognized as deferred income tax liabilities. The income tax effects resulting from deductible temporary differences, loss carryforwards, and investment tax credits are recognized as deferred income tax assets. The realization of the deferred income tax assets is evaluated, and if it is considered more likely than not that the deferred tax assets will not be realized, a valuation allowance is recognized accordingly.

The classification of deferred income tax assets or liabilities as current or non-current is based on the classification of the related asset or liability. If a deferred income tax asset or liability is not directly related to a specific asset or liability, then the classification is based on the expected realization date of such deferred income tax asset or liability.

According to the ROC Income Tax Law, the Company's undistributed earnings, if any, earned after December 31, 1997, are subject to an additional 10% surtax. This surtax is accounted for as income tax expense in the following year when the shareholders' meeting approves a resolution not to distribute the earnings.

Income tax is reduced by investment tax credits in the year when the credit arises.

(r) Earnings per common share (EPS)

The earnings per share are computed by dividing the amount of net income attributable to common stock outstanding for the period by the weighted-average number of common shares outstanding during the period, which includes the shares related to bonds already applied by bondholders for conversion to shares but the Company has not yet secured the government final approval for the registration of those shares. The number of outstanding shares is retroactively adjusted for the distribution of stock dividends from retained earnings, capital surplus, employees' bonus or stock split. Similarly, the number of outstanding shares is also retroactively adjusted for reduction in common shares outstanding from a reverse stock split or capital reduction due to offsetting with losses. If these changes occur after the balance sheet date but before the date of issuance of the financial statements, such EPS are also retroactively adjusted.

The calculation of diluted EPS is consistent with the calculation of EPS while giving the effects of all dilutive potential common shares that were outstanding during the reporting period. Employee stock options and convertible bonds issued by the Company, which have dilutive effect, are deemed to have been converted into common shares on the date of issue.

(3) Reason for and Effect of Accounting Changes

(a) The Company adopted the ROC SFAS No. 37 "Intangible Assets" commencing from January 1, 2007. The adoption of this new accounting principle did not impact the Company's financial statements as of and for the three months ended March 31, 2007.

(b) The Company adopted the ROC SFAS No. 34 "Accounting for Financial Instruments", ROC SFAS No. 36 "Disclosure and Presentation of Financial Instruments", and amended SFAS No. 1 "Conceptual Framework of Financial Accounting and Preparation of Financial Statements," SFAS No. 5 "Long-term Investments in Equity Securities," and amended SFAS No. 14 "Foreign Currency Translation" commencing from January 1, 2006. The adoption of these new accounting policies did not significantly impact the net income and stockholders' equity as of and for the three months ended March 31, 2006.

(4) Significant Account Disclosures

(a) Cash and cash equivalents

The components as of March 31, 2006 and 2007, were as follows:

	2006.3.31	2007.3.31	
	NT$	NT$	US$
Cash on hand and petty cash	$ 1,198	1,639	50
Savings and checking deposits	257,405	815,712	24,711
Time deposits	32,447	—	—
	$291,050	**817,351**	**24,761**

(b) Financial instruments

The components as of March 31, 2006 and 2007, were as follows:

	2006.3.31	2007.3.31	
	NT$	NT$	US$
Available-for-sale financial assets—current:			
Open-end mutual funds	**$32,807**	**50,046**	**1,516**

(c) Inventories

The components as of March 31, 2006 and 2007, were as follows:

	2006.3.31	2007.3.31	
	NT$	NT$	US$
Merchandise	$ 17,990	19,466	590
Finished goods	123,148	456,570	13,831
Work in process	444,303	312,509	9,467
Raw materials and supplies	948,450	704,663	21,347
Less: provision for loss on inventory devaluation	(6,039)	(10,308)	(312)
	$1,527,852	**1,482,900**	**44,923**

As of March 31, 2006 and 2007, insurance coverage for inventories amounted to $819,000 and $1,835,000, respectively.

(d) Long-term equity investments

The components as of March 31, 2006 and 2007, were as follows:

Investee	2006.3.31 Shareholding percentage	Acquisition cost	Ending balance	Investment income
		NT$	NT$	NT$
Accounted for under equity method:				
Think Global Enterprises Limited	100.00%	$ 333	43,924	1,096
Power Islands Limited	100.00%	8,999	49,496	3,950
		$9,332	**93,420**	**5,046**

Investee	2007.3.31 Shareholding percentage	Acquisition cost	Ending balance	Investment income
		NT$	NT$	NT$
Accounted for under equity method:				
Think Global Enterprises Limited	100.00%	$ 333	48,531	940
Power Islands Limited	100.00%	75,085	113,975	(5,405)
		$ 75,418	162,506	(4,465)
Prepayment for long-term investments:				
Power Islands Limited		39,725	39,725	—
		$115,143	**202,231**	**(4,465)**

Investee	2007.3.31 Shareholding percentage	Acquisition cost	Ending balance	Investment income
		US$	US$	US$
Accounted for under equity method:				
Think Global Enterprises Limited	100.00%	$ 10	1,470	29
Power Islands Limited	100.00%	2,270	3,453	(164)
		$2,280	4,923	(135)
Prepayment for long-term investments:				
Power Islands Limited		1,200	1,203	—
		$3,480	**6,126**	**(135)**

(1) The investment income or loss recognized under the equity method was based on the unreviewed financial statements of the investee companies for the same period.

(2) In January, 2007, the Company invested $66,086 (US$2,000) in AE Polysilicon Corporation's Series A convertible preferred stock through Cheer View Limited (Cheer View), which is a wholly-owned new subsidiary indirectly owned through Power Islands Limited, another wholly-owned subsidiary located in British Virgin Islands.

(3) In March 2007, the Company has prepaid $39,725 (US$1,200) to Power Islands Limited for purposes of setting up a new subsidiary, Motech (Suzhou) Renewable Energy Co., Ltd. in April 2007.

(4) In March 2004, the Company invested $8,999 (US$270) for 100% equity ownership in Motech (Ningbo) Electronic Co., Ltd. and Motech (Ningbo) Trade Co., Ltd. in China through Power Islands Limited.

(e) Property, plant and equipment

As of March 31, 2006 and 2007, the insurance coverage for property, plant and equipment amounted to $771,700 and $3,005,000, respectively.

(f) Short-term borrowings

The components as of March 31, 2006 and 2007, were as follows:

	2006.3.31	2007.3.31	
	NT$	NT$	US$
Credit loans	**$635,000**	**520,000**	**15,753**

For the three months ended March 31, 2006 and 2007, the short-term loans bore interest at annual rates of 1.56%-2.00% and 1.63%-2.16%, respectively.

As of March 31, 2006 and 2007, the unused credit line for short-term borrowings amounted to $521,500 and $1,210,500, respectively.

(g) Long-term borrowings

The components as of March 31, 2006 and 2007, were as follows:

	2006.3.31	2007.3.31	
	NT$	NT$	US$
Syndicated loan	$ —	2,555,220	77,408
Mortgage loans	184,983	138,071	4,183
	184,983	2,693,291	81,591
Less: Current portion	(36,162)	(23,428)	(710)
	$148,821	**2,669,863**	**80,881**

(1) Syndicated loan agreement

On July 21, 2006, the Company entered into a three-year domestic syndicated loan agreement with nine banks, under which, Hong Kong and Shanghai Banking Corporation (HSBC) and Hua Nan Commercial Bank represented as the lead bank and arranger, respectively, for the financial commitments under some of crystalline raw materials supply agreements. The significant terms of this agreement are as follows:

(i) Total credit facility: $3,400,000.

(ii) Credit term: Three years starting from the initial drawdown of the credit facility on July 24, 2006. The credit term for each loan facility drawdown will be 30 days, 60 days, 90 days, or 180 days, which will be decided by the Company. Other credit term beyond any of these periods will be agreed by the Company and the arranger.

(iii) The Company should maintain the following financial covenants in its semi-annual and annual consolidated financial statements starting from 2006:

A. Total tangible net assets at the end of the reporting period should exceed $3,500,000 in 2006 and $8,000,000 in 2007.

B. Liability ratio (total liabilities/total tangible net assets) at the end of the reporting period should be lower than 200% in 2006, 160% in 2007 and 120% in 2008.

C. The interest coverage ratio [(income before income tax (excluding extraordinary gains, interest expenses, amortization and depreciation expenses)/interest expenses] for the reporting period should not be less than 5 times.

If the Company fails to maintain the above covenants, the Company might be exposed to penalty charges, required to accelerate payment of the obligations under this loan agreement, and restricted from having access to the unutilized facility which would otherwise be available. As of March 31, 2007, the Company was in compliance with the above covenants.

For the three months ended March 31, 2007, the annual interest rates for the above loan ranged from 2.404% to 2.524%. As of March 31, 2007, the unused credit line was $844,780. Although each of the facility drawings from the above syndicated loan will mature in 2007, it was classified under long-term liabilities because the Company intends to refinance this loan at maturity on a long-term basis, aside from the fact that the credit facility under this syndicated loan will mature on July 23, 2009.

(2) Mortgage loans

The components as of March 31, 2006 and 2007 were as follows:

			Interest rate		Loan balance		
Bank	**Nature**	**Repayment period**	**2006.1.1-2006.3.31**	**2007.1.1-2007.3.31**	**2006.3.31**	**2007.3.31**	
					NT$	**NT$**	**US$**
Chang Hwa Bank	Mortgage loan	Dec. 15, 2000~ Dec. 15, 2007	2.30%	—	$ 15,150	(Note)	—
China Development Industrial Bank	Mortgage loan	Dec. 15, 2003~ Dec. 15, 2008	3.21-3.31%	—	8,333	(Note)	—
The Shanghai Commercial and Savings Bank	Mortgage loan	Nov. 2, 2005~ Nov. 2, 2012	2.10-2.20%	2.41%	67,500	57,500	1,742
The Shanghai Commercial and Savings Bank	Mortgage loan	Feb. 27, 2006~ Feb. 27, 2013	2.20%	2.41%	50,000	42,857	1,298
The Shanghai Commercial and Savings Bank	Mortgage loan	Mar. 14, 2006~ Mar. 14, 2013	2.20%	2.41%	44,000	37,714	1,143
					184,983	138,071	4,183
Less: current portion					(36,162)	(23,428)	(710)
					$148,821	**114,643**	**3,473**

Note: Redeemable ahead of maturity.

As of March 31, 2006 and 2007, the unused credit line for long-term borrowings amounted to $170,000 and $100,000, respectively.

As of March 31, 2007, the remaining balances of the borrowings were due as follows:

Year due	NT$	US$
April 1, 2007~March 31, 2008	$ 23,428	710
April 1, 2008~March 31, 2009	23,429	710
April 1, 2009~March 31, 2010	2,578,649	78,117
April 1, 2010~March 31, 2011	23,429	710
April 1, 2011~March 31, 2012	23,429	710
After April 1, 2012	20,927	634
	$2,693,291	**81,591**

(h) Convertible bonds payable and interest premium payable

The components as of March 31, 2006 and 2007, were as follows:

	2006.3.31	2007.3.31	
	NT$	NT$	US$
Principal	$ 550,000	550,000	16,662
Cumulative amount converted into common stock	(471,500)	(480,600)	(14,560)
Convertible bonds payable	78,500	69,400	2,102
Interest premium payable	2,349	—	—
	$ 80,849	**69,400**	**2,102**

On December 5, 2003, the Company issued Taiwan domestic convertible bonds with an aggregate principal amount of $550,000 in order to finance the expansion of the production line for solar cells and the establishment of the wafer factory. The final terms and conditions are as follows:

(1) Coupon rate: 0%

(2) Issue period: From December 5, 2003, to December 4, 2008

(3) Conversion

(i) The bondholders can convert the convertible bonds into common stock during the period from three months after the issue date to ten days before the maturity date. The equivalent number of shares is determined by dividing the outstanding principal amount of convertible debt by the conversion price per share.

(ii) Conversion price:

As of March 31, 2006 and 2007, the conversion price was set at NT$34 and NT$18.6 per share, respectively. The initial conversion price was set at NT$75.5 per share. The conversion price is subject to adjustments in the event of any change in the capital structure, as defined, except for the capital increase in cash.

(4) Redemption at the option of the Company: The Company may redeem the bonds in whole, but not in part, during the period from three months after the issue date to forty days before the maturity date, provided that (1) the closing price of the common shares on the Taiwan Stock Exchange for 30 consecutive trading days is at least 50% of the conversion price then in effect, or (2) the bonds outstanding are less than 10% of the issue amount.

The Company can redeem the bonds in whole after making an announcement to the bondholders. The redemption price is calculated using formulas summarized as follows, and the bonds are redeemable in cash:

(i) From the day immediately following three months after the issue date to the day two years after the issue date, the redemption interest is calculated at the rate of 1.25% per annum.

(ii) From the day immediately following two years after the issue date to the day three years after the issue date, the redemption interest is calculated at the rate of 1.5% per annum.

(iii) From the day immediately following three years after the issue date to forty days prior to the maturity date, all bonds are redeemable at their face value in cash.

(5) Redemption at the option of the bondholders: The Company will, at the option of the bondholders, redeem such bond on the second or before 30 days before the third anniversary of the issue date at par value plus interest premium in cash (cumulative interest is 2.51% of par value after two years, with annual yield rate of 1.25% and cumulative interest is 4.57% of par value after three years since the issue date, with annual yield rate of 1.50%).

The convertible bonds redeemable at the option of the bondholders are accounted for as current liabilities.

For the three months ended March 31, 2006 and 2007, the aggregate par value of convertible bonds converted into common stock amounted to $1,700 and $2,600, respectively, and the related interest premium payable transferred to capital surplus was $47 and $0, respectively. The excess of the carrying value of convertible bonds (including the related interest premium payable) over the par value of common stock issued from the conversion of bonds to common stock amounted to $1,247 and $1,202, respectively, which was transferred to capital surplus.

On December 4, 2006, the bonds had been issued for three years. In accordance with the agreement, the Company may redeem the bonds at par value during the period from three years after the issue date to forty days before the maturity date. The related interest premium payable of $2,978 was fully transferred to capital surplus when the bondholders were unable to exercise their option for the redemption of the bonds on maturity, aside from the fact that the market value of the shares was greater than the conversion price of the bonds on maturity of the option.

(i) Retirement plans

The pension information for the three months ended March 31, 2006 and 2007, were as follows:

	2006	2007	
	NT$	NT$	US$
Net retirement plan assets	$11,147	16,969	514
Periodic pension cost:			
Defined benefit pension plan cost	1,239	1,221	37
Defined contribution pension plan cost	2,928	4,494	136
Accrued pension liability	24,959	33,211	1,006
Deferred pension cost	1,707	8,164	248
Net unrecognized pension cost	—	2,951	89

(j) Income tax

(1) The Company is subject to ROC income tax at a maximum rate of 25%. Commencing from January 1, 2006, the Company is covered by the "Alternative Minimum Tax Statute". This new Act has been enacted to impose an alternative minimum tax at the rate of 10% on the "basic taxable income" of any profit seeking enterprise in Taiwan determined pursuant to a certain formula. For the three months ended March 31, 2006 and 2007, the components of estimated income tax expense were as follows:

	2006	2007	
	NT$	NT$	US$
Income tax expense—current	$ 4,502	14,841	450
Income tax benefit—deferred	(4,502)	(14,841)	(450)
Income tax expense	$ —	—	—

The components of deferred income tax benefits for the three months ended March 31, 2006 and 2007 were as follows:

	2006	2007	
	NT$	NT$	US$
Change in unrealized inventory provisions	$ —	(334)	(10)
Change in unrealized foreign exchange gain	(1,749)	6,478	196
Change in allowance for doubtful accounts and discount	200	—	—
Provision for retirement benefits	(64)	141	4
Net investment gain (loss) recognized by the equity method	1,262	(1,116)	(34)
Change in unrealized inter-company profits	713	43	1
Unused investment tax credits	1,804	(21,327)	(646)
Change in valuation allowance for deferred income tax assets	(6,649)	1,271	39
Others	(19)	3	—
	$(4,502)	**(14,841)**	**(450)**

(2) The estimated income tax calculated on pre-tax income at the Company' statutory income tax rate was reconciled with the actual income tax expense reported in the accompanying statement of income for the three months ended March 31, 2006 and 2007, as follows:

	2006	2007	
	NT$	NT$	US$
Estimated income tax calculated on pre-tax income at statutory income tax rate	$12,533	191,644	5,806
Current investment tax credits	(2,710)	(38,398)	(1,163)
Tax effect of income covered by a five-year tax holiday	(3,371)	(155,062)	(4,698)
Change in valuation allowance for deferred income tax assets	(6,649)	1,271	39
Gain on disposal of marketable securities not subject to income tax	(152)	—	—
Others	349	545	16
Income tax expense	$ —	—	—

(3) The components of deferred income tax assets (liabilities) as of March 31, 2006 and 2007, were as follows:

	2006.3.31		2007.3.31			
	NT$		NT$		US$	
	Amount	Effects on Income tax	Amount	Effects on Income tax	Amount	Effects on Income tax
Deferred income tax assets—current:						
Provision for inventory obsolescence	$ 6,040	1,510	10,308	2,577	312	78
Allowance for doubtful accounts and discount	43	11	—	—	—	—
Unrealized profits from affiliated companies	3,852	963	7,120	1,780	217	54
Investment tax credits	9,599	9,599	57,857	57,857	1,753	1,753
Others	4,840	1,210	2,491	623	75	19
Net deferred income tax assets—current		$ 13,293		62,837		1,904
Deferred income tax liabilities—current:						
Unrealized foreign exchange gain	$ (2,594)	(649)	(22,322)	(5,581)	(676)	(169)
Deferred income tax assets, net—current		**$ 12,644**		**57,256**		**1,735**
Deferred income tax assets—noncurrent:						
Provision for retirement benefits	$ 23,252	5,813	22,096	5,524	669	167
Investment tax credits	76,154	76,154	89,728	89,728	2,718	2,718
Others	1,823	456	128	32	4	1
Valuation allowance		(48,210)		(64,410)		(1,951)
Net deferred income tax assets—noncurrent		34,213		30,874		935
Deferred income tax liabilities—noncurrent:						
Net investment gain recognized by the equity method	(84,098)	(21,025)	(83,088)	(20,772)	(2,517)	(629)
Deferred income tax assets, net—noncurrent		**$ 13,188**		**10,102**		**306**

(4) The Company was granted investment tax credits for investment in certain high-tech industries, for purchases of automatic machinery and equipment, and for expenditures on research and development and employee training. These investment tax credits can be used to reduce the income tax liability in the current year and in the following four years at an amount not exceeding 50% of the income tax liability for each year during the first four years, with full utilization of the balance of any remaining unused investment tax credits in the final year.

As of March 31, 2007, unused investment tax credits available to the Company were as follows:

Filing Year	Unused investment tax credits NT$	US$	Expiry
2004 (reported)	$ 6,482	197	2008
2005 (reported)	22,379	678	2009
2006 (estimated)	80,325	2,433	2010
2007 (estimated)	38,399	1,163	2011
	$147,585	**4,471**	

In addition the Company was granted a five-year tax holiday under the ROC tax law on its incremental profits arising from the sale of the following products produced from its expansion and construction projects as follows:

Approved tax holiday product	Tax holiday period
Solar cells and solar templates	2005.1.1~2009.12.31
Solar cells and solar templates	2005.7.1~2010.6.30
Solar cells and solar templates	2006.10.16~2011.10.15

(5) Imputation credit account (ICA) and creditable ratio

	2006.3.31	2007.3.31	
	NT$	NT$	US$
Unappropriated earnings before 1998	$ —	—	—
Unappropriated earnings in 1998 and thereafter	1,209,994	3,026,750	91,692
	$1,209,994	**3,026,750**	**91,692**
Balance of ICA	**$ 363**	**103**	**3**

	2005 (actual)	2006 (estimated)
Creditable ratio for earnings distribution to domestic stockholders	**1.28%**	**1.01%**

Nonresident stockholders are not eligible for the imputation tax credit. Nevertheless the 10% income surtax paid can be offset against the tax to be withheld from payment of dividend to nonresident stockholders upon distribution of earnings.

(6) The Company's income tax returns have been examined by the local tax authorities through 2004. Because the tax authorities came out with a different calculation for the tax exempt income in the Company's 2004 corporate income tax return, the Company is planning to apply for the re-examination process.

(k) Stockholders' equity

(1) Common stock

As of March 31, 2006 and 2007, the Company's authorized share capital of $1,200,000 and $2,000,000, respectively, with par value of NT$10 per share, divided into 84,378 thousand and 144,040 thousand shares, respectively, were issued and outstanding. As of March 31, 2007, $90,000 of the Company's authorized share capital was reserved for stock options and convertible bonds.

The Company's shareholders, during the Special Shareholders' Meeting on February 5, 2007, approved the offering of Global Depository shares (GDS) by issuing new Company shares of less than 18 million shares, with par value of NT$10 per share. Except for the 10% of these new shares allocated for priority purchase by the employees, the remaining shares representing the GDS would be issued to the public when the original shareholders waived their rights to subscribe to these new shares in accordance with Securities and Exchanges Act. The aforementioned proposed offering was approved by the government authorities on March 28, 2007.

The Company's stockholders during their meeting on June 9, 2006, approved a resolution to distribute from unappropriated retained earnings stock dividends aggregating to $562,570, of which 55,368 thousand common shares were distributed as stock dividends to shareholders and $8,890 divided into 889 thousand shares of common stock as bonus to employees. The aforementioned issuance was approved by and registered with the government authorities on September 9, 2006.

The Company's directors during their meeting on August 24, 2006, approved a resolution to issue for cash at the price of NT$420 per share, new 3 million common shares with par value of NT$10 per share, aggregating to $1,260,000. The aforementioned issuance was approved by and registered with the government authorities on December 8, 2006.

(2) Capital surplus

The ROC Company Law stipulates that realized capital surplus cannot be used to increase capital except for purposes of covering the accumulated deficit of the Company. The realized capital surplus includes the premium from issuance of shares over their par value. In addition, the capital surplus from issuance of shares or other events, in accordance with Article 8 of the ROC Securities and Exchange Law and the ROC Company Law, can be credited or transferred to capital provided that the transfer of such capital surplus to capital has been approved by and registered with the competent authority in prior year.

Furthermore, the capital surplus arising from the issuance of shares in excess of par value and from gifts received which are credited to capital should not exceed 10 percent of the amount of paid-in capital every year.

The components as of March 31, 2006 and 2007, were as follows:

	2006.3.31	2007.3.31	
	NT$	NT$	US$
Additional paid-in capital	$ 28,000	1,259,215	38,146
Additional paid-in capital—bond conversion	384,651	393,447	11,919
	$412,651	**1,652,662**	**50,065**

(3) Legal reserve and restrictions on appropriations of earnings

(i) Legal reserve

The ROC Company Law stipulates that the Company must retain 10% of its annual earnings, as defined in the Law, until such retention equals the amount of authorized share capital. This retention is accounted for by transfers to legal reserve, upon approval by the stockholders during their meeting. Legal reserve can be used to offset an accumulated deficit or to (a) increase common stock when it reaches an amount equal to one-half of the paid-in capital, but only 50 % of it can be transferred to common stock; and (b) distribute dividends and bonuses when it exceeds one-half of the paid-in capital but such dividends and bonuses can be distributed only from the excess portion of the legal reserve.

(ii) Restrictions on appropriations of earnings:

The Company's articles of incorporation stipulate that the Company must retain 10% of its annual income after deducting accumulated deficit, if any, as a legal reserve. The remaining balance can be distributed as dividends to shareholders and appropriated as bonus to employees. However, the appropriation for employees' bonuses shall not be less than 1% of earnings of each year.

The Company's dividend policy was as follows:

(a) The Company appropriates cash dividends and stock dividends in consideration of the budget for capital expenditures, financial condition and future operating cash flows.

(b) Dividends cannot be distributed if the Company has no unappropriated earnings; however, when legal reserve exceeds an amount equal to one-half of the paid-in share capital, the excess amount can be distributed as cash or share dividends. The ratio for distributing cash dividends shall not be more than 90% of total distribution.

(c) If the Company has no unappropriated earnings, or if the Company has unappropriated earnings which are much less than the earnings distributed last year, or in consideration of finance, business, and operations, then all of the capital surplus or a part of the legal reserve or capital reserve can be distributed according to the law or government regulations.

(d) Based on the resolutions approved by the Board of Directors during their meeting on March 20, 2007, the Board of Directors proposed to distribute the Company's 2006 earnings as follows:

(i) Legal reserve (10% of net income): $225,791

(ii) Remuneration of directors and supervisors: $40,673

(iii) Employees' bonuses—stock (par value): $14,643

(iv) Employees' bonuses—cash: $107,378

(v) Stockholders' dividends—stock (par value): $345,697

(iv) Stockholders' dividends—cash: $1,382,786

The aforementioned distribution and appropriation are subject to the approval of a resolution by of the Company's stockholders during their meeting. The result of this meeting can be accessed from the website of the Market Observation Post System.

(4) Special reserve

Under the ROC Securities Exchange Law, a company is required to appropriate a special reserve from unappropriated earnings at an amount equal to the net debit balance of those accounts in the stockholders' equity such as cumulative translation adjustment and unrealized loss from revaluation of long-term investment. This special reserve cannot be distributed as dividends. When those stockholders' equity accounts with debit balances are reversed, the special reserve is also reversed by the same amount against unappropriated earnings.

(5) Employee stock options

(i) In order to attract and retain employees, the Company issues employee stock options based on a resolution approved by the Company's board of directors. Each unit of these stock options bears the right to purchase 1000 shares of the Company's common stock under the employee stock option plan. The details of employee stock options issued are as follows:

Item	Resolution date of the board of directors	Approval date by Securities and Futures Bureau	Issue date	Expected number of units	Actual number of units	Purchase price per share		
						NTD		USD
Employee stock options in 2002	2002.11.27	2003.01.08	2003.02.12	2,678	2,678	$ 10.0	(Note 1)	0.3
Employee stock options in 2003	2003 04.03	2003.04.25	2004.04 23	1,322	290	23.3	(Note 1)	0.7
Employee stock options in 2005:								
—1st	2005.12.22	2006.01.09	2006.06.14	1,500	1,210	424.1	(Note 1)	12.8
—2nd	2005.12.22	2006.01.09	2006.12.19	Note 2	270	388.0		11.8

Note 1: Purchase price per share had been retroactively adjusted by the distribution of stock dividends, however, the adjusted amount can not be less than the par value of NT$10 per share.

Note 2: The expected number of units were included in the 2005—1st employee stock option.

The aforementioned options are valid for seven years and the compensation cost for stock options was accounted for using the intrinsic value method. Because the option exercise price was equal to the stock market price on grant date, the compensation costs were both $0 for the three months ended March 31, 2006 and 2007. Under the employee stock option plan, the holder of a stock option can exercise 20% of the options each year beginning two years after the grant date.

(ii) If the employee stock option plans of the Company were accounted for using the fair value method, the compensation costs would be $0 and $22,866 for the three months ended March 31, 2006 and 2007, respectively.

The stock options should be exercised completely within one year from exercisable date, or the holders are deemed to have abandoned the right to subscribe.

If the Company adopted the fair value method when accounting for compensation cost for the stock options in 2003 and 2005, and the Black-Scholes option valuation method was used to estimate the fair value of the option on grant date, the assumptions and the fair value of these options would be as follows:

	Employee stock option in 2003	Employee stock option in 2005-1st	Employee stock option in 2005-2nd
Dividend yield	5.80%	1.95%	1.72%
Expected volatility	43%	95%	86%
Risk-free interest rate	2.00%	2.02%	2.23%
Fair value per share on grant date (dollars)	$19.99	470	265
Market price per share on grant date (dollars)	86	710	388

The Company's stock option plan was accounted for as a compensatory plan. The weighted-average exercise price and outstanding units were as follows:

	2006		2007		
	Shares (thousand)	Weighted-average exercise price NTD per share	Shares (thousand)	Weighted-average exercise price NTD per share	Weighted-average exercise price USD per share
Options outstanding at January 1	2,495.4	$13.34	3,345.8	191.26	5.79
Granted	—	—	—		
Exercised	—	—	(212.0)	10.31	0.31
Forfeited	—	—	—	—	—
Options outstanding at March 31	**2,495.4**	**13.34**	**3,133.8**	203.50	6.16
Fair value of stock options issued in current period (thousand)	**$ —**		**—**		

As of March 31, 2007, the Company's outstanding stock options accounted for as a compensatory plan were as follows:

	Options outstanding as of March 31, 2007				Options exercisable	
Issue date	Range of exercise price (dollars)	Shares (thousand)	Weighted-average remaining (years)	Weighted-average exercise price (dollars)	Shares (thousand)	Weighted-average exercise price (dollars)
2003.02.12	$ 10.0	1,408.8	2.87 years	$ 10.0	337.6	10.0
2004.04.23	23.3	245.0	4.06 years	23.3	13.0	23.3
2006.06.14	424.1	1,210.0	6.21 years	424.1	—	—
2006.12.19	388.0	270.0	6.72 years	388.0	—	—

If the compensatory employee stock option plan of the Company was accounted for using the fair value method, the pro-forma net income and EPS for the three months ended March 31, 2006 and 2007, would be as follows:

		2006	2007	
		NT$	NT$	US$
Net Income	Net income in statement of income	$50,132	766,576	23,223
	Pro-forma net income	50,132	749,427	22,703
Basic EPS (dollars)	EPS in statement of income (after income tax)	0.36	5.32	0.16
	Pro-forma EPS	0.36	5.20	0.16
Diluted EPS (dollars)	EPS in statement of income (after income tax)	0.34	5.12	0.15
	Pro-forma EPS	0.34	5.00	0.15

(l) Earnings per share (EPS)

For the three months ended March 31, 2006 and 2007, the Company' earnings per share were calculated as follows:

	2006		2007			
	Before income taxes	After income taxes	Before income taxes		After income taxes	
	NT$	NT$	NT$	US$	NT$	US$
Basic EPS:						
Net income	**$ 50,132**	**50,132**	**766,576**	**23,223**	**766,576**	**23,223**
Weighted-average number of shares outstanding during the year (thousand shares)	**140,103**	**140,103**	**144,175**	**144,175**	**144,175**	**144,175**
Basic EPS (dollars)	**0.36**	**0.36**	**5.32**	**0.16**	**5.32**	**0.16**
Diluted EPS:						
Net income	$ 50,132	50,132	766,576	23,223	766,576	23,223
Effect of common stock with dilution potential—convertible bonds	247	185	—	—	—	—
Net income plus the effect of common stock with dilution potential	**$ 50,379**	**50,317**	**766,576**	**23,223**	**766,576**	**23,223**
Weighted-average number of shares outstanding during the year (thousand shares)	140,103	140,103	144,175	144,175	144,175	144,175
Effect of common stock with dilution potential:						
Stock options	2,277	2,277	1,875	1,875	1,875	1,875
Convertible bonds	3,846	3,846	3,817	3,817	3,817	3,817
Weighted-average number of shares outstanding for calculating diluted EPS (thousand shares)	**146,226**	**146,226**	**149,867**	**149,867**	**149,867**	**149,867**
Diluted EPS (dollars)	**$ 0.34**	**0.34**	**5.12**	**0.15**	**5.12**	**0.15**

(m) Financial instruments

(1) Forward exchange contracts

The Company utilizes foreign exchange forward contracts to hedge the risk of foreign currency assets and liabilities or foreign currency cash flows resulting from anticipated transactions. The strategy is to hedge the majority of market risk.

There were no forward exchange contract transactions for the three months ended March 31, 2006 and 2007.

(2) Fair value of financial instruments

(i) As of March 31, 2006 and 2007, fair value of financial assets and liabilities of the Company were as follows:

	2006.3.31		2007.3.31			
	Carrying amount	Fair value	Carrying amount		Fair value	
	NT$	NT$	NT$	US$	NT$	US$
Financial assets:						
Cash and cash equivalents	291,050	291,050	817,351	24,761	817,351	24,761
Bond funds	32,807	32,807	50,046	1,516	50,046	1,516
Notes and accounts receivable (including receivables from related parties)	373,041	373,041	1,738,304	52,660	1,738,304	52,660
Other financial assets—current	25,073	25,073	7,241	219	7,241	219
Other financial assets—noncurrent	4,696	4,696	8,782	266	8,782	266
Restricted long-term assets	—	—	1,559,457	47,242	1,559,457	47,242
Financial liabilities:						
Short-term borrowings (including long-term borrowings—current portion)	671,162	671,162	543,428	16,463	543,428	16,463
Notes and accounts payable (including payable to related parties)	180,091	180,091	254,297	7,703	254,297	7,703
Accrued expense and other current liabilities	400,499	400,499	309,283	9,465	309,283	9,370
Convertible bonds and interest premium payable	80,849	993,025	69,400	2,102	1,783,580	54,032
Long-term borrowings (less long-term borrowings—current portion)	148,821	148,821	2,669,863	80,881	2,669,863	80,881

(ii) Methods and assumptions to measure the fair value of financial instruments

a. Because the maturity dates of short-term financial instruments, including cash and cash equivalents, notes and accounts receivable/payable (including related parties), short-term borrowings (including long-term borrowings—current portion), other financial assets—current, accrued expenses and other current liabilities, are within one year of the balance sheet date, their book value is assumed to be equal to their fair value.

b. If the publicly quoted market price for financial assets and liabilities is available, then the quoted price will be used as the fair value. If market value is not available, an assessment method will be used. The assumptions used should be the same as those used by financial market traders when quoting their prices.

c. Because the fair value of long-term borrowings is determined based on the discounted future cash flows and the discount rates are floating, the carrying value of long-term borrowings approximates the market value.

d. The fair value of convertible bonds is determined based on market price.

(iii) As of March 31, 2006 and 2007, the fair values of financial assets and liabilities evaluated under the publicly quoted market price and an assessment method were as follows:

	2006		2007			
	Publicly quoted value	Assessment value	Publicly quoted value		Assessment value	
			NT$	US$	NT$	US$
Financial assets:						
Cash and cash equivalents	$ —	291,050	—	—	817,351	24,761
Bond funds	32,807	—	50,046	1,516	—	—
Notes and accounts receivables (including receivable from related parties)	—	373,041	—	—	1,738,304	52,660
Other financial assets—current	—	25,073	—	—	7,241	219
Other financial assets—noncurrent	—	4,696	—	—	8,782	266
Restricted long-term assets	—	—	—	—	1,559,457	47,242
Financial liabilities:						
Short-term borrowings (including long-term borrowings—current portion)	—	671,162	—	—	543,428	16,463
Notes and accounts payable (including payable to related parties)	—	180,091	—	—	254,297	7,703
Accrued expense and other current liabilities	—	400,499	—	—	309,283	9,370
Convertible bonds and interest premium payable	—	993,025	—	—	1,783,580	54,032
Long-term borrowings (less long-term borrowings—current portion)	—	148,821	—	—	2,669,863	80,881

(iv) The valuation of available-for-sale financial assets resulted in unrealized gain of $558 and $186 (US$5.6), which were recorded under stockholders' equity as unrealized gain on available-for-sale financial assets as of March 31, 2006 and 2007, respectively.

(v) Disclosure of financial risks

a. Market risk

The equity instruments held by the Company's were classified as available-for-sale financial assets and were evaluated at fair value. Therefore, the Company was exposed to the risk of price fluctuation.

b. Concentrations of credit risk

The Company's cash and cash equivalents, securities, and accounts receivable involve potential credit risk. Cash is deposited in different financial institutions to diverge the credit risk. Securities consist of publicly traded good rating bonds, which were purchased to reduce the credit risk. Therefore, the Company considers the credit risk involving cash and securities not significant.

Concentrations of credit risk exist if the financial instrument transactions are obviously concentrated on a few counter-parties, or the counter-parties are engaged in similar business activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The

Company's accounts receivable were obviously concentrated on 5, and 6 customers, whose accounts represented 56.76% and 60.8% of total accounts receivable, as of March 31, 2006 and 2007, respectively.

c. Cash flow risk related to the fluctuation of interest rates

The Company' short-term and long-term borrowings carried floating interest rates. As a result, the effective rate changes along with the fluctuation of the market interest rate and thereby influences the Company' future cash flow. If the market interest rate increases by 1%, the Company' future cash outflow would increase by approximately $32,133 annually.

d. Liquidity risk

The Company's capital and operating funds are sufficient to meet all financial obligations. Therefore, the Company does not expect to have liquidity risk.

(5) Related-party Transactions

(a) Names and relationship of related parties

Name	Relationship with the Company
Think Global Enterprises Limited (Think Global)	A 100%-owned subsidiary of the Company
Power Islands Limited (Power Islands)	A 100%-owned subsidiary of the Company
Motech (Ningbo) Electronic Co. Ltd. (Ningbo Electronic)	A 100%-owned subsidiary indirectly owned through Power Islands
Motech (Ningbo) Trade Co. Ltd. (Ningbo Trade)	A 100%-owned subsidiary indirectly owned through Power Islands
Galaxy Far East Corp. (Galaxy)	The Company's chairman is a member of the Board of Directors
CReTE Systems Inc (CReTE)	The Company's chairman is a member of the Board of Directors
AE Polysilicon Corporation (AE)	Investee of the Company accounted for by equity method
Cheer View Investment Limited (Cheer View)	A 100%-owned subsidiary indirectly owned through Power Islands

(b) Significant transactions with related parties

(i) Purchases and accounts payable

Significant purchases from and accounts payable to related parties as of and for the three month periods ended March 31, 2006 and 2007, were as follows:

	2006		2007		
	Amount	% of net purchases	Amount		% of net purchases
	NT$		NT$	US$	
Purchase:					
Think Global	**$331**	**0.03**	**1,444**	**44**	**0.06**

The components of accounts payable as of March 31, 2006 and 2007, were as follows:

	2006.3.31	2007.3.31	
	NT$	NT$	US$
Accounts payable:			
Think Global	$320	—	—

The purchase prices for the purchases from related parties are not materially different from those for non-related general suppliers. The Company purchases materials from suppliers in Mainland China through a subsidiary. As of March 31, 2006 and 2007, the balances of accounts payable resulting from the aforementioned transactions were offset against the related accounts receivable.

(ii) Sales and accounts receivable

For the three month periods ended March 31, 2006 and 2007, the Company's sales to Think Global amounted to $11,504 and $4,954 representing 1.62% and 0.15%, respectively, of net sales. As of March 31, 2006 and 2007, the balances of accounts receivable resulting from the aforementioned transactions were $0 and $9,415, respectively. Trading terms of sales transactions with related parties require payment within 60 to 90 days. Trading terms with non-related parties require payment within 60 days.

For the three months ended March 31, 2006 and 2007, the Company sold inventories to Ningbo Trade and Ningbo Electronic through Think Global, which resulted in unrealized gains thereon of $2,854 and $172, respectively. As of March 31, 2006 and 2007, the balances of deferred credits of $3,852 and $7,120, respectively, arising from these inter-company transactions, were recorded as accrued expense and other current liabilities.

(iii) Other receivables

The components of other receivables as of March 31, 2006 and 2007, were as follows:

	2006.3.31	2007.3.31	
	NT$	NT$	US$
Power Islands	$50	143	4

(iv) Other

a. The Company paid commission expense to Think Global for acting as an agent in the transactions between Ningbo Trade and its customers in Mainland China. The Company's commission expense (recorded as selling expenses) and commission payable for inventories sold by Ningbo Trade in Mainland China through Think Global as of and for the three months ended March 31, 2006 and 2007, were as follows:

	2006		2007			
	Commission expense	Accounts payable	Commission expense		Accounts payable	
	NT%	NT$	NT$	US$	NT$	US$
Think Global	$—	770	—	—	—	—

b. On December 29, 2006, the Company entered into a Strategic Supply Agreement with AE. Under this agreement, the Company plans to invest in AE's Series A convertible preferred stock for US$2,000 and will prepay another US$30,000 for the long-term supply of materials. On January 23, 2007, the Company remitted the payment for the stock purchase price of US$2,000 through Cheer View. The Company made the first prepayment of US$15,000 for the long-term supply of materials on January 31 2007 and recorded it as other assets. The remaining advance payment for material costs of US$15,000 is payable in March 2007, but it was not paid yet as of the financial report release date. The agreement also grants the Company the right to convert up to half of its advance payment for material costs into AE's new shares based on AE's offering price or to partially deduct it from the material purchase costs beginning from the year 2011 until 2013. The purchase quantities are fixed but the prices are subject to open market adjustment.

(v) As of March 31, 2006 and 2007, the receivables and payables from related parties resulting from the above transactions were as follows:

	2006.3.31	2007.3.31	
	NT$	NT$	US$
Account receivable-related parties:			
Accounts receivable	$—	9,415	286
Other receivable	50	143	4
	$ 50	**9,558**	**290**

	2006.3.31	2007.3.31	
	NT$	NT$	US$
Account payable-related parties:			
Accounts payable	$ 320	—	—
Commission payable	770	—	—
	$1,090	**—**	**—**

(6) Pledged Assets

As of March 31, 2006 and 2007, the book values of pledged assets were as follows:

Pledged assets	Pledged to secure	2006.3.31	2007.3.31	
		NT$	NT$	US$
Machinery and equipment	Long-term borrowings	$265,552	120,384	3,647
Time deposit	Long-term raw material supply contract	—	1,559,457	47,242
		$265,552	**1,679,841**	**50,889**

(7) Commitments and Contingencies

(a) As of March 31, 2006 and 2007, the unused letters of credit for purposes of purchasing materials, machinery, and equipment, amounted to $226,933 and $143,053, respectively.

(b) As of March 31, 2006 and 2007, the Company had entered into certain contracts amounting to $994,625 and $1,343,930, respectively, for purposes of expanding the factory building and acquiring machinery and equipment. As of March 31, 2006 and 2007, the unpaid contract price thereon amounted to $425,414 and $142,338, respectively.

(c) The Company rents its Tainan branch office premises in the Tainan Science Park. Future minimum lease payments from these leases were as follows:

2007.4.1-2008.3.31	$ 3,145
2008.4.1-2009.3.31	3,145
2009.4.1-2010.3.31	3,145
2010.4.1-2011.3.31	3,145
2011.4.1-2012.3.31	3,145
After 2012.4.1	36,041
	$51,766

When the government announces the current land value in accordance with the ROC Land law, the above lease payments will be adjusted in the month following this government announcement.

(d) To overcome the short supply of materials, the Company entered into long-term material supply contracts with suppliers in 2005 and 2006, under which, the purchase quantities are fixed and prices will be adjusted based on changes in material costs structure.

(e) In 2006, the Company entered into long-term sales contracts with two customers to sell merchandise to these customers, under which the sales quantities are fixed and prices will be adjusted according to market price conditions quarterly.

(f) In 2006, the Company entered into a contract with Renewable Energy Corporation (REC) to purchase solar energy material from REC totaling $10,000,000 for 5 years commencing from January 1, 2007. As HSBC provided a bank guarantee for this purchase contract, the Company pledged its time deposit of US$47,127,750 dollars (equal to $1,559,457) as a collateral to HSBC. Refer to Note (6) for details.

(8) Other

(a) Total personnel depreciation and amortization expenses incurred for the three months ended March 31, 2006 and 2007, were as follows:

	2006		
	Operating costs	**Operating expenses**	**Total**
		NT$	
Personnel:			
Salaries	23,483	20,540	44,023
Labor and health insurance	1,857	1,447	3,304
Pension	1,431	1,190	2,621
Others	1,001	750	1,751
Depreciation	17,003	2,521	19,524
Amortization	360	551	911

	2007		
	Operating costs	**Operating expenses**	**Total**
		NT$	
Personnel:			
Salaries	95,033	27,415	122,448
Labor and health insurance	5,919	1,756	7,675
Pension	4,421	1,294	5,715
Others	3,473	730	4,203
Depreciation	73,810	5,121	78,931
Amortization	503	626	1,129

	2007		
	Operating costs	Operating expenses	Total
		US$	
Personnel:			
Salaries	2,879	831	3,710
Labor and health insurance	180	53	233
Pension	134	39	173
Others	105	22	127
Depreciation	2,236	155	2,391
Amortization	15	19	34

(b) Reclassification

Certain accounts in the financial statements as of and for the three months ended March 31, 2006 have been reclassified to conform with the financial statements presentation adopted in 2007. These reclassifications have no significant impact on the financial statements.

(9) Segment Financial Information

In accordance with SFAS No. 23, “Interim Financial Reporting and Disclosures”, the Company is not required to comply with the Statement of Financial Accounting Standards No. 20, “Disclosure of Segment Financial Information” when preparing interim financial statements.

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APPENDIX A

THE SECURITIES MARKETS OF THE ROC

The information presented in this section has been extracted from publicly available documents which have not been prepared or independently verified by us, the Initial Purchasers or any of our respective affiliates or advisors in connection with this Offering References to ROC Securities and Futures Bureau of the Financial Supervisory Commission ("ROC SFB") in this section include both ROC Securities and Futures Commission and the ROC Securities and Exchange Commission, its predecessor.

In September 1960, the ROC government established the ROC Securities and Exchange Commission to supervise and control all aspects of the existing domestic securities market and the TSE began to take shape soon thereafter. In the 1970s and the early 1980s, the ROC government implemented a number of steps designed to upgrade the quality and importance of the ROC securities markets, such as encouraging listing on the TSE and establishing an over-the counter securities exchange. In the mid-1980s, the ROC government began to revise its laws and regulations in a manner designed to facilitate the gradual internationalization of the ROC securities markets. In 1997, the ROC Securities and Exchange Commission was renamed the ROC Securities and Futures Commission. Effective July 1, 2004, the ROC Securities and Futures Commission has been renamed the ROC Securities and Futures Bureau of the FSC.

The Taiwan Stock Exchange

In 1961, the ROC SFB established the TSE to provide a marketplace for securities trading. The TSE is a corporation owned by government-controlled and private banks and enterprises. The TSE is independent of the entities transacting business through it, each of which pays to the TSE a user's fee. Subject to limited exceptions, all transactions in listed securities by brokers, traders and integrated securities firms must be made through the TSE.

The TSE commenced operations in 1962. During the early 1980s, the ROC SFB actively encouraged new listings on the TSE and the number of listed companies has grown from 119 in 1983 to 653 as of December 31, 2006. As of March 31, 2007, the market capitalization of companies listed on the TSE was approximately NT$19.5 trillion.

Historically, ROC companies have listed only shares and bonds on the TSE. However, the ROC SFB has encouraged companies to list other types of securities. In 1988, the Ministry of Finance permitted the issuance of ROC's first exchangeable bonds. Since 1989, there have been offerings of domestic convertible bonds and convertible preferred shares. In addition, beneficiary units evidencing beneficiary interests in closed-end investment funds and bonds issued by super-national financial institutions are also listed on the TSE or traded on the GreTai Securities Market ("GTSM") (which is discussed below). The ROC SFB also has promulgated regulations which permit foreign issuers to list certain securities on the TSE. To date, five foreign issuers have listed their securities on the TSE in the form of depositary receipts.

The TSE considers the following factors when evaluating a company for listing:

- the number of shareholders and the distribution of shareholdings among such shareholders;
- the length of time in business;
- the amount of paid-in capital; and
- profitability.

However, special listing criteria apply to technology companies and key businesses engaging in national economic development.

The ROC GreTai Securities Market

To complement the TSE, the GTSM was established in September 1982 on the initiative of the ROC SFB to encourage the trading of securities of companies who do not qualify for listing on the TSE. As of March 31, 2007, 532 companies had listed equity securities on the GTSM and the total market capitalization of those companies was approximately NT$2.07 trillion.

The following table sets forth, for the periods indicated, information relating to the GTSM Index.

Period	Number of listed Companies at the Period End	Stock Trading Values	Index High(1)	Index Low(1)	Index at Period End(1)
		(NT$ in millions)			
1993	11	649	—	—	—
1994	14	568	—	—	—
1995	41	2,796	102.0	94.0	102.0
1996	79	453,509	234.8	99.9	233.1
1997	114	2,310,695	344.0	210.2	245.1
1998	176	1,918,158	281.4	163.9	165.8
1999	264	1,899,925	207.2	139.0	207.2
2000	300	4,479,663	326.4	101.6	104.9
2001	333	2,326,889	152.5	78.2	136.2
2002	384	2,794,724	163.0	89.7	94.4
2003	423	2,059,385	117.5	79.6	117.3
2004	466	3,475,449	160.1	105.2	115.8
2005	503	3,166,453	133.3	103.6	133.3
2006	531	5,129,112	163.9	119.0	163.9
2007 (through March 31, 2007)	532	1,878,229	175.0	157.5	175.0

(1) The GTSM Index was created in 1995.
Source: GTSM.

Price Limits, Commissions, Transaction Tax and Other Matters

The GTSM has placed limits on block trading and on the range of daily price movements. According to the GTSM's block trading guidelines, transactions in one class of securities that involve 500 trading lots or trading amounts exceeding NT$15 million, and transactions involving five or more different classes of securities and trading amounts exceeding NT$15 million must be registered and executed in accordance with the guidelines. Fluctuations in the price of stock traded on the GTSM are currently subject to a restriction of 7% above and below the previous day closing price (or reference price set by the GTSM if the previous day closing price is not available because of lack of trading activity). However, these restrictions have been modified from time to time by the FSC based on market conditions. The ROC SFB has announced that limitations on price fluctuations may be relaxed with a view to eventually abolishing all share price fluctuation controls. Brokerage commissions are proposed by the GTSM and approved by the ROC SFB. Brokers may charge commission at any rate not exceeding 0.1425% of the transaction price provided that they must report such rate to the GTSM. A securities transaction tax, currently levied at 0.3% of the transaction price, is payable by the seller of equity securities. Such securities transaction taxes are withheld at the time of the transaction giving rise to such tax. Sales of shares of companies listed on the GTSM are currently sold in round lots of 1,000 shares. Investors who desire to sell less than 1,000 shares of a listed company occasionally experience delays in effecting such sales.

Regulation and Supervision

The ROC SFB has extensive regulatory authority over public companies. Public companies are generally required to obtain the deemed approval from the ROC SFB for all securities offerings. The ROC SFB has promulgated regulations requiring, unless otherwise exempted, periodic reporting of financial and operating information by all public companies. In addition, the ROC SFB establishes standards for financial reporting and carries out licensing and supervision of participants in the ROC securities market.

The ROC SFB has responsibility for implementing ROC Securities and Exchange Law and for overall administration of governmental policies in the ROC securities market. It has extensive regulatory authority over the offering, issuance and trading of securities. In addition, ROC Securities and Exchange Law specifically empowers the ROC SFB to promulgate necessary rules. ROC Securities and Exchange Law prohibits market manipulation. For example, it permits an issuer to recover short-swing trading profits made through purchases and sales within six months by directors, managerial personnel, supervisors, as well as the spouses, minor children and nominees of these parties, and shareholders (together with their spouses, minor children and nominees) who hold 10% or more of the shares of the issuer. ROC Securities and Exchange Law prohibits trading by “insiders” based on non-public information that materially affects share price movement prior to publication of such information and within 12 hours after publication of such information. “Insiders” include:

- directors, supervisors, managers, as well as the spouses, minor children and nominees of these parties, and shareholders (together with their spouses, minor children and nominees) who hold 10% or more of the issuing company’s shares and any individual designated by a governmental or corporate director or supervisor to act on its behalf;
- any person who has learned material, non-public information due to an occupational or controlling relationship with the issuing company;
- any person who has discharged from the status or position in the first and second bullet points for not more than six months; and
- any person who has learned material, non-public information from any of the above.

Sanctions include imprisonment. In addition, damages may be awarded to persons injured by the transaction.

ROC Securities and Exchange Law also imposes criminal liability on certified public accountants and lawyers who make false certifications in their examination and audit of an issuer’s contracts, reports and other documents related to securities transactions. The ROC SFB regulations require that financial reports of listed companies be audited by accounting firms consisting of at least three certified public accountants and be signed by at least two certified public accountants.

In addition, ROC Securities and Exchange Law provides for civil liability for material misstatements or omissions made by issuers and regulation of tender offers.

The ROC SFB does not have criminal or civil enforcement powers under ROC Securities and Exchange Law. Criminal actions may be pursued only by government prosecutors. Civil actions may only be brought by plaintiffs who assert that they have suffered damages. The ROC SFB is empowered to curb abuses and violations of laws and regulations only through administrative measures including:

- issuance of warnings;
- temporary suspension of operation;
- imposition of administrative fines; and
- revocation of licenses.

In addition to providing a market for securities trading, the GTSM reviews applications by ROC issuers to list securities on the GTSM. If issuers of listed securities violate laws and regulations or encounter significant difficulties, the GTSM may, with the approval of the ROC SFB, delist the securities of these issuers.

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APPENDIX B

FOREIGN INVESTMENT AND EXCHANGE CONTROLS IN THE ROC

The information presented in this section has been extracted from publicly available documents which have not been prepared or independently verified by us, the Initial Purchasers or any of our respective affiliates or advisors in connection with this Offering.

Foreign Investment

Historically, foreign investment in the ROC securities markets has been restricted. Since 1983, the ROC government has periodically enacted legislation and adopted regulations to permit foreign investment in the ROC securities market.

Regulations Governing Investment in Securities By Overseas Chinese and Foreign Nationals (the "Regulations"), which was approved by the Executive Yuan on May 26, 1983 and has been amended from time to time, is one of the major regulations governing foreign investment in Taiwan.

Under the Regulations, foreign investors are classified as either "onshore foreign investors" or "offshore foreign investors" according to their respective geographical location. Both onshore and offshore foreign investors are allowed to invest in ROC securities after they register with the TSE. The Regulations further classify foreign investors into foreign institutional investors and foreign individual investors. "Foreign institutional investors" refer to those investors incorporated and registered in accordance with foreign laws outside of the ROC (i.e., offshore foreign institutional investors) or their branches set up and recognized within the ROC (i.e., onshore foreign institutional investors). Offshore overseas Chinese and foreign individual investors are subject to a maximum investment ceiling that will be separately determined by the ROC SFB after consultation with the CBC. On the other hand, foreign institutional investors are not subject to any ceiling for investment in the ROC securities market.

Depositary Receipts

In April 1992, the ROC SFB enacted regulations permitting ROC companies with securities listed on the TSE, with the prior approval of the ROC SFB, to sponsor the issue and sale to foreign investors of depositary receipts. Depositary receipts represent deposited shares of ROC companies. In December 1994, the Ministry of Finance allowed companies whose shares are traded on the GTSM or listed on the TSE, upon approval of the ROC SFB, to sponsor the issue and sale of depositary receipts.

In the past, for depositary shares that represented new shares, three months after the issuance of the depositary receipts, a holder of the depositary receipts (other than citizens of the PRC and entities organized under the laws of the PRC) could request the depositary to either cause the underlying shares to be sold in the ROC and to distribute the sale proceeds to the holder or to withdraw from the depositary receipt facility the shares represented by the depositary receipts and deliver the shares to the holder. For depositary shares that represent previously issued and existing shares, a holder of the depositary receipts (other than citizens of the PRC and entities organized under the laws of the PRC) could, immediately after the issuance of the depositary receipts, request the depositary to either cause the underlying shares to be sold in the ROC and to distribute the sale proceeds to the holder or to withdraw from the depositary receipt facility the shares represented by the depositary receipts and deliver the shares to the holder. The Executive Yuan and the ROC SFB recently amended the relevant regulations such that the three-month withdrawal restriction has been removed. A holder of depositary receipts (other than citizens of the PRC and entities organized under the laws of the PRC) may now withdraw shares after the issuance of the depositary receipts representing new shares to the extent permitted under the deposit agreement (in practice, typically four to seven business days thereafter).

Under existing laws and regulations relating to foreign exchange control, a depositary or a holder of depositary receipts may, without obtaining further approvals from the CBC or any other governmental authority or agency of the ROC, convert NT Dollars into other currencies, including US Dollars, in respect of the following: proceeds of the sale of shares represented by depositary receipts, proceeds of the sale of shares received as stock dividends and deposited into the depositary receipt facility and any cash dividends or cash distributions received. In addition, a depositary, also without any of these approvals, may convert inward remittances of payments into NT Dollars for purchases of underlying shares for deposit into the depositary receipt facility against the creation of additional depositary receipts. A depositary may be required to obtain foreign exchange approval form the CBC on a payment-by-payment basis for conversion from NT Dollars into foreign currencies relating to the sale of subscription rights for new shares. Proceeds from the sale of any underlying shares by holders of depositary receipts, after becoming a holder of common shares, withdrawn from the depositary receipt facility or any cash dividends or distributions received and the subscription payment for rights offering may be converted into other currencies without obtaining CBC approval. Proceeds from the sale of the underlying shares withdrawn from the depositary receipt facility may be used for reinvestment in the TSE or the GTSM, subject to registration with the TSE.

Under current ROC laws, a non-ROC holder of depositary receipts, when withdrawing the shares underlying the depositary receipts, will be required to register with the TSE and appoint a local agent (with such qualifications as are set by the ROC SFB) to open a securities trading account with a local brokerage firm, pay taxes, remit funds, exercise rights relating to the securities and perform such other matters as may be designated by such holder of depositary receipts on behalf of and as an agent for such holder of depositary receipts. Any such holder of depositary receipts is also required to appoint a custodian bank to hold the securities and any cash proceeds in safekeeping, to make confirmations, to settle trades and to report all relevant information. Without meeting the foregoing requirements, the withdrawing holder of GDSs would be unable to hold or subsequently sell the underlying shares withdrawn from the depositary receipt facility on the GTSM or otherwise. In addition, such holder of depositary receipts is required to appoint a tax guarantor for filling tax returns and making tax payments.

Overseas Corporate Bonds

Since 1989, the ROC SFB has approved a series of overseas bonds issued by ROC companies listed on the TSE in offerings outside the ROC. Under current ROC law, such overseas corporate bonds can be (i) converted by bondholders, other than persons of the PRC, into shares of ROC companies or (ii) subject to ROC SFB approval, may be converted into depositary receipts issued by the same ROC company or by the issuing company of the exchange shares, in the case of exchangeable bonds. The relevant regulations also permit public issuing companies to issue corporate debt in offerings outside the ROC. Proceeds from the sale of the shares converted from overseas convertible bonds may be used for reinvestment in securities listed on the TSE or traded on the GTSM, subject to registration with the TSE.

Under current ROC law, a non-ROC converting bondholder, when exercising his conversion right to convert bonds into common shares, is required to register with the TSE and appoint a local agent (with such qualifications as are set by the ROC SFB) to open a securities trading account with a local brokerage firm, pay ROC taxes, make confirmations and settlement, remit funds, exercise rights relating to the securities and perform such other matters as may be designated by such converting bondholder on behalf of and as agent for such converting bondholder. Also, any such converting bondholder is also required to appoint a custodian bank to hold the securities and any cash proceeds in safekeeping, to make confirmations, to settle trades and to report all relevant information. In addition, such converting bondholder is required to appoint a tax guarantor for filing tax returns and making tax payments.

Unless otherwise limited by the CBC, an ROC company may, without obtaining further approvals from the CBC or any other government authority of the ROC, convert NT Dollars to other non-ROC currencies, including US Dollars, for making payments in respect of redemption of the bonds or repayment of principal of and interest on the bonds. A non-ROC converting bondholder may, through its local agent and without obtaining prior approval from the CBC, convert into foreign currencies net proceeds realized from the sale of converted common shares or any stock dividends relating to such shares, or any cash dividend or other cash distribution in respect of such common shares. However, a converting bondholder must obtain prior approval from the CBC on a payment-by-payment basis for conversion from NT dollars into other currencies in respect of the proceeds form the sale of subscription rights for newly issued shares.

Other Foreign Investment

In addition to investments permitted under the Regulations, foreign investors (other than foreign investors who have registered with the TSE for making investments in the ROC securities market) who wish to make direct investments in the shares of ROC companies are required to submit a Foreign Investment Approval application to the Investment Commission of the ROC Ministry of Economic Affairs or other government authority. The Investment Commission or such other government authority reviews each Foreign Investment Approval application and approves or disapproves each application after consultation with other governmental agencies (such as the CBC and the ROC SFB).

Under current law, any non-ROC person possessing a Foreign Investment Approval may remit capital for the approval investment and is entitled to repatriate annual net profits, interest and cash dividends attributable to such investment. Dividends attributable to such investment may be repatriated upon submitting certain required documents to the remitting bank, and investment capital and capital gains attributable to such investment may be repatriated after approvals of the Investment Commission or other authorities have been obtained.

In addition to the general restriction against direct investment by non-ROC persons in securities of ROC companies, non-ROC persons (except in certain limited cases) are currently prohibited from investing in certain industries in the ROC pursuant to a Negative List, as amended by the Executive Yuan. The prohibition on foreign investment in the prohibited industries specified in the Negative List is absolute in the absence of specific exemption from the application of the Negative List. Pursuant to the Negative List, certain other industries are restricted so that non-ROC persons (except in certain limited cases) may invest in such industries only up to a specified level and with the specific approval of the relevant competent authority which is responsible for enforcing the relevant legislation which the Negative List is intended to implement.

Exchange Controls

The ROC Foreign Exchange Control Statute and regulations provide that all foreign exchange transactions must be executed by banks designated by the FSC and the CBC to handle foreign exchange transactions and Foreign Investment Approval investments. Current regulations favor trade-related foreign exchange transactions. Consequently, foreign currency earned from exports of merchandise and services may now be retained and used freely by exporters. All foreign currency needed for the importation of merchandise and services may be purchased freely from the designated foreign exchange banks.

Aside from trade-related foreign exchange transactions, ROC companies and individual residents of the ROC may, without foreign exchange approval, remit to and from Taiwan foreign currencies of up to US$50 million, or its equivalent, and US$5 million, or its equivalent, respectively, in each calendar year. These limits apply to remittances involving a conversion between NT dollars and US dollars or other foreign currencies. In addition, all enterprises are required to register all medium- and long-term foreign debt with the CBC.

In addition, a foreign person may, subject to certain requirements but without foreign exchange approval, remit to and from Taiwan foreign currencies of up to US$100,000 (or its equivalent) per remittance if the required documentation is provided to the ROC authorities. This limit applies only to remittances involving a conversion between NT dollars and US dollars or other foreign currencies and vice versa.

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ISSUER

Motech Industries Inc.
6F, No. 248, Section 3, Pei-Shen Road
Sheng-Keng Hsiang
Taipei Hsien 222, Taiwan
Republic of China

DEPOSITARY

Citibank, N.A.
388 Greenwich Street
14th Floor
New York, New York 10013
United States of America

CUSTODIAN

Citibank, N.A. (Taipei Branch)
9F, 16, Nan-king East Road
Section A, Taipei, Taiwan
Republic of China

U.S. LEGAL ADVISER TO THE INITIAL PURCHASERS

Latham & Watkins LLP
41st Floor, One Exchange Square
8 Connaught Place, Central
Hong Kong

ROC LEGAL ADVISER TO THE ISSUER

Lee & Li
7th Floor, 201, Tun Hua N. Road
Taipei, Taiwan 10508
Republic of China

INDEPENDENT AUDITORS

KPMG Certified Public Accountants
68/F, Taipei 101 Tower
No. 7, Section 5
Xinyi Road
Taipei 11049, Taiwan
Republic of China

LUXEMBOURG LISTING AGENT

The Bank of New York (Luxembourg) S.A.
Aerogolf Center
1A, Hoehenhof
L-1736 Senningerberg
Grand Ducy of Luxembourg

MOTECH