

# Sunshine Social Welfare Foundation

## Financial report and auditor report

For the years 2006 and 2005

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<b>萬象翻譯股份有限公司</b> Linguitronics Co., Ltd. 14TH FLOOR, NO. 57, FUXING NORTH ROAD, SONSHAN DISTRICT, TAIPEI, POST CODE 105
I HEREBY CERTIFY THAT THIS TRANSLATION IS A TRUE AND CORRECT ENGLISH VERSION OF THE ATTACHED ORIGINAL. TO THE BEST OF MY KNOWLEDGE AND BELIEF. DATE: _____ TRANSLATOR: <i>Vicky</i>

## Accountant Auditing Report

### Sunshine Social Welfare Foundation

We have audited the balance sheets and fund statement of Sunshine Social Welfare Foundation for 2006 and December 31, 2005, as well as the statement of income, statement of changes in funds, and cash flow statement for 2006 and for the period of January 1 to December 31, 2005. These financial statements are the responsibility of the foundation's directors. The responsibility of this firm is to express an opinion on these statements based on our audits.

We conducted our audits in accordance with the Rules Governing the Audit of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Those rules and standards require that we plan and perform the audit to obtain reasonable assurance 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 Sunshine Social Welfare Foundation as of December 31, 2006 and 2005 and the results of its balance sheet and amount of funds, as well as income and expenditure and cash flows for the years then ended, in conformity with the requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

As specified in reference four of the financial statements, Sunshine Social Welfare Foundation started using on January 1, 2006 the newly promulgated Standard 34 on accounting principles of derivatives and Standard 36 on disclosure of derivatives of the Guidelines Governing Business Accounting, as well as other relevant communiqués that apply to the newly amended articles.

As specified in reference 15 of the financial statements, Sunshine Social Welfare Foundation started on January 1, 2005 to list as expenses the actual use of business incubator reserve fund expenditures. These accounting modifications resulted in a NT\$25,555,046 reduction of income for the year 2005.

Deloitte and Touche  
YOU Chih-Hui, Accountant  
March 7, 2007

Sunshine Social Welfare Foundation  
Balance sheet and fund statement  
2006 and December 31, 2004

Currency: NT\$

Assets	Dec. 31, 2006		Dec. 31, 2005	
	Amount	%	Amount	%
<b>Current assets</b>				
Cash (Note 5)	\$ 101,979,911	32	\$ 81,829,424	29
Financial liabilities at fair value through profit or loss – current (Note 3, 4 and 6)	10,738,844	4	9,993,048	3
Accounts receivable	13,867,383	4	13,456,945	5
Inventory (Note 3 and 7)	3,424,361	1	2,873,461	1
Prepaid expenses and other current assets	<u>2,693,808</u>	<u>1</u>	<u>1,968,862</u>	<u>1</u>
Total current assets	132,704,307	42	110,121,740	39
Time deposit (Note 2)	30,000,000	10	30,000,000	11
<b>Long term investment</b>				
Financial assets at cost – non current (Note 2, 3, 9 and 11)	19,491,000	6	22,391,000	8
<b>Fixed assets – net value (Note 2, 3, 9 and 11)</b>	132,071,413	42	119,195,525	42
Other assets	<u>743,975</u>	<u>-</u>	<u>715,705</u>	<u>-</u>
<b>Total of assets</b>	<u>\$ 315,010,695</u>	<u>100</u>	<u>\$ 282,423,970</u>	<u>100</u>
<b>Liabilities and funds</b>				
<b>Current liabilities</b>				
Accounts payable	\$ 7,639,462	2	\$ 10,786,697	4
Accrued expenses	11,512,907	4	11,565,357	4
Feedback fund payable (Note 15)	9,858,797	3	7,252,293	2
Other current liabilities (Note 9)	<u>2,655,602</u>	<u>1</u>	<u>2,503,661</u>	<u>1</u>
Total current liabilities	<u>31,666,768</u>	<u>10</u>	<u>32,108,008</u>	<u>11</u>
<b>Other liabilities</b>				
Pension fund liabilities (Note 3 and 10)	4,466,895	1	4,113,329	2
Deposits received	<u>34,500</u>	<u>-</u>	<u>44,500</u>	<u>-</u>
Total other liabilities	<u>4,501,395</u>	<u>1</u>	<u>4,157,829</u>	<u>2</u>
Total of liabilities	<u>36,168,163</u>	<u>11</u>	<u>36,265,837</u>	<u>13</u>
<b>Funds</b>				
Foundation funds	162,276,000	52	162,276,000	57
Asset funds	21,526,413	7	8,564,552	3
Contingency reserve (Note 15)	24,799,295	8	4,688,794	2
Budget surplus	<u>70,240,824</u>	<u>22</u>	<u>70,628,787</u>	<u>25</u>
Total funds	<u>278,842,532</u>	<u>89</u>	<u>246,158,133</u>	<u>87</u>
<b>Total liabilities and funds</b>	<u>\$ 315,010,695</u>	<u>100</u>	<u>\$ 282,423,970</u>	<u>100</u>

This statement is part of a complete financial report  
(Please consult the audit report prepared by Deloitte and Touche on March 7, 2007)

Chairman :

Deputy CEO:

Accountant:

Sunshine Social Welfare Foundation  
Statement of income  
2006 and January 1 to December 31, 2005

	2006		Currency : NT\$ 2005	
	Amount	%	Amount	%
<b>Revenues and profits</b>				
Revenues from donations (Note 2 and 3)	\$ 48,607,286	49	\$ 48,337,274	53
Revenues from subsidies (Note 2)	19,764,483	20	19,705,694	22
Revenues from sale of assistive equipment	2,501,078	2	2,185,646	2
Revenues from interests	1,917,162	2	1,714,177	2
Revenues from charity sales (Note 3)	2,657,999	3	1,548,142	2
Revenues from services	1,127,161	1	496,050	1
Other revenues	1,847,478	2	3,808,470	4
Profits from social enterprises (Note 2, 12, 13 and 15)	<u>20,770,753</u>	<u>21</u>	<u>12,927,686</u>	<u>14</u>
Total revenues and profits	<u>99,193,400</u>	<u>100</u>	<u>90,723,139</u>	<u>100</u>
<b>Expenses and losses</b>				
Salaries (Note 12)	35,080,761	35	29,663,018	33
Contingency funds expenses (Note 15)	1,443,274	2	25,555,046	28
Project and activity expenses	12,376,882	13	8,880,299	10
Scholarships	4,381,084	4	3,636,500	4
Renovation expenses	726,874	1	3,442,991	4
Financial aid	2,930,991	3	3,482,212	4
Insurance fees (Note 12)	3,358,706	3	2,956,846	3
Equipment and material (Note 3 and 11)	2,428,247	2	2,763,045	3
Promotion and promotional material expenses	1,492,994	2	2,424,053	3
Post and communication	1,871,013	2	1,838,133	2
Meal allowances	1,921,298	2	1,448,505	1
Pension fund (Note 3, 10 and 12)	2,206,213	2	1,432,381	1
Water and electricity fees	873,138	1	724,325	1
Charity sales items production costs	3,624,852	4	1,451,677	2
Other	<u>5,334,959</u>	<u>5</u>	<u>5,315,056</u>	<u>6</u>
Total expenses and losses	<u>80,051,286</u>	<u>81</u>	<u>95,014,087</u>	<u>105</u>
Surplus before cumulative effect of changes in accounting principles	19,142,114	19	( 4,290,948 )	( 5 )
Cumulative effect of changes in accounting principles (Note 4)	<u>580,424</u>	<u>1</u>	<u>-</u>	<u>-</u>
Budget surplus (deficit)	<u>\$ 19,722,538</u>	<u>20</u>	<u>( \$ 4,290,948 )</u>	<u>( 5 )</u>

This statement is part of a complete financial report  
(Please consult the audit report prepared by Deloitte and Touche on March 7, 2007)

Chairman:

Deputy CEO:

Accountant:

Sunshine Social Welfare Foundation  
Statement of changes in fund balance  
2006 and January 1 to December 31, 2005

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	Foundation funds (Note 2 and 3)	Asset funds (Note 3, 9 and 11)	Business incubator reserve funds	Contingency funds (Note 13 and 15) Risk contingency fund	Total	Budget surplus	Total funds
Balance for January 1, 2005	\$ 162,276,000	\$ 7,135,867	\$ 16,041,553	\$ 3,876,458	\$ 19,918,011	\$ 59,690,518	\$ 249,020,396
Asset acquisition funds – Rehabilitation and other equipment	-	1,428,685	-	-	-	-	1,428,685
2005 Income and expenditures deficit	-	-	-	-	-	( 4,290,948 )	( 4,290,948 )
Contingency funds	-	-	-	-	-	-	-
Business incubator reserve fund	-	-	11,121,277	-	11,121,277	( 11,121,277 )	-
Risk contingency fund	-	-	-	2,572,167	2,572,167	( 2,572,167 )	-
Carried-over risk contingency fund	-	-	3,081,010	( 6,448,625 )	( 3,367,615 )	3,367,615	-
Contingency fund disbursement – Business incubator reserve fund	-	-	( 25,555,046 )	-	( 25,555,046 )	25,555,046	-
Balance for December 31, 2005	162,276,000	8,564,552	4,688,794	-	4,688,794	70,628,787	246,158,133
Asset acquisition funds – Rehabilitation and other equipment	-	12,961,861	-	-	-	-	12,961,861
2006 Income and expenditures surplus	-	-	-	-	-	19,722,538	19,722,538
Contingency funds	-	-	-	-	-	-	-
Business incubator reserve fund	-	-	21,553,775	-	21,553,775	( 21,553,775 )	-
Contingency fund disbursement – Business incubator reserve fund	-	-	( 1,443,274 )	-	( 1,443,274 )	1,443,274	-
Balance for December 31, 2006	\$ 162,276,000	\$ 21,526,413	\$ 24,799,295	\$ -	\$ 24,799,295	\$ 70,240,824	\$ 278,842,532

This statement is part of a complete financial report  
(Please consult the audit report prepared by Deloitte and Touche on March 7, 2007)

Chairman:

Deputy CEO:

Accountant:

Sunshine Social Welfare Foundation

Cash flow statement

2006 and January 1 to December 31, 2005

Currency: NT\$

	<u>2006</u>	<u>2005</u>
Cash flow of operating activities		
Budget surplus (deficit)	\$ 19,722,538	(\$ 4,290,948)
Cumulative effect of changes in accounting principles	( 580,424 )	-
Adjustment items		
Equipment and material expenses	1,000,400	1,428,685
Depreciation and amortization	165,973	884,386
Pension fund	353,566	954,582
Asset sale net loss	-	237,920
Gain on valuation of financial asset	( 165,372 )	-
Net changes in operating assets & liabilities		
Accounts receivable	( 410,438 )	( 952,432 )
Inventories	( 550,900 )	373,810
Prepaid expenses and other current assets	( 724,946 )	388,329
Accounts payable	( 3,147,235 )	3,297,234
Accrued expenses	( 52,450 )	( 558,559 )
Feedback fund payable	2,606,504	2,848,225
Other current liabilities	<u>151,941</u>	<u>( 2,325,211 )</u>
Net cash inflow from operating activities	<u>18,369,157</u>	<u>2,286,021</u>
Cash flow from investment activities		
Long term investment disinvestment cash refund	2,900,000	-
Purchase of fixed assets	( 1,080,400 )	( 2,124,685 )
Proceeds from sales of fixed assets	-	100,000
Increase in other assets	<u>( 28,270 )</u>	<u>( 176,517 )</u>
Net cash outflow from investment activities	<u>1,791,330</u>	<u>( 2,201,202 )</u>
Cash flow from financing activities		
Increase (decrease) of deposits received	<u>( 10,000 )</u>	<u>5,500</u>
Net cash outflow from financing activities	<u>( 10,000 )</u>	<u>5,500</u>
Net cash increase	20,150,487	90,319
Cash balance – beginning of year	<u>81,829,424</u>	<u>81,739,105</u>
Cash balance – end of year	<u>\$ 101,979,911</u>	<u>\$ 81,829,424</u>

This statement is part of a complete financial report  
(Please consult the audit report prepared by Deloitte and Touche on March 7, 2007)

Chairman:

Deputy CEO:

Accountant:

Sunshine Social Welfare Foundation  
Notes to financial statements  
2006 and 2005

Unit: NT\$

1. Foundation Principles and Organization History

The Foundation, in accordance with the Civil Code regulations for Non-profit Corporation and other related laws, was established through registration on October 5, 1982 and originally named "Sunshine Culture & Education Foundation, ROC". In 1999, it received further approval from the Ministry of Interior Affairs to change its name to "Sunshine Social Welfare Foundation".

The Foundation aims at providing social welfare services including psychological assistance, job-placement assistance, career training, legal services, education, nursing, special education, economic support, medical rehabilitation, and social education publicity for people with facial damage and burn injuries. The Foundation established in December 1992 the Hoping Carwash Center, followed by the Nanking MRT Station store in March 1996, the Peihsin Carwash Center in December 1998, the Kuting MRT Station store in March 2000, the Sunshine Gas Station in March 2003, and the Taichung City store in July 2003. However, operations of the Nanking MRT Station store, the Taichung store, and the Peihsin Carwash Station were terminated in July 2005, December 2004 and October 2003.

At the end of 2005 the Foundation had 204 employees, and at the end of 2006, 238 employees.

2. Source of Fund and Budget

The total asset amount of the Foundation approved through the Court and relevant government supervising authorities on February 5, 2004 was \$162,276,000, including \$30,000,000 for Certificate of Deposit, \$22,391,000 for stocks and \$109,885,000 for real estate.

The Foundation's main sources of income include donations, government subsidy income, interest generated from funds, and net profit from subsidiary organizations.

The budget required for the Foundation in performing various businesses shall in principle be derived from interest generated from funds and donations obtained after establishment. Except via resolution of the board and permission of the authorities in charge, registered foundation assets shall not be used.

### 3. General Description of Important Accounting Policies

The financial statements are prepared in accordance with Business Accounting Law, Guidelines Governing Business Accounting and generally recognized accounting principles. The important accounting principles are described as follows:

#### Standards of dividing assets and liabilities into current and non-current ones

Current assets refer to the assets expected to be cashed or consumed within one year; the assets not attributed to current assets shall be non-current assets. Current liabilities refer to the liabilities expected to be liquidated in one year; the liabilities not attributed to current liabilities shall be non-current liabilities.

#### Derivatives Listed into Loss/Profit out of Fair Value Change

The derivatives listed into loss/profit out of fair value change are mainly financial assets with trade objectives. Upon original recognition, they are measured at fair value plus trade cost; in the follow-up valuation, they are measured at fair value and any change with fair value is recognized as loss/profit for the said term. In case of the purchase or sale of financial assets through trade in normal practice, the accounting disposition of the trade day is applied.

Basis of fair value: The net asset value of the balance sheet day shall govern the beneficiary certificate of an open fund.

#### Inventories

Inventories are valued under the lower of cost or market valuation method. The inventory cost of fuel shall be priced by the weighted average method.

#### Financial Assets Measured by Cost

Stocks of unlisted companies (not through OTC) that are donated by others as legacy are equity product investments that cannot be measured by fair value are , and shall be recorded by the net value of the said stocks

on the ownership transfer day. As the invested companies release cash dividends, such dividends shall be recorded as investment revenue; in case payment of shares is returned in capital reduction, it shall be transferred as investment cost; in case stocks as dividends are distributed, the increased stock number but not any increase of the book value is recorded. In case of any objective evidence of reduction/loss, it is recognized as reduction loss and such reduced/lost amount shall not be reversed.

### Fixed Assets

Upon acquisition, and in accordance with the acquisition cost, fixed assets of the Foundation are recorded into the fixed assets and recognized as asset funds, and are also recognized as equipment and appliance expense. In addition, in accordance with legal regulations, as real estate is registered with the court and government supervising authorities as the asset of the Foundation, it shall be re-listed from asset fund under the foundation fund. No depreciation shall be provided for the fixed asset in normal time; upon retirement or disposal, they shall be written off as fixed assets and asset funds.

The fixed asset of the gas station, the car wash center and the MRT store shall be priced at cost less accumulated depreciation. Major changes or improvements are to be capitalized. Renovation and maintenance expenses are to be recognized as incurred in the said year. The depreciation of fixed asset is calculated and provided in accordance with the serviceable years of 2 to 5 years by linear methods. Upon disposition of fixed asset, besides offsetting its related cost and accumulated depreciation, the disposition loss or profit shall be listed as loss/profit of the said year.

In case of any major reduction/loss with the fixed assets measured in their related recoverable amount, loss shall be recognized for its reduction/loss part. Later, if the related recoverable amount of fixed assets increases, the reverse of the reduction/loss shall be recognized as profit. However, the book value after reverse of the reduction/loss shall not exceed the book value of the said asset under no recognition of

reduction/loss, less the required depreciation in provision.

#### Recognition and Listing of Income

Donation income is recognized as the Foundation receives cash, equipment and items in practice.

The donated assets shall be estimated and recorded in book according to objective valuation basis; in case no objective valuation basis is available, they will not be estimated and recorded in book.

The income of sales and charity bazaar shall be recognized as income upon occurrence of the sales and charity bazaar.

#### Division of Capital Expenditure and Income Expenditure

Any expenditure above the amount of \$60,000 shall be listed as an asset; the rest shall be listed as expense or loss.

#### Pension

The pension confirmed to be under the Defined Benefit Plan (DBP) should be recognized in accordance with the actuary result; the pension confirmed to be under the Defined Contribution Plan (DCP) refers to recognition of the required pension for contribution during the employee service period as the expense of the said year.

Concerning pensions under the Defined Benefit Plan (DBP), when revising the retirement regulations, based on the average year number for the incurred service cost of the previous terms from the revision date till the date when the service cost of the previous terms conforms to the existing benefit condition, such incurred service cost of the previous terms shall be allocated and recognized by linear method. When confirming that the cost upon revising the DBP conforms to the benefit conditions, it shall be recognized as expense.

In case reduction or liquidation occurs to DBP, the reduced or liquidated loss/profit shall be listed as the net pension cost of the said year.

### Income Tax

In accordance with the regulations under Item 8, Section 1 of Article 2 of the “Applicable Standards of Income Tax Waiver for Educational, Cultural, Public Welfare and Charitable Organizations or Societies” revised on March 26, 2003 by the Executive Yuan, if the total expenditure of Educational, Cultural, Public Welfare and Charitable Organizations or Societies for related activities (including the expenditure of products for sale and non-sale or labor) is higher than 70% of the combined amount of income from activities related to the founding objectives (including the income of the products for sales and non-sales or labor), income from activities unrelated to the founding objectives and income from the subsidiary operation organizations, the income of a corporation itself and its subsidiary operation organization shall be waived from payment of income tax.

### Reclassification of Subject

In 2005, several subjects of the financial statements were reclassified to be consistent with the 2006 financial statement presentation.

#### 4. Reason of Accounting Change and Its Influence

From January 1, 2006, the newly promulgated No. 34 “Financial Instruments: Recognition and Measurements” and No. 36 “Financial Instruments: Disclosure and Presentation” of Statements of Financial Accounting Standards, and the newly revised provisions of various numbers of Statements have been applied to the Foundation.

##### i. Influential numbers of the newly promulgated and revised Statements of Financial Accounting Standards applicable for the first time

The first time the aforementioned new Statements and the revised provisions of the related Statements are applied, the Foundation shall duly classify the financial assets. In the adjustment of the originally recorded value in book, derivatives measured with fair value and recognized at fair value through loss or profit shall be recognized as

the accumulated influential number due to change of accounting principles.

The influential numbers applicable to the aforementioned Statements for the first time are generally as follows:

	Recognized as the accumulated influential number due to change of accounting principles (after tax)	Recognized as the shareholders equity adjustment item (after tax)
	<hr/>	<hr/>
Financial assets of loss/profit due to a change of fair value	<u>\$580,424</u>	<u>\$ -</u>

The above accounting change increases the balance of 2006 by \$745,796.

ii. Reclassification of subjects in application of the newly promulgated and revised Statements of Financial Accounting Standards

In accordance with the regulations of a note under the reference number of (94)-Foundation-Secretariat-Tze No. 016 of the Accounting Research and Development Foundation in Taiwan, the Foundation applied No. 34 of Statements of Financial Accounting Standards in 2006 for the first time to prepare the compared financial statements, and engaged in reclassification of the financial statements of 2005 in accordance with the accounting subjects used in 2006, but no reorganization was provided. When the valuation methods of the same category of subjects are different, a description is provided in the notes; and due to difficulty in practice, the intended data for preparation of the previous years are not listed.

The valuation methods of the Foundation for the financial instruments by applying different accounting principles in 2005 and 2006 are described as follows:

■ Short-term Investment

Short-term investment mainly refers to the beneficiary certificates of investment in domestic open funds, and loss/profit of

the said term recognized when market value of short-term investments is below their costs under the lower of cost or market valuation method.

When a comparison is made with cost and market value, it shall deal with the total costs and total market values, and a valuation subject of allowance for reduction of investment loss shall be provided for disposition; when market returns, the valuation subject shall be offset in the balance of the credit site. The weighted average method shall be applied to cost calculation. The calculation of market value for the beneficiary certificates of open funds refers to the net asset value at the end of year.

■ Long-term Investment

Long-term equity investment refers to the equity of unlisted companies (not through OTC) that are donated by others as legacy, to be recorded as the net value of the said stocks on the ownership transfer day. As the invested companies release cash dividends, such dividends shall be recorded as investment revenue; if stocks as dividends are distributed, only the increased stock number will be recorded without increase of the book value. If investment value is indeed reduced and there is very little hope of recovery, its book value shall be adjusted by recognizing investment loss.

Stock sale cost shall be calculated by the weighted average method.

In compliance with the adoption of newly promulgated and revised Statements of Financial Accounting Standards of the Foundation since January 1, 2006, the financial statements of 2005 are reclassified as follows:

<u>Balance sheet and fund statement</u>	<u>December 2005 (before reclassification)</u>	<u>December 2005 (after reclassification)</u>
Short-term investment	\$ 9,993,048	\$ -
Long-term investment	22,391,000	-
Financial assets recognized as profit or loss through fair value changes	-	9,993,048
Financial assets measured by cost	-	22,391,000

From January 1, 2005, No. 35 "Impairment of Assets" of Statements of Financial Accounting Standards has been applied to the Foundation, yet the said change did not have any major impact on the financial statements of the Foundation.

5. Cash

	<u>December 31, 2006</u>	<u>December 31, 2005</u>
Cash on hand and petty cash	\$ 885,172	\$ 485,420
Cashier's check and saving	27,794,739	22,444,004
Bank term deposit, annual interest rate of 2006 at 1.65-2.33%, of 2005 at 1.69-2.12%	<u>73,300,000</u>	<u>58,900,000</u>
	<u>\$ 101,979,911</u>	<u>\$ 81,829,424</u>

6. Derivatives Recognized as Profit or Loss through Fair Value Changes

	<u>December 31, 2006</u>	<u>December 31, 2005</u>
Financial instruments with trade objective	<u>\$ 10,738,844</u>	<u>\$ 9,993,048</u>

The related information of the financial instruments classified by the Foundation shall be as follows:

	<u>December 31, 2006</u>	<u>December 31, 2005</u>
<u>Financial assets of trade objective</u>		
Capital Income Fund	<u>\$ 10,738,844</u>	<u>\$ 9,993,048</u>

The net profit generated from the financial assets with trade objective in 2006 was \$165,372.

7. Inventories

	<u>December 31, 2006</u>	<u>December 31, 2005</u>
Fuel inventory	\$ 3,272,549	\$ 2,667,022
Inventory of commercial products and gifts	<u>151,812</u>	<u>206,439</u>
	<u>\$ 3,424,361</u>	<u>\$ 2,873,461</u>

8. Financial Assets Measured by Cost

	<u>December 31, 2006</u>	<u>December 31, 2005</u>
Non-listed (OTC) domestic common stock		
Trust Venture Capital Co., Ltd.	<u>\$ 19,491,000</u>	<u>\$ 22,391,000</u>

The above stock investment held by the Foundation is measured by cost, due to lack of active market open offer and inability to measure its fair value. The said company already processed capital reduction in 2006 and returned a cash amount of \$80,678,000; therefore, the Foundation recovered cash in accordance with the shareholding ratio and reduced book investment value.

9. Fixed Asset – Net Amount

	<u>December 31, 2006</u>	<u>December 31, 2005</u>
<u>Foundation</u>		
Cost		
Land	\$ 79,502,000	\$ 79,502,000
Building	30,383,000	30,383,000
Leasehold improvements	8,343,398	-
Rehabilitation equipment	3,336,555	3,336,555
Transportation equipment	2,367,000	1,838,000
Machinery equipment	1,393,586	-
Miscellaneous equipment	<u>5,827,474</u>	<u>3,389,997</u>
Total fixed asset of the Foundation	<u>131,153,013</u>	<u>118,449,552</u>
 <u>Sunshine Gas Station</u>		
Cost		
Miscellaneous equipment	<u>258,400</u>	-
Total of the fixed asset of the gas station	<u>258,400</u>	-
 <u>Car wash center – Heping Station</u>		
Cost – Machinery equipment		
	696,000	696,000
Miscellaneous equipment		
	80,000	-
Accumulated depreciation – Machinery equipment		
	( <u>116,000</u> )	-
Net amount of the fixed asset of Heping Station	<u>660,000</u>	<u>696,000</u>
 <u>Store – Kuting Station</u>		
Cost – Miscellaneous equipment		
	1,227,207	1,227,207
Accumulated depreciation – Miscellaneous equipment		
	( <u>1,227,207</u> )	( <u>1,177,234</u> )
Net amount of the fixed asset of Kuting Station	<u>-</u>	<u>49,973</u>
	<u>\$ 132,071,413</u>	<u>\$ 119,195,525</u>

The total fixed asset depreciation costs of the subsidiary operation organizations for 2006 and 2005 were of \$165,973 and \$812,024 respectively.

China Petroleum Corporation subsidized equipment purchase cost of \$3,000,000 this year. The Foundation already allocated the said cost to purchase equipment, and as of December 31, 2006, there was still \$581,363 (recorded as temporary receipts). Both parties also agreed that the said equipment will be recovered after expiration of the contract in 2008.

#### 10. Pension

The "Labor Pension Act" has been enforced since July 1, 2005. An employee recruited before June 30 and still employed on July 1 must choose whether to continue applying the related pension regulations of the "Labor Insurance Act", or to apply the pension system of the Labor Pension Act and retain application of the work seniority before the said Act. Newly admitted employees after July 1, 2005 can only be governed by the pension system under the "Labor Pension Act".

The Foundation established its employee retirement regulations in accordance with the "Labor Pension Act", under the Defined Contribution Plan (DCP). Since July 1, 2005, 6% of employee's wages have been allocated to exclusive personal pension accounts in the Bureau of Labor Insurance. The pension costs of the Foundation recognized in 2006 and 2005 are respectively \$3,251,546 and \$1,566,191.

The Foundation established retirement regulations for formal employees. In accordance with the rules of the said regulations, the pension payment is calculated by the service seniority and the average basic wages of the month before retirement. The Foundation provides pension liabilities at 3% of the total amount of monthly wages each month. The Taipei City Government approved in July 1998 that from the said month on, the Foundation's provision and allocation according to 3% of the total wages amount each month would be under the management of the Labor Retirement Reserve Fund Supervision Committee, and be deposited under the name of the Committee into the Central Trust of China. The Foundation has provided and allocated pension according to 2% of the total wage amount each month since the second half of the year 2005. The allocated retirement reserve funds in 2006 and 2005 were of \$729,096

and \$415,111 respectively; the provided pension expenses in 2006 and 2005 were of \$839,496 and \$1,274,134 respectively.

11. Equipment and Appliance

The 2006 and 2005 equipment and appliance expenditures were of \$4,969,659 and \$2,840,9740 respectively; of which \$1,000,400 and \$1,428,685 were used to purchase rehabilitation, transportation and miscellaneous equipment of the Foundation, which are already listed in the asset fund.

12. Personnel, Depreciation and Amortization Costs

	2006			
	Foundation	Subsidiary Operation Organization		Total
		Attributed to operation cost	Attributed to operation expense	
Personnel expense				
Wage expense	\$ 35,080,761	\$ 9,264,456	\$ 25,719,908	\$ 70,065,125
Labor & health insurance expense	3,263,834	751,958	1,800,026	5,815,818
Pension	2,206,213	500,293	1,384,536	4,091,042
Depreciation expense	-	116,000	49,973	165,973
	<u>\$ 40,550,808</u>	<u>\$ 10,632,707</u>	<u>\$ 28,954,443</u>	<u>\$ 80,137,958</u>
	2005			
	Foundation	Subsidiary Operation Organization		Total
		Attributed to operation cost	Attributed to operation expense	
Personnel expense				
Wage expense	\$ 29,663,018	\$ 7,253,356	\$ 24,718,916	\$ 61,635,290
Labor & health insurance expense	2,822,694	813,631	2,280,926	5,917,251
Pension	1,432,381	383,432	1,024,512	2,840,325
Depreciation expense	-	221,544	590,480	812,024
Amortization expense	-	-	72,362	72,362
	<u>\$ 33,918,093</u>	<u>\$ 8,671,963</u>	<u>\$ 28,687,196</u>	<u>\$ 71,277,252</u>

13. Profit/Loss of Subsidiary Operation Organization

	2006		2005	
	Amount	%	Amount	%
<u>Sunshine Gas Station</u>				
Operation income	\$ 657,253,287	100	\$ 641,461,622	100
Operation cost	<u>571,512,557</u>	<u>87</u>	<u>555,361,808</u>	<u>86</u>
Gross profit of operation	<u>85,740,730</u>	<u>13</u>	<u>86,099,814</u>	<u>14</u>
Operation expense				
Promotion and advertisement expense	10,225,853	2	23,241,111	4
Wage	20,131,975	3	19,667,953	3
Feedback pay	9,858,797	1	7,252,293	1
Postage	5,100,187	1	4,860,284	1
Rental	3,542,236	1	3,542,562	1
Equipment & appliance	2,541,412	-	77,929	-

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	2006		2005	
	Amount	%	Amount	%
Insurance premium	\$ 1,670,469	-	\$ 1,727,978	-
Depreciation	-	-	464,078	-
Others	5,960,466	1	6,718,094	1
Total operation expense	59,031,395	9	67,552,282	11
Gas station operation profit	26,709,335	4	18,547,532	3
<u>Car Wash Center – Heping Station</u>				
Operation income	16,546,641	100	14,440,125	100
Operation cost	14,320,878	87	12,987,982	90
Gross profit of operation	2,225,763	13	1,452,143	10
Operation expense				
Wage	4,122,692	25	3,724,736	26
Insurance premium	390,470	2	413,391	3
Employee welfare	14,500	-	25,095	-
Others	2,068,503	13	1,609,216	11
Total operation expense	6,596,165	40	5,772,438	40
Heping Station Operation Loss	( 4,370,402 )	( 27 )	( 4,320,295 )	( 30 )
<u>Store – Nanking Station</u>				
Operation income	-	-	250,830	100
Operation cost	-	-	189,438	76
Gross profit of operation	-	-	61,392	24
Operation expense				
Rental expenditure	-	-	138,027	55
Wage	-	-	96,198	38
Depreciation	-	-	26,430	11
Insurance premium	-	-	11,289	4
Others	-	-	57,067	23
Total operation expense	-	-	329,011	131
Nanking Station Operation Loss	-	-	( 267,619 )	( 107 )
<u>Store – Kuting Station</u>				
Operation income	1,877,941	100	1,806,692	100
Operation cost	956,199	51	877,006	49
Gross profit of operation	921,742	49	929,686	51
Operation expense				
Wage	1,465,241	78	1,230,029	68
Depreciation	49,973	3	99,972	6

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	2006		2005	
	Amount	%	Amount	%
Insurance premium	\$ 146,179	8	\$ 128,268	7
Packaging cost	95,638	5	79,308	4
Others	<u>732,891</u>	<u>39</u>	<u>424,041</u>	<u>23</u>
Total operation expense	<u>2,489,922</u>	<u>133</u>	<u>1,961,618</u>	<u>108</u>
Kuting Station Operation Loss	( <u>1,568,180</u> )	( <u>84</u> )	( <u>1,031,932</u> )	( <u>57</u> )
Subsidiary operation organization net profit	<u>\$ 20,770,753</u>		<u>\$ 12,927,686</u>	

The Foundation signed the Sunshine Gas Station operation contract with Taipei City Government on December 26, 2002 and it expired at the end of December 2005. The risk reserve fund allocated originally in accordance with the contract was done in response to unexpected natural disasters or emergency events, and still showed balance upon termination of the consigned operation period by the end of 2005. Therefore, the balance was settled and transferred.

#### 14. Income Tax

The Foundation in 2005 and 2004 conformed to the regulations under Item 8, Section 1 of Article 2 of the "Applicable Standards of Income Tax Waiver for Educational, Cultural, Public Welfare and Charitable Organizations or Societies" and waived income tax payment. The income tax declaration cases of the Foundation were already approved by the tax levying agencies up to 2004.

#### 15. Commitments

- i. A lease contract was signed by the Foundation with the Department of Labor of Taipei City for the subsidiary Car Wash Center Heping, which will expire by the end of December 2009.
- ii. The Foundation signed an operation contract for the Sunshine Gas Station with Taipei City Government on December 27, 2005 that will expire by the end of December 2008. Upon expiration of the contract, the consignment relationship will terminate accordingly; the Foundation has no priority right of contract renewal.

In accordance with the operation proposal regulations of the

operation contract, the Foundation shall each year, in view of the earnings of Sunshine Gas Station, provide feedback pay (book listed as feedback pay payable) in accordance with the agreed percentage and allocate reserve fund for business incubation. The feedback pay is to be allocated into the exclusive account of the job placement fund for people with mental or physical disabilities of Taipei City for the purpose of developing and promoting vocational services by organizations for people with mental or physical disabilities. The reserve fund for business incubation is intended to provide the required capital for future establishment of new sheltered workshops, for job placement service promotion, and for job placement programs.

Since 2005, the Foundation has listed the actual allocation situations of the reserve fund for business incubation as expenses, with the expenditure breakdown listed as follows:

	<u>2006</u>	<u>2005</u>
Car wash center transition project	\$ -	\$ 12,804,577
Dream Maker project	1,443,274	10,847,761
Supportive job placement service—		
Northern area	-	1,474,416
Car wash center education training	-	<u>428,292</u>
	<u>\$ 1,443,274</u>	<u>\$ 25,555,046</u>