Flytech Technology Co., Ltd.

Nonconsolidated Financial Statements

December 31, 2008 and 2007
(With Independent Auditors' Report Thereon)

Independent Auditors' Report

The Board of Directors
Flytech Technology Co., Ltd.:

We have audited the nonconsolidated balance sheets of Flytech Technology Co., Ltd. as of December 31, 2008 and 2007, and the related nonconsolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and the "Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants" in the Republic of China. Those standards and regulations require that we plan and perform the audit to obtain reasonable assurance about whether the nonconsolidated 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 nonconsolidated financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Flytech Technology Co., Ltd. as of December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended, in conformity with the related financial accounting standards of the "Business Entity Accounting Act" and of the "Regulation on Business Entity Accounting Handling", and generally accepted accounting principles in the Republic of China.

Effective January 1, 2008, Flytech Technology Co., Ltd. recognized employee bonus and directors' and supervisors' emoluments in accordance with Interpretation (96) 052 issued by the Accounting Research and Development Foundation. The change in accounting principle decreased the Company's net income by NT$52,173 thousand and earnings per share by NT$0.62.

Taipei, Taiwan (the Republic of China)
March 9, 2009

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

Flytech Technology Co., Ltd.

Nonconsolidated Balance Sheets

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

Assets	2008	2007
Current assets:		
Cash and cash equivalents (note 4(a))	$ 927,087	927,971
Financial assets at fair value through profit or loss－current (note 4(b))	572	31,329
Notes and accounts receivable, net of allowance for doubtful accounts of $3,458 and $4,722 as of December 31, 2008 and 2007, respectively	314,210	405,740
Receivables from related parties (note 5)	37,131	69,685
Other receivables	27,198	31,390
Inventories (note 4(c))	155,978	220,200
Prepaid expenses and other current assets	13,690	11,015
Deferred income tax assets－current (note 4(g))	17,011	10,401
Pledged time deposits (note 6)	30,104	30,100
Total current assets	1,522,981	1,737,831
Investments:		
Financial assets carried at cost－noncurrent (note 4(b))	23,686	23,686
Equity method investments (note 4(d))	188,382	164,681
Prepayments for long-term investments (note 4(d))	-	5,000
Total investments	212,068	193,367
Property, plant and equipment:		
Land	131,630	131,630
Building	178,150	178,150
Machinery and equipment	76,122	72,295
Transportation equipment	9,669	8,869
Furniture and fixtures	16,980	16,461
Leasehold improvement	14,124	14,124
Miscellaneous equipment	92,167	79,968
Prepayments for purchases of equipment	2,944	8,339
	521,786	509,836
Less: accumulated depreciation	(125,316)	(104,373)
Net property, plant and equipment	396,470	405,463
Deferred pension cost (note 4(f))	1,087	1,208
Deferred expenses and other assets	6,567	7,047
Total assets	$ 2,139,173	2,344,916

Liabilities and Stockholders' Equity	2008	2007
Current liabilities:		
Accounts payable	$ 155,165	289,882
Payables to related parties (note 5)	7,074	2,057
Income tax payable	-	38,552
Accrued expenses and other current liabilities (note 5)	193,918	129,498
Total current liabilities	356,157	459,989
Other liabilities:		
Accrued pension liability (note 4(f))	14,688	11,244
Deferred income tax liabilities－noncurrent (note 4(g))	10,968	8,704
Total other liabilities	25,656	19,948
Total liabilities	381,813	479,937
Stockholders' equity (note 4(g)(h)):		
Common stock	835,470	736,790
Capital surplus	232,546	232,546
Legal reserve	195,613	133,873
Special reserve	1,432	2,976
Unappropriated earnings	689,007	760,226
Translation adjustment	8,313	397
Net losses not recognized as retirement costs	(3,663)	(1,829)
Treasury stock	(201,358)	-
Total stockholders' equity	1,757,360	1,864,979
Commitments (note 7)		
Total liabilities and stockholders' equity	$ 2,139,173	2,344,916

See accompanying notes to nonconsolidated financial statements.

Flytech Technology Co., Ltd.

Nonconsolidated Statements of Income

For the years ended December 31, 2008 and 2007

(expressed in thousands of New Taiwan dollars, except earnings per share)

	2008	2007
Net sales (notes 5)	$ 2,322,207	2,676,727
Cost of sales (note 5)	(1,541,680)	(1,764,747)
Gross profit	780,527	911,980
Change in unrealized inter-company profits	(864)	3,482
Realized gross profit	779,663	915,462
Operating expenses (notes 5 and 10):		
Selling and administrative	(208,337)	(187,396)
Research and development	(92,029)	(69,538)
	(300,366)	(256,934)
Operating income	479,297	658,528
Nonoperating income and gains:		
Interest income	13,958	11,199
Investment income recognized under equity method (note 4(d))	10,785	13,503
Other income, net (note 5)	15,199	11,633
	39,942	36,335
Nonoperating expense and loss:		
Loss on disposal of property and equipment	(4,483)	(10,704)
Foreign currency exchange loss, net	(5,698)	(2,797)
Loss on obsolete and slow-moving inventories	(21,249)	(2,475)
Impairment loss on investments (note 4(b))	-	(2,800)
Remeasurement loss on financial instruments, net (note 4(b))	(1,114)	-
Other expense	-	(19)
	(32,544)	(18,795)
Income before income taxes	486,695	676,068
Income taxes (note 4(g))	(16,243)	(58,663)
Net income	$ 470,452	617,405

	2008 Before income taxes	2008 After income taxes	2007 Before income taxes	2007 After income taxes
Earnings per share (note 4(i))				
Basic earnings per share－retroactive	$ 5.86	5.66	8.09	7.39
Diluted earnings per share	$ 5.78	5.59		

See accompanying notes to nonconsolidated financial statements.

Flytech Technology Co., Ltd.

Nonconsolidated Statements of Changes in Stockholders' Equity

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

	Common Stock	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings	Translation Adjustment	Net Losses Not Recognized as Retirement Costs	Treasury Stock	Total
Balance at January 1, 2007	$ 623,296	232,546	91,685	4,299	529,734	(2,976)	-	-	1,478,584
Appropriation approved by the stockholders (note 4(h)):									
Legal reserve	-	-	42,188	-	(42,188)	-	-	-	-
Reversal of special reserve	-	-	-	(1,323)	1,323	-	-	-	-
Stock dividends and employee bonus paid in stock	113,494	-	-	-	(113,494)	-	-	-	-
Cash dividends	-	-	-	-	(218,154)	-	-	-	(218,154)
Directors' and supervisors' remuneration and employee bonus	-	-	-	-	(14,400)	-	-	-	(14,400)
Net income for 2007	-	-	-	-	617,405	-	-	-	617,405
Translation adjustments on long-term investments	-	-	-	-	-	3,373	-	-	3,373
Adjustment to minimum pension liability	-	-	-	-	-	-	(1,829)	-	(1,829)
Balance at December 31, 2007	736,790	232,546	133,873	2,976	760,226	397	(1,829)	-	1,864,979
Appropriation approved by the stockholders (note 4(h)):									
Legal reserve	-	-	61,740	-	(61,740)	-	-	-	-
Reversal of special reserve	-	-	-	(1,544)	1,544	-	-	-	-
Stock dividends and employee bonus paid in stock	98,680	-	-	-	(98,680)	-	-	-	-
Cash dividends	-	-	-	-	(368,395)	-	-	-	(368,395)
Directors' and supervisors' remuneration and employee bonus	-	-	-	-	(14,400)	-	-	-	(14,400)
Net income for 2008	-	-	-	-	470,452	-	-	-	470,452
Translation adjustments on long-term investments	-	-	-	-	-	7,916	-	-	7,916
Adjustment to minimum pension liability	-	-	-	-	-	-	(1,834)	-	(1,834)
Repurchase of common stock (note 4(h))	-	-	-	-	-	-	-	(201,358)	(201,358)
Balance at December 31, 2008	$ 835,470	232,546	195,613	1,432	689,007	8,313	(3,663)	(201,358)	1,757,360

See accompanying notes to nonconsolidated financial statements.

Flytech Technology Co., Ltd.

Nonconsolidated Statements of Cash Flows

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

	2008	2007
Cash flows from operating activities:		
Net income	$ 470,452	617,405
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	32,196	32,516
Investment income recognized under equity method	(10,785)	(13,503)
Remeasurement loss on financial assets	1,114	1,947
Loss on disposal of property and equipment	4,483	10,704
Deferred income tax expense (benefit)	(4,346)	4,056
Changes in operating assets and liabilities:		
Notes and accounts receivable	91,530	(120,825)
Receivables from related parties	32,554	3,035
Other receivables	4,192	(6,949)
Inventories	64,222	(20,831)
Prepaid expenses and other current assets	(2,675)	75
Notes and accounts payable	(134,717)	41,868
Payables to related parties	5,017	(1,200)
Income tax payable	(38,552)	13,238
Accrued expenses and other current liabilities	66,132	34,233
Accrued pension liability	1,731	1,394
Net cash provided by operating activities	582,548	597,163
Cash flows from investing activities:		
Increase in financial assets at fair value through profit or loss	29,643	(20,040)
Increase in pledged time deposits	(4)	-
Increase in long-term investments	-	(48,160)
Additions to property and equipment	(28,267)	(21,710)
Proceeds from disposal of property and equipment	-	59
Increase in other assets	(651)	(1,617)
Net cash provided by (used in) investing activities	721	(91,468)
Cash flows from financing activities:		
Distribution of cash dividends	(368,395)	(218,154)
Distribution of directors' and supervisor's remuneration and employee bonus	(14,400)	(14,400)
Repurchase of common stock	(201,358)	-
Net cash used in financing activities	(584,153)	(232,554)
Net increase (decrease) in cash and cash equivalents	(884)	273,141
Cash and cash equivalents at beginning of year	927,971	654,830
Cash and cash equivalents at end of year	**$ 927,087**	**927,971**
Additional disclosure of cash flow information:		
Income taxes paid	**$ 64,482**	**45,425**
Supplemental information on noncash investing and financing activities:		
Additions to property and equipment	$ 26,555	36,945
Payables at beginning of year	18,847	3,612
Payables at end of year	(17,135)	(18,847)
Net payment	**$ 28,267**	**21,710**
Translation adjustment on equity method investments	**$ 7,916**	**3,373**

See accompanying notes to nonconsolidated financial statements.

Flytech Technology Co., Ltd.

Notes to Nonconsolidated Financial Statements

December 31, 2008 and 2007

(amounts expressed in thousands of New Taiwan dollars, except for per share information and unless otherwise specified)

1. Organization and Principal Activities

Flytech Technology Co., Ltd. (the "Company") was incorporated on August 13, 1984, as a company limited by shares under the Republic of China ("ROC") Company Act. The Company is engaged in the development, design and manufacture of Book PCs, Net PCs, POS PCs, and IPCs.

As of December 31, 2008 and 2007, the Company had hired 306 and 317 employees, respectively.

2. Summary of Significant Accounting Policies

The Company prepares its nonconsolidated financial statements in accordance with the "Business Entity Accounting Act", the "Regulation on Business Entity Accounting Handling", and generally accepted accounting principles in the Republic of China ("ROC GAAP"). The major accounting policies adopted in preparing the financial statements are summarized below:

(a) Use of estimates

The preparation of the accompanying financial statements requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates.

(b) Foreign currency transactions and translation

The Company's functional and reporting currency is the New Taiwan dollar. Non-derivative foreign currency transactions are recorded at the exchange rates prevailing at the transaction date. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated into New Taiwan dollars using the exchange rates on that date. The resulting unrealized exchange gains or losses from such translations are reflected in the accompanying statements of income. Non-monetary assets and liabilities denominated in foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currency that are measured at fair value are reported at the rate that was in effect when the fair values were determined. Subsequent adjustments to carrying values of such non-monetary assets and liabilities, including the effects of changes in exchange rates, are reported in profit or loss for the period, except that if movement in fair value of a non-monetary item is recognized directly in equity, any foreign exchange component of that adjustment is also recognized directly in equity.

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For equity investments in foreign subsidiaries and investees which are accounted for by the equity method, the differences resulting from translating foreign currency financial statements from their functional currency into the Company's reporting currency are reported as a translation adjustment, a separate component of stockholders' equity.

(c) Principles of classifying assets and liabilities as current or non-current

Cash and cash equivalents and assets that will be held primarily for the purposes of being traded or are expected to be liquidated within 12 months after the balance sheet date are classified as current assets; all other assets are classified as non-current assets.

Liabilities incurred for the purpose of being traded or are expected to be settled within 12 months after the balance sheet date are classified as current liabilities; all other liabilities are classified as non-current liabilities.

(d) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, cash in banks, unrestricted time deposits, negotiable certificates of deposit, and other highly liquid investments which do not have a significant level of market risk from potential interest rate changes.

(e) Financial assets/liabilities at fair value through profit or loss

An instrument is classified as at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. In addition, derivatives that do not meet the criteria for hedge accounting are classified as financial assets at fair value through profit or loss. Derivative transactions are recorded on a trade-date basis. Upon initial recognition, financial instruments are recognized at fair value. Acquisition costs are expensed as incurred. Subsequent to initial recognition, financial assets and liabilities are measured at fair value, and changes therein are recognized in profit or loss.

(f) Allowance for doubtful accounts

Allowance for doubtful accounts is provided based on the aging, quality analysis, and collectibility of notes and accounts receivable.

(g) Inventories

Inventories are stated at the lower of weighted-average cost or market value. Market value represents replacement cost or net realizable value.

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(h) Investments

(i) Equity method investments

Long-term equity investments in which the Company owns 20% or more of the investee’s voting shares, or less than 20% of the investee’s voting shares but is able to exercise significant influence over the investee’s operating and financial policies, are accounted for using the equity method.

When an equity-method investment is disposed of, the difference between the selling price and the book value of the equity method investments is recognized as disposal gain or loss in the accompanying nonconsolidated statements of income. If there are capital surplus and separate components of shareholders’ equity resulting from such equity method investments, they are accounted for as a reduction to disposal gain/loss based on the percentage of investments disposed of.

Unrealized profits or losses from transactions between the Company and equity method investees are deferred and reported as deferred inter-company profits or losses. The profits or losses resulting from depreciable or amortizable assets are recognized over the estimated useful lives of such assets. The profits or losses from other assets are recognized when realized.

When the Company owns more than 50% of an investee’s voting stock, or less than 50% but is able to exercise control over an investee, it becomes the parent of its subsidiary. For general-purpose financial reporting, a parent and its subsidiaries present consolidated financial statements at the end of the half-year and the end of the fiscal year. Commencing from January 1, 2008, the Company is required to compile its first- and third-quarter consolidated financial statements.

(ii) Financial assets carried at cost

Equity investments for which the Company is not able to exercise significant influence over the investees’ operating and financial policies and which cannot be evaluated at fair value are carried at original cost. If there is objective evidence which indicates that an equity investment carried at cost has been impaired, a loss is recognized. A subsequent reversal of such impairment loss is not allowed.

(i) Property, plant and equipment

Property, plant and equipment are stated at acquisition cost. Interest expense related to the construction and purchase of property and equipment is capitalized and included in the cost of the related asset. Significant additions, improvements, and replacements are capitalized. Maintenance and repair costs are expensed in the period incurred. Gains and losses on the disposal of property, plant and equipment are recorded in the nonoperating section in the accompanying nonconsolidated statements of income.

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Commencing from November 20, 2008, the Company capitalized the retirement or recovery obligation for newly acquired property and equipment in accordance with Interpretation (97) 340 issued by the Accounting Research and Development Foundation. A component which is significant in relation to the total cost of the property and equipment and for which a different depreciation method or rate is appropriate should be depreciated separately. The Company regularly evaluates the estimated useful lives, depreciation method and residual value at the end of each year. Changes in the estimated useful lives, depreciation method and residual value are accounted for as changes in accounting estimates and recognized in current profit or loss.

Property, plant and equipment are depreciated over the asset's estimated useful life using the straight-line method. The estimated useful lives of property, plant and equipment are as follows:

1.	Building	50 years
2.	Machinery and equipment	3~11 years
3.	Transportation equipment	4~6 years
4.	Leasehold improvement	4~15 years
5.	Other equipment	2~10 years

(j) Non-financial asset impairment

The Company assesses at each balance sheet date whether there is any indication that an asset 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 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.

(k) Revenue recognition

Revenue from sales of products is recognized when products are delivered to customers and the significant risks and rewards of ownership are transferred. Service revenue is recognized when the service is provided and the amount becomes billable currently.

(l) Share-based payment

The employee stock options that were granted before January 1, 2008, apply Interpretations (92) 070, 071 and 072 of the Accounting Research and Development Foundation. The Company adopts the intrinsic value method to recognize the compensation cost, which is the difference between the market price of the stock and the exercise price of the employee stock option on the measurement date. Any compensation cost should be charged to expense over the employee vesting period and increase stockholders' equity accordingly.

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(m) Treasury stock

Treasury stock is accounted for at acquisition cost. Upon disposal of the treasury stock, the sale proceeds in excess of cost are accounted for as capital surplus—treasury stock. If the sale proceeds are less than cost, the deficiency is accounted for as a reduction of the remaining balance of capital surplus—treasury stock. If the remaining balance of capital surplus—treasury stock is insufficient to cover the deficiency, the remainder is recorded as a reduction of retained earnings. The cost of treasury stock is computed using the weighted-average method.

If treasury stock is retired, the weighted-average cost of the retired treasury stock is written off to offset the par value and the capital surplus premium, if any, of the stock retired. If the weighted-average cost written off exceeds the sum of both the par value and the capital surplus premium, the difference is accounted for as a reduction of capital surplus—treasury stock, or a reduction of retained earnings for any deficiency where capital surplus—treasury stock is insufficient to cover the difference. If the weighted-average cost written off is less than the sum of both the par value and capital surplus premium, if any, of the stock retired, the difference is accounted for as an increase in capital surplus—treasury stock.

(n) Employee bonuses and directors' and supervisors' emoluments

Employee bonuses and directors' and supervisors' emoluments appropriated on or after January 1, 2008, are accounted for in accordance with Interpretation (96) 052 issued by the Accounting Research and Development Foundation. The Company estimates the amounts of employee bonuses and directors' and supervisors' emoluments according to the Interpretation and recognizes it as cost of revenues or operating expenses. Differences between the amount approved in the shareholders' meeting and recognized in the financial statements, if any, are accounted for as changes in accounting estimates and recognized as profit or loss.

(o) Retirement plan

(i) Defined benefit retirement plan

In 1986, the Company established a retirement plan (the "Plan") covering substantially all employees. This plan provides for lump-sum retirement benefits to retiring employees based on length of service, age, and the average salary for the six months before retirement. The Company deposits monthly retirement funds equal to 2% of employees' total salaries with Bank of Taiwan.

The Company has an actuarial calculation of its pension liability under the Plan using the balance sheet 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, and also recognizes the net periodic pension costs using actuarial techniques.

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(ii) Defined contribution retirement plan

Starting from July 1, 2005, pursuant to the ROC Labor Pension Act (the “New System”), employees who elected to participate in the New System or commenced working after July 1, 2005, are subject to a defined contribution plan under the New System. For the defined contribution plan, the Company contributes monthly an amount equal to 6% of each employee’s monthly salary to an individual labor pension fund account. Contributions made for the defined contribution retirement plans are expensed as incurred.

(p) Income taxes

Income taxes are accounted for under the asset and liability method. Deferred income tax is 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, net operating loss carryforwards, and income 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 asset will not be realized, a valuation allowance is recognized accordingly.

Classification of deferred income tax assets and liabilities as current or noncurrent is based on the classification of the related asset or liability. If the deferred income tax asset or liability is not directly related to a specific asset or liability, then the classification is based on the asset’s or liability’s expected realization date.

The investment tax credits granted for purchases of equipment, research and development expenses, and training expenses are recognized in the current period.

According to the ROC Income Tax Act, undistributed earnings, if any, earned after December 31, 1997, are subject to an additional 10% retained earnings tax. The surtax is accounted for as income tax expense in the following year when the stockholders decide not to distribute the earnings.

(q) Earnings per common share

Earnings per common share are based on net income divided by the weighted-average number of common shares outstanding. The increase in the number of outstanding shares through distribution of stock dividends from retained earnings or capital surplus is included in the outstanding shares retroactively.

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Stock options are dilutive potential common stock. The computation of diluted earnings per share is based on the above-mentioned weighted-average number of outstanding common shares plus the weighted-average number of common shares which would be issued on the conversion of all the dilutive potential common shares into common shares.

Additionally, as the Company can choose to distribute employee bonuses by issuing common shares, the computation of diluted earnings per share is based on the assumption that all employee bonuses are distributed in common shares as of the balance sheet date.

3. Changes in Accounting Policies

Effective January 1, 2008, the Company recognized employee bonuses and directors' and supervisors' remuneration in accordance with Interpretation (96) 052 issued by the Accounting Research and Development Foundation. The change in accounting principle decreased the Company's net income by NT$52,173 and earnings per share by NT$0.62.

4. Significant Account Disclosures

(a) Cash and cash equivalents

	2008	2007
Cash on hand	$ 729	258
Cash in banks	464,058	385,585
Time deposit	462,300	542,128
	$ 927,087	**927,971**

(b) Financial assets

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

	2008	2007
Financial assets at fair value through profit or loss－current:		
Open-end mutual fund	$ -	31,329
Foreign currency forward contract	572	-
	$ 572	**31,329**
Financial assets carried at cost－noncurrent:		
Equity securities－Taiwan Video System	$ 1,286	1,286
－Mythology Tech Express Inc.	22,400	22,400
	$ 23,686	**23,686**

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Flytech Technology Co., Ltd.

Notes to Non-consolidated Financial Statements

As of December 31, 2008, the Company had the following foreign currency forward contracts outstanding:

	December 31, 2008		
	Notional amount (in thousands)	Contract period	Fair value
USD CALL/NTD PUT	USD 2,000	2008/11/18~2009/01/23	$ 572

As of December 31, 2007, the Company had no foreign currency forward contract outstanding.

In 2008 and 2007, the Company recognized a remeasurement gain (loss) amounting to $(1,114) and $837, respectively, on the mutual fund and foreign currency forward contract.

In 2007, the Company recognized an impairment loss on the value of its investments in Mythology Tech Express Inc. and Taiwan Video System amounting to $2,800.

(c) Inventories

	2008	2007
Raw materials	$ 75,720	105,825
Work in process	94,968	103,814
Finished goods	8,659	30,070
Merchandise	1,531	2,364
Less: provision for obsolescence and net realizable value	(24,900)	(21,873)
	$ 155,978	220,200

(d) Equity method investments

	2008			
Investee	Percentage of ownership (%)	Investment cost	Book value	Investment income (loss)
Flytech USA International Co., Ltd.	100.00	$ 38,652	44,468	(563)
Flytech JP International Co., Ltd.	100.00	3,446	3,457	(150)
Flytech HK International Co., Ltd.	100.00	10,392	58,680	8,389
Flytech CN International Co., Ltd.	100.00	69,089	76,788	3,120
Flycom Investment Co., Ltd.	100.00	5,000	4,989	(11)
		$ 126,579	188,382	10,785

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Flytech Technology Co., Ltd.

Notes to Non-consolidated Financial Statements

	2007			
Investee	Percentage of ownership (%)	Investment cost	Book value	Investment income (loss)
Flytech USA International Co., Ltd.	100.00	$ 38,652	44,476	651
Flytech JP International Co., Ltd.	100.00	3,446	3,253	(706)
Flytech HK International Co., Ltd.	100.00	10,392	48,945	14,484
Flytech CN International Co., Ltd.	100.00	69,089	68,007	(926)
		$ 121,579	**164,681**	**13,503**

	2008	2007
Prepayments for long-term investments:		
Flycom Investment Co., Ltd.	$ -	5,000

In 2007, the Company invested US$550,000 in Flytech USA International Co., Ltd.

In the fourth quarter of 2007, the Company invested $5,000 in Flycom Investment Co., Ltd. Registration of the investee was approved by the governmental authorities in January 2008.

(e) Short-term borrowings

Unused credit facilities as of December 31, 2008 and 2007, amounted to $264,325 and $262,215, respectively. The Company pledged time deposits to obtain the credit facilities. Refer to note 6 for a description of pledged assets. In 2008 and 2007, the Company had no short-term borrowings.

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(f) Retirement plan

(1) Defined benefit retirement plan

The following table sets forth the benefit obligation and accrued pension liability related to the Company's defined benefit pension plans:

	2008	2007
Benefit obligation:		
Vested benefit obligation	$ (920)	(958)
Nonvested benefit obligation	(29,227)	(24,957)
Accumulated benefit obligation	(30,147)	(25,915)
Projected compensation increases	(10,594)	(6,284)
Projected benefit obligation	(40,741)	(32,199)
Plan assets at fair value	15,459	14,670
Funded status	(25,282)	(17,529)
Unrecognized transition obligation	1,087	1,208
Unrecognized net pension loss	14,257	8,114
Adjustment to recognize minimum liability	(4,750)	(3,037)
Accrued pension liability	**$ (14,688)**	**(11,244)**

The components of the net periodic pension cost for 2008 and 2007 are summarized as follows:

	2008	2007
Service cost	$ 798	767
Interest cost	1,126	959
Expected return on plan assets	(388)	(373)
Amortization of net transition obligation	121	121
Amortization of pension loss	326	167
Net periodic pension cost	**$ 1,983**	**1,641**

Major assumptions used to determine the above information:

	2008	2007
Discount rate	2.50%	3.50%
Rate of increase in future compensation levels	2.00%	2.00%
Expected long-term rate of return on plan assets	2.50%	2.50%

(2) Defined contribution retirement plan

In 2008 and 2007, pension cost under the defined contribution pension plan was $8,200 and $7,695, respectively.

(g) Income taxes

(Continued)

Flytech Technology Co., Ltd.

Notes to Non-consolidated Financial Statements

(1) The Company is subject to ROC income tax at a maximum rate of 25%, and is subject to the "Income Basic Tax Act" commencing from January 1, 2006.

(2) In accordance with the Statute for Upgrading Industries, the Company obtained governmental approval for tax exemption on all products manufactured by the Company for 5 years starting from 2005.

(3) The income taxes for the years ended December 31, 2008 and 2007, are summarized as follows:

		2008	2007
Current income tax expense	$	20,589	54,607
Deferred income tax expense (benefit)		(4,346)	4,056
	$	**16,243**	**58,663**

(4) The differences between the expected income tax expense based on the pre-tax income at the Company's statutory income tax rate and the actual income tax expense reported in the non-consolidated statements of income for the years ended December 31, 2008 and 2007, are summarized as follows:

		2008	2007
Expected income tax expense	$	121,674	169,017
Tax-exempt income		(76,187)	(93,000)
Investment tax credits		(20,902)	(10,253)
Prior-year income tax adjustment		(8,758)	261
Others		416	4,389
Change in valuation allowance for deferred income tax assets		-	(11,751)
	$	**16,243**	**58,663**

(5) The components of the deferred income tax expense (benefit) are summarized as follows:

		2008	2007
Investment tax credits	$	-	11,751
Inventory provisions		(757)	375
Investment gain recognized under equity method		2,696	3,375
Unrealized inter-company profits		(216)	870
Change in valuation allowance for deferred income tax assets		-	(11,751)
Warranty provisions		(2,359)	-
Unrealized incentive		(2,268)	-
Others		(1,442)	(564)
	$	**(4,346)**	**4,056**

(6) The components of deferred income tax assets (liabilities) as of December 31, 2008 and 2007, are summarized as follows:

(Continued)

Flytech Technology Co., Ltd.

Notes to Non-consolidated Financial Statements

		2008	2007
Deferred income tax assets－current:			
Inventory provisions	$	6,225	5,468
Unrealized inter-company profits		2,106	1,890
Warranty provisions		5,666	3,307
Accrued incentive		2,445	-
Others		712	9
Deferred income tax liabilities:			
Remeasurement gain on financial assets		(143)	(255)
Net deferred income tax assets－current	**$**	**17,011**	**10,401**
Deferred income tax assets－noncurrent:			
Accrued pension liabilities	$	(2,405)	1,972
Deferred income tax liabilities－noncurrent:			
Investment income recognized under equity method		(13,373)	(10,676)
Net deferred income tax liabilities－noncurrent	**$**	**(10,968)**	**(8,704)**

(7) Imputation credit account (“ICA”) and creditable ratio

As of December 31, 2008 and 2007, the information related to the integrated tax system was as follows:

		2008	2007
ICA balance	**$**	**44,357**	**24,974**

The Company’s estimated creditable ratio for the 2008 earnings distribution to ROC resident stockholders is approximately 6.44%, and the actual creditable ratio for the 2007 earnings distribution to ROC resident stockholders was 6.83%.

		2008	2007
Unappropriated earnings:			
Before January 1, 1998	$	177	177
From January 1, 1998		688,830	760,049
	$	**689,007**	**760,226**

(8) The ROC tax authorities have examined the Company’s income tax returns for all fiscal years through December 31, 2005.

(Continued)

(h) Stockholders' equity

(1) Common stock

As of December 31, 2008 and 2007, the Company's authorized common stock consisted of 120,000,000 shares, at $10 par value per share, of which 83,547 and 73,679 thousand shares, respectively, were issued and outstanding.

In June 2008, the Company's stockholders resolved to appropriate $98,680 from retained earnings as of December 31, 2007, and issue a total of 9,867,909 common shares as stock dividends and employee bonuses. The issuance of common stock was approved by and registered with the governmental authorities.

In June 2007, the Company's stockholders resolved to appropriate $113,494 from retained earnings of as of December 31, 2006, and issue a total of 11,349,447 common shares as stock dividends and employee bonuses. The issuance of common stock was approved by and registered with the governmental authorities.

(2) Treasury stock

On October 24, 2008, the Company's directors resolved to buy back the Company's common shares according to Article 28-2 of Securities and Exchange Act. The movements of treasury stock in 2008 were as the follows:

(expressed in thousand shares)

	Beginning shares	**Increase**	**Decrease**	**Ending shares**
To maintain the shareholders' equity	-	4,853	-	4,853

According to the Securities and Exchange Act, the number of treasury shares shall not exceed 10% of the number of shares issued and outstanding. Moreover, the total amount of treasury stock shall not exceed the sum of retained earnings, paid-in capital in excess of par value, and realized capital surplus. As of December 31, 2008, the number of shares acquired was 4,853 thousand shares, with a total cost of NT$201,358, which was in compliance with the Securities and Exchange Act.

According to the Securities and Exchange Act, treasury stock cannot be collateralized. In addition, treasury shares held do not bear shareholder rights.

(Continued)

(3) Capital surplus

As of December 31, 2008 and 2007, the components of capital surplus were as follows:

	2008	2007
Gain on disposal of property and equipment	$ 15	15
Share premium:		
Paid-in common stock in excess of par value	75,000	75,000
Convertible bonds converted in excess of the common stock's par value	157,531	157,531
	$ 232,546	232,546

According to the ROC Company Act, realized capital surplus can be transferred to common stock after deducting accumulated deficit, if any. Realized capital surplus includes share premium and donations from others.

(4) Special reserve

A special reserve equivalent to the net debit balance of the other components of stockholders' equity shall be made from unappropriated earnings pursuant to existing regulations promulgated by the Securities and Futures Bureau. Any special reserve appropriated may be reversed to the extent that the net debit balance is reversed.

The Company incurred a net debit balance resulting from translation adjustment. The special reserve as of December 31, 2008 and 2007, amounted to $1,432 and $2,976, respectively.

(5) Legal reserve and appropriation of earnings

The Company's articles of incorporation stipulate that the balance of annual income after deducting accumulated deficit, if any, must be set aside as a legal reserve equal to 10% of such balance. The remaining balance, if any, must be distributed as follows:

- 3% to 15% as employee bonus;
- 3% or less as remuneration for directors and supervisors;
- The remainder as dividends and bonuses for stockholders.

In view of the overall economic environment, the industry development, the Company's long-term capital policy, and stockholders' demands for cash, the Company has adopted a consistent dividend policy. Cash dividends distributed would not be lower than 10% of total stock and cash dividend distributions.

For the year ended December 31, 2008, the Company recognized employee bonus and

(Continued)

directors' and supervisors' emoluments amounting to NT$52,173, net of tax. The computation for the employee bonuses distributed in stock shares was based on the closing price of the day prior to the stockholders' meeting, considering the ex-rights and ex-dividend effect. The difference between the amount approved in the shareholders' meeting and recognized in the financial statements, if any, is accounted for as changes in accounting estimates and recognized as profit or loss in 2009.

The appropriation of 2007 earnings approved by the shareholders in a meeting on June 13, 2008, was as follows:

	2007
Employee bonus－stock (at par value)	$ 25,000
Employee bonus－cash	12,000
Directors' and supervisors' remuneration	2,400
	$ 39,400

The appropriation mentioned above did not differ from the resolution approved by the directors. The appropriation of 2008 earnings is subject to the Company's directors' and shareholders' resolutions. After the resolutions, related information can be obtained from the public information website.

(6) Employee stock option plan

The Company adopted an employee stock option plan approved by the Company's directors in a meeting on November 6, 2007, to issue 3,000 units of employee stock options with the right for each option to purchase 1,000 shares of the Company's common stock. The Company issued all the stock options on December 27, 2007. The options are valid for 7 years.

The major terms of the plan are summarized as follows:

(i) Exercise price: $100 per share.

(ii) Vesting period: The granted and issued options are eligible to be exercised in 3 installments according to the following schedule:

Exercisable date	Accumulated exercisable percentage
Dec. 2009	25%
Dec. 2010	50%
Dec. 2011	75%
Dec. 2012	100%

(Continued)

(iii) Shares to be issued: New common stock.

The Company adopts the intrinsic value method to account for its stock-based employee compensation plan. The Company did not recognize any compensation cost in 2007 as the market value of the stock equaled the exercise price at the measurement date.

Had the Company determined compensation expense at the grant date based on the fair value of the stock options, total compensation cost would be $94,800, which would be amortized over a period of 5 year staring from 2008. The assumptions of the options using the Black-Scholes option pricing model at the date of grant were as follows:

Expected dividend yield	5.00%
Expected volatility of the stock price	49.957%
Risk-free interest rate	2.635%
Expected life	7 years

As of December 31, 2008, information on outstanding stock options was as follows (expressed in thousand shares/New Taiwan dollars):

	Options outstanding			**Options exercisable**	
Range of exercise prices	**Number of outstanding options**	**Weighted-average remaining contractual life**	**Weighted-average exercise price**	**Shares (thousand)**	**Weighted-average exercise price**
$ 100.00	3,000	6 years	$ 100.00	-	-

In 2008, the movements in number of stock options outstanding is summarized as follows:

Stock options granted	**Quantity (in thousands)**	**Weighted-agverage Exercise price (in dollars)**
Balance at beginning of the year	3,000	$ 100
Exercised	-	-
Balance at end of year	3,000	$ 100

(Continued)

Flytech Technology Co., Ltd.

Notes to Non-consolidated Financial Statements

(i) Earnings per common share ("EPS")

For the years ended December 31, 2008 and 2007, the computation of earnings per share was as follows:

	2008				
	Before income taxes	After income taxes	Weighted-average number of outstanding shares of common stock (in thousands)	EPS (in dollars) Before income taxes	EPS (in dollars) After income taxes
Basic EPS - retroactively adjusted:					
Net income	$ 486,695	470,452	83,079	5.86	5.66
Diluted EPS:					
Effect of dilutive potential common shares:					
Employee bonus	-	-	6,143		
Net income	**$ 486,695**	**470,452**	**84,222**	**5.78**	**5.59**

	2007				
	Before income taxes	After income taxes	Weighted-average number of outstanding shares of common stock (in thousands)	EPS (in dollars) Before income taxes	EPS (in dollars) After income taxes
Basic EPS - retroactive:					
Net income	**$ 676,068**	**617,405**	**83,547**	**8.09**	**7.39**

(Continued)

(j) Disclosure of financial instruments

(1) As of December 31, 2008 and 2007, fair values of financial assets and liabilities were as follows:

	2008		2007	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Financial assets:				
Cash and cash equivalents	$ 927,087	927,087	927,971	927,971
Financial assets at fair value through profit or loss－open-end mutual fund	-	-	31,329	31,329
Financial asset at fair value through profit or loss －foreign currency forward contract	572	572	-	-
Receivables	378,539	378,539	506,815	506,815
Pledged time deposits	30,104	30,104	30,100	30,100
Financial assets carried at cost	23,686	-	23,686	-
Financial liabilities:				
Payables	162,239	162,239	291,939	291,939
Income tax payable	-	-	38,552	38,552

The following methods and assumptions were used to estimate the fair value of each class of financial instruments.

(i) The carrying amounts, as reflected in the balance sheets, of cash and cash equivalents, pledged time deposits, receivables (including notes and accounts receivable, receivables from related parties and other receivables), payable (including accounts payable and payables to related parties), and income tax payable approximate their fair values because of the short-term maturity of these instruments.

(ii) Financial assets at fair value through profit or loss－open-end mutual fund

The net asset value of the mutual fund at the balance sheet date is used as the fair value.

(iii) Financial assets at fair value through profit or loss－foreign currency forward contract

The fair value of the Company’s derivative financial instruments are estimated using a valuation method. The assumptions used should be the same as those used by financial market traders when quoting their prices, which are readily available to the Company.

(iv) Financial assets carried at cost－non-current

Financial assets carried at cost represent equity investments in non-publicly traded securities. Management believes that it is not practicable to estimate the fair value of these investments since market information is not readily available.

(2) Disclosure of financial risk

(i) Market risk

Mutual funds were recorded by the Company as “financial assets at fair value through profit or loss－current” and were evaluated by fair value. Therefore, the Company was exposed to the risk of market price fluctuation.

The Company entered into foreign currency forward contracts to hedge exchange risk resulting from assets and liabilities denominated in foreign currency. The gain and loss resulting from the change in the exchange rate of the forward contracts was offset by that from the hedged assets and liabilities. Therefore, the market risk related to the changes in exchange rates was not considered significant.

(ii) Credit risk

The Company’s credit risk is mainly from potential breach of contract by the counter-party associated with cash and cash equivalents, equity investments and accounts receivable. The Company usually deposits cash with various financial institutions and hold equity investment in the form of mutual funds issued by companies with high credit quality in order to control its exposure to credit risk. As a result, the concentration of credit risk related to the Company’s cash and equity investments is not considered significant.

The Company’s accounts receivable were concentrated on certain customers. As of December 31, 2008 and 2007, two clients accounted for 51% and 63% respectively, of the Company’s accounts receivable balance. To reduce the Company’s concentration of credit risk, the Company made a continuous assessment of the financial position of the clients and transferred the risk through insurance.

(iii) Liquidity risk

The Company’s capital and operating funds are sufficient to reimburse all obligations. Therefore, the Company did not have liquidity risk.

(Continued)

Flytech Technology Co., Ltd.

Notes to Non-consolidated Financial Statements

5. Transactions with Related Parties

(a) Name of and relationship with related parties

Name	Relationship
Flytech USA International Co., Ltd. (“Flytech USA BVI”)	Subsidiary of the Company
Flytech JP International Co., Ltd. (“Flytech JP BVI”)	Subsidiary of the Company
Flytech HK International Co., Ltd. (“Flytech HK BVI”)	Subsidiary of the Company
Flytech CN International Co., Ltd. (“Flytech CN BVI”)	Subsidiary of the Company
Flycom Investment Co., Ltd.	Subsidiary of the Company
Flytech Technology (U.S.A.), Inc. (“Flytech USA”)	Subsidiary of Flytech USA BVI
Flytech Technology Japan Ltd. (“Flytech Japan”)	Subsidiary of Flytech JP BVI
Flytech Technology Hong Kong Ltd. (“Flytech HK”)	Subsidiary of Flytech HK BVI
Flytech Technology (Shang Hai) Co., Ltd. (“Flytech CN”)	Subsidiary of Flytech CN BVI
Directors, supervisors, general manager and vice presidents	The Company’s major management

(b) Significant transactions with related parties

(1) Sales, and related notes and accounts receivable

Sales to:

	2008		2007	
	Amount	Percentage of net sales	Amount	Percentage of net sales
Flytech USA	$ 145,219	6	123,983	5
Flytech HK	99,923	4	96,215	3
Flytech CN	36,771	2	27,809	1
Other	-	-	319	-
	$ 281,913	12	248,326	9

Trading terms and selling prices with related parties are decided by the economic environment and market competition of the respective region. Trading terms with related parties require payment within 60 to 90 days. Trading terms with third parties require payment within 45 to 60 days.

As of December 31, 2008 and 2007, the unrealized profit on the above inter-company transactions amounting to $8,425 and $7,562, respectively, was recorded as accrued expenses and other current liabilities in the accompanying balance sheets.

(Continued)

Flytech Technology Co., Ltd.

Notes to Non-consolidated Financial Statements

Notes and accounts receivable from:

	2008		2007	
	Amount	**Percentage of notes and accounts receivable**	**Amount**	**Percentage of notes and accounts receivable**
Flytech USA	$ 13,207	4	38,509	8
Flytech HK	14,621	4	22,261	5
Flytech CN	310	-	965	-
	$ 28,138	8	61,735	13

(2) Purchases, and related notes and accounts payable

Purchases from

	2008		2007	
	Amount	**Percentage of net purchases**	**Amount**	**Percentage of net purchases**
Flytech HK	$ -	-	98	-

As of December 31, 2007, the related accounts payable resulting from the above-mentioned transactions were fully repaid.

(3) Royalty income

In 2008 and 2007, the Company entered into a product technology license agreement with Flytech HK. In accordance with the agreement, Flytech HK is required to pay the Company royalties based on a certain percentage of sales. Total royalty income (recorded as nonoperating income and gains) for the years ended December 31, 2008 and 2007, was $8,993 and $7,950, respectively. As of December 31, 2008 and 2007, outstanding receivables amounted to $8,993 and $7,950, respectively.

(4) Commission expenses and commission payable

Commission expenses resulting from related parties' introducing business to the Company for the years ended December 31, 2008 and 2007, were as follows:

	2008	**2007**
Flytech USA	$ 17,221	13,777
Flytech Japan	-	994
Flytech CN	9	-
	$ 17,230	14,771

Commission payable to:

(Continued)

Flytech Technology Co., Ltd.

Notes to Non-consolidated Financial Statements

	2008	2007
Flytech USA	$ 6,130	1,996

(5) Summary of related-party receivables

Receivables from related parties as of December 31, 2008 and 2007, resulting from the above transactions are summarized as follows:

	2008	2007
Accounts receivable	$ 28,138	61,735
Royalty receivable	8,993	7,950
	$ 37,131	69,685

(6) Summary of related-party payables

Payables to related parties as of December 31, 2008 and 2007, resulting from the above transactions are summarized as follows:

	2008	2007
Commissions payable	$ 6,130	1,996
Advances from related parties	944	61
	$ 7,074	2,057

(7) Summary of salaries and other remuneration of the Company's major management

For the years ended December 31, 2008 and 2007, information related to salaries and other remuneration of major management was as follows:

	2008	2007
Salaries, cash awards and special allowances	$ 10,939	10,944
Business expense	2,456	2,466
Employee bonus	9,800	40,132
	$ 23,195	53,542

The estimated employee bonus and directors' and supervisors' remuneration which were discussed in note 4(h) include the above amounts.

(Continued)

Flytech Technology Co., Ltd.

Notes to Non-consolidated Financial Statements

6. Pledged Assets

Pledged assets	Pledged to secure	2008	2007
Time deposits	Credit facilities for loans	$ 30,000	30,000
Time deposits	Customs duty	104	100
		$ 30,104	30,100

7. Commitments

(a) In June 1991, the Company entered into a license agreement with IBM USA for using "Information Handling System" ("IHS") patented technology. In accordance with the agreement, the Company is required to pay IBM royalties related to sales of products that use IBM IHS patents.

(b) The Company has entered into an operating lease agreement for its plant. Minimum lease payments are summarized as follows:

2009	$ 14,460
2010	4,820
	$ 19,280

8. Significant Disaster Loss: none.

9. Significant Subsequent Events: none.

10. Other

The personnel expenses, depreciation, and amortization for 2008 and 2007 are summarized as follows:

	2008			2007		
	Cost of sales	**Operating expenses**	**Total**	**Cost of sales**	**Operating expenses**	**Total**
Personnel expenses:						
Salaries and wages	$ 81,633	88,841	170,474	82,001	91,587	173,588
Labor insurance	6,253	6,195	12,448	5,869	6,175	12,044
Pension	4,023	6,160	10,183	3,728	5,608	9,336
Other	5,351	3,288	8,639	4,579	2,837	7,416
Depreciation	23,902	7,163	31,065	24,847	6,904	31,751
Amortization	-	1,131	1,131	-	765	765