Flytech Technology Co., Ltd.

Nonconsolidated Financial Statements

December 31, 2007 and 2006
(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, 2007 and 2006, 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, 2007 and 2006, 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.

Taipei, Taiwan (the Republic of China)
March 7, 2008

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, 2007 and 2006
(expressed in thousands of New Taiwan dollars)

Assets	2007	2006
Current assets:		
Cash and cash equivalents (note 4(a))	$ 927,971	654,830
Financial assets at fair value through profit or loss—current (note 4(b))	31,329	10,452
Notes and accounts receivable, net of allowance for doubtful accounts of $4,722 and $3,623 as of December 31, 2007 and 2006, respectively	405,740	284,915
Receivables from related parties (note 5)	69,685	72,720
Other receivables	31,390	24,441
Inventories (note 4(c))	220,200	199,369
Prepaid expenses and other current assets	11,015	11,090
Deferred income tax assets—current (note 4(i))	10,401	10,686
Pledged time deposits (note 6)	30,100	30,100
Total current assets	1,737,831	1,298,603
Investments:		
Financial assets carried at cost—noncurrent (note 4(b))	23,686	1,286
Equity method investments (note 4(d))	164,681	129,845
Prepayments for long-term investments (note 4(b))	5,000	-
Total investments	193,367	131,131
Property, plant and equipment:		
Land	131,630	131,630
Building	178,150	178,150
Machinery and equipment	72,295	70,882
Transportation equipment	8,869	9,593
Furniture and fixtures	16,461	12,844
Leasehold improvement	14,124	12,274
Miscellaneous equipment	79,968	89,438
Prepayments for purchases of equipment	8,339	2,305
	509,836	507,116
Less: accumulated depreciation	(104,373)	(96,084)
Net property, plant and equipment	405,463	411,032
Deferred pension cost (note 4(g))	1,208	1,020
Other assets	7,047	6,195
Total assets	$ 2,344,916	1,847,981

Liabilities and Stockholders' Equity	2007	2006
Current liabilities:		
Financial liabilities at fair value through profit or loss—current (note 4(f))	$ -	16
Accounts payable	289,882	248,014
Payables to related parties (note 5)	2,057	3,257
Income tax payable	38,552	25,314
Accrued expenses and other current liabilities	129,498	80,030
Total current liabilities	459,989	356,631
Other liabilities:		
Accrued pension liability (note 4(g))	11,244	7,833
Deferred income tax liabilities—noncurrent (note 4(i))	8,704	4,933
Total other liabilities	19,948	12,766
Total liabilities	479,937	369,397
Stockholders' equity (note 4(j)):		
Common stock	736,790	623,296
Capital surplus	232,546	232,546
Legal reserve	133,873	91,685
Special reserve	2,976	4,299
Unappropriated earnings	760,226	529,734
Translation adjustment	397	(2,976)
Net losses not recognized as retirement costs	(1,829)	-
Total stockholders' equity	1,864,979	1,478,584
Commitments (note 7)		
Total liabilities and stockholders' equity	$ 2,344,916	1,847,981

See accompanying notes to nonconsolidated financial statements.

Flytech Technology Co., Ltd.

Nonconsolidated Statements of Income

For the years ended December 31, 2007 and 2006

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

	2007	2006
Net sales (note 5)	$ 2,676,727	2,042,320
Cost of sales (notes 5 and 10)	(1,764,747)	(1,378,419)
Gross profit	911,980	663,901
Change in unrealized inter-company profits	3,482	(6,999)
Realized gross profit	915,462	656,902
Operating expenses (notes 5 and 10):		
Selling and administrative	(187,396)	(143,450)
Research and development	(69,538)	(70,891)
	(256,934)	(214,341)
Operating income	658,528	442,561
Nonoperating income and gains:		
Interest income	11,199	5,957
Investment gain recognized under equity method (note 4(d))	13,503	7,277
Foreign currency exchange gain, net	-	1,658
Other income, net (note 5)	11,633	8,913
	36,335	23,805
Nonoperating expense and loss:		
Interest expense	-	(563)
Loss on disposal of property and equipment	(10,704)	(508)
Foreign currency exchange loss, net	(2,797)	-
Loss on obsolete and slow-moving inventories	(2,475)	(21,380)
Impairment loss on financial assets	(2,800)	(214)
Other expense	(19)	-
	(18,795)	(22,665)
Income before income taxes	676,068	443,701
Income taxes (note 4(i))	(58,663)	(21,819)
Net income	**$ 617,405**	**421,882**

	2007 Before income tax	2007 After income tax	2006 Before income tax	2006 After income tax
Earnings per share (note 4(k))				
Basic earnings per share－retroactive	**$ 9.18**	**8.38**	**6.12**	**5.82**

See accompanying notes to nonconsolidated financial statements.

Flytech Technology Co., Ltd.

Nonconsolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2007 and 2006
(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	Total
Balance at January 1, 2006	$ 504,092	153,515	65,667	8,597	365,137	(3,974)	(325)	1,092,709
Appropriation approved by the stockholders (note 4(j)):								
Legal reserve	-	-	26,018	-	(26,018)	-	-	-
Reversal of special reserve	-	-	-	(4,298)	4,298	-	-	-
Stock dividends and employee bonus paid in stock	91,812	-	-	-	(91,812)	-	-	-
Cash dividends	-	-	-	-	(131,353)	-	-	(131,353)
Directors' and supervisors' remuneration and employee bonus	-	-	-	-	(12,400)	-	-	(12,400)
Convertible bonds converted into common stock and capital surplus	27,392	79,031	-	-	-	-	-	106,423
Net income for 2006	-	-	-	-	421,882	-	-	421,882
Translation adjustments on long-term investments	-	-	-	-	-	998	-	998
Adjustment to recognize minimum pension liability	-	-	-	-	-	-	325	325
Balance at December 31, 2006	623,296	232,546	91,685	4,299	529,734	(2,976)	-	1,478,584
Appropriation approved by the stockholders (note 4(j)):								
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 recognize 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

See accompanying notes to nonconsolidated financial statements.

Flytech Technology Co., Ltd.

Nonconsolidated Statements of Cash Flows

For the years ended December 31, 2007 and 2006
(expressed in thousands of New Taiwan dollars)

		2007	2006
Cash flows from operating activities:			
Net income	$	617,405	421,882
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization		32,516	36,018
Provision for redemption of convertible bonds		-	496
Investment gain recognized under equity method		(13,503)	(7,277)
Impairment (evaluation gain) on financial assets		1,947	(235)
Loss on disposal of property and equipment		10,704	508
Prepayments for purchases of equipment transferred to cost and operating expense		-	2,170
Net deferred income tax expense (benefit)		4,056	(4,069)
Changes in operating assets and liabilities:			
Notes and accounts receivable		(120,825)	(76,659)
Receivables from related parties		3,035	(25,518)
Other receivables		(6,949)	(2,472)
Inventories		(20,831)	(39,086)
Prepaid expenses and other current assets		75	(1,597)
Notes and accounts payable		41,868	106,504
Payables to related parties		(1,200)	(626)
Income tax payable		13,238	25,314
Accrued expenses and other current liabilities		34,233	23,675
Accrued pension liability		1,394	1,373
Net cash provided by operating activities		597,163	460,401
Cash flows from investing activities:			
Increase in financial assets at fair value through profit or loss		(20,040)	(9,987)
Increase in pledged time deposits		-	(100)
Increase in long-term investment		(48,160)	-
Additions to property and equipment		(21,710)	(23,338)
Proceeds from disposal of property and equipment		59	-
Increase in other assets		(1,617)	(1,302)
Net cash used in investing activities		(91,468)	(34,727)
Cash flows from financing activities:			
Decrease in guarantee deposit received		-	(200)
Distribution of cash dividends		(218,154)	(131,353)
Distribution of directors' and supervisor's remuneration and employee bonus		(14,400)	(12,400)
Net cash used in financing activities		(232,554)	(143,953)
Net increase in cash and cash equivalents		273,141	281,721
Cash and cash equivalents at beginning of year		654,830	373,109
Cash and cash equivalents at end of year	**$**	**927,971**	**654,830**
Additional disclosure of cash flow information:			
Interest paid	**$**	**-**	**67**
Income taxes paid	**$**	**45,425**	**574**
Supplemental information on noncash investing and financing activities:			
Additions to property and equipment	$	36,945	18,312
Payables at beginning of year		3,612	8,638
Payables at end of year		(18,847)	(3,612)
Net payment	**$**	**21,710**	**23,338**
Convertible bonds transferred to common stock and capital surplus	**$**	**-**	**106,423**
Translation adjustment on long-term equity investments	**$**	**3,373**	**998**

See accompanying notes to nonconsolidated financial statements.

Flytech Technology Co., Ltd.

Notes to Nonconsolidated Financial Statements

December 31, 2007 and 2006
(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, 2007 and 2006, the Company had hired 317 and 287 employees, respectively.

2. Summary of Significant Accounting Policies

The Company prepares its nonconsolidated financial statements in accordance 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 ("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 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; otherwise, they 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; otherwise, they 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 and other highly liquid investments which do not have a significant level of market risk from potential interest rate changes.

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

The Company's investments in open-end mutual funds are classified as financial assets at fair value through profit or loss. The Company adopted transaction-date accounting for financial instrument transactions. Financial assets at fair value through profit or loss are measured at fair value and changes therein are recognized in profit or loss. The related trading costs are recognized as expenses of the current period. The fair value of open-end mutual funds is based on the net asset value of the mutual funds at the balance sheet date.

(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.

(ii) Financial assets carried at cost

Equity investments 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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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) Asset impairment

The Company assesses at each balance sheet date whether there is any indication that a long-lived 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) Derivative financial instruments and hedging activities

The Company uses foreign currency forward contracts to hedge its exposure to foreign exchange arising from operating activities. Since the derivative financial instruments do not meet the criteria for hedge accounting, they are accounted for under "financial assets/liabilities at fair value through profit or loss". Changes in the fair value are recognized in profit or loss in the accompanying nonconsolidated statements of income.

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(m) Employee stock option plan

The Company adopts the intrinsic value method to account for its stock-based employee compensation plan. The measurement date of the compensation cost is the day when the stock option is granted and the exercise price is certain. The compensation cost is based on the market value of the stock less the exercise price, multiplied by the number of stock options granted. If the stock options are granted to employees for their past service, the related compensation cost is recognized as expense immediately in the accompanying nonconsolidated statements of income. If the stock options are granted to employees for their future service, the related compensation cost is amortized as expense over the service period.

The above calculation is based on the assumption that all of the stock options are vested, and is adjusted accordingly when the stock options are recalled. If an employee fails to complete the expected service years after the stock options are given, the Company will revoke his options and stop recognizing such compensation cost. Any compensation cost already recognized will be adjusted as current year gain. No retroactive adjustment will be made when the stock options expire.

(n) 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 the Central Trust of China (merged with Bank of Taiwan in July 2007) in accordance with the Labor Standards Law.

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.

(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

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monthly salary to an individual labor pension fund account. Contributions made for the defined contribution retirement plans are expensed as incurred.

(o) Convertible bonds

Convertible bonds issued by the Company comprise a financial liability and a convertible option that can be converted into common shares at the option of the holder. According to ROC SFAS No. 36 "Financial Instruments: Disclosure and Presentation", they should be recognized as compound financial instruments. These instruments are made up of a host debt instrument with an embedded derivative, which represents a written call option on the entity's shares. The embedded derivative should be accounted for separately from the host contract. However, following the interpretation of the ROC Accounting Research and Development Foundation, for compound financial instruments issued by the Company before January 1, 2006, the Company could choose whether to separate from the host contract. The Company decided not to split host debt instruments with an embedded derivative. Premiums on redemption of convertible bonds are amortized using the effective-interest method over the outstanding period.

(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.

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(q) Earnings per share of common stock

Earnings per 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.

Convertible bonds are dilutive potential common stock. The computation of diluted earnings per share is based on the abovementioned 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.

3. Changes in Accounting Policies

The Company adopted SFAS No. 34 "Financial Instruments: Recognition and Measurement" and SFAS No. 36 "Financial Instruments: Disclosure and Presentation" starting from January 1, 2006. The Company classified financial instruments in accordance with the purpose of holding and measured them at fair value. These accounting changes do not have significant impact on the 2006 nonconsolidated financial statements.

4. Significant Account Disclosures

(a) Cash and cash equivalents

	2007	2006
Cash on hand	$ 258	313
Cash in banks	385,585	378,919
Time deposit	542,128	275,598
	$ **927,971**	**654,830**

(b) Financial assets

As of December 31, 2007 and 2006, the financial instruments held by the Company were as follows:

	2007	2006
Financial assets at fair value through profit or loss－current:		
Open-end mutual fund	$ 31,329	10,452
Financial assets carried at cost－noncurrent:		
Equity securities－Taiwan Video System	$ 1,286	1,286
－Mythology Tech Express Inc.	22,400	-
	$ 23,686	1,286
Prepayments for long-term investments:		
Flycom Investment Co., Ltd.	$ 5,000	-

In 2007 and 2006, the Company recognized a valuation gain amounting to $837 and $432, respectively, on the mutual fund.

In 2007 and 2006, the Company recognized an impairment loss in value of its investments in Mythology Tech Express Inc. and Taiwan Video System amounting to $2,800 and $214, respectively.

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

(c) Inventories

	2007	2006
Raw materials	$ 105,825	108,208
Work in process	103,814	96,780
Finished goods	30,070	15,688
Merchandise	2,364	2,066
Less: provision for obsolescence and net realizable value	(21,873)	(23,373)
	$ 220,200	199,369

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Flytech Technology Co., Ltd.

Notes to Non-consolidated Financial Statements

(d) Equity method investments

	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

	2006			
Investee	Percentage of ownership (%)	Investment cost	Book value	Investment income (loss)
Flytech USA International Co., Ltd.	100.00	$ 20,692	26,112	191
Flytech JP International Co., Ltd.	100.00	3,446	3,863	(238)
Flytech HK International Co., Ltd.	100.00	10,392	34,910	5,331
Flytech CN International Co., Ltd.	100.00	69,089	64,960	1,993
		$ 103,619	129,845	7,277

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

(e) Short-term borrowings

Unused credit facilities as of December 31, 2007 and 2006, amounted to $262,215 and $262,980, respectively. The Company pledged time deposits to obtain the credit facilities. Refer to note 6 for a description of pledged assets.

(f) Derivative financial instruments

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

As of December 31, 2006, the Company had the following foreign currency forward contracts outstanding:

	December 31, 2006		
	Notational amount (in thousands)	Contract period	Fair value
USD CALL/NTD PUT	USD 2,000	2006/12/19~2007/02/09	$ (16)

(Continued)

The aforementioned derivative financial instruments are classified as “financial liabilities at fair value through profit or loss－current”.

(g) 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:

		2007	2006
Benefit obligation:			
Vested benefit obligation	$	(958)	-
Nonvested benefit obligation		(24,957)	(21,856)
Accumulated benefit obligation		(25,915)	(21,856)
Projected compensation increases		(6,284)	(5,563)
Projected benefit obligation		(32,199)	(27,419)
Plan assets at fair value		14,670	14,023
Funded status		(17,529)	(13,396)
Unrecognized transition obligation		1,208	1,329
Unrecognized net pension loss		8,114	5,254
Adjustment to recognize minimum liability		(3,037)	(1,020)
Accrued pension liability	**$**	**(11,244)**	**(7,833)**

The components of the net periodic pension cost for 2007 and 2006 are summarized as follows:

		2007	2006
Service cost	$	767	733
Interest cost		959	922
Expected return on plan assets		(373)	(364)
Amortization of net transition obligation		121	121
Amortization of pension loss		167	212
Net periodic pension cost	**$**	**1,641**	**1,624**

(Continued)

Major assumptions used to determine the above information:

	2007	**2006**
Discount rate	3.50%	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 2007 and 2006, pension cost under the defined contribution pension plan was $7,695 and $7,083, respectively.

(h) Bonds payable

Domestic unsecured convertible bonds amounting to $200,000 were issued on October 14, 2003. These bonds can be converted into the Company's common shares any time between January 14, 2004, and ten days before October 14, 2008, the maturity date, at the prescribed conversion price at that time. The conversion price was adjusted from $52 to $32 as a result of stock dividends and cash dividends exceeding 15% of the Company's paid-in capital. As of December 31, 2006, the outstanding bonds payable had been fully converted to common shares.

(i) Income taxes

(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, 2007 and 2006, are summarized as follows:

	2007	**2006**
Current income tax expense	$ 54,607	25,888
Deferred income tax expense (benefit)	4,056	(4,069)
	$ 58,663	**21,819**

(Continued)

Flytech Technology Co., Ltd.

Notes to Non-consolidated Financial Statements

(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, 2007 and 2006, are summarized as follows:

	2007	**2006**
Expected income tax expense	$ 169,017	110,925
Tax-exempt income	(93,000)	(63,396)
Investment tax credits	(10,253)	(20,511)
Others	4,650	1,602
Change in valuation allowance for deferred income tax assets	(11,751)	(6,801)
	$ 58,663	**21,819**

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

	2007	**2006**
Investment tax credits	$ 11,751	5,794
Inventory provisions	375	(2,202)
Investment gain recognized under equity method	3,375	1,819
Unrealized inter-company profits	870	(1,750)
Change in valuation allowance for deferred income tax assets	(11,751)	(6,801)
Others	(564)	(929)
	$ 4,056	**(4,069)**

(Continued)

Flytech Technology Co., Ltd.

Notes to Non-consolidated Financial Statements

(6) The components of deferred income tax assets (liabilities) as of December 31, 2007 and 2006, are summarized as follows:

		2007	2006
Deferred income tax assets－current:			
Inventory provisions	$	5,468	5,843
Unrealized inter-company profits		1,890	2,761
Warranty provisions		3,307	1,772
Others		177	360
Deferred income tax liabilities			
Evaluation gain on financial assets		(255)	-
Unrealized foreign currency exchange gain, net		(186)	(50)
Net deferred income tax assets－current	**$**	**10,401**	**10,686**
Deferred income tax assets－noncurrent:			
Investment tax credit	$	-	11,751
Accrued pension liabilities		1,972	1,624
Others		-	744
Allowance for deferred income tax assets		-	(11,751)
Deferred income tax liabilities－noncurrent:			
Investment income recognized under equity method		(10,676)	(7,301)
Net deferred income tax liabilities－noncurrent	**$**	**(8,704)**	**(4,933)**

(7) Imputation credit account ("ICA") and creditable ratio

As of December 31, 2007 and 2006, the information related to the integrated tax system was as follows:

		2007	2006
ICA balance	**$**	**24,974**	**8,522**

(Continued)

The Company's estimated creditable ratio for the 2007 earnings distribution to ROC resident stockholders is approximately 8.36%, and the actual creditable ratio for the 2006 earnings distribution to ROC resident stockholders was 6.44%.

		2007	**2006**
Unappropriated earnings:			
Before January 1, 1998	$	177	177
From January 1, 1998		760,049	529,557
	$	**760,226**	**529,734**

(8) The ROC tax authorities have examined the Company's income tax returns for all fiscal years through December 31, 2004.

(j) Stockholders' equity

(1) Common stock

As of December 31, 2007 and 2006, the Company's authorized common stock consisted of 120,000,000 shares, at $10 par value per share, of which 73,679 and 62,330 thousand shares, respectively, were issued and outstanding.

In June 2007, the Company's stockholders decided to transfer unappropriated earnings of $113,494 to common stock by issuing of 11,349,447 shares of common stock dividends. The issuance of common stock has been approved by and registered with the governmental authorities.

In June 2006, the Company's stockholders decided to transfer unappropriated earnings of $91,812 to common stock by issuing of 9,181,194 shares of common stock dividends. The issuance of common stock has been approved by and registered with the governmental authorities.

(Continued)

(2) Capital surplus

As of December 31, 2007 and 2006, the components of capital surplus were as follows:

	2007	2006
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.

(3) 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, 2007 and 2006, amounted to $2,976 and $4,299, respectively.

(4) 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.

(Continued)

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.

The appropriation of 2006 and 2005 earnings approved by the shareholders in a meeting on June 15, 2007 and June 14, 2006, respectively, was as follows:

	2006	2005
Dividend per share (expressed in New Taiwan dollars):		
Cash	$ 3.5	2.5
Stock	1.5	1.5
	$ 5.0	**4.0**
Employee bonus－stock (at par value)	$ 20,000	13,000
Employee bonus－cash	12,000	10,000
Directors' and supervisors' remuneration	2,400	2,400
	$ 34,400	**25,400**

The appropriation mentioned above did not differ from the resolution approved by the directors. Assuming the above employee bonus and directors' and supervisors' remuneration were paid in cash and expensed in the year when the earnings were recognized, the earnings per share after tax for 2006 and 2005 would be reduced from $6.88 to $6.32 and from $5.28 to $4.77, respectively. Stock dividends distributed to employees represented 3.21% and 2.58% of the outstanding common shares as of December 31, 2006 and 2005, respectively.

The appropriation of 2007 earnings to employee bonus and directors' and supervisors' remuneration is subject to the Company's directors' and shareholders' resolutions. After the resolutions, related information can be obtained from the public information website.

(5) 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 total stock options on December 27, 2007. The options are valid for 7 years.

(Continued)

The major terms of the plan are summarized as follows:

(i) Exercise price: $100 per share.

(ii) Vesting period:

A. After the contractual period, the employee should give up any unexercised stock options. The options are not transferable.

B. The options cannot be pledged, be bestowed on and be disposal of by other way.

C. 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%

D. After the Company issues the stock options to the employees, the employees are subject to the binding labor contracts and the code of conduct at work. When an employee is in breach of contract or the code of conduct, the Company reserves the right to recall any unexercised stock options issued to the employee.

E. The aforementioned exercisable period and percentage are subject to change depending on the decision made at the annual board meeting.

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

(iv) Exercise procedure: New shares are issued to the stock option holders according to the Company's stock option bylaws. Any changes in capital will be registered with the governmental authorities on a quarterly basis.

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 equals the exercise price at the measurement date.

(Continued)

Had the Company determined compensation expense at the grant date based on the fair value of the stock options which would be amortized total compensation cost would be $127,800, over a period of 3 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	47.34%
Risk-free interest rate	2.635%
Expected life	7 years

As of December 31, 2007, information on outstanding stock options was as follows (expressed in thousand shares/New Taiwan dollars):

Range of exercise prices	Number of outstanding options	Weighted-average remaining contractual life	Weighted-average exercise price	Number of exercisable options	Weighted-average exercise price
$ 100.00	3,000	7 years	$ 100.00	-	-

In 2007, the information related to the quantity of stock options granted is summarized as follows:

Stock options granted	Quantity (in thousands)
Balance at beginning of the year	3,000
Granted	-
Exercised	-
Revoked	-
Balance at end of year	**3,000**

(Continued)

Flytech Technology Co., Ltd.

Notes to Non-consolidated Financial Statements

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

For the years ended December 31, 2007 and 2006, the computation of earnings per share was as follows:

	2007		2006	
	Before income tax	**After income tax**	**Before income tax**	**After income tax**
Basic EPS:				
Net income	$ 676,068	617,405	443,701	421,882
Weighted-average number of common shares outstanding (in thousands)	73,679	73,679	72,484	72,484
Basic earnings per share－retroactive	$ 9.18	8.38	6.12	5.82

(l) Disclosure of financial instruments

(1) As of December 31, 2007 and 2006, fair values of financial assets and liabilities were as follows:

	2007		2006	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Financial assets:				
Cash and cash equivalents	$ 927,971	927,971	654,830	654,830
Financial assets at fair value through profit or loss	31,329	31,329	10,452	10,452
Notes and accounts receivable	405,740	405,740	284,915	284,915
Receivables from related parties	69,685	69,685	72,720	72,720
Other receivables	31,390	31,390	24,441	24,441
Pledged time deposits	30,100	30,100	30,100	30,100
Financial assets carried at cost	23,686	-	1,286	-
Financial liabilities:				
Financial liabilities at fair value through profit or loss－foreign currency forward contracts	-	-	16	16
Accounts payable	289,882	289,882	248,014	248,014
Payables from related parties	2,057	2,057	3,257	3,257
Income tax payable	38,552	38,552	25,314	25,314

(Continued)

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

(i) The carrying amounts reflected in the balance sheets classified as cash and cash equivalents, pledged time deposits, notes and accounts receivable, receivables from related parties, other receivables, accounts payable, 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－current

Publicly quoted market price is used as fair value.

(iii) Financial assets carried at cost

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.

(iv) Financial liabilities at fair value through profit or loss－current

The fair value of the Company’s derivative financial instruments are based on quotations received from financial institutions. Such fair values are estimated using a valuation method.

(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.

(Continued)

(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 issued by companies 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, 2007 and 2006, two clients accounted for 63% and three clients accounted for 50%, 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.

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
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

(Continued)

(b) Significant transactions with related parties

(1) Sales, and related notes and accounts receivable

Sales to:

	2007		2006	
	Amount	Percentage of net sales	Amount	Percentage of net sales
Flytech USA	$ 123,983	5	141,145	7
Flytech HK	96,215	3	73,454	3
Flytech CN	27,809	1	37,831	2
Other	319	-	846	-
	$ 248,326	9	253,276	12

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 90 days. Trading terms with third parties require payment within 45 to 60 days.

As of December 31, 2007 and 2006, the unrealized profit on the above inter-company transactions amounting to $7,562 and $11,044, respectively, was recorded as accrued expenses and other current liabilities in the accompanying balance sheets.

Notes and accounts receivable from:

	2007		2006	
	Amount	Percentage of notes and accounts receivable	Amount	Percentage of notes and accounts receivable
Flytech USA	$ 38,509	8	39,437	11
Flytech HK	22,261	5	21,883	6
Flytech CN	965	-	5,103	1
Other	-	-	62	-
	$ 61,735	13	66,485	18

(Continued)

(2) Purchases, and related notes and accounts payable

Purchases from	2007		2006	
	Amount	Percentage of net purchases	Amount	Percentage of net purchases
Flytech HK	$ 98	-	190	-

As of December 31, 2007 and 2006, the related accounts payable resulting from the above-mentioned transactions were fully repaid.

(3) Royalty income

In January 2007 and 2006, 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, 2007 and 2006, was $7,950 and $6,182, respectively. As of December 31, 2007 and 2006, outstanding receivables amounted to $7,950 and $6,182, respectively.

(4) Commission expenses and commission payable

Commission expenses resulting from related parties' introducing business to the Company for the years ended December 31, 2007 and 2006, were as follows:

	2007	2006
Flytech USA	$ 13,777	6,849
Flytech Japan	994	5,097
Flytech HK	-	1,530
	$ 14,771	13,476

Commission payable to:

	2007	2006
Flytech USA	$ 1,996	2,094
Flytech Japan	-	699
Flytech HK	-	452
	$ 1,996	3,245

(Continued)

Flytech Technology Co., Ltd.

Notes to Non-consolidated Financial Statements

(5) Summary of related-party receivables

Receivables from related parties as of December 31, 2007 and 2006, resulting from the above transactions are summarized as follows:

	2007	2006
Accounts receivable	$ 61,735	$ 66,485
Royalty receivable	7,950	6,182
Advances to related parties	-	53
	$ 69,685	72,720

(6) Summary of related-party payables

Payables to related parties as of December 31, 2007 and 2006, resulting from the above transactions are summarized as follows:

	2007	2006
Commissions payable	$ 1,996	3,245
Advances from related parties	61	12
	$ 2,057	3,257

6. Pledged Assets

Pledged assets	Pledged to secure	2007	2006
Time deposits	Credit facilities for loans	$ 30,000	30,000
Time deposits	Customs duty	100	100
		$ 30,100	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.

(Continued)

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

2008	$ 14,040
2009	13,860
2010	4,620
	$ 32,520

8. Significant Disaster Loss: none.

9. Significant Subsequent Events: none.

10. Other

(a) The personnel expenses, depreciation, and amortization for 2007 and 2006 are summarized as follows:

	2007			**2006**		
	Cost of sales	**Operating expenses**	**Total**	**Cost of sales**	**Operating expenses**	**Total**
Personnel expenses:						
Salaries and wages	82,001	91,587	173,588	72,474	80,296	152,770
Labor insurance	5,869	6,175	12,044	5,524	5,243	10,767
Pension	3,728	5,608	9,336	3,448	5,259	8,707
Other	4,579	2,837	7,416	4,164	2,528	6,692
Depreciation	24,847	6,904	31,751	27,713	7,235	34,948
Amortization	-	765	765	-	1,070	1,070

(b) Reclassifications

Certain amounts in the nonconsolidated financial statements as of and for the year ended December 31, 2006, have been reclassified to conform to the 2007 presentation for comparative purposes. These reclassifications do not significantly impact the presentation of the nonconsolidated financial statements.