

CHENG UEI PRECISION INDUSTRY CO., LTD.  
CONSOLIDATED FINANCIAL STATEMENTS AND  
REPORT OF INDEPENDENT ACCOUNTANTS  
DECEMBER 31, 2005 AND 2006

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These English financial statements and report of independent accountants were translated from the financial statements and report of independent accountants originally prepared in Chinese.

## Report of Independent Accountants

To the Board of Directors and Stockholders of  
Cheng Uei Precision Industry Co., Ltd.

We have audited the accompanying consolidated balance sheets of Cheng Uei Precision Industry Co., Ltd. and its subsidiaries as of December 31, 2005 and 2006, and the related consolidated statements of income, of changes in stockholders' equity and of cash flows for the years then ended, expressed in thousands of New Taiwan dollars. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of Darts Technologies Corporation, a consolidated subsidiary, which statements reflect total assets of \$1,497,157,000, constituting 5 percent of total consolidated assets as of December 31, 2005, and total revenue of \$1,316,792,000, constituting 5 percent of the total consolidated revenue for the year ended December 31, 2005. Those statements were audited by other auditors, whose report thereon has been furnished to us and our opinion expressed herein, insofar as it relates to the amounts included for Darts Technologies Corporation and the related disclosures in Note 11, is based solely on the report of the other auditors.

We conducted our audits in accordance with the "Rules Governing Examination of Financial Statements by Certified Public Accountants" and generally accepted auditing standards in the Republic of China. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Cheng Uei Precision Industry Co., Ltd. and its subsidiaries as of December 31, 2005 and 2006, and the results of their operations and their cash flows for the years then ended in conformity with the "Rules Governing Preparation of the Financial Statements of Securities Issuers", "Business Entity Accounting Law", "Regulation on Business Entity Accounting Handling" and generally accepted accounting principles in the Republic of China.

As disclosed in Note 2, the consolidated financial statements as of and for the year ended December 31, 2006 expressed in US dollars are presented solely for the convenience of the readers and were translated from the New Taiwan dollar financial statements using the exchange rate of US\$1.00:NT\$32.595 at December 31, 2006. This basis of translation is not in accordance with generally accepted accounting principles in the Republic of China.

Taipei, Taiwan  
Republic of China  
April 25, 2007  
PWCR06000640

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The accompanying consolidated financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices utilized in the Republic of China governing the audit of such consolidated financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying consolidated financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.

CHENG UEI PRECISION INDUSTRY CO., LTD.  
CONSOLIDATED BALANCE SHEETS  
DECEMBER 31, 2005 AND 2006  
(EXPRESSED IN THOUSANDS OF DOLLARS)

|   | <u>2005</u>               | <u>2006</u>          | <u>2006</u>          |
|---|---------------------------|----------------------|----------------------|
|   | <u>New Taiwan Dollars</u> |                      | <u>US Dollars</u>    |
|   |                           |                      | (Unaudited - Note 2) |
| <u>ASSETS</u>   |                           |                      |                      |
| <u>CURRENT ASSETS</u>   |                           |                      |                      |
| Cash (Note 4(1))  | \$ 3,338,823              | \$ 7,691,010         | \$ 235,957           |
| Financial assets at fair value through profit or loss - current         | 226,030                   | 364,715              | 11,189               |
| Notes receivable, net   | 19,749                    | 5,964                | 183                  |
| Accounts receivable, net – third parties (Notes 4(2) and 6)             | 5,665,733                 | 8,704,326            | 267,045              |
| Accounts receivable, net - related parties (Note 5)                     | 3,117,514                 | 1,186,210            | 36,392               |
| Other receivables - third parties                                       | 263,717                   | 320,504              | 9,833                |
| Other receivables - related parties (Note 5)                            | 134,797                   | 506,716              | 15,546               |
| Inventories, net (Note 4(3))  | 4,071,464                 | 4,969,810            | 152,472              |
| Prepaid expenses  | 94,436                    | 49,182               | 1,509                |
| Prepayments   | 484,813                   | 191,068              | 5,862                |
| Other current assets (Note 4(14))                                       | 96,101                    | 190,405              | 5,842                |
|   | <u>17,513,177</u>         | <u>24,179,910</u>    | <u>741,830</u>       |
| <u>LONG-TERM INVESTMENTS</u>  |                           |                      |                      |
| Long-term investments accounted for under the equity method (Note 4(4)) | 1,100,936                 | 1,424,115            | 43,691               |
| Financial assets carried at cost - non-current                          | 37,500                    | 37,500               | 1,150                |
|   | <u>1,138,436</u>          | <u>1,461,615</u>     | <u>44,841</u>        |
| <u>PROPERTY, PLANT AND EQUIPMENT</u> (Notes 4(5), 5 and 6)              |                           |                      |                      |
| Cost  |                           |                      |                      |
| Land  | 137,206                   | 137,207              | 4,209                |
| Buildings   | 2,585,992                 | 3,956,357            | 121,379              |
| Machinery and equipment   | 4,504,161                 | 5,715,749            | 175,357              |
| Transportation equipment  | 28,983                    | 27,159               | 833                  |
| Office equipment  | 105,078                   | 120,060              | 3,683                |
| Leased assets   | 391,705                   | -                    | -                    |
| Leasehold improvements  | 168,130                   | 125,419              | 3,848                |
| Other equipment   | 1,301,498                 | 1,661,481            | 50,973               |
|   | <u>9,222,753</u>          | <u>11,743,432</u>    | <u>360,282</u>       |
| Less: Accumulated depreciation  | ( 2,863,953)              | ( 3,574,919)         | ( 109,677)           |
| Prepayments for equipment and construction in progress                  | 1,538,154                 | 2,092,507            | 64,197               |
|   | <u>7,896,954</u>          | <u>10,261,020</u>    | <u>314,802</u>       |
| <u>INTANGIBLE ASSETS</u>  |                           |                      |                      |
| Deferred pension cost (Note 4(10))                                      | 2,098                     | -                    | -                    |
| Other intangible asset (Note 6)   | 52,435                    | 202,982              | 6,227                |
|   | <u>54,533</u>             | <u>202,982</u>       | <u>6,227</u>         |
| <u>OTHER ASSETS</u>   |                           |                      |                      |
| Rental assets   | 220,850                   | 429,066              | 13,164               |
| Idle assets   | -                         | 116,479              | 3,574                |
| Deposits out  | 58,564                    | 39,308               | 1,208                |
| Deferred assets   | 133,635                   | 87,802               | 2,694                |
| Deferred income tax assets - non-current (Note 4(14))                   | 48,338                    | 13,073               | 401                  |
| Other assets - others   | 360,480                   | 503,930              | 15,460               |
|   | <u>821,867</u>            | <u>1,189,658</u>     | <u>36,501</u>        |
| <u>TOTAL ASSETS</u>   | <u>\$ 27,424,967</u>      | <u>\$ 37,295,185</u> | <u>\$ 1,144,201</u>  |

(Continued)

CHENG UEI PRECISION INDUSTRY CO., LTD.  
CONSOLIDATED BALANCE SHEETS-(Continued)  
DECEMBER 31, 2005 AND 2006  
(EXPRESSED IN THOUSANDS OF DOLLARS)

|   | <u>2005</u>               | <u>2006</u>          | <u>2006</u>          |
|---|---------------------------|----------------------|----------------------|
|   | <u>New Taiwan Dollars</u> |                      | <u>US Dollars</u>    |
|   |                           |                      | (Unaudited - Note 2) |
| <u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>   |                           |                      |                      |
| <u>CURRENT LIABILITIES</u>  |                           |                      |                      |
| Short-term loans (Notes 4(6) and 6)   | \$ 3,337,320              | \$ 3,051,254         | \$ 93,611            |
| Financial liabilities at fair value through profit or loss - current<br>(Note 4(8)) | -                         | 209,500              | 6,427                |
| Notes payable   | 1,500                     | 60,514               | 1,857                |
| Accounts payable  | 6,584,515                 | 6,663,609            | 204,437              |
| Accounts payable - related parties (Note 5)   | 314,768                   | 1,080,925            | 33,162               |
| Income tax payable (Note 4(14))   | 294,896                   | 539,100              | 16,539               |
| Accrued expenses (Note 4(7))  | 1,393,447                 | 1,822,645            | 55,918               |
| Other payables (Note 5)   | 1,224,774                 | 771,464              | 23,668               |
| Advance collections   | 296,491                   | 579,303              | 17,773               |
| Current portion of long-term liabilities (Note 4(9))                                | 105,480                   | 1,899,894            | 58,288               |
|   | <u>13,553,191</u>         | <u>16,678,208</u>    | <u>511,680</u>       |
| <u>LONG-TERM LIABILITIES</u>  |                           |                      |                      |
| Bonds payable (Note 4(8))   | 2,273,220                 | 4,391,027            | 134,715              |
| Long-term loans (Note 4(9))   | 950,000                   | 521,620              | 16,003               |
|   | <u>3,223,220</u>          | <u>4,912,647</u>     | <u>150,718</u>       |
| <u>OTHER LIABILITIES</u>  |                           |                      |                      |
| Accrued pension cost (Note 4(10))   | 69,432                    | 75,487               | 2,316                |
| Other liabilities - others  | 16,168                    | 2,108                | 65                   |
|   | <u>85,600</u>             | <u>77,595</u>        | <u>2,381</u>         |
| Total Liabilities   | <u>16,862,011</u>         | <u>21,668,450</u>    | <u>664,779</u>       |
| <u>STOCKHOLDERS' EQUITY</u>   |                           |                      |                      |
| Common stock (Note 4(11))   | 3,038,481                 | 3,732,207            | 114,502              |
| Capital reserve   |                           |                      |                      |
| Paid in capital in excess of par value (Note 4(12))                                 | 4,243,171                 | 6,681,441            | 204,984              |
| Long-term investments   | -                         | 121,429              | 3,725                |
| Stock options (Note 4(8))   | -                         | 423,494              | 12,993               |
| Retained earnings (Note 4(13))  |                           |                      |                      |
| Legal reserve   | 436,443                   | 592,826              | 18,188               |
| Special reserve   | 54,633                    | -                    | -                    |
| Unappropriated earnings (Note 4(14))  | 2,301,206                 | 3,800,587            | 116,600              |
| Cumulative translation adjustments  | 13,665                    | 95,586               | 2,933                |
| Minority interest   | 475,357                   | 179,165              | 5,497                |
| Total Stockholders' Equity  | <u>10,562,956</u>         | <u>15,626,735</u>    | <u>479,422</u>       |
| Commitments and Contingent Liabilities (Note 7)                                     |                           |                      |                      |
| Subsequent Events (Note 9)  |                           |                      |                      |
| <u>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</u>                                   | <u>\$ 27,424,967</u>      | <u>\$ 37,295,185</u> | <u>\$ 1,144,201</u>  |

The accompanying notes are an integral part of these financial statements.

See report of independent accountants dated April 25, 2007.

CHENG UEI PRECISION INDUSTRY CO., LTD.  
CONSOLIDATED STATEMENTS OF INCOME  
YEARS ENDED DECEMBER 31, 2005 AND 2006

(EXPRESSED IN THOUSANDS OF DOLLARS, EXCEPT FOR EARNINGS PER SHARE AMOUNT)

|   | 2005               |             | 2006       |             | 2006                 |            |
|---|--------------------|-------------|------------|-------------|----------------------|------------|
|   | New Taiwan Dollars |             | US Dollars |             | (Unaudited - Note 2) |            |
| Operating revenues (Note 5)   |                    |             |            |             |                      |            |
| Sales   | \$                 | 28,889,345  | \$         | 43,686,829  | \$                   | 1,340,293  |
| Sales returns   | (                  | 67,457)     | (          | 206,086)    | (                    | 6,323)     |
| Sales allowances  | (                  | 344,241)    | (          | 141,553)    | (                    | 4,343)     |
| Net sales   |                    | 28,477,647  |            | 43,339,190  |                      | 1,329,627  |
| Operating costs   |                    |             |            |             |                      |            |
| Cost of goods sold (Notes 4(16) and 5)  | (                  | 23,849,564) | (          | 36,835,171) | (                    | 1,130,087) |
| Gross profit  |                    | 4,628,083   |            | 6,504,019   |                      | 199,540    |
| Operating expenses (Notes 4(16) and 5)  |                    |             |            |             |                      |            |
| Selling expenses  | (                  | 567,073)    | (          | 569,049)    | (                    | 17,457)    |
| Management and general expenses   | (                  | 1,703,033)  | (          | 2,067,725)  | (                    | 63,437)    |
| Research and development expenses   | (                  | 592,315)    | (          | 1,039,998)  | (                    | 31,907)    |
| Total operating expenses  | (                  | 2,862,421)  | (          | 3,676,772)  | (                    | 112,801)   |
| Operating income  |                    | 1,765,662   |            | 2,827,247   |                      | 86,739     |
| Non-operating income  |                    |             |            |             |                      |            |
| Interest income   |                    | 45,091      |            | 37,377      |                      | 1,147      |
| Gain on valuation of financial assets   |                    | 2,328       |            | -           |                      | -          |
| Gain on valuation of financial liabilities  |                    | -           |            | 500         |                      | 15         |
| Income on long-term investments accounted for under the equity method (Note 4(4)) |                    | 234,375     |            | 218,134     |                      | 6,692      |
| Gain on disposal of investments   |                    | 6,227       |            | 51,475      |                      | 1,579      |
| Exchange gain - net   |                    | 171,468     |            | 92,462      |                      | 2,837      |
| Rental  |                    | -           |            | 14,691      |                      | 451        |
| Income from sales of scrapped inventory   |                    | 56,460      |            | 84,081      |                      | 2,580      |
| Other non-operating income (Note 5)   |                    | 118,935     |            | 412,326     |                      | 12,650     |
| Total non-operating income  |                    | 634,884     |            | 911,046     |                      | 27,951     |
| Non-operating expenses  |                    |             |            |             |                      |            |
| Interest expense  | (                  | 162,324)    | (          | 278,054)    | (                    | 8,531)     |
| Loss on disposal of property, plant and equipment                                 | (                  | 10,303)     | (          | 10,379)     | (                    | 318)       |
| Loss on physical inventory  | (                  | 2)          | (          | 43)         | (                    | 1)         |
| Provision for inventory obsolescence and market price decline                     | (                  | 94,468)     | (          | 181,254)    | (                    | 5,561)     |
| Other expenses  | (                  | 6,506)      | (          | 114,889)    | (                    | 3,525)     |
| Total non-operating expenses  | (                  | 273,603)    | (          | 584,619)    | (                    | 17,936)    |
| Income before income tax  |                    | 2,126,943   |            | 3,153,674   |                      | 96,754     |
| Income tax expense (Note 4(14))   | (                  | 530,201)    | (          | 789,470)    | (                    | 24,221)    |
| Consolidated net income   | \$                 | 1,596,742   | \$         | 2,364,204   | \$                   | 72,533     |
| Attributable to:  |                    |             |            |             |                      |            |
| Equity holders of the Company   | \$                 | 1,589,528   | \$         | 2,407,804   | \$                   | 73,870     |
| Minority interest   |                    | 7,214       | (          | 43,600)     | (                    | 1,338)     |
|   | \$                 | 1,596,742   | \$         | 2,364,204   | \$                   | 72,533     |
| Earnings per common share (in dollars) (Note 4(15))                               |                    |             |            |             |                      |            |
|   |                    | Before tax  | After tax  | Before tax  | After tax            | Before tax |
| Basic earnings per share  |                    |             |            |             |                      |            |
| Consolidated net income   | \$                 | 6.45        | \$         | 4.83        | \$                   | 8.56       |
| Minority interest   | (                  | 0.02)       | (          | 0.01)       | (                    | 0.12       |
| Net income attributable to equity holders of the Company                          | \$                 | 6.43        | \$         | 4.82        | \$                   | 8.68       |
| Diluted earnings per share  |                    |             |            |             |                      |            |
| Consolidated net income   | \$                 | 6.14        | \$         | 4.60        | \$                   | 8.28       |
| Minority interest   | (                  | 0.02)       | (          | 0.01)       | (                    | 0.11       |
| Net income attributable to equity holders of the Company                          | \$                 | 6.12        | \$         | 4.59        | \$                   | 8.39       |

The accompanying notes are an integral part of these financial statements.  
See report of independent accountants dated April 25, 2007.

CHENG UEI PRECISION INDUSTRY CO., LTD.  
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
(EXPRESSED IN THOUSANDS OF DOLLARS)

| New Taiwan Dollars   | Common stock        | Capital reserve                        |                       |                   | Retained earnings |                 |                         | Cumulative translation adjustments | Minority interest | Total                |
|--|---------------------|--|-----------------------|-------------------|-------------------|-----------------|-------------------------|------------------------------------|-------------------|----------------------|
|  |                     | Paid in capital in excess of par value | Long-term investments | Stock options     | Legal reserve     | Special reserve | Unappropriated earnings |                                    |                   |                      |
| Balance at January 1, 2005                                   | \$ 2,587,616        | \$ 3,385,229                           | \$ -                  | \$ -              | \$ 309,233        | \$ -            | \$ 1,655,177            | (\$ 54,633)                        | \$ -              | \$ 7,882,622         |
| Appropriations of 2004 income:                               |                     |  |                       |                   |                   |                 |                         |                                    |                   |                      |
| Legal reserve  | -                   | -                                      | -                     | -                 | 127,210           | -               | ( 127,210)              | -                                  | -                 | -                    |
| Special reserve  | -                   | -                                      | -                     | -                 | -                 | 54,633          | ( 54,633)               | -                                  | -                 | -                    |
| Stock dividends  | 258,762             | -                                      | -                     | -                 | -                 | -               | ( 258,762)              | -                                  | -                 | -                    |
| Cash dividends   | -                   | -                                      | -                     | -                 | -                 | -               | ( 388,142)              | -                                  | ( 388,142)        | -                    |
| Employees' stock bonus                                       | 80,000              | -                                      | -                     | -                 | -                 | -               | ( 88,315)               | -                                  | ( 8,315)          | -                    |
| Remuneration to directors and supervisors                    | -                   | -                                      | -                     | -                 | -                 | -               | ( 735)                  | -                                  | ( 735)            | -                    |
| Consolidated net income for 2005                             | -                   | -                                      | -                     | -                 | -                 | -               | 1,589,528               | -                                  | 7,214             | 1,596,742            |
| Convertible bonds converted into common stock                | 112,103             | 857,942                                | -                     | -                 | -                 | -               | -                       | -                                  | -                 | 970,045              |
| Adjustment due to change in ownership of investee            | -                   | -                                      | -                     | -                 | -                 | -               | ( 25,702)               | -                                  | ( 25,702)         | -                    |
| Cumulative translation adjustments                           | -                   | -                                      | -                     | -                 | -                 | -               | -                       | 68,298                             | -                 | 68,298               |
| Minority interest adjustments                                | -                   | -                                      | -                     | -                 | -                 | -               | -                       | -                                  | 468,143           | 468,143              |
| Balance at December 31, 2005                                 | 3,038,481           | 4,243,171                              | -                     | -                 | 436,443           | 54,633          | 2,301,206               | 13,665                             | 475,357           | 10,562,956           |
| Appropriations of 2005 income:                               |                     |  |                       |                   |                   |                 |                         |                                    |                   |                      |
| Legal reserve  | -                   | -                                      | -                     | -                 | 156,383           | -               | ( 156,383)              | -                                  | -                 | -                    |
| Special reserve  | -                   | -                                      | -                     | -                 | -                 | ( 54,633)       | 54,633                  | -                                  | -                 | -                    |
| Stock dividends  | 322,303             | -                                      | -                     | -                 | -                 | -               | ( 322,303)              | -                                  | -                 | -                    |
| Cash dividends   | -                   | -                                      | -                     | -                 | -                 | -               | ( 386,763)              | -                                  | ( 386,763)        | -                    |
| Employees' stock bonus                                       | 73,500              | -                                      | -                     | -                 | -                 | -               | ( 96,801)               | -                                  | ( 23,301)         | -                    |
| Remuneration to directors and supervisors                    | -                   | -                                      | -                     | -                 | -                 | -               | ( 806)                  | -                                  | ( 806)            | -                    |
| Consolidated net income for 2006                             | -                   | -                                      | -                     | -                 | -                 | -               | 2,407,804               | ( 43,600)                          | -                 | 2,364,204            |
| Convertible bonds converted into common stock                | 244,590             | 1,983,337                              | -                     | -                 | -                 | -               | -                       | -                                  | -                 | 2,227,927            |
| Adjustment due to change in ownership of investee            | -                   | -                                      | 121,429               | -                 | -                 | -               | -                       | -                                  | -                 | 121,429              |
| Issuance of common stock for the acquisition of subsidiaries | 53,333              | 454,933                                | -                     | -                 | -                 | -               | -                       | -                                  | -                 | 508,266              |
| Issuance of stock options of convertible bonds               | -                   | -                                      | -                     | 423,494           | -                 | -               | -                       | -                                  | -                 | 423,494              |
| Cumulative translation adjustments                           | -                   | -                                      | -                     | -                 | -                 | -               | -                       | 81,921                             | -                 | 81,921               |
| Minority interest adjustments                                | -                   | -                                      | -                     | -                 | -                 | -               | -                       | -                                  | ( 252,592)        | ( 252,592)           |
| Balance at December 31, 2006                                 | <u>\$ 3,732,207</u> | <u>\$ 6,681,441</u>                    | <u>\$ 121,429</u>     | <u>\$ 423,494</u> | <u>\$ 592,826</u> | <u>\$ -</u>     | <u>\$ 3,800,587</u>     | <u>\$ 95,586</u>                   | <u>\$ 179,165</u> | <u>\$ 15,626,735</u> |

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CHENG UEI PRECISION INDUSTRY CO., LTD.  
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY-(Continued)  
(EXPRESSED IN THOUSANDS OF DOLLARS)

|  | Common stock      | Capital reserve                        |                       |                  | Retained earnings |                 |                         | Cumulative translation adjustments | Minority interest | Total             |
|--|-------------------|--|-----------------------|------------------|-------------------|-----------------|-------------------------|------------------------------------|-------------------|-------------------|
|  |                   | Paid in capital in excess of par value | Long-term investments | Stock options    | Legal reserve     | Special reserve | Unappropriated earnings |                                    |                   |                   |
| <u>2006 - US Dollars (Unaudited - Note 2)</u>                |                   |  |                       |                  |                   |                 |                         |                                    |                   |                   |
| Balance at January 1, 2006                                   | \$ 93,219         | \$ 130,179                             | \$ -                  | \$ -             | \$ 13,390         | \$ 1,676        | \$ 70,600               | \$ 419                             | \$ 14,584         | \$ 324,067        |
| Appropriations of 2005 income:                               |                   |  |                       |                  |                   |                 |                         |                                    |                   |                   |
| Legal reserve  | -                 | -                                      | -                     | -                | 4,798             | - (4,798)       | -                       | -                                  | -                 | -                 |
| Special reserve  | -                 | -                                      | -                     | -                | -                 | (1,676)         | 1,676                   | -                                  | -                 | -                 |
| Stock dividends  | 9,888             | -                                      | -                     | -                | -                 | - (9,888)       | -                       | -                                  | -                 | -                 |
| Cash dividends   | -                 | -                                      | -                     | -                | -                 | - (11,866)      | -                       | -                                  | (11,866)          | -                 |
| Employees' stock bonus                                       | 2,255             | -                                      | -                     | -                | -                 | - (2,970)       | -                       | -                                  | (715)             | -                 |
| Remuneration to directors and supervisors                    | -                 | -                                      | -                     | -                | -                 | - (25)          | -                       | -                                  | (25)              | -                 |
| Consolidated net income for 2006                             | -                 | -                                      | -                     | -                | -                 | -               | 73,871                  | - (1,338)                          | -                 | 72,533            |
| Convertible bonds converted into common stock                | 7,504             | 60,848                                 | -                     | -                | -                 | -               | -                       | -                                  | -                 | 68,352            |
| Adjustment due to change in ownership of investee            | -                 | -                                      | 3,725                 | -                | -                 | -               | -                       | -                                  | -                 | 3,725             |
| Issuance of common stock for the acquisition of subsidiaries | 1,636             | 13,957                                 | -                     | -                | -                 | -               | -                       | -                                  | -                 | 15,593            |
| Issuance of stock options of convertible bonds               | -                 | -                                      | -                     | 12,993           | -                 | -               | -                       | -                                  | -                 | 12,993            |
| Cumulative translation adjustments                           | -                 | -                                      | -                     | -                | -                 | -               | -                       | 2,513                              | -                 | 2,513             |
| Minority interest adjustments                                | -                 | -                                      | -                     | -                | -                 | -               | -                       | -                                  | (7,749)           | (7,749)           |
| Balance at December 31, 2006                                 | <u>\$ 114,502</u> | <u>\$ 204,984</u>                      | <u>\$ 3,725</u>       | <u>\$ 12,993</u> | <u>\$ 18,188</u>  | <u>\$ -</u>     | <u>\$ 116,600</u>       | <u>\$ 2,932</u>                    | <u>\$ 5,497</u>   | <u>\$ 479,422</u> |

The accompanying notes are an integral part of these financial statements.  
See report of independent accountants dated April 25, 2007.

CHENG UEI PRECISION INDUSTRY CO., LTD.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2005 AND 2006  
(EXPRESSED IN THOUSANDS OF DOLLARS)

|   | <u>2005</u>               | <u>2006</u>      | <u>2006</u>          |
|---|---------------------------|------------------|----------------------|
|   | <u>New Taiwan Dollars</u> |                  | <u>US Dollars</u>    |
|   |                           |                  | (Unaudited - Note 2) |
| <b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>                                |                           |                  |                      |
| Consolidated net income   | \$ 1,596,742              | \$ 2,364,204     | \$ 72,533            |
| Adjustments to reconcile net income to net cash provided by operating activities: |                           |                  |                      |
| Provision for bad debts   | 61,644                    | 147,441          | 4,523                |
| Depreciation  | 918,068                   | 1,254,999        | 38,503               |
| Amortization  | 87,068                    | 117,657          | 3,610                |
| Gain on valuation of financial assets   | ( 2,328)                  | -                | -                    |
| Provision for inventory obsolescence and market price decline                     | 94,468                    | 181,254          | 5,561                |
| Gain on valuation of financial liabilities  | -                         | ( 500)           | ( 15)                |
| Loss on disposal of property, plant and equipment                                 | 10,303                    | 10,379           | 318                  |
| Income on long-term investments accounted for under the equity method             | 234,375                   | ( 218,134)       | ( 6,692)             |
| Cash dividends received   | 25,000                    | 73,098           | 2,243                |
| Gain on disposal of investments   | -                         | ( 26,241)        | ( 805)               |
| Amortization of issuance costs of convertible bonds                               | 1,139                     | 11,143           | 341                  |
| Exchange loss on revaluation of foreign currency denominated convertible bonds    | 49,265                    | 18,587           | 570                  |
| Amortization of discount of cost of convertible bonds                             | -                         | 30,236           | 928                  |
| Changes in assets and liabilities   |                           |                  | -                    |
| Notes receivable  | 13,761                    | 13,785           | 422                  |
| Accounts receivable - third parties   | ( 1,822,046)              | ( 3,186,034)     | ( 97,746)            |
| Accounts receivable - related parties   | ( 1,816,997)              | 1,931,304        | 59,252               |
| Other receivables - third parties   | ( 168,051)                | ( 56,787)        | ( 1,742)             |
| Other receivables - related parties   | 190,473                   | ( 371,919)       | ( 11,411)            |
| Inventories   | ( 1,532,376)              | ( 1,079,849)     | ( 33,129)            |
| Prepaid expenses  | ( 300,175)                | 338,999          | 10,400               |
| Deferred income tax assets  | ( 39,438)                 | ( 59,039)        | ( 1,811)             |
| Notes payable   | ( 1,064)                  | 59,014           | 1,811                |
| Accounts payable  | 3,021,411                 | 79,094           | 2,426                |
| Accounts payable - related parties  | -                         | 766,157          | 23,505               |
| Income tax payable  | 9,809                     | 244,204          | 7,492                |
| Accrued expenses  | 491,107                   | 429,198          | 13,168               |
| Other payables  | 76,024                    | ( 52,908)        | ( 1,623)             |
| Receipts in advance   | 221,632                   | 282,812          | 8,677                |
| Accrued pension cost  | 12,268                    | 8,153            | 250                  |
| Other liabilities - others  | 12,378                    | ( 14,060)        | ( 432)               |
| Net cash provided by operating activities   | <u>1,444,460</u>          | <u>3,296,247</u> | <u>101,127</u>       |

(Continued)

**CHENG UEI PRECISION INDUSTRY CO., LTD.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS-(Continued)**  
**YEARS ENDED DECEMBER 31, 2005 AND 2006**  
**(EXPRESSED IN THOUSANDS OF DOLLARS)**

|   | 2005               | 2006         | 2006                 |
|---|--------------------|--------------|----------------------|
|   | New Taiwan Dollars |              | US Dollars           |
|   |                    |              | (Unaudited - Note 2) |
| <b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>                                    |                    |              |                      |
| Other receivables - related parties   | \$ 255,323         | \$ -         | \$ -                 |
| Acquisition of property, plant and equipment  | ( 3,675,828)       | ( 4,552,243) | ( 139,661)           |
| Proceeds from disposal of property, plant and equipment                               | 212,720            | 290,906      | 8,925                |
| Increase in short-term investments, net   | ( 220,000)         | ( 138,685)   | ( 4,255)             |
| Increase in deferred assets   | ( 134,837)         | ( 172,757)   | ( 5,300)             |
| Proceeds from disposal of long-term investments accounted for under the equity method | -                  | 40,110       | 1,231                |
| Increase in long-term investments - non-subsidiary                                    | -                  | ( 64,925)    | ( 1,992)             |
| Increase in other assets - others   | ( 360,480)         | ( 29,945)    | ( 919)               |
| Decrease (increase) in deposits-out, net  | ( 35,362)          | 19,256       | 591                  |
| Net cash used in investing activities   | ( 3,958,464)       | ( 4,608,283) | ( 141,380)           |
| <b><u>CASH FLOWS FROM FINANCING ACTIVITIES</u></b>                                    |                    |              |                      |
| Cash dividends  | ( 388,142)         | ( 386,763)   | ( 11,866)            |
| Decrease in short-term loans, net   | ( 266,615)         | ( 286,066)   | ( 8,776)             |
| Increase in long-term loans   | 950,000            | 1,921,514    | 58,951               |
| Decrease in long-term loans   | ( 317,138)         | ( 555,480)   | ( 17,042)            |
| Repayment of long-term lease payable  | ( 95,270)          | -            | -                    |
| Proceeds from issuance of convertible bonds   | 3,194,000          | 4,994,285    | 153,223              |
| Redemption of convertible bonds   | -                  | ( 63,880)    | ( 1,960)             |
| Increase in minority interest   | 468,143            | -            | -                    |
| Net cash provided by financing activities   | 3,544,978          | 5,623,610    | 172,530              |
| Effect of change in exchange rates  | 68,298             | 40,613       | 1,246                |
| Effect of change in consolidated subsidiaries   | 772,352            | -            | -                    |
| Net increase in cash  | 1,871,624          | 4,352,187    | 133,523              |
| Beginning balance of cash   | 1,467,199          | 3,338,823    | 102,434              |
| Ending balance of cash  | \$ 3,338,823       | \$ 7,691,010 | \$ 235,957           |
| <b><u>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</u></b>                       |                    |              |                      |
| Cash paid for interest (Excluding interest capitalized)                               | \$ 151,860         | \$ 298,880   | \$ 9,170             |
| Cash paid for income tax  | \$ 559,830         | \$ 604,305   | \$ 18,540            |
| Non-cash flows from investing and financing activities:                               |                    |              |                      |
| Convertible bonds converted to common stock (including related premium)               | \$ 970,045         | \$ 2,227,927 | \$ 68,352            |
| Acquisition of property, plant and equipment  | \$ 4,010,488       | \$ 4,127,734 | 126,637              |
| Add: Beginning balance of other payables  | 707,392            | 1,042,052    | 31,970               |
| Less: Ending balance of other payables  | ( 1,042,052)       | ( 617,543)   | ( 18,946)            |
| Cash paid   | \$ 3,675,828       | \$ 4,552,243 | \$ 139,661           |

The accompanying notes are an integral part of these financial statements.  
See report of independent accountants dated April 25, 2007.

CHENG UEI PRECISION INDUSTRY CO., LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2005 AND 2006

(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT AS OTHERWISE  
INDICATED)

1. HISTORY OF THE COMPANY

1) Cheng Uei Precision Industry Co., Ltd.

Cheng Uei Precision Industry Co., Ltd. (the Company) was incorporated as a company limited by shares under the provisions of the Company Law of the Republic of China (R.O.C.) on July 14, 1986. The Company engages in the manufacture of cable assemblies, connectors, battery packs, and power modules. Effective September 1999, the shares of the Company were listed on the Taiwan Stock Exchange. As of December 31, 2006, the Company and its subsidiaries had approximately 31,480 employees.

2) Subsidiaries included in the consolidated financial statements and their changes in 2006

| Investor    | Subsidiary                                   | Main activity   | % of shares held as<br>of December 31, |      | Description   |
|-------------|--|---|--|------|---------------|
|             |  |   | 2005                                   | 2006 |               |
| The Company | Cu International Ltd. (Cu)                   | Electronic telecommunication components and holding company | 100%                                   | 100% |               |
| "           | Culink International Ltd. (Culink)           | Holding company   | 100%                                   | 100% | Note 4        |
| "           | Foxlink International Investment Ltd. (FII)  | Holding company   | 100%                                   | 100% |               |
| "           | Fu Uei International Investment Ltd. (FUII)  | Holding company   | 100%                                   | 100% |               |
| "           | Darts Technologies Corporation (Darts)       | Electronic telecommunication and wireless components        | 45.80%                                 | 97%  | Notes 1 and 3 |
| Cu          | Fu Gang Electronics (Dong Guan) Ltd. (FGEDG) | Electronic telecommunication components                     | 100%                                   | 100% |               |
| "           | New Start Industries Ltd. (New Star)         | Holding company   | 100%                                   | 100% |               |

| Investor | Subsidiary   | Main activity                           | % of shares held as of December 31, |        | Description   |
|----------|--|---|-------------------------------------|--------|---------------|
|          |  |   | 2005                                | 2006   |               |
| Cu       | Fu Gang Electronics (Kun Shan) Ltd. (FGEKS)        | Electronic telecommunication components | 100%                                | 100%   |               |
| "        | Dong Guan Fu Shi Chang Co., Ltd. (FSC)             | Electronic telecommunication components | 100%                                | 100%   | Note 4        |
| "        | Foxlink Electronics (Dong Guan) Co., Ltd. (FEDG)   | Electronic telecommunication components | 100%                                | 100%   |               |
| "        | Fox-Electronics (Shang Hai) Co., Ltd. (FESH)       | Electronic telecommunication components | 100%                                | -      |               |
| "        | Foxlink Electronics (Tian Jin) Ltd. (FETJ)         | Electronic telecommunication components | 100%                                | 25%    | Note 9        |
| "        | Dong Guan Fu Qiang Electronics Ltd. (DGFQ)         | Electronic telecommunication components | 100%                                | 100%   | Note 6        |
| "        | Fu Yang Electronics (Kun Shan) (FYEKS)             | Electronic telecommunication components | 100%                                | 100%   | Note 6        |
| "        | Foxlink Beijing Co., Ltd. (FB)                     | Sales agent                             | 100%                                | 100%   |               |
| "        | Neosonic Energy Technology (Tianjin) Ltd. (NE)     | Electronic telecommunication components | -                                   | 100%   | Note 7        |
| "        | Kunshan Fushijing Electronics Co., Ltd. (KFE)      | Electronic telecommunication components | -                                   | 100%   | "             |
| "        | Fox-e Holding Co.                                  | Holding company                         | -                                   | 33.33% | "             |
| "        | Future Victory Ltd.                                | Holding company                         | -                                   | 100%   | "             |
| "        | Solteras Limited                                   | Holding company                         | -                                   | 100%   | "             |
| New Star | Fu Gang Electronics (Tian Jin) Ltd. (FGETJ)        | Electronic telecommunication components | 100%                                | 100%   |               |
| "        | Foxlink Tianjin Co., Ltd. (Foxlink Tianjin)        | Electronic telecommunication components | -                                   | 75%    | Notes 7 and 9 |
| Culink   | Foxlink Singapore Pte. Ltd. (Foxlink Singapore)    | Sales agent                             | 99.99%                              | 99.99% | Note 4        |
| FII      | Everflow Precision Industrial Co., Ltd. (Everflow) | Electronic components                   | 75%                                 | 75%    | Note 2        |
| "        | Vegamedia Technology Co., Ltd. (VT)                | Electronic telecommunication components | 100%                                | 100%   | Note 5        |

| Investor      | Subsidiary   | Main activity  | % of shares held as of December 31, |        | Description       |
|---------------|--|--|-------------------------------------|--------|-------------------|
|               |  |  | 2005                                | 2006   |                   |
| FII           | World Circuit Technology Co., Ltd (WCT)              | Electronic components and flexible printed circuit                   | 69.56%                              | 69.56% |                   |
| WCT           | Value Success Ltd. (VS)                              | Holding company  | 100%                                | 100%   |                   |
| "             | Knowledge United Limited (Knowledge)                 | "  | 100%                                | 100%   |                   |
| VS            | Capital Guardian Limited (Capital)                   | "  | 100%                                | 100%   |                   |
| Capital       | World Circuit Technology Holding, Limited (WCTH)     | "  | 100%                                | 100%   |                   |
| Knowledge     | Foxlink-World Circuit Technology Inc. (FWCT)         | "  | 100%                                | -      | Note 11           |
| WCTH          | World Circuit Production (WCP)                       | "  | 100%                                | 100%   |                   |
| "             | World Circuit Technology (Hong Kong) Limited (WCTHK) | Electronic components  | 100%                                | 100%   |                   |
| WCPL          | Shan Wei World Circuit Technology Co., Ltd. (SWWCT)  | "  | 100%                                | 100%   |                   |
| WCTHK         | Shang Hai World Circuit Technology Co., Ltd. (SHWCT) | "  | 100%                                | 100%   |                   |
| Darts         | Future Victory Ltd. (FV)                             | Holding company  | 100%                                | -      | Notes 1, 3 and 10 |
| FV            | Darts Technologies (Shang Hai) Co., Ltd. (DTSH)      | Research and development of telecommunication (Shang Hai) components | 100%                                | 100%   | Note 3            |
| Fox-e Holding | Fox-Electronics (Shang Hai) Co., Ltd. (FESH)         | Electronic components  | -                                   | 100%   | Notes 7 and 8     |

Note 1 : Investment in Darts began in September 2005.

Note 2 : Everflow has ceased its operations on October 5, 2004 and is under liquidation process.

Note 3 : Financial statements were audited by other independent accountants in 2005.

Note 4 : Financial statements were consolidated based on the unaudited financial statements.

Note 5 : It has ceased operations in August 2005.

Note 6 : Investment or incorporation began in 2005.

Note 7: Investment or incorporation began in 2006.

Note 8: The equities were transferred to FOX-E Holding Co. in 2006.

Note 9: CU and New STAR, the two subsidiaries' consolidated equity holding is 100%.

Note 10: The equities were transferred to the subsidiary, CU, in 2006.

Note 11: FWCT was sold in December 2006.

- 3) The Company does not have over 50% of the voting rights of the subsidiaries in direct or indirect way but still regard it as the subsidiary : None.
- 4) The Company has over 50% of the voting rights of the subsidiaries in direct or indirect way but still not included in the consolidated financial statements : None.
- 5) Subsidiaries not included in the consolidated financial statements : None.
- 6) Difference in accounting period of the parent company and the subsidiaries : None.
- 7) Special operating risk of foreign subsidiaries : None.
- 8) Nature and extent of the restrictions on fund remittance from subsidiaries to the parent company : None.
- 9) Information about subsidiaries holding the parent company's securities : None.
- 10) Information about subsidiaries issue convertible bonds and stocks : None.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Company and its subsidiaries (collectively referred herein as the Group) are prepared in accordance with the “Rules Governing the Preparation of Financial Statements by Securities Issuers”, “Business Entity Accounting Law”, “Regulation on Business Entity Accounting Handling” and generally accepted accounting principles in the Republic of China. The Group’s significant accounting policies are summarized below:

### 1) Basis for preparation of consolidated financial statements

- A. All majority-owned subsidiaries and controlled entities are included in the consolidated financial statements.
- B. All of the inter-company transactions and assets and liabilities arising from inter-company transactions are eliminated in the consolidated financial statements.

### 2) Translation of financial statements of foreign subsidiaries

Assets and liabilities of foreign subsidiaries are translated into New Taiwan dollars using the exchange rates at the balance sheet date. Equity accounts are translated at historical rates except for beginning retained earnings, which is carried forward from prior year’s balance. Dividends are translated at the rates prevailing at the date of declaration. Profit and loss accounts are translated at weighted-average rates of the year. The resulting translation differences are included in “cumulative translation adjustments” under stockholders’ equity.

### 3) Foreign currency transactions

The accounts of the Group are maintained in New Taiwan dollars. Transactions denominated in foreign currencies are translated into New Taiwan dollars at the spot exchange rates prevailing at the date of transactions. Receivables and other monetary assets and liabilities denominated in foreign currencies are translated at the spot exchange rates prevailing at the balance sheet date. Exchange gains or losses are included in current results of operations.

### 4) Classification of current and non-current items

A. Assets that meet one of the following criteria are classified as current assets; otherwise they are classified as non-current assets:

- a) Assets arising from operating activities that are expected to be realized or consumed, or are intended to be sold within the normal operating cycle;
- b) Assets held mainly for trading purposes;
- c) Assets that are expected to be realized within twelve months from the balance sheet date; and
- d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to pay off liabilities more than twelve months after the balance sheet date.

B. Liabilities that meet one of the following criteria are classified as current liabilities; otherwise they are classified as non-current liabilities:

- a) Liabilities arising from operating activities that are expected to be paid off within the normal operating cycle;
- b) Liabilities arising mainly from trading activities;
- c) Liabilities that are to be paid off within twelve months from the balance sheet date; and
- d) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date.

### 5) Financial assets and financial liabilities at fair value through profit or loss

A. Equity and beneficiary certificates are recognized and derecognized using trade date accounting and are recognized initially at fair value.

B. Financial assets at fair value through profit or loss are subsequently remeasured and stated at fair value, and the gain or loss is recognized in profit or loss. The fair value of listed stocks, OTC stocks, closed-end mutual funds, and depositary receipts is based on latest quoted fair prices of the accounting period. The fair value of open-end and balanced mutual funds is based on the net asset value at the balance sheet date.

- C. Derivative instruments that do not qualify for hedge accounting are recognized at a fair value of zero on the trading date. At the balance sheet date, instruments are revalued at fair value. Changes in the fair value are recognized in profit or loss and as adjustments to the carrying amounts of assets and liabilities.
- D. For call options and put options which are embedded in bonds payable, please refer to Note 4 (20).
- E. The accounting policies before December 31, 2005 are described in Note 3.

6) Allowance for doubtful accounts

Allowance for doubtful accounts is provided according to the evaluation of the collectibility of the ending balances of notes receivable, accounts receivable and other receivables.

7) Inventories

Inventories are stated at the lower of aggregate cost or market value. Cost is determined using the weighted-average method. Market value is based on the replacement cost or net realizable value. Provision for slow moving items is charged to current operations.

8) Long-term investments accounted for under equity method

- A. Long-term equity investments in which the Group holds at least 20% of the investee company's voting shares or has the ability to exercise significant influence on the investee's operational decisions are accounted for under the equity method. The excess of the initial investment cost over the acquired net asset value of the investee attributable to goodwill is subject to impairment test periodically and is no longer amortized effective January 1, 2006. Retrospective adjustment of the amount of goodwill amortized in previous years is not required. All majority-owned subsidiaries and controlled entities are accounted for under the equity method and included in the consolidated annual and semi-annual financial statements.
- B. When the Group's proportionate equity interest in any investee changes due to issuance of common shares by the investee, the variance between the investment cost and the Group's proportionate share of the net assets of the investee is adjusted first to capital reserve. If the capital reserve arising from long-term investment is not sufficient, retained earnings is debited.
- C. For foreign investments accounted for under the equity method, the Group's proportionate share of the foreign investee's cumulative translation adjustment resulting from translating the foreign investee's financial statements into New Taiwan dollars is recognized by the Group and is included in a cumulative translation adjustments account in the shareholders' equity.

9) Property, plant and equipment / rental assets

- A. Property, plant and equipment are stated at cost. Cost includes all expenditures incurred before the assets are ready for their intended use. Maintenance and repairs are expensed as incurred. Major renewals and improvements are capitalized and depreciated accordingly.
- B. When an asset is sold or retired, the cost and accumulated depreciation are removed from the respective accounts and the resulting gain or loss is included in the current year's net income.
- C. Depreciation is provided on the straight-line basis using the assets' estimated economic useful lives plus one year as salvage value. Salvage value of fully depreciated assets still in use is depreciated based on the re-estimated useful lives. The useful lives of the fixed assets are as follows:
- |                          |                |
|--------------------------|----------------|
| Buildings                | 50 to 60 years |
| Machinery and equipment  | 2 to 8 years   |
| Transportation equipment | 5 years        |
| Office equipment         | 3 to 5 years   |
| Leasehold improvements   | 3 years        |
| Others                   | 3 to 8 years   |
- D. Fixed assets that are not used in operations are reclassified as rental / idle assets and stated at the lower of book value or net realizable value. Depreciation of these assets is shown under non – operating expenses.

10) Deferred expenses

- A. Through December 31, 2005, expenditures incurred on issuance of convertible bonds are classified as deferred expenses and amortized over the life of the bonds. In cases where the bonds are converted or redeemed before the maturity date, the issuance expenditures are expensed in proportion to the amount of bonds converted or redeemed. The accounting policy on the issuance expenditures for convertible bonds after December 31, 2005 is based on the R.O.C. SFAS No. 36. The related transaction costs for issuance of compound financial instruments are proportionally charged to the liabilities and equities of the underlying instruments based on initial recognition costs.
- B. Computer software expenditures are stated at cost and amortized over the estimated life of 3 years using the straight-line method.
- C. Utility subsidy is stated at cost and amortized over the estimated life of 5 years using the straight-line method.

11) Impairment of non-financial assets

- A. Effective January 1, 2005, the Group recognizes impairment loss when there is indication that the recoverable amount of an asset is less than its carrying amount. The recoverable amount is the higher of the fair value less costs to sell and value in use. The fair value less costs to sell is the amount obtainable from the sale of the asset in an arm's length transaction after deducting any direct incremental disposal costs. The value in use is the present value of estimated future cash flows to be derived from continuing use of the asset and from its disposal at the end of its useful life.
- B. When the impairment no longer exists, the impairment loss recognized in prior years shall be recovered. However, impairment loss of goodwill is not recoverable.

12) Convertible bonds

- A. For bonds payable issued after January 1, 2006, the issuer of a financial instrument shall classify the instrument, or its component parts, on initial recognition as a financial liability, a financial asset or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, a financial asset and an equity instrument. These bonds are accounted for as follows:
- (A) The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortized cost basis until conversion period or the maturity of the bond.
- (B) The value of any derivative features (such as a call option and put option) embedded in the compound financial instrument is recognized as "financial assets and financial liabilities at fair value through profit or loss". At the maturity of redemption period, if the fair value of common stock exceeds the redemption price, the fair value of the derivative is recognized as "paid-in capital"; however if the fair value of common stock is lower than the redemption price, the fair value of the derivative is recognized as "gain or loss".
- (C) A conversion option embedded in the bonds issued by the Group, which is convertible to an equity instrument, is recognized and included in "capital reserve from stock warrants", net of income tax effects. When a bondholder exercises his/her conversion rights, the liability component of the bonds (including corporate bonds and embedded derivatives) shall be revalued, and the resulting difference shall be recognized as "gain or loss" in the current period. The book value of the common stock issued due to the conversion shall be based on the adjusted book value of the abovementioned liability component plus the book value of the stock warrants.

B. Bonds payable issued before December 31, 2005 are accounted for as follows:

- (A) Convertible bonds are stated at their issuance price. The excess of the redemption price over the face value of the convertible bonds is amortized under the interest method over the redemption period.
  - (B) When bonds are converted, the par value of the bonds is credited to common stock and any excess is credited to capital reserve. No gain or loss is recognized on bond conversion.
  - (C) Expenditures incurred on issuance of convertible bonds are classified as deferred assets and amortized over the life of the bonds. In cases where the bonds are converted or redeemed before the maturity date, the issuance expenditures are expensed in proportion to the amount of bonds converted or redeemed.
  - (D) Where bonds are not redeemed during the redemption period, the interest on redemption is amortized under the interest method over the remaining life of the bonds. If the fair value of the underlying shares at the expiry date of the redemption option exceeds the redemption price, the interest on redemption is reclassified to capital reserve.
- C. If the difference between payment amount before the maturity date and the book value at liquidation date is significant, it should be recognized as extraordinary gain or loss.

13) Pension plan

A. The Company

Under the defined benefit pension plan, net periodic pension costs are recognized in accordance with the actuarial calculations. Net periodic pension costs include service cost, interest cost, expected return on plan assets, and amortization of unrecognized net transition obligation and gains or losses on plan assets. Unrecognized net transition obligation is amortized on a straight-line basis over 15 years. Under the defined contribution pension plan, net periodic pension costs are recognized as incurred.

B. The Darts Technologies Corporation

Under the defined benefit pension plan, minimum pension liability is recognized in accordance with the actuarial calculations effective December 31, 2005 and net periodic pension costs are recognized in accordance with the actuarial calculations effective January 1, 2006.

14) Income tax

- A. The provision for income tax includes deferred income tax for the expected future tax consequences of events that have been included in different periods for financial or tax reporting purposes. The tax effects of taxable temporary differences are recorded as deferred income tax liabilities and the tax effects of deductible temporary differences,

net operating losses available to be carried forward and investment tax credits are recorded as deferred income tax assets. Valuation allowance on deferred income tax assets is provided to the extent that it is more likely than not that the tax benefits will not be realized.

- B. In accordance with R.O.C. SFAS No. 12, "Accounting for Investment Tax Credits", investment tax credits resulting from expenditures for acquisition of machinery or technology, research and development, employees trainings, and equity investments are recognized in the year the related expenditures are incurred.
- C. Over or under provision of previous years' income tax liabilities is included in current year's income tax.
- D. The additional 10% tax on the undistributed earnings is recorded as tax expense in the year the stockholders resolve to retain the earnings.

15) Revenues and expenses

Revenues are recognized when the earning process is substantially completed and they are realized or realizable. Costs and expenses are recognized as incurred.

16) Earnings per share

- A. Basic earnings per share is calculated by dividing net income by the weighted average number of shares outstanding during the year after taking into consideration the retroactive effect of stock dividends and capital reserve capitalized.
- B. Basic and diluted earnings per share are disclosed if there are potential common stocks resulting from issuance of convertible bonds.

17) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and amounts of revenues and expenses during the reporting period. Actual results could differ from those assumptions and estimates.

18) Convenience translation into US dollars

The Group maintains its accounting records and prepares its financial statements in New Taiwan dollars. The United States dollar amounts disclosed in the 2006 financial statements are presented solely for the convenience of the reader and were translated to US dollars using the average of buying and selling exchange rates of US\$1.00 (in dollar): NT\$32.595(in dollars) at December 31, 2006. Such translation amounts are unaudited and should not be construed as representations that the New Taiwan dollar amounts represent, have been, or could be converted into United States dollars at that or any other rate.

### 3. EFFECTS OF CHANGES IN ACCOUNTING PRINCIPLES

#### 1) Impairment

Effective January 1, 2005, the Group adopted R.O.C. SFAS No. 35, "Accounting for Impairment of Asset". The adoption of this new accounting principle had no significant effect on the financial statements as of and for the year ended December 31, 2005.

#### 2) Goodwill

- A. Effective January 1, 2006, the Group adopted the amended R.O.C. SFAS No. 1, No. 5, No. 7, No. 25 and No. 35, which discontinued the amortization of goodwill. The adoption of these standards had no significant effect on the financial statements as of and for the year ended December 31, 2006.
- B. Before December 31, 2005, long-term equity investments in which the Group holds more than 20% of the investee company's voting shares or has the ability to exercise significant influence on the investee's operational decisions are accounted for under the equity method. The excess of the initial investment cost over the acquired net asset value of the investee attributable to goodwill is amortized for 5 years.

#### 3) Financial instruments

- A. Effective January 1, 2006, the Group adopted R.O.C. SFAS No. 34, "Accounting for Financial Instruments", and No. 36, "Disclosure and Presentation of Financial Instruments" and properly reclassified certain accounts in the December 31, 2005 financial statements based on its holding purposes and abilities in accordance with the "Rules Governing the Preparation of Financial Statements of Securities Issuers" and R.O.C. SFAS No. 34 and No. 36.
- B. The accounting policies before December 31, 2005 were as follows:
- a. Short-term investments were stated at the lower of aggregate cost or market value. Cost was determined using the weighted-average method. Any loss due to the decline in market value was recognized in the current period. The market value of open-end and balance mutual funds was based on the net asset value at the balance sheet date.
  - b. Forward exchange contracts entered into for hedging purpose were recorded at the spot exchange rate at the contract date. The difference between the spot exchange rate at the contract date and the forward rate was amortized over the life of the contract. At the balance sheet date, the outstanding contracts were revalued using the spot exchange rate at that date. The resulting exchange gain or loss was recognized in the current period. The exchange gain or loss occurring on settlement date was recognized as incurred.
- C. These changes in accounting principles had no significant effect on the financial statements as of and for the year ended December 31, 2006.

#### 4. DETAILS OF SIGNIFICANT ACCOUNTS

##### 1) Cash

|                   | December 31,        |                     |                         |
|-------------------|---------------------|---------------------|-------------------------|
|                   | 2005                | 2006                | 2006                    |
|                   | New Taiwan Dollars  |                     | US Dollars              |
|                   |                     |                     | (Unaudited)<br>(Note 2) |
| Cash on hand      | \$ 11,278           | \$ 6,862            | \$ 211                  |
| Checking accounts | 234,995             | 292,240             | 8,966                   |
| Demand deposits   | 2,772,369           | 2,068,198           | 63,451                  |
| Time deposits     | 320,181             | 5,323,710           | 163,329                 |
|                   | <u>\$ 3,338,823</u> | <u>\$ 7,691,010</u> | <u>\$ 235,957</u>       |

##### 2) Accounts receivable - third parties

|                                       | December 31,        |                     |                         |
|---------------------------------------|---------------------|---------------------|-------------------------|
|                                       | 2005                | 2006                | 2006                    |
|                                       | New Taiwan Dollars  |                     | US Dollars              |
|                                       |                     |                     | (Unaudited)<br>(Note 2) |
| Accounts receivable                   | \$ 5,877,542        | \$ 9,044,466        | \$ 277,480              |
| Less: Allowance for doubtful accounts | ( 211,809)          | ( 340,140)          | ( 10,435)               |
|                                       | <u>\$ 5,665,733</u> | <u>\$ 8,704,326</u> | <u>\$ 267,045</u>       |

On December 28, 2005, the Group entered into an agreement with Chinatrust Commercial Bank to sell its accounts receivable. Under the agreement, the Group is not required to bear uncollectible risk of the underlying accounts receivable, but is liable for the losses incurred on any business dispute. [As the Group provided Chinatrust Commercial Bank with a Note of \\$548,925 as collateral for any business dispute on December 31, 2006, these accounts receivable meet the derecognition criteria for financial assets. The Group has derecognized the accounts receivable sold to Chinatrust Commercial Bank, net of the losses estimated for possible business disputes.](#)

As of December 31, 2006, the outstanding accounts receivable sold to Chinatrust Commercial Bank were as follows:

|                               | December 31, 2006                      |                                |                        |            |                    |                  |                    |
|-------------------------------|--|--------------------------------|------------------------|------------|--------------------|------------------|--------------------|
|                               | Purchaser of<br>accounts<br>receivable | Accounts<br>receivable<br>sold | Amount<br>derecognized | Limit      | Amount<br>advanced | Interest<br>rate | Amount<br>retained |
| Chinatrust<br>Commerical Bank |  | <u>\$ 88,084</u>               | <u>\$ 88,084</u>       | \$ 548,925 | <u>\$ 79,296</u>   | 2.26%<br>~6.36%  | <u>\$ 8,808</u>    |

### 3) Inventories

|  | December 31,        |                     |                         |
|--|---------------------|---------------------|-------------------------|
|  | 2005                | 2006                | 2006                    |
|  | New Taiwan Dollars  |                     | US Dollars              |
|  |                     |                     | (Unaudited)<br>(Note 2) |
| Finished goods   | \$ 1,381,992        | \$ 2,857,257        | \$ 87,660               |
| Work in process  | 169,630             | 60,404              | 1,853                   |
| Raw materials  | 2,611,881           | 2,409,365           | 73,918                  |
| Inventory in transit   | 103,532             | 12,720              | 390                     |
| Merchandise inventory  | <u>8,408</u>        | <u>14,763</u>       | <u>453</u>              |
|  | 4,275,443           | 5,354,509           | 164,274                 |
| Less: Allowance for inventory<br>obsolescence and decline in<br>market value | ( 203,979)          | ( 384,699)          | ( 11,802)               |
|  | <u>\$ 4,071,464</u> | <u>\$ 4,969,810</u> | <u>\$ 152,472</u>       |

### 4) Long-term equity investments accounted for under the equity method

| Investee                           | 2006 ownership<br>percentage (%) | December 31,        |                     |                         |
|------------------------------------|----------------------------------|---------------------|---------------------|-------------------------|
|                                    |                                  | 2005                | 2006                | 2006                    |
|                                    |                                  | New Taiwan Dollars  |                     | US Dollars              |
|                                    |                                  |                     |                     | (Unaudited)<br>(Note 2) |
| <u>Equity method:</u>              |                                  |                     |                     |                         |
| Foxlink Image Technology Co., Ltd. | 29.59%                           | \$ 556,545          | \$ 671,748          | \$ 20,609               |
| World Circuit Technology Co., Ltd. | 24.72%                           | 446,371             | 586,475             | 17,993                  |
| Microlink Communications Inc.      | 28.57%                           | 98,020              | 78,573              | 2,410                   |
| Solteras Inc.                      | 49.00%                           | -                   | 87,319              | 2,679                   |
|                                    |                                  | <u>\$ 1,100,936</u> | <u>\$ 1,424,115</u> | <u>\$ 43,691</u>        |

The total net investment income recognized by the Group under the equity method based on the audited financial statements of the non-consolidated subsidiaries was \$234,375 and \$218,134 (US\$6,692) in 2005 and 2006, respectively, except for Culink's financial statements which were unaudited.

5) Property, plant and equipment

The details of accumulated depreciation were as follows:

|                          | December 31,        |                     |                         |
|--------------------------|---------------------|---------------------|-------------------------|
|                          | 2005                | 2006                | 2006                    |
|                          | New Taiwan Dollars  |                     | US Dollars              |
|                          |                     |                     | (Unaudited)<br>(Note 2) |
| Buildings                | \$ 301,910          | \$ 398,558          | \$ 12,228               |
| Machinery and equipment  | 1,854,600           | 2,388,135           | 73,267                  |
| Transportation equipment | 16,364              | 19,002              | 583                     |
| Office equipment         | 58,438              | 60,764              | 1,864                   |
| Leased assets            | 78,324              | -                   | -                       |
| Leasehold improvements   | 113,754             | 79,594              | 2,442                   |
| Other equipment          | 440,563             | 628,866             | 19,293                  |
|                          | <u>\$ 2,863,953</u> | <u>\$ 3,574,919</u> | <u>\$ 109,677</u>       |

A. The lease payables for the leased assets (included in “ Long-term liabilities - current portion) above were totally refunded in January 2006.

B. Interest capitalized on property, plant and equipment amounted to \$2,461 and \$19,854 (US\$609) for the years ended December 31, 2005 and 2006, respectively.

6) Short-term loans

|                       | December 31,        |                     |                         |
|-----------------------|---------------------|---------------------|-------------------------|
|                       | 2005                | 2006                | 2006                    |
|                       | New Taiwan Dollars  |                     | US Dollars              |
|                       |                     |                     | (Unaudited)<br>(Note 2) |
| Unsecured loans       | \$ 3,205,832        | \$ 3,051,254        | \$ 93,611               |
| Secured loans         | 131,488             | -                   | -                       |
|                       | <u>\$ 3,337,320</u> | <u>\$ 3,051,254</u> | <u>\$ 93,611</u>        |
| Annual interest rates | <u>0.65%~5.38%</u>  | <u>4.87%~6.17%</u>  | <u>4.87%~6.17%</u>      |

7) Accrued expenses

|                          | December 31,        |                     |                         |
|--------------------------|---------------------|---------------------|-------------------------|
|                          | 2005                | 2006                | 2006                    |
|                          | New Taiwan Dollars  |                     | US Dollars              |
|                          |                     |                     | (Unaudited)<br>(Note 2) |
| Accrued conversion fee   | \$ 326,454          | \$ 573,697          | \$ 17,601               |
| Accrued salary and bonus | 384,002             | 607,881             | 18,650                  |
| Accrued sales commission | 13,084              | 191,357             | 5,871                   |
| Others                   | 669,907             | 449,710             | 13,796                  |
|                          | <u>\$ 1,393,447</u> | <u>\$ 1,822,645</u> | <u>\$ 55,918</u>        |

8) Bonds payable

|                                  | December 31,        |                     |                         |
|----------------------------------|---------------------|---------------------|-------------------------|
|                                  | 2005                | 2006                | 2006                    |
|                                  | New Taiwan Dollars  |                     | US Dollars              |
|                                  |                     |                     | (Unaudited)<br>(Note 2) |
| Unsecured Euro convertible bonds | \$ 2,273,220        | \$ -                | \$ -                    |
| Unsecured convertible bonds      | -                   | 5,000,000           | 153,398                 |
|                                  | 2,273,220           | 5,000,000           | 153,398                 |
| Less: Discount on bonds payable  | -                   | ( 608,973)          | ( 18,683)               |
|                                  | <u>\$ 2,273,220</u> | <u>\$ 4,391,027</u> | <u>\$ 134,715</u>       |

A. On July 28, 2006, the Company issued its first unsecured convertible bonds. The major terms of the bonds are summarized below:

(A) Principal amount: \$5,000,000

(B) Issuance price: 100%

(C) Coupon rate: 0%

(D) Issue period: 5 years (October 9, 2006 to October 8, 2011)

(E) Conversion period: September 9, 2006 to September 9, 2011

(F) Conversion right:

The bonds are convertible into the Company's common shares at the conversion price in effect on the conversion date.

(G) Conversion price:

a. The initial conversion price at issuance of the bonds is NT\$154.1 (in dollars) per share.

- b. The conversion price is subject to adjustment based on the prescribed formula upon the occurrence of certain events, including (i) distribution of stock dividends, (ii) distribution of cash dividends, (iii) distribution of employee bonus by issuing new shares, (iv) the issue of shares due to cash infusion, (v) cash infusion for the issuance of global depository receipts, or (vi) other events set out in the trust deed that will have a dilutive effect on the bondholders' rights.
  - c. In the event that the average closing price of the common shares for a period of 20 consecutive trading days is lower than or equal to 80% of the conversion price, the conversion price will be adjusted and reset at the lowest of the average closing price of the common shares of 1, 3 or 5 consecutive trading days prior to the next day of the last day of the underlying 20 consecutive trading days multiplied by the conversion premium rate of 110%. The adjusted conversion price shall be higher than the sampling basic price upon reset and not be less than 80% of the conversion price at issuance of the bonds. The conversion price of the Company's first unsecured convertible bonds was adjusted from NT\$154.1 (in dollars) per share to NT\$125.4 (in dollars) per share starting on April 10, 2007.
  - d. In the event that the average closing price of the common shares for a period of 20 consecutive trading days is higher than or equal to 120% of the conversion price, the conversion price will be adjusted and reset at the lowest of the average closing price of the common shares of 1, 3 or 5 consecutive trading days prior to the next day of the last day of the underlying 20 consecutive trading days multiplied by the conversion premium rate of 110%. The adjusted conversion price shall be higher than the sampling basic price upon reset and not be higher than 110% of the conversion price at issuance of the bonds.
  - e. The effective interest rate of convertible bonds issued by the Company was 2.77%.
- (H) Call option: The Company may purchase the outstanding bonds at face value within 30 trading days after the following events, provided that (i) the closing price of the shares for a period of 30 consecutive trading days is above 150% of the conversion price, or (ii) the amount of the outstanding bonds is less than 10% of the initial issuance amount of convertible bonds, from the day after the first month of issuance of the bonds to 40 days prior to the maturity date of the bonds.
- (I) Put option: The Company should redeem such bonds in the third year and fourth year after the issuance of convertible bonds at face value upon the request of the bondholders.

(J) Under the terms of the convertible bonds, the rights and obligations of the new shares converted from convertible bonds are the same as the issued and outstanding common stock.

B. The fair value of convertible option was separated from bonds payable, and was recognized in “Capital reserve from stock warrants” in accordance with SFAS No. 36. The fair value of put and call options embedded in bonds payable was separated from bonds payable, and was recognized in “Financial assets or liabilities at fair value through profit or loss”.

C. On July 6, 2005, the Company issued its second unsecured Euro convertible bonds. The principal amount of the second unsecured Euro convertible bonds is US\$100 million.

As of December 31, 2006, convertible bonds totaling US\$98,000,000 had been converted into 35,670,000 shares of the Company’s common stock. The capital reserve resulting from the bond conversion amounted to \$2,841,279 (US\$87,169).

9) Long-term loans

|                       |   | December 31,       |                    |                         |
|-----------------------|---|--------------------|--------------------|-------------------------|
|                       |   | 2005               | 2006               | 2006                    |
|                       |   | New Taiwan Dollars |                    | US Dollars              |
|                       |   |                    |                    | (Unaudited)<br>(Note 2) |
| Unsecured bank loans  | Monthly interest payment and principal due May 2006 to August 2009. | \$ -               | \$ 1,921,514       | \$ 58,951               |
| Unsecured bank loans  | Principal due in five installments starting from October 27, 2007.  | 1,055,480          | 500,000            | 15,340                  |
|                       |   | 1,055,480          | 2,421,514          | 74,291                  |
| Less: Current portion |   | ( 105,480)         | ( 1,899,894)       | ( 58,288)               |
|                       |   | <u>\$ 950,000</u>  | <u>\$ 521,620</u>  | <u>\$ 16,003</u>        |
| Annual interest rate  |   | <u>2.05%~2.15%</u> | <u>2.35%~6.17%</u> | <u>2.35%~6.17%</u>      |

A. The syndicated loan agreement was signed on October 27, 2004 through a bank consortium with 10 banks led by Citibank N.A. Taipei. Credit facilities provided by this syndication include NTD Medium Term Loan.

The provisions of said Agreement are summarized below:

a) Termination date:

NTD Medium Term Loan: 5-year from the signing date and payable in 5 semi-annual installments starting from October 27, 2007.

b) Draw down:

NTD Medium Term Loan: \$1,500,000, term loan basis, availability period: 5 years from the signing date.

c) Repayment:

NTD Medium Term Loan: 5 semi-annual installments after 3 years of the signing date.

d) Undertaking and covenants:

(1) During the load period, the Company shall at all times maintain the following financial ratios:

- Minimum current ratio of 100%
- Maximum debt to equity of 130%
- Minimum interest coverage ratio of 200%
- Minimum tangible net worth of \$6,000,000

(2) During the load period, without having first obtained the prior written consent of the Lenders, the Company shall not:

- Merge, reorganize or consolidate with any other corporation or have a material adverse change in ownership.
- Deal with the third party with unusual transaction terms.
- Provide loan to the third party which may have effect on its ability to make repayment on this syndication loan.
- Provide guarantee and endorsement to the third party, which is not defined in its articles of incorporation.
- Enter into any lease or rental agreements relating to all or any significant portion of its properties and assets; or sell, transfer or dispose of all or any significant portion of its properties and assets.

10) Retirement plan

A. The Company has a non-contributory and funded defined benefit pension plan in accordance with the Labor Standards Law, covering all regular employees. Under the defined benefit plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Company contributes monthly an amount equal to 2% of the employees' monthly salaries and wages to the retirement fund deposited with Central Trust of China, the trustee, under the name of the independent retirement fund committee.

The following sets forth the pension information based on the actuarial report:

a) Actuarial assumptions

|                                     | For the years ended<br>December 31, |       |
|-------------------------------------|-------------------------------------|-------|
|                                     | 2005                                | 2006  |
| Discount rate                       | 3.75%                               | 3.75% |
| Rate of increase in compensation    | 3.00%                               | 3.00% |
| Expected return rate on plan assets | 2.75%                               | 2.75% |

b) Funded status of the pension plan

|   | December 31,       |             |                         |
|---|--------------------|-------------|-------------------------|
|   | 2005               | 2006        | 2006                    |
|   | New Taiwan Dollars |             | US Dollars              |
|   |                    |             | (Unaudited)<br>(Note 2) |
| Benefit obligation:   |                    |             |                         |
| Vested benefit obligation   | (\$ 19,576)        | (\$ 20,878) | (\$ 641)                |
| Nonvested benefit obligation  | ( 97,331)          | ( 104,014)  | ( 3,191)                |
| Accumulated benefit obligation  | ( 116,907)         | ( 124,892)  | ( 3,832)                |
| Additional benefits based on future<br>salaries increase  | ( 52,061)          | ( 57,057)   | ( 1,750)                |
| Projected benefit obligation  | ( 168,968)         | ( 181,949)  | ( 5,582)                |
| Fair value of plan assets   | 47,474             | 50,713      | 1,556                   |
| Funded status   | ( 121,494)         | ( 131,236)  | ( 4,026)                |
| Unrecognized net transition obligation  | 4,999              | 1,382       | 42                      |
| Unrecognized prior service cost   | 12,611             | 30,242      | 928                     |
| Unrecognized pension loss   | 36,550             | 24,134      | 740                     |
| Additional pension liabilities  | ( 2,098)           | -           | -                       |
| Difference between the amount of<br>accrued pension liability per actuarial<br>report and per books | -                  | ( 9)        | -                       |
| Accrued pension liability   | (\$ 69,432)        | (\$ 75,487) | (\$ 2,316)              |
| Vested benefit  | \$ 23,775          | \$ 24,635   | \$ 756                  |

c) Net pension cost comprises the following

|  | December 31,       |                  |                                       |
|--|--------------------|------------------|---------------------------------------|
|  | 2005               | 2006             | 2006                                  |
|  | New Taiwan Dollars |                  | US Dollars<br>(Unaudited)<br>(Note 2) |
| Service cost   | \$ 12,708          | \$ 6,696         | \$ 206                                |
| Interest cost  | 5,560              | 6,106            | 187                                   |
| Expected return on plan assets                         | ( 1,134)           | ( 1,228)         | ( 37)                                 |
| Amortization of unrecognized net transition obligation | 276                | 276              | 8                                     |
| Amortization of prior service cost                     | 2,102              | 2,102            | 64                                    |
| Amortization of unrecognized pension loss              | 1,625              | 1,689            | 52                                    |
| Net periodic pension cost                              | <u>\$ 21,137</u>   | <u>\$ 15,641</u> | <u>\$ 480</u>                         |

B. Effective July 1, 2005, the Company has established an additional funded defined contribution pension plan (the New Plan) under the Labor Pension Act. Employees have the option to be covered under the New Plan. Under the New Plan, the Company contributes monthly an amount based on 6% of the employees' monthly salaries and wages to the employees' individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are portable when the employees are terminated. The net pension costs recognized under the New Plan for the years ended December 31, 2006 and 2005 were \$40,286 (US\$1,236) and \$18,735, respectively.

C. Foxlink Singapore, FWCT, WCTHK, WCP and the Company's mainland subsidiaries have a funded defined contribution plan. Monthly contributions are based on the employees' monthly salaries and wages to an independent fund administered by the government in accordance with the pension regulations.

#### 11) Common stock

As of December 31, 2005 and 2006, the Company's authorized common stock was 400,000,000 shares and 500,000,000 shares, respectively (including 55,000,000 shares and 50,000,000 shares reserved for the issuance of convertible bonds and 15,000,000 shares reserved for the issuance of employees' warrants), and the issued and outstanding shares were 303,848,107 shares and 373,220,739 shares, respectively, with a par value of NT\$10 (in dollars) per share.

12) Capital reserve

A. The R.O.C. Company Law requires that capital reserve shall be exclusively used to cover accumulated deficit or to increase capital and shall not be used for any other purpose. However, capital reserve arising from paid-in capital in excess of par value on issuance of common stock and donations can be capitalized once a year, provided that the Company has no accumulated deficit and the amount to be capitalized does not exceed 10% of the paid-in capital.

B. Please see Note 4 (8) for detailed information.

13) Retained earnings

A. Based on the Company's Articles of Incorporation, the current year's earnings, if any, shall first be used to pay all taxes and offset prior year's operating losses and then 10% of the remaining amount shall be set aside as legal reserve. The remainder shall be appropriated as (a) 0.10% as remuneration to directors and supervisors; (b) 8%~12% as bonus to employees, and (c) as dividends to stockholders.

B. According to the Company's Articles of Incorporation, at least 30% to 90% of the distributable retained earnings shall be distributed as stockholders' bonus, of which a major portion is payable by shares and the balance by cash, which will be defined and approved during the stockholders' meeting. In general, cash dividend distributed in any calendar year shall be at least 20% of the total distributable earnings in that year.

C. The legal reserve can only be used to offset losses or to increase capital when the Company's accumulated legal reserve has reached 50% of its paid-in capital, and only one half of the legal reserve balance may be capitalized.

D. In accordance with the applicable laws and regulations, in addition to the appropriation for legal reserve and prior to distribution of earnings, the Company should set aside a special reserve from retained earnings equal to the net reduction of shareholders' equity as of the end of the current year, resulting from adjustments such as cumulative translation adjustments and unrealized losses on long-term investments.

E. In 2005 and 2006, the stockholders at their meeting adopted a resolution to issue cash and stock dividends as follows:

|                             | <u>2005</u> | <u>2006</u> |
|-----------------------------|-------------|-------------|
| Cash dividend (in dollars)  | \$ 1.5      | \$ 1.2      |
| Stock dividend (in dollars) | \$ 1.0      | \$ 1.0      |

F. The resolution for the distribution of 2006 earnings has not been adopted by the Board of Directors. The resolutions in relation to the Company's distribution of earnings, which have been adopted by the Board of Directors and approved in the stockholders' meetings, are posted on the official website of the Taiwan Stock Exchange. The information on the distribution of 2005 earnings in accordance with the resolution adopted by the Board of Directors and approved in the stockholders' meeting is as follows:

a) Appropriation

|  |                      |
|--|----------------------|
| (1) Cash bonuses to employees                      | <u>\$ 23,301</u>     |
| (2) Stock bonuses to employees                     |                      |
| ① Shares   | <u>7,350,000</u>     |
| ② Amount   | <u>\$ 73,500,000</u> |
| ③ % of outstanding shares as of December 31, 2005. | <u>2.42%</u>         |
| (3) Remuneration to directors and supervisors      | <u>\$ 807</u>        |

b) Earnings per common share

|  |                |
|--|----------------|
| (1) Original earnings per common share               | <u>\$ 5.39</u> |
| (2) Retroactively adjusted earnings per common share | <u>\$ 5.06</u> |

14) Income tax

A. Income tax expense and income tax payable are reconciled as follows:

|   | December 31,       |                   |                                       |
|---|--------------------|-------------------|---------------------------------------|
|   | 2005               | 2006              | 2006                                  |
|   | New Taiwan Dollars |                   | US Dollars<br>(Unaudited)<br>(Note 2) |
| Income tax payable  | \$ 294,896         | \$ 539,100        | \$ 16,539                             |
| Net change of deferred income<br>tax assets and liabilities | ( 39,438)          | ( 59,040)         | ( 1,811)                              |
| Under provision of prior<br>year's income tax               | 9,162              | 24,584            | 754                                   |
| Prepaid income tax  | 265,581            | 284,826           | 8,739                                 |
|   | <u>\$ 530,201</u>  | <u>\$ 789,470</u> | <u>\$ 24,221</u>                      |
| Current income tax expense                                  | 462,877            | 721,359           | 22,131                                |
| 10% income tax on prior year's<br>undistributed earnings    | 67,324             | 68,111            | 2,090                                 |
| Income tax expense  | <u>\$ 530,201</u>  | <u>\$ 789,470</u> | <u>\$ 24,221</u>                      |

B. The temporary differences and related amounts of deferred income tax assets (liabilities) were as follows:

|  | December 31,       |                  |                    |                   |
|--|--------------------|------------------|--------------------|-------------------|
|  | 2005               |                  | 2006               |                   |
|  | Amount             | Tax effect       | Amount             | Tax effect        |
|  | New Taiwan Dollars |                  | New Taiwan Dollars |                   |
| Current (shown as part of other current assets):                           |                    |                  |                    |                   |
| Temporary differences  |                    |                  |                    |                   |
| Allowance for doubtful accounts  | \$ 125,741         | \$ 31,435        | \$ 225,709         | \$ 56,427         |
| Unrealized exchange loss   | 28,759             | 7,190            | 19,306             | 4,826             |
| Allowance for inventory loss   | 191,036            | 47,759           | 380,590            | 95,147            |
| Others   | 38,868             | 9,717            | 136,018            | 34,005            |
|  |                    | <u>\$ 96,101</u> |                    | <u>\$ 190,405</u> |
| Non-Current:   |                    |                  |                    |                   |
| Temporary differences  |                    |                  |                    |                   |
| Pension expense  | \$ 67,728          | \$ 16,932        | \$ 75,478          | \$ 18,870         |
| Foreign long-term investment loss<br>accounted for under the equity method | 211,821            | 52,955           | 259,039            | 64,759            |
|  |                    | 69,887           |                    | 83,629            |
| Investment tax credits   |                    | 197,510          |                    | 152,198           |
| Valuation allowance  |                    | ( 214,504)       |                    | ( 176,095)        |
| Cumulative translation adjustments   |                    | ( 4,555)         |                    | ( 46,659)         |
|  |                    | <u>\$ 48,338</u> |                    | <u>\$ 13,073</u>  |
|  |                    |                  | December 31, 2006  |                   |
|  |                    |                  | Amount             | Tax effect        |
|  |                    |                  | US Dollars         |                   |
|  |                    |                  | (Unaudited)        |                   |
|  |                    |                  | (Note 2)           |                   |
| Current (shown as part of other current assets):                           |                    |                  |                    |                   |
| Temporary differences  |                    |                  |                    |                   |
| Allowance for doubtful accounts  |                    |                  | \$ 6,925           | \$ 1,731          |
| Unrealized exchange loss   |                    |                  | 592                | 148               |
| Allowance for inventory loss   |                    |                  | 11,676             | 2,919             |
| Others   |                    |                  | 4,173              | 1,044             |
|  |                    |                  |                    | <u>\$ 5,842</u>   |
| Non-Current:   |                    |                  |                    |                   |
| Temporary differences  |                    |                  |                    |                   |
| Pension expense  |                    |                  | \$ 2,316           | \$ 579            |
| Foreign long-term investment loss<br>accounted for under the equity method |                    |                  | 7,947              | 1,987             |
|  |                    |                  |                    | 2,566             |
| Investment tax credits   |                    |                  |                    | 4,669             |
| Valuation allowance  |                    |                  |                    | ( 5,403)          |
| Cumulative translation adjustments   |                    |                  |                    | ( 1,431)          |
|  |                    |                  |                    | <u>\$ 401</u>     |

C. As of December 31, 2005 and 2006, the imputation tax credit account balance and the creditable tax ratio of the total distributed retained earnings were as follows:

|   | December 31,       |                    |                         |
|---|--------------------|--------------------|-------------------------|
|   | 2005               | 2006               | 2006                    |
|   | New Taiwan Dollars |                    | US Dollars              |
|   |                    |                    | (Unaudited)<br>(Note 2) |
| Imputation tax credit account balance                           | \$ 249,207         | \$ 778,297         | \$ 23,878               |
| Creditable tax ratio of the total distributed retained earnings | 35.27%<br>(Note A) | 20.66%<br>(Note B) | 20.66%<br>(Note B)      |

Note A : The ratio represents the actual creditable ratio.

Note B : The ratio represents the estimated creditable ratio.

D. As of December 31, 2005 and 2006, the details of unappropriated retained earnings are as follows:

|  | December 31,        |                     |                         |
|--|---------------------|---------------------|-------------------------|
|  | 2005                | 2006                | 2006                    |
|  | New Taiwan Dollars  |                     | US Dollars              |
|  |                     |                     | (Unaudited)<br>(Note 2) |
| Earnings generated in 1997 and prior years | \$ 40,389           | \$ 40,389           | \$ 1,239                |
| Earnings generated in 1998 and thereafter  | 2,260,817           | 3,760,198           | 115,361                 |
|  | <u>\$ 2,301,206</u> | <u>\$ 3,800,587</u> | <u>\$ 116,600</u>       |

E. As of December 31, 2006, the Company's income tax returns through 2004 have been approved by the Tax Authority and additional income tax of \$7,982 (US\$245) and \$17,217 (US\$528) was assessed for year 1999 and year 2002, respectively. The Company has filed an appeal for reassessment with the Tax Authority. The reassessment by the Tax Authority is on-going as of April 25, 2007. The Company has provided for the additional income tax liabilities stated above.

F. The consolidated subsidiaries of the Company, FGEND and FGEKS, etc. are foreign-invested enterprises established in PRC. Under the income tax laws for foreign invested enterprises and foreign enterprises of PRC and related regulations, these companies are exempt from corporate income tax for the first two profit-making years and enjoy a 50% income tax reduction from the third to the fifth profit-making years. In addition, FGETJ is a foreign-invested enterprise of new technology products established in PRC. Under the related tax regulations, it enjoys a 50% income tax reduction for five profit-making years it exports 20% of its annual products.

15) Earnings per common share

|  | For the year ended December 31, 2005 |              |  |                    |           |
|--|--------------------------------------|--------------|--|--------------------|-----------|
|  | Amount                               |              | Weighted-average<br>Outstanding<br>Common Shares<br>(in thousand shares) | Earnings Per Share |           |
|  | Before tax                           | After tax    |  | Before tax         | After tax |
|  |                                      |              |  |                    |           |
| Net income attributable to equity holders of the Company | \$ 2,098,091                         | \$ 1,589,228 |  |                    |           |
| Basic earnings per share                                 |                                      |              | 329,680  | \$ 6.43            | \$ 4.82   |
| Effect of dilutive common stock equivalents              |                                      |              |  |                    |           |
| Convertible bonds  | -                                    | -            | 16,548   |                    |           |
| Diluted earnings per share                               | \$ 2,098,091                         | \$ 1,589,228 | 346,228  | \$ 6.12            | \$ 4.59   |

|  | For the year ended December 31, 2006 |               |  |                                 |             |
|--|--------------------------------------|---------------|--|---------------------------------|-------------|
|  | Amount                               |               | Weighted-average<br>Outstanding<br>Common Shares<br>(in thousand shares) | Earnings Per Share (in dollars) |             |
|  | Before tax                           | After tax     |  | Before tax                      | After tax   |
|  |                                      |               |  |                                 |             |
| Net income attributable to equity holders of the Company | \$ 3,178,647                         | \$ 2,407,804  |  |                                 |             |
| Basic earnings per share                                 |                                      |               | 366,399  | \$ 8.68                         | \$ 6.57     |
| Effect of dilutive common stock equivalents              |                                      |               |  | (US\$ 0.27)                     | (US\$ 0.20) |
| Convertible bonds  | 29,736                               | 22,302        | 9,176  |                                 |             |
| Euro convertible bonds                                   | -                                    | -             | 6,822  |                                 |             |
| Diluted earnings per share                               | \$ 3,208,383                         | \$ 2,430,106  | 382,397  | \$ 8.39                         | \$ 6.35     |
|  | (US\$ 98,432)                        | (US\$ 74,555) |  | (US\$ 0.25)                     | (US\$ 0.19) |

16) Personnel, depreciation and amortization expenses

The Group's personnel, depreciation and amortization expenses are as follows:

|                       | For the year ended December 31, 2005 |            |              |
|-----------------------|--------------------------------------|------------|--------------|
|                       | Cost of                              | Operating  | Total        |
|                       | goods sold                           | expenses   |              |
| New Taiwan Dollars    |                                      |            |              |
| Personnel expenses    |                                      |            |              |
| Salaries              | \$ 1,118,323                         | \$ 962,064 | \$ 2,080,387 |
| Insurance             | 16,288                               | 34,690     | 50,978       |
| Pension               | 5,355                                | 29,456     | 34,811       |
| Others                | 173,056                              | 71,441     | 244,497      |
| Depreciation (Note b) | 543,439                              | 345,320    | 888,759      |
| Amortization          | 37,559                               | 34,036     | 71,595       |

|                       | For the year ended December 31, 2006 |              |              |
|-----------------------|--------------------------------------|--------------|--------------|
|                       | Cost of                              | Operating    | Total        |
|                       | goods sold                           | expenses     |              |
| New Taiwan Dollars    |                                      |              |              |
| Personnel expenses    |                                      |              |              |
| Salaries              | \$ 1,647,217                         | \$ 1,445,099 | \$ 3,092,316 |
| Insurance             | 14,348                               | 54,602       | 68,950       |
| Pension               | 7,772                                | 48,155       | 55,927       |
| Others                | 262,873                              | 79,139       | 342,012      |
| Depreciation (Note b) | 876,954                              | 348,870      | 1,225,824    |
| Amortization          | 11,507                               | 105,477      | 116,984      |

|                       | For the year ended December 31, 2006 |             |           |
|-----------------------|--------------------------------------|-------------|-----------|
|                       | Cost of                              | Operating   | Total     |
|                       | goods sold                           | expenses    |           |
| US Dollars            |                                      |             |           |
|                       |                                      | (Unaudited) |           |
|                       |                                      | (Note 2)    |           |
| Personnel expenses    |                                      |             |           |
| Salaries              | \$ 50,536                            | \$ 44,335   | \$ 94,871 |
| Insurance             | 440                                  | 1,675       | 2,115     |
| Pension               | 238                                  | 1,477       | 1,715     |
| Others                | 8,065                                | 2,428       | 10,493    |
| Depreciation (Note b) | 26,905                               | 10,703      | 37,608    |
| Amortization          | 353                                  | 3,236       | 3,589     |

Note a : Portion of depreciation was capitalized and included in the production costs of molds.

Note b : Depreciation included in non-operating expenses amounted to \$1,686 and \$7,748, (US\$238) for the years ended December 31, 2005 and 2006, respectively.

## 5. RELATED PARTY TRANSACTIONS

### A. Names and relationships of related parties

| <u>Name of related parties</u>                        | <u>Relationship with the Company</u>  |
|---|---|
| Hon Hai Precision Industry Co., Ltd.<br>(Hon Hai)     | The CEO's of Hon Hai and the Company are brothers   |
| Well Shin Technology Co., Ltd. (WST)                  | Investee company accounted for under the equity method  |
| Darts Technologies Corporation (Darts)                | A wholly-owned subsidiary   |
| Foxlink Image Technology Co., Ltd.<br>(Foxlink Image) | An indirect investee company accounted for under the equity method  |
| Microlink Communications Inc. (Microlink)             | "   |
| Accu-Image Technology Limited (AITL)                  | "   |
| Global Smart Technology Limited (GSTL)                | "   |
| Nu Cam Corporation (Nu Cam)                           | "   |
| ViewLink Technology Co., Ltd. (ViewLink)              | Same chairman   |
| Foxlink International Inc. (Foxlink)                  | An affiliate which will become an indirect wholly-owned subsidiary. The Company entered into agreements to purchase the stock |
| Suntain Co., Ltd. (Suntain)                           | An affiliate  |
| Jhin-Cyun Co., Ltd. (Jhin-Cyun)                       | Same director   |
| Fu Lin International Investments Co., Ltd. (FLII)     | A director of FLII is a vice president of the Company   |
| Taiwan Fulin Investments Co., Ltd. (TFI)              | A director of TFI is a manager of the Company   |
| Jen Fa Investments Co., Ltd. (JFI)                    | Same director   |
| Solteras, Inc. (Solteras)                             | An indirect investee company accounted for under the equity method (Invested in September 2006)                               |
| Fine Best Technology Limited (Fine Best)              | Same director   |

Note : For other related party transactions with other controlled subsidiaries, please refer to Note 11 for additional disclosures as required by SFC.

B. Significant related party transactions

1) Sales

|               | For the years ended December 31, |                     |                         |
|---------------|----------------------------------|---------------------|-------------------------|
|               | 2005                             | 2006                | 2006                    |
|               | New Taiwan Dollars               |                     | US Dollars              |
|               |                                  |                     | (Unaudited)<br>(Note 2) |
| Microlink     | \$ 4,134,691                     | \$ 2,606,186        | \$ 79,957               |
| Darts         | 2,855,477                        | -                   | -                       |
| Hon Hai       | 1,279,235                        | 1,393,259           | 42,745                  |
| Solteras      | -                                | 425,237             | 13,046                  |
| Suntain       | 218,610                          | 209,586             | 6,430                   |
| Foxlink Image | 191,009                          | 181,374             | 5,564                   |
| Nu Cam        | 42,215                           | 7,804               | 239                     |
| Others        | -                                | -                   | -                       |
|               | <u>\$ 8,721,237</u>              | <u>\$ 4,823,446</u> | <u>\$ 147,981</u>       |

Sales of finished goods to Hon Hai are at arm's length. All other sales to related parties are based on negotiated terms because the related products are unique and not available to third parties. For the years ended December 31, 2005 and 2006, the credit term on the sales to related parties was 180 to 270 days after monthly billings. The credit term on the sales to third parties was 30 to 120 days after monthly billing or upon shipment of goods, except for receivables arising from the sales of tooling that are collectible upon acceptance by customers.

2) Purchases

|               | For the years ended December 31, |                     |                         |
|---------------|----------------------------------|---------------------|-------------------------|
|               | 2005                             | 2006                | 2006                    |
|               | New Taiwan Dollars               |                     | US Dollars              |
|               |                                  |                     | (Unaudited)<br>(Note 2) |
| Hon Hai       | \$ 236,052                       | \$ 547,540          | \$ 16,798               |
| WST           | 289,286                          | 450,908             | 13,834                  |
| Foxlink Image | 56,349                           | 241,996             | 7,424                   |
| Solteras      | -                                | 100,972             | 3,098                   |
| Nu Cam        | 147,518                          | 70,593              | 2,166                   |
| Others        | 127,760                          | 9,972               | 306                     |
|               | <u>\$ 856,965</u>                | <u>\$ 1,421,981</u> | <u>\$ 43,626</u>        |

All purchases from related parties are at arm's length except for Nu Cam in which purchase prices were not comparable with third parties in terms of specific products. Payment period was 60~120 days after receipt of goods from suppliers.

3) Operating expenses – sales commission

|         | For the years ended December 31, |            |                         |
|---------|----------------------------------|------------|-------------------------|
|         | 2005                             | 2006       | 2006                    |
|         | New Taiwan Dollars               |            | US Dollars              |
|         |                                  |            | (Unaudited)<br>(Note 2) |
| Foxlink | \$ 215,426                       | \$ 178,533 | \$ 5,477                |

Foxlink provides sales and collection services to the Company and charge commission at 1.28%~3% of sales revenue, respectively.

4) Non-operating income - other income

|          | For the years ended December 31, |            |                         |
|----------|----------------------------------|------------|-------------------------|
|          | 2005                             | 2006       | 2006                    |
|          | New Taiwan Dollars               |            | US Dollars              |
|          |                                  |            | (Unaudited)<br>(Note 2) |
| Solteras | \$ -                             | \$ 147,315 | \$ 4,520                |

The Company entered into a Technology Transfer Agreement with Solteras in the third quarter of 2006. Income derived from the technology transfer is recorded under other income in the statement of income.

5) Accounts receivable

|                                       | December 31,       |              |                         |
|---------------------------------------|--------------------|--------------|-------------------------|
|                                       | 2005               | 2006         | 2006                    |
|                                       | New Taiwan Dollars |              | US Dollars              |
|                                       |                    |              | (Unaudited)<br>(Note 2) |
| Hon Hai                               | \$ 768,952         | \$ 630,975   | \$ 19,358               |
| Solteras                              | -                  | 346,959      | 10,645                  |
| Suntain                               | 125,223            | 124,560      | 3,821                   |
| Microlink                             | 2,171,602          | 35,000       | 1,074                   |
| Others                                | 73,737             | 70,716       | 2,169                   |
|                                       | 3,139,514          | 1,208,210    | 37,067                  |
| Less: Allowance for doubtful accounts | (22,000)           | (22,000)     | (675)                   |
|                                       | \$ 3,117,514       | \$ 1,186,210 | \$ 36,392               |

Overdue receivables from related parties are reclassified to other receivables, if the credit terms of the related parties are obviously longer than the normal credit terms of the third parties in accordance with Securities and Futures Institutions (SFI) Ruling (93) Chi-Mi-Tzu No. 167. See Note 5.B.6).

6) Other receivables

|   | December 31,       |                   |                         |
|---|--------------------|-------------------|-------------------------|
|   | 2005               | 2006              | 2006                    |
|   | New Taiwan Dollars |                   | US Dollars              |
|   |                    |                   | (Unaudited)<br>(Note 2) |
| Other receivables – sales of inventories by subsidiary on behalf of the Company : |                    |                   |                         |
| Foxlink   | \$ -               | \$ 330,305        | \$ 10,134               |
| Other receivables - financing activities:   |                    |                   |                         |
| Foxlink   | 52,593             | -                 | -                       |
| Other receivables - technical assistance fees                                     |                    |                   |                         |
| Solteras  | -                  | 53,921            | 1,654                   |
| Other receivables - sales of equipment ACCU                                       | -                  | 85,730            | 2,630                   |
| Other receivables - overdue accounts  |                    |                   |                         |
| Microlink   | 24,969             | -                 | -                       |
| Others  | 57,235             | 36,760            | 1,128                   |
|   | <u>\$ 134,797</u>  | <u>\$ 506,716</u> | <u>\$ 15,546</u>        |

a. Other receivables from ACCU pertain to equipment sold by the Company. See Note 5.B.11.C.

b. Other receivables from Solteras represent technical assistance fees. (See Note 4).

7) Accounts payable

|               | December 31,       |                     |                         |
|---------------|--------------------|---------------------|-------------------------|
|               | 2005               | 2006                | 2006                    |
|               | New Taiwan Dollars |                     | US Dollars              |
|               |                    |                     | (Unaudited)<br>(Note 2) |
| Foxlink       | \$ -               | \$ 764,436          | \$ 23,453               |
| Foxlink Image | 56,236             | 123,890             | 3,801                   |
| WST           | 60,552             | 80,219              | 2,461                   |
| Nu Cam        | 103,292            | 940                 | 29                      |
| Others        | 94,688             | 111,440             | 3,418                   |
|               | <u>\$ 314,768</u>  | <u>\$ 1,080,925</u> | <u>\$ 33,162</u>        |

8) Other payables

|               | For the years ended December 31, |      |                         |
|---------------|----------------------------------|------|-------------------------|
|               | 2005                             | 2006 | 2006                    |
|               | New Taiwan Dollars               |      | US Dollars              |
|               |                                  |      | (Unaudited)<br>(Note 2) |
| Foxlink Image | \$ 121,150                       | \$ - | \$ -                    |

9) Purchases of raw materials through subsidiary

Foxlink, a subsidiary located in the U.S.A., purchased raw materials in the U.S.A. on behalf of the Company. The total purchases for the years ended December 31, 2005 and 2006 were \$868,694 and \$4,812,696 (US\$147,651), respectively.

10) Financing activities and guarantee

See Note 11.

11) Property transactions

- a. For the year ended December 31, 2005, the Company acquired machinery and equipment from Foxlink Image in the amount of \$103,744 (US\$3,183), based on the book value of machinery and equipment, which was fully paid as of March 25, 2007.
- b. In March 2006, the Company sold machinery and equipment to Darts at book value in the amount of \$88,089 (US\$2,703). The Company bought back machinery and equipment from Darts at book value.
- c. In September 2006, the Company sold machinery and equipment to ACCU at book value in the amount of \$85,730 (US\$2,630) which remained unpaid as of April 25, 2007.

12) Long - term investments

The subsidiary of the Company Culink International Ltd., entered into agreements to acquire the stocks of Foxlink from Fine Best. The total contract price under the agreement amounted to USD\$500,000. As of December 31, 2006, the transaction had not yet been completed.

13) Others

Other receivables from Microlink relates to the agreement on technology transfer entered into by the Company on behalf of Microlink. The technology transfer compensation revenue amounting to \$116,653 (US\$3,551). Income and cost derived from the technology transfer, on the net basis, was charged to non-operating income amounting to \$15,224 (US\$463) in the statement of income. As of December 31, 2005, there was no outstanding receivable.

6. PLEDGED ASSETS

|   | <u>December 31,</u>                  |                                    | <u>Borrowings</u>                                 |
|---|--------------------------------------|------------------------------------|---|
|   | <u>2005</u>                          | <u>2006</u>                        |   |
|   | <u>Book value-Net Taiwan Dollars</u> |                                    |   |
| Other receivable                            | <u>\$ -</u>                          | <u>\$ 8,088</u><br>(US\$ 248)      | Allowance for factoring of<br>accounts receivable |
| Other intangible asset - land<br>use rights | <u>\$ 32,733</u>                     | <u>\$ 27,691</u><br>(US\$ 850)     | Short-term loans                                  |
| Property, plant and equipment               | <u>\$ 1,264,879</u>                  | <u>\$ 494,939</u><br>(US\$ 15,185) | Short-term loans                                  |

7. SIGNIFICANT COMMITMENTS AND CONTINGENT LIABILITIES

A) See Note 11 for guarantee information.

B) As of December 31, 2006, equipment purchase commitment amounted to \$3,090,483 (US\$94,815) and the amount outstanding was \$1,649,397 (US\$50,603).

C) As of December 31, 2006, the construction commitment amounted to \$313,010 (US\$9,603) and the amount outstanding was \$179,574 (US\$5,509).

8. SIGNIFICANT LOSSES FROM DISASTERS

None.

9. SIGNIFICANT SUBSEQUENT EVENT

None.

10. OTHER INFORMATION

1) Financial statement presentation

Certain accounts in the 2005 financial statements were reclassified to conform with the 2006 financial statement presentation.

## 2) Fair value of financial instruments

|  | December 31, 2005  |                                |                             | December 31, 2006  |                                |                             | December 31, 2006 |                                |                             |
|--|--------------------|--------------------------------|-----------------------------|--------------------|--------------------------------|-----------------------------|-------------------|--------------------------------|-----------------------------|
|  | Book value         | Fair value                     |                             | Book value         | Fair value                     |                             | Book value        | Fair value                     |                             |
|  |                    | Quotations in an active market | Estimated using a valuation |                    | Quotations in an active market | Estimated using a valuation |                   | Quotations in an active market | Estimated using a valuation |
|  | New Taiwan Dollars |                                |                             | New Taiwan Dollars |                                |                             | US Dollars        |                                |                             |
| <u>Non-derivative financial instruments</u>                  |                    |                                |                             |                    |                                |                             |                   |                                |                             |
| <u>Assets</u>  |                    |                                |                             |                    |                                |                             |                   |                                |                             |
| Financial assets with fair values equal to book values       | \$ 12,540,333      | \$ -                           | \$ 12,540,333               | \$ 18,414,730      | \$ -                           | \$ 18,414,730               | \$ 564,956        | \$ -                           | \$ 564,956                  |
| Financial assets at fair value through profit or loss        | 226,030            | 227,242                        | -                           | 364,715            | 364,715                        | -                           | 11,189            | 11,189                         | -                           |
| Deposits-out   | 58,564             | -                              | 58,564                      | 39,308             | -                              | 39,308                      | 1,206             | -                              | 1,206                       |
| <u>Liabilities</u>   |                    |                                |                             |                    |                                |                             |                   |                                |                             |
| Financial liabilities with fair values equal to book values  | 14,206,700         | -                              | 14,206,700                  | 15,889,405         | -                              | 15,889,405                  | 487,480           | -                              | 487,480                     |
| Long-term loans  | -                  | -                              | -                           | 209,500            | -                              | 209,500                     | 6,427             | -                              | 6,427                       |
| Bonds payable  | 2,273,220          | -                              | 2,273,220                   | 4,391,029          | -                              | 4,391,029                   | 134,715           | -                              | 134,715                     |
| <u>Derivative financial instruments Assets (Liabilities)</u> |                    |                                |                             |                    |                                |                             |                   |                                |                             |
| Forward exchange contracts for non-trading purposes          | -                  | -                              | -                           | 3,637              | 3,637                          | -                           | 112               | 112                            | -                           |

(Unaudited)  
(Note 2)

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

- For financial assets and liabilities with fair values equal to book values, the fair values were determined based on their carrying values because of the short maturities of the instruments. This method was applied to cash, notes receivable, accounts receivable, other receivables, deposits-out, short-term loans, notes payable, accounts payable, receipts in advance, long-term liabilities-current portion and other current liabilities.
- According to the terms and conditions of the bonds which were issued by the Company, the interest rate is zero. Due to the uncertainty of redemption or conversion timing, the discounted value is not determinable. In addition, the amount of bonds payable as of balance sheet date was adjusted using the exchange rate prevailing on such date. Therefore, the book value of the bonds payable at the balance sheet date was disclosed as its fair value instead of the amount based on quoted market price or appraisal report.
- The fair value of the bonds payable is estimated using the expected future cash flows on a discounted basis. The discount rate is the original effective interest rate of the Company's corporate bonds issued. The fair value of the bonds payable is based on its book value.
- The fair values of derivative financial instruments which include unrealized gains or losses on unsettled contracts were determined based on the amounts to be received or paid assuming that the contracts were settled as of the reporting date.

### 3) Strategies for financial risk control and hedge

The Group adopted total risk management and control system to identify all the Group's risk and enable the Group's management to control and measure market risk, credit risk, and operational risk. Considering the effects of economic circumstances, competition, and market price risk, the objective of the Group's market risk control is to achieve optimal risk position, maintain adequate liquidity position, and manage all market risk collectively.

To carry out the risk management, the Group adopted different strategies for control and management as follows:

#### Interest rate risk

The Group primarily borrows long-term loans or step-up callable deposits and observes the trend in interest rates to mitigate the interest rate risk.

#### Exchange rate risk

The Group uses the foreign exchange forward contract or other derivative financial assets to hedge the foreign currency assets which had been recognized. It mitigates the cash flow risk as to the fair value, monitors the fluctuations in the exchange rate, sets stop-loss points, and mitigates the exchange rate risk.

#### Credit risk

The Group has a strict credit evaluation policy which allows trades only with counterparties with good credit standing, and uses adequate debt-protection measures to lessen its credit risk.

### 4) Information of financial risk

#### A. Market risk

##### a) Exchange rate risk

The fair value of foreign exchange forward contract was affected by the exchange rate fluctuations. The Group has set a stop-loss point according to the risk of the contract price variation; therefore, it does not expect to have significant market risk.

The Group primarily uses US dollars as the valuation unit in purchases and sales, and the fair value of foreign currency will change as the market exchange rate changes. If the short-term position gap arises, the Group will enter into foreign exchange forward contract, so it does not expect to have significant market risk. The amount of fair value would be increased by \$202,629, which was based on the assumption that the exchange rate is increased by 1% at the balance sheet date.

b) Interest rate risk

The Group's short-term loans are due within one year or at a fixed rate and accordingly, interest rate risk is low.

c) Price risk

The Group's investments in equity instruments are subject to price fluctuations. The Group has set stop-loss points and accordingly, market risk is low.

B. Credit risk

The Group's derivative counterparties are well-known banks or asset management companies, and the Group also trades with different banks or asset management companies to distribute the risk, accordingly, the counterparties are expected to comply with the contracts. The largest amount of the credit risk is the book value.

The debtors of the Group's accounts or notes receivable have good credit standing. The Group has credit insurance coverage for majority of its customers. Accordingly, credit risk is low.

C. Liquidity risk

The Group expects the foreign exchange forward contracts to result in a cash inflow of US\$33,000 and outflow of NT\$ 1,066,721 during the period from January to February 2007. The exchange rate is reasonably assured and the Group has sufficient operating capital to meet the above cash needs.

The equity instruments are traded in active markets and accordingly are expected to be sold at approximately fair value quickly and easily.

D. Cash flow risk

The Group's short-term loans are due within one year and accordingly, cash flow risk arising from interest rate change is low. The Group's long-term loans are at fixed interest rate plus markup and accordingly, cash flow risk is low.

The Group's bonds payable are zero coupon bonds and accordingly, cash flow risk is low.

5) Disclosures required by Statement of Accounting Standards No. 25, "Accounting Treatment under Purchase Method"

On January 5, 2006, the Company issued new shares in exchange for the shares of Darts Technologies Corporation owned by Dart's shareholders and accordingly, Darts Technologies Corporation became the Company's subsidiary. The related information is as follows:

- A. Darts Technologies Corporation was incorporated in September 2002 and is engaged in the manufacture of wireless telecommunication components.
- B. The Company issued 5,333,333 shares of common stock in exchange for 51.2% of the shares of Darts Technologies Corporation's common stock using an exchange rate of 1:4.8. on January 5, 2006, the record date.
- C. The tentative consolidated income statement for the year ended December 31, 2005 based on the assumption that the Company acquired Darts Technologies Corporation on January 1, 2005 is shown below:



D. Elimination of the Company's transactions with subsidiaries

| Transactions eliminated   | Subsidiary | Years ended December 31, |                                 |
|---|------------|--------------------------|---------------------------------|
|   |            | 2005                     | 2006                            |
| A. Elimination of long-term investments and stockholders' equity                                | Cu         | \$ 2,435,993             | \$ 3,200,305<br>(US\$98,184)    |
| "   | FII        | \$ 1,193,462             | \$ 1,302,103<br>(US\$39,948)    |
| "   | Darts      | \$ 453,959               | \$ 941,187<br>(US\$28,876)      |
| "   | Culink     | \$ 29,263                | \$ 34,170<br>(US\$1,048)        |
| "   | FUII       | \$ 99,996                | \$ 100,971<br>(US\$3,098)       |
| B. Elimination of inter company accounts receivable / payables and other receivables / payables | Cu         | \$ 583,645               | \$ 1,243,890<br>(US\$38,162)    |
| "   | FII        | -                        | (\$ 4,914)<br>(US\$151)         |
| "   | Darts      | \$ 825,381               | (\$ 23,319)<br>(US\$715)        |
| C. Elimination of profit and loss accounts - sales and purchases transactions                   | Cu         | (\$ 2,060,430)           | (\$ 3,928,536)<br>(US\$120,526) |
| "   | FII        | -                        | \$ 33,860<br>(US\$1,039)        |
| "   | Darts      | (\$ 1,160,649)           | (\$ 3,037,915)<br>(US\$93,202)  |
| D. Elimination of profit and loss accounts - processing revenue and expense transactions        | Cu         | \$ 3,636,411             | \$ 5,779,980<br>(US\$177,327)   |

## 11. ADDITIONAL DISCLOSURE INFORMATION OF INVESTEE COMPANY REQUIRED BY SFC

### 1) Related information of significant transactions

Except for the information on Culink, Foxlink Singapore, and FSC which were based on the unaudited financial statements, the information for the other investee companies were based on the audited financial statements.

The transactions between the Company and subsidiaries were eliminated from the consolidated financial statements.

#### A. Financing activities to any company or person:

##### a) The Company:

| Number | Creditor                               | Borrower                       | General ledger account             | Maximum   | Balance at | Interest | Nature of loan | Amount of transactions with the borrower | Reason for short – term financing | Allowance for doubtful accounts | Collateral        |        | Limit on loans granted to a single party | Ceiling on total loans granted  |
|--------|--|--------------------------------|------------------------------------|---|------------|----------|----------------|--|-----------------------------------|---------------------------------|-------------------|--------|--|---|
|        |  |                                |                                    | outstanding balance during the year ended December 31, 2006 |            |          |                |  |                                   |                                 | December 31, 2006 | Item   |  |   |
| 0.     | Cheng Uei Precision Industry Co., Ltd. | Nu Cam Corporation             | Other receivable - related parties | NT\$1,533<br>(US\$47)                                       | -          | -        | (Note)         | \$78,398<br>(US\$2,405)                  | (Note)                            | (Note)                          | (Note)            | (Note) | 20% of the Company's net assets.         | The ceiling for total amount of withdrawals was NT\$6,179,028 (US\$189,570) which was 40% of the Company's net assets |
| 0.     | "                                      | Microlink Communications Inc.  | "                                  | NT\$28,171<br>(US\$864)<br>(Note)                           | -          | -        | "              | NT\$2,606,186<br>(US\$79,957)            | "                                 | "                               | "                 | "      | "  | "   |
| 0.     | "                                      | Darts Technologies Corporation | "                                  | NT\$120,753<br>(US\$3,705)<br>(Note)                        | -          | -        | "              | NT\$2,981,915<br>(US\$91,482)            | "                                 | "                               | "                 | "      | "  | "   |

Note : Securities and Futures Institutions (SFI) Ruling (93) Chi-Mi-Tzu No. 167 requires that the overdue receivables be regarded as loans to related parties and reclassified to other receivables, if the credit terms of the related parties are obviously longer than the normal credit terms of the third parties.

b) Investee Company:

| Number | Creditor                                     | Borrower                                     | General ledger account             | Maximum                 | Balance at             | Interest | Amount of         | Reason for   | Allowance             | Collateral   |      | Limit on loans | Ceiling on total                 |  |
|--------|--|--|------------------------------------|-------------------------|------------------------|----------|-------------------|--------------|-----------------------|--------------|------|----------------|----------------------------------|--|
|        |  |  |                                    | outstanding balance     |                        |          |                   |              |                       | for doubtful | Item |                |                                  | Value  |
|        |  |  |                                    | during the year         | December               | rate     | transactions with | short – term | accounts              |              |      | granted to a   | loans granted                    |  |
|        |  |  |                                    | ended December          | 31, 2006               |          | the borrower      | financing    |                       |              |      | single party   |                                  |  |
|        |  |  |                                    | 31, 2006                | 31, 2006               |          | Nature of loan    |              |                       |              |      |                |                                  |  |
| 1.     | Culink International Ltd.                    | Foxlink International Inc.                   | Other receivable - related parties | US\$1,601               | \$ -                   | -        | Financing         | -            | Operating             | -            | -    | -              | 20% of the Company's net assets. | The ceiling for total amount of withdrawals was NTS6,179,028 (US\$189,570), which was 40% of the Company's net assets. |
| 2.     | Cu International Ltd.                        | Dong Gong Fu Qiang Electronics Ltd.          | "                                  | RMB\$1,000 (US\$128)    | -                      | -        | "                 | -            | "                     | -            | -    | -              | "                                |  |
| 3      | World Circuit Technology Co., Ltd.           | World Circuit Technology (Hong Kong) Limited | "                                  | NT\$87,301 (US\$2,678)  | NT\$87,301 (US\$2,678) | -        | "                 | -            | "                     | -            | -    | -              | "                                |  |
| 3      | "  | Shanghai World Circuit Technology Co., Ltd.  | "                                  | NT\$40,577 (US\$1,245)  | NT\$27,649 (US\$848)   | -        | "                 | -            | "                     | -            | -    | -              | "                                |  |
| 3      | "  | Value Success Ltd.                           | "                                  | NT\$63,960 (US\$1,962)  | NT\$63,960 (US\$1,962) | -        | "                 | -            | "                     | -            | -    | -              | "                                |  |
| 4      | World Circuit Technology (Hong Kong) Limited | Shanghai World Circuit Technology Co., Ltd.  | "                                  | NT\$56,270 (US\$1,726)  | NT\$55,412 (US\$1,700) | -        | "                 | -            | "                     | -            | -    | -              | "                                |  |
| 4      | "  | World Circuit Production Limited             | "                                  | NT\$4,126 (US\$127)     | NT\$4,070 (US\$125)    | -        | "                 | -            | "                     | -            | -    | -              | "                                |  |
| 5      | Fu Gang Electronics (Dong Guan) Ltd.         | Dong Guan Fu Qiang Electronics Ltd.          | "                                  | RMB\$53,516 (US\$6,855) | RMB44,000 (US\$5,636)  | -        | "                 | -            | Building construction | -            | -    | -              | "                                |  |

| Number | Creditor                            | Borrower                                     | General ledger account             | Maximum   | Balance at                 | Interest rate | Nature of loan | Amount of transactions with the borrower | Reason for short – term financing | Allowance for doubtful accounts | Collateral | Limit on loans granted to a single party | Ceiling on total loans granted  |
|--------|-------------------------------------|--|------------------------------------|---|----------------------------|---------------|----------------|--|-----------------------------------|---------------------------------|------------|--|---|
|        |                                     |  |                                    | outstanding balance during the year ended December 31, 2006 | December 31, 2006          |               |                |  |                                   |                                 |            |  |   |
| 6      | Fu Gang Electronics (Kun Shan) Ltd. | Darts Technologies (Shang Hai) Co., Ltd.     | Other receivable - related parties | RMB\$7,900<br>(US\$1,012)                                   | RMB\$7,900<br>(US\$1,012)  | -             | Financing      | -  | Operating                         | -                               | -          | 20% of the Company's net assets.         | The ceiling for total amount of withdrawals was NT\$6,179,028 (US\$189,570), which was 40% of the Company's net assets. |
| 6      | "                                   | Kunshan Fushijing Electronics Co., Ltd.      | "                                  | RMB\$22,000<br>(US\$2,818)                                  | RMB\$15,000<br>(US\$1,922) | -             | "              | -  | Operating                         | -                               | -          | "  |   |
| 6      | "                                   | Fushilin Electronics (Kun Shan) Co., Ltd.    | "                                  | RMB\$11,822<br>(US\$1,514)                                  | RMB\$11,822<br>(US\$1,514) | -             | "              | -  | Building construction             | -                               | -          | "  |   |
| 6      | "                                   | Fushiming Electronics (Kun Shan) Co., Ltd.   | "                                  | RMB\$11,821<br>(US\$1,514)                                  | RMB\$11,821<br>(US\$1,514) | -             | "              | -  | "                                 | -                               | -          | "  |   |
| 6      | "                                   | Fushipeng Electronics (Kun Shan) Co., Ltd.   | "                                  | RMB\$11,821<br>(US\$1,514)                                  | RMB\$11,821<br>(US\$1,514) | -             | "              | -  | "                                 | -                               | -          | "  |   |
| 6      | "                                   | Fushiwei Electronics (Kun Shan) Co., Ltd.    | "                                  | RMB\$11,335<br>(US\$1,452)                                  | RMB\$11,335<br>(US\$1,452) | -             | "              | -  | "                                 | -                               | -          | "  |   |
| 6      | "                                   | Fu Hong Jin Real estate (Kun Shan) Co., Ltd. | "                                  | RMB\$120<br>(US\$15)  | RMB\$120<br>(US\$15)       | -             | "              | -  | "                                 | -                               | -          | "  |   |

| Number | Creditor                            | Borrower                                  | General ledger account             | Maximum             | Balance at              | Interest | Nature of loan | Amount of    | Reason for            | Allowance | Collateral | Limit on loans                   | Ceiling on total  |
|--------|-------------------------------------|---|------------------------------------|---------------------|-------------------------|----------|----------------|--------------|-----------------------|-----------|------------|----------------------------------|---|
|        |                                     |   |                                    | outstanding balance |                         |          |                |              |                       |           |            |                                  |   |
|        |                                     |   |                                    | ended December      | 31, 2006                | rate     |                | the borrower | financing             | accounts  |            | single party                     |   |
| 7      | Fu Gang Electronics (Tian Jin) Ltd. | Neosonic Energy Technology (Tianjin) Ltd. | Other receivable - related parties | 31, 2006            | RMB\$3,317 (US\$425)    | -        | Financing      | -            | Building construction | -         | -          | 20% of the Company's net assets. | The ceiling for total amount of withdrawals was NT\$6,179,028 (US\$189,570), which was 40% of the Company's net assets. |
| 7      | "                                   | World Circuit Production Limited          | "                                  |                     | RMB\$15,000 (US\$1,922) | -        | "              | -            | "                     | -         | -          | "                                |   |
| 7      | "                                   | Foxlink Electronics (Tian Jin) Ltd.       | "                                  |                     | RMB\$14,500 (US\$1,858) | -        | "              | -            | "                     | -         | -          | "                                |   |

B. Guarantee information:

| <u>Number</u> | <u>Endorser/guarantor</u>             | <u>Party being endorsed/guaranteed</u>      | <u>Relationship with the endorser/guarantor</u>      | <u>Limit on endorsements/guarantees provided for a single party</u>  | <u>Maximum outstanding endorsement/guarantee amount during the year ended December 31, 2006</u> | <u>Outstanding endorsement /guarantee amount at December 31, 2006</u> | <u>Amount of endorsements/guarantees secured with collateral</u> | <u>Ratio of accumulated endorsement/guarantee amount to net asset value of the Company</u> | <u>Ceiling on total amount of endorsements/guarantees provided</u>  |
|---------------|---------------------------------------|---|--|--|---|---|--|--|---|
| 0             | Cheng Uei Precision Industry Co. Ltd. | Fu Gang Electronics (Kun Shan) Ltd.         | An indirect wholly-owned subsidiary                  | The ceiling of total outstanding guarantees and guarantee for single party except for subsidiaries is 50% and 40% of the Company's net assets, respectively. | US\$25,000  | US\$25,000  | None   | 5%   | The Company's guarantee to others should not exceed 60% of the Company's net assets. As of December 31, 2006, the maximum amount of guarantee that the Company could provide was NT\$9,268,542 (US\$284,355). |
| 0             | "                                     | Fu Gang Electronics (Dong Guan) Ltd.        | "  | "  | US\$16,000  | US\$16,000  | "  | 3%   | "   |
| 0             | "                                     | Foxlink Technology Ltd.                     | The Company has business transactions with the party | "  | US\$12,000  | -   | "  | -  | "   |
| 0             | "                                     | Dong Gong Fu Qiang Electronics Ltd.         | An indirect wholly-owned subsidiary                  | "  | US\$21,000<br>RMB\$80,000<br>(US\$10,249)   | US\$21,000<br>RMB\$80,000<br>(US\$10,249)                             | "  | 4%<br>2%   | "   |
| 0             | "                                     | Shanghai World Circuit Technology Co., Ltd. | "  | "  | US\$2,000   | US\$2,000   | "  | -  | "   |
| 0             | "                                     | CU International Ltd.                       | A wholly-owned subsidiary                            | "  | US\$6,000   | US\$6,000   | "  | 1%   | "   |

C. Marketable securities held by the Company at December 31, 2006:

|                                   |   |  |   | As of December 31, 2006         |                               |               |                               |        |
|-----------------------------------|---|--|---|---------------------------------|-------------------------------|---------------|-------------------------------|--------|
| Securities held by                | Marketable securities                     | Relationship of the securities issuer with the Company | General ledger account                                      | Number of shares (in thousands) | Book value                    | Ownership (%) | Market value                  | Remark |
| Cheng Uei Precision Industry Co., | Bao-li Securities Investment Trust Fund   | Not applicable   | Financial assets at fair value through profit or loss       | 603                             | NT\$6,030<br>(US\$185)        | -             | NT\$7,043<br>(US\$216)        |        |
| "                                 | Cu International Ltd.                     | A wholly-owned subsidiary                              | Long-term investments accounted for under the equity method | 99,167                          | NT\$3,200,505<br>(US\$98,184) | 100%          | NT\$3,200,505<br>(US\$98,184) |        |
| "                                 | Culink International Ltd.                 | "  | "   | 500                             | NT\$34,170<br>(US\$1,048)     | 100%          | NT\$33,377<br>(US\$1,024)     |        |
| "                                 | Foxlink International Investment Ltd.     | "  | "   | 116,000                         | NT\$1,302,103<br>(US\$39,948) | 100%          | NT\$1,302,103<br>(US\$39,948) |        |
| "                                 | Fu Uei International Investment Ltd.      | "  | "   | 10,000                          | NT\$100,971<br>(US\$3,098)    | 100%          | NT\$100,972<br>(US\$3,098)    |        |
| "                                 | Well Shin Technology Co., Ltd.            | "  | "   | 18,688                          | NT\$586,474<br>(US\$19,973)   | 24.72%        | NT\$596,342<br>(US\$18,296)   |        |
| "                                 | Darts Technologies Corporation            | "  | "   | 48,500                          | NT\$941,187<br>(US\$28,875)   | 97%           | NT\$588,061<br>(US\$18,041)   |        |
| Cu International Ltd.             | Fu Gang Electronics (Dong Guan) Ltd.      | A wholly-owned subsidiary                              | "   | Not applicable                  | NT\$799,319<br>(US\$22,862)   | 100%          | NT\$799,319<br>(US\$22,862)   |        |
| "                                 | New Start Industries Ltd.                 | "  | "   | 5,200                           | NT\$715,260<br>(US\$21,944)   | 100%          | NT\$715,260<br>(US\$21,944)   |        |
| "                                 | Foxlink Tianjin Co., Ltd.                 | "  | "   | Not applicable                  | NT\$30,012<br>(US\$921)       | 25%           | NT\$33,109<br>(US\$1,016)     |        |
| "                                 | Fu Gang Electronics (Kun Shan) Ltd.       | "  | "   | "                               | NT\$744,487<br>(US\$22,841)   | 100%          | NT\$744,487<br>(US\$22,841)   |        |
| "                                 | Dong Guan Fu Shi Chang Co., Ltd.          | "  | "   | "                               | NT\$3,384<br>(US\$104)        | 100%          | NT\$3,384<br>(US\$104)        |        |
| "                                 | Foxlink Electronics (Dong Guan) Co., Ltd. | "  | "   | "                               | (NT\$8,185)<br>(US\$251)      | 100%          | (NT\$8,185)<br>(US\$251)      |        |
| "                                 | Foxlink-E Holding Co., Ltd.               | "  | "   | 700                             | NT\$1,811<br>(US\$56)         | 33.33%        | NT\$15,689<br>(US\$481)       |        |
| "                                 | Dong Gong Fu Qiang Electronics Ltd.       | "  | "   | Not applicable                  | NT\$720,708<br>(US\$22,111)   | 100%          | NT\$720,708<br>(US\$22,111)   |        |

As of December 31, 2006

| Securities held by                         | Marketable securities                     | Relationship of the securities                                     |   | Number of shares |                             | Ownership (%) | Market value                | Remark |
|--|---|--|---|------------------|-----------------------------|---------------|-----------------------------|--------|
|  |   | issuer with the Company  | General ledger account                                      | (in thousands)   | Book value                  |               |                             |        |
| Cu International Ltd.                      | Fu Yang Electronics (Kun Shan) Ltd.       | An indirect wholly-owned subsidiary                                | Long-term investments accounted for under the equity method | Not applicable   | NT\$266,432<br>(US\$8,174)  | 100%          | NT\$266,432<br>(US\$8,174)  |        |
| "  | Foxlink Beijing Co., Ltd.                 | "  | "   | "                | NT\$3,832<br>(US\$118)      | 100%          | NT\$3,832<br>(US\$118)      |        |
| "  | Neosonic Energy Technology (Tianjin) Ltd. | "  | "   | "                | NT\$167,941<br>(US\$5,152)  | 100%          | NT\$159,396<br>(US\$4,890)  |        |
| "  | Kunshan Fushijing Electronic Co., Ltd.    | "  | "   | "                | NT\$179,104<br>(US\$5,495)  | 100%          | NT\$179,104<br>(US\$5,495)  |        |
| "  | Future Victory Ltd.                       | "  | "   | 2,000            | NT\$47,082<br>(US\$1,444)   | 100%          | NT\$43,760<br>(US\$1,343)   |        |
| "  | Solteras Limited                          | "  | "   | 2,000            | NT\$87,319<br>(US\$2,679)   | 100%          | NT\$87,319<br>(US\$2,679)   |        |
| Culink International Ltd.                  | Foxlink Singapore Pte Ltd.                | "  | "   | 100              | NT\$2,795<br>(US\$86)       | 100%          | NT\$6,126<br>(US\$188)      |        |
| Foxlink International Investment Co., Ltd. | Prudential Financial Bond Fund            | Not applicable   | Financial assets at fair value through profit or loss       | 10,667           | NT\$155,000<br>(US\$4,755)  | -             | NT\$155,895<br>(US\$4,783)  |        |
| "  | NITC Bond Fund                            | "  | "   | 123              | NT\$20,000<br>(US\$614)     | -             | NT\$20,235<br>(US\$621)     |        |
| "  | Foxlink Image Technology Co., Ltd.        | An indirect investee company accounted for under the equity method | Long-term investments accounted for under the equity method | 39,794           | NT\$671,748<br>(US\$20,609) | 30.13%        | NT\$671,748<br>(US\$20,609) |        |
| "  | Everflow Precision Industrial Co., Ltd.   | An indirect significantly controlled subsidiary                    | "   | 6,000            | -                           | 75%           | -                           |        |
| "  | Microlink Communications Inc.             | An indirect investee company accounted for under the equity method | "   | 8,000            | NT\$78,573<br>(US\$2,411)   | 28.57%        | NT\$78,573<br>(US\$2,411)   |        |
| "  | World Circuit Technology Co., Ltd.        | A wholly-owned subsidiary  | "   | 15,650           | NT\$346,542<br>(US\$10,632) | 69.56%        | NT\$297,590<br>(US\$9,130)  |        |
| "  | Vegamedia Technology Co., Ltd.            | A wholly-owned subsidiary  | "   | 100              | (NT\$8,614)<br>(US\$264)    | 100%          | (NT\$8,633)<br>(US\$265)    |        |

As of December 31, 2006

| Securities held by                         | Marketable securities                     | Relationship of the securities |   | As of December 31, 2006            |                             |               |                             | Remark |
|--|---|--------------------------------|---|------------------------------------|-----------------------------|---------------|-----------------------------|--------|
|  |   | issuer with the Company        | General ledger account                                      | Number of shares<br>(in thousands) | Book value                  | Ownership (%) | Market value                |        |
| Foxlink International Investment Co., Ltd. | Calin Technology Co., Ltd.                | Not applicable                 | Long-term investments accounted for under the cost method   | 3,000                              | NT\$37,500<br>(US\$1,150)   | 10%           | NT\$37,500<br>(US\$1,150)   |        |
| New Start Industries Ltd.                  | Fu Gang Electronics (Tian Jin) Ltd.       | A wholly-owned subsidiary      | Long-term investments accounted for under the cost method   | Not applicable                     | NT\$626,359<br>(US\$19,216) | 100%          | NT\$626,359<br>(US\$19,216) |        |
| "  | Foxlink Tianjin Co., Ltd.                 | "                              | "   | "                                  | NT\$99,328<br>(US\$3,047)   | 75%           | NT\$99,328<br>(US\$3,047)   |        |
| Fox-E Holding Co.,                         | Fox-electronics (Shang Hai) Ltd.          | "                              | "   | "                                  | (NT\$3,558)<br>(US\$109)    | 100%          | (NT\$3,558)<br>(US\$109)    |        |
| Future Victory Limited Ltd.                | Darts Technologies (Shang Hai) Co., Ltd.  | "                              | "   | "                                  | NT\$42,899<br>(US\$1,316)   | 100%          | NT\$42,899<br>(US\$1,316)   |        |
| Solteras Limited                           | Solteras Inc.                             | "                              | "   | 200                                | NT\$77,945<br>(US\$2,391)   | 49%           | NT\$98,290<br>(US\$3,015)   |        |
| World Circuit Technology Co., Ltd.         | Capital Safe Income Fund                  | Not applicable                 | Financial assets at fair value though profit or loss        | 3,417                              | NT\$50,000<br>(US\$1,534)   | -             | NT\$50,881<br>(US\$1,561)   |        |
| "  | Barits Baoyuan Fund                       | "                              | "   | 1,670                              | NT\$20,249<br>(US\$615)     | -             | NT\$20,294<br>(US\$623)     |        |
| "  | ABN AMRO Bond Fund                        | "                              | "   | 1,343                              | NT\$20,000<br>(US\$614)     | -             | NT\$20,239<br>(US\$621)     |        |
| "  | Prudential Financial Bond Fund            | "                              | "   | 1,384                              | NT\$20,000<br>(US\$614)     | -             | NT\$20,232<br>(US\$621)     |        |
| "  | NITC Bond Fund                            | "                              | "   | 123                                | NT\$20,000<br>(US\$614)     | -             | NT\$20,238<br>(US\$621)     |        |
| "  | Value Success Ltd.                        | A wholly-owned subsidiary      | Long-term investments accounted for under the equity method | 4,000                              | NT\$40,392<br>(US\$1,239)   | 100%          | NT\$40,392<br>(US\$1,239)   |        |
| "  | Knowledge United Limited                  | "                              | "   | 800                                | NT\$3,814<br>(US\$117)      | 100%          | NT\$3,814<br>(US\$117)      |        |
| Value Success Ltd.                         | Capital Guardian Limited                  | "                              | "   | 2,005                              | NT\$40,717<br>(US\$1,249)   | 100%          | NT\$40,717<br>(US\$1,249)   |        |
| Capital Guardian Limited                   | World Circuit Technology Holding, Limited | "                              | "   | 2,600                              | (NT\$18,992)<br>(US\$583)   | 100%          | (NT\$18,992)<br>(US\$583)   |        |

| As of December 31, 2006                      |  |                                      |   |                  |                           |            |                           |              |        |
|--|--|--------------------------------------|---|------------------|---------------------------|------------|---------------------------|--------------|--------|
| Securities held by                           | Marketable securities                        | Relationship of the securities       |   | Number of shares |                           | Book value | Ownership (%)             | Market value | Remark |
|  |  | issuer with the Company              | General ledger account                                      | (in thousands)   |                           |            |                           |              |        |
| World Circuit Technology Holding, Limited    | World Circuit Technology (Hong Kong) Limited | A wholly –owned subsidiary           | Long-term investments accounted for under the equity method | Not applicable   | (NT\$18,885)<br>(US\$579) | 100%       | (NT\$18,885)<br>(US\$579) |              |        |
| World Circuit Technology Holding, Limited    | World Circuit Production Limited             | An indirect wholly –owned subsidiary | Long-term investments accounted for under the equity method | 3,000            | -                         | 100%       | -                         |              |        |
| World Circuit Production Limited             | Shanwei World Circuit Technology Co., Ltd.   | "                                    | "   | Not applicable   | -                         | 100%       | -                         |              |        |
| World Circuit Technology (Hong Kong) Limited | Shanghai World Circuit Technology Co., Ltd.  | "                                    | "   | "                | NT\$5,333<br>(US\$164)    | 100%       | NT\$5,333<br>(US\$164)    |              |        |
| Fu Uei International Investment Ltd.         | Prudential Financial Bond Fund               | Not applicable                       | Financial assets at fair value through profit or loss       | 3,442            | NT\$50,000<br>(US\$1,534) | -          | NT\$50306<br>(US\$1,543)  |              |        |

D. Acquisition or sale of the same security with the accumulated cost exceeding \$100 million or 20% of the Company's paid-in capital during the year ended December 31, 2006

| Investor                               | Marketable securities                 | General ledger account                                     | Counterparty             | Relationship with the Company | Balance as at January 1, 2006   |                               | Addition                        |                             | Disposal                        |               |            | Balance as at December 31, 2006 |                                 |                               |
|--|---------------------------------------|--|--------------------------|-------------------------------|---------------------------------|-------------------------------|---------------------------------|-----------------------------|---------------------------------|---------------|------------|---------------------------------|---------------------------------|-------------------------------|
|  |                                       |  |                          |                               | Number of shares (in thousands) | Amount                        | Number of shares (in thousands) | Amount                      | Number of shares (in thousands) | Selling price | Book value | Gain (loss) on disposal         | Number of shares (in thousands) | Amount                        |
| Cheng Uei Precision Industry Co., Ltd. | Cu International Ltd.                 | Long-term investment accounted for under the equity method | Issuance of common stock | Not applicable                | 79,113                          | NT\$2,435,993<br>(US\$74,735) | 20,054                          | NT\$648,492<br>(US\$19,895) | -                               | -             | -          | -                               | 96,167                          | NT\$3,200,305<br>(US\$98,184) |
| "                                      | Darts Technologies Corporation (Note) | "  | Jhin-Cyun Co., Ltd.      | Same chairman                 | 22,900                          | NT\$453,959<br>(US\$13,927)   | 25,600                          | NT\$508,267<br>(US\$15,593) | -                               | -             | -          | -                               | 48,500                          | NT\$948,296<br>(US\$29,093)   |

Note : 4.8 shares of Darts Technologies Corporation's common stock were exchanged with 1 share of the Company's common stock.

| Investor                               | Marketable securities          | General ledger account                                | Counterparty   | Relationship with the Company | Balance as at January 1, 2006 |        | Addition         |                               | Disposal         |                               |                               | Balance as at December 31, 2006 |                  |        |
|--|--------------------------------|---|----------------|-------------------------------|-------------------------------|--------|------------------|-------------------------------|------------------|-------------------------------|-------------------------------|---------------------------------|------------------|--------|
|  |                                |   |                |                               | Number of shares              | Amount | Number of shares | Amount                        | Number of shares | Selling price                 | Book value                    | Gain (loss) on disposal         | Number of shares | Amount |
|  |                                |   |                |                               | (in thousands)                |        | (in thousands)   |                               | (in thousands)   |                               |                               |                                 | (in thousands)   |        |
| Cheng Uei Precision Industry Co., Ltd. | Prudential Financial Bond Fund | Financial assets at fair value through profit or loss | Not applicable | Not applicable                | -                             | -      | 96,500           | NT\$1,400,000<br>(US\$42,951) | 96,500           | NT\$1,402,542<br>(US\$43,029) | NT\$1,400,000<br>(US\$42,951) | NT\$2,542<br>(US\$80)           | -                | -      |
| "                                      | ABN AMRO Bond Fund             | "   | "              | "                             | -                             | -      | 100,245          | NT\$1,500,000<br>(US\$39,275) | 100,245          | NT\$1,501,455<br>(US\$39,316) | NT\$1,500,000<br>(US\$39,275) | NT\$1,455<br>(US\$41)           | -                | -      |
| "                                      | Barits Baoyuan Fund            | "   | "              | "                             | -                             | -      | 62,262           | NT\$750,000<br>(US\$23,010)   | 62,262           | NT\$750,900<br>(US\$23,037)   | NT\$750,000<br>(US\$23,010)   | NT\$900<br>(US\$28)             | -                | -      |
| "                                      | NITC Bond Fund                 | "   | "              | "                             | -                             | -      | 3,369            | NT\$550,000<br>(US\$16,874)   | 3,369            | NT\$550,933<br>(US\$16,902)   | NT\$550,000<br>(US\$16,874)   | NT\$933<br>(US\$29)             | -                | -      |
| "                                      | Cathay Bond Fund               | "   | "              | "                             | -                             | -      | 17,454           | NT\$200,000<br>(US\$6,136)    | 17,454           | NT\$200,314<br>(US\$6,146)    | NT\$200,000<br>(US\$6,136)    | NT\$314<br>(US\$10)             | -                | -      |
| "                                      | NITC Taiwan Bond Fund          | "   | "              | "                             | -                             | -      | 10,746           | NT\$150,000<br>(US\$4,602)    | 10,746           | NT\$150,182<br>(US\$4,608)    | NT\$150,000<br>(US\$4,602)    | NT\$182<br>(US\$6)              | -                | -      |
| "                                      | GGIJ Duo Li Fund               | "   | "              | "                             | -                             | -      | 6,071            | NT\$100,000<br>(US\$3,068)    | 6,071            | NT\$100,147<br>(US\$3,072)    | NT\$100,000<br>(US\$3,068)    | NT\$147<br>(US\$5)              | -                | -      |
| "                                      | Jih Sun Bond Fund              | "   | "              | "                             | -                             | -      | 7,408            | NT\$100,000<br>(US\$3,068)    | 7,408            | NT\$100,079<br>(US\$3,070)    | NT\$100,000<br>(US\$3,068)    | NT\$79<br>(US\$2)               | -                | -      |
| "                                      | Grand Cathay Bond Fund         | "   | "              | "                             | -                             | -      | 7,771            | NT\$100,000<br>(US\$3,068)    | 7,771            | NT\$100,110<br>(US\$3,071)    | NT\$100,000<br>(US\$3,068)    | NT\$110<br>(US\$3)              | -                | -      |
| "                                      | Ta Chong Bond Fund             | "   | "              | "                             | -                             | -      | 15,501           | NT\$200,000<br>(US\$6,136)    | 15,501           | NT\$200,439<br>(US\$6,149)    | NT\$200,000<br>(US\$6,136)    | NT\$439<br>(US\$13)             | -                | -      |
| Darts Technology Corporation           | ABN AMRO Bond Fund             | "   | "              | "                             | -                             | -      | 16,820           | NT\$250,000<br>(US\$7,670)    | 16,820           | NT\$251,599<br>(US\$7,729)    | NT\$250,000<br>(US\$7,670)    | NT\$1,933<br>(US\$59)           | -                | -      |
| "                                      | Prudential Financial Bond Fund | "   | "              | "                             | -                             | -      | 20,738           | NT\$250,000<br>(US\$7,670)    | 20,738           | NT\$301,599<br>(US\$9,253)    | NT\$250,000<br>(US\$7,670)    | NT\$51,599<br>(US\$1,583)       | -                | -      |
| "                                      | Jih Sun Bond Fund              | "   | "              | "                             | -                             | -      | 7,424            | NT\$100,000<br>(US\$3,068)    | 7,424            | NT\$100,128<br>(US\$3,072)    | NT\$100,000<br>(US\$3,068)    | NT\$128<br>(US\$4)              | -                | -      |
| "                                      | NITC Bond Fund                 | "   | "              | "                             | -                             | -      | 616              | NT\$100,000<br>(US\$3,068)    | 616              | NT\$100,737<br>(US\$1,534)    | NT\$100,000<br>(US\$3,068)    | NT\$737<br>(US\$22)             | -                | -      |

| Investor                                   | Marketable securities          | General ledger account                                | Counterparty   | Relationship with the Company | Balance as at January 1, 2006 |                            | Addition         |                           | Disposal         |                            |                            | Balance as at December 31, 2006 |                  |                            |
|--|--------------------------------|---|----------------|-------------------------------|-------------------------------|----------------------------|------------------|---------------------------|------------------|----------------------------|----------------------------|---------------------------------|------------------|----------------------------|
|  |                                |   |                |                               | Number of shares              | Amount                     | Number of shares | Amount                    | Number of shares | Selling price              | Book value                 | Gain (loss) on disposal         | Number of shares | Amount                     |
|  |                                |   |                |                               | (in thousands)                |                            | (in thousands)   |                           | (in thousands)   |                            |                            |                                 | (in thousands)   |                            |
| Fu Uei International Investment Ltd.       | Prudential Financial Bond Fund | Financial assets at fair value through profit or loss | Not applicable | Not applicable                | 6,980                         | NT\$100,000<br>(US\$3,068) | -                | -                         | 6,980            | NT\$100,921<br>(US\$3,096) | NT\$100,000<br>(US\$3,068) | NT\$921<br>(US\$28)             | -                | -                          |
| Foxlink International Investment Co., Ltd. | Prudential Financial Bond Fund | "   | "              | "                             | -                             | -                          | 10,667           | NTR155,000<br>(US\$4,755) | -                | -                          | -                          | -                               | 10,667           | NT\$155,000<br>(US\$4,755) |

E. Acquisition of real estate properties exceeding \$100 million or 20% of the Company's paid-in capital during the year ended December 31, 2006 : None

F. Disposal of real estate properties exceeding \$100 million or 20% of the Company's paid-in capital during the year ended December 31, 2006 : None

G. Purchases from or sales to related parties exceeding \$100 million or 20% of the Company's paid-in capital during the year ended December 31, 2006

| Purchaser/seller                       | Counterparty                            | Relationship with the Company                                      | Transaction       |  | Percentage of total purchases (sales) | Credit term | Differences in transaction terms compared to third party transactions |             | Notes/accounts receivable (payable) |   | Remark |
|--|---|--|-------------------|--|---------------------------------------|-------------|---|-------------|-------------------------------------|---|--------|
|  |   |  | Purchases (sales) | Amount                                 |                                       |             | Unit price  | Credit term | Balance                             | Percentage of total notes/accounts receivable (payable) |        |
| Cheng Uei Precision Industry Co., Ltd. | Darts Technologies Corporation          | A direct controlled subsidiary                                     | Sales             | <u>(NT\$2,981,915)</u><br>(US\$91,484) | ( 7%)                                 | Note 1      | Note 1  | Note 1      | -                                   | -   | -      |
| "                                      | Microlink Communications Inc.           | An indirect investee company accounted for under the equity method | "                 | <u>(NT\$2,606,186)</u><br>(US\$79,957) | ( 6%)                                 | "           | "   | "           | -                                   | -   | -      |
| "                                      | Kunshan Fushijing Electronics Co., Ltd. | An indirect wholly - owned subsidiary                              | "                 | <u>(NT\$972,028)</u><br>(US\$29,821)   | ( 2%)                                 | "           | "   | "           | -                                   | -   | -      |
| "                                      | Hon Hai Precision Industry Co., Ltd.    | The CEO's of Hon Hai and the Company are brothers                  | "                 | <u>(NT\$1,393,259)</u><br>(US\$42,745) | ( 3%)                                 | "           | "   | "           | <u>NT\$630,975</u><br>(US\$19,358)  | 7%  |        |
| "                                      | Foxlink Tanjin Co., Ltd.                | An indirect wholly - owned subsidiary                              | "                 | <u>(NT\$2,044,175)</u><br>(US\$62,714) | ( 5%)                                 | "           | "   | "           | <u>NT\$779,766</u><br>(US\$23,923)  | 1%  |        |
| "                                      | Fu Gang Electronics (Kun Shan) Ltd.     | An indirect wholly - owned subsidiary                              | "                 | <u>(NT\$826,271)</u><br>(US\$25,350)   | ( 2%)                                 | "           | "   | "           | <u>NT\$506,402</u><br>(US\$15,536)  | 5%  |        |
| "                                      | Foxlink Image Technology Co., Ltd.      | An indirect investee company accounted for under the equity method | "                 | <u>(NT\$181,374)</u><br>(US\$5,564)    | ( 1%)                                 | "           | "   | "           | <u>NT\$50,926</u><br>(US\$1,562)    | -   |        |
| "                                      | Solteras Inc.                           | An indirect investee company accounted for under the equity method | "                 | <u>NT\$425,237</u><br>(US\$13,046)     | ( 1%)                                 | "           | "   | "           | <u>NT\$346,959</u><br>(US\$10,645)  | 4%  |        |

| Purchaser/seller                        | Counterparty                           | Relationship with the Company                                      | Transaction       |                                      | Differences in transaction terms compared to third party transactions |             |            |             | Notes/accounts receivable (payable)  |   | Remark |
|---|--|--|-------------------|--------------------------------------|---|-------------|------------|-------------|--------------------------------------|---|--------|
|   |  |  | Purchases (sales) | Amount                               | Percentage of total purchases (sales)                                 | Credit term | Unit price | Credit term | Balance                              | Percentage of total notes/accounts receivable (payable) |        |
|   |  |  |                   |                                      |   |             |            |             |                                      |   |        |
| Cheng Uei Precision Industry Co., Ltd.  | Suntain Co., Ltd.                      | An affiliate   | Sales             | <u>(NT\$209,586)</u><br>(US\$5,046)  | ( 1%)   | Note 1      | Note 1     | Note 1      | <u>NT\$124,560</u><br>(US\$3,821)    | 1%  |        |
| "                                       | Well Shin Technology Co., Ltd.         | An indirect investee company accounted for under the equity method | Purchases         | <u>NT\$450,908</u><br>(US\$9,504)    | 1%  | Note 2      | Note 2     | Note 2      | <u>(NT\$80,219)</u><br>(US\$2,461)   | (1%)  |        |
| "                                       | Hon Hai Precision Industry Co., Ltd.   | The CEO's of Hon Hai and the Company are brothers                  | "                 | <u>NT\$547,540</u><br>(US\$12,140)   | 2%  | "           | "          | "           | <u>(NT\$79,659)</u><br>(US\$2,444)   | -   |        |
| "                                       | Foxlink Image Technology Co., Ltd.     | An indirect investee company accounted for under the equity method | "                 | <u>NT\$241,996</u><br>(US\$5,151)    | 1%  | "           | "          | "           | <u>(NT\$123,890)</u><br>(US\$3,801)  | -   |        |
| "                                       | Solteras Inc.                          | An indirect investee company accounted for under the equity method | "                 | <u>NT\$100,972</u><br>(US\$3,098)    | -   | "           | "          | "           | <u>NT\$31,780</u><br>(US\$ 975 )     | (2%)  |        |
| Darts Technologies Corporation          | Cheng Uei Precision Industry Co., Ltd. | A direct controlled subsidiary                                     | "                 | <u>NT\$2,981,915</u><br>(US\$91,484) | 87%   | Note 1      | Note 1     | Note 1      | -                                    | -   |        |
| Kunshan Fushijing Electronics Co., Ltd. | "                                      | An indirect wholly - owned subsidiary                              | "                 | <u>NT\$972,028</u><br>(US\$29,821)   | 100%  | "           | "          | "           | -                                    | -   |        |
| Foxlink Tianjin Co., Ltd.               | "                                      | An indirect wholly - owned subsidiary                              | "                 | <u>NT\$2,044,175</u><br>(US\$62,714) | 100%  | "           | "          | "           | <u>(NT\$779,766)</u><br>(US\$23,923) | (100%)  |        |
| Fu Gang Electronics (Kun Shan) Ltd.     | "                                      | An indirect wholly - owned subsidiary                              | "                 | <u>NT\$826,271</u><br>(US\$25,350)   | 100%  | "           | "          | "           | <u>(NT\$506,402)</u><br>(US\$15,536) | (100%)  |        |

Note 1 : See Note 5,B.1).

Note 2 : See Note 5,B.2).

#### H. Receivables from related parties exceeding \$100 million or 20% of the Company's paid-in capital as at December 31, 2006

| Creditor                               | Counterparty                         | Relationship with the Company                     | Balance as at December 31, 2006 | Turnover rate | Overdue receivables |                | Amount collected subsequent to the balance sheet date | Allowance for doubtful accounts |
|--|--------------------------------------|---|---------------------------------|---------------|---------------------|----------------|---|---------------------------------|
|  |                                      |   |                                 |               | Amount              | Action taken   |   |                                 |
| Cheng Uei Precision Industry Co., Ltd. | Hon Hai Precision Industry Co., Ltd. | The CEOs' of Hon Hai and the Company are brothers | NT\$630,975<br>(US\$19,358)     | 1.99          | None                | Not applicable | NT\$217,321<br>(US\$6,667)                            | None                            |
| "                                      | Suntain Co., Ltd.                    | An affiliate                                      | NT\$124,560<br>(US\$3,801)      | 1.68          | "                   | "              | NT\$31,612<br>(US\$970)                               | "                               |
| "                                      | Fu Gang Electronics (Kun Shan) Ltd.  | An indirect wholly - owned subsidiary             | NT\$506,402<br>(US\$15,536)     | 1.79          | "                   | "              | None  | "                               |
| Cheng Uei Precision Industry Co., Ltd. | Foxlink Tanjin Co., Ltd.             | An indirect wholly - owned subsidiary             | NT\$779,766<br>(US\$23,923)     | 4.78          | "                   | "              | NT\$356,259<br>(US\$10,930)                           | "                               |

| Creditor                               | Counterparty  | Relationship with the Company                                      | Balance as at               |               | Overdue receivables |              | Amount collected subsequent to the balance sheet date | Allowance for doubtful accounts |
|--|---------------|--|-----------------------------|---------------|---------------------|--------------|---|---------------------------------|
|  |               |  | December 31, 2006           | Turnover rate | Amount              | Action taken |   |                                 |
| Cheng Uei Precision Industry Co., Ltd. | Solteras Inc. | An indirect investee company accounted for under the equity method | NT\$346,959<br>(US\$10,645) | 2.45          | "                   | "            | NT\$346,959<br>(US\$10,645)                           | "                               |

I. Information on derivative transactions:

(a) The Company: See Note 10

(b) Investee Company: None

2) Information on investee companies for the year ended December 31, 2006

A. Detailed information of investee companies disclosed by the subsidiaries based on their unaudited financial statements

| Investor                               | Investee                                   | Location               | Main activities   | Initial investment amount     |                               | Shares held as at December 31, 2006 |               |                               | Net income (loss) of the investee | Investment income (loss) recognized by the Company |
|--|--|------------------------|---|-------------------------------|-------------------------------|-------------------------------------|---------------|-------------------------------|-----------------------------------|--|
|  |  |                        |   | Balance as at 12/31/06        | Balance as at 1/1/06          | No. of shares (in thousands)        | Ownership (%) | Book value                    |                                   |  |
| Cheng Uei Precision Industry Co., Ltd. | Cu International Ltd.                      | British Virgin Islands | Electronic telecommunication components and investment holdings | US\$99,167                    | US\$79,113                    | 99,167                              | 100%          | NT\$3,200,305<br>(US\$98,184) | NT\$40,987<br>(US\$1,257)         | NT\$40,987<br>(US\$1,257)                          |
| "                                      | Culink International Ltd.                  | "                      | Investment holdings   | US\$500                       | US\$500                       | 500                                 | 100%          | NT\$34,170<br>(US\$1,048)     | NT\$4,912<br>(US\$151)            | NT\$4,908<br>(US\$151)                             |
| "                                      | Foxlink International Investment Co., Ltd. | Taipei                 | Investment holdings   | NT\$1,160,000<br>(US\$35,588) | NT\$1,160,000<br>(US\$35,588) | 116,000                             | 100%          | NT\$1,302,103<br>(US\$39,948) | NT\$30,448<br>(US\$934)           | NT\$28,231<br>(US\$866)                            |
| "                                      | Fu Uei International Investment Ltd.       | "                      | Investment holdings   | NT\$ 100,000<br>(US\$3,068)   | NT\$ 100,000<br>(US\$3,068)   | 10,000                              | 100%          | NT\$100,971<br>(US\$3,098)    | NT\$975<br>(US\$30)               | NT\$975<br>(US\$30)                                |
| "                                      | Well Shin Technology Co., Ltd.             | "                      | Electronic telecommunication components                         | NT\$200,000<br>(US\$6,136)    | NT\$200,000<br>(US\$6,136)    | 18,688                              | 24.72%        | NT\$586,474<br>(US\$17,973)   | NT\$441,375<br>(US\$13,541)       | NT\$108,928<br>(US\$3,342)                         |
| "                                      | Darts Technologies Corporation             | "                      | Electronic telecommunication and wireless components            | NT\$966,266<br>(US\$29,645)   | NT\$458,000<br>(US\$14,051)   | 48,500                              | 97%           | NT\$941,187<br>(US\$28,875)   | NT\$18,676<br>(US\$573)           | (NT\$21,720)<br>(US\$666)                          |
| Cu International Ltd.                  | Fu Gang Electronics (Dong Guan) Ltd.       | Dong Guan, China       | Electronic telecommunication components                         | HK\$217,502<br>(US\$27,971)   | HK\$211,982<br>(US\$27,261)   | Not applicable                      | 100%          | NT\$799,319<br>(US\$24,523)   | NT\$5,221<br>(US\$160)            | Not applicable                                     |
| "                                      | New Start Industries Ltd.                  | British Virgin Islands | Investment holdings   | US\$5,200                     | US\$5,200                     | 8,500                               | 100%          | NT\$715,260<br>(US\$21,944)   | NT\$388,740<br>(US\$11,926)       | "  |

| Investor                  | Investee                                  | Location               | Main activities  | Initial investment amount |                        | Shares held as at December 31, 2006 |               |                                      | Investment income  |                |
|---------------------------|---|------------------------|--|---------------------------|------------------------|-------------------------------------|---------------|--------------------------------------|--|----------------|
|                           |   |                        |  | Balance                   | Balance                | No. of shares                       |               | Net income (loss)<br>of the investee | Investment income<br>(loss) recognized by<br>the Company |                |
|                           |   |                        |  | as at 12/31/06            | as at 1/1/06           | (in thousands)                      | Ownership (%) |                                      |  | Book value     |
| Cu International Ltd.     | Fu Gang Electronics (Kun Shan) Ltd.       | Kun Shan, China        | Electronic telecommunication components                  | US\$18,000                | US\$18,000             | Not applicable                      | 100%          | NT\$744,487<br>(US\$22,841)          | NT\$1,644<br>(US\$51)                                    | Not applicable |
| "                         | Dong Guan Fu Shi Chang Co., Ltd.          | Dong Guan, China       | Electronic telecommunication components                  | HKD\$936<br>(US\$120)     | HKD\$936<br>(US\$120)  | "                                   | 100%          | NT\$3,384<br>(US\$104)               | (NT\$753)<br>(US\$23)                                    | "              |
| "                         | Foxlink Electronics (Dong Guan) Co., Ltd. | Dong Guan, China       | Electronic telecommunication components                  | HK\$4,505<br>(US\$579)    | HK\$4,505<br>(US\$579) | "                                   | 100%          | (NT\$8,185)<br>(US\$251)             | (NT\$2,888)<br>(US\$89)                                  | "              |
| "                         | Culink Tianjin Co., Ltd.                  | Tian Jin, China        | Electronic telecommunication components                  | US\$1,000                 | US\$1,000              | "                                   | 25%           | NT\$30,012<br>(US\$921)              | (NT\$3,056)<br>(US\$94)                                  | "              |
| "                         | Dong Guan Fu Qiang Electronics Ltd.       | Dong Guan, China       | Electronic telecommunication components                  | US\$21,584                | US\$15,130             | "                                   | 100%          | NT\$720,708<br>(US\$22,111)          | NT\$2,7971<br>(US\$86)                                   | "              |
| "                         | Fu Yang Electric (Kun Shan) Co., Ltd.     | Kun Shan, China        | Manufacturing electronic telecommunication components    | US\$8,000                 | US\$3,400              | "                                   | 100%          | NT\$266,432<br>(US\$8,174)           | (NT\$726)<br>(US\$22)                                    | "              |
| "                         | Foxlink Beijing Co., Ltd.                 | Beijing, China         | Sales Agent  | US\$300                   | US\$300                | "                                   | 100%          | NT\$3,832<br>(US\$118)               | (NT\$3,980)<br>(US\$122)                                 | "              |
| "                         | Neosonic Energy Technology (Tianjin) Ltd. | Tian Jin, China        | Manufacturing of electronic telecommunication components | US\$4,000                 | US\$1,500              | "                                   | 100%          | NT\$167,941<br>(US\$5,152)           | NT\$36,106<br>(US\$1,108)                                | "              |
| "                         | Kun Shan Fushijing Electronics Co., Ltd.  | Kun Shan, China        | Manufacturing of electronic telecommunication components | US\$3,000                 | US\$450                | "                                   | 100%          | NT\$179,104<br>(US\$5,495)           | NT\$76,486<br>(US\$2,347)                                | "              |
| "                         | Solteras Limited                          | British Virgin Islands | Investment holdings                                      | US\$2,000                 | -                      | 2,000                               | 100%          | NT\$87,319<br>(US\$2,679)            | NT\$67,961<br>(US\$2,085)                                | "              |
| "                         | Future Victory Limited                    | "                      | Investment holdings                                      | US\$1,705                 | -                      | 2,000                               | 100%          | NT\$47,082<br>(US\$1,444)            | (NT\$13,147)<br>(US\$403)                                | "              |
| "                         | Fox-E Holding Co., Ltd.                   | Mauritius              | "  | US\$700                   | -                      | 700                                 | 33.33%        | NT\$1,811<br>(US\$56)                | (NT\$18,644)<br>(US\$572)                                | "              |
| New Start Industries Ltd. | Fungang Electronic (Tian Jin) Ltd.        | Tian Jin, China        | Manufacturing of telecommunication components            | US\$8,500                 | US\$6,200              | "                                   | 100%          | NT\$626,359<br>(US\$19,216)          | NT\$341,138<br>(US\$10,466)                              | "              |
| "                         | Foxlink Tanjin Co., Ltd.                  | Tian Jin, China        | Manufacturing of telecommunication components            | US\$3,000                 | -                      | "                                   | 75%           | NT\$99,328<br>(US\$3,047)            | (NT\$3,056)<br>(US\$94)                                  | "              |

| Investor                                   | Investee                                     | Location       | Main activities   | Initial investment amount   |                             | Shares held as at December 31, 2006 |               |                                      | Investment income  |                |
|--|--|----------------|---|-----------------------------|-----------------------------|-------------------------------------|---------------|--------------------------------------|--|----------------|
|  |  |                |   | Balance                     | Balance                     | No. of shares                       |               | Net income (loss)<br>of the investee | Investment income<br>(loss) recognized by<br>the Company |                |
|  |  |                |   | as at 12/31/06              | as at 1/1/06                | (in thousands)                      | Ownership (%) |                                      |  | Book value     |
| Culink International Ltd.                  | Foxlink Singapore Pte Ltd.                   | Singapore      | Sales agent   | US\$61                      | US\$61                      | 100                                 | 99.99%        | NT\$2,795<br>(US\$86)                | NT\$1,737<br>(US\$53)                                    | Not applicable |
| Foxlink International Investment Co., Ltd. | Foxlink Image Technology Co., Ltd.           | Hsinchu        | Manufacturing of image scanners and electronic telecommunication components | NT\$325,989<br>(US\$10,001) | NT\$365,524<br>(US\$11,214) | 39,794                              | 29.59%        | NT\$671,748<br>(US\$20,609)          | NT\$350,119<br>(US\$10,741)                              | "              |
| "  | Everflow Precision Industries Co., Ltd.      | Taipei         | Manufacturing of electronic components and instruments                      | NT\$60,000<br>(US\$1,841)   | NT\$60,000<br>(US\$1,841)   | 6,000                               | 75%           | -                                    | -  | "              |
| "  | Microlink Communications Inc.                | Taipei         | Manufacturing of wireless communication instruments                         | NT\$80,000<br>(US\$2,454)   | NT\$80,000<br>(US\$2,454)   | 8,000                               | 28.57%        | NT\$78,573<br>(US\$2,411)            | NT\$14,364<br>(US\$441)                                  | "              |
| "  | Vegamedia Technology Co., Ltd.               | Taipei         | Manufacturing of electronic components                                      | NT\$1,000<br>(US\$31)       | NT\$1,000<br>(US\$31)       | 100                                 | 100%          | (NT\$8,614)<br>(US\$264)             | (NT\$56)<br>(US\$2)                                      | "              |
| "  | World Circuit Technology Co., Ltd.           | Taipei         | Manufacturing of electronic components and flexible printed circuit         | NT\$469,500<br>(US\$14,404) | NT\$469,500<br>(US\$14,404) | 15,650                              | 69.56%        | NT\$346,542<br>(US\$10,632)          | (NT\$90,790)<br>(US\$2,785)                              | "              |
| World Circuit Technology Co., Ltd.         | Value Success Limited                        | Virgin Islands | Investment holdings   | US\$5,400                   | US\$5,400                   | 4,000                               | 100%          | NT\$40,392<br>(US\$1,239)            | (NT\$81,808)<br>(US\$2,510)                              | "              |
| "  | Knowledge United Limited                     | Virgin Islands | "   | US\$800                     | US\$800                     | 800                                 | 100%          | NT\$3,814<br>(US\$117)               | (NT\$12,037)<br>(US\$369)                                | "              |
| Value Success Limited                      | Capital Guardian Ltd.                        | Hong Kong      | "   | US\$5,400                   | US\$5,400                   | 2,005                               | 100%          | NT\$40,717<br>(US\$1,249)            | (NT\$64,250)<br>(US\$1,971)                              | "              |
| Capital Guardian Limited                   | World Circuit Technology Holding Limited     | Hong Kong      | "   | HKD\$600<br>(US\$77)        | HKD\$600<br>(US\$77)        | 2,600                               | 100%          | (NT\$18,992)<br>(US\$583)            | (NT\$64,210)<br>(US\$1,790)                              | "              |
| World Circuit Technology Holding Limited   | World Circuit Production Limited             | Hong Kong      | "   | -                           | -                           | 3,000                               | 100%          | -                                    | (NT\$1,545)<br>(US\$47)                                  | "              |
| World Circuit Technology Holding Limited   | World circuit Technology (Hong Kong) Limited | Hong Kong      | Electronic components   | HKD\$1,000<br>(US\$129)     | HKD\$1,000<br>(US\$129)     | Not applicable                      | 100%          | (NT\$18,885)<br>(US\$579)            | (NT\$62,624)<br>(US\$921)                                | Not applicable |
|  |  |                |   | US\$3,400                   | US\$3,400                   |                                     |               |                                      |  |                |

| Investor                                     | Investee                                     | Location         | Main activities  | Initial investment amount |                      | Shares held as at December 31, 2006 |               |                        | Investment income                 |                                  |
|--|--|------------------|--|---------------------------|----------------------|-------------------------------------|---------------|------------------------|-----------------------------------|----------------------------------|
|  |  |                  |  | Balance as at 12/31/06    | Balance as at 1/1/06 | No. of shares (in thousands)        | Ownership (%) | Book value             | Net income (loss) of the investee | (loss) recognized by the Company |
| World Circuit Production Limited             | Shan Wei World Circuit Technology Co., Ltd.  | Shanwei, China   | Electronic components                                    | HKD\$950 (US\$122)        | HKD\$950 (US\$122)   | "                                   | 100%          | -                      | -                                 | "                                |
| World Circuit Technology (Hong Kong) Limited | Shang Hai World Circuit Technology Co., Ltd. | Shang Hai, China | Electronic components                                    | US\$2,241                 | US\$2,241            | "                                   | 100%          | NT\$5,333 (US\$164)    | (NT\$66,349) (US\$2,036)          | "                                |
| Future Vickory Ltd.                          | Darts Technologies (Shang Hai) Co., Ltd.     | Shang Hai, China | Research and development of telecommunication components | US\$1,750                 | -                    | -                                   | 100%          | NT\$42,889 (US\$1,316) | (NT\$13,165) (US\$404)            | "                                |
| Fox-E Holding Co., Ltd.                      | Fox-electronics (Shang Hai) Ltd.             | Shang Hai, China | Sales Agent  | US\$2,000                 | US\$2,000            | -                                   | 100%          | (NT\$3,558) (US\$109)  | (NT\$20,583) (US\$631)            |                                  |
| Solteras Limited                             | Solteras Inc.                                | America          | Manufacture of electronic componets                      | US\$2,000                 | -                    | 2,000                               | 49%           | NT\$77,945 (US\$2,391) | NT\$67,961 (US\$2,085)            |                                  |

B. Significant transactions of investee companies: See Note 11,1.

### 3) Disclosure of investments in Mainland China

A. The Company has Cu as subcontractors, who rents factories in Dong Guan and Shenzhen, for the manufacture of electronic telecommunication components and electronic wires. (Note)

Note: See Note 5.B for transactions with subcontractors.

#### B. Basic information

| Name of investee in Mainland China   | Main activities of investee   | Capital                  | Investment method | Accumulated remittance as of January 1, 2006 | Remitted or collected this year |           | Accumulated remittance as of December 31, 2006 | Ownership held by the Company (Direct and indirect) | Investment income (loss) recognized by the Company during the year | Ending balance of investment | Investment income (loss) remitted back as of December 31, 2006 |
|--------------------------------------|---|--------------------------|-------------------|--|---------------------------------|-----------|--|---|--|------------------------------|--|
|                                      |   |                          |                   |  | Remitted out                    | Collected |  |   |  |                              |  |
| Fu Gang Electronics (Dong Guan) Ltd. | Manufacturing of electronic telecommunication components and electric wires | HK\$217,502 (US\$27,971) | By third party    | HK\$21,982 (US\$27,261)                      | HK\$5,520 (US\$710)             | -         | HK\$217,502 (US\$27,971)                       | 100%  | NT\$5,221 (US\$160)  | NT\$779,319 (US\$24,523)     | -  |
| Fu Gang Electronics (Tian Jin) Ltd.  | Manufacturing of electronic telecommunication components                    | US\$8,500                | "                 | US\$5,200                                    | -                               | -         | US\$5,200 (Note 1)                             | 100%  | NT\$341,138 (US\$10,466)   | NT\$626,359 (US\$19,216)     | -  |
| Fu Gang Electronics (Kun Shan) Ltd.  | Manufacturing of electronic telecommunication components                    | US\$ 18,000              | "                 | US\$18,000                                   | -                               | -         | US\$18,000 (Note 1)                            | 100%  | NT\$1,664 (US\$51)   | NT\$744,487 (US\$22,841)     | -  |
| Dong Guan Fu Shi Chang Co., Ltd.     | Manufacturing of electronic telecommunication components and electric wires | HK\$936 (US\$120)        | "                 | HK\$936 (US\$120)                            | -                               | -         | HK\$936 (US\$120)                              | 100%  | (NT\$753) (US\$23)   | NT\$3,384 (US\$104)          | -  |

| Name of investee in<br><u>Mainland China</u>    | Main activities of investee                                 | Capital                | Investment method | Accumulated                         | Remitted or collected |  | Accumulated                        | Ownership held by<br>the Company<br>(Direct and indirect) | Investment                           | income (loss)              | Investment income<br>(loss) remitted back<br>as of December 31, 2006 |
|---|---|------------------------|-------------------|-------------------------------------|-----------------------|--|------------------------------------|---|--------------------------------------|----------------------------|--|
|   |   |                        |                   | remittance as of<br>January 1, 2006 | <u>this year</u>      | remittance as of<br>December 31,<br>2006 | recognized by the Company          |   | Ending balance of<br>investment      |                            |  |
| Foxlink Electronics<br>(Dong Guan) Co., Ltd.    | Manufacturing of electronic<br>telecommunication components | HK\$4,505<br>(US\$138) | By third party    | HK\$4,505<br>(US\$138)              | -                     | -  | HK\$4,505<br>(US\$138)<br>(Note 1) | 100%  | (NT\$2,888)<br>(US\$87)              | (NT\$8,185)<br>(US\$251)   | -  |
| Foxlink Electronics<br>(Tian Jin) Ltd.          | Manufacturing of electronic<br>telecommunication components | US\$4,000              | "                 | US\$1,000                           | -                     | -  | US\$1,000<br>(Note 1)              | 100%  | (NT\$3,056)<br>(US\$94)              | NT\$129,340<br>(US\$3,968) | -  |
| Fox-Electronics (Shang<br>Hai) Co., Ltd.        | Sales agent   | US\$2,000              | "                 | US\$2,000                           | -                     | -  | US\$2,000<br>(Note 1)              | 33.33%  | (NT\$6,214)<br>(US\$191)             | (NT\$3,558)<br>(US\$109)   | -  |
| Fu Yang Electric (Kun<br>Shan) Co., Ltd.        | Manufacturing of electronic<br>telecommunication components | US\$8,000              | "                 | US\$3,400                           | US\$4,600             | -  | US\$8,000<br>(Note 1)              | 100%  | (NT\$726)<br>(US\$22)                | NT\$266,432<br>(US\$8,174) | -  |
| Dong Guan Fu Qiang<br>Electronics Ltd           | Electronic telecommunication<br>components                  | US\$21,584             | "                 | US\$15,130                          | US\$6,454             | -  | US\$21,584<br>(Note 1)             | 100%  | NT\$2,791<br>(US\$86)                | NT\$720,708<br>(US\$2,211) | -  |
| Foxlink Beijing Co.,<br>Ltd.                    | Sales agent   | US\$300                | "                 | US\$300                             | -                     | -  | US\$300<br>(Note 1)                | 100%  | (NT\$3,980)<br>(US\$122)<br>(Note 2) | NT\$3,832<br>(US\$118)     | -  |
| Neosonic Energy<br>Technology (Tianjin)<br>Ltd. | Manufacturing of electronic<br>telecommunication components | US\$4,000              | "                 | US\$1,500                           | US\$2,500             | -  | US\$4,000<br>(Note 1)              | 100%  | NT\$32,287<br>(US\$991)              | NT\$167,941<br>(US\$5,152) | -  |
| Kun Shan Fushijing<br>Electronics Co., Ltd.     | Manufacturing of electronic<br>telecommunication components | US\$3,000              | "                 | US\$450                             | US\$2,550             | -  | US\$3,000<br>(Note 1)              | 100%  | NT\$76,486<br>(US\$2,347)            | NT\$179,104<br>(US\$5,495) | -  |
| Darts Technologies<br>(Shang Hai) Ltd.          | Research and development of<br>telecommunication components | US\$2,000              | "                 | -                                   | US\$1,705             | -  | US\$1,705<br>(Note 1)              | 100%  | (NT\$13,165)<br>(US\$404)            | NT\$42,889<br>(US\$1,316)  | -  |

Accumulated amount remitted out from  
Taiwan to Mainland China  
HK\$222,943 (US\$28,671) and US\$64,789

Investment amount approved by FIC  
HK\$245,441 (US\$31,564) and US\$78,515

Ceiling of investment amount of the  
Company in Mainland China  
NT\$6,179,028 (US\$189,570)

Note 1 : Investment was made through Cu, an investee company. The investment was approved by the Foreign Investment Commission (FIC) of MOEA.

C. The significant direct or indirect transactions of the Company with the investee companies in Mainland China.

a. Processing:

| <u>Company name</u>                           | <u>Account</u>                            | <u>For the year ended</u>     |                   |
|---|---|-------------------------------|-------------------|
|   |   | <u>December 31, 2006</u>      |                   |
|   |   | <u>Amount</u>                 | <u>Percentage</u> |
| Fu Gang Electronics (Kun Shan) Ltd.           | Sales                                     | NT\$826,271<br>(US\$25,350)   | 2%                |
| "   | Accounts receivable                       | NT\$506,402<br>(US\$15,536)   | 5%                |
| Fu Gang Electronics (Tian Jin) Ltd.           | Sales                                     | NT\$33,156<br>(US\$1,017)     | -                 |
| Culink Tianjin Co., Ltd.                      | Sales                                     | NT\$2,044,175<br>(US\$62,714) | 5%                |
| "   | Accounts receivable                       | NT\$779,766<br>(US\$23,923)   | 10%               |
| Kunshan Fushijing Electronics Co., Ltd. (KFE) | Sales                                     | NT\$972,028<br>(US\$29,821)   | 2%                |
| Foxlink Electronics (Dong Guan) Ltd.          | "   | NT\$52,906<br>(US\$1,623)     | -                 |
| "   | Accounts receivable                       | NT\$25,921<br>(US\$795)       | -                 |
| Fu Gang Electronics (Dong Guan) Ltd.          | Manufactory overhead - processing expense | NT\$436,721<br>(US\$13,398)   | 7%                |
| Fu Guan Electronics (Kun Shan) Ltd.           | "   | NT\$791,396<br>(US\$24,280)   | 13%               |
| Dong Guan Fu Qiang Electronics Ltd.           | "   | NT\$170,404<br>(US\$5,228)    | 3%                |
| Neosonic Energy Technology (Tianjin) Ltd.     | "   | NT\$268,932<br>(US\$8,251)    | 4%                |
| Culink Tianjin Co., Ltd.                      |   | NT\$127,705<br>(US\$3,918)    | 2%                |
| Fu Gang Electronics (Tian Jin) Ltd.           |   | NT\$305,261<br>(US\$9,365)    | 5%                |
| Kunshan Fushijing Electronics Co., Ltd. (KFE) |   | NT\$18,002<br>(US\$522)       | 1%                |

- b. Guarantee: See Note 11, 1) B.
- c. Financial activities to any company or person: None.
- d. Except for the above transactions, there are no other significant transactions between the Company, directly or indirectly, and the companies in Mainland China.

4) Significant transactions which occurred between the Company and its subsidiaries

(1) Subsidiaries included in the consolidated financial statements:

2006

| Number | Name of the Company                    | Name of the Company                           | Relationship with the counterparty | Transactions           |              |  | % of total sales or total assets |
|--------|--|---|------------------------------------|------------------------|--------------|--|----------------------------------|
|        |  |   |                                    | Account                | Amount       | Terms  |                                  |
| 0      | Cheng Uei Precision Industry Co., Ltd. | CU International Ltd.                         | 1                                  | Processing expenses    | \$ 3,661,559 | The processing fee includes all expenditures every month                   | 8%                               |
|        | "                                      | Fu Gang Electronics (Kun Shan) Ltd.           | 1                                  | Processing expenses    | 791,396      | "  | 2%                               |
|        | "                                      | "   | 1                                  | Accounts receivable    | 506,402      | Note   | 1%                               |
|        | "                                      | "   | 1                                  | Sales                  | 826,271      | The prices are based on the costs plus the agreed-upon gross profit margin | 2%                               |
|        | "                                      | Fu Gang Electronics (Dong Guan) Ltd.          | 1                                  | Processing expenses    | 436,721      | The processing fee includes all expenditures every month                   | 1%                               |
|        | "                                      | Fu Gang Electronics (Tian Jin) Ltd.           | 1                                  | Sales                  | 305,261      | The prices are based on the costs plus the agreed-upon gross profit margin | 1%                               |
|        | "                                      | "   | 1                                  | Accounts receivable    | 268,932      | The processing fee includes all expenditures every month                   | 1%                               |
|        | "                                      | Dong Guan Fu Qiang Electronics Ltd. (DGFQ)    | 1                                  | Processing expenses    | 170,404      | The processing fee includes all expenditures every month                   | -                                |
|        | "                                      | Foxlink Electronics (Fian Jin) Ltd. (FETJ)    | 1                                  | Processing expenses    | 127,705      | The processing fee includes all expenditures every month                   | -                                |
|        | "                                      | Kunshan Fushijing Electronics Co., Ltd. (KFE) | 1                                  | Sales                  | 972,028      | The prices are based on the costs plus the agreed-upon gross profit margin | 2%                               |
|        | "                                      | Foxlink Electronics (Tian Jin) Ltd. FETJ)     | 1                                  | Sales                  | 2,044,175    | The prices are based on the costs plus the agreed-upon gross profit margin | 5%                               |
|        | "                                      | "   | 1                                  | Accounts receivable    | 779,766      | Note   | 2%                               |
|        | "                                      | Darts Technologies Corporation                | 1                                  | Sales                  | 2,981,915    | The prices are based on the costs plus the agreed-upon gross profit margin | 7%                               |
| 1      | Cu International LTD.                  | Cheng Uei Precision Industry Co., Ltd.        | 2                                  | Processing fees income | 3,661,559    | The processing fee includes all expenditures every month                   | 8%                               |
| 2      | Darts Technologies Corporation         | Cheng Uei Precision Industry Co., Ltd.        | 2                                  | Purchases              | 2,981,915    | The prices are based on the costs plus the agreed-upon gross profit margin | 7%                               |
| 3      | Fu Gang Electronics (Kun Shan) Ltd.    | "   | 2                                  | Processing fees income | 791,396      | The processing fee includes all expenditures every month                   | 2%                               |
| 3      | Fu Gang Electronics (Kun Shan) Ltd.    | "   | 2                                  | Accounts payable       | 506,402      | Note   | 1%                               |
| 3      | Fu Gang Electronics (Kun Shan) Ltd.    | Cheng Uei Precision Industry Co., Ltd.        | 2                                  | Purchases              | 826,271      | The prices are based on the costs plus the agreed-upon gross profit margin | 2%                               |

| Number | Name of the Company                            | Name of the Company                    | Relationship with the counterparty | Transactions           |           |  | % of total sales or total assets |
|--------|--|--|------------------------------------|------------------------|-----------|--|----------------------------------|
|        |  |  |                                    | Account                | Amount    | Terms  |                                  |
| 4      | Fu Gang Electronics (Dong Guan) Ltd.           | Cheng Uei Precision Industry Co., Ltd. | 2                                  | Processing fees income | 436,721   | The processing fee includes all expenditures every month                   | 1%                               |
| 5      | Fu Gang Electronics (Tian Jin) Ltd.            | Cu International LTD.                  | 2                                  | Processing fees income | 305,261   | The prices are based on the costs plus the agreed-upon gross profit margin | 1%                               |
| 6      | Neosonic Energy Technology (Tianjin) Ltd. (NE) | Cheng Uei Precision Industry Co., Ltd. | 2                                  | Processing fees income | 268,932   | The processing fee includes all expenditures every month                   | 1%                               |
| 7      | Dong Guan Fu Qiang Electronics Ltd. (DGFQ)     | "                                      | 2                                  | Processing fees income | 170,404   | The processing fee includes all expenditures every month                   | -                                |
| 8      | Foxlink Electronics (Fian Jin) Ltd. (FETJ)     | "                                      | 2                                  | Processing fees income | 127,705   | The processing fee includes all expenditures every month                   | -                                |
| 8      | "  | "                                      | 2                                  | Purchases              | 2,044,175 | The prices are based on the costs plus the agreed-upon gross profit margin | 5%                               |
| 8      | "  | "                                      | 2                                  | Accounts payable       | 779,766   | Note   | 2%                               |
| 9      | Kunshan Fushijing Electronics Co., Ltd. (KFE)  | "                                      | 2                                  | Purchases              | 972,028   | The prices are based on the costs plus the agreed-upon gross profit margin | 2%                               |

Note : Receivables and payables arising from sales of raw materials to FGEKS, FGETJ, FEGD and Foxlink Tianjin are offset against each other and the resulting net amount is collected depending on their financial condition.

## 2005

| Number | Name of the Company                    | Name of the Company                  | Relationship with the counterparty | Transactions        |              |  | % of total sales or total assets |
|--------|--|--------------------------------------|------------------------------------|---------------------|--------------|--|----------------------------------|
|        |  |                                      |                                    | Account             | Amount       | Terms  |                                  |
| 0      | Cheng Uei Precision Industry Co., Ltd. | CU International Ltd.                | 1                                  | Processing expenses | \$ 2,496,525 | The processing fee includes all expenditures every month                   | 9%                               |
|        | "                                      | Fu Gang Electronics (Kun Shan) Ltd.  | 1                                  | Processing expenses | 491,853      | "  | 2%                               |
|        | "                                      | "                                    | 1                                  | Accounts receivable | 417,615      | Note   | 2%                               |
|        | "                                      | "                                    | 1                                  | Sales               | 1,805,262    | The prices are based on the costs plus the agreed-upon gross profit margin | 6%                               |
|        | "                                      | Fu Gang Electronics (Dong Guan) Ltd. | 1                                  | Processing expenses | 542,155      | The processing fee includes all expenditures every month                   | 2%                               |
|        | "                                      | Fu Gang Electronics (Tian Jin) Ltd.  | 1                                  | Sales               | 170,222      | The prices are based on the costs plus the agreed-upon gross profit margin | 1%                               |
|        | "                                      | "                                    | 1                                  | Accounts receivable | 142,415      | Note   | 1%                               |
|        | "                                      | Darts Technologies Corporation       | 1                                  | Sales               | 4,016,126    | The prices are based on the costs plus the agreed-upon gross profit margin | 14%                              |
|        | "                                      | "                                    | 1                                  | Accounts receivable | 795,091      | The credit term on the sales to Darts is 180                               | 3%                               |

| Number | Name of the Company                  | Name of the Company                    | Relationship with the counterparty | Transactions           |           |  | % of total sales or total assets |
|--------|--------------------------------------|--|------------------------------------|------------------------|-----------|--|----------------------------------|
|        |                                      |  |                                    | Account                | Amount    | Terms  |                                  |
| 1      | Cu International LTD.                | Cheng Uei Precision Industry Co., Ltd. | 2                                  | Processing fees income | 2,496,525 | days after monthly billing<br>The processing fee includes all expenditures every month | 9%                               |
| 1      | "                                    | Fu Gang Electronics (Tian Jin) Ltd.    | 3                                  | Processing expenses    | 386,841   | The processing fee includes all expenditures every month                               | 1%                               |
| 2      | Darts Technologies Corporation       | Cheng Uei Precision Industry Co., Ltd. | 2                                  | Purchases              | 4,016,126 | The prices are based on the costs plus the agreed-upon gross profit margin             | 14%                              |
| 2      | "                                    | "                                      | 2                                  | Accounts payable       | 795,091   | The payment term is 180 days after monthly billing                                     | 3%                               |
| 3      | Fu Gang Electronics (Kun Shan) Ltd.  | "                                      | 2                                  | Processing fees income | 491,853   | The processing fee includes all expenditures every month                               | 2%                               |
| 3      | Fu Gang Electronics (Kun Shan) Ltd.  | "                                      | 2                                  | Accounts payable       | 417,615   | Note   | 2%                               |
| 3      | Fu Gang Electronics (Kun Shan) Ltd.  | Cheng Uei Precision Industry Co., Ltd. | 2                                  | Purchases              | 1,805,262 | The prices are based on the costs plus the agreed-upon gross profit margin             | 6%                               |
| 4      | Fu Gang Electronics (Dong Guan) Ltd. | "                                      | 2                                  | Processing fees income | 542,155   | The processing fee includes all expenditures every month                               | 2%                               |
| 5      | Fu Gang Electronics (Tian Jin) Ltd.  | Cu International LTD.                  | 3                                  | Processing fees income | 386,841   | The processing fee includes all expenditures every month                               | 1%                               |
| 5      | "                                    | Cheng Uei Precision Industry Co., Ltd. | 3                                  | Purchases              | 170,222   | The prices are based on the costs plus the agreed-upon gross profit margin             | 1%                               |
| 5      | "                                    | "                                      | 3                                  | Accounts payable       | 142,415   | Note   | 1%                               |

Note : Receivables and payables arising from sales of raw materials to FGEKS, FGETJ, FEGD and Foxlink Tianjin are offset against each other and the resulting net amount is collected depending on their financial condition.

(2) In accordance with the amended R.O.C. SFAS No. 7, certain subsidiaries were included in the 2006 consolidated financial statements, their related party transaction in 2005 were as follows : None.

## 12. SEGMENT FINANCIAL INFORMATION

A. Operation in different industries: Not applicable as the Company and its consolidated subsidiaries are mainly engaged in a single segment, the manufacture and sales of electronic telecommunication components.

B. Information by area in 2006 and 2005 is set forth below:

|   | 2006                 |                          |                            |                      |
|---|----------------------|--------------------------|----------------------------|----------------------|
|   | NT\$                 |                          |                            |                      |
|   | Domestic             | Other foreign operations | Adjustment and elimination | Total                |
| Operating revenues-external                                 | \$ 38,623,655        | \$ 4,715,535             | \$ -                       | \$ 43,339,190        |
| Operating revenues-internal                                 | 7,088,522            | 5,779,980                | ( 12,868,502)              | -                    |
| Total operating revenues                                    | <u>\$ 45,712,177</u> | <u>\$ 10,495,515</u>     | <u>(\$ 12,868,502)</u>     | <u>\$ 43,339,190</u> |
| Segment income  | <u>\$ 3,114,039</u>  | <u>\$ 144,072</u>        | <u>(\$ 95,992)</u>         | <u>\$ 3,162,119</u>  |
| Investment income accounted for under the equity method     | -                    | -                        | -                          | 269,609              |
| Interest expense  | -                    | -                        | -                          | ( 278,054)           |
| Income before income tax                                    | -                    | -                        | -                          | <u>\$ 3,153,674</u>  |
| Identifiable assets   | <u>\$ 26,916,365</u> | <u>\$ 10,132,952</u>     | <u>(\$ 1,215,747)</u>      | <u>\$ 35,823,570</u> |
| Long-term investments accounted for under the equity method | -                    | -                        | -                          | <u>1,461,615</u>     |
| Total assets  | -                    | -                        | -                          | <u>\$ 37,285,185</u> |

|   | 2006                |                          |                            |                     |
|---|---------------------|--------------------------|----------------------------|---------------------|
|   | US\$                |                          |                            |                     |
|   | Domestic            | Other foreign operations | Adjustment and elimination | Total               |
| Operating revenues-external                                 | \$ 1,184,956        | \$ 144,671               | \$ -                       | \$ 1,329,628        |
| Operating revenues-internal                                 | 217,473             | 177,327                  | ( 394,800)                 | -                   |
| Total operating revenues                                    | <u>\$ 1,402,429</u> | <u>\$ 321,998</u>        | <u>(\$ 394,800)</u>        | <u>\$ 1,329,628</u> |
| Segment income  | <u>\$ 96,458</u>    | <u>\$ 4,420</u>          | <u>(\$ 2,945)</u>          | <u>\$ 97,012</u>    |
| Investment income accounted for under the equity method     | -                   | -                        | -                          | 8,271               |
| Interest expense  | -                   | -                        | -                          | ( 8,531)            |
| Income before income tax                                    | -                   | -                        | -                          | <u>\$ 96,752</u>    |
| Identifiable assets   | <u>\$ 825,782</u>   | <u>\$ 310,874</u>        | <u>(\$ 37,299)</u>         | <u>\$ 1,099,051</u> |
| Long-term investments accounted for under the equity method | -                   | -                        | -                          | <u>44,842</u>       |
| Total assets  | -                   | -                        | -                          | <u>\$ 1,143,893</u> |

|  | 2005                 |                             |                               |                      |
|--|----------------------|-----------------------------|-------------------------------|----------------------|
|  | NT\$                 |                             |                               |                      |
|  | Domestic             | Other foreign<br>operations | Adjustment and<br>elimination | Total                |
| Operating revenues-external                                    | \$ 26,160,315        | \$ 2,317,332                | \$ -                          | \$ 28,477,647        |
| Operating revenues-internal                                    | <u>3,221,079</u>     | <u>3,636,411</u>            | <u>( 6,857,490)</u>           | <u>-</u>             |
| Total operating revenues                                       | <u>\$ 29,381,394</u> | <u>\$ 5,953,743</u>         | <u>(\$ 6,857,490)</u>         | <u>\$ 28,477,647</u> |
| Segment income   | <u>\$ 2,136,861</u>  | <u>(\$ 62,275)</u>          | <u>(\$ 25,921)</u>            | <u>\$ 2,048,665</u>  |
| Investment income accounted for<br>under the equity method     | -                    | -                           | -                             | 240,602              |
| Interest expense   | -                    | -                           | -                             | <u>( 162,324)</u>    |
| Income before income tax                                       | -                    | -                           | -                             | <u>\$ 2,126,943</u>  |
| Identifiable assets  | <u>\$ 17,555,036</u> | <u>\$ 10,140,521</u>        | <u>(\$ 1,409,026)</u>         | <u>\$ 26,286,531</u> |
| Long-term investments accounted<br>for under the equity method | -                    | -                           | -                             | <u>1,138,436</u>     |
| Total assets   | -                    | -                           | -                             | <u>\$ 27,424,967</u> |

C. Information about export sales: The export sales of the Group in 2005 and 2006 were as follows:

|             | For the years ended December 31, |                      |                         |
|-------------|----------------------------------|----------------------|-------------------------|
|             | 2005                             | 2006                 | 2006                    |
|             | New Taiwan Dollars               |                      | US Dollars              |
|             |                                  |                      | (Unaudited)<br>(Note 2) |
| Asia        | \$ 14,738,469                    | \$ 21,066,158        | \$ 646,300              |
| Americas    | 9,498,285                        | 15,593,213           | 478,393                 |
| Other areas | <u>1,426,338</u>                 | <u>2,835,618</u>     | <u>86,995</u>           |
|             | <u>\$ 25,663,092</u>             | <u>\$ 39,494,989</u> | <u>\$ 1,211,688</u>     |

D. Major customer information: The customers which contributed in excess of 10% of net operating revenue were as follows:

|      | Customers    | Sales amount                    | % of net sales |
|------|--------------|---------------------------------|----------------|
| 2005 |              |                                 |                |
| "    | Microlink    | NT\$4,134,691<br>(US\$125,866)  | 15%            |
| "    | Customer (A) | NT\$3,751,882<br>(US\$114,213)  | 13%            |
| "    | Darts        | NT\$2,855,477<br>(US\$86,925)   | 100%           |
| 2006 |              |                                 |                |
| "    | Customer (A) | NT\$13,228,709<br>(US\$405,851) | 31%            |