SPEED TECH CO., LTD.
AND ITS SUBSIDIARIES

Consolidated Financial Statements

December 31, 2007 and 2006

(With Auditors' Report Thereon)

Independent Auditors' Report

The Board of Directors
Speed Tech Co., Ltd.:

We have audited the accompanying consolidated balance sheets of Speed Tech Co., Ltd. and its subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for the years then ended. 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 the Company's investee companies accounted for under the equity method. Those financial statements were audited by other auditors, and our opinion, insofar as it relates to those investments, is based solely on the reports of the other auditors. The long-term equity investments amounted to $147,920 thousand and $65,079 thousand as of December 31, 2007 and 2006, respectively, and related investment income amounted to $3,247 thousand and $18,054 thousand, respectively, for the years then ended.

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

In our opinion, based upon our audits and the reports of the other auditors, the consolidated financial statements mentioned in the first paragraph present fairly, in all material respects, the financial position of Speed Tech Co., Ltd. and its subsidiaries as of December 31, 2007 and 2006, and the results of their operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the Republic of China.

March 6, 2008

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

The auditors' report and the accompanying financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of, the English and Chinese language auditors' report and financial statements, the Chinese version shall prevail.

SPEED TECH CO., LTD. AND ITS SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2007 and 2006
(expressed in thousands of New Taiwan dollars)

Assets	2007 Amount	%	2006 Amount	%
Current assets:				
Cash and cash in bank (note 4)	$ 586,047	13	624,902	13
Financial assets measured at fair value through profit or loss－current (note 6)	1,258	-	-	-
Held-to-maturity financial assets－current (note 5)	2,000	-	2,000	-
Trade notes and accounts receivable, net (notes 7 and 20)	1,171,318	25	1,397,232	28
Other financial assets－current	25,112	1	23,825	-
Inventories, net (note 8)	566,678	12	658,975	13
Deferred income tax assets and others (note 16)	76,113	2	91,640	2
Restricted assets (note 20)	32,052	1	26,013	1
Non-current assets held for sale (note 10)	18,122	-	-	-
	2,478,700	54	2,824,587	57
Funds and long-term investments:				
Long-term equity investments accounted for under equity method (note 9)	147,920	3	65,079	1
Held-to-maturity financial assets－noncurrent (note 5)	2,000	-	4,000	-
Financial assets carried at cost – noncurrent (note 5)	47,244	1	57,299	1
	197,164	4	126,378	2
Other financial assets－noncurrent	4,335	-	7,844	-
Property, plant and equipment (note 20):				
Land	483,118	10	483,118	10
Buildings	650,830	14	632,755	13
Machinery	1,560,936	33	1,394,401	28
Research and other equipment	224,492	5	197,815	4
Leasehold improvement	114,491	2	106,354	2
	3,033,867	64	2,814,443	57
Less: accumulated depreciation	(1,070,041)	(23)	(905,961)	(18)
Less: accumulated impairment	(96,000)	(2)	(96,000)	(2)
Prepayment for equipment	50,340	1	83,628	2
	1,918,166	40	1,896,110	39
Intangible assets:				
Land usage rights and others (note 20)	48,482	1	31,468	1
Other assets:				
Deferred expenses and others	38,681	1	62,198	1
Total assets	$ **4,685,528**	**100**	**4,948,585**	**100**

Liabilities and Stockholders' Equity	2007 Amount	%	2006 Amount	%
Current liabilities:				
Short-term loans and commercial paper payable (notes 11 and 20)	$ 656,650	14	638,070	13
Current portion of long-term loans (notes 13 and 20)	-	-	140,000	3
Trade notes and accounts payable (including related parties) (note 19)	685,459	15	793,173	15
Accrued expenses and others (note 19)	218,356	5	227,733	5
	1,560,465	34	1,798,976	36
Long-term liabilities:				
Long-term loans (notes 13 and 20)	650,000	14	730,000	15
Other liabilities:				
Accrued pension liability and others (notes 14 and 16)	59,310	1	81,219	2
Total liabilities	2,269,775	49	2,610,195	53
Stockholders' equity (note 15):				
Common stock	1,669,876	36	1,369,686	28
Preferred stock	200,000	4	200,000	4
Capital surplus:				
Paid-in capital in excess of par value	447,568	10	333,288	7
From merger	247,154	5	247,154	5
Treasury stock transactions	2,610	-	2,610	-
Long-term investments	2,438	-	512	-
	699,770	15	583,564	12
Retained earnings:				
Legal reserve	44,078	1	41,172	1
Special reserve	-	-	15,897	-
Unappropriated retained earnings (accumulated deficit)	(179,425)	(4)	113,937	2
	(135,347)	(3)	171,006	3
Cumulative translation adjustments	56,340	1	11,816	-
Treasury stock	(76,836)	(2)	-	-
Minority interest	1,950	-	2,318	-
Total stockholders' equity	2,415,753	51	2,338,390	47
Commitments and contingent liabilities (note 21)				
Total liabilities and stockholders' equity	$ **4,685,528**	**100**	**4,948,585**	**100**

See accompanying notes to consolidated financial statements.

SPEED TECH CO., LTD. AND ITS SUBSIDIARIES

Consolidated Statements of Operations

Years ended December 31, 2007 and 2006

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

	2007 Amount	%	2006 Amount	%
Gross sales	$ 3,721,121	103	4,080,060	102
Less: sales returns and allowances	91,296	3	78,132	2
Net sales	3,629,825	100	4,001,928	100
Cost of goods sold (note 19)	3,256,155	90	3,383,933	85
Gross profit	373,670	10	617,995	15
Operating expenses:				
Selling	199,025	5	174,642	4
General and administrative	228,327	6	188,282	5
Research and development	155,405	4	128,351	3
	582,757	15	491,275	12
Operating income (losses)	(209,087)	(5)	126,720	3
Non-operating income:				
Interest income	10,026	-	11,048	-
Investment income accounted for under equity method, net (note 9)	3,247	-	18,054	-
Foreign exchange gain, net	40,381	1	10,075	-
Other income (notes 6 and 12)	17,820	-	23,054	1
	71,474	1	62,231	1
Non-operating expenses and losses:				
Interest expense (note 19)	37,141	1	37,394	1
Losses on inventory valuation and obsolescence	113,223	3	90,843	2
Impairment loss (note 5)	10,055	-	-	-
Others	10,112	-	18,060	-
	170,531	4	146,297	3
Income (losses) before income tax	(308,144)	(8)	42,654	1
Income tax expense (benefit) (note 16)	(9,423)	-	17,686	-
Net income (losses)	**$ (298,721)**	**(8)**	**24,968**	**1**
Attributable to:				
Stockholders of the parent	$ (298,353)	(8)	29,066	1
Minority interest	(368)	-	(4,098)	-
	$ (298,721)	**(8)**	**24,968**	**1**

	Before income tax	After income tax	Before income tax	After income tax
Basic earnings (losses) per share (NT dollars) (note 17)	**$ (1.81)**	**(1.74)**	**0.20**	**0.14**
Diluted earnings per share (NT dollars) (note 17)			**$ 0.19**	**0.13**

See accompanying notes to consolidated financial statements.

SPEED TECH CO., LTD. AND ITS SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Equity

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

	Common stock	Preferred stock	Capital surplus	Retained earnings: Legal reserve	Retained earnings: Special reserve	Retained earnings: Unappropriated retained earnings (accumulated deficit)	Cumulative translation adjustments	Treasury stock	Minority interest	Total
Balance at the beginning of January 1, 2006	$ 1,300,112	200,000	572,947	20,149	-	210,228	(15,897)	(13,794)	2,416	2,276,161
Appropriation of 2005 earnings:										
Legal reserve	-	-	-	21,023		(21,023)	-	-	-	-
Special reserve	-	-	-	-	15,897	(15,897)	-	-	-	-
Dividends	45,003	-	-	-	-	(78,709)	-	-	-	(33,706)
Directors' and supervisors' remuneration	-	-	-	-	-	(2,653)	-	-	-	(2,653)
Employees' bonus	-	-	-	-	-	(7,075)	-	-	-	(7,075)
Convertible bonds conversion	10,351	-	9,583	-	-	-	-	-	-	19,934
Employee stock option exercise	14,220	-	-	-	-	-	-	-	-	14,220
Transfer of treasury stock	-	-	1,034	-	-	-	-	13,794	-	14,828
Consolidated net income for 2006	-	-	-	-	-	29,066	-	-	(4,098)	24,968
Cumulative translation adjustment	-	-	-	-	-	-	27,713	-	-	27,713
Increase in minority interest	-	-	-	-	-	-	-	-	4,000	4,000
Balance on December 31, 2006	1,369,686	200,000	583,564	41,172	15,897	113,937	11,816	-	2,318	2,338,390
Appropriation of 2006 earnings:										
Legal reserve	-	-	-	2,906	-	(2,906)	-	-	-	-
Reversal of special reserve	-	-	-	-	(15,897)	15,897	-	-	-	-
Preferred stock dividends	-	-	-	-	-	(8,000)	-	-	-	(8,000)
Issuance of common stock for cash	285,700	-	114,280	-	-	-	-	-	-	399,980
Exercise of employee stock option	14,490	-	-	-	-	-	-	-	-	14,490
Purchase of treasury stock	-	-	-	-	-	-	-	(76,836)	-	(76,836)
Effects of change in ownership percentage of investee company	-	-	1,926	-	-	-	-	-	-	1,926
Consolidated net losses for 2007	-	-	-	-	-	(298,353)	-	-	(368)	(298,721)
Cumulative translation adjustment	-	-	-	-	-	-	44,524	-	-	44,524
Balance on December 31, 2007	**$ 1,669,876**	**200,000**	**699,770**	**44,078**	**-**	**(179,425)**	**56,340**	**(76,836)**	**1,950**	**2,415,753**

See accompanying notes to consolidated financial statements.

SPEED TECH CO., LTD AND ITS SUBSIDIARIES

Consolidated Statements of Cash Flows

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

	2007	2006
Cash flows from operating activities:		
Net income (losses)	$ (298,721)	24,968
Adjustments to reconcile net income (losses) to net cash provided by operating activities:		
Depreciation and amortization	268,945	276,243
Losses on inventory valuation and obsolescence	113,223	95,969
Impairment loss on financial assets	10,055	-
Investment income accounted for under equity method, net	(3,247)	(18,054)
Decrease in trade notes and accounts receivable, including related parties	225,914	154,896
Increase in inventories	(20,926)	(207,549)
Decrease (increase) in prepaid expenses and other current assets	4,858	(26,852)
Decrease in trade notes and accounts payable, including related parties	(107,714)	(240,918)
Increase (decrease) in accrued expenses and other current liabilities	(7,173)	13,825
Deferred income tax expense (benefit)	(19,389)	2,391
Others	(6,035)	(3,217)
Net cash provided by operating activities	159,790	71,702
Cash flows from investing activities:		
Acquisition of property, plant and equipment	(248,441)	(247,412)
Proceeds from sale of property, plant and equipment	21,909	131,533
Increase in restricted bank deposit	(6,039)	(1,698)
Increase in long-term equity investments	(75,000)	-
Decrease (increase) in other financial assets	3,509	(28,622)
Others	(17,501)	(4,446)
Net cash used in investing activities	(321,563)	(150,645)
Cash flows from financing activities:		
Increase in short-term loans	18,580	277,060
Payment of long-term loans	(220,000)	(120,000)
Cash dividends	-	(33,706)
Transfer of treasury stock	-	14,828
Purchase of treasury stock	(76,836)	-
Issuance of common stock for cash	399,980	
Redemption of convertible bonds	-	(46,225)
Directors' and supervisors' remuneration and employees' bonus	-	(9,728)
Employee stock options converted into common stock	14,490	14,220
Preferred stock dividends	(8,000)	-
Increase in minority interest	-	4,000
Net cash provided by financing activities	128,214	100,449
Effect of exchange rate	(5,296)	6,360
Net increase (decrease) in cash and cash in bank	(38,855)	27,866
Cash and cash in bank at beginning of year	624,902	597,036
Cash and cash in bank at end of year	$ 586,047	624,902
Supplemental disclosures of cash flow information:		
Interest paid	$ 36,208	37,536
Income tax paid	$ 4,840	43,320
Supplemental information on investing and financing activities not affecting current cash flow:		
Current portion of long-term loans	$ -	140,000
Convertible bonds converted into common stock and capital surplus	$ -	19,934
Property, plant and equipment, and others reclassified as assets held for sale	$ 18,122	-
Cash used in acquisition of property, plant and equipment:		
Acquisition of property, plant and equipment (gross amount)	$ 246,237	265,997
Decrease (increase) in payable for equipment	2,204	(18,585)
Payment in cash	$ 248,441	247,412

See accompanying notes to consolidated financial statements.

SPEED TECH CO., LTD AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2007 and 2006

(expressed in thousands of New Taiwan dollars unless otherwise specified)

(1) Organization and Business

Speed Tech Co., Ltd. (the Company) was incorporated in October 1990 as a company limited by shares under the laws of the Republic of China (ROC). The major business activities of the Company are the manufacturing and sale of connectors for use in computers, electronics and communication products. The Company began trading over the counter in September 2000.

The effective merger dates of the Company's merger with Haur Sheng Precision Ind. Co., Ltd. and Toyoshima Technology Co., Ltd. were February 1 and December 15, 2003, respectively, and the Company was the surviving company. After merger, the major business activities of the Company are the design, process, manufacturing and sale of machinery, electronic components, computers, and communication products and the design, manufacturing and sale of components, rubber keypads, IMD, membrane switches and sputtering for use in electronic components, computers, communication products and consumer electronics.

The details of the subsidiaries included in the consolidated financial statements in 2007 and 2006 are summarized below:

Name of company which holds securities	Name of subsidiary	Main business activities	Date of incorporation	Percentage of ownership (%) 2007	2006
The Company	Stech International Co., Ltd. (Stech (BVI))	Holding and trading company	July 2000	100.00	100.00
〃	U.S.A. Speed Tech Inc. (U.S.A. Speed)	Sale of connectors and electronic components, and researching business information	June 1997	100.00	100.00
〃	Hummingbird Technology Limited (Hummingbird (BVI))	Holding and trading company	August 2002	100.00	100.00
〃	Space Speed Tech Ltd. (Space Speed (BVI))	Holding and trading company	September 2000	100.00	100.00
〃	Toyoshima Corp. (M) SDN. BHD. (Toyoshima (Malaysia))	Manufacturing, processing and sale of rubber keypads, shielding cases and sputtering for use in electronic components, computers, and communication products	August 1989	100.00	100.00

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SPEED TECH CO., LTD AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

Name of company which holds securities	Name of subsidiary	Main business activities	Date of incorporation	Percentage of ownership (%) 2007	2006
〃	Toyoshima Industrial (HK) Company Ltd. (Toyoshima (HK))	Manufacturing, processing and sale of electronic components, computers, and communication products	February 1993	100.00	100.00
〃	P.T. Toyoshima Indonesia (Toyoshima (Batam))	Manufacturing, processing and sale of electronic components, computers, and communication products	March 1996	100.00	100.00
〃	Toyoshima BVI Corp. (Toyoshima (BVI))	Holding and trading company	July 2000	100.00	100.00
〃	Jia Guo Precise Industry Ltd. Corp. (Jia Guo)	Manufacturing and sale of molds	May 2005	60.00	60.00
Stech (BVI)	Speed Tech (Beijing) Co., Ltd. (Speed Tech (Beijing))	Manufacturing and sale of stamping components	February 2000	100.00	100.00
Hummingbird (BVI)	Speed Tech (Kunshan) Co., Ltd. (Speed Tech (Kunshan))	Manufacturing and sale of stamping components	April 2003	100.00	100.00
Space Speed (BVI)	Speed Tech (Dong Guan) Co., Ltd. (Speed Tech (Dong Guan))	Manufacturing and sale of stamping components	June 2001	100.00	100.00
Toyoshima (HK)	Toyoshima Electronic (Dong Guan) Co., Ltd. (Toyoshima (Dong Guan))	Manufacturing and sale of rubber product, keypads and sputtering	2002	100.00	100.00
Toyoshima (BVI))	Toyoshima Electronic Technology (Suzhou) Co., Ltd. (Toyoshima (Suzhou))	Manufacturing and sale of rubber products, membrane switches	September 2000	100.00	100.00

The Company and all of its consolidated subsidiaries are collectively called the "Consolidated Company" hereinafter. As of December 31, 2007 and 2006, the number of employees hired by the Company and its subsidiaries was 6,299 and 6,760, respectively.

(2) Summary of Significant Accounting Policies

The consolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of, the English and Chinese language financial statements, the Chinese version shall prevail.

SPEED TECH CO., LTD AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

The consolidated financial statements are prepared in accordance with the accounting principles and practices generally accepted in the Republic of China, the Business Entity Accounting Act, and the Regulation on Business Entity Accounting Handling. The significant accounting policies and measurement basis adopted in preparing the accompanying consolidated financial statements are summarized as follows:

(a) Consolidation policy

Investees which the Company has the power to control are accounted for under the equity method, and consolidated financial statements are prepared and presented semiannually and annually. All significant inter-company balances and transactions, and unrealized internal gains or losses are eliminated in the consolidated financial statements.

(b) Use of estimates

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

(c) Foreign currency transactions

The entities of the Consolidated Company maintain their books in their respective functional currencies. Foreign currency transactions involving non-derivative financial instruments are recorded at the exchanges rates prevailing on the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated using the exchange rate prevailing on the balance sheet date, and the resulting realized and unrealized gains or losses are recognized as non-operating income or loss. The Consolidated Company adopted revised Statement of Financial Accounting Standards (SFAS) No. 14 “The Effects of Changes in Foreign Exchange Rates”. In accordance with revised SFAS No. 14, non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into New Taiwan dollars at foreign exchange rates ruling at the balance sheet date. The exchange gains or losses are recognized in the income statement for non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value through profit or loss. The exchange gains or losses are recognized directly in equity for non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value through equity.

For equity investments in foreign subsidiaries and investees which are accounted for under the equity method, the differences resulting from translating foreign financial statements from their functional currency into the reporting currency are reported as a translation adjustment, a separate component of stockholders’ equity, and combined into operations when sold or liquidated.

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(d) Standard for classifying assets and liabilities as current or non-current

Cash or cash equivalents that are not restricted in use, and assets held for trading purposes, or that will be held short term and are expected to be converted to cash within 12 months after the balance sheet date, are classified as current assets. Assets not classified as current assets are non-current assets.

Liabilities that are to be fully liquidated within 12 months after the balance sheet date are classified as current liabilities. Liabilities not classified as current liabilities are non-current liabilities.

(e) Impairment of assets

The Consolidated Company adopted SFAS No. 35 “Impairment of Assets”. In accordance with SFAS No. 35, the Consolidated Company assesses at each balance sheet date whether there is any indication that an asset (individual asset or cash-generating unit) other than goodwill may have been impaired. If any such indication exists, the Consolidated Company estimates the recoverable amount of the asset. The Consolidated Company recognizes impairment loss for an asset whose carrying value is higher than the recoverable amount. The Consolidated Company reverses an impairment loss recognized in prior periods for assets other than goodwill if there is any indication that the impairment loss recognized no longer exists or has decreased. The carrying value after the reversal should not exceed the recoverable amount or the depreciated or amortized balance of the assets assuming no impairment loss was recognized in prior periods.

A cash-generating unit which contains goodwill is tested for impairment each year. An impairment loss is recognized for a cash generating unit whose carrying value is higher than the recoverable amount.

(f) Cash equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and with maturity dates that do not present significant risks on changes in value resulting from changes in interest rates, including commercial paper with original maturities of three months or less.

(g) Financial instruments

The Consolidated Company adopted transaction-date accounting for financial instrument transactions. At the beginning of recognition, financial instruments are evaluated at fair value. Except for trading-purpose financial instruments, acquisition cost or issuance cost is added to the original recognized amount.

The financial instruments the Consolidated Company held or issued are classified into the following accounts in accordance with the purpose of holding or issuing after the original recognition:

(Continued)

(i) Financial assets measured at fair value through profit or loss: The main purposes of the financial instruments are selling or repurchasing in the short term. Except for the derivatives that the Consolidated Company held for hedging purposes and are considered to be effective, all derivatives should be classified into this account.

(ii) Held-to-maturity financial assets: The investments are measured at amortized cost. If there is objective evidence of impairment, impairment loss should be recognized. If the amount of the impairment loss decreases in a subsequent period, the amount of the decrease is recognized in earnings, provided that the decrease is clearly attributable to an event which occurred after the impairment loss was recognized. The carrying value after the reversal should not exceed the amortized balance of the assets assuming no impairment loss was recognized in prior periods.

(iii) Financial assets carried at cost: Equity investments which cannot be evaluated at fair value are booked at original cost. If there is objective evidence of impairment, impairment loss should be recognized, and the impairment amount cannot be reversed.

(h) Derivative financial instruments and hedges

The Consolidated Company uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. In accordance with the policy, the Consolidated Company holds or issues derivative financial instruments for hedge purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

When a hedge transaction meets all the conditions for hedge accounting, the change in fair value of the hedging financial instrument as well as the hedged item will be recognized in net amount. The respective accounting treatments are as follows:

(i) Fair value hedges

The hedging instrument is stated at fair vale. Any gains or losses on the hedging instrument as well as the change in carrying amount resulting from the fluctuation of exchange rate are recognized in the income statement. The hedged item also is stated at fair value in respect of the risk being hedged, with any gains or losses being recognized in the statement of operations.

(ii) Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated as cash flow hedges are recognized in equity. When the forecast transaction that is hedged subsequently results in the recognition of an asset or a liability, the gains and losses previously deferred in equity are transferred from equity and recognized in the income statement in the same periods when the asset or liability affects profit or loss.

(Continued)

(iii) Net investment hedges

Gains or losses on instruments used to hedge a net investment in a foreign operation that is determined to be an effective hedge are recognized directly in equity, and are transferred from equity and included in the income statement when the foreign operation is disposed of.

(i) Receivables with factoring arrangements

Pursuant to SFAS No. 33 “Accounting for Transfers of Financial Assets and Extinguishments of Liabilities”, receivables with factoring arrangements can be derecognized by the seller if all of the following criteria are met:

(i) The receivables have been isolated from the seller; if the seller becomes insolvent, the creditors of the seller cannot claim the right to receivables against the buyer.

(ii) The buyer is free either to pledge, to sell, or to exchange the right to the receivables.

(iii) The seller does not hold effective control of the receivables through any of following:

(a) Having the right to buy back or the obligation to redeem the receivables before maturity.

(b) Having the ability to require the holder to return a particular receivable unilaterally.

The balance of the invoice amount of accounts receivable factoring minus the advance received amount is reported as other financial assets－current.

(j) Allowance for doubtful accounts

The allowance for doubtful accounts is based on the likelihood of collection of the Consolidated Company’s accounts receivable balances. The amount of the allowance for doubtful accounts is determined based on experience in the collection of the Consolidated Company’s accounts receivable balances, the credit rating of the Consolidated Company’s clients, an aging analysis, and the credit policy of the Consolidated Company.

(k) Inventories

Inventories are stated at the lower of cost or market value. Cost is determined by using the weighted-average method. Market value is determined on the basis of replacement cost or net realizable value. Provision for slow-moving and obsolescent inventories is determined based on net realizable value.

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(l) Long-term equity investments

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

The differences between the acquisition cost and the net equity of the investee as of the acquisition date are deferred and previously were amortized over five years using the straight-line method. Effective January 1, 2007, pursuant to the revised SFAS No. 5 "Long-term Investments under Equity Method", investment premiums, representing goodwill, are no longer being amortized.

Upon sale of long-term equity investments under the equity method, cost of investment sold is determined using the weighted-average method. The difference between the selling price and carrying value on the disposal date is recognized as long-term equity investment disposal gain or loss. The capital surplus resulting from long-term equity investments is recognized as current gains or losses in accordance with the percentage sold.

Unrealized inter-company profits or losses resulting from transactions between the Consolidated Company and its subsidiaries and investees accounted for under the equity method are deferred and recognized as a liability account, or are amortized based on the useful lives of the assets that give rise to such unrealized profits or losses.

When an investee accounted for under the equity method issues new shares and the Consolidated Company does not purchase the new shares based on its ownership percentage, the investment ratio in the investee will change. Any change in the net value of an investment as a result of the change in the investment ratio will be adjusted to capital surplus from long-term equity investments. If the amount of capital surplus from long-term equity investments is not sufficient to be offset, then the difference will be debited to the retained earnings account.

(m) Property, plant and equipment, and assets leased to others

Property, plant and equipment are stated at acquisition cost. Interest expenses in connection with the acquisition or construction of property, plant and equipment are capitalized and included in the cost of related assets. Major additions, improvements, and replacements are capitalized. Repairs and maintenance are charged to expenses as incurred. Gains or losses on disposal of property, plant and equipment are included in non-operating income or expenses and losses in current operations.

Property, plant and equipment leased to other parties are classified as other assets at book value. Property, plant and equipment for non-operating use are transferred to other assets according to the lower of book or net realizable value.

(Continued)

Depreciation is calculated using the straight-line method over the estimated useful lives of the respective assets. Residual values of property, plant and equipment used beyond estimated useful lives are depreciated on the basis of new estimated useful lives and new salvage values. The useful lives of respective assets are summarized as follows:

1. Buildings: 20~50 years.

2. Building improvement: 5~10 years.

3. Machinery (including molding equipment): 2~10 years.

4. Research and other equipment: 2~5 years.

(n) Land usage rights

Land usage rights are stated at cost and include the expenditures for acquiring the right for the use of land. Land usage rights are amortized using the straight-line method over the economic period of 28 to 50 years.

(o) Deferred expenses and amortization

Costs for acquisition of computer software are deferred and amortized using the straight-line method over three to five years.

(p) Intangible assets

Effective from January 1, 2007, the Consolidated Company adopted SFAS No. 37 “Intangible Assets”. In accordance with SFAS No. 37, other than an intangible asset acquired by way of a government grant, which should be measured at its fair value, an intangible asset shall be measured initially at cost. After initial recognition, an intangible asset shall be measured at its cost plus revaluation increment revalued in accordance with the laws, less any accumulated amortization and any accumulated impairment losses.

(q) The amortizable amount of intangible assets is determined after deducting its residual value. Amortization is calculated using the straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The estimated useful lives are as follows:

Patents: 2~5 years.

The residual value, the amortization period, and the amortization method shall be reviewed at least at each fiscal year-end. Such changes shall be accounted for as changes in accounting estimates.

(r) Convertible bonds payable

Interest-premium of convertible bonds from the difference between the specified put price and the par value is recognized as a liability by using the interest method over the period from the issuance date of the bonds to the expiry date of the put option. Costs incurred for the issuance of redeemable convertible bonds are amortized during the period between the issuance date and the last redeemable date. Unamortized costs are recorded as deferred charges. When bondholders exercise their redemption rights, unamortized costs will be recognized as interest expense based on the percentage of redemption.

When bondholders exercise their conversion rights, the number of common shares that are to be given is calculated based on the par value of convertible bonds and the conversion price at the time of the conversion. The convertible bond payable in excess of the par value, accrued interest premium, and unamortized issuance costs are transferred to capital surplus upon conversion.

Convertible bonds payable are classified as current or non-current based on the maturity date. Convertible bonds with redemption rights are classified based on the specified redeemable date.

The difference resulting from payments of convertible bonds which are redeemed before the maturity date and the carrying amount at the liquidation date is recognized as an extraordinary income or loss in the current year, if material.

Effective January 1, 2006, the convertible bonds payable issued by the Company that create a financial liability and grant an option to the holder of the convertible bonds payable to convert them into an equity instrument shall be recognized as a compound financial instrument according for SFAS No. 36 “Financial Instruments: Disclosure and Presentation”. The method used in allocating the transaction costs to the separate components is consistent with that used in the original allocation to the separate components of the proceeds received by the entity when the convertible bonds payable were issued. The liability component of the convertible bonds payable is allocated by measuring the fair value of a similar liability that does not have an associated equity component. The carrying amount of the equity component represented is then determined by deducting the fair value of the financial liability from the fair value of the compound financial instrument as a whole. The interest expenses of the convertible bonds payable are computed by the effective interest method and recognized as gains or losses in the statement of operations over the period from the issuance date to the expiry date. Pursuant to SFAS No. 36, the embedded equity component is not allowed to be separated from a hybrid financial instrument with equity as part of its composition which had been issued before the effective date. And the calculation of cumulative effect of changes in accounting principle is unneeded. The Company issued convertible bonds in September 2002; thus, the equity component is not separated from those hybrid financial instruments according to SFAS No. 36. The Company adopted SFAS No. 21 for the accounting for convertible bonds.

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(s) Non-current assets held for sale

Non-current assets held for sale are the assets available for immediate sale in their present condition subject only to terms that are usual and customary for sales of such assets, and their sale within one year must be highly probable. Non-current assets classified as "held for sale" are measured at the lower of their book value or fair value less costs to sell. Non-current assets held for sale are not depreciated, amortized or depleted, and are recorded as a separate item on the balance sheet.

An impairment loss is recognized for any initial or subsequent write-down of the assets to fair value less costs to sell in the income statement. A gain from any subsequent increase in fair value less costs to sell of an asset shall be recognized, but not in excess of the cumulative impairment loss that has been recognized previously, and the impairment loss recognized in accordance with SFAS No. 35 "Impairment of Assets".

(t) Employee retirement plan

The Company has established an employee noncontributory defined benefit retirement plan ("the Plan") covering all regular employees hired before June 30, 2005 in Taiwan. In accordance with the Plan, payments of retirement benefits are based on the years of service and the average salary for the three-month period before the employee's retirement. The employees will receive the retirement benefits in a lump sum. Each employee earns two months of salary for the first fifteen years of service, and one month of salary for each year of service thereafter. The maximum retirement benefit is forty-five months of salary. The Company contributes 2% of salaries and wages to a pension fund on a monthly basis. Retirement benefits are paid to eligible participants from the pension fund first and then by the Company if the fund is insufficient.

The Company carries out an actuarial valuation of pension liability for the noncontributory retirement plan as of the year-end date. If the accumulated benefit obligation exceeds the fair value of plan assets, a minimum pension liability will be accrued in the financial statements. Net periodic pension costs are recognized based on the actuarial report.

Starting from July 1, 2005, the enforcement rules of the newly enacted Labor Pension Act (the "New Act") require employees who were covered by the Plan and opted to be subject to the pension mechanism under the New Act and employees who commenced working at the Company after the enforcement date of the New Act to adopt the new defined contribution plan. In accordance with the New Act, the Company contributes 6% of each employee's salary and wages to an individual labor pension fund account at the Bureau of Labor Insurance on a monthly basis. Contributions are recognized as expense in the current year.

The subsidiaries of the Company pay a certain percentage of salaries and wages to a pension fund in accordance with the regulations of their respective countries. Contributions to these plans are expensed in the current year.

(Continued)

(u) Employee stock option plan

The Company adopted the intrinsic value method for its employee stock option plan. Under this method, the market price in excess of the exercise price on the grant date is expensed over the grantee's service period and adjusted under stockholders' equity. According to Securities and Futures Bureau, Financial Supervisory Commission, Executive Yuan, R.O.C. letter No. 0920003788 released on September 15, 2003, disclosure of pro forma net income and earnings per share is required if the grant date or the revision date of the plan was after December 31, 2003. However, the grant date of the Company's employee stock option was before December 31 2003; therefore, the Company is not subject to the foregoing accounting policy.

(v) Treasury stock

Pursuant to SFAS No. 30, "Accounting for Treasury Stock", the Company accounts for the cost of purchasing its outstanding stock as "treasury stock". A gain on the sale of treasury stock is credited to capital surplus－treasury stock. Losses are charged to capital surplus, but only to the extent of available net gains from previous sales or retirements of the same class of stock; otherwise, losses are charged to retained earnings. The cost of treasury stock is computed using the weighted-average method.

When treasury stock is retired, the Company debits common stock and capital surplus derived from paid-in capital in excess of par value proportionally. If the weighted-average cost written off exceeds the sum of the par value and the paid-in capital in excess of par value, the difference is charged to capital surplus－treasury stock arising from the same class of stock or to retained earnings, and if vice versa, the difference is credited to capital surplus－treasury stock.

(w) Revenue recognition

Revenue from sales of products is recognized at the time products are delivered and the related risks and titles are transferred to customers.

(x) Research and development expenses

Effective from January 1, 2007, the Consolidated Company adopted SFAS No. 37 "Intangible Assets" (SFAS No. 37).

In accordance with SFAS No. 37, except when it forms part of the cost of a business combination, expenditure on research is recognized as an expense when it is incurred.

An intangible asset arising from development shall be recognized if, and only if, the Consolidated Company can demonstrate all of the following:

1. the technical feasibility of completing the intangible asset so that it will be available for use or sale.

(Continued)

2. the intention to complete the intangible asset and use or for sell it.

3. the ability to use or sell the intangible asset.

4. the likelihood that the intangible asset will generate future economic benefits.

5. the availability of adequate technical, financial and other resources to complete the development of the intangible asset.

6. the expenditure attributable to the intangible asset during its development stage could be measured reliably.

(y) Income tax

Income tax is calculated based on accounting income. The amounts for deferred income tax liabilities and assets are calculated by applying the provisions of enacted tax law to determine the amount of tax payable or refundable, currently or in future years. The income tax effects of taxable temporary differences are recorded as deferred income tax liabilities. The income tax effects of deductible temporary differences, loss carryforwards, and income tax credits are recognized as deferred income tax assets. The realization of deferred income tax assets is evaluated, and if it is considered more likely than not that the asset will not be realized, a valuation allowance is recognized accordingly.

Investment tax credits are accounted for using the flow-through method. Therefore, income tax credits generated from purchases of machinery for automation of production and production technology are recognized in the year in which the credit arises.

Deferred income tax assets or liabilities are classified as current or non-current based on the classification of the asset or liability that resulted in the deferred item or, for certain transactions not directly related to an asset or liability, based on the timing of the expected reversal date. In addition, pursuant to ROC Accounting Research and Development Foundation explanatory letter 92 (084), deferred income tax liabilities resulting from overseas investment income recognized under the equity method could be reversed only to the extent that the overseas dividends are distributed and exempt from taxation by the tax authority.

A surtax of 10% on the unappropriated earnings of the Company and its subsidiaries incorporated in the ROC is considered a current expense, after the shareholders decide the appropriation of earnings.

Pursuant to the income tax law applied by each of the consolidated companies, income tax is reported separately by each of the consolidated companies. In other words, the income tax expenses of the Consolidated Company are the total income tax expenses of each of the consolidated companies.

(Continued)

(z) Earnings (losses) per share of common stock

Earnings (losses) per share of common stock are net income (losses) available to common stockholders divided by the weighted-average number of outstanding shares of common stock (including cumulative participated convertible preferred stock). The effect on earnings (losses) per share from an increase in stock through the issuance of stock dividends from unappropriated earnings, capital surplus, or employee bonuses is computed retroactively. The convertible bonds, and stock warrants issued to employees by the Company are potential common shares. Basic earnings (losses) per share will be disclosed if there is no dilution effect. Otherwise, both basic earnings and diluted earnings per share will be disclosed. For the purpose of calculating diluted earnings per share, the potential common shares should be deemed to have been converted into common stock at the beginning of the period, and the effect on the net income less preferred stock dividend attributable to additional common shares outstanding should be considered accordingly.

(3) Reasons for and Impact of Changes in Accounting Principle

Starting January 1, 2006, the Consolidated Company adopted SFAS No. 34 “Financial Instruments: Recognition and Measurement”, SFAS No. 36 “Financial Instruments: Disclosure and Presentation”, newly revised No. 1” Conceptual Framework for Financial Accounting and Preparation of Financial Statements”, SFAS No. 14 “The Effects of Changes in Exchange Rates”, and SFAS No. 5 “Long-term Investments under Equity Method”. These accounting changes did not have significant impact on beginning stockholders’ equity and net income for 2006.

Effective from January 1, 2007, the Consolidated Company adopted SFAS No. 37 “Intangible Assets”. In accordance with SFAS No. 37, the Consolidated Company reassessed the useful lives and the amortization method of intangible assets and concluded that nothing needs to be changed from the beginning of the effective date.

(4) Cash and Cash in Bank

	December 31, 2007	December 31, 2006
Cash on hand	$ 5,400	7,850
Checking accounts and demand deposits	423,837	409,394
Time deposits	156,810	207,658
	$ 586,047	**624,902**

(Continued)

SPEED TECH CO., LTD AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(5) Financial Instruments

(a) Held-to-maturity financial assets

	December 31, 2007	December 31, 2006
Held-to-maturity financial assets－current (bank commercial bond)	$ 2,000	2,000
Held-to-maturity financial assets－non-current (bank commercial bond)	$ 2,000	4,000

The Consolidated Company had the active intention and ability to hold the above bank commercial bonds to the maturity date (June 28, 2009). The bank commercial bonds had floating interest rates, and were not provided as collateral as of December 31, 2007 and 2006.

(b) Financial assets carried at cost – noncurrent

	December 31, 2007	December 31, 2006
Equity investments:		
Fukoku Speed Tech (Dong Guan) Co., Ltd. (Fukoku Speed Tech)	$ 47,244	57,299
Cumulative impairment loss recognized on financial assets－permanent	$ 21,987	11,932

The operating, financing, and human policies of Fukoku Speed Tech were controlled by Fukoku Bussan Co., Ltd., which holds the majority of Fukoku Speed Tech's stock. The Consolidated Company accounts for the investment in Fukoku Speed Tech at cost because it has no significant influence over Fukoku Speed Tech. Since the net value of investment in Fukoku Speed Tech has declined as a result of operating loss for several years, the Consolidated Company recognized a permanent impairment loss on investment of $10,055 in 2007.

The Consolidated Company accounts for the investment in equity instruments at cost as a result of there being no practical market value.

(6) Derivative Financial Instruments and Hedge Policy

All the derivative financial instrument transactions the Consolidated Company entered into in 2006 had been settled before the year-end. Derivative financial instruments as of December 31, 2007, were as follows:

(Continued)

	Book value	Nominal amount
Derivative financial instruments:		
Financial assets measured at fair value through profit or loss – current	$ 1,258	USD 3,000 thousand

(a) The derivative financial instruments are recorded as financial assets measured at fair value through profit or loss – current.

(b) The Consolidated Company entered into forward exchange contracts and option contracts to hedge the effect of exchange rate fluctuations on foreign-currency-denominated assets and liabilities. However, the Consolidated Company did not adopt hedge accounting for these contracts. Therefore, these contracts were accounted for as financial assets measured at fair value through profit or loss at initial recognition. Gain from the evaluation of financial assets was $1,258 for the year ended December 31, 2007.

(c) As of December 31, 2007, the Consolidated Company had unexpired forward exchange contracts as follows:

December 31, 2007					
Financial instruments	**Nominal amount**	**Trading date**	**Delivery rate**	**Predetermined rate**	**Fair value**
Forward exchange contracts－purchased in advance	USD 2,000 thousand	Nov 23, 2007 ~Dec 10, 2007	Feb 27, 2008~ Mar 12, 2008	USD/NTD 31.990~32.071	$ 828
Forward exchange contracts－sold in advance	USD 1,000 thousand	July 25, 2007	Jan 14, 2008~ Jan 28, 2008	USD/RMB 7.3919	430
					$ 1,258

(7) Trade Notes and Accounts Receivable

	December 31, 2007	December 31, 2006
Notes receivable	$ 23,710	18,499
Accounts receivable	1,162,521	1,399,089
Less: allowance for doubtful accounts	(14,913)	(20,356)
	$ 1,171,318	1,397,232

The Consolidated Company provided accounts receivable as collateral; please refer to note 20.

(8) Inventories

	December 31, 2007	December 31, 2006
Merchandise and finished goods	$ 346,450	333,112
Work in process	182,202	173,770
Raw materials	167,306	244,691
	695,958	751,573
Less: allowance for inventory losses	(129,280)	(92,598)
	$ 566,678	**658,975**

(9) Long-term Equity Investments

Investee	December 31, 2007 Percentage of ownership	December 31, 2007 Amount	December 31, 2006 Percentage of ownership	December 31, 2006 Amount
Reel Mask Industry Corp. Ltd. (Reel Mask)	37	$ 88,692	39.99	65,079
Wells Tech Optical CO., Ltd. (Wells Tech)	30	59,228	-	-
		$ 147,920		**65,079**

(a) Net investment income recognized under the equity method for the years ended December 31, 2007 and 2006, amounted to $3,247 and $18,054, respectively, and was accounted for based on the audited financial statements of the investees.

(b) Reel Mask issued common stock for cash in May 2007. The Consolidated Company subscribed 750,000 shares at a cost of $15,000 and the Consolidated Company's percentage of ownership was decreased from 39.99% to 37%. The Consolidated Company recognized capital surplus of $1,926 due to non-proportional investment in Reel Mask's increase in capital.

(c) In order to develop the markets in thin displays and touch screens, the Consolidated Company entered into a joint venture to set up Wells Tech in 2007. The Consolidated Company invested $60,000 in Wells Tech and held 30% ownership.

(10) Non-current Assets Held for Sale

The Consolidated Company signed a contract with Wells Tech in January 2008 to sell machinery, patents and others to Wells Tech at a contract price of $36,780. The relative assets are recorded as "non-current assets held for sale". The details of non-current assets held for sale were as follows:

	December 31, 2007
Property, plant and equipment	$ 16,965
Patents and others	1,157
	$ 18,122

(11) Short-term Loans and Commercial Paper Payable

	December 31, 2007	December 31, 2006
Secured loan	$ 223,709	226,912
Credit loan, including letters of credit	382,951	331,256
Commercial paper payable (less unamortized discount of $10 and $98)	49,990	79,902
	$ 656,650	**638,070**
Unused credit lines	**$ 734,254**	**501,728**
Interest rate range	**1.988%~6.70%**	**1.988%~6.42%**

Please refer to note 20 for collateral pledged against short-term loans.

(12) Convertible Bonds Payable

	December 31, 2006
Aggregate principal amount	$ 690,000
Accumulated converted amount	(528,700)
Accumulated redemption amount	(161,300)
Accrued interest premium	-
Book value	**$ -**

The convertible bonds payable was the issuance of domestic unsecured convertible bonds in September 2002, and the Company started to redeem the above bonds from 2004. The total par value of convertible bonds purchased back by the Company in 2006 amounted to $40,700. The Company recognized a redemption gain of $11, recorded as non-operating income. For the convertible bonds transferred to common stock for the year ended December 31, 2006, please refer to note 15.

(Continued)

As of September 4, 2006, it had been four years since the Company issued the domestic unsecured convertible bonds. In accordance of the terms of the bonds, the Company can redeem the bonds at par value. Based on the resolution of the board of directors meeting, the Company redeemed all of the bonds which had not been converted at November 1, 2006. As of December 31, 2006, there were no outstanding bonds.

(13) Long-term Loans

		December 31,	
Bank	**Purpose**	**2007**	**2006**
Chinatrust Commercial Bank	Increase medium- and long-term working capital	$ 350,000	470,000
Taipei Fubon Bank	Increase medium- and long-term working capital	300,000	400,000
		650,000	870,000
Less: current portion		-	(140,000)
		$ 650,000	730,000
Unused credit lines		$ 100,000	280,000
Interest rate range		2.31%~3.5074%	2.31%~2.71%

(a) For the collateral for long-term loans as of December 31, 2007, please refer to note 20. The repayment schedule for long-term debt was as follows:

Period	**Amount**
January 1, 2010 ~ December 31, 2010	$ 650,000

(b) In accordance with the Company's long-term loan contracts, the Company must maintain a specific current ratio, liability ratio, tangible-assets-to-stockholders'-equity ratio, and interest coverage ratio as of the six-month period-end and year-end. As of December 31, 2007, the Company did not meet the contract conditions for the times interest earned ratio for long-term loans from Taipei Fubon Bank, and the bank therefore had the right to adjust the credit lines for the Company. The Company negotiated with the bank to exempt it from the financial ratio restrictions in the subsequent period. Because the loans were fully secured by collateral, the Company believed that the bank would agree to waive the covenant regarding financial ratios specified by the loan contract. Therefore, the long-term loans mentioned above were still recorded as long-term liabilities and were not be reclassified as current liabilities. In addition, the Company did not meet the contract conditions for the six-month period ended June 30, 2007, based on the times interest earned ratio, and the bank granted a waiver in November 2007.

(Continued)

(14) Pensions

(a) The Company had an actuarial valuation of its defined benefit pension plan on December 31, 2007 and 2006. According to the actuarial reports, the reconciliation of funded status and accrued pension cost was as follows:

	December 31, 2007	December 31, 2006
Benefit obligation:		
Vested benefit obligation	$ (546)	(422)
Non-vested benefit obligation	(21,374)	(19,287)
Accumulated benefit obligation	(21,920)	(19,709)
Effect of estimated future increase in compensation	(7,520)	(9,654)
Projected benefit obligation	(29,440)	(29,363)
Fair value of plan assets	48,352	42,469
Funded status	18,912	13,106
Unrecognized transition benefit obligation	4,487	4,808
Unrecognized net gain	(53,739)	(54,794)
Accrued pension liability	**$ (30,340)**	**(36,880)**

(b) Actuarial assumptions used in the above calculations are summarized as follows:

	2007	2006
Discount rate	3.00%	3.50%
Rate of increase in compensation level	2.00%	2.50%
Expected long-term rate of return on plan assets	3.00%	3.50%

(c) The net pension costs consisted of the following:

	2007	2006
Service cost	$ 845	768
Interest cost	1,028	1,094
Expected return on plan assets	(1,564)	(1,377)
Amortization and deferral	(2,206)	(2,062)
Decrease in pension cost under defined benefit pension plan	(1,897)	(1,577)
Pension cost under defined contribution pension plan	31,197	27,134
	$ 29,300	**25,557**

(Continued)

(15) Stockholders' Equity

(a) Capital stock

As of December 31, 2007 and 2006, the authorized common stock registered with the government authorities amounted to $2,800,000. The par value of the Company's common stock is $10 (New Taiwan dollars).

The domestic unsecured convertible bonds converted into common stock amounted to $10,351 for the year ended December 31, 2006.

Based on a resolution of the annual stockholders' meeting held in June 2006, the Company decided to issue 4,500 thousand shares of common stock by transferring retained earnings amounting to $45,003 as stock dividends. Based on a resolution of the board of directors meeting, the effective date of issuance of new shares was September 26, 2006. The registration procedures related to this issuance have been completed.

Based on a resolution of the board of directors meeting held on December 15, 2006, the Company decided to issue common stock of $285,700, at $14 (New Taiwan dollars) per share, amounting to 28,570 thousand shares. The effective date of issuance of new shares was March 21, 2007. The registration procedures related to this issuance have been completed

(b) Preferred stock

The Company conducted a private placement of 20,000 thousand shares of preferred stock, with par value of $10 (New Taiwan dollars) per share. The private placement of preferred stock was not traded on the TSE or over the counter, and the rights and obligations were as follows:

(i) The preferred stock dividend yield is 4% per annum for the first three years and 0% for the fourth year. The Company will pay the dividend in cash annually on the day decided by the board of directors after the financial statements are approved by the annual stockholders' meeting. The dividends of each year are calculated based on the actual outstanding period. If there are no or insufficient retained earnings to distribute the preferred stock dividend, the un-paid dividend for preferred stock can be accumulated and have preference to be made up in the following years. At the year of maturity, the cumulative un-apportioned preferred stock dividend has the first priority to be distributed.

(ii) The holders of preferred stock can receive the above dividend. In addition, the preferred stockholders can participate in the distributions of retained earnings and capital reserve.

(iii) The duration of preferred stock is four years. The holders of preferred stock may opt to have the preferred stock converted into common stock from three years after the date of issuance up to three months before the maturity date according to the conversion method. Three months before the maturity date, if the preferred stock has not been converted, the Company may

(Continued)

exercise the right to force the holders of the preferred stock to convert the preferred stock into common stock. The conversion ratio is one share of preferred stock for one share of common stock.

(iv) To the extent of the issuance amount, the holders of preferred stock have preference over the common stockholders in the distribution of the Company's assets in the event of the Company's liquidation.

(v) The holders of preferred stock have voting rights and the right to vote for directors and supervisors at the stockholders' meeting and can also be elected as directors and supervisors.

(vi) The holders of the common stock and preferred stock have the same preemptive right in subscribing the Company's new issuance of stock.

(vii) When the preferred stock is converted into common stock according to the conversion method and is entitled to participate in the distributions of retained earnings and capital reserve in the current year, it will lose the right to claim the stock dividend on preferred stock simultaneously.

(viii) For the preferred stock which is converted into common stock, the rights and obligations of the converted stock will be the same as for the general common stock except as restricted by regulations or law.

(c) Employee stock options

The Company was authorized by the SFB (formerly the SFC) to issue employee stock options of 6,000 units on November 25, 2003. According to the option plan, each unit could subscribe 1,000 common shares. The total number of shares of common stock to be issued is 6,000,000 shares. The exercise price was based on the closing price of the Company's common stock on the Gretai Securities Market on the date the options were issued. If the closing price is lower than the par value, then the exercise price will be the par value of the common stock. The information on the employee stock options was as follows:

2007

Number of units issued	Number of outstanding units at beginning	Number of units exercised	Number of units invalid	Number of outstanding units at end	Exercise price (NT$)
6,000	4,578	1,449	-	3,129	$ 10

(Continued)

SPEED TECH CO., LTD AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

2006

Number of units issued	Number of outstanding units at beginning	Number of units exercised	Number of units invalid	Number of outstanding units at end	Exercise price (NT$)
6,000	6,000	1,422	-	4,578	$ 10

(d) Capital surplus and restrictions on distribution of earnings

(i) Capital surplus

Pursuant to the ROC Company Act, capital surplus can only be used to offset a deficit or to increase common stock. Cash dividends cannot be declared out of capital surplus. Capital surplus derived from additional paid-in capital and donation can be used to increase common stock if the company has no deficit. According to SFB regulations, capital increases by transferring paid-in capital in excess of par value should not exceed 10% of total common stock outstanding. In addition, capital increases by transferring paid-in capital in excess of par value can only commence in the following year. Also, issuance of new stock from capital surplus derived from paid-in capital in excess of par value cannot be made until the year after such capital surplus is approved by and registered with the governmental authorities.

The Consolidated Company recognized capital surplus of $1,926 due to non-proportional investment in investees's increase in capital. As of December 31, 2007, the capital surplus derived from changes in percentage of ownership of investees was $2,438 and was recognized as capital surplus－long-term investment according to the Statements of Financial Accounting Standards.

(ii) Legal reserve and limitation on distribution of retained earnings

Pursuant to the Company's articles of incorporation, 10% of annual net income after tax is to be set aside as legal reserve after offsetting prior years' deficits, if any. Also a special reserve could be retained when necessary. The distribution of earnings is proposed by the board of directors and approved by the stockholders at their annual meeting. The Company's earnings are to be appropriated as follows:

a. The bonus to employees cannot be less than 5%;

b. 3% as remuneration to the directors and supervisors;

c. Dividends to stockholders.

(Continued)

According to the ROC Company Act, the legal reserve can only be used to offset an accumulated deficit and cannot be used to declare a cash dividend, except that one-half of the legal reserve may be capitalized based on a resolution of the stockholders' meeting when it equals at least 50% of issued share capital.

For the distribution of retained earnings, the net income after tax of the current year will have the first priority to be distributed. The Company adopts the "balance principle" as its guidance on the distribution of cash dividends as well as stock dividends. The beginning balance of undistributed retained earnings can be used when the net income after tax of the current year is insufficient to be distributed. Due to consideration of its future development of operations and cash demands, the percentage of stock dividends will be 60%~100% of total dividends, and cash dividends will be a maximum of 40%. The above distribution ratio for stock and cash dividends can be adjusted pursuant to a resolution on the stockholders' meeting based on the actual profit and demand for working capital.

According to SFB regulations, when there is a reduction item in stockholders' equity during the year, an amount equal to the reduction before appropriation must be included as a special reserve. The special reserve will be available for dividend distribution only after the related stockholders' equity reduction item has been reversed.

Based on the resolution of the annual stockholders' meeting held on June 13, 2007, no dividends, employees' bonuses, or directors' and supervisors' remuneration was appropriated from the distributable retained earnings of 2006, but the Company decided to pay preferred stock cash dividends of $8,000. In addition, based on the resolution of the annual stockholders' meeting held on June 15, 2006, dividends, employees' bonuses, and directors' and supervisors' remuneration appropriated from the distributable retained earnings of 2005 were as follows:

		2005
Dividends		
Cash		0.2
Stock (at par value)		0.3
	$	0.5
Employees' bonus－cash	$	7,075
Directors' and supervisors' remuneration		2,653
	$	9,728

The actual distribution of retained earnings from year 2005 did not differ from the resolution made by the meeting of the board of directors. If the above employees' bonuses and directors' and supervisors' remuneration was treated as expenses rather than a distribution item of retained earnings, net income per share after retroactive adjustments would be decreased from $1.5 to $1.43 in 2005.

(Continued)

Since the Company had an accumulated deficit for the year ended December 31, 2007, no related information about employees' bonuses and directors' and supervisors' remuneration was applicable.

(iii) Treasury stock

According to SFB regulations, in order to encourage employees' morale and loyalty, the board of directors decided the Company would purchase treasury stock to transfer to employees. The number of shares bought by the Company in the year ended December 31, 2007, was 6,803 thousand shares at a price of $76,836, which did not exceed the legal limitation. As of December 31, 2007, there were 6,803 thousand shares of treasury stock remaining at a cost of $76,836. Such treasury stock purchased for transferring to employees should be sold to employees within three years after the buy-back, pursuant to the ROC Securities and Exchange Law. The shares of treasury stock which are not transferred within legal deadlines would be regarded as un-issued shares and should be registered with the governmental authorities.

Treasury stock cannot be pledged for debts and does not carry any shareholder rights until it is disposed of or transferred to employees.

(16) Income Tax

(a) Pursuant to the income tax law applied by each of the consolidated companies, income tax is reported separately by each of the consolidated companies.

(b) Income tax expense was as follows:

		2007	2006
Current income tax expense, including 10% surtax on unappropriated earnings	$	9,966	15,295
Deferred income tax expense (benefit)		(19,389)	2,391
Income tax expense (benefit)	**$**	**(9,423)**	**17,686**

(c) The Company and Jia Guo are subject to a maximum income tax rate of 25%. The Company and Jia Guo have applied the "Income Basic Tax Act" commencing from January 1, 2006. Earnings in the British Virgin Inlands are not taxable. Accordingly, no provision for income tax is included in the consolidated financial statements for Stech (BVI), Hummbingbird (BVI), Toyoshima (BVI) and Space (BVI). Toyoshima (HK), Toyoshima (Batam) and Toyoshima (Malaysia) are subject to an income tax rate of 17.5%, 30% and 28%, respectively. U.S.A. Speed is subject to an income tax rate of 24%. Except for Toyoshima (Suzhou) and Speed Tech (Kunshan), which are subject to an income tax rate of 15%, subsidiaries incorporated in the PRC are subject to an income tax rate of 24%. However, according to the PRC Income Tax Law, from the year in which companies begin to make profits after deducting loss carryforward from income, they are

(Continued)

exempted from income tax in the first and second year and allowed a 50% reduction in the third to fifth years. Speed Tech (Beijing) and Speed Tech (Kunshan) were in the second year of the 50% reduction and exemption from income tax, respectively, in 2007. All other subsidiaries incorporated in the PRC are still in deficit and are not taxable. The differences between "expected" income tax at statutory income tax rates and "estimated" income tax as reported in the accompanying financial statements for 2007 and 2006 are summarized as follows:

	2007	2006
Computed "expected" income tax expense (benefit)	$ (77,468)	6,611
Investment tax credits incurred in current year	(14,069)	(12,365)
Tax exemption for operational headquarters	(5,284)	(5,360)
Increase in valuation allowance for deferred income tax assets	102,902	16,535
10% surtax on unappropriated earnings	3,405	8,487
Prior year's income tax adjustment and others	(18,909)	3,778
	$ (9,423)	**17,686**

(d) The components of deferred income tax assets (liabilities) were as follows:

	December 31, 2007	2006
Deferred income tax assets		
Loss carryforward	$ 59,991	8,910
Unused investment tax credits	47,358	8,122
Impairment loss recognized for buildings	9,120	9,120
Provision for loss on inventory	7,768	8,603
Accrued pension cost over tax limit	7,569	9,195
Bad debt in excess of tax limit	5,968	5,660
Others	10,392	7,280
	148,166	56,890
Less: allowance for deferred income tax assets	(131,437)	(28,535)
	16,729	28,355
Deferred income tax liabilities		
Accumulated overseas investment income recognized by the Company under the equity method, net	-	(24,468)
Provision for loss on overseas investments	(10,162)	(16,686)
Foreign currency translation adjustment and other	(22,691)	(7,871)
	(32,853)	(49,025)
Deferred income tax liabilities, net	**$ (16,124)**	**(20,670)**

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	December 31, 2007	December 31, 2006
Deferred income tax assets－current	$ 10,670	18,794
Deferred income tax liabilities－noncurrent	(26,794)	(39,464)
	$ (16,124)	(20,670)

(e) Pursuant to the ROC Statute for Upgrading Industries, the Company's investment tax credits as of December 31, 2007, were as follows:

Year tax credits accrued	Tax credit item	Basis	Aggregate tax credits	Unused tax credit	Year of expiry
2006	Research and development expenditures	Filed	$ 34,992	34,992	2010
2007	"	Estimated	14,069	12,366	2011
			$ 49,061	47,358	

The ROC Statute for Upgrading Industries stipulates that tax credits can be applied for only up to 50% of the income tax payable. Unused tax credits can be carried forward for the following four years, subject to the same percentage limitation for each year except for the last year, in which they will expire.

(f) Imputation credit account and creditable ratio

	December 31, 2007	December 31, 2006
Unappropriated retained earnings (Accumulated deficit) after January 1, 1998	$ (179,425)	113,937
ICA balance	$ 22,559	16,111

	2007	2006
Creditable ratio for earnings distribution to residents of ROC	-	14.14% (actual)

(g) The Company's income tax returns have been examined by the tax authority through the year ended December 31, 2003. The ROC Income Tax Act allows for tax losses to be carried forward for five consecutive years following the year of loss to reduce future taxable income. As of December 31, 2007, the estimated tax losses and unused tax losses of Jia Gua and the Company which could be carried forward and year of expiry were as follows:

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Year occurred	Aggregate tax losses	Unused tax losses	Year of expiry
The Company			
2006 (as filed)	$ 7,646	7,646	2011
2007 (estimated)	213,723	213,723	2012
Jia Guo			
2005 (as examined)	8,960	8,730	2010
2006 (as filed)	9,865	9,865	2011
	$ 240,194	239,964	

(17) Earnings (losses) per Share

	2007		2006	
	Before income tax	After income tax	Before income tax	After income tax
Earnings (losses) per share:				
Net income (losses) belonging to holders of common stock (less 4% dividend for preferred stock)	$ (318,978)	(306,353)	30,756	21,066
Weighted-average number of shares outstanding, including preferred stock converted into common stock (thousands)	176,079	176,079	154,857	154,857
	$ (1.81)	(1.74)	0.20	0.14
Diluted earnings per share:				
Net income (less 4% dividend for preferred stock)			$ 30,756	21,066
Weighted-average number of shares outstanding, including preferred stock converted into common stock (thousands)			154,857	154,857
Stock warrants issued to employees			2,971	2,971
Weighted-average number of dilutive common shares outstanding (thousands)			157,828	157,828
			$ 0.19	0.13

There was no dilution effect of potential common shares as of December 31, 2007. Therefore, diluted earnings per share will not be disclosed.

(Continued)

(18) Financial Instruments

(a) Fair value of financial instruments

As of December 31, 2007 and 2006, the carrying amounts of financial assets and liabilities approximated fair values except for those as shown below:

	December 31, 2007		December 31, 2006	
	Book value	**Fair value**	**Book value**	**Fair value**
Financial liabilities:				
Financial assets measured at fair value through profit or loss－current	$ 1,258	1,258	-	-
Off-balance-sheet financial instruments:				
Unused letters of credit	12,174	-	22,817	-

(b) The methods and assumptions used to estimate the fair value of each class of financial instruments were as follows:

(i) The book value of short-term financial instruments is believed to be not materially different from their fair value because the maturity dates are close to the balance sheet date. Therefore, their book value is adopted as a reasonable basis for determining their fair value. This principle is applied in estimating the fair value of short-term financial instruments including cash and cash in bank, notes and accounts receivable as well as payable (including related parties), accrued expenses, short-term loans, and commercial paper payable.

(ii) The fair value of financial instruments traded in active markets is based on quoted market prices. If the financial instruments are not traded in an active market, then the fair value is determined based on certain valuation techniques, using assumptions under existing market conditions.

(iii) The carrying amount is the fair value for long-term liabilities because the interest rates applied are floating.

(iv) Off-balance-sheet financial instruments are estimated based on the contract amount.

(c) The fair value of financial instruments is determined based on certain valuation techniques except for the fair value of cash and cash in bank, which is based on quoted market prices.

(d) For the financial assets pledged as of December 31, 2007 and 2006, please refer to note 20.

(e) As of December 31, 2007 and 2006, the financial assets and liabilities held by the Consolidated Company which were subject to cash flow risk resulting from the fluctuation of interest rates

(Continued)

amounted to $622,099 and $656,915, respectively, for financial assets and amounted to $1,306,650 and $1,508,070, respectively for financial liabilities.

(f) Financial risk information

(i) Market risk

The main purpose of the derivative financial instruments the Consolidated Company entered into is to hedge for fluctuations in foreign exchange rate. Gains or losses from these hedging instruments are likely to be offset by gains or losses from the hedged items.

(ii) Credit risk

The Consolidated Company's major potential credit risk is from financial instruments such as cash and cash in bank, accounts receivable, and the counterparts of derivative financial instruments that are involved in transactions failing to meet contractual obligations. The Consolidated Company's cash deposits are in different financial institutions. The Consolidated Company controls its exposure to each individual financial institution, and anticipates no significant concentration risk related to cash accounts. In addition, since the Consolidated Company's derivative financial instrument agreements are entered into with financial institutions with good credit, management anticipates the counterparts will not breach the contracts and the Consolidated Company will bear remote credit risk. The customers of the Consolidated Company are high-tech computer industries. The Consolidated Company evaluates the financial situation of those customers continuously and gets collateral or guarantees from them if necessary to reduce the credit risk relating to accounts and notes receivable.

(iii) Liquidity risk

The Consolidated Company's capital and operating funds were sufficient to reimburse all the obligations as of December 31, 2007. Therefore, the Consolidated Company anticipated no significant liquidity risk.

(iv) Cash flow risk arising from interest rate fluctuation

Financial assets and liabilities held by the Consolidated Company had a floating interest rate basis. Therefore, it bears the risks from the fluctuation of market interest rates. An increase in interest rates will lead to an increase in net cash outflow. When interest rates increase a quarter points, the Consolidated Company will have additional cash outflow of $1,711 each year.

(Continued)

(f) Risk management and hedge policy

The Consolidated Company enters into forward exchange contracts and buying foreign currency options to hedge the effect of exchange rate fluctuations on foreign-currency-denominated assets and liabilities. The Consolidated Company uses hedging instruments with negative correlation with the fair values of hedged items and periodically evaluates the effectiveness of the instruments. The derivative transactions entered into by the Consolidated Company did not meet all the criteria for hedge accounting, and were recorded as "financial assets measured at fair value through profit or loss".

The Consolidated Company entered into foreign currency option contracts as a seller for trading purposes. The Consolidated Company made periodic evaluation of the fair value risk arising from fluctuations of exchange rates and adopted appropriate measures.

(19) Transactions with Related Parties

(a) Name of and relationship with related parties

Related Party	Relationship with the Company
Reel Mask Technology Co., Ltd. (Reel Mask Technology)	100%-owned subsidiary of Reel Mask
Kang Tai Chang Co., Ltd. (Kang Tai Chang)	General manager of Kang Tai Chang is the president of Jia Guo
Lin Song-lou	Relative of the director of Jia Guo
Yang Cui-ying	Spouse of the director of Jia Guo

(b) Significant transactions with related parties

a. Process outsourcing and accounts payable－related parties

The process outsourcing provided by Reel Mask Technology amounted to $12,241 and $3,535 for the years ended December 31, 2007 and 2006, respectively. The prices and payment terms were not significantly different from those for third-party suppliers. As of December 31, 2007 and 2006, the accounts payable arising from above transaction were $5,650 and $1,676, respectively.

b. Property transactions

For the details of the contract signed with a related party to sell assets, please refer to note 10.

(Continued)

c. Financing

Details of the Consolidated Company's financing from a related party, disclosed as accrued expenses and others, were as follows:

	2007		2006		
	Maximum balance	**Ending balance**	**Maximum balance**	**Ending balance**	**Interest rate**
Yang Cui-ying	$ 3,000	3,000	-	-	3.6%
Lin Song-lou	1,000	1,000	1,000	1,000	0%
Kang Tai Chang	-	-	4,000	-	〃
		$ 4,000		$ 1,000	

The interest expense paid to related parties amounted to $90 and $0 for the years ended December 31, 2007 and 2006, respectively.

(20) Pledged Assets

		December 31,	
Pledged assets	**Objectives of the pledge**	**2007**	**2006**
Restricted cash in bank－current (time deposits and impound accounts)	Long-term and short-term loans, and guarantee for customs and derivative financial instruments	$ 32,052	26,013
Pledged accounts receivable	Long-term loans	241,966	380,075
Land and buildings	Long-term and short-term loans, overdraft, and guarantee for foreign currency transactions	803,541	816,430
Land usage rights	〃	18,240	17,566
		$ 1,095,799	1,240,084

(21) Commitments and Contingent Liabilities

The Consolidated Company had the following significant commitments and contingencies in addition to those were mentioned in note 10:

(a) As of December 31, 2007, the Consolidated Company had entered into several operating lease agreements for its employee dormitory and computer equipment. Future lease payments were as follows:

Year	Amount
January 1, 2008 ~ December 31, 2008	$ 61,815
January 1, 2009 ~ December 31, 2009	48,759
January 1, 2010 ~ December 31, 2010	3,339
	$ 113,913

(b) The Consolidated Company signed several contracts for equipment and the expansion of its factory space. As of December 31, 2007 and 2006, the unpaid portion of the contracts was approximately $5,128 and $22,414, respectively.

(c) As of December 31, 2007 and 2006, the Consolidated Company had unused letters of credit for the purchase of materials amounting to $12,174 and $22,187, respectively.

(22) Subsequent Event

For the details of the contract signed with a related party to sell assets, please refer to note 10.

(23) Others

(a) Employee expenses, depreciation and amortization for the years ended December 31, 2007 and 2006, were as follows:

Function	2007			2006		
Item	**Operating cost**	**Operating expenses**	**Total**	**Operating cost**	**Operating expenses**	**Total**
Employee expenses						
Salaries and wages	541,696	268,845	810,541	436,132	214,080	650,212
Labor and health insurance	14,877	19,840	34,717	8,769	16,274	25,043
Pension expense	15,665	13,635	29,300	13,789	11,768	25,557
Other	21,371	13,949	35,320	29,263	14,622	43,885
Depreciation	188,381	44,359	232,740	198,138	41,361	239,499
Amortization	21,480	14,725	36,205	21,897	14,847	36,744

(Continued)

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(b) The Company provided for a loss reserve on outward investment from 2003, in accordance with the "Statute for Upgrading Industries". The amount was computed at 20% of the total amount of outward investment, which is the limit stipulated by the "Statute for Upgrading Industries". However, as such reserve is not in accordance with generally accepted accounting principles, the loss reserve is reversed during the preparation of the financial statements, but the Company does not adjust its accounting books. Accordingly, as of December 31, 2007 and 2006, the retained earnings on the financial statements were greater than those in the Company's books by $40,648 and $66,744, respectively.

(c) Certain amounts in the consolidated financial statements as of December 31, 2006, have been reclassified to conform to the 2007 presentation. Such reclassification has no significant influence on the accompanying consolidated financial statements.

(24) Segment Financial Information

(a) The Consolidated Company's operations only involve a single industry segment: the manufacturing and sale of connectors and keystrokes for use in computers, electronics and communications. No industrial segment information was required to be disclosed.

(b) Geographic information

	2007				
	Taiwan	**Americas**	**Asia**	**Eliminations**	**Consolidated**
Revenue from third parties	$ 2,342,790	39	1,286,996	-	3,629,825
Revenue from the parent company and consolidated subsidiaries	115,339	5,174	2,089,680	(2,210,193)	-
Total revenues	$ 2,458,129	5,213	3,376,676	(2,210,193)	3,629,825
Segment income (losses)	$ (206,545)	50	(5,082)	2,490	(209,087)
Investment income accounted for under equity method					3,247
Exchange gain, net					40,381
Other income					27,846
Interest expense					(37,141)
Losses on inventory valuation and obsolescence					(113,223)
Impairment loss					(10,055)
Other expenses					(10,112)
Continuing operations' losses before tax					$ (308,144)
Identifiable assets	$ 2,146,153	1,441	2,446,754	(183,944)	4,410,404
Long-term equity investments					195,164
General assets					79,960
					$ 4,685,528

(Continued)

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	2006				
	Taiwan	Americas	Asia	Eliminations	Consolidated
Revenue from the third parties	$ 2,834,539	-	1,167,389	-	4,001,928
Revenue from the parent company and consolidated subsidiaries	147,291	9,278	2,193,016	(2,349,585)	-
Total revenues	$ 2,981,830	9,278	3,360,405	(2,349,585)	4,001,928
Segment income	$ 16,370	916	105,095	4,339	126,720
Investment income accounted for under equity method					18,054
Exchange gain, net					10,075
Other income					34,102
Interest expense					(37,394)
Losses on inventory valuation and obsolescence					(90,843)
Other expenses					(18,060)
Continuing operations' income before tax					$ 42,654
Identifiable assets	$ 2,467,997	8,101	2,408,286	(107,301)	4,777,083
Long-term equity investments					122,378
General assets					49,124
					$ 4,948,585

(c) A summary of net export sales according to geographic area is as follows:

Geographic area	2007	2006
Asia	$ 1,828,340	2,242,692
Americas	38,562	36,701
Others	108,500	76,929
	$ 1,975,402	2,356,322

(d) Major customers

There was no individual customer constituting over 10% of net sales in 2007 and 2006.