

Shihlin Electric & Engineering Corp.

**Financial Statements for the
Years Ended December 31, 2007 and 2006 and
Independent Auditors' Report**

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Shihlin Electric & Engineering Corp.

We have audited the accompanying balance sheets of Shihlin Electric & Engineering Corp. as of December 31, 2007 and 2006, and the related statements of income, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Shihlin Electric & Engineering Corp. as of December 31, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

February 15, 2008

Notice to Readers

The accompanying financial statements are intended only to present the financial position, results of operations and cash flows in accordance with 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.

For the convenience of readers, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail. Also, as stated in Note 2 to the financial statements, the additional footnote disclosures that are not required under generally accepted accounting principles were not translated into English.

SHIHLIN ELECTRIC & ENGINEERING CORP.

BALANCE SHEETS

DECEMBER 31, 2007 AND 2006

(In Thousands of New Taiwan Dollars, Except Par Value)

ASSETS	2007		2006		LIABILITIES AND STOCKHOLDERS' EQUITY	2007		2006	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents (Note 4)	\$ 403,277	2	\$ 376,657	2	Short-term loans (Notes 14 and 23)	\$ 1,883,480	8	\$ 1,597,592	8
Financial assets at fair value through profit or loss - current (Note 5)	230,184	1	-	-	Short-term bills payable (Note 14)	-	-	50,000	-
Available-for-sale financial assets - current (Notes 3 and 6)	104,285	-	108,325	-	Financial liabilities at fair value through profit or loss - current (Notes 3 and 5)	-	-	3,515	-
Notes receivable	869,098	4	882,346	4	Notes payable	1,264	-	1,172	-
Notes receivable from related parties (Note 22)	5,832	-	32,007	-	Accounts payable	1,567,850	7	1,504,140	8
Accounts receivable, net (Note 7)	2,436,567	11	2,264,681	12	Accounts payable to related parties (Note 22)	351,309	2	212,673	1
Accounts receivable from related parties (Note 22)	166,257	1	188,584	1	Income tax payable, net of prepaid income tax	49,100	-	101,700	1
Other receivables	130,405	1	114,821	1	Accrued expenses	530,913	2	558,267	3
Other receivables from related parties (Note 22)	42,799	-	110,885	1	Other payables to related parties (Note 22)	23,598	-	29,620	-
Inventories (Note 8)	2,327,763	10	2,298,584	12	Other payables	55,553	-	51,831	-
Real estate in development (Note 9)	771,639	3	314,966	2	Collections in advance	725,222	3	979,060	5
Deferred income tax assets - current (Note 18)	127,300	-	126,700	1	Collections in advance for real estate (Note 9)	1,368,798	6	927,250	5
Pledged time deposits - current (Note 23)	63,670	-	54,576	-	Current portion of bonds payable (Note 15)	400,000	2	300,000	2
Other current assets	205,747	1	238,266	1	Current portion of long-term debt (Notes 16 and 23)	9,148	-	9,102	-
Total current assets	7,884,823	34	7,111,398	37	Other current liabilities	335,496	2	208,127	1
					Total current liabilities	7,301,731	32	6,534,049	34
LONG-TERM INVESTMENTS					LONG-TERM LIABILITIES				
Available-for-sale financial assets - noncurrent (Notes 3 and 6)	2,538,402	11	3,033,383	15	Bonds payable (Note 15)	-	-	400,000	2
Financial assets carried at cost - noncurrent (Note 10)	454,356	2	752,322	4	Long-term debt (Notes 16 and 23)	1,142,581	5	101,643	1
Investments accounted for under the equity method (Note 11)	3,931,287	17	3,845,510	20	Total long-term liabilities	1,142,581	5	501,643	3
Total long-term investments	6,924,045	30	7,631,215	39					
PROPERTIES AND PROPERTIES FOR LEASE (Notes 12 and 23)					RESERVE FOR LAND VALUE INCREMENT TAX (Note 12)	1,000,311	4	240,768	1
Properties					OTHER LIABILITIES				
Cost					Accrued pension cost (Note 17)	1,077,648	5	1,049,863	5
Land	402,516	2	402,516	2	Deposits received	16,772	-	21,451	-
Buildings and equipment	2,624,312	12	2,617,298	14	Total other liabilities	1,094,420	5	1,071,314	5
Machinery and equipment	2,607,298	11	2,519,111	13	Total liabilities	10,539,043	46	8,347,774	43
Other equipment	1,317,135	6	1,249,847	6	STOCKHOLDERS' EQUITY (Note 19)				
Total cost	6,951,261	31	6,788,772	35	Common stock, \$10 par value, authorized - 580,000,000 shares; issued - 520,972,223 shares	5,209,722	23	5,209,722	27
Revaluation increment	2,127,829	9	427,825	2	Capital surplus				
Total cost and revaluation increment	9,079,090	40	7,216,597	37	Additional paid-in capital on issuance of common stock	1,441,424	6	1,441,424	8
Less: Accumulated depreciation	(4,512,152)	(20)	(4,322,655)	(22)	Additional paid-in capital on conversion of bonds	970,457	4	970,457	5
Construction in progress	1,237,235	6	368,742	2	Treasury stock transactions	70,059	1	70,059	-
Prepayments	16,510	-	8,297	-	Long-term stock investments	44,668	-	36,449	-
Total properties, net	5,820,683	26	3,270,981	17	Total capital surplus	2,526,608	11	2,518,389	13
Properties for lease					Retained earnings				
Cost					Legal reserve	1,025,226	5	938,553	5
Land	68,679	-	68,679	-	Unappropriated earnings	1,915,962	8	1,693,596	8
Buildings and equipment	2,320,463	10	2,320,463	12	Total retained earnings	2,941,188	13	2,632,149	13
Total cost	2,389,142	10	2,389,142	12	Other equity items				
Revaluation increment	877,203	4	-	-	Cumulative translation adjustments	114,319	-	42,920	-
Total cost and revaluation increment	3,266,345	14	2,389,142	12	Unrealized gain (loss) on available-for-sale financial assets	(402,952)	(2)	574,622	3
Less: Accumulated depreciation	(1,185,865)	(5)	(1,125,136)	(6)	Revaluation increment (Note 12)	1,984,387	9	166,723	1
Total properties for lease, net	2,080,480	9	1,264,006	6	Total other equity items	1,695,754	7	784,265	4
Total properties and properties for lease, net	7,901,163	35	4,534,987	23	Total stockholders' equity	12,373,272	54	11,144,525	57
DEFERRED PENSION COST	106,323	1	92,678	-	TOTAL	\$ 22,912,315	100	\$ 19,492,299	100
OTHER ASSETS									
Deferred income tax assets - noncurrent (Note 18)	16,400	-	40,700	-					
Pledged time deposits - noncurrent (Note 23)	5,428	-	8,017	-					
Miscellaneous assets (Note 13)	74,133	-	73,304	1					
Total other assets	95,961	-	122,021	1					
TOTAL	\$ 22,912,315	100	\$ 19,492,299	100					

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

SHIHLIN ELECTRIC & ENGINEERING CORP.

STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2007 AND 2006

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2007		2006	
	Amount	%	Amount	%
OPERATING REVENUES				
Gross sales	\$ 14,803,496	101	\$ 14,543,992	103
Less: Sales returns	69,969	-	71,486	-
Sales discounts	313,295	2	499,415	4
Net sales (Note 22)	14,420,232	99	13,973,091	99
Leasing revenue (Note 22)	184,065	1	178,153	1
Total operating revenues	<u>14,604,297</u>	<u>100</u>	<u>14,151,244</u>	<u>100</u>
OPERATING COSTS (Note 20)				
Cost of sales (Note 22)	11,997,857	82	11,574,338	82
Cost of leasing revenue	97,559	1	95,594	1
Total operating costs	<u>12,095,416</u>	<u>83</u>	<u>11,669,932</u>	<u>83</u>
GROSS PROFIT	<u>2,508,881</u>	<u>17</u>	<u>2,481,312</u>	<u>17</u>
OPERATING EXPENSES (Notes 20 and 22)				
Selling	754,525	5	747,082	5
Administrative	517,781	3	504,490	4
Research and development	372,055	3	352,518	2
Total operating expenses	<u>1,644,361</u>	<u>11</u>	<u>1,604,090</u>	<u>11</u>
INCOME FROM OPERATIONS	<u>864,520</u>	<u>6</u>	<u>877,222</u>	<u>6</u>
NON-OPERATING INCOMES AND GAINS				
Interest income	7,012	-	5,463	-
Investment income recognized under the equity method, net	382,580	3	304,277	2
Dividend income	47,580	-	55,160	-
Gain on disposal of properties	3,276	-	586	-
Gain on sale of investments, net (Note 22)	44,236	-	9,940	-
Foreign exchange gain, net	-	-	33,510	-
Miscellaneous	99,927	1	64,479	1
Total non-operating incomes and gains	<u>584,611</u>	<u>4</u>	<u>473,415</u>	<u>3</u>
NON-OPERATING EXPENSES AND LOSSES				
Interest expense	52,930	1	38,574	-
Loss on disposal of properties	6,421	-	3,962	-
Foreign exchange loss, net	4,837	-	-	-
Provision for loss on inventories	9,860	-	76,100	1

(Continued)

SHIHLIN ELECTRIC & ENGINEERING CORP.

STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2007 AND 2006

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2007		2006	
	Amount	%	Amount	%
Impairment loss (Note 10)	\$ 45,407	-	\$ 132,816	1
Valuation loss on financial instruments, net (Note 5)	2,054	-	24,404	-
Miscellaneous (Note 21)	<u>80,625</u>	<u>1</u>	<u>6,347</u>	<u>-</u>
Total non-operating expenses and losses	<u>202,134</u>	<u>2</u>	<u>282,203</u>	<u>2</u>
INCOME BEFORE INCOME TAX	1,246,997	8	1,068,434	7
INCOME TAX EXPENSE (Note 18)	<u>211,475</u>	<u>1</u>	<u>201,707</u>	<u>1</u>
NET INCOME	<u>\$ 1,035,522</u>	<u>7</u>	<u>\$ 866,727</u>	<u>6</u>
	2007		2006	
	Before Tax	After Tax	Before Tax	After Tax
BASIC EARNINGS PER SHARE				
Based on the number of weighted average shares outstanding of 520,972,223	<u>\$ 2.39</u>	<u>\$ 1.99</u>	<u>\$ 2.05</u>	<u>\$ 1.66</u>

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

(Concluded)

SHIHLIN ELECTRIC & ENGINEERING CORP.
**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2007 AND 2006
(In Thousands of New Taiwan Dollars, Except Per Share Amounts)**

	Capital Surplus (Note 19)						Other Equity Items								
	Common Stock (Note 19)	Additional Paid-in Capital on Issuance of Common Stock	Additional Paid-in Capital on Conversion of Bonds	Treasury Stock Transactions	Long-term Stock Investments	Total	Retained Earnings (Note 19)				Cumulative Translation Adjustments	Unrealized Gain (Loss) on Available- for-sale Financial Assets	Revaluation Increment (Note 12)	Total	Total Stockholders' Equity
							Legal Reserve	Special Reserve	Unappropriated Earnings	Total					
BALANCE, JANUARY 1, 2006	\$ 5,209,722	\$ 1,441,424	\$ 970,457	\$ 70,059	\$ 42,696	\$ 2,524,636	\$ 870,267	\$ 519,622	\$ 1,137,831	\$ 2,527,720	\$ 11,738	\$ (447)	\$ 166,723	\$ 178,014	\$ 10,440,092
Effect of initial adoption of Statement of Financial Accounting Standards No. 34 (Note 3)	-	-	-	-	-	-	-	-	-	-	-	307,935	-	307,935	307,935
Transfer of special reserve to unappropriated earnings	-	-	-	-	-	-	-	(519,622)	519,622	-	-	-	-	-	-
Appropriations of prior years' earnings															
Legal reserve	-	-	-	-	-	-	68,286	-	(68,286)	-	-	-	-	-	-
Cash dividends - \$1.2 per share	-	-	-	-	-	-	-	-	(625,167)	(625,167)	-	-	-	-	(625,167)
Bonus to directors and supervisors	-	-	-	-	-	-	-	-	(45,344)	(45,344)	-	-	-	-	(45,344)
Bonus to employees	-	-	-	-	-	-	-	-	(90,735)	(90,735)	-	-	-	-	(90,735)
Adjustment for long-term stock investments accounted for under the equity method	-	-	-	-	(6,247)	(6,247)	-	-	(1,052)	(1,052)	-	333,932	-	333,932	326,633
Net income for the year ended December 31, 2006	-	-	-	-	-	-	-	-	866,727	866,727	-	-	-	-	866,727
Change in unrealized gain or loss on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	-	-	(66,798)	-	(66,798)	(66,798)
Change in translation adjustments	-	-	-	-	-	-	-	-	-	-	31,182	-	-	31,182	31,182
BALANCE, DECEMBER 31, 2006	5,209,722	1,441,424	970,457	70,059	36,449	2,518,389	938,553	-	1,693,596	2,632,149	42,920	574,622	166,723	784,265	11,144,525
Appropriations of prior years' earnings															
Legal reserve	-	-	-	-	-	-	86,673	-	(86,673)	-	-	-	-	-	-
Cash dividends - \$1.2 per share	-	-	-	-	-	-	-	-	(625,167)	(625,167)	-	-	-	-	(625,167)
Bonus to directors and supervisors	-	-	-	-	-	-	-	-	(31,200)	(31,200)	-	-	-	-	(31,200)
Bonus to employees	-	-	-	-	-	-	-	-	(62,404)	(62,404)	-	-	-	-	(62,404)
Adjustment for long-term stock investments accounted for under the equity method	-	-	-	-	8,219	8,219	-	-	(7,712)	(7,712)	-	(483,558)	-	(483,558)	(483,051)
Revaluation increment on land	-	-	-	-	-	-	-	-	-	-	-	-	1,817,664	1,817,664	1,817,664
Net income for the year ended December 31, 2007	-	-	-	-	-	-	-	-	1,035,522	1,035,522	-	-	-	-	1,035,522
Change in unrealized gain or loss on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	-	-	(494,016)	-	(494,016)	(494,016)
Change in translation adjustments	-	-	-	-	-	-	-	-	-	-	71,399	-	-	71,399	71,399
BALANCE, DECEMBER 31, 2007	<u>\$ 5,209,722</u>	<u>\$ 1,441,424</u>	<u>\$ 970,457</u>	<u>\$ 70,059</u>	<u>\$ 44,668</u>	<u>\$ 2,526,608</u>	<u>\$ 1,025,226</u>	<u>\$ -</u>	<u>\$ 1,915,962</u>	<u>\$ 2,941,188</u>	<u>\$ 114,319</u>	<u>\$ (402,952)</u>	<u>\$ 1,984,387</u>	<u>\$ 1,695,754</u>	<u>\$ 12,373,272</u>

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

SHIHLIN ELECTRIC & ENGINEERING CORP.

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2007 AND 2006 (In Thousands of New Taiwan Dollars)

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 1,035,522	\$ 866,727
Depreciation	315,746	329,104
Provision for doubtful accounts	128,197	110,635
Provision for loss on inventories	9,860	76,100
Loss on disposal of properties, net	3,145	3,376
Investment income recognized under the equity method, net	(382,580)	(304,277)
Cash dividends from investees accounted for under the equity method	97,423	14,957
Gain on sale of investments, net	(44,236)	(9,940)
Impairment loss	45,407	132,816
Valuation loss on financial instruments, net	5,790	-
Deferred income tax	23,700	21,300
Changes in operating assets and liabilities		
Financial instruments at fair value through profit or loss	(8,692)	(11,178)
Notes receivable	13,248	91,705
Notes receivable from related parties	26,175	(23,892)
Accounts receivable	(300,083)	27,680
Accounts receivables from related parties	22,327	(38,623)
Other receivables	(15,584)	(109,386)
Other receivables from related parties	72,402	(56,777)
Inventories	(85,547)	(588,836)
Real estate in development	(456,673)	(81,061)
Other current assets	32,519	(159,080)
Notes payable	92	(1,549)
Accounts payable	63,710	68,640
Accounts payable to related parties	138,636	(62,456)
Income tax payable	(52,600)	44,300
Accrued expenses	(27,354)	85,262
Other payables to related parties	(6,022)	(13,816)
Other payables	4,405	25,151
Collections in advance	(253,838)	521,759
Collections in advance for real estate	441,548	927,250
Other current liabilities	127,369	143,246
Accrued pension cost	14,140	43,967
	<u>988,152</u>	<u>2,073,104</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease (increase) in other receivables from related parties transferred from accounts receivable from related parties	(4,316)	24,112
Acquisition of financial assets at fair value through profit or loss	(230,797)	-
Net decrease (increase) in available-for-sale open-end funds	7,195	(508,818)
Acquisition of financial assets carried at cost	(10,500)	(145,639)
Proceeds from disposal of financial assets carried at cost	290,261	91,237

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SHIHLIN ELECTRIC & ENGINEERING CORP.

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2007 AND 2006 (In Thousands of New Taiwan Dollars)

	2007	2006
Acquisition of investments accounted for under the equity method	\$ (208,294)	\$ (84,411)
Proceeds from disposal of investments accounted for under the equity method	10,864	111,343
Acquisition of properties	(1,069,102)	(437,048)
Proceeds from disposal of properties	7,069	4,190
Increase in pledged time deposits	(6,505)	(16,422)
Decrease (increase) in miscellaneous assets	<u>(829)</u>	<u>6,358</u>
Net cash used in investing activities	<u>(1,214,954)</u>	<u>(955,098)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in short-term loans	285,888	132,303
Net increase (decrease) in short-term bills payable	(50,000)	50,000
Repayments of bonds payable	(300,000)	(300,000)
Additions to long-term debt	1,050,000	-
Repayments of long-term debt	(9,016)	(8,965)
Increase (decrease) in deposits received	(4,679)	1,667
Cash dividends and bonuses to employees, directors and supervisors	<u>(718,771)</u>	<u>(761,246)</u>
Net cash provided by (used in) financing activities	<u>253,422</u>	<u>(886,241)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	26,620	231,765
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>376,657</u>	<u>144,892</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 403,277</u>	<u>\$ 376,657</u>
SUPPLEMENTAL INFORMATION		
Interest paid (excluding capitalized interest)	<u>\$ 52,508</u>	<u>\$ 38,621</u>
Income tax paid	<u>\$ 240,375</u>	<u>\$ 136,107</u>
INVESTING ACTIVITIES AFFECTING BOTH CASH AND NON-CASH ITEMS		
Acquisition of properties	\$ 1,068,419	\$ 417,600
Add: Payable for properties purchased (included in other payables), beginning of year	683	20,131
Less: Payable for properties purchased (included in other payables), end of year	<u>-</u>	<u>(683)</u>
Cash paid for acquisition of properties	<u>\$ 1,069,102</u>	<u>\$ 437,048</u>
NON-CASH INVESTING ACTIVITIES		
Transfer of inventories to properties	<u>\$ 46,508</u>	<u>\$ -</u>
Transfer of properties to inventories	<u>\$ -</u>	<u>\$ 4,298</u>
Transfer of properties to real estate in development	<u>\$ -</u>	<u>\$ 233,905</u>

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

(Concluded)

SHIHLIN ELECTRIC & ENGINEERING CORP.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2007 AND 2006

(In Thousands of New Taiwan Dollars, Unless Otherwise Stated)

1. GENERAL

The Corporation, established in November 1955, is engaged in the manufacture of heavy electric equipment, electric machinery, electric automotive equipment and related parts, and in the sale and lease of commercial building. The Corporation's shares have been listed and traded on the Taiwan Stock Exchange since December 1969.

As of December 31, 2007 and 2006, the number of employees of the Corporation was 1,627 and 1,609, respectively.

2. SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, Business Accounting Law, Guidelines Governing Business Accounting and accounting principles generally accepted in the Republic of China ("ROC").

For the convenience of readers, the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the ROC. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language financial statements shall prevail. However, the accompanying financial statements do not include English translation of the additional footnote disclosures that are not required under generally accepted accounting principles but are required by the Securities and Futures Bureau ("SFB") for their oversight purposes.

The Corporation's significant accounting policies are summarized as follows:

Use of Estimates

The preparation of financial statements in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, Business Accounting Law, Guidelines Governing Business Accounting and accounting principles generally accepted in the ROC requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and disclosure of contingent assets and liabilities at the date of the balance sheet and the reported amounts of certain revenues and expenses during the reporting period. Actual results could differ from those estimates.

Classification of Current and Noncurrent Assets and Liabilities

Current assets are cash and assets that are expected to be converted into cash or consumed within one year, assets other than current assets are noncurrent assets. Current liabilities are obligations that are expected to be settled within one year; liabilities other than current liabilities are noncurrent liabilities. However, the Corporation's operating cycle for the construction and sale of real estate is longer than one year. Accordingly, assets and liabilities relating to the real estate business are classified as either current or noncurrent based on this operating cycle.

Cash Equivalents

Commercial papers acquired with maturities of less than three months from the date of purchase are classified as cash equivalents. The carrying amount approximates fair value.

Financial Instruments at Fair Value through Profit or Loss

Financial instruments held for trading are initially recognized at fair value, with transaction costs expensed as incurred. These financial instruments are measured at fair value subsequently with changes in fair value recognized in profit or loss. A regular way purchase or sale of financial instruments is accounted for using settlement date accounting.

Available-for-sale Financial Assets

Investments designated as available-for-sale financial assets include quoted stocks, closed-end funds and open-end funds. Available-for-sale financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition. Changes in fair value from subsequent measurement are reported as a separate component of stockholders' equity. The corresponding accumulated gains or losses are recognized in profit or loss when the financial asset is derecognized from the balance sheet. A regular way purchase or sale of financial assets is accounted for using trade date accounting.

Cash dividends are recognized as investment income on the ex-dividend date of an investee but are accounted for as a reduction to the original cost of investment if such dividends are declared out of the earnings of the investee attributable to the period prior to the investment. Stock dividends are recorded for only as an increase in the number of shares held and do not affect investment income. The cost per share is recalculated based on the new total number of shares.

Allowance for Doubtful Accounts

An allowance for doubtful accounts is provided on the basis of bad debt experience and a review of the collectibility of individual receivables.

Inventories

Inventories are stated at the lower of weighted average cost or market value. Market value means net realizable value for finished goods and work in process and replacement cost for raw materials and supplies.

Development and Sale of Real Estate

Revenue and cost of the sale of real estate are recorded based on the completed contract method.

Real estate in development is stated at the lower of cost or market value. The proceeds from presale of real estate are recorded as collections in advance for real estate. After the completion of construction, the related cost of real estate is transferred pro rata to cost of sales when units are sold and title deeds are transferred to customers, and the related collections in advance are transferred to sales of real estate at the same time.

Financial Assets Carried at Cost

Investments in unquoted stocks and funds whose fair value can not be reliably measured are carried at their original cost. Costs of stocks and funds sold are determined using the weighted-average method. If there is objective evidence of impairment, a loss is recognized. A subsequent reversal of such impairment loss is not allowed.

The accounting treatment for cash dividends and stock dividends derived from financial assets carried at cost is the same as that for cash dividends and stock dividends derived from available-for-sale financial assets.

Investments Accounted for Under the Equity Method

Investments for which the Corporation can exercise significant influence over the investees are accounted for under the equity method. When an indication of impairment is identified, the carrying amount of the investment is reduced, with the related impairment loss charged to earnings.

Unrealized profits or losses arising from transactions with investees accounted for under the equity method are deferred and then recognized as profits or losses in the period of realization.

Properties and Properties for Lease

Properties and properties for lease are stated at cost or cost plus revaluation increment, less accumulated depreciation. Major renewals and betterments are capitalized, while maintenance and repairs are expensed currently. When an indication of impairment is identified, any excess of the carrying amount of an asset over its recoverable amount is recognized as a loss. If the recoverable amount increases in a future period, the amount previously recognized as impairment would be reversed and recognized as a gain. However, the adjusted amount may not exceed the carrying amount that would have been determined, net of depreciation, as if no impairment loss had been recognized. Depreciation on cost is provided by the straight-line method for properties bought before January 1, 1988 and on or after January 1, 1999 and by the fixed-percentage-of-declining-balance method for those bought between January 1, 1988 and December 31, 1998 over estimated service lives which range as follows: buildings and equipment, 3 to 60 years; machinery and equipment, 3 to 15 years; other equipment, 2 to 13 years. Depreciation on revaluation increment is provided over the remaining service lives of the assets after revaluation. When an asset has reached its original estimated service life but is still in use, its carrying amount is further depreciated over the newly-estimated service life.

Upon sale or disposal of properties, the related cost and accumulated depreciation are removed from the accounts, and any gain or loss is recognized in profit or loss.

Revenue Recognition

Sales are recognized when titles to products and risks of ownership are transferred to customers, primarily upon shipment.

Leasing revenue is recognized on a straight-line basis over the lease period.

Pension Cost

For a defined contribution pension plan, pension cost is recorded based on the amount of contributions made to employees' individual pension accounts. For a defined benefit pension plan, pension cost is recorded based on actuarial calculations.

Research and Development Expense

Expenditures related to research activities and those related to development activities that do not meet the criteria for capitalization are charged to expense when incurred.

Income Tax

Tax effects of deductible temporary differences and unused investment tax credits are recognized as deferred income tax assets, and those of taxable temporary differences are recognized as deferred income tax liabilities; a valuation allowance is provided for deferred income tax assets of which the realization is not certain. Deferred income tax assets or liabilities are classified as current or noncurrent based on the classification of the related asset or liability. A deferred income tax asset or liability that is not related to an asset or liability is classified as current or noncurrent based on the expected length of time before it is realized or settled.

Investment tax credits are recognized using the flow-through method.

Additional income tax at 10% of undistributed earnings is recorded when the amount is determinable, namely, when the distribution of earnings is resolved by the stockholders.

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

The ROC government enacted the Alternative Minimum Tax Act ("AMT Act"), which became effective on January 1, 2006. The alternative minimum tax ("AMT") imposed under the AMT Act is a supplemental tax levied at a rate of 10% which is payable if the income tax payable determined pursuant to the Income Tax Law ("ITL") is less than the AMT. The taxable income for calculating the AMT includes taxable income calculated pursuant to the ITL and most of the income that is exempted from income tax under various laws and statutes. The Corporation has considered the impact of the AMT Act in the determination of its income tax liabilities.

Foreign-currency Translation

Foreign-currency transactions other than derivative financial instruments are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Gains or losses resulting from settlement of foreign-currency assets and liabilities at rates different from those at which these assets and liabilities are carried in the accounts are recognized in profit or loss in the year of settlement.

At year-end, foreign-currency monetary assets and liabilities are restated using prevailing exchange rates and the resulting differences are recognized in profit or loss.

At year-end, foreign-currency non-monetary assets and liabilities, which are measured at fair value, are restated using prevailing exchange rates and the resulting differences are treated as follows:

- a. Recognized in stockholders' equity if the changes in fair value are recognized in stockholders' equity; and
- b. Recognized in profit or loss if the changes in fair value is recognized in profit or loss.

At year-end, foreign-currency non-monetary assets and liabilities, which are measured at cost, are stated at historical exchange rates at trade dates.

Translation of Foreign-currency Financial Statements

The differences resulting from translation of the foreign-currency financial statements of foreign investees accounted for under the equity method prepared in their respective functional currencies into New Taiwan dollars are recorded as translation adjustments under stockholders' equity.

Reclassifications

Certain accounts in the financial statements as of and for the year ended December 31, 2006 have been reclassified to conform to the presentation of the financial statements as of and for the year ended December 31, 2007.

3. ACCOUNTING CHANGE

Effective January 1, 2006, the Corporation adopted the newly released Statement of Financial Accounting Standards ("SFAS") No. 34, "Financial Instruments: Recognition and Measurement" ("SFAS No. 34") and SFAS No. 36, "Financial Instruments: Disclosure and Presentation".

The Corporation had properly categorized its financial assets and liabilities upon initial adoption of the newly released SFASs. The adjustments made to the carrying amounts of financial instruments categorized as financial assets or liabilities at fair value through profit or loss were included in the cumulative effect of a change in accounting principle and the adjustments made to the carrying amounts of those categorized as available-for-sale financial assets were recognized as adjustments to stockholders' equity.

The effect of initial adoption of the newly released SFASs is summarized as follows:

	Recognized as Cumulative Effect of Changes in Accounting Principles (Net of Tax)	Recognized as Adjustments to Stockholders' Equity
Financial liabilities at fair value through profit or loss	\$ 428	\$ -
Available-for-sale financial assets	<u>-</u>	<u>307,935</u>
	<u>\$ 428</u>	<u>\$ 307,935</u>

The amount of the cumulative effect of a change in accounting principle was not material; accordingly, it was not shown separately in the statement of income for the year ended December 31, 2006 and instead was included in the valuation gain or loss on financial instruments and income tax expense.

The adoption of the newly released SFASs did not have a material effect on the Corporation's financial statements as of and for the year ended December 31, 2006.

4. CASH AND CASH EQUIVALENTS

	<u>December 31</u>	
	<u>2007</u>	<u>2006</u>
Cash on hand	\$ 1,503	\$ 1,511
Checking account deposits and demand deposits	264,970	375,119
Time deposits	66,909	27
Commercial papers	<u>69,895</u>	<u>-</u>
	<u>\$ 403,277</u>	<u>\$ 376,657</u>

5. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>December 31</u>	
	<u>2007</u>	<u>2006</u>
<u>Financial assets held for trading</u>		
Asset backed guarantee notes	\$ 225,007	\$ -
Forward exchange contracts	<u>5,177</u>	<u>-</u>
	<u>\$ 230,184</u>	<u>\$ -</u>
<u>Financial liabilities held for trading</u>		
Forward exchange contracts	<u>\$ -</u>	<u>\$ 3,515</u>

The Corporation entered into forward exchange contracts in the years ended December 31, 2007 and 2006 mainly to manage exposures due to the fluctuations of foreign exchange rates. The forward exchange contracts entered into by the Corporation did not meet the criteria for hedge accounting prescribed by SFAS No. 34. Therefore, the Corporation did not apply hedge accounting treatment for its forward exchange contracts.

As of December 31, 2007 and 2006, outstanding forward contracts were as follows:

Currency	Maturity Date	Contract Amount (in Thousands)
<u>December 31, 2007</u>		
Buy JPY/Sell US\$	January 2008 to May 2008	JPY 894,100
Buy US\$/Sell NT\$	January 2008 to March 2008	US\$ 5,000
Buy EUR/Sell NT\$	January 2008 to March 2008	EUR 3,000
<u>December 31, 2006</u>		
Buy JPY/Sell US\$	January 2007 to May 2007	JPY1,042,935
Buy US\$/Sell NT\$	January 2007 to April 007	US\$ 5,000

Net losses arising from financial instruments held for trading for the years ended December 31, 2007 and 2006 were \$2.0 million and \$24.4 million, respectively.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	<u>December 31</u>	
	2007	2006
Quoted stocks	\$ 1,424,386	\$ 1,608,326
Closed-end funds	-	5,770
Open-end funds	<u>1,218,301</u>	<u>1,527,612</u>
	2,642,687	3,141,708
Less: Current portion	<u>(104,285)</u>	<u>(108,325)</u>
	<u>\$ 2,538,402</u>	<u>\$ 3,033,383</u>

7. ACCOUNTS RECEIVABLE, NET

	<u>December 31</u>	
	2007	2006
Accounts receivable	\$ 2,538,519	\$ 2,434,080
Less: Allowance for doubtful accounts	<u>(101,952)</u>	<u>(169,399)</u>
	<u>\$ 2,436,567</u>	<u>\$ 2,264,681</u>

Information about accounts receivable sold by the Corporation is as follows:

Counter Party	Amount Sold	Amount Collected	Outstanding Advances at End of Year	Annual Interest Rate for Outstanding Advances (%)	Credit Limit
<u>Year ended December 31, 2007</u>					
Taishin Bank	\$ 142,872	\$ 142,872	\$ -	4.95%	\$ 300,000
Chinatrust Bank	<u>124,060</u>	<u>-</u>	<u>-</u>	3.84%	129,720
	<u>\$ 266,932</u>	<u>\$ 142,872</u>	<u>\$ -</u>		
<u>Year ended December 31, 2006</u>					
Taishin Bank	<u>\$ 290,224</u>	<u>\$ 212,332</u>	<u>\$ -</u>	4.66%	300,000

The above credit lines may be used on a revolving basis. Pursuant to the factoring agreements, losses arising from commercial disputes between customers and the Corporation shall be born by the Corporation; whereas losses arising from credit risk shall be born by the bank, except for 10% of losses on the accounts receivable sold to Chinatrust Bank that shall be born by the Corporation.

8. INVENTORIES

	<u>December 31</u>	
	<u>2007</u>	<u>2006</u>
Finished goods	\$ 747,768	\$ 812,865
Work in process	802,899	742,147
Raw materials and supplies	918,136	881,501
Materials in transit	<u>-</u>	<u>50</u>
	2,468,803	2,436,563
Less: Allowance for loss	<u>(141,040)</u>	<u>(137,979)</u>
	<u>\$ 2,327,763</u>	<u>\$ 2,298,584</u>

9. REAL ESTATE IN DEVELOPMENT AND COLLECTIONS IN ADVANCE FOR REAL ESTATE

	Estimated Total Selling Price	Estimated Total Cost	Real Estate in Development	Collections in Advance for Real Estate	Estimated Year of Completion
<u>December 31, 2007</u>					
Development of an office building on the land of Shihlin plant	<u>\$ 4,636,250</u>	<u>\$ 2,023,205</u>	<u>\$ 771,639</u>	<u>\$ 1,368,798</u>	2009
<u>December 31, 2006</u>					
Development of an office building on the land of Shihlin plant	<u>\$ 4,636,250</u>	<u>\$ 2,023,205</u>	<u>\$ 314,966</u>	<u>\$ 927,250</u>	2009

In March 2006, the Corporation entered into a building sale and purchase agreement with GRQ Investment Corp., a subsidiary CTCI Corporation. Under the agreement, the Corporation shall sell an office building together with parking places to be constructed on the land of its Shihlin factory to GRQ Investment Corp. for \$4,636.3 million, which however shall be adjusted for any changes in the total construction cost, total floor space and number of parking places.

10. FINANCIAL ASSETS CARRIED AT COST

	December 31	
	2007	2006
Unquoted stocks or funds		
The Industrial Bank of Taiwan Co., Ltd.	\$ 100,000	\$ 100,000
AmTrust Capital I Corp.	100,000	100,000
Noble Tech Venture Capital Corporation	46,000	46,000
Transmit Precisions Technology Co., Ltd.	38,880	43,200
Jine De Sheng Co., Ltd. (formerly Ching Der Construction Co.)	30,318	30,318
Der Shin Venture Capital Co.	26,000	26,000
Hsinchu Venture Capital Co.	22,221	31,500
Power World Capital Management Inc.	18,768	27,382
Pac-Link Opportunity Venture Capital Co.	15,000	15,000
Super Tech Venture Capital Co.	14,375	21,815
Global Securities Finance Corporation	11,566	11,566
Tan Xi Photronic Corp.	10,500	-
Hsinchu Transport Co., Ltd.	7,608	7,608
Sycamore Venture Capital, L.P.	3,526	4,913
Innocom Telecom Corp.	3,105	3,105
TSC Finance.Com	2,651	2,651
Normpacific Automation Corp.	1,740	1,740
Asia Technology 3 Limited	1,012	2,903
Formosa Capital Holdings Corporation	566	566
E-link Corporation	444	444
Chinese Products Promotion Center	50	50
Windance Co., Ltd.	26	26
Taiwan Fixed Network	-	211,500
Taiwan Mitsubishi Elevator Co., Ltd. (formerly A-Trend Technology Co.)	-	49,000
Yu Der Investment Co.	-	14,180
TSC Capital Group Inc.	-	855
	<u>\$ 454,356</u>	<u>\$ 752,322</u>

Impairment losses recognized by the Corporation in the years ended December 31, 2007 and 2006 for the abovementioned financial assets were as follows:

	Years Ended December 31	
	2007	2006
Unquoted stocks or funds		
Taiwan Fixed Network	\$ 37,723	\$ -
Transmit Precisions Technology Co., Ltd.	4,320	-
Power World Capital Management Inc.	1,829	-
Hsinchu Venture Capital Co.	1,535	1,816
Taiwan Mitsubishi Elevator Co., Ltd.	-	86,000
Windance Co., Ltd.	-	33,000
Yu Der Investment Co.	-	12,000
	<u>\$ 45,407</u>	<u>\$ 132,816</u>

The Corporation sold all of its stock in Taiwan Fixed Network at a price of \$8.3 per share to Taihsing International Telecommunications Co., Ltd. in April 2007. The Corporation sold all of its stock in Taiwan Mitsubishi Elevator Co., Ltd. at a price of \$33.5 per share to Mitsubishi Electric Corporation of Japan (“Mitsubishi Electric”) in September 2007 (see Note 22).

Ji Lin Investment Co., Ltd., a subsidiary of the Corporation, subscribed for new shares issued by Yu Der Investment Co. (“Yu Der”) in May 2007; as a result, the Corporation increased its direct and indirect percentage of ownership in Yu Der and obtained significant influence over Yu Der. Consequently, the Corporation’s investment in Yu Der was reclassified as an investment accounted for under the equity method.

11. INVESTMENTS ACCOUNTED FOR UNDER THE EQUITY METHOD

	December 31			
	2007		2006	
	Carrying Amount	% of Owner- ship	Carrying Amount	% of Owner- ship
SEEC International Holdings Ltd. of the British Virgin Islands (“SEEC International Holdings”)	\$ 1,833,933	100.0	\$ 1,476,495	100.0
Yuh Lin Investment Co., Ltd.	344,776	99.9	428,619	99.9
Hwo Lin Investment Co., Ltd.	307,125	99.9	379,820	99.9
Shihlin Electrical Engineering Ltd. of Vietnam (“Vietnam SEEC”)	274,423	100.0	266,500	100.0
Shihlin Development Co. (“Shihlin Development”)	238,389	99.9	300,951	99.9
Ji Lin Investment Co., Ltd.	171,789	99.9	229,799	99.9
Rueylin Electric & Engineering Corp. (“Rueylin”)	138,866	70.4	134,007	70.4
Jeng Lin Investment Co., Ltd.	134,368	99.9	158,862	99.9
Cheng Lin Investment Co., Ltd.	124,545	99.3	144,369	99.3
Hsin Lin Electric Machinery Co., Ltd. (“Hsin Lin”)	71,856	60.0	59,493	60.0
Jeen-Lin Industrial Co., Ltd. (“Jeen-Lin”)	69,826	78.1	64,934	78.1
Shang Lin Investment Co., Ltd.	68,971	99.3	88,159	99.3
SEEC International Trading Ltd. of the British Virgin Islands	32,535	100.0	-	-
Chan Der Investment Co. (“Chan Der”)	20,327	11.1	30,137	12.3
Union Power Industrial Corporation (“Union Power”)	19,921	72.5	17,652	72.5
Yu Der (see Note 10)	18,559	5.7	-	-
Kingdom Trading Shanghai Co., Ltd. (“Shanghai Kingdom”)	12,673	100.0	-	-
Charter Leisure Co., Ltd. (“Charter Leisure”)	11,602	19.0	12,939	19.0
Shinlin Enterprise Co., Ltd. (“Shinlin”)	10,004	72.0	9,880	72.0
Chuan Lin Technology Corporation (“Chuan Lin”)	8,491	31.5	8,180	31.5
Cheng Der Investment Co.	8,399	4.9	12,839	4.9
Yuan-Gu Light & Electricity Co., Ltd.	7,878	30.0	8,721	30.0
Ting Lin Enterprise Co. (“Ting Lin”)	2,031	21.1	1,940	21.1
Yi-Lin Electric Machinery Co., Ltd. (“Yi-Lin”, liquidated in October 2007)	-	-	11,214	51.0
	<u>\$ 3,931,287</u>		<u>\$ 3,845,510</u>	

For the investments accounted for under the equity method, when the financial statements of investees have reached the prescribed audit criteria, these investees have engaged certified public accountants to audit their financial statements.

12. PROPERTIES AND PROPERTIES FOR LEASE, NET

	<u>December 31</u>	
	<u>2007</u>	<u>2006</u>
Properties		
Revaluation increment		
Land	\$ 2,122,485	\$ 422,481
Machinery and equipment	<u>5,344</u>	<u>5,344</u>
	<u>\$ 2,127,829</u>	<u>\$ 427,825</u>
Accumulated depreciation		
Cost		
Buildings and equipment	\$ 1,308,227	\$ 1,240,468
Machinery and equipment	2,182,999	2,123,875
Other equipment	<u>1,015,582</u>	<u>952,968</u>
	<u>4,506,808</u>	<u>4,317,311</u>
Revaluation increment		
Machinery and equipment	<u>5,344</u>	<u>5,344</u>
	<u>\$ 4,512,152</u>	<u>\$ 4,322,655</u>
Properties for lease		
Revaluation increment		
Land	<u>\$ 877,203</u>	<u>\$ -</u>
Accumulated depreciation		
Buildings and equipment	<u>\$ 1,185,865</u>	<u>\$ 1,125,136</u>

The Corporation revalued its land in various years from 1964 to 2007 and other properties in 1961 and 1975, in accordance with government regulations. The net revaluation increment (after deducting a reserve for land value increment tax) has been credited to stockholders' equity.

Capitalized interest amounted to \$18.2 million and \$6.6 million, respectively, and the interest rates used in computing capitalized interest were 1.91%-2.49% and 1.66%-2.64%, respectively, for the years ended December 31, 2007 and 2006.

13. MISCELLANEOUS ASSETS

	<u>December 31</u>	
	<u>2007</u>	<u>2006</u>
Refundable deposits	\$ 7,331	\$ 8,487
Loans to employees for purchase of cars or motorcycles	15,918	15,875
Overdue receivables, net of allowance for loss of \$46,871 thousand in 2007 and \$54,973 thousand in 2006	-	-
Others	<u>50,884</u>	<u>48,942</u>
	<u>\$ 74,133</u>	<u>\$ 73,304</u>

14. SHORT-TERM LOANS AND SHORT-TERM BILLS PAYABLE

	<u>December 31</u>	
	<u>2007</u>	<u>2006</u>
Short-term loans		
Usance L/C: Due 180 days after sight, interest at 2.38% in 2007	\$ 1,757	\$ -
Usance L/C (JPY): Due 180 days after sight, interest at 0.4447%-1.6870% in 2007 and 0.4447%-1.2230% in 2006	41,178	47,592
Usance L/C (US\$): Due 180 days after sight, interest at 5.6510%-6.4430% in 2007	545	-
Unsecured loans: Interest at 2.24%-2.54% in 2007 and 1.66%-1.785% in 2006	1,440,000	1,400,000
Mortgage loans: Interest at 2.38% in 2007 and 1.74% in 2006	<u>400,000</u>	<u>150,000</u>
	<u>\$ 1,883,480</u>	<u>\$ 1,597,592</u>
Short-term bills payable		
Commercial papers: Interest at 1.8082%	<u>\$ -</u>	<u>\$ 50,000</u>

15. BONDS PAYABLE

	<u>December 31</u>	
	<u>2007</u>	<u>2006</u>
Domestic secured bonds	\$ 400,000	\$ 700,000
Less: Portion due within one year	<u>(400,000)</u>	<u>(300,000)</u>
	<u>\$ -</u>	<u>\$ 400,000</u>

In November 2003, the Corporation issued the aforementioned five-year bonds, with interest paid annually at a rate of 1.75%. The bonds are guaranteed by six banks. At the third, fourth and fifth anniversary of issuance, the Corporation shall repay 30%, 30% and 40%, respectively, of the principal.

16. LONG-TERM DEBT

	<u>December 31</u>	
	<u>2007</u>	<u>2006</u>
Mortgage loans		
Repayable in monthly installments from November 2000 through October 2017, interest at 2.36% in 2007 and 2.025% in 2006	\$ 64,062	\$ 69,828
Repayable in monthly installments from February 2001 through January 2018, interest at 2.36% in 2007 and 2.025% in 2006	26,152	28,445
Repayable in monthly installments from August 2001 through July 2018, interest at 2.36% in 2007 and 2.025% in 2006	11,515	12,472
Unsecured loans		
Repayable in December 2010, interest at 2.830%	150,000	-
Repayable in December 2010, interest at 2.620%	250,000	-
Repayable in December 2010, interest at 2.73%	150,000	-
Repayable in December 2010, interest at 2.73%	150,000	-
Revolving unsecured loans		
Due in January 2008, interest at 2.380%-2.540%	<u>350,000</u>	<u>-</u>
	1,151,729	110,745
Less: Portion due within one year	<u>(9,148)</u>	<u>(9,102)</u>
	<u>\$ 1,142,581</u>	<u>\$ 101,643</u>

Under several credit facility agreements, the Corporation may obtain loans within a total credit line limit of \$600 million before the expiry dates of the agreements, which range from September 2009 to October 2009.

17. PENSION PLANS

The Labor Pension Act (the "LPA") became effective on July 1, 2005. Employees who were employed before July 1, 2005 were allowed to choose to be subject to the pension mechanism prescribed in the Labor Standards Law (the "LSL") or the pension mechanism under the LPA with their previous seniority retained. Employees who were employed after June 30, 2005 can only be subject to the pension mechanism under the LPA.

The pension plan under the LPA is a defined contribution pension plan. Pursuant to the LPA, the Corporation makes monthly contributions to employees' individual pension accounts at 6% of each applicable employee's monthly salary. The Corporation recognized pension cost of \$20.9 million and \$17.1 million under the plan for the years ended December 31, 2007 and 2006, respectively.

Under the LSL, the Corporation has a defined benefit pension plan for its employees. Benefits under the plan are based on length of service and average salary for the six months before retirement. The Corporation makes monthly contributions at 2% of salaries to a pension fund, which is administered by the employees pension fund committee and deposited in the committee's name with the Bank of Taiwan (originally the Central Trust of China, which was merged into the Bank of Taiwan on July 1, 2007). Pension information about the plan is summarized as follows:

Net periodic pension cost:

	<u>Years Ended December 31</u>	
	2007	2006
Service cost	\$ 39,224	\$ 37,892
Interest cost	39,918	44,284
Actual return on plan assets	\$ (281)	\$ (811)
Gain (loss) on plan assets	<u>174</u>	<u>(781)</u>
Projected return on plan assets	(107)	(1,592)
Amortization	<u>29,479</u>	<u>22,436</u>
Net periodic pension cost	<u>\$ 108,514</u>	<u>\$ 103,020</u>

Reconciliation of funded status of the plan and accrued pension cost:

	<u>December 31</u>	
	2007	2006
Benefit obligation		
Vested benefit obligation	\$ 467,959	\$ 471,286
Nonvested benefit obligation	<u>616,603</u>	<u>581,218</u>
Accumulated benefit obligation	1,084,562	1,052,504
Additional benefit based on future salaries	<u>390,440</u>	<u>431,551</u>
Projected benefit obligation	1,475,002	1,484,055
Fair value of plan assets	<u>(6,914)</u>	<u>(2,641)</u>
Funded status	1,468,088	1,481,414
Unrecognized net transition obligation	(110,705)	(124,475)
Unamortized net loss	(386,058)	(399,754)
Additional liability	<u>106,323</u>	<u>92,678</u>
Accrued pension cost	<u>\$ 1,077,648</u>	<u>\$ 1,049,863</u>
Vested benefit	<u>\$ 604,027</u>	<u>\$ 613,542</u>

Actuarial assumptions:

	<u>December 31</u>	
	<u>2007</u>	<u>2006</u>
Discount rate used in determining present values	2.75%	2.75%
Future salary increase rate	2.75%	3.00%
Expected rate of return on plan assets	2.75%	2.75%

18. INCOME TAX EXPENSE

	<u>Years Ended December 31</u>	
	<u>2007</u>	<u>2006</u>
Income tax expense based on income before income tax at statutory rate	\$ 311,739	\$ 267,098
Tax effect on adjusting items:		
Permanent differences	(19,778)	(25,504)
Temporary differences	(23,700)	28,331
Additional income tax at 10% of undistributed earnings	6,129	-
Less: Investment tax credits used	<u>(89,333)</u>	<u>(98,391)</u>
Current income tax	185,057	171,534
Deferred income tax		
Investment tax credits	-	25,631
Excess provisions for doubtful accounts	18,748	6,392
Temporary differences relating to recognition of foreign investment income or loss under the equity method	22,776	34,149
Allowance for loss on inventories	(765)	(16,884)
Pension cost not funded	(3,535)	(10,991)
Depreciation difference	4,709	4,030
Provision for warranty reserve	(18,637)	(38,900)
Allowance for sales discounts	1,688	(7,500)
Others	(1,284)	1,373
Adjustment in valuation allowance	-	24,000
Adjustments of prior years' income tax	<u>2,718</u>	<u>8,873</u>
Income tax expense	<u>\$ 211,475</u>	<u>\$ 201,707</u>

Deferred income tax assets (liabilities) comprised:

	<u>December 31</u>	
	<u>2007</u>	<u>2006</u>
Current		
Deferred income tax assets		
Excess provisions for doubtful accounts	\$ 28,059	\$ 46,807
Allowance for loss on inventories	35,260	34,495
Provision for warranty reserve	57,537	38,900
Allowance for sales discounts	5,812	7,500
Unrealized foreign exchange loss	<u>632</u>	<u>-</u>
	127,300	127,702
Deferred income tax liabilities		
Unrealized foreign exchange gain	<u>-</u>	<u>(1,002)</u>
	<u>\$ 127,300</u>	<u>\$ 126,700</u>

(Continued)

	December 31	
	2007	2006
Noncurrent		
Deferred income tax assets		
Pension cost not funded	\$ 242,831	\$ 239,296
Temporary differences relating to recognition of loss of foreign equity instruments	12,402	12,402
Others	<u>35</u>	<u>385</u>
	255,268	252,083
Valuation allowance	<u>(24,000)</u>	<u>(24,000)</u>
	<u>231,268</u>	<u>228,083</u>
Deferred income tax liabilities		
Depreciation difference	(81,226)	(76,517)
Temporary differences relating to recognition of foreign investment income under the equity method	<u>(133,642)</u>	<u>(110,866)</u>
	<u>(214,868)</u>	<u>(187,383)</u>
	<u>\$ 16,400</u>	<u>\$ 40,700</u>
		(Concluded)

The Corporation's income tax returns have been examined by the tax authority through 2004. However, in assessing the 2004 income tax return, the tax authority disallowed the Corporation's investment tax credits arising from research and development, and personnel training expenditures of \$42.8 million and tax exemption from the profits generated from the operation center in the ROC of \$1.3 million. The Corporation considered the assessment to be without merits and had filed a tax appeal in September 2006. Management believes that the tax dispute would not result in any significant loss to the Corporation.

Pursuant to the ITL, the income tax paid by the Corporation for 1998 and onwards may be used by the individual resident stockholders of both the Corporation or the Corporation's corporate stockholders as individual income tax credits. Annual distributable net earnings that are not distributed to stockholders in the following year are subject to an additional income tax at a rate of 10%. The additional income tax paid may be used by stockholders (with the exception of the domestic corporate stockholders for which dividends received from domestic investee companies are exempt from income tax) as tax credits when the then undistributed earnings are ultimately distributed. Certain relevant information is as follows:

Undistributed earnings comprised:

	December 31	
	2007	2006
Generated		
Before integrated income tax took effect	\$ 410,255	\$ 410,255
After integrated income tax took effect	<u>1,505,707</u>	<u>1,283,341</u>
	<u>\$ 1,915,962</u>	<u>\$ 1,693,596</u>

The balance of the imputation credits amount as of December 31, 2007 and 2006 was \$256.4 million and \$168.3 million, respectively.

The creditable ratio for distribution of earnings of 2007 and 2006 was 20.29% (estimate) and 21.25%, respectively.

19. STOCKHOLDERS' EQUITY

Under the current regulations, capital surplus may be used as follows:

- a. The capital surplus arising from additional paid-in capital on issuance of common stock and conversion of bonds, and treasury stock transactions may be used to offset a deficit or transferred to capital (limited to a certain prescribed amount in each year); and
- b. The capital surplus arising from long-term stock investments may not be used for any purpose.

The Corporation's Articles of Incorporation provide that the following shall be appropriated from the annual net income (less any deficit):

- a. 10% thereof as legal reserve;
- b. Special reserve provided in accordance with an SFB directive;
- c. Bonuses to directors and supervisors and to employees equal to 4% and 8%, respectively, of the remainder; and
- d. Other special reserve and dividends recommended by the board of directors.

The Articles of Incorporation also prescribe that, after appropriation of the bonus to employees, 1) not less than 10% of the sum of the remaining annual net income and the previous year's accumulated undistributed earnings shall be appropriated as dividends and 2) of the dividends, not less than 20% shall be paid in cash.

These appropriations and other distributions of earnings shall be resolved by the stockholders in the following year and given effect to in the financial statements of that year.

Under the Company Law, the aforementioned appropriation for legal reserve shall be made until the reserve equals the Corporation's paid-in capital. This reserve may be used to offset a deficit; also, when the reserve has reached 50% of the capital, up to 50% thereof may be transferred to capital.

The appropriations of 2007 earnings have been proposed by the board of directors. For information relating to the appropriations of earnings as proposed by the board of directors and resolved by the stockholders in the annual regular meeting, please visit the Market Observation Post System Website of the Taiwan Stock Exchange. The appropriations of 2007 earnings proposed by the board of directors are as follows:

- a. Legal reserve of \$102.8 million;
- b. Bonus to employees of \$74.0 million (to be paid in cash) and bonus to directors and supervisors of \$37.0 million; and
- c. Cash dividends of \$625.2 million (1.2 New Taiwan dollars per share).

If the aforementioned bonuses to employees, directors and supervisors had been recorded as expenses in 2007, the basic after-tax earnings per share would have become 1.77 New Taiwan dollars.

The bonuses to employees, directors and supervisors appropriated from 2006 earnings and related information are as follows:

	Amounts Resolved by Stockholders	Amounts Proposed by the Board of Directors	Difference	Cause of Difference
Appropriation				
Bonus to employees (paid in cash)	\$ 62,404	\$ 62,404	\$ -	-
Bonus to directors and supervisors	31,200	31,200	-	-
Information on earnings per share for the year ended December 31, 2006 (in New Taiwan dollars)				
Basic after-tax earnings per share shown in the statement of income	1.66	1.66	-	-
Pro forma basic after-tax earnings per share had the bonuses been recorded as expenses	1.48	1.48	-	-

20. PERSONNEL COST AND DEPRECIATION

	Years Ended December 31					
	2007			2006		
	Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total
Personnel cost						
Payroll	\$ 775,024	\$ 633,633	\$ 1,408,657	\$ 783,225	\$ 646,271	\$ 1,429,496
Insurance	46,644	36,802	83,446	45,720	34,476	80,196
Pension	67,871	61,531	129,402	64,420	55,745	120,165
Others	<u>14,645</u>	<u>11,159</u>	<u>25,804</u>	<u>14,998</u>	<u>10,491</u>	<u>25,489</u>
	<u>\$ 904,184</u>	<u>\$ 743,125</u>	<u>\$ 1,647,309</u>	<u>\$ 908,363</u>	<u>\$ 746,983</u>	<u>\$ 1,655,346</u>
Depreciation	<u>\$ 258,544</u>	<u>\$ 57,202</u>	<u>\$ 315,746</u>	<u>\$ 266,875</u>	<u>\$ 62,229</u>	<u>\$ 329,104</u>

21. OTHER

Certain employees of the Corporation were suspected of involvement in swindling assets out of the Corporation by forgery and the case is under investigation. The Corporation assessed a possible result of the case and recognized a miscellaneous loss of \$75 million in the year ended December 31, 2007.

22. RELATED PARTY TRANSACTIONS

a. Related parties and relationships:

<u>Name of Related Party</u>	<u>Relationship with the Corporation</u>
Mitsubishi Electric	A director
Mitsubishi Electric Taiwan Co., Ltd. (“Mitsubishi Taiwan”)	A subsidiary of Mitsubishi Electric
SEEC International Holdings	A subsidiary
Shihlin Development	A subsidiary
Vietnam SEEC	A subsidiary
Jeen-Lin	A subsidiary
Rueylin	A subsidiary
Union Power	A subsidiary
Charter Leisure	A subsidiary
Hsin Lin	A subsidiary
Chuan Lin	A subsidiary
Shinlin	A subsidiary
Yi-Lin	A subsidiary (liquidated in October 2007)
Xiamen Shihlin Electric & Engineering Co., Ltd. (“Xiamen SEEC”)	An indirect subsidiary
Changzhou Shihlin Electric & Engineering Co., Ltd. (“Changzhou SEEC”)	An indirect subsidiary
Suzhou Shihlin Electric & Engineering Co., Ltd. (“Suzhou SEEC”)	An indirect subsidiary
Wuxi Rotator Electric Company (“Wuxi Rotator”)	An indirect subsidiary
Fuzhou Shihlin Electric & Engineering Co., Ltd. (“Fuzhou SEEC”)	An indirect subsidiary
Shihlin Electric Switch (Suzhou) Co., Ltd. (“Suzhou Switch”, formerly Shihlin Electronic Heng Tong Switch (Suzhou) Co, Ltd.)	An indirect subsidiary
Ting Lin	An investee accounted for under the equity method (a subsidiary before April 2006)
Chan Der	An investee accounted for under the equity method
Mitsubishi Electric Shihlin Automotive Changzhou Co., Ltd. (“Mitsubishi Shihlin”)	An investee accounted for under the equity method of a subsidiary
Seh International Holdings Ltd. (“Seh International Holdings”)	An investor which accounts for its investment in Suzhou Switch using the equity method
Hsinchu Transport Co., Ltd. (“Hsinchu Transport”)	Same chairman
Jing De Sheng Co., Ltd. (“Jing De Sheng”)	Same chairman

b. Significant balances and transactions with related parties:

	<u>December 31</u>	
	<u>2007</u>	<u>2006</u>
1) Notes receivable		
Shihlin Development	\$ 3,739	\$ 3,745
Union Power	2,048	14,300
Yi-Lin	-	13,962
Others	<u>45</u>	<u>-</u>
	<u>\$ 5,832</u>	<u>\$ 32,007</u>

	<u>December 31</u>	
	<u>2007</u>	<u>2006</u>
2) Accounts receivable		
SEEC International Holdings	\$ 43,544	\$ -
Xiamen SEEC	30,293	80,871
Fuzhou SEEC	25,550	29,225
Suzhou SEEC	24,542	16,784
Rueylin	11,114	11,890
Changzhou SEEC	10,682	12,201
Seh International Holdings	8,272	10,537
Wuxi Rotator	3,920	4,224
Vietnam SEEC	2,846	9,182
Mitsubishi Shihlin	2,555	860
Ting Lin	1,252	28
Union Power	622	5,693
Yi-Lin	-	6,911
Others	<u>1,065</u>	<u>178</u>
	<u>\$ 166,257</u>	<u>\$ 188,584</u>
3) Other receivables		
Transferred from accounts receivable		
Fuzhou SEEC	\$ 15,801	\$ 8,104
Xiamen SEEC	15,301	4,972
Suzhou SEEC	<u>1,096</u>	<u>-</u>
	<u>32,198</u>	<u>13,076</u>
Others		
SEEC International Holdings	4,398	-
Mitsubishi Shihlin	3,250	3,250
Wuxi Rotator	-	1,534
Xiamen SEEC	-	90,785
Others	<u>2,953</u>	<u>2,240</u>
	<u>10,601</u>	<u>97,809</u>
	<u>\$ 42,799</u>	<u>\$ 110,885</u>
4) Accounts payable		
Hsin Lin	\$ 181,507	\$ 135,698
Mitsubishi Taiwan	61,910	11,070
Rueylin	58,898	53,006
Jeen-Lin	13,408	5,447
Suzhou SEEC	11,643	2,141
Chuan Lin	7,181	3,640
Union Power	5,384	-
Ting Lin	4,751	-
Changzhou SEEC	2,076	-
Fuzhou SEEC	1,678	-
Others	<u>2,873</u>	<u>1,671</u>
	<u>\$ 351,309</u>	<u>\$ 212,673</u>

	December 31	
	2007	2006
5) Other payables		
Mitsubishi Electric	\$ 19,161	\$ 22,927
Shinlin	1,736	2,916
Hsinchu Transport	1,273	2,038
Others	<u>1,428</u>	<u>1,739</u>
	<u>\$ 23,598</u>	<u>\$ 29,620</u>
	Years Ended December 31	
	2007	2006
6) Purchases		
Hsin Lin	\$ 1,428,519	\$ 1,460,334
Mitsubishi Electric	540,451	790,599
Rueylin	208,842	235,031
Mitsubishi Taiwan	154,330	120,219
SEEC International Holdings	63,974	-
Chuan Lin	76,102	66,709
Jeen-Lin	44,269	37,796
Suzhou SEEC	33,956	38,815
Changzhou SEEC	33,558	34,493
Wuxi Rotator	8,548	4,616
Ting Lin	9,050	-
Fuzhou SEEC	5,862	2,588
Xiamen SEEC	-	241,728
Others	1,547	2,944
7) Sales		
Xiamen SEEC	119,477	162,141
Mitsubishi Taiwan	102,388	18,275
Vietnam SEEC	68,842	43,165
Fuzhou SEEC	53,795	37,233
Suzhou SEEC	44,092	27,357
SEEC International Holdings	43,544	-
Yi-Lin	37,670	96,029
Changzhou SEEC	37,284	26,264
Seh International Holdings	32,830	21,832
Union Power	23,768	81,271
Rueylin	14,351	22,368
Wuxi Rotator	12,079	20,716
Mitsubishi Shihlin	9,676	4,268
Ting Lin	2,756	-
Others	1,258	1,960
8) Leasing revenue		
Charter Leisure	21,578	19,387
Mitsubishi Taiwan	18,305	16,048
Hsin Lin	12,626	6,158
Hsinchu Transport	12,251	11,331
Shihlin Development	4,043	3,506
Rueylin	1,724	1,103

	<u>Years Ended December 31</u>	
	2007	2006
9) Royalty expense		
Mitsubishi Electric	\$ 24,810	\$ 28,207
10) Service expense		
Shinlin	54,166	47,387
11) Fee for consultation on and management of building construction		
Shihlin Development	25,200	25,811
12) Freight expense		
Hsinchu Transport	13,778	13,396
13) Fee for consultation on logistics management		
Hsinchu Transport	39,143	17,632
14) Maintenance expense		
Mitsubishi Taiwan	2,846	1,650
15) Commission expense		
Union Power	7,552	-
Hsin Lin	3,280	1,484
16) Service revenue (included in miscellaneous income)		
Mitsubishi Shihlin	3,250	3,250
Hsin Lin	1,200	1,200
Hsinchu Transport	-	2,768
17) Proceeds from sale of properties		
Xiamen SEEC	2,010	403
Fuzhou SEEC	1,542	-
Wuxi Rotator	-	1,534
18) Gain (loss) on sale of properties		
Xiamen SEEC	646	(44)
Changzhou SEEC	199	-
Wuxi Rotator	-	765

19) Sale of investments

Counter Party	Type and Name of Securities	Number of Shares	Selling Price	Gain
Year ended <u>December 31, 2007</u>				
Mitsubish Electric	Sale of common stock in Taiwan Mitsubishi Elevator Co., Ltd.	2,310,000	\$ 77,153	\$ 28,153
Year ended <u>December 31, 2006</u>				
Chan Der	Sale of common stock in Tin Lin	280,000	4,762	683
Jing De Sheng	Sale of common stock in Tin Lin	132,000	2,252	322

The transactions with related parties were made at prices and terms comparable to those that would be obtained in similar transactions with non-related parties, except the collection terms for sales to Xiamen SEEC, Changzhou SEEC, Suzhou SEEC, Fuzhou SEEC and Wuxi Rotator, which were determined based on their status of working capital.

The Corporation had transferred accounts receivable from related parties whose ages as of December 31, 2007 and 2006 were longer than normal collection terms to other receivables. The ages of those accounts receivable were as follows:

	December 31	
	2007	2006
7 to 12 months	<u>\$ 32,198</u>	<u>\$ 13,076</u>

The rentals collected monthly or semi-annually from related parties were based on normal commercial rates.

23. ASSETS MORTGAGED

The following assets had been mortgaged as collateral for long- and short-term bank credit lines, and performance guaranty:

	December 31	
	2007	2006
Pledged time deposits	\$ 69,098	\$ 62,593
Land	1,901,203	623,610
Buildings and equipment, net	251,446	265,075
Machinery and equipment, net	<u>3,004</u>	<u>4,004</u>
	<u>\$ 2,224,751</u>	<u>\$ 955,282</u>

24. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

As of December 31, 2007, the Corporation had the following significant commitments and contingencies:

- a. Under technical cooperation agreements with several foreign companies expiring on various dates between February 2008 and July 2011, the Corporation, aside from paying upfront royalties, shall pay running royalties at specified percentages of sales (as defined). Royalties for the years ended December 31, 2007 and 2006 were \$39.1 million and \$39.3 million, respectively.
- b. Unused letters of credit of approximately \$113 million.
- c. Commitments for purchase of properties and construction of buildings of approximately \$2,888 million.
- d. Under several operating lease agreements expiring on various dates between January 2008 and January 2013, future lease revenues were as follows:

Year	Amount
2008	\$ 136,735
2009	78,733
2010	74,938
2011	56,456
2012	53,240
2013	550

- e. The Corporation had provided a guarantee of \$103.5 million to SEEC International Holdings, which was a guarantor of the bank credit lines obtained by Xiamen SEEC of \$103.5 million.
- f. The Corporation had provided guarantees to the following subsidiaries and indirect subsidiaries for their bank credit lines:

	Amount
Xiamen SEEC	\$ 96,000
Suzhou SEEC	19,200
Fuzhou SEEC	32,000
Changzhou SEEC	32,000
Wuxi Rotator	32,000
Suzhou Switch	27,200
Shanghai Kingdom	134,400

25. FAIR VALUES OF FINANCIAL INSTRUMENTS

a. Fair values of financial instruments were as follows:

	December 31			
	2007		2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets				
Cash and cash equivalents	\$ 403,277	\$ 403,277	\$ 376,657	\$ 376,657
Financial assets at fair value through profit and loss - current	230,184	230,184	-	-
Available-for-sale financial assets - current	104,285	104,285	108,325	108,325
Notes receivable	869,098	869,098	882,346	882,346
Notes receivable from related parties	5,832	5,832	32,007	32,007
Accounts receivable	2,436,567	2,436,567	2,264,681	2,264,681
Accounts receivable from related parties	166,257	166,257	188,584	188,584
Other receivables	130,405	130,405	114,821	114,821
Other receivables from related parties	42,799	42,799	110,885	110,885
Available-for-sale financial assets - noncurrent	2,538,402	2,538,402	3,033,383	3,033,383
Financial assets carried at cost - noncurrent	454,356		752,322	
Investments accounted for under the equity method	3,931,287		3,845,510	
Liabilities				
Short-term loans	1,883,480	1,883,480	1,597,592	1,597,592
Short-term bills payable	-	-	50,000	50,000
Financial liabilities at fair value through profit and loss - current	-	-	3,515	3,515
Notes payable	1,264	1,264	1,172	1,172
Accounts payable	1,567,850	1,567,850	1,504,140	1,504,140
Accounts payable to related parties	351,309	351,309	212,673	212,673
Other payables to related parties	23,598	23,598	29,620	29,620
Other payables	55,553	55,553	51,831	51,831
Bonds payable	400,000	399,734	700,000	699,078
Long-term debt	1,151,729	1,151,729	110,745	110,745

b. Methods and assumptions used in the estimation of fair values of financial instruments:

- 1) Fair values of short-term financial instruments are determined using their carrying amounts shown on the balance sheet because of their short maturities. This method applies to cash and cash equivalents, receivables, short-term loans, short-term bills payable and payables.
- 2) Fair values of financial instruments at fair value through profit or loss are estimated using valuation techniques because no market prices are available. The estimates and assumptions used in the valuation techniques are consistent with those that market participants would use in setting prices for financial instruments and are attainable by the Corporation.
- 3) Fair value of available-for-sale financial assets is based on their market price.
- 4) Fair value of financial assets carried at cost and investments accounted for under the equity method, which represent unquoted stocks and funds, has not been presented because their market prices are not available.

- 5) Fair value of long-term debt, which represents revolving short-term loans, is determined using its carrying amount shown on the balance sheet because of its short maturities. Fair values of other long-term debt and bonds payable are estimated using the present value of the expected future cash flows. The discount rate represents the interest rate for other long-term debt or bonds of similar terms and maturities that the Corporation may obtain.
- c. As of December 31, 2007 and 2006, financial assets exposed to fair value interest rate risk were \$136.8 million and \$0.03 million, respectively; financial liabilities exposed to fair value interest rate risk were \$2,633.5 million and \$2,347.6 million, respectively; financial liabilities exposed to cash flow interest rate risk were \$801.7 million and \$110.7 million, respectively.
- d. Movements of the unrealized gain or loss on available-for-sale financial assets of the Corporation for the years ended December 31, 2007 and 2006 were as follows:

	<u>Credit (Debit)</u>	
	<u>Years Ended December 31</u>	
	<u>2007</u>	<u>2006</u>
Balance, beginning of year	\$ 574,622	\$ (447)
Recognized directly in stockholders' equity	(491,827)	248,397
Removed from stockholders' equity and recognized in earnings	(2,189)	(7,260)
Recognized in stockholders' equity for the change in unrealized gain or loss on available-for-sale financial assets held by equity method investees	<u>(483,558)</u>	<u>333,932</u>
Balance, end of year	<u>\$ (402,952)</u>	<u>\$ 574,622</u>

e. Information about financial risk

1) Market risk

The Corporation entered into derivative financial instruments to hedge the exchange rate fluctuations of foreign-currency assets and liabilities. Therefore, the market risk of derivatives will be offset by the foreign exchange risk of the hedged assets or liabilities. Available-for-sale financial assets are quoted stocks, closed-end funds and open-end funds (mainly investing in domestic and foreign equity securities and debt securities). Therefore, the fluctuations in prices, interest rates or foreign exchange rates would result in changes in fair value of these securities.

2) Credit risk

Credit risk represents the potential loss that would be incurred by the Corporation if the counter parties or third parties breached contracts. The counter parties and third parties are reputable financial institutions and business organizations; thus, no material credit risk is anticipated.

3) Liquidity risk

The Corporation has sufficient operating capital to meet the cash needs upon maturity of derivative financial instruments and long- and short-term loans; thus, liquidity risk is low. The Corporation's available-for-sale financial assets could be sold or redeemed rapidly at prices approximating their fair values because they are traded in an active market or are redeemable; thus, no material liquidity risk is anticipated. There is liquidity risk for the Corporation's financial assets carried at cost because they are not traded in an active market; however, the Corporation had evaluated the risk before making investments.

4) Cash flow interest rate risk

As of December 31, 2007, the Corporation's certain long-term debt are variable-interest-rate liabilities. Market interest rate changes will affect the effective interest rates of long-term debt and make the future cash flow fluctuate. If the market interest rates increase by 1%, the Corporation's cash outflow will increase by \$8.0 million a year.

26. SEGMENT AND GEOGRAPHIC INFORMATION

a. Industry information:

	Year Ended December 31, 2007				
	Heavy Electric Equipment	Electric Auto Equipment	Leasing	Eliminations	Total
Revenues - customers	\$ 6,778,620	\$ 7,641,612	\$ 184,065	\$ -	\$ 14,604,297
- inter-segment	<u>39,603</u>	<u>63,386</u>	<u>-</u>	<u>(102,989)</u>	<u>-</u>
Total revenues	<u>\$ 6,818,223</u>	<u>\$ 7,704,998</u>	<u>\$ 184,065</u>	<u>\$ (102,989)</u>	<u>\$ 14,604,297</u>
Segment operating income	<u>\$ 732,628</u>	<u>\$ 571,406</u>	<u>\$ 86,506</u>	<u>\$ (8,239)</u>	\$ 1,382,301
Corporate income, net					50,655
Investment income, net					384,753
Corporate expenses					(517,782)
Interest expense					<u>(52,930)</u>
Income before income tax					<u>\$ 1,246,997</u>
Identifiable assets	<u>\$ 5,591,558</u>	<u>\$ 4,493,201</u>	<u>\$ 3,317,715</u>	<u>\$ -</u>	\$ 13,402,474
Corporate assets					2,585,796
Long-term investments					<u>6,924,045</u>
Total assets					<u>\$ 22,912,315</u>
Depreciation	<u>\$ 71,236</u>	<u>\$ 124,094</u>	<u>\$ 70,304</u>		
Additions to properties	<u>\$ 53,423</u>	<u>\$ 115,340</u>	<u>\$ 868,493</u>		
	Year Ended December 31, 2006				
	Heavy Electric Equipment	Electric Auto Equipment	Leasing	Eliminations	Total
Revenues - customers	\$ 6,031,162	\$ 7,941,929	\$ 178,153	\$ -	\$ 14,151,244
- inter-segment	<u>52,476</u>	<u>66,954</u>	<u>-</u>	<u>(119,430)</u>	<u>-</u>
Total revenues	<u>\$ 6,083,638</u>	<u>\$ 8,008,883</u>	<u>\$ 178,153</u>	<u>\$ (119,430)</u>	<u>\$ 14,151,244</u>
Segment operating income	<u>\$ 693,239</u>	<u>\$ 615,469</u>	<u>\$ 82,559</u>	<u>\$ (9,555)</u>	\$ 1,381,712
Corporate income, net					3,165
Investment income, net					226,621
Corporate expenses					(504,490)
Interest expense					<u>(38,574)</u>
Income before income tax					<u>\$ 1,068,434</u>
Identifiable assets	<u>\$ 3,649,800</u>	<u>\$ 4,418,925</u>	<u>\$ 1,436,525</u>	<u>\$ -</u>	\$ 9,505,250
Corporate assets					2,355,834
Long-term investments					<u>7,631,215</u>
Total assets					<u>\$ 19,492,299</u>
Depreciation	<u>\$ 72,846</u>	<u>\$ 124,993</u>	<u>\$ 66,307</u>		
Additions to properties	<u>\$ 60,360</u>	<u>\$ 126,773</u>	<u>\$ 172,519</u>		

The transfer prices of inter-segment sales were in principle based on the cost of product plus 8%. Segment operating income represented segment revenues less costs and operating expenses; operating expenses that could not be directly identified with a segment were allocated to various segments based on budgeted revenues.

b. Geographic information:

The Corporation had no foreign operations.

c. Export sales:

Export sales were less than 10% of net sales in the years ended December 31, 2007 and 2006.

d. Major customers:

Sales to customers which individually exceeded 10% of net sales were as follows:

Name of Customer	Years Ended December 31			
	2007		2006	
	Amount	%	Amount	%
Taiwan Power Company	\$ 1,591,221	11	\$ 1,074,748	8
Chi Mei Optoelectronics Corporation	1,007,670	7	1,581,462	11