
NANYA TECHNOLOGY CORPORATION
Financial Statements
December 31, 2006 and 2007
(With Independent Auditors' Report Thereon)

Independent Auditors' Report

The Board of Directors
Nanya Technology Corporation:

We have audited the accompanying balance sheets of Nanya Technology Corporation (the Company) as of December 31, 2006 and 2007, 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 Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. However, we did not audit the financial statements except for Inotera Memories, Inc. and Hwa Keng Investment Corp. as of and for the year ended December 31, 2006 and except for Inotera Memories, Inc. and Nanya Technology Japan as of and for the year ended December 31, 2007. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to these investments, is based solely on the report of the other auditors. The long-term equity investments in certain investees accounted for under the equity method, with carrying value of NT\$426,242 thousand and NT\$492,395 thousand and reflect total assets constituting 0.31 percent and 0.36 percent of as of December 31, 2006 and 2007, respectively. Those financial statements for which the equity in net loss to NT\$64,954 thousand and the equity in net earnings to NT\$27,948 thousand and 0.32 percent of net income before income tax in 2006 and 0.30 percent of net loss before income tax in 2007, respectively.

We conducted our audits in accordance with the Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. 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, based on our audits, and the reports of the other auditor, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Nanya Technology Corporation as of December 31, 2006 and 2007, and the results of its operations and cash flows for the years then ended, in accordance with Guidelines Governing the Preparation of Financial Reports by Securities Issuers, the related financial accounting standards of the "Business Entity Accounting Act" and of the "Regulation on Business Entity Accounting Handling" and accounting principles generally accepted in the Republic of China.

As stated in note 3 to the accompanying financial statements, the Company adopted the Republic of China Statement of Financial Accounting Standard (SFAS) No. 37 “ Intangible Assets ” commencing from January 1, 2007, and SFAS No. 34 “ Financial Instruments: Recognition and Measurement ”, SFAS No. 36 “Financial Instruments: Disclosure and Presentation ”, and newly amended SFAS No. 5 “Long-term Investment under Equity Method” commencing from January 1, 2006.

We have audited the consolidated financial statements as of and for the years ended December 31, 2006 and 2007, prepared by the Company. Based on our audits, we expressed a modified unqualified opinion on the consolidated financial statements.

Taipei, Taiwan (the Republic of China)
March 28, 2008

The accompany unconsolidated 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.

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NANYA TECHNOLOGY CORPORATION

Balance Sheets

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

<u>Assets</u>	<u>2006</u>		<u>2007</u>		<u>Liabilities and Stockholders' Equity</u>	<u>2006</u>		<u>2007</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>		<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Current assets:					Current liabilities:				
Cash and cash equivalents	\$ 28,902,610	22	2,448,103	2	Notes and accounts payable	3,653,397	3	13,431,966	10
Notes and accounts receivable, net of allowance for doubtful accounts of NT\$0 thousands dollars.	8,377,934	6	3,942,605	3	Accounts payable—related parties	5,051,538	4	4,480,905	3
Accounts receivable—related parties	7,260,254	5	3,844,962	3	Accrued expenses	3,730,120	3	3,874,055	3
Other receivables	571,647	-	999,477	1	Financial liabilities reported as fair value through profit or loss—current	153,000	-	208,000	-
Other receivables—related parties	14,096,508	10	5,719,945	4	Hedging derivative liabilities—current	3,956	-	-	-
Inventories, net	5,312,230	4	5,668,940	4	Other payable	219,291	-	102,357	-
Prepayments	807,259	1	824,058	1	Current portion of bonds payable	492,200	-	9,582,019	7
Deferred income tax assets, net—current	2,192,606	2	-	-	Current portion of long-term debt	1,589,514	1	4,169,838	3
Financial assets reported as fair value through profit or loss—current	9,289	-	11,674	-	Other current liabilities	8,497	-	7,043	-
Hedging derivative assets—current	-	-	18,743	-	Deferred income tax liability—current	-	-	4,686	-
Total current assets	67,530,337	50	23,478,507	18	Total current liabilities	14,901,513	11	35,860,869	26
Funds and long-term investments					Long-term liabilities				
Long-term equity investments	28,467,399	21	26,046,128	19	Bonds payable	35,363,174	27	31,500,000	23
Available-for-sale financial assets—non-current	856,321	1	207,040	-	Long-term debt	6,419,839	5	2,250,000	2
Total Funds and long-term investments	29,323,720	22	26,253,168	19	Long-term accounts payable	193,519	-	961,542	1
					Lease payable—long-term	333,876	-	328,668	-
Property, plant and equipment:					Total long-term liabilities	42,310,408	32	35,040,210	26
Land	1,002,404	1	1,013,924	1	Other liabilities:				
Buildings and building improvements	2,404,736	2	2,427,558	2	Accrued pension liability	334,217	-	343,175	-
Machinery and equipment	78,750,006	58	91,982,197	67	Guarantee deposits	254,294	-	205,401	-
Transportation equipment	5,855	-	5,855	-	Miscellaneous liabilities	543,033	-	26,988	-
Leased assets	345,637	-	345,637	-	Total other liabilities	1,131,544	-	575,564	-
Miscellaneous equipment	1,889,691	1	2,243,947	2	Total liabilities	58,343,465	43	71,476,643	52
	84,398,329	62	98,019,118	72	Stockholders' equity:				
Less: accumulated depreciation	(54,420,374)	(40)	(59,675,545)	(44)	Capital stock	39,472,674	29	46,935,385	34
accumulated impairment- Property, plant and equipment	-	-	(3,115,428)	(2)	Advance receipts for capital stock	351,387	-	27,376	-
Construction in progress	2,829,234	2	44,963,209	33	Capital surplus	17,801,694	13	25,160,496	19
Net property, plant and equipment	32,807,189	24	80,191,354	59	Legal reserve	1,074,502	1	2,814,499	2
					Special reserve	2,655,892	2	2,655,892	2
Intangible assets:					Unappropriated earnings (losses)	17,404,030	14	(12,391,637)	(9)
Patents	252,741	-	1,613,777	1	Cumulative translation adjustments	24,413	-	28,739	-
Other intangible assets	4,388,359	3	1,736,050	1	Unrealized losses on financial instruments	484,972	-	519,166	-
Total intangible assets	4,641,100	3	3,349,827	2	Treasury stock	(2,100,801)	(2)	(467,634)	-
					Total stockholders' equity	77,168,763	57	65,282,282	48
Other assets:					Commitments and contingencies				
Refundable deposits	1,282	-	8,596	-					
Deferred charges	46,790	-	129,364	-					
Lease receivable—long-term	127,422	-	123,717	-					
Deferred income tax assets, net—non-current	1,034,381	1	3,224,158	2					
Miscellaneous assets	7	-	234	-					
Total other assets	1,209,882	1	3,486,069	2					
Total assets	\$ 135,512,228	100	136,758,925	100	Total liabilities and stockholders' equity	\$ 135,512,228	100	136,758,925	100

See accompanying notes to financial statements.

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NANYA TECHNOLOGY CORPORATION

Statements of Income

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

	2006		2007	
	Amount	%	Amount	%
Operating revenues, net	\$ 75,114,831	100	52,894,192	100
Operating costs	(51,622,907)	(69)	(52,472,402)	(99)
Gross income	23,491,924	31	421,790	1
Unrealized (profit) loss from affiliated companies	(432,502)	(1)	82,208	-
Realized profit from affiliated companies	24,957	-	432,502	1
Gross income, net	23,084,379	30	936,500	2
Selling expenses	(791,881)	(1)	(716,098)	(1)
Administrative expenses	(1,576,702)	(2)	(2,715,955)	(5)
Research and development expenses	(6,335,062)	(8)	(6,478,606)	(12)
Total operating expenses	(8,703,645)	(11)	(9,910,659)	(18)
Operating income (loss)	14,380,734	19	(8,974,159)	(16)
Non-operating income and gains:				
Interest income	361,096	-	811,762	2
Investment income recognized under equity method	6,215,163	8	570,768	1
Gain on disposal of property, plant and equipment	1,514	-	88,907	-
Gain on sales of investment	-	-	41,325	-
Foreign exchange gain, net	196,824	-	439,715	1
Gain on idle assets' value recoveries	3,455	-	-	-
Gain on valuation of financial liabilities	3,000	-	-	-
Miscellaneous income	180,519	-	198,653	-
Total non-operating income and gains	6,961,571	8	2,151,130	4
Non-operating expenses and losses:				
Interest expenses (excluding capitalized interest of NT\$42,886 thousand and NT\$364,987 thousand for 2006 and 2007, respectively)	(721,927)	(1)	(883,459)	(2)
Loss on disposal of property, plant and equipment	(702)	-	(898)	-
Loss on sales of investment	(7,044)	-	-	-
Loss on inventory valuation and obsolescence	(64,185)	-	(1,512,059)	(3)
Impairment loss	-	-	(3,111,699)	(6)
Loss on valuation of financial assets	(133,641)	-	(4,975)	-
Loss on valuation of financial liabilities	-	-	(55,000)	-
Miscellaneous disbursements	(32,430)	-	(67,848)	-
Total non-operating expenses and losses	(959,929)	(1)	(5,635,938)	(11)
Income (loss) before income tax	20,382,376	26	(12,458,967)	(23)
Income (loss) tax expenses	(2,981,529)	(4)	995	-
Income (loss) before cumulative effect of change in accounting principle	17,400,847	22	(12,457,972)	(23)
Cumulative effect of change in accounting principle (excluding income tax expenses of NT\$292 thousand)	(876)	-	-	-
Net income (loss)	\$ <u>17,399,971</u>	<u>22</u>	<u>(12,457,972)</u>	<u>(23)</u>
Net income (loss) per common share (in dollars)				
	Before	After	Before	After
	Income tax	Income tax	Income tax	Income tax
Basic earnings per share	\$ <u>5.09</u>	<u>4.35</u>	<u>(2.89)</u>	<u>(2.89)</u>
Diluted earnings per share	\$ <u>5.02</u>	<u>4.29</u>	<u>(2.89)</u>	<u>(2.89)</u>
Pro forma information if the issued shares held by subsidiaries were not recognized as treasury stock:				
	Before	After	Before	After
	Income tax	Income tax	Income tax	Income tax
Net income (loss)	\$ <u>20,386,248</u>	<u>17,403,843</u>	<u>(12,393,505)</u>	<u>(12,392,510)</u>
Basic earnings per share	\$ <u>5.07</u>	<u>4.33</u>	<u>(2.86)</u>	<u>(2.86)</u>
Diluted earnings per share	\$ <u>5.00</u>	<u>4.27</u>	<u>(2.86)</u>	<u>(2.86)</u>

See accompanying notes to financial statements.

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NANYA TECHNOLOGY CORPORATION

Statements of Changes in Stockholders' Equity

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

	<u>Capital stock</u>	<u>Advance receipts for capital stock</u>	<u>Capital Surplus</u>	<u>Legal reserve</u>	<u>Special reserve</u>	<u>Unappropriated Earnings (losses)</u>	<u>Cumulative translation adjustments</u>	<u>Unrealized Loss on Financial Instrument</u>	<u>Treasury stock</u>	<u>Total</u>
Balance as of January 1, 2006	\$ 38,308,204	24,394	14,358,397	841,689	2,114,085	2,414,253	20,843	-	(561,468)	57,520,397
Effect of commencing to adopt SFAS No. 34 "Financial Instruments: Recognition and Measurement commencing from January 1, 2006"	-	-	-	-	-	-	-	(41,357)	-	(41,357)
Appropriation and distribution:										
Legal reserve	-	-	-	232,813	-	(232,813)	-	-	-	-
Special reserve	-	-	-	-	541,807	(541,807)	-	-	-	-
Directors' and supervisors' remuneration	-	-	-	-	-	(10,400)	-	-	-	(10,400)
Employees' bonus—stock	130,846	-	-	-	-	(130,846)	-	-	-	-
Stock dividend	747,164	-	-	-	-	(747,164)	-	-	-	-
Cash dividend	-	-	-	-	-	(747,164)	-	-	-	(747,164)
Issuance of capital stock due to employee stock options exercised	286,460	(24,394)	56,151	-	-	-	-	-	-	318,217
Treasury stock sold to employees	-	-	1,009	-	-	-	-	-	99,730	100,739
Advance receipts for capital stock due to employee stock options exercised	-	351,387	-	-	-	-	-	-	-	351,387
Net income for the year ended December 31, 2006	-	-	-	-	-	17,399,971	-	-	-	17,399,971
Effects of not subscribing to investee companies' newly issued shares	-	-	2,553,612	-	-	-	-	-	-	2,553,612
Corresponding adjustment to comply with investee companies	-	-	(176,347)	-	-	-	-	492,019	-	315,672
Cash dividend distributed to subsidiaries	-	-	3,872	-	-	-	-	-	-	3,872
Losses on foreign currency exchange of long-term investments	-	-	-	-	-	-	3,570	-	-	3,570
Unrealized gain on available-for-sale financial assets	-	-	-	-	-	-	-	1,121	-	1,121
Unrealized gain on hedging derivative liabilities	-	-	-	-	-	-	-	33,189	-	33,189
Buy treasury stock	-	-	-	-	-	-	-	-	(1,639,063)	(1,639,063)
Stock options of unsecured convertible bonds	-	-	1,005,000	-	-	-	-	-	-	1,005,000
Balance as of December 31, 2006	\$ 39,472,674	351,387	17,801,694	1,074,502	2,655,892	17,404,030	24,413	484,972	(2,100,801)	77,168,763
Appropriation and distribution:										
Legal reserve	-	-	-	1,739,997	-	(1,739,997)	-	-	-	-
Directors' and supervisors' remuneration	-	-	-	-	-	(11,700)	-	-	-	(11,700)
Employees' bonus—cash	-	-	-	-	-	(623,908)	-	-	-	(623,908)
Employees' bonus—stock	623,908	-	-	-	-	(623,908)	-	-	-	-
Stock dividend	1,194,848	-	-	-	-	(1,194,848)	-	-	-	-
Cash dividend	-	-	-	-	-	(13,143,334)	-	-	-	(13,143,334)
Issuance of capital stock	5,000,000	-	7,000,000	-	-	-	-	-	-	12,000,000
Convertible bonds converted to common stocks	1,165	-	2,168	-	-	-	-	-	-	3,333
Issuance of capital stock due to employee stock options exercised	642,790	(351,387)	508,786	-	-	-	-	-	-	800,189
Treasury stock sold to employees	-	-	27,873	-	-	-	-	-	1,633,167	1,661,040
Advance receipts for capital stock due to employee stock options exercised	-	27,376	-	-	-	-	-	-	-	27,376
Net loss for the year ended December 31, 2007	-	-	-	-	-	(12,457,972)	-	-	-	(12,457,972)
Effects of not subscribing to investee companies' newly issued shares	-	-	(245,487)	-	-	-	-	-	-	(245,487)
Corresponding adjustment to comply with investee companies	-	-	-	-	-	-	-	6,050	-	6,050
Cash dividend distributed to subsidiaries	-	-	65,462	-	-	-	-	-	-	65,462
Loss on foreign currency exchange of long-term investments	-	-	-	-	-	-	4,326	-	-	4,326
Unrealized gain on available-for-sale financial assets	-	-	-	-	-	-	-	5,599	-	5,599
Unrealized gain on hedging derivative assets	-	-	-	-	-	-	-	22,545	-	22,545
Balance as of December 31, 2007	\$ 46,935,385	27,376	25,160,496	2,814,499	2,655,892	(12,391,637)	28,739	519,166	(467,634)	65,282,282

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NANYA TECHNOLOGY CORPORATION

Statements of Cash Flows

For the years ended December 31, 2006 and 2007

	2006	2007
Cash flows from operating activities:		
Net income (loss)	\$ 17,399,971	(12,457,972)
Adjustments:		
Cash received from settlement of financial assets transaction	281,351	-
Loss on financial assets	133,641	4,975
(Gain) loss on valuation of financial liabilities	(3,000)	55,000
Cumulative effect of change in accounting principle for financial assets	876	-
Depreciation	6,279,902	5,775,673
Amortization	2,838,978	3,354,894
Unrealized interest revenue amortization	(5,920)	(5,766)
Investment income recognized under equity method	(6,215,163)	(570,768)
Cash dividend received from equity-method investees	1,238,567	2,833,502
(Recoveries) impairment loss	(3,455)	3,111,699
Gain on sales of investment	-	(49,255)
Loss on inventory valuation and obsolescence	64,185	1,512,059
Gain on disposal of property, plant and equipment, net	(812)	(88,009)
Amortization of discount on bonds payable	24,174	232,200
Unrealized profit (loss) from affiliated companies	432,502	(82,208)
Realized profit from affiliated companies	(24,957)	(432,502)
Unrealized foreign currency exchange loss, net	117,830	101,537
(Increase) decrease in notes and accounts receivable	(6,933,829)	7,886,741
Decrease (increase) in inventory	1,147,601	(1,868,769)
Increase in other receivables	(93,117)	(428,806)
Increase in prepayments	(452,556)	(16,799)
Increase (decrease) in notes and accounts payable	1,803,895	(34,458)
Increase in accrued expenses	1,206,476	120,404
Increase (decrease) in other current liabilities	153,878	(118,684)
Increase in accrued pension liability	5,430	8,958
Increase (decrease) in miscellaneous liabilities	1,900	(523)
Decrease in deferred income tax assets	2,731,741	-
Net cash provided by operating activities	22,130,089	8,843,123
Cash flows from investing activities:		
Decrease in lease receivable	9,310	9,310
Proceeds from sales of property, plant and equipment	98,106	96,298
Purchases of property, plant and equipment	(3,857,759)	(47,177,720)
Increase in available-for-sale financial assets	(654,880)	(1,064,440)
Proceeds from sales of long-term investments	745,611	-
Proceeds from sales of available-for-sale financial assets	-	1,768,575
Increase in long-term investments	(161,608)	(11,345)
Increase in deferred expense and intangible assets	(354,454)	(2,125,863)
Decrease (increase) in refundable deposits	22,361	(7,314)
(Increase) decrease in other receivables from related parties	(7,754,100)	8,377,700
Decrease (increase) in miscellaneous assets	83,612	(226)
Net cash used in by investing activities	(11,823,801)	(40,135,025)
Cash flows from financing activities:		
Decrease in lease payable	(4,632)	(4,912)
Decrease in long-term borrowings	(2,362,413)	(1,589,515)
Increase in bonds payable	14,170,683	5,000,000
Increase in treasury stock	(1,639,063)	-
Increase in long-term accounts payable	47,254	784,743
Decrease in guarantee deposits	(48,231)	(48,893)
Issuance of capital stock and exercise of employee stock options	318,217	12,800,189
Treasury stock sold to employee	100,739	1,661,040
Advance receipts for capital stock due to employee stock options exercised	351,387	27,376
Cash dividend	(747,164)	(13,143,334)
Cash bonus for employees	-	(623,908)
Directors' and supervisors' remuneration	(10,400)	(11,700)
Net cash provided by financing activities	10,176,377	4,851,086
Effect of foreign currency exchange translation	(8,814)	(13,691)
Increase in cash and cash equivalents	20,473,851	(26,454,507)
Cash and cash equivalents at beginning of period	8,428,759	28,902,610
Cash and cash equivalents at end of period	\$ 28,902,610	2,448,103
Supplemental cash flow information:		
Income tax paid	\$ 30,527	215,890
Interest paid (excluding capitalized interest)	\$ 711,826	812,895
Supplemental schedule of cash and non-cash investing and financing activities:		
Current portion of long-term debt	\$ 1,589,514	4,169,838
Current portion of bonds payable	\$ 492,200	9,582,019
Acquisition of properties, plant, and equipment	\$ (4,799,099)	(56,280,638)
Increase in payables to to equipment suppliers	941,340	9,102,918
Cash paid	\$ (3,857,759)	(47,177,720)

(expressed in thousands of New Taiwan dollars)

See accompanying notes to financial statements.

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