

**Advanced Analog Technology, Inc.**  
**Financial Statements**  
**December 31, 2007 and 2006**  
**(With Independent Auditors' Report Thereon)**

## **Independent Auditors' Report**

The Board of Directors  
Advanced Analog Technology, Inc.

We have audited the balance sheets of Advanced Analog Technology, Inc. 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 Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the Republic of China Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Those regulations and 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, the financial statements referred to above present fairly, in all material respects, the financial position of Advanced Analog Technology, Inc. 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, 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.

/s/ KPMG  
Hsinchu, Taiwan (the Republic of China)  
January 30, 2008

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

**Advanced Analog Technology, Inc.**

**Balance Sheets**

**December 31, 2007 and 2006**

**(In US dollars and thousands of New Taiwan dollars)**

	<b>2007</b>		<b>2006</b>
	<b>US\$</b>	<b>NT\$</b>	<b>NT\$</b>
<b>Assets</b>			
<b>Current assets:</b>			
Cash (note 4(1))	\$ 24,059	780,544	784,221
Notes and accounts receivable, net (note 4(2))	10,222	331,635	291,692
Other financial assets—current (note 6)	16	500	500
Inventories, net (note 4(3))	2,940	95,384	63,785
Deferred income tax assets—current (note 4(6))	605	19,630	20,962
Other current assets	60	1,946	379
	<u>37,902</u>	<u>1,229,639</u>	<u>1,161,539</u>
<b>Property, plant and equipment</b>			
Machinery and equipment	647	20,980	17,416
Office equipment	314	10,206	8,886
Leasehold improvements	143	4,626	3,709
	1,104	35,812	30,011
Less: accumulated depreciation	(517)	(16,780)	(12,342)
Prepayment for equipment	1	50	-
	<u>588</u>	<u>19,082</u>	<u>17,669</u>
<b>Deferred pension cost</b> (note 4(4))	<u>1</u>	<u>47</u>	<u>1,310</u>
<b>Other assets:</b>			
Guarantee deposits out	62	2,017	2,044
Deferred charges	719	23,325	14,699
Deferred income tax assets—non-current (note 4(6))	4	119	3,654
Others	89	2,892	592
	<u>874</u>	<u>28,353</u>	<u>20,989</u>
<b>Total assets</b>	<b>\$ 39,365</b>	<b>1,277,121</b>	<b>1,201,507</b>
<b>Liabilities and Stockholders' Equity</b>			
<b>Current liabilities:</b>			
Notes payable	\$ 22	703	3,091
Accounts payable	3,429	111,259	89,038
Accrued expense	800	25,940	26,224
Other current liabilities	131	4,252	3,086
	<u>4,382</u>	<u>142,154</u>	<u>121,439</u>
<b>Accrued pension liability</b> (note 4(4))	<u>16</u>	<u>524</u>	<u>2,384</u>
<b>Total liabilities</b>	<u>4,398</u>	<u>142,678</u>	<u>123,823</u>
<b>Stockholders' equity</b> (note 4(5)):			
Common stock	11,700	379,570	296,000
Capital surplus—additional paid-in capital	11,696	379,452	407,572
Retained earnings:			
Legal reserve	1,898	61,573	26,846
Unappropriated earnings	10,237	332,137	347,266
	<u>12,135</u>	<u>393,710</u>	<u>374,112</u>
Treasury stock	(564)	(18,289)	-
<b>Total stockholders' equity</b>	<u>34,967</u>	<u>1,134,443</u>	<u>1,077,684</u>
<b>Commitments and contingences</b> (note 7)			
<b>Total liabilities and stockholders' equity</b>	<b>\$ 39,365</b>	<b>1,277,121</b>	<b>1,201,507</b>

See accompanying notes to financial statements.

**Advanced Analog Technology, Inc.**

**Statements of Income**

**Years ended December 31, 2007 and 2006**  
**(In US dollars and thousands of New Taiwan dollars,**  
**except for earnings per common share)**

	<b>2007</b>		<b>2006</b>
	US\$	NT\$	NT\$
<b>Sales</b>	\$ 35,376	1,147,689	991,474
<b>Less: Sales returns and allowances</b>	<u>522</u>	<u>16,926</u>	<u>3,096</u>
<b>Net sales</b>	34,854	1,130,763	988,378
<b>Cost of goods sold</b>	<u>20,692</u>	<u>671,315</u>	<u>559,251</u>
<b>Gross profit</b>	<u>14,162</u>	<u>459,448</u>	<u>429,127</u>
<b>Operating expenses:</b>			
Selling	802	26,007	13,456
General and administrative	885	28,711	23,612
Research and development	<u>1,937</u>	<u>62,831</u>	<u>58,934</u>
	<u>3,624</u>	<u>117,549</u>	<u>96,002</u>
<b>Operating income</b>	<u>10,538</u>	<u>341,899</u>	<u>333,125</u>
<b>Non-operating income:</b>			
Interest income	415	13,471	7,729
Gain from price recovery of inventory	-	-	4,196
Other revenue	<u>42</u>	<u>1,379</u>	<u>1,309</u>
	<u>457</u>	<u>14,850</u>	<u>13,234</u>
<b>Non-operating expenses:</b>			
Exchange losses, net	56	1,839	872
Loss on slow-moving inventory	230	7,451	-
Other losses	<u>1</u>	<u>37</u>	<u>123</u>
	<u>287</u>	<u>9,327</u>	<u>995</u>
<b>Income before income tax</b>	10,708	347,422	345,364
<b>Income tax expenses (benefit) (note 4(6))</b>	<u>471</u>	<u>15,285</u>	<u>(1,902)</u>
<b>Net income</b>	<u>\$ 10,237</u>	<u>332,137</u>	<u>347,266</u>
<b>Earnings per common share (note 4(7))</b>			
Basic earnings per common share	<u>\$ 0.27</u>	<u>8.75</u>	<u>12.39</u>
Basic earnings per common share—retroactively adjusted			<u>\$ 9.66</u>

See accompanying notes to financial statements.

**Advanced Analog Technology, Inc.**

**Statements of Changes in Stockholders' Equity**

**Years ended December 31, 2007 and 2006**

**(In thousands of New Taiwan dollars and US dollars)**

	<u>Common stock</u>	<u>Capital surplus</u>	<u>Retained earnings</u>		<u>Treasury stock</u>	<u>Total</u>
			<u>Legal reserve</u>	<u>Unappropriated earnings</u>		
<b>Balance at January 1, 2006</b>	\$ 204,000	122	9,560	172,860	-	386,542
Issuance of common stock for cash	22,500	407,450	-	-	-	429,950
Appropriation of earnings:						
Legal reserve	-	-	17,286	(17,286)	-	-
Stock dividends	56,625	-	-	(56,625)	-	-
Employees' bonuses—stock	12,875	-	-	(12,875)	-	-
Cash dividends	-	-	-	(70,215)	-	(70,215)
Employees' bonuses—cash	-	-	-	(14,303)	-	(14,303)
Directors' and supervisors' remuneration	-	-	-	(1,556)	-	(1,556)
Net income for 2006	-	-	-	347,266	-	347,266
<b>Balance at December 31, 2006</b>	<u>296,000</u>	<u>407,572</u>	<u>26,846</u>	<u>347,266</u>	<u>-</u>	<u>1,077,684</u>
Appropriation of earnings:						
Legal reserve	-	-	34,727	(34,727)	-	-
Stock dividends	51,800	-	-	(51,800)	-	-
Employees' bonuses—stock	3,650	-	-	(3,650)	-	-
Cash dividends	-	-	-	(210,733)	-	(210,733)
Employees' bonuses—cash	-	-	-	(43,231)	-	(43,231)
Directors' and supervisors' remuneration	-	-	-	(3,125)	-	(3,125)
Capital surplus transferred to common stock	28,120	(28,120)	-	-	-	-
Treasury stock repurchased by the company	-	-	-	-	(18,289)	(18,289)
Net income for 2007	-	-	-	332,137	-	332,137
<b>Balance at December 31, 2007</b>	<u>\$ 379,570</u>	<u>379,452</u>	<u>61,573</u>	<u>332,137</u>	<u>(18,289)</u>	<u>1,134,443</u>
<b>Balance at December 31, 2007(in US\$)</b>	<u>\$ 11,700</u>	<u>11,696</u>	<u>1,898</u>	<u>10,237</u>	<u>(564)</u>	<u>34,967</u>

See accompanying notes to financial statements.

## Advanced Analog Technology, Inc.

### Statements of Cash Flows

**Years ended December 31, 2007 and 2006**  
**(In US dollars and thousands of New Taiwan dollars)**

	2007		2006
	US\$	NT\$	NT\$
<b>Cash flows from operating activities:</b>			
Net income	\$ 10,237	332,137	347,266
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	323	10,482	8,096
Provision for (reversal of) inventory devaluation	230	7,451	(4,196)
Provision for doubtful accounts	68	2,192	1,896
Other gain or loss with no cash impacts	-	32	114
Increase in accounts receivable	(1,299)	(42,135)	(143,233)
Increase in inventories	(1,203)	(39,050)	(3,454)
Decrease (increase) in other current assets	(48)	(1,567)	213
Decrease (increase) in deferred income tax assets	150	4,867	(13,066)
Increase in notes and accounts payable	611	19,833	38,459
Increase in other current liabilities	2	80	7,745
Decrease in accrued pension liabilities	(18)	(597)	(432)
<b>Net cash provided by operating activities</b>	<b>9,053</b>	<b>293,725</b>	<b>239,408</b>
<b>Cash flows from investing activities:</b>			
Acquisition of property, plant and equipment	(162)	(5,243)	(7,613)
Decrease in restricted cash in bank	-	-	2,500
Decrease (increase) in refundable deposits	1	27	(127)
Increase in deferred charges	(447)	(14,508)	(15,291)
Decrease (increase) in other assets	(71)	(2,300)	416
<b>Net cash used in investing activities</b>	<b>(679)</b>	<b>(22,024)</b>	<b>(20,115)</b>
<b>Cash flows from financing activities:</b>			
Issuance of common stock for cash	-	-	429,950
Payment of cash dividend, directors' and supervisors' remuneration, and employees' bonuses	(7,924)	(257,089)	(86,074)
Purchase of treasury stock	(564)	(18,289)	-
<b>Net cash provided by (used in) financing activities</b>	<b>(8,488)</b>	<b>(275,378)</b>	<b>343,876</b>
<b>Net increase (decrease) in cash</b>	(114)	(3,677)	563,169
<b>Cash at beginning of year</b>	<b>24,173</b>	<b>784,221</b>	<b>221,052</b>
<b>Cash at end of year</b>	<b>\$ 24,059</b>	<b>780,544</b>	<b>784,221</b>
<b>Supplemental disclosure of cash flow information:</b>			
Cash paid for interest expense	\$ -	5	9
Cash paid (received) for income tax	\$ 351	11,394	2,789
<b>Cash paid for purchase of property, plant and equipment:</b>			
Acquisition of machinery and equipment	\$ 186	6,045	7,530
Increase (decrease) in payable	(24)	(802)	83
Cash paid	\$ 162	5,243	7,613

See accompanying notes to financial statements.

# **Advanced Analog Technology, Inc.**

## **Notes to Financial Statements**

**December 31, 2007 and 2006**

**(Amounts expressed in US dollars and thousands of New Taiwan dollars,  
except for per share information and unless otherwise noted)**

### **1. Organization and Business Scope**

Advanced Analog Technology, Inc. (the Company) was incorporated on March 25, 1999, and moved into the Hsinchu Science Park of the Republic of China in January 2003. The Company's main activities are the design, research, development, manufacture and sale of analog ICs.

As of December 31, 2007 and 2006, the Company had 94 and 78 employees, respectively.

### **2. Summary of Significant Accounting Policies**

The financial statements are prepared in accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, the Business Entity Accounting Act, the Regulation on Business Entity Accounting Handling, and accounting principles generally accepted in the Republic of China. The significant accounting policies adopted in preparing the accompanying financial statements are summarized as follows:

#### **(1) Use of estimates**

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

#### **(2) Foreign currency transactions**

The Company records transactions in New Taiwan dollars. Foreign currency transactions are recorded at the exchange rates prevailing at the transaction dates. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated using the exchange rates prevailing on that date. The resulting exchange gains or losses from settlement of such transactions or translations of monetary assets and liabilities are reflected in the accompanying statements of income.

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**Advanced Analog Technology, Inc.****Notes to Financial Statements**

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into NT dollars at foreign exchange rates ruling at the dates the fair value was determined. If the non-monetary assets or liabilities are measured at fair value through profit or loss, then the resulting unrealized exchange gains or losses from such transactions are recorded in current profit or loss. If the non-monetary assets or liabilities are measured at fair value through stockholders' equity, then the resulting unrealized exchange gains or losses from such transactions are recorded as a separate component of stockholders' equity.

(3) Principles of classifying assets and liabilities as current and non-current

Cash or cash equivalents, and assets that will be held primarily for the purpose of being traded or are expected to be realized within 12 months after the balance sheet date are classified as current assets; all other assets shall be classified as non-current.

Liabilities that will be held primarily for the purpose of being traded or are expected to be settled within 12 months after the balance sheet date are classified as current liabilities; all other liabilities shall be classified as non-current.

(4) Asset impairment

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

(5) Allowance for doubtful accounts

The allowance for doubtful accounts is provided based on credit terms, credit quality, aging analysis and the expected collectibility of accounts receivable.

(6) Inventories

Inventories are stated at the lower of cost or market value. Cost is determined by the weighted-average method. Market value is determined on the basis of replacement cost or net realizable value.

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**Advanced Analog Technology, Inc.****Notes to Financial Statements**

## (7) Property, plant and equipment

Property, plant and equipment are stated at cost; costs associated with significant additions, improvements, and replacements to property and equipment are capitalized; repairs and maintenance are charged to expenses as incurred.

Depreciation of property plant, and equipment is provided for by using the straight-line method over the estimated useful lives of the assets; depreciation of leasehold improvement is provided over the lower of the rent period or estimated useful life using the straight-line method. If fully depreciated assets continue to be used, the residual value of the assets is depreciated over the remaining useful life.

The estimated useful lives of property, plant and equipment are as follows:

- i. Machinery and equipment: 5 years.
- ii. Office equipment: 2~5 years.
- iii. Leasehold improvements: 5 years.

Gain or losses on the disposal of property, plant and equipment are accounted for as non-operating income or losses in the statement income.

## (8) Intangible assets—research and development

Effective from January 1, 2007, the Company adopted Statement of Financial Accounting Standards No. 37 (SFAS No. 37) “Intangible Assets”.

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

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

- i. the technical feasibility of completing the intangible asset so that it will be available for use or sale.
- ii. its intention to complete the intangible asset and use or sell it.
- iii. its ability to use or sell the intangible asset.
- iv. how the intangible asset will generate probable future economic benefits.
- v. the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
- vi. its ability to measure reliably the expenditure attributable to the intangible asset during its development.

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**Advanced Analog Technology, Inc.****Notes to Financial Statements**

## (9) Deferred charges

Computer software and masks are stated at cost and amortized over two to five years on a straight-line basis.

## (10) Retirement plan

The Company has established an employee noncontributory defined benefit retirement plan (the Plan) covering full-time employees. In accordance with the Plan, payments of retirement benefits are based on years of service and the average salary for the six-month period before the employee's retirement. Each employee earns two months of salary for the first fifteen years of service, and one month of salary for each year of service thereafter. The maximum retirement benefit is 45 months of salary.

Beginning July 1, 2005, pursuant to the ROC Labor Pension Act (hereinafter referred to as the "new system"), employees who elected to participate in the new system or joined the Company after July 1, 2005, are subject to a defined contribution plan under the new system. For these employees, the Company is required to make a monthly contribution at a rate of no less than 6% of the employee's monthly wages to the employee's individual pension fund account at the ROC Bureau of Labor Insurance.

For the defined benefit plan under the ROC Labor Standard Law (the Plan), the Company performs an actuarial calculation of its pension obligation as of each fiscal year-end. Based on the actuarial calculation, the Company recognizes a minimum pension liability and periodic pension costs covering the service lives of the Plan participants, including current service cost, net obligation at transition, prior service cost, and pension gains or losses on a straight-line basis. In accordance with the requirement of the ROC Labor Standards Law, the Company has contributed monthly payments of 2% of salaries and wages to a pension fund maintained with the Central Trust of China.

Under the new system, the Company contributes 6% of each employee's monthly wages to the Bureau of Labor Insurance. The contribution for a period is recognized as pension cost for that period.

## (11) Treasury stock

The Company adopts SFAS No. 30 "Accounting for Treasury Stock" to account for the repurchase of its outstanding shares, carried at cost. Upon disposal, the excess of the selling price over the book value is recorded as a "capital surplus – treasury stock transaction". If the selling price is lower than book value, the difference is charged against capital surplus from treasury stock, and any deficit is debited against retained earnings. The book value of treasury stock is separately calculated by purchasing reason using the weighted-average method.

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**Advanced Analog Technology, Inc.****Notes to Financial Statements**

Upon retirement, the “capital stock” and “capital surplus—additional paid-in capital” are debited on a pro rata basis. If the book value exceeds the total of capital stock and premium on stock issuance, the difference is offset against “capital surplus — treasury stock” in the same classification, and any deficit is charged against retained earnings. If the book value of treasury stock is lower than the total of capital stock and premium on stock issuance, the difference is credited to “capital surplus—treasury stock”.

(12) Revenue recognition

Revenue is recognized when title to the products, the risk of loss, and the rewards of ownership are transferred to the customers, which occurs principally at the time of shipment.

(13) Income taxes

Income taxes are accounted for under the asset and liability method. Deferred income taxes are determined based on differences between the financial statements and tax basis of assets and liabilities using enacted tax rates in effect during the years in which the differences are expected to reverse. The income tax effects resulting from taxable temporary differences are recognized as deferred income tax liabilities. The income tax effects resulting from deductible temporary differences, net operating loss carryforwards, and income tax credits are recognized as deferred income tax assets. The realization of the deferred income tax assets is evaluated, and if it is considered more likely than not that the deferred tax assets will not be realized, a valuation allowance is recognized accordingly.

Classification of deferred income tax assets or liabilities as current or non-current is based on the classification of the related asset or liability. If the deferred income tax asset or liability is not directly related to a specific asset or liability, then the classification is based on the asset’s or liability’s expected realization date.

The Company’s purchase of equipment and expenditures for research, development and training entitle the Company to tax credits that are recognized by using the flow-through method.

According to the ROC Income Tax Act, the Company’s undistributed income earned after December 31, 1997, is subject to an additional 10 percent corporate income surtax. The surtax is charged to income tax expense after the appropriation of earnings is approved by the stockholders in the following year.

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**Advanced Analog Technology, Inc.**

**Notes to Financial Statements**

(14) Earnings per common share

Earnings per share of common stock (“EPS”) are computed based on the weighted-average number of common shares outstanding during the period. EPS for prior periods are retroactively adjusted to reflect the effects of stock issued from capital surplus and unappropriated earnings (capitalization of stock dividends and employees’ bonus).

(15) Convenience translation into U.S. dollars

The financial statements are stated in New Taiwan dollars. Translation of the 2007 New Taiwan dollar amounts into U.S. dollar amounts is included solely for the convenience of the readers, using the day buying rate of the Central Bank of the Republic of China on December 31, 2007, of NT\$32.443 to US\$1. The convenience translations should not be construed as representations that the New Taiwan dollar amounts have been, could have been, or could in the future be, converted into U.S. dollars at this rate or any other rate of exchange.

**3. Reasons for and Effect of Changes in Accounting Principles**

- (1) For the fiscal year beginning January 1, 2006, the Company adopted ROC SFAS No. 34 “Financial Instruments: Recognition and Measurement” and No. 36 “Financial Instruments: Disclosure and Presentation”. There was no effect on net income and earnings per share.
- (2) For the fiscal year beginning January 1, 2006, the Company adopted the newly revised ROC SFAS No. 14 “The Effects of Changes in Foreign Exchange Rates”. There was no effect on net income and earnings per share.
- (3) For the fiscal year beginning January 1, 2007, the Company adopted ROC SFAS No.37 “Intangible Assets”. There was no effect on net income and earnings per share.

**4. Details of Significant Accounts**

(1) Cash

	<b>December 31,</b>		
	<b>2007</b>		<b>2006</b>
	US\$	NT\$	NT\$
Cash on hand, and checking and savings accounts	\$ 4,532	147,021	31,105
Time deposits	<u>19,527</u>	<u>633,523</u>	<u>753,116</u>
	<b><u>\$ 24,059</u></b>	<b><u>780,544</u></b>	<b><u>784,221</u></b>

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## Advanced Analog Technology, Inc.

## Notes to Financial Statements

## (2) Notes and accounts receivable

	<b>December 31,</b>		
	<b>2007</b>		<b>2006</b>
	<b>US\$</b>	<b>NT\$</b>	<b>NT\$</b>
Notes receivable	\$ 171	5,545	55,275
Accounts receivable	<u>10,203</u>	<u>331,017</u>	<u>239,152</u>
	10,374	336,562	294,427
Allowance for doubtful accounts	<u>(152)</u>	<u>(4,927)</u>	<u>(2,735)</u>
	<b><u>\$ 10,222</u></b>	<b><u>331,635</u></b>	<b><u>291,692</u></b>

## (3) Inventories

	<b>December 31,</b>		
	<b>2007</b>		<b>2006</b>
	<b>US\$</b>	<b>NT\$</b>	<b>NT\$</b>
Finished goods	\$ 1,364	44,270	23,710
Work in process	1,585	51,413	38,334
Raw materials	<u>284</u>	<u>9,213</u>	<u>3,802</u>
	3,233	104,896	65,846
Less: Provision for inventory devaluation	<u>(293)</u>	<u>(9,512)</u>	<u>(2,061)</u>
	<b><u>\$ 2,940</u></b>	<b><u>95,384</u></b>	<b><u>63,785</u></b>

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## Advanced Analog Technology, Inc.

## Notes to Financial Statements

## (4) Retirement plan

The following table sets forth the benefit obligation and accrued pension liabilities related to the defined benefit plan of the Company as of December 31, 2007 and 2006.

	<b>December 31,</b>		
	<b>2007</b>		<b>2006</b>
	<b>US\$</b>	<b>NT\$</b>	<b>NT\$</b>
Benefit obligation:			
Vested benefit obligation	\$ -	-	-
Non-vested benefit obligation	(132)	(4,297)	(4,971)
Accumulated benefit obligation	(132)	(4,297)	(4,971)
Projected future salary increase	(137)	(4,440)	(5,697)
Projected benefit obligation	(269)	(8,737)	(10,668)
Fair value of plan assets	116	3,773	2,587
Funded status	(153)	(4,964)	(8,081)
Unrecognized pension loss	37	1,220	3,558
Unrecognized net transition obligation	101	3,267	3,449
Additional minimum pension liability	(1)	(47)	(1,310)
Accrued pension liabilities	\$ <u>(16)</u>	<u>(524)</u>	<u>(2,384)</u>

Significant actuarial assumptions used in the above calculation are summarized as follows:

	<b>December 31,</b>	
	<b>2007</b>	<b>2006</b>
Discount rate	2.75%	2.75%
Rate of increase in future compensation levels	10.00% in 2008, 5.00% thereafter	5.00%
Expected long-term rate of return on plan assets	2.75%	2.75%

(Continued)

**Advanced Analog Technology, Inc.**

**Notes to Financial Statements**

The net pension costs of the Company for 2007 and 2006 consisted of the following components:

	<b>December 31,</b>		
	<b>2007</b>		<b>2006</b>
	<b>US\$</b>	<b>NT\$</b>	<b>NT\$</b>
Defined benefit plan:			
Interest cost	\$ 9	293	292
Actual returns on plan (fund) assets	(3)	(80)	(45)
Amortization	9	296	187
Net pension cost under defined benefit scheme	<b>\$ 15</b>	<b>509</b>	<b>434</b>
Defined contribution plan	<b>\$ 98</b>	<b>3,188</b>	<b>2,543</b>

(5) Stockholders' equity

A. Common stock

Pursuant to the resolution by the Company's board of directors on May 29, 2006, the Company issued common stock totaling NT\$22,500 at NT\$195 per share. The premium on issued common stock amounted to NT\$407,450 (net of exclusive selling cost of NT\$8,800). The capital increase was recorded on July 14, 2006, and was registered with the governmental authorities on August 3, 2006.

Pursuant to a stockholders' resolution on May 29, 2006, the Company increased its common stock by NT\$69,500, at par value of NT\$10.00 per share, through the transfer of dividends and employees' bonuses of NT\$56,625 and NT\$12,875, respectively. The board of directors decided to set a record date of August 8, 2006, for the distribution of the aforementioned stock dividends and employees' bonus. On August 24, 2006, the capital increase was registered with the governmental authorities.

Pursuant to a stockholder's resolution on June 29, 2007, the Company increased its common stock by NT\$83,570, at par value of NT\$10.00 per share, through the transfer of dividends, employees' bonuses, and capital surplus of NT\$51,800, NT\$3,650 and NT\$28,120, respectively. The stockholder's resolution also included an increase in the authorized capital to NT\$600,000, including NT\$14,000 reserved for employee stock options. The board of directors decided to set a record date of August 20, 2007, for the distribution of the aforementioned stock dividends and employees' bonus. On August 30, 2007, the capital increase was registered with the governmental authorities.

As of December 31, 2007 and 2006, the authorized capital totaled NT\$600,000 and NT\$326,000 (including NT\$14,000 reserved for employee stock options), respectively, and the issued capital amounted to NT\$379,570 and NT\$296,000, respectively. The par value of the Company's common stock is NT\$10.00 per share.

(Continued)

**Advanced Analog Technology, Inc.**

**Notes to Financial Statements**

B. Capital surplus

The components of capital surplus as of December 31, 2007 and 2006 are summarized below:

	<b>December 31,</b>		
	<b>2007</b>		<b>2006</b>
	US\$	NT\$	NT\$
Additional paid-in capital	<b>\$ <u>11,696</u></b>	<b><u>379,452</u></b>	<b><u>407,572</u></b>

Pursuant to the ROC Company Act, capital surplus can only be used to offset a deficit and cannot be used to declare cash dividends. However, capital surplus derived from additional paid-in capital and donations (donated capital) can be used to increase share capital if there is no accumulated deficit. According to the Enforcement Rules of the Securities Exchange Law, the total sum of capital surplus capitalized per annum may not exceed 10 percent of the additional paid-in capital. Additionally, the capital surplus generated from a capital increase could be capitalized only in the following fiscal year after the capital increase is registered with the competent authority.

C. Distribution of earnings and dividend policy

According to the Company's articles of incorporation revised on June 29, 2007, 10% of its net income, after offsetting any accumulated deficit, shall be set aside as legal reserve until legal reserve is equal to issued capital, and an equal deduction item in stockholders' equity shall be set aside as special reserve according to ROC SFB regulations. The remainder can be retained some for necessary working capital and then appropriated as follows:

- (a) 5%~15% (15% before revised on June 29, 2007) of remainder (after retaining necessary working capital) as bonuses to employees.
- (b) 2% (1% before revised on June 29, 2007) of remainder (after retaining necessary working capital) as remuneration to directors and supervisors.
- (c) After the above appropriations, the distribution of remaining earnings (including beginning balances) is proposed by the board of directors and approved by the stockholders.

The distribution of employee bonuses could include the employees of the Company's subsidiaries under the conditions set by the board of directors authorized by the stockholders.

In consideration of business growth and financial planning, distribution of profits shall be made preferably in the form of stock dividends, accompanied by cash dividends. The stock dividends should not exceed 80% of total dividends.

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**Advanced Analog Technology, Inc.**

**Notes to Financial Statements**

Information about employees' bonuses and directors' and supervisors' remuneration which were distributed from unappropriated earnings of 2006 is as follows:

Employees' bonuses - common stock (par value)	NT\$	3,650
Employees' bonuses - cash		43,231
Directors' and supervisors' remuneration		<u>3,125</u>
	<b>NT\$</b>	<b><u>50,006</u></b>

The Company had distributed 365 thousand shares of common stock as employees' bonuses, constituting 1.23% of its outstanding shares, as of December 31, 2006.

Assuming the above-mentioned employees' bonuses and directors' and supervisors' remuneration were recognized as current expenses, earnings per common share (after tax) of 2006 would be NT\$10.6 and earnings per common share - retroactively adjusted would be NT\$8.27.

The actual distribution of employees' bonuses and directors' and supervisors' remuneration of the Company for 2007 is subject to the proposal of the board of directors and the approval of the stockholders. The related information about earnings distribution can be found in the Market Observation Post System of the Taiwan Stock Exchange after the above-mentioned meetings.

**D. Treasury stock**

For the transfer of common stock to employees, the Company purchased 111 thousand of its own shares at a total cost NT\$18,289 during 2007. As of December 31, 2007, none of the treasury stock repurchased had been retired.

According to the Securities and Exchange Law, the Company's purchase of its own shares cannot exceed 10% of the issued capital shares, and the purchase amount cannot exceed the total of retained earnings, additional paid-in capital and realized capital surplus. According to the financial report of June 30, 2007, the limit on treasury stock that can be purchased is 2,960 thousand shares, and the limit on purchasing amount is NT\$562,797.

According to the Securities and Exchange Law, the treasury stock held by the Company could not be pledged and does not have shareholder rights before the treasury stock is transferred to employees.

(Continued)

**Advanced Analog Technology, Inc.**

**Notes to Financial Statements**

(6) Income tax

The Company designs and manufactures advanced ICs. Its initial investment and the expanded operations accompanying capital increases meet the criteria for an “important technology-based industry” and an “important strategic industry” as prescribed under the Statute for Upgrading Industries, and the Company could choose to apply a shareholders’ investment credit or an income tax exemption over a period of five years.

As of December 31, 2007, the components of the Company’s tax exemption due to the capital increase were as summarized below.

<u>Year of investment</u>	<u>Applied Law</u>	<u>Tax exemption</u>	<u>Approval of Ministry Finance</u>	<u>Tax exemption period</u>
initial investment in 1999	The ROC Statute for Upgrading Industries	Tax credit for stockholders’ investment	-	-
Capital increase in 2002	The Statute for Upgrading Industries	Tax exemption on the Company’s income tax for five years	Oct. 2004	2004.01.01~2008.12.31
Capital increase in 2005	The Statute for Upgrading Industries	Tax exemption on the Company’s income tax for five years	-	The investment is not completed
Capital increase in 2006	The Statute for Upgrading Industries	Tax exemption on the Company’s income tax for five years	-	The investment is not completed

A. The components of income tax expense (benefit) for 2007 and 2006 are summarized as follows:

	<u>December 31,</u>		
	<u>2007</u>		<u>2006</u>
	<u>US\$</u>	<u>NT\$</u>	<u>NT\$</u>
Current	\$ 321	10,418	11,164
Deferred	150	4,867	(13,066)
	<u>\$ 471</u>	<u>15,285</u>	<u>(1,902)</u>

(Continued)

## Advanced Analog Technology, Inc.

## Notes to Financial Statements

- B. The statutory income tax rate of the Company is 25%. The ROC government enacted the Income Basic Tax Act, which is effective from January 1, 2006.

The differences between the expected income tax based on the pre-tax income at enacted income tax rates and the actual income tax expense (benefit) reported in the statements of income are summarized as follows:

	<u>2007</u>		<u>2006</u>
	US\$	NT\$	NT\$
Expected income tax expense based on the pre-tax income	\$ 2,677	86,856	86,341
Effect of tax-exempt income	(1,925)	(62,434)	(60,300)
Investment tax credits earned in current year	(609)	(19,767)	(20,433)
Change in valuation allowance for deferred tax assets	-	-	(10,349)
Prior years' adjustment for estimation of deferred income tax assets	328	10,630	2,839
Income tax benefit	<u>\$ 471</u>	<u>15,285</u>	<u>(1,902)</u>

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

	<u>December 31,</u>		
	<u>2007</u>	<u>2006</u>	<u>2006</u>
	US\$	NT\$	NT\$
Deferred tax assets—current:			
Investment tax credits	\$ 508	16,477	19,960
Allowance for inventory devaluation	73	2,378	515
Others	24	775	487
	<u>\$ 605</u>	<u>19,630</u>	<u>20,962</u>
Deferred tax assets—non-current:			
Investment tax credits	\$ -	-	3,386
Others	4	119	268
	<u>\$ 4</u>	<u>119</u>	<u>3,654</u>
Total gross deferred tax assets	<u>\$ 609</u>	<u>19,749</u>	<u>24,616</u>

(Continued)

**Advanced Analog Technology, Inc.**

**Notes to Financial Statements**

The expenditure for research and development entitles the Company to tax credits according to the ROC Statute for Upgrading Industries. This credit may be applied over a period of five years, and the total amount of investment tax credits that can be utilized per year is limited to 50% of the year's current income tax payable. However, the foregoing limit does not apply to the last year of the investment tax credit's expiration period. As of December 31, 2007, the estimated unused investment tax credits and the related years of expiration were as follows:

<u>Year occurred</u>	<u>Expiration year</u>	<u>Unused tax credits</u>	
		US\$	NT\$
2004 (assessed)	2008	\$ 209	6,771
2006 (declared)	2010	56	1,832
2007 (estimated)	2011	243	7,874
		<u>\$ 508</u>	<u>16,477</u>

- C. Information relating to the imputation credit account (ICA) as of December 31, 2007 and 2006, is summarized as follows:

	<u>December 31,</u>		
	<u>2007</u>		<u>2006</u>
	US\$	NT\$	NT\$
Unappropriated retained earnings:			
Earned after December 31, 1998	\$ <u>10,237</u>	<u>332,137</u>	<u>347,266</u>
ICA balance	\$ <u>45</u>	<u>1,448</u>	<u>785</u>
Creditable ratio for earnings distribution to resident stockholders		3.19%	3.09%
		(estimated)	(actual)

As of December 31, 2007, the Company's income tax returns had been examined by the tax authorities through 2005.

(Continued)

**Advanced Analog Technology, Inc.**

**Notes to Financial Statements**

(7) Earnings per common share

Earnings per common share (EPS) were computed as follows:

	<b>December 31,</b>		
	<b>2007</b>		<b>2006</b>
	<b>US\$</b>	<b>NT\$</b>	<b>NT\$</b>
Basic EPS:			
Net income	\$ <u>10,237</u>	<u>332,137</u>	<u>347,266</u>
Weighted-average common shares outstanding (thousand shares)	<u>37,947</u>	<u>37,947</u>	<u>28,029</u>
EPS	\$ <u>0.27</u>	<u>8.75</u>	<u>12.39</u>
EPS - retroactive		\$	<u>9.66</u>

(8) Financial instruments

- A. The carrying amounts of notes and accounts receivable, other current financial assets, and notes and accounts payable approximate their fair value due to the short-term nature of these items.
- B. The details of fair value information on financial assets and liabilities derived from active market quoted prices or an evaluation method are as follows:

	<b>December 31, 2007</b>				<b>December 31, 2006</b>	
	<b>Public quoted price</b>		<b>Evaluation method</b>		<b>Public quoted price</b>	<b>Evaluation method</b>
	<b>US\$</b>	<b>NT\$</b>	<b>US\$</b>	<b>NT\$</b>	<b>NT\$</b>	<b>NT\$</b>
Financial assets:						
Cash	\$ 24,059	780,544	-	-	784,211	-
Notes and accounts receivable	-	-	10,222	331,635	-	291,692
Other current financial assets	16	500	-	-	500	-
Guarantee deposits-out	-	-	62	2,017	-	2,044
Financial liabilities:						
Notes and accounts payable	-	-	3,451	111,962	-	92,129

(Continued)

**Advanced Analog Technology, Inc.**

**Notes to Financial Statements**

C. Financial risk information:

Credit risk

The Company's potential credit risk is derived primarily from cash and accounts receivable. The Company maintains its cash in various creditworthy financial institutions. The Company controls its exposure in each financial institution; as a result, the Company believes that there is no concentration of credit risk for cash.

The majority of the Company's customers are in the electronics industry, and the Company's accounts receivable attributable to the top three customers were 83% and 91% as of December 31, 2007 and 2006, respectively. Therefore, the Company is primarily exposed to the concentration of credit risk in accounts receivable. To reduce the concentration of credit risk, the Company continuously evaluates the credit status of its customers and the collectibility of trade receivables. No significant credit loss has occurred. It is management's belief that such concentration of credit risk is under control.

**6. Pledged Assets**

Assets pledged as collateral as of December 31, 2007 and 2006, are summarized as follows:

		<b>December 31,</b>		
		<b>2007</b>		<b>2006</b>
		<b>US\$</b>	<b>NT\$</b>	<b>NT\$</b>
	Time deposit (recorded in other current financial assets)			
	Guarantees for customs duty on imports	\$	<u>16</u>	<u>500</u>
			<u>500</u>	<u>500</u>

**7. Commitments and Contingencies**

According to current leasing contracts for the offices, the minimum future rental payments are as below:

<b>Period</b>	<b>Amount</b>	
	<b>US\$</b>	<b>NT\$</b>
2008.1.1~2008.12.31	\$	<u>243</u>
		<u>7,886</u>

(Continued)

## Advanced Analog Technology, Inc.

## Notes to Financial Statements

## 8. Others

- (1) The information on personnel, depreciation and amortization expenses by function is summarized as follows:

	2007			2006		
	Cost of goods sold	Operating expenses	Total	Cost of goods sold	Operating expenses	Total
Personnel expenses						
Salary	NT\$ 10,925	NT\$ 54,378	NT\$ 65,303	NT\$ 9,677	NT\$ 42,318	NT\$ 51,995
Labor and health insurance	841	3,675	4,516	712	2,818	3,530
Pension	729	2,968	3,697	595	2,382	2,977
Others	328	1,442	1,770	308	1,120	1,428
Depreciation	1,889	2,711	4,600	1,837	1,950	3,787
Amortization	1,764	4,118	5,882	1,514	2,795	4,309

- (2) Reclassifications

Certain amounts in the 2006 financial statements have been reclassified to conform to the 2007 presentation for comparison purposes. These reclassifications do not have a significant impact on the 2006 financial statements.

## 9. Segment Information

- (1) Industry segment

The Company operates predominantly in one industry segment, which includes the design, research, development, manufacture and sale of analog ICs.

- (2) Export sales

The export sales of the Company for the years ended December 31, 2007 and 2006, are summarized below:

	2007		% of total sales	2006	
	Amount			Amount	% of total sales
	US\$	NT\$	NT\$		
Asia	\$ <u>9,370</u>	<u>303,988</u>	<u>27</u>	<u>241,235</u>	<u>24</u>

(Continued)

## Advanced Analog Technology, Inc.

## Notes to Financial Statements

## (3) Major customers

Sales to individual customers constituting over 10% of the Company's total sales are summarized below:

	<u>2007</u>			<u>2006</u>	
	<u>Amount</u>		<u>% of total sales</u>	<u>Amount</u>	<u>% of total sales</u>
	<u>US\$</u>	<u>NT\$</u>		<u>NT\$</u>	
A	\$ 18,543	601,586	53	477,866	48
B	1,129	36,621	3	112,877	12
C	<u>2,675</u>	<u>86,800</u>	<u>8</u>	<u>102,058</u>	<u>10</u>
	<u>\$ 22,347</u>	<u>725,007</u>	<u>64</u>	<u>692,801</u>	<u>70</u>