MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

We design, develop and market high performance integrated circuits for power management and security applications, as well as systems security solutions. We also license a limited portion of our proprietary intellectual property to third parties. Our net sales have been derived primarily from the sale of analog and mixed-signal integrated circuit products to customers in the consumer electronics, computer, industrial and communications markets.

Our net sales have grown from US$105.6 million in 2005 to US$124.9 million in 2006. This increase in net sales was due primarily to higher unit shipments of our existing products, expansion of our customer base and the introduction of new products. We have continued to diversify our customer base and market focus by providing new products to the consumer electronics, computer, industrial and communications markets. Our overall gross margin has fluctuated in the past and is likely to fluctuate in the future due to the stages of our products in their life cycles, variations in our product mix, the timing of our product introductions and specific product manufacturing costs. New products typically have higher gross margins than products that are more mature. Gross margins on the products we sell will typically decline over the life of these products due to competitive pressures and volume pricing agreements.

Operating expenses grew from US$58.3 million in 2005 to US$72.7 million in 2006. Our operating expenses increased primarily from new product development efforts, hiring additional personnel and expanding our operations and recognized stock-based compensation due to adoption of Statement of Financial Accounting Standards ("SFAS") No. 123 (R).

Our net income was US$8.1 million in 2005 and US$743,000 in 2006. We have been profitable in each quarter since the quarter ended September 30, 1999 except for the quarter ended June 30, 2006. We believe this profitability has been the result of our strategy to make investments to develop new products and grow net sales, while maintaining a high level of fiscal control, product quality and customer satisfaction. Our profitability resulted in retained earnings of US$33.9 million as of December 31, 2006.

We utilize a fabless semiconductor business model, which means we focus on designing, developing and marketing products, while having these products manufactured by large independent semiconductor foundries. As a fabless semiconductor company, we do not need to invest significant capital to manufacture semiconductor devices, and can take advantage of some of the cost-efficiencies of third-party foundries. We place purchase orders for specific quantities of packaged semiconductor devices or wafers at set prices. We currently use third parties to test and assemble substantially all of our products, which reduces the capital we need to invest in these activities. However, we intend to bring some of the more critical semiconductor testing activities in-house to safeguard our proprietary technologies. We also use independent assembly suppliers for the production of our systems security solutions products.

We sell our products through a combination of direct sales offices, sales representatives and distributors. We have sales representatives in China, Hong Kong, Singapore, Taiwan, and the United States, as well as one distributor in Japan. In the years ended December 31, 2005 and 2006, we continued to experience increased sales to customers in China.

Revenue from product sales to customers, other than distributors, is recognized at the time of shipment, including revenue that has been realized and earned. Sales through distributors are recognized when the distributors make a sale. Under certain conditions, customers may return defective products. Allowances for sales returns are provided on the basis of past experience. These provisions are deducted from sales.

FACTORS THAT AFFECT OUR RESULTS OF OPERATIONS

Demand for consumer electronics and computer products

The majority of our net sales is generated from sales of our products used in liquid crystal display (LCD) monitors, LCD televisions, LCD notebook computer panels and LCD panels for global positioning systems (GPS). As a result, changes in demand for these products affect our results of operations. The markets for these products have experienced strong growth in the past, driven primarily by the consumer preference toward thinner and larger displays and mobile computing. Although these trends have increased the demand for our products, there can be no assurance that such trends will continue.

Technology migration and new products

Due to rapid technological advances in the semiconductor industry, and frequent new product introductions by our customers and our competitors, our success depends in part on our ability to develop and introduce new products in a timely manner. As a result, we continue to actively develop new products that have improved features and can achieve broad commercial acceptance. In addition, the price of integrated circuit products tends to decline over the product's life cycle as the current generation of integrated circuits is replaced by next-generation products. Price erosion is usually faster in digital integrated circuits compared to analog and mixed-signal integrated circuits, because analog and mixed-signal integrated circuits are relatively more difficult to replace given the physical layout and electrical characteristics of their circuits. We also work closely with customers to identify their future product needs and establish engineering priorities for new product design and development. We intend to continue to leverage our analog and mixed-signal design expertise to develop products with longer life cycles.

Manufacturing costs

As a fabless semiconductor company, we rely on third-party foundries to manufacture our integrated circuits. We also rely on third-party assembly and testing service providers to assemble, package and test our integrated circuits prior to shipping. Our cost of sales includes the cost of these assembly, packaging and testing services and the cost of integrated circuits. Our cost of sales accounted for approximately 38.6% to 45.4% of our net sales for each of the years ended December 31, 2005 and 2006. In general, the cost of foundry services depends on prevailing wafer costs, which in turn depends on industry capacity and the state of manufacturing process technologies as well as on the complexity of our product designs, order size, cycle time and foundry capacity utilization. We continue to undertake efforts to reduce our cost of sales by developing long-term relationships with third-party foundries and service providers to achieve better pricing, improving our product designs and deploying more advanced product and manufacturing process technologies.

Research and development expenditures

Research and development is a high priority for us. As at December 31, 2006, we had 613 design engineers, representing more than 61% of our total workforce. In 2005 and 2006, we spent 24.1% and 25.4% of our net sales in research and development expenditures, respectively. We believe that these ratios are higher than those for many of our peers in the industry. We intend to continue to strengthen our design capabilities in China. Higher research and development expenditures increase the cost of our operations and there can be no assurance that such expenditures will enable us to develop better products than our competitors.

Patent related litigation

Patent related litigation expenses concerning our legal proceedings against Monolithic Power Systems, Inc. ("MPS") and other companies in the United States, Taiwan and China also affect our results of operations. These expenses primarily consist of the fees of external legal counsel and consultants. We also incur patent litigation expenses defending lawsuits brought against us. As of December 31, 2006, we have deposited an amount of New Taiwan dollars equivalent to approximately US$14.5 million with the courts in Taiwan in connection with our applications for preliminary injunctions and provisional attachments on the alleged breaches of our patents. These deposits in the form of Taiwan government bonds, certificate of deposits and cash are deposited with the Taiwan courts and are accounted for as restricted assets on our balance sheet. If we lose our lawsuits, we could forfeit some or all of these deposits and face additional penalties as well. We expect to continue to incur patent litigation expenses in future, and such expenses might fluctuate. To date, other than the deposit of court bonds, we have not made any provisions with respect to these patent litigations based on our consultation, from time to time, with our external counsel and technical experts on the probability that a contingent loss may be incurred as result of these litigations.

Seasonality

The consumer electronics and computer markets are characterized by seasonal volume increases in the latter part of the year primarily driven by increased consumer spending during the holiday season. We normally experience the highest sales volume to our customers in these markets in the third and fourth quarter of each year, when such customers increase their inventories in anticipation of increased seasonal demand. Our customers in the industrial and communications markets are to a lesser extent subject to seasonal consumer demand. As a result, our sales volume to those customers has been largely consistent from quarter-to-quarter.

CRITICAL ACCOUNTING POLICIES

Revenue recognition and accounts receivable allowances

We recognize revenue on sales to direct customers in accordance with SEC Staff Accounting Bulletin No. 104, "Revenue Recognition in Financial Statements" ("SAB 104"). SAB 104 requires that four basic criteria must be met before revenue can be recognized: (1) persuasive evidence that an agreement exists, (2) delivery has occurred or services have been rendered, (3) the fee is fixed and determinable, and (4) collectibility is reasonably assured. Determination of criterion (4) is based on management's judgments regarding the collectibility of those fees.

For sales made through distributors, we defer recognition of such sales until the product is sold by the distributors to their end customers. Since we have limited control over these distributors' sales to third parties, we recognize revenues on these sales only when the distributors sell the products. In addition, products held by distributors are included in our inventory balance. Accounts receivable from distributors are recognized and inventory is relieved upon shipment as title to inventories generally transfers upon shipment.

We make allowances for future product returns in the current period revenue. We analyze historical returns, changes in current demand and acceptance of products when evaluating the adequacy of such allowances. Estimates may differ from actual product returns and allowances and these differences may materially affect our reported revenue and amounts ultimately collected on accounts receivable. In addition, we monitor collectability of accounts receivable primarily through review of the accounts receivable aging. When facts and circumstances indicate the collection of specific amounts or from specific customers is at risk, we assess the impact on amounts recorded for bad debts and, if necessary, will record a charge in the period such determination is made. To date, we have not experienced material write-offs of accounts receivable due to uncollectability.

Inventories

Our inventories are stated at the lower of standard cost or market value. Cost is determined on a currently adjusted standard basis, which approximates actual cost on a first-in, first-out basis. Because of the cyclicality of the market, inventory levels, obsolescence of technology and product life cycles, we write down inventories to net realizable value based on backlog, forecasted product demand and historical sales levels. Backlog is subject to revisions, cancellations and rescheduling. Actual demand and market conditions may be lower than those projected by us. This difference could have a material adverse effect on our gross margin should additional inventory write downs become necessary.

Long-lived assets

We evaluate the recoverability of property and equipment in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". We perform periodic reviews to determine whether facts and circumstances exist that would indicate that the carrying amounts of property and equipment might not be fully recoverable. If facts and circumstances indicate that the carrying amount of property and equipment might not be fully recoverable, we compare projected undiscounted net cash flows associated with the related assets over their estimated remaining useful life against their respective carrying amounts. In the event that the projected undiscounted cash flows are not sufficient to recover the carrying value of the assets, the assets are written down to their estimated fair values based on the expected discounted future cash flows attributable to the assets. Evaluation of impairment of property and equipment requires estimates in the forecast of future operating results that are used in the preparation of the expected future undiscounted cash flows. Actual operating results and the remaining economic lives of the property and equipment could differ from the estimates used in assessing the recoverability of these assets. These differences could result in additional impairment charges, which could have a material adverse effect on our results of operations.

Income taxes

Our income taxes are accounted in accordance with SFAS No. 109, "Accounting for Income Taxes". The provision for income tax represents income tax paid and payable for the current year plus the changes in the deferred income tax assets and liabilities during the years. Deferred income tax assets are primarily the tax effects of the operating loss carry-forwards, research and development credit carry-forwards and temporary differences. On a periodic basis we evaluate the deferred tax assets balance for realizability. To the extent we believe it is more likely than not that some portion of deferred tax assets will not be recognized, we will increase the valuation allowance against the deferred tax assets. Realization of the deferred tax assets is dependent primarily upon future taxable income, changes in tax laws and other factors. These changes, if any, may require possible material adjustment to the deferred tax assets, resulting in a reduction in net income in the period when such determinations are made. In addition, we recognize liabilities for potential income tax contingencies based on the estimate of whether, and the extent to which, additional taxes may be due. If we determine that payment of these amounts is unnecessary or if the recorded tax liability is less than its current assessment, we may be required to recognize an income tax benefit or additional income tax expense in its financial statements, accordingly.

Legal contingencies

We are currently involved in various claims and legal proceedings. We periodically assess each matter in order to determine if a contingent liability in accordance with SFAS No.5, "Accounting for Contingencies", should be recorded. In making the determination, we may, depending on the nature of the matter, consult with external counsel and technical experts. Based on the information obtained combined with our judgment regarding all the facts and circumstances of each matter, we determine whether it is probable that a contingent loss may be incurred and whether the amount of such loss can be estimated. Should a loss be probable and estimable, we record a contingent loss in accordance with SFAS No. 5. In determining the amount of a contingent loss, we take into consideration advice received from experts in the specific matter, current status of legal proceedings, prior case history and other factors. Should the judgments and estimates be incorrect, we may need to record additional contingent losses that could materially adversely impact our results of operations.

Stock-based compensation

We grant stock options and other awards to our employees and certain non-employees. Prior to January 1, 2006, we elected to follow Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees" and complied with the disclosure provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" for our employee stock options. Under APB No. 25, compensation expense is measured based on the difference, if any, on the date of the grant, between the fair value of the ordinary shares of our Company (the "Shares") and the exercise price of the stock option.

Effective January 1, 2006, we adopted the fair value recognition provisions of SFAS No. 123 (R), "Share-Based Payments," using the modified prospective application method. Under this transition method, compensation cost recognized for the year ended December 31, 2006, includes the applicable amounts of: (a) compensation cost of all stock-based payments granted prior to, but not yet vested as of, December 31, 2005 (based on the grant-date fair value estimated in accordance with the original provisions of SFAS No. 123 and previously presented in pro forma footnote disclosures), and (b) compensation cost for all stock-based payments granted subsequent to January 1, 2006 (based on the grant-date fair value estimated in accordance with the new provisions of SFAS No. 123 (R)). Results for periods prior to January 1, 2006, have not been restated.

At the end of June 2005, our Board approved the acceleration of the vesting of options with exercise prices greater than US$17.00 (pre-split basis). Our Board evaluated the minimal benefit to our employees of accelerating the remaining vesting on these significantly underwater options against the value to shareholders of not having earnings materially affected and the impact that this may have on our market value. In addition, these options had exercise prices in excess of the then current market values and were not fully achieving their original objectives of incentive compensation and employee retention. Accelerating the vesting of these options accelerated the recognition of any remaining expense associated with these options which is zero under APB No. 25.

Treasury stock

We cancel all shares repurchased under our share repurchase plan. Accordingly, the excess of the purchase price over par value will be allocated between additional paid-in capital and retained earnings based on the average issue price of the shares repurchased. Shares that are repurchased and cancelled are not counted as part of our issued share capital.

Research and development costs

Our research and development costs consist of expenditures incurred during the course of planned research and investigation aimed at the discovery of new knowledge that will be useful in developing new products or processes, or significantly enhancing existing products or production processes as well as expenditures incurred for the design and testing of product alternatives or the construction of prototypes. We charge all of our expenditures related to research and development activities to operating expenses when incurred.

Years ended December 31, 2005 and 2006

The following table summarizes historical results of operations as a percentage of net sales for the periods indicated:

	Year ended December 31,	
	2005	**2006**
	%	**%**
Consolidated Statement of Operations Data:		
Net sales	100.0	100.0
Cost of sales	38.6	45.4
Gross profit	61.4	54.6
Operating expenses:		
Research and development	24.1	25.4
Selling, general and administrative	19.2	23.4
Patent related litigation	9.6	8.8
Stock Exchange of Hong Kong listing expenses	2.3	0.6
Total operating expenses	55.2	58.2
Income (loss) from operations	6.2	(3.6)
Non-operating income - net	2.5	2.2
Income tax expenses (benefit)	1.0	(2.0)
Net income	7.7	0.6

The following table sets forth the breakdown of our net sales by product category in each of 2005 and 2006:

	Year Ended December 31,	
	2005	**2006**
	(US$000)	**(US$000)**
Integrated Circuits:		
Analog	87,657	98,612
Mixed-signal	6,484	8,554
Digital	11,305	17,097
Systems Security Solutions	45	646
Licensed Intellectual Property	61	6
Total	105,552	124,915

Net Sales. Net sales consisted of product revenues generated principally by sales of our integrated circuit products. Net sales for the year ended December 31, 2006 were US$124.9 million, an increase of US$19.4 million or 18.3% from US$105.6 million for the year ended December 31, 2005. The increase in sales resulted primarily from increased unit shipments to our existing customers, expansion of our customer base and the introduction of new products. In particular, the share of our net sales derived from the consumer electronics market continued to increase from 2005 to 2006. This increase resulted primarily from the increase in shipments of analog integrated circuit products to an increased number of intermediaries in the consumer electronics end-market whose end-customers use our products in their desktop monitors, LCD televisions, and portable media players. Net sales from analog integrated circuit products in 2006 were US$98.6 million, an increase of US$11.0 million or 12.5% from US$87.7 million in 2005. In 2006, net sales from our digital integrated circuit products were US$17.1 million, an increase of US$5.8 million or 51.2% from US$11.3 million in 2005, which resulted primarily from increased sales of Standard CardBus controller products in the second half year of 2006. In 2006, net sales from our mixed-signal integrated circuit products were US$8.6 million, an increase of US$2.1 million or 31.9% from US$6.5 million in 2005, which primarily resulted from increased shipments for our power switch and DC/DC controller products.

Gross Profit. Gross profit represents net sales less cost of sales. Cost of sales primarily consists of the costs of purchasing packaged integrated circuit products manufactured and assembled for us by independent foundries and packaging vendors and other costs associated with the procurement, storage and shipment of these products. Gross profit for the year ended December 31, 2006 was US$68.1 million, an increase of US$3.3 million or 5.1% from US$64.8 million for the year ended December 31, 2005. This increase was primarily due to increased sales of our integrated circuit products. Gross profit as a percentage of net sales for the year ended December 31, 2006 decreased to 54.6% from 61.4% for the year ended December 31, 2005 primarily due to increased sales of our lower margin products. Standard CardBus controller and power switch products are lower margin products because the technology used in these products has become commoditized in our industry. Our other products, which use our proprietary technologies, are more complex with enhanced features, thereby allowing us to command a higher margin on these products. We expect that our gross profit as a percentage of net sales will continue to fluctuate in the future as a result of the stages of our products in their life cycles, variations in our product mix, the timing of our product introductions and specific product manufacturing costs.

Research and Development Expenses. Research and development expenses consist primarily of salaries and related costs of employees engaged in research, design and development activities and, to a lesser extent, expenses for outside engineering consultants. Research and development expenses for the year ended December 31, 2006 were US$31.8 million, an increase of US$6.3 million or 24.9% from US$25.4 million for the year ended December 31, 2005. This increase primarily resulted from increased hiring of design engineers, increased consultancy fees paid to outside consultants in respect of certain research and development projects and the stock-based compensation expense recognized due to adoption of SFAS No. 123 (R). As a percentage of net sales, research and development expenses were 25.4% for the year ended December 31, 2006, an increase from 24.1% for the year ended December 31, 2005. Research and development expenses as a percentage of net sales will fluctuate from quarter to quarter depending on the amount of net sales and the success of new product development efforts, which we view as critical to our future growth. At any point in time, we have several research and development projects underway, and we believe that none of these projects is material on an individual basis. We expect to continue the development of innovative technologies and processes for new products and we believe that a continued commitment to research and development is essential in order to maintain the competitiveness of our existing products and to provide innovative new product offerings. Therefore, we expect to continue to invest significant resources in research and development in the future.

Selling, General and Administrative Expenses. Selling, general and administrative expenses consist primarily of employee-related expenses, sales commissions to agents, professional fees, travel and other promotional expenses. Selling, general and administrative expenses for the year ended December 31, 2006 were US$29.2 million, an increase of US$8.9 million or 44.0% from US$20.3 million for the year ended December 31, 2005. This increase was primarily due to additional hiring of sales, operations and administrative personnel, increased promotional expense, increased traveling expense and the stock-based compensation expense recognized due to adoption of SFAS No. 123 (R). As a percentage of net sales, selling, general and administrative expenses were 23.4% for the year ended December 31, 2006, an increase from 19.2% for the year ended December 31, 2005. We expect that selling, general and administrative expenses will continue to increase in absolute dollar terms in the foreseeable future for the same reasons.

Patent Related Litigation Expenses. Patent related litigation expenses consist primarily of fees paid to outside counsel and consultants engaged by outside counsel. Patent related litigation expenses for the year ended December 31, 2006 were US$11.0 million, an increase of US$788,000 or 7.7% from US$10.2 million for the year ended December 31, 2005. This increase was primarily due to increased activity in various litigation matters. As a percentage of net sales, patent related litigation expenses were 8.8% for the year ended December 31, 2006, a decrease from 9.6% for the year ended December 31, 2005. We expect that patent related litigation expenses will continue to fluctuate for the foreseeable future.

Stock Exchange of Hong Kong Listing Expenses. The Stock Exchange of Hong Kong Limited (the "SEHK") listing expenses consist primarily of expenses incurred in relation to our SEHK listing activities commencing in 2005. SEHK listing expenses for the year ended December 31, 2006 was US$786,000, a decrease of US$1.7 million or 68.0% from US$2.5 million for the year ended December 31, 2005. This decrease was primarily due to decreased listing activities in 2006 as we had completed our SEHK listing in March 2006. As a percentage of net sales, the SEHK listing expenses were 0.6% for the year ended December 31, 2006, a decrease from 2.3% for the year ended December 31, 2005.

Non-Operating Income-Net. Non-operating income-net reflects primarily interest earned on cash and cash equivalents and short-term investments, impairment loss on long-term investments, and foreign exchange transaction losses. Non-operating income-net was US$2.9 million for the year ended December 31, 2006, increasing from US$2.7 million for the year ended December 31, 2005, reflecting increased interest earned on cash and cash equivalents, and short-term investments .

Income Tax Expense (benefit). Income tax benefit was approximately US$2.5 million for the year ended December 31, 2006, compared to an income tax expense of US$1.0 million for the year ended December 31, 2005. This difference was primarily due to a reversal of an accrual of income tax payable upon the completion of examination of tax filing for 2001 by Taiwan Tax Authority.

Net income. As a result of the above factors, our net income was US$743,000 for the year ended December 31, 2006, a decrease of US$7.4 million from US$8.1 million for the year ended December 31, 2005. Our net income as a percentage of net sales decreased to 0.6% for the year ended December 31, 2006 from 7.7% for the year ended December 31, 2005. This decrease was primarily due to an increase in both selling, general and administrative expenses and research and development expenses.

LIQUIDITY AND CAPITAL RESOURCES

Cash flows

Since our inception, we have financed our operations primarily through private sales of securities, our initial public offering in August 2000 and our public offering in November 2001 as well as cash provided by operating activities in recent years. As of December 31, 2006, cash and cash equivalents and short-term investments were US$65.1 million.

Operating activities

Our net cash from operating activities is generally the cash effects of transactions and other events used in the determination of net income, adjusted for changes in our working capital. Our net cash inflows from operating activities were US$11.0 million and US$3.3 million for the years ended December 31, 2005 and 2006, respectively.

The decrease between 2005 and 2006 was mainly due to a decrease of US$7.4 million in net income, an increase of US$7.5 million in accounts receivable in 2006 as compared to an increase of US$2.0 million in 2005, and an increase of US$11,000 in accrued expenses and other liabilities in 2006 as compared to a increase of US$5.6 million in 2005. The decrease in net income was primarily due to an increase in both selling, general and administrative expenses and research and development expenses. The increase of accounts receivable in 2006 was primarily due to increased sales to customers on credit. The increase of accrued expense and other liabilities in 2005 was primarily due to accruals for SEHK and litigation expenses.

Investing activities

In 2006, we had a net cash inflow from investing activities of US1.7 million as compared to a net cash outflow of US$19.3 million in 2005. This increase in net cash provided by investing activities between 2005 and 2006 was principally due to an increase of US$29.0 million in net sales of short-term investments. This increase was partially offset by an increase of US$8.5 million in net acquisitions of property and equipment.

Financing activities

Our net cash outflow from our financing activities in 2005 was US$2.1 million as compared to a net cash outflow of US$6.2 million in 2006. The increase in net cash used between 2005 and 2006 was primarily due to the repurchase of US$7.6 million of our Shares and American depositary shares under a share repurchase program in 2006 as compared to a repurchase of US$4.4 million in 2005, which was partially offset by proceeds from the exercise of stock options and issuance of shares under our existing employee stock purchase plan for the year.

Working capital

The Directors believe our cash balances will be sufficient to meet our capital requirements for at least the next 12 months from the date of publication of this report. Our future capital requirements will depend on many factors, including the inventory levels we maintain, the level of investments we make in new technology and improvements to existing technology, the levels of promotion and advertising required to launch new products and attain a competitive position in the marketplace, and the market acceptance of our products. Thereafter, we may need to raise additional funds through public or private financing. No assurance can be given that additional funds will be available or that we can obtain additional funds on terms favorable to us.

DIVIDEND POLICY

Dividend policy

We have never declared or paid dividends on our Shares or other securities and do not anticipate paying dividends in the foreseeable future. As our business continues to grow, we intend to continue to invest the profits generated from our operations to implement our future plans. If we declare dividends in the future, the form, frequency and amount of such dividends will depend on our earnings and financial position, our results of operations, our capital needs, our plans for expansion and other factors we deem relevant. The declaration and payment of dividends will be determined at the sole discretion of our directors, subject to the requirements of the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

Distributable reserves

We have been advised that "profits" as defined under common law and amounts in our share premium account are distributable reserves under Cayman Islands law. As of December 31, 2006, we had no funds reserved for distribution to our shareholders.

Contingent liabilities

As at the close of business on December 31, 2006, we did not have any material contingent liabilities.

CAPITAL EXPENDITURES

Capital expenditures are used to purchase property and equipment such as land, buildings, office furniture and integrated circuit testing equipment. For the years ended December 31, 2004, 2005 and 2006, our total capital expenditures amounted to US$8.4 million, US$14.9 million and US$23.4 million, respectively.

CONTRACTUAL OBLIGATIONS

The table below describes our contractual obligations as of December 31, 2006:

	Total	**2007**	**2008**	**2009**	**2010**	**2011**
			(in thousands of US dollars)			
Operating Lease Commitments	3,189	1,670	723	365	369	62
Purchase Commitments	502	502	0	0	0	0
Licenses, Maintenance and Support	983	785	150	48	0	0
Total	4,674	2,957	873	413	369	62

LONG-TERM INVESTMENTS

We have made the long-term investments described below, and may make additional investments in these or other companies in the future. Our current investment strategy is to make small strategic investments in companies involved in our supply chain for the manufacture of our products or that provide products that are used in conjunction with our products by our mutual customers. We do not intend to have significant share ownership in, or active participation in the management of, these companies in which we have made strategic investments. The purpose of our investments is to enhance our business relationships with these suppliers to ensure the adequacy of foundry capacity allocation and the quality of services provided to us.

As of December 31, 2006, our long-term investments were as follows:

Investee Company	Type of Company	Date of Investment	Size of Investment	Approximate percentage of voting power (%)
X-FAB[(1)]	Semiconductor foundry	July 2002	US$5.0 million	1.60%
360 Degree Web Ltd.[(2)(3)]	Developer of intelligent security software solutions	January 2003 January 2005	US$1.8 million US$235,000	19.52%
GEM Services, Inc.[(1)]	Semiconductor assembly and testing service provider	August 2002	US$500,000	0.96%
Etrend Hightech Corporation[(1)]	Semiconductor assembly and testing service provider	December 2002 July 2003 March 2004	US$500,000 US$147,000 US$313,000	9.07%
Asia SinoMOS Semiconductor Inc.[(1)]	Semiconductor foundry	January 2005 May 2006 December 2006	US$5.0 million US$3.3 million US$4.8 million	18.44%
Silicon Genesis Corporation	Developer of silicon products and other engineered multi-layered structures for integrated circuits	December 2000	US$500,000	0.09%
CSMC[(1)]	Semiconductor foundry	August 2004	US$4.5 million	2.58%
Philip Ventures Enterprise Fund	Fund Management Company	November 2005	SG$1,000,000	2.00%

Notes:

1. *One of our current suppliers or service providers.*
2. *We sold 1,000,000 of our shares in 360 Degree Web Ltd. in March 2004 and recognized a gain of US$340,000. As of December 31, 2006, we held an aggregate of 2,264,102 shares of preferred stock in such company.*
3. *360 Degree Web Ltd. sells certain software to several of our customers which is used in connection with our products.*

As at the date of this annual report, we held less than 20% of the shareholding interest in each of our long-term investments.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

We are, in the normal course of business, exposed to risks relating to fluctuations in interest rates and exchange rates, as well as credit risks and commodity price risks. Our risk management strategy aims to minimize the adverse effects of these risks on our financial performance.

Interest rate risk

We maintain an investment portfolio consisting mainly of fixed income securities, including time deposits and government bonds. These securities are subject to interest rate risk and will fall in value if market interest rates increase. If market rates were to increase immediately and uniformly by 10.0% from the levels at December 31, 2006, the fair value of our investment portfolio would decline by an immaterial amount. We presently intend to treat our fixed income investments as available for sale, and therefore we do not expect our results of operations or cash flows to be affected to any significant degree by a sudden short-term change in market interest rates. We have not purchased and do not currently hold any derivative financial instruments for hedging or trading purposes.

The table below provides information about our financial instruments with maturity dates greater than three months as of December 31, 2006.

	2007	2008	2009	2010	There-after	Total	Fair Value
			(in thousands of US dollars)				
Time Deposits Fixed rate	6,273	0	1,580	0	0	7,853	7,820
Government Bonds Fixed rate	14,132	29	0	0	0	14,161	14,161

Foreign currency risk

Fluctuations in exchange rates may adversely affect our financial results. The functional currency for each of our foreign subsidiaries is the local currency. As a result, certain of our assets and liabilities, including certain bank accounts, accounts receivable, restricted assets, short-term investments and accounts payable exist in non-US dollar-denominated currencies, which are sensitive to foreign currency exchange rate fluctuations. As of December 31, 2006, we held approximately US$23.3 million in government bonds, certificates of deposits and bank accounts denominated in foreign currencies.

We have not engaged in hedging activities to mitigate our foreign currency exposures and may experience economic losses as a result of foreign currency exchange rate fluctuations. We monitor currency exchange fluctuations periodically. For the years ended December 31, 2005 and 2006, we experienced net foreign exchange losses of approximately US$443,000 and US$261,000, respectively, due to foreign currency exchange fluctuations, which are reflected in our results of operations.

Inflation risk

We are exposed to fluctuations in the prices of our raw materials, which we purchase at market prices. In addition, all of our product sales are made at market prices. Therefore, fluctuation in the prices of raw materials, which constitute primarily packaged integrated circuit products, has a significant effect on our results of operations. To date, we have not entered into any futures contracts to hedge against commodity price changes.