TWINHEAD INTERNATIONAL CORP.

Financial Statements

December 31, 2010 and 2009
(With Auditors' Report Thereon)

Address: 10F, 550 Rueiguang Road, Neihu, Taipei 114,
Taiwan, R.O.C.

Independent Auditors' Report

The Board of Directors
Twinhead International Corp.:

We have audited the accompanying balance sheets of Twinhead International Corp. (the Company) as of December 31, 2010 and 2009, 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 did not audit the financial statements of Gammatech Computer Corporation, Twinhead GmbH, and Fiber Logic Communications Inc. as of and for the years ended December 31, 2010 and 2009, the investments in which are reflected in the accompanying financial statements using the equity method. Those financial statements were audited by other auditors, whose reports have been furnished to us, and our opinion, in so far as it relates to the amounts included for Gammatech Computer Corporation, Twinhead GmbH, and Fiber Logic Communications Inc., is based solely on the reports of the other auditors. The investments in Gammatech Computer Corporation, Twinhead GmbH, and Fiber Logic Communications Inc. as of December 31, 2010 and 2009, amounted to $86,493 thousand and $87,708 thousand and represented 3.74% and 3.50%, respectively, of total assets, and the equity in their net gain amounted to $4,006 thousand and $1,196 thousand and represented 4.66% and 0.60% of loss before income tax for the years ended December 31, 2010 and 2009, respectively.

We conducted our audits in accordance with Republic of China generally accepted auditing standards and the Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants. Those standards and regulations 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 and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Twinhead International Corp. as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended, in conformity with the Regulations Governing Financial Reporting for Issuers of Stock Certificates, the related financial accounting standards of the "Business Entity Accounting Act" and of the "Regulation on Business Entity Accounting Handling", and Republic of China generally accepted accounting principles.

The consolidated financial statements of Twinhead International Corp. and its subsidiaries as of December 31, 2010 and 2009 have been prepared by the management of Twinhead International Corp. Based on our audits, we express a modified unqualified opinion for both the consolidated financial statements as of December 31, 2010 and 2009, rsepectively.

KPMG

April 1, 2011

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

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

TWINHEAD INTERNATIONAL CORP.

Balance Sheets

December 31, 2010 and 2009
(expressed in thousands of New Taiwan dollars)

Assets	2010 Amount	%	2009 Amount	%
Current assets:				
Cash and cash in banks (note 4)	$ 395,171	17	331,694	13
Notes receivable	101	-	36	-
Accounts receivable, net of allowance for doubtful accounts of $11,454 and $12,454 in 2010 and 2009, respectively (note 15)	184,580	8	248,902	10
Accounts receivable－related parties (notes 6, 15 and 16)	226,224	10	266,023	11
Other receivables from related parties (notes 6 and 16)	-	-	46,905	2
Other financial assets－current	-	-	928	-
Inventories (note 5)	150,954	7	152,375	6
Prepaid expenses	8,777	-	9,421	-
Deferred income tax assets－current (note 12)	38,272	2	41,675	2
Other current assets	3,494	-	4,632	-
	1,007,573	44	1,102,591	44
Long-term equity investments (notes 6, 15 and 16):				
Long-term investments under equity method	352,869	15	415,994	17
Available-for-sale financial assets－non-current	1,158	-	1,472	-
Financial assets carried at cost－non-current	121,124	5	136,124	5
	475,151	20	553,590	22
Property, plant and equipment, net (notes 7 and 17):				
Cost:				
Land	64,438	3	80,035	3
Buildings and improvement	341,603	15	427,366	17
Machinery and equipment	246,523	11	246,186	10
Transportation equipment	3,220	-	3,220	-
Office equipment	156,745	7	156,888	6
	812,529	36	913,695	36
Less: accumulated depreciation	591,716	25	625,544	25
accumulated asset impairment	10,593	-	10,593	-
Prepayment for equipment	367	-	270	-
	210,587	11	277,828	11
Other assets:				
Assets leased to others (notes 8 and 17)	309,837	13	261,222	11
Refundable deposits (note 18)	8,057	-	9,267	-
Deferred charges	30,289	1	35,452	1
Long-term account receivable from related parties (notes 6, 15 and 16)	101,492	4	81,309	3
Deferred income tax assets－non-current (note 12)	168,257	7	186,449	8
	617,932	25	573,699	23
Total assets	**$ 2,311,243**	**100**	**2,507,708**	**100**

Liabilities and Stockholders' Equity	2010 Amount	%	2009 Amount	%
Current liabilities:				
Short-term borrowings (notes 9 and 17)	$ 592,584	26	722,236	29
Notes payable	26	-	-	-
Accounts payable	232,402	10	192,674	8
Other payables to related parties (note 16)	1,992	-	22,984	1
Accrued expenses	65,240	3	63,522	3
Deferred credit (note 16)	33,009	1	32,188	1
Other current liabilities	18,614	1	57,471	2
	943,867	41	1,091,075	44
Long-term liabilities:				
Financial liabilities at fair value through profit or loss－non-current (notes 10 and 15)	455	-	-	-
Convertible bond payable (notes 10, 15 and 16)	64,944	3	-	-
Total long-term liabilities	65,399	3	-	-
Other liabilities:				
Guarantee deposits received	2,661	-	3,231	-
Total liabilities	1,011,927	44	1,094,306	44
Stockholders' equity (notes 6, 10, 12 and 13):				
Common stock, $10 par value, 277,281 thousand shares outstanding and 700,000 thousand shares issued in both 2010 and 2009	2,772,809	120	2,772,809	110
Convertible preferred stock, $10 par value, 23 thousand shares issued and outstanding in both 2010 and 2009	228	-	228	-
	2,773,037	120	2,773,037	110
Capital surplus:				
Paid-in capital in excess of par	8,731	-	189,026	8
Stock options	6,230	-	-	-
	14,961	-	189,026	8
Unappropriated retained earnings (accumulated deficit)	(109,973)	(5)	(180,295)	(7)
Other items in stockholders' equity:				
Cumulative foreign currency translation adjustments	(6,873)	-	3,156	-
Unrealized loss on financial instrument	(444,965)	(19)	(444,651)	(18)
Treasury stock	(926,871)	(40)	(926,871)	(37)
	(1,378,709)	(59)	(1,368,366)	(55)
Total stockholders' equity	1,299,316	56	1,413,402	56
Commitments and contingencies (notes 8, 13 and 18)				
Total liabilities and stockholders' equity	**$ 2,311,243**	**100**	**2,507,708**	**100**

See accompanying notes to financial statements.

TWINHEAD INTERNATIONAL CORP.

Income Statements

For the years ended December 31, 2010 and 2009
(expressed in thousands of New Taiwan dollars)

	2010 Amount	%	2009 Amount	%
Operating income:				
Sales revenue (note 16)	1,836,901	100	1,695,434	101
Less: Sales returns	3,171	-	10,439	1
Sales discounts	2,800	-	1,888	-
Net operating revenue	1,830,930	100	1,683,107	100
Cost of goods sold (notes 5, 11, 16 and 21)	1,533,769	84	1,504,986	89
Gross profit	297,161	16	178,121	11
Net change in unrealized gain (loss) on intercompany transactions (note 16)	(821)	-	113	-
Realized gross profit	296,340	16	178,234	11
Operating expenses (notes 11 and 21):				
Selling expenses	58,842	3	67,835	4
Administrative expenses	88,447	5	97,386	6
Research and development expenses	107,716	6	118,937	7
	255,005	14	284,158	17
Operating income (loss)	41,335	2	(105,924)	(6)
Non-operating income and gain:				
Interest income	782	-	680	-
Gain on disposal of investments, net (note 6)	-	-	5,288	-
Rental income (note 8)	16,351	1	21,328	2
Gain on valuation of financial liabilities, net (note 10)	483	-	-	-
Other income	14,342	1	35,064	2
	31,958	2	62,360	4
Non-operating expense and loss:				
Interest expenses (note 10)	13,526	1	14,662	1
Investment loss recognized under equity method	46,330	2	55,197	4
Loss on disposal of property, plant and equipment, net	94	-	65	-
Loss on exchange, net	72,557	4	18,691	1
Impairment loss (note 6)	15,000	1	65,333	4
Other loss (notes 18 and 21)	11,836	1	2,772	-
	159,343	9	156,720	10
Loss before income tax	(86,050)	(5)	(200,284)	(12)
Income tax expenses (benefit) (note 12)	23,792	1	(20,000)	(1)
Net loss	**$ (109,842)**	**(6)**	**(180,284)**	**(11)**

	Before tax	After tax	Before tax	After tax
Basic loss per share of common stock (note 14)	**$ (0.35)**	**(0.44)**	**(0.81)**	**(0.73)**

Pro forma data, assuming the Company's shares held by its subsidiaries were not treated as treasury stock (note 14):

	Before income tax	Net of income tax	Before income tax	Net of income tax
Net loss	**$ (86,096)**	**(109,888)**	**(200,330)**	**(180,330)**
Basic loss per share of common stock	**$ (0.31)**	**(0.40)**	**(0.72)**	**(0.65)**

See accompanying notes to financial statements.

TWINHEAD INTERNATIONAL CORP.

Statements of Changes in Stockholders' Equity

For the years ended December 31, 2010 and 2009
(Expressed in thousands of New Taiwan dollars)

	Common stock	Convertible preferred stock	Total	Capital surplus	Legal reserve	Unappropriated retained earnings (accumulated deficit)	Total	Cumulative foreign currency translation adjustments	Unrealized loss on financial instruments	Treasury stock	Total	Total
Beginning balance January 1, 2009	$ 2,772,809	228	2,773,037	263,663	1,688	(76,325)	(74,637)	(7,573)	(469,811)	(926,869)	(1,404,253)	1,557,810
Capital surplus to offset accumulated deficits (note 13)	-	-	-	(74,637)	-	74,637	74,637	-	-	-	-	-
Legal reserve to cover loss (note 13)	-	-	-	-	(1,688)	1,688	-	-	-	-	-	-
Net loss for 2009	-	-	-	-	-	(180,284)	(180,284)	-	-	-	-	(180,284)
Cumulative foreign currency translation adjustments	-	-	-	-	-	-	-	10,729	-	-	10,729	10,729
Unrealized loss on financial instruments (note 6)	-	-	-	-	-	-	-	-	25,160	-	25,160	25,160
Adjustments of net equity arising from changes in ownership percentage in investee (note 6)	-	-	-	-	-	(11)	(11)	-	-	-	-	(11)
Adjustments of treasury stock arising from changes in ownership percentage (note 6)	-	-	-	-	-	-	-	-	-	(2)	(2)	(2)
Balance as of December 31, 2009	2,772,809	228	2,773,037	189,026	-	(180,295)	(180,295)	3,156	(444,651)	(926,871)	(1,368,366)	1,413,402
Capital surplus to offset accumulated deficits (note 13)	-	-	-	(180,295)	-	180,295	180,295	-	-	-	-	-
Convertible bonds－equity component at the time of issuance (note 10)	-	-	-	6,230	-	-	-	-	-	-	-	6,230
Net loss for 2010	-	-	-	-	-	(109,842)	(109,842)	-	-	-	-	(109,842)
Cumulative foreign currency translation adjustments	-	-	-	-	-	-	-	(10,029)	-	-	(10,029)	(10,029)
Unrealized loss on financial instruments (note 6)	-	-	-	-	-	-	-	-	(314)	-	(314)	(314)
Adjustments of net equity arising from changes in ownership percentage in investee (note 6)	-	-	-	-	-	(131)	(131)	-	-	-	-	(131)
Balance as of December 31, 2010	**$ 2,772,809**	**228**	**2,773,037**	**14,961**	**-**	**(109,973)**	**(109,973)**	**(6,873)**	**(444,965)**	**(926,871)**	**(1,378,709)**	**1,299,316**

See accompanying notes to financial statements.

TWINHEAD INTERNATIONAL CORP.

Statements of Cash Flows

For the years ended December 31, 2010 and 2009
(Expressed in thousands of New Taiwan dollars)

		2010	2009
Cash flows from operating activities:			
Net loss	$	(109,842)	(180,284)
Adjustment to reconcile net income to net cash provided by operating activities:			
Depreciation		23,284	24,546
Amortization		20,844	14,084
Reversal of allowance for doubtful accounts		(1,000)	-
Amortization of discount on corporate bond payable		2,112	-
Provision (reversal) for loss on obsolescence and decline in value of inventory		15,192	(2,369)
Investment loss under equity method		46,330	55,197
Cash dividend from investee under equity method		526	-
Loss on disposal of property, plant and equipment		94	65
Gain on disposal of long-term investment under equity method		-	(5,288)
Gain on valuation of financial liabilities		(483)	-
Impairment loss		15,000	65,333
Gain on unrealized (realized) inter-company transactions		821	(113)
Deferred income tax expense (benefit)		23,792	(20,002)
Net operating assets and liabilities:			
Net operatings assets:			
Notes receivable		(65)	(36)
Accounts receivable		65,322	98,824
Accounts receivable－related parties		24,431	32,189
Other receivables from related parties		-	3,898
Inventories		(13,771)	16,592
Prepaid expenses		644	2,302
Other current assets		1,138	330
Other financial assets－current		928	(617)
Net operating liabilities:			
Notes payable		26	(472)
Accounts payable		39,728	(103,001)
Accrued expenses		1,718	(6,544)
Other payables to related parties		(20,992)	1,182
Other current liabilities		(38,857)	7,738
Net cash provided by operating activities		96,920	3,554
Cash flows from investing activities:			
Increase in long-term investment under equity method		-	(45,000)
Proceeds from disposal on long-term investment under equity method		-	15,300
Acquisition of property, plant and equipment		(4,850)	(7,739)
Proceeds from disposal of property, plant and equipment		98	-
Decrease in refundable deposits		1,210	11,276
Increase in deferred charges		(15,681)	(25,529)
Decrease (increase) in other receivables from related parties		46,002	(50,000)
Net cash provided by (used in) investing activities		26,779	(101,692)
Cash flows from financing activities:			
Decrease in short-term borrowings		(129,652)	(32,047)
Issuance of convertible bond payable		70,000	-
Decrease in guarantee deposits received		(570)	(734)
Decrease in long-term notes payable		-	(11,691)
Net cash used in financing activities		(60,222)	(44,472)
Net increase (decrease) in cash and cash in banks		63,477	(142,610)
Cash and cash in banks at beginning of year		331,694	474,304
Cash and cash in banks at end of year	**$**	**395,171**	**331,694**
Supplementary disclosures of cash flow information:			
Cash payment of interest	**$**	**11,611**	**15,947**
Cash payment of income taxes	**$**	**72**	**85**
Investing and financing activities not affecting cash flows:			
Long-term investment loss in excess of investment cost offset against receivables from related parties	**$**	**(3,912)**	**(4,482)**
Unrealized loss (gain) on financial instruments	**$**	**314**	**(25,160)**
Cumulative foreign currency translation adjustments	**$**	**(10,029)**	**10,729**

See accompanying notes to financial statements.

TWINHEAD INTERNATIONAL CORP.

Notes to Financial Statements

December 31, 2010 and 2009

(expressed in thousands of New Taiwan dollars, unless otherwise stated)

(1) Organization

Twinhead International Corp. (the Company) was incorporated on February 27, 1984, as a company limited by shares under the laws of the Republic of China (ROC). The shares of the Company are traded on the Taiwan Stock Exchange. The Company is engaged in the design, manufacture, sale and development of computers, computer components, peripherals, software, ASIC chips and workstations, and operation of telecommunication-related business.

As of December 31, 2010 and 2009, the number of the Company's employees was 238 and 239, respectively.

(2) Summary of Significant Accounting Policies

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

The Company prepared the accompanying financial statements in accordance with the Regulations Governing Financial Reporting for Issuers of Stock Certificates, the Business Entity Accounting Act, the Regulation on Business Entity Accounting Handling, and ROC generally accepted accounting principles. Unless specified otherwise, the preparation of the financial statements is based on historical cost. A summary of significant accounting policies and valuations is as follows:

(a) Accounting estimates

The Company made accounting estimates, valuations and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and contingencies. These estimates were disclosed and evaluated by the Company. However, the actual results could differ from these estimates.

(b) Foreign currency transactions and translation of foreign financial statements

The Company maintains its books in New Taiwan dollars. Non-derivative foreign currency transactions are recorded at exchange rates prevailing on the transaction dates. All assets and liabilities denominated in foreign currencies are translated at the exchange rates on the balance sheet date. The realized and unrealized exchange gain or loss on settlement of foreign currency-denominated assets and liabilities and adjustments to such assets and liabilities are recorded as non-operating income or expense.

The financial statements of the Company's foreign subsidiaries are measured by using the local currency as the functional currency. Foreign currency financial statements are translated into New Taiwan dollars according to the following principles:

i) Assets and liabilities are translated at the current exchange rate prevailing on the balance sheet date.

ii) Stockholders' equity is translated at the historical rate, with the exception that the beginning retained earnings in New Taiwan dollars are brought forward. Dividends are translated at the exchange rate on the declaration date.

(Continued)

iii) Income statement accounts are translated at the average exchange rate of the year involved.

The resulting translation differences are accounted for as translation adjustments and are included in the financial statements as a component of stockholders' equity. In addition, the translation gains or losses are accounted for as a component of the income statement upon liquidation of the Company's foreign subsidiaries.

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

Cash or cash equivalents that are not restricted in use, assets held for the purpose of trading, and assets that will be held short-term and are expected to be converted to cash within 12 months of the balance sheet date are listed as current assets; other assets are listed as non-current assets.

Liabilities that must be fully liquidated within 12 months after the balance sheet date are listed as current liabilities; other liabilities are listed as non-current liabilities.

(d) Asset impairment

The Company adopted Statement of Financial Accounting Standards (SFAS) No. 35 "Impairment of Assets". In accordance with SFAS 35, the Company assesses at each balance sheet date whether there is any indication that an asset other than goodwill (individual asset or cash-generating unit) 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.

An impairment loss recognized in prior periods is reversed for assets other than goodwill if there is any indication that the impairment loss recognized no longer exists or has decreased. The carrying value after the reversal should not exceed the recoverable amount or the depreciated or amortized balance of the assets assuming no impairment loss was recognized in prior periods.

(e) Allowance for doubtful accounts

Allowance for doubtful accounts is based on the age of the accounts and the collectability of individual accounts.

(f) Inventories

Effective January 1, 2009, the Company adopted the revised SFAS No. 10 "Inventories" in computation of inventories' cost and subsequent valuation. The cost of inventories consists of all costs of purchase, cost of conversion, and other costs incurred in bringing the inventories to their present location and condition. Inventories are measured at the lower of cost or net realizable value. The cost of inventories is based on the standard cost principle. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses at the end of the period. When cost of inventories is higher than net realizable value, inventories are written down to net realizable value, and the write-down amount is charged to current year's cost of goods sold. If the net realizable value increases in the future, cost of inventories is reversed within the original write-down amount, and such reversal is treated as a reduction of cost of goods sold.

(Continued)

(g) Long-term equity investments

i) Long-term investment under equity method

Long-term equity investments are accounted for by the equity method when the Company owns 20% or more of an investee's voting stock or less than 20% of an investee's voting stock but is able to exercise significant influence over the investee's operating and financial policies. Unrealized gains or losses from inter-company transactions are deferred, and deferred credit or debit and unrealized gain or loss are adjusted accordingly. Unrealized gains or losses resulting from depreciable or amortizable assets are deferred and amortized over the estimated useful lives of the assets concerned. Unrealized gains or losses from other assets are recognized when realized.

The difference between the acquisition cost of an investment and the underlying equity of the investee is accounted for according to the newly revised SFAS No. 5 "Long-term Investments under Equity Method". Differences generated from depreciation, amortization, or amortizable assets are amortized over the estimated remaining years since the acquisition year. When the differences are generated from the book value over or under the fair value of the net assets, the unamortized amounts are written off at once when the fair value is equal to the book value. Goodwill is recognized when the acquisition cost of an investment is higher than the fair value of the identifiable assets. On the contrary, when the fair value of identifiable assets is higher than the acquisition cost of an investment, the difference will initially be credited to non-current assets on a pro rata basis. If there are still differences after all non-current assets are credited, the residual amount would be recorded as extraordinary gain or loss.

When an investee incurs losses which result in a credit balance of the long-term investment accounted for under the equity method, if the Company is able to exercise significant influence over the investee, losses exceeding the original equity in the investee are recognized by the Company in full, unless the minority shareholders have obligations and ability to bear the loss incurred.

The long-term investment under the equity method will be credited first when recognizing investment losses, and remaining losses exceeding such investment, if any, will be credited to accounts receivable from the investee. However, if the accounts receivable are still insufficient to cover the excess, the long-term investment under the equity method should be credited for the remaining amount and recorded under other liabilities.

In addition, to account for all investees in which the Company has a controlling interest under the equity method, the Company prepares quarterly consolidated financial statements.

ii) Financial assets carried at cost

Financial assets carried at cost refer to investments in non-listed companies in which the Company has no control or significant influence over the investee. They are recognized at acquisition cost, as measurement of their fair value is difficult. If any objective evidence exists suggesting impairment loss, this loss shall be recognized and not be reversed. The stock dividends issued by investees shall be treated as an increase in shares instead of investment gain. Cost upon sale of long-term investments under the cost method is determined using the weighted-average method.

(Continued)

iii) Available-for-sale financial assets

The Company adopted SFAS No. 34 "Financial Instruments: Recognition and Measurement". Financial instrument transactions are recognized on the date of transaction. Available-for-sale financial assets are investment in stocks of listed companies and are recognized at fair value plus transaction cost.

Available-for-sale financial assets are subsequently recognized at fair value, and the difference between the carrying value and fair value is recognized as a separate component of stockholders' equity as "unrealized gain or loss on financial instrument". The fair value of listed stocks is the net closing price on the balance sheet date. Any objective evidence suggesting impairment is recognized as impairment loss. If any subsequent event should cause the impairment loss to decrease, the amount is to be reversed and recognized in the income statements as current gain of the year. If, in a subsequent period, the amount of the impairment loss decreases, for available-for-sale financial assets, the previously recognized impairment loss is reversed to the extent of the decrease and recorded as an adjustment to stockholders' equity. Cost upon sale or derecognition of available-for-sale financial assets is determined using the weighted-average method. Furthermore, cumulative unrealized gains or losses under stockholders' equity are accounted for as current-period profit or losses. The cash dividends distributed by investees shall be recognized as income on the ex-dividend date or the date of the shareholders' meeting, and shall be recorded under dividend income.

(h) Fixed assets and related depreciation

Fixed assets are stated at cost. Major additions, betterments and replacements are capitalized. Interest on loans incurred in connection with the construction of the plant or the acquisition of equipment is capitalized as part of the cost of the respective assets. Except for land, depreciation is provided over the estimated useful lives of the respective assets using the straight-line method. For an asset reaching its original estimated useful life that continued to be used, depreciation is provided, based on its residual value, over the additional estimated useful life using the straight-line method. The Company annually re-evaluates the remaining useful life, the depreciation method, and the salvage value of property, plant and equipment. Any changes to the remaining useful life, the depreciation method, and the salvage value are treated as changes in accounting estimates.

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

Buildings and improvement	4~62 years
Machinery and equipment	2~15 years
Transportation equipment	5 years
Office equipment	2~8 years

(i) Assets leased to others

Assets leased to others are stated at cost, and depreciation is provided over 4~62 years using the straight-line method and included in non-operating expenses.

(j) Deferred charges

Purchases of molds, test expenses and office decoration are amortized using the straight-line method over 1 to 5 years.

(Continued)

(k) Convertible bonds payable

Convertible bonds issued by the Company comprise convertible notes that can be converted into share capital at the option of the holder. The liability component of a convertible bond is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially as the difference between the fair value of the convertible bond as a whole and the fair value of the liability component.

Subsequent to initial recognition, the liability component of a convertible bond is measured at amortized cost using the effective interest method. Bond premium is added to the bond payable while the bond discount is subtracted from the bond payable to arrive at the carrying value of the bond. The amortization entry each year is to reflect the interest expense.

The holders' put option and the Company's redemption rights embedded in convertible bonds are classified as financial assets/liabilities at fair value through profit or loss, which are measured at fair value with fair value changes recognized in profit or loss.

Conversion rights embedded in bonds payable are initially recognized at fair value and recorded under capital surplus－conversion right. Upon request by the bondholders to exercise their conversion rights, the recorded book value of common stock is measured by adding the book value of option rights and the fair value of the liability component of the convertible bond.

(l) Retirement plan

On August 31, 2007, the Company settled its vested benefit obligation with employees who transferred to the defined contribution plan under this New Act. According to this New Act, an employer is required to contribute monthly to an individual labor pension fund account at the rate of not less than 6% of the employee's monthly wages. The contributions are expensed as incurred.

(m) Employee bonuses and directors' and supervisors' remuneration

Employee bonuses and directors’ and supervisors' remuneration appropriated after January 1, 2008, are accounted for by Interpretation (96) 052 issued by the Accounting Research and Development Foundation. The Company estimates the amount of employee bonuses and directors' and supervisors' remuneration according to the Interpretation and recognizes it as operating costs or expenses. Differences between the amount approved in the shareholders' meeting and recognized in the financial statements, if any, are accounted for as changes in accounting estimates and recognized as profit or loss in the year of distribution.

(n) Provision for product warranties

Provision for product warranties is determined by estimating after-sales service cost based on past experience and recognized as operating expense at the time of sales.

(o) Revenue recognition

Revenue from sale of goods is recognized when the significant risks and rewards of ownership have been transferred; cost of goods sold is recognized when related revenue is recognized.

(Continued)

(p) Treasury stock

In accordance with SFAS No. 30 "Accounting for Treasury Stock", the Company uses the cost method to account for treasury stock. Under the cost method, the treasury stock account is debited for the cost of the Company's shares purchased. When the disposal price of treasury stock is greater than the cost, the difference is credited to capital surplus－treasury stock; otherwise, the excess of the cost over the price is debited to capital surplus generated from other treasury stock transactions. If the capital surplus－treasury stock account is insufficient to cover the excess of the cost over the price, retained earnings should be debited for the remaining amount. The book value of each share of treasury stock is equal to its weighted-average cost and is calculated by each group according to the reason for purchase.

When treasury stock is retired, capital surplus and common stock are debited according to the ratio of retiring treasury stock to total issued stock. When the book value of the retiring treasury stock is higher than the sum of its par value and capital surplus, the difference is debited to capital surplus－treasury stock. If the capital surplus－treasury stock account is insufficient to cover the difference, retained earnings should be debited for the remaining amount. When the book value of the retiring treasury stock is lower than the sum of its par value and capital surplus, the difference is credited to capital surplus－treasury stock.

The Company adopted the provisions of SFAS No. 30 "Accounting for Treasury Stock". As a result, a subsidiary's shareholding of the parent company will be recorded as treasury stock with no retroactive adjustment needed when recognizing gain (loss) on investment or issuing financial statements.

(q) Income tax

In accordance with SFAS No. 22 "Income Taxes", deferred income tax is determined based on temporary differences between the financial reporting and tax basis of assets and liabilities, and is measured by applying the effective tax rates for the taxable years in which the differences are expected to be reversed. Deferred tax liabilities are recognized for the future tax consequences attributable to taxable temporary differences. Deferred tax assets are recognized for the future tax consequences attributable to deductible temporary differences and investment tax credits, with the measurement of deferred tax assets being reduced by estimated amounts of tax benefits not likely to be realized. Deferred tax assets and liabilities should be classified as current or non-current based on the classification of the related asset or liability for financial reporting. Deferred tax assets or liabilities that are not related to an asset or liability for financial reporting should be classified according to the expected reversal date of the temporary differences.

For any modification of the income tax rate, the deferred income tax assets (liabilities) should be recalculated according to the new rate as of the announced year. The difference between the original and new amount is the effect of the change in income tax rate for deferred income tax assets (liabilities), which should be recognized as income tax expense (revenue) of current continuing operations.

The 10% income tax surtax on unappropriated earnings is recorded as expense on the date the stockholders decide the distribution of earnings.

(Continued)

The Company adopted the "Income Basic Tax Act". In accordance with the act, if the amount of alternative minimum tax (AMT) is greater than the income tax payable pursuant to the Income Tax Act, the difference should be recognized as current income tax expenses. The taxable income for calculating the AMT includes most of the income that is exempted from income tax under various laws and statutes. The Company has considered the impact of the IBTA on its current tax liabilities.

(r) Gain (loss) per share of common stock

The Company has a complex capital structure. According to the regulations, the basic gain (loss) per share is therefore computed and diluted. The basic gain (loss) per share is calculated by dividing net gain (loss) adjusted after issuing preferred stock dividends by the weighted-average number of shares outstanding. An increase in number of shares outstanding due to an employee stock option plan shall be added to the shares outstanding retroactively. The increase in capital due to an employee stock option plan shall be recalculated retroactively if the effective date is before the issuing date of the financial statements. The diluted gain (loss) per share is calculated using the same method as that for the basic gain (loss) per share; moreover, the effect of all potential dilutive common stock shall also be included.

(3) Reason for and Effect of Accounting Changes

Effective January 1, 2009, the Company adopted the newly revised SFAS No. 10 "Inventories" to reclassify, estimate and disclose the initial measurement and subsequent valuation of inventories. The adoption of this new accounting principle had no significant effect on the Company's financial statements for the year ended December 31, 2009.

(4) Cash and Cash in Bank

As of December 31, 2010 and 2009, the components of cash were as follows:

		2010	2009
Petty cash	$	215	213
Savings accounts		394,956	331,481
	$	**395,171**	**331,694**

(5) Inventories

As of December 31, 2010 and 2009, the details of inventories were as follows:

		2010	2009
Finished goods	$	23,068	25,034
Work in process		12,475	3,654
Raw material and supplies		100,489	111,479
Goods in transit		14,922	12,208
	$	**150,954**	**152,375**

(Continued)

The movements in the Company's provision for loss on obsolescence and decline in value of inventories were as follows:

		2010	2009
Beginning balance	$	147,260	149,629
Add: Provision for current year		15,192	-
Less: Reversed in current period		-	2,369
Ending balance	$	162,452	147,260

Besides the operating cost resulting from sales of inventory, the Company recorded other expense or loss under operating cost as follows:

		2010	2009
Loss (recovery) on decline in value of inventories	$	15,192	(2,369)

(6) Long-term Equity Investments

(a) As of December 31, 2010 and 2009, the details were as follows

	2010			2009		
	Percentage of ownership	Investment cost	Book value	Percentage of ownership	Investment cost	Book value
Under equity method:						
Gammatech Computer Corporation	45.000	$ 29,391	62,309	45.000	29,391	67,448
Twinhead GmbH	100.000	169,266	-	100.000	169,266	-
Twinhead (Asia) Pte Ltd.	100.000	533,550	194,934	100.000	533,550	250,525
Lun Yang Technology Co., Ltd.	99.983	867,850	-	99.983	867,850	-
Twintek International Corporation (originally named Lun Shiang Technology Co., Ltd.)	99.974	328,533	43,622	99.974	328,533	47,389
Yu Feng Technology Co., Ltd.	99.975	397,900	27,820	99.975	397,900	30,372
Fiber Logic Communications Inc.	8.346	17,527	24,184	8.764	17,527	20,260
		2,344,017	352,869		2,344,017	415,994
Financial assets carried at cost－non-current:						
EUROC Venture Capital Corp.	10.000	$ 80,000	80,000	100.000	80,000	80,000
I1. Com	2.125	30,800	15,800	2.129	30,800	30,800
Trigem Computer, Inc.	0.003	63,609	22,609	0.003	63,609	22,609
Printec Japan Co., Ltd.	9.000	2,715	2,715	9.000	2,715	2,715
		177,124	121,124		177,124	136,124
Available-for-sale financial assets－non-current:						
Tekom Technologies Inc.	0.360	1,963	1,963	0.833	1,963	1,963
Less: unrealized loss on financial instrument		-	805		-	491
		1,963	1,158		1,963	1,472
		$ 2,523,104	475,151		2,523,104	553,590

(Continued)

In 2010, an employee of Fiber Logic Communications Inc. exercised stock options, resulting in a dilution of the Company's percentage of ownership to 8.346%, which reduced retained earnings by $90 thousand. In addition, because Lun Yang Technology Co. Ltd., a subsidiary of the Company, invested in Fiber Logic Communications Inc., the dilution aforementioned resulted in a change in Lun Yang's percentage of ownership in Fiber. Therefore, the Company recognized a reduction in Lun Yang's retained earnings amounting to $41 thousand.

In November 2009, Twintek International Corporation (originally named Lun Shiang Technology Co., Ltd.) underwent a capital reduction to offset its deficit, resulting in a reduction of the Company's holdings of 4,237 thousand shares, and Twintek International Corporation (originally named Lun Shiang Technology Co., Ltd.) issued new capital stock. The Company increased its investment in Twintek International Corporation (originally named Lun Shiang Technology Co., Ltd.) by $45,000 and acquired 4,500 thousand shares. In 2009, the Company decreased its retained earnings by $11 based on adjustment of its ownership percentage.

In the fourth quarter of 2009, the Company sold 1,500 thousand shares of Fiber Logic Communications, Inc. for $15,300, which resulted in investment income amounting to $5,288.

In 2010, the Company wrote down its financial assets carried at cost by $15,000 considering I1. Com's operating condition, and recorded it as impairment loss.

In 2009, the Company wrote down its financial assets carried at cost by $41,000 considering Trigem Computer Inc.'s operating condition, and recorded it as impairment loss.

In the fourth quarter of 2009, the Company's available-for-sale financial asset—non-current—Tekom Technologies Inc. underwent a capital reduction to offset its deficit. The Company recognized $24,333 as impairment loss. In 2010, Tekom Technologies Inc. finished the procedure of capital reduction and issuance of new stock, and that of private equity transfer. The procedures resulted in a reduction of the Company's holdings of $1,361 shares and of the Company's percentage of ownership to 0.36%.

The Company's accumulated investment loss recognized in excess of investment cost would be offset against accounts receivable—related parties, other receivables from related parties, and long-term accounts receivable from related parties. Due to the capital increase and collection of other receivables, the decrease and increase in offset amounted to $3,912 and $4,482 in 2010 and 2009, respectively.

A subsidiary's shareholding of the parent company will be recorded as treasury stock to decrease long-term investment and increase treasury stock. The details are as follows:

		2010	2009
Lun Yang Technology Co., Ltd.	$	820,924	820,924
Twintek International Corporation (originally named Lun Shiang Technology Co., Ltd.)		55,146	55,146
Yu Feng Technology Co., Ltd.		50,801	50,801
	$	**926,871**	**926,871**

In 2009, the Company increased its investment in Twintek International Corporation (originally named Lun Shiang Technology Co., Ltd.), resulting in an increase in ownership percentage and an increase in treasury stock of $2. No such transaction occurred in 2010.

(Continued)

(b) Unrealized loss on financial instrument

Beginning in 2006, the Company adopted SFAS No. 34 "Financial Instruments: Recognition and Measurement". As of December 31, 2010 and 2009, unrealized loss on devaluation of its investments in Tekom Technologies Inc. was $805 and $491, respectively, and was recorded as unrealized loss on financial instrument under stockholders' equity.

(c) The movements of unrealized loss on available-for-sale financial assets in 2010 and 2009 are listed below:

		2010	2009
Beginning balance	$	491	25,651
Add: unrealized loss recognized (reversal) this year		314	(827)
Add: Impairment loss		-	(24,333)
Ending balance	**$**	**805**	**491**

As of December 31, 2010 and 2009, the Company recognized $444,160 of unrealized loss on devaluation of a subsidiary's holding of the shares of the Company. This transaction was treated as treasury stock and was recorded as a reduction of stockholders' equity.

In 2010 and 2009, if the Company recognized it on a pro rata basis, the unrealized loss and unrealized gain on valuation of a subsidiary's financial instrument investments in the parent company would be $3,851 and $102,195, respectively. The ending balance of unrealized loss on devaluation of financial instrument investments was $702,026 and $698,175, respectively.

(7) Fixed Assets

As of December 31, 2010 and 2009, the accumulated asset impairment amounted to $10,593. The above loss was recognized based on the carrying value of the factory building and machinery at Da Fa Industrial exceeding its estimated recoverable amount. After evaluation, the gain on reversal of impairment loss recognized on December 31, 2010 and 2009, does not need to be recorded. The discount rates in use were 10.66% and 7.24%, respectively.

(8) Assets Leased to Others

		2010	2009
Land	$	149,817	134,219
Building		232,303	167,696
		382,120	301,915
Less: accumulated depreciation		72,283	40,693
	$	**309,837**	**261,222**

The major terms of the lease contracts are as follows:

(a) The contract period is 1 to 6 years.

(b) The lessee has usage rights during the leasehold period. The leased assets cannot be lent to others, sub-leased, or used by others.

(Continued)

In 2010 and 2009, the total rental revenues amounted to $16,351 and $21,328, respectively, and were recorded as rental income. The lease revenues for subsequent years are as follows:

Period		Amount
January 1, 2011~December 31, 2011	$	13,321
January 1, 2012~December 31, 2012		10,430
January 1, 2013~June 30, 2013		1,315
	$	**25,066**

(9) Short-term Bank Borrowings

		2010	2009
Credit loan	$	230,000	270,000
Secured bank loans		260,000	280,000
Usance letters of credit		102,584	172,236
	$	**592,584**	**722,236**

Annual interest rates on short-term borrowings were 0.75%~2.21% and 1.00%~5.74% in 2010 and 2009, respectively. The aforementioned loans were due within 365 days.

As of December 31, 2010 and 2009, unused credit lines amounted to approximately $837,479 and $674,097, respectively.

(10) Convertible Bonds Payable

		2010
Present value of private equity unsecured convertible bonds payable as of December 31, 2010	$	62,832
Add: Interest expense recognized in current period		2,112
	$	**64,944**

On February 26, 2010, the Company issued private equity unsecured convertible bonds amounting to $70,000. In compliance with SFAS No. 36, the Company separated convertible options and liabilities. Details of equity and liabilities recognized by the Company are summarized as follows:

Present value of convertible bonds at issuance (discount rate is 3.67%, par value of $100)	$	62,832
Embedded derivative financial liabilities at issuance (holder's put option)		938
Equity components at issuance (holder's convertible option)		6,230
Bonds payable at issuance	**$**	**70,000**

(Continued)

(a) The primary terms of the abovementioned convertible bonds were as follows:

i) Coupon rate: 0%

ii) Duration: 3 years (from February 26, 2010, to February 26, 2013)

iii) Repayment: Unless earlier redeemed, requested to be redeemed, cancelled, or converted to common stock, the bond will be redeemed at 100% of par value on the maturity date by the issuing company.

iv) Rule that the bondholders redeem the bond: Bondholders are entitled to require the issuer to call the bond, and the price of the callable bond would be 100% of par value within the period from 18 months after the issuance date till the maturity date.

v) Terms of conversion:

i. Bondholders are entitled to convert their holdings of bonds into the Company's common stock within the period from 18 months after the issuance date till 10 days before the maturity date, based on the terms of conversion.

ii. Conversion Price: The conversion price at the issuance date was 4.58 dollars. Except for the issuance of common stock with conversion right or stock option of securities that could convert into common stock, when there is dilution of initial share ownership due to the Company issuing stock for cash, capital increase out of earnings, capital increase out of capital surplus, capital increase out of employees' bonus, merger, stock transfer, stock split, or capital increase by issuing overseas depository receipts, the conversion price should be adjusted according to the adjustment formula stated in the bond contract.

(b) Financial liabilities at fair value through profit or loss－non-current

		2010
Embedded derivative financial liabilities at issuance (holder's put option)	$	938
Less: Gain on valuation		483
	$	**455**

As of December 31, 2010, the Company revaluated its embedded liabilities of derivative financial instruments. The difference between the aforementioned valuation and embedded derivative financial instruments issuance amounted to a gain of $483, which was recognized as gain on valuation of financial liabilities.

(c) The balance of equity components, which are recorded under additional paid-in capital, are summarized below:

		2010
Equity components at the time of issuance (conversion option)	**$**	**6,230**

(Continued)

(11) Pension

The Company incurred pension expense under the defined contribution plan for 2010 and 2009 amounting to $8,340 and $9,203, respectively.

(12) Income Tax

According the amendment to the income Tax Act on May 27, 2009, the income tax rate applicable to the Company was reduced to 20% commencing from 2010. Furthermore, according to the amendment to the Income Tax Act on June 15, 2010, the income tax rate applicable to the Company was reduced to 17% commencing from 2010. The applicable rate under profit-seeking enterprise income tax law in 2010 and 2009 is 17% and 25%, respectively. The components of income tax expense (benefit) for the years ended December 31, 2010 and 2009, were as follows:

		2010	2009
Current income tax expense	$	-	2
Deferred income tax expense (benefit)		23,792	(20,002)
Income tax expense (benefit)	**$**	**23,792**	**(20,000)**

The differences between "expected" income tax at the statutory income tax rate and estimated income tax as reported in the accompanying financial statements for years 2010 and 2009 were as follows:

		2010	2009
"Expected" income tax expense (benefit)	$	(14,629)	(50,071)
Loss from long-term investments		7,876	13,799
Investment tax credits acquired		(21,579)	-
Investment tax credits expired		40,038	28,654
Underestimate (overestimate) of prior year's deferred income tax assets		17,712	(29,494)
Others		-	2
Effect of change in tax rate		54,690	100,659
Valuation allowance－deferred income tax assets		(60,316)	(83,549)
	$	**23,792**	**(20,000)**

(Continued)

The components of deferred income tax benefit (expense) for the years ended December 31, 2010 and 2009, were as follows:

		2010	2009
Investment tax credits	$	9,007	590
Loss carryforwards		38,367	(53,922)
Reserve for inventory loss		(2,583)	897
(Realized) unrealized gain on sales to related parties		(139)	112
Unrealized foreign exchange loss		(6,846)	(4,011)
Allowance for repairs and maintenance reserve		102	441
Allowance for doubtful account exceeding tax limit		1,030	26,271
Impairment loss		(9,520)	-
Deferred income tax effect due to income tax rate change		54,690	93,169
Valuation allowance		(60,316)	(83,549)
	$	**23,792**	**(20,002)**

As of December 31, 2010 and 2009, deferred income tax assets (liabilities) were as follows:

		2010	2009
Current:			
Deferred income tax assets	$	73,576	74,938
Valuation allowance－deferred income tax assets		(35,304)	(33,263)
Net deferred income tax assets－current	**$**	**38,272**	**41,675**
Non-current:			
Deferred income tax assets	$	338,667	420,005
Valuation allowance－deferred income tax assets		(170,410)	(232,767)
Net deferred income tax assets		168,257	187,238
Deferred income tax liabilities		-	(789)
Net deferred income tax assets (liabilities)－non-current	**$**	**168,257**	**186,449**
Total deferred income tax assets	**$**	**412,243**	**494,943**
Total deferred income tax liabilities	**$**	**-**	**789**
Total valuation allowance for deferred income tax assets	**$**	**205,714**	**266,030**

(Continued)

As of December 31, 2010 and 2009, the temporary differences, loss carryforwards, tax credits and respective tax effects related to the deferred income tax assets (liabilities) were as follows:

	2010		2009	
	Amount	Tax effect	Amount	Tax effect
Deferred income tax assets (liabilities):				
Investment tax credits	$ 81,871	81,871	90,878	90,878
Loss carryforwards	1,620,115	275,419	1,811,951	362,390
Reserve for inventory revaluation loss	162,452	27,617	147,260	29,452
Impairment loss	56,000	9,520	-	-
Unrealized gain on sales to related parties	17,968	3,055	17,147	3,429
Unrealized foreign exchange loss (gain)	41,180	7,001	908	182
Allowance for repairs and maintenance reserve	3,531	600	4,133	827
Allowance for doubtful account exceeding tax limit	33,837	5,752	38,928	7,785
Cumulative foreign currency translation adjustments	8,281	1,408	(3,945)	(789)
Valuation allowance－deferred income tax assets		(205,714)		(266,030)
		$ 206,529		228,124

In accordance with the ROC Statute for Industrial Innovation, the Company had investment tax credits resulting from research and development expense and employee training expense that may be used to offset, to the extent of 30%, income tax payable in the current year. The estimated tax credit for 2010 under the Statute for Industrial Innovation amounted to $5,333.

In accordance with the ROC Statute for Upgrading Industries, the Company had investment tax credits resulting from research and development expense, and employee training expense that may be used to offset, to the extent of 50%, income tax payable in the current year. The unused balances can be carried forward to offset future income tax payable for five years. The tax credits may be fully utilized only in the year of expiration. As of December 31, 2010, the amount and the expiry year of the Company's unused investments tax credits were as follows:

Year	Amount	Year of Expiration
2007	$ 29,551	2011
2008	28,064	2012
2009	24,256	2013
	$ 81,871	

(Continued)

In accordance with the amendment of Article 39 of the R.O.C. Income Tax Act, a company's losses can be carried forward to offset its future taxable income for a period of ten years. As of December 31, 2010, the amount and the expiry year of the Company's net losses were as follows:

Year		Amount	Year of Expiration
2003	$	498,854	2013
2004		97,177	2014
2005		665,728	2015
2006		142,783	2016
2007		50,924	2017
2008		71,197	2018
2009		93,452	2019
	$	**1,620,115**	

The ROC tax authorities have examined the Company's tax credits through 2006.

As of December 31, 2010 and 2009, the related imputation tax information was as follows:

		2010	2009
Balance of imputation credit account	**$**	**15,187**	**15,050**

As of December 31, 2010 and 2009, there was no imputation credit ratio because of accumulated deficits.

The components of unappropriated retained earnings (accumulated deficit) were as follows:

		2010	2009
1997 and before	$	-	-
1998 and after		(109,973)	(180,295)
	$	**(109,973)**	**(180,295)**

(13) Stockholders' Equity

(a) Capital stock

According to the Company's articles of incorporation, the rights and obligations of the 20% cumulative convertible preferred stockholders are summarized as follows:

i) Annual earnings, after making up accumulated deficits and appropriating legal reserve, are distributed, at 20% of par value, as dividends to the 20% cumulative convertible preferred stockholders.

ii) Dividends are paid annually after being approved and declared in the annual common stockholders' meeting. Dividends are calculated based on the prior year's outstanding days; however, upon conversion into common stock, the 20% cumulative convertible preferred stockholders waive their rights to the current year's profit distribution.

(Continued)

iii) Dividends in arrears must be made up in a later year before profits are distributed to common stockholders. Upon conversion into common stock, dividends in arrears should be paid in full, and a 20% cumulative convertible preferred stockholder is precluded from sharing in prior years' profit distribution with the common stockholders. Except for the differences in dividend distribution, a 20% cumulative convertible preferred stockholder shares the same rights or obligations as the common stockholders.

iv) One year after issuance, the 20% cumulative convertible preferred stockholders may, at their option, in June of every year, exchange their convertible preferred shares for common shares at a 1:1 ratio.

v) A 20% cumulative convertible preferred stockholder has preference over the common stockholders to the remaining assets in the event of the Company's liquidation, and is limited to the issuance amount of the 20% cumulative convertible preferred stock. Unless otherwise stipulated in the articles of incorporation, a 20% cumulative preferred stockholder has no other rights or obligations.

(b) Treasury stock

In 2010 and 2009, none of the shares of the Company were sold by its subsidiaries. As of December 31, 2010 and 2009, subsidiaries Lun Yang, Twintek, and Yu Feng held 29,628 thousand shares of common stock of the Company that the subsidiaries intending to held as a long term stock purchased convertible bonds recording as treasury stock which can be converted to the stock of the Company, and market value amounted to $154,655 and $158,506, respectively.

(c) Capital surplus

The ROC Company Act stipulates that only realized capital surplus, after making up a deficit and transferring to share capital, can be used to increase share capital, and should not be used for distribution of cash dividends. The aforementioned realized capital surplus includes paid-in capital in excess of par value and donation income. In accordance with the Enforcement Rules of the Securities and Exchange Act, the per-year amount transferred to increase common stock cannot exceed 10% of issued share capital. Issuance of new stock from capital surplus of cash subscription in excess of par value of common stock can be made only once per year, and cannot be made in the same year as cash subscription. The balance of capital surplus is as follow:

		2010	2009
Premium on common stock	$	8,731	189,026
Stock option		6,230	-
	$	**14,961**	**189,026**

Capital surplus resulting from issuance of redeemable convertible bonds cannot be used for issuance of new stock because the aforementioned capital surplus was recognized as prescribed by the Regulation on Business Entity Accounting Handling instead of the Business Act.

The shareholders' meetings held on May 21, 2010, and May 22, 2009, decided to use capital surplus of $180,295 and $74,637, respectively, to offset the accumulated deficit.

(Continued)

(d) Legal reserve

The ROC Company Act stipulates that the Company must retain 10% of its after-tax annual earnings as legal reserve until such retention equals the amount of total capital. Legal reserve can only be used to offset deficits, and cannot be distributed as cash dividends. Up to one-half of legal reserve can be converted to share capital when it reaches an amount equal to one-half of issued share capital. When the Company has no earnings and legal reserve is in excess of one-half of capital, the part that exceeds one-half of capital can be distributed as cash dividends.

The shareholders' meeting held on May 22, 2009, decided to use legal reserve of $1,688 to offset the accumulated deficit.

(e) Appropriation of earnings

The Company's articles of incorporation stipulate that annual earnings, after making up accumulated deficit and appropriating tax payable and legal reserve, are to first make up convertible preferred stock dividends in arrears, then 12.5% is distributed as employee bonuses according to the employee bonus plan and 2% is distributed as directors' and supervisors' remuneration. The remainder is distributed in consideration of the overall industry circumstances, the Company's financial structure, and the investors' best interest, but no less than 50%. Such distribution, considering the capital surplus, retained earnings, future profitability, and maintenance of the dividend distribution level, shall be no more than 40% in cash and the rest in stock dividend.

Earnings were unappropriated due to the accumulated deficits in both 2008 and 2009.

The Company's accumulated undistributed preferred stock dividend of $138 and $92 as of December 31, 2010 and 2009, respectively, will be recognized and distributed if approved in a shareholders' meeting.

(f) Employee bonuses and directors' and supervisors' remuneration

As of December 31, 2010 and 2009, the Company had incurred accumulated deficits. Therefore, employee bonuses and directors' and supervisors' remuneration were not accrued by the Company.

(14) Earnings (Loss) per Share

The details of basic and diluted loss per share for the Company in 2010 and 2009 were as follows:

(Unit: thousand shares)

	2010		2009	
	Before tax	After tax	Before tax	After tax
Basic earnings per share:				
Net loss (after deducting preferred stock dividends amounting to 46 thousand dollars)	$ (86,096)	(109,888)	(200,330)	(180,330)
Weighted-average outstanding shares	247,653	247,653	247,653	247,653
Basic loss per share (expressed in New Taiwan dollars)	$ (0.35)	(0.44)	(0.81)	(0.73)

(Continued)

	2010		2009	
	Before tax	After tax	Before tax	After tax
Pro forma data, assuming the Company's shares held by its subsidiaries were not treated as treasury stock:				
Net loss	$ (86,096)	(109,888)	(200,330)	(180,330)
Weighted-average outstanding shares	247,653	247,653	247,653	247,653
Treasury stock	29,628	29,628	29,628	29,628
Weighted-average outstanding shares in calculating pro forma earnings per share	277,281	277,281	277,281	277,281
Pro forma loss per share (expressed in New Taiwan dollars)	$ (0.31)	(0.40)	(0.72)	(0.65)

With its anti-dilutive effect, the Company's preferred stock issued and convertible bond were not included in the weighted-average number of shares outstanding for the calculation of diluted loss per share.

(15) Financial Instruments

(a) Derivative financial instruments

In 2010 and 2009, there was no derivative contract transaction.

(b) Fair value of non-derivative financial instruments

Methods and assumptions for estimating the fair value of financial instruments are as follows:

i) Short-term financial instruments

The fair value of short-term financial instruments is estimated based on the carrying amount, due to their short maturities. The applicable accounts include cash and cash in banks, notes and accounts receivable (including receivables from related parties), other receivables (payables)—related parties, other financial assets, short-term borrowings, notes and accounts payable (including payables to related parties), and accrued expenses.

ii) Available-for-sale financial assets—non-current: Stocks of listed companies. The fair value of stocks of listed companies is determined by the closing price on the balance sheet date.

iii) Financial assets carried at cost: As there were no open market prices, it was not practicable to estimate the fair value of the non-listed companies. Therefore, the book value is used as their fair value.

iv) Refundable deposits and guarantee deposits received are valued based on their carrying value.

v) Bond payable: The fair value was estimated by valuation. However the value of bond payable cannot represent the amount of cash out-flow in the future.

vi) Guarantees, standby letters of credit, and issuance letters of credit: The fair values were based on the respective contract prices.

(Continued)

vii) As of December 31, 2010 and 2009, the fair value of the Company's financial instruments determined by open market prices amounted to $1,158 and $1,472, respectively.

The fair value of the financial instruments of the Company is summarized as follows:

	2010		2009	
	Book value	Fair value	Book value	Fair value
Financial liabilities:				
Bonds payable	$ 64,944	64,944	-	-
Financial liabilities at fair value through profit or loss	455	455	-	-

(c) Financial risks

i) Market risk

Market risk represents the potential loss due to a decrease in the value of a financial instrument caused primarily by changes in foreign exchange rates. The Company maintains its foreign currency positions within prescribed limits in order to manage market risk.

The Company's foreign currency assets and liabilities are influenced by foreign exchange rates. However, the amount is not significant after offsetting the assets against the liabilities. Therefore, market risk is maintained within prescribed limits.

ii) Credit risk

Credit risk represents the potential accounting loss due to possible non-performance by obligators and counterparties under the terms of their contracts. The Company's credit risk involving accounts and notes receivable (including receivable from related parties), other receivables—related parties, and other financial assets—current was assessed by evaluating financial contracts with positive fair value on the balance sheet date.

Concentration of credit risk refers to the significant concentrations of credit risks from all financial instruments, whether the risks are from an individual counter-party or groups of counter-parties. Concentration of credit risk exists if a number of counter-parties are engaged in similar activities or activities in the same region or have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

The Company's notes and accounts receivable were concentrated on a few customers as follows:

	2010	
Customer Name	Amount	% of notes and accounts receivable
Subsidiary (including transferred long-term receivable; refer to note 16)	$ 327,716	64
I	167,237	33

(Continued)

Customer Name		2009 Amount	% of notes and accounts receivable
Subsidiary (including transferred long-term receivable; refer to note 16)	$	347,332	58
I		198,937	33

To reduce credit risk, the Company assesses customers' financial status continuously, and an allowance for bad debt is provided by considering the collectability of receivables periodically.

iii) Liquidity risk

The Company's current assets are greater than current liabilities, and it satisfied its cash requirement through financial planning. Therefore, the Company has no potential loss due to the possible inability to settle its contracts by the expiration date.

iv) Cash flow risk arising from interest rate change

The Company's short-term borrowings and long-term notes payable are exposed to fluctuating market interest rates. Hence, cash flow risk resulted from the changes in interest rates. Nevertheless, the fluctuation range is not significant, and the Company is not exposed to significant cash flow risk arising from changes in interest rates.

(16) Transactions with Related Parties

(a) Name and relationship

Name	Relationship
Gammatech Computer Corporation (Gammatech Computer)	The Company and its subsidiaries hold 100% of Gammatech's common stock
Twinhead GmbH	Subsidiary of the Company
Twinhead Beijing Technology Co., Ltd. (Twinhead Beijing)	Subsidiary of a Company subsidiary (Twinhead (Asia) Pte Ltd.); Liquidated in December 2009
Twinhead Kunshan Technology Co., Ltd. (Twinhead Kunshan)	Subsidiary of a Company subsidiary (Twinhead (Asia) Pte Ltd.)
Twinhead Huazong Technology Co., Ltd. (Twinhead Huazong)	Indirect investment of the Company
Lun Yang Technology Co., Ltd. (Lun Yang)	Subsidiary of the Company
Twintek International Corporation (originally named Lun Shiang Technology Co., Ltd.) (Twintek)	Subsidiary of the Company
Yu Feng Technology Co., Ltd. (Yu Feng)	Subsidiary of the Company
Euroc II Venture Capital Co.	The chairman is also the Company's chairman
Cheng, Jia-Ling	A director of the Company

(Continued)

Name	Relationship
Euroc Venture Capital Co.	A director of the Company
Board of directors, supervisors, president and vice president	Key management of the Company

(b) Significant transactions with related parties

i) Sales

Sales to related parties were as follows:

	2010		2009	
	Amount	% of net sales	Amount	% of net sales
Gammatech Computer	$ 158,410	9	90,758	5
Twinhead GmbH	76,961	4	66,772	4
Lun Yang	2,486	-	16,442	1
Yu Feng	1,032	-	877	-
Twinhead Kunshan	225	-	-	-
	$ 239,114	13	174,849	10

The selling prices for related parties were same as those for other customers. The receivables can be offset with accounts payable from purchases or be O/A 60 to 180 days. However, since the subsidiaries had not achieved a stable stream of profits, the subsidiaries were not bound by the payment terms from the 4th quarter of 2004. The credit period for related parties was longer than for third parties (ranging from 30 to 60 days). In consideration of the subsidiaries' financial structure, the Company grants a longer credit period for its subsidiary companies.

(Continued)

ii) Receivables

Receivables resulting from the above transactions are summarized as follows:

	2010		2009	
	Amount	% of net receivables	Amount	% of net receivables
Account receivable:				
Gammatech Computer	$ 39,870	8	2,102	-
Twinhead GmbH	136,036	27	126,294	21
Lun Yang	45,809	9	52,159	9
	221,715	44	180,555	30
Deduct: investment loss offset against receivables				
Twinhead GmbH	78,811	15	91,698	15
Lun Yang	8,072	2	-	-
	86,883	17	91,698	15
	134,832	27	88,857	15
Deduct: receivables reclassified to long-term receivables	68,225	13	44,141	7
	$ 66,607	**14**	**44,716**	**8**

The Company provided allowance for doubtful account after evaluating the collectability of accounts receivable from Twinhead Huazong as of December 31, 2010 and 2009. Since the liquidation of Twinhead Beijing had been completed in 2010 and collection from Twinhead Huazong was unlikely, the Company wrote off account receivables and allowance for doubtful account. Additionally, as of December 31, 2010 and 2009, the aforementioned accounts receivable exceeding their normal credit period amounted to $68,225 and $44,141, respectively, and were recorded under long-term receivables. Please refer to note 16(vii)(ii).

(Continued)

iii) Purchases

Purchases from related parties were as follows:

	2010		2009	
	Amount	% of net purchases	Amount	% of net purchases
Twinhead Kunshan	$ 733,264	49	841,246	59
Twinhead GmbH	72	-	-	-
Gammatech Computer	36	-	17,658	1
Lun Yang	-	-	98	-
	$ 733,372	**49**	**859,002**	**60**

The purchase price was determined based on related parties' cost, and the repayment was offset with accounts receivable from sales or was due 60 days after purchase. Since the product specifications were different from those of normal suppliers, there are no comparable price available.

iv) Purchase of supplies on others' behalf

As of December 31, 2010 and 2009, the Company had purchased supplies on behalf of Twinhead Kunshan amounting to $159,617 and $221,307, respectively, classified as account receivable from related parties. Because the related-party credit term is longer than the normal credit term, the item is now reclassified as long-term account receivable from related parties amounting to $33,267 and $37,168, respectively.

v) Unrealized gain on sales to related parties

Inventory sold by the Company to investee companies which has not been resold to others would include unrealized gain on sales. As of December 31, 2010 and 2009, the unrealized gain on sales had increased by $821 and decreased by $113, respectively. As of December 31, 2010 and 2009, unrealized gain on sales was $17,968 and $17,147, respectively, and was recorded as deferred credits.

vi) Property transactions

In the third quarter of 2006, Lung Yang and Yu Feng agreed to buy 40% and 15%, respectively, of shares of common stock of Gammatech Computer from the Company. The difference between the proceeds and the book value of the original investment amounting to $15,041 was recorded as unrealized gain on inter-company transactions.

(Continued)

vii) Other transactions

i. Receivables from advance payments and collections

The receivable and payable (recorded as other receivables or payable－related parties) from the Company's accepting and paying royalties and other miscellaneous expenses for related parties were as follows:

1) Other receivable from related parties

		2010	2009
Lun Yang	$	104,011	150,013
Deduct: investment loss offset against receivables		104,011	103,108
	$	-	46,905

As of December 31, 2010 and 2009, the Company had receivables from Lun Yang which included financing amounting to $104,000 and $150,000, respectively. For details, please refer to note 16(b)(viii).

As of December 31, 2010 and 2009, the accumulated investment loss recognized in excess of investment cost offset against receivables from Lun Yang amounted to $104,011 and $103,108, respectively.

2) Other payable to related parties

		2010	2009
Twinhead Kunshan	$	1,992	21,797
Gammatech Computer		-	1,187
	$	1,992	22,984

ii. Reclassification of accounts receivable to long-term receivable

		2010	2009
Twinhead GmbH	$	110,901	76,528
Lun Yang		44,207	44,141
		155,108	120,669
Less: investment loss offset against receivables			
－Twinhead GmbH		78,811	76,528
－Lun Yang		8,072	-
		86,883	76,528
	$	68,225	44,141

(Continued)

The abovementioned accounts receivable were receivables from related parties. Since these accounts receivable exceeded the regular credit period given by the Company, they were reclassified to long-term receivables (refer to Note 16(b)(ii)). As of December 31, 2010 and 2009, the above overdue accounts receivable ranging from six to nine months were 7% and 6%, respectively, ranging from nine to twelve months were 8% and 2%, respectively, and over twelve months were 85% and 92%, respectively.

viii) Financing

A summary of the Company's financing to related parties (recorded as other receivable－related parties) in 2010 and 2009 is as follows:

	2010			
	Maximum balance	Ending balance	Interest rate range	Interest income
Lun Yang	$ 150,000	**104,000**	-	-

	2009			
	Maximum balance	Ending balance	Interest rate range	Interest income
Lun Yang	$ 150,000	**150,000**	-	-

As of December 31, 2010 and 2009, the accumulated investment loss recognized in excess of investment cost offset against other receivables amounted to $104,011 and $103,108, respectively.

ix) Other

The Company issued convertible bonds amounting to $70,000 on February 26, 2010. The transactions that involved related parties are summarized as follows:

	Amount
Euroc II Venture Capital Co.	$ 12,000
Cheng Jia Ling	10,000
Euroc Venture Capital Co.	8,000
Other	7,800
Total	**$ 37,800**

(c) Key management personnel compensation

Compensation to the directors, supervisors, president, and vice president comprised:

		2010	2009
Salary	$	17,841	17,753
Bonuses and allowances		995	1,269
Professional fees		2,592	2,516
Employee bonuses		-	-

Part of the aforementioned compensation is included in the accrual of employee bonuses and directors' and supervisors' remuneration as stated in note 13. Furthermore, the Company had provided personal transportation to a director. The cost of the abovementioned benefit amounted to $3,220 in each of the years 2010 and 2009. As of December 31, 2010 and 2009, the carrying value of the transportation was $0.

(17) Pledged Assets

As of December 31, 2010 and 2009, the details and net book value of pledged assets were as follows:

Pledged assets	Pledged for		Book value 2010	2010
Land	Short-term borrowings	$	64,438	80,035
Buildings and improvements	Short-term borrowings		119,351	149,251
Assets leased to others	Short-term borrowings		301,837	261,222
Total		**$**	**485,626**	**490,508**

(18) Commitments and Contingencies

(a) As of December 31, 2010 and 2009, the Company had outstanding letters of credit for the purchase of material totaling approximately $21,518 and $64,109, respectively.

(b) In 2005, the laptop department of IBM was acquired by LENOVO. Therefore, the Company signed a contract with LENOVO for royalties for producing a compatible operating system in May 2007. Starting from January 2007, the royalty payment is calculated by the models and quantity of the sales made by the Company.

(Continued)

(c) In November 2005, the Company entered into an operating lease for 10 years for its office rental, with refundable deposits of $7,452. The rental payment schedule for the next five years is as follows:

	Amount
2011	$ 21,667
2012	21,667
2013	21,667
2014	21,667
After 2015	19,019
	$ 105,687

(d) In 2009, the Company sued a dismissed employee for breach of trust. However, the court rejected the claim of the lawsuit because of insufficient evidence on November 24, 2009. The Company will not appeal to a higher court.

(e) Ciao-Jan Real Estate Property Corp. sued the Company for refusal to make payment. The High Court ordered the Company to pay $6,280 plus interest of $1,236 at the second trial on November 24, 2009. The aforementioned payment was made in 2010 and recorded under other loss.

(19) Material Disaster Loss: None.

(20) Material Subsequent Event: None:

(21) Others

(a) Employment, depreciation, and amortization expenses

A summary of employment, depreciation, and amortization expenses for the years ended December 31, 2010 and 2009, categorized by operating cost and operating expenses, is as follows:

Function / Account	2010			2009		
	Operating cost	Operating expenses	Total	Operating cost	Operating expenses	Total
Employment expenses						
Salaries	25,120	139,072	164,192	22,981	146,912	169,893
Labor and health insurance	2,333	10,439	12,772	2,214	11,020	13,234
Pension	1,396	6,944	8,340	1,395	7,808	9,203
Others employment expenses	1,745	3,618	5,363	1,568	3,996	5,564
Depreciation expenses (Note)	8,393	10,626	19,019	10,934	10,907	21,841
Amortization expenses	-	20,844	20,844	-	14,084	14,084

Note: Depreciation of assets leased to others and to be leased was $4,265 and $2,705 in 2010 and 2009, respectively, and was recorded as nonoperating expenses－other loss.

(Continued)

(b) Other

The significant financial assets and liabilities in foreign currencies are summarized as follows:

Unit: thousands

Item	2010.12.31 Foreign currency	Exchange rate	NTD	2009.12.31 Foreign currency	Exchange rate	NTD
Financial Assets:						
Monetary item:						
USD	$ 27,595	29.1300	803,842	25,936	31.9900	829,693
JPY	$ 8	0.3582	3	13	0.3472	5
GBP	$ 11	45.1900	497	9	51.6000	464
EUR	$ 1,985	38.9200	77,256	1,293	46.1000	59,607
Long-term investments under equity method:						
USD	$ 8,831	29.1300	257,247	9,940	31.9900	317,981
Financial Liabilities:						
Monetary item:						
USD	$ 10,096	29.1300	294,096	10,381	31.9900	332,088
GBP	$ 11	45.1900	497	-	-	-

(Continued)

(22) Additional Disclosures

(a) Related information on significant transactions:

i) Financing provided:

(Unit: thousand dollars)

No	Lender	Counterparty	Financial statement account	Maximum balance for the period	Ending balance of the period (Note 3)	Interest rate	Nature of financing	Transaction amount	Reason for financing	Allowance for doubtful accounts	Collateral		Financing limit for individual counterparty (Note 2)	Total financing limit (Note 1)
											Item	Value		
0	The Company	Lun Yang	Other receivables from related parties	150,000	104,000	-	Short-term financing	-	Capital requirements	-		-	259,863	519,726

Note 1: The total financing limit cannot exceed the net worth of the Company. For short-term financing, the financing limit is 40% of the Company's net worth.

Note 2: The financing limit for an individual counterparty is 20% of the Company's net worth, and cannot exceed the amount of the business transactions. The amount of the business transactions is the higher of either sales or purchases of both sides. For short-term financing, the financing limit is 20% of the Company's net worth.

Note 3: $104,000 has been used to offset long-term equity investment; please refer to Note 16(b)(viii).

ii) Endorsement/guarantee provided: None.

iii) Marketable securities held as December 31, 2010:

(Unit: thousand dollars/shares)

Name of holder	Category and name of security	Relationship with the Company	Financial statement account	December 31, 2010				Remarks
				Shares (thousand)	Book value	Percentage of ownership (%)	Market value	
The Company	Stock: Gammatech Computer	Investee accounted for under equity method	Long-term equity investment	225	62,309	45.000	62,309	-
〃	Twinhead GmbH	〃	〃	-	-	100.000	-	-
〃	Twinhead (Asia)	〃	〃	5,599	194,934	100.000	194,934	-
〃	Lun Yang	〃	〃	86,785	-	99.983	-	-
〃	Twintek	〃	〃	32,853	43,622	99.974	65,451	-
〃	Yu Feng	〃	〃	39,790	27,820	99.975	48,741	-
〃	Fiber Logic Communications Inc.	〃	〃	1,753	24,184	8.364	24,184	-
〃	EUROC Venture Capital Corp.	Investee accounted for under cost method	Financial assets carried at cost－non-current	8,000	80,000	10.000	Note	-
〃	I1.Com	〃	〃	400	15,800	2.125	〃	-
〃	Trigem Computer, Inc.	〃	〃	1	22,609	0.003	〃	-
〃	Printec Japan Co., Ltd.	〃	〃	-	2,715	9.000	〃	-
〃	Tekom Technology Inc.	Measured at fair value	Available-for-sale financial instrument－non-current	42	1,963	0.360	1,158	-
	Less: Unrealized loss on financial instrument				805			
					475,151			

Note: Not listed or OTC, and therefore has no market value.

iv) Marketable securities acquired and disposed of at costs or prices of at least NT$100 million or 20% of the paid-in capital: None.

v) Acquisition of individual real estate at cost of at least NT$100 million or 20% of the paid-in capital: None.

vi) Disposal of individual real estate at price of at least NT$100 million or 20% of the paid-in capital: None.

vii) Purchase from or sale to related parties amounting to at least NT$100 million or 20% of the paid-in capital:

(Unit: thousand dollars)

Company name	Related party	Nature of relationship	Transaction details				Reasons why and description of how the transaction conditions differ from general transactions		Accounts / notes receivable or payable		Remarks
			Purchases/ Sales	Amount	Percentage of total (%)	Payment terms	Unit price	Payment terms	Ending balance of accounts receivable	Percentage of total accounts receivable (payable)	
The Company	Twinhead Kunshan	Indirect subsidiary	Purchases	733,264	49	(Note 1)	Determined based on related parties' costs	(Note 1)	-	-	-
〃	Gammatech	Subsidiary	(Sales)	(158,410)	(9)	(Note 2)	No difference from other customers	(Note 2)	39,870	8	-

Note 1: Payments to these companies are offset with the accounts receivables or to be paid within 30~60 days after purchase.

Note 2: Payments to these companies are offset with the accounts receivables or to be paid within 60~180 days after sale.

(Continued)

viii) Receivables from related parties amounting to at least NT$100 million or 20% of the paid-in capital:

(Unit: thousand dollars)

Name of company which accounted for receivables from related party	Name of counter-party	Relationship with the Conpany	Ending balance of receivables from related parties (Note 1)	Turnover rate	Balance of account receivable		Collection after December 31, 2010 (Note 2)	Allowance for bad debt
					Amount	Accounting treatment		
The Company	Twinhead GmbH	Subsidiary	136,036	-	110,901	The receivable has been traced and recognized as long-term receivable	24,525	-
〃	Twinhead Kunshan	Indirect Subsidiary	192,884	-	33,267	〃	112,897	-

Note 1: Includes the amount recorded under long-term receivables; please refer to Notes 16(b)(ii) and (vii)(ii).

Note 2: Up to April 1, 2011.

ix) Derivative financial instrument transactions: None.

(b) Related information on long-term equity investments:

i) Name of, location of, and related information on investees:

(Unit: thousand dollars/shares)

Investor company	Investee company	Location	Main businesses and products	Original investment amount		Balance as of December 31, 2010			Net income (loss) of the investee	Investment gain (loss)	Remarks
				2010.12.31	2009.12.31	Shares (thousand)	Percentage of ownership (%)	Book value			
The Company	Gammatech Computer	U.S.A.	The research, development and trading of computers and computer peripheral equipment	29,391	29,391	225	45.000	62,309	2,140	963	100% jointly owned by the Company and its subsidiaries.
〃	Twinhead GmbH	Germany	The research, development and trading of computers and computer peripheral equipment	169,266	169,266	-	100.000	-	(1,497)	(1,497)	Subsidiary
〃	Twinhead (Asia)	Singapore	Investment holding	533,550	533,550	5,599	100.000	194,934	(42,527)	(42,527)	Subsidiary
〃	Lun Yang	Taiwan	The trading of computers and computer peripheral equipment	867,850	867,850	86,785	99.983	-	(7,957)	(7,957)	Subsidiary
〃	Twintek	Taiwan	The trading of computers and computer peripheral equipment	328,533	328,533	32,853	99.974	43,622	666	666	Subsidiary
〃	Yu Feng	Taiwan	The trading of computers and computer peripheral equipment	397,900	397,900	39,790	99.975	27,820	(518)	(518)	Subsidiary
〃	Fiber Logic Communication Inc.	Taiwan	Wired and wireless networking products for households and offices	17,527	17,527	1,753	8.346	24,184	54,865	4,540	Investee accounted for under equity method
Lun Yang	Fiber Logic Communication Inc.	Taiwan	Wired and wireless networking products for households and offices	7,900	7,900	790	3.760	10,900	54,865	2,046	Investee of Lun Yang accounted for under equity method
〃	Gammatech Computer	U.S.A.	The research, development and trading of computers and computer peripheral equipment	23,688	65,800	72	14.400	23,996	2,140	(188)	100% jointly owned by the Company, Lun Yang and Yu Feng
Twintek	Gammatech Computer	U.S.A.	The research, development and trading of computers and computer peripheral equipment	46,061	-	128	25.600	42,660	2,140	1,033	100% jointly owned by the Company, Lun Yang and Yu Feng
Yu Feng	Gammatech Computer	U.S.A.	The research, development and trading of computers and computer peripheral equipment	24,675	24,675	75	15.000	24,996	2,140	321	〃
Twinhead (Asia)	Twinhead Enterprises (BVI) Ltd.	British Virgin Islands	Investment holding	1,388	1,388	50	100.000	3,851	(38)	(38)	Indirect subsidiary
〃	Twinhead Kunshan	China	Production and marketing business of portable computers, calculator parts, terminals and keyboards	429,582	429,582	-	100.000	188,552	(42,337)	(42,337)	〃

Note: The liquidation of Twinhead Beijing was completed on December 10, 2009.

ii) Financing provided: None.

iii) Endorsement/guarantee provided: None.

iv) Marketable securities held on December 31, 2010:

(Unit: thousand dollars/shares)

Name of company which holds securities	Category and name of security	Relationship with holder	Amount name	Year-end				Remarks
				Number of shares	Book value	Percentage of shares	Market value	
Twinhead (Asia)	Stock: Twinhead Enterprises (BVI) Ltd.	Investee of Twinhead (Asia) accounted for under equity method	Long-term investment under equity method	50	3,851	100.000	3,851	-
〃	Twinhead Kunshan	〃	〃	-	188,552	100.000	188,552	-
Lun Yang	Stock: Twinhead Int'l Corp.	Parent company	Available-for-sale financial instrument－non-current	21,436	111,897	7.731	111,897	-

(Continued)

TWINHEAD INTERNATIONAL CORP.

Notes to Financial Statements

Name of company which holds securities	Category and name of security	Relationship with holder	Amount name	Year-end				Remarks
				Number of shares	Book value	Percentage of shares	Market value	
Lun Yang	Fiber Logic Communication Inc.	Investee accounted for under equity method	Long-term investment under equity method	790	10,900	3.760	10,900	-
〃	Gammatech Computer	100% jointly owned by Lun Yang, parent company and Yu Feng	〃	72	23,996	14.400	19,939	-
Twintek	Stock: Twinhead Int'l Corp.	Parent company	Available-for-sale financial instrument－non-current	4,183	21,833	1.508	21,833	-
〃	Gammatech Computer	100% jointly owned by Lun Yang, parent company and Yu Feng	Long-term investment under equity method	128	42,660	25.600	35,447	-
Yu Feng	Stock: Twinhead Int'l Corp.	Parent company	Available-for-sale financial instrument－non-current	4,009	20,925	1.446	20,925	-
〃	Gammatech Computer	100% jointly owned Yu Feng, parent company and Lun Yang	Long-term investment under equity method	75	24,996	15.000	20,770	-

Note 1: Those that do not have a market value at year-end should be listed at net worth or carrying value.

v) Marketable securities acquired and disposed of at cost or prices of at least NT$100 million or 20% of the paid-in capital: None.

vi) Acquisition of individual real estate at cost of at least NT$100 million or 20% of the paid-in capital: None.

vii) Disposal of individual real estate at price of at least NT$100 million or 20% of paid-in capital: None.

viii) Total purchases from or sales to related parties amounting to at least NT$100 million or 20% of the paid-in capital:

Units: thousand dollars

Name of company which purchased or sold	Name of counterparty	Relationship with the Company	Transaction details				Reasons why and description of how the transaction conditions differ from general transactions		Accounts/ notes receivable (payable)		Remarks
			Purchases / (Sales)	Amount	Percentage of total purchases / (sales)	Credit period	Unit price	Credit period	Balance	Percentage of total accounts / notes receivable (payable)	
Twinhead Kunshan	The Company	Parent company	(Sales)	(733,264)	(94.14)	(Note 1)	Determined based on related parties' cost	-	-	-	-
Gammatech	〃	〃	Purchases	158,410	65.60	(Note 2)	No difference from other supplier	-	(39,870)	(87)	-

Note 1: Payments to these companies are offset with the accounts receivable or to be paid within 30~60 days after purchase.

Note 1: Payments to these companies are offset with the accounts receivable or to be paid within 60~180 days after sale.

ix) Receivables from related parties amounting to at least NT$100 million or 20% of the paid-in capital: None.

x) Derivative financial instrument transactions: None.

(c) Investment in Mainland China:

i) Overview of investments:

(Unit: thousand dollars)

Name of investee in Mainland China	Main operational items	Issued capital (US$ in thousands)	Method of investment	Beginning balance of foreign investment from Taiwan (Note 1)	Investment movement within this period		Ending balance of foreign investment from Taiwan	Percentage of direct or indirect investment holding	Gain (loss) recognized during the period (Note 1)	Book value as of December 31, 2010 (Note 2)	Accumulated gain returned to Taiwan at end of period
					Invested amount	Returned amount					
Twinhead Kunshan	Sales and production of PDAs, calculators and their parts, and computer keyboards	USD12,500	(Note 2)	364,125 (USD12,500)	-	-	364,125 (USD12,500)	100	(42,337)	188,552	-
Twinhead Huazhong Technology Limited Corp.	Install and sell laptop parts and accessories. Sales and production of related software	USD4,000	(Note 2)	58,260 (USD2,000)	-	-	58,260 (USD2,000)	-	-	-	-

Note 1: The exchange rate as of December 31, 2010: USD1=NTD29.13

Note 2: Indirect investee of Twinhead (Asia)(100% owned by the Company)

Aggregate investment amount remitted from ROC to Mainland China at the end of the period (Note)	Investment amount approved	Limitation on investment in Mainland China by Investment Commission of Ministry of Economic Affairs
460,254 thousand (USD15,800 thousand)	460,254 thousand (USD15,800 thousand)	779,590 thousand

Note: Including Twinhead Beijing Technology Co., Ltd., which wired accumulated investment amounting to USD1,300 thousand.

(Continued)

ii) Material transactions:

The Company's material transactions with its investees in Mainland China for the year ended December 31, 2010, are disclosed in note 16.

(23) Segment Information

(a) Business segment information

The Company mainly focuses on computer and peripheral equipment manufacturing and trading. In accordance with SFAS No. 20 "Segment Reporting", since the Company mainly engaged in a single industry, industrial information is not required.

(b) Geographic information

The Company has no foreign operating segment. As a result, geographic information is not required.

(c) Information on export sales

The Company's export sales in 2010 and 2009 are summarized as follows:

Region		2010	2009
Americas	$	1,509,802	1,201,452
Europe		216,595	196,975
Asia		64,292	246,601
Other		2,712	3,834
	$	**1,793,401**	**1,648,862**

(d) Information on major customers

Individual customers who accounted for 10% or more of the Company's net sales in 2010 and 2009 were as follows:

	Name of customer		Amount	%
2010	I	$	846,872	46
	T		193,008	11
2009	I		862,487	51