TWINHEAD INTERNATIONAL CORP.

Financial Statements

December 31, 2011 and 2010
(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, 2011 and 2010, 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, 2011 and 2010, 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, 2011 and 2010, amounted to $149,166 thousand and $86,493 thousand and represented 6.63% and 3.74%, respectively, of total assets, and the equity in their net gain amounted to $11,617 thousand and $4,006 thousand and represented 15.11% and 4.66% of income (loss) before income tax for the years ended December 31, 2011 and 2010, 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, 2011 and 2010, 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.

As disclosed in note 3 to the financial statements, effective January 1, 2011, the Company has adopted the third revision of Republic of China Statement of Financial Accounting Standards No. 34 "Financial Instruments: Recognition and Measurement", which resulted in an increase of $9,406 thousand in net income after tax for the year ended December 31, 2011, and an increase of $0.04 in basic earnings per share.

The consolidated financial statements of Twinhead International Corp. and its subsidiaries as of December 31, 2011 and 2010, have been prepared by the management of Twinhead International Corp. Based on our audits, we expressed a modified unqualified opinion on both of those consolidated financial statements.

KPMG

March 19, 2012

TWINHEAD INTERNATIONAL CORP.

Balance Sheets

December 31, 2011 and 2010

(expressed in thousands of New Taiwan dollars)

Assets	2011 Amount	%	2010 Amount	%
Current assets:				
Cash and cash in banks (note 5)	$ 455,308	20	395,171	17
Notes receivable (notes 3 and 6)	-	-	101	-
Accounts receivable, net of allowance for doubtful accounts (notes 3 and 6)	155,047	7	184,580	8
Accounts receivable－related parties (notes 3, 6, 8 and 18)	212,676	10	226,224	10
Other receivables from related parties (note 18)	20	-	-	-
Other financial assets－current	51	-	-	-
Inventories (note 7)	135,552	6	150,954	7
Prepaid expenses	10,584	-	8,777	-
Deferred income tax assets－current (note 14)	37,532	2	38,272	2
Other current assets	4,673	-	3,494	-
	1,011,443	45	1,007,573	44
Long-term equity investments (notes 4, 8, 17 and 18):				
Long-term investments under equity method	385,964	17	352,869	15
Available-for-sale financial assets－non-current	1,458	-	1,158	-
Financial assets carried at cost－non-current	98,515	5	121,124	5
	485,937	22	475,151	20
Property, plant and equipment, net (notes 9 and 19):				
Cost:				
Land	72,885	3	64,438	3
Buildings and improvement	341,333	15	341,603	15
Machinery and equipment	187,191	9	246,523	11
Transportation equipment	3,220	-	3,220	-
Office equipment	151,231	7	156,745	7
	755,860	34	812,529	36
Less: accumulated depreciation	519,340	24	591,716	25
accumulated asset impairment	10,593	-	10,593	-
Prepayment for equipment	4,073	-	367	-
	230,000	10	210,587	11
Other assets:				
Assets leased to others (notes 10 and 19)	282,389	13	309,837	13
Refundable deposits (note 20)	8,460	-	8,057	-
Deferred charges	27,321	1	30,289	1
Long-term account receivable from related parties (notes 3, 6, 8 and 18)	63,755	3	101,492	4
Deferred income tax assets－non-current (note 14)	141,402	6	168,257	7
	523,327	23	617,932	25
Total assets	**$ 2,250,707**	**100**	**2,311,243**	**100**

Liabilities and Stockholders' Equity	2011 Amount	%	2010 Amount	%
Current liabilities:				
Short-term borrowings (notes 11 and 19)	$ 562,808	25	592,584	26
Financial liabilities at fair value through profit and loss (notes 12 and 17)	268	-	-	-
Notes payable	2,289	-	26	-
Accounts payable	148,898	7	232,402	10
Other payables to related parties (note 18)	7,647	-	1,992	-
Accrued expenses	70,171	3	65,240	3
Convertible bonds payable－current (notes 12, 17 and 18)	38,471	2	-	-
Other current liabilities (note 18)	56,620	2	51,623	2
	887,172	39	943,867	41
Long-term liabilities:				
Financial liabilities at fair value through profit or loss－non-current (notes 12 and 17)	-	-	455	-
Convertible bonds payable－non-current (notes 12, 17 and 18)	-	-	64,944	3
Total long-term liabilities	-	-	65,399	3
Other liabilities:				
Guarantee deposits received	2,561	-	2,661	-
Total liabilities	889,733	39	1,011,927	44
Stockholders' equity (notes 8, 12, 14 and 15):				
Common stock, $10 (dollars) par value, 255,845 thousand shares and 277,281 thousand shares outstanding in 2011 and 2010, respectively, and 700,000 thousand shares authorized in both 2011 and 2010	2,558,447	115	2,772,809	120
Convertible preferred stock, $10 (dollars) par value, 23 thousand shares issued and outstanding in both 2011 and 2010	228	-	228	-
	2,558,675	115	2,773,037	120
Capital surplus:				
Paid-in capital in excess of par	-	-	8,731	-
Paid-in capital－treasury stock	1,713	-	-	-
Paid-in capital－stock options	3,560	-	6,230	-
	5,273	-	14,961	-
Accumulated deficits	(657,060)	(29)	(109,973)	(5)
Other items in stockholders' equity:				
Cumulative foreign currency translation adjustments	4,698	-	(6,873)	-
Unrealized loss on financial instrument	(444,665)	(20)	(444,965)	(19)
Treasury stock	(105,947)	(5)	(926,871)	(40)
	(545,914)	(25)	(1,378,709)	(59)
Total stockholders' equity	1,360,974	61	1,299,316	56
Commitments and contingencies (notes 10, 15 and 20)				
Total liabilities and stockholders' equity	**$ 2,250,707**	**100**	**2,311,243**	**100**

See accompanying notes to financial statements.

TWINHEAD INTERNATIONAL CORP.

Income Statements

For the years ended December 31, 2011 and 2010

(expressed in thousands of New Taiwan dollars)

	2011 Amount	%	2010 Amount	%
Operating income:				
Sales revenue (note 18)	1,913,709	100	1,836,901	100
Less: Sales returns	1,597	-	3,171	-
Sales discounts	2,206	-	2,800	-
Net operating revenue	1,909,906	100	1,830,930	100
Cost of goods sold (notes 7, 13, 18 and 23)	1,567,406	82	1,533,769	84
Gross profit	342,500	18	297,161	16
Net change in unrealized gain (loss) on intercompany transactions (note 18)	(8,424)	-	(821)	-
Realized gross profit	334,076	18	296,340	16
Operating expenses (notes 13 and 23):				
Selling expenses	58,323	3	58,842	3
Administrative expenses	93,352	5	88,447	5
Research and development expenses	110,820	6	107,716	6
	262,495	14	255,005	14
Operating income	71,581	4	41,335	2
Non-operating income and gain:				
Interest income	1,866	-	782	-
Gain on exchange, net	36,606	2	-	-
Rental income (note 10)	15,218	1	16,351	1
Gain on valuation of financial liabilities, net (note 12)	-	-	483	-
Other income (note 6)	16,470	1	14,342	1
	70,160	4	31,958	2
Non-operating expense and loss:				
Interest expenses (note 12)	12,884	1	13,526	1
Investment loss recognized under equity method	29,253	2	46,330	2
Loss on disposal of property, plant and equipment, net	74	-	94	-
Loss on exchange, net	-	-	72,557	4
Impairment loss (note 8)	17,271	1	15,000	1
Loss on valuation of financial liabilities (note 12)	32	-	-	-
Other loss (note 23)	5,364	-	11,836	1
	64,878	4	159,343	9
Income (loss) before income tax	76,863	4	(86,050)	(5)
Income tax expenses (note 14)	26,187	1	23,792	1
Net income (loss)	$ 50,676	3	(109,842)	(6)

	Before tax	After tax	Before tax	After tax
Basic income (loss) per share of common stock (in dollars) (note 16)	$ 0.31	0.20	(0.35)	(0.44)
Diluted income (loss) per share of common stock (in dollars) (note 16)	$ 0.30	0.20		

Pro forma data, assuming the Company's shares held by its subsidiaries were not treated as treasury stock (note 16):

	Before income tax	Net of income tax	Before income tax	Net of income tax
Net income (loss)	$ 76,817	50,630	(86,096)	(109,888)
Basic income (loss) per share of common stock (in dollars)	$ 0.28	0.18	(0.31)	(0.40)
Diluted income (loss) per share of common stock (in dollars)	$ 0.27	0.18		

See accompanying notes to financial statements.

TWINHEAD INTERNATIONAL CORP.

Statements of Changes in Stockholders' Equity

For the years ended December 31, 2011 and 2010

(Expressed in thousands of New Taiwan dollars)

	Common stock	Convertible preferred stock	Total	Capital surplus	Accumulated deficits	Cumulative foreign currency translation adjustments	Unrealized loss on financial instruments	Treasury stock	Total	Total
Beginning balance January 1, 2010	$ 2,772,809	228	2,773,037	189,026	(180,295)	3,156	(444,651)	(926,871)	(1,368,366)	1,413,402
Capital surplus to offset accumulated deficits (note 15)	-	-	-	(180,295)	180,295	-	-	-	-	-
Convertible bonds－equity component at the time of issuance (note 12)	-	-	-	6,230	-	-	-	-	-	6,230
Net loss for 2010	-	-	-	-	(109,842)	-	-	-	-	(109,842)
Cumulative foreign currency translation adjustments	-	-	-	-	-	(10,029)	-	-	(10,029)	(10,029)
Unrealized loss on financial instruments (note 8)	-	-	-	-	-	-	(314)	-	(314)	(314)
Adjustments of net equity arising from changes in ownership percentage in investee (note 8)	-	-	-	-	(131)	-	-	-	-	(131)
Balance as of December 31, 2010	2,772,809	228	2,773,037	14,961	(109,973)	(6,873)	(444,965)	(926,871)	(1,378,709)	1,299,316
Capital surplus to offset accumulated deficits (note 15)	-	-	-	(8,731)	8,731	-	-	-	-	-
Redemption of convertible bonds (note 15)	-	-	-	(813)	-	-	-	-	-	(813)
Net income for 2011	-	-	-	-	50,676	-	-	-	-	50,676
Cancellation of treasury stock (note 15)	(214,362)	-	(214,362)	(144)	(606,418)	-	-	820,924	820,924	-
Cumulative foreign currency translation adjustments	-	-	-	-	-	11,571	-	-	11,571	11,571
Unrealized loss on financial instruments (note 8)	-	-	-	-	-	-	300	-	300	300
Adjustments of net equity arising from changes in ownership percentage in investee (note 8)	-	-	-	-	(76)	-	-	-	-	(76)
Balance as of December 31, 2011	**$ 2,558,447**	**228**	**2,558,675**	**5,273**	**(657,060)**	**4,698**	**(444,665)**	**(105,947)**	**(545,914)**	**1,360,974**

See accompanying notes to financial statements.

TWINHEAD INTERNATIONAL CORP.

Statements of Cash Flows

For the years ended December 31, 2011 and 2010
(Expressed in thousands of New Taiwan dollars)

		2011	2010
Cash flows from operating activities:			
Net income (loss)	$	50,676	(109,842)
Adjustment to reconcile net income to net cash provided by operating activities:			
Depreciation		22,293	23,284
Amortization		22,878	20,844
Reversal of allowance for doubtful accounts		(11,333)	(1,000)
Amortization of discount on convertible bonds payable		2,223	2,112
Provision for (reversal of) loss on obsolescence and decline in value of inventory		20,776	15,192
Investment loss under equity method		29,253	46,330
Cash dividend from investee under equity method		1,846	526
Loss on disposal of property, plant and equipment		74	94
Loss (gain) on valuation of financial liabilities		32	(483)
Impairment loss		17,271	15,000
Net changes of gain on unrealized inter-company transactions		8,424	821
Loss on reacquisition of convertible bonds		272	-
Deferred income tax expense		26,187	23,792
Net changes in operating assets and liabilities:			
Net changes in operating assets:			
Notes receivable		101	(65)
Accounts receivable		41,737	65,322
Accounts receivable－related parties		(14,775)	24,431
Other receivable－related parties		491	-
Other financial assets－current		(51)	928
Inventories		(7,646)	(13,771)
Prepaid expenses		(1,788)	644
Other current assets		644	1,138
Net changes in operating liabilities:			
Notes payable		2,263	26
Accounts payable		(78,166)	39,728
Accrued expenses		4,484	1,718
Other payables to related parties		5,655	(20,992)
Other current liabilities		14,838	(38,857)
Net cash provided by operating activities		158,659	96,920
Cash flows from investing activities:			
Increase in long-term investment under equity method		(6,371)	-
Acquisition of property, plant and equipment		(14,140)	(4,850)
Proceeds from disposal of property, plant and equipment		81	98
Decrease in refundable deposits		-	1,210
Increase in deferred charges		(19,910)	(15,681)
Decrease in other receivables from related parties		-	46,002
Cash inflow due to combination		1,694	-
Net cash provided by (used in) investing activities		(38,646)	26,779
Cash flows from financing activities:			
Decrease in short-term borrowings		(29,776)	(129,652)
Issuance of convertible bonds payable		-	70,000
Reacquisition of convertible bond		(30,000)	-
Decrease in guarantee deposits received		(100)	(570)
Net cash used in financing activities		(59,876)	(60,222)
Net increase in cash and cash in banks		60,137	63,477
Cash and cash in banks at beginning of year		395,171	331,694
Cash and cash in banks at end of year	$	455,308	395,171
Supplementary disclosures of cash flow information:			
Cash payment of interest	$	**10,699**	**11,611**
Cash payment of income taxes	$	**186**	**72**
Investing and financing activities not affecting cash flows:			
Fixed assets transferred from lease assets	$	**22,408**	**-**
Fixed assets transferred from inventory	$	**289**	**-**
Long-term investment loss in excess of investment cost offset against receivables from related parties	$	**(190,894)**	**(3,912)**
Net changes of unrealized loss on financial instruments	$	**(300)**	**314**
Cumulative foreign currency translation adjustments	$	**11,571**	**(10,029)**
Fixed assets reclassified to payments in advance	$	**16**	**-**
Long-term investment under equity method increase from offsetting account receivable	$	**102,399**	**-**

See accompanying notes to financial statements.

(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.

The board of directors' meeting held on December 5, 2011, proposed to improve the efficiency of operation and to decrease the cost of operation. The board of directors of the Company decided to combine with Lung Yang Technology Corporation (Lung Yang Company), a subsidiary of the Company, and eliminate Lung Yang Company, effective on December 29, 2011.

As of December 31, 2011 and 2010, the number of the Company's employees was 242 and 238, 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 the 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.

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 No. 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.

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(e) Inventories

The Company adopted the revised SFAS No. 10 "Inventories" for 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 the 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, the cost of inventories is reversed within the original write-down amount, and such reversal is treated as a reduction of cost of goods sold.

(f) Long-term equity investments

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. 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 the obligation and the 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.

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(g) 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 cannot 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 carried at cost is determined using the weighted-average method.

(h) 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 statement 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.

(i) Allowance for doubtful accounts

The Company considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Collateral and proceeds from insurance should also be considered when determining the estimated future cash flows. Losses are recognized in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss. However, the reversing amount cannot exceed the amortized balance of the assets assuming no impairment was recognized in prior periods.

(Continued)

The Company's allowance for bad debt accrued before 2010 was based on consideration of the aging report of receivables, the creditworthiness of customers, and the collectability of receivables.

(j) 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 continues 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	2~10 years

Gain or loss on disposal of property, plant and equipment is recorded as non-operating income or expenses.

(k) 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.

(l) Deferred charges

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

(m) 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 bonds 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.

(Continued)

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 bonds.

(n) 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.

(o) 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.

(p) 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 sale.

(q) Revenue and cost 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.

(r) 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.

(Continued)

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.

(s) 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.

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.

(Continued)

(t) 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.

(u) Operating segment information

Effective January 1, 2011, the Company adopted SFAS No. 41 "Operating Segments". An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity). The segment's operating results are reviewed regularly by the entity's chief operating decision maker to make decisions pertaining to the allocation of resources to the segment and to assess its performance for which discrete financial information is available.

The Company discloses operating segment information in the Consolidated financial statement according to SFAS No. 41; therefore the Company does not disclose such information in this financial statements.

(3) Reason for and Effect of Accounting Changes

Effective January 1, 2011, the Company adopted the third revision of SFAS No. 34 “Financial Instruments: Recognition and Measurement” to recognize, revaluate, and accrue impairment loss for receivables at fair value. The effect of adoption of the newly released accounting principle was an increase of $9,406 in after-tax income and an increase of $0.04 (dollar) in EPS.

Effective from January 1, 2011, the Company adopted SFAS No. 41 "Operating Segments." In accordance with SFAS No. 41, an entity shall disclose information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates. The Company determines and presents operating segments based on the information that internally is provided to the chief operating decision maker. This Standard supersedes SFAS No. 20 "Segment Reporting." Such changes in accounting principle did not have any effect for the year ended December 31, 2011. The comparative information for the initial year of application has been restated.

(4) Consolidation

The board of directors' meeting held on December 5, 2011, proposed to improve the efficiency of operation and to decrease the cost of operation. The board of directors of the Company decided to combine with Lung Yang Technology Corporation (Lung Yang Company), a subsidiary of the Company, and eliminate Lung Yang Company, effective on December 29, 2011.

(Continued)

The related assets and liabilities of Lung Yang Company on the date of combination were as follows:

Cash	$	1,694
Accounts receivable		871
Inventory		1,241
Prepayment and other current assets		1,807
Long-term investment		33,948
Deposit		403
Deferred charges		19
Accounts payable－related parties		(50,544)
Other payables－related parties		(103,500)
Accrued expenses and other current liabilities		(446)
Net assets acquired		(114,507)
Carrying value of shares held by the Company before combination		114,507
Premium on combination	**$**	**-**

The Company adopted SFAS No. 25 “Business Combinations” to combine with Lung Yang Company. There was no significant effect on income or loss arising from the combination with Lung Yang Company because Lung Yang Company was a consolidated entity of the Company in 2010.

(5) Cash and Cash in Bank

As of December 31, 2011 and 2010, the components of cash were as follows:

		2011	2010
Petty cash	$	215	215
Savings accounts		455,093	394,956
	$	**455,308**	**395,171**

(Continued)

(6) Notes Receivable, Accounts Receivable (including receivable from related parties), and Overdue Receivables

As of December 31, 2011 and 2010, the details of notes receivable, accounts receivable, and overdue receivables were as follows:

		2011	2010
Notes receivable	$	-	101
Accounts receivable		155,168	196,034
Accounts receivable－related parties (including long-term receivable－related parties)		276,431	327,716
Overdue receivables (recorded under other assets)		27,336	27,336
		458,935	551,187
Less: allowance for doubtful accounts		27,457	38,790
	$	**431,478**	**512,397**

The Company has not provided the receivables (including receivable from related parties) as collateral or factored them for cash.

The movement of allowance for doutful accounts was as follows:

		2011	2010
Beginning balance January 1	$	11,454	12,454
Less: Reversal		11,333	1,000
Balance as of December 31	**$**	**121**	**11,454**

The movement of allowance for overdue receivables was as follows:

		2011	2010
Balance as of December 31 (same as beginning balance)	**$**	**27,336**	**27,336**

(7) Inventories

As of December 31, 2011 and 2010, the details of inventories were as follows:

		2011	2010
Finished goods	$	33,225	23,068
Work in process		8,561	12,475
Raw material and supplies		74,690	100,489
Goods in transit		19,076	14,922
	$	**135,552**	**150,954**

(Continued)

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

	2011	2010
Beginning balance	$ 162,452	147,260
Add: Provision for current year	20,776	15,192
Incurred from combination with Lung Yang Company	13,001	-
Ending balance	$ 196,229	162,452

The following were recorded as part of costs of goods sold:

	2011	2010
Loss on decline in value of inventories	$ 20,776	15,192

(8) Long-term Equity Investments

(a) As of December 31, 2011 and 2010, the details were as follows

	2011			2010		
	Percentage of ownership	Investment cost	Book value	Percentage of ownership	Investment cost	Book value
Under equity method:						
Gammatech Computer Corporation	59.400	$ 53,079	87,179	45.000	29,391	62,309
Twinhead GmbH	100.000	271,665	20,742	100.000	169,266	-
Twinhead (Asia) Pte Ltd.	100.000	539,919	173,540	100.000	533,550	194,934
Lun Yang Technology Co., Ltd.	-	-	-	99.983	867,850	-
Twintek International Corporation	99.974	328,533	38,034	99.974	328,533	43,622
Yu Feng Technology Co., Ltd.	99.975	397,900	25,224	99.975	397,900	27,820
Fiber Logic Communications Inc.	11.858	25,427	41,245	8.346	17,527	24,184
		1,616,523	385,964		2,344,017	352,869
Financial assets carried at cost－non-current:						
EUROC Venture Capital Corp.	100.000	80,000	80,000	10.000	80,000	80,000
I1. Com	2.125	30,800	15,800	2.125	30,800	15,800
Trigem Computer, Inc.	0.006	63,609	-	0.003	63,609	22,609
Printec Japan Co., Ltd.	9.000	2,715	2,715	9.000	2,715	2,715
		177,124	98,515		177,124	121,124
Available-for-sale financial assets－non-current:						
Tekom Technologies Inc.	0.270	1,963	1,963	0.360	1,963	1,963
Less: unrealized loss on financial instrument		-	505		-	805
		1,963	1,458		1,963	1,158
		$ 1,795,610	485,937		2,523,104	475,151

(Continued)

The Company combined with Lung Yang Company, a subsidiary of the Company, which led to an increase in the Company's long-term investment in Gammatech Corp. and Fiber Logic Communication Inc. of $21,134 and $12,814, respectively, resulting in the percentage of ownership increasing by 14.4% and 3.684%, respectively.

On December 28, 2011, the board of directors of the Company decided to improve the financial structure of Twinhead GmbH, a subsidiary of the Company, by offsetting the accounts receivable－related parties amounting to EUR2,437,497.81 with the capital surplus of Twinhead GmbH. The board of directors of Twinhead GmbH also agreed with the aforementioned proposal, which led to an increase in the Company's investment in Twinhead GmbH of $102,399.

On December 5, 2011, the board of directors decided to increase investment in Twinhead (Asia) Pte Ltd. by USD210,000 to extend the operation, which led to an increase in the Company's investment in Twinhead (Asia) Pte Ltd. of $6,369.

In 2011, Twintek International Corporation, a subsidiary of the Company, distributed cash dividends of $548.

In 2011, Fiber Logic Communications Inc. (Fiber) distributed employee bonuses by allotment of shares, resulting in a decrease in the percentage of ownership in Fiber. The change in the percentage led to a decrease in retained earnings of $52. In addition, the distributed employee bonuses aforementioned caused a decrease in retained earnings of Lung Yang because of the change in percentage of ownership. The Company also recognized a reduction in retained earnings amounting to $24 according to the proportion of shares of Lung Yang invested in by the Company.

In 2010, employees of Fiber exercised stock options, resulting in a dilution of the Company’s percentage of ownership in Fiber, which reduced retained earnings by $90 thousand. In addition, because Lun Yang Technology Co. Ltd., a subsidiary of the Company, invested in Fiber, 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.

The Company received cash dividends from Fiber amounting to $1,298 and $526 in 2011 and 2010, respectively

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 2011, the Company wrote down its financial assets carried at cost by $22,609 considering Trigem Computer Inc.'s operating condition, and recorded $17,271, after offsetting accounts payable of $5,338, as impairment loss.

In 2011, Tekom Technology Corp. increased its capital by private placement of equity, resulting in the reduction of the Company's percentage of ownership in Tekom Technology Corp. to 0.27%.

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. The offset amounted to $190,894 and $3,912 in 2011 and 2010, respectively.

(Continued)

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

	2011	2010
Lun Yang Technology Co., Ltd.	$ -	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
	$ 105,947	**926,871**

(b) Unrealized loss on financial instrument

The Company adopted SFAS No. 34 "Financial Instruments: Recognition and Measurement". As of December 31, 2011 and 2010, unrealized loss on devaluation of its investments in Tekom Technologies Inc. was $505 and $805, 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 2011 and 2010 are listed below:

	2011	2010
Beginning balance	$ 805	491
Add: unrealized loss recognized (reversed)	(300)	314
Ending balance	**$ 505**	**805**

As of December 31, 2011 and 2010, 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 2011 and 2010, if the Company recognized it on a pro rata basis, the unrealized gain or loss on valuation of a subsidiary's financial instrument investments in the parent company would be a gain of $180,578 and a loss of $3,851, respectively. The ending balance of unrealized loss on devaluation of financial instrument investments was $521,471 and $702,049, respectively.

(9) Fixed Assets

As of December 31, 2011 and 2010, 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, no additional impairment loss should be recognized on December 31, 2011 and 2010. The discount rates used to evaluate were 6.77% and 10.66%, respectively.

(Continued)

(10) Assets Leased to Others

		2011	2010
Land	$	141,370	149,817
Building		214,549	232,303
		355,919	382,120
Less: accumulated depreciation		73,530	72,283
	$	**282,389**	**309,837**

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.

In 2011 and 2010, the total rental revenues amounted to $15,218 and $16,351, respectively, and were recorded as rental income. The lease revenues for subsequent years are as follows:

Period		Amount
January 1, 2012~December 31, 2012	$	14,381
January 1, 2013~December 31, 2013		7,152
January 1, 2014~December 31, 2014		2,363
	$	**23,896**

(11) Short-term Bank Borrowings

		2011	2010
Credit loan	$	190,000	230,000
Secured bank loans		300,000	260,000
Usance letters of credit		72,808	102,584
	$	**562,808**	**592,584**

Annual interest rates on short-term borrowings were 0.95%~2.21% and 0.75%~2.21% in 2011 and 2010, respectively. The aforementioned loans were due within 365 days.

As of December 31, 2011 and 2010, unused credit lines amounted to approximately $716,741 and $837,479, respectively.

(Continued)

(12) Convertible Bonds Payable

		Carrying value of convertible bonds	
		2011	**2010**
Present value of private placement of unsecured convertible bonds payable issued in 2010	$	64,944	62,832
Add: Interest expense recognized in current period		2,223	2,112
Less: Redemption in current period		28,696	-
	$	**38,471**	**64,944**

On February 26, 2010, the Company issued unsecured convertible bonds via private placement 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**

(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 for bondholders to 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.

(Continued)

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

		2011	2010
Embedded derivative financial liabilities at issuance (holder's put option)	$	455	938
Add: Loss on valuation		32	-
Less: Gain on valuation		-	483
Redemption in current period		219	-
	$	**268**	**455**

As of December 31, 2011 and 2010, the Company revaluated its embedded liabilities of derivative financial instruments. In 2011 and 2010, the difference between the aforementioned valuation and embedded derivative financial instruments amounted to a loss of $32 and a gain of $483, recognized as loss or gain on valuation of financial liabilities, respectively.

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

		2011	2010
Equity components at the time of issuance (conversion option)	$	6,230	6,230
Less: Redemption in current period		2,670	-
	$	**3,560**	**6,230**

(d) Bondholders are entitled to require the issuer to call the bonds within the period from 18 months after the issuance date but before the maturity date. The Company reclassified the convertible bonds into current liability on March 31, 2011, based on the conservatism principle. As of December 31, 2011, the balance of the convertible bonds payable was $38,471, which may not need to be repaid within 365 days.

(13) Pension

The Company incurred pension expense under the defined contribution plan for 2011 and 2010 amounting to $8,352 and $8,340, respectively.

(Continued)

(14) 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, and the Company applied the Income Basic Tax Act to the calculation of the basic income tax. The components of income tax expense for the years ended December 31, 2011 and 2010, were as follows:

		2011	2010
Current income tax expense	$	-	-
Deferred income tax expense		26,187	23,792
Income tax expense	**$**	**26,187**	**23,792**

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 2011 and 2010 were as follows:

		2011	2010
"Expected" income tax expense (benefit)	$	13,067	(14,629)
Loss from long-term investments		4,973	7,876
Investment tax credits acquired		-	(21,579)
Investment tax credits expired		29,211	40,038
Overestimate of prior year's deferred income tax assets		(12)	(20,655)
Overestimate of prior year's investment tax credits		10,461	-
Effect of change in tax rate		-	54,690
Overestimate of prior year's loss carryforwards		2,551	38,367
Others		2,936	-
Valuation allowance－deferred income tax assets		(37,000)	(60,316)
	$	**26,187**	**23,792**

The components of deferred income tax benefit for the years ended December 31, 2011 and 2010, were as follows:

		2011	2010
Reserve for inventory loss	$	(6,290)	(2,583)
Realized gain on sales to related parties		(883)	(139)
Realized (unrealized) foreign exchange loss		7,894	(6,846)
Allowance for repairs and maintenance reserve		19	102
Allowance for doubtful accounts exceeding tax limit		1,864	1,030
Impairment loss		-	(9,520)
Investment tax credits		340	9,007
Expiry of investment tax credit		29,211	-
Overestimate of investment tax credit		10,461	-
Overestimate of loss carryforwards		2,551	38,367
Decrease in loss carryforwards		18,020	-
Deferred income tax effect due to income tax rate change		-	54,690
Valuation allowance		(37,000)	(60,316)
	$	**26,187**	**23,792**

As of December 31, 2011 and 2010, deferred income tax assets (liabilities) were as follows:

		2011	2010
Current:			
Deferred income tax assets	$	64,773	73,576
Valuation allowance－deferred income tax assets		(26,348)	(35,304)
Net deferred income tax assets		38,425	38,272
Deferred income tax liabilities		(893)	-
Net deferred income tax assets－current	**$**	**37,532**	**38,272**
Non-current:			
Deferred income tax assets	$	283,768	338,667
Valuation allowance－deferred income tax assets		(142,366)	(170,410)
Net deferred income tax assets (liabilities)－non-current	**$**	**141,402**	**168,257**
Total deferred income tax assets	**$**	**348,541**	**412,243**
Total deferred income tax liabilities	**$**	**893**	**-**
Total valuation allowance for deferred income tax assets	**$**	**168,714**	**205,714**

(Continued)

As of December 31, 2011 and 2010, the temporary differences, loss carryforwards, tax credits, and respective tax effects related to the deferred income tax assets (liabilities) were as follows:

	2011		2010	
	Amount	Tax effect	Amount	Tax effect
Deferred income tax assets (liabilities):				
Investment tax credits	$ 41,859	41,859	81,871	81,871
Loss carryforwards	1,499,103	254,848	1,620,115	275,419
Reserve for inventory revaluation loss	199,453	33,907	162,452	27,617
Impairment loss	56,000	9,520	56,000	9,520
Unrealized gain on sales to related parties	23,168	3,938	17,968	3,055
Unrealized foreign exchange loss (gain)	5,253	(893)	41,180	7,001
Allowance for repairs and maintenance reserve	3,414	581	3,531	600
Allowance for doubtful accounts exceeding tax limit	22,876	3,888	33,837	5,752
Cumulative foreign currency translation adjustments	-	-	8,281	1,408
Valuation allowance－deferred income tax assets		(168,714)		(205,714)
		$ 178,934		206,529

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, 2011, the amount and the expiry year of the Company's unused investments tax credits were as follows:

Year	Amount	Year of Expiration
2008	$ 22,459	2012
2009	19,400	2013
	$ 41,859	

In accordance with the amendment of Article 39 of the 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, 2011, the amount and the expiry year of the Company's net losses were as follows:

Year		Amount	Year of Expiration
2003	$	377,842	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
	$	**1,499,103**	

The ROC tax authorities have examined the Company's tax credits through 2009, except 2007.

As of December 31, 2011 and 2010, the related imputation tax information was as follows:

		2011	2010
Balance of imputation credit account	$	**15,506**	**15,187**

As of December 31, 2011 and 2010, there was no imputation credit ratio because of accumulated deficits.

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

		2011	2010
1997 and before	$	-	-
1998 and after		(657,060)	(109,973)
	$	**(657,060)**	**(109,973)**

(15) 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 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.

(Continued)

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.

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 2011 and 2010, none of the shares of the Company were sold by its subsidiaries. On December 29, 2011, the Company combined with Lung Yang Company, a subsidiary of the Company, and cancelled 21,436 thousand shares of common stock held by Lung Yang Company; as a result, the Company’s treasury stock, common stock, and capital surplus－treasury stock amounting to $820,924, $214,362, and $144, respectively, were reversed. The difference amounting to $606,418 arising from the aforementioned transaction was recorded under retained earnings. As of December 31, 2011 and 2010, subsidiaries of the Company held 8,192 thousand shares and 29,628 thousand shares, respectively, of common stock of the Company. The shares held by the subsidiaries, recorded under treasury stock, were due to the conversion of the Company's convertible bonds which were purchased by the subsidiaries of the Company in prior years. As of December 31, 2011 and 2010, the market value amounted to $28,751 and $154,655, respectively.

(Continued)

(c) Capital surplus

According to the ROC Company Act, realized capital surplus can be capitalized and transferred to share capital after offsetting accumulated deficit. Capital surplus should not be used for distribution of cash dividends. However, according to the revised ROC Company Act effective January 2012, the realized capital surplus can be used to distribute cash dividends. Realized capital surplus mentioned above includes any amounts donated to the Company and the proceeds received in excess of the par value of common stock issued. The amount of capital surplus capitalized each year may not exceed a certain percent of the Company's 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 of shares. The balance of capital surplus was as follows:

	2011	2010
Premium on issuance:		
Premium on common stock	$ -	8,731
Treasury stock transaction	1,713	-
	1,713	8,731
Stock options:		
Issuance of convertible bonds	6,230	6,230
Redemption of convertible bonds	(2,670)	-
	$ 5,273	**14,961**

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 ROC Company Act.

In 2011, bondholders required the Company to call convertible bonds amounting to $30,000. The Company paid $30,000 in cash, and offset unamortized discount on bonds, financial liabilities at fair value through profit or loss—current, and capital surplus—stock option amounting to $1,304, $219, and $2,670, respectively. As a result, capital surplus—treasury stock amounting to $1,857 and loss on redemption of convertible bonds amounting to $272 were recognized.

The shareholders' meetings held on June 3, 2011, and May 21, 2010, decided to use capital surplus of $8,731 and $180,295, respectively, to offset the accumulated deficits.

(d) Legal reserve

The ROC Company Act stipulates that the Company must retain a minimum of 10% of its after-tax annual earnings as legal reserve until such retention equals the amount of the total capital. Legal reserve can only be used to offset deficits, and cannot be distributed as cash dividends. Up to one-half of the legal reserve can be converted to share capital when it reaches an amount that equals one-half of the issued share capital. However, according to the revised ROC Company Act effective January 2012, when a company incurs no loss, it may, pursuant to a resolution by a shareholders' meeting, distribute its legal reserve by issuing new shares or by distributing cash to shareholders, and only the portion of the legal reserve which exceeds 25% of the capital may be distributed.

(Continued)

(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 can be distributed as dividends in consideration of the overall industry circumstances, the Company's financial structure, and the investors' best interest, but at least 50% of the remainder should be distributed. 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 dividends.

Earnings were unappropriated due to the accumulated deficits in both 2011 and 2010.

The Company's accumulated undistributed preferred stock dividend of $184 and $138 as of December 31, 2011 and 2010, respectively, will be recognized and distributed if approved in a shareholders' meeting.

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

As of December 31, 2011 and 2010, the Company had incurred accumulated deficits. Therefore, employee bonuses, and directors' and supervisors' remuneration were not accrued by the Company.

(16) Earnings (Loss) per Share

The details of basic and diluted loss per share for the Company in 2011 and 2010 were as follows:

(Unit: thousand shares)

	2011		2010	
	Before tax	**After tax**	**Before tax**	**After tax**
Basic earnings per share:				
Net income (loss) (after deducting preferred stock dividends amounting to 46)	$ **76,817**	**50,630**	**(86,096)**	**(109,888)**
Weighted-average outstanding shares	**247,653**	**247,653**	**247,653**	**247,653**
Basic income (loss) per share (expressed in New Taiwan dollars)	$ **0.31**	**0.20**	**(0.35)**	**(0.44)**
Diluted earnings per share:				
Net income (after deducting preferred stock dividends amounting to 46)	$ 76,817	50,630		
Dilution effect on common stock－convertible bonds	2,223	1,845		
Diluted net income before cumulative effect of changes in accounting principles	$ **79,040**	**52,475**		
Weighted-average outstanding shares	247,653	247,653		
Dilution effect on common stock－convertible bonds	14,267	14,267		
Weighted-average outstanding shares in calculating pro forma earnings per share	**261,920**	**261,920**		
Pro forma income (loss) per share (expressed in New Taiwan dollars)	$ **0.30**	**0.20**		

(Continued)

	2011		2010	
	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 income (loss) (after deducting preferred stock dividends amounting to 46)	$ 76,817	50,630	(86,096)	(109,888)
Weighted-average outstanding shares	247,653	247,653	247,653	247,653
Treasury stock	29,451	29,451	29,628	29,628
Weighted-average outstanding shares in calculating pro forma earnings per share	277,104	277,104	277,281	277,281
Pro forma income (loss) per share (expressed in New Taiwan dollars)	$ 0.28	0.18	(0.31)	(0.40)
Diluted earnings per share:				
Net income (after deducting preferred stock dividends amounting to 46)	$ 76,817	50,630		
Dilution effect on common stock－convertible bonds	2,223	1,845		
Diluted net income before cumulative effect of changes in accounting principles	$ 79,040	52,475		
Weighted-average outstanding shares	247,653	247,653		
Dilution effect on common stock－convertible bonds	14,267	14,267		
Treasury stock	29,451	29,451		
Weighted-average outstanding shares in calculating pro forma earnings per share	291,371	291,371		
Pro forma income (loss) per share (expressed in New Taiwan dollars)	$ 0.27	0.18		

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.

(17) Financial Instruments

(a) Derivative financial instruments

In 2011 and 2010, 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) Bonds 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.

vii) As of December 31, 2011 and 2010, the fair value of the Company's financial instruments determined by open market prices amounted to $1,458 and $1,158, respectively.

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

		2011		2010	
		Book value	**Fair value**	**Book value**	**Fair value**
Financial liabilities:					
Bonds payable	$	38,471	38,471	64,944	64,944
Financial liabilities at fair value through profit or loss		268	268	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:

	2011		
Customer name		**Amount**	**% of notes and accounts receivable**
Subsidiary (including transferred long-term receivable; refer to note 18)	$	276,431	64
I		99,383	23

	2010		
Customer name		**Amount**	**% of notes and accounts receivable**
Subsidiary (including transferred long-term receivable; refer to note 18)	$	327,716	64
I		167,237	33

To reduce credit risk, the Company assesses customers' financial status continuously, and an allowance for doubtful accounts 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.

(Continued)

(18) 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 Kunshan Technology Co., Ltd. (Twinhead Kunshan)	Subsidiary of a Company subsidiary (Twinhead (Asia) Pte Ltd.)
Lun Yang Technology Co., Ltd. (Lun Yang)	Originally a subsidiary of the Company, was eliminated and combined into the Company
Twintek International Corporation (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
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:

	2011		2010	
	Amount	**% of net sales**	**Amount**	**% of net sales**
Gammatech Computer	$ 155,619	8	158,410	9
Twinhead GmbH	73,732	4	76,961	4
Lun Yang	937	-	2,486	-
Yu Feng	272	-	1,032	-
Twinhead Kunshan	6	-	225	-
	$ 230,566	12	239,114	13

(Continued)

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.

ii) Receivables

Receivables resulting from the above transactions are summarized as follows:

	2011		2010	
	Amount	**% of net receivables**	**Amount**	**% of net receivables**
Account receivable:				
Gammatech Computer	$ 13,658	3	39,870	8
Twinhead GmbH	14,104	3	136,036	27
Lun Yang	-	-	45,809	9
	27,762	6	221,715	44
Deduct: investment loss offset against receivables				
Twinhead GmbH	-	-	78,811	15
Lun Yang	-	-	8,072	2
	-	-	86,883	17
	27,762	6	134,832	27
Deduct: receivables reclassified to long-term receivables	8,485	2	68,225	13
	$ 19,277	**4**	**66,607**	**14**

Additionally, as of December 31, 2011 and 2010, the accounts receivable exceeding their normal credit period amounted to $8,485 and $68,225, respectively, and were recorded under long-term receivables. Please refer to note 18(b)(vi)(ii).

iii) Purchases

Purchases from related parties were as follows:

	2011		2010	
	Amount	% of net purchases	Amount	% of net purchases
Twinhead Kunshan	$ 689,758	46	733,264	49
Twinhead GmbH	64	-	72	-
Gammatech Computer	1,066	-	36	-
Lun Yang	1,028	-	-	-
	$ 691,916	46	733,372	49

The purchase price was determined based on related parties' cost, and the repayment was offset with accounts receivable from sales or was due 30 to 60 days after purchase. Since the product specifications were different from those of normal suppliers, there is no comparable price available.

iv) Purchase of supplies on others' behalf

As of December 31, 2011 and 2010, the Company had purchased supplies on behalf of Twinhead Kunshan amounting to $193,399 and $159,617, 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 $55,270 and $33,267, 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, 2011 and 2010, the unrealized gain on sales had increased by $5,200 and $821, respectively. As of December 31, 2011 and 2010, unrealized gain on sales was $23,168 and $17,968, respectively, and was recorded as other current liabilities.

(Continued)

vi) 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

		2011	2010
Lun Yang	$	-	104,011
Twintek		20	-
Deduct: investment loss offset against receivables		-	104,011
	$	**20**	**-**

As of December 31, 2011 and 2010, the Company had receivables from Lun Yang which included financing amounting to $0 and $104,000, respectively. For details, please refer to note 18(b)(vii).

As of December 31, 2011 and 2010, the accumulated investment loss recognized in excess of investment cost offset against receivables from Lun Yang amounted to $0 and $104,011, respectively.

2) Other payable to related parties

		2011	2010
Twinhead Kunshan	$	**7,647**	**1,992**

ii. Reclassification of accounts receivable to long-term receivable

		2011	2010
Twinhead GmbH	$	8,485	110,901
Lun Yang		-	44,207
		8,485	155,108
Less: investment loss offset against receivables			
－Twinhead GmbH		-	78,811
－Lun Yang		-	8,072
		-	86,883
	$	**8,485**	**68,225**

(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 18(b)(ii)). As of December 31, 2011 and 2010, the above overdue accounts receivable ranging from six to nine months were 0% and 7%, respectively, ranging from nine to twelve months were 0% and 8%, respectively, and over twelve months were 100% and 85%, respectively.

vii) Financing

A summary of the Company's financing to related parties (recorded as other receivable－related parties) in 2011 and 2010 is as follows:

	2011			
	Maximum balance	**Ending balance**	**Interest rate range**	**Interest income**
Lun Yang	$ 169,000	-	-	-

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

viii) Other

The Company issued convertible bonds via private placement 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
Euroc Venture Capital Co.	8,000
Other	7,800
Total	**$ 27,800**

(Continued)

(c) Key management personnel compensation

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

		2011	2010
Salary	$	18,853	17,841
Bonuses and allowances		2,302	995
Professional fees		2,557	2,592
Employee bonuses		-	-

Part of the aforementioned compensation is included in the accrual of employee bonuses and directors' and supervisors' remuneration as stated in note 15. 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 2011 and 2010. As of December 31, 2011 and 2010, the carrying value of the transportation was $0.

(19) Pledged Assets

As of December 31, 2011 and 2010, the details and net book value of pledged assets were as follows:

			Book value	
Pledged assets	**Pledged for**		**2011**	**2011**
Land	Short-term borrowings	$	72,885	64,438
Buildings and improvements	Short-term borrowings		130,494	119,351
Assets leased to others	Short-term borrowings		276,389	301,837
Total		$	**479,768**	**485,626**

(20) Commitments and Contingencies

(a) As of December 31, 2011 and 2010, the Company had outstanding letters of credit for the purchase of material totaling approximately $23,993 and $21,518, 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.

(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
2012	$ 21,667
2013	21,667
2014	21,667
2015	19,019
After 2016	-
	$ 84,020

(21) Material Disaster Loss: None.

(22) Material Subsequent Event: None.

(23) Others

(a) Employment, depreciation, and amortization expenses

A summary of employment, depreciation, and amortization expenses for the years ended December 31, 2011 and 2010, categorized by operating cost and operating expenses, is as follows:

Function / Account	2011			2010		
	Operating cost	**Operating expenses**	**Total**	**Operating cost**	**Operating expenses**	**Total**
Employment expenses						
Salaries	27,588	148,809	176,397	25,120	139,072	164,192
Labor and health insurance	2,496	10,877	13,373	2,333	10,439	12,772
Pension	1,427	6,925	8,352	1,396	6,944	8,340
Others employment expenses	1,817	3,667	5,484	1,745	3,618	5,363
Depreciation expenses (Note)	7,499	9,754	17,253	8,393	10,626	19,019
Amortization expenses	-	22,878	22,878	-	20,844	20,844

Note: Depreciation of assets leased to others and to be leased was $5,040 and $4,265 in 2011 and 2010, respectively, and was recorded as nonoperating expenses—other loss.

(b) Other

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

Unit: thousands

Item	2011.12.31 Foreign currency	2011.12.31 Exchange rate	2011.12.31 NTD	2010.12.31 Foreign currency	2010.12.31 Exchange rate	2010.12.31 NTD
Financial Assets:						
Monetary item:						
USD	18,514	30.28	560,604	27,595	29.13	803,842
JPY	-	-	-	8	0.36	3
GBP	-	-	-	11	45.19	497
EUR	1,014	39.18	39,729	1,985	38.92	77,256
Long-term investments under equity method:						
USD	8,610	30.28	260,719	8,831	29.13	257,247
EUR	529	39.18	20,742	-	-	-
Financial Liabilities:						
Monetary item:						
USD	5,126	30.28	155,215	10,096	29.13	294,096
GBP	-	-	-	11	45.19	497

(Continued)

(24) 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	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	169,000	-	-	Short-term financing	-	Capital requirements	-		-	272,195	544,390

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.

ii) Endorsement/guarantee provided: None.

iii) Marketable securities held as December 31, 2011:

(Unit: thousand dollars/shares)

Name of holder	Category and name of security	Relationship with the Company	Financial statement account	December 31, 2011				Remarks
				Shares (thousand)	Book value	Percentage of ownership (%)	Market value	
	Stock:							
The Company	Gammatech Computer	Investee accounted for under equity method	Long-term equity investment	297	87,179	59.400	87,179	-
〃	Twinhead GmbH	〃	〃	-	20,742	100.000	20,742	-
〃	Twinhead (Asia)	〃	〃	5,599	173,540	100.000	173,540	-
〃	Twintek	〃	〃	32,853	38,034	99.974	38,034	-
〃	Yu Feng	〃	〃	39,790	25,224	99.975	25,224	-
〃	Fiber Logic Communications Inc.	〃	〃	2,609	41,245	11.858	41,245	-
〃	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.	〃	〃	-	-	0.006	〃	-
〃	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	0.270	1,458	-
	Less: Unrealized loss on financial instrument				505			
					485,937			

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:

Unit: thousand dollars

Company name	Name of Security	Account name	Counterparty	Relationship with the Company	Beginning balance		Purchases		Sales				Valuation gain (loss)	Ending balance	
					Shares	Amount	Shares	Amount	Shares	Price	Cost	Disposal gain (loss)		Shares	Amount
The Company	Twinhead GmbH	Long-term investment	A Company subsidiary	Subsidiary	-	(78,811)	-	102,399	-	-	-	-	-	-	20,742

Note 1: Increased the investment by offsetting account receivable from Twinhead GmbH of $102,399 thousands. The transaction led the investment gain to increase by $4,781 thousands and the translation adjustments to decrease by $7,627 thousands.

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	689,758	46	(Note 1)	Determined based on related parties' costs	(Note 1)	-	-	-
〃	Gammatech	Subsidiary	(Sales)	(155,619)	(7)	(Note 2)	No difference from other customers	(Note 2)	13,658	7	-

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

(Continued)

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

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 Company	Ending balance of receivables from related party (Note 1)	Turnover rate	Balance of account receivable		Collection after December 31, 2011 (Note 2)	Allowance for doubtful accounts
					Amount	Accounting treatment		
The Company	Twinhead Kunshan	Indirect subsidiary	248,669	-	55,270	The receivable has been traced and recognized as long-term receivable	18,634	-

Note 1: Includes the amount recorded under long-term receivables; please refer to notes 18(b)(iv).

Note 2: Up to March 19, 2012.

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, 2011			Net income (loss) of the investee	Investment gain (loss)	Remarks
				2011.12.31	2010.12.31	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	53,079	29,391	297	59.400	87,179	2,754	1,239	100% jointly owned by the Company and its subsidiaries.
〃	Twinhead GmbH	Germany	The research, development and trading of computers and computer peripheral equipment	271,665	169,266	-	100.000	20,742	4,781	4,781	Subsidiary
〃	Twinhead (Asia)	Singapore	Investment holding	539,919	533,550	5,599	100.000	173,540	(43,278)	(43,278)	Subsidiary
〃	Lun Yang	Taiwan	The trading of computers and computer peripheral equipment	-	867,850	-	-	-	857	857	Subsidiary (Note)
〃	Twintek	Taiwan	The trading of computers and computer peripheral equipment	328,533	328,533	32,853	99.974	38,034	753	753	Subsidiary
〃	Yu Feng	Taiwan	The trading of computers and computer peripheral equipment	397,900	397,900	39,790	99.975	25,224	798	798	Subsidiary
〃	Fiber Logic Communication Inc.	Taiwan	Wired and wireless networking products for households and offices	25,427	17,527	2,609	11.858	41,245	67,421	5,597	Investee accounted for under equity method
Lun Yang	Fiber Logic Communication Inc.	Taiwan	Wired and wireless networking products for households and offices	-	7,900	-	-	-	67,421	2,522	Investee of Lun Yang accounted for under equity method (Note)
〃	Gammatech Computer	U.S.A.	The research, development and trading of computers and computer peripheral equipment	-	23,688	-	-	-	2,754	397	100% jointly owned by the Company, Lun Yang and Yu Feng (Note)
Twintek	Gammatech Computer	U.S.A.	The research, development and trading of computers and computer peripheral equipment	46,061	46,061	128	25.600	37,572	2,754	705	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	22,015	2,754	413	〃
Twinhead (Asia)	Twinhead Enterprises (BVI) Ltd.	British Virgin Islands	Investment holding	1,388	1,388	50	100.000	3,967	(35)	(35)	Indirect subsidiary
〃	Twinhead Kunshan	China	Production and marketing business of portable computers, calculator parts, terminals and keyboards	429,582	429,582	-	100.000	160,797	(43,035)	(43,035)	〃

Note: The Company combined Lung Yang on December 29, 2011.

ii) Financing provided: None.

iii) Endorsement/guarantee provided: None.

iv) Marketable securities held on December 31, 2011:

(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 (Note 1)	
Twinhead (Asia)	Stock: Twinhead Enterprises (BVI) Ltd.	Investee of Twinhead (Asia) accounted for under equity method	Long-term investment under equity method	50	3,967	100.000	3,967	-
〃	Twinhead Kunshan	〃	〃	-	160,797	100.000	160,797	-

(Continued)

Name of company which holds securities	Category and name of security	Relationship with holder	Amount name	Year-end: Number of shares	Year-end: Book value	Year-end: Percentage of shares	Year-end: Market value (Note 1)	Remarks
Twintek	Stock: Twinhead Int'l Corp.	Parent company	Available-for-sale financial instrument－non-current	4,183	14,681	1.630	14,681	-
〃	Gammatech Computer	100% jointly owned by the Company, Twintek and Yu Feng	Long-term investment under equity method	128	37,572	25.600	37,572	-
Yu Feng	Stock: Twinhead Int'l Corp.	Parent company	Available-for-sale financial instrument－non-current	4,009	14,070	1.570	14,070	-
〃	Gammatech Computer	100% jointly owned by the Company, Twintek and Yu Feng	Long-term investment under equity method	75	22,015	15.000	22,015	-

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: Purchases / (Sales)	Transaction details: Amount	Transaction details: Percentage of total purchases / (sales)	Transaction details: Credit period	Reasons why and description of how the transaction conditions differ from general transactions: Unit price	Reasons why...: Credit period	Accounts/ notes receivable (payable): Balance	Accounts/ notes receivable (payable): Percentage of total accounts / notes receivable (payable)	Remarks
Twinhead Kunshan	The Company	Parent company	(Sales)	(689,758)	(96)	(Note 1)	Determined based on related parties' cost	-	-	-	-
Gammatech	〃	〃	Purchases	155,619	72	(Note 2)	No difference from other supplier	-	(13,658)	(33)	-

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

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

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: Invested amount	Investment movement within this period: Returned amount	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
Twinhead Kunshan	Sales and production of PDAs, calculators and their parts, and computer keyboards	USD12,500	(Note 2)	378,500 (USD12,500)	-	-	378,500 (USD12,500)	100	(43,035)	160,797	-
Twinhead Huazhong Technology Limited Corp.	Installation and sales of laptop parts and accessories. Sales and production of related software	USD4,000	(Note 2)	60,560 (USD2,000)	-	-	60,560 (USD2,000)	-	-	-	-

Note 1: The exchange rate as of December 31, 2011: USD1=NTD30.28

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
478,424 thousand (USD15,800 thousand)	478,424 thousand (USD15,800 thousand)	816,584 thousand

Note: Including the amount of USD1,300 thousand wired to Twinhead Beijing Technology Co., Ltd.

ii) Material transactions:

The Company's material transactions with its investees in Mainland China for the year ended December 31, 2011, are disclosed in note 18.

(25) Segment Information

Please refer to the consolidated financial statements.