TWINHEAD INTERNATIONAL CORP.

Financial Statements

December 31, 2008 and 2007
(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, 2008 and 2007, and the related statements of income changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Gammatech Computer Corporation, Twinhead GmbH and Fiberlogic Inc. as of and for the years ended December 31, 2008 and 2007, 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 Fiberlogic Inc., is based solely on the reports of the other auditors. The investments in Gammatech Computer Corporation, Twinhead GmbH and Fiberlogic Inc. as of December 31, 2008 and 2007, amounted to $98,489 thousand and $87,277 thousand and represented 3.52% and 2.98%, respectively, of total assets, and the equity in their net gain amounted to $18,709 thousand and $11,085 thousand and represented (20.62)% of loss before income tax and 14.41% of income before income tax for the years ended December 31, 2008 and 2007, 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, 2008 and 2007, 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.

KPMG

April 3, 2009

The accompanying financial statements are intended only to present the financial position, results of operations and cash flows in accordance with the accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the Republic of China.
The auditors' report and the accompanying financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of, the English and Chinese language auditors' report and financial statements, the Chinese version shall prevail.

TWINHEAD INTERNATIONAL CORP.

Balance Sheets

December 31, 2008 and 2007
(expressed in thousands of New Taiwan dollars)

Assets	2008 Amount	%	2007 Amount	%
Current assets:				
Cash and cash in banks (note 4)	$ 474,304	17	651,614	22
Notes receivable	-	-	35	-
Accounts receivable, net of allowance for doubtful accounts of $12,454 and $5,862 in 2008 and 2007, respectively (note 17)	347,726	12	408,173	14
Accounts receivable－related parties (notes 6 and 16)	341,089	12	213,134	7
Other receivables from related parties (note 16)	2,817	-	-	-
Other financial assets－current	311	-	2,025	-
Inventories (note 5)	166,598	6	215,549	7
Deferred income tax assets－current (note 12)	81,437	3	77,514	3
Prepaid expenses and other current assets	16,685	1	15,537	1
	1,430,967	51	1,583,581	54
Long-term equity investments (notes 6 and 15):				
Long-term investments under equity method	301,756	11	302,294	11
Available-for-sale financial assets－noncurrent	645	-	4,053	-
Financial assets carried at cost－noncurrent	177,124	6	177,124	6
	479,525	17	483,471	17
Property, plant and equipment, net (notes 7 and 17):				
Cost:				
Land	118,424	4	118,424	4
Buildings and improvement	444,429	16	444,359	15
Machinery and equipment	247,425	9	248,997	9
Transportation equipment	3,220	-	3,220	-
Office equipment	157,529	5	150,410	5
	971,027	34	965,410	33
Less: accumulated depreciation	620,288	22	600,075	21
accumulated asset impairment	10,593	-	10,593	-
Prepayment for equipment	1,582	-	2,814	-
	341,728	12	357,556	12
Other assets:				
Assets leased to others (notes 8 and 17)	214,194	8	216,638	7
Refundable deposits (note 18)	20,543	1	20,542	1
Deferred charges	24,007	1	11,243	-
Long-term account receivable from related parties, net of allowance for doubtful accounts of $140,773 and $143,403 in 2008 and 2007, respectively (notes 6 and 16)	159,360	6	124,958	4
Deferred income tax assets－noncurrent (note 12)	127,474	4	131,397	5
	545,578	20	504,778	17
Total assets	**$ 2,797,798**	**100**	**2,929,386**	**100**

Liabilities and Stockholders' Equity	2008 Amount	%	2007 Amount	%
Current liabilities:				
Short-term borrowings (notes 9 and 17)	$ 754,283	27	743,759	25
Notes payable	472	-	1,651	-
Accounts payable	295,675	11	281,047	10
Other payables to related parties (note 16)	21,802	1	10,380	-
Accrued expenses	70,066	2	97,850	3
Other notes payable (note 10)	11,691	-	22,500	1
Deferred credit (notes 6 and 16)	32,301	1	27,456	1
Other current liabilities	49,733	2	33,960	1
	1,236,023	44	1,218,603	41
Long-term notes payable (note 10)	-	-	11,691	1
Other liabilities:				
Guarantee deposits received	3,965	-	2,655	-
Other liabilities－other (note 6)	-	-	64,215	2
	3,965	-	66,870	2
Total liabilities	1,239,988	44	1,297,164	44
Stockholders' equity (notes 6, 13 and 14):				
Common stock, $10 par value, 277,281 thousand shares issued and 700,000 thousand shares outstanding in both 2008 and 2007	2,772,809	99	2,772,809	95
Convertible preferred stock, $10 par value, 23 thousand shares issued and outstanding in both 2008 and 2007	228	-	228	-
	2,773,037	99	2,773,037	95
Paid-in capital in excess of par	263,663	9	263,663	9
Retained earnings:				
Legal reserve	1,688	-	-	-
Unappropriated retained earnings (accumulated deficit)	(76,325)	(2)	16,877	1
	(74,637)	(2)	16,877	1
Other items in stockholders' equity:				
Cumulative foreign currency translation adjustments	(7,573)	-	(28,083)	(1)
Unrealized loss on financial instrument	(469,811)	(17)	(466,403)	(16)
	(477,384)	(17)	(494,486)	(17)
Treasury stock	(926,869)	(33)	(926,869)	(32)
Total stockholders' equity	1,557,810	56	1,632,222	56
Commitments and contingencies (notes 8, 16, and 18)				
Total liabilities and stockholders' equity	**$ 2,797,798**	**100**	**2,929,386**	**100**

See accompanying notes to financial statements.

TWINHEAD INTERNATIONAL CORP.

Income Statements

For the years ended December 31, 2008 and 2007
(expressed in thousands of New Taiwan dollars)

	2008 Amount	%	2007 Amount	%
Operating income:				
Sales revenue (note 16)	2,975,766	101	3,311,932	105
Less: Sales returns	22,455	1	170,956	5
Sales discounts	6,801	-	4,207	-
Net operating revenue	2,946,510	100	3,136,769	100
Cost of goods sold (notes 11, 16 and 19)	2,675,684	91	2,873,158	92
Gross profit	270,826	9	263,611	8
Add: Realized gain on intercompany transactions	7,621	-	8,209	-
Less: Unrealized gain on intercompany transactions (note 6)	(17,260)	-	(7,621)	-
Realized gross profit	261,187	9	264,199	8
Operating expenses (notes 11, 16 and 19):				
Selling expenses	100,799	3	122,695	4
Administrative expenses	121,629	4	112,771	4
Research and development expenses	137,107	5	143,471	4
	359,535	12	378,937	12
Operating loss	(98,348)	(3)	(114,738)	(4)
Non-operating income and gain:				
Interest income	9,772	-	14,149	-
Other investment gain, net (note 6)	4,794	-	13,230	-
Gain on reversal of impairment loss (note 7)	-	-	60,000	2
Gain from price recovery of inventory	-	-	1,694	-
Other income (notes 8 and 18)	61,321	2	178,155	6
	75,887	2	267,228	8
Non-operating expense and loss:				
Interest expenses	26,888	1	33,211	1
Investment loss recognized under equity method	16,052	-	23,276	1
Loss on disposal of fixed assets	57	-	159	-
Loss on physical inventory	-	-	6	-
Loss on exchange, net	4,599	-	4,589	-
Loss on inventory devaluation and obsolescence	16,993	1	-	-
Other loss (note 19)	3,677	-	14,337	-
	68,266	2	75,578	2
Gain (loss) before income tax	(90,727)	(3)	76,912	2
Income tax expenses (note 12)	-	-	(60,035)	(2)
Net gain (loss)	$ (90,727)	(3)	16,877	-

	Before tax	After tax	Before tax	After tax
Basic gain (loss) per share of common stock (note 14)	$ (0.37)	(0.37)	0.31	0.07

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

	Before income tax	Net of income tax	Before income tax	Net of income tax
Net gain (loss)	$ (90,773)	(90,773)	76,866	16,831
Basic gain (loss) per share of common stock	$ (0.33)	(0.33)	0.28	0.06

See accompanying notes to financial statements.

TWINHEAD INTERNATIONAL CORP.

Statements of Changes in Stockholders' Equity

For the years ended December 31, 2008 and 2007
(expressed in thousands of New Taiwan dollars)

	Common stock	Convertible preferred stock	Capital surplus	Legal reserve	Unappropriated retained earnings (accumulated deficit)	Cumulative foreign currency translation adjustments	Unrealized loss on financial instrument	Treasury stock	Total
Beginning balance January 1, 2007	$ 2,772,809	228	859,439	-	(595,776)	(26,942)	(464,626)	(926,869)	1,618,263
Capital surplus to offset accumulated deficits (note 13)	-	-	(595,776)	-	595,776	-	-	-	-
Net income for 2007	-	-	-	-	16,877	-	-	-	16,877
Cumulative foreign currency translation adjustments	-	-	-	-	-	(1,141)	-	-	(1,141)
Unrealized loss on financial instrument (note 6)	-	-	-	-	-	-	(1,528)	-	(1,528)
Investees' unrealized loss on available-for-sale financial assets (note 6)	-	-	-	-	-	-	(249)	-	(249)
Balance as of December 31, 2007	2,772,809	228	263,663	-	16,877	(28,083)	(466,403)	(926,869)	1,632,222
Appropriation of retained earnings (note 13):									
Legal reserve	-	-	-	1,688	(1,688)	-	-	-	-
Distribution of preferred stock dividend	-	-	-	-	(787)	-	-	-	(787)
Net loss for 2008	-	-	-	-	(90,727)	-	-	-	(90,727)
Cumulative foreign currency translation adjustments	-	-	-	-	-	20,510	-	-	20,510
Unrealized loss on financial instrument (note 6)	-	-	-	-	-	-	(3,408)	-	(3,408)
Balance as of December 31, 2008	**$ 2,772,809**	**228**	**263,663**	**1,688**	**(76,325)**	**(7,573)**	**(469,811)**	**(926,869)**	**1,557,810**

See accompanying notes to financial statements.

TWINHEAD INTERNATIONAL CORP.

Statements of Cash Flows

For the years ended December 31, 2008 and 2007
(expressed in thousands of New Taiwan dollars)

	2008	2007
Cash flows from operating activities:		
Net income (loss)	$ (90,727)	16,877
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	41,350	43,265
Loss on inventory devaluation and obsolescence (Gain from price recovery of inventory)	16,993	(1,694)
Allowance for (recovery of) doubtful accounts	3,962	(1,553)
Investment loss under equity method	16,052	23,276
Gain on unrealized (realized) inter-company sales	9,639	(588)
Gain on other investment	(4,794)	(13,230)
Loss on disposal of fixed assets	57	159
Gain on reversal of impairment loss	-	(60,000)
Fixed assets transferred to expense	-	1,183
Deferred income tax expense	-	60,000
Decrease in notes and accounts receivable	56,520	221,785
Increase in accounts receivable and long-term accounts receivable from related parties	(128,083)	(94,314)
Decrease (increase) in other receivables from related parties	3,690	(7,442)
Decrease in other financial assets－current	1,714	11,134
Decrease (increase) in inventories	31,958	(3,214)
Decrease (increase) in prepaid expenses and other current assets	(1,148)	64,888
Increase in notes and accounts payable	13,449	13,454
Increase (decrease) in other payable to related parties	11,422	5,369
Decrease (increase) in accrued expenses and other current liabilities	(12,011)	(64,954)
Reversal of royalty payables	-	(95,799)
Reversal of estimated warranty liabilities	-	(12,386)
Net changes in prepaid pension cost	-	61,507
Net cash provided by (used in) operating activities	(29,957)	167,723
Cash flows from investing activities:		
Acquisition of fixed assets	(8,814)	(7,699)
Proceeds from disposal of fixed assets	46	226
Increase (decrease) in other receivables from related parties	(100,000)	-
Increase (decrease) in refundable deposits	(1)	(8,997)
Increase in deferred charges	(27,131)	(12,579)
Net cash provided by investing activities	(135,900)	(29,049)
Cash flows from financing activities:		
Increase (decrease) in short-term borrowings	10,524	(5,729)
Increase (decrease) in long-term notes payable	(22,500)	34,191
Increase in guarantee deposits received	1,310	259
Distribution of preferred stock dividend	(787)	-
Net cash provided by (used in) financing activities	(11,453)	28,721
Net increase (decrease) in cash and cash in bank	(177,310)	167,395
Cash and cash in bank at beginning of year	651,614	484,219
Cash and cash in bank at end of year	**$ 474,304**	**651,614**
Supplementary disclosures of cash flow information:		
Cash payment of interest	**$ 27,605**	**32,894**
Cash payment of income taxes	**$ 930**	**1,403**
Investing activities not affecting cash flows:		
Cumulative foreign currency translation adjustments	**$ 20,510**	**(1,141)**
Long-term investment loss in excess of investment cost offset against receivables from related parties	**$ 59,219**	**17,183**
Unrealized loss on financial instrument	**$ (3,408)**	**(1,777)**
Long-term accounts receivable transferred to financial assets carried at cost－noncurrent	**$ -**	**63,609**

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.

As of December 31, 2008 and 2007, the number of the Company's employees was 313 and 320, 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) 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.

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

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

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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.

(d) Allowance for doubtful accounts

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

(e) Inventories

Inventories are stated at the aggregate lower of cost or market value. Cost is determined by using the weighted-average method. Market value is determined by the replacement cost for raw materials and net realizable value for finished goods and work in process.

(f) Long-term equity investments

i) Long-term investment under equity method

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

(Continued)

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

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

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

In addition, to account for all investees in which the Company has a controlling interest under the equity method, the Company prepared annual and semi-annual consolidated financial statements in 2007, whereas in 2008, the Company also prepared quarterly consolidated financial statements.

ii) Financial assets carried at cost

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

iii) Available-for-sale financial assets

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

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

(g) Fixed assets and related depreciation

Fixed assets are stated at cost. Major additions, betterments and replacements are capitalized. Interest on loans incurred in connection with the construction of the plant or the acquisition of equipment is capitalized as part of the cost of the respective assets. Except for land, depreciation is provided over the estimated useful lives of the respective assets using the straight-line method. For an asset reaching its original estimated useful life that continued to be used, depreciation is provided, based on its residual value, over the additional estimated useful life using the straight-line method. Starting on November 20, 2008, 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	5~61 years
Machinery and equipment	2~15 years
Transportation equipment	5 years
Office equipment	2~8 years

(h) Assets leased to others

Assets leased to others are stated at cost, and depreciation is provided over 5~61 years using the straight-line method and included in non-operating expenses.

(i) Deferred charges

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

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(j) Asset impairment

The Company adopted Statement of Financial Accounting Standards No. 35 (SFAS 35) "Impairment of Assets". In accordance with SFAS 35, the Company assesses at each balance sheet date whether there is any indication that an asset other than goodwill (individual asset or cash-generating unit) may have been impaired. If any such indication exists, the Company estimates the recoverable amount of the asset. The Company recognizes impairment loss for an asset whose carrying value is higher than the recoverable amount.

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

(k) Retirement plan

The original employee retirement plan of the Company was established in accordance with the Labor Standards Law. The Company made monthly contributions to the pension fund at a rate prescribed by the Labor Standards Law.

Starting July 1, 2005, the Labor Pension Act (the "New Act") came into effect. On August 31, 2007, the Company settled its vested benefit obligation with employees transferred to be subject 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 Company has adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 18 "Accounting for Pensions". The end of each fiscal year is used as the measurement date for the actuarial assessment. The amount of the accumulated benefit obligation exceeding pension plan assets is recognized as a minimum pension liability on the balance sheet date. Furthermore, the Company recognizes net periodic pension cost, including service cost, transition assets, prior service cost, and gain or loss on the pension plan, which is amortized over employees' remaining service years. The settlement gain or loss resulting from settling its vested benefit obligation was recognized as net periodic pension cost.

In accordance with the New Act, the rate of contribution by an employer to an individual pension fund account per month shall not be less than 6% of the employee's monthly wages. The contributions are expensed as incurred.

(l) 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.

(m) Provision for product warranties

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

(Continued)

(n) Revenue recognition

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

(o) Treasury stock

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

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

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

(p) Income tax

In accordance with Statement of Financial Accounting Standard (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 noncurrent 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.

Income tax credits due to purchase of equipment, research and development, and employees' training are recognized in the current period.

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

(Continued)

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

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

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

(3) Reason for and Effect of Accounting Changes

Effective January 1, 2008, the Company adopted ROC SFAS No. 39 “Share-Based Payment” and Interpretation (96) 052 issued by the Accounting Research and Development Foundation. The Company reclassified, estimated and disclosed the employee bonuses and directors' and supervisors' remuneration. The abovementioned changes in accounting policies did not affect the financial statements.

Effective January 1, 2007, the Company adopted ROC SFAS No. 37 "Intangible Assets". The abovementioned change in accounting policy did not affect the financial statements.

(4) Cash and Cash in Bank

As of December 31, 2008 and 2007, the components of cash were as follows:

		2008	2007
Petty cash	$	160	160
Savings accounts		474,144	651,454
	$	**474,304**	**651,614**

(5) Inventories

As of December 31, 2008 and 2007, the details of inventories were as follows:

		2008	2007
Finished goods	$	22,287	41,039
Work in process		7,241	4,034
Raw material and supplies		286,699	345,306
		316,227	390,379
Less: provision for decline in market value		149,629	174,830
	$	**166,598**	**215,549**

(Continued)

(6) Long-term Equity Investments

(a) As of December 31, 2008 and 2007, the details were as follows

	2008			
	Percentage of ownership	**Investment cost**	**Book value**	**Contra of long-term investment recorded under other liabilities**
Under equity method:				
Gammatech Computer Corporation	45.000	$ 29,391	68,267	-
Twinhead GmbH	100.000	169,266	-	-
Twinhead (Asia) Pte. Ltd.	100.000	533,550	169,697	-
Lun Yang Technology Co., Ltd.	99.983	867,850	-	-
Lun Shiang Technology Co., Ltd.	99.969	325,900	2,596	-
Yu Feng Technology Co., Ltd.	99.975	397,900	30,974	-
Fiberlogic Inc.	16.260	32,527	30,222	-
		2,356,384	301,756	-
Financial assets carried at cost－noncurrent:				
EUROC Venture Capital Corp.	10.000	80,000	80,000	-
I1. Com	2.136	30,800	30,800	-
Trigem Computer, Inc.	0.003	63,609	63,609	-
Printec Japan Co., Ltd.	9.000	2,715	2,715	-
		177,124	177,124	-
Available-for-sale financial assets－noncurrent:				
Tekom Technologies Inc.	2.054	26,296	26,296	-
Less: unrealized loss on financial instrument		-	25,651	-
		26,296	645	-
		$ 2,559,804	**479,525**	-

TWINHEAD INTERNATIONAL CORP.

Notes to Financial Statements

	2007			
	Percentage of ownership	**Investment cost**	**Book value**	**Contra of long-term investment recorded under other liabilities**
Under equity method:				
Gammatech Computer Corporation	45.000	$ 29,391	62,097	-
Twinhead GmbH	100.000	169,266	-	-
Twinhead (Asia) Pte. Ltd.	100.000	533,550	183,301	-
Lun Yang Technology Co., Ltd.	99.983	867,850	-	64,215
Lun Shiang Technology Co., Ltd.	99.969	325,900	2,818	-
Yu Feng Technology Co., Ltd.	99.975	397,900	28,898	-
Fiberlogic Inc.	16.260	32,527	25,180	-
		2,356,384	302,294	64,215
Financial assets carried at cost－noncurrent:				
EUROC Venture Capital Corp.	10.000	80,000	80,000	-
I1. Com	2.149	30,800	30,800	-
Trigem Computer, Inc.	0.004	63,609	63,609	-
Printec Japan Co., Ltd.	9.000	2,715	2,715	-
		177,124	177,124	-
Available-for-sale financial assets－noncurrent:				
Tekom Technologies Inc.	2.054	26,296	26,296	-
Less: unrealized loss on financial instrument		-	22,243	-
		26,296	4,053	-
		$ 2,559,804	**483,471**	**64,215**

In the fourth quarter of 2007, because Trigem Computer, Inc. modified its organization restructuring plan, the Company converted its debts from Trigem Computer, Inc. to common stock of Trigem Computer, Inc., which was approved by the Korean court. Therefore, the Company converted it long-term receivables amounting to $63,609 to financial assets carried at cost－noncurrent.

The Company's accumulated investment loss recognized in excess of investment cost would be offset against accounts receivable－related parties, other receivables from related parties, and long-term accounts receivable from related parties. Due to the capital increase and collection of other receivables, the increase in offset amounted to $59,219 and $17,183 in 2008 and 2007, respectively.

(Continued)

In 2002, the Company invested in Twinhead Kunshan Technology Ltd. through Twinhead (Asia) Pte. Ltd. by machinery, equipment and inventories. As of December 31, 2008 and 2007, the values of the above machinery, equipment and inventories, as examined by the local certified agent, were equivalent to $200,689. The difference resulting from the above investment and underlying equity in net assets was amortized in the amount of $4,794 in 2008 and $13,230 in 2007, and was recorded as other investment loss contra accounts in the accompanying income statements. As of December 31, 2008 and 2007, the unamortized amount was $0 and $4,794, respectively, and was recorded as deferred credits.

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

		2008	2007
Lun Yang Technology Co., Ltd.	$	820,924	820,924
Lun Shiang Technology Co., Ltd.		55,144	55,144
Yu Feng Technology Co., Ltd.		50,801	50,801
	$	**926,869**	**926,869**

(b) Unrealized loss on financial instrument

Beginning in 2006, the Company adopted ROC SFAS No. 34 "Financial Instruments: Recognition and Measurement". As of December 31, 2008 and 2007, unrealized loss on devaluation of its investments in Tekom Technologies Inc. was $25,651 and $22,243, respectively, and was recorded as unrealized loss on financial instrument under stockholders' equity.

As of December 31, 2008 and 2007, the Company recognized $444,160 of unrealized loss on devaluation of a subsidiary’s holdings of the shares of the Company. Such transaction was treated as treasury stock and was recorded as a reduction of stockholders’ equity.

In 2008 and 2007, if the Company recognized it on a pro rata basis, unrealized loss on valuation of a subsidiary's financial instrument investments in the parent company would be $71,092 and $47,394, respectively. The ending balance of unrealized loss on devaluation of financial instrument investments was $800,370 and $729,278, respectively.

(c) The movements of unrealized loss on available-for-sale financial assets in 2008 and 2007 are listed below:

		2008	2007
Beginning balance	$	22,243	20,466
Add: unrealized loss recognized this year		3,408	1,777
Ending balance	$	**25,651**	**22,243**

(7) Fixed Assets

As of December 31, 2008 and 2007, 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. The gain on reversal of impairment loss recognized on December 31, 2008 and 2007, amounted to $0 and $60,000, respectively. The discount rates in use were 10.29% and 14.67%, respectively.

(Continued)

(8) Assets Leased to Others

		2008	2007
Land	$	95,830	95,830
Building		151,559	151,559
		247,389	247,389
Less: accumulated depreciation		33,195	30,751
	$	**214,194**	**216,638**

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 2008 and 2007, the total rental revenues amounted to $20,825 and $15,766, respectively, and were recorded as other income. The lease revenues for subsequent years are as follows:

Period		Amount
2009	$	18,719
2010		11,374
2011		4,182
	$	**34,275**

(9) Short-term Bank Borrowings

		2008	2007
Credit loan	$	190,000	100,000
Secured bank loans		350,500	421,000
Usance letters of credit		213,783	222,759
	$	**754,283**	**743,759**

Annual interest rates on short-term borrowings were 2.147%~6.222% and 1.419%~6.723% in 2008 and 2007, respectively. The aforementioned loans were due within 365 days.

As of December 31, 2008 and 2007, unused credit lines amounted to approximately $535,200 and $447,682, respectively.

(Continued)

(10) Long-term Notes Payable

The Company has recognized long-term notes payable generated from sales with buy-back agreement with Chailease Finance Co., Ltd. The details are as follows:

Financing institution	Description	Period	Repayment term	Interest rate (%)	2008	2007
Chailease Finance Co., Ltd.	Medium- to long-term operating funds	2007.7.1~ 2009.6.30	Monthly interest and principal repayable	4.953 in 2008 and 2007	$ 11,862	35,586
Less: Discount on notes payable (recorded as other notes payable)					171	1,395
					11,691	34,191
Less: current portion(recorded as other notes payable)					11,691	22,500
					$ -	**11,691**

As of December 31, 2008, the repayment schedule for long-term notes payable was as follows:

Period	Amount
2009	**$ 11,691**

(11) Pension

On August 31, 2007, the Company settled its vested benefit obligation with its employees, and those employees began to be subject to the defined contribution plan under the New Act.

The Company incurred pension expense under the defined contribution plan for 2008 and 2007 amounting to $10,794 and $10,907, respectively.

In 2007, the Company incurred pension expense amounting to $1,029 resulting from settling its vested benefit obligation with its employees.

(12) Income Tax

The maximum statutory income tax rate applicable to the Company is 25%. The components of income tax expense for the years ended December 31, 2008 and 2007, were as follows:

	2008	2007
Current income tax expense	$ -	(35)
Deferred income tax expense	-	(60,000)
	$ -	**(60,035)**

(Continued)

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 2008 and 2007 were as follows:

	2008	2007
"Expected" income tax expense (benefit)	$ 22,682	(19,228)
Nondeductible expenses	-	(2,805)
Loss from long-term investments	(4,013)	(5,819)
Loss carryforwards expired	-	(74,846)
Investment tax credits expired	(33,822)	(29,299)
Security transaction gain and separately taxed interest income	-	(35)
Underestimate (overestimate) of prior year's deferred income tax assets	42,282	(45,460)
Others	1,198	3,308
Valuation allowance－deferred income tax assets	(28,327)	114,149
	$ -	**(60,035)**

The components of deferred income tax benefit (expense) for the years ended December 31, 2008 and 2007, were as follows:

	2008	2007
Loss carryforwards	$ 28,674	(119,184)
Investment tax credits	(4,270)	(2,660)
Reserve for inventory loss	(6,300)	(34,610)
Pension	-	15,377
Unrealized gain on sales to related parties	2,410	(147)
Unrealized foreign exchange loss (gain)	8,045	(18,471)
Allowance for repairs and maintenance reserve	(1,088)	(4,172)
Allowance for doubtful account exceeding tax limit	856	(10,282)
Valuation allowance－deferred income tax assets	(28,327)	114,149
	$ -	**(60,000)**

(Continued)

As of December 31, 2008 and 2007, deferred income tax assets (liabilities) were as follows:

		2008	2007
Current:			
Deferred income tax assets	$	114,529	248,533
Valuation allowance		(28,654)	(158,536)
Net deferred income tax assets		85,875	89,997
Deferred income tax liabilities		(4,438)	(12,483)
Net deferred income tax assets－current	**$**	**81,437**	**77,514**
Noncurrent:			
Deferred income tax assets	$	448,399	294,113
Valuation allowance		(320,925)	(162,716)
Net deferred income tax assets－noncurrent	**$**	**127,474**	**131,397**
Total deferred income tax assets	**$**	**562,928**	**542,646**
Total deferred income tax liabilities	**$**	**4,438**	**12,483**
Total valuation allowance for deferred income tax assets	**$**	**349,579**	**321,252**

As of December 31, 2008 and 2007, the temporary differences, loss carryforwards, tax credits and respective tax effects related to the deferred income tax assets (liabilities) were as follows:

		2008		2007	
		Amount	**Tax effect**	**Amount**	**Tax effect**
Deferred income tax assets (liabilities):					
Investment tax credits	$	91,468	91,468	95,738	95,738
Loss carryforwards		1,542,341	385,585	1,427,643	356,911
Reserve for inventory revaluation loss		149,629	37,407	174,830	43,707
Unrealized gain on sales to related parties		17,260	4,315	7,621	1,905
Unrealized foreign exchange loss (gain)		(17,751)	(4,438)	(49,933)	(12,483)
Allowance for repairs and maintenance reserve		6,063	1,516	10,415	2,604
Allowance for doubtful account exceeding tax limit		170,547	42,637	167,122	41,781
Valuation allowance－deferred income tax assets			(349,579)		(321,252)
		$	**208,911**		**208,911**

(Continued)

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, 2008, the amount and the expiry year of the Company's unused investments tax credits were as follows:

Year	Amount	Year of Expiration
2005	$ 28,654	2009
2006	33,263	2010
2007	29,551	2011
	$ 91,468	

In accordance with the amendment of Article 39 of the R.O.C. Income Tax Act, a company's losses can be carried forward to offset its future taxable income for a period of ten years. As of December 31, 2008, the amount and the expiry year of the Company's net losses were as follows:

Year	Amount	Year of Expiration
2003	$ 498,854	2013
2004	97,177	2014
2005	665,728	2015
2006	165,884	2016
2007	50,924	2017
2008	63,774	2018
	$ 1,542,341	

The ROC tax authorities have examined the Company's tax credits through 2005.

As of December 31, 2008 and 2007, the related imputation tax information was as follows:

	2008	2007
Balance of imputation credit account	**$ 15,050**	**15,875**

According to the resolution made by shareholders' meeting held on June 13, 2008, the Company decided to distribute a preferred stock dividend. The actual imputation tax credit ratio of the 2007 preferred stock dividend distributed in 2008 was 33.33%. The remainder of unappropriated earnings of the year 2007 was not distributed according to the resolution. As of December 31, 2008, the accumulated earnings after 1998 were a deficit. Therefore, there is no imputation tax credit.

(Continued)

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

	2008	2007
1997 and before	$ -	137,988
1998 and after	(76,325)	(121,111)
	$ (76,325)	**16,877**

(13) Stockholders' Equity

(a) Capital stock

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

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

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

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

None of the shares of the Company were purchased by its subsidiaries during the years 2008 and 2007. As of December 31, 2008 and 2007, subsidiaries held 29,628 thousand shares of common stock of the Company, and market value amounted to $56,292 and $127,398, respectively.

In accordance with the Securities and Exchange Act Regulations, the treasutry stock held by the Company cannot be pledged and does not carry shareholder rights.

(Continued)

(c) Capital surplus

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

The shareholders' meetings held on June 8, 2007, decided to use legal reserve of $595,776 to offset the accumulated deficit.

(d) Legal reserve

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

(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 employees' bonuses according to the employee bonus plan and 2% is distributed as directors' and supervisors' remuneration. The remainder is distributed in consideration of the overall industry circumstances, the Company's financial structure, and the investors' best interest, but no less than 50%. Such distribution, considering the capital surplus, retained earnings, future profitability, and maintenance of the dividend distribution level, shall be no more than 40% in cash and the rest in stock dividend.

In 2006, the Company did not distribute any earnings.

Pursuant to the resolution of the shareholders' meeting held on June 13, 2008, the distribution of 2007 preferred stock dividends amounted to $787. Such distribution was made in full in September 2008. However, no common stock dividends were issued. The remainder of earnings was unappropriated in accordance with the directors' decision. The related information on appropriation of retained earnings can be obtained from the Market Observation Post System Website.

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

As of December 31, 2008, the Company had incurred accumulated deficits. Therefore, employees' bonuses and directors' and supervisors' remuneration were not accrued by the Company.

(Continued)

(14) Earnings (Loss) per Share

The details of basic and diluted earnings (loss) per share for the Company in 2008 and 2007 were as follows:

	2008		2007	
	Before tax	**After tax**	**Before tax**	**After tax**
Basic earnings per share:				
Net income (loss) (after deducting preferred stock dividends amounting to 46 thousand dollars)	$ **(90,773)**	**(90,773)**	**76,866**	**16,831**
Weighted-average outstanding shares	**247,653**	**247,653**	**247,653**	**247,653**
Basic earnings (loss) per share (expressed in New Taiwan dollars)	$ **(0.37)**	**(0.37)**	**0.31**	**0.07**
Pro forma data, assuming the Company's shares held by its subsidiaries were not treated as treasury stock:				
Net income (loss)	$ **(90,773)**	**(90,773)**	**76,866**	**16,831**
Weighted-average outstanding shares	247,653	247,653	247,653	247,653
Treasury stock	29,628	29,628	29,628	29,628
Weighted-average outstanding shares in calculating pro forma earnings per share	**277,281**	**277,281**	**277,281**	**277,281**
Pro forma earnings (loss) per share (expressed in New Taiwan dollars)	$ **(0.33)**	**(0.33)**	**0.28**	**0.06**

With their anti-dilutive effect, the Company's preferred stock issued was not included in the weighted-average number of shares outstanding for the calculation of diluted gain (loss) per share.

(15) Financial Instruments

(a) Derivative financial instruments

In 2008 and 2007, 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－noncurrent: Stocks of listed companies. The fair value of stocks of listed companies is determined by the closing price on the balance sheet date.

(Continued)

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) Long-term notes payable (including current portion of other notes payable): The fair value is the present value of estimated future cash flows. The Company used the discount rate from long-term notes with similar terms it received; however, since the interest rate of long-term notes was mostly floating rate, the carrying value is regarded as its fair value.

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

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, 2008 and 2007, the fair value of the Company's financial instruments determined by open market prices amounted to $645 and $4,053, respectively.

(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 interest rates or 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:

	2008	
Customer Name	**Amount**	**% of notes and accounts receivable**
Subsidiary (including transferred long-term receivable; refer to note 16)	$ 500,449	59
A	119,393	14
B	90,980	11

	2007	
Customer Name	**Amount**	**% of notes and accounts receivable**
Subsidiary (including transferred long-term receivable; refer to note 16)	$ 338,092	45
A	129,131	17
E	99,938	13

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

iii) Liquidity risk

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

iv) Cash flow risk arising from interest rate change

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

(16) Transactions with Related Parties

(a) Name and relationship

Name	Relationship
Gammatech Computer Corporation (Gammatech Computer)	The Company and its subsidiaries hold 100% of Gammatech's common stock
Twinhead GmbH	Subsidiary of the Company
Twinhead Beijing Technology Co., Ltd. (Twinhead Beijing)	Subsidiary of a Company subsidiary (Twinhead (Asia) Pte. Ltd.)

(Continued)

Name	Relationship
Twinhead Kunshan Technology Co., Ltd. (Twinhead Kunshan)	Subsidiary of a Company subsidiary (Twinhead (Asia) Pte. Ltd.)
Twinhead Huazong Technology Co., Ltd. (Twinhead Huazong)	A Company subsidiary (Twinhead (Asia) Pte. Ltd.) holds 50% of Twinhead Huazong's common stock
Lun Yang Technology Co., Ltd. (Lun Yang)	Subsidiary of the Company
Lun Shiang Technology Co., Ltd. (Lun Shiang)	Subsidiary of the Company
Yu Feng Technology Co., Ltd. (Yu Feng)	Subsidiary of the Company
Pinnacle Corp. Ltd. (Pinnacle)	The chairman is the Company's general manager, who retired from the position on June 12, 2008

(b) Significant transactions with related parties

i) Sales

Sales to related parties were as follows:

	2008		2007	
	Amount	**% of net sales**	**Amount**	**% of net sales**
Gammatech Computer	$ 344,979	12	268,135	9
Twinhead GmbH	66,485	2	74,241	2
Lun Yang	43,726	1	32,033	1
Twinhead Beijing	-	-	247	-
	$ 455,190	**15**	**374,656**	**12**

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

(Continued)

ii) Receivables

Receivables resulting from the above transactions are summarized as follows:

	2008		2007	
	Amount	% of net receivables	Amount	% of net receivables
Account receivable:				
Gammatech Computer	$ 126,107	15	111,191	15
Twinhead GmbH	105,417	12	130,356	17
Twinhead Beijing	84,395	10	83,443	11
Twinhead Huazong	187,028	22	184,918	25
Lun Yang	57,394	7	28,090	4
	560,341	66	537,998	72
Deduct: investment loss offset against receivables				
Twinhead GmbH	91,156	11	104,378	14
Lun Yang	7,038	1	28,090	4
	98,194	12	132,468	18
	462,147	54	405,530	54
Deduct: allowance for doubtful account	140,773	16	143,403	19
Deduct: receivables reclassified to long-term receivables	159,360	19	124,958	17
	$ 162,014	**19**	**137,169**	**18**

The Company provided allowance for doubtful account after evaluating the collectibility of accounts receivable from Twinhead Huazon as of December 31, 2008 and 2007. In 2008 and 2007, the Company provided allowance for doubtful account of $140,773 and $143,403, respectively. Additionally, as of December 31, 2008 and 2007, the aforementioned accounts receivable exceeding their normal credit period amounted to $159,360 and $124,958, respectively, and were recorded under long-term receivables. Please refer to note 16(b)(vii)(ii).

(Continued)

iii) Purchases

Purchases from related parties were as follows:

		2008		2007	
		Amount	**% of net purchases**	**Amount**	**% of net purchases**
Twinhead Kunshan	$	1,854,976	73	1,903,661	72
Gammatech Computer		9,338	-	-	-
Lun Yang		45	-	479	-
	$	**1,864,359**	**73**	**1,904,140**	**72**

The purchase price was determined based on related parties' cost, and the repayment was offset with accounts receivable from sales or was 60 days after purchase.

iv) Assembly charges

In 2007, the charges resulting from the product assembly provided by Twinhead Kunshan amounted to $26,374, and were recorded as cost of goods sold. There was no such transaction in 2008.

As of December 31, 2008 and 2007, the Company's accounts receivable－related parties from Twinhead Kunshan amounted to $179,075 and $75,965, respectively, resulting from the purchases by the Company on Twinhead Kunshan's behalf.

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, 2008 and 2007, the unrealized gain on sales had increased by $9,639 and decreased by $588, respectively. As of December 31, 2008 and 2007, unrealized gain on sales was $17,260 and $7,621, respectively, and was recorded as deferred credits.

vi) Property transactions

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

(Continued)

vii) Other transactions

i. Receivables from advance payments and collections

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

1) Other receivable from related parties

		2008	2007
Gammatech Computer	$	2,817	-
Twinhead GmbH		1,073	-
Lun Yang		21	7,601
		3,911	7,601
Deduct: investment loss offset against receivables		1,094	7,601
	$	**2,817**	**-**

As of December 31, 2008, the accumulated investment loss recognized in excess of investment cost offset against receivables from Lun Yang and Twinhead GmbH amounted to $21 and $1,073, respectively.

As of December 31, 2007, the accumulated investment loss recognized in excess of investment cost offset against receivables from Lun Yang amounted to $7,601.

2) Other payable to related parties

		2008	2007
Twinhead Kunshan	$	21,802	10,363
Gammatech Computer		-	17
	$	**21,802**	**10,380**

(Continued)

ii. Reclassification of accounts receivable to long-term receivable

		2008	2007
Twinhead Huazong	$	187,028	184,918
Twinhead GmbH		64,970	66,474
Twinhead Beijing		84,395	83,443
Lun Yang		35,748	-
		372,141	334,835
Less: allowance for doubtful account		140,773	143,403
		231,368	191,432
Less: investment loss offset against receivables			
－Twinhead GmbH		64,970	66,474
－Lun Yang		7,038	-
		72,008	66,474
	$	**159,360**	**124,958**

The abovementioned accounts receivable were receivables from related parties. Since these accounts receivable exceeded the regular credit period given by the Company, they were reclassified to long-term receivables (refer to Note 16(b)(ii)). As of December 31, 2008 and 2007, the above overdue accounts receivable ranging from six to nine months were 6% and 4%, respectively, ranging from nine to twelve months were 1% and 0%, respectively, and over twelve months were 93% and 96%, respectively.

iii. Guarantees

		2008	2007
Lun Yang	$	**200,000**	**200,000**

viii) Financing

In 2008, a summary of the Company's financing to related parties (recorded as other receivable－related parties) is as follows:

		2008			
		Maximum balance	**Ending balance**	**Interest rate range**	**Interest income**
Lun Yang	$	100,000	**100,000**	-	-

As of December 31, 2008, the accumulated investment loss recognized in excess of investment cost offset against other receivables amounted to $100,000. No such transaction occurred in 2007.

ix) Service charges

In 2008 and 2007, Pinnacle charged service fees to the Company totaling $1,200 and $2,800, respectively. The service fees were included in operating expenses. The fees had been paid before the year-end.

(c) Key management personnel compensation

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

		2008	2007
Salary	$	25,482	16,373
Bonuses and allowances		1,240	1,963
Professional fees		2,190	2,080
Employee bonuses		-	-

Part of the aforementioned compensation is included in the accrual of employee bonuses and directors' and supervisors' remuneration as stated in note 13. Furthermore, the Company had provided personal transportation to a director. The cost of the abovementioned benefit amounted to $3,220 in each of the years 2008 and 2007. As of December 31, 2008 and 2007, the carrying values of the transportation were both $0.

(17) Pledged Assets

As of December 31, 2008 and 2007, the details and net book value of pledged assets were as follows:

			Book value	
Pledged assets	**Pledged for**		**2008**	**2008**
Account receivable	Short-term borrowings	$	-	126,099
Land	Short-term borrowings		118,424	118,424
Buildings and improvements	Short-term borrowings		164,236	168,138
Assets leased to others	Short-term borrowings		214,194	216,638
Total		$	**496,854**	**629,299**

(18) Commitments and Contingencies

(a) As of December 31, 2008 and 2007, the Company had outstanding letters of credit for the purchase of material totaling approximately $44,157 and $83,742, 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. According to the contract, from February 2005 to December 2006, the royalty payable to LENOVO was USD600 thousand, and the Company shall pay USD200 thousand in May 2007, January 2008 and January 2009. Nevertheless, starting from January 2007, the royalty payment is calculated by the models and quantity of the sales made by the Company. After negotiation, royalty payment amounting to $95,799 under the Company’s original contract with IBM was reversed in 2007 and recorded as other income.

(c) The Company signed an accounts receivable non-recourse factoring contract with Mega International Commercial Bank. As of December 31, 2008 and 2007, the accounts receivable factored amounted to $0 and $126,099, respectively. The Company has not used the its factoring credit facility in advance.

(d) As of December 31, 2008 and 2007, the Company had issued a promissory note amounting to $45,000 resulting from sales with buy-back agreement with Chailease Finance Co., Ltd..

(e) In November 2005, the Company entered into an operating lease for 10 years for its office rental, with refundable deposits of $10,608. The rental payment schedule for the next five years is as follows:

	Amount
2009	$ 24,268
2010	35,965
2011	36,324
2012	38,122
After 2013	112,588
	$ 247,267

(19) Others

A summary of employment, depreciation, and amortization expenses is as follows:

Function / Account	2008			2007		
	Cost of goods sold	**Operating expense**	**Total**	**Cost of goods sold**	**Operating expense**	**Total**
Employment expenses						
Salaries	25,446	182,540	207,986	27,346	193,142	220,488
Labor and health insurance	2,234	12,389	14,623	3,050	12,161	15,211
Pension	1,504	9,290	10,794	1,519	10,417	11,936
Other employment expenses	1,862	5,473	7,335	1,663	5,414	7,077
Depreciation expense (Note)	12,266	12,273	24,539	18,117	14,040	32,157
Amortization expense	-	14,367	14,367	-	8,924	8,924

(Note) Depreciation of assets leased to others and to be leased were $2,444 and $2,184 in 2008 and 2007, respectively, and was recorded as nonoperating expenses－other loss.

(20) Segment Information

(a) Business segment information

The Company is involved in one industry－the electronics industry. In accordance with SFAS 20 "Segment Reporting", industrial information is not required.

(b) Geographic information

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

(c) Information on export sales

The Company's export sales in 2008 and 2007 are summarized as follows:

Region		**2008**	**2007**
Americas	$	1,958,054	1,587,506
Europe		273,121	728,406
Asia		612,439	631,372
Other		7,777	30,982
	$	**2,851,391**	**2,978,266**

(d) Information on major customers

Individual customers who accounted for 10% or more of the Company's net sales in 2008 and 2007 were as follows:

	Name of customer		**Amount**	**%**
2008	A	$	988,787	34
2007	A		1,077,889	34
	E		392,798	13