TWINHEAD INTERNATIONAL CORP.

Financial Statements

December 31, 2009 and 2008
(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, 2009 and 2008, 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, 2009 and 2008, 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, 2009 and 2008, amounted to $87,708 thousand and $98,489 thousand and represented 3.50% and 3.52%, respectively, of total assets, and the equity in their net gain amounted to $1,196 thousand and $18,709 thousand and represented 0.60% and 20.62% of loss before income tax for the years ended December 31, 2009 and 2008, 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, 2009 and 2008, 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 7, 2010

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, 2009 and 2008

(expressed in thousands of New Taiwan dollars)

Assets	2009 Amount	%	2008 Amount	%
Current assets:				
Cash and cash in banks (note 4)	$ 331,694	13	474,304	17
Notes receivable	36	-	-	-
Accounts receivable, net of allowance for doubtful accounts of $12,454 in both 2009 and 2008 (note 17)	248,902	10	347,726	12
Accounts receivable－related parties (notes 6 and 16)	266,023	11	341,089	12
Other receivables from related parties (note 16)	46,905	2	2,817	-
Other financial assets－current	928	-	311	-
Inventories (note 5)	152,375	6	166,598	6
Deferred income tax assets－current (note 12)	41,675	2	81,437	3
Prepaid expenses and other current assets	14,053	-	16,685	1
	1,102,591	44	1,430,967	51
Long-term equity investments (notes 6 and 15):				
Long-term investments under equity method	415,994	17	301,756	11
Available-for-sale financial assets－noncurrent	1,472	-	645	-
Financial assets carried at cost－noncurrent	136,124	5	177,124	6
	553,590	22	479,525	17
Property, plant and equipment, net (notes 7 and 17):				
Cost:				
Land	80,035	3	118,424	4
Buildings and improvement	427,366	17	444,429	16
Machinery and equipment	246,186	10	247,425	9
Transportation equipment	3,220	-	3,220	-
Office equipment	156,888	6	157,529	5
	913,695	36	971,027	34
Less: accumulated depreciation	625,544	25	620,288	22
accumulated asset impairment	10,593	-	10,593	-
Prepayment for equipment	270	-	1,582	-
	277,828	11	341,728	12
Other assets:				
Assets leased to others (notes 8 and 17)	261,222	11	214,194	8
Refundable deposits (note 18)	9,267	-	20,543	1
Deferred charges	35,452	1	24,007	1
Long-term account receivable from related parties, net of allowance for doubtful accounts of $0 and $140,773 in 2009 and 2008, respectively (notes 6 and 16)	81,309	3	159,360	6
Deferred income tax assets－noncurrent (note 12)	186,449	8	127,474	4
	573,699	23	545,578	20
Total assets	$ **2,507,708**	**100**	**2,797,798**	**100**

Liabilities and Stockholders' Equity	2009 Amount	%	2008 Amount	%
Current liabilities:				
Short-term borrowings (notes 9 and 17)	$ 722,236	29	754,283	27
Notes payable	-	-	472	-
Accounts payable	192,674	8	295,675	11
Other payables to related parties (note 16)	22,984	1	21,802	1
Accrued expenses	63,522	3	70,066	2
Other notes payable (note 10)	-	-	11,691	-
Deferred credit (notes 6 and 16)	32,188	1	32,301	1
Other current liabilities	57,471	2	49,733	2
	1,091,075	44	1,236,023	44
Other liabilities:				
Guarantee deposits received	3,231	-	3,965	-
Total liabilities	1,094,306	44	1,239,988	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 2009 and 2008	2,772,809	110	2,772,809	99
Convertible preferred stock, $10 par value, 23 thousand shares issued and outstanding in both 2009 and 2008	228	-	228	-
	2,773,037	110	2,773,037	99
Paid-in capital in excess of par	189,026	8	263,663	9
Retained earnings:				
Legal reserve	-	-	1,688	-
Unappropriated retained earnings (accumulated deficit)	(180,295)	(7)	(76,325)	(2)
	(180,295)	(7)	(74,637)	(2)
Other items in stockholders' equity:				
Cumulative foreign currency translation adjustments	3,156	-	(7,573)	-
Unrealized loss on financial instrument	(444,651)	(18)	(469,811)	(17)
	(441,495)	(18)	(477,384)	(17)
Treasury stock	(926,871)	(37)	(926,869)	(33)
Total stockholders' equity	1,413,402	56	1,557,810	56
Commitments and contingencies (notes 8, 16, and 18)				
Total liabilities and stockholders' equity	$ **2,507,708**	**100**	**2,797,798**	**100**

See accompanying notes to financial statements.

TWINHEAD INTERNATIONAL CORP.

Income Statements

For the years ended December 31, 2009 and 2008

(expressed in thousands of New Taiwan dollars)

	2009 Amount	%	2008 Amount	%
Operating income:				
Sales revenue (note 16)	1,695,434	101	2,975,766	101
Less: Sales returns	10,439	1	22,455	1
Sales discounts	1,888	-	6,801	-
Net operating revenue	1,683,107	100	2,946,510	100
Cost of goods sold (notes 11, 16 and 19)	1,504,986	89	2,692,677	91
Gross profit	178,121	11	253,833	9
Add: Realized gain on intercompany transactions	17,260	1	7,621	-
Less: Unrealized gain on intercompany transactions (note 6)	(17,147)	(1)	(17,260)	(1)
Realized gross profit	178,234	11	244,194	8
Operating expenses (notes 11, 16 and 19):				
Selling expenses	67,835	4	100,799	3
Administrative expenses	97,386	6	121,629	4
Research and development expenses	118,937	7	137,107	5
	284,158	17	359,535	12
Operating loss	(105,924)	(6)	(115,341)	(4)
Non-operating income and gain:				
Interest income	680	-	9,772	1
Other investment gain, net (note 6)	-	-	4,794	-
Gain on disposal of investments (note 6)	5,288	-	-	-
Other income (notes 8 and 18)	56,392	4	61,321	2
	62,360	4	75,887	3
Non-operating expense and loss:				
Interest expenses	14,662	1	26,888	1
Investment loss recognized under equity method	55,197	4	16,052	1
Loss on disposal of fixed assets	65	-	57	-
Loss on exchange, net	18,691	1	4,599	-
Impairment loss (notes 6 and 7)	65,333	4	-	-
Other loss (note 19)	2,772	-	3,677	-
	156,720	10	51,273	2
Loss before income tax	(200,284)	(12)	(90,727)	(3)
Income tax expenses (note 13)	(20,000)	(1)	-	-
Net loss	$ **(180,284)**	**(11)**	**(90,727)**	**(3)**

	Before tax	After tax	Before tax	After tax
Basic loss per share of common stock (note 14)	$ **(0.81)**	**(0.73)**	**(0.37)**	**(0.37)**

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

	Before income tax	Net of income tax	Before income tax	Net of income tax
Net loss	$ **(200,330)**	**(180,330)**	**(90,773)**	**(90,773)**
Basic loss per share of common stock	$ **(0.72)**	**(0.65)**	**(0.33)**	**(0.33)**

See accompanying notes to financial statements.

TWINHEAD INTERNATIONAL CORP.

Statements of Changes in Stockholders' Equity

For the years ended December 31, 2009 and 2008

(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
Balance as of January 1, 2008	$ 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
Capital surplus to offset accumulated deficits (note 13)	-	-	(74,637)	-	74,637	-	-	-	-
Legal reserve to cover losses	-	-	-	(1,688)	1,688	-	-	-	-
Adjustments of net equity arising from changes in ownership percentage in investee	-	-	-	-	(11)	-	-	-	(11)
Net loss for 2009	-	-	-	-	(180,284)	-	-	-	(180,284)
Cumulative foreign currency translation adjustments	-	-	-	-	-	10,729	-	-	10,729
Unrealized loss on financial instrument (note 6)	-	-	-	-	-	-	25,160	-	25,160
Adjustments of treasury stock arising from changes in ownership percentage	-	-	-	-	-	-	-	(2)	(2)
Balance as of December 31, 2009	**$ 2,772,809**	**228**	**189,026**	**-**	**(180,295)**	**3,156**	**(444,651)**	**(926,871)**	**1,413,402**

See accompanying notes to financial statements.

TWINHEAD INTERNATIONAL CORP.

Statements of Cash Flows

For the years ended December 31, 2009 and 2008
(expressed in thousands of New Taiwan dollars)

	2009	2008
Cash flows from operating activities:		
Net loss	$ (180,284)	(90,727)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	38,630	41,350
Gain from price recovery of inventory	(2,369)	(25,201)
Allowance for doubtful accounts	-	3,962
Investment loss under equity method	55,197	16,052
Gain on unrealized (realized) inter-company sales	(113)	9,639
Gain on other investment	-	(4,794)
Loss on disposal of fixed assets	65	57
Gain on disposal of long-term investment under equity method	(5,288)	-
Impairment loss	65,333	-
Deferred income tax	(20,002)	-
Decrease in notes and accounts receivable	98,788	56,520
Decrease (increase) in accounts receivable and long-term accounts receivable from related parties	32,189	(128,083)
Decrease in other receivables from related parties	3,898	3,690
Decrease (increase) in other financial assets－current	(617)	1,714
Decrease in inventories	16,592	74,152
Decrease (increase) in prepaid expenses and other current assets	2,632	(1,148)
Increase (decrease) in notes and accounts payable	(103,473)	13,449
Increase (decrease) in other payable to related parties	1,182	11,422
Increase (decrease) in accrued expenses and other current liabilities	1,194	(12,011)
Net cash provided by (used in) operating activities	3,554	(29,957)
Cash flows from investing activities:		
Increase in long-term equity investments	(45,000)	-
Proceeds from disposal of long-term equity investment	15,300	-
Acquisition of fixed assets	(7,739)	(8,814)
Proceeds from disposal of fixed assets	-	46
Increase in other receivables from related parties	(50,000)	(100,000)
Increase (decrease) in refundable deposits	11,276	(1)
Increase in deferred charges	(25,529)	(27,131)
Net cash used in investing activities	(101,692)	(135,900)
Cash flows from financing activities:		
Increase (decrease) in short-term borrowings	(32,047)	10,524
Decrease in long-term notes payable	(11,691)	(22,500)
Increase (decrease) in guarantee deposits received	(734)	1,310
Distribution of preferred stock dividend	-	(787)
Net cash used in financing activities	(44,472)	(11,453)
Net decrease in cash and cash in bank	(142,610)	(177,310)
Cash and cash in bank at beginning of year	474,304	651,614
Cash and cash in bank at end of year	**$ 331,694**	**474,304**
Supplementary disclosures of cash flow information:		
Cash payment of interest	**$ 15,947**	**27,605**
Cash payment of income taxes	**$ 85**	**930**
Investing activities not affecting cash flows:		
Cumulative foreign currency translation adjustments	**$ 10,729**	**20,510**
Long-term investment loss in excess of investment cost offset against receivables from related parties	**$ (4,482)**	**59,219**
Unrealized gain (loss) on financial instrument	**$ 25,160**	**(3,408)**

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, 2009 and 2008, the number of the Company's employees was 239 and 313, respectively.

(2) Summary of Significant Accounting Policies

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

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

(a) Accounting estimates

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

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

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

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

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

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

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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 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.

(e) Allowance for doubtful accounts

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

(f) Inventories

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

Prior to 2009, inventories were stated at the lower of cost or market value. Cost was determined by using the weighted-average method. Market value was determined by the replacement value for raw materials and net realizable value for finished goods and work in process.

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(g) Long-term equity investments

i) Long-term investment under equity method

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

The difference between the acquisition cost of an investment and the underlying equity of the investee is accounted for according to the newly revised 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 prepares quarterly consolidated financial statements.

ii) Financial assets carried at cost

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

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iii) Available-for-sale financial assets

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

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

(h) Fixed assets and related depreciation

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

(i) 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.

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(j) Deferred charges

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

(k) Retirement plan

On 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 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.

(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.

(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.

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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.

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.

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.

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.

(Continued)

(3) Reason for and Effect of Accounting Changes

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

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

(4) Cash and Cash in Bank

As of December 31, 2009 and 2008, the components of cash were as follows:

		2009	2008
Petty cash	$	213	160
Savings accounts		331,481	474,144
	$	**331,694**	**474,304**

(5) Inventories

As of December 31, 2009 and 2008, the details of inventories were as follows:

		2009	2008
Finished goods	$	25,034	11,386
Work in process		3,654	7,241
Raw material and supplies		111,479	130,352
Goods in transit		12,208	17,619
	$	**152,375**	**166,598**

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

		2009	2008
Beginning balance	$	149,629	174,830
Less: Reverse in current period		2,369	25,201
Ending balance	$	**147,260**	**149,629**

Prior to 2009, the abovementioned gain (loss) was recorded under non-operating gain (loss). The reclassifications of such gain (loss) have been made to conform to the presentation of the financial statements for the year ended December 31, 2009.

(Continued)

(6) Long-term Equity Investments

(a) As of December 31, 2009 and 2008, the details were as follows

	2009			
	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	67,448	-
Twinhead GmbH	100.000	169,266	-	-
Twinhead (Asia) Pte. Ltd.	100.000	533,550	250,525	-
Lun Yang Technology Co., Ltd.	99.983	867,850	-	-
Twintek International Corporation (originally named Lun Shiang Technology Co., Ltd.)	99.974	328,533	47,389	-
Yu Feng Technology Co., Ltd.	99.975	397,900	30,372	-
Fiber Logic Communications Inc.	8.764	17,527	20,260	-
		2,344,017	415,994	-
Financial assets carried at cost－noncurrent:				
EUROC Venture Capital Corp.	10.000	80,000	80,000	-
I1. Com	2.129	30,800	30,800	-
Trigem Computer, Inc.	0.003	63,609	22,609	-
Printec Japan Co., Ltd.	9.000	2,715	2,715	-
		177,124	136,124	-
Available-for-sale financial assets－noncurrent:				
Tekom Technologies Inc.	0.833	26,296	1,963	-
Less: unrealized loss on financial instrument		-	491	-
		26,296	1,472	-
		$ 2,547,437	**553,590**	**-**

(Continued)

	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	-	-
Twintek International Corporation (originally named Lun Shiang Technology Co., Ltd.)	99.969	325,900	2,596	-
Yu Feng Technology Co., Ltd.	99.975	397,900	30,974	-
Fiber Logic Communications 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.	0.004	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		-	25,651	-
		26,296	645	-
		$ **2,559,804**	**479,525**	**-**

The Company’s indirect investment in Twinhead Beijing Technology Co., Ltd. through Twinhead (Asia) Pte. Ltd was liquidated on December 10, 2009. All related receivables and payables were eliminated from its books. The Company’s account receivable from Twinhead Huazong Technology Co., Ltd. is now offset by the account payable by Twinhead Beijing Technology Co., Ltd. to Twinhead Huazong Technology Co., Ltd. The Company also had account receivables from Twinhead Beijing Technology Co., Ltd. and Twinhead Huazong Technology Co., Ltd., which were recorded as reduction of investment loss recognized under equity method.

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

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

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

In the fourth quarter of 2009, the Company’s available-for-sale financial asset－noncurrent－Tekom Technologies Inc. underwent a capital reduction to offset its deficit. The Company recognized $24,333 as impairment loss.

The Company's accumulated investment loss recognized in excess of investment cost would be offset against accounts receivable－related parties, other receivables from related parties, and long-term accounts receivable from related parties. Due to the capital increase and collection of other receivables, the decrease and increase in offset amounted to $4,482 and $59,219 in 2009 and 2008, respectively.

In 2002, the Company invested in Twinhead Kunshan Technology Ltd. through Twinhead (Asia) Pte. Ltd. by machinery, equipment and inventories. As of December 31, 2009 and 2008, 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 completely amortized in the amount of $4,794 in 2008, and was recorded as other investment gain.

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:

		2009	**2008**
Lun Yang Technology Co., Ltd.	$	820,924	820,924
Twintek International Corporation (originally named Lun Shiang Technology Co., Ltd.)		55,146	55,144
Yu Feng Technology Co., Ltd.		50,801	50,801
	$	**926,871**	**926,869**

In 2009, the Company increased its investment in Twintek International Corporation (originally named Lun Shiang Technology Co., Ltd.) resulting in an increase in ownership percentage and an increase in treasury stock of $2. No such transaction occurred in 2008.

(Continued)

(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, 2009 and 2008, unrealized loss on devaluation of its investments in Tekom Technologies Inc. was $491 and $25,651, respectively, and was recorded as unrealized loss on financial instrument under stockholders' equity.

Due to the decrease in Tekom Technologies Inc.'s market value in 2009, the original balance of $24,333 recorded as unrealized loss on financial instrument under stockholders' equity was reversed, and $24,333 was recognized as impairment loss.

(c) The movements of unrealized loss on available-for-sale financial assets in 2009 and 2008 are listed below:

		2009	2008
Beginning balance	$	25,651	22,243
Add: unrealized loss recognized this year		(827)	3,408
Add: Impairment loss		(24,333)	-
Ending balance	**$**	**491**	**25,651**

As of December 31, 2009 and 2008, the Company recognized $444,160 of unrealized loss on devaluation of a subsidiary's holdings of the shares of the Company. This transaction was treated as treasury stock and was recorded as a reduction of stockholders' equity.

In 2009 and 2008, if the Company recognized it on a pro rata basis, the unrealized gain and unrealized loss on valuation of a subsidiary's financial instrument investments in the parent company would be $102,195 and $71,092, respectively. The ending balance of unrealized loss on devaluation of financial instrument investments was $698,175 and $800,370, respectively.

(7) Fixed Assets

As of December 31, 2009 and 2008, the accumulated asset impairment amounted to $10,593. The above loss was recognized based on the carrying value of the factory building and machinery at Da Fa Industrial exceeding its estimated recoverable amount. After evaluation, the gain on reversal of impairment loss recognized on December 31, 2009 and 2008, does not need to be recorded. The discount rates in use were 7.24% and 10.29%, respectively.

(8) Assets Leased to Others

		2009	2008
Land	$	134,219	95,830
Building		167,696	151,559
		301,915	247,389
Less: accumulated depreciation		40,693	33,195
	$	**261,222**	**214,194**

(Continued)

The major terms of the lease contracts are as follows:

(a) The contract period is 1 to 5 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 2009 and 2008, the total rental revenues amounted to $21,328 and $20,825, respectively, and were recorded as other income. The lease revenues for subsequent years are as follows:

Period	Amount
2010	$ 10,524
2011	3,674
2012	1,041
	$ 15,239

(9) Short-term Bank Borrowings

	2009	2008
Credit loan	$ 270,000	190,000
Secured bank loans	280,000	350,500
Usance letters of credit	172,236	213,783
	$ 722,236	754,283

Annual interest rates on short-term borrowings were 1.00%~5.74% and 2.15%~6.22% in 2009 and 2008, respectively. The aforementioned loans were due within 365 days.

As of December 31, 2009 and 2008, unused credit lines amounted to approximately $674,097 and $535,200, respectively.

(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 (%)	2009	2008
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	$ -	11,862
Less: Discount on notes payable (recorded as other notes payable)					-	171
					-	11,691
Less: current portion (recorded as other notes payable)					-	11,691
					$ -	-

(Continued)

TWINHEAD INTERNATIONAL CORP.

Notes to Financial Statements

(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 2009 and 2008 amounting to $9,203 and $10,794, respectively.

(12) Income Tax

The maximum statutory income tax rate applicable to the Company is 25%, and the Company calculated alternative minimum income tax based on Income Basic Tax Act. According to the amendment to the Income Tax Act on May 27, 2009, the income tax rate applicable to the Company will be reduced to 20% commencing from 2010. The components of income tax expense for the years ended December 31, 2009 and 2008, were as follows:

		2009	2008
Current income tax expense	$	2	-
Deferred income tax benefit		(20,002)	-
Income tax expense	**$**	**(20,000)**	**-**

The differences between "expected" income tax at the statutory income tax rate and estimated income tax as reported in the accompanying financial statements for years 2009 and 2008 were as follows:

		2009	2008
"Expected" income tax expense (benefit)	$	(50,071)	(22,682)
Loss from long-term investments		13,799	4,013
Investment tax credits expired		28,654	33,822
Underestimate (overestimate) of prior year's deferred income tax assets		(29,494)	(42,282)
Others		2	(1,198)
Effect of change in tax rate		100,659	-
Valuation allowance－deferred income tax assets		(83,549)	28,327
	$	**(20,000)**	**-**

(Continued)

The components of deferred income tax benefit (expense) for the years ended December 31, 2009 and 2008, were as follows:

		2009	2008
Investment tax credits	$	590	4,270
Loss carryforwards		(53,922)	(28,674)
Reserve for inventory loss		897	6,300
Unrealized gain on sales to related parties		112	(2,410)
Unrealized foreign exchange loss (gain)		(4,011)	(8,045)
Allowance for repairs and maintenance reserve		441	1,088
Allowance for doubtful account exceeding tax limit		26,271	(856)
Deferred income tax effect due to income tax rate change		93,169	-
Valuation allowance－deferred income tax assets		(83,549)	28,327
	$	**(20,002)**	**-**

As of December 31, 2009 and 2008, deferred income tax assets (liabilities) were as follows:

		2009	2008
Current:			
Deferred income tax assets	$	74,938	114,529
Valuation allowance		(33,263)	(28,654)
Net deferred income tax assets		41,675	85,875
Deferred income tax liabilities		-	(4,438)
Net deferred income tax assets－current	**$**	**41,675**	**81,437**
Noncurrent:			
Deferred income tax assets	$	420,005	448,399
Valuation allowance		(232,767)	(320,925)
Net deferred income tax assets		187,238	127,474
Deferred income tax liabilities		(789)	-
Net deferred income tax assets (liabilities)－noncurrent	**$**	**186,449**	**127,474**
Total deferred income tax assets	**$**	**494,943**	**562,928**
Total deferred income tax liabilities	**$**	**789**	**4,438**
Total valuation allowance for deferred income tax assets	**$**	**266,030**	**349,579**

(Continued)

As of December 31, 2009 and 2008, the temporary differences, loss carryforwards, tax credits and respective tax effects related to the deferred income tax assets (liabilities) were as follows:

	2009		2008	
	Amount	Tax effect	Amount	Tax effect
Deferred income tax assets (liabilities):				
Investment tax credits	$ 90,878	90,878	91,468	91,468
Loss carryforwards	1,811,951	362,390	1,542,341	385,585
Reserve for inventory revaluation loss	147,260	29,452	149,629	37,407
Unrealized gain on sales to related parties	17,147	3,429	17,260	4,315
Unrealized foreign exchange loss (gain)	908	182	(17,751)	(4,438)
Allowance for repairs and maintenance reserve	4,133	827	6,063	1,516
Allowance for doubtful account exceeding tax limit	38,928	7,785	170,547	42,637
Cumulative foreign currency translation adjustments	(3,945)	(789)	-	-
Valuation allowance－deferred income tax assets		(266,030)		(349,579)
		$ 228,124		208,911

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, 2009, the amount and the expiry year of the Company's unused investments tax credits were as follows:

Year	Amount	Year of Expiration
2006	$ 33,263	2010
2007	29,551	2011
2008	28,064	2012
	$ 90,878	

(Continued)

In accordance with the amendment of Article 39 of the R.O.C. Income Tax Act, a company's losses can be carried forward to offset its future taxable income for a period of ten years. As of December 31, 2009, 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		71,197	2018
2009		262,187	2019
	$	**1,811,951**	

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

As of December 31, 2009 and 2008, the related imputation tax information was as follows:

		2009	2008
Balance of imputation credit account	$	15,050	15,050

According to the resolution made by the 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 components of unappropriated retained earnings (accumulated deficit) were as follows:

		2009	2008
1997 and before	$	-	-
1998 and after		(180,295)	(76,325)
	$	**(180,295)**	**(76,325)**

(13) Stockholders' Equity

(a) Capital stock

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

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

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

(Continued)

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

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

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

(b) Treasury stock

None of the shares of the Company were purchased by its subsidiaries during the years 2009 and 2008. As of December 31, 2009 and 2008, subsidiaries held 29,628 thousand shares of common stock of the Company, and market value amounted to $158,506 and $56,292, respectively.

(c) Capital surplus

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

The shareholders' meeting held on May 22, 2009, decided to use capital surplus of $74,637 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.

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

(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 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.

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.

The Company's accumulated undistributed preferred stock dividend of $92 and $46 as of December 31, 2009 and 2008, respectively, will be recognized and distributed if approved in a shareholders' meeting.

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

As of December 31, 2009 and 2008, the Company had incurred accumulated deficits. Therefore, employees' bonuses and directors' and supervisors' remuneration were not accrued by the Company.

(14) Earnings (Loss) per Share

The details of basic and diluted loss per share for the Company in 2009 and 2008 were as follows:

(Unit: thousand shares)

	2009		**2008**	
	Before tax	**After tax**	**Before tax**	**After tax**
Basic earnings per share:				
Net loss (after deducting preferred stock dividends amounting to 46 thousand dollars)	$ **(200,330)**	**(180,330)**	**(90,773)**	**(90,773)**
Weighted-average outstanding shares	**247,653**	**247,653**	**247,653**	**247,653**
Basic loss per share (expressed in New Taiwan dollars)	$ **(0.81)**	**(0.73)**	**(0.37)**	**(0.37)**
Pro forma data, assuming the Company's shares held by its subsidiaries were not treated as treasury stock:				
Net loss	$ **(200,330)**	**(180,330)**	**(90,773)**	**(90,773)**
Weighted-average outstanding shares	247,653	247,653	247,653	247,653
Treasury stock	29,628	29,628	29,628	29,628
Weighted-average outstanding shares in calculating pro forma earnings per share	**277,281**	**277,281**	**277,281**	**277,281**
Pro forma loss per share (expressed in New Taiwan dollars)	$ **(0.72)**	**(0.65)**	**(0.33)**	**(0.33)**

(Continued)

With its 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 loss per share.

(15) Financial Instruments

(a) Derivative financial instruments

In 2009 and 2008, there were 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.

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, 2009 and 2008, the fair value of the Company's financial instruments determined by open market prices amounted to $1,472 and $645, 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 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.

(Continued)

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:

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

	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

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.

(Continued)

(16) Transactions with Related Parties

(a) Name and relationship

Name	Relationship
Gammatech Computer Corporation (Gammatech Computer)	The Company and its subsidiaries hold 100% of Gammatech's common stock
Twinhead GmbH	Subsidiary of the Company
Twinhead Beijing Technology Co., Ltd. (Twinhead Beijing)	Subsidiary of a Company subsidiary (Twinhead (Asia) Pte. Ltd.); Liquidated in December 2009
Twinhead Kunshan Technology Co., Ltd. (Twinhead Kunshan)	Subsidiary of a Company subsidiary (Twinhead (Asia) Pte. Ltd.)
Twinhead Huazong Technology Co., Ltd. (Twinhead Huazong)	Indirect investment of the Company
Lun Yang Technology Co., Ltd. (Lun Yang)	Subsidiary of the Company
Twintek International Corporation (originally named Lun Shiang Technology Co., Ltd.) (Twintek)	Subsidiary of the Company
Yu Feng Technology Co., Ltd. (Yu Feng)	Subsidiary of the Company
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:

	2009		2008	
	Amount	% of net sales	Amount	% of net sales
Gammatech Computer	$ 90,758	5	344,979	12
Twinhead GmbH	66,772	4	66,485	2
Lun Yang	16,442	1	43,726	1
Yu Feng	877	-	-	-
	$ 174,849	10	455,190	15

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:

	2009		2008	
	Amount	**% of net receivables**	**Amount**	**% of net receivables**
Account receivable:				
Twinhead Huazong	$ -	-	187,028	22
Gammatech Computer	2,102	-	126,107	15
Twinhead GmbH	126,294	21	105,417	12
Lun Yang	52,159	9	57,394	7
Twinhead Beijing	-	-	84,395	10
	180,555	30	560,341	66
Deduct: investment loss offset against receivables				
Twinhead GmbH	91,698	15	91,156	11
Lun Yang	-	-	7,038	1
	91,698	15	98,194	12
	88,857	15	462,147	54
Deduct: allowance for doubtful account	-	-	140,773	16
Deduct: receivables reclassified to long-term receivables	44,141	7	159,360	19
	$ 44,716	**8**	**162,014**	**19**

The Company provided allowance for doubtful account after evaluating the collectability of accounts receivable from Twinhead Huazong as of December 31, 2009 and 2008. Since the liquidation of Twinhead Beijing had been completed in 2009 and collection from Twinhead Huazong was unlikely, the Company recorded bad debt expense of $140,773. Additionally, as of December 31, 2009 and 2008, the aforementioned accounts receivable exceeding their normal credit period amounted to $44,141 and $159,360, respectively, and were recorded under long-term receivables. Please refer to note 16(vii)(ii).

iii) Purchases

Purchases from related parties were as follows:

		2009		2008	
		Amount	**% of net purchases**	**Amount**	**% of net purchases**
Twinhead Kunshan	$	841,246	59	1,854,976	73
Gammatech Computer		17,658	1	9,338	-
Lun Yang		98	-	45	-
	$	**859,002**	**60**	**1,864,359**	**73**

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

iv) Purchase of supplies on others' behalf

As of December 31, 2009 and 2008, the Company had purchased supplies on behalf of Twinhead Kunshan amounting to $221,307 and $179,075, 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 $37,168 and $0, 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, 2009 and 2008, the unrealized gain on sales had decreased by $113 and increased by $9,639, respectively. As of December 31, 2009 and 2008, unrealized gain on sales was $17,147 and $17,260, 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

		2009	2008
Lun Yang	$	150,013	100,021
Gammatech Computer		-	2,817
Twinhead GmbH		-	1,073
		150,013	103,911
Deduct: investment loss offset against receivables		103,108	101,094
	$	**46,905**	**2,817**

As of December 31, 2009 and 2008, the Company had receivables from Lun Yang which included financing amounting to $150,000 and $100,000, respectively. For details, please refer to note 16(b)(viii).

As of December 31, 2009 and 2008, the accumulated investment loss recognized in excess of investment cost offset against receivables from Lun Yang amounted to $103,108 and $101,094, respectively.

2) Other payable to related parties

		2009	2008
Twinhead Kunshan	$	21,797	21,802
Gammatech Computer		1,187	-
	$	**22,984**	**21,802**

ii. Reclassification of accounts receivable to long-term receivable

		2009	2008
Twinhead Huazong	$	-	187,028
Twinhead GmbH		76,528	64,970
Twinhead Beijing		-	84,395
Lun Yang		44,141	35,748
		120,669	372,141
Less: allowance for doubtful account		-	140,773
		120,669	231,368
Less: investment loss offset against receivables			
－Twinhead GmbH		76,528	64,970
－Lun Yang		-	7,038
		76,528	72,008
	$	**44,141**	**159,360**

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, 2009 and 2008, the above overdue accounts receivable ranging from six to nine months were 6% and 6%, respectively, ranging from nine to twelve months were 2% and 1%, respectively, and over twelve months were 92% and 93%, respectively.

iii. Guarantees

		2009	2008
Lun Yang	**$**	**-**	**200,000**

viii) Financing

A summary of the Company's financing to related parties (recorded as other receivable－related parties) in 2009 and 2008 is as follows:

2009

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

2008

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

(Continued)

As of December 31, 2009 and 2008, the accumulated investment loss recognized in excess of investment cost offset against other receivables amounted to $103,108 and $100,000, respectively.

ix) Service charges

In 2008, Pinnacle charged service fees to the Company totaling $1,200. The service fees were included in operating expenses. The fees had been paid before the year-end. No such charges occurred in 2009.

(c) Key management personnel compensation

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

		2009	2008
Salary	$	17,753	25,482
Bonuses and allowances		1,269	1,240
Professional fees		2,516	2,190
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 2009 and 2008. As of December 31, 2009 and 2008, the carrying values of the transportation were both $0.

(17) Pledged Assets

As of December 31, 2009 and 2008, the details and net book value of pledged assets were as follows:

			Book value	
Pledged assets	**Pledged for**		**2009**	**2009**
Land	Short-term borrowings	$	80,035	118,424
Buildings and improvements	Short-term borrowings		149,251	164,236
Assets leased to others	Short-term borrowings		261,222	214,194
Total		$	**490,508**	**496,854**

(18) Commitments and Contingencies

(a) As of December 31, 2009 and 2008, the Company had outstanding letters of credit for the purchase of material totaling approximately $64,109 and $44,157, 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) As of December 31, 2008, the Company had issued a promissory note amounting to $45,000 resulting from sales with buy-back agreement with Chailease Finance Co., Ltd.. No such transaction occurred in 2009.

(d) In November 2005, the Company entered into an operating lease for 10 years for its office rental, with refundable deposits of $8,351. The rental payment schedule for the next five years is as follows:

	Amount
2010	$ 22,844
2011	21,667
2012	21,667
2013	21,667
After 2014	39,723
	$ 127,568

(19) Material Disaster Loss: None.

(20) Material Subsequent Event

In February 2010, the Company issued the first private placement of unsecured convertible bonds. The actual collected amount was $70,000.

(21) Others

(a) Employment, depreciation, and amortization expenses

A summary of employment, depreciation, and amortization expenses for the years ended December 31, 2009 and 2008, categorized by operating cost and operating expenses, is as follows:

Function / Account	2009			2008		
	Cost of goods sold	**Operating expenses**	**Total**	**Cost of goods sold**	**Operating expenses**	**Total**
Employment expenses						
Salaries	22,981	146,912	169,893	25,446	182,540	207,986
Labor and helth insurance	2,214	11,020	13,234	2,234	12,389	14,623
Pension	1,395	7,808	9,203	1,504	9,290	10,794
Others employment expenses	1,568	3,996	5,564	1,862	5,473	7,335
Depreciation expenses (Note)	10,934	10,907	21,841	12,266	12,273	24,539
Amortization expenses	-	14,084	14,084	-	14,367	14,367

(Note) Depreciation of assets leased to others and to be leased was $2,705 and $2,444 in 2009 and 2008, respectively, and was recorded as nonoperating expenses－other loss.

(b) Reclassification

Certain amounts in the financial statements for the year ended December 31, 2008, have been reclassified to conform to those of the presentation for the year ended December 31, 2009. Such reclassifications have no significant effect on the financial statement presentation.

(Continued)

(22) Additional Disclosures

(a) Related information on significant transactions:

i) Financing provided:

(Unit: thousand dollars)

No	Lender	Counterparty	Financial statement account	Maximum balance for the period	Ending period (Note 3)	Interest rate	Nature of financing	Transaction amount	Reason for financing	Allowance for doubtful accounts	Collateral Item	Collateral Value	Financing limit for individual counterparty (Note 2)	Total financing limit (Note 1)
0	The Company	Lun Yang	Other receivables from related parties	150,000	150,000	-	Short-term financing	-	Capital requirements	-		-	282,680	565,361

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 transaction. The amount of the business transaction is the higher of either sales or purchases of both sides. For short-term financing, the financing limit is 20% of the Company's net worth.

Note 3: $103,108 has been used to offset long-term equity investment; please refer to Note 16(b)(viii).

ii) Endorsement/guarantee provided:

(Unit: thousand dollars)

No	Guarantor	Guarantee Name	Guarantee Relationship	Maximum endorsement amount for a single company (Note 1)	Highest endorsement balance of the period	Ending endorsement balance of the period	Amount guaranteed by the Company's assets	Ratio of accumulated endorsement amount to the net asset value on the most recent financial statements	Maximum endorsement amount
0	The Company	Lun Yang	Subsidiary	282,680	200,000	- (Note 2)	-	-	848,041

Note 1: The maximum endorsement amount cannot exceed 60% of the Company's net worth. For an individual company, the maximum endorsement amount cannot exceed 20% of the Company's net worth; however, if the Company's holds over 50% of a subsidiary, the subsidiary is not subject to the limits above. Besides the endorsement limits above, the endorsement amount for a single counterparty cannot exceed the transaction amount. The transaction amount is the higher of sales or purchases of both sides.

Note 2: Jointly endorsed by the Company, Twintek and Yu Feng, the endorsement has been cancelled since April 2009.

iii) Marketable securities held as December 31, 2009:

(Unit: thousand dollars/shares)

Name of holder	Category and name of security	Relationship with the Company	Financial statement account	December 31, 2009 Shares (thousand)	Book value	Percentage of ownership (%)	Market value	Remarks
	Stock:							
The Company	Gammatech Computer	Investee accounted for under equity method	Long-term equity investment	225	67,448	45.000	67,448	-
〃	Twinhead GmbH	〃	〃	-	-	100.000	(91,698)	-
〃	Twinhead (Asia)	〃	〃	5,599	250,525	100.000	250,525	-
〃	Lun Yang	〃	〃	86,785	-	99.983	11,577	-
〃	Twintek	〃	〃	32,853	47,389	99.974	69,763	-
〃	Yu Feng	〃	〃	39,790	30,372	99.975	51,813	-
〃	Fiber Logic Communications Inc.	〃	〃	1,753	20,260	8.764	20,260	-
〃	EUROC Venture Capital Corp.	Investee accounted for under cost method	Financial assets carried at cost－noncurrent	8,000	80,000	10.000	Note	-
〃	I1.Com	〃	〃	400	30,800	2.129	〃	-
〃	Trigem Computer, Inc.	〃	〃	1	22,609	0.003	〃	-
〃	Printec Japan Co., Ltd.	〃	〃	-	2,715	9.000	〃	-
〃	Tekom Technology Inc.	Measured at fair value	Available-for-sale financial instrument－noncurrent	1,403	1,963	0.833	1,472	-
	Less: Unrealized loss on financial instrument				491			
					553,590			

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

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

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

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

(Continued)

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: Purchases/ Sales	Transaction details: Amount	Transaction details: Percentage of total (%)	Transaction details: Payment terms	Reasons why and description of how the transaction conditions differ from general transactions: Unit price	Reasons why and description of how the transaction conditions differ from general transactions: Payment terms	Accounts / notes receivable or payable: Ending balance of accounts receivable	Accounts / notes receivable or payable: Percentage of total accounts receivable (payable)	Remarks
The Company	Twinhead Kunshan	Indirect subsidiary	Purchases	841,246	59	(Note 1)	Determined based on related parties' costs	(Note 1)	-	-	-

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

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 Bank	Ending balance of receivables from related parties (Note 1)	Turnover rate	Balance of account receivable: Amount	Balance of account receivable: Alleviated action	Collection after December 31, 2009 (Note 2)	Allowance for bad debt
The Company	Twinhead GmbH	Subsidiary	126,294	-	76,528	The receivable has been traced and recognized as long-term receivable	6,075	-
〃	Twinhead Kunshan	Indirect Subsidiary	258,475	-	37,168	〃	56,133	-

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

Note 2: Up to April 7, 2010.

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: 2009.12.31	Original investment amount: 2008.12.31	Balance as of December 31, 2008: Shares (thousand)	Balance as of December 31, 2008: Percentage of ownership (%)	Balance as of December 31, 2008: Book value	Net income (loss) of the investee	Investment gain (loss	Remarks
The Company	Gammatech Computer	U.S.A.	The research, development and trading of computers and computer peripheral equipment	29,391	29,391	225	45.000	67,448	1,989	895	100% jointly owned by the Company and its subsidiaries.
〃	Twinhead GmbH	Germany	The research, development and trading of computers and computer peripheral equipment	169,266	169,266	-	100.000	-	251	251	Subsidiary
〃	Twinhead (Asia)	Singapore	Investment holding	533,550	533,550	5,599	100.000	250,525	65,781	65,781	Subsidiary
〃	Lun Yang	Taiwan	The trading of computers and computer peripheral equipment	867,850	867,850	86,785	99.983	-	5,527	5,475	Subsidiary
〃	Twintek	Taiwan	The trading of computers and computer peripheral equipment	328,533	325,900	32,853	99.974	47,389	(194)	(194)	Subsidiary
〃	Yu Feng	Taiwan	The trading of computers and computer peripheral equipment	397,900	397,900	39,790	99.975	30,372	(31)	(31)	Subsidiary
〃	Fiber Logic Communication Inc.	Taiwan	Wired and wireless networking products of households and offices	17,527	32,527	1,753	8.764	20,260	45,320	50	Investee accounted for under equity method
Lun Yang	Fiber Logic Communication Inc.	Taiwan	Wired and wireless networking products of households and offices	7,900	7,900	790	3.950	9,132	45,320	1,790	Investee of Lun Yang accounted for under equity method
〃	Gammatech Computer	U.S.A.	The research, development and trading of computers and computer peripheral equipment	65,800	65,800	200	40.000	71,224	1,989	796	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	26,709	1,989	298	〃
Twinhead (Asia)	Twinhead Enterprises (BVI) Ltd.	British Virgin Islands	Investment holding	1,388	1,388	50	100.000	4,268	(46)	(46)	Indirect subsidiary
〃	Twinhead Kunshan	China	Production and marketing business of portable computers, calculator parts, terminals and keyboards	429,582	429,582	-	100.000	243,323	(73,073)	(73,073)	〃
〃	Twinhead Beijing	China	R&D and production of computers and digital cameras; development and production of software products; set-up, testing, repair, technical consulting, and sales of home products	-	40,338	-	-	-	Note	7,481	Note
〃	Twinhead Huazhong Technology Limited Corp.	China	The production and sale of notebook parts and system equipment and related software development	-	62,242	-	-	-	-	26,660	Indirect investee of the Company

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

ii) Financing provided: None.

iii) Endorsement/guarantee provided:

(Unit: thousand dollars)

No	Guarantor	Guarantee		Maximum endorsement amount for a single company	Highest endorsement balance of the period	Ending endorsement balance of the period	Amount guaranteed by the Company's assets	Ratio of accumulated endorsement amount to the net asset value on the most recent financial statements	Maximum endorsement amount
		Name	Relationship						
1	Twintek	Lun Yang	Same parent company	282,680	200,000	- (Note 2)	- (Note 2)	-	848,041
2	Yu Feng	Lun Yang	Same parent company	282,680	200,000	- (Note 2)	- (Note 2)	-	848,041

Note 1: The maximum endorsement amount cannot exceed 60% of the Company's net worth. For an individual company, the maximum endorsement amount cannot exceed 20% of the Company's net worth; however, if the Company's holds over 50% of a subsidiary, the subsidiary is not subject to the limits above. Besides the endorsement limits above, the endorsement amount for a single counterparty cannot exceed the transaction amount. The transaction amount is the higher of sales or purchases of both sides.

Note 2: Jointly endorsed by the Company, Twintek and Yu Feng. Twintek and Yu Feng provided 4,000 thousand shares as security. This joint endorsement was cancelled in April 2009.

iv) Marketable securities held on December 31, 2009:

(Unit: thousand dollars/shares)

Name of company which holds securities	Category and name of security	Relationship with holder	Amount name	Year-end				Remarks
				Number of shares	Book value	Percentage of shares	Market value	
Twinhead (Asia)	Stock: Twinhead Enterprises (BVI) Ltd.	Investee of Twinhead (Asia) accounted for under equity method	Long-term investment under equity method	50	4,268	100.000	4,268	-
〃	Twinhead Kunshan	〃	〃	-	243,323	100.000	243,323	-
Lun Yang	Stock: Twinhead Int'l Corp.	Parent company	Available-for-sale financial instrument－noncurrent	21,436	114,683	7.731	114,683	-
〃	Fiber Logic Communication Inc.	Investee accounted for under equity method	Long-term investment under equity method	790	9,132	3.950	9,132	-
〃	Gammatech Computer	100% jointly owned by Lun Yang, parent company and Yu Feng.	〃	200	71,224	40.000	59,954	-
Twintek	Stock: Twinhead Int'l Corp.	Parent company	Available-for-sale financial instrument－noncurrent	4,183	22,377	1.508	22,377	-
Yu Feng	Stock: Twinhead Int'l Corp.	Parent company	Available-for-sale financial instrument－noncurrent	4,009	21,446	1.446	21,446	-
〃	Gammatech Computer	100% jointly owned Yu Feng, parent company and Lun Yang	Long-term investment under equity method	75	26,709	15.000	22,483	-

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

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

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

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

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

Units: thousand dollars

Name of company which purchased or sold	Name of counterparty	Relationship with the Company	Transaction details				Reasons why and description of how the transaction conditions differ from general transactions		Accounts/ notes receivable (payable)		Remarks
			Purchases / (Sales)	Amount	Percentage of total purchases / (sales)	Credit period	Unit price	Credit period	Balance	Percentage of total accounts / notes receivable (payable)	
Twinhead Kunshan	The Company	Parent company	(Sales)	(841,246)	(100)	(Note 1)	Determined based on related parties' cost	-	-	-	-

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

(Continued)

(c) Investment in Mainland China:

i) Overview of investments:

(Unit: thousand dollars)

Name of investee in Mainland China	Main operational items	Issued capital (US$ in thousands)	Method of investment	Beginning balance of foreign investment from Taiwan (Note 1)	Investment movement within this period		Ending balance of foreign investment from Taiwan (Note 3)	Percentage of direct or indirect investment holding	Gain (loss) recognized during the period (Note 1)	Book value as of December 31, 2006 (Note 2)	Accumulated gain returned to Taiwan at end of period
					Invested amount	Returned amount					
Twinhead Kunshan	Sales and production of PDAs, calculators and their parts, and computer keyboards	USD12,500	(Note 2)	399,875 (USD12,500)	-	-	399,875 (USD12,500)	100	(73,073)	243,323	-
Twinhead Beijing	R&D, produce, process, and assemble calculators and their accessories, and digital cameras. R&D and produce software products. Provide installation, testing, repair, and IT advising on Company-developed products. Sales of Company-developed products	USD1,300	(Note 2)	41,587 (USD1,300)	-	-	41,587 (USD1,300)	-	7,481	- (Note 3)	-
Twinhead Huazhong Technology Limited Corp.	Install and sell laptop parts and accessories. Sales and production of related software	USD4,000	(Note 2)	63,980 (USD2,000)	-	-	63,980 (USD2,000)	-	26,660	-	-

Note 1: The exchange rate as of December 31, 2009: USD1=NTD31.99

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

Note 3: The liquidation of the company was completed on December 10, 2009.

Aggregate investment amount remitted from ROC to Mainland China at the end of the period	Investment amount approved	Limitation on investment in Mainland China by Investment Commission of Ministry of Economic Affairs
505,442 thousand (USD15,800 thousand)	505,442 thousand (USD15,800 thousand)	848,041 thousand

ii) Material transactions:

The Company's material transactions with its investees in Mainland China for the year ended December 31, 2009, are disclosed in note 6.

(23) Segment Information

(a) Business segment information

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

(b) Geographic information

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

(c) Information on export sales

The Company's export sales in 2009 and 2008 are summarized as follows:

Region		**2009**	**2008**
Americas	$	1,201,452	1,958,054
Europe		196,975	273,121
Asia		246,601	612,439
Other		3,834	7,777
	$	**1,648,862**	**2,851,391**

(d) Information on major customers

Individual customers who accounted for 10% or more of the Company's net sales in 2009 and 2008 were as follows:

	Name of customer		**Amount**	**%**
2009	I	$	862,487	51
2008	A		988,787	34