TWINHEAD INTERNATIONAL CORP.

Financial Statements

December 31, 2012 and 2011
(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, 2012 and 2011, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Gammatech Computer Corporation, Twinhead GmbH, and Fiber Logic Communications Inc. as of and for the years ended December 31, 2012 and 2011, the investments in which are reflected in the accompanying financial statements using the equity method. The financial statements of those companies were audited by other auditors, whose reports have been furnished to us, and our opinion, in so far as it relates to the amounts included for Gammatech Computer Corporation, Twinhead GmbH, and Fiber Logic Communications Inc., is based solely on the reports of the other auditors. The investments in Gammatech Computer Corporation, Twinhead GmbH, and Fiber Logic Communications Inc. as of December 31, 2012 and 2011, amounted to $129,030 thousand and $149,166 thousand and represented 7.33% and 6.63%, respectively, of total assets, and the investment gain amounted to $14,661 thousand and $11,617 thousand and represented (9.46)% and 15.11% of income (loss) before income tax for the years ended December 31, 2012 and 2011, 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, 2012 and 2011, 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, and Republic of China generally accepted accounting principles.

As disclosed in note 3 to the financial statements, effective January 1, 2011, the Company has adopted the third revision of Republic of China Statement of Financial Accounting Standards No. 34 "Financial Instruments: Recognition and Measurement", which resulted in an increase of $9,406 thousand in net income after tax for the year ended December 31, 2011, and an increase of $0.05 in basic earnings per share.

The consolidated financial statements of Twinhead International Corp. and its subsidiaries as of December 31, 2012 and 2011, have been prepared by the management of Twinhead International Corp. Based on our audits, we expressed a modified unqualified opinion on both of those consolidated financial statements.

KPMG

March 13, 2013

TWINHEAD INTERNATIONAL CORP.

Balance Sheets

December 31, 2012 and 2011

(expressed in thousands of New Taiwan dollars)

Assets	2012 Amount	%	2011 Amount	%
Current assets:				
Cash and cash in banks (note 5)	$ 344,758	20	455,308	20
Accounts receivable, net of allowance for doubtful accounts (notes 3 and 6)	59,693	3	155,047	7
Accounts receivable－related parties (notes 3, 6, 8 and 18)	78,795	4	212,676	10
Other receivables from related parties (notes 8 and 18)	-	-	20	-
Other financial assets－current (note 8)	-	-	51	-
Inventories (note 7)	92,979	5	135,552	6
Prepaid expenses	7,987	-	10,584	-
Deferred income tax assets－current (note 14)	37,221	2	37,532	2
Other current assets	2,223	-	4,673	-
	623,656	34	1,011,443	45
Long-term equity investments (notes 4, 8 and 18):				
Long-term investments under equity method	236,782	13	385,964	17
Available-for-sale financial assets－non-current	2,083	-	1,458	-
Financial assets carried at cost－non-current	82,715	5	98,515	5
	321,580	18	485,937	22
Property, plant and equipment, net (notes 9 and 19):				
Cost:				
Land	72,885	4	72,885	3
Buildings and improvement	315,668	18	341,333	15
Machinery and equipment	189,518	11	187,191	9
Transportation equipment	-	-	3,220	-
Office equipment	151,106	9	151,231	7
	729,177	42	755,860	34
Less: accumulated depreciation	498,502	28	519,340	24
accumulated asset impairment	10,593	1	10,593	-
Prepayment for equipment	231	-	4,073	-
	220,313	13	230,000	10
Other assets:				
Assets leased to others (notes 10 and 19)	277,445	16	282,389	13
Refundable deposits (note 20)	9,565	1	8,460	-
Deferred charges	16,106	1	27,321	1
Long-term accounts receivable from related parties (notes 3, 6, 8 and 18)	243,901	14	63,755	3
Deferred income tax assets－non-current (note 14)	50,945	3	141,402	6
Total other assets	597,962	35	523,327	23
Total assets	$ 1,763,511	100	2,250,707	100

Liabilities and Stockholders' Equity	2012 Amount	%	2011 Amount	%
Current liabilities:				
Short-term borrowings (notes 11 and 19)	$ 405,000	23	562,808	25
Financial liabilities at fair value through profit and loss (notes 12 and 17)	2	-	268	-
Notes payable	230	-	2,289	-
Accounts payable	85,902	5	148,898	7
Other payables to related parties (note 18)	7,377	-	7,647	-
Accrued expenses	50,428	3	70,171	3
Convertible bonds payable－current (notes 12, 17 and 18)	18,445	1	38,471	2
Other current liabilities (notes 8 and 18)	78,111	5	56,620	2
	645,495	37	887,172	39
Long-term liabilities:				
Other liabilities:				
Guarantee deposits received	3,035	-	2,561	-
Total liabilities	648,530	37	889,733	39
Stockholders' equity (notes 8, 12, 14 and 15):				
Common stock, $10 (dollars) par value, 190,144 thousand shares and 255,845 thousand shares outstanding in 2012 and 2011, respectively, and 700,000 thousand shares authorized in both 2012 and 2011	1,901,445	108	2,558,447	115
Convertible preferred stock, $10 (dollars) par value, 17 thousand shares and 23 thousand shares issued and outstanding in 2012 and 2011, respectively	170	-	228	-
	1,901,615	108	2,558,675	115
Capital surplus:				
Paid-in capital－treasury stock	1,750	-	1,713	-
Paid-in capital－stock options	1,647	-	3,560	-
Paid-in capital in excess of par	233	-	-	-
	3,630	-	5,273	-
Accumulated deficits	(385,214)	(22)	(657,060)	(29)
Other items in stockholders' equity:				
Cumulative foreign currency translation adjustments	3,751	-	4,698	-
Unrealized loss on financial instruments	(330,045)	(19)	(444,665)	(20)
Treasury stock	(78,756)	(4)	(105,947)	(5)
	(405,050)	(23)	(545,914)	(25)
Total stockholders' equity	1,114,981	63	1,360,974	61
Commitments and contingencies (notes 10, 15 and 20)				
Total liabilities and stockholders' equity	$ 1,763,511	100	2,250,707	100

See accompanying notes to financial statements.

TWINHEAD INTERNATIONAL CORP.

Income Statements

For the years ended December 31, 2012 and 2011

(expressed in thousands of New Taiwan dollars)

	2012 Amount	%	2011 Amount	%
Operating income:				
Sales revenue (note 18)	$ 1,105,912	100	1,913,709	100
Less: Sales returns	967	-	1,597	-
Sales discounts	797	-	2,206	-
Net operating revenue	1,104,148	100	1,909,906	100
Cost of goods sold (notes 7, 13, 18 and 23)	873,870	79	1,567,406	82
Gross profit	230,278	21	342,500	18
Net change in unrealized gain (loss) on intercompany transactions (note 18)	3,803	-	(8,424)	-
Realized gross profit	234,081	21	334,076	18
Operating expenses (notes 13 and 23):				
Selling expenses	56,138	5	58,323	3
Administrative expenses	90,142	8	93,352	5
Research and development expenses	104,850	9	110,820	6
	251,130	22	262,495	14
Operating income	(17,049)	(1)	71,581	4
Non-operating income and gain:				
Interest income	1,914	-	1,866	-
Gain on disposal of fixed assets, net	7	-	-	-
Gain on disposal of investments (note 8)	26,376	2	-	-
Gain on foreign exchange, net	-	-	36,606	2
Rental income (note 10)	13,555	1	15,218	1
Gain on valuation of financial liabilities, net (note 12)	264	-	-	-
Other income (note 6)	20,313	2	16,470	1
	62,429	5	70,160	4
Non-operating expense and loss:				
Interest expenses (note 12)	9,983	1	12,884	1
Investment loss recognized under equity method	146,546	13	29,253	2
Loss on disposal of property, plant and equipment, net	-	-	74	-
Loss on foreign exchange, net	20,604	2	-	-
Impairment loss (note 8)	15,800	1	17,271	1
Loss on valuation of financial liabilities (note 12)	-	-	32	-
Other loss (note 23)	7,420	1	5,364	-
	200,353	18	64,878	4
Income (loss) before income tax	(154,973)	(14)	76,863	4
Income tax expenses (note 14)	90,768	8	26,187	1
Net income (loss)	$ (245,741)	(22)	50,676	3

	Before tax	After tax	Before tax	After tax
Basic income (loss) per share of common stock (in dollars) (note 16)	$ (0.84)	(1.34)	0.42	0.28
Diluted income (loss) per share of common stock (in dollars) (note 16)			$ 0.40	0.26

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

	Before income tax	Net of income tax	Before income tax	Net of income tax
Net income (loss)	$ (155,014)	(245,782)	76,817	50,630
Basic income (loss) per share of common stock (in dollars)	$ 0.82	(1.29)	0.40	0.27
Diluted income (loss) per share of common stock (in dollars)			$ 0.39	0.26

See accompanying notes to financial statements.

TWINHEAD INTERNATIONAL CORP.

Statements of Changes in Stockholders' Equity

For the years ended December 31, 2012 and 2011

(Expressed in thousands of New Taiwan dollars)

	Common stock	Convertible preferred stock	Total	Capital surplus	Accumulated deficits	Cumulative foreign currency translation adjustments	Unrealized loss on financial instruments	Treasury stock	Total	Total
Beginning balance January 1, 2011	$ 2,772,809	228	2,773,037	14,961	(109,973)	(6,873)	(444,965)	(926,871)	(1,378,709)	1,299,316
Capital surplus to offset accumulated deficits (note 15)	-	-	-	(8,731)	8,731	-	-	-	-	-
Redemption of convertible bonds (note 15)	-	-	-	(813)	-	-	-	-	-	(813)
Net income for 2011	-	-	-	-	50,676	-	-	-	-	50,676
Cancellation of treasury stock (note 15)	(214,362)	-	(214,362)	(144)	(606,418)	-	-	820,924	820,924	-
Cumulative foreign currency translation adjustments	-	-	-	-	-	11,571	-	-	11,571	11,571
Unrealized loss on financial instruments (note 8)	-	-	-	-	-	-	300	-	300	300
Adjustments of net equity arising from changes in ownership percentage in investee (note 8)	-	-	-	-	(76)	-	-	-	-	(76)
Balance as of December 31, 2011	2,558,447	228	2,558,675	5,273	(657,060)	4,698	(444,665)	(105,947)	(545,914)	1,360,974
Capital reduction to offset accumulated deficits (note 15)	(657,002)	(58)	(657,060)	(1,713)	517,587	-	113,995	27,191	141,186	-
Redemption of convertible bonds (note 15)	-	-	-	(163)	-	-	-	-	-	(163)
Net income for 2011	-	-	-	-	(245,741)	-	-	-	-	(245,741)
Cumulative foreign currency translation adjustments	-	-	-	-	-	(947)	-	-	(947)	(947)
Unrealized loss on financial instruments (note 8)	-	-	-	-	-	-	625	-	625	625
Adjustments of net equity arising from changes in ownership percentage in investee (note 8)	-	-	-	233	-	-	-	-	-	233
Balance as of December 31,	**$ 1,901,445**	**170**	**1,901,615**	**3,630**	**(385,214)**	**3,751**	**(330,045)**	**(78,756)**	**(405,050)**	**1,114,981**

See accompanying notes to financial statements.

TWINHEAD INTERNATIONAL CORP.

Statements of Cash Flows

For the years ended December 31, 2012 and 2011
(Expressed in thousands of New Taiwan dollars)

	2012	2011
Cash flows from operating activities:		
Net income (loss)	$ (245,741)	50,676
Adjustment to reconcile net income to net cash provided by operating activities:		
Depreciation	20,557	22,293
Amortization	18,437	22,878
Reversal of allowance for doubtful accounts	(121)	(11,333)
Amortization of discount on convertible bonds payable	1,241	2,223
Provision for (reversal of) loss on obsolescence and decline in value of inventory	21,000	20,776
Investment loss under equity method	146,546	29,253
Cash dividend from investee under equity method	1,631	1,846
Loss (gain) on disposal of property, plant and equipment	(7)	74
Gain on disposal of investment	(26,376)	-
Loss (gain) on valuation of financial liabilities	(264)	32
Impairment loss	15,800	17,271
Changes in (gain) loss on unrealized inter-company transactions	(3,803)	8,424
Loss on reacquisition of convertible bonds	68	272
Deferred income tax expense	90,768	26,187
Net changes in operating assets and liabilities:		
Net changes in operating assets:		
Notes receivable	-	101
Accounts receivable	95,475	41,737
Accounts receivable－related parties	(46,265)	(14,775)
Other receivables－related parties	20	491
Inventories	20,605	(7,646)
Prepaid expenses	2,597	(1,788)
Other current assets	2,450	644
Other financial assets－current	51	(51)
Net changes in operating liabilities:		
Notes payable	(2,059)	2,263
Accounts payable	(62,996)	(78,166)
Accrued expenses	(19,743)	4,484
Other payables to related parties	(270)	5,655
Other current liabilities	25,269	14,838
Net cash provided by operating activities	54,870	158,659
Cash flows from investing activities:		
Proceeds from disposal of financial assets carried at cost	26,376	-
Increase in long-term investment under equity method	-	(6,371)
Proceeds from disposal of long-term investment under equity method	316	-
Acquisition of property, plant and equipment	(4,973)	(14,140)
Proceeds from disposal of property, plant and equipment	22	81
Increase in refundable deposits	(1,105)	-
Increase in deferred charges	(7,222)	(19,910)
Cash inflow due to combination	-	1,694
Net cash provided by (used in) investing activities	13,414	(38,646)
Cash flows from financing activities:		
Decrease in short-term borrowings	(157,808)	(29,776)
Reacquisition of convertible bond	(21,500)	(30,000)
Decrease (increase) in guarantee deposits received	474	(100)
Net cash used in financing activities	(178,834)	(59,876)
Net increase in cash and cash in banks	(110,550)	60,137
Cash and cash in banks at beginning of year	455,308	395,171
Cash and cash in banks at end of year	**$ 344,758**	**455,308**
Supplementary disclosures of cash flow information:		
Cash payment of interest	**$ 8,948**	**10,699**
Cash payment of income taxes	**$ 187**	**186**
Investing and financing activities not affecting cash flows:		
Fixed assets transferred from lease assets	**$ -**	**22,408**
Fixed assets transferred from inventory	**$ 968**	**289**
Long-term investment loss in excess of investment cost offset against receivables from related parties	**$ -**	**(190,894)**
Changes in unrealized loss on financial instruments	**$ 625**	**300**
Cumulative foreign currency translation adjustments	**$ (947)**	**11,571**
Fixed assets reclassified to payments in advance	**$ -**	**16**
Increase in long-term investment under equity method from offsetting account receivable	**$ -**	**102,399**

See accompanying notes to financial statements.

TWINHEAD INTERNATIONAL CORP.

Notes to Financial Statements

December 31, 2012 and 2011

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

(1) Organization

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

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

As of December 31, 2012 and 2011, the number of the Company's employees was 249 and 242, 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, and ROC generally accepted accounting principles. Unless specified otherwise, the preparation of the financial statements is based on historical cost. A summary of significant accounting policies and valuations is as follows:

(a) Accounting estimates

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

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

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

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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.

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

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

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

(d) Asset impairment

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

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

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(e) Inventories

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

(f) Long-term equity investments

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

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

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

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

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

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(g) Financial assets carried at cost

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

(h) Available-for-sale financial assets

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

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

(i) Allowance for doubtful accounts

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

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

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(j) Fixed assets and related depreciation

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

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

Buildings and improvement	4~62 years
Machinery and equipment	2~15 years
Transportation equipment	5~6 years
Office equipment	2~10 years

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

(k) Assets leased to others

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

(l) Deferred charges

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

(m) Convertible bonds payable

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

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

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

(Continued)

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

In accordance with SFAS No. 36 "Financial Instruments: Disclosure and Presentation", when the Company redeems its convertible bond from the open market, the transaction cost shall be allocated between the liability component and equity component. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. The difference between the liability component and its book value is recognized as profit or loss. The difference between the equity component and its book value is recognized as capital surplus: treasury stock transaction. Retained earnings should be written off if the ending balance of capital surplus－treasury stock transaction is at the debit side.

(n) Retirement plan

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

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

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

If shareholders resolve that employee bonuses are to be distributed in the form of shares, the number of shares distributed should be the amount of employee bonuses divided by the fair value of the shares, which is based on the closing price at the day before the shareholders' meeting and considering the ex-dividend and ex-rights effects.

(p) Provision for product warranties

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

(q) Revenue and cost recognition

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

(Continued)

(r) Treasury stock

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

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

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

(s) Income tax

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

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

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

(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.

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

Earnings per share are calculated by dividing net income (loss) by the weighted-average number of shares outstanding, reduced by the number of shares of treasury stock re-purchased. An increase in common stock which is from appropriation of retained earnings or capital surplus, or a decrease in common stock which is to offset accumulated deficit, is added to or deducted from the shares outstanding retroactively. The shares outstanding are also adjusted retroactively if the recording date of the appropriation or share-based payment transaction is in a subsequent period.

The convertible bonds payable and preferred stock of the Company are potential shares. If those potential shares do not have a dilutive effect, only the basic earnings per share are disclosed; otherwise, diluted earnings per share are disclosed in addition to the basic earnings per share. When calculating the diluted earnings per share, the weighted-average number of shares includes the equivalent shares arising from convertible bonds payable and preferred stock, and the incremental shares are assumed to be outstanding at the beginning of the year.

If the Company distributes employee bonuses in the form of shares, the number of shares to be issued when calculating the diluted earnings per share will be based on the closing price of the shares at the balance sheet date. The dilutive effects of the potential shares resulting from the distribution of employee bonuses should be considered until the shareholders' meeting makes the final resolutions in the following year.

(u) Operating segment information

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

The Company discloses operating segment information in the consolidated financial statements in accordance with SFAS No. 41; therefore, the Company does not disclose such information in these financial statements.

(3) Reason for and Effect of Accounting Changes

Effective January 1, 2011, the Company adopted the third revision of SFAS No. 34 “Financial Instruments: Recognition and Measurement” to recognize, revaluate, and accrue impairment loss for receivables at fair value. The effect of adoption of the newly released accounting principle was an increase of $9,406 in after-tax income and an increase of $0.05 (dollar) in EPS.

(Continued)

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

(4) Consolidation

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

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

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

The Company adopted SFAS No. 25 “Business Combinations” to combine with Lung Yang Company. In 2011, there was no significant effect on income or loss arising from the combination with Lung Yang Company because Lung Yang Company was a consolidated entity of the Company in 2010.

(5) Cash and Cash in Bank

As of December 31, 2012 and 2011, the components of cash and cash in bank were as follows:

		2012	**2011**
Petty cash	$	215	215
Savings accounts		344,543	455,093
	$	**344,758**	**455,308**

(Continued)

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

As of December 31, 2012 and 2011, the details of notes receivable, accounts receivable, and overdue receivables were as follows:

		2012	2011
Accounts receivable	$	59,693	155,168
Accounts receivable－related parties (including long-term receivables－related parties)		322,696	276,431
Overdue receivables (recorded under other assets)		27,336	27,336
		409,725	458,935
Less: allowance for doubtful accounts		27,336	27,457
	$	**382,389**	**431,478**

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

The movement of allowance for doubtful accounts was as follows:

		2012	2011
Beginning balance January 1	$	121	11,454
Less: Reversal		2	11,333
Write-off		119	-
Balance as of December 31	**$**	**-**	**121**

The movement of allowance for overdue receivables was as follows:

		2012	2011
Balance as of December 31 (same as the beginning balance)	**$**	**27,336**	**27,336**

(7) Inventories

As of December 31, 2012 and 2011, the details of inventories were as follows:

		2012	2011
Finished goods	$	13,147	33,225
Work in process		2,871	8,561
Raw material and supplies		68,000	74,690
Goods in transit		8,961	19,076
	$	**92,979**	**135,552**

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

		2012	2011
Beginning balance	$	196,229	162,452
Add: Provision for current year		21,000	20,776
Incurred from combination with Lung Yang Company		-	13,001
Less: Inventory scrap		10,807	-
Ending balance	$	**206,422**	**196,229**

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

		2012	2011
Loss on decline in value of inventories	$	10,193	20,776
Inventory scrap		10,807	-
	$	**21,000**	**20,776**

(8) Long-term Equity Investments

(a) As of December 31, 2012 and 2011, the details were as follows

	2012			2011		
	Percentage of ownership	Investment cost	Book value	Percentage of ownership	Investment cost	Book value
Under equity method:						
Gammatech Computer Corporation	59.400	$ 53,079	72,672	59.400	53,079	87,179
Twinhead GmbH	100.000	271,665	16,593	100.000	271,665	20,742
Twinhead (Asia) Pte Ltd.	100.000	539,919	54,512	100.000	539,919	173,540
Twintek International Corporation	99.974	328,533	31,635	99.974	328,533	38,034
Yu Feng Technology Co., Ltd.	99.975	397,900	21,605	99.975	397,900	25,224
Fiber Logic Communications Inc.	11.424	25,232	39,765	11.858	25,427	41,245
		1,616,328	236,782		1,616,523	385,964
Financial assets carried at cost－non-current:						
EUROC Venture Capital Corp.	10.000	80,000	80,000	10.000	80,000	80,000
I1. Com	2.125	30,800	-	2.125	30,800	15,800
Trigem Computer, Inc.	0.006	63,609	-	0.006	63,609	-
Printec Japan Co., Ltd.	9.000	2,715	2,715	9.000	2,715	2,715
		177,124	82,715		177,124	98,515
Available-for-sale financial assets－non-current:						
Tekom Technologies Inc.	0.270	1,963	1,963	0.270	1,963	1,963
Add: unrealized gain (loss) on financial instruments		-	120		-	(505)
		1,963	2,083		1,963	1,458
		$ **1,795,415**	**321,580**		**1,795,610**	**485,937**

(Continued)

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

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

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

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

On March 27, 2012, the Company sold 20 thousand shares of Fiber Logic Communications Inc. (Fiber) for $316 to Yu Feng Company. As a result, the percentage of ownership decreased to 11.767%, and the unrealized gain amounting to $25 on the aforementioned transaction was recorded under other current liabilities.

In 2012, Fiber distributed employee bonuses by allotment of shares, resulting in an increase in equity of $231. In addition, the distributed employee bonuses aforementioned caused a decrease in equity of Yu Feng because of the change in percentage of ownership. The Company also recognized an increase in equity amounting to $2 according to the proportion of shares of Yu Feng owned by the Company.

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

On May 10, 2012, and June 8, 2011, Fiber distributed cash dividends amounting to $13,860 and $15,540, respectively, and stock dividends amounting to $8,140 and $5,460, respectively. The Company recognized a reduction in long-term investment amounting to $1,631 and $1,298, respectively. The cash dividends aforementioned were received in 2012 and 2011.

In 2012, the Company disposed of its financial assets carried at cost－common stock of Asia Pacific Telecom which had been written off and recorded as impairment loss. The number of disposed of shares was 1,497, and the gain amounting to $26,376 was recorded as gain on disposal of investment. As of December 31, 2012 and 2011, the Company held 1,003 thousand and 2,500 thousand shares of Asia Pacific Telecom, and the fair value of the shares was $12,808 and $24,675, respectively.

In 2012, the Company wrote down its financial assets carried at cost considering I1. Com's operating condition, and recorded it as impairment loss.

(Continued)

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

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

The excess amount of accumulated investment loss over the cost of the investment would offset other receivables from related parties and long-term accounts receivable from related parties. The offset amount was $0 and $190,894 in 2012 and 2011, respectively.

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

		2012	2011
Twintek International Corporation (originally named Lun Shiang Technology Co., Ltd.)	$	40,992	55,146
Yu Feng Technology Co., Ltd.		37,764	50,801
	$	**78,756**	**105,947**

(b) Unrealized loss on financial instruments

The Company adopted SFAS No. 34 "Financial Instruments: Recognition and Measurement". As of December 31, 2012 and 2011, unrealized loss on devaluation of its investments in Tekom Technologies Inc. was $120 and $505, respectively, and was recorded as unrealized loss on financial instruments under stockholders' equity.

(c) The movements of unrealized loss on available-for-sale financial assets in 2012 and 2011 are listed below:

		2012	2011
Beginning balance	$	505	805
Add: unrealized loss recognized (reversed)		(625)	(300)
Ending balance	$	**(120)**	**505**

As of December 31, 2012 and 2011, the Company recognized $330,165 and $444,160, respectively, of unrealized loss on financial instruments resulting from a subsidiary's holding of the shares of the Company. The abovementioned recognition was treated as treasury stock and was recorded as a reduction of stockholders' equity.

In 2012 and 2011, if the Company recognized it on a pro rata basis, the unrealized gain or loss on valuation of a subsidiary's financial instrument investments in the parent company would be losses of $132,208 and $180,578, respectively. The ending balance of unrealized loss on devaluation of financial instrument investments was $389,263 and $521,471, respectively.

(Continued)

(9) Fixed Assets

As of December 31, 2012 and 2011, the accumulated asset impairment amounted to $10,593. The above accumulated asset impairment was recognized based on the carrying value of the factory building and machinery at Da Fa Industrial exceeding its estimated recoverable amount. After evaluation, no additional impairment loss should be recognized for 2012 and 2011. The discount rates used were 7.90% and 6.77%, respectively.

(10) Assets Leased to Others

	2012	2011
Land	$ 141,370	141,370
Building	214,549	214,549
	355,919	355,919
Less: accumulated depreciation	78,474	73,530
	$ 277,445	**282,389**

The major terms of the lease contracts are as follows:

(a) The contract period is 1 to 3 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 2012 and 2011, the total rental revenues amounted to $13,555 and $15,218, respectively, and were recorded as rental income. The lease revenues for subsequent years are as follows:

Period	Amount
January 1, 2013~December 31, 2013	$ 13,653
January 1, 2014~December 31, 2014	10,203
January 1, 2015~December 31, 2015	5,819
	$ 29,675

(11) Short-term Bank Borrowings

	2012	2011
Credit loan	$ 135,000	190,000
Secured bank loans	270,000	300,000
Usance letters of credit	-	72,808
	$ 405,000	**562,808**

Annual interest rates on short-term borrowings were 1.13%~2.25% and 0.95%~2.21% in 2012 and 2011, respectively. The aforementioned loans were due within 365 days.

(Continued)

As of December 31, 2012 and 2011, unused credit lines amounted to approximately $810,127 and $716,714, respectively.

(12) Convertible Bonds Payable

		Carrying value of convertible bonds 2012	2011
Present value of private placement of unsecured convertible bonds payable issued in 2010	$	38,471	64,944
Add: Interest expense recognized in current period		1,241	2,223
Less: Redemption in current period		21,267	28,696
	$	**18,445**	**38,471**

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

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

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

i) Coupon rate: 0%

ii) Duration: 3 years (from February 26, 2010, to February 25, 2013)

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

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

v) Terms of conversion:

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

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

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

		2012	2011
Embedded derivative financial liabilities at issuance (holder's put option)	$	268	455
Add: Loss on valuation		-	32
Less: Gain on valuation		264	-
Redemption in current period		2	219
	$	**2**	**268**

As of December 31, 2012 and 2011, the Company revaluated its embedded liabilities of derivative financial instruments. In 2012 and 2011, the difference between the aforementioned valuation and the beginning balance was recognized as a gain of $264 and a loss of $32, respectively, on valuation of financial liabilities.

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

		2012	2011
Equity components at the time of issuance (conversion option)	$	3,560	6,230
Less: Redemption in current period		1,913	2,670
	$	**1,647**	**3,560**

(d) Bondholders are entitled to require the issuer to call the bonds between 18 months after the issuance date and the maturity date. The Company reclassified the convertible bonds to current liability on March 31, 2011, based on the conservatism principle. As of December 31, 2012 and 2011, the balance of the convertible bonds payable was $18,445 and $38,471, respectively. The Company redeemed all convertible bonds on February 25, 2013.

(13) Pension

The Company incurred pension expense under the defined contribution plan for 2012 and 2011 amounting to $8,718 and $8,352, respectively.

(Continued)

(14) Income Tax

The income tax rate applicable to the Company was 17%, and the Company applied the Income Basic Tax Act to the calculation of the basic income tax. The components of income tax expense for the years ended December 31, 2012 and 2011, were as follows:

	2012	2011
Current income tax expense	$ -	-
Deferred income tax expense	90,768	26,187
Income tax expense	**$ 90,768**	**26,187**

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 2012 and 2011 were as follows:

	2012	2011
"Expected" income tax expense (benefit)	$ (26,345)	13,067
Long-term investment loss	24,912	4,973
Gain on disposal of domestic investments	(4,484)	-
Impairment loss	2,686	2,936
Investment tax credits expired	22,459	29,211
Underestimate (overestimate) of prior year's deferred income tax assets	2,757	(12)
Overestimate of prior year's investment tax credits	-	10,461
Overestimate of prior year's loss carryforwards	1,174	2,551
Valuation allowance－deferred income tax assets	67,609	(37,000)
	$ 90,768	**26,187**

(Continued)

The components of deferred income tax benefit for the years ended December 31, 2012 and 2011, were as follows:

	2012	2011
Reserve for inventory loss	$ 1,025	(6,290)
Realized gain on sales to related parties	642	(883)
Realized (unrealized) foreign exchange loss	(1,670)	7,894
Allowance for repairs and maintenance reserve	314	19
Allowance for doubtful accounts exceeding tax limit	(84)	1,864
Investment tax credits	-	340
Expiry of investment tax credit	22,459	29,211
Overestimate of investment tax credit	-	10,461
Overestimate of loss carryforwards	1,174	2,551
Decrease in loss carryforwards	(701)	18,020
Valuation allowance	67,609	(37,000)
	$ 90,768	**26,187**

As of December 31, 2012 and 2011, deferred income tax assets (liabilities) were as follows:

	2012	2011
Current:		
Deferred income tax assets	$ 123,654	64,773
Valuation allowance－deferred income tax assets	(86,433)	(26,348)
Net deferred income tax assets	37,221	38,425
Deferred income tax liabilities	-	(893)
Net deferred income tax assets－current	**$ 37,221**	**37,532**
Non-current:		
Deferred income tax assets	$ 200,835	283,768
Valuation allowance－deferred income tax assets	(149,890)	(142,366)
Net deferred income tax assets－non-current	**$ 50,945**	**141,402**
Total deferred income tax assets	**$ 324,489**	**348,541**
Total deferred income tax liabilities	**$ -**	**893**
Total valuation allowance for deferred income tax assets	**$ 236,323**	**168,714**

(Continued)

As of December 31, 2012 and 2011, the temporary differences, loss carryforwards, tax credits, and respective tax effects related to the deferred income tax assets (liabilities) were as follows:

	2012		2011	
	Amount	**Tax effect**	**Amount**	**Tax effect**
Deferred income tax assets (liabilities):				
Investment tax credits	$ 19,400	19,400	41,859	41,859
Loss carryforwards	1,496,319	254,375	1,499,103	254,848
Reserve for inventory revaluation loss	190,421	32,882	199,453	33,907
Impairment loss	56,000	9,520	56,000	9,520
Unrealized gain on sales to related parties	19,390	3,296	23,168	3,938
Unrealized foreign exchange loss (gain)	4,571	777	5,253	(893)
Allowance for repairs and maintenance reserve	1,567	267	3,414	581
Allowance for doubtful accounts exceeding tax limit	23,372	3,972	22,876	3,888
Valuation allowance－deferred income tax assets		(236,323)		(168,714)
		$ 88,166		178,934

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, 2012, the amount and the expiry year of the Company's unused investments tax credits were as follows:

Year	**Amount**	**Year of Expiration**
2009	$ 19,400	2013

(Continued)

TWINHEAD INTERNATIONAL CORP.

Notes to Financial Statements

In accordance with the amendment of Article 39 of the Income Tax Act, a company's losses can be carried forward to offset its future taxable income for a period of ten years. As of December 31, 2012, the amount and the expiry year of the Company's net losses were as follows:

Year	Amount	Year of Expiration
2003	$ 370,935	2013
2004	97,177	2014
2005	665,728	2015
2006	142,783	2016
2007	50,924	2017
2008	71,197	2018
2009	93,452	2019
2012	4,123	2022
	$ 1,496,319	

The ROC tax authorities have examined the Company's tax credits through 2010.

As of December 31, 2012 and 2011, the related imputation tax information was as follows:

	2012	2011
Balance of imputation credit account	**$ 15,930**	**15,579**

As of December 31, 2012 and 2011, there was no imputation credit ratio because of accumulated deficits.

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

	2012	2011
1997 and before	$ -	-
1998 and after	(385,214)	(657,060)
	$ (385,214)	**(657,060)**

(15) Stockholders' Equity

(a) Capital stock

In order to strengthen financial structure and extend the future operations, the board of directors of the Company approved a capital reduction to offset accumulated deficits on June 5, 2012, which would reduce common stock by 65,700 thousand shares and preferred stock by 6 thousand shares, and the rate of reduction was 25.68%. The aforementioned reduction was approved by the Securities and Futures Bureau of the Financial Supervisory Commission, R.O.C., on July 18, 2012. On July 31, 2012, the board of directors of the Company approved the effective date of the reduction to be August 1, 2012. The capital reduction has been registered, and the official change date was October 29, 2012.

(Continued)

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

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

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

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

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

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

(b) Treasury stock

In 2012 and 2011, none of the shares of the Company were sold by its subsidiaries.

The capital reduction to offset accumulated deficits resulted in the decrease of 1,074 thousand shares of the Company held by Yu Feng and of 1,030 thousand shares held by Twintek. The Company offset treasury stock amounting to $27,191, unrealized loss on financial instruments amounting to $113,995, and paid-in capital－treasury stock amounting to $1,713, and recognized the difference amounting to $139,473 as accumulated deficits.

On December 29, 2011, the Company combined with Lung Yang Company, a subsidiary of the Company, and cancelled 21,436 thousand shares of common stock held by Lung Yang Company; as a result, the Company's treasury stock, common stock, and capital surplus－treasury stock amounting to $820,924, $214,362, and $144, respectively, were reversed. The difference amounting to $606,418 arising from the aforementioned transaction was recorded under retained earnings.

As of December 31, 2012 and 2011, subsidiaries of the Company held 6,088 thousand shares and 8,192 thousand shares, respectively, of common stock of the Company. The shares held by the subsidiaries, recorded under treasury stock, were due to the conversion of the Company's convertible bonds which were purchased by the subsidiaries of the Company in prior years. As of December 31, 2012 and 2011, the market value amounted to $19,664 and $28,751, respectively.

(Continued)

(c) Capital surplus

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

	2012	2011
Premium on issuance:		
Treasury stock transaction	$ 1,750	1,713
Stock options:		
Issuance of convertible bonds	6,230	6,230
Redemption of convertible bonds	(4,583)	(2,670)
	1,647	3,560
Long-term investment:		
Long-term investment under equity method	233	-
	$ 3,630	**5,273**

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

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

In 2012, bondholders required the Company to call convertible bonds amounting to $21,500. The Company paid $21,500 in cash, and offset unamortized discount on bonds amounting to $233, financial liabilities at fair value through profit and loss amounting to $2, and paid-in capital—stock option amounting to $1,913, and recognized the difference as paid-in capital—treasury stock amounting to $1,750 and loss on redemption of convertible bonds amounting to $233.

The shareholders' meetings held on June 5, 2012, and June 3, 2011, decided to use capital surplus of $17 and $8,731, respectively, to offset the accumulated deficits.

(Continued)

(d) Legal reserve

The ROC Company Act stipulates that the Company must retain a minimum of 10% of its after-tax annual earnings as legal reserve until such retention equals the amount of the total capital. Legal reserve can only be used to offset deficits, and cannot be distributed as cash dividends. Up to one-half of the legal reserve can be converted to share capital when it reaches an amount that equals one-half of the issued share capital. However, according to the revised ROC Company Act effective January 4, 2012, when a company incurs no loss, it may, pursuant to a resolution by a shareholders' meeting, distribute its legal reserve by issuing new shares or by distributing cash to shareholders, and only the portion of the legal reserve which exceeds 25% of the capital may be distributed.

(e) Appropriation of earnings

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

Earnings were unappropriated due to the accumulated deficits in both 2012 and 2011.

The Company's accumulated undistributed preferred stock dividend of $225 and $184 as of December 31, 2012 and 2011, respectively, will be recognized and distributed if approved in a shareholders' meeting.

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

As of December 31, 2012 and 2011, the Company had incurred accumulated deficits. Therefore, employee bonuses and directors' and supervisors' remuneration were not accrued by the Company.

(16) Earnings (Loss) per Share

The details of basic and diluted loss per share for the Company in 2012 and 2011 were as follows:

(Unit: thousand shares)

	2012		2011	
	Before tax	**After tax**	**Before tax**	**After tax**
Basic earnings per share:				
Net income (loss) (after deducting preferred stock dividends amounting to $41 and $46 in 2012 and 2011, respectively)	$ (155,014)	(245,782)	76,817	50,630
Weighted-average outstanding shares	184,056	184,056	184,056	184,056
Basic income (loss) per share (expressed in New Taiwan dollars)	$ (0.84)	(1.34)	0.42	0.28

(Continued)

	2012 Before tax	2012 After tax	2011 Before tax	2011 After tax
Diluted earnings per share:				
Net income (after deducting preferred stock dividends amounting to $46 in 2011)			$ 76,817	50,630
Dilution effect (dollars) on common stock－convertible bonds			2,223	1,845
Diluted net income before cumulative effect of changes in accounting principles			**79,040**	**52,475**
Weighted-average outstanding shares			184,056	184,056
Dilution effect (number of shares) on common stock－convertible bonds			14,267	14,267
Weighted-average outstanding shares in calculating pro forma earnings per share			**198,323**	**198,323**
Pro forma income per share (expressed in New Taiwan dollars)			**$ 0.40**	**0.26**
Pro forma data, assuming the Company's shares held by its subsidiaries were not treated as treasury stock:				
Net income (loss) (after deducting preferred stock dividends amounting to $41 and $46 in 2012 and 2011, respectively)	**$ (155,014)**	**(245,782)**	**76,817**	**50,630**
Weighted-average outstanding shares	184,056	184,056	184,056	184,056
Treasury stock	6,088	6,088	6,088	6,088
Weighted-average outstanding shares in calculating pro forma earnings per share	**190,144**	**190,144**	**190,144**	**190,144**
Pro forma income (loss) per share (expressed in New Taiwan dollars)	**$ (0.82)**	**(1.29)**	**0.40**	**0.27**
Diluted earnings per share:				
Net income (after deducting preferred stock dividends amounting to $46 in 2011)			$ 76,817	50,630
Dilution effect (dollars) on common stock－convertible bonds			2,223	1,845
Diluted net income before cumulative effect of changes in accounting principles			**79,040**	**52,475**
Weighted-average outstanding shares			184,056	184,056
Dilution effect (number of shares) on common stock－convertible bonds			14,267	14,267
Treasury stock			6,088	6,088
Weighted-average outstanding shares in calculating pro forma earnings per share			**204,411**	**204,411**
Pro forma income per share (expressed in New Taiwan dollars)			**$ 0.39**	**0.26**

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

(Continued)

(17) Financial Instruments

(a) Derivative financial instruments

In 2012 and 2011, 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 financial assets, short-term borrowings, notes and accounts payable (including payables to related parties), other payables－ related parties, and accrued expenses.

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

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

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

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

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

vii) As of December 31, 2012 and 2011, the fair value of the Company's financial instruments determined by open market prices amounted to $2,083 and $1,458, respectively.

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

		2012		**2011**	
		Book value	**Fair value**	**Book value**	**Fair value**
Financial liabilities:					
Bonds payable	$	18,445	18,445	38,471	38,471
Financial liabilities at fair value through profit or loss		2	2	268	268

(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.

(Continued)

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 receivables from 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 counterparty or groups of counterparties. Concentration of credit risk exists if a number of counterparties 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:

	2012	
Customer name	**Amount**	**% of notes and accounts receivable**
Subsidiary (including transferred long-term receivable; refer to note 18)	$ 322,696	84

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

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

iii) Liquidity risk

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

(Continued)

iv) Cash flow risk arising from interest rate change

The Company's short-term borrowings are exposed to fluctuating market interest rates. Hence, cash flow risk resulted from 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.

(18) Transactions with Related Parties

(a) Name and relationship

Name	Relationship
Gammatech Computer Corporation (Gammatech Computer)	The Company and its subsidiaries hold 100% of Gammatech's common stock
Twinhead GmbH	Subsidiary of the Company
Twinhead Kunshan Technology Co., Ltd. (Twinhead Kunshan)	Subsidiary of a Company subsidiary (Twinhead (Asia) Pte Ltd.)
Kunshan Lun Teng System Co., Ltd. (Kunshan Lun Teng)	Subsidiary of a Company subsidiary (Twinhead (Asia) Pte Ltd.)
Lun Yang Technology Co., Ltd. (Lun Yang)	Originally a subsidiary of the Company; was eliminated and combined into the Company
Twintek International Corporation (Twintek)	Subsidiary of the Company
Yu Feng Technology Co., Ltd. (Yu Feng)	Subsidiary of the Company
Euroc II Venture Capital Co.	The chairman is also the Company's chairman
Euroc Venture Capital Co.	A director of the Company
Board of directors, supervisors, president and vice president	Key management of the Company

(b) Significant transactions with related parties

i) Sales

Sales to related parties were as follows:

		2012		2011	
		Amount	% of net sales	Amount	% of net sales
Twinhead GmbH	$	54,990	5	73,732	4
Gammatech Computer		52,889	5	155,619	8
Kunshan Lun Teng		10,431	1	-	-
Twinhead Kunshan		6	-	6	-
Lun Yang		-	-	937	-
Yu Feng		-	-	272	-
	$	118,316	11	230,566	12

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

ii) Receivables

Receivables resulting from the above transactions are summarized as follows:

		2012		2011	
		Amount	% of net receivables	Amount	% of net receivables
Accounts receivable:					
Gammatech Computer	$	11,858	3	13,658	3
Twinhead GmbH		17,042	4	14,104	3
Kunshan Lun Teng		790	-	-	-
		29,690	7	27,762	6
		29,690	7	27,762	6
Deduct: receivables reclassified to long-term receivables		-	-	8,485	2
	$	29,690	7	19,277	4

(Continued)

Additionally, as of December 31, 2012 and 2011, the accounts receivable exceeding their normal credit period amounted to $0 and $8,485, respectively, and were recorded under long-term receivables. As of December 31, 2011, the normal credit period exceeded 12 months.

iii) Purchases

Purchases from related parties were as follows:

	2012		2011	
	Amount	**% of net purchases**	**Amount**	**% of net purchases**
Twinhead Kunshan	$ 304,130	40	689,758	46
Twinhead GmbH	-	-	64	-
Gammatech Computer	6,843	1	1,066	-
Lun Yang	-	-	1,028	-
	$ 310,973	**41**	**691,916**	**46**

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

iv) Purchase of supplies on others' behalf

As of December 31, 2012 and 2011, the Company had purchased supplies on behalf of Twinhead Kunshan amounting to $49,105 and $193,399, respectively, classified as accounts 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 accounts receivable from related parties amounting to $243,901 and $55,270, 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, 2012 and 2011, the unrealized gain on sales had decreased by $3,803 and increased by $5,200, respectively. As of December 31, 2012 and 2011, unrealized gain on sales was $19,365 and $23,168, respectively, and was recorded as other current liabilities.

On March 27, 2012, the Company sold 20 thousand shares of Fiber Logic Communications Inc. (Fiber) to Yu Feng Company, and the aforementioned transaction resulted in an unrealized gain amounting to $25, recorded under other current liabilities.

(Continued)

vi) Other transactions

i. Receivables from advance payments and collections

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

1) Other receivables from related parties

	2012	2011
Twintek	$ -	20

2) Other payables to related parties

	2012	2011
Twinhead Kunshan	$ 7,269	7,647
Twinhead GmbH	108	-
	$ 7,377	7,647

vii) Financing

There was no such transaction in 2012.

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

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

viii) Other

The Company issued convertible bonds via private placement amounting to $70,000 on February 26, 2010. The transactions that involved related parties amounted to $6,300.

(Continued)

(c) Key management personnel compensation

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

		2012	2011
Salary	$	15,879	18,853
Bonuses and allowances		2,000	2,302
Professional fees		2,290	2,557
Employee bonuses		-	-

In 2012, the rental fee amounting to $800 for personal transportation of management was included in the abovementioned bonuses and allowances. In 2011, the cost of the abovementioned bonuses and allowances amounted to $3,220, and the carrying value of the transportation was $0 as of December 31, 2011.

(19) Pledged Assets

As of December 31, 2012 and 2011, the details and net book value of pledged assets were as follows:

			Book value	
Pledged assets	**Pledged for**		**2012**	**2012**
Land	Short-term borrowings	$	72,885	72,885
Buildings and improvements	Short-term borrowings		127,580	130,494
Assets leased to others	Short-term borrowings		273,445	276,389
Total		$	**473,910**	**479,768**

(20) Commitments and Contingencies

(a) As of December 31, 2012 and 2011, the Company had outstanding letters of credit for the purchase of material totaling approximately $7,593 and $23,993, 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 sales made by the Company.

(Continued)

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

	Amount
2013	$ 21,667
2014	21,667
2015	19,019
	$ 62,353

(21) Material Disaster Loss: None.

(22) Material Subsequent Event: None.

(23) Others

(a) Employment, depreciation, and amortization expenses

A summary of employment, depreciation, and amortization expenses for the years ended December 31, 2012 and 2011, categorized by operating cost and operating expenses, is as follows:

Function / Account	2012			2011		
	Operating cost	Operating expenses	Total	Operating cost	Operating expenses	Total
Employment expenses						
Salaries	28,585	144,572	173,157	27,588	148,809	176,397
Labor and health insurance	2,882	11,295	14,177	2,496	10,877	13,373
Pension	1,593	7,125	8,718	1,427	6,925	8,352
Other employment expenses	1,757	3,488	5,245	1,817	3,667	5,484
Depreciation expenses (Note)	7,939	7,674	15,613	7,499	9,754	17,253
Amortization expenses	-	18,437	18,437	-	22,878	22,878

Note: Depreciation of assets leased to others and to be leased was $4,944 and $5,040 in 2012 and 2011, respectively, and was recorded as non-operating expenses－other loss.

(Continued)

(b) Other

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

Unit: thousands

Item	2012.12.31 Foreign currency	2012.12.31 Exchange rate	2012.12.31 NTD	2011.12.31 Foreign currency	2011.12.31 Exchange rate	2011.12.31 NTD
Financial Assets:						
Monetary item:						
USD	19,356	29.04	562,098	18,514	30.28	560,604
EUR	1,208	38.49	46,496	1,014	39.18	39,729
Long-term investments under equity method:						
USD	4,380	29.04	127,184	8,610	30.28	260,719
EUR	431	38.49	16,593	529	39.18	20,742
Financial Liabilities:						
Monetary item:						
USD	1,624	29.04	47,161	5,126	30.28	155,215

(Continued)

(24) Additional Disclosures

(a) Related information on significant transactions:

i) Financing provided: None.

ii) Endorsement/guarantee provided: None.

iii) Marketable securities held as of December 31, 2012:

(Unit: thousand dollars/shares)

Name of holder	Category and name of security	Relationship with the Company	Financial statement account	December 31, 2012 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	297	72,672	59.400	72,672	-
〃	Twinhead GmbH	〃	〃	-	16,593	100.000	16,593	-
〃	Twinhead (Asia)	〃	〃	5,872	54,512	100.000	54,512	-
〃	Twintek	〃	〃	32,853	31,635	99.974	31,635	-
〃	Yu Feng	〃	〃	39,790	21,605	99.975	21,605	-
〃	Fiber Logic Communications Inc.	〃	〃	2,685	39,765	11.424	39,765	-
〃	EUROC Venture Capital Corp.	Investee accounted for under cost method	Financial assets carried at cost－non-current	8,000	80,000	10.000	Note 1	-
〃	I1.Com	〃	〃	400	Note 2	2.125	〃	-
〃	Trigem Computer, Inc.	〃	〃	-	-	0.006	〃	-
〃	Printec Japan Co., Ltd.	〃	〃	-	2,715	9.000	〃	-
〃	Tekom Technology Inc.	Measured at fair value	Available-for-sale financial instrument－non-current	42	1,963	0.270	2,083	-
	Add: Unrealized loss on financial instrument				120			
					321,580			

Note 1: Not listed or OTC, and therefore has no market value.

Note 2: All recognized impairment losses.

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

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

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

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

(Unit: thousand dollars)

Company name	Related party	Nature of relationship	Transaction details Purchases/ Sales	Amount	Percentage of total (%)	Payment terms	Reasons why and description of how the transaction conditions differ from general transactions Unit price	Payment terms	Accounts / notes receivable or payable Ending balance of accounts receivable	Percentage of total accounts receivable (payable)	Remarks
The Company	Twinhead Kunshan	Indirect subsidiary	Purchases	304,130	40	(Note 1)	Determined based on related parties' costs	(Note 1)	-	-	-

Note 1: Payments to these companies are offset with the accounts receivable 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 Company	Ending balance of receivables from related party (Note 1)	Turnover rate	Balance of account receivable Amount	Accounting treatment	Collection after December 31, 2012 (Note 2)	Allowance for doubtful accounts
The Company	Twinhead Kunshan	Indirect subsidiary	293,006	-	243,901	The receivable has been traced and recognized as long-term receivable	-	-

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

Note 2: Up to March 13, 2013.

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 2012.12.31	Original investment amount 2011.12.31	Balance as of December 31, 2012 Shares (thousand)	Balance as of December 31, 2012 Percentage of ownership (%)	Balance as of December 31, 2012 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	53,079	53,079	297	59.400	72,672	(18,748)	(11,137)	100% jointly owned by the Company and its subsidiaries.
〃	Twinhead GmbH	Germany	The research, development and trading of computers and computer peripheral equipment	271,665	271,665	-	100.000	16,593	(3,735)	(3,735)	Subsidiary
〃	Twinhead (Asia)	Singapore	Investment holding	539,919	539,919	5,872	100.000	54,512	(124,171)	(124,171)	Subsidiary
〃	Twintek	Taiwan	The trading of computers and computer peripheral equipment	328,533	328,533	32,853	99.974	31,635	(77,170)	(4,945)	Subsidiary
〃	Yu Feng	Taiwan	The trading of computers and computer peripheral equipment	397,900	397,900	39,790	99.975	21,605	(71,874)	(2,769)	Subsidiary
〃	Fiber Logic Communication Inc.	Taiwan	Wired and wireless networking products for households and offices	25,232	25,427	2,685	11.424	39,765	3,291	211	Investee accounted for under equity method
Twintek	Gammatech Computer	U.S.A.	The research, development and trading of computers and computer peripheral equipment	46,061	46,061	128	25.600	31,320	(18,748)	(4,799)	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	18,351	(18,748)	(2,812)	〃
〃	Fiber Logic Communication Inc.	Taiwan	Wired and wireless networking products for households and offices	316	-	21	0.088	332	3,291	28	Investee of Yu Feng accounted for under equity method (Note)
Twinhead (Asia)	Twinhead Enterprises (BVI) Ltd.	British Virgin Islands	Investment holding	1,388	1,388	50	100.000	3,770	(35)	(35)	Indirect subsidiary
〃	Twinhead Kunshan	China	Production and marketing of portable computers, calculator parts, terminals and keyboards	429,582	429,582	-	100.000	41,057	(125,421)	(125,421)	〃
〃	Kunshan Lun Teng	China	Import and export of computers, electronic components, and digital cameras, and technical consultant services	930	-	-	100.000	2,333	1,439	1,439	〃

ii) Financing provided: None.

iii) Endorsement/guarantee provided: None.

iv) Marketable securities held on December 31, 2012:

(Unit: thousand dollars/shares)

Name of company which holds securities	Category and name of security	Relationship with holder	Amount name	Year-end Number of shares	Year-end Book value	Year-end Percentage of shares	Year-end Market value (Note 1)	Remarks
Twinhead (Asia)	Stock: Twinhead Enterprises (BVI) Ltd.	Investee of Twinhead (Asia) accounted for under equity method	Long-term investment under equity method	50	3,770	100.000	3,770	-
〃	Twinhead Kunshan	〃	〃	-	41,057	100.000	41,057	-
〃	Kunshan Lun Teng	〃	〃	-	2,333	100.000	2,333	-
Twintek	Stock: Twinhead Int'l Corp.	Parent company	Available-for-sale financial instrument－non-current	3,109	10,041	1.630	10,041	-
〃	Gammatech Computer	100% jointly owned by the Company, Twintek and Yu Feng	Long-term investment under equity method	128	31,320	25.600	31,320	-
Yu Feng	Stock: Twinhead Int'l Corp.	Parent company	Available-for-sale financial instrument－non-current	2,979	9,623	1.570	9,623	-
〃	Gammatech Computer	100% jointly owned by the Company, Twintek and Yu Feng	Long-term investment under equity method	75	18,351	15.000	18,351	-
〃	Fiber Logic Communication Inc.	Investee accounted for under equity method	Long-term investment under equity method	21	332	0.088	332	-

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 the paid-in capital: None.

(Continued)

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)	(304,130)	(93)	(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 sale.

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

x) Derivative financial instrument transactions: None.

(c) Investment in Mainland China:

i) Overview of investments:

(Unit: thousand dollars)

Name of investee in Mainland China	Main operational items	Issued capital (US$ in thousands)	Method of investment	Beginning balance of foreign investment from Taiwan (Note 1)	Investment movement within this period		Ending balance of foreign investment from Taiwan	Percentage of direct or indirect investment holding	Gain (loss) recognized during the period (Note 1)	Book value as of December 31, 2012 (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)	363,000 (USD12,500)	-	-	363,000 (USD12,500)	100	(125,421)	41,057	-
Twinhead Huazhong Technology Limited Corp.	Installation and sales of laptop parts and accessories. Sales and production of related software	USD4,000	(Note 2)	58,080 (USD2,000)	-	-	58,080 (USD32)	-	-	-	-
Kunshan Lun Teng	Import and export of computers, electronic components, and digital cameras, and technical consultant services	USD32	(Note 2)	-	929 (USD32)	-	929 (USD32)	100	1,439	2,333	-

Note 1: The exchange rate as of December 31, 2012: USD1=NTD29.04

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

Aggregate investment amount remitted from ROC to Mainland China at the end of the period (Note)	Investment amount approved	Limitation on investment in Mainland China by Investment Commission of Ministry of Economic Affairs
459,761 thousand (USD15,832 thousand)	459,761 thousand (USD15,832 thousand)	668,989 thousand

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

ii) Material transactions:

The Company's material transactions with its investees in Mainland China for the year ended December 31, 2012, are disclosed in note 18.

(25) Segment Information

Please refer to the consolidated financial statements.