



INDEPENDENT AUDITORS' REPORT
The Board of Directors and Shareholders
DFI, Inc.

We have audited the accompanying consolidated balance sheets of DFI, Inc. and subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. The financial statements of some consolidated subsidiaries were audited by other auditors with unqualified opinions. Therefore, the opinion we gave concerning the figures of consolidated subsidiaries was based on those auditors' audit reports. The consolidated assets from those subsidiaries audited by other auditors total NT\$373,762 thousands and NT\$391,857 thousands, respectively, as of December 31, 2010 and 2009, representing 11.90% and 11.68% of consolidated assets for respective year. The consolidated revenues total NT\$985,356 thousands and NT\$966,608 thousands, respectively, for 2010 and 2009, representing 56.77% and 45.07% of consolidated revenue for respective year.

We conducted our audits in accordance with the Rules Governing the Audit of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Those rules and standards 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 provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of DFI, Inc. and subsidiaries as of December 31, 2010 and 2009, and the results of their consolidated operations and their consolidated cash flows for the years then ended in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting with respect to financial accounting standards, and accounting principles generally accepted in the Republic of China.

As stated in Note 3 to the consolidated financial statements, effective January 1, 2009, DFI Inc. and subsidiaries adopted amended ROC GAAP no. 10, "Accounting for inventory".

Deloitte & Touche

Taipei, Taiwan
March 1, 2011

Notice to Readers

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

For the convenience of readers, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.



DFI Inc.

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2010 AND 2009

(In Thousands of New Taiwan Dollars, Except Par Value)

	2010		2009			2010		2009	
	Amount	%	Amount	%		Amount	%	Amount	%
Assets					Liabilities & Shareholders' Equity				
Cash and cash equivalents (Note 4)	\$903,260	29	\$897,361	27	CURRENT LIABILITIES				
Financial assets at fair value through profit or loss (Notes 2, 5 and 17)	979,363	31	1,093,048	33	Notes Payable	\$ 41,322	1	\$ 53,173	2
Available-for-sale financial assets (Notes 2 and 6)	70,796	2	97,848	3	Accounts Payable	88,896	3	120,038	4
Notes receivable	-	-	54	-	Payable to Affiliates (Note 18)	19	-	174	-
Accounts receivable (Note 2)	162,239	5	302,412	9	Income Tax Payable (Notes 2 & 13)	8,768	-	-	-
Receivable from Affiliates (Note 18)	8,733	-	10,920	-	Accrued Expenses	110,549	4	113,879	3
Other Receivables (Note 13)	21,373	1	14,720	-	Payable for purchase of equipment	-	-	811	-
Inventory (Notes 2, 3 and 7)	350,225	11	323,755	10	Other Current Liabilities	15,504	-	16,706	-
Time deposits pledged (Note 19)	14,900	-	10,000	-	Total current liabilities	265,058	8	304,781	9
Deferred income taxes-current (Notes 2 and 13)	23,260	1	24,355	1	OTHER LIABILITIES				
Prepayments and other current asset	15,498	1	14,292	-	Accrued pension cost (Notes 2 and 16)	55,610	2	54,979	2
Total Current Assets	2,549,647	81	2,788,765	83	Deferred income tax liabilities-non-current (Notes 2 and 13)	824	-	-	-
LONG-TERM INVESTMENTS					Others	1,721	-	2,219	-
Available-for-sale financial assets (Notes 2 and 6)	14,044	1	26,760	1	Total other liabilities	58,155	2	57,198	2
Held-to-maturity financial assets (Notes 2 and 8)	200,000	6	200,000	6	Total liabilities	323,213	10	361,979	11
Financial assets carried at cost (Notes 2 and 9)	13,454	-	20,644	-	SHAREHOLDERS' EQUITY				
Total long-term investments	227,498	7	247,404	7	CAPITAL STOCK	1,202,759	38	1,210,949	36
PROPERTY, PLANT & EQUIPMENT (Notes 2 and 10)					CAPITAL SURPLUS				
Land	29,735	1	29,603	1	Additional paid-in capital	801,114	26	806,569	24
Buildings	119,532	4	119,122	4	From treasury stock transaction	-	-	25,950	1
Machinery & equipment	444,119	14	436,273	13	Gain on asset disposition	808	-	808	-
Office equipment	19,393	1	18,369	-	From long-term equity investments	653	-	653	-
Other equipment	33,024	1	35,808	1	Other	23,603	1	23,603	1
Cost Subtotal	645,803	21	639,175	19	Total capital surplus	826,178	27	857,583	26
Accumulated Depreciation	487,239	16	520,548	15	RETAINED EARNINGS				
Net property, plant & equipment	158,564	5	118,627	4	Legal Reserve	417,921	13	386,026	12
INTANGIBLE ASSETS (Note 2)					Special Reserve	-	-	10,181	-
Computer software	354	-	951	-	Unappropriated earnings	376,831	12	581,693	17
Goodwill	187,365	6	187,365	6	Total retained earnings	794,752	25	977,900	29
Total Intangible Assets	187,719	6	188,316	6	OTHER EQUITY ADJUSTMENTS				
OTHER ASSETS					Cumulative translation adjustments	821	-	24,652	1
Deferred income taxes-non-current (Notes 2 & 13)	-	-	2,607	-	Unrealized gain or loss on financial instruments	(5,639)	-	(15,477)	(1)
Deferred charges (Note 2)	12,830	1	5,387	-	Treasury stocks-819,000 shares	-	-	(62,071)	(2)
Guarantee deposits	2,863	-	4,411	-	Total other equity adjustments	(4,818)	-	(52,896)	(2)
Confined Assets (Note 19)	2,965	-	-	-	MINORITY INTEREST	2	-	2	-
Total other assets	18,658	1	12,405	-	Total shareholders' equity	2,818,873	90	2,993,538	89
TOTAL ASSETS	\$ 3,142,086	100	\$ 3,355,517	100	TOTAL LIABILITIES & EQUITY	\$ 3,142,086	100	\$ 3,355,517	100

The accompanying notes are an integral part of the consolidated financial statements.

(With Deloitte & Touche audit report dated March 1, 2011)



DFI Inc.

**CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

(In Thousands of New Taiwan Dollars, Except Consolidated Earnings Per Share)

	<u>2010</u>		<u>2009</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Gross Sales	\$1,768,716	102	\$2,207,507	103
Sales Return & Allowance	33,064	2	62,795	3
Net Sales (Notes 2 and 18)	1,735,652	100	2,144,712	100
Cost of Goods Sold (Notes 7, 14 and 18)	1,109,649	64	1,365,070	63
Gross Profit	626,003	36	779,642	37
Operation Expenses (Notes 14 and 18)				
Sales & Marketing	161,088	9	149,586	7
General & Administrative	127,121	7	159,843	8
Research & Development	120,872	7	113,881	5
Total Operating Expenses	409,081	23	423,310	20
Income from Operations	216,922	13	356,332	17
Non-operating Income				
Interest income (Note 17)	7,320	-	13,468	1
Gain on valuation of financial assets (Notes 2 and 5)	4,741	-	7,247	-
Gain on reversal of bad debts (Note 2)	1,885	-	1,720	-
Gain on disposal of fixed assets	133	-	-	-
Exchange gain (Note 2)	-	-	7,525	-
Gain on disposal of investments	-	-	3,848	-
Other Income (Note 18)	28,535	2	13,322	1
Total Non-operating Income	42,614	2	47,130	2
Non-operating Expenses				
Exchange losses (Note 2)	41,009	2	-	-
Loss on disposal of investments	9,102	1	-	-
Interest expenses (Note 17)	289	-	272	-
Other Losses	278	-	13,333	1
Total Non-operating Expenses	50,678	3	13,605	1
INCOME BEFORE INCOME TAX	208,858	12	389,857	18
INCOME TAX (Notes 2 and 13)	59,218	3	70,904	3
NET CONSOLIDATED INCOME	\$ 149,640	9	\$ 318,953	15
Income attributed to:				
Stockholders of parent company	\$ 149,640	9	\$ 318,953	15
Minority interest	-	-	-	-
EARNINGS PER SHARE (Note 15)	<u>Before tax</u>	<u>After tax</u>	<u>Before tax</u>	<u>After tax</u>
Basic	\$1.64	\$1.24	\$3.22	\$2.66
Diluted	\$1.63	\$1.24	\$3.20	\$2.64

The accompanying notes are an integral part of the consolidated financial statements.

(With Deloitte & Touche audit report dated March 1, 2011)



DFI, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

YEARS ENDED DECEMBER 31, 2010 AND 2009

(In Thousands of New Taiwan Dollars, Except Dividends per Share)

	<u>Capital Stock</u>		<u>Capital Surplus (Notes 2 and 11)</u>				<u>Retained Earnings (Notes 2,11 and 13)</u>				<u>Adjustments</u>			<u>Minority Interest</u>	<u>Total Shareholders' Equity</u>
	<u>Thousand Shares</u>	<u>Amount</u>	<u>Issue of Stock in Excess of Par Value</u>	<u>Treasury Stock</u>	<u>Gain on Disposal of Properties</u>	<u>From Long-term Stock Investments</u>	<u>Other</u>	<u>Legal Reserve</u>	<u>Special Reserve</u>	<u>Unappropriated Earnings</u>	<u>Cumulative Translation Adjustment (Note 2)</u>	<u>Unrealized Gain or Loss on Financial Instruments (Notes 2, 6 and 17)</u>	<u>Treasury Stock (Notes 2 and 12)</u>		
BALANCE, JANUARY 1, 2009	119,033	\$1,190,330	\$ 806,569	\$ 25,950	\$ 808	\$ 653	-	\$331,986	\$ 9,008	\$767,167	\$35,854	(\$ 46,036)	\$(62,071)	\$ 2	\$ 3,060,220
Appropriation of prior year's earnings (note 3)															
Legal reserve								54,040		(54,040)					-
Stock Dividend- \$0.1 per share	1,182	11,822								(11,822)					-
Cash Dividend - \$3.7 per share	-	-								(437,392)					(437,392)
Employee stock bonus	880	8,797					23,603			-					32,400
Net Income, 2009										318,953					318,953
Special Reserve									1,173	(1,173)					-
Cumulative Translation Adjustments											(11,202)				(11,202)
Unrealized gain or loss on financial instruments												30,559			30,559
BALANCE, DECEMBER 31, 2009	121,095	\$1,210,949	\$806,569	\$25,950	\$808	\$653	\$23,603	\$386,026	\$10,181	\$581,693	\$24,652	(\$15,477)	(\$62,071)	\$2	\$2,993,538
Appropriation of prior year's earnings															
Legal reserve								31,895		(31,895)					-
Cash Dividend - \$2.58 per share										(310,312)					(310,312)
Net Income, 2010										149,640					149,640
Reversal of Special Reserve									(10,181)	10,181					-
Cumulative Translation Adjustments											(23,831)				(23,831)
Unrealized gain or loss on financial instruments												9,838			9,838
Write-off of treasury stock	(819)	(8,190)	(5,455)	(25,950)						(22,476)			62,071		-
BALANCE, DECEMBER 31, 2010	120,276	1,202,759	801,114	-	808	653	23,603	417,921	-	376,831	821	(5,639)	-	2	2,818,873

The accompanying notes are an integral part of the consolidated financial statements.

(With Deloitte & Touche audit report dated March 1, 2011)



DFI, Inc.

**CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(In Thousands of New Taiwan Dollars)**

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Consolidated net income	\$ 149,640	\$ 318,953
Depreciation	18,297	21,158
Amortization	11,376	9,327
Gain on reversal of bad debts	(1,885)	(1,720)
Gain on disposal of investments	9,102	(3,848)
Gain on disposal of property, plant and equipment, net	(133)	11
Gain on valuation of financial assets	(3,874)	(6,814)
Translation loss on financial assets	6,508	986
Loss on inventory devaluation	(5,178)	(52,458)
Loss on inventory write off	7,258	11,875
Deferred income taxes	4,526	17,859
Accrued pension liability	631	2,320
Net changes in operating assets and liabilities:		
Financial assets at fair value through profit or loss	118,422	(81,441)
Notes receivable	54	(50)
Accounts receivable	142,058	124,836
Receivable from affiliates	2,187	22,688
Inventory	(27,879)	211,750
Other Receivables	(6,653)	(1,236)
Other Current Assets	(1,206)	8,087
Notes Payable	(11,851)	(15,985)
Accounts Payable	(31,142)	(36,918)
Payable to Affiliates	(155)	159
Income Tax Payable	8,768	(95,848)
Accrued Expenses	(3,330)	(7,628)
Other Current Liabilities	(1,202)	(5,275)
Other Liabilities	(498)	(2,634)
Net cash provided by operating activities	<u>383,841</u>	<u>438,154</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal of ready-for-sale financial assets	33,133	5,600
Refund from financial assets carried at cost	7,190	4,802
Purchase of property, plant and equipment	(58,953)	(7,205)
Proceeds from disposal of property, plant and equipment	133	-
Increase of time deposits pledged	(4,900)	-
Increase of confined assets	(2,965)	-
Purchase of intangible assets	-	(480)
Increase of deferred charges	(18,222)	(7,279)
Increase of other assets	1,548	(5)
Net cash provided by (used in) investing activities	<u>(43,036)</u>	<u>(4,567)</u>

(Continued)



DFI, Inc.

**CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(In Thousands of New Taiwan Dollars)**

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase of warranty deposits	-	(81)
Payment of cash dividends	(310,312)	(437,392)
Net cash used in financing activities	<u>(310,312)</u>	<u>(440,107)</u>
EFFECT OF EXCHANGE RATE CHANGES	(24,594)	(11,057)
Increase (Decrease) of Cash and Cash Equivalents	5,899	(14,943)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	897,361	912,304
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 903,260</u>	<u>\$ 897,361</u>
SUPPLEMENTAL INFORMATION		
Payment of Interest	<u>\$ 289</u>	<u>\$ 272</u>
Payment of Income Taxes	<u>\$43,060</u>	<u>\$ 138,743</u>
Purchase of fixed assets in cash		
Purchase of fixed assets	\$ 58,142	\$ 6,388
Net changes in payable for purchase of equipment	811	817
Payment in cash	<u>\$ 58,953</u>	<u>\$ 7,205</u>
Financing activities not affecting cash flow		
Employee stock dividend payable transferred to capital	\$ -	\$ 32,400

The accompanying notes are an integral part of the consolidated financial statements.
(With Deloitte & Touche audit report dated March 1, 2011) (Concluded)



DFI, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

NOTE 1: COMPANY PROFILE

DFI, Inc. (Parent company), a Republic of China (R.O.C.) corporation, was incorporated in July 1981. On January 15, 2000, its shares were listed on the Taiwan Stock Exchange (TSE). DFI engaged mainly in the design, manufacturing, and sale of computer motherboards, add-on cards and other PC components. Since 2002, the company transformed as an embedded PC maker.

DFI, Inc. owns 100% interest in Diamond Flower Service (NL) B.V. (DFI-BV). This company runs business of computer repair and maintenance. DFI-BV invests in Diamond Flower Information (NL) B.V. with 100% interest. This company runs business in computer sales.

DFI, Inc. owns 99.99% interest in Dual-Tech International Co. Ltd. This company runs business in subcontracting of PC motherboards and industry PC motherboards.

DFI, Inc. owns 100% interest in DFI Co., Ltd. This company runs business in computer sales.

DFI, Inc. owns 100% interest in ITOX, LLC. This company runs business in computer sales.

DFI, Inc. owns 100% interest in Yan Tong Technology Ltd. This company is a holding company.

The staffs employed by DFI and its subsidiaries numbering 464 and 459, respectively, as of December 31, 2010 and 2009.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements are presented in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, Business Accounting Law, Guideline Governing Business Accounting, and accounting principles generally accepted in the R.O.C.

The preparation of consolidated financial statements in conformity with the aforementioned guidelines, law and principles requires management to make reasonable assumptions and estimates of matters that are inherently uncertain, e.g. reserve for bad debt, allowance for inventory devaluation, depreciation of fixed assets, income taxes, pension and employee bonus...etc.. The actual results may differ from management's estimates.

For the convenience of readers, the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the R.O.C. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language consolidated financial statements shall prevail.

Significant accounting policies are summarized as follows:

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of all directly and indirectly majority owned subsidiaries of DFI, and the accounts of investees in which DFI's ownership percentage is less than 50% but over which DFI has a controlling interest.



All significant inter-company balances and transactions are eliminated upon consolidation.

The consolidated entities in 2010 and 2009 include DFI, Inc., Diamond Flower Service (NL) B.V., Dual-Tech International Co., Ltd., ITOX, LLC., DFI, Co., Ltd. and Yan Tong Technology Ltd.

The financial statements of the above-mentioned subsidiaries as of December 31, 2010 and 2009 are audited by certified public accountants.

If the functional currencies of the consolidated entities are not NT dollar, the translation of the currencies into NT dollar is based on year-end exchange rates for assets and liabilities, historical rates for capital stocks, and yearly average rates for income statement accounts.

Classification of Current and Non-current Assets and Liabilities

Current assets are assets held for trading purposes and assets expected to be converted to cash, sold or consumed within one year from the balance sheet date. Current liabilities are obligations incurred for trading purposes and obligations expected to be settled within one year from the balance sheet date. Assets and liabilities that are not classified as current are non-current assets and liabilities, respectively.

Financial Assets/Liabilities at Fair Value through Profit or Loss

Derivatives that do not meet the criteria for hedge accounting and financial assets acquired principally for the purpose of selling them in the near term are initially recognized at fair value, with transaction costs expensed as incurred. The derivatives and financial assets are re-measured at fair value subsequently with changes in fair value recognized in earnings. A regular way purchase or sale of financial assets is accounted for using settlement date accounting.

Fair value is determined as follows: publicly traded stocks - closing price at the end of the year; open-end beneficiary certificates and credit-linked derivatives – net assets value at end of year; future foreign exchange – fair value evaluated by valuation techniques incorporating estimates and assumptions that are consistent with prevailing market conditions; close-end beneficiary certificates – closing prices as of balance sheet dates. When the fair value is positive, the derivative is recognized as a financial asset; when the fair value is negative, the derivative is recognized as a financial liability.

Available-for-Sale Financial Assets

Investments designated as available-for-sale financial assets include debt securities and equity securities. Available-for-sale financial assets are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition. Changes in fair value from subsequent re-measurement are reported as a separate component of shareholders' equity. The corresponding accumulated gains or losses are recognized in earnings when the financial asset is derecognized from the balance sheet. A regular way purchase or sale of financial assets is accounted for using settlement date accounting.

Fair value is determined as follows: Structured time deposits - using valuation techniques; open-end mutual funds and money market funds - net asset value at the end of the year; publicly-traded stocks - closing prices at the end of the year; and other debt securities - average of bid and asked prices at the end of the year.

Cash dividends are recognized as investment income upon resolution of shareholders of an investee but are accounted for as reductions to the original cost of investments if such dividends are declared on the earnings of the investees attributable to periods prior to the purchase of the investments. Stock dividends are recorded as an increase in the number of shares held and do not affect investment income. The cost per share is recalculated based on the new total number of shares. Any difference between the initial carrying amount of a debt security and the amount due at maturity is amortized using the effective interest method, with the amortization recognized in earnings.



If there is objective evidence which indicates that a financial asset is impaired, a loss is recognized. If, in a subsequent period, the amount of the impairment loss decreases, the previously recognized impairment loss is reversed to the extent of the decrease and recorded as an adjustment to shareholders' equity for equity securities. For debt securities, the amount of the decrease is recognized in earnings, provided that the decrease is clearly attributable to an event which occurred after the impairment loss was recognized.

Revenue Recognition, Accounts Receivable and Allowance for Doubtful Receivables

The Company recognizes revenue when ownership and major risks are transferred to customers. At which time the most of revenue-generating processes have been completed and have been realized or can be realized. Consigned materials are not recognized as revenue as ownership and major risks are not transferred.

Allowance for doubtful receivables is provided based on a review of the collection possibility of accounts receivable. The Company evaluates such possibility by periodically examining the aging analysis of outstanding accounts receivable, credit rating and economic environment.

Inventories

Inventories including material, finished goods, work in progress and subcontracted goods. Implementation of LCM includes comparison of individual costs and individual net realizable values. Net realizable values mean estimated selling prices minus further input costs till completion and selling expenses. Except ITOX, LLC., whose inventory costs are calculated over first-in-first-out method, the other consolidated entities' inventory are carried over weighted-averaged method.

The inventories are stated at standard costs and adjusted to costs close to weighted-average costs at closing dates.

Held-to-Maturity Financial Assets

Debt securities for which the Company has a positive intention and ability to hold to maturity are categorized as held-to-maturity financial assets and are carried at amortized cost under the effective interest method. Those financial assets are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition. Gains or losses are recognized at the time of derecognition, impairment or amortization. A regular way purchase or sale of financial assets is accounted for using settlement date accounting.

If there is objective evidence which indicates that a financial asset is impaired, the loss is recognized then. If, in a subsequent period, the amount of the impairment loss decreases and the decrease is clearly attributable to an event which occurred after the impairment loss was recognized, the previously recognized impairment loss is reversed to the extent of the decrease. The reversal may not result in a carrying amount that exceeds the amortized cost that would have been determined as if no impairment loss had been recognized.

Financial Assets Carried at Cost

Mutual fund investments whose fair value cannot be reliably measured are carried at their original cost. If there is objective evidence which indicates that the value of a financial asset is impaired, a loss is recognized. A subsequent reversal of such impairment loss is not allowed.

Property, Plant and Equipment

Property, Plant and Equipment are stated at cost less accumulated depreciation. Major renovation or improvements are capitalized; maintenance is booked as expenses.



When an indication of impairment is identified, any excess of the carrying amount of an asset over its recoverable amount is recognized as a loss. If the recoverable amount increases in a subsequent period, the amount previously recognized as impairment would be reversed and recognized as a gain. However, the adjusted amount may not exceed the carrying amount that would have been determined, net of depreciation, as if no impairment loss had been recognized.

The depreciation is calculated at straight-line method over following years:

- Buildings- 3 to 60 years;
- Machinery- 2 to 15 years;
- Office Equipment- 2 to 8 years;
- Other Equipment- 2 to 8 years.

For assets have expired but are still under use, original depreciation method applied and a new useful life is estimated.

When Property, Plant and Equipment are obsolete or sold, costs and related accumulated depreciation are removed, gain or loss for the disposal are treated as current period non-operating income or loss or extra-ordinary items. Disposal gain, net of income tax, is transferred to capital reserve at end of year.

Intangible Assets

Intangible assets are recorded at acquiring costs, amortized at straight-line method over the estimated life. Computer software is amortized at straight-line method over 3 to 5 years.

Goodwill

Goodwill represents the excess of the consideration paid for acquisition over the fair value of identifiable net assets acquired. Effective January 1, 2006, pursuant to the newly revised Statement of Financial Accounting Standards No. 25, "Business Combinations - Accounting Treatment under Purchase Method", goodwill is no longer amortized and instead is tested for impairment annually. If an event occurs or circumstances change which indicated that the fair value of goodwill is more likely than not below its carrying amount, an impairment loss is recognized. A subsequent reversal of such impairment loss is not allowed.

Deferred Charges

Deferred charges mainly are engineering and tooling costs, amortized over 3 to 5 years evenly.

Pension

Pension costs are accrued in parent company based on actuarial results for defined contribution pension plan. Pension costs are booked at accrued pension contribution for defined contribution pension plan over periods the employees concerned providing services. All subsidiaries do not establish pension plans.

Treasury Stock

The purchase costs of treasury stock are booked as deduction of shareholders' equity.

When treasury stocks are written off, the purchase costs of treasury stocks are offset against "additional paid-in capital" and "capital stocks" according to the share number percentage that are written-off.

If book value of treasury stocks is lower than the sum of face value of capital stock and additional paid-in capital, the difference is credited against "capital surplus" arose from similar treasury stock transactions.

If book value of treasury stocks is higher than the sum of face value of capital stock and additional



paid-in capital, the difference is offset against “capital surplus” arose from similar treasury stock transactions. If there is deficit after the offset, the remaining is debited to retained earnings.

Income Taxes

Income taxes shall be allocated crossing periods. All tax effects on deductible temporary differences, unused prior-period losses carry-forward and unused investment tax credits are deferred as income tax assets, possibility to realization is assessed and allowance for depreciation accrued. Tax effects on taxable timing differences are accrued as deferred income tax liabilities. Deferred income tax assets and liabilities are classified as current or non-current items according to their related assets or liabilities derived from.

The tax credits arising from purchase of equipment, research and development expenditure, training expenditure and stock investment are recognized in current period.

Prior period adjustments on income taxes are included in current period income tax expenses.

Unappropriated retained earnings shall be levied at 10%, income tax expenses accordingly are recorded after decision of annual shareholders’ meeting.

Foreign Currency Transactions

Non-derivative financial commodity is recorded at the spot rates of transaction dates. Gain or loss from foreign currency assets and liabilities paid or received in NT dollars is recorded as exchange gain or loss in the paid or received periods. Year-end balances of foreign currency assets or liabilities are re-valuated at year-end spot rates. Gains or losses are treated as follow:

If foreign currency long-term equity investments are valued at equity method, the exchange differences are recorded as “cumulative exchange adjustments” as one item of shareholders’ equity. Other exchange differences are recorded as current year gains or losses.

On the balance sheet dates, exchange forward contracts to hedge exchange risks are evaluated at spot rates of that dates. Exchange differences accordingly are recorded as current period gains or losses. Discount or premium of the forward contracts is amortized over the duration of those contracts.

Reclassification

Certain accounts in the consolidated financial statements as of and for the year ended December 31, 2009 have been reclassified to be consistent with the consolidated financial statements as of and for the year ended December 31, 2010.

NOTE 3: ACCOUNTING CHANGES

Effective January 1, 2009, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 10, “Accounting for inventories”. The major amendments to SFAS no. 10 include: 1. Inventories are stated at lower of costs and net realizable values, and the comparison is made by individual item except that in same group; 2. Unallocated fixed manufacturing overhead is recognized as current cost of goods sold; 3. Abnormal manufacturing costs and inventory devaluation losses (or gain from reversal) are classified as cost of goods sold.

Such changes in accounting principle decreased 2009 consolidated net income by NT\$14,647 thousands and decreased 2009 EPS by NT\$0.12.

NOTE 4: CASH AND CASH EQUIVALENTS

	2010	2009
Petty Cash and Cash on Hand	\$ 427	\$ 466

NT\$000



Checking and Demand Deposit Accounts	500,596	442,461
Time Deposits, interest rates 0.2~1.15% in 2010, and 0.14~1.13% in 2009.	402,237	454,434
	<u>\$ 903,260</u>	<u>\$ 897,361</u>

As of December 31, 2010 and 2009, the time deposits with maturity longer than one year amount to NT\$0 thousand and \$701, respectively.

NOTE 5: FINANCIAL ASSETS/LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	NT\$000	
	2010	2009
Trading financial assets		
Money market & open-end mutual funds	\$ 971,801	\$ 1,089,360
Forward exchange contracts	99	239
	<u>971,900</u>	<u>1,089,599</u>
Less: Valuation adjustments	7,463	3,449
Total	<u>\$ 979,363</u>	<u>\$ 1,093,048</u>

The Company entered into forward contracts during the years ended December 31, 2010 and 2009 to manage exposures to the fluctuations of foreign exchange rates. The Company's strategy for financial hedging is to avoid risks of market price or cash flow.

Outstanding forward contracts as of December 31, 2010 and 2009 consist of the following:

	Currency	Maturity Date	Contract Amount (in Thousands)
December 31, 2010			
Sell	US\$/NT\$	2011.01.18~2011.01.27	USD1,000/NTD30,456
December 31, 2009			
Sell	US\$/NT\$	2010.01.11~2010.01.27	USD1,000/NTD32,101

Net gains or losses arising from derivative financial instrument assets for the year ended December 31, 2010 and 2009 were NT\$5,604 thousands and NT\$11,157 thousands, respectively.

NOTE 6: AVAILABLE-FOR-SALE FINANCIAL ASSETS

	NT\$000			
	2010		2009	
	Current	Non-current	Current	Non-current
Corporate Bonds	\$ 50,822	\$ 13,801	\$ 86,500	\$ 27,728
Preferred stocks	60,000	-	60,000	-
Public-traded stocks	-	-	1	-
	<u>110,822</u>	<u>13,801</u>	<u>146,501</u>	<u>27,728</u>
Less: unrealized loss	(5,882)	243	(14,509)	(968)
Less: accumulated impairment loss	(34,144)	-	(34,144)	-
	<u>\$ 70,796</u>	<u>\$ 14,044</u>	<u>\$ 97,848</u>	<u>\$ 26,760</u>

1. The parent company acquired overseas corporate bonds with coupon rates 0.5043~7.625% for 2010 and 0.4925~8.25% for 2009. Impairment losses of NT\$34,144 thousand were recognized for some perpetual bonds in 2008.
2. The parent company purchased preferred stocks 2 million shares issued by TaiSin financial holding company with par \$10 at \$30 per share, totaling NT\$60 millions. The terms of the issue: interest rate 3.5% p.a., paid once each year, accumulating but not participating. The stocks were listed for public



trading on October 13, 2005.

3. The parent company holds 100 shares of United Commercial Bank at the end of 2009.

NOTE 7: INVENTORIES, NET

	NT\$000	
	2010	2009
Materials	\$ 125,055	\$ 99,150
Finished Goods	133,511	126,938
Subcontracted goods	58,616	49,021
Work in Progress	-	19,116
Inventory in transit	33,043	29,530
	<u>\$ 350,225</u>	<u>\$ 323,755</u>

The allowance for devaluation of inventories amounts to NT\$ thousands \$49,085 and NT\$54,934 thousands, respectively, as of December 31, 2010 and 2009.

Cost of goods sold related to inventories amount to NT\$1,109,649 thousands and NT\$1,365,070 thousands for 2010 and 2009. Cost of goods sold of 2010 includes inventory obsolesce loss of NT\$7,258 thousands, Reversal of inventory devaluation loss of NT\$5,178 thousands and inventory count loss of NT\$540 thousands. Cost of goods sold of 2009 includes inventory obsolesce loss of NT\$11,875 thousands, Reversal of inventory devaluation loss of NT\$52,458 thousands and inventory count gain of NT\$3 thousands.

NOTE 8: HELD-TO-MATURITY FINANCIAL ASSETS- Non-current

	NT\$000	
	2010	2009
Preferred stocks	\$ 200,000	\$ 200,000

The parent company purchased preferred stock of China trust financial holding company on December 28, 2005 by 5 million shares at \$40 per share with par \$10, totaling NT\$200 millions. The terms of issue: interest rate 3.5% p.a. based on issuance price; paid once a year; accumulating but not participating. The preferred stocks are not allowed to resell in 3 years, and will be compulsory recalled after 7 years since issuance.

NOTE 9: FINANCIAL ASSETS CARRIED AT COST- Non-current

	NT\$000	
	2010	2009
Asia Tech Taiwan Venture Fund	\$ 13,454	\$ 20,644

The fund held by parent company is carried at cost due to no quoted prices at active market and hence the fair value cannot be measured reliably. Partial investment of NT\$ 3,670 thousands, NT\$3,520 thousands and NT\$4,802 thousand were refunded in February and November 2010 and February 2009, respectively.

NOTE 10: PROPERTY, PLANT AND EQUIPMENT- Accumulated Depreciation

Accumulated depreciation consisted of the following:

	NT\$000	
	2010	2009
Building	\$ 65,153	\$ 62,873
Machinery	375,346	408,106
Office Equipment	15,969	16,847
Other Equipment	30,771	32,722
	<u>\$ 487,239</u>	<u>\$ 520,548</u>

The depreciation expenses amount to NT\$18,297 thousands and NT\$21,158 thousands, respectively, in



2010 and 2009.

NOTE 11: SHAREHOLDERS' EQUITY

According to ROC laws, capital surplus cannot be used except to offset accumulated losses. But additional paid-in capital arising from excess injection over par or from treasury stock transactions are allowed to transfer to capital stocks, limited to certain percentage of capital stock each year. Capital surplus arising from equity-method valuation of long-term equity investments is not allowed for any use.

The Article of Incorporation states the rules of earnings appropriation as follows:

First, 10% of net income is set aside for legal reserve. And a special reserve in accordance with Clause 41-1 of Security Exchange Law may be set aside from net income, too;

The remaining earnings, together with unappropriated earnings accumulated from last period, are to be distributed in all or part, following Board of Directors' resolution, in order as below-

- (1) Directors' remuneration: no more than 3%
- (2) Employee bonus: 5% to 15%
- (3) Dividend to shareholders for the remaining.

The employee bonus and directors' remuneration accrued in 2010 amount to NT\$14,963 thousands and NT\$1,077 thousands, respectively. They were calculated as 11.51% and 0.83%, respectively, of net income, deducting legal reserve and special reserve. In 2009, employee bonus and directors' remuneration accrued amount to NT\$31,892 thousands and NT\$2,296 thousands, respectively, and calculated as 11.11% and 0.8%, respectively, of net income, deducting legal reserve and special reserve.

If later BOD proposes major different amounts from that accrued, the differences will be booked as current expenses. If the actual amounts subsequently resolved by the shareholders differ from the proposed by BOD, the differences are booked in the year of shareholders' resolution as what changes of accounting estimate should do. If stock bonuses are resolved to be distributed to employees, the number of shares is determined by dividing the amount of bonuses by the closing price (after considering the effect of cash and stock dividends) of the shares one day before the shareholders' meeting.

According to the Company Law, legal reserve shall be accumulated until it reaches the amount of paid-in capital. Legal reserve can be used to offset a deficit. When it reaches 50% of paid-in capital, at most half of the balance can be transferred to capital stocks.

A special reserve equivalent to the net debit balance of the other components of shareholders' equity (for example, cumulative translation adjustments and unrealized loss on financial instruments, but excluding treasury stock) shall be made from unappropriated earnings pursuant to existing regulations promulgated by the Securities and Futures Bureau (SFB). Any special reserve appropriated may be reversed to the extent of net debit balance.

If the earnings appropriated come from years 1997 and before, shareholders are not entitled to imputation credit. If appropriated earnings belong to years after 1997, except non-residents, other shareholders are entitled to imputation credit at the rate calculated on dividend paid-out date.

The appropriations of earnings for 2009 and 2008 had been approved in the shareholders' meetings held on June 10, 2009 and June 11, 2008, respectively, as follows:

Proposal	Amount		Dividend per share	
	2009	2008	2009	2008
Legal reserve	\$ 31,895	\$ 54,040		
Cash dividend	310,312	437,392	\$2.58	\$3.7
Stock dividend	-	11,822	-	\$0.1



Proposal	2009		2008	
	Employee Bonus	Directors' Remuneration	Employee Bonus	Directors' Remuneration
Shareholders' meeting	\$ 31,892	\$ 2,296	\$ 64,831	\$ 4,864
Financial Statement	31,892	2,296	64,831	4,864
Difference	-	-	-	-

The above information about the appropriations of bonus to employees, directors and supervisors is available at the Market Observation Post System website.

NOTE 12: TREASURY STOCK

Purpose to buy back	Shares, beginning of the year	Increase	Decrease	Thousand shares
				Shares, End of the year
2010- Transfer to employees	819	-	819	-
2009- Transfer to employees	819	-	-	819

According to Security Exchange law, the company may purchase treasury stock up to 10% of outstanding shares. Total purchase cost of treasury stock shall not exceed sum of retained earnings, additional paid-in capital and realized capital surplus. The treasury stocks cannot be pledged, and are not entitled to shareholders' rights before re-issued.

The parent company wrote off 819 thousands shares of treasury stock following the BOD resolution on November 12, 2010. The capital reduction date was set on November 16, 2010. The registration date for capital reduction was November 29, 2010.

The highest treasury shares held by Parent company are 819 thousands and highest costs of NT\$62,071 thousands both in 2010 and 2009, which conform to the regulations.

NOTE 13: INCOME TAXES

1) Income tax expense consisted of:

	2010	NT\$ 000 2009
Income tax payable	\$ 29,663	\$ 58,107
Deferred income tax	485	9,036
Overseas income tax	18,617	(2,275)
Prior period adjustments	6,412	(6,438)
10% tax on unappropriated earnings	-	3,597
Isolate taxation	-	54
The impact due to tax law changes	4,041	8,823
	<u>\$ 59,218</u>	<u>\$ 70,904</u>

The corporate income rate has been reduced to 20% from 25% starting 2010 pursuant to amendment of clause no. 5 of income tax law in May 2009.

The corporate income tax rate has been further reduced to 17% from 20% starting 2010 pursuant to amendment of clause no. 5 of income tax law in May 2010.

The deferred income taxes have been re-calculated and the differences were booked as current income tax expenses.



2) Deferred income taxes consisted of the following:

	2010	2009
Deferred tax assets - current		
Allowance for losses on inventories	\$ 7,623	\$ 9,815
Impairment loss on financial assets		6,829
Unrealized gross profit	4,120	3,803
Bad debt reserve over limit	1,711	2,071
Unrealized exchange loss	2,520	414
Others	1,737	1,716
	<u>23,516</u>	<u>24,648</u>
Deferred liabilities		
Others	(256)	(293)
	<u>(256)</u>	<u>(293)</u>
Net deferred income tax assets	<u>\$ 23,260</u>	<u>\$ 24,355</u>
Deferred tax assets-Non-current:		
Pension differences between financial accounting and tax accounting	\$ 8,715	10,142
Investment loss under equity method	1,000	1,308
	<u>9,715</u>	<u>11,450</u>
Deferred tax liabilities-Non-current:		
Investment income under equity method	(9,717)	(7,840)
Depreciation differences between financial accounting and tax accounting	(822)	(1,003)
	<u>(10,539)</u>	<u>(8,843)</u>
Net deferred income tax assets	<u>(\$ 824)</u>	<u>\$ 2,607</u>

3) The related information under the Integrated Income Tax System is as follows:

	2010	2009
Year-end balances of imputation credit account (ICA)	\$ 35,853	\$ 68,518

The imputation creditable ratio for distribution for 2010 and 2009 are 22.28% (estimated) and 17.78% (actual), respectively.

The imputation credit allocated to shareholders is based on its balance as of the date of dividend distribution. The estimated creditable ratio may change when the actual distribution of imputation credit is made.

The unappropriated retained earnings as of December 31, 2010 and 2009 consist of earnings arising from years 1997 and before which amount to NT\$194,005 thousands and NT\$216,481 thousands, respectively.

The ROC tax authorities have examined income tax returns of the parent company through 2008.

NOTE 14: PERSONNEL EXPENSES, DEPRECIATION AND AMORTIZATION

NT\$ 000

	2009		
	Costs of Sales	Operating Expenses	Total
Personnel-Payroll	\$ 85,781	\$ 215,831	\$ 301,612
Insurance	7,081	20,224	27,305



Pension	4,344	6,852	11,196
Others	3,315	4,716	8,031
Subtotal	<u>\$ 100,521</u>	<u>\$ 247,623</u>	<u>\$ 348,144</u>
Depreciation	<u>\$ 12,266</u>	<u>\$ 6,031</u>	<u>\$ 18,297</u>
Amortization	<u>\$ 1,006</u>	<u>\$ 10,370</u>	<u>\$ 11,376</u>

	2009		
	Costs of Sales	Operating Expenses	Total
Personnel-			
Payroll	\$ 82,576	\$ 232,896	\$ 315,472
Insurance	6,654	18,666	25,320
Pension	4,314	7,071	11,385
Others	2,791	5,429	8,220
Subtotal	<u>\$ 96,335</u>	<u>\$ 264,062</u>	<u>\$ 360,397</u>
Depreciation	<u>\$ 12,891</u>	<u>\$ 8,267</u>	<u>\$ 21,158</u>
Amortization	<u>\$ 2,436</u>	<u>\$ 6,891</u>	<u>\$ 9,327</u>

NOTE 15: EARNINGS PER SHARE

The numerator and denominator to calculate EPS are summarized as below:

	Earnings (Numerator)		Thousand Shares (Denominator)	EPS (NT\$)	
	Before Tax	After Tax		Before Tax	After Tax
2010 Basic EPS					
Net Income belong to Parent company shareholders	\$196,880	\$149,640	120,276	\$1.64	\$1.24
Effect of dilutive potential common shares- Employee Bonus	-	-	532		
Diluted EPS					
Earnings attributable to shareholders of the parent (including effect of dilutive potential common shares)	<u>\$196,880</u>	<u>\$149,640</u>	<u>120,276</u>	<u>\$1.63</u>	<u>\$1.24</u>
2009 Basic EPS					
Net Income belong to Parent company shareholders	\$ 386,399	\$ 318,953	119,909	\$ 3.22	\$ 2.66
Effect of dilutive potential common shares- Employee Bonus	-	-	740		
Diluted EPS					
Earnings attributable to shareholders of the parent (including effect of dilutive potential common shares)	<u>\$ 386,399</u>	<u>\$ 318,953</u>	<u>120,649</u>	<u>\$ 3.20</u>	<u>\$ 2.64</u>

As discussed in Note 3, effective January 1, 2008, the Company adopted Interpretation 2007-052 that requires companies to record bonuses paid to employees as an expense rather than as an appropriation of earnings. If the Company may settle the obligation by cash, by issuing share, or in combination of both cash and shares, potential shares from bonus to employees which will be settled in shares should be included in the weighted average number of shares outstanding in calculation of diluted EPS, if the shares have a dilutive effect. The number of shares is estimated by dividing the amount of bonus to



employees by the closing price (after consideration of the dilutive effect of dividends) of the common shares on the balance sheet date. Such potential shares have to be included in the calculation of diluted EPS until the shares of employee bonus are resolved by the shareholders' meeting in the following year.

NOTE 16: PENSION PLAN

The pension mechanism under the Labor Pension Act is deemed a defined contribution plan. Pursuant to the Act, the parent company has made monthly contributions equal to 6% of each employee's monthly salary to employees' pension accounts since April 1, 2005. Pursuant to the aforementioned Act and local regulations, the parent company recognized pension costs of NT\$7,817 thousands and NT\$7,692 thousands for the years ended December 31, 2010 and 2009, respectively.

The pension mechanism under the Labor Standards Law is deemed as a defined benefit plan. The pension payment is calculated over service years and average monthly salary six months before employee's retirement. The parent company contributes 5% of employee salaries to their respective pension funds, which are administered by the Labor Pension Fund Supervisory Committee and deposited in the Bank of Taiwan.

Certain information concerning pension plan under Labor Pension Act is disclosed as follows:

1) Pension costs consist of:

	NT\$ 000	
	2010	2009
Service cost	\$ 2,306	\$ 2,443
Interest cost	1,842	2,372
Expected return on pension assets	(808)	(1,161)
Amortization	39	39
Net pension cost	<u>\$ 3,379</u>	<u>\$ 3,693</u>

2) Funded pension and pension payable:

Benefit obligation:

Vested benefit obligation	\$ 19,733	\$ 11,466
Non-vested benefit obligation	56,513	65,909
Accumulated benefit obligation	<u>76,246</u>	<u>77,375</u>
Additional benefits based on future salaries discrepancy	18,033	16,746
Projected benefit obligation	<u>94,279</u>	<u>94,121</u>
Fair value of plan assets	(37,818)	(41,777)
Funded status	56,461	52,344
Unrecognized net Obligation at transition	(46)	(85)
Un-amortized balance	<u>(805)</u>	<u>2,720</u>
Accrued pension liability	<u>\$ 55,610</u>	<u>\$ 54,979</u>

3) Vested benefits	<u>\$ 25,455</u>	<u>\$ 14,702</u>
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4) Actuarial assumptions

Discount rate used to calculate present value	2.00%	2.00%
Future salary increase rate	2.00%	1.75%
Expected rate of return on fund assets	2.00%	2.00%

5) Changes in pension funds

Contributions	\$ 2,748	\$ 1,373
Payments	<u>\$ 7,373</u>	<u>\$ 5,581</u>

NOTE 17: DISCLOSURES FOR FINANCIAL INSTRUMENTS

- 1) Methods and assumptions used in the determination of fair values of financial instruments
 - a. Short-term financial assets are valued at their book values since their maturities are very close to balance sheet dates. This applied to cash and cash equivalents, notes and accounts receivable, receivables from affiliates, notes and accounts payables, payables to affiliates and accrued expenses. The carrying amounts of these financial instruments approximate their fair values.
 - b. Fair values of financial assets at fair value through profit or loss, available-for-sale and held-to-maturity financial assets other than derivatives and structured time deposits were based on their quoted market prices. If no referable market prices, a valuation method is applied.

Fair values of derivatives were based on their quoted market prices. If no referable market prices, a valuation method is applied. The valuation techniques incorporates estimates and assumptions that were consistent with prevailing market conditions.

Fair values of forward contracts were valued at the swap exchange rates, calculated at the forward rates as of the expiry dates provided by banks for each single contract.

- c) Financial asset carried at cost is a private venture fund with no active market price. The fair value may need cost exceed reasonable expectation, so the fair value was not acquired.
 - d) Future collectible value of pledged time deposits is close to book value, we used carrying amount as the fair value then.
 - e) Warranty deposits were estimated to have future cash flows close to carrying amounts, so the book values are determined to be fair values.
- 2) Gains or losses recognized due to the changes in fair value of derivatives estimated using valuation techniques were NT\$140 thousands and NT\$482 thousands for the years 2010 and 2009, respectively.
 - 3) As of December 31, 2010 and 2009, the parent company's financial assets exposed to fair value risk arising from interest rate changes were NT\$24,612 thousands and NT\$66,407 thousands, respectively.
 - 4) In 2010 and 2009, the parent company and its subsidiaries' financial instruments not valued by fair market values and gains/losses not recognized through market value changes generate interest incomes amounting to NT\$7,320 thousand and NT\$13,468 thousands, and bear interest expenses of NT\$289 thousands and NT\$272 thousands, respectively. The parent company and its subsidiaries recognized unrealized losses for available-for-sale financial assets amounting to NT\$9,838 thousands and NT\$30,559 thousands, respectively, for 2010 and 2009, under shareholder's equity. The amounts removed from shareholders' equity to loss accounts are NT\$9,965 thousands and NT\$966 thousands, respectively, for 2010 and 2009.

5) Information about financial risk

- a. Market risk. The public-traded stocks categorized as financial assets at fair value through profit or loss are exposed to market risk. The derivative financial instruments categorized as financial assets/liabilities at fair value through profit or loss are mainly used to hedge the exchange rate fluctuations of foreign-currency-denominated assets and liabilities. Therefore, the market risk of derivatives will be offset by the foreign exchange risk of these assets and liabilities.



Available-for-sale financial assets held by the Company are mainly fixed-interest-rate debt securities. Therefore, the fluctuations in market interest rates would result in changes in fair values of these debt securities.

- b. Credit risk. Credit risk represents the potential loss that would be incurred by the Company if the counter parties or third parties breached contracts. Financial instruments with positive fair values at the balance sheet date are evaluated for credit risk. The counter parties or third parties to the foregoing financial instruments are reputable financial institutions, business organizations, and government agencies. Management believes that the Company's exposure to default by those parties is low.
- c. Liquidity risk. The Company has sufficient operating capital to meet cash needs upon settlement of derivative financial instruments. The financial assets held by the parent company and its subsidiaries, except for those whose impairment losses being accrued, have slim risks not able to sell in the markets, therefore the liquidity risk is low.

The forward contracts engaged by the parent company and its subsidiaries are expected to incur cash outflow of USD1 million and cash inflow of NT\$30,456 thousands during January 18 to January 27, 2011. Since the contract strike rates were fixed, there expected to be no major cash flow risks.

NOTE 18: RELATED PARTY TRANSACTIONS

1. Names and Relationship between Related Parties

Related Parties	Relationship with DFI
DFI Technologies, LLC. (DFI-TECH)	The general manager is brother of DFI's chairman.

2. Major Transactions with related parties

	2010		2009		NT\$000
	Amount	%	Amount	%	
<u>Net Sales</u>					
DFI-TECH	\$ 66,973	4	\$ 163,383	7	
Purchase					
DFI-TECH	\$ 245	-	\$ 346	-	
Manufacturing Expenses					
DFI-TECH	\$ -	-	\$ 20	-	
Operating Expenses					
DFI-TECH	\$ 72	-	\$ 719	-	
Non-operating Income					
DFI-TECH	\$ 339	1	\$ 773	6	
Non-operating Expenses					
Trade Debtor					
DFI-TECH	\$ 8,733	100	\$ 10,749	98	
Other Receivable					
DFI-TECH	-	-	171	2	
	<u>\$ 8,733</u>	<u>100</u>	<u>\$ 10,920</u>	<u>100</u>	
Payable to Affiliates					
Trade Creditor					
DFI-TECH	\$ 19	100	\$ 174	100	



The prices of related party sales are not significantly different from sales to third parties except custom-design motherboards, which need to conform to customers' specifications. Parent company's terms of sales to affiliates are open account 60-90 days, compared to that of non-affiliates which are 30-60 days. Subsidiaries' terms of sales to affiliates are 30 days after receipt of goods, compared to that of third parties, which are 45 days after invoice dates. Purchase payment terms from affiliates are 60 days after receipt of goods while 45 days after invoice dates for third parties.

3. Remuneration of Directors, Supervisors and Executives

	<u>2010</u>	<u>2009</u>
Salary	\$ 10,401	\$ 11,862
Year-end bonus	2,018	2,105
Employee bonus	901	8,130
	<u>\$ 13,320</u>	<u>\$ 22,097</u>

The employee bonus is accrued pursuant to Article of Incorporation and the percentage therein. The actual distribution may be different from the accrual.

NOTE 19: MORTGAGED or PLEDGED ASSETS

The following assets have been mortgaged or pledged to banks as guarantee deposits for employment of foreign labors, lawsuit and financing facilities:

	<u>2010</u>	<u>2009</u>
Pledged time deposits	\$ 14,900	\$ 10,000
Confined assets	2,965	-
	<u>\$ 17,865</u>	<u>\$ 10,000</u>

NOTE 20: MORTGAGED or PLEDGED ASSETS

The parent company' BOD resolved on August 30, 2010 to transfer the ownership of factory in Donguan Houjie, China, to its subsidiary "Yan Tong Technology Ltd.". The creditors of the factory before transfer will be responsibility of the parent company. The creditors after the transfer will be responsibilities of Yan Tong Technology Ltd.

NOTE 21: OTHERS

Financial assets or liabilities in foreign currencies:

Foreign currency: Dollar; NT dollar: Thousand

	December 31, 2010			December 31, 2009		
	Foreign Currency	Exchange Rate	NT\$	Foreign Currency	Exchange Rate	NT\$
<u>Monetary items</u>						
USD	\$ 23,786	29.13	\$ 692,881	\$ 24,828	32.135	\$ 797,854
EURO	690	38.603	26,619	3,037	45.987	139,683
JP Yen	448,846	0.3559	159,744	436,704	0.3459	151,056
HK\$	355	3.718	1,318	1,824	4.119	7,513
<u>Non-Monetary Item</u>						
USD	\$ 389	29.13	\$ 11,327	\$ 597	32.135	\$ 19,173
Financial Liabilities						



<u>Monetary items</u>						
USD	\$ 2,335	29.13	\$ 68,014	\$ 2,691	32.135	\$ 86,479
EURO	102	38.603	3,955	86	45.987	3,960
JP Yen	42,534	0.3559	15,138	48,329	0.3459	16,717
HK\$	6,491	3.718	24,134	4,387	4.119	18,071

NOTE 22: ADDITIONAL DISCLOSURES

1. Major transactions and investments:
 - a. Loan to others: none
 - b. Guarantee for others: none
 - c. Negotiable securities at end of year: see appendix 1
 - d. Buying or selling same negotiable security accumulated to NT\$100m or 20% of capital: see appendix 2
 - e. Acquiring fixed assets amounted to NT\$100m or 20% of capital: none
 - f. Disposing fixed assets amounted to NT\$100m or 20% of capital: none
 - g. Purchases from or sales to related-parties amounted to NT\$100m or 20% of capital: see appendix 3
 - h. Receivables from related-parties amounted to NT\$100m or 20% of capital: none
 - i. Information of investment: Name of companies, location...etc.: see appendix 4
 - j. Derivatives transaction: see footnotes 5 and 17.
2. Information concerning investment in China: none
3. Parent-subsidiaries business relationship and major transactions: see appendix 5

NOTE 23: DEPARTMENTAL INFORMATION

- 1) Industry: The consolidated entities engage in manufacturing, assembly and sale of PC, components and peripheral, falling in one single industry.
- 2) Geography: The geographic financial information of the consolidated entities in 2010 and 2009: see appendix 6.
- 3) Export Sales:

<u>Region</u>	<u>2010</u>	<u>2009</u>
Asia, Australia and Africa	\$ 994,247	\$ 1,063,154
Europe	317,547	489,541
America	380,750	486,188

- 4) Major Customers:

Customer	<u>2010</u>		<u>2009</u>	
	Sales	%	Sales	%
A company	\$ 157,458	9	\$ 281,948	13
B company	41,615	2	218,181	10