

CHICONY ELECTRONICS CO., LTD.

**CONSOLIDATED FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT ACCOUNTANTS**

DECEMBER 31, 2010 AND 2009

For the convenience of readers and for information purpose only, 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. In the event of any discrepancy between the English version and the original Chinese version or any differences in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.

Report of Independent Accountants

To the Board of Directors and Stockholders of Chicony Electronics Co., Ltd.

We have audited the consolidated balance sheets of Chicony Electronics Co., Ltd. and subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of income, of changes in stockholders' equity and of cash flows for the years then ended, expressed in thousands of New Taiwan dollars. 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 2010 and 2009 financial statements of certain wholly-owned consolidated subsidiaries and long-term investments in investee companies accounted for under the equity method. The total assets of those subsidiaries amounted to NT\$1,590,569 thousand and NT\$1,595,434 thousand as of December 31, 2010 and 2009, respectively, constituting 4.3% and 4.8% of total consolidated assets, and their total revenues were NT\$2,933,795 thousand and NT\$2,886,370 thousand for the years then ended, constituting 4.9% and 5.4% of the total consolidated revenues, respectively. The long-term investments in these investee companies as of December 31, 2010 and 2009 were NT\$573,503 thousand and NT\$375,626 thousand, respectively, and the related investment gain recognized for the years then ended were NT\$86,138 thousand and NT\$33,484 thousand, respectively. These statements were audited by other auditors whose reports hereon were furnished to us. Our opinion, insofar as it relates to the amounts included in the consolidated financial statements and information disclosed in Note 11 relative to these subsidiaries and long-term investments, is based solely on the reports of the other auditors.

We conducted our audits in accordance with the "Rules Governing the Examination of Financial Statements by Certified Public Accountants" and generally accepted auditing standards 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also included 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 report 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 consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Chicony Electronics Co., Ltd. and its subsidiaries as of December 31, 2010 and 2009, and the results of their operations and their cash flows for the years then ended in conformity with the “Rules Governing the Preparation of Financial Statements by Securities Issuers” and generally accepted accounting principles in the Republic of China.

As described in Note 3, effective January 1, 2009, the Company adopted the revised R.O.C. SFAS No. 10. “Accounting for Inventories”.

March 30, 2011

The accompanying consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the audit of such consolidated financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying consolidated financial statements and report of the independent accountants are not intended for use by those who are not informed about the accounting principles and auditing standards generally accepted in the Republic of China, and their applications in practice.

CHICONY ELECTRONICS CO., LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

| | 2010 | 2009 |
|---|----------------------|----------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents (Note 4(1)) | \$ 954,551 | \$ 1,457,093 |
| Financial assets at fair value through profit or loss - current (Note 4(2)) | 48,843 | 11,609 |
| Available-for-sale financial assets - current (Note 4(3)) | 3,807,717 | 2,278,413 |
| Notes receivable, net | 56,938 | 41,133 |
| Accounts receivable, net (Note 4(5)) | 11,993,233 | 11,555,139 |
| Accounts receivable, net - related parties (Note 5) | 71,154 | 20,008 |
| Other receivables (Note 4(5)) | 605,911 | 511,356 |
| Other financial assets - current (Note 6) | 2,478 | 3,391 |
| Inventories, net (Notes 4(6)) | 7,571,154 | 6,643,661 |
| Prepayments | 316,812 | 243,442 |
| Deferred income tax assets - current (Note 4(20)) | 42,724 | 35,499 |
| Total current assets | 25,471,515 | 22,800,694 |
| Funds and Investments | | |
| Available-for-sale financial assets - non-current (Note 4(3)) | 1,288 | 605 |
| Financial assets carried at cost - non-current (Note 4(4)) | 1,447,703 | 1,368,453 |
| Long-term investments at equity (Note 4(7)) | 573,503 | 375,626 |
| Other financial assets - non-current (Note 6) | 87,013 | 122,063 |
| Total funds and investments | 2,109,507 | 1,866,747 |
| Property, Plant and Equipment, Net (Notes 4(8) and 6) | | |
| Cost | | |
| Land | 1,581,068 | 1,513,879 |
| Buildings | 2,857,083 | 2,966,746 |
| Machinery equipment | 3,544,371 | 3,332,423 |
| Molding equipment | 2,448,523 | 2,032,590 |
| Testing equipment | 960,249 | 823,626 |
| Transportation equipment | 66,422 | 59,345 |
| Leasehold improvements | 27,056 | 18,429 |
| Other equipment | 1,354,545 | 1,143,366 |
| Revaluation increments | 53,526 | 53,526 |
| Cost and revaluation increments | 12,892,843 | 11,943,930 |
| Less: Accumulated depreciation | (4,795,192) | (4,231,661) |
| Construction in progress and prepayments for equipment | 509,568 | 376,938 |
| Total property, plant and equipment, net | 8,607,219 | 8,089,207 |
| Intangible assets | | |
| Computer software cost | 62,694 | 76,504 |
| Goodwill | 26,688 | 26,040 |
| Other intangible assets - other (Notes 4(10) and 6) | 134,118 | 106,005 |
| Total intangible assets | 223,500 | 208,549 |
| Other Assets | | |
| Refundable deposits (Note 6) | 58,614 | 40,734 |
| Deferred expenses (Note 4(11)) | 203,280 | 172,797 |
| Deferred income tax assets - non-current (Note 4(20)) | 18,389 | 4,841 |
| Other assets - other | 4,453 | 1,871 |
| Total other assets | 284,736 | 220,243 |
| TOTAL ASSETS | \$ 36,696,477 | \$ 33,185,440 |

(Continued)

CHICONY ELECTRONICS CO., LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

LIABILITIES AND STOCKHOLDERS' EQUITY

| | | |
|--|----------------------|----------------------|
| Current Liabilities | | |
| Short-term loans (Note 4(12)) | \$ 2,628,247 | \$ 1,993,203 |
| Financial liabilities at fair value through profit or loss - current (Note 4(2)) | 3,990 | 1,138 |
| Notes payable | 16,978 | 6,276 |
| Accounts payable | 10,179,091 | 9,868,427 |
| Accounts payable - related parties (Note 5) | 269,103 | 364,118 |
| Income tax payable (Note 4(20)) | 686,632 | 661,391 |
| Accrued expenses | 2,687,110 | 2,883,489 |
| Other payables (Note 5) | 379,517 | 585,992 |
| Long-term liabilities - current portion (Notes 4(14) and 6) | 300,000 | - |
| Other current liabilities (Note 10) | 108,109 | 69,206 |
| Total current liabilities | <u>17,258,777</u> | <u>16,433,240</u> |
| Long-term Liabilities | | |
| Long-term loans (Notes 4(14) and 6) | <u>4,102,210</u> | <u>3,600,000</u> |
| Reserves | | |
| Land value incremental reserve (Note 4(8)) | <u>21,756</u> | <u>21,756</u> |
| Other Liabilities | | |
| Accrued pension liabilities (Note 4(15)) | 35,377 | 32,985 |
| Guarantee deposits received | 7,102 | 7,418 |
| Deferred income tax liabilities - non-current (Note 4(20)) | 14,656 | 17,373 |
| Total other liabilities | <u>57,135</u> | <u>57,776</u> |
| Total liabilities | <u>21,439,878</u> | <u>20,112,772</u> |
| Stockholders' Equity | | |
| Capital (Note 4(16)) | | |
| Common stock | 6,256,144 | 5,912,778 |
| Capital Reserves (Notes 4(13)(17)) | | |
| Additional paid-in capital | 641,709 | 331,222 |
| Capital reserve from treasury stock | 437,571 | 182,070 |
| Capital reserve from long-term investments | 109,750 | 33,775 |
| Retained Earnings (Note 4(18)) | | |
| Legal reserve | 1,525,776 | 1,192,684 |
| Special reserve | - | 41,016 |
| Undistributed earnings | 5,673,246 | 4,640,321 |
| Other Adjustments to Stockholders' Equity | | |
| Cumulative translation adjustments | (637,052) | 230,754 |
| Net loss not recognized as pension cost | (477) | - |
| Unrealized gain or loss on financial instruments (Note 4(3)) | 755,203 | 267,676 |
| Unrealized revaluations increments (Note 4(8)) | 31,771 | 31,771 |
| Treasury stock (Notes 4(19) and 6) | (816,568) | (840,421) |
| Minority interest | 1,279,526 | 1,049,022 |
| Total stockholders' equity | <u>15,256,599</u> | <u>13,072,668</u> |
| Commitments and Contingent Liabilities (Note 7) | | |
| Significant Subsequent Events (Note 9) | | |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | <u>\$ 36,696,477</u> | <u>\$ 33,185,440</u> |

The accompanying notes are an integral part of these consolidated financial statements.
See report of independent accountants dated March 30, 2011.

CHICONY ELECTRONICS CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT Earnings PER SHARE AMOUNTS)

| | 2010 | | 2009 | |
|---|---------------|--------------|--------------|--------------|
| Sales (Note 5) | \$ 61,272,501 | \$ | 54,592,240 | |
| Sales returns | (655,758) | (| 481,842) | |
| Sales discounts | (298,757) | (| 257,923) | |
| Net Sales | 60,317,986 | | 53,852,475 | |
| Other operating revenue | 119,330 | | 95,433 | |
| Total Sales | 60,437,316 | | 53,947,908 | |
| Operating Costs (Notes 4(6)(22) and 5) | | | | |
| Cost of goods sold | (51,559,616) | (| 44,121,057) | |
| Gross profit | 8,877,700 | | 9,826,851 | |
| Realized gain from intercompany transactions | - | | 575 | |
| Gross profit, net | 8,877,700 | | 9,827,426 | |
| Operating Expenses (Note 4(22)) | | | | |
| Sales and marketing expenses | (2,204,375) | (| 2,495,112) | |
| General and administrative expenses | (2,130,212) | (| 2,156,380) | |
| Research and development expenses | (1,397,926) | (| 1,140,286) | |
| Total Operating Expenses | (5,732,513) | (| 5,791,778) | |
| Operating income | 3,145,187 | | 4,035,648 | |
| Non-operating Income and Gains | | | | |
| Interest income | 36,184 | | 60,248 | |
| Investment income recognized under equity method (Note 4(7)) | 86,138 | | 33,484 | |
| Dividend income | 136,850 | | 1,100 | |
| Rental income | 2,132 | | 1,990 | |
| Gain on valuation of financial assets (Note 4(2)) | 1,025,643 | | 177,998 | |
| Other non-operating income | 327,448 | | 197,615 | |
| Non-operating Income and Gains | 1,614,395 | | 472,435 | |
| Non-operating Expenses and Losses | | | | |
| Interest expense | (113,102) | (| 188,835) | |
| Loss on disposal of property, plant and equipment | (52,071) | (| 18,179) | |
| Foreign exchange loss, net | (111,306) | (| 102,599) | |
| Impairment loss (Note 4(9)) | - | (| 796) | |
| Loss on valuation of financial liabilities (Note 4(2)) | (3,990) | (| 5,394) | |
| Other non-operating losses | (57,201) | (| 37,157) | |
| Non-operating Expenses and Losses | (337,670) | (| 352,960) | |
| Income from continuing operations before income tax | 4,421,912 | | 4,155,123 | |
| Income tax expense (Note 4(20)) | (609,672) | (| 867,731) | |
| Consolidated net income | \$ 3,812,240 | \$ | 3,287,392 | |
| Attributable to: | | | | |
| Equity holders of the Company | \$ 3,650,068 | \$ | 3,330,918 | |
| Minority interest | 162,172 | (| 43,526) | |
| | \$ 3,812,240 | \$ | 3,287,392 | |
| | Before Tax | After Tax | Before Tax | After Tax |
| Basic earnings per share (in dollars) (Note 4(21)) | | | | |
| Net income | \$ 7.32 | \$ 6.27 | \$ 7.37 | \$ 5.85 |
| Diluted earnings per share (in dollars) | | | | |
| Net income | \$ 7.20 | \$ 6.17 | \$ 7.28 | \$ 5.77 |
| Proforma EPS data assuming the Company's stock held by its subsidiaries are not treated as treasury stock | | | | |
| Net income | \$ 4,515,941 | \$ 3,906,269 | \$ 4,313,457 | \$ 3,445,726 |
| Basic earnings per share | | | | |
| Net income | \$ 7.34 | \$ 6.35 | \$ 7.15 | \$ 5.71 |
| Diluted earnings per share | | | | |
| Net income | \$ 7.23 | \$ 6.25 | \$ 7.06 | \$ 5.64 |

The accompanying notes are an integral part of these consolidated financial statements.
See report of independent accountants dated March 30, 2011.

CHICONY ELECTRONICS CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
 FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
 (EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

| | Common stock | Capital reserves | Retained earnings | | | Unrealized revaluations increments | Unrealized gain or loss on financial instruments | Cumulative translation adjustments | Net loss not recognized as pension cost | Treasury stock | Minority interest | Total |
|--|---------------------|-------------------|---------------------|------------------|------------------------|------------------------------------|--|------------------------------------|---|---------------------|---------------------|----------------------|
| | | | Legal reserve | Special reserve | Undistributed earnings | | | | | | | |
| <u>Year 2009</u> | | | | | | | | | | | | |
| Balance at January 1, 2008 | \$ 5,570,000 | \$ 304,429 | \$ 902,605 | \$ - | \$ 3,236,498 | \$ 31,771 | (\$ 466,896) | \$ 394,110 | \$ - | (\$ 1,678,520) | \$ 375,651 | \$ 8,669,648 |
| Appropriation of 2008 income(Note 1) | | | | | | | | | | | | |
| Appropriation of legal reserve | - | - | 290,079 | - | (290,079) | - | - | - | - | - | - | - |
| Transfer of undistributed earnings to special reserve | - | - | - | 41,016 | (41,016) | - | - | - | - | - | - | - |
| Appropriation of employee bonuses | 76,778 | 331,222 | - | - | - | - | - | - | - | - | - | 408,000 |
| Distribution of stock dividends | 266,000 | - | - | - | (266,000) | - | - | - | - | - | - | - |
| Cash dividends | - | - | - | - | (1,330,000) | - | - | - | - | - | - | (1,330,000) |
| Net income for 2009 | - | - | - | - | 3,330,918 | - | - | - | - | - | - | 3,330,918 |
| Transfer of long-term equity investment to capital reserve | - | 30,631 | - | - | - | - | - | - | - | - | - | 30,631 |
| Unrealized gain on financial instruments | - | - | - | - | - | - | 734,572 | - | - | - | - | 734,572 |
| Cumulative translation adjustment derived from long-term foreign investments | - | - | - | - | - | - | - | (163,356) | - | - | - | (163,356) |
| Paid to the subsidiaries | - | 81,323 | - | - | - | - | - | - | - | - | - | 81,323 |
| Subsidiaries sold treasury stock | - | 33,483 | - | - | - | - | - | - | - | 5,536 | - | 39,019 |
| Treasury stock transactions | - | - | - | - | - | - | - | - | - | (367,100) | - | (367,100) |
| Convertible bonds transferred to common stock | - | (233,906) | - | - | - | - | - | - | - | 1,199,663 | - | 965,757 |
| Redemption of convertible bonds | - | (115) | - | - | - | - | - | - | - | - | - | (115) |
| Minority interest adjustment | - | - | - | - | - | - | - | - | - | - | 716,897 | 716,897 |
| Minority interest net loss | - | - | - | - | - | - | - | - | - | - | (43,526) | (43,526) |
| Balance at December 31, 2009 | <u>\$ 5,912,778</u> | <u>\$ 547,067</u> | <u>\$ 1,192,684</u> | <u>\$ 41,016</u> | <u>\$ 4,640,321</u> | <u>\$ 31,771</u> | <u>\$ 267,676</u> | <u>\$ 230,754</u> | <u>\$ -</u> | <u>(\$ 840,421)</u> | <u>\$ 1,049,022</u> | <u>\$ 13,072,668</u> |

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CHICONY ELECTRONICS CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009 (CONTINUED)
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

| | Common stock | Capital reserves | Retained earnings | | | Unrealized revaluations increments | Unrealized gain or loss on financial instruments | Cumulative translation adjustments | Net loss not recognized as pension cost | Treasury stock | Minority interest | Total |
|--|---------------------|---------------------|---------------------|-----------------|------------------------|------------------------------------|--|------------------------------------|---|----------------------|---------------------|----------------------|
| | | | Legal reserve | Special reserve | Undistributed earnings | | | | | | | |
| <u>Year 2010</u> | | | | | | | | | | | | |
| Balance at January 1, 2009 | \$ 5,912,778 | \$ 547,067 | \$ 1,192,684 | \$ 41,016 | \$ 4,640,321 | \$ 31,771 | \$ 267,676 | \$ 230,754 | \$ - | (\$ 840,421) | \$ 1,049,022 | \$ 13,072,668 |
| Appropriation of 2009 earnings (Note 2) | | | | | | | | | | | | |
| Appropriation of legal reserve | - | - | 333,092 | - | (333,092) | - | - | - | - | - | - | - |
| Transfer of special reserve to undistributed earnings | - | - | - | (41,016) | 41,016 | - | - | - | - | - | - | - |
| Appropriation of employee bonuses | 52,841 | 310,494 | - | - | - | - | - | - | - | - | - | 363,335 |
| Distribution of stock dividends | 290,633 | - | - | - | (290,633) | - | - | - | - | - | - | - |
| Cash dividends | - | - | - | - | (2,034,434) | - | - | - | - | - | - | (2,034,434) |
| Net income for 2010 | - | - | - | - | 3,650,068 | - | - | - | - | - | - | 3,650,068 |
| Transfer of long-term equity investment to capital reserve | - | 75,975 | - | - | - | - | - | - | (477) | - | - | 75,498 |
| Unrealized gain on financial instruments | - | - | - | - | - | - | 487,527 | - | - | - | - | 487,527 |
| Cumulative translation adjustment derived from long-term foreign investments | - | - | - | - | - | - | - | (867,806) | - | - | - | (867,806) |
| Paid to the subsidiaries | - | 112,277 | - | - | - | - | - | - | - | - | - | 112,277 |
| Subsidiaries sold treasury stock | - | 143,924 | - | - | - | - | - | - | - | 23,038 | - | 166,962 |
| Treasury stock transactions | (108) | (707) | - | - | - | - | - | - | - | 815 | - | - |
| Minority interest adjustment | - | - | - | - | - | - | - | - | - | - | 68,332 | 68,332 |
| Minority interest net income | - | - | - | - | - | - | - | - | - | - | 162,172 | 162,172 |
| Balance at December 31, 2010 | <u>\$ 6,256,144</u> | <u>\$ 1,189,030</u> | <u>\$ 1,525,776</u> | <u>\$ -</u> | <u>\$ 5,673,246</u> | <u>\$ 31,771</u> | <u>\$ 755,203</u> | <u>(\$ 637,052)</u> | <u>(\$ 477)</u> | <u>(\$ 816,568)</u> | <u>\$ 1,279,526</u> | <u>\$ 15,256,599</u> |

Note 1: The employees' stock bonus of \$409,123 and the directors' and supervisors' remuneration of \$25,570 for the year ended December 31, 2008 has been subtracted from the statement of income.

Note 2: The employees' stock bonus of \$486,215 and the directors' and supervisors' remuneration of \$30,388 for the year ended December 31, 2009 has been subtracted from the statement of income.

The accompanying notes are an integral part of these consolidated financial statements.
See report of independent accountants dated March 30, 2011.

CHICONY ELECTRONICS CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

| | 2010 | 2009 |
|---|--------------|--------------|
| <u>CASH FLOWS FROM OPERATING ACTIVITIES</u> | | |
| Consolidated net income | \$ 3,812,240 | \$ 3,287,392 |
| Adjustments to reconcile consolidated net income to net cash provided by operating activities | | |
| Depreciation | 1,020,007 | 980,781 |
| Amortization | 173,199 | 158,665 |
| Provision for (reversal of) allowance for doubtful accounts (| 3,136) | 63,265 |
| Provision for inventory price decline and obsolescence(net) | 573,468 | 736,700 |
| Gain on valuation of financial assets (| 1,025,643) | (177,998) |
| Loss on valuation of financial liabilities | 3,990 | 5,394 |
| Investment gain recognized under the equity method (| 86,138) | (33,484) |
| Cash dividends from long-term investments at equity | 11,697 | - |
| Loss on disposal of property, plant and equipment (net) | 52,071 | 18,179 |
| Loss on impairment | - | 796 |
| Amortization of premium or discount on convertible bonds | - | 17,924 |
| Gain on conversion of bonds pre-redemption | - | 1,102 |
| Changes in assets and liabilities | | |
| Changes in financial liabilities at fair value through profit or loss - current | 224,982 | 6,858 |
| Notes receivable (| 15,805) | - |
| Accounts receivable (| 394,293) | (1,607,508) |
| Accounts receivable, net - related parties (| 51,146) | (13,477) |
| Other receivables (| 94,555) | 116,947 |
| Other financial assets - current | 913 | 233,938 |
| Inventories (| 1,080,820) | (1,037,515) |
| Prepayments (| 73,370) | (13,029) |
| Deferred income tax assets (| 23,540) | (21,898) |
| Notes payable | 10,702 | (1,280) |
| Accounts payable | 310,664 | 2,972,976 |
| Accounts payable - related parties (| 95,015) | 235,901 |
| Accrued expense | 137,954 | 823,601 |
| Income tax payable | 25,241 | 462,566 |
| Other payables (| 206,475) | 222,660 |
| Other current liabilities | 38,903 | (21,509) |
| Accrued pension liabilities | 2,392 | (7,731) |
| Net cash provided by operating activities | 3,248,487 | 7,410,216 |

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CHICONY ELECTRONICS CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS(CONTINUED)
FOR THE YEARS ENDED DECEMBER 31
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

| | 2010 | 2009 |
|--|--------------|--------------|
| <u>CASH FLOWS FROM INVESTING ACTIVITIES</u> | | |
| Proceeds from disposal of available - for - sales financial assets | (\$ 751,410) | (\$ 800,091) |
| Increase in financial assets carried at cost-non-current | (225,350) | (1,057,925) |
| Increase in long-term investments at equity – non subsidiaries | (161,547) | - |
| Proceeds from disposal of long-term investments at equity | 626,559 | 54,264 |
| Decrease in other financial assets - non-current | 35,050 | 350,899 |
| Acquisition of property, plant and equipment | (1,935,110) | (2,815,278) |
| Proceeds from disposal of property, plant and equipment | 45,020 | 104,360 |
| Increase in other intangible assets | (87,462) | (86,728) |
| Increase in deferred expense | (131,171) | (72,675) |
| (Increase)decrease in refundable deposits | (17,880) | 3,663 |
| (Increase) decrease in other assets - other | (2,582) | 2,393 |
| Net cash used in investing activities | (2,605,883) | (4,317,118) |
| <u>CASH FLOWS FROM FINANCING ACTIVITIES</u> | | |
| Increase (decrease) in short-term loans | 635,044 | (4,023,834) |
| Repayment of bonds payable | - | (3,317) |
| Increase in notes and bills payable | - | (150,000) |
| Increase in long-term loans | 1,140,000 | 3,600,000 |
| Repayment of long-term loans | (337,790) | (2,091,244) |
| (Decrease) increase in guarantee deposits received | (316) | 6,026 |
| Payment of cash dividends | (1,922,157) | (1,330,000) |
| Acquisition of treasury stock | - | (367,100) |
| Proceeds from disposal of treasury stock | 166,962 | - |
| Changes in minority interest | 30,337 | 679,849 |
| Net cash used in financing activities | (287,920) | (3,679,620) |
| Effect of change in foreign exchange rate | (857,226) | (140,064) |
| Net decrease in cash and cash equivalents | (502,542) | (726,586) |
| Cash and cash equivalents at beginning of year | 1,457,093 | 2,183,679 |
| Cash and cash equivalents at end of year | \$ 954,551 | \$ 1,457,093 |
| <u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</u> | | |
| Interest paid | \$ 122,534 | \$ 236,088 |
| Income tax paid | \$ 584,431 | \$ 400,770 |
| <u>INVESTING AND FINANCING ACTIVITIES NOT AFFECTING CASH FLOW</u> | | |
| Distribution of stock dividends | \$ 290,633 | \$ 266,000 |
| Convertible bonds transferred to common stock | \$ - | \$ 966,716 |

The accompanying notes are an integral part of these consolidated financial statements.
See report of independent accountants dated March 30, 2011.

CHICONY ELECTRONICS CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS,
EXCEPT AS OTHERWISE INDICATED)

1. HISTORY AND ORGANIZATION

1) The Company

Chicony Electronics Co., Ltd. (the "Company") was incorporated in 1983 as a company limited by shares under the provisions of the Company Law of the Republic of China. The Company is engaged in the manufacturing and sales of keyboards and other computer peripheral components.

The Company has been a listed company since 1999. As of December 31, 2010, the Company had approximately 590 employees.

2) Subsidiaries included in the consolidated financial statements and their changes in 2010

| <u>Investor</u> | <u>Subsidiary</u> | <u>Main activities</u> | <u>Ownership (%)</u> | | <u>Description</u> |
|-------------------------------------|---------------------------------------|--|----------------------|----------------------|--------------------|
| | | | <u>Dec. 31, 2010</u> | <u>Dec. 31, 2009</u> | |
| Chicony Electronics Co., Ltd. (CEC) | Chicony Overseas Inc. (COI) | Sales of computer peripherals Management of overseas acquisitions & investments | 100% | 100% | |
| " | Unikey Electronics Co., Ltd. (UNIKEY) | Manufacturing and sales of computer and computer peripherals | 100% | 100% | |
| " | Hipro Overseas (BVI) Inc.(HOI) | Sales of switching power supplies and other electronic parts and management of overseas acquisitions & investments | 100% | 100% | |
| " | Hipro Electronics Ltd.(HEC) | Sales of switching power supplies and other electronic parts | 100% | 100% | |

| <u>Investor</u> | <u>Subsidiary</u> | <u>Main activities</u> | <u>Ownership (%)</u> | | <u>Description</u> |
|-------------------------------------|--|--|----------------------|----------------------|--------------------|
| | | | <u>Dec. 31, 2010</u> | <u>Dec. 31, 2009</u> | |
| Chicony Electronics Co., Ltd. (CEC) | XAVi Technology Corp.(XAVi) | Researching, manufacturing and selling the DSL Bridge and Router | 68% | 50% | |
| ” | Chicony Elec. (Thailand) Co., Ltd. (CET) | Manufacturing and sales of computer peripherals | 100% | 100% | |
| ” | Chicony Global Inc.(CGI) | Sales of computer peripherals | 100% | 100% | |
| ” | Chicony Power Technology Co.,Ltd. (CP) | Manufacturing and selling the plastic goods | 70% | 70% | |
| ” | Had Eri Iou Industrial Inc. Ltd. (HEI) | Manufacturing and selling the plastic goods | 50% | 50% | |
| COI | Chicony America Inc. | Sales of computer peripherals | 100% | 100% | |
| ” | Chicony Electronics GmbH. | ” | 100% | 100% | |
| ” | Chicony Electronics (Dong Guan) Co., Ltd. (CEM2) | Manufacturing and sales of computer and computer peripherals | 100% | 100% | |
| ” | Mao-Feng International Inc. (Mao-Feng) | Sales of computer peripherals Management of overseas acquisitions & investments | 100% | 100% | |
| ” | Chicony Electronics (Suzhou) Co., Ltd. (CEM3) | Manufacturing and sales of computer and computer peripherals | 100% | 100% | |
| ” | Chicony Electronics CEZ s.r.o. | Sales of computer peripherals | 100% | 100% | |
| ” | Hipro Electronics Public Company Limited | Manufacturing and sales of switching power supplies and other electronic parts | 100% | 100% | |
| ” | Global Faith Inc.(GFI) | Sales of computer peripherals Management of overseas acquisitions & investments | 60% | 60% | |
| ” | Suzhou Mao-Qun Electronics Co., Ltd. | Manufacturing of electronic parts, keyboard and plastic products | 60% | 60% | |

| <u>Investor</u> | <u>Subsidiary</u> | <u>Main activities</u> | <u>Ownership (%)</u> | | <u>Description</u> |
|-----------------|---|--|----------------------|----------------------|--------------------|
| | | | <u>Dec. 31, 2010</u> | <u>Dec. 31, 2009</u> | |
| COI | Chicony Electronics Japan Co., Ltd. | Sales of computer peripherals Management of overseas acquisitions & investments | 100% | 100% | |
| ” | Kuang Mao International Inc. | Sales of computer peripherals Management of overseas acquisitions & investments | 100% | 100% | |
| ” | Chicony America Group Inc. | Internet solution for E-Commerce solution | 100% | 100% | |
| UNIKEY | Mao-Ray Electronics (Dong Guan) Co., Ltd. (Mao-Ray) | Manufacturing of electronic parts, keyboard and plastic products | 100% | 100% | |
| ” | Real Young Electronics Co., Ltd. | Sales of computer peripherals Management of overseas acquisitions & investments | 100% | 100% | |
| HOI | Hipro Electronics (Shang Hai) Co., Ltd. | Manufacturing and sales of switching power supplies and other electronic parts | 100% | 100% | |
| HEC | Quansun Investment Corp. Ltd. | Investment | 100% | 100% | |
| ” | Qun-Jing Power Co.,Ltd | Sales of computer peripherals | 100% | 100% | |
| CP | Chicony Power Holdings Inc. (CPH) | Investment holdings | 100% | 100% | |
| ” | Chicony Power International Inc. (CPI) | Manufacturing and sales of switching power supplies and other electronic parts | 100% | 100% | Note A |
| ” | Chicony Power Technology Hong Kong Limited (CPHK) | Research and development centre | 100% | 100% | Note A Note B |

| <u>Investor</u> | <u>Subsidiary</u> | <u>Main activities</u> | <u>Ownership (%)</u> | | <u>Description</u> |
|-----------------|---|---|----------------------|----------------------|--------------------|
| | | | <u>Dec. 31, 2010</u> | <u>Dec. 31, 2009</u> | |
| CP | Chicony Power USA Inc. (CPUS) | Manufacturing and sales of switching power supplies and other electronic parts | 100% | 100% | Note A Note C |
| CPHK | Hipro Electronics (Dong Guan) Co., Ltd. | Manufacturing and sales of switching power supplies and other electronic parts | 100% | 100% | Note A |
| " | Chicony Power Technology (Suzhou) Co., Ltd.(CPSZ) | Manufacturing of switching power supplies and other electronic parts | 100% | 100% | Note A Note D |
| " | Quang Sheng Electronics (Nanchang) Co.,Ltd. (QS) | Manufacturing of switching power supplies and other electronic parts | 100% | 100% | Note A |
| XAVi | Directmax International Ltd. | Management of overseas acquisitions & investments | 100% | 100% | |
| " | XAVi Overseas Ltd. | Sales of DSL Bridge and Router Management of overseas acquisitions & investments | 100% | 100% | |
| " | Systemax Development Ltd. | Sales of DSL Bridge and Router | 100% | 100% | |
| " | XAVi Technologies (Suzhou) Co., Ltd. | Manufacturing and sales of DSL Bridge and Router | 100% | 100% | |
| " | Blitzz Technology Inc. | Wholesaler | - | 90% | Note E |
| " | BLITZZ Technology Corp. | Manufacturing and sales of DSL Bridge and Router | - | 100% | Note F |
| HEI | GUIDWAY GLOBAL LIMITED | Sale of plastic goods | 100% | 100% | |
| " | HAD ERI IOU INTERNATIONAL Co., LIMITED. | Sale of plastic goods | 100% | 100% | |
| " | HOLYU INTERNATIONAL Co.,Ltd. | Investment | 100% | 100% | |
| " | Dong Guan Had Eri Iou Plastics Corporation | Manufacturing and sales of plastic goods | 100% | 100% | |

Note A : The subsidiaries of HOI were transferred to HHK in 2008 due to internal reorganization. CPHK and CPUS were transferred to CPI in 2009.

Note B : Formerly Hipro Hong Kong Limited. (HHK)

Note C : Formerly Hipro Technologies Inc. (HUS)

Note D : Formerly Hipro Electronics (Suzhou) Co., Ltd. (HSZ)

Note E : Liquidation was completed in February 2010.

Note F : Liquidation was completed in September 2010.

3) Subsidiaries not included in the consolidated financial statements : None

4) Adjustments for subsidiaries with different balance sheet dates : None

5) Special operating risks in foreign subsidiaries : None

6) Nature and extent of the restrictions on fund remittance from subsidiaries to the parent company : None

7) Contents of subsidiaries' securities issued by the parent company: See Note 4(19)

8) Information on convertible bonds and common stock issued by subsidiaries :
None.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements of the Company and its subsidiaries (Collectively referred herein as the Group) are prepared in accordance with the “Rules Governing the Preparation of Financial Statements by Securities Issuers” and generally accepted accounting principles in the Republic of China. The Group’s significant accounting policies are summarized below:

1) Basis for preparation of consolidated financial statements

All majority-owned subsidiaries and controlled entities are included in the consolidated financial statements. The income (loss) of the subsidiaries is included in the consolidated statement of income effective on the date the Company gains control over the subsidiaries. The income (loss) of the subsidiaries is excluded from the consolidated statement of income effective the date on which the Company loses control over the subsidiaries. Significant inter-company transactions and assets and liabilities arising from inter-company transactions are eliminated. The Company prepares consolidated financial statements on a semi-annual and annual basis.

2) Translation of financial statements of foreign subsidiaries

Assets and liabilities of foreign subsidiaries are translated into New Taiwan dollars using the exchange rates at the balance sheet date. Equity accounts are translated at historical rates except for beginning retained earnings, which are carried forward from prior year’s balance. Dividends are translated at the rates prevailing at the date of declaration. Profit and loss accounts are translated at weighted-average rates of the year. The resulting translation differences are included in “cumulative translation adjustments” under stockholders’ equity.

3) Foreign currency transactions

- A. The Company and its consolidated subsidiaries maintain their accounts in New Taiwan dollars and their functional currencies, respectively. Transactions denominated in foreign currencies are translated into New Taiwan dollars and their functional currencies at the spot exchange rates prevailing at the transaction dates. Exchange gain or losses due to the difference between the exchange rate on the transaction date and the exchange rate on the date of actual receipt and payment are recognized in current year's profit or loss.
- B. Receivables, other monetary assets and liabilities denominated in foreign currencies are translated at the spot exchange rates prevailing at the balance sheet date. Exchange gains or losses are recognized in profit or loss.
- C. When a gain or loss on a non-monetary item is recognized directly in equity, any exchange component of that gain or loss shall be recognized directly in equity. Conversely, when a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss shall be recognized in profit or loss. However, non-monetary items that are measured on a historical cost basis are translated using the exchange rate at the date of the transaction.

4) Financial assets and financial liabilities at fair value through profit or loss

- A) Financial assets and financial liabilities at fair value through profit or loss are recognized and derecognized using trade date accounting and are recognized initially at fair value.
- B) These financial instruments are subsequently remeasured and stated at fair value, and the gain or loss is recognized in profit or loss. The fair value of listed stocks, OTC stocks and convertible bonds is based on latest quoted fair prices of the accounting period.
- C) When a derivative is an ineffective hedging instrument and non-option derivative, the fair value initially recognized is zero. And when a derivative is an ineffective hedging instrument and option derivative, the fair value initially recognized in trade date.
- D) For call options, put options, resetting options and conversion options not belonging to equity instrument, which are embedded in bonds payable, please refer to Note 2(14).
- E) Effective July 24, 2008, the Company had listed (TSE and OTC) stocks which were originally recognized as "financial assets at fair value through profit or loss" that were reclassified to "available-for-sale financial assets", based on the amended paragraph 104 of R.O.C. SFAS No. 34. "Financial Instruments: Recognition and Measurement".

5) Available-for-sale financial assets

- A. Available-for-sale financial assets are recognized and derecognized using trade date accounting and are recognized initially at its fair value plus transaction costs that is directly attributable to the acquisition of the financial asset.
- B. The financial assets are remeasured and stated at fair value, and the gain or loss is recognized in equity. The fair value of listed stocks and OTC stocks are based on latest quoted fair prices of the accounting period.
- C. If there is any objective evidence that the financial asset is impaired, the cumulative loss that had been recognized directly in equity shall be removed from equity and recognized in profit or loss. Impairment losses recognized previously in profit or loss for an investment in an equity instrument shall not be reversed through profit or loss, and if, subsequently, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognized in profit or loss.

6) Financial assets carried at cost

- A. Investment in unquoted equity instruments is recognized or derecognized using trade date accounting and is recognized initially at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset.
- B. If there is any objective evidence that the financial asset is impaired, the impairment loss is recognized in profit or loss. Such impairment loss cannot be reversed.

7) Allowance for doubtful accounts

Allowance for doubtful accounts is provided according to an evaluation of the collectibility of ending balances of notes and accounts receivable, receivables from related parties and other receivables.

8) Inventories

The perpetual inventory system is adopted for inventory recognition. Inventories are stated at cost. The cost is determined using the average method. At the end of period, other than allowance for obsolescence, inventories are evaluated at the lower of cost or net realizable value, and the individual item approach is used in the comparison of cost and net realizable value. The calculation of net realizable value should be based on the estimated selling price in the normal course of business, net of estimated costs of completion and estimated selling expenses.

9) Long-term equity investments accounted for under the equity method

- A. Long-term equity investments in which the Group holds more than 20% of the investee company's voting shares or has the ability to exercise significant influence on the investee's operational decisions are accounted for under the equity method. The excess of the initial investment cost over the acquired net asset value of the investee attributable to goodwill is no longer amortized, effective January 1, 2006. Retrospective adjustment of the amount of goodwill amortized in previous years is not required. The excess of acquired net asset value of investee over the initial investment cost is allocated proportionately and applied as a reduction to the book values of identifiable non-current assets, and any remaining amount of such excess after this allocation is credited to extraordinary gains. However, negative goodwill incurred prior to December 31, 2005 is continuously amortized.
- B. Exchange differences arising from translation of the financial statements of overseas investee companies accounted for under the equity method are recorded as "cumulative translation adjustments" under stockholders' equity.

10) Property, plant and equipment

- A. Property, plant and equipment are stated at cost except for certain land which is carried at government indexed appraised value.
- B. Maintenance and repairs are charged to expense as incurred. Major renewals and improvements are treated as capital expenditure and depreciated accordingly.
- C. Depreciation is provided on a straight-line method based on the service lives prescribed by the Government. The estimated useful lives for the plant and buildings are 2-55 years and for other fixed assets are 1-15 years.
- D. Property, plant and equipment not used in operations are transferred to other assets and are stated at the lower of book value or market price; the depreciation expense are recorded in non-operating expenses in the current year.

11) Intangible assets

Computer software expenditures are stated at cost and amortized on a straight-line basis over 1 to 8 years.

12) Other intangible assets

Other intangible assets, mainly land use rights, are amortized on a straight-line basis over 44 to 50 years.

13) Deferred charges

Deferred charges, including the cost of patents , are stated at cost and amortized on a average method over 1 to 10 years.

14) Convertible bonds

For the bonds payable embedded in conversion option, call option, put option and resetting option issued after January 1, 2006, the issuer of a financial instrument shall classify the instrument, or its component parts, on initial recognition as a financial liability, a financial asset or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, a financial asset and an equity instrument. These bonds are accounted for as follows:

- A) The difference between the issue price and face value of convertible corporate bonds is accounted for as premium or discount which is required to be amortized over the period from the date of issuance to maturity date using the straight line method and is recorded as “interest expense”.
- B) The value of any derivative features (such as a call option, put option and resetting option) embedded in the compound financial instrument is recognized as “financial assets or financial liabilities at fair value through profit or loss”. These derivative features are subsequently remeasured and stated at fair value on each balance sheet date, and the gain or loss is recognized in “gain or loss on valuation of financial assets or financial liabilities”.
- C) A conversion option embedded in the bonds issued by the Company, which is convertible to an equity instrument, is recognized in “capital reserve from stock warrants”. When a bondholder exercises his/her conversion rights, the liability component of the bonds (including corporate bonds and embedded derivatives) shall be revalued, and the resulting difference shall be recognized as “gain or loss” in the current period. The book value of the common stock issued due to the conversion shall be based on the adjusted book value of the above-mentioned liability component plus the book value of the stock warrants.
- D) Costs incurred on issuance of convertible bonds are proportionally charged to the liabilities and equities of the underlying instruments based on initial recognition costs.

15) Pension plan and pension cost

Under the defined benefit pension plan, net periodic pension costs are recognized in accordance with the actuarial calculations. Net periodic pension costs include service cost, interest cost, expected return on plan assets, and amortization of unrecognized net transition obligation and gains or losses on plan assets.

16) Income taxes

- A) Provision for income tax includes deferred income tax resulting from temporary differences, investment tax credits and loss carryforward. Valuation allowance on deferred tax assets is provided to the extent that it is more likely than not that the tax benefit will not be realized. Over or under provision of prior years' income tax liabilities is included in current year's income tax. When a change in the tax laws is enacted, the deferred tax liability or asset should be recomputed accordingly in the period of change. The difference between the new amount and the original amount, that is, the effect of changes in the deferred tax liability or asset, should be recognized as an adjustment to income tax expense (benefit) for income from continuing operations in the current period.
- B) Investment tax credits arising from research and development are recognized in the year the related expenditures are incurred.
- C) An additional 10% tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.

17) Treasury stock

- A. When a company acquires its outstanding shares as treasury stock, the acquisition cost should be debited to the treasury stock account (a contra account under stockholders' equity) if the shares are purchased.
- B. Treasury stocks transferred to employees on or after January 1, 2008 are accounted for in accordance with R.O.C. SFAS No. 39, "Accounting for Share-based Payment".
- C. When a company's treasury stock is retired, the treasury stock account should be credited, and the capital surplus- premium on stock account and capital stock account should be debited proportionately according to the share ratio. An excess of the carrying value of treasury stock over the sum of its par value and premium on stock should first be offset against capital surplus from the same class of treasury stock transactions, and the remainder, if any, debited to retained earnings. An excess of the sum of the par value and premium on stock of treasury stock over its carrying value should be credited to capital surplus from the same class of treasury stock transactions.
- D. The cost of treasury stock is determined by the weighted-average method.
- E. The Company's common stock owned by its subsidiaries is treated as treasury stock.
- F. Cash dividend from the Company which subsidiaries received should be wrote off long-term investment revenue and adjusted to "additional paid-in capital - treasury stock transactions".

18) Share-based payment –employee compensation plan

For the grant date of the share-based payment agreements set on or after January 1, 2008, the Group shall measure the services received during the vesting period by reference to the fair value of the equity instruments granted and account for those amounts as payroll expenses during the period.

19) Employee’s bonuses and directors’ and supervisors’ remuneration

Effective January 1, 2008, pursuant to EITF 96-052 of the Accounting Research and Development Foundation, R.O.C., dated March 16, 2007, “Accounting for Employees’ Bonuses and Directors’ and Supervisors’ Remuneration”, the costs of employees’ bonuses and directors’ and supervisors’ remuneration are accounted for as expenses and liabilities, provided that such a recognition is required under legal or constructive obligation and those amounts can be estimated reasonably. However, if the accrued amounts for employees’ bonuses and directors’ and supervisors’ remuneration are significantly different from the actual distributed amounts resolved by the stockholders at their annual stockholders’ meeting subsequently, the differences shall be recognized as gain or loss in the following year. In addition, according to EITF 97-127 of the Accounting Research and Development Foundation, R.O.C., dated March 31, 2008, “Criteria for Listed Companies in Calculating the Number of Shares of Employees’ Stock Bonus”, the Company calculates the number of shares of employees’ stock bonus based on the closing price of the Company's common stock at the previous day of the stockholders’ meeting held in the year following the financial reporting year, and after taking into account the effects of ex-rights and ex-dividends.

20) Impairment of non-financial assets

The Group recognizes impairment loss when there is indication that the recoverable amount of an asset is less than its carrying amount. The recoverable amount is the higher of the fair value less costs to sell and value in use. The fair value less costs to sell is the amount obtainable from the sale of the asset in an arm’s length transaction after deducting any direct incremental disposal costs. The value in use is the present value of estimated future cash flows to be derived from continuing use of the asset and from its disposal at the end of its useful life. When the impairment no longer exists, the impairment loss recognized in prior years shall be recovered.

The recoverable amount of goodwill, intangible assets with indefinite useful lives and intangible assets which have not yet been available for use shall be evaluated periodically. Impairment loss will be recognized whenever there is indication that the recoverable amount of these assets is less than their respective carrying amount. Impairment loss of goodwill recognized in prior years is not recoverable in the following years.

21) Revenue, cost and expenses

Revenue is recognized when the earning process is substantially completed and they are realized or realizable. Costs and expenses are recognized as incurred.

22) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the amounts of revenues and expenses during the reporting period. Actual results could differ from those assumptions and estimates.

23) Classification of current and non-current items

A. Assets that meet one of the following criteria are classified as current assets; otherwise they are classified as non-current assets:

- a) Assets arising from operating activities that are expected to be realized or consumed, or are intended to be sold within the normal operating cycle;
- b) Assets held mainly for trading purposes;
- c) Assets that are expected to be realized within twelve months from the balance sheet date;
- d) Cash and cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to pay off liabilities more than twelve months after the balance sheet date.

B. Liabilities that meet one of the following criteria are classified as current liabilities; otherwise they are classified as non-current liabilities:

- a) Liabilities arising from operating activities that are expected to be paid off within the normal operating cycle;
- b) Liabilities arising mainly from trading activities;
- c) Liabilities that are to be paid off within twelve months from the balance sheet date;
- d) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date.

3. CHANGES IN ACCOUNTING PRINCIPLES AND ESTIMATES

1) Changes in accounting principle- Inventory

Effective January 1, 2009, the Company adopted the amendments to R.O.C. SFAS No. 10, "Accounting for Inventories". As a result of this change of accounting principle, operating cost increased by \$67,071, net income decreased by \$67,071 and earnings per share decreased by \$0.12 (in dollars) for the year ended December 31, 2009.

2) Changes in accounting estimates- Estimated useful lives of property, plant and equipment

Effective January 1, 2009, the subsidiary-Hipro Electronics (Dong Guan) Co., Ltd. changed the estimated useful lives of property, plant and equipment according to their future economic benefits. As a result of this change, post-tax net income of Hipro Electronics (Dong Guan) Co., Ltd. increased by RMB 7,323,000. Recognized pro rata and using average exchange rate, the Company's post-tax net income increased by \$24,860 and earnings per share increased by \$0.05 (in dollars) for the year ended December 31, 2009.

4. DETAILS OF SIGNIFICANT ACCOUNTS

1) CASH AND CASH EQUIVALENTS

| | <u>December 31,</u> | |
|------------------------------|---------------------|--------------------|
| | <u>2010</u> | <u>2009</u> |
| Cash on hand | \$ 81,272 | \$ 70,933 |
| Time deposits | 244,610 | 6,585 |
| Checking and demand deposits | 628,669 | 1,379,575 |
| | <u>\$ 954,551</u> | <u>\$1,457,093</u> |

2) FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS-CURRENT

| | <u>December 31,</u> | |
|--|---------------------|------------------|
| | <u>2010</u> | <u>2009</u> |
| Financial assets held for trading | | |
| Derivatives: | | |
| Forward exchange contracts | \$ 17,025 | \$ 11,609 |
| SWAP | 31,818 | - |
| Total | <u>\$ 48,843</u> | <u>\$ 11,609</u> |
| Financial liabilities held for trading | | |
| Derivatives: | | |
| Forward exchange contracts | \$ 1,075 | \$ 1,138 |
| SWAP | 2,915 | - |
| Total | <u>\$ 3,990</u> | <u>\$ 1,138</u> |

A) The Group recognized net gain of \$259,363 and \$172,604 for the years ended December 31, 2010 and 2009, respectively.

B) The trading items and contract information of derivatives are as follows:

| | December 31, 2010 | | |
|---|-------------------|-----------------|-----------------------|
| | Contract Amount | Contract Period | |
| | (In thousands) | | |
| Forward exchange contract-E. Sun Bank (5 items) | USD | 21,000 | 2011.02.16~2011.04.29 |
| Forward exchange contract-DBS (4 items) | USD | 30,560 | 2011.01.05~2011.03.25 |
| Forward exchange contract-China Citic Bank (2 items) | USD | 3,500 | 2011.01.13~2011.01.25 |
| Forward exchange contract-CCB (5 items) | USD | 22,500 | 2011.01.04~2011.01.28 |
| Forward exchange contract-ICBC | USD | 4,000 | 2011.01.14 |
| Forward exchange contract-REDIT | USD | 16,000 | 2011.02.15~2011.03.29 |
| AGRICOLE Corporate and Investment Bank (3 items) | CZK | 37,974 | 2011.01.13 |
| Forward exchange contract-HSBC | USD | 1,000 | 2011.01.28 |
| SWAP- Ta Chong Bank (5items) | USD | 11,900 | 2011.01.25~2011.03.29 |
| SWAP- E. Sun Bank (3 items) | USD | 10,950 | 2011.01.25~2011.03.15 |
| SWAP-Taiwan Cooperative Bank | USD | 8,900 | 2011.03.29 |
| SWAP-China Development Financial Bank | USD | 3,000 | 2011.03.29 |
| SWAP- Taiwan Business Bank | USD | 4,000 | 2011.03.29 |
| SWAP- First Bank | USD | 5,000 | 2011.01.20 |

| | December 31, 2009 | | |
|--|-------------------|-----------------|-----------------------|
| | Contract Amount | Contract Period | |
| | (In thousands) | | |
| Forward exchange contract-DBS (2 items) | USD | 7,000 | 2010.01.08~2010.01.28 |
| Forward exchange contract-Chinatrust Commercial Bank(3 items) | USD | 6,000 | 2010.01.08~2010.03.01 |
| Forward exchange contract-Ta Chong Bank (5 items) | USD | 18,890 | 2010.01.25~2010.03.30 |
| Forward exchange contract-Taishin Bank (3 items) | USD | 23,000 | 2010.01.08~2010.03.12 |
| Forward exchange contract-E. Sun Bank (5items) | USD | 28,000 | 2010.01.18~2010.04.20 |
| Forward exchange contract-Entie Bank | USD | 8,000 | 2010.04.16 |
| Forward exchange contract-Hua Nan Bank | USD | 5,000 | 2010.03.25 |
| Forward exchange contract-First Bank | USD | 5,000 | 2010.03.18 |

The forward exchange of the Group is to hedge the change in foreign exchange rates, but not adopting the hedging accounting because it does not conform to all the condition indicated in R.O.C. SFAS No. 34.

C) Due to the financial meltdown in 2008, listed (TSE and OTC) stocks amounting to \$1,085,404 have been reclassified from “financial assets at fair

value through profit or loss” to “available-for-sale financial assets” on July 24, 2008 in accordance with the amended paragraph 104 of R.O.C. SFAS No. 34. “Financial Instruments: Recognition and Measurement”. The following is the relevant information:

(1)The balance of the above mentioned reclassified assets on December 31, 2010 and 2009 is as follows:

| | <u>December 31, 2010</u> | <u>December 31, 2009</u> |
|----------------------------|--------------------------|--------------------------|
| Listed (TSE or OTC) stocks | \$ 1,341,121 | \$ 1,112,135 |
| Convertible bonds | <u>119,002</u> | <u>217,253</u> |
| | <u>\$ 1,460,123</u> | <u>\$ 1,329,388</u> |

(2)The relevant information in fair value change of the reclassified financial assets is as follows:

| | <u>For the year ended December 31, 2010</u> | <u>For the year ended December 31, 2009</u> |
|----------------------------|---|---|
| | Gain or loss is recognized in equity | Gain or loss is recognized in equity |
| Listed (TSE or OTC) stocks | \$ 294,589 | \$ 590,259 |
| Convertible bonds | (<u>39,499</u>) | <u>61,420</u> |
| | <u>\$ 255,090</u> | <u>\$ 651,679</u> |

If the above financial assets were not classified to “available-for-sale financial assets” on July 24, 2008, the Group would have recognized a net gain (loss) as follows:

| | <u>Amount</u> |
|--|-------------------|
| For the period from July 24, 2008 to December 31, 2008 | (\$ 427,793) |
| For the year ended December 31, 2009 | 651,679 |
| For the year ended December 31, 2010 | <u>255,090</u> |
| | <u>\$ 478,976</u> |

3) AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | <u>December 31,</u> | |
|---|---------------------|---------------------|
| | <u>2010</u> | <u>2009</u> |
| Current items: | | |
| Listed stocks | \$ 2,572,988 | \$ 1,636,275 |
| Convertible bonds | 478,402 | 335,492 |
| Beneficiary certificates | <u>-</u> | <u>46,832</u> |
| Subtotal | 3,051,390 | 2,018,599 |
| Adjustment of available-for-sale financial assets | <u>756,327</u> | <u>259,814</u> |
| Total | <u>\$ 3,807,717</u> | <u>\$ 2,278,413</u> |
| Non-current items: | | |
| Listed stocks | \$ 1,029 | \$ 1,029 |
| Adjustment of available-for-sale financial assets | <u>259</u> | <u>(424)</u> |
| Total | <u>\$ 1,288</u> | <u>\$ 605</u> |

4) FINANCIAL ASSETS CARRIED AT COST – NON-CURRENT

| | <u>December 31,</u> | |
|---|---------------------|---------------------|
| | <u>2010</u> | <u>2009</u> |
| OTC stocks – Alcor Micro Corp. | \$ 98,375 | \$ 199,625 |
| Listed stocks – TPK Holding Co., Ltd. | 873,450 | - |
| Listed stocks – ShunOn Electronic Co., Ltd. | 187,500 | - |
| Listed stocks – Genesis Photonics Inc. | 21,850 | - |
| Unlisted stocks | <u>266,528</u> | <u>1,168,828</u> |
| | <u>\$ 1,447,703</u> | <u>\$ 1,368,453</u> |

A) For the year ended December 31, 2010, the above listed stocks and OTC stocks were private placements:

- 1) The OTC stocks -Alcor Micro Corp. could not be sold until October, 2012, in accordance with the R.O.C. Securities Exchange Law.
- 2) The listed stocks - Genesis Photonics Inc. could not be sold until May, 2013, in accordance with the R.O.C. Securities Exchange Law.
- 3) The listed stocks - ShunOn Electronic Co., Ltd. could not be sold until April, 2013, in accordance with the R.O.C. Securities Exchange Law.

B) The Company holds 1,099,879 shares of Alcor Micro Corp's stock, amounting to \$ 60,000, that can be sold after October, 2010. Hence, the stocks were transferred to available-for-sale financial assets – current.

C) The subsidiary of the Company obtained the listed stocks - TPK Holding Co., Ltd. in December, 2009, and TPK Holding Co., Ltd. has been listed in October, 2010. As of the year ended December 31, 2010, this investment

could still not be sold, so the Group recorded it as financial assets carried at cost.

D) Other unlisted stocks were measured at cost since its fair value cannot be measured reliably.

5) ACCOUNTS RECEIVABLE, NET - THIRD PARTIES

| | December 31, | |
|---------------------------------------|----------------------|----------------------|
| | 2010 | 2009 |
| Accounts receivable | \$ 12,142,743 | \$ 11,748,450 |
| Less: Allowance for doubtful accounts | (149,510) | (193,311) |
| | <u>\$ 11,993,233</u> | <u>\$ 11,555,139</u> |

A. The Company factored its accounts receivable without recourse to various banks. Under the contracts, the banks may retain part of the balance as retention fund. The retention fund less fees and interests would be settled by the banks when balances are collected in full.

B. As of December 31, 2010 and 2009, the outstanding accounts receivable sold were as follows:

| December 31, 2010 | | | | | |
|--|--------------------------------|-------------------|--------------------|------------------|--------------------|
| Purchaser of accounts receivable | Accounts receivable sold | Limit | Amount advanced | Interest rate | Amount retained |
| Fubon Bank | \$ 24,517 | \$ 45,000 | \$ 20,818 | 1.24%~1.30% | \$ 3,699 |
| SinoPac Bank | 26,130 | 291,150 | 23,444 | 1.34% | 2,686 |
| SMBC | 222,864 | 349,380 | 222,147 | 1.13%~1.16% | 717 |
| Taishin Bank | 84,590 | 200,690 | 67,240 | 1.32%~1.52% | 17,350 |
| | <u>\$ 358,101</u> | <u>\$ 886,220</u> | <u>\$ 333,649</u> | | <u>\$ 24,452</u> |

| December 31, 2009 | | | | | |
|--|--------------------------------|---------------------|--------------------|------------------|--------------------|
| Purchaser of accounts receivable | Accounts receivable sold | Limit | Amount advanced | Interest rate | Amount retained |
| Fubon Bank | \$ 172,910 | \$ 476,798 | \$ 154,298 | 0.84%~1.16% | \$ 18,612 |
| SinoPac Bank | 61,683 | 319,850 | 55,450 | 1.56%~1.68% | 6,233 |
| Taishin Bank | 211,152 | 215,410 | 168,568 | 0.95%~1.08% | 42,584 |
| | <u>\$ 445,745</u> | <u>\$ 1,012,058</u> | <u>\$ 378,316</u> | | <u>\$ 67,429</u> |

C. As of December 31, 2010 and 2009, the Group had issued promissory notes to guarantee for the sales of accounts receivable, please see Note 7 (2).

6) INVENTORIES, NET

| | <u>December 31,</u> | |
|---|---------------------|--------------------|
| | <u>2010</u> | <u>2009</u> |
| Raw materials and supplies | \$3,180,109 | \$3,051,370 |
| Work in process | 1,497,761 | 1,438,699 |
| Finished goods | 3,816,960 | 2,877,690 |
| Less: Allowance for price decline and obsolescence | (1,327,196) | (1,173,869) |
| | 7,167,634 | 6,193,890 |
| Inventory in transit | <u>403,520</u> | <u>449,771</u> |
| | <u>\$7,571,154</u> | <u>\$6,643,661</u> |

Expense and loss incurred on inventories for the years ended December 31, 2010 and 2009 were as follows:

| | <u>For the years ended December 31</u> | |
|-----------------------------------|--|----------------------|
| | <u>2010</u> | <u>2009</u> |
| Cost of inventories sold | \$ 50,986,042 | \$ 43,389,512 |
| Loss on market price decline | 573,468 | 736,700 |
| Loss (gain) on physical inventory | <u>106</u> | <u>(5,155)</u> |
| | <u>\$ 51,559,616</u> | <u>\$ 44,121,057</u> |

7) LONG-TERM INVESTMENTS AT EQUITY

A. The breakdown of long-term investments:

| | <u>December 31, 2010</u> | | <u>2010</u> |
|---|--------------------------|--|--|
| <u>Investee company</u> | <u>Amount</u> | <u>Percentage Of Ownership</u> | <u>Investment Income/ (Loss)</u> |
| Skanhex Technology Inc. (Skanhex) | \$ - | 28.98% | \$ - |
| Newmax Technology Co., Ltd. (Newmax) | 531,723 | 21.35% | 101,131 |
| Sky Fine Investment Limited | <u>41,780</u> | 24.00% | <u>(14,993)</u> |
| | <u>\$ 573,503</u> | | <u>\$ 86,138</u> |

| | <u>December 31, 2009</u> | | <u>2009</u> |
|---|--------------------------|--|--|
| <u>Investee company</u> | <u>Amount</u> | <u>Percentage Of Ownership</u> | <u>Investment Income/ (Loss)</u> |
| Skanhex Technology Inc. (Skanhex) | \$ - | 28.98% | \$ - |
| Newmax Technology Co., Ltd. (Newmax) | 315,804 | 30.67% | 27,139 |
| DigiLife Technologies Co., Ltd | 59,822 | 24.00% | 10,999 |
| Sky Fine Investment Limited | <u>-</u> | - | <u>(4,654)</u> |
| | <u>\$ 375,626</u> | | <u>\$ 33,484</u> |

B. The investment income of these investee companies accounted for under the equity method was audited by other auditors.

8) PROPERTY, PLANT AND EQUIPMENT

| | <u>December 31, 2010</u> | | | |
|--------------------------|--------------------------|--------------------------------|-------------------------------------|---------------------------|
| | <u>Cost</u> | <u>Appraisal increment</u> | <u>Accumulated depreciation</u> | <u>Net book value</u> |
| Land | \$ 1,581,068 | \$ 53,526 | \$ - | \$1,634,594 |
| Plant and buildings | 2,857,083 | - | (874,302) | 1,982,781 |
| Machinery equipment | 3,544,371 | - | (1,268,895) | 2,275,476 |
| Tooling equipment | 2,448,523 | - | (1,261,209) | 1,187,314 |
| Test equipment | 960,249 | - | (595,923) | 364,326 |
| Transportation equipment | 66,422 | - | (31,615) | 34,807 |
| Leasehold improvements | 27,056 | - | (15,058) | 11,998 |
| Miscellaneous equipment | 1,354,545 | - | (748,190) | 606,355 |
| Prepayment for equipment | 509,568 | - | - | 509,568 |
| | <u>\$13,348,885</u> | <u>\$ 53,526</u> | <u>(\$4,795,192)</u> | <u>\$8,607,219</u> |

| | <u>December 31, 2009</u> | | | |
|--------------------------|--------------------------|--------------------------------|-------------------------------------|---------------------------|
| | <u>Cost</u> | <u>Appraisal increment</u> | <u>Accumulated depreciation</u> | <u>Net book value</u> |
| Land | \$ 1,513,879 | \$ 53,526 | (\$ 546) | \$1,566,859 |
| Plant and buildings | 2,966,746 | - | (802,280) | 2,164,466 |
| Machinery equipment | 3,332,423 | - | (1,168,436) | 2,163,987 |
| Tooling equipment | 2,032,590 | - | (1,019,739) | 1,012,851 |
| Test equipment | 823,626 | - | (562,674) | 260,952 |
| Transportation equipment | 59,345 | - | (34,971) | 24,374 |
| Leasehold Improvements | 18,429 | - | (11,717) | 6,712 |
| Miscellaneous equipment | 1,143,366 | - | (631,298) | 512,068 |
| Prepayment for equipment | 376,938 | - | - | 376,938 |
| | <u>\$12,267,342</u> | <u>\$ 53,526</u> | <u>(\$4,231,661)</u> | <u>\$8,089,207</u> |

- A. The revaluation increment of land and the reserve for land incremental tax was \$84,208 and \$36,488, respectively. The net appreciation on revaluation of \$47,720 was transferred to capital reserve as of December 31, 1999. As of December 31, 2010, the reserve for land incremental tax was \$31,771.
- B. No interest was capitalized in 2010 and 2009.
- C. Effective January 1, 2009, the subsidiary-Hipro Electronics (Dong Guan) Co., Ltd. changed the estimated useful lives of its property, plant and equipment. Please see Note 3(2) for detailed information.

9) IMPAIRMENT OF NON-FINANCIAL ASSETS

| | <u>For the years ended December 31,</u> | |
|-----------------------------|---|---------------|
| | <u>2010</u> | <u>2009</u> |
| Impairment loss-idle assets | <u>\$ -</u> | <u>\$ 796</u> |

10) INTANGIBLE ASSETS

| | <u>December 31,</u> | |
|--------------------------------|---------------------|-------------------|
| | <u>2010</u> | <u>2009</u> |
| Land use rights | \$ 163,238 | \$ 133,759 |
| Less: accumulated amortization | (29,120) | (27,754) |
| | <u>\$ 134,118</u> | <u>\$ 106,005</u> |

11) DEFERRED CHARGES

| | <u>December 31,</u> | |
|------------|---------------------|-------------------|
| | <u>2010</u> | <u>2009</u> |
| Trademarks | \$ 190 | \$ 219 |
| Patents | 10,180 | 14,095 |
| Others | <u>192,910</u> | <u>158,483</u> |
| | <u>\$ 203,280</u> | <u>\$ 172,797</u> |

12) SHORT-TERM LOANS

| | <u>December 31,</u> | |
|---------------------------------|---------------------|---------------------|
| | <u>2010</u> | <u>2009</u> |
| Secured short-term bank loans | \$ 45,926 | \$ 87,030 |
| Unsecured short-term bank loans | <u>2,582,321</u> | <u>1,906,173</u> |
| | <u>\$ 2,628,247</u> | <u>\$ 1,993,203</u> |
| Interest rates | <u>0.79%~3.98%</u> | <u>0.88%~6.30%</u> |

As of December 31, 2010 and 2009, the Group had issued promissory notes to guarantee the short-term loans, please see Notes 6 and 7(2).

13) BONDS PAYABLE

- 1) The Company issued unsecured convertible bonds in May, 2008. Except for the early redemption and cancellation of the bonds amounting to \$9,400, the Company, as of November 18, 2009, had converted bonds totaling \$990,600 (face value) to 19,889,118 shares of common stocks from treasury stocks.
- 2) The Company reversed Capital reserve- treasury stock amounting to \$179,681 and Capital reserve-stock warrants amounting to \$54,740 due to the above early redemption and cancellation of the bonds.

14) LONG-TERM LOANS

| <u>Bank</u> | <u>Period</u> | <u>Interest</u> | <u>December, 31, 2010</u> |
|--------------------------------|-----------------|-----------------|---------------------------|
| E Sun Bank(Series A) | 2009.2~2012.2 | 2.00% | \$ 1,700,000 |
| E Sun Bank (Series B)(Note) | 2010.10~2011.3 | 2.00% | 400,000 |
| E Sun Bank (Series B)(Note) | 2010.10~2011.3 | 2.00% | 400,000 |
| SinoPac Bank | 2009.8~2011.8 | 1.77% | 150,000 |
| SinoPac Bank | 2009.10~2011.10 | 1.77% | 150,000 |
| Industrial Bank of Taiwan | 2010.12~2011.3 | 0.90% | 30,000 |
| TCB BANK(Note) | 2010.11~2011.2 | 1.81% | 815,220 |
| TCB BANK(Note) | 2010.12~2011.3 | 1.82% | 465,840 |
| TCB BANK(Note) | 2010.12~2011.3 | 1.83% | 291,150 |
| Less: Current portion | | | (300,000) |
| | | | <u>\$ 4,102,210</u> |

| <u>Bank</u> | <u>Period</u> | <u>Interest</u> | <u>December, 31, 2009</u> |
|--------------------------------|-----------------|-----------------|---------------------------|
| E Sun Bank(Series A) | 2009.2~2012.2 | 2.00% | \$ 1,700,000 |
| E Sun Bank (Series B)(Note) | 2009.10~2010.1 | 2.00% | 400,000 |
| E Sun Bank (Series B)(Note) | 2009.10~2010.1 | 2.00% | 400,000 |
| SinoPac Bank | 2009.8~2011.8 | 1.63% | 150,000 |
| SinoPac Bank | 2009.10~2011.10 | 1.63% | 150,000 |
| TCB BANK(Note) | 2009.12~2010.3 | 2.00% | 500,000 |
| TCB BANK(Note) | 2009.12~2010.3 | 2.00% | 300,000 |
| | | | <u>\$ 3,600,000</u> |

Note: Revolving credit in three years starting from three and a half years after the first drawdown, each credit period limited to 90 to 180 days.

A) As of December 31, 2010 and 2009, the Group had issued promissory notes to guarantee the long-term loans, please see Notes 6 and 7(2).

B) A long-term syndicated construction loan facility amounting to \$4,000,000 (Series A: \$2,400,000, can finance in batches but credit revolving; Series B: \$1,600,000, credit revolving) for three years was signed by the Company, with E. Sun Commercial Bank as the lead bank in January 2009. It is to be used for medium term operating capital. Repayments will be in accordance with contract requirements. As of December 31, 2010, \$2,500,000 was drawdown. The main contents of the contract are as follows:

a. Semi-annual and annual reports should maintain financial ratios as follows:

- i) Current ratio is above 100%,
- ii) Financial liabilities less cash and cash equivalents divided by net tangible assets is under 140%,
- iii) Time interest earned is above 300%,
- iv) Net tangible assets are above \$6,000,000,
- v) Liability ratio is under 320% on June 30, 2009, December 31, 2009 and June 30, 2010; under 300% on December 31, 2010 and June 30, 2011; under 250% on December 31, 2011.

If the Company does not conform to the contract, the Company should modify within nine month.

- b. The Company should use the debts for its intended purpose (not for treasury stock, capital expenditure, cash dividends and investments) and prepare the appropriate books and records of outlay for examinations. Lenders do not take responsibility for supervision.
 - c. If the Company needs additional operating capital, the Company should issue stocks for cash, borrow from stockholders, or others. If the borrower obtains capital from stockholders, the Company should get the commitment from stockholders that the creditor's right is subordinated, and the interest rate should not be over the lowest rate in the contract.
 - d. Parts of the credit rights of qualified accounts receivable of the Company are transferred to the lead bank after the contract date. These qualified accounts receivable plus the balance of the special-purpose bank account should be over 100% of the facility of Series B.
- C) A long-term syndicated construction loan facility amounting to \$3,500,000 (credit revolving) for three years was signed by CP, with Taiwan Cooperative Bank as the lead bank in October 2009. It is to be used for medium term operating capital. As of December 31, 2010, \$1,572,210 is drawdown and repayments will be in accordance with contract requirements.. The main contents of the contract are as follows:

- a. Annual consolidated financial reports should maintain financial ratios as follows:
 - i) Current ratio is above 100%,
 - ii) Financial liabilities divided by net tangible asset is under 270%,
 - iii) Time interest earned is above 300%,
 - iv) Net tangible assets are above \$2,000,000,

If CP does not conform to the contract, it should modify within nine months.

- b. The ratio of qualified accounts receivable plus the balance of the special-purpose bank account dividend by the balance drawn down

should be over 85% of the facility of Series B. The abovementioned balance drawn down is the amount going to draw plus the amount hadn't been reimbursed. If CP does not conform to the contract, it should notify the lead bank and take the following measures:

- i) To provide other qualified accounts receivable agreed by lead bank; or
 - ii) To reimburse in advance; or
 - iii) To deposit to the special-purpose bank account.
- c. CP should pay the commission fee every three months after six month later than the first drawdown. The payment is 0.15% of the margin between the balance drawn down and 60% of the facility.
- d. The Company and affiliate companies should hold over 51% shares of CP, and control the operating rights (have over 51% shares of the Board of directors and supervisors) or follow "Taiwan Stock Exchange Corporation Rules Governing the Collection of Securities Listing Application Review Fees" and "GreTai Securities Market Regulations Governing Review of Securities Traded on Over-the-Counter Markets".

15) RESERVE FOR PENSION

- A. The Company and its Taiwan subsidiaries have their own non-contributory and funded defined benefit pension plan in accordance with the Labor Standards Law, covering all regular employees hired before July 1, 2005. The Company contributes monthly an amount equal to 2% of the employees' monthly salaries and wages to the retirement fund deposited with Bank of Taiwan, the trustee, under the name of the independent retirement fund committee. The fund balance with the Bank of Taiwan was \$214,048 and \$215,936 as of December 31, 2010 and 2009, respectively.
- B. The Company used December 31, 2010 and 2009 as the measurement date for the pension actuary valuation and the related information are as follows:

| | <u>2010</u> | <u>2009</u> |
|-------------------------------|-------------|-------------|
| Discount rate | 1.75%~2.25% | 2.00%~2.25% |
| Expected fund return rate | 2.00%~3.00% | 2.00%~2.25% |
| Expected salary increase rate | 1.75%~2.75% | 2.00%~3.00% |

C. Reconciliation of funded status:

| | <u>December 31,</u> | |
|--|---------------------|--------------------|
| | <u>2010</u> | <u>2009</u> |
| Benefit obligations: | | |
| Vested benefit obligation | (\$ 55,595) | (\$ 36,600) |
| Non-vested benefit obligation | (133,880) | (142,690) |
| Accumulated benefit obligation | (189,475) | (172,290) |
| Additional benefits based on future salaries | (65,245) | (61,908) |
| Projected benefit obligation | (254,720) | (241,198) |
| Fair value of plan assets | <u>214,048</u> | <u>215,936</u> |
| Funded status | (40,672) | (25,262) |
| Unrecognized net transition obligation | 2,113 | 4,357 |
| Unrecognized gain | <u>3,182</u> | (12,080) |
| Accrued pension liabilities | <u>(\$ 35,377)</u> | <u>(\$ 32,985)</u> |

D. Pension cost consisted of the following:

| | <u>2010</u> | <u>2009</u> |
|--|-----------------|-----------------|
| Service cost | \$ 5,426 | \$ 5,444 |
| Interest cost | 4,838 | 5,959 |
| Expected return on pension assets | (4,349) | (5,342) |
| Amortization of unrecognized net transition obligation | 2,244 | 4,017 |
| Amortization of unrecognized pension gain | (420) | (674) |
| Gain or loss from curtailment or settlement | - | (801) |
| Net periodic pension cost | <u>\$ 7,739</u> | <u>\$ 8,603</u> |

E. Effective July 1, 2005, the Company and its Taiwan subsidiaries established their own funded defined contribution pension plan (the “New Plan”) under the Labor Pension Act (the “Act”). Employees have the option to be covered under the New Plan. Under the New Plan, the Company and its Taiwan subsidiaries contribute monthly an amount based on 6% of the employees’ monthly salaries and wages to the employees’ individual pension accounts at the Bureau of Labor Insurance. The benefits accrued are portable upon termination of employment. The pension costs under the defined contribution pension plan for the years ended December 31, 2010 and 2009 amounted to \$44,700 and \$40,051, respectively.

F. UNIKEY and the overseas subsidiaries of the Company have a funded defined contribution plan. The pension costs under the defined contribution pension plan for the years ended December 31, 2010 and 2009 amounted to \$5,008 and \$4,657, respectively.

G. The Company’s subsidiaries in Mainland China have a funded defined contribution plan. Monthly contributions are based on the employees’ monthly salaries and wages to an independent fund administered by the government in accordance with the pension regulations in the People’s

Republic of China (PRC). The pension costs under the defined contribution pension plan for the years ended December 31, 2010 and 2009 amounted to \$199,017 and \$122,909, respectively.

16) COMMON STOCK

- A. As of December 31, 2010 and 2009, the authorized common stock was \$7,000,000, with a par value of \$10 (in dollars) per share. Additionally, the paid-in capital was \$6,256,144 and \$5,912,778 and the outstanding common stock was \$625,614 and \$591,278, respectively.
- B. The stockholders at their meeting on June 9, 2010 had approved to issue common stock dividends amounting to \$290,633 and employees' stock bonus amounting to \$363,335 (5,284,000 shares) at a price of \$68.76 (in dollars) based on the previous closing price of \$75.5 (in dollars) at the day of the stockholders' meeting on June 8, 2010. This capitalization had issued 34,347,000 shares and obtained a letter of approval from the appropriate authorities. The issued date was set on July 24, 2010, and the Company had completed related registration on August 3, 2010.

17) CAPITAL RESERVE

- A. Under the ROC SFC regulations, the capital reserve resulting from paid-up capital in excess of par value from the issuance of stock for cash and donation income shall be used exclusively to cover losses, if legal reserve is insufficient to cover such losses, or to increase capital within the allowed limit of 10% of paid-in capital annually.
- B. Please see Note 4(12) for detailed information of capital reserve from stock warrants

18) RETAINED EARNINGS

A. Legal reserve

The Company Law requires the Company to set aside 10% of its annual net income as legal reserve (less prior years' losses, if any) before it declares any part of such net profits as dividends and/or bonuses, until the legal reserve equals the total paid-in capital. This reserve shall be used exclusively to cover losses or, if the balance of the reserve exceeds 50% of paid-in capital, to increase capital not exceeding 50% of the reserve balance.

B. Special reserve

Under the R.O.C. SFC regulations, in addition to legal reserve and prior to distribution of earnings, the Company should set aside a special reserve in an amount equal to the net change in the reduction of the stockholders' equity as of the prior year from its annual net income and undistributed earnings of prior years, resulting from adjustments such as cumulative foreign currency translation adjustment and unrealized loss on long-term investment. Such special reserve is not available for dividend distribution. In the subsequent year(s), if the year-end balances of the cumulative foreign currency translation adjustment and unrealized loss on long-term investment no longer result in a reduction in stockholders' equity, the special reserve previously set aside will then be available for distribution as decided in the annual stockholders' meeting.

C. Undistributed earnings

- (1) According to the Articles of Incorporation, the Company's net income (less income taxes and prior years' losses, if any) is appropriated in the following order:
 - a) 10% for legal reserve, until the legal reserve equals the total capital stock balance;
 - b) special reserve in accordance with Article 41 of the R.O.C. Security Exchange Act and the related R.O.C. SFC's regulations;
 - c) 1% as directors' and supervisors' remuneration;
 - d) 16% as employees' bonus;
 - e) The Board of Directors should present the distribution of the remaining earnings for the approval of shareholders' meeting.
- (2) The Taiwan imputation tax system requires that any undistributed current earnings, on tax basis, of a company derived on or after January 1, 1998 be subject to an additional 10% corporate income tax if the earnings are not distributed before a specific time. This 10% additional tax on undistributed earnings paid by the Company can be used as tax credit by the shareholders, including foreign shareholders, against the withholding tax on dividends. In addition, the domestic shareholders can claim a proportionate share in the Company's corporate income tax as tax credit against its individual income tax liability effective 1998. The information on these undistributed earnings and tax credits are as follows:

| | <u>December 31,</u> | |
|--|---------------------|--------------------|
| | <u>2010</u> | <u>2009</u> |
| Undistributed retained earnings before 1998 | \$ 17,867 | \$ 17,867 |
| Undistributed retained earnings in and after 1998 | | |
| - Undistributed earnings subject to the 10% additional tax | 2,005,311 | 1,291,536 |
| - Undistributed earnings not subject to the 10% additional tax | <u>3,650,068</u> | <u>3,330,918</u> |
| | <u>\$5,673,246</u> | <u>\$4,640,321</u> |

(3) Tax Credit

As of December 31, 2010, the imputation tax credit account balance was \$240,250 and the estimated creditable tax ratio was 10.94%. The actual creditable tax ratio of distributed earnings in 2009 was 8.49%.

- (4) The appropriation of 2009 and 2008 earnings had been resolved at the stockholders' meeting on June 9, 2010 and June 10, 2009, respectively. Details are summarized below:

| | <u>2009</u> | | <u>2008</u> | |
|-----------------|--------------------|---|--------------------|---|
| | <u>Amount</u> | <u>Dividends per share (in dollars)</u> | <u>Amount</u> | <u>Dividends per share (in dollars)</u> |
| Legal reserve | \$ 333,092 | \$ - | \$ 290,079 | \$ - |
| Special reserve | - | - | 41,016 | - |
| Stock dividends | 290,633 | 0.5 | 266,000 | 0.5 |
| Cash dividends | <u>2,034,434</u> | <u>3.5</u> | <u>1,330,000</u> | <u>2.5</u> |
| Total | <u>\$2,658,159</u> | <u>\$ 4.0</u> | <u>\$1,927,095</u> | <u>\$ 3.0</u> |

- a. The above mentioned 2009 and 2008 earnings appropriation and capitalization of capital reserve was approved by the Board of Directors. In addition, due to the Company's convertible bonds' possible conversion to common stock which would result in a change of outstanding common stock, the Board of Directors amended the cash dividend ratio from \$2.5 (in dollars) per share to \$2.465 (in dollars) per share, and common stock dividends ratio from 50 shares per thousand shares to 49,307 shares per thousand shares on July 10, 2009.

- (5) On December 31, 2010 and 2009, the Company estimated employees' stock bonus and directors' and supervisors' remuneration as follows:

| | <u>2010</u> | <u>2009</u> |
|--|-------------------|-------------------|
| Employees' stock bonus | \$ 525,610 | \$ 486,215 |
| Directors' and supervisors' remuneration | <u>32,851</u> | <u>30,388</u> |
| Total | <u>\$ 558,461</u> | <u>\$ 516,603</u> |

The estimate was based on net income after tax and legal reserve during this period using the contract's ratio. The information regarding the Board of Directors approval of earnings distribution will be posted to the Market Observation Post System of Taiwan Stock Exchange Corporation website when it is available.

- (6) The above mentioned 2009 earnings appropriation and capitalization of capital reserve was issued 5,284,000 shares at \$68.76 (in dollars). The employees' stock bonus and directors' and supervisors' remuneration recognized in the 2009 financial statements were \$30,388 and \$486,215, respectively. There is no difference between the amount as resolved at the stockholders' meeting and the amount to be recognized in the financial statements.

19) TREASURY STOCK

| | <u>For the year ended December 31, 2010</u> | | | |
|---------------------------------|---|-----------|--------------|---------------|
| | Beginning | | | Ending |
| <u>Purpose of reacquisition</u> | Shares (in | Additions | Disposals | Shares (in |
| | thousands) | | | thousands) |
| To be reissued to employees | <u>10,000</u> | <u>-</u> | <u>-</u> | <u>10,000</u> |
| To be transferred from Bonds | <u>11</u> | <u>-</u> | <u>(11)</u> | <u>-</u> |

| | <u>For the year ended December 31, 2009</u> | | | |
|---------------------------------|---|--------------|------------------|---------------|
| | Beginning | | | Ending |
| <u>Purpose of reacquisition</u> | Shares (in | Additions | Disposals | Shares (in |
| | thousands) | | | thousands) |
| To be reissued to employees | <u>10,000</u> | <u>-</u> | <u>-</u> | <u>10,000</u> |
| To be transferred from Bonds | <u>15,000</u> | <u>4,900</u> | <u>(19,889)</u> | <u>11</u> |

- A) According to the R.O.C. Security Exchange Law, treasury stocks shall not exceed 10% of the total shares of common stocks issued by the Company. The cost of outstanding treasury stocks should not exceed the total of retained earnings, paid-in capital in excess of par value and realized capital reserve. As of December 31, 2010 and 2009, the amount of treasury stock the Company bought back was \$505,291 and \$649,744, respectively.

- B) According to the R.O.C. Security Exchange Act, treasury stocks shall not be pledged and cannot exercise the stockholders' right until reissued.
- C) According to the resolution by the Company's Board of Directors on January 18, 2008, the treasury stocks (15,000 thousand shares) which originally had been reacquired for reissuance to employees were changed for equity conversion with the issuance of convertible bonds. Pursuant to the R.O.C. Securities and Exchange Law, the treasury stocks should be transferred within three years from the date of buyback. The shares not transferred within the three-year period shall be deemed as not issued by the Company, and the amendment registration shall be processed. The Company's resolution as abovementioned had been approved by the relevant Authority. On January 19, 2010, the Board of Directors had approved to cancel 10,822 shares of treasury stock that had not been transferred by the end of 2009. The amendment registration had been approved by the relevant Authority on January 27, 2010.
- D) Effective January 1, 2002, in accordance with R.O.C. SFAS No. 30 "Accounting for Treasury Stock", the Company's common stock owned by its subsidiaries are treated as treasury stock. A summary of the Company's common stock owned by its subsidiaries as of December 31, 2010 and 2009 follows:

| For the year ended December 31, 2010 | | | | | | | | |
|--------------------------------------|-----------------------|------------------|-----------------------|--------------------|----------------------|-----------------------|--------------------|--|
| Subsidiary | Beginning balance | | Stock dividend | | Disposal | | Ending balance | |
| | Shares (in thousands) | Cost value/share | Shares (in thousands) | Share price/shares | Selling price/shares | Shares (in thousands) | Market value/share | |
| UNIKEY | 20,195 | \$ 11.32 | 909 | 2,015 | \$ 81.52 | 19,089 | \$ 65.00 | |
| HEC | 13,929 | 7.59 | 695 | 30 | 89.65 | 14,594 | 65.00 | |

| For the year ended December 31, 2009 | | | | | | | | |
|--------------------------------------|-----------------------|------------------|-----------------------|--------------------|----------------------|-----------------------|--------------------|--|
| Subsidiary | Beginning balance | | Stock dividend | | Disposal | | Ending balance | |
| | Shares (in thousands) | Cost value/share | Shares (in thousands) | Share price/shares | Selling price/shares | Shares (in thousands) | Market value/share | |
| UNIKEY | 19,712 | \$ 11.88 | 972 | 489 | \$ 79.79 | 20,195 | \$ 77.60 | |
| HEC | 13,275 | 7.96 | 654 | - | - | 13,929 | 77.60 | |

- F) As of December 31, 2010 and 2009, the total cost of the Company's share held by its subsidiaries, was as follows:

| Subsidiary | 2010 | 2009 |
|------------|------------------|------------------|
| UNIKEY | \$205,795 | \$228,605 |
| HEC | 105,482 | 105,710 |
| | <u>\$311,277</u> | <u>\$334,315</u> |

20) INCOME TAX

Income tax expense and income tax payable are reconciled as follows:

| | <u>2010</u> | <u>2009</u> |
|---|------------------|------------------|
| Income tax payable | \$686,632 | \$661,391 |
| Adjustment of income tax payable | (103,841) | (4,384) |
| Over provision of prior year's income tax | (221,905) | (91,509) |
| Prepaid tax | <u>272,326</u> | <u>324,131</u> |
| Current income tax expense | 633,212 | 889,629 |
| Net change of deferred income tax | (23,540) | (21,898) |
| Income tax expense | <u>\$609,672</u> | <u>\$867,731</u> |

A. Pursuant to R.O.C. Income Tax Act, the 10% taxes on unappropriated earnings were \$71,377 and \$97,369, respectively, for the years ended December 31, 2009 and 2008.

B. Deferred income tax assets and liabilities:

| | <u>December 31</u> | |
|--|--------------------|------------------|
| | <u>2010</u> | <u>2009</u> |
| Deferred income tax assets | <u>\$172,695</u> | <u>\$213,229</u> |
| Valuation allowance for deferred income tax assets | <u>\$106,851</u> | <u>\$170,647</u> |
| Deferred income tax liabilities | <u>\$ 19,387</u> | <u>\$ 19,665</u> |

C. Deferred income tax assets (liabilities) consist of the following:

| | December 31 | | | |
|--|---------------|--------------------|---------------|--------------------|
| | 2010 | | 2009 | |
| <u>Current deferred income tax assets</u> | <u>Amount</u> | <u>Tax effect</u> | <u>Amount</u> | <u>Tax effect</u> |
| Unrealized exchange loss | \$180,569 | \$ 30,697 | \$ 74,660 | \$ 14,932 |
| Unrealized intercompany profit | 6,912 | 1,175 | 10,930 | 2,186 |
| Provision for inventory price decline and obsolescence | 73,055 | 12,695 | 66,055 | 13,211 |
| Allowance for doubtful accounts in excess of tax limit | 119,859 | 20,570 | 149,220 | 29,844 |
| Unrealized gain on disposal of fixed assets | 2,324 | 395 | 3,145 | 629 |
| Tax benefit resulting from operating loss carryforwards | - | - | 72,528 | 8,610 |
| Others | 87,559 | 14,979 | 121,110 | 24,222 |
| Unrealized gain on financial assets | (27,829) | (4,731) | (11,460) | (2,292) |
| Allowance on deferred income tax assets | | (33,056) | | (55,893) |
| | | <u>\$ 42,724</u> | | <u>\$ 35,449</u> |
| <u>Non-current deferred income tax assets</u> | | | | |
| Unrealized gain on disposal of fixed assets | \$ 16,124 | \$ 2,741 | \$ 21,690 | \$ 4,338 |
| Unfunded pension expense | 39,728 | 6,754 | 37,505 | 7,501 |
| Long-term investment loss | 201,912 | 34,325 | 191,005 | 38,201 |
| Tax benefit resulting from operating loss carryforwards | 148,084 | 25,773 | 316,910 | 63,382 |
| Others | 28,773 | 5,622 | 27,905 | 5,581 |
| Investment tax credits | | 16,969 | | 592 |
| Allowance on deferred income tax assets | | (73,795) | | (114,754) |
| | | <u>\$ 18,389</u> | | <u>\$ 4,841</u> |
| <u>Non-current deferred income tax liabilities</u> | | | | |
| Long-term investment gain etc. | (\$ 71,792) | (\$ 12,205) | (\$ 71,792) | (\$ 14,358) |
| Temporary differences of fixed assets for tax and financial purposes | (12,253) | (2,451) | (15,075) | (3,015) |
| | | <u>(\$ 14,656)</u> | | <u>(\$ 17,373)</u> |

D. As of December 31, 2010, the Company's income tax returns for the years through 2007 have been assessed and approved by the R.O.C Tax Authority.

E. As of December 31, 2010, the subsidiaries' balance of tax benefits resulting from operating loss carry forwards amounted to \$148,084 with the final year tax credits due in 2020.

F. Some of the Company's subsidiaries were incorporated in an economic development area of Mainland China. Based on the related laws, such subsidiaries are entitled to an exemption from income taxes in the first and second profit-making years and a 50% reduction during the third to fifth profit-making years.

earnings resolved at the stockholders' meeting held in 2008 is still in accordance with the regulations on capitalization of employees' bonus under paragraphs 19 and 39 of R.O.C. SFAS No. 24, "Earnings per Share".

22) PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

| | For the years ended December 31, | | | | | |
|--------------------|----------------------------------|--------------------------|--------------|-----------------------|--------------------------|--------------|
| | 2010 | | | 2009 | | |
| | <u>Operating cost</u> | <u>Operating Expense</u> | <u>Total</u> | <u>Operating cost</u> | <u>Operating Expense</u> | <u>Total</u> |
| Personnel Expenses | | | | | | |
| Salaries and wages | \$ 3,667,373 | \$2,239,446 | \$5,906,819 | \$ 3,038,012 | \$2,192,597 | \$5,230,609 |
| Insurance | 22,507 | 102,716 | 125,223 | 9,056 | 92,475 | 101,531 |
| Pension | 73,406 | 183,058 | 256,464 | 35,621 | 140,599 | 176,220 |
| Others | 45,145 | 107,775 | 152,920 | 85,639 | 75,176 | 160,815 |
| Depreciation | 729,698 | 290,309 | 1,020,007 | 699,295 | 281,486 | 980,781 |
| Amortization | 35,699 | 137,500 | 173,199 | 27,131 | 131,534 | 158,665 |

5. RELATED PARTY TRANSACTIONS

1) Relationship with major related parties

| <u>Names of related parties</u> | <u>Relationship with the Company</u> |
|--|--|
| Clevo Co. (Clevo) | Common Chairman |
| Newmax Technology Inc. (Newmax) | Investee company accounted for under the equity method of UNIKEY |
| Skanhex Technology Inc. (Skanhex) | Investee company accounted for under the equity method |
| Jim Yu Electronics (Wu Juang) Co., Ltd. (Jim Yu) | Investee company accounted for under the equity method of GFI |
| DigiLife Technologies Co., Ltd. (DigiLife) | Investee company accounted for under the equity method of UNIKEY and Quansun before June, 2009.(Note) |
| Farwin Electronics Co., Ltd. (Farwin) | Investee company accounted for under the equity method of Sky-Fine |
| Kai Bo computer (Kunshan) Co., Ltd. (Kai Bo Kunshan) | Investee company accounted for under the equity method of Clevo |

Note: UNIKEY and Quansun Investment Corp. Ltd. had sold all shares of DigiLife at September, 2009.

2) Significant related party transactions and balances

A. Sales to related parties

| | For the years ended December 31, | | | |
|----------------|----------------------------------|----------------|-------------------|----------------|
| | 2010 | | 2009 | |
| | Amount | % of net sales | Amount | % of net sales |
| Kai Bo Kunshan | \$ 115,658 | - | \$ 65,548 | - |
| Jim Yu | 30,810 | - | - | - |
| Clevo | 200 | - | 465 | - |
| DigiLife | - | - | 53,823 | - |
| | <u>\$ 146,668</u> | <u>-</u> | <u>\$ 119,936</u> | <u>-</u> |

The terms of the sales to related parties were the same as those to third parties. In general, the collection periods ranged from 60 to 90 days.

B. Accounts receivable from related parties

| | December 31, | | | |
|----------------|------------------|--|------------------|--|
| | 2010 | | 2009 | |
| | Amount | % of total notes and accounts receivable | Amount | % of total notes and accounts receivable |
| Kai Bo Kunshan | \$ 58,248 | - | \$ 20,008 | - |
| Jim Yu | 12,906 | - | - | - |
| | <u>\$ 71,154</u> | <u>-</u> | <u>\$ 20,008</u> | <u>-</u> |

C. Purchases

| | For the years ended December 31, | | | |
|----------|----------------------------------|--------------------|--------------------|--------------------|
| | 2010 | | 2009 | |
| | Amount | % of net purchases | Amount | % of net purchases |
| Newmax | \$ 681,750 | 1 | \$ 823,210 | 2 |
| Jim Yu | 500,108 | 1 | 322,505 | - |
| Farwin | 395,223 | 1 | 412,831 | 1 |
| DigiLife | - | - | 10,669 | - |
| | <u>\$1,577,081</u> | <u>3</u> | <u>\$1,569,215</u> | <u>3</u> |

All purchases were made in the normal course of business.

D. Payables to related parties

| | December 31, | | | |
|--------|------------------|-----------------------------|------------------|-----------------------------|
| | 2010 | | 2009 | |
| | Amount | % of total accounts payable | Amount | % of total accounts payable |
| Newmax | \$106,010 | 1 | \$154,982 | 1 |
| Farwin | 84,319 | 1 | 42,910 | - |
| Jim Yu | 77,671 | 1 | 165,014 | 1 |
| Skahex | 1,103 | - | 1,212 | - |
| | <u>\$269,103</u> | <u>3</u> | <u>\$364,118</u> | <u>2</u> |

E) Salaries / rewards information of key management, such as directors, supervisors, general manager, vice general manager, etc.

| | <u>For the years ended December 31,</u> | |
|---------------------|---|-------------------|
| | <u>2010</u> | <u>2009</u> |
| Salaries | \$ 51,142 | \$ 38,719 |
| Bonuses | 76,410 | 63,491 |
| Earnings assignment | <u>193,134</u> | <u>158,103</u> |
| Total | <u>\$ 320,686</u> | <u>\$ 260,313</u> |

a) Salaries include regular wages, special responsibility allowances, pensions, severance pay, etc.

b) Bonuses include various bonuses and rewards.

c) Service executive fees include travel allowances, special expenditures, various allowances, dorms and vehicles benefits, etc.

d) Earnings assignment included directors' and supervisors' remuneration and employee bonuses. (The earnings assignment of 2009 has been adjusted base on actual information.)

e) The relevant information above was posted in the Company's annual report.

6. PLEDGED ASSETS

(1) The following assets were pledged to secure loans and other credit facilities:

| <u>Assets</u> | <u>December 31</u> | | <u>Purpose</u> |
|--|--------------------|--------------------|--|
| | <u>2010</u> | <u>2009</u> | |
| Pledged bank deposit (shown as other financial assets-noncurrent) | \$ 87,013 | \$ 122,063 | Guarantee for tariff and loans |
| Fixed bank deposit (shown as other financial assets-current) | 2,478 | 3,391 | Guarantee for tariff and social insurance |
| Land, plant and equipment and land use rights (shown as other intangible assets) | 997,530 | 1,374,159 | Guarantee for short-term and long-term loans |
| Refundable deposits | <u>58,614</u> | <u>40,734</u> | Guarantee for financial trading and rental |
| | <u>\$1,145,635</u> | <u>\$1,540,347</u> | |

(2) As of December 31, 2010, UNIKEY and HEC have pledged the Company's common stock (shown as "treasury stock") amounting to 5,000,000 and 11,000,000 shares, respectively, as security for loans.

7. COMMITMENTS AND CONTINGENT LIABILITIES

As of December 31, 2010, the Group had the following significant contingent liabilities and commitments.

- 1) The Group had unused letters of credit for purchases of raw materials approximating \$19,320.
- 2) For financing forward exchange contracts and accounts receivable factoring purposes, the Group provided standby promissory notes totaling \$21,721,662 as security.
- 3) The Company had issued contracts for acquisition of computer equipment and software amounting to \$3,112.
- 4) The subsidiaries, XAVi, CP, Mao-Ray, DongGuan Haderiou Plastic Corporation, CAI, CPSZ, QS and CPUS had leasing commitments amounting to \$592,440.
- 5) CEM2, Mao-Ray and Dong Guan Haderiou Plastic Corporation have aggregate minimum commitments under the agreements with local government for leasing land from 1998 to 2042. The related leasing and management fee each year is \$37,717.

8. MAJOR CATASTROPHE

None.

9. SUBSEQUENT EVENTS

- 1) The Company and its subsidiary - Chicony Power Co., Ltd. participated in the private placement of Genesis Photonics Inc. on March 1, 2011, obtaining 13,300,000 and 6,700,000 shares at a price of \$63 (in dollars) per share, respectively.
- 2) The Company intends to set up a plant in Chongqing, China by its subsidiary-COI. The proposed investment is US \$18,000 thousand. The Company's investment as above mentioned had been approved by the relevant Authority in March, 2011.
- 3) The Company's subsidiary-Chicony Power Co., Ltd. intends to set up a plant in Chongqing, China by its subsidiary-Chicony Power Technology Hong Kong Limited. The proposed investment is US \$10,000 thousand. The Company's investment as above mentioned had been passed by its Board of Directors in March, 2011.

10. OTHERS

- 1) Certain accounts in the 2009 financial statements have been reclassified to conform with the presentation adopted in the 2010 financial statements.

2) Fair value of financial instruments:

| | December 31, 2010 | | |
|--|-------------------|--|--|
| | <u>Book value</u> | <u>Fair value</u> | |
| | | <u>Quotation in an active market</u> | <u>Estimated using a valuation technique</u> |
| <u>Non-derivative financial instruments</u> | | | |
| Assets | | | |
| Financial assets with book value equal to fair value | \$13,829,892 | \$ - | \$13,829,892 |
| Available-for-sale financial assets | 3,809,005 | 3,809,005 | - |
| Financial assets carried at cost | 1,447,703 | - | - |
| Liabilities | | | |
| Financial liabilities with book value equal to fair value | 16,167,148 | - | 16,167,148 |
| Long-term loans | 4,402,210 | - | 4,402,210 |
| <u>Derivative financial instruments</u> | | | |
| Assets | | | |
| Forward exchange contracts | 17,025 | 17,025 | - |
| SWAP | 31,818 | 31,818 | - |
| Liabilities | | | |
| Forward exchange contracts | 1,075 | 1,075 | - |
| SWAP | 2,915 | 2,915 | - |
| December 31, 2009 | | | |
| | <u>Book value</u> | <u>Fair value</u> | |
| | | <u>Quotation in an active market</u> | <u>Estimated using a valuation technique</u> |
| <u>Non-derivative financial instruments</u> | | | |
| Assets | | | |
| Financial assets with book value equal to fair value | \$13,750,917 | \$ - | \$13,750,917 |
| Available-for-sale financial assets | 2,279,018 | 2,279,018 | - |
| Financial assets carried at cost | 1,368,453 | - | - |
| Liabilities | | | |
| Financial liabilities with book value equal to fair value | 15,708,923 | - | 15,708,923 |
| Long-term loans | 3,600,000 | - | 3,600,000 |
| <u>Derivative financial instruments</u> | | | |
| Assets | | | |
| Forward exchange contracts | 11,609 | 11,609 | - |
| Liabilities | | | |
| Forward exchange contracts | 1,138 | 14,063 | - |

The methods and assumptions used to estimate the fair values of the above financial instruments are summarized below:

- A. For short-term instruments, the fair values were determined based on their carrying values because of their short maturities. This method was applied to

cash and cash equivalents, notes receivable, accounts receivable, other receivables, other financial assets, short-term loans, notes payable, accounts payable, accrued expenses and other payables.

- B. The fair value of the investments in bonds without active markets are based on their call value.
- C. Available-for-sale financial instruments are regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the market for a financial instrument is not active, an entity establishes fair value by using a valuation technique. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing model.
- D. The fair value of long-term loans is estimated using discounted future cash flows with a discount rate based on the interest rates of long-term loans agreement with similar conditions.
- E. For forward exchange contracts, the fair values were based on prices quoted in an active market provided by financial institutions.
- F. After January 1, 2006, the fair value of convertible bonds is based on the discounted present value of predicted future cash flow. The discount rate is the initial effective interest rate of the convertible bonds.
- G. Financial instruments that have balance sheet credit risk: (Amount expressed in thousands)

| | Guarantee Amount | |
|-------------------------------------|---|---|
| | December 31 | |
| | 2010 | 2009 |
| <u>Subsidiaries</u> | <u>Contract value</u> (in thousands) | <u>Contract value</u> (in thousands) |
| Guarantees for certain subsidiaries | <u>EUR 1,000</u> | <u>EUR 4,000</u> |
| " | <u>USD 26,800</u> | <u>USD 48,400</u> |
| " | <u>CZK -</u> | <u>CZK 72,000</u> |

The Company provided guarantees to its subsidiaries for certain loans. The Company does not obtain collaterals for these guarantees due to their familiarity with the subsidiaries' credit standing. If the subsidiaries do not fulfill the obligation in accordance with the agreements, the maximum loss the Company would incur is equal to the amount of the loans to the subsidiaries.

- 3) For available-for-sale financial assets, during the years ended December 31, 2010 and 2009, the amount of gain recognized directly in equity was \$487,527 and \$734,572, respectively.
- 4) Procedure of financial risk control and hedge

The Group's risk control and hedging strategy is influenced by its international operations and investment and financing decisions. The Group communicates this

strategy to every department which it believes is subject to implement this risk management system. The internal audit department then monitors and coordinates these activities to ensure internal control and to measure the market, credit and operation risk effectively.

5) Derivative financial instruments

A. Market risk

The Group's business involves some non-functional currencies which may be affected by exchange rate fluctuations. These major foreign currency denominated assets and foreign liabilities are disclosed as follows:

| (Currency: Functional currency) | December 31 | | | | | |
|---------------------------------------|-------------|---------|--------|----------|---------|--------|
| | 2010 | | | 2009 | | |
| Financial Assets | Currency | Value | Rate | Currency | Value | Rate |
| <u>Monetary items</u> | | | | | | |
| USD:TWD | USD | 333,391 | 29.115 | USD | 315,541 | 31.985 |
| USD:RMB | USD | 98,897 | 6.6228 | USD | 98,573 | 6.8281 |
| Financial Liabilities | | | | | | |
| <u>Monetary items</u> | | | | | | |
| USD:RMB | USD | 277,484 | 6.6228 | USD | 270,258 | 6.8281 |

B. Accounts receivable:

a) Market risk

The Group's major import and export transactions are conducted in United States dollars (USD). The change in fair value will be caused by foreign exchange rate fluctuations. (Please see Note 10(5)A.) However, the amounts and periods of the Group's accounts receivable and accounts payable are equivalent, so the market risk could be offset. No material market risks are expected.

b) Credit risk

The Group has lower significant concentrations of credit risk. It has policies in place to ensure that wholesale sales of products are made to customers with an appropriate credit history. No material credit risks are expected.

c) Liquidity risk

The accounts receivable are due in one year. The liquidity risk exposure is low.

d) Cash flow risk

The accounts receivable are due in one year. The cash flow risk exposure is low.

C. Financial instrument assets (liabilities) (Financial assets at fair value through profit or loss, Available-for-sale financial assets and Financial assets carried at cost)

a) Market risk:

The Group has pre-set a “stop loss” amount to limit its market risk on forward contracts, which would be affected by foreign exchange risk and the financial assets with cost valuation, which cannot be measured reliably would not be affected by foreign exchange risk.

b) Credit risk

The Group has lower significant concentrations of credit risk, due to investments in company and financial bonds, whose credit ratings are high. The maximum loss to the Group is the total amount of book value.

c) Liquidity risk

(i) The Group has prudent liquidity risk management which includes maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.

(ii) Due to the dynamic nature of the underlying businesses, Group Treasury aims to maintain flexibility in funding by keeping committed credit lines available since it was not negotiable based on relating laws.

d) Cash flow risk

No significant interest rate related risks are expected because the Group doesn't undertake the derivative financial instruments, such as interest rate swaps.

D. Financial instrument liabilities

a) Market risk

The Group's financial liability instruments have fixed interest rates, so it has market risk.

b) Credit risk

The Group has no credit risk for financial liability instruments.

c) Liquidity risk

As the Group has adequate operating capital, no significant liquidity risk is expected.

d) Cash flow risk of interest

Because the Group's financial liability instruments have fixed rates, it has no cash flow risk due to interest rate change.

E. Accounts payable:

a) Market risk

The Group's accounts payable are due in one year. No material market risks are expected, please see Note 10(5)A.

b) Credit risk

The Group's accounts payable are due in one year. No material credit risk

is expected.

c) Liquidity risk

The Group's accounts receivable are due in one year. The liquidity risk exposure is low.

d) Cash flow risk

The Group's accounts receivable are due in one year. The cash flow risk exposure is low.

E. Loans:

a) Market risk

The Group's short-term loans are due in one year.

Generally, the Group raises long-term borrowings at fixed rates. No material market risk is expected.

b) Credit risk

No material credit risk is expected.

c) Liquidity risk

The Group's short-term loans are due in one year, and the long-term loans are due in two to three years. The liquidity risk exposure is low.

d) Cash flow risk

The Group's loans are at fixed interest rate. The cash flow risk exposure is low.

11. OTHER DISCLOSURES REQUIRED BY THE SECURITIES AND FUTURES BUREAU

I. Related information of significant transactions for the year ended December 31, 2010.

1) Financing activities to any company or person: (In thousands of New Taiwan dollars)

| <u>Number</u> | <u>Name</u> | <u>Name of the borrowers</u> | <u>Accounts used to record such lending</u> | <u>Maximum balance</u> | <u>Ending balance</u> | <u>Interest rates</u> | <u>Nature for loan</u> | <u>Purpose for loan</u> | <u>The amount of sales/ (purchases) during the year</u> | <u>Collateral and its value</u> | <u>Bad debt allowance provided</u> | <u>The credit limit for the respective borrowers</u> | <u>Maximum aggregating total</u> |
|---------------|-------------|------------------------------|---|------------------------|-----------------------|-----------------------|------------------------|-------------------------|---|---------------------------------|------------------------------------|--|----------------------------------|
| 0 | The Company | UNIKEY | Other receivables | \$ 468,900 | \$ - | 1.50%-1.97% | b | Working capital | \$ - | - | - | \$4,193,122 | \$ 5,590,829 |
| 0 | The Company | Quansun | Other receivables | 430,000 | 291,500 | 1.50%-1.97% | b | Working capital | - | - | - | 4,193,122 | 5,590,829 |
| 0 | The Company | Qun-Jing | Other receivables | 199,000 | 197,000 | 1.48%-1.94% | b | Working capital | - | - | - | 4,193,122 | 5,590,829 |

Note 1: In accordance with the financing procedures of the Company, total financing amount should not exceed 40% of the Company's stockholders' equity and

a. the total financing amount to any individual party should not exceed 30% of the Company's stockholders' equity and the amount of sales/purchase during the year for the purpose of business.

b. the total financing amount to any individual party should not exceed 30% of the Company's stockholders' equity for the purpose of loan.

c. the financing period should not exceed one year.

Note 2: The natures of financing activities are as follow:

a. have business dealings

b. have the need of short-term finance

2) Guarantee information: (In thousands)

| <u>Number</u> | <u>Name</u> | <u>Name of parties guaranteed</u> | <u>Relationship with the Company</u> (Note 1) | <u>Ceiling of guarantee for such party</u> | <u>The maximum guarantee balance</u> | <u>Outstanding guarantee amount at December 31, 2010</u> | <u>The amount of collateral placed</u> | <u>The ratio of accumulated guarantee</u> | <u>Maximum aggregating total</u> (Note 2) |
|---------------|-------------|-----------------------------------|--|--|--------------------------------------|--|--|---|--|
| 0 | The Company | CEG | c | \$ 3,494,268 | EUR 3,000 | EUR 1,000 | - | 0.28% | \$ 6,988,537 |
| 0 | " | CGI | b | 3,494,268 | USD 21,000 | - | - | - | 6,988,537 |
| 0 | " | CGI | b | 3,494,268 | EUR 700 | - | - | - | 6,988,537 |
| 0 | " | CEM3 | c | 3,494,268 | USD 20,800 | USD 15,800 | - | 3.29% | 6,988,537 |
| 0 | " | CEZ | c | 3,494,268 | USD 8,000 | USD 8,000 | - | 1.67% | 6,988,537 |
| 0 | " | Mao-Qun | c | 3,494,268 | USD 3,600 | - | - | - | 6,988,537 |
| 0 | " | CPSZ | c | 3,494,268 | USD 1,900 | - | - | - | 6,988,537 |
| 0 | " | Real Young | c | 3,494,268 | USD 3,000 | USD 3,000 | - | 0.62% | 6,988,537 |
| | | | | | | | | <u>5.86%</u> | |

Note 1: The natures of parties guaranteed are as follow:

- a. the Company is the subsidiary of the party
- b. the Company have business dealings with the party
- c. the party is the subsidiary of the Company
- d. Subsidiaries which the Company has their shares exceed 90% directly or indirectly
- e. the party which have the Company's share exceeding 50% directly or indirectly

Note 2: In accordance with the guarantee procedure of the Company, the total guarantee amount is limited to 50% of the Company's paid-in capital. The Company's guarantee to each entity is limited to 50% of the total guarantee amount.

- a. the total guarantee amount , except the above mentioned restriction, to any individual party should not exceed the amount of sales/purchase during the year for the purpose of business.
- b. the total guarantee amount is limited to the Company's stockholders' equity when the Company takes guarantee procedure to the entity whose stockholders' equity is lower than 50% of its paid-in capital.

3) The details of marketable securities held at December 31, 2010:

| | | | | December 31, 2010 | | | | | |
|---------------------------------|-------------------------------|---|--|--|-------------|---------------------|------------|--------------|------|
| The Company or the subsidiaries | Type of marketable securities | Name of marketable securities | The relationship of the issuers with the Company | General ledger accounts | Shares | Book value | Percentage | Market value | Note |
| The Company | Common stock | Clevo Co. | Common chairman | Available-for-sale financial assets | 19,081,776 | \$ 835,560 | 2.99% | \$ 1,288,020 | - |
| The Company | Convertible bonds | Everlight Co., The third unsecured convertible bonds | - | " | 1,262,000 | 126,741 | 0.57% | 135,665 | - |
| | | The fourth unsecured convertible bonds | - | " | 1,500,000 | 154,981 | 0.60% | 161,250 | - |
| The Company | Common stock | ShunOn Electronic Co. | - | " | 604,812 | 14,157 | 0.56% | 7,863 | - |
| The Company | Common stock | Genesis Photonics Inc | - | " | 692,364 | 33,757 | 0.36% | 36,141 | - |
| The Company | Common stock | Gourmet Master Co., Ltd. | - | " | 60,000 | 10,560 | 0.05% | 17,580 | - |
| The Company | Common stock | Airtac International Group | - | " | 50,000 | 4,600 | 0.03% | 7,400 | - |
| The Company | Common Stock | Alcor Micro Corp. | - | " | 1,099,879 | 60,000 | 1.33% | 64,783 | - |
| | | | | Less: Allowance for decline in market value | | <u>478,346</u> | | | - |
| | | | | | | <u>\$ 1,718,702</u> | | | |
| The Company | Common stock | ShunOn Electronic Co. | - | Investments carried at cost | 15,000,000 | \$ 187,500 | 13.97% | - | - |
| The Company | Common stock | Maxima Ventures I, Inc. | - | " | 2,625,000 | 26,250 | 2.35% | - | - |
| The Company | Common stock | Saga-Polaris Venture Capital Corp. | - | " | 1,500,000 | 15,000 | 4.29% | - | - |
| The Company | Common stock | Alcor Micro Corp. | - | " | 2,500,000 | 98,375 | 3.02% | - | - |
| The Company | Common stock | Xtime | - | " | 93,000 | - | 0.40% | - | - |
| The Company | Common Stock | Genesis Photonics Inc | - | " | 1,000,000 | 21,850 | 0.52% | - | - |
| The Company | Common Stock | Taiwan Cultural and Creative Co., Ltd. | - | " | 1,600,000 | <u>16,000</u> | 6.13% | - | - |
| | | | | | | <u>\$ 364,975</u> | | | |
| The Company | Common stock | COI | Wholly-owned subsidiary | Long-term investments | 1,000 | \$ 8,551,363 | 100% | \$ 8,485,835 | - |
| The Company | Common stock | HOI | " | " | 12,560,000 | 1,360,356 | 100% | 1,360,356 | - |
| The Company | Common stock | CET | " | " | 322,427 | 193 | 15.27% | 6,291 | - |
| The Company | Common stock | UNIKEY | " | " | 15,000,000 | 1,027,922 | 100% | 2,067,248 | - |
| The Company | Common stock | HEC | " | " | 4,660,000 | 486,686 | 100% | 1,329,897 | - |
| The Company | Common stock | HEI | Investee company accounted for under the equity method | " | 15,076,445 | 167,938 | 50.25% | 151,244 | - |
| The Company | Common stock | XAVi | " | " | 20,456,557 | 254,746 | 68.19% | 254,746 | - |
| The Company | Common Stock | Skanhex | " | " | 33,729,960 | - | 29% | - | - |
| The Company | Common Stock | CGI | " | " | 1,000,000 | 1,050,503 | 100% | 1,253,991 | - |
| | Common Stock | CP | " | " | 159,137,000 | 2,165,078 | 65.87% | 2,171,746 | - |
| | | | | Less: common stock of the Company held by subsidiaries | | <u>(311,277)</u> | | | |
| | | | | | | <u>\$14,753,508</u> | | | |

4) Marketable securities acquired or sold during 2010 exceeding \$100,000 or 20% of paid-in capital:

| <u>Investor</u> | <u>Marketable securities</u> | <u>General ledger account</u> | <u>Counterparty</u> | <u>Relationship with the Company</u> | <u>Balance as at January 1, 2010</u> | | <u>Addition</u> | | <u>Disposal</u> | | | | <u>Balance as at December 31, 2010</u> | | |
|-----------------|---|-------------------------------------|---------------------|--------------------------------------|---------------------------------------|---------------|---------------------------------------|---------------|--|---------------|-------------|-------------------|--|---------------------------------------|---------------|
| | | | | | <u>Number of Shares(in thousands)</u> | <u>Amount</u> | <u>Number of Shares(in thousands)</u> | <u>Amount</u> | <u>Number of Shares (in thousands)</u> | <u>Amount</u> | <u>Cost</u> | <u>Book value</u> | <u>Gain on disposal</u> | <u>Number of Shares(in thousands)</u> | <u>Amount</u> |
| The Company | ShunOn Electronic Co. | Investments carried at cost | (Note 1) | (Note 1) | - | \$ - | 15,000 | \$ 187,500 | - | \$ - | \$ - | \$ - | \$ - | 15,000 | \$ 187,500 |
| The Company | XAVi | Long-term investments | (Note 4) | Subsidiary | (Note 3) | (Note 3) | 21,487 | 224,915 | 12,556 | 125,231 | 13,586 | - | 141,995 | - | 208,151 |
| The Company | Everlight Co., The fourth unsecured convertible bonds | Available-for-sale financial assets | - | - | 1,500 | 150,000 | 1,300 | 139,298 | 1,300 | 139,034 | 134,317 | - | 4,717 | 1,500 | 154,981 |
| The Company | TPK Holding Co., Ltd. | Available-for-sale financial assets | - | - | - | - | 181 | 87,691 | 181 | 124,955 | 87,691 | - | 37,264 | - | - |

Note 1: Long-term investments applicable, others not.

Note 2: Based on book value, without considering the allowance.

Note 3: The Company held stocks of ShunOn Electronic Co. as Available-for-sale financial assets at the beginning of this year, totaling 604,812 shares, with cost amounting to 14,157.

Note 4: Take the new issued common stock of the subsidiary.

5) Real estate acquired for the year exceeding \$100,000 or 20% of paid-in capital: None

6) Disposal of real estate for the year exceeding \$100,000 or 20% of paid-in capital balance: None

7) Purchases or sales transactions with related parties exceeding \$100,000 or 20% of paid-in capital balance:

| The Company or investee company | Name of counter party | Relationship with the Company | Conditions of transactions | | | Terms of transactions | | Accounts receivable / (payable) | | |
|---------------------------------------|--------------------------|--|----------------------------|---------------|--|-----------------------|------------------|---------------------------------|----------------|---|
| | | | Type of transactions | Amount | Percentage of sales/ (purchases) | Payment terms | Payment terms | Unit price | Balance | % of total accounts receivable/ (payable) |
| The Company | CEM2 | Wholly-owned subsidiary of COI | Purchases | \$ 10,715,102 | 63% | 30-60 days | (Note 1) | 30-60 days | (\$ 3,930,621) | 88% |
| The Company | Mao-Ray | Wholly-owned subsidiary of Real Young | Purchases | 2,740,346 | 16% | 30-60 days | (Note 1) | 30-60 days | (32,621) | 1% |
| The Company | CEM3 | Wholly-owned subsidiary of Mao-Feng | Purchases | 1,624,525 | 10% | 30-60 days | (Note 1) | 30-60 days | (457,773) | 10% |

Note 1: All purchases were made in the normal course of business.

Note 2: The terms of sales to related parties were the same as those to third parties.

8) Receivables from related parties exceeding \$100,000 or 20% of capital:

| The Company or investee company | Name of counterparties | Relationship with the Company | Balance of receivables from related parties at December 31 | Turnover rate | Overdue receivable | | Subsequent collection | Allowance for bad debts |
|------------------------------------|---------------------------|---|--|---------------|--------------------|--|--------------------------|----------------------------|
| | | | | | Amount | Action adopted for overdue accounts | | |
| <u>Accounts receivable</u> | | | | | | | | |
| The Company | CEM3 | Wholly owned subsidiary of Mao-Feng | \$ 359,223 | - | \$ - | - | \$ - | \$ - |
| <u>Other receivables</u> | | | | | | | | |
| The Company | Quansun | Wholly owned Subsidiary of HEC | 291,908 | - | - | - | - | - |
| The Company | Qun-Jing | Wholly owned Subsidiary of HEC | 197,261 | - | - | - | - | - |

9) Transactions of derivative financial instruments: Please see Note 4(2)

II. Related information of the investee companies:

1). Related information of the investee companies is as follows:

| Name of investor | Name | Address | Main business | Original cost | | Investment details of the Company | | | Net income/ (loss) of the investee | Investment income accounted for under the equity method |
|------------------|--------|-------------------------------------|---|----------------|-------------------|-----------------------------------|---|-------------|------------------------------------|---|
| | | | | Ending balance | Beginning balance | Stock (shares) | Percentage of ownership (direct and indirect) | Book value | | |
| The Company | COI | BVI | (1) Sales of computer peripherals (2) Management of overseas acquisitions & investments | \$ 265,326 | \$ 265,326 | 1,000 | 100% | \$8,551,363 | \$ 998,766 | \$ 990,376 |
| | CET | Thailand | Manufacturing and sales of computer peripherals | 33,920 | 33,920 | 322,427 | 15.27% | 193 | - | - |
| | UNIKEY | Fu Rd., Saung Taipei County, Taiwan | Manufacturing and sales of computer and computer peripherals | 150,000 | 150,000 | 15,000,000 | 100% | 822,127 | 797,500 | 592,409 |
| | HEI | Taipei County, Taiwan R.O.C. | Manufacturing and selling the plastic goods | 212,139 | 212,139 | 15,076,445 | 50.25% | 167,938 | (42,852) | (21,969) |
| | HOI | BVI | (1) Sales of switching power supplies and other electronic parts (2) Management of overseas acquisitions & investments | 412,003 | 412,003 | 12,560,000 | 100% | 1,360,356 | 39,913 | 63,355 |
| | HEC | Taipei City, Taiwan R.O.C. | Sales of switching power supplies and other electronic parts | 2,330 | 2,330 | 4,660,000 | 100% | 381,204 | 124,886 | 65,984 |
| | XAVi | Taipei County, Taiwan R.O.C. | Researching, manufacturing and selling the DSL Bridge and Router | 208,151 | 224,915 | 20,456,557 | 68.19% | 254,746 | 60,232 | 33,487 |
| | CGI | BVI | (1) Sales of computer peripherals (2) Management of overseas acquisitions & investments | 33,027 | 33,027 | 1,000,000 | 100% | 1,050,503 | 356,230 | 328,884 |
| | CP | Taipei County, Taiwan R.O.C. | Manufacturing and sales of computer peripherals | 1,522,180 | 1,522,180 | 159,137,000 | 65.87% | 2,165,078 | 546,882 | 363,287 |

| Name of investor | Name | Address | Main business | Original cost | | Investment details of the Company | | | Net income/ (loss) of the investee | Investment income accounted for under the equity method |
|------------------|------------|--------------------------------|--|----------------|-------------------|-----------------------------------|---|---------------|------------------------------------|---|
| | | | | Ending balance | Beginning balance | Stock (shares) | Percentage of ownership (direct and indirect) | Book value | | |
| The Company | Skahex | Hsinchu City, Taiwan R.O.C. | Manufacturing and sales of Digital Camera | \$ 371,030 | \$ 371,030 | 33,729,960 | 28.98% | \$ - | \$ - | \$ - |
| | | | | | | | | \$ 14,753,508 | | \$ 2,415,813 |
| UNIKEY | Real Young | BVI | (1)Sales of computer peripherals (2)Management of overseas acquisitions & investments | 41,490 | 41,490 | 1,275,000 | 13.95% | \$ 44,095 | (32,676) | - |
| | Newmax | Taichung county, Taiwan R.O.C. | Manufacturing and sales of lens | 433,005 | 368,506 | 18,089,489 | 21.35% | 531,724 | 391,510 | - |
| COI | CAI | U.S.A. | Sales of computer peripherals | US\$ 3,250 | US\$ 3,250 | 3,250,000 | 100% | 74,362 | 4,118 | - |
| | CEG | Germany | Sales of computer peripherals | US\$ 1,584 | US\$ 1,584 | 3,000 | 100% | 32,096 | (1,327) | - |
| | CEM2 | Dong Guan, PRC | Manufacturing and sales of computer and computer peripherals | US\$ 9,600 | US\$ 9,600 | - | 100% | 1,660,438 | 362,192 | - |
| | CAGI | U.S.A. | Internet solution for E-Commerce solution | US\$ 3,105 | US\$ 3,105 | 12,400,000 | 100% | (803) | (26) | - |
| | HET | Thailand | Manufacturing and sales of switching power supplies and other electronic parts | US\$ 21,616 | US\$ 21,616 | 2,359,837 | 76% | 170,228 | (25,157) | - |

| Name of investor | Name | Address | Main business | Original cost | | Investment details of the Company | | | Net income/ (loss) of the investee | Investment income accounted for under the equity method | | |
|------------------|------------|----------------|--|----------------|-------------------|-----------------------------------|---|------------|------------------------------------|---|------------|------|
| | | | | Ending balance | Beginning balance | Stock (shares) | Percentage of ownership (direct and indirect) | Book value | | | | |
| COI | Mao-Feng | BVI | (1) Sales of computer peripherals (2) Management of overseas acquisitions & investments | US\$ | 2,294 | US\$ | 2,294 | 2,294,000 | 100% | \$ 4,889,951 | \$ 689,152 | \$ - |
| | CET | Thailand | Manufacturing and sales of computer and computer peripherals | US\$ | 7,823 | US\$ | 7,823 | 1,789,141 | 85% | 31,326 | - | - |
| | KUM | Samoa | (1) Sales of computer peripherals (2) Management of overseas acquisitions & investments | US\$ | 987 | US\$ | 987 | 1,000,000 | 100% | (142,028) | (17,639) | - |
| | CEZ | Czech Republic | Sales of computer peripherals | US\$ | 7 | US\$ | 7 | - | 100% | 35,745 | 53,288 | - |
| | GFI | Cayman Islands | (1)Sales of computer peripherals (2)Management of overseas acquisitions & investments | US\$ | 2,392 | US\$ | 1,792 | 2,310,000 | 60% | 5,471 | (16,562) | - |
| | Real Young | BVI | (1)sales of computer peripherals (2)Management of overseas acquisitions & investments | US\$ | 8,072 | US\$ | 6,755 | 7,864,780 | 86% | 280,082 | (32,676) | - |

| Name of investor | Name | Address | Main business | Original cost | | Investment details of the Company | | | Net income/ (loss) of the investee | Investment income accounted for under the equity method | | |
|------------------|------|----------------|--|----------------|-------------------|-----------------------------------|---|------------|------------------------------------|---|-----------|------|
| | | | | Ending balance | Beginning balance | Stock (shares) | Percentage of ownership (direct and indirect) | Book value | | | | |
| COI | CEJ | Japan | (1)Sales of computer peripherals (2)Management of overseas acquisitions & investments | US\$ | 95 | US\$ | 95 | - | 100% | \$ 4,897 | \$ 658 | \$ - |
| HOI | HSH | Shanghai, PRC | Manufacturing and sales of switching power supplies and other electronics parts | US\$ | 800 | US\$ | 800 | - | 100% | 2,221 | (2,182) | - |
| | HET | Thailand | Manufacturing and sales of switching power supplies and other electronics parts | US\$ | 9,400 | US\$ | 9,400 | 758,845 | 24% | 60,581 | (25,157) | - |
| CP | CPH | BVI | Manufacturing and sales of switching power supplies and other electronics parts | US\$ | 10,000 | US\$ | 10,000 | 10,000,000 | 100% | 535,989 | 170,310 | - |
| CPH | CPI | Cayman | Investment | US\$ | 10,000 | US\$ | 10,000 | 10,000,000 | 100% | 555,331 | 170,233 | - |
| CPI | CPHK | Hong Kong, PRC | Research & Development Center | HKD | 46,800 | HKD | 46,800 | 7,800,000 | 100% | 451,366 | 114,653 | - |
| | CPUS | U.S.A. | Manufacturing and sales of switching power supplies and other electronic parts | US\$ | 317 | US\$ | 317 | 50,000 | 100% | 68 | (9,636) | - |

| Name of investor | Name | Address | Main business | Original cost | | Investment details of the Company | | | Net income/ (loss) of the investee | Investment income accounted for under the equity method |
|------------------|------------------------|----------------|--|----------------|-------------------|-----------------------------------|---|------------|------------------------------------|---|
| | | | | Ending balance | Beginning balance | Stock (shares) | Percentage of ownership (direct and indirect) | Book value | | |
| CPHK | Quang Sheng (Nanchang) | Nanchang PRC | Manufacturing of electronic parts | US\$ 4,000 | US\$ 4,000 | - | 100% | \$ 154,862 | (\$ 17,697) | \$ - |
| | HDG | Dong Guan, PRC | Manufacturing and sales of switching power supplies and other electronic parts | US\$ 19,430 | US\$ 19,430 | - | 100% | 688,933 | 67,230 | - |
| | CPSZ | SuZhou PRC. | Manufacturing of switching power supplies and other electronic parts | US\$ 3,320 | US\$ 3,320 | - | 100% | 425,728 | 72,111 | - |
| Real Young | Mao-Ray | Dong Guan, PRC | Manufacturing of electronic parts, keyboard and plastic products | US\$ 8,445 | US\$ 7,128 | - | 100% | 467,077 | 3,381 | - |
| GFI | Mao-Qun | Suzhou, PRC | Manufacturing of electronic parts, keyboard and plastic products | US\$ 3,850 | US\$ 2,850 | - | 100% | 20,344 | (12,554) | - |
| KUM | Sky-Fine | BVI | Sales of computer peripherals | US\$ 1,209 | US\$ 1,209 | 240,000 | 24% | 41,779 | (14,993) | - |
| Sky Fine | Farwin | Samoa | Manufacturing of printed circuit parts and sensor parts. | US\$ 3,000 | US\$ 3,000 | - | 100% | 129,723 | (56,389) | - |
| Mao-Feng | CEM3 | Suzhou, PRC | Manufacturing and sales of computer peripherals | US\$ 9,929 | US\$ 9,929 | - | 100% | 4,548,057 | 697,909 | - |

| Name of investor | Name | Address | Main business | Original cost | | Investment details of the Company | | | Net income/ (loss) of the investee | Investment income accounted for under the equity method |
|---------------------------|---------------|--------------------------------|---|----------------|-------------------|-----------------------------------|---|------------|------------------------------------|---|
| | | | | Ending balance | Beginning balance | Stock (shares) | Percentage of ownership (direct and indirect) | Book value | | |
| HEC | Quansun | Taipei City 100, Taiwan R.O.C. | Investment | \$ 80,000 | \$ 80,000 | 8,000,000 | 100% | \$ 130,881 | \$ 797 | \$ - |
| | Qun Jing | Taipei City 100, Taiwan R.O.C. | Manufacturing and sales of computer peripherals | 1,000 | 1,000 | 100,000 | 100% | 23,577 | 2,658 | - |
| | CP | Taipei City 100, Taiwan R.O.C. | Manufacturing and sales of computer peripherals | 81,000 | 81,000 | 9,315,000 | 3.86% | 127,265 | 546,882 | - |
| XAVi | Directmax | B.V.I | Management of overseas acquisitions & investments | 91,803 | 91,803 | 2,750,000 | 100% | (101,098) | (10,909) | - |
| Directmax | XAVi Overseas | B.V.I | (1)Sales of DSL Bridge and Router (2)Management of overseas acquisitions & investments | US\$ 2,500 | US\$ 2,500 | 2,500,000 | 100% | (2,540) | 5,839 | - |
| | Systemax | B.V.I. | Sales of DSL Bridge and Router | US\$ 250 | US\$ 250 | 250,000 | 100% | (98,559) | (16,748) | - |
| XAVi Overseas | XAVi Suzhou | Suzhou PRC | Manufacturing and sales of DSL Bridge and Router | US\$ 2,500 | US\$ 2,500 | - | 100% | 312 | 4,643 | - |
| Systemax Development Ltd. | Blitzz | 53 Park Invinec A 92618 U.S.A | Wholesale | US\$ - | US\$ 110 | - | - | - | - | - |
| | BLITZZ | Taipei County Taiwan R.O.C. | Manufacturing and sales of DSL Bridge and Router | - | 4,400 | - | - | - | - | - |

| Name of investor | Name | Address | Main business | Original cost | | Investment details of the Company | | | Net income/ (loss) of the investee | Investment income accounted for under the equity method |
|------------------|-------------|----------------|--|----------------|-------------------|-----------------------------------|---|------------|------------------------------------|---|
| | | | | Ending balance | Beginning balance | Stock (shares) | Percentage of ownership (direct and indirect) | Book value | | |
| HEI | Guideway | B.V.I | Sale of plastic goods | \$ 1,746 | \$ 1,746 | 50,000 | 100% | \$ 265,366 | (\$ 40,989) | \$ - |
| | Haderiou HK | Kwun Rong, HK | Sale of plastic goods | 45 | 45 | 10,000 | 100% | 86,686 | (543) | - |
| | Holyu | Samoa | Investment | 187,421 | 187,421 | 6,497,308 | 66.96% | 57,370 | 1,839 | - |
| Guideway | Holyu | Samoa | Investment | US\$ 1,603 | US\$ 1,603 | 1,602,500 | 16.52% | 14,154 | 1,839 | - |
| Haderiou HK | Holyu | Samoa | Investment | US\$ 1,603 | US\$ 1,603 | 1,602,500 | 16.52% | 14,154 | 1,839 | - |
| Holyu | Haderiou DG | Dong Guan PRC. | Manufacturing and sales of plastic goods | US\$ 9,545 | US\$ 9,545 | - | 100% | 144,844 | 962 | - |

2) Related information of major transaction of the investee companies directly or indirectly held by the Company

A. Financing activities to any company or person:

| Number | Name | Name of the borrower | Accounts used to record such lending | Maximum balance during the period | Ending balance end of period | Interest rates | Nature of finance | The yearly amount of sales to/ (purchase from) the borrower | The reason for lending | Bad debt allowance provided | Collateral and its value | The credit limit for the respective borrower | The ceiling for total amount |
|--------|-------------|----------------------|--------------------------------------|-----------------------------------|------------------------------|----------------|-------------------|---|------------------------|-----------------------------|--------------------------|--|------------------------------|
| 1 | COI | CGI | Receivable from related party | \$ 684,043 (US \$ 21,270) | \$ 291,150 (US \$ 10,000) | 1.50%~1.97% | 2 | \$ - | Operation purpose | \$ - | \$- - | \$4,193,122 | \$5,590,829 |
| 1 | COI | CEM3 | " | 289,440 (US \$ 9,000) | 262,035 (US \$ 9,000) | 1.50%~1.97% | 2 | - | " | - | - - | \$4,193,122 | \$5,590,829 |
| 1 | COI | CET | " | 8,658 (US \$ 275) | 8,007 (US \$ 275) | 1.50%~1.97% | 2 | - | " | - | - - | \$4,193,122 | \$5,590,829 |
| 1 | COI | KUM | " | 145,109 (US \$ 4,760) | 138,587 (US \$ 4,760) | 1.50% | 2 | - | " | - | - - | \$4,193,122 | \$5,590,829 |
| 2 | Mao-Feng | CEM3 | " | 288,720 (US \$ 9,000) | 174,690 (US \$ 6,000) | 1.2%~1.97% | 2 | - | " | - | - - | \$4,193,122 | \$5,590,829 |
| 3 | CEM3 | Mao-Qun | " | 171,452 (RMB39,000) | 171,452 (RMB39,000) | 7.00% | 2 | - | " | - | - - | RMB 413,802 | RMB 413,802 |
| 4 | Guideway | HEI | " | 62,075 (US \$ 1,935) | 35,346 (US \$ 1,214) | - | 2 | - | " | - | - - | US\$3,661 | US\$3,661 |
| 4 | Guideway | Haderiou DG | " | 77,184 (US \$ 2,400) | 69,876 (US \$ 2,400) | - | 2 | - | " | - | - - | US\$3,661 | US\$3,661 |
| 5 | Haderiou HK | Haderiou | " | 28,872 (US \$ 900) | 19,187 (US \$ 659) | - | 2 | - | " | - | - - | US\$1,110 | US\$1,110 |
| 5 | Haderiou HK | Haderiou DG | " | 12,864 (US \$ 400) | 11,646 (US \$ 400) | - | 2 | - | " | - | - - | US\$1,110 | US\$1,110 |
| 6 | CP | CPHK | " | 832,398 (US \$ 28,590) | 832,398 (US \$ 28,590) | 1.62%~2.01% | 2 | - | " | - | - - | \$1,318,808 | \$1,318,808 |
| 7 | HEC | Quansun | " | 130,000 | 125,000 | 1.50%~1.97% | 2 | - | " | - | - - | \$4,193,122 | \$5,590,829 |
| 8 | CPI | CPHK | 8 | 102,912 (US \$ 3,200) | - (US\$ -) | 1.62%~2.01% | 2 | - | " | - | - - | US\$7,629 | US\$7,629 |
| 9 | HOI | CGI | 9 | 1,077,255 (US \$ 37,000) | 1,077,255 (US \$ 37,000) | 1.48%~1.97% | 2 | - | " | - | - - | \$4,193,122 | \$5,590,829 |

| Number | Name | Name of the borrower | Accounts used to record such lending | Maximum balance during the period | Ending balance end of period | Interest rates | Nature of finance | The yearly amount of sales to/ (purchase from) the borrower | The reason for lending | Bad debt allowance provided | Collateral and its value | The credit limit for the respective borrower | The ceiling for total amount |
|--------|------|---------------------------|--------------------------------------|-----------------------------------|------------------------------|----------------|-------------------|---|------------------------|-----------------------------|--------------------------|--|------------------------------|
| 9 | HOI | RealYoung | Receivable from related party | \$ 96,480 (US \$ 3,000) | \$ 87,345 (US \$ 3,000) | 1.48%~1.97% | 2 | \$ - | Operation purpose | \$ - | \$ - | \$4,193,122 | \$5,590,829 |
| 9 | HOI | KUM | " | 150,187 (US \$ 4,670) | - (US \$ -) | 1.51%~1.97% | 2 | - | " | - | - | \$4,193,122 | \$5,590,829 |
| 9 | HOI | HEC | " | 407,789 (US \$ 12,680) | 116,460 (US \$ 4,000) | 1.48%~1.97% | 2 | - | " | - | - | \$4,193,122 | \$5,590,829 |
| 10 | XAVi | Systemax Development Ltd. | " | 36,157 (US \$ 1,157) | 28,446 (US \$ 1,157) | 1.54% | 2 | - | " | - | - | \$ 149,433 | \$ 149,433 |
| 11 | CGI | RealYoung | " | 93,070 (US \$ 3,053) | 88,888 (US \$ 3,053) | 1.50% | 2 | - | " | - | - | \$4,193,122 | \$5,590,829 |
| 11 | CGI | HEC | " | 396,305 (US \$ 13,000) | 349,380 (US \$ 12,000) | 1.50% | 2 | - | " | - | - | \$4,193,122 | \$5,590,829 |

Note 1: In accordance with the financing procedures of the subsidiary, total financing amount should not exceed 40% of the subsidiary's stockholders' equity and

- the total financing amount to any individual party should not exceed 40% of the subsidiary's stockholders' equity for the purpose of loan.
- the total financing amount to any individual party should not exceed 50% of the subsidiary's stockholders' equity and the amount of sales/purchase during the year for the purpose of business.
- the individual financing amount should not exceed 30% of the Company's stockholders' equity and the total financing amount should not exceed 40% of the Company's stockholders' equity for the purpose of loan between the subsidiaries the Company has 100% shares directly or indirectly
- except for the financing period should not exceed one year.

Note 2: The natures of financing activities are as follow:

- have the need of shore-term finance
- have business dealings

B. Guarantee information:

| <u>Number</u> | <u>Name</u> | <u>Name of parties being guaranteed</u> | <u>Relationship with the Company</u> (Note 1) | <u>The limit of guarantee of such party</u> | <u>The maximum outstanding guarantee amount</u> | <u>The outstanding guarantee amount at December 31, 2010</u> | <u>The amount of guarantee with collateral placed</u> | <u>The ratio of accumulated guarantee</u> | <u>Maximum aggregating total</u> (Note2) |
|---------------|-------------|---|--|---|---|--|---|---|---|
| 1 | XAVi | Systemax | c | \$ 186,791 | \$ 64,320 (US\$ 2,000) | \$ - (US\$ -) | \$ - | - | \$ 373,582 |
| 2 | Guideway | Haderiou DG | c | 155,765 | 19,300 (US\$ 602) | - (US\$ -) | - | - | US\$ 9,152 |
| 3 | CP | CPI | c | 1,648,510 | 160,175 (US\$ 5,000) | 145,575 (US\$ 5,000) | - | 4.42% | \$ 3,297,019 |

Note 1: The relationships of parties guaranteed are as follow:

- a. the Company is the subsidiary of the party
- b. the Company have business dealings with the party
- c. the party is the subsidiary of the Company
- d. Subsidiaries which the Company has their shares exceed 90% directly or indirectly
- e. the party which have the Company's share exceeding 50% directly or indirectly

Note 2: In accordance with the guarantee procedures of the subsidiary, the total guarantee amount is limited to the subsidiary's paid-in capital. The subsidiary's guarantee to each entity is limited to 50% of the total guarantee amount.

The total guarantee amount of the Company and its subsidiaries should not exceed 50% of the Company's paid-in capital, and the individual guarantee amount should not exceed 50% of the total guarantee amount. Other restrictions are as follows:

- a. guarantee for business dealings should not exceed the actual sales and purchase amount between the parties.
- b. guarantee between the subsidiaries where the Company has shares exceeding 90% directly or indirectly should not exceed 10% of the Company's paid-in capital, except the subsidiaries that the Company has shares exceeding 100% directly or indirectly.
- c. the total guarantee amount is limited to the Company's stockholders' equity when the Company or its subsidiary take guarantee procedures to the entity whose stockholders' equity is lower than 50% of its paid-in capital.

C.The details of marketable securities held on December 31, 2010:

| | | | | | <u>December 31, 2010</u> | | | | |
|-------------|--------------------------------------|--|--|--|--------------------------|-------------------|-------------------|---------------------|-------------|
| <u>Name</u> | <u>Type of marketable securities</u> | <u>Name of marketable securities</u> | <u>The relationship of the issuers with the subsidiaries</u> | <u>General ledger accounts</u> | <u>Shares</u> | <u>Book value</u> | <u>Percentage</u> | <u>Market value</u> | <u>Note</u> |
| XAVi | Common Stock | Genesis Photonics Inc. | None | Available-for-sale financial assets | \$ 1,117,370 | \$ 58,327 | 0.58% | \$ 58,327 | - |
| CP | Common Stock | Genesis Photonics Inc. | None | " | 2,565,000 | 133,893 | 1.34% | 133,893 | - |
| CP | Common Stock | Everlight Co., | None | " | 300,000 | 25,320 | 0.07% | 25,320 | - |
| CP | Bonds | Unity Opto Technology Co., Ltd. | | | | | | | |
| | | The third unsecured convertible bonds | None | " | 1,400,000 | 156,380 | - | 156,380 | - |
| CP | Common Stock | Clevo. Co | Common Chairman | " | 1,042,000 | 70,335 | 0.16% | 70,335 | - |
| Qun Jing | Common Stock | Clevo. Co | " | " | 3,239,000 | 218,633 | 0.51% | 218,633 | - |
| HEC | Common Stock | Clevo. Co | " | " | 11,370,823 | 767,531 | 1.78% | 767,531 | - |
| HEC | Common Stock | CEC | The Company | " | 14,594,393 | 948,636 | 2.33% | 948,636 | Note A |
| UNIKEY | Common Stock | CEC | The Company | " | 19,088,716 | 1,240,767 | 3.05% | 1,240,767 | Note B |
| UNIKEY | Common Stock | ShunOn Electronic Co. | None | " | 3,628,878 | 47,175 | 3.38% | 47,175 | - |
| UNIKEY | Common Stock | Clevo. Co | Common Chairman | " | 3,215,000 | 217,012 | 0.50% | 217,012 | - |
| UNIKEY | Bonds | Everlight Co., | | | | | | | |
| | | The fourth unsecured convertible bonds | None | " | 525,000 | 56,437 | 1.75% | 56,437 | - |
| Quansun | Common Stock | Clevo. Co | Common Chairman | " | 5,007,000 | 337,972 | 0.78% | 337,972 | - |
| HEI | Common Stock | FCS | None | " | 56,015 | 1,288 | - | 1,288 | - |
| Quansun | Common Stock | Hungkuan | None | Investments carried at cost | 8,140,000 | 209,278 | 19.59% | 209,278 | - |
| HOI | Common Stock | TPK Holding Co., Ltd. | None | " | 2,362,949 | 291,205 | 1.05% | 1,583,176 | - |
| COI | Common Stock | TPK Holding Co., Ltd. | None | " | 4,724,551 | 582,245 | 2.11% | 3,165,449 | - |
| | | | | Long-term equity investments accounted for under the equity method | | | | | |
| COI | Common Stock | CAI | Wholly-owned subsidiary | " | 3,250,000 | 71,362 | 100% | 71,362 | - |
| COI | Common Stock | CEG | Wholly-owned subsidiary | " | 3,000 | 32,096 | 100% | 32,096 | - |
| COI | Common Stock | CET | Investee Company accounted for under the equity method | " | 1,789,141 | 31,326 | 84.73% | 34,903 | - |
| COI | Common Stock | HET | Wholly-owned subsidiary | " | 2,359,837 | 170,228 | 75.52% | 188,330 | - |
| COI | Common Stock | CAGI | Wholly-owned subsidiary | " | 12,400,000 | (803) | 100% | (1,873) | - |
| COI | Common Stock | Mao-Feng | Wholly-owned subsidiary | " | 2,294,000 | 4,889,951 | 100% | 4,889,951 | - |
| COI | Common Stock | Real Young | Investee Company accounted for under the equity method | " | 7,864,780 | 280,082 | 86.05% | 271,997 | - |
| COI | Common Stock | KUM | Wholly-owned subsidiary | " | 1,000,000 | (142,028) | 100% | (142,028) | - |
| COI | Common Stock | GFI | 60% owned subsidiary | " | 2,310,000 | 5,471 | 60% | 3,091 | - |

December 31, 2010

| <u>Name</u> | <u>Type of marketable securities</u> | <u>Name of marketable securities</u> | <u>The relationship of the issuers with the subsidiaries</u> | <u>General ledger accounts</u> | <u>Shares</u> | <u>Book value</u> | <u>Percentage</u> | <u>Market value</u> | <u>Note</u> |
|-------------|--------------------------------------|--------------------------------------|--|--------------------------------|---------------|-------------------|-------------------|---------------------|-------------|
| UNIKEY | Common Stock | Real Young | Investee Company accounted for under the equity method | " | 1,275,000 | 44,095 | 13.95% | 44,095 | - |
| UNIKEY | Common Stock | Newmax | Investee Company accounted for under the equity method | " | 18,089,489 | 531,724 | 21.35% | 486,889 | - |
| HOI | Common Stock | HET | Investee Company accounted for under the equity method | " | 758,845 | 60,581 | 24.28% | 60,581 | - |
| HEC | Common Stock | Quansun | Wholly-owned subsidiary | " | 8,000,000 | 130,881 | 100% | 130,881 | - |
| HEC | Common Stock | Qun Jing | Wholly-owned subsidiary | " | 100,000 | 23,577 | 100% | 23,577 | - |
| HEC | Common Stock | CP | Investee Company accounted for under the equity method | " | 9,315,000 | 127,265 | 3.86% | 127,265 | - |
| XAVi | Common Stock | Directmax | Wholly-owned subsidiary | " | 2,750,000 | (101,098) | 100% | (101,098) | - |
| Directmax | Common Stock | XAVi Overseas Ltd. | Wholly-owned subsidiary | " | 2,500,000 | (2,540) | 100% | (2,540) | - |
| Directmax | Common Stock | Systemax | Wholly-owned subsidiary | " | 250,000 | (98,559) | 100% | (98,559) | - |
| CP | Common Stock | CPH | Wholly-owned subsidiary | " | 10,000,000 | 535,989 | 100% | 555,414 | - |
| HEI | Common Stock | Guideway | Investee Company accounted for under the equity method | " | 50,000 | 265,366 | 100% | 265,366 | - |
| HEI | Common Stock | Haderiou HK | Investee Company accounted for under the equity method | " | 10,000 | 86,686 | 100% | 86,686 | - |
| HEI | Common Stock | Samoa | Investee Company accounted for under the equity method | " | 6,497,308 | 57,370 | 66.96% | 57,370 | - |
| Guideway | Common Stock | Samoa | Investee Company accounted for under the equity method | " | 1,602,500 | 14,154 | 16.52% | 14,154 | - |
| Haderiou HK | Common Stock | Samoa | Investee Company accounted for under the equity method | " | 1,602,500 | 14,154 | 16.52% | 14,154 | - |
| CPI | Common Stock | CPUS | Wholly-owned subsidiary | " | 50,000 | 68 | 100% | 68 | - |
| CPI | Common Stock | CPHK | Wholly-owned subsidiary | " | 7,800,000 | 451,366 | 100% | 473,580 | - |
| CPH | Common Stock | CPI | Wholly-owned subsidiary | " | 10,000,000 | 555,331 | 100% | 555,331 | - |

Note A: provide 11,000,000 shares pledged for short-term loan.

Note B: provide 5,000,000 shares pledged for short-term loan.

Note C: the above list is based on listed companies, OTC companies, beneficiary certificates, and companies which issue stocks, since investee companies hold many marketable securities which could not all be listed.

D. Marketable securities acquired or sold during 2010 in excess of \$100,000 or over 20% of paid-in capital:

| The Company | Name of investee | General ledger accounts | Beginning balance at January 1, 2010 | | Addition | | Disposal | | | | Ending balance at December 31, 2010 | |
|-------------|---------------------------------------|--|--------------------------------------|-----------|----------|-----------|----------|------------------------|------------|------------------|-------------------------------------|------------|
| | | | Shares | Amount | Shares | Amount | Shares | Proceeds from disposal | Book value | Gain on disposal | Shares | Amount |
| HEC | Clevo. Co | Available-for-sale financial assets | 6,287 | \$275,310 | 5,084 | \$294,501 | - | \$ - | \$ - | \$ - | 11,371 | \$ 569,811 |
| Quansun | " | " | - | - | 5,007 | 296,497 | - | - | - | - | 5,007 | 296,497 |
| Qun Jing | " | " | - | - | 3,239 | 198,538 | - | - | - | - | 3,239 | 198,538 |
| UNIKEY | " | " | - | - | 5,525 | 298,035 | 2,310 | 162,838 | 124,608 | 38,229 | 3,215 | 173,427 |
| CP | " | " | 5,000 | 253,093 | 50 | 2,801 | 4,008 | 262,696 | 203,094 | 59,602 | 1,042 | 52,800 |
| UNIKEY | CEC | " | 20,195 | 228,605 | 909 | - | 2,015 | 164,273 | 22,810 | 141,463 | 19,089 | 205,795 |
| | | | | | (Note C) | | | | | | | |
| CP | Unity Opto Technology Co., Ltd. | | | | | | | | | | | |
| | The third unsecured convertible bonds | " | - | - | 1,400 | 140,000 | - | - | - | - | 1,400 | 140,000 |
| CP | Genesis Photonics Inc | " | - | - | 2,565 | 127,116 | - | - | - | - | 2,565 | 127,116 |
| CEM2 | Invesco Fund | " | - | - | 6,132 | 97,913 | 6,132 | 124,603 | 97,913 | 26,690 | - | - |
| UNIKEY | Newmax | Long-term equity investments accounted for under the equity method | 19,695 | 368,506 | 2,574 | 161,547 | 4,180 | 626,559 | 91,808 | 529,511 | 18,089 | 438,245 |
| | | (Note D & Note E) | | | (Note C) | | | | | (Note A) | | |

Note A: Gain on disposal includes other adjustments, which amount to \$5,240.

Note B: Based on book value, without considering the allowance.

Note C: The additional shares include the stock dividend from the Company.

Note D: Take the new issued common stock of the subsidiary and disposal of stock.

Note E: Investee Company accounted for under the equity method.

E. Real estate acquired during 2008 with amounts in excess of \$100,000 or over 20% of paid-in capital: None.

F. Disposal of real estate during 2008 with amounts in excess of \$100,000 or over 20% of paid-in capital: None.

G. Purchases or sales transactions with related parties in excess of \$100,000 or over 20% of paid-in capital balance:

| The Company or investee company | Name of counter party | Relationship with the Company or the investee companies | Conditions of transaction | | | Terms of transaction | | Accounts receivable / (payable) | | |
|---------------------------------------|--------------------------|--|---------------------------|----------------|--|----------------------|------------|---------------------------------|--------------|---|
| | | | Type of transaction | Amount | Percentage of sales/ (purchases) | Payment terms | Unit price | Payment Terms | Balance | % of total accounts receivable/ (payable) |
| CEM2 | The Company | The parent company | Sales | (\$10,715,102) | 80 | 30~60 days | (Note B) | 30~60 days | \$ 3,930,621 | 100 |
| CEM3 | The Company | The parent company | Sales | (1,624,525) | 11 | 30~60 days | (Note B) | 30~60 days | 457,773 | 12 |
| Mao-Ray | The Company | The parent company | Sales | (2,740,346) | 80 | 30~60 days | (Note B) | 30~60 days | 32,621 | 29 |
| CP | Kai Bo Kunshan | Affiliate | Sales | (115,658) | 1 | 60 days | (Note B) | 60 days | 58,248 | 1 |
| CPI | CP | Affiliate | Sales | (20,241,638) | 62 | 60 days | (Note B) | 60 days | 1,657,828 | 93 |
| CP | CPI | Affiliate | Purchase | 20,241,638 | 100 | 60 days | (Note A) | 60 days | (1,657,828) | 99 |
| CP | CEZ | Affiliate | Sales | (230,803) | 1 | 60 days | (Note B) | 60 days | 68,958 | 2 |
| CEZ | CP | Affiliate | Purchase | 230,803 | 14 | 60 days | (Note A) | 60 days | (68,958) | 15 |
| CPI | HDG | Affiliate | Sales | (11,476,320) | 35 | 60 days | (Note B) | 60 days | 125,102 | 7 |
| HDG | CPI | Affiliate | Purchase | 11,476,320 | 97 | 60 days | (Note A) | 60 days | (125,102) | 7 |
| CPI | CPSZ | Affiliate | Sales | (1,145,549) | 3 | 60 days | (Note B) | 60 days | - | - |
| CPSZ | CPI | Affiliate | Purchase | 1,145,549 | 18 | 60 days | (Note A) | 60 days | - | - |
| HDG | CPI | Affiliate | Sales | (24,156,104) | 100 | 60 days | (Note B) | 60 days | - | - |
| CPI | HDG | Affiliate | Purchase | 24,156,104 | 74 | 60 days | (Note A) | 60 days | - | - |
| CPSZ | CPI | Affiliate | Sales | (6,194,704) | 94 | 60 days | (Note B) | 60 days | 635,904 | 100 |
| CPI | CPSZ | Affiliate | Purchase | 6,194,704 | 19 | 60 days | (Note A) | 60 days | (635,904) | 39 |
| QS | CPI | Affiliate | Sales | (1,954,090) | 100 | 60 days | (Note B) | 60 days | 183,664 | 99 |
| CPI | QS | Affiliate | Purchase | 1,954,090 | 6 | 60 days | (Note A) | 60 days | (183,664) | 11 |
| XAVi Suzhou | XAVi | Wholly-owned subsidiary | Sales | (1,446,469) | 95 | 45-180 days | (Note B) | 45-180 days | 101,752 | 62 |
| XAVi | XAVi Suzhou | The parent company | Purchase | 1,446,469 | 93 | 45-180 days | (Note A) | 45-180 days | (101,752) | 68 |
| CP | CPUS | Affiliate | Sales | (266,438) | 1 | 60 days | (Note B) | 60 days | 132,837 | 3 |
| CPUS | CP | Affiliate | Purchase | 266,438 | 100 | 60 days | (Note A) | 60 days | (132,837) | 85 |
| CGI | CAI | Affiliate | Sales | (1,090,666) | 12 | 60~90 days | (Note B) | 60~90 days | 301,871 | 12 |
| CAI | CGI | Affiliate | Purchase | 1,090,666 | 94 | 60~90 days | (Note A) | 60~90 days | (301,871) | 100 |
| CGI | CEZ | Affiliate | Sales | (1,308,426) | 15 | 60~90 days | (Note B) | 60~90 days | 365,572 | 15 |
| CEZ | CGI | Affiliate | Purchase | 1,308,426 | 82 | 60~90 days | (Note A) | 60~90 days | (365,572) | 82 |
| CGI | CEG | Affiliate | Sales | (321,729) | 4 | 60~90 days | (Note B) | 60~90 days | 43,789 | 2 |
| CEG | CGI | Affiliate | Purchase | 321,729 | 87 | 60~90 days | (Note A) | 60~90 days | (43,789) | 95 |
| CEM2 | CGI | Affiliate | Sales | (2,651,304) | 20 | 60~90 days | (Note B) | 60~90 days | - | - |
| CGI | CEM2 | Affiliate | Purchase | 2,651,304 | 34 | 60~90 days | (Note A) | 60~90 days | - | - |
| CEM3 | CGI | Affiliate | Sales | (4,603,026) | 31 | 60~90 days | (Note B) | 60~90 days | 643,303 | 17 |
| CGI | CEM3 | Affiliate | Purchase | 4,603,026 | 60 | 60~90 days | (Note A) | 60~90 days | (643,303) | 98 |
| MQ | CEM3 | Affiliate | Sales | (537,679) | 97 | 60~90 days | (Note B) | 60~90 days | 91,480 | 84 |
| CEM3 | MQ | Affiliate | Purchase | 537,679 | 4 | 60~90 days | (Note A) | 60~90 days | (91,480) | 3 |
| CEM2 | Newmax | Affiliate | Purchase | 327,321 | 3 | 60~90 days | (Note A) | 60~90 days | 54,806 | 2 |
| CEM3 | Newmax | Affiliate | Purchase | 354,429 | 3 | 60~90 days | (Note A) | 60~90 days | 51,204 | 3 |
| CEM3 | Jim Yu | Affiliate | Purchase | 331,440 | 2 | 60~90 days | (Note A) | 60~90 days | 64,238 | 2 |
| CEM3 | Farwin | Affiliate | Purchase | 395,223 | 3 | 60~90 days | (Note A) | 60~90 days | 85,077 | 3 |
| Mao-Ray | CEM2 | Affiliate | Sales | (356,932) | 10 | 60~90 days | (Note B) | 60~90 days | - | - |
| CEM2 | Mao-Ray | Affiliate | Purchase | 356,932 | 3 | 60~90 days | (Note A) | 60~90 days | - | - |
| Guideway | CEM2 | Affiliate | Sales | (126,947) | 53 | 60~90 days | (Note B) | 60~90 days | 33,221 | 15 |

| The Company or investee company | Name of counter party | Relationship with the Company or the investee companies | Conditions of transaction | | | Terms of transaction | | Accounts receivable / (payable) | | |
|---------------------------------------|--------------------------|--|---------------------------|------------|--|----------------------|------------|---------------------------------|-------------|---|
| | | | Type of transaction | Amount | Percentage of sales/ (purchases) | Payment terms | Unit price | Payment Terms | Balance | % of total accounts receivable/ (payable) |
| CEM2 | Guideway | Affiliate | Purchase | 126,947 | 1 | 60~90 days | (Note A) | 60~90 days | (\$ 33,221) | 1 |
| Mao-Ray | Real Young | Affiliate | Sales | (380,403) | 11 | 60~90 days | (Note B) | 60~90 days | - | - |
| Real Young | Mao-Ray | Affiliate | Purchase | 380,403 | 100 | 60~90 days | (Note A) | 60~90 days | - | - |
| Real Young | CEM2 | Affiliate | Sales | (353,751) | 93 | 60~90 days | (Note B) | 60~90 days | 5,198 | 15 |
| CEM2 | Real Young | Affiliate | Purchase | 353,751 | 3 | 60~90 days | (Note A) | 60~90 days | (5,198) | - |
| Mao-Ray | CGI | Affiliate | Sales | (213,533) | 6 | 60~90 days | (Note B) | 60~90 days | - | - |
| CGI | Mao-Ray | Affiliate | Purchase | 213,533 | 3 | 60~90 days | (Note A) | 60~90 days | - | - |

Note 1: Depends on the transaction quantity and the market situation.

Note 2: The terms and prices of sales to related parties were the same as those to third parties.

H. Receivables from related parties in excess of \$100,000 or over 20% of capital:

| The Company or investee company | Name of counter parties | Relationship with the Company | Type and balance of receivable from related parties on December 31, 2010 | | Turnover rate | Overdue receivable | | Subsequent collection | Allowance For bad debts |
|---------------------------------|-------------------------|-------------------------------|--|-----------|---------------|--------------------|-------------------------------------|-----------------------|-------------------------|
| | | | | | | Amount | Action adopted for overdue accounts | | |
| <u>Accounts receivable</u> | | | | | | | | | |
| CEM2 | The Company | Parent company | \$ | 3,930,621 | 2.61 | \$ - | - | \$ - | \$ - |
| CEM3 | The Company | Parent company | | 457,773 | 6.12 | - | - | - | - |
| CEM3 | CGI | Affiliate | | 643,303 | 4.07 | - | - | - | - |
| CGI | CAI | Affiliate | | 301,871 | 3.94 | - | - | - | - |
| CGI | CEZ | Affiliate | | 365,572 | 3.60 | - | - | - | - |
| CP | CPUS | Affiliate | | 132,837 | 2.18 | - | - | - | - |
| CPI | CP | Affiliate | | 1,657,828 | 11.46 | - | - | - | - |
| CPI | HDG | Affiliate | | 125,102 | 4.48 | - | - | - | - |
| CPSZ | CPI | Affiliate | | 635,904 | 7.61 | - | - | - | - |
| QS | CPI | Affiliate | | 183,664 | 9.48 | - | - | - | - |
| XAVi Suzhou | XAVi | Affiliate | | 101,752 | 6.53 | - | - | - | - |
| <u>Other receivables</u> | | | | | | | | | |
| XAVi | XAVi Suzhou | Affiliate | \$ | 250,516 | - | \$ - | - | \$74,069 | \$ - |
| COI | CGI | Affiliate | | 470,140 | - | - | - | - | - |
| COI | CEM3 | Affiliate | | 264,271 | - | - | - | - | - |
| COI | KUM | Affiliate | | 179,224 | - | - | - | - | - |
| Mao-Feng | CEM3 | Affiliate | | 174,970 | - | - | - | - | - |
| Mao-Feng | CGI | Affiliate | | 174,690 | - | - | - | - | - |
| CP | CPHK | Affiliate | | 832,398 | - | - | - | - | - |
| HEC | QS | Affiliate | | 125,000 | - | - | - | - | - |
| HOI | CGI | Affiliate | | 1,078,758 | - | - | - | - | - |
| HOI | HEC | Affiliate | | 116,460 | - | - | - | - | - |

I. Transaction of derivative financial instruments:

A. As of December 31, 2010, the Company entered into several forward foreign exchange contracts with a bank to reduce foreign exchange risk. Details are as follows:

| | <u>December 31, 2010</u> | |
|---|--------------------------|---------------------------------------|
| | <u>Contract value</u> | <u>Contract Amount(in thousands)</u> |
| Shown in “financial assets at fair value through profit or loss-current” | | |
| Forward exchange contracts | \$ 16,573 | USD 95,560 |
| SWAP | \$ 31,818 | USD 32,750 |
| Shown in “financial liabilities at fair value through profit or loss-current” | | |
| Forward exchange contracts | \$ 1,075 | USD 3,000 |
| SWAP | \$ 2,915 | USD 11,000 |

B. The Company entered into forward foreign exchange contracts and SWAP with Ta Chong Bank, HSBC, E. Sun Bank, DBS, China Citic Bank, Taiwan Cooperative Bank, First Bank, ICBC , EDIT AGRICOLE Corporate and Investment Bank and CCB during the year ended December 31, 2010.

During 2010, the contracts cash inflow is expected to be about US\$142,310 and recognized in unrealized profit and loss was \$48,391 and \$3,990. No significant cash flow related risks are expected because the Company has sufficient working capital to cope with the future cash demand and exchange rates of foreign currency forward contracts have been determined.

C. Market risk:

The main purpose of the transactions is to hedge against exchange losses. The exchange gain or loss from rate fluctuations will be hedged by these transactions. Accordingly, no market risks are expected.

D. Credit risk:

Derivative counterparties and cash transactions are limited to high-credit-quality international financial institutions. The Company has policies that limit the amount of credit exposure to any financial institution.

E. Liquidity risk

The Company has prudent liquidity risk management which includes maintaining sufficient cash.

F. Cash flow risk of interest rate change

The financial instruments of the Company are not interest-bearing instruments. Therefore, it has no cash flow risk due to interest rate change.

III. DISCLOSURE OF INFORMATION ON INDIRECT INVESTMENT IN MAINLAND AND CHINA

1) The basic information of investments in Mainland China as of December 31, 2010 is as follows:

A.

| Name of investee in Mainland China | Main activities of investee | Capital | Investment amount and method | Beginning | Investment amount | | Ending | Shares held by the Company (Direct or indirect) | Investment (loss) / gain | Investment amount as of December 31, 2010 | Accumulated remittance |
|--|---|------------|---------------------------------|-----------------------------------|-------------------|------------|-----------------------------------|---|-----------------------------|---|---------------------------|
| | | | | investment balance from Taiwan | Payment | Remittance | investment balance from Taiwan | | | | |
| Chicony Electronics (Dong Guan) Co., Ltd. | Manufacturing and sales of computer keyboard | \$ 317,555 | Invested by COI | \$ 317,555 | \$ - | \$ - | \$ 317,555 | 100% | \$ 362,192 | \$ 1,660,438 | \$ - |
| Mao-Ray Electronics (Dong Guan) Co., Ltd. | Manufacturing of electronics parts, keyboard and plastic products | 277,530 | Invested by Real Young | 236,374 | - | - | 236,374 | 100% | 3,381 | 467,077 | - |
| Chicony Electronics (Suzhou) Co., Ltd. | Manufacturing and sales of computer keyboard | 463,352 | Invested by Mao- Feng | 329,424 | - | - | 329,424 | 100% | 697,909 | 4,548,057 | - |
| Hipro Electronics (Dong Guan) Co., Ltd. | Manufacturing of switching power supplies and other electronics parts | 401,343 | Invested by HOI | 114,408 | - | - | 114,408 | 69.73% | 67,230 | 688,993 | - |
| Hipro Electronics (Shanghai) Co., Ltd. | Manufacturing of switching power supplies and other electronics parts | 17,043 | Invested by HOI | 17,043 | - | - | 17,043 | 100% | (2,182) | 2,221 | - |
| Chicony Power Electronics (Suzhou) Co., Ltd. | Manufacturing of switching power supplies and other electronics parts | 239,442 | Invested by HOI | 45,197 | - | - | 45,197 | 69.73% | 72,111 | 425,728 | - |
| XAVi Technology (Suzhou) Co., Ltd. | Manufacturing and sales of DSL Bridge | 83,954 | Invested by XAVi | 83,954 | - | - | 83,954 | 68.19% | 4,643 | 312 | - |
| Haderioui (DongGuan) | Manufacturing and sales of plastic goods | 303,352 | Invested by Holyu | 303,352 | - | - | 303,352 | 50.25% | 962 | 144,844 | - |
| Mao-Qun | Manufacturing and sales of computer keyboard | 124,911 | Invested by GFI | 93,661 | - | - | 93,661 | 60% | (12,554) | 20,344 | - |
| Guan Sheng electronics (Nanchang) Co., | Manufacturing and sales of electronics parts | 131,175 | Invested by HOI | 33,573 | - | - | 33,573 | 69.73% | (15,335) | 154,862 | - |
| Far win (Kunshan) Co, Ltd | Manufacturing of printed circuit parts and sensor parts | 107,888 | Invested by Sky- Fine | - | - | - | - | 24% | (56,389) | 129,723 | - |

B.

Accumulated investment
balance from Taiwan to
Mainland China

\$ 2,314,063
(US\$79,480 thousand)

Amount approved by MOEA

\$ 2,550,593
(US\$87,604 thousand)

The ceiling amount of
investment in Mainland China

\$ 8,386,244

2) Major transactions with the investee in Mainland China: see Note 11(b).

IV. Significant inter-company transactions for the years ended December 31, 2010 and 2009

1. Subsidiaries included in the consolidated financial statements of 2010:

Only disclose the transactions over 1% of consolidated total operating revenues or total assets.

| No. (Note 1) | Name | Counter party | Relationship (Note 2) | Transaction | | | |
|-----------------|--------------|---------------|--------------------------|---------------------|------------|-------------------------|--|
| | | | | Account | Amount | Transaction terms | Percentage of consolidated total operating revenues or total assets |
| 0 | CEC | CEM3 | 1 | Guarantee | \$ 460,017 | Follow Company's policy | 1.25% |
| 1 | CEM2 | CEC | 2 | Sales | 10,715,102 | Notes 4&5 | 17.49% |
| " | CEM2 | CEC | 2 | Accounts receivable | 3,930,621 | Notes 4&5 | 10.71% |
| " | CEM2 | CGI | 3 | Sales | 2,651,304 | Note 5 | 4.33% |
| 2 | CEM3 | CEC | 2 | Sales | 1,624,525 | Notes 4&5 | 2.65% |
| " | CEM3 | CEC | 2 | Accounts receivable | 457,773 | Notes 4&5 | 1.25% |
| " | CEM3 | CGI | 3 | Sales | 4,603,026 | Note 5 | 7.51% |
| " | CEM3 | CGI | 3 | Accounts receivable | 643,303 | Note 5 | 1.75% |
| 3 | CPI | CPSZ | 3 | Sales | 1,145,549 | Note 5 | 1.87% |
| " | CPI | HDG | 3 | Sales | 11,476,320 | Note 5 | 18.73% |
| " | CPI | CP | 3 | Sales | 20,241,638 | Note 5 | 33.04% |
| " | CPI | CP | 3 | Accounts receivable | 1,657,828 | Note 5 | 4.52% |
| 4 | HDG | CPI | 3 | Sales | 24,156,104 | Note 5 | 39.42% |
| 5 | CPSZ | CPI | 3 | Sales | 6,194,704 | Note 5 | 10.11% |
| " | CPSZ | CPI | 3 | Accounts receivable | 635,904 | Note 5 | 1.73% |
| 6 | Mao-Ray | CEC | 2 | Sales | 2,740,346 | Notes 4&5 | 4.47% |
| 7 | CGI | CAI | 3 | Sales | 1,097,926 | Note 5 | 1.79% |
| " | CGI | CEZ | 3 | Sales | 1,308,426 | Note 5 | 2.14% |
| 8 | XAVi(Suzhou) | XAVi | 3 | Sales | 1,446,469 | Note 5 | 2.36% |
| 9 | QS | CPI | 3 | Sales | 1,954,090 | Note 5 | 3.19% |
| 10 | HOI | CGI | 3 | Other receivable | 1,078,758 | Note 6 | 2.94% |
| 11 | CP | CPHK | 3 | Other receivable | 832,398 | Note 6 | 2.27% |

2. Subsidiaries included in the consolidated financial statements of 2009:

Only disclose the transactions over 1% of consolidated total operation revenues or total assets.

| No. (Note 1) | Name | Counter party | Relationship (Note 2) | Transaction | | | |
|-----------------|---------|---------------|--------------------------|-------------------------|------------|-------------------------|---|
| | | | | Account | Amount | Transaction terms | Percentage of consolidated total operating revenues or total assets |
| 0 | CEC | UNIKEY | 1 | Other receivable | \$ 435,300 | Note 8 | 1.31% |
| " | CEC | CEM3 | 1 | Guarantee | 601,318 | Follow Company's policy | 1.81% |
| " | CEC | CEM3 | 1 | Other operating revenue | 1,002,018 | Note 9 | 1.83% |
| " | CEC | CEM3 | 1 | Accounts receivable | 998,002 | Note 7 | 3.01% |
| " | CEC | CGI | 1 | Guarantee | 703,982 | Follow Company's policy | 2.12% |
| 1 | COI | CGI | 3 | Other receivable | 680,321 | Note 8 | 2.05% |
| 2 | CEM2 | CEC | 2 | Sales | 8,097,277 | Note 7 | 14.81% |
| " | CEM2 | CEC | 2 | Accounts receivable | 4,273,851 | Note 7 | 12.88% |
| " | CEM2 | CGI | 3 | Sales | 3,783,659 | Note 7 | 6.92% |
| 3 | CEM3 | CEC | 2 | Sales | 2,149,668 | Note 7 | 3.93% |
| " | CEM3 | CGI | 3 | Sales | 3,584,060 | Note 7 | 6.55% |
| " | CEM3 | CGI | 3 | Accounts receivable | 1,618,704 | Note 7 | 4.88% |
| 4 | Mao-Ray | CEC | 2 | Sales | 1,872,837 | Note 7 | 3.42% |
| 5 | CGI | CAI | 3 | Sales | 1,100,607 | Note 7 | 2.01% |
| " | CGI | CEZ | 3 | Sales | 1,290,331 | Note 7 | 2.36% |
| " | CGI | CEZ | 3 | Accounts receivable | 425,591 | Note 7 | 1.28% |
| " | CGI | CEG | 3 | Sales | 1,614,673 | Note 7 | 2.95% |
| 6 | HOI | CGI | 3 | Other receivable | 412,926 | Note 8 | 1.24% |
| " | HOI | HEC | 3 | Other receivable | 405,570 | Note 8 | 1.22% |
| " | HOI | CP | 3 | Sales | 9,105,256 | Note 7 | 16.65% |
| " | HOI | HDG | 3 | Sales | 590,786 | Note 7 | 1.08% |
| " | HOI | HSZ | 3 | Sales | 766,546 | Note 7 | 1.40% |

| No. (Note 1) | Name | Counter party | Relationship (Note 2) | Transaction | | | |
|-----------------|---------------|---------------|--------------------------|---------------------|--------------|-------------------|---|
| | | | | Account | Amount | Transaction terms | Percentage of consolidated total operating revenues or total assets |
| 7 | HDG | HOI | 3 | Sales | \$ 6,934,920 | Note 7 | 12.68% |
| " | HDG | CPI | 3 | Sales | 4,644,293 | Note 7 | 8.49% |
| 8 | CPI | CP | 3 | Sales | 4,578,368 | Note 7 | 8.37% |
| " | CPI | CP | 3 | Accounts receivable | 1,756,136 | Note 7 | 5.29% |
| " | CPI | HDG | 3 | Sales | 1,735,502 | Note 7 | 3.17% |
| 9 | HSZ | HOI | 3 | Sales | 3,128,542 | Note 7 | 5.72% |
| " | HSZ | CPI | 3 | Sales | 1,415,976 | Note 7 | 2.59% |
| " | HSZ | CPI | 3 | Accounts receivable | 583,502 | Note 7 | 1.76% |
| 10 | QS | HOI | 3 | Sales | 1,056,781 | Note 7 | 1.93% |
| 11 | XAVi (Suzhou) | XAVi | 3 | Sales | 1,256,868 | Note 7 | 2.30% |
| 12 | CP | HHK | 3 | Other receivable | 774,997 | Note 8 | 2.34% |

Note 1: The information of inter-company transactions should be noted by number.

The parent company is 0. Subsidiaries are 1 onwards.

Note 2: The relationship is: 1. parent to subsidiary.

2. subsidiary to parent.

3. subsidiary to subsidiary.

Note 3: The ratio of the asset is divided by the consolidated total assets; the ratio of the revenue is divided by the consolidated total operating revenues.

Note 4: For details of the transaction terms, please see Note 11I (7).

Note 5: For details of the transaction terms, please see Note 11II (7).

Note 6: Loans granted and payment in advance. Please see Notes 11 I(2), II(2)B , I(8) and II(2)H

Note 7: The terms of the sales to related parties were the same in 2010 and 2009.

Note 8: Loans granted during the year.

Note 9: Operating revenue and royalty revenue during the year.

12. SEGMENT FINANCIAL REPORTING

- 1) Financial information by industries: The Group is mainly engaged in the manufacturing, processing and sale of peripheral computer equipment.
- 2) Financial information by geographic areas for the years ended December 31, 2010 and 2009 are as follows:

| 2010 | ROC | Asia | America | Europe | Elimination | Consolidated |
|---|----------------------|---------------------|---------------------|---------------------|------------------------|---------------------|
| Revenue from third parties | \$41,930,895 | \$ 15,163,559 | \$ 1,261,068 | \$2,081,794 | \$ - | \$64,437,316 |
| Revenue from the Company and its subsidiaries | <u>1,326,261</u> | <u>60,405,591</u> | <u>33,479,623</u> | <u>5,522</u> | <u>(95,216,997)</u> | <u>-</u> |
| Total | <u>\$43,257,156</u> | <u>\$75,569,150</u> | <u>\$34,740,691</u> | <u>\$ 2,087,316</u> | <u>(\$ 95,216,997)</u> | <u>\$64,437,316</u> |
| Segment (loss) / income | <u>\$ 1,655,527</u> | <u>\$ 1,478,725</u> | <u>(\$ 40,199)</u> | <u>\$ 63,265</u> | <u>(\$ 12,131)</u> | \$ 3,145,187 |
| Company revenue | | | | | | 1,528,257 |
| Company expense | | | | | | (224,568) |
| Investment gain accounted under the equity method | | | | | | 86,138 |
| Interest expense | | | | | | (113,102) |
| Net income before income tax | | | | | | <u>\$ 4,421,912</u> |
| Identifiable assets | <u>\$ 21,520,429</u> | <u>\$28,906,116</u> | <u>\$ 4,868,171</u> | <u>\$ 766,594</u> | <u>(\$ 19,938,336)</u> | \$36,122,974 |
| Long-term investments | | | | | | <u>573,503</u> |
| Total assets | | | | | | <u>\$36,696,477</u> |
| 2009 | ROC | Asia | America | Europe | Elimination | Consolidated |
| Revenue from third parties | \$33,219,514 | \$ 14,918,602 | \$ 2,674,080 | \$ 3,135,712 | \$ - | \$53,947,908 |
| Revenue from the Company and its subsidiaries | <u>1,801,044</u> | <u>51,300,362</u> | <u>18,203,068</u> | <u>3,116</u> | <u>(71,307,590)</u> | <u>-</u> |
| Total | <u>\$35,020,558</u> | <u>\$66,218,964</u> | <u>\$20,877,148</u> | <u>\$ 3,138,828</u> | <u>(\$ 71,307,590)</u> | <u>\$53,947,908</u> |
| Segment (loss) / income | <u>\$ 2,156,560</u> | <u>\$ 2,332,681</u> | <u>(\$ 534,869)</u> | <u>\$ 36,485</u> | <u>\$ 44,791</u> | \$ 4,035,648 |
| Company revenue | | | | | | 438,951 |
| Company expense | | | | | | (164,125) |
| Investment gain accounted under the equity method | | | | | | 33,484 |
| Interest expense | | | | | | (188,835) |
| Net income before income tax | | | | | | <u>\$ 4,155,123</u> |
| Identifiable assets | <u>\$ 19,093,675</u> | <u>\$28,290,444</u> | <u>\$ 7,786,973</u> | <u>\$ 735,057</u> | <u>(\$ 23,096,335)</u> | \$32,809,814 |
| Long-term investments | | | | | | <u>375,626</u> |
| Total assets | | | | | | <u>\$33,185,440</u> |

3) Information on export sales:

The details of the Group's export sales are as follows:

| Areas | 2010 | 2009 |
|---------|---------------|---------------|
| Asia | \$ 38,010,904 | \$ 34,048,170 |
| America | 10,912,728 | 7,305,529 |
| Europe | 8,536,101 | 7,905,682 |
| Others | 41,843 | 91,197 |
| | \$ 57,501,576 | \$ 49,350,578 |

4) Information on major customers' sales are as follows:

| | 2010 | | 2009 | |
|-----------|--------------|----|-------------|----|
| | Amount | % | Amount | % |
| Company A | \$ 5,433,953 | 9 | \$4,178,449 | 8 |
| Company B | 4,604,123 | 8 | 1,983,596 | 4 |
| Company C | 3,556,540 | 6 | 2,894,100 | 5 |
| | \$13,594,616 | 23 | \$9,056,145 | 17 |