Flytech Technology Co., Ltd.

Nonconsolidated Financial Statements

December 31, 2010 and 2009
(With Independent Auditors' Report Thereon)

Independent Auditors' Report

The Board of Directors
Flytech Technology Co., Ltd.:

We have audited the nonconsolidated balance sheets of Flytech Technology Co., Ltd. as of December 31, 2010 and 2009, and the related nonconsolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and the "Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants" in the Republic of China. Those standards and regulations require that we plan and perform the audit to obtain reasonable assurance about whether the nonconsolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the nonconsolidated financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Flytech Technology Co., Ltd. as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended, in conformity with the related financial accounting standards of the "Business Entity Accounting Act" and of the "Regulation on Business Entity Accounting Handling", and accounting principles generally accepted in the Republic of China.

Taipei, Taiwan (the Republic of China)
March 7, 2011

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

Flytech Technology Co., Ltd.

Nonconsolidated Balance Sheets

December 31, 2010 and 2009
(expressed in thousands of New Taiwan dollars)

Assets	2010	2009
Current assets:		
Cash and cash equivalents (note 4(a))	$ 1,839,087	952,368
Financial assets at fair value through profit or loss — current (note 4(b))	3,172	50,003
Notes and accounts receivable, net of allowance for doubtful accounts of $4,486 and $3,810 as of December 31, 2010 and 2009, respectively	428,789	360,418
Receivables from related parties (note 5)	10,774	16,780
Other receivables	12,155	11,837
Inventories (note 4(c))	295,792	341,683
Prepaid expenses and other current assets	6,247	5,529
Deferred income tax assets — current (note 4(g))	8,093	8,439
Pledged time deposits (note 6)	107	107
Total current assets	2,604,216	1,747,164
Investments:		
Financial assets carried at cost — non-current (note 4(b))	18,580	19,186
Equity method (note 4(d))	232,272	184,098
Total investments	250,852	203,284
Property, plant and equipment:		
Land	319,238	131,630
Building	178,150	178,150
Machinery and equipment	98,889	86,628
Transportation equipment	9,669	9,669
Furniture and fixtures	18,964	17,504
Leasehold improvement	14,124	14,124
Miscellaneous equipment	100,806	122,640
Prepayments for construction and equipment	75,396	40,644
	815,236	600,989
Less: accumulated depreciation	(156,884)	(157,358)
Net property, plant and equipment	658,352	443,631
Deferred pension cost (note 4(g))	845	966
Deferred expenses and other assets	7,734	5,671
Total assets	$ 3,521,999	2,400,716

Liabilities and Stockholders' Equity	2010	2009
Current liabilities:		
Financial liabilities at fair value through profit or loss — current (note 4(b))	$ 779	-
Accounts payable	203,852	169,608
Payables to related parties (note 5)	2,484	21
Income tax payable	51,168	49,531
Accrued expenses and other current liabilities (notes 4(i) and 5)	199,440	174,383
Total current liabilities	457,723	393,543
Other liabilities:		
Financial liabilities at fair value through profit or loss — non-current (notes 4(b) and (f))	6,240	-
Bonds payable (note 4(f))	727,576	-
Accrued pension liability (note 4(g))	15,470	14,927
Deferred income tax liabilities — non-current (note 4(h))	9,571	7,769
Total other liabilities	758,857	22,696
Total liabilities	1,216,580	416,239
Stockholders' equity (notes 4(f), (g), (h) and (i)):		
Common stock	826,337	786,940
Capital surplus	286,908	219,039
Legal reserve	297,158	242,658
Unappropriated earnings	907,481	734,293
Translation adjustment	(11,075)	3,747
Net losses not recognized as retirement costs	(1,390)	(2,200)
Total stockholders' equity	2,305,419	1,984,477
Commitments (notes 4(b) and 7)		
Total liabilities and stockholders' equity	$ 3,521,999	2,400,716

See accompanying notes to nonconsolidated financial statements.

Flytech Technology Co., Ltd.

Nonconsolidated Statements of Income

For the years ended December 31, 2010 and 2009
(expressed in thousands of New Taiwan dollars, except earnings per share)

	2010	2009
Net sales (note 5)	$ 3,149,088	2,383,787
Cost of sales (notes 4(c), (g) and (i), 5 and 10)	(2,184,151)	(1,505,592)
Gross profit	964,937	878,195
Change in unrealized inter-company profits (note 5)	2,337	2,967
Realized gross profit	967,274	881,162
Operating expenses (notes 4(g) and (i), 5 and 10):		
Selling expenses	(117,001)	(89,600)
Administrative expenses	(77,640)	(74,473)
Research and development	(115,884)	(96,642)
	(310,525)	(260,715)
Operating income	656,749	620,447
Nonoperating income and gains:		
Interest income	2,573	4,322
Investment income recognized under equity method (note 4(d))	17,996	282
Gain on disposal of investments, net (note 4(b))	3,212	-
Evaluation gain on financial instruments, net (notes 4(b) and (f))	2,150	-
Other income, net	12,177	11,984
	38,108	16,588
Nonoperating expense and loss:		
Interest expense (note 4(f))	(6,222)	(1)
Loss on disposal of property and equipment	(2,701)	(1,886)
Foreign currency exchange loss, net	(31,531)	(7,805)
Impairment loss on investments (note 4(b))	-	(4,500)
Evaluation loss on financial instruments, net (note 4(b))	-	(569)
	(40,454)	(14,761)
Income before income taxes	654,403	622,274
Income taxes (note 4(h))	(72,592)	(77,278)
Net income	**$ 581,811**	**544,996**

	Before income taxes	After income taxes	Before income taxes	After income taxes
Earnings per share (note 4(j))				
Basic earnings per share	**$ 7.92**	**7.04**	**7.53**	**6.60**
Diluted earnings per share	**$ 7.49**	**6.67**	**7.46**	**6.53**

See accompanying notes to nonconsolidated financial statements.

Flytech Technology Co., Ltd.

Nonconsolidated 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 Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings	Translation Adjustment	Net Losses Not Recognized as Retirement Costs	Treasury Stock	Total
Balance at January 1, 2009	$ 835,470	232,546	195,613	1,432	689,007	8,313	(3,663)	(201,358)	1,757,360
Appropriation approved by the stockholders (note 4(i)) (note a):									
Legal reserve	-	-	47,045	-	(47,045)	-	-	-	-
Reversal of special reserve	-	-	-	(1,432)	1,432	-	-	-	-
Cash dividends	-	-	-	-	(314,776)	-	-	-	(314,776)
Net income for 2009	-	-	-	-	544,996	-	-	-	544,996
Translation adjustments on long-term investments	-	-	-	-	-	(4,566)	-	-	(4,566)
Adjustment to minimum pension liability	-	-	-	-	-	-	1,463	-	1,463
Retirement of treasury stock (note 4(i))	(48,530)	(13,507)	-	-	(139,321)	-	-	201,358	-
Balance at December 31, 2009	786,940	219,039	242,658	-	734,293	3,747	(2,200)	-	1,984,477
Appropriation approved by the stockholders (note 4(i)) (note b):									
Legal reserve	-	-	54,500	-	(54,500)	-	-	-	-
Stock dividends to shareholders	39,347	-	-	-	(39,347)	-	-	-	-
Cash dividends	-	-	-	-	(314,776)	-	-	-	(314,776)
Net income for 2010	-	-	-	-	581,811	-	-	-	581,811
Translation adjustments on long-term investments	-	-	-	-	-	(14,822)	-	-	(14,822)
Issuance of common stock under option plan	50	303	-	-	-	-	-	-	353
Conversion right from issuance of convertible bonds	-	67,566	-	-	-	-	-	-	67,566
Adjustment to minimum pension liability	-	-	-	-	-	-	810	-	810
Balance at December 31, 2010	**$ 826,337**	**286,908**	**297,158**	**-**	**907,481**	**(11,075)**	**(1,390)**	**-**	**2,305,419**

Note a: Directors’ and supervisors’ remuneration of $2,400 and employee bonuses of $52,600 for 2009 have been deducted from the 2009 net income.
Note b: Directors’ and supervisors’ remuneration of $2,400 and employee bonuses of $65,600 for 2010 have been deducted from the 2010 net income.

See accompanying notes to nonconsolidated financial statements.

Flytech Technology Co., Ltd.

Nonconsolidated Statements of Cash Flows

For the years ended December 31, 2010 and 2009

(expressed in thousands of New Taiwan dollars)

	2010	2009
Cash flows from operating activities:		
Net income	$ 581,811	544,996
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	34,287	35,864
Amortization	1,200	952
Amortization of discount on convertible bond	6,204	-
Investment income recognized under equity method	(17,996)	(282)
Gain on disposal of investments	(3,212)	-
Evaluation loss (gain) on financial instruments	(2,150)	5,069
Loss on disposal of property and equipment	2,701	1,886
Deferred income tax expense	2,148	5,373
Changes in operating assets and liabilities:		
Notes and accounts receivable	(68,371)	(46,208)
Receivables from related parties	6,006	20,351
Other receivables	(318)	15,361
Inventories	45,891	(185,705)
Prepaid expenses and other current assets	(718)	8,161
Notes and accounts payable	34,244	14,443
Payables to related parties	2,463	(7,053)
Income tax payable	1,637	49,531
Accrued expenses and other current liabilities	9,385	(14,800)
Accrued pension liability	1,474	1,823
Net cash provided by operating activities	636,686	449,762
Cash flows from investing activities:		
Increase in financial assets at fair value through profit or loss	(11,800)	(50,000)
Proceeds from disposal of financial assets at fair value through profit or loss	65,133	-
Decrease in pledged time deposits	-	29,997
Proceeds from disposal of financial assets carried at cost	485	-
Acquisition of equity method investment	(45,000)	-
Additions to property and equipment	(241,113)	(89,646)
Proceeds from disposal of property and equipment	14	-
Increase in other assets	(3,263)	(56)
Net cash used in investing activities	(235,544)	(109,705)
Cash flows from financing activities:		
Issuance of convertible bonds	800,000	-
Distribution of cash dividends	(314,776)	(314,776)
Proceeds from exercise of employee stock options	353	-
Net cash provided by (used in) financing activities	485,577	(314,776)
Net increase in cash and cash equivalents	886,719	25,281
Cash and cash equivalents at beginning of year	952,368	927,087
Cash and cash equivalents at end of year	$ 1,839,087	952,368
Additional disclosure of cash flow information:		
Interest paid	$ 18	-
Income taxes paid	$ 68,807	17,954
Supplemental information on noncash investing and financing activities:		
Translation adjustment on equity method investments	$ (14,822)	(4,566)
Additions to property and equipment:		
Additions to property and equipment	$ 251,723	84,911
Payables at beginning of year	12,400	17,135
Payables at end of year	(23,010)	(12,400)
Net payment	$ 241,113	89,646

See accompanying notes to nonconsolidated financial statements.

1. Organization and Principal Activities

Flytech Technology Co., Ltd. (the "Company") was incorporated on August 13, 1984, as a company limited by shares under the Republic of China ("ROC") Company Act. The Company is engaged in the development, design and manufacture of Book PCs, Net PCs, POS PCs, and IPCs.

As of December 31, 2010 and 2009, the Company had hired 348 and 295 employees, respectively.

2. Summary of Significant Accounting Policies

The Company prepares its nonconsolidated financial statements in accordance with the "Business Entity Accounting Act", the "Regulation on Business Entity Accounting Handling", and accounting principles generally accepted in the Republic of China ("ROC GAAP"). The major accounting policies adopted in preparing the financial statements are summarized below:

(a) Use of estimates

The preparation of the accompanying financial statements requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates.

(b) Foreign currency transactions and translation

The Company's functional and reporting currency is the New Taiwan dollar. Non-derivative foreign currency transactions are recorded at the exchange rates prevailing at the transaction date. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated into New Taiwan dollars using the exchange rates on that date. The resulting unrealized exchange gains or losses from such translations are reflected in the accompanying statements of income. Non-monetary assets and liabilities denominated in foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currency that are measured at fair value are reported at the rate that was in effect when the fair values were determined. Subsequent adjustments to carrying values of such non-monetary assets and liabilities, including the effects of changes in exchange rates, are reported in profit or loss for the period, except that if movement in fair value of a non-monetary item is recognized directly in equity, any foreign exchange component of that adjustment is also recognized directly in equity.

(Continued)

For equity investments in foreign subsidiaries and investees, which are accounted for by the equity method, if their reporting currency is not their functional currency, their financial statements are remeasured. The resulting difference is recorded as foreign currency exchange gain or loss. Furthermore, their foreign currency financial statements have to be translated into the Company's reporting currency. Translation adjustments resulting from the translation of foreign currency financial statements into the Company's reporting currency are accounted for as translation adjustment, which is a separate component of stockholders' equity.

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

Cash and cash equivalents, and assets that will be held primarily for the purpose of being traded or are expected to be liquidated within 12 months after the balance sheet date are classified as current assets; all other assets are classified as non-current assets.

Liabilities incurred for the purpose of being traded or expected to be settled within 12 months after the balance sheet date are classified as current liabilities; all other liabilities are classified as non-current liabilities.

(d) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, cash in banks, unrestricted time deposits, negotiable certificates of deposit, and other highly liquid investments which do not have a significant level of market risk from potential interest rate changes.

(e) Financial assets/liabilities at fair value through profit or loss

An instrument is classified as at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. In addition, derivatives that do not meet the criteria for hedge accounting are classified as financial assets/liabilities at fair value through profit or loss. Derivative transactions are recorded on a trade-date basis. Upon initial recognition, financial instruments are recognized at fair value. Acquisition costs are expensed as incurred. Subsequent to initial recognition, financial assets and liabilities are measured at fair value, and changes therein are recognized in profit or loss.

(f) Allowance for doubtful accounts

Allowance for doubtful accounts is provided based on the aging, quality analysis, and collectibility of notes and accounts receivable.

(Continued)

Flytech Technology Co., Ltd.

Notes to Non-consolidated Financial Statements

(g) Inventories

The cost of inventories shall comprise all costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to their present location and condition. The allocation of fixed production overheads to the finished goods and work in progress is based on the higher of normal capacity or actual capacity of the production facilities. Variable production overheads are allocated to each unit of production on the basis of the actual use of the production facilities. Inventories are measured at the lower of cost or net realizable value. The cost of inventories is based on the weighted-average-cost principle. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses at the end of the period.

(h) Investments

(i) Equity method investments

Long-term equity investments in which the Company owns 20% or more of the investee's voting shares, or less than 20% of the investee's voting shares but is able to exercise significant influence over the investee's operating and financial policies, are accounted for using the equity method.

When an equity-method investment is disposed of, the difference between the selling price and the book value of the equity method investments is recognized as disposal gain or loss in the accompanying nonconsolidated statements of income. If there are capital surplus and separate components of shareholders' equity resulting from such equity method investments, they are accounted for as a reduction of disposal gain/loss based on the percentage of investments disposed of.

Unrealized profits or losses from transactions between the Company and equity method investees are deferred and reported as deferred inter-company profits or losses. The profits or losses resulting from depreciable or amortizable assets are recognized over the estimated useful lives of such assets. The profits or losses from other assets are recognized when realized.

(ii) Financial assets carried at cost

Equity investments for which the Company is not able to exercise significant influence over the investees' operating and financial policies and which cannot be evaluated at fair value are carried at original cost. If there is objective evidence which indicates that an equity investment carried at cost has been impaired, a loss is recognized. A subsequent reversal of such impairment loss is not allowed.

(Continued)

(i) Property, plant and equipment

Property, plant and equipment are stated at acquisition cost. Interest expense related to the construction and purchase of property and equipment is capitalized and included in the cost of the related asset. Significant additions, improvements, and replacements are capitalized. Maintenance and repair costs are expensed in the period incurred. Gains and losses on the disposal of property, plant and equipment are recorded in the nonoperating section in the accompanying nonconsolidated statements of income.

Commencing from November 20, 2008, the Company capitalized the retirement or recovery obligation for newly acquired property and equipment in accordance with Interpretation (97) 340 issued by the Accounting Research and Development Foundation. A component which is significant in relation to the total cost of the property and equipment and for which a different depreciation method or rate is appropriate should be depreciated separately. The Company regularly evaluates the estimated useful lives, depreciation method and residual value at the end of each year. Changes in the estimated useful lives, depreciation method and residual value are accounted for as changes in accounting estimates and recognized in current profit or loss.

Property, plant and equipment are depreciated over the asset's estimated useful life using the straight-line method. Leasehold improvement is depreciated over the lower of the rental period or the asset's estimated useful life using the straight-line method. The estimated useful lives of property, plant and equipment are as follows:

1.	Building	50 years
2.	Machinery and equipment	3~11 years
3.	Transportation equipment	5 years
4.	Leasehold improvement	4~15 years
5.	Other equipment	2~10 years

(j) Non-financial asset impairment

The Company assesses at each balance sheet date whether there is any indication that an asset may have been impaired. If any such indication exists, the Company estimates the recoverable amount of the asset. The Company recognizes impairment loss for an asset whose carrying value is higher than the recoverable amount. An impairment loss recognized in prior periods is reversed if there is any indication that the impairment loss recognized no longer exists or has decreased. The carrying value after the reversal should not exceed the recoverable amount or the depreciated or amortized balance of the assets assuming no impairment loss was recognized in prior periods.

(Continued)

(k) Convertible bonds

Convertible bonds issued by the Company contain both a financial liability and an equity component. The equity component grants an option to the bondholder to convert a fixed number of bonds into a fixed number of the Company's common shares. On initial recognition, the carrying amount of the liability component is measured at the fair value of a similar liability that does not have an equity conversion option. The carrying amount of the equity component is then determined by deducting the fair value of the financial liability from the proceeds of the issuance of convertible bonds.

The difference between the initial carrying amount of the liability component and the redeemable amount that is payable on maturity is amortized and charged to interest expense using the effective interest rate method over the life of the bond. The embedded financial instruments (redemption options) are accounted for as financial liabilities at fair value through profit and loss and measured at fair value. The equity component of the convertible bonds is recognized in capital surplus upon initial recognition and is not subject to valuation in subsequent periods.

When bonds are converted into common stock, the liability components are measured at fair value on the conversion date, and changes in fair value are recognized immediately in profit or loss. Shares to be issued are recorded based on the book value of the liability and equity components of convertible bonds. No gain or loss is recognized.

(l) Revenue recognition

Revenue from sales of products is recognized when products are delivered to customers and the significant risks and rewards of ownership are transferred. Service revenue is recognized when the service is provided and the amount becomes billable currently.

(m) Share-based payment

The employee stock options that were granted before January 1, 2008, apply Interpretations (92) 070, 071 and 072 of the Accounting Research and Development Foundation. The Company adopts the intrinsic value method to recognize the compensation cost, which is the difference between the market price of the stock and the exercise price of the employee stock option on the measurement date. Any compensation cost should be charged to expense over the employee vesting period and increase stockholders' equity accordingly.

(Continued)

Flytech Technology Co., Ltd.

Notes to Non-consolidated Financial Statements

(n) Treasury stock

Treasury stock is accounted for at acquisition cost. Upon disposal of the treasury stock, the sale proceeds in excess of cost are accounted for as capital surplus－treasury stock. If the sale proceeds are less than cost, the deficiency is accounted for as a reduction of the remaining balance of capital surplus－treasury stock. If the remaining balance of capital surplus－treasury stock is insufficient to cover the deficiency, the remainder is recorded as a reduction of retained earnings. The cost of treasury stock is computed using the weighted-average method.

If treasury stock is retired, the weighted-average cost of the retired treasury stock is written off to offset the par value and the capital surplus premium, if any, of the stock retired. If the weighted-average cost written off exceeds the sum of both the par value and the capital surplus premium, the difference is accounted for as a reduction of capital surplus－treasury stock, or a reduction of retained earnings for any deficiency where capital surplus－treasury stock is insufficient to cover the difference. If the weighted-average cost written off is less than the sum of both the par value and capital surplus premium, if any, of the stock retired, the difference is accounted for as an increase in capital surplus－treasury stock.

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

Employee bonuses and directors' and supervisors' remuneration appropriated on or after January 1, 2008, are accounted for in accordance with Interpretation (96) 052 issued by the Accounting Research and Development Foundation. The Company estimates the amount of employee bonuses and directors' and supervisors' remuneration according to the Interpretation and recognizes it as cost of revenues or operating expenses. Differences between the amount approved in the shareholders' meeting and recognized in the financial statements, if any, are accounted for as changes in accounting estimates and recognized as profit or loss.

(p) Retirement plan

(i) Defined benefit retirement plan

In 1986, the Company established a retirement plan (the "Plan") covering substantially all employees. This plan provides for lump-sum retirement benefits to retiring employees based on length of service, age, and the average salary for the six months before retirement. The Company deposits monthly retirement funds equal to 5% of employees' total salaries with Bank of Taiwan.

The Company has an actuarial calculation of its pension liability under the Plan using the balance sheet date as the measurement date. The Company recognizes a minimum pension liability equal to the amount by which the actuarial present value of the accumulated benefit obligation exceeds the fair value of the retirement plan's assets, and also recognizes the net periodic pension costs using actuarial techniques. A deferred pension cost is recognized when the additional minimum liability does not exceed the unrecognized net transition

(Continued)

obligation. The excess, which represents a net loss not yet recognized as net periodic pension cost, is reported as a reduction of equity.

(ii) Defined contribution retirement plan

Starting from July 1, 2005, pursuant to the ROC Labor Pension Act (the "New System"), employees who elected to participate in the New System or commenced working after July 1, 2005, are subject to a defined contribution plan under the New System. For the defined contribution plan, the Company contributes monthly an amount equal to 6% of each employee's monthly salary to an individual labor pension fund account. Contributions made for the defined contribution retirement plans are expensed as incurred.

(q) Income taxes

Income taxes are accounted for under the asset and liability method. Deferred income tax is determined based on differences between the financial statements and tax basis of assets and liabilities using enacted tax rates in effect during the years in which the differences are expected to reverse. The income tax effects resulting from taxable temporary differences are recognized as deferred income tax liabilities. The income tax effects resulting from deductible temporary differences, net operating loss carryforwards, and income tax credits are recognized as deferred income tax assets. The realization of the deferred income tax assets is evaluated, and if it is considered more likely than not that the asset will not be realized, a valuation allowance is recognized accordingly. When a change in the tax rate is enacted, the deferred tax assets and liabilities are recalculated using the new tax rate in the year of change, and any resulting variances are recognized as income tax expense or benefit of continuing operations accordingly.

Classification of deferred income tax assets and liabilities as current or non-current is based on the classification of the related asset or liability. If the deferred income tax asset or liability is not directly related to a specific asset or liability, then the classification is based on the asset's or liability's expected realization date.

According to the ROC Income Tax Act, undistributed earnings, if any, earned after December 31, 1997, are subject to an additional 10% retained earnings tax. The surtax is accounted for as income tax expense in the following year when the stockholders decide not to distribute the earnings.

(r) Earnings per common share

Earnings per common share are based on net income divided by the weighted-average number of common shares outstanding. The increase in the number of outstanding shares through distribution of stock dividends from retained earnings or capital surplus is included in the outstanding shares retroactively.

(Continued)

Flytech Technology Co., Ltd.

Notes to Non-consolidated Financial Statements

Convertible bonds and stock options are dilutive potential common stock. The computation of diluted earnings per share is based on the above-mentioned weighted-average number of outstanding common shares plus the weighted-average number of common shares which would be issued on the conversion of all the dilutive potential common shares into common shares.

Additionally, as the Company can choose to distribute employee bonuses by issuing common shares, the computation of diluted earnings per share is based on the assumption that all employee bonuses are distributed in common shares as of the balance sheet date.

3. Changes in Accounting Policies

Effective January 1, 2009, the Company adopted the newly revised Statement of Financial Accounting Standards ("SFAS") No. 10, "Inventories". The accounting change had no significant impact on the Company's financial statements as of and for the year ended December 31, 2009.

4. Significant Account Disclosures

(a) Cash and cash equivalents

		2010	**2009**
Cash on hand	$	961	263
Cash in banks		1,275,826	359,805
Time deposit		562,300	592,300
	$	**1,839,087**	**952,368**

(b) Financial instruments

As of December 31, 2010 and 2009, the financial instruments held by the Company were as follows:

		2010	**2009**
Financial assets at fair value through profit or loss－current:			
Open-end mutual fund	$	-	50,003
Foreign currency forward contract		3,172	-
	$	**3,172**	**50,003**
Financial liabilities at fair value through profit or loss－current:			
Foreign currency forward contract	**$**	**779**	**-**
Financial liabilities at fair value through profit or loss－non-current:			
Redemption options of the convertible bonds (note 4(f))	**$**	**6,240**	**-**

(Continued)

Flytech Technology Co., Ltd.

Notes to Non-consolidated Financial Statements

	2010	2009
Financial assets carried at cost－non-current:		
Equity securities－Taiwan Video System	$ -	606
－Mythology Tech Express Inc.	18,580	18,580
	$ 18,580	19,186

In 2010, the Company sold 94,802 common shares of Taiwan Video System for $485, resulting in a disposal loss of $121.

In 2009, the Company recognized an impairment loss on the value of its investments in Mythology Tech Express Inc. and Taiwan Video System amounting to $4,500.

As of December 31, 2010 the Company had the following foreign currency forward contracts outstanding:

	December 31, 2010		
	Contract amount (in thousands)	Settlement date	Fair value
Financial assets at fair value through profit or loss:			
NTD Call / USD Put	USD 6,000	2011/01/07~2011/02/11	$ 3,172
Financial liabilities at fair value through profit or loss:			
NTD Call / USD Put	USD 3,000	2011/02/11~2011/03/11	$ 779

As of December 31, 2009, the Company had no foreign currency forward contracts outstanding.

In 2010 and 2009, the Company recognized an valuation gain (loss) amounting to $2,150 and $(569), respectively, on the financial assets (liabilities) at fair value through profit or loss.

(c) Inventories

(1) The inventories (net of provision for obsolescence and devaluation) as of December 31, 2010 and 2009, were as follows:

	2010	2009
Raw materials	$ 149,126	211,661
Work in process	131,090	113,003
Finished goods	13,820	16,226
Merchandise	1,756	793
	$ 295,792	341,683

(Continued)

Flytech Technology Co., Ltd.

Notes to Non-consolidated Financial Statements

(2) Changes in provision for obsolescence and devaluation for the years ended December 31, 2010 and 2009, were as follows:

	2010	2009
Balance at January 1	$ 20,900	24,900
Reversal	-	(4,000)
Balance at December 31	$ 20,900	20,900

(3) For the years ended December 31, 2010 and 2009, the details of loss on inventories were as follows:

	2010	2009
Gain on reversal of provision for obsolescence and devaluation	$ -	(4,000)
Scrap loss	4,236	1,162
	$ 4,236	(2,838)

(d) Equity method investments

	2010			
Investee	**Percentage of ownership (%)**	**Investment cost**	**Book value**	**Investment income (loss)**
Flytech USA International Co., Ltd.	100.00	$ 38,652	40,304	145
Flytech JP International Co., Ltd.	100.00	3,446	2,841	433
Flytech HK International Co., Ltd.	100.00	10,392	67,793	11,196
Flytech CN International Co., Ltd.	100.00	69,089	71,333	6,214
Flycom Investment Co., Ltd.	100.00	50,000	50,001	8
		$ 171,579	232,272	17,996

	2009			
Investee	**Percentage of ownership (%)**	**Investment cost**	**Book value**	**Investment income (loss)**
Flytech USA International Co., Ltd.	100.00	$ 38,652	44,161	844
Flytech JP International Co., Ltd.	100.00	3,446	3,297	(126)
Flytech HK International Co., Ltd.	100.00	10,392	62,653	5,689
Flytech CN International Co., Ltd.	100.00	69,089	68,994	(6,129)
Flycom Investment Co., Ltd.	100.00	5,000	4,993	4
		$ 126,579	184,098	282

In 2010, the Company increased its investments in Flycom Investment Co., Ltd. (“Flycom”) by $45,000 to raise Flycom’s working capital.

(Continued)

(e) Short-term borrowings

Unused credit facilities as of December 31, 2010 and 2009, amounted to $445,650 and $260,150, respectively. As of December 31, 2010 and 2009, short-term borrowings were guaranteed by the issuance of promissory notes amounting to $300,000 and $52,000, respectively. In 2010 and 2009, the Company had no short-term borrowings.

(f) Bonds payable

On August 9, 2010, the Company issued $800,000 of domestic unsecured zero coupon convertible bonds (the "Bonds"). The significant terms and conditions of the convertible bonds are as follows:

(1) Maturity date

August 9, 2015

(2) Conversion period

Bondholders may convert bonds into the Company's common shares at any time after one month from the issue date until the day 10 days prior to the maturity date, at the conversion price on the conversion date. The Company will issue new common shares for the conversion of the Bonds.

(3) Conversion price

The conversion price was initially $90.9 (dollars) per share, subject to adjustment by the formula provided in the issue terms if the Company's outstanding common shares are increased. As of August 26, 2010, the adjusted conversion price was $82.6 (dollars) per share.

(4) Redemption at the option of the Company

The Company may redeem all or some of the Bonds at the principal amount after one month from the issue date until the day 40 days before maturity when the market price of the Company's common stock exceeds 130% of the conversion price for 30 consecutive trading days, or no more than 10% of the Bonds remain outstanding.

(5) Redemption at the option of the bondholders

On August 9, 2012, bondholders shall have right, at such holders' option, to require the Company to redeem the Bonds, in whole or in part, at an amount equal to the principal amount plus a gross yield of 0.5% per annum (calculated on an annual basis).

(Continued)

As of December 31, 2010, the liability and equity components of the aforementioned convertible bonds were as follows:

Par value of bonds payable	$	800,000
Discount on bonds payable		(72,424)
Carrying amount of bonds payable (straight bond value)		727,576
Less: current portion		-
	$	**727,576**
Recognized as financial liabilities at fair value through profit or loss (redemption options of the convertible bonds)	$	**6,240**
Recognized as capital surplus－conversion right	$	**67,566**

For the year ended December 31, 2010, the details of expenses resulting from the Bonds were as follows:

Evaluation loss on redemption options of the convertible bonds	$	**(1,680)**
Amortization of bonds payable discount (recognized as interest expense, using the effective interest rate of 2.09%)	$	**(6,204)**

(g) Retirement plan

(1) Defined benefit retirement plan

The following table sets forth the benefit obligation and accrued pension liability related to the Company's defined benefit pension plan:

		2010	**2009**
Benefit obligation:			
Vested benefit obligation	$	(4,773)	(4,451)
Nonvested benefit obligation		(23,960)	(26,278)
Accumulated benefit obligation		(28,733)	(30,729)
Projected compensation increases		(9,404)	(10,183)
Projected benefit obligation		(38,137)	(40,912)
Plan assets at fair value		13,263	15,802
Funded status		(24,874)	(25,110)
Unrecognized transition obligation		845	966
Unrecognized net pension loss		10,794	12,383
Adjustment to recognize minimum liability		(2,235)	(3,166)
Accrued pension liability	$	**(15,470)**	**(14,927)**

(Continued)

Flytech Technology Co., Ltd.

Notes to Non-consolidated Financial Statements

The components of the net periodic pension cost for 2010 and 2009 are summarized as follows:

		2010	2009
Service cost	$	520	828
Interest cost		985	1,019
Expected return on plan assets		(360)	(390)
Amortization of net transition obligation		121	121
Amortization of pension loss		414	485
Net periodic pension cost	$	1,680	2,063

Major assumptions used to determine the above information:

	2010	2009
Discount rate	2.50%	2.50%
Rate of increase in future compensation levels	2.00%	2.00%
Expected long-term rate of return on plan assets	2.50%	2.50%

(2) Defined contribution retirement plan

In 2010 and 2009, pension cost under the defined contribution pension plan was $8,079 and $7,412, respectively.

(h) Income taxes

(1) The 2010 income tax rate for profit-seeking enterprises was reduced from 25% to 20% according to the amended ROC Income Tax Act announced on May 27, 2009, and was further reduced from 20% to 17% according to the amended ROC Income Tax Act announced on June 15, 2010. Therefore, the statutory income tax rates applicable to the Company for the years ended December 31, 2010 and 2009, were 17% and 25%, respectively. In addition, an alternative minimum tax (“AMT”) in accordance with the Income Basic Tax Act is calculated.

(2) In accordance with the Statute for Upgrading Industries, the Company obtained governmental approval for tax exemption on most products manufactured by the Company for 5 years starting from 2010 and 2005, respectively.

(Continued)

Flytech Technology Co., Ltd.

Notes to Non-consolidated Financial Statements

(3) The income taxes for the years ended December 31, 2010 and 2009, were as follows:

	2010	2009
Current income tax expense	$ 70,444	71,905
Deferred income tax expense	2,148	5,373
Income tax expense	$ 72,592	77,278

(4) The differences between the expected income tax expense based on the pre-tax income at the Company's statutory income tax rate and the actual income tax expense reported in the non-consolidated statements of income for the years ended December 31, 2010 and 2009, were as follows:

	2010	2009
Expected income tax expense	$ 111,249	155,569
Tax-exempt income	(46,949)	(72,966)
Investment tax credits	(5,894)	(29,350)
10% surtax on undistributed earnings	13,637	10,863
Prior-year income tax adjustment	-	12,033
Effect of change in statutory income tax rate	100	168
Others	449	961
	$ 72,592	77,278

(5) The components of the deferred income tax expense were as follows:

	2010	2009
Inventory provisions	$ -	1,000
Investment income recognized under equity method	3,059	71
Unrealized inter-company profits	397	742
Unrealized incentive	-	2,279
Unrealized exchange loss	(2,252)	-
Warranty provisions	569	2,733
Effect of change in statutory income tax rate	100	(72)
Others	275	(1,380)
	$ 2,148	5,373

(Continued)

Flytech Technology Co., Ltd.

Notes to Non-consolidated Financial Statements

(6) The components of deferred income tax assets (liabilities) as of December 31, 2010 and 2009, were as follows:

		2010	2009
Deferred income tax assets－current:			
Inventory provisions	$	3,553	4,180
Unrealized inter-company profits		531	1,092
Warranty provisions		1,426	2,347
Unrealized exchange loss		2,701	-
Others		248	820
Evaluation gain on financial instruments		(366)	-
	$	8,093	8,439
Deferred income tax liabilities－non-current:			
Accrued pension liabilities	$	2,630	2,985
Investment income recognized under equity method		(12,201)	(10,754)
	$	(9,571)	(7,769)

(7) Imputation credit account ("ICA") and creditable ratio

As of December 31, 2010 and 2009, the information related to the integrated tax system was as follows:

		2010	2009
ICA balance	$	33,565	32,465

The Company's estimated creditable ratio for the 2010 earnings distribution to ROC resident stockholders is approximately 8.5%, and the actual creditable ratio for the 2009 earnings distribution to ROC resident stockholders was 10.32%.

		2010	2009
Unappropriated earnings:			
Before January 1, 1998	$	177	177
From January 1, 1998		907,304	734,116
	$	907,481	734,293

(8) The ROC tax authorities have examined the Company's income tax returns for all fiscal years through December 31, 2007.

(Continued)

(i) Stockholders' equity

(1) Common stock

As of December 31, 2010 and 2009, the Company's authorized common stock consisted of 120,000,000 shares, at $10 par value per share, of which 82,634 and 78,694 thousand shares, respectively, were issued and outstanding.

In 2010, the Company issued 5,000 common shares for the exercise of employee stock options.

In June 2010, the Company's stockholders resolved to appropriate $39,347 from retained earnings as of December 31, 2009, and issue a total of 3,934,700 common shares as stock dividends. The issuance of common stock was approved by and registered with the governmental authorities on July, 8, 2010. The effective date of the stock issuance was August 26, 2010.

(2) Treasury stock

On October 24, 2008, the Company's directors resolved to buy back the Company's common shares according to Article 28-2 of the Securities and Exchange Act. The movements of treasury stock in 2009 were as the follows:

(expressed in thousand shares)

Purpose	Shares at beginning of the year	Increase	Decrease	Shares at end of the year
To maintain the shareholders' equity	4,853	-	4,853	-

According to the Securities and Exchange Act, the number of treasury shares shall not exceed 10% of the number of shares issued and outstanding. Moreover, the total amount of treasury stock shall not exceed the sum of retained earnings, paid-in capital in excess of par value, and realized capital surplus. As of December 31, 2008, the number of shares acquired was 4,853 thousand shares, with a total cost of $201,358, which was in compliance with the Securities and Exchange Act. The Company's board of directors decided to retire 4,853 thousand shares of treasury stock with write-off of capital surplus of $13,507 and unappropriated earnings of $139,321. The effective date of the retirement of treasury stock was March 31, 2009, and the related registration with the governmental authorities was completed in April 2009.

(Continued)

(3) Capital surplus

As of December 31, 2010 and 2009, the components of capital surplus were as follows:

	2010	2009
Gain on disposal of property and equipment	$ 15	15
Share premium:		
Paid-in common stock in excess of par value	70,644	70,644
Convertible bonds converted in excess of the common stock's par value	148,380	148,380
Conversion right of convertible bonds	67,869	-
	$ 286,908	219,039

According to the ROC Company Act, realized capital surplus can be transferred to common stock after deducting accumulated deficit, if any. Realized capital surplus includes share premium and donations from others.

(4) Special reserve

A special reserve equivalent to the net debit balance of the other components of stockholders' equity shall be made from unappropriated earnings pursuant to existing regulations promulgated by the Securities and Futures Bureau. Any special reserve appropriated may be reversed to the extent that the net debit balance is reversed.

(5) Legal reserve and appropriation of earnings

The Company's articles of incorporation stipulate that the balance of annual income after deducting accumulated deficit, if any, must be set aside as a legal reserve equal to 10% of such balance. The remaining balance, if any, must be distributed as follows:

- 3% to 15% as employee bonuses;
- 3% or less as remuneration for directors and supervisors;
- The remainder as dividends and bonuses for stockholders.

In view of the overall economic environment, the development of the industry, the Company's long-term capital policy, and stockholders' demands for cash, the Company has adopted a consistent dividend policy. Cash dividends distributed would not be lower than 10% of total stock and cash dividend distributions.

(Continued)

For the years ended December 31, 2010 and 2009, the Company recognized employee bonuses and directors' and supervisors' remuneration amounting to $70,000 and $68,000, respectively. The computation for the employee bonuses distributed in shares of stock was based on the closing price of the day prior to the stockholders' meeting, considering the ex-rights and ex-dividend effect. The difference between the amount approved in the shareholders' meeting and recognized in the financial statements, if any, is accounted for as changes in accounting estimates and recognized as profit or loss in the current year.

The appropriation of 2009 earnings approved by the shareholders in a meeting on June 15, 2010, was as follows:

Employee bonuses－cash	$ 65,600
Directors' and supervisors' remuneration	2,400
	$ 68,000

The appropriation mentioned above did not differ from the resolution approved by the directors. The appropriation of 2010 earnings is subject to the Company's directors' and shareholders' resolutions. After the resolutions, related information can be obtained from the public information website.

(6) Employee stock option plan

The Company adopted an employee stock option plan approved by the Company's directors in a meeting on November 6, 2007, to issue 3,000 units of employee stock options with the right for each option to purchase 1,000 shares of the Company's common stock. The Company issued all the stock options on December 27, 2007. The options are valid for 7 years.

The major terms of the plan are as follows:

(i) Exercise price: $100 per share. (As of December 31, 2010 and 2009, the adjusted prices were $70.60 and $77.70 per share, respectively.)

(ii) Vesting period: The granted and issued options are eligible to be exercised in 4 installments according to the following schedule:

Exercisable date	**Accumulated exercisable percentage**
Dec. 2009	25%
Dec. 2010	50%
Dec. 2011	75%
Dec. 2012	100%

(Continued)

Flytech Technology Co., Ltd.

Notes to Non-consolidated Financial Statements

(iii) Shares to be issued: New common stock.

The Company adopts the intrinsic value method to account for its stock-based employee compensation plan. The Company did not recognize any compensation cost in 2007 as the market value of the stock equaled the exercise price at the measurement date.

Had the Company determined compensation cost at the grant date based on the fair value of the stock options of $31.6 per share, total compensation cost would be $94,800, which would be amortized over a period of 5 years staring from 2008. The assumptions regarding the options using the Black-Scholes option pricing model at the date of grant were as follows:

Expected dividend yield	5.00%
Expected volatility of the stock price	49.957%
Risk-free interest rate	2.635%
Expected life	7 years

Had the related costs been accounted for using the fair value method, for the years ended December 31, 2010 and 2009, the pro forma operating results would have been as follows:

		2010	2009
Net income	Net income	$ 581,811	544,996
	Pro forma net income	565,335	518,361
Basic earnings per share	Earnings per share	7.04	6.60
(expressed in New Taiwan dollars)	Pro forma earnings per share	6.84	6.27

As of December 31, 2010 and 2009, information on outstanding stock options was as follows (expressed in thousand shares/New Taiwan dollars):

December 31, 2010					
	Options outstanding			Options exercisable	
Exercise price	Number of outstanding options	Weighted-average remaining contractual life	Weighted-average exercise price	Shares (in thousands)	Weighted-average exercise price
$ 70.60	2,995	4 years	$ 70.60	1,495	$ 70.60

(Continued)

Flytech Technology Co., Ltd.

Notes to Non-consolidated Financial Statements

December 31, 2009					
	Options outstanding			Options exercisable	
Exercise price	Number of outstanding options	Weighted-average remaining contractual life	Weighted-average exercise price	Shares (in thousands)	Weighted-average exercise price
$ 77.70	3,000	5 years	$ 77.70	750	-

In 2010 and 2009, the movements in number of stock options outstanding were as follows:

	2010		2009	
Stock options granted	Shares (in thousands)	Weighted-average exercise price (in dollars)	Shares (in thousands)	Weighted-average exercise price (in dollars)
Balance at beginning of year	3,000	$ 77.70	3,000	$ 77.70
Exercised	(5)	70.60	-	-
Balance at end of year	2,995	$ 70.60	3,000	$ 77.70

(j) Earnings per share ("EPS")

For the years ended December 31, 2010 and 2009, the computation of earnings per share was as follows:

	2010				
				EPS (in dollars)	
	Before income taxes	After income taxes	Weighted-average number of outstanding shares of common stock (in thousands)	Before income taxes	After income taxes
Basic EPS:					
Net income	$ 654,403	581,811	82,630	7.92	7.04
Diluted EPS:					
Effect of dilutive potential common shares:					
Convertible bonds	6,204	6,204	3,821		
Employee bonuses	-	-	1,481		
Employee stock options	-	-	235		
Net income	$ 660,607	588,015	88,167	7.49	6.67

(Continued)

Flytech Technology Co., Ltd.

Notes to Non-consolidated Financial Statements

	2009				
			Weighted-average number of outstanding shares of common stock (in thousands)	EPS (in dollars)	
	Before income taxes	After income taxes		Before income taxes	After income taxes
Basic EPS:					
Net income	$ 622,274	544,996	82,629	7.53	6.60
Diluted EPS:					
Effect of dilutive potential common shares:					
Employee bonuses	-	-	781		
Net income	$ 622,274	544,996	83,410	7.46	6.53

(k) Disclosure of financial instruments

(1) As of December 31, 2010 and 2009, fair values of financial assets and liabilities were as follows:

	2010			2009		
		Fair value			Fair value	
	Carrying amount	Publicly quoted price	Based on valuation technique	Carrying amount	Publicly quoted price	Based on valuation technique
Financial assets:						
Cash and cash equivalents	$ 1,839,087	1,839,087	-	952,368	952,368	-
Financial assets at fair value through profit or loss－open-end mutual fund	-	-	-	50,003	50,003	-
Financial assets at fair value through profit or loss－foreign currency forward contract	3,172	-	3,172	-	-	-
Receivables	451,718	-	451,718	389,035	-	389,035
Pledged time deposits	107	-	107	107	-	107
Financial assets carried at cost－non-current	18,580	-	Refer to (v)	19,186	-	Refer to (v)
Financial liabilities:						
Financial liabilities at fair value through profit or loss－foreign currency forward contract	779	-	779	-	-	-
Payables	206,336	-	206,336	169,629	-	169,629
Income tax payable	51,168	-	51,168	49,531	-	49,531
Financial liabilities at fair value through profit or loss－redemption options of the convertible bonds	6,240	-	6,240	-	-	-
Bonds payable	727,576	-	729,440	-	-	-

The following methods and assumptions were used to estimate the fair value of each class of financial instruments.

(Continued)

(i) The carrying amounts, as reflected in the balance sheets, of receivables (including notes and accounts receivable, receivables from related parties and other receivables), pledged time deposits, payables (including accounts payable and payables to related parties) and income tax payable approximate their fair values because of the short maturity of these instruments.

(ii) The fair values of cash and cash equivalents are based on the publicly quoted price.

(iii) Financial assets at fair value through profit or loss－open-end mutual fund

The net asset value of the mutual fund at the balance sheet date is used as the fair value.

(iv) Financial assets (liabilities) at fair value through profit or loss－foreign currency forward contract

The fair values of the Company’s derivative financial instruments are estimated using a valuation method. The assumptions used should be the same as those used by financial market traders when quoting their prices, which are readily available to the Company.

(v) Financial assets carried at cost－non-current

Financial assets carried at cost represent equity investments in non-publicly traded securities. Management believes that it is not practicable to estimate the fair value of these investments since market information is not readily available.

(vi) Bonds payable (straight bond value) and redemption option of the convertible bonds

The fair value of bonds payable (straight bond value) and the redemption option of the convertible bonds are estimated using a valuation method. The assumptions used should be the same as those used by financial market traders when quoting their prices, which are readily available to the Company.

(2) Disclosure of financial risk

(i) Market risk

Mutual funds were recorded by the Company as “financial assets at fair value through profit or loss－current” and were evaluated by fair value. Therefore, the Company was exposed to the risk of market price fluctuation.

The Company entered into foreign currency forward contracts to hedge exchange risk resulting from assets and liabilities denominated in foreign currency. The gain and loss resulting from the change in the exchange rate of the forward contracts was offset by those from the hedged assets and liabilities. Therefore, the market risk related to the changes in exchange rates was not considered significant.

(Continued)

(ii) Credit risk

The Company's credit risk is mainly from potential breach of contract by the counter-parties associated with cash and cash equivalents, equity investments, and accounts receivable. The Company usually deposits cash with various financial institutions and holds equity investment in the form of mutual funds issued by companies with high credit quality in order to control its exposure to credit risk. As a result, the concentration of credit risk related to the Company's cash and equity investments is not considered significant.

The Company's accounts receivable were concentrated on certain customers. As of December 31, 2010 and 2009, three clients accounted for 39% and 44%, respectively, of the Company's accounts receivable balance. To reduce the Company's concentration of credit risk, the Company made a continuous assessment of the financial position of the clients and transferred the risk through insurance.

(iii) Liquidity risk

The Company's capital and operating funds are sufficient to fulfill all obligations. Therefore, the Company did not have liquidity risk.

5. Transactions with Related Parties

(a) Name of and relationship with related parties

Name	Relationship
Flytech USA International Co., Ltd. ("Flytech USA BVI")	Subsidiary of the Company
Flytech JP International Co., Ltd. ("Flytech JP BVI")	Subsidiary of the Company
Flytech HK International Co., Ltd. ("Flytech HK BVI")	Subsidiary of the Company
Flytech CN International Co., Ltd. ("Flytech CN BVI")	Subsidiary of the Company
Flycom Investment Co., Ltd.	Subsidiary of the Company
Flytech Technology (U.S.A.), Inc. ("Flytech USA")	Subsidiary of Flytech USA BVI
Flytech Technology Hong Kong Ltd. ("Flytech HK")	Subsidiary of Flytech HK BVI
Flytech Technology (Shang Hai) Co., Ltd. ("Flytech CN")	Subsidiary of Flytech CN BVI
Directors, supervisors, general manager, and vice presidents	The Company's major management

(Continued)

Flytech Technology Co., Ltd.

Notes to Non-consolidated Financial Statements

(b) Significant transactions with related parties

(1) Sales, and related notes and accounts receivable

Sales to:

	2010		2009	
	Amount	**Percentage of net sales**	**Amount**	**Percentage of net sales**
Flytech HK	$ 83,933	3	59,811	3
Flytech USA	67,361	2	105,641	4
Flytech CN	37,042	1	15,162	1
	$ **188,336**	**6**	**180,614**	**8**

Trading terms and selling prices with related parties are decided by the economic environment and market competition of the respective region. Trading terms with related parties require payment within 60 days. Trading terms with third parties require payment within 30 to 60 days.

As of December 31, 2010 and 2009, the unrealized profit on the above inter-company transactions amounting to $3,121 and $5,458, respectively, was recorded as accrued expenses and other current liabilities in the accompanying balance sheets.

Notes and accounts receivable from:

	2010		2009	
	Amount	**Percentage of notes and accounts receivable**	**Amount**	**Percentage of notes and accounts receivable**
Flytech HK	$ 6,941	2	13,772	4
Flytech CN	3,582	-	2,678	-
Flytech USA	251	-	330	-
	$ **10,774**	**2**	**16,780**	**4**

(Continued)

Flytech Technology Co., Ltd.

Notes to Non-consolidated Financial Statements

(2) Purchases, and related notes and accounts payable

Purchases from

	2010		2009	
	Amount	**Percentage of net purchases**	**Amount**	**Percentage of net purchases**
Flytech USA	$ -	-	52	-

As of December 31, 2009, the related accounts payable resulting from the above-mentioned transactions were fully paid.

(3) Commission expenses and commission payable

Commission expenses resulting from related parties' introducing business to the Company for the years ended December 31, 2010 and 2009, were as follows:

	2010	2009
Flytech USA	$ 14,556	14,268
Flytech HK	636	1,099
	$ 15,192	15,367

Commission payable to:

	2010	2009
Flytech USA	$ 1,180	-

(4) Summary of related-party receivables

Receivables from related parties as of December 31, 2010 and 2009, resulting from the above transactions are summarized as follows:

	2010	2009
Accounts receivable	$ 10,774	16,780

Flytech Technology Co., Ltd.

Notes to Non-consolidated Financial Statements

(5) Summary of related-party payables

Payables to related parties as of December 31, 2010 and 2009, resulting from the above transactions are summarized as follows:

		2010	2009
Commissions payable	$	1,180	-
Advances from related parties		1,304	21
	$	**2,484**	**21**

(c) Summary of salaries and other remuneration of the Company's major management

For the years ended December 31, 2010 and 2009, information related to salaries and other remuneration of major management was as follows:

		2010	2009
Salaries, cash awards and special allowances	$	13,089	12,609
Business expense		918	916
Employee bonus		7,100	6,600
	$	**21,107**	**20,125**

The estimated employee bonuses and directors' and supervisors' remuneration which were discussed in note 4(i) include the above amounts.

6. Pledged Assets

Pledged assets	**Pledged to secure**		**2010**	**2009**
Time deposits	Customs duty	**$**	**107**	**107**

7. Commitments

(a) In June 1991, the Company entered into a license agreement with IBM USA for using "Information Handling System" ("IHS") patented technology. In accordance with the agreement, the Company is required to pay IBM royalties related to sales of products that use IBM IHS patents.

(Continued)

(b) The Company has entered into an operating lease agreement for its plant. Minimum lease payments are summarized as follows:

2011	$ 13,771

8. Significant Disaster Loss: none.

9. Significant Subsequent Events

In January 2011, the Company acquired 4,800 thousand shares of common stock of OTEK System Co., Ltd. (60% ownership interest) for $41,136 at a price of $8.57 per share.

10. Others

(a) The personnel expenses, depreciation, and amortization for 2010 and 2009 are summarized as follows:

	2010			2009		
	Cost of sales	**Operating expenses**	**Total**	**Cost of sales**	**Operating expenses**	**Total**
Personnel expenses:						
Salaries and wages	$ 105,102	147,793	252,895	75,899	86,323	162,222
Labor insurance	7,084	7,091	14,175	5,968	6,123	12,091
Pension	3,802	5,957	9,759	3,599	5,876	9,475
Other	4,527	2,489	7,016	4,145	2,450	6,595
Depreciation	27,668	6,619	34,287	28,813	7,051	35,864
Amortization	-	1,200	1,200	-	952	952

(b) The significant financial assets and liabilities denominated in foreign currencies were as follows:

	December 31, 2010			December 31, 2009		
Financial assets	**Foreign Currency (in thousands)**	**Exchange Rate**	**New Taiwan Dollars (in thousands)**	**Foreign Currency (in thousands)**	**Exchange Rate**	**New Taiwan Dollars (in thousands)**
Monetary item						
USD	16,081	29.13	468,443	14,382	32.03	460,656
Non-monetary item						
USD	108	29.50	3,172	-	-	-
Equity method investments						
USD	6,257	29.13	182,271	5,592	32.03	179,105
Financial liabilities						
Monetary item						
USD	2,447	29.13	71,276	1,770	32.03	56,705
Non-monetary item						
USD	26	29.50	779	-	-	-