SPEED TECH CO., LTD.
AND ITS SUBSIDIARIES

Consolidated Financial Statements

December 31, 2010 and 2009

(With Auditors' Report Thereon)

Independent Auditors' Report

The Board of Directors
Speed Tech Co., Ltd.:

We have audited the accompanying consolidated balance sheets of Speed Tech Co., Ltd. and its subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of some of the Company's subsidiaries and of the Company's investee companies accounted for under the equity method. Those financial statements were audited by other auditors, and our opinion, insofar as it relates to those investments, is based solely on the reports of the other auditors. Total assets amounting to $12,478 thousand, constituting 0.38% of the consolidated total, as of December 31, 2010, and total net sales amounting to $4,336 thousand, constituting 0.17% of the consolidated total, for the year ended December 31, 2010, were consolidated based on the reports of the other auditors. The long-term equity investments amounting to $143,239 thousand and $139,331 thousand as of December 31, 2010 and 2009, respectively, and related investment income amounting to $24,132 thousand and $29,687 thousand, respectively, for the years then ended were accounted for based on the reports of the other auditors.

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

In our opinion, based upon our audits and the reports of the other auditors, the consolidated financial statements mentioned in the first paragraph present fairly, in all material respects, the financial position of Speed Tech Co., Ltd. and its subsidiaries as of December 31, 2010 and 2009, and the results of their operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the Republic of China.

February 24, 2010

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

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

SPEED TECH CO., LTD. AND ITS SUBSIDIARIES

Consolidated Balance Sheets

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

Assets	2010 Amount	%	2009 Amount	%
Current assets:				
Cash and cash in bank (note 4)	$ 412,372	13	443,286	13
Trade notes and accounts receivable, net (notes 6 and 19)	731,798	23	785,528	23
Other financial assets－current	8,766	-	16,059	-
Inventories, net (note 7)	268,939	9	297,175	9
Noncurrent assets held for sale (note 8)	33,766	1	-	-
Restricted assets (note 19)	73,243	2	72,400	2
Other current assets (note 15)	34,885	1	38,515	1
	1,563,769	49	1,652,963	48
Funds and long-term investments:				
Long-term equity investments accounted for under equity method (note 9)	143,239	4	139,331	4
Financial assets carried at cost – noncurrent (note 5)	-	-	42,285	1
	143,239	4	181,616	5
Other financial assets－noncurrent	802	-	1,201	-
Property, plant and equipment (notes 10 and 19):				
Land	340,951	11	359,211	10
Buildings	519,443	16	577,623	17
Machinery	1,124,843	35	1,240,034	36
Research and other equipment	209,280	6	214,370	6
Leasehold improvement	30,105	1	33,081	1
	2,224,622	69	2,424,319	70
Less: accumulated depreciation	(989,311)	(31)	(1,064,717)	(31)
Less: accumulated impairment	(4,358)	-	(8,972)	-
Prepayment for equipment	51,654	2	64,122	2
	1,282,607	40	1,414,752	41
Intangible assets:				
Land usage rights and others (note 19)	33,308	1	39,027	1
Other assets:				
Assets leased to others (notes 10 and 19)	208,024	6	184,857	5
Idle assets (note 10)	2,517	-	-	-
Deferred expenses and others	6,954	-	13,577	-
	217,495	6	198,434	5
Total assets	**$ 3,241,220**	**100**	**3,487,993**	**100**

Liabilities and Stockholders' Equity	2010 Amount	%	2009 Amount	%
Current liabilities:				
Short-term loans (notes 11 and 19)	$ 618,648	19	467,461	13
Trade notes and accounts payable (including related parties) (note 18)	393,654	12	485,363	14
Accrued expenses and others	205,469	6	216,460	6
Current portion of long-term loans (notes 12 and 19)	49,000	2	220,000	6
Liabilities directly associated with noncurrent assets held for sale (note 8))	11,742	1	-	-
	1,278,513	40	1,389,284	39
Long-term liabilities:				
Long-term loans (notes 12 and 19)	401,000	12	410,000	12
Other liabilities:				
Accrued pension liability and others (notes 13 and 15)	37,260	1	40,793	1
Total liabilities	1,716,773	53	1,840,077	52
Stockholders' equity (note 14):				
Common stock	2,335,876	72	2,399,876	69
Accumulated deficit	(874,346)	(27)	(775,520)	(22)
Cumulative translation adjustments	52,027	2	85,775	3
Treasury stock	-	-	(74,277)	(2)
Minority interest	10,890	-	12,062	-
Total stockholders' equity	1,524,447	47	1,647,916	48
Commitments and contingent liabilities (note 20)				
Total liabilities and stockholders' equity	**$ 3,241,220**	**100**	**3,487,993**	**100**

See accompanying notes to consolidated financial statements.

SPEED TECH CO., LTD. AND ITS SUBSIDIARIES

Consolidated Statements of Operations

Years ended December 31, 2010 and 2009

(expressed in thousands of New Taiwan dollars, except earnings per share amounts)

	2010 Amount	%	2009 Amount	%
Gross sales	$ 2,587,868	102	2,254,578	104
Less: sales returns and allowances	60,831	2	83,667	4
Net sales	2,527,037	100	2,170,911	100
Cost of goods sold (notes 7 and 18)	2,147,591	85	2,221,852	102
Gross profit (losses)	379,446	15	(50,941)	(2)
Operating expenses:				
Selling	133,589	5	129,159	6
General and administrative	180,045	7	177,159	8
Research and development	115,041	5	99,335	5
	428,675	17	405,653	19
Operating losses	(49,229)	(2)	(456,594)	(21)
Non-operating income:				
Interest income	2,918	-	1,478	-
Investment income accounted for under equity method, net (note 9)	24,132	1	29,687	1
Gain on disposal of property, plant and equipment	7,615	-	-	-
Gain on disposal of investments (note 5)	17,715	1	-	-
Other income (note 18)	22,517	1	20,428	1
	74,897	3	51,593	2
Non-operating expenses and losses:				
Interest expense	35,123	1	32,004	1
Foreign exchange loss, net	68,048	3	11,228	-
Impairment loss (notes 5 and 10)	4,447	-	45,241	2
Other losses	3,555	-	12,113	1
	111,173	4	100,586	4
Losses before income tax	(85,505)	(3)	(505,587)	(23)
Income tax expense (benefit) (note 15)	4,716	-	(2,681)	-
Net losses	$ (90,221)	(3)	(502,906)	(23)
Attributable to:				
Stockholders of the parent	$ (89,049)	(3)	(507,416)	(23)
Minority interest	(1,172)	-	4,510	-
	$ (90,221)	(3)	(502,906)	(23)

	Before income tax	After income tax	Before income tax	After income tax
Basic losses per share (NT dollars) (note 16)	$ (0.36)	(0.38)	(2.41)	(2.39)

See accompanying notes to consolidated financial statements.

SPEED TECH CO., LTD. AND ITS SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Equity

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

	Common stock	Preferred stock	Capital surplus	Accumulated deficit	Cumulative translation adjustments	Treasury stock	Minority interest	Total
Balance at January 1, 2009	$ 1,899,876	200,000	432,733	(589,537)	83,332	(74,277)	7,552	1,959,679
Preferred stock converted into common stock	200,000	(200,000)	-	-	-	-	-	-
Accumulated deficit offset by capital surplus	-	-	(432,733)	432,733	-	-	-	-
Issuance of common stock－private placement	300,000	-	-	(111,300)	-	-	-	188,700
Consolidated net losses for 2009	-	-	-	(507,416)	-	-	4,510	(502,906)
Cumulative translation adjustment	-	-	-	-	2,443	-	-	2,443
Balance on December 31, 2009	2,399,876	-	-	(775,520)	85,775	(74,277)	12,062	1,647,916
Exercise of employee stock options	500	-	-	-	-	-	-	500
Retirement of treasury stock	(64,500)	-	-	(9,777)	-	74,277	-	-
Consolidated net losses for 2010	-	-	-	(89,049)	-	-	(1,172)	(90,221)
Cumulative translation adjustment	-	-	-	-	(33,748)	-	-	(33,748)
Balance on December 31, 2010	**$ 2,335,876**	**-**	**-**	**(874,346)**	**52,027**	**-**	**10,890**	**1,524,447**

See accompanying notes to consolidated financial statements.

SPEED TECH CO., LTD. AND ITS SUBSIDIARIES

Consolidated Statements of Cash Flows

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

	2010	2009
Cash flows from operating activities:		
Net losses	$ (90,221)	(502,906)
Adjustments to reconcile net losses to net cash provided by (used in) operating activities:		
Depreciation and amortization	218,172	241,949
Losses on inventory valuation and obsolescence	45,742	47,434
Investment income accounted for under equity method, net	(24,132)	(29,687)
Cash dividends received from long-term investment under the equity method	13,354	-
Gain on disposal of investments	(17,715)	-
Impairment loss	4,447	45,241
Deferred income tax benefit	(2,806)	(5,483)
Decrease in trade notes and accounts receivable, including related parties	47,290	49,475
Decrease (increase) in inventories	(20,098)	2,188
Decrease in other current assets	15,141	15,720
Increase (decrease) in trade notes and accounts payable, including related parties	(85,660)	47,620
Increase in accrued expenses and other current liabilities	6,609	11,964
Others	(2,669)	2,725
Net cash provided by (used in) operating activities	107,454	(73,760)
Cash flows from investing activities:		
Increase in long-term equity investments	-	(24,000)
Proceeds from disposal of financial assets carried at cost – noncurrent	60,000	-
Capital refund from investee	-	11,099
Acquisition of property, plant and equipment	(165,019)	(107,548)
Proceeds from sale of property, plant and equipment, including idle assets	23,931	28,151
Decrease (increase) in restricted bank deposit	(843)	118,483
Increase in deferred expenses and others	(7,888)	(9,360)
Net cash provided by (used in) investing activities	(89,819)	16,825
Cash flows from financing activities:		
Increase (decrease) in short-term loans	151,187	(200,216)
Increase in long-term loans	-	450,000
Payment of long-term loans	(180,000)	(353,453)
Increase in deposits received	391	-
Issuance of common stock for cash	-	188,700
Exercise of employee stock options	500	-
Net cash provided by (used in) financing activities	(27,922)	85,031
Effect of exchange rate	913	12,891
Cash and cash in bank held in the noncurrent assets held for sale account	(21,540)	-
Net increase (decrease) in cash and cash in bank	(30,914)	40,987
Cash and cash in bank at beginning of year	443,286	402,299
Cash and cash in bank at end of year	**$ 412,372**	**443,286**
Supplemental disclosures of cash flow information:		
Interest paid	**$ 34,468**	**31,405**
Income tax paid	**$ 3,802**	**5,400**
Supplemental information on investing and financing activities not affecting current cash flow:		
Current portion of long-term loans	**$ 49,000**	**220,000**
Property, plant and equipment reclassified as assets leased to others	**$ 26,712**	**37,823**
Cash used in acquisition of property, plant and equipment:		
Acquisition of property, plant and equipment (gross amount)	$ 153,112	141,691
Decrease (increase) in payable for equipment	11,907	(34,143)
Payment in cash	**$ 165,019**	**107,548**

See accompanying notes to consolidated financial statements.

(expressed in thousands of New Taiwan dollars unless otherwise specified)

(1) Organization and Business

Speed Tech Co., Ltd. (the Company) was incorporated in October 1990 as a company limited by shares under the laws of the Republic of China (ROC). The major business activities of the Company are the manufacturing and sale of connectors for use in computers, electronics and communication products. The Company began trading over the counter in September 2000.

The effective merger dates of the Company's merger with Haur Sheng Precision Ind. Co., Ltd. and Toyoshima Technology Co., Ltd. were February 1 and December 15, 2003, respectively, and the Company was the surviving company. After merger, the major business activities of the Company are the design, process, manufacturing and sale of machinery, electronic components, computers, and communication products and the design, manufacturing and sale of components, rubber keypads, IMD, membrane switches and sputtering for use in electronic components, computers, communication products and consumer electronics.

The details of the subsidiaries included in the consolidated financial statements in 2010 and 2009 are summarized below:

Name of company which holds securities	Name of subsidiary	Main business activities	Date of incorporation	Percentage of ownership (%)	
				2010	2009
The Company	Stech International Co., Ltd. (Stech (BVI))	Holding and trading company	July 2000	100.00	100.00
〃	U.S.A. Speed Tech Inc. (U.S.A. Speed)	Sale of connectors and electronic components, and researching business information	June 1997	100.00	100.00
〃	Hummingbird Technology Limited (Hummingbird (BVI))	Holding and trading company	August 2002	100.00	100.00
〃	Space Speed Tech Ltd. (Space Speed (BVI))	Holding and trading company	September 2000	100.00	100.00
〃	Toyoshima Corp. (M) SDN. BHD. (Toyoshima (Malaysia))	Manufacturing, processing and sale of rubber keypads, shielding cases and sputtering for use in electronic components, computers, and communication products	August 1989	100.00	100.00

(Continued)

SPEED TECH CO., LTD AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

Name of company which holds securities	Name of subsidiary	Main business activities	Date of incorporation	Percentage of ownership (%) 2010	2009
〃	Toyoshima Industrial (HK) Company Ltd. (Toyoshima (HK))	Manufacturing, processing and sale of electronic components, computers, and communication products	February 1993	100.00	100.00
〃	P.T. Toyoshima Indonesia (Toyoshima (Batam))	Manufacturing, processing and sale of electronic components, computers, and communication products	March 1996	100.00	100.00
〃	Toyoshima BVI Corp. (Toyoshima (BVI))	Holding and trading company	July 2000	100.00	100.00
〃	Wintech Technology Corp. (Wintech)	Sale of electronic products	October 2010	100.00	-
〃	Jia Guo Precise Industry Ltd. Corp. (Jia Guo)	Manufacturing and sale of molds	May 2005	60.00 (note 1)	60.00
Stech (BVI)	Speed Tech (Beijing) Co., Ltd. (Speed Tech (Beijing))	Manufacturing and sale of stamping components	February 2000	100.00	100.00
Hummingbird (BVI)	Speed Tech (Kunshan) Co., Ltd. (Speed Tech (Kunshan))	Manufacturing and sale of stamping components	April 2003	100.00	100.00
Space Speed (BVI)	Speed Tech (Dong Guan) Co., Ltd. (Speed Tech (Dong Guan))	Manufacturing and sale of stamping components	June 2001	100.00	100.00
Toyoshima (HK)	Toyoshima Electronic (Dong Guan) Co., Ltd. (Toyoshima (Dong Guan))	Manufacturing and sale of rubber product, keypads and sputtering	2002	100.00	100.00
Toyoshima (BVI))	Toyoshima Electronic Technology (Suzhou) Co., Ltd. (Toyoshima (Suzhou))	Manufacturing and sale of rubber products, membrane switches	September 2000	100.00	100.00

Note 1: Based on a resolution of board of directors' meeting held in December 2010, the Company decided to sell all its shares of Jia Guo. The transaction was completed in January 2011. As of December 31, 2010, the assets and liabilities held by Jia Guo were classified as noncurrent assets held for sale and liabilities directly associated with noncurrent assets held for sale.

The Company and all of its consolidated subsidiaries are collectively called the "Consolidated Company" hereinafter. As of December 31, 2009 and 2009, the number of employees hired by the Consolidated Company was 3,695 and 4,111, respectively.

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(2) Summary of Significant Accounting Policies

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

The consolidated financial statements are prepared in accordance with the accounting principles and practices generally accepted in the Republic of China. The significant accounting policies and measurement basis adopted in preparing the accompanying consolidated financial statements are summarized as follows:

(a) Consolidation policy

Investees which the Company has the power to control are accounted for under the equity method, and consolidated financial statements are prepared and presented quarterly. All significant inter-company balances and transactions, and unrealized internal gains or losses are eliminated in the consolidated financial statements.

(b) Use of estimates

The preparation of the accompanying financial statements requires management 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.

(c) Foreign currency transactions

The entities of the Consolidated Company maintain their books in their respective functional currencies. Foreign currency transactions involving non-derivative financial instruments are recorded at the exchanges rates prevailing on the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated using the exchange rate prevailing on the balance sheet date, and the resulting realized and unrealized gains or losses are recognized as non-operating income or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into New Taiwan dollars at foreign exchange rates ruling at the balance sheet date. The exchange gains or losses are recognized in the statements of operations for non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value through profit or loss. The exchange gains or losses are recognized directly in equity for non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value through equity.

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For equity investments in foreign subsidiaries and investees which are accounted for under the equity method, the differences resulting from translating foreign financial statements from their functional currency into the reporting currency are reported as a translation adjustment, a separate component of stockholders' equity, and combined into operations when sold or liquidated.

(d) Standard for classifying assets and liabilities as current or noncurrent

Cash or cash equivalents that are not restricted in use, and assets held for trading purposes, or that will be held short term and are expected to be converted to cash within 12 months after the balance sheet date, are classified as current assets. Assets not classified as current assets are noncurrent assets.

Liabilities that are to be fully liquidated within 12 months after the balance sheet date are classified as current liabilities. Liabilities not classified as current liabilities are noncurrent liabilities.

(e) Impairment of assets

The Consolidated Company assesses at each balance sheet date whether there is any indication that a non-financial asset (individual asset or cash-generating unit) other than goodwill may have been impaired. If any such indication exists, the Consolidated Company estimates the recoverable amount of the asset. The Consolidated Company recognizes impairment loss for an asset whose carrying value is higher than the recoverable amount. The Consolidated Company reverses an impairment loss recognized in prior periods for assets other than goodwill if there is any indication that the impairment loss recognized no longer exists or has decreased. The carrying value after the reversal should not exceed the recoverable amount or the depreciated or amortized balance of the assets assuming no impairment loss was recognized in prior periods.

A cash-generating unit which contains goodwill is tested for impairment each year. An impairment loss is recognized for a cash generating unit whose carrying value is higher than the recoverable amount.

(f) Financial instruments

The Consolidated Company adopted transaction-date accounting for financial instrument transactions. At the beginning of recognition, financial instruments are evaluated at fair value. Except for trading-purpose financial instruments, acquisition cost or issuance cost is added to the original recognized amount.

The financial instruments the Consolidated Company held or issued are classified into the following accounts in accordance with the purpose of holding or issuing after the original recognition:

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(i) Financial assets measured at fair value through profit or loss: The main purposes of the financial instruments are selling or repurchasing in the short term. Except for the derivatives that the Consolidated Company held for hedging purposes and are considered to be effective, all derivatives should be classified into this account.

(ii) Financial assets carried at cost: Equity investments which cannot be evaluated at fair value are booked at original cost. If there is objective evidence of impairment, impairment loss should be recognized, and the impairment amount cannot be reversed.

(g) Derivative financial instruments and hedges

The Consolidated Company uses derivative financial instruments to hedge its exposure to foreign exchange risks arising from operational, financing and investment activities. In accordance with the policy, the Consolidated Company holds or issues derivative financial instruments for hedge purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

When a hedge transaction meets all the conditions for hedge accounting, the change in fair value of the hedging financial instrument as well as the hedged item will be recognized in net amount. The respective accounting treatments are as follows:

(i) Fair value hedges

The hedging instrument is stated at fair vale. Any gains or losses on the hedging instrument as well as the change in carrying amount resulting from the fluctuation of exchange rate are recognized in the income statement. The hedged item also is stated at fair value in respect of the risk being hedged, with any gains or losses being recognized in the statement of operations.

(ii) Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated as cash flow hedges are recognized in equity. When the forecast transaction that is hedged subsequently results in the recognition of an asset or a liability, the gains and losses previously deferred in equity are transferred from equity and recognized in the statement of operations in the same periods when the asset or liability affects profit or loss.

(iii) Net investment hedges

Gains or losses on instruments used to hedge a net investment in a foreign operation that is determined to be an effective hedge are recognized directly in equity, and are transferred from equity and included in the statement of operations when the foreign operation is disposed of.

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(h) Allowance for doubtful accounts

The allowance for doubtful accounts is based on the likelihood of collection of the Consolidated Company's accounts receivable balances. The amount of the allowance for doubtful accounts is determined based on experience in the collection of the Consolidated Company's accounts receivable balances, the credit rating of the Consolidated Company's clients, an aging analysis, and the credit policy of the Consolidated Company.

(i) 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 normal capacity of the production facilities. The actual level of production may be used if it approximates normal capacity. Variable production overheads are allocated to each unit of production on the basis of the actual use of the production facilities. After that, inventories are measured at the lower of cost or net realizable value by individual item. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses on the balance sheet date.

(j) Noncurrent assets held for sale

Noncurrent assets held for sale are the assets available for immediate sale in their present condition subject only to terms that are usual and customary for sales of such assets, and their sale within one year must be highly probable. Noncurrent assets classified as "held for sale" are measured at the lower of their book value or fair value less costs to sell. Noncurrent assets held for sale are not depreciated, amortized or depleted, and are recorded as a separate item on the balance sheet.

An impairment loss is recognized for any initial or subsequent write-down of the assets to fair value less costs to sell in the statement of operations. A gain from any subsequent increase in fair value less costs to sell of an asset shall be recognized, but not in excess of the cumulative impairment loss that has been recognized previously in accordance with SFAS No. 35 "Impairment of Assets".

(k) Long-term equity investments

Long-term equity investments in which the Consolidated Company, directly or indirectly, 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 operations and financial policies, are accounted for under the equity method.

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The differences between the acquisition cost and the net equity of the investee as of the acquisition date are deferred and previously were amortized over five years using the straight-line method. Effective January 1, 2006, pursuant to the revised SFAS No. 5 “Long-term Investments under Equity Method”, investment premiums, representing goodwill, are no longer being amortized.

Upon sale of long-term equity investments under the equity method, cost of investment sold is determined using the weighted-average method. The difference between the selling price and carrying value on the disposal date is recognized as long-term equity investment disposal gain or loss. The capital surplus resulting from long-term equity investments is recognized as current gains or losses in accordance with the percentage sold.

Unrealized inter-company profits or losses resulting from transactions between the Consolidated Company and its subsidiaries and investees accounted for under the equity method are deferred and recognized as a liability account, or are amortized based on the useful lives of the assets that give rise to such unrealized profits or losses.

When an investee accounted for under the equity method issues new shares and the Consolidated Company does not purchase the new shares based on its ownership percentage, the investment ratio in the investee will change. Any change in the net value of an investment as a result of the change in the investment ratio will be adjusted to capital surplus from long-term equity investments. If the amount of capital surplus from long-term equity investments is not sufficient to be offset, then the difference will be debited to the retained earnings account.

(l) Property, plant and equipment, and assets leased to others

Property, plant and equipment are stated at acquisition cost. Interest expenses in connection with the acquisition or construction of property, plant and equipment are capitalized and included in the cost of related assets. Major additions, improvements, and replacements are capitalized. Repairs and maintenance are charged to expenses as incurred. Gains or losses on disposal of property, plant and equipment are included in non-operating income or expenses and losses in current operations.

Property, plant and equipment leased to other parties are classified as assets leased to others at book value. Property, plant and equipment for non-operating use are transferred to other assets according to the lower of book or net realizable value.

Depreciation is calculated using the straight-line method over the estimated useful lives of the respective assets. Residual values of property, plant and equipment used beyond estimated useful lives are depreciated on the basis of new estimated useful lives and new salvage values.

The Consolidated Company evaluates the residual useful lives, depreciation methods, and residual values at each fiscal year-end. Any changes shall be accounted for as changes in accounting estimates.

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The respective useful lives of assets are summarized as follows:

1. Buildings: 20~50 years.

2. Building improvement: 5~10 years.

3. Machinery (including molding equipment): 2~10 years.

4. Research and other equipment: 2~5 years.

(m) Land usage rights

Land usage rights are stated at cost and include the expenditures for acquiring the right for the use of land. Land usage rights are amortized using the straight-line method over the economic period of 28 to 50 years.

(n) Deferred expenses and amortization

Costs for acquisition of computer software are deferred and amortized using the straight-line method over one to five years.

(o) Intangible assets

Other than an intangible asset acquired by way of a government grant, which should be measured at its fair value, an intangible asset shall be measured initially at cost. After initial recognition, an intangible asset shall be measured at its cost plus revaluation increment revalued in accordance with the laws, less any accumulated amortization and any accumulated impairment losses.

The amortizable amount of intangible assets is determined after deducting its residual value. Amortization is calculated using the straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The estimated useful lives are as follows:

1. Patents: 1~5 years.

The residual value, the amortization period, and the amortization method shall be reviewed at least at each fiscal year-end. Any changes shall be accounted for as changes in accounting estimates.

(Continued)

(p) Employee retirement plan

The Company has established an employee noncontributory defined benefit retirement plan ("the Plan") covering all regular employees hired before June 30, 2005, in Taiwan. In accordance with the Plan, payments of retirement benefits are based on the years of service and the average salary for the six-month period before the employee's retirement. The employees will receive the retirement benefits in a lump sum. Each employee earns two months of salary for the first fifteen years of service, and one month of salary for each year of service thereafter. The maximum retirement benefit is forty-five months of salary. The Company contributes 2% of salaries and wages to a pension fund on a monthly basis. Retirement benefits are paid to eligible participants from the pension fund first and then by the Company if the fund is insufficient.

The Company carries out an actuarial valuation of pension liability for the noncontributory retirement plan as of the year-end date. If the accumulated benefit obligation exceeds the fair value of plan assets, a minimum pension liability will be accrued in the financial statements. Net periodic pension costs are recognized based on the actuarial report.

Starting from July 1, 2005, the enforcement rules of the newly enacted Labor Pension Act (the "New Act") require employees who were covered by the Plan and opted to be subject to the pension mechanism under the New Act and employees who commenced working at the Company after the enforcement date of the New Act to adopt the new defined contribution plan. In accordance with the New Act, the Company contributes 6% of each employee's salary and wages to an individual labor pension fund account at the Bureau of Labor Insurance on a monthly basis. Contributions are recognized as expense in the current year.

The subsidiaries of the Company pay a certain percentage of salaries and wages to a pension fund in accordance with the regulations of their respective countries. Contributions to these plans are expensed in the current year.

(q) Employee stock option plan

The Company adopted the intrinsic value method for its employee stock option plan. Under this method, the market price in excess of the exercise price on the grant date is expensed over the grantee's service period and adjusted under stockholders' equity. According to Securities and Futures Bureau, Financial Supervisory Commission, Executive Yuan, R.O.C., letter No. 0920003788 released on September 15, 2003, disclosure of pro forma net income and earnings per share is required if the grant date or the revision date of the plan was after December 31, 2003. Since the grant date of the Company's employee stock option plan was before December 31, 2003, the Company is not subject to the foregoing accounting policy.

(Continued)

(r) Treasury stock

Pursuant to SFAS No. 30 “Accounting for Treasury Stock”, the Company accounts for the cost of purchasing its outstanding stock as “treasury stock”. A gain on the sale of treasury stock is credited to capital surplus－treasury stock. Losses are charged to capital surplus, but only to the extent of available net gains from previous sales or retirements of the same class of stock; otherwise, losses are charged to retained earnings. The cost of treasury stock is computed using the weighted-average method.

When treasury stock is retired, the Company debits common stock and capital surplus derived from paid-in capital in excess of par value proportionally. If the weighted-average cost written off exceeds the sum of the par value and the paid-in capital in excess of par value, the difference is charged to capital surplus－treasury stock arising from the same class of stock or to retained earnings, and if vice versa, the difference is credited to capital surplus－treasury stock.

(s) Revenue recognition

Revenue from sales of products is recognized at the time products are delivered and the related risks and titles are transferred to customers.

(t) Research and development expenses

The Consolidated Company’s expenditure on research is recognized as an expense when it is incurred except when it forms part of the cost of a business combination. An intangible asset arising from development shall be recognized if, and only if, the expenditure on development is eligible for capitalization.

(u) Employee bonuses and directors’ and supervisors’ remuneration

Appropriation of employee bonuses and directors’ and supervisors’ remuneration after January 1, 2009, is accounted for by Interpretation (96) 052 issued by the ROC ARDF. The Consolidated Company estimates the amount of employee bonuses and directors’ and supervisors’ remuneration according to the Interpretation and recognizes it as cost of goods sold or expenses based on its nature. The difference between the amount approved in the stockholders’ 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 year of approval.

(Continued)

(v) Income tax

Income tax is calculated based on accounting income. The amounts for deferred income tax liabilities and assets are calculated by applying the provisions of enacted tax law to determine the amount of tax payable or refundable, currently or in future years. The income tax effects of taxable temporary differences are recorded as deferred income tax liabilities. The income tax effects of deductible temporary differences, loss carryforwards, and income tax credits are recognized as deferred income tax assets. The realization of 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.

The Consolidated Company recalculated the deferred income tax assets and liabilities by the new tax rate on the date it was announced. The difference between the original and recalculated amount of deferred income tax assets and liabilities is accounted for as current income tax expense or benefit.

Investment tax credits are accounted for using the flow-through method. Therefore, income tax credits generated from purchases of machinery for automation of production and production technology are recognized in the year in which the credit arises.

Deferred income tax assets or liabilities are classified as current or noncurrent based on the classification of the asset or liability that resulted in the deferred item or, for certain transactions not directly related to an asset or liability, based on the timing of the expected reversal date. In addition, pursuant to ROC Accounting Research and Development Foundation Interpretation 92 (084), deferred income tax liabilities resulting from overseas investment income recognized under the equity method could be reversed only to the extent that the overseas dividends are distributed and exempt from taxation by the tax authority.

A surtax of 10% on the unappropriated earnings of the Company and its subsidiaries incorporated in the ROC is considered a current expense, after the shareholders decide the appropriation of earnings.

Pursuant to the income tax law applied by each of the consolidated companies, income tax is reported separately by each of the consolidated companies. In other words, the income tax expenses of the Consolidated Company are the total income tax expenses of each of the consolidated companies.

(Continued)

(w) Earnings (losses) per share of common stock

Earnings (losses) per share of common stock are net income (losses) available to common stockholders divided by the weighted-average number of outstanding shares of common stock (including cumulative participated convertible preferred stock). The stock warrants issued to employees by the Company, and employee stock bonuses not yet authorized by the stockholders' meeting are potential common shares. Basic earnings (losses) per share will be disclosed if there is no dilution effect. Otherwise, both basic earnings and diluted earnings per share will be disclosed. For the purpose of calculating diluted net income per share, the potential common shares should be deemed to have been converted into common stock at the beginning of the period, and the effect on the net income attributable to additional common shares outstanding should be considered accordingly. The effect on earnings (losses) per share from an increase in stock through the issuance of stock dividends from unappropriated earnings or capital surpluses computed retroactively. The number of shares of the dividend distribution to be approved in the annual stockholders' meeting held after 2009 is based on closing price of the day before the stockholders' meeting. However, when preparing the interim and annual financial statements, the number of shares of the dividend distribution is based on closing price of the balance sheet date.

(3) Reasons for and Impact of Changes in Accounting Principle

Effective from January 1, 2009, the Consolidated Company adopted the revisions of SFAS No. 10 "Inventories". The allocation base of fixed production overheads, the classification of gain or loss related to inventories, and the valuation of inventories are accounted for according to the revised standards. By applying these revised standards, net losses and losses per share in 2009 increased by $23,999 and $0.11 (NT dollars), respectively.

(4) Cash and Cash in Bank

	December 31, 2010	December 31, 2009
Cash on hand	$ 6,151	2,089
Checking accounts and demand deposits	406,221	441,197
	$ 412,372	**443,286**

SPEED TECH CO., LTD AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(5) Financial Instruments

(a) Financial assets carried at cost – noncurrent

	December 31, 2010	December 31, 2009
Equity investments:		
Wells Tech Optical Co., Ltd. (Wells Tech)	$ -	42,285
Fukoku Speed Tech (Dong Guan) Co., Ltd. (Fukoku Speed Tech)	-	-
	$ -	**42,285**
Cumulative impairment loss recognized on financial assets－permanent	**$ 69,231**	**69,231**

The Consolidated Company accounts for the investment in equity instruments at cost as a result of there being no practical market value.

The Consolidated Company sold all its shares of Wells Tech in 2010 for $60,000. Gain on disposal of the investment was $17,175, recorded as gain on disposal of investments.

The operating, financing, and personnel policies of Fukoku Speed Tech were controlled by Fukoku Bussan Co., Ltd., which holds the majority of Fukoku Speed Tech's stock. The Consolidated Company accounts for the investment in Fukoku Speed Tech at cost because it has no significant influence over Fukoku Speed Tech. Since the net value of investment in Fukoku Speed Tech has declined as a result of operating loss for several years, the Consolidated Company recognized a permanent impairment loss on investment of $31,942 for the year ended December 31, 2009.

(6) Trade Notes and Accounts Receivable

	December 31, 2010	December 31, 2009
Notes receivable	$ 14,259	15,049
Accounts receivable	739,186	778,519
Less: allowance for doubtful accounts	(21,647)	(8,040)
	$ 731,798	**785,528**

The Consolidated Company provided accounts receivable as collateral; please refer to note 19.

(Continued)

(7) Inventories

	December 31, 2010	December 31, 2009
Merchandise and finished goods	$ 183,880	212,153
Less: allowance for inventory losses	(78,827)	(95,325)
	105,053	116,828
Work in process	173,918	188,692
Less: allowance for inventory losses	(72,638)	(61,287)
	101,280	127,405
Raw materials (including inventories in transit)	110,535	108,634
Less: allowance for inventory losses	(47,929)	(55,692)
	62,606	52,942
	$ 268,939	**297,175**

For the years ended December 31, 2010 and 2009, the Consolidated Company recognized the write-down of inventory from cost to net realizable value of $45,742 and $47,434, respectively, as cost of goods sold.

(8) Noncurrent Assets Held for Sale and Liabilities Directly Associated with Noncurrent Assets Held for Sale

Based on a resolution of the board of directors' meeting held in December 2010, the Company decided to sell all its shares of Jia Guo. As of December 31, 2010, the assets and liabilities classified as noncurrent assets held for sale and liabilities directly associated with noncurrent assets held for sale were as follows:

	December 31, 2010
Noncurrent assets held for sale	
Current assets	$ 31,084
Property, plant and equipment	2,118
Other assets	564
	33,766
Liabilities directly associated with noncurrent assets held for sale	
Current liabilities	(11,742)
	$ 22,024

SPEED TECH CO., LTD AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(9) Long-term Equity Investments

	December 31, 2010		December 31, 2009	
Investee	**Percentage of ownership**	**Amount**	**Percentage of ownership**	**Amount**
Reel Mask Industry Corp. Ltd. (Reel Mask)	37	$ 124,911	37	115,331
Speedtech Energy Co., Ltd. (Speedtech Energy)	25	18,328	25	24,000
		$ 143,239		**139,331**

(a) The Consolidated Company recognized net investment income of $24,132 and $29,687 under the equity method for the years ended December 31, 2010 and 2009, respectively.

(b) For the year ended December 31, 2010, the Consolidated Company received cash dividends from Reel Mask amounting to $13,354.

(c) In order to develop markets for solar products, the Consolidated Company invested $24,000 in Speedtech Energy in 2010.

(d) Based on a resolution of its stockholders' meeting held in April 2010, Reel Mask decided to reduce its paid-in capital by 20% and refunded the capital to its investors. The Consolidated Company received a capital refund of $11,099 from Reel Mask.

(10) Property, Plant and Equipment, Assets Leased to Others, and Idle Assets

(a) The Consolidated Company leased part of the plant located in Nankan to others, and the related cost and accumulated depreciation were reclassified as assets leased to others. As of December 31, 2010 and 2009, assets leased to others by the Consolidated Company were as follows:

	December 31,	
	2010	**2009**
Cost:		
Land	$ 142,167	123,907
Buildings	95,879	92,434
	238,046	216,341
Less: accumulated depreciation	(30,025)	(31,484)
	$ 208,021	**184,857**

(Continued)

SPEED TECH CO., LTD AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(b) As of December 31, 2010 and 2009, idle assets were as follows:

	December 31, 2010	December 31, 2009
Cost:		
Machinery	$ 234,291	257,599
Research and other equipment	77,827	84,612
	312,118	342,211
Less: accumulated depreciation	(156,821)	(168,629)
Less: accumulated impairment	(152,777)	(173,582)
	$ 2,520	**-**

(c) The Consolidated Company recognized impairment loss of $4,447 and $13,299 for property, plant and equipment, and idle assets in 2010 and 2009, respectively.

(d) The Consolidated Company provided property, plant and equipment, and assets leased to others as collateral; please refer to note 19.

(11) Short-term Loans and Commercial Paper Payable

	December 31, 2010	December 31, 2009
Credit loan	$ 288,078	250,000
Secured loan	330,570	217,461
	$ 618,648	**467,461**
Unused credit lines	**$ 492,945**	**264,508**
Interest rate range	**1.5866%~6.375%**	**1.8063%~6.075%**

Please refer to note 19 for collateral pledged against short-term loans.

(12) Long-term Loans

		December 31,	
Bank	**Purpose**	**2010**	**2009**
The Shanghai Commercial and Savings Bank	Increase medium- and long-term working capital	$ 450,000	450,000
Chinatrust Commercial Bank	Increase medium- and long-term working capital	-	180,000
		450,000	630,000
Less: current portion		(49,000)	(220,000)
		$ 401,000	**410,000**
Unused credit lines		**$ -**	**20,000**
Interest rate range		**2.655%**	**2.45%~2.785%**

The repayment schedule for long-term debt was as follows:

Period	**Amount**
January 1, 2011 ~ December 31, 2011	$ 49,000
January 1, 2012 ~ December 31, 2012	98,000
January 1, 2013 ~ December 31, 2013	98,000
January 1, 2014 ~ December 31, 2014	88,000
After January 1, 2015	117,000
	$ 450,000

For the collateral for long-term loans as of December 31, 2010 and 2009, please refer to note 19.

(13) Pensions

(a) The Company had an actuarial valuation of its defined benefit pension plan on December 31, 2010 and 2009. According to the actuarial reports, the reconciliation of funded status and accrued pension cost was as follows:

	December 31, 2010	December 31, 2009
Benefit obligation:		
Vested benefit obligation	$ (2,080)	(814)
Non-vested benefit obligation	(37,682)	(21,146)
Accumulated benefit obligation	(39,762)	(21,960)
Effect of estimated future increase in compensation	(11,898)	(8,450)
Projected benefit obligation	(51,660)	(30,410)
Fair value of plan assets	61,357	56,908
Funded status	9,697	26,498
Unrecognized transition benefit obligation	3,524	3,845
Unrecognized net gain	(27,848)	(49,875)
Accrued pension liability	**$ (14,627)**	**(19,532)**

The total vested benefit obligation of the Company under the employee noncontributory defined benefit pension plan as of December 31, 2010 and 2009, amounted to $2,429 and $943, respectively.

(b) Actuarial assumptions used in the above calculations are summarized as follows:

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

(c) The net pension costs consisted of the following:

	2010	2009
Service cost	$ 1,028	615
Interest cost	608	595
Expected return on plan assets	(1,138)	(1,379)
Amortization and deferral	(1,888)	(2,231)
Decrease in pension cost under defined benefit pension plan	(1,390)	(2,400)
Pension cost under defined contribution pension plan	34,774	26,751
	$ 33,384	**24,351**

(Continued)

(14) Stockholders' Equity

(a) Capital stock

As of December 31, 2010 and 2009, the authorized common stock registered with the government authorities amounted to $2,800,000. The total common stock outstanding amounted to $2,335,876 and $2,399,876, respectively. The par value of the Company's common stock is $10 (New Taiwan dollars).

Employee stock options of $500 were exercised in 2010, and the effective date of issuance of new shares was September 29, 2010. In addition, based on a resolution of the board of directors' meeting held in October 2010, the Company retired 6,450 thousand shares of treasury stock with face value of $64,500, which were purchased according to the ROC Securities and Exchange Act. The effective date of reduction of capital was October 27, 2010, and the relevant registration procedures have been completed.

Based on a resolution of the interim stockholders' meeting held on September 17, 2009, the Company granted authorization to the board of directors to execute private placement with a limit of 70,000 thousand shares. Based on a resolution of the board of directors' meetings held on September 4, 2009, and October 17, 2008, the Company decided to conduct a private placement of 30,000 and 40,000 thousand shares of common stock, at $6.29 and $5 (New Taiwan dollars) per share, amounting to $188,700 and $200,000, respectively. The effective dates of issuance of new shares were September 15, 2009, and October 31, 2008, respectively. The registration procedures related to this issuance have been completed.

Preferred stock was converted into common stock of $200,000 in 2009, and the related registration procedures have been completed.

(b) Preferred stock

The Company conducted a private placement of 20,000 thousand shares of preferred stock, with par value of $10 (New Taiwan dollars) per share, in June 2005. All of the preferred stock was converted into common stock in March 2009 and began trading over the counter in May 2009.

As of December 31, 2010 and 2009, the cumulative unpaid preferred stock dividends amounted to $12,296, and have preference to be paid in the following years.

(Continued)

(c) Employee stock options

The Company was authorized by the SFB (formerly the SFC) to issue employee stock options of 6,000 units on November 25, 2003. According to the option plan, each unit could subscribe 1,000 common shares. The total number of shares of common stock to be issued is 6,000,000 shares. The exercisable duration of the options is six years. The exercise price was based on the closing price of the Company's common stock on the Gretai Securities Market on the date the options were issued. If the closing price is lower than the par value, then the exercise price will be the par value of the common stock. The information on the employee stock options was as follows:

2010

Number of units issued	**Number of outstanding units at beginning**	**Number of units exercised**	**Number of units invalid**	**Number of outstanding units at end**	**Exercise price (NT$)**
6,000	1,338	50	1,288	-	$ 10

2009

Number of units issued	**Number of outstanding units at beginning**	**Number of units exercised**	**Number of units invalid**	**Number of outstanding units at end**	**Exercise price (NT$)**
6,000	3,129	-	1,791	1,338	$ 10

(d) Capital surplus and restrictions on distribution of earnings

(i) Capital surplus

Pursuant to the ROC Company Act, capital surplus can only be used to offset a deficit or to increase common stock. Cash dividends cannot be declared out of capital surplus. Capital surplus derived from additional paid-in capital and donation can be used to increase common stock if the company has no deficit. According to SFB regulations, capital increases by transferring paid-in capital in excess of par value should not exceed 10% of total common stock outstanding. In addition, capital increases by transferring paid-in capital in excess of par value can only commence in the following year. Also, issuance of new stock from capital surplus derived from paid-in capital in excess of par value cannot be made until the year after such capital surplus is approved by and registered with the governmental authorities.

(ii) Limitation on distribution of retained earnings, and dividend distribution policy

Pursuant to the Company's articles of incorporation, 10% of annual net income after tax is to be set aside as legal reserve after offsetting prior years' deficits, if any. Also a special reserve could be retained when necessary. The distribution of earnings is proposed by the board of directors and approved by the stockholders at their annual meeting. The Company's earnings are to be appropriated as follows:

a. The bonus to employees cannot be less than 3%;

b. The remuneration to the directors and supervisors cannot be more than 3%;

c. Dividends to stockholders.

According to the ROC Company Act, the legal reserve can only be used to offset an accumulated deficit and cannot be used to declare a cash dividend, except that one-half of the legal reserve may be capitalized based on a resolution of the stockholders' meeting when it equals at least 50% of issued share capital.

For the distribution of retained earnings, the net income after tax of the current year will have the first priority to be distributed. The Company adopts the "balance principle" as its guidance on the distribution of cash dividends as well as stock dividends. The beginning balance of undistributed retained earnings can be used when the net income after tax of the current year is insufficient to be distributed. Due to consideration of its future development of operations and cash demands, the percentage of stock dividends will be 60%~100% of total dividends, and cash dividends will be a maximum of 40%. The above distribution ratio for stock and cash dividends can be adjusted pursuant to a resolution on the stockholders' meeting based on the actual profit and demand for working capital.

According to SFB regulations, when there is a reduction item in stockholders' equity during the year, an amount equal to the reduction before appropriation must be included as a special reserve. The special reserve will be available for dividend distribution only after the related stockholders' equity reduction item has been reversed.

The Company did not accrue employee bonuses, or directors' and supervisors' remuneration since the Company had an accumulated deficit as of December 31, 2010 and 2009.

Since the Company had an accumulated deficit for the years ended December 31, 2010 and 2009, no related information about employee bonuses, or directors' and supervisors' remuneration was applicable. Based on the resolution of the annual stockholders' meeting held on June 19, 2009, the Company offset the accumulated deficit by capital surplus amounting to $432,733.

(Continued)

(iii) Treasury stock

According to SFB regulations, in order to encourage employees' morale and loyalty and to maintain the Company's credibility and stockholders' equity, the board of directors decided the Company would purchase treasury stock. As of December 31, 2009, there were 6,450 thousand shares of treasury stock remaining at a cost of $74,277. All of the treasury stock was retired based on a resolution of the board of directors' meeting held on October 25, 2010. The registration procedures related to this retirement have been completed.

Treasury stock cannot be pledged for debts and does not carry any shareholder rights until it is disposed of or transferred to employees.

(15) Income Tax

(a) Pursuant to the income tax law applied by each of the consolidated companies, income tax is reported separately by each of the consolidated companies. According to the ROC Income Tax Act, which was amended on May 27, 2009, and September 15, 2010, the highest income tax rate changed from 25% to 20%, and then from 20% to 17%, respectively, beginning on January 1, 2010. Therefore, the Company and its subsidiaries located in the ROC are subject to a maximum income tax rate of 17% and 25% for the years ended December 31, 2010 and 2009, respectively. They have also applied the "Income Basic Tax Act". The Consolidated Company's deferred income tax assets and liabilities are recognized by applying the statutory rate to determine the amount of tax payable or refundable, currently or in future years.

(b) Income tax expense (benefit) was as follows:

		2010	2009
Current income tax expense	$	7,522	2,802
Deferred income tax expense (benefit)		1,030	(1,406)
Effect on deferred income tax of changes in income tax rate		(3,836)	(4,077)
Income tax expense (benefit)	**$**	**4,716**	**(2,681)**

(Continued)

SPEED TECH CO., LTD AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(c) The differences between "expected" income tax at statutory income tax rates and "estimated" income tax as reported in the accompanying consolidated financial statements for 2010 and 2009 are summarized as follows:

		2010	2009
Computed "expected" income tax benefit	$	(14,536)	(126,397)
Investment tax credits earned in current year		-	(10,462)
Effect of changes in income tax rate		(3,092)	(3,922)
Domestic investment income recognized under the equity method, net		(3,844)	(9,109)
Inventory obsolescence non-deductible for income tax purposes		-	10,768
Increase in valuation allowance for deferred income tax assets		25,946	127,982
Others		242	8,459
Estimated income tax expense (benefit)	**$**	**4,716**	**(2,681)**

(d) The components of deferred income tax assets (liabilities) were as follows:

		December 31, 2010	2009
Deferred income tax assets			
Accumulated overseas investment loss recognized by the Company under the equity method, net	$	193,897	194,652
Unused investment tax credits		40,634	63,438
Loss carryforward		55,931	66,295
Provision for loss on inventory		11,124	16,798
Bad debt in excess of tax limit		6,517	7,363
Accrued pension cost over tax limit		2,483	3,905
Unrealized exchange loss and others		15,776	9,420
		326,362	361,871
Less: allowance for deferred income tax assets		(306,926)	(339,685)
		19,436	22,186
Deferred income tax liabilities			
Provision for loss on overseas investments		(11,008)	(12,951)
Foreign currency translation adjustment and other		(15,138)	(25,664)
		(26,146)	(38,615)
Deferred income tax liabilities, net	**$**	**(6,710)**	**(16,429)**

(Continued)

	December 31, 2010	December 31, 2009
Deferred income tax assets－current	$ 13,601	2,898
Deferred income tax liabilities－noncurrent	(20,311)	(19,327)
	$ (6,710)	**(16,429)**

(e) Pursuant to the ROC Statute for Upgrading Industries, the Company's investment tax credits as of December 31, 2010, were as follows:

Year tax credits accrued	Tax credit item	Basis	Aggregate tax credits	Unused tax credit	Year of expiry
2007	Research and development expenditures	Examined	$ 20,166	20,166	2011
2008	"	Examined	11,497	11,497	2012
2009	"	Filed	8,971	8,971	2013
			$ 40,634	**40,634**	

The ROC Statute for Upgrading Industries stipulates that tax credits can be applied for only up to 50% of the income tax payable. Unused tax credits can be carried forward for the following four years, subject to the same percentage limitation for each year except for the last year, in which they will expire.

(f) Imputation credit account and creditable ratio

	December 31, 2010	December 31, 2009
Unappropriated retained earnings (Accumulated deficit) after January 1, 1998	**$ (874,346)**	**(775,520)**
ICA balance	**$ 36,355**	**34,225**

	2010	2009
Creditable ratio for earnings distribution to residents of ROC	**-** (estimated)	**-** (actual)

(Continued)

(g) The Company's income tax returns have been examined by the tax authority through the year ended December 31, 2008. The revised Article 39 of the ROC Income Tax Act released on January 6, 2010, allows for tax losses to be carried forward for ten consecutive years following the year of loss to reduce future taxable income. As of December 31, 2010, the estimated tax losses and unused tax losses of the Company which could be carried forward and the year of expiry were as follows:

Year occurred	Aggregate tax losses	Unused tax losses	Year of expiry
2007 (as examined)	$ 171,933	171,933	2017
2008 (as examined)	2,128	2,128	2018
2009 (as filed)	154,947	154,947	2019
	$ 329,008	329,008	

(16) Losses per Share

	2010		2009	
	Before income tax	After income tax	Before income tax	After income tax
Basic losses per share:				
Net losses	$ (85,175)	(89,049)	(512,205)	(507,416)
Weighted-average number of shares outstanding (thousands)	233,559	233,559	212,168	212,168
	$ (0.36)	(0.38)	(2.41)	(2.39)

There was no dilution effect of potential common shares as of December 31, 2010 and 2009. Therefore, diluted earnings per share will not be disclosed.

(17) Financial Instruments

(a) Fair value of financial instruments

As of December 31, 2010 and 2009, the carrying amounts of financial assets and liabilities approximated fair values except for those as shown below:

	December 31, 2010		December 31, 2009	
	Book value	Fair value	Book value	Fair value
Financial assets:				
Financial assets carried at cost – noncurrent	$ -	-	42,285	-

(Continued)

(b) The methods and assumptions used to estimate the fair value of each class of financial instruments were as follows:

(i) The book value of short-term financial instruments is believed to be not materially different from their fair value because the maturity dates are close to the balance sheet date. Therefore, their book value is adopted as a reasonable basis for determining their fair value. This principle is applied in estimating the fair value of short-term financial instruments including cash and cash in bank, notes and accounts receivable as well as payable (including related parties), other financial assets－current, restricted cash in bank－current, accrued expenses, and short-term loans.

(ii) The fair value of financial instruments traded in active markets is based on quoted market prices. If the financial instruments are not traded in an active market, then the fair value is determined based on certain valuation techniques, using assumptions under existing market conditions.

(iii) Financial assets carried at cost－noncurrent are investments in non-public companies. The fair value cannot be estimated since the investments are not traded in a public market.

(iv) The carrying amount is the fair value for long-term liabilities because the interest rates applied are floating.

(c) The fair value of financial instruments as of December 31, 2010 and 2009, is determined based on certain valuation techniques except for the fair value of cash and cash in bank, which is based on quoted market prices.

(d) For the financial assets pledged as of December 31, 2010 and 2009, please refer to note 19.

(e) As of December 31, 2010 and 2009, the financial assets and liabilities held by the Consolidated Company which were subject to cash flow risk resulting from the fluctuation of interest rates amounted to $485,615 and $515,686, respectively, for financial assets and amounted to $1,068,648 and $1,097,461, respectively, for financial liabilities.

(f) Financial risk information

(i) Market risk

Since some sales transactions are denominated in USD, the Consolidated Company's foreign currency assets and liabilities with existing or future cash flows are exposed to market exchange rate fluctuation risk. The main purpose of the derivative financial instruments the Consolidated Company entered into is to hedge for fluctuations in foreign exchange rate. Gains or losses from these hedging instruments are likely to be offset by gains or losses from the hedged items.

(Continued)

(ii) Credit risk

The Consolidated Company's major potential credit risk is from financial instruments such as cash and cash in bank, accounts receivable, and the counterparts of derivative financial instruments that are involved in transactions failing to meet contractual obligations. The Consolidated Company's cash deposits are in different financial institutions. The Consolidated Company controls its exposure to each individual financial institution, and anticipates no significant concentration risk related to cash accounts. In addition, since the Consolidated Company's derivative financial instrument agreements are entered into with financial institutions with good credit, management anticipates the counterparts will not breach the contracts and the Consolidated Company will bear remote credit risk. The customers of the Consolidated Company are high-tech computer industries. The Consolidated Company evaluates the financial situation of those customers continuously and gets collateral or guarantees from them if necessary to reduce the credit risk relating to accounts and notes receivable.

(iii) Liquidity risk

The Consolidated Company's capital and operating funds were sufficient to fulfill all the obligations as of December 31, 2010. Therefore, the Consolidated Company anticipated no significant liquidity risk.

(iv) Cash flow risk arising from interest rate fluctuation

Part of the financial assets and liabilities held by the Consolidated Company had a floating interest rate basis. Therefore, it bears the risks from the fluctuation of market interest rates. An increase in interest rates will lead to an increase in net cash outflow. When interest rates increase a quarter point, the Consolidated Company will have additional cash outflow of $1,458 each year.

(f) Risk management and hedge policy

The Consolidated Company enters into forward exchange contracts and foreign currency options to hedge the effect of exchange rate fluctuations on foreign-currency-denominated assets and liabilities. The Consolidated Company uses hedging instruments with negative correlation with the fair values of hedged items and periodically evaluates the effectiveness of the instruments. The derivative transactions entered into by the Consolidated Company did not meet all the criteria for hedge accounting, and were recorded as "financial assets or liabilities measured at fair value through profit or loss".

(18) Transactions with Related Parties

(a) Name of and relationship with related parties

Related Party	Relationship with the Company
Reel Mask	37%-owned investee of the Consolidated Company
Speedtech Energy	25%-owned investee of the Consolidated Company (note 2)
Kinmacsolar Co., Ltd. (Kinmacsolar)	Chairman of Kinmacsolar and the Company was same (note 1)
Directors, supervisors, the president and vice presidents	Key management personnel

note 1: The chairman of the Company assumed office in June 2009.
note 2: The Company invested in Speedtech Energy in December 2009.

(b) Significant transactions with related parties

a. Purchases, process outsourcing, and accounts payable－related parties

Name of related party		2010 Amount	2009 Amount
Purchases			
Kinmacsolar	$	-	57,521
Speedtech Energy		-	1,806
	$	**-**	**59,327**
Process outsourcing			
Reel Mask	$	84,878	46,744
Speedtech Energy		-	3,495
	$	**84,878**	**50,239**

Name of related party		December 31, 2010 Amount	December 31, 2009 Amount
Accounts payable－related parties			
Reel Mask	$	35,392	31,424
Kinmacsolar		3,671	12,067
	$	**39,603**	**43,491**

(Continued)

The prices and payment terms were not significantly different from those for third-party suppliers.

b. Lease

The Consolidated Company leased part of the plant to Speedtech Energy. The rental income for the years ended December 31, 2010 and 2009, was $1,173 and $1,349, respectively. The rental receivable as of December 31, 2010 and 2009, was $157 and $0, respectively, disclosed as other financial assets－current.

(c) Remuneration of management

The information on remuneration of the directors, supervisors, president and vice presidents for the years ended December 31, 2010 and 2009, is as follows:

	2010	2009
Salaries	$ 13,585	13,633
Cash allowances	1,196	1,344
Business expenses	888	879
	$ 15,669	**15,856**

(19) Pledged Assets

Pledged assets	Objectives of the pledge	December 31, 2010	December 31, 2009
Restricted cash in bank－current (time deposits and impound accounts)	Bank loans, and guarantee for customs	$ 73,243	72,400
Pledged accounts receivable	Bank loans	147,327	260,460
Land and buildings	Bank loans, overdraft, and guarantee for foreign currency transactions	848,012	861,607
Land usage rights	〃	27,156	18,159
		$ 1,095,738	**1,212,626**

(Continued)

(20) Commitments and Contingent Liabilities

In addition to note 14, the commitments and contingent liabilities were as follows:

(a) As of December 31, 2010, the Consolidated Company had entered into several operating lease agreements for its employee dormitory and computer equipment. Future lease payments were as follows:

Year	Amount
January 1, 2011 ~ December 31, 2011	$ 34,617
January 1, 2012 ~ December 31, 2012	22,000
	$ 56,617

(a) As of December 31, 2010 and 2009, the unpaid portion of the contracts for equipment the Consolidated Company entered into was approximately $4,666 and $5,884, respectively.

(b) As of December 31, 2010 and 2009, the Company had provided endorsements and guarantees to its subsidiaries amounting to $207,630 and $38,640, respectively.

(21) Others

(a) Employee expenses, depreciation and amortization for the years ended December 31, 2010 and 2009, were as follows:

Function	2010			2009		
Item	Operating cost	Operating expenses	Total	Operating cost	Operating expenses	Total
Employee expenses						
Salaries and wages	481,224	189,417	670,641	398,670	172,493	571,163
Labor and health insurance	15,863	13,071	28,934	10,236	12,332	22,568
Pension expense	24,390	8,994	33,384	16,779	7,572	24,351
Other	21,131	9,396	30,527	14,073	8,471	22,544
Depreciation (note)	156,753	33,796	190,549	161,869	37,037	198,906
Amortization	8,999	15,076	24,075	17,987	21,275	39,262

Note: Excluding depreciation of assets leased to others amounting to $3,548 and $3,781 for the years ended December 31, 2010 and 2009, respectively.

(b) The Company provided a loss reserve on outward investment in 2007 and 2009, in accordance with the "Statute for Upgrading Industries". The amount was computed at 20% of the total amount of outward investment, which is the limit stipulated by the "Statute for Upgrading Industries". However, as such reserve is not in accordance with generally accepted accounting principles, the loss reserve is reversed during the preparation of the financial statements, but the Company does not adjust its accounting books. Accordingly, as of December 31, 2010 and 2009, the retained earnings in the financial statements were both greater than those in the Company's books by $64,754.

(c) The foreign currency financial assets and liabilities which had significant impact on the Consolidated Company as of December 31, 2010 and 2009, were as follows:

	December 31, 2010			**December 31, 2009**		
	Foreign currency ('000)	Exchange rate	NT dollars ('000)	Foreign currency ('000)	Exchange rate	NT dollars ('000)
Financial assets						
Monetary items						
USD	30,314	29.13	883,052	31,055	32.03	994,063
RMB	25,897	4.4219	114,514	22,159	4.6918	103,964
HKD	3,610	3.748	13,531	8,537	4.1302	35,261
MYR	3,053	9.069	27,684	3,075	9.3518	28,760
Financial liabilities						
Monetary items						
RMB	72,366	4.4219	319,997	73,824	4.6918	346,368
USD	9,151	29.13	266,557	6,793	32.03	217,591
HKD	5,830	3.748	21,849	17,880	4.1302	73,849
MYR	1,025	9.069	9,295	342	9.3518	3,199

(22) Segment Financial Information

(a) The Consolidated Company's operations only involve a single industry segment: the manufacturing and sale of connectors and keystrokes for use in computers, electronics and communications. No industrial segment information was required to be disclosed.

(Continued)

SPEED TECH CO., LTD AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

(b) Geographic information

	2010				
	Taiwan	**Americas**	**Asia**	**Eliminations**	**Consolidated**
Revenue from third parties	$ 1,661,909	-	865,128	-	2,527,037
Revenue from the parent company and consolidated subsidiaries	33,779	2,936	874,001	(910,716)	-
Total revenues	**$ 1,695,688**	**2,936**	**1,739,129**	**(910,716)**	**2,527,037**
Segment income (losses)	**$ 128,088**	**54**	**(182,837)**	**5,466**	(49,229)
Investment income accounted for under equity method					24,132
Gain on disposal of investment					17,715
Other income					33,050
Interest expense					(35,123)
Exchange loss, net					(68,048)
Impairment loss					(4,447)
Other expenses					(3,555)
Losses from continuing operations before tax					**$ (85,505)**
Identifiable assets	**$ 1,777,084**	**687**	**1,436,141**	**(121,463)**	3,092,449
Long-term equity investments					143,239
General assets					5,532
Total assets					**$ 3,241,220**

(Continued)

SPEED TECH CO., LTD AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

	2009				
	Taiwan	**Americas**	**Asia**	**Eliminations**	**Consolidated**
Revenue from third parties	$ 1,626,581	694	543,636	-	2,170,911
Revenue from the parent company and consolidated subsidiaries	63,956	3,399	1,024,679	(1,092,034)	-
Total revenues	**$ 1,690,537**	**4,093**	**1,568,315**	**(1,092,934)**	**2,170,911**
Segment income (losses)	**$ (56,194)**	**251**	**(402,577)**	**1,926**	(456,594)
Investment income accounted for under equity method					29,687
Other income					21,906
Interest expense					(32,004)
Exchange loss, net					(11,228)
Impairment loss					(45,241)
Other expenses					(12,113)
Losses from continuing operations before tax					**$ (505,587)**
Identifiable assets	**$ 1,981,334**	**611**	**1,394,955**	**(78,992)**	3,297,908
Long-term equity investments					181,616
General assets					8,469
Total assets					**$ 3,487,993**

(c) A summary of net export sales according to geographic area is as follows:

Geographic area	**2010**	**2009**
Asia	$ 1,267,284	1,250,570
Europe	105,957	136,624
Americas	29,605	21,283
Others	67	26,013
	$ 1,402,913	**1,434,490**

(d) Major customers

There was no individual customer accounting for over 10% of total revenue in 2010 and 2009.