



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

We have audited the accompanying consolidated balance sheets of DFI, Inc. and subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of DFI, Inc. and subsidiaries as of December 31, 2008 and 2007, and the results of their consolidated operations and their consolidated cash flows for the years then ended in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting with respect to financial accounting standards, and accounting principles generally accepted in the Republic of China.

As discussed in Note 3 to the consolidated financial statements, effective January 1, 2008, DFI Inc. and subsidiaries adopted Interpretation 2007-052, "Accounting for Bonuses to Employees, Directors and Supervisors" issued by the Accounting Research and Development Foundation of the Republic of China and relevant requirements promulgated by the Financial Supervisory Commission of the Executive Yuan.

Deloitte & Touche

Taipei, Taiwan
February 13, 2009

Notice to Readers

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

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



DFI Inc.

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2008 AND 2007

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

Assets	2008		2007		Liabilities & Shareholders' Equity	2008		2007	
	Amount	%	Amount	%		Amount	%	Amount	%
Cash and cash equivalents (Notes 2 and 4)	\$912,304	25	\$ 1,004,229	27	CURRENT LIABILITIES				
Financial assets at fair value through profit or loss (Notes 2, 5 and 21)	950,450	26	641,799	17	Notes Payable	69,158	2	\$ 157,829	4
Available-for-sale financial assets (Notes 2 and 6)	77,501	2	176,999	5	Accounts Payable	156,956	4	223,233	6
Bonds without active markets (Notes 2 and 10)	-	-	38,935	1	Payable to Affiliates (Note 19)	15	-	282	-
Notes receivable	4	-	43	-	Income Tax Payable (Notes 2 & 15)	95,848	3	84,515	2
Accounts receivable (Note 2)	425,528	12	397,397	11	Accrued Expenses	136,901	4	66,484	2
Receivable from Affiliates (Note 19)	33,608	1	91,191	3	Financial liabilities at fair value through profit or loss (Notes 2, 5 and 21)	-	-	157	-
Other Receivables	13,484	-	27,226	1	Payable for purchase of equipment	1,628	-	2,349	-
Inventory (Notes 2 & 7)	494,830	14	620,072	17	Other Current Liabilities	38,987	1	50,261	2
Time deposits pledged (Note 20)	10,000	-	12,595	-	Total current liabilities	499,493	14	585,110	16
Deferred income taxes-current (Notes 2 & 15)	50,181	2	16,716	-	OTHER LIABILITIES				
Prepayments and other current asset	22,379	1	21,011	1	Accrued pension cost (Notes 2 and 18)	52,659	2	50,729	1
Total Current Assets	2,990,269	83	3,048,213	83	Deferred income tax liabilities-non-current (notes 2 and 15)	5,360	-	-	-
LONG-TERM INVESTMENTS (Notes 2,5,6,8,9,10 and 11)					Others	4,934	-	3,452	-
Financial assets at fair value through profit or loss- non-current (Notes 2 and 5)	49,529	1	-	-	Total other liabilities	62,953	2	54,181	1
Available-for-sale financial assets	24,100	1	11,916	-	Total liabilities	562,446	16	639,291	17
Held-to-maturity financial assets	200,000	5	200,000	6	SHAREHOLDERS' EQUITY				
Financial assets carried at cost	25,446	1	30,178	1	CAPITAL STOCK	1,190,330	33	1,140,530	31
Bonds without active markets	-	-	15,959	-	CAPITAL SURPLUS				
Total long-term investments	299,075	8	258,053	7	Additional paid-in capital	806,569	22	806,569	22
PROPERTY, PLANT & EQUIPMENT (Notes 2 and 12)					From treasury stock transaction	25,950	1	25,950	1
Land	29,801	1	28,829	1	Gain on asset disposition	808	-	808	-
Buildings	119,188	3	117,935	3	From long-term equity investments	653	-	653	-
Machinery & equipment	437,835	12	465,625	13	Total capital surplus	833,980	23	833,980	23
Office equipment	20,451	1	22,688	-	RETAINED EARNINGS				
Other equipment	33,259	1	33,304	1	Legal Reserve	331,986	9	268,642	8
Cost Subtotal	640,534	18	668,381	18	Special Reserve	9,008	-	4,442	-
Accumulated Depreciation	506,889	14	525,028	14	Unappropriated earnings	767,167	21	849,922	23
Net property, plant & equipment	133,645	4	143,353	4	Total retained earnings	1,108,161	30	1,123,006	31
INTANGIBLE ASSETS					OTHER EQUITY ADJUSTMENTS				
Computer software (Note 2)	1,302	-	2,019	-	Cumulative translation adjustments	35,854	1	(3,456)	-
Goodwill (Note 2)	187,365	5	187,365	5	Unrealized gain or loss on financial instruments	(46,036)	(1)	(5,552)	-
Total Intangible Assets	188,667	5	189,384	5	Treasury stocks	(62,071)	(2)	(56,885)	(2)
OTHER ASSETS					Total other equity adjustments	(72,253)	(2)	(65,893)	(2)
Deferred Income Taxes-non-current (Notes 2 & 15)	-	-	15,744	1	MINORITY INTEREST	2	-	2	-
Deferred charges (Note 2)	6,604	-	4,626	-	Total shareholders' equity	3,060,220	84	3,031,625	83
Others	4,406	-	11,543	-	TOTAL LIABILITIES & EQUITY	\$ 3,622,666	100	\$ 3,670,916	100
Total other assets	11,010	-	31,913	1					
TOTAL ASSETS	\$ 3,622,666	100	\$ 3,670,916	100					

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



DFI Inc.

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

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

	<u>2008</u>		<u>2007</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Gross Sales	\$3,753,767	101	\$2,849,157	101
Sales Return & Allowance	29,418	1	30,872	1
Net Sales (Notes 2 and 19)	3,724,349	100	2,818,285	100
Cost of Goods Sold (Notes 16 and 19)	2,400,324	64	1,824,098	65
Gross Profit	1,324,025	36	994,187	35
Unrealized Profit on Sales to Affiliates (Note 2)	-	-	(1,008)	-
Gross Profit	1,324,025	36	993,179	35
Operation Expenses (Notes 16 and 19)				
Sales & Marketing	163,039	5	114,828	4
General & Administrative	195,288	5	91,212	3
Research & Development	124,585	3	100,872	4
Total Operating Expenses	482,912	13	306,912	11
Income from Operations	841,113	23	686,267	24
Non-operating Income				
Interest income (Note 21)	30,538	1	36,082	1
Gain on reversal of bad debts	8,877	-	-	-
Gain on disposal of investments	-	-	67,088	2
Equity in earnings of equity method investees, net (Notes 2 and 11)	-	-	21,138	1
Exchange gain (Note 2)	-	-	12,868	1
Gain on valuation of financial liabilities (Notes 2,5 and 21)	-	-	155	-
Other Income (Note 19)	23,979	1	18,086	1
Total Non-operating Income	63,394	2	155,417	6
Non-operating Expenses				
Loss on market price decline of inventory (Notes 2 and 7)	59,147	2	744	-
Exchange losses (Note 2)	40,223	1	-	-
Loss on write-off of financial assets (Notes 2 and 6)	34,144	1	-	-
Loss on disposal of assets	29,996	1	-	-
Loss on inventory write-off	6,801	-	5,837	1
Loss on valuation of financial assets (Notes 2, 5 & 21)	2,617	-	17,060	1
Interest expenses (Note 21)	356	-	373	-
Other Losses (Note 19)	5,312	-	2,367	-
Total Non-operating Expenses	178,596	5	26,381	1



DFI Inc.

**CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

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

INCOME BEFORE INCOME TAX	725,911	20	815,303	29
INCOME TAX (Notes 2 and 15)	185,516	5	181,862	7
INCOME BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	540,395	15	633,441	22
NET CONSOLIDATED INCOME	<u>\$ 540,395</u>	<u>15</u>	<u>\$ 633,441</u>	<u>22</u>
INCOME ATTRIBUTED TO:				
Stockholders of parent company	\$ 540,395	15	\$ 644,441	22
Minority interest	-	-	-	-

	<u>2008</u>		<u>2007</u>	
	<u>Before Tax</u>	<u>After Tax</u>	<u>Before Tax</u>	<u>After Tax</u>
EARNINGS PER SHARE (Notes 3 & 17)				
Basic	<u>\$ 6.04</u>	<u>\$ 4.57</u>	<u>\$ 7.13</u>	<u>\$ 5.56</u>
Diluted	<u>\$ 5.97</u>	<u>\$ 4.51</u>		

The accompanying notes are an integral part of the consolidated financial statements.
(With Deloitte & Touche audit report dated January 13, 2009)

(Concluded)



DFI, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

YEARS ENDED DECEMBER 31, 2008 AND 2007

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

	<u>Capital Stock</u>		<u>Capital Surplus (Notes 2, 13 and 14)</u>			<u>Retained Earnings (Notes 2,13 and 15)</u>			<u>Adjustments</u>			Minority Interest	Total Shareholders' Equity	
	Thousand Shares	Amount	Issue of Stock in Excess of Par Value	Treasury Stock	Gain on Disposal of Properties	From Long-term Stock Investments	Legal Reserve	Special Reserve	Unappropriated Earnings	Cumulative Translation Adjustment (Note 2)	Unrealized Gain or Loss on Financial Instruments (Notes 2, 6 and 21)			Treasury Stock (Notes 2 and 14)
BALANCE, JANUARY 1, 2007	108,317	\$1,083,169	\$806,569	\$25,950	\$808	\$653	\$213,554	\$3,118	\$777,400	\$(4,442)	\$3,456	\$-	\$2	\$2,910,237
Appropriation of prior year's earnings:														
Legal reserve	-	-	-	-	-	-	55,088	-	(55,088)	-	-	-	-	-
Employee Bonus-Stock	3,570	35,700	-	-	-	-	-	-	(35,700)	-	-	-	-	-
Employee Bonus-Cash	-	-	-	-	-	-	-	-	(8,920)	-	-	-	-	(8,920)
Remuneration to directors and supervisors	-	-	-	-	-	-	-	-	(4,958)	-	-	-	-	(4,958)
Stock Dividend- \$0.2 per share	2,070	20,702	-	-	-	-	-	-	(21,661)	-	-	-	-	-
Cash Dividend - \$0.8 per share	-	-	-	-	-	-	-	-	(433,268)	-	-	-	-	(433,268)
Net Income, 2007	-	-	-	-	-	-	-	-	633,441	-	-	-	-	633,441
Reverse of Special Reserve	-	-	-	-	-	-	-	1,324	(1,324)	-	-	-	-	-
Cumulative Translation Adjustments	-	-	-	-	-	-	-	-	-	986	-	-	-	986
Unrealized gain or loss on financial instruments	-	-	-	-	-	-	-	-	-	-	(9,008)	-	-	(9,008)
Purchase of Treasury Stock- 746,000 shares	-	-	-	-	-	-	-	-	-	-	-	(56,885)	-	(56,885)
BALANCE, DECEMBER 31, 2007	114,053	\$1,140,530	\$ 806,569	\$ 25,950	\$ 808	\$ 653	\$ 268,642	\$ 4,442	\$ 849,922	\$(3,456)	\$(5,552)	\$(56,885)	\$ 2	\$ 3,031,625
Appropriation of prior year's earnings:														
Legal reserve	-	-	-	-	-	-	63,344	-	(63,344)	-	-	-	-	-
Employee Bonus-Stock	3,848	38,480	-	-	-	-	-	-	(38,480)	-	-	-	-	-
Employee Bonus-Cash	-	-	-	-	-	-	-	-	(12,830)	-	-	-	-	(12,830)
Remuneration to directors and supervisors	-	-	-	-	-	-	-	-	(5,700)	-	-	-	-	(5,700)
Stock Dividend- \$0.1 per share	1,132	11,320	-	-	-	-	-	-	(11,320)	-	-	-	-	-
Cash Dividend - \$4.3 per share	-	-	-	-	-	-	-	-	(486,910)	-	-	-	-	(486,910)
Net Income, 2008	-	-	-	-	-	-	-	-	540,395	-	-	-	-	540,395
Reverse of Special Reserve	-	-	-	-	-	-	-	4,566	(4,566)	-	-	-	-	-
Cumulative Translation Adjustments	-	-	-	-	-	-	-	-	-	39,310	-	-	-	39,310
Unrealized gain or loss on financial instruments	-	-	-	-	-	-	-	-	-	-	(40,484)	-	-	(40,484)
Purchase of Treasury Stock- 73,000 shares	-	-	-	-	-	-	-	-	-	-	-	(5,186)	-	(5,186)
BALANCE, DECEMBER 31, 2008	119,033	\$1,190,330	\$ 806,569	\$ 25,950	\$ 808	\$ 653	\$331,986	\$ 9,008	\$767,167	\$35,854	(\$ 46,036)	\$(62,071)	\$ 2	\$ 3,060,220

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

(With Deloitte & Touche audit report dated January 13, 2009)



DFI, Inc.

**CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(In Thousands of New Taiwan Dollars)**

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Consolidated net income	\$ 540,395	\$ 633,441
Depreciation	24,173	41,170
Amortization	8,108	6,771
Gain on disposal of investments	29,996	(67,088)
Gain on valuation of financial assets	2,617	17,060
Loss on impairment of financial liabilities	-	(155)
Losses from write off of financial assets	34,144	-
Translation loss on financial assets	511	(4,723)
Amortization on financial assets	(329)	(392)
Loss on inventory devaluation	59,147	744
Loss on inventory write off	6,801	5,837
Equity in earnings of equity method investees, net	-	(21,138)
Dividend received from subsidiaries	-	22,002
Gain on disposal of property, plant and equipment, net	338	(170)
Deferred income taxes	(12,361)	(5,192)
Accrued pension liability	1,930	4,108
Net changes in operating assets and liabilities:		
Financial assets at fair value through profit or loss	(339,153)	455,500
Notes receivable	39	162
Accounts receivable	(28,131)	5,522
Receivable from affiliates	57,583	(37,274)
Inventory	59,542	(175,149)
Other Receivables	13,742	(406)
Other Current Assets	(1,368)	7,793
Notes Payable	(88,671)	40,554
Accounts Payable	(66,277)	56,511
Payable to Affiliates	(267)	(535)
Income Tax Payable	11,333	1,461
Accrued Expenses	70,417	3,821
Deferred Income	-	1,008
Other Current Liabilities	(11,274)	(969)
Net cash provided by operating activities	<u>\$ 372,985</u>	<u>\$ 990,274</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of ready-for-sale financial assets	(19,702)	(66,071)
Proceeds from disposal of ready-for-sale financial assets	30,088	96,066
Purchase of bonds without active market	-	(28,951)
Prepayment of bonds without active market	39,264	40,736
Proceeds from disposal of bonds without active market	15,959	9,559
Increase of pledged time deposits	2,595	1,706
Purchase of financial assets at fair value through profit or loss- non-current	(50,000)	-
Refund from financial assets carried at cost	4,732	-
Increase of investments accounted for using equity method	-	(234,464)

(Continued)



DFI, Inc.

**CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(In Thousands of New Taiwan Dollars)**

	<u>2008</u>	<u>2007</u>
Purchase of property, plant and equipment	(14,553)	(8,313)
Proceeds from disposal of property, plant and equipment	247	170
Purchase of intangible assets	(1,131)	(2,775)
Increase of deferred charges	(8,238)	(3,922)
Increase of other assets	7,137	(6,469)
Net cash provided by (used in) investing activities	<u>\$ 6,390</u>	<u>\$ (202,728)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase of warranty deposits	1,498	-
Decrease of other liabilities	(16)	(38)
Payment of directors and supervisors' remuneration	(5,700)	(4,958)
Payment of employee bonus	(12,830)	(8,920)
Payment of cash dividends	(486,910)	(433,268)
Purchase cost of treasury stock	(5,186)	(56,885)
Net cash used in financing activities	<u>(509,144)</u>	<u>(504,069)</u>
EFFECT OF EXCHANGE RATE CHANGES	37,844	880
EFFECT OF FIRST INCLUSION FOR CONSOLIDATION OF CERTAIN SUBSIDIARIES	-	60,684
Increase (Decrease) of Cash and Cash Equivalents	(91,925)	345,041
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,004,229	659,188
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 912,304</u>	<u>\$ 1,004,229</u>
SUPPLEMENTAL INFORMATION		
Payment of Interest	<u>\$ 356</u>	<u>\$ 373</u>
Payment of Income Taxes	<u>\$ 173,413</u>	<u>\$ 185,556</u>

The accompanying notes are an integral part of the consolidated financial statements.
(With Deloitte & Touche audit report dated January 13, 2009) (Concluded)



DFI, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

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

NOTE 1: COMPANY PROFILE

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

As of December 31, 2008 and 2007, the staffs employed in DFI and its subsidiaries numbering 516 and 511, respectively.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

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

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

Significant accounting policies are summarized as follows:

Principles of Consolidation

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

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

The consolidated entities were listed as below:

Name of Investee	Percentage of Ownership at December 31, 2008	Business Functions
Diamond Flower Service (NL) B.V.	100%	After service of PC motherboards.
Dual-Tech International Co., Ltd.	99.99%	Subcontractor of PC equipment.
ITOX, LLC.	100% ¹	Sales of embedded PC
DFI, Co., Ltd.	100%	Sales of embedded PC
Yan Tong Technology Ltd.	100%	Share holding

1. Diamond Flower (San Jose) Inc. has been merged into ITOX LLC. on January 1, 2008.



Use of Estimates

The preparation of consolidated financial statements in conformity with the aforementioned guidelines, law and principles requires management to make reasonable assumptions and estimates of matters that are inherently uncertain. The actual results may differ from management's estimates.

Classification of Current and Non-current Assets and Liabilities

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

Cash Equivalents

Bankers' acceptances acquired with maturities of less than three months from the date of purchase are classified as cash equivalents. The carrying amount approximates fair value.

Financial Assets/Liabilities at Fair Value Through Profit or Loss

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

Fair value is determined as follows: publicly traded stocks - closing price at the end of the year; and derivatives - using valuation techniques incorporating estimates and assumptions that are consistent with prevailing market conditions. When the fair value is positive, the derivative is recognized as a financial asset; when the fair value is negative, the derivative is recognized as a financial liability.

Available-for-Sale Financial Assets

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

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

Cash dividends are recognized as investment income upon resolution of shareholders of an investee but are accounted for as reductions to the original cost of investments if such dividends are declared on the earnings of the investees attributable to periods prior to the purchase of the investments. Stock dividends are recorded as an increase in the number of shares held and do not affect investment income. The cost per share is recalculated based on



the new total number of shares. Any difference between the initial carrying amount of a debt security and the amount due at maturity is amortized using the effective interest method, with the amortization recognized in earnings.

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

Revenue Recognition, Accounts Receivable and Allowance for Doubtful Receivables

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

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

Inventories

Inventories including material, finished goods, work in progress (WIP) and outsourced goods. Inventories in DFI, DFI Co., Ltd. and Diamond Flower Service (NL) B.V. are stated at lower of costs or market (LCM). The comparison bases of LCM are total costs and total market values. Inventory costs are recorded at weighted-average method. Market value represents replacement cost for raw materials and net realizable value for work in process, finished goods and outsourced goods.

The inventories of ITOX, LLC. are stated at lower of First-in-First-out costs and market values (replacement cost or net realizable value).

Held-to-Maturity Financial Assets

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

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

Financial Assets Carried at Cost

Investments whose fair value cannot be reliably measured are carried at their original cost, such as non-publicly traded stocks and mutual funds. The costs of non-publicly traded stocks and mutual funds are determined using the weighted-average method. If there is objective



evidence which indicates that a financial asset is impaired, a loss is recognized. A subsequent reversal of such impairment loss is not allowed.

The accounting treatment for cash dividends and stock dividends arising from financial assets carried at cost is the same as that for cash and stock dividends arising from available-for-sale financial assets.

Bonds without Active Market

Investments of bonds and non-derivatives that do not have a quoted market price in an active market but have fixed or determinable value of collection are stated at amortized costs. The accounting treatment is similar with held-to-maturity financial assets but timing of disposition is not limited.

Property, Plant and Equipment

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

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

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

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

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

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

Intangible Assets

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

The Company adopted ROC GAAP no. 37 “Accounting for intangible assets” starting January 1, 2007. R&D expenses in research stage are expensed when occurred, but recorded as intangible assets in development stage if conforms to some conditions. Such assets are amortized at straight-line method over the estimated life.

Goodwill

Goodwill represents the excess of the consideration paid for acquisition over the fair value of identifiable net assets acquired. Effective January 1, 2006, pursuant to the newly revised Statement of Financial Accounting Standards No. 25, “Business Combinations - Accounting



Treatment under Purchase Method”, goodwill is no longer amortized and instead is tested for impairment annually. If an event occurs or circumstances change which indicated that the fair value of goodwill is more likely than not below its carrying amount, an impairment loss is recognized. A subsequent reversal of such impairment loss is not allowed.

Deferred Charges

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

Pension

Pension costs are booked over actuarial results for defined contribution pension plan. Pension costs are booked at accrued contribution costs for defined contribution pension plan over periods which employees providing services. All subsidiaries do not have pension plans.

Treasury Stock

The purchase costs of treasury stock are booked as deduction of shareholders' equity. When treasury stocks are written off, the purchase costs of treasury stocks are offset against “additional paid-in capital” and “capital stocks” according to the share number percentage that are written-off. If book value of treasury stocks is lower than the sum of face value of capital stock and additional paid-in capital, the difference is credited against “capital surplus” arose from similar treasury stock transactions. If book value of treasury stocks is higher than the sum of face value of capital stock and additional paid-in capital, the difference is offset against “capital surplus” arose from similar treasury stock transactions. If there is deficit after the offset, the gap is debited to retained earnings.

Income Taxes

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

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

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

Foreign Currency Transactions

Non-derivative financial commodity is recorded at the spot rates of transaction dates. Gain or loss from foreign currency assets and liabilities paid or received in NT dollars is recorded as exchange gain or loss in the paid or received periods. Year-end balances of foreign currency assets or liabilities are re-valuated at year-end spot rates. Gains or losses are treated as follow: If foreign currency long-term equity investments are valuated at equity method, the exchange differences are recorded as “cumulative exchange adjustments” as a shareholders' equity item. Other exchange differences are recorded as current year gains or losses.

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



Reclassification

Certain accounts in the consolidated financial statements as of and for the year ended December 31, 2007 have been reclassified to be consistent with the consolidated financial statements as of and for the year ended December 31, 2008.

3. ACCOUNTING CHANGES

Effective January 1, 2008, the Company adopted Interpretation 2007-052, "Accounting for Bonuses to Employees, Directors and Supervisors" issued in March 2007 by the ARDF, which requires companies to record bonuses paid to employees, directors and supervisors as an expense rather than as an appropriation of earnings. The adoption of this interpretation resulted in a decrease in net income and earnings per share of NT\$52,271 thousand and NT\$0.44, respectively, for the year ended December 31, 2008.

Effective January 1, 2007, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 37, "Accounting for intangible assets" and other clauses revised accordingly in other SFASs. The Company re-evaluated estimated life and methods of amortization on its intangible assets when SFAS 37 adopted. Such a change in accounting principle did not have any effect on the Company's consolidated financial statements as of and for the year ended December 31, 2008.

4: CASH AND CASH EQUIVALENTS

	2008	NT\$000 2007
Petty Cash and Cash on Hand	\$ 306	\$ 363
Checking and Demand Deposit Accounts	375,408	360,060
Time Deposits, interest rates 1.47~3.65% in 2008, and 2.23~4.26% in 2007.	536,590	413,513
Cash equivalent-short-term notes, interest rates 4.7~5%	-	230,293
	<u>\$ 912,304</u>	<u>\$ 1,004,229</u>

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

	2008	NT\$000 2007
Trading financial assets		
Money market & open-end mutual funds	\$ 935,292	\$ 512,944
Publicly-traded stocks	17,813	129,207
Forward exchange contracts	721	-
Less: Valuation adjustments	(3,376)	(352)
Subtotal	<u>\$ 950,450</u>	<u>\$ 641,799</u>
Trading financial liabilities		
Forward exchange contracts	<u>\$ -</u>	<u>\$ 157</u>

The Company entered into derivative contracts during the years ended December 31, 2008 and 2007 to manage exposures to the fluctuations of foreign exchange rates. The Company's strategy for financial hedging is to avoid risks of market price or cash flow.

Outstanding forward contracts as of December 31, 2008 and 2007 consisted of the following:



	Currency	Maturity Date	Contract Amount (in Thousands)
December 31, 2008 Sell	US\$/NT\$	2009.01.09~2009.01.20	USD2,000/NT\$65,740
December 31, 2007 Sell	US\$/NT\$	2008.01.04~2008.01.28	USD2,500/NTD80,923

Net gains or losses arising from derivative financial instrument assets for the year ended December 31, 2008 and 2007 were NT\$(30,344) thousand and NT\$48,180 thousand, respectively. Net gains arising from derivative financial instrument liabilities for the year ended December 31, 2007 NT\$155 thousand.

The financial assets assigned to include fair value variation in earnings are credit-linked instruments (CLI) issued by China Trust Financial Holding Co. with book value NT\$50,000 thousand and valuation allowance of NT\$471 thousand as of December 31, 2008. The maturity of this CLI will be June 20, 2010.

The gains or losses resulted from financial assets assigned to include fair value variation in earnings were NT\$(471) thousand and NT\$689 thousand.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2008		2007	
	Current	Non-current	Current	Non-current
Corporate Bonds	\$ 93,538	\$ 28,242	\$ 89,966	\$ 12,623
Preferred stocks	60,000	-	60,000	-
Open-end mutual funds	-	-	30,000	-
Public-traded stocks	1	-	1,878	-
	153,539	28,242	181,844	12,623
Less: unrealized loss	(41,894)	(4,142)	(4,845)	(707)
Less: accumulated impairment loss	(34,144)	-	-	-
	<u>\$ 77,501</u>	<u>\$ 24,100</u>	<u>\$ 176,999</u>	<u>\$ 11,916</u>

1. The parent company acquired overseas corporate bonds with coupon rates 4.5074~8.25% for 2008 and 5.75~7.9% for 2007. Impairment losses of NT\$34,144 thousand were recognized for some perpetual bonds in 2008.
2. The parent company purchased preferred stocks 2,000,000 shares issued by TaiSin financial holding company with par \$10 at \$30 per share, totaling NT\$60 millions. The terms of the issue: interest rate 3.5% p.a., paid once each year, accumulating but not participating. The stocks were listed for public trading on October 13, 2005.
3. The parent company purchased private funds from HSBC for NT\$30,000 thousand. They were disposed of all in January and September, 2008.
4. The parent company holds 100 shares and 233 thousand shares of United Commercial Bank at the end of 2008 and 2007, respectively.

7. INVENTORIES, NET

	2008	2007
Materials	\$ 178,621	\$ 297,229
Finished Goods	291,115	223,707
Outsourced Work in Progress	83,993	72,572



Work in Progress	18,930	56,803
Inventory in transit	29,655	18,346
	<u>602,314</u>	<u>668,657</u>
Less: Allowance for Devaluation and obsolesce	107,484	48,585
	<u>\$ 494,830</u>	<u>\$ 620,072</u>

8. HELD-TO-MATURITY FINANCIAL ASSETS- Non-current

		NT\$000
	<u>2008</u>	<u>2007</u>
Preferred stocks	\$ 200,000	\$ 200,000

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

9. FINANCIAL ASSETS CARRIED AT COST

		NT\$000
	<u>2008</u>	<u>2007</u>
Asia tech Taiwan venture fund	\$ 25,446	\$ 30,178

The fund held by parent company is carried at cost due to no quoted prices at active market and hence the fair value cannot be measured reliably. Partial investment of NT\$4,732 thousand were refunded in July 2008.

10. BONDS WITHOUT ACTIVE MARKET

				NT\$000
		<u>2008</u>		<u>2007</u>
		Current	Non-current	Current
				Non-current
Corporate Loan Obligation	\$ -	\$ -		\$ 38,935
JPM callable fixed range note	-	-		15,959
	<u>\$ -</u>	<u>\$ -</u>		<u>\$ 38,935</u>
				<u>\$ 15,959</u>

- 1) The parent company purchased Corporate Loan Securitization Special Purpose Trust (CLSPT), tranche 6, 3%, issued by Taiwan Industry Bank in April 2007 for NT\$30,000 and tranche 4 CLSPT, 3%, in November 2006 for NT\$50,000. The obligation had been repaid NT\$40,736 thousand and NT\$39,264 thousand in November 2007 and May 2008, respectively.
- 2) The parent company purchased JPM callable fixed range note issued by JPM International Derivatives Ltd. on May 2005 totaling US\$500 thousand, 5%. The note was called 100% at original investment cost by JPM in February 21, 2008.

11. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

The investment income of NT\$21,138 thousand in ITOX, LLC for 2007 was calculated using audited financial statements of the same period.

The parent company acquired 65.77% of share interest in ITOX, LLC from Yen-Chi Lu, Yen-hsing Lu and so on, for NT\$234,464 thousand. The purchase price was based on appraisal reports as of December 2007.

ITOX, LLC has been one of the consolidated entities at the end of 2007, so the account



balance is offset when consolidated.

12. PROPERTY, PLANT AND EQUIPMENT- Accumulated Depreciation

Accumulated depreciation consisted of the following:

	2008	2007
Building	\$ 60,444	\$ 57,669
Machinery	397,564	417,434
Office Equipment	18,840	20,592
Other Equipment	30,041	29,333
	\$ 506,889	\$ 525,028

13. SHAREHOLDERS' EQUITY

According to ROC laws, capital surplus arising from equity-method valuation of long-term equity investments is not allowed to be used anywhere. Other kinds of capital surplus can be used to offset accumulated losses only. But additional paid-in capital arising from excess injection over par and treasury stock transactions are allowed to transfer to capital stocks, issuing new shares to shareholders in proportion to their share holding percentage. Capital surplus that can be transferred to capital stocks each year is limited by some percentage.

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

First to set aside 10% for legal reserve; then special capital reserve in accordance with Clause 41-1 of Security Exchange Law may be set aside, too;

Second to appropriate all or part of the retained earnings, in accordance with Board of Directors' resolution, in following order-

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

The employee bonus and directors' remuneration accrued in 2008 amount to NT\$64,831 thousand and NT\$4,864 thousand, respectively. They were calculated as 13.33% and 1%, respectively, of net income- after deducting legal reserve. If later BOD proposes major different amounts from that accrued, the differences will be booked in 2008 earning. If the actual amounts subsequently resolved by the shareholders differ from the proposed amounts by the Board of Directors, the differences are recorded in the year of shareholders' resolution as a change in accounting estimate. If stock bonuses are resolved to be distributed to employees, the number of shares is determined by dividing the amount of bonuses by the closing price (after considering the effect of cash and stock dividends) of the shares on the day preceding the shareholders' meeting.

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

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

If the earnings appropriated belong to years before 1997, shareholders are not entitled to



imputation credit. If appropriated earnings belong to years after 1997, except non-residents, other shareholders are entitled to imputation credit at the rate calculated on dividend date.

The appropriations of earnings for 2007 and 2006 had been approved in the shareholders' meetings held on June 11, 2008 and 2007, respectively, as follows:

Proposal	Amount		Dividend per share	
	2007	2006	2007	2006
Legal reserve	\$ 63,344	\$ 55,088		
Cash dividend	486,910	433,268	\$4.3	\$4.0
Stock dividend	11,320	21,661	\$0.1	\$0.2
Remuneration to directors and supervisors	5,700	4,958		
Employees' profit sharing - in stock	38,480	35,700		
Employees' profit sharing - in cash	12,830	8,920		
	<u>\$ 618,584</u>	<u>\$ 559,595</u>		

If the above bonus to employees, directors and supervisors had been paid entirely in cash and charged to earnings of 2007 and 2006, the basic earnings per share (after income tax) for the years ended December 31, 2007 and 2006 would have decreased from NT\$5.32 and NT\$4.83 to NT\$4.89 and NT\$4.50, respectively.

As of report date, the Board of Directors had not resolved the appropriation for earnings of 2008. The above information about the appropriations of bonus to employees, directors and supervisors is available at the Market Observation Post System website.

14. TREASURY STOCK

Reason to Purchase	Shares, Beginning of Year			Thousand shares	
	Addition	Decrease	Shares, End of Year		
2008					
Intended to transfer to employees	746	73	-		819
2007					
Intended to transfer to employees	-	746	-		746

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

BOD of the parent company resolved on November 14, 2007 to purchase shares from open market, designated from November 15, 2007 to January 14, 2008, to transfer to employees. The parent company purchased 819,000 shares and cost NT\$62,071 thousand up to January 14, 2008. The highest treasury shares held by Parent company are 819,000 and 746,000 shares, respectively; and highest costs NT\$62,071 thousand and NT\$56,885 thousand, respectively, in 2008 and 2007, which conform to the law.

15. INCOME TAXES

1) Income tax expense consisted of:



	2008	NT\$ 000 2007
Income tax payable	\$ 173,570	\$ 167,680
Deferred income tax	(12,361)	(5,192)
Overseas income tax	22,349	9,402
Prior period adjustments	(3,326)	9,834
Prior year's additional taxes finalized by tax authority	5,223	-
Isolate taxation	61	139
	<u>\$185,516</u>	<u>\$ 181,862</u>

2) Deferred income taxes consisted of the following:

	2008	2007
Deferred tax assets - current		
Allowance for losses on inventories	\$ 25,036	\$ 9,972
Unrealized gross profit	13,555	6,507
Bad debt reserve over limit	4,695	4,324
Impairment loss on financial assets	8,536	-
Others	354	117
	<u>52,176</u>	<u>20,920</u>
Deferred liabilities - current		
Unrealized exchange gain	(1,481)	(3,730)
Others	(514)	(474)
	<u>(1,995)</u>	<u>(4,204)</u>
Net deferred income tax assets	<u>\$ 50,181</u>	<u>\$ 16,716</u>
Deferred tax assets-Non-current:		
Net loss carry forward	\$ -	\$ 39,614
Pension differences between financial accounting and tax accounting	12,079	11,571
Investment loss under equity method	493	10,347
	<u>12,572</u>	<u>61,532</u>
Less: Allowance for valuation	-	(39,880)
	<u>12,572</u>	<u>21,652</u>
Deferred tax liabilities-Non-current:		
Depreciation differences between financial accounting and tax accounting	(1,349)	(1,072)
Investment income under equity method	(16,583)	(4,836)
	<u>(17,932)</u>	<u>(5,908)</u>
Net deferred income tax assets	<u>(\$ 5,360)</u>	<u>\$ 15,744</u>

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

	2008	2007
Year-end balances of imputation credit account (ICA)	<u>\$ 97,288</u>	<u>\$ 85,650</u>

The imputation creditable ratio for distribution for 2008 and 2007 are 32.97% and 26.68%, respectively.

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



The unappropriated retained earnings at the end of 2008 and 2007 that belong to years before 1997 both amount to NT\$ 216,481 thousand.

The tax authorities have examined income tax returns of DFI through 2006.

16. PERSONNEL EXPENSES, DEPRECIATION AND AMORTIZATION

NT\$ 000

	2008		
	Costs of Sales	Operating Expenses	Total
Personnel-			
Payroll	\$ 119,908	\$ 267,357	\$ 387,265
Insurance	7,403	18,969	26,372
Pension	5,295	7,214	12,509
Others	3,956	6,391	10,347
Subtotal	<u>\$ 136,562</u>	<u>\$ 299,931</u>	<u>\$ 436,493</u>
Depreciation	<u>\$ 15,613</u>	<u>\$ 8,560</u>	<u>\$ 24,173</u>
Amortization	<u>\$ 3,306</u>	<u>\$ 4,802</u>	<u>\$ 8,108</u>
	2007		
	Costs of Sales	Operating Expenses	Total
Personnel-			
Payroll	\$ 104,034	\$ 150,774	\$ 254,808
Insurance	7,146	13,174	20,320
Pension	5,825	7,057	12,882
Others	4,349	5,027	9,376
Subtotal	<u>\$ 121,354</u>	<u>\$ 176,032</u>	<u>\$ 297,386</u>
Depreciation	<u>\$ 33,657</u>	<u>\$ 7,513</u>	<u>\$ 41,170</u>
Amortization	<u>\$ 2,381</u>	<u>\$ 4,390</u>	<u>\$ 6,771</u>

17. EARNINGS PER SHARE

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

	Earnings (Numerator)		Thousand Shares (Denominator)	EPS (NT\$)	
	Before Tax	After Tax		Before Tax	After Tax
2008 Basic EPS					
Net Income belong to Parent company shareholders	\$ 714,479	\$ 540,395	118,214	\$ 6.04	\$ 4.57
Effect of dilutive potential common shares- Employee Bonus	-	-	1,562		
Diluted EPS					
Earnings attributable to shareholders of the parent (including effect of dilutive potential common shares)	<u>\$ 714,479</u>	<u>\$ 540,395</u>	<u>119,776</u>	<u>\$ 5.97</u>	<u>\$ 4.51</u>
2007 Basic EPS					
Net Income belong to Parent company shareholders	<u>\$ 813,047</u>	<u>\$ 633,441</u>	<u>118,964</u>	<u>\$ 6.83</u>	<u>\$ 5.32</u>



As discussed in Note 3, effective January 1, 2008, the Company adopted Interpretation 2007-052 that requires companies to record bonuses paid to employees as an expense rather than as an appropriation of earnings. If the Company may settle the obligation by cash, by issuing share, or in combination of both cash and shares, potential shares from bonus to employees which will be settled in shares should be included in the weighted average number of shares outstanding in calculation of diluted EPS, if the shares have a dilutive effect. The number of shares is estimated by dividing the amount of bonus to employees by the closing price (after consideration of the dilutive effect of dividends) of the common shares on the balance sheet date. Such dilutive effect of the potential shares needs to be included in the calculation of diluted EPS until the shares of employee bonus are resolved in the shareholders' meeting in the following year.

The calculation of EPS has included consideration of retroactive effects on gratuitous shares rendering. 2007 EPS before tax and after tax therefore adjusted to \$7.13 and \$5.56 from \$6.83 and \$5.32 after retroactive adjustment.

18. PENSION PLAN

The pension mechanism under the Labor Pension Act is deemed a defined contribution plan. Pursuant to the Act, the parent company has made monthly contributions equal to 6% of each employee's monthly salary to employees' pension accounts since April 1, 2005. Pursuant to the aforementioned Act and local regulations, the parent company recognized pension costs of NT\$7,890 thousand and NT\$7,226 thousand for the years ended December 31, 2008 and 2007, respectively.

The parent company has defined benefit plans under the Labor Standards Law that provide benefits based on an employee's service years and average monthly salary for the six-month period prior to retirement. The parent company contributes an amount equal to 5% of salaries paid each month to their respective pension funds, which are administered by the Labor Pension Fund Supervisory Committee (the Committee) and deposited in the Committee's name in the Bank of Taiwan.

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

1) Pension costs consist of:

	NT\$ 000	
	2008	2007
Service cost	\$ 2,989	\$ 3,147
Interest cost	2,984	3,063
Expected return on pension assets	(1,393)	(1,201)
Amortization	39	647
Net pension cost	\$ 4,619	\$ 5,656

2) Funded pension and pension payable:

Benefit obligation:

Vested benefit obligation	\$ 10,850	\$ 15,250
Non-vested benefit obligation	66,548	66,668
Accumulated benefit obligation	77,397	81,918
Additional benefits based on future salaries discrepancy	17,470	17,547
Projected benefit obligation	94,868	99,465
Fair value of plan assets	(45,709)	(45,594)
Funded status	49,159	53,871



Unrecognized net Obligation at transition	(124)	(163)
Un-amortized balance	3,624	(2,979)
Accrued pension liability	<u>\$ 52,659</u>	<u>\$ 50,729</u>
3) Vested benefits	<u>\$ 14,193</u>	<u>\$ 17,324</u>
4) Actuarial assumptions		
Discount rate used to calculate present value	2.50%	3.00%
Future salary increase rate	1.75%	2.00%
Expected rate of return on fund assets	2.50%	3.00%
5) Changes in pension funds		
Contributions	<u>\$ 2,689</u>	<u>\$ 1,548</u>
Payments	<u>\$ 4,200</u>	<u>\$ -</u>

19. RELATED PARTY TRANSACTIONS

1. Names and Relationship between Related Parties

<u>Related Parties</u>	<u>Relationship with DFI</u>
ITOX, LLC. (ITOX) ¹	100% owned Subsidiary
DFI Technologies, LLC. (DFI-TECH)	The general manager is brother of DFI's chairman.

¹: ITOX, LLC was 100% owned after the parent company acquired the remaining 65.77% of outstanding shares on December 31, 2007 and then included in consolidated entity in 2007.

2. Major Transactions with related parties

	NT\$000			
	2008		2007	
	Amount	%	Amount	%
<u>Net Sales</u>				
ITOX	\$ -	-	\$ 499,949	18
DFI-TECH	362,667	10	278,270	10
	<u>\$ 362,667</u>	<u>10</u>	<u>\$ 778,219</u>	<u>28</u>
<u>Purchase</u>				
DFI-TECH	-	-	713	-
ITOX	-	-	650	-
	<u>\$ -</u>	<u>-</u>	<u>\$ 1,363</u>	<u>-</u>
<u>Manufacturing Expenses</u>				
DFI-TECH	\$ -	-	\$ 188	-
ITOX	-	-	94	-
	<u>\$ -</u>	<u>-</u>	<u>\$ 282</u>	<u>-</u>
<u>Operating Expenses</u>				
DFI-TECH	\$ 472		\$ 56	
ITOX	-		72	
	<u>\$ 472</u>		<u>\$ 128</u>	
<u>Non-operating Income</u>				
DFI-TECH	296	-	240	1
ITOX	-	-	6	-
	<u>\$ 296</u>	<u>-</u>	<u>\$ 246</u>	<u>1</u>



Non-operating Expenses

DFI-Tech	\$ 144	-	\$ -	-
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Receivable from Affiliates

Trade Debtor				
DFI-TECH	\$ 33,431	99	\$ 90,395	99

Other Receivable

DFI-TECH	177	1	796	1
	\$ 33,608	100	\$ 91,191	100

Payable to Affiliates

Trade Creditor				
DFI-TECH	\$ 15	100	\$ 282	100

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

3. Remuneration of Directors, Supervisors and Executives

	<u>2008</u>	<u>2007</u>
Salary	\$ 14,127	\$ 14,715
Year-end bonus	1,731	2,022
Employee bonus	23,924	34,409
	<u>\$ 39,782</u>	<u>\$ 51,146</u>

20. MORTGAGED or PLEDGED ASSETS

The following assets have been mortgaged or pledged to banks as collaterals of credit facilities, guarantee deposits for foreign labors and L/C facilities:

	<u>2008</u>	<u>2007</u>
Time deposits	\$ 10,000	\$ 12,595

21. DISCLOSURES FOR FINANCIAL INSTRUMENTS

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

Fair values of derivatives were based on their quoted market prices. If no referable market prices, a valuation method is applied. The valuation techniques incorporates



estimates and assumptions that were consistent with prevailing market conditions.

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

- c) Financial asset carried at cost is a private venture fund with no active market price. The fair value may need cost exceed reasonable expectation, so the fair value was not acquired.
 - d) Future collectible value of pledged time deposits is close to book value, we used carrying amount as the fair value then.
 - e) Warranty deposits were estimated to have future cash flows close to carrying amounts, so the book values are determined to be fair values.
- 2) Gains recognized due to the changes in fair value of derivatives estimated using valuation techniques were NT\$878 thousand and NT\$155 thousand for the years 2008 and 2007, respectively.
- 3) As of December 31, 2008 and 2007, the parent company's financial assets exposed to fair value risk arising from interest rate changes were NT\$53,500 thousand and NT\$ 146,528 thousand, respectively.
- 4) In 2008 and 2007, the parent company and its subsidiaries' financial instruments not valued by fair market values and gains/losses not recognized through market value changes generate interest incomes amounting to NT\$30,538 thousand and NT\$36,082 thousand, and bear interest expenses of NT\$356 thousand and NT\$373 thousand, respectively. The parent company and its subsidiaries recognized unrealized losses for available-for-sale financial assets amounting to (NT\$ 40,484) thousand and (NT\$9,008) thousand, respectively, for 2008 and 2007, under shareholder's equity. The amounts removed from shareholders' equity to profit-and-loss accounts are (NT\$1,798) thousand and NT\$1,101, respectively, for 2008 and 2007.

5) Information about financial risk

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

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

- b. Credit risk. Credit risk represents the potential loss that would be incurred by the Company if the counter parties or third parties breached contracts. Financial instruments with positive fair values at the balance sheet date are evaluated for credit risk. The counter parties or third parties to the foregoing financial instruments are reputable financial institutions, business organizations, and government agencies. Management believes that the Company's exposure to default by those parties is low.
- c. Liquidity risk. The Company has sufficient operating capital to meet cash needs upon settlement of derivative financial instruments. The financial assets held by the parent



company and its subsidiaries, except for those whose impairment losses being accrued, have slim risks not able to sell in the markets, therefore the liquidity risk is low.

The forward contracts engaged by the parent company and its subsidiaries are expected to incur cash outflow of USD2 millions and cash inflow of NT\$66,462 thousand. Since the contract strike rates were fixed, there expected to be no major cash flow risks.

- d. Cash flow interest rate risk. The Company mainly engages in investments in fixed-interest-rate debt securities. Therefore, cash flows are not expected to fluctuate significantly due to changes in market interest rates.

22. ADDITIONAL DISCLOSURES

- 1) The company engages in PC, components and peripheral manufacturing, assembly and sales, belong to one single industry.
- 2) There is no branch office set up in overseas areas.
- 3) Export net sales separated by geography:

<u>Region</u>	<u>2008</u>	<u>2007</u>
Asia, Australia and Africa	\$2,129,007	\$1,174,900
Europe	747,413	440,767
America	784,127	780,574

- 4) Major Customers

Customer	<u>2008</u>		<u>2007</u>	
	Sales	%	Sales	%
A company	\$ 711,253	19	\$615,878	22
B company	649,342	17	251,245	9
DFI-TECH	362,667	10	278,270	10
ITOX	-	-	499,949	18