



**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, 2009 and 2008, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. The financial statements of some consolidated subsidiaries were audited by other auditors with unqualified opinions. Therefore, the opinion we gave concerning the figures of consolidated subsidiaries was based on those auditors' audit reports. The consolidated assets from those subsidiaries audited by other auditors total NT\$391,857 thousands and NT\$713,599 thousands, respectively, as of December 31, 2009 and 2008, representing 11.68% and 19.70% of consolidated assets for respective year. The consolidated revenues total NT\$966,608 thousands and NT\$1,455,848 thousands, respectively, for 2009 and 2008, representing 45.07% and 39.09% of consolidated revenue for respective year.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of DFI, Inc. and subsidiaries as of December 31, 2009 and 2008, 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, 2009, DFI Inc. and subsidiaries adopted amended ROC GAAP no. 10, "Accounting for inventory"; 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  
March 12, 2010

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, 2009 AND 2008**

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

| Assets   | 2009                |            | 2008                |            | Liabilities & Shareholders' Equity                           | 2009             |            | 2008                |            |
|--|---------------------|------------|---------------------|------------|--|------------------|------------|---------------------|------------|
|  | Amount              | %          | Amount              | %          |  | Amount           | %          | Amount              | %          |
| Cash and cash equivalents (Note 4)   | \$897,361           | 27         | \$912,304           | 25         | <b>CURRENT LIABILITIES</b>                                   |                  |            |                     |            |
| Financial assets at fair value through profit or loss (Notes 2, 5 and 19)              | 1,093,048           | 33         | 950,450             | 26         | Notes Payable  | \$ 53,173        | 2          | \$ 69,158           | 2          |
| Available-for-sale financial assets (Notes 2 and 6)                                    | 97,848              | 3          | 77,501              | 2          | Accounts Payable   | 120,038          | 4          | 156,956             | 4          |
| Notes receivable   | 54                  | -          | 4                   | -          | Payable to Affiliates (Note 17)                              | 174              | -          | 15                  | -          |
| Accounts receivable (Note 2)   | 302,412             | 9          | 425,528             | 12         | Income Tax Payable (Notes 2 & 13)                            | -                | -          | 95,848              | 3          |
| Receivable from Affiliates (Note 17)   | 10,920              | -          | 33,608              | 1          | Accrued Expenses   | 113,879          | 3          | 136,901             | 4          |
| Other Receivables (Note 2 and 13)  | 14,720              | -          | 13,484              | -          | Payable for purchase of equipment                            | 811              | -          | 1,628               | -          |
| Inventory (Notes 2, 3 and 7)   | 323,755             | 10         | 494,830             | 14         | Other Current Liabilities                                    | 16,706           | -          | 38,987              | 1          |
| Time deposits pledged (Note 20)  | 10,000              | -          | 10,000              | -          | Total current liabilities                                    | 304,781          | 9          | 499,493             | 14         |
| Deferred income taxes-current (Notes 2 & 13)   | 24,355              | 1          | 50,181              | 2          | <b>OTHER LIABILITIES</b>                                     |                  |            |                     |            |
| Prepayments and other current asset  | 14,292              | -          | 22,379              | 1          | Accrued pension cost (Notes 2 and 16)                        | 54,979           | 2          | 52,659              | 2          |
| Total Current Assets   | 2,788,765           | 83         | 2,990,269           | 83         | Deferred income tax liabilities-non-current (notes 2 and 13) | -                | -          | 5,360               | -          |
| <b>LONG-TERM INVESTMENTS</b>   |                     |            |                     |            | Others   | 2,219            | -          | 4,934               | -          |
| Financial assets at fair value through profit or loss- non-current (Notes 2, 5 and 19) | -                   | -          | 49,529              | 1          | Total other liabilities                                      | 57,198           | 2          | 62,953              | 2          |
| Available-for-sale financial assets (Notes 2 and 6)                                    | 26,760              | 1          | 24,100              | 1          | Total liabilities  | 361,979          | 11         | 562,446             | 16         |
| Held-to-maturity financial assets (Notes 2 and 8)                                      | 200,000             | 6          | 200,000             | 5          | <b>SHAREHOLDERS' EQUITY</b>                                  |                  |            |                     |            |
| Financial assets carried at cost (Notes 2 and 9)                                       | 20,644              | -          | 25,446              | 1          | <b>CAPITAL STOCK</b>   | 1,210,949        | 36         | 1,190,330           | 33         |
| Total long-term investments  | 247,404             | 7          | 299,075             | 8          | <b>CAPITAL SURPLUS</b>                                       |                  |            |                     |            |
| <b>PROPERTY, PLANT &amp; EQUIPMENT (Notes 2 and 10)</b>                                |                     |            |                     |            | Additional paid-in capital                                   | 806,569          | 24         | 806,569             | 22         |
| Land   | 29,603              | 1          | 29,801              | 1          | From treasury stock transaction                              | 25,950           | 1          | 25,950              | 1          |
| Buildings  | 119,122             | 4          | 119,188             | 3          | Gain on asset disposition                                    | 808              | -          | 808                 | -          |
| Machinery & equipment  | 436,273             | 13         | 437,835             | 12         | From long-term equity investments                            | 653              | -          | 653                 | -          |
| Office equipment   | 18,369              | -          | 20,451              | 1          | Other  | 23,603           | 1          | -                   | -          |
| Other equipment  | 35,808              | 1          | 33,259              | 1          | Total capital surplus  | 857,583          | 26         | 833,980             | 23         |
| Cost Subtotal  | 639,175             | 19         | 640,534             | 18         | <b>RETAINED EARNINGS</b>                                     |                  |            |                     |            |
| Accumulated Depreciation   | 520,548             | 15         | 506,889             | 14         | Legal Reserve  | 386,026          | 12         | 331,986             | 9          |
| Net property, plant & equipment  | 118,627             | 4          | 133,645             | 4          | Special Reserve  | 10,181           | -          | 9,008               | -          |
| <b>INTANGIBLE ASSETS</b>   |                     |            |                     |            | Unappropriated earnings                                      | 581,693          | 17         | 767,167             | 21         |
| Computer software (Note 2)   | 951                 | -          | 1,302               | -          | Total retained earnings                                      | 977,900          | 29         | 1,108,161           | 30         |
| Goodwill (Note 2)  | 187,365             | 6          | 187,365             | 5          | <b>OTHER EQUITY ADJUSTMENTS</b>                              |                  |            |                     |            |
| Total Intangible Assets  | 188,316             | 6          | 188,667             | 5          | Cumulative translation adjustments                           | 24,652           | 1          | 35,854              | 1          |
| <b>OTHER ASSETS</b>  |                     |            |                     |            | Unrealized gain or loss on financial instruments             | (15,477)         | (1)        | (46,036)            | (1)        |
| Deferred income taxes-non-current (Notes 2 & 13)                                       | 2,607               | -          | -                   | -          | Treasury stocks-819,000 shares                               | (62,071)         | (2)        | (62,071)            | (2)        |
| Deferred charges (Note 2)  | 5,387               | -          | 6,604               | -          | Total other equity adjustments                               | (52,896)         | (2)        | (72,253)            | (2)        |
| Guarantee deposits   | 4,411               | -          | 4,406               | -          | <b>MINORITY INTEREST</b>                                     | 2                | -          | 2                   | -          |
| Total other assets   | 12,405              | -          | 11,010              | -          | Total shareholders' equity                                   | 2,993,538        | 89         | 3,060,220           | 84         |
| <b>TOTAL ASSETS</b>  | <b>\$ 3,355,517</b> | <b>100</b> | <b>\$ 3,622,666</b> | <b>100</b> | <b>TOTAL LIABILITIES &amp; EQUITY</b>                        | <b>3,355,517</b> | <b>100</b> | <b>\$ 3,622,666</b> | <b>100</b> |

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



**DFI Inc.**

**CONSOLIDATED STATEMENTS OF INCOME**

**FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

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

|   | <u>2009</u>   |               | <u>2008</u>    |                |
|---|---------------|---------------|----------------|----------------|
|   | <u>Amount</u> | <u>%</u>      | <u>Amount</u>  | <u>%</u>       |
| Gross Sales   | \$2,207,507   | 103           | \$3,753,767    | 101            |
| Sales Return & Allowance                              | 62,795        | 3             | 29,418         | 1              |
| Net Sales (Notes 2 and 17)                            | 2,144,712     | 100           | 3,724,349      | 100            |
| Cost of Goods Sold (Notes 3, 7, 14 and 17)            | 1,365,070     | 63            | 2,466,262      | 66             |
| Gross Profit  | 779,642       | 37            | 1,258,087      | 34             |
| Operation Expenses (Notes 14 and 17)                  |               |               |                |                |
| Sales & Marketing                                     | 149,586       | 7             | 163,039        | 5              |
| General & Administrative                              | 159,843       | 8             | 195,288        | 5              |
| Research & Development                                | 113,881       | 5             | 124,585        | 3              |
| Total Operating Expenses                              | 423,310       | 20            | 482,912        | 13             |
| Income from Operations                                | 356,332       | 17            | 841,113        | 23             |
| Non-operating Income                                  |               |               |                |                |
| Interest income (Note 19)                             | 13,468        | 1             | 30,538         | 1              |
| Gain on reversal of bad debts                         | 1,720         | -             | 8,877          | -              |
| Gain on disposal of investments                       | 3,848         | -             | -              | -              |
| Exchange gain (Note 2 and 5)                          | 7,958         | -             | -              | -              |
| Gain on valuation of financial assets (Notes 2 and 5) | 6,814         | -             | -              | -              |
| Other Income (Note 17)                                | 13,322        | 1             | 23,979         | 1              |
| Total Non-operating Income                            | 47,130        | 2             | 63,394         | 2              |
| Non-operating Expenses                                |               |               |                |                |
| Exchange losses (Note 2 and 5)                        |               |               | 40,223         | 1              |
| Loss on write-off of financial assets (Notes 2 and 6) |               |               | 34,144         | 1              |
| Loss on disposal of investments                       |               |               | 29,996         | 1              |
| Loss on valuation of financial assets (Notes 2 and 5) |               |               | 2,617          | -              |
| Interest expenses (Note 21)                           | 272           | -             | 356            | -              |
| Other Losses (Note 19)                                | 13,333        | 1             | 5,312          | -              |
| Total Non-operating Expenses                          | 13,605        | 1             | 112,648        | 3              |
| INCOME BEFORE INCOME TAX                              | 389,857       | 18            | 725,911        | 20             |
| INCOME TAX (Notes 2 and 13)                           | 70,904        | 3             | 185,516        | 5              |
| NET CONSOLIDATED INCOME                               | 318,953       | 15            | \$ 540,395     | 15             |
| Income attributed to:                                 |               |               |                |                |
| Stockholders of parent company                        | \$ 318,953    |               | \$ 540,395     |                |
| Minority interest                                     | -             |               | -              |                |
| EARNINGS PER SHARE (Note 15)                          | Before tax    | After tax     | Before tax     | After tax      |
| Basic   | <u>\$3.22</u> | <u>\$2.66</u> | <u>\$ 5.98</u> | <u>\$ 4.53</u> |
| Diluted   | <u>\$3.20</u> | <u>\$2.64</u> | <u>\$ 5.91</u> | <u>\$ 4.47</u> |

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

(With Deloitte & Touche audit report dated March 12, 2010)



**DFI, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**

**YEARS ENDED DECEMBER 31, 2009 AND 2008**

(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>             |   | <u>Treasury Stock (Notes 2 and 14)</u> | <u>Minority Interest</u> | <u>Total Shareholders' Equity</u> |   |
|--|------------------------|---------------|--|-----------------------|---------------------------------------|---|--|----------------------|------------------------|--------------------------------|---|--|--------------------------|-----------------------------------|---|
|  | <u>Thousand Shares</u> | <u>Amount</u> | <u>Issue of Stock in Excess of Par Value</u> | <u>Treasury Stock</u> | <u>Gain on Disposal of Properties</u> | <u>From Long-term Stock Investments</u> | <u>Other</u>                                 | <u>Legal Reserve</u> | <u>Special Reserve</u> | <u>Unappropriated Earnings</u> | <u>Cumulative Translation Adjustment (Note 2)</u> |  |                          |                                   | <u>Unrealized Gain or Loss on Financial Instruments (Notes 2, 6 and 21)</u> |
| BALANCE, JANUARY 1, 2009                         | 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  |
| Appropriation of prior year's earnings (note 3)  |                        |               |  |                       |                                       |   |  |                      |                        |                                |   |  |                          |                                   |   |
| Legal reserve                                    | -                      | -             | -  | -                     | -                                     | -                                       |  | 54,040               | -                      | (54,040)                       | -   | -                                      | -                        | -                                 | -   |
| Stock Dividend- \$0.1 per share                  | 1,182                  | 11,822        | -  | -                     | -                                     | -                                       |  | -                    | -                      | (11,822)                       | -   | -                                      | -                        | -                                 | -   |
| Cash Dividend - \$3.7 per share                  | -                      | -             | -  | -                     | -                                     | -                                       |  | -                    | -                      | (437,392)                      | -   | -                                      | -                        | -                                 | (437,392)   |
| Employee stock bonus                             | 880                    | 8,797         | -  | -                     | -                                     | -                                       | 23,603                                       | -                    | -                      | -                              | -   | -                                      | -                        | -                                 | 32,400  |
| Net Income, 2009                                 | -                      | -             | -  | -                     | -                                     | -                                       |  | -                    | -                      | 318,953                        | -   | -                                      | -                        | -                                 | 318,953   |
| Special Reserve                                  | -                      | -             | -  | -                     | -                                     | -                                       |  | -                    | 1,173                  | (1,173)                        | -   | -                                      | -                        | -                                 | -   |
| Cumulative Translation Adjustments               | -                      | -             | -  | -                     | -                                     | -                                       |  | -                    | -                      | -                              | (11,202)  | -                                      | -                        | -                                 | (11,202)  |
| Unrealized gain or loss on financial instruments | -                      | -             | -  | -                     | -                                     | -                                       |  | -                    | -                      | -                              | -   | 30,559                                 | -                        | -                                 | 30,559  |
| BALANCE, DECEMBER 31, 2009                       | 121,095                | \$1,210,949   | \$806,569                                    | \$25,950              | \$808                                 | \$653                                   | \$23,603                                     | \$386,026            | \$10,181               | \$581,693                      | \$24,652  | (\$15,477)                             | (\$62,071)               | \$2                               | \$2,993,538   |

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

(With Deloitte & Touche audit report dated March 12, 2010)



DFI, Inc.

**CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008  
(In Thousands of New Taiwan Dollars)**

|  | <u>2009</u>    | <u>2008</u>    |
|--|----------------|----------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                    |                |                |
| Consolidated net income  | \$ 318,953     | \$ 540,395     |
| Depreciation   | 21,158         | 24,173         |
| Amortization   | 9,327          | 8,108          |
| Gain on reversal of bad debts  | (1,720)        | (8,877)        |
| Gain on disposal of investments  | (3,848)        | 29,996         |
| Gain on disposal of property, plant and equipment, net                         | 11             | 338            |
| Gain on valuation of financial assets  | (6,814)        | 2,617          |
| Losses from write off of financial assets                                      | -              | 34,144         |
| Translation loss on financial assets   | 986            | 511            |
| Amortization on financial assets   | -              | (329)          |
| Loss on inventory devaluation  | (52,458)       | 59,147         |
| Loss on inventory write off  | 11,875         | 6,801          |
| Deferred income taxes  | 17,859         | (12,361)       |
| Accrued pension liability  | 2,320          | 1,930          |
| Net changes in operating assets and liabilities:                               |                |                |
| Financial assets at fair value through profit or loss                          | (81,441)       | (339,153)      |
| Notes receivable   | (50)           | 39             |
| Accounts receivable  | 124,836        | (19,254)       |
| Receivable from affiliates   | 22,688         | 57,583         |
| Inventory  | 211,750        | 59,542         |
| Other Receivables  | (1,236)        | 13,742         |
| Other Current Assets   | 8,087          | (1,368)        |
| Notes Payable  | (15,985)       | (88,671)       |
| Accounts Payable   | (36,918)       | (66,277)       |
| Payable to Affiliates  | 159            | (267)          |
| Income Tax Payable   | (95,848)       | 11,333         |
| Accrued Expenses   | (7,628)        | 67,837         |
| Other Current Liabilities  | (5,275)        | (8,694)        |
| Net cash provided by operating activities                                      | <u>440,788</u> | <u>372,985</u> |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                    |                |                |
| Purchase of ready-for-sale financial assets                                    | -              | (19,702)       |
| Proceeds from disposal of ready-for-sale financial assets                      | 5,600          | 30,088         |
| Prepayment of bonds without active market                                      | -              | 39,264         |
| Proceeds from disposal of bonds without active market                          | -              | 15,959         |
| Increase of pledged time deposits  | -              | 2,595          |
| Purchase of financial assets at fair value through profit or loss- non-current | -              | (50,000)       |
| Refund from financial assets carried at cost                                   | 4,802          | 4,732          |

(Continued)



**DFI, Inc.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

**(In Thousands of New Taiwan Dollars)**

|   | <u>2009</u>       | <u>2008</u>       |
|---|-------------------|-------------------|
| Purchase of property, plant and equipment               | (7,205)           | (14,553)          |
| Proceeds from disposal of property, plant and equipment | -                 | 247               |
| Purchase of intangible assets                           | (480)             | (1,131)           |
| Increase of deferred charges                            | (7,279)           | (8,238)           |
| Increase of other assets                                | (5)               | 7,137             |
| Net cash provided by (used in) investing activities     | <u>(4,567)</u>    | <u>6,390</u>      |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>             |                   |                   |
| Increase of warranty deposits                           | (81)              | 1,498             |
| Decrease of other liabilities                           | (2,634)           | (16)              |
| Purchase cost of treasury stock                         | -                 | (5,186)           |
| Payment of directors and supervisors' remuneration      | -                 | (5,700)           |
| Payment of employee bonus                               | -                 | (12,830)          |
| Payment of cash dividends                               | (437,392)         | (486,910)         |
| Net cash used in financing activities                   | <u>(440,107)</u>  | <u>(509,144)</u>  |
| <b>EFFECT OF EXCHANGE RATE CHANGES</b>                  | (11,057)          | 37,844            |
| Increase (Decrease) of Cash and Cash Equivalents        | (14,943)          | (91,925)          |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>     | 912,304           | 1,004,229         |
| <b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>           | <u>\$ 897,361</u> | <u>\$ 912,304</u> |
| <b>SUPPLEMENTAL INFORMATION</b>                         |                   |                   |
| Payment of Interest                                     | <u>\$ 272</u>     | <u>\$ 356</u>     |
| Payment of Income Taxes                                 | <u>\$ 138,743</u> | <u>\$ 173,413</u> |

The accompanying notes are an integral part of the consolidated financial statements.  
(With Deloitte & Touche audit report dated March 12, 2010) (Concluded)



DFI, Inc.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**

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

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**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, 2009 and 2008, the staffs employed in DFI and its subsidiaries numbering 459 and 516, 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.

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

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

Significant accounting policies are summarized as follows:

**Principles of Consolidation**

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

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

The consolidated entities were listed as below:

| <b>Name of Investee</b>           | <b>Percentage of<br/>Ownership at<br/>December 31, 2009</b> | <b>Business Functions</b>         |
|-----------------------------------|---|-----------------------------------|
| 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% <sup>1</sup> | Sale of embedded PC |
| DFI, Co., Ltd.           | 100%              | Sale 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.

The financial statements of the above subsidiaries are all audited by certified public accounts. If the functional currencies of the consolidated entities are not NT dollar, the translation is based on year-end exchange rates for assets and liabilities, historical rates for capital stocks, and yearly average rates for income statement accounts.

### **Classification of Current and Non-current Assets and Liabilities**

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

### **Financial Assets/Liabilities at Fair Value Through Profit or Loss**

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

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

### **Available-for-Sale Financial Assets**

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

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

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





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

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

### **Revenue Recognition, Accounts Receivable and Allowance for Doubtful Receivables**

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

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

### **Inventories**

Inventories including material, finished goods, work in progress and subcontracted goods. Inventories in DFI, DFI Co., Ltd. and Diamond Flower Service (NL) B.V. are stated at lower of costs or market (LCM) before January 1, 2009. Implementation of LCM includes comparison of 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 subcontracted goods. Starting January 1, 2009, the new rules of ROC GAAP no. 10 require inventories to be stated at lower of costs or net realizable values. Except inventories within same category, they are compared by individual items. Net realizable values mean estimated selling prices minus further input costs till completion and selling expenses. Inventory costs are calculated at weighted-average method.

The inventories are stated at standard costs and adjusted to costs close to that calculated by weighted-average method.

### **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. 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.

## **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.

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 in parent company 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 remaining is debited to retained earnings.

## **Income Taxes**

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

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

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

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

## **Foreign Currency Transactions**

Non-derivative financial commodity is recorded at the spot rates of transaction dates. Gain or loss from foreign currency assets and liabilities paid or received in NT dollars is recorded as exchange gain or loss in the paid or received periods. Year-end balances of foreign currency assets or liabilities are re-valuated at year-end spot rates. Gains or losses are treated as follow: If foreign currency long-term equity investments are 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, 2009, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 10, "Accounting for inventories". The major amendments to SFAS no. 10 include: 1. Inventories are stated at lower of costs and net realizable values, and the comparison is made by individual item except that in same group; 2. Unallocated fixed manufacturing overhead is recognized as current cost of goods sold; 3. Abnormal manufacturing costs and inventory devaluation losses (or gain from reversal) are classified as cost of goods sold.

Such changes in accounting principle decreased 2009 consolidated net income by NT\$14,647 thousands and decreased 2009 EPS by NT\$0.12. The consolidated entity reclassified 2008 non-operating income NT\$10 thousands and non-operating expenses NT\$65,948 thousands to cost of goods sold.

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, and remuneration paid to directors and supervisors as expenses rather than appropriation of earnings. The adoption of this interpretation resulted in a decrease in net income of NT\$52,271 thousand and earnings per share of NT\$0.44, respectively, for the year ended December 31, 2008.

### 4: CASH AND CASH EQUIVALENTS

|   | 2009              | NT\$000<br>2008   |
|---|-------------------|-------------------|
| Petty Cash and Cash on Hand   | \$ 466            | \$ 306            |
| Checking and Demand Deposit Accounts                                      | 442,461           | 375,408           |
| Time Deposits, interest rates 0.14~1.13% in 2009, and 1.47~3.65% in 2008. | 454,434           | 536,590           |
|   | <u>\$ 897,361</u> | <u>\$ 912,304</u> |

As of December 31, 2009 and 2008, the time deposits with maturity longer than one year amount to NT\$701 thousand and \$0, respectively.

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

|   | 2009               | NT\$000<br>2008   |
|---|--------------------|-------------------|
| Trading financial assets  |                    |                   |
| Money market & open-end mutual funds                                  | \$ 1,089,360       | \$ 935,292        |
| Publicly-traded stocks  | -                  | 17,813            |
| Forward exchange contracts  | 239                | 721               |
|   | <u>1,089,599</u>   | <u>953,826</u>    |
| Financial assets assigned to include fair value variation in earnings |                    |                   |
| Credit-linked derivative  | -                  | 50,000            |
|   | <u>1,089,599</u>   | <u>1,003,826</u>  |
| Less: Valuation adjustments   | 3,449              | (3,847)           |
| Subtotal  | <u>1,093,048</u>   | <u>999,979</u>    |
| Classified as non-current   | -                  | (49,529)          |
|   | <u>\$ 1,93,048</u> | <u>\$ 950,450</u> |



The Company entered into forward contracts during the years ended December 31, 2009 and 2008 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, 2009 and 2008 consist of the following:

|                   | Currency  | Maturity Date         | Contract Amount (in Thousands) |
|-------------------|-----------|-----------------------|--------------------------------|
| December 31, 2009 |           |                       |                                |
| Sell              | US\$/NT\$ | 2010.01.11~2010.01.27 | USD1,000/NT\$32,101            |
| December 31, 2008 |           |                       |                                |
| Sell              | US\$/NT\$ | 2009.01.09~2009.01.20 | USD2,000/NT\$65,740            |

Net gains or losses arising from derivative financial instrument assets for the year ended December 31, 2009 and 2008 were NT\$11,157 thousands and NT\$(30,344) thousands, respectively.

The financial assets assigned to include fair value variation in earnings is credit-linked instrument (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 is June 20, 2010 but was early redeemed at October 29, 2009.

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

## 6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

|                                   | 2009      |             | 2008      |             |
|-----------------------------------|-----------|-------------|-----------|-------------|
|                                   | Current   | Non-current | Current   | Non-current |
| Corporate Bonds                   | \$ 86,500 | \$ 27,728   | \$ 93,538 | \$ 28,242   |
| Preferred stocks                  | 60,000    | -           | 60,000    | -           |
| Public-traded stocks              | 1         | -           | 1         | -           |
|                                   | 146,501   | 27,728      | 153,539   | 28,242      |
| Less: unrealized loss             | (14,509)  | (968)       | (41,894)  | (4,142)     |
| Less: accumulated impairment loss | (34,144)  | -           | (34,144)  | -           |
|                                   | \$ 97,848 | \$ 26,760   | \$ 77,501 | \$ 24,100   |

- The parent company acquired overseas corporate bonds with coupon rates 0.4925~8.25% for 2009 and 2.3687~8.25% for 2008. Impairment losses of NT\$34,144 thousand were recognized for some perpetual bonds in 2008.
- 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.
- The parent company holds 100 shares of United Commercial Bank at the end of 2009 and 2008, respectively.

## 7. INVENTORIES, NET

|                | 2009      | 2008      |
|----------------|-----------|-----------|
|                | Materials | \$ 99,150 |
| Finished Goods | 126,938   | 251,683   |



|                      |                   |                   |
|----------------------|-------------------|-------------------|
| Subcontracted goods  | 49,021            | 69,819            |
| Work in Progress     | 19,116            | 18,681            |
| Inventory in transit | 29,530            | 29,655            |
|                      | <u>\$ 323,755</u> | <u>\$ 494,830</u> |

The allowance for devaluation of inventories amounts to NT\$54,934 thousands and NT\$107,484 thousands, respectively, as of December 31, 2009 and 2008.

Cost of goods sold related to inventories amount to NT\$1,365,070 thousands and NT\$2,466,262 thousands for 2009 and 2008. 2009 cost of goods sold includes inventory obsolescence loss of NT\$11,875 thousands, gain from reversal of net realizable value NT\$52,458 thousands and inventory count gain of NT\$3 thousands. 2008 cost of goods sold includes inventory obsolescence loss of NT\$6,801 thousands, inventory devaluation loss of NT\$59,147 thousands and inventory count gain of NT\$10 thousands.

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

|                  | 2009              | NT\$000<br>2008   |
|------------------|-------------------|-------------------|
| Preferred stocks | <u>\$ 200,000</u> | <u>\$ 200,000</u> |

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

|                               | 2009             | NT\$000<br>2008  |
|-------------------------------|------------------|------------------|
| Asia tech Taiwan venture fund | <u>\$ 20,644</u> | <u>\$ 25,446</u> |

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\$4,802 thousands and NT\$4,732 thousand were refunded in February 2009 and July 2008, respectively.

#### 10. PROPERTY, PLANT AND EQUIPMENT- Accumulated Depreciation

Accumulated depreciation consisted of the following:

|                  | 2009              | NT\$000<br>2008   |
|------------------|-------------------|-------------------|
| Building         | <u>\$ 62,873</u>  | <u>\$ 60,444</u>  |
| Machinery        | 408,106           | 397,564           |
| Office Equipment | 16,847            | 18,840            |
| Other Equipment  | <u>32,722</u>     | <u>30,041</u>     |
|                  | <u>\$ 520,548</u> | <u>\$ 506,889</u> |

The depreciation expenses amount to NT\$21,158 thousands and NT\$24,173 thousands, respectively, in 2009 and 2008.

#### 11. 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 2009 amount to NT\$31,892 thousands and NT\$2,296 thousands, respectively. They were calculated as 11.11% and 0.8%, respectively, of net income- after deducting 10% legal reserve. In 2008, they amount to NT\$64,831 thousands and NT\$4,864 thousands, respectively and they were calculated as 13.33% and 1%, respectively, of net income- after deducting 10% legal reserve.

If later BOD proposes major different amounts from that accrued, the differences will be booked as current expenses. If the actual amounts subsequently resolved by the shareholders differ from the proposed amounts by the Board of Directors, the differences are recorded in the year of shareholders' resolution as a change of 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 of 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 reserve equivalent to the net debit balance of the other components of shareholders' equity (for example, cumulative translation adjustments and unrealized loss on financial instruments, but excluding treasury stock) shall be made from unappropriated earnings pursuant to existing regulations promulgated by the Securities and Futures Bureau (SFB). Any special reserve appropriated may be reversed to the extent of net debit balance.

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

The appropriations of earnings for 2008 and 2007 had been approved in the shareholders' meetings held on June 10, 2009 and June 11, 2008, respectively, as follows:

| Proposal                                  | Amount    |           | Dividend per share |       |
|---|-----------|-----------|--------------------|-------|
|   | 2008      | 2007      | 2008               | 2007  |
| Legal reserve                             | \$ 54,040 | \$ 63,344 |                    |       |
| Cash dividend                             | 437,392   | 486,910   | \$3.7              | \$4.3 |
| Stock dividend                            | 11,822    | 11,320    | \$0.1              | \$0.1 |
| Remuneration to directors and supervisors | 4,864     | 5,700     |                    |       |
| Employees' profit sharing - in stock      | -         | 38,480    |                    |       |
| Employees' profit sharing - in cash       | -         | 12,830    |                    |       |

Note: 2008 directors' remuneration of NT\$4,864 thousands and employee bonus of NT\$64,831 thousands have been deducted from income statement.



The employee bonus and directors' remuneration resolved by 2009 shareholders' meeting are the same as recognized in 2008 financial statements.

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

## 12. TREASURY STOCK

| Reason to Purchase                |                                 |          |          | Thousand shares        |  |
|-----------------------------------|---------------------------------|----------|----------|------------------------|--|
|                                   | Shares,<br>Beginning<br>of Year | Addition | Decrease | Shares, End<br>of Year |  |
| 2009                              |                                 |          |          |                        |  |
| Intended to transfer to employees | 819                             | -        | -        | 819                    |  |
| 2008                              |                                 |          |          |                        |  |
| Intended to transfer to employees | 746                             | 73       | -        | 819                    |  |

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

The highest treasury shares held by Parent company are 819,000 and highest costs of NT\$62,071 thousands both in 2009 and 2008, which conform to the regulations.

## 13. INCOME TAXES

1) Income tax expense consisted of:

|  | NT\$ 000         |                  |
|--|------------------|------------------|
|  | 2009             | 2008             |
| Income tax payable                                       | \$ 58,107        | \$ 173,570       |
| Deferred income tax                                      | 9,036            | (12,361)         |
| Overseas income tax                                      | (2,275)          | 22,349           |
| Prior period adjustments                                 | (6,438)          | (3,326)          |
| Prior year's additional taxes finalized by tax authority | -                | 5,223            |
| 10% tax on unappropriated earnings                       | 3,597            | 1,029            |
| Isolate taxation   | 54               | 61               |
|  | <u>\$ 70,904</u> | <u>\$185,516</u> |

The corporate income rate has been reduced to 20% from 25% starting 2010 pursuant to amendment of clause no. 5 of income tax law in May 2009. The deferred income taxes have been re-calculated and the differences were booked as current income tax expenses.

2) Deferred income taxes consisted of the following:

|                                     | 2009          | 2008          |
|-------------------------------------|---------------|---------------|
| Deferred tax assets - current       |               |               |
| Allowance for losses on inventories | \$ 9,815      | \$ 25,036     |
| Unrealized gross profit             | 3,803         | 13,555        |
| Bad debt reserve over limit         | 2,071         | 4,695         |
| Impairment loss on financial assets | 6,829         | 8,536         |
| Unrealized exchange loss            | 414           | -             |
| Others                              | 1,716         | 354           |
|                                     | <u>24,648</u> | <u>52,176</u> |
| Deferred liabilities - current      |               |               |





|                                |                  |                  |
|--------------------------------|------------------|------------------|
| Unrealized exchange gain       | -                | (1,481)          |
| Others                         | (293)            | (514)            |
|                                | <u>(293)</u>     | <u>(1,995)</u>   |
| Net deferred income tax assets | <u>\$ 24,355</u> | <u>\$ 50,181</u> |

Deferred tax assets-Non-current:

|   |               |               |
|---|---------------|---------------|
| Pension differences between financial accounting and tax accounting | 10,142        | 12,079        |
| Investment loss under equity method                                 | 1,308         | 493           |
|   | <u>11,450</u> | <u>12,572</u> |

Deferred tax liabilities-Non-current:

|  |                 |                   |
|--|-----------------|-------------------|
| Depreciation differences between financial accounting and tax accounting | (1,003)         | (1,349)           |
| Investment income under equity method                                    | (7,840)         | (16,583)          |
|  | <u>(8,843)</u>  | <u>(17,932)</u>   |
| Net deferred income tax assets   | <u>\$ 2,607</u> | <u>(\$ 5,360)</u> |

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

|  | <u>2009</u>      | <u>2008</u>      |
|--|------------------|------------------|
| Year-end balances of imputation credit account (ICA) | <u>\$ 68,518</u> | <u>\$ 97,288</u> |

The imputation creditable ratio for distribution for 2009 and 2008 are 18.76% and 32.36%, respectively.

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

The unappropriated retained earnings as of December 31, 2009 and 2008 consist of NT\$ 216,481 thousands arising from years 1997 and before.

The tax authorities have examined income tax returns of DFI through 2007.

**14. PERSONNEL EXPENSES, DEPRECIATION AND AMORTIZATION**  
NT\$ 000

|              | <u>2009</u>           |                           |                   |
|--------------|-----------------------|---------------------------|-------------------|
|              | <u>Costs of Sales</u> | <u>Operating Expenses</u> | <u>Total</u>      |
| Personnel-   |                       |                           |                   |
| Payroll      | \$ 82,576             | \$ 232,896                | \$ 315,472        |
| Insurance    | 6,654                 | 18,666                    | 25,320            |
| Pension      | 4,314                 | 7,071                     | 11,385            |
| Others       | 2,791                 | 5,429                     | 8,220             |
| Subtotal     | <u>\$ 96,335</u>      | <u>\$ 264,062</u>         | <u>\$ 360,397</u> |
| Depreciation | <u>\$ 12,891</u>      | <u>\$ 8,267</u>           | <u>\$ 21,158</u>  |
| Amortization | <u>\$ 2,436</u>       | <u>\$ 6,891</u>           | <u>\$ 9,327</u>   |
|              |                       |                           |                   |
|              | <u>2008</u>           |                           |                   |
|              | <u>Costs of Sales</u> | <u>Operating Expenses</u> | <u>Total</u>      |
| 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>   |

## 15. EARNINGS PER SHARE

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

|   | Earnings (Numerator) |                   | Thousand<br>Shares<br>(Denominator) | EPS (NT\$)     |                |
|---|----------------------|-------------------|-------------------------------------|----------------|----------------|
|   | Before Tax           | After Tax         |                                     | Before<br>Tax  | After<br>Tax   |
| 2009 Basic EPS  |                      |                   |                                     |                |                |
| Net Income belong to Parent<br>company shareholders   | \$ 386,399           | \$ 318,953        | 119,909                             | \$ 3.22        | \$ 2.66        |
| Effect of dilutive potential<br>common shares- Employee<br>Bonus  | -                    | -                 | 740                                 |                |                |
| Diluted EPS   |                      |                   |                                     |                |                |
| Earnings attributable to<br>shareholders of the parent<br>(including effect of dilutive<br>potential common shares) | <u>\$ 386,399</u>    | <u>\$ 318,953</u> | 120,649                             | <u>\$ 3.20</u> | <u>\$ 2.64</u> |
| 2008 Basic EPS  |                      |                   |                                     |                |                |
| Net Income belong to Parent<br>company shareholders   | \$ 714,479           | \$ 540,395        | 119,396                             | \$ 5.98        | \$ 4.53        |
| Effect of dilutive potential<br>common shares- Employee<br>Bonus  | -                    | -                 | 1,562                               |                |                |
| Diluted EPS   |                      |                   |                                     |                |                |
| Earnings attributable to<br>shareholders of the parent<br>(including effect of dilutive<br>potential common shares) | <u>\$ 714,479</u>    | <u>\$ 540,395</u> | 120,958                             | <u>\$ 5.91</u> | <u>\$ 4.47</u> |

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

The calculation of EPS has included consideration of retroactive effects on gratuitous shares rendering. 2008 basic EPS before tax and after tax therefore adjusted to \$5.98 and \$4.53 from \$6.04 and \$4.57 after retroactive adjustment. And 2008 diluted EPS before tax and after tax therefore adjusted to \$5.91 and \$4.47 from \$5.97 and \$4.51 after retroactive adjustment.



## 16. PENSION PLAN

The pension mechanism under the Labor Pension Act is deemed a defined contribution plan. Pursuant to the Act, the parent company has made monthly contributions equal to 6% of each employee's monthly salary to employees' pension accounts since April 1, 2005. Pursuant to the aforementioned Act and local regulations, the parent company recognized pension costs of NT\$7,692 thousand and NT\$7,890 thousands for the years ended December 31, 2009 and 2008, 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        |                 |
|-----------------------------------|-----------------|-----------------|
|                                   | 2009            | 2008            |
| Service cost                      | \$ 2,443        | \$ 2,989        |
| Interest cost                     | 2,372           | 2,984           |
| Expected return on pension assets | (1,161)         | (1,393)         |
| Amortization                      | 39              | 39              |
| Net pension cost                  | <u>\$ 3,693</u> | <u>\$ 4,619</u> |

### 2) Funded pension and pension payable:

#### Benefit obligation:

|  |                  |                  |
|--|------------------|------------------|
| Vested benefit obligation                                | \$ 11,466        | \$ 10,850        |
| Non-vested benefit obligation                            | 65,909           | 66,548           |
| Accumulated benefit obligation                           | <u>77,375</u>    | <u>77,397</u>    |
| Additional benefits based on future salaries discrepancy | 16,746           | 17,470           |
| Projected benefit obligation                             | 94,121           | 94,868           |
| Fair value of plan assets                                | <u>(41,777)</u>  | <u>(45,709)</u>  |
| Funded status  | 52,344           | 49,159           |
| Unrecognized net Obligation at transition                | (85)             | (124)            |
| Un-amortized balance                                     | 2,720            | 3,624            |
| Accrued pension liability                                | <u>\$ 54,979</u> | <u>\$ 52,659</u> |

|                    |                  |                  |
|--------------------|------------------|------------------|
| 3) Vested benefits | <u>\$ 14,702</u> | <u>\$ 14,193</u> |
|--------------------|------------------|------------------|

### 4) Actuarial assumptions

|   |       |       |
|---|-------|-------|
| Discount rate used to calculate present value | 2.00% | 2.50% |
| Future salary increase rate                   | 1.75% | 1.75% |
| Expected rate of return on fund assets        | 2.00% | 2.50% |

### 5) Changes in pension funds

|               |                 |                 |
|---------------|-----------------|-----------------|
| Contributions | \$ 1,373        | \$ 2,689        |
| Payments      | <u>\$ 5,581</u> | <u>\$ 4,200</u> |

## 17. RELATED PARTY TRANSACTIONS



1.Names and Relationship between Related Parties

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

2. Major Transactions with related parties

|                                   | 2008             |            | 2007             |            |
|-----------------------------------|------------------|------------|------------------|------------|
|                                   | Amount           | %          | Amount           | %          |
| NT\$000                           |                  |            |                  |            |
| <u>Net Sales</u>                  |                  |            |                  |            |
| DFI-TECH                          | \$ 163,383       | 7          | \$ 362,667       | 10         |
| <u>Purchase</u>                   |                  |            |                  |            |
| DFI-TECH                          | \$ 346           | -          | -                | -          |
| <u>Manufacturing Expenses</u>     |                  |            |                  |            |
| DFI-TECH                          | \$ 20            | -          | \$ -             | -          |
| <u>Operating Expenses</u>         |                  |            |                  |            |
| DFI-TECH                          | \$ 719           | -          | \$ 472           |            |
| <u>Non-operating Income</u>       |                  |            |                  |            |
| DFI-TECH                          | \$ 773           | -          | 296              | -          |
| <u>Non-operating Expenses</u>     |                  |            |                  |            |
| DFI-Tech                          | \$ -             | -          | \$ 144           | -          |
| <u>Receivable from Affiliates</u> |                  |            |                  |            |
| Trade Debtor                      |                  |            |                  |            |
| DFI-TECH                          | \$ 10,749        | 98         | \$ 33,431        | 99         |
| Other Receivable                  |                  |            |                  |            |
| DFI-TECH                          | 171              | 2          | 177              | 1          |
|                                   | <u>\$ 10,920</u> | <u>100</u> | <u>\$ 33,608</u> | <u>100</u> |
| <u>Payable to Affiliates</u>      |                  |            |                  |            |
| Trade Creditor                    |                  |            |                  |            |
| DFI-TECH                          | \$ 174           | 100        | \$ 15            | 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>2009</u>      | <u>2008</u>      |
|----------------|------------------|------------------|
| Salary         | \$ 11,862        | \$ 14,127        |
| Year-end bonus | 2,105            | 1,731            |
| Employee bonus | 8,130            | 23,924           |
|                | <u>\$ 22,097</u> | <u>\$ 39,782</u> |

**18. 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>2009</u> | <u>2008</u> |
|---------------|-------------|-------------|
| Time deposits | \$ 10,000   | \$ 10,000   |



## 19. DISCLOSURES FOR FINANCIAL INSTRUMENTS

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

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

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

- c) Financial asset carried at cost is a private venture fund with no active market price. The fair value may need cost exceed reasonable expectation, so the fair value was not acquired.
    - d) Future collectible value of pledged time deposits is close to book value, we used carrying amount as the fair value then.
    - e) Warranty deposits were estimated to have future cash flows close to carrying amounts, so the book values are determined to be fair values.
- 2) Gains or losses recognized due to the changes in fair value of derivatives estimated using valuation techniques were NT\$(482) thousands and NT\$878 thousands for the years 2009 and 2008, respectively.
- 3) As of December 31, 2009 and 2008, the parent company's financial assets exposed to fair value risk arising from interest rate changes were NT\$66,407 thousands and NT\$53,500 thousands, respectively.
- 4) In 2009 and 2008, 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\$13,468 thousand and NT\$30,538 thousands, and bear interest expenses of NT\$272 thousands and NT\$356 thousands, respectively. The parent company and its subsidiaries recognized unrealized losses for available-for-sale financial assets amounting to NT\$30,559 thousands and NT\$(40,484) thousands, respectively, for 2009 and 2008, under shareholder's equity. The amounts removed from shareholders' equity to profit-and-loss accounts are NT\$(966) thousands and NT\$(1,798) thousands, respectively, for 2009 and 2008.

### 5) Information about financial risk

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



liabilities. Therefore, the market risk of derivatives will be offset by the foreign exchange risk of these assets and liabilities.

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

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

The forward contracts engaged by the parent company and its subsidiaries are expected to incur cash outflow of USD1 million and cash inflow of NT\$32,340 thousands. Since the contract strike rates were fixed, there expected to be no major cash flow risks.

## 20. 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>2009</u>  | <u>2008</u>  |
|----------------------------|--------------|--------------|
| Asia, Australia and Africa | \$ 1,063,154 | \$ 2,129,007 |
| Europe                     | 489,541      | 747,413      |
| America                    | 486,188      | 784,127      |

- 4) Major Customers

| Customer  | <u>2009</u> |    | <u>2008</u> |    |
|-----------|-------------|----|-------------|----|
|           | Sales       | %  | Sales       | %  |
| A company | \$ 218,181  | 13 | \$ 711,253  | 19 |
| B company | 281,948     | 10 | 649,342     | 17 |
| DFI-TECH  | 163,358     | 8  | 362,667     | 10 |