

**WIN Semiconductors Corp.**  
**Financial Statements**  
**December 31, 2011 and 2012**  
**(With Independent Auditors' Report Thereon)**

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## **Independent Auditors' Report**

The Board of Directors  
WIN Semiconductors Corp.

We have audited the accompanying balance sheets of WIN Semiconductors Corp. (the "Company") as of December 31, 2011 and 2012, and the related statements of operations, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the "Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants" and auditing standards generally accepted in the Republic of China. Those regulations 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 statements presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of WIN Semiconductors Corp. as of December 31, 2011 and 2012, and the results of their operations and their cash flows for the years then ended, in conformity with the "Guidelines Governing the Preparation of Financial Reports by Securities Issuers" and accounting principles generally accepted in the Republic of China.

We have audited the consolidated financial statements as of and for the years ended December 31, 2011 and 2012 on which we have expressed an unqualified opinion.

Taipei, Taiwan (the Republic of China)  
March 22, 2013

### **Note to Readers**

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

WIN Semiconductors Corp.

Balance Sheets

December 31, 2011 and 2012

(Expressed in Thousands of New Taiwan Dollars)

|  | 2011                        | 2012                     |  | 2011                        | 2012                     |
|--|-----------------------------|--------------------------|--|-----------------------------|--------------------------|
| <b>Assets</b>  |                             |                          | <b>Liabilities and Stockholders' Equity</b>                            |                             |                          |
| <b>Current assets:</b>   |                             |                          | <b>Current liabilities:</b>  |                             |                          |
| Cash and cash equivalents (note 4(a))                              | \$ 761,868                  | 2,845,717                | Financial liabilities at fair value through profit or loss (note 4(b)) | \$ -                        | 417                      |
| Financial assets at fair value through profit or loss (note 4(b))  | 1,599,992                   | 1,501,172                | Accounts payable   | 1,090,011                   | 1,121,867                |
| Available-for-sale financial assets – current (note 4(b))          | -                           | 512,068                  | Accrued expenses   | 720,428                     | 662,949                  |
| Notes and accounts receivable, net (note 4(c))                     | 237,887                     | 466,496                  | Payable on equipment (note 5)  | 210,620                     | 96,885                   |
| Account receivable – related parties (note 5)                      | 280,103                     | 536,618                  | Current portion of long-term borrowings (notes 4(j) and 6)             | 1,007,672                   | 1,650,185                |
| Other financial assets – current (note 4(d))                       | 129,844                     | 209,446                  | Other current liabilities  | <u>31,163</u>               | <u>49,142</u>            |
| Inventories (note 4(e))  | 1,893,835                   | 2,101,205                | <b>Total current liabilities</b>                                       | <u>3,059,894</u>            | <u>3,581,445</u>         |
| Other current assets   | 125,981                     | 144,359                  | <b>Long-term liabilities:</b>  |                             |                          |
| Deferred income tax assets – current (note 4(l))                   | <u>360,481</u>              | <u>298,495</u>           | Long-term borrowings (notes 4(j) and 6)                                | <u>5,483,622</u>            | <u>5,558,677</u>         |
| <b>Total current assets</b>  | <u>5,389,991</u>            | <u>8,615,576</u>         | <b>Other liabilities:</b>  |                             |                          |
| <b>Funds and investments:</b>                                      |                             |                          | Accrued pension liabilities (note 4(k))                                | <u>4,246</u>                | <u>20,907</u>            |
| Available-for-sale financial assets – noncurrent (note 4(b))       | 160,021                     | 70,589                   | <b>Total liabilities</b>   | <u>8,547,762</u>            | <u>9,161,029</u>         |
| Financial assets carried at cost – noncurrent (note 4(b))          | 500,523                     | 366,674                  | <b>Stockholders' equity (notes 4(b), 4(f), 4(l) and 4(m)):</b>         |                             |                          |
| Long-term investments under equity method (note 4(f))              | 680,715                     | 642,515                  | Common stock   | <u>6,485,930</u>            | <u>7,541,877</u>         |
| Investment in bonds with no active market – noncurrent (note 4(b)) | <u>344,783</u>              | <u>534,783</u>           | Capital surplus:   |                             |                          |
| <b>Total funds and investments</b>                                 | <u>1,686,042</u>            | <u>1,614,561</u>         | Capital surplus – additional paid-in capital                           | 1,529,719                   | 3,662,436                |
| <b>Property, plant and equipment (notes 4(g), 5, 6 and 7):</b>     |                             |                          | Capital surplus – long-term equity investments                         | 28,469                      | -                        |
| Cost:  |                             |                          | Capital surplus – employee stock options                               | <u>148,934</u>              | <u>100,609</u>           |
| Land   | 802,337                     | 1,765,464                | <b>Total capital surplus</b>   | <u>1,707,122</u>            | <u>3,763,045</u>         |
| Buildings  | 721,851                     | 722,426                  | Retained earnings:   |                             |                          |
| Machinery and equipment  | 9,149,329                   | 10,381,768               | Legal reserve  | 130,842                     | 258,703                  |
| Factory and equipment  | 1,887,456                   | 2,753,996                | Special reserve  | -                           | 221,662                  |
| Office equipment   | 108,858                     | 113,101                  | Retained earnings  | <u>1,942,901</u>            | <u>2,673,744</u>         |
| Other equipment  | <u>156,446</u>              | <u>231,158</u>           | <b>Total retained earnings</b>   | <u>2,073,743</u>            | <u>3,154,109</u>         |
|  | 12,826,277                  | 15,967,913               | Other stockholders' equity adjustments:                                |                             |                          |
| Less: accumulated depreciation                                     | <u>(3,232,169)</u>          | <u>(4,486,888)</u>       | Cumulative translation adjustments                                     | 3,064                       | 1,642                    |
|  | 9,594,108                   | 11,481,025               | Unrealized gain (loss) on financial instruments                        | <u>(224,726)</u>            | <u>(35,656)</u>          |
| Construction in progress   | 712,006                     | 285,048                  | <b>Total other stockholders' equity adjustments</b>                    | <u>(221,662)</u>            | <u>(34,014)</u>          |
| Prepayment for purchases of land and buildings                     | -                           | 702,128                  | <b>Total stockholders' equity</b>                                      | 10,045,133                  | 14,425,017               |
| Prepayment for purchases of equipment                              | <u>960,423</u>              | <u>760,139</u>           | <b>Commitments and contingencies (note 7)</b>                          |                             |                          |
| <b>Net property, plant and equipment</b>                           | <u>11,266,537</u>           | <u>13,228,340</u>        |  |                             |                          |
| <b>Intangible assets (note 4(h))</b>                               | <u>117,652</u>              | <u>82,708</u>            |  |                             |                          |
| <b>Other assets:</b>   |                             |                          |  |                             |                          |
| Refundable deposits  | 19,658                      | 19,444                   |  |                             |                          |
| Restricted assets – noncurrent (note 6)                            | 23,284                      | 23,423                   |  |                             |                          |
| Deferred income tax assets – noncurrent (note 4(l))                | <u>89,731</u>               | <u>1,994</u>             |  |                             |                          |
| <b>Total other assets</b>  | <u>132,673</u>              | <u>44,861</u>            |  |                             |                          |
| <b>Total Assets</b>  | <b>\$ <u>18,592,895</u></b> | <b><u>23,586,046</u></b> | <b>Total Liabilities and Stockholders' Equity</b>                      | <b>\$ <u>18,592,895</u></b> | <b><u>23,586,046</u></b> |

See accompanying notes to financial statements.

**WIN Semiconductors Corp.**

**Statements of Operations**

**For the years ended December 31, 2011 and 2012**

**(Expressed in Thousands of New Taiwan Dollars, Except for Earnings Per Common Share)**

|  | 2011                  | 2012                  |                       |                       |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
| <b>Operating revenue</b>   | \$ 8,754,834          | 11,104,260            |                       |                       |
| Less: sales returns  | (9,180)               | (11,983)              |                       |                       |
| sales discounts and allowances   | <u>(16,840)</u>       | <u>(26,033)</u>       |                       |                       |
| <b>Net revenue (note 5)</b>  | 8,728,814             | 11,066,244            |                       |                       |
| <b>Cost of goods sold (notes 4(e), 4(h), 4(k), 4(m), 5 and 10)</b>       | <u>(6,096,943)</u>    | <u>(7,597,780)</u>    |                       |                       |
| <b>Gross profit</b>  | <u>2,631,871</u>      | <u>3,468,464</u>      |                       |                       |
| <br><b>Operating expenses (notes 4(h), 4(k), 4(m), 5 and 10)</b>         |                       |                       |                       |                       |
| Marketing expenses   | (86,521)              | (78,579)              |                       |                       |
| General and administrative expenses                                      | (425,930)             | (456,792)             |                       |                       |
| Research and development expenses  | <u>(450,279)</u>      | <u>(530,489)</u>      |                       |                       |
| <b>Operating income</b>  | <u>(962,730)</u>      | <u>(1,065,860)</u>    |                       |                       |
|  | <u>1,669,141</u>      | <u>2,402,604</u>      |                       |                       |
| <br><b>Non-operating income and gains:</b>                               |                       |                       |                       |                       |
| Interest income  | 800                   | 4,570                 |                       |                       |
| Dividend income  | 78,487                | 16,670                |                       |                       |
| Gain on disposal of investments, net (note 4(b) and 4(f))                | 183                   | 22,461                |                       |                       |
| Gain on disposal of property, plant and equipment                        | -                     | 210                   |                       |                       |
| Other income (notes 4(b) and 5)  | <u>150,810</u>        | <u>20,903</u>         |                       |                       |
|  | <u>230,280</u>        | <u>64,814</u>         |                       |                       |
| <br><b>Non-operating expenses and losses:</b>                            |                       |                       |                       |                       |
| Interest expense (note 4(g))   | (58,346)              | (102,946)             |                       |                       |
| Investment loss recognized under equity method (note 4(f))               | (15,894)              | (76,519)              |                       |                       |
| Loss on disposal of property, plant and equipment                        | (14,688)              | -                     |                       |                       |
| Exchange loss, net   | (19,068)              | (42,167)              |                       |                       |
| Loss on valuation of financial assets, net (note 4(b))                   | (621,718)             | (161,920)             |                       |                       |
| Impairment loss (note 4(b) and 4(f))                                     | <u>-</u>              | <u>(155,550)</u>      |                       |                       |
|  | <u>(729,714)</u>      | <u>(539,102)</u>      |                       |                       |
| <br><b>Income before income tax</b>                                      | 1,169,707             | 1,928,316             |                       |                       |
| <br><b>Income tax benefit (expense) (note 4(l))</b>                      | <u>108,903</u>        | <u>(280,787)</u>      |                       |                       |
| <br><b>Net income</b>  | <u>\$ 1,278,610</u>   | <u>1,647,529</u>      |                       |                       |
|  | <br><u>Before</u>     | <br><u>After</u>      | <br><u>Before</u>     | <br><u>After</u>      |
|  | <br><u>income tax</u> | <br><u>income tax</u> | <br><u>income tax</u> | <br><u>income tax</u> |
| <br><b>Earnings per common share (expressed in dollars) (note 4(n)):</b> |                       |                       |                       |                       |
| Basic earnings per share   | \$ <u>1.87</u>        | <u>2.04</u>           | <u>2.87</u>           | <u>2.45</u>           |
| Diluted earnings per share   | \$ <u>1.82</u>        | <u>1.99</u>           | <u>2.82</u>           | <u>2.41</u>           |

See accompanying notes to financial statements.

**WIN Semiconductors Corp.**

**Statements of Changes in Stockholders' Equity**

**For the years ended December 31, 2011 and 2012**  
(Expressed in Thousands of New Taiwan Dollars)

|   | Common<br>Stock     | Capital<br>Surplus | Legal<br>Reserve | Special<br>Reserve | Retained Earnings | Cumulative<br>Translation<br>Adjustments | Unrealized<br>Gain (Loss) on<br>Financial<br>Instruments | Total             |
|---|---------------------|--------------------|------------------|--------------------|-------------------|--|--|-------------------|
| <b>Balance on January 1, 2011</b>   | \$ 6,175,675        | 1,358,492          | -                | -                  | 1,308,424         | 2,043                                    | 29,303   | 8,873,937         |
| Appropriation of 2010 earnings approved by stockholders during their meeting in 2011 (note 1)   |                     |                    |                  |                    |                   |  |  |                   |
| Legal reserve   | -                   | -                  | 130,842          | -                  | (130,842)         | -  | -  | -                 |
| Cash dividend   | -                   | -                  | -                | -                  | (513,291)         | -  | -  | (513,291)         |
| Issuance of common stock  | 116,800             | 186,880            | -                | -                  | -                 | -  | -  | 303,680           |
| Exercise of employee stock options (note 4)   | 193,455             | 62,997             | -                | -                  | -                 | -  | -  | 256,452           |
| Compensation cost arising from employee stock options (note 3)  | -                   | 91,671             | -                | -                  | -                 | -  | -  | 91,671            |
| Equity adjustment in unrealized gain or loss on financial instrument of investee accounted for long-term investments under equity method            | -                   | -                  | -                | -                  | -                 | -  | 2,173  | 2,173             |
| Increase in net equity due to the recognition of compensation cost arising from employee stock options in long-term investments under equity method | -                   | 7,058              | -                | -                  | -                 | -  | -  | 7,058             |
| Increase in capital surplus resulting from long-term investments under equity method  | -                   | 24                 | -                | -                  | -                 | -  | -  | 24                |
| Change in unrealized gain or loss on financial instruments  | -                   | -                  | -                | -                  | -                 | -  | (256,202)  | (256,202)         |
| Translation adjustments   | -                   | -                  | -                | -                  | -                 | 1,021                                    | -  | 1,021             |
| Net income for the year ended December 31, 2011   | -                   | -                  | -                | -                  | <u>1,278,610</u>  | -  | -  | <u>1,278,610</u>  |
| <b>Balance on December 31, 2011</b>   | 6,485,930           | 1,707,122          | 130,842          | -                  | 1,942,901         | 3,064                                    | (224,726)  | 10,045,133        |
| Appropriation of 2011 earnings approved by stockholders during their meeting in 2012 (note 2)   |                     |                    |                  |                    |                   |  |  |                   |
| Legal reserve   | -                   | -                  | 127,861          | -                  | (127,861)         | -  | -  | -                 |
| Special reserve   | -                   | -                  | -                | 221,662            | (221,662)         | -  | -  | -                 |
| Cash dividend   | -                   | -                  | -                | -                  | (518,874)         | -  | -  | (518,874)         |
| Issuance of common stock  | 1,000,000           | 2,017,939          | -                | -                  | -                 | -  | -  | 3,017,939         |
| Exercise of employee stock options (note 5)   | 55,947              | 114,778            | -                | -                  | -                 | -  | -  | 170,725           |
| Compensation cost arising from employee stock options (note 3)  | -                   | (51,857)           | -                | -                  | -                 | -  | -  | (51,857)          |
| Equity adjustment in unrealized gain or loss on financial instrument of investee accounted for long-term investments under equity method            | -                   | -                  | -                | -                  | -                 | -  | 4,789  | 4,789             |
| Increase in net equity due to the recognition of compensation cost arising from employee stock options in long-term investments under equity method | -                   | 3,532              | -                | -                  | -                 | -  | -  | 3,532             |
| Decrease in capital surplus resulting from disposal of long-term investments under equity method  | -                   | (28,445)           | -                | -                  | -                 | -  | -  | (28,445)          |
| Increase in capital surplus resulting from long-term investments under equity method  | -                   | 107                | -                | -                  | -                 | -  | -  | 107               |
| Adjustments arising from change in percentage of ownership in equity method   | -                   | (131)              | -                | -                  | (48,289)          | -  | -  | (48,420)          |
| Change in unrealized gain or loss on financial instruments  | -                   | -                  | -                | -                  | -                 | -  | 184,281  | 184,281           |
| Translation adjustments   | -                   | -                  | -                | -                  | -                 | (1,422)                                  | -  | (1,422)           |
| Net income for the year ended December 31, 2012   | -                   | -                  | -                | -                  | <u>1,647,529</u>  | -  | -  | <u>1,647,529</u>  |
| <b>Balance on December 31, 2012</b>   | <u>\$ 7,541,877</u> | <u>3,763,045</u>   | <u>258,703</u>   | <u>221,662</u>     | <u>2,673,744</u>  | <u>1,642</u>                             | <u>(35,656)</u>  | <u>14,425,017</u> |

Note 1: The appropriations for 2010 employee's bonus, directors' and supervisors' remuneration amounting to NT\$58,100 and NT\$17,400, respectively, were recognized and accrued in the 2010 earnings.

Note 2: The appropriations for 2011 employee's bonus, directors' and supervisors' remuneration amounting to NT\$92,900 and NT\$27,800, respectively, were recognized and accrued in the 2011 earnings.

Note 3: For stock options granted to employees, compensation cost was recognized for the year ended 2011 and 2012. When employees exercised the employee stock options, the Company reclassified capital surplus — employee stock options into capital surplus — additional paid-in capital.

Note 4: As the exercise price of the employees stock options is greater than book value as of December 31, 2011, the difference was credited to capital surplus — additional paid-in capital of NT\$1,157.

Note 5: As the exercise price of the employees stock options is less than book value as of December 31, 2012, the difference was debited to capital surplus — additional paid-in capital of NT\$539.

See accompanying notes to financial statements.

WIN Semiconductors Corp.

Statements of Cash Flows

For the years ended December 31, 2011 and 2012  
(Expressed in Thousands of New Taiwan Dollars)

|   | 2011               | 2012               |
|---|--------------------|--------------------|
| <b>Cash flows from operating activities:</b>                                      |                    |                    |
| Net income  | \$ 1,278,610       | 1,647,529          |
| Adjustments to reconcile net income to net cash provided by operating activities: |                    |                    |
| Depreciation  | 975,883            | 1,256,723          |
| Amortization  | 57,613             | 50,206             |
| Amortization of cost of long-term borrowings                                      | 3,947              | 4,112              |
| Loss on valuation of inventories and obsolescence                                 | 37,115             | 64,519             |
| Investment loss recognized under equity method                                    | 15,894             | 76,519             |
| Compensation cost arising from employee stock options                             | 153,511            | 63,460             |
| Deferred income tax (benefit) expense   | (300,103)          | 150,351            |
| Unrealized exchange loss on long-term borrowings                                  | 26,563             | -                  |
| Loss (gain) on disposal of property, plant and equipment                          | 14,688             | (210)              |
| Insurance claim on damaged and donated property, plant and equipment              | -                  | 54,610             |
| Gain on disposal of investments   | (183)              | (22,461)           |
| Impairment loss   | -                  | 155,550            |
| Change in operating assets:   |                    |                    |
| Financial assets at fair value through profit or loss                             | 1,873              | 183,016            |
| Notes and accounts receivable   | (24,489)           | (228,609)          |
| Account receivable – related parties  | 1,888              | (256,515)          |
| Other receivables – related parties   | 514                | -                  |
| Other financial assets – current  | (39,942)           | (79,602)           |
| Inventories   | (627,472)          | (341,201)          |
| Other current assets  | (25,211)           | (19,311)           |
| Change in operating liabilities:  |                    |                    |
| Financial liabilities at fair value through profit or loss                        | -                  | 417                |
| Accounts payable  | 218,532            | 31,856             |
| Accrued expenses  | 146,640            | (64,853)           |
| Other current liabilities   | (11,713)           | 17,979             |
| Accrued pension liabilities   | 1,779              | 16,661             |
| <b>Net cash provided by operating activities</b>                                  | <u>1,905,937</u>   | <u>2,760,746</u>   |
| <b>Cash flows from investing activities:</b>                                      |                    |                    |
| Increase in available-for-sale financial assets – current                         | -                  | (367,034)          |
| Payment for purchase of investment in bonds with no active market – noncurrent    | -                  | (190,000)          |
| Payment for purchase of available-for-sale financial assets – noncurrent          | -                  | (25,192)           |
| Proceeds from disposal of long-term investments under equity method               | -                  | 259,220            |
| Payment for purchase of long-term investments under equity method                 | (123,764)          | (287,591)          |
| Payment for purchase of financial assets carried at cost – noncurrent             | -                  | (10,000)           |
| Payment for purchase of property, plant and equipment                             | (3,335,520)        | (3,317,284)        |
| Proceeds from disposal of property, plant and equipment                           | 2,607              | 298                |
| (Increase) decrease in refundable deposit   | (1,451)            | 214                |
| Increase in restricted assets – noncurrent  | (156)              | (139)              |
| Payment for purchase of intangible assets   | (49,319)           | (18,307)           |
| <b>Net cash used in investing activities</b>                                      | <u>(3,507,603)</u> | <u>(3,955,815)</u> |
| <b>Cash flows from financing activities:</b>                                      |                    |                    |
| Decrease in short-term borrowings   | (365,365)          | -                  |
| Increase in long-term borrowings  | 4,017,000          | 1,899,000          |
| Redemption of long-term borrowings  | (1,606,610)        | (1,185,544)        |
| Payment of cash dividends   | (513,291)          | (518,874)          |
| Issuance of common stock  | 303,680            | 3,028,928          |
| Exercise of employee stock options  | 194,612            | 55,408             |
| <b>Net cash provided by financing activities</b>                                  | <u>2,030,026</u>   | <u>3,278,918</u>   |
| <b>Net increase in cash and cash equivalents</b>                                  | 428,360            | 2,083,849          |
| <b>Cash and cash equivalents at the beginning of year</b>                         | 333,508            | 761,868            |
| <b>Cash and cash equivalents at the end of year</b>                               | <u>\$ 761,868</u>  | <u>2,845,717</u>   |
| <b>Additional disclosure of cash flow information:</b>                            |                    |                    |
| Interest paid (excluding capitalized interest)                                    | <u>\$ 57,072</u>   | <u>102,725</u>     |
| Income tax paid   | <u>\$ 151,375</u>  | <u>193,358</u>     |

See accompanying notes to financial statements.

WIN Semiconductors Corp.

Statements of Cash Flows (Continued)

For the years ended December 31, 2011 and 2012  
(Expressed in Thousands of New Taiwan Dollars)

|   | 2011                | 2012             |
|---|---------------------|------------------|
| <b>Supplemental schedule of non-cash investing and financing activities:</b>                  |                     |                  |
| Other current assets reclassified to plant, property and equipment                            | \$ <u>174</u>       | <u>363</u>       |
| Inventories reclassified to plant, property and equipment                                     | \$ <u>65,912</u>    | <u>69,312</u>    |
| Other current assets reclassified to intangible assets  | \$ <u>4,268</u>     | <u>570</u>       |
| Unrealized gain (loss) on financial instruments   | \$ <u>(254,029)</u> | <u>189,070</u>   |
| Translation adjustments   | \$ <u>1,021</u>     | <u>(1,422)</u>   |
| Reclassification of current portion of long-term borrowings                                   | \$ <u>1,007,672</u> | <u>1,650,185</u> |
| <b>Purchase of property, plant and equipment</b>  |                     |                  |
| Increase in property, plant and equipment   | \$ 3,452,515        | 3,203,549        |
| Add: payable on equipment – beginning of year   | 93,625              | 210,620          |
| Less: payable on equipment – end of year  | <u>(210,620)</u>    | <u>(96,885)</u>  |
| Cash paid   | \$ <u>3,335,520</u> | <u>3,317,284</u> |
| <b>Disposal of property, plant and equipment</b>  |                     |                  |
| Disposal of property, plant and equipment   | \$ 107              | 298              |
| Add: other financial assets – current – beginning of year                                     | <u>2,500</u>        | <u>-</u>         |
| Cash received   | \$ <u>2,607</u>     | <u>298</u>       |
| <b>Purchase of intangible assets</b>  |                     |                  |
| Acquisition of intangible assets  | \$ 38,471           | 14,692           |
| Add: accrued expenses – beginning of year   | 15,335              | 4,487            |
| Less: accrued expenses – end of year  | <u>(4,487)</u>      | <u>(872)</u>     |
| Cash paid   | \$ <u>49,319</u>    | <u>18,307</u>    |
| <b>Issuance of common stock</b>   |                     |                  |
| Issuance of common stock  | \$ 303,680          | 3,017,939        |
| Add: Transaction cost of issuance of common stock recognized as accrued expense – end of year | <u>-</u>            | <u>10,989</u>    |
| Cash received   | \$ <u>303,680</u>   | <u>3,028,928</u> |

See accompanying notes to financial statements.

**WIN Semiconductors Corp.**

**Notes to Financial Statements**

**December 31, 2011 and 2012**

**(Expressed in Thousands of New Taiwan Dollars  
Except for Earnings Per Share Information  
and Unless Otherwise Specified)**

**(1) Organization and Business Scope**

WIN Semiconductors Corp. (the Company) was incorporated on October 16, 1999, as a company limited by shares under the laws of the Republic of China (ROC).

The Company engages in the researching, developing, manufacturing, and selling of GaAs wafers.

As of December 31, 2011 and 2012, the Company had 1,455 and 1,528 employees, respectively.

**(2) Summary of Significant Accounting Policies**

The accompanying financial statements are prepared and presented in accordance with the “Guidelines Governing the Preparation of Financial Reports by Securities Issuers” and accounting principles generally accepted in the ROC. The major accounting policies and the basis of measurement used in preparing these financial statements are as follows:

(a) Use of estimates

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

(Continued)



**WIN Semiconductors Corp.****Notes to Financial Statements****(b) Foreign currency transactions and translation of foreign financial statements**

The Company's functional and reporting currency is the New Taiwan dollar. Non-derivative foreign currency transactions are recorded at the exchange rates prevailing at the transaction date. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated using the exchange rates on that date. The resulting unrealized exchange gains (losses) from such translations are reflected in the accompanying statements of operations. Non-monetary assets and liabilities denominated in foreign currencies that are measured at historical cost are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated into NT dollars at the foreign exchange rates prevailing at the date the fair value was determined. If the assets or liabilities are evaluated at fair value through profit or loss, the resulting unrealized exchange gains (losses) from such translation are reflected in the accompanying statements of operations.

For foreign investee companies in which equity investments are accounted for by the equity method, their foreign currency financial statements are translated into the Company's reporting currency. The financial statements of foreign operations are re-measured, if their reporting currency is not their functional currency. The re-measurement difference is recorded as foreign currency exchange gain/loss. Furthermore, those financial statements are translated into the reporting currency. Translation differences resulting from such translation are accounted for as cumulative translation adjustments, which are reported as a separate component of stockholders' equity.

**(c) Classification of current and noncurrent assets and liabilities**

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

Liabilities that are expected to be settled within 12 months from the balance sheet date are classified as current liabilities; all other liabilities are classified as noncurrent.

**(d) Asset impairment**

The Company assess at each balance sheet date whether there is any indication that an asset (individual asset or cash-generating unit excluding the goodwill) may have been impaired. If any such indication exists, the recoverable amount of the asset is estimated. Impairment loss is recognized for an asset, whose carrying value is higher than the recoverable amount.

(Continued)

**WIN Semiconductors Corp.****Notes to Financial Statements**

Impairment loss recognized in prior periods for assets other than goodwill is reversed if there is any indication that the impairment loss recognized no longer exists or has decreased. The carrying value after the reversal should not exceed the recoverable amount or the depreciated or amortized balance of the assets assuming no impairment loss was recognized in prior periods.

Goodwill, intangible assets with indefinite useful life, and not-in-use intangible assets are subject to impairment test annually, and an impairment loss is recognized on the excess of carrying value over the recoverable amount thereof.

(e) Cash and cash equivalents

Cash includes cash on hand and cash in bank. Cash equivalents represent highly liquid debt instruments such as commercial paper and bank acceptances with original maturities of three months or less. Cash equivalents also include other highly liquid investments which do not have a significant level of market risk related to potential interest rate changes.

(f) Financial instruments

Financial instrument transactions are accounted for using transaction-date accounting. At initial recognition, financial instruments are evaluated at fair value plus, in the case of a financial instrument not reported at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issuance of financial instrument.

Subsequent to initial recognition, financial instruments are classified according to the purpose of holding or issuing as follows:

1. Financial assets/liabilities at fair value through profit or loss: These financial instruments are intended mainly for selling or repurchasing in the short term. Except for the derivatives held for hedging purposes and are considered to be effective, all derivatives are classified into this account. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.
2. Available-for-sale financial assets: These are measured at fair value, and changes therein, other than impairment losses and unrealized foreign exchange gains or losses, are recognized directly in equity. When these financial assets are disposed or derecognized, the related cumulative gain or loss in equity is transferred to profit or loss. If there is objective evidence which indicates that a financial asset is impaired, a loss is recognized in earnings. If, in the subsequent period, the amount of the impairment loss decreases, for equity securities, the previously recognized impairment loss is reversed to the extent of the decrease and recorded as an adjustment to equity; for debt securities, the amount of the decrease is recognized in profit or loss, provided that the decrease is clearly attributable to an event which occurred after the impairment loss was recognized.

(Continued)

**WIN Semiconductors Corp.****Notes to Financial Statements**

3. Financial assets carried at cost: This pertains to investments in equity securities which are stated at original cost as its fair value cannot be reasonably estimated. If there is evidence of impairment, impairment loss is recognized, and this impairment loss cannot be reversed.
4. Investment in bonds with no active market: Investment in bonds with no active market is a non-derivative financial asset with fixed or determinable payment that is not quoted in the active market. This type of financial instrument is accounted for using the transaction-date accounting.

This investment is measured by effective interest rate method and carried at amortized cost.

If there is any objective evidence that impairment exists, impairment loss is recognized in profit or loss. In the subsequent period, if the impairment loss decreases, and such decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed in profit or loss. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment loss been unrecognized at the date the impairment is reversed.

5. Notes and accounts receivable

The evidence of impairment for notes and accounts receivable is considered at both individual and collective level. All individually significant receivables are assessed for specific impairment. All individually significant notes and accounts receivable found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Notes and accounts receivable that are not individually significant are collectively assessed for impairment by grouping together loans and receivables with similar risk characteristics.

In assessing collective impairment, the Company use historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

When a decrease in the amount of impairment loss is clearly attributable to an event which occurred after the impairment loss was recognized, the decrease in impairment loss is reversed to the extent of the decrease through profit or loss.

(Continued)

**WIN Semiconductors Corp.****Notes to Financial Statements**

## (g) Other financial assets

Other financial assets at fair value through profit or loss are financial assets, excluding cash and cash equivalents, restricted assets, financial assets at fair value through profit or loss, available-for-sale financial assets, financial assets carried at cost, notes and accounts receivable, long-term investments under equity method, and investment in bonds with no active market. These financial assets are measured at fair value, and changes in fair value are recognized in profit or loss.

## (h) Inventories

Inventories are stated at the lower of cost or market value. Cost is calculated by using the weighted-average method. The cost of inventories includes the necessary expenditure and charges for bringing the inventory to the salable and usable condition. Market value is determined based on net realizable value or replacement cost. Net realizable value is determined based on the estimated selling price in the ordinary course of business less the estimated costs of completion and the selling expenses at the end of the period.

Fixed production overhead is allocated to finished goods and work in progress based on the normal capacity of the production facilities. Unallocated overhead due to low production or idle plant capacity is recognized as cost of goods sold in the period in which such overhead is incurred. Variable production overhead is allocated to each unit of production on the basis of the actual use of the production facilities.

## (i) Long-term investments under equity method

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

Goodwill arising from these long-term investments is tested for impairment annually. If any indication of impairment exists, an impairment test is performed immediately. Impairment loss is recognized for the excess of carrying value over the recoverable amount.

If an investee company issues new shares of stock and the investors/original shareholders do not purchase or acquire new shares proportionately, then the equity ownership ratio, and therefore the equity of the investors in net assets of the investee company, will change. The effect of such change in the equity ownership ratio is charged to the long-term investments accounts against additional paid-in capital arising from long-term investments. If the balance of additional paid-in capital from long-term investments is insufficient, then the difference is debited to the retained earnings account.

(Continued)

**WIN Semiconductors Corp.****Notes to Financial Statements**

If an investee company purchases its own outstanding shares, its stockholders' equity and outstanding shares will change. If the purchase price is equal to the carrying amount of net equity in the investee, then the equity of the investors in net assets of the investee company will not change. If the purchase price differs from the carrying amount of net equity of the investee, then the equity of the investors in net assets of the investee company will change and such change is charged to capital surplus.

If the long-term investment under equity method is disposed, the difference between the selling price and the book value of long-term investments under equity method is recognized as disposal gain or loss in the statements of operations. If there is capital surplus or cumulative translation adjustment resulting from long-term equity investments, such capital surplus or cumulative translation adjustment is proportionately debited/credited against the disposal gain/loss based on the disposal ratio.

The Company recognizes the investment income/loss using the equity method and prepares quarterly, semi-annual, and annual consolidated financial statements that include all investees which the Company has the power to control.

(j) Property, plant and equipment and depreciation

Property, plant, and equipment are recorded at cost less accumulated depreciation. For construction of buildings and purchase of machinery and equipment, the related interest costs incurred before commencing to use such assets are capitalized as part of the costs of related assets. Major repairs and maintenance, additions, enhancements and replacements, and the costs of dismantling, removing the items, and restoring the site on which they are located, are capitalized in the cost of related assets. Routine repair and maintenance are charged to current operations.

The removal and recovery obligation costs for fixed assets during the non-production period are accrued in accordance with Interpretation (97) 340 issued by the Accounting Research and Development Foundation (ARDF). Also any component of a fixed asset that is deemed to be a significant part of the fixed asset, is depreciated individually. The residual useful lives, depreciation method, and residual value of property, plant and equipment are evaluated at each financial year-end and any change thereof is accounted for as a change in accounting estimate.

(Continued)

**WIN Semiconductors Corp.****Notes to Financial Statements**

Property, plant, and equipment are depreciated over their estimated useful lives using the straight-line method. The estimated useful lives of the respective classes of assets are as follows:

- (1) Buildings: 25 years
- (2) Machinery and equipment: 2 to 10 years
- (3) Factory and equipment: 2 to 10 years
- (4) Office equipment: 3 to 5 years
- (5) Other equipment: 1 to 5 years

Gains or losses on the disposal of such assets are accounted for as non-operating income and gains or expenses and losses.

(k) Intangible assets

In accordance with the ROC SFAS No. 37 "Intangible Assets" an intangible asset (other than an intangible asset acquired by way of a government grant which is measured at its fair value) is measured initially at cost. Subsequent to the initial recognition, an intangible asset is measured at cost, plus, the revaluation increment revalued in accordance with the laws, less any accumulated amortization and any accumulated impairment losses.

The amortizable amount of capitalized development expenditure is determined after deducting its residual value. Amortization is recognized as an expense on a straight-line basis over the estimated useful lives of intangible assets from the date they are made available for use. The estimated useful lives of the intangible assets are as follows:

- (1) Technical know-how: 12 years
- (2) Computer software and information systems: 2 to 5 years
- (3) Others: 1 to 3 years

(Continued)

**WIN Semiconductors Corp.****Notes to Financial Statements**

## (1) Pension plans

## 1. Defined benefit pension plan

The Company has established employees non-contributory defined benefit pension plan (the Plan) covering full-time employees in the ROC. In accordance with the Plan, employees are eligible for retirement or are pension to retire after meeting certain age or service requirements. Payments of retirement benefits are based on the employee's years of service.

Since 2001, the Company contributes an amount to the pension fund monthly based on government-approved rate of 2 % of paid salaries and wages. This fund is deposited in the Bank of Taiwan.

For the defined benefit pension plan, the Company adopted the ROC SFAS No. 18 "Accounting for Pensions" for its pension plan, which requires actuarial calculation of its pension liability using the balance sheet date as the measurement date. The excess of accumulated benefit obligation over the fair value of pension plan assets is deemed as the minimum pension liability and is recognized as accrued pension liability. The transitional net benefit obligation is amortized by straight-line method over the remaining service years of employees averaging 18 years.

## 2. Defined contribution pension plan

Starting from July 1, 2005, the enforcement rules of the newly enacted Labor Pension Act (the New Act) require the following categories of employees to be covered by the New Act that prescribes a defined contribution pension plan:

- (1) Employees who were covered by the Plan and opted to be subject to the pension mechanism under the New Act; and
- (2) Employees who commenced working after the enforcement date of the New Act.

In accordance with the New Act, the Company contributes an amount monthly to an individual labor pension fund account at the rate of 6% of the worker's monthly wages. The amount of contributions is recognized as expense on accrual basis.

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**WIN Semiconductors Corp.****Notes to Financial Statements****(m) Employee stock options**

The Company have granted stock options to their employees. If the equity instruments under these agreements are granted after January 1, 2010, the employee stock options are accounted for according to ROC SFAS No. 39 “Share-based Payments.” Employee stock options that were granted, recognized and measured using intrinsic value method before January 1, 2010, are accounted for in accordance with Interpretation No. (92) 070, 071, and 072 of the ARDF.

Under these Interpretations, compensation cost is recognized based on the difference between the market price of the stock and the exercise price of the employee stock options on the measurement date, using the intrinsic value method. This compensation cost is charged to expense over the employee vesting period with corresponding increases in the stockholders’ equity.

Intrinsic value means the difference between the fair value of the shares, which the employee has the right to subscribe or has the right to receive, and the price at which the employee is required to pay for those shares.

**(n) Revenue recognition**

Revenue from sale of goods is recognized upon delivery when the significant risks and rewards of ownership are transferred to customers.

**(o) Government grants**

The Company adopted the ROC SFAS No. 29 “Accounting for Government Grants and Disclosure of Government Assistance”, under which, government grants are not recognized in the financial statements until there is reasonable assurance that both of the following conditions are met:

- (i) the Company is able to comply to the terms of government grants; and
- (ii) the grants will be received.

Government grants in the form of subsidies are recognized as revenue in a reasonable and systematic way over the periods when the related costs are expected to be incurred. However, government grants that are not realized yet are accounted for as deferred revenue.

(Continued)



**WIN Semiconductors Corp.****Notes to Financial Statements****(p) Income tax**

The Company adopted the ROC SFAS No. 22 "Income Taxes" for the computation of income taxes, using the asset and liability method. Accordingly, deferred income tax is accounted for the differences between accounting and tax basis of assets and liabilities using enacted tax rates in effect during the years in which the differences are expected to reverse. The income tax effects of the taxable temporary differences are recognized as deferred income tax liabilities. The income tax effects of the deductible temporary differences, operating loss carryforwards, and investment tax credit are recognized as deferred income tax assets. In addition, the realization of deferred income tax assets is evaluated and if it is considered more likely than not that the deferred tax assets will not be realized, a valuation allowance is recognized accordingly. Deferred income tax assets and liabilities are classified as either current or noncurrent based on the classification of related assets or liabilities. If the deferred income tax assets or liabilities are not related to any assets or liabilities, then the classification is based on the expected realization date of the deferred income tax asset or liability.

Investment tax credit granted for purchases of equipment, research and development expenses and the Company's investment in the Emerging Industry is recognized using the flow through method.

In accordance with the ROC Income Tax Act, the Company may retain the earnings arising after December 31, 1997, by paying a 10% surtax on the undistributed earnings. Such surtax is accounted for as income tax expense on the date when the stockholders approve a resolution not to distribute the earnings.

**(q) Employee bonuses and directors' and supervisors' remuneration**

Employee bonuses and directors' and supervisors' remuneration are accounted for by Interpretation (96) 052 issued by the ARDF. According to this Interpretation, employee bonuses and directors' and supervisors' remuneration are estimated and accrued as expenses as services are rendered. Any difference between the amounts approved in the shareholders' meeting and those recognized in the financial statements, if any, is accounted for as a change in accounting estimate and recognized in profit or loss.

**(r) Earnings per common share (EPS)**

Earnings per common share is calculated by dividing net income by the weighted-average number of outstanding common shares. The weighted-average number of outstanding common shares is adjusted retroactively for the stock dividends to stockholders distributed out of retained earnings or capital surplus.

(Continued)

**WIN Semiconductors Corp.****Notes to Financial Statements**

Stock options and common stock issued for employees' bonus are potential common stock. Only basic earnings per share is disclosed if these potential common shares of stock are not dilutive. Otherwise, both basic and diluted earnings per share are disclosed. In calculating the diluted earnings per share, the net income and weighted-average number of common shares outstanding are retroactively adjusted for the potential common shares assuming they are converted into common stock at the beginning of the year.

(s) Operating segment

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity). The segment's operating results are reviewed regularly by the entity's chief operating decision maker to make decisions pertaining to the allocation of the resources to the segment and to assess its performance for which discrete financial information is available. The operating segment is disclosed in the consolidated financial statements. The Company discloses its segment reporting in the consolidated financial statements.

**(3) Reason for and Effect of Accounting Changes**

- (a) The Company adopted the third revisions of the ROC SFAS No. 34 "Accounting for Financial Instruments" effective January 1, 2011 for the recognition, measurement and impairment of originated loans and receivables. The initial of this amended accounting principle had no significant impact on the financial statements as of and for the year ended December 31, 2011.
- (b) The Company likewise adopted the ROC SFAS No. 41 "Disclosure of the Operating Segment" effective January 1, 2011. According to this new accounting standard, an entity shall disclose information to enable users of its financial statements to evaluate the nature and financial effect of the business activities in which it engages and the economic environment in which it operates. Internal information that is provided to the operating decision maker is used as the basis for determining and disclosing the operating segment. This standard replaces the ROC SFAS No. 20 "Segment Reporting". The Company discloses its segment reporting in the consolidated financial statements.

(Continued)

## WIN Semiconductors Corp.

## Notes to Financial Statements

## (4) Significant Account Disclosure

## (a) Cash and cash equivalents

The components of cash and cash equivalents as of December 31, 2011 and 2012 were as follows:

|              | 2011              | 2012             |
|--------------|-------------------|------------------|
| Cash on hand | \$ 534            | 482              |
| Cash in bank | <u>761,334</u>    | <u>2,845,235</u> |
|              | <u>\$ 761,868</u> | <u>2,845,717</u> |

## (b) Financial instruments

The components of financial instruments as of December 31, 2011 and 2012 were as follows:

## 1. Financial assets/liabilities at fair value through profit or loss – current:

|                                   | 2011                | 2012             |
|-----------------------------------|---------------------|------------------|
| Publicly traded stock             | \$ 957,190          | 855,645          |
| Publicly traded convertible bonds | 21,350              | 25,075           |
| Money market funds and bond funds | <u>621,452</u>      | <u>620,452</u>   |
|                                   | <u>\$ 1,599,992</u> | <u>1,501,172</u> |

|                                  | 2011              |               | 2012              |               |
|----------------------------------|-------------------|---------------|-------------------|---------------|
|                                  | Nominal<br>amount | Book<br>value | Nominal<br>amount | Book<br>value |
| Derivative financial liabilities |                   |               |                   |               |
| Forward exchange contracts       | -                 | \$ <u>-</u>   | USD 8,000         | <u>(417)</u>  |

- (1) For the years ended December 31, 2011 and 2012, the valuation of financial assets at fair value through profit or loss – current resulted in a loss of \$621,718 and a loss of \$161,920, respectively.
- (2) For the years ended December 31, 2011 and 2012, the gain on disposal of financial assets at fair value through profit or loss – current amounted to \$183 and \$4,314, respectively.

(Continued)

**WIN Semiconductors Corp.**

**Notes to Financial Statements**

- (3) The Company entered into derivative contracts during the years ended December 31, 2011 and 2012 to manage its exposures to the fluctuations of foreign exchange rates. These derivative contracts did not meet the criteria of hedge accounting. For the years ended December 31, 2011 and 2012, the gain on disposal of derivation financial instruments amounted to \$3,426 and \$183, respectively, which were recorded as other income.

2. Available-for-sale financial assets – current:

|   | <b>2011</b>               | <b>2012</b>                     |
|---|---------------------------|---------------------------------|
| <b>Shares of stock:</b>                   |                           |                                 |
| ITEQ CORPORATION                          | \$ -                      | 275,677                         |
| MAG. LAYGRS Scientific-Technics Co., Ltd. | -                         | 72,393                          |
| Solar Applied Materials Technology Corp.  | -                         | 14,160                          |
| Speed Tech Corp. (Note)                   | -                         | 149,838                         |
|   | <u>          -</u>        | <u>          149,838</u>        |
|   | <u><u>          -</u></u> | <u><u>          512,068</u></u> |

Note: In 2012, the Company reclassified long-term investments under equity method to available-for-sale financial assets – current, as discussed further in note 4(f).

On June 15, 2012, the Stockholders meeting of Speed Tech Corp. approved to reduce the capital of Speed Tech Corp. by 41.44%, and set August 14, 2012 as the effective date for this capital reduction. Therefore, the Company's shareholdings in this investee company, decreased by 8,909 thousand shares of stock.

- (1) Unrealized gain on available-for-sale financial assets – current of \$82,682, for the year ended December 31, 2012, was recognized as an adjustment to stockholders' equity.
- (2) For the year ended December 31, 2012, the gain on disposal of available-for-sale financial assets – current amounted to \$3,941.

There were no such transactions for the year ended December 31, 2011.

(Continued)

**WIN Semiconductors Corp.**

**Notes to Financial Statements**

3. Available-for-sale financial assets — noncurrent:

|  | <b>2011</b>              | <b>2012</b>          |
|--|--------------------------|----------------------|
| Tainergy Tech Co., Ltd. (Note 1)       | \$ 60,775                | 70,589               |
| Huga Optotech Inc. (Note 1 and Note 2) | <u>99,246</u>            | <u>-</u>             |
|  | <b>\$ <u>160,021</u></b> | <b><u>70,589</u></b> |

Note 1: In 2011, the Company reclassified financial assets carried at cost — noncurrent to available-for-sale financial asset — noncurrent, as discussed further in note 4(b).

Note 2: In 2012, following the share swap between EPISTAR Corp. and Huga Optotech Inc., the Company approved to swap all of the Company's equity shareholdings in Huga Optotech Inc. with the common shares of stock of EPISTAR Corp. based on the swap ratio of 4.85 shares to 1 share. On December 28, 2012, the Company had obtained legal ownership of 1,516 thousand common shares of stock of EPISTAR Corp. and recorded them as financial assets at fair value through profit or loss. This transaction resulted in a loss of \$136,341, which was recognized as deduction of gain on disposal of investment.

The valuation of available-for-sale financial assets — noncurrent resulted in unrealized loss of \$256,202 and unrealized gain of \$101,599 in 2011 and 2012, respectively, which were recognized as an adjustment to stockholders' equity.

4. Financial assets carried at cost — noncurrent:

|   | <b>Investee</b> | <b>2011</b>              | <b>2012</b>           |
|---|-----------------|--------------------------|-----------------------|
| <b>Shares of stock:</b>                               |                 |                          |                       |
| IntelliEPI Inc. (Cayman)                              |                 | \$ 5,306                 | 5,306                 |
| Shin Sheng III Venture Capital Investment Corporation |                 | 150,000                  | 150,000               |
| Inventec Solar Energy Corporation                     |                 | 330,000                  | 186,151               |
| MagiCap Venture Capital Co., Ltd.                     |                 | <u>-</u>                 | <u>10,000</u>         |
|   |                 | 485,306                  | 351,457               |
| <b>Conversion option:</b>                             |                 |                          |                       |
| Bright Led Electronics Corp.                          |                 | <u>15,217</u>            | <u>15,217</u>         |
| Total   |                 | <b>\$ <u>500,523</u></b> | <b><u>366,674</u></b> |

As of December 31, 2012, the above-mentioned financial assets do not have publicly trading prices, and their fair value was difficult to determine. Therefore, these financial assets were stated at cost.

(Continued)

**WIN Semiconductors Corp.**

**Notes to Financial Statements**

- (1) For the years ended December 31, 2011 and 2012, the details of impairment loss incurred from valuation of financial assets carried at cost – noncurrent were as follows:

|                                   | 2011              | 2012             |
|-----------------------------------|-------------------|------------------|
| Inventec Solar Energy Corporation | \$ <u>      -</u> | <u>  143,849</u> |

- (2) The details of additions (deductions) for the years ended December 31, 2011 and 2012 to financial assets carried at cost – noncurrent were as follows:

|                                   | 2011                  |                     |          | 2012                  |                  |
|-----------------------------------|-----------------------|---------------------|----------|-----------------------|------------------|
|                                   | Shares (in thousands) | Amount              | Remark   | Shares (in thousands) | Amount           |
| MagiCap Venture Capital Co., Ltd. | -                     | \$ -                |          | 1,000                 | \$ 10,000        |
| Inventec Energy Corporation       | (8,505)               | (86,904)            | (Note 1) | -                     | -                |
| Huga Optotech Inc.                | (7,351)               | (216,223)           | (Note 2) | -                     | -                |
| Tainergy Tech Co., Ltd.           | (5,000)               | <u>(200,000)</u>    | (Note 2) | -                     | <u>      -</u>   |
|                                   |                       | <u>\$ (503,127)</u> |          |                       | <u>\$ 10,000</u> |

Note 1: For the year ended December 31, 2011, the percentage of the Company's shareholdings in Inventec Energy Corporation increased to 20.58% due to its additional equity investment of \$123,764. Therefore, the Company's equity investment in this investee company of \$86,904 had been reclassified from financial assets carried at cost – noncurrent to long-term investments under equity method as of December 31, 2011.

Note 2: The shares of stock of Huga Optotech Inc. and Tainergy Tech Co., Ltd. have been officially listed in the public market on September 8, 2011 and August 16, 2011, respectively. Therefore, the Company reclassified its investments in the equity shares of these investees of \$416,223 from financial assets carried at cost – noncurrent to available-for-sale financial assets – noncurrent.

5. Investment in bonds with no active market – noncurrent:

|                                   | Issue period | Nominal rate (%) | 2011              | 2012             |
|-----------------------------------|--------------|------------------|-------------------|------------------|
| <b>Convertible bond:</b>          | 2010.4.9~    |                  |                   |                  |
| Bright Led Electronics Corp.      | 2013.4.8     | 0%               | \$ 344,783        | 344,783          |
| <b>Preferred stock B:</b>         | 2012.11.23~  |                  |                   |                  |
| MagiCap Venture Capital Co., Ltd. | 2019.11.22   | -                | <u>      -</u>    | <u>  190,000</u> |
|                                   |              |                  | <u>\$ 344,783</u> | <u>  534,783</u> |

(Continued)

**WIN Semiconductors Corp.**

**Notes to Financial Statements**

In 2010, the Company purchased the convertible bonds of Bright Led Electronics Corp. at par value of \$360,000 through private placement. Because of the stock conversion option embedded in this debt securities investment, the liability component (pertaining to the investment in bonds) was accounted for separately at its present value from the equity component (pertaining to the stock conversion option) thereof. The equity component (stock conversion option) was measured based on the difference between the purchase price of the bonds and the present value of the bonds. Under the terms of these bonds, the Company has the option to convert the bonds into common stock during the period from three months of the issue date to ten days before the maturity date; the stock conversion option was recorded as financial assets carried at cost — noncurrent.

In 2012, the Company purchased the preferred stock B of MagiCap Venture Capital Co., Ltd. for \$190,000. Under the terms of preferred stock B, MagiCap Venture Capital Co., Ltd. has the option to redeem at any time these preferred stock B at \$10.5263 dollars per share ; the investment in these preferred stock B was recorded as investment in bonds with no active market — noncurrent.

(c) Notes and accounts receivable

|   | <b>2011</b>              | <b>2012</b>           |
|---|--------------------------|-----------------------|
| Notes receivable  | \$ 32                    | 25                    |
| Accounts receivable                                       | <u>246,687</u>           | <u>477,130</u>        |
|   | 246,719                  | 477,155               |
| Less: allowance for doubtful accounts and sales discounts | <u>(8,832)</u>           | <u>(10,659)</u>       |
|   | <b><u>\$ 237,887</u></b> | <b><u>466,496</u></b> |

As of December 31, 2011 and 2012, the notes and accounts receivable were not pledged.

(d) Other financial assets — current

The components of other financial assets — current as of December 31, 2011 and 2012 were as follows:

|                                       | <b>2011</b>              | <b>2012</b>           |
|---------------------------------------|--------------------------|-----------------------|
| Other receivable from metal recycling | \$ 121,099               | 196,398               |
| Other                                 | <u>8,745</u>             | <u>13,048</u>         |
|                                       | <b><u>\$ 129,844</u></b> | <b><u>209,446</u></b> |

(Continued)

## WIN Semiconductors Corp.

## Notes to Financial Statements

## (e) Inventories

1. The components of inventories as of December 31, 2011 and 2012 were as follows:

|                 | <b>2011</b>                | <b>2012</b>             |
|-----------------|----------------------------|-------------------------|
| Raw materials   | \$ 1,031,051               | 1,092,348               |
| Supplies        | 136,736                    | 118,651                 |
| Work in process | 563,134                    | 506,751                 |
| Finished goods  | <u>162,914</u>             | <u>383,455</u>          |
|                 | <b>\$ <u>1,893,835</u></b> | <b><u>2,101,205</u></b> |

2. For the years ended December 31, 2011 and 2012, the movement of allowance for obsolete inventories were as follows:

|                   | <b>2011</b>             | <b>2012</b>          |
|-------------------|-------------------------|----------------------|
| Beginning balance | \$ 71,245               | 71,410               |
| Addition          | 37,115                  | 64,519               |
| Write-off         | <u>(36,950)</u>         | <u>(38,498)</u>      |
| Ending balance    | <b>\$ <u>71,410</u></b> | <b><u>97,431</u></b> |

3. For the years ended December 31, 2011 and 2012, the Company recognized related gain or loss on inventories as follows:

|   | <b>2011</b>             | <b>2012</b>          |
|---|-------------------------|----------------------|
| Loss on valuation of inventories and obsolescence | \$ 37,115               | 64,519               |
| Income from sale of scraps                        | <u>(17,265)</u>         | <u>(27,017)</u>      |
|   | <b>\$ <u>19,850</u></b> | <b><u>37,502</u></b> |

(Continued)



**WIN Semiconductors Corp.**

**Notes to Financial Statements**

(f) Long-term investments under equity method

The components of long-term investments under equity method as of December 31, 2011 and 2012 were as follow:

| Investee  | Shareholding<br>percentage (%) | 2011                     |                             |
|---|--------------------------------|--------------------------|-----------------------------|
|   |                                | Carrying value           | Investment<br>income (loss) |
| WIN SEMI. USA, INC. (WIN USA)                               | 100.00                         | \$ 9,190                 | (3,151)                     |
| Win Semiconductors Cayman Islands Co., Ltd.<br>(Win Cayman) | 100.00                         | 321,395                  | 76,951                      |
| Speed Tech Corp.  | 26.33                          | 203,742                  | (24,647)                    |
| Inventec Energy Corporation                                 | 20.58                          | <u>146,388</u>           | <u>(65,047)</u>             |
|   |                                | <b>\$ <u>680,715</u></b> | <b><u>(15,894)</u></b>      |

  

| Investee  | Shareholding<br>percentage (%) | 2012                     |                        |
|---|--------------------------------|--------------------------|------------------------|
|   |                                | Carrying value           | Investment<br>loss     |
| WIN SEMI. USA, INC. (WIN USA)                               | 100.00                         | \$ 8,969                 | (3,402)                |
| Win Semiconductors Cayman Islands Co., Ltd.<br>(Win Cayman) | 100.00                         | 308,685                  | (10,005)               |
| Speed Tech Corp.  | -                              | -                        | (14,751)               |
| Inventec Energy Corporation                                 | 44.36                          | <u>324,861</u>           | <u>(48,361)</u>        |
|   |                                | <b>\$ <u>642,515</u></b> | <b><u>(76,519)</u></b> |

1. The details of additions (deductions) for the years ended December 31, 2011 and 2012 to long-term investments under equity method were as follows:

| Investee                    | Shareholding<br>(in thousands) | 2011                     |          | Shareholding<br>(in thousands) | 2012                 |          |
|-----------------------------|--------------------------------|--------------------------|----------|--------------------------------|----------------------|----------|
|                             |                                | Amount                   | Remark   |                                | Amount               | Remark   |
| Inventec Energy Corporation | 19,757                         | \$ 210,668               | (Note 3) | 22,832                         | 287,591              | (Note 1) |
| Speed Tech Corp.            | -                              | -                        |          | (61,500)                       | <u>(188,991)</u>     | (Note 2) |
|                             |                                | <b>\$ <u>210,668</u></b> |          |                                | <b><u>98,600</u></b> |          |

Note 1: During the meeting on June 21, 2012, the stockholders of Inventec Energy Corporation approved a resolution to reduce capital by 30%. Therefore, the Company's shareholdings in this investee company decreased by 5,927 thousand shares of stock. On July 23, 2012, the Board of Directors of Inventec Energy Corporation further approved a resolution to reduce capital, and set July 16, 2012 as the effective date for this capital reduction.

(Continued)

**WIN Semiconductors Corp.****Notes to Financial Statements**

On July 23, 2012, the Board of Directors of Investec Energy Corporation also, approved to increase the capital stock of Investec Energy Corporation in cash, and set November 26, 2012 as the effective date for the capital increase. Therefore, the Company increased its equity investment in this investee by \$287,591, divided into 28,759 thousand shares of stock. This additional equity investment increased the percentage of the Company's shareholding in Investec Energy Corporation to 44.36%.

Note 2: For the year ended December 31, 2012, the Company sold for \$259,220 its ownership of the shares of stock of Speed Tech Corp., with carrying value of \$122,921. The related capital surplus and other equity adjustment arising from this equity investment of \$14,248 were proportionately credited based on the disposal ratio. The net gain on disposal of such investment amounted to \$150,547 for the year ended December 31, 2012.

As the Company sold its ownership of some shares of stock of Speed Tech Corp., its shareholding percentage in this investee decreased from 26.33% to 9.20%. Such sale resulted in the Company's inability to exercise significant influence over Speed Tech Corp. Because the restriction period of the private placement of the stock of Speed Tech Corp., is ended, the Company's equity investment in this investee company had been reclassified from long-term investments under equity method to available-for-sale financial assets – current, as discussed further in note 4(b).

Note 3: For the year ended December 31, 2012, the Company reclassified the financial assets carried at cost – noncurrent to long-term investments under equity method, as discussed further in note 4(b).

2. For the years ended December 31, 2011 and 2012, the details of impairment loss incurred from valuation of long-term investments under equity method were as follows:

|                             | <b>2011</b>             | <b>2012</b>           |
|-----------------------------|-------------------------|-----------------------|
| Inventec Energy Corporation | \$ <u>      -      </u> | <u>    11,701    </u> |

The financial instrument of long-term investments under equity method resulted in unrealized gain of \$2,173 and \$4,789 in 2011 and 2012, respectively, which were recognized as an adjustment to stockholder's equity.

(Continued)

## WIN Semiconductors Corp.

## Notes to Financial Statements

## (g) Property, plant and equipment

- In 2012, the Company had entered into an agreement to purchase land and buildings from TAROKO TEXTILE CORPORATION for \$1,080,000. The registration process for the transfer to the Company of the ownership of these land and buildings was completed as of July 17, 2012. Another, the Company had entered into an agreement to purchase land and buildings from BEST FRIEND TECHNOLOGY CO., LTD. for \$1,250,000. As of December 31, 2012, the registration process for the transfer to the Company of the ownership of these land and buildings was not yet completed.
- As of December 31, 2011 and 2012, the details of accumulated depreciation were as follows:

|                         | 2011                       | 2012                    |
|-------------------------|----------------------------|-------------------------|
| Buildings               | \$ 162,011                 | 189,774                 |
| Machinery and equipment | 2,096,658                  | 2,993,277               |
| Factory and equipment   | 834,662                    | 1,046,039               |
| Office equipment        | 58,125                     | 92,050                  |
| Other equipment         | <u>80,713</u>              | <u>165,748</u>          |
|                         | <b>\$ <u>3,232,169</u></b> | <b><u>4,486,888</u></b> |

For the years ended December 31, 2011 and 2012, capitalized interest expenses amounted to \$48,311 and \$20,106, respectively. The annual interest rates at which these interest expenses were capitalized ranged from 1.38%~1.79% and 1.67%~1.79%, respectively.

## (h) Intangible assets

The movements in intangible assets for the years ended December 31, 2011 and 2012 were as follows:

|                                 | Technical<br>know-how   | Computer<br>software and<br>information<br>systems | Others              | Total                 |
|---------------------------------|-------------------------|--|---------------------|-----------------------|
| <b>Original cost:</b>           |                         |  |                     |                       |
| Balance as of January 1, 2011   | \$ 46,005               | 146,004  | 2,911               | 194,920               |
| Additions                       | -                       | 34,803   | 3,668               | 38,471                |
| Disposal                        | -                       | (35,212)   | (1,591)             | (36,803)              |
| Other (Note)                    | -                       | <u>4,268</u>                                       | -                   | <u>4,268</u>          |
| Balance as of December 31, 2011 | <u>46,005</u>           | <u>149,863</u>                                     | <u>4,988</u>        | <u>200,856</u>        |
| Additions                       | -                       | 14,242   | 450                 | 14,692                |
| Disposal                        | -                       | (42,061)   | (3,518)             | (45,579)              |
| Other (Note)                    | -                       | <u>570</u>   | -                   | <u>570</u>            |
| Balance as of December 31, 2012 | <b>\$ <u>46,005</u></b> | <b><u>122,614</u></b>                              | <b><u>1,920</u></b> | <b><u>170,539</u></b> |

(Continued)

## WIN Semiconductors Corp.

## Notes to Financial Statements

|                                  | Technical<br>know-how | Computer<br>software and<br>information<br>systems | Others         | Total           |
|----------------------------------|-----------------------|--|----------------|-----------------|
| <b>Accumulated amortization:</b> |                       |  |                |                 |
| Balance as of January 1, 2011    | 639                   | 61,046   | 709            | 62,394          |
| Amortization                     | 3,834                 | 49,844   | 3,935          | 57,613          |
| Disposal                         | <u>-</u>              | <u>(35,212)</u>                                    | <u>(1,591)</u> | <u>(36,803)</u> |
| Balance as of December 31, 2011  | <u>4,473</u>          | <u>75,678</u>                                      | <u>3,053</u>   | <u>83,204</u>   |
| Amortization                     | 3,834                 | 44,595   | 1,777          | 50,206          |
| Disposal                         | <u>-</u>              | <u>(42,061)</u>                                    | <u>(3,518)</u> | <u>(45,579)</u> |
| Balance as of December 31, 2012  | <u>\$ 8,307</u>       | <u>78,212</u>                                      | <u>1,312</u>   | <u>87,831</u>   |
| <br>                             |                       |  |                |                 |
|                                  | Technical<br>know-how | Computer<br>software and<br>information<br>systems | Others         | Total           |
| <b>Carrying value:</b>           |                       |  |                |                 |
| Balance on December 31, 2011     | <u>\$ 41,532</u>      | <u>74,185</u>                                      | <u>1,935</u>   | <u>117,652</u>  |
| Balance on December 31, 2012     | <u>\$ 37,698</u>      | <u>44,402</u>                                      | <u>608</u>     | <u>82,708</u>   |

Note: Other current assets consisting of prepayments for computer software and information systems were reclassified as intangible assets.

## (i) Short-term borrowings

As of December 31, 2011 and 2012, the unused bank credit line for short-term borrowings amounted to \$3,746,195 and \$3,828,626, respectively. As of December 31, 2011 and 2012, the unused bank credit line for short-term borrowings and long-term borrowings amounted to \$0 and \$100,000, respectively.

(Continued)

**WIN Semiconductors Corp.**

**Notes to Financial Statements**

(j) Long-term borrowings

As of December 31, 2011 and 2012, the details of long-term borrowings were as follows:

| Nature  | 2011                |                                | 2012               |                                |
|---|---------------------|--------------------------------|--------------------|--------------------------------|
|   | Amount              | Annual<br>interest<br>rate (%) | Amount             | Annual<br>interest<br>rate (%) |
| Syndicated loan agreement:  |                     |                                |                    |                                |
| China Development Industrial Bank and other twelve banks (Note 1)   | \$ 1,503,127        | 1.74~1.80                      | 744,006            | 1.79~1.84                      |
| Mega International Commercial Bank and other sixteen banks (Note 2) | 3,626,000           | 1.60~1.70                      | 4,800,000          | 1.62~1.73                      |
| Less: Unamortized issuing cost                                      | <u>(16,588)</u>     |                                | <u>(12,476)</u>    |                                |
| Subtotal  | 5,112,539           |                                | 5,531,530          |                                |
| Secured loans   | 723,755             | 1.69~2.14                      | 297,332            | 1.69~2.14                      |
| Unsecured loans   | <u>655,000</u>      | 1.59~1.78                      | <u>1,380,000</u>   | 1.62~1.78                      |
| Total   | 6,491,294           |                                | 7,208,862          |                                |
| Less: current portion   | <u>(1,007,672)</u>  |                                | <u>(1,650,185)</u> |                                |
|   | <u>\$ 5,483,622</u> |                                | <u>5,558,677</u>   |                                |

As of December 31, 2011 and 2012, the unused credit lines for long-term borrowings amounted to \$1,399,000 and \$1,914,000, respectively. As of December 31, 2011 and 2012, the unused bank credit lines for long-term and short-term borrowing were disclosed further in note 4(i). The collateral for these long-term borrowings is disclosed in note 6.

Note 1: In March 2008, the Company entered into a seven-year syndicated loan agreement with China Development Industrial Bank and other twelve banks. The total credit facility amounted to NT\$2,810,000 and is to be due in March 2015.

The significant terms of this syndicated loan agreement are as follows:

- (a) Tranche A: medium-term secured loans. The credit facility is \$900,000, and it is not a revolving loan. This is intended to repay an existing loan (including the amount used to finance the purchase of land and buildings) and for operation working capital.
- (b) Tranche B: medium-term secured loans. The credit facility is \$1,491,105, and it is not a revolving loan. This is intended for the purchases of machinery and equipment.
- (c) Tranche C: medium-term secured loans. The credit facility is \$418,895, and it is not a revolving loan. This is intended for the purchases of machinery and equipment.

(Continued)

**WIN Semiconductors Corp.****Notes to Financial Statements**

The related financial covenants and restrictions for the syndicated loans mentioned above were as follows:

- (a) At the end of the semi-annual and annual reporting period, the current ratio shall not be lower than 100%, liability ratio (Liabilities/Net asset value) shall not be higher than 100%, interest coverage ratio shall not be lower than 200%, and net equity shall not be lower than \$3,500,000.
- (b) The collections of accounts receivable of the Company and its subsidiaries from 11 key customers and any other customers must be deposited into the foreign currency account with the managing bank. The deposit of such collections must exceed \$100,000 every quarter starting from the first 3 months after the initial drawdown of the credit facility on Tranche A. If this covenant is breached, the Company should provide another set of accounts receivables from other customers to be identified by the managing bank, otherwise, the credit terms will be cancelled.
- (c) The Company's production of GaAs wafers must reach 4,000 pieces per month and its quarterly revenue must exceed \$500,000 before the Tranche A credit facility or the funding period of the loan is fully consummated, whichever comes first.

On December 29, 2011, the Company signed the initial supplementary contract of a seven-year syndicated loan agreement with China Development Industrial Bank and other twelve banks. The significant terms and conditions of this supplementary contract are as follows:

- (a) At the end of the semi-annual and annual reporting period, the current ratio shall not be lower than 100%, liability ratio (Liabilities/Net asset value) shall not be higher than 120%, interest coverage ratio shall not be less than 300%, and net assets shall not be lower than \$6,000,000 starting from the effective date of the supplementary contract.
- (b) Except for the amended financial covenant as described above, the other financial covenants and restrictions of the original seven-year syndicated loan agreement will remain to be effective.

As of December 31, 2011 and 2012, the Company was in compliance with the above financial covenants and restrictions.

Note 2: In January 2011, the Company entered into a seven-year syndicated loan agreement with Mega International Commercial Bank and other sixteen banks. The total credit facility under this loan agreement is \$4,800,000 and is due in February 2018.

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**WIN Semiconductors Corp.**

**Notes to Financial Statements**

The significant terms of this loan agreement are as follows:

- (a) Tranche A: medium-term secured loans. The credit facility is \$3,000,000 and it is not a revolving loan. This is intended to repay an existing loan and for the purchases of machinery and equipment.
- (b) Tranche B: medium-term secured loans. The credit facility is \$1,800,000, and it is a revolving loan. This is intended for operation working capital.

The related financial covenants and restrictions for the syndicated loan mentioned above were as follows: At the end of the annual reporting period, current ratio shall not be lower than 100%, liability ratio (Liabilities/Net asset value) shall not be higher than 120%, interest coverage ratio shall not be less than 300%, and net equity shall not be less than \$6,000,000.

As of December 31, 2011 and 2012, the Company was in compliance with the above covenants and restrictions.

(k) Pension plans

Net retirement plan liabilities based on the actuarial calculation as of December 31, 2011 and 2012, were as follows:

|   | <b>2011</b>       | <b>2012</b>     |
|---|-------------------|-----------------|
| Benefit obligation:                     |                   |                 |
| Vested benefit obligation               | \$ -              | (14,560)        |
| Nonvested benefit obligation            | <u>(26,456)</u>   | <u>(37,490)</u> |
| Accumulated benefit obligation          | (26,456)          | (52,050)        |
| Projected effects of salary adjustments | <u>(27,794)</u>   | <u>(31,843)</u> |
| Projected benefit obligation            | (54,250)          | (83,893)        |
| Plan assets at fair value               | <u>32,673</u>     | <u>33,654</u>   |
| Funding status                          | (21,577)          | (50,239)        |
| Unrecognized prior service cost         | -                 | 3,698           |
| Unrecognized net transaction obligation | 105               | 88              |
| Unrecognized pension losses             | <u>17,226</u>     | <u>25,546</u>   |
| Accrued pension liabilities             | <u>\$ (4,246)</u> | <u>(20,907)</u> |

For the years ended December 31, 2011 and 2012, the vested benefit obligation amounted to \$0 and \$14,560, respectively.

(Continued)

**WIN Semiconductors Corp.**

**Notes to Financial Statements**

The components of net periodic pension cost for 2011 and 2012 were as follows:

|                              | <b>2011</b>            | <b>2012</b>          |
|------------------------------|------------------------|----------------------|
| Service cost                 | \$ 1,710               | 1,744                |
| Interest cost                | 841                    | 1,085                |
| Actual return on plan assets | (384)                  | (318)                |
| Amortization                 | <u>277</u>             | <u>14,813</u>        |
| Net pension cost             | <b>\$ <u>2,444</u></b> | <b><u>17,324</u></b> |

Actuarial assumptions at December 31, 2011 and 2012 were as follows:

|  | <b>2011</b> | <b>2012</b> |
|--|-------------|-------------|
| Discount rate                                    | 2.00%       | 1.75%       |
| Rate of increase compensation                    | 4.00%       | 4.00%       |
| Expected long-term rate of return on plan assets | 2.00%       | 1.75%       |

For the years ended December 31, 2011 and 2012, the details of the pension cost were as follows:

|  | <b>2011</b> | <b>2012</b> |
|--|-------------|-------------|
| Defined benefit pension plan cost      | \$ 2,444    | 17,324      |
| Defined contribution pension plan cost | 35,895      | 40,335      |

(l) Income tax

1. The Company is subject to ROC income tax at a maximum rate of 17% for the years ended December 31, 2011 and 2012. Also, the Company calculated the amounts of the basic tax in accordance with the "Income Basic Tax Act".
2. The components of income tax expense (benefit) for the years ended December 31, 2011 and 2012 were as follows:

|                                       | <b>2011</b>                | <b>2012</b>           |
|---------------------------------------|----------------------------|-----------------------|
| Current income tax expense            | \$ 191,200                 | 130,436               |
| Deferred income tax expense (benefit) | <u>(300,103)</u>           | <u>150,351</u>        |
| Income tax expense (benefit)          | <b>\$ <u>(108,903)</u></b> | <b><u>280,787</u></b> |

(Continued)



**WIN Semiconductors Corp.**

**Notes to Financial Statements**

3. The deferred income tax expense (benefit) for the years ended December 31, 2011 and 2012 were as follows:

|   | <b>2011</b>                | <b>2012</b>           |
|---|----------------------------|-----------------------|
| Investment tax credits  | \$ 142,036                 | 116,724               |
| Loss carry-forwards   | 705                        | 162,475               |
| Pension expenses adjusted for tax purpose                         | (300)                      | (2,832)               |
| Depreciation expenses adjusted for tax purposes                   | (10,513)                   | (8,564)               |
| Provision of allowance for inventory obsolescence                 | (448)                      | (4,447)               |
| Unrealized valuation loss or gain on financial assets             | (105,692)                  | (27,527)              |
| Unrealized exchange loss or gain                                  | (10,418)                   | 1,644                 |
| Unrealized commission expense                                     | (1,097)                    | (545)                 |
| Unrealized cost of goods sold                                     | (2,905)                    | (2,127)               |
| Unrealized sales discount and allowance                           | (928)                      | (311)                 |
| Unrealized investment loss or gain recognized under equity method | 12,546                     | (2,280)               |
| Valuation allowance for deferred income tax assets                | <u>(323,089)</u>           | <u>(81,859)</u>       |
| Deferred income tax expense (benefit)                             | <b>\$ <u>(300,103)</u></b> | <b><u>150,351</u></b> |

4. The income tax calculated on pre-tax financial income at statutory rate was reconciled with income tax expense as reported in the accompanying statements of operations for the years ended December 31, 2011 and 2012, as follows:

|   | <b>2011</b>                | <b>2012</b>           |
|---|----------------------------|-----------------------|
| Income tax calculated on pre-tax financial income at statutory income tax rate  | \$ 198,850                 | 327,814               |
| Investment tax credits  | (35,601)                   | 14,388                |
| Research and development tax credits according to "Industrial Innovation Act"   | (22,527)                   | (29,589)              |
| Loss (gain) on disposal of investment   | (31)                       | 14,774                |
| Dividend income   | (13,343)                   | (2,706)               |
| Meal expense disallowed for tax reporting purposes                              | 1,421                      | 1,734                 |
| Disposal of long-term investments under equity method adjusted for tax purposes | -                          | (18,592)              |
| Impairment loss on financial assets   | -                          | 3,200                 |
| Investment loss recognized under equity method (domestic)                       | 15,248                     | 10,729                |
| 10% surtax on unappropriated earnings   | 66,429                     | 41,021                |
| Others  | 3,740                      | (127)                 |
| Valuation allowance for deferred income tax assets                              | <u>(323,089)</u>           | <u>(81,859)</u>       |
| Income tax expense (benefit)  | <b>\$ <u>(108,903)</u></b> | <b><u>280,787</u></b> |

(Continued)

**WIN Semiconductors Corp.**

**Notes to Financial Statements**

5. The components of the deferred income tax assets (liabilities) as of December 31, 2011 and 2012 were as follows:

|   | <b>2011</b>              | <b>2012</b>           |
|---|--------------------------|-----------------------|
| Deferred income tax assets (liabilities) — current                    |                          |                       |
| Allowance for obsolete inventories                                    | \$ 12,560                | 17,007                |
| Unrealized commission expense   | 3,583                    | 4,128                 |
| Unrealized cost of goods sold   | 2,905                    | 5,032                 |
| Unrealized sales discount and allowances                              | 1,210                    | 1,521                 |
| Unused investment tax credits   | 115,704                  | 182,880               |
| Unused loss carry-forwards  | 162,475                  | -                     |
| Unrealized exchange loss (gain)                                       | 1,022                    | (622)                 |
| Unrealized valuation loss on financial assets                         | <u>61,022</u>            | <u>88,549</u>         |
| Deferred income tax assets, net — current                             | <b><u>\$ 360,481</u></b> | <b><u>298,495</u></b> |
| Deferred income tax assets (liabilities) — noncurrent                 |                          |                       |
| Unused investment tax credits   | \$ 183,900               | -                     |
| Unrealized pension expense for tax purpose                            | 719                      | 3,551                 |
| Unrealized investment income recognized under equity method           | (7,732)                  | (5,452)               |
| Difference in depreciation expense between financial and tax purposes | (4,669)                  | 3,895                 |
| Others  | (628)                    | -                     |
| Less: Valuation allowance for deferred income tax assets              | <u>(81,859)</u>          | <u>-</u>              |
| Deferred income tax assets, net — noncurrent                          | <b><u>\$ 89,731</u></b>  | <b><u>1,994</u></b>   |

6. According to the ROC Income Tax Act, operating loss can be carried forward for 10 consecutive years to reduce future taxable income. As of December 31, 2012, the Company had no unused loss carry-forwards.

(Continued)

**WIN Semiconductors Corp.**

**Notes to Financial Statements**

7. The Company was granted investment tax credits for investment in research and development expenditures according to “Industrial Innovation Act”. The investment tax credits can be used to reduce the income liability in the current year at an amount not exceeding 30% of the income tax liability. Also, the Company was granted investment tax credits for investment in certain high-tech industries for purchases of automatic machinery and equipment, for expenditures in research and development and employee training, and the Company’s investment in Emerging Industry. These investment tax credits can be used to reduce the income tax liability in the current year and in the following four years at an amount not exceeding 50% of the income tax liability for each year during the first four years, with full utilization of the balance of the remaining unused investment tax credits in the final year. As of December 31, 2012, unused investment tax credits available to the Company were as follows:

| <b>Year granted</b> | <b>Unused investment<br/>tax credits</b> | <b>Expiry year</b> |
|---------------------|--|--------------------|
| 2009 (assessed)     | \$ 86,074                                | 2013               |
| 2010 (assessed)     | 57,915                                   | 2014               |
| 2011 (filed)        | <u>38,891</u>                            | 2015               |
|                     | <b>\$ <u>182,880</u></b>                 |                    |

8. Imputation credit account (ICA) and creditable ratio

|  | <b>December 31</b>            |                                  |
|--|-------------------------------|----------------------------------|
|  | <b>2011</b>                   | <b>2012</b>                      |
| Unappropriated earnings after 1997                                 | \$ <u>1,942,901</u>           | <u>2,673,744</u>                 |
| ICA  | \$ <u>90,149</u>              | <u>158,741</u>                   |
|  | <b>2011</b>                   | <b>2012</b>                      |
| Creditable ratio for earnings distributed to domestic shareholders | <b><u>14.45%</u> (actual)</b> | <b><u>10.71%</u> (estimated)</b> |

9. As of December 31, 2012, the Company’s income tax returns have been assessed by the local tax authorities through 2010, with no additional tax liabilities.

(Continued)

**WIN Semiconductors Corp.****Notes to Financial Statements**

## (m) Stockholders' equity

## 1. Common stock

As of December 31, 2011 and 2012, the Company's authorized share capital consisted of 1,000,000 thousand shares of common stock, with \$10 dollars par value per share, of which 648,593 thousand shares and 754,188 thousand shares, respectively, were issued and outstanding. The Company has reserved \$1,000,000 for employee stock options.

In 2011 and 2012, the Company had issued 19,345 thousand shares and 5,595 thousand shares resulting from the exercise of employee stock options. The aforementioned stock issuance was authorized by and registered with the government authorities.

On October 27, 2011, the Company's Board of Directors approved to increase the common shares of stock in cash of \$116,800 by issuing 11,680 thousand shares with \$10 dollars par value per share. The aforementioned capital increase in cash was approved by and registered with the government authorities on December 9, 2011.

On October 9, 2012, the Company issued 20 million units of Global Depositary Receipts (GDRs), representing 100 million common shares of stock of the Company. These GDRs were offered for trading on the MTF Market of the Luxembourg Stock Exchange.

## 2. Capital surplus, legal reserve, and restrictions on appropriations of earnings

## (1) Capital surplus

According to the amended Company Act which was announced in January 2012, capital surplus should not be used except for covering the accumulated deficit or loss of the Company. The capital surplus includes the premium from issuance of shares over their par value and the income from endowments received. In addition, if the capital surplus is capitalized, the combined amount of any portions capitalized in any one year may not exceed 10% of the paid-in capital in accordance with the "Criteria Governing the Offering and Issuance of Securities by Securities Issuers".

## (2) Legal reserve:

According to the amended Company Act which was announced in January 2012, the Company must retain 10% of its annual income as a legal reserve until such retention equals the amount of the paid-in capital. If it has no accumulated deficit, the Company may, in pursuant to a resolution approved by its stockholders, distribute its legal reserve by issuing new shares or cash for the portion in excess of 25% of the paid-in capital.

(Continued)

**WIN Semiconductors Corp.**

**Notes to Financial Statements**

(3) Appropriations of earnings:

The Company's Articles of Incorporation stipulate that 10% of the balance of annual income or earnings after deducting accumulated deficit, if any, must be set aside as a legal reserve and a special capital reserve is likewise appropriated or the annual income or earnings are retained in accordance with relevant laws or regulations or as requested by the authorities. Otherwise, the remaining balance of the earnings is further appropriated as follows:

- A. 5% to 10% as employees bonuses
- B. 1% to 3% as directors' and supervisors' remuneration
- C. the remaining balance, excluding (A) and (B), will be distributed to stockholders as dividends of which cash dividends should not be lower than 10% of the total stockholders' dividends

As the Company is a technology and capital-intensive enterprise and is in its growth phase, it has adopted a more prudent approach in appropriating its remaining earnings as its dividend policy in order to sustain its long-term capital needs and thereby maintain continuous development and steady growth.

On June 10, 2011 and June 5, 2012, respectively, the Company's stockholders approved a resolution to appropriate its earnings for 2010 and 2011 as follows:

|   | <b>2010</b> | <b>2011</b> |
|---|-------------|-------------|
| Cash dividends                            | \$ 513,291  | 518,874     |
| Bonuses to employees                      | 58,100      | 92,900      |
| Remuneration to directors and supervisors | 17,400      | 27,800      |

The above-mentioned appropriations of earning for 2010 and 2011 were consistent with the resolutions of the meeting of the Board of Directors. The related information can be found on websites such as the Market Observation Post System.

As of December 31, 2011 and 2012, the Company accrued and recognized employees' bonus amounting to \$92,900 and \$167,000, respectively, and directors' and supervisors' remuneration amounting to \$27,800 and \$50,100 respectively. The difference between the actual appropriation of 2011 and 2012 earnings for employees' bonus and directors' emoluments as approved in the shareholders' meeting and those recognized in the financial statements, if any, is accounted for as a change in accounting estimates and recognized in profit or loss of the following year when the shareholders approved the appropriations of those earnings. In addition, the number of shares distributed to employees as employees' bonus is calculated based on the closing price of the Company's shares of stock being traded in the listed market on the day before the approval of shareholders' meeting.

(Continued)

**WIN Semiconductors Corp.**

**Notes to Financial Statements**

3. Employee stock options:

The Company's Board of Directors approved a resolution to issue employee stock options, with the right for each unit of the options to purchase one share of the Company's common stock. The details of employee stock options were as follows:

| Item          | Date of approval by Board of Directors | Date of approval by authority | Issue Date | Duration | Estimated issued shares | Actual issue shares | Price of each share (expressed in dollars) |
|---------------|--|-------------------------------|------------|----------|-------------------------|---------------------|--|
| 2006:         |  |                               |            |          |                         |                     |  |
| - 1st package | 2006.11.30                             | -                             | 2006.12.25 | 5 years  | 10,000,000              | 730,000             | 10.0                                       |
| - 2nd package | 2006.11.30                             | -                             | 2007.07.20 | "        |                         | 9,270,000           | 10.0                                       |
| 2007          | 2007.06.15                             | -                             | 2007.07.16 | "        | 10,000,000              | 10,000,000          | 10.0                                       |
| 2008          | 2008.10.28                             | -                             | 2009.08.20 | 7 years  | 10,000,000              | 10,000,000          | 10.0                                       |
| 2009          | 2009.08.21                             | 2009.09.22                    | 2009.09.30 | 5 years  | 20,000,000              | 20,000,000          | 9.9  |
| 2010          | 2010.07.05                             | 2010.09.28                    | 2011.01.26 | "        | 10,000,000              | 10,000,000          | 25.0                                       |

The details of exercisable percentage of employee stock options were as follows:

|                  | Issued in 2006 | Issued in 2007 | Issued in 2008 | Issued in 2009 | Issued in 2010 |
|------------------|----------------|----------------|----------------|----------------|----------------|
| Grant date       | -              | -              | 50%            | -              | -              |
| Over one year    | 40%            | 25%            | 100%           | -              | -              |
| Over two years   | 100%           | 50%            | 100%           | 60%            | 60%            |
| Over three years | 100%           | 75%            | 100%           | 100%           | 100%           |
| Over four years  | 100%           | 100%           | 100%           | 100%           | 100%           |
| Over five years  | 100%           | 100%           | 100%           | 100%           | 100%           |
| Over six years   | -              | -              | 100%           | -              | -              |
| Over seven years | -              | -              | 100%           | -              | -              |

(Continued)

**WIN Semiconductors Corp.**

**Notes to Financial Statements**

Had the Company used the fair value based method to evaluate the options using the Black-Scholes model, the assumptions at the various grant dates would have been as follows:

|                                     | <b>2010<br/>Employee<br/>stock options<br/>exercise in the<br/>2<sup>nd</sup> year</b> | <b>2010<br/>Employee<br/>stock options<br/>exercise in the<br/>3<sup>rd</sup> year</b> |
|-------------------------------------|--|--|
| Price of each share (dollars)       | \$ 27.10   | 27.10  |
| Expected life                       | 2 years  | 3 years  |
| Market value of per share (dollars) | \$ 27.02   | 27.02  |
| Expected volatility                 | 31.25%   | 31.25%   |
| Risk free interest rate             | 0.73%  | 0.86%  |

For the years ended December 31, 2011 and 2012, the related outstanding units and weighted-average exercise price of employee stock options were as follows:

|                              | <b>2011</b>                      |  | <b>2012</b>                      |  |
|------------------------------|----------------------------------|--|----------------------------------|--|
|                              | <b>Shares (in<br/>thousands)</b> | <b>Weighted-<br/>average<br/>exercise price<br/>(expressed in<br/>dollars)</b> | <b>Shares (in<br/>thousands)</b> | <b>Weighted-<br/>average<br/>exercise price<br/>(expressed in<br/>dollars)</b> |
| Outstanding at the beginning | 27,824                           | \$ 10.50   | 17,891                           | \$ 18.41   |
| Granted                      | 10,000                           | 25.50  | -                                | -  |
| Exercised                    | (19,345)                         | 10.06  | (5,595)                          | 9.90   |
| Expired                      | <u>(588)</u>                     | -  | <u>(911)</u>                     | -  |
| Outstanding at the end       | <u>17,891</u>                    | 18.41  | <u>11,385</u>                    | 21.76  |

For the years ended December 31, 2011 and 2012, the compensation cost for employee stock options amounted to \$153,511 and \$63,460, respectively, which had been recorded under cost of goods sold and operating expenses in accordance with SFAS No. 39.

(Continued)

## WIN Semiconductors Corp.

## Notes to Financial Statements

As of December 31, 2012, the Company's compensatory outstanding employee stock options were as follows:

| Issue date | Outstanding                                    |                       |  | Exercisable           |  |
|------------|--|-----------------------|--|-----------------------|--|
|            | Range of exercise price (expressed in dollars) | Shares (in thousands) | Weighted-average of remaining duration (years) | Shares (in thousands) | Weighted-average exercise price (expressed in dollars) |
| 2009.09.30 | \$ 9.9   | 2,445                 | 1.75   | 2,445                 | 9.9  |
| 2011.01.26 | 25.0   | 8,940                 | 3.07   | -                     | 25.0   |

The Company's employee stock options issued in 2006 through 2007 were recorded as compensation cost using the intrinsic value method. Under SFAS No. 39 the pro-forma net income and EPS for the year ended December 31, 2011 were as follows:

|                       |  | 2011                       |
|-----------------------|--|----------------------------|
| Net Income            | Net income in statements of operations             | \$ 1,278,610               |
|                       | Compensation cost                                  | <u>(105)</u>               |
|                       | Pro-forma net income                               | \$ <u><b>1,278,505</b></u> |
| Basic EPS (dollars)   | EPS in statements of operations (after income tax) | 2.04                       |
|                       | Pro-forma EPS                                      | 2.04                       |
| Diluted EPS (dollars) | EPS in statements of operations (after income tax) | 1.99                       |
|                       | Pro-forma EPS                                      | 1.99                       |

As of December 31, 2012, all of the Company's employee stock options issued in 2006 through 2007 had matured, so that no pro-forma information was disclosed.

(Continued)



## WIN Semiconductors Corp.

## Notes to Financial Statements

## (n) Earnings per share

For the years ended December 31, 2011 and 2012, the Company's earnings per share were calculated as follows:

(Shares expressed in thousands)

|   | 2011<br>before<br>income tax | 2012<br>before<br>income tax |
|---|------------------------------|------------------------------|
| <b>Basic earnings per share</b>   |                              |                              |
| Net income  | \$ <u>1,169,707</u>          | <u>1,928,316</u>             |
| Weighted-average number of shares outstanding during the year           | <u>625,342</u>               | <u>672,994</u>               |
| Basic earnings per share (dollars)                                      | \$ <u>1.87</u>               | <u>2.87</u>                  |
| <b>Diluted earnings per share</b>                                       |                              |                              |
| Net income  | \$ <u>1,169,707</u>          | <u>1,928,316</u>             |
| Weighted-average number of shares outstanding during the year           | 625,342                      | 672,994                      |
| Employees' bonuses  | 4,932                        | 6,064                        |
| Employee stock options  | <u>11,247</u>                | <u>5,831</u>                 |
| Weighted-average number of shares outstanding during the year - diluted | <u>641,521</u>               | <u>684,889</u>               |
| Diluted earnings per share (dollars)                                    | \$ <u>1.82</u>               | <u>2.82</u>                  |
|   | 2011<br>after<br>income tax  | 2012<br>after<br>income tax  |
| <b>Basic earnings per share</b>   |                              |                              |
| Net income  | \$ <u>1,278,610</u>          | <u>1,647,529</u>             |
| Weighted-average number of shares outstanding during the period         | <u>625,342</u>               | <u>672,994</u>               |
| Basic earnings per share (dollars)                                      | \$ <u>2.04</u>               | <u>2.45</u>                  |
| <b>Diluted earnings per share</b>                                       |                              |                              |
| Net income  | \$ <u>1,278,610</u>          | <u>1,647,529</u>             |
| Weighted-average number of shares outstanding during the year           | 625,342                      | 672,994                      |
| Employees' bonuses  | 4,932                        | 6,064                        |
| Employee stock options  | <u>11,247</u>                | <u>5,831</u>                 |
| Weighted-average number of shares outstanding during the year - diluted | <u>641,521</u>               | <u>684,889</u>               |
| Diluted earnings per share (dollars)                                    | \$ <u>1.99</u>               | <u>2.41</u>                  |

(Continued)

## WIN Semiconductors Corp.

## Notes to Financial Statements

## (o) Disclosure of financial instruments

## 1. Fair value of financial instruments

- (1) The fair values of financial assets and liabilities evaluated by the Company using public quote or a valuation method were as follows:

|   | Carrying<br>value | 2011<br>Fair value    |                     | Carrying<br>value | 2012<br>Fair value    |                     |
|---|-------------------|-----------------------|---------------------|-------------------|-----------------------|---------------------|
|   |                   | Public quote<br>value | Assessment<br>value |                   | Public quote<br>value | Assessment<br>value |
| Nonderivative financial instruments:                                    |                   |                       |                     |                   |                       |                     |
| Financial assets:   |                   |                       |                     |                   |                       |                     |
| Cash and cash equivalents   | \$ 761,868        | -                     | 761,868             | 2,845,717         | -                     | 2,845,717           |
| Financial assets at fair value through profit or loss—funds             | 621,452           | 621,452               | -                   | 620,452           | 620,452               | -                   |
| Financial assets at fair value through profit or loss—stocks            | 957,190           | 957,190               | -                   | 855,645           | 855,645               | -                   |
| Financial assets at fair value through profit or loss—convertible bonds | 21,350            | 21,350                | -                   | 25,075            | 25,075                | -                   |
| Available-for-sale financial assets—current                             | -                 | -                     | -                   | 512,068           | 512,068               | -                   |
| Available-for-sale financial assets—noncurrent                          | 160,021           | 160,021               | -                   | 70,589            | 70,589                | -                   |
| Financial assets carried at cost—noncurrent                             | 485,306           | -                     | -                   | 351,457           | -                     | -                   |
| Investment in bonds with no active market—noncurrent                    | 344,783           | -                     | -                   | 534,783           | -                     | -                   |
| Notes and accounts receivable (including related parties)               | 517,990           | -                     | 517,990             | 1,003,114         | -                     | 1,003,114           |
| Other financial assets—current  | 129,844           | -                     | 129,844             | 209,446           | -                     | 209,446             |
| Restricted assets—noncurrent  | 23,284            | -                     | 23,284              | 23,423            | -                     | 23,423              |
| Stock conversion option   | 15,217            | -                     | -                   | 15,217            | -                     | -                   |
| Financial liabilities:  |                   |                       |                     |                   |                       |                     |
| Accounts payable  | 1,090,011         | -                     | 1,090,011           | 1,121,867         | -                     | 1,121,867           |
| Accrued expense, payable on equipment and other current liabilities     | 962,211           | -                     | 962,211             | 808,976           | -                     | 808,976             |
| Long-term borrowings (including current portion)                        | 6,491,294         | -                     | 6,491,294           | 7,208,862         | -                     | 7,208,862           |
| Off-balance-sheet financial instruments:                                |                   |                       |                     |                   |                       |                     |
| Letters of credit   | -                 | -                     | 171,392             | -                 | -                     | 129,048             |
| Derivative financial instruments:                                       |                   |                       |                     |                   |                       |                     |
| Financial liabilities:  |                   |                       |                     |                   |                       |                     |
| Forward exchange contracts  | -                 | -                     | -                   | 417               | -                     | 417                 |

## 2. Methods and assumptions to measure the fair value of financial instruments

- (1) As the maturity dates of short-term financial instruments, including cash and cash equivalents, notes and accounts receivable, other financial assets—current, restricted assets, accounts payable, accrued expenses, payable on equipment and other current liabilities are within one year of the balance sheet date, their book value is considered to be a reasonable basis for assessing their fair value.

(Continued)

**WIN Semiconductors Corp.****Notes to Financial Statements**

- (2) If publicly quoted market prices of financial assets and liabilities are available, then quoted price is adopted as the fair value. If market prices are not available, a valuation technique is adopted to determine the fair value. When adopting a valuation technique, the estimates and assumptions used are consistent with those used by financial market participants in setting prices for financial instruments.
- (3) Financial assets carried at cost have no quoted prices in an active market and entail an unreasonably high cost to obtain verifiable fair values. Therefore, no fair value is presented.
- (4) Long-term borrowings: As these borrowings bear floating interest rates which are calculated based on the prevailing market rate adjusted by the Company's credit spread, their fair value was estimated to be close to their carrying value.
- (5) The fair value of investment in bonds with no active market is determined based on certain valuation techniques. The estimates and assumptions of the valuation techniques are identical to those adopted by other market participants.
- (6) The fair value of letters of credit is based on the amount of the contract.
- (7) The fair values of derivative financial instruments are assessed by valuation techniques. When adopting a valuation technique, the estimates and assumptions are close to those used by financial participants when setting prices for the financial instruments.

**3. Disclosure of financial risks****(1) Market risk**

The open-end mutual funds and securities held by the Company were measured at fair value and were recorded as financial assets at fair value through profit or loss and available-for-sale financial assets, respectively. Therefore, the Company bear the risk of changes in market price.

The Company are exposed to foreign currency risk on accounts receivables which are denominated in a currency other than New Taiwan dollars. However, this foreign currency risk will most likely be offset by the same risk related to those accounts payables which are denominated in a foreign currency. Therefore, the Company believe those exposures to foreign currency risk are low.

(Continued)

**WIN Semiconductors Corp.**

**Notes to Financial Statements**

(2) Credit risk

The Company are exposed to potential credit risk through cash and cash equivalents, forwards, securities, and accounts receivable. Cash is deposited in different financial institutions. The Company own securities by purchasing publicly traded stocks. Derivative counterparties are limited to high-credit-quality financial institutions. However, the credit risk involving cash, derivatives and securities is not expected to be significant.

As of December 31, 2011 and 2012, the Company's notes and accounts receivables were concentrated on 4 and 3 customers, whose accounts represented 84% and 80% of total accounts receivables, respectively. In order to reduce the credit risk on these accounts receivable, the Company continues to evaluate the financial status of these customers and request for collaterals when necessary. The Company evaluates the possible loss on accounts receivables periodically and accrues allowance for doubtful accounts, if necessary. Historically, bad debt expense has always been under management's expectation.

(3) Liquidity risk

The Company's capital and operating funds are sufficient to fulfill all obligations. Therefore, the Company's management believes that they do not have any significant exposure to liquidity risk.

(4) Cash-flow risk related to the fluctuation of interest rates

The Company's short-term borrowings and long-term borrowings bear floating interest rates. The changes in effective rate along with the fluctuation of the market interest rate influence the Company's future cash flow. If the market interest rate increases by 1%, the Company's future yearly cash outflow would increase by approximately \$72,089.

**(5) Transactions with Related Parties**

(a) Name and relationship of related parties

| <b>Name</b>  | <b>Relationship</b>                           |
|--|---|
| Win Semiconductors Cayman Islands Co., Ltd.<br>(Win Cayman)            | 100%-owned subsidiary of the Company          |
| HIWIN Technologies Corp.   | The vice-president is the Company's president |
| WinMEMS Technologies Co., Ltd.   | The president is the Company's president      |
| Directors, supervisors , general managers and vice<br>general managers | Key management of the Company                 |

(Continued)

**WIN Semiconductors Corp.**

**Notes to Financial Statements**

(b) Significant transactions with related parties

1. Sales

|            | <b>2011</b>         |                                 | <b>2012</b>      |                                 |
|------------|---------------------|---------------------------------|------------------|---------------------------------|
|            | <b>Amount</b>       | <b>% of the<br/>net revenue</b> | <b>Amount</b>    | <b>% of the<br/>net revenue</b> |
| Win Cayman | \$ <u>5,132,866</u> | <u>59</u>                       | <u>5,594,381</u> | <u>51</u>                       |

As of December 31, 2011 and 2012, the balance of accounts receivable resulting from the sales amounted to \$280,103 and \$536,618, respectively. The price for sales from related parties are not materially different from those of third-party customers.

2. Probe cleaning service and rent revenue

For the year ended December 31, 2011, the Company had provided probe cleaning service and leasing of office space to WinMEMS Technologies Co., Ltd. The service income and rental income, which were billed monthly and were recorded as other income, amounted to \$1,140 and \$4,444, respectively. As of December 31, 2011, the receivables arising from these transactions were fully collected.

For the year ended December 31, 2012, the Company had provided probe cleaning service and leasing of office space to WinMEMS Technologies Co., Ltd. The service income and rental income, which were billed monthly and were recorded as other income, amounted to \$1,140 and \$3,846, respectively. As of December 31, 2012, the receivables arising from these transactions were fully collected.

3. Property transaction

For the years ended December 31, 2011 and 2012, the Company purchased machinery from HIWIN Technologies Corp. worth \$4,945 and \$0, respectively. As of December 31, 2011 and 2012, the accounts payable arising from this transaction amounted to \$580 and \$0, respectively.

(Continued)

**WIN Semiconductors Corp.**

**Notes to Financial Statements**

(c) Key management compensation

For the years ended December 31, 2011 and 2012, the remuneration of the Company's directors, supervisors, CEO and vice presidents were as follows:

|                              | <b>2011</b> | <b>2012</b> |
|------------------------------|-------------|-------------|
| Salary                       | \$ 92,560   | 94,256      |
| Bonus and special allowances | 23,415      | 53,638      |
| Other bonus                  | 23,071      | 41,185      |

Please see note 4(m) for the details of the above remuneration, including estimated employees' bonus and directors' and supervisors' remuneration.

**(6) Pledged Assets**

The book values of the pledged assets as of December 31, 2011 and 2012 were as follows:

| <b>Pledged assets</b>                 | <b>Object</b>        | <b>2011</b>                | <b>2012</b>             |
|---------------------------------------|----------------------|----------------------------|-------------------------|
| Restricted assets – noncurrent        | Gas deposits         | \$ 3,000                   | 3,000                   |
| Restricted assets – noncurrent        | Customs guarantee    | 20,284                     | 20,423                  |
| Land                                  | Long-term borrowings | 599,602                    | 1,562,729               |
| Buildings                             | Long-term borrowings | 554,635                    | 527,100                 |
| Machinery and equipment               | Long-term borrowings | 4,337,722                  | 4,358,130               |
| Factory and equipment                 | Long-term borrowings | 575,545                    | 1,080,163               |
| Office equipment                      | Long-term borrowings | 8,930                      | 4,417                   |
| Other equipment                       | Long-term borrowings | 3,878                      | 2,544                   |
| Construction in progress              | Long-term borrowings | 450,650                    | 136,727                 |
| Prepayment for purchases of equipment | Long-term borrowings | <u>562,734</u>             | <u>242,570</u>          |
|                                       |                      | <b>\$ <u>7,116,980</u></b> | <b><u>7,937,803</u></b> |

**(7) Commitments and Contingencies**

- (a) As of December 31, 2011 and 2012, the unused letters of credit amounted to \$171,392 and \$129,048, respectively.
- (b) As of December 31, 2011 and 2012, the Company entered into agreements to purchase land and buildings, construction of buildings and purchase of machinery equipment with contract prices aggregating to \$2,025,976 and \$2,668,810, of which \$415,788 and \$1,090,152, respectively, were unpaid.

(Continued)

**WIN Semiconductors Corp.**

**Notes to Financial Statements**

- (c) In 2010, the Company, together with a non-related party/entity, had jointly entered into a technical development cooperation agreement with the Ministry of Economic Affairs, which is effective until April 30, 2011. Under this agreement, the Company receives a cost reimbursement of \$5,500 for every stage of development of solar generator carrier (including other cost reimbursement of \$1,980 for a non-related party/entity).
- (d) In 2008, the Company had entered into a syndicate loan agreement with China Development Industry Bank and the other thirteen banks. For the related commitments, please refer to note 4(j) under long-term borrowings.
- (e) In 2011, the Company had entered into a syndicate loan agreement with Mega International Commercial Bank and the other seventeen banks. For the related information, please refer to note 4(j) under long-term borrowings.
- (f) In order to obtain bank loans, the Company had issued promissory notes amounting to US\$25,000 and NT\$12,915,105 for the year ended December 31, 2011, and US\$27,000 and NT\$12,765,105 for the year ended December 31, 2012.

**(8) Important Damage Losses: None.**

**(9) Important Subsequent Events: None.**

**(10) Others**

- (a) Total personnel expenses, depreciation and amortization for the years ended December 31, 2011 and 2012 were as follows:

|                    | <b>Cost of<br/>goods sold</b> | <b>2011<br/>Operating<br/>expenses</b> | <b>Total</b> | <b>Cost of<br/>goods sold</b> | <b>2012<br/>Operating<br/>expenses</b> | <b>Total</b> |
|--------------------|-------------------------------|--|--------------|-------------------------------|--|--------------|
| Personnel expenses |                               |  |              |                               |  |              |
| Salaries           | \$ 679,553                    | 294,679                                | 974,232      | 855,791                       | 384,957                                | 1,240,748    |
| Insurance          | 51,692                        | 17,816                                 | 69,508       | 59,330                        | 19,568                                 | 78,898       |
| Pension            | 25,806                        | 12,533                                 | 38,339       | 29,188                        | 28,471                                 | 57,659       |
| Others             | 65,616                        | 130,348                                | 195,964      | 50,063                        | 59,166                                 | 109,229      |
| Depreciation       | 911,327                       | 64,556                                 | 975,883      | 1,166,865                     | 89,858                                 | 1,256,723    |
| Amortization       | 19,365                        | 38,248                                 | 57,613       | 17,560                        | 32,646                                 | 50,206       |

(Continued)

## WIN Semiconductors Corp.

## Notes to Financial Statements

## (b) Reclassification

Certain accounts in the financial statements as of and for the year ended December 31, 2011 have been reclassified to conform to the presentations of the financial statements as of and for the year ended December 31, 2012 for purposes of comparison. These reclassifications do not have a significant impact on the financial statements.

## (c) The significant foreign currency financial assets and liabilities were as follows:

|                              | Foreign<br>Currency | 2011<br>Exchange<br>rate | NT\$                | Foreign<br>Currency | 2012<br>Exchange<br>rate | NT\$             |
|------------------------------|---------------------|--------------------------|---------------------|---------------------|--------------------------|------------------|
| <b>Financial assets</b>      |                     |                          |                     |                     |                          |                  |
| <b>Monetary</b>              |                     |                          |                     |                     |                          |                  |
| USD                          | \$ 36,588           | 30.28                    | 1,107,877           | 120,827             | 29.04                    | 3,508,814        |
| EUR                          | 164                 | 39.18                    | 6,416               | 568                 | 38.49                    | 21,864           |
| JPY                          | 151,202             | 0.3906                   | <u>59,060</u>       | 554                 | 0.3364                   | <u>186</u>       |
|                              |                     |                          | <u>\$ 1,173,353</u> |                     |                          | <u>3,530,864</u> |
| <b>Non-monetary</b>          |                     |                          |                     |                     |                          |                  |
| USD                          | \$ 303              | 30.28                    | <u>\$ 9,190</u>     | 309                 | 29.04                    | <u>8,969</u>     |
| <b>Financial liabilities</b> |                     |                          |                     |                     |                          |                  |
| <b>Monetary</b>              |                     |                          |                     |                     |                          |                  |
| USD                          | \$ 19,286           | 30.28                    | 583,983             | 16,294              | 29.04                    | 473,170          |
| EUR                          | 355                 | 39.18                    | 13,900              | 260                 | 38.49                    | 10,004           |
| JPY                          | 521,141             | 0.3906                   | <u>203,558</u>      | 472,693             | 0.3364                   | <u>159,014</u>   |
|                              |                     |                          | <u>\$ 801,441</u>   |                     |                          | <u>642,188</u>   |

## (11) Other Disclosure Items

## (a) Related information on material transaction items:

1. Lending to other parties: None.
2. Guarantees and endorsements for other parties: None.

(Continued)



## WIN Semiconductors Corp.

## Notes to Financial Statements

## 3. Information regarding securities held:

| Company holding securities                  | Security type and name  | Relationship with the Company  | Account   | Period-end            |                  |                             |                             | Note     |
|---|---|--------------------------------|---|-----------------------|------------------|-----------------------------|-----------------------------|----------|
|   |   |                                |   | Shares (in thousands) | Carrying value   | Percentage of ownership (%) | Market value (or net value) |          |
| The Company                                 | Pegatron Corporation/Stock                                    | None                           | Financial assets at fair value through profit or loss – current | 323                   | 12,129           | 0.01                        | 12,129                      |          |
| "   | EPiSTAR Corporation /Stock                                    | "                              | "   | 16,006                | 843,516          | 1.72                        | 843,516                     |          |
| "   | I-Chiun Precision Industry Co., Ltd. /Convertible Bond        | "                              | "   | 250                   | 25,075           | -                           | 25,075                      |          |
| "   | Fuh Hwa Yu Li Money Market Fund                               | "                              | "   | 7,635                 | 100,057          | -                           | 100,057                     |          |
| "   | Allianz Global Investors Taiwan Money Market Fund             | "                              | "   | 4,113                 | 50,003           | -                           | 50,003                      |          |
| "   | Union Money Market Fund                                       | "                              | "   | 10,142                | 130,101          | -                           | 130,101                     |          |
| "   | Capital Money Market Fund                                     | "                              | "   | 7,668                 | 120,101          | -                           | 120,101                     |          |
| "   | Polaris De- Bao Money Market Securities Investment Trust Fund | "                              | "   | 6,863                 | 80,112           | -                           | 80,112                      |          |
| "   | Allianz Global Investors All Seasons Return Fund of Fund      | "                              | "   | 7,239                 | 100,076          | -                           | 100,076                     |          |
| "   | ING Taiwan Money Market Fund                                  | "                              | "   | 2,524                 | 40,002           | -                           | 40,002                      |          |
|   |   |                                |   |                       | <u>1,501,172</u> |                             | <u>1,501,172</u>            |          |
| "   | ITEQ CORPORATION/Stock  | None                           | Available-for-sale financial assets – current                   | 9,298                 | 275,677          | 2.80                        | 275,677                     |          |
| "   | MAG. LAYERS Scientific-Technics Co., Ltd./Stock               | "                              | "   | 1,931                 | 72,393           | 2.44                        | 72,393                      |          |
| "   | Solar Applied Materials Technology Corp./Stock                | "                              | "   | 400                   | 14,160           | 0.10                        | 14,160                      |          |
| "   | Speed Tech Corp./Stock  | "                              | "   | 12,591                | 149,838          | 9.20                        | 149,838                     |          |
|   |   |                                |   |                       | <u>512,068</u>   |                             | <u>512,068</u>              |          |
| "   | Tainergy Tech Co., Ltd./Stock                                 | None                           | Available-for-sale financial assets – noncurrent                | 7,130                 | 70,589           | 3.46                        | 70,589                      |          |
| "   | Shin Sheng III Venture Capital Investment Corp./Stock         | None                           | Financial assets carried at cost – noncurrent                   | 15,000                | 150,000          | 11.03                       | (note 1)                    |          |
| "   | Inventec Solar Energy Corporation Stock                       | "                              | "   | 33,000                | 186,151          | 11.00                       | (note 1)                    |          |
| "   | IntelHEPI Inc.(Cayman)/Stock                                  | "                              | "   | 500                   | 5,306            | 1.93                        | (note 1)                    |          |
| "   | Bright Led Electronics Corp. /Convertible Right               | "                              | "   | -                     | 15,217           | -                           | (note 3)                    |          |
| "   | MagiCap Venture Capital Co., Ltd.-Preferred Stock A           | "                              | "   | 1,000                 | 10,000           | 0.91                        | (note 1)                    |          |
|   |   |                                |   |                       | <u>366,674</u>   |                             |                             |          |
| "   | WIN SEMI USA, INC./Stock                                      | Subsidiary                     | Long-term investments under equity method                       | 1,000                 | 8,969            | 100.00                      | 8,969                       | (note 2) |
| "   | Win Semiconductors Cayman Islands Co., Ltd./Stock             | "                              | "   | 7,000                 | 308,685          | 100.00                      | 308,685                     | (note 2) |
| "   | Inventec Energy Corporation /Stock                            | Common chairman as the Company | "   | 42,589                | 324,861          | 44.36                       | 324,861                     | (note 2) |
|   |   |                                |   |                       | <u>642,515</u>   |                             |                             |          |
| "   | Bright Led Electronics Corp. /Convertible Bond                | None                           | Investment in bonds with no active market – noncurrent          | 4                     | 344,783          | -                           | (note 3)                    |          |
| "   | MagiCap Venture Capital Co., Ltd./Preferred Stock B           | "                              | "   | 19,000                | 190,000          | 17.35                       | (note 1)                    |          |
|   |   |                                |   |                       | <u>534,783</u>   |                             |                             |          |
| Win Semiconductors Cayman Islands Co., Ltd. | Avago Technologies Ltd./Stock                                 | Subsidiary's main client       | Available-for-sale financial assets – noncurrent                | 75                    | 73,185           | 0.03                        | 73,185                      |          |
|   |   |                                |   |                       | <u>73,185</u>    |                             |                             |          |

Note 1 : The stock is not publicly traded, and has no active market price.

Note 2 : The stock is not publicly traded, and has no active market price. Disclosure of the investment of the net equity.

Note 3 : The convertible bond was purchased privately, and had no active market price.

(Continued)

## WIN Semiconductors Corp.

## Notes to Financial Statements

## 4. Information regarding purchase or sale of securities for the period exceeding 100 million or 20% of the Company's paid-in capital:

| Company holding securities | Security type and Name  | Account   | Counter-party                           | Counter-ship | Beginning             |         | Purchase              |         | Sale                  |         |                  |                         | Security cost on 2012.12.31 |                 | Gain (loss) on valuation | Ending                |                  |
|----------------------------|---|---|---|--------------|-----------------------|---------|-----------------------|---------|-----------------------|---------|------------------|-------------------------|-----------------------------|-----------------|--------------------------|-----------------------|------------------|
|                            |   |   |   |              | Shares (in thousands) | Amount  | Shares (in thousands) | Amount  | Shares (in thousands) | Price   | Carrying value   | Gain (loss) on disposal | Shares (in thousands)       | Amount          |                          | Shares (in thousands) | Amount           |
| The Company                | Speed Tech Corp.  | Long-term investments under equity method (Note 1)            | Fortune Share Limited and Da-chin Corp. | None         | 61,500                | 203,742 | -                     | -       | 40,000                | 259,220 | 108,673 (note 1) | 150,547                 | 12,591 (note 3)             | 66,070 (note 1) | (14,751) (note 2)        | 12,591 (note 3)       | 149,838 (note 4) |
| "                          | Invetec Energy Corporation                                    | "   | -                                       | "            | 19,757                | 293,873 | 28,759                | 287,591 | 5,927 (note 5)        | -       | -                | -                       | 42,589                      | 581,464         | (208,314)                | 42,589                | 324,861 (note 5) |
| "                          | Polaris Global ETF of Bond Securities Investment Trust Fund   | Financial assets at fair value through profit or loss—current | -                                       | "            | 10,000                | 100,000 | -                     | -       | 10,000                | 100,280 | 100,000          | 280                     | -                           | -               | -                        | -                     | -                |
| "                          | Allianz Global Investors Taiwan Money Market Fund             | "   | -                                       | "            | 19,540                | 236,000 | 18,169                | 220,000 | 33,596                | 406,513 | 406,000          | 513                     | 4,113                       | 50,000          | 3                        | 4,113                 | 50,003           |
| "                          | Fuh Hwa Yu Li Money market fund                               | "   | -                                       | "            | 3,843                 | 50,000  | 23,751                | 310,000 | 19,959                | 260,213 | 260,000          | 213                     | 7,635                       | 100,000         | 57                       | 7,635                 | 100,057          |
| "                          | Polaris De- Bao Money Market Securities Investment Trust Fund | "   | -                                       | "            | 4,316                 | 50,000  | 20,746                | 241,000 | 18,199                | 211,234 | 211,000          | 234                     | 6,863                       | 80,000          | 112                      | 6,863                 | 80,112           |
| "                          | Fuh Hwa Money Market Fund                                     | "   | -                                       | "            | 9,677                 | 135,000 | 10,724                | 150,000 | 20,401                | 285,492 | 285,000          | 492                     | -                           | -               | -                        | -                     | -                |
| "                          | Capital Money Market Fund                                     | "   | -                                       | "            | 3,216                 | 50,000  | 18,578                | 290,000 | 14,126                | 220,262 | 220,000          | 262                     | 7,668                       | 120,000         | 101                      | 7,668                 | 120,101          |
| "                          | Union Money Market Fund                                       | "   | -                                       | "            | -                     | -       | 29,706                | 380,000 | 19,564                | 250,037 | 250,000          | 37                      | 10,142                      | 130,000         | 101                      | 10,142                | 130,101          |
| "                          | Allianz Global Investors All Seasons Return Fund of Fund      | "   | -                                       | "            | -                     | -       | 7,239                 | 100,000 | -                     | -       | -                | -                       | 7,239                       | 100,000         | 76                       | 7,239                 | 100,076          |
| "                          | MagiCap Venture Capital Co., Ltd.-Preferred Stock B           | Investment in bonds with no active market—noncurrent          | -                                       | "            | -                     | -       | 19,000                | 190,000 | -                     | -       | -                | -                       | 19,000                      | 190,000         | -                        | 19,000                | 190,000          |

Note 1: For the year ended December 31, 2012, the Company sold for \$259,220 its ownership of the shares of stock of Speed Tech Corp., with carrying value of \$122,921. The related capital surplus and other equity adjustment arising from this equity investment of \$14,248 were credited based on the disposal ratio. The net gain on disposal of such investment amounted to \$150,547 for the year ended December 31, 2012, so that its shareholding percentage decreased from 26.33% to 9.20%. Such decrease in ownership resulted in the Company's inability to exercise significant influence over Speed Tech Corp. Because the restriction period of the private placement of the stock of Speed Tech Corp., is ended, the Company's equity investment in this investee company had been reclassified from long-term investments under equity method to available-for-sale financial assets—current, as discussed further in note 4(f).

Note 2: For the year ended December 31, 2012, investment loss under equity method recognized by Speed Tech Corp.

Note 3: On June 15, 2012, the Stockholders meeting of Speed Tech Corp. approved to reduce the capital of Speed Tech Corp. by 41.44%, and set August 14, 2012 as the effective date for this capital reduction. Therefore, the Company's shareholdings in this investee company, decreased by 8,909 thousand shares of stock.

Note 4: As of December 31, 2012, this equity investment was measured at fair value.

Note 5: For the year ended December 31, 2012, the stockholders of Investec Energy Corporation approved a resolution to reduce capital by 30%. Therefore, the Company's shareholdings in the investee company, decreased 5,927 thousand shares of stock. On July 23, 2012, the Board of Directors of Investec Energy Corporation also, approved to increase the capital stock of Investec Energy Corporation in cash, and set November 26, 2012 as the effective date for the capital increase. Therefore, the Company increased its equity investment in Investec Energy Corporation by \$287,591, divided into 28,759 thousand shares of stock. This additional equity investment increased the percentage of the Company's shareholding in this investee to 44.36%.

## 5. Information on acquisition of real estate with purchase amount exceeding 100 million or 20% of the Company's paid-in capital:

| Company Name | Types of Property                     | Transaction Date   | Transaction Amount | Payment Term    | Counter-party                    | Relationships | Prior Transaction of Related Counter-party |               |               |        | Price Reference | Purpose of Acquisition | Other Terms |
|--------------|---------------------------------------|--------------------|--------------------|-----------------|----------------------------------|---------------|--|---------------|---------------|--------|-----------------|------------------------|-------------|
|              |                                       |                    |                    |                 |                                  |               | Owner                                      | Relationships | Transfer Date | Amount |                 |                        |             |
| The Company  | Land and buildings in Xinqiu Township | 2012.5.17 (note 1) | 1,080,000          | Paid            | TAROKO TEXTILE CORP.             | None          | -  | -             | -             | -      | Market value    | Expansion              | -           |
| "            | Land and buildings in Kueishan Hsiang | 2012.7.9 (note 1)  | 1,250,000 (note 2) | By the contract | BEST FRIEND TECHNOLOGY CO., LTD. | "             | -  | -             | -             | -      | "               | "                      | -           |

Note1: It is the date of the agreement.

Note2: The Company had paid \$700,000 and recorded the payment as prepayment for purchases of land and equipments in 2012. Remainder will be paid by the contract.

(Continued)

## WIN Semiconductors Corp.

### Notes to Financial Statements

6. Information regarding receivables from disposal of real estate exceeding 100 million or 20% of the Company's paid-in capital: None.
7. Information regarding related-party purchases and/or sales exceeding 100 million or 20% of the Company's paid-in capital:

| Company Name                                | Related Party                               | Nature of Relationships | Transaction Details |             |   |               | Abnormal Transaction |               | Notes/Accounts (Payable) or Receivable |   | Note |
|---|---|-------------------------|---------------------|-------------|---|---------------|----------------------|---------------|--|---|------|
|   |   |                         | Item                | Amount      | Percentage of the purchases (sales) (%) | Payment Terms | Unit Price           | Payment Terms | Ending Balance                         | Percentage of notes/accounts receivable (payable) |      |
| The Company                                 | Win Semiconductors Cayman Islands Co., Ltd. | Subsidiary              | Sales               | (5,594,381) | (51)%                                   | 1-2 Month     | -                    | -             | 536,618                                | 53%   |      |
| Win Semiconductors Cayman Islands Co., Ltd. | WIN Semiconductors Corp.                    | Parent company          | Purchase            | 5,594,381   | 100%                                    | 1-2 Month     | -                    | -             | (536,618)                              | (100%)  |      |

8. Information regarding receivables from related parties exceeding 100 million or 20% of the Company's paid-in capital:

| Company Name | Related Party                               | Nature of Relationships | Ending Balance | Turnover | Overdue |              | Amounts Received in Subsequent | Allowance for Bad Debts |
|--------------|---|-------------------------|----------------|----------|---------|--------------|--------------------------------|-------------------------|
|              |   |                         |                |          | Amount  | Action Taken |                                |                         |
| The Company  | Win Semiconductors Cayman Islands Co., Ltd. | Subsidiary              | 536,618        | 13.70%   | -       | -            | 536,618                        | -                       |

9. Information regarding trading in derivative financial instruments: Please see note 4 (b).

- (b) Information on the Company's long-term equity investments:

1. Relevant information about investees:

| Name of investor | Name of investee                            | Location           | Main businesses                      | Original investment amount |                 | Balance as of December 31, 2012 |            |                | Net Income (loss) of the Investee | Investment income (loss) recognized by the Company | Note |
|------------------|---|--------------------|--------------------------------------|----------------------------|-----------------|---------------------------------|------------|----------------|-----------------------------------|--|------|
|                  |   |                    |                                      | December 31, 2012          | January 1, 2012 | Shares (in Thousands)           | Percentage | Carrying Value |                                   |  |      |
| The Company      | WIN SEMI. USA, INC.                         | California, U.S.A. | Marketing                            | 8,203                      | 8,203           | 1,000                           | 100.00%    | 8,969          | (3,402)                           | (3,402)  |      |
| "                | Win Semiconductors Cayman Islands Co., Ltd. | Cayman Islands     | Selling of GaAs wafers               | 227,636                    | 227,636         | 7,000                           | 100.00%    | 308,685        | (10,005)                          | (10,005)   |      |
| "                | Inventec Energy Corporation                 | Taiwan             | Solar component module manufacturing | 581,464                    | 293,873         | 42,589                          | 44.36%     | 324,861        | (211,979)                         | (48,361)   |      |

2. Lending to other parties: None.
3. Guarantees and endorsements for other parties: None.
4. Information regarding securities held: Please see note 11(a).
5. Information regarding purchase or sale of securities for the period exceeding 100 million or 20% of the Company's paid-in capital: None.

(Continued)

**WIN Semiconductors Corp.**

**Notes to Financial Statements**

6. Information on acquisition of real estate for which the purchase amount exceeded 100 million or 20% of the Company's paid-in capital: None.
7. Information regarding receivables from disposal of real estate exceeding 100 million or 20% of the Company's paid-in capital: None.
8. Information regarding related-party purchases and/or sales exceeding 100 million or 20% of the Company's paid-in capital: Please see note 11(a).
9. Information regarding receivables from related parties for which the amount exceeded 100 million or 20% of the Company's paid-in capital: None.
10. Information regarding trading in derivative financial instruments: None.

(c) Investment in China: None.

**(12) Segment Financial Information**

The information is disclosed in the consolidated financial statements instead of the individual financial statements.