WIN Semiconductors Corp. and Subsidiaries

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

We 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 consolidated financial statements presentation. We believe that our audits provide a reasonable basis for our opinion.

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

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. and Subsidiaries

Consolidated Balance Sheets

December 31, 2011 and 2012
(Expressed in Thousands of New Taiwan Dollars)

	2011	2012
Assets		
Current assets:		
Cash and cash equivalents (note 4(a))	$ 799,376	3,025,657
Financial assets at fair value through profit or loss (note 4(b))	1,599,992	1,501,172
Available-for-sale financial assets－current (note 4(b))	-	512,068
Notes and accounts receivable, net (note 4(c))	652,822	1,049,355
Other financial assets－current (note 4(d))	129,850	231,072
Inventories (note 4(e))	1,893,835	2,101,205
Other current assets	129,248	145,801
Deferred income tax assets－current (note 4(l))	360,481	298,495
Total current assets	5,565,604	8,864,825
Funds and investments:		
Available-for-sale financial assets－noncurrent (note 4(b))	228,417	143,774
Financial assets carried at cost－noncurrent (note 4(b))	500,523	366,674
Long-term investments under equity method (note 4(f))	442,289	324,861
Investment in bonds with no active market－noncurrent (note 4(b))	344,783	534,783
Total funds and investments	1,516,012	1,370,092
Property, plant and equipment (notes 4(g), 5, 6 and 7):		
Cost:		
Land	802,337	1,765,464
Buildings	721,851	722,426
Machinery and equipment	9,149,329	10,381,768
Factory and equipment	1,887,456	2,753,996
Office equipment	110,185	113,688
Other equipment	156,446	231,158
	12,827,604	15,968,500
Less: accumulated depreciation	(3,233,291)	(4,487,349)
	9,594,313	11,481,151
Construction in progress	712,006	285,048
Prepayment for purchases of land and buildings	-	702,128
Prepayment for purchases of equipment	960,423	760,139
Net property, plant and equipment	11,266,742	13,228,466
Intangible assets (note 4(h))	117,652	82,708
Other assets:		
Refundable deposits	19,658	19,444
Restricted assets－noncurrent (note 6)	23,284	23,423
Deferred income tax assets－noncurrent (note 4(l))	89,731	1,994
Total other assets	132,673	44,861
Total Assets	$ 18,598,683	23,590,952

	2011	2012
Liabilities and Stockholders' Equity		
Current liabilities:		
Financial liabilities at fair value through profit or loss (note 4(b))	$ -	417
Accounts payable	1,090,011	1,121,867
Accrued expenses	721,729	666,490
Payable on equipment (note 5)	210,620	96,885
Current portion of long-term borrowings (notes 4(j) and 6)	1,007,672	1,650,185
Other current liabilities	35,650	50,507
Total current liabilities	3,065,682	3,586,351
Long-term liabilities:		
Long-term borrowings (notes 4(j) and 6)	5,483,622	5,558,677
Other liabilities:		
Accrued pension liabilities (note 4(k))	4,246	20,907
Total liabilities	8,553,550	9,165,935
Stockholders' equity (notes 4(b), 4(f), 4(l) and 4(m)):		
Common stock	6,485,930	7,541,877
Capital surplus:		
Capital surplus－additional paid-in capital	1,529,719	3,662,436
Capital surplus－long-term equity investments	28,469	-
Capital surplus－employee stock options	148,934	100,609
Total capital sarplus	1,707,122	3,763,045
Retained earnings:		
Legal reserve	130,842	258,703
Special reserve	-	221,662
Retained earnings	1,942,901	2,673,744
Total retained earnings	2,073,743	3,154,109
Other stockholders' equity adjustments:		
Cumulative translation adjustments	3,064	1,642
Unrealized gain (loss) on financial instruments	(224,726)	(35,656)
Total other stockholders' equity adjustments	(221,662)	(34,014)
Total stockholders' equity	10,045,133	14,425,017
Commitments and contingencies (note 7)		
Total Liabilities and Stockholders' Equity	$ 18,598,683	23,590,952

See accompanying notes to financial statements.

WIN Semiconductors Corp. and Subsidiaries

Consolidated 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
Operating revenue	$	8,927,370	11,276,342
Less: sales returns		(9,276)	(12,088)
sales discounts and allowances		(16,821)	(26,290)
Net revenue		8,901,273	11,237,964
Cost of goods sold (notes 4(e), 4(h), 4(k), 4(m), 5 and 10)		(6,096,943)	(7,597,780)
Gross profit		2,804,330	3,640,184
Operating expenses (notes 4(h), 4(k), 4(m), 5 and 10)			
Marketing expenses		(142,156)	(176,229)
General and administrative expenses		(434,524)	(476,165)
Research and development expenses		(450,279)	(530,490)
		(1,026,959)	(1,182,884)
Operating income		1,777,371	2,457,300
Non-operating income and gains:			
Interest income		813	4,594
Gain on disposal of property, plant and equipment		-	210
Gain on disposal of investments, net (note 4(b) and 4(f))		183	22,461
Dividend income		79,529	18,019
Other income (notes 4(b) and 5)		150,810	20,911
		231,335	66,195
Non-operating expenses and losses:			
Interest expense (note 4(g))		(58,346)	(102,946)
Investment loss recognized under equity method (note 4(f))		(114,698)	(78,339)
Loss on disposal of property, plant and equipment		(14,688)	-
Impairment loss (note 4(b) and 4(f))		-	(190,129)
Loss on valuation of financial assets, net (note 4(b))		(621,718)	(161,920)
Exchange loss, net		(29,525)	(61,821)
		(838,975)	(595,155)
Income before income tax		1,169,731	1,928,340
Income tax benefit (expense) (note 4(l))		108,879	(280,811)
Net income	$	1,278,610	1,647,529

	2011 Before income tax	2011 After income tax	2012 Before income tax	2012 After income tax
Earnings per common share (expressed in dollars) (note 4(n)):				
Basic earnings per share	$ 1.87	2.04	2.87	2.45
Diluted earnings per share	$ 1.82	1.99	2.82	2.41

See accompanying notes to financial statements.

WIN Semiconductors Corp. and Subsidiaries

Consolidated Statements of Changes in Stockholders' Equity

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

	Common Stock	Capital Surplus	Legal Reserve	Special Reserve	Retained Earnings	Cumulative Translation Adjustments	Unrealized Gain (Loss) on Financial Instruments	Total
Balance on January 1, 2011	$ 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	-	-	-	-	1,278,610	-	-	1,278,610
Balance on December 31, 2011	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	-	-	-	-	1,647,529	-	-	1,647,529
Balance on December 31, 2012	$ 7,541,877	3,763,045	258,703	221,662	2,673,744	1,642	(35,656)	14,425,017

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. and Subsidiaries

Consolidated Statements of Cash Flows

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

	2011	2012
Cash flows from operating activities:		
Net income	$ 1,278,610	1,647,529
Adjustments to reconcile consolidated net income to net cash provided by operating activities:		
Depreciation	975,969	1,256,812
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	114,698	78,339
Compensation cost arising from employee stock options	160,569	66,992
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	-	190,129
Change in operating assets:		
Financial assets at fair value through profit or loss	1,873	183,016
Notes and accounts receivable	(171,806)	(396,533)
Other financial assets－current	(39,948)	(79,596)
Inventories	(627,472)	(341,201)
Other current assets	(23,554)	(17,486)
Change in operating liabilities:		
Financial liabilities at fair value through profit or loss	-	417
Accounts payable	218,532	31,856
Accrued expenses	145,191	(62,613)
Other current liabilities	(8,640)	14,857
Accrued pension liabilities	1,779	16,661
Net cash provided by operating activities	1,865,441	2,890,306
Cash flows from investing activities:		
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	(3,335,544)	(3,317,300)
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)
Net cash used in investing activities	(3,507,627)	(3,955,831)
Cash flows from financing activities:		
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
Net cash provided by financing activities	2,030,026	3,278,918
Effect on cash due to changes in exchange rate	2,735	12,888
Net increase in cash and cash equivalents	390,575	2,226,281
Cash and cash equivalents at the beginning of year	408,801	799,376
Cash and cash equivalents at the end of year	**$ 799,376**	**3,025,657**
Additional disclosure of cash flow information:		
Interest paid (excluding capitalized interest)	**$ 57,072**	**102,725**
Income tax paid	**$ 151,399**	**193,382**

See accompanying notes to financial statements.

WIN Semiconductors Corp. and Subsidiaries

Consolidated Statements of Cash Flows (Continued)

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

		2011	2012
Supplemental schedule of non-cash investing and financing activities:			
Inventories reclassified to plant, property and equipment	$	65,912	69,312
Other current assets reclassified to plant, property and equipment	$	174	363
Other current assets reclassified to intangible assets	$	4,268	570
Unrealized gain (loss) on financial instruments	$	(254,029)	189,070
Translation adjustments	$	1,021	(1,422)
Reclassification of current portion of long-term borrowings	$	1,007,672	1,650,185
Purchase of property, plant and equipment			
Increase in property, plant and equipment	$	3,452,539	3,203,565
Add: payable on equipment－beginning of year		93,625	210,620
Less: payable on equipment－end of year		(210,620)	(96,885)
Cash paid	$	3,335,544	3,317,300
Disposal of property, plant and equipment			
Disposal of property, plant and equipment	$	107	298
Add: other financial assets－current－beginning of year		2,500	-
Cash received	$	2,607	298
Purchase of intangible assets			
Acquisition of intangible assets	$	38,471	14,692
Add: accrued expenses－beginning of year		15,335	4,487
Less: accrued expenses－end of year		(4,487)	(872)
Cash paid	$	49,319	18,307
Disposal of long-term investments under equity method			
Disposal of long-term investments under equity method	$	-	280,846
Less: other financial assets－current－end of year		-	(21,626)
Cash received	$	-	259,220
Issuance of common stock			
Issuance of common stock	$	303,680	3,017,939
Add: Transaction cost of issuance of common stock recognized as accrued expense－end of year		-	10,989
Cash received	$	303,680	3,028,928

See accompanying notes to financial statements.

WIN Semiconductors Corp. and Subsidiaries

Notes to Consolidated 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 subsidiaries, which were classified according to their primary business activities and percentage of ownership, were as follows:

Investor	Subsidiary	Business activities	Percentage of the direct or indirect ownership by the Company	
			2011	2012
The Company	WIN SEMI. USA, INC.	Marketing	100%	100%
The Company	Win Semiconductors Cayman Islands Co., Ltd.	Selling of GaAs wafers	100%	100%

As of December 31, 2011 and 2012, the Company and its subsidiaries (the "Consolidated Companies") had 1,462 and 1,534 employees, respectively.

(2) Summary of Significant Accounting Policies

The accompanying consolidated 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 consolidated financial statements are as follows:

(a) Consolidation policies

The consolidated financial statements include the accounts of the subsidiaries in which the Company is able to exercise control over the subsidiaries' operations and financial policies. The operating activity of the subsidiary is included in the consolidated statements of operation from the date when the subsidiary is acquired and is excluded from the consolidated statements of operation when the Company loses its power to control the subsidiary. All significant intercompany balance and transactions are eliminated on consolidation.

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(b) Use of estimates

The preparation of the accompanying consolidated 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 consolidated financial statements and reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates.

(c) Foreign currency transactions and translation of foreign financial statements

The Consolidated Companies record transactions in their respective functional currencies. 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 at that date. The resulting unrealized exchange gains (losses) from such translations are reflected in the accompanying consolidated 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 foreign exchange rates prevalling at the dates the fair value was determined. If the financial assets or liabilities are evaluated at fair value through profit or loss, the resulting unrealized exchange gains (losses) from such translations are reflected in the accompanying statements of operations.

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.

(d) 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.

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WIN Semiconductors Corp. and Subsidiaries

Notes to Consolidated Financial Statements

(e) Asset impairment

The Consolidated Companies 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.

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 canying value over the recoverable amount thereof.

(f) 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.

(g) 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.

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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.

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.

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In assessing collective impairment, the Consolidated Companies 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.

(h) 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.

(i) Inventories

Inventories are stated at the lower of cost or market value. Cost is calculated by using the weightd-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 or 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.

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(j) Long-term investments under equity method

Long-term investments in which the Consolidated Companies 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.

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 consolidated 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.

(k) 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.

(Continued)

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.

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.

(l) 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

(m) 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 required 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.

(Continued)

(n) Employee stock options

The Consolidated Companies 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.

(o) Revenue recognition

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

(p) 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)

(q) 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.

(r) 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.

(s) 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)

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.

(t) 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.

(3) Reason for and Effect of Accounting Changes

(a) The Consolidated Companies 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 consolidated financial statements as of and for the year ended December 31, 2011.

(b) The Consolidated Companies 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".

(Continued)

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(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		798,842	3,025,175
	$	**799,376**	**3,025,657**

(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		621,452	620,452
	$	**1,599,992**	**1,501,172**

	2011		2012	
	Nominal amount	**Book value**	**Nominal amount**	**Book value**
Derivative financial liabilities				
Forward exchange contracts	-	$ -	USD 8,000	(417)

(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.

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(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:

		2011	2012
Shares of stock:			
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
	$	**-**	**512,068**

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.

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

		2011	2012
Avago Technologies Ltd.	$	68,396	73,185
Tainergy Tech Co., Ltd. (Note 1)		60,775	70,589
Huga Optotech Inc. (Note 1 and Note 2)		99,246	-
	$	**228,417**	**143,774**

(Continued)

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Notes to Consolidated Financial Statements

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 $254,029 and unrealized gain of $106,388 in 2011 and 2012, respectively, which were recognized as an adjustment to stockholders’ equity.

4. Financial assets carried at cost－noncurrent:

Investee	**2011**	**2012**
Shares of stock:		
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.	-	10,000
	485,306	351,457
Conversion option:		
Bright Led Electronics Corp.	15,217	15,217
Total	**$ 500,523**	**366,674**

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.

(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	**$ -**	**143,849**

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Notes to Consolidated Financial Statements

(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)	(200,000)	(Note 2)	-	-
		$ (503,127)			$ 10,000

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**
Convertible bond:				
Bright Led Electronics Corp.	2010.4.9~ 2013.4.8	0%	$ 344,783	344,783
Preferred stock B:				
MagiCap Venture Capital Co., Ltd.	2012.11.23~ 2019.11.22	-	-	190,000
			$ 344,783	534,783

(Continued)

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

		2011	2012
Notes receivable	$	9,261	25
Accounts receivable		656,130	1,063,573
		665,391	1,063,598
Less: allowance for doubtful accounts and sales discounts		(12,569)	(14,243)
	$	**652,822**	**1,049,355**

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:

		2011	2012
Other receivable from metal recycling	$	121,099	196,398
Other		8,751	34,674
	$	**129,850**	**231,072**

(Continued)

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Notes to Consolidated Financial Statements

(e) Inventories

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

	2011	2012
Raw materials	$ 1,031,051	1,092,348
Supplies	136,736	118,651
Work in process	563,134	506,751
Finished goods	162,914	383,455
	$ 1,893,835	**2,101,205**

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

	2011	2012
Beginning balance	$ 71,245	71,410
Addition	37,115	64,519
Write-off	(36,950)	(38,498)
Ending balance	**$ 71,410**	**97,431**

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

	2011	2012
Loss on valuation of inventories and obsolescence	$ 37,115	64,519
Income from sale of scraps	(17,265)	(27,017)
	$ 19,850	**37,502**

(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 percentage (%)	2011 Carrying value	2011 Investment loss
Inventec Energy Corporation	20.58	$ 146,388	(65,047)
WinMEMS Technologies Holdings Co., Ltd.	34.73	92,159	(25,004)
Speed Tech Corp.	26.33	203,742	(24,647)
		$ 442,289	(114,698)

Investee	Shareholding percentage (%)	2012 Carrying value	2012 Investment loss
Inventec Energy Corporation	44.36	$ 324,861	(48,361)
WinMEMS Technologies Holdings Co., Ltd.	-	-	(15,227)
Speed Tech Corp.	-	-	(14,751)
		$ 324,861	(78,339)

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	2011 Shareholding (in thousands)	2011 Amount	2011 Remark	2012 Shareholding (in thousands)	2012 Amount	2012 Remark
Inventec Energy Corporation	19,757	$ 210,668	(Note 3)	22,832	287,591	(Note 1)
Speed Tech Corp.	-	-		(61,500)	(188,991)	(Note 2)
WinMEMS Technologies Holdings Co., Ltd.	-	-		(19,100)	(40,919)	(Note 4)
		$ 210,668			57,681	

Note 1: During the meeting on June 21, 2012, the stockholders of Investec 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 Investec Energy Corporation further approved a resolution to reduce capital, and set July 16, 2012 as the effective date for this capital reduction.

(Continued)

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Notes to Consolidated 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).

Note 4: On December 14, 2012, the Board of Directors of WinMEMS Technologies Holdings Co., Ltd., approved a resolution for the liquidation of WinMEMS Technologies Holdings Co., Ltd. and set December 31, 2012 as the effective date for such liquidation.

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:

		2011	2012
Inventec Energy Corporation	$	-	11,701
WinMEMS Technologies Holdings Co., Ltd.		-	34,579
	$	-	46,280

(Continued)

(g) Property, plant and equipment

1. In 2012, the Consolidated Companies 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 Consolidated Companies 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 Consolidated Companies of the ownership of these land and buildings was not yet completed.

2. 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		59,247	92,511
Other equipment		80,713	165,748
	$	**3,233,291**	**4,487,349**

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 know-how	Computer software and information systems	Others	Total
Original cost:					
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)		-	4,268	-	4,268
Balance as of December 31, 2011		46,005	149,863	4,988	200,856
Additions		-	14,242	450	14,692
Disposal		-	(42,061)	(3,518)	(45,579)
Other (Note)		-	570	-	570
Balance as of December 31, 2012	$	**46,005**	**122,614**	**1,920**	**170,539**

(Continued)

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Notes to Consolidated Financial Statements

		Technical know-how	Computer software and information systems	Others	Total
Accumulated amortization:					
Balance as of January 1, 2011		639	61,046	709	62,394
Amortization		3,834	49,844	3,935	57,613
Disposal		-	(35,212)	(1,591)	(36,803)
Balance as of December 31, 2011		4,473	75,678	3,053	83,204
Amortization		3,834	44,595	1,777	50,206
Disposal		-	(42,061)	(3,518)	(45,579)
Balance as of December 31, 2012	$	8,307	78,212	1,312	87,831

		Technical know-how	Computer software and information systems	Others	Total
Carrying value:					
Balance on December 31, 2011	$	41,532	74,185	1,935	117,652
Balance on December 31, 2012	$	37,698	44,402	608	82,708

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.

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(j) Long-term borrowings

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

Nature	2011 Amount	2011 Annual interest rate (%)	2012 Amount	2012 Annual interest 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	(16,588)		(12,476)	
Subtotal	5,112,539		5,531,530	
Secured loans	723,755	1.69~2.14	297,332	1.69~2.14
Unsecured loans	655,000	1.59~1.78	1,380,000	1.62~1.78
Total	6,491,294		7,208,862	
Less: current portion	(1,007,672)		(1,650,185)	
	$ 5,483,622		5,558,677	

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)

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.

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:

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

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

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

		2011	2012
Service cost	$	1,710	1,744
Interest cost		841	1,085
Actual return on plan assets		(384)	(318)
Amortization		277	14,813
Net pension cost	**$**	**2,444**	**17,324**

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

	2011	2012
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:

		2011	2012
Defined benefit pension plan cost	$	2,444	17,324
Defined contribution pension plan cost		35,895	40,335

(l) Income tax

1. Each consolidated entity files its own separate income tax return. 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". WIN SEMI. USA, INC., a consolidated subsidiary, is subject to income tax at a maximum rate of 39%.

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

		2011	2012
Current income tax expense	$	191,224	130,460
Deferred income tax expense (benefit)		(300,103)	150,351
Income tax expense (benefit)	**$**	**(108,879)**	**280,811**

(Continued)

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

	2011	2012
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	(323,089)	(81,859)
Deferred income tax expense (benefit)	**$ (300,103)**	**150,351**

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

	2011	2012
Income tax calculated on pre-tax financial income at statutory income tax rate	$ 198,854	327,818
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
Discrepancy caused by different tax rates applied to the Company’s subsidiaries	20	20
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	(323,089)	(81,859)
Income tax expense (benefit)	**$ (108,879)**	**280,811**

(Continued)

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Notes to Consolidated Financial Statements

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

	2011	2012
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	61,022	88,549
Deferred income tax assets, net－current	**$ 360,481**	**298,495**
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	(81,859)	-
Deferred income tax assets, net－noncurrent	**$ 89,731**	**1,994**

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)

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:

Year granted	**Unused investment tax credits**	**Expiry year**
2009 (assessed)	$ 86,074	2013
2010 (assessed)	57,915	2014
2011 (filed)	38,891	2015
	$ 182,880	

8. Imputation credit account (ICA) and creditable ratio

	December 31 2011	**December 31 2012**
Unappropriated earnings after 1997	**$ 1,942,901**	**2,673,744**
ICA	**$ 90,149**	**158,741**

	2011	**2012**
Creditable ratio for earnings distributed to domestic shareholders	**14.45% (actual)**	**10.71% (estimated)**

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.

(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.

(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:

		2010	**2011**
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. and Subsidiaries

Notes to Consolidated 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. and Subsidiaries

Notes to Consolidated 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:

	2010 Employee stock options exercise in the 2nd year	2010 Employee stock options exercise in the 3rd year
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:

	2011		2012	
	Shares (in thousands)	Weighted-average exercise price (expressed in dollars)	Shares (in thousands)	Weighted-average exercise price (expressed in dollars)
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	(588)	-	(911)	-
Outstanding at the end	17,891	18.41	11,385	21.76

For the years ended December 31, 2011 and 2012, the compensation cost for employee stock options amounted to $160,569 and $66,992, respectively, which had been recorded under cost of goods sold and operating expenses in accordance with SFAS No. 39.

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

	Outstanding			Exercisable	
Issue date	**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	(105)
	Pro-forma net income	**$ 1,278,505**
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)

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Notes to Consolidated 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 before income tax	2012 before income tax
Basic earnings per share		
Net income	$ 1,169,707	1,928,316
Weighted-average number of shares outstanding during the year	625,342	672,994
Basic earnings per share (dollars)	$ 1.87	2.87
Diluted earnings per share		
Net income	$ 1,169,707	1,928,316
Weighted-average number of shares outstanding during the year	625,342	672,994
Employees' bonuses	4,932	6,064
Employee stock options	11,247	5,831
Weighted-average number of shares outstanding during the year - diluted	641,521	684,889
Diluted earnings per share (dollars)	$ 1.82	2.82

	2011 after income tax	2012 after income tax
Basic earnings per share		
Net income	$ 1,278,610	1,647,529
Weighted-average number of shares outstanding during the period	625,342	672,994
Basic earnings per share (dollars)	$ 2.04	2.45
Diluted earnings per share		
Net income	$ 1,278,610	1,647,529
Weighted-average number of shares outstanding during the year	625,342	672,994
Employees' bonuses	4,932	6,064
Employee stock options	11,247	5,831
Weighted-average number of shares outstanding during the year - diluted	641,521	684,889
Diluted earnings per share (dollars)	$ 1.99	2.41

(Continued)

WIN Semiconductors Corp. and Subsidiaries

Notes to Consolidated 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 Consolidated Companies using public quote or a valuation method were as follows:

	2011			2012		
		Fair value			Fair value	
	Carrying value	Public quote value	Assessment value	Carrying value	Public quote value	Assessment value
Nonderivative financial instruments:						
Financial assets:						
Cash and cash equivalents	$ 799,376	-	799,376	3,025,657	-	3,025,657
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	228,417	228,417	-	143,774	143,774	-
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	652,822	-	652,822	1,049,355	-	1,049,355
Other financial assets－current	129,850	-	129,850	231,072	-	231,072
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	967,999	-	967,999	813,882	-	813,882
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)

(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 Consolidated Companies 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 Consolidated Companies bear the risk of changes in market price.

The Consolidated Companies 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 Consolidated Companies believe those exposures to foreign currency risk are low.

(Continued)

(2) Credit risk

The Consolidated Companies are exposed to potential credit risk through cash and cash equivalents, forwards, securities, and accounts receivable. Cash is deposited in different financial institutions. The Consolidated Companies 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 Consolidated Companies' notes and accounts receivables were concentrated on 5 and 4 customers, whose accounts represented 66% and 64% of total accounts receivables, respectively. In order to reduce the credit risk on these accounts receivable, the Consolidated Companies continues to evaluate the financial status of these customers and request for collaterals when necessary. The Consolidated Companies 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 Consolidated Companies' capital and operating funds are sufficient to fulfill all obligations. Therefore, the Consolidated Companies' 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

Name	Relationship
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 general managers	Key management of the Consolidated Companies

WIN Semiconductors Corp. and Subsidiaries

Notes to Consolidated Financial Statements

(b) Significant transactions with related parties

1. 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.

2. 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.

(c) Key management compensation

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

		2011	**2012**
Salary	$	92,560	97,805
Bonus and special allowances		23,415	57,054
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:

Pledged assets	Object	2011	2012
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	562,734	242,570
		$ 7,116,980	7,937,803

(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.

(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.

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Notes to Consolidated Financial Statements

(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:

	2011			2012		
	Cost of goods sold	**Operating expenses**	**Total**	**Cost of goods sold**	**Operating expenses**	**Total**
Personnel expenses						
Salaries	$ 679,553	335,423	1,014,976	855,791	482,360	1,338,151
Insurance	51,692	21,901	73,593	59,330	24,460	83,790
Pension	25,806	12,533	38,339	29,188	28,471	57,659
Others	65,616	139,198	204,814	50,063	64,473	114,536
Depreciation	911,327	64,642	975,969	1,166,865	89,947	1,256,812
Amortization	19,365	38,248	57,613	17,560	32,646	50,206

(b) Reclassification

Certain accounts in the consolidated 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 consolidated financial statements.

(Continued)

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

	2011 Foreign Currency	2011 Exchange rate	2011 NT$	2012 Foreign Currency	2012 Exchange rate	2012 NT$
Financial assets						
Monetary						
USD	$ 42,199	30.28	1,277,801	129,249	29.04	3,753,382
EUR	164	39.18	6,416	568	38.49	21,864
JPY	155,644	0.3906	60,795	5,251	0.3364	1,769
GBP	9	46.73	430	30	46.83	1,414
HKD	66	3.90	256	64	3.75	242
			$ 1,345,698			3,778,671
Non-monetary						
USD	$ 3,608	30.28	$ 109,253	2,374	29.04	73,186
Financial liabilities						
Monetary						
USD	$ 19,291	30.28	584,126	16,317	29.04	473,849
EUR	355	39.18	13,900	260	38.49	10,004
JPY	522,534	0.3906	204,102	474,890	0.3364	159,754
GBP	13	46.73	613	10	46.83	482
			$ 802,741			644,089

(d) Under Rule No. 0990004943 issued by the Financial Supervisory Commission (FSC) on February 2, 2010, the FSC announced the “Framework for Adoption of International Financial Reporting Standards by Companies in the ROC.” In this framework, starting 2013, companies with shares listed on the TSE or traded on the Taiwan GreTai Securities Market or Emerging Stock Market shall prepare their financial statements in accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards, International Accounting Standards, and the Interpretations as well as related guidance translated by the ARDF and issued by the FSC. To comply with this framework, a project team was set up for purposes of carrying out a plan to adopt the IFRSs. Leading the implementation of this plan is the chief of accounting officer of the Company. Among of the key components of the plan, anticipated schedule and status of execution as of December 31, 2012 were as follows:

Plan Content	Responsible Department (or Responsible Person)	Status
Phase 1 - Evaluation: (2010.01.01 ~ 2011.12.31)		
◎ Establish adoption plans and form a special taskforce for IFRSs conversion	Accounting Department	Completed

(Continued)

WIN Semiconductors Corp. and Subsidiaries

Notes to Consolidated Financial Statements

Plan Content	Responsible Department (or Responsible Person)	Status
◎ Perform the internal training for employees	Accounting Department	Completed
◎ Compare and analyze the differences between the current Accounting Policies and IFRSs	Accounting Department	Completed
◎ Evaluate proposed adjustments to current Accounting Policies	Accounting Department	Completed
◎ Evaluate the adoption of IFRS 1 - "First-time Adoption of IFRSs"	Accounting Department	Completed
◎ Evaluate adjustments related to information systems and internal controls	Accounting Department, Internal Control Department and IT Department	Completed
Phase 2 - Preparation: (2011.01.01 ~ 2012.12.31)		
◎ Determine how to revise the current Accounting Policies to confirm with IFRSs	Accounting Department	Completed
◎ Determine how to adopt IFRS 1 - "First-time Adoption of IFRSs"	Accounting Department	Completed
◎ Adjust relevant information systems and internal controls	Accounting Department, Internal Control Department and IT Department	Completed
Phase 3 - Implementation: (2012.01.01 ~ 2013.12.31)		
◎ Test the operation of relevant information systems	IT Department	Completed
◎ Gather information for the preparation of Balance Sheet and Comparative Financial Statements in conformity with IFRSs on the date of first-time adoption	Accounting Department	Completed
◎ Prepare Financial Statements based on IFRSs	Accounting Department	In progress according to the plan

(Continued)

WIN Semiconductors Corp. and Subsidiaries

Notes to Consolidated Financial Statements

(e) The Consolidated Companies had assessed the material differences between the existing accounting policies and the accounting policies to be adopted under IFRSs, as follows:

1) The reconciliation of consolidated balance sheet items as of January 1, 2012.

Items	ROC GAAP	Effect of Transition to IFRSs	IFRSs	Note
Current assets:				
Cash and cash equivalents	$ 799,376	-	799,376	
Financial assets at fair value through profit or loss－current	1,599,992	23,868	1,623,860	(2)
Notes and accounts receivable, net	652,822	-	652,822	
Other financial assets－current	129,850	-	129,850	
Inventories	1,893,835	-	1,893,835	
Other current assets	129,248	-	129,248	
Deferred income tax assets－current	360,481	(360,481)	-	(6)
Noncurrent assets:				
Available-for-sale financial assets－noncurrent	228,417	485,306	713,723	(1),(2)
Financial assets carried at cost－noncurrent	500,523	(500,523)	-	(2)
Long-term investments under equity method	442,289	158,428	600,717	(1),(3)
Investment in bonds with no active market－noncurrent	344,783	-	344,783	
Property, plant and equipment	11,266,742	(1,672,429)	9,594,313	(7)
Long-term prepayments	-	1,672,429	1,672,429	(7)
Intangible assets	117,652	-	117,652	
Other assets	42,942	-	42,942	
Deferred income tax assets－noncurrent	89,731	381,403	471,134	(6)
Total assets	$ 18,598,683	188,001	18,786,684	
Current liabilities:				
Accounts payable	$ 1,090,011	-	1,090,011	
Accrued expenses	721,729	-	721,729	
Payable on equipment	210,620	-	210,620	
Current portion of long-term borrowings	1,007,672	-	1,007,672	
Other current liabilities	35,650	-	35,650	
Provisions	-	21,777	21,777	(4)
Noncurrent liabilities:				
Long-term borrowings	5,483,622	-	5,483,622	
Deferred income tax liabilities－noncurrent	-	14,740	14,740	(6)
Accrued pension liabilities	4,246	17,331	21,577	(5)
Total liabilities	$ 8,553,550	53,848	8,607,398	

(Continued)

WIN Semiconductors Corp. and Subsidiaries

Notes to Consolidated Financial Statements

Items	ROC GAAP	Effect of Transition to IFRSs	IFRSs	Note
Total stockholders' equity:				
Common stock	$ 6,485,930	-	6,485,930	
Capital surplus	1,707,122	-	1,707,122	
Retained earnings:				
Legal reserve	130,842	-	130,842	
Retained earnings	1,942,901	149,313	2,092,214	
Other stockholders' equity adjustments:				
Cumulated translation adjustments	3,064	(17,175)	(14,111)	(1)
Unrealized gain or loss on financial instruments	(224,726)	2,015	(222,711)	(2)
Total stockholders' equity	$ 10,045,133	134,153	10,179,286	
Total liabilities and stockholders' equity	$ 18,598,683	188,001	18,786,684	

Notes to reconciliation of significant differences as of January 1, 2012:

(1) Under IFRSs, the functional currency of a foreign subsidiary was identified so that an IFRSs adjustment is made to decrease available-for-sale financial assets－noncurrent by $2,855, decrease long-term investments under equity method by $13,452, increase retained earnings by $1,496 and decrease cumulative translation adjustments by $17,175.

(2) Under IFRSs, investment in unlisted and emerging stock companies is measured in accordance with IAS 39. Such measurement resulted in adjustment to decrease financial assets carried at cost－noncurrent by $500,523, increase financial assets at fair value through profit or loss by $23,868, increase available-for-sale financial assets – noncurrent by $488,161, increase unrealized gain or loss on financial instruments by $2,015 and increase retained earnings by $8,651.

(3) Under IFRSs, an adjustment is made for the excess of the investor's share of the net fair value of the investee's identifiable assets and liabilities over the cost of investment. This IFRSs adjustment increased long-term investments under equity method by $171,880 and increased retained earnings by the same amount.

(4) Under IFRSs, an adjustment is made to recognize the accumulated compensated absences. This adjustment decreased retained earnings by $21,777 and increased provisions by the same amount.

(Continued)

WIN Semiconductors Corp. and Subsidiaries

Notes to Consolidated Financial Statements

(5) Under IFRSs, an actuarial valuation of pension liability under IFRSs is made. The actuarial valuation disclosed a valuation difference so that an adjustment is made to decrease retained earnings by $17,331 and increase accrued pension liabilities by the same amount.

(6) Under IFRSs, an adjustment is made to decrease deferred income tax assets－current by $360,481, increase deferred income tax assets－noncurrent by $381,403, increase deferred income tax liabilities－noncurrent by $14,740 and increase retained earnings by $6,394.

(7) Under IFRSs, a reclassifying entry is made to decrease construction in progress and prepayment for purchases of equipment by $1,672,429 and increase long-term prepayments by the same amount.

2) The reconciliation of consolidated balance sheet as of December 31, 2012.

Items	ROC GAAP	Effect of Transition to IFRSs	IFRSs	Note
Current assets:				
Cash and cash equivalents	$ 3,025,657	-	3,025,657	
Financial assets at fair value through profit or loss－current	1,501,172	-	1,501,172	
Available-for-sale financial assets－current	512,068	-	512,068	
Notes and accounts receivable, net	1,049,355	-	1,049,355	
Other financial assets－current	231,072	-	231,072	
Inventories	2,101,205	-	2,101,205	
Other current assets	145,801	-	145,801	
Deferred income tax assets－current	298,495	(298,495)	-	(6)
Noncurrent assets:				
Available-for-sale financial assets－noncurrent	143,774	347,506	491,280	(1),(2)
Financial assets carried at cost－noncurrent	366,674	(366,674)	-	(2)
Long-term investments under equity method	324,861	-	324,861	
Investment in bonds with no active market－noncurrent	534,783	-	534,783	
Property, plant and equipment	13,228,466	(1,610,695)	11,617,771	(1),(7)
Long-term prepayments	-	1,610,700	1,610,700	(7)
Intangible assets	82,708	-	82,708	
Other assets	42,867	-	42,867	
Deferred income tax assets－noncurrent	1,994	316,168	318,162	(6)
Total assets	$ 23,590,952	(1,490)	23,589,462	

(Continued)

WIN Semiconductors Corp. and Subsidiaries

Notes to Consolidated Financial Statements

Items	ROC GAAP	Effect of Transition to IFRSs	IFRSs	Note
Current liabilities:				
Financial liabilities at fair value through profit or loss	$ 417	-	417	
Accounts payable	1,121,867	-	1,121,867	
Accrued expense	666,490	-	666,490	
Payable on equipment	96,885	-	96,885	
Current portion of long-term borrowings	1,650,185	-	1,650,185	
Other current liabilities	50,507	-	50,507	
Provisions	-	27,832	27,832	(4)
Noncurrent liabilities:				
Long-term borrowings	5,558,677	-	5,558,677	
Accrued pension liabilities	20,907	29,332	50,239	(5)
Deferred income tax liabilities－noncurrent	-	12,815	12,815	(6)
Total liabilities	$ 9,165,935	69,979	9,235,914	
Stockholders' equity:				
Common stock	$ 7,541,877	-	7,541,877	
Capital surplus	3,763,045	-	3,763,045	
Retained earnings:				
Legal reserve	258,703	-	258,703	
Special reserve	221,662	-	221,662	
Retained earnings	2,673,744	48,655	2,722,399	
Other stockholders' equity adjustments:				
Cumulated translation adjustments	1,642	(26,383)	(24,741)	(1)
Unrealized gain or loss on financial instruments	(35,656)	(93,741)	(129,397)	(2)
Total stockholders' equity	$ 14,425,017	(71,469)	14,353,548	
Total liabilities and stockholders' equity	$ 23,590,952	(1,490)	23,589,462	

The reconciliation of consolidated statement of comprehensive income for the year ended December 31, 2012.

	ROC GAAP	Effect of Transition to IFRSs	IFRSs	Note
Net revenue	$ 11,237,964	-	11,237,964	
Cost of goods sold	(7,597,780)	(4,238)	(7,602,018)	
Gross profit	3,640,184	(4,238)	3,635,946	
Operating expenses	(1,182,884)	(4,926)	(1,187,810)	
Operating income	2,457,300	(9,164)	2,448,136	(1),(4),(5)
Non-operating income and gains, and non-operating expenses and losses	(528,960)	(82,160)	(611,120)	(1),(2),(3)
Income before income tax	1,928,340	(91,324)	1,837,016	
Income tax expense	(280,811)	(1,952)	(282,763)	(6)
Net income	$ 1,647,529	(93,276)	1,554,253	
Other comprehensive income for the period, net of tax effect			75,302	(8)
Total comprehensive income for the period			$ 1,629,555	

(Continued)

WIN Semiconductors Corp. and Subsidiaries

Notes to Consolidated Financial Statements

Notes to reconciliation of the significant differences as of and for the year ended December 31, 2012:

(1) Under IFRSs, the functional currency of a foreign subsidiary is identified so that an IFRSs adjustment is made to decrease available-for-sale financial assets－noncurrent by $4,250, increase retained earnings by $22,139, decrease cumulative translation adjustments by $26,383 and increase property, plant and equipment by $5 as of December 31, 2012. For the year ended December 31, 2012, this adjustment likewise resulted in an increase of exchange gain, net by $20,645, and an increase of cost of goods sold and operating expenses by $2.

(2) Under IFRSs, investment in unlisted and emerging stock companies is measured in accordance with IAS 39. As of December 31, 2012, such measurement resulted in adjustment to decrease of financial assets carried at cost–noncurrent by $366,674, increase of available-for-sale financial assets–noncurrent by $351,756, decrease of unrealized gain or loss on financial instruments by $93,741, and decrease of retained earnings by $3,612. For the year ended December 31, 2012, this adjustment likewise resulted in an increase in loss on valuation of financial asset, net by $23,868, and an increase of dividend income by $11,605.

(3) Under IFRSs, an adjustment is made for the sale by the Company of its equity ownership in investee accounted for under long-term equity investments and gain on disposal of investment. As of December 31, 2012, this adjustment increased retained earnings by $81,338. For the year ended December 31, 2012, this adjustment likewise resulted in an increase of loss on disposal of investment, net by $90,542.

(4) Under IFRSs, an adjustment is made to recognize the accumulated compensated absences. As of December 31, 2012, this adjustment caused a decrease in retained earnings by $27,832 and increase of provisions by the same amount. For the year ended December 31, 2012, this adjustment likewise resulted in an increase of cost of goods sold and operating expenses by $6,055.

(5) Under IFRSs, an actuarial valuation of pension liability under IFRSs is made. The actuarial valuation disclosed a valuation difference so that as of December 31, 2012, an adjustment is made to decrease retained earnings by $29,332 and increase accrued pension liabilities by the same amount. For the year ended December 31, 2012, this adjustment likewise resulted in an increase of pension expense by $3,107.

(Continued)

(6) Under IFRSs, as of December 31, 2012, an adjustment is made to decrease deferred income tax assets－current by $298,495, increase deferred income tax assets-noncurrent by $316,168, increase deferred income tax liabilities－noncurrent by $12,815 and increase retained earnings by $5,954. For the year ended December 31, 2012, this adjustment likewise resulted in an increase of income tax expense by $1,952.

(7) Under IFRSs, as of December 31, 2012, a reclassifying entry is made to decrease construction in progress, prepayment for purchases of land and buildings, prepayment for purchases of equipment by $1,610,700 and increase long-term prepayments by the same amount.

(8) Under IFRSs, an adjustment is made to increase other comprehensive income by $75,302.

(f) IFRS 1, "First-time Adoption of International Financial Reporting Standards," establishes the procedures for the Consolidated Companies in preparing the first consolidated financial statements in accordance with IFRSs. Also, the Consolidated Companies are allowed optional exemptions from adopting certain accounting policies under IFRS 1. Except for those optional exemptions and mandatory exceptions under IFRS 1 , other adjustments are made retrospectively against the opening balance sheet at the date of transition to IFRSs (January 1, 2012; the transition date). The main optional exemption adopted by the Consolidated Companies is in the area of accounting for employee benefits, under which, the Consolidated Companies elected to recognize all cumulative actuarial gains and losses in retained earnings as of January 1, 2012.

(g) The Consolidated Companies' aforementioned assessment of differences between the current accounting policies of the Consolidated Companies and IFRSs is based on the 2010 version of IFRSs translated by ARDF and the Guidelines Governing the Preparation of Financial Reports by Securities Issuers issued by FSC on December 22, 2011. However, this assessment of differences may be affected as FSC may issue new rules governing the adoption of IFRSs, and as new and revised IFRSs standards, amendments or interpretations are issued by the ARDF and approved but are not yet effected by the FSC. Actual accounting policies that maybe adopted under IFRSs in the future may differ from those contemplated in the above assessments.

(Continued)

WIN Semiconductors Corp. and Subsidiaries

Notes to Consolidated Financial Statements

(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.

3. Information regarding securities held:

Company holding securities	Security type and name	Relationship with the Company	Account	Period-end				Maximum shares in midterm		Note
				Shares/Units (in thousands)	Carrying value	Percentage of ownership (%)	Market value (or net value)	Shares/Units (in thousands)	Percentage of ownership (%)	
The Company	Pegatron Corporation/Stock	None	Financial assets at fair value through profit or loss－current	323	12,129	0.01	12,129	773	0.03	
〃	EPISTAR Corporation /Stock	〃	〃	16,006	843,516	1.72	843,516	16,006	1.72	
〃	I-Chiun Precision Industry Co., Ltd. /Convertible Bond	〃	〃	250	25,075	-	25,075	250	-	
〃	Fuh Hwa Yu Li Money Market Fund	〃	〃	7,635	100,057	-	100,057	12,286	-	
〃	Allianz Global Investors Taiwan Money Market Fund	〃	〃	4,113	50,003	-	50,003	19,540	-	
〃	Union Money Market Fund	〃	〃	10,142	130,101	-	130,101	11,735	-	
〃	Capital Money Market Fund	〃	〃	7,668	120,101	-	120,101	9,645	-	
〃	Polaris De- Bao Money Market Securities Investment Trust Fund	〃	〃	6,863	80,112	-	80,112	9,579	-	
〃	Allianz Global Investors All Seasons Return Fund of Fund	〃	〃	7,239	100,076	-	100,076	7,239	-	
〃	ING Taiwan Money Market Fund	〃	〃	2,524	40,002	-	40,002	2,524	-	
					1,501,172		1,501,172			
〃	ITEQ CORPORATION/Stock	None	Available-for-sale financial assets－current	9,298	275,677	2.80	275,677	9,298	2.80	
〃	MAG. LAYERS Scienific-Technics Co., Ltd./Stock	〃	〃	1,931	72,393	2.44	72,393	1,931	2.44	
〃	Solar Applied Materials Technology Corp./Stock	〃	〃	400	14,160	0.10	14,160	698	0.19	
〃	Speed Tech Corp./Stock	〃	〃	12,591	149,838	9.20	149,838	61,500	26.33	
					512,068		512,068			
〃	Tainergy Tech Co., Ltd./Stock	None	Available-for-sale financial assets－noncurrent	7,130	70,589	3.46	70,589	7,130	3.46	
〃	Shin Sheng Ⅲ Venture Capital Investment Corp. /Stock	None	Financial assets carried at cost－noncurrent	15,000	150,000	11.03	(note 1)	15,000	11.03	
〃	Inventec Solar Energy Corporation /Stock	〃	〃	33,000	186,151	11.00	(note 1)	33,000	11.00	
〃	IntelliEPI Inc.(Cayman)/Stock	〃	〃	500	5,306	1.93	(note 1)	500	1.93	
〃	Bright Led Electronics Corp. /Convertible Right	〃	〃	-	15,217	-	(note 4)	-	-	
〃	MagiCap Venture Capital Co., Ltd.-Preferred Stock A	〃	〃	1,000	10,000	0.91	(note 1)	1,000	0.91	
					366,674					
〃	WIN SEMI. USA, INC./Stock	Subsidiary	Long-term investments under equity method	1,000	8,969	100.00	8,969	1,000	100.00	(note 2)
〃	Win Semiconductors Cayman Islands Co., Ltd./Stock	〃	〃	7,000	308,685	100.00	308,685	7,000	100.00	(note 2)
〃	Inventec Energy Corporation /Stock	Common chairman as the Company	〃	42,589	324,861	44.36	324,861	42,589	44.36	(note 2)
					642,515					
〃	Bright Led Electronics Corp. /Convertible Bond	None	Investment in bonds with no active market－noncurrent	4	344,783	-	(note 4)	4	-	
〃	MagiCap Venture Capital Co., Ltd. /Preferred Stock B	〃	〃	19,000	190,000	17.35	(note 1)	19,000	17.35	
					534,783					

(Continued)

Company holding securities	Security type and name	Relationship with the Company	Account	Period-end				Maximum shares in midterm		Note
				Shares/Units (in thousands)	Carrying value	Percentage of ownership (%)	Market value (or net value)	Shares/Units (in thousands)	Percentage of ownership (%)	
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	75	0.03	

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

Note 2： The amount was offset in the consolidated statements.

Note 3： The stock is not publicly traded, and has no active market price. Disclosure of the investment of the net equity.

Note 4： The convertible bond was purchased privately, and had no active market price.

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	Relation-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 mothod (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)
〃	Inventec 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 this investee company decreased by 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%.

(Continued)

WIN Semiconductors Corp. and Subsidiaries

Notes to Consolidated Financial Statements

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 Xinpu 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.

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%	(Note)
Win Semiconductors Cayman Islands Co., Ltd.	WIN Semiconductors Corp.	Parent company	Purchase	5,594,381	100%	1~2 Month	-	-	(536,618)	(100%)	(Note)

Note: The amounts of the transaction and the ending balance had been offset in the consolidated statements.

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	Note
					Amount	Action Taken			
The Company	Win Semiconductors Cayman Islands Co., Ltd.	Subsidiary	536,618	13.70%	-	-	536,618	-	(Note)

Note: The amounts of ending balance and been received in subsequent had been offset in the consolidated statements.

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

WIN Semiconductors Corp. and Subsidiaries

Notes to Consolidated Financial Statements

(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)	(Note)
〃	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)	(Note)
〃	Inventec Energy Corporation	Taiwan	Solar component module manufacturing	581,464	293,873	42,589	44.36%	324,861	(211,979)	(48,361)	

Note: The amount had been offset in the consolidated statements.

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.

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.

(Continued)

WIN Semiconductors Corp. and Subsidiaries

Notes to Consolidated Financial Statements

(d) Significant transactions and business relationship between parent company and subsidiaries:

1. For the year ended December 31, 2011

No (Note 1)	Company Name	Counter Party	Relationship (Note 2)	Intercompany Transactions			
				Account	Amount	Terms (Note 3)	Percentage of total consolidated net sales or assets
0	The Company	Win Semiconductors Cayman Islands Co., Ltd.	1	Operating revenue	5,132,866	-	57.66%
0	The Company	Win Semiconductors Cayman Islands Co., Ltd.	1	Accounts receivable－related party	280,103	-	1.51%
1	Win Semiconductors Cayman Islands Co., Ltd.	The Company	2	Accounts payable－related party	280,103	-	1.51%
1	Win Semiconductors Cayman Islands Co., Ltd.	The Company	2	Cost of goods sold	5,132,866	-	57.66%
1	Win Semiconductors Cayman Islands Co., Ltd.	WIN SEMI. USA, INC.	3	Operating expense	45,624	-	0.51%
2	WIN SEMI. USA, INC.	Win Semiconductors Cayman Islands Co., Ltd.	3	Operating revenue	45,624	-	0.51%

2. For the year ended December 31, 2012

No (Note 1)	Company Name	Counter Party	Relationship (Note 2)	Intercompany Transactions			
				Account	Amount	Terms (Note 3)	Percentage of total consolidated net sales or assets
0	The Company	Win Semiconductors Cayman Islands Co., Ltd.	1	Operating revenue	5,594,381	-	49.78%
0	The Company	Win Semiconductors Cayman Islands Co., Ltd.	1	Accounts receivable－related party	536,618	-	2.27%
1	Win Semiconductors Cayman Islands Co., Ltd.	The Company	2	Accounts payable－related party	536,618	-	2.27%
1	Win Semiconductors Cayman Islands Co., Ltd.	The Company	2	Cost of goods sold	5,594,381	-	49.78%
1	Win Semiconductors Cayman Islands Co., Ltd.	WIN SEMI. USA, INC.	3	Operating expense	42,588	-	0.38%
2	WIN SEMI. USA, INC.	Win Semiconductors Cayman Islands Co., Ltd.	3	Operating revenue	42,588	-	0.38%

Note 1: Company numbering is as follows:

Parent company－0

Subsidiary starts from 1

Note 2: Relationship with transaction party numbering is as follows:

Parent company to subsidiary－1

Subsidiary to parent company－2

Subsidiary to subsidiary－3

Note 3: There is no significant difference from transaction terms with non-related parties.

(Continued)

(12) Segment Financial Information

(a) The Company, which engages in researching, developing, manufacturing, and selling of GaAs wafers, is considered as a single operating segment.

(b) Segment information by products and services for the years ended December 31, 2011 and 2012, were as follows:

	2011	2012
Revenue		
Revenue from outside customers	$ 8,901,273	11,237,964
Interest Income	813	4,594
Net revenue	$ 8,902,086	11,242,558
Interest expense	$ (58,346)	(102,946)
Depreciation and amortization	(1,033,582)	(1,307,018)
Investment loss recognized under equity method	(114,698)	(78,339)
Impairment loss	-	(190,129)
Assets		
Long-term investments under equity method	442,289	324,861
Capital expenditures in noncurrent assets	3,384,863	3,335,607

The income before income tax, assets and liabilities of the operating segment above are consistent with the related accounts shown in the consolidated balance sheets and consolidated statements of operations of the Company.

(Continued)

(c) Industry Financial Information

(1) Geographic area information

The revenue and noncurrent assets were based on where the customers and assets are located.

Revenue from external customers for the years ended December 31, 2011 and 2012 were as follows:

Area	2011 Amount	2012 Amount
America	$ 3,587,464	858,602
Asia	3,068,873	4,711,742
Africa	1,189,250	3,722,053
Taiwan	937,379	1,698,426
Europe	118,307	247,141
Total	**$ 8,901,273**	**11,237,964**

Non－Current Assets

Area	2011 Amount	2012 Amount
Taiwan	$ 11,427,131	13,353,915
America	205	126
Total	**$ 11,427,336**	**13,354,041**

(2) Major customers

For the years ended December 31, 2011 and 2012, sales to customers greater than 10% of net revenue, were as follows:

	2011		2012	
	Net revenue amount	Percentage of net revenue (%)	Net revenue amount	Percentage of net revenue (%)
A company	$ 1,189,250	13	3,722,053	33
B company	1,271,233	14	2,035,327	18
C company	-	-	1,189,765	11
D company	2,291,437	26	1,481	-
	$ 4,751,920	**53**	**6,948,626**	**62**