

**WIN SEMICONDUCTORS CORP. AND SUBSIDIARIES**

**Consolidated Financial Statements**

**June 30, 2011 and 2010**

**(With Independent Auditors' Report Thereon)**

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**Telephone No.: 886(03)397-5999**

## **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 June 30, 2011 and 2010, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for the six months ended June 30, 2011 and 2010. 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 statement 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 June 30, 2011 and 2010, and the results of its consolidated operations and its consolidated cash flows for the six months ended, in conformity with the "Guidelines Governing the Preparation of Financial Reports by Securities Issuers", the related financial accounting standards of the "Business Entity Accounting Act" and of the "Regulation on Business Entity Accounting Handling", and accounting principles generally accepted in the Republic of China.

Taipei, Taiwan (the Republic of China)  
August 9, 2011

### **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.

This document is an English translation of a report originally issued in Chinese. In the event of a conflict between the English translation and the original Chinese version, the Chinese language auditors' report shall prevail.

**WIN SEMICONDUCTORS CORP. AND SUBSIDIARIES**

**Consolidated Balance Sheets**

**June 30, 2011 and 2010**

**(Expressed in Thousands of New Taiwan Dollars and U.S. Dollars)**

Assets	2011		2010		Liabilities and Stockholders' Equity	2011		2010	
	NT\$	US\$	NT\$	US\$		NT\$	US\$	NT\$	US\$
<b>Current assets:</b>					<b>Current liabilities:</b>				
Cash and cash equivalents (note 4(a))	\$ 610,323	21,243	409,987	12,752	Short-term borrowings (notes 4(i) and 6)	\$ 222,588	7,748	-	-
Financial assets at fair value through profit or loss (note 4(b))	1,284,211	44,699	288,835	8,984	Accounts payable	1,320,983	45,979	1,193,661	37,128
Noted and accounts receivable, net (note 4(c))	876,698	30,515	798,461	24,836	Accrued expenses	609,866	21,227	333,595	10,376
Other receivables – related parties (note 5)	496	17	-	-	Dividend payable	513,291	17,866	-	-
Other financial assets – current (note 4(d))	296,912	10,335	117,102	3,642	Payables on equipment (note 5)	218,223	7,596	209,869	6,528
Inventories (note 4(e))	1,595,845	55,546	1,180,511	36,719	Current portion of long-term borrowings (notes 4(j) and 6)	1,131,343	39,378	854,374	26,575
Other current assets	141,609	4,929	94,337	2,934	Other current liabilities	29,697	1,034	41,854	1,301
Deferred income tax assets – current (note 4(l))	201,763	7,023	-	-	<b>Total current liabilities</b>	<b>4,045,991</b>	<b>140,828</b>	<b>2,633,353</b>	<b>81,908</b>
<b>Total current assets</b>	<b>5,007,857</b>	<b>174,307</b>	<b>2,889,233</b>	<b>89,867</b>	<b>Long-term liabilities:</b>				
<b>Funds and investments:</b>					Long-term borrowings (notes 4(j) and 6)	5,084,140	176,963	2,859,392	88,939
Available-for-sale financial assets – noncurrent (note 4(b))	86,480	3,010	50,781	1,580	<b>Other liabilities:</b>				
Financial assets carried at cost – noncurrent (note 4(b))	916,746	31,909	1,085,399	33,760	Accrued pension liabilities (note 4(k))	3,297	115	1,982	62
Long-term investments under equity method (note 4(f))	511,973	17,820	392,091	12,196	Deferred income tax liabilities – noncurrent (note 4(l))	-	-	1,258	39
Investment of bonds with no active market – noncurrent (note 4(b))	344,783	12,001	344,783	10,724	<b>Total other liabilities</b>	<b>3,297</b>	<b>115</b>	<b>3,240</b>	<b>101</b>
<b>Total funds and investments</b>	<b>1,859,982</b>	<b>64,740</b>	<b>1,873,054</b>	<b>58,260</b>	<b>Total liabilities</b>	<b>9,133,428</b>	<b>317,906</b>	<b>5,495,985</b>	<b>170,948</b>
<b>Property, plant and equipment (notes 4(g), 5, 6 and 7):</b>					<b>Stockholders' equity (notes 4(b), 4(f), 4(l) and 4(m)):</b>				
Cost:					Common stock	6,225,720	216,698	6,001,085	186,659
Land	802,337	27,927	802,337	24,956	Capital surplus:				
Buildings	721,851	25,125	721,851	22,453	Capital surplus – additional paid-in capital	1,290,352	44,913	1,251,240	38,919
Machinery and equipment	8,747,303	304,466	8,337,450	259,330	Capital surplus – long-term equity investments	28,445	990	17,165	534
Factory and equipment	1,849,244	64,366	1,888,376	58,736	Capital surplus – employee stock option	89,937	3,130	33,442	1,040
Office equipment	110,722	3,854	73,784	2,295		1,408,734	49,033	1,301,847	40,493
Other equipment	20,934	729	17,275	537	Retained earnings:				
	12,252,391	426,467	11,841,073	368,307	Legal reserve	130,842	4,554	-	-
Less: accumulated depreciation	(4,927,091)	(171,496)	(4,693,369)	(145,983)	Retained earnings	1,097,205	38,190	158,406	4,927
Construction in progress	591,407	20,585	86,258	2,683	<b>Total retained earnings</b>	<b>1,228,047</b>	<b>42,744</b>	<b>158,406</b>	<b>4,927</b>
Prepayment for purchases of equipment	2,971,731	103,436	762,005	23,701	Other stockholders' equity adjustments:				
<b>Net property, plant and equipment</b>	<b>10,888,438</b>	<b>378,992</b>	<b>7,995,967</b>	<b>248,708</b>	Cumulative translation adjustments	752	26	6,141	191
<b>Other assets:</b>					Unrealized gains or losses on financial instruments	49,559	1,725	14,612	455
Refundable deposits	19,949	694	18,459	574		50,311	1,751	20,753	646
Deferred charges (note 4(h))	215,272	7,493	178,292	5,546	<b>Total stockholders' equity</b>	<b>8,912,812</b>	<b>310,226</b>	<b>7,482,091</b>	<b>232,725</b>
Restricted assets – noncurrent (note 6)	23,199	808	23,071	718	<b>Commitments and contingencies (note 7)</b>				
Deferred income tax asset – noncurrent (note 4(l))	31,543	1,098	-	-					
<b>Total other assets</b>	<b>289,963</b>	<b>10,093</b>	<b>219,822</b>	<b>6,838</b>					
<b>Total Assets</b>	<b>\$ 18,046,240</b>	<b>628,132</b>	<b>12,978,076</b>	<b>403,673</b>	<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 18,046,240</b>	<b>628,132</b>	<b>12,978,076</b>	<b>403,673</b>

See accompanying notes to consolidated financial statements.

**WIN SEMICONDUCTORS CORP. AND SUBSIDIARIES**

**Consolidated Statements of Operations**

**For the six months ended June 30, 2011 and 2010**

**(Expressed in Thousands of New Taiwan Dollars and U.S. Dollars, Except Earnings per Share)**

	<b>2011</b>		<b>2010</b>	
	<b>NT\$</b>	<b>US\$</b>	<b>NT\$</b>	<b>US\$</b>
<b>Operating revenue</b>	\$ 4,022,949	140,026	3,327,712	103,506
Less: sales returns	(6,398)	(222)	(11,732)	(365)
sales discounts and allowances	<u>(14,249)</u>	<u>(496)</u>	<u>(46,546)</u>	<u>(1,448)</u>
<b>Net revenues</b>	4,002,302	139,308	3,269,434	101,693
<b>Operating cost (notes 4(e), 4(k), 4(m) and 10)</b>	<u>(2,785,766)</u>	<u>(96,964)</u>	<u>(2,305,077)</u>	<u>(71,698)</u>
<b>Gross profit</b>	<u>1,216,536</u>	<u>42,344</u>	<u>964,357</u>	<u>29,995</u>
<b>Operating expenses (notes 4(k), 4(m) and 10)</b>				
Marketing expenses	(61,936)	(2,156)	(63,411)	(1,972)
General and administrative expenses	(168,286)	(5,858)	(141,403)	(4,398)
Research and development expenses	<u>(205,770)</u>	<u>(7,162)</u>	<u>(163,023)</u>	<u>(5,071)</u>
<b>Operating income</b>	<u>(435,992)</u>	<u>(15,176)</u>	<u>(367,837)</u>	<u>(11,441)</u>
	<u>780,544</u>	<u>27,168</u>	<u>596,520</u>	<u>18,554</u>
<b>Non-operating income and gains:</b>				
Interest income	289	10	177	6
Dividend revenue	10,612	369	10,078	314
Gains on disposal of investments (note 4(b))	45	2	10,776	335
Other income (notes 4(b), 5 and 7)	<u>52,652</u>	<u>1,833</u>	<u>8,436</u>	<u>262</u>
	<u>63,598</u>	<u>2,214</u>	<u>29,467</u>	<u>917</u>
<b>Non-operating expenses and losses:</b>				
Interest expenses (note 4(g))	(27,498)	(957)	(19,116)	(595)
Investment loss recognized under equity method (note 4(f))	(45,622)	(1,588)	(6,118)	(190)
Loss on disposal of fixed asset	(14,717)	(512)	(40)	(1)
Exchange losses, net	(5,328)	(186)	(19,074)	(594)
Losses on valuation of financial assets, net (note 4(b))	<u>(317,471)</u>	<u>(11,050)</u>	<u>(15,793)</u>	<u>(491)</u>
	<u>(410,636)</u>	<u>(14,293)</u>	<u>(60,141)</u>	<u>(1,871)</u>
<b>Income before income tax</b>	433,506	15,089	565,846	17,600
<b>Income tax expenses (note 4(l))</b>	<u>(592)</u>	<u>(21)</u>	<u>(6,580)</u>	<u>(204)</u>
<b>Net income</b>	\$ <u><u>432,914</u></u>	<u><u>15,068</u></u>	<u><u>559,266</u></u>	<u><u>17,396</u></u>
	<u>Net income</u>		<u>Net income</u>	
	<u>NT\$</u>	<u>US\$</u>	<u>NT\$</u>	<u>US\$</u>
<b>Earnings per common share (expressed in dollars) (note 4(n)):</b>				
Basic earnings per share	\$ <u><u>0.70</u></u>	<u><u>0.02</u></u>	<u><u>0.93</u></u>	<u><u>0.03</u></u>
Diluted earnings per share	\$ <u><u>0.69</u></u>	<u><u>0.02</u></u>	<u><u>0.92</u></u>	<u><u>0.03</u></u>

See accompanying notes to consolidated financial statements.

**WIN SEMICONDUCTORS CORP. AND SUBSIDIARIES**  
**Consolidated Statements of Changes in Stockholders' Equity**  
**For the six months ended June 30, 2011 and 2010**  
**(Expressed in Thousands of New Taiwan Dollars and U.S. Dollars)**

	NT\$							US\$						
	Common Stock	Capital Surplus	Legal Reserve	Retained Earnings (Accumulated Deficit)	Cumulative Translation Adjustments	Unrealized Gains or Losses on Financial Instruments	Total	Common Stock	Capital Surplus	Legal Reserve	Retained Earnings (Accumulated Deficit)	Cumulative Translation Adjustments	Unrealized Gains or Losses on Financial Instruments	Total
<b>Balance on January 1, 2010</b>	\$ 5,979,695	1,279,456	-	(400,860)	5,276	7,665	6,871,232	185,994	39,797	-	(12,469)	164	239	213,725
Exercise of employee stock options	21,390	-	-	-	-	-	21,390	665	-	-	-	-	-	665
Compensation cost for employee stock options	-	22,391	-	-	-	-	22,391	-	696	-	-	-	-	696
Changes in unrealized gains or losses on financial assets	-	-	-	-	-	(703)	(703)	-	-	-	-	-	(22)	(22)
Increase in net equity due to the change in percentage of unrealized gains or losses on financial instruments in long-term equity investments under equity method	-	-	-	-	-	7,650	7,650	-	-	-	-	-	238	238
Translation adjustments	-	-	-	-	865	-	865	-	-	-	-	27	-	27
Net income for the six months ended June 30, 2010	-	-	-	559,266	-	-	559,266	-	-	-	17,396	-	-	17,396
<b>Balance on June 30, 2010</b>	<b>\$ 6,001,085</b>	<b>1,301,847</b>	<b>-</b>	<b>158,406</b>	<b>6,141</b>	<b>14,612</b>	<b>7,482,091</b>	<b>186,659</b>	<b>40,493</b>	<b>-</b>	<b>4,927</b>	<b>191</b>	<b>455</b>	<b>232,725</b>
<b>Balance on January 1, 2011</b>	\$ 6,175,675	1,358,492	-	1,308,424	2,043	29,303	8,873,937	214,956	47,285	-	45,542	71	1,020	308,874
Appropriation approved by 2011 stockholder's meeting (note 1)														
Legal reserve	-	-	130,842	(130,842)	-	-	-	-	-	4,554	(4,554)	-	-	-
Cash dividend	-	-	-	(513,291)	-	-	(513,291)	-	-	-	(17,866)	-	-	(17,866)
Exercise of employee stock options (note 2)	50,045	10,510	-	-	-	-	60,555	1,742	366	-	-	-	-	2,108
Compensation cost for employee stock options	-	39,231	-	-	-	-	39,231	-	1,365	-	-	-	-	1,365
Increase in net equity due to the change in percentage of compensation cost for employee stock options in long-term equity investments under equity method	-	501	-	-	-	-	501	-	17	-	-	-	-	17
Increase in net equity due to the change in percentage of unrealized gains or losses on financial instruments in long-term equity investments under equity method	-	-	-	-	-	20,256	20,256	-	-	-	-	-	705	705
Translation adjustments	-	-	-	-	(1,291)	-	(1,291)	-	-	-	-	(45)	-	(45)
Net income for the six months ended June 30, 2011	-	-	-	432,914	-	-	432,914	-	-	-	15,068	-	-	15,068
<b>Balance on June 30, 2011</b>	<b>\$ 6,225,720</b>	<b>1,408,734</b>	<b>130,842</b>	<b>1,097,205</b>	<b>752</b>	<b>49,559</b>	<b>8,912,812</b>	<b>216,698</b>	<b>49,033</b>	<b>4,554</b>	<b>38,190</b>	<b>26</b>	<b>1,725</b>	<b>310,226</b>

Note1: The amount of employees' bonus, directors' and supervisors' remuneration amounting to NT\$17,400 (US\$606) and NT\$58,100 (US\$2,022), respectively, were deducted from the net income.

Note2: The Company recognized compensation cost for the six months ended June 30, 2011, and reclassified the capital surplus — employee stock option to capital surplus — additional paid-in capital when employees exercised the employee stock options.

See accompanying notes to consolidated financial statements.

WIN SEMICONDUCTORS CORP. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the six months ended June 30, 2011 and 2010  
(Expressed in Thousands of New Taiwan Dollars and U.S. Dollars)

	2011		2010	
	NT\$	US\$	NT\$	US\$
<b>Cash flows from operating activities:</b>				
Net income	432,914	15,068	559,266	17,396
Adjustments to reconcile net income to net cash flow provided by operating activities:				
Depreciation	429,124	14,937	383,302	11,922
Amortization	75,889	2,641	84,392	2,625
Amortization of cost of long-term borrowings	1,892	66	1,145	36
Losses on valuation of inventories and obsolescence	4,477	156	2,649	82
Investment loss recognized under equity method	45,622	1,588	6,118	190
Compensation cost for employee stock options	50,242	1,748	22,391	696
Unrealized exchange losses on long-term borrowings	6,508	227	1,325	41
Deferred income tax benefits	(82,723)	(2,879)	-	-
Losses on disposal of property, plant and equipment	14,717	512	40	1
Gains on disposal of investments	(45)	(2)	(10,776)	(335)
Change in operating assets:				
Financial assets at fair value through profit or loss—current	317,516	11,052	282,769	8,795
Notes and accounts receivable	(395,682)	(13,772)	(182,084)	(5,663)
Other receivables—parties	(496)	(17)	10	1
Other financial assets—current	(207,010)	(7,205)	(79,715)	(2,480)
Inventories	(266,373)	(9,272)	(212,693)	(6,615)
Other current assets	(35,797)	(1,246)	(34,982)	(1,088)
Change in operating liabilities:				
Accounts payable	449,504	15,646	324,675	10,099
Accrued expenses	22,480	782	108,059	3,361
Other current liabilities	(14,593)	(508)	23,788	740
Accrued pension liabilities	830	29	44	1
<b>Net cash provided by operating activities</b>	<u>848,996</u>	<u>29,551</u>	<u>1,279,723</u>	<u>39,805</u>
<b>Cash flows from investing activities:</b>				
Decrease in available-for-sale financial assets	-	-	1,115	35
Increase in bonds investment with no active market	-	-	(344,783)	(10,724)
Increase in financial assets carried at cost—noncurrent	-	-	(15,217)	(473)
Proceeds from disposal of property, plant and equipment	2,578	90	-	-
Payments for purchase of long-term equity investments under equity	(123,764)	(4,308)	-	-
Payments for purchase of property, plant and equipment	(2,487,743)	(86,590)	(1,094,229)	(34,035)
Decrease (increase) in refundable deposit	(1,742)	(61)	1,294	40
Increase in deferred charges	(100,016)	(3,481)	(122,026)	(3,796)
Increase in restricted assets	(71)	(3)	(47)	(2)
<b>Net cash used in investing activities</b>	<u>(2,710,758)</u>	<u>(94,353)</u>	<u>(1,573,893)</u>	<u>(48,955)</u>
<b>Cash flows from financing activities:</b>				
Decrease in short-term borrowings	(142,777)	(4,969)	(226,202)	(7,036)
Increase in long-term borrowings	3,017,000	105,012	631,022	19,628
Redemption of long-term borrowings	(860,310)	(29,945)	(200,415)	(6,234)
Exercise of employee stock options	50,045	1,742	21,390	665
<b>Net cash provided by financing activities</b>	<u>2,063,958</u>	<u>71,840</u>	<u>225,795</u>	<u>7,023</u>
<b>Effect on cash due to changes in exchange rate</b>	(674)	(24)	7,302	227
<b>Net increase (decrease) in cash and cash equivalents</b>	201,522	7,014	(61,073)	(1,900)
<b>Cash and cash equivalents at the beginning of the period</b>	408,801	14,229	471,060	14,652
<b>Cash and cash equivalents at the end of the period</b>	<u>\$ 610,323</u>	<u>\$ 21,243</u>	<u>\$ 409,987</u>	<u>\$ 12,752</u>
<b>Additional disclosure of cash flow information:</b>				
Interest paid (Excluding capitalized interest)	\$ 26,559	\$ 924	\$ 19,125	\$ 595
Income tax paid	\$ 151,324	\$ 5,267	\$ 3,633	\$ 112
<b>Supplemental schedule of non-cash investing and financing activities:</b>				
Current portion of long-term borrowings	\$ 1,131,343	\$ 39,378	\$ 854,374	\$ 26,575
Unrealized gains or losses on financial instruments	\$ 20,256	\$ 705	\$ 6,947	\$ 216
Translation adjustments	\$ (1,291)	\$ (45)	\$ 865	\$ 27
Dividend payable	\$ 513,291	\$ 17,866	\$ -	\$ -
<b>Purchase of property, plant and equipment</b>				
Increase in property, plant and equipment	\$ 2,612,341	\$ 90,927	\$ 1,199,675	\$ 37,315
Add: construction payables—beginning of the period	93,625	3,259	104,423	3,248
Less: construction payables—end of the period	(218,223)	(7,596)	(209,869)	(6,528)
Cash paid	<u>\$ 2,487,743</u>	<u>\$ 86,590</u>	<u>\$ 1,094,229</u>	<u>\$ 34,035</u>
<b>Sale of property, plant and equipment</b>				
Disposal proceeds from disposal of property, plant and equipment	\$ 78	\$ 3	\$ -	\$ -
Add: other financial assets—current—beginning of the period	2,500	87	-	-
Disposed of property, plant and equipment	<u>\$ 2,578</u>	<u>\$ 90</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to consolidated financial statements.

# WIN SEMICONDUCTORS CORP. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

June 30, 2011 and 2010

(Expressed in Thousands of New Taiwan Dollars and U.S. Dollars 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.

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

As of June 30, 2011 and 2010, the subsidiaries, which are classified according to their primary business activities and the shareholding percentage of the Company, are as follows:

Investor	Subsidiary	Business activities	Percentage of the direct or indirect ownership by the Company		Note
			2011	2010	
The Company	Win Semi USA Inc.	Marketing	100%	100%	(Note)
The Company	Win Semiconductors Cayman Island Co., Ltd.	Selling of GaAs wafer	100%	100%	-

(Note): The financial statements of Win Semi USA Inc. were not audited by Certified Public Accountants. However, if the financial statements were audited by Certified Public Accountants, there should be no significant adjustments.

As of June 30, 2011 and 2010, the Consolidated Companies had 1,350 and 1,092 employees, respectively.

### (2) Summary of Significant Accounting Policies

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

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

(Continued)

**WIN SEMICONDUCTORS CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

## (a) Consolidation policies

The consolidated financial statements include the accounts of the Consolidated Companies 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 of acquisition 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 upon consolidation.

## (b) Currency translation into U.S. dollars

The consolidated financial statements are stated in New Taiwan dollars. The currency translation of the June 30, 2011 and 2010, financial statements from the New Taiwan dollars into the U.S. dollar is included solely for the convenience of the readers, using the spot rates of Bank of Taiwan on June 30, 2011 and 2010, which NT\$ 28.73 equaled to US\$ 1 and NT\$ 32.15 equaled to US\$ 1, respectively, uniformly applied to all the financial statement accounts. The currency translations should not be construed as representations that the New Taiwan dollar amounts have been, could have been, or could in the future be, converted into the U.S. dollars at this rate or any other rate of exchange.

## (c) 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.

## (d) Foreign currency transactions and translation

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 income. 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 ruling 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.

(Continued)



**WIN SEMICONDUCTORS CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

The translation differences resulting from translating foreign financial statements from the functional currency into the reporting currency are reported as cumulative translation adjustments. Cumulative translation adjustments are reported as a separate component of stockholders' equity.

When the financial statements of a foreign operation are translated into the reporting currency, they should be remeasured into the functional currency first if the foreign currency is not the functional currency.

At the balance sheet date, monetary assets and liabilities are translated using the exchange rates at the date. Non-monetary assets and liabilities are translated using the exchange rates at the date of the transaction. The translation gain or loss is included as a component of net income.

(e) Classification of current and noncurrent assets and liabilities

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

Liabilities that will be held primarily for the purpose of being traded or are expected to be settled within 12 months after the balance sheet date are classified as current liabilities; all other liabilities are classified as noncurrent.

(f) 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 Consolidated Companies estimate the recoverable amount of the asset. The Consolidated Companies recognize impairment loss for an asset whose carrying value is higher than the recoverable amount.

The Consolidated Companies reverse an impairment loss recognized in prior periods for assets other than goodwill if there is any indication that the impairment loss recognized no longer exists or has been 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.

The Consolidated Companies assess the goodwill and intangible assets that have indefinite lives or that is not yet available for use on an annual basis and recognizes an impairment loss on the carrying value in excess of the recoverable amount.

(Continued)

**WIN SEMICONDUCTORS CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

## (g) 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.

## (h) Financial instruments

The Consolidated Companies adopted transaction-date accounting for financial instrument transactions. At initial recognition, financial instruments are evaluated at fair value. Except for financial instruments held for trading, acquisition cost or issuance cost is added to the originally recognized amount, they are accounted for as follows:

The financial instruments the Consolidated Companies held or issued are classified into the following accounts in accordance with the purpose of holding or issuing after the original recognition. The types of the financial instruments mentioned are as follows:

1. Financial assets/liabilities at fair value through profit or loss: The main purpose of the financial instruments are selling or repurchasing in the short term. Except for the derivatives that the Consolidated Companies held for hedging purposes and are considered to be effective, all derivatives are classified into this account. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.
2. Available-for-sale financial assets: These are measured at fair value, and changes therein, other than impairment losses and foreign exchange gains and losses on available-for-sale monetary items, are recognized directly in equity. When an investment is derecognized, the 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 a 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: Equity investments which cannot be evaluated at fair value are booked at original cost. If there is evidence of impairment, impairment loss should be recognized, and the impairment amount cannot be reversed.
4. Investment of bonds with no active market: Investment of bonds with no active market is the non-derivative financial asset with fixed or determinable payment that is not quoted in the active market. The Consolidated Companies adopted the transaction-date accounting for the financial instrument transactions. At the beginning of recognition, financial instruments are evaluated at fair value, and acquisition cost is added to the original recognized amount.

(Continued)

**WIN SEMICONDUCTORS CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

For the purpose of measuring investments in bonds with no active market after initial recognition, these investments are measured by effective interest rate method and carried at amortized cost.

If there is any objective evidence that an impairment loss has been incurred, the amount of the loss shall be recognized in profit or loss. In the subsequent period, if the amount of the impairment loss decreases, and the reduction can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss shall be reversed. 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. The amount of the reversal shall be recognized in profit or loss.

5. Notes and accounts receivables:

Notes and accounts receivables originated by the entity are created by the entity by providing goods, or services directly to a debtor.

The Consolidated Companies considers evidence of impairment for financial assets carried at cost at both a specific asset and collective level. All individually significant receivables and held-to-maturity investment securities are assessed for specific impairment. Others that are not individually significant are collectively assessed for impairment by grouping together. All individually significant financial assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against the financial assets.

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.

(i) Other financial assets

Other financial assets 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, net, long-term investment under equity method, and investment of bonds with no active market.

(Continued)

**WIN SEMICONDUCTORS CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****(j) Inventories**

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

The fixed production overheads are allocated to the finished goods and work in progress is based on the normal capacity of the production facilities. Unallocated overheads due to low production or idle plant capacity are recognized as costs of sales in the period in which they are incurred. Variable production overheads are allocated to each unit of production on the basis of the actual use of the production facilities.

**(k) 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 policies are accounted for by the equity method.

A goodwill impairment test is performed annually. If any indication of impairment is identified, an impairment test is performed immediately. When the recoverable amount is below the book value, impairment loss is recognized.

If an investee company issues new shares and original shareholders do not purchase or acquire new shares proportionately, then the investment percentage, and therefore the equity in net assets for the investment that an investor company has invested, will be changed. Such difference shall be used to adjust the additional paid-in capital and the long-term investments accounts. If the adjustment stated above is to debit the additional paid-in capital account and the book balance of additional paid-in capital from long-term investments is not sufficiently offset, then the difference shall be debited to the retained earnings account.

If an investee company purchases outstanding shares, its stockholders' equity and outstanding shares will be changed. If the purchase price is equal to the book value, the equity in net assets for the investment that an investor company has invested will be changed differently compared to the increase in the percentage of the ownership by the investor company. If the purchase price is not equal to the book value, the equity in net assets for the investment that an investor company has invested, the percentage of the ownership by an investor company will be changed. The changes of the equity in net assets for the investment will be recorded as capital surplus.

(Continued)

**WIN SEMICONDUCTORS CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

The difference between the selling price and the book value of the long-term equity investments under the equity method is recognized as disposal gain or loss in the accompanying non-consolidated statements of operations. If there is capital surplus or cumulative translation adjustments resulting from long-term equity investments, the capital surplus or cumulative translation adjustments should be debited/credited to disposal gain/loss based on the disposal ratio.

(1) Property, plant and equipment and depreciation

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

The Consolidated Companies accrued the removal and recovery obligation costs for fixed assets during the non-production period in accordance with Interpretation (97) 340 issued by the Accounting Research and Development Foundation (ARDF). If any component of a fixed asset is a significant part of the fixed asset, it is depreciated individually. The Consolidated Companies evaluate the residual useful lives, the depreciation method, and the residual value annually and any change is accounted for as a change in accounting estimates.

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: 3 to 10 years
- (3) Factory and equipment: 5 to 10 years
- (4) Office and other equipment: 3 to 5 years
- (5) Other equipment: 5 years

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

(Continued)

**WIN SEMICONDUCTORS CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

## (m) Deferred changes

Deferred charges principally include the capitalized costs for internet equipments, computer software and information systems, spare parts, loyalty of professional skill and others. These costs are amortized using the straight-line method over the shorter of the estimated years in which such assets are economically beneficial to the Consolidated Companies' operation or the lease terms. In accordance with SFAS No. 37 "Intangible Assets", an intangible asset shall be measured initially at cost. After initial recognition, an intangible asset shall be measured at its cost 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 when they are made available for use. The estimated useful lives of the intangible assets are as follows:

- (1) Computer software and information systems: 2 to 5 years
- (2) Internet systems: 2 to 3 years
- (3) Spare parts: 1 to 3 years
- (4) Loyalty of professional skill: 12 years
- (5) Others: 1 to 3 years

## (n) Employee retirement plan

## 1. Defined benefit retirement plan

The Company has established an employee noncontributory defined benefit retirement plan (the Plan) covering full-time employees in ROC. Since 2001, the Company has contributed monthly an amount to the retirement fund based on government-approved rate of 2 % of paid salaries and wages. This fund is deposited with the Bank of Taiwan.

The Company adopted ROC SFAS No. 18 "Accounting for Pensions" for its retirement plan. SFAS No. 18 requires a company to complete calculating 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 18 years.

The Company compiles interim financial statements in accordance with ROC SFAS No. 23 "Interim Financial Reporting". Under SFAS No. 23, the Company is not required to disclose pension information as required under ROC SFAS No. 18 "Accounting for Pensions".

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**WIN SEMICONDUCTORS CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

## 2. Defined contribution retirement plans

Starting from July 1, 2005, the enforcement rules of the newly enacted Labor Pension Act (the New Act) required the following categories of employees to adopt a defined contribution 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 provides monthly contributions at the rate of 6% of the worker's monthly wages. The amount of contributions is recognized as expense of the current period.

As of June 30, 2011, the consolidated subsidiaries are located offshore and did not establish retirement plan in accordance with local laws and regulations.

## (o) Employee stock options

The Consolidated Companies have share-based payment agreements with employees. Should the equity instruments under these agreements be granted after January 1, 2008, the share-based payment transactions are accounted for according to ROC SFAS No. 39 "Share-based Payments." The employee share options that were granted, recognized, and measured with intrinsic value method before January 1, 2008, are accounted for in accordance with Interpretation No. (92) 070, 071, and 072 of the ARDF.

The Company is an emerging company and its equity instruments shall be measured at their intrinsic value, initially at the date the entity obtains goods or renders services and subsequently at the end of each reporting period and at the date of final settlement, with any change in intrinsic value recognized in profit or loss.

The intrinsic value means the difference between the fair value of the shares, which the counterparty has the right to subscribe or which it has the right to receive, and the price the counterparty is required to pay for those shares. Before the Company is listed on Taiwan Stock Exchange, the intrinsic value should be measured at its net worth.

Employees' stock options are evaluated by intrinsic value after the Company is listed.

Any adjustment made between the market value which the counterparty has the right to subscribe and the price which the counterparty is required to pay for those shares should be adjusted and not valued at the Company's net worth.

(Continued)

**WIN SEMICONDUCTORS CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

## (p) Revenue recognition

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

## (q) Government grants

The Company adopted 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 comply to the terms related to the government grants; and
- (ii) the grants will be received.

Government grants related to income 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.

## (r) Income tax

The Consolidated Company adopted ROC SFAS No. 22 “Income Taxes”. Under this method, the amounts of deferred income tax assets or liabilities are recognized for future tax effects attributable to temporary differences, loss carry forwards, and investment tax credits. The measurement of deferred income tax assets or liabilities is based on provisions of enacted tax law. A valuation allowance is provided on deferred income tax assets that may not be realized in the future. The investment tax credits granted for purchases of equipments, research and development expenses, and training costs are recognized in the year when the credit arises.

When a change in the tax laws is enacted, the deferred tax liability or asset should be recomputed accordingly in the period of change. The difference between the new amount and the original amount, that is, the effect of changes in the deferred tax liability or asset, should be reported as an adjustment to income tax expenses or benefits for income from current continuing operations.

Deferred income tax assets or liabilities are classified as current or noncurrent based on the classification of the related assets or liabilities. If no assets or liabilities are related, deferred income tax assets or liabilities are classified according to the period of realization. The deferred income tax assets and liabilities can be offset within the same taxpayer; however, they cannot be offset among different taxpayers.

(Continued)



**WIN SEMICONDUCTORS CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

The tax imputation system was adopted in accordance with the amendment of the ROC Income Tax Law. Under the new system, the Company may retain the earnings after December 31, 1997, by paying 10% surtax on such undistributed earnings, and the surtax is accounted for as income tax expenses in the following year when the shareholders approved a resolution not to distribute the earnings.

Each subsidiary is an independent taxpayer. Tax income or losses cannot be offset among subsidiaries.

(s) Employee bonuses and directors' and supervisors' remuneration

Employee bonuses and directors' and supervisors' remuneration are accounted for by Interpretation (96) 052 issued by the Accounting Research and Development Foundation. The Company estimates the amount of employee bonuses and directors' and supervisors' remuneration according to the Interpretation and recognizes them as expenses. Differences between the amount approved in the shareholders' meeting and recognized in the financial statements, if any, are accounted for as changes in accounting estimates and recognized as profit or loss.

(t) Earnings per common share (EPS)

The EPS are calculated by dividing the amount of net income attributable to common stock outstanding for the period by the weighted-average number of common shares outstanding during the period, which includes the shares related to bonds for which bondholders have already applied for conversion to shares but for which the Company has not yet secured the government's final approval for the registration of those shares. The number of outstanding shares is retroactively adjusted for the distribution of stock dividends from retained earnings, capital surplus, employees' bonus or stock split. Similarly, the number of outstanding shares is also retroactively adjusted for the reduction in common shares outstanding from a reverse stock split or capital reduction due to offsetting against losses. If these changes occur after the balance sheet date but before the date of issuance of the financial statements, the EPS is also retroactively adjusted.

The diluted EPS is calculated consistently with the calculation of EPS while giving effect to all potentially dilutive common shares which are outstanding during the reporting period. Employee stock options and convertible bonds issued by the Company, which have dilutive effect, are deemed to have been converted into common shares at the date of issue.

All employees' bonus accrued at the end of the reporting period are deemed to be distributable in the form of shares, and the market price of those shares at the end of the reporting period is used for determining the number of issuable shares in computing the diluted EPS.

(Continued)

## WIN SEMICONDUCTORS CO., LTD. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

(u) 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 Company disclosed its operating segment 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 adoption of this amended accounting principle disclosed no significant impact on the Consolidated Companies' financial statements as of and for the six months ended June 30, 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". The adoption of this new accounting standard disclosed no impact on the Consolidated Companies' profit and loss for the six months ended June 30, 2011.

### (4) Important Accounts

(a) Cash and cash equivalents

The components as of June 30, 2011 and 2010 were as follows:

	<b>2011</b>		<b>2010</b>	
	NT\$	US\$	NT\$	US\$
Cash on hand	\$ 567	20	638	20
Cash in bank	<u>609,756</u>	<u>21,223</u>	<u>409,349</u>	<u>12,732</u>
	<u>\$ 610,323</u>	<u>21,243</u>	<u>409,987</u>	<u>12,752</u>

(Continued)

## WIN SEMICONDUCTORS CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

## (b) Financial instruments

The components as of June 30, 2011 and 2010 were as follows:

## 1. Financial assets at fair value through profit or loss—current:

	Nominal Amount	2011 Book value		Nominal Amount	2010 Book value	
		NT\$	US\$		NT\$	US\$
Trading financial assets						
Mutual funds	\$ -	-	-	-	184,589	5,741
Depository receipt	-	-	-	-	38,413	1,195
Publicly traded stock	-	1,258,366	43,800	-	40,608	1,263
Publicly traded convertible bonds	-	<u>24,600</u>	<u>856</u>	-	<u>25,225</u>	<u>785</u>
		1,282,966	44,656		288,835	8,984
Derivative financial commodity						
Forward exchange contracts	US\$ 7,500	<u>1,245</u>	<u>43</u>	-	-	-
		<u>\$ 1,284,211</u>	<u>44,699</u>		<u>288,835</u>	<u>8,984</u>

- (1) For the six months ended June 30, 2011 and 2010, the losses on valuation of financial assets at fair value through profit or loss amounted to NT\$ 317,471 (US\$ 11,050) and NT\$ 15,793 (US\$491), respectively.
- (2) For the six months ended June 30, 2011, and 2010 the gains on disposal of financial assets at fair value through profit or loss—current amounted to NT\$ 45 (US\$ 2) and NT\$ 10,164 (US\$ 316), respectively.
- (3) The Consolidated Companies entered into derivative contracts during the six months ended June 30, 2011 to manage its exposures concerning the fluctuations of foreign exchange rates. The derivative contracts entered into by the Consolidated Companies did not meet the criteria of hedge accounting. For the six months ended June 30, 2011 the gain on disposal of derivation financial instruments amounted to NT\$1,535 (US\$53), and were recorded as other income.

There were no such transactions for the six months ended June 30, 2010.

## 2. Available-for-sale financial assets—noncurrent:

	2011		2010	
	NT\$	US\$	NT\$	US\$
Avago Technologies Ltd.	<u>\$ 86,480</u>	<u>3,010</u>	<u>50,781</u>	<u>1,580</u>

(Continued)

## WIN SEMICONDUCTORS CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

- (1) For the six months ended June 30, 2011 and 2010, the gains on disposal the available-for-sale financial assets—noncurrent amounted to NT\$ 0 (US\$ 0) and NT\$612 (US\$ 19), respectively.
- (2) As of June 30, 2011 and 2010, the fair value of available-for-sale financial assets from the subsequent remeasurement amounted to NT\$49,559 (US\$ 1,725) and NT\$ 14,612 (US\$455), respectively, and were recorded as other stockholders' equity adjustments.

## 3. Financial assets carried at cost—noncurrent:

Investee	2011		2010	
	NT\$	US\$	NT\$	US\$
<b>Stock:</b>				
IntelliEPI Inc. (Cayman) (Note 1)	\$ 5,306	185	-	-
Intelligent Epitaxy Technology, Inc. (Note1)	-	-	5,306	165
Kopin Taiwan Corporation	-	-	663	21
Huga Optotech Inc. (Note 2)	216,223	7,526	933,782	29,044
Inventec Energy Corporation (Note 3)	-	-	130,431	4,057
Shin Sheng III Venture Capital Investment Corporation	150,000	5,221	-	-
Inventec Solar Energy Corporation	330,000	11,486	-	-
Tainergy Tech Co., Ltd.	<u>200,000</u>	<u>6,961</u>	<u>-</u>	<u>-</u>
	901,529	31,379	1,070,182	33,287
<b>Convertible right:</b>				
Bright Led Electronics Corp.	<u>15,217</u>	<u>530</u>	<u>15,217</u>	<u>473</u>
Total	\$ <u><b>916,746</b></u>	<u><b>31,909</b></u>	<u><b>1,085,399</b></u>	<u><b>33,760</b></u>

Note 1: On May 31, 2011, the Company exchanged the shares Intelligent Epitaxy Technology for IntelliEPI Inc (Cayman). The exchange ratio was on the basis of 1 share of Intelligent Epitaxy Technology Inc. to 1.5 shares of IntelliEPI Inc. (Cayman).

Note 2: On June 7, 2010, the Board of the Company approved that all shares of Huga Optotech Inc. should be transferred to the common stocks of EPISTAR Corp. for an exchange ratio of 2.36 shares to 1 share. The Company had obtained 14,490 thousand shares of EPISTAR Corp. on July 19, 2010 and recorded them as financial assets at fair value through profit or loss.

(Continued)

## WIN SEMICONDUCTORS CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

Note 3: For the six months ended June 30, 2011, the Company invested in Inventec Energy Corporation (Originally named Kinmac Solar Corporation) amounting to NT\$123,764 (US\$4,308) and increased the percentage of the investment to 20.58%. For the six months ended June 30, 2011, the Company reclassified the financial assets carried at cost-noncurrent accounting to NT\$86,904 (US\$3,025) to long-term investments under equity method.

(1) Detail of increases in financial assets carried at cost—noncurrent were as follows:

	Shares (in thousands)	2010	
		NT\$	US\$
Stock convertible right—Bright Led Electronics Corp.	4	\$ <u>15,217</u>	<u>473</u>

There was no such transaction for the six months ended June 30, 2011.

4. Investment of bonds with no active market:

	Issue Period	Nominal rate (%)	2011		2010	
			NT\$	US\$	NT\$	US\$
Convertible Bond:						
Bright Led Electronics Corp.	2010.4.9-2013.4.8	0%	\$ <u>344,783</u>	<u>12,001</u>	<u>344,783</u>	<u>10,724</u>

(1) In 2010, the Company had purchased private convertible bonds at par value of NT\$ 360,000 (US\$ 11,197) from Bright Led Electronics Corp., and the Company had recorded such bonds at present value; the remaining value is presented as convertible option. The Company can practice the convertible option into common stock during the period from three months of the issue date to ten days before the maturity date; the convertible price will be the price at the denomination and recorded as financial assets carried at cost—noncurrent.

(c) Notes and Accounts receivable

	2011		2010	
	NT\$	US\$	NT\$	US\$
Notes receivable	\$ 1,924	67	-	-
Accounts receivable	<u>890,715</u>	<u>31,003</u>	<u>814,284</u>	<u>25,328</u>
	892,639	31,070	814,284	25,328
Less: allowance for doubtful accounts and sales discounts	<u>15,941</u>	<u>555</u>	<u>15,823</u>	<u>492</u>
	\$ <u><u>876,698</u></u>	<u><u>30,515</u></u>	<u><u>798,461</u></u>	<u><u>24,836</u></u>

(Continued)

## WIN SEMICONDUCTORS CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

As of June 30, 2011 and 2010, the Consolidated Companies notes and accounts receivable were not pledged. The book value of accounts receivable is determined as their fair value because of the near maturity dates.

## (d) Other financial assets

The components as of June 30, 2011 and 2010 were as follows:

	2011		2010	
	NT\$	US\$	NT\$	US\$
Metal Reclaim	\$ 295,262	10,277	115,731	3,600
Other	<u>1,650</u>	<u>58</u>	<u>1,371</u>	<u>42</u>
	<u>\$ 296,912</u>	<u>10,335</u>	<u>117,102</u>	<u>3,642</u>

## (e) Inventories

1. The components as of June 30, 2011 and 2010, were as follows:

	2011		2010	
	NT\$	US\$	NT\$	US\$
Raw materials	\$ 708,620	24,665	554,467	17,246
Supplies	99,836	3,475	60,154	1,871
Work in process	536,936	18,689	474,498	14,759
Finished goods	<u>250,453</u>	<u>8,717</u>	<u>91,392</u>	<u>2,843</u>
	<u>\$ 1,595,845</u>	<u>55,546</u>	<u>1,180,511</u>	<u>36,719</u>

2. For the six months ended June 30, 2011 and 2010, the movement of allowance for obsolete inventories were as follows:

	2011		2010	
	NT\$	US\$	NT\$	US\$
Beginning balance	\$ 71,245	2,480	37,873	1,178
Addition	4,477	156	2,649	82
Write-off	<u>(24,433)</u>	<u>(851)</u>	<u>-</u>	<u>-</u>
Ending balance	<u>\$ 51,289</u>	<u>1,785</u>	<u>40,522</u>	<u>1,260</u>

(Continued)

## WIN SEMICONDUCTORS CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

3. For the six months ended June 30, 2011 and 2010, the Company recognized related losses on inventories as follows:

	2011		2010	
	NT\$	US\$	NT\$	US\$
Losses on valuation of inventories and obsolescence	\$ 4,477	156	2,649	82
Scraps income	(7,584)	(264)	(2,384)	(74)
Losses on physical inventory	-	-	93	3
	<u>\$ (3,107)</u>	<u>(108)</u>	<u>358</u>	<u>11</u>

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

The component as of June 30, 2011 and 2010, were as follow:

Investee	Shareholding percentage (%)	2011		Investment income (loss)	
		Book value		NT\$	US\$
		NT\$	US\$		
Speed Tech Corp.	26.33	\$ 224,656	7,820	134	5
WinMEMS Technologies Holdings Co., Ltd.	34.73	113,724	3,958	(8,785)	(306)
Inventec Energy Corporation	20.58	<u>173,593</u>	<u>6,042</u>	<u>(36,971)</u>	<u>(1,287)</u>
		<u>\$ 511,973</u>	<u>17,820</u>	<u>(45,622)</u>	<u>(1,588)</u>

  

Investee	Shareholding percentage (%)	2010		Investment income (loss)	
		Book value		NT\$	US\$
		NT\$	US\$		
Speed Tech Corp.	25.63	\$ 258,678	8,046	10,254	319
WinMEMS Technologies Holdings Co., Ltd.	34.73	<u>133,413</u>	<u>4,150</u>	<u>(16,372)</u>	<u>(509)</u>
		<u>\$ 392,091</u>	<u>12,196</u>	<u>(6,118)</u>	<u>(190)</u>

(Continued)

## WIN SEMICONDUCTORS CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

Detail of increases in long-term investments under equity method

	Shares (in thousands)	2011	
		NT\$	US\$
Inventec Energy Corporation	19,757	\$ <u>210,668</u>	<u>7,333(note)</u>

There was no such transaction for the six months ended June 30, 2010.

(Note) For the six months ended June 30, 2011, the Company reclassified the financial assets carried at cost-noncurrent accounting to NT\$86,904 (US\$3,025) to long-term investments under equity method and the Company invested in Inventec Energy Corporation (Originally named Kinmac Solar Corporation) amounting to NT\$123,764 (US\$4,308).

The shareholding percentage has changed from 25.63% to 26.33% and capital surplus increased by NT\$ 11,280 (US\$ 387) due to Speed Tech Corp. wrote off treasury stock and its employee stock options were exercised for the year ended December 31, 2010.

## (g) Property, plant and equipment

1. The Consolidated Companies had entered into an agreement for an amount of NT\$ 398,000 (US\$ 12,379) to purchase land and buildings from Heran Co., Ltd. in 2009. The registered transfer process was completed on April 13, 2010.
2. As of June 30, 2011 and 2010, the accumulated depreciation of the Consolidated Companies were as follows:

	2011		2010	
	NT\$	US\$	NT\$	US\$
Buildings	\$ 148,129	5,156	120,365	3,744
Machinery and equipment	3,956,905	137,727	3,865,510	120,233
Factory and equipment	763,948	26,590	672,019	20,903
Office equipment	48,232	1,679	26,395	821
Other equipment	9,877	344	9,080	282
	\$ <u>4,927,091</u>	<u>171,496</u>	<u>4,693,369</u>	<u>145,983</u>

For the six months ended June 30, 2011 and 2010, interest expenses were capitalized amounting to NT\$ 19,320 (US\$ 672) and NT\$ 7,768 (US\$ 242), respectively. The ranges of the annual interest rates for the above capitalization were 1.38% ~ 1.60% and 1.38% ~ 1.49%, respectively.

(Continued)



## WIN SEMICONDUCTORS CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

## (h) Deferred charges

As of June 30, 2011 and 2010, deferred charges and the net of amortization consisted of the following:

	2011		2010	
	NT\$	US\$	NT\$	US\$
Computer software and information systems	\$ 91,791	3,195	82,999	2,582
Spare parts	45,458	1,582	72,275	2,248
Loyalty of professional skill	43,449	1,512	-	-
Internet systems	18,208	634	15,361	478
Others	16,366	570	7,657	238
	<u>\$ 215,272</u>	<u>7,493</u>	<u>178,292</u>	<u>5,546</u>

## (i) Short-term borrowings

The components as of June 30, 2011 and 2010, were as follows:

	2011		2010	
	NT\$	US\$	NT\$	US\$
Unsecured loans	\$ <u>222,588</u>	<u>7,748</u>	<u>-</u>	<u>-</u>

The interest expenses on the aforementioned short-term borrowings are calculated based on floating interest rates. For the six months ended June 30, 2011 and 2010, the ranges of the interest rates were 0.92%~1.20% and 0.42%~1.88%, respectively. As of June 30, 2011 and 2010, the unused credit line amounted to NT\$ 3,225,352 (US\$ 112,264) and NT\$ 2,354,235 (US\$ 73,227), respectively. The combined unused credit line for long-term and short-term borrowings amounted to NT\$ 0 (US\$ 0) and NT\$ 594,452 (US\$ 18,490).

(Continued)

## WIN SEMICONDUCTORS CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

## (j) Long-term borrowings

As of June 30, 2011 and 2010, the details of long-term borrowings were as follows:

Nature	2011			2010		
	NT\$	US\$	Annual interest rate (%)	NT\$	US\$	Annual interest rate (%)
Syndicated loan agreement:						
China Development Industrial Bank and other twelve banks (Note 1)	\$ 1,882,687	65,530	1.66~1.72	\$ 2,609,586	81,169	1.37~1.42
Mega International Commercial Bank and other sixteen banks (Note 2)	2,956,000	102,889	1.50~1.60	-	-	-
Less: Cost of long-term borrowings	(18,643)	(649)		(9,606)	(299)	
Subtotal	4,820,044	167,770		2,599,980	80,870	
Secured loans	1,045,439	36,388	1.18~2.07	1,113,786	34,644	1.12~2.01
Unsecured loans	350,000	12,183	1.55~1.71	-	-	-
Total	6,215,483	216,341		3,713,766	115,514	
Less: current portion	(1,131,343)	(39,378)		(854,374)	(26,575)	
	<u>\$ 5,084,140</u>	<u>176,963</u>		<u>\$ 2,859,392</u>	<u>88,939</u>	

As of June 30, 2011, the remaining balances of the borrowings due were as follows:

Year due	NT\$	US\$
July 1, 2011~June 30, 2012	\$ 1,131,343	39,378
July 1, 2012~June 30, 2013	1,704,438	59,326
July 1, 2013~June 30, 2014	1,171,903	40,790
July 1, 2014~June 30, 2015	869,845	30,277
July 1, 2015~June 30, 2016	681,717	23,728
July 1, 2016, and after	656,237	22,842
	<u>\$ 6,215,483</u>	<u>216,341</u>

(Continued)

**WIN SEMICONDUCTORS CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

As of June 30, 2011 and 2010, the unused credit lines for long-term borrowings amounted to NT\$ 2,174,000 (US\$ 75,670) and NT\$ 0 (US\$ 0), respectively. The details regarding the combined credit lines for long-term and short-term borrowings are disclosed in note 4(i). The pledge 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 is NT\$ 2,810,000 (US\$ 97,807) and is to be due in March 2015.

The significant terms of this loan agreement are as follows:

- (a) Tranche A: medium-term secured loans. The credit facility is NT\$ 900,000 (US\$ 31,326), and it is not a revolving loan. The purpose of Tranche A is used to repay an existing loan (including the amount used to finance land and buildings) and for working capital of operation.
- (b) Tranche B: medium-term secured loans. The credit facility is NT\$ 1,491,105 (US\$ 51,901), and it is not a revolving loan. The purpose of Tranche B is for the purchases of machinery and equipment.
- (c) Tranche C: medium-term secured loans. The credit facility is NT\$ 418,895 (US\$ 14,580), and it is not a revolving loan. The purpose of Tranche C is for the purchases of machinery and equipment.

The related financial covenants and restraints for the syndicated loan mentioned above were as follows:

- (a) At the end of the reporting period, the current ratio cannot be lower than 100%, the liability ratio (Liabilities/Net asset value) cannot be higher than 100%, the interest coverage ratio cannot be less than 200% , and the total tangible net assets cannot be less than NT\$ 3,500,000 (US\$ 121,824).
- (b) The Company and its subsidiaries must deposit accounts receivables from 11 main customers and any other customers into the foreign currency account with the managing bank under the loan agreement. The amount must exceed NT\$ 100,000 (US\$ 3,481) every quarter starting from the first 3 months after the initial drawdown of the credit facility on Tranche A. If the above requirement is not achieved, the Company should provide another accounts receivables from other customers granted by managing bank. The credit terms will be cancelled if the Company failed to maintain the deposit amount accumulated in the following quarter.
- (c) The Company's production of GaAs MMIC must achieve 4,000 pieces per month and quarterly revenue must exceed NT\$ 500,000 (US\$ 17,403) before the used-up of Tranche A of the credit facility or the funding period of the loan, whichever comes first.

(Continued)

**WIN SEMICONDUCTORS CO., LTD. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

For the six months ended June 30, 2011, the Company was in compliance with the above covenants and restraints except the current ratio. The Company had obtained the exemption notice before June 30, 2011.

For the six months ended June 30, 2010, the Company was in compliance with the above covenants and restraints.

Note 2: In January 2011, the Company entered into a seven-year syndicated loan agreement with Mega commercial bank and other sixteen banks. The total credit facility is NT\$4,800,000 (US\$167,073) 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 NT\$3,000,000 (US\$104,420) and it is not a revolving loan. The purpose of Tranche A is used to repay an existing loan and for purchases of machinery and equipment.
- (b) Tranche B: medium-term secured loans. The credit facility is NT\$1,800,000 (US\$62,652), and it is a revolving loan. The purpose of Tranche B is used for the working capital of operation.

The related financial covenants and restraints for the syndicated loan mentioned above were as follows:

- (a) At the end of the reporting period, the current ratio cannot be lower than 100%, the liability ratio cannot be higher than 120%, the interest coverage ratio cannot be less than 300%, and the net value cannot be less than NT\$6,000,000 (US\$208,841).

For the six months ended June 30, 2011, the Company was in compliance with the above covenants and restraints.

(k) Pension plans

As of and for the six months ended June 30, 2011 and 2010, the details of the pension plans were as follows:

	<b>2011</b>		<b>2010</b>	
	NT\$	US\$	NT\$	US\$
Balance of the pension fund:				
Bank of Taiwan	\$ 31,809	1,107	31,311	974
Periodic pension cost:				
Defined benefit pension plan cost (revenue)	934	32	580	18
Defined contribution pension plan cost	16,484	574	13,724	427
Accrued pension liabilities	3,297	115	1,982	62

(Continued)

## WIN SEMICONDUCTORS CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

## (1) Income tax

1. Each consolidated entity files its own separate income tax return. For the six months ended June 30, 2011 and 2010, the Company was subject to ROC income tax at a maximum rate of 17%, and calculated the amounts of the basic tax in accordance with the “Income Basic Tax Act”. Win Semiconductor USA Inc., the consolidated subsidiaries, is subject to income tax at a maximum rate of 39%. The income tax expenses for the six months ended June 30, 2011 and 2010, were as follows:

	2011		2010	
	NT\$	US\$	NT\$	US\$
Income tax expenses—current	\$ 83,315	2,900	6,580	204
Income tax benefits—deferred	<u>(82,723)</u>	<u>(2,879)</u>	<u>-</u>	<u>-</u>
	\$ <u><b>592</b></u>	<u><b>21</b></u>	<u><b>6,580</b></u>	<u><b>204</b></u>

The deferred income tax benefits were as follows:

	2011		2010	
	NT\$	US\$	NT\$	US\$
Investment tax credits	\$ 112,315	3,909	(24,165)	(752)
Loss carry-forwards	-	-	91,569	2,848
Pension expenses in excess of tax limit	(141)	(5)	(7)	-
Depreciation expenses adjusted for tax purposes	(6,461)	(225)	(9,141)	(284)
Provision for inventory obsolescence	3,393	118	(450)	(14)
Unrealized commission expense	(294)	(10)	94	3
Unrealized operating cost	(2,083)	(72)	1,360	42
Unrealized sales discount and allowance	(1,534)	(53)	2,950	92
Unrealized valuation losses (gains) on financial assets	(53,971)	(1,879)	(2,685)	(84)
Unrealized exchange losses (gains)	(5,434)	(189)	(4,570)	(142)
Unrealized investment losses (income) recognized under equity method	5,993	209	670	21
Effect of change in income tax rate on valuation allowance for deferred income tax assets	-	-	25,754	801
Valuation allowance for deferred income tax assets	<u>(134,506)</u>	<u>(4,682)</u>	<u>(81,379)</u>	<u>(2,531)</u>
	\$ <u><b>(82,723)</b></u>	<u><b>(2,879)</b></u>	<u><b>-</b></u>	<u><b>-</b></u>

(Continued)

## WIN SEMICONDUCTORS CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

2. The differences between expected income tax expenses at statutory rates and income tax expenses as reported in the accompanying consolidated statements of operations for the six months ended June 30, 2011 and 2010, were as follows:

	2011		2010	
	NT\$	US\$	NT\$	US\$
Income tax expenses calculated on pre-tax financial income at statutory income tax rate	\$ 73,763	2,568	96,596	3,004
Investment tax credits	-	-	(35,181)	(1,094)
Research and development tax credits	(12,353)	(430)	-	-
Gain on disposal of investment	(8)	-	(1,832)	(57)
Dividends income	(1,715)	(60)	(1,713)	(53)
Meal expenses disallowed by tax regulation	635	22	526	16
Depreciation expenses adjusted for tax purposes	753	26	(225)	(7)
Investment losses (income) recognized under equity method (domestic)	6,262	218	(1,743)	(54)
Basic tax	-	-	6,580	204
Discrepancy caused by different tax rates applied to the Company's subsidiaries	(67)	(2)	(402)	(13)
10% surtax on anappropriated earnings	66,429	2,312	-	-
Effect of change in statutory income tax rate	-	-	25,754	801
Others	1,399	49	(401)	(12)
Valuation allowance for deferred income tax assets	<u>(134,506)</u>	<u>(4,682)</u>	<u>(81,379)</u>	<u>(2,531)</u>
	<u>\$ 592</u>	<u>21</u>	<u>6,580</u>	<u>204</u>

3. The components of the deferred income tax assets (liabilities) as of June 30, 2011 and 2010, were as follows:

	2011		2010		2011		2010	
	Amount NT\$	US\$	Tax effect NT\$	US\$	Amount NT\$	US\$	Tax effect NT\$	US\$
Deferred income tax assets (liabilities)— current								
Allowance for obsolete inventories	\$ 51,289	1,785	8,719	303	40,522	1,260	6,889	214
Unrealized commission expense	16,351	569	2,780	97	4,541	141	772	24
Unrealized sales discount and allowance	10,686	372	1,816	63	9,891	308	1,681	52
Unused investment tax credits	-	-	181,026	6,301	-	-	48,464	1,507
Unrealized exchange losses (gains)	(23,303)	(811)	(3,962)	(138)	17,363	540	2,952	92
Unrealized valuation losses (gains) on financial assets	54,708	1,904	9,301	324	(1,373)	(43)	(233)	(7)
Others	12,253	426	2,083	73	-	-	-	-
Less: Valuation allowance for deferred income tax assets	-	-	-	-	-	-	(60,525)	(1,882)
Deferred income tax assets, net—current			<u>\$ 201,763</u>	<u>7,023</u>			<u>-</u>	<u>-</u>

Deferred income tax assets (liabilities)—  
noncurrent

(Continued)

## WIN SEMICONDUCTORS CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

	Amount		2011		Amount		2010	
	NT\$	US\$	NT\$	US\$	NT\$	US\$	NT\$	US\$
Unused loss carry-forwards	\$ 959,882	33,410	163,180	5,680	421,246	13,103	71,612	2,227
Unused investment tax credits	-	-	148,299	5,162	-	-	369,181	11,483
Pension expenses in excess of tax limit	3,297	115	560	19	1,982	62	337	10
Depreciation expenses adjusted for tax purposes	(51,301)	(1,786)	(8,721)	(304)	(147,014)	(4,573)	(24,992)	(777)
Unrealized investment losses recognized under equity method	(6,937)	(241)	(1,179)	(41)	41,965	1,305	7,134	222
Others	(906)	(32)	(154)	(5)	(7,398)	(230)	(1,258)	(39)
Less: Valuation allowance for deferred income tax assets	-	-	(270,442)	(9,413)	-	-	(423,272)	(13,165)
Deferred income tax assets, net—noncurrent			<u>\$ 31,543</u>	<u>1,098</u>			<u>(1,258)</u>	<u>(39)</u>

4. According to the ROC Income Tax Act, the loss carry-forwards tax credit can be carried forward for 10 consecutive years to reduce future taxable income. As of June 30, 2011, the unused loss carry-forwards tax credit and the expiry year were as follows:

Year granted	Unused loss carry-forwards amount		Expiry year
	NT\$	US\$	
2004 (authorized)	\$ 210,089	7,312	2014
2005 (authorized)	699,155	24,335	2015
2006 (authorized)	<u>50,638</u>	<u>1,763</u>	2016
	<u>\$ 959,882</u>	<u>33,410</u>	

5. The Company was granted investment tax credit for investment according to “Industrial Innovation Act”. The investment tax credit can be used to reduce the income tax liability in the current year at an amount not exceeding 30% of the income tax liability. For the six months ended June 30, 2011, the investment tax credit amounted to NT\$12,353 (US\$430) was declared and used to reduce 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, and for expenditures in research and development and employee training. 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 June 30, 2011, the unused investment tax credits available to the Company were as follows:

Year granted	Unused investment tax credits		Expiry year
	NT\$	US\$	
2008 (authorized)	\$ 181,026	6,301	2012
2009 (reported)	90,385	3,146	2013
2010 (reported)	<u>57,914</u>	<u>2,016</u>	2014
	<u>\$ 329,325</u>	<u>11,463</u>	

(Continued)

## WIN SEMICONDUCTORS CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

6. As of June 30, 2011 and 2010, imputation credit account (ICA) and creditable ratio were as follows:

	2011		2010	
	NT\$	US\$	NT\$	US\$
Unappropriated earnings after 1998	\$ <u>1,097,205</u>	<u>38,190</u>	<u>158,406</u>	<u>4,927</u>
ICA	\$ <u>165,648</u>	<u>5,766</u>	<u>14,117</u>	<u>439</u>

	2010		2009	
	Creditable ratio for earnings distributed to domestic shareholders	<u>12.66%</u>	<u>(estimate)</u>	<u>-</u>

7. As of June 30, 2011, the Company's income tax returns prior to and including 2008 have been examined by the local tax authorities.

## (m) Stockholders' equity

## 1. Common stock

As of June 30, 2011 and 2010, the Company's authorized share capital consisted of 1,000,000 thousand shares of common stock, at NT\$10 par value per share, of which 622,572 thousand shares and 600,109 thousand shares, respectively, were issued and outstanding. The Company has reserved NT\$ 1,000,000 (US\$ 34,807) for employee stock options.

For the six months ended June 30, 2011 and 2010, the Company had issued 5,005 thousand shares and 2,139 thousand shares for employee stock options execution. The aforementioned stock issuances were authorized by and registered with the government authorities.

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

- (1) The details of capital surplus as of June 30, 2011 and 2010, were as follows:

	2011		2010	
	NT\$	US\$	NT\$	US\$
Additional paid-in capital in excess of par value of shares	\$ 1,290,352	44,913	1,251,240	38,919
Increase in net equity due to change in percentage of ownership in long-term investments under equity method	28,445	990	17,165	534
Employee stock options	<u>89,937</u>	<u>3,130</u>	<u>33,442</u>	<u>1,040</u>
	\$ <u>1,408,734</u>	<u>49,033</u>	<u>1,301,847</u>	<u>40,493</u>

(Continued)



## WIN SEMICONDUCTORS CO., LTD. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

The ROC Company Act stipulates that realized capital surplus should not be credited to capital except for making up deficiencies of the Company. The realized capital surplus includes the premiums from issuance of shares in excess of par value and gifts received.

(2) Legal reserve:

The ROC Company Act stipulates that the Company must retain 10% of its annual earnings, as defined in the Act, until such retention equals the amount of authorized share capital. This retention is accounted for by transfers to legal reserve, upon approval of the stockholders' meeting. Legal reserve may be used to offset an accumulated deficit and cannot be distributed as cash dividends to stockholders. However, one-half of legal reserve may be converted to share capital when it reaches an amount equal to one-half of issued share capital, upon approval of the Company's stockholders.

(3) Appropriations of earnings:

The Company's articles of incorporation stipulate that the appropriations can only be made after deducting from the Company's taxes and duties, accumulated deficit, and 10% legal reserves and retain or reverse special reserves based on the ROC Company Act. The above of the remaining balance, if any, must be distributed 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 stockholders dividends in which cash dividends should not be lower than 10% of the total stockholder 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, the Company's stockholders approved the resolution to appropriate earnings for 2010. The appropriations were as follows:

	<b>2010</b>	
	<b>NT\$</b>	<b>US\$</b>
Cash dividends	\$ 513,291	17,866
Bonuses to employees	58,100	2,022
Remuneration to directors and supervisors	17,400	606

(Continued)

## WIN SEMICONDUCTORS CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

The amounts of the abovementioned appropriations of earnings for 2010 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.

For the years ended December 31, 2009, the Company had no retained earnings.

As of June 30, 2011 and 2010, the Company recognized employees' bonus of NT\$ 21,000 (US\$731) and NT\$ 7,287 (US\$227), and directors' and supervisors' remuneration of NT\$ 6,300 (US\$219) and NT\$ 2,186 (US\$68) at 10% and 3%, respectively, these amounts were calculated by 50% of net income after deducting legal reserve for the six months ended June 30, 2011 and calculated by 50% of net income after deducting accumulated deficit and legal reserve for the six months ended June 30, 2010. The difference between the amounts approved in the shareholders' meeting and recognized in the financial statements, if any, is accounted for as a change in accounting estimates and recognized as profit or loss in the year of stockholders' approval. In addition, the number of shares distributed to employees as employees' bonus is calculated based on the closing price on the day before the approval of shareholders' meeting.

## 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	
							NT\$ (expressed in dollars)	US\$ (expressed in dollars)
2006:								
- 1st package	2006.11.30	-	2006.12.25	5 years	10,000,000	730,000	10.0	0.35
- 2nd package	2006.11.30	-	2007.07.20	"		9,270,000	10.0	0.35
2007	2007.06.15	-	2007.07.16	"	10,000,000	10,000,000	10.0	0.35
2008	2008.10.28	-	2009.08.20	7 years	10,000,000	10,000,000	10.0	0.35
2009	2009.08.21	2009.09.22	2009.09.30	5 years	20,000,000	20,000,000	10.1	0.35
2010	2010.07.05	2010.09.28	2011.01.26	"	10,000,000	10,000,000	25.5	0.89

(Continued)

## WIN SEMICONDUCTORS CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

The details of exercisable percentage on 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%	-	-

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 and pro forma results of the Company would have been as follows:

	Employee stock option in 2010-2nd	Employee stock option in 2010-3rd
Price of each share (dollars)	\$ 25.5	25.5
Expected life	1.57 years	2.57 years
Market value of per share (dollars)	\$ 14.1	15.2
Expected volatility	32.56%	32.56%
Risk free interest rate	0.91%	0.99%

For the six months ended June 30, 2011 and 2010, the related outstanding units and weighted-average exercise price of employee stock option were as follows:

	Shares (in thousands)	2011 Weighted-average exercise price		Shares (in thousands)	2010 Weighted-average exercise price	
		NT\$ (expressed in dollars)	US\$ (expressed in dollars)		NT\$ (expressed in dollars)	US\$ (expressed in dollars)
Outstanding at the beginning	27,824	\$ 10.50	0.37	47,976	10.29	0.32
Gives	10,000	25.50	0.89	-	-	-
Exercised	(5,005)	10.00	0.35	(2,139)	10.00	0.31
Expired	(411)	-	-	(500)	-	-
Outstanding at the end	<u>32,408</u>	14.73	0.51	<u>45,337</u>	10.31	0.32

For the six months ended June 30, 2011 and 2010, the compensation cost for employee stock options amounted to NT\$ 50,242 (US\$ 1,749) and NT\$ 22,391 (US\$ 696), respectively, and had been recorded under operating cost and expenses in accordance with SFAS No. 39.

(Continued)

## WIN SEMICONDUCTORS CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

As of June 30, 2011, the Company's compensatory outstanding employee stock options were as follows:

Issue date	Outstanding		Weighted average of remaining duration (years)	Shares (in thousands)	Exercisable		
	Range of exercise price NT\$ (expressed in dollars)	US\$ (expressed in dollars)			Shares (in thousands)	Weighted-average exercise price NT\$ (expressed in dollars)	US\$ (expressed in dollars)
2007.07.20	\$ 10.0	0.35	45	1.06	45	10.0	0.35
2007.07.16	10.0	0.35	2,624	1.05	178	10.0	0.35
2009.08.20	10.0	0.35	120	5.15	120	10.0	0.35
2009.09.30	10.1	0.35	19,856	3.25	-	10.1	0.35
2011.01.26	25.5	0.89	9,763	4.58	-	25.5	0.89

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 six months ended June 30, 2011 and 2010, will be as follows:

		2011		2010	
		NT\$	US\$	NT\$	US\$
Net Income	Net income in statements of operations	\$ 432,914	15,068	559,266	17,396
	Compensation cost	(9,482)	(330)	(32,088)	(998)
	Pro-forma net income	<u>\$ 423,432</u>	<u>14,738</u>	<u>527,178</u>	<u>16,398</u>
Basic EPS (dollars)	EPS in statements of operations (after income tax)	0.70	0.02	0.93	0.03
	Pro-forma EPS	0.68	0.02	0.88	0.03
Diluted EPS (dollars)	EPS in statements of operations (after income tax)	0.69	0.02	0.92	0.03
	Pro-forma EPS	0.67	0.02	0.87	0.03

(Continued)

## WIN SEMICONDUCTORS CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

## (n) Earnings per share

For the six months ended June 30, 2011 and 2010, earnings per share were calculated as follows:

	(shares expressed in thousands)			
	2011		2010	
	after income tax		after income tax	
	NT\$	US\$	NT\$	US\$
<b>Basic earnings per share</b>				
Net income	\$ <u>432,914</u>	<u>15,068</u>	<u>559,266</u>	<u>17,396</u>
Weighted-average number of shares outstanding during the period	<u>620,113</u>	<u>620,113</u>	<u>598,488</u>	<u>598,488</u>
Basic earnings per share (dollars)	\$ <u>0.70</u>	<u>0.02</u>	<u>0.93</u>	<u>0.03</u>
<b>Diluted earnings per share</b>				
Net income	\$ <u>432,914</u>	<u>15,068</u>	<u>559,266</u>	<u>17,396</u>
Weighted-average number of shares outstanding during the period	620,113	620,113	598,488	598,488
Employees' bonuses	5,053	5,053	584	584
Employee stock options	<u>6,726</u>	<u>6,726</u>	<u>6,324</u>	<u>6,324</u>
Weighted-average number of shares outstanding during the period - diluted	<u>631,892</u>	<u>631,892</u>	<u>605,396</u>	<u>605,396</u>
Diluted earnings per share (dollars)	\$ <u>0.69</u>	<u>0.02</u>	<u>0.92</u>	<u>0.03</u>

## (o) Disclosure of financial instruments

## 1. Fair value of financial instruments

(1) As of June 30, 2011 and 2010, the details of financial instruments for the Consolidated Companies were as follows:

	Book value	2011			Book value	US\$	
		Fair value		Assessment value		Fair value	
		NT\$	Public quote value			Public quote value	Assessment value
Financial assets:							
Cash and cash equivalents	\$ 610,323	-	610,323	21,243	-	21,243	
Financial assets at fair value through profit or loss—stock	1,258,366	1,258,366	-	43,800	43,800	-	
Financial assets at fair value through profit or loss—forward	1,245	-	1,245	43	-	43	
Financial assets at fair value through profit or loss—convertible bonds	24,600	24,600	-	856	856	-	
Available-for-sale financial assets	86,480	86,480	-	3,010	3,010	-	
Financial assets carried at cost	901,529	-	-	31,379	-	-	
Investment of bonds with no active market	344,783	-	-	12,001	-	-	
Notes and accounts receivable	876,698	-	876,698	30,515	-	30,515	

(Continued)



**WIN SEMICONDUCTORS CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

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

- (1) The maturity dates of short-term financial instruments, including cash and cash equivalents, notes and accounts receivable, other receivables—related parties, other financial assets—current, restricted assets, short-term borrowings, accounts payable, accrued expenses, dividend payable, construction payable and other current liabilities are within one year of the balance sheet date, and therefore their book value is equal to their fair value.
- (2) If publicly quoted market prices of financial assets and liabilities are available, and then the quoted price will be adopted as the fair value. If market prices are not available, a valuation technique will be 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 the financial instruments.
- (3) The fair values of derivative instruments are assessed by valuation techniques. When adopting a valuation technique, the estimates and assumptions used are close to those used by financial market participants when setting prices for the financial instruments.
- (4) The fair value of restricted assets and long-term borrowings are estimated by discounting the future cash flows at interest rates currently offered to the Consolidated Companies for the similar debt instruments of comparable maturities by the Company's bankers. The Consolidated Companies used floating rates as their time deposit and long-term borrowing interest rates. Therefore, fair value is equal to the book value.
- (5) The fair value of investment of 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. The use of estimate under investment of bonds with no active market is in coordinate with the estimation in pricing a financial asset with active market.
- (6) The fair value of letter of credit is based on the amount of the contract.

(Continued)

**WIN SEMICONDUCTORS CO., LTD. AND SUBSIDIARIES****Notes to Consolidated Financial Statements**

## 3. Disclosure of financial risks

## (1) Market risk

The Consolidated Companies' securities were measured at fair value and were recorded as financial assets at fair value through profit or loss and available-for-sale financial assets. The Consolidated Companies bear the risk in changes of the market price.

The Consolidated Companies is exposed to foreign currency risk on accounts receivables which are denominated in a currency other than New Taiwan dollars. The above foreign currency risk will be offset by the same risk related to those accounts payables which are denominated in a foreign currency. Therefore, the Consolidated Companies believes its exposure to foreign currency risk is low.

## (2) Credit risk

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

As of June 30, 2011 and 2010, the Consolidated Companies' accounts receivables were concentrated on 7 and 6 customers, whose accounts represented 82% and 68% of total accounts receivables, respectively. In order to reduce the credit risk of accounts receivables, the Consolidated Companies continue to evaluate the financial status of these customers and will request for collaterals when necessary. The Consolidated Companies evaluated the possible loss on accounts receivables periodically and stated it as doubtful accounts.

## (3) Liquidity risk

The Consolidated Companies' capital and operating funds are sufficient to fulfill all obligations. Therefore, the Consolidated Companies did not have liquidity risk.

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

The Company's short-term and long-term borrowings carry floating interest rates. As a result, the effective rate changes along with the fluctuation of the market interest rate and thereby influences the Company's future cash flows. For the six months ended June 30, 2011 and 2010, if the market interest rate had increased by 1%, the Company's future cash outflow would have increased by approximately NT\$ 32,190 (US\$ 1,120) and NT\$ 18,617 (US\$ 579), respectively.

(Continued)



## WIN SEMICONDUCTORS CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

## (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.	Investee of the Consolidated companies accounted for by equity method

## (b) Significant transactions with related parties

## 1. Testing, consulting, and rent revenue

For the six months ended June 30, 2011, the Company had provided related original equipment manufacturing, factory buildings and office lease, which had been collected, to WinMEMS Technologies Co., Ltd. amounting to NT\$ 570 (US\$ 20) and NT\$ 2,459 (US\$ 86), respectively. These services and the office lease which are collected monthly were recorded as other income. As of June, 2011, the other receivable of aforementioned transaction were NT\$496 (USD\$17), respectively.

For the six months ended June 30, 2010, the Company had provided related original equipment manufacturing, consulting for testing services, factory buildings and office lease, which had been collected, to WinMEMS Technologies Co., Ltd. amounting to NT\$ 1,084 (US\$ 34) and NT\$ 1,771 (US\$ 55), respectively. These services and the office lease which was collected monthly were recorded as other income.

## 2. Property transaction

For the six months ended June 30, 2011 and 2010, the Company purchased the machinery from HIWIN Technologies Corp. amounting to NT\$ 2,595 (US\$ 90) and NT\$ 1,680 (US\$ 52), respectively. As of June 30, 2011 and 2010, the accounts payables of aforementioned transaction were NT\$ 0 (US\$ 0) and NT\$ 1,680 (US\$ 52), respectively.

## 3. As of June 30, 2011 and 2010, the details of accounts receivable and accounts payable to related parties were as follows:

	2011		2010	
	NT\$	US\$	NT\$	US\$
Other receivables—related parties	\$ <u>496</u>	<u>17</u>	<u>-</u>	<u>-</u>
Construction payable	\$ <u>-</u>	<u>-</u>	<u>1,680</u>	<u>52</u>

(Continued)

## WIN SEMICONDUCTORS CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

## (6) Pledged Assets

The book values of the pledged assets as of June 30, 2011 and 2010 were as follows:

Pledged assets	Object	2011		2010	
		NT\$	US\$	NT\$	US\$
Restricted assets	Gas deposits	\$ 3,000	105	3,000	94
Restricted assets	Customs guarantee	20,199	703	20,071	624
Land	Short-term and long-term borrowings	599,602	20,870	801,510	24,930
Buildings	Long-term borrowings	568,403	19,784	595,938	18,536
Factory and equipment	Long-term borrowings	587,200	20,439	670,577	20,858
Machinery and equipment	Long-term borrowings	3,186,295	110,905	3,074,976	95,645
Prepayment for purchases of equipment	Long-term borrowings	194,267	6,762	5,585	174
Construction in progress	Long-term borrowings	524,636	18,261	4,500	140
Other equipment	Long-term borrowings	754	26	1,056	33
Office equipment	Long-term borrowings	145	5	240	7
		<u>\$ 5,684,501</u>	<u>197,860</u>	<u>5,177,453</u>	<u>161,041</u>

## (7) Commitments and Contingencies

- (a) As of June 30, 2011 and 2010, the Company had issued letters of credit which is unused amounting to NT\$ 335,601 (US\$ 11,681) and NT\$ 306,432 (US\$ 9,531), respectively.
- (b) As of June 30, 2011 and 2010, the Company entered into contracts of construction projects and machinery equipment in the amount of NT\$ 4,716,458 (US\$ 164,165) and NT\$ 4,538,655 (US\$ 141,171), and the unpaid amounts were NT\$ 1,271,366 (US\$ 44,252) and NT\$ 1,312,097 (US\$ 40,812), respectively.
- (c) The Company had entered into a technical development cooperation agreement with Ministry of Economic Affairs in 2008 and the agreement is in effective until November 30, 2010. Under this agreement, the Company receives a reimbursement of NT\$ 21,200 (US\$ 659) per stage from the development of integrated circuits. For the six months ended June 30, 2010, the Company had received NT\$ 4,128 (US\$ 128). The amounts received under the reimbursement were recorded as other income.
- (d) The Company had entered into a technical development cooperation agreement with Ministry of Economic Affairs in 2010 and the agreement is effective until April 30, 2011. Under this agreement, the Company receives a reimbursement of NT\$ 5,500 (US\$ 191) per stage from the development of solar generator carrier (including the other company's reimbursement of NT\$ 1,980 (US\$ 69)).
- (e) In 2008, the company had entered into a syndicate loan agreement with China development Industry Bank and the other twelve banks. For the related commitments, please refer to Note 4(j) under long-term borrowings.

(Continued)

## WIN SEMICONDUCTORS CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

- (f) In 2011, the Company had entered into a syndicate loan agreement with Mega International Commercial Bank and the other sixteen banks. For the related commitments, please refer to Note 4(j) under long-term borrowings.
- (g) In order to obtain a syndicated loan agreement and project of industrial develop the Company had issued promissory notes amounting to US\$ 15,000 and NT\$ 12,318,625 (US\$ 428,772) for the six months ended June 30, 2011, and US\$ 9,000 and NT\$ 6,420,331 (US\$ 199,699) for the six months ended June 30, 2010.

**(8) Important Damage Losses: none**

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

**(10) Others**

- (a) Total personnel expenses, depreciation and amortization for the six months ended June 30, 2011 and 2010, were as follows:

	2011					
	Operating cost	NT\$ Operating expenses	Total	Operating cost	US\$ Operating expenses	Total
Personnel expenses						
Salaries	\$ 329,061	145,234	474,295	11,454	5,055	16,509
Insurance	23,557	10,483	34,040	820	365	1,185
Pension	11,740	5,678	17,418	408	198	606
Others	25,885	44,935	70,820	901	1,564	2,465
Depreciation	403,653	25,471	429,124	14,050	887	14,937
Amortization	50,860	25,029	75,889	1,770	871	2,641

	2010					
	Operating cost	NT\$ Operating expenses	Total	Operating cost	US\$ Operating expenses	Total
Personnel expenses (note)						
Salaries	\$ 271,441	140,558	411,999	8,443	4,372	12,815
Insurance	18,399	8,082	26,481	572	251	823
Pension	9,828	4,476	14,304	306	139	445
Others	17,975	22,464	40,439	559	699	1,258
Depreciation	352,586	30,716	383,302	10,967	955	11,922
Amortization	64,079	20,313	84,392	1,993	632	2,625

(Continued)

## WIN SEMICONDUCTORS CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

## (b) Reclassification

Certain amounts in the financial statements for the six months ended June 30, 2010 have been reclassified to conform with the presentations of the financial statements for the six months ended June 30, 2011 for purposes of comparison. These reclassifications do not have a significant impact on the financial statements.

## (c) The information of significant foreign currency of financial assets and liabilities:

	Foreign Currency	2011 Exchange rate	NT\$	Foreign Currency	2010 Exchange rate	NT\$
<b>Financial assets</b>						
Monetary						
USD	37,981	28.73	1,073,094	29,723	32.15	955,606
EUR	156	41.63	6,487	39	39.32	1,533
JPY	148,171	0.3573	52,939	29,319	0.3628	10,638
GBP	24	46.19	1,126	1	48.40	48
HKD	66	3.69	244	68	4.13	280
			<u>1,133,890</u>			<u>968,105</u>
Non-Monetary						
USD	4,927	28.73	<u>141,548</u>	4,573	32.15	<u>147,038</u>
<b>Financial Liabilities</b>						
Monetary						
USD	41,748	28.73	1,199,432	34,550	32.15	1,110,793
EUR	24	41.63	1,005	45	39.32	1,775
JPY	654,531	0.3573	233,862	526,450	0.3628	190,997
GBP	10	46.19	471	7	48.40	319
			<u>1,434,770</u>			<u>1,303,884</u>

(Continued)

## WIN SEMICONDUCTORS CO., LTD. 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 issuing company	Account	Period-end						Note
				Shares/Units (in thousands)	Carrying value (NT\$)	Carrying value (US\$)	Percentage of ownership (%)	Market value (or net value) (NT\$)	Market value (or net value) (US\$)	
The Company	Pegatron Corporation/Stock	-	Financial assets at fair value through profit or loss – current	800	23,800	829	0.03	23,800	829	
"	EPISTAR Corporation/Stock	"	"	14,490	1,234,566	42,971	1.69	1,234,566	42,971	
"	I-Chiun Precision Industry Co., Ltd./Convertible bond	"	"	250	24,600	856	-	24,600	856	-
					<u>1,282,966</u>	<u>44,656</u>		<u>1,282,966</u>	<u>44,656</u>	
"	IntelliEPI Inc. (Cayman) /Stock	-	Financial assets carried at cost – noncurrent	500	5,306	185	1.92	(Note1)	(Note1)	
"	Huga Optotech Inc. /Stock	"	"	7,351	216,223	7,526	1.49	(Note1)	(Note1)	
"	Shin Sheng III Venture Capital Investment Corporation/Stock	"	"	15,000	150,000	5,221	11.03	(Note1)	(Note1)	
"	Inventec Solar Energy Corporation/Stock	"	"	33,000	330,000	11,486	11.00	(Note1)	(Note1)	
"	Tainergy Tech. Co., Ltd./Stock	"	"	5,000	200,000	6,961	4.14	(Note1)	(Note1)	
					<u>901,529</u>	<u>31,379</u>				
"	Speed Tech Corp./Stock	Common owner as the Company	Long-term investments under equity method	61,500	224,656	7,820	26.33	396,536	13,802	(Note2)
"	Inventec Energy Corporation/Stock	"	"	19,757	173,593	6,042	20.58	161,971	5,638	(Note3)
"	Win Semi USA Inc./ Stock	Subsidiary	"	1,000	5,791	201	100.00	5,791	201	(Note3)
"	Win Semiconductors Cayman Islands Co., Ltd. /Stock	"	"	7,000	299,704	10,432	100.00	299,704	10,432	(Note3)
					<u>703,744</u>	<u>24,495</u>		<u>864,002</u>	<u>30,073</u>	
"	Bright Led Electronics Corp. /Convertible Right	-	Investment of bonds with no active market – noncurrent	4	344,783	12,001	-	(Note4)	(Note4)	

Note1 : The stock is not publicly traded, and has no active market price.

Note2 : The stock was purchased privately, and cannot be sold within the 3 years period of the initial purchase.

Note3 : The amount was offset in the consolidated statements.

Note4 : The convertible bond was purchased privately, and had no active market price.

(Continued)

## WIN SEMICONDUCTORS CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

Company holding securities	Security type and Name	Account	Counter-party	Relationship	Beginning		Purchase		Sale				Gains (losses) on valuation	Ending	
					Shares (in thousands)	Amount	Shares/ Units (in thousands)	Amount	Shares (in thousands)	Price	Carrying value	Gains (losses) on disposal		Shares/ Units (in thousands)	Amount
The Company	Capital Money Market Fund	Financial assets at fair value through profit or loss – current	Capital Investment Trust Corp.	-	-	-	6,458	100,000	6,458	100,035	100,000	35	-	-	-
"	Fuh-Hwa Money Market Fund	"	Fuh – Hwa Securities Investment Trust Co., Ltd.	"	-	-	7,202	100,000	7,202	100,083	100,000	83	-	-	-
"	Allianz Global Investors Taiwan Money Market Fund	"	Allianz Global Investors Taiwan Ltd.	"	-	-	8,314	100,000	8,314	100,048	100,000	48	-	-	-
"	Inventec Energy corporation	Long-term investments under equity method (note 1)	-	"	8,505	86,904	11,252	123,764	-	-	-	-	(37,075) (note 2)	19,757	173,593

Company holding securities	Security type and Name	Account	Counter-party	Relationship	Beginning		Purchase		Sale				Gains (losses) on valuation	Ending	
					Shares (in thousands)	Amount	Shares/ Units (in thousands)	Amount	Shares (in thousands)	Price	Carrying value	Gains (losses) on disposal		Shares/ Units (in thousands)	Amount
The Company	Capital Money Market Fund	Financial assets at fair value through profit or loss – current	Capital Investment Trust Corp.	-	-	-	6,458	3,481	6,458	3,482	3,481	1	-	-	-
"	Fuh-Hwa Money Market Fund	"	Fuh – Hwa Securities Investment Trust Co., Ltd.	"	-	-	7,202	3,481	7,202	3,484	3,481	3	-	-	-
"	Allianz Global Investors Taiwan Money Market Fund	"	Allianz Global Investors Taiwan Ltd.	"	-	-	8,314	3,481	8,314	3,482	3,481	1	-	-	-
"	Inventec Energy corporation	Long-term investments under equity method (note 1)	-	"	8,505	3,025	11,252	4,308	-	-	-	-	(1,290) (note 2)	19,757	6,042

Note 1 : The Company reclassified the financial assets carried at cost-noncurrent accounting to NT\$86,904 (US\$3,025) to long-term investments under equity method and the Company invested in Inventec Energy Corporation (Originally named Kinmac Solar Corporation) amounting to NT\$123,764 (US\$4,308).

Note 2: For the six months ended June 30, 2011, translation adjustments and investment loss recognized by Inventec Energy corporation amount to NT\$37,075 (US\$1,290).

## 5. Information on acquisition of real estate for which the purchase amount exceeded NT\$ 100 million or 20% of the Company's paid-in capital: None.

## 6. Information regarding receivables from disposal of real estate exceeding NT\$ 100 million or 20% of the Company's paid-in capital: None.

(Continued)

## WIN SEMICONDUCTORS CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

## 7. Information regarding related-party purchases and/or sales for which the amount exceeded NT\$ 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 (NT\$)	Amount (US\$)	Percentage of the purchases (sales) (%)	Payment Terms	Unit Price	Payment Terms	Ending Balance (NT\$)	Ending Balance (US\$)		Percentage of notes/accounts receivable (payable) (%)
The Company	Win Semiconductors Cayman Islands Co., Ltd.	Subsidiary	Sales	2,318,066	80,685	(59)%	1~2 Month	-	-	537,054	18,693	60%	(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 for which the amount exceeded NT\$ 100 million or 20% of the Company's paid-in capital:

Company Name	Related Party	Nature of Relationships	Ending Balance (NT\$)	Ending Balance (US\$)	Turnover	Overdue		Amounts Received in Subsequent (NT\$)	Amounts Received in Subsequent (US\$)	Allowance for Bad Debts	Note
						Amount	Action Taken				
The Company	Win Semiconductors Cayman Islands Co., Ltd.	Subsidiary	537,054	18,693	11.32	-	-	537,054	18,693	-	(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).

## (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 June 30, 2011			Net value of investee	Net Income (loss) of the Investee	Investment income (loss) recognized by the company	Investee		Note
				June 30, 2011	January 1, 2011	Shares (in Thousands)	Percentage	Carrying Value				Stock dividend	Cash dividend	
				The Company	Win Semi USA Inc.	California, U.S.A.	Marketing	8,203				8,203	1,000	
	Win Semiconductors Cayman Islands Co., Ltd.	Cayman Islands	Selling of GaAs wafer	227,636	227,636	7,000	100.00%	299,704	299,704	34,863	34,863	-	-	(Note)
	Speed Tech Corp.	Taiwan	Manufacturing ITC	335,236	335,236	61,500	26.33%	224,656	396,536	509	134	-	-	
	Inventec Energy Corporation	Taiwan	Solar component module manufacturing	293,873	170,109	19,757	20.58%	173,593	161,971	(221,737)	(36,971)	-	-	
Win Semiconductors Cayman Islands Co., Ltd.	WinMEMs Technologies Holding Co., Ltd.	Cayman Islands	Investing activities	158,039	158,039	19,100	34.73%	113,724	59,667	(25,232)	(8,785)	-	-	

(Continued)

## WIN SEMICONDUCTORS CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

(US\$)

Name of investor	Name of investee	Location	Main businesses	Original investment amount		Balance as of June 30, 2011			Net value of investee	Net Income (loss) of the Investee	Investment income (loss) recognized by the company	Investee		Note
				June 30, 2011	January 1, 2011	Shares (in Thousands)	Percentage	Carrying Value				Stock dividend	Cash dividend	
The Company	Win Semi USA Inc.	California, U.S.A.	Marketing	285	285	1,000	100.00%	201	201	14	14	-	-	(Note)
	Win Semiconductors Cayman Islands Co., Ltd.	Cayman Island	Selling of GaAs wafer	7,923	7,923	7,000	100.00%	10,432	10,432	1,213	1,213	-	-	(Note)
	Speed Tech Corp.	Taiwan	Manufacturing ITC	11,668	11,668	61,500	26.33%	7,820	13,802	18	5	-	-	
	Inventec Energy Corporation	Taiwan	Solar component module manufacturing	10,229	5,921	19,757	20.58%	6,042	5,638	(7,718)	(1,287)	-	-	
Win Semiconductors Cayman Islands Co., Ltd.	WinMEMs Technologies Holding Co., Ltd.	Cayman Island	Investing activities	5,501	5,501	19,100	34.73%	3,958	2,077	(878)	(306)	-	-	

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:

Company holding securities	Security type and name	Relationship with the issuing company	Account	Period-end						Note
				Shares (in thousands)	Carrying value(NT\$)	Carrying value(US\$)	Percentage	Market value (or net value) (NT\$)	Market value (or net value) (US\$)	
Win Semiconductors Cayman Islands Co., Ltd.	WinMEMs Technologies Holding Co., Ltd./Stock	Investee accounted for using equity method	Long-term investment under equity method	19,100	113,724	3,958	34.73%	59,667	2,077	(Note)
"	Avago Technologies Ltd./Stock	Subsidiary's main client	Available-for-sale financial assets	75	86,480	3,010	0.03%	86,480	3,010	

Note: The stock is not publicly listed and has no active market price.

5. Information regarding purchase or sale of securities for the period exceeding NT\$ 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 NT\$ 100 million or 20% of the Company's paid-in capital: None
7. Information regarding receivables from disposal of real estate exceeding NT\$ 100 million or 20% of the Company's paid-in capital: None.
8. Information regarding related-party purchases and/or sales for which the amount exceeded NT\$ 100 million or 20% of the Company's paid-in capital:

Company Name	Related Party	Relationships	Transaction Details					Abnormal Transaction		Notes/Accounts Payable or Receivable			Note
			Item	Amount (NT\$)	Amount (US\$)	Percentage of the purchases (sales) (%)	Payment Terms	Unit Price	Payment Terms	Ending Balance (NT\$)	Ending Balance (US\$)	Percentage of notes/accounts receivable (payable) (%)	
Win Semiconductors Cayman Islands Co., Ltd.	WIN Semiconductors Corp.	Parent company	Purchase	2,318,066	80,685	100%	1-2 Month	-	-	537,054	18,693	(100%)	(Note)

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

(Continued)



**WIN SEMICONDUCTORS CO., LTD. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

9. Information regarding receivables from related parties for which the amount exceeded NT\$ 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

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

1. For the six months ended June 30, 2011

No (Note 1)	Company Name	Counter Party	Relationship (Note 2)	Intercompany Transactions				
				Account	Amount (NT\$)	Amount (US\$)	Terms	Percentage of total consolidated net sales or assets
0	The Company	Win Semiconductors Cayman Islands Co., Ltd.	1	Operating revenue	2,318,066	80,685	-	57.92%
0	The Company	Win Semiconductors Cayman Islands Co., Ltd.	1	Accounts receivable – related party	537,054	18,693	-	2.98%
1	Win Semiconductors Cayman Islands Co., Ltd.	The Company	2	Accounts payable – related party	537,054	18,693	-	2.98%
1	Win Semiconductors Cayman Islands Co., Ltd.	The Company	2	Operating cost	2,318,066	80,685	-	57.92%
1	Win Semiconductors Cayman Islands Co., Ltd.	Win Semi USA Inc.	3	Operating expense	20,932	729	-	0.52%
2	Win Semi USA Inc.	Win Semiconductors Cayman Islands Co., Ltd.	3	Operating revenue	20,932	729	-	0.52%

(Continued)

## WIN SEMICONDUCTORS CO., LTD. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

## 2. For the six months ended June 30, 2010

No (Note 1)	Company Name	Counter Party	Relationship (Note 2)	Intercompany Transactions				Percentage of total consolidated net sales or assets
				Account	Amount (NT\$)	Amount (US\$)	Terms	
0	The Company	Win Semiconductors Cayman Islands Co., Ltd.	1	Operating revenue	1,992,647	61,980	-	60.95%
0	The Company	Win Semiconductors Cayman Islands Co., Ltd.	1	Accounts receivable— related party	555,822	17,288	-	4.28%
1	Win Semiconductors Cayman Islands Co., Ltd.	The Company	2	Accounts payable— related party	555,822	17,288	-	4.28%
1	Win Semiconductors Cayman Islands Co., Ltd.	The Company	2	Operating cost	1,992,647	61,980	-	60.95%
1	Win Semiconductors Cayman Islands Co., Ltd.	Win Semi USA Inc.	3	Operating expense	21,053	655	-	0.64%
2	Win Semi USA Inc.	Win Semiconductors Cayman Islands Co., Ltd.	3	Operating revenue	21,054	655	-	0.64%

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

Note 3: The terms of inter-company transactions are not significantly different from those for the third parties.

## (12) Segment Financial Information

	2011		2010	
	Department of microwave communication		Department of microwave communication	
	NT\$	US\$	NT\$	US\$
Total revenue	\$ <u>4,002,302</u>	<u>139,708</u>	<u>3,269,434</u>	<u>101,693</u>
Segment income (operating income)	\$ <u>780,544</u>	<u>27,168</u>	<u>596,520</u>	<u>18,554</u>
Segment total assets	\$ <u>18,046,240</u>	<u>628,132</u>	<u>12,978,076</u>	<u>403,673</u>

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