

NANYA TECHNOLOGY CORPORATION

Financial Statements

December 31, 2008 and 2009

(With Independent Auditors' Report Thereon)

Independent Auditors' Report

The Board of Directors
Nanya Technology Corporation:

We have audited the accompanying balance sheets of Nanya Technology Corporation (the "Company") as of December 31, 2008 and 2009, and the related statements of operations, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these financial statements based on our audits. As to the financial statements, certain long-term investments were accounted for under the equity method based on financial statement as of December 31, 2008 and 2009 of the investees, which were audited by the other auditors. Our audit insofar as it relates to the relates long-term investment balances of NT\$151,878 thousand and NT\$191,918 thousand and reflect total assets constituting 0.13 percent and 0.14 percent of as of December 31, 2008 and 2009, respectively. Those financial statements for which the equity in net earnings to NT\$8,341 thousand and NT\$17,556 thousand, constituting 0.02 percent and 0.08 percent of net loss before income tax in 2008 and 2009, respectively, is based solely on the reports of the other auditors.

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 rules and standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits, and the reports of the other auditor, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Nanya Technology Corporation as of December 31, 2008 and 2009, and the results of its operations and cash flows for the years then ended, in accordance with Guidelines Governing the Preparation of Financial Reports by Securities Issuers, Business Entity Accounting Act, Regulation on Business Entity Accounting Handling and accounting principles generally accepted in the Republic of China.

The Company adopted the new issued Republic of China Statement of Financial Accounting Standards (SFAS) . The effect of these changes in accounting principle on the accompanying financial statements was as stated in note 3.

We have audited the consolidated financial statements as of and for the years ended December 31, 2008 and 2009, prepared by the Company. Based on our audits, we expressed a unqualified opinion on the

consolidated financial statements.

Taipei, Taiwan (the Republic of China)
March 5, 2010

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

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NANYA TECHNOLOGY CORPORATION

Balance Sheets

December 31, 2008 and 2009

(expressed in thousands of New Taiwan dollars)

<u>Assets</u>	<u>2008</u>		<u>2009</u>		<u>Liabilities and Stockholders' Equity</u>	<u>2008</u>		<u>2009</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>		<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Current assets:					Current liabilities:				
Cash and cash equivalents	\$ 2,506,146	2	13,663,268	10	Short-term loans	\$ -	-	1,708,124	1
Notes and accounts receivable, net of allowance for doubtful accounts of NT\$0 thousands dollars.	2,634,034	2	6,801,314	5	Notes and accounts payable	4,895,554	4	4,272,292	3
Accounts receivable—related parties	2,412,888	2	5,929,090	5	Accounts payable—related parties	3,148,084	3	6,388,688	5
Other receivables	976,455	1	1,408,824	1	Accrued expenses	6,977,513	6	3,802,069	3
Other receivables—related parties	388,668	-	734,784	1	Financial liabilities reported as fair value through profit or loss—current	377,099	1	285,134	-
Inventories, net	5,869,586	5	7,827,418	7	Other payables	7,966	-	7,954	-
Prepayments	748,124	1	641,042	-	Other payables—related parties	9,128	-	15,761,879	13
Financial assets reported as fair value through profit or loss—current	-	-	290,004	-	Current portion of bonds payable	11,879,497	10	13,030,000	10
Total current assets	<u>15,535,901</u>	<u>13</u>	<u>37,295,744</u>	<u>29</u>	Current portion of long-term loans	-	-	3,666,667	3
					Other current liabilities	6,957	-	1,073	-
Funds and long-term investments:					Total current liabilities	<u>27,301,798</u>	<u>24</u>	<u>48,923,880</u>	<u>38</u>
Long-term investments carried on the equity method	20,956,167	18	15,974,091	12					
Total Funds and long-term investments	<u>20,956,167</u>	<u>18</u>	<u>15,974,091</u>	<u>12</u>	Long-term liabilities:				
					Bonds payable	20,102,035	17	7,077,767	5
Property, plant and equipment:					Long-term loans	38,000,000	33	38,333,333	29
Land	1,013,924	1	1,013,924	1	Long-term accounts payable	1,812,171	2	242,038	-
Buildings and building improvements	5,943,898	5	5,062,293	4	Lease payables—long-term	323,144	-	317,288	-
Machinery and equipment	107,265,726	92	108,741,498	82	Total long-term liabilities	<u>60,237,350</u>	<u>52</u>	<u>45,970,426</u>	<u>34</u>
Transportation equipment	5,855	-	5,855	-					
Leased assets	345,637	1	345,637	-	Other liabilities:				
Miscellaneous equipment	1,579,622	1	1,561,604	1	Accrued pension liabilities	355,123	-	377,121	-
	116,154,662	100	116,730,811	88	Guarantee deposits	171,427	-	150,389	-
Less: accumulated depreciation	(48,964,549)	(42)	(57,097,431)	(43)	Miscellaneous liabilities	247,520	-	156,537	-
Construction in progress	2,007,183	2	8,826,804	7	Total other liabilities	<u>774,070</u>	<u>-</u>	<u>684,047</u>	<u>-</u>
Prepayments for equipment	-	-	137,140	-	Total liabilities	<u>88,313,218</u>	<u>76</u>	<u>95,578,353</u>	<u>72</u>
Net property, plant and equipment	<u>69,197,296</u>	<u>60</u>	<u>68,597,324</u>	<u>52</u>					
					Stockholders' equity:				
Intangible assets:					Common stock	46,933,975	40	34,047,425	26
Patents	2,289,938	2	1,723,663	1	Advance receipts for common stock	-	-	111,133	-
Other intangible assets	5,007,842	4	3,269,194	2	Capital surplus	25,133,947	22	13,555,224	10
Total intangible assets	<u>7,297,780</u>	<u>6</u>	<u>4,992,857</u>	<u>3</u>	Legal reserve	2,814,499	2	-	-
					Special reserve	2,655,892	2	-	-
Other assets:					Accumulated deficit	(49,121,653)	(42)	(10,242,807)	(8)
Refundable deposits	2,537	-	1,473	-	Cumulative translation adjustments	11,715	-	7,929	-
Deferred charges	156,384	-	161,405	-	Unrealized gain on financial instruments	96,006	-	243,517	-
Lease receivable—long-term	119,843	-	2,706,173	2	Treasury stock	(347,533)	-	(347,533)	-
Deferred income tax assets, net—non-current	3,224,158	3	3,224,158	2	Total stockholders' equity	28,176,848	24	37,374,888	28
Miscellaneous assets	-	-	16	-	Commitments and contingencies				
Total other assets	<u>3,502,922</u>	<u>3</u>	<u>6,093,225</u>	<u>4</u>					
Total assets	<u>\$ 116,490,066</u>	<u>100</u>	<u>132,953,241</u>	<u>100</u>	Total liabilities and stockholders' equity	<u>\$ 116,490,066</u>	<u>100</u>	<u>132,953,241</u>	<u>100</u>

See accompanying notes to financial statements.

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NANYA TECHNOLOGY CORPORATION

Statements of Operations

For the years ended December 31, 2008 and 2009
(expressed in thousands of New Taiwan dollars, except earnings per share)

	2008		2009	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Operating revenues, net	\$ 36,311,814	100	42,456,473	100
Operating costs	<u>(54,644,435)</u>	<u>(150)</u>	<u>(52,580,703)</u>	<u>(24)</u>
Gross loss	(18,332,621)	(50)	(10,124,230)	(24)
Unrealized loss (profit) from affiliated companies	38,592	-	(10,699)	-
Realized loss from affiliated companies	<u>(82,208)</u>	<u>-</u>	<u>(38,592)</u>	<u>-</u>
Gross loss, net	<u>(18,376,237)</u>	<u>(50)</u>	<u>(10,173,521)</u>	<u>(24)</u>
Operating expenses				
Selling expenses	(432,351)	(1)	(481,715)	(1)
Administrative expenses	(1,495,780)	(4)	(1,825,460)	(4)
Research and development expenses	<u>(6,396,597)</u>	<u>(18)</u>	<u>(3,438,508)</u>	<u>(8)</u>
Total operating expenses	<u>(8,324,728)</u>	<u>(23)</u>	<u>(5,745,683)</u>	<u>(13)</u>
Operating loss	<u>(26,700,965)</u>	<u>(73)</u>	<u>(15,919,204)</u>	<u>(37)</u>
Non-operating income and gains:				
Interest income	268,917	1	305,436	1
Gain on disposal of property, plant and equipment	71,960	-	6,236	-
Gain on disposal of investment	9,050	-	-	-
Foreign exchange gain, net	-	-	150,424	-
Gain on idle assets' value recoveries	-	-	16,977	-
Gain on valuation of financial assets	-	-	4	-
Gain on valuation of financial liabilities	-	-	91,965	-
Miscellaneous income	<u>426,721</u>	<u>1</u>	<u>810,361</u>	<u>2</u>
Total non-operating income and gains	<u>776,648</u>	<u>2</u>	<u>1,381,403</u>	<u>3</u>
Non-operating expenses and losses:				
Interest expenses (excluding capitalized interest of NT\$311,075 thousand and NT\$74,182 thousand for 2008 and 2009, respectively)	(1,339,227)	(4)	(1,373,546)	(3)
Investment loss recognized under equity method	(7,371,503)	(20)	(4,672,497)	(11)
Loss on disposal of property, plant and equipment	(405,194)	(1)	(46,428)	-
Foreign exchange loss, net	(203,779)	(1)	-	-
Impairment loss	(424,534)	(1)	-	-
Loss on valuation of financial assets	(11,674)	-	-	-
Loss on valuation of financial liabilities	(653,623)	(2)	-	-
Miscellaneous disbursements	<u>(395,942)</u>	<u>(1)</u>	<u>(123,374)</u>	<u>-</u>
Total non-operating expenses and losses	<u>(10,805,476)</u>	<u>(30)</u>	<u>(6,215,845)</u>	<u>(14)</u>
Loss before income tax	(36,729,793)	(101)	(20,753,646)	(48)
Income tax (expenses) benefit	<u>(223)</u>	<u>-</u>	<u>119</u>	<u>-</u>
Net loss	<u>\$ (36,730,016)</u>	<u>(101)</u>	<u>(20,753,527)</u>	<u>(48)</u>
Net loss per common share (in dollars)				
	<u>Before</u>	<u>After</u>	<u>Before</u>	<u>After</u>
	<u>Income tax</u>	<u>Income tax</u>	<u>Income tax</u>	<u>Income tax</u>
Basic loss per share	\$ <u>(14.05)</u>	<u>(14.05)</u>	<u>(8.67)</u>	<u>(8.67)</u>
Pro forma information if the issued shares held by subsidiaries were not recognized as treasury stock:				
	<u>Before</u>	<u>After</u>	<u>Before</u>	<u>After</u>
	<u>Income tax</u>	<u>Income tax</u>	<u>Income tax</u>	<u>Income tax</u>
Net loss	\$ <u>(36,729,793)</u>	<u>(36,730,016)</u>	<u>(20,753,646)</u>	<u>(20,753,527)</u>
Basic loss per share	\$ <u>(13.99)</u>	<u>(13.99)</u>	<u>(8.64)</u>	<u>(8.64)</u>

See accompanying notes to financial statements.

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NANYA TECHNOLOGY CORPORATION

Statements of Changes in Stockholders' Equity

For the years ended December 31, 2008 and 2009
(expressed in thousands of New Taiwan dollars)

	<u>Common stock</u>	<u>Advance receipts for capital stock</u>	<u>Capital Surplus</u>	<u>Legal reserve</u>	<u>Special reserve</u>	<u>Accumulated deficit</u>	<u>Cumulative translation adjustments</u>	<u>Unrealized Loss on Financial Instrument</u>	<u>Treasury stock</u>	<u>Total</u>
Balance as of January 1, 2008	\$ 46,935,385	27,376	25,160,496	2,814,499	2,655,892	(12,391,637)	28,739	519,166	(467,634)	65,282,282
Issuance of common stock due to employee stock options exercised	60,350	(27,376)	31,030	-	-	-	-	-	-	64,004
Treasury stock retired	(61,760)	-	(58,341)	-	-	-	-	-	120,101	-
Recognized compensation costs on employee stock options	-	-	762	-	-	-	-	-	-	762
Net loss in2008	-	-	-	-	-	(36,730,016)	-	-	-	(36,730,016)
Change in available-for-sale financial assets accounted for under long-term equity investments	-	-	-	-	-	-	-	(402,063)	-	(402,063)
Losses on foreign currency exchange of long-term investments	-	-	-	-	-	-	(17,024)	-	-	(17,024)
Unrealized loss on available-for-sale financial assets	-	-	-	-	-	-	-	(7,040)	-	(7,040)
Unrealized loss on hedging derivative assets	-	-	-	-	-	-	-	(14,057)	-	(14,057)
Balance as of December 31, 2008	\$ 46,933,975	-	25,133,947	2,814,499	2,655,892	(49,121,653)	11,715	96,006	(347,533)	28,176,848
Make-up of the accumulated deficit by special reserve	-	-	-	-	(2,655,892)	2,655,892	-	-	-	-
Make-up of the accumulated deficit	-	-	-	(2,814,499)	-	2,814,499	-	-	-	-
Make-up of the accumulated deficit by capital surplus	-	-	(22,983,742)	-	-	22,983,742	-	-	-	-
Make-up of the accumulated deficit by capital reduction	(31,178,240)	-	-	-	-	31,178,240	-	-	-	-
Issuance of common stock for cash	18,000,000	-	10,212,000	-	-	-	-	-	-	28,212,000
Advance receipts for common stock due to employee stock options exercised	-	111,133	-	-	-	-	-	-	-	111,133
Issuance of common stock due to employee stock options exercised	291,690	-	128,544	-	-	-	-	-	-	420,234
Net loss in2009	-	-	-	-	-	(20,753,527)	-	-	-	(20,753,527)
Recognized compensation costs on employee stock options	-	-	499,089	-	-	-	-	-	-	499,089
Adjustment arising from changes in percentage of ownership in investees	-	-	565,386	-	-	-	-	-	-	565,386
Change in available-for-sale financial assets accounted for under long-term equity investments	-	-	-	-	-	-	-	147,511	-	147,511
Losses on foreign currency exchange of long-term investments	-	-	-	-	-	-	(3,786)	-	-	(3,786)
Balance as of December 31, 2009	\$ 34,047,425	111,133	13,555,224	-	-	(10,242,807)	7,929	243,517	(347,533)	37,374,888

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NANYA TECHNOLOGY CORPORATION
Statements of Cash Flows
For the years ended December 31, 2008 and 2009
(expressed in thousands of New Taiwan dollars)

	<u>2008</u>	<u>2009</u>
Cash flows from operating activities:		
Net loss	\$ (36,730,016)	(20,753,527)
Adjustments:		
Loss on valuation of financial assets	11,674	-
Loss (gain) on valuation of financial liabilities	653,623	(91,965)
Depreciation	11,688,864	12,387,328
Amortization	3,726,622	2,373,932
Compensation costs on employee stock option plans	762	499,089
Unrealized interest revenue amortization	(5,605)	(291,824)
Investment loss recognized under equity method	7,371,503	4,672,497
Impairment loss (recoveries)	424,534	(16,977)
Loss(gain) on inventory valuation and obsolescence	2,586,597	(4,179,863)
Increase financial asset held for trading	-	(290,004)
Loss on disposal of property, plant and equipment, net	333,234	40,192
Loss on retirement of bonds	206,546	-
Amortization of discount on bonds payable	226,917	8,840
Unrealized (loss) gain from affiliated companies	(38,592)	10,699
Realized loss from affiliated companies	82,208	38,592
Cash dividend received from equity-method investees	84,998	-
Gain on sales of investment	(9,050)	-
Unrealized foreign currency exchange loss, net	523,775	101,707
Decrease (increase) in notes and accounts receivable	2,817,744	(7,816,331)
(Increase) decrease in inventory	(3,291,045)	2,222,032
Increase in other receivables	(345,833)	(540,485)
Decrease in prepayments	579,736	107,082
(Decrease) increase in notes and accounts payable	(3,743,146)	3,594,214
Increase (decrease) in accrued expenses	3,039,367	(3,202,340)
(Decrease) increase in other current liabilities	(97,519)	24,922
Increase in accrued pension liability	11,948	21,998
Increase (decrease) in miscellaneous liabilities	6,199	(828)
Net cash used in operating activities	<u>(9,883,955)</u>	<u>(11,081,020)</u>
Cash flows from investing activities:		
Decrease(increase) in lease receivable	9,311	(248,461)
Proceeds from sales of property, plant and equipment	4,719,423	98,171
Increase in Deferred Expense and Intangible Assets	(7,672,434)	(47,134)
Purchases of property, plant and equipment	(12,444,694)	(15,085,785)
Increase in refundable deposits	6,059	1,064
Decrease in other receivables from related parties	5,700,300	-
Decrease (increase) in miscellaneous assets	234	(16)
Increase in long-term investments	(2,599,259)	-
Return of capital from subsidiary due to subsidiary's capital reduction	-	874,650
Proceeds from sales of available-for-sale financial assets	209,050	-
Net cash used in investing activities	<u>(12,072,010)</u>	<u>(14,407,511)</u>
Cash flows from financing activities:		
Decrease in lease payable	(5,209)	(5,523)
Increase in short-term loans	-	1,708,124
Increase in long-term loans	31,580,162	4,000,000
Decrease in bonds payable	(9,989,800)	(11,882,605)
Increase(decrease) in long-term Accounts payable	411,326	(1,604,958)
Decrease in guarantee deposits	(33,974)	(21,038)
Issuance of common stock for exercise of employee stock options	64,004	28,743,368
Increase in other lending from related parties	-	15,721,600
Net cash provided by financing activities	<u>22,026,509</u>	<u>36,658,968</u>
Effect of foreign currency exchange translation	<u>(12,501)</u>	<u>(13,315)</u>
Decrease in cash and cash equivalents	58,043	11,157,122
Cash and cash equivalents at beginning of period	2,448,103	2,506,146
Cash and cash equivalents at end of period	<u>\$ 2,506,146</u>	<u>13,663,268</u>
Supplemental cash flow information:		
Income tax paid	\$ <u>233</u>	<u>119</u>
Interest paid (excluding capitalized interest)	\$ <u>1,302,697</u>	<u>1,447,566</u>
Supplemental schedule of non-cash investing and financing activities:		
Current portion of long-term loans	\$ <u> </u>	<u>3,666,667</u>
Current portion of bonds payable	\$ <u>11,879,497</u>	<u>13,030,000</u>
Cash paid for acquisition of properties		
Total acquisition	\$ (6,172,808)	(14,193,600)
Decrease in accounts payable-machinery and equipment, net	(6,271,886)	(892,185)
Cash paid for acquisition of properties	<u>\$ (12,444,694)</u>	<u>(15,085,785)</u>

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