

**NANYA TECHNOLOGY CORPORATION**  
**Financial Statements**  
**December 31, 2007 and 2008**  
**(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, 2007 and 2008, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. As to the financial statement, certain long-term investments were accounted for under the equity method based on financial statement as of December 31, 2007 and 2008 of the investees, which were audited by the other auditors. Our audit insofar as it relates to the related long-term investment statement of NT\$492,395 thousand and NT\$151,878 thousand and reflect total assets constituting 0.36 percent and 0.13 percent of as of December 31, 2007 and 2008, respectively. Those financial statements for which the equity in net earnings to NT\$27,948 thousand and NT\$8,341 thousand, constituting 0.22 percent and 0.02 percent of net loss before income tax in 2007 and 2008, respectively, is based solely on 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, 2007 and 2008, 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.

Because of the continuing global economic recession and the significant drop in the selling price of DRAM in the market where supply and demand are not balanced, the Company has suffered net losses of \$36,730,016 thousand in 2008. Also, the Company has liquidity risks as its current liabilities exceed its current assets by \$11,765,897 thousand as of December 31, 2008. Management's plans on these matters are described. The financial statements described in the first paragraph above do not include any adjustments that might result from the outcome of this uncertainty.

The Company adopted Republic of China statement of Financial Accounting Standards (SFAS) from January

1, 2007. 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, 2007 and 2008, 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, 2009

The accompanying financial statements are intended only to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to review 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, 2007 and 2008  
(expressed in thousands of New Taiwan dollars)

<u>Assets</u>	<u>2007</u>		<u>2008</u>		<u>Liabilities and Stockholders' Equity</u>	<u>2007</u>		<u>2008</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>		<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
<b>Current assets:</b>					<b>Current liabilities:</b>				
Cash and cash equivalents	\$ 2,448,103	2	2,506,146	2	Notes and accounts payable	\$ 13,431,966	10	4,895,554	4
Notes and accounts receivable, net of allowance for doubtful accounts of NT\$0 thousands dollars.	3,942,605	3	2,634,034	2	Notes and accounts payable — related parties	4,480,905	3	3,148,084	3
Accounts receivable—related parties	3,844,962	3	2,412,888	2	Accrued expenses	3,874,055	3	6,977,513	6
Other receivables	985,268	1	975,455	1	Financial liabilities reported as fair value through profit or loss — current	208,000	-	377,099	1
Other receivables—related parties	5,734,154	4	388,668	-	Other payable	102,357	-	8,276	-
Inventories, net	5,668,940	4	6,373,388	6	Current portion of bonds payable	9,582,019	7	11,879,497	10
Prepayments	824,058	1	244,322	-	Current portion of long-term debt	4,169,838	3	-	-
Financial assets reported as fair value through profit or loss—current	11,674	-	-	-	Other current liabilities	7,043	-	15,775	-
Hedging derivative assets—current	18,743	-	-	-	Deferred income tax liability — current	4,686	-	-	-
<b>Total current assets</b>	<u>23,478,507</u>	<u>18</u>	<u>15,535,901</u>	<u>13</u>	<b>Total current liabilities</b>	<u>35,860,869</u>	<u>26</u>	<u>27,301,798</u>	<u>24</u>
<b>Funds and long-term investments</b>					<b>Long-term liabilities</b>				
Long-term investments carried on the equity method	26,046,128	19	20,956,167	18	Bonds payable	31,500,000	23	20,102,035	17
Available-for-sale financial assets—non-current	207,040	-	-	-	Long-term debt	2,250,000	2	38,000,000	33
<b>Total Funds and long-term investments</b>	<u>26,253,168</u>	<u>19</u>	<u>20,956,167</u>	<u>18</u>	Long-term accounts payable	961,542	1	1,812,171	2
					Lease payable—long-term	328,668	-	323,144	-
<b>Property, plant and equipment:</b>					<b>Total long-term liabilities</b>	<u>35,040,210</u>	<u>26</u>	<u>60,237,350</u>	<u>52</u>
Land	1,013,924	1	1,013,924	1	<b>Other liabilities:</b>				
Buildings and building improvements	2,427,558	2	5,943,898	5	Accrued pension liability	343,175	-	355,123	-
Machinery and equipment	91,982,197	67	107,265,726	92	Guarantee deposits	205,401	-	171,427	-
Transportation equipment	5,855	-	5,855	-	Miscellaneous liabilities	26,988	-	247,520	-
Leased assets	345,637	-	345,637	1	<b>Total other liabilities</b>	<u>575,564</u>	<u>-</u>	<u>774,070</u>	<u>-</u>
Miscellaneous equipment	2,243,947	2	1,579,622	1	<b>Total liabilities</b>	<u>71,476,643</u>	<u>52</u>	<u>88,313,218</u>	<u>76</u>
	98,019,118	72	116,154,662	100	<b>Stockholders' equity:</b>				
Less: accumulated depreciation	(59,675,545)	(44)	(48,964,549)	(42)	Capital stock	46,935,385	34	46,933,975	40
accumulated impairment- Property, plant and equipment	(3,115,428)	(2)	-	-	Advance receipts for capital stock	27,376	-	-	-
Construction in progress	44,963,209	33	2,007,183	2	Capital surplus	25,160,496	19	25,133,947	22
<b>Net property, plant and equipment</b>	<u>80,191,354</u>	<u>59</u>	<u>69,197,296</u>	<u>60</u>	Legal reserve	2,814,499	2	2,814,499	2
					Special reserve	2,655,892	2	2,655,892	2
<b>Intangible assets:</b>					Accumulated deficit	(12,391,637)	(9)	(49,121,653)	(42)
Patents	1,613,777	1	2,289,938	2	Cumulative translation adjustments	28,739	-	11,715	-
Other intangible assets	1,736,050	1	5,007,842	4	Unrealized losses on financial instruments	519,166	-	96,006	-
<b>Total intangible assets</b>	<u>3,349,827</u>	<u>2</u>	<u>7,297,780</u>	<u>6</u>	Treasury stock	(467,634)	-	(347,533)	-
					<b>Total stockholders' equity</b>				
<b>Other assets:</b>					Commitments and contingencies	65,282,282	48	28,176,848	24
Refundable deposits	8,596	-	2,537	-	<b>Total liabilities and stockholders' equity</b>	<u>136,758,925</u>	<u>100</u>	<u>116,490,066</u>	<u>100</u>
Deferred charges	129,364	-	156,384	-					
Lease receivable—long-term	123,717	-	119,843	-					
Deferred income tax assets, net—non-current	3,224,158	2	3,224,158	3					
Miscellaneous assets	234	-	-	-					
<b>Total other assets</b>	<u>3,486,069</u>	<u>2</u>	<u>3,502,922</u>	<u>3</u>					
<b>Total assets</b>	<u>136,758,925</u>	<u>100</u>	<u>116,490,066</u>	<u>100</u>					

See accompanying notes to financial statements.

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**NANYA TECHNOLOGY CORPORATION**

**Statements of Income**

**For the years ended December 31, 2007 and 2008**  
(expressed in thousands of New Taiwan dollars, except earnings per share)

	2007		2008	
	Amount	%	Amount	%
<b>Operating revenues, net</b>	\$ 52,894,192	100	36,311,814	100
<b>Operating costs</b>	(52,472,402)	(99)	(52,057,838)	(143)
<b>Gross income (loss)</b>	421,790	1	(15,746,024)	(43)
<b>Unrealized loss from affiliated companies</b>	82,208	-	38,592	-
<b>Realized profit (loss) from affiliated companies</b>	432,502	1	(82,208)	-
<b>Gross income (loss), net</b>	936,500	2	(15,789,640)	(43)
<b>Operating expenses</b>				
<b>Selling expenses</b>	(716,098)	(1)	(432,351)	(1)
<b>Administrative expenses</b>	(2,715,955)	(5)	(1,495,780)	(4)
<b>Research and development expenses</b>	(6,478,606)	(12)	(6,396,597)	(18)
<b>Total operating expenses</b>	(9,910,659)	(18)	(8,324,728)	(23)
<b>Operating loss</b>	(8,974,159)	(16)	(24,114,368)	(66)
<b>Non-operating income and gains:</b>				
Interest income	811,762	2	268,917	1
Investment income recognized under equity method	570,768	1	-	-
Gain on disposal of property, plant and equipment	88,907	-	71,960	-
Gain on disposal of investment	41,325	-	9,050	-
Foreign exchange gain, net	439,715	1	-	-
Miscellaneous income	198,653	-	426,721	1
<b>Total non-operating income</b>	2,151,130	4	776,648	2
<b>Non-operating expenses and losses:</b>				
Interest expenses (excluding capitalized interest of NT\$364,987 thousand and NT\$311,075 thousand for 2007 and 2008, respectively)	(883,459)	(2)	(1,339,227)	(4)
Loss on disposal of property, plant and equipment	(898)	-	(405,194)	(1)
Investment Losses recognized under Equity Method	-	-	(7,373,414)	(20)
Foreign exchange loss, net	-	-	(203,779)	(1)
Loss on inventory valuation and obsolescence	(1,512,059)	(3)	(2,586,597)	(7)
Impairment loss	(3,111,699)	(6)	(424,534)	(1)
Loss on valuation of financial assets	(4,975)	-	(11,674)	-
Loss on valuation of financial liabilities	(55,000)	-	(653,623)	(2)
Miscellaneous disbursements	(67,848)	-	(395,942)	(1)
<b>Total non-operating expenses and losses</b>	(5,635,938)	(11)	(13,392,073)	(37)
<b>Loss before income tax</b>	(12,458,967)	(23)	(36,729,793)	(101)
<b>Income tax (loss) expenses</b>	995	-	(223)	-
<b>Net loss</b>	<u>(12,457,972)</u>	<u>(23)</u>	<u>(36,730,016)</u>	<u>(101)</u>
<b>Basic loss per share</b>				
Before tax				
Net loss	<u>(2.89)</u>		<u>(7.86)</u>	
After tax				
Net loss	<u>(2.89)</u>		<u>(7.86)</u>	
<b>Diluted loss per share</b>				
Before tax				
Net loss	<u>(2.89)</u>		<u>(7.86)</u>	
After tax				
Net loss	<u>(2.89)</u>		<u>(7.86)</u>	
<b>Pro forma information if the issued shares held by subsidiaries were not recognized as treasury stock:</b>				
Net loss - before tax	<u>\$(12,393,505)</u>		<u>\$(36,729,793)</u>	
Net loss - after tax	<u>\$(12,392,510)</u>		<u>\$(36,730,016)</u>	
<b>Pro forma primary EPS</b>				
-before tax	<u>\$(2.86)</u>		<u>\$(7.83)</u>	
-after tax	<u>\$(2.86)</u>		<u>\$(7.83)</u>	
<b>Pro forma fully diluted EPS</b>				
-before tax	<u>\$(2.86)</u>		<u>\$(7.83)</u>	
-after tax	<u>\$(2.86)</u>		<u>\$(7.83)</u>	

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NANYA TECHNOLOGY CORPORATION

Statements of Changes in Stockholders' Equity

For the years ended December 31, 2007 and 2008  
(expressed in thousands of New Taiwan dollars)

	<u>Capital 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>
<b>Balance as of January 1, 2007</b>	\$ 39,472,674	351,387	17,801,694	1,074,502	2,655,892	17,404,030	24,413	484,972	(2,100,801)	77,168,763
Appropriation and distribution:										
Legal reserve	-	-	-	1,739,997	-	(1,739,997)	-	-	-	-
Directors' and supervisors' remuneration	-	-	-	-	-	(11,700)	-	-	-	(11,700)
Employees' bonus—cash	-	-	-	-	-	(623,908)	-	-	-	(623,908)
Employees' bonus—stock	623,908	-	-	-	-	(623,908)	-	-	-	-
Stock dividend	1,194,848	-	-	-	-	(1,194,848)	-	-	-	-
Cash dividend	-	-	-	-	-	(13,143,334)	-	-	-	(13,143,334)
Issuance of capital stock	5,000,000	-	7,000,000	-	-	-	-	-	-	12,000,000
Convertible bonds converted to common stocks	1,165	-	2,168	-	-	-	-	-	-	3,333
Issuance of capital stock due to employee stock options exercised	642,790	(351,387)	508,786	-	-	-	-	-	-	800,189
Treasury stock sold to employees	-	-	27,873	-	-	-	-	-	1,633,167	1,661,040
Advance receipts for capital stock due to employee stock options exercised	-	27,376	-	-	-	-	-	-	-	27,376
2007 Net loss	-	-	-	-	-	(12,457,972)	-	-	-	(12,457,972)
Effects of not subscribing to investee companies' newly issued shares	-	-	(245,487)	-	-	-	-	-	-	(245,487)
Corresponding adjustment to comply with investee companies	-	-	-	-	-	-	-	6,050	-	6,050
Cash dividend distributed to subsidiaries	-	-	65,462	-	-	-	-	-	-	65,462
Gains on foreign currency exchange of long-term investments	-	-	-	-	-	-	4,326	-	-	4,326
Unrealized gain on available-for-sale financial assets	-	-	-	-	-	-	-	5,599	-	5,599
Unrealized gain on hedging derivative assets	-	-	-	-	-	-	-	22,545	-	22,545
<b>Balance as of December 31, 2007</b>	\$ <b>46,935,385</b>	<b>27,376</b>	<b>25,160,496</b>	<b>2,814,499</b>	<b>2,655,892</b>	<b>(12,391,637)</b>	<b>28,739</b>	<b>519,166</b>	<b>(467,634)</b>	<b>65,282,282</b>
Issuance of capital stock due to employee stock options exercised	60,350	(27,376)	31,792	-	-	-	-	-	-	64,766
Treasury stock retired	(61,760)	-	(58,341)	-	-	-	-	-	120,101	-
2008 Net loss	-	-	-	-	-	(36,730,016)	-	-	-	(36,730,016)
Corresponding adjustment to comply with investee companies	-	-	-	-	-	-	-	(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)
<b>Balance as of December 31, 2008</b>	\$ <b>46,933,975</b>	<b>-</b>	<b>25,133,947</b>	<b>2,814,499</b>	<b>2,655,892</b>	<b>(49,121,653)</b>	<b>11,715</b>	<b>96,006</b>	<b>(347,533)</b>	<b>28,176,848</b>

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**NANYA TECHNOLOGY CORPORATION**

**Statements of Cash Flows**

**For the years ended December 31, 2007 and 2008**

	<b>2007</b>	<b>2008</b>
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ (12,457,972)	\$ (36,730,016)
Adjustments:		
Loss on valuation of financial assets	4,975	11,674
Loss on valuation of financial liabilities	55,000	653,623
Depreciation	5,775,673	11,688,864
Amortization	3,354,894	3,726,622
Unrealized interest revenue amortization	(5,766)	(5,605)
Employee warrant compensation cost	-	762
Investment (income) loss recognized under equity method	(570,768)	7,371,503
Loss on impairment Recovery	3,111,699	424,534
Loss on inventory valuation and obsolescence	1,512,059	2,586,597
(Gain) loss on disposal of property, plant and equipment, net	(88,009)	333,234
Loss on retirement of bonds	-	206,546
Amortization of discount on bonds payable	232,200	226,917
Unrealized loss from affiliated companies	(82,208)	(38,592)
Realized (profit) loss from affiliated companies	(432,502)	82,208
Cash dividend received from equity-method investees	2,833,502	84,998
Gain on sales of investment	(49,255)	(9,050)
Unrealized foreign currency exchange loss, net	101,537	523,775
Decrease in notes and accounts receivable	7,886,741	2,817,744
Increase in inventory	(1,868,769)	(3,291,045)
Increase in other receivables	(428,806)	(345,833)
(Increase) decrease in prepayments	(16,799)	579,736
Decrease in notes and accounts payable	(34,458)	(3,743,146)
Increase in accrued expenses	120,404	3,039,367
Increase in accrued pension liability	8,958	11,948
(Decrease) increase in miscellaneous liabilities	(523)	6,199
Decrease in other current liabilities	(118,684)	(97,519)
<b>Net cash provided by (used in) operating activities</b>	<b>8,843,123</b>	<b>(9,883,955)</b>
<b>Cash flows from investing activities:</b>		
Decrease in lease receivable	9,310	9,311
Proceeds from sales of property, plant and equipment	96,298	4,719,423
Increase in deferred expense and intangible assets	(2,125,863)	(7,672,434)
Purchases of property, plant and equipment	(47,177,720)	(12,444,694)
Increase in available-for-sale financial assets	(1,064,440)	-
Proceeds from sales of available-for-sale financial assets	1,768,575	209,050
(Increase) decrease in refundable deposits	(7,314)	6,059
Decrease in other receivables from relate parties	8,377,700	5,700,300
(Increase) decrease in miscellaneous assets	(226)	234
Increase in long-term investments	(11,345)	(2,599,259)
<b>Net cash used in investing activities</b>	<b>(40,135,025)</b>	<b>(12,072,010)</b>
<b>Cash flows from financing activities:</b>		
Decrease in lease payable	(4,912)	(5,209)
(Decrease) increase in long-term borrowings	(1,589,515)	31,580,162
Increase (decrease) in bonds payable	5,000,000	(9,989,800)
Increase in long-term accounts payable	784,743	411,326
Decrease in guarantee deposits	(48,893)	(33,974)
Treasury stock sold to employee	1,661,040	-
Receipt for capital stock of employee stock options	12,800,189	64,004
Cash dividend	(13,143,334)	-
Cash bonus for employees	(623,908)	-
Directors' and supervisors' remuneration	(11,700)	-
Advance receipts for capital stock due to employee stock options exercised	27,376	-
<b>Net cash provided by financing activities</b>	<b>4,851,086</b>	<b>22,026,509</b>
<b>Effect of foreign currency exchange translation</b>	<b>(13,691)</b>	<b>(12,501)</b>
<b>(Decrease) increase in cash and cash equivalents</b>	<b>(26,454,507)</b>	<b>58,043</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>28,902,610</b>	<b>2,448,103</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 2,448,103</b>	<b>\$ 2,506,146</b>
<b>Supplemental cash flow information:</b>		
Income tax paid	<b>\$ 215,890</b>	<b>\$ 223</b>
Interest paid (excluding capitalized interest)	<b>\$ 812,895</b>	<b>\$ 1,302,697</b>
<b>Supplemental schedule of non-cash investing and financing activities:</b>		
Current portion of long-term debt	<b>\$ 4,169,838</b>	<b>\$ -</b>
Current portion of bonds payable	<b>\$ 9,582,019</b>	<b>\$ 11,879,497</b>
Cash paid for acquisition of properties		
Total acquisition	(56,280,638)	(6,172,808)
Increase (decrease) in accounts payable-machinery and equipment,net	9,102,918	(6,271,886)
Cash paid for acquisition of properties	<b>\$ (47,177,720)</b>	<b>\$ (12,444,694)</b>

(expressed in thousands of New Taiwan dollars)

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