Winbond Electronics Corporation

Financial Statements for the
Years Ended December 31, 2009 and 2008 and
Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Winbond Electronics Corporation

We have audited the accompanying balance sheets of Winbond Electronics Corporation (the "Company") as of December 31, 2009 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. Certain long-term investments were accounted for under the equity method based on financial statements as of and for the year ended December 31, 2009 of the investees, which were audited by other auditors. Our opinion, insofar as it relates to such investments, is based solely on the reports of other auditors. The investments in such investees amounted to NT$49,935 thousand which constituted 0.08% of total assets as of December 31, 2009; investment income amounted to NT$6,417 thousand which constituted -0.07% of loss before income tax for the year then ended.

We conducted our audits in accordance with the Rules Governing the Audit 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 and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

As stated in Note 3 to the financial statements, effective January 1, 2009, the Company adopted the newly revised Statement of Financial Accounting Standards No. 10, "Accounting for Inventories".

We have also audited the consolidated balance sheets of Winbond Electronics Corporation and its subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended (not presented herewith), and have expressed in our report thereon an unqualified opinion with explanatory paragraphs and an unqualified opinion, respectively, dated February 25, 2010.

February 25, 2010

<u>*Notice to Readers*</u>

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 audit such financial statements are those generally accepted and applied in the Republic of China.

For the convenience of readers, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail. Also, as stated in Note 2 to the financial statements, the additional footnote disclosures that are not required under generally accepted accounting principles were not translated into English.

WINBOND ELECTRONICS CORPORATION

BALANCE SHEETS
DECEMBER 31, 2009 AND 2008
(In Thousands of New Taiwan Dollars)

	2009		2008	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 4)	$ 2,859,313	5	$ 5,661,938	8
Financial assets at fair value through profit or loss, current (Notes 2 and 5)	17,252	-	16,025	-
Available-for-sale financial assets, current (Notes 2 and 8)	2,004,572	3	1,912,619	3
Notes receivable, net (Notes 2 and 6)	5,186	-	7,679	-
Accounts receivable, net (Notes 2 and 6)	2,177,114	3	1,507,911	2
Accounts receivable from related parties, net (Notes 6 and 23)	438,410	1	413,108	-
Other financial assets, current	90,385	-	91,383	-
Inventories (Notes 2 and 7)	4,515,594	7	3,857,540	5
Deferred income tax assets, current (Notes 2 and 21)	141,000	-	586,000	1
Other current assets	584,984	1	657,662	1
Total current assets	12,833,810	20	14,711,865	20
FUND AND INVESTMENTS				
Available-for-sale financial assets, noncurrent (Notes 2 and 8)	-	-	353,645	1
Financial assets carried at cost, noncurrent (Notes 2 and 9)	71,887	-	268,889	-
Long-term equity investments at equity method (Notes 2 and 10)	4,860,439	8	5,444,698	7
Total fund and investments	4,932,326	8	6,067,232	8
PROPERTY, PLANT AND EQUIPMENT (Notes 2 and 11)				
Cost				
Land	799,147	1	828,802	1
Buildings	15,274,748	23	14,458,294	19
Machinery and equipment	54,105,673	83	59,246,672	81
Other equipment	2,406,353	4	2,294,010	3
Total cost	72,585,921	111	76,827,778	104
Accumulated depreciation	(31,172,164)	(48)	(28,813,897)	(39)
Construction in progress and prepayments on purchase of equipment	635,242	1	560,181	1
Property, plant and equipment, net	42,048,999	64	48,574,062	66
INTANGIBLE ASSETS (Notes 2 and 12)	1,530,973	2	565,545	1
OTHER ASSETS				
Refundable deposits	102,636	-	133,153	-
Deferred income tax assets, noncurrent (Notes 2 and 21)	3,601,000	6	3,156,000	5
Others	112,916	-	168,602	-
Total other assets	3,816,552	6	3,457,755	5
TOTAL	$ 65,162,660	100	$ 73,376,459	100

	2009		2008	
LIABILITIES AND STOCKHOLDERS' EQUITY	**Amount**	**%**	**Amount**	**%**
CURRENT LIABILITIES				
Short-term bank borrowings (Note 13)	$ 1,325,169	2	$ 2,613,926	4
Commercial paper payable (Note 14)	-	-	297,154	-
Notes payable	1,261,044	2	431,114	1
Accounts payable	2,694,142	4	1,525,618	2
Payable on equipment	1,527,732	2	2,085,767	3
Accrued expenses and other payables	1,411,731	2	1,018,811	1
Current portion of long-term liabilities (Note 16)	7,616,673	12	7,666,667	10
Other current liabilities	18,176	-	63,354	-
Total current liabilities	15,854,667	24	15,702,411	21
LONG-TERM LIABILITIES				
Long-term debt (Note 16)	15,116,660	23	19,033,333	26
OTHER LIABILITIES				
Accrued pension liabilities (Notes 2 and 17)	122,846	-	165,472	-
Reserve for product guarantee (Note 2)	47,985	-	49,200	-
Other liabilities - others	166,465	1	171,734	1
Total other liabilities	337,296	1	386,406	1
Total liabilities	31,308,623	48	35,122,150	48
STOCKHOLDERS' EQUITY				
Common stock (Note 18)	36,564,972	56	37,273,812	51
Capital surplus				
Paid-in capital in excess of par - common stock	10,786,697	16	10,995,806	15
Treasury stock transaction	1,971,862	3	1,544,992	2
Adjustment on long-term equity investments under equity method	36,439	-	95,943	-
Stock option (Notes 2 and 19)	17,181	-	2,362	-
Others (Note 15)	368,825	1	368,825	-
Retained earnings				
Accumulated deficit	(15,977,842)	(24)	(7,364,903)	(10)
Other equity				
Cumulative translation adjustments (Note 2)	446,667	1	519,091	1
Unrealized loss on financial instruments (Note 2)	(254,377)	(1)	(4,559,530)	(6)
Treasury stock (Notes 2 and 18)	(106,387)	-	(622,089)	(1)
Total stockholders' equity	33,854,037	52	38,254,309	52
TOTAL	$ 65,162,660	100	$ 73,376,459	100

The accompanying notes are an integral part of the financial statements.

WINBOND ELECTRONICS CORPORATION

STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2009 AND 2008
(In Thousands of New Taiwan Dollars, Except Loss Per Share)

	2009		2008	
	Amount	**%**	**Amount**	**%**
NET SALES	$ 19,532,712	100	$ 21,828,011	100
COST OF SALES (Note 7)	22,494,628	115	24,314,222	111
REALIZED (UNREALIZED) INTERCOMPANY PROFIT	13,976	-	(398)	-
GROSS LOSS	(2,947,940)	(15)	(2,486,609)	(11)
OPERATING EXPENSES				
Selling expenses	1,059,143	6	1,010,343	5
General and administrative expenses	459,401	2	679,880	3
Research and development expenses	1,528,193	8	2,258,298	10
Total operating expenses	3,046,737	16	3,948,521	18
LOSS FROM OPERATIONS	(5,994,677)	(31)	(6,435,130)	(29)
NON-OPERATING INCOME AND GAINS				
Interest income	14,623	-	169,055	1
Investment income	6	-	340,235	1
Gain on sale of property, plant and equipment (Notes 2 and 11)	11,755	-	346,718	2
Gain on disposal of investments (Note 10)	-	-	184,493	1
Foreign exchange gain, net (Note 2)	-	-	116,177	-
Gain on valuation of financial instruments (Note 5)	25,413	-	72,187	-
Others (Note 10)	79,120	1	154,868	1
Total non-operating income and gains	130,917	1	1,383,733	6
NON-OPERATING EXPENSES AND LOSSES				
Interest expense	654,956	4	808,372	4
Investment loss recognized under equity method (Note 10)	436,186	2	1,103,689	5
Other investment losses	-	-	71,865	-
Loss on disposal of property, plant and equipment (Note 2)	49,643	-	36,525	-
Loss on disposal of investments	1,535,474	8	-	-
Foreign exchange loss	16,320	-	-	-
Others (Note 15)	56,600	-	293,055	2
Total non-operating expenses and losses	2,749,179	14	2,313,506	11

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WINBOND ELECTRONICS CORPORATION

STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2009 AND 2008
(In Thousands of New Taiwan Dollars, Except Loss Per Share)

	2009		2008	
	Amount	**%**	**Amount**	**%**
LOSS BEFORE INCOME TAX	$ (8,612,939)	(44)	$ (7,364,903)	(34)
CREDIT FOR INCOME TAX (Notes 2 and 21)	-	-	-	-
NET LOSS	$ (8,612,939)	(44)	$ (7,364,903)	(34)

	2009		2008	
	Before Income Tax	**After Income Tax**	**Before Income Tax**	**After Income Tax**
LOSS PER SHARE (Notes 2 and 22)				
Basic loss per share	$ (2.36)	$ (2.36)	$ (2.00)	$ (2.00)

The accompanying notes are an integral part of the financial statements. (Concluded)

WINBOND ELECTRONICS CORPORATION

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2009 AND 2008
(In Thousands of New Taiwan Dollars)

		Capital Surplus					Retained Earnings			Other Equity			
	Common Stock	Paid-in Capital in Excess of Par - Common Stock	Treasury Stock Transaction	Adjustments on Long-Term Equity Investments under Equity Method	Stock Option	Others	Legal Reserve	Special Reserve	Accumulated Deficit	Cumulative Translation Adjustments	Unrealized Loss on Financial Instruments	Treasury Stock	Total
BALANCE, JANUARY 1, 2008	$ 37,906,612	$ 16,000,820	$ 1,366,638	$ 127,914	$ 368,825	$ -	$ 236,437	$ 151,358	$ (5,206,132)	$ 473,190	$ 212,215	$ (782,406)	$ 50,855,471
Offsetting accumulated deficit	-	(4,818,337)	-	-	-	-	(236,437)	(151,358)	5,206,132	-	-	-	-
Net loss for 2008	-	-	-	-	-	-	-	-	(7,364,903)	-	-	-	(7,364,903)
Cumulative translation adjustments	-	-	-	-	-	-	-	-	-	45,901	-	-	45,901
Changes in unrealized loss on financial instruments	-	-	-	-	-	-	-	-	-	-	(4,771,745)	-	(4,771,745)
Capital surplus from investee under equity method	-	-	-	(1,565)	-	-	-	-	-	-	-	-	(1,565)
Adjustment to capital surplus due to disposal of investments	-	-	-	(30,406)	-	-	-	-	-	-	-	-	(30,406)
Adjustment to capital surplus of conversion option due to the redemption of bonds payable	-	-	-	-	(368,825)	368,825	-	-	-	-	-	-	-
Increase in treasury stock	-	-	-	-	-	-	-	-	-	-	-	(480,806)	(480,806)
Cancellation of treasury stock	(632,800)	(186,677)	178,354	-	-	-	-	-	-	-	-	641,123	-
Compensation cost of employee stock options	-	-	-	-	2,362	-	-	-	-	-	-	-	2,362
BALANCE, DECEMBER 31, 2008	37,273,812	10,995,806	1,544,992	95,943	2,362	368,825	-	-	(7,364,903)	519,091	(4,559,530)	(622,089)	38,254,309
Net loss for 2009	-	-	-	-	-	-	-	-	(8,612,939)	-	-	-	(8,612,939)
Cumulative translation adjustments	-	-	-	-	-	-	-	-	-	(72,424)	-	-	(72,424)
Changes in unrealized loss on financial instruments	-	-	-	-	-	-	-	-	-	-	4,305,153	-	4,305,153
Adjustment to capital surplus due to disposal of investments	-	-	-	(59,504)	-	-	-	-	-	-	-	-	(59,504)
Subsidiary dispose treasury stock (Note 18)	-	-	(19,243)	-	-	-	-	-	-	-	-	43,866	24,623
Cancellation of treasury stock	(708,840)	(209,109)	446,113	-	-	-	-	-	-	-	-	471,836	-
Compensation cost of employee stock options	-	-	-	-	14,819	-	-	-	-	-	-	-	14,819
BALANCE, DECEMBER 31, 2009	$ 36,564,972	$ 10,786,697	$ 1,971,862	$ 36,439	$ 17,181	$ 368,825	$ -	$ -	$(15,977,842)	$ 446,667	$ (254,377)	$ (106,387)	$ 33,854,037

The accompanying notes are an integral part of the financial statements.

WINBOND ELECTRONICS CORPORATION

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2009 AND 2008
(In Thousands of New Taiwan Dollars)

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (8,612,939)	$ (7,364,903)
Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation	9,896,149	8,410,726
Amortization	344,683	731,228
Loss on bad debt	665,034	551,000
(Recovery from) loss on decline in market value and obsolescence and abandonment of inventories	(1,171,197)	414,217
Loss (gain) on disposal of investments, net	1,535,474	(184,493)
Investment loss recognized under equity method, net	436,186	1,103,689
Impairment losses on financial assets carried at cost	-	71,865
Net losses (gains) on disposal of property, plant and equipment	37,888	(310,100)
Recovery from obsolescence of spare parts	(85)	(37)
Gain on valuation of put option of convertible bonds	-	(67,088)
Amortization of discount on bonds payable and reserve for redemption of bonds	-	65,522
Loss on redemption of bonds	-	271,835
Foreign exchange adjustment on bonds payable	-	(203,527)
Compensation cost of employee stock options	13,950	2,247
Net changes in operating assets and liabilities		
Financial assets at fair value through profit or loss, current	(1,227)	420,269
Notes receivable	3,493	7,689
Accounts receivable	(1,335,237)	823,049
Accounts receivable from related parties	(39,560)	536,016
Other financial assets, current	998	15,277
Inventories	513,143	(303,151)
Other current assets	72,678	(38,976)
Other assets	51,067	72,405
Notes payable	829,930	(598,272)
Accounts payable	1,168,524	(683,630)
Accrued expenses and other payables	392,921	(734,397)
Other current liabilities	(45,178)	9,702
Other liabilities	(144,031)	(288,704)
Net cash provided by operating activities	4,612,664	2,729,458
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of property, plant and equipment	(4,215,898)	(14,088,560)
Acquisition of long-term investments under equity method	(389,532)	(676,569)
Acquisition of available-for-sale financial assets	-	(654,018)
Proceeds from return of capital by long-term investment under equity method	591,115	583,630
Proceeds from return of capital by financial assets carried at cost	31,024	20,000
Proceeds from disposal of long-term investments under equity method	873,372	-

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WINBOND ELECTRONICS CORPORATION

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2009 AND 2008
(In Thousands of New Taiwan Dollars)

	2009	2008
Proceeds from disposal of available-for-sale financial assets	$ 2,034,249	$ 720,376
Proceeds from disposal of financial assets carried at cost	252,515	-
Proceeds from disposal of property, plant and equipment	248,972	588,138
Payments for intangible assets	(1,288,528)	(200,193)
Cash transferred to spun-off Logic IC business	-	(234,813)
Net cash used in investing activities	(1,862,711)	(13,942,009)
CASH FLOWS FROM FINANCING ACTIVITIES		
(Decrease) increase in short-term bank borrowings	(1,288,757)	2,613,926
(Decrease) increase in commercial paper payable	(297,154)	297,154
(Decrease) increase in long-term debt	(3,966,667)	3,033,333
Redemption of convertible bonds	-	(3,685,500)
Increase in treasury stock	-	(480,806)
Net cash (used in) provided by financing activities	(5,552,578)	1,778,107
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,802,625)	(9,434,444)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	5,661,938	15,096,382
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 2,859,313	$ 5,661,938
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid for interest during the year	$ 708,667	$ 924,072
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Current portion of long-term liabilities	$ 7,616,673	$ 7,666,667
Cumulative translation adjustments	$ (72,424)	$ 45,901
Unrealized gain (loss) on financial instruments	$ 4,305,153	$ (4,771,745)
Adjustment to capital surplus due to disposal of investments	$ (59,504)	$ (30,406)
Capital surplus from investee under equity method	$ -	$ (1,565)
Cancellation of treasury stock	$ 471,836	$ 641,123
Equity-method investments reclassified into available-for-sale financial assets due to the merger	$ -	$ 584,090
ITEMS AFFECTED BY SPIN-OFF OF LOGIC IC BUSINESS		
Noncash assets transferred to spun-off Logic IC business	$ -	$ 2,852,582
Liabilities transferred to spun-off Logic IC business	-	(363,485)
Acquired net equity in Logic IC business	-	(2,723,910)
Cash transferred to spun-off Logic IC business	$ -	$ (234,813)

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WINBOND ELECTRONICS CORPORATION

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2009 AND 2008
(In Thousands of New Taiwan Dollars)

	2009	2008
CASH PAYMENT FOR ACQUISITIONS OF PROPERTY, PLANT AND EQUIPMENT		
Net increase in acquisition of property, plant and equipment	$ 3,657,863	$ 12,506,189
Add payable for property, plant and equipment, beginning of year	2,085,767	3,668,138
Less payable for property, plant and equipment, end of year	(1,527,732)	(2,085,767)
Cash payment for acquisitions of property, plant and equipment	$ 4,215,898	$ 14,088,560

The accompanying notes are an integral part of the financial statements. (Concluded)

1. ORGANIZATION AND OPERATIONS

Winbond Electronics Corporation (the "Company") was incorporated in the Republic of China ("ROC") on September 29, 1987 and is engaged in the design, development, manufacture and marketing of Very Large Scale Integration ("VLSI") integrated circuits ("ICs") used in a variety of microelectronic applications. In addition to its own products, the Company offers a foundry service for other Taiwanese and foreign IC producers and designers. A public offering of the Company's common stocks was made on October 18, 1995, and the stocks are traded on the Taiwan Stock Exchange.

For the specialization and division of labors and the reinforcement of core competitive ability, the plan to spin-off the Logic IC business has been approved in the Company's regular stockholders' meeting on April 30, 2008. The logic IC business was spun-off into Nuvoton Technology Corporation which is a subsidiary of the Company. It assumed all the existing assets and liabilities of the Logic IC business on July 1, 2008. (See Note 10)

There are 1,732 and 2,015 employees in the Company as of December 31, 2009 and 2008, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements were prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, Business Accounting Law, Guidelines Governing Business Accounting, and accounting principles generally accepted in the ROC. In preparing financial statements in conformity with these guidelines and principles, the Company is required to make some estimates and assumptions that could affect the amounts of allowance for doubtful accounts, allowance for inventory devaluation, property depreciation, pension liabilities and product guarantee, etc. Actual results may differ from these estimates.

For the convenience of readers, the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the ROC. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language financial statements shall prevail. However, the accompanying financial statements do not include English translation of the additional footnote disclosures that are not required under generally accepted accounting principles but are required by the Securities and Futures Bureau for their oversight purposes.

The significant accounting principles are summarized as follows:

Current/Noncurrent Assets and Liabilities

Current assets include cash and cash equivalents, and those assets held primarily for trading purposes or to be realized, sold or consumed within one year from the balance sheet date. All other assets such as property, plant and equipment and intangible assets are classified as noncurrent. Current liabilities are obligations incurred for trading purposes or to be settled within one year from the balance sheet date. All other liabilities are classified as noncurrent.

Cash and Cash Equivalents

Cash includes unrestricted cash on hand and cash in bank. Government bonds under repurchase agreements and notes acquired with maturities of less than three months from the date of purchase are classified as cash equivalents. The carrying amount approximates fair value.

Financial Instrument at Fair Value through Profit or Loss

Financial instruments at fair value through profit or loss include financial assets and financial liabilities held for trading purpose. Upon initial recognition, they are recognized at the fair values plus transaction costs. After initial recognition, they are measured at fair values and the changes in the fair values are recognized as the profits or losses. Cash dividends received are recorded as dividends revenue, including the dividends received in the year of acquisition. When the financial instruments are disposed of, the difference between carrying amount and the price received or paid is recognized as the profit or loss. All purchases and sales of financial assets are recorded on the trade date basis.

Derivatives that are not subject to measurement under hedge accounting are classified as financial assets or financial liabilities at fair value through profit or loss. The positive fair values of derivatives are recognized as financial assets; negative fair values are recognized as financial liabilities.

The fair value of open-end mutual fund is the published fair value per unit at the balance sheet date. Marketable securities are stated at the closing price at the balance sheet date.

Allowance for Doubtful Accounts

Allowance for doubtful accounts is determined by the Company's management based on the evaluation of the probability of collection of notes and accounts receivable. The Company determines the amount of allowance for doubtful accounts by examining the aging analysis of outstanding accounts receivable and current trends in the credit quality of its customers as well as its internal credit policies.

Revenue Recognition

Sales are recognized when titles of products and risks of ownership are transferred to customers.

Inventories

Inventories consist of raw materials, supplies, finished goods and work-in-process. Before January 1, 2009, inventories were stated at the lower of cost or market value. Any write-down was made on an item by item basis. Market value meant replacement cost for raw materials and supplies and net realizable value for finished goods and work in process. As stated in Note 3, effective January 1, 2009, inventories are stated at the lower of cost or net realizable value. Inventory write-downs are made item by item. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale.

Available-for-sale Financial Assets

Available-for-sale financial assets are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. After initial recognition, they are measured at fair value and the changes in fair value of available-for-sale financial assets are recorded as an adjustment of stockholders' equity. When the financial assets are disposed of, the related accumulated fair value changes are taken out of stockholders' equity and recognized in the profit and loss. All purchases and sales of available-for-sale financial assets are recorded on the trade date basis.

Stock dividends are recorded as an increase in the number of shares and do not affect investment income or the carrying amount of the investment.

The fair value of open-end mutual fund is the published fair value per unit at the balance sheet date. Marketable securities are stated at the closing price at the balance sheet date.

If there is objective evidence which indicates that a financial asset is impaired, a loss is recognized. 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 stockholders' equity; for debt securities, the amount of the decrease is recognized in earnings, provided that the decrease is clearly attributable to an event which occurred after the impairment loss was recognized.

Financial Assets Carried at Cost

Equity instruments, including unlisted stocks, are measured by the original cost since their fair value can't be reliably measured. Accounting policies for dividends received are similar to those in available-for-sale financial assets.

An impairment loss is recognized if there is objective evidence of impairment and subsequent reversal of such impairment loss is not allowed.

Long-term Equity Investments Accounted for Using Equity Method

Investments in corporations in which the Company's ownership interest is over 20% or the Company exercises influence on the operating and financial policy decision are accounted for by the equity method.

When equity investments are made, the excess of the purchase cost over the fair value of net assets representing goodwill will not be amortized, but will be tested for impairment periodically, or more frequently, if events or changes in circumstances indicate that such carrying value may not be recoverable.

When the Company subscribes for additional investee shares at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment in the investee will differ from the amount of the Company's share of the investee's net equity. The Company records such difference as an adjustment to long-term investments with the corresponding amount charged or credited to capital surplus. If the balance of the capital surplus account relating to a long-term equity investment is not sufficient to absorb such an adjustment, any excess is charged against retained earnings.

If there is objective evidence which indicates that a financial asset is impaired, a loss is recognized. For those investees over which the Company exercises significant influence on their operating and financial decision, the assessment of impairment is based on carrying value. For those investees over which the Company has control, the assessment of impairment is based on cash-generating units of the consolidated company as a whole.

Long-term equity investments accounted for using equity method in which the investee is acquired by another company and the Company had lost its ability to exercise significant influence over the investee are reclassified into available-for-sale financial assets and stated at fair value. The difference between the fair value of available-for-sale financial assets and the carrying value of long-term equity investments accounted for using equity method is recognized in the profit and loss.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Expenditures that would increase the value or extend the useful lives of property, plant and equipment are capitalized.

Interest is capitalized during the construction period of property, plant and equipment until a qualifying asset is substantially completed and ready for its intended use.

Depreciation is provided on the straight-line method over the following estimated useful lives of the related assets, plus one additional year for salvage:

Buildings	5 to 20 years
Machinery and equipment	5 years
Other equipment	3 to 5 years

When an indication of significant impairment is determined, any excess of the carrying amount of an asset over its recoverable amount is recognized as a loss. If the recoverable amount increases in the future period, the subsequent reversal of the impairment loss would be recognized as a gain. However, the increased carrying amount of an asset due to reversal of an impairment loss should not exceed the carrying amount that would have been determined (net of depreciation), had no impairment loss been recognized for the assets in prior years.

Upon sale or disposal of property, plant and equipment, the related cost and accumulated depreciation are removed from the accounts and any related gain or loss is included in non-operating income or non-operating expenses.

Intangible Assets

Intangible assets are stated at acquisition cost less accumulated amortization and included in assets. Such assets are amortized over three to five years from the commencement of production using the straight-line method. If the assets' future benefits are impaired, the excess of carrying amount will be recognized in current loss to present the fair value of the assets.

Bonds Payable

a. Convertible bonds issued before January 1, 2006

The convertible bonds are issued at par value, and the issuing costs are amortized using the straight-line method over the period from the date of issuance to the date of maturity. If the put option expires without exercise, the reserve for redemption of convertible bonds is amortized as a deduction of interest expense over a period starting from the next day of expiration date of put option to the maturity date of the bonds using the effective interest rate method.

b. Convertible bonds issued after January 1, 2006

1) Initial recognition and measurement

In accordance with Statement of Financial Accounting Standards No. 36, "Financial Instruments: Disclosure and Measurement," embedded derivatives, such as conversion option and put option with economic characteristics and risks that are not closely related to the economic characteristics and risks of the host contract are separated from the host contract. Conversion option, giving bondholders contractual right to receive a fixed number of the Company's share for a fixed stated principal amount of the bonds, is initially recognized as "capital surplus - stock option." Put option is initially recognized as "financial liabilities at fair value through profit or loss." When fair value is subsequently measured, the changes in fair value are recognized in current income. The carrying value of host contract is measured at amortized cost using the straight line method; the related interest expense or redemption gain or loss is recognized as current income.

2) Conversion and put option

When the bondholders exercise the conversion option, the Company shall adjust the carrying value of "financial liabilities at fair value through profit or loss" to fair value and "bonds payable" to amortized cost by the straight line method. The aforesaid carrying value of the bonds and put option is credited to capital stock accounts as well as "capital surplus - stock option."

If the bondholders can exercise put option within one near year after the balance sheet date, bonds payable and the embedded non-equity derivatives shall be classified as current liabilities. However, when the put option expires, unexercised bonds payable and the embedded non-equity derivatives shall be reclassified to noncurrent liabilities.

If the put option expires without exercise, the carrying amount of the put option is reclassified to capital surplus if the strike price is below the Company's share price on the expiration date of the put option; otherwise, the put option shall be credited or charged to current income.

Reserve for Product Guarantee

For potential product risk, the Company accrues reserve for product guarantee based on the commitment to specific customers.

Benefit Pension Plan

For employees under defined contribution plans, pension costs are recorded based on the actual contributions made to employee's personal pension accounts. For employees under defined benefit pension plans, pension costs are recorded based on actuarial calculations.

Transaction in Foreign Currencies and Translation of Foreign Currency Financial Statements

Foreign currency transactions are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Exchange gains or losses derived from foreign currency transactions or monetary assets and liabilities denominated in foreign currencies are recognized in current income. At the balance sheet date, assets and liabilities denominated in foreign currencies are revalued at the prevailing exchange rates with the resulting gains or losses recognized in current income or loss.

Foreign non-currency assets and liabilities (e.g., equity instrument) which are measured at fair value shall be revalued at the balance sheet date exchange rates. The related translation adjustment on available-for-sale financial assets is included in stockholders' equity; and the translation adjustment on financial instrument at fair value through profit or loss is recorded in current year's profit or loss. Financial assets carried at cost are measured at historical rate on the transaction dates.

Long-term equity investments denominated in foreign currencies are restated at the balance sheet date exchange rates. The related translation adjustments are reported as an adjustment of stockholders' equity.

The aforesaid balance sheet date exchange rates are based on the middle prices of the major transaction banks.

Income Tax

The Company uses an inter-period tax allocation method for income tax. Deferred income tax assets and liabilities are recognized for the tax effect of temporary differences, operating loss carryforwards and investment tax credits. Valuation allowances are provided when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense or benefit is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

Income tax credits, such as for purchase of machinery, research and development expenses and training expenses, are recognized as deduction of current income tax expense.

Income tax on unappropriated earnings at a rate of 10% is expensed in the year of stockholder approval which is the year subsequent to the year the earnings are generated.

Loss Per Share

Basic loss per share is calculated by dividing net loss applicable to common stock by the weighted average number of shares outstanding.

Stock-based Compensation

Employee stock options granted between January 1, 2004 and December 31, 2007 were accounted for under the interpretations issued by the Accounting Research and Development Foundation (“ARDF”). Under the interpretations, the Company adopted the intrinsic value method. Employee stock options granted on or after January 1, 2008 are accounted for under SFAS No. 39, “Accounting for Share-based Payment.” Under SFAS No. 39, the Company adopted the fair value method.

Treasury Stock

The cost of shares purchased or fair value of shares donated by outside parties is charged to the treasury stock account.

Upon reissuance, the discrepancy between the cost of the treasury shares and the price received is reflected in stockholders’ equity accounts.

The Company’s stock held by subsidiaries is also treated as treasury stock.

Reclassifications

Certain accounts in the financial statements as of and for the year ended December 31, 2008 have been reclassified to conform to the presentation of the financial statements as of and for the year ended December 31, 2009.

3. CHANGES IN ACCOUNTING PRINCIPLES

Accounting for Inventories

On January 1, 2009, the Company adopted the newly revised SFAS No. 10, “Accounting for Inventories”. The adoption resulted in an increase of $91,057 thousand in net loss and an increase of $0.02 in after income tax basic loss per share for the year ended December 31, 2009. For comparison purposes, the Company also reclassified nonoperating losses of $414,217 thousand to cost of sales for the year ended December 31, 2008.

Accounting for Bonuses to Employees, Directors and Supervisors

In March 2007, the Accounting Research and Development Foundation (“ARDF”) issued Interpretation 2007-052 that requires companies to recognize as compensation expenses bonuses paid to employees, directors and supervisors beginning January 1, 2008. These bonuses were previously recorded as appropriations from earnings. The adoption of this interpretation didn’t result in material effect on the financial statements for the year ended December 31, 2008.

Accounting for Share-based Payments

On January 1, 2008, the Company adopted the newly released SFAS No. 39, “Accounting for Share-based Payment” to account for employee stock options. Thus, the Company recognized the compensation cost of employee stock options of $2,247 thousand for the year ended December 31, 2008.

4. CASH AND CASH EQUIVALENTS

	December 31	
	2009	2008
Cash on hand	$ 230	$ 230
Checking account	48,704	2,330
Demand deposit	125,625	289,332
Time deposit	2,297,835	4,774,646
Short-term bills	386,919	595,400
	$ 2,859,313	$ 5,661,938

Time deposits in the amounts of $74,389 thousand and $94,232 thousand as of December 31, 2009 and 2008, respectively, were pledged to secure purchase orders of materials and customs tariff obligations and are included in refundable deposits.

5. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2009	2008
Forward exchange contracts	$ 17,252	$ 16,025

For the years ended December 31, 2009 and 2008, the Company’s strategy for forward exchange contracts is to hedge its exposures to fluctuations of foreign exchange rate. The Company’s financial risk management objective is to hedge most of the market price risk and cash flows risk.

Outstanding forward exchange contracts as of December 31, 2009 and 2008 were summarized as follows:

	Currencies	Contract Expiration Date	Contract Amount (In Thousands)
December 31, 2009			
Sell forward exchange contracts	USD to NTD	2010.01.07-2010.03.04	US$38,000/NT$1,226,424
Sell forward exchange contracts	USD to JPY	2010.02.11-2010.02.25	US$5,000/JPY452,170
December 31, 2008			
Sell forward exchange contracts	USD to JPY	2009.01.08	US$2,000/JPY195,360
Buy forward exchange contracts	JPY to NTD	2009.01.22	JPY400,000/NT$136,000
Sell forward exchange contracts	USD to EUR	2009.01.15	US$2,000/EUR1,389
Sell forward exchange contracts	USD to NTD	2009.01.05-2009.02.05	US$23,000/NT$756,590

The transactions of financial instruments at fair value through profit or loss resulted in a net gain of $25,413 thousand and $72,187 thousand for the years ended December 31, 2009 and 2008, respectively.

6. NOTES AND ACCOUNTS RECEIVABLE

	December 31	
	2009	2008
Notes receivable	$ 5,186	$ 8,679
Less allowance for doubtful notes	-	(1,000)
	$ 5,186	$ 7,679
Accounts receivable	$ 2,457,114	$ 2,128,911
Less allowance for doubtful accounts	(280,000)	(621,000)
	$ 2,177,114	$ 1,507,911
Accounts receivable from related parties (Note 23)	$ 438,410	$ 413,108

7. INVENTORIES

	December 31	
	2009	2008
Finished goods	$ 870,177	$ 1,262,483
Work-in-process	3,506,310	2,453,074
Raw materials and supplies	125,780	141,974
Inventories in transit	13,327	9
	$ 4,515,594	$ 3,857,540

As of December 31, 2009 and 2008, the allowance for inventory devaluation was $465,893 thousand and $1,671,943 thousand, respectively.

Recovery gain and write-down of inventories to net realizable value in the amount of $1,171,197 thousand and $414,217 thousand, respectively, were included in the cost of sales for the years ended December 31, 2009 and 2008.

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31			
	2009		2008	
	Amount	Ownership Percentage	Amount	Ownership Percentage
Listed stocks				
Walton Advanced Engineering Inc.	$ 930,434	11	$ 281,404	14
Hannstar Display Corporation	847,894	2	1,131,442	5
Walsin Technology Corporation	226,244	2	72,241	2
Walsin Lihwa Corporation	-	-	428,755	2
Novatek Microelectronics Corporation	-	-	166,364	1

(Continued)

	December 31			
	2009		2008	
	Amount	Ownership Percentage	Amount	Ownership Percentage
Powertech Technology Inc.	$ -	-	$ 87,382	-
Asustek Computer Inc.	-	-	73,585	-
Etron Technology Inc.	-	-	25,091	1
	2,004,572		2,266,264	
Less current portion	(2,004,572)		(1,912,619)	
	$ -		$ 353,645	

(Concluded)

9. FINANCIAL ASSETS CARRIED AT COST

	December 31			
	2009		2008	
	Amount	Ownership Percentage	Amount	Ownership Percentage
Vita Genomic, Inc.	$ 58,634	3	$ 58,634	3
United Industrial Gases Co., Ltd.	-	-	154,867	8
Others	13,253	-	55,388	-
	$ 71,887		$ 268,889	

The Company's financial assets carried at cost do not have a quoted market price in an active market, and the fair value cannot be reliably measured. Impairment loss is evaluated periodically.

10. LONG-TERM EQUITY INVESTMENTS AT EQUITY METHOD

	December 31				
	2009			2008	
	Original Investment Cost	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage
Nuvoton Technology Corporation ("NTC")	$ 1,589,581	$ 1,851,362	75	$ 2,666,201	100
Winbond Int'l Corporation ("WIC")	2,729,616	1,564,705	100	1,568,548	100
Win Investment Corporation ("Win")	790,118	1,216,883	100	1,029,603	100
Landmark Group Holdings Ltd. ("Landmark")	1,206,576	187,988	100	146,156	100
Mobile Magic Design Corporation ("MMD")	50,000	39,499	100	34,188	100
Newfound Asian Corp. ("NAC")	208,960	1	100	1	100
Winbond Electronics (H.K.) Limited ("WEHK")	1,948	1	100	1	100
	$ 6,576,799	$ 4,860,439		$ 5,444,698	

Equity in gains (losses) of equity method investees was summarized as follows:

	Years Ended December 31	
	2009	2008
NTC	$ 400,865	$ (69,178)
WIC	(367,876)	(226,779)
Win	(122,767)	(71,327)
Landmark	(335,505)	(149,667)
MMD	4,487	2,928
NAC	(353)	(103,633)
WEHK	(15,037)	(13,732)
Marketplace Management Ltd. ("MML")	-	(50,319)
Pigeon Creek Holding Co., Ltd. ("PCH")	-	(173)
Nuvoton Investment Holding Ltd. ("NIH")	-	(366,087)
Nuvoton Electronics Technology (H.K.) Limited ("NTHK")	-	(14,258)
Cheertek Incorporation ("Cheertek")	-	(41,464)
	$ (436,186)	$ (1,103,689)

The investment income (loss) for the years ended December 31, 2009 and 2008 was based on the investees' financial statements audited by the auditors for the same except the financial statements of Nyquest Technology Co., Ltd. which is investee of NTC and CFP Technology Corp. which is investee of Win. Nyquest Technology Co., Ltd. and CFP Technology Corp. were audited by other auditors for the year ended December 31, 2009.

Adjustments to the long-term equity investments account and unrealized valuation loss on financial assets, which were recognized on the basis of the shareholders' equity of investees, are amounted to $144,121 thousand and $860,098 thousand as of December 31, 2009 and 2008.

For the specialization and division of labors and the reinforcement of core competitive ability, the Company spun off its Logic IC business and related assets and liabilities which amounted to $2,723,910 thousand into Nuvoton Technology Corporation ("NTC"), a subsidiary of the Company set up in April 2008, and then acquired 249,900 thousand shares of NTC's newly issued shares on July 1, 2008 according to Enterprise Mergers and Acquisitions Law of the ROC. Furthermore, the Company reorganized the structure of the whole group and transferred its Logic IC subsidiaries including NTHK, PCH, MML and NIH to NTC on July 1, 2008 to complete the spin-off project.

In June and November 2009, the Company sold 13,000 thousand shares and 40,000 thousand shares of NTC at $12 dollars and $18 dollars per share, respectively. The gain on this disposal was $243,408 thousand. Since partial disposal was made with subsidiary, the unrealized profit was eliminated (Please refer to note 23) and the other realized profit was recorded as a deduction of "non-operating expenses and losses-loss on disposal of investments" for the year ended December 31, 2009. Furthermore, in September 2009, NTC carried out a capital reduction through cash distribution, which represented approximately 24% of its outstanding shares. The Company reduced 56,880 thousand shares of NTC. As of December 31, 2009, the Company's investments in NTC were 149,666,360 shares with a 75% ownership interest.

Cheertek Incorporation ("Cheertek") was merged with Novatek Microelectronics Corporation ("Novatek") on June 30, 2008, with Cheertek as the terminated entity. Thus, 24,833,774 common shares of Cheertek owned by the Company were converted into 6,622,339 common shares of Novatek, equivalent to 1% ownership interest in Novatek, according to the exchange ratio. The Company recognized a gain on this transaction of $355,637 thousand, which was recorded in non-operating income and gains - gain on disposal of investments for the year ended December 31, 2008.

As of June 30, 2008, the unrealized gain on sale of the intangible assets of LCD Driver IC department to Cheertek in 2006, which amounted to $90,926 thousand, was recognized as non-operating income and gains - others for the year ended December 31, 2008 since Cheertek was terminated.

11. PROPERTY, PLANT AND EQUIPMENT

Accumulated depreciation of property, plant and equipment consisted of the following:

	December 31	
	2009	**2008**
Buildings and improvements	$ 3,324,724	$ 2,198,758
Machinery and equipment	26,540,077	25,690,211
Others	1,307,363	924,928
	$ 31,172,164	$ 28,813,897

Capitalized interest for the year ended December 31, 2009 and 2008 amounted to $34,987 thousand and $189,293 thousand, respectively. The interest rates of interest capitalized were 1.55%-1.81% and 3.33%-3.43%, respectively.

As of December 31, 2009, the carrying value of $33,762,768 thousand of 12-inch Fab manufacturing facilities was pledged to secure long-term debt. Please refer to Note 16.

In March 2007, the Company entered into an asset transfer agreement with Vanguard International Semiconductor Corporation ("VIS") to sell the 8-inch Fab (located in Li-Shin Rd.) facilities and manufacturing equipment for the price of $7,848 million. The closing date was on January 1, 2008. Net profit on this transaction amounted to $451 million, with lease-back profit of $135 million deferred and will be recognized in the future lease period, and the remainder of $316 million was recognized as gain on sale of property, plant and equipment for the year ended December 31, 2008.

12. INTANGIBLE ASSET

	December 31	
	2009	**2008**
Deferred technical assets, net	$ 1,530,973	$ 565,545

In connection with certain technical transfer agreements, the Company made technical transfer fee payments. Such deferred assets are amortized over three to five years from the commencement of production using the straight-line method and tested for impairment periodically.

13. SHORT-TERM BANK BORROWINGS

	2009		2008	
	Interest Rate %	**Amount**	**Interest Rate %**	**Amount**
Materials procurement loans	0.91-2.63	$ 273,169	1.32-4.24	$ 1,198,926
Bank lines of credit	1.61-2.42	1,052,000	1.93-3.84	1,415,000
		$ 1,325,169		$ 2,613,926

14. COMMERCIAL PAPER PAYABLE

	2009		2008
	Interest Rate %	Amount	Amount
Commercial paper payable	-	$ -	$ 300,000
Discount on commercial paper payable		-	(2,846)
		$ -	$ 297,154

15. BONDS PAYABLE

Overseas Convertible Bonds (III)

a. Date of issuance: May 24, 2006

b. Par value: US$1 thousand

c. Location of issuance: Issued overseas and listed on the Singapore Exchange Limited

d. Price of issuance: 100%

e. Total amount: US$120,000 thousand

f. Interest rate: 0%

g. Date of maturity: May 24, 2011

h. Provision of conversion option:

   The bonds are convertible into the Company's common shares at predetermined conversion price (at an exchange rate of US$1.00 to NT$31.49).

i. Conversion period: From June 23, 2006 to May 9, 2011

j. Conversion price: $13.69 dollars per share at the issuing date

k. Provision of request to redeem the bonds:

   1) Redemption at maturity

      Unless previously redeemed or converted or purchased and cancelled, the Company will redeem the Bonds at 100 percent of their principal amount in U.S. dollars on the Maturity Date.

   2) Redemption at the option of the Company

      The Company may redeem the Bonds (i) in whole or in part at any time on or after May 24, 2008 and prior to May 24, 2011, if the Closing Price of the Common Shares on the TSE translated into U.S. dollars at the Prevailing Rate for any 20 Trading Days out of a period of 30 consecutive Trading Days, is at least 125% of the Conversion Price then in effect translated into U.S. dollars at the rate of NT$31.49=US$1.00; or (ii) in whole but not in part at any time prior to May 24, 2011, if at least 90% in principal amount of the Notes has already been redeemed, converted or purchased and cancelled.

3) Redemption at the option of holders of the bonds

The Company will, at the option of the holder of any Bond, redeem all or some of that holder's Bonds on May 24, 2008, at 100 per cent of their principal amount in U.S. dollars.

l. According to SFAS No. 36, the Company has bifurcated the bonds into liability component and equity component. The bondholders had executed the redemption of the option on May 24, 2008. Thus, the Company had redeemed all the bonds and wrote-off the unamortized discount on bonds of $607,572 thousand and the put option of convertible bonds of $335,692 thousand. The loss on the redemption of $271,835 thousand was recorded as non-operating expenses and losses - others. Additionally, the capital surplus of conversion option, which amounted to $368,825 thousand was adjusted to capital surplus - others.

16. LONG-TERM DEBT

	December 31			
	2009			2008
	Period	Interest Rate %	Amount	Amount
Loan collateralized by 12-inch Fab equipment in Central Taiwan Science Park	2005.06.23-2010.06.23	1.66-2.23	$ 1,333,333	$ 4,000,000
Loan collateralized by 12-inch Fab and equipment in Central Taiwan Science Park	2005.12.29-2010.12.29	1.56-2.30	5,000,000	10,000,000
Chinatrust Commercial Bank syndication agreement (I)	2007.12.28-2011.12.28	3.43-3.91	5,000,000	5,000,000
Chinatrust Commercial Bank syndication agreement (II)	2008.06.27-2013.06.27	2.41-3.14	7,700,000	7,700,000
Bank of Taiwan syndication agreement	2009.07.27-2012.07.27	3.42	3,700,000	-
			22,733,333	26,700,000
Less current portion of long-term debt			(7,616,673)	(7,666,667)
			$ 15,116,660	$ 19,033,333

Loan Collateralized by 12-inch Fab Equipment in Central Taiwan Science Park

a. On January 24, 2005, the Company entered into a syndication agreement, amounting to $8 billion, with a group of financial institutions to procure equipment for 12-inch Fab.

b. The principal will be repaid every six months from December 23, 2007 until maturity.

c. Please refer to Note 11 for collateral on bank borrowing.

Loan Collateralized by 12-inch Fab and Equipment in Central Taiwan Science Park

a. On October 24, 2005, the Company entered into a syndication agreement, amounting to $15 billion, with a group of financial institutions to build plant factory and procure equipments for 12-inch Fab.

b. The principal will be repaid every six months from June 29, 2008 until maturity.

c. Please refer to Note 11 for collateral on bank borrowing.

Chinatrust Commercial Bank Syndication Agreement (I)

a. In September 2007, the Company entered into a syndication agreement, amounting to $5 billion, with a group of financial institutions to finance the working capital.

b. The principal will be repaid every six months from June 28, 2011 until maturity.

c. Please refer to Note 11 for collateral on bank borrowing.

Chinatrust Commercial Bank Syndication Agreement (II)

a. On June 4, 2008, the Company entered into a syndication agreement, amounting to $7.7 billion, with a group of financial institutions to procure equipment for 12-inch Fab.

b. The principal will be repaid every six months from December 27, 2010 until maturity.

c. Please refer to Note 11 for collateral on bank borrowing.

Bank of Taiwan Syndication Agreement

a. On July 15, 2009, the Company entered into a syndication agreement, amounting to $3.7 billion, with a group of financial institutions to fund the long-term loan payments and finance the working capital.

b. The principal will be repaid every three months from October 27, 2011 until maturity.

c. Please refer to Note 11 for collateral on bank borrowing and Note 23 for the joint guarantor.

The Company is required to maintain certain financial covenants, including current ratio, debt ratio and tangible net equity, on June 30 and December 31 during the tenors of the loans. Additionally, the principal and interest coverage ratio should be also maintained on December 31 during the tenors of the loans except for Bank of Taiwan syndication agreement which should be maintained on June 30 and December 31. The computations of financial ratios mentioned above are done based on the audited consolidated financial statements except that the semiannual financial ratios under the covenants of the loan collateralized by 12-inch fab equipment in Central Taiwan Science Park are calculated based on the audited semiannual financial statements. Although the tangible net equity, current ratio and the principal and interest coverage ratio on December 31, 2009 did not meet the requirements except Bank of Taiwan syndication agreement, the Company had obtained the waivers from the majority of banks in February 2010.

17. PENSION PLAN

The Company has defined contribution plan based on the "Labor Pension Act." According to the Act, the Company has made monthly contributions equal to 6% of each employee's monthly salaries to employee's individual pension accounts. Such pension costs were $62,000 thousand and $94,387 thousand for the years ended December 31, 2009 and 2008, respectively.

The Company has a defined benefit pension plan covering all eligible employees. Based on the Labor Standards Law of the Republic of China, the Company's policy is to fund the plan at 2% of employees' salaries and wages. The fund is administered by a Pension Fund Administration Committee and is deposited in the Bank of Taiwan in the committee's name.

Pension information on the defined benefit plan was summarized as follows:

a. The components of net pension cost:

	Years Ended December 31	
	2009	**2008**
Service cost	$ 20,462	$ 39,839
Interest cost	19,743	42,618
Expected return on plan assets	(12,488)	(26,085)
Amortization, net	6,037	8,569
Curtailment gain	(47,027)	(121,469)
Net pension gain	$ (13,273)	$ (56,528)

Curtailment gain was recorded as deduction of salary expense.

b. The assumptions used in determining the actuarial present value of the projected benefit obligation were as follows:

	December 31	
	2009	**2008**
Discount rate	2.25%	2.25%
Expected long-term rate of return on plan assets	1.50%	2.50%
Rate of increase in compensation	3.00%	3.00%-4.00%

c. Reconciliation of funded status of the plan and accrued pension liabilities was summarized as follows:

	December 31	
	2009	**2008**
Benefit obligation		
Vested benefit obligation	$ 183,623	$ 4,015
Accumulated benefit obligation	510,879	551,858
Projected benefit obligation	726,958	968,033
Funded status		
Projected benefit obligation	(726,958)	(968,033)
Fair value of plan assets	490,603	591,763
Funded status	(236,355)	(376,270)
Unrecognized net transition obligation	12,301	14,968
Unrecognized net gain	101,208	195,830
Accrued pension liabilities	$ (122,846)	$ (165,472)

18. STOCKHOLDERS' EQUITY

Common Stock

	December 31	
	2009	2008
Authorized capital		
Shares (in thousand shares)	6,700,000	6,700,000
Par value (in dollars)	$ 10	$ 10
Capital	$ 67,000,000	$ 67,000,000
Outstanding capital		
Shares (in thousand shares)	3,656,497	3,727,381
Par value (in dollars)	$ 10	$ 10
Capital	$ 36,564,972	$ 37,273,812

As of December 31, 2008, the balance of the Company's capital account amounted to $37,273,812 thousand, divided into 3,727,381,193 shares at par $10.00 dollars per share.

In February 2009, the Company reduced its capital by cancellation of its treasury stocks of 70,884,000 shares. As of December 31, 2009, the balance of the Company's capital account amounted to $36,564,972 thousand, divided into 3,656,497,193 shares at par $10.00 dollars per share. Walsin Lihwa is a major stockholder of the Company and held approximately 23% ownership interest in the Company as of December 31, 2009.

According to the Company Law of the ROC and the Company's Articles of Incorporation, the Company's annual net income (after income tax) should first be appropriated in the following order:

a. Offset any accumulated deficit;

b. Appropriate 10% of the remainder thereafter as a legal reserve until such reserve equals to the amount of common stock; and

c. Appropriate necessary special reserve as regulated by laws or domestic authorities.

Unappropriated earnings could be retained for operating needs, if necessary. The priority and the percentage of distribution as stipulated by the Company's Articles of Incorporation are as follows:

a. 2% as remuneration to directors and supervisors;

b. 11% as bonuses to employees;

c. The remainder, thereafter, as dividends and bonuses to stockholders.

The total amount of dividends and bonuses could be appropriated, in part or in whole, as general special reserve and then, be distributed.

The aforesaid bonuses to employees include the employees of subsidiaries meeting the conditions set by the board of Directors or, by the Company's chairman duly authorized by the board of directors.

On April 30, 2008, the Company's regular stockholders' meeting approved to offset deficits by legal reserve, special reserve, and additional paid-in capital amounted to $236,437 thousand, $151,358 thousand, and $4,818,337 thousand, respectively.

Treasury Stock

Treasury stock transactions for the year ended December 31, 2009 were summarized as follows:

Purpose of Purchase	Treasury Stock Held as of January 1, 2009	Increase During the Year	Decrease During the Year	Treasury Stock Held as of December 31, 2009
For transferring to the employees	33,884,000	-	33,884,000	-
To maintain the Company's credibility and shareholders' interest	37,000,000	-	37,000,000	-
Common shares held by subsidiaries	10,618,364	-	3,100,000	7,518,364
	81,502,364	-	73,984,000	7,518,364

Treasury stock transactions for the year ended December 31, 2008 were summarized as follows:

Purpose of Purchase	Treasury Stock Held as of January 1, 2008	Increase During the Year	Decrease During the Year	Treasury Stock Held as of December 31, 2008
For transferring to the employees	57,164,000	-	23,280,000	33,884,000
To maintain the Company's credibility and shareholders' interest	-	77,000,000	40,000,000	37,000,000
Common shares held by subsidiaries	10,618,364	-	-	10,618,364
	67,782,364	77,000,000	63,280,000	81,502,364

Securities and Exchange Law Article 28.2 stipulates that the number of treasury stock held by the Company shall not exceed 10% of the outstanding shares and the amount shall be no more than the total of retained earnings and realized capital surplus, such as additional paid-in capital.

As of December 31, 2008, the Company's subsidiary - Baystar Holding Ltd. (BHL) held 10,618,364 shares of the Company's common stock. In May 2009, BHL sold 3,100,000 shares of the Company's common stock resulting in a loss of $19,243 thousand, which was recorded as a deduction of "Capital Surplus - treasury stock transaction." As of December 31, 2009, BHL held 7,518,364 shares of the Company's common stock which amounted to $106,387 thousand. The shares held by BHL were treated as treasury stocks.

Under the Securities and Exchange Act, the Company shall neither pledge treasury stock nor exercise shareholders' rights on these shares, such as rights to dividends and to vote. The Company's stock held by subsidiaries is treated as treasury stock, and the holders are entitled to the rights of shareholders, except for the right to participate in the Company's share issuance for cash and vote in shareholders' meeting.

19. EMPLOYEE STOCK WARRANTS

In 2002, 2003, 2008 and 2009, the Board of Directors of the Company resolved to issue employee stock warrants within the quantity of 270,111 thousand, 4,034 thousand, 45,764 thousand, and 1,585 thousand units. Each individual employee stock warrant is granted the right to purchase the Company's new issued one common share. The warrants were granted to qualified employees of the Company and its subsidiaries. The warrants granted are valid for 5 or 6 years and exercisable at certain percentages after the second anniversary year from the grant date. The warrants were granted at an exercise price equal to the closing price of the Company's common shares listed on the Taiwan Stock Exchange on the grant date. For any subsequent changes in the Company's paid-in capital, the exercise price and the number of options are adjusted accordingly.

Employee stock warrants were summarized as follows:

	Years Ended December 31			
	2009		2008	
Employee Stock Warrants	**Number of Options (In Thousand)**	**Weighted Average Exercise Price (NT$)**	**Number of Options (In Thousand)**	**Weighted Average Exercise Price (NT$)**
Outstanding balance, beginning of year	45,719	$ 3.02	9,378	$ 21.79
Warrants granted	1,585	5.15	45,764	3.02
Warrants exercised	-	-	-	-
Warrants cancelled	-	-	-	-
Warrants expired	(3,917)	3.02	(9,423)	21.70
Outstanding balance, end of year	43,387	3.10	45,719	3.02
Warrants exercisable, end of year	-	-	-	-

Information about outstanding warrants were as follows:

December 31			
2009		2008	
Range of Exercise Price (NT$)	**Weighted Average Remaining Contractual Life (Years)**	**Range of Exercise Price (NT$)**	**Weighted Average Remaining Contractual Life (Years)**
$3.02-$6.46	3.85	$3.02	4.83

The Company used the fair value method to evaluate the option using Black-Scholes model, the assumptions and proforma result for the years ended December 31, 2009 and 2008 were as follow:

Grant-date share price (NT$)	$3.02-$6.46
Exercise price (NT$)	$3.02-$6.46
Expected volatility	52.03%-74.48%
Expected life (years)	3.75
Expected dividend yield	0%
Risk-free interest rate	0.94%-1.95%

Compensation cost recognized under the fair value method were $13,950 thousand and $2,247 thousand for the years ended December 31, 2009 and 2008, respectively.

20. PERSONNEL EXPENSE, DEPRECIATION, AND AMORTIZATION

	Year Ended December 31, 2009			
	Classified as Cost of Sales	Classified as Operation Expenses	Classified as Non-operation Expenses and Losses	Total
Personnel expense				
Salary	$ 940,043	$ 596,547	$ -	$ 1,536,590
Insurance	66,877	34,596	-	101,473
Pension	59,367	36,387	-	95,754
Others	8,583	4,132	-	12,715
	$ 1,074,870	$ 671,662	$ -	$ 1,746,532
Depreciation	$ 9,789,103	$ 107,046	$ -	$ 9,896,149
Amortization	$ -	$ 323,100	$ 21,583	$ 344,683

	Year Ended December 31, 2008			
	Classified as Cost of Sales	Classified as Operation Expenses	Classified as Non-operation Expenses and Losses	Total
Personnel expense				
Salary	$ 1,510,841	$ 1,008,695	$ -	$ 2,519,536
Insurance	95,453	49,827	-	145,280
Pension	94,331	64,815	-	159,146
Others	13,340	6,695	-	20,035
	$ 1,713,965	$ 1,130,032	$ -	$ 2,843,997
Depreciation	$ 8,213,510	$ 197,216	$ -	$ 8,410,726
Amortization	$ -	$ 712,766	$ 18,462	$ 731,228

21. INCOME TAX

Components of income tax credit (expense) were summarized as follows:

	Years Ended December 31	
	2009	2008
Current income tax credit	$ 1,684,000	$ 1,730,000
Deferred income tax assets and valuation allowance adjustment	(1,684,000)	(1,730,000)
Provision for income tax	$ -	$ -

Components of deferred income tax assets were as follows:

	Years Ended December 31	
	2009	2008
Deferred income tax assets		
Net operating loss carryforwards	$ 5,196,000	$ 4,339,000
Investment tax credits	4,723,000	7,439,000
Allowance for inventory devaluation losses	93,000	418,000
Allowance for doubtful accounts	50,000	149,000
Deferred technical assets	32,000	137,000
Unrealized exchange loss	1,000	20,000
Unrealized investment loss	10,000	13,000
Unrealized reserve for product guarantee	10,000	12,000
Deferred income	-	8,000
Unrealized profit on intercompany sales	-	3,000
Deferred income tax assets	10,115,000	12,538,000
Less valuation allowance	(6,370,000)	(8,792,000)
	3,745,000	3,746,000
Deferred income tax liabilities		
Unrealized gain on financial instruments	(3,000)	(4,000)
Deferred income tax assets, net	3,742,000	3,742,000
Deferred income tax assets, current (under other current assets)	(141,000)	(586,000)
Deferred income tax assets, noncurrent (under other assets)	$ 3,601,000	$ 3,156,000

In May 2009, the amendment of Article 5 of the Income Tax Law, which reduces a profit-seeking enterprise's income tax rate from 25% to 20%, effective 2010. The Company recalculated its deferred tax assets and liabilities in accordance with the amended Article.

Reconciliation of income tax credit and operating loss carryforwards was as follows:

	Years Ended December 31	
	2009	2008
Income tax credit at statutory rate	$ 2,153,000	$ 1,841,000
Increase (decrease) in tax resulting from		
Unrealized investment loss	(97,000)	(293,000)
Tax-exempt (loss) income on disposal of domestic investments	(384,000)	46,000
Dividend income	-	85,000
Others	12,000	51,000
Current income tax credit	1,684,000	1,730,000
Provision for deferred tax assets	516,000	(282,000)
Operating loss carryforwards	$ 2,200,000	$ 1,448,000

The Company's investment tax credits and operating loss carryforwards as of December 31, 2009 were as follows:

Expiry Year	Investment Tax Credits	Operating Loss Carryforwards
2010	$ 1,840,000	$ -
2011	1,037,000	-
2012	1,248,000	-
2013	598,000	821,000
2014-2018	-	4,375,000
	$ 4,723,000	$ 5,196,000

The information of the integrated income tax were as follows:

	December 31	
	2009	2008
Balance of Imputation Credit Account	$ 89,416	$ 88,089
Undistributed earnings for the years of 1997 and before	$ -	$ -
Undistributed deficit for the years of 1998 and thereafter	$ (15,977,842)	$ (7,364,903)

The Company's income tax returns through 2007 have been examined and approved by the tax authority.

As of December 31, 2009, the Company has tax refund receivable under other assets - others amounted to $22,162 thousand which occurred in 2009 and years prior to 2009.

22. LOSS PER SHARE

	Years Ended December 31			
	2009		2008	
	Before Tax	After Tax	Before Tax	After Tax
Basic loss per share (NT$)	$ (2.36)	$ (2.36)	$ (2.00)	$ (2.00)

Calculation of loss per share was summarized as follows:

	Year Ended December 31, 2009				
	Amount			Loss Per Share (NT$)	
	Before Tax	After Tax	Shares (In Thousands)	Before Tax	After Tax
Basic loss per share					
Net loss attributed to common shareholders	$ (8,612,939)	$ (8,612,939)	3,647,945	$ (2.36)	$ (2.36)

	Year Ended December 31, 2008				
	Amount			Loss Per Share (NT$)	
	Before Tax	After Tax	Shares (In Thousands)	Before Tax	After Tax
Basic loss per share					
Net loss attributed to common shareholders	$(7,364,903)	$(7,364,903)	3,674,286	$ (2.00)	$ (2.00)

23. RELATED PARTY TRANSACTIONS

The names and relationships of related parties are as follows:

Related Party	Relationship with the Company
Walsin Lihwa Corporation ("Walsin")	Walsin's chairman is one of the immediate family members of the Company's chairman and Walsin holds a 23% ownership in the Company as of December 31, 2009
Winbond Electronics (H.K.) Limited ("WEHK")	The Company holds a 100% ownership interest directly
Mobile Magic Design Corporation ("MMD")	The Company holds a 100% ownership interest directly
Cheertek Incorporation ("Cheertek")	The Company holds a 24% ownership interest directly and 1% ownership interest indirectly (merged by Novatek Microelectronics Corporation and terminated on June 30, 2008)
Winbond Electronics Corporation America ("WECA")	The Company holds a 100% ownership interest indirectly
Winbond Electronics Corporation Japan ("WECJ")	The Company holds a 100% ownership interest indirectly
Winbond Int'l Corporation ("WIC")	The Company holds a 100% ownership interest directly
Win Investment Corporation ("WIN")	The Company holds a 100% ownership interest directly
Nuvoton Technology Corporation ("NTC")	The Company holds a 75% ownership interest directly and 2% ownership interest indirectly
Nuvoton Electronics Technology (H.K.) Limited ("NTHK")	NTC's subsidiary
Hannstar Display Corporation ("Hannstar Display")	Hannstar Display's chairman is one of the immediate family members of the Company's chairman
Prosperity Dielectrics Co. Ltd. ("Prosperity Dielectrics")	Prosperity Dielectrics's chairman is one of the immediate family members of the Company's chairman
Walton Advanced Engineering Inc. ("Walton")	Walton's chairman is one of the immediate family members of the Company's chairman. The Company is a director of Walton.
Walsin Technology Corporation ("WTC")	WTC's chairman is one of the immediate family members of the Company's chairman. The Company is a supervisor of WTC.
Walton Chaintech Corp. ("Walton Chaintech")	Related party in substance
Robert Hsu	The Company's managing director

Major transactions with related parties were summarized below:

Sales

	Years Ended December 31	
	2009	**2008**
WEHK	$ 2,671,457	$ 779,680
Walton Chaintech	1,102,860	-
WECJ	1,046,610	1,413,176
WECA	476,109	357,957
NTHK	-	2,106,944
Others	75,298	22,892
	$ 5,372,334	$ 4,680,649

Purchase

	Years Ended December 31	
	2009	**2008**
NTC	$ 123,019	$ 93,876

Manufacturing Expenses

	Years Ended December 31	
	2009	**2008**
Walton	$ 1,416,702	$ 808,179
MMD	9,959	3,251
	$ 1,426,661	$ 811,430

Selling Expenses

	Years Ended December 31	
	2009	**2008**
WECJ	$ 32,419	$ 25,383

General and Administrative Expenses

	Years Ended December 31	
	2009	**2008**
Walsin	$ 7,631	$ 8,700
Others	-	9
	$ 7,631	$ 8,709

Research and Development Expenses

	Years Ended December 31	
	2009	2008
MMD	$ 128,431	$ 87,114
NTC	2,750	4,068
	$ 131,181	$ 91,182

Service Revenue (Recorded as "Non-operating Income and Gains - Others")

	Years Ended December 31	
	2009	2008
NTC	$ 799	$ 694
Cheertek	-	436
Others	396	396
	$ 1,195	$ 1,526

Notes and Accounts Receivable

	December 31	
	2009	2008
WEHK	$ 281,782	$ 173,781
Walton Chaintech	98,881	-
NTC	33,162	246
WECJ	13,304	140,353
WECA	11,217	98,615
Others	64	113
	$ 438,410	$ 413,108

Other Financial Assets, Current and Other Current Assets

	December 31	
	2009	2008
NTC	$ 5,949	$ 20,205

Notes and Accounts Payable

	December 31	
	2009	2008
Walton	$ 752,723	$ 106,138
Walsin	2,496	-
NTC	-	14,187
	$ 755,219	$ 120,325

Other Payables and Other Current Liabilities

	December 31	
	2009	2008
MMD	$ 59,210	$ 28,966
WECA	15,491	6,568
WECJ	7,708	3,600
Walton	2,567	39,567
NTC	139	5,156
NTHK	-	3,562
Others	1,237	1,351
	$ 86,352	$ 88,770

Deposits Received

	December 31	
	2009	2008
Hannstar Display	$ 1,695	$ 1,695
WTC	1,695	1,695
Others	1,705	1,695
	$ 5,095	$ 5,085

The related party transactions were conducted under normal terms.

Financing

Financing from related-party was summarized as follows:

	Year Ended December 31, 2009			
	Maximum Balance	Ending Balance	Interest Rate %	Interest Expense
WECA	$ 450,380	$ -	2.82-3.02	$ 4,865

Stock Transactions

The Company's sale of investment to related parties in 2009 was summarized as follows:

Related Party	Securities Name	Shares	Selling Price	Disposal Income
Win	United Industrial Gases Co., Ltd.	13,426,351	$ 233,587	$ 78,720
Win	NTC	5,000,000	89,730	28,651
Walton	NTC	2,000,000	35,892	11,630
Prosperity Dielectrics	NTC	1,000,000	17,946	5,730
Robert Hsu	NTC	450,000	5,384	417
			$ 382,539	$ 125,148

a. The above selling price were determined in accordance with the investee's net value.

b. The Company deferred the gain on disposal of investment to Win amount of $108,303 thousand, and recorded as "other liabilities-other" as of December 31, 2009.

Property Transactions

The Company's sale of property to related parties in 2009 was summarized as follows:

Related Party	Sales Items	Selling Price	Carrying Value	Disposal Income (Loss)
Walton	Machinery and equipment	$ 74,452	$ 81,887	$ (7,435)
NTC	Machinery and equipment	120	-	120
		$ 74,572	$ 81,887	$ (7,315)

The Company's sale of property to related parties in 2008 was summarized as follows:

Related Party	Sales Items	Selling Price	Carrying Value	Disposal Income
Cheertek	Machinery and equipment	$ 3,257	$ 2,847	$ 410

Guarantee

a. Please refer to Note 25.

b. As of December 31, 2009, the chairman of the Company is a joint guarantor of the long-term debt - Bank of Taiwan syndication agreement. Please refer to Note 16.

Compensation information of directors, supervisors, and management personnel

	Years Ended December 31	
	2009	2008
Salary	$ 50,210	$ 39,002
Bonus and special compensation	8,178	12,705
	$ 58,388	$ 51,707

24. PLEDGED AND COLLATERALIZED ASSET

Please refer to Note 4, Note 11 and Note 16.

25. COMMITMENTS AND CONTINGENCIES

Letters of Credit

Amounts available under unused letters of credit as of December 31, 2009 were approximately US$15,026 thousand, JPY692,480 thousand and EUR569 thousand.

Guarantee

As of December 31, 2009, the Company guaranteed $300,000 thousand and $50,602 thousand for its related parties, Win and NTC, respectively.

Agreements

In August 2009, the Company entered into an agreement with a non-related party to obtain license rights on certain patents, know-how and software to design, manufacture and sell graphic DRAM products and expand the licensing scope under the existing license agreement for 65-90nm technology.

26. DISCLOSURES FOR FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

Carrying value and fair value of financial instruments were summarized as follows:

	December 31			
	2009		2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Nonderivative financial instruments				
Assets				
Available-for-sale financial assets, current and noncurrent	$ 2,004,572	$ 2,004,572	$ 2,266,264	$ 2,266,264
Liabilities				
Long-term debt (including current portion)	22,733,333	22,733,333	26,700,000	26,700,000
Derivative financial instruments				
Financial assets at fair value through profit or loss, current				
Forward exchange contracts	17,252	17,252	16,025	16,025

Methods and assumptions used in determining fair value of financial instruments were summarized as follows:

a. The fair value of cash and cash equivalents, notes and accounts receivable, other financial assets, refundable deposits, short-term bank borrowings, commercial paper payable, notes and accounts payable, and other payables, approximates their carrying value due to the short-term maturities of these financial instruments.

b. The fair value of financial instruments at fair value through profit or loss and available-for-sale financial assets is quoted by market price. The fair value of forward exchange contracts is measured, according to its specific contract's settlement rate, by the middle exchange rate and the discount rate quoted by Reuters. The fair value of foreign exchange option contracts is measured, according to its specific contract's settlement rate, by the discount rate and volatility quoted by underwriting bank.

c. The Company's financial assets carried at cost do not have a quoted market price in an active market, and the fair value cannot be reliably measured.

d. The fair values of long-term debt are estimated by discounted cash flow analysis, based on the Company's current rates for long- term borrowings with similar types. As of December 31, 2009 and 2008, the discount rates used in determining the fair values were 2.98% and 3.08%, respectively.

The fair value of financial instruments that used the quoted market price in active market or other method of valuation is summarized as follows:

	December 31, 2009		
	Quoted Market Price in Active Market	Other Method of Valuation	Total
Assets			
Financial assets at fair value through profit or loss, current	$ -	$ 17,252	$ 17,252
Available-for-sale financial assets, current	2,004,572	-	2,004,572

	December 31, 2008		
	Quoted Market Price in Active Market	Other Method of Valuation	Total
Assets			
Financial assets at fair value through profit or loss, current	$ -	$ 16,025	$ 16,025
Available-for-sale financial assets, current	1,912,619	-	1,912,619
Available-for-sale financial assets, noncurrent	353,645	-	353,645

Valuation gains (losses) arising from changes in fair value of financial instruments determined using valuation techniques were $1,227 thousand and ($65,852) thousand for the years ended December 31, 2009 and 2008, respectively.

As of December 31, 2009, financial assets and liabilities exposure to cash flow risk that resulted from interest rate changes amounted to $194,389 thousand and $17,913,333 thousand, respectively. Financial assets and liabilities exposure to fair value risk that resulted from interest rate changes amounted to $2,564,754 thousand and $6,145,169 thousand, respectively, as of December 31, 2009.

Adjustment of stockholders’ equity due to the fair value changes of available-for-sale financial assets amounted to $110,256 thousand as of December 31, 2009.

Financial Risk Information

a. Market risk

All the derivative financial instruments the Company entered into are forward exchange contracts in order to hedge changes in fair value of foreign-currency assets and liabilities. The fair value of forward exchange contracts will fluctuate because of changes in foreign exchange rates.

b. Credit risk

The Company is exposed to the credit risk that counter-parties or third-parties may breach the contracts. The risk results from the concentrations of credit risk, elements, contract price, and accounts receivable. The Company requested its major transaction parties to provide collaterals or other rights to reduce such risk.

c. Liquidity risk

The Company has sufficient operating capital to meet the cash demand for the contracts. Thus, the fund-raising and cash flow risks are not material.

d. Cash flow risk on change of interest rate

The Company's long-term debt is with floating interest rate. Effective rate and future cash flow of the Company will fluctuate as a result of changes in market interest rate. If the market interest rate increases by 1%, the cash outflow will increase by $179,133 thousand per year.

27. FOREIGN SALES AND MAJOR CUSTOMERS

	Years Ended December 31	
	2009	**2008**
Asia	$ 10,984,578	$ 9,896,027
Europe	1,648,490	7,478,067
America	727,835	384,648
Others	-	2,090
	$ 13,360,903	$ 17,760,832
Percentage to total net sales	68%	81%

The major customers that accounted for 10% or more of the Company's sales were as follows:

	Years Ended December 31	
	2009	**2008**
WEHK	$ 2,671,457	$ 779,680
Customer H	404,981	6,319,114
NTHK	-	2,106,944
	$ 3,076,438	$ 9,205,738
Percentage to total net sales	16%	42%