Winbond Electronics Corporation

Financial Statements for the
Years Ended December 31, 2010 and 2009 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, 2010 and 2009, 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 years ended December 31, 2010 and 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$21,598 thousand and NT$49,935 thousand which constituted 0.03% and 0.08%, of total assets as of December 31, 2010 and 2009, respectively; investment income amounted to NT$1,577 thousand and NT$6,417 thousand which constituted 0.04% and (0.07%) of income (loss) before income tax for the years then ended, respectively.

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, 2010 and 2009, 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, 2010 and 2009, 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 dated March 4, 2011.

March 4, 2011

Notice to Readers

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, 2010 AND 2009
(In Thousands of New Taiwan Dollars)

ASSETS	**2010 Amount**	**%**	**2009 Amount**	**%**
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 4)	$ 4,231,453	7	$ 2,859,313	5
Financial assets at fair value through profit or loss, current (Notes 2 and 5)	56,106	-	17,252	-
Available-for-sale financial assets, current (Notes 2 and 8)	1,318,675	2	2,004,572	3
Notes receivable, net (Notes 2 and 6)	1,352	-	5,186	-
Accounts receivable, net (Notes 2 and 6)	3,048,128	5	2,177,114	3
Accounts receivable from related parties, net (Notes 6 and 21)	421,556	1	438,410	1
Other financial assets, current	75,444	-	90,385	-
Inventories (Notes 2 and 7)	5,365,848	8	4,515,594	7
Deferred income tax assets, current (Notes 2 and 19)	124,000	-	141,000	-
Other current assets	450,422	1	584,984	1
Total current assets	15,092,984	24	12,833,810	20
FUND AND INVESTMENTS				
Financial assets carried at cost, noncurrent (Notes 2 and 9)	71,887	-	71,887	-
Long-term equity investments at equity method (Notes 2 and 10)	5,116,679	8	4,860,439	8
Total fund and investments	5,188,566	8	4,932,326	8
PROPERTY, PLANT AND EQUIPMENT (Notes 2 and 11)				
Cost				
Land	799,147	1	799,147	1
Buildings	15,893,685	25	15,274,748	23
Machinery and equipment	59,490,856	93	54,105,673	83
Other equipment	2,763,623	5	2,406,353	4
Total cost	78,947,311	124	72,585,921	111
Accumulated depreciation	(40,368,920)	(64)	(31,172,164)	(48)
Construction in progress and prepayments on purchase of equipment	54,930	-	635,242	1
Property, plant and equipment, net	38,633,321	60	42,048,999	64
INTANGIBLE ASSETS (Notes 2 and 12)	1,059,078	2	1,530,973	2
OTHER ASSETS				
Refundable deposits	76,004	-	102,636	-
Deferred income tax assets, noncurrent (Notes 2 and 19)	3,618,000	6	3,601,000	6
Others	121,605	-	112,916	-
Total other assets	3,815,609	6	3,816,552	6
TOTAL	$ 63,789,558	100	$ 65,162,660	100

LIABILITIES AND STOCKHOLDERS' EQUITY	**2010 Amount**	**%**	**2009 Amount**	**%**
CURRENT LIABILITIES				
Short-term bank borrowings (Note 13)	$ 1,551,815	2	$ 1,325,169	2
Notes payable	1,137,439	2	1,261,044	2
Accounts payable	1,990,706	3	2,694,142	4
Payable on equipment	1,080,094	2	1,527,732	2
Accrued expenses and other payables	1,551,832	3	1,411,731	2
Current portion of long-term liabilities (Note 14)	8,491,670	13	7,616,673	12
Other current liabilities	82,147	-	18,176	-
Total current liabilities	15,885,703	25	15,854,667	24
LONG-TERM LIABILITIES				
Long-term debt (Note 14)	10,124,990	16	15,116,660	23
OTHER LIABILITIES				
Accrued pension liabilities (Notes 2 and 15)	139,041	-	122,846	-
Reserve for product guarantee (Note 2)	59,943	-	47,985	-
Other liabilities - others	138,744	-	166,465	1
Total other liabilities	337,728	-	337,296	1
Total liabilities	26,348,421	41	31,308,623	48
STOCKHOLDERS' EQUITY				
Common stock (Note 16)	36,693,502	58	36,564,972	56
Capital surplus				
Paid-in capital in excess of par - common stock	-	-	10,786,697	16
Treasury stock transaction	1,971,862	3	1,971,862	3
Adjustment on long-term equity investments under equity method	23,912	-	37,424	-
Stock option (Notes 2 and 17)	20,104	-	16,196	-
Others	288,066	1	368,825	1
Retained earnings				
Accumulated deficit	(1,640,149)	(3)	(15,977,842)	(24)
Other equity				
Cumulative translation adjustments (Note 2)	242,163	-	446,667	1
Unrealized loss on financial instruments (Note 2)	(51,936)	-	(254,377)	(1)
Treasury stock (Notes 2 and 16)	(106,387)	-	(106,387)	-
Total stockholders' equity	37,441,137	59	33,854,037	52
TOTAL	$ 63,789,558	100	$ 65,162,660	100

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

(With Deloitte & Touche audit report dated March 4, 2011)

WINBOND ELECTRONICS CORPORATION

STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2010 AND 2009
(In Thousands of New Taiwan Dollars, Except Earnings (Loss) Per Share)

	2010		2009	
	Amount	**%**	**Amount**	**%**
NET SALES	$ 31,855,462	100	$ 19,532,712	100
COST OF SALES (Note 7)	25,593,074	80	22,494,628	115
(UNREALIZED) REALIZED INTERCOMPANY PROFIT	(188)	-	13,976	-
GROSS PROFIT (LOSS)	6,262,200	20	(2,947,940)	(15)
OPERATING EXPENSES				
Selling expenses	438,996	1	1,059,143	6
General and administrative expenses	545,405	2	459,401	2
Research and development expenses	2,119,075	7	1,528,193	8
Total operating expenses	3,103,476	10	3,046,737	16
INCOME (LOSS) FROM OPERATIONS	3,158,724	10	(5,994,677)	(31)
NON-OPERATING INCOME AND GAINS				
Interest income	13,902	-	14,623	-
Investment income recognized under equity method (Note 10)	412,573	1	-	-
Investment income	5,754	-	6	-
Gain on sale of property, plant and equipment (Note 2)	37,997	-	11,755	-
Gain on disposal of investments (Note 10)	678,307	2	-	-
Gain on valuation of financial instruments (Note 5)	111,512	1	25,413	-
Others	24,289	-	79,120	1
Total non-operating income and gains	1,284,334	4	130,917	1
NON-OPERATING EXPENSES AND LOSSES				
Interest expense	602,251	2	654,956	4
Investment loss recognized under equity method (Note 10)	-	-	436,186	2
Loss on disposal of property, plant and equipment (Note 2)	18,020	-	49,643	-
Loss on disposal of investments	-	-	1,535,474	8
Foreign exchange loss (Note 2)	231,372	1	16,320	-
Others	40,419	-	56,600	-
Total non-operating expenses and losses	892,062	3	2,749,179	14

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WINBOND ELECTRONICS CORPORATION

STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2010 AND 2009
(In Thousands of New Taiwan Dollars, Except Earnings (Loss) Per Share)

	2010		2009	
	Amount	**%**	**Amount**	**%**
INCOME (LOSS) BEFORE INCOME TAX	$ 3,550,996	11	$ (8,612,939)	(44)
CREDIT FOR INCOME TAX (Notes 2 and 19)	-	-	-	-
NET INCOME (LOSS)	$ 3,550,996	11	$ (8,612,939)	(44)

	2010		2009	
	Before Income Tax	**After Income Tax**	**Before Income Tax**	**After Income Tax**
EARNINGS (LOSS) PER SHARE (Notes 2 and 20)				
Basic earnings (loss) per share	$ 0.97	$ 0.97	$ (2.36)	$ (2.36)
Diluted earnings (loss) per share	$ 0.97	$ 0.97	$ -	$ -

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

(With Deloitte & Touche audit report dated March 4, 2011) (Concluded)

WINBOND ELECTRONICS CORPORATION

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2010 AND 2009
(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	Accumulated Deficit	Cumulative Translation Adjustments	Unrealized Loss on Financial Instruments	Treasury Stock	Total
BALANCE, JANUARY 1, 2009	$ 37,273,812	$ 10,995,806	$ 1,544,992	$ 96,059	$ 2,246	$ 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)
Changes in translation adjustments	-	-	-	-	-	-	-	(72,424)	-	-	(72,424)
Changes in unrealized loss on financial instruments	-	-	-	-	-	-	-	-	4,305,153	-	4,305,153
Capital surplus from investee under equity method	-	-	-	869	-	-	-	-	-	-	869
Adjustment to capital surplus due to disposal of investments	-	-	-	(59,504)	-	-	-	-	-	-	(59,504)
Subsidiary dispose treasury stock (Note 16)	-	-	(19,243)	-	-	-	-	-	-	43,866	24,623
Cancellation of treasury stock	(708,840)	(209,109)	446,113	-	-	-	-	-	-	471,836	-
Compensation cost of employee stock options	-	-	-	-	13,950	-	-	-	-	-	13,950
BALANCE, DECEMBER 31, 2009	36,564,972	10,786,697	1,971,862	37,424	16,196	368,825	(15,977,842)	446,667	(254,377)	(106,387)	33,854,037
Offsetting accumulated deficit (Note 16)	-	(10,786,697)	-	-	-	-	10,786,697	-	-	-	-
Net income for 2010	-	-	-	-	-	-	3,550,996	-	-	-	3,550,996
Changes in translation adjustments	-	-	-	-	-	-	-	(204,504)	-	-	(204,504)
Changes in unrealized loss on financial instruments	-	-	-	-	-	-	-	-	202,441	-	202,441
Capital surplus from investee under equity method	-	-	-	2,688	-	-	-	-	-	-	2,688
Adjustment to capital surplus due to disposal of investments	-	-	-	(16,200)	-	-	-	-	-	-	(16,200)
Issuance of stock from exercising employee stock options (Note 16)	128,530	-	-	-	(8,955)	(80,759)	-	-	-	-	38,816
Compensation cost of employee stock options	-	-	-	-	12,863	-	-	-	-	-	12,863
BALANCE, DECEMBER 31, 2010	$ 36,693,502	$ -	$ 1,971,862	$ 23,912	$ 20,104	$ 288,066	$ (1,640,149)	$ 242,163	$ (51,936)	$ (106,387)	$ 37,441,137

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

(With Deloitte & Touche audit report dated March 4, 2011)

WINBOND ELECTRONICS CORPORATION

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2010 AND 2009
(In Thousands of New Taiwan Dollars)

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ 3,550,996	$ (8,612,939)
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation	10,325,474	9,896,149
Amortization	493,533	344,683
Loss on bad debt	12,000	665,034
Loss on (recovery from) decline in market value and obsolescence and abandonment of inventories	55,225	(1,171,197)
(Gain) loss on disposal of investments, net	(678,307)	1,535,474
Investment (income) loss recognized under equity method, net	(412,573)	436,186
Cash dividends from equity method investees	249,367	-
Net (gains) losses on disposal of property, plant and equipment	(19,977)	37,888
Loss on (recovery from) obsolescence of spare parts	153	(85)
Compensation cost of employee stock options	12,863	13,950
Net changes in operating assets and liabilities		
Financial assets at fair value through profit or loss, current	(38,854)	(1,227)
Notes receivable	3,834	3,493
Accounts receivable	(883,014)	(1,335,237)
Accounts receivable from related parties	19,730	(39,560)
Other financial assets, current	14,941	998
Inventories	(905,479)	513,143
Other current assets	134,562	72,678
Other assets	(3,696)	51,067
Notes payable	(123,605)	829,930
Accounts payable	(703,436)	1,168,524
Accrued expenses and other payables	140,101	392,921
Other current liabilities	63,971	(45,178)
Other liabilities	22,320	(144,031)
Net cash provided by operating activities	11,330,129	4,612,664
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of property, plant and equipment	(7,376,431)	(4,215,898)
Acquisition of long-term investments under equity method	(393,247)	(389,532)
Proceeds from return of capital by long-term investment under equity method	-	591,115
Proceeds from return of capital by financial assets carried at cost	-	31,024
Proceeds from disposal of long-term investments under equity method	1,229,740	873,372
Proceeds from disposal of available-for-sale financial assets	394,339	2,034,249
Proceeds from disposal of financial assets carried at cost	-	252,515
Proceeds from disposal of property, plant and equipment	38,821	248,972
Payments for intangible assets	-	(1,288,528)
Net cash used in investing activities	(6,106,778)	(1,862,711)

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WINBOND ELECTRONICS CORPORATION

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2010 AND 2009
(In Thousands of New Taiwan Dollars)

	2010	2009
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in short-term bank borrowings	$ 226,646	$ (1,288,757)
Decrease in commercial paper payable	-	(297,154)
Proceeds from long-term debt	3,500,000	3,700,000
Repayment of long-term debt	(7,616,673)	(7,666,667)
Proceeds from exercise of employee stock options	38,816	-
Net cash used in financing activities	(3,851,211)	(5,552,578)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,372,140	(2,802,625)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,859,313	5,661,938
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 4,231,453	$ 2,859,313
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid for interest during the year	$ 653,198	$ 708,667
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Current portion of long-term liabilities	$ 8,491,670	$ 7,616,673
Cumulative translation adjustments	$ (204,504)	$ (72,424)
Unrealized gain on financial instruments	$ 202,441	$ 4,305,153
Adjustment to capital surplus due to disposal of investments	$ (16,200)	$ (59,504)
Capital surplus from investee under equity method	$ 2,688	$ 869
Cancellation of treasury stock	$ -	$ 471,836
CASH PAYMENT FOR ACQUISITIONS OF PROPERTY, PLANT AND EQUIPMENT		
Net increase in acquisition of property, plant and equipment	$ 6,928,793	$ 3,657,863
Add payable for property, plant and equipment, beginning of year	1,527,732	2,085,767
Less payable for property, plant and equipment, end of year	(1,080,094)	(1,527,732)
Cash payment for acquisitions of property, plant and equipment	$ 7,376,431	$ 4,215,898

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

(With Deloitte & Touche audit report dated March 4, 2011) (Concluded)

WINBOND ELECTRONICS CORPORATION

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.

There are 1,839 and 1,732 employees in the Company as of December 31, 2010 and 2009, 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. Inventories are stated at the lower of cost or net realizable value. Inventory write-downs are made on item-by-item basis. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and necessary selling cost.

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.

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

Property, plant and equipment still in use beyond their original estimated useful lives are further depreciated over their newly estimated useful lives.

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.

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.

Earnings (Loss) Per Share

Basic earnings (loss) per share is calculated by dividing net income (loss) applicable to common stock by the weighted average number of shares outstanding. For a diluted basis, net earnings and shares outstanding are adjusted for diluted potential common stock.

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.

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.

4. CASH AND CASH EQUIVALENTS

	December 31	
	2010	2009
Cash on hand	$ 230	$ 230
Checking account	1,651	48,704
Demand deposit	182,525	125,625
Time deposit	3,084,675	2,297,835
Short-term bills	962,372	386,919
	$ 4,231,453	$ 2,859,313

Time deposits in the amounts of $74,799 thousand and $74,389 thousand as of December 31, 2010 and 2009, 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	
	2010	2009
Forward exchange contracts	$ 56,106	$ 17,252

For the years ended December 31, 2010 and 2009, 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, 2010 and 2009 were summarized as follows:

	Currencies	Contract Expiration Date	Contract Amount (In Thousands)
December 31, 2010			
Sell forward exchange contracts	USD to NTD	2011.01.06-2011.02.10	US$58,000/NT$1,738,941
Sell forward exchange contracts	NTD to USD	2011.02.10	NT$148,375/US$5,000
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

The transactions of financial instruments at fair value through profit or loss resulted in net gains of $111,512 thousand and $25,413 thousand for the years ended December 31, 2010 and 2009, respectively.

6. NOTES AND ACCOUNTS RECEIVABLE

	December 31	
	2010	2009
Notes receivable	$ 1,352	$ 5,186
Accounts receivable	$ 3,340,128	$ 2,457,114
Less allowance for doubtful accounts	(292,000)	(280,000)
	$ 3,048,128	$ 2,177,114
Accounts receivable from related parties (Note 21)	$ 421,556	$ 438,410

7. INVENTORIES

	December 31	
	2010	2009
Finished goods	$ 1,565,163	$ 870,177
Work-in-process	3,655,389	3,506,310
Raw materials and supplies	145,296	125,780
Inventories in transit	-	13,327
	$ 5,365,848	$ 4,515,594

As of December 31, 2010 and 2009, the allowance for inventory devaluation was $519,382 thousand and $465,893 thousand, respectively.

Write-down loss and recovery gain of inventories of $55,225 thousand and $1,171,197 thousand were included in the cost of sales for the years ended December 31, 2010 and 2009, respectively.

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS - CURRENT

	December 31			
	2010		2009	
	Amount	Ownership Percentage	Amount	Ownership Percentage
Listed stocks				
Walton Advanced Engineering Inc.	$ 750,940	10	$ 930,434	11
Hannstar Display Corporation	345,971	1	847,894	2
Walsin Technology Corporation	221,764	2	226,244	2
	$ 1,318,675		$ 2,004,572	

9. FINANCIAL ASSETS CARRIED AT COST

	December 31			
	2010		2009	
	Amount	Ownership Percentage	Amount	Ownership Percentage
YH Bio Explore & Application Co., Ltd. (“Previously Vita Genomic Inc.”)	$ 45,200	3	$ 58,634	3
Vita Genomic, Inc.	13,434	3	-	-
Others	13,253	-	13,253	-
	$ 71,887		$ 71,887	

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				
	2010			2009	
	Original Investment Cost	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage
Nuvoton Technology Corporation (“NTC”)	$ 1,107,408	$ 1,807,858	61	$ 1,851,362	75
Win Investment Corporation (“Win”)	790,118	1,583,389	100	1,216,883	100
Winbond Int’l Corporation (“WIC”)	3,053,536	1,427,681	100	1,564,705	100
Landmark Group Holdings Ltd. (“Landmark”)	395,030	251,520	100	187,988	100

(Continued)

	December 31				
	2010			2009	
	Original Investment Cost	Carrying Value	Ownership Percentage	Carrying Value	Ownership Percentage
Mobile Magic Design Corporation ("MMD")	$ 50,000	$ 46,229	100	$ 39,499	100
Newfound Asian Corp. ("NAC")	208,960	1	100	1	100
Winbond Electronics (H.K.) Limited ("WEHK")	1,948	1	100	1	100
	$ 5,607,000	$ 5,116,679		$ 4,860,439	

(Concluded)

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

	Years Ended December 31	
	2010	2009
NTC	$ 606,539	$ 400,865
Win	185,368	(122,767)
WIC	(321,268)	(367,876)
Landmark	(64,082)	(335,505)
MMD	5,807	4,487
NAC	(345)	(353)
WEHK	554	(15,037)
	$ 412,573	$ (436,186)

The investment income (loss) for the years ended December 31, 2010 and 2009 was recognized based on the investees' audited financial statements. The financial statements for the years ended December 31, 2010 and 2009 of CFP Technology Corp. and the financial statements for the year ended December 31, 2009 of Nyquest Technology Co., Ltd. were audited by other auditors.

The realized portion of unrealized valuation gain or loss on financial assets in the shareholders' equity amounted to a gain of $125,212 thousand and a loss $144,121 thousand as of December 31, 2010 and 2009.

In January 2010, the Company sold 2,980 thousand shares of NTC at $28 per share. In September 2010, the Company sold 23,000 thousand shares at $50 per share for public offering of NTC's IPO. The gain on aforesaid disposal was $867,747 thousand, recorded as "gain on disposal of investments" for the year ended December 31, 2010. As of December 31, 2010, the Company held NTC 126,620,087 shares with a 61% ownership interest.

In September 2009, NTC carried out a capital reduction through cash distribution, which represented approximately 24% of its outstanding shares. The Company's equity in NTC was reduced by 56,880 thousand shares.

As of December 31, 2010, fair value of publicly traded stocks in long-term equity investment of equity method NTC was $6,938,781 thousand.

11. PROPERTY, PLANT AND EQUIPMENT

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

	December 31	
	2010	2009
Buildings and improvements	$ 4,518,471	$ 3,324,724
Machinery and equipment	34,187,446	26,540,077
Others	1,663,003	1,307,363
	$ 40,368,920	$ 31,172,164

Capitalized interest for the year ended December 31, 2010 and 2009 amounted to $52,119 thousand and $34,987 thousand, respectively. The interest rates of interest capitalized were 1.57%-1.70% and 1.55%-1.81%, respectively.

As of December 31, 2010, the carrying value of $27,883,229 thousand of 12-inch Fab manufacturing facilities was pledged to secure long-term debt. Please refer to Note 14.

12. INTANGIBLE ASSET

	December 31	
	2010	2009
Deferred technical assets, net	$ 1,059,078	$ 1,530,973

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

	December 31			
	2010		2009	
	Interest Rate %	Amount	Interest Rate %	Amount
Materials procurement loans	1.00%-2.45%	$ 1,316,815	0.91%-2.63%	$ 273,169
Bank lines of credit	1.67%	235,000	1.61%-2.42%	1,052,000
		$ 1,551,815		$ 1,325,169

14. LONG-TERM DEBT

	December 31			
	2010			2009
	Period	Interest Rate	Amount	Amount
Loan collateralized by 12-inch Fab equipment in Central Taiwan Science Park	2005.06.23-2010.06.23	-	$ -	$ 1,333,333
Loan collateralized by 12-inch Fab and equipment in Central Taiwan Science Park	2005.12.29-2010.12.29	-	-	5,000,000

(Continued)

	December 31			
	2010			2009
	Period	Interest Rate	Amount	Amount
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	2.49%-2.63%	6,416,660	7,700,000
Bank of Taiwan syndication agreement (I)	2009.07.27-2012.07.27	3.22%-3.42%	3,700,000	3,700,000
Bank of Taiwan syndication agreement (II)	2010.06.18-2013.06.18	2.79%-2.96%	3,500,000	-
			18,616,660	22,733,333
Less current portion of long-term debt			(8,491,670)	(7,616,673)
			$ 10,124,990	$ 15,116,660

(Concluded)

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. The principal was fully paid on June 23, 2010.

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. The principal was fully paid on December 29, 2010.

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 (I)

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 21 for the joint guarantor.

Bank of Taiwan Syndication Agreement (II)

a. On May 31, 2010, the Company entered into a syndication agreement, with a group of financial institutions to procure equipment for 12-inch Fab and fund the long-term loan payments, credit line was divided into two parts, which amounted to $3.5 billion, respectively.

b. Part A have not been drawn-down as of December 31, 2010; part B will be repaid from June 18, 2012 at 20%, 20% and 60% of the principal, respectively.

c. Please refer to Note 11 for collateral on bank borrowing and Note 21 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 the interest coverage of ratio 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. Although the tangible net equity on December 31, 2010 did not meet the requirements of Chinatrust Commercial Bank syndication agreement, the Company had obtained waivers from the majority of banks in March 2011.

15. 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 $67,195 thousand and $62,000 thousand for the years ended December 31, 2010 and 2009, 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	
	2010	**2009**
Service cost	$ 17,186	$ 20,462
Interest cost	16,254	19,743
Expected return on plan assets	(7,391)	(12,488)
Amortization, net	2,693	6,037
Curtailment gain	-	(47,027)
Net pension cost (gain)	$ 28,742	$ (13,273)

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	
	2010	2009
Discount rate	2.25%	2.25%
Expected long-term rate of return on plan assets	2.00%	1.50%
Rate of increase in compensation	3.00%	3.00%

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

	December 31	
	2010	2009
Benefit obligation		
Vested benefit obligation	$ 133,967	$ 183,623
Accumulated benefit obligation	570,799	510,879
Projected benefit obligation	800,023	726,958
Funded status		
Projected benefit obligation	(800,023)	(726,958)
Fair value of plan assets	494,238	490,603
Funded status	(305,785)	(236,355)
Unrecognized net transition obligation	11,034	12,301
Unrecognized net gain	155,710	101,208
Accrued pension liabilities	$ (139,041)	$ (122,846)

16. STOCKHOLDERS' EQUITY

Common Stock

	December 31	
	2010	2009
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)	3,669,350	3,656,497
Par value (in dollars)	$ 10	$ 10
Capital	$ 36,693,502	$ 36,564,972

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.

Employees executed the stock options at $3.02 per share in totalling 12,853,000 shares during the fourth quarter of 2010. As of December 31, 2010, the balance of the Company's capital account amounted to $36,693,502 thousand, divided into 3,669,350,193 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, 2010.

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 June 18, 2010, the Company's regular stockholders' meeting approved to offset deficits by additional paid-in capital amounted to $10,786,697 thousand.

Treasury Stock

Treasury stock transactions for the year ended December 31, 2010 were summarized as follows:

Purpose of Purchase	Treasury Stock Held as of January 1, 2010	Increase During the Year	Decrease During the Year	Treasury Stock Held as of December 31, 2010
Common shares held by subsidiaries	7,518,364	-	-	7,518,364

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

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, 2010, 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.

17. EMPLOYEE STOCK WARRANTS

In 2008 and 2009, the Company granted employee stock warrants in the quantity of 45,764 thousand and 1,585 thousand units, respectively. 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 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			
	2010		2009	
Employee Stock Warrants	**Number of Options (In Thousands)**	**Weighted Average Exercise Price (NT$)**	**Number of Options (In Thousands)**	**Weighted Average Exercise Price (NT$)**
Outstanding balance, beginning of year	43,387	$ 3.10	45,719	$ 3.02
Warrants granted	-	-	1,585	5.15
Warrants exercised	(12,853)	3.02	-	-
Warrants cancelled	-	-	-	-
Warrants expired	(3,075)	3.21	(3,917)	3.02
Outstanding balance, end of year	27,459	3.12	43,387	3.10
Warrants exercisable, end of year	6,726	3.02	-	-

Information about outstanding warrants was as follows:

December 31			
2010		2009	
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	2.86	$3.02-$6.46	3.85

The Company used the fair value method to evaluate the option using Black-Scholes model, the assumptions and proforma result for the year ended December 31, 2010 were as follows:

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 $12,863 thousand and $13,950 thousand for the years ended December 31, 2010 and 2009, respectively.

18. PERSONNEL EXPENSE, DEPRECIATION, AND AMORTIZATION

	Year Ended December 31, 2010			
	Classified as Cost of Sales	Classified as Operation Expenses	Classified as Non-operation Expenses and Losses	Total
Personnel expense				
Salary	$ 1,123,272	$ 717,573	$ -	$ 1,840,845
Insurance	72,452	38,176	-	110,628
Pension	60,539	35,398	-	95,937
Others	5,936	3,028	-	8,964
	$ 1,262,199	$ 794,175	$ -	$ 2,056,374
Depreciation	$ 10,232,739	$ 92,735	$ -	$ 10,325,474
Amortization	$ -	$ 471,895	$ 21,638	$ 493,533

	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

19. INCOME TAX

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

	Years Ended December 31	
	2010	2009
Current income tax expense (credit)	$ 424,000	$ (1,684,000)
Deferred income tax assets and valuation allowance adjustment	(424,000)	1,684,000
Income tax expense (credit)	$ -	$ -

Components of deferred income tax assets were as follows:

	Years Ended December 31	
	2010	2009
Deferred income tax assets		
Net operating loss carryforwards	$ 3,998,000	$ 5,196,000
Investment tax credits	2,973,000	4,723,000
Allowance for inventory devaluation losses	87,000	93,000
Allowance for doubtful accounts	43,000	50,000
Unrealized reserve for product guarantee	11,000	10,000
Unrealized exchange loss	4,000	1,000
Unrealized investment loss	4,000	10,000
Deferred technical assets	-	32,000
Deferred income tax assets	7,120,000	10,115,000
Less valuation allowance	(3,368,000)	(6,370,000)
	3,752,000	3,745,000
Deferred income tax liabilities		
Unrealized gain on financial instruments	(10,000)	(3,000)
Deferred income tax assets, net	3,742,000	3,742,000
Deferred income tax assets, current (under other current assets)	(124,000)	(141,000)
Deferred income tax assets, noncurrent (under other assets)	$ 3,618,000	$ 3,601,000

a. In May 2009 and June 2010, Article 5 of the Income Tax Law of the Republic of China was amended to reduce the income tax rate of profit-seeking enterprises from 25% to 20%, and then from 20% to 17%, respectively. The amendments were both effective on January 1, 2010.

b. Under Article 10 of the Statute for Industrial Innovation (SII) passed by the Legislative Yuan in April 2010, a profit-seeking enterprise may deduct up to 15% of its research and development expenditures from its income tax payable for the fiscal year in which these expenditures are incurred, but this deduction should not exceed 30% of the income tax payable for that fiscal year. This incentive took effect from January 1, 2010 and is effective till December 31, 2019.

Reconciliation of income tax expense (credit) based on income (loss) before income tax at statutory rate and income tax payable (operating loss carryforwards) was as follows:

	Years Ended December 31	
	2010	**2009**
Income tax expense (credit) at statutory rate	$ 604,000	$ (2,153,000)
Increase (decrease) in tax resulting from		
Unrealized investment (income) loss	(71,000)	97,000
Tax-exempt (income) loss on disposal of domestic investments	(116,000)	384,000
Others	7,000	(12,000)
Current income tax expense (credit)	424,000	(1,684,000)
Provision for deferred tax assets	(22,000)	(516,000)
	402,000	$ (2,200,000)
Operating loss carryforwards	(402,000)	
Income tax payable	$ -	

The Company's investment tax credits and operating loss carryforwards as of December 31, 2010 were as follows:

Expiry Year	**Investment Tax Credits**	**Operating Loss Carryforwards**
2011	$ 1,037,000	$ -
2012	1,253,000	-
2013	444,000	297,000
2014-2018	239,000	3,701,000
	$ 2,973,000	$ 3,998,000

The information of the integrated income tax was as follows:

	December 31	
	2010	**2009**
Balance of imputation credit account	$ 174,853	$ 89,416
Undistributed earnings for the years of 1997 and before	$ -	$ -
Undistributed deficit for the years of 1998 and thereafter	$ (1,640,149)	$ (15,977,842)

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

As of December 31, 2010, the Company has tax refund receivable under other assets - others amounted to $23,588 thousand which occurred in 2010 and years prior to 2010.

20. EARNINGS (LOSS) PER SHARE

Calculation of earnings (loss) per share was summarized as follows:

	Year Ended December 31, 2010				
	Amounts (Numerator)		Shares	Earnings Per Share (NT$)	
	Before Tax	After Tax	(Denominator) (In Thousands)	Before Tax	After Tax
Basic earnings per share					
Net income attributed to common shareholders	$ 3,550,996	$ 3,550,996	3,651,328	$ 0.97	$ 0.97
Effect of dilutive potential common stock					
Employee stock option	-	-	17,130		
Dilutive earnings per share					
Net income plus dilutive effect	$ 3,550,996	$ 3,550,996	3,668,458	$ 0.97	$ 0.97

	Year Ended December 31, 2009				
	Amounts (Numerator)		Shares	Loss Per Share (NT$)	
	Before Tax	After Tax	(Denominator) (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)

21. 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, 2010
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
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
Win Investment Corporation (“Win”)	The Company holds a 100% ownership interest directly
Nuvoton Technology Corporation (“NTC”)	The Company holds a 61% ownership interest directly and 1% ownership interest indirectly
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.

(Continued)

Related Party	Relationship with the Company
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

(Concluded)

Major transactions with related parties were summarized below:

Sales

	Years Ended December 31	
	2010	2009
WEHK	$ 3,569,758	$ 2,671,457
WECJ	2,151,418	1,046,610
Walton Chaintech	539,449	1,102,860
WECA	187,131	476,109
NTC	35,532	75,233
Others	229	65
	$ 6,483,517	$ 5,372,334

Purchase

	Years Ended December 31	
	2010	2009
NTC	$ 1,130	$ 123,019

Manufacturing Expenses

	Years Ended December 31	
	2010	2009
Walton	$ 1,478,790	$ 1,416,702
MMD	10,043	9,959
	$ 1,488,833	$ 1,426,661

Selling Expenses

	Years Ended December 31	
	2010	2009
WECJ	$ 436	$ 32,419

General and Administrative Expenses

	Years Ended December 31	
	2010	2009
Walsin	$ 8,677	$ 7,631

Research and Development Expenses

	Years Ended December 31	
	2010	2009
MMD	$ 140,102	$ 128,431
NTC	517	2,750
	$ 140,619	$ 131,181

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

	Years Ended December 31	
	2010	2009
MMD	$ 396	$ 396
NTC	-	799
	$ 396	$ 1,195

Notes Receivable

	December 31	
	2010	2009
NTC	$ 1,033	$ -

Accounts Receivable

	December 31	
	2010	2009
WEHK	$ 315,478	$ 281,782
WECJ	103,326	13,304
NTC	1,480	33,162
WECA	1,059	11,217
Walton Chaintech	-	98,881
Others	213	64
	$ 421,556	$ 438,410

Other Financial Assets, Current and Other Current Assets

	December 31	
	2010	2009
NTC	$ 2,669	$ 5,949
Walsin	1,429	-
MMD	99	-
	$ 4,197	$ 5,949

Refundable Deposits

	December 31	
	2010	2009
Walsin	$ 203	$ -

Notes and Accounts Payable

	December 31	
	2010	2009
Walton	$ 460,029	$ 752,723
Walsin	4,207	2,496
	$ 464,236	$ 755,219

Other Payables

	December 31	
	2010	2009
MMD	$ 65,426	$ 59,210
WECA	26,796	15,491
Walton	3,700	2,567
WECJ	-	7,708
Others	2,767	1,376
	$ 98,689	$ 86,352

Deposits Received

	December 31	
	2010	2009
NTC	$ 957	$ -
Hannstar Display	-	1,695
WTC	-	1,695
Others	-	1,705
	$ 957	$ 5,095

The related party transactions were conducted under normal terms.

Financing

Financing from related-party was summarized as follows:

	Year Ended December 31, 2010			
	Maximum Balance	Ending Balance	Interest Rate %	Interest Expense
WECA	$ 407,820	$ -	2.83-3.08	$ 9,349

	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 prices 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. In 2010, the Company recognized the realized profit of $17,560 thousand in accordance with the disposal of NTC to third parties. As of December 31, 2010, unrealized profit resulted from the aforesaid transaction was $90,743 thousand.

Property Transactions

The Company's sale of property to related parties in 2010 was summarized as follows:

Related Party	Sales Items	Selling Price	Carrying Value	Disposal Income
NTC	Other equipment	$ 300	$ -	$ 300

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)

Guarantee

a. Please refer to Note 23.

b. As of December 31, 2010, the chairman of the Company is a joint guarantor of the long-term debt - Bank of Taiwan syndication agreement (I) and (II). Please refer to Note 14.

Compensation information of directors, supervisors, and management personnel

	Years Ended December 31	
	2010	2009
Salary	$ 40,435	$ 50,210
Bonus and special compensation	25,288	8,178
	$ 65,723	$ 58,388

22. PLEDGED AND COLLATERALIZED ASSET

Please refer to Note 4, Note 11 and Note 14.

23. COMMITMENTS AND CONTINGENCIES

Letters of Credit

Amounts available under unused letters of credit as of December 31, 2010 were approximately US$18,329 thousand, JPY242,150 thousand and EUR115 thousand.

Guarantee

As of December 31, 2010, the Company guaranteed $500,000 thousand and $23,036 thousand for its related parties, Win and NTC, respectively.

24. DISCLOSURES FOR FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

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

	December 31			
	2010		2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Nonderivative financial instruments				
Assets				
Available-for-sale financial assets, current	$ 1,318,675	$ 1,318,675	$ 2,004,572	$ 2,004,572
Liabilities				
Long-term debt (including current portion)	18,616,660	18,616,660	22,733,333	22,733,333
Derivative financial instruments				
Financial assets at fair value through profit or loss, current				
Forward exchange contracts	56,106	56,106	17,252	17,252

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, 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, 2010 and 2009, the discount rates used in determining the fair values were 3.13% and 2.98%, 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, 2010		
	Quoted Market Price in Active Market	**Other Method of Valuation**	**Total**
Assets			
Available-for-sale financial assets, current	$ 1,318,675	$ -	$ 1,318,675
Financial assets at fair value through profit or loss, current	-	56,106	56,106

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

Valuation gains arising from changes in fair value of financial instruments determined using valuation techniques were $38,854 thousand and $1,227 thousand for the years ended December 31, 2010 and 2009, respectively.

As of December 31, 2010, financial assets and liabilities exposure to cash flow risk that resulted from interest rate changes amounted to $263,841 thousand and $13,716,785 thousand, respectively. Financial assets and liabilities exposure to fair value risk that resulted from interest rate changes amounted to $3,858,005 thousand and $6,451,690 thousand, respectively, as of December 31, 2010.

Adjustment of stockholders' equity due to the fair value changes of available-for-sale financial assets amounted to $177,148 thousand as of December 31, 2010.

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 $137,168 thousand per year.

25. OTHERS

Information of financial assets and liabilities, which were denominated in foreign currencies, with significant influence on the Company was as follows:

	December 31					
	2010			2009		
	Foreign Currencies	Exchange Rate	New Taiwan Dollars	Foreign Currencies	Exchange Rate	New Taiwan Dollars
Financial assets						
Monetary items						
USD	$ 140,857	29.13	$ 4,103,162	$ 100,596	31.99	$ 3,218,053
EUR	2,246	38.92	87,429	2,324	46.10	107,154
JPY	1,859,681	0.3582	666,138	1,747,542	0.3472	606,747
Non-monetary item						
USD	57,645	29.13	1,679,202	54,789	31.99	1,752,694
Financial liabilities						
Monetary items						
USD	93,809	29.13	2,732,646	65,513	31.99	2,095,759
EUR	1,981	38.92	77,093	2,669	46.10	123,043
JPY	2,076,677	0.3582	743,866	2,170,828	0.3472	753,712

26. FOREIGN SALES AND MAJOR CUSTOMERS

	Years Ended December 31	
	2010	2009
Asia	$ 24,350,218	$ 10,984,578
America	1,128,740	727,835
Europe	875,484	1,648,490
Others	218	-
	$ 26,354,660	$ 13,360,903
Percentage to total net sales	83%	68%

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

	Years Ended December 31	
	2010	2009
WEHK	$ 3,569,758	$ 2,671,457
Percentage to total net sales	11%	14%