

GCS HOLDINGS, INC. AND SUBSIDIARY
CONSOLIDATED FINANCIAL STATEMENTS AND
REVIEW REPORT OF INDEPENDENT
ACCOUNTANTS
JUNE 30, 2012 AND 2011

For the convenience of readers and for information purpose only, the review report of independent accounts and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. In the event of any discrepancy between the English version and the original Chinese version or any differences in the interpretation of the two versions, the Chinese-language review report of independent accounts and financial statements shall prevail.



REVIEW REPORT OF INDEPENDENT ACCOUNTANTS

PWCR12000049

To the Board of Directors and Stockholders of GCS Holdings, Inc.

We have reviewed the accompanying consolidated balance sheets of GCS Holdings, Inc. (the "Company") and its subsidiary as of June 30, 2012 and 2011, and the related consolidated statements of income, of changes in stockholders' equity and of cash flows for the six-month periods then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to issue a conclusion on these consolidated financial statements based on our reviews.

We conducted our reviews in accordance with the Statement of Auditing Standards No. 36, "Review of Financial Statements" in the Republic of China. A review of interim financial information consists principally of applying analytical procedures to financial data, and making inquiries of Company personnel responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Base on our reviews, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above in order for them to be in conformity with the "Rules Governing the Preparation of Financial Statements by Securities Issuers" and generally accepted accounting principles in the Republic of China.

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資誠

GCS Holdings, Inc. expects to adopt International Financial Reporting Standards, International Accounting Standards, and Interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee (collectively referred herein as the IFRSs) as recognized by the former Financial Supervisory Commission, Executive Yuan, R.O.C. (FSC) and the "Rules Governing the Preparation of Financial Statements by Securities Issuers" that will be applied in 2013 in the preparation of consolidated financial statements of GCS Holdings, Inc. and its subsidiary starting from January 1, 2013. Information relating to the adoption of IFRSs by GCS Holdings, Inc. is disclosed in Note 13 in accordance with Jin-Guan-Zheng-Shen-Zi Letter No. 0990004943 of the FSC, dated February 2, 2010. The IFRSs may be subject to changes during the time of transition; therefore, the actual impact of IFRSs adoption on GCS Holdings, Inc. and its subsidiary may also change.

PricewaterhouseCoopers, Taiwan

September 11, 2012

The accompanying consolidated financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the review of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying consolidated financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.

GCS HOLDINGS, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
JUNE 30,
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)
(UNAUDITED)

ASSETS	Notes	2012		2011	
		AMOUNT	%	AMOUNT	%
Current assets					
Cash and cash equivalents	4(1)	\$ 195,447	28	\$ 133,686	25
Accounts receivable	4(2)	91,777	13	81,852	15
Accounts receivable - related parties	5	35,283	5	38,235	7
Other financial assets - current		21,979	3	12,005	2
Inventories	4(3)	95,471	13	98,341	19
Deferred income tax assets - current	4(11)	8,229	1	31,456	6
Other current assets - other		2,557	-	9,925	2
Total current assets		<u>450,743</u>	<u>63</u>	<u>405,500</u>	<u>76</u>
Funds and long-term investments					
Other financial assets - non-current		7,132	1	5,221	1
Total funds and long-term investments		<u>7,132</u>	<u>1</u>	<u>5,221</u>	<u>1</u>
Property, plant and equipment	4(4)				
Cost					
Machinery and equipment		586,496	82	534,560	100
Computer and communication equipment		5,623	1	4,018	1
Research equipment		24,390	3	21,360	4
Furniture and fixtures		5,853	1	5,586	1
Leasehold improvements		183,266	26	131,819	24
Cost and revaluation		<u>805,628</u>	<u>113</u>	<u>697,343</u>	<u>130</u>
Less: Accumulated depreciation		(683,721)	(96)	(661,434)	(124)
Construction-in-progress and prepayments for equipment		14,473	2	14,311	3
Total property, plant and equipment, net		<u>136,380</u>	<u>19</u>	<u>50,220</u>	<u>9</u>
Intangible assets					
Computer software		3,208	1	954	-
Total intangible assets		<u>3,208</u>	<u>1</u>	<u>954</u>	<u>-</u>
Other assets					
Deferred income tax assets - non-current	4(11)	113,714	16	71,979	14
TOTAL ASSETS		<u>\$ 711,177</u>	<u>100</u>	<u>\$ 533,874</u>	<u>100</u>

(Continued)

GCS HOLDINGS, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
JUNE 30,
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)
(UNAUDITED)

<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>	<u>Notes</u>	<u>2012</u>		<u>2011</u>	
		<u>AMOUNT</u>	<u>%</u>	<u>AMOUNT</u>	<u>%</u>
Current Liabilities					
Accounts payable		\$ 16,614	2	\$ 24,050	5
Income tax payable	4(11)	1,224	-	10,170	2
Accrued expenses	4(5)	51,894	7	41,103	8
Other payables		2,463	1	790	-
Receipts in advance		4,475	1	2,072	-
Total current liabilities		<u>76,670</u>	<u>11</u>	<u>78,185</u>	<u>15</u>
Total liabilities		<u>76,670</u>	<u>11</u>	<u>78,185</u>	<u>15</u>
Stockholders' equity					
Capital	4(7)				
Common stock		364,906	51	328,356	61
Capital reserve	4(8)				
Additional paid-in capital		143,814	20	54,363	10
Employee stock options		48,808	7	34,973	7
Retained earnings	4(9)				
Unappropriated earnings		67,785	10	48,110	9
Other adjustments to stockholders' equity					
Cumulative translation adjustments		9,194	1	(10,113)	(2)
Total stockholders' equity		<u>634,507</u>	<u>89</u>	<u>455,689</u>	<u>85</u>
Contingencies and commitments	7				
Subsequence events	9				
TOTAL LIABILITIES AND					
STOCKHOLDERS' EQUITY					
		<u>\$ 711,177</u>	<u>100</u>	<u>\$ 533,874</u>	<u>100</u>

The accompanying notes are an integral part of these consolidated financial statements.
See review report of independent accountants dated September 11, 2012.

GCS HOLDINGS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
FOR THE SIX-MONTH PERIODS ENDED JUNE 30,
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT FOR EARNING PER SHARE)
(UNAUDITED)

Items	Notes	2012		2011	
		AMOUNT	%	AMOUNT	%
Operating revenues					
Sales	5	\$ 412,736	101	\$ 475,626	104
Sales returns		(4,561)	(1)	(6,251)	(1)
Sales allowances		(793)	-	(11,253)	(3)
Net Operating Revenues		<u>407,382</u>	<u>100</u>	<u>458,122</u>	<u>100</u>
Operating costs	4(13)				
Cost of goods sold		(297,843)	(73)	(293,197)	(64)
Gross profit		<u>109,539</u>	<u>27</u>	<u>164,925</u>	<u>36</u>
Operating expenses	4(13)				
Sales and marketing expenses		(10,107)	(3)	(9,692)	(2)
General and administrative expenses		(61,542)	(15)	(59,436)	(13)
Research and development expenses		(50,736)	(12)	(54,519)	(12)
Total Operating Expenses		<u>(122,385)</u>	<u>(30)</u>	<u>(123,647)</u>	<u>(27)</u>
Operating (loss) income		<u>(12,846)</u>	<u>(3)</u>	<u>41,278</u>	<u>9</u>
Non-operating income and gains					
Interest income		71	-	79	-
Gains on disposal of property, plant and equipment		12	-	-	-
Other non-operating income		1,300	-	29	-
Non-operating Income and Gains		<u>1,383</u>	<u>-</u>	<u>108</u>	<u>-</u>
Non-operating expenses and losses					
Foreign currency exchange loss, net		(14)	-	-	-
Non-operating Expenses and Losses		<u>(14)</u>	<u>-</u>	<u>-</u>	<u>-</u>
(Loss) income from continuing operations before income tax		(11,477)	(3)	41,386	9
Income tax expense	4(11)	(12)	-	(4,798)	(1)
(Loss) income from continuing operations		<u>(11,489)</u>	<u>(3)</u>	<u>36,588</u>	<u>8</u>
Consolidated net (loss) income		<u>(\$ 11,489)</u>	<u>(3)</u>	<u>\$ 36,588</u>	<u>8</u>
Attributable to					
Consolidated net (loss) income		<u>(\$ 11,489)</u>	<u>(3)</u>	<u>\$ 36,588</u>	<u>8</u>
		<u>Before Tax</u>	<u>After Tax</u>	<u>Before Tax</u>	<u>After Tax</u>
Basic earnings per share (in dollars)	4(12)				
Net (loss) income		(\$ 0.31)	(\$ 0.31)	\$ 1.31	\$ 1.16
Diluted earnings per share (in dollars)	4(12)				
Net (loss) income		(\$ 0.31)	(\$ 0.31)	\$ 1.30	\$ 1.15

The accompanying notes are an integral part of these consolidated financial statements.
See review report of independent accountants dated September 11, 2012.

GCS HOLDINGS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2012 AND 2011
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)
(UNAUDITED)

	Common Stock	Capital Reserve	Unappropriated Earnings	Cumulative Translation Adjustments	Total
<u>For the six month period ended June 30, 2011</u>					
Balance at January 1, 2011	\$ 306,946	\$ 28,359	\$ 11,522	(\$ 4,255)	\$ 342,572
Issuance of common stock by cash	21,410	51,385	-	-	72,795
Consolidated net income for the six-month period ended June 30, 2011	-	-	36,588	-	36,588
Compensation cost of employee stock options	-	9,592	-	-	9,592
Cumulative translation adjustments	-	-	-	(5,858)	(5,858)
Balance at June 30, 2011	<u>\$ 328,356</u>	<u>\$ 89,336</u>	<u>\$ 48,110</u>	<u>(\$ 10,113)</u>	<u>\$ 455,689</u>
<u>For the six month period ended June 30, 2012</u>					
Balance at January 1, 2012	\$ 364,906	\$ 189,048	\$ 79,274	\$ 17,854	\$ 651,082
Consolidated net loss for the six-month period ended June 30, 2012	-	-	(11,489)	-	(11,489)
Compensation cost of employee stock options	-	3,574	-	-	3,574
Cumulative translation adjustments	-	-	-	(8,660)	(8,660)
Balance at June 30, 2012	<u>\$ 364,906</u>	<u>\$ 192,622</u>	<u>\$ 67,785</u>	<u>\$ 9,194</u>	<u>\$ 634,507</u>

The accompanying notes are an integral part of these consolidated financial statements.
See review report of independent accountants dated September 11, 2012.

GCS HOLDING, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX-MONTH PERIODS ENDED JUNE 30,
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)
(UNAUDITED)

	2012	2011
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Consolidated net (loss) income	(\$ 11,489)	\$ 36,588
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Reversal of allowance for doubtful accounts	(1,300)	(35)
Loss for market price decline and obsolete inventories	2,680	1,788
Depreciation	8,784	3,840
Amortization	527	681
Gain on disposal of property, plant and equipment	(12)	-
Compensation cost of stock options	3,574	9,592
Changes in assets and liabilities		
Accounts receivable	(18,216)	(4,094)
Other receivable	7,541	-
Inventories	46,277	(22,377)
Deferred income tax assets, net	(3,375)	(14)
Other current assets - other	(710)	(8,361)
Accounts payable	(4,016)	12,039
Income tax payable	(4)	3,757
Accrued expenses	(18,592)	(1,855)
Receipts in advance	1,298	(2,245)
Net cash provided by operating activities	12,967	29,304
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Increase in other financial assets - current	(18,086)	(4,120)
Increase in other financial assets - non-current	(1,712)	(504)
Acquisition of property, plant and equipment	(41,844)	(20,094)
Proceeds from disposal of property, plant and equipment	287	-
Acquisition of intangible assets	(153)	(148)
Net cash used in investing activities	(61,508)	(24,866)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Issuance of common stock by cash	-	72,795
Net cash provided by financing activities	-	72,795
Effect of changes in exchange rates	(4,937)	(1,185)
(Decrease) increase in cash and cash equivalents	(53,478)	76,048
Cash and cash equivalents at beginning of period	248,925	57,638
Cash and cash equivalents at end of period	\$ 195,447	\$ 133,686
<u>Supplemental disclosures of cash flow information</u>		
Cash paid for interest	\$ -	\$ -
Cash paid for income tax	\$ -	\$ -
<u>Investing activities partially paid by cash</u>		
Acquisition of property, plant and equipment	\$ 44,307	\$ 20,884
Property, plant and equipment payable at beginning of period	-	-
Property, plant and equipment payable at end of period	(2,463)	(790)
Cash paid	\$ 41,844	\$ 20,094

The accompanying notes are an integral part of these consolidated financial statements.
See review report of independent accountants dated September 11, 2012.

GCS HOLDINGS, INC. AND SUBSIDIARY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, UNLESS STATED OTHERWISE)
(UNAUDITED)

1. HISTORY AND ORGANIZATION

(1) The Company

GCS Holdings, Inc. (the “Company”) was incorporated in Cayman Islands on November 30, 2010, as a holding company for the purpose of registering its shares with the GreTai Securities Market. After the reorganization, the Company became the parent company of Global Communication Semiconductors, Inc. Global Communication Semiconductors, Inc. was converted to Global Communication Semiconductors, LLC on January 24, 2011.

Global Communication Semiconductors, Inc. converted all of its originally outstanding common shares and preferred shares into newly issued common shares on October 4, 2010. After the incorporation of the Company in Cayman Islands on November 30, 2010, the Company issued new shares in exchange of 100% of Global Communication Semiconductors, Inc.’s outstanding shares at the exchange ratio of 1 to 5 on December 28, 2010 (merger date).

The Company and its subsidiary engage in the manufacturing of GaAs wafer and provide GaAs foundry related services. As of June 30, 2012, the Company and its subsidiary had 130 employees.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements of the Company and its subsidiary are prepared in conformity with the “Rules Governing the Preparation of Financial Reports by Securities Issuers” and accounting principles generally accepted in the Republic of China. The Group’s significant accounting policies are summarized below:

(1) Basis for preparation of consolidated financial statements

A. Principles of consolidation

The Company adopted the Statement of Accounting Standards No. 7, “Consolidated Financial Statements”, which requires an entity to consolidate all of the subsidiaries which it owns, directly or indirectly, more than 50% of the voting rights and which it owns, directly or indirectly, less than 50% of the voting rights but has effective control.

Significant inter-company transactions and balances between the Company and its subsidiary are eliminated.

B. Subsidiary included in the consolidated financial statement and their changes:

<u>Investment company</u>	<u>Investee company</u>	<u>Nature of business</u>	<u>Percentage of ownership as of June 30</u>		<u>Note</u>
			<u>2012</u>	<u>2011</u>	
The Company	Global Communication Semiconductors, LLC.	GaAs wafer and foundry service	100%	100%	Note

Note: The Company was incorporated on November 30, 2010. On December 28, 2010, the Company issued new shares in exchange of 100% shares of Global Communication Semiconductors, Inc., which was converted into Global Communication Semiconductors, LLC on January 24, 2011.

C. Subsidiaries not included in the consolidated financial statements:

None.

D. Adjustments for subsidiaries with different accounting periods:

The accounting period of the Company's subsidiary was not calendar year. However, the financial statements of the subsidiary have been adjusted to comply with the accounting period of the Company in the consolidated financial statements.

E. Special operating risks in foreign subsidiaries:

None.

F. Nature and extent of the restrictions on fund remittance from subsidiaries to the parent company:

None.

G. Contents of subsidiaries' securities issued by the parent company:

None.

H. Information on convertible bonds and common stock issued by subsidiaries:

The Company's subsidiary increase members' equity in the amount of USD 2,400,000 in the six-month period ended June 30, 2011.

(2) Translation of financial statements of foreign subsidiaries

The Company maintains its accounts in its functional currency, United States dollars. Assets and liabilities of foreign subsidiaries are translated into New Taiwan dollars using the exchange rates at the balance sheet date, which are US\$1 to NT\$29.88 and US\$1 to NT\$28.73 as of June 30, 2012 and 2011, respectively. Equity accounts are translated at historical rates except for beginning retained earnings, which is carried forward from prior year's balance. Dividends are translated at the exchange rates prevailing at the dates of declaration. Profit and loss accounts are translated at weighted-average rates of the period from January 1 to June 30, 2012 and 2011, respectively, which are US\$1 to NT\$29.66 and US\$1 to NT\$29.07, respectively. The resulting translation differences are included in "Cumulative translation adjustments" under stockholders' equity.

(3) Foreign currency transactions

- A. The accounts of the Company are maintained in United States dollars. Transactions denominated in foreign currencies are translated into functional currencies at the spot exchange rates prevailing at the transaction dates. Foreign currency translation gains or losses are included in the current year's results of operations.
- B. Assets and liabilities denominated in foreign currencies are translated into functional currencies at the exchange rates prevailing at the balance sheet date. Exchange gains or losses arising from the aforementioned translations are recognized in the current year's results.

(4) Criteria for classifying current and non-current assets and liabilities

- A. Assets that meet one of the following criteria are classified as current assets; otherwise they are classified as noncurrent assets:
 - a) Assets arising from operating activities and are expected to be sold or consumed within the operating cycle;
 - b) Assets held mainly for trading purposes;
 - c) Assets expected to be realized within twelve months from the balance sheet date;
 - d) Cash or cash equivalents, excluding restricted cash and cash equivalents and those that are to be exchanged or used to pay off liabilities more than twelve months after the balance sheet date.
- B. Liabilities that meet one of the following criteria are classified as current liabilities; otherwise they are classified as noncurrent liabilities:
 - a) Liabilities arising from operating activities that are expected to be paid off within the normal operating cycle;
 - b) Liabilities arising mainly from trading activities;
 - c) Liabilities that are to be paid off within twelve months from the balance sheet date;
 - d) Liabilities for which the repayment date cannot be extended unconditionally to more than twelve months after the balance sheet date.

(5) Cash equivalents

Cash equivalents that meet both of the following criteria and are within short-term, highly liquid are classified as cash equivalents.

- A. Readily convertible to known amounts of cash;
- B. With maturity dates that do not present significant risk of changes in value due to changes in interest rates.

The Company's statements of cash flows is prepared on the basis of cash and cash equivalents.

(6) Notes receivable and accounts receivable, other receivables

- A. Notes and accounts receivable are claims resulting from the sale of goods or services. Other receivables represent other receivables other than notes receivable and accounts receivable. Notes receivable, accounts receivable and other receivables are recognized initially at fair value and are subsequently remeasured at amortized cost using the effective interest method, less provision for impairment.
- B. The company assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. If such evidence exists, a provision for impairment of financial assets is recognized. The amount of impairment loss is determined based on the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. When the fair value of the asset subsequently increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss shall be reversed to the extent of the loss previously recognized in profit or loss. Such recovery of impairment loss shall not result to the asset's carrying amount greater than its amortized cost where no impairment loss was recognized. Subsequent recoveries of amounts previously written off are recognized in profit or loss.

(7) Inventories

The perpetual inventory system is adopted for inventory recognition. Inventories are stated at cost. The cost is determined using the First in, First out method. Fixed manufacturing overhead must be allocated on the basis of the normal capacity of the production equipment. At the end of period, inventories are evaluated at the lower of cost or net realizable value by item, except where it may be appropriate to group similar or related items. The market values of raw materials are determined on the basis of replacement cost. The market values of merchandise, finished goods and work in processes are determined on the basis of net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less all estimated costs of completion and necessary selling expenses.

(8) Property, plant and equipment

- A. Property, plant and equipment are stated at cost. Cost includes all expenditures incurred before the assets are placed in service.
- B. Depreciation is provided under the straight-line method based on the assets' estimated economic service lives. The estimated economic service lives of property, plant and equipment are set forth below:

Items	Service lives
Machinery and equipment	7 years
Computer and communication equipment	5 years
Research equipment	7 years
Office equipment	7 ~ 10 years
Leasehold equipment	6 years

C. Maintenance and repairs are expensed as incurred. Significant renewals and improvements are capitalized and depreciated accordingly.

(9) Intangible assets

Computer software expenditures are stated at cost and amortized over the estimated life of 3~7 years using the straight-line method.

(10) Impairment of non-financial assets

The Company recognizes impairment loss when there is indication that the recoverable amount of an asset is less than its carrying amount. The recoverable amount is the higher of the fair value less costs to sell and value in use. When the impairment no longer exists, the impairment loss recognized in prior years shall be recovered.

(11) Pension plan

Under the defined contribution pension plan, the amount contributed is recognized as pension cost as incurred on an accrual basis.

(12) Income tax

Provision for income tax includes deferred income tax resulting from temporary differences and loss carryforward. Valuation allowance on deferred tax assets is provided to the extent that it is more likely than not that the tax benefit will not be realized. Over or under provisions of prior years' income tax liabilities are included in the current period's income tax expense.

(13) Share-based payment – employee compensation plan

Compensation cost under the share-based employee compensation plan is recognized using the fair value method and recognized during the vesting period of the equity instrument granted.

(14) Employees' bonuses and directors' and supervisors' remuneration

Pursuant to EITF 96-052 of the Accounting Research and Development Foundation, R.O.C., dated March 16, 2007, "Accounting for Employees' Bonuses and Directors' and Supervisors' Remuneration", the costs of employees' bonuses and directors' and supervisors' remuneration are accounted for as expenses and liabilities, provided that such a recognition is required under legal or constructive obligation and those amounts can be estimated reasonably. However, if the accrued amounts for employees' bonuses and supervisors' remuneration are significantly different from the actual distributed amounts resolved by the stockholders at their annual stockholders' meeting subsequently, the differences shall be recognized as income or expense in the following year.

(15) Revenue and expenses

Revenues are recognized when the earning process is substantially completed and are realized or realizable. Costs and expenses are recognized as incurred.

(16) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the amounts of revenues and expenses reported during the reporting period. Actual results could differ from those assumptions and estimates.

(17) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments.

In accordance with R.O.C. SFAS No. 41, "Operating Segments", segment information is disclosed in the consolidated financial statements of the Company.

3. CHANGES IN ACCOUNTING PRINCIPLES

(1) Notes and accounts receivable, other receivables

Effective January 1, 2011, the Company adopted the amendments of R.O.C. SFAS No. 34, "Accounting for Financial Instruments". A provision for impairment (bad debts) of notes and accounts receivable and other receivables is recognized when there is objective evidence that the receivables are impaired. As a result of the adoption of the amended SFAS No. 34, this change in accounting principle had no significant effect on net income and earnings per share for the six-month period ended June 30, 2011.

(2) Operating segments

Effective January 1, 2011, the Company adopted the newly issued R.O.C. SFAS No. 41, "Operating Segments" to replace the original R.O.C. SFAS No. 20, "Segment Reporting". This change in accounting principle had no significant effect on net income and earnings per share for the six-month period ended June 30, 2011.

4. DETAILS OF MAJOR ACCOUNTS

(1) CASH AND CASH EQUIVALENTS

	June 30,	
	2012	2011
Cash and bank deposits		
Cash on hand	\$ 60	\$ 58
Checking and saving accounts	148,857	32,784
Cash equivalents		
Money market mutual fund	46,530	100,844
	<u>\$ 195,447</u>	<u>\$ 133,686</u>

(2) ACCOUNTS RECEIVABLE, NET

	June 30,	
	2012	2011
Account receivable	\$ 94,132	\$ 91,710
Less: Allowance for doubtful accounts	(1,533)	(173)
Allowance for sales discount and allowance	(822)	(9,685)
	<u>\$ 91,777</u>	<u>\$ 81,852</u>

(3) INVENTORIES

	June 30, 2012		
	Cost	Allowance	Book Value
Raw materials	\$ 73,488	(\$ 20,027)	\$ 53,461
Work in process	49,418	(7,408)	42,010
	<u>\$ 122,906</u>	<u>(\$ 27,435)</u>	<u>\$ 95,471</u>
	June 30, 2011		
	Cost	Allowance	Book Value
Raw materials	\$ 53,987	(\$ 12,352)	\$ 41,635
Work in process	64,312	(7,606)	56,706
	<u>\$ 118,299</u>	<u>(\$ 19,958)</u>	<u>\$ 98,341</u>

Expense and cost incurred on inventories for the six-month periods ended June 30, 2012 and 2011 were as follow:

	For the six-month periods ended June 30,	
	2012	2011
Cost of inventories sold	\$ 306,058	\$ 317,422
Loss on market price decline	2,680	1,788
Revenue from sale of scraps	(10,895)	(26,013)
	<u>\$ 297,843</u>	<u>\$ 293,197</u>

(4) PROPERTY, PLANT AND EQUIPMENT

	June 30, 2012		
	Cost	Accumulated Depreciation	Book Value
Machinery and equipment	\$ 586,496	(\$ 524,828)	\$ 61,668
Computer and communication equipment	5,623	(3,050)	2,573
Research equipment	24,390	(22,110)	2,280
Office equipment	5,853	(4,652)	1,201
Leasehold improvement	183,266	(129,081)	54,185
Construction in progress and prepayments for equipment	14,473	-	14,473
	<u>\$ 820,101</u>	<u>(\$ 683,721)</u>	<u>\$ 136,380</u>

	June 30, 2011		
	Cost	Accumulated Depreciation	Book Value
Machinery and equipment	\$ 534,560	(\$ 513,420)	\$ 21,140
Computer and communication equipment	4,018	(2,485)	1,533
Research equipment	21,360	(20,837)	523
Office equipment	5,586	(4,271)	1,315
Leasehold improvement	131,819	(120,421)	11,398
Construction in progress and prepayments for equipment	14,311	-	14,311
	<u>\$ 711,654</u>	<u>(\$ 661,434)</u>	<u>\$ 50,220</u>

(5) ACCRUED EXPENSES

	June 30,	
	2012	2011
Accrued salary and bonus	\$ 16,869	\$ 17,618
Accrued untaken leave	11,157	10,757
Accrued employees' bonuses	482	1,268
Accrued service fee	5,097	8,732
Other accrued expenses	18,289	2,728
	<u>\$ 51,894</u>	<u>\$ 41,103</u>

(6) PENSION PLAN

The Company's subsidiary has established a 401(K) pension plan ("the Plan") covering substantially all employees. The Plan provides voluntary salary reduction contributions by eligible participants in accordance with Section 401(K) of the Internal Revenue Code, as well as discretionary matching contributions below 15% of employees' salary determined annually by its Board of Directors from the Company's subsidiary to its employees' individual pension accounts. The Company's subsidiary has not adopted the Plan in accordance with IRC 401K until August 2010.

The pension costs under defined contribution pension plan for the six-month periods ended June 30, 2012 and 2011 were \$4,519 and \$4,105, respectively.

(7) COMMON STOCK

The Company was incorporated on November 30, 2010. On December 28, 2010, the Company issued new shares in exchange of 100% ownership of Global Communication Semiconductors, Inc. As of December 31, 2010, the issued capital of the Company was \$306,946, representing by 30,694,587 outstanding shares with par value of \$10 (in New Taiwan dollars) per share.

In 2011, the Company issued 5,720,000 new common shares with issuance price of US\$1.17 (dollars) per share. In addition, the Company issued 76,000 new shares for the exercise of employees' stock option in 2011. As of June 30, 2012, the contributed capital of the Company was \$364,906, representing by 36,490,587 outstanding shares with par value of \$10 (in New Taiwan dollars) per share.

(8) CAPITAL RESERVE

With the proposal resolved by the board of directors and approved by the shareholders of the Company, the Company may utilize capital reserve to issue new shares or to distribute dividends.

(9) RETAINED EARNINGS

A. Subject to the restrictions of the Company's Articles of Incorporation, dividends may be declared and paid out of profits of the Company, realized or unrealized, or from any reserve set aside from profits which the Board of Directors determines is no longer needed, or not in the same amount. In determining the Company's dividend policy, the Board of Directors recognizes that the Company operates in a capital-intensive industry at the steady growth stage of its business, and in determining the amount, if any, of the dividend or other distribution the Board of Directors recommends to Stockholders' Meeting for approval in any financial year, the Board of Directors may take into consideration financial, business and operational factors of the Company. Dividends may also be declared and paid out of share premium account or any other fund or account which can be authorized for this purpose in accordance with the Law. If there are profits, in making the profits distribution recommendation, the Board of Directors shall set aside out of the profits of the Company for each financial year: (i) a reserve for payment of tax for the relevant financial year; (ii) an amount to offset losses incurred in previous years; and (iii) a special surplus reserve as required by the applicable securities authority under the applicable

public company rules in Taiwan. After combining accumulated undistributed earnings in the previous years and setting aside a certain amount of remaining profits of such financial year as a reserve or reserves for development purposes as the Board of Directors may from time to time think fit, subject to the compliance with the Law, the Company shall distribute no less than 10% of the remaining profit in the following sequence and manner upon approval by the Stockholders' Meeting:

- (a) no more than 15% and no less than 5% as employees' bonus;
- (b) no more than 2% as directors' bonus; and
- (c) the balance as dividends to the stockholders.

Dividends to the stockholders and the employees' bonus may be distributed, in the discretion of the Board of Directors, by way of cash or by way of applying such sum in paying up in full unissued shares or a combination of both for allocation and distribution to the employees or the stockholders. Cash dividends to stockholders shall not be less than 10% of the total amount of dividends to stockholders. When the employees' bonus is distributed by way of an issue of fully paid shares or by cash, the recipients may include qualified employees of the Company's subsidiaries.

As the Company operates in the stable growth stage, the residual dividend policy is adopted taking into consideration the Company's financial structure, operating results and future expansion plans, and cash dividends shall account for at least 10% of the total dividends distributed. Dividends are distributed by stock and by cash. The individuals who are entitled to employee stock dividends may include the employees of the Company's affiliates who meet certain criteria.

- B. The Company accrued employees' bonus and directors' remuneration based on 10% of net income to be distributed and 5% and 2% of the distributed amount as employees' bonus and directors' remuneration, respectively. The estimated employees' bonus and directors' remuneration will be recognized as operating cost or operating expense of the year. If there is difference occurred between estimated and actual amounts resolved by the shareholders, the difference shall be recognized as cost or expense in the subsequent year. The Company did not accrued employees' bonus and directors' remuneration due to net loss of the six-month period ended June 30, 2012. The estimated amount for the six-month periods ended June 30, 2011 is as follow:

	For the six-month periods ended	
	June 30, 2012	June 30, 2011
Employee's bonus	\$ -	\$ 915
Directors' remuneration	-	366
	<u>\$ -</u>	<u>\$ 1,281</u>

(10) SHARE BASED PAYMENT-EMPLOYEE COMPENSATION PLAN

- A. As of June 30, 2012, the Company's share-based payment transactions are set forth below:

Type of arrangement	Grant date	Quantity granted	Contract period	Vesting condition	Actual for feiture rate in the current period	Estimated future forfeiture rate
Employee stock options	2011 (Note1)	2,207,498 shares	10 years	Note 2	1.65%	4.95%

Note 1: On December 28, 2010, the merger effective day of the Company and Global Communication Semiconductors, Inc, all outstanding employee stock options of Global Communication Semiconductors, Inc. were cancelled for no consideration. In substitution for canceled options, every five shares of original options were entitled to receive one newly issued option for the Company's common shares with exercise price of US\$1.17 per share. The five-for-one exchange resulted to 1,349,398 new employee stock options.

Note 2: Some employees stock options shall be vested and become exercisable as to 50% of the shares immediately, and as to the remaining 50% of such share to be vested in the following year. Some options shall be vested and become exercisable as to 25% of the shares covered on the first anniversary of the vesting commencement date, and as to the remaining 75% of such shares ratably in equal installments as of the last day of each of the succeeding 36 months.

B. Details of the employee stock options are set forth below:

	For the six-month period ended June 30, 2012		For the six-month period ended June 30, 2011	
	Number of shares	Weighted-average exercise price (in US dollars)	Number of shares	Weighted-average exercise price (in US dollars)
Options outstanding at January 1	2,244,498	\$ 1.17	6,659,200	\$ 0.18
Adjustment for company reorganization	-	-	(5,327,360)	-
Increment of company reorganization	-	-	17,558	1.17
Options outstanding after company reorganization	2,244,498	1.17	1,349,398	1.17
Options granted	-	-	1,085,300	1.17
Options canceled	(37,000)	1.17	(15,000)	1.17
Options exercised	-	-	-	-
Options outstanding at end of June 30	<u>2,207,498</u>	1.17	<u>2,419,698</u>	1.17
Options exercisable at end of June 30	<u>1,524,006</u>		<u>780,549</u>	

C. As of June 30, 2012 and 2011, the details of outstanding employee stock options are as follows:

June 30, 2012	
Stock options exercised price (in US dollars)	Weighted-average expected remaining period
\$ 1.17	8.53 years

June 30, 2011	
Stock options exercised price (in US dollars)	Weighted-average expected remaining period
\$ 1.17	9.50 years

D. For the stock options granted with the compensation cost accounted for using the fair value method, the fair value on the granted date is estimated using the Black-Scholes option-pricing model. The weighted-average parameters used in the estimation of the fair value are as follows:

Type of arrangement	Grant day	Fair price (in USD)	Exercise price (in USD)	Expected price volatility	Expected option period	Expected dividend yield rate	Risk-free interest rate	Fair value per unit (in USD)
Employee stock options	January 2011 (Reissue after reorganization)	\$ 1.31	\$ 1.17	76.33%	1.48~6.05	-	4.83%	\$ 0.52 ~ \$ 0.90
Employee stock options	January 2011	1.31	1.17	76.33%	5.75~6.25	-	4.83%	0.89 ~ 0.92
Employee stock options	May 2011	1.22	1.17	63.00%	6.08	-	2.51%	0.74
Employee stock options	July 2011	1.22	1.17	63.00%	6.08	-	1.94%	0.73
Employee stock options	October 2011	1.22	1.17	64.00%	6.08	-	1.16%	0.72

E. Expenses incurred on share-based payment transactions are shown below:

	For the six-month period ended June 30, 2012	For the six-month period ended June 30, 2011
Equity-settled	\$ 3,574	\$ 9,592

(11) INCOME TAX

A. Income tax expense calculated at the statutory rate (the federal tax rate is 34%; the state tax rate is 8.84%) and income tax payable is reconciled as follows:

	For the six-month period ended June 30, 2012	For the six-month period ended June 30, 2011
Income tax expense calculated at the statutory rate	\$ -	\$ 17,889
Tax effect of permanent differences	9,528	(5,349)
Tax effect of minimum tax	12	-
Tax effect of loss carryforward	(4,125)	(4,111)
Tax effect of valuation allowance	(5,403)	(3,631)
Income tax expense	12	4,798
Effect of changes in exchange rates	-	(137)
Less: Net changes in deferred tax assets and liabilities	3,375	14
Tax effect of foreign tax credit	(3,375)	-
Prepaid income tax of prior year	(1,618)	(1,007)
Income tax payable of prior year	1,212	6,502
Income tax (refundable) payable	(\$ 394)	\$ 10,170
Income tax payable - state tax	\$ 1,224	\$ 10,170
Income tax refundable - federal tax	(\$ 1,618)	\$ -

B. Deferred income tax assets and liabilities:

	June 30,	
	2012	2011
Deferred income tax assets - current	\$ 32,639	\$ 53,617
Valuation allowance	(24,410)	(22,161)
	<u>\$ 8,229</u>	<u>\$ 31,456</u>
Deferred income tax assets - non-current	\$ 657,415	\$ 587,026
Deferred income tax liabilities - non-current	(20,723)	-
Valuation allowance	(522,978)	(515,047)
	<u>\$ 113,714</u>	<u>\$ 71,979</u>

C. Details of temporary differences and loss carryforwards resulting in deferred income tax assets and liabilities are as follows:

	June 30,			
	2012		2011	
	<u>Amount</u>	<u>Tax Effect</u>	<u>Amount</u>	<u>Tax Effect</u>
Current items:				
Allowance for inventory				
obsolescence and decline in market value	\$ 27,435	\$ 10,927	\$ 19,958	\$ 7,943
Allowance for sales discount and allowance	822	327	9,685	3,857
Allowance for bad debt	1,533	611	173	58
Accrued untaken leave	11,157	4,444	10,776	4,288
Accrued employees' bonus and directors' remuneration	482	192	1,268	518
263A Adjustments	3,016	1,201	3,106	1,265
Deferred revenue	4,475	1,783	2,072	835
Deffered state tax	14,484	4,925	10,003	3,396
Loss carryforwards				
– Federal tax	24,203	8,229	92,486	31,457
		32,639		53,617
Valuation allowance		(24,410)		(22,161)
		<u>\$ 8,229</u>		<u>\$ 31,456</u>
Non-current items:				
Depreciation	(\$ 54,766)	(\$ 20,723)	\$ 3,022	\$ 1,957
Employee stock options	3,515	1,399	2,220	892
Loss carryforwards – Federal tax	1,700,035	578,012	1,531,297	520,631
Loss carryforwards – State tax	1,088,083	63,435	1,042,480	60,812
Foreign tax credit		14,569		2,734
		636,692		587,026
Valuation allowance		(522,978)		(515,047)
		<u>\$ 113,714</u>		<u>\$ 71,979</u>

D. As of June 30, 2012, the Company's losses available to be carried forward were as follows:

(1) Federal tax of the United States

Year in which losses incurred (end of tax report date)	Losses available to be carried forward	Unused loss carry forwards	Final year losses can be carried forward (end of tax report date)
1999.6.30	\$ 138,075	\$ 29,229	2018.6.30
2000.6.30	152,476	152,476	2019.6.30
2001.6.30	285,341	285,341	2020.6.30
2002.6.30	327,202	327,202	2021.6.30
2003.6.30	263,974	263,974	2022.6.30
2004.6.30	170,432	170,432	2023.6.30
2005.6.30	162,322	162,322	2024.6.30
2006.6.30	150,224	150,224	2025.6.30
2007.6.30	109,754	109,754	2026.6.30
2008.6.30	62,560	62,560	2027.6.30
2012.6.30	10,724	10,724	2031.6.30
	<u>\$ 1,833,084</u>	<u>\$ 1,724,238</u>	

(2) State tax of California

Year in which losses incurred (end of tax report date)	Losses available to be carried forward	Unused loss carry forwards	Final year losses can be carried forward (end of tax report date)
2001.6.30	\$ 158,320	\$ 158,320	2020.6.30
2002.6.30	179,935	179,935	2021.6.30
2003.6.30	158,356	158,356	2022.6.30
2004.6.30	102,239	102,239	2023.6.30
2005.6.30	162,321	162,321	2024.6.30
2006.6.30	150,200	150,200	2025.6.30
2007.6.30	109,730	109,730	2026.6.30
2008.6.30	32,516	32,516	2027.6.30
2009.6.30	28,708	28,708	2028.6.30
2012.6.30	5,758	5,758	2029.6.30
	<u>\$ 1,088,083</u>	<u>\$ 1,088,083</u>	

(12) EARNINGS (LOSSES) PER SHARE

	For the six-month period ended June 30, 2012				
	Amount		Weighted average outstanding common shares (In thousands)	Losses per share (in dollars)	
	Before Tax	After Tax		Before Tax	After Tax
Consolidated net loss	<u>(\$ 11,477)</u>	<u>(\$ 11,489)</u>			
Basic earnings per share:					
Net loss attributable to common stockholders	<u>(\$ 11,477)</u>	<u>(\$ 11,489)</u>	<u>36,491</u>	<u>(\$ 0.31)</u>	<u>(\$ 0.31)</u>

	For the six-month period ended June 30, 2011				
	Amount		Weighted average outstanding common shares (In thousands)	Earnings per share (in dollars)	
	Before Tax	After Tax		Before Tax	After Tax
Consolidated net income	<u>\$ 41,386</u>	<u>\$ 36,588</u>			
Basic earnings per share:					
Net income attributable to common stockholders	\$ 41,386	\$ 36,588	31,617	\$ 1.31	\$ 1.16
Dilutive effect of common stock equivalents:					
Employee compensations	-	-	259		
Employee bonus	-	-	66		
Diluted earnings per share:					
Net income attributable to common stockholders plus effect of common stock equivalents	<u>\$ 41,386</u>	<u>\$ 36,588</u>	<u>31,942</u>	<u>\$ 1.30</u>	<u>\$ 1.15</u>

1. Effective January 1, 2008, as employees' bonus could be distributed in the form of stock, the diluted EPS computation shall include those estimated shares that would be increased from employees' stock bonus issuance in the weighted-average number of common shares outstanding during the reporting year, which taking into account the dilutive effects of stock bonus on potential common shares' whereas, basic EPS shall be calculated based on the weighted-average number of common shares outstanding during the reporting year that include the shares of employees' stock bonus for the appropriation of prior year earnings, which have already been resolved at the stockholders' meeting held in the reporting year. Since capitalization of employees' bonus no longer belongs to distribution of stock dividends (or retained earnings and capital reserve capitalized), the calculation of basic EPS and diluted EPS for all periods presented shall not be adjusted retroactively.

2. For the six-month period ended June 30, 2012, because of net loss, there will be anti-diluted effect on EPS when including the common stock equivalents. Therefore, the diluted EPS is the same as basic EPS.

(13) PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES:

Personnel, depreciation and amortization expenses are summarized as follows:

Nature of cost	For the six-month period ended June 30, 2012		
	Operating cost	Operating expenses	Total
Personnel Expenses			
Payroll	\$ 104,563	\$ 38,984	\$ 143,547
Insurance expenses	11,164	8,995	20,159
Pension expenses	-	4,519	4,519
Others	-	861	861
	<u>\$ 115,727</u>	<u>\$ 53,359</u>	<u>\$ 169,086</u>
Depreciation	<u>\$ 5,799</u>	<u>\$ 2,985</u>	<u>\$ 8,784</u>
Amortization	<u>\$ 527</u>	<u>\$ -</u>	<u>\$ 527</u>
Nature of cost	For the six-month period ended June 30, 2011		
	Operating cost	Operating expenses	Total
Personnel Expenses			
Payroll	\$ 110,301	\$ 39,772	\$ 150,073
Insurance expenses	9,195	4,401	13,596
Pension expenses	-	4,105	4,105
Others	25	502	527
	<u>\$ 119,521</u>	<u>\$ 48,780</u>	<u>\$ 168,301</u>
Depreciation	<u>\$ 2,603</u>	<u>\$ 1,237</u>	<u>\$ 3,840</u>
Amortization	<u>\$ 681</u>	<u>\$ -</u>	<u>\$ 681</u>

5. RELATED PARTY TRANSACTIONS

- (1) Names of the related parties and their relationship with the Company:

Name of Related Parties	Relationship with the Company
RF Micro Devices, Inc.	Related party in substance

- (2) Significant related party transactions

A. Sales

	For the six-month period ended June 30, 2012		For the six-month period ended June 30, 2011	
	Amount	% of net sales	Amount	% of net sales
RF Micro Devices, Inc.	<u>\$ 109,746</u>	<u>27%</u>	<u>\$ 139,353</u>	<u>30%</u>

The sales prices and payment terms provided to related party were generally comparable to those provided to non-related parties. The collection term was within 45 days from the date of sales.

B. Accounts Receivable

	June 30,			
	2012		2011	
	Amount	% of accounts receivable	Amount	% of accounts receivable
RF Micro Devices, Inc.	\$ 35,283	28%	\$ 38,235	32%

6. PLEGGED ASSETS

As of June 30, 2012 and 2011, the Company's assets pledged as collateral were as follows:

Asset	June 30,		Natural
	2012	2011	
Other financial assets – non-current	\$ 7,132	\$ 5,221	Rental security deposit of the office and deposit for wastewater treatment

7. COMMITMENTS AND CONTINGENT LIABILITIES

The Company's subsidiary entered into operating lease contracts with Hamazawa Investment Company for its office and plant located in Los Angeles, California, USA. The lease period is from September 2002 to April 2016. As of June 30, 2012, the future minimum rental payments based on the above lease agreements are as follows:

Years	Amount
2012/7~2012/12	\$ 5,504
2013 year	11,352
2014 year	12,384
2015 year	12,384
2016 and after	4,128
	<u>\$ 45,752</u>

8. SIGNIFICANT CATASTROPHE LOSS

None

9. SIGNIFICANT SUBSEQUENT EVENTS

None

10. OTHERS

(1) Fair value of financial instruments

	June 30, 2012		
	<u>Book Value</u>	<u>Fair value</u>	
		<u>Quotations in an active market</u>	<u>Estimated using valuation technique</u>
<u>Financial Assets</u>			
Financial assets with fair values equal to book values	\$ 351,618	\$ -	\$ 351,618
<u>Financial Liability</u>			
Financial liabilities with fair values equal to book values	70,970	-	70,970
<u>Derivatives financial instruments: None</u>			

	June 30, 2011		
	<u>Book Value</u>	<u>Fair value</u>	
		<u>Quotations in an active market</u>	<u>Estimated using valuation technique</u>
<u>Financial Assets</u>			
Financial assets with fair values equal to book values	\$ 270,999	\$ -	\$ 270,999
<u>Financial Liability</u>			
Financial liabilities with fair values equal to book values	65,943	-	65,943
<u>Derivatives financial instruments: None</u>			

The fair values of short-term financial instruments, which include cash and cash equivalent, accounts receivable, accounts receivable - related parties, other financial assets - current, other financial assets - non - current, accounts payable, income tax payable, accrued expenses and other payables are estimated based on the book values recognized in the balance sheets due to their short maturities.

(2) Information on interest rate risk positions

As of June 30, 2012 and 2011, the financial assets and liabilities with fair value risk due to fluctuation of interest both amounted to \$0. As of June 30, 2012 and 2011, the financial assets with cash flow risk due to fluctuation of interest amounted to \$169,289 and \$111,340, respectively. As of June 30, 2012 and 2011, the financial liabilities with cash flow risk due to fluctuation of interest both amounted to \$0.

(3) Procedure of financial risk control and hedge

The Company has undertaken appropriate risk management and control measures in order to identify all the possible risks (including market risk, credit risk, liquidity risk and cash flow risk) and to facilitate effective control and measurement of these risks by the management.

The management of Company reached optimize risk position, maintained suitable current position,

and centrally manage all market risks to utilize effectively control all market risks. The above goal is under consideration about the effects of economy, competition, and market value risks to reach optimize risk position, maintain suitable current position, and centrally manage all market risks.

(4) Information of material financial risk

A. Market risk

The Company's account receivables and other receivables are all due in one year. Thus, the market risk is deemed as minimal.

B. Foreign exchange risk

The Company's and subsidiaries' business are all involve functional currency operation. Therefore, the foreign exchange risk is deemed as minimal.

C. Credit risk

The Company has lower significant concentrations of credit risk. It has policies in place to ensure that wholesale sales of products are made to customers with an appropriate credit history. The maximum loss to the Company is the total amount of all book value of accounts receivables.

D. Liquidity risk

The Company's accounts receivable are all due in one year. The Company has adequate working capital generated from its operations, therefore, the Company expects no significant liquidity risk.

E. Fair value of floating interest risk

The debt borrowed by the Company bears floating interest rate. Therefore, the fluctuations of market interest rate affected efficient rate and induced the fluctuations of future cash flow.

11. ADDITIONAL DISCLOSURES REQUIRED BY THE SECURITIES AND FUTURE

(1) Related information of significant transactions

A. Loans to third parties attributed to financial activities:

As of June 30, 2012: None.

B. Endorsement and guarantee to third parties:

As of June 30, 2012: None.

C. The ending balance of securities is summarized as follows:

As of June 30, 2012:

Securities held by	Marketable securities	Relationship of the securities issuer with the Company	General ledger account	June 30, 2012			Market value	Remark
				Number of shares (in thousands)	Book value	Ownership (%)		
GCS Holdings, Inc.	Global Communication Semiconductors, LLC.	Subsidiary accounted for under the equity method	Long-term equity investments accounted for under the equity method	-	\$ 491,578	100%	\$ 491,578	-

D. Securities for which total buying or selling amount exceeding the lower of NT\$100,000 or 20% of the capital stock:

For the six-month period ended June 30, 2012: None.

E. Acquisition of real estate with an amount exceeding the lower of NT\$100,000 or 20% of the capital stock:

For the six-month period ended June 30, 2012: None.

F. Disposal of real estate with an amount exceeding the lower of NT\$100,000 or 20% of the capital stock:

For the six-month period ended June 30, 2012: None.

G. Purchases from or sales to related parties exceeding NT\$100,000 or 20% of the Company's paid-in capital during the year ended June 30, 2012: None.

H. Receivables from related parties exceeding the lower of NT\$100,000 or 20% of capital stock:
As of June 30, 2012: None.

I. Transaction of Derivative financial instruments:

For the six-month period ended June 30, 2012: None.

(2) Related information on investee companies

A. Related information for being significant influence or control on investee companies

As of June 30, 2012:

Investor	Investee	Location	Main activities	Original investment amount		Shares held as at June 30, 2012			Net income (loss) of the investee	Investment income (loss) recognized by the Company	Note
				Balance at 2012/6/30	Balance at 2011/12/31	No. of shares (in thousand)	Owner-ship(%)	Book value			
GCS Holdings, Inc.	Global Communication Semiconductors, LLC.	Los Angeles, USA	GaAs wafer and foundry service	\$ 403,975	\$ 403,975	-	100%	\$ 491,578	(\$ 4,017)	(\$ 4,017)	Note

B. Information of subsidiaries:

a) Loans to third parties attributed to financial activities:

As of June 30, 2012: None.

b) Endorsement and guarantee to third parties:

As of June 30, 2012: None.

c) The ending balance of securities held by investee companies is summarized as follows:

As of June 30, 2012: None.

d) Securities for which total buying or selling amount exceeding the lower of NT\$100,000 or 20% of the capital stock:

For the six-month period ended June 30, 2012: None.

e) Acquisition of real estate with an amount exceeding the lower of NT\$100 Million or 20% of the capital stock:

For the six-month period ended June 30, 2012: None.

f) Disposal of real estate with an amount exceeding the lower of NT\$100,000 or 20% of the

capital stock:

For the six-month period ended June 30, 2012: None.

- g) Related party transactions for purchase and sales amount exceeding the lower of NT\$100,000 or 20% of the capital stock during the year ended June 30, 2012:

Purchaser/Seller	Counterparty	Relationship with the Company	Purchases / Sales	Amount	Percentage of purchases / sales	Credit Term	Unit price	Credit Term	Differences in transaction terms compared to third party transactions		Remark
									Notes / accounts receivable (payable)	Percentage of total notes/ accounts receivable (payable)	
Global Communication Semiconductors, LLC	RF Micro Devices, Inc.	Related party	Sales	\$109,746	27%	45 days	Not applicable	Not applicable	\$35,283	28%	-

- h) Receivables from related parties exceeding the lower of NT\$100,000 or 20% of the capital stock:

As of June 30, 2012: None.

- i) Transaction of Derivative financial instruments:

For the six-month period ended June 30, 2012: None.

(3) Investment in Mainland China information

A. Information of investment in Mainland China: None.

B. Material transactions occurred directly or indirectly between the Company and its Mainland China investee: None.

(4) The transaction amount between holding company and subsidiaries: None.

12. SEGMENT INFORMATION

In accordance with R.O.C.SFAS No. 41, "Operating Segments", segment information is disclosed as follows.

(1) General Information

The Group operates business only in a single industry. The chief operating decision-maker, who allocates resources and assesses performance of the Group as a whole, has identified that the Group has only one reportable operating segment.

(2) Measurement of Segment Information

The chief operating decision maker assesses the performance of the operating segments based on the pre-tax income. This measurement basis excludes the effects of non-recurring expenditures from the operating segments. This also excludes the effects of equity-settled share-based payments and unrealized gains/losses on financial instruments.

(3) Information on segment profit (loss), assets and liabilities

The segment information provided to the chief operating decision-maker for the reportable segments for the six-month periods ended June 30, 2012 and 2011 are as follows:

	For the six-month period ended June 30, 2012			
	Cayman Islands	American	Adjustments and elimination	Consolidated amount
Revenue from external customers	\$ -	\$ 407,382	\$ -	\$ 407,382
Inter-segment revenue	-	-	-	-
Total segment revenue	\$ -	\$ 407,382	\$ -	\$ 407,382
Segment profit (loss) (Note)	(\$ 11,489)	(\$ 6,526)	\$ 6,538	(\$ 11,477)
Total assets	\$ 635,582	\$ 589,323	(\$ 513,728)	\$ 711,177

	For the six-month period ended June 30, 2011			
	Cayman Islands	American	Adjustments and elimination	Consolidated amount
Revenue from external customers	\$ -	\$ 458,122	\$ -	\$ 458,122
Inter-segment revenue	-	-	-	-
Total segment revenue	\$ -	\$ 458,122	\$ -	\$ 458,122
Segment profit (loss) (Note)	\$ 36,588	\$ 43,536	(\$ 38,738)	\$ 41,386
Total assets	\$ 456,519	\$ 532,982	(\$ 455,627)	\$ 533,874

Note: Profit (loss) before tax.

(4) Reconciliations for segment profit (loss), assets and liabilities

The Company and subsidiary engage in single industry and the chief operating decision-maker assesses performance of the whole group and allocating resources. The Company is regarded as a single operating segment. Therefore, there is no inter-segment revenue. The revenue from external parties reported to the chief operating decision-maker is measured in a manner consistent with that in the income statement. The amount provided to the chief operating decision-maker with respect to total assets is measured in a manner consistent with that in the balance sheet.

13. DISCLOSURES RELATING TO THE ADOPTION OF IFRSs

Pursuant to the regulations of the former Financial Supervisory Commission, Executive Yuan, R.O.C., effective January 1, 2013, a public company whose stock is listed on the Taiwan Stock Exchange Corporation or traded in the GreTai Securities Market should prepare financial statements in accordance with the International Financial Reporting Standards (“IFRSs”), International Accounting Standards (“IASs”), and relevant interpretations and interpretative bulletins that are ratified by the Financial Supervisory Commission.

The Company discloses the following information in advance prior to the adoption of IFRSs under the requirements of Jin-Guan-Zheng-Shen-Zi Letter No. 0990004943 of the Financial Supervisory Commission, dated February 2, 2010:

Major contents and status of execution of the Company's plan for IFRSs adoption:

- (1) The Company has formed an IFRSs group headed by the Company's Chief Executive Officer, which is responsible for setting up a plan relative to the Company's transition to IFRSs. The major contents and status of execution of this plan are outlined below:

Working Items for IFRSs Adoption	Status of Execution
a. Formation of an IFRSs group	Completed
b. Setting up a plan relative to the Company's transition to IFRSs	Completed
c. Identification of the differences between current accounting policies and IFRSs	Completed
d. Identification of consolidated entities under the IFRSs framework	Completed
e. Evaluation of the impact of each exemption and option on the Company under IFRS 1 – First-time Adoption of International Financial Reporting Standards	Completed
f. Evaluation of needed information system adjustments	Completed
g. Evaluation of needed internal control adjustments	Completed
h. Establish IFRSs accounting policies	Completed
i. Selection of exemptions and options available under IFRS 1 – First-time Adoption of International Financial Reporting Standards	Completed
j. Preparation of statement of financial position on the date of transition to IFRSs	Completed
k. Preparation of IFRSs comparative financial information for 2012	In progress
l. Completion of relevant internal control (including financial reporting process and relevant information system) adjustments	In progress

- (2) Material differences that may arise between current accounting policies used in the preparation of financial statements and IFRSs and "Rules Governing the Compilation of Financial Statements by Securities Issuers" that will be used in the preparation of financial statements in the future:

The Company uses the IFRSs already ratified currently by the Financial Supervisory Commission and the "Rules Governing the Compilation of Financial Statements by Securities Issuers" that will be applied in 2013 as the basis for evaluation of material differences in accounting policies as mentioned above. However, the Company's current evaluation results may be different from the actual differences that may arise when new issuances of or amendments to IFRSs are subsequently ratified by the Financial Supervisory Commission or relevant interpretations or amendments to the "Rules Governing the Compilation of Financial Statements by Securities Issuers" come in the future.

Material differences identified by the Company that may arise between current accounting policies used in the preparation of financial statements and IFRSs and "Rules Governing the Compilation of Financial Statements by Securities Issuers" that will be used in the preparation of financial statements in the future. The Company has also elected to use certain exemption under rules in IFRS1, "First-time Adoption of International Financial Reporting Standards", please refer to Note (13)(c). The effects are outlined below:

A. Material differences of adjustments on assets and liabilities on January 1, 2012.

	R.O.C. SFAS	Adjustments	IFRSs	Explanation
Deferred income tax assets - current	\$ 37,100	(\$ 37,100)	\$ -	(i)
Deferred income tax assets - non - current	82,815	56,485	139,300	(i)
Others	629,419	-	629,419	
Total assets	749,334	19,385	768,719	
Accrued expenses	72,852	3,015	75,867	(ii)
Deferred income tax liabilities - non - current	-	19,385	19,385	
Others	25,400	-	25,400	
Total liabilities	98,252	22,400	120,652	
Retained earnings	79,274	(3,015)	76,259	(ii)
Others	571,808	-	571,808	
Total stockholders' equity	651,082	(3,015)	648,067	

B. Material differences of adjustments on assets and liabilities on June 30, 2012.

	R.O.C. SFAS	Adjustments	IFRSs	Explanation
Deferred income tax assets - current	\$ 8,229	(\$ 8,229)	\$ -	(i)
Deferred income tax assets - non - current	113,714	28,952	142,666	(i)
Others	589,234	-	589,234	
Total assets	711,177	20,723	731,900	
Accrued expenses	51,894	3,042	57,398	(ii)
Deferred income tax liabilities - non - current	-	20,723	20,723	
Others	24,776	-	22,314	
Total liabilities	76,670	23,765	100,435	
Retained earnings	67,785	(3,042)	64,743	(ii)
Others	566,722	-	566,722	
Total stockholders' equity	634,507	(3,042)	631,465	

C. Material differences of adjustments on profit and loss for the six-month period ended June 30, 2012.

	R.O.C. SFAS	Adjustments	IFRSs	Explanation
Operating revenues	\$ 407,382	\$ -	\$ 407,382	
Operating costs	(297,843)	-	(297,843)	
Operating expenses	(122,385)	(67)	(122,452)	(ii)
Operating loss	(12,846)	(67)	(12,913)	
Non-operating revenues and income / expenses and loss	1,369	-	1,369	
Income before income tax	(11,477)	(67)	(11,544)	
Income tax expense	(12)	-	(12)	
Consolidated net income	(11,489)	(67)	(11,556)	

Explanation for adjustments:

(i) In accordance with current accounting standards in the R.O.C., a deferred tax asset or liability should according to the classification of its related asset or liability, be classified as current or noncurrent. However, a deferred tax asset or liability that is not related to an asset or liability for financial reporting should be classified as current or noncurrent according to the expected time period to realize or settle a deferred tax asset or liability. However, under IAS 1, "Presentation of of Financial Statements", an entity should not classify a deferred tax asset or liability as current. Accordingly, the Company should reclassify the account "deferred income tax assets" from current to non-current on the transition date.

In accordance with current accounting standards in R.O.C., when evidence shows that part of whole of the deferred tax asset with 50% probability or above will not be realized, an entity should reduce the amount of deferred tax asset by adjusting the valuation allowance account. In accordance with IAS 12, "Income Taxes", a deferred tax asset should be recognized if, and only if, it is considered highly probably that it will be realized. Therefore, the Company reclassifies the account "deferred income tax assets" from current to non-current and calculated the effect of deferred income tax assets between R.O.C. and IFRS. The Company increased deferred income tax assets - non - current and decreased deferred income tax assets - current in the amount of \$37,100 on the transition date. Also, the Company increased deferred income tax assets - non - current and decreased deferred income tax assets - current in the amount of \$8,229 on June 30, 2012.

(ii) In accordance with current accounting standards in R.O.C., for the Company's long-term lease contracts with variable rents which are adjusted year by year, the lease payment is recognized as an expense for each term's rent agreement. However, in accordance with IAS 17, "Leases", all lease payments stipulated in the lease contracts should be recognized as an expense over the lease term on a straight-line basis. Therefore, the Company increased accrued expenses and decreased retained earnings in the amount of \$3,015 on transition date. Also, the Company increased accrued expenses in the amount of \$3,042 and decreased

retained earnings and operating expenses of \$3,042 on June 30, 2012 and for the six-month period ended June 30, 2012.

- (3) The Group elected to use the following exemptions in accordance with IFRS 1 “First-time Adoption of International Financial Reporting Standards” and “Rules Governing the Preparation of Financial Reporting Statement by Securities Issuers” effective in 2013.

Lease

The Company adopted IFRIC 4, “Determining whether an Arrangement Contains a Lease” and assessed and determined that fulfillment of its arrangement fact and instruction on transition date should be accounted for in accordance with IAS 17, “Lease”.

Some of the above differences may not have a material effect on the Group in transition to IFRSs due to the exemption rules in IFRS 1, “First-time Adoption of International Financial Reporting Standards”, adopted by the Company.