

VIA Technologies, Inc.

**Financial Statements for the
Years Ended December 31, 2012 and 2011 and
Independent Auditors' Report**

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
VIA Technologies, Inc.

We have audited the accompanying balance sheets of VIA Technologies, Inc. as of December 31, 2012 and 2011, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended (all expressed in New Taiwan dollars). 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.

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 provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of VIA Technologies, Inc. as of December 31, 2012 and 2011, 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 discussed in Note 3 to the financial statements, the Company adopted on January 1, 2011 the newly revised Statement of Financial Accounting Standards No. 34, "Financial Instruments: Recognition and Measurement," and No. 41, "Operating Segments."

We have also audited the consolidated financial statements of VIA Technologies, Inc. and its subsidiaries as of and for the years ended December 31, 2012 and 2011, and our report dated February 20, 2013 has expressed an unqualified opinion and an unqualified opinion with an explanatory paragraph, respectively, on those statements.

February 20, 2013

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.

VIA TECHNOLOGIES, INC.

BALANCE SHEETS DECEMBER 31, 2012 AND 2011 (In Thousands of New Taiwan Dollars)

ASSETS	2012		2011		LIABILITIES AND STOCKHOLDERS' EQUITY	2012		2011	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents (Notes 2 and 4)	\$ 1,031,033	15	\$ 1,346,069	12	Financial liabilities at fair value through profit or loss, current (Notes 2 and 5)	\$ 885	-	\$ 8,142	-
Financial assets at fair value through profit or loss, current (Notes 2, 5 and 26)	1,301,078	19	2,120,130	19	Notes payable	2,221	-	1,439	-
Available-for-sale financial assets, current (Notes 2 and 6)	53,342	1	157,687	2	Accounts payable	398,059	6	625,128	6
Notes receivable, net (Notes 2 and 7)	2,592	-	11,859	-	Notes and accounts payable to related parties (Note 25)	45,068	1	76,150	1
Accounts receivable, net (Notes 2 and 7)	99,883	1	166,804	2	Accrued expenses (Notes 17, 25 and 28)	541,038	8	548,093	5
Notes and accounts receivable from related parties, net (Notes 2, 8 and 25)	79,917	1	124,207	1	Other current liabilities (Note 18)	<u>223,464</u>	<u>3</u>	<u>219,881</u>	<u>2</u>
Other receivables (Notes 2, 9 and 25)	59,886	1	112,973	1	Total current liabilities	<u>1,210,735</u>	<u>18</u>	<u>1,478,833</u>	<u>14</u>
Inventories (Notes 2 and 10)	568,680	8	1,120,205	10	LONG-TERM LIABILITIES				
Deferred income tax assets, current (Notes 2 and 23)	179,690	3	203,995	2	Long-term bank loans (Note 19)	<u>1,000,000</u>	<u>14</u>	<u>650,000</u>	<u>6</u>
Restricted assets, current (Note 26)	90,000	1	-	-	OTHER LIABILITIES (Notes 2, 13, 20 and 25)				
Other current assets (Note 11)	<u>43,231</u>	<u>1</u>	<u>72,356</u>	<u>1</u>	Total liabilities	<u>2,580,194</u>	<u>37</u>	<u>2,286,363</u>	<u>21</u>
Total current assets	<u>3,509,332</u>	<u>51</u>	<u>5,436,285</u>	<u>50</u>	STOCKHOLDERS' EQUITY				
LONG-TERM INVESTMENTS (Notes 2, 12 and 13)					Common stock (Note 21)	4,933,034	71	9,866,069	90
Financial assets carried at cost	19,987	-	29,104	-	Capital surplus				
Long-term investments under equity method	<u>1,854,748</u>	<u>27</u>	<u>3,831,226</u>	<u>35</u>	Long-term equity investments (Note 13)	260,796	4	3,489,812	32
Total long-term investments	<u>1,874,735</u>	<u>27</u>	<u>3,860,330</u>	<u>35</u>	Retained earnings (Note 21)				
PROPERTY, PLANT AND EQUIPMENT (Notes 2, 14 and 16)					Accumulated deficit	(1,476,410)	(21)	(5,568,959)	(51)
Land	769,958	11	789,701	7	Cumulative translation adjustments (Note 2)	595,554	9	677,666	6
Buildings and improvements	439,364	6	445,359	4	Unrealized gains on financial instruments (Notes 2 and 6)	<u>34,644</u>	<u>-</u>	<u>178,479</u>	<u>2</u>
Machinery and equipment	30,875	-	28,755	-	Total stockholders' equity	<u>4,347,618</u>	<u>63</u>	<u>8,643,067</u>	<u>79</u>
Computer equipment	55,659	1	52,864	1					
Instrument equipment	37,427	1	32,249	1					
Transportation equipment	2,987	-	2,987	-					
Furniture and fixtures	959	-	1,034	-					
Leasehold improvements	<u>3,806</u>	<u>-</u>	<u>3,477</u>	<u>-</u>					
	1,341,035	19	1,356,426	13					
Less accumulated depreciation	<u>(226,199)</u>	<u>(3)</u>	<u>(197,890)</u>	<u>(2)</u>					
Net property, plant and equipment	<u>1,114,836</u>	<u>16</u>	<u>1,158,536</u>	<u>11</u>					
INTANGIBLE ASSETS (Notes 2, 15 and 25)									
Patents	<u>4,992</u>	<u>-</u>	<u>12,639</u>	<u>-</u>					
OTHER ASSETS									
Leased-out assets (Notes 2, 16 and 25)	249,961	4	228,597	2					
Refundable deposits	13,587	-	13,683	-					
Deferred charges (Notes 2, 15 and 25)	146,611	2	154,907	1					
Deferred income tax assets, noncurrent (Notes 2 and 23)	<u>13,758</u>	<u>-</u>	<u>64,453</u>	<u>1</u>					
Total other assets	<u>423,917</u>	<u>6</u>	<u>461,640</u>	<u>4</u>					
TOTAL	<u>\$ 6,927,812</u>	<u>100</u>	<u>\$ 10,929,430</u>	<u>100</u>	TOTAL	<u>\$ 6,927,812</u>	<u>100</u>	<u>\$ 10,929,430</u>	<u>100</u>

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

(With Deloitte & Touche audit report dated February 20, 2013)

VIA TECHNOLOGIES, INC.

STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2012 AND 2011

(In Thousands of New Taiwan Dollars, Except Loss Per Share)

	2012		2011	
	Amount	%	Amount	%
OPERATING REVENUES (Note 2)				
Sales	\$ 3,655,023	109	\$ 4,579,295	107
Less sales returns	(2,566)	-	(10,054)	-
Less sales allowance	(306,172)	(9)	(301,337)	(7)
Net sales (Note 25)	3,346,285	100	4,267,904	100
Other operating revenues (Note 25)	16,868	-	13,819	-
Total operating revenues	3,363,153	100	4,281,723	100
COST OF OPERATING REVENUES (Notes 22 and 25)	(2,241,230)	(66)	(2,753,031)	(64)
GROSS PROFIT	1,121,923	34	1,528,692	36
UNREALIZED PROFIT FROM INTERCOMPANY TRANSACTIONS (Notes 2 and 18)	(3,693)	-	(3,464)	-
REALIZED PROFIT FROM INTERCOMPANY TRANSACTIONS	3,464	-	2,598	-
REALIZED GROSS PROFIT	1,121,694	34	1,527,826	36
OPERATING EXPENSES (Notes 22 and 25)				
Selling and marketing expenses	438,717	13	598,839	14
General and administrative expenses	407,624	12	431,621	10
Research and development expenses	960,300	29	1,041,718	24
Total operating expenses	1,806,641	54	2,072,178	48
LOSS FROM OPERATIONS	(684,947)	(20)	(544,352)	(12)
NON-OPERATING INCOME				
Interest income	6,432	-	2,959	-
Dividend income	170,097	5	153,320	4
Gain on disposal of property, plant and equipment and leased-out assets (Notes 2 and 25)	490	-	1,885	-
Gain on sale of investments, net (Notes 2, 5 and 6)	155,748	5	7,139	-
Foreign currency exchange gain, net (Notes 2 and 5)	13,649	-	28,813	1
Rental income (Note 25)	14,750	1	13,758	-
Gain on reversal of bad debts (Notes 2 and 8)	5,104	-	5,953	-
Others (Note 25)	71,388	2	224,038	5
Total non-operating income	437,658	13	437,865	10

(Continued)

VIA TECHNOLOGIES, INC.

STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2012 AND 2011

(In Thousands of New Taiwan Dollars, Except Loss Per Share)

	2012		2011	
	Amount	%	Amount	%
NON-OPERATING EXPENSES				
Interest expense (Note 23)	\$ 9,292	-	\$ 25,545	1
Investment loss under equity method (Notes 2 and 13)	2,906,105	87	1,355,294	32
Impairment loss (Notes 2 and 12)	9,117	-	2,475	-
Valuation loss on financial assets, net (Notes 2 and 5)	819,052	25	1,553,346	36
Valuation loss on financial liabilities, net (Notes 2 and 5)	885	-	8,142	-
Others (Note 16)	<u>6,108</u>	<u>-</u>	<u>10,071</u>	<u>-</u>
Total non-operating expenses	<u>3,750,559</u>	<u>112</u>	<u>2,954,873</u>	<u>69</u>
LOSS BEFORE INCOME TAX	(3,997,848)	(119)	(3,061,360)	(71)
INCOME TAX EXPENSE (Notes 2 and 23)	<u>(74,989)</u>	<u>(2)</u>	<u>(369,130)</u>	<u>(9)</u>
NET LOSS	<u>\$ (4,072,837)</u>	<u>(121)</u>	<u>\$ (3,430,490)</u>	<u>(80)</u>
	2012		2011	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
BASIC LOSS PER SHARE (Note 24)	<u>\$ (8.10)</u>	<u>\$ (8.26)</u>	<u>\$ (6.21)</u>	<u>\$ (6.95)</u>

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

(With Deloitte & Touche audit report dated February 20, 2013)

(Concluded)

VIA TECHNOLOGIES, INC.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY YEARS ENDED DECEMBER 31, 2012 AND 2011 (In Thousands of New Taiwan Dollars)

		Capital Surplus		Retained Earnings	Cumulative	Unrealized (Losses)	
	Capital Stock	Additional Paid-in Capital	Long-term Equity Investments	(Accumulated Deficit)	Translation Adjustments	Gains on Financial Instruments	Total
BALANCE, JANUARY 1, 2011	\$ 9,866,069	\$ 690,000	\$ 257,461	\$ (2,828,469)	\$ 567,115	\$ 15,973	\$ 8,568,149
Additional paid-in capital transferred to make up for accumulated deficit	-	(690,000)	-	690,000	-	-	-
Increase in capital surplus of equity method investees	-	-	3,232,351	-	-	-	3,232,351
Net change in shareholders' equity of equity-method investees	-	-	-	-	-	55,784	55,784
Unrealized gains on financial instruments	-	-	-	-	-	106,722	106,722
Translation adjustments on long-term investments	-	-	-	-	110,551	-	110,551
Net loss for 2011	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,430,490)</u>	<u>-</u>	<u>-</u>	<u>(3,430,490)</u>
BALANCE, DECEMBER 31, 2011	9,866,069	-	3,489,812	(5,568,959)	677,666	178,479	8,643,067
Capital reduction to eliminate accumulated deficit	(4,933,035)	-	-	4,933,035	-	-	-
Subsidiary's transfer of capital surplus to offset deficit taken up by the Company	-	-	(3,232,351)	3,232,351	-	-	-
Increase in capital surplus of equity method investees	-	-	3,335	-	-	-	3,335
Net change in shareholders' equity of equity-method investees	-	-	-	-	-	(55,784)	(55,784)
Unrealized loss on financial instruments	-	-	-	-	-	(88,051)	(88,051)
Translation adjustments on long-term investments	-	-	-	-	(82,112)	-	(82,112)
Net loss for 2012	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,072,837)</u>	<u>-</u>	<u>-</u>	<u>(4,072,837)</u>
BALANCE, DECEMBER 31, 2012	<u>\$ 4,933,034</u>	<u>\$ -</u>	<u>\$ 260,796</u>	<u>\$ (1,476,410)</u>	<u>\$ 595,554</u>	<u>\$ 34,644</u>	<u>\$ 4,347,618</u>

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

(With Deloitte & Touche audit report dated February 20, 2013)

VIA TECHNOLOGIES, INC.

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2012 AND 2011 (In Thousands of New Taiwan Dollars)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (4,072,837)	\$ (3,430,490)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities		
Depreciation (including depreciation of leased-out assets)	34,540	40,975
Amortization	69,670	74,975
Gain on disposal of property, plant and equipment	(490)	(1,885)
Impairment loss	9,117	2,475
Gain on sale of investments	(154,855)	(5,954)
Investment loss recognized under equity-method	2,906,105	1,355,294
Cash dividends received from equity-method investee	20,323	48,721
Accrued pension cost	(3,439)	(3,890)
Deferred income tax expense	75,000	368,628
Increase in deferred credits	-	1,896
Net changes in operating assets and liabilities		
Financial assets held for trading	819,052	1,553,346
Notes receivable, net	9,267	27,373
Accounts receivable, net	66,921	33,275
Notes and accounts receivable from related parties, net	44,290	94,169
Other receivables	53,087	(27,765)
Inventories	551,525	86,732
Other current assets	29,125	47,821
Financial liabilities held for trading	(7,257)	855
Notes payable	782	(1,461)
Accounts payable	(227,069)	(329,748)
Notes and accounts payable to related parties	(31,082)	(9,478)
Income tax payable	-	(231,188)
Accrued expenses	(7,055)	(56,674)
Other current liabilities	4,057	9,179
Net cash provided by (used in) operating activities	<u>188,777</u>	<u>(352,819)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of available-for-sale financial assets	169,763	18,173
Acquisition of property, plant and equipment	(14,762)	(15,863)
Increase in leased-out assets	(350)	-
Proceeds from disposal of property, plant and equipment, intangible assets and deferred charges	1,600	22,207
Payment for long-term investments under equity method	(912,521)	(2,140,146)
Proceeds from capital reduction of long-term investment under equity method	43,858	2,214,555
Proceeds from capital reduction of financial assets carried at cost	1,386	-
Decrease in refundable deposits	96	109
Increase in restricted assets	(90,000)	-
Increase in intangible assets and deferred charges	<u>(52,893)</u>	<u>(186,888)</u>
Net cash used in investing activities	<u>(853,823)</u>	<u>(87,853)</u>

(Continued)

VIA TECHNOLOGIES, INC.

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2012 AND 2011 (In Thousands of New Taiwan Dollars)

	2012	2011
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in long-term bank loans	\$ 350,000	\$ 650,000
Increase (decrease) in guarantee deposits received	<u>10</u>	<u>(3,137)</u>
Net cash provided by financing activities	<u>350,010</u>	<u>646,863</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(315,036)	206,191
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,346,069</u>	<u>1,139,878</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,031,033</u>	<u>\$ 1,346,069</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION		
Cash paid during the year		
Interest	\$ 9,084	\$ 25,385
Income tax	<u>\$ 603</u>	<u>\$ 231,965</u>
NONCASH INVESTING AND FINANCING ACTIVITIES		
Transfer of long-term investment under equity method to other liabilities	\$ 215,848	\$ 4,886
Transfer of deferred credits to gain on disposal of property, plant and equipment	\$ 490	\$ 1,553
Additional paid-in capital transfer to make up for accumulated deficit	\$ -	\$ 690,000
Capital reduction to eliminate accumulated deficit	\$ 4,933,035	\$ -
Subsidiary's transfer of capital surplus to offset deficit taken up by the Company	\$ 3,232,351	\$ -
Transfer of property, plant and equipment to leased-out assets	\$ 27,073	\$ 12,990
Transfer of financial assets carried at cost to available-for-sale financial assets	\$ -	\$ 22,486
PROCEEDS FROM DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE ASSETS AND DEFERRED CHARGES		
Sale of property, plant and equipment, intangible assets and deferred charges	\$ 1,600	\$ 503
Decrease in other receivable	<u>-</u>	<u>21,704</u>
Cash received	<u>\$ 1,600</u>	<u>\$ 22,207</u>

(Continued)

VIA TECHNOLOGIES, INC.

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2012 AND 2011 (In Thousands of New Taiwan Dollars)

	2012	2011
PURCHASE OF PROPERTY, PLANT AND EQUIPMENT		
Increase in property, plant and equipment	\$ 13,454	\$ 17,359
Decrease (increase) in payable for acquisition of property, plant and equipment	<u>1,308</u>	<u>(1,496)</u>
Cash payment	<u>\$ 14,762</u>	<u>\$ 15,863</u>
PURCHASE OF INTANGIBLE ASSETS AND DEFERRED CHARGES		
Increase in intangible assets and deferred charges	\$ 53,727	\$ 182,044
(Increase) decrease in payable for deferred charges	<u>(834)</u>	<u>4,844</u>
Cash payment	<u>\$ 52,893</u>	<u>\$ 186,888</u>

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

(With Deloitte & Touche audit report dated February 20, 2013)

(Concluded)

VIA TECHNOLOGIES, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 AND 2011

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. ORGANIZATION AND OPERATIONS

VIA Technologies, Inc. (the “Company”) was incorporated in September 1992 under the Company Law of the Republic of China to engage in the programming, designing, manufacturing and selling of semiconductors and PC chipsets. In March 1999, the Company’s common stock was officially listed on the Taiwan Stock Exchange.

There are 801 and 845 employees in the Company at December 31, 2012 and 2011 respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements have been 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 Republic of China (“ROC”).

For readers’ convenience, the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the ROC. If inconsistencies arise between the English version and the Chinese version or if differences arise in the interpretations between the two versions, the Chinese version of the 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.

Significant accounting policies are summarized as follows:

Accounting Estimates

Under above guidelines, law and principles, certain estimates and assumptions have been used for the allowance for doubtful accounts, allowance for inventory devaluation, property depreciation, pension cost, income tax and bonuses to employees, directors and supervisors, etc. Actual results could differ from these estimates.

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 Equivalents

Cash equivalents, consisting of commercial paper, bank acceptances and repurchase agreements collateralized by bonds, are highly liquid financial instruments with maturities of three months or less when acquired and with carrying amounts that approximate their fair values.

Financial Assets and Liabilities at Fair Value through Profit or Loss

Financial instruments classified as financial assets or financial liabilities at fair value through profit or loss (“FVTPL”) include financial assets or financial liabilities held for trading and those designated as at FVTPL on initial recognition. The Company recognizes a financial asset or a financial liability on its balance sheet when the Company becomes a party to the contractual provisions of the financial instrument. A financial asset is derecognized when the Company has lost control of its contractual rights over the financial asset. A financial liability is derecognized when the obligation specified in the relevant contract is discharged, cancelled or expired.

Financial instruments at FVTPL are initially measured at fair value with transaction costs recognized as expense for the year. After the initial recognition, financial assets or financial liabilities at FVTPL are remeasured at fair value at the balance sheet date, with changes in fair value recognized as current gains or losses. Cash dividends received are recognized as income for the year. On the derecognition of a financial asset or a financial liability, the difference between its carrying amount and the sum of the consideration received or receivable or consideration paid or payable is recognized as gain or loss.

A derivative that does not meet the criteria for hedge accounting is classified as a financial asset or a financial liability held for trading. If the fair value of the derivative is positive, the derivative is recognized as a financial asset; otherwise, the derivative is recognized as a financial liability.

Fair values of financial assets and financial liabilities at the balance sheet date are determined as follows: Publicly traded stocks - at closing prices; open-end mutual funds - at net asset values; bonds - at prices quoted by the Taiwan GreTai Securities Market; and financial assets and financial liabilities without quoted prices in an active market - at values determined using valuation techniques.

Securities Borrowing and Lending Transaction

Securities borrowing and lending transaction means a transaction in which a lender agrees to lend securities and the borrower to return or redeliver securities of the same kind and quantity. Under Taiwan Stock Exchange Corporation Securities Borrowing and Lending Rules, the period of a security loan may not exceed six months in maximum, starting from the execution date of the loan transaction. The net lending income, which is gross lending income minus related service charges and management fee, is recognized as other non-operating income. Cash dividends during the period of the security loan transaction should be returned by the borrower to the lender and recognized as dividend income on the ex-dividend date.

Available-for-sale Financial Assets

Available-for-sale financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are remeasured at fair value, with changes in fair value recognized in equity until the financial assets are disposed of, at which time, the cumulative gain or loss previously recognized in equity is included in profit or loss for the year. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

The recognition, derecognition and the fair value bases of available-for-sale financial assets are the same with those of financial assets at FVTPL.

Cash dividends are recognized on the ex-dividend date, except for dividends distributed from the pre-acquisition profit, which are treated as a reduction of investment cost. Stock dividends are not recognized as investment income but are recorded as an increase in the number of shares. The total number of shares subsequent to the increase is used for recalculation of cost per share. The difference between the initial cost of a debt instrument and its maturity amount is amortized using the effective interest method, with the amortized interest recognized in profit or loss.

An impairment loss is recognized when there is objective evidence that the financial asset is impaired. Any subsequent decrease in impairment loss for an equity instrument classified as available-for-sale is recognized directly in equity. If the fair value of a debt instrument classified as available-for-sale subsequently increases as a result of an event which occurred after the impairment loss was recognized, the decrease in impairment loss is reversed to profit.

Revenue Recognition, Trade Receivables and Allowance for Doubtful Accounts

Revenue from sales of goods is recognized when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods, primarily upon shipment, because the earnings process has been completed and the economic benefits associated with the transaction have been realized or are realizable. Allowances for sales returns and others are generally recorded in the year the related revenue is recognized on the basis of past experience, management's judgment, and relevant factors.

Revenue is measured at the fair value of the consideration received or receivable and represents amounts agreed between the Company and the customers for goods sold in the normal course of business, net of sales discounts and volume rebates. For trade receivables due within one year from the balance sheet date, as the nominal value of the consideration to be received approximates its fair value and transactions are frequent, fair value of the consideration is not determined by discounting all future receipts using an imputed rate of interest.

An allowance for doubtful accounts is provided on the basis of a review of the collectability of accounts receivable. The Company assesses the probability of collections of accounts receivable by examining the aging analysis of the outstanding receivables and assessing the value of the collateral provided by customers.

As discussed in Note 3 to the financial statements, on January 1, 2011, the Company adopted the third-time revised Statement of Financial Accounting Standards (SFAS) No. 34, "Financial Instruments: Recognition and Measurement." One of the main revisions is that any impairment of receivables originated by the Company should be covered by SFAS No. 34. Accounts receivable are assessed for impairment at the end of each reporting period and considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the accounts receivable, the estimated future cash flows of the asset have been affected. Objective evidence of impairment could include:

- Significant financial difficulty of the debtor;
- Accounts receivable becoming overdue; or
- It becomes probable that the debtor will enter bankruptcy or financial re-organization.

Accounts receivable that are assessed as not impaired individually are further assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of accounts receivable could include the Company's past experience of collecting payments, an increase in the number of delayed payments, as well as observable changes in national or local economic conditions that correlate with defaults on receivables.

The amount of the impairment loss recognized is the difference between the asset carrying amount and the present value of estimated future cash flows, after taking into account the related collateral and guarantees, discounted at the receivable's original effective interest rate.

The carrying amount of accounts receivable is reduced through the use of an allowance account. When accounts receivable are considered uncollectible, they are written off against the allowance account. Recoveries of amounts previously written off are credited to the allowance account. Changes in the carrying amount of the allowance account are recognized as bad debt in profit or loss.

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 item by item, except where it may be appropriate to group similar or related items. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Cost is determined using the moving-average method.

Financial Assets Carried at Cost

Investments in equity instruments with no quoted prices in an active market and with fair values that cannot be reliably measured, such as non-publicly traded stocks and stocks traded in the Emerging Stock Market, are measured at their original cost. The accounting treatment for dividends on financial assets carried at cost is the same with that for dividends on available-for-sale financial assets. An impairment loss is recognized when there is objective evidence that the asset is impaired. A reversal of this impairment loss is disallowed.

Investments Accounted for by the Equity Method

Investments in which the Company holds 20 percent or more of the investees' voting shares or exercises significant influence over the investees' operating and financial policy decisions are accounted for by the equity method.

The acquisition cost of investment is allocated to the assets and liabilities of the investee (in proportion to investor's percentage of ownership) on the basis of their fair values at the date of investment, and the investment cost in excess of the fair value of the identifiable net assets of the investee is recognized as goodwill. Goodwill is not amortized. The fair value of the net identifiable assets of the investee in excess of the investment cost is used to reduce the fair value of each of the noncurrent assets of the investee (except for financial assets other than investments accounted for by the equity method, noncurrent assets held for sale, deferred income tax assets, prepaid pension or other postretirement benefit) in proportion to the respective fair values of the noncurrent assets, with any excess recognized as an extraordinary gain.

Profits from downstream transactions with an equity-method investee are eliminated in proportion to the Company's percentage of ownership in the investee; however, if the Company has control over the investee, all the profits are eliminated. Profits from upstream transactions with an equity-method investee are eliminated in proportion to the Company's percentage of ownership in the investee.

When the Company subscribes for its investee's newly issued shares at a percentage different from its percentage of ownership in the investee, the Company records the change in its equity in the investee's net assets as an adjustment to investments, with a corresponding amount credited or charged to capital surplus. When the adjustment should be debited to capital surplus, but the capital surplus from long-term investments is insufficient, the shortage is debited to retained earnings.

When the Company's share in losses of an investee over which the Company has significant influence equals its investment in that investee plus any advances made to the investee, the Company discontinues applying the equity method. The Company continues to recognize its share in losses of the investee if (a) the Company commits to provide further financial support to the investee or (b) the losses of the investee are considered to be temporary and sufficient evidence shows imminent return to profitability.

When the Company's share in losses of an investee over which the Company has control exceeds its investment in the investee, unless the other shareholders of the investee have assumed legal or constructive obligations and have demonstrated the ability to make payments on behalf of the investee, the Company has to bear all of the losses in excess of the capital contributed by shareholders of the investee. If the investee subsequently reports profits, such profits are first attributed to the Company to the extent of the excess losses previously borne by the Company.

Property, Plant and Equipment and Leased-out Assets

Property, plant and equipment are stated at cost less accumulated depreciation. Interest incurred in connection with the purchase or construction of property, plant and equipment is capitalized. Major renewals and betterments are capitalized, while maintenance and repairs are expensed in the period incurred.

Depreciation is provided on a straight-line basis over the estimated service lives of the assets as prescribed in the tax regulations, plus one additional year for salvage value as follows: Buildings - 5 to 55 years; machinery, computer, instrument and equipment - 3 years; transportation equipment - 5 years; furniture and fixtures - 5 years; and leasehold improvements - 3 years.

Fixed assets rented out, the related costs and accumulated depreciation, are classified as other assets - leased-out assets.

The related cost (including revaluation increment), accumulated depreciation, accumulated impairment losses and any unrealized revaluation increment of an item of property, plant and equipment are derecognized from the balance sheet upon its disposal. Any gain or loss on disposal of the asset is included in nonoperating gains or losses in the year of disposal.

Intangible Assets

Intangible assets acquired are initially recorded at cost and are amortized on a straight-line basis over their estimated useful lives.

Expenditure for research activities is recognized as an expense when incurred. An internally-generated intangible asset arising from development activities is capitalized and then amortized on a straight-line basis over its estimated useful life if the recognition criteria for intangible assets have been met; otherwise, the development expenditure is recognized as an expense when incurred.

Deferred Charges

Deferred charges which consist of telephone installation charges, computer software installations and deferred authorization charges are amortized on a straight-line basis over three to five years or authorized period.

Impairment of Assets

If the recoverable amount of an asset (mainly property, plant and equipment, intangible assets, and investments accounted for by the equity method) is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is charged to earnings unless the asset is carried at a revalued amount, in which case the impairment loss is treated as a deduction to the unrealized revaluation increment.

If an impairment loss subsequently reverses, the carrying amount of the asset is increased accordingly, but the increased carrying amount may not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized in earnings, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as an increase in the unrealized revaluation increment.

For the purpose of impairment testing, goodwill is allocated to each of the relevant cash-generating units ("CGU(s)") that are expected to benefit from the synergies of the acquisition. A CGU to which goodwill has been allocated is tested for impairment annually or whenever there is an indication that the CGU may be impaired. If the recoverable amount of the CGU becomes less than its carrying amount, the impairment is allocated to first reduce the carrying amount of the goodwill allocated to the CGU and then to the other assets of the CGU pro rata on the basis of the carrying amount of each asset in the CGU. A reversal of an impairment loss on goodwill is disallowed.

Pension Cost

Pension cost under a defined benefit plan is determined by actuarial valuations. Contributions made under a defined contribution plan are recognized as pension cost during the year in which employees render services.

Curtailment or settlement gains or losses of the defined benefit plan are recognized as part of the net periodic pension cost for the year.

Stock-based Compensation

Employee stock options granted on or after January 1, 2008 are accounted for under SFAS No. 39, "Accounting for Share-based Payment." Under the statement, the value of the stock options granted, which is equal to the best available estimate of the number of stock options expected to vest multiplied by the grant-date fair value, is expensed on a straight-line basis over the vesting period, with a corresponding adjustment to capital surplus - employee stock options. The estimate is revised if subsequent information indicates that the number of stock options expected to vest differs from previous estimates.

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"). The Company adopted the intrinsic value method, under which compensation cost was recognized on a straight-line basis over the vesting period.

Income Tax

The Company applies the intra-year and inter-year allocation methods to its income tax, whereby (1) a portion of income tax expense is allocated to the cumulative effect of changes in accounting principles or charged or credited directly to shareholders' equity; and (2) deferred income tax assets and liabilities are recognized for the tax effects of temporary differences, unused loss carryforward and unused tax credits. Valuation allowance is provided to the extent, if any, that it is more likely than not that deferred income tax assets will not be realized. A deferred tax asset or liability is classified as current or noncurrent in accordance with the classification of its related asset or liability. However, if a deferred income tax asset or liability does not relate to an asset or liability in the financial statements, then it is classified as either current or noncurrent based on the expected length of time before it is realized or settled.

If the Company can control the timing of the reversal of a temporary difference arising from the difference between the book value and the tax basis of a long-term equity investment in a foreign subsidiary or joint venture and if the temporary difference is not expected to reverse in the foreseeable future and will, in effect, exist indefinitely, then a deferred tax liability or asset is not recognized.

Tax credits for purchases of machinery, equipment and technology, research and development expenditures, and personnel training expenditures are recognized using the flow-through method.

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

According to the Income Tax Law, an additional tax at 10% of unappropriated earnings is provided for as income tax in the year the stockholders approve to retain the earnings.

Foreign Currencies

The financial statements of foreign operations are translated into New Taiwan dollars at the following exchange rates:

- a. Assets and liabilities - at exchange rates prevailing on the balance sheet date;
- b. Stockholders' equity - at historical exchange rates;
- c. Dividends - at the exchange rate prevailing on the dividend declaration date; and
- d. Income and expenses - at average exchange rates for the year.

Exchange differences arising from the translation of the financial statements of foreign operations are recognized as a separate component of stockholders' equity. Such exchange differences are recognized in profit or loss in the year in which the foreign operations are disposed of.

Non-derivative foreign-currency transactions are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Exchange differences arising from settlement of foreign-currency assets and liabilities are recognized in profit or loss.

At the balance sheet date, foreign-currency monetary assets and liabilities are revalued using prevailing exchange rates and the exchange differences are recognized in profit or loss.

At the balance sheet date, foreign-currency nonmonetary assets (such as equity instruments) and liabilities that are measured at fair value are revalued using prevailing exchange rates, with the exchange differences treated as follows:

- a. Recognized in stockholders' equity if the changes in fair value are recognized in stockholders' equity;
- b. Recognized in profit and loss if the changes in fair value are recognized in profit or loss.

Foreign-currency nonmonetary assets and liabilities that are carried at cost continue to be stated at exchange rates at trade dates.

If the functional currency of an equity-method investee is a foreign currency, translation adjustments will result from the translation of the investee's financial statements into the reporting currency of the Company. Such adjustments are accumulated and reported as a separate component of stockholders' equity.

3. EFFECTS OF CHANGES IN ACCOUNTING PRINCIPLES

Financial Instruments

On January 1, 2011, the Company adopted the newly revised Statement of Financial Accounting Standards (SFAS) No. 34, "Financial Instruments: Recognition and Measurement." The main revisions include (1) finance lease receivables are now covered by SFAS No. 34; (2) the scope of the applicability of SFAS No. 34 to insurance contracts is amended; (3) loans and receivables originated by the Company are now covered by SFAS No. 34; (4) additional guidelines on impairment testing of financial assets carried at amortized cost when a debtor has financial difficulties and the terms of obligations have been modified; and (5) accounting treatment by a debtor for modifications in the terms of obligations. This accounting change resulted in an increase of \$496 thousand in net income for the year ended December 31, 2011.

Operating Segments

On January 1, 2011, the Company adopted the newly issued SFAS No. 41, "Operating Segments." The statement requires that segment information be disclosed based on the information about the components of the Company that management uses to make operating decisions. SFAS No. 41 requires identification of operating segments on the basis of internal reports that are regularly reviewed by the Company's chief operating decision maker in order to allocate resources to the segments and assess their performance. This statement supersedes SFAS No. 20, "Segment Reporting" and resulted in the Company's compliance with the requirement to disclose operating segment information.

4. CASH AND CASH EQUIVALENTS

	2012	2011
Cash on hand	\$ 375	\$ 375
Checking accounts	349	596
Demand deposits	71,525	230,496
Time deposits	678,784	684,561
Cash equivalents - repurchase agreement collateralized by bonds	<u>280,000</u>	<u>430,041</u>
	<u>\$ 1,031,033</u>	<u>\$ 1,346,069</u>

At December 31, 2012 and 2011, interest rates on time deposits ranged from 0.52% to 1.10% and 0.80% to 1.37%, respectively. At December 31, 2012 and 2011, interest rates on cash equivalents ranged from 0.79% to 0.80% and 0.62%, respectively.

5. FINANCIAL INSTRUMENTS AT FVTPL

	2012	2011
<u>Financial assets at FVTPL</u>		
Financial assets held for trading - marketable equity securities	<u>\$ 1,301,078</u>	<u>\$ 2,120,130</u>
<u>Financial liabilities at FVTPL</u>		
Derivatives - financial liabilities - forward exchange contracts	<u>\$ 885</u>	<u>\$ 8,142</u>

The Company has been lending part of its investments in domestic quoted stocks to earn lending income since the second half of 2011. As of December 31, 2012, the entrusted stocks to Taipei Fubon Commercial Bank Co., Ltd. amounted to zero. The Company recognized \$14,333 thousand and \$32,434 thousand for the years ended December 31, 2012 and 2011, respectively, in non-operating income - others.

The Company held derivative financial instruments in 2012 and 2011 for trading purpose and earned profit from foreign exchange fluctuation. Please refer to Note 29 for more information on Derivative financial assets and liabilities.

Outstanding forward contracts as of December 31, 2012 and 2011:

2012				
	Buy/Sell	Currency	Expiry Date	Contract Amount
Forward exchange contracts	Sell	USD/TWD	2013.01.10-2013.02.21	US\$ 7,060
Forward exchange contracts	Buy	USD/TWD	2013.01.09-2013.11.27	US\$ 9,000
Forward exchange contracts	Sell	USD/RMB	2013.11.19	US\$ 6,016
2011				
	Buy/Sell	Currency	Expiry Date	Contract Amount
Forward exchange contracts	Sell	USD/TWD	2012.02.10-2012.02.21	US\$ 73,500
Forward exchange contracts	Buy	USD/TWD	2012.02.09-2012.02.22	US\$ 70,000

Net gain from derivative financial instruments for the years ended December 31, 2012 and 2011 amounted to \$7,490 thousand and \$18,440 thousand, respectively, and was recognized in exchange gain, net and gain on disposal of investments. Net loss on valuation of financial instruments held for trading for the years ended December 31, 2012 and 2011 amounted to \$819,937 thousand and \$1,561,488 thousand, respectively, and was recognized as valuation loss on financial assets and liabilities, net.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2012	2011
Domestic quoted stocks	<u>\$ 53,342</u>	<u>\$ 157,687</u>

Net gain on sale of available-for-sale financial assets for the years ended December 31, 2012 and 2011 amounted to \$153,469 thousand and \$5,954 thousand, respectively, and was recognized as gain on sale of investment, net.

Unrealized (loss) gains on valuation of financial instruments as of December 31, 2012 and 2011 amounted to \$(88,051) thousand and \$106,722 thousand, respectively, and were recognized as unrealized gains on financial instruments in stockholders' equity.

7. NOTES AND ACCOUNTS RECEIVABLE

	2012	2011
Notes receivable	\$ 2,592	\$ 11,859
Accounts receivable	272,153	308,297
Less allowance for doubtful accounts	(8,878)	(13,831)
Less allowance for sales returns and allowance	<u>(163,392)</u>	<u>(127,662)</u>
Notes and accounts receivable, net	<u>\$ 102,475</u>	<u>\$ 178,663</u>

8. NOTES AND ACCOUNTS RECEIVABLE FROM RELATED PARTIES

	2012	2011
Notes receivable	\$ 1,403	\$ -
Accounts receivable	89,151	137,813
Less allowance for doubtful accounts	(639)	(790)
Less allowance for sales returns and allowance	<u>(9,998)</u>	<u>(12,816)</u>
Notes and accounts receivable from related parties, net	<u>\$ 79,917</u>	<u>\$ 124,207</u>

Movements of allowance for doubtful accounts were as follows:

	Years Ended December 31					
	2012			2011		
	Notes Receivable	Accounts Receivable (Including Related Parties)	Overdue Receivable	Notes Receivable	Accounts Receivable (Including Related Parties)	Overdue Receivable
Balance, beginning of year	\$ -	\$ 14,621	\$ 3,064	\$ -	\$ 17,712	\$ 5,926
Deduct: Reversal of allowance	-	(5,104)	-	-	(5,953)	-
Add (deduct): Reclassifications	-	-	-	-	2,862	(2,862)
Balance, end of year	<u>\$ -</u>	<u>\$ 9,517</u>	<u>\$ 3,064</u>	<u>\$ -</u>	<u>\$ 14,621</u>	<u>\$ 3,064</u>

9. OTHER RECEIVABLES

	2012	2011
Value-added tax receivable	\$ 7,778	\$ 21,773
Income tax receivable	878	1,770
Interests receivable	639	426
Other receivables from related parties - others	50,338	70,441
Receivables on securities lending transaction	-	18,039
Others	<u>253</u>	<u>524</u>
	<u>\$ 59,886</u>	<u>\$ 112,973</u>

Other receivables from related parties are described in Note 25. Receivables on securities lending transaction for the year ended December 31, 2011 resulted from the lending of the securities in domestic quoted stocks.

10. INVENTORIES

	2012	2011
Resale merchandise	\$ 20,667	\$ 6,487
Finished goods	106,544	236,262
Work-in-process	231,505	530,993
Raw materials	<u>209,964</u>	<u>346,463</u>
	<u>\$ 568,680</u>	<u>\$ 1,120,205</u>

As of December 31, 2012 and 2011, the allowance for inventory devaluation was \$1,010,481 thousand and \$1,018,159 thousand, respectively.

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2012 and 2011 included \$7,678 thousand and \$316,259 thousand, respectively, due to reversal of write-downs of inventories; \$155,791 thousand and \$387,304 thousand, respectively, due to obsolescence of inventories; and \$(1,131) thousand and \$2,008 thousand, respectively, due to (loss) gain on physical inventory.

11. OTHER CURRENT ASSETS

	2012	2011
Prepaid expenses	\$ 35,536	\$ 37,305
Temporary debits	7,694	2,019
Excess value-added tax paid	<u>1</u>	<u>33,032</u>
	<u>\$ 43,231</u>	<u>\$ 72,356</u>

On December 31, 2012 and 2011, prepaid expenses were primarily prepayments for rent expense, software cost and insurance premiums.

12. FINANCIAL ASSETS CARRIED AT COST

Financial assets carried at cost as of December 31, 2012 and 2011 were as follows:

	2012	2011
Non-publicly traded stocks - domestic	\$ 5,975	\$ 5,975
Non-publicly traded stocks - international	<u>14,012</u>	<u>23,129</u>
	<u>\$ 19,987</u>	<u>\$ 29,104</u>

The above investments are measured at cost because of lack of active market and reliable fair value. In 2011, financial assets carried at cost transferred to available-for-sale financial assets due to securities public listing amounted to \$22,486 thousand. For the years ended December 31, 2012 and 2011, due to the deficit of the investees, the Company recognized impairment loss of \$9,117 thousand and \$2,475 thousand, respectively. As of December 31, 2012, the accumulated impairment loss on financial assets carried at cost was \$90,317 thousand. In July 2012, the Company received the refund of \$1,386 thousand from the liquidation of iStor Networks, Inc.

13. LONG-TERM INVESTMENTS UNDER EQUITY METHOD

	2012			2011	
	Original Cost	Carrying Value	Ownership %	Carrying Value	Ownership %
Publicly traded stock					
Vate Technology Co., Ltd.	\$ 493,031	\$ 605,806	66.28	\$ 621,647	66.28
Non-publicly traded stock					
Viatech Co., Ltd.	4,934,542	4,292	100.00	141,597	100.00
Viabase Co., Ltd.	8,279,498	1,044,252	100.00	2,820,279	100.00
VIA Technologies GmbH	1,433	11,941	100.00	10,712	100.00
Tungbase Technologies Ltd.	71,342	(167,776)	100.00	(129,217)	100.00
VIA Communications, Inc.	10,000	10,484	100.00	10,424	100.00
VIA Labs, Inc.	450,000	(177,289)	100.00	51,063	100.00
WonderMedia Technologies, Inc.	480,000	144,640	100.00	141,718	100.00
Intumit Inc.	24,000	23,401	8.11	24,029	8.11
iDOT Computer Inc.	55,000	-	45.83	-	45.83
Powernews Multimedia Co., Ltd.	76,000	7,464	24.36	7,290	24.36
VIA Embedded, Inc.	<u>2,600</u>	<u>2,468</u>	100.00	<u>2,467</u>	100.00
	<u>\$ 14,877,446</u>	<u>1,509,683</u>		<u>3,702,009</u>	
Transfer of long-term investments to other liabilities		<u>345,065</u>		<u>129,217</u>	
		<u>\$ 1,854,748</u>		<u>\$ 3,831,226</u>	

In 2011, the Company invested \$1,085,186 thousand, \$1,030,960 thousand and \$24,000 thousand, respectively, in Viabase Co., Ltd., Viatech Co., Ltd. and Intumit Inc. Due to operational concerns and enhancement of capital efficiency, Viabase Co., Ltd. had decreased its capital and refunded \$2,214,555 thousand to the Company.

In 2012, the Company invested \$65,956 thousand and \$846,565 thousand, respectively, in Viabase Co., Ltd. and Viatech Co., Ltd. In addition, to enhance operating efficiency, Tungbase Technologies Ltd. had decreased its capital and refunded \$43,858 thousand to the Company.

As of December 31, 2012 and 2011, the amounts of publicly traded stocks were \$597,643 thousand and \$462,318 thousand based on the closing price at December 31, 2012 and 2011, respectively. In addition, in 2012 and 2011, the investee company declared and paid cash dividends of \$30,664 thousand and \$73,511 thousand, of which amounts \$20,323 thousand and \$48,721 thousand were paid to the Company proportionately, respectively.

In 2012 and 2011, due to the changes in capital surplus of Viabase Co., Ltd., the Company proportionately increased its capital surplus by \$3,335 thousand and \$3,232,351 thousand, respectively. Please refer to Note 21 for information about the transfer of capital surplus to capital and compensate for accumulated deficit in March 2012.

In accordance with SFAS No. 7 and the “Guidelines Governing the Preparation of Financial Reports by Securities Issuers,” the Company prepared consolidated financial statements which included all subsidiaries of the Company.

Except for Powernews Multimedia Co., Ltd., VIA Embedded, Inc. and VIA Communications, Inc., the financial statements of equity-method investees were audited by independent auditors. In addition, the equities of VIA Labs, Inc., Tungbase Technologies Ltd., and iDOT Computer Inc. and the equities of the latter two investees were negative on December 31, 2012 and 2011, respectively. The Company recognized investment losses proportionately and recorded such losses as other liabilities due to continuous financial support to the investees, except for iDOT Computer Inc. and VIA Labs Inc. Equity in net losses amounted to \$2,906,105 thousand and \$1,355,294 thousand for the years ended December 31, 2012 and 2011, respectively, which consisted of the following:

	2012	2011
Viatch Co., Ltd.	\$ (980,174)	\$ (1,030,057)
Viabase Co., Ltd.	(1,761,698)	(190,699)
VIA Technologies GmbH	1,401	1,248
Tungbase Technologies Ltd.	20	2
Powernews Multimedia Co., Ltd.	174	480
VIA Embedded, Inc.	1	(198)
VIA Labs Inc.	(228,352)	(180,640)
WonderMedia Technologies, Inc.	2,922	21,917
Vate Technology, Co., Ltd.	60,266	22,577
VIA Communications, Inc.	60	47
Intumit Inc.	<u>(725)</u>	<u>29</u>
	<u>\$ (2,906,105)</u>	<u>\$ (1,355,294)</u>

14. PROPERTY, PLANT AND EQUIPMENT

	2012			2011
	Cost	Accumulated Depreciation	Carrying Value	Carrying Value
Land	\$ 769,958	\$ -	\$ 769,958	\$ 789,701
Buildings and improvements	439,364	119,939	319,425	339,549
Machinery and equipment	30,875	23,902	6,973	9,791
Computer equipment	55,659	46,470	9,189	10,945
Instrument equipment	37,427	31,026	6,401	4,696
Transportation equipment	2,987	1,494	1,493	1,991
Furniture and fixtures	959	939	20	94
Leasehold improvements	<u>3,806</u>	<u>2,429</u>	<u>1,377</u>	<u>1,769</u>
	<u>\$ 1,341,035</u>	<u>\$ 226,199</u>	<u>\$ 1,114,836</u>	<u>\$ 1,158,536</u>

The Company rented out part of its land, buildings and improvements to other companies and the carrying value of the related assets had been transferred to leased-out assets (see Note 16).

The Company had no interest capitalization as of December 31, 2012 and 2011.

15. INTANGIBLE ASSETS

	2012			2011
	Cost	Accumulated Amortization	Carrying Value	Carrying Value
Patents	<u>\$ 35,953</u>	<u>\$ 30,961</u>	<u>\$ 4,992</u>	<u>\$ 12,639</u>

	2012			2011
	Cost	Accumulated Amortization	Accumulated Impairment Losses	Carrying Value
Deferred charges	<u>\$ 394,846</u>	<u>\$ 221,627</u>	<u>\$ 26,608</u>	<u>\$ 146,611</u>

16. LEASED-OUT ASSETS

	2012		2011
	Cost	Accumulated Depreciation	Carrying Value
Land	\$ 169,490	\$ -	\$ 169,490
Buildings and improvements	<u>114,662</u>	<u>34,191</u>	<u>80,471</u>
	<u>\$ 284,152</u>	<u>\$ 34,191</u>	<u>\$ 249,961</u>

The depreciation of leased-out assets for the years ended December 31, 2012 and 2011 amounted to \$6,059 thousand and \$4,541 thousand and recognized in non-operating expenses - others.

17. ACCRUED EXPENSES

	2012	2011
Salaries and bonuses	\$ 237,403	\$ 232,324
Marketing subsidies	143,884	148,837
Professional fees	43,379	35,033
Research and development	22,052	20,551
Product development	18,878	19,681
Advertisement	17,558	27,105
Royalties (Note 28)	15,244	13,834
Insurance	11,365	10,758
Pension	9,407	8,941
Rent	7,731	8,163
Others	<u>14,137</u>	<u>22,866</u>
	<u>\$ 541,038</u>	<u>\$ 548,093</u>

18. OTHER CURRENT LIABILITIES

	2012	2011
Other payables	\$ 84,379	\$ 63,560
Bonus to employees	9,581	9,581
Compensation of directors and supervisors	72,400	72,400
Advance receipts	20,576	29,941
Temporary receipts	18,714	18,715
Receipts under custody	11,260	18,051
Deferred credits - profit from intercompany transactions	3,693	3,464
Payable - machinery and equipment	<u>2,861</u>	<u>4,169</u>
	<u>\$ 223,464</u>	<u>\$ 219,881</u>

Other payables were primarily for purchase of deferred charges and for sales allowance payable.
Deferred credits - profit from intercompany transactions - were the unrealized profit from intercompany transactions between the Company and its subsidiaries.

19. LONG-TERM LIABILITIES

	Contracts	2012	2011
Ta Chong Bank Unsecured loan	Credit line: \$1,000,000 thousand Loan amount: \$500,000 thousand Period: July 18, 2011 - July 18, 2014 Interest rate: 1.30% in 2012 Payment: The unliquidated loan will be fully repaid on maturity date, but the loan may be availed of on a revolving basis.	\$ 500,000	\$ 500,000
Taiwan Cooperative Bank Unsecured loan	Credit line: \$500,000 thousand Loan amount: \$500,000 thousand Period: November 10, 2011 - November 10, 2016 Interest rate: 1.37% in 2012 Payment: From May 2014, the loan will be repaid in six semi-annual installments of \$80,000 thousand for the first five installments, and \$100,000 thousand for the last installment.	500,000	150,000
		<u>\$ 1,000,000</u>	<u>\$ 650,000</u>

In 2011, the Company signed a loan contract with Ta Chong Bank Ltd. The primary contents of the loan contract are as follows:

The total available loan amount of the Company, Viabase Co., Ltd. and Viatech Co., Ltd. can exceed \$500,000 thousand when the Company operates in profit for two consecutive quarters, and the net cash provided by operating activities is positive.

The Company shall maintain the following financial ratios and restrictions during the contract period, and the financial ratios should be calculated based on the audited consolidated annual financial statements and the reviewed consolidated semi-annual financial statements:

- Current Ratio: Current assets divided by current liabilities, not less than 130%
- Liability Ratio: Total liabilities divided by net tangible assets, not higher than 120%.

For the purpose of paying loans and convertible bonds to financial organizations, and raising operating working capital, the Company appointed Chinatrust Commercial Bank and China Development Industrial Bank, to organize a syndicated credit team in 2007. The Company had applied to the team for \$3,000,000 thousand as a loan line. The loan period is from May 15, 2007 to September 10, 2012. Up to December 31, 2011, the credit line had decreased to \$1,200,000 thousand. The syndicated credit contract was early terminated in February 2012.

20. EMPLOYEE PENSION PLAN

The pension plan under the Labor Pension Act (LPA) is a defined contribution plan. Based on the LPA, the Company makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages. Such pension costs were \$35,800 thousand and \$35,093 thousand for the years ended December 31, 2012 and 2011, respectively.

Based on the defined benefit plan under the Labor Standards Law (LSL), pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Company contributes amounts equal to 2% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. The pension fund is deposited in the Bank of Taiwan in the committee's name. The Company recognized pension costs of \$4,761 thousand and \$4,404 thousand for the years ended December 31, 2012 and 2011, respectively.

Information about the defined benefit plan was as follows:

a. Components of net periodic pension cost

	Years Ended December 31	
	2012	2011
Service cost	\$ 5,562	\$ 5,385
Interest cost on projected benefit obligation	4,483	4,282
Amortization on unrecognized net obligation	(10)	(10)
Expected return on plan assets	(4,756)	(4,544)
Amortization on actuarial benefit	<u>(518)</u>	<u>(709)</u>
Net periodic pension cost	<u>\$ 4,761</u>	<u>\$ 4,404</u>

b. Reconciliation of funded status of the plan and accrued pension cost

	December 31	
	2012	2011
Benefit obligation		
Vested benefit obligation	\$ (7,805)	\$ (6,899)
Nonvested benefits	<u>(147,392)</u>	<u>(132,510)</u>
Accumulated benefit obligation	(155,197)	(139,409)
Additional benefits based on future salaries	<u>(87,387)</u>	<u>(84,755)</u>
Projected benefit obligation	(242,584)	(224,164)
Fair value of plan assets	<u>244,061</u>	<u>233,338</u>
Funded status	1,477	9,174
Prior unrecognized net assets not yet recognized in net periodic pension cost	(42)	(51)
Unrecognized gain of pension, net	<u>(22,568)</u>	<u>(33,695)</u>
Accrued pension cost	<u>\$ (21,133)</u>	<u>\$ (24,572)</u>
Vested benefit	<u>\$ (8,597)</u>	<u>\$ (7,942)</u>

c. Actuarial assumptions

	Years Ended December 31	
	2012	2011
Discount rate used in determining present values	1.875%	2.000%
Future salary increase rate	3.000%	3.000%
Expected rate of return on plan assets	1.875%	2.000%
	Years Ended December 31	
	2012	2011
d. Contributions to the fund	<u>\$ 8,200</u>	<u>\$ 8,294</u>
e. Payments from the fund	<u>\$ -</u>	<u>\$ -</u>

21. STOCKHOLDERS' EQUITY

Capital Stock

The Company's outstanding common stock at December 31, 2011 amounted to \$9,866,069 thousand divided into 986,607 thousand shares with a par value of \$10 each. Parts of the shares in the amount of \$3,000,000 thousand were issued in private placement in May 2010; transfers of those securities conform to Article 43-8 of the Securities and Exchange Act. After three years from the date of private placement, the public trading of aforementioned securities without an effective registration with the Financial Supervisory Commission is prohibited.

The Company decreased its share capital to compensate for accumulated deficit of \$4,933,035 thousand based on the shareholders' resolution on June 12, 2012. The capital reduction has been approved by the SFB on July 20, 2012 and the date of capital reduction was August 6, 2012. As a result, the Company's outstanding capital stock at December 31, 2012 amounted to \$4,933,034 thousand divided into 493,303 thousand shares, including 150,000 thousand shares issued in private placement, with a par value of \$10 each.

Employee Stock Option

The Company was approved by SFB to issue employee stock options in accordance with Securities and Exchange Law Article 28.3 within the quantity of 200 thousand in 2001, 20,000 thousand in 2003, 8,000 thousand and 25,000 thousand option units in 2004, with each unit representing 100 shares, one share, one share and one share of common stock, respectively. The Company will issue new common stock for employee stock option exercised by granted employees. The Company issued to employees a total of 73,000 thousand option units.

The Company transferred retained earnings and capital surplus to capital stock during 2004 and 2003, decreased share capital to make up for accumulated deficit during 2009, and issued new shares during 2009 and 2010. Accordingly, option units became 48,552 thousand after considering the effect of the above changes in capital; of which 33 thousand shares had been transferred to common stock, while the rest 11,896 thousand shares, 17,525 thousand shares and 19,098 thousand shares have expired as of the years ended December 31, 2009, 2010 and 2011, respectively. There were no outstanding employee stock options as of December 31, 2012.

Other information on stock option rights plan was as follows:

	Years Ended December 31			
	2012		2011	
	Number of Outstanding Stock Option Right (Thousand)	Weighted- average Exercise Price (\$/Per Share)	Number of Outstanding Stock Option Right (Thousand)	Weighted- average Exercise Price (\$/Per Share)
Beginning balance	-	\$ -	19,098	\$ 32.51
Option granted	-	-	-	-
Option exercised	-	-	-	-
Option cancelled	-	-	-	-
Option expired	-	-	(19,098)	-
Ending balance	-	\$ -	-	\$ -
Option exercisable, end of year	-	-	-	-

The Company uses the intrinsic value method to evaluate compensation cost for employee stock options granted on or after January 1, 2004. There was no compensation cost recognized for the years ended December 31, 2012 and 2011 since the stock options were granted at an exercise price equal to the closing price of the Company's common shares on the measurement dates. Had the Company applied the fair value based method to evaluate compensation cost for employee stock options granted, there would similarly be no compensation cost in 2012 and 2011. The assumptions were as follows:

Method	Black-Scholes Model
Assumptions	
Risk free interest rate	1.98%-2.28%
Expected life (in years)	6 years
Expected stock price volatility	42.95%-48.25%
Expected dividend yield	5%

Capital Surplus

Under the Company Law, capital surplus can only be used to offset a deficit. However, the capital surplus from share issued in excess of par (including additional paid-in capital from issuance of common shares, conversion of bonds and treasury stock transactions) and donations may be capitalized, which however is limited to a certain percentage of the Company's paid-in capital.

According to the amendment of the Company Law, effective on January 4, 2012, the abovementioned capital surplus may be distributed in cash. Whereas, capital surplus from equity method investees may not be used for any other purpose.

In May 2010, the Company increased share capital by private placement of 300,000 thousand shares at \$12.3 per share, and the difference of \$690,000 thousand between selling price and par value was recognized as capital surplus from issuance of common stock. The capital surplus of \$690,000 thousand was transferred to make up for accumulated deficit based on stockholders' resolution in 2011.

The Company increased its capital surplus from long-term investment under equity method by \$3,232,351 thousand in 2011. Viabase Co., Ltd., a subsidiary of the Company, transferred its capital surplus in the amount of \$3,232,351 thousand to increase capital and to make up for accumulated deficit in March 2012 and the Company also transferred capital surplus to retained earnings in the same amount.

Appropriation of Retained Earnings

According to the Company Law and the Company's Articles of Incorporation, 10% of the Company's annual earnings, after paying tax and offsetting deficit, if any, shall be appropriated as legal reserve until such reserve equals the amount of common stock. The remaining balance shall be appropriated no more than 1% as directors' remuneration and no less than 5% as bonuses to employees. The appropriation of retained earnings should be proposed by the board of directors and approved by the stockholders.

The Company engages in the programming, designing, manufacturing and selling of semiconductor and PC chipset and is in the development stage of industry cycle. Under the consideration of the whole environment around the Company and the characteristics of industry development, and the intention of pursuing the long-term interests of stockholders, maintaining the operating efficiency, and meeting its capital expenditure budget and the financial goals, the Company would prefer to distribute unappropriated earnings by cash dividends rather than by stock dividends. The sum of stock dividends will not exceed 50% of total dividends.

Bonus to employees and remuneration to directors are estimated on the basis of past appropriation experience, not below 5% and not above 1%, respectively, of the estimated appropriations from prior year's earnings. Because the Company has accumulated deficit, no bonus to employees and remuneration to directors were recognized for 2012 and 2011.

At the date of the accompanying independent auditors' report, appropriation of the 2012 earnings (loss) had not been proposed by the Board of Directors. Information on earnings appropriation can be accessed online through the Market Observation Post System on the website of TSE.

The Company's stockholders resolved in their meeting on June 12, 2012 to reduce capital by 50% or \$4,933,035 thousand to offset the 2011 accumulated deficit. After the capital reduction, the Company's outstanding capital stock was \$4,933,034 thousand. The Company's stockholders resolved in their meeting on June 15, 2011 the transfer of capital surplus of \$690,000 thousand to make up for the 2010 accumulated deficit. Information on earnings appropriation can be accessed online through the Market Observation Post System on the website of the TSE.

22. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

Expenses	Year	2012			2011		
		Cost of Revenues	Operating Expenses	Total	Cost of Revenues	Operating Expenses	Total
Personnel expense		\$ 52,771	\$ 988,036	\$ 1,040,807	\$ 50,764	\$ 991,554	\$ 1,042,318
Salary		45,096	865,983	911,079	42,705	865,329	908,034
Insurance		3,815	58,143	61,958	3,572	57,253	60,825
Pension cost		2,348	38,213	40,561	2,206	37,291	39,497
Others		1,512	25,697	27,209	2,281	31,681	33,962
Depreciation		3,390	25,091	28,481	2,464	33,970	36,434
Amortization		755	68,915	69,670	283	74,692	74,975

23. INCOME TAX

Income tax receivable at December 31, 2012 and 2011 was computed as follows:

	2012	2011
Loss before income tax	\$ (3,997,848)	\$ (3,061,360)
Add (less)		
Investment losses under equity method	2,906,105	1,355,294
Stock dividends income from foreign investee	3,232,351	-
Realized investment loss on long-term investment	(3,232,351)	-
Reversal of provision for inventory devaluation	(7,678)	(316,259)
Unrealized sales allowance, end of year	233,020	140,478
Dividends income	(170,097)	(153,320)
Unrealized sales allowance, beginning of year	(180,142)	(153,141)
Gain on sale of investment	(154,362)	-
Valuation loss of financial instruments	819,937	1,561,488
Unrealized foreign exchange loss, net	(24,070)	(23,182)
Others	(21,094)	23,792
Estimated taxable income	<u>(596,229)</u>	<u>(626,210)</u>
Estimated income tax provision (×17%)	-	-
Alternative minimum tax	-	-
Less withheld income tax	<u>(603)</u>	<u>(275)</u>
Income tax refunds receivable	<u>\$ 603</u>	<u>\$ 275</u>

The Company filed an administrative appeal on the income tax returns for 2000; the Supreme Court denied the appeal on February 9, 2011. The Company had estimated and recognized the probable amount of supplementary tax as 2007 tax expense. In June 2011, the Company paid the supplementary income tax plus accrued interest of \$9,835 thousand for the period of administrative proceeding, which was recorded as interest expense in 2011.

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.

The tax effects of deductible temporary differences and tax credit carryforwards that gave rise to deferred tax assets as of December 31, 2012 and 2011 consisted of the following:

	2012	2011
Deferred tax asset		
Unrealized provision for inventory devaluation	\$ 171,782	\$ 173,087
Unrealized sales allowance	39,613	23,881
Unrealized pension cost	3,592	4,177
Unrealized impairment loss	19,703	18,153
Others	1,500	7,173
Loss carryforward	2,439,772	2,409,403
Investment tax credits	<u>252,182</u>	<u>583,228</u>
Total deferred income tax assets	2,928,144	3,219,102
Less allowance for deferred income tax assets	<u>(2,734,696)</u>	<u>(2,950,654)</u>
Deferred income tax assets, net	193,448	268,448
Deferred income tax assets, current	<u>(179,690)</u>	<u>(203,995)</u>
Deferred income tax assets, noncurrent	<u>\$ 13,758</u>	<u>\$ 64,453</u>

The income tax expense for the years ended December 31, 2012 and 2011 consisted of the following:

	2012	2011
(Over) under estimation of prior years' income tax	\$ (11)	\$ 502
Decrease in deferred income tax assets	<u>75,000</u>	<u>368,628</u>
Income tax expense	<u>\$ 74,989</u>	<u>\$ 369,130</u>

The amounts of loss carryforward and investment tax credit as of December 31, 2012 were as follows:

Expiration Year	Loss Carryforward	Investment Tax Credits
2013	\$ 2,779,111	\$ 252,182
2015	1,483,162	-
2016	2,927,905	-
2017	1,713,040	-
2018	1,161,671	-
2019	2,716,412	-
2020	765,445	-
2021	378,724	-
2022	<u>426,132</u>	<u>-</u>
	<u>\$ 14,351,602</u>	<u>\$ 252,182</u>

The details of investment tax credit were as follows:

Expiry Year	Tax Credit Item	Total Creditable Amount	Remaining Creditable Amount	Laws and Statutes
2013	Research and development	\$ 251,961	251,961	Statute for Upgrading Industries
	Personnel training	221	221	Statute for Upgrading Industries
		<u>\$ 252,182</u>		

The income tax returns for the years through 2010 have been examined and approved by the tax authority.

The related information for the integrated income tax system as of December 31, 2012 and 2011 is disclosed as follows:

	2012	2011
Balance of imputation credit account	\$ 1,362,371	\$ 1,329,040
Unappropriated earnings attributed to years before 1998	-	-
Unappropriated earnings attributed to 1998 and years after	(1,476,410)	(5,568,959)
Expected creditable ratio	-	-

24. EARNINGS PER SHARE (“EPS”)

The numerators and denominators used in calculating earnings per share (EPS) were as follows:

	Amount (Numerator)			Earnings Per Share (Dollars)	
	Before Income Tax	After Income Tax	Shares (Denominator) (In Thousands)	Before Income Tax	After Income Tax
<u>For the year ended December 31, 2012</u>					
Basic EPS					
Loss for the year attributable to common stockholders	<u>\$ (3,997,848)</u>	<u>\$ (4,072,837)</u>	<u>493,303</u>	<u>\$ (8.10)</u>	<u>\$ (8.26)</u>
<u>For the year ended December 31, 2011</u>					
Basic EPS					
Loss for the year attributable to common stockholders	<u>\$ (3,061,360)</u>	<u>\$ (3,430,490)</u>	493,303	<u>\$ (6.21)</u>	<u>\$ (6.95)</u>

The Company decreased its share capital to compensate accumulated deficit of \$4,933,035 thousand. The weighted average numbers of shares outstanding for EPS calculation for the years ended December 31, 2012 and 2011 have been retroactively adjusted for the capital reduction.

25. SIGNIFICANT RELATED PARTY TRANSACTIONS

The names and relationships of related parties are as follows:

<u>Related Party</u>	<u>Relationship with the Company</u>
Viabase Co., Ltd.	A subsidiary of the Company
Viatech Co., Ltd.	A subsidiary of the Company
VIA Technologies GmbH	A subsidiary of the Company
Vate Technology Co., Ltd.	A subsidiary of the Company
VIA Communication, Inc.	A subsidiary of the Company
VIA Labs, Inc.	A subsidiary of the Company
WonderMedia Technologies, Inc.	A subsidiary of the Company
VIA Embedded, Inc.	A subsidiary of the Company
Tungbase Technologies Ltd.	A subsidiary of the Company
VIA USA Inc.	An indirect subsidiary of the Company
VIA Technologies, Inc. (USA)	An indirect subsidiary of the Company
VIA-Cyrix, Inc.	An indirect subsidiary of the Company
Centaur Technology, Inc.	An indirect subsidiary of the Company
VIA Technologies (HK) Inc. Ltd.	An indirect subsidiary of the Company
VIA Technologies (China) Co., Ltd.	An indirect subsidiary of the Company
VIA Technologies (Shenzhen) Co., Ltd.	An indirect subsidiary of the Company
VIA Technologies Japan K.K.	An indirect subsidiary of the Company
VIA Communication, Inc. (USA)	An indirect subsidiary of the Company
S3 Graphics Co., Ltd.	An investee under the equity method of Viabase Co., Ltd. (Note 1)
S3 Graphics, Inc.	An indirect subsidiary of the Company (Note 2)
VIA Telecom Co., Ltd.	An investee under the equity method of Viabase Co., Ltd.
Techbase Co., Ltd.	An indirect subsidiary of the Company
S3 Graphics (HK) Limited	An indirect subsidiary of the Company

(Continued)

Related Party	Relationship with the Company
S3 Graphics (Shanghai) Co., Ltd. VIA Telecom Company Limited	An indirect subsidiary of the Company (Note 2) An investee under the equity method of VIA Telecom Co., Ltd.
First International Company, Inc. ("FIC Inc.")	Chairman of the board of directors is one of the immediate family members of the Company's chairman of the board of directors
HTC Corporation	Chairman of the board of directors is the Company's chairman of the board of directors.
Chander Electronics Corp.	Chairman of the board of directors is the Company's chairman of the board of directors.
iDOT Computers, Inc.	Chairman of the board of directors is the Company's chairman of the board of directors.
Xander International Corp.	Chairman of the board of directors is the Company's president.
Way-Lien Technology Inc. Intumit Inc.	Related party An investee under the equity method of the Company

(Concluded)

Note 1: Viabase Co., Ltd. sold all of its shares to HTC Investment One (BVI) Corporation in November 2011.

Note 2: The companies used to be investees under the equity method of Viabase Co., Ltd. and became subsidiaries of Techbase Co., Ltd. starting from November 2011.

Major transactions with related parties are summarized below:

Sales

Related Party	Years Ended December 31			
	2012		2011	
	Amount	% of Total Net Sales	Amount	% of Total Net Sales
VIA Technologies, Inc. (USA)	\$ 467,101	14	\$ 437,356	10
Chander Electronics Corp.	376,520	11	512,592	12
iDOT Computers, Inc.	20,182	1	51,122	1
HTC Corporation	5,264	-	-	-
WonderMedia Technologies, Inc.	2,351	-	3,449	-
FIC Inc.	-	-	3,215	-
Others	<u>6,831</u>	<u>-</u>	<u>8,491</u>	<u>1</u>
	<u>\$ 878,249</u>	<u>26</u>	<u>\$ 1,016,225</u>	<u>24</u>

Selling prices to related parties are similar with other regular sales except for some kinds of merchandise that have no comparison and Chander Electronics Corp. whose prices are less than normal due to higher sales volume. Terms of receipt for both related and unrelated parties are similar and about one to two months, except for iDOT Computer, Inc. which adopted the offset of credits and debits of property.

Other Operating Revenue

Related Party	Years Ended December 31			
	2012		2011	
	Amount	% of Total Other Operating Revenue	Amount	% of Total Other Operating Revenue
WonderMedia Technologies, Inc.	\$ 11,495	68	\$ 11,172	81
Vate Technology Co., Ltd.	<u>3,875</u>	<u>23</u>	<u>2,647</u>	<u>19</u>
	<u>\$ 15,370</u>	<u>91</u>	<u>\$ 13,819</u>	<u>100</u>

The Company and Vate Technology Co., Ltd. entered into a technical support and supervision agreement in March 2008. The first payment was recognized as other operating revenue, and then, consultancy service revenue is recognized based on the services rendered on a quarterly basis. The other operating revenue was generated from WonderMedia Technologies, Inc. for the authorization of patent license.

Leasing - Lessor

Related Party	Years Ended December 31			
	2012		2011	
	Amount	% of Total Rental Income	Amount	% of Total Rental Income
HTC Corporation	\$ 4,961	34	\$ 4,643	34
WonderMedia Technologies, Inc.	3,972	27	3,934	29
VIA Labs, Inc.	3,145	21	3,108	21
iDOT Computers, Inc.	171	1	171	1
VIA Telecom Company Limited	928	6	497	4
Others	<u>1,243</u>	<u>9</u>	<u>1,351</u>	<u>10</u>
	<u>\$ 14,420</u>	<u>98</u>	<u>\$ 13,704</u>	<u>99</u>

The Company rented out part of its land and building and improvements to the related parties. Rental prices were determined based on the prevailing rates in the surrounding area.

Other Income

Related Party	Years Ended December 31			
	2012		2011	
	Amount	% of Total Other Income	Amount	% of Total Other Income
VIA Telecom Co., Ltd.	\$ 16,091	23	\$ 15,423	7
Way-Lien Technology Inc.	4,214	6	4,220	2
VIA Technologies, Inc. (USA)	3,649	5	3,895	2
VIA Labs, Inc.	1,218	2	1,427	-
WonderMedia Technologies, Inc.	556	-	62,135	28
Intumit Inc.	-	-	21,813	10

(Continued)

Related Party	Years Ended December 31			
	2012		2011	
	Amount	% of Total Other Income	Amount	% of Total Other Income
Techbase Co., Ltd.	\$ -	-	\$ 12,688	5
S3 Graphics Co., Ltd.	-	-	3,880	2
Others	<u>1,634</u>	<u>2</u>	<u>1,487</u>	<u>1</u>
	<u>\$ 27,362</u>	<u>38</u>	<u>\$ 126,968</u>	<u>57</u>

(Concluded)

The Company, WonderMedia Technologies, Inc. and VIA Telecom Co., Ltd., have entered into a management support and supervision agreement. The support revenue accounted for based on the agreement was recognized as other income. The support service provided to WonderMedia Technologies, Inc. was terminated on October 30, 2012 due to the change in operating environment and collaborative strategy. In addition, the Company has also applied this support service in its in-house research products and owned the patents derived from this service. Thus, the Company reversed the support service income of \$52,500 thousand, which had been recognized as other income during the first three quarters in 2012, due to termination of the agreement with WonderMedia Technologies, Inc.

The other income from Intumit Inc. resulted from sale of patent, others were miscellaneous and samples revenue.

Purchases

Related Party	Years Ended December 31			
	2012		2011	
	Amount	% of Total Net Purchases	Amount	% of Total Net Purchases
Techbase Co., Ltd.	\$ 86,143	8	\$ 45,949	3
Chander Electronics Corp.	1,688	-	-	-
S3 Graphics Co., Ltd.	-	-	63,000	4
Others	<u>3,116</u>	<u>-</u>	<u>5,738</u>	<u>-</u>
	<u>\$ 90,947</u>	<u>8</u>	<u>\$ 114,687</u>	<u>7</u>

Terms of purchasing prices and payment for both related and unrelated parties are similar.

Packaging and Testing Expenses

Related Party	Years Ended December 31			
	2012		2011	
	Amount	% of Total Testing Expenses	Amount	% of Total Testing Expenses
Vate Technology Co., Ltd.	<u>\$ 129,393</u>	<u>20</u>	<u>\$ 195,707</u>	<u>20</u>

Research and Development Expenses

Related Party	Years Ended December 31			
	2012		2011	
	Amount	% of Total Research and Development Expenses	Amount	% of Total Research and Development Expenses
Vate Technology Co., Ltd.	\$ 8,616	1	\$ 8,680	1
VIA Labs, Inc.	1,410	-	-	-
Xander International Corp.	493	-	561	-
VIA Technologies, Inc. (USA)	386	-	490	-
Others	<u>293</u>	<u>-</u>	<u>174</u>	<u>-</u>
	<u>\$ 11,198</u>	<u>1</u>	<u>\$ 9,905</u>	<u>1</u>

Receivables/Payables

Related Party	December 31			
	2012		2011	
	Amount	% of Account Total	Amount	% of Account Total
Notes and accounts receivable from related parties				
Chander Electronics Corp.	\$ 57,956	16	\$ 65,878	14
VIA Technologies, Inc. (USA)	30,483	8	61,418	14
iDOT Computer Inc.	-	-	9,855	2
HTC Corporation	1,927	1	-	-
Others	<u>188</u>	<u>-</u>	<u>662</u>	<u>-</u>
	<u>\$ 90,554</u>	<u>25</u>	<u>\$ 137,813</u>	<u>30</u>
Notes and accounts payable to related parties				
Vate Technology Co., Ltd.	\$ 23,912	5	\$ 37,378	5
Techbase Co., Ltd.	20,840	5	38,627	6
Others	<u>316</u>	<u>-</u>	<u>145</u>	<u>-</u>
	<u>\$ 45,068</u>	<u>10</u>	<u>\$ 76,150</u>	<u>11</u>
Accrued expenses				
Vate Technology Co., Ltd.	\$ 8,329	2	\$ 6,426	1
Xander International Corp.	1,088	-	897	-
VIA Technologies (HK) Inc. Ltd.	194	-	191	-
Others	<u>1,141</u>	<u>-</u>	<u>1,368</u>	<u>-</u>
	<u>\$ 10,752</u>	<u>2</u>	<u>\$ 8,882</u>	<u>1</u>

Related Party	December 31			
	2012		2011	
	Amount	% of Account Total	Amount	% of Account Total
Other receivables				
WonderMedia Technologies, Inc.	\$ 35,470	59	\$ 47,161	42
Techbase Co., Ltd.	39	-	13,305	12
VIA Telecom Co., Ltd.	1,658	3	4,220	4
VIA Labs, Inc.	9,492	16	3,005	2
Way-Lien Technology Inc.	735	1	-	-
Others	<u>2,944</u>	<u>5</u>	<u>2,750</u>	<u>2</u>
	<u>\$ 50,338</u>	<u>84</u>	<u>\$ 70,441</u>	<u>62</u>

Other receivables were expenses on behalf of related parties, research and development material expenses, management support revenue, rental income and others, etc.

Guarantee Deposits Received

Related Party	December 31			
	2012		2011	
	Amount	% of Total Guarantee Deposits Received	Amount	% of Total Guarantee Deposits Received
WonderMedia Technologies, Inc.	\$ 600	44	\$ 600	44
VIA Labs, Inc.	452	33	473	35
Others	<u>141</u>	<u>10</u>	<u>111</u>	<u>8</u>
	<u>\$ 1,193</u>	<u>87</u>	<u>\$ 1,184</u>	<u>87</u>

Property Transactions

The Company sold patent to Intumit Inc. in March 2011, which amounted to \$23,709 thousand and recognized \$23,709 thousand as gain on disposal of assets. The transaction was a downstream transaction with an investee under equity method. The Company, therefore, recorded an unrealized gain of \$1,896 thousand. The Company will recognize profit based on the investee's amortization of the asset. As of December 31, 2012, the unrealized gain on disposal of assets amounted to \$1,896 thousand.

In order to activate and enhance assets of the Company and to realize gain on investment, Viabase Co., Ltd., a subsidiary of the Company, WTI Investment International, Ltd. and HTC Corporation entered a securities transfer agreement to sell shares of S3 Graphics Co., Ltd., held by Viabase Co., Ltd. and WTI Investment International, Ltd., to a subsidiary of HTC Corporation, HTC Investment One (BVI) Corporation, which amounted to US\$300,000 thousand on July 6, 2011. Viabase Co., Ltd. received the amount of US\$147,000 thousand, and recognized US\$37,234 thousand as gain on disposal of shares and US\$106,766 thousand as capital surplus. The transaction price was determined according to appraisal report issued by a professional institution and financial advisors' opinion.

Other Events

The Company and its subsidiaries had filed a lawsuit against certain parties for the protection of patents, and to increase stockholders' equity based on mutual interest with HTC Corporation. The patent litigation cost is being shared with HTC Corporation since the third quarter in 2011.

Compensation of Directors, Supervisors and Management Personnel

	2012	2011
Salaries and incentives	\$ 39,400	\$ 28,785
Special compensation	151	140

The Company's disclosure of the compensation of directors, supervisors and management personnel for the years ended December 31, 2012 and 2011 was in compliance with Order VI-0970053275 issued by the Financial Supervisory Commission under the Executive Yuan.

26. PLEDGED ASSETS

	December 31	
	2012	2011
Financial assets at fair value through profit or loss	\$ -	\$ 1,240,512
Restricted assets, current, time deposit	\$ 90,000	-

The Company's listed company stocks provided as collateral for securities lending transaction. In addition, pledged deposit provided to Taiwan Semiconductor Manufacturing Company Limited as collateral for purchase.

27. SIGNIFICANT COMMITMENTS, CONTINGENCIES AND SUBSEQUENT EVENTS

As of December 31, 2012, the amount of customs duties confirmed by banks for importing goods was \$3,000 thousand.

The Company provided \$350,000 thousand, \$200,000 thousand and \$166,707 thousand guarantee, respectively for WonderMedia Technologies, Inc., VIA Labs, Inc. and VIA Telecom Company Limited for inventory purchase. As of December 31, 2012, Wondermedia Technologies, Inc., VIA Labs, Inc. and VIA Telecom Company Limited had drawn down \$23,494 thousand, \$23,897 thousand and \$73,434 thousand guarantees, respectively.

In July 2010, OPTi Inc. filed a lawsuit against VIA Technologies, Inc. (USA), an indirect subsidiary of the Company, with Eastern District Court of Texas, alleging that the products of VIA Technologies, Inc. (USA) and another semiconductor company infringed its two patents. In addition, OPTi Inc. also filed a lawsuit against the Company in March 2012 for the above-mentioned allegation. The Company has engaged one U.S. law firm to file a defense. The Company believes the lawsuits have immaterial impact on the Company and its subsidiary, and therefore did not recognize provision.

In order to expand the market in China, on January 15, 2013, the board of directors resolved to enter a joint venture with Shanghai United Investment Co., Ltd. The share capital of the joint venture is estimated to be US\$250,000 thousand or its RMB equivalent, 19.9% and 80.1% of which will be contributed concurrently by the Company and Shanghai United Investment Co., Ltd., respectively. In addition, the capital contributions may be made in installments but shall be fully contributed prior to year-end of 2014. Both parties shall make the first contribution of US\$100,000 and another contribution not less than US\$50,000 prior to the end of March 2013 and by the end of September 2013, respectively. Furthermore,

the Company can increase its investment or increase its percentage in consideration of legal requirements, operating performance and market environment of the joint venture.

28. SIGNIFICANT CONTRACTS

Contractor	Item	Contract Period	Description
Intel	Patent agreement	From April 8, 2003, remains in force	<p>a. CPU and chipsets patent agreement.</p> <p>b. The Company shall pay the fees according to the agreement signed between the two parties.</p>

29. DISCLOSURES FOR FINANCIAL INSTRUMENTS

	December 31			
	2012		2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<u>Non-derivative financial instruments</u>				
Assets				
Cash and cash equivalents	\$ 1,031,033	\$ 1,031,033	\$ 1,346,069	\$ 1,346,069
Financial assets at fair value through profit or loss	1,301,078	1,301,078	2,120,130	2,120,130
Available-for-sale financial assets, current	53,342	53,342	157,687	157,687
Notes and accounts receivable, net	182,392	182,392	302,870	302,870
Other financial assets, current	51,230	51,230	89,430	89,430
Financial assets carried at cost	19,987	19,987	29,104	29,104
Other financial assets, noncurrent	13,587	13,452	13,683	13,548
Liabilities				
Notes and accounts payable	445,348	445,348	702,717	702,717
Accrued expenses	541,038	541,038	548,093	548,093
Other financial assets, current	180,481	180,481	167,761	167,761
Long-term loans (including current portion)	1,000,000	1,000,000	650,000	650,000
Other financial liabilities, noncurrent	1,365	1,351	1,355	1,342
<u>Derivative financial instruments</u>				
Liabilities				
Forward exchange contract	885	885	8,142	8,142

- The carrying amount approximated the fair value because of the short maturities of such instruments, including cash and cash equivalents, notes and accounts receivable, notes and accounts receivable from related parties, other current financial assets, notes and accounts payable, notes and accounts payable to related parties, accrued expenses, and other current financial liabilities.
- The fair values of financial instruments at fair value through profit or loss and available-for-sale financial assets are based on quoted market prices in an active market, and their fair values can be reliably measured. If the securities do not have market prices, fair value is measured on the basis of financial or other information. The Company uses estimates and assumptions that are consistent with information that market participants would use in setting a price for these instruments.
- Financial assets carried at cost are unlisted securities. Their fair value cannot be estimated because they do not have active market.

- d. The fair value of other financial assets and liabilities are based on the discounted value of the future cash flows expected to be received. The discount rate is based on the average interest rate of time deposits in banks.
- e. The fair value of long-term loans, including current portion, and corporate bonds payable are estimated based on rates that the Company obtained which are comparable to rates offered by the banks to other borrowers for long-term debts with same terms and maturities.

Fair values of financial assets and liabilities using based on quoted market prices or valuation techniques were as follows:

	Quoted Market Prices		Valuation Techniques	
	December 31		December 31	
	2012	2011	2012	2011
<u>Non-derivative financial instruments</u>				
Assets				
Financial assets at FVTPL	\$ 1,301,078	\$ 2,120,130	\$ -	\$ -
Available-for-sale financial assets	53,342	157,687	-	-
Financial assets carried at cost	-	-	19,987	29,104
Other financial assets, noncurrent	-	-	13,452	13,548
Liabilities				
Financial liabilities at FVTPL	-	-	885	8,142
Long-term loans (including current portion)	-	-	1,000,000	650,000
Other financial liabilities, noncurrent	-	-	1,351	1,342

As of December 31, 2012 and 2011, financial assets exposed to fair value interest rate risk amounted to \$1,048,784 thousand and \$1,114,602 thousand, respectively. Financial liabilities exposed to cash flow interest risk amounted to \$1,000,000 thousand and \$650,000 thousand, respectively.

The Company's interest income from financial assets and liabilities not categorized as at fair value through profit or loss amounted to \$6,432 thousand and \$2,959 thousand, respectively, and interest expense amounted to \$9,292 thousand and \$25,545 thousand respectively. The Company recognized unrealized gain of \$14,796 thousand and \$109,664 thousand in stockholders' equity for the changes in fair value of available-for-sale financial assets as of December 31, 2012 and 2011, respectively. In addition, the Company recognized loss transferred from unrealized gain to profit or loss of \$102,847 thousand and \$2,942 thousand for the years ended December 31, 2012 and 2011, respectively.

Financial Risks

a. Market risk

Market risk includes fair value risk of interest rate change, exchange rate risk, and market price risk. Thus, financial instruments are measured at the balance sheet date using the market rate. A one percent increase in market interest rate would cause a decrease in the market price of financial assets by \$10,384 thousand.

A one dollar decrease in N.T. dollar against the U.S. dollar would increase the fair value of outstanding forward contracts by \$1,940 thousand. A one yuan decrease in Chinese yuan against the U.S. dollar would decrease the fair value of outstanding forward contracts by \$6,016 thousand.

b. Credit risk

Credit risk represents the potential loss that would be incurred by the Company if the counter-parties or third-parties breached contracts. The counter-parties or third-parties to the foregoing financial instruments are reputable financial institutions and business organizations. Management believes its exposure to default by those parties is low.

c. Liquidity risk

The Company has sufficient working capital to settle derivative contract. The Company engages in forward contract in fixed-exchange-rate and cash flows are not expected to fluctuate significantly due to changes in market exchange rates.

d. Cash flow interest rate risk

The Company's long-term loans are floating-rate loans, when the market interest rate increases by 1%, the Company's cash outflow will increase by \$10,000 thousand a year.

30. OTHERS

The significant financial assets and liabilities denominated in foreign currencies were as follows:

	2012		2011	
	Foreign Currencies	Exchange Rate to NTD	Foreign Currencies	Exchange Rate to NTD
<u>Financial assets</u>				
Monetary items				
USD	\$ 16,047	29.04	\$ 21,122	30.28
EUR	14	38.49	14	39.18
Nonmonetary items				
Long-term equity investments				
USD	35,245	29.04	97,832	30.28
EUR	310	38.49	273	39.18
<u>Financial liabilities</u>				
Monetary items				
USD	7,076	29.04	11,093	30.28
Nonmonetary items				
Derivatives financial instruments				
USD	4,076	29.04	3,500	30.28

31. OPERATING SEGMENT FINANCIAL INFORMATION

Segment Information

Manufacturing, designing and selling of PC chipset and semiconductor accounted for over 90% of the Company's total revenues. The chief operation decision maker focuses on aforementioned products to monitor performance and allocate resources of the Company. As a result, the Company's operating segment and reportable segment is only one, and the information on segment revenue, assets, and liabilities is the same as the information in the Company's statements of income and balance sheets.

Geographical Information

The details of geographical revenue for the years ended December 31, 2012 and 2011 were as follows:

Area	2012	2011
Hong Kong and Mainland China	\$ 910,861	\$ 1,530,838
Taiwan	912,402	1,323,931
Singapore	708,174	562,040
USA	467,101	437,357
Europe	262,233	257,784
Japan	30,832	67,243
Others	<u>71,550</u>	<u>102,530</u>
	<u>\$ 3,363,153</u>	<u>\$ 4,281,723</u>

Information about Major Customers

Revenues from major customers for the years ended December 31, 2012 and 2011 were as follows:

Customer	2012		2011	
	Amount	% of Total Sales	Amount	% of Total Sales
A	\$ 618,827	18	\$ 424,885	10
B	536,530	16	458,798	11
C	467,101	14	437,356	10
D	<u>376,520</u>	<u>11</u>	<u>512,592</u>	<u>12</u>
	<u>\$ 1,998,978</u>	<u>59</u>	<u>\$ 1,833,631</u>	<u>43</u>