

**GIGASTORAGE CORPORATION  
AND SUBSIDIARIES  
CONSOLIDATED FINANCIAL STATEMENTS  
WITH REPORT OF INDEPENDENT AUDITORS  
FOR THE YEARS ENDED  
DECEMBER 31, 2006, 2007 AND 2008**

The reader is advised that these financial statements have been prepared originally in Chinese. In the event of a conflict between these financial statements and the original Chinese version or difference in interpretation between the two versions, the Chinese language financial statements shall prevail.

## **REPORT OF INDEPENDENT AUDITORS**

To Gigastorage Corporation

We have audited the accompanying consolidated balance sheets of Gigastorage Corporation and Subsidiaries (the “Company”) as of December 31, 2006, 2007 and 2008, the related consolidated statements of operations, changes in stockholders’ equity and cash flows for the years ended December 31, 2006, 2007 and 2008. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of Global Acetech Co., Ltd. and Gigastorage Corporation USA (applied for dissolution on December 21, 2007, which was completed on December 26, 2007). The financial statements of Global Acetech Co., Ltd. and Gigastorage Corporation USA were audited by other auditors. Our opinion insofar as it relates to the Company’s total assets of approximately NT\$29,700 thousand, NT\$592,210 thousand and NT\$484,401 thousand as of December 31, 2006, 2007 and 2008, respectively, and the total revenues of approximately NT\$53,491 thousand, NT\$100,270 thousand and NT\$308,462 thousand for the years then ended is based solely on the reports of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of China and Guidelines for Certified Public Accountants’ Examination and Reports on Financial Statements, which require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall consolidated financial statement presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Gigastorage Corporation and Subsidiaries as of December 31, 2006, 2007 and 2008, and the results of their consolidated operations and their consolidated cash flows for the years ended December 31, 2006, 2007 and 2008, in conformity with requirements of the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

As described in Note 3 to the consolidated financial statements, effective from January 1, 2006, the Company has adopted the R.O.C. Statement of Financial Accounting Standards No. 34, “Financial Instruments: Recognition and Measurement” and No. 36, “Financial Instruments: Disclosure and Presentation”.

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As discussed in Note 7(3) and 4(12) to the consolidated financial statements, on September 14, 2007, the Board authorized the CEO of the Company to handle all royalty-related litigations arose in Taiwan, United States, Germany and Netherlands between Philips Electronics N.V. and the Company, after considering stockholders' interests and financial positions of the Company. The Company and Koninklijke Philips Electronics, N.V. first signed a memorandum on September 24, 2007, then an official settlement agreement was made on October 29, 2007. Consequently, the Company had accrued for the amount payable for the settlement as liabilities.

Ernst & Young  
Taipei, Taiwan  
Republic of China  
March 9, 2009

Notice to Readers

The accompanying consolidated financial statements are intended only to present the consolidated financial position and results of consolidated 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 consolidated financial statements are those generally accepted and applied in the Republic of China.

## GIGASTORAGE CORPORATION AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

December 31, 2006, 2007 and 2008

(Expressed in Thousands of New Taiwan Dollars)

ASSETS	Note	As of December 31,			
		2006	2007	2008	2008
		NT\$	NT\$	NT\$	US\$
<b>CURRENT ASSETS :</b>					
Cash and cash equivalents	2, 4(1)	\$558,497	\$305,963	\$147,278	\$4,463
Financial assets at fair value through profit or loss - current	2, 4(2)	10,356	30,773	-	-
Notes receivable, net	2, 4(3)	7,604	10,053	1,904	58
Accounts receivable, net	2, 4(3)	574,423	419,508	487,640	14,777
Accounts receivable - related parties, net	2, 5	1,810	272	-	-
Other receivables		11,029	15,610	10,271	311
Inventories, net	2, 4(4)	194,666	159,675	232,752	7,053
Deferred income tax assets - current	2, 4(21)	34,506	55,061	46,266	1,402
Restricted banking accounts - current	6	11,940	9,068	23,761	720
Prepayments and other current assets	2, 4(24)	30,853	51,283	50,500	1,530
Total current assets		<u>1,435,684</u>	<u>1,057,266</u>	<u>1,000,372</u>	<u>30,314</u>
<b>FUNDS AND INVESTMENTS:</b>					
Available-for-sale financial assets - noncurrent	2, 4(5)	22,238	21,549	2,536	77
Financial assets carried at cost - noncurrent	2, 4(6), 6	361,225	358,814	319,476	9,681
Prepayment for long-term investments		45,029	-	-	-
Total funds and investments		<u>428,492</u>	<u>380,363</u>	<u>322,012</u>	<u>9,758</u>
<b>PROPERTY, PLANT AND EQUIPMENT :</b>					
	2, 4(7), 4(24), 6				
Land		220,218	227,479	205,318	6,222
Buildings		870,253	875,602	787,670	23,869
Machinery and equipment		4,184,053	2,870,035	2,934,052	88,911
Research and development equipment		276,358	146,927	155,928	4,725
Transportation equipment		6,152	3,903	2,054	62
Furniture and fixtures		23,028	27,856	25,067	759
Miscellaneous equipment		17,935	97,656	13,758	417
Total cost		5,597,997	4,249,458	4,123,847	124,965
Less: Accumulated depreciation		(3,090,369)	(1,822,668)	(2,061,867)	(62,481)
Less: Accumulated impairment loss		(80,075)	(41,423)	(35,423)	(1,074)
Add: Prepayments on construction in progress		-	-	4,879	148
Add: Prepayments on equipment		3,649	33,567	2,591	79
Property, plant and equipment, net		<u>2,431,202</u>	<u>2,418,934</u>	<u>2,034,027</u>	<u>61,637</u>
<b>INTANGIBLE ASSETS :</b>					
Deferred pension cost	2, 4(13)	<u>733</u>	<u>733</u>	<u>1,480</u>	<u>45</u>
<b>OTHER ASSETS :</b>					
Idle assets, net	2, 4(7), 4(24), 6	-	42,398	-	-
Refundable deposits		6,106	4,614	128	4
Deferred assets	2, 4(24)	107,084	76,051	60,156	1,823
Deferred income tax assets - noncurrent	2, 4(21)	182,723	155,234	146,367	4,435
Restricted banking accounts - noncurrent	6	11,000	11,000	8,349	253
Total other assets		<u>306,913</u>	<u>289,297</u>	<u>215,000</u>	<u>6,515</u>
<b>TOTAL ASSETS</b>		<u>\$4,603,024</u>	<u>\$4,146,593</u>	<u>\$3,572,891</u>	<u>\$108,269</u>

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese

GIGASTORAGE CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (CONTINUED)

December 31, 2006, 2007 and 2008

(Expressed in Thousands of New Taiwan Dollars)

LIABILITIES AND STOCKHOLDERS' EQUITY	Note	As of December 31,			
		2006	2007	2008	2008
		NT\$	NT\$	NT\$	US\$
<b>CURRENT LIABILITIES :</b>					
Short-term loans	4(9), 6	\$100,000	\$191,389	\$319,181	\$9,672
Notes payable		17,414	5,470	12,215	370
Accounts payable		123,181	166,049	107,887	3,269
Accounts payable - related parties	5	2,001	664	39,168	1,187
Income tax payable	2	-	-	1,559	47
Accrued expenses	3, 10	139,496	136,778	79,349	2,404
Payable on equipment		3,502	16,576	7,709	234
Revenues in advance and other current liabilities		13,448	27,313	26,288	797
Current portion of long-term loans	4(10), 6	209,821	527,299	143,605	4,352
Current portion of other long-term payable	4(12), 7	-	78,953	179,842	5,450
Total current liabilities		608,863	1,150,491	916,803	27,782
<b>LONG-TERM DEBTS :</b>					
Financial liabilities at fair value through profit or loss - noncurrent	2, 4(11)	-	-	5,471	166
Bonds payable	2, 4(11)	-	-	87,853	2,662
Long-term loans	4(10), 6	807,734	391,657	272,034	8,243
Other long-term payable	4(12), 7	-	639,136	497,220	15,067
Total long-term liabilities		807,734	1,030,793	862,578	26,138
<b>OTHER LIABILITIES :</b>					
Accrued pension liabilities	2, 4(13)	8,071	8,208	9,276	281
Deposits-in		324	324	720	22
Total other liabilities		8,395	8,532	9,996	303
<b>TOTAL LIABILITIES</b>		<b>1,424,992</b>	<b>2,189,816</b>	<b>1,789,377</b>	<b>54,223</b>
<b>STOCKHOLDERS' EQUITY :</b>					
Capital :	4(14)				
Common stock		2,943,204	2,948,904	2,948,904	89,361
Capital reserve	4(14), 4(15)				
Additional paid-in capital		671,132	314,297	-	-
Long-term investments		16,076	16,076	16,076	487
Equity components of convertible bonds		-	-	5,217	158
Retained earnings :					
Accumulated deficits	4(18), 4(21)	(360,312)	(1,340,227)	(1,182,723)	(35,840)
Other items in stockholders' equity :					
Cumulative translation adjustment	2	(7,315)	27,343	7,176	217
Unrealized loss on financial instruments	2, 4(5)	(63,298)	(9,776)	(11,301)	(342)
Treasury stock	2, 4(19)	(21,605)	-	-	-
<b>TOTAL EQUITY ATTRIBUTABLE TO STOCKHOLDERS OF THE PARENT COMPANY</b>		<b>3,177,882</b>	<b>1,956,617</b>	<b>1,783,349</b>	<b>54,041</b>
<b>MINORITY INTERESTS</b>		<b>150</b>	<b>160</b>	<b>165</b>	<b>5</b>
<b>TOTAL STOCKHOLDERS' EQUITY</b>		<b>3,178,032</b>	<b>1,956,777</b>	<b>1,783,514</b>	<b>54,046</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>		<b>\$4,603,024</b>	<b>\$4,146,593</b>	<b>\$3,572,891</b>	<b>\$108,269</b>

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese

GIGASTORAGE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

For The Years Ended December 31, 2006, 2007 and 2008

(Expressed in Thousands of New Taiwan Dollars Except Earnings Per Share Information)

	Note	For the Year Ended December 31,			
		2006	2007	2008	2008
		NT\$	NT\$	NT\$	US\$
OPERATING REVENUES		\$2,303,770	\$1,849,821	\$1,956,059	\$59,275
Less: Sales returns and discounts		(51,193)	(29,760)	(33,647)	(1,020)
Net operating revenues	2, 4(22), 5	2,252,577	1,820,061	1,922,412	58,255
OPERATING COSTS	4(23), 5	(2,248,559)	(1,753,303)	(1,701,531)	(51,562)
GROSS PROFIT		4,018	66,758	220,881	6,693
OPERATING EXPENSE	4(23), 5,7				
Sales and marketing expenses		(180,768)	(159,743)	(85,674)	(2,596)
General and administrative expenses		(132,611)	(1,061,962)	(114,508)	(3,470)
Research and development expenses		(71,521)	(85,342)	(61,676)	(1,869)
Total operating expenses		(384,900)	(1,307,047)	(261,858)	(7,935)
OPERATING LOSS		(380,882)	(1,240,289)	(40,977)	(1,242)
NON-OPERATING INCOME					
Interest income		5,842	4,647	1,720	52
Gain on disposal of property, plant and equipment	2	-	19,230	2,372	72
Gain on disposal of investments	2, 4(5)	-	876	-	-
Gain on foreign currency exchange	2	188	2,187	5,217	158
Gain on reversal of allowance for bad debts	2	-	-	279	9
Recovery on decline in market value and obsolescence of inventories	2, 4(4)	37,355	-	-	-
Gain on valuation of financial assets	2, 4(11)	7,881	-	-	-
Other income		15,206	16,634	34,806	1,055
Total non-operating income		66,472	43,574	44,394	1,346
NON-OPERATING EXPENSES					
Interest expenses	2	(40,087)	(45,112)	(67,760)	(2,053)
Other investment loss	2, 4(6)	-	(3,461)	(8,806)	(267)
Loss on disposal of property, plant and equipment	2	-	(7,874)	-	-
Loss on disposal of investments	2, 4(5)	-	-	(5,273)	(160)
Loss on decline in market value and obsolescence of inventories	2, 4(4)	-	(1,447)	(2,750)	(83)
Impairment loss	2, 4(5), 4(6), 4(24)	-	(65,211)	(30,000)	(909)
Loss on valuation of financial assets	2, 4(2)	(1,327)	(1,909)	(8,533)	(259)
Loss on valuation of financial liabilities	2, 4(11)	-	-	(445)	(13)
Others expenses	4(23)	(7,427)	(11,513)	(17,441)	(529)
Total non-operating expenses		(48,841)	(136,527)	(141,008)	(4,273)
LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAX		(363,251)	(1,333,242)	(137,591)	(4,169)
INCOME TAX EXPENSES	2, 4(21)	12	(6,975)	(19,208)	(582)
NET LOSS FROM CONTINUING OPERATIONS		(363,239)	(1,340,217)	(156,799)	(4,751)
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES 3		2,931	-	-	-
CONSOLIDATED NET LOSS		<u>\$(360,308)</u>	<u>\$(1,340,217)</u>	<u>\$(156,799)</u>	<u>\$(4,751)</u>
ATTRIBUTABLE TO:					
Stockholders of the parent company		\$360,312	\$(1,340,202)	\$(156,793)	\$(4,751)
Minority interest		4	(15)	(6)	-
Consolidated net loss		<u>\$(360,308)</u>	<u>\$(1,340,217)</u>	<u>\$(156,799)</u>	<u>\$(4,751)</u>
EARNINGS (LOSS) PER SHARE AVAILABLE TO:	2, 3, 4(22)				
Net loss from continuing operations		\$(1.24)	\$(4.58)	\$(0.53)	\$(0.02)
Cumulative effect of changes in accounting principles		0.01	-	-	-
Consolidated net loss		(1.23)	(4.58)	(0.53)	(0.02)
Minority interest		-	-	-	-
Stockholders of the parent company		<u>\$(1.23)</u>	<u>\$(4.58)</u>	<u>\$(0.53)</u>	<u>\$(0.02)</u>

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese  
GIGASTORAGE CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
For The Years Ended December 31, 2006, 2007 and 2008  
(Expressed in Thousands of New Taiwan Dollars)

Item	Common Stock	Capital Reserve			Earnings		Unrealized Loss on Financial Instruments	Treasury Stock	Equity Attributable to Stockholders of the Parent	Minority Interests	Total
		Additional Paid-in Capital	Long-term Investments	Equity Components of Convertible Bonds	Accumulated Deficits	Cumulative Translation Adjustment					
Balance as of January 1, 2006	\$ 2,943,204	\$ 1,145,946	\$ 16,076	\$ 156,190	\$ (631,004)	\$ (7,976)	\$ (64,810)	\$ -	\$ 3,557,626	\$ 146	\$ 3,557,772
Offsetting accumulated deficits by APIC	-	(474,814)	-	(156,190)	631,004	-	-	-	-	-	-
Changes in unrealized loss on financial instruments	-	-	-	-	-	-	1,512	-	1,512	-	1,512
Changes in cumulative translation adjustment	-	-	-	-	-	661	-	-	661	-	661
Purchase of treasury stock	-	-	-	-	-	-	-	(21,605)	(21,605)	-	(21,605)
Net loss attributable to stockholders of parent in 2006	-	-	-	-	(360,312)	-	-	-	(360,312)	-	(360,312)
Changes in minority interests	-	-	-	-	-	-	-	-	-	4	4
Balance as of December 31, 2006	2,943,204	671,132	16,076	-	(360,312)	(7,315)	(63,298)	(21,605)	3,177,882	150	3,178,032
Offsetting accumulated deficits by APIC	-	(360,312)	-	-	360,312	-	-	-	-	-	-
Changes in unrealized loss on financial instruments	-	-	-	-	-	-	53,522	-	53,522	-	53,522
Changes in cumulative translation adjustment	-	-	-	-	-	34,658	-	-	34,658	-	34,658
Purchase of treasury stock	-	-	-	-	-	-	-	(11,920)	(11,920)	-	(11,920)
Sales of treasury stock	-	-	-	-	(25)	-	-	33,525	33,500	-	33,500
Exercise of employee stock options	5,700	3,477	-	-	-	-	-	-	9,177	-	9,177
Net loss attributable to stockholders of parent in 2007	-	-	-	-	(1,340,202)	-	-	-	(1,340,202)	-	(1,340,202)
Changes in minority interests	-	-	-	-	-	-	-	-	-	10	10
Balance as of December 31, 2007	2,948,904	314,297	16,076	-	(1,340,227)	27,343	(9,776)	-	1,956,617	160	1,956,777
Offsetting accumulated deficits by APIC	-	(314,297)	-	-	314,297	-	-	-	-	-	-
Changes in unrealized loss on financial instruments	-	-	-	-	-	-	(1,525)	-	(1,525)	-	(1,525)
Changes in cumulative translation adjustment	-	-	-	-	-	(20,167)	-	-	(20,167)	-	(20,167)
Equity components of convertible bonds	-	-	-	5,217	-	-	-	-	5,217	-	5,217
Net loss attributable to stockholders of parent in 2008	-	-	-	-	(156,793)	-	-	-	(156,793)	-	(156,793)
Changes in minority interests	-	-	-	-	-	-	-	-	-	5	5
Balance as of December 31, 2008	\$ 2,948,904	\$ -	\$ 16,076	\$ 5,217	\$ (1,182,723)	\$ 7,176	\$ (11,301)	\$ -	\$ 1,783,349	\$ 165	\$ 1,783,514
Balance as of December 31, 2008 (in US\$)	\$ 89,361	\$ -	\$ 487	\$ 158	\$ (35,840)	\$ 217	\$ (342)	\$ -	\$ 54,041	\$ 5	\$ 54,046

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese

GIGASTORAGE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For The Years Ended December 31, 2006, 2007 and 2008

(Expressed in Thousands of New Taiwan Dollars)

	For the Year Ended December 31,			
	2006	2007	2008	2008
	NT\$	NT\$	NT\$	US\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Consolidated net loss	\$ (360,308)	\$ (1,340,217)	\$ (156,799)	\$ (4,751)
Adjustments to reconcile consolidated net loss to net cash provided by operating activities:				
Cumulative effect of changes in accounting principles	(2,931)	-	-	-
Depreciation	457,628	361,827	300,904	9,118
Amortization	79,093	60,365	44,933	1,362
(Recovery) loss on decline in market value and obsolescence of inventories	(37,355)	1,447	2,750	83
Changes on deferred income tax assets and liabilities	33	6,934	17,662	535
Other investment loss	-	3,461	8,806	267
Loss (gain) on disposal of property, plant and equipment, net	299	(11,354)	(2,464)	(75)
Gain on disposal of deferred assets	(241)	-	-	-
(Gain) loss on disposal of investments	-	(876)	5,273	160
Impairment loss	-	65,211	30,000	909
Amortization of discount on bonds payable	-	-	1,096	33
(Gain) loss on valuation of financial assets	(7,881)	-	445	13
Loss on redemption of convertible bonds	1,758	-	-	-
Decrease (increase) in financial assets at fair value through profit or loss	93,799	(19,541)	30,773	933
(Increase) decrease in notes and accounts receivable	(68,642)	152,466	(59,983)	(1,818)
Decrease in accounts receivable - related parties	2,432	1,538	272	8
Decrease (increase) in inventories	299,035	33,544	(75,827)	(2,298)
(Increase) decrease in prepayments and other current assets	(1,151)	(20,430)	783	24
(Increase) decrease in other receivable	(5,856)	(4,581)	5,339	162
Foreign exchange rate adjustment in reserve for redemption of bonds payable	(5,593)	-	-	-
Foreign exchange rate adjustment in bonds payable	(4,973)	-	-	-
(Decrease) increase in notes and accounts payable	(18,101)	30,924	(51,417)	(1,558)
(Decrease) increase in accounts payable - related parties	(403)	(1,337)	38,504	1,167
(Decrease) increase in income tax payable	(85)	-	1,559	47
Increase (decrease) in accrued expenses	8,798	(2,718)	(57,429)	(1,740)
Increase (decrease) in revenues in advance and other current liabilities	4,624	13,865	(1,025)	(31)
(Decrease) increase in accrued pension liabilities	(194)	137	321	10
Increase (decrease) in other long-term payable	-	718,089	(41,027)	(1,243)
Net cash provided by operating activities	433,785	48,754	43,449	1,317
<b>CASH FLOWS FROM INVESTING ACTIVITIES :</b>				
Decrease (increase) in restricted banking accounts	10,681	2,872	(12,042)	(365)
Increase in long-term investments accounted for using the equity method	-	45,029	-	-
Increase in financial assets measured at cost	-	(6,000)	-	-
Proceeds from disposal of available-for-sale financial assets	9,097	-	12,747	386
Increase in prepayment for long-term investment	(45,029)	-	-	-
Acquisition of property, plant and equipment	(57,209)	(395,581)	(60,929)	(1,846)
Proceeds from disposal of financial assets measured at cost	-	4,950	-	-
Proceeds from disposal of property, plant and equipment	27	17,052	117,181	3,551
Increase in deferred assets	(35,940)	(29,332)	(29,038)	(880)
Proceeds from disposal of deferred assets	400	-	-	-
Decrease in refundable deposits	(3,660)	1,492	4,486	136
Net cash (used in) provided by investing activities	(121,633)	(359,518)	32,405	982

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English Translation of Consolidated Financial Statements Originally Issued in Chinese

GIGASTORAGE CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

For The Years Ended December 31, 2006, 2007 and 2008

(Expressed in Thousands of New Taiwan Dollars)

	For the Year Ended December 31,			
	2006	2007	2008	2008
	NT\$	NT\$	NT\$	US\$
<b>CASH FLOWS FROM FINANCING ACTIVITIES :</b>				
Increase in short-term loans	\$100,000	\$91,389	\$127,792	\$3,873
Redemption of 1st foreign convertible bonds	(78,924)	-	-	-
Redemption of 2nd foreign convertible bonds	(288,951)	-	-	-
Decrease in long-term loans	(288,557)	(98,599)	(503,317)	(15,252)
Increase in bonds payable	-	-	97,000	2,939
Increase in deposits-in	324	-	396	12
Cash received from employees' stock options exercised	-	9,177	-	-
Sales of treasury stock	-	33,500	-	-
Purchase of treasury stock	(21,605)	(11,920)	-	-
Increase in minority interests	-	25	11	-
Net cash (used in) provided by financing activities	(577,713)	23,572	(278,118)	(8,428)
EFFECT OF CHANGES IN EXCHANGE RATES	661	34,658	43,579	1,320
NET DECREASE IN CASH AND CASH EQUIVALENT	(264,900)	(252,534)	(158,685)	(4,809)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	823,397	558,497	305,963	9,272
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$558,497	\$305,963	\$147,278	\$4,463
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION :</b>				
Income tax paid	\$97	\$15	\$-	\$-
Interest expenses paid	\$41,126	\$42,319	\$67,054	\$2,032
<b>Investing activities partially affecting cash flows :</b>				
Acquisition of property, plant and equipment	\$54,177	\$408,655	\$52,062	\$1,578
Add: payables on equipment at the beginning of period	\$6,534	3,502	16,576	502
Less: payables on equipment at end of period	(3,502)	(16,576)	(7,709)	(234)
Cash paid for acquiring property, plant and equipment	\$57,209	\$395,581	\$60,929	\$1,846
<b>INVESTING AND FINANCING ACTIVITIES NOT AFFECTING CASH FLOWS :</b>				
Capital reserve used to cover accumulated deficits	\$631,004	\$360,312	\$314,297	9,524
Current portion of long-term loans	\$209,821	\$527,299	\$143,605	4,352
Current portion of other long-term payable	\$-	\$78,953	\$179,842	5,450
Cumulative translation adjustment	\$661	\$34,658	\$(20,167)	(611)
Change in unrealized loss on financial instruments	\$1,512	\$53,522	\$(1,525)	(46)
Reclassified fixed assets to idle assets	\$-	\$42,398	\$-	-

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

GIGASTORAGE CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
As of and for the Years Ended December 31, 2006, 2007 and 2008  
(Expressed in Thousands of New Taiwan Dollars unless Otherwise Stated)

**1. HISTORY AND ORGANIZATION**

Gigastorage Corporation was incorporated under the Company Law in the Republic of China (the “R.O.C.”) on March 26, 1997 and commenced operation on December 1, 1997. Gigastorage Corporation is mainly engaged in the business of researching, manufacturing, and selling of read-only, write-able, and erasable optical disks; consulting services on the related technology; import and export of production equipments, spare parts, raw materials, semi-finished goods, and finished goods; bidding and agency services for foreign and local products; and manufacturing of information storage and handling equipment.

Gigastorage Corporation’s stocks became publicly listed on the Taiwan Stock Exchange (“TWSE”) on April 29, 2000 which was permitted by SFC on January 19, 2000.

Gigastorage Corporation set September 30, 2008 as its spin-off effective date and divided the Solar Material Chemical Department to the Company’s subsidiary - Giga Solar Materials Corporation (previously Medwell Technology Corporation).

As of December 31, 2006, 2007 and 2008, Gigastorage Corporation and the consolidated entities had 514, 587 and 552 employees in total, respectively. (Gigastorage and the consolidated entities are hereinafter referred to as “the Company” or “Gigastorage”.)

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The consolidated financial statements have been prepared in accordance with Guidelines Governing the Preparation of Financial Report by Securities Issuers and accounting principles generally accepted in the Republic of China. Summary of significant accounting policies is as follows:

**General Descriptions of the Consolidated Entities**

Investees in which Gigastorage, directly or indirectly holds more than 50% of voting common stocks or less than 50% of voting common stocks but has substantial control, are accounted for under equity method and consolidated in the Company’s consolidated financial statements. Consolidated subsidiaries are summarized as below:

Name of Investor	Name of Investee	Business Nature	Percentage of Ownership		
			( $\%$ )		
			As of December 31,		
			2006	2007	2008
Gigastorage	Gigastorage Corporation USA (Note 1)	Selling of CD-R and CD-RW products	100.00	-	-
Gigastorage	CUSTER INC.	Selling of CD-R and CD-RW products	100.00	100.00	100.00
Gigastorage	NEW ELITE INVESTMENTS LIMITED	Investment holding	100.00	100.00	100.00
Gigastorage	Quo-Chao Investments Corporation	Investment holding	99.99	99.99	99.99
Gigastorage	Maxmax Group Corporation	Selling of CD-R and CD-RW products	99.45	99.45	99.45
Gigastorage	GLOBAL ACETECH CO., LTD.	Selling of CD-R and CD-RW products	99.99	99.99	99.99
Gigastorage	Giga Solar Materials Corporation (Note 2)	Precise chemicals and industrial plastics	-	-	100.00
CUSTER INC.	BARNWELL	Selling of CD-R and CD-RW products	100.00	100.00	100.00
NEW ELITE INVESTMENTS LIMITED	Shenzhen Gigastorage Co., Ltd. (Note 3)	Other professional design service and management service	100.00	-	100.00
Quo-Chao Investments Corporation	Giga Solar Materials Corporation (Note 2)	Precise chemicals and industrial plastics	100.00	100.00	-

Note 1: Gigastorage Corporation USA applied for dissolution on December 21, 2007. The dissolution process was completed on December 26, 2007.

Note 2: Gigastorage acquired 100 thousand shares of common stock of Giga Solar Materials Corporation from the subsidiary, Quo-Chao Investments Corporation, on August 21, 2008. After the transaction, Gigastorage holds 100% voting rights of Giga Solar Materials Corporation.

Note 3: Shenzhen Gigastorage Co., Ltd. applied for dissolution on October 23, 2007 and went into liquidation. Except for the revenues and expenses up until the liquidation date, the results of Shenzhen Gigastorage Co., Ltd. were not consolidated in the Company's consolidated financial statements for the year 2007. However, Shenzhen Gigastorage Co., Ltd. subsequently applied to cancel the liquidation on May 22, 2008 and its revenues and expenses since then have been included in the consolidated financial statements.

All subsidiaries of Gigastorage have been included as consolidated entities in the consolidated financial statements.

### **Convenience Translation into US Dollars**

Translations of amounts from New Taiwan dollars (“NT dollars” or “NT\$”) into United States dollars (“US dollars” or “US\$”) for the reader’s convenience were calculated at the rate of US\$1.00 to NT\$33. No representation is made that the NT\$ amounts could have been, or could be, converted into United States dollars at such rate.

### **Principles of Consolidation**

- (1) The consolidated financial statements were prepared in accordance with R.O.C. Statement of Financial Accounting Standard (SFAS) No. 7. The transactions between the consolidated entities were appropriately eliminated in the consolidated financial statements.
- (2) Investees in which the Company holds more than 50% of voting rights, including those that are currently exercisable or convertible, are accounted for under the equity method and shall be consolidated. An entity shall also be consolidated when the Company has:
  - A. Power over more than half of the voting rights of the investee by virtue of an agreement with other investors;
  - B. As permitted by law, or by contractual agreements, the power to govern the financial, operating and personnel policies of the investee;
  - C. Authority to appoint or discharge more than half members of board of directors (or equivalent governing body), by whom the investee is controlled;
  - D. The Company leads and controls more than half of the members of the board of directors (or equivalents), and control of the investee is by that board or body;
  - E. Power to control over the investee due to other reasons.
- (3) If the acquisition cost is greater or less than the proportionate book value of the investee, it is accounted for in accordance with the R.O.C. SFAS No. 25 “Business Combinations - Accounting Treatment under the Purchased Method”. Effective from January 1, 2006, pursuant to the newly revised R.O.C. SFAS No. 25, investment premiums, representing goodwill, is no longer amortized, and is assessed for impairment at least on an annual basis; while investment discounts continue to be amortized over the remaining period. In some cases, the fair value will exceed the investment cost. That excess, if generated after December 31, 2005, shall be allocated as a pro rata reduction of the amounts that otherwise would have been assigned to all of the acquired non-current assets. If any excess remains after reducing to zero the amounts that otherwise would have been assigned to those assets, that remaining excess shall be recognized as an extraordinary gain.

### **Cash Equivalents**

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, and so near their maturity that they present insignificant risk of changes in value from fluctuations in interest rates. Commercial papers, negotiable certificates of deposit, and bank acceptances with original maturities of three months or less from the date of investment are considered cash equivalents.

### **Foreign Currency Transactions and Translation of Financial Statements in Foreign Currency**

- (1) Gigastorage maintains its accounting records in New Taiwan dollars ("NT Dollars" or "NT\$"). Transactions denominated in foreign currencies are recorded in NT Dollars using the exchange rates in effect at the dates of the transactions. At each balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at the rates prevailing on the balance sheet date. Exchange differences arising from the settlements of the monetary assets and liabilities, and on the translation of monetary assets and liabilities are included in earnings for the period. Exchange differences arising from the translation of non-monetary assets and liabilities carried at fair value are included in earnings for the period except for differences arising from the translation of non-monetary assets and liabilities of which gains and losses are recognized directly in equity. For such non-monetary assets and liabilities, any exchange component of that gain or loss is recognized directly in equity. Non-monetary items that are measured at fair value in a foreign currency shall be translated using the exchange rates at the date when the fair value was determined. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of the transaction. Foreign exchange gains and losses are included in the statements of operations.
  
- (2) The assets and liabilities of the foreign subsidiaries are translated into NT Dollars, with the local currency of each foreign subsidiary as its functional currency, at the exchange rates in effect at the balance sheet date. Stockholders' equity accounts should be translated at the historical rates except for the beginning balance of the retained earnings, which is carried by the translated amount of the last period. Dividends are translated at the spot rate of the declared date. Revenue and expense accounts are translated using a weighted average exchange rate for the relevant period. Translation gains and losses are included as a component of stockholders' equity. The accumulated exchange gains or losses resulting from the translation are recorded as cumulative translation adjustments under stockholders' equity.

### **Financial Assets and Financial Liabilities**

- (1) Financial asset or liability is recognized on the balance sheet when the Company becomes a party to the contractual provisions of the financial instrument contract. A regular way purchase or sale of financial assets are recognized using either trade date accounting on equity instruments or settlement date accounting on debt securities, beneficiary certificates and derivatives.
  
- (2) Upon initial recognition, financial assets or financial liabilities are measured at fair value, plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issuance of the financial asset or financial liability.
  
- (3) Financial assets or financial liabilities are classified as follows:
  - A. Financial assets or financial liabilities at fair value through profit or loss

Financial assets or financial liabilities at fair value through profit or loss include financial assets or liabilities held for trading and financial assets and liabilities designated upon initial recognition as at fair value through profit or loss. Such assets or liabilities are subsequently measured at fair value and changes in fair value are recognized in profit or loss.

**B. Financial assets carried at cost**

These are not measured at fair value because their fair value cannot be reliably measured, they are either holdings in unquoted equity instruments or emerging stocks which the Company does not have significant influence over or derivative assets that are linked to and must be settled by delivery of the abovementioned unquoted equity instruments. When objective evidence of impairment of such unquoted equity instrument exists, an impairment loss is recognized. Such impairment loss shall not be reversed in subsequent periods.

**C. Available-for-sale financial assets**

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as financial assets at fair value through profit or loss, held-to-maturity financial assets or loans and receivables. When available-for-sale financial assets are subsequently measured at fair value, the changes in fair value are recognized as a separate component of stockholders' equity. The accumulated gains or losses previously charged to stockholders' equity are recognized in profit or loss when the financial asset is derecognized from the balance sheet.

If there is objective evidence which indicates that such financial asset is impaired, an impairment loss is recognized. If, in a subsequent period, the amount of the impairment loss decreases, the previously recognized impairment loss for equity securities is reversed to the extent of the decrease and recorded as an adjustment to stockholders' equity; for debt securities, the amount of the decrease is recognized in profit or loss, provided that the decrease is clearly attributable to an event which occurred after the impairment loss was recognized.

The fair values for listed equity securities or close-ended funds are based on closing prices at the balance sheet date, while the fair values for open-ended funds on net value at the balance sheet date. When a quotation of the financial instrument as a whole from an active market does not exist, and only the quotation from an active market for the component of that financial instrument is available, then the market price of such component shall be considered to determine the fair value of the financial instruments.

**Allowance for Doubtful Accounts**

The allowance for doubtful accounts is provided based on the aging analysis and the results of the Company's evaluation of collectability of the outstanding notes and accounts receivable.

**Inventories**

Inventories are recorded at cost when acquired and stated at the lower of aggregate cost, based on the weighted average method, or market value at the balance sheet date. The market values of raw materials are determined on the basis of replacement cost while work in process and finished goods are determined on net realizable value. The allowance for decline in market value and obsolescence of inventories is provided when necessary.

### **Property, Plant and Equipment**

- (1) Property, plant and equipment are stated at cost. Significant improvements and replacements are capitalized and depreciated over their estimated useful lives while repairs and maintenance are expensed as incurred. Interest incurred on loans used to finance the construction of property, plant and equipment is capitalized and depreciated accordingly. When property, plant and equipment are disposed of, their original cost, accumulated depreciation and accumulated impairment are written off and related gains or losses are included as non-operating income or expenses.
- (2) Depreciation is provided by using the straight-line method over the following estimated useful lives. If the property, plant and equipment are still in use beyond their original estimated useful lives, the original residual value is further depreciated over their newly estimated useful lives.

Buildings	9 - 55 Years
Machinery and equipment	2 – 10 Years
Research and development equipment	3 - 10 Years
Transportation equipment	5 Years
Furniture and fixtures	3 - 5 Years
Miscellaneous equipment	5 Years

### **Deferred Assets**

Deferred assets, including molds, spare parts and tools are amortized using the straight-line method over 3 to 5 years.

### **Capital Expenditures vs. Operating Expenditure**

If the expenditure increases the future service potential of the plant assets and the purchase price exceeds a certain monetary threshold, then the expenditure is capitalized, while other expenditure not meeting the aforementioned criteria are expensed as incurred.

### **Revenue Recognition**

The Company recognized revenue when the following conditions are met:

- (1) When persuasive evidence of an arrangement exists;
- (2) The product or service has been delivered;
- (3) The seller's price to the buyer is fixed or determinable and
- (4) Collectability is reasonably assured.

### **Convertible Bonds**

- A. The cost of issuing convertible bonds is recorded under liability or equity component in proportion to the original cost spent on each component.

- B. Convertible bonds are evaluated to determine whether it contains both a liability and an equity component. The fair value of the liability component is measured first, at the fair value of a similar liability that does not have an associated equity conversion feature, and the fair value of the equity component is determined as a residual.
- C. The liability component is subsequently measured at amortized cost and embedded derivative instrument is measured at fair value, while the equity component will not be re-measured after initial recognition.
- D. Conversion of convertible bonds is accounted for using the face value method. Under this method, the carrying amount of convertible bonds is transferred to common stock and capital reserve accounts. No conversion gain or loss can be recognized.

### **Pension**

- (1) According to the R.O.C. Labor Standards Law (“LSL”), Gigastorage and the subsidiaries, Maxmax Group Corporation and Giga Solar Materials Corporation, have their respectively defined benefit plans and have been making monthly contributions based on a fixed percent of their employees’ monthly wages. All regular employees are entitled to defined benefit pension plans that are managed by their respective independently administered pension fund committees. Fund assets are deposited under their respective committees’ names and hence, not associated with the Company. Therefore, fund assets are not to be consolidated in the Company’s financial statements.
- (2) The R.O.C. Labor Pension Act (“LPA”), which adopts a defined contribution plan, became effective on July 1, 2005. Employees eligible for the LSL, a defined benefit plan, were allowed to elect to either the pension calculation under the LPA or continue to be subject to the pension calculation under the LSL. Those employees that elected to be subject to LPA will have their seniority achieved under the LSL retained upon election of LPA, and domestic companies will make monthly contributions of no less than 6% of these employees’ monthly wages to the employees’ individual pension accounts.
- (3) The accounting for the Company’s pension liability is computed in accordance with R.O.C. SFAS No.18, “Accounting for Pension”. Net pension costs of the defined benefit plan are recorded based on an independent actuarial valuation. The unrecognized net transition obligation is amortized on the straight-line basis over the employees’ average remaining service period or 15 years. The Company recognizes expenses from the defined contribution pension plan in the period in which the contribution becomes due.
- (4) Foreign subsidiaries which have defined contribution pension plans make monthly contributions to pension funds in accordance with the relevant local law and regulations. The monthly contribution is recorded as an expense in the month in which the contribution becomes due.

### **Income Tax**

- (1) The Company adopted an inter-period and intra-period income tax allocation method to recognize income tax. Tax effects on taxable temporary differences are recognized as deferred tax liabilities. Tax effects on deductible temporary differences, operating loss carryforward and investment tax credits are recognized as deferred tax assets. Valuation allowance is provided based on the expected realizability of the deferred tax assets. A deferred tax asset or liability should be classified as current or non-current according to the classification of its related asset or liability. However, if a deferred tax asset or liability is not directly related to an asset or a liability, then the classification is based on the expected realization date of such deferred income tax asset or liability.
- (2) According to R.O.C. SFAS No.12 "Accounting for Income Tax Credits", the Company recognizes the tax credits arising from purchases of machinery, equipment and technology, research and development expenditures, employee training, and certain equity investments in the period when such purchases, expenditures, training or investments occur.
- (3) Undistributed earnings generated after 1997 are subject to a 10% additional retained earnings tax (10% additional tax) in compliance with the R.O.C. Income Tax Act. The 10% additional tax is recorded as income tax expense in the year in which stockholders have resolved that the domestic companies' earnings shall be retained.
- (4) The R.O.C. Income Basic Tax Act (IBTA) has been effective since January 1, 2006. The IBTA is a supplemental tax levied at a rate of 10% which is payable if the income tax payable determined pursuant to the R.O.C. Income Tax Act is below the minimum amount prescribed under the IBTA. The impact of the IBTA has been considered in domestic companies' income tax for the current reporting period, and in determining the realizability of deferred income tax assets.

### **Earnings (Loss) Per Share**

Earnings (loss) per share is computed in accordance with R.O.C. SFAS No. 24 "Earnings Per Share". The Company presents basic earnings (loss) per share and diluted earnings (loss) per share information. Basic earnings (loss) per share is computed by dividing the net income (loss) by the weighted-average number of common stock outstanding during the current reporting period. When calculating diluted earnings (loss) per share, the numerator includes or adds back potential common stock dividends, interest and other conversion revenues (expenses). The denominator includes all potentially dilutive common stock.

### **Employee Stock Option Plan**

The Company used the intrinsic value method to recognize compensation cost for its employee stock options issued between January 1, 2004 and December 31, 2007, in accordance with R.O.C. Accounting Research and Development Foundation interpretation Nos. 92-070~072. For options granted on or after January 1, 2008, the

Company recognizes compensation cost using the fair value method in accordance with R.O.C. SFAS No. 39 “Accounting for Share-Based Payment”.

### **Derivative Financial Instruments**

The Company initially recognized derivative as either financial assets (when the fair value is positive) or financial liabilities (when the fair value is negative) and subsequently remeasured those instruments at fair value. Derivatives that are not qualified for hedge accounting are accounted for as financial assets or liabilities held for trading with changes in fair value recognized in profit or loss.

### **Asset Impairment**

Pursuant to R.O.C. SFAS No. 35 “Impairment of Assets”, the Company assesses indicators of impairment for all its assets (except for goodwill) within the scope of the standard at each balance sheet date. If there is indication of impairment, the Company compares the asset’s carrying amount with its recoverable amount and writes down the carrying amount to the recoverable amount where applicable. For previously recognized impairment losses, the Company assesses at each balance sheet date whether there is any indication that the impairment loss no longer exists or may have diminished. If there is any such indication, the Company recalculates the recoverable amount of the asset, and if the recoverable amount has increased as a result of the increase in the estimated service potential of the asset, the Company reverses the impairment loss so that the resulting carrying amount of the asset does not exceed the amount (net of amortization or depreciation) that would otherwise result had no impairment loss been recognized for the asset in prior years.

### **Treasury Stock**

- (1) Treasury stock transactions are accounted for under the cost method.
- (2) When treasury stock is sold for more than its acquisition cost, the difference is credited to capital reserve-treasury stock transaction. If treasury stock is sold for less than its acquisition cost, the difference is charged to the same capital reserve account to the extent that the capital reserve account is reduced to zero. If the balance of the capital reserve is insufficient, any further reduction shall be charged to retained earnings instead.
- (3) When treasury stock is cancelled, the treasury stock account is credited and all capital account balances related to the treasury shares, including capital reserve-additional paid in capital and common stock, are debited on a pro-rata basis. Any difference, if it is in credit balance, is recorded in capital reserve-treasury stock transaction; if it is in debit balance, is charged to the same capital reserve account to the extent that the capital reserve account is reduced to zero. If the balance of the capital reserve is insufficient, any further reduction shall be charged to retained earnings instead.

### **Employee Bonuses and Remunerations Paid to Directors and Supervisors**

In accordance with R.O.C. Accounting Research and Development Foundation interpretation No. 96-052 “Accounting for Employee Bonuses and Remunerations to Directors and Supervisors”, effective from January 1,

2008, employee bonuses and remunerations paid to directors and supervisors are charged to expense at fair value and are no longer accounted for as an appropriation of retained earnings.

### 3. **REASONS AND EFFECTS FOR CHANGES IN ACCOUNTING POLICIES**

- (1) Effective from January 1, 2006, the Company adopted R.O.C. SFAS No. 34 “Financial Instruments: Recognition and Measurement” (SFAS No.34) and No. 36 “Financial Instruments: Disclosure and Presentation” (SFAS No.36).

The Company had appropriately classified financial assets and liabilities and remeasured them in fair value upon the initial adoption of R.O.C. SFAS No.34 and 36. The adjustments made to the carrying amounts of the financial instruments classified as financial assets or financial liabilities at fair value through profit or loss were recorded as the cumulative effect of changes in accounting policies. The adjustments made to the carrying amounts of those classified as available-for-sale financial assets were recognized as adjustments to stockholders’ equity.

The effect of adopting R.O.C. SFAS No.34 and No.36 is summarized as follows:

	Post-tax effect	
	Recognized as cumulative effect of change in accounting policies	Recognized as a separate component of stockholders’ equity
Financial assets at fair value through profit or loss - current	\$2,931	\$-
Available-for-sale financial assets - non-current	-	851
	<u>\$2,931</u>	<u>\$851</u>

The adoption of R.O.C. SFAS No.34 and No.36 increased cumulative effect of changes in accounting policies by NT\$2,931 thousand, thereby increased basic earnings per share on a consolidated basis by NT\$0.01 for the year ended December 31, 2006.

- (2) Effective from January 1, 2008, the Company adopted R.O.C. SFAS No. 39 “Accounting for Share-Based Payment” to account for share-based payments. This change in accounting policies had no effect on consolidated net loss or basic earnings per share on a consolidated basis for the year ended December 31, 2008.
- (3) Effective from January 1, 2008, the Company adopted the newly released R.O.C. Accounting Research and Development Foundation interpretation No. 96-052 to account for employees’ bonuses and remunerations paid to directors and supervisors. The adoption increased the Company’s consolidated net loss by NT\$221 thousand and had no effect on basic earnings per share on a consolidated basis for the year ended December 31, 2008.

#### 4. CONTENTS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	As of December 31,			
	2006	2007	2008	2008
	NT\$	NT\$	NT\$	US\$
Cash on hand	\$347	\$182	\$509	\$16
Checking and savings account	322,150	276,781	139,769	4,235
Time deposits	236,000	29,000	7,000	212
Total	\$558,497	\$305,963	\$147,278	\$4,463

(2) Financial assets at fair value through profit or loss - current

	As of December 31,			
	2006	2007	2008	2008
	NT\$	NT\$	NT\$	US\$
<u>Financial assets held for trading</u>				
Listed stocks	\$-	\$40,075	\$-	\$-
Short selling of listed stocks	(25)	-	-	-
Interest rate swaps	(14)	34	-	-
Subtotal	(39)	40,109	-	-
Adjustment for change in value	176	(9,336)	-	-
Total financial assets held for trading	137	30,773	-	-
<u>Financial assets designated as at fair value through profit or loss</u>				
Corporate bonds	10,138	-	-	-
Adjustment for change in value	81	-	-	-
Total financial assets designated as at fair value through profit or loss	10,219	-	-	-
Total	\$10,356	\$30,773	\$-	\$-

The Company entered into forward contracts and interest rate swaps and options with financial institutions in 2006, 2007 and 2008. The purpose of entering into forward contracts and interest rate swaps is to hedge exchange rate fluctuation risk resulting from assets denominated in foreign currency and interest rate fluctuation risk resulting from loans. However, these derivatives do not meet the hedge accounting criteria; therefore they are not accounted for using hedge accounting. As of December 31, 2006, 2007 and 2008, outstanding contracts were as follows:

	As of December 31,			
	2006	2007	2008	2008
	NT\$	NT\$	NT\$	US\$

Item	Book	Notional	Book	Notional	Book	Notional	Book	Notional
	value	amount	value	amount	value	amount	value	amount
Interest rate swaps	\$(50)	\$150,000	\$578	\$150,000	\$-	\$-	\$-	\$-

Upon settlements, valuation (losses) gains on forward contracts amounting to NT\$(881) thousand, NT\$(754) thousand and NT\$304 thousand were recorded for the years ended December 31, 2006, 2007 and 2008, respectively; valuation gains on options were NT\$1,426 thousand, NT\$0 thousand and NT\$0 thousand for the years ended December 31, 2006, 2007 and 2008, respectively; valuation (losses) gains on interest rate swaps were NT\$(482) thousand, NT\$859 thousand and NT\$448 thousand for the years ended December 31, 2006, 2007 and 2008, respectively. Please refer to Note 10 to the financial statements for the disclosures of relative risks information for financial assets and liabilities at fair value through profit or loss.

(3) Notes receivable and accounts receivable, net

	As of December 31,			
	2006	2007	2008	2008
	NT\$	NT\$	NT\$	US\$
Notes receivable	\$7,604	\$10,053	\$1,904	\$58
Less: Allowance for doubtful accounts	-	-	-	-
Net	\$7,604	\$10,053	\$1,904	\$58

	As of December 31,			
	2006	2007	2008	2008
	NT\$	NT\$	NT\$	US\$
Accounts receivable	\$748,689	\$624,629	\$602,352	\$18,253
Less: Allowance for doubtful accounts	(166,599)	(204,774)	(114,612)	(3,473)
Less: Allowance for sales returns and discounts	(7,667)	(347)	(100)	(3)
Net	\$574,423	\$419,508	\$487,640	\$14,777

(4) Inventories, net

	As of December 31,			
	2006	2007	2008	2008
	NT\$	NT\$	NT\$	US\$
Raw materials	\$74,170	\$105,364	\$120,692	\$3,658
Work in process	93,798	60,415	81,083	2,457
Finished goods	62,826	37,613	53,071	1,608
Raw materials in transit	7,610	1,468	25,841	783
Total	238,404	204,860	280,687	8,506
Less: Allowance for decline in market value and obsolescence	(43,738)	(45,185)	(47,935)	(1,453)

Net	<u>\$194,666</u>	<u>\$159,675</u>	<u>\$232,752</u>	<u>\$7,053</u>
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(5) Available-for-sale financial assets - non-current

	As of December 31,			
	2006	2007	2008	2008
	NT\$	NT\$	NT\$	US\$
Listed stocks				
Lead Data Inc.	\$17,779	\$13,328	\$13,328	\$404
International Branding Marketing Inc.	-	-	511	15
Ritek Corporation	67,759	17,999	-	-
Subtotal	85,538	31,327	13,839	419
Adjustment for changes in fair value	(63,300)	(9,778)	(11,303)	(342)
Total	<u>\$22,238</u>	<u>\$21,549</u>	<u>\$2,536</u>	<u>\$77</u>

The Company recognized an impairment loss of NT\$54,211 thousand to its available-for-sale investment - Ritek Corporation under non-operating expenses in 2007. In addition, above mentioned available-for-sale investment was fully disposed in 2008 with loss on disposal in the amount of NT\$5,228 thousand.

(6) Financial assets carried at cost - non-current

	As of December 31,			
	2006	2007	2008	2008
	NT\$	NT\$	NT\$	US\$
Unlisted stocks – common stock				
Taimide Technology Inc.	\$200,817	\$200,817	\$200,796	\$6,085
New Land Packing Corporation (Note)	55,910	55,910	55,910	1,694
Prorit Corporation	47,307	47,307	37,307	1,131
Makin Technology Corporation	28,531	34,531	14,531	440
Infomax Optical Technology Corporation	14,560	14,560	7,287	221
Prosperity Venture Capital Corporation	8,100	3,645	3,645	110
Subtotal	355,225	356,770	319,476	9,681
Listed stock through private placement				
International Branding Marketing Inc.	6,000	2,044	-	-
Total	<u>\$361,225</u>	<u>\$358,814</u>	<u>\$319,476</u>	<u>\$9,681</u>

Note: New Land Transportation Co., Ltd. changed its name into New Land Packing Corporation.

① In August 2005, the Company invested NT\$6,000 thousand for 600,000 shares through private placement in International Branding Marketing Inc., representing 2.17% of ownership interest. Pursuant to the R.O.C.

Securities and Exchange Act, such shares through private placement should not be transferred within three years since the date of acquisition. In 2008, such investments were reclassified to available-for-sale financial assets - non-current from financial assets carried at cost - non-current.

International Branding Marketing Inc. carried out a capital reduction to offset its accumulated deficits in March 2007, which represented approximately 65.94% of its outstanding shares. The Company recognized an investment loss of NT\$3,956 thousand classified under non-operating expense - other investment loss in 2007.

International Branding Marketing Inc. carried out a capital reduction to offset its accumulated deficits in September 2008, which represented approximately 75% of its outstanding shares. The Company recognized an investment loss of NT\$1,533 thousand classified under non-operating expense - other investment loss in 2008.

- ② The Company sold its shares of ID Interactive Co., Ltd. at price of NT\$9,062 thousand with a loss of NT\$9,583 thousand classified under non-operating expense - loss on disposal of investments in 2006.
- ③ As resolved during the stockholders' meeting in May 2007, Prosperity Venture Capital Corporation carried out a capital reduction of 55% of its original capital stock issued. The Company received capital return of NT\$4,950 thousand and recognized a gain on disposal of investment of NT\$495 thousand under non-operating expense - other investment loss in 2007.
- ④ Infomax Optical Technology Corporation carried out a capital reduction to offset its accumulated deficits in April 2008, which represented approximately 49.95% of its outstanding shares. The Company recognized an investment loss of NT\$7,273 thousand classified under non-operating expense - other investment loss in 2008.
- ⑤ In 2008, the Company determined its financial assets carried at cost - Prorit Corporation and Makin Technology Corporation were impaired and recognized an impairment loss of NT\$10,000 thousand and NT\$20,000 thousand, respectively.

(7) Property, plant and equipment

- ① No interest was capitalized for the years ended December 31, 2006, 2007 and 2008, respectively.
- ② The Company reclassified some fixed assets to idle assets in December 2007. The details were as follows:

Items	As of December 31, 2007			
	Cost	Accumulated Depreciation	Accumulated Impairment	Net
	NT\$	NT\$	NT\$	NT\$
Land	\$12,929	\$-	\$-	\$12,929

Buildings	57,323	(24,236)	(4,000)	29,087
Machinery and equipment	37,021	(35,639)	(1,000)	382
Total	\$107,273	\$(59,875)	\$(5,000)	\$42,398

- ③ All idle assets had been disposed as of December 31, 2008.
- ④ Refer to Note 4(24) of consolidated financial statements for impairment on property, plant, equipment and idle assets.
- ⑤ Refer to Note 6 of consolidated financial statements for property, plant, equipment and idle assets pledged as collateral.

(8) Over due accounts receivable, net

	As of December 31,			
	2006	2007	2008	2008
	NT\$	NT\$	NT\$	US\$
Over due accounts receivable	\$57,032	\$57,854	\$57,907	\$1,755
Less: allowance for doubtful accounts	(57,032)	(57,854)	(57,907)	(1,755)
Net	\$-	\$-	\$-	\$-

(9) Short-term bank loans

Items	As of December 31,			
	2006	2007	2008	2008
	NT\$	NT\$	NT\$	US\$
Unsecured loans	\$100,000	\$170,000	\$282,167	\$8,550
Secured loans	-	21,389	37,014	1,122
Total	\$100,000	\$191,389	\$319,181	\$9,672

- ① The Company's unused short-term loans of credits amounted to NT\$183,688 thousand, NT\$65,056 thousand and NT\$83,386 thousand as of December 31, 2006, 2007 and 2008, respectively.
- ② The short-term loans interest rates ranged from 2.00%~2.10%, 2.65%~6.25% and 1.54%~10.444% as of December 31, 2006, 2007 and 2008, respectively.
- ③ Refer to Note 6 to consolidated financial statements for assets pledged as collaterals.

(10) Long-term loans

Lender	Nature	Maturity day	As of December 31,				Redemption method
			2006	2007	2008	2008	
			NT\$	NT\$	NT\$	US\$	
Land Bank	Secured	Jun. 5, 2012	\$122,220	\$99,997	\$77,774	\$2,357	Repayable monthly from Jul. 5, 2003 in 108 installments with interest paid monthly
Land Bank	Secured	Dec. 31, 2008	6,000	2,880	-	-	Repayable monthly from Jan. 2004 in 60 installments with interest paid monthly
Land Bank	Secured	Dec. 31, 2008	16,550	7,944	-	-	Repayable monthly from Jan. 2005 in 48 installments with interest paid monthly
Land Bank	Secured	Dec. 31, 2008	18,989	9,114	-	-	Repayable monthly from Feb. 28, 2005 in 47 installments with interest paid monthly
Land Bank	Secured	Sep. 7, 2012	-	24,756	19,451	590	Repayable monthly from Nov. 5, 2007 in 59 installments with interest paid monthly
Land Bank	Secured	Sep. 7, 2012	-	-	21,334	646	Repayable monthly from Feb. 5, 2008 in 56 installments with interest paid monthly
Land Bank	Secured	Sep. 7, 2012	-	-	5,232	159	Repayable monthly from Jul. 5, 2008 in 51 installments with interest paid monthly
Land Bank	Secured	Sep. 7, 2012	-	-	9,120	276	Repayable monthly from Jan. 5, 2009 in 45 installments with interest paid monthly
Mega International Commercial Bank	Secured	Feb. 25, 2015	200,000	200,000	172,400	5,224	Repayable quarterly from Feb. 25, 2008 in 29 installments with interest paid monthly (Note)
Mega International Commercial Bank	Secured	Aug. 20, 2009	58,300	37,100	15,900	482	Repayable quarterly from Nov. 20, 2004 in 20 installments with interest paid monthly
Ta Chong Bank	Secured	Feb. 11, 2007	1,667	-	-	-	Repayable monthly from Mar. 31, 2004 in 36 installments with interest paid monthly

Ta Chong Bank	Secured	Feb. 11, 2007	7,742	-	-	-	Repayable monthly from Aug. 11, 2004 in 31 installments with interest paid monthly
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(Continued)

Lender	Nature	Maturity day	As of December 31,				Redemption method
			2006	2007	2008	2008	
			NT\$	NT\$	NT\$	US\$	
Chin Fon Bank	Secured	Jan. 15, 2009	\$16,875	\$9,375	\$1,875	\$57	Repayable quarterly from Apr. 15, 2005 in 16 installments with interest paid monthly
Chin Fon Bank	Secured	Jan. 15, 2009	34,313	19,063	3,813	116	Repayable quarterly from Apr. 15, 2005 in 16 installments with interest paid monthly
Chin Fon Bank	Unsecured	Apr. 15, 2009	60,000	36,000	-	-	Repayable quarterly from Jan. 15, 2007 in 10 installments with interest paid monthly
Chin Fon Bank	Secured	Jun. 28, 2010	-	20,000	12,000	364	Repayable quarterly from Mar. 28, 2008 in 10 installments with interest paid monthly
Bank of Pan Hsin	Secured	Apr. 1, 2007	9,833	-	-	-	Repayable quarterly from Jul. 1, 2004 in 12 installments with interest paid monthly
HSBC	Secured	May 17, 2007	6,944	-	-	-	Repayable monthly from Jun. 17, 2004 in 36 installments with interest paid monthly
HSBC	Secured	May 17, 2007	8,939	-	-	-	Repayable monthly from Sep. 17, 2004 in 33 installments with interest paid monthly
HSBC	Secured	May 17, 2007	4,922	-	-	-	Repayable monthly from Oct. 18, 2004 in 32 installments with interest paid monthly
HSBC	Secured	Dec. 1, 2008	20,000	10,000	-	-	Repayable monthly from Jan. 17, 2006 in 36 installments with interest paid monthly
HSBC	Secured	Aug. 31, 2009	45,833	29,167	12,500	378	Repayable monthly from Oct. 31, 2006 in 36 installments with interest paid monthly
China Development Industrial Bank	Secured	Jun. 30, 2008	8,077	-	-	-	Repayable quarterly from Jun. 30, 2005 in 13 installments with interest paid monthly

China Development Industrial Bank	Secured	Jun. 30, 2008	24,231	-	-	-	Repayable quarterly from Jun. 30, 2005 in 13 installments with interest paid monthly
China Development Industrial Bank	Unsecured	Jun. 30, 2007	5,000	-	-	-	Repayable quarterly from Jun. 30, 2005 in 9 installments with interest paid monthly

(Continued)

Lender	Nature	Maturity day	As of December 31,				Redemption method
			2006	2007	2008	2008	
			NT\$	NT\$	NT\$	US\$	
China Development Industrial Bank	Unsecured	Jun. 30, 2007	\$15,000	\$-	\$-	\$-	Repayable quarterly from Jun. 30, 2005 in 9 installments with interest paid monthly
China Development Industrial Bank	Unsecured	Aug. 10, 2008	300,000	300,000	-	-	Repayable in full amount on Aug. 10, 2009 with interest paid quarterly (fully prepaid in June 2008)
Export-Import Bank of R.O.C.	Secured	Sep. 21, 2011	14,220	14,220	10,665	323	Repayable semi-annually from Mar. 21, 2008 in 8 installments with interest paid quarterly
Export-Import Bank of R.O.C.	Secured	Sep. 21, 2011	-	21,973	16,480	499	Repayable semi-annually from Mar. 21, 2008 in 8 installments with interest paid quarterly
Export-Import Bank of R.O.C.	Secured	Sep. 21, 2011	-	1,807	1,355	41	Repayable semi-annually from Mar. 21, 2008 in 8 installments with interest paid quarterly
Chang Hwa Bank	Secured	Nov. 26, 2016	11,900	10,700	9,500	288	Repayable monthly from Nov. 26, 2001 in 150 installments with interest paid monthly
CHAILEASE Finance (BVI)	Secured	Oct. 31, 2009	-	64,860	26,240	795	Repayable quarterly from Jan. 31, 2008 in 8 installments with interest paid monthly
Total			1,017,555	918,956	415,639	12,595	
Less: Current portion			(209,821)	(527,299)	(143,605)	(4,352)	
Net			\$807,734	\$391,657	\$272,034	\$8,243	

Note: Gigastorage entered into a long-term loan contract with Mega International Commercial Bank, which stated that during the contract period, each half-year or year-end current ratio must maintain at a level of more than 130% and liability ratio must be lower than 80% from February 25, 2005 to February 25, 2015. If Gigastorage failed to meet the condition mentioned above, the penalty should be paid monthly at 0.25% of the annual interest rate; and if the liability ratio exceeds 150%, Mega International Commercial Bank will impose the interest rate at two-year time deposit floating interest rate plus 2.5%.

Mega International Commercial Bank also reserves the right to request immediate full repayments of the loans.

On June 5, 2008, Gigastorage and Mega International Commercial Bank signed amendments of long-term loan contract and removed all debt covenants mentioned above.

- ① The long-term loans interest rates ranged from 2.5497%~4.225%, 3.1532%~6.29% and 3%~6.32% as of December 31, 2006, 2007 and 2008, respectively.
- ② Refer to Note 6 to consolidated financial statements for assets pledged as collaterals.

(11) Bonds payable

①

	As of December 31,			
	2006	2007	2008	2008
	NT\$	NT\$	NT\$	US\$
Convertible bonds payable	\$-	\$-	\$97,000	\$2,939
Less: discounts on bonds payable	-	-	(9,147)	(277)
Total	-	-	87,853	2,662
Less: Current portion	-	-	-	-
Net	\$-	\$-	\$87,853	\$2,662

- ② On August 31, 2008, Gigastorage issued domestic convertible bonds through private placements. The terms and conditions of the bonds were as follows:
  - A. Par value: NT\$100 thousand
  - B. Issue price: 100%
  - C. Total issue amount: 97,000 thousand
  - D. Coupon interest rate: 0%
  - E. Duration: three years (August 31, 2008~ August 31, 2011)
  - F. Redemption method: Gigastorage will redeem the bonds by cash on the maturity date, excluding exercise of conversion right or repurchase of bonds.
  - G. Redemption price at maturity or call price at the option of Gigastorage:
    - (A) Gigastorage will redeem the bonds at par value on the maturity, excluding early redemption, repurchase of bonds, or exercise of conversion right.

(B) Called by the issuer (Gigastorage) prior to maturity:

- a. After the bonds have been outstanding for more than one year, Gigastorage may redeem in whole or in part of the bonds at the call price determined by a 2% of annual yield rate if the closing prices of Gigastorage's common share in the TWSE for 20 consecutive trading days are at least 180% of the conversion price.
- b. Gigastorage may also have the right to redeem all, but not in part, of the outstanding debenture at the call price determined by a 2% of annual yield rate if more than 90% of the bonds has been converted, redeemed or called.

H. Redemption at the option of the bondholders:

The bonds are redeemable at 104% and 106% of par at the option of the bondholders, in whole or in part, on August 31, 2010 and August 31, 2011, respectively.

I. Conversion:

(A) Bondholders have the right to request Gigastorage to convert their bonds into common shares from 30 days after the bonds issuance date to 10 days before the maturity date.

(B) Conversion price: The conversion price was NT\$8.20 per share at the issue date

(C) Conversion price adjustment: When Gigastorage's issued shares increase (include but not limited to capital rise by cash, stock dividends or employee bonuses disbursed in stocks), the conversion price will be adjusted, except for exercises of securities with conversion right or option to convert into common shares.

For issuance of new shares due to acquisition or repurchase of treasury stocks, conversion price will not be adjusted.

- ③ There was no exercise of right of conversion as of December 31, 2008.
- ④ In accordance with R.O.C. SFAS No. 36, the Company records related conversion right and obligation separately as equity and liabilities. Equity components of convertible bonds are recorded under equity; and liabilities components include embedded derivatives and non-derivative financial liabilities. The embedded derivatives were measured at fair value which amounted to NT\$5,471 thousand as of December 31, 2008; the non-derivative financial liabilities - bonds payable was measured at cost net of amortization which amounted to NT\$87,853 thousand as of December 31, 2008.
- ⑤ The Company adopted R.O.C. SFAS No. 34 "Accounting for Financial Instruments" and No. 36 "Financial Instruments: Disclosure and Presentation" and recognized amortization expense for discounts on bonds payable of NT\$1,096 thousand and loss on valuation of financial liability of NT\$445 thousand under interest expenses and loss on valuation of financial liability, respectively, for the year ended

December 31, 2008.

(12) Other long-term payable

	As of December 31,			
	2006	2007	2008	2008
	NT\$	NT\$	NT\$	US\$
Other long-term payable	\$-	\$718,089	\$677,062	\$20,517
Less: Current portion	-	(78,953)	(179,842)	(5,450)
Total	\$-	\$639,136	\$497,220	\$15,067

The above other long-term payable are results of Gigastorage entering into a settlement with Koninklijke Philips Electronics, N. V. (Philips).

(13) Pension

① Defined Benefit Plans

A. The pension fund in a fiduciary account in Bank of Taiwan amounted to NT\$21,847 thousand, NT\$22,594 thousand and NT\$22,057 thousand as of December 31, 2006, 2007 and 2008, respectively. The total pension expenses amounted to NT\$371 thousand, NT\$335 thousand and NT\$656 thousand for the years ended December 31, 2006, 2007 and 2008, respectively.

B. The components of net pension cost are as follows:

	For the year ended December 31,			
	2006	2007	2008	2008
	NT\$	NT\$	NT\$	US\$
Service cost	\$613	\$1,015	\$960	\$29
Interest cost	709	714	994	30
Expected return on plan assets	(725)	(601)	(677)	(20)
Amortization and deferred	(640)	(80)	162	5
Over (under) accrual	414	(713)	(783)	(24)
Net pension cost	\$371	\$335	\$656	\$20

C. The reconciliation statements of funding status of the pension plan are as follow:

As of December 31,			
2006	2007	2008	2008

	NT\$	NT\$	NT\$	US\$
Benefit obligation				
Vested benefit obligation	\$78	\$-	\$-	\$-
Non-vested benefit obligation	19,899	23,066	20,715	628
Accumulated benefit obligation	19,977	23,066	20,715	628
Effect of future salary increases	5,976	9,024	11,232	340
Projected benefit obligation	25,953	32,090	31,947	968
Fair value of plan assets	(21,847)	(22,594)	(22,057)	(668)
Funded status	4,106	9,496	9,890	300
Unrecognized net transition obligation	(1,071)	(995)	(918)	(28)
Unrecognized loss (gain)	3,857	(758)	1,036	31
Accrued pension cost per actuarial report	6,892	7,743	10,008	303
Additional pension liability	974	849	763	23
Accrued expense	416	-	-	-
Under accrual	(211)	(384)	(1,495)	(45)
Accrued pension liability	\$8,071	\$8,208	\$9,276	\$281

D. The major actuarial assumptions are as follows:

	As of December 31,		
	2006	2007	2008
Discount rate	2.75%	3.00%	2.50%
Rate of increase in future compensation levels	1.5%~2.00%	2.00%	2.00%
Expected long-term rate of return on plan assets	2.75%	3.00%	2.50%

② The Company adopted defined contribution pension plans and made periodical contributions to pension funds in accordance with related statutory regulations and laws. Pension expenses amounted to NT\$10,712 thousand, NT\$10,896 thousand and NT\$9,519 thousand for the years ended December 31, 2006, 2007 and 2008, respectively.

(14) Common stock

Gigastorage had 500,000 thousand common shares authorized to be issued (including 20,000 thousand shares reserved for exercise of employee stock options), and 294,320 thousand shares were issued as of January 1, 2006, each at a par value of NT\$10.

On April 28, 2003, the board of directors of Gigastorage approved the issuance of stock options with 10,000 thousand units, with each unit entitling an optionee to subscribe to 1 share of Gigastorage's common stock and optionees may exercise the options in accordance with certain schedules as prescribed by the plan starting from 2 years from the issuance date. The contractual life of the option is 6 years, and unused options are expired at the maturity date. The issuance was submitted to the Securities and Futures Bureau (SFB) for approval and became effective since June 23, 2003, and 6,000 thousand and 4,000 thousand units were issued on July 8, 2003 and December 30, 2003, respectively. Please refer to Note 11 for information on employee stock options.

Among the employee stock options issued 570 thousand shares were exercised as of December 31, 2008 (additional paid in capital of NT\$3,477 thousand was recorded due to exercise of these options). The issuance process through the authority had been completed.

Gigastorage had 500,000 thousand common shares authorized to be issued (including 20,000 thousand shares reserved for exercise of employee stock options), and 294,890 thousand shares were issued as of December 31 2008, each at a par value of NT\$10.

(15) Capital reserve

	As of December 31,			
	2006	2007	2008	2008
	NT\$	NT\$	NT\$	US\$
Additional paid-in capital	\$671,132	\$314,297	\$-	\$-
Long-term equity investment	16,076	16,076	16,076	487
Equity components of convertible bonds	-	-	5,217	158
Total	\$687,208	\$330,373	\$21,293	\$645

According to the R.O.C. Company Act, capital reserve shall be exclusively used to cover accumulated deficits when the legal reserve is insufficient to cover the deficits, or used in distribution of stock dividends (additional paid-in capital and donated income only).

Gigastorage's stockholders resolved to offset accumulated deficits by using capital reserve of NT\$631,004 thousand, NT\$360,312 thousand and NT\$314,297 thousand on June 15, 2006, June 13, 2007 and June 13, 2008, respectively.

(16) Legal reserve

According to the R.O.C. Company Act, 10% of Gigastorage's net income, after deducting previous years' losses, if any, is appropriated for legal reserve prior to any distribution to the extent that such reserve is equal to Gigastorage's paid-in capital. When the legal reserve is accumulated to 50% or more of its paid-in capital, the excess on 50% of paid-in capital may be distributed to Gigastorage's stockholders through an issuance of additional common shares.

(17) Special reserve

In accordance with the R.O.C. Securities and Futures Bureau ("SFB") regulations, a special reserve must be provided for unrealized loss on available-for-sale financial assets, excess of additional pension liability over unrecognized prior service cost and cumulative translation adjustment and unrealized loss for cash flow hedge that are accounted for as deductions to stockholders' equity. Once the aforementioned deductions to stockholders' equity are reversed, the related reserve may be allocated to distributable earnings.

(18) Earnings distribution

Pursuant to the R.O.C. Company Act and Gigastorage's Articles of Incorporation, current year's earnings before tax, if any, shall be distributed in the following order:

- ① Pay all taxes;
- ② Make up prior years' operation losses;
- ③ Set aside 10% of the remaining amount after deducting ① and ② as legal reserve;
- ④ Set aside special reserve in accordance with local regulation or reverse special reserve previously provided;
- ⑤ Stockholder's dividend distribution is to be proposed by the board of directors and approved at the Gigastorage's stockholders' meeting;
- ⑥ After deduction of items①,②, ③ and ④ from current year's earnings, the remaining is allocated as follows: no less than 2% may be allocated as directors' and supervisors' remuneration; no less than 5% as employees' bonuses.

The policy of dividend distribution should consider factors such as the industry's future outlook, long-term financial planning, sustainable management and development. Gigastorage determines the Company's annual demand of funding through the future capital budget. Stockholders' dividends may be distributed in the form of shares or cash, or a combination of both, and cash dividends to be distributed may not be higher than 50% of total dividends to be distributed.

No distribution could be made in 2007 due to the fact that Gigastorage had accumulated deficits.

Information related to the distributions of employee's bonuses and remuneration for directors' and supervisors' service, recommended by the board of directors and then approved by the stockholders' annual meeting, is accessible on the Website of TWSE from the "Market Observation Post System."

(19) Treasury stock

- ① On November 15, 2006, the Gigastorage's board of directors approved to repurchase its own shares from market for the purpose of transferring shares to employees. Changes in treasury stock during the years ended December 31, 2006, 2007 and 2008 are as follows:

*(In thousands of shares)*

Purpose	Beginning	Increase	Decrease	Ending
For the year ended December 31, 2006				
For transfer to employees	-	3,452	-	3,452
For the year ended December 31, 2007				
For transfer to employees	3,452	1,548	5,000	-
For the year ended December 31, 2008				
(NA)				

- ② According to the R.O.C. Securities and Exchange Act, total shares of treasury stock shall not exceed 10% of the Gigastorage's issued stock, and the total purchase amount shall not exceed the sum of the retained earnings, additional paid-in capital, and realized capital reserve.

- ③ In compliance with R.O.C. Securities and Exchange Act, treasury stock should not be pledged, nor should it be entitled to voting rights or receiving dividends. Treasury stock shall be transferred to employees within three years from the date repurchased.

(20) Earnings per share

Gigastorage's capital structure is a complex structure; and therefore both basic earnings per share and diluted earnings per share need to be calculated. When calculating the potential common shares, the effect of employees' stock options and convertible bonds is considered. However, these potential common shares were not included in the computation of diluted loss per share due to their anti-dilutive effect and thereby the basic loss per share is equal to diluted loss per share:

(In shares)

Contents	For the year ended December 31,		
	2006	2007	2008
Shares outstanding at beginning (treasury stock repurchased was deducted)	294,060,026	290,868,449	294,890,449
Weighted-average numbers of treasury stock transfer to employees	-	1,238,855	-
Exercise of employee stock options	-	279,534	-
Weighted-average numbers of shares outstanding	<u>294,060,026</u>	<u>292,386,838</u>	<u>294,890,449</u>

	Amount (numerator) (In thousand of NTD)		Shares (Denominator)	Earnings per share (In NTD)	
	Before tax	After tax		Before tax	After tax
	<u>For the year ended December 31, 2006</u>				
Net loss attributable to parent company's stockholders:					
Basic earnings per share					
Loss on continuing operations	\$(363,255)	\$(363,243)	<u>294,060,026</u>	\$(1.24)	\$(1.24)
Cumulative effect of changes in accounting policies	<u>2,931</u>	<u>2,931</u>	<u>294,060,026</u>	<u>0.01</u>	<u>0.01</u>
Net loss	<u>\$(360,324)</u>	<u>\$(360,312)</u>	<u>294,060,026</u>	<u>\$(1.23)</u>	<u>\$(1.23)</u>
Net income attributable to minority interests:					
Basic earnings per share					
Loss on continuing operations	\$4	\$4	<u>294,060,026</u>	\$-	\$-
Cumulative effect of changes in accounting policies	<u>-</u>	<u>-</u>	<u>294,060,026</u>	<u>-</u>	<u>-</u>
Net loss	<u>\$4</u>	<u>\$4</u>	<u>294,060,026</u>	<u>\$-</u>	<u>\$-</u>

	Amount (Numerator)		Shares	Earnings per share	
	(In thousand of NTD)			(In NTD)	
	Before tax	After tax		(Denominator)	Before tax
<u>For the year ended December 31, 2007</u>					
Net loss attributable to parent company's stockholders:					
Basic earnings per share					
Net loss	<u>\$(1,333,227)</u>	<u>\$(1,340,202)</u>	<u>292,386,838</u>	<u>\$(4.56)</u>	<u>\$(4.58)</u>
Net income attributable to minority interests:					
Basic earnings per share					
Net loss	<u>\$(15)</u>	<u>\$(15)</u>	<u>292,386,838</u>	<u>\$-</u>	<u>\$-</u>

	Amount (Numerator)		Shares	Earnings per share	
	(In thousand of NTD)			(In NTD)	
	Before tax	After tax		(Denominator)	Before tax
<u>For the year ended December 31, 2008</u>					
Net loss attributable to parent company's stockholders:					
Basic earnings per share					
Net loss	<u>\$(137,585)</u>	<u>\$(156,793)</u>	<u>294,890,449</u>	<u>\$(0.47)</u>	<u>\$(0.53)</u>
Net income attributable to minority interests:					
Basic earnings per share					
Net loss	<u>\$(6)</u>	<u>\$(6)</u>	<u>294,890,449</u>	<u>\$-</u>	<u>\$-</u>

(21) Income tax

- ① Gigastorage and its subsidiaries have filed their respective business income tax returns separately; they could not file tax returns on a consolidated basis. Income tax returns of Gigastorage and its subsidiary companies - Maxmax Group Corporation, Quo-Chao Investments Corporation and Giga Solar Materials Corporation for all fiscal years up to 2006 have already been assessed by the tax authority.
- ② Pursuant to the "Statute for Upgrading Industries", Gigastorage was entitled to an income tax exemption period for five consecutive years commencing from January 1, 2005.
- ③ Gigastorage and its domestic subsidiaries' available investment tax credits as of December 31, 2008 were as follows:

Year incurred	Item	Unused amount	Expiration year
		NT\$	
2005	Investment in equipment for automation of production	\$5,299	2009
	R&D expenditure	17,168	

2006	Investment in equipment for automation of production	2,657	2010
	R&D expenditure	9,925	
	Investment in newly emerging, important and strategic industries	2,118	
2007	Investment in equipment for automation of production	1,207	2011
	R&D expenditure	25,317	
	Investment in newly emerging, important and strategic industries	16,302	
2008(Estimated)	Investment in equipment for automation of production	1,104	2012
	R&D expenditure	5,637	
Total		<u>\$86,734</u>	

Unused tax credits available to reduce future taxable income have been included in deferred income tax assets.

- ④ As of December 31, 2008, Gigastorage and its domestic subsidiaries' unutilized tax credits arising from the accumulated losses were as follow:

<u>Year incurred</u>	<u>Accumulated losses</u>	<u>Unutilized accumulated loss</u>	<u>Expiration year</u>
	NT\$	NT\$	
2004	\$133,440	\$133,440	2014
2005	632,275	632,275	2015
2006	355,021	355,021	2016
2007	848,764	848,764	2017
2008 (Estimated)	100,665	100,665	2018
Total	<u>\$2,070,165</u>	<u>\$2,070,165</u>	

Tax effect of above unutilized accumulated losses has been included in deferred income tax assets.

- ⑤ Deferred tax liabilities and assets are as follows:

	As of December 31,			
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2008</u>
	NT\$	NT\$	NT\$	US\$
(A) Total deferred tax liabilities	<u>\$1,361</u>	<u>\$33</u>	<u>\$1,608</u>	<u>\$48</u>
(B) Total deferred tax assets	<u>\$728,125</u>	<u>\$911,878</u>	<u>\$852,018</u>	<u>\$25,819</u>
(C) Valuation allowance	<u>\$509,535</u>	<u>\$701,550</u>	<u>\$657,777</u>	<u>\$19,933</u>

## (D) Temporary differences that generated deferred tax assets or liabilities:

	As of December 31,							
	2006		2007		2008		2008	
	Amount	Tax effect	Amount	Tax effect	Amount	Tax effect	Amount	Tax effect
	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	US\$	US\$
Unrealized bad debt expense	\$217,564	\$54,391	\$258,758	\$64,689	\$169,156	\$42,289	\$5,126	\$1,282
Unrealized inventory provision	\$43,685	\$10,921	\$45,185	\$11,296	\$47,636	\$11,909	\$1,444	\$361
Unrealized long-term investment loss	\$406,270	\$101,568	\$27,445	\$6,861	\$78,504	\$19,626	\$2,378	\$595
Unrealized foreign exchange gain	\$(352)	\$(88)	\$(132)	\$(33)	\$(6,001)	\$(1,501)	\$(182)	\$(45)
Unrealized foreign exchange loss	\$998	\$250	\$4,179	\$1,045	\$1,766	\$441	\$54	\$13
Unrealized loss on asset impairment	\$36,148	\$9,037	\$13,090	\$3,273	\$9,463	\$2,366	\$287	\$72
Unrealized sales discounts	\$7,667	\$1,917	\$347	\$87	\$100	\$25	\$3	\$1
Unrealized inter-company loss	\$(4,830)	\$(1,208)	\$240	\$60	\$(430)	\$(107)	\$(13)	\$(3)
Unpaid expenses	\$-	\$-	\$718,089	\$179,522	\$677,062	\$169,266	\$20,517	\$5,129
Others	\$46,083	\$11,522	\$8,596	\$2,149	\$7,282	\$1,821	\$221	\$55
Loss carry forwards	\$1,405,977	\$351,494	\$2,010,604	\$502,652	\$2,070,165	\$517,541	\$62,732	\$15,683
Investment tax credits		\$187,025		\$140,244		\$86,734		\$2,628

## (E)

	As of December 31,			
	2006	2007	2008	2008
	NT\$	NT\$	NT\$	US\$
Deferred income tax assets - current	\$193,127	\$188,248	\$106,959	\$3,241
Valuation allowance - current	(157,260)	(133,154)	(59,085)	(1,791)
Deferred income tax assets - current, net	35,867	55,094	47,874	1,450
Deferred income tax liabilities - current	(1,361)	(33)	(1,608)	(48)
Net deferred income tax assets - current	\$34,506	\$55,061	\$46,266	\$1,402

(F)

	As of December 31,			
	2006	2007	2008	2008
	NT\$	NT\$	NT\$	US\$
Deferred income tax assets - non-current	\$534,998	\$723,630	\$745,059	\$22,577
Valuation allowance - non - current	(352,275)	(568,396)	(598,692)	(18,142)
Deferred income tax assets - non-current, net	182,723	155,234	146,367	4,435
Deferred income tax liabilities - non-current	-	-	-	-
Net deferred income tax assets - non-current	<u>\$182,723</u>	<u>\$155,234</u>	<u>\$146,367</u>	<u>\$4,435</u>

- ⑥ Reconciliation between the income tax expense and the income tax calculated on pre-tax financial income basis is as follows:

	For the year ended December 31,			
	2006	2007	2008	2008
	NT\$	NT\$	NT\$	US\$
Tax on pre-tax income at statutory tax rate	\$(89,961)	\$(333,301)	\$(32,058)	\$(971)
Permanent difference	(22,842)	6,242	9,271	281
Change in valuation allowance	69,483	193,391	(43,773)	(1,327)
Investment tax credits	(9,642)	(16,145)	(6,604)	(200)
Others	(910)	110,884	33,671	1,020
Prior year income tax adjustment	53,860	45,904	58,701	1,779
Income tax (benefit) expense	<u>\$(12)</u>	<u>\$6,975</u>	<u>\$19,208</u>	<u>\$582</u>

- ⑦ Information related to Gigastorage's imputation Credit Account:

	As of December 31,			
	2006	2007	2008	
	NT\$	NT\$	NT\$	US\$
Imputation credit account (ICA)	<u>\$1,628</u>	<u>\$1,990</u>	<u>\$1,990</u>	<u>\$60</u>

	For the year ended December 31,		
	2006 (Actual)	2007 (Actual)	2008 Expected
	Creditable ratio	<u>-</u>	<u>-</u>

- ⑧ Information related to undistributed retained earnings:

	As of December 31,			
	2006	2007	2008	
	NT\$	NT\$	NT\$	US\$

After 1998

\$(360,312) \$(1,340,227) \$(1,182,723) \$(35,840)

(22) Net operating revenue

	For the year ended December 31,					
	2006		2007		2008	
	NT\$	NT\$	NT\$	NT\$	NT\$	US\$
Optical products	\$2,017,271	\$1,621,909	\$1,514,900			\$45,906
Conductive pastes for solar cells	-	10,339	174,546			5,289
Other	235,306	187,813	232,966			7,060
Net Operating Revenue	<u>\$2,252,577</u>	<u>\$1,820,061</u>	<u>\$1,922,412</u>			<u>\$58,255</u>

(23) Personnel, depreciation and amortization expenses

	For the year ended December 31,								
	2006			2007			2008		
	Operating cost	Operating expenses	Total	Operating cost	Operating expenses	Total	Operating cost	Operating expenses	Total
	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$
Personnel expenses:									
Salaries	\$159,508	\$78,719	\$238,227	\$162,160	\$91,082	\$253,242	\$150,874	\$65,464	\$216,338
Insurance	12,563	5,613	18,176	11,794	6,739	18,533	11,282	5,097	16,379
Pension	7,225	3,858	11,083	6,901	4,330	11,231	6,431	3,744	10,175
Others	6,502	2,698	9,200	7,102	3,361	10,463	4,586	2,491	7,077
Depreciation (Note 1)	425,508	32,120	457,628	329,598	31,899	361,497	274,301	25,246	299,547
Amortization (Note 2)	66,653	9,971	76,624	51,772	6,543	58,315	37,164	6,694	43,858

Note 1: The depreciation expenses listed above did not include depreciation of idle assets, which were accounted as non-operating expenses - other losses in the amount of NT\$330 thousand and NT\$1,357 thousand for the years ended December 31, 2007 and 2008, respectively.

Note 2: The amortization expenses listed above did not include amortization of deferred bond issuance cost and long-term loans securitization expenses, which was accounted as non-operating expenses - other losses in the amount of NT\$2,469 thousand, NT\$2,050 thousand and NT\$1,075 thousand for the years ended December 31, 2006, 2007 and 2008, respectively.

(24) Impairment loss

- ① On October 1, 2004, the Company adopted the R.O.C. SFAS No.35, "Accounting for Assets impairment". As of December 31, 2006, 2007 and 2008, the accumulated impairment losses are as follows:

As of December 31,			
2006	2007	2008	2008
NT\$	NT\$	NT\$	US\$

Land	\$18,019	\$18,019	\$18,019	\$546
Buildings	-	6,000	-	-
Machinery and equipment	57,416	12,764	12,764	387
Other equipment	4,640	4,640	4,640	141
Idle assets	-	5,000	-	-
Deferred assets	1,314	1,314	1,314	40
Spare parts (recorded under prepayments and other current assets)	520	520	520	15
Goodwill	1,030	1,030	1,030	31
Total	\$82,939	\$49,287	\$38,287	\$1,160

- ② The Company disposed of machinery which had accumulated impairment losses in 2007 and, accordingly, accumulated impairment losses were decreased by NT\$44,652 thousand.
- ③ The Company determined the recoverable amount of land and buildings based on its fair value less costs to sell. The recoverable amount of land and buildings was assessed to be less than its book value and therefore Company recognized the difference in amount of NT\$11,000 thousand as an impairment loss in 2007.
- ④ The Company disposed of land, buildings and idle assets which had accumulated impairment losses in 2008 and, accordingly, accumulated impairment losses were decreased by NT\$11,000 thousand.

## 5. RELATED PARTY TRANSACTIONS

### Name and relationship:

<u>Name of related party</u>	<u>Relationship with the Company</u>
Ritek Corporation	Gigastorage's director and the major stockholder
Prorit Corporation	Related party in substance
Jiaher Paper Co., Ltd.	Gigastorage's supervisor (resigned on Mar. 25, 2008)
International Branding Marketing Inc.	Gigastorage's supervisor (discharged on May 28, 2008)
U-TECH Media Corporation	Gigastorage's chairman is U-TECH Media's chairman
Chao-Feng Chang and other 9 people	Gigastorage's directors
Ching-Mei Tsai and other 3 people	Gigastorage's supervisors
Chao-Feng Chang and other 10 people	Gigastorage's key management personnel
Chi-Jen Chen	Gigastorage's director and general manager Maxmax's director

Name of related party	Relationship with the Company
Hung Mai Corporation	Maxmax's chairman is Hung Mai's chairman

Significant transactions with related parties:

① Purchases

Name of Related party	For the year ended December 31,			
	2006	2007	2008	2008
	NT\$	NT\$	NT\$	US\$
Ritek Corporation	\$1,954	\$397	\$163,782	\$4,963
Prorit Corporation	2,530	158	139	4
Hung Mai Corporation	-	76	115	4
Jiaher Paper Co., Ltd.	605	-	-	-
Total	\$5,089	\$631	\$164,036	\$4,971

The prices for the above purchases from related parties were based on negotiation. The margins therefore were not fixed.

② Operating revenues

Name of Related party	For the year ended December 31,			
	2006	2007	2008	2008
	NT\$	NT\$	NT\$	US\$
Ritek Corporation	\$-	\$259	\$61	\$2
U-TECH Media Corporation	-	150	-	-
International Branding Marketing Inc.	6,700	-	-	-
Total	\$6,700	\$409	\$61	\$2

The prices for the above operating revenues from related parties were based on negotiation. The margins therefore were not fixed.

- ③ The Company purchased machinery and equipment from U-TECH Media Corporation for NT\$1,560 thousand in 2006.
- ④ The subsidiary - Giga Solar Materials Corporation engaged Ritek Corporation to perform a series of testing in 2008, and related testing expense amounted to NT\$ 14 thousand.
- ⑤ The office rental of the subsidiary - Maxmax Group Corporation paid to Mr. Chi-Jen Chen were NT\$ 180 thousand annually for the years ended December 31, 2006, 2007 and 2008.

Receivable and payables resulting from the above transactions were as follows:

① Accounts receivable - related parties

Name of Related party	As of December 31,			
	2006	2007	2008	2008
	NT\$	NT\$	NT\$	US\$
Ritek Corporation	\$1,810	\$272	\$-	\$-

② Other receivable –related parties – non-current, net

Name of Related party	As of December 31,			
	2006	2007	2008	2008
	NT\$	NT\$	NT\$	US\$
Hung Mai Corporation	\$2,832	\$2,832	\$2,540	\$77
Less: Allowance for doubtful accounts	(2,832)	(2,832)	(2,540)	(77)
Net	\$-	\$-	\$-	\$-

Credit terms with Ritek Corporation are month end 90 days that are similar to those with other domestic customers.

③ Accounts payable - related parties

Name of Related party	Payment terms	As of December 31,			
		2006	2007	2008	2008
		NT\$	NT\$	NT\$	US\$
Ritek Corporation	Month end 30-120 days	\$477	\$100	\$38,924	\$1,180
Hung Mai Corporation	Month end 30 -60 days	438	390	91	3
Prorit Corporation	Month end 45-120 days	858	99	78	2
Jiaher Paper Co., Ltd.	Month end 120 days	153	-	-	-
Chi-Jen Chen	Monthly paid	75	75	75	2
Total		\$2,001	\$664	\$39,168	\$1,187

Payment terms to related parties were similar to those to third-party vendors.

Key management personnel compensation disclosure

Item	For the year ended December 31,			
	2006	2007	2008 (Estimated)	2008 (Estimated)
	NT\$	NT\$	NT\$	US\$

Salary, compensation, allowance, income from professional practice and bonus	\$19,695	\$19,161	\$19,198	\$582
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Please refer to Annual Report for related information of key management personnel compensation.

## 6. ASSETS PLEDGED OR MORTGAGED

As of December 31, 2006, 2007 and 2008, the following assets were mortgaged to several banks, customs and government agencies as collaterals for bank loans, credit facilities and other purposes:

Accounts	Purpose	Party to which asset(s) was pledged	As of December 31,			
			2006	2007	2008	2008
			NT\$	NT\$	NT\$	US\$
Land (including idle assets)	collateral for bank loans	Mega International Commercial Bank, Land Bank, Chang Hwa Bank, China Development Industrial Bank and Export-Import Bank of R.O.C.	\$220,218	\$240,408	\$205,318	\$6,222
Buildings (including idle assets)	collateral for bank loans	Mega International Commercial Bank, Land Bank, Chang Hwa Bank, China Development Industrial Bank and Export-Import Bank of R.O.C.	456,622	506,142	421,342	12,768
Machinery and research equipment	collateral for bank loans	Mega International Commercial Bank, Land Bank, Ta Chong Bank, Bank of Pan Hsin, Chin Fon Bank, HSBC and Export-Import Bank of R.O.C.	970,341	496,540	597,974	18,120
Furniture and fixtures	collateral for bank loans	Land Bank	-	-	284	9
Miscellaneous equipment	collateral for bank loans	Land Bank	-	-	454	14
Financial assets carried at cost - non-current	(Note)	(Note)	6,000	2,044	-	-
Pledged time deposits - current	collateral for subsidies applied, letters of credit and power	Land Bank, Taiwan Cooperative Bank, e-Life Mall Corp., and Ayudhya	22,940	9,068	23,761	720
Pledged time deposits - non-current	Customs duty guarantee	Land Bank and the Custom	-	11,000	8,349	253
Total			\$1,676,121	\$1,265,202	\$1,257,482	\$38,106

Note: Please refer to Note 4(6) to consolidated financial statements.

## 7. COMMITMENTS AND CONTINGENCIES

As of December 31, 2008, the following commitments and contingencies were not reflected in the Company's consolidated financial statements:

- ① Unused letters of credit of the Company were approximately NT\$21,119 thousand as of December 31, 2008.
- ② Gigastorage reported to Fair Trade Commission (FTC) that Philips violated the R.O.C. Fair Trade Law by imposing certain clauses in the exclusive agreements between Gigastorage and Philips. On April 26, 2006, FTC concluded that Philips violated the R.O.C. Fair Trade Law No 24 on some of the matters. Consequently Philips received a fine in the amount of NT\$ 6 million and a request to rectify its action immediately. On May 25, 2006, Gigastorage filed an appeal to FTC for those matters that FTC previously concluded that there was no violation. FTC dismissed the appeal on November 20, 2006, and Gigastorage filed an administrative appeal to Taipei High Administrative Court on January 23, 2007. After that, Gigastorage and Philips reached a settlement, and Gigastorage withdrew the administrative appeal on November 5, 2007.

According the legal advice received by Gigastorage, although Philips in defending the aforementioned case had not applied to have Gigabyte discontinued the manufacturing and selling of certain CD-R products under the exclusive agreements, in order to secure the rights of future production, Gigastorage should appeal to the Ministry of Economic Affairs (MOEA). On July 26, 2004, Gigastorage received approval from MOEA to continue the manufacturing products covered by Philips' five patents (No33559, No.29646, No.40996, No.34345 and No.41954) under a mutual agreement between Philips and Gigastorage until the patents expire. A further condition is that the products must be for the supply of domestic market only. Since then, Philips appealed to MOEA for revocation of the agreement, which was denied by MOEA. After that, Philips had filed an administrative appeal to Taipei High Administrative Court, which is still pending. In addition, Philips filed a petition to MOEA to revoke the performance of these patents in May 2006; Gigastorage also filed a petition to MOEA in April 2007, in order to revoke the performance of these patents from May 31, 2007. MOEA revoked the performance of these patents on May 31, 2007, and therefore Philips had filed an administrative appeal. On March 13, 2008, Taipei High Administrative Court reversed MOEA's administrative sanction, MOEA did not appeal further and the case was closed.

#### **8. SIGNIFICANT DISASTER LOSS**

NONE.

#### **9. SIGNIFICANT SUBSEQUENT EVENTS**

NONE.

#### **10. FINANCIAL INSTRUMENTS**

- ① Fair value of financial instruments

	As of December 31, 2006	
	Book value	Fair value
	NT\$	NT\$
<u>Non-derivative</u>		
<u>Financial assets</u>		
Cash and cash equivalents	\$558,497	\$558,497
Financial assets at fair value through profit or loss - current	10,406	10,406
Notes and accounts receivable, net (including related parties)	583,837	583,837
Other receivables	11,029	11,029
Available-for-sale financial assets - non-current	22,238	22,238
Financial assets carried at cost - non-current	361,225	-
Long-term investment under the equity method	45,029	-
Refundable deposits	6,106	6,106
Restricted banking accounts	22,940	22,940
<u>Financial liabilities</u>		
Short-term loans	100,000	100,000
Notes and accounts payables (including related parties)	142,596	142,596
Accrued expenses	139,496	139,496
Payable on equipment	3,502	3,502
Long-term loans (including current portion)	1,017,555	1,017,555
Deposits-in	324	324
<u>Derivative</u>		
<u>Financial liabilities</u>		
Interest rate swaps	50	50

	As of December 31, 2007	
	Book value	Fair value
	NT\$	NT\$
<u>Non-derivative</u>		
<u>Financial assets</u>		
Cash and cash equivalents	\$305,963	\$305,963
Financial assets at fair value through profit or loss - current	30,195	30,195
Notes and accounts receivables, net (including related parties)	429,833	429,833
Other receivables (including related parties)	15,610	15,610
Available-for-sale financial assets - non-current	21,549	21,549
Financial assets carried at cost - non-current	358,814	-
Refundable deposits	4,614	4,614
Restricted banking accounts	20,068	20,068
<u>Financial liabilities:</u>		
Short-term loans	191,389	191,389
Notes and accounts payables (including related parties)	172,183	172,183
Accrued expenses	136,778	136,778
Payable on equipment	16,576	16,576
Long-term loans (including current portion)	918,956	918,956
Other long-term payable (including current portion)	718,089	718,089
Deposits-in	324	324

DerivativeFinancial assets

Interest rate swaps	578	578
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Non-derivativeFinancial assets:

	As of December 31, 2008			
	Book value		Fair value	
	NT\$	US\$	NT\$	US\$
Cash and cash equivalents	\$147,278	\$4,463	\$147,278	\$4,463
Notes and accounts receivables, net (including related parties)	489,544	14,835	489,544	14,835
Other receivable (including related parties)	10,271	311	10,271	311
Available-for-sale financial assets - non-current	2,536	77	2,273	69
Financial assets carried at cost - non-current	319,476	9,681	-	-
Refundable deposits	128	4	128	4
Restricted banking accounts	32,110	973	32,110	97

Financial liabilities:

Short-term loans	319,181	9,672	319,181	9,672
Notes and accounts payables (including related parties)	159,179	4,823	159,179	4,823
Accrued expenses	79,349	2,404	79,349	2,404
Other payable (including related parties)	91	3	91	3
Payable on equipment	7,709	234	7,709	234
Bonds payable	87,853	2,662	86,757	2,629
Long-term loans (including current portion)	415,639	12,595	415,639	12,595
Other long-term payable (including current portion)	677,062	20,517	677,062	20,517
Deposit-in	720	22	720	22

DerivativeFinancial liabilities:

Call or put options embedded in bonds payable	5,471	166	5,471	166
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- A. The methods and assumptions used by the Company to determine the above fair value of financial instruments are as follows:
- The book value of short-term financial instruments, such as cash and cash equivalents, notes and accounts receivables (including related parties), other receivables (including related parties), short-term loans, notes and accounts payables (including related parties), other payable (including related parties), accrued expenses and payable on equipment, approximate their fair value because of short maturity of these instruments.
  - The fair values of refundable deposits, restricted banking account, and deposits-in are based on their book values because the estimated future cash receipts or payments are similar to the book value.
  - The fair values of non-derivative financial assets at fair value through profit or loss and available-for-sale financial assets are based on their quoted market price.

- d. The fair values of financial assets measured at cost and prepayment for long-term investments are unable to be estimated since there is no active market in trading those unlisted investments.
- e. The fair values of bonds payable and embedded call or put options are determined by using a valuation technique.
- f. The fair value of long-term loans bearing floating interest rates approximates their book value, as the floating interest rates should be similar to the market rates..
- g. The fair value of other long-term payable is determined using discounted cash flow analysis.
- B. The fair value of financial assets and liabilities held by the Company based on quoted price from active market and on valuation techniques is shown as follows:

	As of December 31, 2006	
	On quoted price	On valuation technique
	NT\$	NT\$
<u>Non-derivative</u>		
<u>Financial assets</u>		
Cash and cash equivalents	\$558,497	\$-
Financial assets at fair value through profit or loss - current	10,406	-
Notes and accounts receivable, net (including related parties)	-	583,837
Other receivables (including related parties)	-	11,029
Available-for-sale financial assets - non-current	22,238	-
Refundable deposits	-	6,106
Restricted banking accounts	22,940	-
<u>Financial liabilities</u>		
Short-term loans	-	100,000
Notes and accounts payables (including related parties)	-	142,596
Accrued expenses	-	139,496
Payable on equipment	-	3,502
Long-term loans (including current portion)	-	1,017,555
Deposits-in	-	324
<u>Derivative</u>		
<u>Financial liabilities</u>		
Interest rate swap contracts	-	50
	As of December 31, 2007	
	On quoted price	On valuation technique
	NT\$	NT\$
<u>Non-derivative</u>		
<u>Financial assets</u>		
Cash and cash equivalents	\$305,963	\$-
Financial assets at fair value through profit or loss - current	30,195	-
Notes and accounts receivables, net (including related parties)	-	429,833

Other receivables (including related parties)	-	15,610
Available-for-sale financial assets - non-current	21,549	-
Refundable deposits	-	4,614
Restricted banking accounts	20,068	-
<u>Financial liabilities:</u>		
Short-term loans	-	191,389
Notes and accounts payables (including related parties)	-	172,183
Accrued expenses	-	136,778
Payable on equipment	-	16,576
Long-term loans (including current portion)	-	918,956
Other long-term payable (including current portion)	-	718,089
Deposits-in	-	324
<u>Derivative</u>		
<u>Financial assets</u>		
Interest rate swap contracts	-	578

	As of December 31, 2008			
	On quoted price		On valuation technique	
	NT\$	US\$	NT\$	US\$
<u>Non-derivative</u>				
<u>Financial assets:</u>				
Cash and cash equivalents	\$147,278	\$4,463	\$-	\$-
Notes and accounts receivables, net (including related parties)	-	-	489,544	14,835
Other receivable (including related parties)	-	-	10,271	311
Available-for-sale financial assets - non-current	2,273	69	-	-
Refundable deposits	-	-	128	4
Restricted banking accounts	32,110	97	-	-
<u>Financial liabilities:</u>				
Short-term loans	-	-	319,181	9,672
Notes and accounts payables (including related parties)	-	-	159,179	4,823
Accrued expenses	-	-	79,349	2,404
Other payable (including related parties)	-	-	91	3
Payable on equipment	-	-	7,709	234
Bonds payable	-	-	86,757	2,629
Long-term loans (including current portion)	-	-	415,639	12,595
Other long-term payable (including current portion)	-	-	677,062	20,517
Deposits-in	-	-	720	22
<u>Derivative</u>				
<u>Financial liabilities:</u>				
Call or put options embedded in bonds payable	-	-	5,471	166

C. For the years ended December 31, 2006, 2007 and 2008, the total change in fair value estimated by using valuation techniques and recognized in the consolidated statements of operations were a loss of NT\$36 thousand, a gain of NT\$544 thousand and a loss of NT\$543 thousand, respectively.

- ② As of December 31, 2006, 2007 and 2008, financial assets with fixed interest rates and fair value exposed to interest rate risk were NT\$11,300 thousand, NT\$0 thousand and NT\$0 thousand while financial liabilities with

fixed interest rates and fair value exposed to interest rate risk were NT\$100,000 thousand, NT\$879,478 thousand and NT\$809,915 thousand, respectively. Financial assets with floating interest rates and exposed to cash flow risk were NT\$247,640 thousand, NT\$49,068 thousand and NT\$39,110 thousand, respectively, while financial liabilities with floating interest rates and exposed to cash flow risk were NT\$1,017,555 thousand, NT\$948,956 thousand and NT\$689,820 thousand, respectively.

- ③ For the years ended December 31, 2006, 2007 and 2008, total interest revenue and total interest expense for financial assets or liabilities that are not at fair value through profit or loss were as follows:

Item	For the year ended December 31,			
	2006	2007	2008	2008
	NT\$	NT\$	NT\$	US\$
Interest revenue	\$5,842	\$4,647	\$1,720	\$52
Interest expense	40,087	45,112	67,760	2,053

- ④ The Company's unrealized gains in stockholders' equity for the changes in fair value of available-for-sale financial assets, which were transferred from equity and recognized in profit or loss, were NT\$0, NT\$54,211 thousand and NT\$4,113 thousand, for the years ended December 31, 2006, 2007 and 2008, respectively. As of December 31, 2006, 2007 and 2008, the Company recognized impairment loss on financial assets in the amount of NT\$ 0, NT\$54,211 thousand and NT\$4,113 thousand, respectively. The unrealized gain recognized in stockholders' equity for the changes in fair value of financial instruments was as follows:

	From Gigastorage	From Subsidiaries	Total
	NT\$	NT\$	NT\$
<u>For the year ended December 31, 2006</u>			
Addition	\$-	\$2,972	\$2,972
Reduction	(1,460)	-	(1,460)
Net	<u>\$(1,460)</u>	<u>\$2,972</u>	<u>\$1,512</u>

	From Gigastorage	From Subsidiaries	Total
	NT\$	NT\$	NT\$
<u>For the year ended December 31, 2007</u>			
Addition	\$2,272	\$-	\$2,272
Recycled to statements of operations	(39,367)	(14,844)	(54,211)
Reduction	-	(1,583)	(1,583)
Net	<u>\$(37,095)</u>	<u>\$(16,427)</u>	<u>\$(53,522)</u>

	From Gigastorage		From Subsidiaries		Total	
	NT\$	US\$	NT\$	US\$	NT\$	US\$
<u>For the year ended December 31, 2008</u>						
Addition	\$-	\$-	\$6,313	\$191	\$6,313	\$191
Recycled to statements of operations	(4,113)	(125)	-	-	(4,113)	(125)
Reduction	(675)	(20)	-	-	(675)	(20)

Net	<u><u>\$(4,788)</u></u>	<u><u>\$(145)</u></u>	<u><u>\$6,313</u></u>	<u><u>\$191</u></u>	<u><u>\$1,525</u></u>	<u><u>\$46</u></u>
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⑤ Information of financial risks

The Company held certain non-derivative financial instruments, including cash and cash equivalents, financial assets at fair value through profit or loss, short-term loans, long-term loans and bonds payable. The Company held the financial instruments to meet operating cash needs, and held other financial instruments such as notes and accounts receivables, notes and accounts payables, available-for-sale financial assets, and financial assets carried at cost.

The Company entered into forward contracts and interest rate swaps and options with financial institutions. The purpose of entering into forward contracts and interest rate swaps is to hedge exchange rate fluctuation risk resulting from assets denominated in foreign currency and interest rate fluctuation risk resulting from loans. However, the derivatives do not meet the hedge accounting criteria, and therefore they are not accounted for using hedge accounting.

Major risks of financial instruments were summarized as follows:

A. Market value risk

- a. The fair value of the listed companies' stock held by the Company will fluctuate under the influence of related market factors.
- b. The Company is exposed to currency risk for the purchases or sales activities which are not denominated in functional currency. Market value risk for forward contracts is insignificant due to the fact that the purpose of the contracts is hedging. The Company will recognize the total change in the fair value of derivative financial instrument in the consolidated statements of operations, if the derivatives do not meet the criteria for hedging accounting .
- c. The Company therefore held certain interest rate swaps to hedge interest rate fluctuation risks resulted from the underlying loans. The Company will recognize the total change in fair value of derivative financial instrument in the consolidated statement of income or loss, if the derivatives do not meet the criteria for hedging accounting. Market value risk is insignificant due to stability in interest rates.

B. Credit risk

- a. The Company only trades with established and creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis.
- b. With respect to credit risk arising from the other financial assets comprised of cash and cash equivalents, and certain derivative instruments, the Company's exposure to credit risk arising from the default of

counter-parties is limited to the carrying amount of these instruments.

c. Because the Company trades only with established third parties, it will not request for collateral to be provided by third parties.

C. Liquidity risk

a. The Company has sufficient operating capital to meet cash needs upon settlement of derivatives . Therefore, the liquid risk is low.

b. Except for financial assets carried at cost that may have significant liquidity risks resulted from lack of an active market, the equity securities held by the Company are traded in active markets and can be sold promptly at the prices close to its fair values.

D. Cash flow risk due to fluctuations in interest rate

The Company's main financial instruments exposed to cash flow risk are the investment in time deposits and long-term loans with floating interest rate. However there is no significant impact due to the short maturity of those time deposits. The cash flow risk due to fluctuations in interest rate from time deposits is minimal. Cash outflows for interest payment would be increased by NT\$ 9,789 thousand, NT\$8,083 thousand and NT\$4,418 thousand if market interest rate increased by 1% with bank loan bearing floating interest rate for the years ended December 31, 2006, 2007 and 2008, respectively

⑥ Refer to consolidated financial statement note 4(11) ④ and ⑤ for embedded derivative instrument in convertible bonds.

**11. OTHERS**

① Employee stock options

A. Detailed information relevant to the employee stock options as of December 31, 2008 was disclosed as follows:

Grant Date	Options granted (Units)	Options outstanding (Units)	Shares Exercisable (Shares)
Jul. 8, 2003	6,000,000	4,692,000	4,692,000
Dec. 30, 2003	4,000,000	3,877,000	3,877,000

The exercise prices shall be adjusted when Gigastorage's common shares change in accordance with the terms of employee stock options plan.

B. A summary of units and weighted average price, and related information for the years ended December 31, 2006,2007 and 2008 was as follows:

	2006		2007		2008		
	Weighted-average exercise price		Weighted-average exercise price		Weighted-average exercise price		Weighted-average exercise price
	Option (in unit)	per shares (in NT dollar)	Option (in unit)	per shares (in NT dollar)	Option (in unit)	per shares (in NT dollar)	per shares (in US dollar)
Outstanding							
At beginning of period	9,676,000	\$16.10	9,676,000	\$16.10	9,106,000	\$16.10	\$0.49
Granted	-	-	-	-	-	-	-
Exercised	-	-	570,000	16.10	-	-	-
Expired	-	-	-	-	<u>537,000</u>	16.10	0.49
At end of period	<u>9,676,000</u>	16.10	<u>9,106,000</u>	16.10	<u>8,569,000</u>	16.10	0.49
Exercisable							
At end of period	<u>9,676,000</u>	16.10	<u>9,106,000</u>	16.10	<u>8,569,000</u>	16.10	0.49

C. Information with respect to the outstanding options as of December 31, 2008 was as follows:

	Outstanding				Exercisable	
	Weighted-average remaining		contractual life	Weighted-average exercise price		Weighted-average exercise price
Authorized grant date	Exercise price (in NT dollar)	Option (in unit)	(in year)	price (in NT dollar)	Option (in unit)	price (in NT dollar)
92.06.23	<u>\$16.10</u>	8,569,000	0.74	<u>\$16.10</u>	8,569,000	<u>\$16.10</u>

The Company used the intrinsic value method to recognize compensation costs for its employee stock options issued before January 1, 2007. Pro-forma information on net income (loss) and earnings (loss) share using the fair value method was as follows:

	For the year ended December 31,			
	2006	2007	2008	2008
	NT\$	NT\$	NT\$	US\$
Attributable to stockholders of the parent company				
Net loss as reported	\$(360,312)	\$(1,340,202)	\$(156,793)	\$(4,751)
Pro-forma net loss	(374,004)	\$(1,342,999)	\$(156,793)	\$(4,751)
Basic earnings per share (in dollars)				
Net loss as reported	\$(1.23)	\$(4.59)	\$(0.53)	\$(0.02)
Pro-forma earnings per share	\$(1.27)	\$(4.58)	\$(0.53)	\$(0.02)
Attributable to minority interests				
Net income (loss) as reported	\$4	\$(15)	\$(6)	\$-
Pro-forma net loss	\$4	\$(15)	\$(6)	\$-
Basic earnings per share (in dollars)				
Net loss as reported	\$-	\$-	\$-	\$-
Pro-forma earnings per share	\$-	\$-	\$-	\$-

The fair value of these options was calculated at the grant date using the Black-Scholes option pricing model with the following weighted-average assumptions for the years ended:

Item	Issued on 07.08.2003	Issued on 12.30.2003
Expected dividend yields	-%	-%
Volatility factors of the expected market price	63.0616%	68.0348%
Risk-free interest rate	2.3719%	2.3719%
Weighted-average expected life	6 years	6 years

② Certain comparative amounts have been reclassified to conform to the current year's presentation.

③ Inter-company relationships and significant inter-company transactions are as follows:

For the year ended December 31, 2006

No. (Note 1)	Company Name	Counter Party	Relationship with the Company (Note 2)	Transaction			
				Account	Amount (in thousands)	Terms	Percentage of consolidated operating revenue or total assets (Note 3)
0	Gigastorage Corporation	Maxmax Group Corporation	1	Operating revenue	\$161,171	On negotiation	7.15%
				Purchase	1,061	On negotiation	0.05%
				Accounts receivable	66,129	Month end 180 days	1.44%
		Gigastorage Corporation USA	1	Operating revenue	49,805	On negotiation	2.21%
				Accounts receivable	32,934	Month end 75-150 days	0.72%
				Other receivable	83,774	Month end 75-150 days	1.82%
		Giga Solar Materials Corporation	1	Operating revenue	2,113	On negotiation	0.09%
				Accounts receivable	1,328	Month end 90 days	0.03%
		NEW ELITE INVESTMENTS LIMITED	1	Commission	4,027	By the contract	0.18%
1	NEW ELITE INVESTMENTS LIMITED	Shenzhen Gigastorage Co., Ltd.	3	Commission	4,027	By the contract	0.18%

For the year ended December 31, 2007

No. (Note 1)	Company Name	Counter Party	Relationship with the Company (Note 2)	Transaction			
				Account	Amount (in thousand)	Terms	Percentage of consolidated operating revenue or total assets (Note 3)
0	Gigastorage Corporation	Maxmax Group Corporation	1	Operating revenue	\$67,212	On negotiation.	3.63%
				Purchase	292	On negotiation	0.02%
				Accounts receivable	13,832	Month end 180 days	0.33%
				Limit of Endorsement/Guarantee	20,000	-	-
		GLOBAL ACETECH CO., LTD.	1	Operating revenue	88,922	On negotiation	4.81%
				Purchase	30,011	On negotiation.	1.62%
				Accounts receivable	88,610	Month end 90 days	2.14%
				Other receivable	153,558	Month end 90 days	3.70%
				Accounts payable	5,908	Month end 120 days	0.14%
				Limit of Endorsement/Guarantee	THB45,000	-	-
		Giga Solar Materials Corporation	1	Operating revenue	2,254	On negotiation	0.12%
				Other receivable	567	Month end 90 days	0.01%
				Accounts receivable	1,207	Month end 90 days	0.03%
Gigastorage Corporation USA	1	Operating revenue	4,016	On negotiation	0.22%		
NEW ELITE INVESTMENTS LIMITED	1	Limit of Endorsement/Guarantee	USD2,000	-	-		
1	GLOBAL ACETECH CO., LTD.	Maxmax Group Corporation	3	Operating revenue	292	On negotiation	0.02%
2	NEW ELITE INVESTMENTS LIMITED	GLOBAL ACETECH CO., LTD.	3	Other receivable	62,590	(Note 4)	1.51%

For the year ended December 31, 2008

No. (Note 1)	Company Name	Counter Party	Relationship with the Company (Note 2)	Transaction			
				Account	Amount (in thousand)	Terms	Percentage of consolidated operating revenue or total assets (Note 3)
0	Gigastorage Corporation	Maxmax Group Corporation	1	Operating revenue	\$35,728	On negotiation	1.83%
				Purchase	3,499	On negotiation	0.18%
				Accounts receivable	15,998	Month end 180 days	0.45%
				Accounts payable	3,499	Month end 120 days	0.10%
				Limit of Endorsement/Guarantee	20,000	-	-
		GLOBAL ACETECH CO., LTD.	1	Operating revenue	167,580	On negotiation	8.57%
				Purchase	80,525	On negotiation	4.12%
				Accounts receivable	51,231	Month end 90 days	1.43%
				Other receivable	54,735	Month end 90 days	1.53%
				Other payable	5,208	Month end 120 days	0.15%
				Limit of Endorsement/Guarantee	THB45,000	-	-

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(Continued)

No. (Note 1)	Company Name	Counter Party	Relationship with the Company (Note 2)	Transaction			
				Account	Amount (in thousand)	Terms	Percentage of consolidated operating revenue or total assets (Note 3)
0	Gigastorage Corporation	Giga Solar Materials Corporation	1	Operating revenue	\$299	On negotiation	0.02%
				Purchase	46,843	On negotiation	2.39%
				Rent revenues	659	On negotiation	0.03%
				Other receivable	9,610	Month end 90 days	0.27%
				Accounts receivable	6,195	Month end 90 days	0.17%
				Accounts payable	19,626	Month end 120 days	0.55%
		Other payable	17,001	Month end 120 days	0.48%		
		NEW ELITE INVESTMENTS LIMITED	1	Commission	643	On negotiation	0.03%
				Other payable	73	Month end 30 days	-
				Limit of Endorsement/Guarantee	USD2,000	-	-
1	GLOBAL ACETECH CO., LTD.	Maxmax Group Corporation	3	Operating revenue	9,990	On negotiation	0.51%
				Accounts receivable	9,990	Month end 120 days	0.28%
2	NEW ELITE INVESTMENTS LIMITED	GLOBAL ACETECH CO., LTD.		Other receivable	25,590	(Note 4)	0.72%

Note 1: Gigastorage and subsidiaries are coded as follows:

1. Gigastorage is coded "0".
2. The subsidiaries are coded consecutively beginning from "1" in the order presented in the table above.

Note 2: Transactions are categorized as follows:

1. The holding company to subsidiary.
2. Subsidiary to holding company.
3. Subsidiary to subsidiary.

Note 3: The percentage with respect to the consolidated assets/liabilities for transactions of balance sheet items is based on each item's balance at period-end. For profit or loss items, cumulative balance is used as basis.

Note 4: NEW ELITE INVESTMENTS LIMITED's other receivables to GLOBAL ACETECH CO., LTD. were financing provided to affiliations for short term operating needs. The interest rates were 5.39% and 6.743% for the years ended 2007 and 2008, respectively.

11. **ADDITIONAL DISCOLSURES**

① Significant transaction information

A. Financing provided to others for the year ended December 31, 2008: None

B. Endorsement/Guarantee provided to others for the year ended December 31, 2008: None

C. Securities held as of December 31, 2008:

Holding company	Type of securities	Name of securities	Relationship	Financial Statement Account	Units (in thousand)/ bonds/ shares (thousand)	Book value (NT\$)	Percentage of ownership	Market value/ Net assets value (NT\$)	Remark
Gigastorage	stock	AvanSense Technology Inc.	-	Long-term investments accounted for under the equity method	1,300,000	\$-	43.33%	\$-	(Note)
		Taimide Technology Inc.	-	Financial assets carried at cost – non-current	11,190,683	123,441	12.38%	8.63	-
		New Land Packing Corporation	-	Financial assets carried at cost - non-current	1,612,600	55,910	14.82%	15.23	-
		Infomax Optical Technology Corporation	-	Financial assets carried at cost - non-current	520,518	7,287	1.27%	10.32	-
		Prorit Corporation	Related party	Financial assets carried at cost - non-current	3,942,205	37,307	1.26%	8.66	-
		Prosperity Venture Capital Corporation	-	Financial assets carried at cost - non-current	405,000	3,645	1.10%	5.70	-
		Makin Technology Corporation	-	Financial assets carried at cost - non-current	3,120,000	14,531	16.37%	4.51	-
		International Branding Marketing Inc.	-	Available-for-sale financial assets, non-current	130,664	511	0.38%	1.90	-
Quo-Chao Investments Corporation	stock	Lead Data Inc.	-	Available-for-sale financial assets - non-current	1,049,400	2,025	0.24%	2.00	-
		Taimide Technology Inc.	-	Financial assets carried at cost - non-current	4,134,954	39,906	4.57%	8.63	-

D. Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT\$100 million or 20 percent of the capital stock for the year ended December 31, 2008: None

E. Acquisition of individual real estate with amount exceeding the lower of NT\$100 million or 20 percent of the capital stock for the year ended December 31, 2008: None

F. Disposal of individual real estate with amount exceeding the lower of NT\$100 million or 20 percent of the capital stock for the year ended December 31, 2008::

Names of properties	Transaction date	Date of original acquisition	Book value (NT\$)	Transaction amount (NT\$)	Status of proceeds collection (NT\$)	Gain (Loss) from disposal (NT\$)	Counter-party	Relationship	Reason of disposal	Price reference	Other commitments
Land, building and machinery equipment	2008.03.26	1997.12~2002.11	\$104,064	\$106,500	\$106,500	\$2,436	Millennium Communication Co., Ltd.	-	Disposal of old building	On negotiation	-

G. Related party transactions for purchases and sales amounts exceeding the lower of NT\$100 million or 20 percent of capital stock for the year ended December 31, 2008:

Company name	Related Party	Relationship	Transactions				Details of non-arm's length transaction		Notes and accounts receivable (payable)		Remark
			Purchase (Sales)	Amount (NT\$)	Percentage of total purchases (sales)	Term	Unit price	Term	Balance (NT\$)	Percentage of total receivables	
Gigastorage	Ritek Corporation	Related party	Purchase	\$163,782	11.44%	Month end 30~120 days	-	-	\$38,924	24.45%	-

H. Receivables from related parties with amounts exceeding the lower of NT\$100 million or 20 percent of capital stock as of December 31, 2008: None

I. The derivatives transaction for the year ended December 31, 2008: refer to financial statement Note 4(2) and 10

② Related information of investees

The Company has the significant influence or substantial control to the following investees:

Investor Company	Name of the investee	Address	Main Business and product	Original investment amount (NT\$)		December 31, 2008			Net income (loss) of the investee (NT\$)	Investment income (loss) recognized (NT\$)
				December 31, 2008	January 1, 2008	Units shares	Percent	Book value (NT\$)		
Gigastorage	AvanSense Technology Inc.	HsinChu Country	Operating and selling of medical equipment	\$13,000	\$13,000	1,300,000	43.33%	\$-	\$-	\$-

③ Investment in Mainland China

Shenzhen Gigastorage Co., Ltd. applied for dissolution on October 23, 2007 and went into liquidation. Except for the revenues and expenses up until the liquidation date, the results of Shenzhen Gigastorage Co., Ltd. were not consolidated in the Company's consolidated financial statements for the year 2007. However, Shenzhen Gigastorage Co., Ltd. subsequently applied to cancel the liquidation on May 22, 2008 and its revenues and expenses since then have been included in the consolidated financial statements.

A. Status of the investment:

Investee Company	Main business product	Total Amount of Paid-in Capital (in USD)	Method of investment	Accumulated Outflow of Investment from Taiwan as of January 1, 2008 (in USD)	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2008 (in USD)	Percentage of Ownership	Investment income (loss) recognized (in USD)	Carrying Value as of December 31, 2008 (in USD) (Note 4)	Accumulated Inward Remittance of Earnings as of December 31, 2008 (in USD)
					Outflow (in USD)	Inflow (in USD)					
Shenzhen Gigastorage Co., Ltd.	Note 2	\$170,000	Through the investing company in third country (Note 3)	\$170,000	\$-	\$-	\$170,000	100%	\$(26,720)	\$(4,652)	\$-

Accumulated Investment in Mainland China as of December 31, 2008 (in USD)	Investment Amounts Authorized by Investment Commission, MOEA (in USD)	Upper Limit on Investment (in NT\$)
\$(170,000)	\$(200,000)	\$1,070,010 (Note 1)

Note 1: Proceed in according to Directions Governing the Review and Supervision of Investment in Mainland China issued by Investment Commission, MOEA.

Note 2: Major business are other professional design service (association, packing design), management and consulting (management and consulting for manufacturing and sales).

Note 3: On March 8, 2004, the Company founded NEW ELITE INVESTMENTS LIMITED in Samoa, in order to invest in Shenzhen Gigastorage Co., Ltd. The upper limit on the investment was set by Investment Commission, MOEA at US\$200 thousand on April 2, 2004. After that, the Company wired the aforementioned amount to NEW ELITE INVESTMENTS LIMITED for the stated investment on April 23, 2004, and NEW ELITE INVESTMENTS LIMITED wired US\$ 170 thousand to Shenzhen Gigastorage Co., Ltd. on January 7, 2005. Shenzhen Gigastorage Co., Ltd. originally filed for liquidation on October 23, 2007, but subsequently revoked the liquidation applications on May 22, 2008.

Note 4: Due to the fact that the size of the company is too small, carrying value is calculated based on the un-audited financial statements for the same period using the equity method.

B. The significant transactions with investees in Mainland China:

- a. Purchase amount and percentage related to year end accrued expense amount and percentage for the year ended December 31, 2008: None
- b. Sales amount and percentage related to year end account receivable amount and percentage for the year ended December 31, 2008: None.
- c. Acquisition and disposal of assets and related income (loss) for the year ended December 31, 2008: None.
- d. Endorsement/Guarantee provided to others as of December 31, 2008: None.
- e. Financing provided to others for the year ended December 31, 2008: None.
- f. The transactions might have significant effect on current income or financial condition for the year ended December 31, 2008: None.

### 13. SEGMENT FINANCIAL STATEMENT

① Major customers (individual customer accounting for at least 10% of net operating revenue):

	For the year ended December 31,						
	2006		2007		2008		
	Amount	Percentage	Amount	Percentage	Amount	Amount	Percentage
	NT\$		NT\$	NT\$	US\$		
A Co., Ltd.	(Note)	-	\$249,410	13.70%	\$324,962	\$9,847	16.90%
B Co., Ltd.	(Note)	-	(Note)	-	249,830	7,571	13.00%
C Co., Ltd.	\$300,968	13.36%	(Note)	-	(Note)	-	-
	\$300,968	13.36%	\$249,410	13.70%	\$574,792	\$17,418	29.90%

Note: The net sale was not at least 10% of net operating revenue for the years ended December 31, 2006, 2007 and 2008; therefore, disclosure is not required.

② Export sales: (individual geographic region accounting for at least 10% of net operating revenue)

	For the year ended December 31,			
	2006	2007	2008	
	NT\$	NT\$	NT\$	US\$
AMERICA	\$881,099	\$998,404	\$1,057,804	\$32,055
ASIA (excluding Taiwan)	446,420	285,094	492,889	14,936
Europe	259,345	(Note)	(Note)	-
TOTAL	\$1,586,864	\$1,283,498	\$1,550,693	\$46,991

Note: The net sale was not at least 10% of net operating revenue for the years ended December 31, 2006, 2007 and 2008; therefore, disclosure is not required.

③ Regional information:

Export sales to unaffiliated customers is less than 10% of the total sales amount on the consolidated statements of operations and identifiable assets of foreign business unit is also less than 10% of the total assets on the consolidated balance sheet, therefore disclosure is not required.

	For the year ended December 31, 2007				
	Taiwan	Asia	Oversea	Adjustments and elimination	Consolidated
	NT\$	NT\$	NT\$	NT\$	NT\$
Revenue from customers other than consolidating subsidiaries	\$1,745,879	\$69,967	\$4,215	\$-	\$1,820,061
Revenue from consolidating subsidiaries	162,696	30,303	-	(192,999)	-
Total revenue	\$1,908,575	\$100,270	\$4,215	\$(192,999)	\$1,820,061
Gross profit	\$(1,194,321)	\$(27,440)	\$(193)	\$(18,335)	\$(1,240,289)
Non-operating income and expense					(92,953)
Net income (loss) before income tax					\$(1,333,242)
Identifiable assets	\$3,175,901	\$586,302	\$4,027	\$-	\$3,766,230
Investment					380,363
Total assets					\$4,146,593
Depreciation expense	\$350,847	\$10,522	\$128		\$361,497
Capital expenditure	\$154,265	\$270,648	\$-		\$424,913

For the year ended December 31, 2008

	Taiwan	Asia	Oversea	Adjustments and elimination	Consolidated
	NT\$	NT\$	NT\$	NT\$	NT\$
Revenue from customers other than consolidating subsidiaries	\$1,703,804	\$218,608	\$-	\$-	\$1,922,412
Revenue from consolidating subsidiaries	253,949	89,854	-	(343,803)	-
Total revenue	<u>\$1,957,753</u>	<u>\$308,462</u>	<u>\$-</u>	<u>\$(343,803)</u>	<u>\$1,922,412</u>
Gross profit	<u>\$16,470</u>	<u>\$(61,512)</u>	<u>\$(1,568)</u>	<u>\$5,633</u>	<u>\$(40,977)</u>
Non-operating income and expense					(96,614)
Net income (loss) before income tax					<u>\$(137,591)</u>
Identifiable assets	<u>\$3,741,168</u>	<u>\$484,401</u>	<u>\$28,905</u>	<u>\$(1,003,595)</u>	<u>\$3,250,879</u>
Investment					322,012
Total assets					<u>\$3,572,891</u>
Depreciation expense	<u>\$261,405</u>	<u>\$38,142</u>	<u>\$-</u>		<u>\$299,547</u>
Capital expenditure	<u>\$85,169</u>	<u>\$4,798</u>	<u>\$-</u>		<u>\$89,967</u>

④ Industrial information:

The key products of the consolidated entity are: Optical Read Only Memory, CD-R, CD-RW, design, development, manufacturing and Sales of CD-ROM. The operating revenue, net income and identifiable assets of this segment represent more than 90% of their respective balance, therefore disclosure is not made.

**GIGASTORAGE CORPORATION  
AND SUBSIDIARIES  
CONSOLIDATED FINANCIAL STATEMENTS  
WITH REPORT OF INDEPENDENT AUDITORS  
AS OF AND FOR THE SIX-MONTH PERIODS ENDED  
JUNE 30, 2008 AND 2009**

The reader is advised that these financial statements have been prepared originally in Chinese. In the event of a conflict between these financial statements and the original Chinese version or difference in interpretation between the two versions, the Chinese language financial statements shall prevail.

## REVIEW REPORT OF INDEPENDENT AUDITORS

To Gigastorage Corporation

We have reviewed the accompanying consolidated balance sheets of Gigastorage Corporation and Subsidiaries (the "Company") as of June 30, 2008 and 2009, the related consolidated statements of operations, changes in stockholders' equity and cash flows for the six-month periods ended June 30, 2008 and 2009. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to issue the review report based on our reviews.

Except for the statement in the next paragraph, we conducted our reviews in accordance with the Statements of Auditing Standards No. 36, "Review of Financial Statements" of the Republic of China. A review is limited primarily to applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the consolidated financial statements taken as a whole. Accordingly, we do not express such an opinion.

For the six-month periods ended June 30, 2008 and 2009, the financial statements of Gigastorage Corporation's consolidated subsidiaries, as listed in Note 2 to the consolidated financial statements, were not reviewed by independent auditors. As of June 30, 2008 and 2009, the un-reviewed aggregate total assets of Gigastorage Corporation's subsidiaries amounted to NT\$670,036 thousand and NT\$907,327 thousand, representing 18.55% and 25.62% of consolidated total assets, respectively; and un-reviewed aggregate liabilities of Gigastorage Corporation's subsidiaries amounted to NT\$305,397 thousand and NT\$171,915 thousand, representing 17.69% and 10.54% of consolidated total liabilities, respectively. For the six-month periods ended June 30, 2008 and 2009, the un-reviewed aggregate net sales of Gigastorage Corporation's subsidiaries amounted to NT\$218,642 thousand and NT\$396,033 thousand, representing 22.90% and 41.60% of the consolidated net sales, respectively. Besides, the significant inter-company transactions between Gigastorage Corporation and its subsidiaries in Note 11(3) to the consolidated financial statements, related information of spin-off and investment in Mainland China in Note 12 to the consolidated financial statements, provided by Gigastorage Corporation's consolidated subsidiaries, were not reviewed.

Based on our reviews, except for the effects of the statement in the preceding paragraph, if any, as might have been determined to be necessary had the financial statements of Gigastorage Corporation's consolidated subsidiaries, related information of spin-off and investment in Mainland China in Note 12 to the consolidated financial statements, been reviewed, we are not aware of any material modifications or adjustments that should have been made to the consolidated financial statements referred to above in order for them to be in conformity with requirements of the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

(CONTINUED)

(CONTINUED)

As described in Note 3(3) to the consolidated financial statements, effective January 1, 2009, the Company has adopted the amendment of Statement of Financial Accounting Standards No. 10, “Accounting for Inventories” of the Republic of China.

Ernst & Young  
Taipei, Taiwan  
Republic of China  
August 11, 2009

Notice to Readers

The accompanying consolidated financial statements are intended only to present the consolidated financial position and results of consolidated 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 consolidated financial statements are those generally accepted and applied in the Republic of China.

English Translation of Consolidated Financial Statements Originally Issued in Chinese

GIGASTORAGE CORPORATION AND SUBSIDIARIES

UNAUDITED CONSOLIDATED BALANCE SHEETS

June 30, 2008 and 2009

(Expressed in Thousands of New Taiwan Dollars)

ASSETS	Note	As of June 30,		
		2008 NTS	2009 NTS	2009 US\$
<b>CURRENT ASSETS :</b>				
Cash and cash equivalents	2, 4(1)	\$122,439	\$252,646	\$7,656
Financial assets at fair value through profit or loss - current	2, 4(2)	164	-	-
Notes receivable, net	2, 4(3)	9,137	5,675	172
Accounts receivable, net	2, 4(3)	417,610	498,363	15,102
Accounts receivable - related parties, net	2, 5	64	-	-
Other receivables		10,577	12,730	386
Inventories, net	2, 3, 4(4)	203,059	221,543	6,713
Deferred income tax assets - current	2, 4(20)	67,304	53,632	1,625
Restricted banking accounts - current	6	14,254	20,659	626
Prepayments and other current assets	2, 4(23)	43,379	69,786	2,115
Total current assets		<u>887,987</u>	<u>1,135,034</u>	<u>34,395</u>
<b>FUNDS AND INVESTMENTS:</b>				
Financial assets at fair value through profit or loss - noncurrent	2, 4(11)	-	415	12
Available-for-sale financial assets - noncurrent	2, 4(5)	4,470	4,049	123
Financial assets carried at cost - noncurrent	2, 4(6), 6	351,519	307,690	9,324
Total funds and investments		<u>355,989</u>	<u>312,154</u>	<u>9,459</u>
<b>PROPERTY, PLANT AND EQUIPMENT :</b>				
	2, 4(7), 4(23), 6			
Land		204,904	205,791	6,236
Buildings		786,340	787,806	23,873
Machinery and equipment		2,842,310	2,904,950	88,029
Research and development equipment		168,692	151,671	4,596
Transportation equipment		3,090	1,984	60
Furniture and fixtures		24,728	25,166	763
Miscellaneous equipment		84,359	13,759	417
Total cost		4,114,423	4,091,127	123,974
Less: Accumulated depreciation		(1,926,262)	(2,177,274)	(65,978)
Less: Accumulated impairment loss		(35,423)	(35,423)	(1,074)
Add: Prepayments on construction in progress		-	37,976	1,151
Add: Prepayments on equipment		1,012	3,033	92
Property, plant and equipment, net		<u>2,153,750</u>	<u>1,919,439</u>	<u>58,165</u>
<b>INTANGIBLE ASSETS :</b>				
Deferred pension cost	2	733	1,480	45
<b>OTHER ASSETS :</b>				
Refundable deposits		232	401	12
Deferred assets	2, 4(23)	63,968	36,148	1,095
Deferred income tax assets - noncurrent	2, 4(20)	142,991	130,509	3,955
Restricted banking accounts - noncurrent	6	6,000	6,000	182
Total other assets		<u>213,191</u>	<u>173,058</u>	<u>5,244</u>
<b>TOTAL ASSETS</b>		<u>\$3,611,650</u>	<u>\$3,541,165</u>	<u>\$107,308</u>

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese

GIGASTORAGE CORPORATION AND SUBSIDIARIES  
UNAUDITED CONSOLIDATED BALANCE SHEETS (CONTINUED)

June 30, 2008 and 2009

(Expressed in Thousands of New Taiwan Dollars)

LIABILITIES AND STOCKHOLDERS' EQUITY	Note	As of June 30,		
		2008	2009	2009
		NT\$	NT\$	US\$
<b>CURRENT LIABILITIES :</b>				
Short-term loans	4(9), 6	\$220,930	\$277,042	\$8,395
Notes payable		9,399	11,055	335
Accounts payable		133,761	119,586	3,624
Accounts payable - related parties	5	11,066	8,826	267
Income tax payable		-	12,442	377
Accrued expenses		94,219	73,068	2,214
Other payable - related parties	5	-	33	1
Payable on equipment		5,103	6,544	198
Revenues in advance and other current liabilities		16,946	41,210	1,249
Current portion of long-term loans	4(10), 6	201,925	101,268	3,069
Current portion of other long-term payable	4(12), 7	118,961	225,927	6,847
Total current liabilities		<u>812,310</u>	<u>877,001</u>	<u>26,576</u>
<b>LONG-TERM DEBTS :</b>				
Bonds payable	2, 4(11)	-	89,497	2,712
Long-term loans	4(10), 6	330,556	234,995	7,121
Other long-term payable	4(12), 7	530,703	419,679	12,718
Long-term payable - related parties	5	44,000	-	-
Total long-term liabilities		<u>905,259</u>	<u>744,171</u>	<u>22,551</u>
<b>OTHER LIABILITIES :</b>				
Accrued pension liabilities	2, 4(13)	8,395	9,425	285
Deposits-in		324	720	22
Total other liabilities		<u>8,719</u>	<u>10,145</u>	<u>307</u>
<b>TOTAL LIABILITIES</b>		<u>1,726,288</u>	<u>1,631,317</u>	<u>49,434</u>
<b>STOCKHOLDERS' EQUITY :</b>				
Capital :	4(14)			
Common stock		2,948,904	2,948,904	89,361
Capital reserve	4(14), 4(15)			
Long-term investments		16,076	16,076	487
Equity components of convertible bonds		-	5,217	158
Retained earnings :				
Accumulated deficits	4(18), 4(20)	(1,071,250)	(1,117,142)	(33,853)
Other items in stockholders' equity :				
Cumulative translation adjustment	2	319	14,405	437
Unrealized loss on financial instruments	2, 4(5)	(8,856)	(9,788)	(297)
<b>TOTAL EQUITY ATTRIBUTABLE TO STOCKHOLDERS OF THE PARENT COMPANY</b>		<u>1,885,193</u>	<u>1,857,672</u>	<u>56,293</u>
<b>MINORITY INTERESTS</b>		<u>169</u>	<u>52,176</u>	<u>1,581</u>
<b>TOTAL STOCKHOLDERS' EQUITY</b>		<u>1,885,362</u>	<u>1,909,848</u>	<u>57,874</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>		<u>\$3,611,650</u>	<u>\$3,541,165</u>	<u>\$107,308</u>

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese

GIGASTORAGE CORPORATION AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

For The Six-Month Periods Ended June 30, 2008 and 2009

(Expressed in Thousands of New Taiwan Dollars Except Earnings Per Share Information)

	Note	For the Six-Month Period Ended June 30,		
		2008	2009	2009
		NT\$	NT\$	US\$
OPERATING REVENUES		\$971,418	\$956,225	\$28,977
Less: Sales returns and discounts		(16,624)	(4,206)	(128)
Net operating revenues	2, 4(21), 5	954,794	952,019	28,849
OPERATING COSTS	3, 4(22), 5	(848,889)	(731,406)	(22,164)
GROSS PROFIT		105,905	220,613	6,685
OPERATING EXPENSE	4(22), 5			
Sales and marketing expenses		(35,403)	(43,399)	(1,315)
General and administrative expenses		(49,698)	(40,631)	(1,231)
Research and development expenses		(36,250)	(27,246)	(826)
Total operating expenses		(121,351)	(111,276)	(3,372)
OPERATING PROFIT (LOSS)		(15,446)	109,337	3,313
NON-OPERATING INCOME				
Interest income		4,695	351	11
Gain on disposal of property, plant and equipment	2	2,458	826	25
Gain on foreign currency exchange	2	4,418	2,268	69
Gain on reversal of allowance for bad debts	2	10,905	-	-
Gain on valuation of financial liabilities	2, 4(11)	-	5,886	178
Other income		11,561	11,074	336
Total non-operating income		34,037	20,405	619
NON-OPERATING EXPENSES				
Interest expenses	2	(39,830)	(26,872)	(814)
Other investment loss	4(6)	(7,273)	(11,786)	(357)
Loss on disposal of investments	2, 4(5), 4(6)	(5,273)	-	-
Loss on valuation of financial assets	2	(8,534)	-	-
Others expenses	4(22)	(3,002)	(3,908)	(119)
Total non-operating expenses		(63,912)	(42,566)	(1,290)
INCOME (LOSS) BEFORE INCOME TAX		(45,321)	87,176	2,642
INCOME TAX EXPENSES	2, 4(20)	-	(20,940)	(635)
CONSOLIDATED NET INCOME (LOSS)		\$(45,321)	\$66,236	\$2,007
ATTRIBUTABLE TO:				
Stockholders of the parent company		\$(45,320)	\$65,581	\$1,987
Minority interest		(1)	655	20
Consolidated net loss		\$(45,321)	\$66,236	\$2,007
EARNINGS (LOSS) PER SHARE AVAILABLE TO:	2, 4(19)			
Basic				
Consolidated net income (loss)		\$(0.26)	\$0.37	\$0.01
Minority interest		-	-	-
Stockholders of the parent company		\$(0.26)	\$0.37	\$0.01
Diluted				
Consolidated net income (loss)		\$(0.26)	\$0.33	\$0.01
Minority interest		-	-	-
Stockholders of the parent company		\$(0.26)	\$0.33	\$0.01

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese  
GIGASTORAGE CORPORATION AND SUBSIDIARIES  
UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
For The Six-Month Periods Ended June 30, 2008 and 2009  
(Expressed in Thousands of New Taiwan Dollars)

Item	Common Stock	Capital Reserve			Earnings	Cumulative Translation Adjustment	Unrealized Loss on Financial Instruments	Equity Attributable to Stockholders of the Parent	Minority Interests	Total
		Additional Paid-in Capital	Long-term Investments	Equity Components of Convertible Bonds	Accumulated Deficits					
Balance as of January 1, 2008	\$ 2,948,904	\$ 314,297	\$ 16,076	\$ -	\$ (1,340,227)	\$ 27,343	\$ (9,776)	\$ 1,956,617	\$ 160	\$ 1,956,777
Offsetting accumulated deficits by APIC	-	(314,297)	-	-	314,297	-	-	-	-	-
Changes in unrealized loss on financial instruments	-	-	-	-	-	-	920	920	-	920
Changes in cumulative translation adjustment	-	-	-	-	-	(27,024)	-	(27,024)	-	(27,024)
Net loss attributable to stockholders of parent in the first half of 2008	-	-	-	-	(45,320)	-	-	(45,320)	-	(45,320)
Changes in minority interests	-	-	-	-	-	-	-	-	9	9
Balance as of June 30, 2008	<u>\$ 2,948,904</u>	<u>\$ -</u>	<u>\$ 16,076</u>	<u>\$ -</u>	<u>\$ (1,071,250)</u>	<u>\$ 319</u>	<u>\$ (8,856)</u>	<u>\$ 1,885,193</u>	<u>\$ 169</u>	<u>\$ 1,885,362</u>
Balance as of January 1, 2009	\$ 2,948,904	\$ -	\$ 16,076	\$ 5,217	\$ (1,182,723)	\$ 7,176	\$ (11,301)	\$ 1,783,349	\$ 165	\$ 1,783,514
Changes in unrealized loss on financial instruments	-	-	-	-	-	-	1,513	1,513	-	1,513
Changes in cumulative translation adjustment	-	-	-	-	-	7,229	-	7,229	-	7,229
Net income attributable to stockholders of parent in the first half of 2009	-	-	-	-	65,581	-	-	65,581	-	65,581
Changes in minority interests	-	-	-	-	-	-	-	-	52,011	52,011
Balance as of June 30, 2009	<u>\$ 2,948,904</u>	<u>\$ -</u>	<u>\$ 16,076</u>	<u>\$ 5,217</u>	<u>\$ (1,117,142)</u>	<u>\$ 14,405</u>	<u>\$ (9,788)</u>	<u>\$ 1,857,672</u>	<u>\$ 52,176</u>	<u>\$ 1,909,848</u>
Balance as of June 30, 2009 (in US\$)	<u>\$ 89,361</u>	<u>\$ -</u>	<u>\$ 487</u>	<u>\$ 158</u>	<u>\$ (33,853)</u>	<u>\$ 437</u>	<u>\$ (297)</u>	<u>\$ 56,293</u>	<u>\$ 1,581</u>	<u>\$ 57,874</u>

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

English Translation of Consolidated Financial Statements Originally Issued in Chinese

GIGASTORAGE CORPORATION AND SUBSIDIARIES  
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

For The Six-Month Periods Ended June 30, 2008 and 2009

(Expressed in Thousands of New Taiwan Dollars)

	For the Six-Month Period Ended June 30,		
	2008	2009	2009
	NT\$	NT\$	US\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Consolidated net income (loss)	\$(45,321)	\$66,236	\$2,007
Adjustments to reconcile consolidated net loss to net cash provided by (used in)			
operating activities:			
Depreciation	151,205	151,437	4,589
Amortization	23,668	19,241	583
Recovery on decline in market value and obsolescence of inventories	(2,100)	(19,719)	(598)
Changes on deferred income tax assets and liabilities	-	8,492	257
Gain on disposal of property, plant and equipment, net	(2,441)	(786)	(24)
Loss on disposal of investments	5,273	-	-
Other investment loss	7,273	11,786	357
Amortization of discount on bonds payable	-	1,644	50
Gain on valuation of financial liabilities	-	(5,886)	(178)
Decrease in financial assets at fair value through profit or loss - current	30,591	-	-
Decrease (increase) in notes and accounts receivable	2,814	(14,494)	(439)
Decrease in accounts receivable - related parties	208	-	-
(Increase) decrease in inventories	(41,284)	30,928	937
Decrease (increase) in prepayments and other current assets	7,904	(19,286)	(584)
Increase in other receivables	(2,842)	(2,459)	(75)
(Decrease) increase in notes and accounts payable	(28,359)	10,539	319
Increase (decrease) in accounts payable - related parties	10,402	(30,342)	(919)
Increase in income tax payable	-	10,883	330
Decrease in accrued expenses	(42,559)	(6,281)	(190)
Increase in other payable - related parties	-	33	1
(Decrease) increase in revenues in advance and other current liabilities	(10,367)	14,922	452
Increase in accrued pension liabilities	187	149	5
Decrease in other long-term payable	(68,425)	(31,456)	(953)
Net cash provided by (used in) operating activities	<u>(4,173)</u>	<u>195,581</u>	<u>5,927</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES :</b>			
Decrease (increase) in restricted banking accounts	(186)	5,451	165
Proceeds from disposal of available-for-sale financial assets	12,766	-	-
Acquisition of property, plant and equipment	(31,655)	(54,874)	(1,663)
Proceeds from disposal of property, plant and equipment	114,564	40,216	1,219
Increase in deferred assets	(11,585)	(4,653)	(141)
Decrease (increase) in refundable deposits	4,382	(273)	(8)
Net cash provided by (used in) investing activities	<u>88,286</u>	<u>(14,133)</u>	<u>(428)</u>

(Continued)

English Translation of Consolidated Financial Statements Originally Issued in Chinese  
GIGASTORAGE CORPORATION AND SUBSIDIARIES  
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)  
For The Six-Month Periods Ended June 30, 2008 and 2009  
(Expressed in Thousands of New Taiwan Dollars)

	For the Six-Month Period Ended June 30,		
	2008	2009	2009
	NT\$	NT\$	US\$
<b>CASH FLOWS FROM FINANCING ACTIVITIES :</b>			
Increase (decrease) in short-term loans	\$29,541	\$(42,139)	\$(1,277)
Decrease in long-term loans	(386,475)	(79,376)	(2,405)
Increase in long-term payable - related parties	44,000	-	-
Increase in minority interests	10	51,356	1,556
Net cash used in financing activities	<u>(312,924)</u>	<u>(70,159)</u>	<u>(2,126)</u>
EFFECT OF CHANGES IN EXCHANGE RATES	45,287	(5,921)	(180)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENT	(183,524)	105,368	3,193
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	305,963	147,278	4,463
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>\$122,439</u>	<u>\$252,646</u>	<u>\$7,656</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION :</b>			
Income tax paid	\$-	\$1,565	\$47
Interest expenses paid	<u>\$39,830</u>	<u>\$25,841</u>	<u>\$783</u>
<b>Investing activities partially affecting cash flows :</b>			
Acquisition of property, plant and equipment	\$20,182	\$53,709	\$1,627
Add: payables on equipment at the beginning of period	16,576	7,709	234
Less: payables on equipment at end of period	(5,103)	(6,544)	(198)
Cash paid for acquiring property, plant and equipment	<u>\$31,655</u>	<u>\$54,874</u>	<u>\$1,663</u>
Disposal of property, plant and equipment	\$106,689	\$40,216	\$1,219
Add: receivables on equipment at the beginning of period	7,875	-	-
Less: receivables on equipment at end of period	-	-	-
Cash received from acquiring property, plant and equipment	<u>\$114,564</u>	<u>\$40,216</u>	<u>\$1,219</u>
<b>INVESTING AND FINANCING ACTIVITIES NOT AFFECTING CASH FLOWS :</b>			
Capital reserve used to cover accumulated deficits	<u>\$314,297</u>	<u>\$-</u>	<u>\$-</u>
Current portion of long-term loans	<u>\$201,925</u>	<u>\$101,268</u>	<u>\$3,069</u>
Current portion of other long-term payable	<u>\$118,961</u>	<u>\$225,927</u>	<u>\$6,846</u>
Cumulative translation adjustment	<u>\$(27,024)</u>	<u>\$7,229</u>	<u>\$219</u>
Change in unrealized loss on financial instruments	<u>\$920</u>	<u>\$1,513</u>	<u>\$46</u>

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

GIGASTORAGE CORPORATION AND SUBSIDIARIES  
NOTES TO REVIEWED CONSOLIDATED FINANCIAL STATEMENTS

As of and for the Periods Ended June 30, 2008 and 2009

(Expressed in Thousands of New Taiwan Dollars unless Otherwise Stated)

**1. HISTORY AND ORGANIZATION**

Gigastorage Corporation was incorporated under the Company Law in the Republic of China (the “R.O.C.”) on March 26, 1997 and commenced operation on December 1, 1997. Gigastorage Corporation is mainly engaged in the business of researching, manufacturing, and selling of read-only, write-able, and erasable optical disks; consulting services on the related technology; import and export of production equipments, spare parts, raw materials, semi-finished goods, and finished goods; bidding and agency services for foreign and local products; and manufacturing of information storage and handling equipment.

Gigastorage Corporation’s stocks became publicly listed on the Taiwan Stock Exchange (“TWSE”) on April 29, 2000 which was permitted by SFC on January 19, 2000.

In September, 2008, Gigastorage Corporation transferred the Solar Material Chemical Department to the Company’s subsidiary - Giga Solar Materials Corporation (previously Medwell Technology Corporation).

As of June 30, 2008 and 2009, Gigastorage Corporation and the consolidated entities had 561 and 565 employees in total, respectively. (Gigastorage and the consolidated entities are hereinafter referred to as “the Company” or “Gigastorage”.)

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The consolidated financial statements have been prepared in accordance with Guidelines Governing the Preparation of Financial Report by Securities Issuers and accounting principles generally accepted in the Republic of China. Summary of significant accounting policies is as follows:

**General Descriptions of the Consolidated Entities**

Investees in which Gigastorage, directly or indirectly holds more than 50% of voting common stocks or less than 50% of voting common stocks but has substantial control, are accounted for under equity method and consolidated in the Company’s consolidated financial statements. Consolidated subsidiaries are summarized as below:

Name of Investor	Name of Investee	Business Nature	Percentage of	
			Ownership (%)	
			As of June 30,	
			2008	2009
Gigastorage	CUSTER INC.	Selling of CD-R and CD-RW products	100.00	100.00
Gigastorage	NEW ELITE INVESTMENTS LIMITED	Investment holding	100.00	100.00
Gigastorage	Quo-Chao Investments Corporation	Investment holding	99.99	99.99
Gigastorage	Maxmax Group Corporation	Selling of CD-R and CD-RW products	99.45	99.45
Gigastorage	GLOBAL ACETECH CO., LTD.	Selling of CD-R and CD-RW products	99.99	99.99
Gigastorage	Giga Solar Materials Corporation (Note)	Precise chemicals and industrial plastics	100.00	100.00
CUSTER INC.	BARNWELL	Selling of CD-R and CD-RW products	100.00	100.00
NEW ELITE INVESTMENTS LIMITED	Shenzhen Gigastorage Co., Ltd.	Other professional design service and management service	100.00	100.00

Note: Gigastorage acquired 100 thousand shares of common stock of Giga Solar Materials Corporation from the subsidiary, Quo-Chao Investments Corporation, on August 21, 2008. After the transaction, Gigastorage holds 100% voting rights of Giga Solar Materials Corporation.

All subsidiaries of Gigastorage have been included as consolidated entities in the consolidated financial statements.

#### **Convenience Translation into US Dollars**

Translations of amounts from New Taiwan dollars (“NT dollars” or “NT\$”) into United States dollars (“US dollars” or “US\$”) for the reader’s convenience were calculated at the rate of US\$1.00 to NT\$33. No representation is made that the NT\$ amounts could have been, or could be, converted into United States dollars at such rate.

#### **Principles of Consolidation**

- (1) The consolidated financial statements were prepared in accordance with R.O.C. Statement of Financial Accounting Standard (SFAS) No. 7. The transactions between the consolidated entities were appropriately eliminated in the consolidated financial statements.
- (2) Investees in which the Company holds more than 50% of voting rights, including those that are currently exercisable or convertible, are accounted for under the equity method and shall be consolidated. An entity shall also be consolidated

when the Company has:

- A. Power over more than half of the voting rights of the investee by virtue of an agreement with other investors;
  - B. As permitted by law, or by contractual agreements, the power to govern the financial, operating and personnel policies of the investee;
  - C. Authority to appoint or discharge more than half members of board of directors (or equivalent governing body), by whom the investee is controlled;
  - D. The Company leads and controls more than half of the members of the board of directors (or equivalents), and control of the investee is by that board or body;
  - E. Power to control over the investee due to other reasons.
- (3) If the acquisition cost is greater or less than the proportionate book value of the investee, it is accounted for in accordance with the R.O.C. SFAS No. 25 "Business Combinations - Accounting Treatment under the Purchased Method". Effective from January 1, 2006, pursuant to the newly revised R.O.C. SFAS No. 25, investment premiums, representing goodwill, is no longer amortized, and is assessed for impairment at least on an annual basis; while investment discounts continue to be amortized over the remaining period. In some cases, the fair value will exceed the investment cost. That excess, if generated after December 31, 2005, shall be allocated as a pro rata reduction of the amounts that otherwise would have been assigned to all of the acquired non-current assets. If any excess remains after reducing to zero the amounts that otherwise would have been assigned to those assets, that remaining excess shall be recognized as an extraordinary gain.

#### **Cash Equivalents**

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, and so near their maturity that they present insignificant risk of changes in value from fluctuations in interest rates. Commercial papers, negotiable certificates of deposit, and bank acceptances with original maturities of three months or less from the date of investment are considered cash equivalents.

#### **Foreign Currency Transactions and Translation of Financial Statements in Foreign Currency**

- (1) Gigastorage maintains its accounting records in New Taiwan dollars ("NT Dollars" or "NT\$"). Transactions denominated in foreign currencies are recorded in NT Dollars using the exchange rates in effect at the dates of the transactions. At each balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at the rates prevailing on the balance sheet date. Exchange differences arising from the settlements of the monetary assets and liabilities, and on the translation of monetary assets and liabilities are included in earnings for the period. Exchange differences arising from the translation of non-monetary assets and liabilities carried at fair value are included in earnings for the period except for differences arising from the translation of non-monetary assets and liabilities of which gains and losses are recognized directly in equity. For such non-monetary assets and liabilities, any exchange component of that gain or loss is recognized directly in equity. Non-monetary items that are measured at fair value in a foreign currency shall be translated using the exchange rates at the date when the fair value was determined. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of the transaction. Foreign exchange gains and losses are included in the statements of operations.

- (2) The assets and liabilities of the foreign subsidiaries are translated into NT Dollars, with the local currency of each foreign subsidiary as its functional currency, at the exchange rates in effect at the balance sheet date. Stockholders' equity accounts should be translated at the historical rates except for the beginning balance of the retained earnings, which is carried by the translated amount of the last period. Dividends are translated at the spot rate of the declared date. Revenue and expense accounts are translated using a weighted average exchange rate for the relevant period. Translation gains and losses are included as a component of stockholders' equity. The accumulated exchange gains or losses resulting from the translation are recorded as cumulative translation adjustments under stockholders' equity.

### **Financial Assets and Financial Liabilities**

- (1) Financial asset or liability is recognized on the balance sheet when the Company becomes a party to the contractual provisions of the financial instrument contract. A regular way purchase or sale of financial assets are recognized using either trade date accounting on equity instruments or settlement date accounting on debt securities, beneficiary certificates and derivatives.
- (2) Upon initial recognition, financial assets or financial liabilities are measured at fair value, plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issuance of the financial asset or financial liability.

- (3) Financial assets or financial liabilities are classified as follows:

A. Financial assets or financial liabilities at fair value through profit or loss

Financial assets or financial liabilities at fair value through profit or loss include financial assets or liabilities held for trading and financial assets and liabilities designated upon initial recognition as at fair value through profit or loss. Such assets or liabilities are subsequently measured at fair value and changes in fair value are recognized in profit or loss.

B. Financial assets carried at cost

These are not measured at fair value because their fair value cannot be reliably measured, they are either holdings in unquoted equity instruments or emerging stocks which the Company does not have significant influence over or derivative assets that are linked to and must be settled by delivery of the abovementioned unquoted equity instruments. When objective evidence of impairment of such unquoted equity instrument exists, an impairment loss is recognized. Such impairment loss shall not be reversed in subsequent periods.

C. Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as financial assets at fair value through profit or loss, held-to-maturity financial assets or loans and receivables. When available-for-sale financial assets are subsequently measured at fair value, the changes in fair value are recognized as a separate component of stockholders' equity. The accumulated gains or losses previously charged to stockholders' equity are recognized in profit or loss when

the financial asset is derecognized from the balance sheet.

If there is objective evidence which indicates that such financial asset is impaired, an impairment loss is recognized. If, in a subsequent period, the amount of the impairment loss decreases, the previously recognized impairment loss for equity securities is reversed to the extent of the decrease and recorded as an adjustment to stockholders' equity; for debt securities, the amount of the decrease is recognized in profit or loss, provided that the decrease is clearly attributable to an event which occurred after the impairment loss was recognized.

The fair values for listed equity securities or close-ended funds are based on closing prices at the balance sheet date, while the fair values for open-ended funds on net value at the balance sheet date. When a quotation of the financial instrument as a whole from an active market does not exist, and only the quotation from an active market for the component of that financial instrument is available, then the market price of such component shall be considered to determine the fair value of the financial instruments.

#### **Allowance for Doubtful Accounts**

The allowance for doubtful accounts is provided based on the aging analysis and the results of the Company's evaluation of collectability of the outstanding notes and accounts receivable.

#### **Inventories**

Inventories are recorded at cost when acquired and stated at the lower of aggregate cost, based on the weighted average method, or market value at the balance sheet date. The market values of raw materials are determined on the basis of replacement cost while work in process and finished goods are determined on net realizable value. The allowance for decline in market value and obsolescence of inventories is provided when necessary.

Effective January 1, 2009, inventories are valued at the lower of cost and net realizable value item by item. The costs of inventories are necessary expenditures and charges for bringing the inventory to the salable and useable condition and location using the weighted average cost formula. Fixed costs must be allocated on the basis of the normal capacity of the production equipment. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

#### **Property, Plant and Equipment**

- (1) Property, plant and equipment are stated at cost. Significant improvements and replacements are capitalized and depreciated over their estimated useful lives while repairs and maintenance are expensed as incurred. Interest incurred on loans used to finance the construction of property, plant and equipment is capitalized and depreciated accordingly. When property, plant and equipment are disposed of, their original cost, accumulated depreciation and accumulated impairment are written off and related gains or losses are included as non-operating income or expenses.
- (2) Depreciation is provided by using the straight-line method over the following estimated useful lives. If the property, plant and equipment are still in use beyond their original estimated useful lives, the original residual

value is further depreciated over their newly estimated useful lives.

Buildings	9 - 55 Years
Machinery and equipment	2 – 10 Years
Research and development equipment	3 - 10 Years
Transportation equipment	5 Years
Furniture and fixtures	3 - 5 Years
Miscellaneous equipment	5 Years

### **Deferred Assets**

Deferred assets, including molds, spare parts and tools are amortized using the straight-line method over 3 to 5 years.

### **Capital Expenditures vs. Operating Expenditure**

If the expenditure increases the future service potential of the plant assets and the purchase price exceeds a certain monetary threshold, then the expenditure is capitalized, while other expenditure not meeting the aforementioned criteria are expensed as incurred.

### **Revenue Recognition**

The Company recognized revenue when the following conditions are met:

- (1) When persuasive evidence of an arrangement exists;
- (2) The product or service has been delivered;
- (3) The seller's price to the buyer is fixed or determinable and
- (4) Collectability is reasonably assured.

### **Convertible Bonds**

- (1) The cost of issuing convertible bonds is recorded under liability or equity component in proportion to the original cost spent on each component.
- (2) Convertible bonds are evaluated to determine whether it contains both a liability and an equity component. The fair value of the liability component is measured first, at the fair value of a similar liability that does not have an associated equity conversion feature, and the fair value of the equity component is determined as a residual.
- (3) The liability component is subsequently measured at amortized cost and embedded derivative instrument is measured at fair value, while the equity component will not be re-measured after initial recognition.
- (4) Conversion of convertible bonds is accounted for using the face value method. Under this method, the carrying amount of convertible bonds is transferred to common stock and capital reserve accounts. No conversion gain or loss can be recognized.

## **Pension**

- (1) According to the R.O.C. Labor Standards Law (“LSL”), Gigastorage and the subsidiaries, Maxmax Group Corporation and Giga Solar Materials Corporation, have their respectively defined benefit plans and have been making monthly contributions based on a fixed percent of their employees’ monthly wages. All regular employees are entitled to defined benefit pension plans that are managed by their respective independently administered pension fund committees. Fund assets are deposited under their respective committees’ names and hence, not associated with the Company. Therefore, fund assets are not to be consolidated in the Company’s financial statements.
- (2) The R.O.C. Labor Pension Act (“LPA”), which adopts a defined contribution plan, became effective on July 1, 2005. Employees eligible for the LSL, a defined benefit plan, were allowed to elect to either the pension calculation under the LPA or continue to be subject to the pension calculation under the LSL. Those employees that elected to be subject to LPA will have their seniority achieved under the LSL retained upon election of LPA, and domestic companies will make monthly contributions of no less than 6% of these employees’ monthly wages to the employees’ individual pension accounts.
- (3) The accounting for the Company’s pension liability is computed in accordance with R.O.C. SFAS No.18, “Accounting for Pension”. Net pension costs of the defined benefit plan are recorded based on an independent actuarial valuation. The unrecognized net transition obligation is amortized on the straight-line basis over the employees’ average remaining service period or 15 years. The Company recognizes expenses from the defined contribution pension plan in the period in which the contribution becomes due.
- (4) Foreign subsidiaries which have defined contribution pension plans make monthly contributions to pension funds in accordance with the relevant local law and regulations. The monthly contribution is recorded as an expense in the month in which the contribution becomes due.

## **Income Tax**

- (1) The Company adopted an inter-period and intra-period income tax allocation method to recognize income tax. Tax effects on taxable temporary differences are recognized as deferred tax liabilities. Tax effects on deductible temporary differences, operating loss carryforward and investment tax credits are recognized as deferred tax assets. Valuation allowance is provided based on the expected realizability of the deferred tax assets. A deferred tax asset or liability should be classified as current or non-current according to the classification of its related asset or liability. However, if a deferred tax asset or liability is not directly related to an asset or a liability, then the classification is based on the expected realization date of such deferred income tax asset or liability.
- (2) According to R.O.C. SFAS No.12 “Accounting for Income Tax Credits”, the Company recognizes the tax credits arising from purchases of machinery, equipment and technology, research and development expenditures, employee training, and certain equity investments in the period when such purchases,

expenditures, training or investments occur.

- (3) Undistributed earnings generated after 1997 are subject to a 10% additional retained earnings tax (10% additional tax) in compliance with the R.O.C. Income Tax Act. The 10% additional tax is recorded as income tax expense in the year in which stockholders have resolved that the domestic companies' earnings shall be retained.
- (4) The R.O.C. Income Basic Tax Act (IBTA) has been effective since January 1, 2006. The IBTA is a supplemental tax levied at a rate of 10% which is payable if the income tax payable determined pursuant to the R.O.C. Income Tax Act is below the minimum amount prescribed under the IBTA. The impact of the IBTA has been considered in domestic companies' income tax for the current reporting period, and in determining the realizability of deferred income tax assets.
- (5) The statutory income tax rate applicable for Gigastorage and domestic subsidiaries is 25%. Pursuant to recent amendment of R.O.C. Income Tax Act announced on May 27, the statutory income tax rate will be changed to 20%, effective from January 1, 2010.

#### **Earnings (Loss) Per Share**

Earnings (loss) per share is computed in accordance with R.O.C. SFAS No. 24 "Earnings Per Share". The Company presents basic earnings (loss) per share and diluted earnings (loss) per share information. Basic earnings (loss) per share is computed by dividing the net income (loss) by the weighted-average number of common stock outstanding during the current reporting period. When calculating diluted earnings (loss) per share, the numerator includes or adds back potential common stock dividends, interest and other conversion revenues (expenses). The denominator includes all potentially dilutive common stock.

#### **Employee Stock Option Plan**

The Company used the intrinsic value method to recognize compensation cost for its employee stock options issued between January 1, 2004 and December 31, 2007, in accordance with R.O.C. Accounting Research and Development Foundation interpretation Nos. 92-070~072. For options granted on or after January 1, 2008, the Company recognizes compensation cost using the fair value method in accordance with R.O.C. SFAS No. 39 "Accounting for Share-Based Payment".

#### **Derivative Financial Instruments**

The Company initially recognized derivative as either financial assets (when the fair value is positive) or financial liabilities (when the fair value is negative) and subsequently remeasured those instruments at fair value. Derivatives that are not qualified for hedge accounting are accounted for as financial assets or liabilities held for trading with changes in fair value recognized in profit or loss.

### **Asset Impairment**

Pursuant to R.O.C. SFAS No. 35 “Impairment of Assets”, the Company assesses indicators of impairment for all its assets (except for goodwill) within the scope of the standard at each balance sheet date. If there is indication of impairment, the Company compares the asset’s carrying amount with its recoverable amount and writes down the carrying amount to the recoverable amount where applicable. For previously recognized impairment losses, the Company assesses at each balance sheet date whether there is any indication that the impairment loss no longer exists or may have diminished. If there is any such indication, the Company recalculates the recoverable amount of the asset, and if the recoverable amount has increased as a result of the increase in the estimated service potential of the asset, the Company reverses the impairment loss so that the resulting carrying amount of the asset does not exceed the amount (net of amortization or depreciation) that would otherwise result had no impairment loss been recognized for the asset in prior years.

### **Treasury Stock**

- (1) Treasury stock transactions are accounted for under the cost method.
- (2) When treasury stock is sold for more than its acquisition cost, the difference is credited to capital reserve-treasury stock transaction. If treasury stock is sold for less than its acquisition cost, the difference is charged to the same capital reserve account to the extent that the capital reserve account is reduced to zero. If the balance of the capital reserve is insufficient, any further reduction shall be charged to retained earnings instead.
- (3) When treasury stock is cancelled, the treasury stock account is credited and all capital account balances related to the treasury shares, including capital reserve-additional paid in capital and common stock, are debited on a pro-rata basis. Any difference, if it is in credit balance, is recorded in capital reserve-treasury stock transaction; if it is in debit balance, is charged to the same capital reserve account to the extent that the capital reserve account is reduced to zero. If the balance of the capital reserve is insufficient, any further reduction shall be charged to retained earnings instead.

### **Employee Bonuses and Remunerations Paid to Directors and Supervisors**

In accordance with R.O.C. Accounting Research and Development Foundation interpretation No. 96-052 “Accounting for Employee Bonuses and Remunerations to Directors and Supervisors”, effective from January 1, 2008, employee bonuses and remunerations paid to directors and supervisors are charged to expense at fair value and are no longer accounted for as an appropriation of retained earnings.

## **3. REASONS AND EFFECTS FOR CHANGES IN ACCOUNTING POLICIES**

- (1) Effective from January 1, 2008, the Company adopted R.O.C. SFAS No. 39 “Accounting for Share-Based Payment” to account for share-based payments. This change in accounting policies had no effect on consolidated net loss or basic earnings per share on a consolidated basis for the six-month period ended June 30, 2008.

- (2) Effective from January 1, 2008, the Company adopted the newly released R.O.C. Accounting Research and Development Foundation interpretation No. 96-052 to account for employees' bonuses and remunerations paid to directors and supervisors. This change in accounting policies had no effect on consolidated net loss or basic earnings per share on a consolidated basis for the six-month period ended June 30, 2008.
- (3) Effective from January 1, 2009, the Company adopted the newly revised R.O.C. SFAS No.10, "Accounting for Inventories". The main revisions are:
- A. inventories are valued at the lower of cost and net realizable value item by item;
  - B. unallocated overheads resulted from low production or idle capacity are recognized as costs of goods sold in the period in which they are incurred; and
  - C. abnormal amounts of production costs, and loss on decline in the market value of inventories (or gains on recovery in market value of inventories) are recognized as cost of goods sold.
- This change in accounting policies had no significant effect on consolidated net income or basic earnings per share on a consolidated basis for the six-month period ended June 30, 2009. The non-operating income of NT\$6,009 thousand and the non-operating expenses of NT\$1,150 thousand for the six-month period ended June 30, 2008 was also reclassified to cost of goods sold.
- (4) Pursuant to the amendment of R.O.C. Income Tax Act, the statutory income tax rate applicable for Gigastorage and domestic subsidiaries will change from 25% to 20%, effective from January 1, 2010. This change in accounting policies had no effect on consolidated net income or basic earnings per share on a consolidated basis for the six-month period ended June 30, 2009.

#### **4. CONTENTS OF SIGNIFICANT ACCOUNTS**

(1) Cash and cash equivalents

	As of June 30,		
	2008	2009	2009
	NT\$	NT\$	US\$
Cash on hand	\$468	\$498	\$15
Checking and savings account	95,971	242,588	7,351
Time deposits	26,000	9,560	290
Total	\$122,439	\$252,646	\$7,656

(2) Financial assets at fair value through profit or loss - current

The Company entered into forward contracts and interest rate swaps and options with financial institutions. The purpose of entering into forward contracts and interest rate swaps is to hedge exchange rate fluctuation risk resulting from assets denominated in foreign currency and interest rate fluctuation risk resulting from loans. However, these derivatives do not meet the hedge accounting criteria; therefore they are not accounted for using hedge accounting. As of June 30, 2008 and 2009, outstanding contracts were as follows:

Item	As of June 30,					
	2008		2009		2009	
	NT\$		NT\$		US\$	
	Book value	Notional amount	Book value	Notional amount	Book value	Notional amount
Interest rate swaps	\$164	\$150,000	\$-	\$-	\$-	\$-

Upon settlements, valuation gains on forward contracts amounting to NT\$304 thousand and NT\$0 thousand were recorded for the six-month periods ended June 30, 2008 and 2009, respectively; valuation gains on interest rate swaps were NT\$447 thousand and NT\$0 thousand for the six-month periods ended June 30, 2008 and 2009, respectively. Please refer to Note 10 to the financial statements for the disclosures of relative risks information for financial assets and liabilities at fair value through profit or loss.

(3) Notes receivable and accounts receivable, net

	As of June 30,		
	2008	2009	2009
	NT\$	NT\$	US\$
Notes receivable	\$9,137	\$5,675	\$172
Less: Allowance for doubtful accounts	-	-	-
Net	\$9,137	\$5,675	\$172

	As of June 30,		
	2008	2009	2009
	NT\$	NT\$	US\$
Accounts receivable	\$614,722	\$624,275	\$18,918
Less: Allowance for doubtful accounts	(196,509)	(125,912)	(3,816)
Less: Allowance for sales returns and discounts	(603)	-	-
Net	\$417,610	\$498,363	\$15,102

(4) Inventories, net

	As of June 30,		
	2008	2009	2009
	NT\$	NT\$	US\$
Raw materials	\$119,481	\$98,078	\$2,972
Work in process	59,842	117,068	3,547
Finished goods	41,926	22,056	668
Raw materials in transit	24,895	12,764	387
Total	246,144	249,966	7,574

Less: Allowance for decline in market value and obsolescence	(43,085)	(28,423)	(861)
Net	<u>\$203,059</u>	<u>\$221,543</u>	<u>\$6,713</u>

The following items were included in the Company's costs of goods sold:

	For the six-month period ended June 30,		
	2008	2009	2009
	NT\$	NT\$	US\$
Gain on sale of scrap and wastes	\$(3,909)	\$(1,698)	\$(51)
Recovery on decline in market value and obsolescence of inventories	(2,100)	(19,719)	(598)
Loss on physical inventory	1,150	-	-

(5) Available-for-sale financial assets - non-current

	As of June 30,		
	2008	2009	2009
	NT\$	NT\$	US\$
Listed stocks			
Lead Data Inc.	\$13,328	\$13,328	\$404
International Branding Marketing Inc.	-	511	15
Subtotal	13,328	13,839	419
Adjustment for changes in fair value	(8,858)	(9,790)	(296)
Total	<u>\$4,470</u>	<u>\$4,049</u>	<u>\$123</u>

The available-for-sale investment - Ritek Corporation was fully disposed with loss on disposal in the amount of NT\$5,228 thousand for the six-month period ended June 30, 2008.

(6) Financial assets carried at cost - non-current

	As of June 30,		
	2008	2009	2009
	NT\$	NT\$	US\$
Unlisted stocks – common stock			
Taimide Technology Inc.	\$200,795	\$200,796	\$6,085
New Land Packing Corporation	55,910	55,910	1,694
Prorit Corporation	47,307	37,307	1,131
Infomax Optical Technology Corporation	7,287	7,287	221
Prosperity Venture Capital Corporation	3,645	3,645	110
Makin Technology Corporation	34,531	2,745	83
Subtotal	349,475	307,690	9,324
Listed stock through private placement			
International Branding Marketing Inc.	2,044	-	-

Total	\$351,519	\$307,690	\$9,324
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- ① In August 2005, the Company invested NT\$6,000 thousand for 600,000 shares through private placement in International Branding Marketing Inc., representing 2.17% of ownership interest. Pursuant to the R.O.C. Securities and Exchange Act, such shares through private placement should not be transferred within three years since the date of acquisition. In 2008, such investments were reclassified to available-for-sale financial assets - non-current from financial assets carried at cost - non-current.
- ② Infomax Optical Technology Corporation carried out a capital reduction to offset its accumulated deficits in April 2008, which represented approximately 49.95% of its outstanding shares. The Company recognized an investment loss of NT\$7,273 thousand classified under non-operating expense - other investment loss for the six-month ended June 30, 2008.
- ③ Makin Technology Corporation carried out a capital reduction to offset its accumulated deficits in June 2009, which represented approximately 75% of its outstanding shares. The Company recognized an investment loss of NT\$11,786 thousand classified under non-operating expense - other investment loss for the six-month ended June 30, 2009.
- ④ The Company sold its shares of Taimide Technology Inc. at price of NT\$7,676 thousand with a loss of NT\$45 thousand classified under non-operating expense - loss on disposal of investments for the six-month ended June 30, 2008.

(7) Property, plant and equipment

- ① No interest was capitalized for the six-month periods ended June 30, 2008 and 2009, respectively.
- ② Refer to Note 4(23) of consolidated financial statements for impairment on property, plant and equipment.
- ③ Refer to Note 6 of consolidated financial statements for property, plant and equipment pledged as collateral.

(8) Over due accounts receivable, net

	As of June 30,		
	2008	2009	2009
	NT\$	NT\$	US\$
Over due accounts receivable	\$57,669	\$57,907	\$1,755
Less: allowance for doubtful accounts	(57,669)	(57,907)	(1,755)
Net	\$-	\$-	\$-

(9) Short-term bank loans

	As of June 30,		
Items	2008	2009	2009
	NT\$	NT\$	US\$

Unsecured loans	\$197,330	\$239,276	\$7,251
Secured loans	23,600	37,766	1,144
Total	<u>\$220,930</u>	<u>\$277,042</u>	<u>\$8,395</u>

- ① The Company's unused short-term loans of credits amounted to NT\$220,308 thousand and NT\$163,491 thousand as of June 30, 2008 and 2009, respectively.
- ② The short-term loans interest rates ranged from 1.58%~6.25% and 1.75%~6.45% as of June 30, 2008 and 2009, respectively.
- ③ Refer to Note 6 to consolidated financial statements for assets pledged as collaterals.

(10) Long-term loans

Lender	Nature	Maturity day	As of June 30			Redemption method
			2008	2009	2009	
			NT\$	NT\$	US\$	
Land Bank	Secured	Jun. 5, 2012	\$88,886	\$66,663	\$2,020	Repayable monthly from Jul. 5, 2003 in 108 installments with interest paid monthly
Land Bank	Secured	Dec. 31, 2008	1,440	-	-	Repayable monthly from Jan. 2004 in 60 installments with interest paid monthly
Land Bank	Secured	Dec. 31, 2008	3,972	-	-	Repayable monthly from Jan. 2005 in 48 installments with interest paid monthly
Land Bank	Secured	Dec. 31, 2008	4,557	-	-	Repayable monthly from Feb. 28, 2005 in 47 installments with interest paid monthly
Land Bank	Secured	Sep. 7, 2012	22,103	16,798	509	Repayable monthly from Nov. 5, 2007 in 59 installments with interest paid monthly
Land Bank	Secured	Sep. 7, 2012	24,179	18,489	560	Repayable monthly from Feb. 5, 2008 in 56 installments with interest paid monthly
Land Bank	Secured	Sep. 7, 2012	5,930	4,534	138	Repayable monthly from Jul. 5, 2008 in 51 installments with interest paid monthly
Land Bank	Secured	Sep. 7, 2012	-	7,930	240	Repayable monthly from Jan. 5, 2009 in 45 installments with interest paid monthly

Mega International Commercial Bank	Secured	Feb. 25, 2015	186,192	158,608	4,806	Repayable quarterly from Feb. 25, 2008 in 29 installments with interest paid monthly (Note)
Mega International Commercial Bank	Secured	Aug. 20, 2009	26,500	5,300	161	Repayable quarterly from Nov. 20, 2004 in 20 installments with interest paid monthly
Chin Fon Bank	Secured	Jan. 15, 2009	5,625	-	-	Repayable quarterly from Apr. 15, 2005 in 16 installments with interest paid monthly
Chin Fon Bank	Secured	Jan. 15, 2009	11,438	-	-	Repayable quarterly from Apr. 15, 2005 in 16 installments with interest paid monthly
Chin Fon Bank	Unsecured	Apr. 15, 2009	24,000	-	-	Repayable quarterly from Jan. 15, 2007 in 10 installments with interest paid monthly
Chin Fon Bank	Secured	Jun. 28, 2010	16,000	8,000	243	Repayable quarterly from Mar. 28, 2008 in 10 installments with interest paid monthly
HSBC	Secured	Dec. 1, 2008	5,000	-	-	Repayable monthly from Jan. 17, 2006 in 36 installments with interest paid monthly
HSBC	Secured	Aug. 31, 2009	20,833	4,167	126	Repayable monthly from Oct. 31, 2006 in 36 installments with interest paid monthly
Export-Import Bank of R.O.C.	Secured	Sep. 21, 2011	12,443	8,888	269	Repayable semi-annually from Mar. 21, 2008 in 8 installments with interest paid quarterly
Export-Import Bank of R.O.C.	Secured	Sep. 21, 2011	19,226	13,733	416	Repayable semi-annually from Mar. 21, 2008 in 8 installments with interest paid quarterly
Export-Import Bank of R.O.C.	Secured	Sep. 21, 2011	1,581	1,129	34	Repayable semi-annually from Mar. 21, 2008 in 8 installments with interest paid quarterly
Chang Hwa Bank	Secured	Nov. 26, 2016	10,100	8,900	270	Repayable monthly from Nov. 26, 2001 in 150 installments with interest paid monthly
CHAILEASE Finance (BVI)	Secured	Oct. 31, 2009	42,476	13,124	398	Repayable quarterly from Jan. 31, 2008 in 8 installments with interest paid monthly

Total	532,481	336,263	10,190
Less: Current portion	(201,925)	(101,268)	(3,069)
Net	\$330,556	\$234,995	\$7,121

Note: Gigastorage entered into a long-term loan contract with Mega International Commercial Bank, which stated that during the contract period, each half-year or year-end current ratio must maintain at a level of more than 130% and liability ratio must be lower than 80% from February 25, 2005 to February 25, 2015. If Gigastorage failed to meet the condition mentioned above, the penalty should be paid monthly at 0.25% of the annual interest rate; and if the liability ratio exceeds 150%, Mega International Commercial Bank will impose the interest rate at two-year time deposit floating interest rate plus 2.5%. Mega International Commercial Bank also reserves the right to request immediate full repayments of the loans.

On June 5, 2008, Gigastorage and Mega International Commercial Bank signed amendments of long-term loan contract and removed all debt covenants mentioned above.

- ① The long-term loans interest rates ranged from 3.2228%~6.3610% and 2.3800%~5.6790% as of June 30, 2008 and 2009, respectively.
- ② Refer to Note 6 to consolidated financial statements for assets pledged as collaterals.

(11) Bonds payable

①

	As of June 30,		
	2008	2009	2009
	NT\$	NT\$	US\$
Convertible bonds payable	\$-	\$97,000	\$2,939
Less: discounts on bonds payable	-	(7,503)	(227)
Total	-	89,497	2,712
Less: Current portion	-	-	-
Net	\$-	\$89,497	\$2,712

② On August 31, 2008, Gigastorage issued domestic convertible bonds through private placements. The terms and conditions of the bonds were as follows:

A. Par value: NT\$100 thousand

B. Issue price: 100%

C. Total issue amount: 97,000 thousand

D. Coupon interest rate: 0%

E. Duration: three years (August 31, 2008~ August 31, 2011)

F. Redemption method: Gigastorage will redeem the bonds by cash on the maturity date, excluding exercise of conversion right or repurchase of bonds.

G. Redemption price at maturity or call price at the option of Gigastorage:

(A) Gigastorage will redeem the bonds at par value on the maturity, excluding early redemption, repurchase of bonds, or exercise of conversion right.

(B) Called by the issuer (Gigastorage) prior to maturity:

a. After the bonds have been outstanding for more than one year, Gigastorage may redeem in whole or in part of the bonds at the call price determined by a 2% of annual yield rate if the closing prices of Gigastorage's common share in the TWSE for 20 consecutive trading days are at least 180% of the conversion price.

b. Gigastorage may also have the right to redeem all, but not in part, of the outstanding debenture at the call price determined by a 2% of annual yield rate if more than 90% of the bonds has been converted, redeemed or called.

H. Redemption at the option of the bondholders:

The bonds are redeemable at 104% and 106% of par at the option of the bondholders, in whole or in part, on August 31, 2010 and August 31, 2011, respectively.

I. Conversion:

(A) Bondholders have the right to request Gigastorage to convert their bonds into common shares from 30 days after the bonds issuance date to 10 days before the maturity date.

(B) Conversion price: The conversion price was NT\$8.20 per share at the issue date

(C) Conversion price adjustment: When Gigastorage's issued shares increase (include but not limited to capital rise by cash, stock dividends or employee bonuses disbursed in stocks), the conversion price will be adjusted, except for exercises of securities with conversion right or option to convert into common shares.

For issuance of new shares due to acquisition or repurchase of treasury stocks, conversion price will not be adjusted.

③ There was no exercise of right of conversion as of June 30, 2009.

④ In accordance with R.O.C. SFAS No. 36, the Company records related conversion right and obligation separately as equity and liabilities. Equity components of convertible bonds are recorded under equity; and liabilities components include embedded derivatives and non-derivative financial liabilities. The

embedded derivatives were measured at fair value which amounted to NT\$415 thousand as of June 30, 2009; the non-derivative financial liabilities - bonds payable was measured at cost net of amortization which amounted to NT\$89,497 thousand as of June 30, 2009.

- ⑤ The Company adopted R.O.C. SFAS No. 34 “Accounting for Financial Instruments” and No. 36 “Financial Instruments: Disclosure and Presentation” and recognized amortization expense for discounts on bonds payable of NT\$1,644 thousand and loss on valuation of financial liability of NT\$5,886 thousand under interest expenses and loss on valuation of financial liability, respectively, for the six-month period ended June 30, 2009.

(12) Other long-term payable

	As of June 30,		
	2008	2009	2009
	NT\$	NT\$	US\$
Other long-term payable	\$649,664	\$645,606	\$19,565
Less: Current portion	(118,961)	(225,927)	(6,847)
Total	<u>\$530,703</u>	<u>\$419,679</u>	<u>\$12,718</u>

The above other long-term payable are results of Gigastorage entering into a settlement with Koninklijke Philips Electronics, N. V. (Philips).

(13) Pension

Defined Benefit Plans

The pension fund in a fiduciary account in Bank of Taiwan amounted to NT\$21,817 thousand and NT\$22,812 thousand as of June 30, 2008 and 2009, respectively. The total pension expenses amounted to NT\$5,097 thousand and NT\$4,629 thousand (including pension contributions in accordance with Labor Pension Act in the amount of NT\$4,814 thousand and NT\$4,235 thousand) for the six-month periods ended June 30, 2008 and 2009, respectively.

(14) Common stock

Gigastorage had 500,000 thousand common shares authorized to be issued (including 20,000 thousand shares reserved for exercise of employee stock options), and 294,890 thousand shares were issued as of January 1, 2008, each at a par value of NT\$10.

On April 28, 2003, the board of directors of Gigastorage approved the issuance of stock options with 10,000 thousand units, with each unit entitling an optionee to subscribe to 1 share of Gigastorage’s common stock and optionees may exercise the options in accordance with certain schedules as prescribed by the plan starting from 2 years from the issuance date . The contractual life of the option is 6 years, and unused options are expired at the maturity date. The issuance was submitted to the Securities and Futures Bureau (SFB) for approval and

became effective since June 23, 2003, and 6,000 thousand and 4,000 thousand units were issued on July 8, 2003 and December 30, 2003, respectively. Please refer to Note 11(1) for information on employee stock options.

Among the employee stock options issued 570 thousand shares were exercised as of June 30, 2009 (additional paid in capital of NT\$3,477 thousand was recorded due to exercise of these options). The issuance process through the authority had been completed.

Gigastorage had 500,000 thousand common shares authorized to be issued (including 20,000 thousand shares reserved for exercise of employee stock options), and 294,890 thousand shares were issued as of June 30 2009, each at a par value of NT\$10.

In accordance with the resolution made during the stockholders' meeting on June 19, 2009, Gigastorage carried out a capital reduction of NT\$1,179,561 thousand, which represented 117,956 thousand shares or 40% of its outstanding shares, for the purpose of improving the financial structure. The effective date of capital reduction was July 23, 2009 and the transaction was submitted and approved by the competent authority.

(15) Capital reserve

	As of June 30,		
	2008	2009	2009
	NT\$	NT\$	US\$
Long-term equity investment	\$16,076	\$16,076	487
Equity components of convertible bonds	-	5,217	158
Total	\$16,076	\$21,293	\$645

According to the R.O.C. Company Act, capital reserve shall be exclusively used to cover accumulated deficits when the legal reserve is insufficient to cover the deficits, or used in distribution of stock dividends (additional paid-in capital and donated income only).

Gigastorage's stockholders resolved to offset accumulated deficits by using capital reserve of NT\$314,297 thousand on June 13, 2008.

(16) Legal reserve

According to the R.O.C. Company Act, 10% of Gigastorage's net income, after deducting previous years' losses, if any, is appropriated for legal reserve prior to any distribution to the extent that such reserve is equal to Gigastorage's paid-in capital. When the legal reserve is accumulated to 50% or more of its paid-in capital, the excess on 50% of paid-in capital may be distributed to Gigastorage's stockholders through an issuance of additional common shares.

(17) Special reserve

In accordance with the R.O.C. Securities and Futures Bureau (“SFB”) regulations, a special reserve must be provided for unrealized loss on available-for-sale financial assets, excess of additional pension liability over unrecognized prior service cost and cumulative translation adjustment and unrealized loss for cash flow hedge that are accounted for as deductions to stockholders’ equity. Once the aforementioned deductions to stockholders’ equity are reversed, the related reserve may be allocated to distributable earnings.

(18) Earnings distribution

Pursuant to the R.O.C. Company Act and Gigastorage’s Articles of Incorporation, current year’s earnings before tax, if any, shall be distributed in the following order:

- ① Pay all taxes;
- ② Make up prior years’ operation losses;
- ③ Set aside 10% of the remaining amount after deducting ① and ② as legal reserve;
- ④ Set aside special reserve in accordance with local regulation or reverse special reserve previously provided;
- ⑤ Stockholder’s dividend distribution is to be proposed by the board of directors and approved at the Gigastorage’s stockholders’ meeting;
- ⑥ After deduction of items①,②, ③ and ④ from current year’s earnings, the remaining is allocated as follows:  
no less than 2% may be allocated as directors’ and supervisors’ remuneration; no less than 5% as employees’ bonuses.

The policy of dividend distribution should consider factors such as the industry’s future outlook, long-term financial planning, sustainable management and development. Gigastorage determines the Company’s annual demand of funding through the future capital budget. Stockholders’ dividends may be distributed in the form of shares or cash, or a combination of both, and cash dividends to be distributed may not be higher than 50% of total dividends to be distributed.

The amended Gigastorage’s Articles of Incorporation was approved by stockholders during the stockholders’ meeting on June 19, 2009. Under Gigastorage’s Articles of Incorporation, current year’s earnings before tax, if any, shall be distributed in the following order:

- ① Pay all taxes;
- ② Make up prior years’ operation losses;
- ③ Set aside 10% of the remaining amount after deducting ① and ② as legal reserve;
- ④ Set aside special reserve in accordance with local regulation or reverse special reserve previously provided;
- ⑤ Stockholder’s dividend distribution is to be proposed by the board of directors and approved at the Gigastorage’s stockholders’ meeting. After deduction of items①,②, ③ and ④ from current year’s earnings, the remaining is allocated together with the prior years’ unappropriated earnings as follows:
  - A. no higher than 3% as directors’ and supervisors’ remuneration;
  - B. no less than 5% as employees’ bonuses. If employees’ bonuses will be settled through issuance of new shares of Gigastorage, employees of Gigastorage’s subsidiaries, meeting certain requirements

- determined by the board of directors, are also eligible for the employees' bonuses;
- C. the remaining as stockholders' dividends.

The policy of dividend distribution should consider factors such as the Company's operating development needs, capital planning, and satisfying stockholders' demands for cash. Stockholders' dividends may be distributed in the form of stocks or cash, or a combination of both, and cash dividends to be distributed may not be less than 10% of total dividends to be distributed. However Gigastorage may adjust distribution ratio taking into account current year's operations and funding conditions.

No distribution could be made in 2008 due to the fact that Gigastorage had accumulated deficits.

Information related to the distributions of employee's bonuses and remuneration for directors' and supervisors' service, recommended by the board of directors and then approved by the stockholders' annual meeting, is accessible on the Website of TWSE from the "Market Observation Post System."

(19) Earnings per share

Gigastorage's capital structure is a complex structure; and therefore both basic earnings per share and diluted earnings per share need to be calculated as follows:

(In shares)

Contents	For the six-month period ended June 30,	
	2008	2009
Shares outstanding at beginning	294,890,449	294,890,449
The effect of a capital reduction	(117,956,180)	(117,956,180)
Weighted average number of shares for basic earnings per share	176,934,269	176,934,269
Potential shares:		
The effect of dilutive convertible bonds (assuming fully converted)	-	11,829,268
Weighted average number of shares for diluted earning per share	176,934,269	188,763,537

Amount (Numerator) (In thousand of NTD)	Earnings per share (In NTD)	
	Before tax	After tax
	Shares (Denominator)	
	Before tax	After tax

For the six-month period ended June 30, 2008

Net loss attributable to parent company's stockholders:

Basic earnings per share

Net loss	<u>\$(45,320)</u>	<u>\$(45,320)</u>	<u>176,934,269</u>	<u>\$(0.26)</u>	<u>\$(0.26)</u>
Net income attributable to minority interests:					
Basic earnings per share					
Net loss	<u>\$(1)</u>	<u>\$(1)</u>	<u>176,934,269</u>	<u>\$-</u>	<u>\$-</u>

	Amount (Numerator)			Earnings per share	
	(In thousand of NTD)			(In NTD)	
	Shares				
	Before tax	After tax	(Denominator)	Before tax	After tax

For the six-month period ended June 30, 2009

Net income attributable to parent company's stockholders:

Basic earnings per share

Net income	\$86,521	\$65,581	176,934,269	<u>\$0.49</u>	<u>\$0.37</u>
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The effect of potential shares:

Convertible bonds	<u>(4,243)</u>	<u>(3,182)</u>	<u>11,829,268</u>		
Diluted earnings per share	<u>\$82,278</u>	<u>\$62,399</u>	<u>188,763,537</u>	<u>\$0.44</u>	<u>\$0.33</u>

Net income attributable to minority interests:

Basic earnings per share

Net income	\$655	\$655	176,934,269	<u>\$-</u>	<u>\$-</u>
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The effect of potential shares:

Convertible bonds	<u>-</u>	<u>-</u>	<u>11,829,268</u>		
Diluted earnings per share	<u>\$655</u>	<u>\$655</u>	<u>188,763,537</u>	<u>\$-</u>	<u>\$-</u>

(20) Income tax

- ① Gigastorage and its subsidiaries have filed their respective business income tax returns separately; they could not file tax returns on a consolidated basis. Income tax returns of Gigastorage and its subsidiary companies - Maxmax Group Corporation, Quo-Chao Investments Corporation and Giga Solar Materials Corporation for all fiscal years up to 2007 have already been assessed by the tax authority.
- ② Pursuant to the "Statute for Upgrading Industries", Gigastorage was entitled to an income tax exemption period for five consecutive years commencing from January 1, 2005.

- ③ Gigastorage and its domestic subsidiaries' available investment tax credits as of June 30, 2009 were as follows:

Year incurred	Item	Unused amount	Expiration year
		NT\$	
2005	Investment in equipment for automation of production	\$5,299	2009
	R&D expenditure	17,168	
2006	Investment in equipment for automation of production	2,657	2010
	R&D expenditure	9,925	
	Investment in newly emerging, important and strategic industries	2,118	
2007	Investment in equipment for automation of production	1,207	2011
	R&D expenditure	7,281	
	Investment in newly emerging, important and strategic industries	16,302	
2008	Investment in equipment for automation of production	967	2012
	R&D expenditure	16,423	
2009(Estimated)	R&D expenditure	1,849	2013
Total		<u>\$81,196</u>	

Unused tax credits available to reduce future taxable income have been included in deferred income tax assets.

- ④ As of June 30, 2009, Gigastorage and its domestic subsidiaries' unutilized tax credits arising from the accumulated losses were as follows:

Year incurred	Accumulated losses	Unutilized accumulated loss	Expiration year
	NT\$	NT\$	
2004	\$133,440	\$132,927	2014
2005	632,275	632,275	2015
2006	355,021	355,021	2016
2007	809,951	809,951	2017
2008	130,122	130,122	2018
2009 (Estimated)	41,683	41,683	2019
Total	<u>\$2,102,492</u>	<u>\$2,101,979</u>	

Tax effect of above unutilized accumulated losses has been included in deferred income tax assets.

⑤ Deferred tax liabilities and assets are as follows:

	As of June 30,		
	2008	2009	2009
	NT\$	NT\$	US\$
(A) Total deferred tax liabilities	\$133	\$516	\$16
(B) Total deferred tax assets	\$945,534	\$702,214	\$21,279
(C) Valuation allowance	\$735,106	\$517,557	\$15,683
(D) Temporary differences that generated deferred tax assets or liabilities:			

	As of June 30,					
	2008		2009		2009	
	Amount	Tax effect	Amount	Tax effect	Amount	Tax effect
	NT\$	NT\$	NT\$	NT\$	US\$	US\$
Unrealized bad debt expense	\$247,794	\$61,948	\$180,894	\$36,179	\$5,482	\$1,096
Unrealized inventory provision	\$43,085	\$10,771	\$27,916	\$5,583	\$846	\$169
Unrealized long-term investment loss	\$44,251	\$11,063	\$88,013	\$17,602	\$2,667	\$533
Unrealized foreign exchange gain	\$(260)	\$(65)	\$(2,578)	\$(516)	\$(78)	\$(16)
Unrealized foreign exchange loss	\$17,256	\$4,314	\$6,065	\$1,213	\$184	\$37
Unrealized loss on asset impairment	\$242	\$61	\$9,463	\$2,366	\$287	\$72
Unrealized sales discounts	\$603	\$151	\$100	\$20	\$3	\$1
Unrealized inter-company (loss) gain	\$(270)	\$(68)	\$1,231	\$246	\$37	\$7
Unpaid expenses	\$649,664	\$162,416	\$645,606	\$135,983	\$19,564	\$4,121
Others	\$7,982	\$1,996	\$7,147	\$1,430	\$217	\$43
Loss carry forwards	\$2,065,577	\$516,394	\$2,101,979	\$420,396	\$63,696	\$12,739
Investment tax credits		\$176,420		\$81,196		\$2,461

(E)

	As of June 30,		
	2008	2009	2009
	NT\$	NT\$	US\$
Deferred income tax assets - current	\$197,914	\$106,073	\$3,214
Valuation allowance - current	(130,477)	(51,925)	(1,573)
Deferred income tax assets - current, net	67,437	54,148	1,641
Deferred income tax liabilities - current	(133)	(516)	(16)
Net deferred income tax assets - current	\$67,304	\$53,632	\$1,625

(F)

	As of June 30,		
	2008	2009	2009
	NT\$	NT\$	US\$
Deferred income tax assets - non-current	\$747,620	\$596,141	\$18,065
Valuation allowance - non - current	(604,629)	(465,632)	(14,110)
Deferred income tax assets - non-current, net	142,991	130,509	3,955
Deferred income tax liabilities - non-current	-	-	-
Net deferred income tax assets - non-current	\$142,991	\$130,509	\$3,955

- ⑥ Reconciliation between the income tax expense and the income tax calculated on pre-tax financial income basis is as follows:

	For the six-month period ended June 30,		
	2008	2009	2009
	NT\$	NT\$	US\$
Tax on pre-tax income at statutory tax rate	\$(11,330)	\$41,260	\$1,250
10% income tax on undistributed earnings	-	10	-
Permanent difference	3,679	(20,297)	(615)
Change in valuation allowance	33,245	(132,346)	(4,010)
Investment tax credits	(3,878)	(14,132)	(428)
Change in deferred tax assets and liabilities resulting from the change of statutory tax rate	-	138,486	4,197
Prior year income tax adjustment	(21,945)	7,959	241
Others	229	-	-
Income tax (benefit) expense	\$-	\$20,940	\$635

- ⑦ Information related to Gigastorage's Imputation Credit Account:

	As of June 30,		
	2008	2009	2009
	NT\$	NT\$	US\$
Imputation credit account (ICA)	\$1,990	\$1,990	\$60

	For the year ended December 31,	
	2008 (Actual)	2009 Expected
Creditable ratio	-	-

⑧ Information related to undistributed retained earnings:

	As of June 30,		
	2008	2009	
	NT\$	NT\$	US\$
After 1998	\$(1,071,250)	\$(1,117,142)	\$(33,853)

(21) Net operating revenue

	For the six-month period ended June 30,		
	2008	2009	2009
	NT\$	NT\$	US\$
Optical products	\$746,540	\$515,837	\$15,632
Conductive pastes for solar cells	57,629	240,217	7,279
Other	150,625	195,965	5,938
Net Operating Revenue	\$954,794	\$952,019	\$28,849

(22) Personnel, depreciation and amortization expenses

	For the six-month period ended June 30,					
	2008			2009		
	Operating cost	Operating expenses	Total	Operating cost	Operating expenses	Total
NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	
Personnel expenses:						
Salaries	\$79,678	\$35,539	\$115,217	\$67,057	\$56,086	\$123,143
	€	€	€	€	€	€
	€	€	€	€	€	€
	€	€	€	€	€	€
	€	€	€	€	€	€
	€	€	€	€	€	€
	€	€	€	€	€	€

Insurance	5,299	2,697	7,996	5,685	1,670	7,355
	(	2	9	(	2	
	2	9	9	2	9	
	(	9	(	(	9	
Pension	3,141	1,956	5,097	3,054	1,575	4,629
	2	1	(	2	1	
	2	4	9	2	4	
	2	1	2	2	1	
Others	4,233	1,557	5,790	2,131	1,161	3,292
	1	2	2	1	2	
	(	2	9	(	2	
	1	2	(	1	2	
Depreciation (Note1)	136,933	12,915	149,848	138,586	12,851	151,437
	2	2	4	2	2	
		(	9		(	
	8			8		
	2	9	8	2	9	
	1	2	4	1	2	
		2	8		2	
Amortization (Note 2)	19,095	3,548	22,643	17,141	2,100	19,241
		9	2		9	
	1			1		
	(	(	(	(	(	
	(	9	4	(	9	
		2	2		2	

Note 1: The depreciation expenses listed above did not include depreciation of idle assets, which were recorded as non-operating expenses - other losses in the amount of NT\$1,357 thousand for the six-month period ended June 30, 2008.

Note 2: The amortization expenses listed above did not include amortization of deferred bond issuance cost and long-term loans securitization expenses, which was recorded as non-operating expenses - other losses in the amount of NT\$1,025 thousand for the six-month period ended June 30, 2008.

(23) Impairment loss

On October 1, 2004, the Company adopted the R.O.C. SFAS No.35, "Accounting for Assets impairment". As of June 30, 2008 and 2009, the accumulated impairment losses are as follows:

	As of June 30,		
	2008	2009	2009
	NT\$	NT\$	US\$
Land	\$18,019	\$18,019	\$546
Machinery and equipment	12,764	12,764	387
Other equipment	4,640	4,640	141
Deferred assets	1,314	1,314	40
Spare parts (recorded under prepayments and other current assets)	520	520	15
Goodwill	1,030	1,030	31
Total	\$38,287	\$38,287	\$1,160

5. RELATED PARTY TRANSACTIONS

Name and relationship:

Name of related party	Relationship with the Company
Ritek Corporation	Gigastorage's director and the major stockholder
Prorit Corporation	Related party in substance
U-TECH Media Corporation	Gigastorage's chairman is U-TECH Media's chairman
Chi-Jen Chen	Gigastorage's director and general manager Maxmax's director
Chi-Ming Chen	The immediate or second degree families of Chi-Jen Chen
Su-Hwei Chen	The immediate or second degree families of Chi-Jen Chen
Hung Mai Corporation	Maxmax's chairman is Hung Mai's chairman

Significant transactions with related parties:

① Purchases

Name of Related party	For the six-month period ended June 30,		
	2008	2009	2009
	NT\$	NT\$	US\$
Ritek Corporation	\$60,202	\$56,923	\$1,725
Hung Mai Corporation	57	58	2
Prorit Corporation	61	-	-
Total	\$60,320	\$56,981	\$1,727

The prices for the above purchases from related parties were based on negotiation. The margins therefore were not fixed.

② Operating revenues

Name of Related party	For the six-month period ended June 30,		
	2008	2009	2009
Ritek Corporation	\$61	\$-	\$-

The prices for the above operating revenues from related parties were based on negotiation. The margins therefore were not fixed.

- ③ The office rental of the subsidiary - Maxmax Group Corporation paid to Mr. Chi-Jen Chen were NT\$90 thousand annually for the six-month periods ended June 30, 2008 and 2009.

Receivable and payables resulting from the above transactions as follows:

① Accounts receivable - related parties

Name of Related party	As of June 30,		
	2008	2009	2009
	NT\$	NT\$	US\$
Ritek Corporation	\$64	\$-	\$-

② Other receivable –related parties – non-current, net

Name of Related party	As of June 30,		
	2008	2009	2009
	NT\$	NT\$	US\$
Hung Mai Corporation	\$2,600	\$2,479	\$75
Less: Allowance for doubtful accounts	(2,600)	(2,479)	(75)
Net	\$-	\$-	\$-

Credit terms with Ritek Corporation are month end 90 days that are similar to those with other domestic customers.

③ Accounts payable - related parties

Name of Related party	Payment terms	As of June 30,		
		2008	2009	2009
		NT\$	NT\$	US\$
Ritek Corporation	Month end 30-120 days	\$11,005	\$8,661	\$262
Chi-Jen Chen	Monthly paid	-	165	5
Prorit Corporation	Month end 45-120 days	61	-	-

Total	\$11,066	\$8,826	\$267
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Payment terms to related parties were similar to those to third-party vendors.

④ Other payable –related parties – non-current

Name of Related party	As of June 30,		
	2008	2009	2009
Hung Mai Corporation	\$-	\$33	\$1

Financing provided to the Company is as follows:

Long-term payable – related parties

Name of related party	Highest running balance during the period	Balance at the end of the period	Range of interest rates	Interest expenses
<u>For the six-month period ended June 30, 2008</u>				
Chi-Jen Chen	\$20,000	\$20,000	3%	\$27
Chi-Ming Chen	14,000	14,000	3%	82
Su-Hwei Chen	10,000	10,000	3%	38
Total		\$44,000		\$147

For the six-month period ended June 30, 2009

None

**6. ASSETS PLEDGED OR MORTGAGED**

As of June 30, 2008 and 2009, the following assets were mortgaged to several banks, customs and government agencies as collaterals for bank loans, credit facilities and other purposes:

Accounts	Purpose	Party to which asset(s) was pledged	As of June 30,		
			2008	2009	2009
			NT\$	NT\$	US\$
Land	collateral for bank loans	Mega International Commercial Bank, Land Bank, Chang Hwa Bank, China Development Industrial Bank and Export-Import Bank of R.O.C.	\$204,904	\$205,384	\$6,224
Buildings	collateral for bank loans	Mega International Commercial Bank, Land Bank, Chang Hwa Bank, China Development Industrial Bank and Export-Import Bank of R.O.C.	421,135	413,230	12,522

			As of June 30,		
Accounts	Purpose	Party to which asset(s) was pledged	2008	2009	2009
			NT\$	NT\$	US\$
Machinery and research equipment	collateral for bank loans	Mega International Commercial Bank, Land Bank, Ta Chong Bank, Bank of Pan Hsin, Chin Fon Bank, HSBC and Export-Import Bank of R.O.C., Sinopac Leasing Corp.	504,700	775,240	23,492
Furniture and fixtures	collateral for bank loans	Land Bank	-	290	9
Miscellaneous equipment	collateral for bank loans	Land Bank and Mega International Commercial Bank	497	411	12
Financial assets carried at cost - non-current	(Note)	(Note)	2,044	-	-
Pledged time deposits - current	collateral for subsidies applied, letters of credit and power	Land Bank, Taiwan Cooperative Bank, e-Life Mall Corp., and Ayudhya	14,254	20,659	626
Pledged time deposits - non-current	Customs duty guarantee	Land Bank and the Customs	6,000	6,000	182
Total			\$1,153,534	\$1,421,214	\$43,067

Note: Please refer to Note 4(6) to consolidated financial statements.

## **7. COMMITMENTS AND CONTINGENCIES**

As of June 30, 2009, the following commitments and contingencies were not reflected in the Company's consolidated financial statements:

- ① Unused letters of credit of the Company were approximately NT\$69,668 thousand as of June 30, 2009.
- ② Gigastorage entered into the following patent contracts:

Counterparty	Related product	Year the contract was entered into	Valid period	Payment method of royalties
Sony	Optical disks	June, 2009	5 years	Amount calculated based on the quantity of sales and paid quarterly.
Industrial Technology Research Institute.	Ultra hard coated router and drill	November, 2005	20 years	Amount calculated based on the quantity of sales and paid annually.

## **8. SIGNIFICANT DISASTER LOSS**

NONE.

## **9. SIGNIFICANT SUBSEQUENT EVENTS**

NONE.

## 10. FINANCIAL INSTRUMENTS

### ① Fair value of financial instruments

	As of June 30, 2008			
	Book value		Fair value	
	NT\$		NT\$	
<u>Non-derivative</u>				
<u>Financial assets</u>				
Cash and cash equivalents	\$122,439		\$122,439	
Notes and accounts receivable, net (including related parties)	426,811		426,811	
Other receivables (including related parties)	10,577		10,577	
Available-for-sale financial assets - non-current	4,470		4,470	
Financial assets carried at cost - non-current	351,519		-	
Refundable deposits	232		232	
Restricted banking accounts	20,254		20,254	
<u>Financial liabilities</u>				
Short-term loans	220,930		220,930	
Notes and accounts payables (including related parties)	154,226		154,226	
Accrued expenses	94,219		94,219	
Other payable (including related parties)	-		-	
Payable on equipment	5,103		5,103	
Long-term loans (including current portion)	532,481		532,481	
Other long-term payable (including current portion)	649,664		649,664	
Long-term payable - related parties	44,000		44,000	
Deposits-in	324		324	
<u>Derivative</u>				
<u>Financial liabilities</u>				
Interest rate swaps	164		164	
As of June 30, 2009				
Book value		Fair value		
NT\$	US\$	NT\$	US\$	
<u>Non-derivative</u>				

Financial assets:

Cash and cash equivalents	\$252,646	\$7,656	\$252,646	\$7,656
Notes and accounts receivables, net (including related parties)	504,038	15,274	504,038	15,274
Other receivable (including related parties)	12,730	386	12,730	386
Available-for-sale financial assets - non-current	4,049	123	4,049	123
Financial assets carried at cost - non-current	307,690	9,324	-	-
Refundable deposits	401	12	401	12
Restricted banking accounts	26,659	808	-	-

Financial liabilities:

Short-term loans	277,042	8,395	277,042	8,395
Notes and accounts payables (including related parties)	139,467	4,226	139,467	4,226
Accrued expenses	73,068	2,214	73,068	2,214
Other payable (including related parties)	33	1	33	1
Payable on equipment	6,544	198	6,544	198
Bonds payable	89,497	2,712	90,889	2,754
Long-term loans (including current portion)	336,263	10,190	336,263	10,190
Other long-term payable (including current portion)	645,606	19,565	645,606	19,565
Deposit-in	720	22	720	22

Derivative

Financial liabilities:

Call or put options embedded in bonds payable	415	12	415	12
-----------------------------------------------	-----	----	-----	----

- A. The methods and assumptions used by the Company to determine the above fair value of financial instruments are as follows:
- The book value of short-term financial instruments, such as cash and cash equivalents, notes and accounts receivables (including related parties), other receivables (including related parties), short-term loans, notes and accounts payables (including related parties), other payable (including related parties), accrued expenses and payable on equipment, approximate their fair value because of short maturity of these instruments.
  - The fair values of refundable deposits, restricted banking account, and deposits-in are based on their book values because the estimated future cash receipts or payments are similar to the book value.
  - The fair values of non-derivative financial assets at fair value through profit or loss and available-for-sale financial assets are based on their quoted market price.
  - The fair values of financial assets measured at cost and prepayment for long-term investments are unable to be estimated since there is no active market in trading those unlisted investments.

- e. The fair values of bonds payable and embedded call or put options are determined by using a valuation technique.
- f. The fair value of long-term loans bearing floating interest rates approximates their book value, as the floating interest rates should be similar to the market rates..
- g. The fair value of other long-term payable is determined using discounted cash flow analysis.

B. The fair value of financial assets and liabilities held by the Company based on quoted price from active market and on valuation techniques is shown as follows:

	As of June 30, 2008	
	On quoted price	On valuation technique
	NT\$	NT\$
<u>Non-derivative</u>		
<u>Financial assets</u>		
Cash and cash equivalents	\$122,439	\$-
Notes and accounts receivable, net (including related parties)	-	426,811
Other receivables (including related parties)	-	10,577
Available-for-sale financial assets - non-current	4,470	-
Refundable deposits	-	232
Restricted banking accounts	20,254	-
<u>Financial liabilities</u>		
Short-term loans	-	220,930
Notes and accounts payables (including related parties)	-	154,226
Accrued expenses	-	94,219
Other payable (including related parties)	-	-
Payable on equipment	-	5,103
Long-term loans (including current portion)	-	532,481
Other long-term payable (including current portion)	-	649,664
Long-term payable - related parties	-	44,000
Deposits-in	-	324
<u>Derivative</u>		
<u>Financial liabilities</u>		
Interest rate swaps	-	164
	As of June 30, 2009	
	On quoted price	On valuation technique

	NT\$	US\$	NT\$	US\$
<u>Non-derivative</u>				
<u>Financial assets:</u>				
Cash and cash equivalents	\$252,646	\$7,656	\$-	\$-
Notes and accounts receivables, net (including related parties)	-	-	504,038	15,274
Other receivable (including related parties)	-	-	12,730	386
Available-for-sale financial assets - non-current	4,049	123	-	-
Refundable deposits	-	-	401	12
Restricted banking accounts	26,659	808	-	-
<u>Financial liabilities:</u>				
Short-term loans	-	-	277,042	8,395
Notes and accounts payables (including related parties)	-	-	139,467	4,226
Accrued expenses	-	-	73,068	2,214
Other payable (including related parties)	-	-	33	1
Payable on equipment	-	-	6,544	198
Bonds payable	-	-	90,889	2,754
Long-term loans (including current portion)	-	-	336,263	10,190
Other long-term payable (including current portion)	-	-	645,606	19,565
Deposit-in	-	-	720	22
<u>Derivative</u>				
<u>Financial liabilities:</u>				
Call or put options embedded in bonds payable	-	-	415	12

C. For the six-month periods ended June 30, 2008 and 2009, the total changes in fair value estimated by using valuation techniques and recognized in the consolidated statements of operations were a gain of NT\$126 thousand and of NT\$5,886 thousand, respectively.

② As of June 30, 2008 and 2009, financial assets with fixed interest rates and fair value exposed to interest rate risk were NT\$0 thousand and NT\$0 thousand while financial liabilities with fixed interest rates and fair value exposed to interest rate risk were NT\$840,587 thousand and NT\$751,603 thousand, respectively. Financial assets with floating interest rates and exposed to cash flow risk were NT\$46,254 thousand and NT\$36,219 thousand, respectively, while financial liabilities with floating interest rates and exposed to cash flow risk were NT\$606,488 thousand and NT\$596,805 thousand, respectively.

③ For the six-month periods ended June 30, 2008 and 2009, total interest revenue and total interest expense for financial assets or liabilities that are not at fair value through profit or loss were as follows:

Item	For the six-month period ended June 30,		
	2008	2009	2009
	NT\$	NT\$	US\$
Interest revenue	\$4,695	\$351	\$11

Interest expense	39,830	26,872	815
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- ④ The Company's unrealized gains in stockholders' equity for the changes in fair value of available-for-sale financial assets, which were transferred from equity and recognized in profit or loss, were NT\$4,113 thousand and NT\$0 thousand, for the six-month periods ended June 30, 2008 and 2009, respectively. For the six-month periods ended June 30, 2008 and 2009, the Company recognized impairment loss on financial assets in the amount of NT\$0 thousand and NT\$0 thousand, respectively. The unrealized loss recognized in stockholders' equity for the changes in fair value of financial instruments was as follows:

	<u>From Gigastorage</u>	<u>From Subsidiaries</u>	<u>Total</u>
	NT\$	NT\$	NT\$
<u>For the six-month period ended June 30, 2008</u>			
Addition	\$4,788	\$-	\$4,788
Reduction	-	(3,868)	(3,868)
Net	<u>\$4,788</u>	<u>\$(3,868)</u>	<u>\$920</u>
	<u>From Gigastorage</u>	<u>From Subsidiaries</u>	<u>Total</u>
	NT\$	NT\$	NT\$
<u>For the six-month period ended June 30, 2009</u>			
Addition	\$-	\$1,574	\$1,574
Reduction	(61)	-	(61)
Net	<u>\$(61)</u>	<u>\$1,574</u>	<u>\$1,513</u>

⑤ Information of financial risks

The Company held certain non-derivative financial instruments, including cash and cash equivalents, financial assets at fair value through profit or loss, short-term loans, long-term loans and bonds payable. The Company held the financial instruments to meet operating cash needs, and held other financial instruments such as notes and accounts receivables, notes and accounts payables, available-for-sale financial assets, and financial assets carried at cost.

The Company entered into forward contracts and interest rate swaps and options with financial institutions. The purpose of entering into forward contracts and interest rate swaps is to hedge exchange rate fluctuation risk resulting from assets denominated in foreign currency and interest rate fluctuation risk resulting from loans. However, the derivatives do not meet the hedge accounting criteria, and therefore they are not accounted for using hedge accounting.

Major risks of financial instruments were summarized as follows:

A. Market value risk

- a. The fair value of the listed companies' stock held by the Company will fluctuate under the influence of related market factors.

b. The Company is exposed to currency risk for the purchases or sales activities which are not denominated in functional currency. Market value risk for forward contracts is insignificant due to the fact that the purpose of the contracts is hedging. The Company will recognize the total change in the fair value of derivative financial instrument in the consolidated statements of operations, if the derivatives do not meet the criteria for hedging accounting .

c. The Company therefore held certain interest rate swaps to hedge interest rate fluctuation risks resulted from the underlying loans. The Company will recognize the total change in fair value of derivative financial instrument in the consolidated statement of income or loss, if the derivatives do not meet the criteria for hedging accounting. Market value risk is insignificant due to stability in interest rates.

**B. Credit risk**

a. The Company only trades with established and creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis.

b. With respect to credit risk arising from the other financial assets comprised of cash and cash equivalents, and certain derivative instruments, the Company's exposure to credit risk arising from the default of counter-parties is limited to the carrying amount of these instruments.

c. Because the Company trades only with established third parties, it will not request for collateral to be provided by third parties.

**C. Liquidity risk**

a. The Company has sufficient operating capital to meet cash needs upon settlement of derivatives . Therefore, the liquid risk is low.

b. Except for financial assets carried at cost that may have significant liquidity risks resulted from lack of an active market, the equity securities held by the Company are traded in active markets and can be sold promptly at the prices close to its fair values.

**D. Cash flow risk due to fluctuations in interest rate**

The Company's main financial instruments exposed to cash flow risk are the investment in time deposits and long-term loans with floating interest rate. However there is no significant impact due to the short maturity of those time deposits. The cash flow risk due to fluctuations in interest rate from time deposits is minimal. Cash outflows for interest payment would be increased by NT\$6,138 thousand and NT\$3,991 thousand if market interest rate increased by 1% with bank loan bearing floating interest rate for the six-month periods ended June 30, 2008 and 2009, respectively

⑥ Refer to consolidated financial statement note 4(11) ④ and ⑤ for embedded derivative instrument in convertible bonds.

**11. OTHERS**

(1) Employee stock options

① Detailed information relevant to the employee stock options as of June 30, 2009 was disclosed as follows:

Grant Date	Options granted (Units)	Options outstanding (Units)	Shares Exercisable (Shares)
Jul. 8, 2003	6,000,000	4,081,000	4,081,000
Dec. 30, 2003	4,000,000	3,481,000	3,481,000

The exercise prices shall be adjusted when Gigastorage's common shares change in accordance with the terms of employee stock options plan.

② A summary of units and weighted average price, and related information for the six-month periods ended June 30, 2008 and 2009 was as follows:

	2008		2009		
	Option (in unit)	Weighted- average exercise price per shares (in NT dollar)	Option (in unit)	Weighted- average exercise price per shares (in NT dollar)	Weighted- average exercise price per shares (in US dollar)
Outstanding					
At beginning of period	9,106,000	\$16.10	8,569,000	\$16.10	\$0.49
Granted	-	-	-	-	-
Exercised	-	-	-	-	-
Expired	-	16.10	1,007,000	16.10	0.49
At end of period	<u>9,106,000</u>	16.10	<u>7,562,000</u>	16.10	0.49
Exercisable					
At end of period	<u>9,106,000</u>	16.10	<u>7,562,000</u>	16.10	0.49

③ Information with respect to the outstanding options as of June 30, 2009 was as follows:

Authorized grant date	Exercise price (in NT dollar)	Option (in unit)	Outstanding		Exercisable	
			contractual life (in year)	Weighted- average exercise price (in NT dollar)	Option (in unit)	Weighted- average exercise price (in NT dollar)
92.06.23	<u>\$16.10</u>	7,562,000	0.50	<u>\$16.10</u>	7,562,000	<u>\$16.10</u>

(2) Certain comparative amounts have been reclassified to conform to the current year's presentation.

(3) Inter-company relationships and significant inter-company transactions are as follows:

For the six-month period ended June 30, 2008

No. (Note 1)	Company Name	Counter Party	Relationship with the Company (Note 2)	Transaction			
				Account	Amount (in thousands)	Terms	Percentage of consolidated operating revenue or total assets (Note 3)
0	Gigastorage Corporation	Maxmax Group Corporation	1	Operating revenue	\$10,968	On negotiation	1.15%
				Accounts receivable	8,049	Month end 180 days	0.225%
				Limit of Endorsement/Guarantee	20,000	-	-
	GLOBAL ACETECH CO., LTD.		1	Operating revenue	117,666	On negotiation	12.32%
				Purchase	52,470	On negotiation	5.50%
				Accounts receivable	127,111	Month end 90 days	3.52%
				Other receivable	3,775	Month end 90 days	0.10%
				Accounts payable	9,939	Month end 120 days	0.28%
				Limit of Endorsement/Guarantee	THB45,000	-	-
				Giga Solar Materials Corporation	1	Accounts receivable	87
			Other receivable	567	Month end 90 days	0.02%	
NEW ELITE INVESTMENTS LIMITED		1	Limit of Endorsement/Guarantee	USD2,000	-	-	
1	NEW ELITE INVESTMENTS LIMITED	GLOBAL ACETECH CO., LTD.	3	Other receivable	41,293	(Note 4)	1.14%

For the six-month period ended June 30, 2009

No. (Note 1)	Company Name	Counter Party	Relationship with the Company (Note 2)	Transaction			
				Account	Amount (in thousand)	Terms	Percentage of consolidated operating revenue or total assets (Note 3)
0	Gigastorage Corporation	Maxmax Group Corporation	1	Operating revenue	\$16,258	On negotiation	1.71%
				Purchase	6,554	On negotiation	0.69%
				Accounts receivable	10,450	Month end 180 days	0.30%
				Accounts payable	417	Month end 120 days	0.01%
				Limit of Endorsement/Guarantee	20,000	-	-
		GLOBAL ACETECH CO., LTD.	1	Operating revenue	58,044	On negotiation	6.10%
				Purchase	27,622	On negotiation	2.90%
				Accounts receivable	57,161	Month end 90 days	1.61%
				Other receivable	93,334	Month end 90 days	2.64%
				Limit of Endorsement/Guarantee	THB45,000	-	-
0	Gigastorage Corporation	Giga Solar Materials Corporation	1	Operating revenue	39,239	On negotiation	4.12%
				Purchase	541	On negotiation	0.06%
				Rent revenues	1,315	On negotiation	0.14%
				Other receivable	452	Month end 90 days	0.01%
				Other payable	2,141	Month end 120 days	0.06%
				Limit of Endorsement/Guarantee	70,000	-	-

(Continued)

No. (Note 1)	Company Name	Counter Party	Relationship with the Company (Note 2)	Transaction			
				Account	Amount (in thousand)	Terms	Percentage of consolidated operating revenue or total assets (Note 3)
0	Gigastorage Corporation	NEW ELITE INVESTMENTS LIMITED	1	Commission	444	On negotiation	0.05%
				Limit of Endorsement/Guarantee	USD2,000	-	-
1	GLOBAL ACETECH CO., LTD.	Maxmax Group Corporation	3	Operating revenue	14,928	On negotiation	1.57%
				Accounts receivable	6,953	Month end 120 days	0.20%
2	NEW ELITE INVESTMENTS LIMITED	GLOBAL ACETECH CO., LTD.	3	Other receivable	12,948	(Note 4)	0.37%

Note 1: Gigastorage and subsidiaries are coded as follows:

1. Gigastorage is coded "0".
2. The subsidiaries are coded consecutively beginning from "1" in the order presented in the table above.

Note 2: Transactions are categorized as follows:

1. The holding company to subsidiary.
2. Subsidiary to holding company.
3. Subsidiary to subsidiary.

Note 3: The percentage with respect to the consolidated assets/liabilities for transactions of balance sheet items is based on each item's balance at period-end. For profit or loss items, cumulative balance is used as basis.

Note 4: NEW ELITE INVESTMENTS LIMITED's other receivables to GLOBAL ACETECH CO., LTD. were financing provided to affiliations for short term operating needs. The interest rates were 6.743% and 6.450% for the six-month periods ended 2008 and 2009, respectively.

## 12. ADDITIONAL DISCLOSURES

### (1) Significant transaction information

① Financing provided to others for the six-month period ended June 30, 2009: None.

② Endorsement/Guarantee provided to others for the six-month period ended June 30, 2009: None.

③ Securities held as of June 30, 2009:

Holding company	Type of securities	Name of securities	Relationship	Financial Statement Account	Shares	Book value (NT\$)	Percentage of ownership	Market value/ Net assets value (NT\$)	Remark
Gigastorage	stock	AvanSense Technology Inc.	-	Long-term investments accounted for under the equity method	1,300,000	\$-	43.33%	\$-	-
		Taimide Technology Inc.	-	Financial assets carried at cost – non-current	11,190,683	123,441	12.38%	8.57	-
		New Land Packing Corporation	-	Financial assets carried at cost - non-current	1,773,860	55,910	14.82%	14.35	-
		Infomax Optical Technology Corporation	-	Financial assets carried at cost - non-current	520,518	7,287	1.27%	8.00	-
		Prorit Corporation	Related party	Financial assets carried at cost - non-current	3,942,205	37,307	1.26%	7.43	-
		Prosperity Venture Capital Corporation	-	Financial assets carried at cost - non-current	405,000	3,645	1.10%	9.86	-
		Makin Technology Corporation	-	Financial assets carried at cost - non-current	780,000	2,745	16.37%	3.52	-
		International Branding Marketing Inc.	-	Available-for-sale financial assets, non-current	130,664	450	0.38%	3.44	-
Quo-Chao Investments Corporation	stock	Lead Data Inc.	-	Available-for-sale financial assets - non-current	1,049,400	3,599	0.24%	3.43	-
		Taimide Technology Inc.	-	Financial assets carried at cost - non-current	4,134,954	39,906	4.57%	8.57	-

- ④ Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT\$100 million or 20 percent of the capital stock for the six-month period ended June 30, 2009: None.
- ⑤ Acquisition of individual real estate with amount exceeding the lower of NT\$100 million or 20 percent of the capital stock for the six-month period ended June 30, 2009: None.
- ⑥ Disposal of individual real estate with amount exceeding the lower of NT\$100 million or 20 percent of the capital stock for the six-month period ended June 30, 2009: None.
- ⑦ Related party transactions for purchases and sales amounts exceeding the lower of NT\$100 million or 20 percent of capital stock for the six-month period ended June 30, 2009: None.
- ⑧ Receivables from related parties with amounts exceeding the lower of NT\$100 million or 20 percent of capital stock as of June 30, 2009: None.
- ⑨ The derivatives transaction for the six-month period ended June 30, 2009: refer to financial statement Note 4(2) and 10

(2) Related information of investees

The Company has the significant influence or substantial control to the following investees:

Investor Company	Name of the investee	Address	Main Business and product	Original investment amount (NT\$)		June 30, 2009			Net income (loss) of the investee (NT\$)	Investment income (loss) recognized (NT\$)
				June 30, 2009	January 1, 2009	Units shares	Percent	Book value (NT\$)		
Gigastorage	AvanSense Technology Inc.	HsinChu Country	Operating and selling of medical equipment	\$13,000	\$13,000	1,300,000	43.33%	\$-	\$-	\$-

(3) Investment in Mainland China

① Status of the investment:

Investee Company	Main business product	Total Amount of Paid-in Capital (in USD)	Method of investment	Accumulated Outflow of Investment from Taiwan as of January 1, 2009 (in USD)	Investment Flows		Accumulated Outflow of Investment from Taiwan as of June 30, 2009 (in USD)	Percentage of Ownership	Investment income (loss) recognized (in USD)	Carrying Value as of June 30, 2009 (in USD) (Note 4)	Accumulated Inward Remittance of Earnings as of June 30, 2009 (in USD)
					Outflow (in USD)	Inflow (in USD)					
Shenzhen Gigastorage Co., Ltd.	Note 2	\$170,000	Through the investing company in third country (Note 3)	\$170,000	\$-	\$-	\$170,000	100%	\$(2,614)	\$1,984	\$-

Accumulated Investment in Mainland China as of June 30, 2008 (in USD)	Investment Amounts Authorized by Investment Commission, MOEA (in USD)	Upper Limit on Investment (in NT\$)
\$170,000	\$200,000	\$1,114,603 (Note 1)

Note 1: Proceed in according to Directions Governing the Review and Supervision of Investment in Mainland China issued by Investment Commission, MOEA.

Note 2: Major business are other professional design service (association, packing design), management and consulting (management and consulting for manufacturing and sales)

Note 3: Due to the fact that the size of the company is too small, carrying value is calculated based on the un-audited financial statements for the same period using the equity method.

② The significant transactions with investees in Mainland China:

A. Purchase amount and percentage related to year end accrued expense amount and percentage for the six-month period ended June 30, 2009: None.

B. Sales amount and percentage related to year end account receivable amount and percentage for the six-month period ended June 30, 2009: None.

C. Acquisition and disposal of assets and related income (loss) for the six-month period ended June 30, 2009: None.

D. Endorsement/Guarantee provided to others as of June 30, 2009: None.

E. Financing provided to others for the six-month period ended June 30, 2009: None.

F. The transactions might have significant effect on current income or financial condition for the six-month period ended June 30, 2009: None.