Alchip Technologies, Limited and Subsidiaries

Consolidated Financial Statements for the Years Ended December 31, 2011 and 2010 and Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Alchip Technologies, Limited

We have audited the accompanying consolidated balance sheets of Alchip Technologies, Limited (the "Corporation") and subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the Rules Governing the Audit of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Those rules and standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Alchip Technologies, Limited and subsidiaries as of December 31, 2011 and 2010, and the results of their operations and their cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

Deloitte & Touche

February 24, 2012

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

The accompanying consolidated financial statements are intended only to present the consolidated financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such consolidated financial statements are those generally accepted and applied in the Republic of China.

For the convenience of readers, the auditors' report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language auditors' report and consolidated financial statements shall prevail.

ALCHIP TECHNOLOGIES, LIMITED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2011 AND 2010
(In Thousands of U.S. Dollars or New Taiwan Dollars, Except Par Value)

	2011				2010			
ASSETS	**US$**	**%**	**NT$**	**%**	**US$**	**%**	**NT$**	**%**
CURRENT ASSETS								
Cash (Note 4)	$ 18,273	29	$ 553,211	29	$ 19,896	32	$ 579,581	32
Accounts receivable, net (Notes 2, 3, 5 and 8)	13,357	21	404,389	21	9,080	15	264,505	15
Inventories, net (Notes 2 and 6)	5,868	9	177,633	9	7,667	12	223,337	12
Other receivables (Notes 2 and 8)	4,086	7	123,705	7	6,037	10	175,853	10
Prepaid expenses	2,216	4	67,086	4	2,082	3	60,657	3
Deferred income tax assets - current (Notes 2 and 12)	642	1	19,436	1	899	1	26,182	1
Other current assets (Note 17)	2,326	4	70,426	4	1,141	2	33,230	2
Total current assets	46,768	75	1,415,886	75	46,802	75	1,363,345	75
PROPERTIES AND EQUIPMENT (Notes 2, 7 and 16)								
Cost								
Machinery equipment	25,757	41	779,773	41	21,903	35	638,039	35
Computer equipment	2,135	4	64,637	4	2,192	4	63,848	4
Office equipment	173	-	5,242	-	264	1	7,675	1
Leasehold improvements	348	1	10,533	1	241	-	7,007	-
Transportation equipment	146	-	4,414	-	139	-	4,061	-
Total cost	28,559	46	864,599	46	24,739	40	720,630	40
Less: Accumulated depreciation	(15,612)	(25)	(472,643)	(25)	(13,397)	(22)	(390,250)	(22)
Less: Accumulated impairment	(794)	(2)	(24,038)	(2)	-	-	-	-
Net properties and equipment	12,153	19	367,918	19	11,342	18	330,380	18
INTANGIBLE ASSETS (Notes 2 and 9)	2,273	4	68,820	4	2,991	5	87,122	5
OTHER ASSETS								
Refundable deposits	299	-	9,065	-	288	-	8,395	-
Deferred charges	11	-	325	-	6	-	178	-
Deferred income tax assets - noncurrent (Notes 2 and 12)	934	2	28,277	2	1,075	2	31,317	2
Total other assets	1,244	2	37,667	2	1,369	2	39,890	2
TOTAL	$ 62,438	100	$ 1,890,291	100	$ 62,504	100	$ 1,820,737	100

	2011				2010			
LIABILITIES AND STOCKHOLDERS' EQUITY	**US$**	**%**	**NT$**	**%**	**US$**	**%**	**NT$**	**%**
CURRENT LIABILITIES								
Accounts payable	$ 6,864	11	$ 207,819	11	$ 7,040	11	$ 205,078	11
Income tax payable (Notes 2 and 12)	293	1	8,870	1	1,190	2	34,661	2
Accrued expenses (Note 10)	3,633	6	109,977	6	2,505	4	72,976	4
Received in advance	78	-	2,348	-	50	-	1,471	-
Other current liabilities (Notes 2 and 16)	126	-	3,826	-	516	1	15,017	1
Total current liabilities	10,994	18	332,840	18	11,301	18	329,203	18
OTHER LIABILITIES								
Deferred income (Notes 2 and 16)	-	-	-	-	37	-	1,086	-
Other liabilities	58	-	1,750	-	55	-	1,605	-
Total other liabilities	58	-	1,750	-	92	-	2,691	-
Total liabilities	11,052	18	334,590	18	11,393	18	331,894	18
STOCKHOLDERS' EQUITY (Notes 2 and 11)								
Capital stock								
Common shares - NT$10 par value Authorized: 100,000 thousand shares								
Issued - 53,871 thousand shares	16,736	27	538,713	28	16,736	27	538,713	30
Capital surplus	22,036	35	667,131	35	21,899	35	637,910	35
Retained earnings	9,075	14	274,737	15	8,766	14	255,345	14
Cumulative translation adjustments	3,539	6	75,120	4	3,710	6	56,875	3
Total stockholders' equity	51,386	82	1,555,701	82	51,111	82	1,488,843	82
TOTAL	$ 62,438	100	$ 1,890,291	100	$ 62,504	100	$ 1,820,737	100

Note: The U.S. dollar amounts were translated into New Taiwan dollars at US$1:NT$30.275 for 2011 and US$1:NT$29.13 for 2010, except the U.S. dollar amount of the common shares with NT$10 par value which uses the historical rate.

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

ALCHIP TECHNOLOGIES, LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2011 AND 2010
(In Thousands of U.S. Dollars or New Taiwan Dollars, Except Earnings Per Share)

	2011			2010		
	US$	**NT$**	**%**	**US$**	**NT$**	**%**
OPERATING REVENUE (Notes 2 and 16)	$ 88,050	$ 2,665,705	100	$ 83,246	$ 2,424,978	100
OPERATING COST (Notes 2, 6 and 14)	66,788	2,022,007	76	60,060	1,749,566	72
GROSS PROFIT	21,262	643,698	24	23,186	675,412	28
OPERATING EXPENSES (Notes 2 and 14)						
Selling expenses	2,825	85,538	3	2,259	65,822	3
General and administrative expenses	4,247	128,580	5	3,565	103,837	4
Research and development expenses	10,688	323,586	12	8,256	240,492	10
Total operating expenses	17,760	537,704	20	14,080	410,151	17
OPERATING INCOME	3,502	105,994	4	9,106	265,261	11
NONOPERATING INCOME AND GAINS						
Interest income	75	2,280	-	64	1,875	-
Gain on disposal of properties and equipment (Notes 2 and 14)	-	2	-	-	6	-
Exchange gain, net (Note 2)	-	-	-	117	3,411	-
Others (Note 18)	439	13,281	1	350	10,176	-
Total nonoperating income and gains	514	15,563	1	531	15,468	-
NONOPERATING EXPENSES AND LOSSES						
Impairment loss (Note 2)	818	24,760	1	-	-	-
Exchange loss, net (Note 2)	416	12,603	1	-	-	-
Loss on disposal of properties and equipment (Note 2)	16	489	-	21	608	-
Interest expense (Note 16)	6	175	-	189	5,507	-
Others	29	876	-	63	1,860	-
Total nonoperating expenses and losses	1,285	38,903	2	273	7,975	-
INCOME BEFORE INCOME TAX	2,731	82,654	3	9,364	272,754	11
INCOME TAX EXPENSE (Notes 2 and 12)	536	16,214	1	598	17,409	-
CONSOLIDATED NET INCOME	$ 2,195	$ 66,440	2	$ 8,766	$ 255,345	11
ATTRIBUTED TO STOCKHOLDERS OF PARENT	$ 2,195	$ 66,440	2	$ 8,766	$ 255,345	11

	2011				2010			
	Before Income Tax		**After Income Tax**		**Before Income Tax**		**After Income Tax**	
	US$	**NT$**	**US$**	**NT$**	**US$**	**NT$**	**US$**	**NT$**
EARNINGS PER SHARE (Note 13)								
Basic	$ 0.05	$ 0.04	$ 1.53	$ 1.23	$ 0.29	$ 0.27	$ 8.49	$ 7.95
Diluted	$ 0.05	$ 0.04	$ 1.52	$ 1.22	$ 0.18	$ 0.17	$ 5.36	$ 5.02

Note: The U.S. dollar amounts were translated into New Taiwan dollars at US$1:NT$30.275 for 2011 and US$1:NT$29.13 for 2010.

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

ALCHIP TECHNOLOGIES, LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2011 AND 2010
(In Thousands of U.S. Dollars)

	Capital Stock			Capital Surplus			Retained Earnings (or Accumulated Deficit)	Cumulative Translation Adjustments	Total Stockholders' Equity
	Ordinary Shares	Preference Shares	Total	Additional Paid-in Capital	Warrants	Total			
BALANCE, JANUARY 1, 2010	$ 4	$ 10	$ 14	$ 16,926	$ 43	$ 16,969	$ (24,106)	$ 1,791	$ (5,332)
Conversion of preferred shares - June 24, 2010	22	(10)	12	41,644	-	41,644	-	-	41,656
Exercise of employee stock options and warrants	451	-	451	3,449	-	3,449	-	-	3,900
Stock-based compensation	-	-	-	-	202	202	-	-	202
Consolidated net income in 2010	-	-	-	-	-	-	8,766	-	8,766
Offset accumulated deficit with additional paid-in-capital	-	-	-	(24,106)	-	(24,106)	24,106	-	-
Issuance of common shares from capital surplus	16,259	-	16,259	(16,259)	-	(16,259)	-	-	-
Change in cumulative translation adjustments on long-term investment	-	-	-	-	-	-	-	1,919	1,919
BALANCE, DECEMBER 31, 2010	16,736	-	16,736	21,654	245	21,899	8,766	3,710	51,111
Stock-based compensation	-	-	-	-	137	137	-	-	137
Cash dividends	-	-	-	-	-	-	(1,886)	-	(1,886)
Consolidated net income in 2011	-	-	-	-	-	-	2,195	-	2,195
Change in cumulative translation adjustments on long-term investment	-	-	-	-	-	-	-	(171)	(171)
BALANCE, DECEMBER 31, 2011	$ 16,736	$ -	$ 16,736	$ 21,654	$ 382	$ 22,036	$ 9,075	$ 3,539	$ 51,386

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

ALCHIP TECHNOLOGIES, LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2011 AND 2010
(In Thousands of New Taiwan Dollars)

	Capital Stock			Capital Surplus			Retained Earnings (or Accumulated Deficit)	Cumulative Translation Adjustments	Total Stockholders' Equity
	Ordinary Shares	Preference Shares	Total	Additional Paid-in Capital	Warrants	Total			
BALANCE, JANUARY 1, 2010	$ 135	$ 321	$ 456	$ 541,468	$ 1,368	$ 542,836	$ (771,150)	$ 57,304	$ (170,554)
Conversion of preferred shares - June 24, 2010	631	(291)	340	1,213,076	-	1,213,076	-	-	1,213,416
Exercise of employee stock options and warrants	13,150	-	13,150	100,463	-	100,463	-	-	113,613
Stock-based compensation	-	-	-	-	5,887	5,887	-	-	5,887
Consolidated net income in 2010	-	-	-	-	-	-	255,345	-	255,345
Offset accumulated deficit with additional paid-in capital	-	-	-	(702,207)	-	(702,207)	702,207	-	-
Issuance of common shares from capital surplus	523,365	-	523,365	(523,365)	-	(523,365)	-	-	-
Change in cumulative translation adjustments on long-term investment	-	-	-	-	-	-	-	55,889	55,889
Effect of exchange rate changes	1,432	(30)	1,402	1,342	(122)	1,220	68,943	(56,318)	15,247
BALANCE, DECEMBER 31, 2010	538,713	-	538,713	630,777	7,133	637,910	255,345	56,875	1,488,843
Stock-based compensation	-	-	-	-	4,146	4,146	-	-	4,146
Cash dividends	-	-	-	-	-	-	(57,083)	-	(57,083)
Consolidated net income in 2011	-	-	-	-	-	-	66,440	-	66,440
Change in cumulative translation adjustments on long-term investment	-	-	-	-	-	-	-	(5,165)	(5,165)
Effect of exchange rate changes	-	-	-	24,794	281	25,075	10,035	23,410	58,520
BALANCE, DECEMBER 31, 2011	$ 538,713	$ -	$ 538,713	$ 655,571	$ 11,560	$ 667,131	$ 274,737	$ 75,120	$ 1,555,701

Note: The U.S. dollar amounts were translated into New Taiwan dollars at US$1=NT$30.275 for 2011 and US$1:NT$29.13 for 2010, except the U.S. dollar amount of the commons shares with NT$10 par value which uses the historical rate.

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

ALCHIP TECHNOLOGIES, LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2011 AND 2010
(In Thousands of U.S. Dollars and New Taiwan Dollars)

	2011		2010	
	US$	**NT$**	**US$**	**NT$**
CASH FLOWS FROM OPERATING ACTIVITIES				
Consolidated net income	$ 2,195	$ 66,440	$ 8,766	$ 255,345
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	9,499	287,590	6,698	195,106
Impairment loss	818	24,760	-	-
Provision for loss on inventories	755	22,874	367	10,681
Deferred income tax	398	12,046	(498)	(14,487)
Realization of deferred income	(234)	(7,082)	(181)	(5,286)
Provision for (recovery of) doubtful accounts	141	4,270	(44)	(1,285)
Stock-based compensation	137	4,146	202	5,887
Loss on disposal of properties and equipment, net	16	487	21	602
Amortization of discount on liability component on preferred shares	-	-	8	239
Net changes in operating assets and liabilities				
Accounts receivable	(4,418)	(133,757)	207	6,050
Inventories	1,044	31,609	(4,292)	(125,031)
Other receivables	1,951	59,067	(6,037)	(175,853)
Prepaid expenses	(134)	(4,045)	(944)	(27,493)
Other current assets	807	24,412	(939)	(27,373)
Accounts payable	(176)	(5,319)	2,267	66,051
Accrued expenses	(137)	(4,162)	(1,018)	(29,656)
Income tax payable	(897)	(25,791)	1,184	34,455
Other current liabilities	(165)	(5,009)	(16)	(464)
Other liabilities	-	-	(141)	(4,093)
Net cash provided by operating activities	11,600	352,536	5,610	163,395
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition of properties and equipment	(8,561)	(259,170)	(9,489)	(276,403)
Increase in restricted assets	(1,992)	(60,308)	-	-
Acquisition of intangible assets	(1,026)	(31,073)	(1,642)	(47,844)
Increase in refundable deposits	(11)	(340)	(81)	(2,349)
Increase in deferred charges	(10)	(286)	-	-
Proceeds from disposal of properties and equipment	1	3	1	16
Net cash used in investing activities	(11,599)	(351,174)	(11,211)	(326,580)

(Continued)

ALCHIP TECHNOLOGIES, LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2011 AND 2010
(In Thousands of U.S. Dollars and New Taiwan Dollars)

	2011		2010	
	US$	NT$	US$	NT$
CASH FLOWS FROM FINANCING ACTIVITIES				
Cash dividends	$ (1,886)	$ (57,083)	$ -	$ -
Proceeds from issuance of series E preferred shares	-	-	15,578	453,782
Proceeds from exercise of employee stock options	-	-	3,020	87,978
Decrease in short-term loans	-	-	(1,000)	(29,130)
Exercise of employee stock option - common shares	-	-	880	25,635
Net cash (used in) provided by financing activities	(1,886)	(57,083)	18,478	538,265
EFFECT OF EXCHANGE RATE CHANGES	262	29,351	1,419	25,355
NET (DECREASE) INCREASE IN CASH	(1,623)	(26,370)	14,296	400,435
CASH, BEGINNING OF YEAR	19,896	579,581	5,600	179,146
CASH, END OF YEAR	$ 18,273	$ 553,211	$ 19,896	$ 579,581
SUPPLEMENTARY DISCLOSURE OF CASH FLOW INFORMATION				
Interest paid	$ 6	$ 175	$ 181	$ 5,268
Income taxes paid	$ 868	$ 26,273	$ 20	$ 581
CASH AND NONCASH INVESTING ACTIVITIES				
Increase in properties, equipment and intangible assets	$ (10,852)	$ (328,536)	$ (8,748)	$ (254,842)
Add: Accounts payable at beginning of year	(320)	(9,321)	(2,703)	(86,454)
Less: Accounts payable at end of year	1,585	47,980	320	9,321
Effect of exchange rate changes	-	(366)	-	7,728
Purchase of properties, equipment and intangible assets	$ (9,587)	$ (290,243)	$ (11,131)	$ (324,247)
NONCASH INVESTING AND FINANCING ACTIVITIES				
Conversion of preferred shares to common shares (Note 11)	$ -	$ -	$ 22	$ 631

Note: The U.S. dollar amounts were translated into New Taiwan dollars at US$=NT$30.275 for 2011 and US$=NT$29.13 for 2010.

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

1. ORGANIZATION AND OPERATIONS

Alchip Technologies, Limited (the Company) was incorporated in the Cayman Islands on February 27, 2003. The Company is mainly engaged in the Research and Development, Design and manufacturing of fabless application specific integrated circuit and SoC and provides related services.

The Company's shares have been traded on the Emerging Stock Market of the Taiwan GreTai Securities Market since December 2010.

As of December 31, 2011 and 2010, the Company and subsidiaries had 227 and 176 employees, respectively.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements have been prepared in conformity with the Regulations Governing the Preparation of Financial Reports by Securities Issuers (the "Regulation") and accounting principles generally accepted in the Republic of China (ROC). Significant accounting policies are summarized as follows:

Foreign Currencies

Non-derivative foreign-currency transactions are recorded in US dollars at the rates of exchange in effect when the transactions occur.

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

Accounting Estimates

In conformity with these regulations and principles, the Company and subsidiaries (hereinafter referred to as the "Group") are required to make certain estimates and assumptions that could affect the amounts of allowance for doubtful accounts, provision for loss on inventories, depreciation of properties and equipment, amortization of intangible assets and deferred charges, impairment on assets, income tax, bonuses to employees and directors, etc. Actual results may differ from these estimates.

Consolidation

a. Basis of consolidation

   The consolidated financial statements have been prepared in accordance with Statement of Financial Accounting Standards (SFAS) No. 7 - "Consolidated Financial Statements," and included the financial statements of the Company and its subsidiaries with at least 50% shareholding and other investees controlled by the Company.

The Company's financial statements are prepared using its functional currency in U.S. dollars, and the financial statements of the consolidated subsidiaries are prepared using their respective functional currencies. Foreign currencies are translated into U.S. dollars at the following exchange rates:

1) Assets and liabilities - at exchange rates prevailing on the balance sheet date;
2) Shareholders' equity - at historical exchange rates;
3) Income and expenses - at average exchange rates for the year.

Exchange differences arising from the translation of the financial statements of foreign subsidiaries are recognized as a separate component of shareholders' equity. Such exchange differences are recognized in profit or loss in the year of disposal.

The presentation currency of the Company's consolidated financial statement is New Taiwan dollars. All items were converted to U.S. dollars using exchange rate at balance sheet date, except the common shares with NT$10 par value per share, the difference was stated as cumulative translation adjustments. The exchange rate was one U.S. dollars converted to NT$30.275 and NT$29.13 in 2011 and 2010, respectively.

b. The consolidated subsidiaries included the following:

			Percentage of Ownership as of December 31		
Investor	**Subsidiary**	**Nature of Business**	**2011**	**2010**	**Description**
The Company	Alchip Technologies, Limited (registered in Hong Kong) (Alchip HK)	Investments	100%	100%	-
	AlChip Technologies, Inc. (registered in U.S.A.) (Alchip USA)	Sales of ASIC and SOC	100%	100%	-
	Alchip Technologies, KK (registered in Japan) (Alchip KK)	Research, development and design of ASIC and SOC and provide related services	100%	100%	-
	Alchip Technologies, Inc. (registered in Taiwan) (Alchip TW)	Research, development and design of ASIC and SOC and provide related services	100%	100%	-
Alchip HK	Alchip Technologies (Shanghai) (registered in china) (Alchip SH)	Research, development and design of ASIC and SOC and provide related services	100%	100%	-

c. The subsidiaries not included in the consolidated financial statements: None.

d. Significant transactions between the Company and subsidiaries were eliminated in the consolidated financial statements.

Current and Noncurrent Assets and Liabilities

Current assets include cash, and those assets held primarily for trading purpose or to be realized, sold or consumed within one year from the balance sheet date. Properties and equipment, intangible assets and those not classified as current assets are non-current assets. Current liabilities are obligations incurred for trading purpose or to be settled within one year from the balance sheet date. All other liabilities are classified as non-current liabilities.

Impairment of Accounts Receivable

An allowance for doubtful accounts is provided on the basis of a review of the collectibility of accounts receivable. The Group assesses the probability of collections of accounts receivable by examining the aging analysis of the outstanding receivables.

As discussed in Note 3 to the financial statements, on January 1, 2011, the Group adopted the third-time revised Statement of Financial Accounting Standards (SFAS) No. 34, "Financial Instruments: Recognition and Measurement." One of the main revisions is that impairment of receivables originated by the Group should be covered by SFAS No. 34. Accounts receivable are assessed for impairment at the end of each reporting period and considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the accounts receivable, the estimated future cash flows of the asset have been affected. Accounts receivable that are assessed as not impaired individually are further assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of accounts receivable could include the Group's past experience in the collection payments, an increase in the number of delayed payments, as well as observable changes in national or local economic conditions that correlate with defaults on receivables.

The amount of impairment loss recognized is the difference between the asset carrying amount and the present value of estimated future cash flows.

Asset Impairment

If the recoverable amount of an asset (mainly properties and equipment and intangible assets) is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is charged to earnings. If an impairment loss subsequently reverses, the carrying amount of the asset is increased accordingly, but the increased carrying amount may not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized in earnings.

Inventories

Inventories are stated at the lower of cost or net realizable value. Inventory write-downs are made item by item, except where it may be appropriate to group similar or related items. Net realizable value is the estimated selling price of inventories less all estimated cost of completion and costs necessary to make the sale. Inventories are recorded at weighted-average cost.

Properties and Equipment

Properties and equipment are stated at cost less accumulated depreciation and accumulated impairment. Major additions and improvements are capitalized, while repairs and maintenance are expensed currently.

Depreciation is provided on a straight-line basis over estimated useful lives as follows: Machinery and equipment - 3 to 6 years; computer equipment - 3 to 5 years; office equipment - 3 to 15 years; leasehold improvements - 3 to 5 years; transportation equipment - 5 years. Properties and equipment still in use beyond their original estimated useful lives are further depreciated over their new estimated useful lives.

The related cost and accumulated depreciation are derecognized from the balance sheet upon asset disposal. Any gain or loss on disposal of the asset is included in nonoperating gains or losses in the year of disposal.

Intangible Assets

Intangible assets consist of intellectual property and software acquired; they are initially recorded at cost and then amortized on a straight-line basis over 2 to 5 years.

Pension Cost

The Group has defined contribution plans for employees. Contributions made under a defined contribution plan are recognized as pension cost during the year in which employees render services.

Income Tax

The Group applies the intra-year and inter-year allocation methods to its income tax, whereby deferred income tax assets and liabilities are recognized for the tax effects of temporary differences, unused loss carryforward and unused tax credits. Valuation allowance is provided to the extent, if any, that it is more likely than not that deferred income tax assets will not be realized. A deferred tax asset or liability is classified as current or noncurrent in accordance with the classification of its related asset or liability. However, if a deferred income tax asset or liability does not relate to an asset or liability in the financial statements, then it is classified as either current or noncurrent based on the expected length of time before it is realized or settled.

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

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

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

Stock-based Compensation

Employee stock options granted between January 1, 2008 and December 31, 2009 were accounted for in accordance with Rule No. 0960065898 issued by the Financial Supervisory Commission (FSC) under the Executive Yuan on December 12, 2007. Thus, the stock options granted were initially measured at their intrinsic value and then adjusted at each reporting date for any change in intrinsic value until the date of final settlement. Intrinsic value is the difference between fair value and exercise price, and the fair value for non-publicly traded stocks and stocks traded in Emerging stock Market is stated at net asset value.

Employee stock options granted on or after January 1, 2010 are accounted for in accordance with Rule No. 0990006370 issued by FSC on March 15, 2010. Under the FSC's requirement, the value of the stock options granted, which is equal to the best available estimate of the number of stock options expected to vest multiplied by the grant-date fair value, is expensed on a straight-line basis over the vesting period. The estimate is revised if subsequent information indicates that the number of stock options expected to vest differs from previous estimates.

Employee stock options granted between January 1, 2004 and December 31, 2007 were accounted for under the interpretations issued by the Accounting Research and Development Foundation ("ARDF"). The Group adopted the intrinsic value method, under which compensation cost was recognized on a straight-line basis over the vesting period.

Revenue Recognition

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

Service revenue is determined by the completion of contracts, and is recognized under generally accepted accounting principles.

Unrealized Gain/Loss on Sale and Leaseback

Gain/loss on disposal of assets are deferred and amortized on a straight-line basis over the leased term.

3. EFFECTS OF CHANGES IN ACCOUNTING PRINCIPLES

Financial Instruments

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

Operating Segments

On January 1, 2011, the Group adopted the newly issued SFAS No. 41, “Operating Segments.” The statement requires that segment information be disclosed based on the information about the components of the Group that management uses to make operating decisions. SFAS No. 41 requires identification of operating segments on the basis of internal reports that are regularly reviewed by the Group's chief operating decision maker in order to allocate resources to the segments and assess their performance. This statement supersedes SFAS No. 20, “Segment Reporting.” For this accounting change, the Group restated the segment information as of and for the year ended December 31, 2010 to conform to the disclosures as of and for the year ended December 31, 2011.

4. CASH

	December 31			
	2011		2010	
	US$	NT$	US$	NT$
Demand deposits	$ 14,606	$ 442,180	$ 16,501	$ 480,684
Time deposits	3,111	94,184	3,000	87,390
Checking accounts	542	16,410	391	11,397
Cash on hand	14	437	4	110
	$ 18,273	$ 553,211	$ 19,896	$ 579,581

5. ACCOUNTS RECEIVABLE, NET

	December 31			
	2011		2010	
	US$	NT$	US$	NT$
Accounts receivable	$ 13,487	$ 408,334	$ 9,214	$ 268,420
Less: Allowance for doubtful accounts	130	3,945	134	3,915
	$ 13,357	$ 404,389	$ 9,080	$ 264,505

6. INVENTORIES, NET

	December 31			
	2011		2010	
	US$	NT$	US$	NT$
Raw materials	$ 1,583	$ 47,915	$ 2,378	$ 69,275
Work in process	2,982	90,270	5,245	152,781
Finished goods	1,303	39,448	44	1,281
	$ 5,868	$ 177,633	$ 7,667	$ 223,337

As of December 31, 2011 and 2010, the allowance for inventory devaluation was NT$37,927 thousand (US$1,253 thousand) and NT$43,845 thousand (US$1,505 thousand), respectively.

The cost of inventories recognized as cost of goods sold for the years ended December 31, 2011 and 2010 was NT$1,869,904 thousand (US$61,764 thousand) and NT$1,593,328 thousand (US$54,697 thousand), respectively, which included NT$22,874 thousand (US$755 thousand) and NT$10,681 thousand (US$367 thousand), respectively, write-downs of inventories.

7. ACCUMULATED DEPRECIATION AND IMPAIRMENT

	December 31			
	2011		2010	
	US$	NT$	US$	NT$
Accumulated depreciation				
Machinery equipment	$ 14,089	$ 426,532	$ 11,323	$ 329,828
Computer equipment	1,184	35,860	1,539	44,833
Office equipment	152	4,578	247	7,200
Leasehold improvements	56	1,700	173	5,037
Transportation equipment	131	3,973	115	3,352
	$ 15,612	$ 472,643	$ 13,397	$ 390,250
Accumulated impairment				
Machinery equipment	$ 794	$ 24,038		
Effect of exchange rate changes	24	722		
	$ 818	$ 24,760		

The Group recognized an impairment loss of NT$24,760 thousand (US$818 thousand) in 2011 because of the decline in sales of certain project, which caused a decrease in cash inflows from the use of the related machinery; the recoverable amount of the machinery became lower than its carrying amount.

8. OTHER RECEIVABLES

Factored accounts receivables were net of related expenses and without the risk of unrecovery. As of December 31, 2011 and 2010, the information about sale of accounts receivable was as follows:

Transaction Party	Amount		Amount Collected		Amount Paid in Advance		Amount Paid in Advance Annual Rate (%)	Limited	
	US$	NT$	US$	NT$	US$	NT$		US$	NT$
2011									
Standard Chartered Bank	$ 10,795	$ 326,819	$ 7,608	$ 230,330	$ -	$ -	-	$ 9,000	$ 272,475
DBS Bank	$ 899	$ 27,216	$ -	$ -	$ -	$ -	-	$ 8,000	$ 242,200
2010									
Standard Chartered Bank	$ 24,188	$ 704,589	$ 18,151	$ 528,736	$ -	$ -	-	$ 6,750	$ 196,628

Account receivable sold by the Group are classified under other receivables. Amounts received in advance are reported under short-term loans.

9. INTANGIBLE ASSETS

	December 31			
	2011		2010	
	US$	NT$	US$	NT$
Intellectual property	$ 2,204	$ 66,715	$ 2,887	$ 84,087
Software cost	61	1,861	83	2,425
Others	8	244	21	610
	$ 2,273	$ 68,820	$ 2,991	$ 87,122

10. ACCRUED EXPENSES

	December 31			
	2011		2010	
	US$	NT$	US$	NT$
Equipment	$ 1,311	$ 39,702	$ -	$ -
Salaries and bonus	818	24,769	1,039	30,255
Professional service fee	562	16,996	473	13,790
Software cost	274	8,279	320	9,321
Technical services	253	7,663	-	-
License fee	-	-	241	7,011
Others	415	12,568	432	12,599
	$ 3,633	$ 109,977	$ 2,505	$ 72,976

11. STOCKHOLDERS' EQUITY

a. Capital stock

Information about convertible preferred shares issued by the Company was as follows:

	Issuance Date	Issuance Price Per Share (US$)	Authorized Shares	Issued and Outstanding Shares	Conversion Price	Conversion Rate	Common Shares
Equity							
Series A	2003.2.27	$0.20	2,500,000	1,250,000	$0.185	1.08	1,346,914
Series B	2003.4.10-2003.8.18	0.40	8,750,000	8,750,000	0.370	1.08	9,428,125
Series C	2004.10.18	1.32	10,052,000	10,052,000	1.226	1.08	10,831,346
Subtotal			21,302,000	20,052,000			21,606,385
Liability							
Series B	2008.5.12	0.40	2,750,000	2,452,991	0.370	1.08	2,643,449
Series D	2006.1.12-2006.3.31	3.50	3,864,668	3,864,668	2.330	1.50	5,806,705
Series D-1	2006.1.12-2006.3.31	3.50	3,099,616	3,099,616	1.598	2.19	6,777,570
Series C-1	2009.2.20-2009.10.1	1.50	666,666	480,770	1.390	1.08	519,231
Series E	2010.06.17	2.60	6,000,000	6,000,000	2.600	1.00	6,000,000
Subtotal			16,380,950	15,898,045			21,746,955
			37,682,950	35,950,045			43,353,340

In April 2010, the Company recategorized 6,964,284 outstanding shares of Series D into 3,864,668 shares of Series D and 3,099,616 shares of Series D-1, and amended some of its rights and obligations with the approval of the stockholders in their meeting.

On June 24, 2010, the Company's convertible preferred shares were all converted into common shares with par value of US$0.0005 per share using conversion price stipulated in the articles of incorporation.

On July 9, 2010, the Company converted 52,421 thousand outstanding shares with par value of US$0.0005 per share into par value of NT$10 per share with the approval of the stockholders in their meeting.

The holders of preferred shares have various rights and obligation as follows:

1) Redemption

Series A: No redemption

Series B - at any time after April 10, 2010, if the holders of a majority of the Series B preferred shares demand in writing that the Company redeem all, and no less than all, of the Series B preferred shares, the Company shall effect such redemption within 45 days after receipt of the Series B redemption request by paying in cash all declared but unpaid dividends with respect to the Series B preferred shares plus the greater of (1) the original issue price for each series B preferred shares, or (2) the fair market value of Series B reference shares as determined by the Board. If on the date of redemption the number of Series B preferred shares that may be redeemed by the Company is less than all of the Series B preferred shares then outstanding, the Series B preferred shares shall be redeemed on a pro rata basis as determined by the Board and any unredeemed Series B preferred shares shall be redeemed as soon as the Company is legally able to do so.

Series C - at any time after October 18, 2009, if the holders of a majority of the Series C and Series C-1 preferred shares demand in writing that the Company redeem all, and no less than all, of the Series C and the Series C-1 preferred shares then outstanding, the Company shall effect such redemption within 45 days after receipt of the Series C and Series C-1 preferred share by paying in cash the original issue price plus all declared but unpaid dividends. If on the date of redemption the number of Series C and Series C-1 preferred shares that may be redeemed by the Company is less than all of the Series C and Series C-1 preferred shares then outstanding, the preferred shares shall be redeemed on a pro rata basis as determined by the Board and any unredeemed Series C and Series C-1 preferred shares shall be redeemed as soon as the Company is legally able to do so.

Series D and Series D-1 - five years after issuance date, if the holders of a majority of the Series D and Series D-1 preferred shares demand in writing that the Company redeem all, and no less than all, of the Series D and Series D-1 preferred shares then outstanding, the Company shall effect such redemption within 45 days after receipt of the Series D and Series D-1 preference share by paying in cash the original issue price plus all declared but unpaid dividends. If on the date of redemption the number of Series D and Series D-1 preferred shares that may be redeemed by the Company is less than all of the Series D and Series D-1 preferred shares then outstanding, the preferred shares shall be redeemed on a pro rata basis as determined by the Board and any unredeemed Series D and Series D-1 preferred shares shall be redeemed as soon as the Company is legally able to do so.

Series E - seven years from issuance date, if the holders of a majority of the Series E preferred shares demand in writing that the Company redeem all, and no less than all, of the Series E preferred shares, the Company shall effect such redemption within 45 days after receipt of the Series E redemption request by paying in cash all declared but unpaid dividends with respect to the Series E preferred shares plus the greater of (1) the original issue price for each series E preferred shares, or (2) the fair market value of Series E reference shares as determined by the Board. If on the date of redemption the number of Series E preferred shares that may be redeemed by the Company is less than all of the Series E preferred shares then outstanding, the Series E preferred shares shall be redeemed on a pro rata basis as determined by the Board and any unredeemed Series E preferred shares shall be redeemed as soon as the Company is legally able to do so.

2) Voting

The holders of preferred shares are entitled to the number of votes equal to the number of votes of common shares into which the preferred shares can be converted.

3) Liquidation

In the event of any liquidation, dissolution or winding up of the Company, the holders of Series B, C, C-1, D, D-1 and E preferred shares then outstanding shall be entitled to be paid first out of the assets of the Company available for distribution among the holders as follows: A liquidation preference in the amount equal to the original purchase price applicable to such preferred shares plus all declared or accrued but unpaid dividends. Subject to the payment of all the amounts above, the balance shall be distributed pro rata amongst the holders of common shares and the holders of preferred shares on an as if converted basis. In the event that the assets available for distribution are insufficient to pay the liquidation preference in full, the holders of preferred shares then outstanding shall be entitled to be paid first out of the assets of the Company available for distribution among the holders as follows: An amount equal to that holder’s total liquidation preference, divided by the aggregate of all such holders’ entitlements, multiplied by the aggregate amount available for distribution.

Any transaction or series of related transactions that would result in (1) a sale or conveyance by the Company of all or substantially all of its assets; (2) any acquisition of the Company by means of merger or other form of corporate reorganization in which outstanding shares are exchanged for securities or other consideration issued by the acquiring company; or (3) any other transaction deemed winding up event, shall be treated as a liquidation, dissolution or winding up of the Company so that the shareholder receives the liquidation preference whether by dividend or redemption of shares.

4) Conversion

Each holder of preferred shares shall be entitled to convert any or all its preferred shares at any time into such number of fully paid common shares per preferred share as is determined by dividing the original purchase price by the conversion price in effect at the time of conversion. The conversion price shall initially be the original purchase price. The conversion price shall be subject to adjustment in order to adjust the number of common shares into which each class or series of preferred shares is convertible. The conversion price adjustment is provided to the Series B, C, C-1, D, D-1 and E preferred shares and the conversion price will be adjusted downward when the Company issues common shares at a price lower than the conversion price before adjustment. In addition, the conversion price will be adjusted for all preferred shares in the event of equity restructuring. Upon conversion, all accrued or declared and unpaid share dividends on the preferred shares shall be paid in shares and all declared or accrued and unpaid cash dividends on the preferred shares shall be paid in cash or by the issuance of further common shares, at the option of the holders of the preferred shares.

Preferred shares are automatically converted into common shares at the effective conversion price upon (a) the closing of an underwritten public offering that on a pre-offering basis values the Company at no less than US$300,000 thousand and with aggregate proceeds to the Company of not less than US$100,000 thousand, or (b) the written approval of at least 2/3 of the preferred shareholders voting to convert their shares at the effective conversion price.

b. Appropriation of earnings and dividend policy

Under the Company's Article of Incorporation, the Company makes appropriations of the earnings for each fiscal year; after offsetting losses from previous years, the Company may set aside special reserve upon the resolution of stockholders in their meeting. The appropriation of the remaining balance as bonuses, dividends, or other distributions, should be proposed by the Board and resolved by the stockholders in their meeting. The bonus to directors shall not be more than 2% of total appropriation and bonus to employees shall not be less than 1% of total appropriation. The distribution of retained earnings may proceed by way of cash or stock dividends, but the cash dividend to be distributed shall be no lower than 10% of the aggregate dividend distributed to shareholders.

For the years ended December 31, 2011 and 2010, the bonus to employees and remuneration to directors and supervisors were NT$6,380 thousand (US$226 thousand) and NT$2,533 thousand (US$88 thousand), respectively. The bonus to employees and remuneration to directors and supervisors represented 8% and 1%, of income before tax. Material differences between such estimated amounts and the amounts proposed by the Board of Directors in the following year are adjusted for in the year of the Board of Directors' resolution. If the actual amounts subsequently resolved by the stockholders differ from the proposed amounts, the differences are recorded in the year of stockholders' resolution as a change in accounting estimate. If a share bonus is resolved to be distributed to employees, the number of shares is determined by dividing the amount of the share bonus by the audited net asset value per share in the latest financial statements.

The appropriations of earnings for 2010 had been resolved by the Board of Directors in March 2011. The cash dividends were US$1,886 thousand, US$0.035 per share. There is no material difference between the approved amount of the bonus to employees and remuneration to directors and supervisors and the accrual amounts reflected in the financial statements for the year ended December 31, 2010. Cash dividends were paid after the resolution in the shareholders' meeting on May 18, 2011.

The appropriation of earnings for 2011 has been proposed by the Board of Directors on February 24, 2012. The proposed appropriation of earnings and dividends per share were as follows:

	Appropriation of Earnings (US$)	**Dividends Per Share (US$)**
Cash dividends	$ 269,357	$0.005

The appropriations of 2011 earnings and the amounts of bonus to employees and remuneration to directors and supervisors will be resolved by the shareholders in their meeting scheduled in 2012.

Information on the bonus to employees, directors and supervisors is available on the Market Observation Post System website of the Taiwan Stock Exchange.

c. Stock option plan

In March 2003, Alchip Technologies, Limited adopted the stock option plan resolved by the Board of Directors, and the Company modified each outstanding stock option to be exercisable to subscribe for one common share of the Company. The options were granted to qualified employees, directors and consultants of the Company. The options granted are valid for 10 years and vest 25% one year after the date of grant and the remaining balance vests 1/48 in equal monthly installments over the following 36 months. The options were granted at an exercise price equal to the fair value of the Company's common shares on the grant date. For any subsequent changes in the Company's common shares, the exercise price and the number of options will be adjusted accordingly.

In January 2004, the Board approved employees other than People's Republic of China ("PRC") nationals to be allowed to early-exercise the stock option grants. The early exercise option provision provides that the option may be exercised in whole or in part at any time as to shares that have not yet vested at the election of the grantee. As a condition to exercising this option for unvested shares, the grantee shall execute a restricted share purchase agreement. The restricted share purchase agreement offers the Company a repurchase option. If a purchaser's status as a service provider is terminated for any reason, the Company shall have the right and option to purchase from the purchaser all the purchaser's unvested shares as of the date of such termination at the original price paid by the purchaser. The repurchase option shall terminate in accordance with the vesting schedule contained in the grantee's option agreement.

In July 2010, the Company adopted the modified stock option plan resolved by the Board of Directors. The Company modified each outstanding stock option to be exercisable to subscribe for one common share of the Company. The options were granted to qualified employees of the Company, subsidiaries, and branch under the approval of the Board. The options granted are valid for 10 years and vest 25% one year after the date of grant and the remaining balance vests 1/48 in equal monthly installments over the following 36 months. Before the Company became a listed company, the exercise price was determined by the Board of Directors by using as reference data of other companies in the same industry, and the exercise price cannot be less than the net asset value per share in the latest financial statements audited by independent auditors. After the Company was listed, the exercise price cannot be less than the closing price of the Company's common shares on the day of issue. For any subsequent changes in the Company's common shares, the exercise price and the number of options will be adjusted accordingly. The number of options granted to each employee shall not be more than 20% of total stock options issued each time, and the number of options exercised by each employee in every fiscal year shall not be more than 1% of total issued shares at year end. Information about stock options was as follows:

	Year Ended December 31			
	2011		2010	
	Number of Options	Weighted-average Exercise Price (US$)	Number of Options	Weighted-average Exercise Price (US$)
Balance, beginning of year	5,153,166	$2.36	7,389,135	$2.30
Options granted	-	-	531,000	2.60
Options exercised	-	-	(1,499,500)	2.01
Options expired	(320,023)	2.45	(1,267,469)	2.55
Balance, end of year	4,833,143	2.35	5,153,166	2.36
Options exercisable, end of year	4,146,217	2.31	3,526,456	2.24

Information about outstanding options and exercisable options as of December 31, 2011 was as follows:

Exercise Price (US$)	Outstanding Shares	Weighted-average Remaining Contractual Life (Years)	Exercisable Shares
$0.04	225,000	1.96	225,000
0.99	135,650	2.96	135,650
2.00	601,500	3.50	601,500
2.20	134,000	3.64	134,000
2.60	3,736,993	6.29	3,050,067
	4,833,143	5.58	4,146,217

As of December 31, 2011, no unvested option was exercised; thus no common shares was issued on unvested option.

Options granted during the year ended December 31, 2010 were priced using Black-Scholes pricing model and the inputs to the model were as follows:

Grant-date share price	US$2.6
Exercise price	US$2.6
Expected volatility	65%
Expected life	5 years
Expected dividend yield	0%
Risk-free interest rate	2.17%-2.44%

Stock-based compensation cost recognized was NT$4,146 thousand (US$137 thousand) and NT$5,887 thousand (US$202 thousand) for the years ended December 31, 2011 and 2010. For the years ended December 31, 2011 and 2010, termination of employment resulted in forfeiture of stock options at 16% and 17%. As of December 31, 2011 and 2010, the estimated percentage of forfeiture due to termination of employment over the remaining vesting period was both 16%.

d. Warrants

As of June 30, 2010, there were 670,000 outstanding warrants, 550,000 of which were exercisable to convert to common shares before July 9, 2010, and the holders of remaining 120,000 warrants signed the agreement to forfeit. There were no outstanding employee stock options on December 31, 2011.

The pro forma information for the years ended December 31, 2011 and 2010 assuming employee stock options and warrants granted before January 1, 2008 were accounted for under SFAS No. 39 was as follows:

	December 31			
	2011		2010	
	US$	NT$	US$	NT$
Net income	$ 2,025	$ 61,293	$ 8,278	$ 241,154
After income tax basic earnings per share	$ 0.04	$ 1.14	$ 0.26	$ 7.51

12. INCOME TAX

a. A reconciliation of income tax expense based on income before income tax at the statutory rate and income tax expense was as follows:

	Year Ended December 31			
	2011		2010	
	US$	NT$	US$	NT$
Income tax expense at the statutory rate	$ 949	$ 28,732	$ 2,315	$ 67,434
Tax effect on adjusting items				
Permanent differences	109	3,292	264	7,704
Temporary differences	52	1,566	140	4,077
Additional 10% income tax on unappropriated earnings	603	18,257	124	3,614
Loss carryforwards used	(741)	(22,437)	(1,105)	(32,200)
Investment tax credits used	(309)	(9,357)	(515)	(15,009)
Tax-exempt income	(354)	(10,694)	(21)	(599)
Current income tax payable	309	9,359	1,202	35,021
Deferred income tax expense	398	12,046	(498)	(14,487)
Adjustments to prior year’s tax	(174)	(5,262)	(158)	(4,597)
Others	3	71	52	1,472
Income tax expense	$ 536	$ 16,214	$ 598	$ 17,409

The amount of income tax payable in 2011 and 2010 is net amount after deduction of NT$489 thousand (US$16 thousand) and NT$360 thousand (US$12 thousand) of prepaid income tax.

b. Deferred income tax assets (liabilities) were as follows:

	December 31			
	2011		2010	
	US$	NT$	US$	NT$
Current				
Deferred income tax assets (liabilities)				
Investment tax credits	$ 309	$ 9,358	$ 515	$ 15,009
Loss carryforwards	185	5,609	276	8,050
Unrealized allowance for loss on inventories	138	4,179	174	5,069
Unrealized exchange losses (gains)	10	290	(66)	(1,946)
	$ 642	$ 19,436	$ 899	$ 26,182
Noncurrent				
Deferred income tax assets				
Loss carryforwards	$ 521	$ 15,755	$ 576	$ 16,766
Investment tax credits	349	10,574	434	12,658
Depreciation expense	64	1,948	65	1,893
	$ 934	$ 28,277	$ 1,075	$ 31,317

c. As of December 31, 2011, loss carryforwards of Alchip SH comprised of:

Year	Remaining Creditable Amount (NT$)	Expiry Year
2008	$ 85,456	2013

d. As of December 31, 2011, investment tax credits of Alchip TW comprised of:

Laws and Statutes	Total Creditable Amount (NT$)	Remaining Creditable Amount (NT$)	Expiry Year
Statute for Upgrading Industries	$ 15,577	$ 11,372	2012
	8,560	8,560	2013
	$ 24,137	$ 19,932	

e. From January 1, 2010 to August 31, 2013, profits attributable to the expansion project are exempted from income tax.

f. Information about integrated income tax was as follows:

	2011	2010
The balance of the imputation credits which can be allocated to the stockholders	$ 26,832	$ 559
Unappropriated earnings generated before January 1, 1998	$ -	$ -
Unappropriated earnings generated on and after January 1, 1998	239,004	36,144
	$ 239,004	$ 36,144

g. The Company's tax returns through 2009 have been assessed by the tax authorities.

13. EARNINGS PER SHARE

The numerators and denominators used in calculating basic and diluted EPS were as follows:

	Amounts (Numerator) (In US$ Thousands)			EPS (US$)	
	Before Income Tax	After Income Tax	Shares (Denominator) (In Thousands)	Before Income Tax	After Income Tax
Year ended December 31, 2011					
Basic EPS					
Income for the year attributable to common shareholders	$ 2,731	$ 2,195	53,871	$ 0.05	$ 0.04
Effect of dilutive potential common stock					
Employee stock option	-	-	225		
Bonus to employees	-	-	272		
Diluted EPS					
Income for the year attributable to common shareholders plus effect of potential dilutive common stock	$ 2,731	$ 2,195	54,368	$ 0.05	$ 0.04
Year ended December 31, 2010					
Basic EPS					
Income for the year attributable to common shareholders	$ 9,364	$ 8,766	32,117	$ 0.29	$ 0.27
Effect of dilutive potential common stock					
Convertible preferred shares	-	-	18,427		
Employee stock option	-	-	225		
Bonus to employees	-	-	93		
Diluted EPS					
Income for the year attributable to common shareholders plus effect of potential dilutive common stock	$ 9,364	$ 8,766	50,862	$ 0.18	$ 0.17

	Amounts (Numerator) (In NT$ Thousands)			EPS (NT$)	
	Before Income Tax	**After Income Tax**	**Shares (Denominator) (In Thousands)**	**Before Income Tax**	**After Income Tax**
Year ended December 31, 2011					
Basic EPS					
Income for the year attributable to common shareholders	$ 82,654	$ 66,440	53,871	$ 1.53	$ 1.23
Effect of dilutive potential common stock					
Employee stock option	-	-	225		
Bonus to employees	-	-	272		
Diluted EPS					
Income for the year attributable to common shareholders plus effect of potential dilutive common stock	$ 82,654	$ 66,440	54,368	$ 1.52	$ 1.22
Year ended December 31, 2010					
Basic EPS					
Income for the year attributable to common shareholders	$ 272,754	$ 255,345	32,117	$ 8.49	$ 7.95
Effect of dilutive potential common stock					
Convertible preferred shares	-	-	18,427		
Employee stock option	-	-	225		
Bonus to employees	-	-	93		
Diluted EPS					
Income for the year attributable to common shareholders plus effect of potential dilutive common stock	$ 272,754	$ 255,345	50,862	$ 5.36	$ 5.02

The ARDF issued Interpretation 2007-052 that requires companies to recognize bonuses paid to employees, directors and supervisors as compensation expenses beginning January 1, 2008. These bonuses were previously recorded as appropriations from earnings. If the Company may settle the bonus to employees by cash or shares, the Company should presume that the entire amount of the bonus will be settled in shares and the resulting potential shares should be included in the weighted average number of shares outstanding used in the calculation of diluted EPS, if the shares have a dilutive effect. The number of shares is estimated by dividing the entire amount of the bonus by the audited net asset value per share at the balance sheet date. Such dilutive effect of the potential shares should be included in the calculation of diluted EPS until the stockholders resolve the number of shares to be distributed to employees at their meeting in the following year.

14. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

	Year Ended December 31					
	2011 (In Thousands)			2010 (In Thousands)		
	Classified as Operating Costs	Classified as Operating Expenses	Total	Classified as Operating Costs	Classified as Operating Expenses	Total
	US$	US$	US$	US$	US$	US$
Personnel						
Salary	$ 978	$ 10,410	$ 11,388	$ 631	$ 8,161	$ 8,792
Insurance	54	343	397	40	252	292
Pension	40	226	266	30	183	213
Others	26	288	314	25	195	220
	$ 1,098	$ 11,267	$ 12,365	$ 726	$ 8,791	$ 9,517
Depreciation	$ 7,194	$ 633	$ 7,827	$ 4,763	$ 458	$ 5,221
Amortization	1,364	308	1,672	1,056	421	1,477

	Year Ended December 31					
	2011 (In Thousands)			2010 (In Thousands)		
	Classified as Operating Costs	Classified as Operating Expenses	Total	Classified as Operating Costs	Classified as Operating Expenses	Total
	NT$	NT$	NT$	NT$	NT$	NT$
Personnel						
Salary	$ 29,601	$ 315,169	$ 344,770	$ 18,394	$ 237,738	$ 256,132
Insurance	1,630	10,400	12,030	1,155	7,336	8,491
Pension	1,215	6,843	8,058	874	5,320	6,194
Others	804	8,712	9,516	726	5,678	6,404
	$ 33,250	$ 341,124	$ 374,374	$ 21,149	$ 256,072	$ 277,221
Depreciation	$ 217,796	$ 19,161	$ 236,957	$ 138,739	$ 13,343	$ 152,082
Amortization	41,315	9,318	50,633	30,745	12,279	43,024

15. FINANCIAL INSTRUMENTS

a. Fair values of financial instruments

Please refer to audited consolidated balance sheets.

b. The carrying amounts of the following short-term financial instruments approximate their fair values because of their short maturities: Cash, accounts receivable, other receivables and accounts payable.

Fair values of financial instruments designated as at fair value through profit or loss (FVTPL) are based on their quoted prices in an active market. For those instruments with no quoted market prices, their fair values are determined using valuation techniques incorporating estimates and assumptions consistent with those generally used by other market participants to price financial instruments.

c. The fair values of financial assets and liabilities were not simultaneously determined by quoted prices in active markets and by estimations using valuation technique.

d. As of December 31, 2011 and 2010, financial assets exposed to fair value interest rate risk amounted to NT$154,504 thousand (US$5,103 thousand) and NT$87,390 thousand (US$3,000 thousand), respectively. And financial assets exposed to cash flow interest rate risk amounted to NT$442,180 thousand (US$14,606 thousand) and NT$480,684 thousand (US$16,501 thousand), respectively.

e. For the years ended December 31, 2011 and 2010, the interest income associated with financial assets (liabilities) other than those at FVTPL amounted to NT$2,280 thousand (US$75 thousand) and NT$1,875 thousand (US$64 thousand), respectively, and the interest expense amounted to NT$175 thousand (US$6 thousand) and NT$5,507 thousand (US$189 thousand), respectively.

f. Financial risks

1) Market risk

The Group's fair value of foreign currency financial assets and liabilities is exposed to exchange rate risk and price risk, and financial instruments at FVTPL are exposed to price risk.

2) Credit risk

Credit risk represents the potential loss that would be incurred by the Group if the counterparties breached contracts. Financial instruments with positive fair values at the balance sheet date are evaluated for credit risk. The counterparties to the foregoing financial instruments are reputable financial institutions and business organizations. Management does not expect the Group's exposure to default by those parties to be material.

3) Liquidity risk

The Group's operating funds are deemed sufficient to meet cash flow demand; therefore, liquidity risk is not considered to be significant.

4) Cash flow interest rate risk

The Group is not exposed to material floating-rate risk; therefore, cash flow interest rate risk is not considered to be significant.

16. RELATED-PARTY TRANSACTIONS

a. Related parties and their relationships with the Group

Related Party	Relationship with the Group
Gu-Chen Investment Company	Related party in substance
We Sure Inc.	Related party in substance
Ablaze Wireless Inc.	The parent company's director is one of the Company's board members of its parent company

b. Significant transactions with related parties:

1) Operating revenue

Related Party	2011 US$	2011 NT$	2011 %
Ablaze Wireless Inc.	$ 443	$ 13,411	-

2) Interest expense

Related Party	2011 US$	2011 NT$	2011 %
We Sure Inc.	$ 173	$ 5,029	91

In December 2009, the Company borrowed cash from We Sure Inc in the amount of US$5,500 thousand. The interest rate was 12%. The Company also granted 500,000 warrants shares to We Sure Inc., which shall be converted into common shares of the Company within 3 years from December 2009 at US$1.5 exercise price per share. Those 500,000 warrants shares have been exercised and converted into 500,000 common shares in 2010. The loans were paid off before June 2010.

3) Disposal of fixed assets

In January 2010, Alchip SH sold its building to Gu-Chen Investment Company for NT$203,162 thousand selling price that resulted in NT$13,885 thousand gain on disposal of fixed assets. The Company had sale and leaseback transaction with Gu-Chen Investment Company, with the lease term from March 2010 to February 2012; the rental is RMB220 thousand every month. Gain on the sale and leaseback was deferred and amortized against rent expense during the lease term. As of December 31, 2011 and 2010, NT$12,661 thousand (US$418 thousand) and NT$5,286 thousand (US$181 thousand) of cumulative deferred gain was realized.

c. Compensation of directors and management personnel

	Year Ended December 31			
	2011		2010	
	US$	NT$	US$	NT$
Salaries	$ 1,575	$ 47,683	$ 1,110	$ 32,338
Bonus	56	1,708	-	-
	$ 1,631	$ 49,391	$ 1,110	$ 32,338

17. MORTGAGED OR PLEDGED ASSETS

The assets pledged as collateral for suppliers' capacity were as follows:

	2011	
	US$	NT$
Pledged time deposits	$ 1,992	$ 60,320

18. COMMITMENTS

On September 27, 2010, Alchip SH cooperated with Wuxi Science Park and founded Wuxi branch which mainly designs and manufactures wafer. Wuxi Science Park offered RMB3 million operational fund to Wuxi branch. Each RMB1 million will be granted when Wuxi subsidiary is completely founded, when the number of trainers reached 15, and when employees reached 5, respectively. The Company should return the above operational fund if the subsidiary cannot be founded or get grants from other governments by the year ended 2011 or three months after being listed on the Taiwan GreTai Securities Market. As of December 31, 2011, the Company has received working capital of RMB2 million as other operating income and applied for setting up of Wuxi subsidiary. The Company believed it is unlikely to return the working capital to grantor.

19. FOREIGN-CURRENCY FINANCIAL ASSETS AND LIABILITIES

The material monetary assets and liabilities denominated in foreign currencies included in the consolidated financial statements were as follows:

(In Thousands of Foreign Currencies and U.S. Dollars)

	2011			2010		
	Foreign Currencies	**Exchange Rate**	**U.S. Dollars**	**Foreign Currencies**	**Exchange Rate**	**U.S. Dollars**
Financial assets						
Monetary items						
NTD	$ 14,042	0.033031	$ 464	$ 6,331	0.034329	$ 217
RMB	13,056	0.158707	2,072	11,954	0.151752	1,814
JPY	21,816	0.012902	281	12,865	0.012297	158
Financial liabilities						
Monetary items						
NTD	17,778	0.033031	587	20,411	0.034329	701
RMB	2,160	0.158707	343	1,617	0.151752	245
JPY	12,637	0.012902	163	9,243	0.012297	114

20. ADDITIONAL DISCLOSURES

Following are the additional disclosures required by the Securities and Futures Bureau for the Company and its investees:

a. Financings provided: Table 1 (attached)

b. Endorsements/guarantees provided: Table 2 (attached)

c. Marketable securities held: Table 3 (attached)

d. Marketable securities acquired or disposed of at costs or prices of at least NT$100 million or 20% of the paid-in capital: None

e. Acquisition of individual real estate at costs of at least NT$100 million or 20% of the paid-in capital: None

f. Disposal of individual real estate at prices of at least NT$100 million or 20% of the paid-in capital: None

g. Total purchases from or sales to related parties of at least NT$100 million or 20% of the paid-in capital: Table 4 (attached)

h. Receivables from related parties amounting to at least NT$100 million or 20% of the paid-in capital: Table 5 (attached)

i. Names, locations, and related information of investees over which the Company exercises significant influence: Table 6 (attached)

j. Derivative transactions of investees over which the Company has a controlling interest: None

k. Investments in Mainland China

There is no other investment in Mainland China except as disclosed in Table 7 (attached).

l. Business relationships and significant details between parent company and subsidiaries: Tables 8 and 9 (attached).

21. SEGMENT INFORMATION

a. Industry financial information: None

b. Segment revenues and results

On January 1, 2011, the Group adopted the newly issued SFAS No. 41, "Operating Segments." The Group is identified as single operating segment based on the regular review by the Group's chief operating decision maker in order to allocate resources to the segments and assess their performance. The reported measures of the operating segment's profit or loss, the segment's assets or the segment's liabilities are determined in accordance with those used in measuring the corresponding amounts in the Group's financial statements. The related information of operating segment could referred to in the consolidated financial statements.

c. Revenue from major products and service

The following is an analysis of the Group's revenue from continuing operations from its major products and services:

(In Thousands of U.S. Dollars)

	Year Ended December 31	
	2011	**2010**
ASIC and Mass Production	$ 57,369	$ 59,394
NRE	29,810	21,896
Other revenue	871	1,956
	$ 88,050	$ 83,246

(In Thousands of New Taiwan Dollars)

	Year Ended December 31	
	2011	**2010**
ASIC and Mass Production	$ 1,736,822	$ 1,730,142
NRE	902,512	637,846
Other revenue	26,371	56,990
	$ 2,665,705	$ 2,424,978

d. Geographical information

(In Thousands of U.S. Dollars)

	Revenue		Noncurrent Assets	
	Year Ended December 31		Year Ended December 31	
	2011	**2010**	**2011**	**2010**
Japan	$ 42,202	$ 45,279	$ 289	$ 338
Taiwan	23,680	24,887	12,127	11,759
China	14,198	8,293	760	513
Others	7,970	4,787	1,560	2,017
	$ 88,050	$ 83,246	$ 14,736	$ 14,627

(In Thousands of New Taiwan Dollars)

	Revenue		Noncurrent Assets	
	Year Ended December 31		Year Ended December 31	
	2011	**2010**	**2011**	**2010**
Japan	$ 1,277,664	$ 1,318,981	$ 8,746	$ 9,815
Taiwan	716,895	724,966	367,139	342,542
China	429,846	241,568	22,996	14,942
Others	241,300	139,463	47,247	58,776
	$ 2,665,705	$ 2,424,978	$ 446,128	$ 426,075

Revenues are segregated based on the location of customers. Noncurrent assets are segregated based on the location of assets. Deferred income tax assets are not included in noncurrent assets.

e. Information about major customers

	Year Ended December 31					
	2011			2010		
Customer	**US$**	**NT$**	**% to Net Operating Revenue**	**US$**	**NT$**	**% to Net Operating Revenue**
A	$ 36,432	$ 1,102,974	41	$ 44,603	$ 1,299,282	54
B	21,921	663,646	25	22,043	642,107	26
C	10,160	307,588	12	1,764	51,385	2

22. PRE-DISCLOSURE FOR ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

Under Rule No. 0990004943 issued by the Financial Supervisory Commission (FSC) on February 2, 2010, the Group's pre-disclosure information on the adoption of International Financial Reporting Standards (IFRSs) was as follows:

a. On May 14, 2009, the FSC announced the "Framework for Adoption of International Financial Reporting Standards by Companies in the ROC." In this framework, starting 2013, companies with shares listed on the TSE or traded on the Taiwan GreTai Securities Market or Emerging Stock Market should prepare their financial statements in accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, International Financial Reporting Standards, International Accounting Standards, Interpretations and related guidance translated by the ARDF and issued by the FSC. To comply with this framework, the Group has set up a project team and made a plan to adopt the IFRSs. Leading the implementation of this plan is Miss Chan Shu-Mei, the accounting manager. The main contents of the plan, anticipated schedule and status of execution as of December 31, 2011 were as follows:

Contents of Plan	Responsible Department	Status of Execution
Assessment: From July 1, 2010 to December 31, 2011		
• Set up IFRS project team and IFRS transition plan	Accounting	Done
• Identify differences between current accounting policies and IFRSs	Accounting	Done
• Verify consolidation entity for IFRSs	Accounting	Done
• Assess the adjustments of current accounting policies	Accounting	Done
• Assess the effect of exemption and selection on the entities consolidation under IFRSs	Accounting	Done
• Assess the adjustments to IT system and internal control	MIS, internal control	Done
Preparation: From January 1, 2011 to December 31, 2012		
• Decide the accounting policies under IFRSs	Accounting	Done
• Decide the adoption of exemptions under IFRSs	Accounting	In progress
• Adjust related IT system and internal controls	MIS, internal control	In progress
Execution: From January 1, 2012 to December 31, 2013		
• Test related IT system	MIS	In progress
• Collect data to prepare the opening balance of balance sheet and comparative financial statements based on IFRSs	Accounting	In progress
• Prepare financial statements according to IFRSs	Accounting	In progress

b. As of December 31, 2011, the Company had assessed the material differences, shown below, between the existing accounting policies and the accounting policies to be adopted under IFRSs:

Accounting Issues	Description of Differences
Functional currency	Under ROC GAAP, factors considered in determining the functional currency of a foreign operating are different from those under IFRSs. Under IFRSs the functional currency of certain foreign operation entities integral to the reporting consolidated entities should be adjusted to US dollars, taking into consideration the primary indicators, secondary indicators and the extent of dependence on the parent.
Classification and allowance of deferred income tax	Under ROC GAAP, deferred income tax assets and liabilities are classified as current or noncurrent depending on corresponding assets or liabilities; when there is no corresponding assets or liabilities, the classification depends on the projected reversal of the temporary difference. After transfer to IFRSs, all deferred income tax assets and liabilities are noncurrent. Under ROC GAAP, allowance for deferred income tax assets is recognized based on the realization possibility. Under IFRSs, there is no allowance account. Deferred income tax assets are recognized only when they are highly possible to realize.
Stock-based compensation	Under ROC GAAP, employee stock options granted between January 1, 2004 and December 31, 2007 should be accounted for under the fair value method or the intrinsic value method. Compensation cost was recognized on a straight-line basis over the vesting period. Employee stock options granted between January 1, 2008 and December 31, 2009 were initially measured at their intrinsic value and then adjusted at each reporting date for any change in intrinsic value until the date of final settlement. Employee stock options granted on or after January 1, 2010 are valued at the fair value on grant date and expensed over the vesting period. Under IFRSs, equity-based compensation should be valued at the fair value of goods and services.

c. The Group has prepared the above assessments in accordance with (a) the 2010 version of IFRSs translated by the ARDF and issued by the FSC and (b) the Guidelines Governing the Preparation of Financial Reports by Securities Issuers amended and issued by the FSC on December 22, 2011. These assessments may be changed as the FSC may issue new rules governing the adoption of IFRSs, and as other laws and regulations may be amended to comply with the adoption of IFRSs. Actual results may differ from these assessments.

TABLE 1

ALCHIP TECHNOLOGIES, LIMITED AND SUBSIDIARIES

FINANCING PROVIDED
YEAR ENDED DECEMBER 31, 2011
(In Thousands of New Taiwan Dollars)

Lending Company	Borrowing Company	Financial Statement Account	Maximum Balance for the Period	Ending Balance	Balance Used	Interest Rate	Financing Purpose	Transaction Amounts	Reasons for Short-term Financing	Allowance for Doubtful Accounts	Collateral		Lending Limit for Each Borrowing Company	Lending Company's Lending Amount Limits
											Item	Value		
The Company	Alchip TW	Other receivables	$ 96,192	$ 40,832	$ 40,832	-	Short-term financing	$ -	Operational revolving fund	$ -	-	-	$ 155,570 (Note 1)	$ 622,280 (Note 2)
	Alchip USA	Other receivables	134,454	134,454	134,454	-	Short-term financing	-	Operational revolving fund	-	-	-		
	Alchip HK	Other receivables	379,352	49,957	49,957	-	Short-term financing	-	Operational revolving fund	-	-	-		

Note 1: According to the Company's Article, the limit must be less than 10% of audited net asset value.

Note 2: According to the Company's Article, the limit must be less than 40% of audited net asset value.

<u>**TABLE 2**</u>

ALCHIP TECHNOLOGIES, LIMITED AND SUBSIDIARIES

ENDORSEMENT/GUARANTEE PROVIDED
YEAR ENDED DECEMBER 31, 2011
(In Thousands of New Taiwan Dollars or Foreign Currency)

Endorsement/Guarantee Provider	Guaranteed party		Limits on Each Guaranteed party's Endorsement/ Guarantee Amount (Note 1)	Maximum Balance for the Period	Ending Balance	Value of Collateral	Ratio of Accumulated Amount of Collateral to Net Equity Shown in the Latest Financial Statements	Maximum Collateral/Guarantee Amounts Allowable (Note 2)
	Name	Nature of Relationship						
The Company	Alchip TW	Subsidiary	$ 311,140	$ 302,750	$ 302,750	$ -	19%	$777,850

Note 1: According to the Company's Article, the limited must be less than 20% of audited net asset value.

Note 2: According to the Company's Article, the limited must be less than 50% of audited net asset value.

ALCHIP TECHNOLOGIES, LIMITED AND SUBSIDIARIES

MARKETABLE SECURITIES HELD
DECEMBER 31, 2011
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investing Company	Marketable Securities Type and Name	Relationship with the Investing Company	Financial Statement Account	December 31, 2011			
				Shares/Units (Thousands)	Carrying Value	Percentage of Ownership (%)	Market Value or Net Asset Value (Note)
The Company	Stock						
	Alchip HK	Subsidiary of the Company	Long-term investment - equity method	9,001,970	$ 242,047	100	$ 242,047
	Alchip USA	Subsidiary of the Company	Credit balance of long-term investment	1,000	(139,030)	100	(139,030)
	Alchip KK	Subsidiary of the Company	Long-term investment - equity method	2	58,872	100	58,872
	Alchip TW	Subsidiary of the Company	Long-term investment - equity method	25,000	540,585	100	540,585
Alchip HK	Option						
	Alchip SH	Subsidiary of Alchip HK	Long-term investment - equity method	-	287,867	100	287,867

ALCHIP TECHNOLOGIES, LIMITED AND SUBSIDIARIES

TOTAL PURCHASE FROM OR SALE TO RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
YEAR ENDED DECEMBER 31, 2011
(In Thousands of New Taiwan Dollars)

Company Name	Related Party	Nature of Relationship	Transaction Details				Transactions with Terms Different from Others		Notes/Accounts Payable or Receivable	
			Purchase/ Sale	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total
The Company	Alchip TW	A subsidiary	Purchase	$ 1,396,787	85	Within 1 year	The same as regular terms	The same as regular terms	$ (174,779)	(41)
	Alchip SH	A subsidiary	Purchase	163,763	10	Within 1 year	The same as regular terms	The same as regular terms	(156,480)	(37)
Alchip TW	The Company	A subsidiary	Sale	(1,396,787)	(67)	Within 1 year	The same as regular terms	The same as regular terms	174,779	83
Alchip SH	The Company	A subsidiary	Sale	(163,763)	(84)	Within 1 year	The same as regular terms	The same as regular terms	156,480	88

ALCHIP TECHNOLOGIES, LIMITED AND SUBSIDIARIES

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
YEAR ENDED DECEMBER 31, 2011
(In Thousands of New Taiwan Dollars)

Company Name	Related Party	Nature of Relationship	Ending Balance	Turnover Rate	Overdue		Amount Received in Subsequent Period	Allowance for Bad Debts
					Amount	Action Taken		
The Company	Alchip USA	Subsidiary of the Company	$ 134,454	-	$ -	-	$ -	$ -
Alchip TW	The Company	-	174,779	-	-	-	-	-
Alchip Technologies, KK	The Company	-	155,914	-	-	-	-	-
Alchip SH	The Company	-	156,480	-	-	-	-	-

ALCHIP TECHNOLOGIES, LIMITED AND SUBSIDIARIES

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE
YEAR ENDED DECEMBER 31, 2011
(In Thousands of New Taiwan Dollars or Foreign Currency)

Investor	Investee	Location	Main Businesses and Products	Investment Amount		Balance as of December 31, 2011			Net Income of the Investee	Investment Income
				December 31, 2011	December 31, 2010	Shares (Thousands)	Percentage of Ownership	Carrying Value		
The Company	Alchip HK	Hong Kong	Investment	HK$ 97,861	HK$ 7,861	9,001,970	100	$ 242,047	$ 9,922	$ 9,922
	Alchip USA	United States	Sale of ASIC and SOC	US$ 10	US$ 10	1,000	100	(139,030)	10,162	10,162
	Alchip KK	Japan	Research, development and design of ASIC and SOC	JPY 210,000	JPY 210,000	2	100	58,872	5,856	5,856
	Alchip TW	Taiwan	Same as above	250,000	250,000	25,000	100	540,585	45,920	45,920
Alchip HK	Alchip SH	China	Same as above	US$ 12,800	US$ 12,800	-	100	287,867	11,001	11,001

ALCHIP TECHNOLOGIES, LIMITED AND SUBSIDIARIES

INVESTMENT IN MAINLAND CHINA
YEAR ENDED DECEMBER 31, 2011
(In Thousands of New Taiwan Dollars)

Investee Company Name	Main Businesses and Products	Total Amount of Paid-in Capital	Investment Type	Accumulated Outflow of Investment from Taiwan as of January 1, 2011	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2011	% Ownership of Direct or Indirect Investment	Investment Gain	Carrying Value as of December 31, 2011	Accumulated Inward Remittance of Earnings as of December 31, 2011
					Outflow	Inflow					
Alchip SH	Research, development and design of ASIC and SOC	$ 387,520 (RMB 102,392)	Indirect investment in a company in Mainland China through an investment company in third area	$ 387,520 (US$ 12,800)	$ -	$ -	$ 387,520 (US$ 12,800)	100%	$ 11,001 (Note)	$ 287,867	$ -

Accumulated Investment in Mainland China as of December 31, 2011	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment Authorized by Investment Commission, MOEA
$ -	-	$ -

Note: The amount is based on financial statements audited by independent auditors who also audited the parent company.

TABLE 8

ALCHIP TECHNOLOGIES, LIMITED AND SUBSIDIARIES

BUSINESS RELATIONSHIP AND SIGNIFICANT INTERCOMPANY TRANSACTIONS
YEAR ENDED DECEMBER 31, 2011
(In Thousands of U.S. Dollars)

Number	Company Name	Counterparty	Nature of Relationship (Note)	Transaction Details			
				Account	Amount	Transaction Terms	Percentage of Consolidated Total Operating Revenues or Total Assets
1	The Company	Alchip TW	1	Accounts receivable	$ 5	Based on regular terms	-
		Alchip TW	1	Operating revenue	46	Based on regular terms	-
		Alchip TW	1	Prepaid expenses	5,756	Based on regular terms	9%
		Alchip TW	1	Operating cost	46,137	Based on regular terms	52%
		Alchip TW	1	Accounts payable	5,773	Based on regular terms	9%
		Alchip TW	1	Other receivables	1,349	Based on regular terms	2%
		Alchip KK	1	Accounts receivable	973	Based on regular terms	2%
		Alchip KK	1	Accounts payable	2,965	Based on regular terms	5%
		Alchip KK	1	Prepaid expenses	1,348	Based on regular terms	2%
		Alchip KK	1	Operating revenue	512	Based on regular terms	1%
		Alchip KK	1	Operating cost	2,965	Based on regular terms	3%
		AlChip Technologies, Inc. (incorporated in USA)	1	Other receivables	4,441	Based on regular terms	7%
		Alchip Technologies, Inc. (incorporated in HK)	1	Other receivables	1,650	Based on regular terms	3%
		Alchip SH	1	Accounts payable	5,169	Based on regular terms	8%
		Alchip SH	1	Operating cost	5,409	Based on regular terms	4%
2	Alchip TW	The Company	2	Operating revenue	46,137	Based on regular terms	52%
		The Company	2	Operating cost	46	Based on regular terms	-
		The Company	2	Accounts receivable	5,773	Based on regular terms	9%
		The Company	2	Accounts payable	5	Based on regular terms	-
		The Company	2	Short-term loans - related parties	1,349	Based on regular terms	2%
		The Company	2	Receipts in advance	5,756	Based on regular terms	9%
		AlChip Technologies, Inc. (incorporated in USA)	3	Operating revenue	15	Based on regular terms	-
		AlChip Technologies, Inc. (incorporated in USA)	3	Accounts receivable	799	Based on regular terms	1%
		Alchip KK	3	Other receivables	5	Based on regular terms	-
3	AlChip Technologies, Inc. (incorporated in USA)	Alchip TW	3	Operating cost	15	Based on regular terms	-
		Alchip TW	3	Accounts payable	799	Based on regular terms	1%
		The Company	2	Short-term loans - related parties	4,441	Based on regular terms	7%
		Alchip KK	3	Other payable	13	Based on regular terms	-

(Continued)

Number	Company Name	Counterparty	Nature of Relationship (Note)	Transaction Details			
				Account	Amount	Transaction Terms	Percentage of Consolidated Total Operating Revenues or Total Assets
4	Alchip Technologies, KK	The Company	2	Accounts receivable	$ 5,150	Based on regular terms	8%
		The Company	2	Operating cost	512	Based on regular terms	1%
		The Company	2	Operating revenue	2,965	Based on regular terms	3%
		The Company	2	Other payables	3,739	Based on regular terms	6%
		The Company	2	Accounts payable	767	Based on regular terms	1%
		AlChip Technologies, Inc. (incorporated in USA)	3	Other receivables	13	Based on regular terms	-
		Alchip TW	3	Accounts payables	5	Based on regular terms	-
5	Alchip SH	The Company	2	Accounts receivable	5,169	Based on regular terms	8%
		The Company	2	Operating revenue	5,409	Based on regular terms	4%
6	Alchip Technologies, Limited (incorporated in HK)	The Company	2	Short-term loans - related parties	1,650	Based on regular terms	3%

Note:
1. Parent to subsidiary.
2. Subsidiary to parent.
3. Between subsidiaries.

(Concluded)

ALCHIP TECHNOLOGIES, LIMITED AND SUBSIDIARIES

BUSINESS RELATIONSHIP AND SIGNIFICANT INTERCOMPANY TRANSACTIONS
YEAR ENDED DECEMBER 31, 2011
(In Thousands of New Taiwan Dollars)

Number	Company Name	Counterparty	Nature of Relationship (Note)	Transaction Details			
				Account	Amount	Transaction Terms	Percentage of Consolidated Total Operating Revenues or Total Assets
1	The Company	Alchip TW	1	Accounts receivable	$ 154	Based on regular terms	-
		Alchip TW	1	Operating revenue	1,381	Based on regular terms	-
		Alchip TW	1	Prepaid expenses	174,253	Based on regular terms	9%
		Alchip TW	1	Operating cost	1,396,787	Based on regular terms	52%
		Alchip TW	1	Accounts payable	174,779	Based on regular terms	9%
		Alchip TW	1	Other receivables	40,832	Based on regular terms	2%
		Alchip KK	1	Accounts receivable	29,465	Based on regular terms	2%
		Alchip KK	1	Accounts payable	89,763	Based on regular terms	5%
		Alchip KK	1	Prepaid expenses	40,811	Based on regular terms	2%
		Alchip KK	1	Operating revenue	15,513	Based on regular terms	1%
		Alchip KK	1	Operating cost	89,763	Based on regular terms	3%
		AlChip Technologies, Inc. (incorporated in USA)	1	Other receivables	134,454	Based on regular terms	7%
		Alchip Technologies, Inc. (incorporated in HK)	1	Other receivables	49,957	Based on regular terms	3%
		Alchip SH	1	Accounts payable	156,480	Based on regular terms	8%
		Alchip SH	1	Operating cost	163,763	Based on regular terms	4%
2	Alchip TW	The Company	2	Operating revenue	1,396,787	Based on regular terms	52%
		The Company	2	Operating cost	1,381	Based on regular terms	-
		The Company	2	Accounts receivable	174,779	Based on regular terms	9%
		The Company	2	Accounts payable	154	Based on regular terms	-
		The Company	2	Short-term loans - related parties	40,832	Based on regular terms	2%
		The Company	2	Receipts in advance	174,253	Based on regular terms	9%
		AlChip Technologies, Inc. (incorporated in USA)	3	Operating revenue	449	Based on regular terms	-
		AlChip Technologies, Inc. (incorporated in USA)	3	Accounts receivable	24,181	Based on regular terms	1%
		Alchip KK	3	Other receivables	163	Based on regular terms	-
3	AlChip Technologies, Inc. (incorporated in USA)	Alchip TW	3	Operating cost	449	Based on regular terms	-
		Alchip TW	3	Accounts payable	24,181	Based on regular terms	1%
		The Company	2	Short-term loans - related parties	134,454	Based on regular terms	7%
		Alchip KK	3	Other payable	389	Based on regular terms	-

(Continued)

Number	Company Name	Counterparty	Nature of Relationship (Note)	Transaction Details			
				Account	Amount	Transaction Terms	Percentage of Consolidated Total Operating Revenues or Total Assets
4	Alchip Technologies, KK	The Company	2	Accounts receivable	$ 155,914	Based on regular terms	8%
		The Company	2	Operating cost	15,513	Based on regular terms	1%
		The Company	2	Operating revenue	89,763	Based on regular terms	3%
		The Company	2	Other payables	113,198	Based on regular terms	6%
		The Company	2	Accounts payable	23,229	Based on regular terms	1%
		AlChip Technologies, Inc. (incorporated in USA)	3	Other receivables	389	Based on regular terms	-
		Alchip TW	3	Accounts payables	163	Based on regular terms	-
5	Alchip SH	The Company	2	Accounts receivable	156,480	Based on regular terms	8%
		The Company	2	Operating revenue	163,763	Based on regular terms	4%
6	Alchip Technologies, Limited (incorporated in HK)	The Company	2	Short-term loans - related parties	49,957	Based on regular terms	3%

Note:
1. Parent to subsidiary.
2. Subsidiary to parent.
3. Between subsidiaries.

(Concluded)

ALCHIP TECHNOLOGIES, LIMITED AND SUBSIDIARIES

BUSINESS RELATIONSHIP AND SIGNIFICANT INTERCOMPANY TRANSACTIONS
YEAR ENDED DECEMBER 31, 2010
(In Thousands of U.S. Dollars)

Number	Company Name	Counterparty	Nature of Relationship (Note)	Transaction Details			
				Account	Amount	Transaction Terms	Percentage of Consolidated Total Operating Revenues or Total Assets
1	The Company	Alchip TW	1	Operating revenue	$ 18	Based on regular terms	-
		Alchip TW	1	Operating cost	42,773	Based on regular terms	52%
		Alchip TW	1	Accounts payable	1,740	Based on regular terms	3%
		Alchip TW	1	Other receivables	5,349	Based on regular terms	9%
		Alchip TW	1	Prepayment	2,133		3%
		Alchip KK	1	Accounts receivable	461	Based on regular terms	1%
		Alchip KK	1	Accounts payable	619	Based on regular terms	1%
		Alchip KK	1	Operating revenue	283	Based on regular terms	-
		Alchip KK	1	Operating cost	1,574	Based on regular terms	2%
		AlChip USA	1	Other receivables	4,441	Based on regular terms	7%
		Alchip HK	1	Other receivables	13,206	Based on regular terms	21%
		Alchip SH	1	Accounts payable	5,965	Based on regular terms	10%
		Alchip SH	1	Operating cost	4,663		6%
2	Alchip TW	The Company	2	Operating revenue	42,773	Based on regular terms	52%
		The Company	2	Operating cost	18	Based on regular terms	-
		The Company	2	Accounts receivable	1,740	Based on regular terms	3%
		The Company	2	Short-term loans - related parties	5,349	Based on regular terms	9%
		The Company	2	Sales revenue received in advance	2,133	Based on regular terms	3%
		AlChip USA	3	Operating revenue	732	Based on regular terms	1%
		AlChip USA	3	Accounts receivable	857	Based on regular terms	1%
		Alchip KK	3	Other receivables	6	Based on regular terms	-
3	AlChip USA	Alchip TW	3	Operating cost	732	Based on regular terms	1%
		Alchip TW	3	Accounts payable	857	Based on regular terms	1%
		The Company	2	Short-term loan - related parties	4,441	Based on regular terms	7%
		Alchip KK	3	Accounts payable	13	Based on regular terms	-
4	Alchip KK	The Company	2	Accounts receivable	2,181	Based on regular terms	3%
		The Company	2	Operating cost	283	Based on regular terms	-
		The Company	2	Operating revenue	1,574	Based on regular terms	2%
		The Company	2	Accounts payable	2,023	Based on regular terms	3%
		Alchip TW	3	Accounts payable	6	Based on regular terms	-
		Alchip USA	3	Other receivables	13	Based on regular terms	-

(Continued)

Number	Company Name	Counterparty	Nature of Relationship (Note)	Transaction Details			
				Account	Amount	Transaction Terms	Percentage of Consolidated Total Operating Revenues or Total Assets
5	Alchip SH	The Company The Company	2 2	Accounts receivable Operating revenue	$ 5,965 4,663	Based on regular terms Based on regular terms	10% 6%
6	Alchip HK	The Company	2	Short-term loans - related parties	13,206	Based on regular terms	21%

Note: 1. Parent to subsidiary.
2. Subsidiary to parent.
3. Between subsidiaries.

(Concluded)

ALCHIP TECHNOLOGIES, LIMITED AND SUBSIDIARIES

BUSINESS RELATIONSHIP AND SIGNIFICANT INTERCOMPANY TRANSACTIONS
YEAR ENDED DECEMBER 31, 2010
(In Thousands of New Taiwan Dollars)

Number	Company Name	Counterparty	Nature of Relationship (Note)	Transaction Details			
				Account	Amount	Transaction Terms	Percentage of Consolidated Total Operating Revenues or Total Assets
1	The Company	Alchip TW	1	Operating revenue	$ 529	Based on regular terms	-
		Alchip TW	1	Operating cost	1,245,987	Based on regular terms	52%
		Alchip TW	1	Accounts payable	50,693	Based on regular terms	3%
		Alchip TW	1	Other receivables	155,808	Based on regular terms	9%
		Alchip TW	1	Prepayment	62,140		3%
		Alchip KK	1	Accounts receivable	13,424	Based on regular terms	1%
		Alchip KK	1	Accounts payable	18,034	Based on regular terms	1%
		Alchip KK	1	Operating revenue	8,221	Based on regular terms	-
		Alchip KK	1	Operating cost	45,834	Based on regular terms	2%
		AlChip USA	1	Other receivables	129,369	Based on regular terms	7%
		Alchip HK	1	Other receivables	384,701	Based on regular terms	21%
		Alchip SH	1	Accounts payable	173,759	Based on regular terms	10%
		Alchip SH	1	Operating cost	135,831		6%
2	Alchip TW	The Company	2	Operating revenue	1,245,987	Based on regular terms	52%
		The Company	2	Operating cost	529	Based on regular terms	-
		The Company	2	Accounts receivable	50,693	Based on regular terms	3%
		The Company	2	Short-term loans - related parties	155,808	Based on regular terms	9%
		The Company	2	Sales revenue received in advance	62,140	Based on regular terms	3%
		AlChip USA	3	Operating revenue	21,316	Based on regular terms	1%
		AlChip USA	3	Accounts receivable	24,957	Based on regular terms	1%
		Alchip KK	3	Other receivables	177	Based on regular terms	-
3	AlChip USA	Alchip TW	3	Operating cost	21,316	Based on regular terms	1%
		Alchip TW	3	Accounts payable	24,957	Based on regular terms	1%
		The Company	2	Short-term loans - related parties	129,369	Based on regular terms	7%
		Alchip KK	3	Accounts payable	374	Based on regular terms	-
4	Alchip KK	The Company	2	Accounts receivable	63,552	Based on regular terms	3%
		The Company	2	Operating cost	8,221	Based on regular terms	-
		The Company	2	Operating revenue	45,834	Based on regular terms	2%
		The Company	2	Accounts payable	58,942	Based on regular terms	3%
		Alchip TW	3	Accounts payable	177	Based on regular terms	-
		Alchip USA	3	Other receivables	374	Based on regular terms	-

(Continued)

Number	Company Name	Counterparty	Nature of Relationship (Note)	Transaction Details			
				Account	Amount	Transaction Terms	Percentage of Consolidated Total Operating Revenues or Total Assets
5	Alchip SH	The Company	2	Accounts receivable	$ 173,759	Based on regular terms	10%
		The Company	2	Operating revenue	135,831	Based on regular terms	6%
6	Alchip HK	The Company	2	Short-term loans - related parties	384,701	Based on regular terms	21%

Note: 1. Parent to subsidiary.
2. Subsidiary to parent.
3. Between subsidiaries.

(Concluded)