

**SINO-AMERICAN SILICON PRODUCTS INC.
AND SUBSIDIARIES**

Consolidated Financial Statements

**March 31, 2009 and 2010
(With Independent Auditors' Report Thereon)**

Independent Auditors' Report

The Board of Directors
Sino-American Silicon Products Inc.:

We have reviewed the accompanying consolidated balance sheets of Sino-American Silicon Products Inc. and subsidiaries (the "Company") as of March 31, 2009 and 2010, and the related consolidated statements of income, and cash flows for the three-month periods then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these consolidated financial statements based on our reviews. We did not review the financial statements of a subsidiary, GlobiTech Incorporated, for the three-month periods ended on March 31, 2009 and 2010 which are included in the consolidated financial statements. This subsidiary had total assets of NT\$1,585,206 thousand and NT\$1,796,203 thousand as of March 31, 2009 and 2010, respectively, and total revenue of NT\$105,397 thousand and NT\$435,349 thousand for the three-month periods ended March 31, 2009 and 2010, respectively. Those financial statements were reviewed by other auditors, whose reports have been furnished to us, and our reviews, insofar as it relates to the amounts included for GlobiTech Incorporated, is based solely on the reports of the other auditors.

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

Based on our reviews and the reports of the other auditors, we are not aware of any material modifications that should be made to the consolidated financial statements referred to in the first paragraph in order for them to be in conformity with Order VI 0960064020 issued by Financial Supervisory Commission under the Executive Yuan effective November 15, 2007, and accounting principles generally accepted in the Republic of China.

As discussed in Note 2 to the financial statements, effective January 1, 2009, the Company and its subsidiaries adopted Republic of China Statement of Financial Accounting Standards ("SFAS") No. 10 "Inventories" as amended, resulting in a decrease in net income and basic earnings per common share-retroactively of NT\$42,727 thousand and NT\$0.16, respectively, for the three-month period ended March 31, 2009.

The accompanying consolidated financial statements as of and for the three-month period ended March 31, 2010, have been translated into United States dollars solely for the convenience of the readers. We have reviewed the translation, and based on our review, we are not aware of any material modifications that should be made to such translation for it to be in conformity with the basis set forth in note 1(3) to the consolidated financial statements.

Hsinchu, Taiwan (the Republic of China)
May 1, 2010

Note to Readers

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

Reviewed only, not audited in accordance with generally accepted auditing standards
SINO-AMERICAN SILICON PRODUCTS INC. AND SUBSIDIARIES

Consolidated Balance Sheets

At March 31, 2009 and 2010
(Expressed in thousands of dollars)

	<u>2009</u>	<u>2010</u>	
	NT\$	NT\$	US\$
Assets			
Current assets:			
Cash (note 3)	1,027,330	973,238	30,672
Notes and accounts receivable, net (note 5)	1,171,081	2,402,885	75,729
Accounts receivable from related parties (note 15)	54,894	147,771	4,657
Other financial assets – current	85,268	150,162	4,732
Inventories (note 6)	1,363,763	1,412,936	44,530
Deferred income tax assets – current	67,937	28,700	905
Prepayments and other current assets (note 17)	<u>1,290,429</u>	<u>1,138,468</u>	<u>35,880</u>
Total current assets	<u>5,060,702</u>	<u>6,254,160</u>	<u>197,105</u>
Long-term investments:			
Equity-method investments (note 7)	67,481	-	-
Prepayments for investments in stocks (note 4)	-	22,400	706
Available-for-sale financial assets – non-current (note 4)	244,899	443,521	13,978
Financial assets carried at cost – non-current (note 4)	1,614,994	1,742,250	54,909
Other financial assets – non-current (note 16)	<u>3,364</u>	<u>4,431</u>	<u>140</u>
Total long-term investments	<u>1,930,738</u>	<u>2,212,602</u>	<u>69,733</u>
Property, plant and equipment (notes 16):			
Land	27,134	25,455	802
Buildings and improvements	2,807,441	3,996,658	125,958
Machinery and equipment	4,929,766	5,998,358	189,044
Other equipment	<u>562,485</u>	<u>1,278,649</u>	<u>40,298</u>
	8,326,826	11,299,120	356,102
Less: accumulated depreciation	(2,835,827)	(3,763,032)	(118,595)
Prepayment for equipment and construction in progress	<u>1,835,052</u>	<u>924,857</u>	<u>29,148</u>
Net property, plant and equipment	<u>7,326,051</u>	<u>8,460,945</u>	<u>266,655</u>
Intangible assets (note 8):			
Goodwill	724,905	680,065	21,433
Land use rights (notes 16)	<u>10,728</u>	<u>9,851</u>	<u>310</u>
Total intangible assets	<u>735,633</u>	<u>689,916</u>	<u>21,743</u>
Other assets:			
Deferred charges and other assets	15,930	13,862	437
Long-term prepayments for materials (note 17)	<u>4,287,902</u>	<u>4,382,044</u>	<u>138,104</u>
Total other assets	<u>4,303,832</u>	<u>4,395,906</u>	<u>138,541</u>
Total Assets	<u><u>19,356,956</u></u>	<u><u>22,013,529</u></u>	<u><u>693,777</u></u>

See accompanying notes to consolidated financial statements.

Reviewed only, not audited in accordance with generally accepted auditing standards
SINO-AMERICAN SILICON PRODUCTS INC. AND SUBSIDIARIES

Consolidated Balance Sheets (continued)

At March 31, 2009 and 2010
(Expressed in thousands dollars)

	<u>2009</u>	<u>2010</u>	
	NT\$	NT\$	US\$
Liabilities and Stockholders' Equity			
Current liabilities:			
Short-term borrowings (notes 9 and 16)	1,836,998	1,221,369	38,493
Notes and accounts payable	624,643	1,397,842	44,054
Payables to related parties (note 15)	754	23,883	753
Equipment and construction in progress payable	500,369	236,720	7,460
Current portion of received in advance for sales (note 17)	788,314	388,900	12,257
Current portion of long-term loans payable (notes 10 and 16)	235,294	912,500	28,758
Current installments of notes payable (notes 11 and 16)	38,639	19,805	624
Accrued expenses and other current liabilities	480,012	426,530	13,442
Total current liabilities	<u>4,505,023</u>	<u>4,627,549</u>	<u>145,841</u>
Long-term liabilities:			
Long-term loans payable (notes 10 and 16)	2,585,882	2,627,500	82,808
Long-term notes payable (notes 11 and 16)	37,921	15,754	497
Total long-term liabilities	<u>2,623,803</u>	<u>2,643,254</u>	<u>83,305</u>
Other liabilities:			
Other liabilities – other	223,003	229,428	7,231
Revenue received in advance for sales – non-current (note 17)	4,343,728	4,316,430	136,036
Total other liabilities	<u>4,566,731</u>	<u>4,545,858</u>	<u>143,267</u>
Total liabilities	<u>11,695,557</u>	<u>11,816,661</u>	<u>372,413</u>
Stockholders' equity (note 12):			
Common stock	2,212,337	2,994,793	94,384
Advance receipts for common stock	12,166	2,114	67
Capital surplus	2,519,201	4,592,744	144,745
Retained earnings:			
Legal reserve	368,171	540,429	17,032
Unappropriated earnings	1,996,214	1,508,079	47,528
	<u>2,364,385</u>	<u>2,048,508</u>	<u>64,560</u>
Other stockholders' equity:			
Foreign currency translation adjustment	355,909	160,241	5,050
Unrecognized pension cost	-	(16,049)	(506)
Unrealized gain on available-for-sale financial assets	197,401	414,517	13,064
Total stockholders' equity	<u>553,310</u>	<u>558,709</u>	<u>17,608</u>
	7,661,399	10,196,868	321,364
Commitments and contingencies (notes 9, 10, 11 and 17)			
Total Liabilities and Stockholders' Equity	<u><u>19,356,956</u></u>	<u><u>22,013,529</u></u>	<u><u>693,777</u></u>

See accompanying notes to consolidated financial statements.

Reviewed only, not audited in accordance with generally accepted auditing standards
SINO-AMERICAN SILICON PRODUCTS INC. AND SUBSIDIARIES

Consolidated Statements of Income

For the three-month periods ended March 31, 2009 and 2010
(Expressed in thousands dollars, except for earnings per share)

	<u>2009</u>	<u>2010</u>	
	NT\$	NT\$	US\$
Net sales (note 15)	2,463,667	4,346,228	136,975
Processing revenue	<u>8,167</u>	<u>5,282</u>	<u>167</u>
Net revenue	2,471,834	4,351,510	137,142
Cost of goods sold (notes 6 and 15)	<u>2,227,503</u>	<u>3,744,954</u>	<u>118,026</u>
Gross profit	<u>244,331</u>	<u>606,556</u>	<u>19,116</u>
Operating expenses:			
Selling	25,689	30,689	967
Administrative	38,121	64,159	2,022
Research and development	<u>100,663</u>	<u>145,226</u>	<u>4,577</u>
	<u>164,473</u>	<u>240,074</u>	<u>7,566</u>
Operating income	<u>79,858</u>	<u>366,482</u>	<u>11,550</u>
Non-operating income and gains:			
Interest income	2,959	119	4
Gain on disposal of investments	-	9,530	300
Foreign exchange gain, net	13,415	4,390	138
Other income	<u>15,404</u>	<u>4,473</u>	<u>141</u>
	<u>31,778</u>	<u>18,512</u>	<u>583</u>
Non-operating expenses and losses:			
Interest expense	24,948	18,932	597
Investment loss recognized by equity method (note 7)	125	-	-
Other losses	<u>2,384</u>	<u>233</u>	<u>7</u>
	<u>27,457</u>	<u>19,165</u>	<u>604</u>
Income before income taxes	84,179	365,829	11,529
Income tax expense	<u>(8,133)</u>	<u>67,052</u>	<u>2,113</u>
Net income	<u>92,312</u>	<u>298,777</u>	<u>9,416</u>
	NT\$	NT\$	US\$
Earnings per share (in dollars) (note 13)			
Basic earnings per share	<u>0.42</u>	<u>1.00</u>	<u>0.03</u>
Basic earnings per share – retroactively adjusted	<u>0.35</u>		
Diluted earnings per share	<u>0.41</u>	<u>0.99</u>	<u>0.03</u>
Diluted earnings per share – retroactively adjusted	<u>0.34</u>		

See accompanying notes to consolidated financial statements.

Reviewed only, not audited in accordance with generally accepted auditing standards

SINO-AMERICAN SILICON PRODUCTS INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the three-month periods ended March 31, 2009 and 2010

(Expressed in thousands dollars)

	<u>2009</u>	<u>2010</u>	
	NT\$	NT\$	US\$
Cash flows from operating activities:			
Net income	92,312	298,777	9,416
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	241,994	306,941	9,673
Provision for inventory obsolescence and devaluation loss	21,315	2,892	91
Provision for allowance for doubtful accounts	7,866	917	29
Gain on disposal of the financial assets	-	(9,530)	(300)
Investment loss recognized by equity method	125	-	-
Gain on disposal of fixed assets	-	(160)	(5)
Decrease (increase) in notes and accounts receivable (including related parties)	388,287	(238,135)	(7,505)
Decrease (increase) in inventories	349,825	(91,678)	(2,889)
Decrease in other financial assets – current	2,783	39,647	1,249
Increase in other operation-related assets	(102,103)	(41,001)	(1,292)
Decrease (increase) in deferred income tax assets	(17,766)	36,331	1,145
Increase in prepayments for materials	(69,466)	(145,545)	(4,587)
Increase (decrease) in notes and accounts payable (including related parties)	(301,048)	13,130	414
Increase (decrease) in other operation-related liabilities	(111,351)	87,308	2,752
Increase in accrued pension liabilities	431	576	18
Decrease in received in advance for sales	<u>(26,813)</u>	<u>(89,877)</u>	<u>(2,833)</u>
Net cash provided by operating activities	<u>476,391</u>	<u>170,593</u>	<u>5,376</u>
Cash flows from investing activities:			
Acquisition of equity securities	(692,250)	(67,400)	(2,124)
Proceeds from disposal of available-for-sale financial assets – non-current	-	10,211	322
Acquisition of property and equipment	(617,387)	(706,914)	(22,279)
Proceeds from disposal of property and equipment	-	4,604	145
Return of capital from liquidation of long-term equity investment	11,050	-	-
Increase in other investing activities	<u>(1,403)</u>	<u>(2,096)</u>	<u>(66)</u>
Net cash used in investing activities	<u>(1,299,990)</u>	<u>(761,595)</u>	<u>(24,002)</u>
Cash flows from financing activities:			
Net increase in short-term borrowings	482,920	188,323	5,935
Increase in long-term loans payable	321,176	410,000	12,921
Proceeds from issuance of stock for employee stock options exercised	<u>12,166</u>	<u>2,114</u>	<u>67</u>
Net cash provided by financing activities	<u>816,262</u>	<u>600,437</u>	<u>18,923</u>
Effect of exchange rate changes on cash	<u>(13,540)</u>	<u>(9,516)</u>	<u>(300)</u>
Net decrease in cash	<u>(20,877)</u>	<u>(81)</u>	<u>(3)</u>
Cash at beginning of period	<u>1,048,207</u>	<u>973,319</u>	<u>30,675</u>
Cash at end of period	<u>1,027,330</u>	<u>973,238</u>	<u>30,672</u>
Supplemental disclosures of cash flow information:			
Cash payments of interest (excluding interest capitalized)	<u>28,818</u>	<u>18,399</u>	<u>580</u>
Cash payments of income taxes	<u>23,417</u>	<u>369</u>	<u>12</u>
Non-cash investing and financing activities:			
Current portion of long-term loans payable	<u>235,294</u>	<u>912,500</u>	<u>28,758</u>
Current installments of notes payable	<u>38,639</u>	<u>19,805</u>	<u>624</u>
Acquisition of property, plant and equipment:			
Increase in property, plant and equipment	697,474	658,919	20,766
Increase in payables on equipment	<u>(80,087)</u>	<u>47,995</u>	<u>1,513</u>
	<u>617,387</u>	<u>706,914</u>	<u>22,279</u>

See accompanying notes to consolidated financial statements.

Reviewed only, not audited in accordance with generally accepted auditing standards

SINO-AMERICAN SILICON PRODUCTS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of and for the three-month periods ended March 31, 2009 and 2010

(Expressed in New Taiwan dollars and US dollars,
except for per share information and unless otherwise noted)

1. Summary of Significant Accounting Policies

The consolidated financial statements have been prepared in conformity with Order VI 0960064020 issued by Financial Supervisory Commission (FSC) under the Executive Yuan on November 15, 2007 (which allows Taiwan companies not disclose certain accounting policies and information in their first and third quarter consolidated financial statements of each year) and accounting principles generally accepted in the Republic of China (ROC). Due to limited disclosures in the Company's consolidated financial statements for the first quarter and third quarter of each year, the Company's consolidated financial position, consolidated results of operations and consolidated cash flows in each of these quarters every year can be understood by reading them together with the Company's audited annual consolidated financial statements. The Company's significant accounting policies are the same as those disclosed in its 2009 consolidated financial statements.

Significant accounting policies are as follows:

(1) Overview of consolidated entities

The consolidated entities were as follows:

Name of Investor	Name of Investee	Main activities	Percentage of ownership at March 31,	
			2009	2010
Sino-American Silicon Products, Inc. (SAS)	Sino Silicon Technology Inc. (SSTI)	Investment holding and sales of the products with the subsidiary in China	100	100
SSTI	Kunshan Sino Silicon Technology Co., Ltd. (SST)	Processing and trade of ingots and wafers	100	100
SAS	GlobiTech Incorporated (GT)	Production of epitaxial wafers, silicon wafers, and operation of a wafer foundry	100	100

(Continued)

SINO-AMERICAN SILICON PRODUCTS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(2) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of all directly and indirectly majority owned subsidiaries of SAS, and the accounts of investees in which SAS's ownership percentage is less than 50% but over which SAS has a controlling interest. All significant intercompany balances and transactions are eliminated upon consolidation.

(3) Convenience Translation into U.S. dollars

The consolidated financial statements are stated in New Taiwan dollars. Translation of the March 31, 2010, New Taiwan dollar financial statement amount into U.S. dollar amounts is included solely for the convenience of the readers, using the spot rate of Federal Reserve Statistical Release on March 31, 2010 of NT\$31.73 to US\$1 uniformly for all the financial statement accounts. The convenience translations should not be construed as representation that the New Taiwan dollar amounts have been, could have been, or could in the future be, converted in to U.S. dollars at this rate or any other rate of exchange.

2. Reasons for and Effect of Changes in Accounting Principles

Effective January 1, 2009, the Company adopted SFAS No. 10 "Inventories," as amended, resulting in a decrease in net income and basic earnings per common share – retroactively adjusted of NT\$42,727 thousand and NT\$0.16, respectively, for the three-month period ended March 31, 2009.

3. Cash

The components of cash as of March 31, 2009 and 2010, were as follows:

	2009	2010	
	NT\$	NT\$	US\$
Cash on hand	632	711	22
Cash in banks	<u>1,026,698</u>	<u>972,527</u>	<u>30,650</u>
	<u>1,027,330</u>	<u>973,238</u>	<u>30,672</u>

(Continued)

SINO-AMERICAN SILICON PRODUCTS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

4. Financial Instruments

Available-for-sale financial assets – non-current, financial assets carried at cost – non-current and prepayments for investment in stocks as of March 31, 2009 and 2010, were as follows:

	<u>2009</u>	<u>2010</u>	
	NT\$	NT\$	US\$
Available-for-sale financial assets – non-current:			
Publicly listed companies:			
Acron Technology Corp.	<u>244,899</u>	<u>443,521</u>	<u>13,978</u>
Financial assets carried at cost – non-current:			
Non-publicly listed stocks:			
Songlong Electronics Co., Ltd.	-	-	-
GlobiTech Holding Company (GHC)	-	-	-
Wafer Tech China (WTC)	-	-	-
Giga Epitaxy Technology Corp.	7,499	7,499	236
Sunrise Global Solar Energy Corp.(SGSE)	100,000	145,000	4,570
21-Century Silicon, Inc.	15,795	15,795	498
Clean Venture 21 Corporation	171,540	171,540	5,406
SILFAB SPA	1,320,160	1,320,160	41,606
ZE Poly Pte Ltd.	-	82,256	2,593
	<u>1,614,994</u>	<u>1,742,250</u>	<u>54,909</u>
Prepayments for investments in Stocks:			
Accusolar Power Co., Ltd.	<u>-</u>	<u>22,400</u>	<u>706</u>

The above investments in an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured were classified as financial assets carried at cost.

As of March 31, 2010, the Company's investment in GHC and WTC was NT\$262,615 thousand (US\$8,000 thousand) and NT\$14,509 thousand (US\$450 thousand), respectively. The Company's percentage of ownership of GHC and WTC was 15.62% and 9.6%, respectively. Pursuant to a stockholders' resolution on March 25, 2008, GHC decreased its capital, and then went into liquidation and dissolution. As of March 31, 2010, cash received from this capital reduction amounted to NT\$233,085 thousand (US\$7,684 thousand), and the Company recognized impairment loss thereon of NT\$44,039 thousand.

Pursuant to a stockholders' resolution in June 2008, Songlong Electronics Co., Ltd. reduced its paid-in capital by 90% and returned cash to stockholders. The record date for its capital reduction was July 21, 2008. As of February 28, 2010, the cash receivable from this capital reduction amounted to NT\$19,886 thousand. In addition, as Songlong Electronics Co., Ltd. was experiencing recurring loss from operations, the Company recognized impairment loss thereon of NT\$4,389 thousand.

(Continued)

SINO-AMERICAN SILICON PRODUCTS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Effective 2008, in order to integrate the supply chain and diversify the investment portfolio, the Company invested in such companies as Sunrise Global Solar Energy Corp. 21-Century Silicon, Inc., Clean Venture 21 Corporation, SILFAB SPA, and Accusolar Power Co., Ltd..

Please refer to note 7 for the investment of ZE Poly Pte Ltd.

5. Notes and Accounts Receivable, Net

Notes and accounts receivable as of March 31, 2009 and 2010, were as follows:

	<u>2009</u>	<u>2010</u>	
	NT\$	NT\$	US\$
Notes receivable	36,710	111,146	3,503
Accounts receivable	1,145,236	2,335,972	73,620
Less: allowance for doubtful accounts	<u>(10,865)</u>	<u>(44,233)</u>	<u>(1,394)</u>
	<u>1,171,081</u>	<u>2,402,885</u>	<u>75,729</u>

6. Inventories

The components of inventories as of March 31, 2009 and 2010, were as follows:

	<u>2009</u>	<u>2010</u>	
	NT\$	NT\$	US\$
Merchandise	1,953	194	6
Less: provision for devaluation	<u>(236)</u>	<u>(49)</u>	<u>(2)</u>
	<u>1,717</u>	<u>145</u>	<u>4</u>
Finished goods	596,666	374,857	11,814
Less: provision for devaluation	<u>(43,908)</u>	<u>(16,960)</u>	<u>(534)</u>
	<u>552,758</u>	<u>357,897</u>	<u>11,280</u>
Work in process and semi-finished goods	97,399	196,800	6,202
Less: provision for devaluation	<u>(11,919)</u>	<u>(1,428)</u>	<u>(45)</u>
	<u>85,480</u>	<u>195,372</u>	<u>6,157</u>
Raw materials	586,133	742,056	23,387
Less: provision for devaluation	<u>(6,194)</u>	<u>(43,504)</u>	<u>(1,371)</u>
	<u>579,984</u>	<u>698,552</u>	<u>22,016</u>
Supplies	152,903	175,536	5,532
Less: provision for devaluation	<u>(9,079)</u>	<u>(14,566)</u>	<u>(459)</u>
	<u>143,824</u>	<u>160,970</u>	<u>5,073</u>
	<u>1,363,763</u>	<u>1,412,936</u>	<u>44,530</u>

(Continued)

SINO-AMERICAN SILICON PRODUCTS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

For the three-month periods ended March 31, 2009 and 2010, the Company recognized cost of goods sold of NT\$21,315 thousand and NT\$2,892 thousand, respectively, from the write-down of inventory costs to net realizable value.

7. Equity-Method Investments

Equity-method investments as of March 31, 2009, and related investment loss recognized thereon for the three-month period ended March 31, 2009, were as follows:

Investee	2009 NT\$
ZE Poly Pte Ltd.	<u>67,481</u>
Investment loss recognized by equity method, net	<u>125</u>

As part of its business strategy and integrating the supply chain, the Company invested NT\$60,920 thousand (US\$2,000 thousand) in ZE Poly Pte Ltd. ("ZE") in 2008. In December 2009, the Company's equity interest in ZE decreased from 20.00% to 18.57% as a result of disproportionate participation in ZE's capital increase, therefore the Company lost the ability to exercise significant influence over the ZE and then changed its method of accounting for its equity investment thereon from equity method to cost method. As of the date of change, the carrying amount of investment under equity method became the carrying amount of investment under the cost method.

8. Intangible Assets

Intangible assets as of March 31, 2009 and 2010, consisted of the following:

	2009				Ending balance NT\$
	Beginning balance NT\$	Additions NT\$	Amortization NT\$	Foreign currency translation NT\$	
Goodwill	702,421	-	-	22,484	724,905
Land use right	<u>10,455</u>	<u>-</u>	<u>61</u>	<u>334</u>	<u>10,728</u>
	<u>712,876</u>	<u>-</u>	<u>61</u>	<u>22,818</u>	<u>735,633</u>

(Continued)

SINO-AMERICAN SILICON PRODUCTS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

2010						
	Beginning balance	Additions	Amortization	Foreign currency translation	Ending balance	
	NT\$	NT\$	NT\$	NT\$	NT\$	US\$
Goodwill	684,575	-	-	(4,510)	680,065	21,433
Land use rights	9,972	-	57	(64)	9,851	310
	<u>694,547</u>	<u>-</u>	<u>57</u>	<u>(4,574)</u>	<u>689,916</u>	<u>21,743</u>

As of March 31, 2009 and 2010, land use rights were pledged as collateral; please refer to note 16 for related discussion on this matter.

9. Short-term Borrowings

Short-term borrowings as of March 31, 2009 and 2010, were as follows:

	2009	2010	
	NT\$	NT\$	US\$
Loan for working capital	1,094,357	938,288	29,571
Loan for purchasing materials	742,641	283,081	8,922
	<u>1,836,998</u>	<u>1,221,369</u>	<u>38,493</u>
Unused facilities	<u>2,673,025</u>	<u>2,670,870</u>	<u>84,175</u>
Range of interest rate	1.36% to 5.97%	0.80% to 1.68%	

GT maintains a "Revolving Line" of credit agreement with the bank in May 2008. The Revolving Line contained debt covenants, including financial covenants relating to liquidity, net worth and minimum earnings thresholds. GT complied with the aforementioned financial covenants as of ~~on~~ December 31, 2009.

(Continued)

SINO-AMERICAN SILICON PRODUCTS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

10. Long-term Loans Payable

As of March 31, 2009 and 2010, long-term loans payable were as follows:

<u>Financial institution</u>	<u>Key term and repayment period</u>	<u>2009</u> NT\$	<u>2010</u> NT\$	US\$
Chang Hwa Bank (lead bank of syndicated loan)	Payable in 17 quarterly installments starting from 12 months after the date of borrowing	2,441,176	1,500,000	47,274
Mega International Commercial Bank (lead bank of syndicated loan)	Payable in 15 quarterly installments starting from 18 months after the date of borrowing	380,000	1,740,000	54,837
E. Sun Bank	From June 15, 2009 to June 15, 2012, payable in quarterly installments, starting from September 15, 2010.	-	300,000	9,455
Less: current portion		<u>(235,294)</u>	<u>(912,500)</u>	<u>(28,758)</u>
		<u>2,585,882</u>	<u>2,627,500</u>	<u>82,808</u>
Range of interest rates		1.27% to 1.71%	1.65% to 1.86%	
Unused facilities		<u>2,120,000</u>	<u>760,000</u>	<u>23,952</u>

On March 12, 2008 the Company obtained syndicated loan credit facilities of NT\$2,500,000 thousand from Chang Hwa Bank and 7 other banks. Under these credit facilities, the Company complies annually and semi-annually with all financial covenants based on consolidated financial statements, such as those relating with current ratio, debt ratio, interest coverage ratio, and the amount of net worth.

On December 18, 2008, the Company obtained additional syndicated loan credit facilities of NT\$2,500,000 thousand from Mega International Commercial Bank and 5 other banks. Under these credit facilities, the Company is required to comply with all financial covenants based on consolidated financial statements, such as those relating to current ratio, debt ratio, interest coverage ratio, and the amount of net worth.

If the Company did not maintain certain financial ratios as specified in the loan agreement with Chang Hwa Bank and Mega International Commercial Bank, the Company should apply for a wavier, stating therein the reasons and measures to be taken, based on the loan agreement. The banks have rights to request for repayments, if the banks verified the breach of the loan agreement.

According to the loan agreements, a commitment fee is charged annually and payable based on 0.1% to 0.2% of the committed-to-withdraw but unused balance, provided that the actual withdrawal amount is less than the expected withdrawal amount at the committed date. No commitment fee was paid for the three-month period ended March 31, 2010.

(Continued)

SINO-AMERICAN SILICON PRODUCTS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The Company was in compliance with the aforementioned financial covenants as of December 31, 2009.

As of March 31, 2009 and 2010, certain property, plant and equipment were pledged as collateral; please refer to note 16 for related discussion on this matter.

11. Long-term Notes Payable

As of March 31, 2009 and 2010, long-term notes payable were as follows:

	<u>2009</u>	<u>2010</u>	
	NT\$	NT\$	US\$
Long-term notes payable	76,560	35,559	1,121
Less: Current portion	<u>(38,639)</u>	<u>(19,805)</u>	<u>(624)</u>
	<u>37,921</u>	<u>15,754</u>	<u>497</u>
Range of interest rates	0% to	-	
	5.5%		

The long-term portion of the debt is anticipated to mature in 2011 based on customer sales estimates.

Among of the provisions of the agreements associated with the loans from customers above is GT's guarantee of minimum production capacity and future product pricing levels. As the pricing agreements limit GT's ability to increase pricing if its costs increase, there is a risk of future loss exposure, the extent of which, if any, was not determinable as of March 31, 2009 and 2010.

As of March 31, 2009 and 2010, certain property, plant and equipment were pledged as collateral; please refer to note 16 for related discussion on this matter.

12. Stockholders' Equity

(1) Common stock

Pursuant to a stockholders' resolution on June 3, 2009, SAS increased its authorized common stock to NT\$5,000,000 thousand, and increased its common stock by 46,006 thousand shares through the capitalization of unappropriated earnings and employee bonuses of NT\$443,512 thousand and NT\$120,000 thousand, respectively. The number of common shares issued as employee bonuses was 1,655 thousand shares, which was determined by dividing the amount of employee bonuses by the closing price (after considering the effect of dividends) of the shares on the day preceding the shareholder's meeting. The stocks are issued at NT\$72.51 per share. This capital increase was registered with the governmental authorities. The record date for this capital increase was July 19, 2009.

(Continued)

SINO-AMERICAN SILICON PRODUCTS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Pursuant to a directors' resolution on June 11, 2009, SAS increased its common stock by issuing the shares between 25,000 thousand and 31,250 thousand shares for cash. The capital increase of NT\$2,254,292 thousand, divided into 31,250 thousand shares issued at NT\$73.10 per share, was approved by the governmental authorities on June 30, 2009, and completed on July 30, 2009. The cost for issuing such common stock amounted to NT\$30,082 thousand. This capital increase was registered with the governmental authorities. The record date for this capital increase was July 24, 2009.

As of March 31, 2009 and 2010, the authorized common stock were NT\$3,500,000 thousand and NT\$5,000,000 thousand, respectively, of which NT\$200,000 thousand was reserved for employee stock options, subscription warrants and outstanding corporate bonds convertible into shares. The issued common stock amounted to NT\$2,212,337 thousand and NT\$2,994,793 thousand, respectively, with par value of NT\$10 per share.

(2) Employee stock option plans

In June 2004, the Securities and Futures Bureau ("SFB") approved SAS's plan to issue 10,000,000 units of employee stock options. Each unit entitles the holder to subscribe for one common share of SAS, and the exercise period for the options is 6 years starting from the grant date. As of March 31, 2010, the outstanding employee stock options were as follows:

<u>Item</u>	<u>Authoriza- tion date</u>	<u>Grant date</u>	<u>Vesting period</u>	<u>Issued units in thousands</u>	<u>Exercise price per share (NT\$)</u>	<u>Fair value per share on grant date (NT\$)</u>	<u>Adjusted exercise price per share (NT\$)</u>
First employee stock option in 2004	June 1, 2004	August 11, 2004	Service periods between two and four years	5,000	16.20	16.20	10.20
Second employee stock option in 2004	June 1, 2004	January 31, 2005	Service periods between two and four years	5,000	23.00	23.00	15.20

For the first quarter of 2009 and 2010, 689 thousand shares and 147 thousand shares, respectively, of SAS's employee stock options were exercised. Of those shares, 689 thousand shares, and 147 thousand shares, respectively, were still in the subscription process, cash receipts thereof were recorded under advance receipts for common stock amounting to NT\$12,166 thousand and NT\$2,114 thousand as of March 31, 2009 and 2010, respectively.

(Continued)

SINO-AMERICAN SILICON PRODUCTS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

SAS applied the intrinsic value method at grant date in accounting for stock options granted to employees in 2004 under the stock option plan. Under the intrinsic value method, no compensation cost was recognized since the exercise price of SAS's employee stock options was equal to the market price of the underlying stock on the date of grant.

If the compensation cost of employee stock options was estimated by using the fair-value method in accordance with SFAS No. 39 and the Black-Scholes model was used to estimate the fair value of employee stock options granted, the weighted-average assumptions were as follows:

Expected dividend yield	4 %
Expected volatility	15.00% to 16.25%
Risk-free interest rate	1.69%
Expected continuing period	6 years

The SAS's outstanding stock options for the three-month periods ended March 31, 2009 and 2010, were as follows:

<u>Employee stock options</u>	<u>2009</u>		<u>2010</u>	
	<u>Options (thousands)</u>	<u>Weighted- average exercise price NT\$</u>	<u>Options (thousands)</u>	<u>Weighted- average exercise price NT\$</u>
Balance, beginning of period	1,213	17.31	147	14.38
Options granted	-	-	-	-
Options exercised	690	17.65	147	14.38
Options cancelled	-	-	-	-
Balance, end of period	<u>523</u>	16.88	<u>-</u>	-
Options exercisable at end of period	<u>523</u>	16.88	<u>-</u>	-
		<u>2009</u>		<u>2010</u>
		NT\$		NT\$
Weighted-average fair value of options granted during the year for the first batch of employee stock option in 2004 (NT\$)		<u>1.20</u>		<u>1.20</u>
Weighted-average fair value of options granted during the year for the second batch of employee stock options in 2004 (NT\$)		<u>1.60</u>		<u>1.60</u>

The weighted-average market price per share of common stock was NT\$68.21 and NT\$78.69 in the first quarter of 2009 and 2010, respectively. As of March 31, 2009, the weighted-average remaining contractual life of outstanding options was 1.73 years. .

(Continued)

SINO-AMERICAN SILICON PRODUCTS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

If the compensation cost of employee stock options was accounted for by using the fair-value method, the pro forma net income and earnings per share in the financial statements for the three-month period ended March 31, 2009 would be as follows:

		<u>2009</u> NT\$
Net income	Net income	92,312
	Pro forma net income	92,278
Basic earnings per share	Earnings per share (NT\$)	0.35
	Pro forma earnings per share (NT\$)	0.35
Diluted earnings per share	Earnings per share (NT\$)	0.34
	Pro forma earnings per share (NT\$)	0.34

(3) Capital surplus

Capital surplus consisted of the following as of March 31, 2009 and 2010:

	<u>2009</u> NT\$	<u>2010</u> NT\$	US\$
Additional paid-in capital	2,518,633	4,592,176	144,727
Treasury stock	546	546	17
Others	<u>22</u>	<u>22</u>	<u>1</u>
	<u>2,519,201</u>	<u>4,592,744</u>	<u>144,745</u>

According to the Republic of China Company Act, capital surplus, including premium from issuing stock and donations received, shall be initially applied to offset accumulated deficits before it can be used to increase common stock. Pursuant to the Republic of China Securities and Exchange Act, the total sum of capital surplus that is capitalizable annually shall not exceed 10 percent of the issued common stock. Capital surplus arising from premium from issuing stock shall only be used to increase common stock one year after it has been approved by and registered with the relevant governmental authorities.

(4) Legal reserve

Pursuant to the ROC Company Act, 10% of the annual earnings shall be allocated as legal reserve until the accumulated legal reserve equals the issued common stock. Legal reserve can only be used to offset accumulated deficits and increase common stock.

(Continued)

SINO-AMERICAN SILICON PRODUCTS INC. AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

(5) Distribution of earnings and dividend policy

According to SAS's articles of incorporation as revised on June 19, 2008, 10 percent of the annual earnings, after offsetting accumulated deficits and payment of income taxes due, if any, shall be set aside as a legal reserve. In addition, a special reserve in accordance with applicable laws and regulations shall also be set aside. The distribution of the remaining earnings, together with prior year's unappropriated earnings, could be proposed by the board of directors and approved in the shareholders' meeting as follows:

- (a) At least 1% as employee bonuses.
- (b) 2% as remuneration to directors and supervisors
- (c) The remaining earnings as shareholders' dividends.

After considering both the long-term development of the business and the goal of stable growth of earnings per share, distribution of cash dividends should not be less than 50% of total dividends.

According to ROC SFB regulations, a publicly listed company should retain a special reserve equal to any contra account of deduction to stockholders' equity such as foreign currency translation adjustments, etc. before distribution of earnings. If the aforementioned deduction from stockholders' equity is reversed, the same amount could be removed from special reserve and transferred to unappropriated earnings.

Employee bonuses and remuneration to directors and supervisors in 2009 and 2010 were based on SAS's net income for the three-month periods ended March 31, 2009 and 2010, after setting aside 10% as legal reserve, multiplied by a certain percentage estimated by management in consideration of the average figure for previous years. Accordingly, the Company recognized and accrued employee bonuses of NT\$12,501 thousand and NT\$35,631 thousand for the three-month periods ended on March 31, 2009 and 2010, respectively. The Company recognized remuneration to directors and supervisors of NT\$1,667 thousand and NT\$4,751 thousand for the three-month periods ended March 31, 2009 and 2010, respectively. For employee stock bonuses, the number of common shares was determined by the closing price of SAS's common shares (after considering the effect of dividends) of the day immediately preceding the shareholders' meeting. If the stockholders' meeting subsequently approves an actual distribution different from what was accrued, the difference will be accounted for as a change in accounting estimate and charged to the net income of the following year.

(Continued)

SINO-AMERICAN SILICON PRODUCTS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

The employees' bonuses and directors' and supervisors' remuneration, which were distributed from unappropriated earnings for 2008 on June 3, 2009, were as follows:

	<u>2008</u> NT\$
Employee bonuses — stock	120,000
Employee bonuses — cash	60,344
Directors' and supervisors' remuneration	<u>24,046</u>
	<u><u>204,390</u></u>

There was no difference between the above earnings distribution and the resolution of SAS's board of directors.

On March 25, 2010, the board of directors of SAS decided to appropriate the 2009 earnings for legal reserve of NT\$47,556 thousand, employee bonuses of NT\$92,054 thousand, cash dividends of NT\$509,365 thousand and Directors' and supervisors' emoluments of NT\$12,274 thousands. This earnings distribution has yet to be approved by resolution of shareholders meeting. The related information can be obtained from the Market Observation Post System of the Taiwan Stock Exchange.

13. Earnings per Share ("EPS")

The basic earnings per share and diluted earnings per share for the three-month periods ended March 31, 2009 and 2010 were calculated as follows:

	<u>2009</u>		<u>2010</u>			
	<u>Before taxes</u>	<u>After taxes</u>	<u>Before taxes</u>		<u>After taxes</u>	
	NT\$	NT\$	NT\$	US\$	NT\$	US\$
Basic earnings per share:						
Net income	<u>84,179</u>	<u>92,312</u>	<u>365,829</u>	<u>10,502</u>	<u>298,777</u>	<u>9,416</u>
Shares of common stock at beginning of period (thousand shares)	221,233	221,233	299,479		299,479	
Add: Issuance of stock from exercise of stock options	<u>407</u>	<u>407</u>	<u>97</u>		<u>97</u>	
Weighted-average number of common shares outstanding	<u>221,640</u>	<u>221,640</u>	<u>299,576</u>		<u>299,576</u>	
Basic earnings per common share (NT\$)	<u>0.38</u>	<u>0.42</u>	<u>1.22</u>	<u>0.03</u>	<u>1.00</u>	<u>0.03</u>
Basic earnings per common share (NT\$)— retroactively adjusted	<u>0.32</u>	<u>0.35</u>				

(Continued)

SINO-AMERICAN SILICON PRODUCTS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

	2009		2010			
	Before taxes	After taxes	Before taxes		After taxes	
	NT\$	NT\$	NT\$	US\$	NT\$	US\$
Diluted earnings per share:						
Net income	<u>84,179</u>	<u>92,312</u>	<u>365,829</u>	<u>10,502</u>	<u>298,777</u>	<u>9,416</u>
Effects of dilutive potential common stock:						
Weighted-average number of common shares outstanding	221,640	221,640	299,576		299,576	
Add: Potential dilution effects of common shares – exercise of stock options assumed at the time of issuance	608	608	39		39	
The potential shares of employee bonuses settled by issuing shares	<u>3,261</u>	<u>3,261</u>	<u>2,710</u>		<u>2,710</u>	
Diluted weighted-average number of common shares outstanding	<u>225,509</u>	<u>225,509</u>	<u>302,325</u>		<u>302,325</u>	
Diluted earnings per share (NT\$)	<u>0.37</u>	<u>0.41</u>	<u>1.21</u>	<u>0.03</u>	<u>0.99</u>	<u>0.03</u>
Diluted earnings per share (NT\$) – retroactively adjusted	<u>0.31</u>	<u>0.34</u>				

Effective January 1, 2008, and in accordance with ARDF Interpretation No. (97) 169, in calculating the diluted earnings per share, the full amount of employee bonuses accrued pursuant to ARDF Interpretation No. (96) 052 are assumed to be settled through the issuance of stock. The number of common shares assumed to be issued, which represents potential common stock, is determined based on the fair value of the Company's common stock on the balance sheet date, taking into account the effects of any recent dividend announcement and rights offering. When such potential common stock has dilutive effect, all potentially dilutive common stock is added to the weighted-average number of common shares outstanding during the year in computing diluted EPS.

(Continued)

SINO-AMERICAN SILICON PRODUCTS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

14. Financial Instruments

(1) Fair value of financial instruments

As of March 31, 2009 and 2010, except for certain financial assets and liabilities identified below, the carrying amounts of financial instruments approximate their fair value.

	2009		2010			
	Book value	Fair value	Book value		Fair value	
	NT\$	NT\$	NT\$	US\$	NT\$	US\$
Financial assets:						
Financial assets carried at cost	1,614,994	as below (c)	1,742,250	54,909	as below (c)	-
Prepayments for investments	-	-	22,400	706	as below (c)	-
Financial liabilities:						
Long-term notes payable	76,560	70,337	35,559	1,121	32,792	1,033
Off-balance-sheet financial instruments:						
Letters of credit	-	46,068	-	-	230,731	7,272
Guarantee	-	630,726	-	-	719,035	22,661

The methods and assumptions used to estimate the fair value of each class of financial instruments were as follows:

- The Company's non-derivative financial assets or liabilities with short-term maturities include notes and accounts receivable (including related parties), other financial assets, short-term borrowings, Equipment and construction in progress payable, accrued expenses and other current liabilities, and notes and accounts payable (including related parties), whose fair value was estimated based on book value at the balance sheet date. The carrying amounts approximate their fair value due to the short-term maturities of these items.
- The fair value of available-for-sale financial assets was determined based on the active market quoted price if it is available.
- It is not practicable to determine the fair values of financial assets carried at cost and prepayments of investments in stocks as these investments are not traded in an active public market. Refer to note 4 for details.
- The fair value of long-term notes payable was estimated based on the present value of future discounted cash flows during the installment payment periods.

(Continued)

SINO-AMERICAN SILICON PRODUCTS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- (e) The fair value of long-term loans payable bearing floating-rate approximates their carrying value.
- (f) The fair values of off-balance-sheet financial instruments were estimated based on the contract price.

As of March 31, 2009 and 2010, the fair value of the Company's financial assets and liabilities determined by publicly quoted market prices, if available or determined using a valuation technique, were as follows:

	2009		2010			
	Publicly quoted market price	Fair value based on valuation technique	Publicly quoted market price		Fair value based on valuation technique	
			NT\$	US\$	NT\$	US\$
Financial assets:						
Cash	1,027,330	-	973,238	30,672	-	-
Available-for-sale financial assets – non-current	244,899	-	443,521	13,978	-	-
Notes and accounts receivable (including related parties)	-	1,225,975	-	-	2,550,656	80,386
Other financial assets – current	-	85,268	-	-	150,162	4,732
Other financial assets – non- current	-	3,364	-	-	4,431	140
Financial liabilities:						
Short-term borrowings	-	1,836,998	-	-	1,221,369	38,493
Notes and accounts payable (including related parties)	-	625,397	-	-	1,421,725	44,807
Property, plant and equipment payable	-	500,369	-	-	236,720	7,460
Accrued expenses and other current liabilities	-	480,012	-	-	426,530	13,442
Long-term notes payable (including current portion)	-	70,337	-	-	32,792	1,033
Long-term loans payable (including current portion)	-	2,821,176	-	-	3,540,000	111,566

(Continued)

SINO-AMERICAN SILICON PRODUCTS INC. AND SUBSIDIARIES**Notes to Consolidated Financial Statements**

(2) Financial risk information

(a) Market price risk

The foreign currency assets and liabilities and the publicly traded stocks held by the Company are classified as available-for-sale financial assets and measured at fair value. Therefore, the Company is exposed to the risks of equity market price change and exchange rate volatility.

(b) Credit risk

The Company's potential credit risk is derived primarily from cash and accounts receivable. The Company maintains its cash in various creditworthy financial institutions. Credit risk exposure to each financial institution is controlled by the Company. As a result, the Company believes that there is no concentration of credit risk on cash.

The main customers of the Company belong to the silicon wafer and related industries. It is a Company's normal practice to provide customers a credit limit according to their credit evaluations. Therefore, the credit risk of the Company is mainly influenced by the silicon wafer industry. As of March 31, 2009 and 2010, accounts representing 59% and 51%, respectively of the Company's accounts receivable were from a group of ten customers.

Although there is a potential for concentration of credit risk, the Company routinely assesses the collectability of the accounts receivable and provide a corresponding allowance for doubtful accounts.

(c) Liquidity risk

The Company obtained working capital from the capital market to decrease the risk of being unable to settle contract obligations. As there is no active market for the financial assets carried at cost, they are exposed to liquidity risk.

(d) Cash flow risk resulting from change in interest rates

The Company's short-term and long-term borrowings bear floating-interest-rate. As a result, the Company is exposed to fluctuation in interest rates that affect cash flows for interest payments on these borrowings. As of March 31, 2009 and 2010, if interest rates increase by 0.25%, the future annual interest expense would increase by NT\$11,645 thousand and NT\$11,903 thousand, respectively.

(Continued)

SINO-AMERICAN SILICON PRODUCTS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

15. Related-party Transactions

- (1) Names and relationships of the related parties with which the Company had significant transactions were as follows:

<u>Name of related party</u>	<u>Relationship with the Company</u>
Actron Technology Corporation (ATC)	SAS is a member of the board of ATC
Lite-On Semiconductor Corp. (LITEON)	SAS's chairman is a member of the board of LITEON
Shanghai Seefull Electronic Co., Ltd. (SSE)	Investee of LITEON accounted for under the by equity method
Song Long Electronics Co., Ltd. (SLE)	The vice president of SAS is a member of the board of SLE

- (2) Significant transactions with related parties

- (a) Sales and accounts receivable

Net sales to related parties for the three-month periods ended March 31, 2009 and 2010, were as follows:

	<u>2009</u>		<u>2010</u>		<u>Percentage of net sales</u>
	<u>Amount</u> NT\$	<u>Percentage of net sales</u>	<u>Amount</u> NT\$	<u>US\$</u>	
ATC	39,176	2	97,181	3,063	2
SSE	-	-	4,033	127	-
LITEON	2,323	-	3,573	113	-
SLE	94	-	120	4	-
	<u>41,593</u>	<u>2</u>	<u>104,907</u>	<u>3,307</u>	<u>2</u>

The selling prices for sales to the related parties were determined by the products' specifications, which were not comparable with those of other customers. The credit terms for the related parties in the first quarter of each of 2009 and 2010 were month-end between 60 days to 150 days and month-end 90 days, respectively. The credit terms for the unrelated parties were between 0 day and 120 days.

(Continued)

SINO-AMERICAN SILICON PRODUCTS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

As of March 31, 2009 and 2010, accounts receivable resulting from sales to related parties were as follows:

	<u>2009</u>		<u>2010</u>		<u>Percentage of total receivable</u>
	<u>Amount</u>	<u>Percentage of total receivable</u>	<u>Amount</u>		
	<u>NT\$</u>		<u>NT\$</u>	<u>US\$</u>	
ATC	51,393	4	137,007	4,318	5
LITEON	3,404	-	7,450	235	1
SSE	-	-	3,222	101	-
SLE	97	-	92	3	-
	<u>54,894</u>	<u>4</u>	<u>147,771</u>	<u>4,657</u>	<u>6</u>

(b) Conversion fees and accounts payable

Conversion fees paid to related parties for the three-month periods ended March 31, 2009 and 2010, were as follows:

	<u>2009</u>		<u>2010</u>		<u>Percentage of net purchases</u>
	<u>Amount</u>	<u>Percentage of net purchases</u>	<u>Amount</u>		
	<u>NT\$</u>		<u>NT\$</u>	<u>US\$</u>	
SLE	<u>7,069</u>	<u>-</u>	<u>34,819</u>	<u>1,097</u>	<u>-</u>

The conversion fees for processing services provided by the related parties were determined based on products' specifications, which were not comparable with those of other suppliers. The payment term is month-end 15 days. The credit terms for the unrelated parties were month-end between 0 days and 120 days.

As of March 31, 2009 and 2010, payables resulting from the above transactions were as follows:

	<u>2009</u>		<u>2010</u>		<u>Percentage of total payable</u>
	<u>Amount</u>	<u>Percentage of total payable</u>	<u>Amount</u>		
	<u>NT\$</u>		<u>NT\$</u>	<u>US\$</u>	
SLE	<u>754</u>	<u>-</u>	<u>23,883</u>	<u>753</u>	<u>2</u>

(Continued)

SINO-AMERICAN SILICON PRODUCTS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

16. Pledged Assets

Assets pledged as collateral as of March 31, 2009 and 2010, were as follows:

<u>Pledged assets</u>	<u>Pledged to secure</u>	<u>2009</u>	<u>2010</u>	
		<u>NT\$</u>	<u>NT\$</u>	<u>US\$</u>
Buildings and improvements	Short-term borrowings and long-term loans payable	956,031	996,579	31,408
Machinery and equipment	Long-term loans and note payable	1,595,754	756,216	21,709
Land use rights	Short-term borrowings	10,728	9,851	310
Time deposits (recorded in other financial assets – non-current)	Guarantees for solar energy system for demonstration	48	51	2
		<u>2,562,561</u>	<u>1,762,697</u>	<u>53,429</u>

17. Commitments and Contingencies

Except for notes 9, 10 and 11, the commitments and contingencies were as follows:

- (1) SAS and Industrial Development Bureau, Ministry of Economic Affairs entered into a subsidy contract named "High Quality Multi-Crystalline Silicon Substrates Development For High Efficiency Solar Cell", an Industrial Technology Development Programs (ITDP), with a grant of NT\$20,000 thousand and term covering a period from January 1, 2008 to June 30, 2009. As stipulated in the contract, the ownership of know-how, technology and patent all belong to SAS; however, after the completion of aforementioned project, SAS has to comply with Article 35 of the "Act Governing Relations Between People of the Taiwan Area and the Mainland Area" and its related regulations, including "Permission to Engage in Investment or Technology Cooperation in the Area of Mainland" and "permission to Trade between the Area of Taiwan and Mainland China" when utilizing the research results in Mainland China.
- (2) SAS and Science Park Administration entered into a research grant contract "Growth of Non-polar Mono-Crystalline GaN on LiAlO₂ Substrate Key technology development", with a grant of NT\$3,500 thousand and term covering a period from March 1, 1999 to February 28, 2010. As stipulated in the contract, the ownership of know-how, technology and patent all belong to SAS; however, ownership of the results of the research work commissioned by the academic units, is negotiated by both parties.
- (3) As of March 31, 2009 and 2010, the Company had outstanding letters of credit of NT\$46,068 thousand and NT\$230,731 thousand, respectively.

(Continued)

SINO-AMERICAN SILICON PRODUCTS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- (4) Effective 2005, SAS has entered into several non-cancelable long-term material supply agreements with suppliers of silicon. The suppliers agree to ship silicon according to the agreements' quantity and purchase price from January 1, 2006, to December 31, 2019. The prepayments for materials were non-refundable, non-cancelable and paid by SAS on schedule as stipulated in the contract. The materials supply are guaranteed by the suppliers. As of March 31, 2010, the materials for future delivery from suppliers under the current agreement were as follows:

	March 31, 2010
USD	\$ <u>760,969</u>
EUR	\$ <u>170,783</u>

In addition, due to the economic downturn, the market prices of raw materials of silicon fluctuated rapidly. Therefore, SAS negotiated with some raw material suppliers for the revision of the agreements with regard to the individual purchase prices based on market conditions.

- (5) Effective 2005, SAS also entered into several non-cancelable long-term sales agreements with Poly silicon purchasers. According to these agreements, from January 1, 2006 to December 31, 2019, the purchasers agree to make prepayments and SAS is obligated to deliver the product on schedule as stipulated in the contracts. Also, if SAS defaulted the delivery schedule, SAS has to offer sales discounts or compensations ranging from one and half times to four times of undelivered products' applicable prepayments. However, SAS is required to refund the prepayments if SAS delays the delivery for three months. As of December 31, 2009, the amounts of future products delivery under current sales agreements were as follows:

	March 31, 2010
USD	\$ <u>1,017,689</u>
EUR	\$ <u>284,601</u>

Additionally, due to the economic downturn which caused the decline in demand, solar battery purchasers attempted to negotiate with SAS to revise the wafer prices, SAS had agreed to make agreements with pricing based on the market condition at the time.

(Continued)

SINO-AMERICAN SILICON PRODUCTS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

- (6) SAS was penalized for NT\$47,917 thousand by the Ministry of Finance, Directorate General of Customs, Taipei office (“DGOCT”), due to a dispute over the importing of products pursuant to the Customs Anti-smuggling Act. Therefore, SAS accrued the related loss in 2007 based on the accounting principle of conservatism. In addition, as requested by DGOCT, SAS needed to ask a bank to provide a performance guarantee letter to DGOCT in order to guarantee the payment of the same amount of penalty. On November 16, 2009, the governmental authority withdrew the aforementioned appeal which was filed by SAS on December 26, 2007, therefore SAS reversed the aforementioned accrual and recognized it as non-operating income in 2009.
- (7) As of March 31, 2009, the significant outstanding commitments for construction and purchase of property, plant and equipment amounted to NT\$511,104 thousand.
- (8) As of December 31, 2009, the Company had issued promissory notes as collateral for bank loans in the amount of NT\$4,632,166 thousand.
- (9) In order to help the subsidiaries to get financing from banks, SAS provided guarantees to the banks. The details of these guarantees as of March 31, 2009 and 2010, were as follows:

(USD)	<u>2009</u>	<u>2010</u>
SSTI	18,600	16,600
GT	-	6,000
	<u>18,600</u>	<u>22,600</u>

- (10) In May 2005, MEMC Southwest Inc. filed a lawsuit against GT in US District Court in Texas, United States. MEMC Southwest Inc. claimed that GT hired a former employee of MEMC Southwest Inc. who illegally utilized the confidential business information of MEMC Southwest Inc. As of the issue date of the consolidated financial report, GT cannot determine the outcome of the adjudication and penalty that might be paid or estimate the amount of the possible penalty.
- (11) SAS entered into a land lease agreement with the Hsinchu Science Park Administration for the plant located at the Hsinchu site of the Hsinchu Science Park. The land lease agreement covers a period from October 1, 2000 to September 30, 2020. According to the lease agreement, rent is subject to adjustment based on the current land value which is announced by the government. The annual rent is approximately NT\$2,616 thousand.

SAS entered into a land lease agreement with the Hsinchu Science Park Administration for the plant located at the Chu-Nan site of the Hsinchu Science Park. The land lease agreement covers a period from March 17, 2005 to December 31, 2027. According to the lease, rent is subject to adjustment based on the current land value, which is announced by the government. The annual rent is approximately NT\$3,926 thousand.

(Continued)

SINO-AMERICAN SILICON PRODUCTS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

SAS entered into a car lease agreement with HOTAL Leasing Corporation for a car intended business use. The lease covers a period from February 2008 to January 2011. The annual rent is approximately NT\$702 thousand.

As of March 31, 2010, future minimum lease commitments under the current operating lease agreements were as follows:

<u>Year</u>	<u>Amount</u>	
	NT\$	US\$
Apr. 2010 to Mar. 2015	34,216	1,078
Apr. 2015 to Dec. 2027	<u>58,332</u>	<u>1,838</u>
	<u><u>92,548</u></u>	<u><u>2,916</u></u>

18. Casualty Loss: None.

19. Subsequent Events: None.

20. Other Information

- (1) In accordance with Order VI 0960064020 issued by Financial Supervisory Commission under the Executive Yuan on November 15, 2007, an enterprise is not required to disclose the related information about income taxes, retirement plans and the total personnel, depreciation and amortization expenses in its first and third quarter consolidated financial statements of each year.
- (2) The Company has provided a reserve for loss on outward investment, in accordance with the "Statute for Upgrading Industries". This reserve was computed at 20% of the total amount of outward investment, which is the limit stipulated by the "Statute for Upgrading Industries". The statute also stipulates that if there are no actual losses within five years after the initial provision of this reserve, the loss reserve should be reversed and recognized as revenue in the fifth year. However, as such reserve does not conform to accounting principles generally accepted in the Republic of China, the loss reserve is reversed during the preparation of the financial statements, but the Company does not adjust the books. Accordingly retained earnings on the Company's books were decreased by NT\$431,674 thousand and NT\$452,498 thousand as of March 31, 2009 and 2010, respectively.
- (3) In order to meet the demand for operating capital, on March 25, 2010, the Board of Directors of SAS resolved to increase common stock by issuing GDRs covering approximately 80,000 thousand common shares.

(Continued)

SINO-AMERICAN SILICON PRODUCTS INC. AND SUBSIDIARIES**Notes to Consolidated Financial Statements****21. Segment Financial Information**

In accordance with ROC SFAS No. 23, “Interim Financial Reporting”, an enterprise is not required to comply with the disclosure requirements prescribed under ROC SFAS No. 20, “Segment Reporting”, when preparing interim financial statements.