Vanguard International Semiconductor Corporation and Subsidiaries

Consolidated Financial Statements for the Three Months Ended March 31, 2008 and Independent Accountants' Review Report

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

The Board of Directors and the Shareholders
Vanguard International Semiconductor Corporation

We have reviewed the accompanying consolidated balance sheets of Vanguard International Semiconductor Corporation and subsidiaries (the "Group") as of March 31, 2008, and the related consolidated statements of income and cash flows for the three months then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to issue a report on these consolidated financial statements based on our reviews.

We conducted our reviews in accordance with the Statement of Auditing Standards No. 36 - "Review of Financial Statements" issued by the Auditing Committee of the Accounting Research and Development Foundation of the Republic of China. A review consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the Republic of China, 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, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China (ROC).

In March 2007, the ARDF issued an interpretation that requires companies to recognize as compensation expenses bonuses paid to employees, directors and supervisors beginning January 1, 2008. These bonuses were previously recorded as appropriations from earnings. The adoption of this interpretation resulted in a decrease of NT$129,642 thousand in consolidated net income and a decrease in after income tax basic consolidated earnings per share of NT$0.08 for the three months ended March 31, 2008.

As disclosed in Note 2 to the accompanying consolidated financial statements, the Group adopted the recently released regulation No. 0960064020 issued by Financial Supervisory Commission, Executive Yuan, the financial statement represents in single period.

April 9, 2008

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

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

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

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET
MARCH 31, 2008
(In Thousands of New Taiwan Dollars, Except Par Value)
(Reviewed, Not Audited)

ASSETS	Amount	%
CURRENT ASSETS		
Cash and cash equivalents (Notes 2 and 4)	$ 5,841,174	21
Financial assets at fair value through profit or loss - current (Notes 2 and 5)	18,637	-
Available-for-sale financial assets - current (Notes 2 and 6)	3,133	-
Financial assets held to maturity - current (Notes 2 and 7)	596,990	2
Derivative financial assets for hedging - current (Notes 2 and 8)	81,007	-
Receivables from related parties (Note 21)	505,680	2
Notes and accounts receivable	2,129,734	8
Allowance for doubtful receivables (Note 2)	(44,217)	-
Allowance for sales returns and discounts (Note 2)	(119,502)	(1)
Inventories, net (Notes 2 and 9)	2,235,175	8
Prepaid expenses and other current assets (Note 21)	210,189	1
Deferred income tax assets - current (Notes 2 and 19)	131,110	-
Total current assets	11,589,110	41
INVESTMENTS		
Long-term stock investments accounted for by the equity method (Notes 2 and 10)	217,496	1
Available-for-sale financial assets - noncurrent (Notes 2 and 6)	531,432	2
Financial assets carried at cost - noncurrent (Notes 2 and 11)	159,199	-
Total investments	908,127	3
PROPERTIES (Notes 2 and 12)		
Cost		
Buildings	11,529,778	41
Machinery and equipment	43,872,662	157
Other equipment	325,734	1
Total cost	55,728,174	199
Accumulated depreciation	(42,830,403)	(153)
Prepayments and construction in progress	1,323,297	5
Net properties	14,221,068	51
OTHER ASSETS		
Assets leased to others, net (Notes 2 and 13)	1,234,644	5
Deferred charges, net (Notes 2 and 14)	93,413	-
Deferred income tax assets - noncurrent (Notes 2 and 19)	118	-
Refundable deposits	5,654	-
Total other assets	1,333,829	5
TOTAL	$ 28,052,134	100

LIABILITIES AND SHAREHOLDERS' EQUITY	Amount	%
CURRENT LIABILITIES		
Financial liabilities at fair value through profit or loss - current (Notes 2 and 5)	$ 964	-
Derivative financial liabilities for hedging (Notes 2 and 8)	7,415	-
Payables to related parties (Note 21)	130,184	-
Notes and accounts payable	995,839	4
Income tax payables (Notes 2 and 19)	218,176	1
Payables to contractors and equipment suppliers	643,892	2
Accrued expenses and other current liabilities (Notes 15, 18 and 21)	1,516,606	5
Total current liabilities	3,513,076	12
OTHER LIABILITIES		
Accrued pension costs (Notes 2 and 18)	466,068	2
Guarantee deposits	46,089	-
Total other liabilities	512,157	2
Total liabilities	4,025,233	14
SHAREHOLDERS' EQUITY (Notes 2 and 16)		
Capital stock, NT$10.00 par value;		
Authorized - 3,300,000 thousand shares		
Issued and outstanding - 1,701,049 thousand shares	17,010,486	61
Capital surplus		
Employee stock options	518,396	2
Long-term stock investments	68,179	-
Total capital surplus	586,575	2
Retained earnings		
Legal reserve	1,048,460	4
Special reserve	40,560	-
Unappropriated earnings	5,292,293	19
Total retained earnings	6,381,313	23
Others		
Cumulative translation adjustments	(62,264)	-
Unrealized gains on financial instruments (Note 24)	110,791	-
Total others	48,527	-
Total shareholders' equity	24,026,901	86
TOTAL	$ 28,052,134	100

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

(With Deloitte & Touche review report dated April 9, 2008)

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
THREE MONTHS ENDED MARCH 31, 2008
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)
(Reviewed, Not Audited)

	Amount	%
GROSS SALES (Notes 2, 8, 21 and 24)	$ 4,533,446	
SALES RETURNS AND DISCOUNTS (Note 2)	(7,439)	
NET SALES	4,526,007	100
COST OF SALES (Notes 20 and 21)	3,245,332	72
GROSS PROFIT	1,280,675	28
OPERATING EXPENSES (Notes 20 and 21)		
General and administrative	197,228	4
Marketing	37,280	1
Research and development	185,421	4
Total operating expenses	419,929	9
OPERATING INCOME	860,746	19
NONOPERATING INCOME AND GAINS		
Valuation gains on financial instruments (Notes 2, 5 and 24)	110,981	2
Interest	35,178	1
Rental (Note 13)	28,579	1
Gain on disposal of properties (Note 2)	4,438	-
Other (Note 21)	13,947	-
Total nonoperating income and gains	193,123	4
NONOPERATING EXPENSES AND LOSSES		
Foreign exchange loss, net (Notes 2 and 8)	100,788	2
Rental cost (Note 13)	22,974	1
Investment loss recognized by the equity method, net (Notes 2 and 10)	9,328	-
Loss on disposal of properties (Note 2)	12	-
Other	4,949	-
Total nonoperating expenses and losses	138,051	3
INCOME BEFORE INCOME TAX	915,818	20
INCOME TAX EXPENSE (Notes 2 and 19)	149,774	3
CONSOLIDATED NET INCOME	$ 766,044	17

(Continued)

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
THREE MONTHS ENDED MARCH 31, 2008
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)
(Reviewed, Not Audited)

	Before Income Tax	After Income Tax
CONSOLIDATED EARNINGS PER SHARE (Note 17)		
Basic	$ 0.54	$ 0.45
Diluted	$ 0.54	$ 0.45

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

(With Deloitte & Touche review report dated April 9, 2008) (Concluded)

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2008
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

CASH FLOWS FROM OPERATING ACTIVITIES	
Consolidated net income	$ 766,044
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	779,087
Investment loss recognized by the equity method, net	9,328
Deferred income tax assets	28,750
Gain on disposal of properties, net	(4,426)
Provision of pension cost	1,125
Amortized discounts for bonds	(2,506)
Provision for doubtful receivables	3,725
Reversal of allowance for sales returns and discounts	(7,361)
Net changes in operating assets and liabilities	
Receivables from related parties	394,899
Notes and accounts receivable	(199,452)
Inventories	(734,586)
Prepaid expenses and other current assets	123,049
Financial assets for trading	(12,046)
Payables to related parties	(15,648)
Notes and accounts payable	295,447
Income tax payable	121,089
Accrued expenses and other current liabilities	109,428
Derivative financial Instruments for hedging	(91,811)
Financial liabilities for trading	144
Net cash provided by operating activities	1,564,279
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds of held-to-maturity financial assets	97,680
Proceeds of disposal of bond portfolios with no active market	72,734
Increase in long-term stock investments accounted for by the equity method	(17,384)
Acquisition of properties	(2,635,951)
Proceeds of disposal of properties	4,439
Increase in deferred charges	(6,039)
Increase in refundable deposits	(1,344)
Net cash used in investing activities	(2,485,865)
CASH FLOWS FROM FINANCING ACTIVITIES	
Increase in guarantee deposits	29,181
Proceeds of the exercise of employee stock options	8,835
Net cash provided by financing activities	38,016

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VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2008
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

NET DECREASE IN CASH AND CASH EQUIVALENTS	$ (883,570)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	6,736,725
EFFECT OF EXCHANGE RATE CHANGES	(11,981)
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 5,841,174
NONCASH INVESTING ACTIVITIES	
Reclassification of properties into assets leased to others	$ 1,257,618
CASH PAID FOR ACQUISITION OF PROPERTIES	
Total acquisitions	$ 2,333,516
Decrease in payables to contractors and equipment suppliers	302,435
	$ 2,635,951

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

(With Deloitte & Touche review report dated April 9, 2008) (Concluded)

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2008
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)
(Reviewed, Not Audited)

1. ORGANIZATION AND OPERATIONS

Vanguard International Semiconductor Corporation (the "Corporation") was established on December 5, 1994 as a venture among the Ministry of Economic Affairs (MOEA), Taiwan Semiconductor Manufacturing Company Ltd. (TSMC), USI Corporation and several other private investors. The MOEA's contributed capital was assets of and technology developed from the Submicron Experiment Project.

The Corporation's shares have been traded over the counter on the Republic of China (ROC) GreTai Securities Market since March 25, 1998.

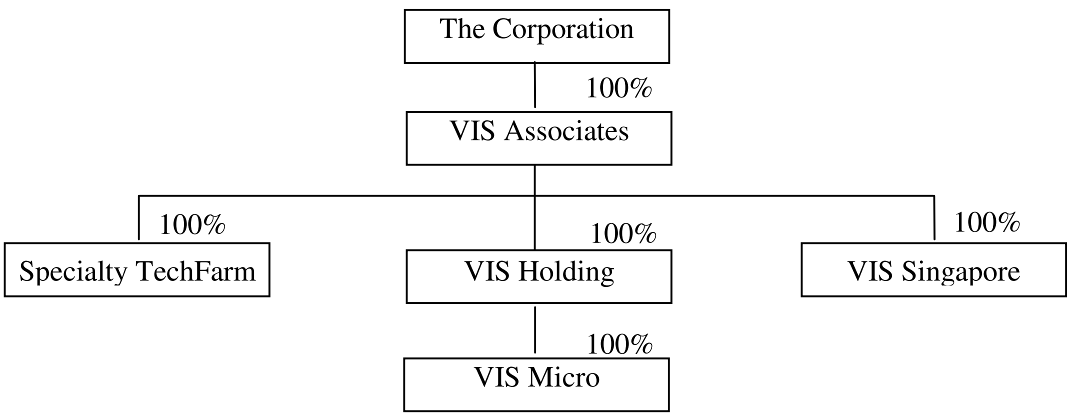
The Corporation researches, designs, manufactures, packages, tests and sells memory integrated circuits (ICs), large-scale integrated ICs (LSIs), very large-scale integrated ICs (VLSIs) and related parts.

The Corporation has one direct wholly owned subsidiary: Vanguard Associates Inc. ("VIS Associates"). VIS Associates has three direct wholly owned subsidiaries: Specialty TechFarm, Inc. ("Specialty TechFarm"), VIS Investment Holding, Inc. ("VIS Holding") and VIS Singapore Pte Ltd. ("VIS Singapore"). VIS Holding has one direct wholly owned subsidiary: VIS Micro, Inc. ("VIS Micro").

VIS Associates, Specialty TechFarm and VIS Holding engage in investments. VIS Singapore engages in special integrated circuit modeling and special production process design service. VIS-Micro engages in marketing service.

In their meeting on December 4, 2007, the board of directors of VIS Associates Inc. (VIS Associates) approved a decrease in VIS Associate's capital from US$21,070 thousand to US$6,000 thousand. And then partial return the capital of VIS Associates Inc. of US$15,070 thousand.

The following diagram shows the relationship and ownership percentages between the Corporation and its consolidated subsidiaries (collectively, the "Group") as of March 31, 2008:



VIS Singapore did not fit significant subsidiaries definition that regulation No. 0930105373 issued by Financial Supervisory Commission, Executive Yuan; thus, the financial statement didn't need be reviewed. The Corporation believes that, had VIS Singapore's financial statements been reviewed, any adjustments arising would have had no material effect on the Company's financial statements.

As of March 31, 2008, the Corporation and subsidiaries had 3,774 employees.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements have been prepared in conformity with Guidelines Governing the Preparation of Financial Reports by Securities Issuers, letter No. 0960064020 of Financial Supervisory Commission, Executive Yuan issued on November 15, 2007 and accounting principles generally accepted in the Republic of China (ROC). Under these guidelines and principles, the Group should make certain estimates and assumptions that could affect the amounts of allowance for doubtful accounts, allowance for sales returns and discounts, decline in market value of inventories, depreciation of properties, depreciation of assets leased to others, amortization of deferred charges, pension expenses, income tax expenses and compensation expenses bonuses paid to employees, directors and supervisors. Actual results could differ from these estimates.

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

According to the recently released regulation No. 0960064020 issued by Financial Supervisory Commission, Executive Yuan, effective January 1, 2008, when the Corporation first time to bulletin the consolidated financial statement could represents in single period.

The significant accounting policies are summarized as follows:

Consolidation

The accounts of all of the Corporation's direct and indirect subsidiaries are consolidated. All significant intercompany balances and transactions have been eliminated upon consolidation.

The consolidated financial statements as of and for the three months ended March 31, 2008, include the accounts of the Corporation, VIS Associates, Specialty TechFarm, VIS Singapore, VIS Holding and VIS-Micro.

Current/Noncurrent Assets and Liabilities

Current assets are unrestricted cash and cash equivalents and assets primarily for the purpose of being traded and other assets to be consumed within 12 months from the balance sheet date. Current liabilities are liabilities primarily for the purpose of being traded and those to be settled within 12 months from the balance sheet date. All other assets and liabilities are classified as noncurrent.

Cash Equivalents

Government bonds acquired under agreements for resell within three months from the date of purchase are classified as cash equivalents. Their carrying amount approximates fair value.

Financial Instruments at Fair Value through Profit or Loss

Financial instruments at fair value through profit or loss include financial assets or financial liabilities for trading. When the Corporation enters into financial instrument contracts, the financial assets or financial liabilities are recognized in the balance sheet. On contract expiry, settlement or cancellation, the financial assets and liabilities are de-recognized.

These financial instruments, except derivatives, are initially recognized at fair value plus costs that are directly attributable to instrument acquisition; these transaction cost are expensed as these are incurred. When fair value subsequently measured, the changes in fair value are recognized as earnings. Cash dividends received are recognized as income. A regular purchase or sale of financial assets is recognized and de-recognized using trade date accounting.

Derivatives not used for hedging are reclassified as financial assets or liabilities held for trading. If the fair value of the derivative is a positive number, the derivative is listed as a financial asset; otherwise, the derivative is listed as a financial liability.

The fair value of derivatives with no active market is estimated using valuation techniques.

Available-for-sale Financial Assets

Available-for-sale financial assets are initially recognized at fair value plus costs that are directly attributable to asset acquisition. When the assets are remeasured at fair value, the changes in fair value are recognized as an adjustment to shareholders' equity. The accumulated gains or losses will be recognized when the financial asset is de-recognized from the balance sheet. A regular purchase or sale of financial assets is recognized and de-recognized using trade date accounting.

The accounting treatment for financial assets is recognized and derecognized arising from Available-for-sale financial assets is the same as that for which arising from financial instruments at fair value through profit or loss.

The fair values of listed stock are their closing price as of the balance sheet date.

Cash dividends are recognized as investment income upon the declaration by an investee's shareholders under a resolution but are accounted for as reductions of the original cost of investment if these dividends are declared on the investees' earnings attributable to periods before the Corporation's purchase of the investments. Stock dividends are recorded as an increase in the number of shares held and do not affect investment income. The Corporation's cost per share is then recalculated on the basis of the new number of shares held.

If there is objective evidence of impairment loss on equity securities on the balance sheet date, the impairment loss should be recognized. If the impairment loss decreases, the previously recognized impairment loss is reversed to the extent of the decrease and recorded as an adjustment to shareholders' equity.

Financial Assets Held To Maturity

Held-to-maturity financial assets are carried at amortized cost using the effective interest method. Held-to-maturity financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition. Profit or loss is recognized when the financial assets are derecognized, impaired, or amortized. A regular purchase or sale of financial assets is recognized and de-recognized from the balance sheet using trade date accounting.

If there is objective evidence of asset impairment loss on the balance sheet date, the impairment loss should be recognized. If the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the impairment loss should be reversed. This reversal should not result in the carrying amount of the financial asset exceeding the amortized cost that would have been determined had the impairment loss not been recognized.

Derivative Financial Instruments for Hedging

Derivative financial instruments for hedging are stated at fair value. At period-end, the balances of derivative financial instruments are restated at fair value, and the resulting differences are recorded as follows depending on the hedging purpose:

a. To offset changes in the fair value of a hedged item - as credits or charges to current income;

b. To offset changes in the cash flows of a hedged item - as unrealized gain on financial instruments under shareholders' equity.

Hedge Accounting

Hedge accounting recognizes the offsetting effects on profit or loss of changes in the fair values of the hedging instrument and the hedged item, as follows:

a. Fair value hedge:

   The gain or loss from changes in the fair value of a derivative hedging instrument or from the changes in carrying values of a nonderivative hedging instrument is recognized as profit or loss. Gain or loss on the hedged item will be recognized as an adjustment to the carrying amount of the hedged item.

b. Cash flow hedge:

   1) The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized directly under shareholders' equity, and the ineffective portion of the gain or loss on the hedging instrument is recognized as profit or loss.

   2) If a hedge of a forecast transaction results in the recognition of a financial asset or a financial liability, the related gains or losses that were recognized directly under equity is reclassified as profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss.

   3) If a hedge of a forecast transaction results in the recognition of a nonfinancial asset or if a nonfinancial liability becomes a firm commitment for which fair value hedge accounting is applied, then the Corporation reclassifies the related gains and losses that were recognized directly under equity into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss.

However, if the Corporation expects that all or a portion of a loss recognized directly under equity will not be recovered in one or more future periods, it shall reclassify into profit or loss the amount that is not expected to be recovered.

A portion of the Corporation's revenue from the sales denominated in foreign currencies is cash flow hedged. The corporation uses cash flow hedge to manage risks on exchange rate fluctuation and changes of time value for those expected sales transaction. The fair value hedge is hedging for the risk of the changes of the net value of the assets.

Bond Portfolios with No Active Market

Bond portfolios with fixed or determinable receivables that are not quoted in an active market are carried at amortized cost using the effective interest method. These bond portfolios are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. Profit or loss is recognized at the time of derecognition, impairment or amortization. A regular way purchase or sale of financial assets is recognized and derecognized using trade date accounting.

If there is objective evidence that an impairment loss has been incurred on the balance sheet date, the impairment loss should be recognized. If the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the impairment loss should be reversed. This reversal should not result in the carrying amount of the financial asset exceeding the amortized cost that would have been determined had the impairment loss not been recognized.

Allowance for Doubtful Receivables

Allowance for doubtful receivables is provided on the basis of the aging and review of the collectability of receivables.

Inventories

Inventories are stated at the lower of standard cost (adjusted to approximate weighted average cost) or market value. Inventories are recorded at standard cost and adjusted to the approximate weighted-average cost at the end of each period. Market value represents net realizable value for finished goods and work in process, and replacement value for raw materials, supplies and spare parts. Estimated losses on slow-moving items are recognized and included in the allowance for losses.

Long-term Stock Investments Accounted for by the Equity Method

Investments in shares of stock of companies in which the Group exercises significant influence on their operating and financial decisions are accounted for by the equity method. If the Group subscribes for an investee's newly issued shares at a percentage different from its current ownership percentage, the Group will record the resulting change in the carrying amount of the investment as an adjustment to long-term investments, with the corresponding amount credited or debited to capital surplus. If capital surplus is not enough for debiting purposes, the difference is debited to unappropriated retained earnings. The carrying amount may also be adjusted at the Corporation's proportionate interest in the investee if there are changes in the investee's equity, other than capital stocks and retained earnings.

On the balance sheet date, the Group evaluates investments for any impairment. An impairment loss is recognized and charged to current income if the investment carrying amount as of the balance sheet date exceeds the expected recoverable amount. Investments in which the Group has significant influence over investees are tested for impairment separately at their carrying amounts.

Financial Assets Carried at Cost

Investments in securities such as non-publicly traded stocks and emerging stocks with no quoted market prices in an active market and with fair values that cannot be reliably measured are stated at original cost. When these investments are subsequently measured at fair value, they are reclassified into available-for-sale financial assets. If there is objective evidence that a financial asset is impaired, a loss is recognized. No recording of a subsequent recovery of fair value is allowed.

The accounting treatment for cash dividends and stock dividends arising from financial assets carried at cost is the same as that for cash and stock dividends arising from available-for-sale financial assets.

Properties and Assets Leased to Others

Properties (fix assets and assets leased to others) are stated at cost less accumulated depreciation. Major additions, renewals, betterments and interest expenses incurred during the construction period are capitalized, while maintenance and repairs are expensed currently.

On the balance sheet date, the Group evaluates properties for any impairment. If impairment is identified, the Group should evaluate the recoverable amount of the assets. An impairment loss should be recognized for any carrying amount in excess of the expected recoverable amount, and this loss should be charged to current income. An impairment loss recognized in prior years can be reversed only if there is a change in the estimates used to determine recoverable amount since the last impairment loss was recognized. However, the loss reversal is only to the extent that the increased carrying amount of an asset would not exceed the carrying amount (net of depreciation) had no impairment loss been recognized in prior years.

Depreciation is calculated using the straight-line method over the following periods: buildings - 5 to 20 years; machinery and equipment and other equipment - 3 to 7 years; assets leased to others - 10 to 20 years.

Properties still in use at the end of their initially estimated service lives are further depreciated over their newly estimated service lives. Upon sale or other disposal of properties, the related cost and accumulated depreciation are removed from the corresponding accounts, and any gain or loss is credited or charged to nonoperating gain or loss.

Deferred Charges

Expenditures arising from research activities and those related to development activities that do not meet the criteria for capitalization are charged to expense when incurred.

Deferred charges are amortized on the straight-line method over the following periods: software design costs - 3 to 5 years.

On the balance sheet date, the Group evaluates deferred charges for any impairment. If impairment is identified, the Group should evaluate the recoverable amount of the deferred charges. An impairment loss should be recognized for any carrying amount in excess of the expected recoverable amount, and this loss should be charged to current income. An impairment loss recognized in prior years can be reversed only if there is a change in the estimates used to determine recoverable amount since the last impairment loss was recognized. However, the loss reversal is only to the extent that the increased carrying amount of an deferred charge would not exceed the carrying amount (net of amortization) had no impairment loss been recognized in prior years.

Employee Stock Options

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. Employee stock option plans that were granted or modified after December 31, 2007 are accounted for using fair value method in accordance with Statement of Financial Accounting Standards No. 39, “Accounting for Share-based Payment”, under which compensation cost was recognized on a straight-line basis over the vesting period.

Sales and Allowance for Sales Returns and Discounts

Sales are recognized when titles to products and evident risks of ownership are transferred to customers, primarily upon shipment, since the major part of the earnings process is completed and revenue is realized or realizable. Allowances and related provisions for sales returns and discounts are provided on the basis of the Corporation’s historical experience. These provisions are deducted from gross sales and related costs are deducted from cost of sales.

Sales are determined at fair value, taking into account sales discounts agreed to by the Group and customers. Since the receivables from sales are collectible within one year and sales transactions are frequent, the fair value of receivables is equivalent to the nominal amount of cash to be received.

Capitalized and Other Expenditures

Expenditures that will result in benefits of over one year are recognized as assets; others are recognized as expenses or losses.

Pension Costs

Under the defined contribution pension plan, pension costs are recorded on the basis of the Corporation's required contributions to employees' individual pension accounts. Under the defined benefit pension plan, pension costs are recorded on the basis of actuarial calculations.

VIS Singapore and VIS Micro have defined contribution pension plans. Based on these plans, required monthly contributions to employees' individual pension accounts are charged to current cost.

Income Tax

The Group applies inter-period allocations for its income tax, that is deferred income tax assets and liabilities are recognized for the tax effects of temporary differences, unused tax credits and operating loss carryforwards. Valuation allowance is provided for deferred income tax assets that are not certain to be realized. A deferred tax asset or liability should be classified as current or noncurrent according to the classification of the related asset or liability, but if a deferred asset or liability cannot be related to an asset or liability in the financial statements, it should be classified as current or noncurrent depending on the expected realization date of the temporary difference.

Tax credits for the purchase of machinery, equipment and technology; research and development expenditures; personnel training; and investments in important technology-based enterprises are recognized using the current method.

Adjustments to prior years' tax are added to or deducted from the income tax expense in the year those adjustments are determined.

Income taxes (10%) (excluding earnings from foreign consolidated subsidiaries) on unappropriated earnings are recorded as expense in the year when the shareholders resolve to retain the earnings.

Foreign-currency Transactions

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

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

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

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

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

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

a. Recognized in shareholders' equity if the changes in fair value are recognized in shareholders' equity;

b. Recognized in profit and loss if the changes in fair value is recognized in profit or loss.

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

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

The exchange rates used for foreign-currency transaction recording, settlement or translation are mainly based on the rates obtained through the Reuter's quotation system.

3. ACCOUNTING CHANGES

a. Interpretation 96-052, "Accounting for Bonuses to Employees, Directors and Supervisors"

   In March 2007, the ARDF issued an interpretation that requires companies to recognize as compensation expenses bonuses paid to employees, directors and supervisors beginning January 1, 2008. These bonuses were previously recorded as appropriations from earnings. The adoption of this interpretation resulted in a decrease of NT$129,642 thousand in consolidated net income and a decrease in after income tax basic consolidated earnings per share of NT$0.08 for the three months ended March 31, 2008.

b. SFAS No. 39, "Accounting for Share-based Payment"

   On January 1, 2008, the Group adopted the newly released SFAS No. 39, "Accounting for Share-based Payment". This accounting change did not have a material effect on the Group's financial statements as of and for the three months ended March 31, 2008.

4. CASH AND CASH EQUIVALENTS

	March 31, 2008
Bank deposits	$ 5,641,768
Government bonds acquired under resale agreements	199,406
	$ 5,841,174

5. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial instruments for trading consisted of the following:

	March 31, 2008
Financial assets for trading	
Forward exchange contracts	$ 18,637
Financial liabilities for trading	
Forward exchange contracts	$ 964

The Corporation and subsidiaries entered into derivative transactions in the three months ended March 31, 2008 to manage exposures related to exchange rate fluctuations.

a. Outstanding forward exchange contracts as of March 31, 2008

Contract	Currency	Contract Expiry Date	Contract Amount (in Thousands)	
March 31, 2008				
Sell forward exchange contracts	US$ to NT$	2008.04.18-2008.06.18	US$	11,000
Sell forward exchange contracts	US$ to JPY	2008.04.09-2008.05.21	US$	4,200
Sell forward exchange contracts	EUR to US$	2008.04.09-2008.04.10	EUR	100
Buy forward exchange contracts	NT$ to JPY	2008.04.09	JPY	60,000
Buy forward exchange contracts	US$ to EUR	2008.04.09	EUR	100
Buy forward exchange contracts	NT$ to US$	2008.04.11	US$	2,000

The net gain on financial instrument for trading was $38,661 thousand in the three months ended March 31, 2008.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS - CURRENT

	March 31, 2008
Listed stocks - Walton Advanced Engineering, Inc. (WAE)	$ 434,794
Listed stocks - International Semiconductor Technology Ltd.	96,638
Listed stocks - Advanced Analogic Technologies, Inc. (US$103 thousand)	3,133
	534,565
Less: Financial assets classified as noncurrent assets	(531,432)
	$ 3,133

7. FINANCIAL ASSETS HELD TO MATURITY - CURRENT

	March 31, 2008
Bond - Greatwall	$ 298,537
Bond - Formosa Petrochemical Co.	198,670
Bond - 7-Eleven, Inc.	99,783
	$ 596,990

a. On August 24, 2007, the Corporation bought 5-year corporate bonds issued by Company Greatwall with an effective interest rate of 2.58%, at par value of NT$300,000 thousand. The maturity will be August 21, 2008.

b. On November 7, 2007, the Corporation bought 5-year corporate bonds issued by Formosa Petrochemical Co. with an effective rate of 2.66%, NT$200,000 thousand. The maturity will be July 2, 2008.

c. On August 15, 2007, the Corporation bought 5-year corporate bonds issued by Company 7-Eleven, Inc. with an effective interest rate of 2.50%, at value of NT$100,000 thousand. The maturity will be June 13, 2008.

8. DERIVATIVE FINANCIAL INSTRUMENTS FOR HEDGING

Derivative financial instruments for hedging (reference to Note 24) consisted of the following:

	March 31, 2008
Derivative financial assets for hedging	
Current	
Forward exchange contracts	$81,007
Derivative financial liabilities for hedging	
Current	
Forward exchange contracts	$ 7,415

Risks control and hedging policy:

The Corporation's operations and business activities are exposed to the risks of changes in fair value and exchange rate fluctuation. The Corporation uses cash flow hedge to manage risks on exchange rate fluctuation and changes of time value for those expected sales transaction. To manage the risks on exchange rate fluctuations of foreign currency-denominated assets or liabilities, the Corporation uses forward exchange contracts as fair value hedge.

In the three months ended March 31, 2008, the Corporation used forward exchange contracts to hedge risks on exchange rate fluctuations of sales and accounts receivable. The outstanding forward contracts as of March 31, 2008 were as follows:

	Currency	Maturity Date	Contract Amount (in Thousands)
March 31, 2008			
Sell forward exchange contracts	US$ to NT$	2007.04.17-2007.06.18	US$92,000

The realized net loss on derivative financial instruments used for cash flow hedging in the three months ended March 31, 2008 was $3,755 thousand, which was deducted from sales. The realized net gain on derivative financial instruments used for fair value hedging in the three months ended March 31, 2008 was $34,518 thousand, which was added from foreign exchange loss, net.

9. INVENTORIES, NET

	March 31, 2008
Finished goods	$ 75,141
Work in process	1,412,936
Raw materials	252,484
Supplies and spare parts	525,963
	2,266,524
Allowance for inventory losses	(31,349)
	$ 2,235,175

10. LONG-TERM STOCK INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

	March 31, 2008	
	Carrying Value	% of Owner-ship
Unlisted stocks		
CMSC, Inc.	$ 100,846	25
Inno-Tech Co., Ltd.	50,739	40
SkyTraq Technology, Inc.	29,217	28
LayerWalker Technology, Inc.	24,760	27
Linear Atrwork, Inc.	11,934	28
	$ 217,496	

The carrying value of the equity-method investments and the related investment net loss were based on the investees' unreviewed financial statements, except of CMSC, Inc., of the same reporting periods as those of the Group. The Corporation believes that, had those investee's financial statements been reviewed, any adjustments arising would have had no material effect on the Corporation's financial statements. The investment losses of the investees were as follows:

	March 31, 2008	
	Loss of Each Company	The Investment Loss Recognized by the Group
Inno-Tech Co., Ltd.	$ (6,175)	$ (2,461)
Linear Atrwork, Inc.	(3,671)	(1,024)
LayerWalker Technology, Inc.	(4,992)	(1,488)
SkyTraq Technology, Inc.	(4,494)	(1,246)
CMSC, Inc.	(13,095)	(3,109)
		$ (9,328)

The investment net assets of the investees were as follows:

	March 31, 2008
Total assets of the investees	$ 1,194,484
Total liabilities of the investees	423,946
Total net assets of the investees	$ 770,538
Total net assets at the Group's proportionate interest in the investee	$ 217,496

11. FINANCIAL ASSETS CARRIED AT COST - NONCURRENT

	March 31, 2008
Unlisted stocks	
Silicon Valley Equity Fund II	$ 74,791
United Industrial Gases Co., Ltd.	38,716
Uniband Electronic Corp.	29,971
Goyatek Technology Inc.	13,469
Megica Corporation	2,252
	$ 159,199

The unlisted stocks had no quoted market prices. Thus, these investments were carried at cost.

12. PROPERTIES

	Three Months Ended March 31, 2008				
	Buildings	Machinery and Equipment	Other Equipment	Prepayments and Construction in Progress	Total
Cost					
Beginning	$ 8,613,941	$ 38,090,201	$ 246,215	$ 9,063,230	$ 56,013,587
Acquired	4,173,455	5,819,817	80,177	(7,739,933)	2,333,516
Reclassification	(1,257,618)	-	-	-	(1,257,618)
Disposal	-	(37,356)	(225)	-	(37,581)
Cumulative translation adjustments	-	-	(433)	-	(433)
Ending	$ 11,529,778	$ 43,872,662	$ 325,734	$ 1,323,297	$ 57,051,471

	Three Months Ended March 31, 2008			
	Buildings	Machinery and Equipment	Other Equipment	Total
Accumulated depreciation				
Beginning	$ 7,426,666	$ 34,530,804	$ 171,439	$ 42,128,909
Depreciation	118,187	610,431	10,848	739,466
Disposal	-	(37,356)	(212)	(37,568)
Cumulative translation adjustments	-	-	(404)	(404)
Ending	$ 7,544,853	$ 35,103,879	$ 181,671	$ 42,830,403

13. ASSETS LEASED TO OTHERS, NET

	Three Months Ended March 31, 2008
Buildings	
Cost	
Beginning	$ -
Reclassified	1,257,618
Ending	1,257,618
Accumulated depreciation	
Beginning	-
Depreciation	22,974
Ending	22,974
Net balance	$ 1,234,644

The Corporation leases the part of the plant that acquired from Winbond from January 1, 2008 to December 31, 2009. Annual rentals aggregate $114,316 thousand.

14. DEFERRED CHARGES, NET

Computer design costs:

	Three Months Ended March 31, 2008
Cost	
Beginning	$ 735,871
Acquired	6,039
Cumulative translation adjustments	(179)
Ending	741,731
Accumulated amortization	
Beginning	631,780
Amortization	16,647
Cumulative translation adjustments	(109)
Ending	648,318
Net balance	$ 93,413

15. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	March 31, 2008
Royalty	$ 482,829
Bonus	189,100
Others	844,677
	$ 1,516,606

	Royalty	Bonus
January 1, 2008	$ 481,668	$ 271,062
Add: Reversal of payables to related parties	95,286	-
Accrued	100,833	180,148
Reduce: Payable	(103,034)	(262,110)
Classification as payables to related parties	(91,924)	-
March 31, 2008	$ 482,829	$ 189,100

16. SHAREHOLDERS' EQUITY

Under the Company Law, the Corporation's capital surplus can only be used to offset a deficit. In addition, capital surplus generated from the issue price in excess of the par value of capital stock may be transferred to capital as stock dividends. However, the capital surplus from long-term stock investments accounted for by the equity method is restricted from use for any purpose.

The Corporation's Articles of Incorporation provide that the following should be appropriated from the annual net income after deducting any deficit and 10% legal reserve:

a. 1% as remuneration to directors and supervisors;
b. At least 1% as bonus to employees;
c. Special reserve; and
d. Final balance, appropriation to be decided at the shareholders' meeting.

All profits may be distributed after taking into consideration financial, business and operational factors. Dividends are in cash and/or in the form of stock. Since the Corporation's operation is at the steady growth stage, the cash dividend paid (in any given year) should be at least 10% of the dividends of the current year's appropriation. If there is no profit for distribution, or the profit is far less than the profit actually distributed by the Corporation in the previous year or other reasons so require, all or part of the capital surplus may be transferred to capital in accordance with relevant laws or regulations or the requirements of the authorities in charge.

For the three months ended March 31, 2008, the bonus to employees and bonus to directors and supervisors, representing 15% and 1% of net income, respectively, were accrued based on past experiences, corporation policy and related law and decree. Material differences between such estimated amounts and the amounts proposed by the Board of Directors subsequently are retroactively adjusted for in the current year. If the actual amounts subsequently resolved by the shareholders differ from the proposed amounts, the differences are recorded in the year of shareholders' resolution as a change in accounting estimate.

Under regulations promulgated by the Securities and Futures Bureau (SFB), a special reserve equivalent to the debit balance of any account shown in the shareholders' equity section of the balance sheets should be made from unappropriated retained earnings. The special reserve may be reversed and appropriated to the extent of the balance reversed.

Legal reserve should be appropriated until the reserve equals the Corporation's paid-in capital. When the reserve exceeds 50% of the Corporation's paid-in capital, the excess may be used to offset a deficit or be distributed as dividends and bonuses if the Corporation has no unappropriated earnings. The Company Law also prescribes that, when the reserve has reached 50% of the Corporation's paid-in capital, up to 50% of the reserve may be transferred to capital.

These appropriations and the disposition of the remaining net income should be resolved by the shareholders in the following year and given effect to in the financial statements of that year. Under the Integrated Income Tax System, which took effect on January 1, 1998, resident shareholders (including corporate shareholders) are allowed a tax credit for the income tax paid by the Corporation on earnings generated since 1998. An imputation credit account (ICA) is maintained by the Corporation for such income tax and the tax credit allocated to each shareholder. The maximum credit available for allocation to each shareholder cannot exceed the balance shown in the ICA on the dividend distribution date.

On January 8, 2003, the Corporation issued 600,000 thousand shares of new capital stock at a discounted price of NT$7.00 per share.

The appropriation of earnings for 2007 was approved in the shareholders' meetings held on February 26, 2008. The appropriations and dividends per share were as follows:

	Appropriation of Earnings 2007	Dividend Per Share (NT$) 2007
Legal reserve	$ 432,107	$ -
Reversal of Special reserve	(40,560)	-
Stock dividends	34,010	0.02
Cash dividends	2,890,824	1.70
Bonus to employees - in stock	186,670	-
Bonus to employees - in cash	124,447	-
Remuneration to directors and supervisors	38,890	-
	$ 3,666,388	

Besides, the capital surplus transferred to common stock $51,015 thousand was approved in the Board of Directors' meeting on February 26, 2008.

The appropriation of stock bonuses to employees and stock dividends resulted in the issuance of additional shares amounting to $220,680 thousand and capital surplus transferred to common stock $51,015 thousand; thus, paid-in capital increased to $17,282,180 thousand. However, the actual stock dividends per share will be subject to adjustment if the number of outstanding common shares changes in connection with the exercise of employee stock options. The Board of Directors is authorized to determine adjustments in stock dividends per share and propose related appropriations. These proposed appropriations will be submitted to the shareholders for approval in their meeting on June 13, 2008. Information on appropriations can be accessed online through the Market Observation Post System on the Web site of the Taiwan Stock Exchange Corporation.

Unrealized Gain or Loss on Financial Instruments

For the three months ended March 31, 2008, movements of unrealized gain or loss on financial instruments were as follows:

	Available-for-sale Financial Assets	Gain (Loss) on Cash Flow Hedge	Total
Three months ended March 31, 2008			
Balance, beginning of period	$ 149,126	$ (5,709)	$ 143,417
Recognized in shareholders' equity	(36,829)	448	(36,381)
Transferred to profit or loss	-	3,755	3,755
Balance, end of period	$ 112,297	$ (1,506)	$ 110,791

Translation Adjustment

For the three months ended March 31, 2008, movements of translation adjustment were as follows:

Three months ended March 31, 2008	Foreign Currency Exchange Valuation Difference
Balance, beginning of period	$ (41,879)
Recognized in shareholders' equity	(20,385)
Balance, end of period	$ (62,264)

Employee Stock Option Plans

On February 20, 2001, June 21, 2002 and September 18, 2003, the Corporation received approvals from the Securities and Futures Commission (the former name of the SFB) of its adoption of Employee Stock Option Plans (hereinafter referred to as the "2001 Plan", "2002 Plan", and "2003 Plan"). The 2001 Plan consisted of 16,000 thousand units. Together, the 2002 Plan and 2003 Plan consisted of 140,000 thousand units. These options generally vest at a certain percentage from two years after the date of grant and may be exercised within eight years from two years after the date of grant. Other information on the stock option rights plan is as follows:

	2003 Plan		2002 Plan		2001 Plan	
2008	Number of Outstanding Stock Option Rights (in Thousands)	Weighted-Average Exercise Price (NT$)	Number of Outstanding Stock Option Rights (in Thousands)	Weighted-Average Exercise Price (NT$)	Number of Outstanding Stock Option Rights (in Thousands)	Weighted-Average Exercise Price (NT$)
Beginning balance	33,883	19.48	9,875	14.20	3,750	18.40
Options exercised	(142)	18.82	(115)	14.20	(71)	15.28
Options canceled	(102)	20.60	-	-	-	-
Ending balance	33,639	19.48	9,760	14.20	3,679	18.47

The number of outstanding option rights and exercise prices had been adjusted to reflect the offset of deficit by capital reduction and the appropriations of dividends in accordance with the stock option plans.

The outstanding stock options as of March 31, 2008 were as follows:

Exercise Price (NT$)	Options Outstanding: Number Outstanding (in Thousands)	Options Outstanding: Expected Remaining Contractual Life (in Years)	Options Outstanding: Weighted-average Exercise Price (NT$)	Options Exercisable: Number Exercisable (in Thousands)	Options Exercisable: Weighted-average Exercise Price (NT$)
2003 plan					
$15.5-$20.6	33,639	5.67-6.47	$ 19.48	27,683	$ 19.48
2002 plan					
$14.2	9,760	4.48	14.20	9,760	14.20
2001 plan					
$14.8-$19.9	3,679	3.15-3.85	18.47	3,679	18.47

No employee stock options were granted in the three months ended March 31, 2008. The Corporation used the intrinsic value method to evaluate compensation cost for employee stock options granted in the second and third quarters of 2004. The compensation cost recognized was zero since the above stock option was granted at an exercise price equal to the closing price of the Corporation's common shares on the measurement dates. Had the Corporation applied the fair value method to evaluate compensation cost of employee stock options granted, pro forma results of the Corporation would have been as follows:

Method:	Black-Scholes model
Assumptions:	
Risk-free interest rate	2.63%-3.00%
Expected life (in years)	10 years
Expected stock price volatility	70.40%-70.46%
Expected dividend yield	-
Fair value per option (NT$)	$8.07-$10.00

	Three Months Ended March 31, 2008
Consolidated net income:	
Consolidated net income as reported	$ 766,044
Pro forma consolidated net income	$ 760,924
Consolidated earnings per share (EPS) (NT$):	
Basic EPS as reported	$0.45
Pro forma basic EPS	$0.45
Diluted EPS as reported	$0.45
Pro forma diluted EPS	$0.45

17. CONSOLIDATED EARNINGS PER SHARE

The numerators and denominators used in calculating basic and diluted consolidated earnings per share were as follows:

	Amounts (Numerator)		Shares (Denominator) (Thousands)	EPS (NT$)	
	Before Income Tax	After Income Tax		Before Income Tax	After Income Tax
Three months ended March 31, 2008					
Consolidated net income	$ 915,818	$ 766,044			
Basic EPS					
Consolidated net income of common shareholders	$ 915,818	$ 766,044	1,700,724	$ 0.54	$ 0.45
Effect of dilutive securities employee stock option rights	-	-	6,241		
Diluted EPS					
Consolidated net income of common and potential common shareholders	$ 915,818	$ 766,044	1,706,965	$ 0.54	$ 0.45

18. PENSION PLAN

The Labor Pension Act ("LPA") took effect on July 1, 2005. Employees subject to the Labor Standards Law (the "LSL") before July 1, 2005 were allowed to choose to continue being subject to the LSL or to be subject to the LPA, with their service years as of July 1, 2005 retained. Those hired as regular employees on or after July 1, 2005 automatically become subject to the LPA.

The pension plan under the LPA is a defined contribution plan. Based on the LPA, the Corporation makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages. The pension costs were NT$28,716 thousand for the three months ended March 31, 2008.

Based on the defined benefit plan under the LSL, pension benefits are calculated on the basis of the length of service and average monthly salaries and wages of the six months before retirement. The Corporation contributes amounts equal to 2% of monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. The pension fund is deposited in Bank of Taiwan (on July 1, 2007, Bank of Taiwan merged with the Central Trust of China, with Bank of Taiwan as the survivor bank) in the committee's name. The Corporation recognized pension costs of NT$5,181 thousand for the there months ended March 31, 2008.

Furthermore, VIS Singapore and VIS Micro are required by local regulations to make monthly contributions at certain percentages of the basic salary of their employees. Pursuant to the aforementioned Act and local regulations, the recognized pension cost of NT$498 thousand for the three months ended March 31, 2008.

The changes in the Corporation pension fund and accrued pension cost under the defined benefit plan are summarized as follows:

a. Components of pension cost

	Three Months Ended March 31, 2008
Pension fund	
Balance, beginning of period	$ 243,277
Contributions	3,980
Interest	8,154
Balance, end of period	$ 255,411
Accrued pension liabilities	
Balance, beginning of period	$ 464,943
Add: Accrued expenses and other current liabilities, beginning of period	1,310
Provisions	5,181
Contributions	(3,980)
Deducted: Accrued expenses and other current liabilities, end of period	(1,386)
Balance, end of period	$ 466,068

19. INCOME TAX EXPENSE

a. The Statute for Alternative Minimum Tax took effect on January 1, 2006. Under this statute, the Corporation should pay annually at least the minimum income tax calculated in accordance with the stature. This requirement has already been taken into consideration in the evaluation of whether the unused deferred tax assets could be realized.

b. A reconciliation of income tax expense on income before income tax at the statutory rate and current income tax expense before income tax credits is shown below:

	Three Months Ended March 31, 2008
Income tax expense based on income before income tax at statutory rate	$ 228,634
Permanent differences	2,732
Temporary differences	(13,383)
Current income tax expense before income tax credits	$ 217,983

c. Income tax expense were as follows:

	Three Months Ended March 31, 2008
Current income tax expense before income tax credits	$ 217,983
Operating loss carryforwards	(57,752)
Investment tax credits	(39,266)
Net change in deferred income tax assets	
Investment tax credits	3,256
Operating loss carryforwards	59,838
Temporary differences	12,862
Valuation allowance	(47,206)
Others	59
Income tax expense	$ 149,774

d. Movement of Income tax payable on balance sheet was as follows:

Beginning	$ 96,413
Current income tax payment	120,548
Ending	$ 216,961
Current income tax paid in the subsidiaries	$ -

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

	March 31, 2008
Current	
Investment tax credits	$ 299,778
Operating loss carryforwards	173,268
Loss on inventory valuation and obsolescence	27,609
Other	47,277
	547,932
Valuation allowance	(416,822)
	$ 131,110
Noncurrent	
Investment tax credits	$ 447,639
Operating loss carryforwards	27,870
Investment gain recognized by the equity method, net	(27,256)
Accrued pension cost	116,517
Depreciation and amortization	281,644
Other	(502)
	845,912
Valuation allowance	(845,794)
	$ 118

f. The imputation credit account (ICA) balances as of March 31, 2008 was $10,246 thousand.

The expected and actual creditable ratio for distributing the earnings of 2007 was 0.23%.

The imputation credit allocated to each shareholder is based on the balance in the ICA on the date of dividend distribution; thus the expected creditable ratio for the 2007 earnings may be adjusted according to the actual ICA balance on the dividend distribution date.

g. The unappropriated retained earnings as of March 31, 2008 did not contain the unappropriated earnings generated on and before January 1, 1998.

h. As of March 31, 2008, the tax credits and operating loss carryforwards were as follows:

The Corporation

Regulatory Basis of Tax Credits	Items	Total Creditable Amounts	Remaining Creditable Amounts	Expiry Year
Income Tax Law	Operating loss carryforwards	$ 231,020	$ 173,268	2008
Statute for Upgrading Industries	Purchase of machinery and equipment	$ 238,596	$ 199,330	2008
		37,752	37,752	2009
		40,513	40,513	2010
		57,255	57,255	2011
		$ 374,116	$ 334,850	
Statute for Upgrading Industries	Research and development expenditures	$ 78,539	$ 78,539	2008
		206,697	206,697	2009
		67,681	67,681	2010
		29,822	29,822	2011
		7,821	7,821	2012
		$ 390,560	$ 390,560	
Statute for Upgrading Industries	Personnel training expenditures	$ 1,759	$ 1,759	2008
		1,613	1,613	2009
		1,292	1,292	2010
		2,221	2,221	2011
		148	148	2012
		$ 7,033	$ 7,033	
Statute for Upgrading Industries	Investments in important technology - based enterprise	$ 6,428	$ 6,428	2010
		8,546	8,546	2011
		$ 14,974	$ 14,974	

As of March 31, 2008, the operating loss carryforwards of VIS Holding were as follows:

Expiry Year	Remaining Creditable Amount
2020	$ 27,507
2021	290
2027	73
	$ 27,870

Income tax returns of the Corporation through 2004 had been examined and cleared by the tax authorities.

20. LABOR COST, DEPRECIATION AND AMORTIZATION EXPENSE

	2008		
	Classified as Cost of Sales	Classified as Operating Expenses	Total
Labor cost			
Salary	$ 718,760	$ 162,086	$ 880,846
Labor/health insurance	33,989	8,025	42,014
Pension	27,934	6,461	34,395
Others	21,808	6,052	27,860
	$ 802,491	$ 182,624	$ 985,115
Depreciation	$ 726,828	$ 12,638	$ 739,466
Amortization	$ 5,860	$ 10,787	$ 16,647

21. RELATED-PARTY TRANSACTIONS

The Group’s related parties were as follows:

a. Taiwan Semiconductor Manufacturing Company Ltd. (TSMC): A major shareholder of the Corporation.

b. Walton Advanced Engineering, Inc. (WAE): The Corporation is its director.

c. CMSC, Inc. (CMSC): Equity-method investee of the Corporation.

d. Goyatek Technology Inc. (Goya): An indirect subsidiary of the Corporation is its director.

e. TSMC-Shanghai: It’s parent company is major shareholder of the Corporation.

f. Global Unichip Corporation (GUC): Related party in substance.

g. INNO-TECH Co., Ltd. (INNO): Indirect subsidiary.

h. CPSI Management Inc.: Specialty TechFarm and CPSI Management Inc. have the same chairman.

i. Others - related parties over which the Corporation has substantial influence but without any transactions. Please see Note 25.

The transactions with the related parties, in addition to those disclosed in other notes, were summarized as follows:

	2008	
	Amount	**%**
For the period		
Sales		
TSMC	$ 793,536	18
Goya	68,851	2
GUC	5,082	-
CMSC	834	-
INNO	323	-
	$ 868,626	20
Manufacturing expenses		
TSMC	$ 129,130	4
General and administrative expenses		
CPSI Management Inc.	$ 1,992	5
Research and development expenses		
TSMC	$ 960	1
Nonoperating income and gains		
TSMC	$ 2,363	13
At end of period		
Receivables		
TSMC	$ 484,032	96
Goya	17,991	4
GUC	3,102	-
CMSC	380	-
INNO	160	-
TSMC-Shanghai	15	-
	$ 505,680	100
Prepaid expenses and other current assets		
CPSI Management Inc.	$ 570	-
Payables		
TSMC	$ 130,090	100
GUC	94	-
	$ 130,184	100

	2008	
	Amount	**%**
Temporary credit (prepaid expenses and other current assets)		
TSMC	$ 48	-
Guarantee deposits		
Goya	$ 15,500	34

The terms of sales and purchase transactions with related parties were not significantly different from those for third parties. However, for certain related-party transactions; license fee, general and administrative expenses, marketing expenses and research and development expenses, there were no similar transactions in the market; thus, transaction terms were based on related contracts.

Goya's guarantee deposits was occurred from sales.

22. SIGNIFICANT LONG-TERM OPERATING LEASES

The Corporation leases the sites of its manufacturing plant and parking lot from the Hsinchu Science-Based Industrial Park Administration and a certain individual under renewable operating lease agreements expiring on various dates from April 2010, April 2015, June 2015 and December 2027. Annual rentals aggregate $79,244 thousand.

Future minimum annual rentals under the leases are as follows:

Year	**Amount**
2008 the last three quarters	$ 59,433
2009	79,244
2010	70,231
2011	65,949
2012	65,949
2013-2015	798,357
	$ 1,139,163

23. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

The significant commitments of the Corporation as of March 31, 2008 were as follows:

a. The Corporation revised its existing license agreement with Texas Instruments Incorporated. Original duration was from January 1, 1997 to December 31, 2006. The revised termination date is December 31, 2009. Both parties authorized the other party to use their patents in manufacturing and selling semiconductor products; and waive all claims based on patent infringement toward the other party, including their subsidiaries.

b. The Corporation entered into a license and technology transfer agreement, effective January 1, 2004, with Taiwan Semiconductor Manufacturing Company Ltd. (TSMC), and agreed to pay TSMC a license fee at a specific percentage of net sales of certain products.

c. Under a license agreement made with ARM Physical IP, Inc. (ARM), the Corporation should pay royalty from December 22, 2004 to December 31, 2009 when using ARM's patent to manufacture and sell products.

d. Under a patent license agreement made with SST International Limited (SST), the Corporation should pay royalty for seven years from April 7, 2005 when using SST's patent to manufacture and sell products.

e. Under a patent license agreement made with eMemory Technology Inc. (eMemory), the Corporation should pay royalty for five years from January 4, 2005 when using eMemory's patent to manufacture and sell products.

f. Under a patent license agreement made with Advanced Analogic Technologies Inc. (AATI), the Corporation should pay royalty for three years from March 27, 2006 when using AATI's patent to manufacture and sell products.

g. Under a Wafer Production agreement made with Winbond, the Corporation should offer wafer production service to Winbond from January 1, 2008 to December 31, 2011.

h. As of March 31, 2008, unused letters of credit aggregated about US$2,675 thousand and JPY508,429 thousand.

24. FINANCIAL INSTRUMENTS

a. Fair values of financial instruments were as follows:

	March 31, 2008	
	Carrying Amount	**Fair Value**
Nonderivative financial instruments		
Assets		
Cash and cash equivalents	$ 5,841,174	$ 5,841,174
Financial assets held to maturity - current	596,990	596,990
Receivables from related parties	505,680	505,680
Notes and accounts receivable	2,129,734	2,129,734
Available-for-sale financial assets	534,565	534,565
Financial assets carried at cost - noncurrent	159,199	-
Liabilities		
Payables to related parties	130,184	130,184
Notes and accounts payable	995,839	995,839
Payables to contractors and equipment suppliers	643,892	643,892
Derivative financial instruments		
Assets		
Forward exchange contracts	18,637	18,637
Derivative financial assets for hedging - current		
Forward exchange contracts	81,007	81,007
Liabilities		
Forward exchange contracts	964	964
Derivative financial liabilities for hedging - current		
Forward exchange contracts	7,415	7,415

b. Methods and assumptions used to determine the fair values of financial instruments

1) For short-term financial instruments, carrying values approximate fair values because of their short maturities. These instruments are cash and cash equivalents, receivables from related parties, notes and accounts receivable, payables to related parties, notes and accounts payable and payables to contractors and equipment suppliers.

2) Fair values of available-for-sale financial assets and held-to-maturity financial assets are based on their quoted market prices. If market of the derivative financial instruments is not active, the Group establishes fair value by using a valuation technique, which (i) incorporates all factors that market participants would consider in setting a price and (ii) is consistent with accepted economic methodologies for pricing financial instruments. Fair values of forward exchange contacts, currency-swap contracts and cross-currency interest rate swap contracts are determined using valuation techniques based on forward rates for each contract. The Reuter's quotation system is mainly used as reference for the forward rates.

3) Financial assets carried at cost are investments in unquoted shares, which have no quoted prices in an active market and entail an unreasonably high cost to obtain verifiable fair values. Therefore, no fair value is presented.

c. The fair values of the Corporation and subsidiaries' financial instruments with fair values that were based on published price quotations in the market and on estimates resulting from valuation techniques were applied were as follows:

	Published Price March 31, 2008	Estimated Price March 31, 2008
Nonderivative financial instruments		
Assets		
Cash and cash equivalents	$ 5,841,174	$ -
Financial assets held to maturity - current	-	596,990
Receivables from related parties	-	505,680
Notes and accounts receivable	-	2,129,734
Available-for-sale financial assets	534,565	-
Liabilities		
Payables to related parties	-	130,184
Notes and accounts payable	-	995,839
Payables to contractors and equipment suppliers	-	643,892
Derivative financial instruments		
Assets		
Forward exchange contracts	-	18,637
Derivative financial assets for hedging - current		
Forward exchange contracts	-	81,007
Liabilities		
Forward exchange contracts	-	964
Derivative financial liabilities for hedging - current		
Forward exchange contracts	-	7,415

d. Net gain recognized for the changes in fair value of derivatives estimated using valuation techniques was $110,981 thousand for the three months ended March 31, 2008.

e. As of March 31, 2008, financial assets exposed to fair value interest rate risk amounted to $5,870,176 thousand; financial assets exposed to cash flow interest rate risk amounted to $567,988 thousand.

f. Interest revenues on financial instruments other than the financial assets or liabilities at fair value through profit or loss in the three months ended March 31, 2008 was $35,178 thousand.

g. Financial risk

1) Market risk. The derivative financial instruments are exposed to exchange rate fluctuations. If the U.S. dollar appreciates by US$0.01, the fair value would decrease by $47 thousand.

2) Credit risk. Credit risk represents the loss that would be incurred by the Group if the counter-parties or third-parties breach the contracts and also refers to concentrations of credit risk; factors; principal amount; and receivables on the financial instruments. Contracts with positive fair values on the balance sheet date are evaluated for credit risk. As of March 31, 2008, financial assets exposed to credit risk amounted to $99,644 thousand. Other financial instruments hold by the Group that maximum credit risk are same with book value.

3) Liquidity and cash requirement: The Group has sufficient operating capital to meet cash needed to settle derivative contracts. In addition, the Corporation's investments in debt instruments and stock classified as available-for-sale financial assets are traded in active markets and can be disposed of quickly at close to their fair values. However, some equity instruments for which there is no active market are expected to have material liquidity risk. As of March 31, 2008, future cash demand for the outstanding forward exchange contracts and cross currency interest rate swap contracts was as follows:

Term	Inflow (in Thousands)	Outflow (in Thousands)
Within one year	NT$ 3,214,034	US$ 103,000
	US$ 2,000	NT$ 60,174
	EUR 100	US$ 152
	JPY 438,498	US$ 4,200
	JPY 60,000	NT$ 18,053
	US$ 154	EUR 100

The exchange rates for forward exchange contracts are fixed. Thus, the cash flow risks are not material.

h. 1) Fair value hedges:

The Corporation determined that the exchange rate risks on future cash flow changes on the principal receivable on accounts receivable as of March 31, 2008 were significant; thus, it entered into forward exchange contracts to hedge these exposures.

Hedged Item	Hedging Financial Instrument	Fair Value as of March 31, 2008
Foreign currency accounts receivable	Forward exchange contracts	$72,320

2) Cash flow hedges:

The Corporation determined that the exchange rate risk on future cash flow changes of the foreign currency denominated sales as of March 31, 2008 were significant; thus, it entered into forward exchange contracts to hedge these exposures.

Hedged Item	Hedging Financial Instrument	Fair Value as of March 31, 2008	Expected Timing for Future Cash Demand	Expected Timing for the Recognition of Gains or Losses from Hedge
Sales	Forward exchange contracts	$1,272	2008.02-2008.04	2008.02-2008.04

Item	March 31, 2008
Recognized unrealized loss in shareholders' equity	$ 448
Recognized as sales	3,755
Adjustment to shareholders' equity	$ 4,203

25. ADDITIONAL DISCLOSURES

Following are the additional disclosure required by the Securities and Futures Bureau for the Corporation and its affiliates:

a. Financing provided: None.

b. Endorsement/guarantee provided: None.

c. Marketable securities held: Table 1 (attached).

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

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

g. Total purchase from or sale to related parties amounting to at least NT$100 million or 20% of the paid-in capital: Table 2 (attached).

h. Receivable from related parties amounting to at least $100 million or 20% of the paid-in capital: Table 3 (attached).

i. Names, locations, and related information of investees on which the Corporation exercises significant influence: Table 4 (attached).

j. Information about derivatives of investees: None.

k. Information on investment in Mainland China: None.

l. Intercompany relationships and significant intercompany transactions: Table 5 (attached).

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

MARKETABLE SECURITIES HELD
MARCH 31, 2008
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Holding Company Name	Marketable Security Type and Issuer	Relationship with the Holding Company	Financial Statement Account	March 31, 2008				Note
				Shares/Units (Thousands)	Carrying Value (US$ in Thousands)	% of Ownership	Market Value or Net Asset Value (US$ in Thousands)	
Vanguard International Semiconductor Corporation	Bond							
	Bond-7-Eleven, Inc.	-	Financial assets held to maturity - current	-	$ 99,783	-	$ 99,778	Note 4
	Bond-Greartwall	-	Financial assets held to maturity - current	-	298,537	-	298,486	Note 4
	Bond- Formosa Petrochemical Co.	-	Financial assets held to maturity - current	-	198,670	-	196,555	Note 4
	Stock							
	International Semiconductor Technology Ltd.	Investee	Available-for-sale financial assets - noncurrent	7,293	96,638	2	96,638	Note 1
	Walton Advanced Engineering, Inc.	Investee	Available-for-sale financial assets - noncurrent	34,507	434,794	7	434,794	Note 1
	VIS Associates Inc.	Subsidiary	Long-term stock investments accounted for by the equity method	6,000	420,548	100	420,548	Note 2
	CMSC, Inc.	Equity-method investee	Long-term stock investments accounted for by the equity method	9,902	100,846	25	100,846	Note 2
	United Industrial Gases Co., Ltd.	Investee	Financial assets carried at cost - noncurrent	3,357	38,716	2	62,582	Note 3
	Megica Corporation	Investee	Financial assets carried at cost - noncurrent	205	2,252	2	1,739	Note 3
VIS Associates Inc.	Stock							
	Advanced Analogic Technologies, Inc.	-	Available-for-sale financial assets - current	18	US$ 103	-	US$ 103	Note 1
	VIS Investment Holding, Inc.	Subsidiary of VIS Associates Inc.	Long-term stock investments accounted for by the equity method	63	US$ 759	100	US$ 759	Note 2
	VIS Singapore Pte Ltd.	Subsidiary of VIS Associates Inc.	Long-term stock investments accounted for by the equity method	1,000	US$ 678	100	US$ 678	Note 5
	Specialty TechFarm, Inc.	Subsidiary of VIS Associates Inc.	Long-term stock investments accounted for by the equity method	10,000	US$ 7,059	100	US$ 7,059	Note 2
	Equity							
	Silicon Valley Equity Fund II	-	Financial assets carried at cost - noncurrent	-	US$ 2,460	14	US$ 2,460	Note 3

(Continued)

Holding Company Name	Marketable Security Type and Issuer	Relationship with the Holding Company	Financial Statement Account	March 31, 2008				Note
				Shares/Units (Thousands)	Carrying Value (US$ in Thousands)	% of Ownership	Market Value or Net Asset Value (US$ in Thousands)	
VIS Investment Holding, Inc.	Stock							
	VIS Micro, Inc.	Subsidiary of VIS Investment Holding, Inc.	Long-term stock investments accounted for by the equity method	200	US$ 553	100	US$ 553	Note 2
Specialty TechFarm, Inc.	Stock							
	LayerWalker Technology, Inc.	Equity-method investee	Long-term stock investments accounted for by the equity method	4,103	US$ 814	27	US$ 814	Note 5
	SkyTraq Technology, Inc.	Equity-method investee	Long-term stock investments accounted for by the equity method	4,688	US$ 961	28	US$ 961	Note 5
	Inno-Tech Co., Ltd.	Equity-method investee	Long-term stock investments accounted for by the equity method	5,000	US$ 1,669	40	US$ 1,669	Note 5
	Linear Artwork, Inc.	Equity-method investee	Long-term stock investments accounted for by the equity method	2,188	US$ 393	28	US$ 393	Note 5
	Goyatek Technology Inc.	Investee	Financial assets carried at cost - noncurrent	5,000	US$ 443	16	US$ 443	Note 3
	Uniband Electronic Corp.	Investee	Financial assets carried at cost - noncurrent	2,400	US$ 986	6	US$ 986	Note 3

Note 1: The market value was based on stock value as of March 31, 2008.

Note 2: The net asset value was based on reviewed financial statements as of March 31, 2008.

Note 3: The market value was based on the book value as of March 31, 2008.

Note 4: The bond value was based on current yield as of March 31, 2008.

Note 5: The net asset value was based on unreviewed financial statements as of March 31, 2008.

Note 6: As of March 31, 2008, the above marketable securities had not been pledged or mortgaged.

(Concluded)

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

TOTAL PURCHASE FROM OR SALE TO RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
THREE MONTHS ENDED MARCH 31, 2008
(In Thousands of New Taiwan Dollars)

Company Name	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Notes/Accounts Payable or Receivable		Note
			Purchase/ Sale	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% of Total	
Vanguard International Semiconductor Corporation	Taiwan Semiconductor Manufacturing Company Ltd.	Major shareholder	Sale	$793,536	(18%)	Note	-	-	$484,032	18%	-

Note: Mainly paid on the 45th day after the month of the shipment date.

TABLE 3

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

RECEIVABLE FROM RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
MARCH 31, 2008
(In Thousands of New Taiwan Dollars)

Company Name	Related Party	Nature of Relationship	Ending Balance	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Bad Debts
					Amount	Action Taken		
Vanguard International Semiconductor Corporation	Taiwan Semiconductor Manufacturing Company Ltd.	Major shareholder	$484,032	4.81	$ -	-	$ -	$ -

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

NAMES, LOCATIONS, AND RELATED INFORMATION OF INVESTEES ON WHICH THE CORPORATION EXERCISES SIGNIFICANT INFLUENCE
THREE MONTHS ENDED MARCH 31, 2008
(In Thousands of New Taiwan Dollars)

Investor	Investee	Location	Main Businesses and Products	Investment Amount		Balance as of March 31, 2008			Net Loss of the Investee	Investment Loss	Note
				March 31, 2008	December 31, 2007	Shares (Thousands)	% of Ownership	Carrying Value			
Vanguard International Semiconductor Corporation	VIS Associates Inc.	British Virgin Islands	Investment	$ 195,492	$ 195,492	6,000	100	$ 420,548	$ (7,196)	$ (7,196)	Subsidiary
	CMSC, Inc.	Hsin-chu City, Taiwan	Integrated circuit design services and related businesses	112,650	112,650	9,902	25	100,846	(13,095)	(3,109)	Equity-method investee

TABLE 5

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS
THREE MONTHS ENDED MARCH 31, 2008
(In Thousands of New Taiwan Dollars)

2008

No.	Company Name	Company Name	Nature of Relationship	Intercompany Transactions			
				Financial Statement Item	Amount	Terms (Note)	Percentage of Consolidated Total Gross Sales or Total Assets
0	Vanguard International Semiconductor Corporation	VIS Micro, Inc.	Indirect subsidiary	Marketing expenses	$ 9,442	-	0.2%
				Payables to related parties	3,923	-	-
		VIS Singapore Pte Ltd.	Indirect subsidiary	Research and development expenses	9,551	-	0.2%
				Payables to related parties	3,662	-	-

Note: For intercompany transactions, the terms were based on related agreements.