Vanguard International Semiconductor Corporation

Financial Statements for the Nine Months Ended September 30, 2008 and 2007 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 balance sheets of Vanguard International Semiconductor Corporation (the "Corporation") as of September 30, 2008 and 2007, and the related statements of income and cash flows for the nine months then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to issue a report on these 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 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 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.

As disclosed in Note 3 to the financial statements, in March 2007, the Accounting Research and Development Foundation 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.

We have also reviewed the consolidated financial statements of Vanguard International Semiconductor Corporation and subsidiaries as of and for the nine months ended September 30, 2008 and have issued a standard review report with an explanatory paragraph dated October 7, 2008.

October 7, 2008

Notice to Readers

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

For the convenience of readers, the accountants' review 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' review report and financial statements shall prevail.

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

BALANCE SHEETS
SEPTEMBER 30, 2008 AND 2007
(In Thousands of New Taiwan Dollars, Except Par Value)
(Reviewed, Not Audited)

	2008		2007	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 4)	$ 3,359,220	13	$ 10,402,507	41
Financial assets at fair value through profit or loss - current (Notes 2 and 5)	15,360	-	8,986	-
Financial assets held-to-maturity (Notes 2 and 6)	285,791	1	1,388,347	6
Derivative financial assets for hedging (Notes 2 and 7)	514	-	11,866	-
Bond portfolios with no active market - current (Notes 2 and 8)	-	-	83,051	-
Receivables from related parties (Note 23)	705,776	3	954,795	4
Notes and accounts receivable	2,246,777	9	1,886,927	7
Allowance for doubtful accounts (Note 2)	(46,925)	-	(39,051)	-
Allowance for sales returns and discounts (Note 2)	(61,679)	-	(129,802)	-
Inventories, net (Notes 2 and 9)	2,118,951	8	1,559,268	6
Prepaid expenses and other current assets	143,743	1	124,159	1
Deferred income tax assets - current (Notes 2 and 21)	-	-	336,907	1
Total current assets	8,767,528	35	16,587,960	66
INVESTMENTS				
Long-term stock investments accounted for by the equity method (Notes 2 and 10)	521,126	2	1,012,710	4
Available-for-sale financial assets - noncurrent (Notes 2 and 11)	265,885	1	776,762	3
Financial assets carried at cost - noncurrent (Notes 2 and 12)	40,968	-	40,968	-
Total investments	827,979	3	1,830,440	7
PROPERTIES (Notes 2, 13 and 14)				
Cost				
Buildings	11,851,821	48	8,598,097	34
Machinery and equipment	45,382,034	181	37,913,883	150
Other equipment	323,097	1	231,972	1
Total cost	57,556,952	230	46,743,952	185
Accumulated depreciation	(44,401,931)	(177)	(41,862,662)	(166)
Prepayments and construction in progress	993,126	4	1,759,691	7
Net properties	14,148,147	57	6,640,981	26
OTHER ASSETS				
Assets leased to others, net (Notes 2 and 14)	1,188,695	5	-	-
Deferred charges, net (Notes 2 and 15)	69,820	-	116,646	1
Deferred income tax assets - noncurrent (Notes 2 and 21)	49,982	-	84,255	-
Refundable deposits	5,476	-	3,300	-
Total other assets	1,313,973	5	204,201	1
TOTAL	$ 25,057,627	100	$ 25,263,582	100

	2008		2007	
LIABILITIES AND SHAREHOLDERS' EQUITY	**Amount**	**%**	**Amount**	**%**
CURRENT LIABILITIES				
Financial liabilities at fair value through profit or loss - current (Notes 2 and 5)	$ 40,725	-	$ -	-
Derivative financial liabilities for hedging (Notes 2 and 7)	34,138	-	11,056	-
Payables to related parties (Note 23)	91,164	-	143,653	1
Notes and accounts payable	913,114	4	685,582	3
Income taxes payable (Notes 2 and 21)	90,537	-	89,186	-
Payables to contractors and equipment suppliers	492,124	2	358,679	1
Accrued expenses and other current liabilities (Note 16)	1,698,155	7	1,226,551	5
Total current liabilities	3,359,957	13	2,514,707	10
OTHER LIABILITIES				
Accrued pension costs (Notes 2 and 20)	468,318	2	460,328	2
Guarantee deposits (Note 23)	46,360	-	1,344	-
Total other liabilities	514,678	2	461,672	2
Total liabilities	3,874,635	15	2,976,379	12
SHAREHOLDERS' EQUITY (Notes 2, 17 and 18)				
Capital stock, NT$10.00 par value; Authorized - 3,300,000 thousand shares; Issued and outstanding - 1,712,486 thousand shares in 2008 and 1,698,924 thousand shares in 2007	17,124,860	69	16,989,245	67
Capital surplus				
Employee stock options	468,143	2	501,728	2
Long-term stock investments	68,334	-	20,712	-
Total capital surplus	536,477	2	522,440	2
Retained earnings				
Legal reserve	1,480,568	6	1,048,460	4
Special reserve	-	-	40,560	-
Unappropriated earnings	2,249,277	9	3,342,327	14
Total retained earnings	3,729,845	15	4,431,347	18
Others				
Unrealized (losses) gains on financial instruments (Note 26)	(153,486)	(1)	383,274	1
Cumulative translation adjustments	(45,008)	-	(39,103)	-
Treasury stock (at cost) - 859 thousand shares	(9,696)	-	-	-
Total others	(208,190)	(1)	344,171	1
Total shareholders' equity	21,182,992	85	22,287,203	88
TOTAL	$ 25,057,627	100	$ 25,263,582	100

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

(With Deloitte & Touche review report dated October 7, 2008)

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

STATEMENTS OF INCOME
NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)
(Reviewed, Not Audited)

	2008		2007	
	Amount	**%**	**Amount**	**%**
GROSS SALES (Notes 2, 7, 23 and 26)	$ 13,451,063		$ 11,684,985	
SALES RETURNS AND DISCOUNTS (Note 2)	(7,439)		(109,982)	
NET SALES	13,443,624	100	11,575,003	100
COST OF SALES (Notes 22 and 23)	10,583,426	79	6,958,325	60
GROSS PROFIT	2,860,198	21	4,616,678	40
OPERATING EXPENSES (Notes 22 and 23)				
General and administrative	502,517	4	407,783	3
Marketing	125,166	1	142,451	1
Research and development	630,321	4	408,716	4
Total operating expenses	1,258,004	9	958,950	8
OPERATING INCOME	1,602,194	12	3,657,728	32
NONOPERATING INCOME AND GAINS				
Interest	95,394	1	157,329	1
Rental (Note 14)	85,737	1	-	-
Foreign exchange gain, net (Note 2)	52,623	-	9,845	-
Dividends (Note 2)	20,086	-	47,014	1
Gain on disposal of properties (Note 2)	7,638	-	1,002	-
Investment gains recognized by the equity method, net (Notes 2 and 10)	-	-	23,578	-
Gain on sales of investments (Note 2)	-	-	3,446	-
Others (Note 23)	38,670	-	27,806	-
Total nonoperating income and gains	300,148	2	270,020	2
NONOPERATING EXPENSES AND LOSSES				
Assets leased to others cost (Note 14)	68,923	1	-	-
Investment loss recognized by the equity method, net (Notes 2 and 10)	27,514	-	-	-
Valuation loss on financial instruments (Notes 2, 5 and 26)	22,846	-	38,988	-
Loss on disposal of properties (Note 2)	334	-	360	-
Others	14,897	-	1,890	-
Total nonoperating expenses and losses	134,514	1	41,238	-

(Continued)

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

STATEMENTS OF INCOME
NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)
(Reviewed, Not Audited)

	2008		2007	
	Amount	**%**	**Amount**	**%**
INCOME BEFORE INCOME TAX	$ 1,767,828	13	$ 3,886,510	34
INCOME TAX EXPENSE (Notes 2 and 21)	200,181	1	749,361	7
NET INCOME	$ 1,567,647	12	$ 3,137,149	27

	2008		2007	
	Before Income Tax	**After Income Tax**	**Before Income Tax**	**After Income Tax**
EARNINGS PER SHARE (Note 19)				
Basic	$ 1.03	$ 0.91	$ 2.26	$ 1.82
Diluted	$ 1.01	$ 0.90	$ 2.24	$ 1.80

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

(With Deloitte & Touche review report dated October 7, 2008) (Concluded)

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 1,567,647	$ 3,137,149
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,463,558	1,566,581
Investment loss (gain) recognized by the equity method, net	27,514	(23,578)
Gain on disposal of investment	-	(3,446)
Deferred income tax assets	109,140	660,168
Gain on disposal of properties, net	(7,304)	(642)
Accrual of pension cost	3,375	-
Amortized discounts for bonds	(5,516)	-
Provision for doubtful accounts	6,433	1,443
(Reversal of allowance) provision for sales returns and discounts	(65,184)	41,622
Net changes in operating assets and liabilities		
Financial assets for trading	(8,769)	329
Receivables from related parties	194,803	(207,712)
Notes and accounts receivable	(316,495)	(60,362)
Inventories	(618,362)	(308,169)
Prepaid expenses and other current assets	182,856	31,613
Derivative financial assets for hedging	17,145	(1,080)
Financial liabilities for trading	39,905	(6,130)
Payables to related parties	(63,758)	(5,906)
Notes and accounts payable	212,722	9,695
Income taxes payable	(5,876)	(12,374)
Accrued expenses and other current liabilities	298,586	94,968
Net cash provided by operating activities	4,032,420	4,914,169
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of held-to-maturity financial assets	(783,123)	(1,388,347)
Proceeds of the disposal of held-to-maturity financial assets	1,195,012	-
Decrease in bond portfolios with no active market	72,734	39,408
Proceeds of the disposal of available-for-sale financial assets	-	161,346
Acquisition of properties	(4,325,954)	(3,048,990)
Proceeds of the disposal of properties	7,638	1,002
Increase in deferred charges	(15,938)	(51,232)
Increase in refundable deposits	(1,375)	(255)
Net cash used in investing activities	(3,851,006)	(4,287,068)
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in long-term bank loans	-	(46,000)
Increase in guarantee deposits	29,452	80
Cash dividends paid for common stock	(2,890,824)	(2,310,705)

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VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	2008	2007
Cash bonus paid to employees	$ (124,447)	$ (86,938)
Remuneration to directors and supervisors	(38,889)	(27,168)
Proceeds of the exercise of employee stock options	20,326	351,224
Acquisitions of treasury stock	(355,977)	-
Net cash used in financing activities	(3,360,359)	(2,119,507)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(3,178,945)	(1,492,406)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	6,538,165	11,894,913
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 3,359,220	$ 10,402,507
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Income tax paid	$ 96,917	$ 101,545
Interest paid (excluding capitalized amounts of $165 thousand for the nine months ended September 30, 2007)	$ -	$ 30
NONCASH INVESTING ACTIVITIES		
Reclassification of properties into assets leased to others	$ 1,257,618	$ -
CASH PAID FOR ACQUISITION OF PROPERTIES		
Total acquisitions	$ 3,871,751	$ 3,108,016
Decrease (increase) in payables to contractors and equipment suppliers	454,203	(59,026)
	$ 4,325,954	$ 3,048,990

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

(With Deloitte & Touche review report dated October 7, 2008) (Concluded)

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.

As of September 30, 2008 and 2007, the Corporation had 3,743 and 2,525 employees, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements have been prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, Business Accounting Law, Regulations Business Accounting and accounting principles generally accepted in the Republic of China (ROC). Under these guidelines and principles, the Corporation 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 and assets leased to others, amortization of deferred charges, pension expenses, income tax expenses and compensation expenses for 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.

The Corporation's significant accounting policies are summarized as follows:

Current/Noncurrent Assets and Liabilities

Current assets include unrestricted cash and cash equivalents and assets held primarily for trading purpose or to be realized, sold or consumed within 12 months from the balance sheet date. All other assets such as property, plant, assets leased to others, and deferred charges are classified as non-current assets. Current liabilities are obligations incurred for trading purpose or 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 less than three months from the date of purchase are classified as cash equivalents. Their carrying amounts approximate their fair values.

Financial Instruments at Fair Value through Profit or Loss

Financial instruments at fair value through profit or loss ("FVTPL") 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. Transaction cost directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss. At each balance sheet date subsequent to initial recognition, financial assets or financial liabilities at FVTPL are remeasured at fair value, with changes in fair value recognized directly in profit or loss in the period in which they arise. Cash dividends received subsequently (including those received in the year of investment) are recognized as income for the period. On derecognition of a financial asset or a financial liability, the difference between its carrying amount and the sum of the consideration received and receivable or consideration paid and payable is recognized in profit or loss of the period. All regular way purchase or sale of financial assets are recognized and de-recognized on a trade date basis.

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

The recognition, derecognition of available-for-sale financial assets are similar to those of financial assets at FVTPL.

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

Cash dividends are recognized on the ex-dividend date as investment income, except for dividends distributed from the pre-acquisition profit, which are treated as a reduction of investment cost. Stock dividends are not recognized as investment income but are recorded as an increase in the number of shares. The total number of shares subsequent to the increase is used for recalculation of cost per share.

An impairment loss is recognized when there is objective evidence that the financial asset is impaired. Any subsequent decrease in impairment loss for an equity instrument classified as available-for-sale is recognized directly in equity.

Financial Assets Held-to-maturity

Held-to-maturity financial assets are initially recognized at fair value or at amortized cost using the effective interest method plus transaction cost that are directly attributable to the acquisition. Profit or loss is recognized when the financial assets are derecognized, impaired, or amortized. All regular way purchase or sale of financial assets is accounted for using a trade date basis.

An impairment loss is recognized if there is objective evidence that the investment is impaired. The impairment loss is reversed if an increase in the investment's recoverable amount is due to an event which occurred after the impairment loss was recognized; however the adjusted carrying amount of the investment may not exceed the carrying amount that would have been determined had no the impairment loss been recognized for the investment in prior years.

Derivative Financial Instruments for Hedging

Derivative financial instruments that qualify as effective hedging instruments are measured at fair value, with subsequent changes in fair value recognized either in profit or loss, or in shareholders' equity, depending on the nature of the hedging relationship.

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 resulting from exchange rate fluctuations 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 and in profit or loss.

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 in 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.

   4) However, if the Corporation expects that all or a portion of a loss recognized directly under equity will not be recovered in the future the amount that is not expected to be recovered is reclassified into profit or loss.

The Corporation enters into hedging transactions to hedge risks of expected sales transactions and market risks. The Corporation uses cash flow hedge to manage risks on exchange rate fluctuation and changes of time value for an 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 payments and with no quoted prices 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. All regular way purchase or sale of financial assets are accounted for using a trade date basis.

An impairment loss is recognized if there is objective evidence that the investment is impaired. The impairment loss is reversed if an increase in the investment's recoverable amount is due to an event which occurred after the impairment loss was recognized; however the adjusted carrying amount of the investment may not exceed the carrying amount that would have been determined had no the impairment loss been recognized for the investment in prior years.

Allowance for Doubtful Receivables

Allowance for doubtful receivables is provided on the basis of the aging and review of the collectability of receivables. The Corporation assesses the probability of collections of accounts receivable by examining the aging analysis of the outstanding receivables.

Inventories

Inventory consists of raw materials, supplies, finished goods and work-in-process. 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 Corporation exercises significant influence on their operating and financial decisions are accounted for by the equity method. If the Corporation subscribes for an investee's newly issued shares at a percentage different from its current ownership percentage, the Corporation 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 Corporation 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. For long-term investments for which the Corporation has significant influence but with no control over investees are tested for impairment separately at their carrying amounts. Investments with controlling interests shall be tested for impairment by each cash generating unit determined on overall financial basis, the carrying value (including goodwill) of such investment is compared with its own recoverable amount for the purpose of impairment testing.

Profits from upstream transactions with an equity-method investee are eliminated in proportion to the Corporation's percentage of ownership in the investee. All of the above deferred gains and losses are realized upon the sale of the related products to third parties.

Financial Assets Carried at Cost

Investments in securities with no quoted prices in an active market and with fair values that cannot be reliably measured, such as non-publicly traded stocks and stocks traded in the Emerging Stock Market are measured at their original cost. When these investments are subsequently measured at fair value, they are reclassified into available-for-sale financial assets. 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. An impairment loss is recognized when there is objective evidence that an asset is impaired. A reversal of this impairment loss is disallowed.

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 incurred during the construction period are capitalized, while maintenance and repairs are expensed currently. Borrowing costs directly attributable to the acquisition or construction of property, plant and equipment are capitalized as part of the cost of those assets.

On the balance sheet date, the Corporation evaluates properties for any impairment. If impairment is identified, the Corporation 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 5 years; assets leased to others - 10 to 20 years.

Properties still in use beyond their original estimated useful lives are further depreciated over their newly estimated useful lives. Upon sale or other disposal of properties, the related cost and accumulated depreciation are derecognized from the balance sheet, and any gain or loss on disposal of the asset is included in nonoperating gains or losses in the period of disposal.

Deferred Charges

Expenditures arising from research activities are recognized as an expense when incurred. Expenditures related to development activities are capitalized and amortized on a straight-line basis if the recognition criteria have been met; otherwise, the development expenditures are charged to expense when incurred.

Deferred charges, specifically, the software design costs, are amortized on the straight-line method over 3 to 5 years.

On the balance sheet date, the Corporation evaluates deferred charges for any impairment. If impairment is identified, the Corporation 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 should not exceed the carrying amount net of amortization would 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 Corporation 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, under which compensation cost was also recognized on a straight-line basis over the vesting period.

Sales and Allowance for Sales Returns and Discounts

Sales are recognized when the Corporation has transferred to the buyer the significant risk and rewards of ownership of the goods, primarily upon shipment, because the earning process has been completed and economic benefits associated with the transaction have been realized or are realizable. Allowances and related provisions for sales returns and discounts are recorded in the period the related revenue is recognized on the basis of the Corporation’s historical experience. These provisions are deducted from gross sales and related costs are deducted, as they are incurred, from cost of sales.

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

Capitalized and Other Expenditures

Expenditures that will result in benefit periods of over one year are recognized as assets; others are recognized as expenses or losses in the current period.

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.

Treasury Stock

Treasury stock is stated at cost and shown as a deduction in shareholders’ equity. When the Corporation retires treasury stock, the treasury stock account is reduced and the common stock as well as the capital surplus - additional paid-in capital are reversed on a pro rata basis. When the book value of the treasury stock exceeds the sum of the par value and additional paid-in capital, the difference is charged to capital surplus - treasury stock transactions and to retained earnings for any remaining amount.

Income Tax

The Corporation 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 allowances are provided to the extent, if any, that it is more likely not hat deferred income tax assets will not be realized. A deferred tax asset or liability is classified as current or noncurrent in accordance with the classification of the related asset or liability, however, if a deferred income tax asset or liability does not related to an asset or liability in the financial statements, then it is classified as either current or noncurrent based on the length of time before it is realized or settled.

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

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

Income taxes (10%) on undistributed earnings are recorded as expense in the year when the shareholders resolve to retain the earnings.

Foreign-currency Transactions

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 at the prevailing exchange rates, with the exchange differences recognized in profit or loss.

At the balance sheet date, foreign-currency nonmonetary assets (such as equity instrument) 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 or loss if the changes in fair value is recognized in profit or loss.

If an equity-method investee's functional currency is a foreign currency, translation adjustments will result from the translation of the investee's financial statements into the reporting currency of the Corporation. These 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 closing rates obtained through the Reuter's quotation system at 4 p.m.

3. ACCOUNTING CHANGES

a. SFAS No. 37, "Accounting for Intangible Assets"

   On January 1, 2007, the Corporation adopted the newly released SFAS No. 37, "Accounting for Intangible Assets" and reassessed the useful lives of and the amortization method for its recognized intangible assets as of the same date. This accounting change did not have a material effect on the Corporation's financial statements as of and for the nine months ended September 30, 2007.

b. 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$214,180 thousand in net income and a decrease in after income tax basic earnings per share of NT$0.12 for the nine months ended September 30, 2008.

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

On January 1, 2008, the Corporation adopted the newly released SFAS No. 39, "Accounting for Share-based Payment". This accounting change did not have a material effect on the Corporation's financial statements as of and for the nine months ended September 30, 2008.

4. CASH AND CASH EQUIVALENTS

	September 30	
	2008	2007
Bank deposits	$ 3,119,707	$ 10,288,570
Government bonds acquired under resale agreements	239,513	113,937
	$ 3,359,220	$ 10,402,507

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

Financial instruments held for trading consisted of the following:

	September 30	
	2008	2007
Financial assets held for trading		
Forward exchange contracts	$ 14,672	$ 6,658
Currency-swap contracts	688	2,328
	$ 15,360	$ 8,986
Financial liabilities held for trading		
Forward exchange contracts	$ 40,725	$ -

The Corporation entered into derivative transactions in the nine months ended September 30, 2008 and 2007 to manage exposures related to exchange rate and interest rate fluctuations. The financial risk management objective of the corporation is to minimize risks due to changes in fair value or cash flows.

a. Outstanding forward exchange contracts as of September 30, 2008 and 2007 were as follows:

Contract	Currency	Contract Expiry Date	Contract Amount (in Thousands)
September 30, 2008			
Buy forward exchange contracts	NT$ to US$	2008.11.10-2008.11.17	US$ 2,000
Sell forward exchange contracts	US$ to JPY	2008.10.08-2008.11.19	US$ 7,000
Sell forward exchange contracts	US$ to NT$	2008.10.15-2008.12.02	US$ 46,000
September 30, 2007			
Sell forward exchange contracts	US$ to NT$	2007.10.16-2007.12.31	US$ 36,100

b. Outstanding Currency-swap contracts as of September 30, 2008 and 2007 were as follows:

Currency	Contract Expiry Date	Contract Amount (in Thousands)
September 30, 2008		
US$ to JPY	2008.12.03	US$950
September 30, 2007		
US$ to NT$	2007.10.04-2007.10.17	US$10,000

The net gains and net losses on financial instruments for trading were $11,034 thousand and $50,854 thousand, respectively, for the nine months ended September 30, 2008 and 2007.

6. HELD-TO-MATURITY FINANCIAL ASSETS - CURRENT

	September 30	
	2008	2007
Structured time deposits	$ 285,791	$ 992,432
Corporate bond - Greatwall	-	296,671
Corporate bond - 7-Eleven, Inc.	-	99,244
	$ 285,791	$ 1,388,347

a.

	Principal Amount	Interest Rate	Maturity Date
September 30, 2008			
Fixed rate callable deposits			
Structured time deposits	$ 285,791	3.00%-4.30%	October 2008
September 30, 2007			
Fixed rate callable deposits			
Structured time deposits	$ 992,432	2.30%-2.95%	October 2007-December 2007

As of September 30, 2008 and 2007, principal amount were US$8,944 thousand and US$30,100 thousand, respectively.

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

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

7. DERIVATIVE FINANCIAL INSTRUMENTS FOR HEDGING

Derivative financial instruments for hedging (reference to Note 26) consisted of the following:

	September 30	
	2008	**2007**
Derivative financial assets for hedging		
Current		
Forward exchange contracts	$ 514	$ 11,866
Derivative financial liabilities for hedging		
Current		
Forward exchange contracts	$ 34,138	$ 11,056

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 and purchase of machinery and equipment transaction. The corporation uses fair value hedge to manage the risks on exchange rate fluctuations of foreign currency-denominated assets or liabilities. The Corporation uses forward exchange contracts for the above hedging purposes.

For the nine months ended September 30, 2008 and 2007, the Corporation used forward exchange contracts to hedge risks on exchange rate fluctuations of expected sales transactions, foreign-currency denominated accounts receivables and purchase of machinery and equipment. The outstanding forward contracts as of September 30, 2008 and 2007 were as follows:

	Currency	**Maturity Date**	**Contract Amount (in Thousands)**
September 30, 2008			
Sell forward exchange contracts	US$ to NT$	2008.10.17-2008.12.16	US$25,000
September 30, 2007			
Sell forward exchange contracts	US$ to NT$	2007.10.16-2007.12.18	US$52,000

The loss on derivative financial instruments used for cash flow hedging was $15,007 thousand for the nine months ended September 30, 2008, which are recorded as a reduction of gross sales; the loss on derivative financial instruments used for cash flow hedging was $25,230 thousand for the nine months ended September 30, 2007, was deducted from sales $25,157 thousand and $73 thousand was added to cost of machinery and equipment, respectively.

The gain and loss on derivative financial instruments used for fair value hedging were 67,620 thousand and 5,137 thousand, respectively, for the nine months ended September 30, 2008 and 2007 which are recognized in nonoperating income and expenses.

8. BOND PORTFOLIOS WITH NO ACTIVE MARKET - CURRENT

	September 30 2007
Chinatrust Bank - residential mortgage - backed securities	$ 83,051

9. INVENTORIES, NET

	September 30	
	2008	2007
Finished goods	$ 72,862	$ 85,826
Work in process	1,208,490	864,839
Raw materials	315,679	357,672
Supplies and spare parts	544,271	349,114
	2,141,302	1,657,451
Allowance for inventory losses	(22,351)	(98,183)
	$ 2,118,951	$ 1,559,268

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

	September 30			
	2008		2007	
	Carrying Value	% of Ownership	Carrying Value	% of Ownership
Unlisted stocks				
VIS Associates Inc.	$ 423,607	100	$ 952,044	100
CMSC, Inc.	97,519	25	60,666	33
	$ 521,126		$ 1,012,710	

The investment (losses) gains of the investees were as follows:

	Nine Months Ended September 30	
	2008	2007
VIS Associates Inc.	$ (21,077)	$ 30,225
CMSC, Inc.	(6,437)	(6,647)
	$ (27,514)	$ 23,578

The net assets of the investees were as follows:

	September 30	
	2008	2007
Total assets of the investees	$ 1,088,113	$ 1,399,628
Total liabilities of the investees	273,523	265,623
Total net assets of the investees	$ 814,590	$ 1,134,005
Total net assets at the Corporation's proportionate interest in the investee	$ 521,126	$ 1,012,710

The carrying value of the equity-method investments and the related investment gains (losses) were based on the investees' reviewed financial statements of the same reporting periods as those of the Corporation.

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

In accordance with Regulation No. 0960064020 issued by Financial Supervisory Commission, Executive Yuan, ("FSC") the Corporation's consolidated financial statements as of and for the nine months ended September 30, 2008 included the accounts of all subsidiaries.

11. AVAILABLE-FOR-SALE FINANCIAL ASSETS - NONCURRENT

	September 30	
	2008	2007
Listed stocks - Walton Advanced Engineering, Inc. (WAE)	$ 221,322	$ 596,979
Listed stocks - International Semiconductor Technology Ltd.	44,563	179,783
	$ 265,885	$ 776,762

12. FINANCIAL ASSETS CARRIED AT COST - NON CURRENT

	September 30	
	2008	2007
Unlisted stocks		
United Industrial Gases Co., Ltd.	$ 38,716	$ 38,716
Megica Corporation	2,252	2,252
	$ 40,968	$ 40,968

The unlisted stocks had no quoted market prices in an active market and of which fair value cannot be reliably measured, were carried at cost.

13. PROPERTIES

	Nine Months Ended September 30, 2008				
	Buildings	Machinery and Equipment	Other Equipment	Prepayments and Construction in Progress	Total
Cost					
Beginning	$ 8,613,941	$ 38,090,201	$ 227,081	$ 9,063,230	$ 55,994,453
Acquired	4,499,672	7,345,535	96,648	(8,070,104)	3,871,751
Reclassified	(1,257,618)	-	-	-	(1,257,618)
Disposal	(4,174)	(53,702)	(632)	-	(58,508)
Ending	$ 11,851,821	$ 45,382,034	$ 323,097	$ 993,126	$ 58,550,078

	Nine Months Ended September 30, 2008			
	Buildings	Machinery and Equipment	Other Equipment	Total
Accumulated depreciation				
Beginning	$ 7,426,666	$ 34,530,804	$ 153,402	$ 42,110,872
Depreciation	350,124	1,965,992	33,117	2,349,233
Disposal	(4,151)	(53,403)	(620)	(58,174)
Ending	$ 7,772,639	$ 36,443,393	$ 185,899	$ 44,401,931

	Nine Months Ended September 30, 2007				
	Buildings	Machinery and Equipment	Other Equipment	Prepayments and Construction in Progress	Total
Cost					
Beginning	$ 8,451,657	$ 36,471,521	$ 283,590	$ 424,284	$ 45,631,052
Acquired	153,049	1,604,967	14,593	1,335,407	3,108,016
Disposal	(6,609)	(162,605)	(66,211)	-	(235,425)
Ending	$ 8,598,097	$ 37,913,883	$ 231,972	$ 1,759,691	$ 48,503,643

	Nine Months Ended September 30, 2007			
	Buildings	Machinery and Equipment	Other Equipment	Total
Accumulated depreciation				
Beginning	$ 7,042,692	$ 33,334,907	$ 201,701	$ 40,579,300
Depreciation	338,910	1,160,111	19,406	1,518,427
Disposal	(6,249)	(162,605)	(66,211)	(235,065)
Ending	$ 7,375,353	$ 34,332,413	$ 154,896	$ 41,862,662

Capitalized interest amounts were as follows:

	Nine Months Ended September 30, 2007
Interest expense before interest capitalization	$ 165
Interest capitalized	165
Interest rates used to calculate the amounts capitalized	1.45%-1.48%

14. ASSETS LEASED TO OTHERS, NET

	Nine Months Ended September 30, 2008
Buildings	
Cost	
Balance, beginning of period	$ -
Reclassified	1,257,618
Balance, end of period	1,257,618
Accumulated depreciation	
Balance, beginning of period	-
Depreciation	68,923
Balance, end of period	68,923
Net balance	$ 1,188,695

The Corporation leased several floors of the plant that acquired from Winbond to Winbond. Lease terms starts from January 1, 2008 to December 31, 2009. Annual rentals aggregate $114,316 thousand.

15. DEFERRED CHARGES, NET

Software design costs

	Nine Months Ended September 30	
	2008	2007
Cost		
Balance, beginning of period	$ 725,817	$ 682,348
Acquired	15,938	51,232
Disposal	(96)	(711)
Balance, end of period	741,659	732,869
Accumulated amortization		
Balance, beginning of period	626,533	568,780
Amortization	45,402	48,154
Disposal	(96)	(711)
Balance, end of period	671,839	616,223
Net balance	$ 69,820	$ 116,646

16. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	September 30 2008	September 30 2007
Royalty	$ 488,916	$ 485,324
Bonus	256,221	214,545
Others	953,018	526,682
	$ 1,698,155	$ 1,226,551

	Nine Months Ended September 30 2008 Royalty	Nine Months Ended September 30 2008 Bonus
January 1, 2008	$ 481,668	$ 271,062
Add: Reversal of payables to related parties	95,286	-
Accrued	267,820	436,981
Reduce: Payable	(288,967)	(451,822)
Classification as payables to related parties	(66,891)	-
September 30, 2008	$ 488,916	$ 256,221
January 1, 2007	$ 488,604	$ 218,130
Add: Reversal of payables to related parties	86,612	-
Accrued	285,830	347,705
Reduce: Payable	(286,813)	(351,290)
Classification as payables to related parties	(88,909)	-
September 30, 2007	$ 485,324	$ 214,545

17. 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.

For the nine months ended September 30, 2008, the bonus to employees and bonus to directors and supervisors, representing 15% and 1% of net income (net of bonus to employees and remuneration to directors and supervisors), 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 in the following year 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. If bonus shares are resolved to be distributed to employees, the number of shares is determined by dividing the amount of bonus by the closing price (after considering the effect of cash and stock dividends) of the shares of the day preceding the shareholders' meeting.

All profits may be distributed after taking into consideration of 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.

Under regulations promulgated by the Securities and Futures Bureau ("SFB", the formal name of FSC), an amount equal to the debit balance of any account shown in the shareholders' equity section of the balance sheets should be transferred from unappropriated retained earnings to special reserve. The special reserve may be reversed and appropriated to the extent of the decrease in the net debit balance.

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 and 2006 were approved in the shareholders' meetings held on June 13, 2008 and June 13, 2007, respectively. The appropriations and dividends per share were as follows:

	Appropriation of Earnings		**Dividend Per Share (NT$)**	
	2007	**2006**	**2007**	**2006**
Legal reserve	$ 432,108	$ 301,869	$ -	$ -
(Reversal) provision of Special reserve	(40,560)	5,374	-	-
Stock dividends	34,010	165,050	0.02	0.10
Cash dividends	2,890,824	2,310,705	1.70	1.40
Bonus to employees - in stock	186,670	130,408	-	-
Bonus to employees - in cash	124,447	86,938	-	-
Remuneration to directors and supervisors	38,889	27,168	-	-
	$ 3,666,388	$ 3,027,512		

The amounts of the appropriations of earnings for 2007 and 2006 were consistent with the resolutions of the meetings of the Board of Directors held on February 26, 2008 and February 12, 2007, respectively.

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 $51,014 thousand. These appropriations have been approved by the FSC and will taken effect on July 29, 2008. As of September 30, 2008, the Corporation's paid-in capital amounted to $17,124,860 thousand, after the capital increasings, option exercising, and treasure stock retiring activities during the period.

The information about the appropriations of bonuses to employees, directors and supervisors is available at the Market Observation Post System website.

Unrealized Gain or Loss on Financial Instruments

For the nine months ended September 30, 2008 and 2007, movements of unrealized gain or loss on financial instruments were as follows:

	Available-for-sale Financial Assets	Equity-method Investments	Gain (loss) on Cash Flow Hedge	Total
Nine months ended September 30, 2008				
Balance, beginning of period	$ 143,844	$ 5,282	$ (5,709)	$ 143,417
Recognized in shareholders' equity	(298,890)	(3,956)	(9,064)	(311,910)
Transferred to profit or loss	-	-	15,007	15,007
Balance, end of period	$ (155,046)	$ 1,326	$ 234	$ (153,486)
Nine months ended September 30, 2007				
Balance, beginning of period	$ 624,914	$ 18,355	$ -	$ 643,269
Recognized in shareholders' equity	(265,744)	9,358	(25,500)	(281,886)
Transferred to profit or loss	(3,339)	-	25,157	21,818
Transferred to the carrying amount of non-financial assets hedging item	-	-	73	73
Balance, end of period	$ 355,831	$ 27,713	$ (270)	$ 383,274

Translation Adjustment

For the nine months ended September 30, 2008 and 2007, movements of translation adjustment were as follows:

	Foreign Currency Exchange Valuation Difference
Nine months ended September 30, 2008	
Balance, beginning of period	$ (41,879)
Recognized in shareholders' equity	(3,129)
Balance, end of period	$ (45,008)

(Continued)

Nine months ended September 30, 2007	Foreign Currency Exchange Valuation Difference
Balance, beginning of period	$ (40,560)
Recognized in shareholders' equity	1,457
Balance, end of period	$ (39,103)

(Concluded)

Employee Stock Option Plans

On February 20, 2001, June 21, 2002 and September 18, 2003, the Corporation received approvals from the SFB of its adoption of Employee Stock Option Plans (hereinafter referred to as the "2001 Plan", "2002 Plan", and "2003 Plan"). The 2001, 2002, and 2003 Plan consisted of 16,000, 70,000 and 70,000 thousand units, respectively. These options generally vest at a certain percentage from two years after the date of grant and the options granted are valid for 10 years. Information about employee stock options was as follows:

	2003 Plan		2002 Plan		2001 Plan	
	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$)
Nine months ended September 30, 2008						
Beginning balance	33,883	$ 19.48	9,875	$ 14.20	3,750	$ 18.40
Options exercised	(518)	17.81	(311)	12.80	(122)	15.17
Options cancelled	(145)	17.80	-	-	(5)	-
Ending balance	33,220	17.62	9,564	12.80	3,623	16.70
Nine months ended September 30, 2007						
Beginning balance	50,958	20.74	17,428	15.10	5,246	19.55
Options exercised	(10,708)	20.73	(7,332)	15.02	(1,281)	18.57
Options cancelled	(5,317)	20.52	-	-	(60)	21.02
Ending balance	34,933	19.48	10,096	14.20	3,905	18.42

The number of outstanding stock options and exercise prices had been adjusted to reflect the offset of deficit by capital reduction and the appropriations of cash and stock dividends based on the employee stock option plans.

The outstanding stock options as of September 30, 2008 were as follows:

	Options Outstanding			Options Exercisable	
Range of exercise Price (NT$)	**Number Outstanding (in Thousands)**	**Expected Remaining Contractual Life (in Years)**	**Weighted-average Exercise Price (NT$)**	**Number Exercisable (in Thousands)**	**Weighted-average Exercise Price (NT$)**
2003 plan					
$14.0-$18.6	33,220	5.15-5.95	$ 17.62	33,220	$ 17.62
2002 plan					
$12.8	9,564	3.98	12.80	9,564	12.80
2001 plan					
$13.4-$18.0	3,623	2.64-3.34	16.70	3,623	16.70

No employee stock options were granted in the nine months ended September 30, 2008 and 2007. 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

	Nine Months Ended September 30	
	2008	**2007**
Net income:		
Net income as reported	$ 1,567,647	$ 3,137,149
Pro forma net income	$ 1,558,297	$ 3,143,854
Earnings per share (EPS) (NT$):		
Basic EPS as reported	$0.91	$1.82
Pro forma basic EPS	$0.90	$1.83
Diluted EPS as reported	$0.90	$1.80
Pro forma diluted EPS	$0.89	$1.81

The average number of shares outstanding for pro forma EPS calculation was adjusted retroactively for appropriations of dividends. The retroactive adjustment caused the basic and diluted earnings per share after income tax for the nine months ended September 30, 2007 to decrease from NT$1.86 and NT$1.84 to NT$1.83 and NT$1.81, respectively.

18. TREASURY STOCK

(Shares in Thousands)

Purpose of Treasury Stock	Number of Shares, Beginning of Period	Addition During the Period	Reduction During the Period	Number of Shares, End of Period
Nine months ended September 30, 2008				
To maintain the Company's credibility and shareholders' interest	-	17,217	16,358	859

The Corporation held a meeting of the Board of Directors and approved a share buyback plan to repurchase the Corporation's common shares up to 50,000 thousand shares from the GreTai Securities Market during the period from May 19, 2008 to July 18, 2008 with buyback prices in the range from NT$16 to NT$34. As of July 18, 2008, the Corporation had repurchased 16,358 thousand common shares. All the treasury stock repurchased were retired on September 19, 2008.

The Corporation held a meeting of the Board of Directors and approved a share buyback plan to repurchase the Corporation's common shares up to 17,000 thousand shares from the GreTai Securities Market during the period from September 22, 2008 to November 21, 2008 with buyback prices in the range from NT$8 to NT$13.

Under the Securities and Exchange Act, the Corporation shall neither pledge treasury stock nor exercise shareholders' rights on these shares, such as rights to dividends and to vote.

19. EARNINGS PER SHARE

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

	Amounts (Numerator)		Shares	EPS (NT$)	
	Before Income Tax	After Income Tax	(Denominator) (Thousands)	Before Income Tax	After Income Tax
Nine months ended September 30, 2008					
Net income	$ 1,767,828	$ 1,567,647			
Basic EPS					
Net income of common shareholders	$ 1,767,828	$ 1,567,647	1,722,182	$ 1.03	$ 0.91
Effect of dilutive securities					
Employee stock option	-	-	4,857		
Bonus to employees	-	-	19,405		
Diluted EPS					
Net income of common and potential common shareholders	$ 1,767,828	$ 1,567,647	1,746,444	$ 1.01	$ 0.90

(Continued)

	Amounts (Numerator)		Shares	EPS (NT$)	
	Before Income Tax	After Income Tax	(Denominator) (Thousands)	Before Income Tax	After Income Tax
Nine months ended September 30, 2007					
Net income	$ 3,886,510	$ 3,137,149			
Basic EPS					
Net income of common shareholders	$ 3,886,510	$ 3,137,149	1,719,022	$ 2.26	$ 1.82
Effect of dilutive securities					
Employee stock option	-	-	19,042		
Diluted EPS					
Net income of common and potential common shareholders	$ 3,886,510	$ 3,137,149	1,738,064	$ 2.24	$ 1.80

(Concluded)

The Corporation presumes that the bonus to employees will be settled in shares and the resulting potential shares will be included in the weighted average number of shares outstanding used in the calculation of diluted EPS, if the shares have a dilutive effect. The number of shares is estimated by dividing the amount of bonus by the closing price of the shares of the balance sheet date. The dilutive effect of the shares needs to be considered until the shareholders resolve the number of shares to be distributed to employees in their meeting in the following year.

The weighted average number of shares outstanding for EPS calculation has been retroactively adjusted for the issuance of employee stock bonuses distributed out of earnings for the year ended December 31, 2006 and stock dividends. This adjustment caused the basic and diluted after income tax EPS for the nine months ended September 30, 2007 to decrease from NT$1.85 and NT$1.83 to NT$1.82 and NT$1.80, respectively.

20. PENSION PLANS

The pension plan under the Labor Pension Act (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. Such pension costs were NT$92,214 thousand and NT$53,744 thousand for the nine months ended September 30, 2008 and 2007, respectively.

Based on the defined benefit plan under the Labor Standards Law (the "LSL"), pension benefits are calculated on the basis of the length of service and average monthly salaries and wages of the nine months before retirement. The Corporation contributes amounts equal to 2% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. The pension fund is deposited in Bank of Taiwan in the committee's name. The Corporation recognized pension costs of NT$15,945 thousand and NT$12,372 thousand for the nine months ended September 30, 2008 and 2007, respectively.

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

	Nine Months Ended September 30	
	2008	**2007**
Pension fund		
Balance, beginning of period	$ 243,277	$ 224,484
Contributions	12,474	12,433
Interest	8,154	5,502
Disbursement	-	(3,050)
Balance, end of period	$ 263,905	$ 239,369
Accrued pension cost		
Balance, beginning of period	$ 464,943	$ 460,328
Add: Accrued expenses and other current liabilities, beginning of period	1,310	1,406
Provisions	15,945	12,372
Contributions	(12,474)	(12,433)
Deducted: Recorded under accrued expenses and other current liabilities, end of period.	(1,406)	(1,345)
Balance, end of period	$ 468,318	$ 460,328

21. INCOME TAX EXPENSE

a. A reconciliation of income tax expense based on income before income tax at the statutory rate and current income tax expense before income tax credits was shown below:

	Nine Months Ended September 30	
	2008	**2007**
Income tax expense based on income before income tax at statutory rate (25%)	$ 441,957	$ 971,628
Additional 10% on the unappropriated earnings	64,931	-
Permanent differences	1,827	(7,619)
Temporary differences	(61,647)	(64,655)
Current income tax expense before income tax credits	$ 447,068	$ 899,354

b. Income tax expenses were as follows:

	Nine Months Ended September 30	
	2008	2007
Current income tax expense before income tax credits	$ 447,068	$ 899,354
Operating loss carryforwards	(183,431)	(675,907)
Income tax credits	(173,100)	(134,261)
Net changes in deferred income tax assets for the periods		
Investment tax credits	(23,369)	314,143
Operating loss carryforwards	169,876	683,314
Temporary differences	72,423	65,883
Adjustment in valuation allowance	(109,790)	(403,172)
Adjustment for prior years' tax	504	7
Income tax expense	$ 200,181	$ 749,361

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

	Nine Months Ended September 30	
	2008	2007
Balance, beginning of period	$ 96,413	$ 101,559
Current income tax payable	90,537	89,186
Current income tax paid	(96,917)	(101,545)
Adjustment for prior years' tax	504	7
Others	-	(21)
Balance, end of period	$ 90,537	$ 89,186

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

	September 30	
	2008	2007
Current		
Investment tax credits	$ 142,657	$ 218,065
Operating loss carryforwards	61,144	435,608
Loss on inventory valuation and obsolescence	27,082	24,546
Other	17,601	50,774
	248,484	728,993
Valuation allowance	(248,484)	(392,086)
	$ -	$ 336,907
Noncurrent		
Investment tax credits	$ 631,385	$ 296,758
Operating loss carryforwards	-	64,885
Depreciation and amortization	247,445	324,904
Investment gain recognized by the equity method, net	(22,954)	(26,929)
Accrued pension costs	117,079	115,081
	972,955	774,699
Valuation allowance	(922,973)	(690,444)
	$ 49,982	$ 84,255

The effective tax rates for deferred income tax as of September 30, 2008 and 2007 were 25%.

e. The balances of the imputation credit account as of September 30, 2008 and 2007 were $26,768 thousand and $10,220 thousand, respectively.

   The actual creditable ratios for distributing the earnings of 2007 and 2006 were 2.87% and 3.79%, respectively.

f. The unappropriated retained earnings as of September 30, 2008 and 2007 had no unappropriated earnings generated before January 1, 1998.

g. As of September 30, 2008, the tax credits and operating loss carryforwards were as follows:

Regulatory Basis of Tax Credits	Item	Total Creditable Amounts	Remaining Creditable Amounts	Expiry Year
Income Tax Law	Operating loss carryforwards	$ 244,575	$ 61,144	2008
Statute for Upgrading Industries	Purchase of machinery and equipment	$ 238,596	$ 65,496	2008
		37,752	37,752	2009
		40,513	40,513	2010
		102,665	102,665	2011
		9,962	9,962	2012
		$ 429,488	$ 256,388	
Statute for Upgrading Industries	Research and development expenditures	$ 76,385	$ 76,385	2008
		188,700	188,700	2009
		67,681	67,681	2010
		132,980	132,980	2011
		29,655	29,655	2012
		$ 495,401	$ 495,401	
Statute for Upgrading Industries	Personnel training expenditures	$ 776	$ 776	2008
		985	985	2009
		1,567	1,567	2010
		2,606	2,606	2011
		1,345	1,345	2012
		$ 7,279	$ 7,279	
Statute for Upgrading Industries	Investments in important technology - based enterprises	$ 6,428	$ 6,428	2010
		8,546	8,546	2011
		$ 14,974	$ 14,974	

Income tax returns through 2006 had been examined and cleared by the tax authorities.

22. LABOR COST, DEPRECIATION AND AMORTIZATION

	Nine Months Ended September 30					
	2008			2007		
	Classified as Cost of Sales	Classified as Operating Expenses	Total	Classified as Cost of Sales	Classified as Operating Expenses	Total
Labor cost						
Salary	$ 1,976,233	$ 403,694	$ 2,379,927	$ 1,112,213	$ 287,749	$ 1,399,962
Labor/health insurance	108,117	23,027	131,144	61,338	19,200	80,538
Pension	89,168	18,991	108,159	50,354	15,762	66,116
Others	64,672	13,977	78,649	43,428	14,176	57,604
	$ 2,238,190	$ 459,689	$ 2,697,879	$ 1,267,333	$ 336,887	$ 1,604,220
Depreciation	$ 2,309,152	$ 40,081	$ 2,349,233	$ 1,484,298	$ 34,129	$ 1,518,427
Amortization	$ 19,648	$ 25,754	$ 45,402	$ 11,530	$ 36,624	$ 48,154

23. RELATED PARTY TRANSACTIONS

The Corporation's related parties were as follows:

a. VIS Micro Inc. (VIS Micro): Indirect subsidiary.

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

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

d. International Semiconductor Technology Ltd. (IST) (Note): The Corporation is its director.

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

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

g. TSMC-Shanghai: It's parent company is major shareholder of the Corporation.

h. VIS Singapore Pte. Ltd. (VISS): Indirect subsidiary.

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

j. INNO-TECH Co. Ltd. (INNO): An equity method investee of one of the Corporation's Indirect subsidiary.

k. Others - related parties over which the Corporation has substantial influence but without any transactions (Note 27).

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

	2008 Amount	2008 %	2007 Amount	2007 %
Nine months ended September 30				
Sales				
TSMC	$ 2,606,465	19	$ 2,957,719	26
Goya	139,595	1	134,806	1
GUC	45,577	-	14,405	-
CMSC	4,222	-	6,322	-
INNO	1,555	-	-	-
	$ 2,797,414	20	$ 3,113,252	27
Purchase				
TSMC	$ -	-	$ 3,626	-
TSMC-Shanghai	-	-	148	-
	$ -	-	$ 3,774	-
Manufacturing expenses				
TSMC	$ 317,173	3	$ 352,011	6
Marketing expenses				
VIS Micro	$ 28,655	23	$ 37,794	26
TSMC	4,548	4	-	-
GUC	-	-	6,682	5
	$ 33,203	27	$ 44,476	31
Research and development expenses				
VISS	$ 25,157	4	$ 30,142	7
TSMC	13,770	2	7,867	2
	$ 38,927	6	$ 38,009	9
Nonoperating income and gains				
TSMC	$ 8,552	19	$ 4,001	14
TSMC-Shanghai	-	-	425	2
Goya	-	-	78	-
GUC	-	-	33	-
	$ 8,552	19	$ 4,537	16
As of September 30				
Receivables				
TSMC	$ 668,215	95	$ 904,635	95
GUC	20,072	3	882	-
Goya	16,451	2	48,322	5
CMSC	558	-	956	-
INNO	480	-	-	-
	$ 705,776	100	$ 954,795	100

	2008 Amount	2008 %	2007 Amount	2007 %
Payables				
TSMC	$ 85,698	94	$ 137,479	96
VIS Micro	3,083	3	2,293	1
VISS	2,383	3	3,299	3
Goya	-	-	435	-
TSMC-Shanghai	-	-	147	-
	$ 91,164	100	$ 143,653	100
Guarantee deposits				
Goya	$ 15,500	33	$ 9,500	1

VIS Micro provided marketing services for the Corporation. The Corporation paid actual expenses incurred for these services plus a 5% markup.

VISS provided research services for the Corporation. The Corporation paid actual expenses incurred for these services plus a 5% markup.

The terms of sales and purchase transactions to related parties were not significantly different from those for third parties. However, for other related-party transactions; license fees, marketing expense 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 were primary for sales.

24. 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. The rental paid to Hsinchu Science-Based Industrial Park Administration could be adjusted according to the lease contract, and the lease is renewable upon its expiration.

Future minimum annual rentals under the leases are as follows:

Year	Amount
2008 (4th quarter)	$ 19,811
2009	79,244
2010	70,231
2011	65,949
2012	65,949
2013 to 2027	798,357
	$ 1,099,541

25. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

The significant commitments and contingencies of the Corporation as of September 30, 2008 were as follows:

a. The Corporation revised its existing license agreement with Texas Instruments Incorporated. The revised termination date is December 31, 2009.

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 for four years.

h. In May 2008, LSI-AGERE (LSI) filed a lawsuit in the International Trade Centre (ITC) for patent infringement against the Corporation and another 23 companies. The litigation is still under investigation process, so the indemnification of this litigation could not be determined at this time. On the basis of this assessment, the Corporation determined that this litigation would not have a material effect on its operations and financial condition.

i. As of September 30, 2008, unused letters of credit aggregated about US$911 thousand and JPY519,428 thousand.

26. FINANCIAL INSTRUMENTS

a. Fair values of financial instruments were as follows:

	September 30			
	2008		2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Nonderivative financial instruments				
Assets				
Cash and cash equivalents	$ 3,359,220	$ 3,359,220	$ 10,402,507	$ 10,402,507
Financial assets held-to-maturity - current	285,791	285,791	1,388,347	1,388,237

(Continued)

	September 30			
	2008		2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Bond portfolios with no active market - current	$ -	$ -	$ 83,051	$ 83,072
Receivables from related parties	705,776	705,776	954,795	954,795
Notes and accounts receivable	2,246,777	2,246,777	1,886,927	1,886,927
Available-for-sale financial assets - noncurrent	265,885	265,885	776,762	776,762
Financial assets carried at cost - noncurrent	40,968	-	40,968	-
Liabilities				
Payables to related parties	91,164	91,164	143,653	143,653
Notes and accounts payable	913,114	913,114	685,582	685,582
Payables to contractors and equipment suppliers	492,124	492,124	358,679	358,679
Derivative financial instruments				
Assets				
Forward exchange contracts	14,672	14,672	6,658	6,658
Currency-swap contracts	688	688	2,328	2,328
Derivative financial assets for hedging - current				
Forward exchange contracts	514	514	11,866	11,866
Liabilities				
Forward exchange contracts	40,725	40,725	-	-
Derivative financial liabilities for hedging - current				
Forward exchange contracts	34,138	34,138	11,056	11,056

(Concluded)

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

1) For short-term financial instruments, carrying values approximate fair values because of their short maturities. These instruments include 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 in an active market. For those instruments such as derivative financial instruments and held-to-maturity financial assets with no quoted market prices, their fair values are determined using valuation techniques incorporating estimates and assumptions consistent with those generally used by other market participants to price financial instruments.

   Fair values of forward exchange contacts and currency-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.

   Fair value of structured deposit is calculated based on discounted future cash flows.

3) Fair value of bond portfolios with no active market is based on the contract resale price.

4) Financial assets carried at cost – noncurrent 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's financial instruments with fair values that were based on published price quotations in the market and to which valuation techniques were applied were as follows:

	Published Price September 30		Estimated Price September 30	
	2008	2007	2008	2007
Nonderivative financial instruments				
Assets				
Cash and cash equivalents	$ 3,359,220	$ 10,402,507	$ -	$ -
Financial assets held-to-maturity - current	-	395,805	285,791	992,432
Bond portfolios with no active market - current	-	-	-	83,072
Receivables from related parties	-	-	705,776	954,795
Notes and accounts receivable	-	-	2,246,777	1,886,927
Available-for-sale financial assets - noncurrent	265,885	776,762	-	-
Liabilities				
Payables to related parties	-	-	91,164	143,653
Notes and accounts payable	-	-	913,114	685,582
Payables to contractors and equipment suppliers	-	-	492,124	358,679
Derivative financial instruments				
Assets				
Forward exchange contracts	-	-	14,672	6,658
Currency-swap contracts	-	-	688	2,328
Derivative financial assets for hedging - current				
Forward exchange contracts	-	-	514	11,866
Liabilities				
Forward exchange contracts	-	-	40,725	-
Derivative financial liabilities for hedging - current				
Forward exchange contracts	-	-	34,138	11,056

d. Valuation loss arising from changes in fair value of financial instruments determined using valuation techniques were $22,846 thousand and $38,988 thousand for the nine months ended September 30, 2008 and 2007, respectively.

e. As of September 30, 2008 and 2007, financial assets exposed to fair value interest rate risk amounted to $2,836,671 thousand and $9,633,500 thousand, respectively; financial assets exposed to cash flow interest rate risk amounted to $522,549 thousand and $1,164,922 thousand, respectively.

f. Interest revenues on financial instruments other than the financial assets or liabilities at fair value through profit or loss in the nine months ended September 30, 2008 and 2007 were $95,394 thousand and $157,329 thousand, respectively; Interest expenses resulting from the financial instruments other than the financial assets or liabilities at fair value through profit or loss in the nine months ended September 30, 2008 and 2007 were $0 and $165 thousand, respectively.

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 $454 thousand.

2) Credit risk: Credit risk represents the loss that would be incurred by the Corporation 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. Derivative contracts with positive fair values on the balance sheet date are evaluated for credit risk. As of September 30, 2008 and 2007, such credit risk amounted to $15,874 thousand and $20,852 thousand, respectively. The maximum credit risks of other financial instruments hold by the Corporation are their book values.

3) Liquidity and cash requirement: The Corporation has sufficient operating capital to meet cash needed to settle derivative contracts. In addition, the Corporation's residential mortgage-backed securities contains an embedded put options the Corporation can sell this security quickly at a price approximates its amortized cost on the exercise date. However, some equity instruments and structure time deposit for which there is no active market are expected to have material liquidity risk. The Corporation's investment in stocks (recorded under available-for-sale financial assets) has quoted market prices in an active market and can be sold quickly at fair value.

As of September 30, 2008, the Corporation's future cash demand for the outstanding forward exchange contracts and currency swap contracts was as follows:

Term	Inflow (in Thousands)	Outflow (in Thousands)
Within one year	NT$ 2,206,881	US$ 71,000
	JPY 860,755	US$ 7,950
	US$ 2,000	NT$ 63,112

The exchange rates for forward exchange contracts and currency-swap 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 receivable on VIS's accounts receivable as of September 30, 2008 were significant; thus, it entered into forward exchange contracts to hedge these exposures.

Hedged Item	Hedging Financial Instrument	Fair Value as of September 30, 2008	Fair Value as of September 30, 2007
Foreign currency accounts receivable	Forward exchange contracts	$(33,880)	$11,866

2) Cash flow hedges:

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

Hedged Item	Hedging Financial Instrument	Fair Value as of September 30, 2008	Expected Timing for Future Cash Demand	Expected Timing for the Recognition of Gains or Losses from Hedge
September 30, 2008				
Sales	Forward exchange contracts	$ 256	October 2008-December 2008	October 2008-December 2008
September 30, 2007				
Sales	Forward exchange contracts	(11,056)	October 2007-December 2007	October 2007-December 2007

	Nine Months Ended September 30	
	2008	2007
Unrealized losses recognized in shareholders' equity	$ (9,064)	$ (25,500)
Transferred to sales	15,007	25,157
Recognized as cost of machinery and equipment	-	73
Adjustment to shareholders' equity in the period	$ 5,943	$ (270)

27. 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: Table 2 (attached)

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 3 (attached)

h. Receivable from related parties amounting to at least $100 million or 20% of the paid-in capital: Table 4 (attached)

i. Names, locations, and related information of investees on which the Corporation exercises significant influence: Table 5 (attached)

j. Information about derivatives of investees: None.

k. Information on investment in Mainland China: None.

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

MARKETABLE SECURITIES HELD
SEPTEMBER 30, 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	September 30, 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	Residential mortgage-backed securities							
	Structured time deposits	-	Financial assets held-to-maturity - current	-	$ 285,791	-	$ 285,791	Note 1
	Stock							
	International Semiconductor Technology Ltd.	Investee	Available-for-sale financial assets - noncurrent	7,293	44,563	2	44,563	Note 2
	Walton Advanced Engineering, Inc.	Investee	Available-for-sale financial assets - noncurrent	37,512	221,322	7	221,322	Note 2
	VIS Associates Inc.	Subsidiary	Long-term stock investments accounted for by the equity method	6,000	423,607	100	423,607	Note 3
	CMSC, Inc.	Equity-method investee	Long-term stock investments accounted for by the equity method	9,902	97,519	25	97,519	Note 3
	United Industrial Gases Co., Ltd.	Investee	Financial assets carried at cost - noncurrent	3,357	38,716	2	38,716	Note 4
	Megica Corporation	Investee	Financial assets carried at cost - noncurrent	205	2,252	2	2,252	Note 4
VIS Associates Inc.	Stock							
	Advanced Analogic Technologies, Inc.	Investee	Available-for-sale financial assets - current	18	US$ 85	-	US$ 85	Note 2
	VIS Investment Holding, Inc.	Subsidiary of VIS Associates Inc.	Long-term stock investments accounted for by the equity method	63	US$ 785	100	US$ 785	Note 3
	VIS Singapore Pte Ltd.	Subsidiary of VIS Associates Inc.	Long-term stock investments accounted for by the equity method	1,000	US$ 696	100	US$ 696	Note 5
	Specialty TechFarm, Inc.	Subsidiary of VIS Associates Inc.	Long-term stock investments accounted for by the equity method	10,000	US$ 6,347	100	US$ 6,347	Note 3
	Equity							
	Silicon Valley Equity Fund II	-	Financial assets carried at cost - noncurrent	-	US$ 1,587	14	US$ 1,587	Note 4
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$ 582	100	US$ 582	Note 3

(Continued)

Holding Company Name	Marketable Security Type and Issuer	Relationship with the Holding Company	Financial Statement Account	September 30, 2008				Note
				Shares/Units (Thousands)	Carrying Value (US$ in Thousands)	% of Ownership	Market Value or Net Asset Value (US$ in Thousands)	
Specialty TechFarm, Inc.	Stock							
	LayerWalker Technology, Inc.	Equity-method investee	Long-term stock investments accounted for by the equity method	4,103	US$ 697	27	US$ 697	Note 5
	SkyTraq Technology, Inc.	Equity-method investee	Long-term stock investments accounted for by the equity method	4,688	US$ 883	28	US$ 883	Note 5
	Inno-Tech Co., Ltd.	Equity-method investee	Long-term stock investments accounted for by the equity method	5,000	US$ 1,313	40	US$ 1,313	Note 5
	Linear Artwork, Inc.	Equity-method investee	Long-term stock investments accounted for by the equity method	2,188	US$ 311	28	US$ 311	Note 5
	Goyatek Technology Inc.	Investee	Financial assets carried at cost - noncurrent	5,000	US$ 443	16	US$ 443	Note 4
	Uniband Electronic Corp.	Investee	Financial assets carried at cost - noncurrent	2,400	US$ 986	6	US$ 986	Note 4

Note 1: The market value was based on the put option price.

Note 2: The market value was based on stock closing price as of September 30, 2008.

Note 3: The net asset value was based on reviewed financial statements for the same period.

Note 4: The market value was based on the book value as of September 30, 2008.

Note 5: The net asset value was based on unreviewed financial statements for the same period.

Note 6: As of September 30, 2008, the above marketable securities had not been pledged or mortgaged.

(Concluded)

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST $100 MILLION OR 20% OF THE PAID-IN CAPITAL
NINE MONTHS ENDED SEPTEMBER 30, 2008
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Marketable Security Type and Issuer	Financial Statement Account	Counter-party	Nature of Relationship	Balance, Beginning of Period		Acquisition		Disposal				Other	Balance, End of Period	
					Shares/Units (Thousands)	Amount	Shares/Units (Thousands)	Amount (US$ in Thousands)	Shares/Units (Thousands)	Amount (US$ in Thousands)	Carrying Value (US$ in Thousands)	Gain (Loss) on Disposal (US$ in Thousands)		Shares/Units (Thousands)	Amount
Vanguard International Semiconductor Corporation	Residential mortgage-backed securities														
	Structured time deposits	Held-to-maturity financial assets - current	-	-	-	$ 97,680	-	$ 783,123	-	$ -	$ 595,012	$ -	$ -	-	$ 285,791
	Bond														
	Bond - 7-Eleven, Inc.	Held-to-maturity financial assets - current	-	-	-	99,515 (Note1)	-	-	-	100,000	100,000	-	485 (Note 2)	-	-
	Bond - Greartwall	Held-to-maturity financial assets - current	-	-	-	297,606 (Note1)	-	-	-	300,000	300,000	-	2,394 (Note 2)	-	-
	Bond - Formosa Petrochemical Co.	Held-to-maturity financial assets - current	-	-	-	197,363 (Note1)	-	-	-	200,000	200,000	-	2,637 (Note 2)	-	-

Note 1: Including amortization of discount on bonds.

Note 2: Interest income.

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
NINE MONTHS ENDED SEPTEMBER 30, 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	$ 2,606,465	(19.38%)	Note 1	$ -	-	$668,215	22.63%	-
	Goyatek Technology Inc.	An indirect subsidiary of the Corporation is its director	Sale	139,595	(1.04%)	Note 2	-	-	16,451	0.56%	-

Note 1: Mainly paid on the 45th day after the month of the shipment date.

Note 2: Mainly paid on the 30th day after the month of the shipment date.

<u>**TABLE 4**</u>

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
SEPTEMBER 30, 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	$668,215	4.63	$ -	-	$ -	$ -

TABLE 5

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

NAMES, LOCATIONS, AND RELATED INFORMATION OF INVESTEES ON WHICH THE CORPORATION EXERCISES SIGNIFICANT INFLUENCE
NINE MONTHS ENDED SEPTEMBER 30, 2008
(In Thousands of New Taiwan Dollars)

Investor	Investee	Location	Main Businesses and Products	Investment Amount		Balance as of September 30, 2008			Net Loss of the Investee	Investment Loss	Note
				September 30, 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	$ 423,607	$ (21,077)	$ (21,077)	Subsidiary
	CMSC, Inc.	Hsin-chu City, Taiwan	Integrated circuit design services and related businesses	112,650	112,650	9,902	25	97,519	(26,436)	(6,437)	Equity-method investee