Vanguard International Semiconductor Corporation

Financial Statements for the Years Ended June 30, 2009 and 2008 and Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Vanguard International Semiconductor Corporation

We have audited the accompanying balance sheets of Vanguard International Semiconductor Corporation (the "Corporation") as of June 30, 2009 and 2008, and the related statements of income, changes in shareholders' equity and cash flows for the six months then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Vanguard International Semiconductor Corporation as of June 30, 2009 and 2008, and the results of its operations and its cash flows for the six months then ended, 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, On January 1, 2009, the Corporation adopted the newly revised SFAS No. 10, "Accounting for Inventories". And in March 2007, the ARDF issued an interpretation that requires companies to recognize as compensation expenses for bonuses paid to employees, directors and supervisors beginning January 1, 2008. These bonuses were previously recorded as appropriations from earnings.

We have also audited the consolidated financial statements of Vanguard International Semiconductor Corporation and subsidiaries as of and for the six months ended June 30, 2009 and 2008, respectively, and have issued an unqualified opinion thereon with an explanatory paragraph on these financial statements.

July 13, 2009

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 audit such financial statements are those generally accepted and applied in the Republic of China.

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

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

BALANCE SHEETS
JUNE 30, 2009 AND 2008
(In Thousands of New Taiwan Dollars, Except Par Value)

	2009		2008	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 4)	$ 4,067,301	18	$ 6,194,360	22
Financial assets at fair value through profit or loss - current (Notes 2 and 5)	19,766	-	5,363	-
Held-to-maturity financial assets - current (Notes 2 and 6)	149,997	1	499,459	2
Derivative financial assets for hedging - current (Notes 2 and 7)	6,885	-	3,792	-
Receivables from related parties (Note 22)	740,364	3	691,978	2
Notes and accounts receivable	1,724,808	8	2,136,841	7
Allowance for doubtful accounts (Note 2)	(35,213)	-	(44,092)	-
Allowance for sales returns and discounts (Note 2)	(40,555)	-	(104,021)	-
Inventories (Notes 2 and 8)	1,373,105	6	2,171,643	8
Other receivables from related parties (Note 22)	10,221	-	7,699	-
Pledged time deposits (Notes 4 and 23)	75,400	-	-	-
Prepaid expenses and other current assets	444,895	2	149,488	-
Deferred income tax assets - current (Notes 2 and 20)	17,433	-	127,432	-
Total current assets	8,554,407	38	11,839,942	41
INVESTMENTS				
Long-term stock investments accounted for by the equity method (Notes 2 and 9)	440,203	2	511,544	2
Available-for-sale financial assets - noncurrent (Notes 2 and 10)	312,191	1	377,329	1
Financial assets carried at cost - noncurrent (Notes 2 and 11)	40,968	-	40,968	-
Total investments	793,362	3	929,841	3
PROPERTIES (Notes 2, 12 and 13)				
Cost				
Buildings	12,077,228	53	11,805,048	41
Machinery and equipment	46,486,763	205	45,038,939	158
Other equipment	334,557	2	314,164	1
Total cost	58,898,548	260	57,158,151	200
Accumulated depreciation	(47,008,485)	(208)	(43,596,235)	(152)
Prepayments and construction in progress	74,327	1	976,828	3
Net properties	11,964,390	53	14,538,744	51
OTHER ASSETS				
Assets leased to others (Notes 2 and 13)	1,119,773	5	1,211,669	4
Deferred charges, net (Notes 2 and 14)	57,343	-	83,843	1
Deferred income tax assets - noncurrent (Notes 2 and 20)	131,348	1	-	-
Refundable deposits	5,084	-	5,476	-
Total other assets	1,313,548	6	1,300,988	5
TOTAL	$ 22,625,707	100	$ 28,609,515	100

	2009		2008	
LIABILITIES AND SHAREHOLDERS' EQUITY	**Amount**	**%**	**Amount**	**%**
CURRENT LIABILITIES				
Financial liabilities at fair value through profit or loss - current (Notes 2 and 5)	$ 19,330	-	$ 2,101	-
Derivative financial liabilities for hedging - current (Notes 2 and 7)	4,530	-	9,450	-
Payables to related parties (Note 22)	1,082	-	-	-
Notes and accounts payable	703,259	3	1,098,089	4
Income tax payable (Notes 2 and 20)	-	-	155,810	1
Payables to contractors and equipment suppliers	160,087	1	830,591	3
Cash dividends and bonus payable (Note 16)	811,656	4	3,015,271	10
Other payables to related parties (Note 22)	121,647	-	111,371	-
Accrued expenses and other current liabilities (Note 15)	1,260,234	6	1,757,852	6
Total current liabilities	3,081,825	14	6,980,535	24
OTHER LIABILITIES				
Accrued pension cost (Notes 2 and 19)	469,562	2	467,193	2
Guarantee deposits (Note 22)	35,684	-	46,291	-
Total other liabilities	505,246	2	513,484	2
Total liabilities	3,587,071	16	7,494,019	26
SHAREHOLDERS' EQUITY (Notes 2, 16 and 17)				
Capital stock, NT$10.00 par value;				
Authorized - 3,300,000 thousand shares				
Issued and outstanding - 1,677,486 thousand shares in 2009 and 1,701,636 thousand shares in 2008	16,774,860	74	17,016,359	59
Stock dividends for distribution	-	-	271,694	1
Capital surplus				
Employee stock options	463,496	2	472,389	2
Treasury stock transactions	32,355	-	-	-
Long-term stock investments	69,154	1	68,201	-
Total capital surplus	565,005	3	540,590	2
Retained earnings				
Legal reserve	1,584,763	7	1,480,568	5
Special reserve	277,083	1	-	-
Unappropriated earnings	(17,485)	-	2,101,386	8
Total retained earnings	1,844,361	8	3,581,954	13
Others				
Unrealized losses on financial instruments	(107,619)	(1)	(44,421)	-
Cumulative translation adjustments	(37,971)	-	(63,667)	-
Treasury stock (at cost) - 8,724 thousand shares	-	-	(187,013)	(1)
Total others	(145,590)	(1)	(295,101)	(1)
Total shareholders' equity	19,038,636	84	21,115,496	74
TOTAL	$ 22,625,707	100	$ 28,609,515	100

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

(With Deloitte & Touche audit report dated July 13, 2009)

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

STATEMENTS OF INCOME
SIX MONTHS ENDED JUNE 30, 2009 AND 2008
(In Thousands of New Taiwan Dollars, Except (Loss) Earnings Per Share)

	2009		2008	
	Amount	**%**	**Amount**	**%**
GROSS SALES (Notes 2, 7, 22 and 26)	$ 5,166,510		$ 9,109,249	
SALES RETURNS AND DISCOUNTS (Note 2)	(44,859)		(7,439)	
NET SALES	5,121,651	100	9,101,810	100
COST OF SALES (Notes 21 and 22)	5,192,748	101	6,953,533	76
GROSS (LOSS) PROFIT	(71,097)	(1)	2,148,277	24
OPERATING EXPENSES (Notes 21 and 22)				
General and administrative	228,720	5	348,078	4
Marketing	46,104	1	82,992	1
Research and development	357,657	7	402,411	4
Total operating expenses	632,481	13	833,481	9
OPERATING (LOSS) INCOME	(703,578)	(14)	1,314,796	15
NONOPERATING INCOME AND GAINS				
Rental (Note 13)	54,844	1	57,158	1
Interest	21,605	1	70,444	1
Valuation gains on financial instruments (Notes 2, 5 and 26)	19,792	-	40,300	-
Dividends (Note 2)	9,063	-	10,070	-
Gain on disposal of properties (Note 2)	286	-	7,551	-
Others (Note 22)	33,767	1	24,804	-
Total nonoperating income and gains	139,357	3	210,327	2
NONOPERATING EXPENSES AND LOSSES				
Investment loss recognized by the equity method (Notes 2 and 9)	51,596	1	17,941	-
Assets leased to others (Note 13)	45,948	1	45,949	1
Loss on disposal of properties (Note 2)	5,918	-	12	-
Foreign exchange loss, net (Note 2)	1,068	-	21,792	-
Others	13,477	-	9,900	-
Total nonoperating expenses and losses	118,007	2	95,594	1
(LOSS) INCOME BEFORE INCOME TAX	(682,228)	(13)	1,429,529	16
INCOME TAX EXPENSE (Notes 2 and 20)	-	-	(188,004)	(2)
NET (LOSS) INCOME	$ (682,228)	(13)	$ 1,241,525	14

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VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

STATEMENTS OF INCOME
SIX MONTHS ENDED JUNE 30, 2009 AND 2008
(In Thousands of New Taiwan Dollars, Except (Loss) Earnings Per Share)

	2009		2008	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
(LOSS) EARNINGS PER SHARE (Note 18)				
Basic	$ (0.41)	$ (0.41)	$ 0.83	$ 0.72
Diluted	$ (0.41)	$ (0.41)	$ 0.82	$ 0.71

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

(With Deloitte & Touche audit report dated July 13, 2009) (Concluded)

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
SIX MONTHS ENDED JUNE 30, 2009 AND 2008
(In Thousands of New Taiwan Dollars)

	Capital Stock Issued and Outstanding		Stock Dividends for Distribution (Note 16)	Capital Surplus (Notes 2, 16 and 17)			Retained Earnings (Note 16)			Others		Treasury Stock (Note 17)	Total Shareholders' Equity
	Shares (Thousands)	Amount		Employee Stock Options	Treasury Stock Transactions	Long-term Stock Investments	Legal Reserve	Special Reserve	Unappropriated Earnings	Unrealized Gain (Loss) on Financial Instruments (Notes 2 and 16)	Cumulative Translation Adjustments (Note 2)		
BALANCE, JANUARY 1, 2009	1,695,486	$ 16,954,860	$ -	$ 463,496	$ -	$ 68,890	$ 1,480,568	$ -	$ 1,717,015	$ (238,833)	$ (38,251)	$ (147,645)	$ 20,260,100
Appropriation of prior year's earnings (Note)													
Legal reserve	-	-	-	-	-	-	104,195	-	(104,195)	-	-	-	-
Special reserve	-	-	-	-	-	-	-	277,083	(277,083)	-	-	-	-
Cash dividends - 0.4%	-	-	-	-	-	-	-	-	(670,994)	-	-	-	(670,994)
Net loss in the six months ended June 30, 2009	-	-	-	-	-	-	-	-	(682,228)	-	-	-	(682,228)
Adjustment due to changes in ownership interests in investee	-	-	-	-	-	264	-	-	-	-	-	-	264
Valuation gain on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	130,467	-	-	130,467
Equity in the valuation gain on available-for-sale financial assets of equity-method investees	-	-	-	-	-	-	-	-	-	944	-	-	944
Valuation loss on derivative financial instruments for hedging	-	-	-	-	-	-	-	-	-	(197)	-	-	(197)
Translation adjustments on long-term stock investments	-	-	-	-	-	-	-	-	-	-	280	-	280
Retirement of treasury stocks - 18,000 thousand shares	(18,000)	(180,000)	-	-	32,355	-	-	-	-	-	-	147,645	-
BALANCE, JUNE 30, 2009	1,677,486	$ 16,774,860	$ -	$ 463,496	$ 32,355	$ 69,154	$ 1,584,763	$ 277,083	$ (17,485)	$ (107,619)	$ (37,971)	$ -	$ 19,038,636
BALANCE, JANUARY 1, 2008	1,700,485	$ 17,004,847	$ -	$ 515,200	$ -	$ 66,173	$ 1,048,460	$ 40,560	$ 4,526,249	$ 143,417	$ (41,879)	$ -	$ 23,303,027
Issuance of shares upon exercise of employee stock options	1,151	11,512	-	8,203	-	-	-	-	-	-	-	-	19,715
Appropriation of prior year's earnings													
Legal reserve	-	-	-	-	-	-	432,108	-	(432,108)	-	-	-	-
Reversal of special reserve	-	-	-	-	-	-	-	(40,560)	40,560	-	-	-	-
Stock dividends - 0.3 % (from capital surplus)	-	-	51,014	(51,014)	-	-	-	-	-	-	-	-	-
Stock dividends - 0.2 % (from unappropriated earnings)	-	-	34,010	-	-	-	-	-	(34,010)	-	-	-	-
Cash dividends - 17 %	-	-	-	-	-	-	-	-	(2,890,824)	-	-	-	(2,890,824)
Bonus to employees - stock	-	-	186,670	-	-	-	-	-	(186,670)	-	-	-	-
Bonus to employees - cash	-	-	-	-	-	-	-	-	(124,447)	-	-	-	(124,447)
Remuneration to directors and supervisors	-	-	-	-	-	-	-	-	(38,889)	-	-	-	(38,889)
Net income in the six months ended June 30, 2008	-	-	-	-	-	-	-	-	1,241,525	-	-	-	1,241,525
Adjustment due to changes in ownership interests in investee	-	-	-	-	-	2,028	-	-	-	-	-	-	2,028
Valuation loss on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	(187,446)	-	-	(187,446)
Equity in the valuation loss on available-for-sale financial assets of equity-method investees	-	-	-	-	-	-	-	-	-	(4,319)	-	-	(4,319)
Valuation gain on derivative financial instruments for hedging	-	-	-	-	-	-	-	-	-	3,927	-	-	3,927
Translation adjustments on long-term stock investments	-	-	-	-	-	-	-	-	-	-	(21,788)	-	(21,788)
Acquisition of treasury stock	-	-	-	-	-	-	-	-	-	-	-	(187,013)	(187,013)
BALANCE, JUNE 30, 2008	1,701,636	$ 17,016,359	$ 271,694	$ 472,389	$ -	$ 68,201	$ 1,480,568	$ -	$ 2,101,386	$ (44,421)	$ (63,667)	$ (187,013)	$ 21,115,496

Note: Bonus to employees, directors and supervisors in the amount of NT$140,662 thousand and NT$9,378 thousand, respectively, had been charged against earnings of 2008.

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

(With Deloitte & Touche audit report dated July 13, 2009)

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2009 AND 2008
(In Thousands of New Taiwan Dollars)

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) income	$ (682,228)	$ 1,241,525
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	1,827,949	1,603,760
Investment loss recognized by the equity method	51,596	17,941
Deferred income tax assets	(78,578)	31,690
Loss (gain) on disposal of properties, net	5,632	(7,539)
Accrual of pension cost	1,290	2,250
Amortized discounts for bonds	(152)	(4,975)
Provision for doubtful accounts	9,817	3,600
Reversal of allowance for sales returns and discounts	(6,677)	(22,842)
Net changes in operating assets and liabilities		
Financial assets for trading	10,248	1,228
Receivables from related parties	(424,094)	196,221
Notes and accounts receivable	(634,696)	(206,559)
Inventories	437,681	(671,054)
Other receivables from related parties	(3,888)	4,681
Prepaid expenses and other current assets	(232,138)	177,111
Derivative financial assets for hedging	(2,666)	(12,837)
Financial liabilities for trading	9,216	1,281
Payables to related parties	1,082	-
Notes and accounts payable	303,358	397,697
Other payables to related parties	73,744	(43,551)
Income tax payable	-	59,397
Accrued expenses and other current liabilities	(163,567)	319,394
Net cash provided by operating activities	502,929	3,088,419
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in pledged time deposits	(75,400)	-
Proceeds of the disposal of held-to-maturity financial assets	-	197,680
Decrease in bond portfolios with no active market	-	72,734
Acquisition of properties	(403,680)	(3,555,115)
Proceeds of the disposal of properties	286	7,551
Increase in deferred charges	(2,805)	(15,784)
Decrease (increase) in refundable deposits	530	(1,375)
Net cash used in investing activities	(481,069)	(3,294,309)

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VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2009 AND 2008
(In Thousands of New Taiwan Dollars)

	2009	2008
CASH FLOWS FROM FINANCING ACTIVITIES		
(Decrease) increase in guarantee deposits	$ (9,521)	$ 29,383
Proceeds of the exercise of employee stock options	-	19,715
Acquisitions of treasury stock	-	(187,013)
Net cash used in financing activities	(9,521)	(137,915)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	12,339	(343,805)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	4,054,962	6,538,165
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 4,067,301	$ 6,194,360
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Income tax paid	$ 72,055	$ 96,917
NONCASH FINANCING ACTIVITIES		
Cash dividends and bonus payable	$ 670,994	$ 3,015,271
Reclassification of properties into assets leased to others	$ -	$ 1,257,618
CASH PAID FOR ACQUISITIONS OF PROPERTIES		
Total acquisitions	$ 186,594	$ 3,439,379
Decrease in payables to contractors and equipment suppliers	217,086	115,736
	$ 403,680	$ 3,555,115

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

(With Deloitte & Touche audit report dated July 13, 2009) (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 June 30, 2009 and 2008, the Corporation had 3,415 and 3,813 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, law 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 properties, 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 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 amount approximates fair value.

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. When the fair value is positive, 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.

Held-to-maturity financial assets

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 asset acquisition. Profit or loss is recognized when the financial assets are derecognized, impaired, or amortized. A regular 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 Accounts

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

Inventories consist of raw materials, supplies and spare parts, finished goods and work-in-process. Before January 1, 2009, inventories were stated at the lower of aggregate cost or market value. Market value means replacement cost for raw materials and supplies and net realizable value for finished goods and work in process. As stated in note 3, effective January 1, 2009, inventories are stated at the lower of cost or net realizable value. Inventory write-downs are made item by item, except where it may be appropriate to group similar or related items. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and necessary selling costs. Inventories are recorded at standard cost and adjusted to approximate weighted-average cost on the balance sheet date.

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 (properties 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 is 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 would not exceed the carrying amount (net of amortization) had no impairment loss been recognized in prior years.

Employee Stock Options

Employee stock options granted between January 1, 2004 and December 31, 2007 were accounted for under the interpretations issued by the Accounting Research and Development Foundation (“ARDF”). The 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 in accordance with Statement of Financial Accounting Standards No. 39, “Accounting for Share-based Payment”, 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.

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 operating loss carryforwards and investment tax credits. Valuation allowances are provided to the extent, if any, that it is more likely than not that deferred income tax assets will not be realized. A deferred tax asset or liability is classified as current or noncurrent in accordance with the classification of 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 to 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.

Reclassifications

Certain accounts in the financial statements as of and for the six months ended June 30, 2008 have been reclassified to be consistent with the financial statements as of and for the six months ended June 30, 2009.

3. ACCOUNTING CHANGES

a. Interpretation 2007-052, "Accounting for Bonuses to Employees, Directors and Supervisors"

   In March 2007, the ARDF issued an interpretation that requires companies to recognize as compensation expenses for 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$186,408 thousand in net income and a decrease in after income tax basic earnings per share of NT$0.11 for the six months ended June 30, 2008.

b. 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 any effect on the Corporation's financial statements as of and for the six months ended June 30, 2008.

c. SFAS No. 10, "Accounting for Inventories"

   On January 1, 2009, the Corporation adopted the newly revised SFAS No. 10, "Accounting for Inventories". The main revisions are (1) inventories are stated at the lower of cost or net realizable value, and inventories are written down to net realizable value item-by-item except when the grouping of similar or related items is appropriate; (2) unallocated overheads are recognized as expenses in the period in which they are incurred; and (3) abnormal costs, write-downs of inventories and any reversal of write-downs are recorded as cost of goods sold for the period. The adoption resulted in an increase of NT$237,140 thousand in net loss and an increase of NT$0.14 in net loss per share for the six months ended June 30, 2009.

4. CASH AND CASH EQUIVALENTS

	June 30 2009	June 30 2008
Bank deposits	$ 4,142,701	$ 6,154,460
Government bonds acquired under resale agreements	-	39,900
	4,142,701	6,194,360
Pledged time deposit	(75,400)	-
	$ 4,067,301	$ 6,194,360

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

Financial instruments held for trading consisted of the following:

	June 30 2009	June 30 2008
Financial assets held for trading		
Forward exchange contracts	$ 19,347	$ 5,133
Currency-swap contracts	419	230
	$ 19,766	$ 5,363
Financial liabilities held for trading		
Forward exchange contracts	$ 7,835	$ 2,101
Currency-swap contracts	11,495	-
	$ 19,330	$ 2,101

The Corporation entered into derivative transactions in the six months ended June 30, 2009 and 2008 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 June 30, 2009 and 2008 were as follows:

Contract	Currency	Contract Expiry Date	Contract Amount (in Thousands)
June 30, 2009			
Sell forward exchange contracts	US$ to NT$	2009.07.02-2009.08.31	US$ 58,000
Buy forward exchange contracts	NT$ to US$	2009.07.03-2009.08.31	US$ 18,000
Sell forward exchange contracts	US$ to JPY	2009.07.08-2009.07.15	US$ 3,700
June 30, 2008			
Buy forward exchange contracts	NT$ to JPY	2008.07.02-2008.08.06	JPY 120,000
Sell forward exchange contracts	US$ to JPY	2008.07.02-2008.09.24	US$ 8,700
Sell forward exchange contracts	US$ to NT$	2008.07.16-2008.10.16	US$ 30,000

b. Outstanding Currency-swap contracts as of June 30, 2009 and 2008 were as follows:

	Currency	Maturity Date	Contract Amount (in Thousands)
June 30, 2009			
Buy forward exchange contracts	NT$ to US$	2009.07.02-2009.07.08	US$ 3,190
Sell forward exchange contracts	US$ to NT$	2009.07.06-2009.07.24	US$ 33,500
June 30, 2008			
Sell forward exchange contracts	US$ to NT$	2008.07.17	US$ 5,000

The net gains on financial instruments for trading were $15,919 thousand and $36,985 thousand, respectively, for the six months ended June 30, 2009 and 2008.

6. HELD-TO-MATURITY FINANCIAL ASSETS - CURRENT

	June 30	
	2009	2008
Bond - Taiwan Power Co.	$ 149,997	$ -
Bond - Greatwall	-	299,473
Bond - Formosa Petrochemical Co.	-	199,986
	$ 149,997	$ 499,459

a. On October 28, 2008, the Corporation bought 5-year corporate bonds issued by Company Taiwan Power Co. with an effective interest rate of 2.30%, at par value of NT$150,000 thousand. The maturity will be July 5, 2009.

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

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

7. DERIVATIVE FINANCIAL INSTRUMENTS FOR HEDGING

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

	June 30	
	2009	2008
Derivative financial assets for hedging		
Current		
Forward exchange contracts	$ 6,885	$ 3,792
Derivative financial liabilities for hedging		
Current		
Forward exchange contracts	$ 4,530	$ 9,450

Risks control and hedging policy:

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

In the six months ended June 30, 2009 and 2008, the Corporation used forward exchange contracts to hedge risks on exchange rate fluctuations of expected sales and foreign-currency denominated accounts receivable. The outstanding forward contracts in the six months ended June 30, 2009 and 2008 were as follows:

	Currency	Maturity Date	Contract Amount (in Thousands)
June 30, 2009			
Sell forward exchange contracts	US$ to NT$	2009.07.17~2009.09.16	US$29,000
June 30, 2008			
Sell forward exchange contracts	US$ to NT$	2008.07.17-2008.09.17	US$66,000

The realized net loss on derivative financial instruments used for cash flow hedging in the six months ended June 30, 2009 and 2008 were $1,998 thousand and $13,053 thousand, respectively, which were recognized in sales. The net gain on derivative financial instruments used for fair value hedging were $1,534 thousand and $106,634 thousand, respectively, for the six months ended June 30, 2009 and 2008 which were recognized in nonoperating income.

8. INVENTORIES

	June 30	
	2009	2008
Finished goods	$ 9,682	$ 49,292
Work in process	941,891	1,400,001
Raw materials	89,199	215,291
Supplies and spare parts	332,333	507,059
	$ 1,373,105	$ 2,171,643

Allowance for inventory losses were $273,609 thousand and $23,838 thousand on June 30, 2009 and 2008, respectively.

The cost of inventories recognized as cost of goods sold during the six months ended June 30, 2009 and 2008 were NT$5,192,748 thousand and NT$6,953,533 thousand, which included NT$220,505 thousand and NT$27,415 thousand, respectively, due to write-downs of inventory.

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

	June 30			
	2009		2008	
	Carrying Value	% of Owner-ship	Carrying Value	% of Owner-ship
Unlisted stocks				
VIS Associates Inc.	$ 351,097	100	$ 411,728	100
CMSC, Inc.	89,106	25	99,816	25
	$ 440,203		$ 511,544	

The investment losses recognized under the equity method were as follows:

	Six Months Ended June 30	
	2009	2008
VIS Associates Inc.	$ (45,559)	$ (13,803)
CMSC, Inc.	(6,037)	(4,138)
	$ (51,596)	$ (17,941)

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

All subsidiaries' accounts have been consolidated into the corporation's consolidated financial statements as of and for the six months ended June 30, 2009 and 2008.

10. AVAILABLE-FOR-SALE FINANCIAL ASSETS - NONCURRENT

	June 30	
	2009	2008
Listed stocks - Walton Advanced Engineering, Inc.	$ 249,832	$ 303,665
Listed stocks - International Semiconductor Technology Ltd.	62,359	73,664
	$ 312,191	$ 377,329

11. FINANCIAL ASSETS CARRIED AT COST - NONCURRENT

	June 30	
	2009	2008
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.

12. PROPERTIES

Cost	Six Months Ended June 30, 2009				
	Buildings	Machinery and Equipment	Other Equipment	Prepayments and Construction in Progress	Total
Balance, beginning of period	$ 11,935,877	$ 46,212,274	$ 329,346	$ 323,613	$ 58,801,110
Acquired (Deductions)	143,540	285,006	7,334	(249,286)	186,594
Disposal	(2,189)	(10,517)	(2,123)	-	(14,829)
Balance, end of period	$ 12,077,228	$ 46,486,763	$ 334,557	$ 74,327	$ 58,972,875

Accumulated depreciation	Six Months Ended June 30, 2009			
	Buildings	Machinery and Equipment	Other Equipment	Total
Balance, beginning of period	$ 7,892,953	$ 37,165,227	$ 197,665	$ 45,255,845
Depreciation	245,757	1,491,788	24,006	1,761,551
Disposal	(2,189)	(4,612)	(2,110)	(8,911)
Balance, end of period	$ 8,136,521	$ 38,652,403	$ 219,561	$ 47,008,485

Cost	Six Months Ended June 30, 2008				
	Buildings	Machinery and Equipment	Other Equipment	Prepayments and Construction in Progress	Total
Balance, beginning of period	$ 8,613,941	$ 38,090,201	$ 227,081	$ 9,063,230	$ 55,994,453
Acquired (Deductions)	4,448,725	6,989,371	87,685	(8,086,402)	3,439,379
Reclassified	(1,257,618)	-	-	-	(1,257,618)
Disposal	-	(40,633)	(602)	-	(41,235)
Balance, end of period	$ 11,805,048	$ 45,038,939	$ 314,164	$ 976,828	$ 58,134,979

Accumulated depreciation	Six Months Ended June 30, 2008			
	Buildings	Machinery and Equipment	Other Equipment	Total
Balance, beginning of period	$ 7,426,666	$ 34,530,804	$ 153,402	$ 42,110,872
Depreciation	231,325	1,273,559	21,702	1,526,586
Disposal	-	(40,633)	(590)	(41,223)
Balance, end of period	$ 7,657,991	$ 35,763,730	$ 174,514	$ 43,596,235

13. ASSETS LEASED TO OTHERS, NET

	Six Months Ended June 30	
	2009	2008
Buildings		
Cost		
Balance, beginning of period	$ 1,257,618	$ -
Reclassified	-	1,257,618
Balance, end of period	1,257,618	1,257,618
Accumulated depreciation		
Balance, beginning of period	91,897	-
Depreciation	45,948	45,949
Balance, end of period	137,845	45,949
Net balance	$ 1,119,773	$ 1,211,669

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. The last two quarters rentals aggregate $33,939 thousand.

14. DEFERRED CHARGES, NET

Software design costs:

	Six Months Ended June 30	
	2009	2008
Cost		
Balance, beginning of period	$ 759,898	$ 725,817
Acquired	2,805	15,784
Disposal	(715)	(96)
Balance, end of period	761,988	741,505
Accumulated amortization		
Balance, beginning of period	684,910	626,533
Amortization	20,450	31,225
Disposal	(715)	(96)
Balance, end of period	704,645	657,662
Net balance	$ 57,343	$ 83,843

15. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	June 30	
	2009	2008
Royalty	$ 502,718	$ 479,726
Bonus	142,471	260,017
Others	615,045	1,018,109
	$ 1,260,234	$ 1,757,852

	Royalty	Bonus
January 1, 2009	$ 486,962	$ 290,979
Add - reversal of payables to related parties	36,732	-
- accrued	133,709	130,257
Reduce - payable	(90,209)	(278,765)
- classification as payables to related parties	(64,476)	-
June 30, 2009	$ 502,718	$ 142,471
January 1, 2008	$ 481,668	$ 271,062
Add - reversal of payables to related parties	95,286	-
- accrued	185,440	336,204
Reduce - payable	(204,252)	(347,249)
- classification as payables to related parties	(78,416)	-
June 30, 2008	$ 479,726	$ 260,017

16. SHAREHOLDERS' EQUITY

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

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

a. Special reserve;
b. Not more than 1% as remuneration to directors and supervisors;
c. At least 1% as bonus to employees; and
d. Final balance, appropriation to be decided at the shareholders' meeting.

The bonus to employees and the remuneration to directors and supervisors, which representing 15% and 1% of net income (net of the bonus to employees, remuneration to directors and supervisors and legal reserve), were estimated 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 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. There was no accrued bonus to employees and the remuneration to directors and supervisors for the six months end June 30, 2009 because the Corporation generated net loss in the period; and the bonus to employees was NT$196,134 thousand and the remuneration to directors and supervisors was NT$13,076 thousand for the six months ended June 30, 2008.

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 balance reversed.

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

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

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

The appropriation of earnings for 2008 and 2007 were approved in the shareholders' meetings held on June 10, 2009 and June 13, 2008, respectively. The appropriations and dividends per share were as follows:

	Appropriation of Earnings		**Dividend Per Share (NT$)**	
	2008	**2007**	**2008**	**2007**
Legal reserve	$ 104,195	$ 432,107	$ -	$ -
(Reversal of) provision of special reserve	277,083	(40,560)	-	-
Stock dividends	-	34,010	-	0.02
Cash dividends	670,994	2,890,824	0.40	1.70
Bonus to employees - in stock	-	186,670	-	-
Bonus to employees - in cash	-	124,447	-	-
Remuneration to directors and supervisors	-	38,890	-	-
	$ 1,052,272	$ 3,666,388		

The shareholders' meetings on June 10, 2009 also approved the bonus to employees NT$140,662 thousand and the remuneration to directors and supervisors NT$9,378 thousand by cash, respectively. The approved amounts of the bonus to employees and the remuneration to directors and supervisors were consistent with the accrual amounts refected in the financial statements for the year ended December 31, 2008.

The appropriation of earnings for 2008 and 2007 were consistent with the amounts approved by the Board of Directors' meetings held on February 20, 2009 and February 26, 2008, respectively.

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 six months ended June 30, 2009 and 2008, movements of unrealized gain or loss on financial instruments were as follows:

	Available-for-sale Financial Assets	Equity-method Investments	Unrealized Gain (Loss) on Cash Flow Hedge	Total
Six months ended June 30, 2009				
Balance, beginning of period	$ (239,207)	$ 374	$ -	$ (238,833)
Recognized in shareholders' equity	130,467	944	(2,195)	129,216
Transferred to profit or loss	-	-	1,998	1,998
Balance, end of period	$ (108,740)	$ 1,318	$ (197)	$ (107,619)
Six months ended June 30, 2008				
Balance, beginning of period	$ 143,844	$ 5,282	$ (5,709)	$ 143,417
Recognized in shareholders' equity	(187,446)	(4,319)	(9,126)	(200,891)
Transferred to profit or loss	-	-	13,053	13,053
Balance, end of period	$ (43,602)	$ 963	$ (1,782)	$ (44,421)

Translation Adjustment

For the six months ended June 30, 2009 and 2008, movements of translation adjustments were as follows:

	Foreign Currency Exchange Valuation Difference
Six months ended June 30, 2009	
Balance, beginning of period	$ (38,251)
Recognized in shareholders' equity	280
Balance, end of period	$ (37,971)
Six months ended June 30, 2008	
Balance, beginning of period	$ (41,879)
Recognized in shareholders' equity	(21,788)
Balance, end of period	$ (63,667)

Employee Stock Option Plans

On February 20, 2001, June 21, 2002 and September 18, 2003, the Corporation received approvals from the Securities and Futures Commission (the former name of the SFB) of its adoption of Employee Stock Option Plans (hereinafter referred to as the "2001 Plan", "2002 Plan", and "2003 Plan"). The 2001, 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 Options (in Thousands)	Weighted-average Exercise Price (NT$)	Number of Outstanding Stock Options (in Thousands)	Weighted-average Exercise Price (NT$)	Number of Outstanding Stock Options (in Thousands)	Weighted-average Exercise Price (NT$)
Six months ended June 30, 2009						
Beginning balance	32,836	$17.62	9,557	$12.80	3,611	$16.70
Options canceled	(155)	17.20	(12)	12.80	(23)	18.00
Ending balance	32,681	17.12	9,545	12.40	3,588	16.22
Six months ended June 30, 2008						
Beginning balance	33,883	19.48	9,875	14.20	3,750	18.40
Options exercised	(492)	19.65	(271)	14.20	(122)	16.76
Options canceled	(120)	20.38	-	-	-	-
Ending balance	33,271	19.48	9,604	14.20	3,628	18.46

The number of outstanding 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.

Information about outstanding stock options as of June 30, 2009 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					
$13.6-$18.1	32,681	4.42-5.22	$ 17.12	32,681	$ 17.12
2002 plan					
$12.4	9,545	3.24	12.40	9,545	12.40
2001 plan					
$13.0-$17.5	3,588	1.90-2.61	16.22	3,588	16.22

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

	Six Months Ended June 30	
	2009	2008
Net (loss) income:		
Net (loss) income as reported	$ (682,228)	$ 1,241,525
Pro forma net (loss) income	$ (682,228)	$ 1,232,298
(Loss) earnings per share (NT$):		
Basic (loss) earnings per share as reported	$(0.41)	$0.72
Pro forma basic (loss) earnings per share	$(0.41)	$0.71
Diluted (loss) earnings per share as reported	$(0.41)	$0.71
Pro forma diluted (loss) earnings per share	$(0.41)	$0.71

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 six months ended June 30, 2008 to decrease from NT$0.73 and NT$0.72 to NT$0.71 and NT$0.71 , respectively.

17. 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
Six months ended June 30, 2009				
To maintain the Corporation's credibility and shareholders' interest	18,000	-	18,000	-
Six months ended June 30, 2008				
To maintain the Corporation's credibility and shareholders' interest	-	8,724	-	8,724

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. As of October 22, 2008, the Corporation had repurchased 17,000 thousand common shares. All the treasury stock repurchased were retired on November 14, 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 30,000 thousand shares from the GreTai Securities Market during the period from October 28, 2008 to December 27, 2008 with buyback prices in the range from NT$8 to NT$13. As of December 27, 2008, the Corporation had repurchased 18,000 thousand common shares. All the treasury stock repurchased were retired on March 12, 2009.

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.

18. (LOSS) EARNINGS PER SHARE

The numerator and denominators used in calculating basic and diluted (loss) earnings per share (EPS) were as follows:

	Amounts (Numerator)		Shares	EPS (NT$)	
	Before Income Tax	After Income Tax	(Denominator) (Thousands)	Before Income Tax	After Income Tax
Six months ended June 30, 2009					
Net loss	$ (682,228)	$ (682,228)			
Basic and diluted EPS					
Loss of common shareholders	$ (682,228)	$ (682,228)	1,677,486	$ (0.41)	$ (0.41)
Six months ended June 30, 2008					
Net income	$ 1,429,529	$ 1,241,525			
Basic EPS					
Income of common shareholders	$ 1,429,529	$ 1,241,525	1,726,844	$ 0.83	$ 0.72
Effect of dilutive securities					
Employee stock option rights	-	-	9,130		
Bonus to employees	-	-	9,846		
Diluted EPS					
Income of common and potential common shareholders	$ 1,429,529	$ 1,241,525	1745,820	$ 0.82	$ 0.71

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. As the employee stock option plans have no dilution effects in June 30, 2009, it had not been included in the calculation of diluted earnings per share.

The weighted average number of shares outstanding for EPS calculation has been retroactively adjusted for the issuance of stock dividends and employee stock bonuses distributed out of earnings for the six months ended June 30, 2008. This adjustment caused the basic and diluted after income tax EPS for the six months ended June 30, 2008 to decrease from NT$0.73 and NT$0.72 to NT$0.72 and NT$0.71, respectively.

19. PENSION PLAN

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$49,960 thousand and NT$60,502 thousand for the six months ended June 30, 2009 and 2008, 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 six 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$8,785 thousand and NT$10,573 thousand for the six months ended June 30, 2009 and 2008, respectively.

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

	Six Months Ended June 30	
	2009	**2008**
Pension fund		
Balance, beginning of period	$ 259,662	$ 243,277
Contributions	7,561	8,212
Disbursement	(8,426)	-
Interest	5,888	8,154
Balance, end of period	$ 264,685	$ 259,643
Accrued pension liabilities		
Balance, beginning of period	$ 468,272	$ 464,943
Add: Recorded under accrued expenses and other current liabilities, beginning of period	1,356	1,310
Provisions	8,785	10,573
Contributions	(7,561)	(8,212)
Deducted: Recorded under accrued expenses and other current liabilities, end of period	(1,290)	(1,421)
Balance, end of period	$ 469,562	$ 467,193

20. INCOME TAX EXPENSE

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

	Six Months Ended June 30	
	2009	2008
Income tax expense based on (loss) income before income tax at statutory rate (25%)	$ (170,557)	$ 357,382
Additional 10% income tax on unappropriated earnings	-	64,931
Permanent differences	1,258	2,072
Temporary differences	26,184	(34,745)
Current income tax expense before income tax credits	$ -	$ 389,640

b. Income tax expenses were as follows:

	Six Months Ended June 30	
	2009	2008
Current income tax expense before income tax credits	$ -	$ 389,640
Operating loss carryforwards	-	(122,287)
Income tax credits	-	(111,543)
Net change in deferred income tax assets for the periods		
Investment tax credits	(297,512)	(54,020)
Operating loss carryforwards	(270,952)	108,733
Temporary differences	(13,471)	45,917
Adjustment in valuation allowance	503,357	(68,940)
Adjustment for prior years' tax	78,578	504
Income tax expense	$ -	$ 188,004

On January 21, 2009, the president of the Republic of China announced the amendment of Article 39 of the Income Tax Law, which extends the operating losses carryforward period from five years to ten years. The Corporation recalculated deferred tax assets according to the amendment and recorded the resulting difference as a deferred income tax benefit.

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

	June 30	
	2009	2008
Current		
Investment tax credits	$ 285,524	$ 235,316
Operating loss carryforwards	32,888	122,287
Loss on inventory valuation and obsolescence	91,793	27,240
Other	27,397	29,487
	437,602	414,330
Valuation allowance	(420,169)	(286,898)
	$ 17,433	$ 127,432

(Continued)

	June 30	
	2009	2008
Noncurrent		
Investment tax credits	$ 708,586	$ 569,378
Operating loss carryforwards	238,064	-
Depreciation and amortization	191,049	264,580
Investment gain recognized by the equity method, net	-	(25,347)
Accrued pension costs	117,391	116,798
	1,255,090	925,409
Valuation allowance	(1,123,742)	(925,409)
	$ 131,348	$ -

(Concluded)

The effective tax rates for deferred income tax as of June 30, 2008 was 25%.

In May, 2009, the president of the Republic of China announced the amendment of Article 5 of the Income Tax Law that the income tax rate of profit-seeking enterprise to be reduced from 25% to 20%, effective from 2010. The Corporation recalculated its deferred tax assets and liabilities in accordance with the amended Article and recorded the resulting difference as a deferred income tax benefit or expense.

d. The balances of the imputation credit account as of June 30, 2009 and 2008 were $111,916 thousand and $130,116 thousand, respectively.

The actual creditable ratios for distributing of earnings of 2008 and 2007 were 6.52 % and 2.87 %, respectively.

e. The unappropriated retained earnings as of June 30, 2009 and 2008 had no unappropriated earnings generated before January 1, 1998.

f. As of June 30, 2009, the operating loss carryforwards and income tax credits comprised of:

Regulatory Basis of Tax Credits	Items	Total Creditable Amounts	Remaining Creditable Amounts	Expiry Year
Income Tax Law	Operating loss carryforwards	$ 156,460	$ 156,460	2013
		114,492	114,492	2019
		$ 270,952	$ 270,952	
Statute for Upgrading Industries	Purchase of machinery and equipment	$ 37,752	$ 37,752	2009
		40,513	40,513	2010
		102,867	102,867	2011
		78,189	78,189	2012
		$ 259,321	$ 259,321	

(Continued)

Regulatory Basis of Tax Credits	Items	Total Creditable Amounts	Remaining Creditable Amounts	Expiry Year
Statute for Upgrading Industries	Research and development expenditures	$ 188,700	$ 188,700	2009
		67,681	67,681	2010
		132,980	132,980	2011
		245,194	245,194	2012
		78,549	78,549	2013
		$ 713,104	$ 713,104	
Statute for Upgrading Industries	Personnel training expenditures	$ 985	$ 985	2009
		1,567	1,567	2010
		2,606	2,606	2011
		1,296	1,296	2012
		257	257	2013
		$ 6,711	$ 6,711	
Statute for Upgrading Industries	Investments in important technology - based enterprise	$ 6,428	$ 6,428	2010
		8,546	8,546	2011
		$ 14,974	$ 14,974	

(Concluded)

Income tax returns through 2007 had been examined and cleared by the tax authorities.

21. LABOR COST, DEPRECIATION AND AMORTIZATION EXPENSES

	Six Months Ended June 30					
	2009			2008		
	Classified as Cost of Sales	Classified as Operating Expenses	Total	Classified as Cost of Sales	Classified as Operating Expenses	Total
Labor cost						
Salary	$ 886,890	$ 202,154	$ 1,089,044	$ 1,396,066	$ 290,266	$ 1,686,332
Labor/health insurance	64,746	15,011	79,757	71,095	15,111	86,206
Pension	47,689	11,056	58,745	58,617	12,458	71,075
Others	23,146	5,134	28,280	39,955	8,691	48,646
	$ 1,022,471	$ 233,355	$ 1,255,826	$ 1,565,733	$ 326,526	$ 1,892,259
Depreciation	$ 1,730,708	$ 30,843	$ 1,761,551	$ 1,500,834	$ 25,752	$ 1,526,586
Amortization	$ 10,112	$ 10,338	$ 20,450	$ 12,588	$ 18,637	$ 31,225

22. RELATED PARTY TRANSACTIONS

The Corporation's related parties and their relationships with the Corporation 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. International Semiconductor Technology Ltd. (IST): The Corporation is its director.

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

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

f. TSMC-China: It's parent company is a major shareholder of the Corporation. (Note)

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

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

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

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

Note: TSMC-Shanghai renamed TSMC-China in 2009.

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

	2009		2008	
	Amount	%	Amount	%
For the period				
Sales				
TSMC	$ 1,339,431	26	$ 1,707,832	19
Goya	21,309	-	103,622	1
GUC	6,871	-	21,175	-
CMSC	2,674	-	3,683	-
INNO	455	-	780	-
	$ 1,370,740	26	$ 1,837,092	20
Purchase				
TSMC	$ 5,732	-	$ -	-
TSMC-China	32	-	-	-
	$ 5,764	-	$ -	-
Manufacturing expenses				
TSMC	$ 172,772	4	$ 231,891	3
Research and development expenses				
VISS	$ 14,491	4	$ 18,616	5
TSMC	15,479	4	3,853	1
	$ 29,970	8	$ 22,469	6
Marketing expenses				
TSMC	$ 974	2	$ -	-
VIS Micro	-	-	18,519	26
	$ 974	2	$ 18,519	26

	2009 Amount	2009 %	2008 Amount	2008 %
Nonoperating income and gains				
TSMC	$ 12,702	52	$ 5,308	16
CMSC	33	-	-	-
Goya	9	-	-	-
	$ 12,744	52	$ 5,308	16
At end of period				
Receivables				
TSMC	$ 726,084	98	$ 677,580	98
Goya	10,164	2	6,388	1
GUC	1,999	-	5,464	1
CMSC	1,660	-	2,068	-
INNO	457	-	478	-
	$ 740,364	100	$ 691,978	100
Other receivables				
TSMC	$ 9,842	96	$ 7,588	99
CMSC	379	4	-	-
Goya	-	-	96	1
TSMC-China	-	-	15	-
	$ 10,221	100	$ 7,699	100
Payables				
TSMC	$ 1,050	97	$ -	-
TSMC-China	32	3	-	-
	$ 1,082	100	$ -	-
Other payables				
TSMC	$ 119,104	98	$ 104,028	94
VISS	2,405	2	3,345	3
GUC	138	-	-	-
VIS Micro	-	-	3,613	3
Goya	-	-	385	-
	$ 121,647	100	$ 111,371	100
Guarantee deposits				
Goya	$ 6,000	17	$ 15,500	33

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 service 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 was primary for sales.

23. PLEDGED ASSETS

The time deposits of $75,400 thousand had been pledged as collateral for the guarantee of customs duty on June 30, 2009.

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, December 2027 and December 2028. Annual rentals aggregate $82,813 thousand. The rental pay 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
2009 (3rd and 4th quarter)	$ 43,191
2010	77,731
2011	73,449
2012	73,449
2013	73,449
2014 to 2028	844,908
	$ 1,186,177

25. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

The significant commitments and contingencies of the Corporation as of June 30, 2009 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 royalty 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 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 2005 when using eMemory's patent to manufacture and sell products.

f. Under a Wafer Production agreement made with Winbond, the Corporation should offer wafer production service to Winbond for four years from January 2008.

g. As of June 30, 2009, unused letters of credit aggregated about JPY267,900 thousand.

26. FINANCIAL INSTRUMENTS

a. Fair values of financial instruments were as follows:

	June 30			
	2009		2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Nonderivative financial instruments				
Assets				
Cash and cash equivalents	$ 4,067,301	$ 4,067,301	$ 6,194,360	$ 6,194,360
Held-to-maturity financial assets - current	149,997	149,995	499,459	502,568
Receivables from related parties	740,364	740,364	691,978	691,978
Notes and accounts receivable	1,724,808	1,724,808	2,136,841	2,136,841
Pledged time deposit	75,400	75,400	-	-
Available-for-sale financial assets - noncurrent	312,191	312,191	377,329	377,329
Financial assets carried at cost - noncurrent	40,968	-	40,968	-
Liabilities				
Payables to related parties	1,082	1,082	-	-
Notes and accounts payable	703,259	703,259	1,098,089	1,098,089
Payables to contractors and equipment suppliers	160,087	160,087	830,591	830,591
Derivative financial instruments				
Assets				
Forward exchange contracts	19,347	19,347	5,133	5,133
Currency-swap contracts	419	419	230	230
Derivative financial assets for hedging - current				
Forward exchange contracts	6,885	6,885	3,792	3,792
Liabilities				
Forward exchange contracts	7,835	7,835	2,101	2,101
Currency-swap contracts	11,495	11,495	-	-
Derivative financial liabilities for hedging - current				
Forward exchange contracts	4,530	4,530	9,450	9,450

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, pledged time deposit, 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.

3) 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:

	Quoted Market Prices June 30		Valuation Techniques June 30	
	2009	**2008**	**2009**	**2008**
Nonderivative financial instruments				
Assets				
Cash and cash equivalents	$ 4,067,301	$ 6,194,360	$ -	$ -
Financial assets for held-to-maturity - current	149,995	502,568	-	-
Receivables from related parties	-	-	740,364	691,978
Notes and accounts receivable	-	-	1,724,808	2,136,841
Pledged time deposit	75,400	-	-	-
Available-for-sale financial assets - noncurrent	312,191	377,329	-	-
Liabilities				
Payables to related parties	-	-	1,082	-
Accounts payable	-	-	703,259	1,098,089
Payables to contractors and equipment suppliers	-	-	160,087	830,591
Derivative financial instruments				
Assets				
Forward exchange contracts	-	-	19,347	5,133
Currency-swap contracts	-	-	419	230
Derivative financial assets for hedging - current				
Forward exchange contracts	-	-	6,885	3,792
Liabilities				
Forward exchange contracts	-	-	7,835	2,101
Currency-swap contracts	-	-	11,495	-
Derivative financial liabilities for hedging - current				
Forward exchange contracts	-	-	4,530	9,450

d. Net gain recognized for the changes in fair value of determined using valuation techniques were $19,792 thousand and $40,300 thousand for the six months ended June 30, 2009 and 2008, respectively.

e. As of June 30, 2009 and 2008, financial assets exposed to fair value interest rate risk amounted to $2,570,430 thousand and $6,228,895 thousand, respectively; financial assets exposed to cash flow interest rate risk amounted to $1,722,268 thousand and $464,924 thousand, respectively.

f. Interest revenues on financial instruments other than the financial assets or liabilities at fair value through profit or loss for the six months ended June 30, 2009 and 2008 were $21,605 thousand and $70,444 thousand.

g. Financial risk

1) Market risk. The derivative financial instruments are exposed to exchange rate fluctuations. If the U.S. dollar appreciates by US$0.01, the fair value would decrease by $1,037 thousand.

2) Credit risk. Credit risk represents the loss that would be incurred by the Corporation if the counter-parties or third-parties breached the contracts and also refers to the 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 June 30, 2009 and 2008, such credit risk amounted to $26,651 thousand and $5,363 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 needs upon settlement of derivative contracts. In addition, the Corporation's investments in debt instruments and stock classified as available-for-sale financial assets are traded in active markets and can be disposed of quickly at close to their fair values. However, some equity instruments for which there is no active market are expected to have material liquidity risk. 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 June 30, 2009, 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$ 3,951,400	US$ 120,500
	US$ 21,190	NT$ 692,628
	JPY 359,912	US$ 3,700

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 June 30, 2009 and 2008 were significant; thus, it entered into forward exchange contracts to hedge these exposures.

Hedged Item	Hedging Financial Instrument	Fair Value as of June 30, 2009	Fair Value as of June 30, 2008
Foreign currency accounts receivable	Forward exchange contracts	$2,552	$3,316

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 June 30, 2009**	**Expected Timing for Future Cash Demand**	**Expected Timing for the Recognition of Gains or Losses from Hedge**
June 30, 2009				
Sales	Forward exchange contracts	$ (197)	July 2009-September 2009	July 2009-September 2009
June 30, 2008				
Sales	Forward exchange contracts	(8,974)	July 2008-September 2008	July 2008-September 2008

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: None.

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

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

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

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

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

j. Information about derivatives of investees: None.

k. Information on investment in Mainland China: None.

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

MARKETABLE SECURITIES HELD
JUNE 30, 2009
(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	June 30, 2009				Note
				Shares/Units (Thousands)	Carrying Value (US$ in Thousands)	% of Ownership	Market Value or Net Asset Value (US$ in Thousands)	
Vanguard International Semiconductor Corporation	Bond							
	Taiwan Power Co.	-	Financial assets held to maturity - current	-	$ 149,997	-	$ 149,995	Note 1
	Stock							
	Walton Advanced Engineering, Inc.	Investee	Available-for-sale financial assets - noncurrent	37,512	249,832	8	249,832	Note 2
	International Semiconductor Technology Ltd.	Investee	Available-for-sale financial assets - noncurrent	7,293	62,359	2	62,359	Note 2
	VIS Associates Inc.	Subsidiary	Long-term stock investments accounted for by the equity method	6,000	351,097	100	351,097	Note 3
	CMSC, Inc.	Equity-method investee	Long-term stock investments accounted for by the equity method	9,902	89,106	25	89,106	Note 3
	United Industrial Gases Co., Ltd.	Investee	Financial assets carried at cost - noncurrent	3,357	38,716	2	38,716	Note 5
	Megica Corporation	Investee	Financial assets carried at cost - noncurrent	205	2,252	2	2,252	Note 5
VIS Associates Inc.	Stock							
	Advanced Analogic Technologies, Inc.	Investee	Available-for-sale financial assets - current	18	US$ 84	-	US$ 84	Note 2
	VIS Investment Holding, Inc.	Subsidiary of VIS Associates Inc.	Long-term stock investments accounted for by the equity method	63	US$ 950	100	US$ 950	Note 3
	VIS Singapore Pte Ltd.	Subsidiary of VIS Associates Inc.	Long-term stock investments accounted for by the equity method	1,000	US$ 710	100	US$ 710	Note 3
	Specialty TechFarm, Inc.	Subsidiary of VIS Associates Inc.	Long-term stock investments accounted for by the equity method	10,000	US$ 4,678	100	US$ 4,678	Note 3
	Equity							
	Silicon Valley Equity Fund II	-	Financial assets carried at cost - noncurrent	5,900	US$ 315	14	US$ 315	Note 5
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$ 683	100	US$ 683	Note 3

(Continued)

Holding Company Name	Marketable Security Type and Issuer	Relationship with the Holding Company	Financial Statement Account	June 30, 2009				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 using the equity method	4,103	US$ 545	27	US$ 545	Note 4
	SkyTraq Technology, Inc.	Equity-method investee	Long-term stock investments accounted for using the equity method	4,688	US$ 752	28	US$ 752	Note 4
	Inno-Tech Co., Ltd.	Equity-method investee	Long-term stock investments accounted for using the equity method	5,000	US$ 944	40	US$ 944	Note 4
	Linear Artwork, Inc.	Equity-method investee	Long-term stock investments accounted for using the equity method	4,375	US$ 902	27	US$ 902	Note 4
	Goyatek Technology Inc.	Investee	Financial assets carried at cost - noncurrent	2,231	US$ 443	13	US$ 443	Note 5
	Uniband Electronic Corp.	Investee	Financial assets carried at cost - noncurrent	960	US$ 200	5	US$ 200	Note 5

Note 1: The bond value was based on current yield as of June 30, 2009.

Note 2: The market value was based on stock closing price as of June 30, 2009.

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

Note 4: The net asset value was based on unaudited financial statements for the same period.

Note 5: The market value was based on the book value as of June 30, 2009.

Note 6: As of June 30, 2009, all the securities were not pledged or restricted.

(Concluded)

TABLE 2

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
SIX MONTHS ENDED JUNE 30, 2009
(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	$ 1,339,431	(26.15%)	Note	-	-	$ 726,084	29.45%	-

Note: Net 45 days after monthly closing.

TABLE 3

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

RECEIVABLE FROM RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
JUNE 30, 2009
(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	$726,084	5.17	$ -	-	$ -	$ -

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

NAMES, LOCATIONS, AND RELATED INFORMATION OF INVESTEES ON WHICH THE CORPORATION EXERCISES SIGNIFICANT INFLUENCE
SIX MONTHS ENDED JUNE 30, 2009
(In Thousands of New Taiwan Dollars)

Investor	Investee	Location	Main Businesses and Products	Investment Amount		Balance as of June 30, 2009			Net Loss of the Investee	Equity in the Losses	Note
				June 30, 2009	December 31, 2008	Shares (Thousands)	% of Ownership	Carrying Value			
Vanguard International Semiconductor Corporation	VIS Associates Inc.	British Virgin Islands	Investments	$ 195,492	$ 195,492	6,000	100	$ 351,097	$ (45,559)	$ (45,559)	Subsidiary
	CMSC, Inc.	Hsin-chu City, Taiwan	Integrated circuit design services and related businesses	112,650	112,650	9,902	25	89,106	(24,205)	(6,037)	Equity-method investee