Vanguard International Semiconductor Corporation and Subsidiaries

Consolidated Financial Statements for the Three Months Ended March 31, 2010 and 2009 and Independent Accountants' Review Report

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

The Board of Directors and the Shareholders
Vanguard International Semiconductor Corporation

We have reviewed the accompanying consolidated balance sheets of Vanguard International Semiconductor Corporation and subsidiaries (the "Group") as of March 31, 2010 and 2009, and the related consolidated statements of income and cash flows for the three months then ended. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to issue a report on these consolidated financial statements based on our reviews.

We conducted our reviews in accordance with the Statement of Auditing Standards No. 36 - "Review of Financial Statements" issued by the Auditing Committee of the Accounting Research and Development Foundation of the Republic of China. A review consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the Republic of China, the objective of which is the expression of an opinion regarding the consolidated financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

As disclosed in Note 3 to the consolidated financial statements, on January 1, 2009, the Group adopted the newly revised SFAS No. 10, "Accounting for Inventories".

April 7, 2010

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

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

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

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
MARCH 31, 2010 AND 2009
(In Thousands of New Taiwan Dollars, Except Par Value)
(Reviewed, Not Audited)

	2010		2009	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 4)	$ 7,063,070	31	$ 3,738,279	17
Financial assets at fair value through profit or loss - current (Notes 2 and 5)	44,131	-	28,389	-
Available-for-sale financial assets - current (Notes 2 and 6)	207,316	1	2,238	-
Financial assets held to maturity - current (Notes 2 and 7)	-	-	149,920	1
Derivative financial assets for hedging - current (Notes 2 and 8)	2,014	-	1,358	-
Receivables from related parties (Note 23)	706,355	3	297,691	1
Notes and accounts receivable	1,619,248	7	1,094,119	5
Allowance for doubtful receivables (Note 2)	(33,061)	-	(21,690)	-
Allowance for sales returns and discounts (Note 2)	(60,314)	-	(42,592)	-
Inventories (Notes 2 and 9)	1,208,366	5	1,399,364	6
Other receivables from related parties (Note 23)	6,914	-	9,154	-
Pledged time deposits (Notes 4 and 24)	165,300	1	75,400	-
Prepaid expenses and other current assets (Note 23)	218,376	1	550,281	3
Deferred income tax assets - current (Notes 2 and 21)	105,493	-	589	-
Total current assets	11,253,208	49	7,282,500	33
INVESTMENTS				
Long-term stock investments accounted for by the equity method (Notes 2 and 10)	162,697	1	203,822	1
Available-for-sale financial assets - noncurrent (Notes 2 and 6)	141,493	1	265,615	1
Financial assets carried at cost - noncurrent (Notes 2 and 11)	59,178	-	73,590	1
Total investments	363,368	2	543,027	3
PROPERTIES (Notes 2 and 12)				
Cost				
Buildings	12,118,416	53	11,986,964	55
Machinery and equipment	46,386,144	203	46,356,697	212
Other equipment	334,506	2	355,170	1
Total cost	58,839,066	258	58,698,831	268
Accumulated depreciation	(49,250,746)	(216)	(46,157,309)	(211)
Prepayments and construction in progress	407,140	2	230,536	1
Net properties	9,995,460	44	12,772,058	58
OTHER ASSETS				
Assets leased to others, net (Notes 2 and 13)	1,050,850	5	1,142,747	5
Idle assets (Notes 2 and 14)	55,000	-	-	-
Deferred charges, net (Notes 2 and 15)	41,137	-	66,049	-
Deferred income tax assets - noncurrent (Notes 2 and 21)	51,233	-	71,393	1
Refundable deposits	5,226	-	5,333	-
Total other assets	1,203,446	5	1,285,522	6
TOTAL	$ 22,815,482	100	$ 21,883,107	100

	2010		2009	
LIABILITIES AND SHAREHOLDERS' EQUITY	**Amount**	**%**	**Amount**	**%**
CURRENT LIABILITIES				
Financial liabilities at fair value through profit or loss - current (Notes 2 and 5)	$ 3,819	-	$ 19,370	-
Derivative financial liabilities for hedging - current (Notes 2 and 8)	579	-	394	-
Notes and accounts payable	750,919	3	270,048	1
Income tax payable (Notes 2 and 21)	30,247	-	2,411	-
Other payables to related parties (Note 23)	110,424	1	51,734	1
Payables to contractors and equipment suppliers	267,590	1	206,557	1
Accrued expenses and other current liabilities (Notes 16, 17 and 23)	889,703	4	1,296,079	6
Total current liabilities	2,053,281	9	1,846,593	9
OTHER LIABILITIES				
Accrued pension costs (Notes 2 and 20)	476,023	2	468,917	2
Guarantee deposits (Note 23)	29,871	-	45,163	-
Total other liabilities	505,894	2	514,080	2
Total liabilities	2,559,175	11	2,360,673	11
SHAREHOLDERS' EQUITY (Notes 2, 17 and 18)				
Capital stock, NT$10.00 par value;				
Authorized - 3,300,000 thousand shares				
Issued and outstanding - 1,678,460 thousand shares in 2010 and 1,677,486 thousand shares in 2009	16,784,600	74	16,774,860	77
Capital surplus				
Employee stock options	466,127	2	463,496	2
Treasury stock transactions	32,355	-	32,355	-
Long-term stock investments	69,089	1	68,923	-
Total capital surplus	567,571	3	564,774	2
Retained earnings				
Legal reserve	1,584,763	7	1,480,568	7
Special reserve	277,083	1	-	-
Unappropriated earnings	974,260	4	885,326	4
Total retained earnings	2,836,106	12	2,365,894	11
Others				
Cumulative translation adjustments	(45,220)	-	(28,525)	-
Unrealized gain (loss) on financial instruments	113,250	-	(154,569)	(1)
Total others	68,030	-	(183,094)	(1)
Total shareholders' equity	20,256,307	89	19,522,434	89
TOTAL	$ 22,815,482	100	$ 21,883,107	100

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

(With Deloitte & Touche review report dated April 7, 2010)

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
THREE MONTHS ENDED MARCH 31, 2010 AND 2009
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)
(Reviewed, Not Audited)

	2010		2009	
	Amount	**%**	**Amount**	**%**
GROSS SALES (Notes 2, 8, 23 and 27)	$ 3,592,414		$ 1,712,066	
SALES RETURNS AND DISCOUNTS (Note 2)	(18,354)		(22,872)	
NET SALES	3,574,060	100	1,689,194	100
COST OF SALES (Notes 2, 3, 9, 22 and 23)	3,007,167	84	2,238,192	132
GROSS PROFIT (LOSS)	566,893	16	(548,998)	(32)
OPERATING EXPENSES (Notes 22 and 23)				
General and administrative	152,656	4	130,695	8
Marketing	33,106	1	13,737	1
Research and development	154,735	5	151,970	9
Total operating expenses	340,497	10	296,402	18
OPERATING INCOME (LOSS)	226,396	6	(845,400)	(50)
NONOPERATING INCOME AND GAINS				
Valuation gains on financial instruments (Notes 2, 5 and 27)	17,354	1	-	-
Rental (Notes 13 and 23)	16,132	1	27,422	2
Gain on disposal of properties (Notes 2 and 23)	15,995	-	-	-
Interest	9,756	-	13,589	1
Foreign exchange gain, net (Note 2)	-	-	60,842	3
Other (Note 23)	12,975	-	17,210	1
Total nonoperating income and gains	72,212	2	119,063	7
NONOPERATING EXPENSES AND LOSSES				
Expense of assets leased to others (Note 13)	22,974	1	22,974	1
Foreign exchange loss, net (Notes 2 and 8)	12,056	-	-	-
Investment loss recognized by the equity method (Notes 2 and 10)	10,045	-	11,942	1
Loss on disposal of properties (Note 2)	102	-	5,905	-
Valuation loss on financial instruments (Notes 2, 5 and 27)	-	-	45,995	3
Impairment loss (Notes 2 and 11)	-	-	13,011	1
Other	10,309	-	5,741	-
Total nonoperating expenses and losses	55,486	1	105,568	6

(Continued)

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
THREE MONTHS ENDED MARCH 31, 2010 AND 2009
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)
(Reviewed, Not Audited)

	2010		2009	
	Amount	%	Amount	%
INCOME (LOSS) BEFORE INCOME TAX	$ 243,122	7	$ (831,905)	(49)
INCOME TAX EXPENSE (BENEFIT) (Notes 2 and 21)	22,844	1	(216)	-
CONSOLIDATED NET INCOME (LOSS)	$ 220,278	6	$ (831,689)	(49)

	2010		2009	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
CONSOLIDATED EARNINGS (LOSS) PER SHARE (Note 19)				
Basic	$ 0.14	$ 0.13	$ (0.50)	$ (0.50)
Diluted	$ 0.14	$ 0.13	$ (0.50)	$ (0.50)

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

(With Deloitte & Touche review report dated April 7, 2010) (Concluded)

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2010 AND 2009
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Consolidated net income (loss)	$ 220,278	$ (831,689)
Adjustments to reconcile consolidated net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	745,740	920,129
Investment loss recognized by the equity method	10,045	11,942
Deferred income tax assets	12,045	(1,243)
(Gain) loss on disposal of properties, net	(15,893)	5,905
Impairment loss	-	13,011
Accrued pension costs	843	645
Amortized discounts for bonds	-	(75)
Provision (reversal) of the allowance for doubtful accounts	5,728	(3,706)
Provision (reversal) of the allowance for the sales returns and discounts	5,649	(4,640)
Net changes in operating assets and liabilities		
Financial assets for trading	20,327	1,625
Financial assets designated as at fair value through profit or loss	9,921	-
Receivables from related parties	(181,203)	18,579
Notes and accounts receivable	(278,421)	(4,007)
Inventories	(74,647)	411,422
Other receivables from related parties	4,800	(2,821)
Prepaid expenses and other current assets	(120,477)	(331,158)
Payables to related parties	(22)	-
Notes and accounts payable	168,379	(129,853)
Income tax payable	10,158	884
Other payables to related parties	27,072	8,698
Accrued expenses and other current liabilities	(132,792)	(271,620)
Derivative financial Instruments for hedging	800	(1,078)
Financial liabilities for trading	2,600	9,256
Net cash provided by (used in) operating activities	440,930	(179,794)
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in pledged time deposits	-	(75,400)
Acquisition of properties	(297,401)	(285,760)
Proceeds from the disposal of properties	15,995	-
Increase in deferred charges	(4,456)	(805)
Decrease in refundable deposits	1	428
Net cash used in investing activities	(285,861)	(361,537)

(Continued)

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2010 AND 2009
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	2010	2009
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in guarantee deposits	$ 171	$ (42)
Proceeds from the exercise of employee stock options	7,362	-
Net cash provided by (used in) financing activities	7,533	(42)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	162,602	(541,373)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	6,901,472	4,273,424
EFFECT OF EXCHANGE RATE CHANGES	(1,004)	6,228
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 7,063,070	$ 3,738,279
INVESTING ACTIVITIES AFFECTING BOTH CASH AND NON-CASH ITEMS		
Total acquisitions	$ 438,829	$ 115,144
(Increase) decrease in payables to contractors and equipment suppliers	(141,428)	170,616
	$ 297,401	$ 285,760

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

(With Deloitte & Touche review report dated April 7, 2010) (Concluded)

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2010 AND 2009
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)
(Reviewed, Not Audited)

1. ORGANIZATION AND OPERATIONS

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

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

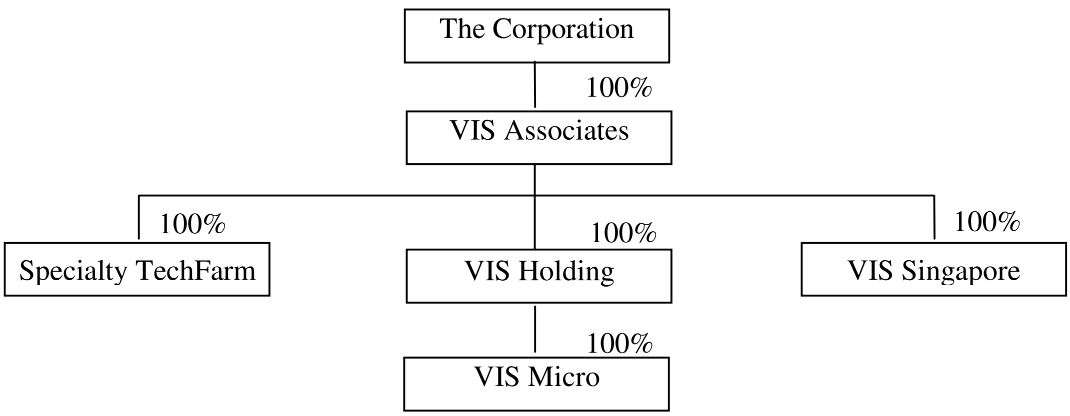
The Corporation researches, designs, manufactures, packages, tests and sells memory integrated circuits (ICs), large-scale integrated ICs (LSIs), very large-scale integrated ICs (VLSIs) and related parts.

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

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

On November 2, 2009, the board of VIS Singapore directors resolved to liquidate VIS Singapore effective November 23, 2009. As of the date of the review’s report, the liquidation is still in process.

The following diagram shows the relationship and ownership percentages between the Corporation and its consolidated subsidiaries (collectively, the “Group”) as of March 31, 2010:



The financial statements as of and for the three months ended March 31, 2010 and 2009 of VIS Singapore have not been reviewed. The Corporation believes that, had VIS Singapore's financial statements been reviewed, any adjustments arising would have had no material effect on the Company's financial statements.

As of March 31, 2010 and 2009, the Corporation and subsidiaries had 3,152 and 3,617 employees, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements have been prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China (ROC). Under these guidelines and principles, the Corporation and subsidiaries 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, assets leased to others and idle assets, amortization of deferred charges, impairment loss, 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 consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language financial statements shall prevail.

Significant accounting policies are summarized as follows:

Consolidation

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

The consolidated financial statements as of and for the three months ended March 31, 2010 and 2009, include the accounts of the Corporation, VIS Associates, Specialty TechFarm, VIS Singapore, VIS Holding and VIS-Micro.

Current/Noncurrent Assets and Liabilities

Current assets include unrestricted cash and cash equivalents and assets held primarily for trading purpose or to be realized, sold or consumed within 12 months from the balance sheet date. All other assets such as property, plant, assets leased to others, idle assets and deferred charges are classified as non-current assets. Current liabilities are obligations incurred for trading purpose or to be settled within 12 months from the balance sheet date. All other assets and liabilities are classified as noncurrent.

Cash Equivalents

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

Financial Instruments at Fair Value through Profit or Loss

Financial instruments classified as financial assets or financial liabilities at fair value through profit or loss ("FVTPL") include financial assets or financial liabilities held for trading and those designated as at FVTPL on initial recognition. 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. 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.

Fair values of financial assets and financial liabilities at the balance sheet date are determined as follows: Financial instruments without quoted prices in an active market - at values determined 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; those of open-end funds are based on their net asset values 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.

Allowance for Doubtful Receivables

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

On the balance sheet date, the Group evaluates investments for any impairment. An impairment loss is recognized and charged to current income if the investment carrying amount as of the balance sheet date exceeds the expected recoverable amount. For long-term investments for which the Group has significant influence but with no control over investees are tested for impairment separately at their carrying amounts, the carrying value (including goodwill) of such investment is compared with its own recoverable amount for the purpose of impairment testing. Investments with controlling interests shall be tested for impairment by each cash generating unit determined on overall financial basis.

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, Assets Leased to Others and Idle Assets

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

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

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

When properties are determined to be idle or useless, they are transferred to idle assets at the lower of the net realizable value or carrying amount. Depreciation on the idle assets is provided continuously, and the idle assets are tested for impairment on a periodic basis.

Deferred Charges

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

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

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

Employee Stock Options

Employee stock options granted between January 1, 2004 and December 31, 2007 were accounted for under the interpretations issued by the Accounting Research and Development Foundation (“ARDF”). The 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 recognized on a straight-line basis over the vesting period.

Sales and Allowance for Sales Returns and Discounts

Sales are recognized when the Group 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. The Group does not recognize sales revenue on materials delivered to subcontractors because this delivery does not involve a transfer of risks and rewards of materials ownership. Allowances and related provisions for sales returns and discounts are recorded in the period the related revenue is recognized on the basis of the Group’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 Group and customer for goods sold in the normal course of business, net of sales discounts and volume rebates. For trade receivables due within one year from the balance sheet date, as the nominal value of the consideration to be received approximates its fair value and transactions are frequent, fair value of the consideration is not determined by discounting all future receipts using an imputed rate of interest.

Capitalized and Other Expenditures

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

Pension Costs

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

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

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 Group applies inter-period allocations for its income tax, that is deferred income tax assets and liabilities are recognized for the tax effects of temporary differences, unused tax credits and operating loss carryforwards. Valuation 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 of prior years' tax liabilities are added to or deducted from the income tax expense in the period those adjustments are determined.

Income taxes (10%) (excluding earnings from foreign consolidated subsidiaries) 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, the balance of foreign-currency nonmonetary assets (such as equity instrument) and liabilities - except those carried at cost which are valued at the historical rate of the trade date - 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.

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

a. Assets and liabilities - at exchange rates prevailing on the balance sheet date;

b. Shareholders' equity - at historical exchange rates;

c. Dividends - at the exchange rate prevailing on the dividend declaration date; and

d. Income and expenses - at average exchange rates for the year.

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

Reclassifications

Certain accounts in the consolidated financial statements as of and for the three months ended March 31, 2009 have been reclassified to be consistent with the consolidated financial statements as of and for the three months ended March 31, 2010.

3. ACCOUNTING CHANGES

SFAS No. 10, "Accounting for Inventories"

On January 1, 2009, the Group 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$146,054 thousand in consolidated net loss and an increase of NT$0.09 in consolidated net loss per share for the three months ended March 31, 2009.

4. CASH AND CASH EQUIVALENTS

	March 31 2010	March 31 2009
Bank deposits	$ 7,089,253	$ 3,813,679
Government bonds acquired under resale agreements	139,117	-
	7,228,370	3,813,679
Pledged Time Deposit	(165,300)	(75,400)
	$ 7,063,070	$ 3,738,279

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

Financial instruments for trading consisted of the following:

	March 31 2010	March 31 2009
Financial assets at FVTPL		
Financial assets held for trading	$ 13,885	$ 28,389
Financial assets designated as at FVTPL	30,246	-
	$ 44,131	$ 28,389
Financial liabilities at FVTPL		
Financial liabilities held for trading	$ 3,819	$ 19,370

Financial instruments held for trading consisted of the following:

	March 31 2010	March 31 2009
Financial assets for trading		
Forward exchange contracts	$ 9,480	$ 27,555
Currency-swap contracts	4,405	834
	$ 13,885	$ 28,389
Financial liabilities for trading		
Forward exchange contracts	$ 2,939	$ 17,597
Currency-swap contracts	880	1,773
	$ 3,819	$ 19,370

The Corporation entered into derivative transactions in the three months ended March 31, 2010 and 2009 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 March 31, 2010 and 2009 were as follows:

Contract	Currency	Contract Expiry Date	Contract Amount (In Thousands)
March 31, 2010			
Sell forward exchange contracts	US$ to NT$	2010.04.07-2010.05.24	US$ 46,000
Sell forward exchange contracts	US$ to JPY	2010.04.07-2010.05.06	US$ 3,500
Buy forward exchange contracts	NT$ to US$	2010.04.07-2010.06.30	US$ 22,000
March 31, 2009			
Sell forward exchange contracts	US$ to NT$	2009.04.07-2009.07.06	US$ 78,000
Sell forward exchange contracts	US$ to JPY	2009.04.22-2009.05.07	US$ 1,500
Buy forward exchange contracts	NT$ to US$	2009.05.27	US$ 9,000

b. Outstanding currency-swap contracts as of March 31, 2010 and 2009 were as follow:

	Currency	Maturity Date	Contract Amount (In Thousands)
March 31, 2010			
Sell forward exchange contracts	US$ to NT$	2010.04.02-2010.05.24	US$ 53,400
March 31, 2009			
Buy forward exchange contracts	NT$ to US$	2009.04.03-2009.04.30	US$ 8,600

The net gain on financial instrument for trading were $17,617 thousand in the three months ended March 31, 2010. The net loss on financial instrument for trading were $45,956 thousand in the three months ended March 31, 2009.

Financial instruments designated as at FVTPL were as follows:

	March 31, 2010
Financial assets designated as at FVTPL	
Credit Linked Notes	$ 30,246

Net gains on financial assets designated as at FVTPL in the three months ended March 31, 2010 was NT$248 thousand.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS - CURRENT

	March 31	
	2010	2009
Listed stocks - Walton Advanced Engineering, Inc. (WAE)	$ 173,375	$ 224,699
Listed stocks - International Semiconductor Technology Ltd. (IST)	141,493	40,916
Funds - PIMCO GIS TOTAL RETURN BOND CL A (US$1,003 thousand in 2010)	31,905	-
Listed stocks - Advanced Analogic Technologies, Inc. (US$64 thousand in 2010 and US$66 thousand in 2009)	2,036	2,238
	348,809	267,853
Less: Financial assets classified as noncurrent assets	(141,493)	(265,615)
	$ 207,316	$ 2,238

In the extraordinary shareholders' meeting on January 25, 2010, Chipbond Technology Corporation's shareholders resolved to merge with IST with April 1, 2010 to be the merge effective date and capital increase effective date. The share exchange ratio is 1.8:1, with "1.8" referring to IST. Therefore upon April 1, 2010, the merger effective date, the shares held by the Corporation of 7,293 thousand of IST will be exchanged into 4,052 thousand of Chipbond Technology Corporation.

7. HELD-TO-MATURITY FINANCIAL ASSETS - CURRENT

	March 31, 2009
Bond - Taiwan Power Co.	$ 149,920

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

8. DERIVATIVE FINANCIAL INSTRUMENTS FOR HEDGING

Derivative financial instruments for hedging (reference to Note 27) consisted of the following:

	March 31	
	2010	2009
Derivative financial assets for hedging		
Current		
Forward exchange contracts	$ 2,014	$ 1,358
Derivative financial liabilities for hedging		
Current		
Forward exchange contracts	$ 579	$ 394

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, and fair value hedge is used to manage the risks on exchange rate fluctuations of foreign currency-denominated assets or liabilities. The Corporation uses forward exchange contracts as a major financial instrument for cash flow hedge and fair value hedge.

In the three months ended March 31, 2010 and 2009, 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 three months ended March 31, 2010 and 2009 were as follows:

	Currency	**Maturity Date**	**Contract Amount (In Thousands)**
March 31, 2010			
Sell forward exchange contracts	US$ to NT$	2010.04.16-2010.05.17	US$ 9,000
March 31, 2009			
Sell forward exchange contracts	US$ to NT$	2009.04.17-2009.05.18	US$ 3,000

The realized net gain on derivative financial instruments used for cash flow hedging in the three months ended March 31, 2010 and 2009 were $102 thousand and $163 thousand, respectively, which were recognized in sales. The net gain and loss on derivative financial instruments used for fair value hedging were $ 2,421 thousand and $114 thousand, respectively, for the three months ended March 31, 2010 and 2009 which were recognized in nonoperating income and expenses.

9. INVENTORIES

	March 31	
	2010	**2009**
Finished goods	$ 30,650	$ 62,467
Work in process	850,276	834,313
Raw materials	88,170	117,772
Supplies and spare parts	239,270	384,812
	$ 1,208,366	$ 1,399,364

Allowance for inventory losses were $311,690 thousand and $267,400 thousand in March 31, 2010 and 2009, respectively.

The cost of inventories recognized as cost of goods sold during the three months ended March 31, 2010 and 2009 were NT$3,007,167 thousand and NT$2,238,192 thousand, which included NT$25,843 thousand and NT$201,948 thousand, respectively, due to write-downs of inventory.

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

	March 31			
	2010		2009	
	Carrying Value	% of Owner-ship	Carrying Value	% of Owner-ship
Unlisted stocks				
CMSC, Inc.	$ 82,982	25	$ 91,969	25
Linear Atrwork, Inc.	23,828	27	30,613	27
SkyTraq Technology, Inc.	21,998	28	26,292	28
Inno-Tech Co., Ltd.	20,593	40	35,212	40
LayerWalker Technology, Inc.	13,296	27	19,736	27
	$ 162,697		$ 203,822	

The investment losses of the investees recognized by the Group were as follows:

	Three Months Ended March 31	
	2010	2009
SkyTraq Technology, Inc.	$ (786)	$ (2,091)
LayerWalker Technology, Inc.	(1,375)	(1,557)
CMSC, Inc.	(1,450)	(3,178)
Linear Atrwork, Inc.	(2,170)	(1,537)
Inno-Tech Co., Ltd.	(4,264)	(3,579)
	$ (10,045)	$ (11,942)

The carrying value of the equity-method investments and the related investment net loss were based on the investees' unreviewed financial statements, except of CMSC, Inc., of the same reporting periods as those of the Group for the three months ended March 31, 2010 and 2009. The Group believes that, had those investee's financial statements been reviewed, any adjustments arising would have no material effect on the Group's financial statements.

11. FINANCIAL ASSETS CARRIED AT COST - NONCURRENT

	March 31	
	2010	2009
Unlisted stocks		
United Industrial Gases Co., Ltd.	$ 38,716	$ 38,716
Goyatek Technology Inc.	14,095	15,024
Uniband Electronic Corp.	6,367	6,787
Silicon Valley Equity Fund II	-	10,811
Megica Corporation	-	2,252
	$ 59,178	$ 73,590

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.

For the three months ended March 31, 2009, the Corporation and subsidiaries revalued the recoverable amount of Silicon Valley Equity Fund II and recognized impairment loss of financial assets amounting to $13,011 thousand, which were presented under nonoperating expenses and losses.

12. PROPERTIES

	Three Months Ended March 31, 2010				
Cost	Buildings	Machinery and Equipment	Other Equipment	Prepayments and Construction in Progress	Total
Beginning	$ 12,093,261	$ 46,315,281	$ 336,142	$ 65,418	$ 58,810,102
Acquired (deductions)	25,199	71,908	-	341,722	438,829
Disposal	(44)	(1,045)	(1,623)	-	(2,712)
Cumulative translation adjustments	-	-	(13)	-	(13)
Ending	$ 12,118,416	$ 46,386,144	$ 334,506	$ 407,140	$ 59,246,206

	Three Months Ended March 31, 2010			
Accumulated depreciation	Buildings	Machinery and Equipment	Other Equipment	Total
Beginning	$ 8,381,980	$ 39,918,421	$ 243,662	$ 48,544,063
Depreciation	116,861	581,936	10,509	709,306
Disposal	(44)	(949)	(1,617)	(2,610)
Cumulative translation adjustments	-	-	(13)	(13)
Ending	$ 8,498,797	$ 40,499,408	$ 252,541	$ 49,250,746

	Three Months Ended March 31, 2009				
Cost	Buildings	Machinery and Equipment	Other Equipment	Prepayments and Construction in Progress	Total
Beginning	$ 11,935,877	$ 46,212,274	$ 351,761	$ 323,613	$ 58,823,525
Acquired (deductions)	51,087	153,170	3,964	(93,077)	115,144
Disposal	-	(8,747)	(204)	-	(8,951)
Cumulative translation adjustments	-	-	(351)	-	(351)
Ending	$ 11,986,964	$ 46,356,697	$ 355,170	$ 230,536	$ 58,929,367

	Three Months Ended March 31, 2009			
Accumulated depreciation	Buildings	Machinery and Equipment	Other Equipment	Total
Beginning	$ 7,892,953	$ 37,165,227	$ 216,817	$ 45,274,997
Depreciation	123,046	750,093	12,525	885,664
Disposal	-	(2,842)	(204)	(3,046)
Cumulative translation adjustments	-	-	(306)	(306)
Ending	$ 8,015,999	$ 37,912,478	$ 228,832	$ 46,157,309

13. ASSETS LEASED TO OTHERS, NET

	Three Months Ended March 31	
	2010	2009
Buildings		
Cost		
Beginning and Ending	$ 1,257,618	$ 1,257,618
Accumulated depreciation		
Beginning	183,794	91,897
Depreciation	22,974	22,974
Ending	206,768	114,871
Net balance	$ 1,050,850	$ 1,142,747

The Corporation leased several floors of the plant to Winbond. Lease terms starts from January 1, 2008 to March 31, 2010. From January 1, 2010 to December 31, 2010 and April 1, 2010 to March 31, 2015, part of those plant leased to TSMC and Integrated Service Technology, Inc., respectively. The next three quarters' rental aggregate $9,908 thousand.

14. IDLE ASSETS

In December 2009, the Corporation transferred equipment with cost NT$263,910 thousand and accumulated depreciation of NT$105,564 thousand to idle assets, and revalued the realizable value of the equipment according to industrial technology, market, economic, legal environment and recognized impairment loss of NT$98,346 thousand.

15. DEFERRED CHARGES, NET

Software design costs:

	Three Months Ended March 31	
	2010	2009
Cost		
Beginning	$ 701,694	$ 770,123
Acquired	4,456	805
Cumulative translation adjustments	-	(212)
Ending	706,150	770,716
Accumulated amortization		
Beginning	656,553	693,359
Amortization	8,460	11,491
Cumulative translation adjustments	-	(183)
Ending	665,013	704,667
Net balance	$ 41,137	$ 66,049

16. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	March 31	
	2010	2009
Bonus	$ 152,250	$ 73,958
Royalty	4,867	513,068
Others	732,586	709,053
	$ 889,703	$ 1,296,079

	Royalty	Bonus
January 1, 2010	$ 4,048	$ 274,782
Add: Reversal of payables to related parties	50,325	-
Accrued	71,212	154,210
Reduce: Payable	(54,013)	(276,742)
Classification as payables to related parties	(66,705)	-
March 31, 2010	$ 4,867	$ 152,250

	Royalty	Bonus
January 1, 2009	$ 486,962	$ 290,979
Add: Reversal of payables to related parties	36,732	-
Accrued	68,282	60,777
Reduce: Payable	(53,937)	(277,798)
Classification as payables to related parties	(24,971)	-
March 31, 2009	$ 513,068	$ 73,958

17. SHAREHOLDERS' EQUITY

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

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

a. 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% of net income 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. The bonus to employees and the remuneration to directors and supervisors were NT$33,042 thousand and NT$1,983 thousand for the three months ended March 31, 2010, respectively.

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

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

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

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

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

The appropriation of earnings for 2009 and 2008 were proposed and approved in the Board of Directors' meeting and shareholders' meetings held on February 5, 2010 and June 10, 2009, respectively. The appropriations and dividends per share were as follows:

	Appropriation of Earnings		**Dividend Per Share (NT$)**	
	2009	**2008**	**2009**	**2008**
Legal reserve	$ 8,924	$ 104,195	$ -	$ -
(Reversal) provision of special reserve	(277,083)	277,083	-	-
Cash dividends	671,154	670,994	0.40	0.40
	$ 402,995	$ 1,052,272		

The Board of Directors' meeting on February 5, 2010 also proposed the bonus to employees NT$13,386 thousand and the remuneration to directors and supervisors NT$3,574 thousand, respectively.

These proposed appropriations will be submitted to the shareholders for approval in their meeting on June 18, 2010. Information on appropriations can be accessed online through the Market Observation Post

System on the Web site of the Taiwan Stock Exchange Corporation.

Unrealized Gain or Loss on Financial Instruments

For the three months ended March 31, 2010 and 2009, movements of unrealized gain or loss on financial instruments were as follows:

Three months ended March 31, 2010	Available-for-sale Financial Assets	Unrealized Gain (Loss) on Cash Flow Hedge	Total
Balance, beginning of period	$ 79,262	$ 681	$ 79,943
Recognized in shareholders' equity	33,988	(579)	33,409
Transferred to profit or loss	-	(102)	(102)
Balance, end of period	$ 113,250	$ -	$ 113,250

Three months ended March 31, 2009	Available-for-sale Financial Assets	Unrealized Gain (Loss) on Cash Flow Hedge	Total
Balance, beginning of period	$ (238,833)	$ -	$ (238,833)
Recognized in shareholders' equity	84,264	163	84,427
Transferred to profit or loss	-	(163)	(163)
Balance, end of period	$ (154,569)	$ -	$ (154,569)

Translation Adjustment

For the three months ended March 31, 2010 and 2009, movements of translation adjustment were as follows:

	Foreign Currency Exchange Valuation Difference
Three months ended March 31, 2010	
Balance, beginning of period	$ (44,060)
Recognized in shareholders' equity	(1,160)
Balance, end of period	$ (45,220)
Three months ended March 31, 2009	
Balance, beginning of period	$ (38,251)
Recognized in shareholders' equity	9,726
Balance, end of period	$ (28,525)

Employee Stock Option Plans

On February 20, 2001, June 21, 2002 and September 18, 2003, the Corporation received approvals from the Financial Supervisory Commission (the former name is SFB) of its adoption of Employee Stock Option Plans (hereafter referred as the "2001 Plan", "2002 Plan", and "2003 Plan"). The 2001 Plan consisted of 16,000 thousand units. Together, the 2002 Plan and 2003 Plan consisted of 140,000 thousand units. These options generally vest at a certain percentage from two years after the date of grant and the options granted are valid for 10 years. Other information on the stock option rights plan is as follows:

	2003 Plan		2002 Plan		2001 Plan	
	Number of Outstanding Stock Option Rights (In Thousands)	Weighted-Average Exercise Price (NT$)	Number of Outstanding Stock Option Rights (In Thousands)	Weighted-Average Exercise Price (NT$)	Number of Outstanding Stock Option Rights (In Thousands)	Weighted-Average Exercise Price (NT$)
2010						
Beginning balance	31,618	$17.12	8,711	$12.40	3,429	$16.23
Options exercised	(30)	13.60	(387)	12.40	(56)	13.00
Options canceled	(365)	16.89	-	-	(12)	17.21
Ending balance	31,223	17.12	8,324	12.40	3,361	16.28

	2003 Plan		2002 Plan		2001 Plan	
	Number of Outstanding Stock Option Rights (In Thousands)	Weighted-Average Exercise Price (NT$)	Number of Outstanding Stock Option Rights (In Thousands)	Weighted-Average Exercise Price (NT$)	Number of Outstanding Stock Option Rights (In Thousands)	Weighted-Average Exercise Price (NT$)
2009						
Beginning balance	32,836	$17.62	9,557	$12.80	3,611	$16.70
Options exercised	-	-	-	-	-	-
Options canceled	(155)	17.20	(12)	12.80	(23)	18.00
Ending balance	32,681	17.62	9,545	12.80	3,588	16.69

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

The outstanding stock options as of March 31, 2010 were as follows:

	Options Outstanding			Options Exercisable	
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	31,223	3.67-4.47	$17.12	31,223	$17.12
2002 plan					
$12.4	8,324	2.48	12.40	8,324	12.40
2001 plan					
$13.0-$17.5	3,361	1.15-1.85	16.28	3,361	16.28

18. TREASURY STOCK

(Shares in Thousands)

Purpose of Treasury Stock	**Number of Shares, Beginning of Period**	**Addition During the Period**	**Reduction During the Period**	**Number of Shares, End of Period**
Three months ended March 31, 2009				
To maintain the Company's credibility and shareholders' interest	18,000	-	18,000	-

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.

19. CONSOLIDATED EARNINGS (LOSS) PER SHARE

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

	Amounts (Numerator)		**Shares**	**EPS (NT$)**	
	Before Income Tax	**After Income Tax**	**(Denominator) (Thousands)**	**Before Income Tax**	**After Income Tax**
Three months ended March 31, 2010					
Consolidated net income	$ 243,122	$ 220,278			
Basic Consolidated Earnings per share					
Consolidated net income of common shareholders of the parent	$ 243,122	$ 220,278	1,678,335	$ 0.14	$ 0.13
Effect of dilutive securities employee stock option rights	-	-	1,758		
Bonus to employees	-	-	2,974		
Diluted Consolidated Earnings per share					
Consolidated net income of common and potential common shareholders of the parent	$ 243,122	$ 220,278	1,683,067	$ 0.14	$ 0.13
Three months ended March 31, 2009					
Consolidated net loss	$ (831,905)	$ (831,689)			
Basic and Diluted Consolidated Loss per share					
Consolidated net loss of common and potential common shareholders of the parent	$ (831,905)	$ (831,689)	1,677,486	$ (0.50)	$ (0.50)

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. There was no dilution effects for the three months ended March 31, 2009 in the calculation of diluted consolidated earnings per share for the employee stock option plans.

The weighted average number of shares outstanding for consolidated EPS calculation has been retroactively adjusted for the issuance of stock dividends and employee stock bonuses distributed out of earnings for the three months ended March 31, 2009. However, the adjustment caused no dilutive effect.

20. 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$28,179 thousand and NT$25,290 thousand for the three months ended March 31, 2010 and 2009, 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$4,691 thousand and NT$4,295 thousand for the three months ended March 31, 2010 and 2009, respectively.

Furthermore, VIS Singapore and VIS Micro are required by local regulations to make monthly contributions at certain percentages of the basic salary of their employees. Pursuant to the aforementioned Act and local regulations, the recognized pension costs of NT$262 thousand and NT$541 thousand for the three months ended March 31, 2010 and 2009, respectively.

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

	Three Months Ended March 31	
	2010	**2009**
Pension fund		
Balance, beginning of period	$ 272,148	$ 259,662
Contributions	3,809	3,838
Interest	4,377	5,888
Balance, end of period	$ 280,334	$ 269,388

	Three Months Ended March 31	
	2010	2009
Accrued pension costs		
Balance, beginning of period	$ 475,180	$ 468,272
Add: Accrued expenses and other current liabilities, beginning of period	1,214	1,356
Provisions	4,691	4,295
Contributions	(3,809)	(3,838)
Deducted: Accrued expenses and other current liabilities, end of period	(1,253)	(1,168)
Balance, end of period	$ 476,023	$ 468,917

21. INCOME TAX EXPENSE

a. Income tax expense (benefit) consists of :

	Three Months Ended March 31	
	2010	2009
Current income tax expense		
Domestic	$ 10,762	$ -
Overseas	(248)	958
	10,514	958
Net change in deferred income tax assets		
Investment tax credits	7,481	(242,071)
Operating loss carryforwards	13,876	(176,598)
Temporary differences	103,890	(36,501)
Valuation allowance	(113,202)	453,927
Adjustments for prior years' tax	-	(8)
Others	285	77
Income tax expense	$ 22,844	$ (216)

On January 21, 2009, the president of the Republic of China approved the amendment of Article 39 of the Income Tax Law, which extends the operating loss carryforwards period from five years to ten years.

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

	March 31	
	2010	2009
Current		
Investment tax credits	$ 150,215	$ 227,437
Operating loss carryforwards	9,779	-
Loss on inventory valuation and obsolescence	83,796	89,528
Other	26,618	32,535
	270,408	349,500
Valuation allowance	(164,915)	(348,911)
	$ 105,493	$ 589

(Continued)

	March 31	
	2010	2009
Noncurrent		
Investment tax credits	$ 674,472	$ 711,232
Operating loss carryforwards	174,618	206,626
Accrued pension cost	95,205	117,229
Depreciation and amortization	100,558	211,155
Other	-	(483)
	1,044,853	1,245,759
Valuation allowance	(993,620)	(1,174,366)
	$ 51,233	$ 71,393

(Concluded)

d. The balances of the imputation credit account as of March 31, 2010 and 2009 were $43,308 thousand and $25,679 thousand, respectively.

   The expected and actual creditable ratios for distributing the earnings of 2009 and 2008 were 5.74% and 6.52%, respectively.

   The imputation credit allocated to each shareholder is based on balance in the ICA on the date of dividend distribution; thus, the expected creditable ratio for the 2009 earnings may be adjusted according to the actual ICA balance on the dividend distribution date.

e. The unappropriated retained earnings as of March 31, 2010 and 2009 did not contain the unappropriated earnings generated on and before January 1, 1998.

f. As of March 31, 2010, the tax credits and operating loss carryforwards were as follows:

   The Corporation

Regulatory Basis of Tax Credits	Items	Total Creditable Amounts	Remaining Creditable Amounts	Expiry Year
Income Tax Law	Operating loss carryforwards	$ 156,460	$ 156,460	2013
Statute for Upgrading Industries	Purchase of machinery and equipment	$ 40,513	$ 35,779	2010
		102,867	102,867	2011
		78,189	78,189	2012
		3,079	3,079	2013
		2,807	2,807	2014
		$ 227,455	$ 222,721	
Statute for Upgrading Industries	Research and development expenditures	$ 67,681	$ 67,681	2010
		132,980	132,980	2011
		245,194	245,194	2012
		141,623	141,623	2013
		$ 587,478	$ 587,478	

(Continued)

Regulatory Basis of Tax Credits	Items	Total Creditable Amounts	Remaining Creditable Amounts	Expiry Year
Statute for Upgrading Industries	Personnel training expenditures	$ 1,567	$ 1,567	2010
		2,606	2,606	2011
		1,296	1,296	2012
		473	473	2013
		$ 5,942	$ 5,942	
Statute for Upgrading Industries	Investments in important technology - based enterprise	$ 6,428	$ -	2010
		8,546	8,546	2011
		$ 14,974	$ 8,546	

(Concluded)

As of March 31, 2010, the operating loss carryforwards of VIS Holding were as follows:

Expiry Year	Remaining Creditable Amount
2020	$ 27,460
2021	310
2027	167
	$ 27,937

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

22. LABOR COST, DEPRECIATION AND AMORTIZATION EXPENSE

	2010			2009		
	Classified as Cost of Sales	Classified as Operating Expenses	Total	Classified as Cost of Sales	Classified as Operating Expenses	Total
Labor cost						
Salary	$ 620,382	$ 155,139	$ 775,521	$ 427,376	$ 104,649	$ 532,025
Labor/health insurance	32,348	9,336	41,684	34,186	8,405	42,591
Pension	25,946	7,186	33,132	24,130	5,996	30,126
Others	15,959	5,081	21,040	10,880	3,117	13,997
	$ 694,635	$ 176,742	$ 871,377	$ 496,572	$ 122,167	$ 618,739
Depreciation	$ 691,360	$ 17,946	$ 709,306	$ 869,821	$ 15,843	$ 885,664
Amortization	$ 4,279	$ 4,181	$ 8,460	$ 5,598	$ 5,893	$ 11,491

23. RELATED-PARTY TRANSACTIONS

a. The Group's related parties were as follows:

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

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

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

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

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

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

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

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

9) Others - related parties over which the Corporation has substantial influence but without any transactions (Note 28).

Note: TSMC-Shanghai renamed as TSMC-China in the beginning of 2009.

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

	2010		2009	
	Amount	**%**	**Amount**	**%**
For the period				
Sales				
TSMC	$ 947,727	27	$ 369,736	22
Goya	18,421	1	6,407	-
GUC	4,805	-	4,283	-
CMSC	1,238	-	1,011	-
INNO	160	-	-	-
	$ 972,351	28	$ 381,437	22
Purchases				
TSMC	$ 2,979	-	$ 5,732	-
Manufacturing expenses				
TSMC	$ 119,853	4	$ 46,677	2
Marketing expenses				
TSMC	$ 3,563	9	$ -	-
General and administrative expenses				
CPSI Management Inc.	$ 801	-	$ 1,482	1

	2010 Amount	2010 %	2009 Amount	2009 %
Research and development expenses				
TSMC	$ 344	-	$ 3,003	2
Gain on disposal of properties				
TSMC	$ 15,995	100	$ -	-
Rental revenues				
TSMC	$ 2,273	14	$ -	-
Nonoperating income and gains				
TSMC	$ 3,239	12	$ 8,489	81
Goya	-	-	9	-
	$ 3,239	12	$ 8,498	81
Purchase of properties				
TSMC	$ 16,043	100	$ -	-
At end of period				
Receivables				
TSMC	$ 688,729	97	$ 289,377	97
Goya	13,019	2	4,591	2
GUC	3,551	1	2,709	1
CMSC	1,056	-	1,014	-
	$ 706,355	100	$ 297,691	100
Other receivables				
TSMC	$ 6,914	100	$ 8,983	98
Goya	-	-	171	2
	$ 6,914	100	$ 9,154	100
Prepaid expenses and other current assets				
CPSI Management Inc.	$ -	-	$ 636	-
Other payables				
TSMC	$ 110,391	100	$ 51,664	100
GUC	33	-	70	-
	$ 110,424	100	$ 51,734	100
Rental in advance (presented under accrued expenses and other current liabilities)				
TSMC	$ 2,273	-	$ -	-
Guarantee deposits				
Goya	$ 6,000	20	$ 15,500	34

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

Goya's guarantee deposits were primary for sales.

24. PLEDGED ASSETS

The following assets had been pledged as collateral for the guarantee of customs duty and lease of the manufacturing plant from the Hsinchu Science-Based Industrial Park Administration:

	Three Months Ended March 31	
	2010	**2009**
Pledged time deposits	$ 165,300	$ 75,400

25. SIGNIFICANT LONG-TERM OPERATING LEASES

The Corporation leases the sites of its manufacturing plant and parking lot from the Hsinchu Science-Based Industrial Park Administration and a certain individual under renewable operating lease agreements expiring on various dates from March 2013, April 2015, June 2015, December 2027 and December 2028. Annual rentals aggregate $78,602 thousand. The rental paid to Hsinchu Science-Based Industrial Park Administration could be adjusted according to the lease contract, and the lease is renewable upon its expiration.

Future minimum annual rentals under the leases are as follows:

Year	**Amount**
2010 the last three quarters	$ 56,916
2011	75,249
2012	75,249
2013	73,899
2014	73,449
2015-2028	771,458
	$ 1,126,220

26. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

The significant commitments of the Corporation as of March 31, 2010 were as follows:

a. 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 fee at a specific percentage of net sales of certain products.

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

c. As of March 31, 2010, unused letters of credit aggregated about JPY 356,485 thousand and USD 1,567 thousand.

27. FINANCIAL INSTRUMENTS

a. Fair values of financial instruments were as follows:

	March 31			
	2010		2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Nonderivative financial instruments				
Assets				
Cash and cash equivalents	$ 7,063,070	$ 7,063,070	$ 3,738,279	$ 3,738,279
Pledged time deposit	165,300	165,300	75,400	75,400
Financial assets held to maturity - current	-	-	149,920	148,955
Receivables from related parties	706,355	706,355	297,691	297,691
Notes and accounts receivable	1,619,248	1,619,248	1,094,119	1,094,119
Available-for-sale financial assets	348,809	348,809	267,853	267,853
Financial assets carried at cost - noncurrent	59,178	-	73,590	-
Liabilities				
Notes and accounts payable	750,919	750,919	270,048	270,048
Payables to contractors and equipment suppliers	267,590	267,590	206,557	206,557
Derivative financial instruments				
Assets				
Forward exchange contracts	9,480	9,480	27,555	27,555
Currency-swap contracts	4,405	4,405	834	834
Financial assets designated as at FVTPL				
Credit linked notes	30,246	30,246	-	-
Derivative financial assets for hedging - current				
Forward exchange contracts	2,014	2,014	1,358	1,358
Liabilities				
Forward exchange contracts	2,939	2,939	17,597	17,597
Currency-swap contracts	880	880	1,773	1,773
Derivative financial liabilities for hedging - current				
Forward exchange contracts	579	579	394	394

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

1) For short-term financial instruments, carrying values approximate fair values because of their short maturities. These instruments are cash and cash equivalents, pledged time deposit, receivables from related parties, notes and accounts receivable, 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.

3) For those instruments such as derivative financial instruments with no quoted market prices, their fair values are determined using valuation techniques incorporating estimates and assumptions consistent with those generally used by other market participants to price financial instruments.

   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.

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

c. The fair values of the Group's financial instruments with fair values that were based on published price quotations in the market and to which valuation techniques were applied were as follows:

	Published Price		**Estimated Price**	
	March 31		**March 31**	
	2010	**2009**	**2010**	**2009**
Nonderivative financial instruments				
Assets				
Cash and cash equivalents	$ 7,063,070	$ 3,738,279	$ -	$ -
Pledged time deposit	165,300	75,400	-	-
Financial assets held to maturity - current	-	148,955	-	-
Receivables from related parties	-	-	706,355	297,691
Notes and accounts receivable	-	-	1,619,248	1,094,119
Available-for-sale financial assets	348,809	267,853	-	-
Liabilities				
Notes and accounts payable	-	-	750,919	270,048
Payables to contractors and equipment suppliers	-	-	267,590	206,557
Derivative financial instruments				
Assets				
Forward exchange contracts	-	-	9,480	27,555
Currency-swap contracts	-	-	4,405	834
Financial assets designated as at FVTPL				
Credit linked notes	-	-	30,246	-
Derivative financial assets for hedging - current				
Forward exchange contracts	-	-	2,014	1,358
Liabilities				
Forward exchange contracts	-	-	2,939	17,597
Currency-swap contracts	-	-	880	1,773
Derivative financial liabilities for hedging - current				
Forward exchange contracts	-	-	579	394

d. Net loss and loss recognized for the changes in fair value of derivatives estimated using valuation techniques were $17,186 thousand and $45,995 thousand for the three months ended March 31, 2010 and 2009.

e. As of March 31, 2010 and 2009, financial assets exposed to fair value interest rate risk amounted to $4,919,253 thousand and $3,025,370 thousand, respectively; financial assets exposed to cash flow interest rate risk amounted to $2,309,117 thousand and $938,229 thousand, respectively.

f. Interest revenues on financial instruments other than the financial assets or liabilities at fair value through profit or loss in the three months ended March 31, 2010 and 2009 were $9,756 thousand and $13,589 thousand, respectively.

g. Financial risk

1) Market risk. The derivative financial instruments are exposed to exchange rate fluctuations. If the U.S. dollar appreciates by US$0.01, the fair value would decrease by $899 thousand.

2) Credit risk. Credit risk represents the loss that would be incurred by the Corporation if the counter-parties or third-parties breach the contracts and also refers to concentrations of credit risk; factors; principal amount; and receivables on the financial instruments. Derivative Contracts with positive fair values on the balance sheet date are evaluated for credit risk. As of March 31, 2010 and 2009, financial assets exposed to credit risk amounted to $46,145 thousand and $29,747 thousand, respectively. The maximum credit risks of other financial instruments hold by the Corporation are the same as its book value.

3) Liquidity and cash requirement: The Corporation has sufficient operating capital to meet cash needed to settle derivative contracts. In addition, the Corporation's investments in debt instruments and stock classified as available-for-sale financial assets are traded in active markets and can be disposed of quickly at close to their fair values. However, some equity instruments for which there is no active market are expected to have material liquidity risk. As of March 31, 2010, 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$ 3,460,252	US$ 108,400
	US$ 22,000	NT$ 696,980
	JPY 314,874	US$ 3,500

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 March 31, 2010 and 2009 were significant; thus, it entered into forward exchange contracts to hedge these exposures.

Hedged Item	Hedging Financial Instrument	Fair Value as of March 31, 2010	Fair Value as of March 31, 2009
Foreign currency accounts receivable	Forward exchange contracts	$1,435	$964

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. There has no any outstanding cash flow hedging financial instrument as of March 31, 2010 and 2009.

28. ADDITIONAL DISCLOSURES

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

a. Financing provided: None.

b. Endorsement/guarantee provided: None.

c. Marketable securities held: Table 1 (attached)

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

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

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

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

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

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

j. Information about derivatives of investees: None.

k. Information on investment in Mainland China: None.

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

All significant intercompany balances and transactions have been eliminated upon consolidation.

TABLE 1

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

MARKETABLE SECURITIES HELD
MARCH 31, 2010
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Holding Company Name	Marketable Security Type and Issuer	Relationship with the Holding Company	Financial Statement Account	March 31, 2010				Note
				Shares/Units (Thousands)	Carrying Value (US$ in Thousands)	% of Ownership	Market Value or Net Asset Value (US$ in Thousands)	
Vanguard International	Bond							
	Credit linked notes - Hon Hai Precision Industry Co., Ltd.	-	Financial assets at fair value through profit or loss - current	-	$ 30,246	-	$ 30,246	Note 4
	Stock							
	Walton Advanced Engineering, Inc.	Investee	Available-for-sale financial assets - current	10,444	173,375	2	173,375	Note 1
	International Semiconductor Technology Ltd.	Investee	Available-for-sale financial assets - noncurrent	7,293	141,493	2	141,493	Note 1
	VIS Associates Inc.	Subsidiary	Long-term stock investments accounted for by the equity method	6	296,899	100	296,899	Note 2
	CMSC, Inc.	Equity-method investee	Long-term stock investments accounted for by the equity method	9,902	82,982	25	82,982	Note 2
	United Industrial Gases Co., Ltd.	Investee	Financial assets carried at cost - noncurrent	3,357	38,716	2	38,716	Note 3
VIS Associates Inc.	Fund							
	PIMCO GIS TOTAL RETURN BOND FD CL A (USD)	-	Available-for-sale financial assets - current	86	US$ 1,003	-	US$ 1,003	Note 1
	Stock							
	Advanced Analogic Technologies, Inc.	Investee	Available-for-sale financial assets - current	18	US$ 64	-	US$ 64	Note 1
	VIS Investment Holding, Inc.	Subsidiary of VIS Associates Inc.	Long-term stock investments accounted for by the equity method	63	US$ 986	100	US$ 986	Note 2
	VIS Singapore Pte. Ltd.	Subsidiary of VIS Associates Inc.	Long-term stock investments accounted for by the equity method	1,000	US$ 531	100	US$ 531	Note 5
	Specialty TechFarm, Inc.	Subsidiary of VIS Associates Inc.	Long-term stock investments accounted for by the equity method	10,000	US$ 3,964	100	US$ 3,964	Note 2
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$ 746	100	US$ 746	Note 2
Specialty TechFarm, Inc.	Stock							
	LayerWalker Technology, Inc.	Equity-method investee	Long-term stock investments accounted for by the equity method	4,103	US$ 418	27	US$ 418	Note 5

(Continued)

Holding Company Name	Marketable Security Type and Issuer	Relationship with the Holding Company	Financial Statement Account	March 31, 2010				Note
				Shares/Units (Thousands)	Carrying Value (US$ in Thousands)	% of Ownership	Market Value or Net Asset Value (US$ in Thousands)	
	SkyTraq Technology, Inc.	Equity-method investee	Long-term stock investments accounted for by the equity method	4,688	US$ 691	28	US$ 691	Note 5
	Inno-Tech Co., Ltd.	Equity-method investee	Long-term stock investments accounted for by the equity method	5,000	US$ 647	40	US$ 647	Note 5
	Linear Artwork, Inc.	Equity-method investee	Long-term stock investments accounted for by the equity method	4,375	US$ 749	27	US$ 749	Note 5
	Goyatek Technology Inc.	Investee	Financial assets carried at cost - noncurrent	2,231	US$ 443	13	US$ 443	Note 3
	Uniband Electronic Corp.	Investee	Financial assets carried at cost - noncurrent	960	US$ 200	5	US$ 200	Note 3

Note 1: The market value was based on stock closing price as of March 31, 2010.

Note 2: The net asset value was based on reviewed financial statements as of March 31, 2010.

Note 3: The market value was based on the book value as of March 31, 2010.

Note 4: The fair value were based on valuation techniques.

Note 5: The net asset value was based on unreviewed financial statements as of March 31, 2010.

Note 6: As of March 31, 2010, all the securities were not pledged or restricted.

(Concluded)

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

TOTAL PURCHASE FROM OR SALE TO RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
THREE MONTHS ENDED MARCH 31, 2010
(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	$947,727	(26.38%)	Note	-	-	$688,729	29.62%	-

Note: Net 45 days after monthly closing.

TABLE 3

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

RECEIVABLE FROM RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
MARCH 31, 2010
(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	$ 688,729	6.29	$ -	-	$ -	$ -

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

NAMES, LOCATIONS, AND RELATED INFORMATION OF INVESTEES ON WHICH THE CORPORATION EXERCISES SIGNIFICANT INFLUENCE
THREE MONTHS ENDED MARCH 31, 2010
(In Thousands of New Taiwan Dollars)

Investor	Investee	Location	Main Businesses and Products	Investment Amount		Balance as of March 31, 2010			Net Loss of the Investee	Investment Loss	Note
				March 31, 2010	December 31, 2009	Shares (Thousands)	% of Ownership	Carrying Value			
Vanguard International Semiconductor Corporation	VIS Associates Inc.	British Virgin Islands	Investment	$ 195,492	$ 195,492	6	100	$ 296,899	$ (9,992)	$ (9,992)	Subsidiary
	CMSC, Inc.	Hsin-Chu City, Taiwan	Integrated circuit design services and related businesses	112,650	112,650	9,902	25	82,982	(5,812)	(1,450)	Equity-method investee

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS
THREE MONTHS ENDED MARCH 31, 2010 and 2009
(In Thousands of New Taiwan Dollars)

2010

No.	Company Name	Company Name	Nature of Relationship	Intercompany Transactions			
				Financial Statement Item	Amount	Terms (Note)	Percentage of Consolidated Total Gross Sales or Total Assets
0	Vanguard International Semiconductor Corporation	VIS Micro, Inc.	Indirect subsidiary	Marketing expenses Other payables to related parties	$ 8,604 3,215	- -	0.2% -

2009

No.	Company Name	Company Name	Nature of Relationship	Intercompany Transactions			
				Financial Statement Item	Amount	Terms (Note)	Percentage of Consolidated Total Gross Sales or Total Assets
0	Vanguard International Semiconductor Corporation	VIS Singapore Pte. Ltd.	Indirect subsidiary	Research and development expenses Payables to related parties	$ 7,063 2,276	- -	0.4% -
1	VIS Associates Inc.	VIS Micro, Inc.	Indirect subsidiary	General and administrative expenses Payables to related parties	10,161 10,175	- -	0.6% -

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