

**Vanguard International Semiconductor  
Corporation and Subsidiaries**

**Consolidated Financial Statements for the  
Nine Months Ended September 30, 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 September 30, 2010 and 2009, and the related consolidated statements of income and cash flows for the nine months then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to issue a report on these consolidated financial statements based on our reviews.

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

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

October 8, 2010

### Notice to Readers

*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

SEPTEMBER 30, 2010 AND 2009

(In Thousands of New Taiwan Dollars, Except Par Value)

(Reviewed, Not Audited)

ASSETS	2010		2009		LIABILITIES AND SHAREHOLDERS' EQUITY	2010		2009	
	Amount	%	Amount	%		Amount	%	Amount	%
<b>CURRENT ASSETS</b>					<b>CURRENT LIABILITIES</b>				
Cash and cash equivalents (Notes 2 and 4)	\$ 7,430,123	31	\$ 5,023,425	22	Financial liabilities at fair value through profit or loss - current (Notes 2 and 5)	\$ 1,776	-	\$ 10,233	-
Financial assets at fair value through profit or loss - current (Notes 2 and 5)	69,685	-	53,212	-	Derivative financial liabilities for hedging - current (Notes 2 and 7)	5,413	-	3,899	-
Available-for-sale financial assets - current (Notes 2 and 6)	78,948	-	363,962	2	Payables to related parties (Note 22)	25,873	-	23	-
Derivative financial assets for hedging - current (Notes 2 and 7)	20,844	-	29,712	-	Notes and accounts payable	902,706	4	732,827	3
Receivables from related parties (Note 22)	1,125,855	5	752,088	3	Income tax payables (Notes 2 and 20)	117,407	-	2,998	-
Notes and accounts receivable	1,941,754	8	1,997,311	9	Accrued profit sharing to employees and bonus to directors (Note 16)	260,670	1	-	-
Allowance for doubtful receivables (Note 2)	(39,502)	-	(40,675)	-	Payables to contractors and equipment suppliers	342,906	1	162,499	1
Allowance for sales returns and discounts (Note 2)	(79,094)	-	(51,090)	-	Other payables to related parties (Note 22)	123,374	1	136,887	1
Inventories (Notes 2 and 8)	1,519,250	6	1,421,992	6	Accrued expenses and other current liabilities (Notes 15 and 22)	<u>1,085,706</u>	<u>5</u>	<u>1,333,673</u>	<u>6</u>
Other receivables from related parties (Note 22)	15,557	-	23,157	-	Total current liabilities	<u>2,865,831</u>	<u>12</u>	<u>2,383,039</u>	<u>11</u>
Pledged time deposits (Notes 4 and 23)	165,300	1	84,100	1	<b>OTHER LIABILITIES</b>				
Prepaid expenses and other current assets	149,591	1	248,188	1	Accrued pension costs (Notes 2 and 19)	477,709	2	470,207	2
Deferred income tax assets - current (Notes 2 and 20)	<u>109,537</u>	<u>-</u>	<u>35,829</u>	<u>-</u>	Guarantee deposits (Note 22)	<u>17,089</u>	<u>-</u>	<u>29,693</u>	<u>-</u>
Total current assets	<u>12,507,848</u>	<u>52</u>	<u>9,941,211</u>	<u>44</u>	Total other liabilities	<u>494,798</u>	<u>2</u>	<u>499,900</u>	<u>2</u>
<b>INVESTMENTS</b>					Total liabilities	<u>3,360,629</u>	<u>14</u>	<u>2,882,939</u>	<u>13</u>
Long-term stock investments accounted for by the equity method (Notes 2 and 9)	148,411	1	182,919	1	<b>SHAREHOLDERS' EQUITY (Notes 2, 16 and 17)</b>				
Available-for-sale financial assets - noncurrent (Notes 2 and 6)	194,492	1	78,769	-	Capital stock, NT\$10.00 par value;				
Financial assets carried at cost - noncurrent (Notes 2 and 10)	<u>64,613</u>	<u>-</u>	<u>69,564</u>	<u>-</u>	Authorized - 3,300,000 thousand shares				
Total investments	<u>407,516</u>	<u>2</u>	<u>331,252</u>	<u>1</u>	Issued and outstanding - 1,662,265 thousand shares in 2010 and 1,677,629 thousand shares in 2009	<u>16,622,645</u>	<u>69</u>	<u>16,776,292</u>	<u>74</u>
<b>PROPERTIES (Notes 2, 11, 12, 13 and 22)</b>					Capital surplus				
Cost					Employee stock options	462,978	2	463,839	2
Buildings	12,396,253	52	12,083,386	53	Treasury stock transactions	-	-	32,355	-
Machinery and equipment	47,013,625	196	46,531,085	205	Long-term stock investments	<u>69,068</u>	<u>-</u>	<u>69,131</u>	<u>-</u>
Other equipment	<u>347,039</u>	<u>1</u>	<u>356,937</u>	<u>2</u>	Total capital surplus	<u>532,046</u>	<u>2</u>	<u>565,325</u>	<u>2</u>
Total cost	59,756,917	249	58,971,408	260	Retained earnings				
Accumulated depreciation	(50,444,268)	(210)	(47,878,448)	(211)	Legal reserve	1,593,687	7	1,584,763	7
Prepayments and construction in progress	<u>805,361</u>	<u>3</u>	<u>93,692</u>	<u>-</u>	Special reserve	-	-	277,083	1
Net properties	<u>10,118,010</u>	<u>42</u>	<u>11,186,652</u>	<u>49</u>	Unappropriated earnings	<u>1,973,330</u>	<u>8</u>	<u>666,636</u>	<u>3</u>
<b>OTHER ASSETS</b>					Total retained earnings	<u>3,567,017</u>	<u>15</u>	<u>2,528,482</u>	<u>11</u>
Assets leased to others, net (Notes 2 and 12)	840,449	4	1,096,798	5	Others				
Idle assets, net (Notes 2 and 13)	102,857	-	-	-	Unrealized gain on financial instruments	98,738	-	19,394	-
Deferred charges, net (Notes 2 and 14)	29,210	-	53,257	-	Cumulative translation adjustments	(49,083)	-	(43,020)	-
Deferred income tax assets - noncurrent (Notes 2 and 20)	705	-	115,014	1	Treasury stock (at cost) - 9,196 thousand shares	<u>(120,165)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Refundable deposits	<u>5,232</u>	<u>-</u>	<u>5,228</u>	<u>-</u>	Total others	<u>(70,510)</u>	<u>-</u>	<u>(23,626)</u>	<u>-</u>
Total other assets	<u>978,453</u>	<u>4</u>	<u>1,270,297</u>	<u>6</u>	Total shareholders' equity	<u>20,651,198</u>	<u>86</u>	<u>19,846,473</u>	<u>87</u>
<b>TOTAL</b>	<u>\$ 24,011,827</u>	<u>100</u>	<u>\$ 22,729,412</u>	<u>100</u>	<b>TOTAL</b>	<u>\$ 24,011,827</u>	<u>100</u>	<u>\$ 22,729,412</u>	<u>100</u>

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

(With Deloitte & Touche review report dated October 8, 2010)

# VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009 (In Thousands of New Taiwan Dollars, Except Earnings Per Share) (Reviewed, Not Audited)

	2010		2009	
	Amount	%	Amount	%
GROSS SALES (Notes 2, 7, 22 and 26)	\$ 12,697,300		\$ 9,533,061	
SALES RETURNS AND DISCOUNTS (Note 2)	<u>(66,494)</u>		<u>(68,310)</u>	
NET SALES	12,630,806	100	9,464,751	100
COST OF SALES (Notes 8, 21 and 22)	<u>9,779,827</u>	<u>77</u>	<u>8,572,949</u>	<u>91</u>
GROSS PROFIT	<u>2,850,979</u>	<u>23</u>	<u>891,802</u>	<u>9</u>
OPERATING EXPENSES (Notes 21 and 22)				
General and administrative	494,153	4	404,365	4
Marketing	98,504	1	70,737	1
Research and development	<u>493,654</u>	<u>4</u>	<u>511,034</u>	<u>5</u>
Total operating expenses	<u>1,086,311</u>	<u>9</u>	<u>986,136</u>	<u>10</u>
OPERATING INCOME (LOSS)	<u>1,764,668</u>	<u>14</u>	<u>(94,334)</u>	<u>(1)</u>
NONOPERATING INCOME AND GAINS				
Valuation gain on financial instruments, net (Notes 2, 5 and 26)	68,731	1	96,240	1
Gain on disposal of investments (Note 2)	59,141	-	33,815	-
Gain on disposal of properties (Note 2)	34,409	-	286	-
Interest	31,654	-	29,443	-
Rental (Note 12)	30,764	-	71,813	1
Dividends (Note 2)	8,193	-	9,063	-
Others (Note 22)	<u>79,350</u>	<u>1</u>	<u>67,151</u>	<u>1</u>
Total nonoperating income and gains	<u>312,242</u>	<u>2</u>	<u>307,811</u>	<u>3</u>
NONOPERATING EXPENSES AND LOSSES				
Impairment loss (Notes 2, 10 and 13)	85,175	1	12,931	-
Expenses of assets leased to others (Note 12)	59,522	1	68,923	1
Foreign exchange loss, net (Note 2)	56,700	-	75,303	1
Investment loss recognized by the equity method, net (Notes 2 and 9)	23,762	-	29,959	-
Loss on disposal of properties (Note 2)	245	-	5,918	-
Others	<u>35,385</u>	<u>-</u>	<u>18,462</u>	<u>-</u>
Total nonoperating expenses and losses	<u>260,789</u>	<u>2</u>	<u>211,496</u>	<u>2</u>

(Continued)

# VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009 (In Thousands of New Taiwan Dollars, Except Earnings Per Share) (Reviewed, Not Audited)

	2010		2009	
	Amount	%	Amount	%
INCOME BEFORE INCOME TAX	\$ 1,816,121	14	\$ 1,981	-
INCOME TAX EXPENSE (Notes 2 and 20)	<u>176,235</u>	<u>1</u>	<u>88</u>	<u>-</u>
CONSOLIDATED NET INCOME	<u>\$ 1,639,886</u>	<u>13</u>	<u>\$ 1,893</u>	<u>-</u>
	2010		2009	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
CONSOLIDATED EARNINGS PER SHARE (Note 18)				
Basic	<u>\$ 1.09</u>	<u>\$ 0.98</u>	<u>\$ -</u>	<u>\$ -</u>
Diluted	<u>\$ 1.07</u>	<u>\$ 0.97</u>	<u>\$ -</u>	<u>\$ -</u>

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

(With Deloitte & Touche review report dated October 8, 2010)

(Concluded)

# VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009 (In Thousands of New Taiwan Dollars) (Reviewed, Not Audited)

	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Consolidated net income	\$ 1,639,886	\$ 1,893
Adjustments to reconcile consolidated net income to net cash provided by operating activities:		
Depreciation and amortization	2,206,594	2,712,188
Investment loss recognized by the equity method, net	23,762	29,959
Impairment loss	85,175	12,931
Gain on disposal of investment	(59,141)	(33,815)
Deferred income tax assets	58,529	(80,104)
(Gain) loss on disposal of properties, net	(34,164)	5,632
Accrued pension costs	2,529	1,935
Amortized discounts for bonds	-	(155)
Allowance for doubtful receivables	12,169	15,279
Allowance for sales returns and discounts	24,429	3,858
Net changes in operating assets and liabilities		
Financial assets for trading	4,694	(20,201)
Financial assets designated as at fair value through profit or loss	-	(2,997)
Receivables from related parties	(600,703)	(435,818)
Notes and accounts receivable	(600,927)	(907,199)
Inventories	(385,531)	388,794
Other receivables from related parties	(3,843)	(16,824)
Prepaid expenses and other current assets	(51,692)	(29,065)
Derivative financial instruments for hedging	(13,927)	(26,917)
Financial liabilities for trading	557	119
Payables to related parties	25,851	23
Notes and accounts payable	320,166	332,926
Income tax payable	97,318	1,471
Accrued profit sharing to employees and bonus to directors	243,710	(150,040)
Other payables to related parties	40,022	93,851
Accrued expenses and other current liabilities	80,171	(83,986)
Net cash provided by operating activities	<u>3,115,634</u>	<u>1,813,738</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from the disposal of held-to-maturity financial assets	-	150,000
Increase in pledged time deposits	-	(84,100)
Proceeds from the disposal of available-for-sale financial assets	120,222	-
Acquisition of financial assets carried at cost	(5,750)	-
Proceeds from the disposal of financial assets carried at cost	-	36,067
Acquisition of properties	(1,716,036)	(471,311)
Acquisition of assets leased to others	(4,000)	-
Proceeds from the disposal of properties	42,364	286

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# VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009 (In Thousands of New Taiwan Dollars) (Reviewed, Not Audited)

	2010	2009
Increase in deferred charges	\$ (8,712)	\$ (7,188)
(Increase) decrease in refundable deposits	<u>(5)</u>	<u>533</u>
Net cash used in investing activities	<u>(1,571,917)</u>	<u>(375,713)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Decrease in guarantee deposits	(12,611)	(15,512)
Cash dividends paid for common stock	(671,154)	(670,994)
Proceeds of the exercise of employee stock options	14,374	1,775
Acquisitions of treasury stock	<u>(342,179)</u>	<u>-</u>
Net cash used in financing activities	<u>(1,011,570)</u>	<u>(684,731)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	532,147	753,294
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	6,901,472	4,273,424
EFFECT OF EXCHANGE RATE CHANGES	<u>(3,496)</u>	<u>(3,293)</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 7,430,123</u>	<u>\$ 5,023,425</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Income tax paid	<u>\$ 19,795</u>	<u>\$ 75,053</u>
<b>NONCASH INVESTING ACTIVITIES</b>		
Reclassification from properties to idle assets	<u>\$ 145,175</u>	<u>\$ -</u>
Reclassification from assets leased to others to properties	<u>\$ 177,853</u>	<u>\$ -</u>
<b>CASH PAID FOR ACQUISITION OF PROPERTIES</b>		
Total acquisitions	\$ 1,932,780	\$ 256,637
(Increase) decrease in payables to contractors and equipment suppliers	<u>(216,744)</u>	<u>214,674</u>
	<u>\$ 1,716,036</u>	<u>\$ 471,311</u>

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

(With Deloitte & Touche review report dated October 8, 2010)

(Concluded)

# VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise) (Reviewed, Not Audited)

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### 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.

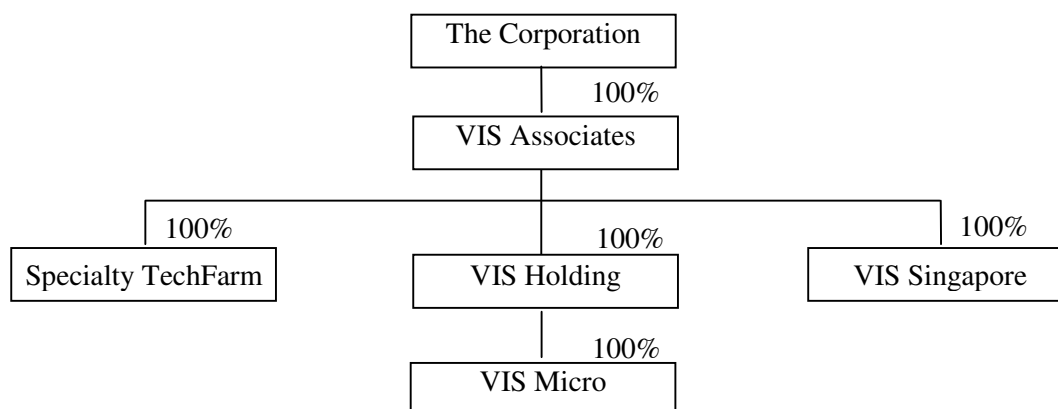
The Corporation researches, designs, manufactures, packages, tests and sells memory integrated circuits (ICs), large-scale integrated ICs (LSIs), very large-scale integrated ICs (VLSIs) and related parts.

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

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

On November 2, 2009, the board of VIS Singapore directors resolved to liquidate VIS Singapore effective November 23, 2009. The previous years’ earnings of US\$963 thousands was distributed during the nine months ended September 30, 2010. 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 September 30, 2010:





The financial statements as of and for the nine months ended September 30, 2010 of VIS Singapore has 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 Corporation's financial statements.

As of September 30, 2010 and 2009, the Corporation and subsidiaries had 3,456 and 3,289 employees.

## **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, pension expenses, impairment loss, 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 nine months ended September 30, 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 properties, 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 liabilities are classified as noncurrent.

### **Cash Equivalents**

Government bonds acquired under agreements for resell less than three months from the date of purchase are classified as cash equivalents. Their carrying amounts approximate their fair values.

### **Financial Instruments at Fair Value through Profit or Loss**

Financial instruments 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 financial instruments not qualified for hedging accounting 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: Bonds - at prices quoted by the Taiwan GrTai Securities Market, financial assets and financial liabilities 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.

### **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 a nonfinancial liability and 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 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 and accumulated impairment loss 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 also 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 relate 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.

### 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 a decrease of NT\$150,396 thousand in consolidated net income and a decrease of NT\$0.09 in consolidated basic earnings per share (after income tax) for the nine months ended September 30, 2009.

### 4. CASH AND CASH EQUIVALENTS

	<u>September 30</u>	
	<u>2010</u>	<u>2009</u>
Bank deposits	\$ 7,451,383	\$ 4,906,002
Government bonds acquired under resale agreements	<u>144,040</u>	<u>201,523</u>
	7,595,423	5,107,525
Pledged time deposit	<u>(165,300)</u>	<u>(84,100)</u>
	<u>\$ 7,430,123</u>	<u>\$ 5,023,425</u>

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

	<u>September 30</u>	
	<u>2010</u>	<u>2009</u>
<u>Financial assets at FVTPL</u>		
Financial assets held for trading	\$ 39,369	\$ 50,215
Financial assets designated as at FVTPL	<u>30,316</u>	<u>2,997</u>
	<u>\$ 69,685</u>	<u>\$ 53,212</u>
<u>Financial liabilities at FVTPL</u>		
Financial liabilities held for trading	<u>\$ 1,776</u>	<u>\$ 10,233</u>

Financial instruments held for trading consisted of the following:

	<u>September 30</u>	
	<u>2010</u>	<u>2009</u>
Financial assets held for trading		
Currency-swap contracts	\$ 30,683	\$ 39,803
Forward exchange contracts	<u>8,686</u>	<u>10,412</u>
	<u>\$ 39,369</u>	<u>\$ 50,215</u>
Financial liabilities held for trading		
Forward exchange contracts	<u>\$ 1,776</u>	<u>\$ 10,233</u>

The Corporation entered into derivative transactions in the nine months ended September 30, 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 September 30, 2010 and 2009 were as follows:

<b>Contract</b>	<b>Currency</b>	<b>Contract Expiry Date</b>	<b>Contract Amount (In Thousands)</b>
<u>September 30, 2010</u>			
Sell forward exchange contracts	US\$ to NT\$	2010.10.18-2010.10.19	US\$ 11,000
Sell forward exchange contracts	US\$ to JPY	2010.10.06-2010.11.10	US\$ 5,000
Buy forward exchange contracts	NT\$ to US\$	2010.10.15-2010.12.31	US\$ 5,000
<u>September 30, 2009</u>			
Sell forward exchange contracts	US\$ to JPY	2009.10.07-2009.11.25	US\$ 4,100
Sell forward exchange contracts	US\$ to NT\$	2009.10.30-2009.12.21	US\$ 13,000
Buy forward exchange contracts	NT\$ to US\$	2009.10.08-2009.12.21	US\$ 24,000

b. Outstanding currency-swap contracts as of September 30, 2010 and 2009 were as follows:

	<b>Currency</b>	<b>Contract Expiry Date</b>	<b>Contract Amount (In Thousands)</b>
<u>September 30, 2010</u>			
Sell forward exchange contracts	US\$ to NT\$	2010.10.07-2010.11.24	US\$ 77,500
<u>September 30, 2009</u>			
Sell forward exchange contracts	US\$ to NT\$	2009.10.07-2009.11.24	US\$ 79,000

The net gains on financial instruments for trading were \$49,914 thousand and \$67,360 thousand, respectively, in the nine months ended September 30, 2010 and 2009.



Financial instruments designated as at FVTPL were as follows:

	<u>September 30</u>	
	<u>2010</u>	<u>2009</u>
<u>Financial assets designated as at FVTPL</u>		
Credit Linked Notes	\$ 30,316	\$ -
Convertible bonds	<u>-</u>	<u>2,997</u>
	<u>\$ 30,316</u>	<u>\$ 2,997</u>

Net gains on financial assets designated as at FVTPL for the nine months ended September 30, 2010 and 2009 were NT\$497 thousand and NT\$7 thousand, respectively.

## 6. AVAILABLE-FOR-SALE FINANCIAL ASSETS - CURRENT

	<u>September 30</u>	
	<u>2010</u>	<u>2009</u>
Listed stocks - Chipbond Technology Corporation	\$ 194,492	\$ -
Listed stocks - Walton Advanced Engineering, Inc.	43,947	361,618
Funds - PIMCO GIS TOTAL RETURN BOND CL A (US\$1,053 thousand in 2010)	32,985	-
Listed stocks - Advanced Analogic Technologies, Inc. (US\$64 thousand in 2010 and US\$73 thousand in 2009)	2,016	2,344
Listed stocks - International Semiconductor Technology Ltd. ("IST")	<u>-</u>	<u>78,769</u>
	273,440	442,731
Less: Financial assets classified as noncurrent assets	<u>(194,492)</u>	<u>(78,769)</u>
	<u>\$ 78,948</u>	<u>\$ 363,962</u>

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 was exchanged into 4,052 thousand of Chipbond Technology Corporation.

## 7. DERIVATIVE FINANCIAL INSTRUMENTS FOR HEDGING

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

	<u>September 30</u>	
	<u>2010</u>	<u>2009</u>
<u>Derivative financial assets for hedging</u>		
Current		
Currency- swap contracts	\$ 13,124	\$ -
Forward exchange contracts	<u>7,720</u>	<u>29,712</u>
	<u>\$ 20,844</u>	<u>\$ 29,712</u>

(Continued)

	<u>September 30</u>	
	<u>2010</u>	<u>2009</u>
<u>Derivative financial liabilities for hedging</u>		
Current		
Currency- swap contracts	\$ 3,583	\$ -
Forward exchange contracts	<u>1,830</u>	<u>3,899</u>
	<u>\$ 5,413</u>	<u>\$ 3,899</u> (Concluded)

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 and currency-swap contracts as a major financial instrument for cash flow hedge and fair value hedge.

In the nine months ended September 30, 2010 and 2009, the Corporation used forward exchange contracts and currency-swap contracts to hedge risks on exchange rate fluctuations of expected sales and foreign-currency denominated accounts receivable.

The outstanding forward contracts in the nine months ended September 30, 2010 and 2009 were as follows:

	<b>Currency</b>	<b>Maturity Date</b>	<b>Contract Amount (In Thousands)</b>
<u>September 30, 2010</u>			
Sell forward exchange contracts	US\$ to NT\$	2010.10.19	US\$ 10,000
<u>September 30, 2009</u>			
Sell forward exchange contracts	US\$ to NT\$	2009.10.16-2009.12.30	US\$ 57,000

The outstanding currency-swap contracts in the nine months ended September 30, 2010 was as follows:

	<b>Currency</b>	<b>Maturity Date</b>	<b>Contract Amount (In Thousands)</b>
<u>September 30, 2010</u>			
Sell forward exchange contracts	US\$ to NT\$	2010.11.16-2010.12.17	US\$ 24,000

The realized net loss on derivative financial instruments used for cash flow hedging in the nine months ended September 30, 2010 and 2009 were \$10,666 thousand and \$5,873 thousand, respectively, which were recognized in sales. The net gain on derivative financial instruments used for fair value hedging were \$207 thousand and \$4,958 thousand, respectively, for the nine months ended September 30, 2010 and 2009 which were recognized in nonoperating income.

## 8. INVENTORIES

	<b>September 30</b>	
	<b>2010</b>	<b>2009</b>
Finished goods	\$ 95,724	\$ 28,567
Work in process	882,636	957,474
Raw materials	287,492	148,789
Supplies and spare parts	<u>253,398</u>	<u>287,162</u>
	<u>\$ 1,519,250</u>	<u>\$ 1,421,992</u>

Allowance for inventory losses were \$207,210 thousand and \$221,430 thousand on September 30, 2010 and 2009, respectively.

The cost of inventories recognized as cost of goods sold during the nine months ended September 30, 2010 and 2009 were NT\$9,779,827 thousand and NT\$8,572,949 thousand. The cost of inventories recognized as cost of goods sold in the nine months ended September 30, 2010 included NT\$48,098 thousand, in respect of the reversal of write-downs of inventories. The aforementioned write-downs had been reversed as a result of increased sales prices in certain markets. The cost of inventories recognized as cost of goods sold in the nine months ended September 30, 2009 included NT\$178,906 thousand, in respect of write-downs of inventories.

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

	<b>September 30</b>			
	<b>2010</b>		<b>2009</b>	
	<b>Carrying Value</b>	<b>% of Ownership</b>	<b>Carrying Value</b>	<b>% of Ownership</b>
Unlisted stocks				
CMSC, Inc.	\$ 81,118	25	\$ 85,539	25
SkyTraq Technology, Inc.	22,473	28	24,761	28
Linear Atrwork, Inc.	19,489	27	28,442	27
INNO-TECH Co., Ltd.	15,214	40	27,701	40
LayerWalker Technology, Inc.	<u>10,117</u>	27	<u>16,476</u>	27
	<u>\$ 148,411</u>		<u>\$ 182,919</u>	

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

	<b>Nine Months Ended September 30</b>	
	<b>2010</b>	<b>2009</b>
INNO-TECH Co., Ltd.	\$ (9,645)	\$ (10,717)
Linear Atrwork, Inc.	(6,265)	(2,873)
LayerWalker Technology, Inc.	(4,380)	(3,844)
CMSC, Inc.	(3,344)	(9,623)
SkyTraq Technology, Inc.	<u>(128)</u>	<u>(2,902)</u>
	<u>\$ (23,762)</u>	<u>\$ (29,959)</u>

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 nine months ended September 30, 2010 and 2009. The Group believes that, had those investee's financial statements been reviewed, any adjustments arising would have had no material effect on the Group's financial statements.

## 10. FINANCIAL ASSETS CARRIED AT COST - NONCURRENT

	<u>September 30</u>	
	<u>2010</u>	<u>2009</u>
Unlisted stocks		
United Industrial Gases Co., Ltd.	\$ 38,716	\$ 38,716
Goyatek Technology Inc.	13,878	14,263
Uniband Electronic Corp.	6,269	6,443
Champion Mircoelectronic Corp.	5,750	-
Silicon Valley Equity Fund II	<u>-</u>	<u>10,142</u>
	<u>\$ 64,613</u>	<u>\$ 69,564</u>

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 nine months ended September 30, 2009, the Group revalued the recoverable amount of the Silicon Valley Equity Fund II and recognized impairment loss of financial assets amounting to \$12,931 thousand, which were presented under nonoperating expenses and losses.

## 11. PROPERTIES

	<u>Nine Months Ended September 30, 2010</u>				<u>Total</u>
	<u>Buildings</u>	<u>Machinery and Equipment</u>	<u>Other Equipment</u>	<u>Prepayments and Construction in Progress</u>	
<u>Cost</u>					
Balance, beginning of period	\$ 12,093,261	\$ 46,315,281	\$ 336,142	\$ 65,418	\$ 58,810,102
Additions	90,279	1,087,472	15,086	739,943	1,932,780
Reclassification	220,457	(311,089)	-	-	(90,632)
Disposal	(7,744)	(78,039)	(4,147)	-	(89,930)
Cumulative translation adjustments	<u>-</u>	<u>-</u>	<u>(42)</u>	<u>-</u>	<u>(42)</u>
Balance, end of period	<u>\$ 12,396,253</u>	<u>\$ 47,013,625</u>	<u>\$ 347,039</u>	<u>\$ 805,361</u>	<u>\$ 60,562,278</u>
	<u>Buildings</u>	<u>Machinery and Equipment</u>	<u>Other Equipment</u>	<u>Total</u>	
<u>Accumulated depreciation</u>					
Balance, beginning of period		\$ 8,381,980	\$ 39,918,421	\$ 243,662	\$ 48,544,063
Depreciation		351,376	1,723,937	29,973	2,105,286
Reclassification		42,604	(165,914)	-	(123,310)
Disposal		(44)	(77,547)	(4,140)	(81,731)
Cumulative translation adjustments		<u>-</u>	<u>-</u>	<u>(40)</u>	<u>(40)</u>
Balance, end of period		<u>\$ 8,775,916</u>	<u>\$ 41,398,897</u>	<u>\$ 269,455</u>	<u>\$ 50,444,268</u>

**Nine Months Ended September 30, 2009**

	<b>Buildings</b>	<b>Machinery and Equipment</b>	<b>Other Equipment</b>	<b>Prepayments and Construction in Progress</b>	<b>Total</b>
<u>Cost</u>					
Balance, beginning of period	\$ 11,935,877	\$ 46,212,274	\$ 351,761	\$ 323,613	\$ 58,823,525
Additions (deductions)	149,698	329,328	7,532	(229,921)	256,637
Disposal	(2,189)	(10,517)	(2,286)	-	(14,992)
Cumulative translation adjustments	-	-	(70)	-	(70)
Balance, end of period	<u>\$ 12,083,386</u>	<u>\$ 46,531,085</u>	<u>\$ 356,937</u>	<u>\$ 93,692</u>	<u>\$ 59,065,100</u>

**Nine Months Ended September 30, 2009**

	<b>Buildings</b>	<b>Machinery and Equipment</b>	<b>Other Equipment</b>	<b>Total</b>
<u>Accumulated depreciation</u>				
Balance, beginning of period		\$ 7,892,953	\$ 37,165,227	\$ 45,274,997
Depreciation		368,138	2,207,472	2,612,580
Disposal		(2,189)	(4,612)	(9,074)
Cumulative translation adjustments		-	(55)	(55)
Balance, end of period		<u>\$ 8,258,902</u>	<u>\$ 39,368,087</u>	<u>\$ 47,878,448</u>

**12. ASSETS LEASED TO OTHERS, NET**

**Nine Months Ended September 30**  
**2010**                      **2009**

Buildings

Cost

Balance, beginning of period	\$ 1,257,618	\$ 1,257,618
Additions	4,000	-
Reclassification	(220,457)	-
Balance, end of period	<u>1,041,161</u>	<u>1,257,618</u>
<u>Accumulated depreciation</u>		
Balance, beginning of period	183,794	91,897
Depreciation	59,522	68,923
Reclassification	(42,604)	-
Balance, end of period	<u>200,712</u>	<u>160,820</u>
Net balance	<u>\$ 840,449</u>	<u>\$ 1,096,798</u>

The Corporation leased several floors of the plant to companies as below:

Company Name	Lease Terms	Next Quarter's Rental
Taiwan Semiconductor Manufacturing Company Ltd.	2010.01.01-2010.12.31, automatically renew for consecutive one year 2010.07.20-2011.07.19	\$ 2,273 5,185
Integrated Service Technology, Inc.	2010.04.01-2015.03.31	1,030
Standard Technology Service , Inc.	2010.05.01-2015.04.30	<u>2,397</u>
		<u>\$ 10,885</u>

### 13. IDLE ASSETS

In August 2010, the Corporation transferred equipment with cost NT\$311,089 thousand and accumulated depreciation of NT\$165,914 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\$85,175 thousand.

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.

### 14. DEFERRED CHARGES, NET

Software design costs

	<u>Nine Months Ended September 30</u>	
	<u>2010</u>	<u>2009</u>
<u>Cost</u>		
Balance, beginning of period	\$ 701,694	\$ 770,123
Additions	8,712	7,188
Disposal	-	(715)
Cumulative translation adjustments	-	(12)
Balance, end of period	<u>710,406</u>	<u>776,584</u>
<u>Accumulated amortization</u>		
Balance, beginning of period	656,553	693,359
Amortization	24,643	30,685
Disposal	-	(715)
Cumulative translation adjustments	-	(2)
Balance, end of period	<u>681,196</u>	<u>723,327</u>
Net balance	<u>\$ 29,210</u>	<u>\$ 53,257</u>

## 15. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	<b>September 30</b>	
	<b>2010</b>	<b>2009</b>
Royalty	\$ 7,993	\$ 503,841
Bonus	298,828	200,220
Others	<u>778,885</u>	<u>629,612</u>
	<u>\$ 1,085,706</u>	<u>\$ 1,333,673</u>
	<b>Royalty</b>	<b>Bonus</b>
January 1, 2010	\$ 4,048	\$ 274,782
Add: Reversal of payables to related parties	50,325	-
Accrual	224,801	267,344
Reduce: Payable	(204,307)	(243,298)
Classification as payables to related parties	<u>(66,874)</u>	<u>-</u>
September 30, 2010	<u>\$ 7,993</u>	<u>\$ 298,828</u>
January 1, 2009	\$ 486,962	\$ 290,979
Add: Reversal of payables to related parties	36,732	-
Accrual	230,824	190,185
Reduce: Payable	(163,923)	(280,944)
Classification as payables to related parties	<u>(86,754)</u>	<u>-</u>
September 30, 2009	<u>\$ 503,841</u>	<u>\$ 200,220</u>

## 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% 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\$245,915 thousand and NT\$14,775 thousand for the nine months ended September 30, 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 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.

The appropriation of earnings for 2009 and 2008 were approved in the shareholders' meetings held on June 18, 2010 and June 10, 2009, respectively. The appropriations and dividends per share were as follows:

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

The approved amounts of the bonus to employees and the remuneration to directors and supervisors were consistent with the accrual amounts reflected in the financial statements for the years ended December 31, 2009 and 2008, respectively.

The bonus to employees and the remuneration to directors and supervisors for 2009 and 2008 approved in the shareholders' meetings on June 18, 2010 and June 10, 2009, respectively, were as follows:

	<b>Years Ended December 31</b>			
	<b>2009</b>		<b>2008</b>	
	<b>Cash</b>	<b>Stock</b>	<b>Cash</b>	<b>Stock</b>
Bonus to employees	\$ 13,386	\$ -	\$ 140,662	\$ -
Remuneration to directors and supervisors	3,574	-	9,378	-



The appropriation of earnings for 2009 and 2008 were consistent with the amounts approved by the Board of Directors' meetings held on February 5, 2010 and February 20, 2009, respectively.

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

### Unrealized Gain or Loss on Financial Instruments

For the nine months ended September 30, 2010 and 2009, movements of unrealized gain or loss on financial instruments were as follows:

	Available- for-sale Financial Assets	Unrealized Gain (Loss) on Cash Flow Hedge	Total
<u>Nine months ended September 30, 2010</u>			
Balance, beginning of period	\$ 79,262	\$ 681	\$ 79,943
Recognized in shareholders' equity	79,348	(12,078)	67,270
Transferred to profit or loss	<u>(59,141)</u>	<u>10,666</u>	<u>(48,475)</u>
Balance, end of period	<u>\$ 99,469</u>	<u>\$ (731)</u>	<u>\$ 98,738</u>
<u>Nine months ended September 30, 2009</u>			
Balance, beginning of period	\$ (238,833)	\$ -	\$ (238,833)
Recognized in shareholders' equity	259,217	(6,863)	252,354
Transferred to profit or loss	<u>-</u>	<u>5,873</u>	<u>5,873</u>
Balance, end of period	<u>\$ 20,384</u>	<u>\$ (990)</u>	<u>\$ 19,394</u>

### Translation adjustment

For the nine months ended September 30, 2010 and 2009, movements of translation adjustment were as follows:

	Foreign Currency Exchange Valuation Difference
<u>Nine months ended September 30, 2010</u>	
Balance, beginning of period	\$ (44,060)
Recognized in shareholders' equity	<u>(5,023)</u>
Balance, end of period	<u>\$ (49,083)</u>
<u>Nine months ended September 30, 2009</u>	
Balance, beginning of period	\$ (38,251)
Recognized in shareholders' equity	<u>(4,769)</u>
Balance, end of period	<u>\$ (43,020)</u>

## 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 (hereinafter referred to as the “2001 Plan”, “2002 Plan”, and “2003 Plan”). The 2001 Plan consisted of 16,000 thousand units. Together, the 2002 Plan and 2003 Plan consisted of 140,000 thousand units. These options generally vest at a certain percentage from two years after the date of grant and the options granted are valid for 10 years. Other information on the stock option rights plan is as follows:

	<u>2003 Plan</u>		<u>2002 Plan</u>		<u>2001 Plan</u>	
	<b>Number of Outstanding Stock Option Rights (In Thousands)</b>	<b>Weighted -average Exercise Price (NT\$)</b>	<b>Number of Outstanding Stock Option Rights (In Thousands)</b>	<b>Weighted -average Exercise Price (NT\$)</b>	<b>Number of Outstanding Stock Option Rights (In Thousands)</b>	<b>Weighted -average Exercise Price (NT\$)</b>
<u>Nine months ended September 30, 2010</u>						
Beginning balance	31,618	\$ 17.12	8,711	\$ 12.40	3,429	\$ 16.23
Options exercised	(30)	13.60	(760)	12.40	(111)	13.00
Options cancelled	<u>(712)</u>	16.58	<u>-</u>	-	<u>(16)</u>	17.16
Ending balance	<u>30,876</u>	16.63	<u>7,951</u>	12.00	<u>3,302</u>	15.86
<u>Nine months ended September 30, 2009</u>						
Beginning balance	32,836	\$ 17.62	9,557	\$ 12.80	3,611	\$ 16.70
Options exercised	-	-	(242)	12.40	-	-
Options cancelled	<u>(231)</u>	16.59	<u>(41)</u>	12.40	<u>(36)</u>	17.05
Ending balance	<u>32,605</u>	17.12	<u>9,274</u>	12.40	<u>3,575</u>	16.22

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.

The outstanding stock options as of September 30, 2010 and 2009 were as follows:

<b>Range of exercise Price (NT\$)</b>	<u>Options Outstanding</u>			<u>Options Exercisable</u>	
	<b>Number Outstanding (In Thousands)</b>	<b>Expected Remaining Contractual Life (In Years)</b>	<b>Weighted -average Exercise Price (NT\$)</b>	<b>Number Outstanding (In Thousands)</b>	<b>Weighted -average Exercise Price (NT\$)</b>
<u>2003 plan</u>					
\$13.2-\$17.6	<u>30,876</u>	3.16-3.97	\$ 16.63	<u>30,876</u>	\$ 16.63
<u>2002 plan</u>					
\$12.0	<u>7,951</u>	1.98	12.00	<u>7,951</u>	12.00
<u>2001 plan</u>					
\$12.6-\$17.0	<u>3,302</u>	0.65-1.35	15.86	<u>3,302</u>	15.86

## 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
<u>Nine months ended September 30, 2010</u>				
To maintain the Corporation's credibility and shareholders' interest	<u>-</u>	<u>25,941</u>	<u>16,745</u>	<u>9,196</u>
<u>Nine months ended September 30, 2009</u>				
To maintain the Corporation's credibility and shareholders' interest	<u>18,000</u>	<u>-</u>	<u>18,000</u>	<u>-</u>

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.

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 20,000 thousand shares from the GreTai Securities Market during the period from June 7, 2010 to August 6, 2010 with buyback prices in the range from NT\$9.5 to NT\$20. As of August 6, 2010, the Corporation had repurchased 16,745 thousand common shares. All the treasury stock repurchased were retired on September 3, 2010.

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 20,000 thousand shares from the GreTai Securities Market during the period from August 16, 2010 to October 15, 2010 with buyback prices in the range from NT\$10.3 to NT\$20. As of September 30, 2010, the Corporation had repurchased 9,196 thousand common shares. The book value and market value of the treasury stock were NT\$120,165 thousand and NT\$125,985 thousand, respectively.

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. CONSOLIDATED EARNINGS PER SHARE

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

	<u>Amounts (Numerator)</u>		<u>Shares (Denominator) (Thousands)</u>	<u>Consolidated EPS (NT\$)</u>	
	<u>Before Income Tax</u>	<u>After Income Tax</u>		<u>Before Income Tax</u>	<u>After Income Tax</u>
<u>Nine months ended September 30, 2010</u>					
Net consolidated income	<u>\$ 1,816,121</u>	<u>\$ 1,639,886</u>			
Basic Consolidated EPS					
Consolidated net income of common shareholders of the parent	\$ 1,816,121	\$ 1,639,886	1,672,637	<u>\$ 1.09</u>	<u>\$ 0.98</u>
Effect of dilutive securities					
Employee Stock option rights	-	-	1,153		
Bonus to employees	<u>-</u>	<u>-</u>	<u>19,120</u>		
Diluted Consolidated EPS					
Consolidated net income of common and potential common shareholders of the parent	<u>\$ 1,816,121</u>	<u>\$ 1,639,886</u>	<u>1,692,910</u>	<u>\$ 1.07</u>	<u>\$ 0.97</u>
<u>Nine months ended September 30, 2009</u>					
Net consolidated income	<u>\$ 1,981</u>	<u>\$ 1,893</u>			
Basic Consolidated EPS					
Consolidated net income of common shareholders of the parent	\$ 1,981	\$ 1,893	1,677,526	<u>\$ 0.00</u>	<u>\$ 0.00</u>
Effect of dilutive securities					
Bonus to employees	<u>-</u>	<u>-</u>	<u>6,543</u>		
Diluted Consolidated EPS					
Consolidated net income of common and potential common shareholders of the parent	<u>\$ 1,981</u>	<u>\$ 1,893</u>	<u>1,684,069</u>	<u>\$ 0.00</u>	<u>\$ 0.00</u>

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 nine months ended September 30, 2009 in the calculation of diluted consolidated earnings per share for the employee stock option plans.

## 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\$90,685 thousand and NT\$78,129 thousand for the nine months ended September 30, 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\$13,565 thousand and NT\$13,169 thousand for the nine months ended September 30, 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 cost were NT\$772 thousand and NT\$1,477 thousand for the nine months ended September 30, 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:

	<b><u>Nine Months Ended September 30</u></b>	
	<b>2010</b>	<b>2009</b>
<b><u>Pension fund</u></b>		
Balance, beginning of period	\$ 272,148	\$ 259,662
Contributions	11,115	11,371
Interest	4,377	5,888
Disbursement	<u>(1,116)</u>	<u>(8,426)</u>
Balance, end of period	<u>\$ 286,524</u>	<u>\$ 268,495</u>
<b><u>Accrued pension costs</u></b>		
Balance, beginning of period	\$ 475,180	\$ 468,272
Add: Recorded under accrued expenses and other current liabilities, beginning of period	1,214	1,356
Provisions	13,565	13,169
Contributions	(11,115)	(11,371)
Deducted: Recorded under accrued expenses and other current liabilities, end of period	<u>(1,135)</u>	<u>(1,219)</u>
Balance, end of period	<u>\$ 477,709</u>	<u>\$ 470,207</u>

## 20. INCOME TAX EXPENSE

a. Income tax expense consists of:

	<b>Nine Months Ended September 30</b>	
	<b>2010</b>	<b>2009</b>
Current income tax expense before income tax credits		
Domestic	\$ 111,472	\$ -
Overseas	<u>(200)</u>	<u>1,678</u>
	111,272	1,678
Net change in deferred income tax assets		
Investment tax credits	68,806	(334,425)
Operating loss carryforwards	37,821	(178,125)
Temporary differences	241,755	20,835
Valuation allowance	(289,853)	411,611
Adjustments for prior years' tax	6,020	78,585
Others	<u>414</u>	<u>(72)</u>
Income tax expense	<u>\$ 176,235</u>	<u>\$ 88</u>

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

	<b>Nine Months Ended September 30</b>	
	<b>2010</b>	<b>2009</b>
Current		
Investment tax credits	\$ 117,694	\$ 343,626
Operating loss carryforwards	24,936	-
Loss on inventory valuation and obsolescence	50,292	79,312
Other	<u>18,068</u>	<u>26,821</u>
	210,990	449,759
Valuation allowance	<u>(101,453)</u>	<u>(413,930)</u>
	<u>\$ 109,537</u>	<u>\$ 35,829</u>
Noncurrent		
Investment tax credits	\$ 645,668	\$ 687,397
Operating loss carryforwards	135,516	208,153
Depreciation and amortization	18,741	169,155
Accrued pension cost	81,211	117,552
Other	<u>-</u>	<u>(212)</u>
	881,136	1,182,045
Valuation allowance	<u>(880,431)</u>	<u>(1,067,031)</u>
	<u>\$ 705</u>	<u>\$ 115,014</u>

c. During the nine months ended September 30, 2010 and 2009, the Legislative Yuan passed the following amendments to tax laws:

- 1) In January 2009, the Article 39 of the Income Tax Law was amended to extend the operating loss carryforward period from 5 years to 10 years.
- 2) In May 2009 and 2010, the Article 5 of the Income Tax Law was amended, in which a profit-seeking enterprise's income tax rate would be reduced from 25% to 20% and from 20% to 17%, respectively. The last amendment is retroactively applied on January 1, 2010.

- 3) Under Article 10 of the Statute for Industrial Innovation (SII) legislated and effective by the Legislative Yuan in April 2010, a profit-seeking enterprise may deduct up to 15% of its research and development expenditures from its income tax payable for the fiscal year in which these expenditures are incurred, but this deduction should not exceed 30% of the income tax payable for that fiscal year. This incentive is retroactive to January 1, 2010 and is effective until December 31, 2019.
- d. The balances of the imputation credit account as of September 30, 2010 and 2009 were \$28,587 thousand and \$43,308 thousand, respectively.

The actual creditable ratio for distributing the earnings of 2009 and 2008 were 8.57% and 6.52%, respectively.

- e. The unappropriated retained earnings as of September 30, 2010 and 2009 did not contain the unappropriated earnings generated on and before January 1, 1998.
- f. As of September 30, 2010, the operating loss carryforwards and tax credits were as follows:

The Corporation

<b>Regulatory Basis of Tax Credits</b>	<b>Item</b>	<b>Total Creditable Amounts</b>	<b>Remaining Creditable Amounts</b>	<b>Expiry Year</b>
Income Tax Law	Operating loss carryforwards	\$ 132,991	\$ 132,991	2013
Statute for Upgrading Industries	Purchase of machinery and equipment	\$ 40,513	\$ -	2010
		102,867	102,867	2011
		78,189	78,189	2012
		2,595	2,595	2013
		<u>7,278</u>	<u>7,278</u>	2014
		<u>\$ 231,442</u>	<u>\$ 190,929</u>	
Statute for Upgrading Industries	Research and development expenditures	\$ 67,681	\$ 37,819	2010
		132,980	132,980	2011
		239,390	239,390	2012
		<u>149,837</u>	<u>149,837</u>	2013
		<u>\$ 589,888</u>	<u>\$ 560,026</u>	
Statute for Upgrading Industries	Personnel training expenditures	\$ 1,567	\$ -	2010
		2,606	2,606	2011
		789	789	2012
		<u>466</u>	<u>466</u>	2013
		<u>\$ 5,428</u>	<u>\$ 3,861</u>	
Statute for Upgrading Industries	Investments in important technology - based enterprises	\$ 6,428	\$ -	2010
		<u>8,546</u>	<u>8,546</u>	2011
		<u>\$ 14,974</u>	<u>\$ 8,546</u>	

As of September 30, 2010, the operating loss carryforwards of VIS Holding were as follows:

Expiry Year	Remaining Creditable Amount
2020	\$ 26,991
2021	305
2027	<u>165</u>
	<u>\$ 27,461</u>

Income tax returns of the Corporation through 2008 had been examined and cleared by the tax authorities.

## 21. LABOR COST, DEPRECIATION AND AMORTIZATION EXPENSE

	Nine Months Ended September 30					
	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	\$ 2,038,674	\$ 511,480	\$ 2,550,154	\$ 1,399,918	\$ 341,335	\$ 1,741,253
Labor/health insurance	113,858	30,602	144,460	100,395	25,327	125,722
Pension	83,290	21,732	105,022	74,104	18,671	92,775
Others	<u>57,948</u>	<u>17,110</u>	<u>75,058</u>	<u>38,227</u>	<u>11,536</u>	<u>49,763</u>
	<u>\$ 2,293,770</u>	<u>\$ 580,924</u>	<u>\$ 2,874,694</u>	<u>\$ 1,612,644</u>	<u>\$ 396,869</u>	<u>\$ 2,009,513</u>
Depreciation	<u>\$ 2,033,536</u>	<u>\$ 71,750</u>	<u>\$ 2,105,286</u>	<u>\$ 2,542,117</u>	<u>\$ 70,463</u>	<u>\$ 2,612,580</u>
Amortization	<u>\$ 13,368</u>	<u>\$ 11,275</u>	<u>\$ 24,643</u>	<u>\$ 14,241</u>	<u>\$ 16,444</u>	<u>\$ 30,685</u>

## 22. RELATED-PARTY TRANSACTIONS

The Group's related parties were as follows:

- a. Taiwan Semiconductor Manufacturing Company Ltd. (TSMC): A major shareholder of the Corporation.
- b. CMSC, Inc. (CMSC): Equity-method investee of the Corporation.
- c. Goyatek Technology Inc. (Goya): An indirect subsidiary of the Corporation is its director.
- d. TSMC-China: It's parent company is a major shareholder of the Corporation.
- e. Global Unichip Corporation (GUC): Related party in substance.
- f. INNO-TECH Co. Ltd. (INNO): An equity method investee of one of the Corporation's Indirect subsidiary.
- g. CPSI Management Inc.: Specialty TechFarm and CPSI Management Inc. have the same chairman.
- h. Others - related parties over which the Corporation has substantial influence but without any transactions (Note 27).



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

	<b>2010</b>		<b>2009</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
<u>For the period</u>				
Sales				
TSMC	\$ 3,622,822	29	\$ 2,351,708	25
Goya	63,335	1	45,532	-
GUC	20,819	-	12,750	-
CMSC	3,480	-	4,353	-
INNO	578	-	948	-
	<u>\$ 3,711,034</u>	<u>30</u>	<u>\$ 2,415,291</u>	<u>25</u>
Purchase				
TSMC	\$ 55,589	1	\$ 5,754	-
TSMC-China	-	-	32	-
	<u>\$ 55,589</u>	<u>1</u>	<u>\$ 5,786</u>	<u>-</u>
Manufacturing expenses				
TSMC	\$ 378,721	4	\$ 323,016	4
Manufacturing expenses				
CPSI Management Inc.	\$ 800	-	\$ 3,750	1
Marketing expenses				
TSMC	\$ 3,736	4	\$ 1,001	1
Research and development expenses				
TSMC	\$ 1,207	-	\$ 16,344	3
Gain on disposal of properties				
TSMC	\$ 15,995	47	\$ -	-
Rental revenues				
TSMC	\$ 10,853	35	\$ -	-
Nonoperating income and gains				
TSMC	\$ 19,195	35	\$ 21,625	32
Goya	-	-	44	-
CMSC	-	-	33	-
	<u>\$ 19,195</u>	<u>35</u>	<u>\$ 21,702</u>	<u>32</u>
Purchase of properties				
TSMC	\$ 36,138	2	\$ -	-
Disposal of properties				
TSMC	\$ 23,695	56	\$ -	-

	<b>2010</b>		<b>2009</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
<u>At end of period</u>				
Receivables				
TSMC	\$ 1,107,604	98	\$ 736,013	98
Goya	12,702	1	10,071	1
GUC	4,584	1	4,035	1
CMSC	714	-	1,486	-
INNO	<u>251</u>	<u>-</u>	<u>483</u>	<u>-</u>
	<u>\$ 1,125,855</u>	<u>100</u>	<u>\$ 752,088</u>	<u>100</u>
Other receivables				
TSMC	\$ 15,061	97	\$ 22,392	97
Goya	<u>496</u>	<u>3</u>	<u>765</u>	<u>3</u>
	<u>\$ 15,557</u>	<u>100</u>	<u>\$ 23,157</u>	<u>100</u>
Payables				
TSMC	<u>\$ 25,873</u>	<u>100</u>	<u>\$ 23</u>	<u>100</u>
Other payables				
TSMC	\$ 123,246	100	\$ 136,749	100
GUC	<u>128</u>	<u>-</u>	<u>138</u>	<u>-</u>
	<u>\$ 123,374</u>	<u>100</u>	<u>\$ 136,887</u>	<u>100</u>
Rental in advance (presented under accrued expenses and other current liabilities)				
TSMC	<u>\$ 2,273</u>	<u>-</u>	<u>\$ -</u>	<u>-</u>
Guarantee deposits				
TSMC	\$ 2,273	13	\$ -	-
Goya	<u>2,000</u>	<u>12</u>	<u>6,000</u>	<u>20</u>
	<u>\$ 4,273</u>	<u>25</u>	<u>\$ 6,000</u>	<u>20</u>

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, research and development expenses, there were no similar transactions in the market; thus, transaction terms were based on related contracts.

The Corporation leased certain office space to TSMC. The lease terms and prices were determined in accordance with mutual agreements. The rental revenues was paid in advance by TSMC.

The purchase of machinery and equipment from TSMC were negotiated by both parties.

Goya's guarantee deposits was primary for sales; TSMC's guarantee deposits was primary for lease.

### 23. 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:

	<u>Nine Months Ended September 30</u>	
	<u>2010</u>	<u>2009</u>
Pledged time deposits	<u>\$ 165,300</u>	<u>\$ 84,100</u>

### 24. 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 2029. Annual rentals aggregate \$78,425 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:

<b>Year</b>	<b>Amount</b>
2010 (4 <sup>th</sup> quarter)	\$ 19,527
2011	78,109
2012	78,109
2013	77,029
2014	76,669
2015to 2029	<u>827,248</u>
	<u>\$ 1,156,691</u>

### 25. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

The significant commitments and contingencies of the Group as of September 30, 2010 were as follows:

- a. The Corporation entered into a “Manufacturing, License, and Technology Transfer Agreement” with Taiwan Semiconductor Manufacturing Company Ltd. beginning January 1<sup>st</sup>, 2004, to pay fees according to the net sales of certain products.
- b. Under a “Wafer Production Agreement” with Winbond Electronics Corporation, the Corporation offers wafer foundry services to Winbond Electronics Corporation for a period of four years beginning January 1<sup>st</sup>, 2008.
- c. In June 2010, Keranos, LLC filed a patent infringement complaint in the Eastern District Court of Texas against the VIS Micro, Inc., a wholly owned entity of VIS Holding, and 48 other companies. The complaint is under court process and a motion to dismiss was filed. The litigation is expected unlikely to have material impact on VIS Micro, Inc.’s operations or financial condition.
- d. As of September 30, 2010, unused letters of credit aggregated about JPY152,579 thousand.

## 26. FINANCIAL INSTRUMENTS

a. Fair values of financial instruments were as follows:

	September 30			
	2010		2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<u>Assets</u>				
Financial assets at fair value through profit or loss - current	\$ 69,685	\$ 69,685	\$ 53,212	\$ 53,212
Available-for-sale financial assets - current	78,948	78,948	363,962	363,962
Derivative financial assets for hedging - current	20,844	20,844	29,712	29,712
Available-for-sale financial assets - noncurrent	194,492	194,492	78,769	78,769
Financial assets carried at cost - noncurrent	64,613	-	69,564	-
<u>Liabilities</u>				
Financial assets at fair value through profit or loss - current	1,776	1,776	10,233	10,233
Derivative financial liabilities for hedging - current	5,413	5,413	3,899	3,899

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

- 1) The aforementioned financial instruments do not include cash and cash equivalents, receivables, other financial assets, refundable deposits, payables and guarantee deposits. The carrying amounts of these financial instruments approximate their fair values due to their short maturities.
- 2) Fair values of available-for-sale 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 contracts 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:

	Quoted Market Prices		Valuation Techniques	
	September 30		September 30	
	2010	2009	2010	2009
<u>Assets</u>				
Financial assets at fair value through profit or loss - current	\$ -	\$ -	\$ 69,685	\$ 53,212
Available-for-sale financial assets - current	78,948	363,962	-	-
Derivative financial assets for hedging - current	-	-	20,844	29,712
Available-for-sale financial assets - noncurrent	194,492	78,769	-	-
<u>Liabilities</u>				
Financial assets at fair value through profit or loss - current	-	-	1,776	10,233
Derivative financial liabilities for hedging - current	-	-	5,413	3,899

- d. Net gain recognized for the changes in fair value of derivatives estimated using valuation techniques were \$68,731 thousand and \$96,240 thousand for the nine months ended September 30, 2010 and 2009, respectively.
- e. As of September 30, 2010 and 2009, financial assets exposed to fair value interest rate risk amounted to \$4,913,522 thousand and \$3,013,014 thousand, respectively; financial assets exposed to cash flow interest rate risk amounted to \$2,681,901 thousand and \$2,094,511 thousand, respectively.
- f. Interest revenues on financial instruments other than the financial assets or liabilities at fair value through profit or loss in the nine months ended September 30, 2010 and 2009 were \$31,654 thousand and \$29,443 thousand, respectively.
- g. Financial risk
- 1) Market risk: The derivative financial instruments are exposed to exchange rate fluctuations. If the U.S. dollar appreciated by US\$0.01, the fair value would decrease by \$1,225 thousand.
  - 2) Credit risk: Credit risk represents the loss that would be incurred by the Group if the counter-parties or third-parties breach the contracts and also refers to concentrations of credit risk; factors; principal amount; and receivables on the financial instruments. Derivative contracts with positive fair values on the balance sheet date are evaluated for credit risk. As of September 30, 2010 and 2009, such credit risk amounted to \$90,529 thousand and \$82,924 thousand, respectively. The maximum credit risks of other financial instruments hold by the Group are their book values.
  - 3) Liquidity and cash requirement: The Group has sufficient operating capital to meet cash needed to settle derivative contracts. In addition, the Group'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 September 30, 2010, the Corporation's future cash demand for the outstanding forward exchange contracts and currency- swap contracts was as follows:

As of September 30, 2010, the Corporation's future cash demand for the outstanding forward exchange contracts and currency-swap contracts was as follows:

<b>Term</b>	<b>Inflow (In Thousands)</b>	<b>Outflow (In Thousands)</b>
Within one year	NT\$ 3,888,085	US\$ 122,500
	US\$ 5,000	NT\$ 158,272
	JPY 425,384	US\$ 5,000

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 Corporation's accounts receivable as of September 30, 2010 and 2009 were significant; thus, it entered into forward exchange contracts and currency-swap contracts to hedge these exposures.

<b>Hedged Item</b>	<b>Hedging Financial Instrument</b>	<b>Fair Value as of September 30</b>	
		<b>2010</b>	<b>2009</b>
Foreign currency accounts receivable	Currency-swap contracts	\$ 10,272	\$ -
	Forward exchange contracts	5,890	26,803

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 and currency-swap contracts to hedge these exposures.

<b>Hedged Item</b>	<b>Hedging Financial Instrument</b>	<b>Fair Value as of September 30</b>	<b>Expected Timing for Future Cash Demand</b>	<b>Expected Timing for the Recognition of Gains or Losses from Hedge</b>
<u>September 30, 2010</u>				
Sales	Currency-swap contracts	\$ (731)	October 2010 – December 2010	October 2010 – December 2010
<u>September 30, 2009</u>				
Sales	Forward exchange contracts	\$ (990)	October 2009 – December 2009	October 2009 – December 2009

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

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

## VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

## MARKETABLE SECURITIES HELD

SEPTEMBER 30, 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	September 30, 2010				Note
				Shares/Units (Thousands)	Carrying Value (US\$ in Thousands)	% of Ownership	Market Value or Net Asset Value (US\$ in Thousands)	
Vanguard International	<u>Bond</u> Credit linked notes - Hon Hai Precision Industry Co., Ltd.	-	Financial assets at fair value through profit or loss - current	-	\$ 30,316	-	\$ 30,316	Note 4
	<u>Stock</u> Walton Advanced Engineering, Inc.	Investee	Available-for-sale financial assets - current	2,930	43,947	1	43,947	Note 1
	Chipbond Technology Corporation	Investee	Available-for-sale financial assets - noncurrent	4,052	194,492	1	194,492	Note 1
	VIS Associates Inc.	Subsidiary	Long-term stock investments accounted for by the equity method	6	296,676	100	296,676	Note 2
	CMSC, Inc.	Equity-method investee	Long-term stock investments accounted for by the equity method	9,902	81,118	25	81,118	Note 2
	Champion Microelectronic Corp.	Investee	Financial assets carried at cost - noncurrent	100	5,750	-	5,750	Note 3
	United Industrial Gases Co., Ltd.	Investee	Financial assets carried at cost - noncurrent	3,357	38,716	2	38,716	Note 3
VIS Associates Inc.	<u>Fund</u> PIMCO GIS TOTAL RETURN BOND FD CL A (USD)	-	Available-for-sale financial assets - current	86	US\$ 1,053	-	US\$ 1,053	Note 1
	<u>Stock</u> 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\$ 997	100	US\$ 997	Note 2
	VIS Singapore Pte. Ltd.	Subsidiary of VIS Associates Inc.	Long-term stock investments accounted for by the equity method	1,000	US\$ 60	100	US\$ 60	Note 5
	Specialty TechFarm, Inc.	Subsidiary of VIS Associates Inc.	Long-term stock investments accounted for by the equity method	10,000	US\$ 3,606	100	US\$ 3,606	Note 2
VIS Investment Holding, Inc.	<u>Stock</u> VIS Micro, Inc.	Subsidiary of VIS Investment Holding, Inc.	Long-term stock investments accounted for by the equity method	200	US\$ 764	100	US\$ 764	Note 2
Specialty TechFarm, Inc.	<u>Stock</u> LayerWalker Technology, Inc.	Equity-method investee	Long-term stock investments accounted for by the equity method	4,103	US\$ 323	27	US\$ 323	Note 5

(Continued)



Holding Company Name	Marketable Security Type and Issuer	Relationship with the Holding Company	Financial Statement Account	September 30, 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\$ 717	28	US\$ 717	Note 5
	INNO-TECH Co., Ltd.	Equity-method investee	Long-term stock investments accounted for by the equity method	5,000	US\$ 486	40	US\$ 486	Note 5
	Linear Artwork, Inc.	Equity-method investee	Long-term stock investments accounted for by the equity method	4,375	US\$ 622	27	US\$ 622	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 September 30, 2010.

Note 2: The net asset value was based on reviewed financial statements as of September 30, 2010.

Note 3: The market value was based on the book value as of September 30, 2010.

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

Note 5: The net asset value was based on unreviewed financial statements as of September 30, 2010.

Note 6: As of September 30, 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  
NINE MONTHS ENDED SEPTEMBER 30, 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	\$ 3,622,822	28.53%	Note	\$ -	-	\$1,107,604	36.11%	-

Note: Net 45 days after monthly closing.

**VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES**

**RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL**

**SEPTEMBER 30, 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	\$ 1,107,604	5.95	\$ -	-	\$ -	\$ -

**VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES**

**NAMES, LOCATIONS, AND RELATED INFORMATION OF INVESTEEES ON WHICH THE CORPORATION EXERCISES SIGNIFICANT INFLUENCE**

**NINE MONTHS ENDED SEPTEMBER 30, 2010**

**(In Thousands of New Taiwan Dollars)**

Investor	Investee	Location	Main Businesses and Products	Investment Amount		Balance as of September 30, 2010			Net Loss of the Investee	Investment Loss	Note
				September 30, 2010	December 31, 2009	Shares (Thousands)	% of Ownership	Carrying Value			
Vanguard International Semiconductor Corporation	VIS Associates Inc. CMSC, Inc.	British Virgin Islands Hsin-chu City, Taiwan	Investment Integrated circuit design services and related businesses	\$ 195,492 112,650	\$ 195,492 112,650	6 9,902	100 25	\$ 296,676 81,118	\$ (7,868) (13,408)	\$ (7,868) (3,344)	Subsidiary Equity-method investee

## VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

## INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS

NINE MONTHS ENDED SEPTEMBER 30, 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	Research and development expenses	\$ 25,219	-	0.2%
				Other payables to related parties	2,994	-	-

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	\$ 21,981	-	0.2%
				Other payables to related parties	2,462	-	-
1	VIS Associates Inc.	VIS Micro, Inc.	Indirect subsidiary	General and administrative	29,997	-	0.3%

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