Vanguard International Semiconductor Corporation and Subsidiaries

Consolidated Financial Statements for the Years Ended December 31, 2010 and 2009 and Independent Auditors' Report

REPRESENTATION LETTER

The entities included in the combined financial statements of Vanguard International Semiconductor Corporation as of and for the year ended December 31, 2010, which were prepared in conformity with the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises, are the same as those included in the consolidated financial statements prepared in conformity with the revised R.O.C. Statement of Financial Accounting Standards No. 7, “Consolidated Financial Statements.” In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Thus, Vanguard International Semiconductor Corporation and Subsidiaries did not prepare a separate set of combined financial statements.

Very truly yours,

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

By

CHING-CHU CHANG
Chairman

January 17, 2011

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Vanguard International Semiconductor Corporation

We have audited the accompanying consolidated balance sheets of Vanguard International Semiconductor Corporation and subsidiaries (the "Group') as of December 31, 2010 and 2009, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Vanguard International Semiconductor Corporation and subsidiaries as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

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

January 17, 2011

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

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

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

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2010 AND 2009
(In Thousands of New Taiwan Dollars, Except Par Value)

ASSETS	2010 Amount	2010 %	2009 Amount	2009 %
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 4)	$ 8,321,886	34	$ 6,901,472	31
Financial assets at fair value through profit or loss - current (Notes 2 and 5)	37,224	-	74,379	-
Available-for-sale financial assets - current (Notes 2 and 6)	46,179	-	209,285	1
Derivative financial assets for hedging (Notes 2 and 7)	13,910	-	3,254	-
Receivables from related parties (Note 22)	416,305	2	525,152	2
Notes and accounts receivable	1,588,137	6	1,340,827	6
Allowance for doubtful receivables (Note 2)	(32,122)	-	(27,333)	-
Allowance for sales returns and discounts (Note 2)	(65,798)	-	(54,665)	-
Inventories (Notes 2 and 8)	1,615,381	7	1,133,719	5
Other receivables from related parties (Note 22)	16,631	-	11,714	-
Pledged time deposits (Notes 4 and 23)	156,600	-	165,300	1
Prepaid expenses and other current assets	179,872	1	97,899	1
Deferred income tax assets - current (Notes 2 and 20)	163,253	1	50,734	-
Total current assets	12,457,458	51	10,431,737	47
INVESTMENTS				
Long-term stock investments accounted for by the equity method (Notes 2 and 9)	140,704	1	172,585	1
Available-for-sale financial assets - noncurrent (Notes 2 and 6)	206,242	1	105,755	-
Financial assets carried at cost - noncurrent (Notes 2 and 10)	63,995	-	59,314	-
Total investments	410,941	2	337,654	1
PROPERTIES (Notes 2, 11, 12, 13 and 22)				
Cost				
Buildings	12,407,164	51	12,093,261	54
Machinery and equipment	47,585,007	197	46,315,281	207
Other equipment	352,793	2	336,142	2
Total cost	60,344,964	250	58,744,684	263
Accumulated depreciation	(51,085,115)	(212)	(48,544,063)	(217)
Prepayments and construction in progress	1,063,733	5	65,418	-
Net properties	10,323,582	43	10,266,039	46
OTHER ASSETS				
Assets leased to others, net (Notes 2 and 12)	818,275	4	1,073,824	5
Idle Assets (Notes 2 and 13)	91,428	-	60,000	-
Deferred charges, net (Notes 2 and 14)	22,066	-	45,141	-
Deferred income tax assets - noncurrent (Notes 2 and 20)	683	-	118,037	1
Refundable deposits	5,228	-	5,227	-
Total other assets	937,680	4	1,302,229	6
TOTAL	$ 24,129,661	100	$ 22,337,659	100

LIABILITIES AND SHAREHOLDERS' EQUITY	2010 Amount	2010 %	2009 Amount	2009 %
CURRENT LIABILITIES				
Financial liabilities at fair value through profit or loss - current (Notes 2 and 5)	$ 5,948	-	$ 1,219	-
Derivative financial liabilities for hedging (Notes 2 and 7)	27,342	-	338	-
Payables to related parties (Note 22)	-	-	22	-
Notes and accounts payable	666,831	3	582,540	3
Income tax payables (Notes 2 and 20)	78,491	-	20,089	-
Other payables to related parties (Note 22)	74,563	-	83,352	-
Accrued profit sharing to employees and bonus to directors and supervisors (Note 16)	310,429	1	16,960	-
Payables to contractors and equipment suppliers	562,283	3	126,162	1
Accrued expenses and other current liabilities (Note 15)	1,091,353	5	1,005,535	4
Total current liabilities	2,817,240	12	1,836,217	8
OTHER LIABILITIES				
Accrued pension cost (Notes 2 and 19)	481,011	2	475,180	2
Guarantee deposits (Note 22)	17,298	-	29,700	-
Total other liabilities	498,309	2	504,880	2
Total liabilities	3,315,549	14	2,341,097	10
SHAREHOLDERS' EQUITY (Notes 2, 16 and 17)				
Capital stock, NT$10.00 par value; Authorized - 3,300,000 thousand shares Issued and outstanding -1,645,527 thousand shares in 2010 and 1,677,884 thousand shares in 2009	16,455,269	68	16,778,839	75
Capital surplus				
Employee stock options	458,532	2	464,525	2
Treasury stock transactions	-	-	32,355	-
Long-term stock investments	69,000	-	69,130	1
Total capital surplus	527,532	2	566,010	3
Retained earnings				
Legal reserve	1,593,687	7	1,584,763	7
Special reserve	-	-	277,083	1
Unappropriated earnings	2,237,043	9	753,984	4
Total retained earnings	3,830,730	16	2,615,830	12
Others				
Cumulative translation adjustments	(56,516)	-	(44,060)	-
Unrealized gain on financial instruments	57,097	-	79,943	-
Total others	581	-	35,883	-
Total shareholders' equity	20,814,112	86	19,996,562	90
TOTAL	$ 24,129,661	100	$ 22,337,659	100

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

(With Deloitte & Touche audit report dated January 17, 2011)

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2010 AND 2009
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2010		2009	
	Amount	**%**	**Amount**	**%**
GROSS SALES (Notes 2, 7, 22 and 26)	$ 16,100,354		$ 12,678,530	
SALES RETURNS AND DISCOUNTS (Note 2)	(66,494)		(90,481)	
NET SALES	16,033,860	100	12,588,049	100
COST OF SALES (Notes 8, 21 and 22)	12,790,036	80	11,344,702	90
GROSS PROFIT	3,243,824	20	1,243,347	10
OPERATING EXPENSES (Notes 21 and 22)				
Marketing	116,784	1	78,747	1
General and administrative	648,316	4	548,800	4
Research and development	663,472	4	668,974	5
Total operating expenses	1,428,572	9	1,296,521	10
OPERATING INCOME (LOSS)	1,815,252	11	(53,174)	-
NONOPERATING INCOME AND GAINS				
Valuation gain on financial instruments, net (Notes 2, 5 and 26)	158,803	1	95,579	1
Gain on disposal of investments (Note 2)	60,320	1	116,801	1
Interest	45,330	-	39,486	-
Rental (Notes 12 and 22)	42,097	-	88,783	1
Gain on disposal of properties (Notes 2 and 22)	38,409	-	292	-
Dividends (Note 2)	8,411	-	9,205	-
Others (Note 22)	230,153	2	136,062	1
Total nonoperating income and gains	583,523	4	486,208	4
NONOPERATING EXPENSES AND LOSSES				
Foreign exchange loss, net (Note 2)	112,347	1	67,346	1
Impairment loss (Notes 2 and 13)	85,175	1	111,177	1
Expenses of assets leased to others (Note 12)	77,762	-	91,897	1
Investment loss recognized by the equity method, net (Notes 2 and 9)	31,086	-	40,251	-
Loss on disposal of properties (Note 2)	396	-	6,353	-
Others	48,896	-	23,511	-
Total nonoperating expenses and losses	355,662	2	340,535	3

(Continued)

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2010 AND 2009
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2010		2009	
	Amount	%	Amount	%
INCOME BEFORE INCOME TAX	$ 2,043,113	13	$ 92,499	1
INCOME TAX EXPENSE (Notes 2 and 20)	90,728	1	3,258	-
CONSOLIDATED NET INCOME	$ 1,952,385	12	$ 89,241	1

	2010		2009	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
CONSOLIDATED EARNINGS PER SHARE (Note 18)				
Basic	$ 1.23	$ 1.17	$ 0.06	$ 0.05
Diluted	$ 1.21	$ 1.16	$ 0.05	$ 0.05

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

(With Deloitte & Touche audit report dated January 17, 2011) (Concluded)

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2010 AND 2009
(In Thousands of New Taiwan Dollars)

	Capital Stock Issued and Outstanding		Capital Surplus (Notes 2, 16 and 17)			Retained Earnings (Note 16)			Others			
	Shares (Thousands)	Amount	Employee Stock Options	Treasury Stock Transaction	Long term Stock Investments	Legal Reserve	Special Reserve	Unappropriated Earnings	Cumulative Translation Adjustments (Note 2)	Unrealized Gain (Loss) on Financial Instruments (Notes 2 and 16)	Treasury Stock (Notes 2 and 17)	Total Shareholders' Equity
BALANCE, JANUARY 1, 2009	1,695,486	$ 16,954,860	$ 463,496	$ -	$ 68,890	$ 1,480,568	$ -	$ 1,717,015	$ (38,251)	$ (238,833)	$ (147,645)	$ 20,260,100
Issuance of shares upon exercise of employee stock options	398	3,979	1,029	-	-	-	-	-	-	-	-	5,008
Appropriation of prior year's earnings (Note 3)												
Legal reserve	-	-	-	-	-	104,195	-	(104,195)	-	-	-	-
Special reserve	-	-	-	-	-	-	277,083	(277,083)	-	-	-	-
Cash dividends - 0.4%	-	-	-	-	-	-	-	(670,994)	-	-	-	(670,994)
Consolidated net income in 2009	-	-	-	-	-	-	-	89,241	-	-	-	89,241
Adjustment due to changes in ownership interests in investee	-	-	-	-	240	-	-	-	-	-	-	240
Valuation gain on derivative financial instruments for hedging	-	-	-	-	-	-	-	-	-	681	-	681
Valuation gain on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	318,095	-	318,095
Translation adjustments on long-term investments	-	-	-	-	-	-	-	-	(5,809)	-	-	(5,809)
Retirement of treasury stocks - 18,000 thousand shares	(18,000)	(180,000)	-	32,355	-	-	-	-	-	-	147,645	-
BALANCE, DECEMBER 31, 2009	1,677,884	16,778,839	464,525	32,355	69,130	1,584,763	277,083	753,984	(44,060)	79,943	-	19,996,562
Issuance of shares upon exercise of employee stock options	1,244	12,440	3,366	-	-	-	-	-	-	-	-	15,806
Appropriation of prior year's earnings												
Legal reserve	-	-	-	-	-	8,924	-	(8,924)	-	-	-	-
Reversal of special reserve	-	-	-	-	-	-	(277,083)	277,083	-	-	-	-
Cash dividends - 0.4%	-	-	-	-	-	-	-	(671,154)	-	-	-	(671,154)
Consolidated net income in 2010	-	-	-	-	-	-	-	1,952,385	-	-	-	1,952,385
Adjustment due to changes in ownership interests in investee	-	-	-	-	(130)	-	-	-	-	-	-	(130)
Valuation loss on derivative financial instruments for hedging	-	-	-	-	-	-	-	-	-	(13,486)	-	(13,486)
Valuation loss on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	(9,360)	-	(9,360)
Translation adjustments on long-term stock investments	-	-	-	-	-	-	-	-	(12,456)	-	-	(12,456)
Acquisition of treasury stocks	-	-	-	-	-	-	-	-	-	-	(444,055)	(444,055)
Retirement of treasury stocks - 33,601 thousand shares	(33,601)	(336,010)	(9,359)	(32,355)	-	-	-	(66,331)	-	-	444,055	-
BALANCE, DECEMBER 31, 2010	1,645,527	$ 16,455,269	$ 458,532	$ -	$ 69,000	$ 1,593,687	$ -	$ 2,237,043	$ (56,516)	$ 57,097	$ -	$ 20,814,112

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

(With Deloitte & Touche audit report dated January 17, 2011)

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2010 AND 2009
(In Thousands of New Taiwan Dollars)

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Consolidated net income	$ 1,952,385	$ 89,241
Adjustments to reconcile consolidated net income to net cash provided by operating activities:		
Depreciation and amortization	2,954,724	3,555,040
Impairment loss	85,175	111,177
Gain on disposal of investments	(60,320)	(116,801)
Valuation gain on financial instruments	(39,653)	-
Deferred income tax assets	4,835	(98,032)
(Gain) loss on disposal of properties , net	(38,013)	6,061
Investment loss recognized by the equity method, net	31,086	40,251
Accrued pension cost	5,831	6,908
Amortization of discounts on bonds	-	(155)
Provision for doubtful receivables	4,789	1,937
Provision for allowance for sales returns and discounts	11,133	7,433
Net changes in operating assets and liabilities		
Financial assets for trading	37,155	(4,198)
Financial assets designated as at fair value through profit or loss	-	(40,167)
Receivables from related parties	108,847	(208,882)
Notes and accounts receivable	(247,310)	(250,715)
Inventories	(481,662)	677,067
Other receivables from related parties	(4,917)	(5,381)
Prepaid expenses and other current assets	(81,973)	121,224
Financial liabilities for trading	4,729	(8,895)
Derivative financial instruments for hedging	2,862	(2,349)
Payables to related parties	(22)	22
Notes and accounts payable	84,291	182,639
Income tax payable	58,402	18,562
Accrued profit sharing to employees and bonus to directors and supervisors	293,469	(133,080)
Other payables to related parties	(8,789)	40,316
Accrued expenses and other current liabilities	85,818	(412,124)
Net cash provided by operating activities	4,762,872	3,577,099
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds of the disposal of held-to-maturity financial assets	-	150,000
Proceeds of the disposal of available-for-sale financial assets	152,878	298,469
Decrease (increase) in pledged time deposits	8,700	(165,300)
Acquisition of financial assets carried at cost	(5,750)	-
Acquisition of available-for-sale financial assets	-	(31,757)
Proceeds from the disposal of financial assets carried at cost	-	49,319
Acquisition of properties	(2,412,681)	(556,397)

(Continued)

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2010 AND 2009
(In Thousands of New Taiwan Dollars)

	2010	2009
Proceeds of the disposal of properties	$ 46,364	$ 292
Increase in deferred charges	(9,802)	(8,354)
(Increase) decrease in refundable deposits	(1)	534
Net cash used in investing activities	(2,220,292)	(263,194)
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in guarantee deposits	(12,402)	(15,505)
Cash dividends paid for common stock	(671,154)	(670,994)
Proceeds of the exercise of employee stock options	15,806	5,008
Acquisitions of treasury stock	(444,055)	-
Net cash used in financing activities	(1,111,805)	(681,491)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,430,775	2,632,414
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	6,901,472	4,273,424
EFFECT OF EXCHANGE RATE CHANGES	(10,361)	(4,366)
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 8,321,886	$ 6,901,472
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Income tax paid	$ 21,250	$ 72,274
NONCASH INVESTING ACTIVITIES		
Reclassification from properties to idle assets	$ 145,175	$ 158,346
Reclassification from assets leased to others to properties	$ 177,787	$ -
INVESTING ACTIVITIES AFFECTING BOTH CASH AND NON-CASH ITEMS		
Total acquisitions	$ 2,848,802	$ 305,386
(Increase) decrease in payables to contractors and equipment suppliers	(436,121)	251,011
	$ 2,412,681	$ 556,397

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

(With Deloitte & Touche audit report dated January 17, 2011) (Concluded)

1. ORGANIZATION AND OPERATIONS

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

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

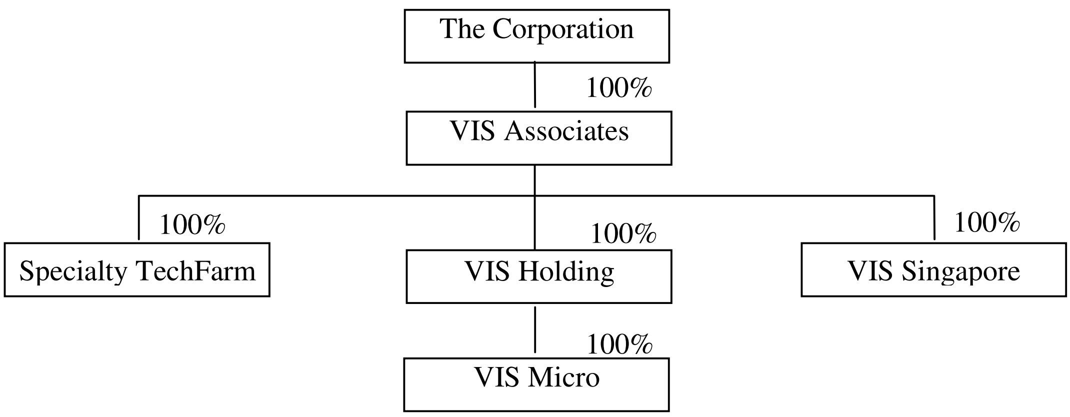
The Corporation researches, designs, manufactures, packages, tests and sells memory integrated circuits (ICs), large-scale integrated ICs (LSIs), very large-scale integrated ICs (VLSIs) and related parts.

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 modelling and special production process design service. VIS Micro engages in marketing service.

On November 2, 2009, the board of VIS Singapore directors resolved to liquidate VIS Singapore effective November 23, 2009. The previous years' earnings of US$963 thousands was distributed during the year ended December 31, 2010. As of the date of the audit'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 December 31, 2010:



As of December 31, 2010 and 2009, the Corporation and subsidiaries had 3,505 and 3,236 employees, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements have been prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China (ROC). Under these guidelines and principles, the Corporation and subsidiaries should make certain estimates and assumptions that could affect the amounts of allowance for doubtful accounts, allowance for sales returns and discounts, decline in market value of inventories, depreciation of properties, assets leased to others and idle asserts, 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 years ended December 31, 2010 and 2009, include the accounts of the Corporation, VIS Associates, Specialty TechFarm, VIS Singapore, VIS Holding and VIS Micro.

Current/Noncurrent Assets and Liabilities

Current assets include unrestricted cash and cash equivalents and assets held primarily for trading purpose or to be realized, sold or consumed within 12 months from the balance sheet date. All other assets such as 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

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

Financial Instruments at Fair Value through Profit or Loss

Financial instruments classified as financial assets or financial liabilities at fair value through profit or loss ("FVTPL") include financial assets or financial liabilities held for trading and those designated as at FVTPL on initial recognition. When the Corporation enters into financial instrument contracts, the financial assets or financial liabilities are recognized in the balance sheet. On contract expiry, settlement or cancellation, the financial assets and liabilities are de-recognized.

These financial instruments, except derivatives, are initially recognized at fair value. Transaction cost directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss. At each balance sheet date subsequent to initial recognition, financial assets or financial liabilities at FVTPL are remeasured at fair value, with changes in fair value recognized directly in profit or loss in the period in which they arise. On derecognition of a financial asset or a financial liability, the difference between its carrying amount and the sum of the consideration received and receivable or consideration paid and payable is recognized in profit or loss of the period. All regular way purchase or sale of financial assets are recognized and de-recognized on a trade date basis.

Derivatives 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 GreTai 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 and emerging 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 related to an asset or liability in the financial statements, then it is classified as either current or noncurrent based on the length of time before it is realized or settled.

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

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

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

Foreign-currency Transactions

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

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

At the balance sheet date, the balance of foreign-currency nonmonetary assets (such as equity instrument) and liabilities - except those carried at cost which are valued at the historical rate of the trade date - are measured at fair value are revalued using prevailing exchange rates, with the exchange differences treated as follows:

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

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

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

The exchange rates used for foreign-currency transaction recording, settlement or translation are mainly based on the closing rates obtained through the Reuter's quotation system at 4 p.m.

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

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

b. Shareholders' equity - at historical exchange rates;

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

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

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

Reclassifications

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

3. ACCOUNTING CHANGES

SFAS No. 10, "Accounting for Inventories"

On January 1, 2009, the Group adopted the newly revised SFAS No. 10, "Accounting for Inventories". The main revisions are (1) inventories are stated at the lower of cost or net realizable value, and inventories are written down to net realizable value item-by-item except when the grouping of similar or related items is appropriate; (2) unallocated overheads are recognized as expenses in the period in which they are incurred; and (3) abnormal costs, write-downs of inventories and any reversal of write-downs are recorded as cost of goods sold for the period. The adoption resulted in a decrease in consolidated net income and consolidated basic earnings per share (after income tax) of NT$462,364 thousand and NT$0.28, respectively, for the year ended December 31, 2009.

4. CASH AND CASH EQUIVALENTS

	December 31	
	2010	**2009**
Bank deposits	$ 8,354,446	$ 6,891,683
Bonds acquired under resale agreements	124,040	175,089
	8,478,486	7,066,772
Pledged time deposit	(156,600)	(165,300)
	$ 8,321,886	$ 6,901,472

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

	December 31	
	2010	**2009**
Financial assets at FVTPL		
Financial assets held for trading	$ 16,980	$ 34,212
Financial assets designated as at FVTPL	20,244	40,167
	$ 37,224	$ 74,379
Financial liabilities at FVTPL		
Financial liabilities held for trading	$ 5,948	$ 1,219

Financial instruments for trading consisted of the following:

	December 31	
	2010	**2009**
Financial assets for trading		
Forward exchange contracts	$ 8,266	$ 14,666
Currency-swap contracts	8,714	19,546
	$ 16,980	$ 34,212
Financial liabilities for trading		
Forward exchange contracts	$ 244	$ 1,219
Currency-swap contracts	5,704	-
	$ 5,948	$ 1,219

The Corporation entered into derivative transactions in the years ended December 31, 2010 and 2009 to manage exposures related to exchange rate and interest rate fluctuations. The financial risk management objective of the Corporation is to minimize risks due to changes in fair value or cash flows.

a. Outstanding forward exchange contracts as of December 31, 2010 and 2009 were as follows:

Contract	**Currency**	**Contract Expiry Date**	**Contract Amount (In Thousands)**
December 31, 2010			
Buy forward exchange contracts	NT$ to US$	2011.01.18-2011.03.31	US$ 5,000
Sell forward exchange contracts	US$ to JPY	2011.01.05-2011.02.09	US$ 5,000
December 31, 2009			
Buy forward exchange contracts	NT$ to US$	2010.01.05-2010.03.08	US$ 19,000
Sell forward exchange contracts	US$ to JPY	2010.01.13-2010.02.09	US$ 2,500
Sell forward exchange contracts	US$ to NT$	2010.01.04-2010.03.24	US$ 44,000

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

	Currency	Maturity Date	Contract Amount (In Thousands)
December 31, 2010			
Sell forward exchange contracts	US$ to NT$	2011.01.06-2011.01.24	US$ 47,500
December 31, 2009			
Sell forward exchange contracts	US$ to NT$	2010.01.05-2010.03.19	US$ 75,500

The net gains on financial instruments for trading were NT$107,247 thousand and NT$93,716 thousand, respectively, for the year ended December 31, 2010 and 2009.

Financial instruments designated as at FVTPL were as follows:

	December 31	
	2010	2009
Financial assets designated as at FVTPL		
Credit Linked Notes	$ 20,244	$ 40,167

Net gains on financial assets designated as at FVTPL for the years ended December 31, 2010 and 2009 were NT$517 thousand and NT$178 thousand, respectively.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS - CURRENT

	December 31	
	2010	2009
Listed stocks - Chipbond Technology Corporation	$ 206,242	$ -
Listed stocks - Walton Advanced Engineering, Inc.	43,947	175,464
Listed stocks - Advanced Analogic Technologies, Inc. (US$74 thousand in 2010 and US$72 thousand in 2009)	2,232	2,314
Listed stocks - International Semiconductor Technology Ltd. ("IST")	-	105,755
Fund - PIMCO GIS TOTAL RETURN BOND FD CLA (US$984 thousand in 2009)	-	31,507
	252,421	315,040
Less: Financial assets classified as noncurrent assets	(206,242)	(105,755)
	$ 46,179	$ 209,285

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:

	December 31	
	2010	2009
Derivative financial assets for hedging		
Current		
Currency- swap contracts	$ 11,982	$ -
Forward exchange contracts	1,928	3,254
	$ 13,910	$ 3,254
Derivative financial liabilities for hedging		
Current		
Currency- swap contracts	$ 25,373	$ -
Forward exchange contracts	1,969	338
	$ 27,342	$ 338

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.

For the years ended December 31, 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 years ended December 31, 2010 and 2009 were as follows:

	Currency	Maturity Date	Contract Amount (In Thousands)
December 31, 2010			
Sell forward exchange contracts	US$ to NT$	2011.01.18-2011.01.27	US$ 4,000
December 31, 2009			
Sell forward exchange contracts	US$ to NT$	2010.01.20-2010.03.17	US$ 14,000

The outstanding currency-swap contracts in the year ended December 31, 2010 was as follows:

	Currency	Maturity Date	Contract Amount (In Thousands)
December 31, 2010			
Sell forward exchange contracts	US$ to NT$	2011.01.06-2011.03.18	US$ 33,000

The realized net loss on derivative financial instruments used for cash flow hedging for the years ended December 31, 2010 and 2009 were NT$26,594 thousand and NT$7,153 thousand, respectively, which were recognized in sales. The net gain on derivative financial instruments used for fair value hedging were NT$22,167 thousand and NT$17,068 thousand, respectively, for the years ended December 31, 2010 and 2009 which were recognized in nonoperating income.

8. INVENTORIES

	December 31	
	2010	2009
Finished goods	$ 195,735	$ 1,671
Work in process	964,469	782,213
Raw materials	204,047	79,247
Supplies and spare parts	251,130	270,588
	$ 1,615,381	$ 1,133,719

Allowance for inventory losses were NT$280,853 thousand and NT$303,057 thousand on December 31, 2010 and 2009, respectively.

The cost of inventories recognized as cost of goods sold during the years ended December 31, 2010 and 2009 were NT$12,790,036 thousand and NT$11,344,702 thousand, respectively, which included write-downs of inventory NT$47,119 thousand and NT$274,726 thousand, unallocated overheads NT$31,473 thousand and NT$243,695 thousand and abnormal costs NT$1,628 thousand and NT$4,162 thousand for the years ended December 31, 2010 and 2009, respectively.

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

	December 31			
	2010		2009	
	Carrying Value	% of Ownership	Carrying Value	% of Ownership
Unlisted stocks				
CMSC, Inc.	$ 78,228	25	$ 84,434	25
SkyTraq Technology, Inc.	23,305	28	22,666	28
Linear Atrwork, Inc.	17,819	27	26,086	27
INNO-TECH Co., Ltd.	12,843	40	24,664	40
LayerWalker Technology, Inc.	8,509	27	14,735	27
	$ 140,704		$ 172,585	

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

	Year Ended December 31	
	2010	2009
SkyTraq Technology, Inc.	$ 640	$ (5,011)
LayerWalker Technology, Inc.	(5,541)	(5,540)
CMSC, Inc.	(6,322)	(10,720)
Linear Atrwork, Inc.	(7,438)	(5,152)
INNO-TECH Co., Ltd.	(12,425)	(13,828)
	$ (31,086)	$ (40,251)

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

10. FINANCIAL ASSETS CARRIED AT COST - NONCURRENT

	December 31	
	2010	2009
Unlisted stocks		
United Industrial Gases Co., Ltd.	$ 38,716	$ 38,716
Goyatek Technology Inc.	13,452	14,188
Uniband Electronic Corp.	6,077	6,410
Champion Microelectronic Corp.	5,750	-
	$ 63,995	$ 59,314

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.

In the period 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 $12,831 thousand, which were presented under nonoperating expenses and losses.

11. PROPERTIES

	Year Ended December 31, 2010				
	Buildings	Machinery and Equipment	Other Equipment	Prepayments and Construction in Progress	Total
Cost					
Balance, beginning of the year	$ 12,093,261	$ 46,315,281	$ 336,142	$ 65,418	$ 58,810,102
Additions	105,099	1,723,845	21,543	998,315	2,848,802
Reclassification	220,457	(311,089)	-	-	(90,632)
Disposal	(11,653)	(143,030)	(4,792)	-	(159,475)
Cumulative translation adjustments	-	-	(100)	-	(100)
Balance, end of the year	$ 12,407,164	$ 47,585,007	$ 352,793	$ 1,063,733	$ 61,408,697

	Year Ended December 31, 2010			
	Buildings	Machinery and Equipment	Other Equipment	Total
Accumulated depreciation				
Balance, beginning of the year	$ 8,381,980	$ 39,918,421	$ 243,662	$ 48,544,063
Depreciation	467,836	2,308,723	38,954	2,815,513
Reclassification	42,670	(165,914)	-	(123,244)
Disposal	(3,953)	(142,385)	(4,786)	(151,124)
Cumulative translation adjustments	-	-	(93)	(93)
Balance, end of the year	$ 8,888,533	$ 41,918,845	$ 277,737	$ 51,085,115

	Year Ended December 31, 2009				
	Buildings	Machinery and Equipment	Other Equipment	Prepayments and Construction in Progress	Total
Cost					
Balance, beginning of the year	$ 11,935,877	$ 46,212,274	$ 351,761	$ 323,613	$ 58,823,525
Additions (deductions)	159,638	397,878	6,065	(258,195)	305,386
Reclassification	-	(263,910)	-	-	(263,910)
Disposal	(2,254)	(30,961)	(21,568)	-	(54,783)
Cumulative translation adjustments	-	-	(116)	-	(116)
Balance, end of the year	$ 12,093,261	$ 46,315,281	$ 336,142	$ 65,418	$ 58,810,102

	Year Ended December 31, 2009			
	Buildings	Machinery and Equipment	Other Equipment	Total
Accumulated depreciation				
Balance, beginning of the year	$ 7,892,953	$ 37,165,227	$ 216,817	$ 45,274,997
Depreciation	491,281	2,883,813	48,455	3,423,549
Reclassification	-	(105,564)	-	(105,564)
Disposal	(2,254)	(25,055)	(21,499)	(48,808)
Cumulative translation adjustments	-	-	(111)	(111)
Balance, end of the year	$ 8,381,980	$ 39,918,421	$ 243,662	$ 48,544,063

12. ASSETS LEASED TO OTHERS, NET

	Year Ended December 31	
	2010	2009
Buildings		
Cost		
Balance, beginning of the year	$ 1,257,618	$ 1,257,618
Reclassification	(220,457)	-
Balance, end of the year	1,037,161	1,257,618
Accumulated depreciation		
Balance, beginning of the year	183,794	91,897
Depreciation	77,762	91,897
Reclassification	(42,670)	-
Balance, end of the year	218,886	183,794
Net balance	$ 818,275	$ 1,073,824

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

Company Name	Lease Terms	Next Year's Rental
Taiwan Semiconductor Manufacturing Company Ltd.	2010.01.01-2010.12.31, automatically renew for consecutive one year	$ 9,093
	2010.07.20-2011.07.19	12,642
Integrated Service Technology, Inc.	2010.04.01-2015.03.31	4,118
Standard Technology Service, Inc.	2010.05.01-2015.04.30	9,587
		$ 35,440

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:

	Year Ended December 31	
	2010	2009
Cost		
Balance, beginning of the year	$ 701,694	$ 770,123
Additions	9,802	8,354
Disposal	-	(76,753)
Cumulative translation adjustments	-	(30)
Balance, end of the year	711,496	701,694
Accumulated amortization		
Balance, beginning of the year	656,553	693,359
Amortization	32,877	39,594
Disposal	-	(76,375)
Cumulative translation adjustments	-	(25)
Balance, end of the year	689,430	656,553
Net balance	$ 22,066	$ 45,141

15. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	December 31	
	2010	2009
Bonus	$ 360,506	$ 274,782
Royalty	5,260	4,048
Others	725,587	726,705
	$ 1,091,353	$ 1,005,535

	Royalty	Bonus
January 1, 2010	$ 4,048	$ 274,782
Add: Reversal of other payables to related parties	50,325	-
Accrual	274,071	410,185
Reduce: Payable	(277,921)	(324,461)
Classification as other payables to related parties	(45,263)	-
December 31, 2010	$ 5,260	$ 360,506
January 1, 2009	$ 486,962	$ 290,979
Add: Reversal of other payables to related parties	36,732	-
(Reversal) accrual	(188,479)	325,310
Reduce: Payable	(280,842)	(341,507)
Classification as other payables to related parties	(50,325)	-
December 31, 2009	$ 4,048	$ 274,782

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 were NT$292,858 thousand and NT$13,386 thousand; and the remuneration to directors and supervisors were NT$17,571 thousand and NT$3,574 thousand for the years ended December 31, 2010 and 2009, 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:

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

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

	Year Ended December 31			
	2009		2008	
	Cash	Stock	Cash	Stock
Bonus to employees	$ 13,386	$ -	$ 140,662	$ -
Remuneration to directors and supervisors	3,574	-	9,378	-

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 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 years ended December 31, 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
Year ended December 31, 2010			
Balance, beginning of the year	$ 79,262	$ 681	$ 79,943
Recognized in shareholders' equity	50,960	(40,080)	10,880
Transferred to profit or loss	(60,320)	26,594	(33,726)
Balance, end of year	$ 69,902	$ (12,805)	$ 57,097
Year ended December 31, 2009			
Balance, beginning of the year	$ (238,833)	$ -	$ (238,833)
Recognized in shareholders' equity	375,162	(6,472)	368,690
Transferred to profit or loss	(57,067)	7,153	(49,914)
Balance, end of year	$ 79,262	$ 681	$ 79,943

Translation Adjustment

For the years ended December 31, 2010 and 2009, movements of translation adjustments were as follows:

	Foreign Currency Exchange Valuation Difference
Year ended December 31, 2010	
Balance, beginning of the year	$ (44,060)
Recognized in shareholders' equity	(12,456)
Balance, end of the year	$ (56,516)
Year ended December 31, 2009	
Balance, beginning of the year	$ (38,251)
Recognized in shareholders' equity	(5,809)
Balance, end of the year	$ (44,060)

Employee Stock Option Plans

On February 20, 2001, June 21, 2002 and September 18, 2003, the Corporation received approvals from the Securities and Futures Bureau (the former name of FSC) 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:

	2003 Plan		2002 Plan		2001 Plan	
	Number of Outstanding Stock Option Rights (In Thousands)	Weighted-average Exercise Price (NT$)	Number of Outstanding Stock Option Rights (In Thousands)	Weighted-average Exercise Price (NT$)	Number of Outstanding Stock Option Rights (In Thousands)	Weighted-average Exercise Price (NT$)
2010						
Beginning balance	31,618	$17.12	8,711	$12.40	3,429	$16.23
Options exercised	(30)	13.60	(928)	12.33	(115)	12.99
Options canceled	(2,405)	16.76	(16)	12.00	(110)	16.93
Ending balance	29,183	16.62	7,767	12.00	3,204	15.83
2009						
Beginning balance	32,836	17.62	9,557	12.80	3,611	16.70
Options exercised	-	-	(462)	12.40	(21)	13.00
Options canceled	(1,218)	17.14	(384)	12.40	(161)	16.51
Ending balance	31,618	17.12	8,711	12.40	3,429	16.23

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

The outstanding stock options as of December 31, 2010 was as follows:

	Options Outstanding			Options Exercisable	
Exercise Price (NT$)	**Number Outstanding (In Thousands)**	**Expected Remaining Contractual Life (In Years)**	**Weighted-average Exercise Price (NT$)**	**Number Exercisable (In Thousands)**	**Weighted-average Exercise Price (NT$)**
2003 plan					
$13.2-$17.6	29,183	2.91-3.72	$16.62	29,183	$16.62
2002 plan					
$12	7,767	1.73	12.00	7,767	12.00
2001 plan					
$12.6-$17	3,204	0.4-1.1	15.83	3,204	15.83

17. TREASURY STOCK

(Shares in Thousands)

Purpose of Treasury Stock	Number of Shares, Beginning of Year	Addition During the Year	Reduction During the Year	Number of Shares, End of Year
Year ended December 31, 2010				
To maintain the Corporation's credibility and shareholders' interest	-	33,601	33,601	-
Year ended December 31, 2009				
To maintain the Corporation's credibility and shareholders' interest	18,000	-	18,000	-

The Corporation held a meeting of the Board of Directors and approved a share buyback plan to repurchase the Corporation's common shares up to 30,000 thousand shares from the GreTai Securities Market during the period from October 28, 2008 to December 27, 2008 with buyback prices in the range from NT$8 to NT$13. The Corporation had repurchased 18,000 thousand common shares. All the treasury stock repurchased under this share buyback plan was 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. The Corporation had repurchased 16,745 thousand common shares. All the treasury stock repurchased under this share buyback plan was 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. The Corporation had repurchased 16,856 thousand treasury stocks. All the treasury stock repurchased under this share buyback plan was retired on November 15, 2010.

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:

	Amounts (Numerator)		Shares	EPS (NT$)	
	Before Income Tax	After Income Tax	(Denominator) (Thousands)	Before Income Tax	After Income Tax
Year ended December 31, 2010					
Consolidated net income	$ 2,043,113	$ 1,952,385			
Basic consolidated EPS					
Consolidated net income of common shareholders of the parent	$ 2,043,113	$ 1,952,385	1,665,955	$ 1.23	$ 1.17
Effect of dilutive securities					
Employee stock option rights	-	-	1,055		
Bonus to employees	-	-	21,096		
Diluted consolidated EPS					
Consolidated net income of common and potential common shareholders of the parent	$ 2,043,113	$ 1,952,385	1,688,106	$ 1.21	$ 1.16
Year ended December 31, 2009					
Consolidated net income	$ 92,499	$ 89,241			
Basic consolidated EPS					
Consolidated net income of common shareholders of the parent	$ 92,499	$ 89,241	1,677,580	$ 0.06	$ 0.05
Effect of dilutive securities					
Bonus to employees	-	-	5,746		
Diluted consolidated EPS					
Consolidated net income of common and potential common shareholders of the parent	$ 92,499	$ 89,241	1,683,326	$ 0.05	$ 0.05

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 diluted 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 diluted 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 diluted effects for the year ended December 31, 2009 in the calculation of diluted 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$121,741 thousand and NT$105,820 thousand for the years ended December 31, 2010 and 2009, respectively.

Based on the defined benefit plan under the Labor Standards Law (the "LSL"), pension benefits are calculated on the basis of the length of service and average monthly salaries and wages of the six months before retirement. The Corporation contributes amounts equal to 2% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. The pension fund is deposited in Bank of Taiwan in the committee's name. The Corporation recognized pension costs of NT$20,457 thousand and NT$21,790 thousand for the years ended December 31, 2010 and 2009, respectively.

Furthermore, VIS Singapore and VIS Micro are required by local regulations to make monthly contributions at certain percentages of the basic salary of their employees. Pursuant to the aforementioned Act and local regulations, the recognized pension costs are NT$916 thousand and NT$1,854 thousand for the years ended December 31, 2010 and 2009, respectively.

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

a. Components of pension cost

	Year Ended December 31	
	2010	2009
Service cost	$ 9,947	$ 13,536
Interest cost	15,798	15,622
Projected return on plan assets	(4,210)	(6,147)
Amortization of unrecognized net transition assets and net gain	(1,079)	(1,079)
	$ 20,456	$ 21,932

b. Reconciliation of the funded status of the plan and accrued pension cost

	December 31	
	2010	2009
Benefit obligation		
Vested benefit obligation	$ 23,468	$ 12,381
Non-vested benefit obligation	477,405	399,646
Accumulated benefit obligation	500,873	412,027
Additional benefits based on future salaries	340,249	291,937
Projected benefit obligation	841,122	703,964
Fair value of plan assets	(291,928)	(273,925)
Funded status	549,194	430,039
Unrecognized prior service cost	15,036	15,774
Unrecognized net transition assets	4,101	4,442
Unrecognized net (loss) gain	(87,320)	24,925
Accrued pension cost	$ 481,011	$ 475,180

	Year Ended December 31	
	2010	2009
c. Actuarial assumptions		
Discount rates used in determining present values	1.75%	2.25%
Future salary increase rate	3.00%	3.00%
Expected rate of return plan on assets	2.00%	1.50%
d. Contributions to the pension fund	$ 14,625	$ 15,024
e. Payments from the fund	$ 1,116	$ 8,426

20. INCOME TAX EXPENSE

a. Income tax expense consists of:

	Year Ended December 31	
	2010	2009
Current income tax expense before income tax credits		
Domestic	$ 80,282	$ 20,943
Overseas	98	1,842
	80,380	22,785
Net change in deferred income tax assets		
Investment tax credits	105,569	(135,570)
Operating loss carryforwards	89,664	(168,245)
Temporary differences	271,445	3,396
Valuation allowance	(461,843)	202,387
Adjustments for prior years' tax	5,315	78,585
Others	198	(80)
Income tax expense	$ 90,728	$ 3,258

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

	December 31	
	2010	2009
Current		
Investment tax credits	$ 246,999	$ 116,189
Operating loss carryforwards	81,991	-
Loss on inventory valuation and obsolescence	62,588	99,308
Other	16,255	20,225
	407,833	235,722
Valuation allowance	(244,580)	(184,988)
	$ 163,253	$ 50,734
Noncurrent		
Investment tax credits	$ 479,600	$ 715,979
Operating loss carryforwards	26,618	198,273
Depreciation and amortization	(21,993)	171,952
Accrued pension cost	81,772	118,795
Other	-	(213)
	565,997	1,204,786
Valuation allowance	(565,314)	(1,086,749)
	$ 683	$ 118,037

c. During the years ended December 31, 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 December 31, 2010 and 2009 were $23,696 thousand and $43,308 thousand, respectively.

The expected and actual creditable ratio for distributing the earnings of 2010 and 2009 were 1.06% and 8.53%, respectively.

The imputation credit allocated to each shareholder is based on the balance in the ICA on the date of dividend distribution; thus the expected creditable ratio for the 2010 earnings may be adjusted according to the actual ICA balance dividend distribution date.

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

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

The Corporation

Regulatory Basis of Tax Credits	Items	Total Creditable Amounts	Remaining Creditable Amounts	Expiry Year
Income Tax Law	Operating loss carryforwards	$ 132,991	$ 81,991	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
		8,335	8,335	2014
		$ 232,499	$ 191,986	
Statute for Upgrading Industries	Research and development expenditures	$ 67,682	$ -	2010
		132,980	132,980	2011
		239,389	239,389	2012
		149,837	149,837	2013
		$ 589,888	$ 522,206	

(Continued)

Regulatory Basis of Tax Credits	Items	Total Creditable Amounts	Remaining Creditable Amounts	Expiry Year
Statute for Upgrading Industries	Personnel training expenditures	$ 1,567	$ -	2010
		2,606	2,606	2011
		789	789	2012
		466	466	2013
		$ 5,428	$ 3,861	
Statute for Upgrading Industries	Investments in important technology-based enterprise	$ 6,428	$ -	2010
		8,546	8,546	2011
		$ 14,974	$ 8,546	

(Concluded)

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

Expiry Year	Remaining Creditable Amount
2020	$ 26,163
2021	296
2027	159
	$ 26,618

g. As end of December 31, 2010, the Corporation was granted a five-year income tax exemption period with respect to the appropriation of earning to employees in stock and stock dividend resulted in the issuance of shares project from 2005 profit. The income tax exemption period is from January 1, 2012 to December 31, 2016.

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

21. LABOR COST, DEPRECIATION AND AMORTIZATION EXPENSE

	Year Ended December 31					
	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	$ 2,664,665	$ 663,058	$ 3,327,723	$ 1,866,621	$ 453,950	$ 2,320,571
Labor/health insurance	155,419	41,028	196,447	134,435	34,753	169,188
Pension	113,990	29,124	143,114	103,010	25,542	128,552
Others	81,921	23,811	105,732	53,943	15,642	69,585
	$ 3,015,995	$ 757,021	$ 3,773,016	$ 2,158,009	$ 529,887	$ 2,687,896
Depreciation	$ 2,720,690	$ 94,823	$ 2,815,513	$ 3,330,014	$ 93,535	$ 3,423,549
Amortization	$ 17,897	$ 14,980	$ 32,877	$ 18,396	$ 21,198	$ 39,594

22. RELATED-PARTY TRANSACTIONS

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

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

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

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

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

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

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

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

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

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

	2010		2009	
	Amount	%	Amount	%
For the year				
Sales				
TSMC	$ 4,910,513	31	$ 3,221,952	26
Goya	72,880	-	60,907	-
GUC	21,748	-	17,602	-
CMSC	4,525	-	5,873	-
INNO	578		1,110	-
	$ 5,010,244	31	$ 3,307,444	26
Purchase				
TSMC	$ 55,589	-	$ 5,754	-
TSMC-China	-	-	32	-
	$ 55,589	-	$ 5,786	-
Manufacturing expenses				
TSMC	$ 465,865	4	$ 413,050	4
Marketing expenses				
TSMC	$ 3,736	3	$ 1,001	1
General and administrative expenses				
CPSI Management Inc.	$ 794	-	$ 4,548	1
Research and development expenses				
TSMC	$ 1,229	-	$ 16,573	2

	2010		2009	
	Amount	%	Amount	%
Gain on deposal of properties				
TSMC	$ 15,995	42	$ -	-
Rental revenues				
TSMC	$ 18,759	45	$ -	-
Nonoperating income and gains				
TSMC	$ 119,191	52	$ 24,074	19
Goya	-	-	44	-
CMSC	-	-	33	-
	$ 119,191	52	$ 24,151	19
Acquisition of properties				
TSMC	$ 35,686	1	$ -	-
Disposal of properties				
TSMC	$ 23,695	51	$ -	-
At end of year				
Receivables				
TSMC	$ 412,341	99	$ 517,346	99
Goya	3,425	1	4,063	1
CMSC	425	-	436	-
GUC	114	-	3,147	-
INNO	-	-	160	-
	$ 416,305	100	$ 525,152	100
Other receivables				
TSMC	$ 16,457	99	$ 11,714	100
Goya	174	1	-	-
	$ 16,631	100	$ 11,714	100
Payables				
TSMC	$ -	-	$ 22	100
Other payables				
TSMC	$ 74,373	99	$ 83,320	99
GUC	190	1	32	1
	$ 74,563	100	$ 83,352	100
Guarantee deposits				
TSMC	$ 2,273	13	$ -	-
Goya	2,000	12	6,000	20
	$ 4,273	25	$ 6,000	20

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 revenue was paid in advance by TSMC.

The sales of certain patent right with TSMC were based on mutual agreement. The patent right was recognized in expenses when it was acquired. Thus, the gain on disposal of such patent right was recognized in nonoperating income.

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.

c. Compensation of directors, supervisors and management personnel:

	Year Ended December 31	
	2010	**2009**
Salaries, incentives and special compensation	$ 33,456	$ 33,164
Bonus	46,123	3,959
	$ 79,579	$ 37,123

Total compensation expense for the year ended December 31, 2010 includes estimated bonuses to employees, directors and supervisors of the Corporation that relate to 2010 but will be paid in the following year. The actual amount will be finalized and approved upon the resolution of the shareholders' meeting in 2011. The compensation of directors, supervisors and management personnel for the year ended December 31, 2009 included the bonuses appropriated from earnings for 2009 which had been approved by shareholders in their annual meeting held in 2010.

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:

	Year Ended December 31	
	2010	**2009**
Pledged time deposits	$ 156,600	$ 165,300

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:

Year	Amount
2011	$ 78,109
2012	78,109
2013	77,029
2014	76,669
2015	67,539
2016-2029	759,709
	$ 1,137,164

25. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

The significant commitments and contingencies of the Corporation as of December 31, 2010 were as follows:

a. The Corporation entered into a "Manufacturing, License, and Technology Transfer Agreement" with Taiwan Semiconductor Manufacturing Company Ltd. beginning January 1st, 2004, to pay fess 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 1st, 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 December 31, 2010, unused letters of credit aggregated about JPY286,329 thousand and US$7,437 thousand.

26. FINANCIAL INSTRUMENTS

a. Fair values of financial instruments were as follows:

	December 31			
	2010		2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets				
Financial assets at fair value through profit or loss - current	$ 37,224	$ 37,224	$ 74,379	$ 74,379
Available-for-sale financial asserts - current	46,179	46,179	209,285	209,285
Derivative financial assets for hedging - current	13,910	13,910	3,254	3,254
Available-for-sale financial assets - noncurrent	206,242	206,242	105,755	105,755
Financial assets carried at cost - noncurrent	63,995	-	59,314	-
Liabilities				
Financial liabilities at fair value through profit or loss - current	5,948	5,948	1,219	1,219
Derivative financial liabilities for hedging - current	27,342	27,342	338	338

b. Methods and assumptions used to determine 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 is based on their quoted market prices in an active market.

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

   Fair values of forward exchange contacts and currency-swap contracts are determined using valuation techniques based on forward rates for each contract. The Reuter's quotation system is mainly used as reference for the forward rates.

4) Financial assets carried at cost - noncurrent are investments in unquoted shares and emerging stocks, 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**	
	December 31		**December 31**	
	2010	**2009**	**2010**	**2009**
Assets				
Financial assets at fair value through profit or loss - current	$ -	$ -	$ 37,224	$ 74,379
Available-for-sale financial asserts - current	46,179	209,285	-	-
Derivative financial assets for hedging - current	-	-	13,910	3,254
Available-for-sale financial assets - noncurrent	206,242	105,755	-	-
Liabilities				
Financial liabilities at fair value through profit or loss - current	-	-	5,948	1,219
Derivative financial liabilities for hedging - current	-	-	27,342	338

d. Net gain recognized for the changes in fair value of derivatives estimated using valuation techniques were NT$119,150 thousand and NT$95,579 thousand for the years ended December 31, 2010 and 2009, respectively.

e. As of December 31, 2010 and 2009, financial assets exposed to fair value interest rate risk amounted to NT$6,350,264 thousand and NT$4,629,895 thousand, respectively; financial assets exposed to cash flow interest rate risk amounted to NT$2,128,222 thousand and NT$2,436,877 thousand, respectively.

f. Interest revenues on financial instruments other than the financial assets or liabilities at fair value through profit or loss in the years ended December 31, 2010 and 2009 were NT$45,330 thousand and NT$39,486 thousand, respectively.

g. Financial risk

1) Market risk. The derivative financial instruments are exposed to exchange rate fluctuations. If the U.S. dollar appreciates by US$0.01, the fair value would decrease by NT$845 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 December 31, 2010 and 2009, financial assets exposed to credit risk amounted to NT$51,134 thousand and NT$77,633 thousand, respectively. The maximum credit risks of other financial instruments hold by the Corporation 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. The Group's investment in stocks (recorded under available-for–sale financial assets) has quoted market prices in an active market and can be sold quickly at fair value.

As of December 31, 2010, future cash demand for the outstanding forward exchange contracts and currency-swap contracts was as follows:

Term	Inflow (In Thousands)	Outflow (In Thousands)
Within one year	NT$1,441,512	US$ 47,500
	JPY 417,160	US$ 5,000
	US$ 5,000	NT$ 150,082

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 December 31, 2010 were significant; thus, it entered into forward exchange contracts and currency-swap contracts to hedge these exposures.

Hedged Item	Hedging Financial Instrument	Fair Value as of December 31 2010	2009
Foreign currency accounts receivable	Currency- swap contracts	$ (586)	$ -
	Forward exchange contracts	(41)	2,235

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.

Hedged Item	Hedging Financial Instrument	Fair Value as of December 31	Expected Timing for Future Cash Demand	Expected Timing for the Recognition of Gains or Losses from Hedge
December 31, 2010				
Forecast sales	Currency-swap contracts	$ (12,805)	January 2011- March 2011	January 2011- March 2011
December 31, 2009				
Forecast sales	Forward exchange contracts	$ 681	January 2010- March 2010	January 2010- March 2010

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.

28. SEGMENT INFORMATION

a. Industry information: The Corporation and subsidiaries operate in one industry. The major business is operating as an IC foundry service provider.

b. Geographic information: The Corporation has no significant foreign operations. Therefore, the disclosure of geographic information is not applicable to the Corporation.

c. Export sales: The export sales in 2010 and 2009 were smaller than 10% of net sales.

d. Sales to customers representing at least 10% of total sales:

	Year Ended December 31			
	2010		2009	
Customer	**Amount**	**% of Total**	**Amount**	**% of Total**
A	$ 4,910,513	31	$ 3,221,952	25
B	3,959,218	25	2,326,143	18
C	1,838,614	11	1,969,096	16
D	653,705	4	1,933,204	15

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

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

Holding Company Name	Marketable Security Type and Issuer	Relationship with the Holding Company	Financial Statement Account	December 31, 2010				Note
				Shares/Units (Thousands)	Carrying Value (US$ in Thousands)	% of Ownership	Market Value or Net Asset Value (US$ in Thousands)	
Vanguard International	Bond							
	Credit linked notes - Hon Hai Precision Industry Co., Ltd.	-	Financial assets at fair value through profit or loss - current	-	$ 20,244	-	$ 20,244	Note 4
	Stock							
	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	206,242	1	206,242	Note 1
	VIS Associates Inc.	Subsidiary	Long-term stock investments accounted for by the equity method	6	284,688	100	284,688	Note 2
	CMSC, Inc.	Equity-method investee	Long-term stock investments accounted for by the equity method	9,902	78,228	25	78,228	Note 2
	United Industrial Gases Co., Ltd.	Investee	Financial assets carried at cost - noncurrent	3,357	38,716	2	38,716	Note 3
	Champion Microeletronic Corp.	Investee	Financial assets carried at cost - noncurrent	100	5,750	-	5,750	Note 3
VIS Associates Inc.	Stock							
	Advanced Analogic Technologies, Inc.	Investee	Available-for-sale financial assets - current	18	US$ 74	-	US$ 74	Note 1
	VIS Investment Holding, Inc.	Subsidiary of VIS Associates Inc.	Long-term stock investments accounted for by the equity method	63	US$ 1,001	100	US$ 1,001	Note 2
	VIS Singapore Pte. Ltd.	Subsidiary of VIS Associates Inc.	Long-term stock investments accounted for by the equity method	1,000	US$ 58	100	US$ 58	Note 5
	Specialty TechFarm, Inc.	Subsidiary of VIS Associates Inc.	Long-term stock investments accounted for by the equity method	10,000	US$ 3,513	100	US$ 3,513	Note 2
VIS Investment Holding, Inc.	Stock							
	VIS Micro, Inc.	Subsidiary of VIS Investment Holding, Inc.	Long-term stock investments accounted for by the equity method	200	US$ 773	100	US$ 773	Note 2
Specialty TechFarm, Inc.	Stock							
	LayerWalker Technology, Inc.	Equity-method investee	Long-term stock investments accounted for by the equity method	4,103	US$ 280	27	US$ 280	Note 2
	SkyTraq Technology, Inc.	Equity-method investee	Long-term stock investments accounted for by the equity method	4,688	US$ 767	28	US$ 767	Note 2

(Continued)

Holding Company Name	Marketable Security Type and Issuer	Relationship with the Holding Company	Financial Statement Account	December 31, 2010				Note
				Shares/Units (Thousands)	Carrying Value (US$ in Thousands)	% of Ownership	Market Value or Net Asset Value (US$ in Thousands)	
	INNO-TECH Co., Ltd.	Equity-method investee	Long-term stock investments accounted for by the equity method	5,000	US$ 423	40	US$ 423	Note 2
	Linear Artwork, Inc.	Equity-method investee	Long-term stock investments accounted for by the equity method	4,375	US$ 587	27	US$ 587	Note 2
	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 December 31, 2010.

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

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

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

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

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

(Concluded)

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

TOTAL PURCHASE FROM OR SALE TO RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
YEAR ENDED DECEMBER 31, 2010
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

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	$ 4,910,513	30.5%	Note	$ -	-	$ 412,341	20.57%	-

Note: Net 45 days after monthly closing

TABLE 3

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
DECEMBER 31, 2010
(In Thousands of New Taiwan Dollars)

Company Name	Related Party	Nature of Relationship	Ending Balance	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Bad Debts
					Amount	Action Taken		
Vanguard International Semiconductor Corporation	Taiwan Semiconductor Manufacturing Company Ltd.	Major shareholder	$412,341	10.56	$ -	-	$ -	$ -

TABLE 4

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

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

Investor	Investee	Location	Main Businesses and Products	Investment Amount		Balance as of December 31, 2010			Net Loss of the Investee	Investment Loss	Note
				December 31, 2010	December 31, 2009	Shares (Thousands)	% of Ownership	Carrying Value			
Vanguard International Semiconductor Corporation	VIS Associates Inc.	British Virgin Islands	Investment	$ 195,492	$ 195,492	6	100	$ 284,688	$ (10,604)	$ (10,604)	Subsidiary
	CMSC, Inc.	Hsin-chu City, Taiwan	Integrated circuit design services and related businesses	112,650	112,650	9,902	25	78,228	(25,348)	(6,322)	Equity-method investee

TABLE 5

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS
YEARS ENDED DECEMBER 31, 2010 and 2009
(In Thousands of New Taiwan Dollars)

2010

No.	Company Name	Company Name	Nature of Relationship	Intercompany Transactions			
				Financial Statement Item	Amount	Terms (Note)	Percentage of Consolidated Total Gross Sales or Total Assets
0	VIS Associates Inc.	VIS Micro, Inc.	Indirect subsidiary	Research and development expenses Other payables to related parties	$ 33,457 3,200	- -	0.2% -

2009

No.	Company Name	Company Name	Nature of Relationship	Intercompany Transactions			
				Financial Statement Item	Amount	Terms (Note)	Percentage of Consolidated Total Gross Sales or Total Assets
0	Vanguard International Semiconductor Corporation	VIS Singapore Pte. Ltd.	Indirect subsidiary	Research and development expenses General and administrative expenses Acquisitions of property, plant and equipment	$ 24,599 38 1,803	- - -	0.2% - -
1	VIS Associates Inc.	VIS Micro, Inc.	Indirect subsidiary	General and administrative expenses	39,689	-	0.3%

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