Vanguard International Semiconductor Corporation and Subsidiaries

Consolidated Financial Statements for the Three Months Ended March 31, 2011 and 2010 and Independent Accountants' Review Report

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

The Board of Directors and the Shareholders
Vanguard International Semiconductor Corporation

We have reviewed the accompanying consolidated balance sheets of Vanguard International Semiconductor Corporation and subsidiaries (the "Group") as of March 31, 2011 and 2010, and the related consolidated statements of income and cash flows for the three months then ended. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to issue a report on these consolidated financial statements based on our reviews.

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

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

April 8, 2011

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

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

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

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
MARCH 31, 2011 AND 2010
(In Thousands of New Taiwan Dollars, Except Par Value)
(Reviewed, Not Audited)

	2011		2010	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 4)	$ 7,533,296	30	$ 7,063,070	31
Financial assets at fair value through profit or loss - current (Notes 2 and 5)	14,695	-	44,131	-
Available-for-sale financial assets - current (Notes 2 and 6)	12,116	-	207,316	1
Derivative financial assets for hedging - current (Notes 2 and 7)	3,636	-	2,014	-
Receivables from related parties (Note 21)	952,845	4	706,355	3
Notes and accounts receivable	1,749,869	7	1,619,248	7
Allowance for doubtful receivables (Note 2)	(41,146)	-	(33,061)	-
Allowance for sales returns and discounts (Note 2)	(61,361)	-	(60,314)	-
Inventories (Notes 2 and 8)	1,622,836	6	1,208,366	5
Other receivables from related parties (Note 21)	20,065	-	6,914	-
Pledged time deposits (Notes 4 and 22)	181,300	1	165,300	1
Prepaid expenses and other current assets	176,789	1	218,376	1
Deferred income tax assets - current (Notes 2 and 19)	198,462	1	105,493	-
Total current assets	12,363,402	50	11,253,208	49
INVESTMENTS				
Long-term stock investments accounted for by the equity method (Notes 2 and 9)	131,712	-	162,697	1
Available-for-sale financial assets - noncurrent (Notes 2 and 6)	185,264	1	141,493	1
Financial assets carried at cost - noncurrent (Notes 2 and 10)	57,666	-	59,178	-
Total investments	374,642	1	363,368	2
PROPERTIES (Notes 2, 11 and 21)				
Cost				
Buildings	12,477,519	51	12,118,416	53
Machinery and equipment	47,883,841	195	46,386,144	203
Other equipment	350,389	1	334,506	2
Total cost	60,711,749	247	58,839,066	258
Accumulated depreciation	(51,814,020)	(210)	(49,250,746)	(216)
Prepayments and construction in progress	2,070,649	8	407,140	2
Net properties	10,968,378	45	9,995,460	44
OTHER ASSETS				
Assets leased to others, net (Notes 2 and 12)	800,035	3	1,050,850	5
Idle assets (Notes 2 and 13)	80,000	1	55,000	-
Deferred charges, net (Notes 2 and 14)	18,937	-	41,137	-
Deferred income tax assets - noncurrent (Notes 2 and 19)	663	-	51,233	-
Refundable deposits	5,224	-	5,226	-
Total other assets	904,859	4	1,203,446	5
TOTAL	$ 24,611,281	100	$ 22,815,482	100

	2011		2010	
LIABILITIES AND SHAREHOLDERS' EQUITY	**Amount**	**%**	**Amount**	**%**
CURRENT LIABILITIES				
Financial liabilities at fair value through profit or loss - current (Notes 2 and 5)	$ 6,705	-	$ 3,819	-
Derivative financial liabilities for hedging - current (Notes 2 and 7)	14,586	-	579	-
Notes and accounts payable	673,007	3	750,919	3
Income tax payable (Notes 2 and 19)	103,102	-	30,247	-
Other payables to related parties (Note 21)	116,232	1	110,424	1
Accrued profit sharing to employees and bonus to directors and supervisors (Note 16)	373,062	2	51,985	-
Payables to contractors and equipment suppliers	795,175	3	267,590	1
Accrued expenses and other current liabilities (Notes 15 and 21)	833,142	3	837,718	4
Total current liabilities	2,915,011	12	2,053,281	9
OTHER LIABILITIES				
Accrued pension costs (Notes 2 and 18)	481,574	2	476,023	2
Guarantee deposits (Note 21)	17,234	-	29,871	-
Total other liabilities	498,808	2	505,894	2
Total liabilities	3,413,819	14	2,559,175	11
SHAREHOLDERS' EQUITY (Notes 2 and 16)				
Capital stock, NT$10.00 par value;				
Authorized - 3,300,000 thousand shares			-	-
Issued and outstanding - 1,647,982 thousand shares in 2011 and 1,678,460 thousand shares in 2010	16,479,816	67	16,784,600	74
Capital surplus				
Additional paid-in capital	465,763	2	466,127	2
Treasury stock transactions	-	-	32,355	-
Long-term stock investments	69,128	-	69,089	1
Total capital surplus	534,891	2	567,571	3
Retained earnings				
Legal reserve	1,593,687	6	1,584,763	7
Special reserve	-	-	277,083	1
Unappropriated earnings	2,633,774	11	974,260	4
Total retained earnings	4,227,461	17	2,836,106	12
Others				
Cumulative translation adjustments	(64,927)	-	(45,220)	-
Unrealized gain on financial instruments	20,221	-	113,250	-
Total others	(44,706)	-	68,030	-
Total shareholders' equity	21,197,462	86	20,256,307	89
TOTAL	$ 24,611,281	100	$ 22,815,482	100

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

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
THREE MONTHS ENDED MARCH 31, 2011 AND 2010
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)
(Reviewed, Not Audited)

	2011		2010	
	Amount	**%**	**Amount**	**%**
GROSS SALES (Notes 2, 7, 21 and 25)	$ 3,998,596		$ 3,592,414	
SALES RETURNS AND DISCOUNTS (Note 2)	(7,368)		(18,354)	
NET SALES	3,991,228	100	3,574,060	100
COST OF SALES (Notes 8, 20 and 21)	3,273,930	82	3,007,167	84
GROSS PROFIT	717,298	18	566,893	16
OPERATING EXPENSES (Notes 20 and 21)				
Marketing	34,815	1	33,106	1
General and administrative	161,861	4	152,656	4
Research and development	160,949	4	154,735	5
Total operating expenses	357,625	9	340,497	10
OPERATING INCOME	359,673	9	226,396	6
NONOPERATING INCOME AND GAINS				
Gain on disposal of investments (Notes 2 and 6)	20,837	1	-	-
Foreign exchange gain, net (Note 2)	15,964	-	-	-
Interest	14,688	-	9,756	-
Rental (Notes 12 and 21)	10,631	-	16,132	1
Valuation gains on financial instruments (Notes 2, 5 and 25)	-	-	17,354	1
Gain on disposal of properties (Notes 2 and 21)	-	-	15,995	-
Other (Note 21)	19,823	1	12,975	-
Total nonoperating income and gains	81,943	2	72,212	2
NONOPERATING EXPENSES AND LOSSES				
Expense of assets leased to others (Note 12)	18,240	1	22,974	1
Valuation loss on financial instruments (Notes 2, 5 and 25)	14,385	-	-	-
Investment loss recognized by the equity method (Notes 2 and 9)	7,339	-	10,045	-
Foreign exchange loss, net (Note 2)	-	-	12,056	-
Loss on disposal of properties (Note 2)	-	-	102	-
Other	15,372	-	10,309	-
Total nonoperating expenses and losses	55,336	1	55,486	1

(Continued)

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
THREE MONTHS ENDED MARCH 31, 2011 AND 2010
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)
(Reviewed, Not Audited)

	2011		2010	
	Amount	%	Amount	%
INCOME BEFORE INCOME TAX	$ 386,280	10	$ 243,122	7
INCOME TAX BENEFIT (EXPENSE) (Notes 2 and 19)	10,451	-	(22,844)	(1)
CONSOLIDATED NET INCOME	$ 396,731	10	$ 220,278	6

	2011		2010	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
CONSOLIDATED EARNINGS PER SHARE (Note 17)				
Basic	$ 0.23	$ 0.24	$ 0.14	$ 0.13
Diluted	$ 0.23	$ 0.24	$ 0.14	$ 0.13

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

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2011 AND 2010
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Consolidated net income	$ 396,731	$ 220,278
Adjustments to reconcile consolidated net income to net cash provided by operating activities:		
Depreciation and amortization	778,584	745,740
Gain on disposal of investments	(20,837)	-
Investment loss recognized by the equity method	7,339	10,045
Deferred income tax	(35,189)	12,045
Gain on disposal of properties, net	-	(15,893)
Accrued pension costs	563	843
Provision of the allowance for doubtful accounts	9,024	5,728
(Reversal) provision of the allowance for the sales returns and discounts	(4,437)	5,649
Net changes in operating assets and liabilities		
Financial assets held for trading	22,529	20,327
Financial assets designated as at fair value through profit or loss	-	9,921
Receivables from related parties	(536,540)	(181,203)
Notes and accounts receivable	(161,732)	(278,421)
Inventories	(7,455)	(74,647)
Other receivables from related parties	(3,434)	4,800
Prepaid expenses and other current assets	3,083	(120,477)
Financial liabilities held for trading	757	2,600
Derivative financial instruments for hedging	10,068	800
Payables to related parties	-	(22)
Notes and accounts payable	6,176	168,379
Income tax payable	24,611	10,158
Other payables to related parties	41,669	27,072
Accrued profit sharing to employees and bonus to directors and supervisors	62,633	35,025
Accrued expenses and other current liabilities	(258,211)	(167,817)
Net cash provided by operating activities	335,932	440,930
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of available-for-sale financial assets	(6,342)	-
Proceeds from disposal of available-for-sale financial assets	38,504	-
Increase in pledged time deposits	(24,700)	-
Acquisition of properties	(1,155,545)	(297,401)
Proceeds from the disposal of properties	-	15,995
Increase in deferred charges	(2,148)	(4,456)
Decrease in refundable deposits	4	1
Net cash used in investing activities	(1,150,227)	(285,861)

(Continued)

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2011 AND 2010
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	2011	2010
CASH FLOWS FROM FINANCING ACTIVITIES		
(Decrease) increase in guarantee deposits	$ (64)	$ 171
Proceeds from the exercise of employee stock options	31,778	7,362
Net cash provided by financing activities	31,714	7,533
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(782,581)	162,602
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	8,321,886	6,901,472
EFFECT OF EXCHANGE RATE CHANGES	(6,009)	(1,004)
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 7,533,296	$ 7,063,070
SUPPLEMENTARY INFORMATION		
Income tax paid	$ 79	$ -
NONCASH INVESTING ACTIVITIES		
Reclassification from financial assets curried at cost to available-for-sale financial assets	$ 5,750	$ -
INVESTING ACTIVITIES AFFECTING BOTH CASH AND NON-CASH ITEMS		
Total acquisitions	$ 1,388,437	$ 438,829
Increase in payables to contractors and equipment suppliers	(232,892)	(141,428)
	$ 1,155,545	$ 297,401

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

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2011 AND 2010
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)
(Reviewed, Not Audited)

1. ORGANIZATION AND OPERATIONS

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

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

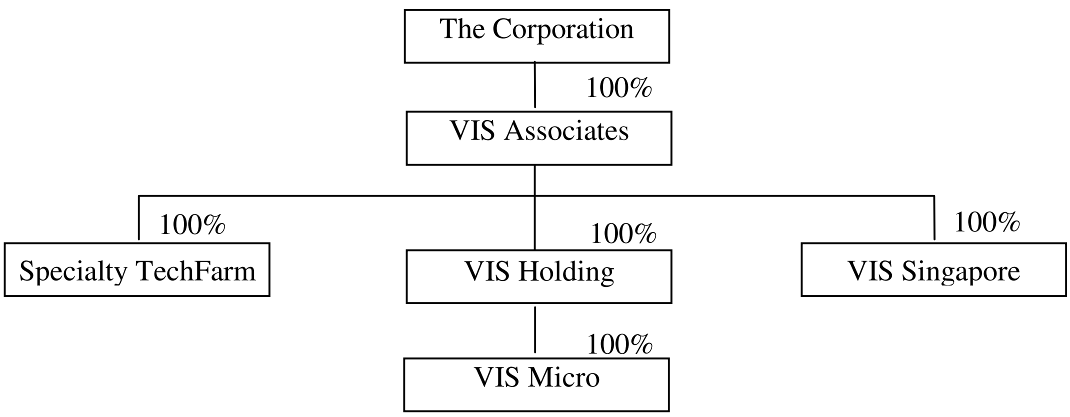
The Corporation researches, designs, manufactures, packages, tests and sells memory integrated circuits (ICs), large-scale integrated ICs (LSIs), very large-scale integrated ICs (VLSIs) and related parts.

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

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

On November 2, 2009, the board of VIS Singapore directors resolved to liquidate VIS Singapore effective November 23, 2009. The previous years’ earnings of US$1,093 thousand was distributed during the period ended March 31, 2011. As of the date of the review’s report, the liquidation is still in process.

The following diagram shows the relationship and ownership percentages between the Corporation and its consolidated subsidiaries (collectively, the “Group”) as of March 31, 2011:



The financial statements as of and for the three months ended March 31, 2011 and 2010 of VIS Singapore have not been reviewed. The Corporation believes that, had VIS Singapore's financial statements been reviewed, any adjustments arising would have had no material effect on the Company's financial statements.

As of March 31, 2011 and 2010, the Corporation and subsidiaries had 3,474 and 3,152 employees, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements have been prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China (ROC). Under these guidelines and principles, the Corporation and subsidiaries should make certain estimates and assumptions that could affect the amounts of allowance for doubtful accounts, allowance for sales returns and discounts, decline in market value of inventories, depreciation of properties, assets leased to others and idle assets, amortization of deferred charges, impairment loss, pension expenses, income tax expenses and compensation expenses for bonuses paid to employees, directors and supervisors. Actual results could differ from these estimates.

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

Significant accounting policies are summarized as follows:

Consolidation

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

The consolidated financial statements as of and for the three months ended March 31, 2011 and 2010, 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 assets and 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 not used for hedging are reclassified as financial assets or liabilities held for trading. When the fair value is positive, the derivative is listed as a financial asset; otherwise, the derivative is listed as a financial liability.

Fair values of financial assets and financial liabilities at the balance sheet date are determined as follows: Financial 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.

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. As discussed in Note 3 to the financial statements, the Group adopted the third-time revised Statement of Financial Accounting Standards (SFAS) No. 34, "Financial Instruments: Recognition and Measurement". One of the main revisions is that the impairment of receivables originated by the Company should be covered by SFAS No. 34. Accounts receivable are assessed for impairment at the end of each reporting period and considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the accounts receivable, the estimated future cash flows of the asset have been affected. Objective evidence of impairment could include:

- Significant financial difficulty of the debtor; or

- It becoming probable that the debtor will enter bankruptcy or financial re-organization.; or

- A default or delinquency in interest or principal payments; or

- Extension of the maturity date; or

- Significant financial difficulty of the final issuer or debtor; or

- The disappearance of an active market for that financial asset because of the issuer’s financial difficulties or other reasons.

Accounts receivable that are assessed not to be impaired individually are further assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of accounts receivable could include the Company’s past experience of collecting payments, an increase in the number of delayed payments, as well as observable changes in national or local economic conditions that correlate with defaults on receivables.

The amount of the impairment loss recognized is the difference between the asset carrying amount and the present value of estimated future cash flows, after taking into account the related collateral and guarantees, discounted at the receivable’s original effective interest rate.

The carrying amount of the accounts receivable is reduced through the use of an allowance account. When accounts receivable are considered uncollectible, they are written off against the allowance account. Recoveries of amounts previously written off are credited to the allowance account. Changes in the carrying amount of the allowance account are recognized as bad debt in profit or loss.

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.

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

Financial Assets Carried at Cost

Investments in securities with no quoted prices in an active market and with fair values that cannot be reliably measured, such as non-publicly traded stocks 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 a deferred charge would not exceed the carrying amount (net of amortization) had no impairment loss been recognized in prior years.

Employee Stock Options

Employee stock options granted between January 1, 2004 and December 31, 2007 were accounted for under the interpretations issued by the Accounting Research and Development Foundation ("ARDF"). The Corporation adopted the intrinsic value method, under which compensation cost was recognized on a straight-line basis over the vesting period. Employee stock option plans that were granted or modified after December 31, 2007 are accounted for using fair value method in accordance with Statement of Financial Accounting Standards No. 39, "Accounting for Share-based Payment", under which compensation cost was recognized on a straight-line basis over the vesting period.

Sales and Allowance for Sales Returns and Discounts

Sales are recognized when the Group has transferred to the buyer the significant risk and rewards of ownership of the goods, primarily upon shipment, because the earning process has been completed and economic benefits associated with the transaction have been realized or are realizable. The Group does not recognize sales revenue on materials delivered to subcontractors because this delivery does not involve a transfer of risks and rewards of materials ownership. Allowances and related provisions for sales returns and discounts are recorded in the period the related revenue is recognized on the basis of the Group's historical experience. These provisions are deducted from gross sales and related costs are deducted, as they are incurred, from cost of sales.

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

Capitalized and Other Expenditures

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

Pension Costs

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

VIS Micro has defined contribution pension plan. Pension costs are recorded based on the monthly contributions made to the employees' individual pension accounts.

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

If the Group can control the timing of the reversal of a temporary difference arising from the difference between the book value and the tax basis of a long-term equity investment in a foreign subsidiary or joint venture and if the temporary difference is not expected to reverse in the foreseeable future and will, in effect, exist indefinitely, then a deferred tax liability or asset is not recognized.

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

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

b. Shareholders' equity - at historical exchange rates;

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

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

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

Reclassifications

Certain accounts in the consolidated financial statements as of and for the three months ended March 31, 2010 have been reclassified to be consistent with those in the consolidated financial statements as of and for the three months ended March 31, 2011.

3. ACCOUNTING CHANGES

SFAS No. 34, "Financial Instruments: Recognition and Measurement"

On January 1, 2011, the Group adopted the newly revised Statement of Financial Accounting Standards (SFAS) No. 34, "Financial Instruments: Recognition and Measurement." The main revisions includes (1) finance lease receivables are now covered by SFAS No. 34; (2) the scope of the applicability of SFAS No. 34 to insurance contracts is amended; (3) loans and receivables originated by the Company are now covered by SFAS No. 34; (4) additional guidelines on impairment testing of financial assets carried at amortized cost a debtor has financial difficulties and the terms of obligations have been modified; and (5) accounting treatment by a debtor for modifications in the terms of obligations. This accounting change has no effect on the financial statement for three months ended March 31, 2011.

SFAS No. 41, "Accounting for Operating Segments Disclosures"

On January 1, 2011, the Group adopted the newly issued SFAS No. 41 - "Operating Segments." The requirements of the statement are based on the information about the components of the Company that management uses to make decisions about operating matters. SFAS No. 41 requires identification of operating segments on the basis of internal reports that are regularly reviewed by the Company's chief operating decision maker in order to allocate resources to the segments and assess their performance. This statement supersedes SFAS No. 20, "Segment Reporting." This accounting change has no effect on the disclosures of operating segments of the Group.

4. CASH AND CASH EQUIVALENTS

	March 31	
	2011	2010
Bank deposits	$ 7,604,585	$ 7,089,253
Bonds acquired under resale agreements	110,011	139,117
	7,714,596	7,228,370
Pledged Time Deposit	(181,300)	(165,300)
	$ 7,533,296	$ 7,063,070

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

	March 31	
	2011	2010
Financial assets at FVTPL		
Financial assets held for trading	$ 14,695	$ 13,885
Financial assets designated as at FVTPL	-	30,246
	$ 14,695	$ 44,131
Financial liabilities at FVTPL		
Financial liabilities held for trading	$ 6,705	$ 3,819

(Continued)

	March 31	
	2011	2010
Financial assets for trading		
Forward exchange contracts	$ 8,410	$ 9,480
Currency-swap contracts	6,285	4,405
	$ 14,695	$ 13,885
Financial liabilities for trading		
Forward exchange contracts	$ 80	$ 2,939
Currency-swap contracts	6,625	880
	$ 6,705	$ 3,819

(Concluded)

The Corporation entered into derivative transactions in the three months ended March 31, 2011 and 2010 to manage exposures related to exchange rate and interest rate fluctuations. The financial risk management objective of the Corporation is to minimize risks due to changes in fair value or cash flows.

a. Outstanding forward exchange contracts as of March 31, 2011 and 2010 were as follows:

Contract	Currency	Contract Expiry Date	Contract Amount (In Thousands)
March 31, 2011			
Sell forward exchange contracts	US$ to NT$	2011.04.19	US$ 13,000
Sell forward exchange contracts	US$ to JPY	2011.04.06-2011.04.20	US$ 3,000
Buy forward exchange contracts	NT$ to US$	2011.04.28-2011.06.30	US$ 14,000
March 31, 2010			
Sell forward exchange contracts	US$ to NT$	2010.04.07-2010.05.24	US$ 46,000
Sell forward exchange contracts	US$ to JPY	2010.04.07-2010.05.06	US$ 3,500
Buy forward exchange contracts	NT$ to US$	2010.04.07-2010.06.30	US$ 22,000

b. Outstanding currency-swap contracts as of March 31, 2011 and 2010 were as follow:

	Currency	Maturity Date	Contract Amount (In Thousands)
March 31, 2011			
Sell forward exchange contracts	US$ to NT$	2011.04.07-2011.05.27	US$ 67,400
March 31, 2010			
Sell forward exchange contracts	US$ to NT$	2010.04.02-2010.05.24	US$ 53,400

The net gains on financial instruments for trading for the three months ended March 31, 2011 and 2010 were $1,292 thousand and $17,617 thousand, respectively.

Financial instruments designated as at FVTPL were as follows:

	March 31, 2010
Financial assets designated as at FVTPL	
Credit linked notes	$ 30,246

Net losses and gains on financial assets designated as at FVTPL in the three months ended March 31, 2011 and 2010 was NT$183 thousand and NT$248 thousand, respectively.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS - CURRENT

	March 31	
	2011	2010
Listed stocks - Chipbond Technology Corporation	$ 173,624	$ -
Listed stocks - Champion Microelectronic Corp.	11,640	-
Listed stocks - Walton Advanced Engineering, Inc.	10,074	173,375
Listed stocks - International Semiconductor Technology Ltd. ("IST")	-	141,493
Funds - PIMCO GIS TOTAL RETURN BOND CL A (US$1,003 thousand in 2010)	-	31,905
Listed stocks - Advanced Analogic Technologies, Inc. (US$69 thousand in 2011 and US$64 thousand in 2010)	2,042	2,036
	197,380	348,809
Less: Financial assets classified as noncurrent assets	(185,624)	(141,493)
	$ 12,116	$ 207,316

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.

The Group reclassified its investments - Champion Microelectronic Corp., whose shares were listed on the Taiwan Stock Exchange (TSE) on March 21, 2011, from financial assets carried at cost to available-for-sale financial assets.

7. DERIVATIVE FINANCIAL INSTRUMENTS FOR HEDGING

Derivative financial instruments for hedging (reference to Note 25) consisted of the following:

	March 31	
	2011	2010
Derivative financial assets held for hedging		
Current		
Forward exchange contracts	$ -	$ 2,014
Currency-swap contracts	3,636	-
	$ 3,636	$ 2,014

(Continued)

	March 31	
	2011	2010
Derivative financial liabilities held for hedging		
Current		
Forward exchange contracts	$ -	$ 579
Currency-swap contracts	14,586	-
	$ 14,586	$ 579

(Concluded)

Risks control and hedging policy:

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

In the three months ended March 31, 2011 and 2010, the Corporation used forward exchange contracts to hedge risks on exchange rate fluctuations of expected sales and foreign-currency denominated accounts receivable. The outstanding forward contracts in the three months ended March 31, 2011 and 2010 were as follows:

	Currency	Maturity Date	Contract Amount (In Thousands)
March 31, 2011			
Sell forward exchange contracts	US$ to NT$	2011.04.19-2011.06.17	US$ 26,000
March 31, 2010			
Sell forward exchange contracts	US$ to NT$	2010.04.16-2010.05.17	US$ 9,000

The realized net loss and gain on derivative financial instruments used for cash flow hedging for the three months ended March 31, 2011 and 2010 were $41,906 thousand and $102 thousand, respectively, which were recognized in sales. The net gains on derivative financial instruments used for fair value hedging were $39,574 thousand and $2,421 thousand, respectively, for the three months ended March 31, 2011 and 2010 which were recognized in nonoperating income and expenses.

8. INVENTORIES

	March 31	
	2011	2010
Finished goods	$ 168,601	$ 30,650
Work in process	936,027	850,276
Raw materials	252,382	88,170
Supplies and spare parts	265,826	239,270
	$ 1,622,836	$ 1,208,366

Allowance for inventory losses were $261,451 thousand and $311,690 thousand in March 31, 2011 and 2010, respectively.

The cost of inventories recognized as cost of goods sold for the three months ended March 31, 2011 and 2010 were NT$3,273,930 thousand and NT$3,007,167 thousand, respectively, which included reversal write-downs of inventory NT$2,017 thousand and write-downs of inventory NT$25,843 thousand for the three months ended March 31, 2011 and 2010, respectively.

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

	March 31			
	2011		2010	
	Carrying Value	% of Owner-ship	Carrying Value	% of Owner-ship
Unlisted stocks				
CMSC, Inc.	$ 75,800	25	$ 82,982	25
SkyTraq Technology, Inc.	24,031	28	21,998	28
Linear Atrwork, Inc.	16,014	27	23,828	27
INNO-TECH Co., Ltd.	8,568	40	20,593	40
LayerWalker Technology, Inc.	7,299	27	13,296	27
	$ 131,712		$ 162,697	

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

	Three Months Ended March 31	
	2011	2010
SkyTraq Technology, Inc.	$ 1,436	$ (786)
LayerWalker Technology, Inc.	(977)	(1,375)
Linear Atrwork, Inc.	(1,318)	(2,170)
CMSC, Inc.	(2,523)	(1,450)
INNO-TECH Co., Ltd.	(3,957)	(4,264)
	$ (7,339)	$ (10,045)

The carrying value of the equity-method investments and the related investment net loss were based on the investees' unreviewed financial statements, except of CMSC, Inc., of the same reporting periods as those of the Group for the three months ended March 31, 2011 and 2010. The Group believes that, had those investee's financial statements been reviewed, any adjustments arising would have no material effect on the Group's financial statements.

10. FINANCIAL ASSETS CARRIED AT COST - NONCURRENT

	March 31	
	2011	2010
Unlisted stocks		
United Industrial Gases Co., Ltd.	$ 38,716	$ 38,716
Goyatek Technology Inc.	13,053	14,095
Uniband Electronic Corp.	5,897	6,367
	$ 57,666	$ 59,178

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.

11. PROPERTIES

	Three Months Ended March 31, 2011				
	Buildings	Machinery and Equipment	Other Equipment	Prepayments and Construction in Progress	Total
Cost					
Balance, beginning of period	$ 12,407,164	$ 47,585,007	$ 352,793	$ 1,063,733	$ 61,408,697
Additions	70,149	311,141	231	1,006,916	1,388,437
Reclassification	206	(206)	-	-	-
Disposal	-	(12,101)	(2,585)	-	(14,686)
Cumulative translation adjustments	-	-	(50)	-	(50)
Balance, end of period	$ 12,477,519	$ 47,883,841	$ 350,389	$ 2,070,649	$ 62,782,398

	Three Months Ended March 31, 2011			
	Buildings	Machinery and Equipment	Other Equipment	Total
Accumulated depreciation				
Balance, beginning of period	$ 8,888,533	$ 41,918,845	$ 277,737	$ 51,085,115
Depreciation	119,077	616,197	8,365	743,639
Disposal	-	(12,101)	(2,585)	(14,686)
Reclassification	23	(23)	-	-
Cumulative translation adjustments	-	-	(48)	(48)
Balance, end of period	$ 9,007,633	$ 40,522,918	$ 283,469	$ 51,814,020

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

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

12. ASSETS LEASED TO OTHERS, NET

	Three Months Ended March 31	
	2011	2010
Buildings		
Cost		
Balance, beginning and end of period	$ 1,037,161	$ 1,257,618
Accumulated depreciation		
Balance, beginning of period	218,886	183,794
Depreciation	18,240	22,974
Balance, end of period	237,126	206,768
Net balance	$ 800,035	$ 1,050,850

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

Company Name	Lease Terms	Next Three Quarters' Rental
Taiwan Semiconductor Manufacturing Company Ltd.	2010.07.20-2011.07.19	$ 84
Integrated Service Technology, Inc.	2010.04.01-2015.03.31	3,089
Standard Technology Service, Inc.	2010.05.01-2015.04.30	7,190
		$ 10,363

13. IDLE ASSETS

	Three Months Ended March 31	
	2011	2010
Cost		
Balance, beginning and end of period	$ 574,999	$ 263,910
Accumulated depreciation		
Balance, beginning of period	300,050	105,564
Depreciation	11,428	5,000
Balance, end of period	311,478	110,564
Accumulated depreciation		
Balance, beginning and end of period	183,521	98,346
Net balance	$ 80,000	$ 55,000

The Corporation transferred certain equipment to idle assets, revalued the realizable value of the equipment and evaluated impairment loss according to industrial technology, market, economic and legal environment.

14. DEFERRED CHARGES, NET

Software design costs:

	Three Months Ended March 31	
	2011	2010
Cost		
Balance, beginning of period	$ 711,496	$ 701,694
Addition	2,148	4,456
Balance, end of period	713,644	706,150
Accumulated amortization		
Balance, beginning and end of period	689,430	656,553
Amortization	5,277	8,460
Balance, end of period	694,707	665,013
Net balance	$ 18,937	$ 41,137

15. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	March 31	
	2011	2010
Bonus	$ 93,771	$ 152,250
Royalty	8,044	4,867
Others	781,327	680, 601
	$ 883,142	$ 837,718

	Royalty	Bonus
January 1, 2011	$ 5,260	$ 360,506
Add: Other payables to related parties of beginning	45,263	-
Accrual	70,012	95,765
Reduce: Payable	(49,833)	(362,500)
Other payables to related parties of end	(62,658)	-
March 31, 2011	$ 8,044	$ 93,771
January 1, 2010	$ 4,048	$ 274,782
Add: Other payables to related parties of beginning	50,325	-
Accrual	71,212	154,210
Reduce: Payable	(54,013)	(276,742)
Other payables to related parties of end	(66,705)	-
March 31, 2010	$ 4,867	$ 152,250

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$59,510 thousand and NT$33,042 thousand; and the remuneration to directors and supervisors were NT$3,123 thousand and NT$1,983 thousand for the three months ended March 31, 2011 and 2010, respectively.

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

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

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

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

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

The appropriation of earnings for 2010 and 2009 were proposed and approved in the Board of Directors' meeting and shareholders' meetings held on January 28, 2011 and February 5, 2010, respectively. The appropriations and dividends per share were as follows:

	Appropriation of Earnings		**Dividend Per Share (NT$)**	
	2010	**2009**	**2010**	**2009**
Legal reserve	$ 195,239	$ 8,924	$ -	$ -
Reversal of special reserve	-	(277,083)	-	-
Cash dividends	987,316	671,154	0.60	0.40
	$ 1,182,555	$ 402,995		

The Board of Directors' meeting on January 28, 2011 also proposed the bonus to employees NT$292,858 thousand and the remuneration to directors and supervisors NT$17,571 thousand, respectively.

These proposed appropriations will be submitted to the shareholders for approval in their meeting on June 10, 2011. Information on appropriations can be accessed online through the Market Observation Post System on the Web site of the Taiwan Stock Exchange Corporation.

Unrealized Gain or Loss on Financial Instruments

For the three months ended March 31, 2011 and 2010, 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
Three months ended March 31, 2011			
Balance, beginning of period	$ 69,902	$ (12,805)	$ 57,097
Recognized in shareholders' equity	(28,589)	(29,356)	(57,945)
Transferred to profit or loss	(20,837)	41,906	21,069
Balance, end of period	$ 20,476	$ (255)	$ 20,221

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

Translation Adjustment

For the three months ended March 31, 2011 and 2010, movements of translation adjustment were as follows:

	Foreign Currency Exchange Valuation Difference
Three months ended March 31, 2011	
Balance, beginning of period	$ (56,516)
Recognized in shareholders' equity	(8,411)
Balance, end of period	$ (64,927)
Three months ended March 31, 2010	
Balance, beginning of period	$ (44,060)
Recognized in shareholders' equity	(1,160)
Balance, end of period	$ (45,220)

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$)
2011						
Beginning balance	29,183	$16.62	7,767	$12.00	3,024	$15.83
Options exercised	(46)	13.20	(713)	12.00	(340)	13.14
Options canceled	(336)	16.63	-	-	(3)	12.60
Ending balance	28,801	16.62	7,054	12.00	2,861	16.16
2010						
Beginning balance	31,618	17.12	8,711	12.40	3,429	16.23
Options exercised	(30)	13.60	(387)	12.40	(56)	13.00
Options canceled	(365)	16.89	-	-	(12)	17.21
Ending balance	31,223	17.12	8,324	12.40	3,361	16.28

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

The outstanding stock options as of March 31, 2011 were as follows:

	Options Outstanding			Options Exercisable	
Exercise Price (NT$)	Number Outstanding (In Thousands)	Expected Remaining Contractual Life (In Years)	Weighted-average Exercise Price (NT$)	Number Exercisable (In Thousands)	Weighted-average Exercise Price (NT$)
2003 plan					
$13.2-$17.6	28,801	2.67-3.47	$16.62	28,801	$16.62
2002 plan					
$12.00	7,054	1.48	12.00	7,054	12.00
2001 plan					
$12.6-$17.0	2,861	0.15-0.85	16.16	2,861	16.16

17. CONSOLIDATED EARNINGS PER SHARE

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

	Amounts (Numerator)		Shares	EPS (NT$)	
	Before Income Tax	After Income Tax	(Denominator) (Thousands)	Before Income Tax	After Income Tax
Three months ended March 31, 2011					
Consolidated net income	$ 386,280	$ 396,731			
Basic consolidated earnings per share					
Consolidated net income of common shareholders of the parent	$ 386,280	$ 396,731	1,646,743	$ 0.23	$ 0.24
Effect of dilutive securities employee stock option rights	-	-	1,800		
Bonus to employees	-	-	26,504		
Diluted consolidated earnings per share					
Consolidated net income of common and potential common shareholders of the parent	$ 386,280	$ 396,731	1,675,047	$ 0.23	$ 0.24
Three months ended March 31, 2010					
Consolidated net income	$ 243,122	$ 220,278			
Basic consolidated earnings per share					
Consolidated net income of common shareholders of the parent	$ 243,122	$ 220,278	1,678,335	$ 0.14	$ 0.13
Effect of dilutive securities employee stock option rights	-	-	2,027		
Bonus to employees	-	-	2,974		
Diluted consolidated earnings per share					
Consolidated net income of common and potential common shareholders of the parent	$ 243,122	$ 220,278	1,683,336	$ 0.14	$ 0.13

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

18. 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$30,703 thousand and NT$28,179 thousand for the three months ended March 31, 2011 and 2010, respectively.

Based on the defined benefit plan under the Labor Standards Law (the "LSL"), pension benefits are calculated on the basis of the length of service and average monthly salaries and wages of the six months before retirement. The Corporation contributes amounts equal to 2% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. The pension fund is deposited in Bank of Taiwan in the committee's name. The Corporation recognized pension costs of NT$4,161 thousand and NT$4,691 thousand for the three months ended March 31, 2011 and 2010, respectively.

Furthermore, VIS Micro is required by local regulations to make monthly contributions at certain percentages of the basic salary of their employees. Pursuant to the aforementioned Act and local regulations, the recognized pension costs of NT$246 thousand and NT$262 thousand for the three months ended March 31, 2011 and 2010, respectively.

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

	Three Months Ended March 31	
	2011	**2010**
Pension fund		
Balance, beginning of period	$ 290,035	$ 272,148
Contributions	3,626	3,809
Interest	2,802	4,377
Balance, end of period	$ 296,463	$ 280,334
Accrued pension costs		
Balance, beginning of period	$ 481,011	$ 475,180
Add: Accrued expenses and other current liabilities, beginning of period	1,215	1,214
Provisions	4,161	4,691
Contributions	(3,626)	(3,809)
Deducted: Accrued expenses and other current liabilities, end of period	(1,187)	(1,253)
Balance, end of period	$ 481,574	$ 476,023

19. INCOME TAX EXPENSE

a. Income tax benefit (expense) consists of:

	Three Months Ended March 31	
	2011	**2010**
Current income tax expense		
Domestic	$ (24,643)	$ (10,762)
Overseas	(50)	248
	(24,693)	(10,514)
Net change in deferred income tax assets		
Investment tax credits	(15,829)	(7,481)
Operating loss carryforwards	(21,334)	(13,876)
Temporary differences	(13,904)	(103,890)
Valuation allowance	86,256	113,202
Others	(45)	(285)
Income tax benefit (expense)	$ 10,451	$ (22,844)

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

	March 31	
	2011	**2010**
Current		
Investment tax credits	$ 277,370	$ 150,215
Operating loss carryforwards	61,493	9,779
Loss on inventory valuation and obsolescence	59,957	83,796
Other	15,234	26,618
	414,054	270,408
Valuation allowance	(215,592)	(164,915)
	$ 198,462	$ 105,493
Noncurrent		
Investment tax credits	$ 433,400	$ 674,472
Operating loss carryforwards	25,782	174,618
Accrued pension cost	81,868	95,205
Depreciation and amortization	(32,341)	100,558
	508,709	1,044,853
Valuation allowance	(508,046)	(993,620)
	$ 663	$ 51,233

In June 2010, the Legislative Yuan passed the amendment of Article 5 of the Income Tax Law, which reduces a profit-seeking enterprise's income tax rate from 20% to 17%, effective January 1, 2010.

Under Article 10 of the Statute for Industrial Innovation (SII) passed 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 took effect from January 1, 2010 and is valid till December 31, 2019.

c. The balances of the imputation credit account as of March 31, 2011 and 2010 were $23,696 thousand and $43,308 thousand, respectively.

The expected and actual creditable ratios 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 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 on the dividend distribution date.

d. The unappropriated retained earnings as of March 31, 2011 and 2010 did not contain the unappropriated earnings generated on and before January 1, 1998.

e. As of March 31, 2011, 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	$ 81,991	$ 61,493	2013
Statute for Upgrading Industries	Purchase of machinery and equipment	$ 102,867	$ 95,584	2011
		78,189	78,189	2012
		2,595	2,595	2013
		8,335	8,335	2014
		$ 191,986	$ 184,703	
Statute for Upgrading Industries	Research and development expenditures	$ 132,980	$ 132,980	2011
		239,389	239,389	2012
		149,837	149,837	2013
		$ 522,206	$ 522,206	
Statute for Upgrading Industries	Personnel training expenditures	$ 2,606	$ 2,606	2011
		789	789	2012
		466	466	2013
		$ 3,861	$ 3,861	
Statute for Upgrading Industries	Investments in important technology - based enterprise	$ 8,546	$ 8,546	2011

As of March 31, 2011, the operating loss carryforwards of VIS Holding were as follows:

Expiry Year	Remaining Creditable Amount
2020	$ 25,340
2021	287
2027	155
	$ 25,782

f. 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 2012.01.01 to 2016.12.31.

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

20. LABOR COST, DEPRECIATION AND AMORTIZATION EXPENSE

	Three months ended March 31, 2011			Three months ended March 31, 2010		
	Classified as Cost of Sales	Classified as Operating Expenses	Total	Classified as Cost of Sales	Classified as Operating Expenses	Total
Labor cost						
Salary	$ 664,888	$ 158,802	$ 823,690	$ 614,484	$ 157,253	$ 771,737
Labor/health insurance	42,245	10,703	52,948	32,331	9,353	41,684
Pension	28,203	6,907	35,110	25,932	7,201	33,133
Others	19,536	5,904	25,440	15,952	5,088	21,040
	$ 754,872	$ 182,316	$ 937,188	$ 688,699	$ 178,895	$ 867,594
Depreciation	$ 718,514	$ 25,125	$ 743,639	$ 685,024	$ 24,282	$ 709,306
Amortization	$ 2,517	$ 2,760	$ 5,277	$ 4,279	$ 4,181	$ 8,460

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

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

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

7) 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, were summarized as follows:

	2011		2010	
	Amount	%	Amount	%
For the period				
Sales				
TSMC	$ 1,324,639	33	$ 947,727	27
Goya	15,587	1	18,421	1
GUC	8,335	-	4,805	-
CMSC	912	-	1,238	-
INNO	-	-	160	-
	$ 1,349,473	34	$ 972,351	28

	2011 Amount	2011 %	2010 Amount	2010 %
Purchases				
TSMC	$ -	-	$ 2,979	-
Manufacturing expenses				
TSMC	$ 120,808	4	$ 119,853	4
Marketing expenses				
TSMC	$ -	-	$ 3,563	9
General and administrative expenses				
CPSI Management Inc.	$ -	-	$ 801	-
Research and development expenses				
TSMC	$ 1,345	1	$ 344	-
Gain on disposal of properties				
TSMC	$ -	-	$ 15,995	100
Rental revenues				
TSMC	$ 7,205	68	$ 2,273	14
Nonoperating income and gains				
TSMC	$ 9,719	49	$ 3,239	12
INNO	243	1	-	-
Goya	8	-	-	-
	$ 9,970	50	$ 3,239	12
Purchase of properties				
TSMC	$ 35,846	3	$ 16,043	4
At end of period				
Receivables				
TSMC	$ 932,938	98	$ 688,729	97
Goya	13,745	1	13,019	2
GUC	4,980	1	3,551	1
CMSC	1,182	-	1,056	-
	$ 952,845	100	$ 706,355	100
Other receivables				
TSMC	$ 20,065	100	$ 6,914	100
Other payables				
TSMC	$ 116,141	96	$ 110,391	100
GUC	91	4	33	-
	$ 116,232	100	$ 110,424	100

	2011		2010	
	Amount	%	Amount	%
Rental in advance (presented under accrued expenses and other current liabilities)				
TSMC	$ -	-	$ 2,273	-
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 with related parties were not significantly different from those for third parties. However, for other related-party transactions, license fees, marketing expense, general and administrative expenses and research and development expenses, there were no similar transactions in the market; thus, transaction terms were based on related contracts.

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 Corporation purchased equipment from related party. The terms were based on related contracts.

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

22. PLEDGED ASSETS

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

	Three Months Ended March 31	
	2011	2010
Pledged time deposits	$ 181,300	$ 165,300

23. 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 $78,109 thousand. The rental paid to Hsinchu Science-Based Industrial Park Administration could be adjusted according to the lease contract, and the lease is renewable upon its expiration.

Future minimum annual rentals under the leases are as follows:

Year	Amount
2011 (2nd to 4th quarter)	$ 58,581
2012	78,109
2013	77,029
2014	76,669
2015	67,539
2016-2029	759,710
	$ 1,117,637

24. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

The significant commitments of the Corporation as of March 31, 2011 were as follows:

a. The Corporation entered into a "Manufacturing, License, and Technology Transfer Agreement" with Taiwan Semiconductor Manufacturing Company Ltd. beginning January 1, 2004, to pay fees according to the net sales of certain products.

b. 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.

c. As of March 31, 2011, unused letters of credit aggregated about JPY48,029 thousand and US$901 thousand.

25. FINANCIAL INSTRUMENTS

a. Fair values of financial instruments were as follows:

	March 31			
	2011		2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets				
Financial assets at fair value through profit or loss - current	$ 14,695	$ 14,695	$ 44,131	$ 44,131
Available-for-sale financial asserts - current	12,116	12,116	207,316	207,316
Derivative financial assets for hedging - current	3,636	3,636	2,014	2,014
Available-for-sale financial assets - noncurrent	185,264	185,264	141,493	141,493
Financial assets carried at cost - noncurrent	57,666	-	59,178	-
Liabilities				
Financial liabilities at fair value through profit or loss - current	6,705	6,705	3,819	3,819
Derivative financial liabilities for hedging - current	14,586	14,586	579	579

b. Methods and assumptions of the Group 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, which have no quoted prices in an active market and entail an unreasonably high cost to obtain verifiable fair values. Therefore, no fair value is presented.

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

	Published Price		Estimated Price	
	March 31		March 31	
	2011	2010	2011	2010
Assets				
Financial assets at fair value through profit or loss - current	$ -	$ -	$ 14,695	$ 44,131
Available-for-sale financial asserts - current	12,116	207,316	-	-
Derivative financial assets for hedging - current	-	-	3,636	2,014
Available-for-sale financial assets - noncurrent	185,264	141,493	-	-
Liabilities				
Financial liabilities at fair value through profit or loss - current	-	-	6,705	3,819
Derivative financial liabilities for hedging - current	-	-	14,586	579

d. Net loss and gain recognized for the changes in fair value of derivatives estimated using valuation techniques were $14,385 thousand and $17,354 thousand for the three months ended March 31, 2011 and 2010.

e. As of March 31, 2011 and 2010, financial assets exposed to fair value interest rate risk amounted to $5,650,596 thousand and $4,919,253 thousand, respectively; financial assets exposed to cash flow interest rate risk amounted to $2,064,000 thousand and $2,309,117 thousand, respectively.

f. Interest revenues on financial instruments other than the financial assets or liabilities at fair value through profit or loss in the three months ended March 31, 2011 and 2010 were $14,688 thousand and $9,756 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 $954 thousand.

2) Credit risk. Credit risk represents the loss that would be incurred by the Corporation if the counter-parties or third-parties breach the contracts and also refers to concentrations of credit risk; factors; principal amount; and receivables on the financial instruments. Derivative contracts with positive fair values on the balance sheet date are evaluated for credit risk. As of March 31, 2011 and 2010, financial assets exposed to credit risk amounted to $18,331 thousand and $46,145 thousand, respectively. The maximum credit risks of other financial instruments hold by the Corporation are the same as its book value.

3) Liquidity and cash requirement: The Corporation has sufficient operating capital to meet cash need to settle derivative contracts. In addition, the Corporation's investments in debt instruments and stock classified as available-for-sale financial assets are traded in active markets and can be disposed of quickly at close to their fair values. However, some equity instruments for which there is no active market are expected to have material liquidity risk. As of March 31, 2011, the Corporation's future cash demand for the outstanding forward exchange contracts and currency-swap contracts were as follows:

Term	Inflow (In Thousands)	Outflow (In Thousands)
Within one year	NT$ 3,124,475	US$ 106,400
	JPY 246,244	US$ 3,000
	US$ 14,000	NT$ 405,132

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 March 31, 2011 and 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 March 31, 2011	Fair Value as of March 31, 2010
Foreign currency accounts receivable	Forward exchange contracts	$ -	$ 1,435
	Currency-swap contracts	(10,695)	-

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 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
March 31, 2011				
Forecast sales	Currency-swap contracts	$ (255)	April 2011-June 2011	April 2011-June 2011

26. OTHER

Information of significant financial assets and liabilities denominated in foreign currencies were as follows:

	March 31, 2011		March 31, 2010	
	Foreign	Rate	Foreign	Rate
Financial assets				
Monetary items				
USD	$ 101,478	29.468	$ 99,902	31.819
EUR	643	41.93	83	43.070
JPY	26,618	0.3612	110,005	0.3454
HKD	-	3.79	-	4.10
Non-monetary items				
USD	691	29.468	1,514	31.819
Long-term stock investments accounted for by the equity method				
USD	1,897	29.468	2,505	31.819
Financial liabilities				
Monetary items				
USD	17,049	29.468	14,129	31.819
EUR	668	41.93	118	43.07
JPY	273,291	0.3612	422,171	0.3454
SGD	16	23.38	16	22.75
Non-monetary items				
USD	722	29.468	138	31.819

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. OPERATING SEGMENTS DISCLOSURE

For the purpose of resources allocation and performance assessment, the Group's chief operating decision maker reviews operating results and financial information on a plant basis. It focuses on the operating result of each of the plants operated under Vanguard International Semiconductor Corporation and its subsidiaries. Accordingly, each of the plants constitutes an operating segment of the Group. As each plant shares similar economic characteristics, produces similar products by using similar production process and all of products produced are distributed and sold to the same level of customers through a central sales function, the Group's segments are aggregated into a single reportable segment.

The revenues, operating results and financial information on a plant by plant basis presented to the chief operating decision maker is consistent with the consolidated financial statement. Therefore, the segment revenues and operating results for the three months ended March 31, 2011 and 2010 are referred to the consolidated income statements for the three months ended March 31, 2011 and 2010. The segment assets as of March 31, 2011 and 2010 is referred to the consolidated balance sheets as of March 31, 2011 and 2010.

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

MARKETABLE SECURITIES HELD
MARCH 31, 2011
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Holding Company Name	Marketable Security Type and Issuer	Relationship with the Holding Company	Financial Statement Account	March 31, 2011				Note
				Shares/Units (Thousands)	Carrying Value (US$ in Thousands)	% of Ownership	Market Value or Net Asset Value (US$ in Thousands)	
Vanguard International Semiconductor Corporation	Stock							
	Walton Advanced Engineering, Inc.	Investee	Available-for-sale financial assets - current	695	$ 10,074	-	$ 10,074	Note 1
	Chipbond Technology Corporation	Investee	Available-for-sale financial assets - noncurrent	4,052	173,624	-	173,624	Note 1
	Champion Microelectronic Corp.	Investee	Available-for-sale financial assets - noncurrent	240	11,640	-	11,640	Note 1
	VIS Associates Inc.	Subsidiary	Long-term stock investments accounted for by the equity method	6	271,802	100	271,802	Note 2
	CMSC, Inc.	Equity-method investee	Long-term stock investments accounted for by the equity method	9,902	75,800	25	75,800	Note 2
	United Industrial Gases Co., Ltd.	Investee	Financial assets carried at cost - noncurrent	3,357	38,716	2	38,716	Note 3
VIS Associates Inc.	Stock							
	Advanced Analogic Technologies, Inc.	Investee	Available-for-sale financial assets - current	18	US$ 69	-	US$ 69	Note 1
	VIS Investment Holding, Inc.	Subsidiary of VIS Associates Inc.	Long-term stock investments accounted for by the equity method	63	US$ 1,011	100	US$ 1,011	Note 2
	VIS Singapore Pte. Ltd.	Subsidiary of VIS Associates Inc.	Long-term stock investments accounted for by the equity method	1,000	US$ (74)	100	US$ (74)	Note 4
	Specialty TechFarm, Inc.	Subsidiary of VIS Associates Inc.	Long-term stock investments accounted for by the equity method	10,000	US$ 3,352	100	US$ 3,352	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$ 782	100	US$ 782	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$ 248	27	US$ 248	Note 4
	SkyTraq Technology, Inc.	Equity-method investee	Long-term stock investments accounted for by the equity method	4,688	US$ 815	28	US$ 815	Note 4
	INNO-TECH Co., Ltd.	Equity-method investee	Long-term stock investments accounted for by the equity method	5,000	US$ 291	40	US$ 291	Note 4
	Linear Artwork, Inc.	Equity-method investee	Long-term stock investments accounted for by the equity method	4,375	US$ 543	27	US$ 543	Note 4
	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

(Continued)

Note 1: The market value was based on stock closing price as of March 31, 2011.

Note 2: The net asset value was based on reviewed financial statements as of March 31, 2011.

Note 3: The market value was based on the book value as of March 31, 2011.

Note 4: The net asset value was based on unreviewed financial statements as of March 31, 2011.

Note 5: As of March 31, 2011, all the securities were not pledged or restricted.

(Concluded)

TABLE 2

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

TOTAL PURCHASE FROM OR SALE TO RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
THREE MONTHS ENDED MARCH 31, 2011
(In Thousands of New Taiwan Dollars)

Company Name	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Notes/Accounts Payable or Receivable		Note
			Purchase/ Sale	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% of Total	
Vanguard International Semiconductor Corporation	Taiwan Semiconductor Manufacturing Company Ltd.	Major shareholder	Sale	$1,324,639	(33%)	Note	-	-	$932,938	34.52%	-

Note: Net 45 days after monthly closing.

TABLE 3

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

RECEIVABLE FROM RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
MARCH 31, 2011
(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	$932,938	7.88	$ -	-	$ -	$ -

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

NAMES, LOCATIONS, AND RELATED INFORMATION OF INVESTEES ON WHICH THE CORPORATION EXERCISES SIGNIFICANT INFLUENCE
THREE MONTHS ENDED MARCH 31, 2011
(In Thousands of New Taiwan Dollars)

Investor	Investee	Location	Main Businesses and Products	Investment Amount		Balance as of March 31, 2011			Net Loss of the Investee	Investment Loss	Note
				March 31, 2011	December 31, 2010	Shares (Thousands)	% of Ownership	Carrying Value			
Vanguard International Semiconductor Corporation	VIS Associates Inc.	British Virgin Islands	Investment	$ 195,492	$ 195,492	6	100	$ 271,802	$ (4,358)	$ (4,358)	Subsidiary
	CMSC, Inc.	Hsin-Chu City, Taiwan	Integrated circuit design services and related businesses	112,650	112,650	9,902	25	75,800	(10,114)	(2,523)	Equity-method investee

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS
THREE MONTHS ENDED MARCH 31, 2011
(In Thousands of New Taiwan Dollars)

2011

No.	Company Name	Company Name	Nature of Relationship	Intercompany Transactions			
				Financial Statement Item	Amount	Terms (Note)	Percentage of Consolidated Total Gross Sales or Total Assets
0	Vanguard International Semiconductor Corporation	VIS Micro, Inc.	Indirect subsidiary	Marketing expenses	$ 10,387	-	0.3%
				Other payables to related parties	5,206	-	-

2010

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

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