

**Vanguard International Semiconductor
Corporation**

**Financial Statements for the
Three Months Ended March 31, 2012 and 2011 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 balance sheets of Vanguard International Semiconductor Corporation (the "Corporation") as of March 31, 2012 and 2011, and the related statements of income and cash flows for the three months then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to issue a report on these 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 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 financial statements referred to above for them to be in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

We have also reviewed the consolidated financial statements of Vanguard International Semiconductor Corporation and subsidiaries as of and for the three months ended March 31, 2012 and 2011 on which we have issued an unqualified review report.

April 20, 2012

Notice to Readers

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

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

BALANCE SHEETS

MARCH 31, 2012 AND 2011

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

(Reviewed, Not Audited)

ASSETS	2012		2011		LIABILITIES AND SHAREHOLDERS' EQUITY	2012		2011	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents (Notes 2 and 4)	\$ 7,864,607	36	\$ 7,338,249	30	Financial liabilities at fair value through profit or loss - current (Notes 2 and 5)	\$ 2,748	-	\$ 6,705	-
Financial assets at fair value through profit or loss - current (Notes 2 and 5)	46,816	-	14,695	-	Derivative financial liabilities for hedging - current (Notes 2 and 7)	1,464	-	14,586	-
Available-for-sale financial assets - current (Notes 2 and 6)	6,857	-	10,074	-	Notes and accounts payable (Note 22)	681,767	3	673,007	3
Derivative financial assets for hedging - current (Notes 2 and 7)	34	-	3,636	-	Income tax payable (Notes 2 and 20)	91,554	-	100,518	-
Receivables from related parties (Note 22)	523,479	2	952,845	4	Accrued profit sharing to employees and bonus to directors and supervisors (Note 16)	143,359	1	373,062	2
Notes and accounts receivable	1,671,356	8	1,749,869	7	Other payables to related parties (Note 22)	100,256	1	121,438	1
Allowance for doubtful accounts (Note 2)	(9,113)	-	(41,146)	-	Payables to contractors and equipment suppliers	191,491	1	795,175	3
Allowance for sales returns and discounts (Note 2)	(47,493)	-	(61,361)	-	Accrued expenses and other current liabilities (Notes 15 and 22)	847,767	4	828,116	3
Inventories (Notes 2 and 8)	1,407,780	6	1,622,836	6					
Other receivables from related parties (Note 22)	11,688	-	20,065	-	Total current liabilities	2,060,406	10	2,912,607	12
Prepaid expenses and other current assets	188,315	1	175,855	1					
Deferred income tax assets - current (Notes 2 and 20)	160,875	1	198,016	1	OTHER LIABILITIES				
Total current assets	11,825,201	54	11,983,633	49	Accrued pension cost (Notes 2 and 19)	483,934	2	481,574	2
					Guarantee deposits (Note 22)	10,992	-	17,234	-
INVESTMENTS					Total other liabilities	494,926	2	498,808	2
Long-term stock investments accounted for by the equity method (Notes 2 and 9)	331,965	1	347,602	1	Total liabilities	2,555,332	12	3,411,415	14
Available-for-sale financial assets - noncurrent (Notes 2 and 6)	161,718	1	185,264	1					
Financial assets carried at cost - noncurrent (Notes 2 and 10)	38,716	-	38,716	-	SHAREHOLDERS' EQUITY (Notes 2, 16 and 18)				
Total investments	532,399	2	571,582	2	Capital stock, \$10 par value;				
					Authorized - 3,300,000 thousand shares				
PROPERTIES (Notes 2, 11 and 22)					Issued and outstanding - 1,619,246 thousand shares in 2012 and 1,647,982 thousand shares in 2011	16,192,462	73	16,479,816	67
Cost					Capital surplus				
Buildings	12,744,287	58	12,477,519	51	Additional paid-in capital	460,080	2	465,763	2
Machinery and equipment	50,399,592	229	47,883,841	195	Long-term stock investments	68,975	-	69,128	-
Other equipment	349,237	1	348,771	1	Employee stock options	6,760	-	-	-
Total cost	63,493,116	288	60,710,131	247	Total capital surplus	535,815	2	534,891	2
Accumulated depreciation	(55,112,969)	(250)	(51,812,482)	(210)	Retained earnings				
Prepayments and construction in progress	341,921	2	2,070,649	8	Legal reserve	1,788,926	8	1,593,687	6
Net properties	8,722,068	40	10,968,298	45	Unappropriated earnings	1,942,702	9	2,633,774	11
					Total retained earnings	3,731,628	17	4,227,461	17
OTHER ASSETS					Other				
Assets leased to others, net (Notes 2 and 12)	727,073	3	800,035	3	Cumulative translation adjustments	(66,931)	-	(64,927)	-
Idle assets, net (Notes 2 and 13)	34,286	-	80,000	-	Unrealized (loss) gain on financial instruments	(6,958)	-	20,221	-
Deferred charges, net (Notes 2 and 14)	7,726	-	18,937	-	Treasury stock (cost) - 75,277 thousand	(906,263)	(4)	-	-
Refundable deposits	5,032	-	5,092	-	Total others	(980,152)	(4)	(44,706)	-
Pledged time deposits (Notes 4 and 23)	181,300	1	181,300	1	Total shareholders' equity	19,479,753	88	21,197,462	86
Total other assets	955,417	4	1,085,364	4					
TOTAL	\$ 22,035,085	100	\$ 24,608,877	100	TOTAL	\$ 22,035,085	100	\$ 24,608,877	100

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

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

STATEMENTS OF INCOME

THREE MONTHS ENDED MARCH 31, 2012 AND 2011

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

(Reviewed, Not Audited)

	2012		2011	
	Amount	%	Amount	%
GROSS SALES (Notes 2, 7, 22 and 26)	\$ 3,174,319		\$ 3,998,596	
SALES RETURNS AND DISCOUNTS (Note 2)	<u>(24,000)</u>		<u>(7,368)</u>	
NET SALES	3,150,319	100	3,991,228	100
COST OF SALES (Notes 8, 21 and 22)	<u>2,794,550</u>	<u>89</u>	<u>3,273,930</u>	<u>82</u>
GROSS PROFIT	<u>355,769</u>	<u>11</u>	<u>717,298</u>	<u>18</u>
OPERATING EXPENSES (Notes 21 and 22)				
Marketing	44,150	2	45,202	1
General and administrative	129,329	4	151,817	4
Research and development	<u>200,954</u>	<u>6</u>	<u>160,949</u>	<u>4</u>
Total operating expenses	<u>374,433</u>	<u>12</u>	<u>357,968</u>	<u>9</u>
OPERATING (LOSS) INCOME	<u>(18,664)</u>	<u>(1)</u>	<u>359,330</u>	<u>9</u>
NONOPERATING INCOME AND GAINS				
Valuation gains on financial instruments (Notes 2, 5 and 26)	63,235	2	-	-
Interest	21,905	1	14,459	-
Rental (Notes 12 and 22)	3,848	-	10,631	-
Gain on disposal of investments (Notes 2 and 6)	-	-	20,837	1
Foreign exchange gain, net (Note 2)	-	-	15,949	-
Others (Note 22)	<u>19,126</u>	<u>1</u>	<u>19,823</u>	<u>1</u>
Total nonoperating income and gains	<u>108,114</u>	<u>4</u>	<u>81,699</u>	<u>2</u>
NONOPERATING EXPENSES AND LOSSES				
Foreign exchange loss, net (Note 2)	61,507	2	-	-
Expenses of assets leased to others (Note 12)	18,240	1	18,240	1
Investment loss recognized by equity method (Notes 2 and 9)	3,888	-	6,881	-
Valuation loss on financial instruments (Notes 2, 5 and 26)	-	-	14,385	-
Others	<u>15,679</u>	<u>-</u>	<u>15,372</u>	<u>-</u>
Total nonoperating expenses and losses	<u>99,314</u>	<u>3</u>	<u>54,878</u>	<u>1</u>

(Continued)

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

STATEMENTS OF INCOME

THREE MONTHS ENDED MARCH 31, 2012 AND 2011

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

(Reviewed, Not Audited)

	2012		2011	
	Amount	%	Amount	%
(LOSS) INCOME BEFORE INCOME TAX	\$ (9,864)	-	\$ 386,151	10
INCOME TAX BENEFIT (Notes 2 and 20)	<u>33,960</u>	<u>1</u>	<u>10,580</u>	<u>-</u>
NET INCOME	<u>\$ 24,096</u>	<u>1</u>	<u>\$ 396,731</u>	<u>10</u>
	2012		2011	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS (LOSS) PER SHARE (Note 17)				
Basic	<u>\$ (0.01)</u>	<u>\$ 0.02</u>	<u>\$ 0.23</u>	<u>\$ 0.24</u>
Diluted	<u>\$ (0.01)</u>	<u>\$ 0.02</u>	<u>\$ 0.23</u>	<u>\$ 0.24</u>

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

(Concluded)

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

STATEMENTS OF CASH FLOWS THREE MONTHS ENDED MARCH 31, 2012 AND 2011 (In Thousands of New Taiwan Dollars) (Reviewed, Not Audited)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 24,096	\$ 396,731
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	884,397	778,574
Gain on disposal of investments	-	(20,837)
Investment loss recognized by the equity method	3,888	6,881
Deferred income tax	(26,078)	(35,223)
Compensation cost recognized for the transfer of treasury stock to employees	6,760	-
Accrued pension costs	58	563
Provision of allowance for doubtful accounts	-	9,024
Provision (reversal) of allowance for sales returns and discount	5,107	(4,437)
Net changes in operating assets and liabilities		
Financial assets held for trading	(43,964)	22,529
Receivables from related parties	422,296	(536,540)
Notes and accounts receivable	(250,080)	(161,732)
Inventories	(177,195)	(7,455)
Other receivables from related parties	44,406	(3,434)
Prepaid expenses and other current assets	(14,640)	(28,287)
Financial liabilities held for trading	(6,963)	757
Derivative financial instruments for hedging	(5,815)	10,068
Notes and accounts payable	247,775	6,176
Income tax payable	2,243	24,643
Other payables to related parties	10,548	43,675
Accrued profit sharing to employees and bonus to directors and supervisors	4,142	62,633
Accrued expenses and other current liabilities	<u>(217,748)</u>	<u>(260,006)</u>
Net cash provided by operating activities	<u>913,233</u>	<u>304,303</u>
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	(209,502)	(1,155,545)
Increase in deferred charges	<u>-</u>	<u>(2,148)</u>
Net cash used in investing activities	<u>(209,502)</u>	<u>(1,150,231)</u>

(Continued)

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

STATEMENTS OF CASH FLOWS THREE MONTHS ENDED MARCH 31, 2012 AND 2011 (In Thousands of New Taiwan Dollars) (Reviewed, Not Audited)

	2012	2011
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in guarantee deposits	\$ 2,030	\$ (64)
Acquisitions of treasury stock	(845,471)	-
Proceeds from the exercise of employee stock options	<u>1,497</u>	<u>31,778</u>
Net cash (used in) provided by financing activities	<u>(841,944)</u>	<u>31,714</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(138,213)	(814,214)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>8,002,820</u>	<u>8,152,463</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 7,864,607</u>	<u>\$ 7,338,249</u>
NONCASH INVESTING ACTIVITIES		
Reclassification from financial assets carried at cost to available-for-sale financial assets	<u>\$ -</u>	<u>\$ 5,750</u>
INVESTING ACTIVITIES AFFECTING BOTH CASH AND NON-CASH ITEMS		
Total acquisitions	\$ 170,766	\$ 1,388,437
Increase (decrease) in payables to contractors and equipment suppliers	<u>38,736</u>	<u>(232,892)</u>
	<u>\$ 209,502</u>	<u>\$ 1,155,545</u>
FINANCING ACTIVITIES AFFECTING BOTH CASH AND NON-CASH ITEMS		
Acquisition of treasury stock	\$ 853,087	\$ -
Increase in accrued expenses and other current liabilities	<u>(7,616)</u>	<u>-</u>
	<u>\$ 845,471</u>	<u>\$ -</u>

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

(Concluded)

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

NOTES TO FINANCIAL STATEMENTS

THREE MONTHS ENDED MARCH 31, 2012 AND 2011

(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 is a dedicated foundry in the semiconductor industry which engages mainly in the manufacturing, selling, packaging, testing and computer-aided design of integrated circuits and other semiconductor devices and the manufacturing of masks.

As of March 31, 2012 and 2011, the Corporation had 3,378 and 3,470 employees, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements have been prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, Business Accounting Law, Guidelines Governing Business Accounting and accounting principles generally accepted in the Republic of China (ROC).

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

The Corporation’s significant accounting policies are summarized as follows:

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

- 1) Recognized in shareholders' equity if the changes in fair value are recognized in shareholders' equity;
- 2) 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.

b. Accounting estimates

Under above guidelines, law and principles, the Corporation make certain estimates and assumptions that affect the amounts of allowance for doubtful accounts, allowance for sales returns and discounts, allowance for decline in market value of inventories, depreciation of properties, assets leased to others and idle assets, amortization of deferred charges, pension expenses, impairment loss, income tax expense and bonuses paid to employees, directors and supervisors. Actual results could differ from these estimates.

c. 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.

d. Cash Equivalents

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

e. 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 and becomes a contractual party in a financial instrument contract, the financial assets or financial liabilities are recognized in the balance sheet. On contract expiry, settlement or cancellation, the financial assets and liabilities are derecognized.

These financial instruments, except derivatives, are initially recognized at fair value. Transaction costs 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 the carrying amount and the sum of the consideration received and receivable or consideration paid and payable is recognized in profit or loss for the period. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

Derivative financial instruments not qualified for hedge 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 instruments without quoted prices in an active market - at values determined using valuation techniques.

f. 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 assets 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 previously recognized in equity is included in profit or loss for the period. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

The recognition or derecognition of available-for-sale financial assets is similar to those of financial assets at FVTPL.

The fair values of listed stock are their closing prices as of the balance sheet date.

Cash dividends are recognized on the ex-dividend date as investment income, except for dividends distributed from the pre-acquisition profit, which are treated as a reduction of investment cost. Stock dividends are not recognized as investment income but are recorded as an increase in the number of shares. The total number of shares subsequent to the increase is used for recalculation of cost per share.

An impairment loss is recognized when there is objective evidence that the financial asset is impaired. Any subsequent decrease in impairment loss on equity instrument classified as available-for-sale is recognized directly in equity.

g. Hedge accounting

Derivative that are designated and effective as 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 recognizes the offsetting effects on profit or loss of changes in the fair values of the hedging instrument and the hedged item, as follows:

1) Fair value hedge:

The gain or loss from changes in fair value of a derivative hedging instrument resulting from exchange rate fluctuations is recognized in profit or loss. Gain or loss on the hedged item is recognized as an adjustment to the carrying amount of the hedged item and in profit or loss.

2) Cash flow hedge:

a) 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 in profit or loss.

- b) 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 in equity are reclassified into profit or loss in the same period or periods in which the asset acquired or liability assumed affects profit or loss.
- c) 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, the related gains or losses that were recognized directly in equity are reclassified into profit or loss in the same period or periods in which the asset acquired or liability assumed affects profit or loss.
- d) However, if the Corporation expects that all or a portion of a loss recognized directly in equity will not be recovered in the future, the amount that is not expected to be recovered is reclassified into profit or loss.

h. 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.

i. Impairment of accounts receivable

Allowance for doubtful receivables is provided on the basis of the aging and review of the collectability of receivables. The Corporation assesses the probability of collections of accounts receivable by examining the aging analysis of the outstanding receivables. As discussed in Note 3 to the financial statements, the Corporation 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 impairment of receivables originated by the Corporation 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 is becoming probable that the debtor will enter bankruptcy or financial reorganization; 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
- Active market for that financial asset has disappeared because of the issuer's financial difficulties or other reasons.

Accounts receivable that are assessed as not 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 in the collection of 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.

j. Allowance for sale returns and discounts

Allowances and related provisions for sales returns and discounts are recorded in the period the related revenue is recognized on the basis of the Corporation's historical experience. These provisions are deducted from gross sales and related costs are deducted, as they are incurred, from cost of sales.

k. 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.

l. Long-term stock investments accounted for by the equity method

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

On the balance sheet date, the Corporation evaluates investments for any impairment. An impairment loss is recognized and charged to current income if the investment carrying amount as of the balance sheet date exceeds the expected recoverable amount. Impairment of long-term investment in which the Corporation has significant influence but with no control over the investees is evaluated by comparing the carrying amounts, the carrying value (including goodwill) with the recoverable amount of every investment. Impairment of investments with controlling interests is analyzed on a per cash generating unit basis and devalued 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. Differed gains and losses are realized upon the sale of the related products to third parties.

m. 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 made during the construction period are capitalized, while maintenance and repairs are expensed currently.

On the balance sheet date, the Corporation evaluates properties for any impairment by comparing the carrying amount with the recoverable amount of the assets. An impairment loss is recognized for any excess of the carrying amount over the expected recoverable amount, the loss is 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 limited to the extent that the increased carrying amount of an asset would not exceed the carrying amount (net of depreciation) had no impairment loss been recognized in prior years.

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

Properties still in use beyond their original estimated useful lives are further depreciated over their new 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. Idle assets continue to be depreciated and, in addition, tested for impairment on a periodic basis.

n. Capitalized and other expenditures

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

o. Deferred charges

Expenditures incurred in 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 software design costs, are amortized by the straight-line method over 3 to 5 years.

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

p. 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.

q. Income tax

The Corporation applies inter-period allocation method for its income tax. Deferred income tax assets and liabilities are recognized for the tax effects of temporary differences, unused operating loss carryforwards and investment tax credits. Valuation allowances is 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 Corporation can control the timing of the reversal of a temporary 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 from 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 tax (10%) on undistributed earnings is recorded as expense in the year when the shareholders resolve to retain the earnings.

r. Stock-based compensation

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 is recognized on a straight-line basis over the vesting period.

s. 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.

t. Revenue recognition

Sales are recognized when the Corporation has transferred to the buyer the significant risk and rewards of ownership of the goods, because the earnings process has been completed and economic benefits associated with the transaction have been realized or are realizable. The Corporation 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.

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

u. Reclassifications

Certain accounts in the financial statements as of and for the three months ended March 31, 2011 have been reclassified to be consistent with those in the financial statements as of and for the three months ended March 31, 2012.

3. ACCOUNTING CHANGES

SFAS No. 34, Financial Instruments: Recognition and Measurement

On January 1, 2011, the Corporation 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 Corporation are now covered by SFAS No. 34; (4) additional guidelines on impairment testing of financial assets carried at amortized cost when the 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 statements for three months ended March 31, 2011.

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

On January 1, 2011, the Corporation adopted the newly issued SFAS No. 41 - "Operating Segments." The requirements of the statement are based on the information about the components of the Corporation 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 Corporation'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 Corporation.

4. CASH AND CASH EQUIVALENTS

	March 31	
	2012	2011
Bank deposits	\$ 7,918,907	\$ 7,409,538
Bonds acquired under resale agreements	<u>127,000</u>	<u>110,011</u>
	8,045,907	7,519,549
Pledged time deposit	<u>(181,300)</u>	<u>(181,300)</u>
	<u>\$ 7,864,607</u>	<u>\$ 7,338,249</u>

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

	<u>March 31</u>	
	<u>2012</u>	<u>2011</u>
<u>Financial assets at FVTPL</u>		
Financial assets held for trading	\$ 4,149	\$ 14,695
Financial assets designated as at FVTPL	<u>42,667</u>	<u>-</u>
	<u>\$ 46,816</u>	<u>\$ 14,695</u>
<u>Financial liabilities at FVTPL</u>		
Financial liabilities held for trading	<u>\$ 2,748</u>	<u>\$ 6,705</u>

Financial instruments held for trading consisted of the following:

	<u>March 31</u>	
	<u>2012</u>	<u>2011</u>
<u>Financial assets held for trading</u>		
Forward exchange contracts	\$ 2,561	\$ 8,410
Currency-swap contracts	<u>1,588</u>	<u>6,285</u>
	<u>\$ 4,149</u>	<u>\$ 14,695</u>
<u>Financial liabilities held for trading</u>		
Forward exchange contracts	\$ 532	\$ 80
Currency-swap contracts	<u>2,216</u>	<u>6,625</u>
	<u>\$ 2,748</u>	<u>\$ 6,705</u>

The Corporation entered into derivative transactions in the three months ended March 31, 2012 and 2011 to manage exposures 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, 2012 and 2011 were as follows:

Contract	Currency	Contract Expiry Date	Contract Amount (In Thousands)
<u>March 31, 2012</u>			
Sell forward exchange contracts	US\$ to NT\$	2012.04.05-2012.04.30	US\$ 24,000
Sell forward exchange contracts	US\$ to JPY	2012.04.03-2012.04.18	US\$ 1,300
Buy forward exchange contracts	NT\$ to US\$	2012.05.21-2012.05.24	US\$ 2,000
<u>March 31, 2011</u>			
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

b. Outstanding currency-swap contracts as of March 31, 2012 and 2011 were as follows:

	Currency	Maturity Date	Contract Amount (In Thousands)
<u>March 31, 2012</u>			
Sell forward exchange contracts	US\$ to NT\$	2012.04.10-2012.05.24	US\$ 63,500
<u>March 31, 2011</u>			
Sell forward exchange contracts	US\$ to NT\$	2011.04.07-2011.05.27	US\$ 67,400

The net gains on financial instrument for trading were NT\$59,896 thousand and NT\$1,292 thousand for the three months ended March 31, 2012 and 2011, respectively.

Financial instruments designated as at FVTPL were as follows:

	March 31, 2012
<u>Financial assets designated as at FVTPL</u>	
Credit Linked Notes	\$ 20,080
Convertible Bond	<u>22,587</u>
	<u>\$ 42,667</u>

Net gains and losses on financial assets designated as at FVTPL for the three months ended March 31, 2012 and 2011 was NT\$136 thousand and NT\$183 thousand, respectively.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS - CURRENT

	<u>March 31</u>	
	2012	2011
Listed stocks - Chipbond Technology Corporation	\$ 154,986	\$ 173,624
Listed stocks - Walton Advanced Engineering, Inc.	6,857	10,074
Listed stocks - Champion Microelectronic Corp.	<u>6,732</u>	<u>11,640</u>
	168,575	195,338
Less: Financial assets classified as noncurrent assets	<u>(161,718)</u>	<u>(185,264)</u>
	<u>\$ 6,857</u>	<u>\$ 10,074</u>

The Corporation reclassified its investment - 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 (refer to Note 26) consisted of the following:

	<u>March 31</u>	
	<u>2012</u>	<u>2011</u>
<u>Derivative financial assets for hedging</u>		
Current		
Currency-swap contracts	\$ <u>34</u>	\$ <u>3,636</u>
<u>Derivative financial liabilities for hedging</u>		
Current		
Currency-swap contracts	\$ <u>1,464</u>	\$ <u>14,586</u>

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 in time value of money for those expected sales transaction, and uses fair value hedge 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 three months ended March 31, 2012 and 2011, 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 currency-swap in the three months ended March 31, 2012 and 2011 were as follows:

	Currency	Maturity Date	Contract Amount (In Thousands)
<u>March 31, 2012</u>			
Sell forward exchange contracts	US\$ to NT\$	2012.04.18-2012.05.17	US\$ 9,000
<u>March 31, 2011</u>			
Sell forward exchange contracts	US\$ to NT\$	2011.04.19-2011.06.17	US\$ 26,000

The realized net losses on derivative financial instruments used for cash flow hedging for the three months ended March 31, 2012 and 2011 were NT\$3,121 thousand and NT\$41,906 thousand, respectively, which were recognized in sales. The net gains on derivative financial instruments used for fair value hedging were NT\$8,735 thousand and NT\$39,574 thousand, respectively, for the three months ended March 31, 2012 and 2011 which were recognized in nonoperating income.

8. INVENTORIES

	March 31	
	2012	2011
Finished goods	\$ 68,388	\$ 168,601
Work in process	932,543	936,027
Raw materials	221,283	252,382
Supplies and spare parts	<u>185,566</u>	<u>265,826</u>
	<u>\$ 1,407,780</u>	<u>\$ 1,622,836</u>

Allowance for inventory losses were \$62,982 thousand and \$261,451 thousand as of March 31, 2012 and 2011, respectively.

The cost of inventories recognized as cost of goods sold for the three months ended March 31, 2012 and 2011 was NT\$2,794,550 thousand and NT\$3,273,930 thousand, respectively. The cost of goods sold for the three months ended March 31, 2012 included reversal of write-down of inventory in the amount of NT\$58,814 thousand and NT\$157,137 thousand on unallocated overhead. The cost of goods sold for the three months ended March 31, 2011 included reversal of write-down of inventory in the amount of NT\$2,017 thousand.

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

	March 31			
	2012		2011	
	Carrying Value	% of Ownership	Carrying Value	% of Ownership
Unlisted stocks				
VIS Associates Inc.	\$ 264,360	100	\$ 271,802	100
CMSC, Inc.	<u>67,605</u>	25	<u>75,800</u>	25
	<u>\$ 331,965</u>		<u>\$ 347,602</u>	

The investment losses of the investees were as follows:

	Three Months Ended March 31	
	2012	2011
VIS Associates Inc.	\$ (1,450)	\$ (4,358)
CMSC, Inc.	<u>(2,438)</u>	<u>(2,523)</u>
	<u>\$ (3,888)</u>	<u>\$ (6,881)</u>

All subsidiaries' accounts have been consolidated into the Corporation's consolidated financial statements as of and for the three months ended March 31, 2012 and 2011.

10. FINANCIAL ASSETS CARRIED AT COST - NONCURRENT

	March 31	
	2012	2011
Unlisted stocks		
United Industrial Gases Co., Ltd.	<u>\$ 38,716</u>	<u>\$ 38,716</u>

The unlisted stocks had no quoted market prices in an active market and of which fair value cannot be reliably measured; thus, they were carried at cost.

11. PROPERTIES

	Three Months Ended March 31, 2012				Total
	Buildings	Machinery and Equipment	Other Equipment	Prepayments and Construction in Progress	
<u>Cost</u>					
Balance, beginning of period	\$ 12,707,340	\$ 50,082,488	\$ 349,560	\$ 525,206	\$ 63,664,594
Additions	36,947	317,104	-	(183,285)	170,766
Disposal	-	-	(323)	-	(323)
Balance, end of period	<u>\$ 12,744,287</u>	<u>\$ 50,399,592</u>	<u>\$ 349,237</u>	<u>\$ 341,921</u>	<u>\$ 63,835,037</u>

	Three Months Ended March 31, 2012				Total
	Buildings	Machinery and Equipment	Other Equipment		
<u>Accumulated depreciation</u>					
Balance, beginning of period	\$ 9,379,447	\$ 44,576,589	\$ 304,613		\$ 54,260,649
Depreciation	127,883	717,352	7,408		852,643
Disposal	-	-	(323)		(323)
Balance, end of period	<u>\$ 9,507,330</u>	<u>\$ 45,293,941</u>	<u>\$ 311,698</u>		<u>\$ 55,112,969</u>

	Three Months Ended March 31, 2011				Total
	Buildings	Machinery and Equipment	Other Equipment	Prepayments and Construction in Progress	
<u>Cost</u>					
Balance, beginning of period	\$ 12,407,164	\$ 47,585,007	\$ 350,994	\$ 1,063,733	\$ 61,406,898
Additions	70,149	311,141	231	1,006,916	1,388,437
Disposal	-	(12,101)	(2,454)	-	(14,555)
Reclassification	206	(206)	-	-	-
Balance, end of period	<u>\$ 12,477,519</u>	<u>\$ 47,883,841</u>	<u>\$ 348,771</u>	<u>\$ 2,070,649</u>	<u>\$ 62,780,780</u>

	Three Months Ended March 31, 2011				Total
	Buildings	Machinery and Equipment	Other Equipment		
<u>Accumulated depreciation</u>					
Balance, beginning of period	\$ 8,888,533	\$ 41,918,845	\$ 276,030		\$ 51,083,408
Depreciation	119,077	616,197	8,355		743,629
Disposal	-	(12,101)	(2,454)		(14,555)
Reclassification	23	(23)	-		-
Balance, end of period	<u>\$ 9,007,633</u>	<u>\$ 42,522,918</u>	<u>\$ 281,931</u>		<u>\$ 51,812,482</u>

12. ASSETS LEASED TO OTHERS, NET

	<u>Three Months Ended March 31</u>	
	2012	2011
<u>Buildings</u>		
Cost		
Balance, beginning and end of period	\$ <u>1,037,161</u>	\$ <u>1,037,161</u>
Accumulated depreciation		
Balance, beginning of period	291,848	218,886
Depreciation	<u>18,240</u>	<u>18,240</u>
Balance, end of period	<u>310,088</u>	<u>237,126</u>
Net balance	\$ <u>727,073</u>	\$ <u>800,035</u>

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

Company Name	Lease Terms	Next Three Quarters' Rental
Integrated Service Technology, Inc.	2010.04.01-2015.03.31	\$ 3,088
Standard Technology Service, Inc.	2010.05.01-2015.04.30	<u>8,455</u>
		<u>\$ 11,543</u>

13. IDLE ASSETS

	<u>Three Months Ended March 31</u>	
	2012	2011
Cost		
Balance, beginning and end of period	\$ <u>574,999</u>	\$ <u>574,999</u>
Accumulated depreciation		
Balance, beginning of period	345,763	300,050
Depreciation	<u>11,429</u>	<u>11,428</u>
Balance, end of period	<u>357,192</u>	<u>311,478</u>
Accumulated depreciation		
Balance, beginning and end of period	<u>183,521</u>	<u>183,521</u>
Net balance	\$ <u>34,286</u>	\$ <u>80,000</u>

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

14. DEFERRED CHARGES, NET

Software design costs:

	Three Months Ended March 31	
	2012	2011
Cost		
Balance, beginning of period	\$ 714,272	\$ 711,496
Additions	<u>-</u>	<u>2,148</u>
Balance, end of period	<u>714,272</u>	<u>713,644</u>
Accumulated amortization		
Balance, beginning of period	704,461	689,430
Amortization	<u>2,085</u>	<u>5,277</u>
Balance, end of period	<u>706,546</u>	<u>694,707</u>
Net balance	<u>\$ 7,726</u>	<u>\$ 18,937</u>

15. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	Three Months Ended March 31	
	2012	2011
Bonus	\$ 114,237	\$ 93,771
Royalty	7,988	8,044
Others	<u>725,542</u>	<u>726,301</u>
	<u>\$ 847,767</u>	<u>\$ 828,116</u>
	Royalty	Bonus
January 1, 2012	\$ 7,560	\$ 318,609
Add: Other payables to related parties, beginning of period	47,961	-
Accrual	61,087	151,416
Reduce: Payable	(53,785)	(355,788)
Other payables to related parties, end of period	<u>(54,835)</u>	<u>-</u>
March 31, 2012	<u>\$ 7,988</u>	<u>\$ 144,237</u>
January 1, 2011	\$ 5,260	\$ 360,506
Add: Other payables to related parties, beginning of period	45,263	-
Accrual	70,012	95,765
Reduce: Payable	(49,833)	(362,500)
Other payables to related parties, end of period	<u>(62,658)</u>	<u>-</u>
March 31, 2011	<u>\$ 8,044</u>	<u>\$ 93,771</u>

16. SHAREHOLDERS' EQUITY

Under the Company Law, the Corporation's capital surplus can only be used to offset a deficit. In addition, capital surplus generated from the issue price in excess of the par value of capital stock may be appropriated to capital as stock dividends. Under the revised Company Law issued on January 4, 2012, the aforementioned capital surplus can also be used to distribute cash dividend. However, the capital surplus generated 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, 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 on the day preceding the shareholders' meeting. The bonus to employees was NT\$3,614 thousand and NT\$59,510 thousand, and the remuneration to directors and supervisors was NT\$528 thousand and NT\$3,123 thousand for the three months ended March 31, 2012 and 2011, respectively.

All profits may be distributed after taking into consideration financial, business and operational factors. Dividends are in cash and/or stock. Since the Corporation's operation is at the steady growth stage, cash dividend (in any given year) should be at least 10% of total dividends appropriated for the year. 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 appropriated to capital in accordance with relevant laws or regulations or the requirements of the authorities.

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

According to the revised Company Law issued on January 4, 2012, the appropriation for legal reserve shall be made until the reserve equals the Corporation's paid-in capital. The reserve in excess of 25% of paid-in capital may be used to offset a deficit or be distributed as cash or stock dividends if the Corporation incurs no loss.

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 2011 and 2010 were proposed and approved in the Board of Directors' meeting and shareholders' meetings held on February 17, 2012 and June 10, 2011, respectively. The appropriations and dividends per share were as follows:

	Appropriation of Earnings		Dividend Per Share (NT\$)	
	2011	2010	2011	2010
Legal reserve	\$ 88,218	\$ 195,239	\$ -	\$ -
Provision of special reserve	105,057	-	-	-
Stock dividends	<u>968,395</u>	<u>987,316</u>	0.60	0.60
	<u>\$ 1,161,670</u>	<u>\$ 1,182,555</u>		

The Board of Directors' meeting on February 17, 2012 also proposed the bonus to employees NT\$132,328 thousand and the remuneration to directors and supervisors NT\$6,889 thousand, respectively.

The 2011 appropriations of earnings, bonus to employees and remuneration to directors and supervisors are to be resolved in the shareholders' meeting scheduled on June 12, 2012.

The information about the appropriations of bonus 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 three months ended March 31, 2012 and 2011, movements of unrealized gain or loss on financial instruments were as follows:

	Available- for-sale Financial Assets	Equity- method Investments	Unrealized Gain (Loss) on Cash Flow Hedge	Total
<u>Three months ended March 31, 2012</u>				
Balance, beginning of period	\$ (44,327)	\$ -	\$ -	\$ (44,327)
Recognized in shareholders' equity	<u>37,574</u>	<u>(205)</u>	<u>-</u>	<u>37,369</u>
Balance, end of period	<u>\$ (6,753)</u>	<u>\$ (205)</u>	<u>\$ -</u>	<u>\$ (6,958)</u>
<u>Three months ended March 31, 2011</u>				
Balance, beginning of period	\$ 69,006	\$ 896	\$ (12,805)	\$ 57,097
Recognized in shareholders' equity	(28,439)	(150)	(29,356)	(57,945)
Transferred to profit or loss	<u>(20,837)</u>	<u>-</u>	<u>41,906</u>	<u>21,069</u>
Balance, end of period	<u>\$ 19,730</u>	<u>\$ 746</u>	<u>\$ (255)</u>	<u>\$ 20,221</u>

Translation Adjustment

For the three months ended March 31, 2012 and 2011, movements of translation adjustments were as follows:

	Foreign Currency Exchange Valuation Difference
<u>Three months ended March 31, 2012</u>	
Balance, beginning of period	\$ (60,729)
Recognized in shareholders' equity	<u>(6,202)</u>
Balance, end of period	<u>\$ (66,931)</u>
<u>Three months ended March 31, 2011</u>	
Balance, beginning of period	\$ (56,516)
Recognized in shareholders' equity	<u>(8,411)</u>
Balance, end of period	<u>\$ (64,927)</u>

Employee Stock Option Plans

On February 20, 2001, June 21, 2002 and September 18, 2003, the SFB approved the Corporation's 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 plans is as follows:

	<u>2003 Plan</u>		<u>2002 Plan</u>		<u>2001 Plan</u>	
	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\$)
<u>Three months ended March 31, 2012</u>						
Beginning balance	27,978	\$15.90	6,900	\$11.50	182	\$15.60
Options exercised	-	-	(221)	11.50	-	-
Options canceled	<u>(160)</u>	15.60	<u>-</u>	-	<u>(182)</u>	15.60
Ending balance	<u>27,818</u>	15.91	<u>6,679</u>	11.50	<u>-</u>	-
<u>Three months ended March 31, 2011</u>						
Beginning balance	29,183	\$16.62	7,767	\$12.00	3,204	\$15.83
Options exercised	(46)	13.20	(713)	12.00	(340)	13.14
Options canceled	<u>(336)</u>	16.63	<u>-</u>	-	<u>(3)</u>	12.60
Ending balance	<u>28,801</u>	16.62	<u>7,054</u>	12.00	<u>2,861</u>	16.16

The number of outstanding stock options and exercise prices had been adjusted to reflect the offset of deficit by capital reduction and the distribution of earnings in accordance with the plans.

Information on outstanding stock options as of March 31, 2012 were as follows:

Range of Exercise	Options Outstanding			Options Exercisable	
	Number Outstanding (In Thousands)	Expected Remaining Contractual Life (In Years)	Weighted-average Exercise Price (NT\$)	Number Exercisable (In Thousands)	Weighted-average Exercise Price (NT\$)
<u>2003 plan</u>					
\$12.70-\$16.90	<u>27,818</u>	1.66-2.47	\$15.91	<u>27,818</u>	\$15.91
<u>2002 plan</u>					
\$11.50	<u>6,679</u>	0.48	11.50	<u>6,679</u>	11.50

17. EARNINGS (LOSS) PER SHARE

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

	Amounts (Numerator)		Shares (Denominator) (Thousands)	EPS (NT\$)	
	Before Income Tax	After Income Tax		Before Income Tax	After Income Tax
<u>Three months ended March 31, 2012</u>					
Net (loss) income	<u>\$ (9,864)</u>	<u>\$ 24,096</u>			
Basic (loss) earnings per share					
Net (loss) income of common shareholders	\$ (9,864)	\$ 24,096	1,576,084	<u>\$ (0.01)</u>	<u>\$ 0.02</u>
Effect of dilutive securities					
Employee stock option rights	-	-	272		
Bonus to employees	-	-	<u>11,204</u>		
Diluted (loss) earnings per share					
Net (loss) income of common and potential common shareholders	<u>\$ (9,864)</u>	<u>\$ 24,096</u>	<u>1,587,560</u>	<u>\$ (0.01)</u>	<u>\$ 0.02</u>
<u>Three months ended March 31, 2011</u>					
Net income	<u>\$ 386,151</u>	<u>\$ 396,731</u>			
Basic earnings per share					
Net income of common shareholders	\$ 386,151	\$ 396,731	1,646,743	<u>\$ 0.23</u>	<u>\$ 0.24</u>
Effect of dilutive securities					
Employee stock option rights	-	-	2,171		
Bonus to employees	-	-	<u>26,504</u>		
Diluted earnings per share					
Net income of common and potential common shareholders	<u>\$ 386,151</u>	<u>\$ 396,731</u>	<u>1,675,418</u>	<u>\$ 0.23</u>	<u>\$ 0.24</u>

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

18. TREASURY STOCK

(Shares in Thousands)

Purpose of Treasury Stock	Number of Shares, Beginning of Period	Addition During the Period	Retirement During the Period	Number of Shares, End of Period
<u>Three months ended March 31, 2012</u>				
For transfer to employees	<u>5,124</u>	<u>70,153</u>	<u>-</u>	<u>75,277</u>

The Corporation held a meeting of the Board of Directors and approved a share buyback plan to repurchase the Corporation's common shares up to 76,160 thousand shares from the GreTai-Securities Market during the period from December 16, 2011 to February 15, 2012 with buyback prices in the range from NT\$8 to NT\$15. As of February 15, 2012 the Corporation had repurchased 44,525 thousand common shares.

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 31,635 thousand shares from the GreTai Securities Market during the period from February 20, 2012 to April 19, 2012 with buy-back prices in the range from NT\$10 to NT\$16. As of March 31, 2012, the Corporation had repurchased 30,752 thousand common shares.

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.

Treasury stock granted on March 1, 2012 were priced using the binomial option pricing model and the inputs to the model were as follows:

Grant-date share price (NT\$)	\$ 12.70
Exercise price (NT\$)	11.49
Expected volatility	30.12% -31.53%
Expected life	2 years
Risk-free interest rate	0.8012%

Expected volatility is based on the historical stock price volatility over the past 2 years. The yield of two-year government bond is used as the risk-free interest rate.

Compensation cost recognized was NT\$6,760 thousand for the three months ended March 31, 2012.

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\$29,912 thousand and NT\$30,703 thousand for the three months ended March 31, 2012 and 2011, 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 the Committee’s name in Bank of Taiwan. The Corporation recognized pension costs of NT\$3,772 thousand and NT\$4,161 thousand for the three months ended March 31, 2012 and 2011, respectively.

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

	<u>Three Months Ended March 31</u>	
	2012	2011
<u>Pension fund</u>		
Balance, beginning of period	\$ 305,911	\$ 290,035
Contributions	3,724	3,626
Interest	<u>2,658</u>	<u>2,802</u>
Balance, end of period	<u>\$ 312,293</u>	<u>\$ 296,463</u>
<u>Accrued pension cost</u>		
Balance, beginning of period	\$ 483,876	\$ 481,011
Accrued expenses and other current liabilities, beginning of period	1,233	1,215
Provisions	3,772	4,161
Contributions	(3,724)	(3,626)
Accrued expenses and other current liabilities, end of period	<u>(1,223)</u>	<u>(1,187)</u>
Balance, end of period	<u>\$ 483,934</u>	<u>\$ 481,574</u>

20. INCOME TAX EXPENSE

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

	<u>Three Months Ended March 31</u>	
	2012	2011
Income tax expense based on (loss) income before income tax at statutory rate	\$ (1,677)	\$ 65,646
Tax exempt	(319)	-
Permanent differences	1,901	(669)
Temporary differences	4,248	(4,007)
Operating loss carryforwards	<u>-</u>	<u>(20,498)</u>
Current income tax expense before income tax credits	<u>\$ 4,153</u>	<u>\$ 40,472</u>

b. Income tax expense was as follows:

	March 31	
	2012	2011
Current income tax expense before income tax credits	\$ (4,153)	\$ (40,472)
Income tax credits	1,910	15,829
Net change in deferred income tax assets for the periods		
Tax credits	(6,200)	(15,829)
Operating loss carryforwards	-	(20,498)
Temporary differences	2,070	(13,890)
Valuation allowance	30,208	85,440
Adjustments for prior year's tax	<u>10,125</u>	<u>-</u>
Income tax benefit	<u>\$ 33,960</u>	<u>\$ 10,580</u>

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

	March 31	
	2012	2011
Current		
Investment tax credits	\$ 350,722	\$ 277,370
Operating loss carryforwards	-	61,493
Loss on inventory valuation and obsolescence	43,629	59,957
Others	<u>5,327</u>	<u>14,788</u>
	399,678	413,608
Valuation allowance	<u>(238,803)</u>	<u>(215,592)</u>
	<u>\$ 160,875</u>	<u>\$ 198,016</u>
Noncurrent		
Investment tax credits	\$ 122,678	\$ 433,400
Operating loss carryforwards	81,991	-
Accrued pension costs	82,269	81,868
Depreciation and amortization	<u>14,777</u>	<u>(32,341)</u>
	301,715	482,927
Valuation allowance	<u>(301,715)</u>	<u>(482,927)</u>
	<u>\$ -</u>	<u>\$ -</u>

d. The balances of the imputation credit account as of March 31, 2012 and 2011 were NT\$41,109 thousand and NT\$23,696 thousand, respectively.

The expected and actual creditable ratios for distributing the earnings of 2011 and 2010 were 2.14% and 4.88%, 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 2011 earnings may be adjusted according to the actual ICA balance on dividend distribution date.

e. The unappropriated retained earnings as of March 31, 2012 and 2011 did not contain unappropriated earnings generated on and before January 1, 1998.

f. As of March 31, 2012, the operating loss carryforwards and tax credits were as follows:

Regulatory Basis of Tax Credits	Items	Total Creditable Amounts	Remaining Creditable Amounts	Expiry Year
Income Tax Law	Operating loss carryforwards	<u>\$ 81,991</u>	<u>\$ 81,991</u>	2013
Statute for Upgrading Industries	Purchase of machinery and equipment	\$ 78,189	\$ 78,189	2012
		2,595	2,595	2013
		<u>8,335</u>	<u>8,335</u>	2014
		<u>\$ 89,119</u>	<u>\$ 89,119</u>	
Statute for Upgrading Industries	Research and development expenditures	\$ 239,389	\$ 237,479	2012
		<u>145,824</u>	<u>145,824</u>	2013
		<u>\$ 385,213</u>	<u>\$ 383,303</u>	
Statute for Upgrading Industries	Personnel training expenditures	\$ 789	\$ 789	2012
		<u>189</u>	<u>189</u>	2013
		<u>\$ 978</u>	<u>\$ 978</u>	

h. As end of December 31, 2010, the Corporation was granted a five-year income tax exemption period with respect to the issuance of shares from the appropriation for year 2005. The income tax exemption period is from January 1, 2012 to December 31, 2016.

Income tax returns through 2009 had been examined and cleared by the tax authorities.

21. LABOR COST, DEPRECIATION AND AMORTIZATION EXPENSES

	Three months ended March 31					
	2012			2011		
	Classified as Cost of Sales	Classified as Operating Expenses	Total	Classified as Cost of Sales	Classified as Operating Expenses	Total
Labor cost						
Salary	\$ 587,329	\$ 146,711	\$ 734,040	\$ 664,888	\$ 151,313	\$ 816,201
Labor/health insurance	41,660	10,526	52,186	42,245	9,978	52,223
Pension	26,890	6,794	33,684	28,203	6,661	34,864
Others	<u>23,268</u>	<u>6,584</u>	<u>29,852</u>	<u>19,536</u>	<u>5,387</u>	<u>24,923</u>
	<u>\$ 679,147</u>	<u>\$ 170,615</u>	<u>\$ 849,762</u>	<u>\$ 754,872</u>	<u>\$ 173,339</u>	<u>\$ 928,211</u>
Depreciation	<u>\$ 829,186</u>	<u>\$ 23,457</u>	<u>\$ 852,643</u>	<u>\$ 718,514</u>	<u>\$ 25,115</u>	<u>\$ 743,629</u>
Amortization	<u>\$ 678</u>	<u>\$ 1,407</u>	<u>\$ 2,085</u>	<u>\$ 2,517</u>	<u>\$ 2,760</u>	<u>\$ 5,277</u>

22. RELATED-PARTY TRANSACTIONS

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

- 1) VIS Micro Inc. (VIS Micro): Indirect subsidiary.
- 2) Taiwan Semiconductor Manufacturing Company Ltd. (TSMC): A major shareholder of the Corporation.

- 3) CMSC, Inc. (CMSC): Equity-method investee of the Corporation.
- 4) Goyatek Technology Inc. (Goya): An indirect subsidiary of the Corporation is its director.
- 5) 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) TSMC Solid State Lighting Ltd. (TSSL): Related party in substance.
- 8) Others - related parties over which the Corporation has substantial influence but without any transactions (Note 28).

b. The transactions with the related parties were as follows:

	2012		2011	
	Amount	%	Amount	%
<u>For the period</u>				
Sales				
TSMC	\$ 702,350	22	\$ 1,324,639	33
GUC	13,955	1	8,335	-
Goya	3,899	-	15,587	1
CMSC	<u>2,690</u>	<u>-</u>	<u>912</u>	<u>-</u>
	<u>\$ 722,894</u>	<u>23</u>	<u>\$ 1,349,473</u>	<u>34</u>
Purchases				
TSMC	<u>\$ 81</u>	<u>-</u>	<u>\$ -</u>	<u>-</u>
Manufacturing expenses				
TSMC	<u>\$ 117,820</u>	<u>5</u>	<u>\$ 120,808</u>	<u>4</u>
Marketing expenses				
VIS Micro	<u>\$ 7,903</u>	<u>18</u>	<u>\$ 10,387</u>	<u>23</u>
Research and development expenses				
TSMC	<u>\$ 302</u>	<u>-</u>	<u>\$ 1,345</u>	<u>1</u>
Rental revenues				
TSMC	<u>\$ -</u>	<u>-</u>	<u>\$ 7,205</u>	<u>68</u>
Nonoperating income and gains				
TSMC	\$ 7,673	40	\$ 9,719	49
TSSL	342	2	-	-
INNO	-	-	243	1
Goya	<u>-</u>	<u>-</u>	<u>8</u>	<u>-</u>
	<u>\$ 8,015</u>	<u>42</u>	<u>\$ 9,970</u>	<u>50</u>
Purchase of properties				
TSMC	<u>\$ -</u>	<u>-</u>	<u>\$ 35,846</u>	<u>3</u>

(Continued)

	2012		2011	
	Amount	%	Amount	%
<u>At end of period</u>				
Receivables				
TSMC	\$ 507,570	97	\$ 932,938	98
GUC	10,164	2	4,980	1
Goya	3,807	1	13,745	1
CMSC	<u>1,938</u>	<u>-</u>	<u>1,182</u>	<u>-</u>
	<u>\$ 523,479</u>	<u>100</u>	<u>\$ 952,845</u>	<u>100</u>
Other receivables				
TSMC	<u>\$ 11,688</u>	<u>100</u>	<u>\$ 20,065</u>	<u>100</u>
Payables (presented under notes and accounts payables)				
TSMC	<u>\$ 81</u>	<u>-</u>	<u>\$ -</u>	<u>-</u>
Other payables				
TSMC	\$ 97,345	97	\$ 116,141	96
VIS Micro	2,881	3	5,206	4
GUC	<u>30</u>	<u>-</u>	<u>91</u>	<u>-</u>
	<u>\$ 100,256</u>	<u>100</u>	<u>\$ 121,438</u>	<u>100</u>
Rental in advance (presented under accrued expenses and other current liabilities)				
TSSL	<u>\$ 216</u>	<u>-</u>	<u>\$ -</u>	<u>-</u>
Guarantee deposits				
TSMC	\$ -	-	\$ 2,273	13
Goya	<u>-</u>	<u>-</u>	<u>2,000</u>	<u>12</u>
	<u>\$ -</u>	<u>-</u>	<u>\$ 4,273</u>	<u>25</u>

VIS Micro provided marketing services for the Corporation. The Corporation paid actual expenses incurred for these services plus a 5% markup.

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 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 Corporation leased certain place to TSSL. The terms were based on related contracts. The rental revenue was paid in advance by TSSL.

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

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

23. PLEDGED ASSETS

The following assets had been pledged as collateral for customs duty and for land used for manufacturing plant at the Hsinchu Science-Based Industrial Park:

	<u>March 31</u>	
	<u>2012</u>	<u>2011</u>
Pledged time deposits	<u>\$ 181,300</u>	<u>\$ 181,300</u>

24. LONG-TERM OPERATING LEASES

The Corporation leases the sites of its manufacturing plant and parking lot from the Hsinchu Science-Based Industrial Park Administration and a certain individual under renewable operating lease agreements expiring on various dates in March 2013, April 2015, June 2015, December 2027 and December 2029. Annual rentals aggregate NT\$78,109 thousand. The rental 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
2012 (2 nd to 4 th quarter)	\$ 58,581
2013	77,029
2014	76,669
2015	67,539
2016	61,523
2017-2029	<u>698,187</u>
	<u>\$ 1,039,528</u>

25. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

The significant commitments of the Corporation as of March 31, 2012 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 and reserve a portion of its production capacity.
- b. As of March 31, 2012, unused letters of credit aggregated about JPY14,100 thousand and US\$706 thousand.

26. FINANCIAL INSTRUMENTS

a. Fair values of financial instruments were as follows:

	March 31			
	2012		2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets				
Financial assets at fair value through profit or loss - current	\$ 46,816	\$ 46,816	\$ 14,695	\$ 14,695
Available-for-sale financial assets - current	6,857	6,857	10,074	10,074
Derivative financial assets for hedging - current	34	34	3,636	3,636
Available-for-sale financial assets - noncurrent	161,718	161,718	185,264	185,264
Financial assets carried at cost - noncurrent	38,716	-	38,716	-
Liabilities				
Financial liabilities at fair value through profit or loss - current	2,748	2,748	6,705	6,705
Derivative financial liabilities for hedging - current	1,464	1,464	14,586	14,586

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

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

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

c. The Corporation's financial instruments with fair values determined by using published price quotations and valuation techniques were applied were as follows:

	Quoted Market Prices		Valuation Techniques	
	March 31		March 31	
	2012	2011	2012	2011
Assets				
Financial assets at fair value through profit or loss - current	\$ 22,587	\$ -	\$ 24,229	\$ 14,695
Available-for-sale financial assets - current	6,857	10,074	-	-
Derivative financial assets for hedging - current	-	-	34	3,636
Available-for-sale financial assets - noncurrent	161,718	185,264	-	-
Liabilities				
Financial liabilities at fair value through profit or loss - current	-	-	2,748	6,705
Derivative financial liabilities for hedging - current	-	-	1,464	14,586

- d. Valuation gains and losses from changes in fair value of financial instruments determined using valuation techniques were NT\$63,235 thousand and NT\$14,385 thousand for the three months ended March 31, 2012 and 2011, respectively.
- e. As of March 31, 2012 and 2011, financial assets exposed to fair value interest rate risk amounted to NT\$5,866,201 thousand and NT\$5,464,050 thousand, respectively; financial assets exposed to cash flow interest rate risk amounted to NT\$2,179,706 thousand and NT\$2,055,499 thousand, respectively.
- f. Interest income associated with financial instruments other than the financial assets or liabilities at fair value through profit or loss for the three months ended March 31, 2012 and 2011 were NT\$21,905 thousand and NT\$14,459 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\$958 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, 2012 and 2011, financial assets exposed to credit risk amounted to NT\$46,850 thousand and NT\$18,331 thousand, respectively. The maximum credit risks of other financial instruments held 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 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, 2012, 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\$ 2,848,738	US\$ 96,500
	JPY 107,481	US\$ 1,300
	US\$ 2,000	NT\$ 59,065

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 flows of accounts receivable 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	
		2012	2011
Foreign currency accounts receivable	Currency-swap contracts	\$ (1,430)	\$ (10,695)

2) Cash flow hedges

The Corporation determined that the exchange rate risk on future cash flows of the expected foreign currency denominated sales were significant; thus, it entered into forward exchange contracts and currency-swap contracts to hedge these exposures. There was no outstanding cash flow hedging transaction as of March 31, 2012.

Hedged Item	Hedging Financial Instrument	Fair Value as of March 31	Expected Timing for Future Cash Demand	Expected Timing for the Recognition of Gains or Losses from Hedge
<u>March 31, 2011</u>				
Forecast sales	Currency-swap contracts	\$ (255)	April 2011- June 2011	April 2011- June 2011

27. EXCHANGE RATE INFORMATION OF FOREIGN-CURRENCY FINANCIAL ASSETS AND LIABILITIES

Significant financial assets and liabilities denominated in foreign currencies were as follows:

	<u>March 31, 2012</u>		<u>March 31, 2011</u>	
	Foreign	Rate	Foreign	Rate
<u>Financial assets</u>				
Monetary items				
USD	\$ 93,900	29.529	\$ 94,858	29.468
EUR	304	39.7	643	41.93
JPY	97,970	0.3645	26,618	0.3612
HKD	-	3.8	-	3.79
SGD	12	23.53	-	23.38
Non-monetary items				
USD	142	29.529	622	29.468
Long-term stock investments accounted for the by equity method				
USD	8,953	29.529	9,224	29.468
<u>Financial liabilities</u>				
Monetary items				
USD	15,590	29.529	16,790	29.468
EUR	316	39.7	668	41.93
JPY	150,231	0.3645	273,291	0.3612
SGD	-	23.53	16	23.38
Non-monetary items				
USD	143	29.529	722	29.468

28. ADDITIONAL DISCLOSURES

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

- a. Financing provided: None.
- b. Endorsement/guarantee provided: None.
- c. Marketable securities held: Table 1 (attached)
- d. Marketable securities acquired and disposed of at costs or prices of at least NT\$100 million or 20% of the paid-in capital: None.
- e. Acquisition of individual real estates at costs of at least \$100 million or 20% of the paid-in capital: None.
- f. Disposal of individual real estates at costs of at least \$100 million or 20% of the paid-in capital: None.
- g. Total purchase from or sale to related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Table 2 (attached)
- h. Receivable from related parties amounting to at least \$100 million or 20% of the paid-in capital: Table 3 (attached)
- i. Names, locations, and related information of investees on which the Corporation exercises significant influence: Table 4 (attached)
- j. Information about derivatives of investees: None.
- k. Information on investment in Mainland China: None.

29. OPERATING SEGMENTS DISCLOSURE

Information on operating segments was disclosed in the Corporation's consolidated financial statement. Thus, please refer to consolidated financial statements.

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

MARKETABLE SECURITIES HELD

MARCH 31, 2012

(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, 2012				Note
				Shares/Units (Thousands)	Carrying Value (US\$ in Thousands)	% of Ownership	Market Value or Net Asset Value (US\$ in Thousands)	
Vanguard International Semiconductor Corporation	<u>Bonds</u>							
	Everlight Credit Linked Notes	-	Financial assets at fair value though profit or loss - current	-	\$ 20,080	-	\$ 20,080	Note 6
	Eva Exchange Bond	-	Financial assets at fair value though profit or loss - current	-	22,587	-	22,587	Note 1
	<u>Stock</u>							
	Walton Advanced Engineering, Inc.	Investee	Available-for-sale financial assets - current	695	6,857	-	6,857	Note 1
	Chipbond Technology Corporation	Investee	Available-for-sale financial assets - noncurrent	4,052	154,986	1	154,986	Note 1
	Champion Microelectronic Corp.	Investee	Available-for-sale financial assets - noncurrent	240	6,732	1	6,732	Note 1
	VIS Associates Inc.	Subsidiary	Long-term stock investments accounted for by the equity method	6	264,360	100	264,360	Note 3
	CMSC, Inc.	Equity-method investee	Long-term stock investments accounted for by the equity method	9,902	67,605	25	67,605	Note 3
	United Industrial Gases Co., Ltd.	Investee	Financial assets carried at cost - noncurrent	3,357	38,716	2	38,716	Note 4
VIS Associates Inc.	<u>Funds</u>							
	Templeton Global Bond Fund Class A	-	Available-for-sale financial assets - current	47	US\$ 947	-	US\$ 947	Note 2
	Pimco Gis Total Return Bond Fund CL A	-	Available-for-sale financial assets - current	41	US\$ 1,001	-	US\$ 1,001	Note 2
	<u>Stock</u>							
	VIS Investment Holding, Inc.	Subsidiary of VIS Associates Inc.	Long-term stock investments accounted for by the equity method	63	US\$ 1,038	100	US\$ 1,038	Note 3
	Specialty TechFarm, Inc.	Subsidiary of VIS Associates Inc.	Long-term stock investments accounted for by the equity method	10,000	US\$ 2,880	100	US\$ 2,880	Note 3
VIS Investment Holding, Inc.	<u>Stock</u>							
	VIS Micro, Inc.	Subsidiary of VIS Investment Holding, Inc.	Long-term stock investments accounted for by the equity method	200	US\$ 814	100	US\$ 814	Note 3

(Continued)

Holding Company Name	Marketable Security Type and Issuer	Relationship with the Holding Company	Financial Statement Account	March 31, 2012				Note
				Shares/Units (Thousands)	Carrying Value (US\$ in Thousands)	% of Ownership	Market Value or Net Asset Value (US\$ in Thousands)	
Specialty TechFarm, Inc.	Stock LayerWalker Technology, Inc.	Equity-method investee	Long-term stock investments accounted for by the equity method	4,103	US\$ 81	27	US\$ 81	Note 5
	SkyTraq Technology, Inc.	Equity-method investee	Long-term stock investments accounted for by the equity method	4,688	US\$ 1,108	26	US\$ 1,108	Note 5
	INNO-TECH Co., Ltd.	Equity-method investee	Long-term stock investments accounted for by the equity method	2,584	US\$ 302	37	US\$ 302	Note 5
	Linear Artwork, Inc.	Equity-method investee	Long-term stock investments accounted for by the equity method	4,375	US\$ 352	27	US\$ 352	Note 5
	Goyatek Technology Inc. Uniband Electronic Corp.	Investee Investee	Financial assets carried at cost - noncurrent Financial assets carried at cost - noncurrent	1,785 960	US\$ 297 US\$ 200	13 4	US\$ 297 US\$ 200	Note 4 Note 4

Note 1: The market value was based on stock closing price as of March 31, 2012.

Note 2: The market value was based on fund's net asset value as of March 31, 2012.

Note 3: The net asset value was based on reviewed financial statements as of March 31, 2012.

Note 4: The market value was based on the book value as of March 31, 2012.

Note 5: The net asset value was based on unreviewed financial statement as of March 31, 2012.

Note 6: The fair value was based on valuation techniques.

Note 7: As of March 31, 2012, all the securities were not pledged or restricted.

(Concluded)

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

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

THREE MONTHS ENDED MARCH 31, 2012

(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	% to Total	
Vanguard International Semiconductor Corporation	Taiwan Semiconductor Manufacturing Company Ltd.	Major shareholder	Sale	\$702,350	22%	Note	\$ -	-	\$507,570	23.13%	-

Note: Net 45 days after monthly closing.

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

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

MARCH 31, 2012

(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	\$507,570	3.90	\$ -	-	\$ -	\$ -

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

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

THREE MONTHS ENDED MARCH 31, 2012

(In Thousands of New Taiwan Dollars)

Investor	Investee	Location	Main Businesses and Products	Investment Amount		Balance as of March 31, 2012			Net Loss of the Investee	Investment Loss	Note
				March 31, 2012	December 31, 2011	Shares (Thousands)	% of Ownership	Carrying Value			
Vanguard International Semiconductor Corporation	VIS Associates Inc. CMSC, Inc.	British Virgin Islands Hsin-Chu City, Taiwan	Investment Integrated circuit design services and related businesses	\$ 195,492 112,650	\$ 195,492 112,650	6 9,902	100 25	\$ 264,360 67,605	\$ (1,450) (9,777)	\$ (1,450) (2,438)	Subsidiary Equity-method investee