Vanguard International Semiconductor Corporation

Financial Statements for the Six Months Ended June 30, 2012 and 2011 and Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Vanguard International Semiconductor Corporation

We have audited the accompanying balance sheets of Vanguard International Semiconductor Corporation (the "Corporation") as of June 30, 2012 and 2011, and the related statements of income, changes in shareholders' equity and cash flows for the six months then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Vanguard International Semiconductor Corporation as of June 30, 2012 and 2011, and the results of its operations and its cash flows for the six months then ended, 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 audited the consolidated financial statements of Vanguard International Semiconductor Corporation and subsidiaries as of and for the six months ended June 30, 2012 and 2011, respectively, on which we have issued an unqualified opinion.

August 3, 2012

<u>Notice to Readers</u>

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 audit such financial statements are those generally accepted and applied in the Republic of China.

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

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

BALANCE SHEETS
JUNE 30, 2012 AND 2011
(In Thousands of New Taiwan Dollars, Except Par Value)

	2012		2011	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 4)	$ 8,413,930	36	$ 7,842,028	31
Financial assets at fair value through profit or loss - current (Notes 2 and 5)	199,403	1	9,782	-
Available-for-sale financial assets - current (Notes 2 and 6)	6,156	-	9,866	-
Derivative financial assets for hedging - current (Notes 2 and 7)	258	-	67	-
Receivables from related parties (Note 22)	950,227	4	1,091,965	4
Notes and accounts receivable	2,340,790	10	1,679,389	7
Allowance for doubtful accounts (Note 2)	(9,113)	-	(41,146)	-
Allowance for sales returns and discounts (Note 2)	(50,362)	-	(51,530)	-
Inventories (Notes 2 and 8)	1,629,647	7	1,885,830	8
Other receivables from related parties (Note 22)	14,990	-	13,048	-
Prepaid expenses and other current assets	250,804	1	166,169	1
Deferred income tax assets - current (Notes 2 and 20)	171,659	1	125,233	-
Total current assets	13,918,389	60	12,730,701	51
INVESTMENTS				
Long-term stock investments accounted for by the equity method (Notes 2 and 9)	334,788	1	344,349	1
Available-for-sale financial assets - noncurrent (Notes 2 and 6)	168,126	1	174,100	1
Financial assets carried at cost - noncurrent (Notes 2 and 10)	38,716	-	38,716	-
Total investments	541,630	2	557,165	2
PROPERTIES (Notes 2, 11 and 22)				
Cost				
Buildings	12,776,868	55	12,593,983	51
Machinery and equipment	50,627,920	217	49,588,471	200
Other equipment	349,247	1	350,191	1
Total cost	63,754,035	273	62,532,645	252
Accumulated depreciation	(55,956,590)	(240)	(52,598,654)	(211)
Prepayments and construction in progress	135,128	1	591,935	2
Net properties	7,932,573	34	10,525,926	43
OTHER ASSETS				
Assets leased to others (Notes 2 and 13)	708,832	3	781,794	3
Idle assets (Notes 2 and 14)	22,858	-	68,571	-
Intangible assets (Notes 2 and 12)	6,326	-	15,200	-
Refundable deposits	5,032	-	5,092	-
Pledged time deposits (Notes 4 and 23)	181,300	1	181,300	1
Total other assets	924,348	4	1,051,957	4
TOTAL	$ 23,316,940	100	$ 24,865,749	100

	2012		2011	
LIABILITIES AND SHAREHOLDERS' EQUITY	**Amount**	**%**	**Amount**	**%**
CURRENT LIABILITIES				
Financial liabilities at fair value through profit or loss - current (Notes 2 and 5)	$ 26,735	-	$ 4,868	-
Derivative financial liabilities for hedging - current (Notes 2 and 7)	8,938	-	1,769	-
Payables to related parties (Note 22)	-	-	37,740	-
Notes and accounts payable	878,223	4	815,197	3
Income tax payable (Notes 2 and 20)	91,160	-	59,364	-
Cash dividends payable (Note 16)	968,395	4	987,316	4
Accrued profit sharing to employees and bonus to directors and supervisors (Note 16)	266,198	1	430,583	2
Other payables to related parties (Note 22)	109,415	1	92,740	-
Payables to contractors and equipment suppliers	111,658	1	445,749	2
Accrued expenses and other current liabilities (Notes 15 and 22)	1,032,452	4	936,362	4
Total current liabilities	3,493,174	15	3,811,688	15
OTHER LIABILITIES				
Accrued pension cost (Notes 2 and 19)	483,992	2	482,138	2
Guarantee deposits (Note 22)	19,927	-	8,853	-
Total other liabilities	503,919	2	490,991	2
Total liabilities	3,997,093	17	4,302,679	17
SHAREHOLDERS' EQUITY (Notes 2, 16 and 18)				
Capital stock, NT$10 par value;				
Authorized - 3,300,000 thousand shares				
Issued and outstanding - 1,620,226 thousand shares in 2012 and 1,648,604 thousand shares in 2011	16,202,261	70	16,486,035	66
Capital surplus				
Additional paid-in capital	461,550	2	467,340	2
Long-term stock investments	69,188	-	69,140	-
Employee stock options	34,359	-	-	-
Total capital surplus	565,097	2	536,480	2
Retained earnings				
Legal reserve	1,877,144	8	1,788,926	7
Special reserve	105,057	-	-	-
Unappropriated earnings	1,553,041	7	1,814,104	8
Total retained earnings	3,535,242	15	3,603,030	15
Others				
Unrealized (loss) gain on financial instruments	(1,433)	-	8,358	-
Cumulative translation adjustments	(63,543)	-	(70,833)	-
Treasury stock (cost) - 76,160 thousand shares	(917,777)	(4)	-	-
Total others	(982,753)	(4)	(62,475)	-
Total shareholders' equity	19,319,847	83	20,563,070	83
TOTAL	$ 23,316,940	100	$ 24,865,749	100

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

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

STATEMENTS OF INCOME
SIX MONTHS ENDED JUNE 30, 2012 AND 2011
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2012		2011	
	Amount	%	Amount	%
GROSS SALES (Notes 2, 7, 22 and 26)	$ 7,749,152		$ 8,035,933	
SALES RETURNS AND DISCOUNTS (Note 2)	(46,648)		(28,190)	
NET SALES	7,702,504	100	8,007,743	100
COST OF SALES (Notes 8, 21 and 22)	6,085,298	79	6,492,072	81
GROSS PROFIT	1,617,206	21	1,515,671	19
OPERATING EXPENSES (Notes 21 and 22)				
Marketing	98,748	1	78,262	1
General and administrative	298,213	4	307,983	4
Research and development	407,859	6	324,156	4
Total operating expenses	804,820	11	710,401	9
OPERATING INCOME	812,386	10	805,270	10
NONOPERATING INCOME AND GAINS				
Interest	43,654	1	30,626	-
Valuation gains on financial instruments (Notes 2, 5 and 26)	21,599	-	27,976	-
Dividends (Note 2)	10,069	-	11,580	-
Rental (Notes 13 and 22)	8,180	-	14,141	-
Gain on disposal of properties (Note 2)	1,934	-	-	-
Gain on disposal of investments (Notes 2 and 6)	-	-	20,837	-
Others (Note 22)	38,644	1	38,341	1
Total nonoperating income and gains	124,080	2	143,501	1
NONOPERATING EXPENSES AND LOSSES				
Expenses of assets leased to others (Note 13)	36,481	1	36,481	1
Foreign exchange loss, net (Note 2)	19,282	-	16,139	-
Investment loss recognized by the equity method, net (Notes 2 and 9)	4,484	-	3,494	-
Others	32,135	-	33,285	-
Total nonoperating expenses and losses	92,382	1	89,399	1
INCOME BEFORE INCOME TAX	844,084	11	859,372	10
INCOME TAX EXPENSE (Notes 2 and 20)	(47,979)	(1)	(99,756)	(1)
NET INCOME	$ 796,105	10	$ 759,616	9

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VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

STATEMENTS OF INCOME
SIX MONTHS ENDED JUNE 30, 2012 AND 2011
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2012		2011	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS PER SHARE (Note 17)				
Basic	$ 0.54	$ 0.51	$ 0.52	$ 0.46
Diluted	$ 0.53	$ 0.50	$ 0.51	$ 0.45

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

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
SIX MONTHS ENDED JUNE 30, 2012 AND 2011
(In Thousands of New Taiwan Dollars)

	Capital Stock Issued and Outstanding		Capital Surplus (Notes 2, 16 and 18)			Retained Earnings (Note 16)			Others			
	Shares (Thousands)	Amount	Additional Paid-in Capital	Employees Stock Options	Long-term Stock Investments	Legal Reserve	Special Reserve	Unappropriated Earnings	Unrealized (Loss) Gain on Financial Instruments (Note 2)	Cumulative Translation Adjustments (Note 2)	Treasury Stock (Notes 2 and 18)	Total Shareholders' Equity
BALANCE, JANUARY 1, 2012	1,619,116	$ 16,191,160	$ 459,885	$ -	$ 68,832	$ 1,788,926	$ -	$ 1,918,606	$ (44,327)	$ (60,729)	$ (53,176)	$ 20,269,177
Issuance of shares upon exercise of employee stock options	1,110	11,101	1,665	-	-	-	-	-	-	-	-	12,766
Compensation cost recognized for the transfer of treasury stock to employees	-	-	-	34,359	-	-	-	-	-	-	-	34,359
Appropriation of prior year's earnings												
Legal reserve	-	-	-	-	-	88,218	-	(88,218)	-	-	-	-
Special reserve	-	-	-	-	-	-	105,057	(105,057)	-	-	-	-
Cash dividends - 6%	-	-	-	-	-	-	-	(968,395)	-	-	-	(968,395)
Net income in the six months ended June 30, 2012	-	-	-	-	-	-	-	796,105	-	-	-	796,105
Adjustment due to changes in ownership interests in investee	-	-	-	-	356	-	-	-	-	-	-	356
Valuation gain on available-for-sale financial assets	-	-	-	-	-	-	-	-	43,281	-	-	43,281
Equity in the valuation loss on available-for-sale financial assets of equity-method investees	-	-	-	-	-	-	-	-	(387)	-	-	(387)
Translation adjustments on long-term stock investments	-	-	-	-	-	-	-	-	-	(2,814)	-	(2,814)
Acquisition of treasury stock	-	-	-	-	-	-	-	-	-	-	(864,601)	(864,601)
BALANCE, JUNE 30, 2012	1,620,226	$ 16,202,261	$ 461,550	$ 34,359	$ 69,188	$ 1,877,144	$ 105,057	$ 1,553,041	$ (1,433)	$ (63,543)	$ (917,777)	$ 19,319,847
BALANCE, JANUARY 1, 2011	1,645,527	$ 16,455,269	$ 458,532	$ -	$ 69,000	$ 1,593,687	$ -	$ 2,237,043	$ 57,097	$ (56,516)	$ -	$ 20,814,112
Issuance of shares upon exercise of employee stock options	3,077	30,766	8,808	-	-	-	-	-	-	-	-	39,574
Appropriation of prior year's earnings												
Legal reserve	-	-	-	-	-	195,239	-	(195,239)	-	-	-	-
Cash dividends - 6%	-	-	-	-	-	-	-	(987,316)	-	-	-	(987,316)
Net income in the six months ended June 30, 2011	-	-	-	-	-	-	-	759,616	-	-	-	759,616
Adjustment due to changes in ownership interests in investee	-	-	-	-	140	-	-	-	-	-	-	140
Valuation loss on available-for-sale financial assets	-	-	-	-	-	-	-	-	(60,648)	-	-	(60,648)
Equity in the valuation loss on available-for-sale financial assets of equity-method investees	-	-	-	-	-	-	-	-	(896)	-	-	(896)
Valuation gain on derivative financial instruments for hedging	-	-	-	-	-	-	-	-	12,805	-	-	12,805
Translation adjustments on long-term stock investments	-	-	-	-	-	-	-	-	-	(14,317)	-	(14,317)
BALANCE, JUNE 30, 2011	1,648,604	$ 16,486,035	$ 467,340	$ -	$ 69,140	$ 1,788,926	$ -	$ 1,814,104	$ 8,358	$ (70,833)	$ -	$ 20,563,070

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

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2012 AND 2011
(In Thousands of New Taiwan Dollars)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 796,105	$ 759,616
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,760,535	1,598,503
Investment loss recognized by the equity method, net	4,484	3,494
Deferred income tax	(36,862)	37,560
Compensation cost recognized for the transfer of treasury stock to employees	34,359	-
Gain on disposal of properties	(1,934)	-
Accrued pension cost	116	1,127
Gain on disposal of investments	-	(20,837)
Provision of allowance for doubtful accounts	-	9,024
Provision (reversal) of allowance for sales returns and discounts	7,976	(14,268)
Net changes in operating assets and liabilities		
Financial assets held for trading	(196,551)	27,442
Receivables from related parties	(4,452)	(675,660)
Notes and accounts receivable	(919,514)	(91,252)
Inventories	(399,062)	(270,449)
Other receivables from related parties	41,104	3,583
Prepaid expenses and other current assets	(77,129)	(18,601)
Derivative financial assets for hedging	1,435	1,075
Financial liabilities held for trading	17,024	(1,080)
Payables to related parties	-	37,740
Notes and accounts payable	444,231	148,366
Income tax payable	1,849	(16,511)
Other payables to related parties	19,707	14,977
Accrued profit sharing to employees and bonus to directors and supervisors	126,981	120,154
Accrued expenses and other current liabilities	(6,960)	(151,760)
Net cash provided by operating activities	1,613,442	1,502,243
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	(346,575)	(1,849,121)
Proceeds from the disposal of properties	3,600	-
Increase in intangible asset	-	(2,148)
Net cash used in investing activities	(342,975)	(1,843,807)

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VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2012 AND 2011
(In Thousands of New Taiwan Dollars)

	2012	2011
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in guarantee deposits	$ 10,965	$ (8,445)
Proceeds from the exercise of employee stock options	12,766	39,574
Acquisitions of treasury stock	(883,088)	-
Net cash (used in) provided by financing activities	(859,357)	31,129
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	411,110	(310,435)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	8,002,820	8,152,463
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 8,413,930	$ 7,842,028
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Income tax paid	$ 93,116	$ 78,728
NONCASH FINANCING AND INVESTING ACTIVITIES		
Cash dividends payable	$ 968,395	$ 987,316
Reclassification of financial assets carried at cost into available-for-sale financial assets	$ -	$ 5,750
INVESTING ACTIVITIES AFFECTING BOTH CASH AND NON-CASH ITEMS		
Total acquisitions	$ 228,006	$ 1,732,587
Decrease in payables to contractors and equipment suppliers	118,569	116,534
	$ 346,575	$ 1,849,121
FINANCING ACTIVITIES AFFECTING BOTH CASH AND NON-CASH ITEMS		
Acquisition of treasury stock	$ 864,601	$ -
Decrease in accrued expenses and other current liabilities	18,487	-
	$ 883,088	$ -

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

1. ORGANIZATION AND OPERATIONS

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

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

The Corporation 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 June 30, 2012 and 2011, the Corporation had 3,503 and 3,548 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 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 - 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 inventory valuation loss and obsolescence, depreciation of properties, assets leased to others and idle assets, amortization of intangible assets, 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 intangible assets 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 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 or derecognized on a trade date basis.

The recognition or 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.

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.

g. Hedge accounting

Derivatives 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 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
- 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 Corporation'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 incurred 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. Intangible Assets

Intangible assets acquired are initially recorded at cost and are amortized on a straight-line basis over their estimated useful lives. Computer software costs are amortized over 3 to 5 years.

Expenditure for research activities is 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.

On the balance sheet date, the Corporation evaluates intangible assets for any impairment. If impairment is identified, the Corporation should evaluate the recoverable amount of the intangible 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 intangible assets 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 on or after January 1, 2008 are accounted for under SFAS No. 39, "Accounting for Share-based Payment." Under the statement, the value of the stock options granted, which is equal to the best available estimate of the number of stock options expected to vest multiplied by the grant-date fair value, is expensed on a straight-line basis over the vesting period, with a corresponding adjustment to capital surplus - employee stock options. The estimate is revised if subsequent information indicates that the number of stock options expected to vest differs from previous estimates.

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.

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 six months ended June 30, 2011 have been reclassified to be consistent with those in the financial statements as of and for the six months ended June 30, 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 six months ended June 30, 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

	June 30	
	2012	2011
Bank deposits	$ 8,045,652	$ 7,406,290
Bonds acquired under resale agreements	549,578	617,038
	8,595,230	8,023,328
Pledged time deposit	(181,300)	(181,300)
	$ 8,413,930	$ 7,842,028

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

	June 30	
	2012	2011
Financial assets at FVTPL		
Financial assets held for trading	$ 6,998	$ 9,782
Financial assets designated as at FVTPL	192,405	-
	$ 199,403	$ 9,782
Financial liabilities at FVTPL		
Financial liabilities held for trading	$ 26,735	$ 4,868

Financial instruments held for trading consisted of the following:

	June 30	
	2012	2011
Financial assets held for trading		
Forward exchange contracts	$ 4,503	$ 4,537
Currency-swap contracts	2,495	5,245
	$ 6,998	$ 9,782
Financial liabilities held for trading		
Forward exchange contracts	$ 685	$ 57
Currency-swap contracts	26,050	4,811
	$ 26,735	$ 4,868

The Corporation entered into derivative transactions in the six months ended June 30, 2012 and 2011 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 June 30, 2012 and 2011 were as follows:

Contract	Currency	Contract Expiry Date	Contract Amount (In Thousands)
June 30, 2012			
Sell forward exchange contracts	US$ to NT$	2012.07.05-2012.08.06	US$ 26,000
Sell forward exchange contracts	US$ to JPY	2012.07.25-2012.08.08	US$ 1,500
Sell forward exchange contracts	US$ to EUR	2012.08.08	EUR 200
Buy forward exchange contracts	NT$ to US$	2012.07.31-2012.09.28	US$ 10,000

(Continued)

Contract	Currency	Contract Expiry Date	Contract Amount (In Thousands)
June 30, 2011			
Sell forward exchange contracts	US$ to NT$	2011.07.18-2011.07.19	US$ 7,000
Sell forward exchange contracts	US$ to JPY	2011.07.06-2011.08.03	US$ 3,000
Buy forward exchange contracts	NT$ to US$	2011.07.29-2011.09.08	US$ 13,000

(Concluded)

b. Outstanding currency-swap contracts as of June 30, 2012 and 2011 were as follows:

	Currency	Maturity Date	Contract Amount (In Thousands)
June 30, 2012			
Sell forward exchange contracts	US$ to NT$	2012.07.05-2012.09.06	US$ 118,500
Buy forward exchange contracts	NT$ to US$	2012.08.31	US$ 5,000
June 30, 2011			
Sell forward exchange contracts	US$ to NT$	2011.07.07-2011.08.26	US$ 106,500

The net gains on financial instrument for trading were $25,690 thousand and $43,531 thousand, for the six months ended June 30, 2012 and 2011, respectively.

Financial instruments designated as at FVTPL were as follows:

	June 30, 2011
Financial assets designated as at FVTPL	
Credit linked notes	$ 169,762
Convertible bond	22,643
	$ 192,405

Net gains and losses on financial assets designated as at FVTPL for the six months ended June 30, 2012 and 2011 was NT$540 thousand and NT$183 thousand, respectively.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS - CURRENT

	June 30	
	2012	2011
Listed stocks - Chipbond Technology Corporation	$ 161,874	$ 165,520
Listed stocks - Champion Microelectronic Corp.	6,252	8,580
Listed stocks - Walton Advanced Engineering, Inc.	6,156	9,866
	174,282	183,966
Less: Financial assets classified as noncurrent assets	(168,126)	(174,100)
	$ 6,156	$ 9,866

The Corporation 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 (refer to Note 26) consisted of the following:

	June 30	
	2012	**2011**
Derivative financial assets for hedging		
Current		
Currency-swap contracts	$ 258	$ 67
Derivative financial liabilities for hedging		
Current		
Currency-swap contracts	$ 8,938	$ 1,769

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 six months ended June 30, 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 contracts as of June 30, 2012 and 2011 were as follows:

	Currency	**Maturity Date**	**Contract Amount (In Thousands)**
June 30, 2012			
Sell forward exchange contracts	US$ to NT$	2012.07.18-2012.08.17	US$ 16,000
June 30, 2011			
Sell forward exchange contracts	US$ to NT$	2011.07.19-2011.08.18	US$ 14,000

The realized net losses on derivative financial instruments used for cash flow hedging for the six months ended June 30, 2012 and 2011 were $4,091 thousand and $43,472 thousand, respectively, which were recognized in sales. The net gains on derivative financial instruments used for fair value hedging were $6,501 thousand and $55,665 thousand, respectively, for the six months ended June 30, 2012 and 2011 which were recognized in nonoperating income.

8. INVENTORIES

	June 30	
	2012	2011
Finished goods	$ 74,181	$ 224,766
Work in process	1,112,371	1,131,661
Raw materials	241,504	316,308
Supplies and spare parts	201,591	213,095
	$ 1,629,647	$ 1,885,830

Allowance for inventory losses were $65,469 thousand and $232,444 thousand as of June 30, 2012 and 2011, respectively.

The cost of inventories recognized as cost of goods sold for the six months ended June 30, 2012 and 2011 were NT$6,085,298 thousand and NT$6,492,072 thousand, respectively. The cost of goods sold for the six months ended June 30, 2012 included reversal of write-down of inventory in the amount of NT$45,119 thousand. The cost of goods sold for the six months ended June 30, 2011 included write-down of inventory in the amount of NT$50,185 thousand and NT$16,126 thousand on unallocated overhead.

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

	June 30			
	2012		2011	
	Carrying Value	% of Owner-ship	Carrying Value	% of Owner-ship
Unlisted stocks				
VIS Associates Inc.	$ 268,400	100	$ 270,284	100
CMSC, Inc.	66,388	25	74,065	25
	$ 334,788		$ 344,349	

The investment (losses) gains of the investees were as follows:

	Six Months Ended June 30	
	2012	2011
VIS Associates Inc.	$ (714)	$ 864
CMSC, Inc.	(3,770)	(4,358)
	$ (4,484)	$ (3,494)

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

All subsidiaries' accounts have been consolidated into the Corporation's consolidated financial statements as of and for the six months ended June 30, 2012 and 2011.

10. FINANCIAL ASSETS CARRIED AT COST - NONCURRENT

	June 30 2012	June 30 2011
Unlisted stocks		
United Industrial Gases Co., Ltd.	$ 38,716	$ 38,716

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

	Six Months Ended June 30, 2012				
	Buildings	Machinery and Equipment	Other Equipment	Prepayments and Construction in Progress	Total
Cost					
Balance, beginning of period	$ 12,707,340	$ 50,082,488	$ 349,560	$ 525,206	$ 63,664,594
Additions	72,422	545,432	230	(390,078)	228,006
Disposal	(2,894)	-	(543)	-	(3,437)
Balance, end of period	$ 12,776,868	$ 50,627,920	$ 349,247	$ 135,128	$ 63,889,163

	Six Months Ended June 30, 2012			
	Buildings	Machinery and Equipment	Other Equipment	Total
Accumulated depreciation				
Balance, beginning of period	$ 9,379,447	$ 44,576,589	$ 304,613	$ 54,260,649
Depreciation	256,631	1,426,507	14,574	1,697,712
Disposal	(1,228)	-	(543)	(1,771)
Balance, end of period	$ 9,634,850	$ 46,003,096	$ 318,644	$ 55,956,590

	Six Months Ended June 30, 2011				
	Buildings	Machinery and Equipment	Other Equipment	Prepayments and Construction in Progress	Total
Cost					
Balance, beginning of period	$ 12,407,164	$ 47,585,007	$ 350,994	$ 1,063,733	$ 61,406,898
Additions	186,613	2,016,121	1,651	(471,798)	1,732,587
Disposal	-	(12,451)	(2,454)	-	(14,905)
Reclassification	206	(206)	-	-	-
Balance, end of period	$ 12,593,983	$ 49,588,471	$ 350,191	$ 591,935	$ 63,124,580

	Six Months Ended June 30, 2011			
	Buildings	Machinery and Equipment	Other Equipment	Total
Accumulated depreciation				
Balance, beginning of period	$ 8,888,533	$ 41,918,845	$ 276,030	$ 51,083,408
Depreciation	241,258	1,272,391	16,502	1,530,151
Disposal	-	(12,451)	(2,454)	(14,905)
Reclassification	23	(23)	-	-
Balance, end of period	$ 9,129,814	$ 43,178,762	$ 290,078	$ 52,598,654

12. INTANGIBLE ASSETS

Computer software costs:

	Six Months Ended June 30	
	2012	2011
Cost		
Balance, beginning of period	$ 714,272	$ 711,496
Additions	-	2,148
Balance, end of period	714,272	713,644
Accumulated amortization		
Balance, beginning of period	704,461	689,430
Amortization	3,485	9,014
Balance, end of period	707,946	698,444
Net balance	$ 6,326	$ 15,200

13. ASSETS LEASED TO OTHERS, NET

	Six Months Ended June 30	
	2012	2011
Buildings		
Cost		
Balance, beginning and end of period	$ 1,037,161	$ 1,037,161
Accumulated depreciation		
Balance, beginning of period	291,848	218,886
Depreciation	36,481	36,481
Balance, end of period	328,329	255,367
Net balance	$ 708,832	$ 781,794

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

Company Name	Lease Terms	3rd and 4th Quarters' Rental
Integrated Service Technology, Inc.	2010.04.01-2015.03.31	$ 2,059
Standard Technology Service, Inc.	2010.05.01-2015.04.30	6,857
TSMC Solid State Lighting Ltd.	2012.06.16-2017.06.15	5,814
		$ 14,730

14. IDLE ASSETS

	Six Months Ended June 30	
	2012	2011
Cost		
Balance, beginning and end of period	$ 574,999	$ 574,999
Accumulated depreciation		
Balance, beginning of period	345,763	300,050
Depreciation	22,857	22,857
Balance, end of period	368,620	322,907
Accumulated impairment		
Balance, beginning and end of period	183,521	183,521
Net balance	$ 22,858	$ 68,571

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.

15. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	June 30	
	2012	2011
Bonus	$ 197,629	$ 171,598
Royalty	9,506	3,250
Others	825,317	761,514
	$ 1,032,452	$ 936,362

	Royalty	Bonus
January 1, 2012	$ 7,560	$ 318,609
Add: Other payables to related parties, beginning of period	47,961	-
Accrual	134,858	296,707
Reduce: Payable	(114,705)	(417,687)
Other payables to related parties, end of period	(66,168)	-
June 30, 2012	$ 9,506	$ 197,629
January 1, 2011	$ 5,260	$ 360,506
Add: Other payables to related parties, beginning of period	45,263	-
Accrual	127,647	235,329
Reduce: Payable	(118,929)	(424,237)
Other payables to related parties, end of period	(55,991)	-
June 30, 2011	$ 3,250	$ 171,598

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. Based on the aforementioned estimation method, the bonus to employees was NT$119,415 thousand and NT$113,942 thousand, and the remuneration to directors and supervisors was NT$7,566 thousand and NT$6,212 thousand for the six months ended June 30, 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 had been approved in the shareholders' meetings held on June 12, 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	968,395	987,316	0.60	0.60
	$ 1,161,670	$ 1,182,555		

The bonus to employees and the remuneration to directors and supervisors for 2011 and 2010 approved in the shareholders' meetings on June 12, 2012 and June 10, 2011, respectively, were as follows:

	Year Ended December 31, 2011		**Year Ended December 31, 2010**	
	Cash	**Stock**	**Cash**	**Stock**
Bonus to employees	$ 132,328	$ -	$ 292,858	$ -
Remuneration to directors and supervisors	6,889	-	17,571	-

The appropriation of earnings for 2011 and 2010 were consistent with the amounts approved by the Board of Directors' meetings held on February 17, 2012 and January 28, 2011, and same amount had been charged against earnings of 2011 and 2010, respectively.

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 six months ended June 30, 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
Six months ended June 30, 2012				
Balance, beginning of period	$ (44,327)	$ -	$ -	$ (44,327)
Recognized in shareholders' equity	43,281	(387)	-	42,894
Balance, end of period	$ (1,046)	$ (387)	$ -	$ (1,433)
Six months ended June 30, 2011				
Balance, beginning of period	$ 69,006	$ 896	$ (12,805)	$ 57,097
Recognized in shareholders' equity	(39,811)	(896)	(30,667)	(71,374)
Transferred to profit or loss	(20,837)	-	43,472	22,635
Balance, end of period	$ 8,358	$ -	$ -	$ 8,358

Translation Adjustment

For the six months ended June 30, 2012 and 2011, movements of translation adjustments were as follows:

	Foreign Currency Exchange Valuation Difference
Six months ended June 30, 2012	
Balance, beginning of period	$ (60,729)
Recognized in shareholders' equity	(2,814)
Balance, end of period	$ (63,543)
Six months ended June 30, 2011	
Balance, beginning of period	$ (56,516)
Recognized in shareholders' equity	(14,317)
Balance, end of period	$ (70,833)

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:

	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$)**
Six months ended June 30, 2012						
Beginning balance	27,978	$15.90	6,900	$11.50	182	$15.60
Options exercised	-	-	(1,877)	11.50	-	-
Options canceled	(160)	15.60	-	-	(182)	15.60
Ending balance	27,818	15.91	5,023	11.50	-	-
Six months ended June 30, 2011						
Beginning balance	29,183	$16.62	7,767	$12.00	3,204	$15.83
Options exercised	(46)	13.20	(823)	12.00	(434)	13.02
Options canceled	(611)	16.77	-	-	(2,169)	16.99
Ending balance	28,526	16.62	6,944	12.00	601	13.69

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 about outstanding stock options as of June 30, 2012 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					
$12.70-$16.90	27,818	1.41-2.22	$ 15.91	27,818	$ 15.91
2002 plan					
$11.50	5,023	0.23	11.50	5,023	11.50

17. EARNINGS PER SHARE

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

	Amounts (Numerator)		Shares	EPS (NT$)	
	Before Income Tax	After Income Tax	(Denominator) (Thousands)	Before Income Tax	After Income Tax
Six months ended June 30, 2012					
Net income	$ 844,084	$ 796,105			
Basic earnings per share					
Net income of common shareholders	$ 844,084	$ 796,105	1,559,851	$ 0.54	$ 0.51
Effect of dilutive securities					
Employee stock option rights	-	-	337		
Bonus to employees	-	-	17,720		
Diluted earnings per share					
Net income of common and potential common shareholders	$ 844,084	$ 796,105	1,577,908	$ 0.53	$ 0.50
Six months ended June 30, 2011					
Net income	$ 859,372	$ 759,616			
Basic earnings per share					
Net income of common shareholders	$ 859,372	$ 759,616	1,647,442	$ 0.52	$ 0.46
Effect of dilutive securities					
Employee stock option rights	-	-	1,529		
Bonus to employees	-	-	25,838		
Diluted earnings per share					
Net income of common and potential common shareholders	$ 859,372	$ 759,616	1,674,809	$ 0.51	$ 0.45

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	Reduction During the Period	Number of Shares, End of Period
Six months ended June 30, 2012				
For transfer to employees	5,124	71,036	-	76,160

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 buy back prices in the range from NT$8 to NT$15. 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. The Corporation had repurchased 31,635 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%

Treasury stock granted on April 25, 2012 were priced using the binomial option pricing model and the inputs to the model were as follows:

Grant-date share price (NT$)	$13.35
Exercise price (NT$)	$12.83
Expected volatility	29.46% -29.72%
Expected life	2 years
Risk-free interest rate	0.8442%

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 $34,359 thousand for the six months ended June 30, 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$60,194 thousand and NT$63,608 thousand for the six months ended June 30, 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$7,562 thousand and NT$8,311 thousand for the six months ended June 30, 2012 and 2011, respectively.

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

	Six Months Ended June 30	
	2012	2011
Pension fund		
Balance, beginning of period	$ 305,911	$ 290,035
Contributions	7,434	7,192
Interest	2,658	2,801
Balance, end of period	$ 316,003	$ 300,028
Accrued pension cost		
Balance, beginning of period	$ 483,876	$ 481,011
Accrued expenses and other current liabilities, beginning of period	1,233	1,215
Provisions	7,562	8,311
Contributions	(7,434)	(7,192)
Accrued expenses and other current liabilities, end of period	(1,245)	(1,207)
Balance, end of period	$ 483,992	$ 482,138

20. INCOME TAX EXPENSE

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

	Six Months Ended June 30	
	2012	2011
Income tax expense based on income before income tax at statutory rate	$ 143,494	$ 146,093
Tax exempt	(11,527)	-
Permanent differences	2,086	(1,626)
Temporary differences	21,258	(3,871)
Operating loss carryforwards	-	(40,996)
Current income tax expense before income tax credits	$ 155,311	$ 99,600

b. Income tax expense was as follows:

	Six Months Ended June 30	
	2012	2011
Current income tax expense before income tax credits	$ 155,311	$ 99,600
Income tax (10%) on undistributed earning	-	76,983
Income tax credits	(64,152)	(117,219)
Net change in deferred income tax assets for the periods		
Investment tax credits	68,442	117,219
Operating loss carryforwards	-	40,996
Temporary differences	(15,907)	(9,655)

(Continued)

	Six Months Ended June 30	
	2012	2011
Adjustment in valuation allowance	$ (89,397)	$ (111,000)
Adjustment for prior years' tax	(6,318)	2,832
Income tax expense	$ 47,979	$ 99,756

(Concluded)

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

	June 30	
	2012	2011
Current		
Investment tax credits	$ 306,611	$ 202,623
Operating loss carryforwards	40,996	40,995
Loss on inventory valuation and obsolescence	41,943	65,863
Other	6,717	12,101
	396,267	321,582
Valuation allowance	(224,608)	(196,349)
	$ 171,659	$ 125,233
Noncurrent		
Investment tax credits	$ 104,547	$ 406,757
Operating loss carryforwards	40,995	-
Depreciation and amortization	28,900	(12,110)
Accrued pension costs	82,279	81,963
	256,721	476,610
Valuation allowance	(256,721)	(476,610)
	$ -	$ -

d. The balances of the imputation credit account as of June 30, 2012 and 2011 were $144,023 thousand and $109,199 thousand, respectively.

The actual creditable ratios for distributing the earnings of 2011 and 2010 were 7.51% and 4.88%, respectively.

e. The unappropriated retained earnings as of June 30, 2012 and 2011 did not contain unappropriated earnings generated on and before January 1, 1998.

f. As of June 30, 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	$ 81,991	$ 81,991	2013
Statute for Upgrading Industries	Purchase of machinery and equipment	$ 78,189	$ 78,189	2012
		2,595	2,595	2013
		8,335	8,335	2014
		$ 89,119	$ 89,119	
Statute for Upgrading Industries	Research and development expenditures	$ 239,389	$ 175,237	2012
		145,824	145,824	2013
		$ 385,213	$ 321,061	
Statute for Upgrading Industries	Personnel training expenditures	$ 789	$ 789	2012
		189	189	2013
		$ 978	$ 978	

h. The Corporation was granted a five-year income tax exemption period with respect to the issuance of shares from the unappropriation 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

	Six Months Ended June 30					
	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	$ 1,297,368	$ 365,270	$ 1,662,638	$ 1,337,731	$ 313,219	$ 1,650,950
Labor/health insurance	83,510	21,271	104,781	86,875	20,362	107,237
Pension	54,001	13,755	67,756	58,264	13,655	71,919
Others	44,617	12,762	57,379	42,178	10,559	52,737
	$ 1,479,496	$ 413,058	$ 1,892,554	$ 1,525,048	$ 357,795	$ 1,882,843
Depreciation	$ 1,651,128	$ 46,584	$ 1,697,712	$ 1,480,267	$ 49,884	$ 1,530,151
Amortization	$ 1,357	$ 2,128	$ 3,485	$ 4,134	$ 4,880	$ 9,014

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**	**%**
For the period				
Sales				
TSMC	$ 1,905,786	25	$ 2,816,008	35
GUC	27,392	-	20,176	-
Goya	10,292	-	26,731	1
CMSC	3,224	-	2,349	-
INNO	591	-	877	-
	$ 1,947,285	25	$ 2,866,141	36
Purchase				
TSMC	$ 81	-	$ 51,734	6
Manufacturing expenses				
TSMC	$ 239,901	5	$ 250,195	5
Research and development expenses				
TSMC	$ 5,084	1	$ 1,739	1
Marketing expenses				
VIS Micro	$ 16,868	17	$ 18,192	23
Rental revenues				
TSSL	$ 485	6	$ -	-
TSMC	-	-	7,289	52
	$ 485	6	$ 7,289	52

	2012		2011	
	Amount	%	Amount	%
Nonoperating income and gains				
TSMC	$ 17,133	44	$ 17,276	45
TSSL	797	2	-	-
Goya	6	-	25	-
INNO	-	-	243	-
	$ 17,936	46	$ 17,544	45
Purchase of properties				
TSMC	$ -	-	$ 35,846	2
At end of period				
Receivables				
TSMC	$ 934,842	98	$ 1,074,870	98
GUC	9,003	1	11,167	1
Goya	5,587	1	4,319	1
CMSC	646	-	949	-
INNO	149	-	660	-
	$ 950,227	100	$ 1,091,965	100
Other receivables				
TSMC	$ 9,747	65	$ 12,615	97
TSSL	5,243	35	-	-
Goya	-	-	433	3
	$ 14,990	100	$ 13,048	100
Payables				
TSMC	$ -	-	$ 37,740	100
Other payables				
TSMC	$ 105,347	96	$ 89,665	97
VIS Micro	3,977	4	2,985	3
GUC	91	-	90	-
	$ 109,415	100	$ 92,740	100
Guarantee deposits				
TSSL	$ 5,813	29	$ -	-

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.

TSSL'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:

	June 30	
	2012	**2011**
Pledged time deposits	$ 181,300	$ 181,300

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 from March 2013, April 2015, June 2015, December 2027 and December 2029. Annual rentals aggregate $77,749 thousand. The rental pay to Hsinchu Science-Based Industrial Park Administration could be adjusted according to the lease contract, and the lease is renewable upon its expiration.

Future minimum annual rentals under the leases are as follows:

Year	**Amount**
2012 (3rd and 4th quarter)	$ 39,054
2013	77,029
2014	76,669
2015	67,539
2016	61,523
2017 to 2029	698,187
	$ 1,020,001

25. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

The significant commitments of the Corporation as of June 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 June 30, 2012, unused letters of credit aggregated about JPY14,100 thousand and US$172 thousand.

26. FINANCIAL INSTRUMENTS

a. Fair values of financial instruments were as follows:

	June 30			
	2012		2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets				
Financial assets at fair value through profit or loss - current	$ 199,403	$ 199,403	$ 9,782	$ 9,782
Available-for-sale financial asserts - current	6,156	6,156	9,866	9,866
Derivative financial assets for hedging - current	258	258	67	67
Available-for-sale financial assets - noncurrent	168,126	168,126	174,100	174,100
Financial assets carried at cost - noncurrent	38,716	-	38,716	-
Liabilities				
Financial liabilities at fair value through profit or loss - current	26,735	26,735	4,868	4,868
Derivative financial liabilities for hedging - current	8,938	8,938	1,769	1,769

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 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 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	
	June 30		June 30	
	2012	2011	2012	2011
Assets				
Financial assets at fair value through profit or loss - current	$ 22,643	$ -	$ 176,760	$ 9,782
Available-for-sale financial asserts - current	6,156	9,866	-	-
Derivative financial assets for hedging - current	-	-	258	67
Available-for-sale financial assets - noncurrent	168,126	174,100	-	-
Liabilities				
Financial liabilities at fair value through profit or loss - current	-	-	26,735	4,868
Derivative financial liabilities for hedging - current	-	-	8,938	1,769

d. Valuation gain arising from changes in fair value of financial instruments determined using valuation techniques were $21,599 thousand and $27,976 thousand for the six months ended June 30, 2012 and 2011, respectively.

e. As of June 30, 2012 and 2011, financial assets exposed to fair value interest rate risk amounted to $6,505,465 thousand and $5,900,702 thousand, respectively; financial assets exposed to cash flow interest rate risk amounted to $2,259,527 thousand and $2,122,626 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 six months ended June 30, 2012 and 2011 were $43,654 thousand and $30,626 thousand.

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 $1,439 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 June 30, 2012 and 2011, financial assets exposed to credit risk amounted to $199,661 thousand and $9,849 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 June 30, 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$ 4,762,206	US$ 160,500
	JPY 117,766	US$ 1,500
	US$ 15,000	NT$ 442,844
	EUR 200	US$ 249

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 June 30 2012	2011
Foreign currency accounts receivable	Currency-swap contracts	$ (8,680)	$ (1,702)

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 June 30, 2012 and 2011.

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

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

	June 30, 2012		June 30, 2011	
	Foreign	Rate	Foreign	Rate
Financial assets				
Monetary items				
USD	$ 142,989	29.885	$ 113,483	28.769
EUR	454	37.98	97	42.06
JPY	49,845	0.3836	51,599	0.3636
SGD	5	23.55	20	23.47
Non-monetary items				
USD	5,243	29.885	342	28.769
Long-term stock investments accounted for by the equity method				
USD	8,981	29.885	9,395	28.769
Financial liabilities				
Monetary items				
USD	18,312	29.885	20,435	28.769
EUR	541	37.98	153	42.06
JPY	161,584	0.3836	274,423	0.3636
SGD	-	23.55	16	23.47
Non-monetary items				
USD	1,194	29.885	231	28.769

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: Table 2 (attached).

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 3 (attached).

h. Receivable from related parties amounting to at least $100 million or 20% of the paid-in capital: Table 4 (attached).

i. Names, locations, and related information of investees on which the Corporation exercises significant influence: Table 5 (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.

TABLE 1

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

MARKETABLE SECURITIES HELD
JUNE 30, 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	June 30, 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	Bonds							
	Walsin Lihwa Credit-linked Investments	-	Financial assets at fair value though profit or loss-current	-	$ 149,694	-	$ 149,694	Note 6
	Everlight Credit-linked Notes	-	Financial assets at fair value though profit or loss-current	-	20,068	-	20,068	Note 6
	Eva Exchange Bond	-	Financial assets at fair value though profit or loss-current	-	22,643	-	22,643	Note 1
	Stock							
	Walton Advanced Engineering, Inc.	Investee	Available-for-sale financial assets - current	695	6,156	-	6,156	Note 1
	Chipbond Technology Corporation	Investee	Available-for-sale financial assets - noncurrent	4,052	161,874	1	161,874	Note 1
	Champion Microelectronic Corp.	Investee	Available-for-sale financial assets - noncurrent	240	6,252	1	6,252	Note 1
	VIS Associates Inc.	Subsidiary	Long-term stock investments accounted for by the equity method	6	268,400	100	268,400	Note 3
	CMSC, Inc.	Equity-method investee	Long-term stock investments accounted for by the equity method	9,902	66,388	25	66,388	Note 3
	United Industrial Gases Co., Ltd.	Investee	Financial assets carried at cost - noncurrent	3,860	38,716	2	38,716	Note 4
VIS Associates Inc.	Funds							
	Templeton Global Bond Fund Class A	-	Available-for-sale financial assets - current	97	US$ 1,907	-	US$ 1,907	Note 2
	PIMCO GIS TOTAL RETURN BOND FUND CL A	-	Available-for-sale financial assets - current	81	US$ 2,029	-	US$ 2,029	Note 2
	Stock							
	VIS Investment Holding, Inc.	Subsidiary of VIS Associates Inc.	Long-term stock investments accounted for by the equity method	63	US$ 1,046	100	US$ 1,046	Note 3
	Specialty TechFarm, Inc.	Subsidiary of VIS Associates Inc.	Long-term stock investments accounted for by the equity method	10,000	US$ 2,896	100	US$ 2,896	Note 3
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$ 824	100	US$ 824	Note 3

(Continued)

Holding Company Name	Marketable Security Type and Issuer	Relationship with the Holding Company	Financial Statement Account	June 30, 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$ 2	27	US$ 2	Note 5
	SkyTraq Technology, Inc.	Equity-method investee	Long-term stock investments accounted for by the equity method	4,688	US$ 1,329	26	US$ 1,329	Note 5
	INNO-TECH Co., Ltd.	Equity-method investee	Long-term stock investments accounted for by the equity method	2,584	US$ 226	37	US$ 226	Note 5
	Linear Artwork, Inc.	Equity-method investee	Long-term stock investments accounted for by the equity method	4,375	US$ 302	27	US$ 302	Note 5
	Goyatek Technology Inc.	Investee	Financial assets carried at cost - noncurrent	1,785	US$ 297	13	US$ 297	Note 4
	Uniband Electronic Corp.	Investee	Financial assets carried at cost - noncurrent	960	US$ 200	4	US$ 200	Note 4

Note 1: The market value was based on stock closing price as of June 30, 2012.

Note 2: The market value was based on fund's net asset value as of June 30, 2012.

Note 3: The net asset value was based on audited financial statements as of June 30, 2012.

Note 4: The market value was based on the book value as of June 30, 2012.

Note 5: The net asset value was based on unaudited financial statement as of June 30, 2012.

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

Note 7: As of June 30, 2012, all the securities were not pledged or restricted.

(Concluded)

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST $100 MILLION OR 20% OF THE PAID-IN CAPITAL
THREE MONTHS ENDED MARCH 31, 2012
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Marketable Securities Type and Issuer	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		Acquisition		Disposal				Ending Balance	
					Shares (Thousands)	Amount	Shares (Thousands)	Amount	Shares (Thousands)	Amount	Carrying Value	Gain (Loss) on Disposal	Shares (Thousands)	Amount
Vanguard Internation Semiconductor Corporation	Bond Walsin Lihwa Credit-linked Investments	Financial assets at fair value though profit or loss - current	-	-	-	$ -	-	$ 149,425	-	$ -	$ -	$ -	-	$ 149,694 (Note)

Note: Including unrealized gain on financial instruments.

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
SIX MONTHS ENDED JUNE 30, 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	% of Total	
Vanguard International Semiconductor Corporation	Taiwan Semiconductor Manufacturing Company Ltd.	Major shareholder	Sale	$ 1,905,786	25%	Note	$ -	-	$ 934,842	28.41%	-

Note: Net 30-45 days after monthly closing.

TABLE 4

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

RECEIVABLE FROM RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
JUNE 30, 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	$ 934,842	4.08	$ -	-	$ -	$ -

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

NAMES, LOCATIONS, AND RELATED INFORMATION OF INVESTEES ON WHICH THE CORPORATION EXERCISES SIGNIFICANT INFLUENCE
SIX MONTHS ENDED JUNE 30, 2012
(In Thousands of New Taiwan Dollars)

Investor	Investee	Location	Main Businesses and Products	Investment Amount		Balance as of June 30, 2012			Net Gain (Loss) of the Investee	Investment Gain (Loss)	Note
				June 30, 2012	December 31, 2011	Shares (Thousands)	% of Ownership	Carrying Value			
Vanguard International Semiconductor Corporation	VIS Associates Inc.	British Virgin Islands	Investments	$ 195,492	$ 195,492	6	100	$ 268,400	$ (714)	$ (714)	Subsidiary
	CMSC, Inc.	Hsin-chu City, Taiwan	Integrated circuit design services and related businesses	112,650	112,650	9,902	25	66,388	(15,115)	(3,770)	Equity-method investee