

**Vanguard International Semiconductor
Corporation**

**Financial Statements for the
Years Ended December 31, 2009 and 2008 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 December 31, 2009 and 2008, and the related statements of income, changes in shareholders' equity and cash flows for the years 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 December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, 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.

As disclosed in Note 3 to the financial statements, on January 1, 2009, the Corporation adopted the newly revised SFAS No. 10, "Accounting for Inventories". And in March 2007, the ARDF issued an interpretation that requires companies to recognize as compensation expenses bonuses paid to employees, directors and supervisors beginning January 1, 2008. These bonuses were previously recorded as appropriations from earnings.

We have also audited the consolidated financial statements of Vanguard International Semiconductor Corporation and subsidiaries as of and for the years ended December 31, 2009 and 2008, and have issued thereon an unqualified opinion with an explanatory paragraph in our report dated January 15, 2010 and January 16, 2009.

January 15, 2010

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 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

DECEMBER 31, 2009 AND 2008

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

ASSETS	2009		2008		LIABILITIES AND SHAREHOLDERS' EQUITY	2009		2008	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents (Notes 2 and 4)	\$ 6,733,219	30	\$ 4,054,962	17	Financial liabilities at fair value through profit or loss - current (Notes 2 and 5)	\$ 1,219	-	\$ 10,114	-
Financial assets at fair value through profit or loss - current (Notes 2 and 5)	74,379	-	30,014	-	Derivative financial liabilities for hedging - current (Notes 2 and 8)	338	-	954	-
Available-for-sale financial assets - current (Notes 2 and 6)	175,464	1	-	-	Payables to related parties (Note 23)	22	-	-	-
Held-to-maturity financial assets - current (Notes 2 and 7)	-	-	149,845	1	Notes and accounts payable	582,540	3	399,901	2
Derivative financial assets for hedging - current (Notes 2 and 8)	3,254	-	840	-	Income tax payable (Notes 2 and 21)	16,970	-	-	-
Receivables from related parties (Note 23)	525,152	2	316,270	1	Other payables to related parties (Note 23)	83,352	-	47,903	-
Notes and accounts receivable	1,340,827	6	1,090,112	5	Payables to contractors and equipment suppliers	126,162	1	377,173	2
Allowance for doubtful accounts (Note 2)	(27,333)	-	(25,396)	-	Accrued expenses and other current liabilities (Notes 16 and 17)	1,018,731	4	1,564,463	7
Allowance for sales returns and discounts (Note 2)	(54,665)	-	(47,232)	-					
Inventories (Notes 2 and 9)	1,133,719	5	1,810,786	8	Total current liabilities	1,829,334	8	2,400,508	11
Other receivables from related parties (Note 23)	11,714	-	6,333	-					
Pledged time deposits (Notes 4 and 24)	165,300	1	-	-	OTHER LIABILITIES				
Prepaid expenses and other current assets	96,478	1	212,757	1	Accrued pension cost (Notes 2 and 20)	475,180	2	468,272	2
Deferred income tax assets - current (Notes 2 and 21)	50,074	-	70,203	-	Guarantee deposits (Note 23)	29,700	-	45,205	-
Total current assets	10,227,582	46	7,669,494	33	Total other liabilities	504,880	2	513,477	2
					Total liabilities	2,334,214	10	2,913,985	13
INVESTMENTS					SHAREHOLDERS' EQUITY (Notes 2, 17 and 18)				
Long-term stock investments accounted for by the equity method (Notes 2 and 10)	392,186	2	490,311	2	Capital stock, \$10 par value;				
Available-for-sale financial assets - noncurrent (Notes 2 and 6)	105,755	-	181,724	1	Authorized - 3,300,000 thousand shares				
Financial assets carried at cost - noncurrent (Notes 2 and 11)	38,716	-	40,968	-	Issued and outstanding - 1,677,884 thousand shares in 2009 and 1,695,486 thousand shares in 2008	16,778,839	75	16,954,860	73
Total investments	536,657	2	713,003	3	Capital surplus				
					Employee stock options	464,525	2	463,496	2
PROPERTIES (Notes 2 and 12)					Treasury stock transactions	32,355	-	-	-
Cost					Long-term stock investments	69,130	1	68,890	-
Buildings	12,093,261	54	11,935,877	52	Total capital surplus	566,010	3	532,386	2
Machinery and equipment	46,315,281	207	46,212,274	199	Retained earnings				
Other equipment	334,018	2	329,346	1	Legal reserve	1,584,763	7	1,480,568	6
Total cost	58,742,560	263	58,477,497	252	Special reserve	277,083	1	-	-
Accumulated depreciation	(48,542,122)	(217)	(45,255,845)	(195)	Unappropriated earnings	753,984	4	1,717,015	8
Prepayments and construction in progress	65,418	-	323,613	2	Total retained earnings	2,615,830	12	3,197,583	14
Net properties	10,265,856	46	13,545,265	59	Others				
					Cumulative translation adjustments	(44,060)	-	(38,251)	-
OTHER ASSETS					Unrealized gain (loss) on financial instruments	79,943	-	(238,833)	(1)
Assets leased to others (Notes 2 and 13)	1,073,824	5	1,165,721	5	Treasury stock (at cost) - 18,000 thousand shares	-	-	(147,645)	(1)
Idle assets (Notes 2 and 14)	60,000	-	-	-	Total others	35,883	-	(424,729)	(2)
Deferred charges, net (Notes 2 and 15)	45,141	-	74,988	-	Total shareholders' equity	19,996,562	90	20,260,100	87
Deferred income tax assets - noncurrent (Notes 2 and 21)	116,632	1	-	-					
Refundable deposits	5,084	-	5,614	-					
Total other assets	1,300,681	6	1,246,323	5					
TOTAL	\$ 22,330,776	100	\$ 23,174,085	100	TOTAL	\$ 22,330,776	100	\$ 23,174,085	100

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

(With Deloitte & Touche audit report dated January 15, 2010)

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2009 AND 2008

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

	2009		2008	
	Amount	%	Amount	%
GROSS SALES (Notes 2, 8, 23 and 27)	\$ 12,678,530		\$ 16,137,686	
SALES RETURNS AND DISCOUNTS (Note 2)	<u>90,481</u>		<u>17,439</u>	
NET SALES	12,588,049	100	16,120,247	100
COST OF SALES (Notes 9, 22 and 23)	<u>11,344,702</u>	<u>90</u>	<u>13,516,103</u>	<u>84</u>
GROSS PROFIT	<u>1,243,347</u>	<u>10</u>	<u>2,604,144</u>	<u>16</u>
OPERATING EXPENSES (Notes 22 and 23)				
Marketing	78,747	1	131,678	1
General and administrative	481,308	4	617,505	4
Research and development	<u>693,502</u>	<u>5</u>	<u>824,486</u>	<u>5</u>
Total operating expenses	<u>1,253,557</u>	<u>10</u>	<u>1,573,669</u>	<u>10</u>
OPERATING (LOSS) INCOME	<u>(10,210)</u>	<u>-</u>	<u>1,030,475</u>	<u>6</u>
NONOPERATING INCOME AND GAINS				
Gain on disposal of investments (Note 2)	113,964	1	-	-
Valuation gain on financial instruments, net (Notes 2, 5 and 27)	95,579	1	-	-
Rental (Note 13)	88,783	1	112,597	1
Interest	37,846	-	114,879	1
Dividends (Note 2)	9,063	-	20,086	-
Gain on disposal of properties (Note 2)	292	-	8,238	-
Foreign exchange gain, net (Note 2)	-	-	50,478	-
Others (Note 23)	<u>136,062</u>	<u>1</u>	<u>56,261</u>	<u>-</u>
Total nonoperating income and gains	<u>481,589</u>	<u>4</u>	<u>362,539</u>	<u>2</u>
NONOPERATING EXPENSES AND LOSSES				
Impairment loss (Notes 2 and 14)	98,346	1	-	-
Investment loss recognized by the equity method, net (Notes 2 and 10)	92,836	1	64,690	-
Expenses of assets leased to others (Note 13)	91,897	1	91,897	1
Foreign exchange loss, net (Note 2)	66,602	-	-	-
Loss on disposal of properties (Note 2)	5,928	-	334	-
Valuation loss on financial instruments, net (Notes 2, 5 and 27)	-	-	12,130	-
Others	<u>23,511</u>	<u>-</u>	<u>87,971</u>	<u>-</u>
Total nonoperating expenses and losses	<u>379,120</u>	<u>3</u>	<u>257,022</u>	<u>1</u>

(Continued)

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2009 AND 2008

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

	2009		2008	
	Amount	%	Amount	%
INCOME BEFORE INCOME TAX	\$ 92,259	1	\$ 1,135,992	7
INCOME TAX EXPENSES (Notes 2 and 21)	<u>3,018</u>	<u>-</u>	<u>94,039</u>	<u>1</u>
NET INCOME	<u>\$ 89,241</u>	<u>1</u>	<u>\$ 1,041,953</u>	<u>6</u>
	2009		2008	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS PER SHARE (Note 19)				
Basic	<u>\$ 0.05</u>	<u>\$ 0.05</u>	<u>\$ 0.66</u>	<u>\$ 0.61</u>
Diluted	<u>\$ 0.05</u>	<u>\$ 0.05</u>	<u>\$ 0.65</u>	<u>\$ 0.60</u>

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

(With Deloitte & Touche audit report dated January 15, 2010)

(Concluded)

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2009 AND 2008
(In Thousands of New Taiwan Dollars)

	<u>Capital Stock Issued and Outstanding</u>		<u>Capital Surplus (Notes 2, 17 and 18)</u>			<u>Retained Earnings (Note 17)</u>			<u>Others</u>		<u>Total Shareholders' Equity</u>	
	<u>Shares (Thousands)</u>	<u>Amount</u>	<u>Employee Stock Options</u>	<u>Treasury Stock Transaction</u>	<u>Long term Stock Investments</u>	<u>Legal Reserve</u>	<u>Special Reserve</u>	<u>Unappropriated Earnings</u>	<u>Cumulative Translation Adjustments (Note 2)</u>	<u>Unrealized Gain (Loss) on Financial Instruments (Notes 2 and 17)</u>		<u>Treasury Stock (Notes 2 and 18)</u>
BALANCE, JANUARY 1, 2008	1,700,485	\$ 17,004,847	\$ 515,200	\$ -	\$ 66,173	\$ 1,048,460	\$ 40,560	\$ 4,526,249	\$ (41,879)	\$ 143,417	\$ -	\$ 23,303,027
Issuance of shares upon exercise of employee stock options	1,190	11,899	8,428	-	-	-	-	-	-	-	-	20,327
Appropriation of prior year's earnings												
Legal reserve	-	-	-	-	-	432,108	-	(432,108)	-	-	-	-
Reversal of special reserve	-	-	-	-	-	-	(40,560)	40,560	-	-	-	-
Stock dividends - 0.3% (from capital surplus)	5,101	51,014	(51,014)	-	-	-	-	-	-	-	-	-
Stock dividends - 0.2% (from unappropriated earnings)	3,401	34,010	-	-	-	-	-	(34,010)	-	-	-	-
Cash dividends - 17%	-	-	-	-	-	-	-	(2,890,824)	-	-	-	(2,890,824)
Bonus to employees - stock	18,667	186,670	-	-	-	-	-	(186,670)	-	-	-	-
Bonus to employees - cash	-	-	-	-	-	-	-	(124,447)	-	-	-	(124,447)
Remuneration to directors and supervisors	-	-	-	-	-	-	-	(38,889)	-	-	-	(38,889)
Net income in 2008	-	-	-	-	-	-	-	1,041,953	-	-	-	1,041,953
Adjustment due to changes in ownership interests in investee	-	-	-	-	2,717	-	-	-	-	-	-	2,717
Valuation gain on derivative financial instruments for hedging	-	-	-	-	-	-	-	-	-	5,709	-	5,709
Valuation gain on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	(383,051)	-	(383,051)
Equity in the valuation gain (loss) on available-for-sale financial assets of equity-method investees	-	-	-	-	-	-	-	-	-	(4,908)	-	(4,908)
Translation adjustments on long-term stock investments	-	-	-	-	-	-	-	-	3,628	-	-	3,628
Acquisition of treasury stocks	-	-	-	-	-	-	-	-	-	-	(675,142)	(675,142)
Retirement of treasury stocks - 33,358 thousand shares	(33,358)	(333,580)	(9,118)	-	-	-	-	(184,799)	-	-	527,497	-
BALANCE, DECEMBER 31, 2008	1,695,486	16,954,860	463,496	-	68,890	1,480,568	-	1,717,015	(38,251)	(238,833)	(147,645)	20,260,100
Issuance of shares upon exercise of employee stock options	398	3,979	1,029	-	-	-	-	-	-	-	-	5,008
Appropriation of prior year's earnings (Note 3)												
Legal reserve	-	-	-	-	-	104,195	-	(104,195)	-	-	-	-
Special reserve	-	-	-	-	-	-	277,083	(277,083)	-	-	-	-
Cash dividends - 0.4%	-	-	-	-	-	-	-	(670,994)	-	-	-	(670,994)
Net income in 2009	-	-	-	-	-	-	-	89,241	-	-	-	89,241
Adjustment due to changes in ownership interests in investee	-	-	-	-	240	-	-	-	-	-	-	240
Valuation gain on derivative financial instruments for hedging	-	-	-	-	-	-	-	-	-	681	-	681
Valuation gain on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	317,815	-	317,815
Equity in the valuation gain (loss) on available-for-sale financial assets of equity-method investees	-	-	-	-	-	-	-	-	-	280	-	280
Translation adjustments on long-term stock investments	-	-	-	-	-	-	-	-	(5,809)	-	-	(5,809)
Retirement of treasury stocks - 18,000 thousand shares	(18,000)	(180,000)	-	32,355	-	-	-	-	-	-	147,645	-
BALANCE, DECEMBER 31, 2009	<u>1,677,884</u>	<u>\$ 16,778,839</u>	<u>\$ 464,525</u>	<u>\$ 32,355</u>	<u>\$ 69,130</u>	<u>\$ 1,584,763</u>	<u>\$ 277,083</u>	<u>\$ 753,984</u>	<u>\$ (44,060)</u>	<u>\$ 79,943</u>	<u>\$ -</u>	<u>\$ 19,996,562</u>

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

(With Deloitte & Touche audit report dated January 15, 2010)

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2009 AND 2008 (In Thousands of New Taiwan Dollars)

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 89,241	\$ 1,041,953
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,552,422	3,354,331
Impairment loss	98,346	-
Gain on disposal of investments	(113,964)	-
Investment loss recognized by the equity method, net	92,836	64,690
Deferred income tax assets	(96,503)	88,919
Loss (gain) on disposal of properties and other assets, net	5,636	(7,904)
Accrual of pension cost	6,908	3,329
Amortization of discount on bonds	(155)	(5,570)
Provision (reversal) for doubtful accounts	1,937	(15,096)
Provision (reversal) for allowance for sales returns and discounts	7,433	(79,631)
Net changes in operating assets and liabilities		
Financial assets for trading	(4,198)	(23,423)
Financial assets designated as at fair value through profit or loss	(40,167)	-
Receivables from related parties	(208,882)	571,929
Notes and accounts receivable	(250,715)	840,170
Inventories	677,067	(310,197)
Other receivables from related parties	(5,381)	6,047
Prepaid expenses and other current assets	116,279	113,842
Financial liabilities for trading	(8,895)	9,294
Derivative financial instruments for hedging	(2,349)	(16,599)
Payables to related parties	22	(107,019)
Notes and accounts payable	182,639	(300,491)
Income tax payable	16,970	(96,413)
Other payables to related parties	35,449	-
Accrued expenses and other current liabilities	<u>(545,732)</u>	<u>164,894</u>
Net cash provided by operating activities	<u>3,606,244</u>	<u>5,297,055</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of held-to-maturity financial assets	-	(1,130,884)
Proceeds of the disposal of held-to-maturity financial assets	150,000	1,678,773
Proceeds of the disposal of bond portfolios with no active market	-	72,734
Proceeds of the disposal of available-for-sale financial assets	298,469	-
Increase in pledged time deposits	(165,300)	-
Proceeds from disposal of financial assets carried at cost	36,067	-
Acquisition of properties	(558,200)	(4,692,751)
Proceeds of the disposal of properties	292	8,238
Increase in deferred charges	(8,354)	(34,177)
Decrease (increase) in refundable deposits	<u>530</u>	<u>(1,513)</u>
Net cash used in investing activities	<u>(246,496)</u>	<u>(4,099,580)</u>

(Continued)

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2009 AND 2008 (In Thousands of New Taiwan Dollars)

	2009	2008
CASH FLOWS FROM FINANCING ACTIVITIES		
(Decrease) increase in guarantee deposits	\$ (15,505)	\$ 28,297
Cash dividends paid for common stock	(670,994)	(2,890,824)
Cash bonus paid to employees	-	(124,447)
Remuneration to directors and supervisors	-	(38,889)
Proceeds of the exercise of employee stock options	5,008	20,327
Acquisition of treasury stock	<u>-</u>	<u>(675,142)</u>
Net cash used in financing activities	<u>(681,491)</u>	<u>(3,680,678)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
	2,678,257	(2,483,203)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		
	<u>4,054,962</u>	<u>6,538,165</u>
CASH AND CASH EQUIVALENTS, END OF YEAR		
	<u>\$ 6,733,219</u>	<u>\$ 4,054,962</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Income tax paid	<u>\$ 72,055</u>	<u>\$ 101,533</u>
NONCASH INVESTING ACTIVITIES		
Reclassification from properties to idle assets	<u>\$ 158,346</u>	<u>\$ -</u>
Reclassification from properties to assets leased to others	<u>\$ -</u>	<u>\$ 1,257,618</u>
INVESTING ACTIVITIES AFFECTING BOTH CASH AND NON-CASH ITEMS		
Total acquisitions	\$ 307,189	\$ 4,123,597
Decrease in payables to contractors and equipment suppliers	<u>251,011</u>	<u>569,154</u>
	<u>\$ 558,200</u>	<u>\$ 4,692,751</u>

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

(With Deloitte & Touche audit report dated January 15, 2010)

(Concluded)

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2009 AND 2008

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. ORGANIZATION AND OPERATIONS

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

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

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

As of December 31, 2009 and 2008, the Corporation had 3,231 and 3,701 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, Regulations Business Accounting and accounting principles generally accepted in the Republic of China (ROC). Under these guidelines, law and principles, the Corporation should make certain estimates and assumptions that could affect the amounts of allowance for doubtful accounts, allowance for sales returns and discounts, decline in market value of inventories, depreciation of properties and assets leased to others, amortization of deferred charges, pension expenses, impairment loss, income tax expenses and compensation expenses for bonuses paid to employees, directors and supervisors. Actual results could differ from these estimates.

For the convenience of readers, the accompanying 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:

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 one year 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 one year from the balance sheet date. All other liabilities are classified as noncurrent.

Cash Equivalents

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

Financial Instruments at Fair Value through Profit or Loss

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

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

Derivatives not used for hedging are reclassified as financial assets or liabilities held for trading. When the fair value is positive, the derivative is listed as a financial asset; otherwise, the derivative is listed as a financial liability.

Fair values of financial assets and financial liabilities at the balance sheet date are determined as follows: Financial instruments without quoted prices in an active market - at values determined using valuation techniques.

Available-for-sale Financial Assets

Available-for-sale financial assets are initially measured at fair value plus costs that are directly attributable to the acquisition. At each balance sheet date subsequent to initial recognition, available-for-sale financial 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 purchase or sale of financial assets are recognized and derecognized on a trade date basis.

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

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

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.

Held-to-maturity Financial Assets

Held-to-maturity financial assets are initially recognized at fair value or at amortized cost using the effective interest method plus transaction cost that are directly attributable to the acquisition. Profit or loss is recognized when the financial assets are derecognized, impaired, or amortized. A regular purchase or sale of financial assets is accounted for using a trade date basis.

An impairment loss is recognized if there is objective evidence that the investment is impaired. The impairment loss is reversed if an increase in the investment's recoverable amount is due to an event which occurred after the impairment loss was recognized; however the adjusted carrying amount of the investment may not exceed the carrying amount that would have been determined had no the impairment loss been recognized for the investment in prior years.

Derivative Financial Instruments for Hedging

Derivative financial instruments that qualify as effective hedging instruments are measured at fair value, with subsequent changes in fair value recognized either in profit or loss, or in shareholders' equity, depending on the nature of the hedging relationship.

Hedge Accounting

Hedge accounting recognizes the offsetting effects on profit or loss of changes in the fair values of the hedging instrument and the hedged item, as follows:

a. Fair value hedge:

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

b. Cash flow hedge:

- 1) The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized in shareholders' equity, and the ineffective portion of the gain or loss on the hedging instrument is recognized as profit or loss.
- 2) If a hedge of a forecast transaction results in the recognition of a financial asset or a financial liability, the related gains or losses that were recognized directly under equity is reclassified as profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss.
- 3) If a hedge of a forecast transaction results in the recognition of a nonfinancial asset or if a nonfinancial liability becomes a firm commitment for which fair value hedge accounting is applied, then the Corporation reclassifies the related gains and losses that were recognized directly under equity into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss.
- 4) However, if the Corporation expects that all or a portion of a loss recognized directly under equity will not be recovered in the future the amount that is not expected to be recovered is reclassified into profit or loss.

The Corporation enters into hedging transactions to hedge risks of expected sales transactions and market risks. The Corporation uses cash flow hedge to manage risks on exchange rate fluctuation and changes of time value for an expected sales transaction. The fair value hedge is hedging for the risk of the changes of the net value of the assets.

Allowance for Doubtful Receivables

Allowance for doubtful receivables is provided on the basis of the aging and review of the collectability of receivables. The Corporation assesses the probability of collections of accounts receivable by examining the aging analysis of the outstanding receivables.

Inventories

Inventories consist of raw materials, supplies and spare parts, finished goods and work-in-process. Before January 1, 2009, inventories were stated at the lower of aggregate cost or market value. Market value means replacement cost for raw materials and supplies and net realizable value for finished goods and work in process. As stated in Note 3, effective January 1, 2009, inventories are stated at the lower of cost or net realizable value. Inventory write-downs are made item by item, except where it may be appropriate to group similar or related items. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and necessary selling costs. Inventories are recorded at standard cost and adjusted to approximate weighted-average cost on the balance sheet date.

Long-term Stock Investments Accounted for by the Equity Method

Investments in shares of stock of companies in which the 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. For long-term investments for which the Corporation has significant influence but with no control over investees are tested separately at their carrying amounts, the carrying value (including goodwill) of such investment is compared with its own recoverable amount for the purpose of impairment testing. Investments with controlling interests shall be tested for impairment by each cash generating unit determined on overall financial basis.

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

Financial Assets Carried at Cost

Investments in securities with no quoted prices in an active market and with fair values that cannot be reliably measured, such as non-publicly traded stocks and stocks traded in the Emerging Stock Market are measured at their original cost. When these investments are subsequently measured at fair value, they are reclassified into available-for-sale financial assets. The accounting treatment for cash dividends and stock dividends arising from financial assets carried at cost is the same as that for cash and stock dividends arising from available-for-sale financial assets. An impairment loss is recognized when there is objective evidence that an asset is impaired. A reversal of this impairment loss is disallowed.

Properties, Assets Leased to Others and Idle assets

Properties (fixed assets and assets leased to others) are stated at cost less accumulated depreciation. Major additions, renewals, betterments incurred during the construction period are capitalized, while maintenance and repairs are expensed currently.

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

Depreciation is calculated using the straight-line method over the following periods: buildings - 5 to 20 years; machinery and equipment and other equipment - 3 to 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 newly estimated useful lives. Upon sale or other disposal of properties, the related cost and accumulated depreciation are derecognized from the balance sheet, and any gain or loss on disposal of the asset is included in nonoperating gains or losses in the period of disposal.

When properties are determined to be idle or useless, they are transferred to idle assets at the lower of the net realizable value or carrying amount. Depreciation on the idle assets is provided continuously, and the idle assets are tested for impairment on a periodic basis.

Deferred Charges

Expenditures arising from research activities are recognized as an expense when incurred. Expenditures related to development activities are capitalized and amortized on a straight-line basis if the recognition criteria have been met; otherwise, the development expenditures are charged to expense when incurred.

Deferred charges, specifically, the software design costs, are amortized on the straight-line method over 3 to 5 years.

On the balance sheet date, the 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 an deferred charge would not exceed the carrying amount (net of amortization) had no impairment loss been recognized in prior years.

Employee Stock Options

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

Sales and Allowance for Sales Returns and Discounts

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

Sales are measured at fair value of the consideration received or receivable and represents 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.

Capitalized and Other Expenditures

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

Pension Cost

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.

Treasury Stock

Treasury stock is stated at cost and shown as a deduction in shareholders' equity. When the Corporation retires treasury stock, the treasury stock account is reduced and the common stock as well as the capital surplus - additional paid-in capital are reversed on a pro rata basis. When the book value of the treasury stock exceeds the sum of the par value and additional paid-in capital, the difference is charged to capital surplus - treasury stock transactions and to retained earnings for any remaining amount.

Income Tax

The Corporation applies inter-period allocations for its income tax, that is deferred income tax assets and liabilities are recognized for the tax effects of temporary differences, unused operating loss carryforwards and investment tax credits. Valuation allowances are provided to the extent, if any, that it is more likely than not that deferred income tax assets will not be realized. A deferred tax asset or liability is classified as current or noncurrent in accordance with the classification of the related asset or liability, however, if a deferred income tax asset or liability does not related to an asset or liability in the financial statements, then it is classified as either current or noncurrent based on the length of time before it is realized or settled.

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

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

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

Foreign-currency Transactions

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

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

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

- a. Recognized in shareholders' equity if the changes in fair value are recognized in shareholders' equity;
- b. Recognized in profit or loss if the changes in fair value is recognized in profit or loss.

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

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

Reclassifications

Certain accounts in the financial statements as of and for the year ended December 31, 2008 have been reclassified to be consistent with the financial statements as of and for the year ended December 31, 2009.

3. ACCOUNTING CHANGES

- a. Interpretation 2007-052, "Accounting for Bonuses to Employees, Directors and Supervisors"

In March 2007, the ARDF issued an interpretation that requires companies to recognize as compensation expenses bonuses paid to employees, directors and supervisors effective January 1, 2008. These bonuses were previously recorded as appropriations from earnings. The adoption of this interpretation resulted in a decrease in net income and basic earnings per share (after income tax) of NT\$149,429 thousand and NT\$0.09, respectively, for the year ended December 31, 2008.

- b. SFAS No. 39, "Accounting for Share-based Payment"

On January 1, 2008, the Corporation adopted the newly released SFAS No. 39, "Accounting for Share-based Payment". This accounting change did not have a material effect on the Corporation's financial statements as of and for the year ended December 31, 2008.

c. SFAS No. 10, "Accounting for Inventories"

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

4. CASH AND CASH EQUIVALENTS

	December 31	
	2009	2008
Bank deposits	\$ 6,723,430	\$ 4,054,962
Government bonds acquired under resale agreements	<u>175,089</u>	<u>-</u>
	6,898,519	4,054,962
Pledged time deposit	<u>(165,300)</u>	<u>-</u>
	<u>\$ 6,733,219</u>	<u>\$ 4,054,962</u>

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

Financial instruments for trading consisted of the following:

	December 31	
	2009	2008
<u>Financial assets at FVTPL</u>		
Financial assets held for trading	\$ 34,212	\$ 30,014
Financial assets designated as at FVTPL	<u>40,167</u>	<u>-</u>
	<u>\$ 74,379</u>	<u>\$ 30,014</u>
<u>Financial liabilities at FVTPL</u>		
Financial liabilities held for trading	<u>\$ 1,219</u>	<u>\$ 10,114</u>

Financial instruments held for trading consisted of the following:

	December 31	
	2009	2008
Financial assets for trading		
Forward exchange contracts	\$ 14,666	\$ 28,201
Currency-swap contracts	<u>19,546</u>	<u>1,813</u>
	<u>\$ 34,212</u>	<u>\$ 30,014</u>
Financial liabilities for trading		
Forward exchange contracts	\$ 1,219	\$ 8,820
Currency-swap contracts	<u>-</u>	<u>1,294</u>
	<u>\$ 1,219</u>	<u>\$ 10,114</u>

The Corporation entered into derivative transactions in the years ended December 31, 2009 and 2008 to manage exposures related to exchange rate and interest rate fluctuations. The financial risk management objective of the Corporation is to minimize risks due to changes in fair value or cash flows.

a. Outstanding forward exchange contracts as of December 31, 2009 and 2008 were as follows:

Contract	Currency	Contract Expiry Date	Contract Amount (In Thousands)
<u>December 31, 2009</u>			
Buy forward exchange contracts	NT\$ to US\$	2010.01.05-2010.03.08	US\$ 19,000
Sell forward exchange contracts	US\$ to JPY	2010.01.13-2010.02.09	US\$ 2,500
Sell forward exchange contracts	US\$ to NT\$	2010.01.04-2010.03.24	US\$ 44,000
<u>December 31, 2008</u>			
Buy forward exchange contracts	NT\$ to US\$	2009.01.05-2009.03.03	US\$ 11,000
Sell forward exchange contracts	US\$ to JPY	2009.01.21	US\$ 1,500
Sell forward exchange contracts	US\$ to NT\$	2009.01.02-2009.03.03	US\$ 68,000

b. Outstanding currency-swap contracts as of December 31, 2009 and 2008 were as follows:

	Currency	Maturity Date	Contract Amount (In Thousands)
<u>December 31, 2009</u>			
Sell forward exchange contracts	US\$ to NT\$	2010.01.05-2010.03.19	US\$ 75,500
<u>December 31, 2008</u>			
Sell forward exchange contracts	NT\$ to US\$	2009.01.05-2009.01.20	US\$ 5,600
Sell forward exchange contracts	US\$ to JPY	2009.01.05	US\$ 950

The net gains and losses on financial instruments for trading were NT\$93,716 thousand and NT\$12,970 thousand, respectively, for the years ended December 31, 2009 and 2008.

Financial instruments designated as at FVTPL were as follows:

	December 31, 2009
<u>Financial assets designated as at FVTPL</u>	
Credit Linked Notes	<u>\$ 40,167</u>

Net gains on financial assets designated as at FVTPL for the year ended December 31, 2009 was NT\$178 thousand.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS - CURRENT

	<u>December 31</u>	
	<u>2009</u>	<u>2008</u>
Listed stocks - Walton Advanced Engineering, Inc.	\$ 175,464	\$ 153,425
Listed stocks - International Semiconductor Technology Ltd.	<u>105,755</u>	<u>28,299</u>
	281,219	181,724
Less: Financial assets classified as noncurrent assets	<u>(105,755)</u>	<u>(181,724)</u>
	<u>\$ 175,464</u>	<u>\$ -</u>

7. HELD-TO-MATURITY FINANCIAL ASSETS - CURRENT

	<u>December 31,</u> <u>2008</u>
Bond - Taiwan Power Co.	<u>\$ 149,845</u>

On October 28, 2008, the Corporation bought 5-year corporate bonds issued by Taiwan Power Co. with an effective interest rate of 2.30%, at par value of NT\$150,000 thousand. The maturity was July 5, 2009.

8. DERIVATIVE FINANCIAL INSTRUMENTS FOR HEDGING

Derivative financial instruments for hedging (reference to Note 27) consisted of the following:

	<u>December 31</u>	
	<u>2009</u>	<u>2008</u>
<u>Derivative financial assets for hedging</u>		
Current		
Forward exchange contracts	<u>\$ 3,254</u>	<u>\$ 840</u>
<u>Derivative financial liabilities for hedging</u>		
Current		
Forward exchange contracts	<u>\$ 338</u>	<u>\$ 954</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 of time value for those expected sales transaction, and fair value hedge is used to manage the risks on exchange rate fluctuations of foreign currency-denominated assets or liabilities. The Corporation uses forward exchange contracts as a major financial instrument for cash flow hedge and fair value hedge.

For the years ended December 31, 2009 and 2008, the Corporation used forward exchange contracts to hedge risks on exchange rate fluctuations of expected sales and foreign-currency denominated accounts receivable. The outstanding forward contracts in the years ended December 31, 2009 and 2008 were as follows:

	Currency	Maturity Date	Contract Amount (In Thousands)
<u>December 31, 2009</u>			
Sell forward exchange contracts	US\$ to NT\$	2010.01.20-2010.03.17	US\$ 14,000
<u>December 31, 2008</u>			
Sell forward exchange contracts	US\$ to NT\$	2009.01.16-2009.01.20	US\$ 6,000

The realized net loss on derivative financial instruments used for cash flow hedging for the years ended December 31, 2009 and 2008 were NT\$7,153 thousand and NT\$15,577 thousand, respectively, which were recognized in sales. The net gain on derivative financial instruments used for fair value hedging were NT\$17,068 thousand and NT\$30,417 thousand, respectively, for the years ended December 31, 2009 and 2008 which were recognized in nonoperating income.

9. INVENTORIES

	<u>December 31</u>	
	2009	2008
Finished goods	\$ 1,671	\$ 25,753
Work in process	782,213	1,034,467
Raw materials	79,247	308,302
Supplies and spare parts	<u>270,588</u>	<u>442,264</u>
	<u>\$ 1,133,719</u>	<u>\$ 1,810,786</u>

Allowance for inventory losses was NT\$303,057 thousand and NT\$76,885 thousand on December 31, 2009 and 2008, respectively.

The cost of inventories recognized as cost of goods sold during the years ended December 31, 2009 and 2008 was NT\$11,344,702 thousand and NT\$13,516,103 thousand, which included write-downs of inventory NT\$274,726 thousand, unallocated overheads NT\$243,695 thousand and abnormal costs NT\$4,162 thousand for the year ended December 31, 2009; and write-downs of inventory NT\$109,063 thousand for the year ended December 31, 2008.

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

	December 31			
	2009		2008	
	Carrying Value	% of Ownership	Carrying Value	% of Ownership
Unlisted stocks				
VIS Associates Inc.	\$ 307,752	100	\$ 395,136	100
CMSC, Inc.	<u>84,434</u>	25	<u>95,175</u>	25
	<u>\$ 392,186</u>		<u>\$ 490,311</u>	

The investment losses of the investees were as follows:

	Year Ended December 31	
	2009	2008
VIS Associates Inc.	\$ (82,116)	\$ (55,811)
CMSC, Inc.	<u>(10,720)</u>	<u>(8,879)</u>
	<u>\$ (92,836)</u>	<u>\$ (64,690)</u>

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

All subsidiaries' accounts have been consolidated into the corporation's consolidated financial statements as of and for the years ended December 31, 2009 and 2008.

11. FINANCIAL ASSETS CARRIED AT COST - NONCURRENT

	December 31	
	2009	2008
Unlisted stocks		
United Industrial Gases Co., Ltd.	\$ 38,716	\$ 38,716
Megica Corporation	<u>-</u>	<u>2,252</u>
	<u>\$ 38,716</u>	<u>\$ 40,968</u>

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

12. PROPERTIES

Year Ended December 31, 2009					
	Buildings	Machinery and Equipment	Other Equipment	Prepayments and Construction in Progress	Total
<u>Cost</u>					
Beginning	\$ 11,935,877	\$ 46,212,274	\$ 329,346	\$ 323,613	\$ 58,801,110
Acquired					
(deductions)	159,638	397,878	7,868	(258,195)	307,189
Reclassified	-	(263,910)	-	-	(263,910)
Disposal	<u>(2,254)</u>	<u>(30,961)</u>	<u>(3,196)</u>	<u>-</u>	<u>(36,411)</u>
Ending	<u>\$ 12,093,261</u>	<u>\$ 46,315,281</u>	<u>\$ 334,018</u>	<u>\$ 65,418</u>	<u>\$ 58,807,978</u>
Year Ended December 31, 2009					
	Buildings	Machinery and Equipment	Other Equipment	Total	
<u>Accumulated depreciation</u>					
Beginning		\$ 7,892,953	\$ 37,165,227	\$ 197,665	\$ 45,255,845
Depreciation		491,281	2,883,813	47,230	3,422,324
Reclassified		-	(105,564)	-	(105,564)
Disposal		<u>(2,254)</u>	<u>(25,055)</u>	<u>(3,174)</u>	<u>(30,483)</u>
Ending		<u>\$ 8,381,980</u>	<u>\$ 39,918,421</u>	<u>\$ 241,721</u>	<u>\$ 48,542,122</u>
Year Ended December 31, 2008					
	Buildings	Machinery and Equipment	Other Equipment	Prepayments and Construction in Progress	Total
<u>Cost</u>					
Beginning	\$ 8,613,941	\$ 38,090,201	\$ 227,081	\$ 9,063,230	\$ 55,994,453
Acquired					
(deductions)	4,583,728	8,176,520	102,966	(8,739,617)	4,123,597
Reclassified	(1,257,618)	-	-	-	(1,257,618)
Disposal	<u>(4,174)</u>	<u>(54,447)</u>	<u>(701)</u>	<u>-</u>	<u>(59,322)</u>
Ending	<u>\$ 11,935,877</u>	<u>\$ 46,212,274</u>	<u>\$ 329,346</u>	<u>\$ 323,613</u>	<u>\$ 58,801,110</u>
Year Ended December 31, 2008					
	Buildings	Machinery and Equipment	Other Equipment	Total	
<u>Accumulated depreciation</u>					
Beginning		\$ 7,426,666	\$ 34,530,804	\$ 153,402	\$ 42,110,872
Depreciation		470,438	2,688,570	44,953	3,203,961
Disposal		<u>(4,151)</u>	<u>(54,147)</u>	<u>(690)</u>	<u>(58,988)</u>
Ending		<u>\$ 7,892,953</u>	<u>\$ 37,165,227</u>	<u>\$ 197,665</u>	<u>\$ 45,255,845</u>

13. ASSETS LEASED TO OTHERS, NET

	<u>Year Ended December 31</u>	
	<u>2009</u>	<u>2008</u>
<u>Buildings</u>		
Cost		
Beginning	\$ 1,257,618	\$ -
Reclassified	-	<u>1,257,618</u>
Ending	<u>1,257,618</u>	<u>1,257,618</u>
Accumulated depreciation		
Beginning	91,897	-
Depreciation	<u>91,897</u>	<u>91,897</u>
Ending	<u>183,794</u>	<u>91,897</u>
Net balance	<u>\$ 1,073,824</u>	<u>\$ 1,165,721</u>

The Corporation leased several floors of the plant that was acquired from Winbond to Winbond. Lease terms starts from January 1, 2008 to March 31, 2010. The future quarter's rental aggregates NT\$13,858 thousand.

14. IDLE ASSETS

Idle assets are equipment not used in operation.

For the year ended December 31, 2009, the Corporation transferred equipment with cost NT\$263,910 thousand and accumulated depreciation of NT\$105,564 thousand to idle assets, and revalued the realizable value of the equipment according to industrial technology, market, economic, legal environment and recognized impairment loss of NT\$98,346 thousand, which was presented under nonoperating expenses and losses.

15. DEFERRED CHARGES, NET

Software design costs:

	<u>Year Ended December 31</u>	
	<u>2009</u>	<u>2008</u>
<u>Cost</u>		
Beginning	\$ 759,898	\$ 725,817
Acquired	8,354	34,177
Disposal	<u>(66,558)</u>	<u>(96)</u>
Ending	<u>701,694</u>	<u>759,898</u>
<u>Accumulated amortization</u>		
Beginning	684,910	626,533
Amortization	38,201	58,473
Disposal	<u>(66,558)</u>	<u>(96)</u>
Ending	<u>656,553</u>	<u>684,910</u>
Net balance	<u>\$ 45,141</u>	<u>\$ 74,988</u>

16. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	December 31	
	2009	2008
Bonus	\$ 274,782	\$ 290,979
Royalty	4,048	486,962
Others	<u>739,901</u>	<u>786,522</u>
	<u>\$ 1,018,731</u>	<u>\$ 1,564,463</u>
	Royalty	Bonus
January 1, 2009	\$ 486,962	\$ 290,979
Add: Reversal of other payables to related parties (Reversal) accrued	36,732 (188,479)	- 325,310
Reduce: Payable Classification as other payables to related parties	(280,842) <u>(50,325)</u>	(341,507) <u>-</u>
December 31, 2009	<u>\$ 4,048</u>	<u>\$ 274,782</u>
January 1, 2008	\$ 481,668	\$ 271,062
Add: Reversal of other payables to related parties Accrued	95,286 317,269	- 473,235
Reduce: Payable Classification as other payables to related parties	(370,529) <u>(36,732)</u>	(453,318) <u>-</u>
December 31, 2008	<u>\$ 486,962</u>	<u>\$ 290,979</u>

17. SHAREHOLDERS' EQUITY

Under the Company Law, the Corporation's capital surplus can only be used to offset a deficit. In addition, capital surplus generated from the issue price in excess of the par value of capital stock may be transferred to capital as stock dividends. However, the capital surplus from long-term stock investments accounted for by the equity method is restricted from use for any purpose.

The Corporation's Articles of Incorporation provide that the following should be appropriated from the annual net income after deducting any deficit and 10% legal reserve:

- a. Special reserve;
- b. Not more than 1% as remuneration to directors and supervisors;
- c. At least 1% as bonus to employees; and
- d. Final balance, appropriation to be decided at the shareholders' meeting.

The bonus to employees and the remuneration to directors and supervisors, which representing 15% of net income and 1% of net income (net of the bonus to employees, remuneration to directors and supervisors) and legal reserve, were estimated based on past experiences, corporation policy and related law and decree in 2009, and represent 15% and 1% of net income (net of the bonus to employees, remuneration to directors and supervisors) and legal reserve, which were estimated based on past experiences, corporation policy and related law and decree in 2008. Material differences between such estimated amounts and the amounts proposed by the Board of Directors in the following year are adjusted for in the current year. If the actual amounts subsequently resolved by the shareholders differ from the proposed amounts, the differences are recorded in the year of shareholders' resolution as a change in accounting estimate. If bonus shares are resolved to be distributed to employees, the number of shares is determined by dividing the amount of bonus by the closing price (after considering the effect of cash and stock dividends) of the shares of the day preceding the shareholders' meeting. The bonus to employees were NT\$13,386 thousand and NT\$140,662 thousand; and the remuneration to directors and supervisors were NT\$3,574 thousand and NT\$9,378 thousand for the years ended December 31, 2009 and 2008, respectively.

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

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

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

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

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

The appropriation of earnings for 2008 and 2007 were approved in the shareholders' meetings held on June 10, 2009 and June 13, 2008, respectively. The appropriations and dividends per share were as follows:

	Appropriation of Earnings		Dividend Per Share (NT\$)	
	2008	2007	2008	2007
Legal reserve	\$ 104,195	\$ 432,108	\$ -	\$ -
Provision (reversal) of special reserve	277,083	(40,560)	-	-
Stock dividends	-	34,010	-	0.02
Cash dividends	670,994	2,890,824	0.40	1.70
Bonus to employees - in stock	-	186,670	-	-
Bonus to employees - in cash	-	124,447	-	-
Remuneration to directors and supervisors	-	38,889	-	-
	<u>\$ 1,052,272</u>	<u>\$ 3,666,388</u>		

The shareholders' meetings on June 10, 2009 also approved the bonus to employees NT\$140,662 thousand and the remuneration to directors and supervisors NT\$9,378 thousand by cash. The approved amounts of the bonus to employees and the remuneration to directors and supervisors were consistent with the accrual amounts reflected in the financial statements for the year ended December 31, 2008.

The appropriation of earnings for 2008 and 2007 were consistent with the amounts approved by the Board of Directors' meetings held on February 20, 2009 and February 26, 2008, respectively.

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

Unrealized Gain or Loss on Financial Instruments

For the years ended December 31, 2009 and 2008, movements of unrealized gain or loss on financial instruments were as follows:

	Available- for-sale Financial Assets	Equity- method Investments	Gain (Loss) on Cash Flow Hedge	Total
<u>Year ended December 31, 2009</u>				
Balance, beginning of the year	\$ (239,207)	\$ 374	\$ -	\$ (238,833)
Recognized in shareholders' equity	374,882	280	(6,427)	368,690
Transferred to profit or loss	<u>(57,067)</u>	<u>-</u>	<u>7,153</u>	<u>(49,914)</u>
Balance, end of year	<u>\$ 78,608</u>	<u>\$ 654</u>	<u>\$ 681</u>	<u>\$ 79,943</u>
<u>Year ended December 31, 2008</u>				
Balance, beginning of the year	\$ 143,844	\$ 5,282	\$ (5,709)	\$ 143,417
Recognized in shareholders' equity	(383,051)	(4,908)	(9,868)	(397,827)
Transferred to profit or loss	<u>-</u>	<u>-</u>	<u>15,577</u>	<u>15,577</u>
Balance, end of year	<u>\$ (239,207)</u>	<u>\$ 374</u>	<u>\$ -</u>	<u>\$ (238,833)</u>

Translation Adjustment

For the years ended December 31, 2009 and 2008, movements of translation adjustments were as follows:

	Foreign Currency Exchange Valuation Difference
<u>Year ended December 31, 2009</u>	
Balance, beginning of the year	\$ (38,251)
Recognized in shareholders' equity	<u>(5,809)</u>
Balance, end of the year	<u>\$ (44,060)</u>
<u>Year ended December 31, 2008</u>	
Balance, beginning of the year	\$ (41,879)
Recognized in shareholders' equity	<u>3,628</u>
Balance, end of the year	<u>\$ (38,251)</u>

Employee Stock Option Plans

On February 20, 2001, June 21, 2002 and September 18, 2003, the Corporation received approvals from the Financial Supervisory Commission (the former name is SFB) of its adoption of Employee Stock Option Plans (hereinafter referred to as the "2001 Plan", "2002 Plan", and "2003 Plan"). The 2001 Plan consisted of 16,000 thousand units. Together, the 2002 Plan and 2003 Plan consisted of 140,000 thousand units. These options generally vest at a certain percentage from two years after the date of grant and the options granted are valid for 10 years. Other information on the stock option rights plan is as follows:

	<u>2003 Plan</u>		<u>2002 Plan</u>		<u>2001 Plan</u>	
	<u>Number of Outstanding Stock Option Rights (In Thousands)</u>	<u>Weighted- average Exercise Price (NT\$)</u>	<u>Number of Outstanding Stock Option Rights (In Thousands)</u>	<u>Weighted- average Exercise Price (NT\$)</u>	<u>Number of Outstanding Stock Option Rights (In Thousands)</u>	<u>Weighted- average Exercise Price (NT\$)</u>
<u>2009</u>						
Beginning balance	32,836	\$17.62	9,557	\$12.80	3,611	\$16.70
Options exercised	-	-	(462)	12.40	(21)	13.00
Options canceled	<u>(1,218)</u>	17.14	<u>(384)</u>	12.40	<u>(161)</u>	16.51
Ending balance	<u>31,618</u>	17.12	<u>8,711</u>	12.40	<u>3,429</u>	16.23
<u>2008</u>						
Beginning balance	33,883	19.48	9,875	14.20	3,750	18.40
Options exercised	(518)	17.81	(311)	12.80	(122)	15.17
Options canceled	<u>(529)</u>	18.12	<u>(7)</u>	12.80	<u>(17)</u>	17.75
Ending balance	<u>32,836</u>	17.62	<u>9,557</u>	12.80	<u>3,611</u>	16.70

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

Information about outstanding stock options as of December 31, 2009 was as follows:

Exercise Price (NT\$)	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>					
\$13.6-\$18.1	<u>31,618</u>	3.91-4.72	\$17.12	<u>31,618</u>	\$17.12
<u>2002 plan</u>					
\$12.4	<u>8,711</u>	2.73	12.40	<u>8,711</u>	12.40
<u>2001 plan</u>					
\$13.0-\$17.5	<u>3,429</u>	1.4-2.1	16.23	<u>3,429</u>	16.23

The Corporation used the intrinsic value method to evaluate compensation cost for employee stock options granted in the second and third quarters of 2004. The compensation cost recognized was zero since the above stock option was granted at an exercise price equal to the closing price of the Corporation's common shares on the measurement dates. Had the Corporation applied the fair value method to evaluate compensation cost of employee stock options granted, pro forma results of the Corporation would have been as follows:

Method:	Black-Scholes model	
Assumptions:		
Risk-free interest rate		2.63%-3.00%
Expected life (in years)		10 years
Expected stock price volatility		70.40%-70.46%
Expected dividend yield		-
Fair value per option (NT\$)		<u>\$8.07-\$10.00</u>
	2009	2008
Net income:		
Net income as reported	<u>\$ 89,241</u>	<u>\$ 1,041,953</u>
Pro forma net income	<u>\$ 89,241</u>	<u>\$ 1,032,603</u>
Earnings per share (EPS) (NT\$):		
Basic EPS as reported	<u>\$0.05</u>	<u>\$0.61</u>
Pro forma basic EPS	<u>\$0.05</u>	<u>\$0.60</u>
Diluted EPS as reported	<u>\$0.05</u>	<u>\$0.60</u>
Pro forma diluted EPS	<u>\$0.05</u>	<u>\$0.59</u>

The average number of shares outstanding for pro forma EPS calculation was adjusted retroactively for appropriations of dividends. However, the adjustment caused no dilutive effect for December 31, 2008 earnings per share.

18. TREASURY STOCK

(Shares in Thousands)

Purpose of Treasury Stock	Number of Shares, Beginning of Year	Addition During the Year	Reduction During the Year	Number of Shares, End of Year
<u>Year ended December 31, 2009</u>				
To maintain the Corporation's credibility and shareholders' interest	<u>18,000</u>	<u>-</u>	<u>18,000</u>	<u>-</u>
<u>Year ended December 31, 2008</u>				
To maintain the Corporation's credibility and shareholders' interest	<u>-</u>	<u>51,358</u>	<u>33,358</u>	<u>18,000</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 50,000 thousand shares from the GreTai Securities Market during the period from May 19, 2008 to July 18, 2008 with buyback prices in the range from NT\$16 to NT\$34. As of July 18, 2008, the Corporation had repurchased 16,358 thousand common shares. All the treasury shares repurchased were retired on September 19, 2008.

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 17,000 thousand shares from the GreTai Securities Market during the period from September 22, 2008 to November 21, 2008 with buyback prices in the range from NT\$8 to NT\$13. As of October 22, 2008, the Corporation had repurchased 17,000 thousand common shares. All the treasury shares repurchased were retired on November 14, 2008.

The Corporation held a meeting of the Board of Directors and approved a share buyback plan to repurchase the Corporation's common shares up to 30,000 thousand shares from the GreTai Securities Market during the period from October 28, 2008 to December 27, 2008 with buyback prices in the range from NT\$8 to NT\$13. As of December 27, 2008, the Corporation had repurchased 18,000 thousand common shares. All the treasury shares repurchased were retired on March 12, 2009.

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.

19. EARNINGS PER SHARE

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

	<u>Amounts (Numerator)</u>		<u>Shares (Denominator) (Thousands)</u>	<u>EPS (NT\$)</u>	
	<u>Before Income Tax</u>	<u>After Income Tax</u>		<u>Before Income Tax</u>	<u>After Income Tax</u>
<u>Year ended December 31, 2009</u>					
Net income	\$ <u>92,259</u>	\$ <u>89,241</u>			
Basic EPS					
Net income of common shareholders	\$ 92,259	\$ 89,241	1,677,580	\$ <u>0.05</u>	\$ <u>0.05</u>
Effect of diluted securities					
Bonus to employees	<u>-</u>	<u>-</u>	<u>5,746</u>		
Diluted EPS					
Net income of common and potential common shareholders	\$ <u>92,259</u>	\$ <u>89,241</u>	<u>1,683,326</u>	\$ <u>0.05</u>	\$ <u>0.05</u>
<u>Year ended December 31, 2008</u>					
Net income	\$ <u>1,135,992</u>	\$ <u>1,041,953</u>			
Basic EPS					
Net income of common shareholders	\$ 1,135,992	\$ 1,041,953	1,713,844	\$ <u>0.66</u>	\$ <u>0.61</u>
Effect of diluted securities					
Employee stock option rights	-	-	2,387		
Bonus to employees	<u>-</u>	<u>-</u>	<u>20,249</u>		
Diluted EPS					
Net income of common and potential common shareholders	\$ <u>1,135,992</u>	\$ <u>1,041,953</u>	<u>1,736,480</u>	\$ <u>0.65</u>	\$ <u>0.60</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. There was no dilutive effect in the calculation of diluted earnings per share for the year ended December 31, 2009 for the employee stock option plans.

The weighted average number of shares outstanding for EPS calculation has been retroactively adjusted for the issuance of stock dividends and employee stock bonuses distributed out of earnings for the year ended December 31, 2008. However, the adjustment caused no dilutive effect.

20. 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\$105,820 thousand and NT\$121,634 thousand for the years ended December 31, 2009 and 2008, respectively.

Based on the defined benefit plan under the Labor Standards Law (the "LSL"), pension benefits are calculated on the basis of the length of service and average monthly salaries and wages of the six months before retirement. The Corporation contributes amounts equal to 2% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. The pension fund is deposited in Bank of Taiwan in the committee's name. The Corporation recognized pension costs of NT\$21,790 thousand and NT\$20,024 thousand for the years ended December 31, 2009 and 2008, respectively.

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

a. Components of pension cost

	Year Ended December 31	
	2009	2008
Service cost	\$ 13,536	\$ 12,492
Interest cost	15,622	17,178
Projected return on plan assets	(6,147)	(7,663)
Amortization of unrecognized net transition assets and net gain	<u>(1,079)</u>	<u>(2,029)</u>
	<u>\$ 21,932</u>	<u>\$ 19,978</u>

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

	December 31	
	2009	2008
Benefit obligation		
Vested benefit obligation	\$ 12,381	\$ -
Non-vested benefit obligation	<u>399,646</u>	<u>444,943</u>
Accumulated benefit obligation	412,027	444,943
Additional benefits based on future salaries	<u>291,937</u>	<u>338,177</u>
Projected benefit obligation	703,964	783,120
Fair value of plan assets	<u>(273,925)</u>	<u>(265,551)</u>
Funded status	430,039	517,569
Unrecognized prior service cost	15,774	16,512
Unrecognized net transition assets	4,442	4,783
Unrecognized net gain (loss)	24,925	(70,592)
Additional liability	<u>-</u>	<u>-</u>
Accrued pension cost	<u>\$ 475,180</u>	<u>\$ 468,272</u>
Vested benefit	<u>\$ -</u>	<u>\$ -</u>

c. Actuarial assumptions

	Year Ended December 31	
	2009	2008
Discount rates used in determining present values	2.25%	2.00%
Future salary increase rate	3.00%	3.00%
Expected rate of return plan on assets	1.50%	2.25%

d. Contributions to the pension fund \$ 15,024 \$ 16,649

e. Payments from the fund \$ 8,426 \$ 8,418

21. 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:

	Year Ended December 31	
	2009	2008
Income tax expense based on income before income tax at statutory rate (25%)	\$ 23,055	\$ 283,988
Additional 10% on the unappropriated earnings	-	64,931
Permanent differences	(15,714)	20,788
Temporary differences	<u>45,506</u>	<u>(48,172)</u>
Current income tax expense before income tax credits	<u>\$ 52,847</u>	<u>\$ 321,535</u>

- b. Income tax expenses were as follows:

	Year Ended December 31	
	2009	2008
Current income tax expense before income tax credits	\$ 52,847	\$ 321,535
Operating loss carryforwards	-	(244,575)
Investment tax credits	(31,904)	(72,344)
Net change in deferred income tax assets for the years		
Investment tax credits	(135,570)	54,075
Operating loss carryforwards	(156,460)	231,020
Temporary differences	4,020	44,519
Valuation allowance	191,507	(240,695)
Prior years' adjustment	<u>78,578</u>	<u>504</u>
Income tax expense	<u>\$ 3,018</u>	<u>\$ 94,039</u>

On January 21, 2009, the president of the Republic of China approved the amendment of Article 39 of the Income Tax Law, which extends the operating losses carryforward period from five years to ten years.

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

	December 31	
	2009	2008
Current		
Investment tax credits	\$ 116,189	\$ 227,437
Loss on inventory valuation and obsolescence	99,308	41,899
Other	<u>19,564</u>	<u>21,030</u>
	235,061	290,366
Valuation allowance	<u>(184,987)</u>	<u>(220,163)</u>
	<u>\$ 50,074</u>	<u>\$ 70,203</u>

(Continued)

	December 31	
	2009	2008
Noncurrent		
Investment tax credits	\$ 715,979	\$ 469,161
Operating loss carryforwards	156,460	-
Depreciation and amortization	172,472	234,162
Accrued pension costs	<u>118,795</u>	<u>117,068</u>
	1,163,706	820,391
Valuation allowance	<u>(1,047,074)</u>	<u>(820,391)</u>
	<u>\$ 116,632</u>	<u>\$ -</u>
		(Concluded)

The effective tax rate for deferred income taxes as of December 31, 2009 and 2008 was 25%.

In May 2009, the president of the Republic of China approved the amendment of Article 5 of the Income Tax Law which reduced the income tax rate of profit-seeking enterprise from 25% to 20%, effective from 2010. The Corporation recalculated its deferred tax assets and liabilities in accordance with the amended Article and recorded the resulting difference as a deferred income tax benefit or expense.

- d. The balances of the imputation credit account as of December 31, 2009 and 2008 were NT\$43,308 thousand and NT\$25,679 thousand, respectively.

The expected and actual creditable ratios for distributing the earnings of 2009 and 2008 were 5.74% and 6.52%, 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 2009 earnings may be adjusted according to the actual ICA balance dividend distribution date.

- e. The unappropriated retained earnings as of December 31, 2009 and 2008 did not contain the unappropriated earnings generated on and before January 1, 1998.
- f. As of December 31, 2009, the tax credits and operating loss carryforwards were as follows:

Regulatory Basis of Tax Credits	Items	Total Creditable Amounts	Remaining Creditable Amounts	Expiry Year
Income Tax Law	Operating loss carryforwards	<u>\$ 156,460</u>	<u>\$ 156,460</u>	2013
Statute for Upgrading Industries	Purchase of machinery and equipment	\$ 37,752	\$ -	2009
		40,513	40,513	2010
		102,867	102,867	2011
		78,189	78,189	2012
		<u>1,993</u>	<u>1,993</u>	2013
		<u>\$ 261,314</u>	<u>\$ 223,562</u>	

(Continued)

Regulatory Basis of Tax Credits	Items	Total Creditable Amounts	Remaining Creditable Amounts	Expiry Year
Statute for Upgrading Industries	Research and development expenditures	\$ 188,700	\$ -	2009
		67,681	67,681	2010
		132,980	132,980	2011
		245,194	245,194	2012
		<u>141,835</u>	<u>141,835</u>	2013
		<u>\$ 776,390</u>	<u>\$ 587,690</u>	
Statute for Upgrading Industries	Personnel training expenditures	\$ 985	\$ -	2009
		1,567	1,567	2010
		2,606	2,606	2011
		1,296	1,296	2012
		<u>473</u>	<u>473</u>	2013
		<u>\$ 6,927</u>	<u>\$ 5,942</u>	
Statute for Upgrading Industries	Investments in important technology - based enterprise	\$ 6,428	\$ 6,428	2010
		<u>8,546</u>	<u>8,546</u>	2011
		<u>\$ 14,974</u>	<u>\$ 14,974</u>	

Income tax returns through 2007 had been examined and cleared by the tax authorities.

22. LABOR COST, DEPRECIATION AND AMORTIZATION EXPENSE

	2009			2008		
	Classified as Cost of Sales	Classified as Operating Expenses	Total	Classified as Cost of Sales	Classified as Operating Expenses	Total
Labor cost						
Salary	\$ 1,881,910	\$ 427,991	\$ 2,309,901	\$ 2,416,179	\$ 483,592	\$ 2,899,771
Labor/health insurance	134,505	32,035	166,540	144,024	30,828	174,852
Pension	103,063	24,547	127,610	116,683	24,975	141,658
Others	<u>53,969</u>	<u>14,063</u>	<u>68,032</u>	<u>81,638</u>	<u>17,774</u>	<u>99,412</u>
	<u>\$ 2,173,447</u>	<u>\$ 498,636</u>	<u>\$ 2,672,083</u>	<u>\$ 2,758,524</u>	<u>\$ 557,169</u>	<u>\$ 3,315,693</u>
Depreciation	<u>\$ 3,360,218</u>	<u>\$ 62,106</u>	<u>\$ 3,422,324</u>	<u>\$ 3,148,253</u>	<u>\$ 55,708</u>	<u>\$ 3,203,961</u>
Amortization	<u>\$ 18,396</u>	<u>\$ 19,805</u>	<u>\$ 38,201</u>	<u>\$ 26,245</u>	<u>\$ 32,228</u>	<u>\$ 58,473</u>

23. 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) International Semiconductor Technology Ltd. (IST): The Corporation is its director.

- 4) CMSC, Inc. (CMSC): Equity-method investee of the Corporation.
- 5) Goyatek Technology Inc. (Goya): An indirect subsidiary of the Corporation is its director.
- 6) TSMC-China: It's parent company is a major shareholder of the Corporation. (Note)
- 7) VIS Singapore Pte. Ltd. (VISS): Indirect subsidiary.
- 8) Global Unichip Corporation (GUC): Related party in substance.
- 9) INNO-TECH Co. Ltd. (INNO): An equity method investee of one of the Corporation's indirect subsidiary.
- 10) Others - related parties over which the Corporation has substantial influence but without any transactions (Note 28).

Note: TSMC-Shanghai renamed as TSMC-China in 2009.

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

	2009		2008	
	Amount	%	Amount	%
<u>For the year</u>				
Sales				
TSMC	\$ 3,221,952	26	\$ 3,187,795	20
Goya	60,907	-	148,197	1
GUC	17,602	-	51,099	-
CMSC	5,873	-	4,704	-
INNO	1,110	-	2,051	-
IST	<u>-</u>	<u>-</u>	<u>402</u>	<u>-</u>
	<u>\$ 3,307,444</u>	<u>26</u>	<u>\$ 3,394,248</u>	<u>21</u>
Purchase				
TSMC	\$ 5,754	-	\$ -	-
TSMC-China	<u>32</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 5,786</u>	<u>-</u>	<u>\$ -</u>	<u>-</u>
Manufacturing expenses				
TSMC	<u>\$ 413,050</u>	<u>4</u>	<u>\$ 360,188</u>	<u>3</u>
Marketing expenses				
TSMC	\$ 1,001	1	\$ 5,247	4
VIS Micro	<u>-</u>	<u>-</u>	<u>36,491</u>	<u>28</u>
	<u>\$ 1,001</u>	<u>1</u>	<u>\$ 41,738</u>	<u>32</u>
General and administrative expenses				
VISS	<u>\$ 38</u>	<u>-</u>	<u>\$ -</u>	<u>-</u>

	2009		2008	
	Amount	%	Amount	%
Research and development expenses				
VISS	\$ 24,599	4	\$ 32,927	4
TSMC	<u>16,573</u>	<u>2</u>	<u>16,419</u>	<u>2</u>
	<u>\$ 41,172</u>	<u>6</u>	<u>\$ 49,346</u>	<u>6</u>
Nonoperating income and gains				
TSMC	\$ 24,074	19	\$ 11,275	17
Goya	44	-	-	-
CMSC	<u>33</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 24,151</u>	<u>19</u>	<u>\$ 11,275</u>	<u>17</u>
Acquisitions of properties				
VISS	<u>\$ 1,803</u>	<u>1</u>	<u>\$ -</u>	<u>-</u>
<u>At end of year</u>				
Receivables				
TSMC	\$ 517,346	99	\$ 311,158	99
Goya	4,063	1	4,219	1
GUC	3,147	-	400	-
CMSC	436	-	-	-
INNO	<u>160</u>	<u>-</u>	<u>493</u>	<u>-</u>
	<u>\$ 525,152</u>	<u>100</u>	<u>\$ 316,270</u>	<u>100</u>
Other receivables				
TSMC	<u>\$ 11,714</u>	<u>100</u>	<u>\$ 6,333</u>	<u>100</u>
Payables				
TSMC	<u>\$ 22</u>	<u>100</u>	<u>\$ -</u>	<u>-</u>
Other payables				
TSMC	\$ 83,320	99	\$ 42,777	89
GUC	32	1	259	1
VIS Micro	-	-	2,471	5
VISS	<u>-</u>	<u>-</u>	<u>2,396</u>	<u>5</u>
	<u>\$ 83,352</u>	<u>100</u>	<u>\$ 47,903</u>	<u>100</u>
Guarantee deposits				
Goya	<u>\$ 6,000</u>	<u>20</u>	<u>\$ 15,500</u>	<u>34</u>

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

VISS provided research services to the Corporation until October 31, 2009. 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 expense, general and administrative expenses and research and development expenses, there were no similar transactions in the market; thus, transaction terms were based on related contracts.

The acquisitions of properties from related parties were negotiated by both parties. The parties did not have any gain or loss on disposal of property, plant and equipment.

Goya's guarantee deposits were primarily for sales.

c. Compensation of directors, supervisors and management personnel:

	Year Ended December 31	
	2009	2008
Salaries	\$ 28,682	\$ 29,147
Incentives and special compensation	2,289	4,822
Agency costs	2,193	2,556
Bonus	<u>3,959</u>	<u>15,034</u>
	<u>\$ 37,123</u>	<u>\$ 51,559</u>

Total compensation expense for the year ended December 31, 2009 includes estimated bonuses to employees, directors and supervisors of the Corporation that relate to 2009 but will be paid in the following year. The actual amount will be finalized and approved upon the resolution of the shareholders' meeting in 2010. The compensation of directors, supervisors and management personnel for the year ended December 31, 2008 included the bonuses appropriated from earnings for 2008 which had been approved by shareholders in their annual meeting held in 2009.

24. PLEDGED ASSETS

The time deposits of NT\$165,300 thousand had been pledged as collateral for the guarantee of customs duty and lease of the manufacturing plant from the Hsinchu Science-Based Industrial Park Administration on December 31, 2009.

25. 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 April 2010, April 2015, June 2015, December 2027 and December 2028. Annual rentals aggregate NT\$82,813 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
2010	\$ 77,731
2011	73,449
2012	73,449
2013	73,449
2014	73,449
2015-2028	<u>771,459</u>
	<u>\$ 1,142,986</u>

26. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

The significant commitments and contingencies of the Corporation as of December 31, 2009 were as follows:

- a. The Corporation revised its existing license agreement with Texas Instruments Incorporated. The revised termination date is December 31, 2009.
- b. The Corporation entered into a license and technology transfer agreement, effective January 1, 2004, with Taiwan Semiconductor Manufacturing Company Ltd. (TSMC), and agreed to pay TSMC a royalty fee at a specific percentage of net sales of certain products.
- c. Under a license agreement made with ARM Limited (ARM), the Corporation should pay royalty from December 22, 2004 for five years when using ARM's patent to manufacture and sell products. This agreement is automatically renewed for successive period of one year.
- d. Under a Wafer Production agreement made with Winbond, the Corporation should offer wafer production service to Winbond for four years from January 2008.
- e. As of December 31, 2009, unused letters of credit aggregated about JPY380,400 thousand.

27. FINANCIAL INSTRUMENTS

- a. Fair values of financial instruments were as follows:

	December 31			
	2009		2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<u>Nonderivative financial instruments</u>				
Assets				
Cash and cash equivalents	\$ 6,733,219	\$ 6,733,219	\$ 4,054,962	\$ 4,054,962
Available-for-sale financial assets - current	175,464	175,464	-	-
Financial assets held to maturity - current	-	-	149,845	148,271
Receivables from related parties	525,152	525,152	316,270	316,270
Notes and accounts receivable	1,340,827	1,340,827	1,090,112	1,090,112
Pledged time deposit	165,300	165,300	-	-
Available-for-sale financial assets - noncurrent	105,755	105,755	181,724	181,724
Financial assets carried at cost - noncurrent	38,716	-	40,968	-
Liabilities				
Payables to related parties	22	22	-	-
Notes and accounts payable	582,540	582,540	399,901	399,901
Payables to contractors and equipment suppliers	126,162	126,162	377,173	377,173
<u>Derivative financial instruments</u>				
Assets				
Forward exchange contracts	14,666	14,666	28,201	28,201
Currency-swap contracts	19,546	19,546	1,813	1,813
Financial assets designated as at FVTPL				
Credit linked notes	40,167	40,167	-	-
Derivative financial assets for hedging - current				
Forward exchange contracts	3,254	3,254	840	840
Liabilities				
Forward exchange contracts	1,219	1,219	8,820	8,820
Currency-swap contracts	-	-	1,294	1,294
Derivative financial liabilities for hedging - current				
Forward exchange contracts	338	338	954	954

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

- 1) For short-term financial instruments, carrying values approximate fair values because of their short maturities. These instruments include cash and cash equivalents, pledged time deposit, receivables from related parties, notes and accounts receivable, payables to related parties, notes and accounts payable and payables to contractors and equipment suppliers.
- 2) Fair values of available-for-sale financial assets and held-to-maturity financial assets are based on their quoted market prices in an active market.
- 3) For those instruments such as derivative financial instruments with no quoted market prices, their fair values are determined using valuation techniques incorporating estimates and assumptions consistent with those generally used by other market participants to price financial instruments.

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

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

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

	Published Price		Estimated Price	
	December 31		December 31	
	2009	2008	2009	2008
<u>Nonderivative financial instruments</u>				
Assets				
Cash and cash equivalents	\$ 6,733,219	\$ 4,054,962	\$ -	\$ -
Available-for-sale financial assets - current	175,464	-	-	-
Financial assets held to maturity - current	-	148,271	-	-
Receivables from related parties	-	-	525,152	316,270
Notes and accounts receivable	-	-	1,340,827	1,090,112
Pledged time deposit	165,300	-	-	-
Available-for-sale financial assets - noncurrent	105,755	181,724	-	-
Liabilities				
Payables to related parties	-	-	22	-
Notes and accounts payable	-	-	582,540	399,901
Payables to contractors and equipment suppliers	-	-	126,162	377,173
<u>Derivative financial instruments</u>				
Assets				
Forward exchange contracts	-	-	14,666	28,201
Currency-swap contracts	-	-	19,546	1,813
Financial assets designated as at FVTPL				
Credit linked notes	-	-	40,167	-
Derivative financial assets for hedging - current				
Forward exchange contracts	-	-	3,254	840
Liabilities				
Forward exchange contracts	-	-	1,219	8,820
Currency-swap contracts	-	-	-	1,294
Derivative financial liabilities for hedging - current				
Forward exchange contracts	-	-	338	954

- d. Net gain and loss recognized for the changes in fair value of derivatives estimated using valuation techniques were NT\$95,569 thousand and NT\$12,130 thousand for the years ended December 31, 2009 and 2008, respectively.

- e. As of December 31, 2009 and 2008, financial assets exposed to fair value interest rate risk amounted to NT\$4,480,651 thousand and NT\$3,643,276 thousand, respectively; financial assets exposed to cash flow interest rate risk amounted to NT\$2,417,868 thousand and NT\$561,531 thousand, respectively.
- f. Interest revenues on financial instruments other than the financial assets or liabilities at fair value through profit or loss in the years ended December 31, 2009 and 2008 were NT\$37,846 thousand and NT\$114,879 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\$1,162 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 December 31, 2009 and 2008, financial assets exposed to credit risk amounted to NT\$77,633 thousand and NT\$30,854 thousand, respectively. The maximum credit risks of other financial instruments held by the Corporation are their book values.
 - 3) Liquidity and cash requirement: The Corporation has sufficient operating capital to meet cash needed to settle derivative contracts. In addition, the Corporation's investments in debt instruments and stock classified as available-for-sale financial assets are traded in active markets and can be disposed of quickly at close to their fair values. However, some equity instruments for which there is no active market are expected to have material liquidity risk. The Corporation's investment in stocks (recorded under available-for-sale financial assets) has quoted market prices in an active market and can be sold quickly at fair value.

As of December 31, 2009, future cash demand for the outstanding forward exchange contracts and cross currency interest rate swap contracts was as follows:

Term	Inflow (In Thousands)	Outflow (In Thousands)
Within one year	NT\$ 4,309,134	US\$ 133,500
	JPY 226,330	US\$ 2,500
	US\$ 19,000	NT\$ 604,908

The exchange rates for forward exchange contracts and currency-swap contracts are fixed. Thus, the cash flow risks are not material.

- h. 1) Fair value hedges:

The Corporation determined that the exchange rate risks on future cash flow changes on the receivable on VIS's accounts receivable as of December 31, 2009 were significant; thus, it entered into forward exchange contracts to hedge these exposures.

Hedged Item	Hedging Financial Instrument	Fair Value as of December 31	
		2009	2008
Foreign currency accounts receivable	Forward exchange contracts	\$ 2,235	\$ (114)

2) Cash flow hedges:

The Corporation determined that the exchange rate risk on future cash flow changes of the expected foreign currency denominated sales were significant; thus, it entered into forward exchange contracts to hedge these exposures.

Hedged Item	Hedging Financial Instrument	Fair Value as of December 31	Expected Timing for Future Cash Demand	Expected Timing for the Recognition of Gains or Losses from Hedge
<u>December 31, 2009</u>				
Forecast sales	Forward exchange contracts	\$681	January 2010 - March 2010	January 2010 - March 2010

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 estate at costs of at least NT\$100 million or 20% of the paid-in capital: None.
- f. Disposal of individual real estate at costs of at least NT\$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. Receivables from related parties amounting to at least NT\$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. SEGMENT INFORMATION

- a. Industry information: The Corporation operates in one industry. The major business is operating as an IC foundry service provider.
- b. Geographic information: The Corporation has no significant foreign operations. Therefore, the disclosure of geographic information is not applicable to the Corporation.
- c. Export sales: The export sales in 2009 and 2008 were smaller than 10% of net sales.
- d. Sales to customers representing at least 10% of total sales:

Customer	Year Ended December 31			
	2009		2008	
	Amount	% of Total	Amount	% of Total
A	\$ 3,221,952	25	\$ 3,187,795	20
B	2,326,143	18	2,228,841	14
C	1,969,096	16	3,268,884	20
D	1,933,204	15	3,714,659	23

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

MARKETABLE SECURITIES HELD

DECEMBER 31, 2009

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Holding Company Name	Marketable Security Type and Issuer	Relationship with the Holding Company	Financial Statement Account	December 31, 2009				Note
				Shares/Units (Thousands)	Carrying Value (US\$ in Thousands)	% of Ownership	Market Value or Net Asset Value (US\$ in Thousands)	
Vanguard International	<u>Bond</u>							
	Credit linked notes - Uni-President Enterprises Corp.	-	Financial assets at fair value through profit or loss - current	-	\$ 30,113	-	\$ 30,113	Note 4
	Credit linked notes - Hon Hai Precision Industry Co., Ltd.	-	Financial assets at fair value through profit or loss - current	-	10,054	-	10,054	Note 4
	<u>Stock</u>							
	Walton Advanced Engineering, Inc.	Investee	Available-for-sale financial assets - current	10,444	175,464	2	175,464	Note 1
	International Semiconductor Technology Ltd.	Investee	Available-for-sale financial assets - noncurrent	7,293	105,755	2	105,755	Note 1
	VIS Associates Inc.	Subsidiary	Long-term stock investments accounted for by the equity method	6	307,752	100	307,752	Note 2
CMSC, Inc.	Equity-method investee	Long-term stock investments accounted for by the equity method	9,902	84,434	25	84,434	Note 2	
United Industrial Gases Co., Ltd.	Investee	Financial assets carried at cost - noncurrent	3,357	38,716	2	38,716	Note 3	
VIS Associates Inc.	<u>Fund</u>							
	PIMCO GIS TOTAL RETURN BOND FD CL A (USD)	-	Available-for-sale financial assets - current	86	US\$ 984	-	US\$ 984	Note 1
	<u>Stock</u>							
	Advanced Analogic Technologies, Inc.	Investee	Available-for-sale financial assets - current	18	US\$ 72	-	US\$ 72	Note 1
	VIS Investment Holding, Inc.	Subsidiary of VIS Associates Inc.	Long-term stock investments accounted for by the equity method	63	US\$ 1,030	100	US\$ 1,030	Note 2
VIS Singapore Pte. Ltd.	Subsidiary of VIS Associates Inc.	Long-term stock investments accounted for by the equity method	1,000	US\$ 507	100	US\$ 507	Note 2	
Specialty TechFarm, Inc.	Subsidiary of VIS Associates Inc.	Long-term stock investments accounted for by the equity method	10,000	US\$ 4,235	100	US\$ 4,235	Note 2	
VIS Investment Holding, Inc.	<u>Stock</u>							
VIS Micro, Inc.	Subsidiary of VIS Investment Holding, Inc.	Long-term stock investments accounted for by the equity method	200	US\$ 745	100	US\$ 745	Note 2	
Specialty TechFarm, Inc.	<u>Stock</u>							
LayerWalker Technology, Inc.	Equity-method investee	Long-term stock investments accounted for using the equity method	4,103	US\$ 460	27	US\$ 460	Note 2	

(Continued)

Holding Company Name	Marketable Security Type and Issuer	Relationship with the Holding Company	Financial Statement Account	December 31, 2009				Note
				Shares/Units (Thousands)	Carrying Value (US\$ in Thousands)	% of Ownership	Market Value or Net Asset Value (US\$ in Thousands)	
	SkyTraq Technology, Inc.	Equity-method investee	Long-term stock investments accounted for using the equity method	4,688	US\$ 708	28	US\$ 708	Note 2
	Inno-Tech Co., Ltd.	Equity-method investee	Long-term stock investments accounted for using the equity method	5,000	US\$ 770	40	US\$ 770	Note 2
	Linear Artwork, Inc.	Equity-method investee	Long-term stock investments accounted for using the equity method	4,375	US\$ 814	27	US\$ 814	Note 2
	Goyatek Technology Inc.	Investee	Financial assets carried at cost - noncurrent	2,231	US\$ 443	13	US\$ 443	Note 3
	Uniband Electronic Corp.	Investee	Financial assets carried at cost - noncurrent	960	US\$ 200	5	US\$ 200	Note 3

Note 1: The market value was based on stock closing price as of December 31, 2009.

Note 2: The net asset value was based on audited financial statements as of December 31, 2009.

Note 3: The market value was based on the book value as of December 31, 2009.

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

Note 5: As of December 31, 2009, 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
YEAR ENDED DECEMBER 31, 2009

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Marketable Security Type and Issuer	Financial Statement Account	Counter-party	Nature of Relationship	Balance, Beginning of Period		Acquisition		Disposal				Other	Balance, End of Period	
					Shares/Units (Thousands)	Amount	Shares/Units (Thousands)	Amount	Shares/Units (Thousands)	Amount	Carrying Value	Gain (Loss) on Disposal		Shares/Units (Thousands)	Amount
Vanguard International Semiconductor Corporation	<u>Bond</u> Bond - Taiwan power Co.	Held-to-maturity financial assets - current	-	-	-	\$ 149,845 (Note 1)	-	\$ -	-	\$ 150,000	\$ 150,000	\$ -	\$ 155 (Note 2)	-	\$ -
	<u>Stock</u> Walton Advanced Engineering, Inc.	Available-for-sale financial assets - current	-	-	37,512	153,425	-	-	27,068	298,469	218,320	80,149	-	10,444	175,464 (Note 3)

Note 1: Including amortization of discount on bonds.

Note 2: Interest income.

Note 3: Including unrealized gains (losses) 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
YEAR ENDED DECEMBER 31, 2009
(In Thousands of New Taiwan Dollars)**

Company Name	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Notes/Accounts Payable or Receivable		Note
			Purchase/Sale	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% of Total	
Vanguard International Semiconductor Corporation	Taiwan Semiconductor Manufacturing Company Ltd.	Major shareholder	Sale	\$ 3,221,952	(25.60%)	Note	\$ -	-	\$ 517,346	27.73%	-

Note: Net 45 days after monthly closing.

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

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

DECEMBER 31, 2009

(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	\$517,346	7.78	\$ -	-	\$ -	\$ -

VANGUARD INTERNATIONAL SEMICONDUCTOR CORPORATION

**NAMES, LOCATIONS, AND RELATED INFORMATION OF INVESTEEES ON WHICH THE CORPORATION EXERCISES SIGNIFICANT INFLUENCE
YEAR ENDED DECEMBER 31, 2009
(In Thousands of New Taiwan Dollars)**

Investor	Investee	Location	Main Businesses and Products	Investment Amount		Balance as of December 31, 2009			Net Loss of the Investee	Investment Loss	Note
				December 31, 2009	December 31, 2008	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	\$ 307,752 84,434	\$ (82,116) (42,978)	\$ (82,116) (10,720)	Subsidiary Equity-method investee