

**Powerchip Semiconductor Corporation
and Subsidiaries**

**Consolidated Financial Statements for the
Six Months Ended June 30, 2006 and 2005 and
Independent Accountants' Review Report**

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

The Board of Directors and Shareholders
Powerchip Semiconductor Corporation

We have reviewed the accompanying consolidated balance sheets of Powerchip Semiconductor Corporation and subsidiaries ("the Group") as of June 30, 2006 and 2005, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the six months then ended. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to issue a report on these consolidated financial statements based on our reviews.

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

As stated in Note 2 to the consolidated financial statements, we did not review the financial statements of some immaterial subsidiaries as of and for the six months ended June 30, 2006 and 2005, which reflected (a) total assets that were 3.21% (NT\$5,896,628 thousand) and 0.16% (NT\$148,745 thousand), respectively, of the consolidated assets; and (b) total liabilities that were 2.03% (NT\$2,993,056 thousand) and 0.08% (NT\$55,950 thousand), respectively, of the consolidated liabilities. These statements for the six months ended June 30, 2006 and 2005 also reflected the subsidiaries' (a) net sales that were 0.49% (NT\$163,908 thousand) and 0.31% (NT\$13,101 thousand), respectively, of the consolidated net sales; and (b) net incomes that were 0.11% (NT\$25,623 thousand) and 0.30% (NT\$8,995 thousand), respectively, of the consolidated net income. Also, as stated in Note 11 to the consolidated financial statements, we also did not review the financial statements for the six months ended June 30, 2006 and 2005 of equity-method investees. The carrying values of the related investments as of June 30, 2006 and 2005 were NT\$4,242,492 thousand and NT\$2,590,930 thousand, respectively, and the related net investment income and loss of NT\$21,059 thousand and NT\$21,679 thousand, respectively. These investment amounts, as well as the pertinent investment information disclosed in Note 27 to the consolidated financial statements, were based on unreviewed financial statements of the investees for the same reporting periods as those of the Group.

Based on our reviews, except for the effects of such adjustment, if any, as might have been determined to be necessary had the financial statements of subsidiaries and investees referred to in preceding paragraph been reviewed, we are not aware of any material modifications that should be made to the consolidated financial statements referred to in the first paragraph for them to be in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

As disclosed in Note 3 to the accompanying consolidated financial statements, effective January 1, 2006, the Group adopted the recently released Statements of Financial Accounting Standards (“Statements”) No. 34 - “Accounting for Financial Instruments” and No. 36 - “Disclosure and Presentation of Financial Instruments” and related revisions of previously released Statements.

July 25, 2006

Notice to Readers

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

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

POWERCHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

JUNE 30, 2006 AND 2005

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

(Reviewed, Not Audited)

ASSETS	2006		2005		LIABILITIES AND SHAREHOLDERS' EQUITY	2006		2005	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents (Notes 2 and 4)	\$ 42,076,589	23	\$ 40,933,067	28	Financial liabilities at fair value through profit or loss - current (Notes 2, 3, 5, 14 and 23)	1,784,516	1	1,395	-
Financial assets at fair value through profit or loss - current (Notes 2, 3, 5 and 23)	5,383,264	3	2,857,747	2	Accounts payable (Note 24)	1,527,102	1	519,556	-
Available-for-sale financial assets - current (Notes 2, 3, 6 and 23)	760,746	-	175,483	-	Related parties	5,890,676	3	4,984,531	4
Held-to-maturity financial assets - current (Notes 2, 3, 9, 23 and 24)	21,000	-	255,000	-	Third parties	164,031	-	-	-
Accounts receivable (Notes 2, 7, 24 and 25)					Income tax payable (Notes 2 and 20)	2,435,619	1	2,115,352	1
Related parties	4,906,464	2	1,904,862	1	Accrued expenses (Notes 2, 3 and 24)	3,329,644	2	-	-
Third parties	3,229,075	2	1,984,536	2	Cash dividend and bonus payable (Note 17)	20,678,882	11	17,261,020	12
Other receivables (Note 3)	315,884	-	225,499	-	Payables on equipment	13,722,940	8	5,382,553	3
Inventories, net (Notes 2 and 8)	7,967,308	4	5,729,306	4	Convertible bonds payable (Notes 2, 14 and 23)	6,606,667	4	5,456,667	4
Prepaid expenses	409,413	-	143,868	-	Current portion of long-term bank loans (Notes 15 and 23)	-	-	82,555	-
Deferred income tax assets - current (Notes 2 and 20)	880,468	1	1,451,356	1	Current portion of long-term obligation under capital lease (Notes 2, 12 and 23)	187,910	-	164,600	-
Restricted deposits (Note 25)	850,436	1	1,494,101	1	Other current liabilities	-	-	-	-
Other current assets	64,602	-	23,741	-	Total current liabilities	56,327,987	31	35,968,229	24
Total current assets	66,865,249	36	57,178,566	39	LONG-TERM LIABILITIES, NET OF CURRENT PORTION				
LONG-TERM INVESTMENTS					Convertible bonds payable (Notes 2, 14 and 23)	9,609,938	5	15,058,880	10
Held-to-maturity financial assets - noncurrent (Notes 2, 3, 9, 23 and 24)	470,000	-	261,000	-	Long-term bank loans (Notes 15 and 23)	26,681,666	15	15,712,922	11
Financial assets carried at cost - noncurrent (Notes 2, 3, 10 and 23)	979,683	1	1,091,401	1	Total long-term liabilities	36,291,604	20	30,771,802	21
Equity-method investments (Notes 2, 11 and 24)	4,242,492	2	2,590,930	2	OTHER LIABILITIES				
Total long-term investments	5,692,175	3	3,943,331	3	Accrued pension cost (Notes 2 and 16)	34,915	-	70,248	-
PROPERTIES (Notes 2, 12, 21 and 25)					Guarantee deposits	4,366	-	5,863	-
Cost					Total other liabilities	39,281	-	76,111	-
Buildings	7,789,030	4	7,753,280	5	Total liabilities	92,658,872	51	66,816,142	45
Machinery and equipment	131,550,374	72	102,402,452	69	EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT				
Research and development equipment	668,180	-	380,544	-	(Notes 17 and 18)				
Facility equipment	16,403,870	9	12,047,731	8	Capital stock				
Transportation equipment	17,706	-	20,683	-	Common stock - \$10 par value				
Office equipment	397,734	-	378,116	-	Authorized - 7,500,000 thousand shares				
Equipment under capital lease	-	-	761,708	1	Issued - 5,924,826 thousand shares in 2006 and 5,511,756 thousand shares in 2005	59,248,264	32	55,117,564	38
Leasehold improvements	2,722	-	2,722	-	Stock dividend and bonus for distribution	3,329,644	2	-	-
Miscellaneous equipment	929,109	1	808,105	1	Capital surplus (Notes 2 and 17)				
Accumulated depreciation	157,758,725	86	124,555,341	84	Paid-in capital in excess of par value	15,251,387	9	12,694,087	9
Advance payments and construction in progress	(68,780,149)	(37)	(50,465,607)	(34)	Arising from long-term investments	24,105	-	20,761	-
Net properties	106,054,205	58	81,619,112	55	Arising from treasury stock	3,290	-	3,290	-
OTHER ASSETS					Arising from conversion of bonds	4,031,771	2	3,572,524	2
Assets leased to others, net (Note 2)	151,762	-	169,722	-	Retained earnings				
Refundable deposits	32,474	-	33,596	-	Appropriation for legal reserve	2,774,552	1	2,132,816	1
Deferred charges, net (Notes 2, 13, 21, 24 and 26)	2,994,263	2	3,796,813	3	Appropriation for special reserve	31,566	-	252	-
Deferred income tax assets - noncurrent (Notes 2 and 20)	1,168,604	1	261,177	-	Unappropriated earnings	7,179,647	4	7,084,069	5
Spare parts, net	391,607	-	402,032	-	Others				
Others	97,552	-	46,530	-	Unrealized gains on financial assets (Notes 2, 11, and 23)	358,113	-	-	-
Total other assets	4,836,262	3	4,709,870	3	Cumulative translation adjustments (Note 2)	(11,321)	-	(8,980)	-
TOTAL	\$ 183,447,891	100	\$ 147,450,879	100	Treasury stock (at cost) - 89,674 thousand shares in 2006 and 15,992 thousand shares in 2005 (Notes 2 and 19)	(1,663,788)	(1)	(302,725)	-
					Total equity attributable to shareholders of the parent	90,557,230	49	80,313,658	55
					MINORITY INTEREST IN SUBSIDIARIES (Note 2)	231,789	-	321,079	-
					Total shareholders' equity	90,789,019	49	80,634,737	55
					TOTAL	\$ 183,447,891	100	\$ 147,450,879	100

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

(With Deloitte & Touche review report dated July 25, 2006)

POWERCHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

SIX MONTHS ENDED JUNE 30, 2006 AND 2005

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

(Reviewed, Not Audited)

	2006		2005	
	Amount	%	Amount	%
GROSS SALES	\$ 35,030,547		\$ 25,475,491	
SALES RETURNS AND ALLOWANCES	<u>1,469,206</u>		<u>1,342,926</u>	
NET SALES (Notes 2 and 24)	33,561,341	100	24,132,565	100
COST OF SALES (Notes 21 and 24)	<u>26,900,549</u>	<u>80</u>	<u>20,127,822</u>	<u>83</u>
GROSS PROFIT BEFORE UNREALIZED INTERCOMPANY GROSS PROFIT	6,660,792	20	4,004,743	17
UNREALIZED INTERCOMPANY PROFIT (Note 2)	<u>(71,168)</u>	<u>-</u>	<u>(2,886)</u>	<u>-</u>
GROSS PROFIT	<u>6,589,624</u>	<u>20</u>	<u>4,001,857</u>	<u>17</u>
OPERATING EXPENSES (Note 21)				
Selling	193,101	1	129,144	1
General and administrative (Note 24)	915,534	3	900,901	4
Research and development (Note 24)	<u>1,049,742</u>	<u>3</u>	<u>819,746</u>	<u>3</u>
Total operating expenses	<u>2,158,377</u>	<u>7</u>	<u>1,849,791</u>	<u>8</u>
OPERATING INCOME	<u>4,431,247</u>	<u>13</u>	<u>2,152,066</u>	<u>9</u>
NONOPERATING INCOME AND GAINS				
Valuation gains on financial assets, net (Notes 2, 3, 5 and 23)	326,951	1	25,799	-
Interest (Notes 2 and 23)	272,060	1	216,882	1
Gain on disposal of financial instruments, net (Notes 2 and 24)	145,040	1	455,513	2
Gain on disposal of properties (Note 2)	32,748	-	13,609	-
Equity in earnings of equity-method investees, net (Notes 2 and 11)	21,059	-	-	-
Dividend income (Note 2)	12,831	-	4,575	-
Foreign exchange gain, net (Note 2)	-	-	289,055	1
Others (Note 24)	<u>44,791</u>	<u>-</u>	<u>75,062</u>	<u>-</u>
Total nonoperating income and gains	<u>855,480</u>	<u>3</u>	<u>1,080,495</u>	<u>4</u>

(Continued)

POWERCHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

SIX MONTHS ENDED JUNE 30, 2006 AND 2005

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

(Reviewed, Not Audited)

	2006		2005	
	Amount	%	Amount	%
NONOPERATING EXPENSES AND LOSSES				
Interest (Notes 2, 12 and 23)	\$ 403,137	1	\$ 258,117	1
Valuation losses on financial liabilities, net (Notes 2, 5 and 23)	196,682	1	-	-
Impairment loss on financial assets (Note 2)	50,398	-	38,988	-
Provision for losses on inventories and spare parts (Note 2)	47,263	-	82,675	1
Issuance cost of convertible bond allocate to financial liabilities at fair value through profit or loss (Notes 2 and 24)	27,403	-	-	-
Foreign exchange loss, net (Note 2)	7,671	-	-	-
Loss on disposal of properties (Note 2)	2,563	-	29,555	-
Equity in losses of equity-method investees, net (Notes 2 and 11)	-	-	21,679	-
Others	<u>40,832</u>	<u>-</u>	<u>38,558</u>	<u>-</u>
Total nonoperating expenses and losses	<u>775,949</u>	<u>2</u>	<u>469,572</u>	<u>2</u>
INCOME BEFORE INCOME TAX	4,510,778	14	2,762,989	11
INCOME TAX BENEFIT (EXPENSE) (Notes 2 and 20)	<u>(392,332)</u>	<u>(1)</u>	<u>253,556</u>	<u>1</u>
NET INCOME BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	4,118,446	13	3,016,545	12
CUMMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES (NET OF TAX BENEFIT OF \$10,892 THOUSAND) (Notes 3 and 20)	<u>82,733</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET INCOME	<u>\$ 4,201,179</u>	<u>13</u>	<u>\$ 3,016,545</u>	<u>12</u>
ATTRIBUTABLE TO				
Shareholders of the parent	\$ 4,202,156	13	\$ 3,021,346	12
Minority interest	<u>(977)</u>	<u>-</u>	<u>(4,801)</u>	<u>-</u>
	<u>\$ 4,201,179</u>	<u>13</u>	<u>\$ 3,016,545</u>	<u>12</u>

(Continued)

POWERCHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

SIX MONTHS ENDED JUNE 30, 2006 AND 2005

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

(Reviewed, Not Audited)

	2006		2005	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
CONSOLIDATED EARNINGS PER SHARE				
(Note 22)				
Basic	<u>\$ 0.82</u>	<u>\$ 0.76</u>	<u>\$ 0.54</u>	<u>\$ 0.59</u>
Diluted	<u>\$ 0.69</u>	<u>\$ 0.64</u>	<u>\$ 0.48</u>	<u>\$ 0.52</u>

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

(With Deloitte & Touche review report dated July 25, 2006)

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POWERCHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
SIX MONTHS ENDED JUNE 30, 2006 AND 2005
(In Thousands of New Taiwan Dollars, Except Per Share Amounts)
(Reviewed, Not Audited)

	Equity Attributable to Shareholders of the Parent										Others (Notes 2, 3, 11 and 13)			Minority Interest in Subsidiaries (Note 2)	Total Shareholders' Equity (Note 18)					
	Common Stock Issued		Stock Dividends and Bonuses for Distribution		Capital Surplus (Notes 2 and 17)				Retained Earnings			Unrealized Gains on Financial Assets	Unrealized Loss on Long-term Investments			Cumulative Translation Adjustments (Note 2)	Treasury Stock (Notes 2 and 19)	Total		
	Shares (Thousands)	Amount	Shares (Thousands)	Amount	Paid-in Capital In Excess of Par Value	From Long-term Investments	From Treasury Stock	From Conversion of Bonds	Total	Legal Reserve	Special Reserve	Unappropriated Earnings	Total							
BALANCE, JANUARY 1, 2006	5,590,144	\$ 55,901,444	-	\$ -	\$ 12,727,828	\$ 31,525	\$ 3,290	\$ 4,031,771	\$ 16,794,414	\$ 2,132,816	\$ 252	\$ 10,489,647	\$ 12,622,715	\$ -	\$ (1,078)	\$ (15,822)	\$ (1,630,647)	\$ 83,671,026	\$ 153,082	\$ 83,824,108
Effect of accounting changes	-	-	-	-	-	-	-	-	-	-	-	-	-	201,492	-	2,350	-	203,842	-	203,842
Appropriations of prior year's earnings	-	-	-	-	-	-	-	-	-	641,736	-	(641,736)	-	-	-	-	-	-	-	-
Legal reserve	-	-	-	-	-	-	-	-	-	-	-	-	641,736	-	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	-	-	-	31,314	-	(31,314)	-	-	-	-	-	-	-	-
Employees' profit sharing - cash	-	-	-	-	-	-	-	-	-	-	-	(287,215)	(287,215)	-	-	-	-	(287,215)	-	(287,215)
Employees' profit sharing - stock	-	-	28,721	287,215	-	-	-	-	-	-	-	(287,215)	(287,215)	-	-	-	-	-	-	(287,215)
Cash dividends - 5.2%	-	-	-	-	-	-	-	-	-	-	-	(3,042,429)	(3,042,429)	-	-	-	-	(3,042,429)	-	(3,042,429)
Stock dividends - 5.2%	-	-	304,243	3,042,429	-	-	-	-	-	-	-	(3,042,429)	(3,042,429)	-	-	-	-	-	-	(3,042,429)
Remuneration to directors and supervisors	-	-	-	-	-	-	-	-	-	-	-	(172,329)	(172,329)	-	-	-	-	(172,329)	-	(172,329)
Issuance of shares upon exercise of employee stock options	34,682	346,820	-	-	(3,861)	-	-	-	(3,861)	-	-	-	-	-	-	-	-	342,959	-	342,959
Issuance of capital stock, June 30, 2006 - \$18.82 per share	300,000	3,000,000	-	-	2,527,420	-	-	-	2,527,420	-	-	-	-	-	-	-	-	5,527,420	-	5,527,420
Adjustment for changes in shareholders' equities of equity-method investees	-	-	-	-	-	(7,420)	-	-	(7,420)	-	-	(7,489)	(7,489)	82,762	1,078	2,151	(33,141)	37,941	(10,389)	27,552
Valuation gain on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	-	-	-	-	73,859	-	-	-	73,859	1,222	75,081
Effect of changes in consolidated entities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	46,424	46,424
Increase in minority interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	42,427	42,427
Net income in the six months ended June 30, 2006	-	-	-	-	-	-	-	-	-	-	-	4,202,156	4,202,156	-	-	-	-	4,202,156	(977)	4,201,179
BALANCE, JUNE 30, 2006	<u>5,924,826</u>	<u>\$ 59,248,264</u>	<u>332,964</u>	<u>\$ 3,329,644</u>	<u>\$ 15,251,387</u>	<u>\$ 24,105</u>	<u>\$ 3,290</u>	<u>\$ 4,031,771</u>	<u>\$ 19,310,553</u>	<u>\$ 2,774,552</u>	<u>\$ 31,566</u>	<u>\$ 7,179,647</u>	<u>\$ 9,985,765</u>	<u>\$ 358,113</u>	<u>\$ -</u>	<u>\$ (11,321)</u>	<u>\$ (1,663,788)</u>	<u>\$ 90,557,230</u>	<u>\$ 231,789</u>	<u>\$ 90,789,019</u>
BALANCE, JANUARY 1, 2005	4,190,617	\$ 41,906,174	-	\$ -	\$ 9,791,333	\$ 8,187	\$ 39,866	\$ 3,357,777	\$ 13,197,163	\$ 1,308	\$ -	\$ 21,326,859	\$ 21,328,167	\$ -	\$ -	\$ (252)	\$ (988,576)	\$ 75,442,676	\$ 327,305	\$ 75,769,981
Appropriations of prior year's earnings	-	-	-	-	-	-	-	-	-	2,131,508	-	(2,131,508)	-	-	-	-	-	-	-	-
Legal reserve	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	-	-	-	-	-	(252)	(252)	-	-	-	-	-	-	-
Employees' profit sharing - cash	-	-	-	-	-	-	-	-	-	-	-	(639,837)	(639,837)	-	-	-	-	(639,837)	-	(639,837)
Employees' profit sharing - stock	127,967	1,279,673	-	-	-	-	-	-	-	-	-	(1,279,673)	(1,279,673)	-	-	-	-	-	-	(1,279,673)
Cash dividends - 10%	-	-	-	-	-	-	-	-	-	-	-	(4,167,245)	(4,167,245)	-	-	-	-	(4,167,245)	-	(4,167,245)
Stock dividends - 20%	833,449	8,334,490	-	-	-	-	-	-	-	-	-	(8,334,490)	(8,334,490)	-	-	-	-	-	-	(8,334,490)
Remuneration to directors and supervisors	-	-	-	-	-	-	-	-	-	-	-	(575,853)	(575,853)	-	-	-	-	(575,853)	-	(575,853)
Issuance of capital stock, June 24, 2005 - \$20 per share	300,000	3,000,000	-	-	2,989,200	-	-	-	2,989,200	-	-	-	-	-	-	-	-	5,989,200	-	5,989,200
Conversion of bonds into capital stock	28,792	287,917	-	-	-	-	-	235,668	235,668	-	-	-	-	-	-	-	-	523,585	-	523,585
Issuance of shares upon exercise of employee stock options	56,679	566,790	-	-	(26,318)	-	-	-	(26,318)	-	-	-	-	-	-	-	-	540,472	-	540,472
Sales of treasury stock - 7,321 thousand shares at \$24.9 per share	-	-	-	-	-	-	29,909	-	29,909	-	-	-	-	-	-	-	-	151,837	181,746	181,746
Retirement of treasury stock - 25,748 thousand shares	(25,748)	(257,480)	-	-	(60,128)	-	(69,775)	(20,921)	(150,824)	-	-	(125,710)	(125,710)	-	-	-	534,014	-	-	-
Adjustment for changes in shareholders' equities of equity-method investees	-	-	-	-	-	12,574	-	-	12,574	-	-	(9,568)	(9,568)	-	-	(8,728)	-	(5,722)	-	(5,722)
Cash dividend received by subsidiary from parent company	-	-	-	-	-	-	3,290	-	3,290	-	-	-	-	-	-	-	-	3,290	-	3,290
Translation adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,534)	(1,534)
Increase in minority interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	109	109
Net income in the six months ended June 30, 2005	-	-	-	-	-	-	-	-	-	-	-	3,021,346	3,021,346	-	-	-	-	3,021,346	(4,801)	3,016,545
BALANCE, JUNE 30, 2005	<u>5,511,756</u>	<u>\$ 55,117,564</u>	<u>-</u>	<u>\$ -</u>	<u>\$ 12,694,087</u>	<u>\$ 20,761</u>	<u>\$ 3,290</u>	<u>\$ 3,572,524</u>	<u>\$ 16,290,662</u>	<u>\$ 2,132,816</u>	<u>\$ 252</u>	<u>\$ 7,084,069</u>	<u>\$ 9,217,137</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (8,980)</u>	<u>\$ (302,725)</u>	<u>\$ 80,313,658</u>	<u>\$ 321,079</u>	<u>\$ 80,634,737</u>

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

(With Deloitte & Touche review report dated July 25, 2006)

POWERCHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS SIX MONTHS ENDED JUNE 30, 2006 AND 2005 (In Thousands of New Taiwan Dollars) (Reviewed, Not Audited)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income attributable to shareholders of the parent	\$ 4,202,156	\$ 3,021,346
Net loss attributable to minority interest	(977)	(4,801)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	9,905,091	7,119,879
Amortization	817,284	722,517
Unrealized intercompany profit	71,168	2,886
Valuation gains on financial assets	(326,951)	(25,799)
Valuation losses on financial liabilities	196,682	-
Foreign exchange loss on financial assets	278	-
Amortization of discount on held-to-maturity financial assets	-	(212)
Provision (reversal of allowance) for doubtful accounts	38,569	(1,410)
Provision for sales discounts	-	10,000
Provision for losses on inventories and spare parts	47,263	82,675
Equity in losses (earnings) of equity-method investees, net	(21,059)	21,679
Impairment loss on financial assets	50,398	38,988
Cash dividends from long-term investments under the equity method	61,002	50,204
Gain on disposal of financial instruments, net	(145,040)	(455,513)
Loss (gain) on disposal of properties, net	(30,185)	15,946
Deferred income tax expense (benefit)	216,582	(259,445)
Amortization of discount on commercial paper issued	1,377	1,720
Foreign exchange gain on convertible bonds payable	(172,843)	(96,151)
Foreign exchange loss on long-term bank loans	-	47,520
Issuance costs of early redemption convertible bonds payable	1	-
Issuance costs of convertible bonds allocated to financial liabilities at fair value through profit or loss	27,403	-
Net changes in operating assets and liabilities		
Held-for-trading financial assets	(979,952)	(1,005,126)
Notes and accounts receivable	(3,543,821)	16,604
Other receivables	183,751	47,197
Inventories	(780,235)	(677,742)
Prepaid expenses	(67,398)	44,650
Other current assets	(49,998)	(8,352)
Held-for-trading financial liabilities	63,844	(2,549)
Accounts payable	1,323,662	499,323
Income tax payable	164,031	-
Accrued expenses	252,454	(511,500)
Other current liabilities	(42,615)	128,652
Accrued pension cost	519	17,008
Net cash provided by operating activities	<u>11,462,441</u>	<u>8,840,194</u>

(Continued)

POWERCHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS SIX MONTHS ENDED JUNE 30, 2006 AND 2005 (In Thousands of New Taiwan Dollars) (Reviewed, Not Audited)

	2006	2005
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of:		
Available-for-sale financial assets	\$ (48,285)	\$ (58,400)
Held-to-maturity financial assets	(75,000)	(145,000)
Equity-method investments	(622,059)	(469,263)
Financial assets carried at cost	(475,979)	(141,179)
Properties	(20,801,660)	(22,521,103)
Deferred charges	(343,028)	(741,309)
Proceeds from disposal of:		
Available-for-sale financial assets	26,561	428,484
Held-to-maturity financial assets	75,000	130,000
Equity-method investments	33,499	8,689
Financial assets carried at cost	8,973	81
Properties	42,462	198,809
Decrease in restricted deposits	361,940	629,116
Decrease (increase) in spare parts	1,202	(1,813)
Increase in refundable deposits	(4,240)	(5,413)
Increase in other assets	(48,758)	(22,976)
	<u>(21,869,372)</u>	<u>(22,711,277)</u>
Net cash used in investing activities		
	<u>(21,869,372)</u>	<u>(22,711,277)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in short-term bank loans	(773,534)	-
Proceeds from		
Issuance of convertible bonds	5,142,381	15,098,080
Long-term bank loans	12,250,000	5,000,000
Issuance of capital stocks	5,527,420	5,989,200
Exercise of employee stock options	342,959	540,472
Sales of treasury stock	-	181,746
Repayments of long-term bank loans	(5,929,351)	(2,214,405)
Redemption of convertible bonds	(6,522)	-
Decrease in capital lease obligation	-	(82,555)
Increase in guarantee deposits	243	291
Cash bonus to employees	-	(639,837)
Cash dividends paid for common stock	-	(4,163,955)
Remuneration paid to directors and supervisors	(172,329)	(575,853)
Increase in minority interest in subsidiaries	42,427	-
	<u>16,423,694</u>	<u>19,133,184</u>
Net cash provided by financing activities		
	<u>16,423,694</u>	<u>19,133,184</u>
EFFECT OF EXCHANGE RATE CHANGES	<u>760</u>	<u>(643)</u>
EFFECT OF CHANGES IN CONSOLIDATED ENTITIES	<u>1,870</u>	<u>-</u>

(Continued)

POWERCHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS SIX MONTHS ENDED JUNE 30, 2006 AND 2005 (In Thousands of New Taiwan Dollars) (Reviewed, Not Audited)

	2006	2005
NET INCREASE IN CASH AND CASH EQUIVALENTS	\$ 6,019,393	\$ 5,261,458
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>36,057,196</u>	<u>35,671,609</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 42,076,589</u>	<u>\$ 40,933,067</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Income tax paid	<u>\$ 35,983</u>	<u>\$ 25,400</u>
Interest paid (excluding amounts capitalized of \$96,405 thousand in 2006 and \$108,603 thousand in 2005)	<u>\$ 401,228</u>	<u>\$ 252,943</u>
Noncash investing and financing activities		
Transfer of financial assets carried at cost to available-for-sale financial assets	<u>\$ 320,592</u>	<u>\$ -</u>
Reclassification of deferred charges into properties	<u>\$ 1,336</u>	<u>\$ -</u>
Current portion of long-term liabilities	<u>\$ 6,606,667</u>	<u>\$ 5,539,222</u>
Cash dividend payable	<u>\$ 3,042,429</u>	<u>\$ -</u>
Employees' cash bonus payable	<u>\$ 287,215</u>	<u>\$ -</u>
Treasury stock - parent's stock held by its subsidiaries	<u>\$ 33,141</u>	<u>\$ -</u>
Reclassification of properties into deferred charges	<u>\$ -</u>	<u>\$ 935</u>
Conversion of bonds	<u>\$ -</u>	<u>\$ 523,585</u>
Cash paid for acquisition of properties		
Total acquisition	\$ 27,749,415	\$ 25,065,857
Payable, end of period	(20,678,882)	(17,261,020)
Payable, beginning of period	<u>13,731,127</u>	<u>14,716,266</u>
	<u>\$ 20,801,660</u>	<u>\$ 22,521,103</u>

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

(With Deloitte & Touche review report dated July 25, 2006)

(Concluded)

POWERCHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SIX MONTHS ENDED JUNE 30, 2006 and 2005

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

(Reviewed, Not Audited)

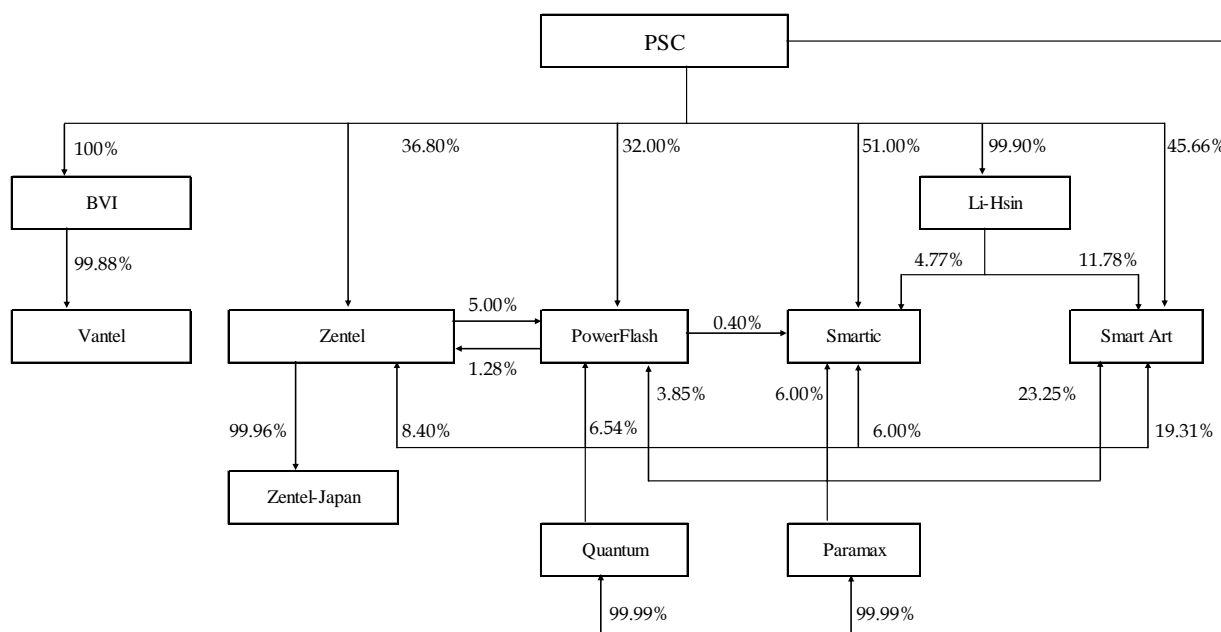
1. ORGANIZATION AND OPERATIONS

Powerchip Semiconductor Corporation (PSC) was incorporated on December 20, 1994. Its common shares have been traded on the Taiwan GreTai Securities Market (formerly the Over-the-Counter Securities Exchange) since March 23, 1998. PSC also issued Global Depository Shares (GDS), which are listed on the Luxembourg Stock Exchange, accepted for quotation on the International Order Book of the London Stock Exchange and eligible for trading as private offerings, resale and trading through automated inter-market trading linkages of the NASDAQ Stock Market, Inc.

PSC's business activities mainly include research and development, manufacturing (including on subcontracting), testing, assembling and selling various integrated circuit products.

PSC has 10 consolidated subsidiaries: two 99.99% subsidiaries, Quantum Vision Corp. ("Quantum") and Paramax Corp. ("Paramax"), a 99.90% subsidiary, Li-Hsin Investment Corp. ("Li-Hsin"), a 36.80% subsidiary, Zentel Electronics Corp. ("Zentel"), a 32.00% subsidiary, PowerFlash Semiconductor Corp. ("PowerFlash"), a 45.66% subsidiary, Smart Art Corp. ("Smart Art"), a 51.00% subsidiary, Smartic Technology Inc. ("Smartic"), a wholly-owned subsidiaries, Global Powertec Co., Ltd. (BVI), a subsidiary of Zentel, Zentel Japan Corporation ("Zentel-Japan"), and a subsidiary of BVI, Vantel Corp. ("Vantel").

The following diagram shows the relationship and ownership percentages between PSC and its subsidiaries (hereinafter collectively referred to as the "Group") as of June 30, 2006:



Smartic, Zentel, PowerFlash, Zentel-Japan and Vantel research, develop, design and sell various integrated circuit products. Quantum, Paramax, Li-Hsin and BVI engage in investments and Smart Art sells artwork.

As of June 30, 2006 and 2005, the Group had 5,613 and 4,424 employees, respectively.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements have been prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China (ROC). Under these guidelines and principles, PSC and the subsidiaries should make certain estimates and assumptions, which could affect the amounts of allowance for doubtful accounts; allowance for sales discounts; allowance for loss on inventories and spare parts; depreciation of properties; amortization of deferred charges; and pension expenses. Actual results could differ from these estimates.

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

Significant accounting policies are summarized as follows:

Consolidation

Effective January 1, 2005, the Group adopted the revised Statement of Financial Accounting Standards No. 7 - "Consolidated Financial Statements." As a result, the consolidated financial statements as of and for the six months ended June 30, 2006 and 2005 include the accounts of PSC and all its direct and indirect subsidiaries as well as others investees over which the Group has controlling interests. All significant intercompany balances and transactions have been eliminated in the consolidation.

The consolidated entities as of June 30, 2006 and 2005 were as follows:

Investor	Investee	% of Ownership as of June 30, 2006	% of Ownership as of June 30, 2005	Remark
PSC	Paramax	99.99	99.99	-
	Quantum	99.99	99.99	-
	Li-Hsin	99.90	99.87	-
	BVI	100.00	-	BVI was established in April, 2006.
	Smartic	51.00	25.00	Starting from 2006, Smartic became a consolidated entity of PSC as PSC subscribed to the shares for capital increase of Smartic during six months ended June 30, 2006, resulting in a joint ownership of 51.00%.
	Zentel	36.80	36.80	The president of Zentel was assigned by PSC. Thus, PSC has control over the operation of Zentel.
	PowerFlash	32.00	32.00	The Group had five of the nine board of director's seats of PowerFlash Board. In addition, the president of PowerFlash was assigned by PSC. Thus, PSC had control over the operations of PowerFlash.

(Continued)

Investor	Investee	% of Ownership as of June 30, 2006	% of Ownership as of June 30, 2005	Remark
	Smart Art	45.66	-	The Group wholly owned Smart Art, i.e., PSC held 45.66% of Smart Art and Li-Hsin, Quantum and Paramax jointly held 54.34%.
	Syntronix	20.44	47.04	Under non-recurring engineering (NRE) agreements with Syntronix in November 2003, PSC had control over the operations of Syntronix. But on the amendment of the NRE agreements, PSC lost its control over Syntronix in December 2005. Thus, Syntronix ceased to be a consolidated entity.
Zentel	Zentel-Japan	99.96	99.92	-
BVI	Vantel	99.88	-	-

PSC and the foregoing subsidiaries are hereinafter referred to collectively as the “Group.”

Minority interest in subsidiaries is presented under minority interest in subsidiaries in the consolidated financial statements.

Current/Noncurrent Assets and Liabilities

Current assets are unrestricted cash and cash equivalents, assets primarily for the purpose of being traded and other assets to be converted to cash, consumed or sold within one year from the balance sheet date. Current liabilities are those to be settled within one year from the balance sheet date and those primarily for the purpose of being traded. Assets and liabilities that are not classified as current are noncurrent assets and liabilities, respectively.

Cash Equivalents

Commercial paper and bonds under repurchase agreements, acquired with maturities of three months or less from the date of purchase, are classified as cash equivalents. Their carrying amount approximates fair value.

Financial Assets/Liabilities at Fair Value Through Profit or Loss

Financial instruments at fair value through profit or loss have two categories: (1) held for trading and (2) designated on initial recognition as at fair value through profit or loss. These financial instruments, except derivatives, are initially recognized at fair value plus transaction costs that are directly attributable to the instrument acquisition; others are initially recognized at fair value with transaction cost expenses as incurred. When fair value subsequently measured, the changes in fair value are recognized as earnings. Cash dividends received, including the amount received in the same year that the related investments are acquired, are recognized as income. A regular way purchase or sale of financial assets is recognized and derecognized using trade date accounting.

Derivatives that do not meet the criteria for hedge accounting are treated as financial assets or liabilities held for trading. When the fair value is a positive amount, the derivative is treated as a financial asset; when the fair value is a negative amount, the derivative is treated as a financial liability.

The fair values of listed stock, convertible bonds and close-end mutual funds are the closing price as of the balance sheet date; open-end mutual funds are based on their net asset value at the balance sheet date. For those instruments without quoted market prices in an active market, the fair value is based on valuation techniques incorporating estimates and assumptions that are consistent with prevailing market conditions.

Hybrid instruments are designated at fair value through profit or loss.

Available-for-Sale Financial Assets

Investments classified as available-for-sale financial assets are initially recognized at fair value plus transaction costs that are directly attributed to investment acquisition. When fair value subsequently measured, the changes in fair value are reported as a separate component of shareholders' equity. The accumulated gains or losses are recognized when the financial asset is derecognized from the balance sheet. A regular way purchase or sale of financial assets is recognized and derecognized using trade date accounting.

The fair values of listed stock, convertible bonds and close-end mutual funds are the closing price as of the balance sheet date; open-end mutual funds are based on their net asset value at the balance sheet date.

Cash dividends are recognized as investment income upon resolution of the shareholders of an investee but are accounted for as reductions of the original investment cost if these dividends are declared on the earnings of the investees attributable to periods before the purchase of the investments. Stock dividends received are recorded as an increase in the number of shares held and do not affect investment income. The cost per share is recalculated on the basis of the new number of shares after the receipt of stock dividends.

If there is objective evidence that a financial asset (equity security) is impaired as of the balance sheet date, a loss is recognized. If the impairment loss decreases, the impairment loss is reversed to the extent of the decrease and recorded as an adjustment to shareholders' equity.

Allowance for Doubtful Accounts

Allowance for doubtful accounts is provided on the basis of the aging of receivables and periodic review of the collectibility of receivables.

Inventories

Inventories are stated at the lower of aggregate costs or market value. Materials and supplies of PSC are recorded at actual cost; finished goods and work in process of PSC are recorded at standard cost and adjusted to the approximate weighted-average cost at the end of each period, and others are recorded at weighted-average cost. Market value is the net realizable value of merchandise, finished goods and work in process and replacement value of raw materials and supplies. Estimated losses on scrap and slow-moving items are recognized and included in the allowance for losses.

Held-to-Maturity Financial Assets

Debt securities for which the Group has a positive intent and ability to hold to maturity are categorized as held-to-maturity financial assets and are carried at the amortized cost using the straight-line method. Those financial assets are initially recognized at fair value plus transaction costs that are directly attributed to the acquisition. Gains or losses are recognized at the time of derecognition, impairment or amortization. A regular way purchase or sale of financial assets is recognized and derecognized using trade date accounting.

If there is objective evidence of financial asset impairment, a loss is recognized. If the impairment loss decreases and the decrease is clearly attributable to an event that occurred after the impairment loss was recognized, the previously recognized impairment loss is reversed to the extent of the decrease. However, the increased carrying amount of an asset due to reversal of impairment loss should not exceed the carrying amount that would have been determined (the amortized cost) had no impairment loss been recognized for the asset.

Financial Assets Carried at Cost

Investments without quoted market prices in an active market and whose fair value cannot be reliably measured, such as nonpublicly traded stocks, are carried at their original cost. The accounting treatment for cash and stock dividend arising from financial assets carried at cost is the same as that for available-for-sale financial assets.

If there is objective evidence of financial asset impairment, a loss is recognized. No recording of a subsequent recovery of fair value is allowed.

Equity-method Investments

Stock investments in which the Group exercises significant influence on investees' operating and financial decisions are accounted for by the equity method.

The difference between the investment cost and the Group's equity in the investee's net assets on the acquisition date was previously amortized using the straight-line method over 5 years. However, based on the revised Statement of Financial Accounting Standards No. 5 - "Long-term Investments in Equity Securities," effective January 1, 2006, investment premium, representing goodwill based on analysis of the acquisition cost, is no longer required to be amortized. In addition, goodwill should be assessed for impairment annually or whenever an event or circumstances would result in the goodwill reduction. Further, the unamortized differences of the investments, acquired before January 1, 2006, are treated in the same way as goodwill.

Stock dividends received are recorded as an increase in the number of shares held on the ex-dividend date and do not affect investment income or the carrying amount of the investment. Cash dividends are accounted for as a reduction of carrying value of the investment.

If an investee is identified as significantly impaired, the carrying amount of the investment in excess of its recoverable amount is recognized as impairment loss. For those investees over which the Group exercises significant influence on their operating and financial decisions, the assessment of impairment is based on carrying value.

If an investee issues additional shares and the Group subscribes for these shares at a percentage different from its current equity in the investee, the resulting difference in the Group's equity in the investee's net assets is recorded as an adjustment to capital surplus as well as to the long-term investments accounts. Any decrease in the Group's equity in the investee's net assets is debited to capital surplus. If capital surplus from long-term investments is not enough for debiting purposes, the debit is made against unappropriated retained earnings.

Gains or losses on sales by the PSC to equity-method investees that are not majority owned are deferred in proportion to PSC's equity interest in the investees at period-end.

Gains or losses on sales generated from equity method investees to PSC are deferred in proportion to PSC's equivalent equity interest in the investees.

Gains or losses from sales among all equity-method investees are deferred in proportion to the product of PSC's equity in one investee multiplied by its equity in the other investee.

All of the above deferred gains and losses are realized upon the sale of the related products to third parties.

Properties and Assets Leased to Others

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

Depreciation is calculated using the straight-line method over service lives which are initially estimated as follows: buildings, 3 to 20 years; machinery and equipment, 2 to 5 years; research and development equipment, 2 to 5 years; facility equipment, 3 to 15 years; leasehold improvement, 5 years; transportation equipment, 5 years; office equipment, 3 to 5 years; equipment under capital lease, 5 years; miscellaneous equipment, 2 to 5 years; and assets leased to others, 10 to 20 years. Properties and assets leased to others still in use beyond their initially estimated service lives are further depreciated over the newly estimated service lives.

If significant asset impairment is determined on the balance sheet date, the carrying amount of an asset in excess of its recoverable amount is recognized as a loss. If the recoverable amount increases, the impairment loss reversal is recognized as a gain. However, the increased carrying amount of an asset due to impairment loss reversal should not exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognized for the asset in prior years.

Upon sale or other disposal of properties and assets leased to others, the related cost and accumulated depreciation are removed from the accounts, and any gain or loss is credited or charged to current income.

Properties covered by agreements qualifying as capital leases are carried at the lower of (a) the market value of the leased equipment at the start of the lease or (b) the present value of the future minimum lease payments plus the bargain purchase price. Depreciation is calculated over the useful lives of the leased equipment. The effective interest method is used to allocate each lease payment between principal and interest expense. The difference between the proceeds and the book value of the leaseback assets is recorded as unrealized loss on sale-leaseback and is amortized over the service life of the leased equipment as depreciation expense.

Deferred Charges

Issuance costs of convertible bonds, except those of bonds issued on or after January 1, 2006, are amortized from the issuance date to the expiration date of the redemption period. For those bonds issued on or after January 1, 2006, issuance costs are allocated to all components, using their relative fair value, pursuant to the recently released Statements of Financial Accounting Standards.

Deferred charges are amortized using the straight-line method over the following periods: technical know-how, contract period; computer software system - 2 to 5 years; test-run costs and patents - 5 years; and others - 2 to 5 years.

If significant asset impairment is determined on the balance sheet date, the carrying amount of an asset in excess of its recoverable amount is recognized as loss. If the recoverable amount increases, the impairment loss reversal is recognized as gain. However, the increased carrying amount of an asset due to impairment loss reversal should not exceed the carrying amount that would have been determined (net of amortization) had no impairment loss been recognized for the assets in prior years.

Convertible Bonds

The Group records total proceeds from the issuance of convertible bonds, issued before December 31, 2005, solely as a liability. In addition, the capital stock account is credited with the par value of PSC's common shares into which bonds are converted. The carrying values of the bonds and other assets and liabilities related to these convertible bonds as of the conversion date in excess of the amounts credited to the capital stock account are credited to the capital surplus account. When the bondholder exercises the put option, the difference between the payment and the book value of the bonds and other assets and liabilities related to these convertible bonds is credited or charged to current income.

For convertible bonds issued on or after January 1, 2006, the carrying values of the host contract are recorded in total proceeds from the issuance less the (1) fair values of embedded derivatives and (2) issuance costs of bond payable under the initially relative recognized amount. When the fair value of the bonds is subsequently measured at amortized cost using the effective rate method, the related interest expense or redemption gain is recognized as loss or earnings. When the bondholder exercises the conversion before bond maturity, the adjusted carrying value of the debt components (bonds and embedded derivatives included) is credited to a capital stock accounts. For bonds, it is accounted for by the interest method until the day before conversion date; for embedded derivatives, it is the fair value of the day before conversion date.

Employee Stock Options

Compensatory employee stock option plans that are granted or amended on or after January 1, 2004 must be accounted for in accordance with the interpretations issued by the Accounting Research and Development Foundation of the Republic of China. The Group uses the intrinsic value method to evaluate the compensation cost of employee stock options and charges any compensation cost to expense over the employee vesting period specified in the stock option plans.

Treasury Stock

The reacquisition of issued stock is accounted for by the cost method. Under this method, the reacquisition cost is debited to the treasury stock account. Treasury stock is shown as a deduction to arrive at shareholders' equity. If treasury shares are reissued at a price in excess of the acquisition cost, the excess is credited to paid-in capital from treasury stock. If the treasury shares are reissued at less than acquisition cost, the deficiency is treated first as a reduction of any paid-in capital related to previous reissuances. If the balance in paid-in capital from treasury stock is insufficient to absorb the deficiency, the remainder is recorded as a reduction of retained earnings.

When the treasury shares are retired, the capital stock and paid-in capital based on the existing equity are debited. If the treasury shares are retired at a price lower than its par value and paid-in capital, the deficiency is credited to paid-in capital from treasury stock. If the treasury shares are retired at a price in excess of its par value and paid-in capital, the excess is debited to paid-in capital from treasury stock. If the balance in paid-in capital from treasury stock is insufficient to absorb the deficiency, the remainder is recorded as a reduction of retained earnings.

PSC accounts for its stock held by its subsidiaries as treasury stock. The recorded cost of these treasury shares are based on the carrying value of the investments as shown in the subsidiaries' book as of January 1, 2002, or the date later than January 1, 2002, the investees starting to be the subsidiaries.

Revenue Recognition and Allowance for Sales Discounts

Sales are recognized when titles to products are transferred to customers, primarily upon shipment, since the major part of the earnings process is completed and revenue is realized or realizable. The Group does not recognize sales on transactions involving the delivery of materials to subcontractors since the ownership over the materials is not transferred. Allowance for sales discounts is estimated on the basis of any known factors that would affect the allowance and are deducted from sales in the period the products are sold.

Sales are determined using the fair value agreed on by the Group and customer. Since the receivables from sales are collectible within one year and sales transactions are frequent, the fair value of receivables is equivalent to the nominal amount of cash to be received.

Capitalized and Other Expenditures

Expenditures of \$60 thousand or more that will benefit periods of more than two years are capitalized. Other expenditures are recorded as expenses or losses.

Pension Costs

The Group has two types of pension plans: defined contribution and defined benefit.

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

Income Tax

The Group applies intra-period and inter-period allocation for its income tax, as follows: (1) a portion of current period income tax expense is allocated to the cumulated effect of changes in accounting principles; and (2) deferred income tax assets and liabilities are recognized for the tax effects of temporary difference, unused tax credits and operating loss carryforwards. Valuation allowance is provided for deferred income tax assets that are not certain to be realized. A deferred tax asset or liability is classified as current or noncurrent according to the classification of the related asset or liability for financial reporting. But if a deferred asset or liability cannot be related to an asset or liability in the financial statements, it is classified as current or noncurrent on the basis of the expected reversal date of the temporary difference.

Tax credits for certain purchases of machinery, equipment and technology, research and development expenditures, personnel training and investments in important technology-based enterprise are recognized by the flow-through method.

Adjustments of prior years' accrued tax are added to or deducted from the current year's tax expense.

Income taxes (10%) on undistributed earnings generated since January 1, 1998 are recorded as expenses in the year when the shareholders resolve to retain the earnings.

Foreign-currency Transactions

Foreign-currency transactions, except derivative transactions, are recorded in New Taiwan Dollars at the rates of exchange in effect when the transactions occur. Exchange gains or losses derived from foreign-currency transactions or monetary assets and liabilities denominated in foreign currencies are recognized as current income. On the balance sheet date, the balances of nonmonetary assets and liabilities, except those carried at cost be valued at the historical rate of the trade date, are restated at prevailing exchange rates, and the resulting differences are recorded as follows:

- a. Financial instruments at fair value through shareholders' equity - as an adjustment component under shareholders' equity;
- b. Financial instruments at fair value through profit or loss - credits or charges to current income; and
- c. Long-term investments accounted for by the equity method - as cumulative translation adjustments under shareholders' equity.

Translation of Foreign-currency Financial Statements

ROC SFAS No. 14, "Accounting for Foreign-currency Translation," applies to foreign subsidiaries that use the local currency as their functional currency. The financial statements of foreign subsidiaries are translated into New Taiwan dollars at the following exchange rates: Assets and liabilities - current rate on the balance sheet date; shareholders' equity - historical rates; income and expenses - average rate during the period. The resulting translation adjustments are recorded as a separate component under shareholders' equity.

Reclassification

Certain accounts in the financial statements as of and for the six months ended June 30, 2005 have been reclassified to be consist with the financial statements as of and for the six months ended June 30, 2006.

3. ACCOUNTING CHANGES

On January 1, 2006, the Group adopted the recently released Statements of Financial Accounting Standards ("Statements" or SFAS) No. 34 - "Accounting for Financial Instruments" and SFAS No. 36 - "Disclosure and Presentation for Financial Instruments" and related revisions of other previously released Statements.

- a. Effect of adopting the SFAS Nos. 34 and 36 and related revisions of other previously released Statements

Under the Group's adoption of SFAS Nos. 34 and 36, its financial assets and liabilities, including derivatives, were categorized in accordance with these Statements. In addition, the adjustments made to the carrying amounts of the financial instruments categorized as financial instruments at fair value through profit or loss were included in the cumulative effect of changes in accounting principles. On the other hand, the adjustments made to the carrying amounts of those categorized as available-for-sale financial assets were recognized as adjustments to shareholders' equity.

Furthermore, the adjustments made to the foreign-currency equity instruments, previously accounted for by the cost method and categorized as financial assets carried at cost, were revaluated at the historical rate of the trade date, which resulted in the reversal of cumulative translation adjustments under shareholders' equity.

PSC's effects of adopting the recently released SFAS Nos. 34 and 36 are summarized as follows:

	Recognized as Cumulative Effect of Changes in Accounting Principles (Net of Tax)	Recognized as a Separate Component of Shareholders' Equity (Net of Tax)
Financial assets at fair value through profit or loss - current	\$ 80,803	\$ 1,706
Available-for-sale financial assets - current	-	201,492
Financial assets carried at cost - noncurrent	-	644
Financial liabilities at fair value through profit or loss - current	<u>(47,883)</u>	<u>-</u>
	<u>\$ 32,920</u>	<u>\$ 203,842</u>

The accounting changes resulted in an increase of \$32,920 thousand in PSC's net income, and an increase of \$0.01 in PSC's basic and diluted earnings per share (after income tax) for the six months ended June 30, 2006.

b. Reclassifications

Based on the interpretation issued by the Accounting Research and Development Foundation of the Republic of China, certain accounts in the financial statements as of and for the six months ended June 30, 2005 were reclassified to be consistent with the financial statements as of and for the six months ended June 30, 2006. The previously issued financial statements as of and for the six months ended June 30, 2005 need not be restated but should include disclosures of the changes in valuation method for the same accounts.

Certain accounting principles applied before the adoption of SFAS Nos. 34 and 36 are summarized as follows:

1) Short-term investments

Short-term investments are mainly listed stocks, convertible bonds and mutual funds. These investments are carried at the lower of aggregate costs or market value. Cash dividends received are recognized as investment income in the year received but are accounted for as reductions of the carrying amount of the short-term investments if the dividends are received in the same year that the related investments are acquired.

An allowance for decline in value is provided when the aggregate carrying value of the investments exceeds the total market value. Any recovery of market value to the extent of the original carrying value is recognized as income.

The market values of listed stocks, convertible bonds and closed-end mutual funds are the average closing prices in the last month of the accounting period.

2) Long-term investments

Investments in companies in which the Group does not exercise significant influence over the investees are accounted for by the cost method.

Any reclassification of a long-term investment in listed stocks into a short-term investment is made at the lower of cost or market value on the date of transfer. If the market price at the time of reclassification is lower than the book value, loss should be recognized and the market price should be used as the new cost basis.

3) Foreign-currency investment accounted for by the cost method

At period-end, the balances of the foreign-currency investments are remeasured at prevailing exchange rates. If the translated New Taiwan dollar amount are lower than cost, the differences are recorded as cumulative translation adjustments under shareholders' equity; if higher, no adjustment is made.

4) Derivative financial instruments

Forward exchange contracts, which are used for hedging purposes, are recorded at spot rates on the contract starting dates. The foreign-currency amount of each contract multiplied by the difference between the spot rate on the contract starting date and the contracted forward rate is amortized over the contract period. On the balance sheet dates, the gains or losses on the contracts are computed by multiplying the foreign-currency amounts of the contracts by the difference between the spot rates on the contract starting dates and the balance sheet date rates and are credited or charged to income.

The receivables or payables on forward contracts open as of the balance sheet date are translated at prevailing exchange rates and are netted out. The net contract receivable or payable is presented as an asset or a liability in the balance sheet.

The notional amounts of the currency option contracts, which are entered into for hedging purposes, are not recognized as either assets or liabilities on the contract dates. Any resulting gain or loss upon settlement is credited or charged to income in the year of settlement. The premiums paid or received for the call or put options are amortized using the straight-line method over the terms of the contracts.

Interest rate swap (IRS) contracts, which are used for nontrading purposes, are recorded through memorandum entries on the contract dates since there is no exchange of notional principals. The receivable or payable on a contract on each settlement date or the balance sheet date is recorded as adjustment to the interest income or expenses associated with the hedged item.

Certain accounts in the consolidated financial statements as of and for the six months ended June 30, 2005 have been reclassified to be consistent with the classifications prescribed under SFAS Nos. 34 and 36. The reclassifications of the entire balances or a part of the balances of certain accounts are summarized as follows:

	Before Reclassification	After Reclassification
<u>Balance Sheet</u>		
Short-term investment, net	\$ 2,838,657	\$ -
Other receivables	21,489	-
Long-term investment accounted for by the cost method	1,264,485	-
Long-term bonds investments	516,000	-
Accrued expenses	(1,395)	-
Financial assets at fair value through profit or loss - current	-	2,857,747
Available-for-sale financial assets - current	-	175,483
Held-to-maturity financial assets (including current and noncurrent portion)	-	516,000
Financial assets carried at cost - noncurrent	-	1,091,401
Financial liabilities at fair value through profit or loss - current	-	(1,395)
	<u>\$ 4,639,236</u>	<u>\$ 4,639,236</u>
<u>Statement of Income</u>		
Gain on disposal of investments	\$ 499,256	\$ -
Reversal of allowance for decline in value of short-term investments	210,461	-
Foreign exchange loss, net	(228,405)	-
Valuation gains on financial assets	-	25,799
Gain on disposal of financial instruments	-	455,513
	<u>\$ 481,312</u>	<u>\$ 481,312</u>

Effective January 1, 2006, the Group adopted the recently revised SFAS No. 1 - "Conceptual Framework for Financial Accounting and Preparation of Financial Statements," SFAS No. 5 - "Long-term Investment in Equity Securities" and SFAS No. 25 - "Business Combinations - Accounting Treatment under Purchase Method." The amendments of these Statements include the following: (1) goodwill is no longer amortized but it should be assessed for impairment, and (2) investment premiums, representing goodwill based on analysis of the acquisition costs, should be assessed for impairment instead of being amortized. The adoption of these revised Statements had no impact on net income for the six months ended June 30, 2006.

4. CASH AND CASH EQUIVALENTS

	<u>June 30</u>	
	<u>2006</u>	<u>2005</u>
Time deposits	\$ 20,438,644	\$ 22,707,871
Demand deposits	13,283,251	16,694,664
Bonds purchased under resell agreements	7,547,797	13,740
Checking accounts	806,665	18,525
Cash on hand	232	675
Commercial paper purchased	<u>-</u>	<u>1,497,592</u>
	<u>\$ 42,076,589</u>	<u>\$ 40,933,067</u>

PSC's overseas bank deposits as of June 30, 2006 and 2005 are summarized as follows:

	<u>June 30</u>	
	<u>2006</u>	<u>2005</u>
Japan - JPY343,144 thousand in 2006 and JPY188,914 thousand in 2005	\$ 96,938	\$ 54,162
Hong Kong - US\$6 thousand and HK\$22,577 thousand	94,346	-
Luxembourg - US\$2,709 thousand in 2006 and US\$2,610 thousand in 2005	87,774	82,517
Singapore - US\$46 thousand, JPY54,640 thousand and HK\$1,249 thousand	<u>22,133</u>	<u>-</u>
	<u>\$ 301,191</u>	<u>\$ 136,679</u>

5. FINANCIAL INSTRUMENT AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>June 30</u>	
	<u>2006</u>	<u>2005</u>
Financial assets held-for-trading	\$ 5,322,243	\$ 2,857,747
Financial assets designated at fair value through profit or loss	<u>61,021</u>	<u>-</u>
	<u>\$ 5,383,264</u>	<u>\$ 2,857,747</u>
Financial liabilities held-for-trading	<u>\$ 1,784,516</u>	<u>\$ 1,395</u>

Financial instruments held for trading as of June 30, 2006 and 2005 are summarized as follows:

	<u>June 30</u>	
	<u>2006</u>	<u>2005</u>
Financial assets		
Domestic listed stocks	\$ 3,376,628	\$ 1,942,234
Foreign listed stocks - US\$778 thousand and JPY1,867,800 thousand in 2006; US\$1,241 thousand and JPY429,902 thousand in 2005	552,798	162,431
Mutual funds	1,392,817	721,632
Convertible bonds	-	9,961
Forward exchange contracts	<u>-</u>	<u>21,489</u>
	<u>\$ 5,322,243</u>	<u>\$ 2,857,747</u>

(Continued)

	June 30	
	2006	2005
Financial liabilities		
Interest rate swap contracts	\$ 101,531	\$ 1,395
Debt components of convertible bonds		
Conversion option (Note 14)	1,554,322	-
Put option (Note 14)	<u>128,663</u>	<u>-</u>
	<u>\$ 1,784,516</u>	<u>\$ 1,395</u>

The domestic listed stocks above with carrying amount of \$19,856 thousand as of June 30, 2005 had been placed in the Centralized Securities Depository Enterprise for those investee companies that are applying for the first-time listing on the stock exchange or OTC exchange.

The Group used forward exchange contracts and interest rate swap contracts in the six months ended June 30, 2006 and 2005 to manage exposures related to fluctuations of foreign exchange rate and interest rate. The purpose of such transactions, which did not meet the criteria for hedge accounting prescribed in SFAS No. 34, is to hedge market risks and cash flow risks.

As of June 30, 2006, all forward exchange contracts had expired. Outstanding forward exchange contracts as of June 30, 2006 were as follows:

Items	Currency	Maturity	Contract Amount (in Thousands)
<u>June 30, 2005</u>			
Buy US\$	NT\$ vs. US\$	July 5, 2005 - September 30, 2005	NT\$11,257,845/US\$360,000
Buy JPY	US\$ vs. JPY	July 7, 2005 - August 25, 2005	US\$133,438/JPY14,408,924
Buy EUR	US\$ vs. EUR	August 31, 2005 - September 15, 2005	US\$7,261/EUR6,000

Outstanding interest rate swap contracts as of June 30, 2006 and 2005 were as follows:

Contract Amount (in Thousands)	Period	Interest Payment Rates	Interest Income Rates
<u>June 30, 2006</u>			
\$ 600,000	May 31, 2004 - March 24, 2009	1.70%-5.46%	1.46%-1.59%
600,000	June 1, 2004 - March 24, 2009	1.85%	1.46%-1.59%
600,000	June 3, 2004 - March 24, 2009	1.60%-5.46%	1.46%-1.59%
600,000	June 16, 2004 - March 24, 2009	3.32%-4.26%	1.46%-1.59%
200,000	July 2, 2004 - May 20, 2007	1.50%-5.19%	1.45%-1.57%
200,000	July 2, 2004 - May 20, 2007	3.32%-4.14%	1.45%-1.57%
200,000	July 2, 2004 - May 20, 2007	3.32%-4.14%	1.45%-1.57%

(Continued)

Contract Amount (in Thousands)	Period	Interest Payment Rates	Interest Income Rates
<u>June 30, 2005</u>			
\$ 800,000	May 31, 2004 - March 24, 2009	1.70%	1.19%-1.29%
800,000	May 31, 2004 - March 24, 2009	1.45%-2.38%	1.19%-1.29%
800,000	June 1, 2004 - March 24, 2009	1.85%	1.19%-1.29%
800,000	June 3, 2004 - March 24, 2009	1.60%	1.19%-1.29%
800,000	June 4, 2004 - March 24, 2009	0.16%	1.19%-1.29%
800,000	June 8, 2004 - March 24, 2009	1.28%-2.21%	1.19%-1.29%
800,000	June 16, 2004 - March 24, 209	1.33%-2.26%	1.19%-1.29%
200,000	June 17, 2004 - March 24, 2009	-	1.19%-1.29%
400,000	July 2, 2004 - May 20, 2007	1.50%	1.19%-1.29%
400,000	July 2, 2004 - May 20, 2007	1.29%-2.23%	1.19%-1.29%
400,000	July 2, 2004 - May 20, 2007	1.29%-2.23%	1.19%-1.29%

Net gains arising from financial assets held for trading were \$451,426 thousand and \$144,909 thousand for the six months ended June 30, 2006 and 2005, respectively. Net losses arising from financial liabilities held for trading were \$213,985 thousand and \$8,232 thousand for the six months ended June 30, 2006 and 2005, respectively.

Financial instruments designated at fair value through profit or loss is as follows:

	June 30, 2006
Financial assets	
Credit-linked notes (CLNs)	<u>\$ 61,021</u>

Other CLNs information are as follows:

CLN Issuer	Principal Amount (in Thousands)	Interest Rate	Maturity
Yuanta Assets Management Limited	US\$ 400	7.75%-8.81%	December 2006
Credit Suisse First Boston International	US\$1,500	6.37%-7.10%	February 2007

Under the CLNs transaction terms, the investment can be transferred before the maturity date only through the exercise of the early redemption right by Yuanta Assets Management Limited and Credit Suisse First Boston International. The issuers will settle CLN at a price equal to the market value of the related obligation as the specific credit event occurred. On the other hand, CLN will be settled at face value on maturity, or at a certain price if the issuers exercise early redemption rights. Net gains arising from financial assets designated at fair value through profit or loss was \$1,914 thousand for the six months ended June 30, 2006.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS - CURRENT

	June 30	
	2006	2005
Domestic listed stocks	\$ 433,204	\$ 175,483
Foreign listed stocks - HK\$ 41 thousand	169	
Mutual funds	<u>327,373</u>	<u>-</u>
	<u>\$ 760,746</u>	<u>\$ 175,483</u>

7. ACCOUNTS RECEIVABLE

	<u>June 30</u>	
	<u>2006</u>	<u>2005</u>
<u>Related parties</u>		
Accounts receivable	\$ 4,988,993	\$ 1,940,272
Allowance for doubtful accounts	(51,029)	(21,410)
Allowance for sales discounts	<u>(31,500)</u>	<u>(14,000)</u>
	<u>4,906,464</u>	<u>1,904,862</u>
<u>Third parties</u>		
Accounts receivable	3,326,303	2,035,551
Allowance for doubtful accounts	(38,728)	(25,015)
Allowance for sales discounts	<u>(58,500)</u>	<u>(26,000)</u>
	<u>3,229,075</u>	<u>1,984,536</u>
	<u>\$ 8,135,539</u>	<u>\$ 3,889,398</u>

8. INVENTORIES

	<u>June 30</u>	
	<u>2006</u>	<u>2005</u>
Merchandise	\$ 88,812	\$ -
Finished goods	821,696	533,256
Work in process	5,528,951	3,978,615
Materials and supplies	<u>1,742,887</u>	<u>1,374,447</u>
	8,182,346	5,886,318
Allowance for losses	<u>(215,038)</u>	<u>(157,012)</u>
	<u>\$ 7,967,308</u>	<u>\$ 5,729,306</u>

9. HELD-TO-MATURITY FINANCIAL ASSETS

	<u>June 30</u>	
	<u>2006</u>	<u>2005</u>
Veutron Corp. (Veutron) - issued in 2005 (I)	\$ 145,000	\$ 145,000
Veutron - issued in 2006 (I)	75,000	-
Veutron - issued in 2002 (II)	70,000	70,000
MaxEdge Electronics Corp. (MaxEdge) - issued in 2005 (II)	60,000	-
MaxEdge - issued in 2005 (III)	50,000	-
Veutron - issued in 2003 (II)	46,000	46,000
MaxEdge - issued in 2005 (I)	45,000	-
MaxEdge - issued in 2002 (II)	-	100,000
MaxEdge - issued in 2002 (I)	-	80,000
Veutron - issued in 2003 (I)	<u>-</u>	<u>75,000</u>
	491,000	516,000
Current portion	<u>(21,000)</u>	<u>(255,000)</u>
	<u>\$ 470,000</u>	<u>\$ 261,000</u>

Bond investments were as follows:

	Principal Amount	Interest Rate	Maturity
<u>Held as of June 30, 2006</u>			
Veutron - issued in 2005 (I)	\$ 145,000	3.50%	April 2009
Veutron - issued in 2006 (I)	75,000	3.50%	February 2010
Veutron - issued in 2002 (II)	70,000	3.50%	30% of principal repayment in November 2006, and the remaining 70% in November 2007
MaxEdge - issued in 2005 (II)	60,000	3.25%	October 2008
MaxEdge - issued in 2005 (III)	50,000	3.25%	December 2008
Veutron - issued in 2003 (II)	46,000	3.25%	May 2008
MaxEdge - issued in 2005 (I)	45,000	3.25%	August 2008
<u>Matured as of June 30, 2006</u>			
MaxEdge - issued in 2002 (II)	100,000	4.48%	December 2005
MaxEdge - issued in 2002 (I)	80,000	4.48%	October 2005
Veutron - issued in 2003 (I)	75,000	3.50%	February 2006

The above bond investments were acquired through a private market transaction, with certain restrictions on the transferability of the bonds under the Securities and Exchange Law of the Republic of China.

10. FINANCIAL ASSETS CARRIED AT COST - NONCURRENT

	<u>June 30</u>	
	<u>2006</u>	<u>2005</u>
Domestic unlisted common stocks	\$ 831,963	\$ 907,260
Domestic unlisted preferred stocks	10	-
Foreign unlisted common stocks - US\$880 thousand, JPY165,810 thousand and EUR563 thousand in 2006 and US\$3,800 thousand in 2005	94,919	117,799
Foreign unlisted preferred stocks - US\$1,533 thousand in 2006 and 2005	49,291	48,370
Prepayment	<u>3,500</u>	<u>17,972</u>
	<u>\$ 979,683</u>	<u>\$ 1,091,401</u>

The above investments did not have quoted prices in an active market and their fair value could not be reliably measured. Thus, they were carried at original cost.

For the six months ended June 30, 2006 and 2005, the Group revalued the recoverable amount of the investment of domestic unlisted common stocks and recognized impairment loss of financial asset amounting to \$50,398 thousand and 38,988 thousand, respectively, which were presented under nonoperating expenses and losses.

11. EQUITY-METHOD INVESTMENTS

	June 30			
	2006		2005	
	Amount	% of Ownership	Amount	% of Ownership
Lu-Chu Development Corp. (“Lu-Chu”)	\$ 921,509	43.01	\$ 477,334	26.13
Novax Technologies, Inc. (“Novax”)	609,514	47.41	552,077	46.41
Zhi-Li Investment Corp. (“Zhi-Li”)	459,494	47.28	66,585	33.25
Deutron Electronics Corp. (“Deutron”)	340,244	20.00	312,390	21.42
Artrix International Inc. (“Artrix”)	249,120	45.47	117,992	43.18
Luxxon Technology Corp. (“Luxxon”)	228,738	38.49	271,504	37.13
Optimicro Corp. (“Optimicro”)	206,607	44.61	167,527	42.75
Synage Technology Corp. (“Synage”)	177,545	49.50	215,896	49.50
Tekmax Development Corp. (“Tekmax”)	161,254	34.47	110,747	32.34
Neo Solar Power Corp. (“Neo-Solar”)	128,881	21.50	-	-
Signia Technologies Co., Ltd. (“Signia”)	100,300	32.30	-	-
Deutron Japan Corp. (“Deutron-Japan”)	98,163	47.60	101,482	47.60
Syntronix Corp. (“Syntronix”)	91,930	22.52	-	-
Retronix Technology Corp. (“Retronix”)	90,873	45.00	-	-
Luxchip Technology Corp. (“Luxchip”)	78,739	39.00	-	-
Astel Electronics Inc. (“Astel”)	71,582	45.00	-	-
AVAC Systems, Inc. (“AVAC”)	65,501	40.20	-	-
Silicon Optronics, Inc. (“Silicon”)	55,301	22.14	39,935	22.14
Vivichip Electronics Corp. (“Vivichip”)	45,955	46.00	-	-
PowerGate Optical, Inc. (“PowerGate”)	35,915	20.88	42,461	27.48
LoanSky.Net Corporation (“LoanSky.Net”)	15,696	36.00	-	-
MaxEdge Electronics Corp. (“MaxEdge”)	8,764	47.60	68,417	46.68
Network Holding Limited (“Network”)	867	30.00	-	-
Smartic	-	-	46,583	45.00
	<u>\$ 4,242,492</u>		<u>\$ 2,590,930</u>	

In the first quarter of 2005, the Group invested in Zhi-Li, which was accounted for by the equity method.

In the second quarter of 2005, the Group invested in Optimicro, which was accounted for by the equity method.

In the third quarter of 2005, the Group invested in Astel, which was accounted for by the equity method.

In the fourth quarter of 2005, the Group invested in Neo-Solar, AVAC and Luxchip, which were accounted for by the equity method.

In January 2005, Telmax and Synage combined to form a new company also named “Synage Technology Corp.” as a result of their related capital restructuring.

In May 2005, Novax merged with Maxium, with Novax as the survivor company.

In the first quarter of 2006, the Group invested in Signia and Retronix, which were accounted for by the equity method.

In the second quarter of 2006, the Group invested in Vivichip, which was accounted for by the equity method.

Investment net income and loss amounting to \$21,059 thousand and \$21,679 thousand for the six months ended June 30, 2006 and 2005, respectively, were recognized from the equity method investees based on unreviewed financial statements.

Adjustments to the long-term investment account and unrealized gains on available-for-sale financial assets, which were recognized on the basis of the changes in shareholders' equity of investees, are summarized as follows:

	Six Months Ended June 30, 2006
Novax	\$ 34,241
Zhi-Li	38,616
Deutron	7,468
Synage	676
Retronix	<u>1,761</u>
	<u>\$ 82,762</u>

The difference between the cost of the investment and the Group's share in investees' net assets was recognized as goodwill. The change in goodwill for the six months ended June 30, 2006 was as follow:

Item	Beginning Amount	Increase	Decrease	Ending Amount
Goodwill	<u>\$ _____ -</u>	<u>\$ 49,471</u>	<u>\$ _____ -</u>	<u>\$ 49,471</u>

12. PROPERTIES

Accumulated depreciation on properties consisted of the following:

	<u>June 30</u>	
	2006	2005
Buildings	\$ 2,060,788	\$ 1,685,627
Machinery and equipment	56,328,545	40,280,617
Research and development equipment	405,561	200,103
Facility equipment	9,276,847	7,433,124
Transportation equipment	9,289	7,872
Office equipment	253,855	209,226
Equipment under capital lease	-	332,436
Leasehold improvement	698	347
Miscellaneous equipment	<u>444,566</u>	<u>316,255</u>
	<u>\$ 68,780,149</u>	<u>\$ 50,465,607</u>

Total depreciation expenses for the six months ended June 30, 2006 and 2005 were \$9,895,943 thousand and \$7,111,229 thousand, respectively.

Information on interest capitalization is summarized as follows:

	Six Months Ended	
	June 30	
	2006	2005
Total interest expenses	\$ 499,542	\$ 366,720
Capitalized amount	96,405	108,603
Rates used in capitalizing interests	3.12%-3.46%	3.41%-3.77%

PSC is currently expanding its third and fourth factories (“FAB 12B & FAB 12M”). The related total estimated and recognized costs as of June 30, 2006 are summarized as follows:

FAB	Total Estimated Cost	Total Recognized Cost
12B	\$ 65,000,000	\$ 49,792,417
12M	40,000,000	7,707,487

In December 2002, PSC entered into an equipment sale-leaseback agreement with a domestic leasing company under terms that qualify as capital lease. The lease is payable quarterly from June 2003 to December 2005.

The details of properties pledged as collateral are shown in Note 25.

13. DEFERRED CHARGES, NET

	June 30	
	2006	2005
Technical know-how	\$ 2,305,732	\$ 3,155,571
Test-run costs	87,681	153,442
Computer software system	224,306	177,291
Issuance costs of the convertible bonds	21,597	77,883
Patent	17,500	22,500
Royalty	-	19,873
Trademark	-	136
Others	<u>337,447</u>	<u>190,117</u>
	<u>\$ 2,994,263</u>	<u>\$ 3,796,813</u>

Technical know-how fees are amounts paid by PSC mainly to Renesas Tech Corp. (“Renesas”), Elpida Memory Inc. (“Elpida”) and B Company under several agreements for their transfer to PSC of certain technologies on the manufacture of dynamic random access memory.

14. CONVERTIBLE BONDS PAYABLE

	June 30	
	2006	2005
Foreign unsecured bonds		
Issued in 2001 (1) US\$11,355 thousand	\$ -	\$ 359,022
Issued in 2003 (4) US\$832 thousand	-	26,306
Issued in 2004 (5) US\$157,850 thousand in 2006 and US\$158,050 thousand in 2005	5,114,182	4,997,225
Issued in 2005 (6) US\$142,250 thousand in 2006 and US\$160,000 thousand in 2005	4,608,758	5,058,880
Issued in 2006 (7) US\$111,442 thousand	<u>3,609,938</u>	<u>-</u>
	<u>13,332,878</u>	<u>10,441,433</u>
Domestic unsecured bonds		
Issued in 2005 (1) NT\$4,000,000 thousand	4,000,000	4,000,000
Issued in 2005 (2) NT\$6,000,000 thousand	<u>6,000,000</u>	<u>6,000,000</u>
	<u>10,000,000</u>	<u>10,000,000</u>
	23,332,878	20,441,433
Current portion	<u>(13,722,940)</u>	<u>(5,382,553)</u>
	<u>\$ 9,609,938</u>	<u>\$ 15,058,880</u>

In the second quarter of 2001, PSC issued five-year unsecured, zero-coupon convertible bonds (“Bonds 2001”), with an aggregate principal of US\$200,000 thousand. Bonds 2001 are listed on the Luxembourg Stock Exchange. They are convertible into PSC’s common shares or Global Depository Shares (GDS) of PSC at NT\$30.00 per share (at an exchange rate of US\$1.00 to NT\$32.933) between June 23, 2001 and April 24, 2006 and will mature on May 24, 2006. At the holders’ option, Bonds 2001 may also be repurchased on May 24 of each year (from 2002) before maturity at 100% of their principal. Under certain conditions, either the holders of Bonds 2001 or PSC may opt for early bond redemption. As of June 30, 2006, some of the holders of Bonds 2001 exercised their put option, requiring PSC to spend US\$131,775 thousand for the repurchase of the outstanding bonds. Also, PSC had redeemed and cancelled Bonds 2001 from the open market with principal of US\$14,150 thousand, and holders of Bonds 2001 with principal of US\$54,075 thousand had requested to convert these bonds into 82,979 thousand common shares, which had all been issued.

In the third quarter of 2003, PSC issued five-year unsecured, zero-coupon convertible bonds (“Bonds 2003”), with an aggregate principal of US\$110,000 thousand. Bonds 2003 are listed on the Luxembourg Stock Exchange. They are convertible into PSC’s common shares or GDS at NT\$17.94 per share (at an exchange rate of US\$1.00 to NT\$34.129) between October 15, 2003 and August 15, 2008 and will mature on September 15, 2008. At the holders’ option, Bonds 2003 may also be repurchased on September 15 of each year from 2004 to 2006 at 100% of their principal. Under certain conditions, either the holders of the Bonds 2003 or PSC may opt for early bond redemption. As of June 30, 2006, holders of Bonds 2003 with principal of US\$110,000 thousand had requested to convert these bonds into 210,658 thousand common shares, which had all been issued.

In June and July 2004, PSC issued five-year unsecured, zero-coupon convertible bonds (“Bonds 2004”), with an aggregate principal of US\$158,050 thousand. Bonds 2004 are listed on the Luxembourg Stock Exchange. They are convertible into PSC’s common shares or GDS at NT\$33.88 per share (at an exchange rate of US\$1.00 to NT\$33.53; conversion price is adjustable and the conversion price is NT\$24.09 per share as of June 30, 2006) between July 17, 2004 and May 18, 2009 and will mature on June 17, 2009. At the holders’ option, Bonds 2004 may also be repurchased on June 17, 2006 at 100% of their principal. Under certain conditions, either the holders of Bonds 2004 or PSC may opt for early bond redemption. As of June 30, 2006, some of the holders of Bonds 2004 exercised their put option, requiring PSC to spend US\$200 thousand for the repurchase of the outstanding bonds.

On February 2, 2005, PSC issued five-year unsecured, zero-coupon convertible bonds (“Bonds 2005A”), with an aggregate principal of US\$160,000 thousand. Bonds 2005A are listed on the Singapore Exchange Securities Trading Limited. They are convertible into PSC’s common shares at NT\$26.62 per share (at an exchange rate of US\$1.00 to NT\$31.863; conversion price is adjustable and the conversion price is NT\$20.83 per share as of June 30, 2006) between March 3, 2005 and January 3, 2010 and will mature on February 2, 2010. At the holders’ option, Bonds 2005A may also be repurchased on February 2, 2007 at 100% of their principal. Under certain conditions, either the holders of Bonds 2005A or PSC may opt for early bond redemption. As of June 30, 2006, holders of Bonds 2005A with principle amount of US\$17,750 thousand had requested to convert these bonds into 27,151 thousand common shares, which had all been issued.

In June 2005, PSC issued five-year unsecured, zero-coupon convertible bonds (“Bonds 2005B”), with an aggregate principal of NT\$4,000,000 thousand. Bonds 2005B are listed on the Taiwan GreTai Securities Market. They are convertible into PSC’s common shares at NT\$24.02 per share (the conversion price is adjustable and the current conversion price is NT\$20.48 per share as of June 30, 2006) between July 28, 2005 and June 17, 2010 and will mature on June 27, 2010. At the holders’ option, Bonds 2005B may also be repurchased on June 28, 2007 at 100% of their principal. Under certain conditions, either the holders of Bonds 2005B or PSC may opt for early bond redemption.

In June 2005, PSC issued five-year unsecured, zero-coupon convertible bonds (“Bonds 2005C”), with an aggregate principal of NT\$6,000,000 thousand. Bonds 2005C are listed on the Taiwan GreTai Securities Market. They are convertible into PSC’s common shares at NT\$23.50 per share (the conversion price is adjustable and the current conversion price is NT\$20.03 per share as of June 30, 2006) between July 28, 2005 and June 17, 2010 and will mature on June 27, 2010. At the holders’ option, Bonds 2005C may also be repurchased on June 28, 2008 at 100% of their principal. Under certain conditions, either the holders of Bonds 2005C or PSC may opt for early bond redemption.

In June 2006, PSC issued five-year unsecured, zero-coupon (with 8.66% effective rate) convertible bond (“Bonds 2006”), with aggregate principal of US\$160,000 thousand. Bonds 2006 are listed on the Luxembourg Stock Exchange. They are convertible into PSC’s common shares or GDS at NT\$21.95 per share (at an exchange rate of US\$1.00 to NT\$32.729; conversion price is adjustable) between July 30, 2006 and May 31, 2011 and will mature on June 30, 2011 at 106.43% of their principle amount. At the holders’ option, Bonds 2006 may also be repurchased on June 30, 2008 at 102.52% of their principle amount. Under certain conditions, either the holders of Bonds 2006 or PSC may opt for early bond redemption. Under Statement of Financial Accounting Standards No. 36 - “Disclosure and Presentation of Financial Instruments”, PSC separate conversion option, put option from Bonds 2006 and recognized these options as financial liabilities at fair value through profit or loss. The related issuance cost and initially recognized amount are summarized as follows:

Debt Components of Convertible Bonds	Initially Recognized Amount	Issuance Cost (Note)	Net Amount
Bond payable	US\$ 113,485	<u>US\$ 2,043</u>	<u>US\$ 111,442</u>
Conversion option	40,758		
Put option	<u>5,757</u>		
	<u>US\$ 160,000</u>		

Note: The total issuance cost of Bond 2006 was US\$ 2,880 thousand. Of this cost, US\$837 thousand was allocated to conversion option and put option and was presented under nonoperating expenses and losses.

15. LONG-TERM BANK LOANS

	<u>June 30</u>	
	<u>2006</u>	<u>2005</u>
Long-term secured syndicated loans (1)	\$ -	\$ 3,500,000
Long-term secured syndicated loans (2)	4,350,000	5,800,000
Long-term secured syndicated loans (3)	13,125,000	10,000,000
Long-term secured syndicated loans (4)	15,000,000	-
Medium to long-term loans (including commercial paper issued)	<u>813,333</u>	<u>1,870,000</u>
	33,288,333	21,170,000
Current portion	(6,606,667)	(5,456,667)
Unamortized discount of commercial paper issued	<u>-</u>	<u>(411)</u>
	<u>\$ 26,681,666</u>	<u>\$ 15,712,922</u>

The loans are payable quarterly or semiannually at varying amounts. They will be fully repaid by December 2010. The bear interest rates ranging from 2.57% to 5.02% and from 2.79% to 4.67% for the six months ended June 30, 2006 and 2005, respectively.

The long-term secured loans were obtained from bank syndicate. The loan agreements require, among others, the maintenance of certain financial ratios based on annual financial statements.

The details of assets pledged as collateral are shown in Note 25.

16. PENSION PLAN

The Labor Pension Act (the "Act") became effective on July 1, 2005. The employees who were subject to the Labor Standards Law prior to the July 1, 2005 were allowed to choose to be subject to the pension mechanism under this Act or may continue to be subject to the pension mechanism under the Labor Standards Law. For those employees who were subject to the Labor Standards Law prior to July 1, 2005 and still work for the same company after July 1, 2005 and have chosen to be subject to the pension mechanism under the Act, their seniority as of their respective enrollment date shall be maintained. Employees hired after July 1, 2005, can only elect to join the pension mechanism under the Act, which is deemed a defined contribution plan.

Pursuant to the Act, PSC, Quantum, Li-Hsin, Paramax, PowerFlash, Zentel and Smartic have defined contribution plans and have made monthly contributions to employees' pension accounts per month at 6% of each employee's monthly salary. Under the Act, the pension costs for the six months ended June 30, 2006, were \$75,633 thousand.

PSC, Quantum, Li-Hsin, Paramax, PowerFlash, Zentel and Smartic have defined benefit pension plans for all regular employees, which provide benefits based on length of service and average salaries and wages for the final six months of employment. These aforementioned entities contribute monthly to a pension fund (the "Fund") amounts equal to 2% of salaries and wages paid. The Fund is administered by a pension fund committee (the "Committee") and the contributions to the Fund are deposited in the Central Trust of China under the Committee's name. In addition, the portion of PSC's projected benefit obligation in excess of its plan assets is contributed to the Fund in five-year installments.

Pension costs based on actuarial calculation in the six months ended June 30, 2006 and 2005 were \$25,147 thousand of PSC, Quantum, Li-Hsin, Paramax, PowerFlash, Zentel and Smartic and \$40,182 thousand of PSC and Syntronix, respectively.

Fund balances were \$248,271 thousand and \$202,368 thousand as of June 30, 2006 and 2005, respectively.

17. SHAREHOLDERS' EQUITY

Under the ROC Company Law, capital surplus (excluding amounts arising from long-term investments which can not be used in any way) may only be used to offset a deficit or be transferred to capital as a stock dividend. Such transfer as stock dividend is limited to the issue price in excess of the par value of stock issued, and distribution is based on respective equities of shareholders.

PSC's Articles of Incorporation provide that the annual net income, less any deficit, should be appropriated as follows:

- a. 10% as legal reserve;
- b. Special reserve;
- c. Preferred cash dividends and bonus based on the terms of their issuance;
- d. Of the remainder after deducting items a, b and c, 3% as remuneration of directors and supervisors and 10% as bonus to employees;
- e. The remainder as bonus to shareholders.

These appropriations and the disposition of the unappropriated retained earnings should be approved by the shareholders in, and given effect to in the financial statements of, the year following the year of earnings generation.

Under the regulations promulgated by the Securities and Futures Bureau (SFB, formerly the Securities and Futures Commission before July 1, 2004), a special reserve equivalent to the debit balance of any account under shareholders' equity section in the balance sheets, other than the deficit and treasury stock, should be made from unappropriated retained earnings. Also, if the market price of PSC's shares held by subsidiaries is lower than their carrying value, PSC should appropriate a special reserve equal to the difference between market price and carrying value. PSC may release a portion of this special reserve when debit balances are partially or fully reversed.

PSC's policy is to declare at least 50% of its available earnings as dividends, of which at most 50% should be in the form of stock.

The ROC Company Law provides that legal reserve should be appropriated until the reserve equals PSC's paid-in capital. This reserve may be used to offset a deficit. In addition, when the reserve exceeds 50% of the Group's paid-in capital, up to the portion in excess of 25% of the paid-in capital thereof can be distributed as stock dividend.

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 PSC on earnings generated since 1998. An imputation credit account (ICA) is maintained by PSC to monitor the balances of the income tax paid and the tax credit allocated to each shareholder. The maximum credit available for allocation to each shareholder cannot exceed the ICA balance on the dividend distribution date.

The appropriations of PSC's earnings for 2005 and 2004 were resolved by PSC's Board of Director on April 25, 2006 and February 23, 2005, respectively, and approved in PSC's shareholders' meeting on June 9, 2006 and April 12, 2005, respectively. The appropriations and dividend per share were as follows:

	<u>Appropriation of Earnings</u>		<u>Dividend Per Share (NT\$)</u>	
	<u>For Fiscal Year 2005</u>	<u>For Fiscal Year 2004</u>	<u>For Fiscal Year 2005</u>	<u>For Fiscal Year 2004</u>
Legal reserve	\$ 641,736	\$ 2,131,508	\$ -	\$ -
Special reserve	31,314	252	-	-
Cash dividend	3,042,429	4,167,245	0.52	0.99
Stock dividend	3,042,429	8,334,490	0.52	1.97
Employees' profit sharing - cash	287,215	639,837	-	-
Employees' profit sharing - stock	287,215	1,279,673	-	-
Remuneration to directors and supervisors - in cash	<u>172,329</u>	<u>575,853</u>	-	-
	<u>\$ 7,504,667</u>	<u>\$ 17,128,858</u>		

The appropriation of stock dividend and stock bonus to employees contributes a total amount of \$3,329,644 thousand in the form of capital stock. The aforementioned capital increase had been approved by SFB and will take effect on August 11, 2006.

The above information about the appropriations of bonus to employees and remuneration to directors and supervisors is available at Market Observation System website.

18. EMPLOYEE STOCK OPTION

a. PSC

On May 28, 2001, June 28, 2002 and April 22, 2003, the Securities and Futures Commission approved PSC's employee stock option plans, hereinafter referred to as "2001 Plan," "2002 Plan," and "2003 Plan," respectively. The 2001 Plan, 2002 Plan and 2003 Plan have reserved 150 thousand, 150 thousand and 120 thousand option units, respectively, with each unit representing 1,000 shares of common stock, for a total of 420,000 thousand shares for issuance. These options generally vest over a period of two years, at a certain percentage each year, from two years after the date of grant. They may be exercised within four years from two years after the date of grant. As of June 30, 2006, there were 231,689 options that had been exercised. 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</u>	<u>Weighted- average Exercise Prices (NT\$/ Per Share)</u>	<u>Number of Outstanding Stock Option Rights</u>	<u>Weighted- average Exercise Price (NT\$/ Per Share)</u>	<u>Number of Outstanding Stock Option Rights</u>	<u>Weighted- Average Exercise Prices (NT\$/ Per Share)</u>
Six months ended <u>June 30, 2006</u>						
Beginning balance	80,048	\$ 6.84	81,081	\$ 8.70	32,178	\$13.98
Options exercised	(9,443)	6.75	(13,776)	8.70	(11,463)	13.90
Options canceled	<u>(941)</u>	6.50	<u>(657)</u>	8.70	<u>-</u>	-
Ending balance	<u>69,664</u>	6.86	<u>66,648</u>	8.70	<u>20,715</u>	14.02

(Continued)

	<u>2003 Plan</u>		<u>2002 Plan</u>		<u>2001 Plan</u>	
	Number of Outstanding Stock Option Rights	Weighted- average Exercise Prices (NT\$/ Per Share)	Number of Outstanding Stock Option Rights	Weighted- average Exercise Price (NT\$/ Per Share)	Number of Outstanding Stock Option Rights	Weighted- Average Exercise Prices (NT\$/ Per Share)
Six months ended <u>June 30, 2005</u>						
Beginning Balance	111,090	\$ 8.27	87,527	\$ 10.75	55,132	\$ 17.48
Options granted	14,050	6.86	14,315	8.70	-	-
Options exercised	(39,338)	7.79	(9,247)	10.65	(8,094)	16.76
Options canceled	<u>(563)</u>	7.84	<u>(605)</u>	10.69	<u>(396)</u>	17.29
Ending balance	<u>85,239</u>	6.88	<u>91,990</u>	8.70	<u>46,642</u>	13.97 (Concluded)

The number of shares and exercise prices of outstanding options have been adjusted to reflect the appropriations of dividends, stock bonuses and issuance of capital stock specified under the Plans.

As of June 30, 2006, the outstanding stock options are as follows:

Exercise Price (NT\$/Per Share)	<u>Options Outstanding</u>			<u>Options Exercisable</u>	
	Number Outstanding (Per Option)	Weighted Average Remaining Contractual Life (in Years)	Weighted Average Exercise Price (Per Share)	Number Exercisable (Per Option)	Weighted Average Exercise Price (Per Share)
\$13.90	19,749	1.08	\$13.90	19,749	\$13.90
17.60	565	1.74	17.60	565	17.60
14.80	401	1.87	14.80	401	14.80
8.70	66,648	2.24	8.70	30,214	8.70
6.50	66,401	2.82	6.50	36,840	6.50
12.10	820	3.00	12.10	508	12.10
14.10	227	3.08	14.10	60	14.10
11.50	1,059	3.28	11.50	475	11.50
11.60	239	3.40	11.60	90	11.60
14.20	418	3.52	14.20	90	14.20
22.20	261	3.73	22.20	130	22.20
27.80	<u>239</u>	3.80	27.80	<u>119</u>	27.80
	<u>157,027</u>			<u>89,241</u>	

b. Zentel

On May 31, 2004 and February 22, 2005, Zentel's Board of Directors approved its employee stock option plans (hereinafter referred to as "2004 Plan" and "2005 Plan", respectively). The 2004 Plan and 2005 Plan have reserved 2,000 and 1,000 of option, respectively, with each option representing 1,000 shares of common stock, for a total of 3,000 thousand shares for issuance. These options generally vest over a period of two years, at a certain percentage each year, from two years after the date of grant. They may be exercised within four years from two years after the date of grant. Other information on the stock option rights plan is as follows:

	<u>2004 Plan</u>	
	Number of Outstanding Stock Option Rights	Weighted Average Exercise Price (NT\$/Per Share)
Six months ended <u>June 30, 2006</u>		
Beginning balance	1,462	\$ 12
Options granted	-	-
Options canceled	<u>-</u>	-
Ending balance	<u>1,462</u>	12

	<u>2005 Plan</u>		<u>2004 Plan</u>	
	Number of Outstanding Stock Option Rights	Weighted Average Exercise Prices (NT\$/Per Share)	Number of Outstanding Stock Option Rights	Weighted Average Exercise Price (NT\$/Per Share)
Six months ended <u>June 30, 2005</u>				
Beginning balance	-	\$ -	1,787	\$ 12
Options granted	47	12	3	12
Options canceled	<u>-</u>	-	<u>(150)</u>	12
Ending balance	<u>47</u>	12	<u>1,640</u>	12

As of June 30, 2006, the information about the outstanding stock options of Zentel is as follows:

Exercise Price	<u>Options Outstanding</u>			<u>Options Exercisable</u>	
	Number Outstanding (Per Option)	Weighted Average Remaining Contractual Life (in Years)	Weighted Average Exercise Price (Per Share)	Number Exercisable (Per Option)	Weighted Average Exercise Price (Per Share)
\$ 12	1,370	4.15	\$ 12	-	\$ -
12	<u>92</u>	4.43	12	<u>-</u>	-
	<u>1,462</u>			<u>-</u>	

In accordance with the interpretations issued by Accounting Research and Development Foundation of the Republic of China, PSC and Zentel uses the intrinsic value method to evaluate compensation cost for employee stock options granted on or after January 1, 2004. The compensation cost recognized for the six months ended June 30, 2006 and 2005 was zero since that (1) for PSC, the stock options were granted at an exercise price equal to the closing price of common shares on the measurement dates and (2) for Zentel, the stock options were granted at an exercise price higher than the equity per share of common shares on the measurement dates. Had both PSC and Zentel applied the fair value based method (based on the Black-Scholes model) to evaluate compensation cost for the employee stock options granted, the assumptions and pro forma results of PSC for the six months ended June 30, 2006 and 2005 are as follows:

Assumptions:

PSC	
Risk-free interest rate	3.00%-3.86%
Expected life (in years)	6
Expected stock price volatility	86.61%-90.10%
Expected dividend yield	-
Fair value per option (NT\$/thousand shares)	<u>\$13,535 - \$26,369</u>
Zentel	
Risk-free interest rate	2.37%
Expected life (in years)	6
Expected stock price volatility	5.42%-5.48%
Expected dividend yield	-
Fair value per option (NT\$/thousand shares)	<u>\$607</u>

	Six Months Ended June 30	
	2006	2005
Consolidated net income:		
Net income as reported	<u>\$ 4,202,156</u>	<u>\$ 3,021,346</u>
Pro forma net income	<u>\$ 4,200,513</u>	<u>\$ 3,017,886</u>
Consolidated earnings per share - after income tax (EPS, NT\$):		
Basic EPS as reported	<u>\$ 0.76</u>	<u>\$ 0.59</u>
Pro forma basic EPS	<u>\$ 0.76</u>	<u>\$ 0.58</u>
Diluted EPS as reported	<u>\$ 0.64</u>	<u>\$ 0.52</u>
Pro forma diluted EPS	<u>\$ 0.64</u>	<u>\$ 0.52</u>

19. TREASURY STOCK

	(Shares in Thousands)			
Purpose of Purchase	Beginning Shares	Increase	Decrease	Ending Shares
<u>Six months ended June 30, 2006</u>				
For subsequent transfer to employees	84,100	-	-	84,100
Parent's issued shares held by subsidiaries	<u>3,992</u>	<u>1,582</u>	-	<u>5,574</u>
	<u>88,092</u>	<u>1,582</u>	-	<u>89,674</u>

(Continued)

Purpose of Purchase	Beginning Shares	Increase	Decrease	Ending Shares
<u>Six months ended June 30, 2005</u>				
For subsequent transfer to employees	45,069	-	33,069	12,000
Parent's issued shares held by subsidiaries	<u>3,334</u>	<u>658</u>	<u>-</u>	<u>3,992</u>
	<u>48,403</u>	<u>658</u>	<u>33,069</u>	<u>15,992</u>
				(Concluded)

As of June 30, 2006 and 2005, PSC's issued shares held by the subsidiaries were as follows:

Company	Shares (Thousands)	Original Carrying Value (in Thousands)	Market Value (in Thousands)
<u>June 30, 2006</u>			
Li-Hsin	3,992	\$ 95,561	\$ 84,831
Smartic	2,330	<u>46,600</u>	<u>49,513</u>
		<u>\$ 142,161</u>	<u>\$ 134,344</u>
<u>June 30, 2005</u>			
Li-Hsin	3,992	<u>\$ 95,561</u>	<u>\$ 87,665</u>

On January 1, 2002, PSC accounted for its issued shares amounting to \$53,820 thousand and held by Li-Hsin as treasury stock. Started from 2006, Smartic became one of PSC's subsidiaries. Thus, PSC accounted for its shares held by Smartic as treasury stock in accordance with its stock ownership percentage of Smartic, which resulted in an increase of 1,582 thousand treasury shares with a carrying amount of \$33,141 thousand.

For the six months ended June 30, 2005, PSC transferred 7,321 thousand treasury shares to employees at a price of \$24.9 per share. 25,748 thousand treasury shares were retired on March 15, 2005.

Under the regulation of the Securities and Future Commission, a corporation should acquire no more than 10% of all its issued shares. PSC should not pledge treasury shares and should not exercise shareholders' rights on these shares before their transfer. In addition, the aggregate reacquisition cost should not exceed the combined balance of the retained earnings and certain capital surpluses. However, the subsidiaries holding PSC's issued shares retain shareholders' rights and privileges on these shares, except that, starting on June 24, 2005, under the revised Company Law, the subsidiaries holding PSC's shares no longer have the right to vote.

20. INCOME TAX

- a. A reconciliation of income tax currently payable for the six months ended June 30, 2006 and 2005 are as follows:

	<u>Six Months Ended June 30</u>	
	2006	2005
Tax on pretax income at statutory rate (25%)	\$ 1,140,178	\$ 700,761
Tax-exempt income	(119,552)	-
Permanent differences	(45,460)	(110,137)
Temporary differences	<u>(574,640)</u>	<u>(636,218)</u>
Income tax currently payable	<u>\$ 400,526</u>	<u>\$ (45,594)</u>

- b. Income tax benefit (expense) for the six months ended June 30, 2006 and 2005 consisted of:

	<u>Six Months Ended June 30</u>	
	2006	2005
Income tax currently payable	\$ (400,526)	\$ -
Additional tax at 10% on unappropriated earnings	-	(202,567)
Loss carryforwards	473	4,001
Tax credits	236,022	201,891
Net change in deferred income tax assets and liabilities		
Loss carryforwards	10,349	(155,930)
Investment tax credits	1,172,709	2,001,741
Temporary differences	(572,617)	(623,111)
Valuation allowance	(837,915)	(963,255)
Tax on interest income on short-term bills	(605)	(8,108)
Adjustment the tax of prior years	<u>(222)</u>	<u>(1,106)</u>
	<u>\$ (392,332)</u>	<u>\$ 253,556</u>
Cumulative effect of changes in accounting principles	<u>\$ 10,892</u>	<u>\$ -</u>

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

	<u>June 30</u>	
	2006	2005
Current		
Deferred income tax assets		
Investment tax credits	\$ 663,560	\$ 890,087
Loss carryforwards	-	421,258
Unrealized provision for loss on inventories	53,577	36,606
Others	172,881	108,857
Deferred income tax liabilities	<u>(9,286)</u>	<u>(4,180)</u>
	880,732	1,452,628
Valuation allowance	<u>(264)</u>	<u>(1,272)</u>
	<u>\$ 880,468</u>	<u>\$ 1,451,356</u>

(Continued)

	June 30	
	2006	2005
Noncurrent		
Deferred income tax assets		
Investment tax credits	\$ 12,000,629	\$ 8,751,606
Loss carryforwards	571,244	59,854
Others	174,003	151,882
Deferred income tax liabilities		
Depreciation	(3,892,487)	(2,587,203)
Others	(39,184)	(199,836)
	<u>8,814,205</u>	<u>6,176,303</u>
Valuation allowance	<u>(7,645,601)</u>	<u>(5,915,126)</u>
	<u>\$ 1,168,604</u>	<u>\$ 261,177</u>

(Concluded)

- d. PSC's related information under the Integrated Income Tax System is as follows:

	June 30	
	2006	2005
Shareholders' imputed tax credits	<u>\$ 62,131</u>	<u>\$ 16,141</u>

The expected and actual tax creditable ratio for 2005 and 2004 were 0.59% and 0.31%, respectively.

The imputation credits allocated to the shareholders of PSC are based on the balance of the imputation credit account (ICA) as of the date of dividend distribution. The expected creditable ratio for 2005 may be adjusted depending on the ICA balance on the date of dividend distribution.

- e. The unappropriated retained earnings of PSC as of June 30, 2006 and 2005 had no unappropriated earnings generated before 1998.
- f. The effective tax rate for deferred income taxes as of June 30, 2006 and 2005 was 25%.
- g. As of June 30, 2006, the tax credits and loss carryforwards were as follows:

Regulatory Basis of Tax Credits	Items	Total Creditable Amounts	Remaining Creditable Amounts	Expiry Year
Income Tax Law	Loss carryforwards	\$ 496,677	\$ 496,677	2008
		2,188	1,715	2009
		62,003	62,003	2010
		<u>10,849</u>	<u>10,849</u>	2011
		<u>\$ 571,717</u>	<u>\$ 571,244</u>	
Statute for Upgrading Industries	Purchase of machinery and equipment	\$ 576,469	\$ 341,789	2006
		3,287,566	3,287,566	2007
		2,763,318	2,763,318	2008
		3,062,066	3,062,066	2009
		<u>1,835,711</u>	<u>1,835,711</u>	2010
		<u>\$ 11,525,130</u>	<u>\$ 11,290,450</u>	

(Continued)

Regulatory Basis of Tax Credits	Items	Total Creditable Amounts	Remaining Creditable Amounts	Expiry Year
Statute for Upgrading Industries	Research and development expenditures	\$ 278,527	\$ 278,527	2006
		53,111	53,111	2007
		273,314	271,972	2008
		526,606	526,606	2009
		<u>223,953</u>	<u>223,953</u>	2010
		<u>\$ 1,355,511</u>	<u>\$ 1,354,169</u>	
Statute for Upgrading Industries	Personnel training expenditures	\$ 2,803	\$ 2,803	2006
		3,058	3,058	2007
		2,727	2,727	2008
		4,031	4,031	2009
		<u>1,895</u>	<u>1,895</u>	2010
		<u>\$ 14,514</u>	<u>\$ 14,514</u>	
Statute for Upgrading Industries	Investments in important technology-based enterprises	<u>\$ 5,056</u>	<u>\$ 5,056</u>	2008

(Concluded)

- h. Income from the following projects of PSC is exempt from income tax:

	Tax-Exemption Period
Statute for Establishment and Administration of Science Parks 2000 expansion of the first manufacturing plant	2004-2007
Statute for Upgrading Industries 1997 expansion of the first manufacturing plant	2001-2005
1998 expansion of the first manufacturing plant	2004-2008
1999 expansion of the first manufacturing plant	2004-2008
2001 construction of the second manufacturing plant	2004-2008

- i. Income tax returns of PSC through 2003 had been examined by the tax authorities. However, PSC is contesting the tax authorities' assessment of its 1998, 2000 and 2001 returns. PSC believes that any additional assessment will not have a material effect on its financial statements.
- j. The Income Tax Basic Act took effect on January 1, 2006. Under this act, the Group should pay at least the minimum income tax calculated in accordance with this act annually. This requirement was taken into consideration in evaluating whether the unused deferred income tax assets could be realized.

21. LABOR COST, DEPRECIATION AND AMORTIZATION EXPENSE

	Six Months Ended June 30					
	2006			2005		
	Classified as Cost of Sales	Classified as Operating Expenses	Total	Classified as Cost of Sales	Classified as Operating Expenses	Total
Labor cost						
Salary	\$ 1,457,984	\$ 539,523	\$ 1,997,507	\$ 1,078,455	\$ 418,181	\$ 1,496,636
Labor/health insurance	91,093	29,819	120,912	70,485	24,341	94,826
Pension	70,795	29,985	100,780	29,458	10,876	40,334
Others	<u>88,452</u>	<u>28,075</u>	<u>116,527</u>	<u>68,212</u>	<u>22,145</u>	<u>90,357</u>
	<u>\$ 1,708,324</u>	<u>\$ 627,402</u>	<u>\$ 2,335,726</u>	<u>\$ 1,246,610</u>	<u>\$ 475,543</u>	<u>\$ 1,722,153</u>
Depreciation	<u>\$ 9,741,603</u>	<u>\$ 154,340</u>	<u>\$ 9,895,943</u>	<u>\$ 7,001,538</u>	<u>\$ 109,691</u>	<u>\$ 7,111,229</u>
Amortization	<u>\$ 67,403</u>	<u>\$ 724,514</u>	<u>\$ 791,917</u>	<u>\$ 75,330</u>	<u>\$ 615,815</u>	<u>\$ 691,145</u>

22. CONSOLIDATED EARNINGS PER SHARE (EPS)

	Six Months Ended June 30			
	2006		2005	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
Consolidated Basic EPS (NT\$)				
Income before cumulative effect of changes in accounting principles attributable to common shareholders of the parent	\$ 0.82	\$ 0.75	\$ 0.54	\$ 0.59
Cumulative effect of changes in accounting principles	<u>-</u>	<u>0.01</u>	<u>-</u>	<u>-</u>
Income attributable for the common shareholders for the parent for the period	<u>\$ 0.82</u>	<u>\$ 0.76</u>	<u>\$ 0.54</u>	<u>\$ 0.59</u>
Consolidated Diluted EPS (NT\$)				
Income before cumulative effect of changes in accounting principles attributable to common shareholders of the parent	\$ 0.69	\$ 0.63	\$ 0.48	\$ 0.52
Cumulative effect of changes in accounting principles	<u>-</u>	<u>0.01</u>	<u>-</u>	<u>-</u>
Income attributable for the common shareholders for the parent for the period	<u>\$ 0.69</u>	<u>\$ 0.64</u>	<u>\$ 0.48</u>	<u>\$ 0.52</u>
The pro-forma adjusted EPS for stock dividends with ex-dividend date after the issuance of the financial statement				
Basic EPS (NT\$)	<u>\$ 0.78</u>	<u>\$ 0.72</u>	<u>\$ 0.51</u>	<u>\$ 0.55</u>
Diluted EPS (NT\$)	<u>\$ 0.66</u>	<u>\$ 0.60</u>	<u>\$ 0.46</u>	<u>\$ 0.50</u>

The numerators and denominators used in calculating consolidated basic and diluted EPS were as follows:

	<u>Amounts (Numerator)</u>		<u>Weighted-average Number of Shares (Denominator) (Thousand)</u>	<u>EPS (Dollars)</u>	
	<u>Before Income Tax</u>	<u>After Income Tax</u>		<u>Before Income Tax</u>	<u>After Income Tax</u>
<u>Six months ended June 30, 2006</u>					
Consolidated net income	<u>\$ 4,510,778</u>	<u>\$ 4,201,179</u>			
Consolidated Basic EPS					
Income attributable to common shareholders of the parent	\$ 4,564,441	\$ 4,202,156	5,546,579	<u>\$ 0.82</u>	<u>\$ 0.76</u>
Effect of dilutive securities					
Convertible bonds	-	-	932,164		
Stock options	<u>-</u>	<u>-</u>	<u>99,851</u>		
Consolidated Diluted EPS					
Income attributable to common and potential common shareholders of the parent	<u>\$ 4,564,441</u>	<u>\$ 4,202,156</u>	<u>6,578,594</u>	<u>\$ 0.69</u>	<u>\$ 0.64</u>
The pro-forma adjusted EPS for stock dividends with ex-dividend date after the issuance of the financial statements					
Consolidated Net income	<u>\$ 4,564,441</u>	<u>\$ 4,202,156</u>			
Consolidated Basic EPS					
Income attributable to common shareholders of the parent	\$ 4,564,441	\$ 4,202,156	5,863,991	<u>\$ 0.78</u>	<u>\$ 0.72</u>
Effect of dilutive securities					
Convertible bonds	-	-	980,681		
Stock options	<u>-</u>	<u>-</u>	<u>105,048</u>		
Consolidated Diluted EPS					
Income attributable to common and potential common shareholders of the parent	<u>\$ 4,564,441</u>	<u>\$ 4,202,156</u>	<u>6,949,720</u>	<u>\$ 0.66</u>	<u>\$ 0.60</u>
<u>Six months ended June 30, 2005</u>					
Consolidated net income	<u>\$ 2,762,989</u>	<u>\$ 3,016,545</u>			
Consolidated Basic EPS					
Income attributable to common shareholders of the parent	\$ 2,778,917	\$ 3,021,346	5,162,541	<u>\$ 0.54</u>	<u>\$ 0.59</u>
Effect of dilutive securities					
Convertible bonds	-	-	451,888		
Stock options	<u>-</u>	<u>-</u>	<u>146,612</u>		
Consolidated Diluted EPS					
Income attributable to common and potential common shareholders of the parent	<u>\$ 2,778,917</u>	<u>\$ 3,021,346</u>	<u>5,761,041</u>	<u>\$ 0.48</u>	<u>\$ 0.52</u>

(Continued)

	<u>Amounts (Numerator)</u>		<u>Weighted-average Number of Shares (Denominator) (Thousand)</u>	<u>EPS (Dollars)</u>	
	<u>Before Income Tax</u>	<u>After Income Tax</u>		<u>Before Income Tax</u>	<u>After Income Tax</u>
The pro-forma adjusted EPS for stock dividends with ex-dividend date after the issuance of the financial statements					
Consolidated Net income	<u>\$ 2,778,917</u>	<u>\$ 3,021,346</u>			
Consolidated Basic EPS					
Income attributable to common shareholders of the parent	\$ 2,778,917	\$ 3,021,346	5,459,964	<u>\$ 0.51</u>	<u>\$ 0.55</u>
Effect of dilutive securities					
Convertible bonds	-	-	475,408		
Stock options	-	-	<u>154,243</u>		
Consolidated Diluted EPS					
Income attributable to common and potential common shareholders of the parent	<u>\$ 2,778,917</u>	<u>\$ 3,021,346</u>	<u>6,089,615</u>	<u>\$ 0.46</u>	<u>\$ 0.50</u>

(Concluded)

23. DISCLOSURES FOR FINANCIAL INSTRUMENTS

a. Fair values of financial instruments were as follows:

	<u>June 30</u>			
	<u>2006</u>		<u>2005</u>	
	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Carrying Value</u>	<u>Fair Value</u>
<u>Nonderivative instruments</u>				
Assets				
Financial assets at fair value through profit or loss - current	\$ 5,383,264	\$ 5,383,264	\$ 2,836,258	\$ 2,836,258
Available-for-sale financial assets - current	760,746	760,746	175,483	897,296
Held-to-maturity financial assets (including current portion)	491,000	491,000	516,000	516,000
Financial assets carried at cost - noncurrent	979,683	-	1,091,401	-
Liabilities				
Convertible bonds payable (including current portion)	23,332,878	24,542,213	20,441,433	21,156,305
Obligation under capital lease (including current portion)	-	-	82,555	82,555
Long-term bank loans (including current portion)	33,288,333	33,288,333	21,169,589	21,169,589

(Continued)

	June 30			
	2006		2005	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<u>Derivative instruments</u>				
Assets				
Forward exchange contracts	\$ -	\$ -	\$ 21,489	\$ 37,649
Liabilities				
Interest rate swap contracts	101,531	101,531	1,395	71,163
Debt components of convertible bonds				
Conversion option	1,554,322	1,554,322	-	-
Put option	128,663	128,663	-	-
				(Concluded)

Effective January 1, 2006, the Group adopted Statement of Financial Accounting Standards No. 34 - "Accounting for Financial Instruments." Before this change, certain derivative instruments were not recognized in the financial statements. The effect of this accounting change is disclosed in Note 3.

b. Methods and assumptions used in determining fair values of financial instruments

- 1) Fair values of financial instruments at fair value through profit or loss, available-for-sale and held-to-maturity financial assets are based on their quoted prices in active markets. For those instruments not traded in active markets, their fair values are determined using valuation techniques incorporating estimates and assumptions that are consistent with prevailing market conditions.

In applying discounted cash flow analysis, the Group uses discount rates approximating the prevailing return rates of financial instruments under similar conditions, such as the credit quality of the debtors, the remaining periods over which the contractual interest rates are fixed, the remaining terms to repayment of principals and the currency to be used for payments. Discount rates used to evaluate held-to-maturity financial assets were 3.25% to 3.50% and 3.25% to 4.48% for the six months ended June 30, 2006 and 2005, respectively.

Fair values of derivatives were determined using valuation techniques incorporating estimates and assumptions consistent with prevailing market conditions.

- 2) Fair value of financial assets carried at cost is based on their original cost. For those assets not traded in active markets, their fair value should take unreasonable cost to verified, thus the fair value can not be measured reliably.
- 3) Fair value of long-term bank loans is estimated using discounted cash flow analysis, based on the Group's current incremental borrowing rates for borrowings with similar types (similar maturity dates). The fair value of long-term bank loans with floating interest rates is equivalent to their carrying value. Fair value of convertible bonds payable, issued before January 1, 2006, is based on quoted market prices, others are determined using the present value of forecasted cash flows. Fair value of capital lease obligation is determined using the present value of forecasted cash flows discounted at interest rates for obtaining equipment under capital lease.

The aforementioned financial instruments do not include cash and cash equivalent, accounts receivable, other receivable, restricted deposits, accounts payable and payable on equipment. The carrying amounts of these financial instruments approximate their fair value.

- c. Fair values of financial assets and liabilities, based on quoted market prices or valuation techniques, were as follows:

	Quoted Market Prices		Valuation Techniques	
	June 30		June 30	
	2006	2005	2006	2005
<u>Nonderivative instruments</u>				
Assets				
Financial assets at fair value				
through profit or loss - current	\$ 5,322,243	\$ 2,836,258	\$ 61,021	\$ -
Available-for-sale financial assets				
- current	760,746	897,296	-	-
Held-to-maturity financial assets				
(including current portion)	-	-	491,000	516,000
Liabilities				
Convertible bonds payable				
(including current portion)	20,856,658	21,156,305	3,685,555	-
Obligation under capital lease				
(including current portion)	-	-	-	82,555
Long-term bank loans (including				
current portion)	-	-	33,288,333	21,169,589
<u>Derivative instruments</u>				
Assets				
Forward exchange contracts	-	-	-	37,649
Liabilities				
Interest rate swap contracts	-	-	101,531	71,163
Debt component of convertible				
bonds				
Conversion option	-	-	1,554,322	-
Put option	-	-	128,663	-

- d. Loss recognized for the changes in fair value of financial instruments using valuation techniques was \$197,219 thousand for the six months ended June 30, 2006.
- e. As of June 30, 2006 and 2005, financial assets (liabilities) exposed to fair value interest rate risk and cash flow interest rate risk were as follows:

	June 30	
	2006	2005
Fair value interest rate risk		
Financial assets	\$ 29,325,431	\$ 26,234,285
Financial liabilities	(23,434,409)	(20,774,972)
Cash flow interest rate risk		
Financial assets	13,346,718	16,694,664
Financial liabilities	(33,288,333)	(20,920,000)

- f. As of June 30, 2006 and 2005, interest income (expenses) arising from the financial assets (liabilities), excluding those at fair value through profit and loss, were as follows:

	Six Months Ended	
	June 30	
	2006	2005
Total interest income	\$ 268,233	\$ 216,882
Total interest expenses (including capitalized amount)	(482,227)	(358,476)

The Group recognized an unrealized gain of \$73,859 thousand in shareholders' equity for the changes in fair value of available-for-sale financial assets for the six months ended June 30, 2006.

- g. Financial risks

- 1) Market risk. The financial instruments held by the Group are exposed to interest rate, foreign exchange rate and price risks.

Interest rates on bond investments and interest rate swap contracts were already determined. Thus, interest rate fluctuations would result in changes in fair values of these financial instruments.

Fair values of credit-linked notes (CLNs) denominated in foreign currency and forward exchange contracts are influenced by exchange rate fluctuations.

Fair values of available-for-sale and held-for-trading security investments are affected by fluctuations of quoted prices.

- 2) Credit risk. The Group will incur a loss if the counter-parties or third-parties breach the contracts, which are affected by such factors as the concentrations of counter parties, components of financial instruments, contract amounts, and the receivables on the contracts. Thus, contracts with positive fair values on the balance sheet date are evaluated for credit risk. As of June 30, 2006 and 2005, credit risks of the financial assets, except those approximate to their carrying values, were as follows:

	June 30			
	2006		2005	
	Carrying Amount	Credit Risk	Carrying Amount	Credit Risk
<u>Held-for-trading financial assets</u>				
Forward exchange contracts	\$ -	\$ -	\$ 21,489	\$ 124,918
<u>Financial assets designated at fair value through profit or loss</u>				
CLNs	61,021	61,021	-	-
<u>Held-to-maturity financial assets</u>				
Corporate bond	<u>491,000</u>	<u>491,000</u>	<u>516,000</u>	<u>516,000</u>
	<u>\$ 552,021</u>	<u>\$ 552,021</u>	<u>\$ 537,489</u>	<u>\$ 640,918</u>

- 3) Liquidity risk. The Group has sufficient operating capital to meet the cash demand upon settlement of financial instruments. Therefore, the cash flow risk is low.

Investments in bonds, CLNs and financial assets carried at cost do not have an active market. Thus, the liquidity risk of these investments is material. On the other hand, held-for-trading and available-for-sale security investments are expected to be settled rapidly at amounts approximating their fair values in active markets.

All forward exchange contracts have been expired and the interest rates of interest rate swap contracts are already determined. Thus, the fund-raising and cash flow risks are not material.

- 4) Cash flow interest rate risk. Long-term bank loans mainly bear floating interest rates. Thus, the fluctuations of market interest rates will result in changes in the Group's future cash flows.

24. RELATED PARTY TRANSACTIONS

a. Related parties

<u>Related Party</u>	<u>Relationship with the Group</u>
Powertech Technology Inc. ("Powertech")	Quantum is its director
CHIPSHIP Technology Co., Ltd. (CHIPSHIP)	PSC is its director
eMemory Technology Inc. ("eMemory")	Same chairman with PSC
PowerWorld Capital Management Corp. ("PowerWorld Management")	Same chairman with PSC
Veutron	Same chairman with PSC
Elpida Memory (Taiwan) Co., Ltd. ("Elpida-Taiwan")	Director of PSC (since June 9, 2006)
Elpida (Note 1)	Parent company of Elpida-Taiwan, also the it once to be the director of PSC (until June 9, 2006)
Renesas (Note 2)	Director of PSC(until January 7, 2005)
Renesas Technology (Taiwan) Co., Ltd. ("Renesas-Taiwan") (Note 2)	Subsidiary of Renesas
Tekmax	Equity-method investee
Novax	Equity-method investee
Deutron	Equity-method investee
Syntronix	Equity-method investee
Silicon	Equity-method investee
Others	Related parties with which the Group had no material transactions. Please see Note 27.

Note 1: The Company was selected to be the director from April 12, 2005 to June 9, 2006; the transaction made as of and for the six months ended June 30, 2006 are disclosed only for reference.

Note 2: The Company ceased to be the Group's related parties before June 30, 2006; the transactions made as of and for the six months ended June 30, 2006 are disclosed only for reference.

b. Related party transactions:

	Six Months Ended June 30			
	2006		2005	
	Amount	%	Amount	%
<u>For the period</u>				
1) Net sales				
Elpida	\$ 7,698,513	23	\$ 2,832,386	12
Deutron	4,561,976	14	5,966,867	25
Novax	1,956,429	6	1,358,794	6
Elpida-Taiwan	1,741,133	5	50,470	-
Renesas-Taiwan	1,238,571	4	5,864	-
Syntronix	357,288	1	-	-
Silicon	97,335	-	75,001	-
eMemory	32,903	-	7,576	-
CHIPSHIP	12,350	-	70	-
Others	-	-	2	-
	<u>\$ 17,696,498</u>	<u>53</u>	<u>\$ 10,297,030</u>	<u>43</u>
2) Purchase				
Renesas-Taiwan	\$ 194,269	3	\$ 148,385	2
Others	792	-	-	-
	<u>\$ 195,061</u>	<u>3</u>	<u>\$ 148,385</u>	<u>2</u>
3) Technical know-how and royalty				
Renesas	\$ 83,983	15	\$ 88,132	8
Others	11,224	2	121	-
	<u>\$ 95,207</u>	<u>17</u>	<u>\$ 88,253</u>	<u>8</u>
4) Manufacturing expenses - subcontract costs, indirect materials, expensed properties, repairs and maintenance, etc.				
Powertech	\$ 2,483,378	11	\$ 842,761	4
Others	644	-	7,736	-
	<u>\$ 2,484,022</u>	<u>11</u>	<u>\$ 850,497</u>	<u>4</u>
5) General and administrative expenses				
Tekmax	\$ 50,289	5	\$ 13,632	2
PowerWorld Management	15,930	2	-	-
Others	2,542	-	5,805	-
	<u>\$ 68,761</u>	<u>7</u>	<u>\$ 19,437</u>	<u>2</u>

(Continued)

	Six Months Ended June 30			
	2006		2005	
	Amount	%	Amount	%
6) Research and development expenses				
Elpida	\$ 189,334	18	\$ -	-
Renesas	50,093	5	76	-
Syntronix	19,300	2	-	-
eMemory	9,878	1	1,875	-
Others	<u>629</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 269,234</u>	<u>26</u>	<u>\$ 1,951</u>	<u>-</u>
7) Other income				
Powertech	\$ 10,272	23	\$ 589	-
eMemory	3,459	8	4,142	5
Syntronix	3,183	7	-	-
Others	<u>1,018</u>	<u>2</u>	<u>1,940</u>	<u>4</u>
	<u>\$ 17,932</u>	<u>40</u>	<u>\$ 6,671</u>	<u>9</u>

(Concluded)

	June 30			
	2006		2005	
	Amount	%	Amount	%
<u>At end of period</u>				
1) Accounts receivable, net				
Elpida	\$ 2,102,758	26	\$ 411,754	11
Deutron	1,513,703	19	1,099,684	28
Elpida-Taiwan	530,858	7	65	-
Novax	457,851	5	358,839	9
Renesas-Taiwan	242,348	2	4,821	-
Syntronix	45,176	1	-	-
Silicon	12,871	-	24,072	1
Others	<u>899</u>	<u>-</u>	<u>5,627</u>	<u>-</u>
	<u>\$ 4,906,464</u>	<u>60</u>	<u>\$ 1,904,862</u>	<u>49</u>
2) Accounts payable				
Powertech	\$ 1,527,102	21	\$ 442,439	8
Renesas-Taiwan	-	-	76,832	1
Others	<u>-</u>	<u>-</u>	<u>285</u>	<u>-</u>
	<u>\$ 1,527,102</u>	<u>21</u>	<u>\$ 519,556</u>	<u>9</u>

(Continued)

	June 30			
	2006		2005	
	Amount	%	Amount	%
3) Accrued expenses				
Elpida	\$ 565,246	23	\$ 861,851	41
Syntronix	15,486	1	-	-
Tekmax	7,619	-	11,015	-
Others	<u>10,028</u>	<u>1</u>	<u>112</u>	<u>-</u>
	<u>\$ 598,379</u>	<u>25</u>	<u>\$ 872,978</u>	<u>41</u>
			(Concluded)	

The Group also purchased (sold) the following stocks and bonds from (to) related parties for the six months ended June 30, 2006 and 2005:

1) Stocks

Related Parties	Investee	Shares Purchased (Sold) (in Thousands)	Costs (Proceeds)	Profit (Loss)
<u>2006</u>				
Deutron	Syntronix	(600)	\$ (16,800)	\$ 9,430
<u>2005</u>				
Veutron	Lu-Chu	7,000	\$ 70,000	

2) Bonds

Related Parties	Investee	Units Purchased (Matured)	Amount	Rate
<u>2006</u>				
Veutron	Veutron Bonds	15	\$ 75,000	3.50%
Veutron	Veutron Bonds	(15)	\$ (75,000)	3.50%
<u>2005</u>				
Veutron	Veutron Bonds	29	\$ 145,000	3.50%
Veutron	Veutron Bonds	(26)	\$ (130,000)	3.95%

The stocks sold to related parties were based on specifically negotiated price.

The products sold to Silicon, Elpida and Elpida-Taiwan by PSC were based on specifically negotiated terms for which there are no comparable terms under other contracts.

The terms of the sales made to Novax and Deutron were to be paid on the 45th day after the month of shipment.

The research and development expenses paid to Elpida, Renesas, eMemory, and Syntronix by PSC were based on specifically negotiated terms.

Except for the above transactions, which were based on specifically negotiated terms and for which there were no comparable terms under other contracts, all transactions between the Group and other related parties were made at normal commercial prices and terms.

25. PLEDGED OR MORTGAGED ASSETS

The following assets had been pledged or mortgaged as collaterals for long-term bank loans, letters of credit and bonded inventories:

	June 30	
	2006	2005
Properties, net	\$ 53,722,220	\$ 40,728,667
Restricted deposits	850,436	1,494,101
Accounts receivable	<u>-</u>	<u>287,490</u>
	<u>\$ 54,572,656</u>	<u>\$ 42,510,258</u>

26. COMMITMENTS AND CONTINGENCIES

- a. Under a patent license agreement made with Company A in February 1999, PSC should pay royalty for 10 years from January 1, 1998 at an agreed percentage of the selling prices of the licensed products.
- b. Under several license and technology transfer agreements executed or amended with Company B, PSC should pay a certain amount of license fee and royalties at agreed percentages of the selling prices of certain licensed products from June 1998 to March 2008.
- c. In March 2003, PSC entered into a purchase and sale agreement with Company C on products using DRAM technologies in their manufacture. Under the agreement, PSC should reserve a certain percentage of production capacity for Company C.
- d. In August 2003 and March 2005, PSC entered into license and technology transfer agreements with Company C. Under the agreements, PSC should pay Company C, a certain amount of license fee over 5 years after technology is transferred and royalty at an agreed percentage of the selling prices of the licensed products.
- e. In August 2003, PSC entered into license and technology transfer agreements with Companies D and E. Under the agreements, PSC should pay Companies D and E royalty at an agreed percentage of the selling prices of the licensed products over 5 years after the technology transfer.
- f. Under a patent license agreement made with Company F in October 2003, PSC should pay royalty annually for 5 years from 2003.
- g. Under a product design and license agreement on DDR II products with Company G made in December 2003, PSC should pay a certain amount of license fee and royalty at an agreed percentage of the selling prices of the licensed products.
- h. Under several product design and license agreements with Company H made in June 2005, PSC should pay a certain amount of license fee and royalty at an agreed percentage of the selling prices of the licensed products and reserve a certain percentage of production capacity for Company I.

- i. Under a non-recurring engineering agreement with Company I made in September 2005, PSC should pay a certain amount of development fee quarterly from September 2005 to September 2007.
- j. Under a technology development and transfer agreement with Company J made in September 2005, PSC should pay a certain amount of development fee over 5 years and royalty at an agreed percentage of the selling prices of the licensed products.
- k. Under a non-recurring engineering agreement with Company K made in April 2006, PSC should pay development fee over 1 year.
- l. PSC signed an agreement with Micronix (MXIC) for purchasing its 12 inches fab (“FAB 12M”), cleaning room and other related facilities, which is expected to be consummated in the second quarter of 2006. Both parties also agreed, within the site, to jointly develop 90nm and below process technologies for manufacturing NVM Flash Memory products, and a certain percentage of FAB 12M’s capacity will be reserved for MXIC should such technologies been developed, in return, a certain amount of royalty should be paid by MXIC.
- m. Under a technology development and transfer agreement with Company J made in January 2006, Zentel should pay a certain amount of development fee over 5 years and royalty at an agreed percentage of the selling prices of the licensed products.
- n. In February and May 2006, PSC entered into license and technology transfer agreement on flash memory products with Company G. Under the agreement, PSC should pay Company G a certain amount of license fee and royalty at an agreed percentage of the selling prices of the licensed products.
- o. PSC’s unused letters of credit amounted to approximately US\$174,510 thousand, JPY3,033,984 thousand and EUR150 thousand as of June 30, 2006.
- p. PSC leases several parcels of land from the Science-Based Industrial Park Administration under renewable operating leases agreements expiring on various dates from March 2015 to December 2025.

As of June 30, 2006, future lease payments were as follows:

Year	Amount
2006 (3 rd to 4 th quarter)	\$ 35,561
2007	71,122
2008	71,122
2009	71,122
2010	71,122
2011	71,122
2012 and thereafter	<u>442,424</u>
	<u>\$ 833,595</u>

27. ADDITIONAL DISCLOSURES

Except for the following, the Group had no other significant transactions, investees and investments in Mainland China, for which disclosure is required by the SFB:

- a. Marketable securities held: Table 1 (attached)
- b. Marketable securities acquired and disposed of at costs or prices of at least \$100 million or 20% of the paid-in capital: Table 2 (attached)

- c. Acquisition of individual real estates at costs of at least \$100 million or 20% of the paid-in capital: Table 3 (attached)
- d. Total purchase from or sale to related parties amounting to at least \$100 million or 20% of the paid-in capital: Table 4 (attached)
- e. Receivables from related parties amounting to at least \$100 million or 20% of the paid-in capital: Table 5 (attached)
- f. Names, locations, and related information of investees on which the Group exercises significant influence: Table 6 (attached)
- g. Derivative financial transactions: Please see Notes 5 and 23.
- h. Intercompany relationships and significant intercompany transactions: Table 7 (attached).
- i. Information of the securities of the parent company held by its subsidiaries: Except as disclosed in Note 19 that Li-Hsin and Smartic held certain issued shares of PSC for investment purpose, no other subsidiaries hold the securities issued by the parent company.

TABLE 1

POWERCHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

MARKETABLE SECURITIES HELD

JUNE 30, 2006

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

Holding Company Name	Marketable Securities Type and Issuer	Relationship with the Holding Company	Financial Statement Account	June 30, 2006				Note
				Shares (Thousands/ Units) (Note 7)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
PSC	<u>Stock</u>							
	Quantum Vision Corp.	Subsidiary	Equity-method investment	209,890	\$ 2,351,966	99.99	\$ 2,357,363	Note 1
	Paramax Corp.	Subsidiary	Equity-method investment	132,894	1,144,015	99.99	1,146,986	Note 1
	Li-Hsin Investment Corp.	Subsidiary	Equity-method investment	152,850	994,450	99.90	1,080,538	Note 1
	Lu-Chu Development Corp.	Investee	Equity-method investment	63,499	582,344	27.18	582,344	Note 1
	Zhi-Li Investment Corp.	Investee	Equity-method investment	33,301	359,434	37.00	360,000	Note 1
	Novax Technologies, Inc.	Investee	Equity-method investment	24,658	317,008	24.66	317,008	Note 1
	Smart Art Corp.	Subsidiary	Equity-method investment	23,654	236,234	45.66	236,234	Note 1
	Deutron Electronics Corp.	Investee	Equity-method investment	6,997	165,545	9.44	166,824	Note 1
	Artrix International Inc.	Investee	Equity-method investment	12,760	139,818	25.52	139,818	Note 1
	Optimicro Corp.	Investee	Equity-method investment	14,700	136,149	29.40	136,149	Note 1
	Luxxon Technology Corp.	Investee	Equity-method investment	20,733	123,194	20.73	123,194	Note 1
	Smartic Technology Inc.	Subsidiary	Equity-method investment	15,300	117,900	51.00	143,152	Note 1
	Neo Solar Power Corp.	Investee	Equity-method investment	9,600	95,912	16.00	95,912	Note 1
	Signia Technologies Co., Ltd.	Investee	Equity-method investment	5,187	93,549	28.01	44,078	Note 1
	Syntronix Corp.	Investee	Equity-method investment	6,390	83,585	20.44	82,001	Note 1
	Deutron Japan Corp.	Investee	Equity-method investment	2,891	80,495	38.98	80,495	Note 1
	Tekmax Development Corp.	Investee	Equity-method investment	5,851	73,081	15.65	73,320	Note 1
	Synage Technology Corp.	Investee	Equity-method investment	10,084	72,345	20.17	72,345	Note 1
	Zentel Electronics Corp.	Subsidiary	Equity-method investment	9,200	71,815	36.80	86,419	Note 1
	Astel Electronics Corp.	Investee	Equity-method investment	8,000	63,628	40.00	63,628	Note 1
	Retronix Technology Corp.	Investee	Equity-method investment	5,000	50,485	25.00	50,485	Note 1
	Vivichip Electronics Corp.	Investee	Equity-method investment	4,000	39,961	40.00	39,961	Note 1
	Luxchip Technology Corp.	Investee	Equity-method investment	3,800	38,360	19.00	38,360	Note 1
	AVAC Systems, Inc.	Investee	Equity-method investment	4,000	37,981	23.31	37,981	Note 1
	PowerFlash Semiconductor Corp.	Subsidiary	Equity-method investment	4,160	33,602	32.00	33,664	Note 1
	Silicon Optronics, Inc.	Investee	Equity-method investment	1,700	31,173	12.14	29,291	Note 1
	Global Powertec Co., Ltd.	Subsidiary	Equity-method investment	80	22,467	100.00	22,467	Note 1
	PowerGate Optical, Inc.	Investee	Equity-method investment	1,287	9,323	5.42	9,323	Note 1
	MaxEdge Electronics Corp.	Investee	Equity-method investment	1,714	2,751	13.39	2,751	Note 1
	Optimax Technology Corp.	PSC is its director	Available-for-sale financial assets	5,105	144,222	-	144,222	
	Asia Pacific Broadband Telecommunications Co., Ltd.	-	Financial assets carried at cost	12,000	114,635	0.18	114,635	Note 2
	Besteam Technology Inc.	-	Financial assets carried at cost	6,430	58,454	9.84	58,454	Note 2
	PowerWorld Fund Inc.	Same chairman with PSC	Financial assets carried at cost	4,364	57,381	9.09	57,381	Note 2
	Universal Venture Fund, Inc.	Same chairman with PSC	Financial assets carried at cost	3,810	38,093	4.76	38,093	Note 2
	uPI Semiconductor Corp.	Same chairman with PSC	Financial assets carried at cost	2,000	30,000	16.00	30,000	Note 2
	Terax Communication Technologies Inc.	Same chairman with PSC	Financial assets carried at cost	3,065	29,152	6.26	29,152	Note 2
	eMemory Technology Inc.	Same chairman with PSC	Financial assets carried at cost	2,648	28,961	7.90	28,961	Note 2

(Continued)

Holding Company Name	Marketable Securities Type and Issuer	Relationship with the Holding Company	Financial Statement Account	June 30, 2006				Note
				Shares (Thousands/Units) (Note 7)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
	A-Optronics Technology Inc.	Same chairman with PSC	Financial assets carried at cost	2,232	\$ 25,184	6.98	\$ 25,184	Note 2
	TwinMOS Technologies Inc.	-	Financial assets carried at cost	2,757	23,109	1.34	23,109	Note 2
	Great Taipei Broadband Co., Ltd.	PSC is its director	Financial assets carried at cost	2,500	22,693	1.67	22,693	Note 2
	Advanced Chip Engineering Technology Inc.	-	Financial assets carried at cost	1,891	18,914	2.94	18,914	Note 2
	EUDAR Technology Inc.	-	Financial assets carried at cost	600	15,420	2.20	15,420	Note 2
	Lightsonic Optoelectronics Inc.	Same chairman with PSC	Financial assets carried at cost	1,700	12,252	1.83	12,252	Note 2
	Area East Technology Corp.	-	Financial assets carried at cost	1,300	11,692	18.81	11,692	Note 2
	CHIPSHIP Technology Co., Ltd.	PSC is its director	Financial assets carried at cost	934	9,339	10.61	9,339	Note 2
	Taiwan Liposome Co., Ltd.	Quantum is its director	Financial assets carried at cost	300	9,000	2.39	9,000	Note 2
	DRAMeXchange Tech. Inc.	-	Financial assets carried at cost	330	3,089	3.59	3,089	Note 2
	Phitech Corp.	-	Financial assets carried at cost	305	1,552	1.27	1,552	Note 2
	Miluku Entertainment Corp.	Quantum is its director	Financial assets carried at cost	400	931	1.80	931	Note 2
	Jade Pacific Corp.	-	Financial assets carried at cost	8	83	1.35	83	Note 2
	Ta Shee Golf & Country Club	-	Financial assets carried at cost	1	10	-	10	Note 2
	Magellan Systems Japan Inc.	-	Financial assets carried at cost	1	31,517	16.90	31,517	Note 2
	Venglobal Capital Fund L.P.	-	Financial assets carried at cost	-	16,590	5.18	16,590	Note 2
	Powerchip Japan Corporation	-	Financial assets carried at cost	1	11,870	6.18	11,870	Note 2
	Venglobal International Fund	-	Financial assets carried at cost	1	11,217	2.83	11,217	Note 2
	e-Phocus, Inc.	-	Financial assets carried at cost	700	-	8.52	-	Note 2
	e-Phocus, Inc., Series B-preferred shares	-	Financial assets carried at cost	667	31,520	50.00	31,520	Note 2
	e-Phocus, Inc., Series A-preferred shares	-	Financial assets carried at cost	333	11,460	33.33	11,460	Note 2
	Billions of Operations Per Second, Inc., Series A - preferred shares	-	Financial assets carried at cost	833	-	1.41	-	Note 2
	Billions of Operations Per Second, Inc., Series D - preferred shares	-	Financial assets carried at cost	658	-	1.12	-	Note 2
	Globalgate.com, Inc.	-	Financial assets carried at cost	500	-	0.93	-	Note 2
	Shinkong Financial Holding Co., Ltd.	-	Financial assets at fair value through profit and loss	21,418	762,484	-	762,484	-
	Wafer Works Corp.	-	Financial assets at fair value through profit and loss	8,500	362,950	-	362,950	-
	Hua Nan Financial Holdings Co., Ltd.	-	Financial assets at fair value through profit and loss	14,291	330,129	-	330,129	-
	Macronix International Co., Ltd.	-	Financial assets at fair value through profit and loss	35,333	311,993	-	311,993	-
	Advanced Semiconductor Engineering, Inc.	-	Financial assets at fair value through profit and loss	5,485	175,520	-	175,520	-
	Taiwan Semiconductor Manufacturing Company Limited	-	Financial assets at fair value through profit and loss	2,575	150,378	-	150,378	-
	Taiwan Cooperative Bank	-	Financial assets at fair value through profit and loss	5,500	125,675	-	125,675	-
	Chang Hwa Commercial Bank, Ltd.	-	Financial assets at fair value through profit and loss	5,400	123,930	-	123,930	-
	Wintek Corporation	-	Financial assets at fair value through profit and loss	3,576	105,658	-	105,658	-
	Depo Auto Parts Ind. Co., Ltd.	-	Financial assets at fair value through profit and loss	609	65,156	-	65,156	-
	Fuhwa Financial Holding Co., Ltd.	-	Financial assets at fair value through profit and loss	4,100	61,500	-	61,500	-
	First Financial Holding Co., Ltd.	-	Financial assets at fair value through profit and loss	2,000	49,000	-	49,000	-
	Silicon Integrated System Corp.	-	Financial assets at fair value through profit and loss	3,000	48,900	-	48,900	-
	Fullerton Technology Co., Ltd.	-	Financial assets at fair value through profit and loss	3,000	47,100	-	47,100	-
	ProMos Technologies Inc.	-	Financial assets at fair value through profit and loss	3,001	35,258	-	35,258	-
	BENQ Corporation	-	Financial assets at fair value through profit and loss	1,500	30,150	-	30,150	-
	Power Quotient International Co., Ltd.	-	Financial assets at fair value through profit and loss	2,000	23,000	-	23,000	-
	Yang Ming Marine Transport Corp.	-	Financial assets at fair value through profit and loss	1,000	20,300	-	20,300	-
	Yaego Corporation	-	Financial assets at fair value through profit and loss	1,500	16,800	-	16,800	-
	Etron Technology, Inc.	-	Financial assets at fair value through profit and loss	250	7,250	-	7,250	-
	Veutron Corp.	Same chairman with PSC	Financial assets at fair value through profit and loss	809	3,317	-	3,317	-
	Nanya Technology Corporation	-	Financial assets at fair value through profit and loss	75	1,526	-	1,526	-

(Continued)

Holding Company Name	Marketable Securities Type and Issuer	Relationship with the Holding Company	Financial Statement Account	June 30, 2006				Note
				Shares (Thousands/Units) (Note 7)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
	NewSoft Technology Corp.	Same chairman with PSC	Financial assets at fair value through profit and loss	180	\$ 1,332	-	\$ 1,332	-
	Elpida Memory Inc.	Director of PSC	Financial assets at fair value through profit and loss	429	520,520	-	520,520	-
	Silicon Storage Technology Inc.	-	Financial assets at fair value through profit and loss	68	8,766	-	8,766	-
	Sony Corporation	-	Financial assets at fair value through profit and loss	5	7,133	-	7,133	-
	<u>Bonds</u>							
	Veutron Corp. - issued in 2005 (I)	Same chairman with PSC	Held-to-maturity financial assets	16	80,000	-	80,000	Note 2
	MaxEdge Electronics Corp. - issued in 2005 (I)	Investee	Held-to-maturity financial assets	30	30,000	-	30,000	Note 2
	MaxEdge Electronics Corp. - issued in 2005 (II)	Investee	Held-to-maturity financial assets	30	30,000	-	30,000	Note 2
	Veutron Corp. - issued in 2006 (I)	Same chairman with PSC	Held-to-maturity financial assets	5	25,000	-	25,000	Note 2
	Veutron Corp. - issued in 2002 (II)	Same chairman with PSC	Held-to-maturity financial assets	4	20,000	-	20,000	Note 2
	MaxEdge Electronics Corp. - issued in 2005 (III)	Investee	Held-to-maturity financial assets	20	20,000	-	20,000	Note 2
	Credit Link Note issued by Credit Suisse First Boston	-	Financial assets at fair value through profit and loss	-	48,082	-	48,082	-
	Credit Link Note issued by Yuanta Assets Management Limited	-	Financial assets at fair value through profit and loss	-	12,939	-	12,939	-
	<u>Equity</u>							
	Fubon Ju-I II Fund	-	Financial assets at fair value through profit and loss	7,003	101,227	-	101,227	-
	Fubon Ju-I Bond Fund	-	Financial assets at fair value through profit and loss	6,422	101,210	-	101,210	-
	Polaris Global ABS Fund - A	-	Financial assets at fair value through profit and loss	8,002	79,181	-	79,181	-
	Fuh-Hwa Omni Fund	-	Financial assets at fair value through profit and loss	5,000	50,400	-	50,400	-
	UPAMC Select Guaranteed No. 1 Fund	-	Financial assets at fair value through profit and loss	1,000	9,950	-	9,950	-
	Fuh-Hwa Heirloom No. 2 Balance Fund	-	Financial assets at fair value through profit and loss	639	8,816	-	8,816	-
	Shinkong Number One Real Estate Investment	-	Financial assets at fair value through profit and loss	20,000	207,000	-	207,000	-
	Fuh Hwa Asia Pacific Balance Fund	-	Available-for-sale financial assets	5,000	49,300	-	49,300	-
	Cathay Wealthy One Fund	-	Available-for-sale financial assets	3,000	30,102	-	30,102	-
	Fubon No.2 REITs	-	Available-for-sale financial assets	18,000	187,020	-	187,020	-
	Champion Real Estate Investment Trust	-	Available-for-sale financial assets	2,957	47,473	-	47,473	-
Li-Hsin	<u>Stock</u>							
	MaxEdge Electronics Corp.	Investee	Equity-method investment	2,045	2,807	15.97	2,807	Note 2
	Synage Technology Corp.	Investee	Equity-method investment	10,750	77,116	21.50	77,116	Note 2
	Novax Technologies, Inc.	Investee	Equity-method investment	5,246	67,490	5.25	67,490	Note 2
	Luxxon Technology Corp.	Investee	Equity-method investment	1,363	8,082	1.36	8,082	Note 2
	Tekmax Development Corp.	Investee	Equity-method investment	1,707	21,410	4.57	21,410	Note 2
	Smartic Technology Inc.	Investee	Equity-method investment	1,430	13,389	4.77	13,389	Note 2
	Artrix International Inc.	Investee	Equity-method investment	2,295	25,148	4.59	25,148	Note 2
	Optimicro Corp.	Investee	Equity-method investment	2,118	19,635	4.24	19,635	Note 2
	Lu-Chu Development Corp.	Investee	Equity-method investment	24,337	223,253	10.42	223,253	Note 2
	Smart Art Corp.	Investee	Equity-method investment	6,101	60,947	11.78	60,947	Note 2
	LoanSky.Net Corp.	Investee	Equity-method investment	400	3,488	8.00	3,488	Note 2
	Luxchip Technology Corp.	Investee	Equity-method investment	1,800	18,171	9.00	18,171	Note 2
	Neo Solar Power Corp.	Investee	Equity-method investment	1,500	14,986	2.50	14,986	Note 2
	Deutron Japan Corp.	Investee	Equity-method investment	289	7,973	3.89	7,973	Note 2
	Explore Technology Electronics Inc.	-	Financial assets carried at cost	500	-	4.17	-	Note 2
	Gatetech Technology Inc.	-	Financial assets carried at cost	187	2,964	0.31	2,964	Note 2

(Continued)

Holding Company Name	Marketable Securities Type and Issuer	Relationship with the Holding Company	Financial Statement Account	June 30, 2006				Note
				Shares (Thousands/Units) (Note 7)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
	Aero Vision Avionics, Inc.	Same chairman with PSC	Financial assets carried at cost	1,000	\$ 6,960	1.85	\$ 6,960	Note 2
	Giga Solution Tech. Co., Ltd.	-	Financial assets carried at cost	962	5,817	0.76	5,817	Note 2
	PowerWorld Fund Inc.	Same chairman with PSC	Financial assets carried at cost	671	8,822	1.40	8,822	Note 2
	Eon Silicon Solution Inc.	-	Financial assets carried at cost	195	4,515	0.34	4,515	Note 2
	Ili Technology Corp.	-	Financial assets carried at cost	500	7,500	2.13	7,500	Note 2
	Chipking Electronic Co., Ltd.	-	Financial assets carried at cost	600	6,600	12.00	6,600	Note 2
	Getsilicon net, Inc.	-	Financial assets carried at cost	400	-	2.20	-	Note 2
	Powerchip Japan Corp.	-	Financial assets carried at cost	1	1,732	0.83	1,732	Note 2
	Umax System GmbH	-	Financial assets carried at cost	-	9,353	6.00	9,353	Note 2
	Bonds							
	Veutron Corp. - issued in 2002 (II)	Same chairman with PSC	Held-to-maturity financial assets	3	15,000	-	15,000	Note 2
	Veutron Corp. - issued in 2003 (II)	Same chairman with PSC	Held-to-maturity financial assets	3	6,000	-	6,000	Note 2
	Veutron Corp. - issued in 2005 (I)	Same chairman with PSC	Held-to-maturity financial assets	4	20,000	-	20,000	Note 2
	Veutron Corp. - issued in 2006 (I)	Same chairman with PSC	Held-to-maturity financial assets	3	15,000	-	15,000	Note 2
	MaxEdge Electronics Corp. - issued in 2005 (II)	Investee	Held-to-maturity financial assets	10	10,000	-	10,000	Note 2
	MaxEdge Electronics Corp. - issued in 2005 (III)	Investee	Held-to-maturity financial assets	15	15,000	-	15,000	Note 2
	Stock							
	NewSoft Technology Corp.	Same chairman with PSC	Financial assets at fair value through profit and loss	1,126	8,333	-	8,333	-
	Fullerton Technology Co., Ltd.	-	Financial assets at fair value through profit and loss	1,045	16,409	-	16,409	-
	Yang Ming Marine Transport Corp.	-	Financial assets at fair value through profit and loss	100	2,030	-	2,030	-
	Macronix International Co., Ltd.	-	Financial assets at fair value through profit and loss	7,005	61,850	-	61,850	-
	Optimax Technology Corp.	PSC is its director	Available-for-sale financial assets	120	3,390	-	3,390	-
	Powerchip Semiconductor Corp.	Parent company	Available-for-sale financial assets	3,992	84,831	-	84,831	-
	AIPTEK International Inc.	-	Available-for-sale financial assets	1,000	8,100	-	8,100	-
	Tianjin Port Development Holding Limited	-	Available-for-sale financial assets	10	94	-	94	-
	Equity							
	Polaris De-Li Fund	-	Financial assets at fair value through profit and loss	3,347	50,118	-	50,118	-
	Taishin Lucky Investment Trust Fund	-	Financial assets at fair value through profit and loss	991	10,096	-	10,096	-
	PCA Bond Fund	-	Financial assets at fair value through profit and loss	2,597	40,076	-	40,076	-
	Shenghua 101 Global Mortgage Securitization Fund	-	Financial assets at fair value through profit and loss	500	5,040	-	5,040	-
	Champion Real Estate Investment Trust	-	Available-for-sale financial assets	396	6,309	-	6,309	-
Quantum	Stock							
	MaxEdge Electronics Corp.	Investee	Equity-method investment	1,425	1,956	11.13	1,956	Note 2
	Deutron Electronics Corp.	Investee	Equity-method investment	7,330	174,699	9.89	174,699	Note 2
	Syntronix Corp.	Investee	Equity-method investment	649	8,345	2.08	8,345	Note 2
	Zentel Electronics Corp.	Investee	Equity-method investment	2,100	19,726	8.40	19,726	Note 2
	Synage Technology Corp.	Investee	Equity-method investment	1,836	13,163	3.67	13,163	Note 2
	Novax Technologies, Inc.	Investee	Equity-method investment	12,735	163,646	12.73	163,646	Note 2
	Luxxon Technology Corp.	Investee	Equity-method investment	9,670	57,467	9.67	57,467	Note 2
	AVAC Systems Inc.	Investee	Equity-method investment	2,237	21,231	13.03	21,231	Note 2
	PowerGate Optical, Inc.	Investee	Equity-method investment	2,610	18,886	10.98	18,886	Note 2
	Tekmax Development Corp.	Investee	Equity-method investment	4,267	53,456	11.41	53,456	Note 2
	Silicon Optronics, Inc.	Investee	Equity-method investment	900	15,514	6.43	15,514	Note 2

(Continued)

Holding Company Name	Marketable Securities Type and Issuer	Relationship with the Holding Company	Financial Statement Account	June 30, 2006				Note
				Shares (Thousands/Units) (Note 7)	Carrying Value	Percentage of Ownership (%)	Market Value or Net Asset Value	
	PowerFlash Semiconductor Corp.	Investee	Equity-method investment	850	\$ 6,880	6.54	\$ 6,880	Note 2
	Smartic Technology Inc.	Investee	Equity-method investment	1,800	16,841	6.00	16,841	Note 2
	Artrix International Inc.	Investee	Equity-method investment	4,985	54,623	9.97	54,623	Note 2
	Optimicro Corp.	Investee	Equity-method investment	3,987	36,908	7.97	36,908	Note 2
	Lu-Chu Development Corp.	Investee	Equity-method investment	7,327	67,276	3.14	67,276	Note 2
	Astel Electronics Corp.	Investee	Equity-method investment	1,000	7,954	5.00	7,954	Note 2
	Smart Art Corp.	Investee	Equity-method investment	10,002	99,906	19.31	99,906	Note 2
	LoanSky.Net Corp.	Investee	Equity-method investment	1,000	8,720	20.00	8,720	Note 2
	Luxchip Technology Corp.	Investee	Equity-method investment	2,200	22,208	11.00	22,208	Note 2
	Neo Solar Power Corp.	Investee	Equity-method investment	1,800	17,983	3.00	17,983	Note 2
	Retronix Technology Corp.	Investee	Equity-method investment	1,000	10,097	5.00	10,097	Note 2
	Network Holdings Limited	Investee	Equity-method investment	90	867	30.00	867	Note 2
	Signia Technologies Co., Ltd.	Investee	Equity-method investment	795	6,751	4.29	6,751	Note 2
	Vivichip Electronics Corp.	Investee	Equity-method investment	100	999	1.00	999	Note 2
	Terax Communication Technologies Inc.	Same chairman with PSC	Financial assets carried at cost	3,715	15,712	7.58	15,712	Note 2
	Powervision Technologies, Inc.	Quantum is its director	Financial assets carried at cost	520	3,858	11.87	3,858	Note 2
	Besteam Technology Inc.	-	Financial assets carried at cost	3,388	24,187	5.19	24,187	Note 2
	eMemory Technology Inc.	Same chairman with PSC	Financial assets carried at cost	880	-	2.63	-	Note 2
	Great Taipei Broadband Co., Ltd.	PSC is its director	Financial assets carried at cost	1,500	12,945	1.00	12,945	Note 2
	Aero Vision Avionics, Inc.	Same chairman with PSC	Financial assets carried at cost	1,500	10,440	2.78	10,440	Note 2
	Universal Venture Fund, Inc.	Same chairman with PSC	Financial assets carried at cost	3,119	24,984	3.90	24,984	Note 2
	SAMHOP Electronics Corp.	-	Financial assets carried at cost	720	9,432	3.00	9,432	Note 2
	Impac Technology Co., Ltd.	-	Financial assets carried at cost	200	2,106	0.53	2,106	Note 2
	Lightsonic Optoelectronics Inc.	Same chairman with PSC	Financial assets carried at cost	1,500	10,811	1.62	10,811	Note 2
	Ili Technology Corp.	-	Financial assets carried at cost	1,000	15,000	4.26	15,000	Note 2
	Cetronix Technology Corp.	-	Financial assets carried at cost	80	800	8.00	800	Note 2
	Billions of Operations Per Second, Inc.	-	Financial assets carried at cost	200	-	0.33	-	Note 2
	Nobex Corp.	-	Financial assets carried at cost	50	-	-	-	Note 2
	Magna Chip.	-	Financial assets carried at cost	1	-	-	-	Note 2
	MAXXAN Corp.	-	Financial assets carried at cost	403	-	0.25	-	Note 2
	e-Phocus, Inc. Series B - preferred shares	-	Financial assets carried at cost	133	6,311	-	6,311	Note 2
	Umax System GmbH	-	Financial assets carried at cost	-	10,912	7.00	10,912	Note 2
	Miluku Entertainment Corp.	Quantum is its director	Financial assets carried at cost	400	5,000	1.80	5,000	Note 2
	Taiwan Liposome Co., Ltd.	Quantum is its director	Financial assets carried at cost	200	6,000	1.59	6,000	Note 2
	PowerWorld Fund Inc.	Same chairman with PSC	Financial assets carried at cost	1,200	15,779	2.50	15,779	Note 2
	Chipking Electronic Co., Ltd.	Quantum is its supervisor	Financial assets carried at cost	800	8,000	16.00	8,000	Note 2
	TVbean Co., Ltd.	Quantum is its director	Financial assets carried at cost	300	4,500	1.60	4,500	Note 2
	A-Optronics Technology Inc.	Same chairman with PSC	Financial assets carried at cost	2,595	28,740	8.11	28,740	Note 2
	Eon Silicon Solution Inc.	-	Financial assets carried at cost	195	4,515	0.48	4,515	Note 2
	Phoenix Silicon International Corporation	-	Financial assets carried at cost	218	2,399	0.24	2,399	Note 2
	Bonds							
	Veutron Corp. - issued in 2002 (II)	Same chairman with PSC	Held-to-maturity financial assets	5	25,000	-	25,000	Note 2
	Veutron Corp. - issued in 2003 (II)	Same chairman with PSC	Held-to-maturity financial assets	13	26,000	-	26,000	Note 2
	Veutron Corp. - issued in 2005 (I)	Same chairman with PSC	Held-to-maturity financial assets	4	20,000	-	20,000	Note 2
	Veutron Corp. - issued in 2006 (I)	Same chairman with PSC	Held-to-maturity financial assets	5	25,000	-	25,000	Note 2

(Continued)

Holding Company Name	Marketable Securities Type and Issuer	Relationship with the Holding Company	Financial Statement Account	June 30, 2006				Note
				Shares (Thousands/Units) (Note 7)	Carrying Value	Percentage of Ownership (%)	Market Value or Net Asset Value	
	MaxEdge Electronics Corp. - issued in 2005 (I)	Investee	Held-to-maturity financial assets	10	\$ 10,000	-	\$ 10,000	Note 2
	MaxEdge Electronics Corp. - issued in 2005 (II)	Investee	Held-to-maturity financial assets	20	20,000	-	20,000	Note 2
	MaxEdge Electronics Corp. - issued in 2005 (III)	Investee	Held-to-maturity financial assets	10	10,000	-	10,000	Note 2
	<u>Stocks</u>							
	NewSoft Technology Corp.	Same chairman with PSC	Financial assets at fair value through profit and loss	473	3,502	-	3,502	-
	Veutron Corp.	Same chairman with PSC	Financial assets at fair value through profit and loss	500	2,050	-	2,050	-
	Silicon Storage Technology Inc.	-	Financial assets at fair value through profit and loss	127	16,379	-	16,379	-
	Fullerton Technology Co., Ltd.	-	Financial assets at fair value through profit and loss	3,060	48,043	-	48,043	-
	Yang Ming Marine Transport Corp.	-	Financial assets at fair value through profit and loss	100	2,030	-	2,030	-
	Macronix International Co., Ltd.	-	Financial assets at fair value through profit and loss	13,161	116,208	-	116,208	-
	Hua Nan Financial Holdings Co., Ltd.	-	Financial assets at fair value through profit and loss	1,000	23,100	-	23,100	-
	Wafer Works Corp.	-	Financial assets at fair value through profit and loss	3,000	128,100	-	128,100	-
	Optimax Technology Corp.	PSC is its director	Available-for-sale financial assets	299	8,441	-	8,441	-
	Powertech Technology Inc.	Quantum is its director	Available-for-sale financial assets	2,776	266,790	-	266,790	-
	Tianjin Port Development Holding Limited	-	Available-for-sale financial assets	8	75	-	75	-
	<u>Equity</u>							
	Dresdner Bond Dam Fund	-	Financial assets at fair value through profit and loss	11,307	130,109	-	130,109	-
	Cathay Bond Fund	-	Financial assets at fair value through profit and loss	6,111	70,005	-	70,005	-
	Taishin Lucky Investment Trust Fund	-	Financial assets at fair value through profit and loss	9,817	100,008	-	100,008	-
	Champion Real Estate Investment Trust	-	Available-for-sale financial assets	450	7,169	-	7,169	-
Paramax	<u>Stock</u>							
	MaxEdge Electronics Corp.	Investee	Equity-method investment	910	1,250	7.11	1,250	Note 2
	Synage Technology Corp.	Investee	Equity-method investment	2,081	14,921	4.16	14,921	Note 2
	Novax Technologies, Inc.	Investee	Equity-method investment	4,042	51,935	4.04	51,935	Note 2
	Luxxon Technology Corp.	Investee	Equity-method investment	6,728	39,995	6.73	39,995	Note 2
	AVAC Systems Inc.	Investee	Equity-method investment	662	6,289	3.86	6,289	Note 2
	PowerGate Optical, Inc.	Investee	Equity-method investment	1,064	7,706	4.48	7,706	Note 2
	Tekmax Development Corp.	Investee	Equity-method investment	1,060	13,306	2.84	13,307	Note 2
	Silicon Optronics, Inc.	Investee	Equity-method investment	500	8,614	3.57	8,614	Note 2
	PowerFlash Semiconductor Corp.	Investee	Equity-method investment	500	4,050	3.85	4,050	Note 2
	Smartic Technology Inc.	Investee	Equity-method investment	1,800	16,841	6.00	16,841	Note 2
	Artrix International Inc.	Investee	Equity-method investment	1,897	20,765	3.79	20,764	Note 2
	Optimicro Corp.	Investee	Equity-method investment	800	7,409	1.60	7,409	Note 2
	Lu-Chu Development Corp.	Investee	Equity-method investment	5,294	48,636	2.27	48,636	Note 2
	Smart Art Corp.	Investee	Equity-method investment	12,043	120,290	23.25	120,290	Note 2
	LoanSky.Net Corp.	Investee	Equity-method investment	400	3,488	8.00	3,488	Note 2
	Deutron Japan Corp.	Investee	Equity-method investment	351	9,695	4.73	9,695	Note 2
	Zhi-Li Investment Corp.	Investee	Equity-method investment	6,219	67,232	6.91	67,232	Note 2
	Retronix Technology Corp.	Investee	Equity-method investment	1,000	10,097	5.00	10,097	Note 2
	Terax Communication Technologies Inc.	Same chairman with PSC	Financial assets carried at cost	770	6,303	1.57	6,303	Note 2
	Powervision Technologies, Inc.	Quantum is its director	Financial assets carried at cost	260	1,929	5.94	1,929	Note 2
	Besteam Technology Inc.	-	Financial assets carried at cost	261	3,120	0.40	3,120	Note 2

(Continued)

Holding Company Name	Marketable Securities Type and Issuer	Relationship with the Holding Company	Financial Statement Account	June 30, 2006				Note
				Shares (Thousands/Units) (Note 7)	Carrying Value	Percentage of Ownership (%)	Market Value or Net Asset Value	
	Aero Vision Avionics, Inc.	Same chairman with PSC	Financial assets carried at cost	1,290	\$ 8,978	2.39	\$ 8,978	Note 2
	Universal Venture Fund, Inc.	Same chairman with PSC	Financial assets carried at cost	1,405	11,252	0.84	11,252	Note 2
	SAMHOP Electronics Corp.	-	Financial assets carried at cost	440	7,040	1.83	7,040	Note 2
	Lightsonic Optoelectronics Inc.	Same chairman with PSC	Financial assets carried at cost	1,000	7,208	1.08	7,208	Note 2
	PowerWorld Fund Inc.	Same chairman with PSC	Financial assets carried at cost	818	8,333	0.93	8,333	Note 2
	Eon Silicon Solution Inc.	-	Financial assets carried at cost	209	4,839	0.37	4,839	Note 2
	Ili Technology Corp.	-	Financial assets carried at cost	1,000	15,000	4.26	15,000	Note 2
	Powerchip Japan Corporation	-	Financial assets carried at cost	1	1,728	0.90	1,728	Note 2
	Cetronix Technology Corp.	-	Financial assets carried at cost	100	1,000	10.00	1,000	Note 2
	<u>Bonds</u>							
	Veutron Corp. - issued in 2002 (II)	Same chairman with PSC	Held-to-maturity financial assets	2	10,000	-	10,000	Note 2
	Veutron Corp. - issued in 2003 (II)	Same chairman with PSC	Held-to-maturity financial assets	7	14,000	-	14,000	Note 2
	Veutron Corp. - issued in 2005 (I)	Same chairman with PSC	Held-to-maturity financial assets	4	20,000	-	20,000	Note 2
	Veutron Corp. - issued in 2006 (I)	Same chairman with PSC	Held-to-maturity financial assets	2	10,000	-	10,000	Note 2
	MaxEdge Electronics Corp. - issued in 2005 (I)	Investee	Held-to-maturity financial assets	5	5,000	-	5,000	Note 2
	MaxEdge Electronics Corp. - issued in 2005 (III)	Investee	Held-to-maturity financial assets	5	5,000	-	5,000	Note 2
	<u>Stock</u>							
	Veutron Corp.	Same chairman with PSC	Financial assets at fair value through profit and loss	10,687	43,817	-	43,817	-
	Macronix International Co., Ltd.	-	Financial assets at fair value through profit and loss	7,005	61,850	-	61,850	-
	Optimax Technology Corp.	PSC is its director	Available-for-sale financial assets	80	2,260	-	2,260	-
	<u>Equity</u>							
	President James Bond Fund	-	Financial assets at fair value through profit and loss	3,925	60,150	-	60,150	-
	Jih Sun Bond Fund	-	Financial assets at fair value through profit and loss	2,223	30,135	-	30,135	-
Smartic	<u>Stock</u>							
	Optimax Technology Corp.	Investee	Investment accounted for using equity method	702	6,506	1.40	6,506	Note 2
	Retronix Technology Corp.	Investee	Investment accounted for using equity method	2,000	20,194	10.00	20,194	Note 2
	Zhi-Li Investment Corp.	Investee	Investment accounted for using equity method	1,669	18,039	1.85	18,039	Note 2
	Artrix International Inc.	Investee	Investment accounted for using equity method	200	2,192	0.40	2,192	Note 2
	Powerchip Semiconductor Corp.	Parent Company	Available-for-sale financial assets	2,330	49,513	-	49,513	-
	<u>Equity</u>							
	President Homerun Fund	-	Financial assets at fair value through profit and loss	3,607	50,269	-	50,269	-
	Fuhwa Bond Fund	-	Financial assets at fair value through profit and loss	994	13,153	-	13,153	-
	PCA Bond Fund	-	Financial assets at fair value through profit and loss	3,257	50,265	-	50,265	-
	Cathay Bond Fund	-	Financial assets at fair value through profit and loss	3,600	41,236	-	41,236	-
	Capital Income Fund	-	Financial assets at fair value through profit and loss	997	14,735	-	14,735	-
Smart Art Corp.	<u>Equity</u>							
	Capital Cash Reserves Bond Fund	-	Financial assets at fair value through profit and loss	926	10,790	-	10,790	-
	Polaris De-Li Bond Fund	-	Financial assets at fair value through profit and loss	4,011	60,059	-	60,059	-
	Jih Sun Bond Fund	-	Financial assets at fair value through profit and loss	4,431	60,059	-	60,059	-

(Continued)

Holding Company Name	Marketable Securities Type and Issuer	Relationship with the Holding Company	Financial Statement Account	June 30, 2006				Note
				Shares (Thousands/Units) (Note 7)	Carrying Value	Percentage of Ownership (%)	Market Value or Net Asset Value	
Zentel	<u>Stock</u> Zentel Japan Corp.	Subsidiary	Equity-method investment	4	\$ 19,128	99.96	\$ 19,128	Note 2
	PowerFlash Semiconductor Corp.	Investee	Equity-method investment	650	5,260	5.00	5,260	Note 2
	Novax Technologies, Inc.	Investee	Equity-method investment	734	9,435	0.73	9,435	Note 2
	<u>Equity</u> PCA Wellpool Fund	-	Financial assets at fair value through profit and loss	295	3,668	-	3,668	-
PowerFlash	<u>Stock</u> Artrix International Inc.	Investee	Equity-method investment	600	6,575	1.20	6,575	Note 2
	Zhi-Li Investment Inc.	Investee	Equity-method investment	1,368	14,789	1.52	14,789	Note 2
	Zentel Electronics Corp.	Investee	Equity-method investment	320	3,006	1.28	3,006	Note 2
	Smartic Technologies Inc.	Investee	Equity-method investment	120	1,120	0.40	1,120	Note 2
	Vivichip Electronics Corp.			500	4,995	5.00	4,995	Note 2
	<u>Bond</u> Veutron Corp. - issued in 2005 (I)	Same chairman with PSC	Held-to-maturity financial assets	1	5,000	-	5,000	Note 2
<u>Equity</u> Cathay Bond Fund	-	Financial assets at fair value through profit and loss	3,061	35,062	-	35,062	-	
BVI	<u>Stock</u> Vantel Corp.	Investee	Equity-method investment	2	18,985	99.88	18,985	Note 2

Note 1: The net asset value is based on unreviewed financial data as of June 30, 2006.

Note 2: The market value is based on carrying value as of June 30, 2006.

Note 3: As of June 30, 2006, the above marketable securities had not been pledged or mortgaged, except for those placed in the centralized securities depository enterprise due to application for the first time for the investee companies' stocks to be listed or traded on the stock exchange market.

Note 4: Under the Securities and Exchange Law of the Republic of China, the bond investments were acquired through private market transactions with certain restrictions on the transferability of the bonds.

Note 5: The investment in credit link note issued by Yuanta Assets Management Limited and Credit Suisse First Boston could not be transferred before the maturity date, except the early redemption required by the issuer.

Note 6: Prepayments for long-term investments of the Paramax are excluded.

Note 7: In thousands, except for bond investments which are units.

(Concluded)

TABLE 2

POWERCHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
SIX MONTHS ENDED JUNE 30, 2006

(Amounts in Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		Acquisition		Disposal			Ending Balance			
					Shares (Thousands)	Amount	Shares (Thousands)	Amount	Shares (Thousands)	Amount	Carrying Value	Gain (Loss) on Disposal	Shares (Thousands)	Amount	
PSC	<u>Stock</u> Li-Hsin Investment Corp.	Equity-method investments	-	-	133,850	\$ 834,820	19,000	\$ 190,000	-	\$ -	\$ -	\$ -	152,850	\$ 994,450	
	Paramax Corp.	Equity-method investments	-	-	83,994	659,455	48,900	489,000	-	-	-	-	132,894	1,144,015	
	Quantum Vision Corp.	Equity-method investments	-	-	160,990	1,567,813	48,900	489,000	-	-	-	-	209,890	2,351,966	
	Smart Art Corp.	Equity-method investments	-	-	12,000	119,989	11,654	116,540	-	-	-	-	23,654	236,234	
	Smartic Technologies Inc.	Equity-method investments	-	-	3,000	19,671	13,050	130,500	750	-	-	-	15,300	117,900	
	Zhi-Li Investment Corp.	Equity-method investments	-	-	18,650	185,305	14,651	146,512	(Note 2)	-	-	-	33,301	359,434	
	Shinkong Financial Holding Co., Ltd.	Financial assets at fair value through profit and loss	-	-	30,231	772,411	-	-	8,813	291,358	261,215	30,143	21,418	762,484	
	Hua Nan Financial Holdings Co., Ltd.	Financial assets at fair value through profit and loss	-	-	8,821	190,981	5,470	124,154	-	-	-	-	14,291	330,129	
	Mega Financial Holding Co., Ltd.	Financial assets at fair value through profit and loss	-	-	-	-	6,950	168,206	6,950	169,307	168,206	1,101	-	-	
	Wafer Works Corp.	Financial assets at fair value through profit and loss	-	-	-	-	8,500	291,065	-	-	-	-	8,500	362,950	
	Advanced Semiconductor Engineering, Inc.	Financial assets at fair value through profit and loss	-	-	-	-	6,485	233,134	1,000	36,229	33,925	2,304	5,485	175,520	
	Chang Hwa Commercial Bank, Ltd.	Financial assets at fair value through profit and loss	-	-	-	-	5,400	117,653	-	-	-	-	5,400	123,930	
	Taiwan Semiconductor Manufacturing Company Limited	Financial assets at fair value through profit and loss	-	-	-	-	2,575	158,449	-	-	-	-	2,575	150,378	
	Wintek Corporation	Financial assets at fair value through profit and loss	-	-	-	-	3,576	121,488	-	-	-	-	3,576	105,658	
	Elpida Memory Inc.	Financial assets at fair value through profit and loss	-	-	438	431,539	60	80,583	69	101,167	74,379	26,788	429	520,520	
		<u>Equity</u> Fuhwa Commercial Bank Common Trust Fund	Financial assets at fair value through profit and loss	-	-	10,000	100,000	-	-	10,000	101,590	100,000	1,590	-	-
		Fubon No.2 REITs	Available-for-sale financial assets	-	-	-	-	18,000	180,360	-	-	-	-	18,000	187,020
Li-Hsin	<u>Equity</u> New Light Taiwan Bond Fund	Financial assets at fair value through profit and loss	-	-	11,279	114,014	-	-	11,279	114,255	114,014	241	-	-	
Paramax	<u>Equity</u> Fuhwa Advantage Bond Fund	Financial assets at fair value through profit and loss	-	-	9,721	100,000	-	-	9,721	100,201	100,000	201	-	-	
Quantum	<u>Equity</u> Dresdner Bond Dam Fund	Financial assets at fair value through profit and loss	-	-	-	-	14,794	170,000	3,487	40,070	40,000	70	11,307	130,109	
	<u>Stock</u> Wafer Works Corp.	Financial assets at fair value through profit and loss	-	-	-	-	4,000	158,569	1,000	50,646	39,642	11,004	3,000	128,100	

(Continued)

Note 1: The ending balance included the recognition of the investment income by the equity method and the adjustment for changes in investee's equity.

Note 2: Result from investee's capital reduction.

Note 3: The retroactive amounts caused by the adoption of SFAS No. 34.

Note 4: The ending balance included the valuation gains (losses) on financial assets.

(Concluded)

POWERCHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

ACQUISITION OF INDIVIDUAL REAL ESTATES AT COSTS OF AT LEAST \$100 MILLION OR 20% OF THE PAID-IN CAPITAL

SIX ENDED JUNE 30, 2006

(In Thousands of New Taiwan Dollars)

Company Name	Property	Transaction Date	Transaction Amount	Payment Status	Counter-Party	Nature of Relationship	Prior Transaction of Related Counter-party				Price Reference	Purpose of Acquisition	Other Terms
							Owner	Relationship	Transfer Date	Amount			
PSC	Buildings	June 6, 2006 - June 14, 2006	\$ 373,834	\$ 369,618	Fu Tsu Construction Co., Ltd., etc.	-	-	-	-	\$ -	-	Fab. 12C	-
	Buildings	June 30, 2006	2,183,798	-	Macronix International Co., Ltd	-	-	-	-	-	-	Fab. 12M	Please see Note 26

POWERCHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

TOTAL PURCHASE FROM OR SALE TO RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
SIX MONTHS ENDED JUNE 30, 2006

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

Company Name	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Note/Accounts Receivable (Payable)		Note
			Purchase/Sale	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total	
PSC	Elpida Memory Inc. (Note 6)	Parent of Elpida-Taiwan	Sales	\$ 7,698,513	23	Note 2	\$ -	-	\$ 2,102,758	26	
	Deutron Electronics Corp.	Investee	Sales	4,457,316	13	Note 3	-	-	1,463,646	18	
	Novax Technologies, Inc.	Investee	Sales	1,955,224	6	Note 3	-	-	457,851	6	
	Elpida Memory (Taiwan) Co., Ltd.	Director of PSC	Sales	1,741,133	5	Note 2	-	-	530,858	6	
	Renesas Technology (Taiwan) Co., Ltd. (Note 6)	Subsidiary of Renesas	Sales	1,238,571	4	Note 2	-	-	242,348	3	
	Syntronix Corp.	Investee	Sales	357,288	1	Note 2	-	-	45,176	1	
	Zentel Electronics Corp.	Subsidiary		143,194	1	Note 2	-	-	97,963	1	
	Renesas Technology (Taiwan) Co., Ltd. (Note 6)	Subsidiary of Renesas	Purchase	194,269	3	Note 2	-	-	-	-	
	Powertech Technology Inc.	Quantum Vision is its director	Note 1	2,483,378	11	Note 4	-	-	(1,527,102)	(21)	
	Zentel	Deutron Electronics Corp.	Investee	Sales	100,785	-	Note 5	-	-	50,057	-

Note 1: Subcontract fees.

Note 2: Mainly received on the 30th day after the month of the shipment is made.

Note 3: Mainly received on the 45th day after the month of the shipment is made.

Note 4: Mainly paid on the 60th day after the month of the shipment is made.

Note 5: Mainly received on the 15th day after the month of the shipment is made.

Note 6: The Company ceased to be the Group's related party as of June 30, 2006; the transaction made as of and for the six months ended June 30, 2006 are disclosed only for reference.

POWERCHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
JUNE 30, 2006

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

Company Name	Related Party	Nature of Relationship	Ending Balance (Note 1)	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Bad Debts and Sales Discount
					Amount	Action Taken		
PSC	Elpida Memory Inc. (Note 2)	Parent of Elpida-Taiwan	\$ 2,102,758	10.77	\$ -	-	\$ -	\$ 35,898
	Deutron Electronics Corp.	Investee	1,463,636	7.33	-	-	430,480	25,021
	Elpida Memory (Taiwan) Co., Ltd.	Subsidiary of Elpida	530,858	13.12	-	-	307,415	9,070
	Novax Technologies, Inc.	Investee	457,851	10.20	-	-	278,320	7,834
	Renesas Technology (Taiwan) Co., Ltd. (Note 2)	Subsidiary of Renesas	242,348	11.58	-	-	-	4,114

Note 1: Netting values of allowance for doubtful accounts and sales discount.

Note 2: The Company ceased to be the Group's related party as of June 30, 2006; the transaction made as of and for the six months ended June 30, 2006 are disclosed only for reference.

POWERCHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE
SIX MONTHS ENDED JUNE 30, 2006

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

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of June 30, 2006			Net Income (Loss) of the Investee	Investment Gain (Loss)	Note
				June 30, 2006	Dec. 31, 2005	Shares (Thousands)	% of Ownership	Carrying Value			
PSC	Quantum Vision Corp.	Taipei, Taiwan	Investment	\$ 2,071,900	\$ 1,582,900	209,890	99.99	\$ 2,351,966	\$ 61,885	\$ 61,878	
	Paramax Corp.	Taipei, Taiwan	Investment	1,328,940	839,940	132,894	99.99	1,144,015	(9,842)	(9,840)	
	Li-Hsin Investment Corp.	Taipei, Taiwan	Investment	1,528,500	1,338,500	152,850	99.90	994,450	(29,238)	(29,207)	
	Lu-Chu Development Corp.	Taipei, Taiwan	Transaction of real estate	634,990	634,990	63,499	27.18	582,344	(6,230)	(1,693)	
	Zhi-Li Investment Corp.	Taipei, Taiwan	Investment	333,012	186,500	33,301	37.00	359,434	(7,011)	(2,604)	
	Novax Technologies, Inc.	Taipei, Taiwan	Electronic component manufacturing	287,476	287,476	24,658	24.66	317,008	87,282	21,154	
	Smart Art Corp.	Taipei, Taiwan	Transaction of artistry	236,540	120,000	23,654	45.66	236,234	(600)	(286)	
	Deutron Electronics Corp.	Taipei, Taiwan	Electronic component manufacturing	21,300	21,300	6,997	9.44	165,545	386,248	38,106	
	Artrix International Inc.	Taipei, Taiwan	Investment	127,600	87,600	12,760	25.52	139,818	57,813	14,212	
	Optimicro Corp.	Taipei, Taiwan	Optical component manufacturing	147,000	147,000	14,700	29.40	136,149	(17,449)	(5,130)	
	Luxxon Technology Corp.	Taoyuan, Taiwan	Electronic component manufacturing	207,331	207,331	20,733	20.73	123,194	(52,556)	(10,895)	
	Smartic Technology Inc.	Taipei, Taiwan	Design of electronic products	160,500	30,000	15,300	51.00	117,900	(12,814)	(6,091)	
	Neo Solar Power Corp.	Taipei, Taiwan	Solar cells manufacturing	96,000	96,000	9,600	16.00	95,912	4,156	665	
	Signia Technologies Co., Ltd.	Taipei, Taiwan	Design of electronic products	98,626	-	5,187	28.01	93,549	(27,406)	(3,560)	
	Syntronix Corp.	Hsin-Chu, Taiwan	Design of electronic products	71,664	81,516	6,390	20.44	83,585	33,880	6,110	
	Deutron Japan Corp.	Japan	Electronic component manufacturing	90,020	90,020	2,891	38.98	80,495	308	120	
	Tekmax Development Corp.	Taipei, Taiwan	Investment	58,640	58,640	5,851	15.65	73,081	35,168	4,806	
	Synage Technology Corp.	Taipei, Taiwan	Electronic component manufacturing	101,212	101,212	10,084	20.17	72,345	(24,181)	(4,878)	
	Zentel Electronics Corp.	Hsin-Chu, Taiwan	Design of electronic products	92,000	92,000	9,200	36.80	71,815	(486)	(438)	
	Astel Electronics Corp.	Taipei, Taiwan	Electronic component manufacturing	80,000	80,000	8,000	40.00	63,628	(36,307)	(14,523)	
	Retronix Technology Corp.	Taipei, Taiwan	Design and transaction of software	50,000	-	5,000	25.00	50,485	(1,968)	(473)	
	Vivichip Electronics Corp.	Taipei, Taiwan	Electronic component manufacturing	40,000	-	4,000	40.00	39,961	(96)	(1)	
	Luxchip Technology Corp.	Taoyuan, Taiwan	Lighting manufacturing	38,000	38,000	3,800	19.00	38,360	2,071	394	
	AVAC Systems, Inc.	Hsin-Chu, Taiwan	Digital camera manufacturing	44,000	44,000	4,000	23.31	37,981	(13,502)	(3,147)	
	PowerFlash Semiconductor Corp.	Taipei, Taiwan	Design of electronic products	41,600	41,600	4,160	32.00	33,602	8,222	2,631	
	Silicon Optronics, Inc.	Hsin-Chu, Taiwan	Electronic component manufacturing	17,000	17,000	1,700	12.14	31,173	21,152	2,021	
	Global Powertec Co., Ltd.	British Virgin Islands	Investment	25,808	-	80	100.00	22,467	(4,014)	(4,014)	
	PowerGate Optical, Inc.	Taipei, Taiwan	Optical component manufacturing	18,700	18,700	1,287	5.42	9,323	(38,191)	(3,504)	
	MaxEdge Electronics Corp.	Taoyuan, Taiwan	PCB manufacturing	449,874	436,874	1,714	13.39	2,751	(106,896)	(14,321)	
	MaxEdge Electronics Corp.	Taoyuan, Taiwan	PCB manufacturing	516,369	500,369	2,045	15.97	2,807	(106,896)	(17,071)	
	Synage Technology Corp.	Taipei, Taiwan	Electronic component manufacturing	124,409	124,409	10,750	21.50	77,116	(24,181)	(5,199)	
	Novax Technologies, Inc.	Taipei, Taiwan	Electronic component manufacturing	58,512	58,512	5,246	5.25	67,490	87,282	3,979	
	Luxxon Technology Corp.	Taoyuan, Taiwan	Electronic component manufacturing	13,079	13,079	1,363	1.36	8,082	(52,556)	(715)	
Tekmax Development Corp.	Taipei, Taiwan	Investment	17,120	17,120	1,707	4.57	21,168	35,168	1,412		
Smartic Technologies Inc.	Taipei, Taiwan	Design of electronic products	15,500	4,800	1,430	4.77	13,389	(12,814)	(598)		
Artrix International Inc.	Taipei, Taiwan	Investment	22,950	16,950	2,295	4.59	25,148	57,813	2,636		
Optimicro Corp.	Taipei, Taiwan	Optical component manufacturing	21,177	21,177	2,118	4.24	19,635	(17,449)	(740)		
Lu-Chu Development Corp.	Taipei, Taiwan	Transaction of real estate	243,371	243,371	24,337	10.42	223,253	(6,230)	(649)		
Smart Art Corp.	Taipei, Taiwan	Transaction of artistry	61,010	30,000	6,101	11.78	60,947	(600)	(72)		
LoanSky.Net Corp.	Taipei, Taiwan	Design of electronic products	4,000	4,000	400	8.00	3,488	(4,763)	(381)		
Luxchip Technology Corp.	Taoyuan, Taiwan	Lighting manufacturing	18,000	18,000	1,800	9.00	18,171	2,071	186		
Neo Solar Power Corp.	Taipei, Taiwan	Solar cells manufacturing	15,000	15,000	1,500	2.50	14,986	4,156	104		
Deutron Japan Corp.	Japan	Electronic component manufacturing	9,067	9,067	289	3.89	7,973	308	12		
Quantum	MaxEdge Electronics Corp.	Taoyuan, Taiwan	PCB manufacturing	250,170	240,170	1,425	11.13	1,956	(106,896)	(11,921)	
	Deutron Electronics Corp.	Taipei, Taiwan	Electronic component manufacturing	22,800	22,800	7,330	9.89	174,699	386,248	34,152	
	Syntronix Corp.	Hsin-Chu, Taiwan	Design of electronic products	7,380	7,380	649	2.08	8,345	33,880	446	
	Zentel Electronics Corp.	Hsin-Chu, Taiwan	Design of electronic products	21,000	21,000	2,100	8.40	19,726	(486)	(41)	
	Synage Technology Corp.	Taipei, Taiwan	Electronic component manufacturing	17,250	17,250	1,836	3.67	13,163	(24,181)	(887)	
	Novax Technologies, Inc.	Taipei, Taiwan	Electronic component manufacturing	133,479	133,479	12,735	12.73	163,646	87,282	9,647	
	Luxxon Technology Corp.	Taoyuan, Taiwan	Electronic component manufacturing	96,699	96,699	9,670	9.67	57,467	(52,556)	(5,082)	
	AVAC Systems, Inc.	Hsin-Chu, Taiwan	Digital camera manufacturing	24,321	24,321	2,237	13.03	21,231	(13,502)	(1,759)	

(Continued)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of June 30, 2006			Net Income (Loss) of the Investee	Investment Gain (Loss)	Note
				June 30, 2006	Dec. 31, 2005	Shares (Thousands)	% of Ownership	Carrying Value			
	PowerGate Optical, Inc.	Taipei, Taiwan	Optical component manufacturing	\$ 33,402	\$ 23,440	2,610	10.98	\$ 18,886	\$ (38,191)	\$ (4,465)	
	Tekmax Development Corp.	Taipei, Taiwan	Investment	42,800	42,800	4,267	11.41	53,456	35,168	3,530	
	Silicon Optronics, Inc.	Hsin-Chu, Taiwan	Electronic component manufacturing	9,000	9,000	900	6.43	15,514	21,152	74	
	PowerFlash Semiconductor Corp.	Taipei, Taiwan	Design of electronic products	8,500	8,500	850	6.54	6,880	8,222	538	
	Smartic Technologies Inc.	Taipei, Taiwan	Design of electronic products	19,800	7,200	1,800	6.00	16,841	(12,814)	(769)	
	Artrix International Inc.	Taipei, Taiwan	Investment	49,850	37,850	4,985	9.97	54,623	57,813	5,794	
	Optimicro Corp.	Taipei, Taiwan	Optical component manufacturing	39,873	39,873	3,987	7.97	36,908	(17,449)	(1,391)	
	Lu-Chu Development Corp.	Taipei, Taiwan	Transaction of real estate	73,268	73,268	7,327	3.14	67,276	(6,230)	(196)	
	Astel Electronics Corp.	Taipei, Taiwan	Electronic component manufacturing	10,000	10,000	1,000	5.00	7,954	(36,307)	(1,815)	
	Smart Art Corp.	Taipei, Taiwan	Transaction of artistry	100,017	50,000	10,002	19.31	99,906	(600)	(119)	
	LoanSky.Net Corp.	Taipei, Taiwan	Design of electronic products	10,000	10,000	1,000	20.00	8,720	(4,763)	(952)	
	Luxchip Technology Corp.	Taoyuan, Taiwan	Lighting manufacturing	22,000	22,000	2,200	11.00	22,208	2,071	228	
	Neo Solar Power Corp.	Taipei, Taiwan	Solar cells manufacturing	18,000	18,000	1,800	3.00	17,983	4,156	125	
	Retronix Technology Corp.	Taipei, Taiwan	Design and transaction of software	10,000	-	1,000	5.00	10,097	(1,968)	(95)	
	Network Holdings Limited	Samoa	Investment	2,825	2,825	90	30.00	867	(3,960)	(1,188)	
	Signia Technologies Co., Ltd.	Taipei, Taiwan	Design of electronic products	7,949	-	795	4.29	6,751	(27,406)	(299)	
	Vivichip Electronics Corp.	Taipei, Taiwan	Electronic component manufacturing	1,000	-	100	1.00	999	(96)	(31)	
Paramax	MaxEdge Electronics Corp.	Taoyuan, Taiwan	PCB manufacturing	103,894	123,474	910	7.11	1,250	(106,896)	(7,851)	
	Synage Technology Corp.	Taipei, Taiwan	Electronic component manufacturing	21,641	21,641	2,081	4.16	14,921	(24,181)	(1,006)	
	Novax Technologies, Inc.	Taipei, Taiwan	Electronic component manufacturing	44,505	44,505	4,042	4.04	51,935	87,282	3,062	
	Luxxon Technology Corp.	Taoyuan, Taiwan	Electronic component manufacturing	65,189	57,428	6,728	6.73	39,995	(52,556)	(3,383)	
	AVAC Systems, Inc.	Hsin-Chu, Taiwan	Digital camera manufacturing	7,282	-	662	3.86	6,289	(13,502)	(181)	
	PowerGate Optical, Inc.	Taipei, Taiwan	Optical component manufacturing	14,632	12,820	1,064	4.48	7,706	(38,191)	(2,420)	
	Tekmax Development Corp.	Taipei, Taiwan	Investment	14,000	14,000	1,060	2.84	13,306	35,168	878	
	Silicon Optronics, Inc.	Hsin-Chu, Taiwan	Electronic component manufacturing	5,000	5,000	500	3.57	8,614	21,152	41	
	PowerFlash Semiconductor Corp.	Taipei, Taiwan	Design of electronic products	5,000	5,000	500	3.85	4,050	8,222	316	
	Smartic Technologies Inc.	Taipei, Taiwan	Design of electronic products	19,800	7,200	1,800	6.00	16,841	(12,814)	(769)	
	Artrix International Inc.	Taipei, Taiwan	Investment	18,973	11,973	1,897	3.79	20,765	57,813	2,040	
	PowerGate Optical, Inc.	Taipei, Taiwan	Optical component manufacturing	8,000	8,000	800	1.60	7,409	(17,449)	(279)	
	Lu-Chu Development Corp.	Taipei, Taiwan	Transaction of real estate	52,936	52,936	5,294	2.27	48,636	(6,230)	(141)	
	Smart Art Corp.	Taipei, Taiwan	Transaction of artistry	120,434	50,000	12,043	23.25	120,290	(600)	(123)	
	LoanSky.Net Corp.	Taipei, Taiwan	Design of electronic products	4,000	4,000	400	8.00	3,488	(4,763)	(381)	
	Deutron Japan Corp.	Japan	Electronic component manufacturing	11,031	11,031	351	4.73	9,695	308	14	
	Zhi-Li Investment Corp.	Taipei, Taiwan	Investment	62,188	-	6,219	6.91	67,232	(7,011)	(323)	
	Retronix Technology Corp.	Taipei, Taiwan	Design and transaction of software	10,000	-	1,000	5.00	10,097	(1,968)	(118)	
Smartic	Optimicro Corp.	Taipei, Taiwan	Optical component manufacturing	7,023	-	702	1.40	6,506	(17,449)	(517)	
	Retronix Technology Corp.	Taipei, Taiwan	Design and transaction of software	20,000	-	2,000	10.00	20,194	(1,968)	(197)	
	Zhi-Li Investment Corp.	Taipei, Taiwan	Investment	16,688	-	1,669	1.85	18,039	(7,011)	(163)	
	Artrix International Inc.	Taipei, Taiwan	Investment	2,000	-	200	0.40	2,192	57,813	192	
Zentel	Zentel Japan Corp.	Japan	Design of electronic products	66,322	38,322	4	99.96	19,128	(17,711)	(17,704)	
	PowerFlash Semiconductor Corp.	Taipei, Taiwan	Design of electronic products	6,500	6,500	650	5.00	5,260	8,222	411	
	Novax Technologies, Inc.	Taipei, Taiwan	Electronic component manufacturing	8,400	8,400	734	0.73	9,435	87,282	609	
PowerFlash	Artrix International Inc.	Taipei, Taiwan	Investment	6,000	4,000	600	1.20	6,575	57,813	681	
	Zhi-Li Investment Corp.	Taipei, Taiwan	Investment	13,680	6,000	1,368	1.52	14,789	(7,011)	(112)	
	Zentel Electronics Corp.	Hsin-Chu, Taiwan	Design of electronic products	2,880	2,880	320	1.28	3,006	(486)	(6)	
	Smartic Technology Inc.	Taipei, Taiwan	Design of electronic products	1,200	-	120	0.40	1,120	(12,814)	(97)	
	Vivichip Electronics Corp.	Taipei, Taiwan	Electronic component manufacturing	5,000	-	500	5.00	4,995	(96)	(5)	
BVI	Vantel Corp.	Japan	Design of electronic products	21,925	-	2	99.88	18,985	(3,617)	(4)	

(Concluded)

POWERCHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. FOR THE SIX MONTHS ENDED JUNE 30, 2006

Company Name	Counter Party	Nature of Relationship (Note 1)	Intercompany Transactions			Percentage of Consolidated Total Gross Sales or Total Assets
			Financial Statement Account Item	Amount	Terms	
PSC	PowerFlash	1	Net sales	\$ 7,471	Note 2	0.02%
		1	Accounts receivable, net	5,680	Note 2	-
	Zentel	1	Net sales	143,194	Note 2	0.43%
		1	Accounts receivable, net	97,963	Note 2	0.05%
		2	Cost of sales - royalty	12,071	Note 3	0.04%
		2	Accrued expense	12,071	Note 3	0.01%
		2	Research and development expenses	6,429	Note 3	0.02%

2. FOR THE SIX MONTHS ENDED JUNE 30, 2005

Company Name	Counter Party	Nature of Relationship (Note 1)	Intercompany Transactions			Percentage of Consolidated Total Gross Sales or Total Assets
			Financial Statement Account Item	Amount	Terms	
PSC	Syntronix	1	Net sales	\$ 65,901	Note 2	0.27%
		1	Other income	3,058	Note 2	0.01%
		1	Research and development expenses	30,000	Note 3	0.12%
	PowerFlash	1	Accounts receivable, net	29,914	Note 2	0.02%
		1	Net sales	21,394	Note 2	0.09%
	Zentel	1	Accounts receivable, net	21,057	Note 4	0.01%
		1	Research and development expenses	13,204	Note 3	0.05%
	Zentel - Japan	1	Other income	1,070	Note 2	-
		1	Research and development expenses	9,423	Note 3	0.04%

Note 1: No.1 represents the transactions from parent company to subsidiary.
No.2 represents the transactions from subsidiary to parent company.

Note 2: The terms of the sales are made at normal commercial prices and terms.

Note 3: The terms were based on specifically negotiated terms and for which there are no comparable terms under other contracts.

Note 4: Mainly received on the 60th day after the month of the shipment is made.

