

**Powerchip Semiconductor Corporation
and Subsidiaries**

**Consolidated Financial Statements for the
Years Ended December 31, 2007 and 2006 and
Independent Auditors' Report**

REPRESENTATION LETTER

The entities included in the combined financial statements of Powerchip Semiconductor Corporation as of and for the year ended December 31, 2007, which were prepared in conformity with the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises, are the same as the entities included in the consolidated financial statements prepared in conformity with the revised R.O.C. Statement of Financial Accounting Standards No. 7 “Consolidated Financial Statements.” In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, Powerchip Semiconductor Corporation and subsidiaries need not separately prepare combined financial statements.

Very truly yours,

POWERCHIP SEMICONDUCTOR CORPORATION

By

FRANK HUANG
Chairman

January 31, 2008

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Powerchip Semiconductor Corporation

We have audited the accompanying consolidated balance sheets of Powerchip Semiconductor Corporation and subsidiaries ("the Group") as of December 31, 2007 and 2006, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. As mentioned in Note 2 to the consolidated financial statements, we did not audit the financial statements of certain subsidiaries as of and for the years ended December 31, 2007 and 2006, which reflected total assets of 4.73% (NT\$10,619,488 thousand) and 4.04% (NT\$9,002,946 thousand), respectively, of consolidated assets as of December 31, 2007 and 2006, respectively. These statements for the years ended December 31, 2007 and 2006 also reflected both the subsidiaries' net sales of 0.65% (NT\$501,437 thousand) and 0.05% (NT\$46,198 thousand) of the consolidated net sales, respectively, for the years ended December 31, 2007 and 2006. Also, as mentioned in Note 11 to the consolidated financial statements, we did not audit the financial statements of certain investees. These investments were 1.80% (NT\$4,036,157 thousand) and 2.16% (NT\$4,797,955 thousand), respectively, of consolidated assets as of December 31, 2007 and 2006, respectively, and the related investment losses and income were 2.37% (NT\$356,148 thousand) and 0.24% (NT\$69,648 thousand), respectively, of consolidated loss and income before income tax for the years ended December 31, 2007 and 2006. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amount included for these subsidiaries and investees, is based solely on the report of such other auditors.

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

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2007 and 2006, and the results of their operations and their cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

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

January 31, 2008

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

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

POWERCHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2007 AND 2006

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

ASSETS	2007		2006		LIABILITIES AND STOCKHOLDERS' EQUITY	2007		2006	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents (Notes 1, 2 and 4)	\$ 19,922,186	9	\$ 41,175,889	19	Financial liabilities at fair value through profit and loss - current (Notes 2, 3, 5 and 16)	1,299,180	1	2,092,642	1
Financial assets at fair value through profit and loss - current (Notes 2, 3 and 5)	7,439,002	3	9,149,898	4	Notes and accounts payable (Note 26)	3,942,703	2	1,260,933	-
Available-for-sale financial assets - current (Notes 2, 3 and 6)	634,782	-	981,386	1	Related parties	6,255,354	3	6,639,109	3
Held-to-maturity financial assets - current (Notes 2, 9 and 26)	201,000	-	49,000	-	Third parties	6,890	-	1,634,186	1
Notes and accounts receivable, net (Notes 2, 7 and 26)					Income tax payable (Notes 2 and 22)	7,512,272	3	4,597,051	2
Related parties	2,514,094	1	8,292,692	4	Accrued expenses (Notes 2, 15 and 26)	12,741,361	6	21,451,039	10
Third parties	1,392,139	1	4,627,799	2	Payables on equipment	9,250,620	4	8,620,483	4
Other receivables (Note 26)	586,039	-	685,248	-	Current portion of long-term bank loans (Notes 17 and 27)	11,871,033	5	8,606,667	4
Inventories, net (Notes 2 and 8)	8,721,676	4	11,734,840	5	Other current liabilities (Notes 26 and 28)	216,318	-	200,814	-
Prepaid expenses	308,009	-	281,944	-					
Deferred income tax assets - current (Notes 2 and 22)	2,196,691	1	2,781,979	1	Total current liabilities	53,095,731	24	55,102,924	25
Restricted deposits (Note 27)	770,614	1	791,499	-					
Other current assets	6,398	-	6,067	-	LONG-TERM LIABILITIES, NET OF CURRENT PORTION				
Total current assets	44,692,630	20	80,558,241	36	Convertible bonds payable (Notes 2 and 26)	13,121,054	6	14,872,696	7
					Long-term bank loans (Notes 17 and 27)	54,337,900	24	25,878,333	11
INVESTMENTS					Hedging derivative liabilities - noncurrent (Notes 2 and 12)	1,750	-	-	-
Held-to-maturity financial assets - noncurrent (Notes 2, 9 and 26)	215,000	-	421,000	-	Deferred revenue - noncurrent (Notes 26 and 28)	130,000	-	-	-
Financial assets carried at cost - noncurrent (Notes 2, 3 and 10)	1,796,959	1	873,515	-					
Equity-method investments (Notes 2, 11 and 26)	27,178,184	12	6,108,667	3	Total long-term liabilities	67,590,704	30	40,751,029	18
Total investments	29,190,143	13	7,403,182	3					
					OTHER LIABILITIES				
PROPERTIES (Notes 1, 2, 13, 26, 27 and 28)					Accrued pension costs (Notes 2 and 18)	19,148	-	33,095	-
Cost					Guarantee deposits (Note 28)	136,129	-	4,796	-
Buildings	10,138,353	4	10,050,349	5	Deferred income tax liabilities-noncurrent (Notes 2 and 22)	-	-	726,556	-
Machinery and equipment	209,210,249	93	168,046,584	76					
Research and development equipment	1,918,645	1	787,323	-	Total other liabilities	155,277	-	764,447	-
Facility equipment	23,902,061	11	20,889,861	9					
Transportation equipment	16,151	-	19,371	-	Total liabilities	120,841,712	54	96,618,400	43
Office equipment	572,029	-	499,762	-					
Leasehold improvement	4,682	-	1,502	-	EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT (Notes 2, 19 and 20)				
Miscellaneous equipment	1,505,901	1	1,368,170	1	Capital stock, \$10 par value				
	247,268,071	110	201,662,922	91	Authorized - 10,000,000 thousand shares in 2007 and 9,000,000 thousand shares in 2006				
Accumulated depreciation	(110,109,893)	(49)	(80,778,159)	(36)	Issued and outstanding - 7,822,917 thousand shares in 2007 and 6,909,088 thousand shares in 2006	78,229,166	35	69,090,882	31
Construction-in-process and advance prepayments	3,435,370	2	9,472,219	4	Capital surplus				
Net properties	140,593,548	63	130,356,982	59	Additional paid-in capital	20,389,680	9	20,506,052	9
					Conversion of bonds	4,731,739	2	4,068,632	2
OTHER ASSETS					Treasury stock transactions	6,208	-	3,629	-
Assets leased to others, net (Note 2)	26,327	-	142,610	-	Long-term investments	405,528	-	19,307	-
Refundable deposits	61,808	-	31,686	-	Retained earnings				
Deferred charges, net (Notes 1, 2 and 14)	5,958,767	3	3,325,628	2	Legal reserve	5,507,310	2	2,774,552	1
Deferred income tax assets - noncurrent (Notes 2 and 22)	2,641,188	1	-	-	Special reserve	3,164	-	31,566	-
Spare parts, net	423,566	-	470,235	-	Unappropriated earnings (deficits)	(5,231,210)	(2)	30,312,562	14
Land	244,057	-	71,026	-	Others				
Others	531,078	-	244,903	-	Unrealized gain (loss) on financial assets (Notes 3, 11 and 25)	224,505	-	705,332	1
Total other assets	9,886,791	4	4,286,088	2	Net loss not recognized as pension cost	(1,971)	-	-	-
					Cumulative translation adjustments	(29,483)	-	(30,652)	-
TOTAL	\$ 224,363,112	100	\$ 222,604,493	100	Treasury stock (at cost) - 41,670 thousand shares in 2007 and 88,539 thousand shares in 2006 (Note 21)	(748,591)	-	(1,637,064)	(1)
					Total equity attributable to shareholders of the parent	103,486,045	46	125,844,798	57
					MINORITY INTEREST IN SUBSIDIARIES (Note 2)	35,355	-	141,295	-
					Total shareholders' equity	103,521,400	46	125,986,093	57
					TOTAL	\$ 224,363,112	100	\$ 222,604,493	100

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

(With Deloitte & Touche audit report dated January 31, 2008)

POWERCHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME YEARS ENDED DECEMBER 31, 2007 AND 2006

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

	2007		2006	
	Amount	%	Amount	%
GROSS SALES	\$ 86,327,311		\$ 95,839,148	
SALES RETURNS AND ALLOWANCES	<u>8,803,280</u>		<u>3,618,217</u>	
NET SALES (Notes 2, 26 and 30)	77,524,031	100	92,220,931	100
COST OF SALES (Notes 23 and 26)	<u>83,322,281</u>	<u>107</u>	<u>59,200,543</u>	<u>64</u>
GROSS (LOSS) PROFIT BEFORE (REALIZED) UNREALIZED INTERCOMPANY PROFIT	(5,798,250)	(7)	33,020,388	36
(REALIZED) UNREALIZED INTERCOMPANY PROFIT (Note 2)	<u>(28,788)</u>	<u>-</u>	<u>22,320</u>	<u>-</u>
GROSS (LOSS) PROFIT	<u>(5,769,462)</u>	<u>(7)</u>	<u>32,998,068</u>	<u>36</u>
OPERATING EXPENSES (Notes 22 and 25)				
Selling	228,279	-	508,193	1
General and administrative	3,139,226	4	2,158,725	2
Research and development	<u>2,784,226</u>	<u>4</u>	<u>2,549,092</u>	<u>3</u>
Total operating expenses	<u>6,151,731</u>	<u>8</u>	<u>5,216,010</u>	<u>6</u>
OPERATING (LOSS) INCOME	<u>(11,921,193)</u>	<u>(15)</u>	<u>27,782,058</u>	<u>30</u>
NON-OPERATING INCOME AND GAINS				
Valuation gain on financial assets, net (Notes 2 and 5)	2,323,627	3	2,199,225	3
Service income (Note 26)	816,686	1	-	-
Interest income (Notes 2 and 25)	783,453	1	642,936	1
Valuation gain on financial liabilities, net (Notes 2 and 5)	631,044	1	-	-
Gain on disposal of investments, net (Notes 2 and 5)	271,281	1	24,410	-
Dividend income (Note 2)	228,066	-	142,068	-
Gain on disposal of properties and other assets (Note 2)	100,545	-	94,794	-
Rebate of ECB/GDR management fee (Note 26)	84,591	-	4,300	-
Income from scraped wafers sales	62,920	-	36,640	-
Indemnity income	29,831	-	24,506	-
Foreign exchange gain, net (Note 2)	-	-	82,416	-
Equity in earnings of equity-method investees, net (Notes 2 and 11)	-	-	102,991	-
Others (Note 26)	<u>254,087</u>	<u>-</u>	<u>103,081</u>	<u>-</u>
Total nonoperating income and gain	<u>5,586,131</u>	<u>7</u>	<u>3,457,367</u>	<u>4</u>

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POWERCHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME YEARS ENDED DECEMBER 31, 2007 AND 2006

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

	2007		2006	
	Amount	%	Amount	%
NON-OPERATING EXPENSES AND LOSSES				
Provision for loss on inventories and spare parts (Note 2)	\$ 5,000,502	7	\$ 166,716	-
Interest expense (Notes 2, 13,16, 17 and 25)	1,732,671	2	939,038	1
Equity in losses of equity-method investees, net (Notes 2 and 11)	1,222,206	2	-	-
Impairment loss (Notes 2, 10 and 11)	239,647	-	238,171	-
Foreign exchange loss, net (Note 2)	115,769	-	-	-
Loss on disposal of assets leased to others	114,868	-	-	-
Loss on purchase contracts (Notes 2 and 28)	80,311	-	-	-
Loss on disposal of properties (Note 2)	54,363	-	9,599	-
Valuation loss on financial liabilities, net (Notes 2 and 5)	-	-	662,220	1
Issuance cost of convertible bond allocated to financial liabilities at fair value through profit or loss (Notes 2 and 16)	-	-	27,403	-
Others	<u>136,897</u>	<u>-</u>	<u>64,519</u>	<u>-</u>
Total nonoperating expenses and losses	<u>8,697,234</u>	<u>11</u>	<u>2,107,666</u>	<u>2</u>
(LOSS) INCOME BEFORE INCOME TAX	(15,032,296)	(19)	29,131,759	32
INCOME TAX (EXPENSE) BENEFIT (Notes 2 and 22)	<u>2,724,585</u>	<u>3</u>	<u>(1,833,720)</u>	<u>(2)</u>
NET (LOSS) INCOME BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	(12,307,711)	(16)	27,298,039	30
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES (NET OF TAX BENEFIT OF NT\$10,892 THOUSAND) (Notes 3 and 21)	<u>-</u>	<u>-</u>	<u>82,758</u>	<u>-</u>
NET (LOSS) INCOME	<u><u>\$(12,307,711)</u></u>	<u><u>(16)</u></u>	<u><u>\$27,380,797</u></u>	<u><u>30</u></u>
ATTRIBUTABLE TO				
Shareholders of the parent	\$ (12,325,522)	(16)	\$ 27,327,582	30
Minority interest	<u>17,811</u>	<u>-</u>	<u>53,215</u>	<u>-</u>
	<u><u>\$(12,307,711)</u></u>	<u><u>(16)</u></u>	<u><u>\$27,380,797</u></u>	<u><u>30</u></u>

(Continued)

POWERCHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

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

	2007		2006	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
CONSOLIDATED (LOSS) EARNINGS PER SHARE				
(Note 23)				
Basic	<u>\$ (1.96)</u>	<u>\$ (1.60)</u>	<u>\$ 4.28</u>	<u>\$ 4.02</u>
Diluted	<u>\$ (1.94)</u>	<u>\$ (1.61)</u>	<u>\$ 3.66</u>	<u>\$ 3.41</u>

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

(With Deloitte & Touche audit report dated January 31, 2008)

(Concluded)

POWERCHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2007 AND 2006
(In Thousands of New Taiwan Dollars)

	Equity Attributable to Shareholders of the Parent														Minority Interest in Subsidiaries (Note 2)	Total Shareholders' Equity (Note 13)		
	Common Stock		Capital Surplus (Notes 2, 9 and 20)				Retained Earnings				Others (Notes 2, 3, 11 and 25)							
	Shares (Thousands)	Amount	Paid-in Capital in Excess of Par Value	From Conversion of Bonds	From Treasury Stock	From Long-term Investments	Total	Legal Reserve	Special Reserve	Unappropriated Earnings (Deficit)	Total	Unrealized Gains on Financial Assets	Net Loss not Recognized as Pension Cost	Cumulative Translation Adjustments (Note 2)			Treasury Stock (Notes 2 and 14)	Total
BALANCE, JANUARY 1, 2006	5,590,144	\$ 55,901,444	\$ 12,727,828	\$ 4,031,771	\$ 3,290	\$ 31,525	\$ 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 first adoption of SFAS No. 34	-	-	-	-	-	-	-	-	-	-	-	201,492	-	2,350	-	203,842	-	203,842
Appropriation of prior year's earnings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Legal reserve	-	-	-	-	-	-	-	641,736	-	(641,736)	-	-	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	-	-	31,314	(31,314)	-	-	-	-	-	-	-	-
Bonus to employees - in cash	-	-	-	-	-	-	-	-	-	(287,215)	(287,215)	-	-	-	-	(287,215)	-	(287,215)
Bonus to employees - in 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 capital stock, June 30, 2006 - NTS18.82 per share (certain portion issued as Global Depository Shares)	300,000	3,000,000	2,527,420	-	-	-	2,527,420	-	-	-	-	-	-	-	-	5,527,420	-	5,527,420
Issuance of capital stock, November 13, 2006 - NTS19.17 per share (certain portion issued as Global Depository Shares)	600,000	6,000,000	5,313,164	-	-	-	5,313,164	-	-	-	-	-	-	-	-	11,313,164	-	11,313,164
Conversion of bonds into capital stock	4,173	41,724	-	36,861	-	-	36,861	-	-	-	-	-	-	-	-	78,585	-	78,585
Issuance of shares upon exercise of employee stock options	81,807	818,070	(62,360)	-	-	-	(62,360)	-	-	-	-	-	-	-	-	755,710	-	755,710
Sales of treasury stock - 1,422 thousand shares at NTS17.0 per share	-	-	-	-	(2,561)	-	(2,561)	-	-	-	-	-	-	-	26,662	24,101	-	24,101
Adjustment for changes in shareholders' equities of equity-method investees	-	-	-	-	-	(12,218)	(12,218)	-	-	-	-	241,473	-	(17,180)	(33,079)	178,996	(7,001)	171,995
Valuation gain on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	-	-	263,445	-	-	-	263,445	1,980	265,425
Cash dividends received by subsidiary from the Corporation	-	-	-	-	2,900	-	2,900	-	-	-	-	-	-	-	-	2,900	-	2,900
Effect of changes in consolidated entities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(106,406)	(106,406)
Increase in minority interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	46,425	46,425
Net income in 2006	-	-	-	-	-	-	-	-	-	27,327,582	27,327,582	-	-	-	-	27,327,582	53,215	27,380,797
BALANCE, DECEMBER 31, 2006	6,909,088	69,090,882	20,506,052	4,068,632	3,629	19,307	24,597,620	2,774,552	31,566	30,312,562	33,118,680	705,332	-	(30,652)	(1,637,064)	125,844,798	141,295	125,986,093
Appropriation of prior year's earnings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Legal reserve	-	-	-	-	-	-	-	2,732,758	-	(2,732,758)	-	-	-	-	-	-	-	-
Special reserve	-	-	-	-	-	-	-	-	(28,402)	28,402	-	-	-	-	-	-	-	-
Bonus to employees - in cash	-	-	-	-	-	-	-	-	-	(1,477,394)	(1,477,394)	-	-	-	-	(1,477,394)	-	(1,477,394)
Bonus to employees - in stock	98,493	984,929	-	-	-	-	-	-	-	(984,929)	(984,929)	-	-	-	-	-	-	(984,929)
Cash dividends - 14.8%	-	-	-	-	-	-	-	-	-	(10,322,849)	(10,322,849)	-	-	-	-	(10,322,849)	-	(10,322,849)
Stock dividends - 9.9%	688,190	6,881,899	-	-	-	-	-	-	-	(6,881,899)	(6,881,899)	-	-	-	-	-	-	(6,881,899)
Remuneration to directors and supervisors	-	-	-	-	-	-	-	-	-	(738,697)	(738,697)	-	-	-	-	(738,697)	-	(738,697)
Conversion of bonds into capital stock	73,096	730,956	-	663,748	-	-	663,748	-	-	-	-	-	-	-	-	1,394,704	-	1,394,704
Issuance of shares upon exercise of employee stock options	55,110	551,100	(113,599)	-	-	-	(113,599)	-	-	-	-	-	-	-	-	437,501	-	437,501
Sales of treasury stock - 44,561 thousand shares at average of NTS17.2 per share	-	-	-	-	(3,629)	-	(3,629)	-	-	(66,345)	(66,345)	-	-	-	835,519	765,545	-	765,545
Retirement of treasury stock - 1,060 thousand shares	(1,060)	(10,600)	(2,773)	(641)	-	-	(3,414)	-	-	(5,861)	(5,861)	-	-	-	19,875	-	-	-
Adjustment for changes in shareholders' equities of equity-method investees	-	-	-	-	-	386,221	386,221	-	-	(35,920)	(35,920)	(376,282)	(1,971)	1,169	33,079	6,296	(20,725)	(14,429)
Valuation loss on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	-	-	(102,795)	-	-	-	(102,795)	-	(102,795)
Cash dividend received by subsidiary from the Corporation	-	-	-	-	6,208	-	6,208	-	-	-	-	-	-	-	-	6,208	-	6,208
Valuation loss on derivative financial liabilities for hedging	-	-	-	-	-	-	-	-	-	-	-	(1,750)	-	-	-	(1,750)	-	(1,750)
Increase in minority interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	34,377	34,377
Effect of changes in consolidated entities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(137,403)	(137,403)
Net (loss) income in 2007	-	-	-	-	-	-	-	-	-	(12,325,522)	(12,325,522)	-	-	-	-	(12,325,522)	17,811	(12,307,711)
BALANCE, DECEMBER 31, 2007	7,827,917	\$ 78,729,166	\$ 20,389,680	\$ 4,731,739	\$ 6,208	\$ 405,528	\$ 25,533,155	\$ 5,507,310	\$ 3,164	\$ (5,731,710)	\$ 279,264	\$ 224,505	\$ (1,971)	\$ (29,483)	\$ (748,591)	\$ 103,486,045	\$ 35,355	\$ 103,521,400

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

(With Deloitte & Touche audit report dated January 31, 2008)

POWERCHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2007 AND 2006 (In Thousands of New Taiwan Dollars)

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) income attributable to shareholders of the parent	\$(12,325,522)	\$ 27,327,582
Net income attributable to minority interest	17,811	53,215
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation	31,483,755	22,367,621
Amortization	1,841,232	1,621,152
(Realized) unrealized intercompany profit	(28,788)	22,320
Valuation gain on financial assets	(998,682)	(2,023,025)
Valuation (gain) loss on financial liabilities	(792,974)	504,807
Foreign exchange gain on financial assets	(1,416)	(290)
(Reversal of allowance) allowance for doubtful account	(95,259)	87,409
Allowance for sales discounts	270,000	350,000
Allowance for loss on inventories and spare parts	5,000,502	166,716
Equity in losses (earnings) of equity-method investees, net	1,222,206	(102,991)
Impairment loss	239,647	238,171
Cash dividends from financial assets carried at cost	73,256	-
Cash dividends from equity-method investees	34,512	68,307
Gain on disposal of investments, net	(271,281)	(24,410)
Loss (gain) on disposal of properties and other assets, net	68,686	(85,195)
Deferred income tax (benefit) expense	(2,789,055)	189,613
Amortization of discount on commercial paper issued	-	1,377
Foreign exchange gain on convertible bonds payable	(65,987)	(92,449)
Amortization of discount on convertible bonds payable	339,192	158,553
Issuance costs of the early redemption of convertible bonds	-	1
Issuance costs of convertible bonds allocated to financial liabilities at fair value through profit or loss	-	27,403
Deferred revenue	200,000	-
Realized deferred revenue	(30,000)	-
Loss on purchase contracts	80,311	-
Net changes in operating assets and liabilities		
Held-for-trading financial assets	2,580,109	(3,219,594)
Notes and accounts receivable	8,832,708	(8,697,604)
Other receivables	97,019	(185,453)
Inventories	(1,969,532)	(4,657,799)
Prepaid expenses	(29,858)	60,040
Other current assets	(329)	7,332
Held-for-trading financial liabilities	-	63,845
Notes and accounts payable	2,300,602	1,805,924
Income tax payable	(1,627,296)	1,634,186
Accrued expenses	(93,292)	2,383,967
Other current liabilities	(61,596)	21,065
Accrued pension cost	(13,845)	(1,206)
Net cash provided by operating activities	<u>33,486,836</u>	<u>40,070,590</u>

(Continued)

POWERCHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2007 AND 2006 (In Thousands of New Taiwan Dollars)

	2007	2006
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of:		
Available-for-sale financial assets	\$ (8,142)	\$ (118,434)
Held-to-maturity financial assets	-	(65,000)
Financial assets carried at cost	(717,190)	(709,556)
Equity-method investments	(11,172,826)	(2,034,871)
Properties	(63,451,391)	(56,800,115)
Deferred charges	(1,561,951)	(1,452,153)
Proceeds of the disposal of:		
Available-for-sale financial assets	382,681	79,527
Held-to-maturity financial assets	49,000	86,000
Financial assets carried at cost	157,324	37,331
Equity-method investments	494,132	92,246
Properties and other assets	258,662	117,492
Decrease in restricted deposits	20,885	420,877
Increase in refundable deposits	(30,139)	(5,629)
Decrease (increase) in spare parts	27,955	(87,026)
Increase in other assets	<u>(543,866)</u>	<u>(267,231)</u>
Net cash used in investing activities	<u>(76,094,866)</u>	<u>(60,706,542)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in short-term bank loans	-	(773,534)
Proceeds of:		
Issuance of convertible bonds	-	5,142,380
Long-term bank loans	40,400,600	16,250,000
Issuance of capital stock	-	16,840,584
Exercise of employee stock options	437,501	755,710
Sales of treasury stock	751,537	24,101
Repayments of long-term bank loans	(8,676,667)	(8,732,684)
Redemption of convertible bonds	-	(6,522)
Increase in guarantee deposits	131,114	363
Cash bonus to employees	(1,477,394)	(287,215)
Cash dividends paid for common stock	(10,316,641)	(3,039,529)
Remuneration paid to directors and supervisors	(738,697)	(172,329)
Increase in minority interest in subsidiaries	<u>34,377</u>	<u>35,450</u>
Net cash provided by financing activities	<u>20,545,730</u>	<u>26,036,775</u>
EFFECT OF CHANGE IN EXCHANGE RATE ON CASH AND CASH EQUIVALENTS	<u>(4,051)</u>	<u>(13,458)</u>
EFFECT OF FIRST INCLUSION FOR CONSOLIDATION OF CERTAIN SUBSIDIARIES	<u>-</u>	<u>1,870</u>
EFFECT OF CHANGES IN CONSOLIDATED ENTITIES	<u>812,648</u>	<u>(270,542)</u>

(Continued)

POWERCHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2007 AND 2006 (In Thousands of New Taiwan Dollars)

	2007	2006
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	\$(21,253,703)	\$ 5,118,693
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>41,175,889</u>	<u>36,057,196</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 19,922,186</u>	<u>\$ 41,175,889</u>
SUPPLEMENTAL INFORMATION		
Income tax paid	<u>\$ 1,680,496</u>	<u>\$ 66,015</u>
Interest paid (excluding amounts capitalized of \$276,553 thousand in 2007 and \$241,862 thousand in 2006)	<u>\$ 1,398,859</u>	<u>\$ 770,427</u>
Noncash investing and financing activities		
Transfer of equity-method investments to financial assets carried at cost	<u>\$ 609,921</u>	<u>\$ -</u>
Transfer of financial assets carried at cost to available-for-sale financial assets	<u>\$ 75,647</u>	<u>\$ 342,634</u>
Merger of equity-method investees	<u>\$ 1,179,575</u>	<u>\$ -</u>
Properties transfer in payment for equity-method investments	<u>\$ 12,817,346</u>	<u>\$ -</u>
Reclassification of properties into deferred charges	<u>\$ 122</u>	<u>\$ 851</u>
Reclassification of properties into other assets	<u>\$ 430</u>	<u>\$ -</u>
Deferred charges transfer in payment for equity-method investments	<u>\$ 122,070</u>	<u>\$ -</u>
Reclassification of deferred charges into properties	<u>\$ 830</u>	<u>\$ 2,486</u>
Current portion of long-term liabilities	<u>\$ 11,871,033</u>	<u>\$ 8,606,667</u>
Conversion of bonds	<u>\$ 1,394,704</u>	<u>\$ 78,585</u>
Transfer of held-for-trading financial assets to equity-method investments	<u>\$ -</u>	<u>\$ 52,292</u>
Transfer of financial assets carried at cost to equity-method investments	<u>\$ 14,600</u>	<u>\$ 105,859</u>
INVESTING AND FINANCING ACTIVITIES AFFECTING BOTH CASH AND NONCASH ITEMS		
Acquisition of properties	\$(54,741,713)	\$(64,520,027)
Payable, beginning of year	(21,451,039)	(13,731,127)
Payable, end of year	<u>12,741,361</u>	<u>21,451,039</u>
Cash paid	<u>\$(63,451,391)</u>	<u>\$(56,800,115)</u>
Acquisition of deferred charges	\$ (4,575,001)	\$ (1,452,153)
Payable on technical know-how	<u>3,013,050</u>	<u>-</u>
Cash paid	<u>\$ (1,561,951)</u>	<u>\$ (1,452,153)</u>
Sales of treasury stock	\$ 765,545	\$ 24,101
Advance receipt from disposal of treasury stock, end of year (classified under other current liabilities)	-	14,008
Advance receipt from disposal of treasury stock, beginning of year (classified under other current liabilities)	<u>(14,008)</u>	<u>-</u>
Cash received	<u>\$ 751,537</u>	<u>\$ 38,109</u>

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

(With Deloitte & Touche audit report dated January 31, 2008)

(Concluded)

POWERCHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2007 AND 2006

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

1. ORGANIZATION AND OPERATION

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.

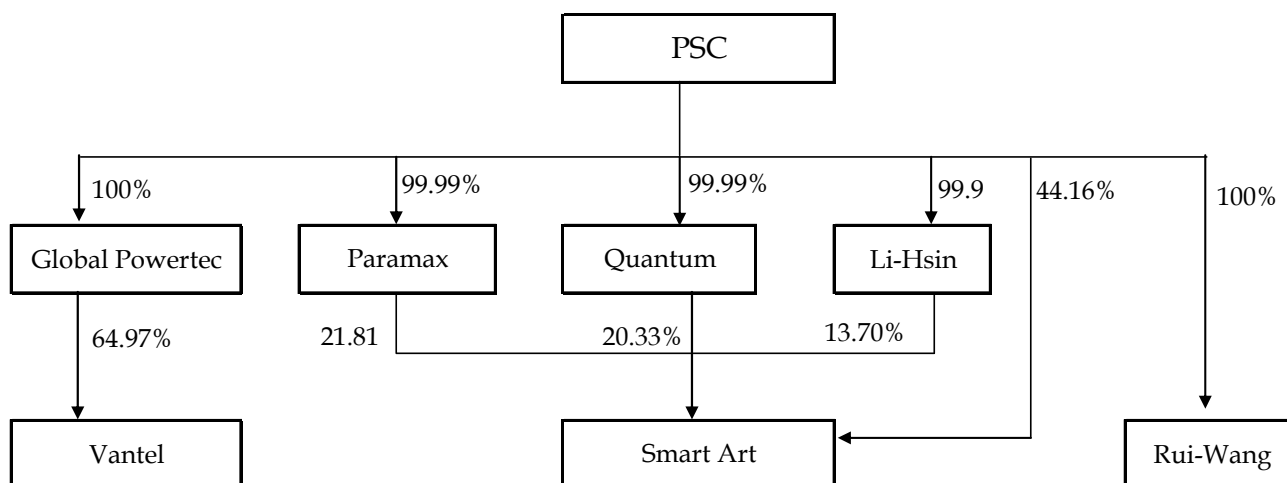
To reorganize its structure and enhance its competitiveness and performance, PSC signed a joint venture agreement with Elpida Memory Inc. to invest Rexchip Electronics Corp. ("Rexchip"). Under Article 28 of the Business Mergers and Acquisitions Law, PSC exchanged its 12-inch fab ("FAB 12C") building and facilities for the newly issued shares of Rexchip. In this share acquisition, with May 10, 2007 as the record date, PSC received one share for every NT\$16.00 in exchanged assets, for a total of 1,000,000 thousand shares. The book values of the exchanged assets were as follows:

Assets

Cash	\$ 3,060,584
Properties	12,817,346
Deferred charges	<u>122,070</u>
	<u>\$ 16,000,000</u>

Subsidiaries of PSC included Quantum Vision Corp. ("Quantum"); Paramax Corp. ("Paramax"); Li-Hsin Investment Corp. ("Li-Hsin"); Smart Art Corp. ("Smart Art"); Siptron Technology Corporation ("Siptron," formerly named PowerFlash Semiconductor Corp., which was not included in the consolidated financial statements in 2007 because of its merger with Zhi-Li Investment Corp., an equity-method investee, in December 2007, with Zhi-Li as the survivor entity); Powerflash Technology Corporation ("Powerflash," formerly named Smartic Technology Inc.; on August 9, 2007, PSC lost its controlling interest in Powerflash when PSC sold some of its holding in the investee, and Powerflash's revenue and expenses after August 9, 2007 were excluded from the consolidated statement of income for the year ended December 31, 2007); Rexchip Electronics Corp. ("Rexchip"); PSC subscribed for Rexchip's newly issued shares at a percentage different from its current equity in the investee as well as signed a joint venture agreement with Elpida to establish joint control over Rexchip; thus, PSC's voting right in the board of directors became less than half after the election of Rexchip's directors and supervisors. PSC no longer had a controlling interest over Rexchip from May 25, 2007, and Rexchip's revenue and expenses after May 25, 2007 were excluded from the consolidated statement of income for the year ended December 31, 2007); Rui-Wang Investment Corp. ("Rui-Wang"); Global Powertec Co., Ltd. ("Global Powertec"); Vantel Corp. ("Vantel," subsidiary of Global Powertec); Zentel Electronics Corp. ("Zentel"; Zentel's president assigned by PSC resigned in November 2006; thus, PSC lost its controlling interest over Zentel and Zentel's revenue and expenses after October 31, 2006 were excluded from the consolidated statements of income for the year ended December 31, 2006); and Zentel Japan Corp. ("Zentel-Japan," subsidiary of Zentel).

The following diagram shows the relationship and ownership percentages between PSC and its subsidiaries (collectively, the “Group”) as of December 31, 2007:



Powerflash, Siptron, RexChip, Vantel, Zentel, and Zentel-Japan are engaged in the research and development, designing, manufacturing and selling various integrated circuit products; Quantum, Paramax, Li-Hsin, Rui-Wang and Global Powertec are engaged in investing activities; while Smart Art is engaged in the selling of art work.

As of December 31, 2007 and 2006, the Group had 6,167 and 6,355 employees, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements have been prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, Business Accounting Law, Guidelines Governing Business Accounting, 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 on 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, pension expenses, loss on purchase contracts, contingent liabilities and default fine. 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.

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

Consolidation

The consolidated financial statements as of and for the years ended December 31, 2007 and 2006 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 December 31, 2007 and 2006 were as follows:

Investor	Investee	% of Ownership as of Dec. 31, 2007	% of Ownership as of Dec. 31, 2006	Remark
PSC	Paramax	99.99	99.99	-
	Quantum	99.99	99.99	-
	Li-Hsin	99.94	99.94	-
	Global Powertec	100.00	100.00	-
	Rexchip	45.51	100.00	Rexchip was established in November, 2006, because PSC subscribed for Rexchip's newly issued shares at a percentage different from its current equity in the investee as well as signed a joint venture agreement with Elpida to establish joint control over Rexchip, PSC's voting right in the board of directors became less than half after the election of Rexchip's directors and supervisors; thus, PSC no longer had a controlling interest over Rexchip from May 25, 2007, and Rexchip's revenue and expenses after May 25, 2007 were excluded from the consolidated statement of income for the year ended December 31, 2007.
	Rui-Wang	100.00	100.00	-
	Powerflash	27.50	51.00	On August 9, 2007, PSC disposed of part of its holding of Powerflash's shares. Thus, PSC lost its controlling interest over Powerflash, and Powerflash's revenue and expenses after August 9, 2007 were excluded from the consolidated statement of income for the year ended December 31, 2007.
	Smart Art	44.16	43.92	The Group wholly owned Smart Art, i.e., PSC held 44.16% of Smart Art and Li-Hsin, Quantum and Paramax jointly held 55.84%.
	Siptron	-	32.00	The president of Siptron was assigned by PSC. Thus, PSC has control over the operation of Siptron. However, Siptron was not consolidated in 2007 because it merged with Zhi-Li in December 2007, with Zhi-Li as the survivor entity.

(Continued)

Investor	Investee	% of Ownership as of Dec. 31, 2007	% of Ownership as of Dec. 31, 2006	Remark
	Zentel	19.37	21.03	The president of Zentel was assigned by PSC. Thus, PSC has control over the operation of Zentel. However, because the president assigned by PSC resigned, PSC no longer had a controlling interest over Zentel beginning in November 2006. As a result, its revenue and expenses after October 31, 2006 were excluded from the consolidated statement of income for the year ended December 31, 2006.
Zentel	Zentel-Japan	99.98	99.96	Since November, 2006, PSC no longer had a controlling interest over Zentel; thus Zentel-Japan's revenue and expenses after October 31, 2006 were excluded from the consolidated statements of income for the year ended December 31, 2006
Global Powertec	Vantel	64.97	99.96	-
				(Concluded)

As mentioned in Note 1, PSC and the foregoing subsidiaries are 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 cash (unrestricted) 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

Bonds purchased under resell agreements and 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. When the Group enters into financial instrument agreements, the financial assets or liabilities are recognized; and the financial assets or liabilities are derecognized when the agreements become invalid.

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 is subsequently measured, the changes in fair value are recognized as earnings. Cash dividends are recognized as income upon the declaration by an investee's shareholders under a resolution. The differences between the carrying value and the consideration received shall be recognized in profit or loss. 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 of a derivative 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 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 subsequently measured at fair value, 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 accounting for fair value and financial asset de-recognition is the same as that for financial instruments at fair value through profit or loss.

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 collectability of receivables.

Factoring of Accounts Receivable

The following three conditions must be met to recognize factoring of accounts receivable:

- a. The accounts receivable was legally separable from the Corporation and its creditors.
- b. The transferees have obtained the right to pledge or exchange accounts receivable, which are either the transferred accounts receivable or beneficial interest in the transferred assets.

- c. The transferor does not maintain effective control, through an agreement to repurchase or redeem the transferred accounts receivable before their maturities, over the transferred accounts receivable.

Upon sale of the accounts receivable, the difference between the proceeds and the carrying amount of the accounts receivable is recognized as a loss and recorded as non-operating expenses.

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. This impairment loss is irreversible.

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 ("SFAS") No. 5 - "Long-term Investment under Equity Method," 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 on 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 equity-method 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. The carrying amount may also be adjusted at the Group's interest in the investee if there are changes in the investee's equity, other than capital stocks and retained earnings.

If the Group's equity in the investee's net income or net loss of an equity-method investee equals to or exceeds the investment carrying value, plus advances to the investee the recognized investment losses, except the Group committee to provide further financial support for the investee or the losses of the investee are temporary, should be limited to the extent that makes the investment carrying value and advances equal to zero.

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

Gains or losses on sales generated from equity-method investees to the Group are deferred in proportion to the Group'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 the Group'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; transportation equipment, 5 years; office equipment, 2 to 10 years; leasehold improvement, 3 to 15 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, 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.

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, under their relative fair value, pursuant to the recently released Statements of Financial Accounting Standard.

Deferred charges are amortized using the straight-line method over the following periods: technical know-how and technical transfer, 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, 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 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 amortization) had no impairment loss been recognized for the asset in prior year.

On January 1, 2007, the Group adopted the recently released SFAS No. 37, "Intangible Assets" and started to recognize as expenses those research and development expenditures and developments costs that do not meet the criteria for capitalization as these expenses are incurred.

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 the Group's common shares into which bonds are converted. The carrying values of the bonds and other assets and liabilities related to those 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 host contract are recorded in total proceeds from the issuance less the (1) fair values of embedded derivatives and (2) issuance costs allocated to 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 losses or earnings. When the bondholder exercises the conversion option before bond maturity, the adjusted carrying value of the debt components (bonds and embedded derivatives are included) is credited to a capital stock accounts. The carrying value of bonds is accounted for by the interest method until the day before the conversion date, and that of embedded derivatives is the fair value of the day before the 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 reissue. 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, when the investees stating 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

For employees under defined contribution pension plans, pension costs are recorded based on the actual contributions made to employees' individual pension accounts during service periods. For employees under defined benefit pension plans, pension costs are recorded based on 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 income 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 income tax 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

Nonderivative foreign-currency transactions are recorded in New Taiwan Dollars at the rates of exchange in effect when the transactions occur. Exchange gains or losses on the settlement of foreign-currency transactions or monetary assets and liabilities denominated in foreign currencies at prevailing exchange rates 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. Equity-method investments - as cumulative translation adjustments under shareholders' equity.

The spot rates use the middle price of mainly correspondent bank.

Hedging Derivative Financial Instruments

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

Hedge Accounting

Hedge accounting for cash flow hedge recognizes the offsetting changes in fair values of the hedging instrument and the hedged item on profit or loss as follows:

The effective portion of changes in the fair value of the cash flow hedges are deferred in equity. The amount recognized in shareholders' equity is recognized in profit or loss in the same year or years during which the hedged forecast transaction or an asset or liability arising from the hedged forecast transaction affects profit or loss. However, if all or a portion of a loss recognized in shareholders' equity is not expected to be recovered in the future, the amount that is not expected to be recovered is recycled in profit or loss.

Translation of Foreign-currency Financial Statements

ROC SFAS No. 14, "The Effects of Changes in Foreign Exchange Rates," 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 consolidated financial statements as of and for the year ended December 31, 2006 have been reclassified to be consist with the consolidated financial statements as of and for the year ended December 31, 2007.

3. ACCOUNTING CHANGES

On January 1, 2006, the Group adopted the recently released SFAS No. 34, "Financial Instruments: Recognition and Measurement" and SFAS No. 36, "Financial Instruments: Disclosure and Presentation" and related revisions of previously released Statements.

Under the Group's adoption of SFAS No. 34 and No. 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 NT\$0.01 in PSC's basic and diluted earnings per share (after income tax) for the year ended December 31, 2006.

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 under Equity Method" and SFAS No. 25, "Business Combinations." 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 year ended December 31, 2006.

4. CASH AND CASH EQUIVALENTS

	<u>December 31</u>	
	<u>2007</u>	<u>2006</u>
Time deposits	\$ 14,952,933	\$ 27,959,539
Demand deposits	2,752,568	2,505,388
Bonds purchased under resell agreements	1,440,000	10,635,549
Checking accounts	776,542	75,289
Cash on hand	<u>143</u>	<u>124</u>
	<u>\$ 19,922,186</u>	<u>\$ 41,175,889</u>

PSC's overseas bank deposits as of December 31, 2007 and 2006 are summarized as follows:

	<u>December 31</u>	
	<u>2007</u>	<u>2006</u>
Japan - JPY651,830 thousand in 2007 and JPY627,314 thousand in 2006	\$ 188,900	\$ 171,947
Hong Kong - US\$32 thousand and HK\$31,651 thousand in 2007 and US\$8 thousand and HK\$22,935 thousand in 2006	132,694	96,356
Singapore - US\$1,095 thousand, JPY83,637 thousand and HK\$9,160 thousand in 2007 and US\$102 thousand, JPY54,698 thousand and HK\$3,299 thousand in 2006	97,852	32,139
Luxembourg - US\$2,919 thousand in 2007 and US\$2,774 thousand in 2006	<u>94,690</u>	<u>90,435</u>
	<u>\$ 514,136</u>	<u>\$ 390,877</u>

5. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>December 31</u>	
	<u>2007</u>	<u>2006</u>
Financial assets held-for-trading	\$ 7,439,002	\$ 9,101,591
Financial assets designated at fair value through profit or loss	<u>-</u>	<u>48,307</u>
	<u>\$ 7,439,002</u>	<u>\$ 9,149,898</u>
Financial liabilities held-for-trading	<u>\$ 1,299,180</u>	<u>\$ 2,092,642</u>

Financial instruments held for trading as of December 31, 2007 and 2006 are summarized as follows:

	<u>December 31</u>	
	2007	2006
Financial assets		
Domestic listed stocks	\$ 6,149,780	\$ 6,019,326
Foreign listed stocks - US\$322 thousand and JPY1,641,420 thousand in 2007; US\$485 thousand and JPY2,827,890 thousand in 2006	486,066	790,940
Mutual funds	670,363	2,277,635
Forward exchange contracts	129,441	-
Interest rate swap contracts	3,352	-
Cross-currency swap contracts	<u>-</u>	<u>13,690</u>
	<u>\$ 7,439,002</u>	<u>\$ 9,101,591</u>
Financial liabilities		
Forward exchange contracts	\$ 112,825	\$ -
Interest rate swap contracts	30,237	45,068
Debt components of convertible bonds (Note 17)		
Conversion option	1,053,331	1,959,124
Put option	<u>102,787</u>	<u>88,450</u>
	<u>\$ 1,299,180</u>	<u>\$ 2,092,642</u>

The Group used forward exchange contracts, cross-currency swap contracts and interest rate swap contracts during the years ended December 31, 2007 and 2006 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 minimize risks due to changes in fair value or cash flows.

As of December 31, 2006, all forward exchange contracts had expired; outstanding forward exchange contracts as of December 31, 2007 were as follows:

	Currency	Maturity Date/Period	Contract Amount (In Thousands)
<u>December 31, 2007</u>			
Buy	NT\$/JPY	March 6, 2008	NT\$141,660/JPY500,000
Sell	US\$/JPY	January 4, 2008 - March 6, 2008	US\$271,850/JPY30,400,000
Buy	NT\$/US\$	January 23, 2008 - April 3, 2008	NT\$12,225,610/US\$380,000

As of December 31, 2007, all cross-currency swap contracts had expired, outstanding cross-currency swap contracts as of December 31, 2006 were as follows:

Contract Amount (In Thousands)	Maturity Period	Range of Interest Rates Paid	Range of Interest Rates Received
US\$145,000	January 17, 2007 - February 26, 2007	5.31%-5.38%	1.34%-2.23%

Outstanding interest rate swap contracts as of December 31, 2007 and 2006 were as follows:

Contract Amount (In Thousands)	Maturity Period	Range of Interest Rates Paid	Range of Interest Rates Received
<u>December 31, 2007</u>			
\$ 500,000	September 17, 2007 - July 31, 2012	2.99%-3.04%	2.67%
1,000,000	October 5, 2007 - January 31, 2013	3.16%	2.66%-2.67%
1,000,000	October 5, 2007 - January 31, 2013	3.13%-3.16%	2.67%
1,000,000	October 9, 2007 - January 31, 2013	3.12%-3.15%	2.66%-2.67%
500,000	November 2, 2007 - January 31, 2013	3.18%	2.66%
1,000,000	November 13, 2007 - January 31, 2013	3.22%	2.67%
1,000,000	November 14, 2007 - January 31, 2013	3.18%	2.67%
1,000,000	November 14, 2007 - January 31, 2013	3.17%	2.67%
300,000	May 31, 2004 - March 24, 2009	1.70%-5.37%	1.71%-2.37%
300,000	June 1, 2004 - March 24, 2009	1.85%	1.71%-2.37%
300,000	June 3, 2004 - March 24, 2009	1.60%-5.37%	1.71%-2.37%
300,000	June 16, 2004 - March 24, 2009	3.68%-4.17%	1.71%-2.37%
<u>December 31, 2006</u>			
\$ 500,000	May 31, 2004 - March 24, 2009	1.70%-5.46%	1.46%-1.71%
500,000	June 1, 2004 - March 24, 2009	1.85%	1.46%-1.71%
500,000	June 3, 2004 - March 24, 2009	1.60%-5.46%	1.46%-1.71%
500,000	June 16, 2004 - March 24, 2009	3.32%-4.26%	1.46%-1.71%
100,000	July 2, 2004 - May 20, 2007	1.50%-5.40%	1.45%-1.71%
100,000	July 2, 2004 - May 20, 2007	3.32%-4.35%	1.45%-1.71%
100,000	July 2, 2004 - May 20, 2007	3.32%-4.35%	1.45%-1.71%

Net gains arising from financial assets held for trading were \$1,558,298 thousand and \$1,898,210 thousand for the years ended December 31, 2007 and 2006, respectively. Net gains and losses arising from financial liabilities held for trading were \$631,044 thousand and \$662,220 thousand for the years ended December 31, 2007 and 2006, respectively.

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

	December 31, 2006
Financial assets	
Credit-linked note (CLN)	<u>\$ 48,307</u>

Other CLN information is as follows:

CLN Issuer	Principal Amount (In Thousands)	Interest Rate	Maturity
<u>December 31, 2006</u>			
Credit Suisse First Boston International	US\$ 1,500	6.37%-7.42%	February 2007

Under the CLN transaction term, the investment can be transferred before the maturity date only through the exercise of the early redemption right by Credit Suisse First Boston International. The issuer 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 on the CLN, which are financial assets designated at fair value through profit or loss, were \$1,288 thousand and \$4,370 thousand for the years ended December 31, 2007 and 2006, respectively.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS - CURRENT

	<u>December 31</u>	
	<u>2007</u>	<u>2006</u>
Domestic listed stocks	\$ 441,268	\$ 565,458
Foreign listed stocks- HK\$490 thousand and CAD 56 thousand in 2007 and HK\$3,450 thousand and CAD295 thousand in 2006	3,863	22,619
Mutual funds		
Open-end	-	127,785
Closed-end - NT130,768 thousand and HK\$14,186 thousand in 2007 and NT\$226,800 thousand and HK\$9,242 thousand in 2006	<u>189,651</u>	<u>265,524</u>
	<u>\$ 634,782</u>	<u>\$ 981,386</u>

The Group revalued the fair value of the investment in listed common stocks for the year ended December 31, 2007 and recognized the impairment losses on financial assets of \$4,232 thousand, which were presented under non-operating expenses and losses - impairment loss.

7. NOTES AND ACCOUNTS RECEIVABLE

	<u>December 31</u>	
	<u>2007</u>	<u>2006</u>
<u>Related parties</u>		
Notes and accounts receivable	\$ 3,001,436	\$ 8,540,217
Allowance for doubtful accounts	(29,942)	(88,525)
Allowance for sales discounts	<u>(457,400)</u>	<u>(159,000)</u>
	<u>2,514,094</u>	<u>8,292,692</u>
<u>Third parties</u>		
Notes and accounts receivable	1,658,135	4,958,871
Allowance for doubtful accounts	(13,396)	(50,072)
Allowance for sales discounts	<u>(252,600)</u>	<u>(281,000)</u>
	<u>1,392,139</u>	<u>4,627,799</u>
	<u>\$ 3,906,233</u>	<u>\$ 12,920,491</u>

The factoring of accounts receivable as of December 31, 2007 is summarized as follows:

Counter-parties	Receivables Sold	Amounts Collected	Advances Received at Year-end	Interest Rates on Advances Received (%)	Credit Line
Taipei Fubon Bank	US\$ 39,456	US\$ -	US\$ 35,510	5.34	US\$ 120,000

The above credit line which will expire on August 2, 2008 can be utilized on a revolving basis.

Pursuant to the factoring agreements, losses from commercial disputes (such as sales returns and discounts) shall be borne by the Group, while losses from credit risk shall be borne by the bank.

As of December 31, 2007, retentions held for the factoring of accounts receivable in amount of US\$3,946 thousand was presented under other receivables.

8. INVENTORIES

	December 31	
	2007	2006
Merchandise	\$ 1,198,271	\$ 545,537
Finished goods	1,570,495	1,171,115
Work in process	8,659,446	7,769,136
Materials and supplies	<u>2,322,794</u>	<u>2,562,560</u>
	13,751,006	12,048,348
Allowance for losses	<u>(5,029,330)</u>	<u>(313,508)</u>
	<u>\$ 8,721,676</u>	<u>\$ 11,734,840</u>

9. HELD-TO-MATURITY FINANCIAL ASSETS

	December 31	
	2007	2006
Veutron Corp. ("Veutron") - issued in 2005 (I)	\$ 140,000	\$ 145,000
Veutron - issued in 2006 (I)	75,000	75,000
MaxEdge Electronics Corp. ("MaxEdge") - issued in 2005 (I)	55,000	55,000
MaxEdge - issued in 2005 (II)	50,000	50,000
MaxEdge - issued in 2005 (III)	50,000	50,000
Veutron - issued in 2003 (II)	46,000	46,000
Veutron - issued in 2002 (II)	<u>-</u>	<u>49,000</u>
	416,000	470,000
Current portion	<u>(201,000)</u>	<u>(49,000)</u>
	<u>\$ 215,000</u>	<u>\$ 421,000</u>

Bond investments were as follows:

	Principal Amount	Interest Rate	Maturity
<u>Held as of December 31, 2007</u>			
Veutron - issued in 2005 (I)	\$ 145,000	3.50%	April 2009
Veutron - issued in 2006 (I)	75,000	3.50%	February 2010
MaxEdge - issued in 2005 (I)	55,000	3.25%	August 2008
MaxEdge - issued in 2005 (II)	50,000	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

(Continued)

<u>Matured as of December 31, 2007</u>	Principal Amount	Interest Rate	Maturity
Veutron - issued in 2002 (II)	\$ 49,000	3.50%	30% of principal repayment in November 2006, and the remaining 70% in November 2007
			(Concluded)

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 Act.

10. FINANCIAL ASSETS CARRIED AT COST - NONCURRENT

	<u>December 31</u>	
	<u>2007</u>	<u>2006</u>
Domestic unlisted common stocks	\$ 1,342,798	\$ 570,062
Domestic unlisted preferred stocks	10	10
Foreign unlisted common stocks - US\$2,668 thousand, JPY164,151 thousand, and EUR522 thousand in 2007 and US\$1,088 thousand, JPY164,151 thousand, and EUR303 thousand in 2006	139,116	82,651
Foreign unlisted preferred stocks - US\$9,645 thousand in 2007 and US\$4,252 thousand and EUR260 thousand in 2006	315,035	160,792
Prepayment	<u>-</u>	<u>60,000</u>
	<u>\$ 1,796,959</u>	<u>\$ 873,515</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.

The Group revalued the recoverable amount of the investment in unlisted common stocks for the years ended December 31, 2007 and 2006 and recognized impairment losses on financial assets of \$132,842 thousand and \$238,171 thousand, respectively, which were presented under non-operating expenses and losses - impairment loss.

11. LONG-TERM INVESTMENTS

	<u>December 31</u>			
	<u>2007</u>		<u>2006</u>	
	<u>Amount</u>	<u>% of Ownership</u>	<u>Amount</u>	<u>% of Ownership</u>
Rexchip	\$ 21,274,024	49.25	\$ -	-
Power ASE Tech. Holding Ltd. ("Power ASE - Holding")	1,182,466	28.72	452,752	29.47
Lu-Chu Development Corp. ("Lu-Chu")	945,726	43.70	909,703	43.01
Zhi-Li Investment Corp. ("Zhi-Li")	740,453	41.98	849,814	48.49
Artrix International Corp. ("Artrix")	578,736	43.34	495,593	48.44
Novax Technologies, Inc. ("Novax")	509,785	44.99	637,734	46.68
Veutron Corp. ("Veutron")	286,817	26.32	405,186	26.87

(Continued)

	December 31			
	2007		2006	
	Amount	% of Ownership	Amount	% of Ownership
Tekmax Development Corp. ("Tekmax")	\$ 273,270	41.20	\$ 204,345	41.43
Luxxon Technology Corp. ("Luxxon")	233,359	43.67	169,102	41.29
Synage Investment Corp. ("Synage")	171,739	45.00	161,581	47.73
Zentel	131,910	24.26	90,015	30.63
Powerflash	114,384	34.58	-	-
Optimicro Corp. ("Optimicro")	108,217	45.01	155,901	46.66
Network Holdings Limited ("Network")	98,893	27.27	66,123	38.82
Deutron Japan Corp. ("Deutron-Japan")	95,012	44.54	95,294	47.60
Syntronix Corp. ("Syntronix")	93,507	21.41	95,131	22.25
Ubilux Optoelectronics Corporation ("Ubilux")	80,372	24.94	-	-
Terax Communication Technologies Inc. ("Terax")	79,160	23.57	80,249	29.59
Retronix Technology Corp. ("Retronix")	61,953	20.01	87,764	45.00
Astel Electronics Inc. ("Astel")	34,105	45.00	64,647	45.00
Vivichip Electronics Corp. ("Vivichip")	26,046	41.00	43,114	46.00
MicroMedia Technology Corp. ("MicorMedia")	21,709	40.00	38,324	40.00
Navisys Technology Corp. ("Navisys")	15,190	45.00	21,913	49.33
eBsuccess Solutions Inc. ("eBsuccess")	8,992	23.75	20,900	23.75
LoanSky.Net Corporation ("LoanSky.Net")	7,580	36.00	14,124	36.00
Lontium Semiconductor Corp. ("Lontium")	4,779	46.42	-	-
MaxEdge Electronics Corp. ("MaxEdge")	-	45.03	-	41.20
Deutron Electronics Corp. ("Deutron")	-	-	485,376	20.00
Neo Solar Power Crop. ("Neo-Solar")	-	-	129,916	21.01
Luxchip Technology Corporation ("Luxchip")	-	-	96,801	47.00
Signia Technologies Co., Ltd. ("Signia")	-	-	77,156	32.30
AVAC Systems, Inc. ("AVAC")	-	-	58,117	44.26
Silicon Optronics, Inc. ("Silicon")	-	-	57,463	21.03
PowerGate Optical, Inc. ("PowerGate")	-	-	44,529	20.26
	<u>\$ 27,178,184</u>		<u>\$ 6,108,667</u>	

(Concluded)

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 years ended December 31, 2007 and 2006 was as follow:

	December 31	
	2007	2006
Cost		
Beginning balance	\$ 49,471	\$ -
Recognized	-	49,471
Ending balance	<u>49,471</u>	<u>49,471</u>
Accumulated impairment loss		
Beginning balance	-	-
Recognized	49,471	-
Ending balance	<u>49,471</u>	<u>-</u>
	<u>\$ -</u>	<u>\$ 49,471</u>

For the year ended December 31, 2007, The Group revalued the recoverable amount of goodwill and recognized impairment loss of investment in Signia amounting to \$49,471 thousand, which was presented under non-operating expenses and losses - impairment loss.

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.

In the third quarter of 2006, The Group invested in MicroMedia, which was accounted for by the equity method.

In the fourth quarter of 2006, The Group invested in Navisys, eBsuccess and Power ASE - Holding, which were accounted for by the equity method.

In the fourth quarter of 2006, The Group acquired 22,800 thousand shares of Veutron through a private market transaction at NT\$9.09 per share. This transaction had certain restrictions on share transferability under the Securities and Exchange Act.

In the fourth quarter of 2007, the Group invested in Ubilux and Lontium, which were accounted for by the equity method.

In the fourth quarter of 2006, the Group owned more than 20% of Veutron and Terax, which were recorded as financial assets at fair value through profit or loss - current and financial assets carried at cost - noncurrent, respectively, when SFAS No. 36 was adopted. Thus, the Group transferred both investments to equity-method investments at their carrying value as of January 1, 2006

In the first quarter of 2007, the Group no longer exercised significant influence on Neo-Solar and Silicon. Thus, the Group reclassified the related investments from equity-method investments into financial assets carried at cost - noncurrent.

In the second quarter of 2007, the Group no longer exercised significant influence on Deutron and PowerGate. Thus, the Group reclassified the related investments from equity-method investments into financial assets carried at cost - noncurrent.

In March 2007, Luxxon merged with Luxchip, with Luxxon as the survivor company. As the result of the merger, the Group owned 20% of Luxxon; thus, the investment was accounted for by the equity method.

In September 2007, AVAC merged with Synage, with Synage as the survivor company. As the result of the merger, the Group owned 20% of Synage; thus, the investment was accounted for by the equity method.

In October 2007, Terax merged with Signia, with Terax as the survivor company. As the result of the merger, the Group owned 20% of Terax; thus, the investment was accounted for by the equity method.

In December 2007, Zhi-Li merged with Siptron, with Zhi-Li as the survivor company. As the result of the merger, the Group owned 20% of Zhi-Li; thus, the investment was accounted for by the equity method.

As of December 30, 2007, the Group's equity in the loss of MaxEdge equaled the investment carrying value. The recognized equity in loss was limited since the Group did not guarantee the obligations of MaxEdge. However, the Group revalued the recoverable amount of the investment of MaxEdge bonds; there is no material effect on the consolidated financial statements.

Except for the income (loss) of Luxchip, AVAC and Signia in 2007 and eBsuccess in 2006, all other investment income (loss) accounted for by the equity method was based on the audited financial statements of the investees. The Group management believed that unaudited financial statements of Luxchip, AVAC, Signia, and Siptron and the resulting income (loss) will not have material effect on the Group's financial statements. Also, except for the audits eBsuccess and Rexchip in 2007, as well as Veutron, Zentel, Syntronix, Terax, Epilux, Lontium, Power ASE - Holding, Neo-Solar and Silicon in both 2007 and 2006 were performed by Deloitte & Touche, all others were audited by other auditors. Investment income (loss) is summarized as follows:

	2007	2006
Rexchip	\$ (1,189,993)	\$ -
Power ASE - Holding	357,535	4,752
Lu-Chu	(43,604)	(14,486)
Zhi-Li	(84,085)	113,964
Artrix	(75,005)	53,876
Novax	(33,697)	64,547
Veutron	16,445	45,154
Tekmax	81,300	15,503
Luxxon	(34,666)	(103,156)
Synage	(38,611)	(20,174)
Zentel	66,764	6,191
Powerflash	(5,829)	-
Optimicro	(43,110)	(72,842)
Network	(1,152)	(2,630)
Deutron-Japan	(107)	191
Syntronix	4,815	12,069
Ubilux	(30,628)	-
Terax	(44,154)	(45,896)
Retronix	(4,123)	(5,531)
Astel	(30,542)	(23,273)
Vivichip	(12,316)	(3,270)
MicroMedia	(16,615)	(1,676)
Navisys	(5,025)	(287)
eBsuccess	(11,773)	-
LoanSky.Net	(6,545)	(3,284)
Lontium	(16,468)	-
MaxEdge	-	(59,255)
Deutron	18,407	198,146
Neo-Solar	5,416	2,001
Luxchip	(1,948)	2,870
Signia	(14,277)	(27,456)
AVAC	(7,794)	(20,052)
Silicon	2	9,072
PowerGate	(17,115)	(22,077)
Chipking Electronic Co., Ltd.	(3,708)	-
	<u>\$ (1,222,206)</u>	<u>\$ 102,991</u>

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

	2007	2006
Zhi-Li	\$ (123,336)	\$ 60,573
Artrix	(30,708)	7,040
Novax	(57,932)	48,110
Veutron	(126,315)	98,695
Synage	(302)	-
Zentel	(27)	195
Powerflash	(11,794)	-
Syntronix	(1,755)	68
Rextronix	(3,964)	3,307
eBsuccess	(135)	-
Deutron	(18,986)	23,308
Siptron	(1,303)	-
AVAC	408	(188)
PowerGate	<u>(133)</u>	<u>365</u>
	<u>\$ (376,282)</u>	<u>\$ 241,473</u>

The market values of 6,404 thousand shares of Veutron held by the Group, an investment which was registered with the Taiwan Securities Exchange Center (TSEC), were \$108,223 thousand and \$281,123 thousand as of December 31, 2007 and 2006, respectively.

12. DERIVATIVE FINANCIAL INSTRUMENTS FOR HEDGING

Derivative financial instruments for hedging (reference to Note 26) consisted of the following:

	December 31, 2007
<u>Derivative financial liabilities for hedging</u>	
Noncurrent	
Interest rate swap contracts	<u>\$1,750</u>

In order to maintain net interest income and expenditure, the Group uses cash flow hedge to avoid interest rate risk. The main purpose of cash flow hedge to reduce interest rate risk by converting the money market linked floating rate transactions into fixed interest rate transactions. The Group uses interest rate swap contracts for cash flow hedging. The outstanding interest rate swap contracts as of December 31, 2007 were as follows:

Contract Amount (In Thousands)	Maturity Date	Rate Paid	Rate Received
\$ 500,000	January 31, 2013	2.57%	2.26%
500,000	January 31, 2013	2.50%	2.25%

13. PROPERTIES

Accumulated depreciation on properties consisted of the following:

	December 31	
	2007	2006
Buildings	\$ 2,813,269	\$ 2,303,303
Machinery and equipment	92,390,857	66,654,998
Research and development equipment	391,639	479,384
Facility equipment	13,379,483	10,501,335
Transportation equipment	11,211	10,537
Office equipment	370,122	292,471
Leasehold improvement	212	258
Miscellaneous equipment	<u>753,100</u>	<u>535,873</u>
	<u>\$ 110,109,893</u>	<u>\$ 80,778,159</u>

Total depreciation expenses in 2007 and 2006 were \$31,473,610 thousand and \$22,349,321 thousand, respectively. The details of properties pledged as collateral are shown in Note 28.

Interest capitalization is summarized as follows:

	For the Years Ended December 31	
	2007	2006
Total interest expenses	\$ 2,009,224	\$ 1,180,900
Capitalized amount	276,553	241,862
Rates used in capitalizing interests	2.40%-4.17%	3.12%-3.46%

PSC is currently expanding its fourth factory ("FAB P3", named "FAB 12M" before January 1, 2008). The related total estimated and recognized costs as of December 31, 2007 were summarized as follows:

	Total Estimated Cost	Total Recognized Cost
FAB		
P3	<u>\$ 70,000,000</u>	<u>\$ 63,780,636</u>

14. DEFERRED CHARGES, NET

	December 31	
	2007	2006
Technical know-how	\$ 5,434,331	\$ 2,566,071
Computer software system	202,169	268,326
Patent	10,000	15,000
Issuance costs of the convertible bonds	1,156	7,812
Test-run costs	-	54,801
Others	<u>311,111</u>	<u>413,618</u>
	<u>\$ 5,958,767</u>	<u>\$ 3,325,628</u>

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

15. LAND

	<u>December 31</u>	
	<u>2007</u>	<u>2006</u>
COST	\$ 297,159	\$ 71,026
Accumulated impairment loss	<u>(53,102)</u>	<u>-</u>
	<u>\$ 244,057</u>	<u>\$ 71,026</u>

The Group revalued the recoverable amount, according to the evaluation report, of the land for the year ended December 31, 2007 and recognized impairment losses on land of \$53,102 thousand, which was presented under non-operating expenses and losses - impairment loss.

16. ACCRUED EXPENSES

	<u>December 31</u>	
	<u>2007</u>	<u>2006</u>
Technical know-how	\$ 3,053,835	\$ 274,100
Royalty	2,630,087	1,573,653
Salary and Bonus	503,665	1,324,617
Others	<u>1,324,685</u>	<u>1,424,681</u>
	<u>\$ 7,512,272</u>	<u>\$ 4,597,051</u>

17. CONVERTIBLE BONDS PAYABLE

	<u>December 31</u>	
	<u>2007</u>	<u>2006</u>
Overseas unsecured bonds		
Issued in 2004 (5) US\$157,850 thousand	\$ 5,121,128	\$ 5,145,278
Issued in 2005 (6) US\$135,500 thousand in 2007 and US\$141,750 thousand in 2006	4,396,026	4,620,483
Issued in 2006 (7) US\$126,500 thousand in 2007 and US\$116,200 thousand in 2006	<u>4,103,620</u>	<u>3,787,418</u>
	<u>13,620,774</u>	<u>13,553,179</u>
Domestic unsecured bonds		
Issued in 2005 (1) NT\$3,603,900 thousand in 2007 and NT\$4,000,000 thousand in 2006	3,603,900	4,000,000
Issued in 2005 (2) NT\$5,147,000 thousand in 2007 and NT\$5,940,000 thousand in 2006	<u>5,147,000</u>	<u>5,940,000</u>
	<u>8,750,900</u>	<u>9,940,000</u>
	22,371,674	23,493,179
Current portion	<u>(9,250,620)</u>	<u>(8,620,483)</u>
	<u>\$ 13,121,054</u>	<u>\$ 14,872,696</u>

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\$20.17 per share as of December 31, 2007) 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 December 31, 2007, 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\$15.87 per share as of December 31, 2007) 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 December 31, 2007, holders of Bonds 2005A with principle amount of US\$24,500 thousand had requested to convert these bonds into 38,418 thousand common shares, which had all been issued.

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 and the conversion price is NT\$14.53 per share as of December 31, 2007) 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. As of December 31, 2007, holders of Bonds 2006 with principle amount of US\$150 thousand had requested to convert these bonds into 242 thousand common shares, which had all been issued.

Under SFAS No. 36, “Financial Instruments: Disclosure and Presentation,” PSC separated conversion option and put option from Bonds 2006 and recognized these options as financial liabilities at fair value through profit or loss. The total issuance cost of bonds was allocated to the conversion option, put option and bond payable at the percentages of initially relative recognized amount. The amount allocated to the conversion option and put option was presented under non-operating expenses and losses. The remainder, which was allocated to bonds payable, was amortized using the effective interest rate method and presented under interest expenses. The recognized amounts are summarized as follows:

	<u>December 31</u>	
	<u>2007</u>	<u>2006</u>
Face value of Bonds 2006	US\$ 160,000	US\$ 160,000
Debt Components		
- Conversion option	(40,758)	(40,758)
- Put option	<u>(5,757)</u>	<u>(5,757)</u>
Bond payable	113,485	113,485
Issuance cost	<u>(2,043)</u>	<u>(2,043)</u>
Amortized costs on initial recognition of bond payable	111,442	111,442
Conversion		
- Face value	(150)	(100)
- Elimination	40	27
Interest expense	<u>15,168</u>	<u>4,831</u>
Amortized costs of bond payable, end of year	<u>US\$ 126,500</u>	<u>US\$ 116,200</u>

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\$17.10 per share as of December 31, 2007) 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. As of December 31, 2007, holders of Bonds 2006 with principle amount of NT\$396,100 thousand had requested to convert these bonds into 20,589 thousand common shares, which had all been issued.

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\$16.73 per share as of December 31, 2007) 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. As of December 31, 2007, holders of Bonds 2005C with principle amount of NT\$853,000 thousand had requested to convert these bonds into 45,171 thousand common shares, which had all been issued.

18. LONG-TERM BANK LOANS

	<u>December 31</u>	
	<u>2007</u>	<u>2006</u>
Long-term secured syndicated loans (1)	\$ 2,175,000	\$ 3,625,000
Long-term secured syndicated loans (2)	7,500,000	11,250,000
Long-term secured syndicated loans (3)	12,000,000	15,000,000
Long-term secured syndicated loans (4)	36,478,600	4,000,000
Long-term secured syndicated loans (5)	7,730,000	-
Medium to long-term loans	<u>325,333</u>	<u>610,000</u>
	66,208,933	34,485,000
Current portion	<u>(11,871,033)</u>	<u>(8,606,667)</u>
	<u>\$ 54,337,900</u>	<u>\$ 25,878,333</u>

Those loans are payable quarterly or semiannually at varying amounts. They will be fully repaid by January 2013. They bear interest rates ranging from 2.40% to 4.67% and from 2.57% to 5.02% for the years ended December 31, 2007 and 2006, respectively.

PSC’s long-term secured loans were obtained from syndicates of banks. The loan agreements require, among others, the maintenance of specific financial ratios based on annual financial statements. As of December 31, 2007, PSC has not met the current ratio requirement as specified in the loan agreements. In accordance with the loan covenant, the fall short of the financial ratio is not regarded as a default of the contract. In addition, PSC has accrued for the potential penalty charges. Accordingly, PSC considers that the non-attainment of the current ratio would not have a material effect on its operational and financial activities.

The lists of assets pledged as collateral are shown in Note 28.

19. PENSION PLAN

The Labor Pension Act (the "Act") took effect on July 1, 2005. Employees subject to the Labor Standards Law on July 1, 2005 were allowed to choose to be subject to the pension mechanism under this Act or to continue to be subject to the pension mechanism under the Labor Standards Law. For Group employees subject to the Labor Standards Law before July 1, 2005 chose to be subject to the pension mechanism under the Act, their seniority as of their respective enrollment date will not be canceled. Those hired on or after July 1, 2005 automatically become subject to the Act, which provides for a defined contribution plan. Based on the Act, PSC and its subsidiary makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages, and these contributions are recognized as pension costs. Thus, the pension costs based on the Act for the years ended December 31, 2007 and 2006 were \$191,096 thousand and \$164,514 thousand, respectively.

The Group (foreign subsidiaries are excluded) has a defined benefit pension plan under the Labor Standards Law, which provides benefits based on length of service and average salaries and wages for the last six months of employment. PSC contributes monthly to a pension fund amounts equal to 2% of salaries and wages. The fund is administered by a pension fund committee and the contributions to the fund are deposited in the Bank of Taiwan (previously known as Central Trust of China, which merged with Bank of Taiwan on July 1, 2007, the survivor company) under the committee's name. In addition, the portion of projected benefit obligation in excess of the plan assets is contributed to the fund by monthly installment of five years.

Other information on the defined benefit plans is summarized as follows:

	2007	2006
a. Pension cost		
Service cost	\$ 35,244	\$ 30,200
Interest cost	21,304	16,158
Projected return on plan assets	(7,093)	(6,095)
Amortization	<u>12,248</u>	<u>7,316</u>
	<u>\$ 61,703</u>	<u>\$ 47,579</u>
	December 31	
	2007	2006
b. Reconciliation of the fund status of the plan and accrued pension cost:		
Benefit obligations		
Vested benefit obligation	\$ 54,273	\$ 46,403
Unvested benefit obligation	<u>326,939</u>	<u>290,292</u>
Accumulated benefit obligation	381,212	336,695
Effect of salary increase	<u>309,491</u>	<u>218,666</u>
Projected benefit obligation	690,703	555,361
Fair value of plan assets (including projected interest)	<u>(305,962)</u>	<u>(261,322)</u>
Funded status	384,741	294,039
Unrecognized prior service cost	(37,297)	(40,688)
Unrecognized net transition obligation	(7,986)	(8,903)
Unrecognized net loss	(261,918)	(169,806)
Additional liability	<u>674</u>	<u>1,008</u>
Accrued pension cost	<u>\$ 78,214</u>	<u>\$ 75,650</u>
c. Vested benefit	<u>\$ 68,766</u>	<u>\$ 56,421</u>

	<u>December 31</u>	
	<u>2007</u>	<u>2006</u>
d. Actuarial assumptions:		
Discount rate used in determining present values	3.50%	3.50%-3.75%
Future salary increase rate	2.00%-4.50%	2.00%-3.50%
Expected rate of return on plan assets	2.50%	2.50%-2.75%
	2007	2006
e. Contributions to pension fund	<u>\$ 52,208</u>	<u>\$ 46,299</u>
f. Payments of fund	<u>\$ 15,139</u>	<u>\$ 13,900</u>

20. SHAREHOLDERS' EQUITY

Under the ROC Company Law, capital surplus (excluding amounts arising from equity-method 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, 1% to 2% as remuneration of directors and supervisors and 10% as bonus to employees. PSC may issue stock bonus to employees of an affiliated companies if these employees meet the conditions set by the board of directors or by the board's duly authorized designee;
- e. The remainder as bonus to shareholders.

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 the appropriation for legal capital reserve shall be made until the reserve equals the Corporation's paid-in capital. The reserve may be used to offset a deficit, or be distributed as dividends and bonuses for the portion in excess of 50% of the paid-in capital if the Corporation has no unappropriated earnings and the reserve balance has exceeded 50% of the Corporation's paid-in capital. Also, when the reserve has reached 50% of the Corporation's paid-in capital, up to 50% of the reserve may be transferred to capital.

These appropriations and the disposition of the 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 Integrated Income Tax System, which took effect on January 1, 1998, resident shareholders (including corporate shareholders) are allowed a tax credit for the income tax paid by the Corporation on earnings generated since 1998. An imputation credit account (ICA) is maintained by the Corporation 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 2006 and 2005 were resolved by the shareholders in their meetings on June 15, 2007 and June 9, 2006, 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 2006</u>	<u>For Fiscal Year 2005</u>	<u>For Fiscal Year 2006</u>	<u>For Fiscal Year 2005</u>
Legal reserve	\$ 2,732,758	\$ 641,736	\$ -	\$ -
Special reserve	-	31,314	-	-
Cash dividend	10,322,849	3,042,429	1.48	0.52
Stock dividend	6,881,899	3,042,429	0.99	0.52
Bonus to employees - in cash	1,477,394	287,215	-	-
Bonus to employees - in stock	984,929	287,215	-	-
Remuneration to directors and supervisors	<u>738,697</u>	<u>172,329</u>	-	-
	<u>\$ 23,138,526</u>	<u>\$ 7,504,667</u>		

The amount of the above appropriations of earnings for 2006 and 2005 are consist with the resolutions of the meetings of PSC's Board of Directors held on March 26, 2007 and April 25, 2006, respectively.

Had the above bonus to employees and remuneration to directors and supervisors been charged to earnings of 2006 and 2005 (stock bonus recognized at par value), PSC's basic earnings per share (after income tax) for the years ended December 31, 2006 and 2005, would have decreased from NT\$4.02 and NT\$1.14 to NT\$3.55 and NT\$1.00, adjusted retroactively for issuance of stock dividends and bonuses, respectively.

The shares distributed as a bonus to employees represented 1.43% (98,493 thousand shares) and 0.51% (28,721 thousand shares) of PSC's total outstanding common shares as of December 31, 2006 and 2005, respectively.

As of January 31, 2008, the date of the accompanying auditor's report, PSC's Board of Directors had not resolved to offset PSC's accumulated deficit. Related information on offset can be accessed online through the Market Observation Post System of the Taiwan Stock Exchange Corporation.

Under a resolution approved by the shareholders in their meeting on June 15, 2007, PSC's 8-inch fab ("FAB 8A") business will be spun off to incorporate a new company, Maxchip Electronics Corporation ("Maxchip," tentative name). The business to be spun off, with a value estimated at \$7,500,000 thousand, will be exchanged for Maxchip's 500,000 thousand newly issued shares, valued at NT\$15.00 per share. After the spin-off, PSC will own 100% of Maxchip. On January 29, 2008, the Board of Directors resolved on the record date of the spin-off as April 1, 2008.

For the years ended December 31, 2007 and 2006, movements of unrealized gain or loss on financial instruments were as follows:

	Available- for-sale Financial Assets	Equity- method Investments	Valuation Loss of cash flow Hedge	Total
<u>Year ended December 31, 2007</u>				
Balance, beginning of period	\$ 464,937	\$ 240,395	\$ -	\$ 705,332
Recognized in shareholders' equity	<u>(102,795)</u>	<u>(376,282)</u>	<u>(1,750)</u>	<u>(480,827)</u>
Balance, end of period	<u>\$ 362,142</u>	<u>\$ (135,887)</u>	<u>\$ (1,750)</u>	<u>\$ 224,505</u>
<u>Year ended December 31, 2006</u>				
Balance, beginning of period	\$ -	\$ (1,078)	\$ -	\$ (1,078)
Recognized in shareholders' equity	<u>464,937</u>	<u>241,473</u>	<u>-</u>	<u>706,410</u>
Balance, end of period	<u>\$ 464,937</u>	<u>\$ 240,395</u>	<u>\$ -</u>	<u>\$ 705,332</u>

For the years ended December 31, 2007 and 2006, movements of translation adjustments were as follows:

	Exchange Differences Arising from the Translation of the Financial Statements of Foreign Operations
<u>Year ended December 31, 2007</u>	
Balance, beginning of period	\$ (30,652)
Recognized in shareholders' equity	<u>1,169</u>
Balance, end of period	<u>\$ (29,483)</u>
<u>Year ended December 31, 2006</u>	
Balance, beginning of period	\$ (15,822)
Recognized in shareholders' equity	<u>(14,830)</u>
Balance, end of period	<u>\$ (30,652)</u>

21. EMPLOYEE STOCK OPTION

a. PSC

On May 28, 2001, June 28, 2002 and April 22, 2003, the Securities and Futures Commission approved the Corporation's employee stock option plans, hereinafter referred to as "2001 Plan," "2002 Plan," and "2003 Plan," respectively. Also, on November 9, 2007 the Financial Supervisory Commission, Executive Yuan approved PSC's employee stock option plans, hereinafter referred to as "2007 Plan". The 2001 Plan, 2002 Plan, 2003 Plan and 2007 Plan have reserved 150 thousand, 150 thousand, 120 thousand and 240 thousand option units, respectively, with each unit representing 1,000 shares of common stock, for a total of 660,000 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 December 31, 2007, there were 333,924 options that had been exercised.

Other information on the stock option rights plan is as follows:

	<u>2007 Plan</u>		<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 Prices (NT\$/Per Share)</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 Prices (NT\$/Per Share)</u>
<u>For the year ended December 31, 2007</u>								
Beginning balance	-	\$ -	58,981	\$ 6.37	43,788	\$ 8.10	10,793	\$ 13.05
Options granted	240,000	11.00	-	-	-	-	-	-
Additional options granted	-	-	3,681	5.48	2,562	6.90	-	-
Options exercised	-	-	(24,957)	6.08	(20,150)	7.78	(10,003)	12.89
Options canceled	(909)	11.00	(118)	5.99	(41)	7.63	(337)	12.15
Ending balance	<u>239,091</u>	11.00	<u>37,587</u>	5.43	<u>26,159</u>	6.90	<u>453</u>	13.64

	<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 Prices (NT\$/Per Share)</u>	<u>Number of Outstanding Stock Option Rights</u>	<u>Weighted Average Exercise Prices (NT\$/Per Share)</u>
<u>For the year ended December 31, 2006</u>						
Beginning balance	80,048	\$ 6.84	81,081	\$ 8.70	32,178	\$ 13.98
Additional options granted	2,755	6.47	2,630	8.10	-	-
Options exercised	(21,655)	6.64	(38,767)	8.33	(21,385)	13.52
Options canceled	(2,167)	8.20	(1,156)	8.51	-	-
Ending balance	<u>58,981</u>	6.37	<u>43,788</u>	8.10	<u>10,793</u>	13.05

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. For the years ended December 31, 2007 and 2006, additional 6,243 options and 5,385 options have been granted to reflect the appropriation of dividends and stock bonuses, respectively.

As of December 31, 2007, the outstanding stock options are as follows:

Exercise Price (NT\$/Per Share)	Options Outstanding			Options Exercisable	
	Number Outstanding (Per Option)	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price (NT\$/ Per Share)	Number Exercisable (Per Option)	Weighted Average Exercise Price (NT\$/ Per Share)
\$ 13.70	440	0.24	\$ 13.70	440	\$ 13.70
11.60	13	0.37	11.60	13	11.60
6.90	26,159	0.74	6.90	26,159	6.90
5.20	36,579	1.32	5.20	36,579	5.20
9.50	195	1.50	9.50	195	9.50
9.10	224	1.80	9.10	224	9.10
11.10	191	2.02	11.10	17	11.10
17.10	123	2.23	17.10	76	17.10
20.80	275	2.30	20.80	206	20.80
11.00	<u>239,091</u>	5.91	11.00	-	-
	<u>303,290</u>			<u>63,909</u>	

b. Powerflash

On February 24, 2006, Powerflash's Board of Directors approved its employee stock option plan (hereinafter referred as "2006 Plan"). The 2006 Plan has reserved 3,000 of options with each representing 1,000 shares of common stock, for a total of 3,000 thousand share for issuance. These options generally vested over a period of two years, at a certain percentage each year, from two years after the date of grant. They may be exercised with three years from two years after the grant date.

Other information on the stock option rights plan is as follows:

	2006 Plan	
	Number of Outstanding Stock Option Rights	Weighted Average Exercise Price (NT\$/Per Share)
<u>Year ended December 31, 2006</u>		
Beginning balance	-	\$ -
Options granted	1,845	10
Options cancelled	-	-
Ending balance	<u>1,845</u>	10

PSC and Powerflash use the intrinsic value method to evaluate compensation cost for employee stock options. The compensation cost recognized for the years ended December 31, 2007 and 2006 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 Powerflash, the stock options were granted at an exercise price higher than the equity per share of common shares on the measurement dates. Had PSC and Powerflash 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 and Powerflash for the years ended December 31, 2007 and 2006 is as follows:

	<u>Years Ended December 31</u>	
	2007	2006
Assumptions:		
PSC		
Risk-free interest rate	2.50%-3.86%	3.00%-3.86%
Expected life (in years)	6	6
Expected stock price volatility	60.47%-90.10%	86.61%-90.10%
Expected dividend yield	-	-
Fair value per option (NT\$/thousand shares)	<u>\$6,327 - \$26,369</u>	<u>\$13,535 - \$26,369</u>
Powerflash		
Risk-free interest rate		2.04%-2.32%
Expected life (in years)		5
Expected stock price volatility		28.23%-28.42%
Expected dividend yield		-
Fair value per option (NT\$/thousand shares)		<u>\$2,888 - \$2,927</u>

	<u>Years Ended December 31</u>	
	2007	2006
Consolidated net (loss) income:		
Consolidated net (loss) income as reported	<u>\$ (12,325,522)</u>	<u>\$ 27,327,582</u>
Pro forma consolidated net (loss) income	<u>\$ (12,427,032)</u>	<u>\$ 27,324,296</u>
(Losses) earnings per share (L/EPS, NT\$):		
Consolidated basic L/EPS as reported	<u>\$ (1.60)</u>	<u>\$ 4.02</u>
Pro forma consolidated basic L/EPS	<u>\$ (1.61)</u>	<u>\$ 4.02</u>
Consolidated diluted L/EPS as reported	<u>\$ (1.61)</u>	<u>\$ 3.41</u>
Pro forma consolidated diluted L/EPS	<u>\$ (1.62)</u>	<u>\$ 3.41</u>

The average number of shares outstanding for consolidated EPS calculation was adjusted retroactively for issuance of stock dividends and stock bonuses. The retroactive adjustment caused the pro forma consolidated basic and diluted EPS after income tax for the year ended December 31, 2006 to decrease from NT\$4.48 and NT\$3.80 to NT\$4.02 and NT\$3.41, respectively.

22. TREASURY STOCK

(Shares in Thousands)

Purpose of Purchase	Beginning Shares	Increase	Decrease	Ending Shares
<u>Year ended December 31, 2007</u>				
For subsequent transfer to employees	82,678	-	45,621	37,057
Parent's issued shares held by subsidiaries	<u>5,861</u>	<u>852</u>	<u>2,100</u>	<u>4,613</u>
	<u>88,539</u>	<u>852</u>	<u>47,721</u>	<u>41,670</u>
<u>Year ended December 31, 2006</u>				
For subsequent transfer to employees	84,100	-	1,422	82,678
Parent's issued shares held by subsidiaries	<u>3,992</u>	<u>1,869</u>	<u>-</u>	<u>5,861</u>
	<u>88,092</u>	<u>1,869</u>	<u>1,422</u>	<u>88,539</u>

As of December 31, 2007 and 2006, PSC's issued shares held by the subsidiaries were as follows:

Company	Shares (Thousands)	Original Carrying Value (in Thousands)	Market Value (in Thousands)	Shares Transferred to Treasury Stock (Thousands)
<u>December 31, 2007</u>				
Li-Hsin	4,613	<u>\$ 95,561</u>	<u>\$ 63,668</u>	<u>4,613</u>
<u>December 31, 2006</u>				
Li-Hsin	4,200	\$ 95,561	\$ 92,396	4,200
Powerflash	2,451	<u>46,600</u>	<u>53,928</u>	<u>1,661</u>
		<u>\$ 142,161</u>	<u>\$ 146,324</u>	<u>5,861</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, Powerflash became one of PSC's subsidiaries. Thus, PSC accounted for its shares held by Powerflash amounting to \$33,079 thousand as treasury stock in accordance with its stock ownership percentage of Powerflash. In August, 2007, PSC lost control over Powerflash and the treasury stock was reversed accordingly.

In the third quarter of 2007, Siptron invested in PSC. The shares held by Siptron amounting to \$7,244 thousand were accounted for by PSC as treasury stocks at the percentage of its equity interest in Siptron. In December 2007, Siptron underwent a merger in which it was not the survivor entity, thus, the treasury stock was reversed accordingly.

PSC's treasury stock transfers to employees and cancellations were as follows:

	<u>Years Ended December 31</u>			
	<u>2007</u>		<u>2006</u>	
	Share Price	Share (Thousands)	Share Price	Share (Thousands)
Transfer to employees	\$ 17.0	9,518	\$ 17.0	1,422
	17.4	32,984	-	-
	15.6	<u>2,059</u>	-	<u>-</u>
		<u>44,561</u>		<u>1,422</u>
Treasury stock canceled August 24, 2007		<u>1,060</u>		<u>-</u>

Under the regulations of the Securities and Future Commission, a corporation should acquire no more than 10% of all its issued shares. The Corporation should not pledge treasury shares and should not exercise shareholders' rights on these shares before their transfer. Further, the aggregate reacquisition cost should not exceed the combined balance of the retained earnings and certain capital surpluses. However, the subsidiaries holding the Corporation's issued shares retain shareholders' rights and privileges on these shares, except for the right to vote.

23. INCOME TAX

- a. The Income Basic Tax Act (the Act) took effect on January 1, 2006. The alternative minimum tax (AMT) imposed under the Act is a supplemental tax levied at a rate of 10% which is payable if the income tax payable determined pursuant to the Income Tax Law is below the minimum amount prescribed under the Act. The taxable income for calculating the AMT includes most of the income that is exempted from income tax under various laws and statutes. The Group (foreign subsidiaries are excluded) has considered the impact of the Act in the determination of its tax liabilities.
- b. For the year ended December 31, 2007, the Group had no current income tax payable. A reconciliation of income tax currently payable for the year ended December 31, 2006 is as follows:

	2006
Tax on pretax income at statutory rate	\$ 7,279,968
Tax-exempt income	(1,625,382)
Temporary and permanent differences	<u>(1,570,475)</u>
Income tax currently payable	<u>\$ 4,084,111</u>

- c. Income tax benefit (expense) for the years ended December 31, 2007 and 2006 consisted of:

	2007	2006
Income tax currently payable	\$ -	\$ (4,084,111)
Additional income tax under the AMT	(7,983)	-
Additional 10% tax on unappropriated earnings	(421,780)	-
Loss carryforwards	12	610
Tax credits	421,746	2,449,315
Net change in deferred income tax assets and liabilities		
Loss carryforwards	3,770,415	6,198
Investment tax credits	1,680,599	1,828,070
Temporary differences	445,915	(1,126,795)
Valuation allowance	(3,107,874)	(907,978)
Prior year adjustment	(38,628)	(295)
Tax on interest income on short-term bills	(960)	(605)
Others	<u>(16,877)</u>	<u>1,871</u>
	<u>\$ 2,724,585</u>	<u>\$ (1,833,720)</u>
Cumulative effect of changes in accounting principles	<u>\$ -</u>	<u>\$ 10,892</u>

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

	December 31	
	2007	2006
Current		
Deferred income tax assets		
Investment tax credits	\$ 2,794,571	\$ 2,388,882
Loss carryforwards	484,845	22
Temporary differences	2,201,877	396,001

(Continued)

	<u>December 31</u>	
	<u>2007</u>	<u>2006</u>
Deferred income tax liabilities		
Temporary differences	\$ (5,038)	\$ (2,639)
	5,476,255	2,782,266
Valuation allowance	<u>(3,279,564)</u>	<u>(287)</u>
	<u>\$ 2,196,691</u>	<u>\$ 2,781,979</u>
Noncurrent		
Deferred income tax assets		
Investment tax credits	\$ 12,179,576	\$ 10,907,830
Loss carryforwards	3,832,124	565,919
Temporary differences	392,474	242,760
Deferred income tax liabilities		
Temporary differences	<u>(6,246,267)</u>	<u>(4,738,716)</u>
	10,157,907	6,977,793
Valuation allowance	<u>(7,516,719)</u>	<u>(7,704,349)</u>
	<u>\$ 2,641,188</u>	<u>\$ (726,556)</u>
		(Concluded)

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

	<u>December 31</u>	
	<u>2007</u>	<u>2006</u>
Shareholders' imputed tax credits	<u>\$ 427,505</u>	<u>\$ 23,852</u>

The actual tax creditable ratio for 2006 was 5.81%. As of December 31, 2007, there is no tax creditable ratio as PSC incurred a deficit.

- f. The unappropriated retaining earnings of PSC as of December 31, 2007 and 2006 had no unappropriated earnings generated on and before 1997.
- g. As of December 31, 2007, 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	\$ 496,066	\$ 496,066	2008
		50,205	50,205	2010
		<u>3,770,698</u>	<u>3,770,698</u>	2012
		<u>\$ 4,316,969</u>	<u>\$ 4,316,969</u>	
Statute for Upgrading Industries	Purchase of machinery and equipment	\$ 2,762,061	\$ 2,762,061	2008
		3,049,131	3,049,131	2009
		2,114,888	2,114,888	2010
		<u>5,273,613</u>	<u>5,273,613</u>	2011
		<u>\$ 13,199,693</u>	<u>\$ 13,199,693</u>	

(Continued)

Regulatory Basis of Tax Credits	Items	Total Creditable Amounts	Remaining Creditable Amounts	Expiry Year
Statute for Upgrading Industries	Research and development expenditures	\$ 25,395	\$ 25,395	2008
		511,778	511,778	2009
		490,289	490,289	2010
		<u>721,066</u>	<u>721,066</u>	2011
		<u>\$ 1,748,528</u>	<u>\$ 1,748,528</u>	
Statute for Upgrading Industries	Personnel training expenditures	\$ 2,043	\$ 2,043	2008
		4,031	4,031	2009
		4,831	4,831	2010
		<u>5,161</u>	<u>5,161</u>	2011
		<u>\$ 16,066</u>	<u>\$ 16,066</u>	
Statute for Upgrading Industries	Investments in important technology-based enterprises	\$ 5,072	\$ 5,072	2008
		3,600	3,588	2011
		<u>1,200</u>	<u>1,200</u>	2012
		<u>\$ 9,872</u>	<u>\$ 9,860</u>	
				(Concluded)

h. Income from the following projects 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 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
2002 construction of the second manufacturing plant	2006-2010

i. Income tax returns of PSC through 2004 had been examined by the tax authorities. However, PSC is contesting the tax authorities' assessment of its 2000 and 2001 returns. PSC believes that any additional assessment will not have a material effect on its financial statements.

24. LABOR COST, DEPRECIATION AND AMORTIZATION EXPENSE

	Years Ended December 31					
	2007			2006		
	Classified as Cost of Sales	Classified as Operating Expenses	Total	Classified as Cost of Sales	Classified as Operating Expenses	Total
Labor cost						
Salary	\$ 3,179,289	\$ 1,187,451	\$ 4,366,740	\$ 3,573,370	\$ 1,236,239	\$ 4,809,609
Labor/health insurance	227,843	63,293	291,136	203,154	58,903	262,057
Pension	184,943	67,856	252,799	155,859	57,537	213,396
Others	<u>232,617</u>	<u>61,292</u>	<u>293,909</u>	<u>222,179</u>	<u>50,437</u>	<u>272,616</u>
	<u>\$ 3,824,692</u>	<u>\$ 1,379,892</u>	<u>\$ 5,204,584</u>	<u>\$ 4,154,562</u>	<u>\$ 1,403,116</u>	<u>\$ 5,557,678</u>
Depreciation	<u>\$ 31,056,744</u>	<u>\$ 416,866</u>	<u>\$ 31,473,610</u>	<u>\$ 22,010,182</u>	<u>\$ 339,139</u>	<u>\$ 22,349,321</u>
Amortization	<u>\$ 160,109</u>	<u>\$ 1,674,961</u>	<u>\$ 1,835,070</u>	<u>\$ 139,399</u>	<u>\$ 1,442,661</u>	<u>\$ 1,582,060</u>

25. CONSOLIDATED (LOSSES) EARNINGS PER SHARE (L/EPS)

	Years Ended December 31			
	2007		2006	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
Consolidated basic L/EPS (NT\$)				
(Loss) income before cumulative effect of changes in accounting principles attributable to common shareholders of the parent	\$ (1.96)	\$ (1.60)	\$ 4.28	\$ 4.01
Cumulative effect of changes in accounting principles	<u>-</u>	<u>-</u>	<u>-</u>	<u>0.01</u>
(Loss) income attributable for the common shareholders for the parent for the year	<u>\$ (1.96)</u>	<u>\$ (1.60)</u>	<u>\$ 4.28</u>	<u>\$ 4.02</u>
Consolidated diluted L/EPS (NT\$)				
(Loss) income before cumulative effect of changes in accounting principles attributable to common shareholders of the parent	\$ (1.94)	\$ (1.61)	\$ 3.66	\$ 3.40
Cumulative effect of changes in accounting principles	<u>-</u>	<u>-</u>	<u>-</u>	<u>0.01</u>
(Loss) income attributable for the common shareholders for the parent for the year	<u>\$ (1.94)</u>	<u>\$ (1.61)</u>	<u>\$ 3.66</u>	<u>\$ 3.41</u>

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

	Amounts (Numerator)		Weighted Average Number of Shares Outstanding (Denominator) (Thousand)	EPS (Dollars)	
	Before Income Tax	After Income Tax		Before Income Tax	After Income Tax
<u>For the year ended December 31, 2007</u>					
Consolidated net loss	<u>\$ (15,032,296)</u>	<u>\$ (12,307,711)</u>			
Consolidated Basic LPS					
Loss attributable to common shareholders of the parent	\$ (15,077,450)	\$ (12,325,522)	7,705,321	<u>\$ (1.96)</u>	<u>\$ (1.60)</u>
Effect of dilutive securities					
- Convertible bonds	<u>(551,777)</u>	<u>(636,575)</u>	<u>360,090</u>		
Consolidated Diluted LPS					
Loss attributable to common and potential common shareholders of the parent	<u>\$ (15,629,227)</u>	<u>\$ (12,962,097)</u>	<u>8,065,411</u>	<u>\$ (1.94)</u>	<u>\$ (1.61)</u>
<u>For the year ended December 31, 2006</u>					
Consolidated net income	<u>\$ 29,131,759</u>	<u>\$ 27,380,797</u>			
Consolidated Basic EPS					
Income attributable to common shareholders of the parent	\$ 29,137,972	\$ 27,327,582	6,801,673	<u>\$ 4.28</u>	<u>\$ 4.02</u>
Effect of dilutive securities					
- Convertible bonds	683,731	512,798	1,248,202		
- Stock options	<u>-</u>	<u>-</u>	<u>104,772</u>		
Consolidated Diluted EPS					
Income attributable to common and potential common shareholders of the parent	<u>\$ 29,821,703</u>	<u>\$ 27,840,380</u>	<u>8,154,647</u>	<u>\$ 3.66</u>	<u>\$ 3.41</u>

PSC's employee stock option plans (Please see Note 21) and convertible bonds (please see Note 17) were potential common stock. Under SFAS No. 24, "Earnings Per Share", PSC tested the potential common shares by the treasury stock method and if converted method. Except for the employee stock option plans and some parts of the convertible bonds in 2007 which have no dilution effects; the remaining parts have been included in the calculation of consolidated diluted loss/earnings per share.

The average number of shares outstanding for consolidated EPS calculation was adjusted retroactively for the issuance of stock dividends and stock bonuses. The retroactive adjustment caused the consolidated basic and diluted EPS after income tax for the year ended December 31, 2006 to decrease from NT\$4.48 and NT\$3.80 to NT\$4.02 and NT\$3.41, respectively.

26. DISCLOSURES FOR FINANCIAL INSTRUMENTS

a. Fair values of financial instruments were as follows:

	December 31			
	2007		2006	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<u>Nonderivative instruments</u>				
Assets				
Financial assets at fair value				
through profit or loss - current	\$ 7,306,209	\$ 7,306,209	\$ 9,136,208	\$ 9,136,208
Available-for-sale financial assets				
- current	634,782	634,782	981,386	981,386
Held-to-maturity financial assets				
(including current portion)	416,000	416,000	470,000	470,000
Financial assets carried at cost -				
noncurrent	1,796,959	-	873,515	-
Liabilities				
Convertible bonds payable				
(including current portion)	22,371,674	22,018,099	23,493,179	26,140,512
Long-term bank loans (including				
current portion)	66,208,933	66,208,933	34,485,000	34,485,000
<u>Derivative instruments</u>				
Assets				
Forward exchange contracts	129,441	129,441	-	-
Interest rate swap contracts	3,352	3,352	-	-
Cross-currency swap contracts	-	-	13,690	13,690
Liabilities				
Forward exchange contracts	112,825	112,825	-	-
Interest rate swap contracts	30,237	30,237	45,068	45,068
Debt components of convertible				
bonds				
Conversion option	1,053,331	1,053,331	1,959,124	1,959,124
Put option	102,787	102,787	88,450	88,450
Hedging derivative liabilities -				
noncurrent				
Interest rate swap contracts	1,750	1,750	-	-

Effective January 1, 2006, the Group adopted SFAS No. 34, "Financial Instruments: Recognition and Measurement" 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% for both the years ended December 31, 2007 and 2006.

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

Fair values of cross-currency swap contracts and forward exchange contracts were accounted under the foreign exchange rate referred to the Reuter's quotation system according to the maturity dates of each cross-currency swap contract and forward exchange contract.

Fair values of interest rate swap contracts are calculated on the balance sheet date through discounted cash flow analysis, using the U.S. dollar forward rates quoted by Bloomberg and Reuter's quotation system.

- 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, remainder is determined using the present value of forecasted cash flows.

The aforementioned financial instruments do not include cash and cash equivalent, accounts receivable, other receivable, restricted deposits, short-term bank loan, accounts payable and payable on equipment for 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:

	<u>Quoted Market Prices</u>		<u>Valuation Techniques</u>	
	<u>December 31</u>		<u>December 31</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
<u>Nonderivative instruments</u>				
Assets				
Financial assets at fair value				
through profit or loss - current	\$ 7,306,209	\$ 9,087,901	\$ -	\$ 48,307
Available-for-sale financial assets				
- current	634,782	981,386	-	-
Held-to-maturity financial assets				
(including current portion)	-	-	416,000	470,000
Liabilities				
Convertible bonds payable				
(including current portion)	17,635,244	22,174,572	4,382,855	3,965,940
Long-term bank loans (including				
current portion)	-	-	66,208,933	34,485,000

Derivative instruments

Assets				
Forward exchange contracts	-	-	129,441	-
Interest rate swap contracts	-	-	3,352	-
Cross-currency swap contracts	-	-	-	13,690
Liabilities				
Forward exchange contracts	-	-	112,825	-
Interest rate swap contracts	-	-	30,237	45,068
Debt components of convertible				
bonds				
Conversion option	-	-	1,053,331	1,959,124
Put option	-	-	102,787	88,450
Hedging derivative liabilities -				
noncurrent				
Interest rate swap contracts	-	-	1,750	-

- d. On financial instrument with fair values estimated using valuation techniques, the Group recognized a gain and a loss of \$783,206 thousand and \$629,572 thousand for the years ended December 31, 2007 and 2006, respectively.
- e. As of December 31, 2007 and 2006, financial assets (liabilities) exposed to fair value interest rate risk and cash flow interest rate risks were as follows:

	<u>December 31</u>	
	<u>2007</u>	<u>2006</u>
Fair value interest rate risk		
Financial assets	\$ 17,582,899	\$ 39,870,277
Financial liabilities	(22,401,911)	(23,538,247)
Cash flow interest rate risk		
Financial assets	2,752,568	2,553,695
Financial liabilities	(66,208,933)	(34,485,000)

- f. As of December 31, 2007 and 2006, interest income (expenses) arising from the financial assets (liabilities), excluding those at fair value through profit or loss, were as follows:

	<u>Years Ended December 31</u>	
	<u>2007</u>	<u>2006</u>
Total interest income	\$ 775,560	\$ 637,064
Total interest expenses (including capitalized amount)	(2,009,177)	(1,180,856)

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, cross-currency swap contracts 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 cross-currency swap contracts, forward exchange contracts and parts of interest rate swap 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 December 31, 2007 and 2006, credit risks of the financial assets, except those approximate to their carrying values, were as follows:

	<u>December 31</u>			
	<u>2007</u>		<u>2006</u>	
	<u>Carrying Amount</u>	<u>Credit Risk</u>	<u>Carrying Amount</u>	<u>Credit Risk</u>
<u>Held-for-trading financial assets</u>				
Forward exchange contracts	\$ 129,441	\$ 129,441	\$ -	\$ -
Interest rat swap contracts	3,352	3,352	-	-
Cross-currency swap contracts	-	-	13,690	13,690
<u>Financial assets designated at fair value through profit or loss</u>				
CLN	-	-	48,307	48,307
<u>Held-to-maturity financial assets</u>				
Corporate bond	<u>416,000</u>	<u>416,000</u>	<u>470,000</u>	<u>470,000</u>
	<u>\$ 548,793</u>	<u>\$ 548,793</u>	<u>\$ 531,997</u>	<u>\$ 531,997</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, CLN 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 cross-currency swap contracts and the interest rates of interest rate swap contracts are already determined. Thus, the fund-raising and cash flow risks are not material.

As of December 31, 2007, the Group's future cash demand for outstanding forward exchange contracts was as follows:

	(In Thousands)			
Term	Inflow		Outflow	
Within one year	JPY	500,000	NT\$	141,600
	JPY	30,400,000	US\$	271,850
	US\$	380,000	NT\$	12,225,610

The exchange rate for forward exchange contracts is fixed. Thus, there is no material cash flow risk.

- 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.

h. Cash flow hedges

The Group determined that the fluctuation of market interest rate has significant impact on the future cash flow of the floating rate liabilities (stated as long-term bank loans, current portion also included), thus the Group entered into the interest rate swap contracts to hedge those exposures.

Hedged Item	Hedging Financial Instrument	Fair Value as of December 31, 2007	Expected Timing for Future Cash Demand	Expected Timing for the Recognition of Gains or Losses from Hedge
Long-term bank loans	Forward exchange contracts	\$(1,750)	November 2007- January 2013	November 2007- January 2013
Item				December 31, 2007
Adjustment to shareholders' equity				<u>\$(1,750)</u>

27. RELATED PARTY TRANSACTIONS

a. Related parties

<u>Related Party</u>	<u>Relationship with The Group</u>
Powertech Technology Inc. (“Powertech”)	Quantum is its director
Apacer Technology Inc. (“Apacer”) (Note 1)	Quantum is its director (since September 14, 2007)
Macronix International Co., Ltd. (“Macronix”) (Note 1)	Li-Hsin is its director (since June 29, 2007)
CHIPSHIP Technology Co., Ltd. (“CHIPSHIP”) (Note 2)	PSC is its director (until April 24, 2007)
Silicon uPI Semiconductor Corp. (“uPI”)	PSC is its director
Wafer Works Corp. (“Wafer Works”)	PSC is its director
eMemory Technology Inc. (“eMemory”)	PSC is its director
PowerWorld Capital Management Corp. (“PowerWorld Management”)	Same chairman with PSC
Deutron	Same chairman with PSC
Neo-Solar	Same chairman with PSC
Elpida Memory (Taiwan) Co., Ltd. (“Elpida-Taiwan”)	Director of PSC (since June 9, 2006)
Elpida	Parent company of Elpida-Taiwan, also it once to be the director of PSC (until June 9, 2006)
Siptron Technology Corp. (“Siptron”)	Subsidiary (eliminated due to merging with Zhi-Li in December 2007)
Rexchip	Equity method investee
Zentel	Equity method investee
Veutron	Equity method investee
Luxxon	Equity-method investee
Novax	Equity method investee
Tekmax	Equity method investee
Syntronix	Equity method investee
Powerflash (Note 5)	Equity method investee
Zhi-Li	Equity method investee
Artrix	Equity method investee
Astel	Equity method investee
Optimicro Corp.	Equity method investee
Synage	Equity method investee
MicroMedia	Equity method investee
Power ASE Technology Inc. (“Power ASE Inc.”)	Indirect equity-method investee
Li-Yuan Investment Corp. (“Li-Yuan”)	Its Chairman is second-degree relative of PSC’s chairman
Molecatex Inc. (“Molecatex”)	Its Chairman is second-degree relative of PSC’s chairman
Shanyu Investment Inc (“Shanyu”)	Li-Yuan is its director
Cotel Technology Inc. (“Cotel”)	Li-Yuan is its director
Amax Capital Inc. (“Amax”)	Li-Yuan is its director
Renesas	Equity method investor of Vantel
Renesas Technology (Taiwan) Co., Ltd. (“Renesas-Taiwan”)	Subsidiary of Renesas
Daniel Chen	Director of Paramax
David Lo	Inspector of Quantum
Others	Related parties with which the PSC had no material transactions. Please see Note 30.

Note 1: The Company was not the Group's related parties for the year ended December 31, 2006; the amounts disclosed as of and for the year ended December 31, 2006 are for reference only.

Note 2: The Company ceased to be the Group's related parties before December 31, 2007; the amounts disclosed as of and for the year ended December 31, 2007 are for reference only.

Note 3: The Company eliminated due to the merging with Zhi-Li in December 2007; the prior intercompany revenue and expenses have been excluded from the consolidation.

Note 4: The Company ceased to be the subsidiary of PSC since May 25, 2006; thus, the prior intercompany revenue and expenses have been excluded from the consolidation.

Note 5: The Company ceased to be the subsidiary of PSC since August 9, 2006; thus, the prior intercompany revenue and expenses have been excluded from the consolidation.

b. Related-party transactions:

	<u>2007</u>		<u>2006</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
<u>For the year</u>				
Net sales				
Elpida	\$ 27,947,443	36	\$ 27,745,978	30
Deutron	16,683,952	22	15,682,771	17
Novax	3,803,786	5	4,720,750	5
Apace	3,274,303	4	3,708,514	4
Zentel	2,833,642	4	274,115	-
Elpida-Taiwan	488,683	1	2,066,611	2
Syntronix	479,301	1	571,633	1
Renesas-Taiwan	464,209	1	2,409,808	3
Silicon	195,614	-	210,618	-
eMemory	34,438	-	43,965	-
uPI	32,618	-	1,070	-
Veutron	-	-	64,206	-
CHIPSHIP	-	-	47,052	-
Others	8,837	-	443	-
	<u>\$ 56,246,826</u>	<u>74</u>	<u>\$ 57,547,534</u>	<u>62</u>
Purchase				
Rexchip	\$ 1,843,617	10	\$ -	-
Renesas-Taiwan	-	-	194,269	1
Others	-	-	792	-
	<u>\$ 1,843,617</u>	<u>10</u>	<u>\$ 195,061</u>	<u>1</u>
Acquisition of properties				
Macronix	\$ -	-	\$ 5,300,000	8
Others	1,755	-	7,070	-
	<u>\$ 1,755</u>	<u>-</u>	<u>\$ 5,307,070</u>	<u>8</u>

	<u>2007</u>		<u>2006</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Sales of properties and deferred charges				
Rexchip	\$ 138,979	54	\$ -	-
Others	<u>900</u>	<u>-</u>	<u>26</u>	<u>-</u>
	<u>\$ 139,879</u>	<u>54</u>	<u>\$ 26</u>	<u>-</u>
Technical know-how, patent and royalty				
Elpida	\$ 4,648,703	63	\$ 388,074	12
Renesas	503,906	7	948,310	30
Zentel	168	-	2,235	-
eMemory	-	-	10,329	-
Other	<u>1</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 5,152,778</u>	<u>70</u>	<u>\$ 1,348,948</u>	<u>42</u>
Manufacturing expenses - subcontract costs, indirect materials, expensed properties, repairs and maintenance, etc.				
Powertech	\$ 8,268,067	12	\$ 5,124,574	10
Power ASE Inc.	3,381,058	5	47,577	-
Elpida	12,088	-	12,337	-
Renesas	5,055	-	32,533	-
Others	<u>218</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 11,666,486</u>	<u>17</u>	<u>\$ 5,217,021</u>	<u>10</u>
Selling expenses				
Deutron	\$ 707	-	\$ 26,967	5
Others	<u>973</u>	<u>-</u>	<u>91</u>	<u>-</u>
	<u>\$ 1,680</u>	<u>-</u>	<u>\$ 27,058</u>	<u>5</u>
General and administrative expenses				
Tekmax	\$ 173,583	6	\$ 102,872	5
PowerWorld Management	69,195	2	36,020	2
Others	<u>834</u>	<u>-</u>	<u>3,631</u>	<u>-</u>
	<u>\$ 243,612</u>	<u>8</u>	<u>\$ 142,523</u>	<u>7</u>
Research and development expenses				
Elpida	\$ 824,332	32	\$ 378,667	15
Renesas	396,642	15	295,747	12
Syntronix	67,881	3	44,055	2
Zentel	24,338	1	13,671	-
Powerflash	22,829	1	-	-
eMemory	19,861	1	19,619	1
Others	<u>230</u>	<u>-</u>	<u>3,661</u>	<u>-</u>
	<u>\$ 1,356,113</u>	<u>53</u>	<u>\$ 755,420</u>	<u>30</u>

	<u>2007</u>		<u>2006</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Interest income				
Veutron	\$ 10,939	1	\$ 11,433	2
MaxEdge	<u>4,658</u>	<u>1</u>	<u>5,197</u>	<u>1</u>
	<u>\$ 15,597</u>	<u>2</u>	<u>\$ 16,630</u>	<u>3</u>
Service income				
Rexchip	<u>\$ 816,686</u>	<u>100</u>	<u>\$ -</u>	<u>-</u>
Income from scraped wafers sales				
Neo-Solar	\$ 55,469	88	\$ 19,999	55
Others	<u>-</u>	<u>-</u>	<u>32</u>	<u>-</u>
	<u>\$ 55,469</u>	<u>88</u>	<u>\$ 20,031</u>	<u>55</u>
Other income				
Rexchip	\$ 67,151	18	\$ -	-
Macronix	37,928	10	-	-
Powertech	15,487	4	44,357	34
eMemory	8,652	2	7,330	6
Syntronix	6,390	2	6,864	5
Zentel	4,877	1	2,020	2
uPI	4,392	1	460	-
Renesas-Taiwan	3,362	1	-	-
Power ASE Inc.	2,699	1	-	-
Quantum	2,500	1	-	-
Wafer	2,426	1	-	-
Silicon	1,762	-	1,727	1
Deutron	1,658	-	-	-
Others	<u>5,728</u>	<u>2</u>	<u>1,598</u>	<u>1</u>
	<u>\$ 165,012</u>	<u>44</u>	<u>\$ 64,356</u>	<u>49</u>
<u>At end of year</u>				
Notes and accounts receivable, net				
Deutron	\$ 1,610,409	29	\$ 1,991,223	15
Novax	256,607	5	486,651	4
Apace	213,599	4	358,944	3
Elpida-Taiwan	155,270	3	-	-
Zentel	119,697	2	615,870	5
Elpida	83,331	2	4,713,074	36
Syntronix	53,949	1	8,796	-
Silicon	11,418	-	35,166	-
Renesas-Taiwan	-	-	80,914	1
Others	<u>9,814</u>	<u>-</u>	<u>2,054</u>	<u>-</u>
	<u>\$ 2,514,094</u>	<u>46</u>	<u>\$ 8,292,692</u>	<u>64</u>

	2007		2006	
	Amount	%	Amount	%
Other receivables				
Rexchip	\$ 64,993	11	\$ -	-
Macronix	17,142	3	-	-
Others	6,498	1	7	-
	<u>\$ 88,633</u>	<u>15</u>	<u>\$ 7</u>	<u>-</u>
Notes and accounts payable				
Powertech	\$ 2,143,535	21	\$ 1,211,926	15
Power ASE Inc.	1,067,152	11	49,007	1
Rexchip	732,016	7	-	-
	<u>\$ 3,942,703</u>	<u>39</u>	<u>\$ 1,260,933</u>	<u>16</u>
Accrued expenses				
Elpida	\$ 3,336,776	45	\$ 662,174	14
Macronix	41,638	1	66,181	1
PowerWorld Management	32,892	-	9,083	-
Renesas	16,104	-	185,994	4
Syntronix	12,601	-	1,046	-
Powerflash	11,814	-	-	-
Tekmax	7,697	-	10,655	-
Others	856	-	1,420	-
	<u>\$ 3,460,378</u>	<u>46</u>	<u>\$ 936,553</u>	<u>19</u>
Unearned revenue (including current and noncurrent)				
Macronix	<u>\$ 170,000</u>	<u>100</u>	<u>\$ -</u>	<u>-</u>

The Group also sold (purchased) the following long-term investments of stocks and bonds to (from) related parties for the years ended December 31, 2007 and 2006:

1) Stocks

Related Parties	Investee	Shares Purchased (Sold) (in Thousands)	Costs (Proceeds)	Profit (Loss)
<u>2007</u>				
MicroMedia	Deutron	(500)	\$ (17,500)	\$ 6,679
	Zhi-Li	(800)	\$ (8,000)	\$ 284
Artrix	Powerflash	(4,500)	\$ (45,000)	\$ 5,167
	Deutron	(2,000)	\$ (70,000)	\$ 26,714
	Zhi-Li	(1,000)	\$ (10,000)	\$ (130)
	Novax	(500)	\$ (5,250)	\$ (502)
	Deutron-Japan	(150)	\$ (3,626)	\$ (3,414)
	Neo-Solar	(1,100)	\$ (26,950)	\$ 1,054
	Optimicro	(702)	\$ (4,551)	\$ (126)

(Continued)

Related Parties	Investee	Shares Purchased (Sold) (in Thousands)	Costs (Proceeds)	Profit (Loss)
Zhi-Li	Powerflash	(2,000)	\$ (20,000)	\$ 2,242
	Deutron	(2,000)	\$ (70,000)	\$ 26,714
	MaxEdge	(330)	\$ (330)	\$ 329
	Chipking Electronic Co., Ltd.	(600)	\$ (6,000)	\$ 1,314
	Artrix	(1,800)	\$ (18,000)	\$ 923
	Novax	(500)	\$ (5,250)	\$ (510)
Novax	Zhi-Li	(1,200)	\$ (12,000)	\$ 375
	Synage	(866)	\$ (5,629)	\$ 1,280
	Artrix	(600)	\$ (6,000)	\$ 345
Deutron	Zhi-Li	(3,258)	\$ (32,580)	\$ 381
	Synage	(500)	\$ (3,250)	\$ 739
	Novax	(506)	\$ (5,313)	\$ (499)
	Cetronix Technology Corp.	(180)	\$ (1,800)	\$ (5)
	Ili Technology Corp.	(500)	\$ (8,670)	\$ 1,144
	Artrix	(1,253)	\$ (12,531)	\$ (527)
Shanyu	Neo-Solar	(900)	\$ (18,000)	\$ 6,526
	Ili Technology Corp.	(180)	\$ (7,200)	\$ 4,478
	Silicon	(80)	\$ (1,200)	\$ (26)
	Chipking Electronic Co., Ltd.	(800)	\$ (8,000)	\$ 1,752
	Navisys	(195)	\$ (1,853)	\$ 148
	Vivichip	(101)	\$ (906)	\$ (40)
Cotel	Artrix	(400)	\$ (4,000)	\$ 186
Astel	Zhi-Li	656	\$ 7,219	\$ -
Optimicro	Zhi-Li	2,200	\$ 24,200	\$ -
	Luxxon	1,030	\$ 9,311	\$ -
	A-Optronics Technology Inc.	1,400	\$ 9,296	\$ -
Luxxon	SemilLEDs Corp. Series C - preferred shares	3,100	\$ 66,741	\$ -
Tekmax	Optimicro	(129)	\$ (836)	\$ 95
Amax	Zentel	(300)	\$ (3,600)	\$ (405)
Synage	Zhi-Li	(500)	\$ (5,000)	\$ (91)
	Artrix	(400)	\$ (4,000)	\$ 192
	A-Optronics	(1,399)	\$ (9,289)	\$ (28)
Powerflash	Deutron	(500)	\$ (17,500)	\$ 6,679
Daniel Chen	Ili Technology Corp.	(30)	\$ (1,200)	\$ 746
David Lo	Silicon	(15)	\$ (225)	\$ (5)
<u>2006</u>				
Deutron	Syntronix	(600)	\$ (16,800)	\$ 9,712
Deutron	Synage	(1,000)	\$ (7,280)	\$ (606)
Artrix	Zentel	(1,919)	\$ (23,028)	\$ (2,026)
Zhi-Li	Zentel	(400)	\$ (4,800)	\$ (422)
Luxxon	Tekmax	1,463	\$ 20,479	\$ -
Luxxon	Luxchip	1,600	\$ 16,000	\$ -
Molecatex	Chipking Electronic Co., Ltd.	600	\$ 6,600	\$ -
Molecatex	Tekmax	800	\$ 12,000	\$ -

(Continued)

Related Parties	Investee	Shares Purchased (Sold) (in Thousands)	Costs (Proceeds)	Profit (Loss)
Li-Yuan	Luxxon	1,000	\$ 7,600	\$ -
Li-Yuan	Optimicro	474	\$ 6,158	\$ -
Li-Yuan	Siptron	500	\$ 5,750	\$ -
Zentel	Siptron	390	\$ 3,900	\$ -
(Concluded)				

2) Bonds

Related Parties	Investee	Units Purchased (Matured)	Amount	Rate
<u>2007</u>				
Veutron	Veutron Bonds	(10)	\$ (49,000)	3.50%
<u>2006</u>				
Veutron	Veutron Bonds	15	\$ 75,000	3.50%
Veutron	Veutron Bonds	(19)	\$ (96,000)	3.50%

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

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

The products and the service income PSC purchased (received) from Rexchip were based on specifically negotiated terms for which there were no comparable terms under other contracts.

PSC sold products to Deutron and Novax at normal commercial prices, with a 2% to 5% agent discount.

The payment term of the sales made to Deutron and Novax by PSC were to be paid on the 45th day after the month of shipment. Also, the payment terms of the sales made to Zentel by PSC was to be paid on the 30th day (45th day before May, 2007) after the month of shipment; the payment terms of the sales made to Elpida-Taiwan by PSC was to be paid on the 45th day (30th day before January, 2006) after the month of shipment.

The acquisition of properties from Macronix by PSC was based on specifically negotiated terms for which there were no comparable terms under other contracts.

The proceeds from PSC's disposal of properties and other assets were based on specifically negotiated terms for which there were no comparable terms under other contracts.

The technology know-how and royalty paid to Elpida, Zentel, eMemory and Renesas by PSC were based on specifically negotiated terms for which there were no comparable terms under other contracts.

The research and development expenses paid to Elpida, Syntronix, Powerflash, Zentel, eMemory and Renesas by PSC were based on specifically negotiated terms for which there were no comparable terms under other contracts.

The income from scraped wafers sales sold to Neo-Solar by PSC was based on specifically negotiated terms for which there were no comparable terms under other contracts.

Other receivables arose from the purchase of materials for Rexchip and proceed from the disposal of properties by PSC, were based on specifically negotiated terms for which there were no comparable terms under other contracts.

Except for the aforementioned 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.

28. PLEDGED OR MORTGAGED ASSETS

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

	December 31	
	2007	2006
Properties, net	\$ 90,273,105	\$ 58,689,009
Pledged time deposits	770,614	791,499
Land	<u>244,057</u>	<u>-</u>
	<u>\$ 91,287,776</u>	<u>\$ 59,480,508</u>

29. COMMITMENTS AND CONTINGENCIES

In addition to those disclosed in other notes, significant commitments and contingencies of the Corporation as of December 31, 2007 were as follows:

- 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 a product development and license agreement on DRAM products with Company H made in July 2004, PSC should pay a certain amount of development fee and royalty at an agreed percentage of the selling prices of the licensed products.
- i. Under several product design and license agreements with Company I 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.
- j. Under a non-recurring engineering agreement with Company J made in September 2005 and 2007, PSC should pay a certain amount of development fee quarterly over 3 years.
- k. Under a technology development and transfer agreement with Company K 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.
- l. Under a non-recurring engineering agreement with Company L made in January 2006, PSC should pay development fee over 3 years.
- m. Under a technology development and subcontracting agreement between PSC and Micronix in June, 2006, both parties agreed to jointly develop the advanced technologies for manufacturing NVM Flash Memory products, and a certain percentage of the capacity will be reserved for Micronix should such technologies been developed, in return, a certain amount of royalty should be paid by Micronix.
- 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. In January 2007, PSC signed an agreement on the joint venture and the development of DRAM technology with Company C. PSC and Company C transfers technology and licenses, develop DRAM technology cooperatively, and establish a new joint venture (“Rexchip”). PSC and Company C can use the production capacity of Rexchip under certain price. For the year ended December 31, 2007, the loss on purchasing contracts under this agreement was \$80,311 thousand. Under the agreement, PSC should pay a certain amount of license fee over five years.
- p. In February 2007, PSC signed a subcontracting agreement with Company M. Under the agreement, PSC shall reserve a portion of its production capacity for Company M which has made a deposit with the Corporation. As of December 31, 2007, US\$4,000 thousand of guarantee deposits had been received by PSC.
- q. In April 2007, PSC signed a service agreement with Rexchip for the 12 inches fab (“FAB 12C”) building and the related facilities be transferred to Rexchip. Both parties also agreed that PSC shall provide some services to Rexchip during the FAB 12C’s construction, in return, a certain service fee should be paid by Rexchip.
- r. In March 2006, Texas Instruments Corp. (“TI”) filed with the U.S. District Court of New York a lawsuit against PSC for breach of a certain license agreement. In June 2007, after an investigation, TI demanded under an interlocutory decree that PSC pay a certain amount of royalty based on the license agreement. The result of this litigation could not be determined at this time. Nevertheless, PSC assessed and accrued the indemnification. On the basis of this assessment, PSC determined that this litigation would not have a material effect on its operations and financial condition.
- s. Unused letters of credit amounted to approximately US\$21,591 thousand as of December 31, 2007.

- t. PSC guarantees long-term secured syndicated loans agreement signed by Rexchip to the extent of 50% of the total contract amount (\$39,000,000 thousand). As of December 31, 2007, \$7,500,000 thousand of the contracted amount had been drawn down.
- u. 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 December 31, 2006, future lease payments were as follows:

Year	Amount
2008	\$ 94,090
2009	94,090
2010	94,090
2011	94,090
2012	94,090
2013 and thereafter	<u>674,696</u>
	<u>\$ 1,145,146</u>

30. ADDITIONAL DISCLOSURES

Except for the following, the Group has no other significant transactions or any investees and investments in Mainland China, for which disclosure is required by the Securities and Futures Bureau:

- a. Endorsements/guarantees provided: Table 1 (attached)
- b. Marketable securities held: Table 2 (attached)
- c. Marketable securities acquired and disposed of at costs or prices of at least \$100 million or 20% of the paid-in capital: Table 3 (attached)
- d. Acquisition of individual real estates at costs of at least \$100 million or 20% of the paid-in capital: Table 4 (attached)
- e. Disposal of individual real estates at prices of at least NT\$100 million or 20% of the paid-in capital: Table 5 (attached)
- f. Total purchase from or sale to related parties amounting to at least \$100 million or 20% of the paid-in capital: Table 6 (attached)
- g. Receivables from related parties amounting to at least \$100 million or 20% of the paid-in capital: Table 7 (attached)
- h. Names, locations, and related information of investees on which the Group exercises significant influence: Table 8 (attached)
- i. Derivative financial transactions: Please see Notes 5 and 26.
- j. Intercompany relationships and significant intercompany transactions: Table 9 (attached).
- k. Information of the securities of the parent company held by its subsidiaries: Except as disclosed in Note 22 that Li-Hsin and Powerflash held certain issued shares of PSC for investment purpose, no other subsidiaries hold the securities issued by the parent company.

31. SEGMENT FINANCIAL INFORMATION

- a. Industry: The Group is mainly engaged in the manufacture and sale of semi-conductor products.
- b. Geographic information: The Group operates mainly in the Republic of China.
- c. Export sales: The export sales were \$30,204,822 thousand in 2007 and \$30,989,211 thousand in 2006.
- d. Customers accounting for more than 10% of net sales:

Customer	<u>Years Ended December 31</u>			
	<u>2007</u>		<u>2006</u>	
	Amount	%	Amount	%
A	\$ 27,947,443	36	\$ 27,745,978	30
B	16,683,952	22	15,682,771	17

POWERCHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

ENDORSEMENTS/GUARANTEES PROVIDED

YEAR ENDED DECEMBER 31, 2007

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

Financing Company	Counter-party		Limits on Endorsement/ Guarantee Amount Provided to Each Counter-party (Note 2)	Maximum Balance for the Period (Note 3)	Ending Balance	Amount of Endorsement/Guarantee Collateralized by Properties	Ratio of Accumulated Endorsement/Guarantee to Net Equity per Latest Financial Statements	Maximum Endorsement/Guarantee Amount Allowable (Note 2)
	Name	Nature of Relationship						
Powerchip Semiconductor Corporation	Rexchip Electronics Corp.	Note 1	\$31,045,814	\$19,500,000	\$19,500,000	\$ -	19	\$51,743,023

Note 1: Equity-method investee.

Note 2: In accordance with the "Rules of Guarantees by the Corporation", the ceiling for total guaranteed amount was 50% of the Corporation 's net asset value, and the limit of guaranteed amount for a single party was 30% of the Corporation's net asset value.

Note 3: Limit to 50% of the amount (\$39,000,000 thousand) of the long-term secured syndicated loans agreement signed by Rexchip Electronics Corp. As of December 31, 2007, \$7,500,000 thousand had been drawn down by Rexchip Corporation.

Holding Company Name	Marketable Securities Type and Issuer	Relationship with the Holding Company	Financial Statement Account	December 31, 2007				Note
				Shares (Thousands/Units) (Note 6)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
	uPI Semiconductor Corp.	Corporation is its director	Financial assets carried at cost	2,000	\$ 30,000	15.15	\$ 30,000	Note 2
	Silicon Optronics, Inc.	Corporation is its director	Financial assets carried at cost	2,380	29,087	10.91	29,087	Note 2
	eMemory Technology Inc.	Same chairman	Financial assets carried at cost	3,150	27,792	6.94	27,792	Note 2
	TwinMOS Technologies Inc.	-	Financial assets carried at cost	2,757	23,109	1.34	23,109	Note 2
	PowerWorld Fund Inc.	Same chairman	Financial assets carried at cost	2,337	19,156	9.09	19,156	Note 2
	A-Optronics Technology Inc.	Corporation is its director	Financial assets carried at cost	2,546	17,647	6.88	17,647	Note 2
	EUDAR Technology Inc.	-	Financial assets carried at cost	600	15,420	2.20	15,420	Note 2
	Great Taipei Broadband Co., Ltd.	Corporation is its director	Financial assets carried at cost	2,500	13,800	1.67	13,800	Note 2
	Universal Venture Fund, Inc.	Corporation is its director	Financial assets carried at cost	1,502	13,315	4.76	13,315	Note 2
	Advanced Chip Engineering Technology Inc.	-	Financial assets carried at cost	1,891	13,237	0.84	13,237	Note 2
	PowerGate Optical, Inc.	Same chairman	Financial assets carried at cost	1,154	7,254	3.61	7,254	Note 2
	Lightsonic Optoelectronics Inc.	Quantum Vision is its director	Financial assets carried at cost	910	5,780	1.83	5,780	Note 2
	Abico Shi-pro Co., Ltd.	Corporation is its director	Financial assets carried at cost	484	4,831	6.84	4,831	Note 2
	Phitech Corp.	-	Financial assets carried at cost	305	1,552	1.27	1,552	Note 2
	DRAMeXchange Tech. Inc.	-	Financial assets carried at cost	113	1,131	1.41	1,131	Note 2
	Asia Pacific Broadband Telecommunications Co., Ltd.	-	Financial assets carried at cost	12,000	-	0.18	-	Note 2
	Miluku Entertainment Corp.	Quantum Vision is its director	Financial assets carried at cost	220	-	1.80	-	Note 2
	Jade Pacific Corp.	-	Financial assets carried at cost	8	-	1.35	-	Note 2
	Ta Shee Golf & Country Club	-	Financial assets carried at cost	1	10	-	10	Note 2
	Venglobal Capital Fund L.P.	-	Financial assets carried at cost	-	16,590	5.18	16,590	Note 2
	Magellan Systems Japan Inc.	-	Financial assets carried at cost	1	17,584	12.43	17,584	Note 2
	Powerchip Japan Corporation	-	Financial assets carried at cost	1	11,870	6.18	11,870	Note 2
	e-Phocus, Inc.	-	Financial assets carried at cost	700	-	8.46	-	Note 2
	SemilLEDs Corp. Series C - preferred shares	-	Financial assets carried at cost	6,102	116,172	2.63	116,172	Note 2
	ZMOS Technology Inc., Series B-preferred shares	-	Financial assets carried at cost	3,000	98,220	9.02	98,220	Note 2
	Aptic Semiconductor, Inc., Series A-preferred shares	-	Financial assets carried at cost	1,522	11,533	10.10	11,533	Note 2
	e-Phocus, Inc., Series A-preferred shares	-	Financial assets carried at cost	333	11,460	33.33	11,460	Note 2
	e-Phocus, Inc., Series B-preferred shares	-	Financial assets carried at cost	667	10,030	33.33	10,030	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., Series A - preferred shares	-	Financial assets carried at cost	500	-	0.93	-	Note 2
	Wafer Works Corp.	Corporation is its director	Financial assets at fair value through profit or loss	9,813	1,854,676	-	1,854,676	-
	Elan Microelectronics Corp.	-	Financial assets at fair value through profit or loss	14,761	938,800	-	938,800	-
	Shinkong Financial Holding Co., Ltd.	-	Financial assets at fair value through profit or loss	35,787	798,057	-	798,057	-
	Hua Nan Financial Holdings Co., Ltd.	-	Financial assets at fair value through profit or loss	7,815	166,465	-	166,465	-
	Wintek Corporation	-	Financial assets at fair value through profit or loss	3,576	159,114	-	159,114	-
	Macronix International Co., Ltd.	Li-Hsin is its director	Financial assets at fair value through profit or loss	10,001	149,513	-	149,513	-
	Taiwan Semiconductor Manufacturing Company Limited	-	Financial assets at fair value through profit or loss	2,000	124,000	-	124,000	-
	Advanced Semiconductor Engineering, Inc.	-	Financial assets at fair value through profit or loss	3,366	109,400	-	109,400	-
	Media Tek Inc.	-	Financial assets at fair value through profit or loss	175	73,675	-	73,675	-

(Continued)

Holding Company Name	Marketable Securities Type and Issuer	Relationship with the Holding Company	Financial Statement Account	December 31, 2007				Note
				Shares (Thousands/Units) (Note 6)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
	Fullerton Technology Co., Ltd.	Quantum Vision is its director	Financial assets at fair value through profit or loss	3,078	\$ 72,333	-	\$ 72,333	-
	Depo Auto Parts Ind. Co., Ltd.	-	Financial assets at fair value through profit or loss	613	69,278	-	69,278	-
	Taiwan Cooperative Bank	-	Financial assets at fair value through profit or loss	2,650	61,083	-	61,083	-
	First Financial Holding Co., Ltd.	-	Financial assets at fair value through profit or loss	1,020	24,429	-	24,429	-
	NewSoft Technology Corp.	Quantum Vision is its director	Financial assets at fair value through profit or loss	180	1,282	-	1,282	-
	Asustek Computer Inc.	-	Financial assets at fair value through profit or loss	-	32	-	32	-
	Elpida Memory Inc.	Subsidiary of Elpida-Taiwan	Financial assets at fair value through profit or loss	423	475,631	-	475,631	-
	Silicon Storage Technology Inc.	-	Financial assets at fair value through profit or loss	68	6,561	-	6,561	-
	Chinaooyuan Property Group Limited	-	Available-for-sale financial assets	15	259	-	259	-
	Bosideng International Holdings Limited	-	Available-for-sale financial assets	10	104	-	104	-
	Uni - President China Holdings Ltd.	-	Available-for-sale financial assets	50	1,277	-	1,277	-
	<u>Bonds</u>							
	Veutron Corp. - issued in 2005 (I)	Investee	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)	Investee	Held-to-maturity financial assets	5	25,000	-	25,000	Note 2
	MaxEdge Electronics Corp. - issued in 2005 (III)	Investee	Held-to-maturity financial assets	20	20,000	-	20,000	Note 2
	<u>Equity</u>							
	Fubon No. 2 REITs	-	Available-for-sale financial assets	13,765	130,768	-	130,768	-
	Champion Real Estate Investment Trust	-	Available-for-sale financial assets	2,258	42,927	-	42,927	-
Li-Hsin Investment Corp.	<u>Stock</u>							
	MaxEdge Electronics Corp.	Investee	Equity-method investments	1,715	-	13.40	(38,821)	Note 1
	Synage Investment Corp.	Investee	Equity-method investments	6,139	50,239	13.14	50,239	Note 1
	Novax Technologies, Inc.	Investee	Equity-method investments	5,380	59,128	5.22	59,128	Note 1
	Luxxon Technology Corp.	Investee	Equity-method investments	3,443	30,052	5.59	30,052	Note 1
	Tekmax Development Corp.	Investee	Equity-method investments	2,982	50,255	7.57	50,255	Note 1
	Powerflash Technology Corporation.	Investee	Equity-method investments	830	7,027	2.08	7,027	Note 1
	Artrix International Inc.	Investee	Equity-method investments	9,221	80,859	5.98	80,859	Note 1
	Optimicro Corp.	Investee	Equity-method investments	2,118	10,084	4.24	10,084	Note 1
	Lu-Chu Development Corp.	Investee	Equity-method investments	25,743	223,988	10.35	223,988	Note 1
	Smart Art Corp.	Investee	Equity-method investments	17,813	176,380	13.70	176,380	Note 1
	Zhi-Li Investment Inc.	Investee	Equity-method investments	2,000	17,146	0.96	17,146	Note 1
	LoanSky.Net Corp.	Investee	Equity-method investments	400	1,684	8.00	1,684	Note 1
	Deutron Japan Corp.	Investee	Equity-method investments	191	8,176	3.89	8,176	Note 1
	Veutron Corp.	Investee	Equity-method investments	4,700	47,076	4.32	47,076	Notes 1 and 5
	Navisys Technology Corp.	Investee	Equity-method investments	400	3,001	8.89	3,001	Note 1
	Rexchip Electronics Corp.	Investee	Equity-method investments	15,625	228,939	0.53	228,939	Note 1
	Explore Technology Electronics Inc.	-	Financial assets carried at cost	500	-	4.17	-	Note 2
	Gatetech Technology Inc.	-	Financial assets carried at cost	131	2,074	0.12	2,074	Note 2
	Semileds Corp. Series C - preferred shares	-	Financial assets carried at cost	1,500	28,560	0.65	28,560	Note 2
	Aero Vision Avionics, Inc.	Same chairman with Li-Hsin	Financial assets carried at cost	600	3,323	1.85	3,323	Note 2
	Giga Solution Tech. Co., Ltd.	-	Financial assets carried at cost	648	4,178	0.70	4,178	Note 2
	PowerWorld Fund Inc.	Same chairman with Li-Hsin	Financial assets carried at cost	359	2,945	1.40	2,945	Note 2

(Continued)

Holding Company Name	Marketable Securities Type and Issuer	Relationship with the Holding Company	Financial Statement Account	December 31, 2007				Note
				Shares (Thousands/Units) (Note 6)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
	Neo Solar Power Corp.	Same chairman with Li-Hsin	Financial assets carried at cost	1,077	\$ 24,221	1.10	\$ 24,221	Note 2
	Deutron Electronics Corp.	Same chairman with Li-Hsin	Financial assets carried at cost	656	15,015	0.64	15,015	Note 2
	Getsilicon net, Inc.	-	Financial assets carried at cost	400	-	2.20	-	Note 2
	Powerchip Japan Corp.	-	Financial assets carried at cost	1	1,729	0.90	1,729	Note 2
	Umax System GmbH	-	Financial assets carried at cost	-	7,881	6.00	7,881	Note 2
	Asia Global Venture Capital Co., Ltd.	-	Financial assets carried at cost	950	31,412	9.50	31,412	Note 2
	<u>Bonds</u>							
	Veutron Corp. - issued in 2003 (II)	Investee	Held-to-maturity financial assets	3	6,000	-	6,000	Note 2
	Veutron Corp. - issued in 2005 (I)	Investee	Held-to-maturity financial assets	4	20,000	-	20,000	Note 2
	Veutron Corp. - issued in 2006 (I)	Investee	Held-to-maturity financial assets	3	15,000	-	15,000	Note 2
	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 (III)	Investee	Held-to-maturity financial assets	15	15,000	-	15,000	Note 2
	<u>Stock</u>							
	NewSoft Technology Corp.	Li-Hsin is its director	Financial assets at fair value through profit or loss	2,324	16,548	-	16,548	-
	Fullerton Technology Co., Ltd.	Quantum Vision is its director	Financial assets at fair value through profit or loss	1,072	25,198	-	25,198	-
	Macronix International Co., Ltd.	Li-Hsin is its director	Financial assets at fair value through profit or loss	6,489	97,005	-	97,005	-
	Elan Microelectronics Corp.	-	Financial assets at fair value through profit or loss	5,050	321,180	-	321,180	-
	MediaTek Inc.	-	Financial assets at fair value through profit or loss	20	8,420	-	8,420	-
	Powerchip Semiconductor Corp.	Parent company	Available-for-sale financial assets	4,614	63,668	-	63,668	-
	AIPTEK International Inc.	-	Available-for-sale financial assets	615	12,211	-	12,211	-
	Pacgen Biopharmaceuticals Corp.	-	Available-for-sale financial assets	143	944	-	944	-
	Sinotruk (Hong Kong) Ltd.	-	Available-for-sale financial assets	4	200	-	200	-
	<u>Equity</u>							
	Grand Cathay Bond Fund	-	Financial assets at fair value through profit or loss	10,098	132,553	-	132,553	-
	Polaris De-Bo Fund	-	Financial assets at fair value through profit or loss	9,020	101,608	-	101,608	-
	Champion Real Estate Investment Trust	-	Available-for-sale financial assets	396	7,469	-	7,469	-
Quantum Vision Corp.	<u>Stock</u>							
	MaxEdge Electronics Corp.	Investee	Equity-method investments	1,425	-	11.13	(32,245)	Note 1
	Syntronix Corp.	Investee	Equity-method investments	714	8,608	1.98	8,608	Note 1
	Zentel Electronics Corp.	Investee	Equity-method investments	1,530	27,385	4.89	27,385	Note 1
	Synage Investment Corp.	Investee	Equity-method investments	3,165	25,884	6.77	25,884	Note 1
	Novax Technologies, Inc.	Investee	Equity-method investments	11,555	126,978	11.21	126,978	Note 1
	Luxxon Technology Corp.	Investee	Equity-method investments	7,877	68,759	12.79	68,759	Note 1
	MicroMedia Technology Corp.	Investee	Equity-method investments	1,000	5,950	10.00	5,950	Note 1
	Tekmax Development Corp.	Investee	Equity-method investments	6,004	101,173	15.24	101,173	Note 1
	Poweflash Technology Corporation	Investee	Equity-method investments	1,400	11,824	3.50	11,824	Note 1
	Artrix International Inc.	Investee	Equity-method investments	15,377	134,810	9.97	134,810	Note 1
	Optimicro Corp.	Investee	Equity-method investments	3,859	18,360	7.72	18,360	Note 1
	Lu-Chu Development Corp.	Investee	Equity-method investments	8,950	77,909	3.60	77,909	Note 1
	Astel Electronics Corp.	Investee	Equity-method investments	1,000	3,830	5.00	3,830	Note 1
	Ubilux Optoelectronics Corporation	Investee	Equity-method investments	2,800	2,969	6.98	2,969	Note 1
	Lontium Semiconductor Corp. Holding Ltd.	Investee	Equity-method investments	500	267	10.71	267	Note 1

(Continued)

Holding Company Name	Marketable Securities Type and Issuer	Relationship with the Holding Company	Financial Statement Account	December 31, 2007				Note
				Shares (Thousands/Units) (Note 6)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
	Smart Art Corp.	Investee	Equity-method investments	26,432	\$ 261,737	20.33	\$ 261,737	Note 1
	LoanSky.Net Corp.	Investee	Equity-method investments	1,000	4,211	20.00	4,211	Note 1
	Retronix Technology Corp.	Investee	Equity-method investments	1,000	8,855	2.86	8,855	Note 1
	Network Holdings Limited	Investee	Equity-method investments	2,135	67,301	18.57	67,301	Note 1
	Vivichip Electronics Corp.	Investee	Equity-method investments	100	635	1.00	635	Note 1
	Zhi-Li Investment Corp.	Investee	Equity-method investments	11,357	97,337	5.45	97,377	Note 1
	Veutron Corp.	Investee	Equity-method investments	3,767	37,814	3.47	37,814	Notes 1 and 5
	Terax Communication Technologies Inc.	Investee	Equity-method investments	2,789	24,853	7.18	24,853	Note 1
	Navisys Technology Corp.	Investee	Equity-method investments	805	6,039	17.89	6,039	Note 1
	eBsuccess Solutions Inc.	Investee	Equity-method investments	1,000	4,732	12.50	4,732	Note 1
	Rexchip Electronics Corp.	Investee	Equity-method investments	15,625	228,939	0.53	228,939	Note 1
	PowerGate Optical, Inc.	Same chairman with Quantum Vision	Financial assets carried at cost	2,339	11,250	7.32	11,250	Note 2
	Besteam Technology Inc.	-	Financial assets carried at cost	2,033	10,635	5.19	10,635	Note 2
	eMemory Technology Inc.	Same chairman with Quantum Vision	Financial assets carried at cost	1,091	-	2.40	-	Note 2
	Great Taipei Broadband Co., Ltd.	Parent company is its director	Financial assets carried at cost	1,500	8,280	1.00	8,280	Note 2
	Aero Vision Avionics, Inc.	Same chairman with Quantum Vision	Financial assets carried at cost	1,104	6,725	3.41	6,725	Note 2
	Universal Venture Fund, Inc.	Same chairman with Quantum Vision	Financial assets carried at cost	1,229	6,500	3.90	6,500	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.	Quantum Vision is its director	Financial assets carried at cost	802	2,729	1.62	2,729	Note 2
	Ili Technology Corp.	Quantum Vision is its supervisor	Financial assets carried at cost	1,000	15,000	4.19	15,000	Note 2
	Silicon Optronics, Inc.	Quantum Vision is its director	Financial assets carried at cost	870	10,974	3.99	10,974	Note 2
	Deutron Electronics Corp.	Quantum Vision is its director	Financial assets carried at cost	9,676	234,422	9.47	234,422	Note 2
	Neo Solar Power Corp.	Same chairman with Quantum Vision	Financial assets carried at cost	1,828	44,148	1.87	44,148	Note 2
	UBIG Electronics Corporation	-	Financial assets carried at cost	800	8,000	5.33	8,000	Note 2
	Miluku Entertainment Corp.	Quantum Vision is its director	Financial assets carried at cost	220	-	1.80	-	Note 2
	Taiwan Liposome Co., Ltd.	Quantum Vision is its director	Financial assets carried at cost	500	13,603	2.58	13,603	Note 2
	PowerWorld Fund Inc.	Same chairman with Quantum Vision	Financial assets carried at cost	642	5,268	2.50	5,268	Note 2
	A-Optronics Technology Inc.	Parent company is its director	Financial assets carried at cost	4,415	27,283	11.93	27,283	Note 2
	DRAMeXchange Tech. Inc.	-	Financial assets carried at cost	157	1,568	1.96	1,568	Note 2
	Apacer Technology Inc.	Quantum Vision is its director	Financial assets carried at cost	309	3,671	0.28	3,671	Note 2
	SemilLEDs Corp. Series C - preferred shares	-	Financial assets carried at cost	1,600	30,464	0.69	30,464	Note 2
	Phoenix Silicon International Corporation	-	Financial assets carried at cost	218	2,399	0.24	2,399	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	2,005	6.67	2,005	Note 2
	Billions of Operations Per Second, Inc.	-	Financial assets carried at cost	200	-	0.33	-	Note 2
	Umax System GmbH	-	Financial assets carried at cost	-	10,912	7.00	10,912	Note 2

(Continued)

Holding Company Name	Marketable Securities Type and Issuer	Relationship with the Holding Company	Financial Statement Account	December 31, 2007				Note
				Shares (Thousands/Units) (Note 6)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
	TVbean Holding Ltd.	-	Financial assets carried at cost	300	\$ 4,500	1.60	\$ 4,500	Note 2
	Aptic Semiconductor Inc. Series A - preferred shares	-	Financial assets carried at cost	870	6,591	5.77	6,591	Note 2
	Asia Global Venture Capital Co., Ltd.	-	Financial assets carried at cost	950	31,412	9.50	31,412	Note 2
	<u>Bonds</u>							
	Veutron Corp. - issued in 2003 (II)	Investee	Held-to-maturity financial assets	13	26,000	-	26,000	Note 2
	Veutron Corp. - issued in 2005 (I)	Investee	Held-to-maturity financial assets	4	20,000	-	20,000	Note 2
	Veutron Corp. - issued in 2006 (I)	Investee	Held-to-maturity financial assets	5	25,000	-	25,000	Note 2
	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.	Quantum Vision is its director	Financial assets at fair value through profit or loss	1,873	13,337	-	13,337	-
	Silicon Storage Technology Inc.	-	Financial assets at fair value through profit or loss	40	3,874	-	3,874	-
	Fullerton Technology Co., Ltd.	Quantum Vision is its director	Financial assets at fair value through profit or loss	3,140	73,782	-	73,782	-
	Hua Nan Financial Holdings Co., Ltd.	-	Financial assets at fair value through profit or loss	1,000	21,300	-	21,300	-
	Wafer Works Corp.	Quantum Vision is its supervisor	Financial assets at fair value through profit or loss	3,463	654,591	-	654,591	-
	United Microelectronics Corp.	-	Financial assets at fair value through profit or loss	1,743	35,120	-	35,120	-
	Media Tek Inc.	-	Financial assets at fair value through profit or loss	30	12,630	-	12,630	-
	Elan Microelectronics Corp.	-	Financial assets at fair value through profit or loss	3,670	233,412	-	233,412	-
	Powertech Technology Inc.	Quantum Vision is its director	Available-for-sale financial assets	3,671	424,057	-	424,057	-
	Pacgen Biopharmaceuticals Corp.	-	Available-for-sale financial assets	133	879	-	879	-
	Bond of Rich Development Co., Ltd.	-	Available-for-sale financial assets	50	5,000	-	5,000	-
	Sinotruk (Hong Kong) Ltd.	-	Available-for-sale financial assets	4	200	-	200	-
	<u>Equity</u>							
	PCA Well Pool Fund	-	Financial assets at fair value through profit or loss	4,051	51,543	-	51,543	-
	ShingKong Chi-Shin Bond Fund	-	Financial assets at fair value through profit or loss	1,810	26,310	-	26,310	-
	Capital Income Fund	-	Financial assets at fair value through profit or loss	3,998	60,482	-	60,482	-
	IBT 5599 Bond Found	-	Financial assets at fair value through profit or loss	2,642	30,099	-	30,099	-
	President James Bond Fund	-	Financial assets at fair value through profit or loss	3,213	50,350	-	50,350	-
	Champion Real Estate Investment Trust	-	Available-for-sale financial assets	450	8,487	-	8,487	-
Paramax Corp.	<u>Stock</u>							
	MaxEdge Electronics Corp.	Investee	Equity-method investments	910	-	7.11	(20,598)	Note 1
	Synage Investment Corp.	Investee	Equity-method investments	1,908	15,599	4.08	15,599	Note 1
	Novax Technologies, Inc.	Investee	Equity-method investments	4,145	45,535	4.02	45,535	Note 1
	Luxxon Technology Corp.	Investee	Equity-method investments	3,167	27,633	5.14	27,633	Note 1
	Tekmax Development Corp.	Investee	Equity-method investments	1,111	18,721	2.82	18,721	Note 1
	Powerflash Technology Corporation	Investee	Equity-method investments	600	5,067	1.50	5,067	Note 1
	Artrix International Inc.	Investee	Equity-method investments	5,341	46,784	3.46	46,784	Note 1
	Rexchip Electronics Corp.	Investee	Equity-method investments	12,800	190,062	0.44	190,062	Note 1
	Optimicro Corp.	Investee	Equity-method investments	1,824	8,681	3.65	8,681	Note 1
	Lu-Chu Development Corp.	Investee	Equity-method investments	6,800	59,081	2.73	59,081	Note 1

(Continued)

Holding Company Name	Marketable Securities Type and Issuer	Relationship with the Holding Company	Financial Statement Account	December 31, 2007				Note
				Shares (Thousands/Units) (Note 6)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
	Smart Art Corp.	Investee	Equity-method investments	28,350	\$ 280,791	21.81	\$ 280,791	Note 1
	LoanSky.Net Corp.	Investee	Equity-method investments	400	1,684	8.00	1,684	Note 1
	Deutron Japan Corp.	Investee	Equity-method investments	82	3,510	1.67	3,510	Note 1
	Zhi-Li Investment Corp.	Investee	Equity-method investments	13,747	117,876	6.60	117,876	Note 1
	Retronix Technology Corp.	Investee	Equity-method investments	1,000	8,855	2.86	8,855	Note 1
	Veutron Corp.	Investee	Equity-method investments	8,705	87,287	8.01	87,287	Notes 1 and 5
	Terax Communication Technologies Inc.	Investee	Equity-method investments	652	5,815	1.68	5,815	Note 1
	Navisys Technology Corp.	Investee	Equity-method investments	820	6,150	18.22	6,150	Note 1
	eBsuccess Solutions Inc.	Investee	Equity-method investments	900	4,259	11.25	4,259	Note 1
	Ubilux Optoelectronics Corporation	Investee	Equity-method investments	2,400	26,640	5.99	26,640	Note 1
	PowerGate Optical, Inc.	Parent company and investee have same chairman	Financial assets carried at cost	953	\$ 7,516	2.98	\$ 7,516	Note 2
	Besteam Technology Inc.	-	Financial assets carried at cost	157	1,425	0.40	1,425	Note 2
	Aero Vision Avionics, Inc.	Parent company and investee have same chairman	Financial assets carried at cost	774	4,286	2.39	4,286	Note 2
	SAMHOP Electronics Corp.	-	Financial assets carried at cost	440	7,040	1.83	7,040	Note 2
	Lightsonic Optoelectronics Inc.	Quantum Vision is its director	Financial assets carried at cost	535	1,819	1.08	1,819	Note 2
	PowerWorld Fund Inc.	Parent company and investee have same chairman	Financial assets carried at cost	1,168	9,578	4.55	9,578	Note 2
	Universal Venture Fund, Inc.	Paramax Corp is its director	Financial assets carried at cost	554	2,927	1.76	2,927	Note 2
	Ili Technology Corp.	Quantum Vision is its supervisor	Financial assets carried at cost	400	6,000	1.68	6,000	Note 2
	Powerchip Japan Corporation	-	Financial assets carried at cost	1	1,728	0.90	1,728	Note 2
	Softronix Corporation	Paramax Corp. is its director	Financial assets carried at cost	900	2,070	15.00	2,070	Note 2
	Tvbean Holding Ltd.	-	Financial assets carried at cost	200	3,500	1.06	3,500	Note 2
	Taiwan Liposome Co., Ltd.	Quantum Vision is its director	Financial assets carried at cost	200	7,538	1.03	7,538	Note 2
	Silicon Optronics, Inc.	Paramax Corp. is its supervisor	Financial assets carried at cost	700	8,877	3.21	8,877	Note 2
	<u>Bonds</u>							
	Veutron Corp. - issued in 2003 (II)	Investee	Held-to-maturity financial assets	7	14,000	-	14,000	Note 2
	Veutron Corp. - issued in 2005 (I)	Investee	Held-to-maturity financial assets	4	20,000	-	20,000	Note 2
	Veutron Corp. - issued in 2006 (I)	Investee	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>							
	United Microelectronics Corp.	-	Financial assets at fair value through profit or loss	1,743	35,120	-	35,120	-
	<u>Equity</u>							
	HSBC Taiwan Dragon	-	Financial assets at fair value through profit or loss	3,231	50,603	-	50,603	-
	Capital Income Fund	-	Financial assets at fair value through profit or loss	5,990	90,621	-	90,621	-
Smart Art Corp.	<u>Stock</u>							
	Veutron Corp.	Investee	Equity-method investments	1,000	10,026	0.92	10,026	Notes 1 and 5
	Artrix International Inc.	Investee	Equity-method investments	600	5,273	0.39	5,273	Notes 1

(Continued)

Holding Company Name	Marketable Securities Type and Issuer	Relationship with the Holding Company	Financial Statement Account	December 31, 2007				Note
				Shares (Thousands/Units) (Note 6)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
Rui-Wang Investment Corp.	<u>Equity</u> Taishin Lucky Investment Trust Fund	-	Financial assets at fair value through profit or loss	1,971	\$ 20,545	-	\$ 20,545	-
	Hua Nan Yung Chong Phoenix Bond Fund	-	Financial assets at fair value through profit or loss	3,297	50,356	-	50,356	-
	<u>Stock</u> Rexchip Electronics Corp.	Investee	Equity-method investments	65,500	967,590	2.24	967,590	Note 1
Global Powertec Co., Ltd.	<u>Equity</u> AIG Domestic Bond Fund	-	Financial assets at fair value through profit or loss	409	5,293	-	5,293	-
	<u>Stock</u> Vantel Corp.	Investee	Equity-method investments	5	62,237	64.97	62,237	Note 1
	Powerase Tech. Holding Ltd.	Investee	Equity-method investments	26,000	1,182,466	28.72	1,182,466	Note 1

Note 1: The net asset value is based on audited financial data as of December 31, 2007.

Note 2: The market value is based on carrying value as of December 31, 2007.

Note 3: As of December 31, 2007, 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 Act, the bond investments were acquired through private market transactions with certain restrictions on the transferability of the bonds.

Note 5: Under the Securities and Exchange Act, certain portion of Veutron's stock investments was acquired partially through private market transactions with certain restrictions on the transferability of the stock.

Note 6: In thousands, except for bond investments which are units.

(Concluded)

POWERCHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST \$100 MILLION OR 20% OF THE PAID-IN CAPITAL
YEAR ENDED DECEMBER 31, 2007

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

Company Name	Marketable Securities Type and Issuer	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		Acquisition		Disposal				Ending Balance		
					Shares (Thousands)	Amount	Shares (Thousands)	Amount	Shares (Thousands)	Amount	Carrying Value	Gain (Loss) on Disposal	Shares (Thousands)	Amount	
Powerchip Semiconductor Corporation	<u>Stock</u> Rexchip Electronics Corp.	Equity-method investments	-	-	100	\$ 767	1,331,233	\$ 21,224,796	-	\$ -	\$ -	\$ -	1,331,333	\$ 19,658,494 (Note 1)	
	Paramax Corp.	Equity-method investments	-	-	132,894	1,225,940	28,000	280,000	-	-	-	-	160,894	1,374,887 (Note 1)	
	Global Powertec Co., Ltd.	Equity-method investments	-	-	1,620	482,128	1,200	396,320	-	-	-	-	2,820	1,250,359 (Note 1)	
	Rui-Wang Investment Corp.	Equity-method investments	-	-	80,000	800,244	29,000	290,000	-	-	-	-	109,000	1,018,367 (Note 1)	
	Smart Art Corp.	Equity-method investments	-	-	35,137	352,784	22,269	222,692	-	-	-	-	57,406	568,534 (Note 1)	
	Artrix International Inc.	Equity-method investments	-	-	22,429	254,870	13,873 (Note 4)	115,526	-	-	-	-	-	36,302	311,401 (Note 1)
	Deutron Electronics Corp.	Financial assets carried at cost	-	-	6,997	229,968	480 (Note 4)	-	5,497	191,825	116,721	75,104	-	1,980	46,001 (Notes 1 and 3)
	Neo Solar Power Corp.	Financial assets carried at cost	-	-	9,600	96,710	3,074	115,187	-	-	-	-	-	12,674	223,976 (Notes 1 and 3)
	Apacer Technology Inc.	Financial assets carried at cost	-	-	-	-	20,591 (Note 4)	270,661	300	34,576	29,669	4,907	-	20,291	240,992 (Notes 1 and 3)
	Macronix International Co., Ltd.	Financial assets at fair value through profit or loss	-	-	151,333	2,133,800	25,611 (Note 4)	329,881	166,943	2,860,120	1,627,082	1,233,038	-	10,001	149,513 (Note 2)
	Elan Microelectronics Corp.	Financial assets at fair value through profit or loss	-	-	-	-	18,993	512,980	4,232	286,655	114,306	172,349	-	14,761	938,800 (Note 2)
	Shinkong Financial Holding Co., Ltd.	Financial assets at fair value through profit or loss	-	-	22,773	799,326	13,014 (Note 4)	434,021	-	-	-	-	-	35,787	798,057 (Note 2)
	Hua Nan Financial Holdings Co., Ltd.	Financial assets at fair value through profit or loss	-	-	14,291	345,134	4,710	118,184	11,186	233,206	259,851	(26,645)	-	7,815	166,465 (Note 2)
	Advanced Semiconductor Engineering, Inc.	Financial assets at fair value through profit or loss	-	-	5,485	202,945	5,116 (Note 4)	159,261	7,235	223,955	244,635	(20,680)	-	3,366	109,400 (Note 2)
	Chang Hwa Commercial Bank, Ltd.	Financial assets at fair value through profit or loss	-	-	5,400	122,850	4,843	104,488	10,243	201,493	222,140	(20,647)	-	-	-
	Taiwan Semiconductor Manufacturing Company Limited	Financial assets at fair value through profit or loss	-	-	-	-	4,105 (Note 4)	267,342	2,105	142,587	138,914	3,673	-	2,000	124,000 (Note 2)
	Tung Ho Steel Enterprise Corp.	Financial assets at fair value through profit or loss	-	-	-	-	3,000	131,078	3,000	154,612	131,078	23,534	-	-	-
	Asustek Computer Inc.	Financial assets at fair value through profit or loss	-	-	-	-	1,927 (Note 4)	178,842	1,927	183,834	178,811	5,023	-	-	32 (Note 2)
	ProMos Technologies Inc.	Financial assets at fair value through profit or loss	-	-	18,001	255,609	-	-	18,001	204,332	260,232	(55,900)	-	-	-
	Dynapack International Technology Corp.	Financial assets at fair value through profit or loss	-	-	-	-	980 (Note 4)	91,370	980	108,120	91,370	16,750	-	-	-
High Tech Computer Corp.	Financial assets at fair value through profit or loss	-	-	-	-	200 (Note 4)	91,239	200	110,243	91,239	19,004	-	-	-	
MediaTek Inc.	Financial assets at fair value through profit or loss	-	-	-	-	175	104,478	-	-	-	-	-	175	73,675 (Note 2)	
Optimax Technology Corp.	Available-for-sale financial assets	-	-	5,105	117,420	-	-	5,105	113,784	84,940	28,874	-	-	-	
<u>Equity</u> Shin Kong No. 1 REITs	Financial assets at fair value through profit or loss	-	-	20,000	227,000	-	-	20,000	183,194	200,000	(16,806)	-	-	-	

(Continued)

Company Name	Marketable Securities Type and Issuer	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		Acquisition		Disposal			Ending Balance		
					Shares (Thousands)	Amount	Shares (Thousands)	Amount	Shares (Thousands)	Amount	Carrying Value	Gain (Loss) on Disposal	Shares (Thousands)	Amount
Li-Hsin	<u>Stock</u> Rexchip Electronics Corp.	Equity-method investments	-	-	-	\$ -	15,625	\$ 250,000	-	\$ -	\$ -	\$ -	15,625	\$ 228,939
	Elan Microelectronics Corp.	Financial assets at fair value through profit or loss	-	-	-	-	5,050	145,814	-	-	-	-	5,050	321,180
	<u>Equity</u> Grand Cathay Bond Fund	Financial assets at fair value through profit or loss	-	-	-	-	15,445	200,000	5,347	70,000	69,234	766	10,098	132,553
	Polaris De-Bo Fund	Financial assets at fair value through profit or loss	-	-	-	-	9,020	100,000	-	-	-	-	9,020	101,608
	Hua Nan Kirin Bond Fund	Financial assets at fair value through profit or loss	-	-	-	-	9,029	100,000	9,029	101,128	100,000	1,128	-	-
	Paradigm Pion Fund	Financial assets at fair value through profit or loss	-	-	-	-	9,344	100,000	9,344	100,514	100,000	514	-	-
	ShingKong Chi-Shin Bond Fund	Financial assets at fair value through profit or loss	-	-	-	-	6,978	100,000	6,978	101,047	100,000	1,047	-	-
	Quantum	<u>Stock</u> Rexchip Electronics Corp.	Equity-method investments	-	-	-	-	15,625	250,000	-	-	-	-	15,625
Smart Art Corp.		Equity-method investments	-	-	15,190	152,536	11,242	112,413	-	-	-	-	26,432	261,737
Macronix International Co., Ltd.		Financial assets at fair value through profit or loss	-	-	13,161	185,564	-	-	13,161	200,293	100,723	99,570	-	-
Elan Microelectronics Corp.		Financial assets at fair value through profit or loss	-	-	-	-	5,000	135,710	1,330	91,415	36,096	55,319	3,670	233,412
<u>Equity</u> Taishin Lucky Investment Trust Fund		Financial assets at fair value through profit or loss	-	-	19,502	200,016	-	-	19,502	201,271	200,000	1,271	-	-
PCA Bond Fund		Financial assets at fair value through profit or loss	-	-	6,436	100,008	-	-	6,436	100,000	100,000	-	-	-
PCA Well Pool Fund		Financial assets at fair value through profit or loss	-	-	-	-	7,989	100,000	3,938	50,000	49,295	705	4,051	51,543
Hua Nan Kirin Bond Fund		Financial assets at fair value through profit or loss	-	-	9,034	100,008	-	-	9,034	100,376	100,000	376	-	-
ShingKong Chi-Shin Bond Fund		Financial assets at fair value through profit or loss	-	-	13,964	200,015	-	-	12,154	175,000	174,080	920	1,810	26,310
Paramax	<u>Stock</u> Smart Art Corp.	Equity-method investments	-	-	18,223	182,979	10,127	101,267	-	-	-	-	28,350	280,791
	Rexchip Electronics Corp.	Equity-method investments	-	-	-	-	12,800	153,600	-	-	-	-	12,800	190,062
	Macronix International Co., Ltd.	Financial assets at fair value through profit or loss	-	-	7,005	98,764	-	-	7,005	105,214	63,723	41,491	-	-
Smart Art	<u>Equity</u> Fuhwa Bond Fund	Financial assets at fair value through profit or loss	-	-	14,312	190,786	3,731	50,000	18,043	241,327	240,000	1,327	-	-
	President James Bond Fund	Financial assets at fair value through profit or loss	-	-	-	-	6,438	100,000	6,438	100,388	10,000	388	-	-
	Taishin Lucky Investment Trust Fund	Financial assets at fair value through profit or loss	-	-	-	-	9,664	100,000	7,693	80,000	79,603	397	1,971	20,545
Rui-Wang	<u>Stock</u> Rexchip Electronics Corp.	Equity-method investments	-	-	-	-	65,500	1,036,000	-	-	-	-	65,500	967,590

(Continued)

Company Name	Marketable Securities Type and Issuer	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		Acquisition		Disposal			Ending Balance		
					Shares (Thousands)	Amount	Shares (Thousands)	Amount	Shares (Thousands)	Amount	Carrying Value	Gain (Loss) on Disposal	Shares (Thousands)	Amount
	<u>Equity</u> Fuhwa Bond Fund	Financial assets at fair value through profit or loss	-	-	11,257	\$ 150,059	-	-	11,257	\$ 151,834	\$ 150,000	\$ 1,834	-	\$ -
	Jih Sun Bond Fund	Financial assets at fair value through profit or loss	-	-	3,666	50,016	5,084	70,000	8,750	120,418	120,000	418	-	-
	Polaris De-Li Fund	Financial assets at fair value through profit or loss	-	-	6,639	100,031	-	-	6,639	101,119	100,000	1,119	-	-
	Polaris De-Bo Fund	Financial assets at fair value through profit or loss	-	-	9,028	100,035	-	-	9,028	101,254	100,000	1,254	-	-
	ING Taiwan Bond Fund	Financial assets at fair value through profit or loss	-	-	6,638	100,035	-	-	6,638	101,184	100,000	1,184	-	-
	Grand Cathay Bond Fund	Financial assets at fair value through profit or loss	-	-	8,676	100,032	-	-	8,676	101,142	100,000	1,142	-	-
	President James Bond Fund	Financial assets at fair value through profit or loss	-	-	6,484	100,034	4,491	70,000	10,975	171,279	170,000	1,279	-	-
Global Powertec Co., Ltd.	Power ASE Tech Holding Ltd.	Equity-method investments	-	-	14,000	452,752	12,000	389,316	-	-	-	-	26,000	1,182,466 (Note 1)

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: The ending balance included the valuation gain (loss) on financial assets.

Note 3: As of December 31, 2007, the Corporation and its subsidiaries no longer exercised significant influence on the investee. Thus, the Corporation transferred the equity-method investment to financial assets carried at cost - noncurrent.

Note 4: Stock dividend received from the distribution of retained earnings and capital surplus.

(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

YEAR ENDED DECEMBER 31, 2007

(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			
Powerchip Semiconductor Corporation	Buildings	January 16, 2007 - April 11, 2007	\$ 2,145,257	\$ 3,473,438	Toko Steel Structure Corp. and others, etc.	-	-	-	-	\$ -	-	Fab. 12C	-
Li-Hsin	Land	August 31, 2006	148,580	148,580	Yen Huei-Chong, etc.	-	-	-	-	-	According to the contracts	Investment	-
Paramax	Land	August 31, 2006	148,580	148,580	Yen Huei-Chong, etc.	-	-	-	-	-	According to the contracts	Investment	-

POWERCHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

DISPOSAL OF INDIVIDUAL REAL ESTATES AT PRICES OF AT LEAST \$100 MILLION OR 20% OF THE PAID-IN CAPITAL
 YEAR ENDED DECEMBER 31, 2007
 (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			
Powerchip Semiconductor Corporation	Buildings	May 10, 2007	\$4,983,699	Note	Rexchip Electronics Corp.	Equity-method investee	-	-	-	\$ -	According to the actual carrying value	Fab. 12C	Please see Note 1

Note: The Corporation exchanged its building and facilities for the newly issued shares of Rexchip.

POWERCHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

**TOTAL PURCHASE FROM OR SALE TO RELATED PARTIES AMOUNTING TO AT LEAST \$100 MILLION OR 20% OF THE PAID-IN CAPITAL
YEAR ENDED DECEMBER 31, 2007**

(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	
Powerchip Semiconductor Corporation	Elpida Memory Inc.	Parent of Elpida-Taiwan	Sale	\$ 27,947,443	36	Note 2	\$ -	-	\$ 83,331	2	
	Deutron Electronics Corp.	Same chairman with the Corporation	Sale	16,683,952	22	Note 3	-	-	1,610,409	42	
	Novax Technologies, Inc.	Investee	Sale	3,803,786	5	Note 3	-	-	256,607	7	
	Apacer Technology Inc.	Quantum Vision is its director	Sale	3,274,303	4	Note 2	-	-	213,599	6	
	Zentel Electronics Corp.	Investee	Sale	2,833,642	4	Note 2	-	-	119,697	3	
	Elpida Memory (Taiwan) Co., Ltd.	Director of the Corporation	Sale	488,683	1	Note 3	-	-	155,270	4	
	Syntronix Corp.	Investee	Sale	479,301	1	Note 2	-	-	53,949	1	
	Renesas Technology (Taiwan) Co., Ltd.	Subsidiary of Renesas	Sale	464,209	1	Note 2	-	-	-	-	
	Silicon Optronics, Inc.	Corporation is its director	Sale	195,614	-	Note 2	-	-	11,418	-	
	Powertech Technology Inc.	Quantum Vision is its director	Note 1	8,268,067	12	Note 4	-	-	(2,143,535)	(21)	
Power ASE Technology Inc.	Indirect equity-method investee	Note 1	3,381,058	5	Note 4	-	-	(1,067,152)	(10)		
Rexchip Electronics Corp.	Investee	Purchase	1,843,617	10	Note 2	-	-	(732,016)	(7)		
Vantel Corp.	Powerchip Semiconductor Corp.	Parent company	Sale	427,950	95	Note 5	-	-	-	-	

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 paid with negotiated term.

POWERCHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST \$100 MILLION OR 20% OF THE PAID-IN CAPITAL
DECEMBER 31, 2007

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

Company Name	Related Party	Nature of Relationship	Ending Balance (Note)	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Doubtful Accounts and Sales Discount
					Amount	Action Taken		
Powerchip Semiconductor Corporation	Deutron Electronics Corp.	Same chairman	\$ 1,610,409	9.26	\$ -	-	\$ 896,319	\$ 318,354
	Novax Technologies, Inc.	Investee	256,607	10.24	-	-	231,462	50,794
	Apacer Technology Inc.	Quantum Vision is its director	213,599	11.43	-	-	255,542	42,242
	Elpida Memory (Taiwan) Co., Ltd.	Investee	155,270	6.29	-	-	3,260	30,758
	Zentel Electronics Corp.	Investee	119,697	7.70	-	-	110,152	8,790

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

POWERCHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE
YEAR ENDED DECEMBER 31, 2007

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

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2007			Net Income (Loss) of the Investee	Investment Gain (Loss)	Note	
				December 31, 2007	December 31, 2006	Shares (Thousands)	% of Ownership	Carrying Value				
Powerchip Semiconductor Corporation	Rexchip Electronics Corp.	Taichung, Taiwan	Electronic component manufacturing	\$ 21,225,796	\$ 1,000	1,331,333	45.51	\$ 19,658,494	\$ (3,155,180)	\$ (1,952,722)		
	Quantum Vision Corp.	Taipei, Taiwan	Investment	2,971,900	2,971,900	323,641	99.99	4,131,898	512,163	510,343		
	Li-Hsin Investment Corp.	Taipei, Taiwan	Investment	2,498,500	2,498,500	249,850	99.94	2,038,578	74,516	58,143		
	Paramax Corp.	Taipei, Taiwan	Investment	1,608,940	1,328,940	160,894	99.99	1,374,887	(67,259)	(67,596)		
	Global Powertec Co., Ltd.	British Virgin Islands	Investment	927,556	531,236	2,820	100.00	1,250,359	380,479	380,479		
	Rui-Wang Investment Corp.	Taipei, Taiwan	Investment	1,090,000	800,000	109,000	100.00	1,018,367	(74,489)	(74,489)		
	Lu-Chu Development Corp.	Taipei, Taiwan	Transaction of real estate	671,683	634,990	67,168	27.02	584,749	(100,965)	(27,400)		
	Smart Art Corp.	Taipei, Taiwan	Transaction of artistry	574,059	351,367	57,406	44.16	568,534	(11,351)	(5,028)		
	Zhi-Li Investment Corp.	Taipei, Taiwan	Investment	542,020	455,352	60,354	28.97	508,520	(162,991)	(60,608)		
	Artrix International Inc.	Taipei, Taiwan	Investment	339,816	224,289	36,302	23.54	311,401	(143,250)	(43,736)		
	Novax Technologies, Inc.	Taipei, Taiwan	Electronic components manufacturing	292,571	292,571	25,290	24.54	277,878	(62,158)	(18,097)		
	Luxxon Technology Corp.	Taoyuan, Taiwan	Electronic components manufacturing	245,331	207,331	12,411	20.15	106,915	(78,221)	(17,260)		
	Veutron Corp.	Taipei, Taiwan	Optical component manufacturing	94,855	94,855	10,432	9.60	104,614	61,703	5,923		
	Zentel Electronics Corp.	Hsin-Chu, Taiwan	Design of electronic related products	50,480	53,000	6,058	19.37	104,525	235,879	53,072		
	Tekmax Development Corp.	Taipei, Taiwan	Investment	58,640	58,640	6,132	15.57	103,122	201,861	30,664		
	Powerflash Technology Corporation	Taipei, Taiwan	Design of electronic products	117,500	160,500	11,000	27.50	91,076	(35,272)	(16,689)		
	Syntronix Corp.	Hsin-Chu, Taiwan	Design of electronic related products	71,664	71,664	7,030	19.43	84,899	28,481	4,618		
	Deutron Japan Corp.	Japan	Electronic components manufacturing	90,020	90,020	1,910	38.98	82,523	(238)	(90)		
	Synage Investment Corp.	Taipei, Taiwan	Investment	144,208	-	9,815	21.01	80,329	(83,351)	(16,902)		
	Optimicro Corp.	Taipei, Taiwan	Optical components manufacturing	147,000	147,000	14,700	29.40	71,109	(98,198)	(27,681)		
	Terax Communication Technologies Inc.	Hsin-Chu, Taiwan	Design and transaction of software	87,598	88,344	5,716	14.71	50,918	(154,760)	(26,190)		
	Ubilux Optoelectronics Corporation	Taipei, Taiwan	Electronic components manufacturing	53,280	-	4,800	11.97	50,764	(20,909)	(2,516)		
	Retronix Technology Corp.	Taipei, Taiwan	Design and transaction of software	50,000	50,000	5,000	14.29	44,244	(16,100)	(2,513)		
	Network Holdings Limited	Samoa	Investment	33,110	-	1,000	8.70	31,592	(1,212)	(909)		
	Astel Electronics Corp.	Taipei, Taiwan	Electronic components manufacturing	80,000	80,000	8,000	40.00	30,274	(67,052)	(27,190)		
	Vivichip Electronics Corp.	Taipei, Taiwan	Electronic component manufacturing	40,000	40,000	4,000	40.00	25,411	(30,038)	(12,015)		
	MicroMedia Technology Corp.	Hsin-Chu, Taiwan	Electronic component manufacturing	30,000	30,000	3,000	30.00	15,760	(36,315)	(12,983)		
	Lontium Semiconductor Corp. Holding Ltd.	British Virgin Islands	Investment	16,450	-	1,667	35.71	4,511	(13,393)	(11,844)		
	MaxEdge Electronics Corp.	Taoyuan, Taiwan	PCB manufacturing	449,874	449,874	1,714	13.39	-	(52,193)	-		
	Li-Hsin Investment Corp.	MaxEdge Electronics Corp.	Taoyuan, Taiwan	PCB manufacturing	433,028	516,369	1,715	13.40	-	(52,193)	-	
		Synage Investment Corp.	Taipei, Taiwan	Investment	106,493	-	6,139	13.14	50,239	(83,351)	(15,035)	
		Novax Technologies, Inc.	Taipei, Taiwan	Electronic component manufacturing	58,512	58,512	5,380	5.22	59,128	(62,158)	(3,824)	
Luxxon Technology Corp.		Taoyuan, Taiwan	Electronic component manufacturing	40,390	13,079	3,443	5.59	30,052	(78,221)	(3,383)		
Tekmax Development Corp.		Taipei, Taiwan	Investment	34,208	34,208	2,982	7.57	50,255	201,861	14,953		
Powerflash Technology Corporation		Taipei, Taiwan	Design of electronic products	8,996	15,500	830	2.08	7,027	(35,272)	(1,319)		
Artrix International Inc.		Taipei, Taiwan	Investment	87,337	48,045	9,221	5.98	80,859	(143,250)	(8,118)		
Optimicro Corp.		Taipei, Taiwan	Optical component manufacturing	21,177	21,177	2,118	4.24	10,084	(98,198)	(4,164)		
Lu-Chu Development Corp.		Taipei, Taiwan	Transaction of real estate	257,434	243,371	25,743	10.35	223,988	(100,965)	(10,502)		
Smart Art Corp.		Taipei, Taiwan	Transaction of artistry	178,129	114,500	17,813	13.70	176,380	(11,351)	(1,586)		
LoanSky.Net Corp.		Taipei, Taiwan	Design of electronic products	4,000	4,000	400	8.00	1,684	(18,181)	(1,454)		
Deutron Japan Corp.		Japan	Electronic component manufacturing	9,067	9,067	191	3.89	8,176	(238)	(9)		
Veutron Corp.		Taipei, Taiwan	Optical component manufacturing	42,723	42,723	4,700	4.32	47,076	61,703	2,666		
Navisys Technology Corp.		Hsin-Chu, Taiwan	Electronic component manufacturing	4,000	4,000	400	8.89	3,001	(10,666)	(948)		
Rexchip Electronics Corp.		Taichung, Taiwan	Electronic component manufacturing	250,000	-	15,625	0.53	228,939	(3,155,180)	(15,612)		
Zhi-Li Investment Corp.		Taipei, Taiwan	Investment	20,000	-	2,000	0.96	17,146	(162,991)	(2,741)		

(Continued)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2007			Net Income (Loss) of the Investee	Investment Gain (Loss)	Note
				December 31, 2007	December 31, 2006	Shares (Thousands)	% of Ownership	Carrying Value			
Quantum Vision Corp.	MaxEdge Electronics Corp.	Taoyuan, Taiwan	PCB manufacturing	\$ 250,170	\$ 250,170	1,425	11.13	\$ -	\$ (52,193)	\$ -	
	Syntrox Corp.	Hsin-Chu, Taiwan	Design of electronic products	7,380	7,380	714	1.98	8,608	28,481	197	
	Zentel Electronics Corp.	Hsin-Chu, Taiwan	Design of electronic products	12,333	17,411	1,530	4.89	27,385	235,879	13,654	
	Synage Investment Corp.	Taipei, Taiwan	Investment	44,216	-	3,165	6.77	25,884	(83,351)	(6,384)	
	Novax Technologies, Inc.	Taipei, Taiwan	Electronic component manufacturing	118,088	132,206	11,555	11.21	126,978	(62,158)	(8,832)	
	Luxxon Technology Corp.	Taoyuan, Taiwan	Electronic component manufacturing	134,699	96,699	7,877	12.79	68,759	(78,221)	(10,223)	
	MicroMedia Technology Corp.	Hsin-Chu, Taiwan	Electronic component manufacturing	10,000	10,000	1,000	10.00	5,950	(36,315)	(3,631)	
	Tekmax Development Corp.	Taipei, Taiwan	Investment	63,279	63,279	6,004	15.24	101,173	201,861	30,109	
	Powerflash Technology Corporation	Taipei, Taiwan	Design of electronic products	15,400	19,800	1,400	3.50	11,824	(35,272)	(1,788)	
	Artrix International Inc.	Taipei, Taiwan	Investment	145,536	95,804	15,377	9.97	134,810	(143,250)	(14,616)	
	Optimicro Corp.	Taipei, Taiwan	Optical component manufacturing	38,586	39,873	3,859	7.72	18,360	(98,198)	(7,681)	
	Lu-Chu Development Corp.	Taipei, Taiwan	Transaction of real estate	89,501	73,268	8,950	3.60	77,909	(100,965)	(3,290)	
	Astel Electronics Corp.	Taipei, Taiwan	Electronic component manufacturing	10,000	10,000	1,000	5.00	3,830	(67,052)	(3,353)	
	Smart Art Corp.	Taipei, Taiwan	Transaction of artistry	264,315	151,902	26,432	20.33	261,737	(11,351)	(2,214)	
	LoanSky.Net Corp.	Taipei, Taiwan	Design of electronic products	10,000	10,000	1,000	20.00	4,211	(18,181)	(3,636)	
	Retronix Technology Corp.	Taipei, Taiwan	Design and transaction of software	10,000	10,000	1,000	2.86	8,855	(16,100)	(499)	
	Network Holdings Limited	Samoa	Investment	70,265	37,175	2,135	18.57	67,301	(1,212)	(244)	
	Vivichip Electronics Corp.	Taipei, Taiwan	Electronic component manufacturing	1,000	1,000	100	1.00	635	(30,038)	(300)	
	Zhi-Li Investment Corp.	Taipei, Taiwan	Investment	106,001	56,200	11,357	5.45	97,337	(162,991)	(4,774)	
	Veutron Corp.	Taipei, Taiwan	Optical component manufacturing	38,816	38,816	3,767	3.47	37,814	61,703	2,141	
	Terax Communication Technologies Inc.	Hsin-Chu, Taiwan	Design and transaction of software	84,000	65,651	2,789	7.18	24,853	(154,760)	(15,268)	
	Navisys Technology Corp.	Hsin-Chu, Taiwan	Electronic component manufacturing	8,050	10,000	805	17.89	6,039	(10,666)	(2,133)	
	eBsuccess Solutions Inc.	Taipei, Taiwan	Design and transaction of software	11,000	11,000	1,000	12.50	4,732	(3,830)	(6,197)	
	Rexchip Electronics Corp.	Taichung, Taiwan	Electronic component manufacturing	250,000	-	15,625	0.53	228,939	(3,155,180)	(15,612)	
	Lontium Semiconductor Corp. Holding Ltd.	British Virgin Islands	Investment	4,937	-	500	10.71	267	(13,393)	(4,624)	
	Ubilux Optoelectronics Corporation	Taipei, Taiwan	Electronic component manufacturing	31,080	-	2,800	6.98	2,969	(20,909)	(28,111)	
Paramax Corp.	MaxEdge Electronics Corp.	Taoyuan, Taiwan	PCB manufacturing	103,894	103,894	910	7.11	-	(52,193)	-	
	Synage Investment Corp.	Taipei, Taiwan	Investment	29,744	-	1,908	4.08	15,599	(83,351)	(3,980)	
	Novax Technologies, Inc.	Taipei, Taiwan	Electronic component manufacturing	44,505	44,505	4,145	4.02	45,535	(62,158)	(2,944)	
	Luxxon Technology Corp.	Taoyuan, Taiwan	Electronic component manufacturing	72,788	72,788	3,167	5.14	27,633	(78,221)	(4,415)	
	Tekmax Development Corp.	Taipei, Taiwan	Investment	14,000	14,000	1,111	2.82	18,721	201,861	5,574	
	Powerflash Technology Corporation	Taipei, Taiwan	Design of electronic products	6,600	19,800	600	1.50	5,067	(35,272)	(1,502)	
	Artrix International Inc.	Taipei, Taiwan	Investment	49,998	42,456	5,341	3.46	46,784	(143,250)	(6,211)	
	Optimicro Corp.	Taipei, Taiwan	Optical component manufacturing	21,308	21,308	1,824	3.65	8,681	(98,198)	(3,584)	
	Lu-Chu Development Corp.	Taipei, Taiwan	Transaction of real estate	67,995	52,936	6,800	2.73	59,081	(100,965)	(2,412)	
	Smart Art Corp.	Taipei, Taiwan	Transaction of artistry	283,498	182,231	28,350	21.81	280,791	(11,351)	(2,524)	
	LoanSky.Net Corp.	Taipei, Taiwan	Design of electronic products	4,000	4,000	400	8.00	1,684	(18,181)	(1,454)	
	Deutron Japan Corp.	Japan	Electronic component manufacturing	3,895	11,031	82	1.67	3,510	(238)	(8)	
	Zhi-Li Investment Corp.	Taipei, Taiwan	Investment	126,054	102,470	13,747	6.60	117,876	(162,991)	(10,373)	
	Retronix Technology Corp.	Taipei, Taiwan	Design and transaction of software	10,000	10,000	1,000	2.86	8,855	(16,100)	(504)	
	Veutron Corp.	Taipei, Taiwan	Optical component manufacturing	75,053	75,053	8,705	8.01	87,287	61,703	4,942	
	Terax Communication Technologies Inc.	Hsin-Chu, Taiwan	Design and transaction of software	16,868	16,868	652	1.68	5,815	(154,760)	(4,592)	
	Navisys Technology Corp.	Hsin-Chu, Taiwan	Electronic component manufacturing	8,200	8,200	820	18.22	6,150	(10,666)	(1,943)	
	eBsuccess Solutions Inc.	Taipei, Taiwan	Design and transaction of software	9,900	9,900	900	11.25	4,259	(3,998)	(5,577)	
	Rexchip Electronics Corp.	Taichung, Taiwan	Electronic Component manufacturing	153,600	-	12,800	0.44	190,062	(3,155,180)	36,462	
	Ubilux Optoelectronics Corporation	Taipei, Taiwan	Electronic Component manufacturing	26,640	-	2,400	5.99	26,640	(20,909)	-	
Smart Art Corp.	Veutron Corp.	Taipei, Taiwan	Optical component manufacturing	9,090	9,090	1,000	0.92	10,026	61,703	568	
	Artrix International Inc.	Taipei, Taiwan	Investment	6,000	-	600	0.39	5,273	(143,250)	(692)	
Global Powertec Co., Ltd.	Vantel Corp.	Japan	Design of electronic products	66,215	66,215	5	64.97	62,237	33,806	22,968	
	Powerase Tech. Holding Ltd.	Cayman Islands	Investment	852,480	455,980	26,000	28.72	1,182,466	1,217,247	357,535	
Rui-Wang Investment Corp.	Rexchip Electronics Corp.	Taichung, Taiwan	Electronic component manufacturing	1,036,000	-	65,500	2.24	967,590	(3,155,180)	(71,022)	

(Concluded)

POWERCHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

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

A. FOR THE YEAR ENDED DECEMBER 31, 2007

No.	Company Name	Counter Party	Nature of Relationship (Note 1)	Intercompany Transactions			Percentage of Consolidated Total Gross Sales or Total Assets
				Financial Statements Items	Amount	Terms	
0	PSC	Siptron	1	Net sales	\$ 9,004	Note 2	0.01%
		Powerflash(Note 5)	2	Research and development expenses	31,325	Note 3	0.04%
		Vantel	2	Research and development expenses	427,950	Note 3	0.50%

B. FOR THE YEAR ENDED DECEMBER 31, 2006

No.	Company Name	Counter Party	Nature of Relationship (Note 1)	Intercompany Transactions			Percentage of Consolidated Total Gross Sales or Total Assets
				Financial Statements Items	Amount	Terms	
0	PSC	Siptron	1	Net sales	\$ 11,830	Note 2	0.01%
			1	Notes and accounts receivable, net	2,586	Note 2	-
		Zentel (Note 4)	1	Net sales	1,370,575	Note 2	1.43%
			2	Research and development expenses	10,715	Note 3	0.01%
		Powerflash	2	Cost of sales - royalty	11,170	Note 3	0.01%
			1	Research and development expenses	39,071	Note 3	0.04%
			1	Accrued expense	7,006	Note 3	-
			1	Payables on equipment	1,009	Note 3	-
1	Zentel (Note 4)	PSC	2	Net sales	5,885	Note 2	0.01%

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

Note 2: The terms of the transaction were made at normal commercial prices and term.

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

Note 4: For Zentel's president, that assigned by PSC, resign; PSC no longer had a controlling interest over Zentel beginning in November 2006. The related transaction amount was the transaction included for the ten months ended October 31, 2006.

Note 5: PSC sold shares of Powerflash and no longer had a controlling interest over Powerflash beginning in August 2007. The related transaction amount was the transaction included from January 1, 2007 to August 9, 2007.