

# **Powerchip Semiconductor Corporation**

**Financial Statements for the  
Years Ended December 31, 2004 and 2003 and  
Independent Auditors' Report**

## **INDEPENDENT AUDITORS' REPORT**

The Board of Directors and Shareholders  
Powerchip Semiconductor Corporation

We have audited the accompanying balance sheets of Powerchip Semiconductor Corporation as of December 31, 2004 and 2003, and the related statements of income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits. As mentioned in Note 6 to the financial statements, we did not audit the financial statements of some investees, the investments in which are reflected in the accompanying financial statements using the equity method of accounting. Such investments represent 2.70% (NT\$3,306,261 thousand) and 2.74% (NT\$2,151,615 thousand), respectively, of total assets as of December 31, 2004 and 2003, and investment loss and income represent 0.38% (NT\$86,078 thousand) and 7.44% (NT\$6,487 thousand), respectively, of income and loss before income tax for the years then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based solely on the report of the 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 report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Powerchip Semiconductor Corporation as of December 31, 2004 and 2003, and the results of its operations and its cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

February 3, 2005

Notice to Readers

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

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

# POWERCHIP SEMICONDUCTOR CORPORATION

## BALANCE SHEETS

DECEMBER 31, 2004 AND 2003

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

ASSETS	2004		2003		LIABILITIES AND SHAREHOLDERS' EQUITY	2004		2003	
	Amount	%	Amount	%		Amount	%	Amount	%
<b>CURRENT ASSETS</b>					<b>CURRENT LIABILITIES</b>				
Cash and cash equivalents (Notes 2 and 3)	\$ 35,025,469	29	\$ 11,387,416	14	Short-term bank borrowings (Notes 9 and 20)	\$ -	-	\$ 582,500	1
Short-term investments, net (Notes 2 and 4)	967,101	1	1,385,975	2	Accounts payable (Note 19)				
Notes and accounts receivable (Notes 2, 19 and 20)					Related parties	397,608	-	282,691	-
Related parties, net of allowance for doubtful accounts of \$6,211 thousand in 2004 and \$3,766 thousand in 2003 and for sales discount of \$10,907 thousand in 2004	769,382	1	405,900	1	Third parties	4,599,962	4	3,228,461	4
Third parties, net of allowance for doubtful accounts of \$41,624 thousand in 2004 and \$112,219 thousand in 2003 and for sales discount of \$19,093 thousand in 2004	3,133,896	2	2,414,763	3	Accrued expenses (Note 19)	2,597,324	2	1,252,139	2
Other receivables (Notes 2 and 22)	431,880	-	290,794	-	Payable on equipment	14,187,274	12	14,254,043	18
Inventories, net (Notes 2 and 5)	5,125,375	4	3,572,650	5	Convertible bonds payable (Notes 2 and 10)	920,710	1	6,098,541	8
Prepaid expenses	189,783	-	189,428	-	Current portion of long-term bank loans (Notes 11 and 20)	3,993,554	3	4,330,842	6
Deferred income tax assets - current (Notes 2 and 16)	1,613,098	1	296,499	-	Current portion of long-term obligation under capital lease (Notes 2 and 7)	165,110	-	185,233	-
Pledged time deposits (Note 20)	2,123,217	2	3,066,014	4	Current portion of long-term payable on equipment (Note 7)	528,992	-	1,080,768	1
Other current assets	11,100	-	2,399	-	Other current liabilities (Notes 2 and 22)	31,120	-	16,117	-
Total current assets	49,390,301	40	23,011,838	29	Total current liabilities	27,421,654	22	31,311,335	40
<b>LONG-TERM INVESTMENTS (Notes 2, 6 and 19)</b>					<b>LONG-TERM LIABILITIES</b>				
Equity method	3,734,302	3	2,311,431	3	Convertible bonds payable (Notes 2 and 10)	5,044,482	4	-	-
Cost method	912,503	1	899,564	1	Long-term bank loans, net of current portion (Notes 11 and 20)	14,341,200	12	8,590,166	11
Prepayments	-	-	11,460	-	Long-term payable on equipment, net of current portion (Note 7)	-	-	540,384	1
Bonds	274,900	-	274,600	-	Long-term obligation under capital lease, net of current portion (Notes 2 and 7)	-	-	165,000	-
Total long-term investments	4,921,705	4	3,497,055	4	Total long-term liabilities	19,385,682	16	9,295,550	12
<b>PROPERTIES (Notes 2, 7, 19 and 20)</b>					<b>OTHER LIABILITIES</b>				
Cost					Accrued pension cost (Notes 2 and 12)	51,519	-	37,827	-
Buildings	6,376,635	5	6,474,937	8	Guarantee deposits	5,572	-	3,451	-
Machinery and equipment	81,924,844	67	56,449,810	72	Deferred income tax liabilities - noncurrent (Notes 2 and 16)	180,629	-	-	-
Research and development equipment	312,343	-	89,875	-	Total other liabilities	237,720	-	41,278	-
Facility equipment	11,768,143	10	10,637,520	14	Total liabilities	47,045,056	38	40,648,163	52
Transportation equipment	13,413	-	18,378	-	<b>SHAREHOLDERS' EQUITY (Notes 13 and 14)</b>				
Office equipment	317,884	-	275,200	-	Capital stock, \$10 par value				
Equipment under capital lease	761,708	1	761,708	1	Authorized - 5,500,000 thousand shares in 2004 and 4,329,571 thousand shares in 2003				
Miscellaneous equipment	438,882	-	394,393	1	Issued - 4,190,617 thousand shares in 2004 and 3,387,637 thousand shares in 2003	41,906,174	34	33,876,372	43
Accumulated depreciation	(43,543,090)	(36)	(32,409,324)	(41)	Capital surplus (Notes 2 and 13)				
Construction in progress	58,370,762	47	42,692,497	55	Paid-in capital in excess of par value	9,791,333	8	3,695,090	4
Advance payments	884,147	1	381	-	Arising from treasury stock	39,866	-	-	-
Net properties	4,605,977	4	4,886,798	6	Arising from long-term investments	8,187	-	14,519	-
<b>OTHER ASSETS</b>					Arising from conversion of bonds	3,357,777	3	1,352,405	2
Assets leased to others, net (Note 2)	178,372	-	-	-	Appropriation for legal reserve	1,308	-	-	-
Refundable deposits	23,427	-	22,075	-	Unappropriated earnings	21,326,859	18	13,083	-
Deferred charges, net (Notes 2, 8 and 19)	3,699,942	3	1,696,074	2	Cumulative translation adjustments (Note 2)	(252)	-	874	-
Deferred income tax assets - noncurrent (Notes 2 and 16)	-	-	2,173,468	3	Treasury stock (Notes 2 and 15)	(988,576)	(1)	(1,002,690)	(1)
Land (Notes 6 and 20)	-	-	311,510	1	Total shareholders' equity	75,442,676	62	37,949,653	48
Spare parts, net	404,239	1	298,294	-	<b>TOTAL</b>	<b>\$ 122,487,732</b>	<b>100</b>	<b>\$ 78,597,816</b>	<b>100</b>
Others	8,860	-	7,826	-					
Total other assets	4,314,840	4	4,509,247	6					

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

(With Deloitte & Touche audit report dated February 3, 2005)

# POWERCHIP SEMICONDUCTOR CORPORATION

## STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2004 AND 2003

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

	2004		2003	
	Amount	%	Amount	%
GROSS SALES	\$ 58,729,841		\$ 23,083,366	
SALES RETURNS AND ALLOWANCES	<u>1,293,741</u>		<u>110,430</u>	
NET SALES (Notes 2, 19 and 25)	57,436,100	100	22,972,936	100
COST OF SALES (Notes 17 and 19)	<u>32,091,294</u>	<u>56</u>	<u>20,789,307</u>	<u>90</u>
GROSS PROFIT BEFORE UNREALIZED INTERCOMPANY GROSS PROFIT	25,344,806	44	2,183,629	10
UNREALIZED INTERCOMPANY PROFIT (Note 2)	<u>5,531</u>	<u>-</u>	<u>-</u>	<u>-</u>
GROSS PROFIT	<u>25,339,275</u>	<u>44</u>	<u>2,183,629</u>	<u>10</u>
OPERATING EXPENSES (Note 17)				
Selling	176,204	-	175,778	1
General and administrative	1,141,168	2	705,894	3
Research and development (Note 19)	<u>1,048,579</u>	<u>2</u>	<u>1,108,722</u>	<u>5</u>
Total operating expenses	<u>2,365,951</u>	<u>4</u>	<u>1,990,394</u>	<u>9</u>
OPERATING INCOME	<u>22,973,324</u>	<u>40</u>	<u>193,235</u>	<u>1</u>
NONOPERATING INCOME AND GAIN				
Gain on sales of investments, net (Note 2)	527,953	1	80,955	1
Interest (Notes 2 and 19)	212,351	1	73,550	-
Foreign exchange gain, net (Notes 2 and 22)	151,968	-	10,598	-
Dividend Income (Note 2)	25,786	-	30,130	-
Indemnity income	14,137	-	17,628	-
Gain on disposal of properties (Note 2)	3,180	-	7,877	-
Reversal of allowances for loss on inventories and spare parts (Note 2)	-	-	278,783	1
Reversal of allowance for decline in value of short-term investments (Note 2)	-	-	120,561	1
Other (Note 19)	<u>65,162</u>	<u>-</u>	<u>50,811</u>	<u>-</u>
Total nonoperating income and gain	<u>1,000,537</u>	<u>2</u>	<u>670,893</u>	<u>3</u>
NONOPERATING EXPENSES AND LOSSES				
Interest (Notes 2, 7 and 22)	567,816	1	714,664	3
Provision for decline in value of short-term investments (Note 2)	421,606	1	-	-

(Continued)

	<u>2004</u>		<u>2003</u>	
	Amount	%	Amount	%
Investment loss recognized by equity method, net (Notes 2 and 6)	\$ 198,863	1	\$ 23,676	-
Impairment loss on long-term investments (Note 2)	107,199	-	57,137	-
Provision for loss on inventories and spare parts (Note 2)	112,475	-	-	-
Loss on disposal of land (Notes 6 and 19)	70,010	-	-	-
Loss on disposal of properties (Note 2)	53,832	-	15,373	-
Issuance costs of the early redeemed convertible bonds (Note 2)	318	-	67,099	-
Other	<u>63,508</u>	<u>-</u>	<u>73,360</u>	<u>1</u>
Total nonoperating expenses and losses	<u>1,595,627</u>	<u>3</u>	<u>951,309</u>	<u>4</u>
INCOME (LOSS) BEFORE INCOME TAX	22,378,234	39	(87,181)	-
INCOME TAX (EXPENSE) BENEFIT (Notes 2 and 16)	<u>(1,042,879)</u>	<u>(2)</u>	<u>256,161</u>	<u>1</u>
NET INCOME	<u>\$ 21,335,355</u>	<u>37</u>	<u>\$ 168,980</u>	<u>1</u>

	<u>2004</u>		<u>2003</u>	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS (LOSS) PER SHARE (Note 18)				
Basic earnings (loss) per share	<u>\$ 5.89</u>	<u>\$ 5.62</u>	<u>\$ (0.03)</u>	<u>\$ 0.06</u>
Diluted earnings (loss) per share	<u>\$ 5.33</u>	<u>\$ 5.08</u>	<u>\$ (0.03)</u>	<u>\$ 0.05</u>

The pro forma net income and earnings (loss) per share on the assumption that the stock of the parent company held by its subsidiaries as an investment is not treated as treasury stock are shown as follows:

	<u>2004</u>		<u>2003</u>	
NET INCOME	<u>\$ 21,368,885</u>		<u>\$ 185,449</u>	
	<u>2004</u>		<u>2003</u>	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS (LOSS) PER SHARE				
Basic earnings (loss) per share	<u>\$ 5.89</u>	<u>\$ 5.62</u>	<u>\$ (0.02)</u>	<u>\$ 0.06</u>
Diluted earnings (loss) per share	<u>\$ 5.33</u>	<u>\$ 5.08</u>	<u>\$ (0.02)</u>	<u>\$ 0.06</u>

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

(With Deloitte & Touche audit report dated February 3, 2005)

(Concluded)

**POWERCHIP SEMICONDUCTOR CORPORATION**

**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
YEARS ENDED DECEMBER 31, 2004 AND 2003  
(In Thousands of New Taiwan Dollars, Except Per Share Data)**

	Capital Stock Issued		Capital Surplus (Notes 2 and 13)					Retained Earnings (Deficit)			Cumulative Translation Adjustments (Note 2)	Treasury Stock (Notes 2 and 5)	Total Shareholders' Equity (Note 13)
	Shares (Thousands)	Amount	Paid-in Capital in Excess of Par Value	From Treasury Stock	From Long-term Investments	From Conversion of Bonds	Total	Legal Reserve	Unappropriated Earnings (Deficit)	Total			
BALANCE, JANUARY 1, 2003	2,679,571	\$ 26,795,710	\$ 4,405,161	\$ -	\$ -	\$ 279,068	\$ 4,684,229	\$ -	\$ (1,619,823)	\$ (1,619,823)	\$ -	\$ (1,359,418)	\$ 28,500,698
Offset of deficit against paid-in capital in excess of par value	-	-	(1,619,823)	-	-	-	(1,619,823)	-	1,619,823	1,619,823	-	-	-
Issuance of capital stock, September 15, 2003 - \$14 per share (certain portion issued as Global Depository Shares)	250,000	2,500,000	920,830	-	-	-	920,830	-	-	-	-	-	3,420,830
Conversion of bonds into capital stock	474,527	4,745,272	-	-	-	1,079,966	1,079,966	-	-	-	-	-	5,825,238
Issuance of shares upon exercise of employee stock options	1,060	10,600	8,162	-	-	-	8,162	-	-	-	-	-	18,762
Retirement of treasury stock - 17,521 thousand shares	(17,521)	(175,210)	(19,240)	-	-	(6,629)	(25,869)	-	(155,649)	(155,649)	-	356,728	-
Adjustment for changes in shareholders' equities of equity-accounted investees	-	-	-	-	14,519	-	14,519	-	(248)	(248)	874	-	15,145
Net income in 2003	-	-	-	-	-	-	-	-	168,980	168,980	-	-	168,980
BALANCE, DECEMBER 31, 2003	3,387,637	33,876,372	3,695,090	-	14,519	1,352,405	5,062,014	-	13,083	13,083	874	(1,002,690)	37,949,653
Appropriation for legal reserve	-	-	-	-	-	-	-	1,308	(1,308)	-	-	-	-
Issuance of capital stock, June 17, 2004 - \$24 per share (certain portion issued as Global Depository Shares)	400,000	4,000,000	5,581,532	-	-	-	5,581,532	-	-	-	-	-	9,581,532
Conversion of bonds into capital stock	292,286	2,922,862	-	-	-	2,005,372	2,005,372	-	-	-	-	-	4,928,234
Issuance of shares upon exercise of employee stock options	110,694	1,106,940	514,711	-	-	-	514,711	-	-	-	-	-	1,621,651
Acquisition of treasury stock - 12,000 thousand shares at average of \$22.05 per share	-	-	-	-	-	-	-	-	-	-	-	(264,637)	(264,637)
Sales of treasury stock - 13,545 thousand shares at average of \$23.35 per share	-	-	-	39,866	-	-	39,866	-	(2,338)	(2,338)	-	278,751	316,279
Adjustment for changes in shareholders' equities of equity-accounted investees	-	-	-	-	(6,332)	-	(6,332)	-	(17,933)	(17,933)	(1,126)	-	(25,391)
Net income in 2004	-	-	-	-	-	-	-	-	21,335,355	21,335,355	-	-	21,335,355
BALANCE, DECEMBER 31, 2004	4,190,617	\$ 41,906,174	\$ 9,791,333	\$ 39,866	\$ 8,187	\$ 3,357,777	\$ 13,197,163	\$ 1,308	\$ 21,326,859	\$ 21,328,167	\$ (252)	\$ (988,576)	\$ 75,442,676

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

(With Deloitte & Touche audit report dated February 3, 2005)

# POWERCHIP SEMICONDUCTOR CORPORATION

## STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2004 AND 2003 (In Thousands of New Taiwan Dollars)

	2004	2003
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 21,335,355	\$ 168,980
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	11,339,902	8,350,856
Amortization	921,425	1,180,589
Unrealized intercompany profit	5,531	-
Provision (reversal of allowance) for decline in value of short-term investments	421,606	(120,561)
Provision (reversal of allowance) for bad debts	(68,150)	32,769
Provision for sales discount	30,000	-
Provision (reversal of allowance) for loss on inventories and spare parts	112,475	(278,783)
Investment loss recognized by equity method, net	198,863	23,676
Impairment loss on long-term investments	107,199	57,137
Cash dividends from long-term investments under equity method	8,400	1,658
Amortization of discount on long-term bond investments	(300)	(300)
Gain on sales of long-term investments, net	(171,672)	(160,288)
Loss on disposal of properties, net	50,652	7,496
Loss on disposal of land	70,010	-
Deferred income tax expense (benefit)	1,037,498	(256,763)
Amortization of discount on commercial paper issued	8,161	14,426
Foreign exchange gain from convertible bonds payable	(408,784)	(135,248)
Foreign exchange gain from long-term bank loans	(110,216)	(77,049)
Issuance costs of the early redeemed convertible bonds	318	67,099
Net changes in operating assets and liabilities		
Notes and accounts receivable	(1,044,465)	(1,448,978)
Other receivables	(79,466)	(15,276)
Inventories	(1,658,320)	(592,432)
Prepaid expenses	(355)	38,624
Forward contract receivable	(61,620)	189,342
Other current assets	(8,701)	(3)
Accounts payable	1,486,418	2,309,746
Accrued expenses	1,345,185	523,095
Other current liabilities	9,472	(443)
Accrued pension costs	13,692	18,171
Net cash provided by operating activities	<u>34,890,113</u>	<u>9,897,540</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Decrease (increase) in short-term investments	55,723	(183,792)
Decrease (increase) in pledged time deposits	942,797	(1,619,006)
Acquisition of		
Properties	(29,019,851)	(15,543,523)
Long-term investments	(1,692,489)	(633,086)

(Continued)

	<b>2004</b>	<b>2003</b>
Deferred charges	\$ (3,003,709)	\$ (1,265,328)
Other assets	(1,034)	(1,979)
Proceeds from disposal of		
Long-term investments	283,003	473,682
Properties	10,786	30,187
Increase in refundable deposits	(1,352)	(420)
Increase in spare parts	<u>(112,825)</u>	<u>(96,821)</u>
 Net cash used in investing activities	 <u>(32,538,951)</u>	 <u>(18,840,086)</u>
 <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase (decrease) in short-term bank borrowings	(582,500)	432,500
Decrease in commercial paper issued	-	(102,680)
Proceeds from:		
Issuance of convertible bonds	5,299,417	7,630,958
Long-term bank loans	11,898,714	4,691,131
Issuance of capital stock	9,581,532	3,420,830
Exercise of employee stock option	1,621,651	18,762
Sales of treasury stock	316,279	-
Repayments of long-term bank loans	(6,382,913)	(2,529,770)
Redemption of convertible bonds	(17,650)	(5,060,089)
Decrease in capital lease obligation	(185,123)	(150,100)
Increase (decrease) in guarantee deposits	2,121	(41)
Reacquisition of issued stock (treasury stock)	<u>(264,637)</u>	<u>-</u>
 Net cash provided by financing activities	 <u>21,286,891</u>	 <u>8,351,501</u>
 <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	 23,638,053	 (591,045)
 <b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	 <u>11,387,416</u>	 <u>11,978,461</u>
 <b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	 <u>\$ 35,025,469</u>	 <u>\$ 11,387,416</u>
 <b>SUPPLEMENTAL INFORMATION</b>		
Interest paid (excluding amounts capitalized of \$97,449 thousand in 2004 and \$29,597 thousand in 2003)	<u>\$ 608,965</u>	<u>\$ 688,310</u>
Income tax paid	<u>\$ 21,265</u>	<u>\$ 5,512</u>
Noncash investing and financing activities		
Current portion of long-term liabilities	<u>\$ 4,687,656</u>	<u>\$ 5,596,843</u>
Transfer of long-term investments to short-term investments	<u>\$ 58,455</u>	<u>\$ 239,526</u>
Land transfer in payment for long-term investments	<u>\$ 241,500</u>	<u>\$ -</u>
Conversion of bonds	<u>\$ 4,928,234</u>	<u>\$ 5,825,238</u>
Reclassification of deferred charges to properties	<u>\$ -</u>	<u>\$ 126,969</u>
Reclassification of properties to assets leased to others	<u>\$ 183,038</u>	<u>\$ -</u>
Cash paid for acquisition of properties		
Total acquisition	\$ 27,860,922	\$ 14,599,127
Payable, beginning of year	15,875,195	16,819,591
Payable, end of year	<u>(14,716,266)</u>	<u>(15,875,195)</u>
	<u>\$ 29,019,851</u>	<u>\$ 15,543,523</u>

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

(With Deloitte & Touche audit report dated February 3, 2005)

(Concluded)

# POWERCHIP SEMICONDUCTOR CORPORATION

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2004 AND 2003

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

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### 1. ORGANIZATION AND OPERATION

Powerchip Semiconductor Corporation (the "Corporation") 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. The Corporation also issued Global Depositary 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.

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

As of December 31, 2004 and 2003, the Corporation had 3,728 and 2,790 employees, respectively.

### 2. SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements are prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China (ROC). Under these guidelines and principles, the Corporation should reasonably estimate the amounts of allowance for doubtful receivables; allowance for sales discounts; allowance for loss on inventories and spare parts; depreciation of properties; amortization of deferred charges; and pension expenses. However, actual results could differ from those estimates because of the uncertainty of circumstances.

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

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

#### **Current/Noncurrent Assets and Liabilities**

Current assets are those expected to be cashed or consumed within one year. Current liabilities are those expected to be paid off or settled within one year. All other assets and liabilities are classified as noncurrent assets and liabilities.

#### **Cash equivalents**

Commercial paper purchased with maturities of three months or less is classified as cash equivalents.

#### **Short-term Investments**

Short-term investments are mainly listed stocks, bonds purchased under resale agreements, credit-linked notes, convertible bonds and mutual funds. Bonds purchased under resale agreements are stated at cost. Costs of bonds sold are determined by the specific identification method. Other short-term investments are carried at the lower of aggregate costs or market value. Costs of such investments sold are determined by the moving average method.

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

The market values of the listed stocks and convertible bonds are the average closing price for the last month of the accounting period; credit-linked notes with unfixed interest income and mutual funds are based on their net asset value at the end of each period.

#### **Allowance for Doubtful Receivables**

Allowance for doubtful receivables is provided based on aging of receivables and review of the collectibility of individual receivables.

#### **Inventories**

Inventories are stated at the lower of aggregate costs or market value. Finished goods and work in process are recorded at standard cost and adjusted to the approximate weighted-average cost at the end of each period. Market value represents net realizable value for finished goods and work in process, and replacement value for raw materials and supplies. Scrap and slow-moving items are recognized as allowance for losses.

#### **Long-term Investments**

Stock investments in which the Corporation exercises significant influence on investees' operating and financial decisions are accounted for by the equity method. The difference between the investment cost and the Corporation's equity in the investee's net assets on the acquisition date is amortized on the straight-line method over five years. This amortization and the Corporation's equity in the investees' net income or net losses are recognized as investment income or loss. If an investee issues additional shares and the Corporation subscribes to these shares at a percentage different from its existing equity, the resulting increase in the Corporation's equity in the investee's net assets is recorded as an adjustment to capital surplus as well as the long-term investments accounts. Any decrease in the Corporation'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.

Other stock investments are accounted for by the cost method. Cash dividends are recognized as income in the year received but are accounted for as a reduction of the carrying value of the long-term investment if the dividends are received in the year the related investments are acquired. These investments are stated at cost less allowances (or less reductions, if investments are shown net of decline in value) for decline in market value of listed stocks or for decline in value of unlisted stocks which is considered irrecoverable; these allowances (or reductions) are charged to stockholder's equity and current income, respectively.

For both equity-accounted and cost-accounted long-term investments, stock dividends received are recognized only as an increase in the number of shares held on the ex-dividend date.

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

The costs of investments sold are determined by the moving-average method.

The Corporation accounts for its stock held by its subsidiaries as treasury stock. The recorded costs of such treasury stock are based upon the carrying values of the investments as shown in the subsidiaries' books as of January 1, 2002.

Investments in bonds are carried at amortized costs. Discounts are amortized over the remaining life of the bonds and charged to interest income.

Gains on sales from the Corporation to investee companies accounted for using the equity method are deferred in proportion to the Corporation's ownership in the investee companies until realized through transactions with 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, 3 to 5 years; equipment under capital lease, 5 years; miscellaneous equipment, 2 to 5 years; and assets leased to others, 10 to 20 years. Properties and assets leased to others still in use beyond their initially estimated service lives are further depreciated over the newly estimated service lives.

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

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

### **Deferred Charges**

Deferred charges are amortized using the straight-line method over the following periods: technical know-how, remaining contract period; computer software system, 2 to 5 years; issuance costs of the convertible bonds, from the issuance date to the expiration date of the redemption period; test-run costs and patent, 5 years; and others, 2 to 7 years.

### **Convertible Bonds**

The capital stock account is credited with the par value of the Corporation's common shares into which bonds are converted. The carrying value of the bonds and other assets and liabilities related to such convertible bonds as of the conversion date in excess of the amounts credited to the capital stock account is credited to the capital surplus account. When the bond holder exercises the put option, the difference between payment and book value of the bonds and other assets and liabilities related to such convertible bonds is credited or charged to current income.

### **Employee Stock Option**

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 Accounting Research and Development Foundation. The Corporation adopted the intrinsic value method and any compensation cost is charged to expense over the employee vesting period specified in the stock option plans.

## **Treasury Stock**

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

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

## **Revenue Recognition and Allowance for Sales Discount**

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 Corporation 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 based on 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 to by the Corporation and customer. Since the receivables from sales are collectible within one year and such transactions are frequent, the fair value of receivables is equivalent to the nominal amount of cash to be received.

## **Pension Costs**

Net periodic pension costs are recorded on the basis of actuarial calculations. Unrecognized net transition obligation is amortized over 25 years.

## **Income Tax**

The Corporation uses the inter-period income tax allocation method. The tax effects of deductible temporary differences, unused tax credits and operating loss carryforwards are recognized as deferred income tax assets, and those of taxable temporary differences are recognized as deferred income tax liabilities. Valuation allowance is provided for deferred income tax assets that are not certain to be realized. A deferred tax asset or liability is classified as current or noncurrent according to the classification of the related asset or liability for financial reporting. But if a deferred asset or liability cannot be related to an asset or liability in the financial statements, it is classified as current or noncurrent on the 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 provision.

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

### Foreign-currency Transactions

Foreign-currency transactions, except derivative transactions, are recorded in New Taiwan Dollars at the rates of exchange in effect when the transactions occur. Gains or losses caused by the application of different foreign exchange rates when cash in foreign currency is converted to New Taiwan dollars or when foreign-currency receivables or payables are settled, are credited or charged to income in the year of conversion or settlement. At year end, the balances of foreign-currency assets and liabilities are restated at prevailing exchange rates, and the resulting differences are recorded as follows:

- a. Long-term investments accounted for by the cost method - as translation adjustment (same as above) if the translated New Taiwan Dollar amount is lower than cost; if higher, no adjustment is made.
- b. Other assets and liabilities - credited or charged to current income.

### Derivative Financial Instruments

Forward exchange contracts and cross-currency swap contracts are used for hedging purposes and are recorded at spot rates on the contract starting dates. The foreign-currency amount of each contract multiplied by the difference between the spot rate and the contracted forward rate is amortized over the contract period. Any resulting gain or loss upon settlement is credited or charged to income in the period of settlement. For cross-currency swap contracts entered into as hedges of interest rate exposures, the related interest income and expense are recognized on the basis of contracted interest rates.

At year end, the balances of forward exchange receivables or payables are translated at prevailing exchange rates, the gains or losses on the contracts are computed by multiplying the foreign-currency amount by the difference between the contract starting date rate and the year-end spot rate and are credited or charged to income. The net contract receivable or payable is presented either as an asset or a liability in the balance sheet.

The notional amounts of the foreign-currency option contracts entered into for hedging purposes are not recognized as either assets or liabilities on the contract dates. The premiums paid or received for the call or put options are amortized using the straight-line method over the terms of the contracts.

Interest rate swap (IRS) contracts are recorded through memorandum entries on the contract dates since there is no exchange of notional principles. For IRS contracts used for nontrading purposes, interest received or paid upon each settlement is recorded as adjustment to interest expense of the hedged item.

### 3. CASH AND CASH EQUIVALENTS

	<u>December 31</u>	
	<u>2004</u>	<u>2003</u>
Time deposits	\$ 27,448,429	\$ 9,092,582
Commercial paper purchased	7,507,010	2,226,057
Demand deposits	63,525	36,413
Checking accounts	6,385	32,244
Cash on hand	<u>120</u>	<u>120</u>
	<u>\$ 35,025,469</u>	<u>\$ 11,387,416</u>

Bank deposits with the amount of US\$2,581 thousand and US\$1 thousand had been deposited in banks in Luxembourg and Hong Kong, respectively, as of December 31, 2004, while the amount of US\$2,556 thousand and US\$1 thousand as of December 31, 2003 had been deposited in banks in Luxembourg and Hong Kong, respectively.

#### 4. SHORT-TERM INVESTMENTS

	<u>December 31</u>	
	<u>2004</u>	<u>2003</u>
Listed stocks	\$ 1,140,414	\$ 311,381
Beneficiary certificates		
Credit-linked notes with unfixed interest income	43,293	1,043,677
Mutual funds	200,000	15,012
Convertible bonds	5,000	-
Bonds purchased under resale agreements	<u>-</u>	<u>15,905</u>
	1,388,707	1,385,975
Allowance for decline in value	<u>(421,606)</u>	<u>-</u>
	<u>\$ 967,101</u>	<u>\$ 1,385,975</u>

The market values of mutual funds and credit-linked notes with unfixed interest income as of December 31, 2004 and 2003 were \$251,317 thousand and \$1,017,104 thousand, respectively, based on their net asset value as of December 31. The market values of listed stocks and convertible bonds on December 31, 2004 and 2003 were \$715,784 thousand and \$361,388 thousand, respectively, based on average closing price of listed stock and convertible bonds in December. Bonds as of December 31, 2003 were contracted to be resold for \$15,974 thousand on March 17, 2004.

The listed stocks above with carrying amount of \$17,415 thousand as of December 31, 2004 have been placed in the Centralized Securities Depository Enterprise for those investee companies who are applying for the first time for stocks to be listed or traded on the stock exchange market.

#### 5. INVENTORIES

	<u>December 31</u>	
	<u>2004</u>	<u>2003</u>
Finished goods	\$ 487,124	\$ 508,133
Work in process	3,659,167	2,559,358
Materials	<u>1,102,678</u>	<u>653,492</u>
	5,248,969	3,720,983
Allowance for losses	<u>(123,594)</u>	<u>(148,333)</u>
	<u>\$ 5,125,375</u>	<u>\$ 3,572,650</u>

#### 6. LONG-TERM INVESTMENTS

	<u>December 31</u>			
	<u>2004</u>		<u>2003</u>	
	Amount	% of Ownership	Amount	% of Ownership
<u>Investment in shares of stock</u>				
Equity method				
Quantum Vision Corp.	\$ 1,237,881	99.99	\$ 1,033,808	99.99
Li-Hsin Investment Corp.	660,053	99.86	444,357	99.81
Paramax Corp.	451,109	99.99	262,325	99.98

(Continued)

	<b>December 31</b>			
	<b>2004</b>		<b>2003</b>	
	<b>Amount</b>	<b>% of Ownership</b>	<b>Amount</b>	<b>% of Ownership</b>
Lu-Chu Development Corp.	\$ 242,564	13.21	\$ -	-
Novax Technologies, Inc.	162,438	18.64	74,458	12.10
Syntronix Corp.	128,293	47.04	68,511	51.00
Luxxon Technology Corp.	118,139	18.10	38,277	20.00
Deutron Electronics Corp.	115,265	10.29	49,717	10.50
Maxium Technologies, Inc.	100,927	30.37	96,438	30.37
Deutron Japan Corp.	88,753	38.98	-	-
Zentel Electronics Corp.	86,670	36.80	44,574	47.00
Telmax Technologies Corp.	81,666	21.21	72,765	20.45
Artrix International Inc.	59,949	30.00	-	-
Tekmax Development Corp.	58,496	16.00	-	-
PowerFlash Semiconductor Corp.	40,151	32.00	-	-
MaxEdge Electronics Corp.	40,116	13.89	115,242	13.18
Smartic Technology Inc.	29,410	25.00	-	-
Silicon Optronics, Inc.	14,672	17.00	-	-
Synage Technology Corp.	9,623	10.00	10,959	10.00
PowerGate Optical, Inc.	8,127	10.00	-	-
	<u>3,734,302</u>		<u>2,311,431</u>	
Cost method				
Listed stocks				
Powertech Technology Inc.	87,298	1.77	85,784	2.29
Optimax Technology Corp.	84,913	1.22	117,132	2.07
Unlisted stocks				
PowerWorld Capital Management Corp.	138,688	9.09	-	-
Asia Pacific Broadband Telecommunications Co., Ltd.	114,635	0.18	120,000	0.18
Universal Venture Fund, Inc.	68,087	4.76	88,000	4.76
Ardentec Corp.	60,580	2.06	60,580	2.45
Besteam Technology Inc.	58,454	10.03	95,863	10.30
Advanced Chip Engineering Technology Inc.	39,352	2.94	11,709	2.78
eMemory Technology Inc.	28,961	8.10	40,444	8.37
Actrans System Inc.	28,760	8.28	10,000	2.35
CHIPSIP Technology Co., Ltd.	25,000	10.61	-	-
TwinMOS Technologies Inc.	23,109	1.34	23,109	1.34
Great Taipei Broadband Co., Ltd.	22,693	1.67	25,000	1.67
Emerging Memory & Logic Solution Incorporation	18,924	4.75	18,924	1.40
Venglobal Capital Fund L.P.	16,590	5.18	16,590	5.18
EUDAR Technology Inc.	15,420	2.20	-	-
Lightsonic Optoelectronics Inc.	12,252	1.83	8,050	1.16
Area East Technology Corp.	11,692	19.97	13,000	19.97
e-Phocus, Inc. Series A-preferred shares	11,460	33.33	-	-
Venglobal International Fund	11,217	2.83	11,217	2.83
Taiwan Liposome Co., Ltd.	9,000	2.39	-	-
CDIB High Tech Investment Inc.	9,000	2.11	18,000	2.11
Terax Communication Technologies Inc.	5,464	1.62	9,000	1.94
Miluku Entertainment Corp.	5,000	1.80	-	-
DRAMeXchange Tech. Inc.	3,089	4.03	3,089	4.03
Phitech Corp.	1,552	1.27	2,660	1.27
Jade Pacific Corp.	1,313	1.35	1,313	1.35
e-Phocus, Inc.	-	8.52	-	-
E-Tech. Inc.	-	2.26	3,145	2.26

(Continued)

	<b>December 31</b>			
	<b>2004</b>		<b>2003</b>	
	<b>Amount</b>	<b>% of Ownership</b>	<b>Amount</b>	<b>% of Ownership</b>
Billions of Operations Per Second, Inc. Series A - preferred shares	\$ -	1.41	\$ -	1.41
Billions of Operations Per Second, Inc. Series D - preferred shares	-	1.12	-	1.12
Globalgate.com, Inc.	-	0.93	-	0.93
Power Memory International Co., Ltd.	-	-	58,500	6.57
Cascade Semiconductor Corp.	-	-	36,455	16.15
A-DATA Technologies Co., Ltd.	-	-	22,000	0.66
	<u>912,503</u>		<u>899,564</u>	
<b>Prepayments</b>				
e-Phocus, Inc. Series A - preferred shares	<u>-</u>		<u>11,460</u>	
<b><u>Investment in bonds</u></b>				
Veutron Corp.(named UMAX Data Systems Inc. before) - issued in 2002 (I)	89,900		89,600	
MaxEdge Electronics Corp. - issued in 2002 (II)	80,000		80,000	
MaxEdge Electronics Corp. - issued in 2002 (I)	60,000		60,000	
Veutron Corp. - issued in 2003 (I)	25,000		25,000	
Veutron Corp. - issued in 2002 (II)	<u>20,000</u>		<u>20,000</u>	
	<u>274,900</u>		<u>274,600</u>	
	<u>\$ 4,921,705</u>		<u>\$ 3,497,055</u>	

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

In the fourth quarter of 2004, the Corporation and its subsidiaries subscribed to capital increase of Lu-Chu Development Corp. resulting in a joint ownership of 22% by the Corporation and its subsidiaries. Thus, this investment was accounted for by the equity method. The payment of such capital increase subscribed by the Corporation and its subsidiaries was settled partially through land transferred as the payment.

In October 2003, Ceon Computers Corp. and Webstorage Corp. combined to form a new company, named "Novax Technologies, Inc." as a result of their related capital restructuring. As of December 31, 2004 and 2003, the Corporation and its subsidiaries owned 43% and 34% of Novax Technologies, Inc., respectively. Thus, this investment was accounted for by the equity method.

In the second and the third quarter of 2004, the Corporation and its subsidiaries subscribed to the capital increase of Luxxon Technology Corp. and Silicon Optronics, Inc., resulting in a joint ownership of 31% and 30%, respectively, by the Corporation and its subsidiaries. Thus, those investments were accounted for by the equity method.

As of December 31, 2004 and 2003, the Corporation and its subsidiaries owned 21% and 23% of Deutron Electronics Corp., respectively. Thus, this investment was accounted for by the equity method.

In the first and the fourth quarter of 2004, the Corporation and its subsidiaries subscribed to the capital increase of Tekmax Development Corp. and PowerGate Optical, Inc., resulting in a joint ownership of 32% and 30%, respectively, by the Corporation and its subsidiaries. Thus, those investments were accounted for by the equity method.

As of December 31, 2004 and 2003, the Corporation and its subsidiaries owned 47% and 43% of MaxEdge Electronics Corp., respectively. Thus, this investment was accounted for by the equity method.

As of December 31, 2004 and 2003, the Corporation and its subsidiaries owned 35% and 42% of Synage Technology Corp., respectively. Thus, this investment was accounted for by the equity method.

In the third quarter of 2004, the Corporation invested in PowerFlash Semiconductor Corp. which was accounted for by the equity method.

In the fourth quarter of 2004, the Corporation invested in Artrix International Inc. and Smartic Technology Inc., both of which were accounted for by the equity method.

Investment income (loss) accounted for by the equity method was based on the audited financial statements of the investees. Except for the audits of Syntronix Corp. and Luxxon Technology Corp. in 2004 as well as MaxEdge Electronics Corp., Zentel Electronics Corp., Silicon Optronics, Inc., and PowerFlash Semiconductor Corp. in both 2004 and 2003 were performed by Deloitte & Touche, all others were audited by other auditors. Investment income (loss) is summarized as follows:

	<b>For the Years Ended</b>	
	<b>December 31</b>	
	<b>2004</b>	<b>2003</b>
Quantum Vision Corp.	\$ (77,463 )	\$ 62,804
Li-Hsin Investment Corp.	(35,203 )	(39,183 )
Paramax Corp.	(49,952 )	(16,703 )
Lu-Chu Development Corp.	(5 )	-
Novax Technologies, Inc.	588	3,716
Syntronix Corp.	13,208	(20,558 )
Luxxon Technology Corp.	(26,141 )	(1,944 )
Deutron Electronics Corp.	74,212	28,098
Maxium Technologies, Inc.	4,820	5,314
Deutron Japan Corp.	(1,285 )	-
Zentel Electronics Corp.	(3,789 )	(2,800 )
Telmax Technologies Corp.	(6,378 )	(3,340 )
Artrix International Inc.	(51 )	-
Tekmax Development Corp.	8,233	-
PowerFlash Semiconductor Corp.	(1,632 )	-
MaxEdge Electronics Corp.	(92,103 )	(27,363 )
Smartic Technology Inc.	(590 )	-
Silicon Optronics, Inc.	(2,328 )	-
Synage Technology Corp.	(1,336 )	959
PowerGate Optical, Inc.	(1,668 )	-
Ceon Computers Corp.	-	(5,233 )
Webstorage Corp.	-	(7,443 )
	<u>          </u>	<u>          </u>
	<u>\$ (198,863 )</u>	<u>\$ (23,676 )</u>

The total sales and total assets of Quantum Vision Corp., Li-Hsin Investment Corp., and Paramax Corp. were each less than 10% of those of the Corporation, and the total combined sales and assets of the aforementioned subsidiaries were less than 30% of those of the Corporation; therefore, the Corporation is not required to, and did not, prepare consolidated financial statements.

The market values of the long-term investments in listed stocks were as follows:

	<b>December 31</b>	
	<b>2004</b>	<b>2003</b>
Cost method		
Powertech Technology Inc.	\$ 412,036	\$ 326,594
Optimax Technology Corp.	<u>338,805</u>	<u>510,577</u>
	<u>\$ 750,841</u>	<u>\$ 837,171</u>

## 7. PROPERTIES

Accumulated depreciation on properties consisted of the following:

	<b>December 31</b>	
	<b>2004</b>	<b>2003</b>
Buildings	\$ 1,523,802	\$ 1,233,633
Machinery and equipment	34,332,978	25,033,196
Research and development equipment	147,839	66,588
Facility equipment	6,870,576	5,641,770
Transportation equipment	6,324	10,123
Office equipment	194,179	144,246
Equipment under capital lease	268,045	139,264
Miscellaneous equipment	<u>199,347</u>	<u>140,504</u>
	<u>\$ 43,543,090</u>	<u>\$ 32,409,324</u>

Total depreciation expenses in 2004 and 2003 were \$11,335,236 thousand and \$8,350,856 thousand, respectively. Interest expenses, including amounts capitalized of \$97,449 thousand and \$29,597 thousand, for years ended December 31, 2004 and 2003, were \$665,265 thousand and \$744,261 thousand, respectively. The rates used in capitalizing the interests were 3.73%-4.62% and 4.20%-4.65% in 2004 and 2003, respectively.

The Corporation is currently expanding its third manufacturing plant ("FAB 12B") for an estimated total cost of approximately \$30,859,793 thousand. As of December 31, 2004, a total cost of \$1,742,262 thousand had been incurred.

Under an equipment purchase agreement amounting to \$528,992 thousand as of December 31, 2004, the Corporation should maintain certain financial ratios based on its annual financial statements.

In December 2002, the Corporation entered into an equipment sale-leaseback agreement with a domestic leasing company under terms that qualify as capital lease. The lease is payable quarterly from June 2003 to December 2005. Lease payments on this contract are summarized as follows:

<b>Year</b>	<b>Amount</b>
2005	\$ 171,188
Implicit interest	<u>(6,078)</u>
	<u>\$ 165,110</u>

On the lease starting date, the Corporation prepaid all the rent by postdated checks.

The details of properties pledged as collateral are shown in Note 20.

## 8. DEFERRED CHARGES, NET

	<u>December 31</u>	
	<u>2004</u>	<u>2003</u>
Technical know-how	\$ 3,162,806	\$ 1,082,128
Test-run costs	186,322	252,083
Computer software system	125,430	176,133
Issuance costs of the convertible bonds	47,926	101,887
Patent	25,000	-
Others	<u>152,458</u>	<u>83,843</u>
	<u>\$ 3,699,942</u>	<u>\$ 1,696,074</u>

Technical know-how fees are amounts mainly paid by the Corporation to Mitsubishi Electric Corporation, Renesas Tech Corp. and A Company under several agreements for their transfer to the Corporation of certain technologies on the manufacture of dynamic random access memory.

## 9. SHORT-TERM BANK BORROWINGS

	<u>December 31,</u> <u>2003</u>
Working capital loans: Due in January 2004, interest at 1.28%-2.11%	<u>\$ 582,500</u>

The details of assets pledged as collateral are shown in Note 20.

## 10. CONVERTIBLE BONDS PAYABLE

	<u>December 31</u>	
	<u>2004</u>	<u>2003</u>
Issued in 2001 (1) US\$22,605 thousand in 2004 and US\$ 40,755 thousand in 2003	\$ 721,484	\$ 1,384,773
Issued in 2002 (2) US\$500 thousand	-	16,989
Issued in 2003 (3) US\$28,230 thousand	-	959,199
Issued in 2003 (4) US\$6,242 thousand in 2004 and US\$110,000 thousand in 2003	199,226	3,737,580
Issued in 2004 (5) US\$158,050 thousand	<u>5,044,482</u>	-
	5,965,192	6,098,541
Current portion	<u>(920,710)</u>	<u>(6,098,541)</u>
	<u>\$ 5,044,482</u>	<u>\$ -</u>

In the second quarter of 2001, the Corporation issued five-year unsecured, zero-coupon convertible bonds (“Bonds 2001”), with an aggregate principal amount of US\$200,000 thousand. Bonds 2001 are listed on the Luxembourg Stock Exchange. They are convertible into the Corporation’s common shares or Global Depository Shares (GDS) of the Corporation at NT\$30.00 per share (at an exchange rate of US\$1.00 to NT\$32.933; conversion rate is adjustable and the current rate is NT\$22.18 per share as of December 31, 2004) between June 23, 2001 and April 24, 2006 and will mature on May 24, 2006. At the holders’ option, Bonds 2001 may also be repurchased on May 24 of each year (from 2002) before maturity at 100% of their principal amount. Under certain conditions, either the holders of Bonds 2001 or the Corporation may opt for early bond redemption. As of December 31, 2004, some of the holders of Bonds 2001 exercised their put option, requiring the Corporation to spend US\$131,755 thousand for the repurchase of the outstanding bonds. Also, the Corporation had redeemed and cancelled Bonds 2001 from the open market with principal amount of US\$14,150 thousand, and holders of Bonds 2001 with principal amount of US\$31,470 thousand had requested to convert these bonds into 44,466 thousand common shares, which had all been issued. Between January 1, 2005 and February 3, 2005, the conversion of Bonds 2001 with principle amount of US\$2,230 thousand into 3,311 thousand common shares has been requested.

In the fourth quarter of 2002, the Corporation issued five-year unsecured, zero-coupon convertible bonds (“Bonds 2002”), with an aggregate principal amount of US\$90,000 thousand. Bonds 2002 are listed on the Luxembourg Stock Exchange. They are convertible into the Corporation’s common shares or GDS at NT\$14.136 per share (at an exchange rate of US\$1.00 to NT\$34.838; conversion rate is adjustable) between January 9, 2003 and November 9, 2007 and will mature on December 10, 2007. At the holders’ option, Bonds 2002 may also be repurchased on December 10 of each year (from 2003) before maturity at 100% of their principal amount. Under certain conditions, either the holders of Bonds 2002 or the Corporation may opt for early bond redemption. As of December 31, 2004, holders of Bonds 2002 with principal amount of US\$89,500 thousand had requested to convert these bonds into 275,732 thousand common shares, which had all been issued. Also, the Corporation redeemed the remaining Bonds 2002 with principal amount of US\$500 thousand.

In the second quarter of 2003, the Corporation issued five-year unsecured, zero-coupon convertible bonds (“Bonds 2003A”), with an aggregate principal amount of US\$112,000 thousand. Bonds 2003A are listed on the Luxembourg Stock Exchange. They are convertible into the Corporation’s common shares or GDS at NT\$14.61 per share (at an exchange rate of US\$1.00 to NT\$34.614; conversion rate is adjustable) between July 25, 2003 and May 26, 2008 and will mature on June 25, 2008. At the holders’ option, Bonds 2003A may also be repurchased on June 25 of each year (from 2004 to 2006) before maturity at 100% of their principal amount. Under certain conditions, either the holders of the Bonds 2003A or the Corporation may opt for early bond redemption. As of December 31, 2004, holders of Bonds 2003A with principal amount of US\$111,970 thousand had requested to convert these bonds into 266,659 thousand common shares, which had all been issued. Also, the Corporation redeemed the remaining Bonds 2003A with principal amount of US\$30 thousand.

In the third quarter of 2003, the Corporation issued five-year unsecured, zero-coupon convertible bonds (“Bonds 2003B”), with an aggregate principal amount of US\$110,000 thousand. Bonds 2003B are listed on the Luxembourg Stock Exchange. They are convertible into the Corporation’s common shares or GDS at NT\$17.94 per share (at an exchange rate of US\$1.00 to NT\$34.129; conversion rate is adjustable and the current rate is NT\$17.71 per share as of December 31, 2004) between October 15, 2003 and August 15, 2008 and will mature on September 15, 2008. At the holders’ option, Bonds 2003B may also be repurchased on September 15 of each year (from 2004 to 2006) before maturity at 100% of their principal amount. Under certain conditions, either the holders of the Bonds 2003B or the Corporation may opt for early bond redemption. As of December 31, 2004, holders of Bonds 2003B with principal amount of US\$103,758 thousand had requested to convert these bonds into 197,716 thousand common shares, which had all been issued. Between January 1, 2005 and February 3, 2005, the conversion of Bonds 2003B with principle amount of US\$1,155 thousand into 2,226 thousand common shares has been requested.

In the June and July of 2004, the Corporation issued five-year unsecured, zero-coupon convertible bonds (“Bonds 2004”), with an aggregate principal amount of US\$158,050 thousand. Bonds 2004 are listed on the Luxembourg Stock Exchange. They are convertible into the Corporation’s common shares or GDS at NT\$33.88 per share (at an exchange rate of US\$1.00 to NT\$33.53; conversion rate is adjustable and the current rate is NT\$33.88 per share as of December 31, 2004) 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 before maturity at 100% of their principal amount. Under certain conditions, either the holders of Bonds 2004 or the Corporation may opt for early bond redemption.

On February 2, 2005, the Corporation issued five-year unsecured, zero-coupon convertible bonds (“Bonds 2005”), with an aggregate principal amount of US\$160,000 thousand. Bonds 2005 are listed on the Singapore Exchange Securities Trading Limited. They are convertible into the Corporation’s common shares at NT\$26.62 per share (at an exchange rate of US\$1.00 to NT\$31.863; conversion rate is adjustable) between March 3, 2005 and January 3, 2010 and will mature on February 2, 2010. At the holders’ option, Bonds 2005 may also be repurchased on February 2, 2007 before maturity at 100% of their principal amount. Under certain conditions, either the holders of Bonds 2005 or the Corporation may opt for early bond redemption.

## 11. LONG-TERM BANK LOANS

	<u>December 31</u>	
	<u>2004</u>	<u>2003</u>
Long-term secured syndicated loans (1)		
U.S. dollars - US\$37,500 thousand in 2004 and US\$75,000 thousand in 2003	\$ 1,196,888	\$ 2,548,350
Long-term secured syndicated loans (2) (including commercial paper issued) - New Taiwan Dollars	-	2,600,000
Long-term secured syndicated loans (3) - New Taiwan dollars	4,375,000	6,125,000
Long-term secured syndicated loans (4) - New Taiwan dollars	5,800,000	-
Long-term secured syndicated loans (5) - New Taiwan dollars	5,000,000	-
Medium to long-term loans - New Taiwan dollars	<u>1,963,333</u>	<u>1,650,000</u>
	18,335,221	12,923,350
Current portion	(3,993,554)	(4,330,842)
Unamortized discount of commercial paper issued	<u>(467)</u>	<u>(2,342)</u>
	<u>\$ 14,341,200</u>	<u>\$ 8,590,166</u>

The loans are payable quarterly or semiannually at varying amounts. They will be fully repaid by December 2009. They bear interest rates ranging from 2.00% to 6.38% and from 1.00% to 6.70% for the years ended December 31, 2004 and 2003, respectively.

The long-term secured loans were obtained from bank syndicates. The loan agreements require, among others, the maintenance of certain financial ratios based on annual financial statements. The Corporation meet all of those financial ratios as of December 31, 2004.

The details of assets pledged as collateral are shown in Note 20.

## 12. PENSION PLAN

The Corporation has a defined benefit pension plan for all regular employees, which provides benefits based on length of service and average salaries and wages for the final six months of employment. The Corporation contributes monthly to a pension fund (the "Fund") amounts equal to 2% of salaries and wages paid. The Fund is administered by a pension fund committee (the "Committee") and the contributions to the Fund are deposited in the Central Trust of China under the Committee's name.

Certain pension information is as follows:

	<b>For the Years Ended December 31</b>	
	<b>2004</b>	<b>2003</b>
a. Pension cost		
Service cost	\$ 43,391	\$ 39,303
Interest cost	7,534	6,267
Projected return on plan assets	(5,397)	(4,336)
Amortization	<u>3,701</u>	<u>3,838</u>
	<u>\$ 49,229</u>	<u>\$ 45,072</u>
b. Reconciliation of the fund status of the plan and accrued pension cost:		
	<b>December 31</b>	
	<b>2004</b>	<b>2003</b>
Benefit obligations		
Vested benefit obligation	\$ 1,331	\$ 1,148
Unvested benefit obligation	<u>219,192</u>	<u>140,967</u>
Accumulated benefit obligation	220,523	142,115
Effect of salary increase	<u>117,257</u>	<u>73,666</u>
Projected benefit obligation	337,780	215,781
Fair value of plan assets (including projected interest)	<u>(177,802)</u>	<u>(141,369)</u>
Funded status	159,978	74,412
Unrecognized prior service cost	(47,469)	(50,859)
Unrecognized net transition obligation	(8,869)	(9,394)
Unrecognized net (loss) gain	(48,525)	26,298
Additional liability	<u>-</u>	<u>-</u>
Accrued pension cost	<u>\$ 55,115</u>	<u>\$ 40,457</u>
c. Vested benefit	<u>\$ 1,480</u>	<u>\$ 1,185</u>
d. Actuarial assumptions:		
Discount rate used in determining present values	3.50%	3.50%
Future salary increase rate	2.50%	2.50%
Expected rate of return on plan assets	2.50%	3.50%
	<b>For the Years Ended December 31</b>	
	<b>2004</b>	<b>2003</b>
e. Contributions to pension fund	<u>\$ 34,571</u>	<u>\$ 26,310</u>
f. Payments of fund	<u>\$ -</u>	<u>\$ -</u>

### 13. SHAREHOLDERS' EQUITY

Under the ROC Company Law, capital surplus may only be used to offset a deficit or be transferred to capital as a stock dividend after offsetting any prior years losses. 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.

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

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

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

Under the regulations promulgated by the Securities and Futures Commission (SFC), 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. The balance of the special reserve should be adjusted according to the debit balance of such accounts as of the prior year-end.

The Corporation's policy is to declare at least 60% of its available earnings as dividends, of which at least 50% should be in the form of stock.

The ROC Company Law provides that legal reserve should be appropriated until the reserve equals the aggregate par value of the Corporation's issued capital stock. Such reserve may be used to offset a deficit. When the reserve has reached 50% of the aggregate par value of the Corporation's issued capital stock, up to 50% thereof can be distributed as stock dividend.

Under the Integrated Income Tax System, which took effect on January 1, 1998, resident shareholders (including corporate shareholders) are allowed a tax credit for the income tax paid by 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 Corporation did not declare any bonuses to employees and remuneration to directors and supervisors for 2003 earnings. There was no earnings appropriation for 2002 because of the Corporation's accumulated deficit.

As of February 3, 2005, earnings appropriation for 2004 has not been approved by the board of directors. The information associated with such appropriation is available at Market Observation System website.

#### 14. EMPLOYEE STOCK OPTION

On May 28, 2001, June 28, 2002 and April 22, 2003, the SFC approved the Corporation's employee stock option plans hereinafter referred to as "2001 Plan", "2002 Plan", and "2003 Plan" respectively. The 2001 Plan, 2002 Plan and 2003 Plan have reserved 150 thousand, 150 thousand and 120 thousand of option units, respectively, with each unit representing 1,000 shares of common stock, for a total of 420,000 thousand shares for issuance. These options generally vest over a period of two years, at a certain percentage each year, from two years after the date of grant. They may be exercised within four years from two years after the date of grant. As of December 31, 2004, 111,754 options had been exercised. Other information on the stock option rights plan is as follows:

	<u>2003 Plan</u>		<u>2002 Plan</u>		<u>2001 Plan</u>	
	<b>Number of Outstanding Stock Option Rights</b>	<b>Weighted-Average Exercise Prices (NT\$/Per Share)</b>	<b>Number of Outstanding Stock Option Rights</b>	<b>Weighted-average Exercise Price (NT\$/Per Share)</b>	<b>Number of Outstanding Stock Option Rights</b>	<b>Weighted-average Exercise Prices (NT\$/Per Share)</b>
For the year ended <u>December 31, 2004</u>						
Beginning Balance	112,406	\$ 8.13	135,123	\$ 10.75	120,596	\$ 17.45
Options granted	970	23.87	-	-	-	-
Options exercised	-	-	(45,991)	10.75	(64,703)	17.42
Options cancelled	(2,286)	8.09	(1,605)	10.75	(761)	17.40
Ending balance	<u>111,090</u>		<u>87,527</u>		<u>55,132</u>	
For the year ended <u>December 31, 2003</u>						
Beginning Balance	-	\$ -	145,803	\$ 10.75	131,979	\$ 17.76
Options granted	116,603	8.13	-	-	-	-
Options exercised	-	-	-	-	(1,060)	17.40
Options cancelled	(4,197)	8.12	(10,680)	10.75	(10,323)	17.56
Ending balance	<u>112,406</u>		<u>135,123</u>		<u>120,596</u>	

As of December 31, 2004, the information about the outstanding stock options is as follows:

<b>Exercise Price</b>	<u>Options Outstanding</u>			<u>Options Exercisable</u>	
	<b>Number Outstanding (Per Option)</b>	<b>Weighted Average Remaining Contractual Life (in Years)</b>	<b>Weighted Average Exercise Price (Per Share)</b>	<b>Number Exercisable (Per Option)</b>	<b>Weighted Average Exercise Price (Per Share)</b>
\$17.40	53,567	2.57	\$17.40	23,846	\$17.40
22.20	765	3.24	22.20	260	22.20
18.60	800	3.37	18.60	300	18.60
10.75	87,527	3.73	10.75	20,768	10.75
7.95	107,370	4.32	7.95	-	-
15.20	1,200	4.50	15.20	-	-

(Continued)

Exercise Price	Options Outstanding			Options Exercisable	
	Number Outstanding (Per Option)	Weighted Average Remaining Contractual Life (in Years)	Weighted Average Exercise Price (Per Share)	Number Exercisable (Per Option)	Weighted Average Exercise Price (Per Share)
\$17.70	280	4.58	\$17.70	-	-
14.40	1,020	4.78	14.40	-	-
14.50	250	4.90	14.50	-	-
17.80	550	5.02	17.80	-	-
28.20	220	5.23	28.20	-	-
35.80	200	5.30	35.80	-	-
	<u>253,749</u>			<u>45,174</u>	

In accordance with the interpretations issued by Accounting Research and Development Foundation, the Corporation uses the intrinsic value method to evaluate compensation cost for employee stock options granted on or after January 1, 2004. The compensation cost recognized for the year ended December 31, 2004 was zero since the stock options were granted at an exercise price equal to the closing price of the Corporation's common shares on the measurement dates. Had the Corporation applied the fair value based method to evaluate compensation cost for employee stock options granted, the assumptions and pro forma results of the Corporation for the year ended December 31, 2004 is as follows:

Method:	Black-Scholes model
Assumptions:	
Risk-free interest rate	3.00%-3.86%
Expected life (in years)	6
Expected stock price volatility	86.61%-90.10%
Expected dividend yield	-
Fair value per option (NT\$/thousand shares)	\$13,535-\$26,369
Net income:	
Net income as reported	<u>\$21,335,355</u>
Pro forma net income	<u>\$21,329,603</u>
Earnings per share(EPS):	
Basic EPS as reported	<u>\$5.62</u>
Pro forma basic EPS	<u>\$5.62</u>
Diluted EPS as reported	<u>\$5.08</u>
Pro forma diluted EPS	<u>\$5.08</u>

## 15. TREASURY STOCK

(Shares in Thousands)

Purpose of Purchase	Beginning Shares	Increase	Decrease	Ending Shares
<u>Year ended December 31, 2004</u>				
For subsequent transfer to employees	46,614	12,000	13,545	45,069
Parent's issued shares held by subsidiaries	<u>3,334</u>	<u>-</u>	<u>-</u>	<u>3,334</u>
	<u>49,948</u>	<u>12,000</u>	<u>13,545</u>	<u>48,403</u>
<u>Year ended December 31, 2003</u>				
For subsequent transfer to employees	64,135	-	17,521	46,614
Parent's issued shares held by subsidiaries	<u>3,334</u>	<u>-</u>	<u>-</u>	<u>3,334</u>
	<u>67,469</u>	<u>-</u>	<u>17,521</u>	<u>49,948</u>

For the year ended December 31, 2004, 1,237 thousand and 12,308 thousand shares of treasury stock have been transferred to employees at prices of \$8.7 per share and \$24.9 per share, respectively. Between January 1, 2005 and February 3, 2005, the Corporation transferred 7,321 thousand shares of treasury stock to employees at a price of \$24.9 per share.

As of December 31, 2004 and 2003, the Corporation accounted for its issued shares amounting to \$53,820 thousand held by subsidiaries as treasury stock. The carrying values of such stock were \$86,618 thousand and \$53,041 thousand; the market values were \$86,618 thousand and \$53,041 thousand, respectively.

Under the regulation 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. In addition, 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.

## 16. INCOME TAX (EXPENSE) BENEFIT

- a. For the year ended December 31, 2003, the Corporation did not have current income tax payable. A reconciliation of income tax currently payable for the year ended December 31, 2004 is shown below:

Tax on pretax income at statutory rate (25%)	\$ 5,594,559
Permanent differences	
Tax-exempt income	(1,655,167)
Others	80,020
Temporary differences	<u>(851,748)</u>
Income tax currently payable	<u>\$ 3,167,664</u>

b. Income tax (expense) benefit for the years ended December 31, 2004 and 2003 consisted of:

	<b>2004</b>	<b>2003</b>
Income tax currently payable	\$ (3,167,664)	\$ -
Loss carryforwards	1,913,711	-
Tax credits	1,253,953	-
Net change in deferred income tax assets and liabilities		
Loss carryforwards	(1,885,511)	(999,071)
Investment tax credits	1,409,687	1,271,582
Temporary differences	(855,069)	(404,146)
Valuation allowance	293,395	388,398
Tax on interest income on short-term bills	<u>(5,381)</u>	<u>(602)</u>
	<u>\$ (1,042,879)</u>	<u>\$ 256,161</u>

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

	<b>December 31</b>	
	<b>2004</b>	<b>2003</b>
Current		
Deferred income tax assets		
Investment tax credits	\$ 899,629	\$ 1,173,943
Loss carryforwards	596,371	328,823
Unrealized provision for loss on inventories	30,899	37,083
Other	86,879	76,275
Deferred income tax liabilities	<u>(680)</u>	<u>(976)</u>
	1,613,098	1,615,148
Valuation allowance	<u>-</u>	<u>(1,318,649)</u>
	<u>\$ 1,613,098</u>	<u>\$ 296,499</u>
Noncurrent		
Deferred income tax assets		
Investment tax credits	\$ 6,697,010	\$ 5,013,009
Loss carryforwards	15,922	2,168,981
Unrealized foreign exchange loss	-	173,523
Other	133,876	107,712
Deferred income tax liabilities		
Unrealized foreign exchange gain	(41,738)	-
Depreciation	<u>(2,081,898)</u>	<u>(1,411,210)</u>
	4,723,172	6,052,015
Valuation allowance	<u>(4,903,801)</u>	<u>(3,878,547)</u>
	<u>\$ (180,629)</u>	<u>\$ 2,173,468</u>

d. The related information under the Integrated Income Tax System is as follows:

	<b>December 31</b>	
	<b>2004</b>	<b>2003</b>
Shareholders' imputed tax credits	<u>\$ 53,348</u>	<u>\$ 25,809</u>

The expected and actual tax creditable ratio for 2004 and 2003 were 0.25% and 33.33%, respectively.

The imputation credits allocated to the shareholders are based on its balance as of the date of dividend distribution. The expected creditable ratio for 2004 may be adjusted when the distribution of the imputation credits are made.

- e. The unappropriated retaining earnings as of December 31, 2004 and 2003 had no unappropriated earnings generated on and before 1997.
- f. The effective tax rate for deferred income taxes as of December 31, 2004 and 2003 was 25%.
- g. As of December 31, 2004, the tax credits and loss carryforwards were as follows:

Regulation	Items	Total Creditable Amounts	Remaining Creditable Amounts	Expiry Year
Income Tax Law	Loss carryforwards	\$ 1,403,200	\$ -	2006
		313,401	131,713	2007
		<u>480,580</u>	<u>480,580</u>	2008
		<u>\$ 2,197,181</u>	<u>\$ 612,293</u>	
Statute for Upgrading Industries	Purchase of machinery and equipment	\$ 194,456	\$ 182,022	2005
		2,948,226	2,321,249	2006
		1,760,810	1,760,810	2007
		<u>2,178,507</u>	<u>2,178,507</u>	2008
		<u>\$ 7,081,999</u>	<u>\$ 6,442,588</u>	
Statute for Upgrading Industries	Research and development expenditures	\$ 25,697	\$ 25,697	2005
		477,385	477,385	2006
		322,877	322,877	2007
		<u>291,326</u>	<u>291,326</u>	2008
		<u>\$ 1,117,285</u>	<u>\$ 1,117,285</u>	
Statute for Upgrading Industries	Personnel training expenditures	\$ 2,583	\$ 2,583	2005
		2,803	2,803	2006
		3,058	3,058	2007
		<u>2,727</u>	<u>2,727</u>	2008
		<u>\$ 11,171</u>	<u>\$ 11,171</u>	
Statute for Upgrading Industries	Investments in important technology-based enterprises	\$ 12,279	\$ 12,279	2006
		<u>13,316</u>	<u>13,316</u>	2007
		<u>\$ 25,595</u>	<u>\$ 25,595</u>	

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

	Tax-Exemption Period
Statute for Establishment and Administration of Science Parks	
1996 Original investment in the first manufacturing plant	2000-2004
2000 Expansion of the first manufacturing plant	2004-2007

(Continued)

**Tax-Exemption Period**

Statute for Upgrading Industries	
1997 Expansion of the first manufacturing plant	2001-2005
1998 Expansion of the first manufacturing plant	2004-2008
1999 Expansion of the first manufacturing plant	2004-2008
2001 Construction of the second manufacturing plant	2004-2008

- i. Income tax returns through 2001 had been examined by the tax authorities. However, the Corporation is contesting the assessment of the tax authority for 1998, 2000 and 2001. The Corporation believes that any additional assessment will not have a material adverse effect on the Corporation.

**17. LABOR COST, DEPRECIATION AND AMORTIZATION EXPENSE**

	For the Years Ended December 31					
	2004			2003		
	Classified as Cost of Sales	Classified as Operating Expenses	Total	Classified as Cost of Sales	Classified as Operating Expenses	Total
Labor cost						
Salary	\$ 2,298,397	\$ 668,200	\$ 2,966,597	\$ 1,345,500	\$ 395,379	\$ 1,740,879
Labor/health insurance	117,696	28,709	146,405	90,066	21,432	111,498
Pension	38,317	10,912	49,229	35,030	10,042	45,072
Others	<u>123,957</u>	<u>23,525</u>	<u>147,482</u>	<u>83,829</u>	<u>15,231</u>	<u>99,060</u>
	<u>\$ 2,578,367</u>	<u>\$ 731,346</u>	<u>\$ 3,309,713</u>	<u>\$ 1,554,425</u>	<u>\$ 442,084</u>	<u>\$ 1,996,509</u>
Depreciation	<u>\$ 11,155,620</u>	<u>\$ 176,794</u>	<u>\$ 11,332,414</u>	<u>\$ 8,214,292</u>	<u>\$ 134,064</u>	<u>\$ 8,348,356</u>
Amortization	<u>\$ 197,418</u>	<u>\$ 697,225</u>	<u>\$ 894,643</u>	<u>\$ 205,826</u>	<u>\$ 928,720</u>	<u>\$ 1,134,546</u>

**18. EARNINGS (LOSS) PER SHARE**

The numerators and denominators used in calculating basic and diluted earnings (loss) per share (E/LPS) 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>Year ended December 31, 2004</u>				
Net income	<u>\$ 22,378,234</u>	<u>\$ 21,335,355</u>			
Basic EPS					
Income of common shareholders	22,378,234	21,335,355	3,798,494	<u>\$ 5.89</u>	<u>\$ 5.62</u>
Effect of dilutive securities					
- Convertible bonds	-	-	230,356		
- Stock options	<u>-</u>	<u>-</u>	<u>172,607</u>		
Diluted EPS					
Income of common and potential common shareholders	<u>\$ 22,378,234</u>	<u>\$ 21,335,355</u>	<u>4,201,457</u>	<u>\$ 5.33</u>	<u>\$ 5.08</u>

(Continued)

	<u>Amounts (Numerator)</u>		<u>Weighted- average Number of Shares Outstanding (Denominator) (Thousand)</u>	<u>EPS (Dollars)</u>	
	<u>Before Income Tax</u>	<u>After Income Tax</u>		<u>Before Income Tax</u>	<u>After Income Tax</u>
<u>Year ended December 31, 2003</u>					
Net income (loss)	\$ (87,181)	\$ 168,980			
Basic E/LPS					
Income (loss) of common shareholders	(87,181)	168,980	2,880,793	\$ (0.03)	\$ 0.06
Effect of dilutive securities					
- Convertible bonds	-	-	347,254		
- Stock options	-	-	54,249		
Diluted E/LPS					
Income (loss) of common and potential common shareholders	\$ (87,181)	\$ 168,980	3,282,296	\$ (0.03)	\$ 0.05

## 19. RELATED-PARTY TRANSACTIONS

### a. Related parties

<b>Related Party</b>	<b>Relationship</b>
Powertech Technology Inc. (Powertech)	Quantum Vision Corp., subsidiary of the Corporation, is its director
Veutron Corp. (Veutron)	Same chairman
Mitsubishi Electric Corp. (Mitsubishi - Japan) (Note 1)	Director (until April 1, 2003)
Mitsubishi Electric Taiwan Company (Mitsubishi - Taiwan) (Note 1)	Subsidiary of Mitsubishi - Japan (until April 1, 2003)
Power Quotient International Co., Ltd. (Power) (Note 1)	The Corporation is its director (until April 29, 2003)
Novax Technologies, Inc. (Novax) (Note 2)	Equity-accounted investee
Deutron Electronics Corp. (Deutron)	Equity-accounted investee
eMemory Technology Inc. (eMemory)	Same chairman
Syntronix Corp. (Syntronix)	Equity-accounted investee
Renesas Tech Corp. (Renesas)	Director
Zentel Electronics Corp. (Zentel)	Equity-accounted investee
Silicon Optronics, Inc. (Silicon)	Equity-accounted investee
MaxEdge Electronics Corp. (MaxEdge)	Equity-accounted investee
Lu-Chu Development Corp.	Equity-accounted investee
Others	Related parties with whom the Corporation has substantial influence but without any material transactions. Please see Note 24.

Note 1: The Company ceased to be the Corporation's related parties as of December 31, 2004; the transactions made as of and for the year ended December 31, 2004 are disclosed only for reference.

Note 2: A new company formed as a result of capital restructuring of Ceon Computers Corp. (“Ceon”) and Webstorage Corp. (“Webstorage”) in October 2003. The transactions of Ceon and Webstorage were included under Novax for reference.

b. Related-party transactions:

	<u>2004</u>		<u>2003</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
<u>For the year</u>				
1) Net sales				
Deutron	\$ 13,700,591	24	\$ 5,515,048	24
Novax	3,549,282	6	131,397	1
Power	2,161,160	4	1,526,034	7
Syntronix	116,757	-	-	-
Silicon	95,964	-	-	-
eMemory	11,694	-	35,000	-
Mitsubishi - Taiwan	-	-	612,459	3
MaxEdge	-	-	20,042	-
Others	<u>128</u>	<u>-</u>	<u>169</u>	<u>-</u>
	<u>\$ 19,635,576</u>	<u>34</u>	<u>\$ 7,840,149</u>	<u>35</u>
2) Purchase				
Renesas	<u>\$ 32,381</u>	<u>-</u>	<u>\$ -</u>	<u>-</u>
3) Properties				
Mitsubishi - Taiwan	\$ 551,557	2	\$ 197,196	1
Veutron	63,000	-	80,000	1
Others	<u>450</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 615,007</u>	<u>2</u>	<u>\$ 277,196</u>	<u>2</u>
4) Technical know-how, patent and royalty				
Mitsubishi - Japan	\$ 1,762,722	46	\$ 1,274,323	84
Renesas	188,822	5	-	-
eMemory	<u>25,000</u>	<u>1</u>	<u>35,000</u>	<u>2</u>
	<u>\$ 1,976,544</u>	<u>52</u>	<u>\$ 1,309,323</u>	<u>86</u>
5) Manufacturing expenses - subcontract costs, indirect materials, expensed properties, repairs and maintenance, etc.				
Powertech	\$ 1,549,520	6	\$ 803,491	5
Mitsubishi - Japan	63,100	-	15,001	-
Others	<u>1,446</u>	<u>-</u>	<u>1,818</u>	<u>-</u>
	<u>\$ 1,614,066</u>	<u>6</u>	<u>\$ 820,310</u>	<u>5</u>

(Continued)

	<u>2004</u>		<u>2003</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
6) Research and Development expenses				
Zentel	\$ 67,800	6	\$ -	-
Syntronix	61,986	6	24,362	2
Mitsubishi - Japan	-	-	2,492	-
Others	<u>5,093</u>	<u>-</u>	<u>1,757</u>	<u>-</u>
	<u>\$ 134,879</u>	<u>12</u>	<u>\$ 28,611</u>	<u>2</u>
7) Interest income				
MaxEdge	\$ 6,272	3	\$ 6,272	9
Veutron	<u>5,430</u>	<u>3</u>	<u>5,323</u>	<u>7</u>
	<u>\$ 11,702</u>	<u>6</u>	<u>\$ 11,595</u>	<u>16</u>
8) Other income				
eMemory	\$ 6,542	10	\$ 6,694	13
Syntronix	4,822	7	2,298	4
Veutron	4,012	6	-	-
Powertech	2,223	4	11,401	23
Zentel	1,899	3	-	-
Others	<u>1,267</u>	<u>2</u>	<u>651</u>	<u>1</u>
	<u>\$ 20,765</u>	<u>32</u>	<u>\$ 21,044</u>	<u>41</u>
<u>At end of year</u>				
1) Notes and accounts receivable, net				
Deutron	\$ 576,380	15	\$ 239,922	9
Novax	69,152	2	78,577	3
Power	68,348	2	87,111	3
Silicon	50,988	1	-	-
Others	<u>4,514</u>	<u>-</u>	<u>290</u>	<u>-</u>
	<u>\$ 769,382</u>	<u>20</u>	<u>\$ 405,900</u>	<u>15</u>
2) Accounts payable				
Powertech	<u>\$ 397,608</u>	<u>8</u>	<u>\$ 282,691</u>	<u>8</u>
3) Accrued expenses				
Mitsubishi - Japan	\$ 254,516	10	\$ 324,867	26
Others	<u>3,170</u>	<u>-</u>	<u>1,770</u>	<u>-</u>
	<u>\$ 257,686</u>	<u>10</u>	<u>\$ 326,637</u>	<u>26</u>

The Corporation also purchased (sold) the following long-term investments from (to) related parties in 2004 and 2003:

1) Stocks

<b>Related Parties</b>	<b>Investee</b>	<b>Shares Purchased (Sold) (in Thousands)</b>	<b>Costs (Proceeds)</b>	<b>Profit (Loss)</b>
<u>2004</u>				
Veutron	PowerWorld Capital Management Corp.	8,000	\$ <u>140,000</u>	\$ <u>-</u>
Power	Power Memory International Co., Ltd.	(2,600)	\$ <u>(64,805)</u>	\$ <u>6,305</u>
<u>2003</u>				
Quantum	Terax Communication Technologies Inc.	(350)	\$ <u>(7,677)</u>	\$ <u>2,427</u>

2) Bonds

<b>Related Parties</b>	<b>Investee</b>	<b>Units</b>	<b>Amount</b>	<b>Rate</b>
<u>2003</u>				
Veutron	Veutron Bonds	5	\$ <u>25,000</u>	3.50%

Under several sale agreements, the Corporation should sell DRAM products with the Mitsubishi brand to Mitsubishi - Japan through Mitsubishi - Taiwan within the terms of the agreements.

Under a subcontract cooperation agreement, the Corporation performed certain activities with Powertech within the terms of the agreement.

The patent right of Flash Memory products acquired from eMemory and the research and development costs paid to Zentel and Syntronix by the Corporation were based on specifically negotiated terms.

The payment term of the sales made to Deutron was revised in August 2003 which is to be paid on the 45th day after the month of shipment. The payment term of the sales made to Novax is the same as Deutron.

On December 2, 2003, the board of directors approved the acquisition of Veutron's buildings for agreed price of NT\$143,000 thousand based on independent appraisal reports. As of December 31, 2004, the entire acquisition price has been paid off and the ownership transfer was completed.

On December 30, 2004, the Corporation transferred a parcel of land to Lu-Chu Development Corp. in payment of long-term investments at the amount of \$241,500 thousand which was based on independent appraisal reports and recognized a loss of \$71,010 thousand.

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

## 20. PLEDGED OR MORTGAGED ASSETS

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

	<u>December 31</u>	
	<u>2004</u>	<u>2003</u>
Properties, net	\$ 41,746,487	\$ 17,417,893
Pledged time deposits	2,123,217	3,066,014
Accounts receivable	375,545	347,782
Other assets - land	<u>-</u>	<u>311,510</u>
	<u>\$ 44,245,249</u>	<u>\$ 21,143,199</u>

## 21. COMMITMENTS AND CONTINGENCIES

- a. Under a patent license agreement made with A Company in February 1999, the Corporation 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 B Company, the Corporation 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 May 2007.
- c. On March 25, 2003, the Corporation entered into a license and technology transfer agreement (0.12  $\mu\text{m}$  DRAM technology) with B Company. Under the agreement, the Corporation should pay B Company, effective January 1, 2003, a certain amount of license fee and royalty at an agreed percentage of the selling prices of any products manufactured and sold using such technology.
- d. On March 5, 2003, the Corporation entered into a purchase and sale agreement with C Company on products using DRAM technologies (0.15 $\mu\text{m}$  to 0.09 $\mu\text{m}$ ) in their manufacture. Under the agreement, the Corporation should reserve a certain percentage of production capacity for C Company.
- e. In August 2003, the Corporation entered into a license and technology transfer agreement (0.10  $\mu\text{m}$  and 0.09  $\mu\text{m}$  DRAM technology) with C Company. Under the agreement, the Corporation should pay C Company, a certain amount of license fee over 5 years after technology transfer and royalty at an agreed percentage of the selling prices of the licensed products.
- f. Under a patent license agreement made with D Company in October 2003, the Corporation shall pay a certain amount of royalty annually for five years from 2003.
- g. Under a Non-Recurring Engineering agreement with E Company made in November 2003, the Corporation should pay a certain amount of development fee quarterly from November 2003 to November 2005.
- h. Under a product design and license agreement of DDR II products with F Company made in December 2003, the Corporation should pay a certain amount of license fee and royalty at an agreed percentage of the selling prices of the licensed products.
- i. Under a product development and license agreement of DRAM products with G Company made in July 2004, the Corporation should pay a certain amount of development fee and royalty at an agreed percentage of the selling prices of the licensed products.

- j. Unused letters of credit amounted to approximately US\$9,136 thousand and JPY631,746 thousand as of December 31, 2004.
- k. The Corporation has leased three parcels of land from the Hsinchu Science Park Administration (HSPA) under renewable 20-year agreements from April 1995, October 1998, and June 2004. The current minimum annual rent is \$68,483 thousand, which is subject to adjustment by HSPA.

## 22. DERIVATIVE FINANCIAL INSTRUMENTS

- a. Outstanding contracts and credit risk:

- 1) Forward exchange contracts:

			<b>Amounts in Thousands</b>	
<b>Items</b>	<b>Contract Amount (Nominal Amount)</b>	<b>Credit Risk</b>		
<u>December 31, 2004</u>				
Forward exchange contracts	JPY21,018,600 (US\$ v.s. JPY) US\$30,000 (US\$ v.s. NT\$)	\$ 131,682 42,388		
<u>December 31, 2003</u>				
Forward exchange contracts	US\$358,000 (NT\$ v.s. US\$) JPY22,500,000 (US\$ v.s. JPY)	\$ 4,785 116,650		

The Corporation is exposed to credit risk from counter-parties' default on contracts. To minimize this risk, the Corporation transacts only with financial institutions with good credit ratings. Thus, the potential credit risk is insignificant.

- 2) Foreign-currency option contracts

								<b>Amounts in Thousands</b>
								<b>December 31</b>
<b>Type</b>	<b>Buy/Sell</b>	<b>Option</b>	<b>Contract Amount</b>	<b>Book Value</b>	<b>Fair Value</b>	<b>Strike Price</b>	<b>Expiry Date</b>	
<u>2004</u>								
European	Sell	Call	US\$ 10,000	\$ (3,564)	\$ (582)	\$106.15-\$106.20 (US\$ v.s. JPY)	2005.02	
<u>2003</u>								
European	Sell	Call	US\$ 15,000	(1,305)	(2)	\$120.5 (US\$ v.s. JPY)	2004.03	

3) Interest rate swaps

The Company entered into interest rate swap contracts to manage related interest rates for its long-term loans. Net decrease of interest expense on these transactions for the year ended December 31, 2004 was \$5,301 thousand. Outstanding contracts as of December 31, 2004 were as follows:

<b>Contract Date</b>	<b>Period</b>	<b>Contract Amount (Nominal) (in Thousand)</b>
May 27, 2004	May 31, 2004 to March 24, 2009	\$ 800,000
May 27, 2004	May 31, 2004 to March 24, 2009	800,000
May 28, 2004	June 1, 2004 to March 24, 2009	800,000
June 1, 2004	June 3, 2004 to March 24, 2009	800,000
June 2, 2004	June 4, 2004 to March 24, 2009	800,000
June 4, 2004	June 8, 2004 to March 24, 2009	800,000
June 14, 2004	June 16, 2004 to March 24, 2009	800,000
June 15, 2004	June 17, 2004 to March 24, 2009	200,000
June 30, 2004	July 2, 2004 to May 20, 2007	500,000
June 30, 2004	July 2, 2004 to May 20, 2007	500,000
June 30, 2004	July 2, 2004 to May 20, 2007	500,000

- b. Market risk - the Corporation uses derivative financial instruments to hedge the effect of exchange rate and interest rate fluctuation on its net foreign currency-denominated assets or liabilities and its long-term loans. Thus, gain or loss arising from exchange rate and interest rate fluctuations will be approximately offset by fluctuations on the hedged items. The potential market risk is insignificant.
- c. Liquidity risk, cash flow risk and uncertainty of amount and term of future cash demand

As of December 31, 2004, the Corporation's future cash demand for the outstanding forward exchange contracts was as follows:

<b>Term</b>	<b>Amounts in Thousands</b>			
	<b>Forward Exchange Contracts</b>			
	<b>Inflow</b>		<b>Outflow</b>	
Within one year	JPY	21,018,600	US\$	201,127
	NT\$	996,625	US\$	30,000

The Corporation has sufficient operating capital to meet the above cash demand. The interest rate of the interest rate swaps has taken the Corporation's cost of capital into account. In addition, the exchange rates of forward exchange contracts and foreign currency option contracts are fixed. Thus the fund-raising and cash flow risks are not material.

- d. Kinds and purpose of derivative financial instruments held and related strategies

The Corporation enters into derivative transactions solely for hedging purpose. The Corporation enters into forward exchange contracts, foreign currency option contracts and interest rate swap contracts to hedge the effect of exchange rate fluctuations on net foreign currency-denominated assets and liabilities and interest rate fluctuations on its long-term loans. The purpose of the derivative transactions is to hedge market risks. The Corporation uses hedging instruments with high correlations with the fair values of the hedged items and periodically evaluates the effectiveness of the instruments.

e. Other information

The net realized exchange gain derived from settled forward exchange contracts and foreign currency option contracts were \$87,122 thousand and \$423,785 thousand for the years ended December 31, 2004 and 2003. In addition, the net premium expenses on foreign currency option contracts were \$2,259 thousand in 2004 and \$2,470 thousand in 2003. Such gain and expenses were presented under nonoperating income or expenses; and a receivable of \$172,721 thousand and \$111,101 thousand as of December 31, 2004 and 2003, respectively, generated from forward exchange contracts were presented under other receivables.

Interest payable from interest rate swap contracts was presented under other payables. Such payable was \$380 thousand as of December 31, 2004.

### 23. FAIR VALUE OF FINANCIAL INSTRUMENTS

	December 31			
	2004		2003	
	Book Value	Fair Value	Book Value	Fair Value
<u>Nonderivative instruments</u>				
Assets				
Cash and cash equivalents	\$ 35,025,469	\$ 35,025,469	\$ 11,387,416	\$ 11,387,416
Notes and accounts receivable	3,903,278	3,903,278	2,820,663	2,820,663
Short-term and long-term investments	5,888,806	6,507,095	4,883,030	5,523,300
Other receivables	431,880	431,880	290,794	290,794
Pledged time deposits	2,123,217	2,123,217	3,066,014	3,066,014
Refundable deposits	23,427	23,427	22,075	22,075
Liabilities				
Short-term bank borrowings	-	-	582,500	582,500
Accounts payable and payable on equipment	19,713,836	19,713,836	19,386,347	19,386,347
Convertible bonds payable	5,965,192	6,003,882	6,098,541	6,585,251
Obligation under capital lease (including current portion)	165,110	165,110	350,233	350,233
Long-term bank loans (including current portion)	18,334,754	18,334,754	12,921,008	12,921,008
Guarantee deposits	5,572	5,572	3,451	3,451
<u>Derivative instruments</u>				
Forward exchange contracts	172,721	174,070	111,101	121,435
Foreign currency option contracts	(3,564)	(582)	(1,305)	(2)
Interest rate swap contracts	(380)	(66,007)	-	-

The methods and assumptions used in estimating fair values are as follows:

- a. The carrying amounts reported in the balance sheets for cash and cash equivalents, notes and accounts receivable, other receivables, pledged time deposits, accounts payable, payable on equipment, short-term bank borrowings approximate their fair values.
- b. Fair value of short-term and long-term investments is based on quoted market prices or, if quoted market prices are unavailable, on net worth or book value.

- c. Fair value of long-term bank loans is estimated using discounted cash flow analysis, based on the Corporation's current incremental borrowing rates for borrowings with similar types (similar maturity dates). The fair value of long-term bank loans all bearing floating interest rates is equivalent to their book value. Fair value of convertible bonds payable is based on quoted market prices. The fair value of obligations under capital lease is determined using the present value of forecasted cash flows discounted at interest rates for obtaining the equipments under capital lease.
- d. Fair value of refundable deposits and guarantee deposits is based on their book value.
- e. Fair value of derivative financial instruments is the estimated net receivable (positive) or payable (negative) if those contracts are terminated on the balance sheet date.

## **24. ADDITIONAL DISCLOSURES**

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

- a. Marketable securities held: Table 1 (attached).
- b. Marketable securities acquired and disposed of at costs or prices of at least \$100 million or 20% of the paid-in capital: Table 2 (attached).
- c. Acquisition of individual real estates at costs of at least \$100 million or 20% of the paid-in capital: Table 3 (attached).
- d. Disposal of individual real estates at prices of at least \$100 million or 20% of the paid-in capital: Table 4 (attached).
- e. Total purchase from or sale to related parties amounting to at least \$100 million or 20% of the paid-in capital: Table 5 (attached).
- f. Receivables from related parties amounting to at least \$100 million or 20% of the paid-in capital: Table 6 (attached).
- g. Names, locations, and related information of investees on which the Corporation exercises significant influence: Table 7 (attached).
- h. Derivative financial transactions: Please see Notes 22 and 23.

## **25. SEGMENT FINANCIAL INFORMATION**

- a. Industry: The Corporation is only engaged in the manufacture and sale of semi-conductor products.
- b. Geographic information: The Corporation operates only in the Republic of China.
- c. Export sales: The export sales in 2004 and 2003 were \$9,143,975 thousand and \$2,945,306 thousand, respectively.

d. Customers accounting for more than 10% of net sales:

Customer	For the Years Ended December 31			
	2004		2003	
	Amount	%	Amount	%
A	\$ 13,700,591	24	\$ 5,515,048	24
B	8,017,469	14	2,892,276	13
C	6,301,466	11	2,203,993	9
D	5,143,076	9	3,062,194	13

## POWERCHIP SEMICONDUCTOR CORPORATION AND INVESTEEES

## MARKETABLE SECURITIES HELD

DECEMBER 31, 2004

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

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2004				Note
				Shares (Thousands/Units) (Note 6)	Carrying Value	Percentage of Ownership (%)	Market Value or Net Asset Value	
Powerchip Semiconductor Corporation	<u>Stock</u>							
	Quantum Vision Corp.	Subsidiary	Long-term investments	131,990	\$ 1,237,881	99.99	\$ 1,240,167	
	Li-Hsin Investment Corp.	Subsidiary	Long-term investments	104,850	660,053	99.86	745,226	
	Paramax Corp.	Subsidiary	Long-term investments	54,994	451,109	99.99	451,109	
	Lu-Chu Development Corp.	Investee	Long-term investments	24,255	242,564	13.21	242,564	
	Novax Technologies, Inc.	Investee	Long-term investments	13,050	162,438	18.64	162,438	
	Syntronix Corp.	Investee	Long-term investments	12,700	128,293	47.04	128,287	
	Luxxon Technology Corp.	Investee	Long-term investments	14,476	118,139	18.10	118,139	
	Deutron Electronics Corp.	Investee	Long-term investments	2,940	115,265	10.29	125,288	
	Maxium Technologies, Inc.	Investee	Long-term investments	9,111	100,927	30.37	100,927	
	Deutron Japan Corp.	Investee	Long-term investments	2,891	88,753	38.98	88,753	
	Zentel Electronics Corp.	Investee	Long-term investments	9,200	86,670	36.80	86,670	
	Telmax Technologies Corp.	Investee	Long-term investments	10,605	81,666	21.21	81,666	
	Artrix International Inc.	Investee	Long-term investments	6,000	59,949	30.00	59,949	
	Tekmax Development Corp.	Investee	Long-term investments	4,800	58,496	16.00	58,496	
	PowerFlash Semiconductor Corp.	Investee	Long-term investments	4,160	40,151	32.00	40,151	
	MaxEdge Electronics Corp.	Investee	Long-term investments	16,414	40,116	13.89	40,239	
	Smartic Technology Inc.	Investee	Long-term investments	3,000	29,410	25.00	29,410	
	Silicon Optronics, Inc.	Investee	Long-term investments	1,700	14,672	17.00	14,672	
	Synage Technology Corp.	Investee	Long-term investments	1,000	9,623	10.00	9,623	
	PowerGate Optical, Inc.	Investee	Long-term investments	1,000	8,127	10.00	8,127	
	Powertech Technology Inc.	Quantum Vision is its director	Long-term investments	5,975	87,298	1.77	412,036	
	Optimax Technology Corp.	Corporation is its director	Long-term investments	4,449	84,913	1.22	338,805	
	PowerWorld Capital Management Corp.	Same chairman	Long-term investments	8,000	138,688	9.09	89,674	Note 3
	Asia Pacific Broadband Telecommunications Co., Ltd.	-	Long-term investments	12,000	114,635	0.18	114,635	Note 2
	Universal Venture Fund, Inc.	Same chairman	Long-term investments	8,000	68,087	4.76	72,703	Note 3
	Ardentec Corp.	-	Long-term investments	5,844	60,580	2.06	78,321	Note 3
	Besteam Technology Inc.	-	Long-term investments	4,886	58,454	10.03	58,454	Note 2
	Advanced Chip Engineering Technology Inc.	-	Long-term investments	3,435	39,352	2.94	30,151	Note 3
	eMemory Technology Inc.	Same chairman	Long-term investments	2,648	28,961	8.10	28,961	Note 2
	Actrans System Inc.	Corporation is its supervisor	Long-term investments	2,480	28,760	8.28	28,760	Note 2
	CHIPSIP Technology Co., Ltd.	Corporation is its director	Long-term investments	2,000	25,000	10.61	11,582	Note 3
TwinMOS Technologies Inc.	-	Long-term investments	2,757	23,109	1.34	23,109	Note 2	
Great Taipei Broadband Co., Ltd.	Corporation is its director	Long-term investments	2,500	22,693	1.67	22,057	Note 3	
Emerging Memory & Logic Solution Incorporation	-	Long-term investments	279	18,924	4.75	18,924	Note 2	
Venglobal Capital Fund L.P.	-	Long-term investments	-	16,590	5.18	16,590	Note 2	
EUDAR Technology Inc.	-	Long-term investments	600	15,420	2.20	15,420	Note 2	
Lightsonic Optoelectronics Inc.	Same chairman	Long-term investments	1,700	12,252	1.83	12,252	Note 2	

(Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2004				Note
				Shares (Thousands/Units) (Note 6)	Carrying Value	Percentage of Ownership (%)	Market Value or Net Asset Value	
	Area East Technology Corp.	Corporation is its director	Long-term investments	1,300	\$ 11,692	19.97	\$ 11,692	Note 2
	e-Phocus, Inc. Series A-preferred shares	-	Long-term investments	333	11,460	33.33	11,460	Note 2
	Venglobal International Fund	-	Long-term investments	1	11,217	2.83	8,809	Note 3
	Taiwan Liposome Co., Ltd.	-	Long-term investments	300	9,000	2.39	4,949	Note 3
	CDIB High Tech Investment Inc.	Corporation is its director	Long-term investments	900	9,000	2.11	12,191	Note 3
	Terax Communication Technologies Inc.	Same chairman	Long-term investments	600	5,464	1.62	5,183	Note 3
	Miluku Entertainment Corp.	Quantum Vision is its director	Long-term investments	400	5,000	1.80	2,202	Note 3
	DRAMeXchange Tech. Inc.	-	Long-term investments	330	3,089	4.03	2,362	Note 3
	Phitech Corp.	-	Long-term investments	305	1,552	1.27	1,552	Note 2
	Jade Pacific Corp.	-	Long-term investments	250	1,313	1.35	359	Note 3
	e-Phocus, Inc.	-	Long-term investments	700	-	8.52	-	Note 2
	E-Tech, Inc.	Corporation is its director	Long-term investments	349	-	2.26	-	Note 2
	Billions of Operations Per Second, Inc. Series A - preferred shares	-	Long-term investments	833	-	1.41	-	Note 2
	Billions of Operations Per Second, Inc. Series D - preferred shares	-	Long-term investments	658	-	1.12	-	Note 2
	Globalgate.com, Inc.	-	Long-term investments	500	-	0.93	-	Note 2
	<u>Bonds</u>							
	Veutron Corp. - issued in 2002 (I)	Same chairman	Long-term investments	18	89,900	-	89,900	Note 2
	MaxEdge Electronics Corp. - issued in 2002 (II)	Investee	Long-term investments	16	80,000	-	80,000	Note 2
	MaxEdge Electronics Corp. - issued in 2002 (I)	Investee	Long-term investments	12	60,000	-	60,000	Note 2
	Veutron Corp. - issued in 2003 (I)	Same chairman	Long-term investments	5	25,000	-	25,000	Note 2
	Veutron Corp. - issued in 2002 (II)	Same chairman	Long-term investments	4	20,000	-	20,000	Note 2
	<u>Stock</u>							
	ProMos Technologies Inc.	-	Short-term investments	34,996	802,005	-	461,947	
	United Microelectronics Corp.	-	Short-term investments	2,160	70,001	-	43,373	
	HannStar Display Corp.	-	Short-term investments	3,000	61,717	-	30,090	
	Epistar Corp.	-	Short-term investments	549	47,200	-	22,427	
	Yageo Corp.	-	Short-term investments	2,000	44,657	-	21,900	
	FU HUA Financial Holding Co., Ltd.	-	Short-term investments	2,000	34,143	-	33,460	
	Fubon Financial Holding Co., Ltd.	-	Short-term investments	496	18,760	-	16,080	
	Shinkong Financial Holding Co., Ltd.	-	Short-term investments	937	17,414	-	27,726	
	Cypress Semiconductor Corp.	-	Short-term investments	78	15,052	-	26,823	
	Etron Technology Inc.	-	Short-term investments	386	14,151	-	7,398	
	A-DATA Technologies Co., Ltd.	-	Short-term investments	192	8,535	-	14,525	
	NewSoft Technology Corp.	Same chairman	Short-term investments	180	3,767	-	1,544	
	Broadcom Corp.	-	Short-term investments	3	3,012	-	3,528	
	<u>Equity</u>							
	Credit Linked Notes issued by Yuanta Asset Management Limited, with unfixed interest income	-	Short-term investments	-	43,293	-	48,467	Note 1
	New Light Growth Fund	-	Short-term investments	10,000	100,000	-	102,700	Note 1
	Fuhwa Commercial Bank Common Trust Fund	-	Short-term investments	10,000	100,000	-	100,150	Note 1
	<u>Convertible bond</u>							
	Tung Ho Steel Enterprise Corp. - issued in 2004(II)	-	Short-term investments	50	5,000	-	4,963	

(Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2004				Note	
				Shares (Thousands/Units) (Note 6)	Carrying Value	Percentage of Ownership (%)	Market Value or Net Asset Value		
Li-Hsin	<u>Stock</u>								
	MaxEdge Electronics Corp.	Investee	Long-term investments	19,341	\$ 46,926	16.37	\$ 46,926	Note 2	
	Telmax Technologies Corp.	Investee	Long-term investments	11,901	91,954	23.80	91,954	Note 2	
	Maxium Technologies, Inc.	Investee	Long-term investments	138	1,482	0.46	1,482	Note 2	
	Synage Technology Corp.	Investee	Long-term investments	600	5,774	6.00	5,774	Note 2	
	Novax Technologies, Inc.	Investee	Long-term investments	3,891	44,311	5.56	44,311	Note 2	
	Tekmax Development Corp.	Investee	Long-term investments	1,400	17,074	4.67	17,074	Note 2	
	Deutron Japan Corp.	Investee	Long-term investments	289	8,665	2.16	8,665	Note 2	
	Smartic Technology Inc.	Investee	Long-term investments	480	4,800	4.00	4,800	Note 2	
	Lu-Chu Development Corp.	Investee	Long-term investments	15,741	157,405	8.57	157,405	Note 2	
	Artrix International Inc.	Investee	Long-term investments	800	8,000	4.00	8,000	Note 2	
	Optimax Technology Corp.	Corporation is its director	Long-term investments	240	5,892	0.07	18,276		
	Gatetech Technology Inc.	-	Long-term investments	187	6,051	0.31	6,051	Note 2	
	Getsilicon.net Inc.	-	Long-term investments	400	3,071	2.20	3,071	Note 2	
	Explore Technology Electronics Inc.	-	Long-term investments	500	1,042	4.17	1,042	Note 2	
	Aero Vision Avionics, Inc.	Same chairman	Long-term investments	1,000	8,000	1.85	8,000	Note 2	
	Giga Solution Tech. Co., Ltd.	-	Long-term investments	962	14,254	0.76	14,254	Note 2	
	PowerWorld Capital Management Corp.	Same chairman	Long-term investments	1,238	22,284	1.41	22,284	Note 2	
	Eon Silicon Solution Inc.	-	Long-term investments	150	6,000	0.35	6,000	Note 2	
	Fortune Investment	-	Long-term investments	400	4,000	4.00	4,000	Note 2	
		<u>Bonds</u>							
		Veutron Corp. - issued in 2002 (I)	Same chairman	Long-term investments	2	9,922	-	9,922	Note 2
		Veutron Corp. - issued in 2002 (II)	Same chairman	Long-term investments	3	15,000	-	15,000	Note 2
		Veutron Corp. - issued in 2003 (I)	Same chairman	Long-term investments	3	15,000	-	15,000	Note 2
		Veutron Corp. - issued in 2003 (II)	Same chairman	Long-term investments	3	6,000	-	6,000	Note 2
		MaxEdge Electronics Corp. - issued in 2002 (II)	Investee	Long-term investments	2	10,000	-	10,000	Note 2
		<u>Stock</u>							
		Powerchip Semiconductor Corp.	Parent company	Short-term investments	3,334	95,561	-	86,618	
		NewSoft Technology Corp.	Same chairman	Short-term investments	1,126	28,519	-	10,034	
		<u>Equity</u>							
		Shenghua 1699	-	Short-term investments	3,313	40,000	-	40,050	Note 1
		Fubon Ju-I Bond Fund	-	Short-term investments	324	5,000	-	5,009	Note 1
		TISC	-	Short-term investments	2,903	40,000	-	40,048	Note 1
Quantum Vision	<u>Stock</u>								
	MaxEdge Electronics Corp.	Investee	Long-term investments	12,691	30,755	10.74	30,755	Note 2	
	Synage Technology Corp.	Investee	Long-term investments	1,300	11,166	13.00	11,166	Note 2	
	Luxxon Technology Corp.	Investee	Long-term investments	6,914	56,393	8.64	56,393	Note 2	
	Novax Technologies, Inc.	Investee	Long-term investments	9,450	118,112	13.50	118,112	Note 2	
	Maxium Technologies, Inc.	Investee	Long-term investments	2,956	33,343	9.85	33,343	Note 2	
	Deutron Electronics Corp.	Investee	Long-term investments	3,080	142,367	10.78	142,367	Note 2	
	Syntronix Corp.	Investee	Long-term investments	649	6,919	2.40	6,919	Note 2	
	Zentel Electronics Corp.	Investee	Long-term investments	2,100	19,871	8.40	19,871	Note 2	
Tekmax Development Corp.	Investee	Long-term investments	3,500	42,310	17.50	42,310	Note 2		
PowerGate Optical, Inc.	Investee	Long-term investments	1,200	12,000	12.00	12,000	Note 2		

(Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2004				Note
				Shares (Thousands/ Units) (Note 6)	Carrying Value	Percentage of Ownership (%)	Market Value or Net Asset Value	
	Telmax Technologies Corp.	Investee	Long-term investments	500	\$ 5,000	1.00	\$ 5,000	Note 2
	Silicon Optronics, Inc.	Investee	Long-term investments	800	8,000	8.00	8,000	Note 2
	PowerFlash Semiconductor Corp.	Investee	Long-term investments	850	8,500	6.54	8,500	Note 2
	Smartic Technology Inc.	Investee	Long-term investments	720	7,200	5.54	7,200	Note 2
	Artrix International Inc.	Investee	Long-term investments	2,400	24,000	9.60	24,000	Note 2
	Optimax Technology Corp.	Corporation is its director	Long-term investments	598	12,256	0.16	45,538	
	Powertech Technology Inc.	Quantum Vision is its director	Long-term investments	2,414	29,017	0.71	166,469	
	Powervision Technologies, Inc.	Same chairman	Long-term investments	520	5,200	11.87	5,200	Note 2
	Terax Communication Technologies Inc.	Same chairman	Long-term investments	2,757	40,755	7.45	40,755	Note 2
	Besteam Technology Inc.	-	Long-term investments	2,574	47,630	5.28	47,630	Note 2
	AVAC Systems Inc.	-	Long-term investments	215	2,403	1.39	2,403	Note 2
	eMemory Technology Inc.	Same chairman	Long-term investments	880	17,041	2.70	17,041	Note 2
	Great Taipei Broadband Co., Ltd.	Corporation is its director	Long-term investments	1,500	14,700	1.00	14,700	Note 2
	Aero Vision Avionics, Inc.	Same chairman	Long-term investments	1,500	12,750	2.78	12,750	Note 2
	Actrans System Inc.	Corporation is its supervisor	Long-term investments	1,467	17,004	4.90	17,004	Note 2
	Universal Venture Fund, Inc.	Same chairman	Long-term investments	6,550	59,790	3.90	59,790	Note 2
	Impact Technology Co., Ltd.	-	Long-term investments	720	11,520	3.00	11,520	Note 2
	SAMHOP Electronics Corp.	-	Long-term investments	200	2,700	0.53	2,700	Note 2
	Lightsonic Optoelectronics Inc.	Same chairman	Long-term investments	1,500	16,500	1.62	16,500	Note 2
	Ardentec Corp.	-	Long-term investments	552	9,014	0.21	9,014	Note 2
	Miluku Entertainment Corp.	Quantum Vision is its director	Long-term investments	400	5,000	1.80	5,000	Note 2
	Taiwan Liposome Co., Ltd.	-	Long-term investments	200	6,000	1.59	6,000	Note 2
	PowerWorld Capital Management Corp.	Same chairman	Long-term investments	1,600	24,111	1.82	24,111	Note 2
	Chipking Electronic Co., Ltd.	Quantum Vision is its director	Long-term investments	800	8,000	16.00	8,000	Note 2
	Eon Silicon Solution Inc.	-	Long-term investments	150	6,000	0.35	6,000	Note 2
	TVbean Co., Ltd.	-	Long-term investments	300	4,500	2.17	4,500	Note 2
	Billions of Operations Per Second, Incorporation	-	Long-term investments	200	17,237	0.33	17,237	Note 2
	Nobex Corp.	-	Long-term investments	50	3,444	-	3,444	Note 2
	Emerging Memory & Logic Solution Inc.	-	Long-term investments	102	6,892	0.56	6,892	Note 2
	IC Media Corp.	-	Long-term investments	60	5,172	1.07	5,172	Note 2
	MAXXAN Corp.	-	Long-term investments	403	8,451	0.25	8,451	Note 2
	Elitegroup Computer System	-	Long-term investments	1	15,913	-	15,913	Note 2
	<b>Bonds</b>							
	Veutron Corp. - issued in 2002 (I)	Same chairman	Long-term investments	4	19,978	-	19,978	Note 2
	Veutron Corp. - issued in 2002 (II)	Same chairman	Long-term investments	5	25,000	-	25,000	Note 2
	Veutron Corp. - issued in 2003 (I)	Same chairman	Long-term investments	5	25,000	-	25,000	Note 2
	Veutron Corp. - issued in 2003 (II)	Same chairman	Long-term investments	13	26,000	-	26,000	Note 2
	MaxEdge Electronics Corp. - issued in 2002 (I)	Investee	Long-term investments	4	20,000	-	20,000	Note 2
	MaxEdge Electronics Corp. - issued in 2002 (II)	Investee	Long-term investments	1	5,000	-	5,000	Note 2
	<b>Stock</b>							
	NewSoft Technology Corp.	Same chairman	Short-term investments	473	7,172	-	4,060	
	Shinkong Financial Holding Co., Ltd.	-	Short-term investments	557	10,645	-	16,482	
	Veutron Corp.	Same chairman	Short-term investments	500	7,001	-	3,020	
	Fubon Financial Holding Co., Ltd.	-	Short-term investments	350	13,276	-	11,344	
	ProMos Technologies Inc.	-	Short-term investments	4,000	82,762	-	52,800	
	HannStar Display Corp.	-	Short-term investments	176	3,611	-	4,880	

(Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2004				Note	
				Shares (Thousands/Units) (Note 6)	Carrying Value	Percentage of Ownership (%)	Market Value or Net Asset Value		
Paramax	Phoenix Silicon International Corp.	-	Short-term investments	218	\$ 2,399	-	\$ 1,400		
	Mosel Vitelic Inc.	-	Short-term investments	200	695	-	514		
	A-DATA Technology Corp.	-	Short-term investments	55	2,439	-	4,161		
	Cypress Semiconductor Corp.	-	Short-term investments	31	6,808	-	10,469		
	<u>Convertible bond</u>								
	Tung Ho Steel Enterprise Corp. - issued in 2004(II)	-	Short-term investments	50	5,000	-	4,963		
	<u>Equity</u>								
	Fubon Ju-I Bond Fund	-	Short-term investments	4,532	70,000	-	70,122	Note 1	
	President James Bond Fund	-	Short-term investments	1,999	30,000	-	30,048	Note 1	
	<u>Stock</u>								
	MaxEdge Electronics Corp.	Investee	Long-term investments	6,710	15,982	5.68	15,982	Note 2	
	Telmax Technologies Corp.	Investee	Long-term investments	1,684	14,703	3.37	14,703	Note 2	
	Synage Technology Corp.	Investee	Long-term investments	600	5,774	6.00	5,774	Note 2	
	Novax Technologies, Inc.	Investee	Long-term investments	3,497	45,873	5.00	45,873	Note 2	
	Luxxon Technology Corp.	Investee	Long-term investments	3,778	33,672	4.72	33,672	Note 2	
	Maxium Technologies Inc.	Investee	Long-term investments	311	2,899	1.04	2,899	Note 2	
	PowerGate Optical, Inc.	Investee	Long-term investments	800	8,000	8.00	8,000	Note 2	
	Silicon Optronics, Inc.	Investee	Long-term investments	500	5,000	5.00	5,000	Note 2	
	PowerFlash Semiconductor Corp.	Investee	Long-term investments	500	5,000	3.85	5,000	Note 2	
	Smartic Technology Inc.	Investee	Long-term investments	720	7,200	6.00	7,200	Note 2	
	Artrix International Inc.	Investee	Long-term investments	700	7,000	3.50	7,000	Note 2	
	Deutron Japan Corp.	Investee	Long-term investments	351	11,031	2.16	11,031	Note 2	
	Optimax Technology Corp.	Corporation is its director	Long-term investments	160	3,122	0.04	12,184		
	Powervision Technologies, Inc.	Corporation and investee have same chairman	Long-term investments	120	1,200	2.74	1,200	Note 2	
	Besteam Technology Inc.	-	Long-term investments	198	4,625	0.40	4,625	Note 2	
	Universal Venture Fund, Inc.	Corporation and investee have same chairman	Long-term investments	2,950	27,140	1.76	27,140	Note 2	
	Impact Technology Co., Ltd.	-	Long-term investments	440	7,040	1.83	7,040	Note 2	
	Aero Vision Avionics, Inc.	Corporation and investee have same chairman	Long-term investments	1,290	10,695	2.39	10,695	Note 2	
	Terax Communication Technologies Inc.	Corporation and investee have same chairman	Long-term investments	400	4,200	1.08	4,200	Note 2	
	Lightsonic Optoelectronics Inc.	Corporation and investee have same chairman	Long-term investments	1,000	11,000	1.08	11,000	Note 2	
	Eon Silicon Solution Inc.	-	Long-term investments	161	6,430	0.38	6,430	Note 2	
	PowerWorld Capital Management Corp.	Corporation and investee have same chairman	Long-term investments	900	9,167	1.02	9,167	Note 2	
Elitegroup Computer System	-	Long-term investments	1	6,975	-	6,975	Note 2		
<u>Bonds</u>									
Veutron Corp. - issued in 2002 (II)	Corporation and investee have same chairman	Long-term investments	2	10,000	-	10,000	Note 2		
Veutron Corp. - issued in 2003 (I)	Corporation and investee have same chairman	Long-term investments	2	10,000	-	10,000	Note 2		

(Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2004				Note
				Shares (Thousands/ Units) (Note 6)	Carrying Value	Percentage of Ownership (%)	Market Value or Net Asset Value	
	Veutron Corp. - issued in 2003 (II)	Corporation and investee have same chairman	Long-term investments	7	\$ 14,000	-	\$ 14,000	Note 2
	MaxEdge Electronics Corp. - issued in 2002 (II)	Investee	Long-term investments	1	5,000	-	5,000	Note 2
	<u>Stock</u>							
	Shinkong Financial Holding Co., Ltd.	-	Short-term investments	177	3,303	-	5,237	
	Veutron Corp.	Corporation and investee have same chairman	Short-term investments	300	2,807	-	1,812	
	Mosel Vitelic Inc.	-	Short-term investments	200	772	-	514	
	Cypress Semiconductor Corp.	-	Short-term investments	3	1,740	-	986	
	<u>Equity</u>							
	Fubon Ju-I Bond Fund	-	Short-term investments	647	10,000	-	10,017	Note 1
	President James Bond Fund	-	Short-term investments	1,333	20,000	-	20,032	Note 1
	Shinkong Ch-shin Fund	-	Short-term investments	4,302	60,000	-	60,033	Note 1

Note 1: The market value is based on net asset value of the fund as of December 31, 2004.

Note 2: The market values are based on carrying value as of December 31, 2004.

Note 3: The net asset value is based on unaudited financial data as of December 31, 2004.

Note 4: As of December 31, 2004, 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 5: Under the Securities and Exchange Law of the Republic of China, the bond investments were acquired through private market transactions with certain restrictions on the transferability of the bonds.

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

## POWERCHIP SEMICONDUCTOR CORPORATION AND INVESTEEES

MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL  
FOR THE YEAR ENDED DECEMBER 31, 2004  
(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		Acquisition		Disposal				Ending Balance	
					Shares (Thousands)	Amount	Shares (Thousands)	Amount	Shares (Thousands)	Amount	Carrying Value	Gain (Loss) on Disposal	Shares (Thousands)	Amount
Powerchip Semiconductor Corporation	<u>Stock</u> Quantum Vision Corp.	Long-term investments	-	Subsidiary	99,990	\$ 1,033,808	32,000	293,000	-	\$ -	\$ -	\$ -	131,990	\$ 1,237,881
	Li-Hsin Investment Corp.	Long-term investments	-	Subsidiary	78,850	444,357	26,000	260,000	-	-	-	-	104,850	660,053
	Paramax Corp.	Long-term investments	-	Subsidiary	29,994	262,325	25,000	250,000	-	-	-	-	54,994	451,109
	Lu-Chu Development Corp.	Long-term investments	-	Investee	-	-	24,255	242,550	-	-	-	-	24,255	242,564
	Luxxin Technology Corp.	Long-term investments	-	Investee	4,000	38,277	10,476	104,760	-	-	-	-	14,476	118,139
	PowerWorld Capital Management Corp.	Long-term investments	Veutron Corp.	Same chairman	-	-	8,000	140,000	-	-	-	-	8,000	138,688
	Chi Mei Optoelectronics Corp.	Short-term investments	-	-	250	9,647	2,000	115,197	2,250	132,506	124,844	7,662	-	-
	China Development Financial Holding Corp.	Short-term investments	-	-	10,000	161,114	20,000	360,372	30,000	569,997	521,486	48,511	-	-
	Cathay Financial Holding Co., Ltd.	Short-term investments	-	-	-	-	2,000	119,652	2,000	129,444	119,652	9,792	-	-
	Quata Display Inc.	Short-term investments	-	-	-	-	6,140	138,654	6,140	168,702	138,654	30,048	-	-
	ProMos Technologies Inc.	Short-term investments	-	-	-	-	34,996	802,005	-	-	-	-	34,996	802,005
	Power Quotient International Co., Ltd.	Short-term investments	-	-	3,527	92,848	-	-	3,527	150,930	92,848	58,082	-	-
	Shinkong Synthetic Fibexs Corp.	Short-term investments	-	-	-	-	9,400	97,900	9,400	123,082	97,900	25,182	-	-
		<u>Equity</u> Credit Linked Notes issued by Yuanta Asset Management Limited, with unfixed interest income	Short-term investments	-	-	-	1,043,677	-	-	1,147,110	1,000,384	146,726	-	43,293
		Fubon Fu Tai Balanced Fund	Short-term investments	-	-	-	-	10,000	100,000	10,000	100,052	100,000	52	-
	New Light Growth Fund	Short-term investments	-	-	-	-	10,000	100,000	-	-	-	-	10,000	100,000
	Fuhwa Commercial Bank Common Trust Fund	Short-term investments	-	-	-	-	10,000	100,000	-	-	-	-	10,000	100,000
Li-Hsin	<u>Stock</u> Lu-Chu Development Corp.	Long-term investments	-	-	-	-	15,741	157,405	-	-	-	-	15,741	157,405
	<u>Equity</u> KGI Victory Fund	Short-term investments	-	-	-	-	13,026	135,000	13,026	135,235	135,000	235	-	-
Quantum Vision	<u>Stock</u> China Development Financial Holding Corp.	Short-term investments	-	-	4,000	64,069	4,000	71,859	8,000	138,832	135,928	2,904	-	-
	<u>Equity</u> KGI Victory Fund	Short-term investments	-	-	1,469	15,119	14,474	150,000	15,943	165,350	165,119	231	-	-

Note 1: The ending balance included the recognition of the investment income (loss) by the equity method and the adjustment for changes in investees' equities.

Note 2: The ending balance excluded cash dividend.

**POWERCHIP SEMICONDUCTOR CORPORATION**

**ACQUISITION OF INDIVIDUAL REAL ESTATES AT COSTS OF AT LEAST \$100 MILLION OR 20% OF THE PAID-IN CAPITAL  
FOR THE YEAR ENDED DECEMBER 31, 2004  
(Amounts 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 6, 2004- December 24, 2004	\$830,696	\$621,730	Fu Tsu Construction Co., Ltd., etc.	-	-	-	-	\$ -	-	Fab. 12B	-

**POWERCHIP SEMICONDUCTOR CORPORATION**

**DISPOSAL OF INDIVIDUAL REAL ESTATE AT PRICES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL FOR THE YEAR ENDED DECEMBER 31, 2004**

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

Company Name	Types of Properties	Disposal Date	Original Acquisition Date	Carrying Value	Disposal Price	Payment Terms	Gain (Loss) on Disposal	Counter-Party	Nature of Relationship	Purpose of Disposal	Price Reference	Other Terms
Powerchip Semiconductor Corporation	Land	December 30, 2004	February 15, 2000	\$311,510	\$241,500	-	(\$70,010)	Lu-Chu Development Corp.	Investee	Land transfer in payment of long-term investment	Market value and appraisal report (Note 1)	-
Li-Hsin	Land	December 30, 2004	April 30, 2004	50,211	156,715	-	106,504	Lu-Chu Development Corp.	Investee	Land transfer in payment of long-term investment	Market value and appraisal report (Note 2)	-

Note 1: According to the appraisal report, the market value of the land was \$287,571 thousand.

Note 2: According to the appraisal report, the market value of the land was \$186,511 thousand.

## POWERCHIP SEMICONDUCTOR CORPORATION

TOTAL PURCHASE FROM OR SALE TO RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL  
FOR THE YEAR ENDED DECEMBER 31, 2004

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

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	Deutron Electronics Corp.	Investee	Sales	\$ 13,700,591	24	Note 4	-	-	\$ 576,380	15	-
	Novax Technologies, Inc.	Investee	Sales	3,549,282	6	Note 4	-	-	69,152	2	-
	Power Quotient International Co., Ltd. (Note 1)	The Corporation is its director (until April 29, 2003)	Sales	2,161,160	4	Note 3	-	-	68,348	2	-
	Syntronix Corp.	Investee	Sales	116,757	-	Note 5	-	-	2,013	-	-
	Powertech Technology Inc.	Quantum Vision is its director	Note 2	1,549,520	6	Note 6	Note 7	Note 7	(397,608)	(8)	-

Note 1: The companies ceased to be the Corporation's related party as of December 31, 2004; the transactions made as of and for the year ended December 31, 2004 are disclosed only for reference.

Note 2: Subcontract fees.

Note 3: Mainly paid on the 14th day after the month of the shipment is made.

Note 4: Mainly paid on the 45th day after the month of the shipment is made.

Note 5: Mainly paid on the 30th day after the month of the shipment is made.

Note 6: Mainly paid on the 60th day after the month of the shipment is made.

Note 7: Based on contract terms.

**POWERCHIP SEMICONDUCTOR CORPORATION**

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

**DECEMBER 31, 2004**

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

Company Name	Related Party	Nature of Relationship	Ending Balance (Note)	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Bad Debts and Sales Discount
					Amount	Action Taken		
Powerchip Semiconductor Corporation	Deutron Electronics Corp.	Investee	\$ 576,380	33.57	\$ -	-	\$ 588,618	\$ 12,238

Note: Netting values of allowance for bad debts and sales discount.

## POWERCHIP SEMICONDUCTOR CORPORATION

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE  
 FOR THE YEAR ENDED DECEMBER 31, 2004  
 (Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2004			Net Income (Loss) of the Investee	Investment Gain (Loss)	Note
				December 31, 2004	December 31, 2003	Shares (Thousands)	Percentage of Ownership	Carrying Value			
Powerchip Semiconductor Corporation	Quantum Vision Corp.	Taipei, Taiwan	Investment	\$ 1,292,900	\$ 999,900	131,990	99.99%	\$ 1,237,881	\$ (82,194)	\$ (77,463)	-
	Li-Hsin Investment Corp.	Taipei, Taiwan	Investment	1,048,500	788,500	104,850	99.86%	660,053	(1,670)	(35,203)	-
	Paramax Corp.	Taipei, Taiwan	Investment	549,940	299,940	54,994	99.99%	451,109	(49,959)	(49,952)	-
	Lu-Chu Development Corp.	Taipei, Taiwan	Transcation of real estate	242,550	-	24,255	13.21%	242,564	(43)	(5)	-
	Novax Technologies, Inc.	Taipei, Taiwan	Electronic components manufacturing	154,389	70,389	13,050	18.64%	162,438	10,494	588	-
	Syntronix Corp.	Taipei, Taiwan	Design of electronic related products	142,000	102,000	12,700	47.04%	128,293	19,076	13,208	-
	Luxxon Technology Corp.	Taoyuan, Taiwan	Electronic components manufacturing	144,760	40,000	14,476	18.10%	118,139	(138,685)	(26,141)	-
	Deutron Electronics Corp.	Taipei, Taiwan	Electronic components manufacturing	21,300	21,300	2,940	10.29%	115,265	804,522	74,212	-
	Maxium Technologies, Inc.	Taipei, Taiwan	Electronic components manufacturing	91,111	91,111	9,111	30.37%	100,927	20,133	4,820	-
	Deutron Japan Corp.	Japan	Electronic components manufacturing	90,020	-	2,891	38.98%	88,753	(3,052)	(1,285)	-
	Zentel electronics Corp.	Taipei, Taiwan	Design of electronic related products	92,000	47,000	9,200	36.80%	86,670	(8,791)	(3,789)	-
	Telmax Technologies Corp.	Taipei, Taiwan	Electronic components manufacturing	106,045	90,000	10,605	21.21%	81,666	(24,320)	(6,378)	-
	Artrix International Inc.	Taipei, Taiwan	Investment	60,000	-	6,000	30.00%	59,949	(171)	(51)	-
	Tekmax Development Corp.	Taipei, Taiwan	Investment	50,000	-	4,800	16.00%	58,496	55,602	8,233	-
	PowerFlash Semiconductor Corp.	Taipei, Taiwan	Design of electronic related products	41,600	-	4,160	32.00%	40,151	(4,530)	(1,632)	-
	MaxEdge Electronics Corp.	Taoyuan, Taiwan	PCB manufacturing	428,394	406,844	16,414	13.89%	40,116	(684,668)	(92,103)	-
	Smartic Technology Inc.	Taipei, Taiwan	Design of electronic related products	30,000	-	3,000	25.00%	29,410	(2,359)	(590)	-
	Silicon Optronics, Inc.	Hsin-Chu, Taiwan	Electronic components manufacturing	17,000	-	1,700	17.00%	14,672	(13,698)	(2,328)	-
	Synage Technology Corp.	Taipei, Taiwan	Electronic components manufacturing	10,000	10,000	1,000	10.00%	9,623	(14,629)	(1,336)	-
	PowerGate Optical, Inc.	Taipei, Taiwan	Optical components manufacturing	10,000	-	1,000	10.00%	8,127	(18,650)	(1,668)	-