

Powerchip Semiconductor Corporation

**Financial Statements for the
Three Months Ended March 31, 2005 and 2004 and
Independent Accountants' Review Report**

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

The Board of Directors and Shareholders
Powerchip Semiconductor Corporation

We have reviewed the accompanying balance sheets of Powerchip Semiconductor Corporation as of March 31, 2005 and 2004, and the related statements of income and cash flows for the three months then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to issue a report on these financial statements based on our reviews.

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

As stated in Note 6 to the financial statements, we did not review the financial statements for the three months ended March 31, 2005 and 2004 of investees accounted for by the equity method of accounting. The carrying values of those investments as of March 31, 2005 and 2004 amounting to \$3,710,042 thousand and \$2,522,665 thousand, and the related investment net losses for the three months ended March 31, 2005 and 2004 amounting to \$76,730 thousand and \$1,275 thousand, respectively. These investment amounts, as well as related information as disclosed in Note 23 to the financial statements, were based on unreviewed financial statements of the investees for the same period.

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

April 14, 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 accountants' review 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 accountants' review report and financial statements shall prevail.

POWERCHIP SEMICONDUCTOR CORPORATION

BALANCE SHEETS

MARCH 31, 2005 AND 2004

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

(Reviewed, Not Audited)

ASSETS	2005		2004		LIABILITIES AND SHAREHOLDERS' EQUITY	2005		2004	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents (Notes 2 and 3)	\$ 36,135,317	27	\$ 11,760,261	14	Accounts payable (Note 18)				
Short-term investments, net (Notes 2 and 4)	1,968,441	1	1,157,853	1	Related parties	\$ 350,800	-	\$ 306,222	1
Notes and accounts receivable (Notes 2, 18 and 19)					Third parties	4,619,718	4	3,731,853	4
Related parties, net of allowance for doubtful accounts of \$11,916 thousand in 2005 and \$5,114 thousand in 2004 and for sales discount of \$10,500 thousand in 2005	1,155,779	1	494,765	1	Accrued expenses (Notes 2, 18 and 21)	2,213,954	2	1,162,428	1
Third parties, net of allowance for doubtful accounts of \$41,958 thousand in 2005 and \$100,206 thousand in 2004 and for sales discount of \$19,500 thousand in 2005	2,349,095	2	3,695,320	4	Payable on equipment	17,554,357	13	18,029,663	21
Other receivables (Notes 2 and 21)	325,982	-	262,101	-	Convertible bonds payable (Notes 2 and 9)	789,574	-	4,806,721	6
Inventories, net (Notes 2 and 5)	5,140,192	4	3,785,252	5	Current portion of long-term bank loans (Notes 10 and 19)	3,656,667	3	4,414,917	5
Prepaid expenses	146,959	-	160,783	-	Current portion of long-term obligation under capital lease (Notes 2 and 7)	123,833	-	176,450	-
Deferred income tax assets - current (Notes 2 and 15)	1,567,130	1	80,378	-	Current portion of long-term payable on equipment	-	-	1,080,088	1
Pledged time deposits (Note 19)	2,356,027	2	3,398,968	4	Other current liabilities	25,018	-	27,330	-
Other current assets	17,858	-	4,326	-					
Total current assets	<u>51,162,780</u>	<u>38</u>	<u>24,800,007</u>	<u>29</u>	Total current liabilities	<u>29,333,921</u>	<u>22</u>	<u>33,735,672</u>	<u>39</u>
LONG-TERM INVESTMENTS (Notes 2 and 6)					LONG-TERM LIABILITIES				
Equity method	3,710,042	3	2,522,665	3	Convertible bonds payable (Notes 2 and 9)	10,028,117	7	-	-
Cost method	826,538	1	899,909	1	Long-term bank loans, net of current portion (Notes 10 and 19)	17,452,069	13	9,575,275	11
Prepayments	64,101	-	117,770	-	Long-term obligation under capital lease, net of current portion (Notes 2 and 7)	-	-	123,750	-
Bond	274,975	-	274,675	-					
Total long-term investments	<u>4,875,656</u>	<u>4</u>	<u>3,815,019</u>	<u>4</u>	Total long-term liabilities	<u>27,480,186</u>	<u>20</u>	<u>9,699,025</u>	<u>11</u>
PROPERTIES (Notes 2, 7, 18 and 19)					OTHER LIABILITIES				
Cost					Accrued pension cost (Notes 2 and 11)	60,262	-	41,880	-
Buildings	6,358,474	5	6,475,232	8	Guarantee deposits	5,613	-	3,491	-
Machinery and equipment	83,702,482	62	63,325,673	73	Deferred income tax liabilities - noncurrent (Notes 2 and 15)	232,529	-	-	-
Research and development equipment	332,500	-	94,005	-					
Facility equipment	11,783,825	9	10,923,414	13	Total other liabilities	<u>298,404</u>	<u>-</u>	<u>45,371</u>	<u>-</u>
Transportation equipment	18,722	-	18,334	-					
Office equipment	329,907	-	279,411	-	Total liabilities	<u>57,112,511</u>	<u>42</u>	<u>43,480,068</u>	<u>50</u>
Equipment under capital lease	761,708	1	761,708	1	SHAREHOLDERS' EQUITY (Notes 12 and 13)				
Miscellaneous equipment	548,793	-	397,785	-	Capital stock, \$10 par value				
	103,836,411	77	82,275,562	95	Authorized -5,500,000 thousand shares in 2005 and 4,329,571 thousand shares in 2004	41,792,449	31	34,880,015	40
Accumulated depreciation	(46,772,881)	(35)	(34,862,966)	(40)	Issued - 4,179,245 thousand shares in 2005 and 3,488,002 thousand shares in 2004				
	57,063,530	42	47,412,596	55	Capital surplus (Note 2)				
Construction in progress	845,736	1	747	-	Paid-in capital in excess of par value	9,759,530	7	3,904,806	5
Advance payments	16,555,934	12	4,922,840	6	Arising from long-term investments	17,998	-	14,428	-
Net properties	<u>74,465,200</u>	<u>55</u>	<u>52,336,183</u>	<u>61</u>	Arising from conversion of bonds	3,395,732	3	1,722,911	2
OTHER ASSETS					Appropriation for legal reserve	1,308	-	-	-
Assets leased to others, net (Note 2)	174,140	-	-	-	Unappropriated earnings	23,370,923	17	3,238,386	4
Refundable deposits	23,443	-	22,810	-	Cumulative translation adjustments (Note 2)	(5,044)	-	874	-
Deferred charges, net (Notes 2, 8, 18 and 20)	4,057,845	3	2,394,248	3	Treasury stock (Notes 2 and 14)	(302,725)	-	(998,618)	(1)
Deferred income tax assets - noncurrent (Notes 2 and 15)	-	-	2,260,764	3					
Land (Notes 6 and 19)	-	-	311,510	-	Total shareholders' equity	<u>78,030,171</u>	<u>58</u>	<u>42,762,802</u>	<u>50</u>
Spare parts, net	374,758	-	294,503	-					
Others	8,860	-	7,826	-	TOTAL	<u>\$ 135,142,682</u>	<u>100</u>	<u>\$ 86,242,870</u>	<u>100</u>
Total other assets	<u>4,639,046</u>	<u>3</u>	<u>5,291,661</u>	<u>6</u>					
TOTAL	<u>\$ 135,142,682</u>	<u>100</u>	<u>\$ 86,242,870</u>	<u>100</u>					

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

(With Deloitte & Touche review report dated April 14, 2005)

POWERCHIP SEMICONDUCTOR CORPORATION

STATEMENTS OF INCOME FOR THE THREE MONTHS ENDED MARCH 31, 2005 AND 2004 (In Thousands of New Taiwan Dollars, Except Earnings Per Share) (Reviewed, Not Audited)

	2005		2004	
	Amount	%	Amount	%
GROSS SALES	\$ 13,543,349		\$ 10,707,230	
SALES RETURNS AND ALLOWANCES	<u>787,995</u>		<u>170,996</u>	
NET SALES (Notes 2 and 18)	12,755,354	100	10,536,234	100
COST OF SALES (Notes 16 and 18)	<u>9,334,708</u>	<u>73</u>	<u>6,844,323</u>	<u>65</u>
GROSS PROFIT BEFORE REALIZED INTERCOMPANY GROSS PROFIT	3,420,646	27	3,691,911	35
REALIZED INTERCOMPANY PROFIT (Note 2)	<u>4,827</u>	<u>-</u>	<u>-</u>	<u>-</u>
GROSS PROFIT	<u>3,425,473</u>	<u>27</u>	<u>3,691,911</u>	<u>35</u>
OPERATING EXPENSES (Note 16)				
Selling	74,423	1	45,228	-
General and administrative	569,557	4	219,296	2
Research and development (Note 18)	<u>375,885</u>	<u>3</u>	<u>179,637</u>	<u>2</u>
Total operating expenses	<u>1,019,865</u>	<u>8</u>	<u>444,161</u>	<u>4</u>
OPERATING INCOME	<u>2,405,608</u>	<u>19</u>	<u>3,247,750</u>	<u>31</u>
NONOPERATING INCOME AND GAIN				
Reversal of allowance for decline in value of short-term investments (Note 2)	345,566	3	-	-
Interest (Note 2)	129,623	1	16,512	-
Gain on disposal of properties (Note 2)	12,506	-	3,168	-
Gain on sales of investments, net (Note 2)	-	-	149,978	2
Foreign exchange gain, net (Notes 2 and 21)	-	-	100,530	1
Other	<u>43,193</u>	<u>-</u>	<u>9,862</u>	<u>-</u>
Total nonoperating income and gain	<u>530,888</u>	<u>4</u>	<u>280,050</u>	<u>3</u>
NONOPERATING EXPENSES AND LOSSES				
Provision for loss on inventories and spare parts (Note 2)	316,985	2	10,641	-
Interest (Notes 2, 7 and 21)	151,614	1	136,590	2
Investment loss recognized by equity method, net (Notes 2 and 6)	76,730	1	1,275	-
Loss on sales of investments, net (Note 2)	62,741	1	-	-
Loss on disposal of properties (Note 2)	29,141	-	-	-
Foreign exchange loss, net (Notes 2 and 21)	14,842	-	-	-

(Continued)

	2005		2004	
	Amount	%	Amount	%
Impairment loss on long-term investments (Note 2)	\$ -	-	\$ 5,000	-
Other	<u>12,283</u>	<u>-</u>	<u>17,259</u>	<u>-</u>
Total nonoperating expenses and losses	<u>664,336</u>	<u>5</u>	<u>170,765</u>	<u>2</u>
INCOME BEFORE INCOME TAX	2,272,160	18	3,357,035	32
INCOME TAX EXPENSE (Notes 2 and 15)	<u>(102,386)</u>	<u>(1)</u>	<u>(129,395)</u>	<u>(1)</u>
NET INCOME	<u>\$ 2,169,774</u>	<u>17</u>	<u>\$ 3,227,640</u>	<u>31</u>
	2005		2004	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS PER SHARE (Note 17)				
Basic earnings per share	<u>\$ 0.55</u>	<u>\$ 0.52</u>	<u>\$ 0.99</u>	<u>\$ 0.95</u>
Diluted earnings per share	<u>\$ 0.50</u>	<u>\$ 0.47</u>	<u>\$ 0.87</u>	<u>\$ 0.84</u>

The pro forma net income and earnings 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:

	2005		2004	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
NET INCOME	<u>\$ 2,167,143</u>	<u>\$ 2,167,143</u>	<u>\$ 3,268,114</u>	<u>\$ 3,268,114</u>
	2005		2004	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS PER SHARE				
Basic earnings per share	<u>\$ 0.55</u>	<u>\$ 0.52</u>	<u>\$ 1.00</u>	<u>\$ 0.96</u>
Diluted earnings per share	<u>\$ 0.49</u>	<u>\$ 0.47</u>	<u>\$ 0.88</u>	<u>\$ 0.85</u>

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

(With Deloitte & Touche review report dated April 14, 2005)

(Concluded)

POWERCHIP SEMICONDUCTOR CORPORATION

STATEMENTS OF CASH FLOWS FOR THE THREE MONTHS ENDED MARCH 31, 2005 AND 2004 (In Thousands of New Taiwan Dollars) (Reviewed, Not Audited)

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 2,169,774	\$ 3,227,640
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	3,373,767	2,469,506
Amortization	315,456	181,680
Realized intercompany profit	(4,827)	-
Reversal of allowance for decline in value of short-term investments	(345,566)	-
Provision (reversal of allowance) for bad debts	6,039	(10,665)
Provision for loss on inventories and spare parts	316,985	10,641
Investment loss recognized by equity method, net	76,730	1,275
Impairment loss on long-term investments	-	5,000
Cash dividends from long-term investments under equity method	-	8,400
Amortization of discount on long-term bond investments	(75)	(75)
Loss (gain) on disposal of properties, net	16,635	(3,168)
Deferred income tax expense	97,868	128,825
Amortization of discount on commercial paper issued	868	2,658
Foreign exchange gain from convertible bonds payable	(124,443)	(164,357)
Foreign exchange loss (gain) from long-term bank loans	47,520	(87,041)
Issuance costs of the early redeemed convertible bonds	-	305
Changes in operating assets and liabilities:		
Notes and accounts receivable	392,365	(1,358,757)
Other receivables	(41,827)	(64,816)
Inventories	(331,120)	(220,968)
Prepaid expenses	42,824	28,645
Forward contract receivable	147,725	93,509
Other current assets	(6,758)	(1,927)
Accounts payable	(27,052)	526,923
Accrued expenses	(383,370)	(89,711)
Other current liabilities	(1,275)	11,213
Accrued pension cost	8,743	4,053
Net cash provided by operating activities	<u>5,746,986</u>	<u>4,698,788</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease (increase) in short-term investments	(576,270)	264,577
Increase in pledged time deposits	(232,810)	(332,954)
Acquisition of		
Properties	(11,350,187)	(3,991,984)
Deferred charges	(673,080)	(900,237)
Long-term investments	(105,091)	(369,110)
Proceeds from sales of properties	196,859	3,695

(Continued)

	2005	2004
Decrease in spare parts	\$ 28,799	\$ 1,516
Increase in refundable deposits	<u>(16)</u>	<u>(735)</u>
Net cash used in investing activities	<u>(12,711,796)</u>	<u>(5,325,232)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in short-term bank borrowings	-	(582,500)
Proceeds from		
Issuance of convertible bonds	5,098,080	-
Long-term bank loans	4,000,000	2,000,000
Exercise of employee stock option	110,474	493,116
Sales of treasury stock	181,746	1,734
Repayments of long-term bank loans	(1,274,406)	(846,433)
Redemption of convertible bonds	-	(16,635)
Increase in guarantee deposits	41	40
Decrease in obligation under capital lease	<u>(41,277)</u>	<u>(50,033)</u>
Net cash provided by financing activities	<u>8,074,658</u>	<u>999,289</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,109,848	372,845
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>35,025,469</u>	<u>11,387,416</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 36,135,317</u>	<u>\$ 11,760,261</u>
SUPPLEMENTAL INFORMATION		
Interest paid (excluding amounts capitalized of \$25,656 thousand in 2005 and \$30,333 thousand in 2004)	<u>\$ 150,478</u>	<u>\$ 172,233</u>
Income tax paid	<u>\$ 13,599</u>	<u>\$ 2,080</u>
Cash paid for acquisition of properties		
Total acquisition	\$ 14,188,278	\$ 7,226,540
Payable, beginning of period	14,716,266	15,875,195
Payable, end of period	<u>(17,554,357)</u>	<u>(19,109,751)</u>
	<u>\$ 11,350,187</u>	<u>\$ 3,991,984</u>
NONCASH INVESTING AND FINANCING ACTIVITIES		
Current portion of long-term liabilities	<u>\$ 3,780,500</u>	<u>\$ 5,671,455</u>
Transfer of long-term investments to short-term investments	<u>\$ 79,504</u>	<u>\$ 36,455</u>
Conversion of bonds	<u>\$ 120,482</u>	<u>\$ 1,090,750</u>
Reclassification of properties to deferred charges	<u>\$ 935</u>	<u>\$ -</u>

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

(With Deloitte & Touche review report dated April 14, 2005)

(Concluded)

POWERCHIP SEMICONDUCTOR CORPORATION

NOTES TO FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2005 AND 2004 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise) (Reviewed, Not Audited)

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 March 31, 2005 and 2004, the Corporation had 4,062 and 2,965 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 translation 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, convertibles bonds and mutual funds. Bonds purchased under resale agreements are stated at cost. Costs of bonds 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 value 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, except for the financial statements as of and for the periods ended March 31 and September 30, where the Corporation only accounts for its investment income or loss when it holds a controlling interest in the investee companies. 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 stockholders' 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. The entire amount of the gains on sales to subsidiaries is deferred until such gains are realized through the subsequent sales of the related products to third parties.

Properties and Assets Leased to Others

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

Depreciation is calculated using the straight-line method over service lives which are initially estimated as follows: buildings, 3 to 20 years; machinery and equipment, 2 to 5 years; research and development equipment, 2 to 5 years; facility equipment, 3 to 15 years; transportation equipment, 5 years; office equipment, 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.

When an indication of significant impairment is determined, any excess of the carrying amount of an asset over its recoverable amount is recognized as a loss. If the recoverable amount increases in the future period, the subsequent reversal of the impairment loss would be recognized as a gain. However, the increased carrying amount of an asset due to reversal of an impairment loss should not exceed the carrying amount that would have been determined (net of depreciation), had no impairment loss been recognized for the assets in prior years.

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

Properties covered by agreements qualifying as capital leases are carried at the lower of 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.

When an indication of significant impairment is determined, any excess of the carrying amount of an asset over its recoverable amount is recognized as a loss. If the recoverable amount increases in the future period, the subsequent reversal of the impairment loss would be recognized as a gain. However, the increased carrying amount of an asset due to reversal of an impairment loss should not exceed the carrying amount that would have been determined (net of amortization), had no impairment loss been recognized for the assets in prior years.

Convertible Bonds

The 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 of the Republic of China. 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 period of conversion or settlement. At period-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 equity method - as cumulative translation adjustments under shareholders' equity.
- b. Long-term investments accounted for by the cost method - as cumulative translation adjustments (same as above) if the translated New Taiwan dollar amount is lower than cost; if higher, no adjustment is made.
- c. Other assets and liabilities - credited or charged to current income.

Derivative Financial Instruments

Forward exchange 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.

At period 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 period-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.

Reclassification

Certain accounts in the financial statements as of and for the three months ended March 31, 2004 have been reclassified to conform to the financial statements as of and for the three months ended March 31, 2005.

3. CASH AND CASH EQUIVALENTS

	<u>March 31</u>	
	<u>2005</u>	<u>2004</u>
Time deposits	\$ 29,729,941	\$ 8,389,488
Commercial paper purchased	6,074,278	2,013,174
Demand deposits	325,674	834,664
Checking accounts	5,304	522,815
Cash on hand	<u>120</u>	<u>120</u>
	<u>\$ 36,135,317</u>	<u>\$ 11,760,261</u>

Bank deposits with the amount of US\$2,594 thousand and JPY124,142 thousand had been deposited in banks in Luxembourg and Japan, respectively, as of March 31, 2005, while the amount of US\$2,564 thousand and US\$1 thousand as of March 31, 2004 had been deposited in banks in Luxembourg and Hong Kong, respectively.

4. SHORT-TERM INVESTMENTS

	<u>March 31</u>	
	<u>2005</u>	<u>2004</u>
Listed stocks	\$ 1,738,813	\$ 712,778
Beneficiary certificates		
Mutual funds	100,000	15,012
Credit-linked notes with unfixed interest income	-	302,013
Bonds purchased under resale agreements	200,668	128,050
Convertible bonds	<u>5,000</u>	<u>-</u>
	2,044,481	1,157,853
Allowance for decline in value	<u>(76,040)</u>	<u>-</u>
	<u>\$ 1,968,441</u>	<u>\$ 1,157,853</u>

The market values of mutual funds and credit-linked notes with unfixed interest income as of March 31, 2005 and 2004 were \$100,337 thousand and \$401,598 thousand, respectively, based on their net asset value as of March 31. The market value of listed stocks and convertible bonds as of March 31, 2005 and 2004 were \$1,667,436 thousand and \$755,569 thousand, respectively, based on average closing price of listed stocks and convertible bonds in March. Bonds as of March 31, 2005 and 2004 were contracted to be resold for \$201,223 thousand and \$127,169 thousand before April 7, 2005 and April 22, 2004, respectively.

The listed stocks above with carrying amount of \$20,119 thousand as of March 31, 2005 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>March 31</u>	
	<u>2005</u>	<u>2004</u>
Finished goods	\$ 692,612	\$ 297,224
Work in process	3,761,871	2,840,023
Materials and supplies	<u>1,125,606</u>	<u>740,032</u>
	5,580,089	3,877,279
Allowance for losses	<u>(439,897)</u>	<u>(92,027)</u>
	<u>\$ 5,140,192</u>	<u>\$ 3,785,252</u>

6. LONG-TERM INVESTMENTS

	<u>March 31</u>			
	<u>2005</u>		<u>2004</u>	
	Amount	% of Owner- ship	Amount	% of Owner- Ship
<u>Investment in shares of stock</u>				
Equity method				
Quantum Vision Corp.	\$ 1,191,097	99.99	\$ 1,101,850	99.99
Li-Hsin Investment Corp.	655,553	99.86	557,749	99.83
Paramax Corp.	431,194	99.99	264,553	99.98
Lu-Chu Development Corp.	242,564	13.21	-	-
Novax Technologies, Inc.	162,438	18.64	74,458	12.10
Syntronix Corp.	127,150	47.04	68,992	51.00
Luxxon Technology Corp.	118,139	18.10	38,277	20.00
Deutron Electronics Corp.	115,265	10.29	41,317	10.29
Synage Technology Corp.	101,101	20.17	-	-
Maxium Technologies, Inc.	100,927	30.37	96,438	30.37
Deutron Japan Corp.	85,250	38.98	-	-
Zentel Electronics Corp.	84,236	36.80	42,065	47.00
Artrix International Inc.	65,949	24.00	-	-
Tekmax Development Corp.	58,496	16.00	28,000	14.00
MaxEdge Electronics Corp.	40,116	13.89	115,242	13.18
PowerFlash Semiconductor Corp.	38,857	32.00	-	-
Zhi-Li Investment Corp.	35,000	35.00	-	-
Smartic Technology Inc.	29,410	25.00	-	-
Silicon Optronics, Inc.	14,672	12.14	-	-
PowerGate Optical, Inc.	8,127	10.00	10,000	10.00
Terax Communication Technologies Inc.	4,501	1.62	-	-
Telmax Technologies Corp.	-	-	72,765	20.45
Synage Technology Corp.(eliminated)	-	-	<u>10,959</u>	10.00
	<u>3,710,042</u>		<u>2,522,665</u>	

(Continued)

	March 31			
	2005		2004	
	Amount	% of Owner- ship	Amount	% of Owner- Ship
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
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	5,000	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
Venglobal Capital Fund L.P.	16,169	5.18	16,590	5.18
EUDAR Technology Inc.	15,420	2.20	16,800	2.20
Lightsonic Optoelectronics Inc.	12,252	1.83	19,050	1.83
Area East Technology Corp.	11,692	19.97	13,000	19.97
Venglobal International Fund	11,591	2.83	11,217	2.83
e-Phocus, Inc. Series A - preferred shares	10,510	33.33	-	-
Taiwan Liposome Co., Ltd.	9,000	2.39	9,000	2.39
CDIB High Tech Investment Inc.	9,000	2.11	18,000	2.11
Miluku Entertainment Corp.	5,000	1.80	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
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
Ardentec Corp.	-	-	60,580	2.45
Power Memory International Co., Ltd.	-	-	58,500	6.57
A-DATA Technologies Co., Ltd.	-	-	22,000	0.66
Emerging Memory & Logic Solution Incorporation	-	-	18,924	1.40
Terax Communication Technologies Inc.	-	-	9,000	1.94
	<u>826,538</u>		<u>899,909</u>	
Prepayments				
Luxxon Technology Corp.	32,571		54,000	
e-Phocus, Inc. Series B - preferred shares	31,530		-	
Actrans System Inc.	-		23,760	
Silicon Optronics, Inc.	-		17,000	

(Continued)

	March 31			
	2005		2004	
	Amount	% of Owner- ship	Amount	% of Owner- Ship
MaxEdge Electronics Corp.	\$ -		\$ 11,550	
e-Phocus, Inc. Series A - preferred shares	-		11,460	
	<u>64,101</u>		<u>117,770</u>	
<u>Investment in bonds</u>				
Veutron Corp. (named UMAX Data System Inc. before) - issued in 2002 (I)	89,975		89,675	
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>274,975</u>		<u>274,675</u>	
	<u>\$ 4,875,656</u>		<u>\$ 3,815,019</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. The payment of such capital increase subscribed by the Corporation and its subsidiaries was settled partially through land transferred as the payment. As of March 31, 2005, the Corporation and its subsidiaries owned 22 % of Lu-Chu Development Corp. Thus, this investment was accounted for by the equity method.

As of March 31, 2005 and 2004, the Corporation and its subsidiaries owned 43% and 34% of Novax Technologies, Inc., respectively. Thus, this investment was accounted for by the equity method.

As of March 31, 2005, the Corporation and its subsidiaries owned 31% of Luxxon Technology Corp. Thus, this investment was accounted for by the equity method.

As of March 31, 2005 and 2004, the Corporation and its subsidiaries owned 23% and 22% of Deutron Electronics Corp., respectively. Thus, this investment was accounted for by the equity method.

As of March 31, 2005 and 2004, the Corporation and its subsidiaries owned 32% and 28% of Tekmax Development Corp., respectively. Thus, this investment was accounted for by the equity method.

As of March 31, 2005 and 2004, the Corporation and its subsidiaries owned 47% and 43% of MaxEdge Electronics Corp., respectively. Thus, this investment was accounted for by the equity method.

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

As of March 31, 2005, the Corporation and its subsidiaries owned 22% of Silicon Optronics, Inc. Thus, this investment was accounted for by the equity method.

As of March 31, 2005, the Corporation and its subsidiaries owned 45% of Synage Technology Corp. Thus, this investment was accounted for by the equity method.

In January 2005, Telmax Technologies Corp. and Synage Technology Corp. combined to form a new company, also named "Synage Technology Corp." as a result of their related capital restructuring. As of March 31, 2005, the Corporation owned 20% of Synage Technology Corp. Thus, this investment was accounted for by the equity method.

As of March 31, 2005 and 2004, the Corporation and its subsidiaries owned 30% of PowerGate Optical, Inc., respectively. Thus, this investment was accounted for by the equity method.

Investment income (loss) which were recognized based on unreviewed financial statements are summarized as follows:

	For the Three Months Ended March 31	
	2005	2004
Quantum Vision Corp.	\$ (46,728)	\$ (4,951)
Li-Hsin Investment Corp.	(4,500)	3,476
Paramax Corp.	(19,915)	2,228
Syntronix Corp.	(1,143)	481
Zentel Electronics Corp.	(2,188)	(2,509)
PowerFlash Semiconductor Corp.	(1,294)	-
Terax Communication Technologies Inc.	(962)	-
	<u>\$ (76,730)</u>	<u>\$ (1,275)</u>

The Corporation did not have a controlling interest in Terax Communication Technologies Inc., Telmax Technologies Corp. and Synage Technology Corp. (eliminated) as of March 31, 2004, as well as Lu-Chu Development Corp., Novax Technologies, Inc., Luxxon Technology Corp., Deutron Electronics Corp., Synage Technology Corp., Maxium Technologies, Inc., Deutron Japan Corp., Artrix International Inc., Tekmax Development Corp., MaxEdge Electronics Corp., Zhi-Li Investment Corp., Smartic Technology Inc., Silicon Optronics, Inc. and PowerGate Optical, Inc. as of March 31, 2005 and 2004; accordingly, the Corporation did not account for its investment income or loss for the period.

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

	March 31	
	2005	2004
Cost method		
Powertech Technology Inc.	\$ 549,103	\$ 439,043
Optimax Technology Corp.	<u>373,197</u>	<u>617,873</u>
	<u>\$ 922,300</u>	<u>\$ 1,056,916</u>

7. PROPERTIES

Accumulated depreciation on properties consisted of the following:

	<u>March 31</u>	
	<u>2005</u>	<u>2004</u>
Buildings	\$ 1,596,334	\$ 1,314,020
Machinery and equipment	37,094,824	27,046,999
Research and development equipment	158,814	70,196
Facility equipment	7,112,715	5,939,273
Transportation equipment	6,904	10,037
Office equipment	206,789	156,277
Equipment under capital lease	300,241	171,459
Miscellaneous equipment	<u>296,260</u>	<u>154,705</u>
	<u>\$ 46,772,881</u>	<u>\$ 34,862,966</u>

Total depreciation expenses for the three months ended March 31, 2005 and 2004 were \$3,369,535 thousand and \$2,469,506 thousand, respectively. Interest expenses, including amounts capitalized of \$25,656 thousand and \$30,333 thousand, for the three months ended March 31, 2005 and 2004 were \$177,270 thousand and \$166,923 thousand, respectively. The rates used in capitalizing the interests for the three months ended March 31, 2005 and 2004 were 3.60%-3.77% and 4.55%-4.62%, 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 March 31, 2005, a total cost of \$13,011,852 thousand had been incurred.

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:

Year	Amount
2005	\$ 127,463
Implicit interest	<u>(3,630)</u>
	<u>\$ 123,833</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 19.

8. DEFERRED CHARGES, NET

	<u>March 31</u>	
	<u>2005</u>	<u>2004</u>
Technical know-how	\$ 3,469,425	\$ 1,824,028
Test-run costs	169,882	235,643
Computer software system	120,072	166,378
Issuance costs of the convertible bonds	89,116	71,870
Patent	23,750	-
Others	<u>185,600</u>	<u>96,329</u>
	<u>\$ 4,057,845</u>	<u>\$ 2,394,248</u>

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

9. CONVERTIBLE BONDS PAYABLE

	<u>March 31</u>	
	<u>2005</u>	<u>2004</u>
Issued in 2001 - (Bonds 2001)		
US\$19,955 thousand in 2005 and US\$40,755 thousand in 2004	\$ 629,181	\$ 1,345,730
Issued in 2003 - (Bonds 2003A)		
US\$11,420 thousand	-	377,088
Issued in 2003 - (Bonds 2003B)		
US\$5,087 thousand in 2005 and US\$93,395 thousand in 2004	160,393	3,083,903
Issued in 2004 - (Bonds 2004)		
US\$158,050 thousand	4,983,317	-
Issued in 2005 - (Bonds 2005)		
US\$160,000 thousand	<u>5,044,800</u>	<u>-</u>
	10,817,691	4,806,721
Current portion	<u>(789,574)</u>	<u>(4,806,721)</u>
	<u>\$ 10,028,117</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 March 31, 2005) 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 March 31, 2005, some of the holders of Bonds 2001 exercised their put option, requiring the Corporation to spend US\$131,775 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\$34,120 thousand had requested to convert these bonds into 48,400 thousand common shares, which had all been issued.

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 March 31, 2005, 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 principle 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 March 31, 2005) 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 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 March 31, 2005, holders of Bonds 2003B with principal amount of US\$104,913 thousand had requested to convert these bonds into 199,942 thousand common shares, which had all been issued.

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 March 31, 2005) between July 17, 2004 and May 18, 2009 and will mature on June 17, 2009. At the holders’ option, Bonds 2004 may also be repurchased on June 17, 2006 at 100% of their principal 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 and the current rate is NT\$26.62 per share as of March 31, 2005) 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 at 100% of their principal amount. Under certain conditions, either the holders of Bonds 2005 or the Corporation may opt for early bond redemption.

10. LONG-TERM BANK LOANS

	March 31	
	2005	2004
Long-term secured syndicated loans (1) U.S. dollars - US\$56,250 thousand	\$ -	\$ 1,857,375
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	2,000,000
Long-term secured syndicated loans (5) New Taiwan dollars	9,000,000	-
Medium to long-term loans (including commercial paper issued) New Taiwan dollars	<u>1,934,167</u>	<u>1,408,333</u>
	21,109,167	13,990,708
Current portion	(3,656,667)	(4,414,917)
Unamortized discount of commercial paper issued	<u>(431)</u>	<u>(516)</u>
	<u>\$ 17,452,069</u>	<u>\$ 9,575,275</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 2.69% to 5.57% and from 2.00% to 6.70% for the three months ended March 31, 2005 and 2004, 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 details of assets pledged as collateral are shown in Note 19.

11. 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.

Pension costs based on actuarial calculation for the three months ended March 31, 2005 and 2004 were \$19,638 thousand and \$12,037 thousand, respectively.

The balances of the Fund were \$188,477 thousand and \$149,262 thousand as of March 31, 2005 and 2004, respectively.

The Labor Pension Act will be effective beginning July 1, 2005 and this pension mechanism is deemed a defined contribution plan. The employees who were subject to the Labor Standards Law prior to the enforcement of this Act may choose to be subject to the pension mechanism under this Act or may continue to be subject to the pension mechanism under the Labor Standards Law. For those employees who were subject to the Labor Standards Law prior to July 1, 2005 and still work for the same company after July 1, 2005 and choose to be subject to the pension mechanism under this Act, their seniority as of July 1, 2005 shall be maintained. The rate of contribution by an employer to the Labor Pension Fund per month shall not be less than 6% of each employee's monthly salary or wage.

12. SHAREHOLDERS' EQUITY

Under the ROC Company Law, capital surplus (excluding amounts arising from long-term investments which can not be used in any way) may only be used to offset a deficit or be transferred to capital as a stock dividend 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 appropriations of earnings for 2004 and 2003 were approved in the shareholders' meeting on April 12, 2005 and April 27, 2004, respectively. The appropriations and dividend per share are as follows:

	<u>Appropriation of Earnings</u>		<u>Dividend Per Share</u> (NT\$)	
	<u>For Fiscal</u> <u>Year 2004</u>	<u>For Fiscal</u> <u>Year 2003</u>	<u>For Fiscal</u> <u>Year 2004</u>	<u>For Fiscal</u> <u>Year 2003</u>
Legal reserve	\$ 2,131,508	\$ 1,308	\$ -	\$ -
Special reserve	252	-	-	-
Common stock dividend - in cash	4,167,245	-	1	-
Common stock dividend - in stock	8,334,490	-	2	-
Bonus paid to employees - in cash	639,837	-	-	-
Bonus paid to employees - in stock	1,279,673	-	-	-
Remuneration to directors and supervisors - in cash	<u>575,853</u>	<u>-</u>	-	-
	<u>\$ 17,128,858</u>	<u>\$ 1,308</u>		

The appropriation of stock dividends and stock bonuses to employees contributes a total amount of \$9,614,163 thousand in the form of capital stock, resulting in the aggregate issued capital to be increased to \$51,406,612 thousand. The aforementioned capital increase is in the process for the approval of Securities and Futures Bureau (SFB). Also, the shareholders of the Corporation resolved to raise total capital amount to \$75,000,000 thousand and approved the issuance of no more than 600,000 thousand shares of capital stock in the form of either common shares or GDS.

On April 12, 2005, the Board of Directors approved the issuance of two domestic unsecured convertible bonds in the amounts of no more than \$4,000,000 thousand and \$6,000,000 thousand, respectively. Also, the Board of Directors approved the issuance of no more than 300,000 thousand shares of common shares. Such planned issuances will be implemented after getting SFB's approval.

13. 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 March 31, 2005, 119,969 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>	
	Number of Outstanding Stock Option Rights	Weighted-average Exercise Prices (NT\$/Per Share)	Number of Outstanding Stock Option Rights	Weighted-average Exercise Price (NT\$/Per Share)	Number of Outstanding Stock Option Rights	Weighted-average Exercise Prices (NT\$/Per Share)
<u>Three months ended March 31, 2005</u>						
Beginning balance	111,090	\$ 8.27	87,527	\$10.75	55,132	\$17.48
Options granted	-	-	-	-	-	-
Options exercised	-	-	(4,893)	10.75	(3,322)	17.42
Options cancelled	<u>(491)</u>	7.95	<u>(555)</u>	10.75	<u>(368)</u>	17.40
Ending balance	<u>110,599</u>		<u>82,079</u>		<u>51,442</u>	
<u>Three months ended March 31, 2004</u>						
Beginning balance	112,406	\$ 8.13	135,123	\$10.75	120,596	\$17.45
Options granted	770	20.89	-	-	-	-
Options exercised	-	-	-	-	(28,340)	17.40
Options cancelled	<u>(1,345)</u>	7.95	<u>(931)</u>	10.75	<u>(593)</u>	17.40
Ending balance	<u>111,831</u>		<u>134,192</u>		<u>91,663</u>	

As of March 31, 2005, the information about the outstanding stock options is as follows:

Exercise Price	<u>Options Outstanding</u>			<u>Options Exercisable</u>	
	Number Outstanding (Per Option)	Weighted Average Remaining Contractual Life (in Years)	Weighted Average Exercise Price (Per Share)	Number Exercisable (Per Option)	Weighted Average Exercise Price (Per Share)
\$17.40	49,937	2.32	\$17.40	20,307	\$17.40
22.20	765	2.99	22.20	512	22.20
18.60	740	3.13	18.60	240	18.60
10.75	82,079	3.49	10.75	15,598	10.75
7.95	106,879	4.08	7.95	-	-
15.20	1,200	4.25	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	4.34	\$17.70	-	\$ -
14.40	1,020	4.54	14.40	-	-
14.50	250	4.65	14.50	-	-
17.80	550	4.77	17.80	-	-
28.20	220	4.99	28.20	-	-
35.80	<u>200</u>	5.06	35.80	-	-
	<u>244,120</u>			<u>36,657</u>	

In accordance with the interpretations issued by Accounting Research and Development Foundation of the Republic of China, 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 three months ended March 31, 2005 and 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 the employee stock options granted, the assumptions and pro forma results of the Corporation for the three months ended March 31, 2005 and 2004 is as follows:

	Three Months Ended March 31, 2004	
Method:	Black-Scholes model	
Assumptions:		
Risk-free interest rate	3.86%	
Expected life (in years)	6	
Expected stock price volatility	89.37%-92.16%	
Expected dividend yield	-	
Fair value per option (NT\$/thousand shares)	<u>\$13,535-\$21,648</u>	
	Three Months Ended March 31	
	2005	2004
Net income:		
Net income as reported	<u>\$ 2,169,774</u>	<u>\$ 3,227,640</u>
Pro forma net income	<u>\$ 2,168,044</u>	<u>\$ 3,226,903</u>
Earnings per share(EPS):		
Basic EPS as reported	<u>\$0.52</u>	<u>\$0.95</u>
Pro forma basic EPS	<u>\$0.52</u>	<u>\$0.95</u>
Diluted EPS as reported	<u>\$0.47</u>	<u>\$0.84</u>
Pro forma diluted EPS	<u>\$0.47</u>	<u>\$0.84</u>

14. TREASURY STOCK

(Shares in Thousands)

Purpose of Purchase	Beginning Shares	Increase	Decrease	Ending Shares
<u>Three months ended March 31, 2005</u>				
For subsequent transfer to employees	45,069	-	33,069	12,000
Parent's issued shares held by subsidiaries	<u>3,334</u>	<u>-</u>	<u>-</u>	<u>3,334</u>
	<u>48,403</u>	<u>-</u>	<u>33,069</u>	<u>15,334</u>
<u>Three months ended March 31, 2004</u>				
For subsequent transfer to employees	46,614	-	200	46,414
Parent's issued shares held by subsidiaries	<u>3,334</u>	<u>-</u>	<u>-</u>	<u>3,334</u>
	<u>49,948</u>	<u>-</u>	<u>200</u>	<u>49,748</u>

For the three months ended March 31, 2005 and 2004, the Corporation transferred 7,321 thousand and 200 thousand shares of treasury stock to employees at prices of \$24.9 per share and \$8.7 per share, respectively. 25,748 thousand shares of treasury stock were retired on March 15, 2005.

As of March 31, 2005 and 2004, 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 \$83,951 thousand and \$93,584 thousand; the market values were \$83,951 thousand and \$93,584 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 surplus. However, the subsidiaries holding the corporation's issued shares retain shareholders' rights and privileges on these shares, except for the right to subscribe to capital increase.

15. INCOME TAX EXPENSE

- a. A reconciliation of income tax currently payable for the three months ended March 31, 2005 and 2004 is as follows:

	<u>Three Months Ended March 31</u>	
	<u>2005</u>	<u>2004</u>
Tax on pretax income at statutory rate (25%)	\$ 568,040	\$ 839,259
Permanent differences		
Tax-exempt income	(97,267)	(112,775)
Others	(54,240)	(18,190)
Temporary differences	<u>(297,899)</u>	<u>(300,566)</u>
Income tax currently payable	<u>\$ 118,634</u>	<u>\$ 407,728</u>

b. Income tax expense for the three months ended March 31, 2005 and 2004 consisted of:

	Three Months Ended March 31	
	2005	2004
Income tax currently payable	\$ (118,634)	\$ (407,728)
Loss carryforwards	-	328,823
Tax credits	118,634	78,905
Net change in deferred income tax assets and liabilities		
Loss carryforwards	-	(328,823)
Investment tax credits	503,023	857,436
Temporary differences	(296,515)	(300,566)
Valuation allowance	(304,376)	(356,872)
Tax on interest income on short-term bills	(4,518)	(570)
	<u>\$ (102,386)</u>	<u>\$ (129,395)</u>

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

	March 31	
	2005	2004
Current		
Deferred income tax assets		
Investment tax credits	\$ 780,994	\$ 1,095,038
Loss carryforwards	596,371	-
Unrealized provision for loss on inventories	109,974	23,007
Other	80,048	57,755
Deferred income tax liabilities	(257)	(384)
	<u>1,567,130</u>	<u>1,175,416</u>
Valuation allowance	-	(1,095,038)
	<u>\$ 1,567,130</u>	<u>\$ 80,378</u>
Noncurrent		
Deferred income tax assets		
Investment tax credits	\$ 7,318,668	\$ 5,949,350
Loss carryforwards	15,922	2,168,981
Unrealized foreign exchange loss	-	35,008
Other	137,223	111,072
Deferred income tax liabilities		
Depreciation	(2,307,729)	(1,544,617)
Unrealized foreign exchange gain	(188,436)	-
	<u>4,975,648</u>	<u>6,719,794</u>
Valuation allowance	(5,208,177)	(4,459,030)
	<u>\$ (232,529)</u>	<u>\$ 2,260,764</u>

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

	March 31	
	2005	2004
Shareholders' imputed tax credits	<u>\$ 58,012</u>	<u>\$ 26,445</u>

The expected and actual tax creditable ratio for 2004 and 2003 were 0.27% 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 March 31, 2005 and 2004 had no unappropriated earnings generated on and before 1997.
- f. The effective tax rate for deferred income taxes as of March 31, 2005 and 2004 was 25%.
- g. As of March 31, 2005, the tax credits and loss carryforwards were as follows:

Regulation	Items	Total Creditable Amounts	Remaining Creditable Amounts	Expiry Year
Income Tax Law	Loss carryforwards	\$ 313,401	\$ 131,713	2007
		<u>480,580</u>	<u>480,580</u>	2008
		<u>\$ 793,981</u>	<u>\$ 612,293</u>	
Statute for Upgrading Industries	Purchase of machinery and equipment	\$ 194,456	\$ 63,387	2005
		2,948,226	2,321,249	2006
		1,729,512	1,729,512	2007
		<u>2,723,253</u>	<u>2,723,253</u>	2008
		<u>\$ 7,595,447</u>	<u>\$ 6,837,401</u>	
Statute for Upgrading Industries	Research and development expenditures	\$ 25,697	\$ 25,697	2005
		477,385	477,385	2006
		322,877	322,877	2007
		291,326	291,326	2008
		<u>107,725</u>	<u>107,725</u>	2009
		<u>\$ 1,225,010</u>	<u>\$ 1,225,010</u>	
Statute for Upgrading Industries	Personnel training expenditures	\$ 2,583	\$ 2,583	2005
		2,803	2,803	2006
		3,058	3,058	2007
		2,727	2,727	2008
		<u>485</u>	<u>485</u>	2009
		<u>\$ 11,656</u>	<u>\$ 11,656</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
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.

16. LABOR COST, DEPRECIATION AND AMORTIZATION EXPENSE

	For the Three Months Ended March 31					
	2005			2004		
	Classified as Cost of Sales	Classified as Operating Expenses	Total	Classified as Cost of Sales	Classified as Operating Expenses	Total
Labor cost						
Salary	\$ 510,707	\$ 242,795	\$ 753,502	\$ 543,485	\$ 150,950	\$ 694,435
Labor/health insurance	30,264	13,223	43,487	26,129	5,893	32,022
Pension	13,385	6,253	19,638	9,507	2,530	12,037
Others	30,386	10,541	40,927	26,661	4,695	31,356
	<u>\$ 584,742</u>	<u>\$ 272,812</u>	<u>\$ 857,554</u>	<u>\$ 605,782</u>	<u>\$ 164,068</u>	<u>\$ 769,850</u>
Depreciation	<u>\$ 3,316,536</u>	<u>\$ 52,999</u>	<u>\$ 3,369,535</u>	<u>\$ 2,430,364</u>	<u>\$ 38,568</u>	<u>\$ 2,468,932</u>
Amortization	<u>\$ 38,426</u>	<u>\$ 270,444</u>	<u>\$ 308,870</u>	<u>\$ 48,500</u>	<u>\$ 123,547</u>	<u>\$ 172,047</u>

17. EARNINGS PER SHARE

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

	Amounts (Numerator)		Weighted- average Number of Shares (Denominator) (Thousand)	EPS (Dollars)	
	Before Income Tax	After Income Tax		Before Income Tax	After Income Tax
	<u>Three months ended March 31, 2005</u>				
Net income	<u>\$ 2,272,160</u>	<u>\$ 2,169,774</u>			
Basic EPS					
Income of common shareholders	\$ 2,272,160	\$ 2,169,774	4,159,656	<u>\$ 0.55</u>	<u>\$ 0.52</u>
Effect of dilutive securities					
Convertible bonds	-	-	292,841		
Stock options	-	-	<u>137,638</u>		
Diluted EPS					
Income of common and potential common shareholders	<u>\$ 2,272,160</u>	<u>\$ 2,169,774</u>	<u>4,590,135</u>	<u>\$ 0.50</u>	<u>\$ 0.47</u>

(Continued)

	<u>Amounts (Numerator)</u>		<u>Weighted-average Number of Shares (Denominator) (Thousand)</u>	<u>EPS (Dollars)</u>	
	<u>Before Income Tax</u>	<u>After Income Tax</u>		<u>Before Income Tax</u>	<u>After Income Tax</u>
The Pro-forma adjusted EPS for stock dividends with ex-dividend date after the issuance of financial statement					
Basic EPS	<u>\$ 2,272,160</u>	<u>\$ 2,169,774</u>	<u>5,119,321</u>	<u>\$ 0.44</u>	<u>\$ 0.42</u>
Diluted EPS	<u>\$ 2,272,160</u>	<u>\$ 2,169,774</u>	<u>5,649,115</u>	<u>\$ 0.40</u>	<u>\$ 0.38</u>
<u>Three months ended March 31, 2004</u>					
Net income	<u>\$ 3,357,035</u>	<u>\$ 3,227,640</u>			
Basic EPS					
Income of common shareholders	\$ 3,357,035	\$ 3,227,640	3,390,210	<u>\$ 0.99</u>	<u>\$ 0.95</u>
Effect of dilutive securities					
Convertible bonds	-	-	298,831		
Stock options	-	-	<u>167,721</u>		
Diluted EPS					
Income of common and potential common shareholders	<u>\$ 3,357,035</u>	<u>\$ 3,227,640</u>	<u>3,856,762</u>	<u>\$ 0.87</u>	<u>\$ 0.84</u>
The Pro-forma adjusted EPS for stock dividends with ex-dividend date after the issuance of financial statement					
Basic EPS	<u>\$ 3,357,035</u>	<u>\$ 3,227,640</u>	<u>4,172,358</u>	<u>\$ 0.80</u>	<u>\$ 0.77</u>
Diluted EPS	<u>\$ 3,357,035</u>	<u>\$ 3,227,640</u>	<u>4,746,547</u>	<u>\$ 0.71</u>	<u>\$ 0.68</u>

18. RELATED PARTY TRANSACTIONS

a. Related parties

<u>Related Parties</u>	<u>Relationship</u>
Powertech Technology Inc. (Powertech)	Quantum Vision Corp., subsidiary of the Corporation, is its director
Veutron Corp. (Veutron)	Same chairman
Novax Technologies, Inc. (Novax)	Equity-accounted investee
Deutron Electronics Corp. (Deutron)	Equity-accounted investee
Syntronix Corp. (Syntronix)	Subsidiary
Renesas Tech Corp. (Renesas) (Note)	Director (until January 7, 2005)
Zentel Electronics Corp. (Zentel)	Subsidiary
Silicon Optronics, Inc. (Silicon)	Equity-accounted investee
Others	Related parties with whom the Corporation has substantial influence but without any material transactions. Please see Note 23.

Note: The Company ceased to be the Corporation's related parties as of March 31, 2005; the transactions made as of and for the three months ended March 31, 2005 are disclosed only for reference.

b. Related party transactions:

	For the Three Months Ended March 31			
	2005		2004	
	Amount	%	Amount	%
<u>For the period</u>				
1) Net sales				
Deutron	\$ 3,298,162	26	\$ 2,139,115	20
Novax	589,347	5	736,274	7
Silicom	34,328	-	-	-
Syntronix	13,617	-	14,911	-
Other	<u>2,516</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 3,937,970</u>	<u>31</u>	<u>\$ 2,890,300</u>	<u>27</u>
2) Properties				
Veutron	\$ -	-	\$ 48,700	1
Other	<u>-</u>	<u>-</u>	<u>900</u>	<u>-</u>
	<u>\$ -</u>	<u>-</u>	<u>\$ 49,600</u>	<u>1</u>
3) Technical know-how and royalty				
Renesas	<u>\$ 88,129</u>	<u>11</u>	<u>\$ -</u>	<u>-</u>
4) Manufacturing expenses - subcontract costs, indirect materials, expensed properties, repairs and maintenance, etc.				
Powertech	\$ 392,545	5	\$ 338,183	6
Other	<u>7,207</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 399,752</u>	<u>5</u>	<u>\$ 338,183</u>	<u>6</u>
5) Research and development expenses				
Syntronix	\$ 15,000	4	\$ 15,000	9
Zentel	13,204	4	-	-
Other	<u>1,873</u>	<u>-</u>	<u>2,221</u>	<u>1</u>
	<u>\$ 30,077</u>	<u>8</u>	<u>\$ 17,221</u>	<u>10</u>
<u>At end of period</u>				
1) Accounts receivable, net				
Deutron	\$ 932,576	27	\$ 266,798	6
Novax	195,316	6	216,710	5
Silicon	15,740	-	-	-
Syntronix	4,338	-	11,257	-
Other	<u>7,809</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,155,779</u>	<u>33</u>	<u>\$ 494,765</u>	<u>11</u>

(Continued)

	For the Three Months Ended March 31			
	2005		2004	
	Amount	%	Amount	%
2) Accounts payable				
Powertech	\$ 350,800	7	\$ 306,222	8
3) Accrued expenses				
Zentel	\$ 13,865	1	-	-
Other	-	-	1,960	-
	<u>\$ 13,865</u>	<u>1</u>	<u>\$ 1,960</u>	<u>-</u>

The research and development expenses paid to Zentel and Syntrox by the Corporation were based on specifically negotiated term.

The payment term of the sales made to Deutron and Novax is to be paid on the 45th day after the month of shipment.

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

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.

19. PLEDGED OR MORTGAGED ASSETS

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

	March 31	
	2005	2004
Properties, net	\$ 39,333,394	\$ 29,262,006
Pledged time deposits	2,356,027	3,398,968
Accounts receivable	235,510	319,282
Other assets - land	-	311,510
	<u>\$ 41,924,931</u>	<u>\$ 33,291,766</u>

20. 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 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 March 2008.

- c. In March 2003, the Corporation entered into a purchase and sale agreement with C Company on products using DRAM technologies (0.15μm to 0.09μm and some more advanced) in their manufacture. Under the agreement, the Corporation should reserve a certain percentage of production capacity for C Company.
- d. In August 2003 and March 2005, the Corporation entered into license and technology transfer agreements (0.10 μm, 0.09 μm, 0.08μm and 0.075μm DRAM technology) with C Company. Under the agreements, 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.
- e. 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.
- f. 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.
- g. 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.
- h. 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.
- i. Under a Non-Recurring Engineering agreement with H Company made in March 2005, the Corporation should pay a certain amount of development fee.
- j. Unused letters of credit amounted to approximately US\$60,220 thousand and JPY1,971,696 thousand as of March 31, 2005.
- k. The Corporation has leased three parcels of land from the Hsin Chu 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.

21. DERIVATIVE FINANCIAL INSTRUMENTS

- a. Outstanding contracts and credit risk:

- 1) Forward exchange contracts:

Amounts in Thousands		
Items	Contract Amount (Nominal Amount)	Credit Risk
<u>March 31,2005</u>		
Forward exchange contracts	US\$280,000 (NT\$ v.s. US\$) JPY17,300,000 (US\$ v.s. JPY)	\$ 91,475 90
<u>March 31,2004</u>		
Forward exchange contracts	US\$415,000 (NT\$ v.s. US\$) JPY22,100,000 (US\$ v.s. JPY)	\$ - 246,492

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

As of March 31, 2005 and 2004, all foreign-currency option contracts have been expired. The related gains or losses were insignificant.

3) Interest rate swaps

The Company entered into interest rate swap contracts to manage exposures related to interest rates on its long-term loans. Net increase of interest expense on these transactions for the three months ended March 31, 2005 was \$2,729 thousand. Outstanding contracts as of March 31, 2005 were as follows:

Contract Date	Period	Contract Amount (Nominal) (in Thousand)
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, respectively. 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 March 31, 2005, the Corporation's future cash demand for the outstanding forward exchange contracts was as follows:

Term	Amounts in Thousands	
	Forward Exchange Contracts Inflow	Outflow
Within one year	JPY 17,300,000	US\$ 165,155
	US\$ 280,000	NT\$ 8,664,400

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 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 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 realized exchange loss and gain derived from settled forward exchange contracts were \$12,249 thousand and \$12,599 thousand for the three months ended March 31, 2005 and 2004. Such gain and loss were presented under nonoperating income or expenses; and a receivable of \$24,996 thousand and \$17,592 thousand as of March 31, 2005 and 2004, 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 \$1,309 thousand as of March 31, 2005.

22. FAIR VALUE OF FINANCIAL INSTRUMENTS

	March 31			
	2005		2004	
	Book Value	Fair Value	Book Value	Fair Value
<u>Nonderivative instruments</u>				
Assets				
Cash and cash equivalents	\$ 36,135,317	\$ 36,135,317	\$ 11,760,261	\$ 11,760,261
Notes and accounts receivable	3,504,874	3,504,874	4,190,085	4,190,085
Short-term and long-term investments	6,844,097	7,679,570	4,972,872	6,057,476
Other receivables	325,982	325,982	262,101	262,101
Pledged time deposits	2,356,027	2,356,027	3,398,968	3,398,968
Refundable deposits	23,443	23,443	22,810	22,810
Liabilities				
Accounts payable and payable on equipment	22,524,875	22,524,875	23,147,826	23,147,826
Convertible bonds payable	10,817,691	10,988,584	4,806,721	8,126,650
Obligation under capital lease (including current portion)	123,833	123,833	300,200	300,200
Long-term bank loans (including current portion)	21,108,736	21,108,736	13,990,192	13,990,192
Guarantee deposits	5,613	5,613	3,491	3,491
<u>Derivative instruments</u>				
Forward exchange contracts	24,996	(14,086)	17,592	34,116
Foreign currency option contracts	(1,309)	(122,220)	-	-

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 and payable on equipment 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 obligation 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.

23. 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. Total purchase from or sale to related parties amounting to at least \$100 million or 20% of the paid-in capital: Table 3 (attached).
- d. Receivables from related parties amounting to at least \$100 million or 20% of the paid-in capital: Table 4 (attached).
- e. Names, locations, and related information of investees on which the Corporation exercises significant influence: Table 5 (attached).
- f. Derivative financial transactions: Please see Notes 21 and 22.

POWERCHIP SEMICONDUCTOR CORPORATION AND INVESTEEES

MARKETABLE SECURITIES HELD

MARCH 31, 2005

(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	March 31, 2005				Note
				Shares (Thousands/Units) (Note 8)	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	\$ 1,191,097	99.99	\$ 1,193,384	Note 4
	Li-Hsin Investment Corp.	Subsidiary	Long-term investments	104,850	655,553	99.86	738,095	Note 4
	Paramax Corp.	Subsidiary	Long-term investments	54,994	431,194	99.99	431,194	Note 4
	Lu-Chu Development Corp.	Investee	Long-term investments	24,255	242,564	13.21	242,564	Note 2
	Novax Technologies, Inc.	Investee	Long-term investments	13,050	162,438	18.64	162,438	Note 2
	Syntronix Corp.	Subsidiary	Long-term investments	12,700	127,150	47.04	127,150	Note 4
	Luxxon Technology Corp.	Investee	Long-term investments	14,476	118,139	18.10	118,139	Note 2
	Deutron Electronics Corp.	Investee	Long-term investments	2,940	115,265	10.29	115,265	Note 2
	Synage Technology Corp.	Investee	Long-term investments	10,084	101,101	20.17	101,101	Note 2
	Maxium Technologies, Inc.	Investee	Long-term investments	9,111	100,927	30.37	100,927	Note 2
	Deutron Japan Corp.	Investee	Long-term investments	2,891	85,250	38.98	85,250	Note 2
	Zentel Electronics Corp.	Subsidiary	Long-term investments	9,200	84,236	36.80	84,236	Note 4
	Artrix International Inc.	Investee	Long-term investments	6,600	65,949	24.00	65,949	Note 2
	Tekmax Development Corp.	Investee	Long-term investments	4,800	58,496	16.00	58,496	Note 2
	MaxEdge Electronics Corp.	Investee	Long-term investments	16,414	40,116	13.89	40,116	Note 2
	PowerFlash Semiconductor Corp.	Subsidiary	Long-term investments	4,160	38,857	32.00	38,857	Note 4
	Zhi-Li Investment Corp.	Investee	Long-term investments	3,500	35,000	35.00	35,000	Note 2
	Smartic Technology Inc.	Investee	Long-term investments	3,000	29,410	25.00	29,410	Note 2
	Silicon Optronics, Inc.	Investee	Long-term investments	1,700	14,672	12.14	14,672	Note 2
	PowerGate Optical, Inc.	Investee	Long-term investments	1,000	8,127	10.00	8,127	Note 2
	Terax Communication Technologies Inc.	Subsidiary	Long-term investments	600	4,501	1.62	4,501	Note 4
	Powertech Technology Inc.	Quantum Vision is its director	Long-term investments	5,975	87,298	1.77	549,103	-
	Optimax Technology Corp.	Corporation is its director	Long-term investments	4,449	84,913	1.22	373,197	-
	PowerWorld Capital Management Corp.	Same chairman	Long-term investments	8,000	138,688	9.09	138,688	Note 2
	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	68,087	Note 2
	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	39,352	Note 2
	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
	CHIPSHIP Technology Co., Ltd.	Corporation is its director	Long-term investments	2,000	25,000	10.61	25,000	Note 2
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	22,693	Note 2	
Venglobal Capital Fund L.P.	-	Long-term investments	-	16,169	5.18	16,169	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	
Area East Technology Corp.	Corporation is its director	Long-term investments	1,300	11,692	19.97	11,692	Note 2	
Venglobal International Fund	-	Long-term investments	1	11,591	2.83	11,591	Note 2	

(Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	March 31, 2005				Note
				Shares (Thousands/Units) (Note 8)	Carrying Value	Percentage of Ownership (%)	Market Value or Net Asset Value	
	e-Phocus, Inc. Series A-preferred shares	-	Long-term investments	333	\$ 10,510	33.33	\$ 10,510	Note 2
	Taiwan Liposome Co., Ltd.	-	Long-term investments	300	9,000	2.39	9,000	Note 2
	CDIB High Tech Investment Inc.	Corporation is its director	Long-term investments	900	9,000	2.11	9,000	Note 2
	Miluku Entertainment Corp.	Quantum Vision is its director	Long-term investments	400	5,000	1.80	5,000	Note 2
	DRAMeXchange Tech. Inc.	-	Long-term investments	330	3,089	4.03	3,089	Note 2
	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	1,313	Note 2
	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	89,975	-	89,975	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>							
	Shinkong Financial Holding Co., Ltd.	-	Short-term investments	28,386	913,786	-	924,257	-
	ProMos Technologies Inc.	-	Short-term investments	24,121	552,750	-	325,875	-
	United Microelectronics Corp.	-	Short-term investments	2,060	66,760	-	40,150	-
	Hannstar Display Corp.	-	Short-term investments	2,300	47,318	-	23,644	-
	Yageo Corp.	-	Short-term investments	2,000	44,657	-	22,860	-
	Elpida Memory Inc.	-	Short-term investments	27	33,829	-	33,529	-
	Epistar Corp.	-	Short-term investments	300	25,803	-	13,299	-
	Emerging Memory & Logic Solution Incorporation	-	Short-term investments	279	18,924	-	233,808	-
	Etron Technology Inc.	-	Short-term investments	386	14,151	-	9,296	-
	Cypress Semiconductor Corp.	-	Short-term investments	72	14,056	-	30,698	-
	NewSoft Technology Corp.	Same chairman	Short-term investments	180	3,767	-	1,750	-
	Broadcom Corp.	-	Short-term investments	3	3,012	-	3,333	-
	<u>Bonds</u>							
	Bonds purchased under resale agreements issued by Yuanta Asset Management Limited	-	Short-term investments	-	200,668	-	201,223	Note 3
	<u>Equity</u>							
	Fuhwa Commercial Bank Common Trust Fund	-	Short-term investments	10,000	100,000	-	100,337	Note 1
	<u>Convertible bond</u>							
	Tung Ho Steel Enterprise Corp. - issued in 2004 (II)	-	Short-term investments	50	5,000	-	4,937	-

(Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	March 31, 2005				Note	
				Shares (Thousands/Units) (Note 8)	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	
	Synage Technology Corp.	Investee	Long-term investments	10,750	95,886	21.50	95,886	Note 2	
	Maxium Technologies, Inc.	Investee	Long-term investments	138	1,482	0.46	1,482	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	17,066	4.67	17,066	Note 2	
	Deutron Japan Corp.	Investee	Long-term investments	289	8,665	3.89	8,665	Note 2	
	Smartic Technology Inc.	Investee	Long-term investments	480	4,706	4.00	4,706	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	825	8,247	3.00	8,247	Note 2	
	Optimax Technology Corp.	Corporation is its director	Long-term investments	240	5,892	0.07	20,131	-	
	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	-	83,951	-
		NewSoft Technology Corp.	Same chairman	Short-term investments	1,126	28,519	-	10,946	-
		<u>Equity</u>							
		Sheng Hua 1699 Bond Fund	-	Short-term investments	3,313	40,000	-	40,190	Note 1
		Fubon Ju-I Bond Fund	-	Short-term investments	324	5,000	-	5,025	Note 1
		TISC	-	Short-term investments	2,903	40,000	-	40,183	Note 1
		President Homerun Fund	-	Short-term investments	1,462	20,000	-	20,052	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	1,836	16,378	3.67	16,378	Note 2	
	Luxxon Technology Corp.	Investee	Long-term investments	6,914	53,547	8.64	53,547	Note 2	
	Novax Technologies, Inc.	Investee	Long-term investments	8,750	108,930	12.50	108,930	Note 2	
	Maxium Technologies, Inc.	Investee	Long-term investments	2,956	32,748	9.85	32,748	Note 2	
	Deutron Electronics Corp.	Investee	Long-term investments	3,080	131,239	10.78	131,239	Note 2	
	Syntronix Corp.	Investee	Long-term investments	649	6,494	2.40	6,494	Note 2	
	Zentel Electronics Corp.	Investee	Long-term investments	2,100	19,227	8.40	19,227	Note 2	
	Tekmax Development Corp.	Investee	Long-term investments	3,500	42,310	11.67	42,310	Note 2	
PowerGate Optical, Inc.	Investee	Long-term investments	1,200	9,753	12.00	9,753	Note 2		

(Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	March 31, 2005				Note
				Shares (Thousands/Units) (Note 8)	Carrying Value	Percentage of Ownership (%)	Market Value or Net Asset Value	
	Silicon Optronics, Inc.	Investee	Long-term investments	900	\$ 7,767	6.43	\$ 7,767	Note 2
	PowerFlash Semiconductor Corp.	Investee	Long-term investments	850	6,019	6.54	6,019	Note 2
	Smartic Technology Inc.	Investee	Long-term investments	720	7,058	6.00	7,058	Note 2
	Artrix International Inc.	Investee	Long-term investments	2,475	24,729	9.00	24,729	Note 2
	Terax Communication Technologies Inc.	Investee	Long-term investments	2,757	23,014	7.45	23,014	Note 2
	Optimax Technology Corp.	Corporation is its director	Long-term investments	598	12,256	0.16	50,127	-
	Powertech Technology Inc.	Quantum Vision is its director	Long-term investments	2,414	29,017	0.71	221,852	-
	Powervision Technologies, Inc.	Same chairman	Long-term investments	520	5,200	11.87	5,200	Note 2
	Besteam Technology Inc.	-	Long-term investments	2,574	40,469	5.28	40,469	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	13,620	1.00	13,620	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	55,746	3.90	55,746	Note 2
	SAMHOP Electronics Corp.	-	Long-term investments	720	11,520	3.00	11,520	Note 2
	Impac Technology Co., Ltd.	-	Long-term investments	200	2,700	0.53	2,700	Note 2
	Lightsonic Optoelectronics Inc.	Same chairman	Long-term investments	1,500	10,811	1.62	10,811	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 supervisor	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, Inc.	-	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 Incorporation	-	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	3	52,858	-	52,858	Note 2
	Bonds							
	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
	Stock							
	NewSoft Technology Corp.	Same chairman	Short-term investments	473	7,172	-	4,614	-
	Shinkong Financial Holding Co., Ltd.	-	Short-term investments	586	11,348	-	19,090	-
	Veutron Corp.	Same chairman	Short-term investments	500	7,001	-	2,490	-
	ProMos Technologies Inc.	-	Short-term investments	2,000	41,382	-	27,020	-
	Phoenix Silicon International Corp.	-	Short-term investments	218	2,399	-	1,407	-
	Mosel Vitelic Inc.	-	Short-term investments	200	695	-	572	-
	Cypress Semiconductor Corp.	-	Short-term investments	13	2,023	-	5,616	-

(Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	March 31, 2005				Note
				Shares (Thousands/ Units) (Note 8)	Carrying Value	Percentage of Ownership (%)	Market Value or Net Asset Value	
Paramax	<u>Convertible bond</u> Tung Ho Steel Enterprise Corp. - issued in 2004 (II)	-	Short-term investments	50	\$ 5,000	-	\$ 4,937	-
	<u>Equity</u> Fubon Ju-I Bond Fund	-	Short-term investments	4,532	70,000	-	70,350	Note 1
	President James Bond Fund	-	Short-term investments	1,999	30,000	-	30,146	Note 1
	<u>Stock</u> MaxEdge Electronics Corp.	Investee	Long-term investments	6,710	15,982	5.68	15,982	Note 2
	Synage Technology Corp.	Investee	Long-term investments	2,081	18,559	4.16	18,559	Note 2
	Novax Technologies, Inc.	Investee	Long-term investments	3,497	43,536	5.00	43,536	Note 2
	Luxxon Technology Corp.	Investee	Long-term investments	3,778	29,257	4.72	29,257	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	6,502	8.00	6,502	Note 2
	Silicon Optronics, Inc.	Investee	Long-term investments	500	4,315	3.57	4,315	Note 2
	PowerFlash Semiconductor Corp.	Investee	Long-term investments	500	4,717	3.85	4,717	Note 2
	Smartic Technology Inc.	Investee	Long-term investments	720	7,058	6.00	7,058	Note 2
	Artrix International Inc.	Investee	Long-term investments	825	8,243	3.00	8,243	Note 2
	Deutron Japan Corp.	Investee	Long-term investments	351	11,031	4.73	11,031	Note 2
	Optimax Technology Corp.	Corporation is its director	Long-term investments	160	3,122	0.04	13,421	-
	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	3,120	0.41	3,120	Note 2
	Universal Venture Fund, Inc.	Corporation and investee have same chairman	Long-term investments	2,950	25,107	1.76	25,107	Note 2
	SAMHOP Electronics Corp.	-	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	3,339	1.08	3,339	Note 2
	Lightsonic Optoelectronics Inc.	Corporation and investee have same chairman	Long-term investments	1,000	7,207	1.08	7,207	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	2	34,684	-	34,684	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
	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	186	3,527	-	6,066	-

(Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	March 31, 2005				Note
				Shares (Thousands/Units) (Note 8)	Carrying Value	Percentage of Ownership (%)	Market Value or Net Asset Value	
Syntronix	Veutron Corp.	Corporation and investee have same chairman	Short-term investments	1,002	\$ 6,195	-	\$ 4,990	-
	Mosel Vitelic Inc.	-	Short-term investments	200	772	-	572	-
	<u>Equity</u>							
	En Trust Kirin Bond Fund	-	Short-term investments	3,708	40,000	-	40,106	Note 1
	President James Bond Fund	-	Short-term investments	1,333	20,000	-	20,097	Note 1
	Shinkong Ch-shin Fund	-	Short-term investments	2,156	30,076	-	30,193	Note 1
	President Homerun Fund	-	Short-term investments	733	10,026	-	10,052	Note 1
	<u>Stock</u>							
	Deutron Electronics Corp.	Investee	Long-term investments	420	14,211	1.47	14,211	Note 2
	Actrans System Inc.	-	Long-term investments	150	1,500	0.50	1,500	Note 2
	Terax Communication Technologies Inc.	Subsidiary	Long-term investments	300	4,273	0.81	4,273	Note 2
	Zentel Electronics Corp.	Investee	Long-term investments	640	5,840	2.56	5,840	Note 2
	Smartic Technology Inc.	Investee	Long-term investments	480	4,800	4.00	4,800	Note 2
Artrix International Inc.	Investee	Long-term investments	750	7,500	2.73	7,500	Note 2	
<u>Bonds</u>								
Veutron Corp. - issued in 2002(I)	Corporation and investee have same chairman	Long-term investments	2	9,997	-	9,997	Note 2	
<u>Stock</u>								
Shinkong Financial Holding Co., Ltd.	-	Short-term investments	1	8	-	14	-	
Zentel	<u>Stock</u>							
	Zentel Japan Corp.	Subsidiary	Long-term investments	2	12,156	99.92	12,156	Note 2
	PowerFlash Semiconductor Corp.	Investee	Long-term investments	650	6,071	5.00	6,071	Note 2
	Novax Technologies, Inc.	Investee	Long-term investments	700	8,400	1.00	8,400	Note 2
PowerFlash	<u>Equity</u>							
	PCA Wellpool Fund	-	Short-term investments	295	3,500	-	3,615	Note 1
	<u>Stock</u>							
	Artrix International Inc.	Investee	Long-term investments	400	4,000	1.45	4,000	Note 2
	Shinkong Financial Holding Co., Ltd.	-	Short-term investments	1,500	48,768	-	48,150	-
<u>Bonds</u>								
Shinkong Chung Shan C	-	Short-term investments	-	14,957	-	14,957	-	
<u>Equity</u>								
Fuh-Hwa Albatross Fund	-	Short-term investments	-	20,000	-	20,126	-	

(Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	March 31, 2005				Note
				Shares (Thousands/ Units) (Note 8)	Carrying Value	Percentage of Ownership (%)	Market Value or Net Asset Value	
Terax	<u>Stock</u> Syntronix Corp.	Corporation and investee have same chairman	Long-term investments	500	\$ 5,429	1.85	\$ 5,429	Note 2
	<u>Bonds</u> Veutron Corp. - issued in 2002 (I)	Corporation and investee have same chairman	Long-term investments	2	9,997	-	9,997	Note 2
	Veutron Corp. - issued in 2002 (II)	Corporation and investee have same chairman	Long-term investments	2	4,000	-	4,000	Note 2

Note 1: The market value is based on net asset value of the fund as of March 31, 2005.

Note 2: The market values are based on carrying value as of March 31, 2005.

Note 3: The market value is based on the contracted resale price.

Note 4: The net asset value is based on unreviewed financial data as of March 31, 2005.

Note 5: As of March 31, 2005, 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 6: 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 7: Prepayments of long-term investments of Quantum Vision, Paramax and the Corporation are excluded.

Note 8: In thousands, except for bond investments 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 THREE MONTHS ENDED MARCH 31, 2005
(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 n Corporation	<u>Equity</u> New Light Growth Fund	Short-term investments	-	-	10,000	\$ 100,000	-	\$ -	10,000	\$ 101,699	\$ 100,000	\$ 1,699	-	\$ -
	<u>Stock</u> Shinkong Financial Holding Co., Ltd.	Short-term investments	-	-	937	17,414	27,449	896,372	-	-	-	-	28,386	913,786
	ProMos Technologies Inc.	Short-term investments	-	-	34,996	802,005	-	-	10,875	145,217	249,255	(104,038)	24,121	552,750
	Ardentec Corp.	Short-term investments	-	-	-	-	5,844	60,580	5,844	100,758	60,580	40,178	-	-
Li- Hsin	<u>Stock</u> Synage Technology Corp.	Long-term investments	-	-	-	-	10,750	107,495	-	-	-	-	10,750	95,886 (Note)

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

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 THREE MONTHS ENDED MARCH 31, 2005

(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	\$ 3,298,162	26	Note 2	-	-	\$ 932,576	27	-
	Novax Technologies, Inc.	Investee	Sales	589,347	5	Note 2	-	-	195,316	6	-
	Powertech Technology Inc.	Quantum Vision is its director	Note 1	392,545	5	Note 3	-	-	(350,800)	(7)	-

Note 1: Subcontract fees.

Note 2: Mainly paid on the 45th day after the month of the shipment is made.

Note 3: Mainly paid on the 60th day after the month of the shipment is made.

POWERCHIP SEMICONDUCTOR CORPORATION

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

MARCH 31, 2005

(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. Novax Technologies, Inc.	Investee Investee	\$ 932,576 195,316	17.49 17.83	\$ - -	- -	\$ 436,942 -	\$ 17,996 3,715

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 THREE MONTHS ENDED MARCH 31, 2005
(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 March 31, 2005			Net Income (Loss) of the Investee	Investment Gain (Loss)	Note
				Mar. 31, 2005	Dec. 31, 2004	Shares (Thousands)	Percentage of Ownership	Carrying Value			
Powerchip Semiconductor Corporation	Quantum Vision Corp.	Taipei, Taiwan	Investment	\$ 1,292,900	\$ 1,292,900	131,990	99.99%	\$ 1,191,097	\$ (46,732)	\$ (46,728)	-
	Li-Hsin Investment Corp.	Taipei, Taiwan	Investment	1,048,500	1,048,500	104,850	99.86%	655,553	(7,141)	(4,500)	-
	Paramax Corp.	Taipei, Taiwan	Investment	549,940	549,940	54,994	99.99%	431,194	(19,917)	(19,915)	-
	Lu-Chu Development Corp.	Taipei, Taiwan	Transaction of real estate	242,550	242,550	24,255	13.21%	242,564	-	-	Note
	Novax Technologies, Inc.	Taipei, Taiwan	Electronic components manufacturing	154,389	154,389	13,050	18.64%	162,438	-	-	Note
	Syntronix Corp.	Taipei, Taiwan	Design of electronic related products	142,000	142,000	12,700	47.04%	127,150	(2,430)	(1,143)	-
	Luxxon Technology Corp.	Taoyuan, Taiwan	Electronic components manufacturing	144,760	144,760	14,476	18.10%	118,139	-	-	Note
	Deutron Electronics Corp.	Taipei, Taiwan	Electronic components manufacturing	21,300	21,300	2,940	10.29%	115,265	-	-	Note
	Synage Technology Corp.	Taipei, Taiwan	Electronic components manufacturing	91,289	-	10,084	20.17%	101,101	-	-	Note
	Maxium Technologies, Inc.	Taipei, Taiwan	Electronic components manufacturing	91,111	91,111	9,111	30.37%	100,927	-	-	Note
	Deutron Japan Corp.	Japan	Electronic components manufacturing	90,020	90,020	2,891	38.98%	85,250	-	-	Note
	Zentel electronics Corp.	Taipei, Taiwan	Design of electronic related products	92,000	92,000	9,200	36.80%	84,236	(5,945)	(2,188)	-
	Artrix International Inc.	Taipei, Taiwan	Investment	66,000	60,000	6,600	24.00%	65,949	-	-	Note
	Tekmax Development Corp.	Taipei, Taiwan	Investment	50,000	50,000	4,800	16.00%	58,496	-	-	Note
	MaxEdge Electronics Corp.	Taoyuan, Taiwan	PCB manufacturing	428,394	428,394	16,414	13.89%	40,116	-	-	Note
	PowerFlash Semiconductor Corp.	Taipei, Taiwan	Design of electronic related products	41,600	41,600	4,160	32.00%	38,857	(4,043)	(1,294)	-
	Zhi-Li Investment Corp.	Taipei, Taiwan	Investment	35,000	-	3,500	35.00%	35,000	-	-	Note
	Smartic Technology Inc.	Taipei, Taiwan	Design of electronic related products	30,000	30,000	3,000	25.00%	29,410	-	-	Note
	Silicon Optronics, Inc.	Hsin-Chu, Taiwan	Electronic components manufacturing	17,000	17,000	1,700	12.14%	14,672	-	-	Note
	PowerGate Optical, Inc.	Taipei, Taiwan	Optical components manufacturing	10,000	10,000	1,000	10.00%	8,127	-	-	Note
Terax Communication Technologies Inc.	Hsin-Chu, Taiwan	Manufacturing of wireless communication equipments	6,000	6,000	600	1.62%	4,501	(28,070)	(962)	-	

Note: Not holding a controlling interest in the investee companies, the Corporation does not account for its investment income or loss for the period.