

Powerchip Semiconductor Corporation

**Financial Statements for the
Six Months Ended June 30, 2005 and 2004 and
Independent Auditors' Report**

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Powerchip Semiconductor Corporation

We have audited the accompanying balance sheets of Powerchip Semiconductor Corporation as of June 30, 2005 and 2004, and the related statements of income, changes in shareholders' equity and cash flows for the six months then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As stated in Note 6 to the financial statements, we did not audit the financial statements for the six months ended June 30, 2005 and 2004 of investees accounted for by the equity method of accounting. The carrying values of those investments as of June 30, 2005 and 2004 amounting to \$4,058,878 thousand and \$2,973,670 thousand, and the related investment net incomes for the six months ended June 30, 2005 and 2004 amounting to \$23,923 thousand and \$75,980 thousand, respectively, as well as related investment information as disclosed in Note 23 to the financial statements, were based on the investees' unaudited financial statements in the same period.

In our opinion, except for the effects of such adjustments, if any, as might have been made had we audited the investees' financial statements mentioned in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Powerchip Semiconductor Corporation as of June 30, 2005 and 2004 and the results of its operations and its cash flows for the six months then ended, in conformity with the guidelines governing the preparation of financial statements by securities issuers and accounting principles generally accepted in the Republic of China.

We have also reviewed the consolidated financial statements of Powerchip Semiconductor Corporation as of and for the six months ended June 30, 2005, and have issued a qualified reviewed report on such financial statements.

July 12, 2005

Notice to Readers

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

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

POWERCHIP SEMICONDUCTOR CORPORATION

BALANCE SHEETS

JUNE 30, 2005 and 2004

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

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)	\$ 40,499,930	28	\$ 28,882,493	27	Accounts payable (Note 18)			\$ 385,223	-
Short-term investments, net (Notes 2 and 4)	2,238,742	1	1,582,834	2	Related parties	\$ 442,439	-	\$ 3,604,181	4
Notes and accounts receivable (Notes 2, 18 and 19)					Third parties	5,036,997	4	1,208,638	1
Related parties, net of allowance for doubtful accounts of \$21,361 thousand in 2005 and \$18,611 thousand in 2004 and for sales discount of \$14,000 thousand in 2005	1,947,765	1	1,834,115	2	Accrued expenses (Notes 2, 18 and 21)	2,087,659	1	18,132,994	17
Third parties - net of allowance for doubtful accounts of \$25,064 thousand in 2005 and \$108,627 thousand in 2004 and for sales discount of \$26,000 thousand in 2005	1,953,382	2	3,417,278	3	Payable on equipment	17,261,020	12	1,596,780	2
Other receivables (Notes 2 and 21)	237,621	-	187,160	-	Convertible bonds payable (Notes 2 and 9)	5,382,553	3	4,458,229	4
Inventories, net (Notes 2 and 5)	5,690,374	4	3,897,738	4	Current portion of long-term bank loans (Notes 10 and 19)	5,456,667	4	172,670	-
Prepaid expenses	128,703	-	102,393	-	Current portion of long-term obligation under capital lease (Notes 2 and 7)	82,555	-	1,052,882	1
Deferred income tax assets - current (Notes 2 and 15)	1,438,741	1	288,779	-	Current portion of long-term payable on equipment	-	-	26,548	-
Pledged time deposits (Note 19)	1,494,101	1	2,534,477	2	Other current liabilities	170,085	-		
Other current assets (Note 2)	21,546	-	14,166	-					
					Total current liabilities	35,919,975	24	30,638,145	29
Total current assets	55,650,905	38	42,741,433	40					
LONG-TERM INVESTMENTS (Notes 2, 6 and 18)					LONG-TERM LIABILITIES				
Equity method	4,196,686	3	2,973,670	3	Convertible bonds payable (Notes 2 and 9)	15,058,880	10	5,066,250	5
Cost method	782,366	1	1,060,272	1	Long-term bank loans - net of current portion (Notes 10 and 19)	15,712,922	11	9,841,344	9
Prepayments	7,850	-	35,409	-	Long-term obligation under capital lease - net of current portion (Notes 2 and 7)	-	-	82,500	-
Bonds	265,000	-	274,750	-					
					Total long-term liabilities	30,771,802	21	14,990,094	14
Total long-term investments	5,251,902	4	4,344,101	4					
PROPERTIES (Notes 2, 7, 18 and 19)					OTHER LIABILITIES				
Cost					Accrued pension cost (Notes 2 and 11)	68,043	-	45,445	-
Buildings	7,753,280	5	6,424,508	6	Guarantee deposits	5,863	-	3,854	-
Machinery and equipment	102,387,466	70	69,326,308	65					
Research and development equipment	371,855	-	307,751	-	Total other liabilities	73,906	-	49,299	-
Facility equipment	12,047,731	8	11,184,234	11					
Transportation equipment	19,822	-	18,334	-	Total liabilities	66,765,683	45	45,677,538	43
Office equipment	369,915	-	285,081	-					
Equipment under capital lease	761,708	-	761,708	1	SHAREHOLDERS' EQUITY (Notes 12 and 13)				
Miscellaneous equipment	804,027	1	424,393	-	Capital stock - \$10 par value				
	124,515,804	84	88,732,317	83	Authorized - 7,500,000 thousand shares in 2005 and 4,329,571 thousand shares in 2004				
Accumulated depreciation	(50,456,239)	(34)	(37,576,330)	(35)	Issued - 5,511,756 thousand shares in 2005 and 4,090,513 thousand shares in 2004	55,117,564	38	40,905,134	38
	74,059,565	50	51,155,987	48	Capital surplus (Notes 2 and 12)				
Construction in progress	-	-	122,509	-	Paid-in capital in excess of par value	12,694,087	9	9,603,638	9
Advance payments	7,529,378	5	4,279,019	4	Arising from long-term investments	20,761	-	11,041	-
					Arising from treasury stock	3,290	-	20,058	-
Net properties	81,588,943	55	55,557,515	52	Arising from conversion of bonds	3,572,524	2	3,075,664	3
OTHER ASSETS					Appropriation for legal reserve	2,132,816	1	1,308	-
Assets leased to other, net (Note 2)	169,722	-	-	-	Appropriation for special reserve	252	-	-	-
Refundable deposits	29,462	-	22,824	-	Unappropriated earnings	7,084,069	5	8,597,300	8
Deferred charges, net (Notes 2, 8, 18 and 20)	3,726,038	3	2,243,123	2	Cumulative translation adjustments (Note 2)	(8,980)	-	874	-
Deferred income tax assets - noncurrent (Notes 2 and 15)	244,265	-	1,394,603	1	Treasury stock (Notes 2 and 14)	(302,725)	-	(907,161)	(1)
Land (Notes 6 and 19)	-	-	311,510	-					
Spare parts, net	402,032	-	362,459	1	Total shareholders' equity	80,313,658	55	61,307,856	57
Others	16,072	-	7,826	-					
					TOTAL	\$ 147,079,341	100	\$ 106,985,394	100
Total other assets	4,587,591	3	4,342,345	4					
TOTAL	\$ 147,079,341	100	\$ 106,985,394	100					

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

(With Deloitte & Touche audit report dated July 12, 2005)

POWERCHIP SEMICONDUCTOR CORPORATION

STATEMENTS OF INCOME

FOR THE SIX MONTHS ENDED JUNE 30, 2005 and 2004

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

	2005		2004	
	Amount	%	Amount	%
GROSS SALES	\$ 25,451,200		\$ 25,172,132	
SALES RETURNS AND ALLOWANCES	<u>1,342,189</u>		<u>326,082</u>	
NET SALES (Notes 2 and 18)	24,109,011	100	24,846,050	100
COST OF SALES (Notes 16 and 18)	<u>20,131,603</u>	<u>84</u>	<u>14,382,063</u>	<u>58</u>
GROSS PROFIT BEFORE UNREALIZED INTERCOMPANY GROSS PROFIT	3,977,408	16	10,463,987	42
UNREALIZED INTERCOMAPNY PROFIT (Note 2)	<u>(7,283)</u>	<u>-</u>	<u>-</u>	<u>-</u>
REALIZED INTERCOMPANY PROFIT	<u>3,970,125</u>	<u>16</u>	<u>10,463,987</u>	<u>42</u>
OPERATING EXPENSES (Notes 16 and 18)				
Selling	124,516	-	124,516	-
General and administrative	852,913	4	458,571	2
Research and development	<u>794,158</u>	<u>3</u>	<u>447,077</u>	<u>2</u>
Total operating expenses	<u>1,771,587</u>	<u>7</u>	<u>1,030,164</u>	<u>4</u>
OPERATING INCOME	<u>2,198,538</u>	<u>9</u>	<u>9,433,823</u>	<u>38</u>
NONOPERATING INCOME AND GAIN				
Gain on sales of investments, net (Note 2)	398,422	2	293,946	1
Interest (Note 2)	210,417	1	37,561	-
Reversal of allowance for decline in value of short-term investments (Note 2)	188,777	1	-	-
Foreign exchange gain, net (Notes 2 and 21)	62,318	-	124,893	1
Investment income recognized by equity method, net (Notes 2 and 6)	33,889	-	75,980	-
Gain on disposal of properties (Note 2)	13,609	-	3,179	-
Other (Note 18)	<u>75,795</u>	<u>-</u>	<u>26,198</u>	<u>-</u>
Total nonoperating income and gain	<u>983,227</u>	<u>4</u>	<u>561,757</u>	<u>2</u>
NONOPERATING EXPENSES AND LOSSES				
Interest (Notes 2, 7 and 21)	258,122	1	259,768	1
Provision for losses on inventories and spare parts (Note 2)	72,200	-	23,671	-
Loss on disposal of properties (Note 2)	29,555	-	47,252	-
Provision for decline in value of short-term investments (Note 2)	-	-	242,884	1
Impairment loss on long-term investments (Note 2)	-	-	7,357	-

(Continued)

	<u>2005</u>		<u>2004</u>	
	Amount	%	Amount	%
Issuance costs of the early redeemed convertible bonds (Note 2)	\$ -	-	\$ 305	-
Other	<u>42,971</u>	<u>-</u>	<u>38,753</u>	<u>-</u>
Total nonoperating expenses and losses	<u>402,848</u>	<u>1</u>	<u>619,990</u>	<u>2</u>
INCOME BEFORE INCOME TAX	2,778,917	12	9,375,590	38
INCOME TAX BENEFIT (EXPENSE) (Notes 2 and 15)	<u>242,429</u>	<u>1</u>	<u>(787,799)</u>	<u>(3)</u>
NET INCOME	<u>\$ 3,021,346</u>	<u>13</u>	<u>\$ 8,587,791</u>	<u>35</u>

	<u>2005</u>		<u>2004</u>	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS PER SHARE (Note 17)				
Basic earnings per share	<u>\$ 0.54</u>	<u>\$ 0.59</u>	<u>\$ 2.15</u>	<u>\$ 1.97</u>
Diluted earnings per share	<u>\$ 0.48</u>	<u>\$ 0.52</u>	<u>\$ 1.92</u>	<u>\$ 1.76</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 a treasury stock are shown as follows:

	<u>2005</u>		<u>2004</u>	
NET INCOME	<u>\$ 3,022,427</u>		<u>\$ 8,621,376</u>	

	<u>2005</u>		<u>2004</u>	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS PER SHARE				
Basic earnings per share	<u>\$ 0.54</u>	<u>\$ 0.59</u>	<u>\$ 2.16</u>	<u>\$ 1.98</u>
Diluted earnings per share	<u>\$ 0.48</u>	<u>\$ 0.52</u>	<u>\$ 1.93</u>	<u>\$ 1.77</u>

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

(With Deloitte & Touche audit report dated July 12, 2005)

(Concluded)

POWERCHIP SEMICONDUCTOR CORPORATION

**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2005 and 2004
(In Thousands of New Taiwan Dollars, Except Per Share Data)**

	Capital Stock Issued		Capital Surplus (Notes 2 and 12)					Retained Earnings				Cumulative Translation Adjustments (Note 2)	Treasury Stock (Notes 2 and 14)	Total Shareholders' Equity (Note 12)
			Paid-in Capital In Excess of Par Value	From Long-Term Investments	From Treasury Stock	From Conversion of Bonds	Total	Legal Reserve	Special Reserve	Unappropriated Earnings	Total			
	Shares (thousands)	Amount												
BALANCE, JANUARY 1, 2005	4,190,617	\$ 41,906,174	\$ 9,791,333	\$ 8,187	\$ 39,866	\$ 3,357,777	\$ 13,197,163	\$ 1,308	\$ -	\$ 21,326,859	\$ 21,328,167	\$ (252)	\$ (988,576)	\$ 75,442,676
Appropriations of prior year's earnings														
Legal reserve	-	-	-	-	-	-	-	2,131,508	-	(2,131,508)	-	-	-	-
Special reserve	-	-	-	-	-	-	-	-	252	(252)	-	-	-	-
Bonus to employees – cash	-	-	-	-	-	-	-	-	-	(639,837)	(639,837)	-	-	(639,837)
Bonus to employees – stock	127,967	1,279,673	-	-	-	-	-	-	-	(1,279,673)	(1,279,673)	-	-	-
Cash dividends – 10%	-	-	-	-	-	-	-	-	-	(4,167,245)	(4,167,245)	-	-	(4,167,245)
Stock dividends – 20%	833,449	8,334,490	-	-	-	-	-	-	-	(8,334,490)	(8,334,490)	-	-	-
Remuneration to directors and supervisors	-	-	-	-	-	-	-	-	-	(575,853)	(575,853)	-	-	(575,853)
Issuance of capital stock, June 24, 2005 - \$20 per share	300,000	3,000,000	2,989,200	-	-	-	2,989,200	-	-	-	-	-	-	5,989,200
Conversion of bonds into capital stock	28,792	287,917	-	-	-	235,668	235,668	-	-	-	-	-	-	523,585
Issuance of shares upon exercise of employee stock options	56,679	566,790	(26,318)	-	-	-	(26,318)	-	-	-	-	-	-	540,472
Sales of treasury stock – 7,321 thousand shares at \$24.9 per share	-	-	-	-	29,909	-	29,909	-	-	-	-	-	151,837	181,746
Retirement of treasury stock – 25,748 thousand shares	(25,748)	(257,480)	(60,128)	-	(69,775)	(20,921)	(150,824)	-	-	(125,710)	(125,710)	-	534,014	-
Adjustment for changes in shareholders' equities of equity-accounted investees	-	-	-	12,574	-	-	12,574	-	-	(9,568)	(9,568)	(8,728)	-	(5,722)
Cash dividend received by subsidiary from parent company	-	-	-	-	3,290	-	3,290	-	-	-	-	-	-	3,290
Net income for the six months ended June 30, 2005	-	-	-	-	-	-	-	-	-	3,021,346	3,021,346	-	-	3,021,346
BALANCE, JUNE 30, 2005	5,511,756	\$ 55,117,564	\$ 12,694,087	\$ 20,761	\$ 3,290	\$ 3,572,524	\$ 16,290,662	\$ 2,132,816	\$ 252	\$ 7,084,069	\$ 9,217,137	\$ (8,980)	\$ (302,725)	\$ 80,313,658
BALANCE, JANUARY 1, 2004	3,387,637	\$ 33,876,372	\$ 3,695,090	\$ 14,519	\$ -	\$ 1,352,405	\$ 5,062,014	\$ -	\$ -	\$ 13,083	\$ 13,083	\$ 874	\$ (1,002,690)	\$ 37,949,653
Appropriation for legal reserve	-	-	-	-	-	-	-	1,308	-	(1,308)	-	-	-	-
Issuance of capital stock, June 17, 2004 - \$24 per share (certain portion issued as Global Depositary Shares)	400,000	4,000,000	5,581,532	-	-	-	5,581,532	-	-	-	-	-	-	9,581,532
Conversion of bonds into capital stock	258,876	2,588,762	-	-	-	1,723,259	1,723,259	-	-	-	-	-	-	4,312,021
Issuance of shares upon exercise of employee stock options	44,000	440,000	327,016	-	-	-	327,016	-	-	-	-	-	-	767,016
Sales of treasury stock - 4,692 thousand shares at average of \$24.14 per share	-	-	-	-	20,058	-	20,058	-	-	(2,337)	(2,337)	-	95,529	113,250
Adjustment for changes in shareholders' equities of equity-accounted investees	-	-	-	(3,478)	-	-	(3,478)	-	-	71	71	-	-	(3,407)

Net income for the six months ended June 30, 2004	-	-	-	-	-	-	-	-	-	<u>8,587,791</u>	<u>8,587,791</u>	-	-	<u>8,587,791</u>
BALANCE, JUNE 30, 2004	<u>4,090,513</u>	<u>\$ 40,905,134</u>	<u>\$ 9,603,638</u>	<u>\$ 11,041</u>	<u>\$ 20,058</u>	<u>\$ 3,075,664</u>	<u>\$ 12,710,401</u>	<u>\$ 1,308</u>	<u>\$ -</u>	<u>\$ 8,597,300</u>	<u>\$ 8,598,608</u>	<u>\$ 874</u>	<u>\$ (907,161)</u>	<u>\$ 61,307,856</u>

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

(With Deloitte & Touche audit report dated July 12, 2005)

POWERCHIP SEMICONDUCTOR CORPORATION

STATEMENTS OF CASH FLOWS FOR THE SIX MONTHS ENDED JUNE 30, 2005 and 2004 (In Thousands of New Taiwan Dollars)

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 3,021,346	\$ 8,587,791
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	7,117,736	5,201,134
Amortization	706,219	442,868
Unrealized intercompany profit	7,283	-
Provision (reversal of allowance) for decline in value of short-term investments	(188,777)	242,884
Provision (reversal of allowance) for bad debts	(1,410)	11,253
Provision for sales discount	10,000	-
Provision for losses on inventories and spare parts	72,200	23,671
Investment income recognized by equity method, net	(33,889)	(75,980)
Impairment loss on long-term investments	-	7,357
Cash dividends from long-term investments under equity method	23,102	8,400
Amortization of discount on long-term bond investments	(100)	(150)
Gain on sales of long-term investments, net	(305,918)	(6,305)
Loss on disposal of properties, net	15,946	44,073
Deferred income tax	(250,537)	786,585
Amortization of discount on commercial paper issued	1,720	5,026
Foreign exchange gain from convertible bonds payable	(96,151)	(65,089)
Foreign exchange loss (gain) from long-term bank loans	47,520	(44,573)
Issuance costs of the early redeemed convertible bonds	-	305
Changes in operating assets and liabilities:		
Notes and accounts receivable	(6,459)	(2,441,983)
Other receivables	43,028	11,248
Inventories	(633,179)	(348,216)
Prepaid expenses	61,080	87,035
Forward contract receivable	151,231	92,386
Other current assets	(10,446)	(11,767)
Accounts payable	481,866	478,252
Accrued expenses	(509,665)	(43,501)
Other current liabilities	131,682	10,431
Accrued pension costs	<u>16,524</u>	<u>7,618</u>
Net cash provided by operating activities	<u>9,871,952</u>	<u>13,010,753</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in short-term investments	(980,352)	(403,288)
Acquisition of:		
Properties	(22,508,079)	(9,916,065)
Long-term investments	(571,141)	(885,035)
Deferred charges	(733,483)	(1,061,488)
Decrease in pledged time deposits	629,116	531,537

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	2005	2004
Proceeds from disposal of		
Long-term investments	\$ 452,805	\$ 64,805
Properties	198,809	3,700
Increase in spare parts	(1,813)	(64,708)
Increase in other assets	(7,212)	-
Increase in refundable deposits	<u>(6,035)</u>	<u>(749)</u>
Net cash used in investing activities	<u>(23,527,385)</u>	<u>(11,731,291)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in short-term bank borrowings	-	(582,500)
Proceeds from:		
Issuance of capital stock	5,989,200	9,581,532
Issuance of convertible bonds	15,098,080	5,029,500
Long-term bank loans	5,000,000	3,805,000
Exercise of employee stock options	540,472	767,016
Sales of treasury stock	181,746	113,250
Repayments of long-term bank loans	(2,214,405)	(2,386,888)
Redemption of convertible bonds	-	(16,635)
Decrease in capital lease obligation	(82,555)	(95,063)
Increase in guarantee deposits	291	403
Cash bonus to employees	(639,837)	-
Cash dividend paid for common stock	(4,167,245)	-
Remuneration paid to directors and supervisors	<u>(575,853)</u>	<u>-</u>
Net cash provided by financing activities	<u>19,129,894</u>	<u>16,215,615</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	5,474,461	17,495,077
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>\$ 40,499,930</u>	<u>\$ 28,882,493</u>
SUPPLEMENTAL INFORMATION		
Interest paid (excluding amounts capitalized of \$ 108,603 thousand in 2005 and \$71,331 thousand in 2004)	<u>\$ 252,942</u>	<u>\$ 278,129</u>
Income tax paid	<u>\$ 25,400</u>	<u>\$ 3,930</u>
Noncash investing and financing activities		
Current portion of long-term liabilities	<u>\$ 5,539,222</u>	<u>\$ 5,683,781</u>
Transfer of long-term investments to short-term investments	<u>\$ 102,512</u>	<u>\$ 36,455</u>
Transfer of properties to deferred charges	<u>\$ 935</u>	<u>\$ -</u>
Conversion of bonds	<u>\$ 523,585</u>	<u>\$ 4,312,021</u>
Cash paid for acquisition of properties		
Total acquisition	\$ 25,052,833	\$ 13,226,746
Payable, beginning of period	14,716,266	15,875,195
Payable, end of period	<u>(17,261,020)</u>	<u>(19,185,876)</u>
	<u>\$ 22,508,079</u>	<u>\$ 9,916,065</u>

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

(With Deloitte & Touche audit report dated July 12, 2005)

(Concluded)

