

# **Powerchip Semiconductor Corporation**

**Financial Statements for the  
Nine Months Ended September 30, 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 September 30, 2005 and 2004, and the related statements of income and cash flows for the nine 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 nine months ended September 30, 2005 and 2004 of investees accounted for by the equity method of accounting. The carrying values of those investments as of September 30, 2005 and 2004 amounting to \$5,020,170 thousand and \$3,120,234 thousand, and the related investment net incomes for the nine months ended September 30, 2005 and 2004 amounting to \$29,200 thousand and \$61,236 thousand, respectively. These investment amounts, as well as related information as disclosed in Note 21 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 adjustments, 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.

October 13, 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

SEPTEMBER 30, 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                | %          |
| <b>CURRENT ASSETS</b>  |                       |            |                       |            | <b>CURRENT LIABILITIES</b>   |                       |            |                       |            |
| Cash and cash equivalents (Notes 2 and 3)  | \$ 35,625,622         | 24         | \$ 30,175,483         | 26         | Accounts payable (Note 18)   |                       |            |                       |            |
| Short-term investments, net (Notes 2 and 4)  | 2,733,734             | 2          | 1,048,216             | 1          | Related parties  | \$ 559,914            | -          | \$ 392,778            | -          |
| Accounts receivable (Notes 2, 18 and 19)   |                       |            |                       |            | Third parties  | 4,472,191             | 3          | 3,902,943             | 4          |
| Related parties, net of allowance for doubtful accounts of \$17,673 thousand in 2005 |                       |            |                       |            | Accrued expenses (Notes 18 and 21)   | 2,325,364             | 2          | 1,346,196             | 1          |
| and \$17,024 thousand in 2004 and for sales discount of \$35,000 thousand in 2005    | 1,768,641             | 1          | 1,674,797             | 2          | Payable on equipment   | 15,627,101            | 10         | 16,467,813            | 15         |
| Third parties, net of allowance for doubtful accounts of \$41,491 thousand in 2005   |                       |            |                       |            | Convertible bonds payable (Notes 2 and 9)  | 5,375,759             | 4          | 1,353,141             | 1          |
| and \$98,071 thousand in 2004 and for sales discount of \$65,000 thousand in 2005    | 2,960,146             | 2          | 3,508,617             | 3          | Current portion of long-term bank loans (Notes 10 and 19)                        | 5,831,667             | 4          | 4,761,067             | 4          |
| Other receivables (Notes 2 and 21)   | 290,242               | -          | 287,977               | -          | Current portion of long-term obligation under capital lease (Notes 2 and 7)      | 41,278                | -          | 168,890               | -          |
| Inventories, net (Notes 2 and 5)   | 6,642,203             | 4          | 4,667,745             | 4          | Current portion of long-term payable on equipment                                | -                     | -          | 521,170               | 1          |
| Prepaid expenses   | 99,422                | -          | 72,076                | -          | Other current liabilities (Note 21)  | 122,941               | -          | 73,107                | -          |
| Deferred income tax assets - current (Notes 2 and 15)                                | 1,347,914             | 1          | 116,304               | -          |  |                       |            |                       |            |
| Restricted deposits (Note 19)  | 1,502,878             | 1          | 2,193,971             | 2          | Total current liabilities  | <u>34,356,215</u>     | <u>23</u>  | <u>28,987,105</u>     | <u>26</u>  |
| Other current assets (Note 2)  | 16,913                | -          | 13,772                | -          |  |                       |            |                       |            |
| Total current assets   | <u>52,987,715</u>     | <u>35</u>  | <u>43,758,958</u>     | <u>38</u>  | <b>LONG-TERM LIABILITIES</b>   |                       |            |                       |            |
| <b>LONG-TERM INVESTMENTS (Notes 2, 6 and 18)</b>                                     |                       |            |                       |            | Convertible bonds payable (Notes 2 and 9)  | 14,720,993            | 10         | 5,371,171             | 5          |
| Equity method  | 5,020,170             | 3          | 3,120,234             | 3          | Long-term bank loans, net of current portion (Notes 10 and 19)                   | 17,448,792            | 11         | 10,555,394            | 9          |
| Cost method  | 747,754               | 1          | 1,067,288             | 1          | Long-term obligation under capital lease, net of current portion (Notes 2 and 7) | -                     | -          | 41,250                | -          |
| Prepayments  | -                     | -          | 22,000                | -          |  |                       |            |                       |            |
| Bond   | 334,696               | -          | 274,825               | -          | Total long-term liabilities  | <u>32,169,785</u>     | <u>21</u>  | <u>15,967,815</u>     | <u>14</u>  |
| Total long-term investments  | <u>6,102,620</u>      | <u>4</u>   | <u>4,484,347</u>      | <u>4</u>   | <b>OTHER LIABILITIES</b>   |                       |            |                       |            |
| <b>PROPERTIES (Notes 2, 7, 18 and 19)</b>  |                       |            |                       |            | Accrued pension cost (Notes 2 and 11)  | 34,155                | -          | 49,277                | -          |
| Cost   |                       |            |                       |            | Guarantee deposits   | 5,879                 | -          | 5,516                 | -          |
| Buildings  | 7,753,280             | 5          | 6,428,102             | 6          |  |                       |            |                       |            |
| Machinery and equipment  | 106,960,833           | 71         | 75,838,835            | 67         | Total other liabilities  | <u>40,034</u>         | <u>-</u>   | <u>54,793</u>         | <u>-</u>   |
| Research and development equipment   | 412,657               | -          | 311,143               | -          |  |                       |            |                       |            |
| Facility equipment   | 15,784,996            | 11         | 11,380,785            | 10         | Total liabilities  | <u>66,566,034</u>     | <u>44</u>  | <u>45,009,713</u>     | <u>40</u>  |
| Transportation equipment   | 19,822                | -          | 21,554                | -          | <b>SHAREHOLDERS' EQUITY (Notes 12 and 13)</b>                                    |                       |            |                       |            |
| Office equipment   | 359,505               | -          | 301,763               | -          | Capital stock, NT\$10 par value  |                       |            |                       |            |
| Equipment under capital lease  | 761,708               | -          | 761,708               | 1          | Authorized - 7,500,000 thousand shares in 2005 and 5,500,000 thousand            |                       |            |                       |            |
| Miscellaneous equipment  | 826,290               | 1          | 429,997               | -          | shares in 2004   |                       |            |                       |            |
|  | 132,879,091           | 88         | 95,473,887            | 84         | Issued - 5,575,267 thousand shares in 2005 and 4,134,727 thousand shares         | 55,752,674            | 37         | 41,347,273            | 36         |
| Accumulated depreciation   | (54,581,982)          | (36)       | (40,442,781)          | (36)       | in 2004  |                       |            |                       |            |
|  | 78,297,109            | 52         | 55,031,106            | 48         | Capital surplus (Notes 2 and 12)   |                       |            |                       |            |
| Construction in progress   | -                     | -          | 605,624               | 1          | Paid-in capital in excess of par value   | 12,727,952            | 8          | 9,721,557             | 8          |
| Advance payments   | 8,043,326             | 6          | 5,311,805             | 5          | Arising from conversion of bonds   | 3,974,027             | 3          | 3,183,734             | 3          |
|  |                       |            |                       |            | Arising from treasury stock  | 3,290                 | -          | 10,701                | -          |
| Net properties   | <u>86,340,435</u>     | <u>58</u>  | <u>60,948,535</u>     | <u>54</u>  | Arising from long-term investments   | 20,730                | -          | 11,040                | -          |
| <b>OTHER ASSETS</b>  |                       |            |                       |            | Retained earnings  |                       |            |                       |            |
| Assets leased to others, net (Note 2)  | 165,316               | -          | 143,461               | -          | Appropriation for legal reserve  | 2,132,816             | 2          | 1,308                 | -          |
| Refundable deposits  | 29,644                | -          | 23,427                | -          | Appropriation for special reserve  | 252                   | -          | -                     | -          |
| Deferred charges, net (Notes 2, 8, 18 and 20)  | 3,473,736             | 2          | 2,303,611             | 2          | Unappropriated earnings  | 9,356,438             | 6          | 15,575,559            | 14         |
| Deferred income tax assets - noncurrent (Notes 2 and 15)                             | 674,698               | 1          | 1,372,414             | 1          | Cumulative translation adjustments (Note 2)                                      | (8,038)               | -          | 874                   | -          |
| Land (Notes 6 and 19)  | -                     | -          | 311,510               | -          | Treasury stock (Notes 2 and 14)  | (302,725)             | -          | (1,136,640)           | (1)        |
| Spare parts, net   | 431,315               | -          | 370,373               | 1          |  |                       |            |                       |            |
| Others   | 17,971                | -          | 8,483                 | -          | Total shareholders' equity   | <u>83,657,416</u>     | <u>56</u>  | <u>68,715,406</u>     | <u>60</u>  |
| Total other assets   | <u>4,792,680</u>      | <u>3</u>   | <u>4,533,279</u>      | <u>4</u>   | <b>TOTAL</b>   | <u>\$ 150,223,450</u> | <u>100</u> | <u>\$ 113,725,119</u> | <u>100</u> |
| <b>TOTAL</b>   | <u>\$ 150,223,450</u> | <u>100</u> | <u>\$ 113,725,119</u> | <u>100</u> |  |                       |            |                       |            |

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

(With Deloitte & Touche review report dated October 13, 2005)

**POWERCHIP SEMICONDUCTOR CORPORATION**

**STATEMENTS OF INCOME  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2005 AND 2004  
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)  
(Reviewed, Not Audited)**

|  | <u>2005</u>       |           | <u>2004</u>       |           |
|--|-------------------|-----------|-------------------|-----------|
|  | <u>Amount</u>     | <u>%</u>  | <u>Amount</u>     | <u>%</u>  |
| GROSS SALES  | \$ 39,245,520     |           | \$ 41,470,596     |           |
| SALES RETURNS AND ALLOWANCES   | <u>1,816,820</u>  |           | <u>486,572</u>    |           |
| NET SALES (Notes 2 and 18)   | 37,428,700        | 100       | 40,984,024        | 100       |
| COST OF SALES (Notes 16 and 18)  | <u>30,592,534</u> | <u>81</u> | <u>22,536,086</u> | <u>55</u> |
| GROSS PROFIT BEFORE UNREALIZED<br>INTERCOMPANY GROSS PROFIT                      | 6,836,166         | 19        | 18,447,938        | 45        |
| UNREALIZED INTERCOMPANY PROFIT (Note 2)  | <u>(4,088)</u>    | <u>-</u>  | <u>-</u>          | <u>-</u>  |
| GROSS PROFIT   | <u>6,832,078</u>  | <u>19</u> | <u>18,447,938</u> | <u>45</u> |
| OPERATING EXPENSES (Notes 16 and 18)   |                   |           |                   |           |
| Selling  | 198,363           | 1         | 175,769           | -         |
| General and administrative   | 1,168,929         | 3         | 740,101           | 2         |
| Research and development   | <u>1,227,160</u>  | <u>3</u>  | <u>763,621</u>    | <u>2</u>  |
| Total operating expenses   | <u>2,594,452</u>  | <u>7</u>  | <u>1,679,491</u>  | <u>4</u>  |
| OPERATING INCOME   | <u>4,237,626</u>  | <u>12</u> | <u>16,768,447</u> | <u>41</u> |
| NONOPERATING INCOME AND GAIN   |                   |           |                   |           |
| Gain on sales of investments, net (Note 2)                                       | 389,372           | 1         | 349,034           | 1         |
| Interest (Note 2)  | 302,380           | 1         | 116,474           | -         |
| Reversal of allowance for decline in value of short-term<br>investments (Note 2) | 161,646           | 1         | -                 | -         |
| Foreign exchange gain, net (Notes 2 and 21)                                      | 57,964            | -         | 158,074           | 1         |
| Dividend income (Note 2)   | 47,121            | -         | 17,058            | -         |
| Investment income recognized by equity method, net<br>(Notes 2 and 6)            | 29,200            | -         | 61,236            | -         |
| Rebate of ECB/GDR management fee   | 24,593            | -         | 1,379             | -         |
| Indemnity income   | 24,398            | -         | 7,444             | -         |
| Gain on disposal of properties (Note 2)  | 13,609            | -         | 3,180             | -         |
| Other (Note 18)  | <u>63,374</u>     | <u>-</u>  | <u>39,982</u>     | <u>-</u>  |
| Total nonoperating income and gain   | <u>1,113,657</u>  | <u>3</u>  | <u>753,861</u>    | <u>2</u>  |

(Continued)

|   | <u>2005</u>                      |                                 | <u>2004</u>                      |                                 |
|---|----------------------------------|---------------------------------|----------------------------------|---------------------------------|
|   | <u>Amount</u>                    | <u>%</u>                        | <u>Amount</u>                    | <u>%</u>                        |
| <b>NONOPERATING EXPENSES AND LOSSES</b>                           |                                  |                                 |                                  |                                 |
| Interest (Notes 2, 7 and 21)                                      | \$ 435,455                       | 1                               | \$ 409,792                       | 1                               |
| Provision for loss on inventories and spare parts (Note 2)        | 83,839                           | 1                               | 67,403                           | 1                               |
| Loss on disposal of properties (Note 2)                           | 52,854                           | -                               | 49,489                           | -                               |
| Provision for decline in value of short-term investments (Note 2) | -                                | -                               | 386,781                          | 1                               |
| Other   | <u>66,194</u>                    | <u>-</u>                        | <u>59,206</u>                    | <u>-</u>                        |
| Total nonoperating expenses and losses                            | <u>638,342</u>                   | <u>2</u>                        | <u>972,671</u>                   | <u>3</u>                        |
| INCOME BEFORE INCOME TAX  | 4,712,941                        | 13                              | 16,549,637                       | 40                              |
| INCOME TAX BENEFIT (EXPENSE) (Notes 2 and 15)                     | <u>580,774</u>                   | <u>1</u>                        | <u>(983,588)</u>                 | <u>(2)</u>                      |
| NET INCOME  | <u>\$ 5,293,715</u>              | <u>14</u>                       | <u>\$ 15,566,049</u>             | <u>38</u>                       |
|   | <u>2005</u>                      |                                 | <u>2004</u>                      |                                 |
|   | <b>Before<br/>Income<br/>Tax</b> | <b>After<br/>Income<br/>Tax</b> | <b>Before<br/>Income<br/>Tax</b> | <b>After<br/>Income<br/>Tax</b> |
| EARNINGS PER SHARE (Note 17)                                      |                                  |                                 |                                  |                                 |
| Basic earnings per share  | <u>\$ 0.89</u>                   | <u>\$ 1.00</u>                  | <u>\$ 3.64</u>                   | <u>\$ 3.42</u>                  |
| Diluted earnings per share  | <u>\$ 0.78</u>                   | <u>\$ 0.88</u>                  | <u>\$ 3.29</u>                   | <u>\$ 3.10</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:

|                            | <u>2005</u>                      |                                 | <u>2004</u>                      |                                 |
|----------------------------|----------------------------------|---------------------------------|----------------------------------|---------------------------------|
|                            | <u>Before<br/>Income<br/>Tax</u> | <u>After<br/>Income<br/>Tax</u> | <u>Before<br/>Income<br/>Tax</u> | <u>After<br/>Income<br/>Tax</u> |
| NET INCOME                 | <u>\$ 5,284,790</u>              |                                 | <u>\$15,596,971</u>              |                                 |
|                            | <u>2005</u>                      |                                 | <u>2004</u>                      |                                 |
|                            | <b>Before<br/>Income<br/>Tax</b> | <b>After<br/>Income<br/>Tax</b> | <b>Before<br/>Income<br/>Tax</b> | <b>After<br/>Income<br/>Tax</b> |
| EARNINGS PER SHARE         |                                  |                                 |                                  |                                 |
| Basic earnings per share   | <u>\$ 0.89</u>                   | <u>\$ 1.00</u>                  | <u>\$ 3.64</u>                   | <u>\$ 3.43</u>                  |
| Diluted earnings per share | <u>\$ 0.78</u>                   | <u>\$ 0.88</u>                  | <u>\$ 3.29</u>                   | <u>\$ 3.10</u>                  |

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

(With Deloitte & Touche review report dated October 13, 2005)

(Concluded)

**POWERCHIP SEMICONDUCTOR CORPORATION**

**STATEMENTS OF CASH FLOWS  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2005 AND 2004  
(In Thousands of New Taiwan Dollars)  
(Reviewed, Not Audited)**

|   | <b>2005</b>       | <b>2004</b>       |
|---|-------------------|-------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                       |                   |                   |
| Net income  | \$ 5,293,715      | \$ 15,566,049     |
| Adjustments to reconcile net income to net cash provided by operating activities: |                   |                   |
| Depreciation  | 11,403,929        | 8,139,573         |
| Amortization  | 1,085,420         | 684,177           |
| Unrealized intercompany profit  | 4,088             | -                 |
| Provision (reversal of allowance) for decline in value of short-term investments  | (161,646)         | 386,781           |
| Provision (reversal of allowance) for bad debts                                   | 11,329            | (890)             |
| Provision for sales discounts   | 70,000            | -                 |
| Provision for losses on inventories and spare parts                               | 83,839            | 67,403            |
| Investment income recognized by equity method, net                                | (29,200)          | (61,236)          |
| Impairment loss on long-term investments  | 4,026             | 7,357             |
| Cash dividends from long-term investments under equity method                     | 23,102            | 8,400             |
| Amortization of discount on long-term bond investments                            | (100)             | (225)             |
| Gain on sales of long-term investments, net                                       | (305,926)         | (48,626)          |
| Loss on disposal of properties, net   | 39,245            | 46,309            |
| Deferred income tax (benefit) expense   | (590,143)         | 981,249           |
| Amortization of discount on commercial paper issued                               | 2,571             | 7,356             |
| Foreign exchange gain (loss) from convertible bonds payable                       | 389,442           | (21,082)          |
| Foreign exchange gain (loss) from long-term bank loans                            | 47,520            | (32,704)          |
| Issuance costs of the early redeemed convertible bonds                            | -                 | 318               |
| Changes in operating assets and liabilities:                                      |                   |                   |
| Accounts receivable   | (906,838)         | (2,361,861)       |
| Other receivables   | 16,201            | (108,284)         |
| Inventories   | (1,591,017)       | (1,157,965)       |
| Prepaid expenses  | 90,361            | 117,352           |
| Forward contract receivable   | 125,437           | -                 |
| Other current assets  | (5,813)           | (11,373)          |
| Accounts payable  | 34,535            | 784,569           |
| Forward contract payable  | -                 | 148,086           |
| Accrued expenses  | (271,960)         | 94,057            |
| Other current liabilities   | 87,733            | 20,005            |
| Accrued pension cost  | (17,364)          | 11,450            |
| Net cash provided by operating activities   | <u>14,932,486</u> | <u>23,266,245</u> |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                       |                   |                   |
| Increase in short-term investments  | (1,502,475)       | (12,567)          |
| Decrease in restricted deposits   | 620,339           | 872,043           |
| Acquisition of:   |                   |                   |
| Long-term investments   | (1,429,665)       | (1,052,369)       |
| Properties  | (33,212,577)      | (20,592,803)      |

(Continued)

|   | 2005                 | 2004                 |
|---|----------------------|----------------------|
| Deferred charges  | \$ (864,692)         | \$ (1,366,466)       |
| Other assets  | (9,111)              | (657)                |
| Proceeds from sales of:   |                      |                      |
| Properties  | 212,810              | 8,389                |
| Long-term investments   | 452,815              | 119,545              |
| Increase in spare parts   | (36,726)             | (76,612)             |
| Increase in refundable deposits   | <u>(6,217)</u>       | <u>(1,352)</u>       |
| Net cash used in investing activities   | <u>(35,775,499)</u>  | <u>(22,102,849)</u>  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>   |                      |                      |
| Decrease in short-term bank borrowings  | -                    | (582,500)            |
| Proceeds from:  |                      |                      |
| Issuance of convertible bonds   | 15,098,080           | 5,299,417            |
| Issuance of capital stock   | 5,989,200            | 9,581,532            |
| Exercise of employee stock option   | 784,986              | 1,186,685            |
| Long-term bank loans  | 8,000,000            | 6,305,000            |
| Sales of treasury stock   | 181,746              | 139,051              |
| Repayments of long-term bank loans  | (3,104,386)          | (3,884,199)          |
| Decrease in obligation under capital lease  | (123,832)            | (140,093)            |
| Redemption of convertible bonds   | -                    | (17,650)             |
| Increase in guarantee deposits  | 307                  | 2,065                |
| Reacquisition of issued stock   | -                    | (264,637)            |
| 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>21,443,166</u>    | <u>17,624,671</u>    |
| NET INCREASE IN CASH AND CASH EQUIVALENTS   | 600,153              | 18,788,067           |
| 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>\$ 35,625,622</u> | <u>\$ 30,175,483</u> |
| <b>SUPPLEMENTAL INFORMATION</b>   |                      |                      |
| Interest paid (excluding amounts capitalized of \$129,609 thousand in 2005 and \$93,476 thousand in 2004) | <u>\$ 425,569</u>    | <u>\$ 451,526</u>    |
| Income tax paid   | <u>\$ 33,695</u>     | <u>\$ 9,285</u>      |
| Noncash investing and financing activities  |                      |                      |
| Transfer of long-term investments to short-term investments   | <u>\$ 102,512</u>    | <u>\$ 36,455</u>     |
| Current portion of long-term liabilities  | <u>\$ 5,872,945</u>  | <u>\$ 5,451,127</u>  |
| Conversion of bonds   | <u>\$ 1,349,549</u>  | <u>\$ 4,560,480</u>  |
| Transfer of properties to deferred charges  | <u>\$ 935</u>        | <u>\$ -</u>          |
| Reclassification of properties to assets leased to others   | <u>\$ -</u>          | <u>\$ 144,628</u>    |
| Cash paid for acquisition of properties   |                      |                      |
| Total acquisition   | \$ 34,123,412        | \$ 21,706,591        |
| Payable, beginning of period  | 14,716,266           | 15,875,195           |
| Payable, end of period  | <u>(15,627,101)</u>  | <u>(16,988,983)</u>  |
|   | <u>\$ 33,212,577</u> | <u>\$ 20,592,803</u> |

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

(With Deloitte & Touche review report dated October 13, 2005)

(Concluded)

## **POWERCHIP SEMICONDUCTOR CORPORATION**

### **NOTES TO FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2005 AND 2004 (In Thousands of New Taiwan Dollars, Unless Specified Otherwise) (Reviewed, Not Audited)**

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#### **1. ORGANIZATION AND OPERATION**

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

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

As of September 30, 2005 and 2004, the Corporation had 4,508 and 3,489 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 accounts; allowance for sales discount; allowance for loss on inventories and spare parts; depreciation of properties; amortization of deferred charges; and pension expenses. However, actual results could differ from those estimates because of the uncertainty of circumstances.

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

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

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

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

##### **Cash Equivalents**

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

### **Short-term Investments**

Short-term investments are mainly listed stocks, bonds purchased under resale agreements, credit-linked notes 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. Stock dividends received are recorded as an increase in the number of shares held and do not affect investment income or the carrying amount of the investment. Cash dividends received are recognized as investment income in the year received but are accounted for as reductions in the carrying amount of the short-term investments if the dividend are received in the same year that the related investments are acquired.

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

The market value of the listed stocks is 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. The Corporation evaluates the collectibility of individual receivables periodically.

### **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. Stock dividends received are recorded as an increase in the number of shares held on the ex-dividend date and do not affect investment income or the carrying amount of the investment. Cash dividend received is accounted for as a reduction of carrying value of long-term investments accounts. When an indication of significant impairment is identified in an investee company, any excess of the carrying amount of an investment over its recoverable amount is recognized as a 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 earning.

Other stock investments are accounted for by the cost method. Stock dividends received are recognized only as increase in the number of shares held on the ex-dividend date. 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. When an indication of significant impairment is identified in an investee company, the carrying amount of this investment is reduced to reflect an other-than-temporary decline, with the related impairment loss charged to current income.

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. The cash dividends received by the subsidiaries from the Corporation are credited to paid-in capital from treasury stock.

Investments in bonds are carried at amortized costs. Discounts are amortized over the remaining life of the bonds and charged to interest income. Costs of bonds are determined by the specific identification method.

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, 5 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 5 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 historical experiences and 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.

### **Classification of Expenditure and Capitalization**

Expenditures incurred for the amount of \$60 thousand and above are recorded as assets if the periods of expected future benefit are reasonably determinable; others are recorded as expenses or losses.

### **Pension Costs**

Starting from July 1, 2005, employees are required to choose between the two pension plans available in the Corporation. For employees under defined contribution pension plans, pension costs are recorded based on the actual contributions made to employees' individual pension accounts. For employees under defined benefit pension plans, pension costs are recorded based on actuarial calculations.

### **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 nine months ended September 30, 2004 have been reclassified to conform to the financial statements as of and for the nine months ended September 30, 2005.

**3. CASH AND CASH EQUIVALENTS**

|                            | <u>September 30</u>  |                      |
|----------------------------|----------------------|----------------------|
|                            | <u>2005</u>          | <u>2004</u>          |
| Time deposits              | \$ 32,779,414        | \$ 24,604,293        |
| Commercial paper purchased | 1,576,487            | 5,464,363            |
| Demand deposits            | 1,260,794            | 98,749               |
| Checking accounts          | 8,827                | 7,958                |
| Cash on hand               | <u>100</u>           | <u>120</u>           |
|                            | <u>\$ 35,625,622</u> | <u>\$ 30,175,483</u> |

As of September 30, 2005 and 2004, overseas bank deposits are summarized as follows:

|  | <u>September 30</u> |                  |
|--|---------------------|------------------|
|  | <u>2005</u>         | <u>2004</u>      |
| Luxembourg - US\$2,629 thousand in 2005 and US\$2,573 thousand in 2004 | \$ 87,256           | \$ 87,441        |
| Japan - JPY245,250 thousand  | 71,858              | -                |
| Hong Kong - US\$1 thousand   | -                   | 40               |
|  | <u>\$ 159,114</u>   | <u>\$ 87,481</u> |

#### 4. SHORT-TERM INVESTMENTS

|  | <u>September 30</u> |                     |
|--|---------------------|---------------------|
|  | <u>2005</u>         | <u>2004</u>         |
| Listed stocks                                    | \$ 2,566,874        | \$ 1,191,666        |
| Beneficiary certificates                         |                     |                     |
| Mutual funds                                     | 360,050             | 100,000             |
| Credit-linked notes with unfixed interest income | -                   | 143,331             |
| Bonds purchased under resale agreements          | <u>66,770</u>       | <u>-</u>            |
|  | 2,993,694           | 1,434,997           |
| Allowance for decline in value                   | <u>(259,960)</u>    | <u>(386,781)</u>    |
|  | <u>\$ 2,733,734</u> | <u>\$ 1,048,216</u> |

The market values of mutual funds and credit-linked notes with unfixed interest income as of September 30, 2005 and 2004 were \$362,067 thousand and \$257,854 thousand, respectively, based on their net asset value as of September 30. The market values of listed stocks on September 30, 2005 and 2004 were \$2,304,897 thousand and \$790,362 thousand, respectively, based on average closing price of listed stocks in September.

The listed stocks above with carrying amount of \$8,836 thousand as of September 30, 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.

Bonds as of September 30, 2005 were contracted to be resold for \$66,993 thousand before October 17, 2005.

#### 5. INVENTORIES

|                      | <u>September 30</u> |                     |
|----------------------|---------------------|---------------------|
|                      | <u>2005</u>         | <u>2004</u>         |
| Finished goods       | \$ 436,693          | \$ 670,117          |
| Work in process      | 4,922,103           | 3,289,937           |
| Materials            | <u>1,410,882</u>    | <u>834,617</u>      |
|                      | 6,769,678           | 4,794,671           |
| Allowance for losses | <u>(127,475)</u>    | <u>(126,926)</u>    |
|                      | <u>\$ 6,642,203</u> | <u>\$ 4,667,745</u> |

## 6. LONG-TERM INVESTMENTS

|   | September 30     |                        |                  |                        |
|---|------------------|------------------------|------------------|------------------------|
|   | 2005             |                        | 2004             |                        |
|   | Amount           | % of<br>Owner-<br>ship | Amount           | % of<br>Owner-<br>ship |
| <u>Investment in shares of stock</u>                      |                  |                        |                  |                        |
| Equity method   |                  |                        |                  |                        |
| Quantum Vision Corp. (Quantum)                            | \$ 1,498,877     | 99.99                  | \$ 1,233,067     | 99.99                  |
| Li-Hsin Investment Corp. (Li-Hsin)                        | 764,898          | 99.87                  | 539,411          | 99.83                  |
| Lu-Chu Development Corp. (Lu-Chu)                         | 568,454          | 24.40                  | -                | -                      |
| Paramax Corp. (Paramax)                                   | 549,114          | 99.99                  | 356,459          | 99.99                  |
| Novax Technologies, Inc. (Novax)                          | 289,531          | 24.66                  | 81,405           | 12.10                  |
| Luxxon Technology Corp. (Luxxon)                          | 149,996          | 20.73                  | 138,397          | 18.10                  |
| Syntronix Corp. (Syntronix)                               | 147,817          | 47.04                  | 120,767          | 47.04                  |
| Deutron Electronics Corp. (Deutron)                       | 137,942          | 9.78                   | 95,877           | 10.29                  |
| Smart Art Corp. (Smart Art)                               | 119,921          | 48.00                  | -                | -                      |
| Optimicro Corp. (Optimicro)                               | 119,581          | 30.00                  | -                | -                      |
| Synage Technology Corp. (Synage)                          | 88,400           | 20.17                  | -                | -                      |
| Artrix International Inc. (Artrix)                        | 87,167           | 23.36                  | -                | -                      |
| Zentel Electronics Corp. (Zentel)                         | 82,243           | 36.80                  | 81,471           | 36.80                  |
| Deutron Japan Corp. (Deutron-Japan)                       | 81,786           | 38.98                  | 90,020           | 44.00                  |
| Astel Electronics Corp. (Astel)                           | 80,000           | 40.00                  | -                | -                      |
| Zhi-Li Investment Inc. (Zhi-Li)                           | 66,585           | 33.25                  | -                | -                      |
| Tekmax Development Corp. (Tekmax)                         | 63,602           | 15.77                  | 31,100           | 14.00                  |
| PowerFlash Semiconductor Corp. (PowerFlash)               | 33,997           | 32.00                  | 4,000            | 40.00                  |
| MaxEdge Electronics Corp. (MaxEdge)                       | 30,494           | 13.55                  | 124,563          | 13.89                  |
| Smartic Technologies Inc. (Smartic)                       | 25,670           | 25.00                  | -                | -                      |
| Silicon Optronics, Inc. (Silicon)                         | 20,922           | 12.14                  | 15,968           | 17.00                  |
| PowerGate Optical, Inc. (PowerGate)                       | 13,173           | 9.35                   | 9,920            | 10.00                  |
| Maxium Technologies, Inc. (Maxium)                        | -                | -                      | 95,945           | 30.37                  |
| Telmax Technologies Corp. (Telmax)                        | -                | -                      | 90,934           | 21.21                  |
| Synage (eliminated)                                       | -                | -                      | 10,930           | 10.00                  |
|   | <u>5,020,170</u> |                        | <u>3,120,234</u> |                        |
| Cost method   |                  |                        |                  |                        |
| Listed stocks   |                  |                        |                  |                        |
| Optimax Technology Corp. (Optimax)                        | 84,910           | 1.04                   | 117,132          | 1.69                   |
| Powertech Technology Inc. (Powertech)                     | 36,163           | 0.71                   | 95,492           | 1.93                   |
| Unlisted stocks   |                  |                        |                  |                        |
| Asia Pacific Broadband Telecommunications Co., Ltd. (APB) | 114,635          | 0.18                   | 120,000          | 0.18                   |
| PowerWorld Capital Management Corp. (PowerWorld)          | 102,325          | 9.09                   | 138,688          | 9.09                   |
| Besteam Technology Inc. (Besteam)                         | 58,454           | 10.03                  | 95,863           | 10.30                  |
| Advanced Chip Engineering Technology Inc. (ACE)           | 39,352           | 2.94                   | 39,352           | 2.94                   |
| Universal Venture Fund, Inc. (Universal)                  | 38,093           | 4.76                   | 88,000           | 4.76                   |
| e-Phocus, Inc. (e-Phocus), Series B - preferred shares    | 31,520           | 50.00                  | -                | -                      |
| Terax Communication Technologies Inc. (Terax)             | 29,151           | 6.26                   | 9,000            | 1.62                   |
| eMemory Technology Inc. (eMemory)                         | 28,961           | 8.10                   | 40,444           | 8.37                   |
| CHIPSHIP Technology Co., Ltd. (CHIPSHIP)                  | 25,000           | 10.61                  | 25,000           | 12.50                  |

(Continued)

|  | September 30        |                        |                     |                        |
|--|---------------------|------------------------|---------------------|------------------------|
|  | 2005                |                        | 2004                |                        |
|  | Amount              | % of<br>Owner-<br>ship | Amount              | % of<br>Owner-<br>ship |
| TwinMOS Technologies Inc. (TwinMOS)  | \$ 23,109           | 1.34                   | \$ 23,109           | 1.34                   |
| Great Taipei Broadband Co., Ltd. (GTB)   | 22,693              | 1.67                   | 25,000              | 1.67                   |
| Venglobal Capital Fund L.P.  | 16,590              | 5.18                   | 16,590              | 5.18                   |
| EUDAR Technology Inc. (EUDAR)  | 15,420              | 2.20                   | 15,420              | 2.20                   |
| Lightsonic Optoelectronics Inc. (Lightsonic)                                   | 12,252              | 1.83                   | 19,050              | 1.83                   |
| Area East Technology Corp. (Area East)   | 11,692              | 19.97                  | 13,000              | 19.97                  |
| Venglobal International Fund   | 11,217              | 2.83                   | 11,217              | 2.83                   |
| e-Phocus, Series A-preferred stock   | 11,063              | 33.33                  | 11,460              | 33.33                  |
| Taiwan Liposome Co., Ltd. (Liposome)   | 9,000               | 2.39                   | 9,000               | 2.39                   |
| CDIB High Tech Investment Inc. (CDIB)  | 9,000               | 2.11                   | 9,000               | 2.11                   |
| Powerchip Japan Corporation (Powerchip-Japan)                                  | 6,200               | 3.42                   | -                   | -                      |
| Miluku Entertainment Corp. (Miluku)  | 5,000               | 1.80                   | 5,000               | 1.80                   |
| DRAMeXchange Tech. Inc. (DRAMeXchange)   | 3,089               | 4.03                   | 3,089               | 4.03                   |
| Phitech Corp. (Phitech)  | 1,552               | 1.27                   | 2,660               | 1.27                   |
| Jade Pacific Corp. (Jade)  | 1,313               | 1.35                   | 1,313               | 1.35                   |
| e-Phocus   | -                   | 8.52                   | -                   | -                      |
| Billions of Operations Per Second, Inc. (BOPS),<br>Series A - preferred shares | -                   | 1.41                   | -                   | 1.41                   |
| BOPS, Series D - preferred shares  | -                   | 1.12                   | -                   | 1.12                   |
| Globalgate.com, Inc. (Globalgate)  | -                   | 0.93                   | -                   | 0.93                   |
| Ardentec Corp. (Ardentec)  | -                   | -                      | 60,580              | 2.13                   |
| Actrans System Inc. (Actrans)  | -                   | -                      | 28,760              | 8.28                   |
| A-DATA Technologies Co., Ltd. (A-DATA)   | -                   | -                      | 22,000              | 0.63                   |
| Emerging Memory & Logic Solution<br>Incorporation (EMLSI)                      | -                   | -                      | 18,924              | 4.75                   |
| E-Tech, Inc. (E-Tech)  | -                   | -                      | 3,145               | 2.26                   |
|  | <u>747,754</u>      |                        | <u>1,067,288</u>    |                        |
| Prepayments  |                     |                        |                     |                        |
| Tekmax   | -                   |                        | <u>22,000</u>       |                        |
| <u>Investment in bonds</u>   |                     |                        |                     |                        |
| Veutron Corp. (Veutron) - issued in 2005 (I)                                   | 80,000              |                        | -                   |                        |
| MaxEdge - issued in 2002 (II)  | 80,000              |                        | 80,000              |                        |
| MaxEdge - issued in 2002 (I)   | 60,000              |                        | 60,000              |                        |
| Credit Link Note issued by Yuanta Assets Management<br>Limited (CLN)           | 39,696              |                        | -                   |                        |
| MaxEdge - issued in 2005 (I)   | 30,000              |                        | -                   |                        |
| Veutron - issued in 2003 (I)   | 25,000              |                        | 25,000              |                        |
| Veutron Corp. - issued in 2002 (II)  | 20,000              |                        | 20,000              |                        |
| Veutron Corp. - issued in 2002 (I)   | -                   |                        | 89,825              |                        |
|  | <u>334,696</u>      |                        | <u>274,825</u>      |                        |
|  | <u>\$ 6,102,620</u> |                        | <u>\$ 4,484,347</u> |                        |

The information related to the bond investments is as follow:

|                                     | <b>Principal<br/>Amount</b> | <b>Range of<br/>Interest Rate</b> | <b>Maturity Date</b>  |
|-------------------------------------|-----------------------------|-----------------------------------|---|
| Veutron - issued in 2005 (I)        | \$ 80,000                   | 3.50%                             | April 2009  |
| MaxEdge - issued in 2002 (II)       | 80,000                      | 4.48%                             | December 2005   |
| MaxEdge - issued in 2002 (I)        | 60,000                      | 4.48%                             | October 2005  |
| CLN                                 | 39,696                      | 7.17%-7.38%                       | December 2006   |
| MaxEdge - issued in 2005 (I)        | 30,000                      | 3.25%                             | August 2008   |
| Veutron - issued in 2003 (I)        | 25,000                      | 3.50%                             | February 2006   |
| Veutron Corp. - issued in 2002 (II) | 20,000                      | 3.50%                             | 30% of principal repayment in<br>November 2006, and the<br>remaining 70% in November 2007 |
| Veutron Corp. - issued in 2002 (I)  | 90,000                      | 3.95%                             | April 2005  |

Except for CLN investment above which can not be transferred before the maturity date other than the exercise of early redemption right by Yuanta Assets Management Limited, all other 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 May 2005, Novax merged with Maxium with Novax as the surviving company. As the result of the merger, the Corporation owned 25% of Novax and is therefore the investment was accounted for by the equity method.

In January 2005, Telmax and Synage combined to form a new company also named "Synage Technology Corp." as a result of their related capital restructuring. The Corporation owned 20% of Synage after the merger and is therefore the investment was accounted for by the equity method.

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

In the forth quarter of 2004, the Corporation and its subsidiaries subscribed to capital increase of Lu-Chu, and the investment was accounted for by the equity method. The payment of such capital increase subscribed by the Corporation and its subsidiaries was settled partially through land transferred as the payment.

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

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

In the third quarter of 2005, the Corporation invested in Smart Art and Astel, which were accounted for by the equity method.

As of September 30, 2005 and 2004, the Corporation and its subsidiaries owned more than 20% of those investees' outstanding shares. Thus, the investments were accounted for by the equity method. The combined holding percentages are summarized as follows:

|                           | <u>September 30</u> |      |
|---------------------------|---------------------|------|
|                           | 2005                | 2004 |
| Novax (before the merger) | -                   | 35%  |
| Luxxon                    | -                   | 30%  |
| Deutron                   | 21%                 | 21%  |
| Tekmax                    | 32%                 | 28%  |
| MaxEdge                   | 49%                 | 47%  |
| Silicon                   | 22%                 | 30%  |
| PowerGate                 | 27%                 | 30%  |
| Synage                    | -                   | 45%  |

The stocks of Ardentec and EMLSI have been traded on the Taiwan GreTai Securities Market and KOSDAQ in Korea, respectively, during the first quarter of 2005. Thus, the investments of these companies were reclassified to short-term investment.

The 80% shares of Actrans held by the Corporation were converted at the ratio of 5.5:1 to the common stocks of Silicon Storage Technology, Inc. (SSTI), a NASDAQ listed company in the U.S., and the remaining 20% of shares were then sold to SSTI during the second quarter of 2005. The converted shares were reclassified to short-term investment.

The Corporation's investment in Casade Semiconductor Corp. (Casade) was converted into common stocks of Cypress Semiconductor Corp. (CY) under a specifically negotiated price during the second quarter of 2004. The shares of CY were listed on the New York Stock Exchange. Thus, this investment was reclassified to short-term investment.

Investment incomes (losses), which were recognized on the basis of unreviewed financial statements, are summarized as follows:

|               | <u>For the Nine Months Ended</u> |           |
|---------------|----------------------------------|-----------|
|               | <u>September 30</u>              |           |
|               | 2005                             | 2004      |
| Quantum       | \$ 95,229                        | \$ 27,467 |
| Li-Hsin       | (35,254)                         | (14,425)  |
| Lu-Chu        | (1,551)                          | -         |
| Paramax       | (40,269)                         | (5,099)   |
| Novax         | 7,578                            | 6,947     |
| Luxxon        | (23,957)                         | (4,918)   |
| Syntronix     | 19,970                           | 12,275    |
| Deutron       | 45,412                           | 54,823    |
| Smart Art     | (80)                             | -         |
| Optimicro     | (474)                            | -         |
| Synage        | (12,560)                         | -         |
| Aartrix       | (441)                            | -         |
| Zentel        | (3,927)                          | (8,103)   |
| Deutrou-Japan | (6)                              | -         |
| Zhi-Li        | 89                               | -         |

(Continued)

|            | <b>For the Nine Months Ended</b> |                  |
|------------|----------------------------------|------------------|
|            | <b>September 30</b>              |                  |
|            | <b>2005</b>                      | <b>2004</b>      |
| Tekmax     | \$ (30)                          | \$ 3,393         |
| PowerFlash | (6,153)                          | -                |
| MaxEdge    | (18,101)                         | (12,229)         |
| Smartic    | (3,740)                          | -                |
| Silicon    | 6,011                            | (1,032)          |
| PowerGate  | (3,948)                          | (57)             |
| Maxium     | 6,364                            | (493)            |
| Terax      | (962)                            | -                |
| Telmax     | -                                | 2,716            |
| Synage     | -                                | (29)             |
|            | <u>\$ 29,200</u>                 | <u>\$ 61,236</u> |

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

|             | <b>September 30</b> |                   |
|-------------|---------------------|-------------------|
|             | <b>2005</b>         | <b>2004</b>       |
| Cost method |                     |                   |
| Optimax     | \$ 282,471          | \$ 491,588        |
| Powertech   | <u>253,487</u>      | <u>417,181</u>    |
|             | <u>\$ 535,958</u>   | <u>\$ 908,769</u> |

## 7. PROPERTIES

Accumulated depreciation on properties consisted of the following:

|                                    | <b>September 30</b>  |                      |
|------------------------------------|----------------------|----------------------|
|                                    | <b>2005</b>          | <b>2004</b>          |
| Buildings                          | \$ 1,779,311         | \$ 1,463,701         |
| Machinery and equipment            | 43,825,098           | 31,671,239           |
| Research and development equipment | 209,924              | 137,151              |
| Facility equipment                 | 7,846,036            | 6,558,164            |
| Transportation equipment           | 8,318                | 11,382               |
| Office equipment                   | 202,850              | 180,606              |
| Equipment under capital lease      | 364,631              | 235,850              |
| Miscellaneous equipment            | <u>345,814</u>       | <u>184,688</u>       |
|                                    | <u>\$ 54,581,982</u> | <u>\$ 40,442,781</u> |

Total depreciation expenses for the nine months ended September 30, 2005 and 2004 were \$11,390,873 thousand and \$8,138,406 thousand, respectively.

Information on interest capitalization was summarized as follows:

|  | <b>For the Nine Months Ended</b> |             |
|--|----------------------------------|-------------|
|  | <b>September 30</b>              |             |
|  | <b>2005</b>                      | <b>2004</b> |
| Total interest expenses                  | \$ 565,064                       | \$ 503,268  |
| Capitalized amount                       | 129,609                          | 93,476      |
| Rates used in capitalizing the interests | 3.41%-3.77%                      | 4.19%-4.62% |

The Corporation is currently expanding its third manufacturing plant ("FAB 12B") for an estimated total cost of approximately \$30,859,793 thousand. As of September 30, 2005, a total cost of \$30,124,525 thousand has 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:

| <b>Year</b>       | <b>Amount</b>    |
|-------------------|------------------|
| 2005              | \$ 41,869        |
| Implicit interest | <u>(591)</u>     |
|                   | <u>\$ 41,278</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**

|   | <b>September 30</b> |                     |
|---|---------------------|---------------------|
|   | <b>2005</b>         | <b>2004</b>         |
| Technical know-how                      | \$ 2,932,504        | \$ 1,787,432        |
| Computer software system                | 146,369             | 143,419             |
| Test-run costs                          | 137,002             | 202,763             |
| Issuance costs of the convertible bonds | 60,207              | 56,509              |
| Patent                                  | 21,250              | -                   |
| Others                                  | <u>176,404</u>      | <u>113,488</u>      |
|   | <u>\$ 3,473,736</u> | <u>\$ 2,303,611</u> |

Technical know-how fees are amounts mainly paid by the Corporation to Renesas Tech Corp. (Renesas), Elpida Memory Inc. (Elpida) and B 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>September 30</u>  |                     |
|--|----------------------|---------------------|
|  | <u>2005</u>          | <u>2004</u>         |
| Overseas unsecured bonds                                   |                      |                     |
| Issued in 2001 - (Bonds 2001)                              |                      |                     |
| US\$3,547 thousand in 2005 and US\$26,605 thousand in 2004 | \$ 117,718           | \$ 904,144          |
| Issued in 2003 - (Bonds 2003)                              |                      |                     |
| US\$382 thousand in 2005 and US\$13,212 thousand in 2004   | 12,678               | 448,997             |
| Issued in 2004 - (Bonds 2004)                              |                      |                     |
| US\$158,050 thousand in 2005 and 2004                      | 5,245,363            | 5,371,171           |
| Issued in 2005 - (Bonds 2005A)                             |                      |                     |
| US\$142,250 thousand                                       | <u>4,720,993</u>     | <u>-</u>            |
|  | <u>10,096,752</u>    | <u>6,724,312</u>    |
| Domestic unsecured bonds                                   |                      |                     |
| Issued in 2005 - (Bonds 2005B)                             |                      |                     |
| NT\$4,000,000 thousand                                     | 4,000,000            | -                   |
| Issued in 2005 - (Bonds 2005C)                             |                      |                     |
| NT\$6,000,000 thousand                                     | <u>6,000,000</u>     | <u>-</u>            |
|  | <u>10,000,000</u>    | <u>-</u>            |
|  | 20,096,752           | 6,724,312           |
| Current portion  | <u>(5,375,759)</u>   | <u>(1,353,141)</u>  |
|  | <u>\$ 14,720,993</u> | <u>\$ 5,371,171</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; the conversion price is adjustable and the current conversion price is NT\$18.07 per share as of September 30, 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 September 30, 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\$50,528 thousand had requested to convert these bonds into 76,514 thousand common shares, which had all been issued.

In the third quarter of 2003, the Corporation issued five-year unsecured, zero-coupon convertible bonds ("Bonds 2003"), with an aggregate principal amount of US\$110,000 thousand. Bonds 2003 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; the conversion price is adjustable and the current conversion price is NT\$14.43 per share as of September 30, 2005) between October 15, 2003 and August 15, 2008 and will mature on September 15, 2008. At the holders' option, Bonds 2003 may also be repurchased on September 15 of each year from 2004 to 2006 at 100% of their principal amount. Under certain conditions, either the holders of the Bonds 2003 or the Corporation may opt for early bond redemption. As of September 30, 2005, holders of Bonds 2003 with principal amount of US\$109,618 thousand had requested to convert these bonds into 209,754 thousand common shares, which had all been issued.

In 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; the conversion price is adjustable and the current conversion price is NT\$27.6 per share as of September 30, 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 2005A”), with an aggregate principal amount of US\$160,000 thousand. Bonds 2005A 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; the conversion price is adjustable and the current conversion price is NT\$20.83 per share as of September 30, 2005) between March 3, 2005 and January 3, 2010 and will mature on February 2, 2010. At the holders’ option, Bonds 2005A may also be repurchased on February 2, 2007 at 100% of their principal amount. Under certain conditions, either the holders of Bonds 2005A or the Corporation may opt for early bond redemption. As of September 30, 2005, holders of Bonds 2005A with principal amount of US\$17,750 thousand had requested to convert these bonds into 27,151 thousand common shares, which had all been issued.

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

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

## 10. LONG-TERM BANK LOANS

|   | <u>September 30</u>  |                      |
|---|----------------------|----------------------|
|   | <u>2005</u>          | <u>2004</u>          |
| Long-term secured syndicated loans (1) - US\$37,500 thousand                                    | \$ -                 | \$ 1,274,400         |
| Long-term secured syndicated loans (2) (including commercial paper issued) - New Taiwan dollars | -                    | 1,600,000            |
| Long-term secured syndicated loans (3) New Taiwan dollars                                       | 3,500,000            | 5,250,000            |
| Long-term secured syndicated loans (4) New Taiwan dollars                                       | 5,075,000            | 5,200,000            |
| Long-term secured syndicated loans (5) New Taiwan dollars                                       | 13,000,000           | -                    |
| Medium to long-term loans (including commercial paper issued) - New Taiwan dollars              | <u>1,705,833</u>     | <u>1,992,500</u>     |
|   | 23,280,833           | 15,316,900           |
| Current portion   | (5,831,667)          | (4,761,067)          |
| Unamortized discount of commercial paper issued   | <u>(374)</u>         | <u>(439)</u>         |
|   | <u>\$ 17,448,792</u> | <u>\$ 10,555,394</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 2.79% to 4.87% and from 2.00% to 6.38% for the nine months ended September 30, 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 Labor Pension Act became effective on July 1, 2005. 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.

The Corporation has a defined benefit pension plan under the Labor Standards Law, which provides benefits based on length of service and average salaries and wages for the 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. In addition, the portion of projected benefit obligation in excess of the plan assets is contributed to the Fund in five-year installments.

Pension costs based on actuarial calculation for the nine months ended September 30, 2005 and 2004 were \$50,039 thousand and \$36,921 thousand, respectively.

The balances of the Fund were \$208,597 thousand and \$166,348 thousand as of September 30, 2005 and 2004, respectively.

The Corporation also has a defined contribution pension plan under the Labor Pension Act, which requires the contribution to employees' pension accounts based on 6% of each employee's monthly salary or wage starting from July 1, 2005. For the nine months ended September 30, 2005, the pension costs under the defined contribution pension plan were \$31,934 thousand.

## **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 year 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 Bureau (SFB, formerly the Securities and Futures Commission), 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. In addition, when the reserve has reached 50% of the aggregate par value of the Corporation's issued capital stock, up to the portion in excess of 25% of the paid-in capital thereof can be distributed as stock dividend.

Under the Integrated Income Tax System, which took effect on January 1, 1998, resident shareholders (including corporate shareholders) are allowed a tax credit for the income tax paid by 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 resolved by Board of Directors on February 23, 2005 and February 20, 2004, respectively and 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>   |                             |
|---|----------------------------------|-----------------------------|-----------------------------|-----------------------------|
|   | <u>For Fiscal Year 2004</u>      | <u>For Fiscal Year 2003</u> | <u>(NT\$)</u>               |                             |
|   |                                  |                             | <u>For Fiscal Year 2004</u> | <u>For Fiscal Year 2003</u> |
| Legal reserve                                       | \$ 2,131,508                     | \$ 1,308                    | \$ -                        | \$ -                        |
| Special reserve                                     | 252                              | -                           | -                           | -                           |
| Common stock dividend - in cash                     | 4,167,245                        | -                           | 0.99                        | -                           |
| Common stock dividend - in stock                    | 8,334,490                        | -                           | 1.97                        | -                           |
| 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 above information about the appropriations of bonus to employees and remuneration to directors and supervisors is available at Market Observation System website.

On June 24, 2005, the Corporation offered 300,000 thousand common shares at the price of \$20 per share. As the result of such issuance of shares, appropriation of earnings, conversion of bonds, exercise of employee stock option, and retirement of the treasury stock, the aggregate issued capital stock has increased to 5,575,267 thousand shares with par value of \$10 per share, amounted to \$55,752,674 thousand as of September 30, 2005.

### 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 (hereafter referred as "2001 Plan", "2002 Plan", and "2003 Plan", respectively, or collectively referred to as the "Plans"). The 2001 Plan, 2002 Plan and 2003 Plan have reserved 150 thousand, 150 thousand and 120 thousand of option, respectively, with each option representing 1,000 shares of common stock, with 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 September 30, 2005, 189,498 options have been exercised. Other information on the stock option rights plan is as follows:

|                            | <u>2003 Plan</u>   |                   | <u>2002 Plan</u>   |                   | <u>2001 Plan</u>   |                   |
|----------------------------|--------------------|-------------------|--------------------|-------------------|--------------------|-------------------|
|                            | <b>Number of</b>   | <b>Weighted-</b>  | <b>Number of</b>   | <b>Weighted-</b>  | <b>Number of</b>   | <b>Weighted-</b>  |
|                            | <b>Outstanding</b> | <b>average</b>    | <b>Outstanding</b> | <b>average</b>    | <b>Outstanding</b> | <b>average</b>    |
|                            | <b>Stock</b>       | <b>Exercise</b>   | <b>Stock</b>       | <b>Exercise</b>   | <b>Stock</b>       | <b>Exercise</b>   |
|                            | <b>Option</b>      | <b>Prices</b>     | <b>Option</b>      | <b>Price</b>      | <b>Option</b>      | <b>Prices</b>     |
|                            | <b>Rights</b>      | <b>(NT\$/</b>     | <b>Rights</b>      | <b>(NT\$/</b>     | <b>Rights</b>      | <b>(NT\$/</b>     |
|                            |                    | <b>Per Share)</b> |                    | <b>Per Share)</b> |                    | <b>Per Share)</b> |
| <u>Nine months ended</u>   |                    |                   |                    |                   |                    |                   |
| <u>September 30, 2005</u>  |                    |                   |                    |                   |                    |                   |
| Beginning Balance          | 111,090            | \$ 8.27           | 87,527             | \$ 10.75          | 55,132             | \$ 17.48          |
| Additional options granted | 14,050             | 6.86              | 14,315             | 8.70              | -                  | -                 |
| Options exercised          | (42,745)           | 7.75              | (14,367)           | 9.95              | (20,632)           | 15.06             |
| Options cancelled          | <u>(1,317)</u>     | 7.84              | <u>(1,151)</u>     | 9.75              | <u>(350)</u>       | 17.73             |
| Ending balance             | <u>81,078</u>      | 6.85              | <u>86,324</u>      | 8.70              | <u>34,150</u>      | 13.97             |
| <u>Nine months ended</u>   |                    |                   |                    |                   |                    |                   |
| <u>September 30, 2004</u>  |                    |                   |                    |                   |                    |                   |
| Beginning Balance          | 112,406            | \$ 8.13           | 135,123            | \$ 10.75          | 120,596            | \$ 17.45          |
| Options granted            | 970                | 23.87             | -                  | -                 | -                  | -                 |
| Options exercised          | -                  | -                 | (15,846)           | 10.75             | (58,329)           | 17.42             |
| Options cancelled          | <u>(1,825)</u>     | 8.13              | <u>(1,355)</u>     | 10.75             | <u>(654)</u>       | 17.40             |
| Ending balance             | <u>111,551</u>     | 8.26              | <u>117,922</u>     | 10.75             | <u>61,613</u>      | 17.48             |

The number of shares and exercise prices of outstanding option have been adjusted to reflect the appropriations of dividends, stock bonuses and issuance of capital stock specified under the Plans. For the nine months ended September 30, 2005, additional 28,365 options have been granted to reflect the appropriation of dividends and stock bonuses.

As of September 30, 2005, the information about the outstanding stock options is as follows:

| 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) |
| \$ 13.90       | 33,167                          | 1.83   | \$ 13.90                                    | 31,310                          | \$ 13.90                                    |
| 17.60          | 565                             | 2.49   | 17.60                                       | 313                             | 17.60                                       |
| 14.80          | 418                             | 2.62   | 14.80                                       | 168                             | 14.80                                       |
| 8.70           | 86,324                          | 2.99   | 8.70  | 49,514                          | 8.70  |
| 6.50           | 77,325                          | 3.58   | 6.50  | 17,518                          | 6.50  |
| 12.10          | 902                             | 3.75   | 12.10                                       | 277                             | 12.10                                       |
| 14.10          | 227                             | 3.84   | 14.10                                       | 60                              | 14.10                                       |
| 11.50          | 1,169                           | 4.04   | 11.50                                       | -                               | -   |
| 11.60          | 298                             | 4.15   | 11.60                                       | -                               | -   |
| 14.20          | 657                             | 4.27   | 14.20                                       | -                               | -   |
| 22.20          | 261                             | 4.48   | 22.20                                       | -                               | -   |
| 27.80          | 239                             | 4.56   | 27.80                                       | -                               | -   |
|                | <u>201,552</u>                  |  |   | <u>99,160</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 nine months ended September 30, 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 nine months ended September 30, 2005 and 2004 is as follows:

|  | Nine Months Ended<br>September 30, 2004 |                      |
|--|---|----------------------|
| Method:                                      | Black-Scholes model                     |                      |
| Assumptions:                                 |   |                      |
| Risk-free interest rate                      | 3.00%-3.86%                             |                      |
| Expected life (in years)                     | 6                                       |                      |
| Expected stock price volatility              | 86.61%-90.10%                           |                      |
| Expected dividend yield                      | -                                       |                      |
| Fair value per option (NT\$/thousand shares) | <u>\$13,535 - \$26,369</u>              |                      |
|  | Nine Months Ended<br>September 30       |                      |
|  | 2005                                    | 2004                 |
| Net income:                                  |   |                      |
| Net income as reported                       | <u>\$ 5,293,715</u>                     | <u>\$ 15,566,049</u> |
| Pro forma net income                         | <u>\$ 5,288,525</u>                     | <u>\$ 15,562,026</u> |

(Continued)

|                          | <b>Nine Months Ended<br/>September 30</b> |                |
|--------------------------|---|----------------|
|                          | <b>2005</b>                               | <b>2004</b>    |
| Earnings per share(EPS): |   |                |
| Basic EPS as reported    | <u>\$ 1.00</u>                            | <u>\$ 3.42</u> |
| Pro forma basic EPS      | <u>\$ 1.00</u>                            | <u>\$ 3.42</u> |
| Diluted EPS as reported  | <u>\$ 0.88</u>                            | <u>\$ 3.10</u> |
| Pro forma diluted EPS    | <u>\$ 0.88</u>                            | <u>\$ 3.09</u> |

The average number of shares outstanding for EPS calculation was adjusted retroactively for issuance of stock dividends and stock bonuses (see Note 12). The retroactive adjustment caused the pro forma basic and diluted EPS after income tax for the nine months ended September 30, 2004 to decrease from \$4.22 and \$3.80 to \$3.42 and \$3.09, respectively.

#### 14. TREASURY STOCK

(Shares in Thousands)

| Purpose of Purchase                         | Beginning<br>Shares | Increase      | Decrease      | Ending<br>Shares |
|---|---------------------|---------------|---------------|------------------|
| <u>Nine months ended September 30, 2005</u> |                     |               |               |                  |
| For subsequent transfer to employees        | 45,069              | -             | 33,069        | 12,000           |
| Parent's issued shares held by subsidiaries | <u>3,334</u>        | <u>658</u>    | <u>-</u>      | <u>3,992</u>     |
|   | <u>48,403</u>       | <u>658</u>    | <u>33,069</u> | <u>15,992</u>    |
| <u>Nine months ended September 30, 2004</u> |                     |               |               |                  |
| For subsequent transfer to employees        | 46,614              | 12,000        | 6,406         | 52,208           |
| Parent's issued shares held by subsidiaries | <u>3,334</u>        | <u>-</u>      | <u>-</u>      | <u>3,334</u>     |
|   | <u>49,948</u>       | <u>12,000</u> | <u>6,406</u>  | <u>55,542</u>    |

The Corporation transferred 7,321 thousand shares of treasury stock to employees at the price of \$24.9 per share for the nine months ended September 30, 2005, while 1,237 thousand and 5,169 thousand shares of treasury stock for the nine months ended September 30, 2004 were transferred at prices of \$8.7 and \$24.9 per share, respectively. On March 15, 2005, the Corporation retired 25,748 thousand shares of treasury stock.

As of September 30, 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 \$77,645 thousand and \$84,794 thousand; the market values were \$77,645 thousand and \$84,794 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. Starting from June 24, 2005, in accordance with the revised Company Law, the holder will no longer be entitled to the voting right.

**15. INCOME TAX BENEFIT (EXPENSE)**

- a. A reconciliation of income tax currently payable for the nine months ended September 30, 2005 and 2004 were as follow:

|  | <b>For the Nine Months Ended<br/>September 30</b> |                     |
|--|---|---------------------|
|  | <b>2005</b>                                       | <b>2004</b>         |
| Tax on pretax income at statutory rate (25%) | \$ 1,178,235                                      | \$ 4,137,410        |
| Tax-exempt income                            | (114,900)   | (1,315,930)         |
| Permanent differences                        | (135,744)   | 28,699              |
| Temporary differences                        | <u>(787,451)</u>                                  | <u>(575,355)</u>    |
| Income tax currently payable                 | <u>\$ 140,140</u>                                 | <u>\$ 2,274,824</u> |

- b. Income tax benefit (expense) for the nine months ended September 30, 2005 and 2004 consisted of:

|  | <b>For the Nine Months Ended<br/>September 30</b> |                     |
|--|---|---------------------|
|  | <b>2005</b>                                       | <b>2004</b>         |
| Income tax currently payable                             | \$ (140,140)                                      | \$ (2,274,824)      |
| Additional tax at 10% on unappropriated earnings         | (201,215)   | -                   |
| Loss carryforwards                                       | -   | 378,277             |
| Tax credits  | 341,355   | 1,896,547           |
| Net change in deferred income tax assets and liabilities |   |                     |
| Loss carryforwards                                       | (199,632)   | (350,078)           |
| Investment tax credits                                   | 2,871,568   | 681,287             |
| Temporary differences                                    | (781,650)   | (577,292)           |
| Valuation allowance                                      | (1,300,143)                                       | (735,166)           |
| Tax on interest income on short-term bills               | <u>(9,369)</u>                                    | <u>(2,339)</u>      |
|  | <u>\$ 580,774</u>                                 | <u>\$ (983,588)</u> |

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

|  | <b>September 30</b> |                   |
|--|---------------------|-------------------|
|  | <b>2005</b>         | <b>2004</b>       |
| Current                                      |                     |                   |
| Deferred income tax assets                   |                     |                   |
| Investment tax credits                       | \$ 741,984          | \$ -              |
| Loss carryforwards                           | 412,661             | -                 |
| Unrealized provision for loss on inventories | 31,869              | 31,731            |
| Other  | 162,696             | 85,236            |
| Deferred income tax liabilities              | <u>(1,296)</u>      | <u>(663)</u>      |
|  | <u>\$ 1,347,914</u> | <u>\$ 116,304</u> |

(Continued)

|                                  | <u>September 30</u> |                     |
|----------------------------------|---------------------|---------------------|
|                                  | <u>2005</u>         | <u>2004</u>         |
| Noncurrent                       |                     |                     |
| Deferred income tax assets       |                     |                     |
| Investment tax credits           | \$ 9,726,223        | \$ 6,868,239        |
| Loss carryforwards               | -                   | 2,147,726           |
| Unrealized foreign exchange loss | -                   | 54,341              |
| Other                            | 148,757             | 109,468             |
| Deferred income tax liabilities  |                     |                     |
| Depreciation                     | (2,960,661)         | (1,873,688)         |
| Unrealized foreign exchange gain | (34,368)            | -                   |
| Other                            | (1,309)             | (1,310)             |
|                                  | <u>6,878,642</u>    | <u>7,304,776</u>    |
| Valuation allowance              | <u>(6,203,944)</u>  | <u>(5,932,362)</u>  |
|                                  | <u>\$ 674,698</u>   | <u>\$ 1,372,414</u> |

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

|                                   | <u>September 30</u> |                  |
|-----------------------------------|---------------------|------------------|
|                                   | <u>2005</u>         | <u>2004</u>      |
| Shareholders' imputed tax credits | <u>\$ 35,500</u>    | <u>\$ 44,278</u> |

The actual tax creditable ratio for 2004 and 2003 were 0.34% and 33.33%, respectively.

- e. The unappropriated retained earnings as of September 30, 2005 and 2004 had no unappropriated earnings generated on and before 1997.
- f. The effective tax rates for deferred income tax as of September 30, 2005 and 2004 were 25%.
- g. As of September 30, 2005, the tax credits and loss carryforwards were as follows:

| Regulation                          | Items                                    | Total<br>Creditable<br>Amounts | Remaining<br>Creditable<br>Amounts | Expiry<br>Year |
|-------------------------------------|--|--------------------------------|------------------------------------|----------------|
| Income Tax Law                      | Loss carryforwards                       | <u>\$ 412,661</u>              | <u>\$ 412,661</u>                  | 2008           |
| Statute for Upgrading<br>Industries | Purchase of machinery and<br>equipment   | \$ 190,307                     | \$ 17,372                          | 2005           |
|                                     |  | 2,260,461                      | 2,120,321                          | 2006           |
|                                     |  | 1,755,597                      | 1,755,597                          | 2007           |
|                                     |  | 2,866,590                      | 2,866,590                          | 2008           |
|                                     |  | <u>2,549,255</u>               | <u>2,549,255</u>                   | 2009           |
|                                     |  | <u>\$ 9,622,210</u>            | <u>\$ 9,309,135</u>                |                |
| Statute for Upgrading<br>Industries | Research and development<br>expenditures | \$ 25,697                      | \$ -                               | 2005           |
|                                     |  | 278,527                        | 278,527                            | 2006           |
|                                     |  | 322,877                        | 322,877                            | 2007           |
|                                     |  | 261,992                        | 261,992                            | 2008           |
|                                     |  | <u>279,411</u>                 | <u>279,411</u>                     | 2009           |
|                                     |  | <u>\$ 1,168,504</u>            | <u>\$ 1,142,807</u>                |                |

(Continued)

| Regulation                       | Items  | Total Creditable Amounts | Remaining Creditable Amounts | Expiry Year |
|----------------------------------|--|--------------------------|------------------------------|-------------|
| Statute for Upgrading Industries | Personnel training expenditures                        | \$ 2,583                 | \$ -                         | 2005        |
|                                  |  | 2,803                    | 2,803                        | 2006        |
|                                  |  | 3,058                    | 3,058                        | 2007        |
|                                  |  | 2,727                    | 2,727                        | 2008        |
|                                  |  | <u>2,621</u>             | <u>2,621</u>                 | 2009        |
|                                  |  | <u>\$ 13,792</u>         | <u>\$ 11,209</u>             |             |
| Statute for Upgrading Industries | Investments in important technology - based enterprise | <u>\$ 5,056</u>          | <u>\$ 5,056</u>              | 2008        |

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 2002 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 Nine Months Ended September 30 |                                  |                     |                             |                                  |                     |
|------------------------|--|----------------------------------|---------------------|-----------------------------|----------------------------------|---------------------|
|                        | 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                 | \$ 1,708,701                           | \$ 522,349                       | \$ 2,231,050        | \$ 1,688,748                | \$ 466,844                       | \$ 2,155,592        |
| Labor/health insurance | 113,578                                | 30,221                           | 143,799             | 85,669                      | 19,825                           | 105,494             |
| Pension                | 63,030                                 | 18,943                           | 81,973              | 28,999                      | 7,922                            | 36,921              |
| Others                 | <u>109,125</u>                         | <u>22,805</u>                    | <u>131,930</u>      | <u>89,099</u>               | <u>16,073</u>                    | <u>105,172</u>      |
|                        | <u>\$ 1,994,434</u>                    | <u>\$ 594,318</u>                | <u>\$ 2,588,752</u> | <u>\$ 1,892,515</u>         | <u>\$ 510,664</u>                | <u>\$ 2,403,179</u> |
| Depreciation           | <u>\$11,211,441</u>                    | <u>\$ 179,432</u>                | <u>\$11,390,873</u> | <u>\$ 8,008,674</u>         | <u>\$ 127,641</u>                | <u>\$ 8,136,315</u> |
| Amortization           | <u>\$ 109,560</u>                      | <u>\$ 931,123</u>                | <u>\$ 1,040,683</u> | <u>\$ 152,104</u>           | <u>\$ 510,209</u>                | <u>\$ 662,313</u>   |

## 17. EARNINGS PER SHARE

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

|   | <u>Amounts (Numerator)</u>   |                             | <u>Weighted-average<br/>Number of<br/>Shares<br/>(Denominator)<br/>(Thousand)</u> | <u>EPS (Dollars)</u>             |                                 |
|---|------------------------------|-----------------------------|---|----------------------------------|---------------------------------|
|   | <u>Before<br/>Income Tax</u> | <u>After<br/>Income Tax</u> |   | <u>Before<br/>Income<br/>Tax</u> | <u>After<br/>Income<br/>Tax</u> |
| <u>For the nine months ended September 30, 2005</u> |                              |                             |   |                                  |                                 |
| Net income  | \$ 4,712,941                 | \$ 5,293,715                |   |                                  |                                 |
| Basic EPS   |                              |                             |   |                                  |                                 |
| Income of common shareholders                       | 4,712,941                    | 5,293,715                   | 5,288,396   | \$ 0.89                          | \$ 1.00                         |
| Effect of dilutive securities                       |                              |                             |   |                                  |                                 |
| - Convertible bonds                                 | -                            | -                           | 584,577   |                                  |                                 |
| - Stock options                                     | -                            | -                           | 139,260   |                                  |                                 |
| Diluted EPS   |                              |                             |   |                                  |                                 |
| Income of common and potential common shareholders  | \$ 4,712,941                 | \$ 5,293,715                | 6,012,233   | \$ 0.78                          | \$ 0.88                         |
| <u>For the nine months ended September 30, 2004</u> |                              |                             |   |                                  |                                 |
| Net income  | \$16,549,637                 | \$15,566,049                |   |                                  |                                 |
| Basic EPS   |                              |                             |   |                                  |                                 |
| Income of common shareholders                       | 16,549,637                   | 15,566,049                  | 4,545,884   | \$ 3.64                          | \$ 3.42                         |
| Effect of dilutive securities                       |                              |                             |   |                                  |                                 |
| - Convertible bonds                                 | -                            | -                           | 285,766   |                                  |                                 |
| - Stock options                                     | -                            | -                           | 197,510   |                                  |                                 |
| Diluted EPS   |                              |                             |   |                                  |                                 |
| Income of common and potential common shareholders  | \$16,549,637                 | \$15,566,049                | 5,029,160   | \$ 3.29                          | \$ 3.10                         |

The average number of shares outstanding for EPS calculation was adjusted retroactively for issuance of stock dividends and stock bonuses. The retroactive adjustment caused the basic and diluted EPS after income tax for the nine months ended September 30, 2004 to decrease from \$4.22 and \$3.80 to \$3.42 and \$3.10, respectively.

## 18. RELATED PARTY TRANSACTIONS

a. Related parties:

| <u>Related Parties</u> | <u>Relationship</u>                                       |
|------------------------|---|
| Powertech              | Quantum, a subsidiary of the Corporation, is its director |
| Veutron                | Same chairman   |
| eMemory                | Same chairman   |
| Novax                  | Equity-accounted investee                                 |
| Deutron                | Equity-accounted investee                                 |

(Continued)

| <u>Related Parties</u> | <u>Relationship</u>  |
|------------------------|--|
| Silicon                | Equity-accounted investee  |
| Tekmax                 | Equity-accounted investee  |
| MaxEdge                | Equity-accounted investee  |
| Zentel                 | Subsidiary   |
| Syntronix              | Subsidiary   |
| PowerFlash             | Subsidiary   |
| Zentel-Japan           | Subsidiary of Zentel   |
| Renesas (Note 1)       | Director (until January 7, 2005)   |
| Elpida (Note 2)        | Director (since April 12, 2005)  |
| Others                 | Related parties with whom the Corporation has substantial influence but without any material transactions. Please see Note 23. |

Note 1: The Company ceased to be the Corporation's related parties as of September 30, 2005; the transactions made as of and for the nine months ended September 30, 2005 are disclosed only for reference.

Note 2: The Company started to be the Corporation's related parties during the nine-month period ended September 30, 2005; the transactions made as of and for the nine months ended September 30, 2004 are disclosed only for reference.

b. Related party transactions:

|                       | <u>For the Nine Months Ended September 30</u> |           |                      |           |
|-----------------------|---|-----------|----------------------|-----------|
|                       | <u>2005</u>                                   |           | <u>2004</u>          |           |
| <u>For the period</u> | <u>Amount</u>                                 | <u>%</u>  | <u>Amount</u>        | <u>%</u>  |
| 1) Net sales          |   |           |                      |           |
| Deutron               | \$ 8,525,725                                  | 23        | \$ 9,596,910         | 23        |
| Elpida                | 4,457,562                                     | 12        | 4,261,041            | 10        |
| Novax                 | 2,142,226                                     | 6         | 2,487,824            | 6         |
| Silicon               | 145,324                                       | -         | 41,288               | -         |
| Syntronix             | 123,773                                       | -         | 117,812              | -         |
| Zentel                | 20,799  | -         | -                    | -         |
| eMemory               | 17,458  | -         | 3,967                | -         |
| PowerFlash            | 14,769  | -         | -                    | -         |
| Others                | <u>2</u>                                      | <u>-</u>  | <u>-</u>             | <u>-</u>  |
|                       | <u>\$ 15,447,638</u>                          | <u>41</u> | <u>\$ 16,508,842</u> | <u>39</u> |
| 2) Purchase           |   |           |                      |           |
| Renesas               | <u>\$ -</u>                                   | <u>-</u>  | <u>\$ 32,381</u>     | <u>1</u>  |
| 3) Properties         |   |           |                      |           |
| Veutron               | \$ -  | -         | \$ 63,000            | -         |
| Others                | <u>-</u>                                      | <u>-</u>  | <u>450</u>           | <u>-</u>  |
|                       | <u>\$ -</u>                                   | <u>-</u>  | <u>\$ 63,450</u>     | <u>-</u>  |

(Continued)

|   | <b>For the Nine Months Ended September 30</b> |           |                     |           |
|---|---|-----------|---------------------|-----------|
|   | <b>2005</b>                                   |           | <b>2004</b>         |           |
|   | <b>Amount</b>                                 | <b>%</b>  | <b>Amount</b>       | <b>%</b>  |
| 4) Technical know-how and royalty   |   |           |                     |           |
| Renesas   | \$ 88,137                                     | 6         | \$ 189,036          | 10        |
| Zentel  | 25,490  | 2         | -                   | -         |
| eMemory   | 13,288  | 1         | -                   | -         |
| Others  | <u>592</u>                                    | -         | <u>-</u>            | -         |
|   | <u>\$ 127,507</u>                             | <u>9</u>  | <u>\$ 189,036</u>   | <u>10</u> |
| 5) Manufacturing expenses - subcontract costs, indirect materials, expensed properties, repairs and maintenance, etc. |   |           |                     |           |
| Powertech   | \$ 1,702,450                                  | 6         | \$ 1,170,264        | 6         |
| Elpida  | 10,631  | -         | -                   | -         |
| Others  | <u>8,309</u>                                  | -         | <u>545</u>          | -         |
|   | <u>\$ 1,721,390</u>                           | <u>6</u>  | <u>\$ 1,170,809</u> | <u>6</u>  |
| 6) General and administrative expenses  |   |           |                     |           |
| Tekmax  | \$ 24,131                                     | 2         | \$ -                | -         |
| Others  | <u>18,467</u>                                 | <u>2</u>  | <u>3,602</u>        | -         |
|   | <u>\$ 42,598</u>                              | <u>4</u>  | <u>\$ 3,602</u>     | -         |
| 7) Research and development expenses  |   |           |                     |           |
| Syntronix   | \$ 45,011                                     | 4         | \$ 45,043           | 6         |
| Zentel  | 13,204  | 1         | 48,429              | 6         |
| Zentel - Japan  | 9,423   | 1         | -                   | -         |
| Others  | <u>2,174</u>                                  | -         | <u>5,093</u>        | -         |
|   | <u>\$ 69,812</u>                              | <u>6</u>  | <u>\$ 98,565</u>    | <u>12</u> |
| 8) Other income   |   |           |                     |           |
| eMemory   | \$ 5,808                                      | 9         | \$ 4,839            | 12        |
| Syntronix   | 4,562   | 7         | 3,333               | 8         |
| Zentel  | 1,541   | 2         | 1,424               | 4         |
| Veutron   | 1,390   | 2         | 2,915               | 7         |
| Silicon   | 1,233   | 2         | 410                 | 1         |
| PowerFlash  | 1,002   | 2         | -                   | -         |
| Others  | <u>1,009</u>                                  | <u>2</u>  | <u>2,186</u>        | <u>6</u>  |
|   | <u>\$ 16,545</u>                              | <u>26</u> | <u>\$ 15,107</u>    | <u>38</u> |

|                             | September 30        |           |                     |           |
|-----------------------------|---------------------|-----------|---------------------|-----------|
|                             | 2005                |           | 2004                |           |
|                             | Amount              | %         | Amount              | %         |
| <u>At end of period</u>     |                     |           |                     |           |
| 1) Accounts receivable, net |                     |           |                     |           |
| Deutron                     | \$ 786,418          | 17        | \$ 749,095          | 14        |
| Elpida                      | 605,577             | 13        | 676,181             | 13        |
| Novax                       | 306,677             | 6         | 249,384             | 5         |
| Silicon                     | 25,396              | 1         | -                   | -         |
| Zentel                      | 20,129              | -         | -                   | -         |
| Syntronix                   | 16,664              | -         | -                   | -         |
| Others                      | <u>7,780</u>        | <u>-</u>  | <u>137</u>          | <u>-</u>  |
|                             | <u>\$ 1,768,641</u> | <u>37</u> | <u>\$ 1,674,797</u> | <u>32</u> |
| 2) Accounts payable         |                     |           |                     |           |
| Powertech                   | <u>\$ 559,914</u>   | <u>11</u> | <u>\$ 392,778</u>   | <u>9</u>  |
| 3) Accrued expenses         |                     |           |                     |           |
| Elpida                      | \$ 882,883          | 38        | \$ -                | -         |
| Tekmax                      | 15,716              | 1         | -                   | -         |
| eMemory                     | 13,275              | -         | -                   | -         |
| Others                      | <u>18,945</u>       | <u>1</u>  | <u>1,915</u>        | <u>-</u>  |
|                             | <u>\$ 930,819</u>   | <u>40</u> | <u>\$ 1,915</u>     | <u>-</u>  |

The Corporation also purchased (sold) the following long-term investments of stocks and bonds from (to) related parties for the period ended September 30, 2005 and 2004:

1) Stock

| Related Parties | Investee   | Shares<br>(Thousands) | Costs             |
|-----------------|------------|-----------------------|-------------------|
| <u>2005</u>     |            |                       |                   |
| Veutron         | Lu-Chu     | 4,800                 | <u>\$ 48,000</u>  |
| <u>2004</u>     |            |                       |                   |
| Veutron         | PowerWorld | 8,000                 | <u>\$ 140,000</u> |

2) Bonds

| Related Parties | Investee      | Units | Amount             | Rate  |
|-----------------|---------------|-------|--------------------|-------|
| <u>2005</u>     |               |       |                    |       |
| Veutron         | Veutron Bonds | 16    | <u>\$ 80,000</u>   | 3.50% |
| Veutron         | Veutron Bonds | (18)  | <u>\$ (90,000)</u> | 3.95% |
| MaxEdge         | MaxEdge Bonds | 30    | <u>\$ 30,000</u>   | 3.25% |

The stock purchased from Veutron was based on specifically negotiated price.

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

The payment term of the sales made to Deutron was to be paid on the 30th day (45th day before March 2005) after the month of shipment. The payment term of the sales made to Novax and PowerFlash were to be paid on the 45th day and 60th day after the month of shipment, respectively.

The research and development expenses paid to Zentel, Syntronix and Zentel - Japan by the Corporation were based on specifically negotiated term.

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 collateral for long-term bank loans, letters of credit and bonded inventories:

|                     | <u>September 30</u>  |                      |
|---------------------|----------------------|----------------------|
|                     | <u>2005</u>          | <u>2004</u>          |
| Properties, net     | \$ 38,642,371        | \$ 26,633,542        |
| Restricted deposits | 1,502,878            | 2,193,971            |
| Accounts receivable | 393,127              | 700,943              |
| Other assets - land | <u>-</u>             | <u>311,510</u>       |
|                     | <u>\$ 40,538,376</u> | <u>\$ 29,839,966</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 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 with C Company. Under the agreements, the Corporation should pay C Company, a certain amount of license fee over 5 years after technology is transferred and royalty at an agreed percentage of the selling prices of the licensed products.

- e. In August 2003, the Corporation entered into license and technology transfer agreements with D and E Company. Under the agreements, the Corporation should pay D and E Company royalty at an agreed percentage of the selling prices of the licensed products over five years after technology is transferred.
- f. Under a patent license agreement made with F Company in October 2003, the Corporation shall pay a certain amount of royalty annually for five years from 2003.
- g. Under a Non-Recurring Engineering agreement with G Company made in November 2003, the Corporation should pay a certain amount of development fee quarterly from November 2003 to November 2005.
- h. Under a product design and license agreement of DDR II products with H Company made in December 2003, the Corporation should pay a certain amount of license fee and royalty at an agreed percentage of the selling prices of the licensed products.
- i. Under a product development and license agreement of DRAM products with I Company made in July 2004, the Corporation should pay a certain amount of development fee and royalty at an agreed percentage of the selling prices of the licensed products.
- j. Under a Non-Recurring Engineering agreement with J Company made in March 2005, the Corporation should pay a certain amount of development fee.
- k. Under several product design and license agreements with K Company made in June 2005, the Corporation should pay a certain amount of license fee and royalty at an agreed percentage of the selling prices of the licensed products and reserve a certain percentage of production capacity for K Company.
- l. Under a technology development and transfer agreement with L Company made in September 2005, the Corporation should pay a certain amount of development fee over 5 years and royalty at an agreed percentage of the selling prices of the licensed products.
- m. Unused letters of credit amounted to approximately US\$49,158 thousand and JPY603,522 thousand as of September 30, 2005.
- n. 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

(Amount in Thousands)

| Items                      | Contract Amount (Nominal Amount) | Credit Risk |
|----------------------------|----------------------------------|-------------|
| <u>September 30, 2005</u>  |                                  |             |
| Forward exchange contracts | JPY5,600,000 (US\$ vs. JPY)      | \$ -        |
|                            | EUR10,000 (US\$ vs. EUR)         | -           |
|                            | US\$142,000 (NT\$ vs. US\$)      | 83,196      |
|                            | JPY2,400,000 (NT\$ vs. JPY)      | -           |

(Continued)

| Items                      | Contract Amount (Nominal Amount) | Credit Risk |
|----------------------------|----------------------------------|-------------|
| <u>September 30, 2004</u>  |                                  |             |
| Forward exchange contracts | US\$10,000 (US\$ vs. NT\$)       | \$ -        |
|                            | JPY23,300,000 (US\$ vs. JPY)     | 6,999       |
|                            | US\$10,000 (NT\$ vs. US\$)       | 2,660       |

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 September 30, 2005, all foreign-currency option contracts have been expired. The related gains or losses were insignificant. And outstanding foreign-currency option contracts as of September 30, 2004 were as follows:

| <u>September 30, 2004</u> |          |        |                               |                              |                          |                             |                 |
|---------------------------|----------|--------|-------------------------------|------------------------------|--------------------------|-----------------------------|-----------------|
| Type                      | Buy/Sell | Option | Contract Amount (in Thousand) | Carrying Value (in Thousand) | Fair Value (in Thousand) | Strike Price                | Expiry Date     |
| European                  | Sell     | Call   | US\$ 27,000                   | (3,473)                      | (4,643)                  | 110-111.6<br>(US\$ vs. JPY) | 2004.10-2004.11 |

3) Interest rate swaps

The Corporation entered into interest rate swap contracts to manage exposures related to interest rates on its long-term loans. Net increase and decrease of interest expense on these transactions for the nine months ended September 30, 2005 and 2004 were \$16,548 thousand and \$4,531 thousand, respectively. Outstanding contracts as of September 30, 2005 and 2004 were as follows:

| Contract Date | Period                          | Amounts in Thousands      |                   |
|---------------|---------------------------------|---------------------------|-------------------|
|               |                                 | Contract Amount (Nominal) |                   |
|               |                                 | September 30 2005         | September 30 2004 |
| May 27, 2004  | May 31, 2004 to March 24, 2009  | \$ 700,000                | \$ 800,000        |
| May 27, 2004  | May 31, 2004 to March 24, 2009  | 700,000                   | 800,000           |
| May 28, 2004  | June 1, 2004 to March 24, 2009  | 700,000                   | 800,000           |
| June 1, 2004  | June 3, 2004 to March 24, 2009  | 700,000                   | 800,000           |
| June 2, 2004  | June 4, 2004 to March 24, 2009  | 700,000                   | 800,000           |
| June 4, 2004  | June 8, 2004 to March 24, 2009  | 700,000                   | 800,000           |
| June 14, 2004 | June 16, 2004 to March 24, 2009 | 700,000                   | 800,000           |
| June 15, 2004 | June 17, 2004 to March 24, 2009 | 175,000                   | 200,000           |
| June 30, 2004 | July 2, 2004 to May 20, 2007    | 400,000                   | 600,000           |
| June 30, 2004 | July 2, 2004 to May 20, 2007    | 400,000                   | 600,000           |
| June 30, 2004 | July 2, 2004 to May 20, 2007    | 400,000                   | 600,000           |

- 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 September 30, 2005, the Corporation's future cash demand for the outstanding forward exchange contracts was as follows:

| <b>Amounts in Thousands</b> |                                   |                |                |
|-----------------------------|-----------------------------------|----------------|----------------|
| <b>Term</b>                 | <b>Forward Exchange Contracts</b> |                |                |
|                             | <b>Inflow</b>                     |                | <b>Outflow</b> |
| Within one year             | JPY 8,000,000                     | US\$ 62,744    |                |
|                             | EUR 10,000                        | NT\$ 5,316,097 |                |
|                             | US\$ 142,000                      |                |                |

The Corporation has sufficient operating capital to meet the above cash demand. In addition, the exchange rates of forward exchange contracts and the interest rates of interest rate swaps are already determined. Thus, the fund-raising and cash flow risks are not material.

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

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

- e. Other information

The realized exchange gain and loss derived from settled forward exchange contracts and foreign-currency option contracts were \$251,030 thousand and \$234,575 thousand for the nine months ended September 30, 2005 and 2004, respectively. Such gain and loss were presented under nonoperating income and expenses; and a receivable and payable of \$47,284 thousand and \$36,985 thousand as of September 30, 2005 and 2004, respectively, generated from forward exchange contracts were presented under other receivables and other current liability.

Interest payable and receivable from interest rate swap contracts were presented under accrued expenses or other receivables. Such payable and receivable were \$1,815 thousand and \$260 thousand as of September 30, 2005 and 2004, respectively.

## 22. FAIR VALUE OF FINANCIAL INSTRUMENTS

|  | September 30  |               |               |               |
|--|---------------|---------------|---------------|---------------|
|  | 2005          |               | 2004          |               |
|  | Book Value    | Fair Value    | Book Value    | Fair Value    |
| <u>Nonderivative instruments</u>                           |               |               |               |               |
| Assets   |               |               |               |               |
| Cash and cash equivalents                                  | \$ 35,625,622 | \$ 35,625,622 | \$ 30,175,483 | \$ 30,175,483 |
| Accounts receivable  | 4,728,787     | 4,728,787     | 5,183,414     | 5,183,414     |
| Short-term and long-term investments                       | 8,836,354     | 9,330,435     | 5,532,563     | 6,313,668     |
| Other receivables  | 290,242       | 290,242       | 287,977       | 287,977       |
| Restricted deposits  | 1,502,878     | 1,502,878     | 2,193,971     | 2,193,971     |
| Refundable deposits  | 29,644        | 29,644        | 23,427        | 23,427        |
| Liabilities  |               |               |               |               |
| Accounts payable and payable on equipment                  | 20,659,206    | 20,659,206    | 21,284,704    | 21,284,704    |
| Convertible bonds payable (including current portion)      | 20,096,752    | 20,007,979    | 6,724,312     | 6,954,279     |
| Obligation under capital lease (including current portion) | 41,278        | 41,278        | 210,140       | 210,140       |
| Long-term bank loans (including current portion)           | 23,280,459    | 23,280,459    | 15,316,461    | 15,316,461    |
| Guarantee deposits   | 5,879         | 5,879         | 5,516         | 5,516         |
| <u>Derivative instruments</u>                              |               |               |               |               |
| Forward exchange contracts                                 | \$ 47,284     | \$ 43,277     | \$ (36,985)   | \$ (19,060)   |
| Interest rate swap contracts                               | (1,815)       | (111,030)     | 260           | (4,593)       |
| Foreign currency option contracts                          | -             | -             | (3,473)       | (4,643)       |

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

- The carrying amounts reported in the balance sheets for cash and cash equivalents, accounts receivable, other receivables, restricted deposits, accounts payable and payable on equipment approximate their fair values.
- Fair value of short-term and long-term investments is based on quoted market prices or, if quoted market prices is unavailable, on net worth or book value.
- Fair value of long-term bank loans is estimated using discounted cash flow analysis, based on the Corporation's current incremental borrowing rates for borrowings with similar types (similar maturity dates). The fair value of long-term bank loans all bearing floating interest rates is equivalent to their book value. Fair value of convertible bonds payable is based on quoted market prices. The fair value of obligations under capital lease is determined using the present value of forecasted cash flows discounted at interest rates for obtaining the equipments under capital lease.
- Fair value of refundable deposits and guarantee deposits is based on their book value.
- 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.

The fair values of some financial and non-financial instruments were not included in the fair values disclosed above. Accordingly, the sum of the fair values of the financial instruments listed above does not represent the fair value of the Corporation as a whole.

### 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 SFB:

- a. Marketable securities held: Table 1 (attached).
- b. Marketable securities acquired and disposed of at costs or prices of at least \$100 million or 20% of the paid-in capital: Table 2 (attached).
- c. Acquisition of individual real estates at costs of at least \$100 million or 20% of the paid-in capital: Table 3 (attached).
- d. Total purchase from or sale to related parties amounting to at least \$100 million or 20% of the paid-in capital: Table 4 (attached).
- e. Receivables from related parties amounting to at least \$100 million or 20% of the paid-in capital: Table 5 (attached).
- f. Names, locations, and related information of investees on which the Corporation exercises significant influence: Table 6 (attached).
- g. Derivative financial transactions: Please see Notes 21 and 22.

## POWERCHIP SEMICONDUCTOR CORPORATION AND INVESTEEES

## MARKETABLE SECURITIES HELD

SEPTEMBER 30, 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 | September 30, 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       | 148,990                           | \$ 1,498,877   | 99.99                       | \$ 1,501,304                    | Note 3 |
|                                     | Li-Hsin Investment Corp.                            | Subsidiary                     | Long-term investments       | 118,850                           | 764,898        | 99.87                       | 841,444                         | Note 3 |
|                                     | Lu-Chu Development Corp.                            | Investee                       | Long-term investments       | 56,999                            | 568,454        | 24.40                       | 568,454                         | Note 2 |
|                                     | Paramax Corp.                                       | Subsidiary                     | Long-term investments       | 68,994                            | 549,114        | 99.99                       | 549,114                         | Note 3 |
|                                     | Novax Technologies, Inc.                            | Investee                       | Long-term investments       | 24,658                            | 289,531        | 24.66                       | 289,531                         | Note 2 |
|                                     | Luxxon Technology Corp.                             | Investee                       | Long-term investments       | 20,733                            | 149,996        | 20.73                       | 149,996                         | Note 2 |
|                                     | Syntronix Corp.                                     | Subsidiary                     | Long-term investments       | 12,700                            | 147,817        | 47.04                       | 147,817                         | Note 3 |
|                                     | Deutron Electronics Corp.                           | Investee                       | Long-term investments       | 4,998                             | 137,942        | 9.78                        | 137,942                         | Note 2 |
|                                     | Smart Art Corp.                                     | Subsidiary                     | Long-term investments       | 12,000                            | 119,921        | 48.00                       | 119,921                         | Note 3 |
|                                     | Optimicro Corp.                                     | Investee                       | Long-term investments       | 12,000                            | 119,581        | 30.00                       | 119,581                         | Note 2 |
|                                     | Synage Technology Corp.                             | Investee                       | Long-term investments       | 10,084                            | 88,400         | 20.17                       | 88,400                          | Note 2 |
|                                     | Artrix International Inc.                           | Investee                       | Long-term investments       | 8,760                             | 87,167         | 23.36                       | 87,167                          | Note 2 |
|                                     | Zentel Electronics Corp.                            | Subsidiary                     | Long-term investments       | 9,200                             | 82,243         | 36.80                       | 82,243                          | Note 3 |
|                                     | Deutron Japan Corp.                                 | Investee                       | Long-term investments       | 2,891                             | 81,786         | 38.98                       | 81,786                          | Note 2 |
|                                     | Astel Electronics Corp.                             | Investee                       | Long-term investments       | 8,000                             | 80,000         | 40.00                       | 80,000                          | Note 2 |
|                                     | Zhi-Li Investment Corp.                             | Investee                       | Long-term investments       | 6,650                             | 66,585         | 33.25                       | 66,585                          | Note 2 |
|                                     | Tekmax Development Corp.                            | Investee                       | Long-term investments       | 5,520                             | 63,602         | 15.77                       | 63,602                          | Note 2 |
|                                     | PowerFlash Semiconductor Corp.                      | Subsidiary                     | Long-term investments       | 4,160                             | 33,997         | 32.00                       | 33,997                          | Note 3 |
|                                     | MaxEdge Electronics Corp.                           | Investee                       | Long-term investments       | 4,886                             | 30,494         | 13.55                       | 30,494                          | Note 2 |
|                                     | Smartic Technologies Inc.                           | Investee                       | Long-term investments       | 3,000                             | 25,670         | 25.00                       | 25,670                          | Note 2 |
|                                     | Silicon Optronics, Inc.                             | Investee                       | Long-term investments       | 1,700                             | 20,922         | 12.14                       | 20,922                          | Note 2 |
|                                     | PowerGate Optical, Inc.                             | Investee                       | Long-term investments       | 1,870                             | 13,173         | 9.35                        | 13,173                          | Note 2 |
|                                     | Optimax Technology Corp.                            | Corporation is its director    | Long-term investments       | 5,105                             | 84,910         | 1.04                        | 282,471                         |        |
|                                     | Powertech Technology Inc.                           | Quantum Vision is its director | Long-term investments       | 2,846                             | 36,163         | 0.71                        | 253,487                         |        |
|                                     | Asia Pacific Broadband Telecommunications Co., Ltd. | -                              | Long-term investments       | 12,000                            | 114,635        | 0.18                        | 114,635                         | Note 2 |
|                                     | PowerWorld Capital Management Corp.                 | Same chairman                  | Long-term investments       | 4,364                             | 102,325        | 9.09                        | 102,325                         | 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 |
|                                     | Universal Venture Fund, Inc.                        | Same chairman                  | Long-term investments       | 3,810                             | 38,093         | 4.76                        | 38,093                          | Note 2 |
|                                     | e-Phocus, Inc., Series B - preferred shares         | -                              | Long-term investments       | 667                               | 31,520         | 50.00                       | 31,520                          | Note 2 |
|                                     | Terax Communication Technologies Inc.               | Same chairman                  | Long-term investments       | 3,065                             | 29,151         | 6.26                        | 29,151                          | Note 2 |
| eMemory Technology Inc.             | Same chairman                                       | Long-term investments          | 2,648                       | 28,961                            | 8.10           | 28,961                      | 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          | -                           | 16,590                            | 5.18           | 16,590                      | Note 2                          |        |
| EUDAR Technology Inc.               | -   | Long-term investments          | 600                         | 15,420                            | 2.20           | 15,420                      | Note 2                          |        |

(Continued)

| Held Company Name | Marketable Securities Type and Name                                  | Relationship with the Company  | Financial Statement Account | September 30, 2005                 |                |                             |                                 | Note   |
|-------------------|--|--------------------------------|-----------------------------|------------------------------------|----------------|-----------------------------|---------------------------------|--------|
|                   |  |                                |                             | Shares (Thousands/ Units) (Note 8) | Carrying Value | Percentage of Ownership (%) | Market Value or Net Asset Value |        |
|                   | Lightsonic Optoelectronics Inc.                                      | Same chairman                  | Long-term investments       | 1,700                              | \$ 12,252      | 1.83                        | \$ 12,252                       | Note 2 |
|                   | Area East Technology Corp.   | -                              | Long-term investments       | 1,300                              | 11,692         | 19.97                       | 11,692                          | Note 2 |
|                   | Venglobal International Fund   | -                              | Long-term investments       | 1                                  | 11,217         | 2.83                        | 11,217                          | Note 2 |
|                   | e-Phocus, Inc., Series A - preferred shares                          | -                              | Long-term investments       | 333                                | 11,063         | 33.33                       | 11,063                          | Note 2 |
|                   | Taiwan Lipsome Co., Ltd.   | Quantum Vision is its director | 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 |
|                   | Powerchip Japan Corporation  | -                              | Long-term investments       | 1                                  | 6,200          | 3.42                        | 6,200                           | 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       | 306                                | 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 |
|                   | 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 2005 (I)                                   | Same chairman                  | Long-term investments       | 16                                 | 80,000         | -                           | 80,000                          | 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 |
|                   | Credit Link Note issued by Yuanta Assets Management Limited          | -                              | Long-term investments       | 3                                  | 39,696         | -                           | 39,696                          | Note 2 |
|                   | MaxEdge Electronics Corp. - issued in 2005 (I)                       | Investee                       | Long-term investments       | 30                                 | 30,000         | -                           | 30,000                          | 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      | 30,231                             | 895,944        | -                           | 853,431                         |        |
|                   | Elpida Memory Inc.   | -                              | Short-term investments      | 393                                | 418,629        | -                           | 385,749                         |        |
|                   | ProMos Technologies Inc.   | -                              | Short-term investments      | 19,738                             | 413,907        | -                           | 202,508                         |        |
|                   | Taiwan Cooperative Bank  | -                              | Short-term investments      | 6,650                              | 162,276        | -                           | 150,423                         |        |
|                   | Hua Nan Financial Holdings Co., Ltd.                                 | -                              | Short-term investments      | 7,008                              | 160,488        | -                           | 153,061                         |        |
|                   | Taiwan Semiconductor Manufacturing Company Ltd.                      | -                              | Short-term investments      | 2,500                              | 137,130        | -                           | 131,200                         |        |
|                   | Formosa Petrochemical Corporation                                    | -                              | Short-term investments      | 1,590                              | 90,227         | -                           | 99,036                          |        |
|                   | First Financial Holding Co., Ltd.                                    | -                              | Short-term investments      | 2,625                              | 65,226         | -                           | 62,895                          |        |
|                   | China Steel Corporation  | -                              | Short-term investments      | 1,600                              | 42,695         | -                           | 46,880                          |        |
|                   | Power Quotient International Co., Ltd.                               | -                              | Short-term investments      | 4,000                              | 37,616         | -                           | 48,920                          |        |
|                   | Yang Ming Marine Transport Corp.                                     | -                              | Short-term investments      | 1,000                              | 24,854         | -                           | 22,050                          |        |
|                   | Silicon Storage Technology Inc.                                      | -                              | Short-term investments      | 331                                | 21,095         | -                           | 56,198                          |        |
|                   | Depo Auto Parts Ind. Co., Ltd.                                       | -                              | Short-term investments      | 210                                | 20,276         | -                           | 22,518                          |        |
|                   | Siliconware Precision Industries Co., Ltd.                           | -                              | Short-term investments      | 600                                | 19,913         | -                           | 19,380                          |        |
|                   | Chi Mei Optoelectronics Corporation                                  | -                              | Short-term investments      | 441                                | 18,970         | -                           | 16,797                          |        |
|                   | Fullerton Technology Co., Ltd.                                       | -                              | Short-term investments      | 921                                | 16,267         | -                           | 16,127                          |        |
|                   | Behavior Tech Computer Corp.   | -                              | Short-term investments      | 500                                | 6,850          | -                           | 4,615                           |        |
|                   | Veutron Corp.  | Same chairman                  | Short-term investments      | 809                                | 3,955          | -                           | 2,791                           |        |
|                   | NewSoft Technology Corp.   | Same chairman                  | Short-term investments      | 180                                | 3,767          | -                           | 1,696                           |        |

(Continued)

| Held Company Name        | Marketable Securities Type and Name   | Relationship with the Company | Financial Statement Account | September 30, 2005                |                |                             |                                 | Note   |
|--------------------------|---|-------------------------------|-----------------------------|-----------------------------------|----------------|-----------------------------|---------------------------------|--------|
|                          |   |                               |                             | Shares (Thousands/Units) (Note 8) | Carrying Value | Percentage of Ownership (%) | Market Value or Net Asset Value |        |
|                          | Broadcom Corp.  | -                             | Short-term investments      | 3                                 | \$ 3,012       | -                           | \$ 5,165                        |        |
|                          | Nanya Technology Corporation  | -                             | Short-term investments      | 75                                | 1,695          | -                           | 1,520                           |        |
|                          | Altek Corporation   | -                             | Short-term investments      | 20                                | 1,032          | -                           | 936                             |        |
|                          | Emerging Display Technology Corporation   | -                             | Short-term investments      | 20                                | 492            | -                           | 480                             |        |
|                          | Quanta Computer Inc.  | -                             | Short-term investments      | 6                                 | 350            | -                           | 327                             |        |
|                          | Anpec Electronics Corporation   | -                             | Short-term investments      | 6                                 | 208            | -                           | 194                             |        |
|                          | <u>Equity</u>   |                               |                             |                                   |                |                             |                                 |        |
|                          | Fuhwa Commercial Bank Common Trust Fund   | -                             | Short-term investments      | 10,000                            | 100,000        | -                           | 100,822                         | Note 1 |
|                          | Fubon Ju-I II Fund  | -                             | Short-term investments      | 7,003                             | 100,000        | -                           | 100,339                         | Note 1 |
|                          | Fubon Ju-I Bond Fund  | -                             | Short-term investments      | 6,422                             | 100,000        | -                           | 100,336                         | Note 1 |
|                          | Fuh Hwa Omni Fund   | -                             | Short-term investments      | 5,000                             | 50,050         | -                           | 50,700                          | Note 1 |
|                          | UPAMC Select Guaranteed No.1 Fund   | -                             | Short-term investments      | 1,000                             | 10,000         | -                           | 9,870                           | Note 1 |
|                          | <u>Bond</u>   |                               |                             |                                   |                |                             |                                 |        |
|                          | Credit Linked Notes issued by Yuanta Asset Management Limited, with unfixed interest income | -                             | Short-term investments      | -                                 | 66,700         | -                           | 66,993                          | Note 4 |
| Li-Hsin Investment Corp. | <u>Stock</u>  |                               |                             |                                   |                |                             |                                 |        |
|                          | MaxEdge Electronics Corp.   | Investee                      | Long-term investments       | 5,757                             | 33,155         | 15.96                       | 33,155                          | Note 2 |
|                          | Synage Technology Corp.   | Investee                      | Long-term investments       | 10,750                            | 94,107         | 21.50                       | 94,107                          | Note 2 |
|                          | Novax Technologies, Inc.  | Investee                      | Long-term investments       | 4,246                             | 51,251         | 4.25                        | 51,251                          | Note 2 |
|                          | Luxxon Technology Corp.   | Investee                      | Long-term investments       | 1,363                             | 10,314         | 1.36                        | 10,314                          | Note 2 |
|                          | Tekmax Development Corp.  | Investee                      | Long-term investments       | 1,610                             | 18,572         | 4.60                        | 18,572                          | Note 2 |
|                          | Smartic Technology Inc.   | Investee                      | Long-term investments       | 480                               | 4,202          | 4.00                        | 4,202                           | Note 2 |
|                          | Lu-Chu Development Corp.  | Investee                      | Long-term investments       | 24,337                            | 242,426        | 10.42                       | 242,426                         | Note 2 |
|                          | Artrix International Inc.   | Investee                      | Long-term investments       | 1,695                             | 16,903         | 4.52                        | 16,903                          | Note 2 |
|                          | Optimicro Corp.   | Investee                      | Long-term investments       | 1,200                             | 11,958         | 3.00                        | 11,958                          | Note 2 |
|                          | Smart Art Corp.   | Investee                      | Long-term investments       | 3,000                             | 29,980         | 12.00                       | 29,980                          | Note 3 |
|                          | Deutron Japan Corp.   | Investee                      | Long-term investments       | 289                               | 8,665          | 3.89                        | 8,665                           | Note 2 |
|                          | Optimax Technology Corp.  | Corporation is its director   | Long-term investments       | 207                               | 2,286          | 0.04                        | 11,428                          |        |
|                          | AIPTEK International Inc.   | -                             | Long-term investments       | 1,000                             | 11,000         | 0.47                        | 11,000                          | Note 2 |
|                          | Explore Technology Electronics Inc.   | -                             | Long-term investments       | 500                               | -              | 4.17                        | -                               | Note 2 |
|                          | Gatetech Technology Inc.  | -                             | Long-term investments       | 187                               | 2,963          | 0.31                        | 2,963                           | Note 2 |
|                          | Aero Vision Avionics, Inc.  | Same chairman                 | Long-term investments       | 1,000                             | 6,960          | 1.85                        | 6,960                           | Note 2 |
|                          | Giga Solution Tech. Co., Ltd.   | -                             | Long-term investments       | 962                               | 5,817          | 0.76                        | 5,817                           | Note 2 |
|                          | PowerWorld Capital Management Corp.   | Same chairman                 | Long-term investments       | 671                               | 12,076         | 1.40                        | 12,076                          | Note 2 |
|                          | Getsilicon net, Inc.  | -                             | Long-term investments       | 400                               | -              | 2.20                        | -                               | Note 2 |
|                          | Powerchip Japan Corp.   | -                             | Long-term investments       | -                                 | 308            | 0.17                        | 308                             | Note 2 |
|                          | <u>Bonds</u>  |                               |                             |                                   |                |                             |                                 |        |
|                          | 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 |
|                          | Veutron Corp. - issued in 2005 (I)  | Same chairman                 | Long-term investments       | 4                                 | 20,000         | -                           | 20,000                          | Note 2 |
|                          | MaxEdge Electronics Corp. - issued in 2002 (II)   | Investee                      | Long-term investments       | 2                                 | 10,000         | -                           | 10,000                          | Note 2 |
|                          | MaxEdge Electronics Corp. - issued in 2005 (I)  | Investee                      | Long-term investments       | 10                                | 10,000         | -                           | 10,000                          | Note 2 |

(Continued)

| Held Company Name    | Marketable Securities Type and Name        | Relationship with the Company  | Financial Statement Account | September 30, 2005                 |                |                             |                                 | Note   |
|----------------------|--|--------------------------------|-----------------------------|------------------------------------|----------------|-----------------------------|---------------------------------|--------|
|                      |  |                                |                             | Shares (Thousands/ Units) (Note 8) | Carrying Value | Percentage of Ownership (%) | Market Value or Net Asset Value |        |
|                      | <u>Stock</u>                               |                                |                             |                                    |                |                             |                                 |        |
|                      | Powerchip Semiconductor Corp.              | Parent company                 | Short-term investments      | 3,992                              | \$ 77,645      | -                           | \$ 77,645                       |        |
|                      | NewSoft Technology Corp.                   | Same chairman                  | Short-term investments      | 1,126                              | 28,519         | -                           | 10,608                          |        |
|                      | Fullerton Technology Co., Ltd.             | -                              | Short-term investments      | 489                                | 9,312          | -                           | 8,564                           |        |
|                      | Huaku Construction Co., Ltd.               | -                              | Short-term investments      | -                                  | 1              | -                           | 1                               |        |
|                      | Taiwan Cooperative Bank                    | -                              | Short-term investments      | 200                                | 4,984          | -                           | 4,524                           |        |
|                      | Siliconware Precision Industries Co., Ltd. | -                              | Short-term investments      | 100                                | 3,342          | -                           | 3,230                           |        |
|                      | Yang Ming Marine Transport Corp.           | -                              | Short-term investments      | 100                                | 2,802          | -                           | 2,205                           |        |
|                      | Eon Silicon Solution Inc.                  | -                              | Short-term investments      | 195                                | 4,515          | -                           | 2,796                           |        |
|                      | <u>Equity</u>                              |                                |                             |                                    |                |                             |                                 |        |
|                      | Fubon Ju-I Bond Fund                       | -                              | Short-term investments      | 2,575                              | 40,002         | -                           | 40,229                          | Note 1 |
|                      | President Homerun Fund                     | -                              | Short-term investments      | 1,979                              | 30,000         | -                           | 30,032                          | Note 1 |
| Quantum Vision Corp. | <u>Stock</u>                               |                                |                             |                                    |                |                             |                                 |        |
|                      | MaxEdge Electronics Corp.                  | Investee                       | Long-term investments       | 4,178                              | 25,780         | 11.58                       | 25,780                          | Note 2 |
|                      | Deutron Electronics Corp.                  | Investee                       | Long-term investments       | 5,236                              | 154,619        | 10.24                       | 154,619                         | Note 2 |
|                      | Syntronix Corp.                            | Investee                       | Long-term investments       | 649                                | 7,577          | 2.40                        | 7,101                           | Note 3 |
|                      | Zentel Electronics Corp.                   | Investee                       | Long-term investments       | 2,100                              | 18,859         | 8.40                        | 18,512                          | Note 3 |
|                      | Synage Technology Corp.                    | Investee                       | Long-term investments       | 1,836                              | 16,075         | 3.67                        | 16,075                          | Note 2 |
|                      | Novax Technologies, Inc.                   | Investee                       | Long-term investments       | 12,735                             | 153,720        | 12.73                       | 153,720                         | Note 2 |
|                      | Luxxon Technology Corp.                    | Investee                       | Long-term investments       | 9,670                              | 69,953         | 9.67                        | 69,953                          | Note 2 |
|                      | PowerGate Optical, Inc.                    | Investee                       | Long-term investments       | 2,344                              | 18,759         | 11.72                       | 18,759                          | Note 2 |
|                      | Tekmax Development Corp.                   | Investee                       | Long-term investments       | 4,025                              | 46,033         | 11.50                       | 46,033                          | Note 2 |
|                      | Silicon Optronics, Inc.                    | Investee                       | Long-term investments       | 900                                | 12,177         | 6.43                        | 12,177                          | Note 2 |
|                      | PowerFlash Semiconductor Corp.             | Investee                       | Long-term investments       | 850                                | 7,242          | 6.54                        | 6,989                           | Note 3 |
|                      | Smartic Technology Inc.                    | Investee                       | Long-term investments       | 720                                | 6,302          | 6.00                        | 6,302                           | Note 2 |
|                      | Artrix International Inc.                  | Investee                       | Long-term investments       | 3,785                              | 37,708         | 10.90                       | 37,708                          | Note 2 |
|                      | Optimicro Corp.                            | Investee                       | Long-term investments       | 3,010                              | 30,009         | 7.53                        | 30,009                          | Note 2 |
|                      | Lu-Chu Development Corp.                   | Investee                       | Long-term investments       | 5,827                              | 58,268         | 2.49                        | 58,268                          | Note 2 |
|                      | Astel Electronics Corp.                    | Investee                       | Long-term investments       | 1,000                              | 10,000         | 5.00                        | 10,000                          | Note 2 |
|                      | Smart Art Corp.                            | Investee                       | Long-term investments       | 5,000                              | 49,967         | 20.00                       | 49,967                          | Note 3 |
|                      | Optimax Technology Corp.                   | Corporation is its director    | Long-term investments       | 514                                | 20,975         | 0.11                        | 28,456                          |        |
|                      | Powertech Technology Inc.                  | Quantum Vision is its director | Long-term investments       | 2,776                              | 29,017         | 0.69                        | 246,890                         |        |
|                      | Terax Communication Technologies Inc.      | Same chairman                  | Long-term investments       | 3,715                              | 15,712         | 7.58                        | 15,712                          | Note 2 |
|                      | Besteam Technology Inc.                    | -                              | Long-term investments       | 2,574                              | 24,187         | 5.28                        | 24,187                          | Note 2 |
|                      | AVAC Systems Inc.                          | -                              | Long-term investments       | 215                                | 2,311          | 1.25                        | 2,311                           | Note 2 |
|                      | eMemory Technology Inc.                    | Same chairman                  | Long-term investments       | 880                                | -              | 2.69                        | -                               | Note 2 |
|                      | Great Taipei Broadband Co., Ltd.           | Corporation is its director    | Long-term investments       | 1,500                              | 12,945         | 1.00                        | 12,945                          | Note 2 |
|                      | Aero Vision Avionics, Inc.                 | Same chairman                  | Long-term investments       | 1,500                              | 10,440         | 2.78                        | 10,440                          | Note 2 |
|                      | Universal Venture Fund, Inc.               | Same chairman                  | Long-term investments       | 3,119                              | 21,148         | 3.90                        | 21,148                          | Note 2 |
|                      | SAMHOP Electronics Corp.                   | -                              | Long-term investments       | 720                                | 9,432          | 3.00                        | 9,432                           | Note 2 |
|                      | Impact Technology Co., Ltd.                | -                              | Long-term investments       | 200                                | 2,106          | 0.53                        | 2,106                           | 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 |

(Continued)

| Held Company Name | Marketable Securities Type and Name             | Relationship with the Company    | Financial Statement Account | September 30, 2005                |                |                             |                                 | Note   |
|-------------------|---|----------------------------------|-----------------------------|-----------------------------------|----------------|-----------------------------|---------------------------------|--------|
|                   |   |                                  |                             | Shares (Thousands/Units) (Note 8) | Carrying Value | Percentage of Ownership (%) | Market Value or Net Asset Value |        |
|                   | PowerWorld Capital Management Corp.             | Same chairmen                    | Long-term investments       | 1,200                             | \$ 16,483      | 2.50                        | \$ 16,483                       | Note 2 |
|                   | Chipking Electronic Co., Ltd.                   | Quantum Vision is its supervisor | Long-term investments       | 800                               | 8,000          | 16.00                       | 8,000                           | Note 2 |
|                   | TVbean Co., Ltd.                                | -                                | Long-term investments       | 300                               | 4,500          | 1.84                        | 4,500                           | Note 2 |
|                   | Billions of Operations Per Second, Inc.         | -                                | Long-term investments       | 200                               | -              | 0.33                        | -                               | Note 2 |
|                   | Nobex Corp.                                     | -                                | Long-term investments       | 50                                | -              | -                           | -                               | Note 2 |
|                   | Magna Chip.                                     | -                                | Long-term investments       | 1                                 | -              | -                           | -                               | Note 2 |
|                   | MAXXAN Corp.                                    | -                                | Long-term investments       | 403                               | -              | 0.25                        | -                               | Note 2 |
|                   | e-Phocus, Inc. Series B - preferred shares      | -                                | Long-term investments       | 133                               | 6,311          | -                           | 6,311                           | Note 2 |
|                   | Network Holdings Limited                        | -                                | Long-term investments       | 90                                | 2,825          | 30.00                       | 2,825                           | Note 2 |
|                   | <u>Bonds</u>                                    |                                  |                             |                                   |                |                             |                                 |        |
|                   | 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 |
|                   | Veutron Corp. - issued in 2005 (I)              | Same chairman                    | Long-term investments       | 4                                 | 20,000         | -                           | 20,000                          | 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 |
|                   | MaxEdge Electronics Corp. - issued in 2005 (I)  | Investee                         | Long-term investments       | 10                                | 10,000         | -                           | 10,000                          | Note 2 |
|                   | <u>Stock</u>                                    |                                  |                             |                                   |                |                             |                                 |        |
|                   | Shinkong Financial Holding Co., Ltd.            | -                                | Short-term investments      | 624                               | 11,348         | -                           | 17,627                          |        |
|                   | NewSoft Technology Corp.                        | Same chairman                    | Short-term investments      | 473                               | 7,172          | -                           | 4,458                           |        |
|                   | ProMos Technologies Inc.                        | -                                | Short-term investments      | 2,186                             | 41,382         | -                           | 22,424                          |        |
|                   | Veutron Corp.                                   | Same chairman                    | Short-term investments      | 500                               | 7,001          | -                           | 1,725                           |        |
|                   | Phoenix Silicon International Corp.             | -                                | Short-term investments      | 218                               | 2,399          | -                           | 1,051                           |        |
|                   | Silicon Storage Technology Inc.                 | -                                | Short-term investments      | 213                               | 13,603         | -                           | 36,179                          |        |
|                   | Fullerton Technology Co., Ltd.                  | -                                | Short-term investments      | 108                               | 2,814          | -                           | 1,893                           |        |
|                   | Huaku Construction Co., Ltd.                    | -                                | Short-term investments      | -                                 | 1              | -                           | 1                               |        |
|                   | Taiwan Cooperative Bank                         | -                                | Short-term investments      | 200                               | 4,984          | -                           | 4,524                           |        |
|                   | Yang Ming Marine Transport Corp.                | -                                | Short-term investments      | 100                               | 2,802          | -                           | 2,205                           |        |
|                   | Eon Silicon Solution Inc.                       | -                                | Short-term investments      | 195                               | 4,515          | -                           | 2,796                           |        |
|                   | <u>Equity</u>                                   |                                  |                             |                                   |                |                             |                                 |        |
|                   | Hua Nan Yung Chong Phoenix Bond Fund            | -                                | Short-term investments      | 3,374                             | 50,000         | -                           | 50,049                          | Note 1 |
|                   | Capital Cash Reserves Bond Fund                 | -                                | Short-term investments      | 1,133                             | 13,000         | -                           | 13,056                          | Note 1 |
|                   | Fuhwa Advantage Bond Fund                       | -                                | Short-term investments      | 3,912                             | 40,000         | -                           | 40,122                          | Note 1 |
|                   | Yuan Ta Fixed Income II                         | -                                | Short-term investments      | 3,479                             | 50,000         | -                           | 50,034                          | Note 1 |
|                   | ABN AMRO Bond Fund                              | -                                | Short-term investments      | 3,378                             | 50,000         | -                           | 50,030                          | Note 1 |
|                   | AIG Taiwan Bond Fund                            | -                                | Short-term investments      | 1,596                             | 20,000         | -                           | 20,001                          | Note 1 |
|                   | <u>Bonds</u>                                    |                                  |                             |                                   |                |                             |                                 |        |
|                   | 2001 Government Bond Series A                   | -                                | Short-term investments      | -                                 | 1,110          | -                           | 1,168                           | Note 1 |
|                   | 2002 Government Bond Series D                   | -                                | Short-term investments      | -                                 | 43,923         | -                           | 42,962                          | Note 1 |
|                   | 2003 Government Bond Series D                   | -                                | Short-term investments      | -                                 | 3,440          | -                           | 3,102                           | Note 1 |
|                   | 2003 Government Bond Series H                   | -                                | Short-term investments      | -                                 | 1,550          | -                           | 1,412                           | Note 1 |

(Continued)

| Held Company Name          | Marketable Securities Type and Name             | Relationship with the Company               | Financial Statement Account | September 30, 2005                |                |                             |                                 | Note   |
|----------------------------|---|---|-----------------------------|-----------------------------------|----------------|-----------------------------|---------------------------------|--------|
|                            |   |   |                             | Shares (Thousands/Units) (Note 8) | Carrying Value | Percentage of Ownership (%) | Market Value or Net Asset Value |        |
| Paramax Corp.              | <u>Stock</u>                                    |   |                             |                                   |                |                             |                                 |        |
|                            | MaxEdge Electronics Corp.                       | Investee                                    | Long-term investments       | 3,134                             | \$ 22,847      | 8.69                        | \$ 22,847                       | Note 2 |
|                            | Synage Technology Corp.                         | Investee                                    | Long-term investments       | 2,081                             | 17,313         | 4.16                        | 17,313                          | Note 2 |
|                            | Novax Technologies, Inc.                        | Investee                                    | Long-term investments       | 4,042                             | 48,786         | 4.04                        | 48,786                          | Note 2 |
|                            | Luxxon Technology Corp.                         | Investee                                    | Long-term investments       | 5,728                             | 44,319         | 5.73                        | 44,319                          | Note 2 |
|                            | PowerGate Optical, Inc.                         | Investee                                    | Long-term investments       | 1,282                             | 10,529         | 6.41                        | 10,529                          | Note 2 |
|                            | Silicon Optronics, Inc.                         | Investee                                    | Long-term investments       | 500                               | 6,837          | 3.57                        | 6,837                           | Note 2 |
|                            | PowerFlash Semiconductor Corp.                  | Investee                                    | Long-term investments       | 500                               | 4,260          | 3.85                        | 4,111                           | Note 3 |
|                            | Smartic Technology Inc.                         | Investee                                    | Long-term investments       | 720                               | 6,302          | 6.00                        | 6,302                           | Note 2 |
|                            | Artrix International Inc.                       | Investee                                    | Long-term investments       | 1,197                             | 11,925         | 3.19                        | 11,925                          | Note 2 |
|                            | Lu-Chu Development Corp.                        | Investee                                    | Long-term investments       | 5,294                             | 52,797         | 2.27                        | 52,797                          | Note 2 |
|                            | Smart Art Corp.                                 | Investee                                    | Long-term investments       | 5,000                             | 49,967         | 20.00                       | 49,967                          | Note 3 |
|                            | 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       | 138                               | 2,129          | 0.03                        | 7,619                           |        |
|                            | Terax Communication Technologies Inc.           | Corporation and investee have same chairman | Long-term investments       | 770                               | 6,302          | 1.57                        | 6,302                           | Note 2 |
|                            | Besteam Technology Inc.                         | -   | Long-term investments       | 198                               | 3,120          | 0.41                        | 3,120                           | Note 2 |
|                            | Aero Vision Avionics, Inc.                      | Corporation and investee have same chairman | Long-term investments       | 1,290                             | 8,978          | 2.39                        | 8,978                           | Note 2 |
|                            | Universal Venture Fund, Inc.                    | Corporation and investee have same chairman | Long-term investments       | 1,405                             | 9,414          | 1.76                        | 9,414                           | Note 2 |
|                            | SAMHOP Electronics Corp.                        | -   | Long-term investments       | 440                               | 7,040          | 1.83                        | 7,040                           | Note 2 |
|                            | Lightsonic Optoelectronics Inc.                 | Corporation and investee have same chairman | Long-term investments       | 1,000                             | 7,207          | 1.08                        | 7,207                           | Note 2 |
|                            | PowerWorld Capital Management Corp.             | Corporation and investee have same chairman | Long-term investments       | 818                               | 8,333          | 1.70                        | 8,333                           | Note 2 |
|                            | Powerchip Japan Corp.                           | -   | Long-term investments       | -                                 | 308            | 0.17                        | 308                             | 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 |
|                            | Veutron Corp. - issued in 2005 (I)              | Corporation and investee have same chairman | 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 |
|                            | MaxEdge Electronics Corp. - issued in 2005 (I)  | Investee                                    | Long-term investments       | 5                                 | 5,000          | -                           | 5,000                           | Note 2 |
|                            | <u>Stock</u>                                    |   |                             |                                   |                |                             |                                 |        |
|                            | Shinkong Financial Holding Co., Ltd.            | -   | Short-term investments      | 198                               | 3,527          | -                           | 5,601                           |        |
|                            | Veutron Corp.                                   | Corporation and investee have same chairman | Short-term investments      | 10,430                            | 46,513         | -                           | 35,984                          |        |
| Eon Silicon Solution Inc.  | -   | Short-term investments                      | 209                         | 4,839                             | -              | 2,997                       |                                 |        |
| <u>Equity</u>              |   |   |                             |                                   |                |                             |                                 |        |
| New Light Taiwan Bond Fund | -   | Short-term investments                      | 5,963                       | 60,000                            | -              | 60,107                      | Note 1                          |        |

(Continued)

| Held Company Name                    | Marketable Securities Type and Name   | Relationship with the Company               | Financial Statement Account | September 30, 2005                |                |                             |                                 | Note   |
|--------------------------------------|---------------------------------------|---|-----------------------------|-----------------------------------|----------------|-----------------------------|---------------------------------|--------|
|                                      |                                       |   |                             | Shares (Thousands/Units) (Note 8) | Carrying Value | Percentage of Ownership (%) | Market Value or Net Asset Value |        |
| Syntronix Corp.                      | <u>Stock</u>                          |   |                             |                                   |                |                             |                                 |        |
|                                      | Deutron Electronics Corp.             | Investee                                    | Long-term investments       | 714                               | \$ 19,829      | 1.40                        | \$ 19,829                       | Note 2 |
|                                      | Zentel Electronics Corp.              | Investee                                    | Long-term investments       | 640                               | 5,721          | 2.56                        | 5,721                           | Note 3 |
|                                      | Smartic Technology Inc.               | Investee                                    | Long-term investments       | 480                               | 4,107          | 4.00                        | 4,107                           | Note 2 |
|                                      | Artrix International Inc.             | Investee                                    | Long-term investments       | 750                               | 7,451          | 2.00                        | 7,451                           | Note 2 |
|                                      | Optimicro Corp.                       | Investee                                    | Long-term investments       | 600                               | 5,979          | 1.50                        | 5,979                           | Note 2 |
|                                      | Astel Electronics Corp.               | Investee                                    | Long-term investments       | 800                               | 8,000          | 4.00                        | 8,000                           | Note 2 |
|                                      | Terax Communication Technologies Inc. | Same chairman                               | Long-term investments       | 583                               | 5,000          | 1.19                        | 5,000                           | Note 2 |
|                                      | Silicon Storage Technology Inc.       | -   | Short-term investments      | 22                                | 1,200          | -                           | 3,895                           |        |
|                                      | Shinkong Financial Holding Co., Ltd.  | -   | Short-term investments      | 1                                 | 8              | -                           | 13                              |        |
| Zentel Electronics Corp.             | <u>Stock</u>                          |   |                             |                                   |                |                             |                                 |        |
|                                      | Zentel Japan Corp.                    | Subsidiary                                  | Long-term investments       | 2                                 | 14,856         | 99.92                       | 14,856                          | Note 2 |
|                                      | PowerFlash Semiconductor Corp.        | Investee                                    | Long-term investments       | 650                               | 5,312          | 5.00                        | 5,312                           | Note 3 |
|                                      | Novax Technologies, Inc.              | Investee                                    | Long-term investments       | 734                               | 8,788          | 0.73                        | 8,788                           | Note 2 |
| PowerFlash Semiconductor Corp.       | <u>Equity</u>                         |   |                             |                                   |                |                             |                                 |        |
|                                      | PCA Wellpool Fund                     | -   | Short-term investments      | 295                               | 3,500          | -                           | 3,635                           | Note 1 |
|                                      | <u>Stock</u>                          |   |                             |                                   |                |                             |                                 |        |
| Artrix International Inc.            | Investee                              | Long-term investments                       | 400                         | 3,961                             | 1.07           | 3,961                       | Note 2                          |        |
| Shinkong Financial Holding Co., Ltd. | -                                     | Short-term investments                      | 1,597                       | 48,768                            | -              | 44,730                      |                                 |        |
| Smart Art Corp.                      | <u>Bonds</u>                          |   |                             |                                   |                |                             |                                 |        |
|                                      | Veutron Corp. - issued in 2005 (I)    | Corporation and investee have same chairman | Long-term investments       | 1                                 | 5,000          | -                           | 5,000                           | Note 2 |
| Smart Art Corp.                      | <u>Equity</u>                         |   |                             |                                   |                |                             |                                 |        |
|                                      | Capital Cash Reserves Bond Fund       | -   | Short-term investments      | 6,082                             | 70,000         | -                           | 70,092                          | Note 1 |
|                                      | Polaris De-Li Bond Fund               | -   | Short-term investments      | 4,721                             | 70,000         | -                           | 70,080                          | Note 1 |
|                                      | KGI Victory Fund                      | -   | Short-term investments      | 3,781                             | 40,000         | -                           | 40,010                          | Note 1 |
|                                      | Fubon Ju-I Bond Fund                  | -   | Short-term investments      | 1,280                             | 20,000         | -                           | 20,000                          | Note 1 |

Note 1: The market value is based on net asset value of the fund as of September 30, 2005.

Note 2: The market value is based on carrying value as of September 30, 2005.

Note 3: The net asset value is based on unreviewed financial data as of September 30, 2005.

Note 4: The market value is based on the contract resale price.

Note 5: As of September 30, 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: The investment in credit link note issued by Yuanta Assets Management Limited could not be transferred before the maturity date, except the early redemption required by the issuer.

Note 8: In thousands, except for bond investment which are units.

## POWERCHIP SEMICONDUCTOR CORPORATION AND INVESTEEES

MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST \$100 MILLION OR 20% OF THE PAID-IN CAPITAL  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 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 Corporation | <u>Stock</u>                                    |                             |               |                        |                    |            |                    |            |                    |         |                |                         |                    |            |  |
|                                     | Li-Hsin Investment Corp.                        | Long-term investments       | -             | -                      | 104,850            | \$ 660,053 | 14,000             | \$ 140,000 | -                  | \$ -    | \$ -           | \$ -                    | 118,850            | \$ 764,898 |  |
|                                     | Paramax Corp.                                   | Long-term investments       | -             | -                      | 54,994             | 451,109    | 14,000             | 140,000    | -                  | -       | -              | -                       | 68,994             | 549,114    |  |
|                                     | Quantum Vision Corp.                            | Long-term investments       | -             | -                      | 131,990            | 1,237,881  | 17,000             | 170,000    | -                  | -       | -              | -                       | 148,990            | 1,498,877  |  |
|                                     | Lu-Chu Development Corp.                        | Long-term investments       | -             | -                      | 24,255             | 242,564    | 32,744             | 327,440    | -                  | -       | -              | -                       | 56,999             | 568,454    |  |
|                                     | Optimicro Corp.                                 | Long-term investments       | -             | -                      | -                  | -          | 12,000             | 120,000    | -                  | -       | -              | -                       | 12,000             | 119,581    |  |
|                                     | Smart Art Corp.                                 | Long-term investments       | -             | -                      | -                  | -          | 12,000             | 120,000    | -                  | -       | -              | -                       | 12,000             | 119,921    |  |
|                                     | Powertech Technology Inc.                       | Long-term investments       | -             | -                      | 5,975              | 87,298     | 371                | -          | 3,500              | 350,361 | 51,135         | 299,226                 | 2,846              | 36,163     |  |
|                                     | Shinkong Financial Holding Co., Ltd.            | Short-term investments      | -             | -                      | 937                | 17,414     | 29,294             | 896,371    | -                  | -       | 17,842         | -                       | 30,231             | 895,944    |  |
|                                     | ProMos Technologies Inc.                        | Short-term investments      | -             | -                      | 34,996             | 802,005    | 2,238              | -          | 17,496             | 231,076 | 388,098        | (157,022)               | 19,738             | 413,907    |  |
|                                     | Ardentec Corp.                                  | Short-term investments      | -             | -                      | -                  | -          | 5,844              | 60,580     | 5,844              | 100,758 | 60,580         | 40,178                  | -                  | -          |  |
|                                     | Wintek Corporation                              | Short-term investments      | -             | -                      | -                  | -          | 2,042              | 72,233     | 2,042              | 104,771 | 72,233         | 32,538                  | -                  | -          |  |
|                                     | China Steel Corporation                         | Short-term investments      | -             | -                      | -                  | -          | 5,250              | 159,611    | 3,650              | 123,171 | 116,916        | 6,255                   | 1,600              | 42,695     |  |
|                                     | Taiwan Semiconductor Manufacturing Company Ltd. | Short-term investments      | -             | -                      | -                  | -          | 4,550              | 250,001    | 2,050              | 115,311 | 112,871        | 2,440                   | 2,500              | 137,130    |  |
|                                     | Hua Nan Financial Holding Co., Ltd.             | Short-term investments      | -             | -                      | -                  | -          | 7,508              | 177,476    | 500                | 17,241  | 16,988         | 253                     | 7,008              | 160,488    |  |
|                                     | Taiwan Cooperative Bank                         | Short-term investments      | -             | -                      | -                  | -          | 6,650              | 162,276    | -                  | -       | -              | -                       | 6,650              | 162,276    |  |
|                                     | Emerging Memory & Logic Solution Incorporation  | Short-term investments      | -             | -                      | -                  | -          | 279                | 18,924     | 279                | 209,706 | 18,924         | 190,782                 | -                  | -          |  |
|                                     | Elpida Memory Inc.                              | Short-term investments      | -             | -                      | -                  | -          | 393                | 418,629    | -                  | -       | -              | -                       | 393                | 418,629    |  |
|                                     | <u>Equity</u>                                   |                             |               |                        |                    |            |                    |            |                    |         |                |                         |                    |            |  |
|                                     | Fubon Ju-I Bond Fund                            | Short-term investments      | -             | -                      | -                  | -          | 6,422              | 100,000    | -                  | -       | -              | -                       | 6,422              | 100,000    |  |
| Fubon Ju-I II Fund                  | Short-term investments                          | -                           | -             | -                      | -                  | 7,003      | 100,000            | -          | -                  | -       | -              | 7,003                   | 100,000            |            |  |
| New Light Growth Fund               | Short-term investments                          | -                           | -             | 10,000                 | 100,000            | -          | -                  | 10,000     | 101,699            | 100,000 | 1,699          | -                       | -                  |            |  |

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

Note 2: Cash dividend received in the year of investments acquired.

Note 3: Stock dividend received.

Note 4: The acquisition shares and cost were reclassified from long-term investment.

**POWERCHIP SEMICONDUCTOR CORPORATION**

**ACQUISITION OF INDIVIDUAL REAL ESTATES AT COSTS OF AT LEAST \$100 MILLION OR 20% OF THE PAID-IN CAPITAL  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2005  
(Amounts in Thousands of New Taiwan Dollars)**

| Company Name                        | Property  | Transaction Date                | Transaction Amount | Payment Status | Counter-Party                       | Nature of Relationship | Prior Transaction of Related Counter-party |              |               |        | Price Reference | Purpose of Acquisition | Other Terms |
|-------------------------------------|-----------|---------------------------------|--------------------|----------------|-------------------------------------|------------------------|--|--------------|---------------|--------|-----------------|------------------------|-------------|
|                                     |           |                                 |                    |                |                                     |                        | Owner                                      | Relationship | Transfer Date | Amount |                 |                        |             |
| Powerchip Semiconductor Corporation | Buildings | January 27, 2005 - July 1, 2005 | \$407,399          | \$406,867      | Fu Tsu Construction Co., Ltd., etc. | -                      | -  | -            | -             | \$ -   | -               | Fab. 12B               | -           |

## POWERCHIP SEMICONDUCTOR CORPORATION

TOTAL PURCHASE FROM OR SALE TO RELATED PARTIES AMOUNTING TO AT LEAST \$100 MILLION OR 20% OF THE PAID-IN CAPITAL  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 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/<br>Sale   | Amount       | % to<br>Total | Payment Terms | Unit Price           | Payment Terms | Ending<br>Balance                  | % to<br>Total |      |
| Powerchip<br>Semiconductor<br>Corporation | Deutron Electronics Corp. | Investee                       | Sales               | \$ 8,525,725 | 23            | Note 2        | -                    | -             | \$ 786,418                         | 17            | -    |
|   | Elpida Memory Inc.        | Director                       | Sales               | 4,457,562    | 12            | Note 2        | -                    | -             | 605,577                            | 13            | -    |
|   | Novax Technologies, Inc.  | Investee                       | Sales               | 2,142,226    | 6             | Note 3        | -                    | -             | 306,677                            | 6             | -    |
|   | Silicon Optronics, Inc.   | Investee                       | Sales               | 145,324      | -             | Note 2        | -                    | -             | 25,396                             | 1             | -    |
|   | Syntronix Corp.           | Subsidiary                     | Sales               | 123,773      | -             | Note 2        | -                    | -             | 16,664                             | -             | -    |
|   | Powertech Technology Inc. | Quantum Vision is its director | Note 1              | 1,702,450    | 6             | Note 4        | -                    | -             | (559,914)                          | (11)          | -    |

Note 1: Subcontract fees.

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

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

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

**POWERCHIP SEMICONDUCTOR CORPORATION**

**RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST \$100 MILLION OR 20% OF THE PAID-IN CAPITAL  
SEPTEMBER 30, 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. | Investee               | \$ 786,418            | 16.68         | \$ -    | -            | \$ 73,413                             | \$ 24,215                                  |
|                                     | Elpida Memory Inc.        | Director               | 605,577               | 9.28          | -       | -            | -                                     | 18,261                                     |
|                                     | Novax Technologies, Inc.  | Investee               | 306,677               | 15.20         | -       | -            | 61,078                                | 9,465                                      |

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

## POWERCHIP SEMICONDUCTOR CORPORATION AND INVESTEEES

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 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 September 30, 2005 |                             |                | Net Income (Loss) of the Investee | Investment Gain (Loss) | Note     |
|-------------------------------------|--------------------------------|-------------------------------------|---------------------------------------|----------------------------|---------------|----------------------------------|-----------------------------|----------------|-----------------------------------|------------------------|----------|
|                                     |                                |                                     |                                       | September 30, 2005         | Dec. 31, 2004 | Shares (Thousands)               | Percentage of Ownership (%) | Carrying Value |                                   |                        |          |
| Powerchip Semiconductor Corporation | Quantum Vision Corp.           | Taipei, Taiwan                      | Investment                            | \$ 1,462,900               | \$ 1,292,900  | 148,900                          | 99.99                       | \$ 1,498,877   | \$ 95,379                         | \$ 95,229              | -        |
|                                     | Li-Hsin Investment Corp.       | Taipei, Taiwan                      | Investment                            | 1,188,500                  | 1,048,500     | 118,850                          | 99.87                       | 764,898        | (40,646)                          | (35,254)               | -        |
|                                     | Lu-Chu Development Corp.       | Taipei, Taiwan                      | Transaction of real estate            | 569,990                    | 242,550       | 56,999                           | 24.40                       | 568,454        | (9,331)                           | (1,551)                | -        |
|                                     | Paramax Corp.                  | Taipei, Taiwan                      | Investment                            | 689,940                    | 549,940       | 68,994                           | 99.99                       | 549,114        | (40,272)                          | (40,269)               | -        |
|                                     | Novax Technologies, Inc.       | Taipei, Taiwan                      | Electronic components manufacturing   | 275,548                    | 154,389       | 24,658                           | 24.66                       | 289,531        | 47,305                            | 7,578                  | -        |
|                                     | Luxxon Technology Corp.        | Taoyuan, Taiwan                     | Electronic components manufacturing   | 207,331                    | 144,760       | 20,733                           | 20.73                       | 149,996        | (129,129)                         | (23,957)               | -        |
|                                     | Syntronix Corp.                | Hsin-Chu, Taiwan                    | Design of electronic related products | 142,000                    | 142,000       | 12,700                           | 47.04                       | 147,817        | 42,468                            | 19,970                 | -        |
|                                     | Deutron Electronics Corp.      | Taipei, Taiwan                      | Electronic components manufacturing   | 21,300                     | 21,300        | 4,998                            | 9.78                        | 137,942        | 411,392                           | 45,412                 | -        |
|                                     | Smart Art Corp.                | Taipei, Taiwan                      | Transaction of artistry               | 120,000                    | -             | 12,000                           | 48.00                       | 119,921        | (165)                             | (80)                   | -        |
|                                     | Optimicro Corp.                | Taipei, Taiwan                      | Optical components manufacturing      | 120,000                    | -             | 12,000                           | 30.00                       | 119,581        | (1,396)                           | (474)                  | -        |
|                                     | Synage Technology Corp.        | Taipei, Taiwan                      | Electronic components manufacturing   | 91,401                     | -             | 10,084                           | 20.17                       | 88,400         | (62,271)                          | (12,560)               | -        |
|                                     | Artrix International Inc.      | Taipei, Taiwan                      | Investment                            | 87,600                     | 60,000        | 8,760                            | 23.36                       | 87,167         | (1,634)                           | (441)                  | -        |
|                                     | Zentel Electronics Corp.       | Hsin-Chu, Taiwan                    | Design of electronic related products | 92,000                     | 92,000        | 9,200                            | 36.80                       | 82,243         | (10,672)                          | (3,927)                | -        |
|                                     | Deutron Japan Corp.            | Japan                               | Electronic components manufacturing   | 90,020                     | 90,020        | 2,891                            | 38.98                       | 81,786         | (14)                              | (6)                    | -        |
|                                     | Astel Electronics Corp.        | Taipei, Taiwan                      | Electronic components manufacturing   | 80,000                     | -             | 8,000                            | 40.00                       | 80,000         | -                                 | -                      | -        |
|                                     | Zhi-Li Investment Corp.        | Taipei, Taiwan                      | Investment                            | 66,500                     | -             | 6,650                            | 33.25                       | 66,585         | 257                               | 89                     | -        |
|                                     | Tekmax Development Corp.       | Taipei, Taiwan                      | Investment                            | 58,640                     | 50,000        | 5,520                            | 15.77                       | 63,602         | 4,582                             | (30)                   | -        |
|                                     | PowerFlash Semiconductor Corp. | Taipei, Taiwan                      | Design of electronic related products | 41,600                     | 41,600        | 4,160                            | 32.00                       | 33,997         | (19,229)                          | (6,153)                | -        |
|                                     | MaxEdge Electronics Corp.      | Taoyuan, Taiwan                     | PCB manufacturing                     | 436,873                    | 428,394       | 4,886                            | 13.55                       | 30,494         | (130,314)                         | (18,101)               | -        |
|                                     | Smartic Technologies Inc.      | Taipei, Taiwan                      | Design of electronic related products | 30,000                     | 30,000        | 3,000                            | 25.00                       | 25,670         | (14,961)                          | (3,740)                | -        |
|                                     | Silicon Optronics, Inc.        | Hsin-Chu, Taiwan                    | Electronic components manufacturing   | 17,000                     | 17,000        | 1,700                            | 12.14                       | 20,922         | 46,031                            | 6,011                  | -        |
|                                     | PowerGate Optical, Inc.        | Taipei, Taiwan                      | Optical components manufacturing      | 18,700                     | 10,000        | 1,870                            | 9.35                        | 13,173         | (40,386)                          | (3,948)                | -        |
|                                     | Li-Hsin Investment Corp.       | MaxEdge Electronics Corp.           | Taoyuan, Taiwan                       | PCB manufacturing          | 500,369       | 490,377                          | 5,757                       | 15.96          | 33,155                            | (130,314)              | (21,333) |
| Synage Technology Corp.             |                                | Taipei, Taiwan                      | Electronic components manufacturing   | 107,495                    | -             | 10,750                           | 21.50                       | 94,107         | (62,271)                          | (13,388)               | -        |
| Novax Technologies, Inc.            |                                | Taipei, Taiwan                      | Electronic components manufacturing   | 43,632                     | 43,632        | 4,246                            | 4.25                        | 51,251         | 47,305                            | 6,518                  | -        |
| Luxxon Technology Corp.             |                                | Taoyuan, Taiwan                     | Electronic components manufacturing   | 13,079                     | 10,000        | 1,363                            | 1.36                        | 10,314         | (129,129)                         | (220)                  | -        |
| Tekmax Development Corp.            |                                | Taipei, Taiwan                      | Investment                            | 17,120                     | 14,600        | 1,610                            | 4.60                        | 18,572         | 4,582                             | -                      | -        |
| Smartic Technologies Inc.           |                                | Taipei, Taiwan                      | Design of electronic related products | 4,800                      | 4,800         | 480                              | 4.00                        | 4,202          | (14,961)                          | (598)                  | -        |
| Lu-Chu Development Corp.            |                                | Taipei, Taiwan                      | Transaction of real estate            | 243,371                    | 157,405       | 24,337                           | 10.42                       | 242,426        | (9,331)                           | (912)                  | -        |
| Artrix International Inc.           |                                | Taipei, Taiwan                      | Investment                            | 16,950                     | 8,000         | 1,695                            | 4.52                        | 16,903         | (1,634)                           | (57)                   | -        |
| Optimicro Corp.                     |                                | Taipei, Taiwan                      | Optical components manufacturing      | 12,000                     | -             | 1,200                            | 3.00                        | 11,958         | (1,396)                           | (1)                    | -        |
| Smart Art Corp.                     |                                | Taipei, Taiwan                      | Transaction of artistry               | 30,000                     | -             | 3,000                            | 12.00                       | 29,980         | (165)                             | (20)                   | -        |
| Deutron Japan Corp.                 | Japan                          | Electronic components manufacturing | 9,067                                 | 9,067                      | 289           | 3.89                             | 8,665                       | (14)           | -                                 | -                      |          |
| Quantum Vision Corp.                | MaxEdge Electronics Corp.      | Taoyuan, Taiwan                     | PCB manufacturing                     | 240,170                    | 229,614       | 4,178                            | 11.58                       | 25,780         | (130,314)                         | (13,996)               | -        |
|                                     | Deutron Electronics Corp.      | Taipei, Taiwan                      | Electronic components manufacturing   | 22,800                     | 22,800        | 5,236                            | 10.24                       | 154,619        | 411,392                           | 38,833                 | -        |
|                                     | Syntronix Corp.                | Hsin-Chu, Taiwan                    | Design of electronic related products | 7,380                      | 7,380         | 649                              | 2.40                        | 7,577          | 42,468                            | 997                    | -        |
|                                     | Zentel Electronics Corp.       | Hsin-Chu, Taiwan                    | Design of electronic related products | 21,000                     | 21,000        | 2,100                            | 8.40                        | 18,859         | (10,672)                          | (940)                  | -        |
|                                     | Synage Technology Corp.        | Taipei, Taiwan                      | Electronic components manufacturing   | 18,361                     | -             | 1,836                            | 3.67                        | 16,075         | (62,271)                          | (2,285)                | -        |
|                                     | Novax Technologies, Inc.       | Taipei, Taiwan                      | Electronic components manufacturing   | 103,723                    | 103,723       | 12,735                           | 12.73                       | 153,720        | 47,305                            | 9,930                  | -        |
|                                     | Luxxon Technology Corp.        | Taoyuan, Taiwan                     | Electronic components manufacturing   | 96,699                     | 96,699        | 9,670                            | 9.67                        | 69,953         | (129,129)                         | (11,383)               | -        |
|                                     | PowerGate Optical, Inc.        | Taipei, Taiwan                      | Optical components manufacturing      | 23,440                     | 12,000        | 2,344                            | 11.72                       | 18,759         | (40,386)                          | (4,807)                | -        |
|                                     | Tekmax Development Corp.       | Taipei, Taiwan                      | Investment                            | 42,800                     | 36,500        | 4,025                            | 11.50                       | 46,033         | 4,582                             | (22)                   | -        |
|                                     | Silicon Optronics, Inc.        | Hsin-Chu, Taiwan                    | Electronic components manufacturing   | 9,000                      | 8,000         | 900                              | 6.43                        | 12,177         | 46,031                            | 3,039                  | -        |
|                                     | PowerFlash Semiconductor Corp. | Taipei, Taiwan                      | Design of electronic related products | 8,500                      | 8,500         | 850                              | 6.54                        | 7,242          | (19,229)                          | (1,258)                | -        |
|                                     | Smartic Technologies Inc.      | Taipei, Taiwan                      | Design of electronic related products | 7,200                      | 7,200         | 720                              | 6.00                        | 6,302          | (14,961)                          | (898)                  | -        |
|                                     | Artrix International Inc.      | Taipei, Taiwan                      | Investment                            | 37,850                     | 24,000        | 3,785                            | 10.90                       | 37,708         | (1,634)                           | (171)                  | -        |
|                                     | Optimicro Corp.                | Taipei, Taiwan                      | Optical components manufacturing      | 30,100                     | -             | 3,010                            | 7.53                        | 30,009         | (1,396)                           | (109)                  | -        |
|                                     | Lu-Chu Development Corp.       | Taipei, Taiwan                      | Transaction of real estate            | 58,268                     | -             | 5,827                            | 2.49                        | 58,268         | (9,331)                           | -                      | -        |

(Continued)

| Investor Company               | Investee Company               | Location         | Main Businesses and Products          | Original Investment Amount |               | Balance as of September 30, 2005 |                             |                | Net Income (Loss) of the Investee | Investment Gain (Loss) | Note |
|--------------------------------|--------------------------------|------------------|---------------------------------------|----------------------------|---------------|----------------------------------|-----------------------------|----------------|-----------------------------------|------------------------|------|
|                                |                                |                  |                                       | September 30, 2005         | Dec. 31, 2004 | Shares (Thousands)               | Percentage of Ownership (%) | Carrying Value |                                   |                        |      |
| Paramax Corp.                  | Astel Electronics Corp.        | Taipei, Taiwan   | Electronic components manufacturing   | \$ 10,000                  | \$ -          | 1,000                            | 5.00                        | \$ 10,000      | \$ -                              | \$ -                   | -    |
|                                | Smart Art Corp.                | Taipei, Taiwan   | Transaction of artistry               | 50,000                     | -             | 5,000                            | 20.00                       | 49,967         | (165)                             | (33)                   | -    |
|                                | MaxEdge Electronics Corp.      | Taoyuan, Taiwan  | PCB manufacturing                     | 123,474                    | 108,642       | 3,134                            | 8.69                        | 22,847         | (130,314)                         | (7,402)                | -    |
|                                | Synage Technology Corp.        | Taipei, Taiwan   | Electronic components manufacturing   | 20,806                     | -             | 2,081                            | 4.16                        | 17,313         | (62,271)                          | (2,590)                | -    |
|                                | Novax Technologies, Inc.       | Taipei, Taiwan   | Electronic components manufacturing   | 44,735                     | 44,735        | 4,042                            | 4.04                        | 48,786         | 47,305                            | 2,121                  | -    |
|                                | Luxxon Technology Corp.        | Taoyuan, Taiwan  | Electronic components manufacturing   | 57,429                     | 37,928        | 5,728                            | 5.73                        | 44,319         | (129,129)                         | (6,317)                | -    |
|                                | PowerGate Optical, Inc.        | Taipei, Taiwan   | Optical components manufacturing      | 12,820                     | 12,820        | 1,282                            | 6.41                        | 10,529         | (40,386)                          | (3,012)                | -    |
|                                | Silicon Optronics, Inc.        | Hsin-Chu, Taiwan | Electronic components manufacturing   | 5,000                      | 5,000         | 500                              | 3.57                        | 6,837          | 46,031                            | 1,716                  | -    |
|                                | PowerFlash Semiconductor Corp. | Taipei, Taiwan   | Design of electronic related products | 5,000                      | 5,000         | 500                              | 3.85                        | 4,260          | (19,229)                          | (740)                  | -    |
|                                | Smartic Technologies Inc.      | Taipei, Taiwan   | Design of electronic related products | 7,200                      | 7,200         | 720                              | 6.00                        | 6,302          | (14,961)                          | (898)                  | -    |
|                                | Artrix International Inc.      | Taipei, Taiwan   | Investment                            | 11,973                     | 7,000         | 1,197                            | 3.19                        | 11,925         | (1,634)                           | (53)                   | -    |
|                                | Lu-Chu Development Corp.       | Taipei, Taiwan   | Transaction of real estate            | 52,936                     | -             | 5,294                            | 2.27                        | 52,797         | (9,331)                           | (20)                   | -    |
|                                | Smart Art Corp.                | Taipei, Taiwan   | Transaction of artistry               | 50,000                     | -             | 5,000                            | 20.00                       | 49,967         | (165)                             | (33)                   | -    |
|                                | Deutron Japan Corp.            | Japan            | Electronic components manufacturing   | 11,031                     | 11,031        | 351                              | 4.73                        | 11,031         | (14)                              | -                      | -    |
| Syntronix Corp.                | Deutron Electronics Corp.      | Taipei, Taiwan   | Electronic components manufacturing   | 3,000                      | 3,000         | 714                              | 1.40                        | 19,829         | 411,392                           | 5,618                  | -    |
|                                | Zentel Electronics Corp.       | Hsin-Chu, Taiwan | Design of electronic related products | 6,400                      | 6,400         | 640                              | 2.56                        | 5,721          | (10,672)                          | (271)                  | -    |
|                                | Smartic Technologies Inc.      | Taipei, Taiwan   | Design of electronic related products | 4,800                      | 4,800         | 480                              | 4.00                        | 4,107          | (14,961)                          | (692)                  | -    |
|                                | Artrix International Inc.      | Taipei, Taiwan   | Investment                            | 7,500                      | 5,000         | 750                              | 2.00                        | 7,451          | (1,634)                           | (49)                   | -    |
|                                | Optimicro Corp.                | Taipei, Taiwan   | Optical components manufacturing      | 6,000                      | -             | 600                              | 1.50                        | 5,979          | (1,396)                           | (21)                   | -    |
|                                | Astel Electronics Corp.        | Taipei, Taiwan   | Electronic components manufacturing   | 8,000                      | -             | 800                              | 4.00                        | 8,000          | -                                 | -                      | -    |
| Zentel Electronics Corp.       | Zentel Japan Corp.             | Japan            | Design of electronic related products | 38,322                     | 38,322        | 2                                | 99.92                       | 14,856         | 159                               | 159                    | -    |
|                                | PowerFlash Semiconductor Corp. | Taipei, Taiwan   | Design of electronic related products | 6,500                      | 6,500         | 650                              | 5.00                        | 5,312          | (19,229)                          | (1,188)                | -    |
|                                | Novax Technologies, Inc.       | Taipei, Taiwan   | Electronic components manufacturing   | 8,400                      | 8,400         | 734                              | 0.73                        | 8,788          | 47,305                            | 1,011                  | -    |
| PowerFlash Semiconductor Corp. | Artrix International Inc.      | Taipei, Taiwan   | Investment                            | 4,000                      | 4,000         | 400                              | 1.07                        | 3,961          | (1,634)                           | (39)                   | -    |