

Powerchip Semiconductor Corporation

**Financial Statements for the
Years Ended December 31, 2005 and 2004 and
Independent Auditors' Report**

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Powerchip Semiconductor Corporation

We have audited the accompanying balance sheets of Powerchip Semiconductor Corporation as of December 31, 2005 and 2004, and the related statements of income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits. As mentioned in Note 6 to the financial statements, we did not audit the financial statements of certain investees, the investments in which are reflected in the accompanying financial statements using the equity method of accounting. Such investments represent 3.28 % (NT\$5,026,263 thousand) and 2.70% (NT\$3,306,261 thousand), respectively, of total assets as of December 31, 2005 and 2004, and investment loss of 3.38 % (NT\$190,353 thousand) and 0.38% (NT\$86,078 thousand), respectively, of income before income tax for the years then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based solely on the report of the other auditors.

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

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Powerchip Semiconductor Corporation as of December 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

We have also audited the consolidated financial statements of Powerchip Semiconductor Corporation and subsidiaries as of and for the years ended December 31, 2005, and have expressed an unqualified opinion with an explanatory paragraph on such financial statements.

January 26, 2006

Notice to Readers

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

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

POWERCHIP SEMICONDUCTOR CORPORATION

BALANCE SHEETS

DECEMBER 31, 2005 AND 2004

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

ASSETS	2005		2004		LIABILITIES AND SHAREHOLDERS' EQUITY	2005		2004	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents (Notes 2 and 3)	\$ 35,684,656	23	\$ 35,025,469	29	Short-term bank loans (Note 9)	\$ 773,534	1	\$ -	-
Short-term investments, net (Notes 2 and 4)	2,913,822	2	967,101	1	Accounts payable (Note 19)				
Accounts receivable (Notes 2, 19 and 20)					Third parties	4,989,900	3	4,599,962	4
Third parties, net of allowance for doubtful accounts of \$27,752 thousand in 2005 and \$32,878 thousand in 2004 and for sales discount of \$54,226 thousand in 2005 and \$14,323 thousand in 2004	2,355,617	2	2,349,598	2	Related parties	1,051,709	1	397,608	-
Related parties, net of allowance for doubtful accounts of \$23,436 thousand in 2005 and \$14,957 thousand in 2004 and for sales discount of \$35,774 thousand in 2005 and \$15,677 thousand in 2004	2,308,206	1	1,553,680	1	Accrued expenses (Notes 19 and 22)	2,209,943	1	2,597,324	2
Other receivables (Notes 2 and 22)	494,215	-	431,880	-	Payable on equipment	13,731,127	9	14,187,274	12
Inventories, net (Notes 2 and 5)	7,191,492	5	5,125,375	4	Convertible bonds payable (Notes 2 and 10)	5,191,942	3	920,710	1
Prepaid expenses	250,294	-	189,783	-	Current portion of long-term bank loans (Notes 11 and 20)	7,606,667	5	3,993,554	3
Deferred income tax assets - current (Notes 2 and 16)	924,513	1	1,613,098	1	Current portion of long-term obligation under capital lease (Notes 2 and 7)	-	-	165,110	-
Restricted deposits (Note 20)	1,212,376	1	2,123,217	2	Current portion of long-term payable on equipment	-	-	528,992	-
Other current assets	11,284	-	11,100	-	Other current liabilities (Notes 2 and 12)	149,071	-	31,120	-
Total current assets	53,346,475	35	49,390,301	40	Total current liabilities	35,703,893	23	27,421,654	22
LONG-TERM INVESTMENTS (Notes 2, 6 and 19)					LONG-TERM LIABILITIES				
Equity method	5,480,107	4	3,734,302	3	Convertible bonds payable (Notes 2 and 10)	14,672,913	9	5,044,482	4
Cost method	679,441	-	912,503	1	Long-term bank loans, net of current portion (Notes 11 and 20)	19,359,640	13	14,341,200	12
Bonds	310,120	-	274,900	-	Total long-term liabilities	34,032,553	22	19,385,682	16
Total long-term investments	6,469,668	4	4,921,705	4	OTHER LIABILITIES				
PROPERTIES (Notes 2, 7, 19 and 20)					Accrued pension cost (Notes 2 and 12)	33,396	-	51,519	-
Cost					Guarantee deposits	4,653	-	5,572	-
Buildings	7,789,030	5	6,376,635	5	Deferred income tax liabilities - noncurrent (Notes 2 and 16)	-	-	180,629	-
Machinery and equipment	116,442,752	76	81,924,844	67	Total other liabilities	38,049	-	237,720	-
Research and development equipment	572,606	-	312,343	-	Total liabilities	69,774,495	45	47,045,056	38
Facility equipment	16,097,801	11	11,768,143	10	SHAREHOLDERS' EQUITY (Notes 13 and 14)				
Transportation equipment	15,762	-	13,413	-	Capital stock, \$10 par value				
Office equipment	373,176	-	317,884	-	Authorized - 7,500,000 thousand shares in 2005 and 5,500,000 thousand shares in 2004				
Equipment under capital lease	-	-	761,708	1	Issued - 5,590,144 thousand shares in 2005 and 4,190,617 thousand shares in 2004	55,901,444	37	41,906,174	34
Miscellaneous equipment	909,777	1	438,882	-	Capital surplus (Notes 2 and 13)				
	142,200,904	93	101,913,852	83	Paid-in capital in excess of par value	12,727,828	8	9,791,333	8
Accumulated depreciation	(59,102,441)	(39)	(43,543,090)	(35)	Arising from treasury stock	3,290	-	39,866	-
	83,098,463	54	58,370,762	48	Arising from long-term investments	31,525	-	8,187	-
Advance payments and construction in progress	5,099,346	3	5,490,124	4	Arising from conversion of bonds	4,031,771	3	3,357,777	3
Net properties	88,197,809	57	63,860,886	52	Retained earnings				
OTHER ASSETS					Appropriation for legal reserve	2,132,816	1	1,308	-
Assets leased to others, net (Note 2)	160,910	-	178,372	-	Appropriation for special reserve	252	-	-	-
Refundable deposits	25,107	-	23,427	-	Unappropriated earnings	10,489,647	7	21,326,859	18
Deferred charges, net (Notes 2, 8, 19 and 21)	3,507,426	3	3,699,942	3	Adjustments (Note 2)				
Deferred income tax assets - noncurrent (Notes 2 and 16)	1,316,924	1	-	-	Unrealized loss on long-term investment	(1,078)	-	-	-
Spare parts, net	402,572	-	404,239	1	Cumulative translation adjustments	(15,822)	-	(252)	-
Others	18,630	-	8,860	-	Treasury stock (at cost) - 88,092 thousand shares in 2005 and 48,403 thousand shares in 2004 (Notes 2 and 15)	(1,630,647)	(1)	(988,576)	(1)
Total other assets	5,431,569	4	4,314,840	4	Total shareholders' equity	83,671,026	55	75,442,676	62
TOTAL	\$ 153,445,521	100	\$ 122,487,732	100	TOTAL	\$ 153,445,521	100	\$ 122,487,732	100

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

(With Deloitte & Touche audit report dated January 26, 2006)

POWERCHIP SEMICONDUCTOR CORPORATION

STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2005 AND 2004

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

	2005		2004	
	Amount	%	Amount	%
GROSS SALES	\$ 53,921,243		\$ 58,729,841	
SALES RETURNS AND ALLOWANCES	<u>2,309,590</u>		<u>1,293,741</u>	
NET SALES (Notes 2, 19 and 23)	51,611,653	100	57,436,100	100
COST OF SALES (Notes 17 and 19)	<u>42,588,396</u>	<u>82</u>	<u>32,091,294</u>	<u>56</u>
GROSS PROFIT BEFORE UNREALIZED INTERCOMPANY PROFIT	9,023,257	18	25,344,806	44
UNREALIZED INTERCOMPANY PROFIT (Note 2)	<u>1,228</u>	<u>-</u>	<u>5,531</u>	<u>-</u>
GROSS PROFIT	<u>9,022,029</u>	<u>18</u>	<u>25,339,275</u>	<u>44</u>
OPERATING EXPENSES (Notes 17 and 19)				
Selling	257,093	1	176,204	-
General and administrative	1,534,503	3	1,141,168	2
Research and development	<u>1,720,785</u>	<u>3</u>	<u>1,048,579</u>	<u>2</u>
Total operating expenses	<u>3,512,381</u>	<u>7</u>	<u>2,365,951</u>	<u>4</u>
OPERATING INCOME	<u>5,509,648</u>	<u>11</u>	<u>22,973,324</u>	<u>40</u>
NONOPERATING INCOME AND GAIN				
Gain on sales of investments, net (Note 2)	550,333	1	527,953	1
Interest (Notes 2 and 19)	431,157	1	212,351	1
Reversal of allowance for decline in value of short-term investments (Note 2)	167,573	1	-	-
Foreign exchange gains, net (Notes 2 and 22)	99,866	-	151,968	-
Dividend income (Note 2)	49,795	-	25,786	-
Indemnity income	27,514	-	14,137	-
Rebate of ECB/GDR management fee	24,593	-	1,379	-
Gain on disposal of properties (Note 2)	19,611	-	3,180	-
Others (Note 19)	<u>85,146</u>	<u>-</u>	<u>63,783</u>	<u>-</u>
Total nonoperating income and gain	<u>1,455,588</u>	<u>3</u>	<u>1,000,537</u>	<u>2</u>
NONOPERATING EXPENSES AND LOSSES				
Interest (Notes 2, 7 and 22)	648,403	1	567,816	1
Equity in losses of equity method investees, net (Notes 2 and 6)	253,889	1	198,863	1

(Continued)

	2005		2004	
	Amount	%	Amount	%
Provision for loss on inventories and spare parts (Note 2)	\$ 169,257	1	\$ 112,475	-
Financial expenses (Note 22)	65,135	-	-	-
Loss on disposal of properties (Note 2)	53,341	-	53,832	-
Impairment loss on long-term investments (Note 2)	43,928	-	107,199	-
Provision for decline in value of short-term investments (Note 2)	-	-	421,606	1
Loss on disposal of land (Notes 6 and 19)	-	-	70,010	-
Others	97,474	-	63,826	-
Total nonoperating expenses and losses	1,331,427	3	1,595,627	3
INCOME BEFORE INCOME TAX	5,633,809	11	22,378,234	39
INCOME TAX BENEFIT (EXPENSE) (Notes 2 and 16)	798,189	1	(1,042,879)	(2)
NET INCOME	\$ 6,431,998	12	\$ 21,335,355	37
	2005		2004	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS PER SHARE (Note 18)				
Basic earnings per share	\$ 1.05	\$ 1.20	\$ 4.79	\$ 4.56
Diluted earnings per share	\$ 0.92	\$ 1.04	\$ 4.34	\$ 4.14

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

	2005		2004	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
NET INCOME	\$ 6,429,597		\$ 21,368,885	
	2005		2004	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS PER SHARE				
Basic earnings per share	\$ 1.05	\$ 1.20	\$ 4.79	\$ 4.57
Diluted earnings per share	\$ 0.91	\$ 1.04	\$ 4.34	\$ 4.14

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

(With Deloitte & Touche audit report dated January 26, 2006)

(Concluded)

POWERCHIP SEMICONDUCTOR CORPORATION

**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2005 AND 2004
(In Thousands of New Taiwan Dollars, Except Per Share Data)**

	Capital Stock Issued		Capital Surplus (Notes 2 and 13)					Retained Earnings				Adjustments (Note 2)		Treasury Stock (Notes 2 and 15)	Total Shareholders' Equity (Note 13)
			Paid-in Capital in Excess of Par Value	From Treasury Stock	From Long-term Investments	From Conversion of Bonds	Total	Legal Reserve	Special Reserve	Unappropriated Earnings	Total	Unrealized Loss on Long-Term Investment	Cumulative Translation Adjustments		
	Shares (Thousands)	Amount													
BALANCE, JANUARY 1, 2004	3,387,637	\$ 33,876,372	\$ 3,695,090	\$ -	\$ 14,519	\$ 1,352,405	\$ 5,062,014	\$ -	\$ -	\$ 13,083	\$ 13,083	\$ -	\$ 874	\$ (1,002,690)	\$ 37,949,653
Appropriation for legal reserve	-	-	-	-	-	-	-	1,308	-	(1,308)	-	-	-	-	-
Issuance of capital stock, June 17, 2004 - \$24 per share (certain portion issued as Global Depository Shares)	400,000	4,000,000	5,581,532	-	-	-	5,581,532	-	-	-	-	-	-	-	9,581,532
Conversion of bonds into capital stock	292,286	2,922,862	-	-	-	2,005,372	2,005,372	-	-	-	-	-	-	-	4,928,234
Issuance of shares upon exercise of employee stock options	110,694	1,106,940	514,711	-	-	-	514,711	-	-	-	-	-	-	-	1,621,651
Acquisition of treasury stock - 12,000 thousand shares at average of \$22.05 per share	-	-	-	-	-	-	-	-	-	-	-	-	-	(264,637)	(264,637)
Sales of treasury stock - 13,545 thousand shares at average of \$23.35 per share	-	-	-	39,866	-	-	39,866	-	-	(2,338)	(2,338)	-	-	278,751	316,279
Adjustment for changes in shareholders' equities of equity method investees	-	-	-	-	(6,332)	-	(6,332)	-	-	(17,933)	(17,933)	-	(1,126)	-	(25,391)
Net income in 2004	-	-	-	-	-	-	-	-	-	21,335,355	21,335,355	-	-	-	21,335,355
BALANCE, DECEMBER 31, 2004	4,190,617	41,906,174	9,791,333	39,866	8,187	3,357,777	13,197,163	1,308	-	21,326,859	21,328,167	-	(252)	(988,576)	75,442,676
Appropriations of prior year's earnings															
Legal reserve	-	-	-	-	-	-	-	2,131,508	-	(2,131,508)	-	-	-	-	-
Special reserve	-	-	-	-	-	-	-	-	252	(252)	-	-	-	-	-
Employees' profit sharing - in cash	-	-	-	-	-	-	-	-	-	(639,837)	(639,837)	-	-	-	(639,837)
Employees' profit sharing - in stock	127,967	1,279,673	-	-	-	-	-	-	-	(1,279,673)	(1,279,673)	-	-	-	-
Cash dividends - 10%	-	-	-	-	-	-	-	-	-	(4,167,245)	(4,167,245)	-	-	-	(4,167,245)
Stock dividends - 20%	833,449	8,334,490	-	-	-	-	-	-	-	(8,334,490)	(8,334,490)	-	-	-	-
Remunerations to directors and supervisors	-	-	-	-	-	-	-	-	-	(575,853)	(575,853)	-	-	-	(575,853)
Issuance of capital stock, June 24, 2005 - \$20 per share	300,000	3,000,000	2,989,200	-	-	-	2,989,200	-	-	-	-	-	-	-	5,989,200
Conversion of bonds into capital stock	78,606	786,057	-	-	-	694,915	694,915	-	-	-	-	-	-	-	1,480,972
Issuance of shares upon exercise of employee stock options	85,253	852,530	7,423	-	-	-	7,423	-	-	-	-	-	-	-	859,953
Sales of treasury stock - 7,321 thousand shares - \$24.9 per share	-	-	-	29,909	-	-	29,909	-	-	-	-	-	-	151,837	181,746
Retirement of treasury stock - 25,748 thousand shares	(25,748)	(257,480)	(60,128)	(69,775)	-	(20,921)	(150,824)	-	-	(125,710)	(125,710)	-	-	534,014	-
Acquisition of treasury stock - 72,100 thousand shares at average of \$18.42 per share	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,327,922)	(1,327,922)
Adjustment for changes in shareholders' equities of equity method investees	-	-	-	-	23,338	-	23,338	-	-	(14,642)	(14,642)	(1,078)	(15,570)	-	(7,952)
Cash dividends received by subsidiaries from parent company	-	-	-	3,290	-	-	3,290	-	-	-	-	-	-	-	3,290
Net income in 2005	-	-	-	-	-	-	-	-	-	6,431,998	6,431,998	-	-	-	6,431,998
BALANCE, DECEMBER 31, 2005	5,590,144	\$ 55,901,444	\$ 12,727,828	\$ 3,290	\$ 31,525	\$ 4,031,771	\$ 16,794,414	\$ 2,132,816	\$ 252	\$ 10,489,647	\$ 12,622,715	\$ (1,078)	\$ (15,822)	\$ (1,630,647)	\$ 83,671,026

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

(With Deloitte & Touche audit report dated January 26, 2006)

POWERCHIP SEMICONDUCTOR CORPORATION

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2005 AND 2004 (In Thousands of New Taiwan Dollars)

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 6,431,998	\$ 21,335,355
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	15,957,928	11,339,902
Amortization	1,477,344	921,425
Unrealized intercompany profit	1,228	5,531
Provision (reversal of allowance) for decline in value of short-term investments	(167,573)	421,606
Provision (reversal of allowance) for doubtful accounts	3,353	(68,150)
Provision for sales discount	60,000	30,000
Provision for loss on inventories and spare parts	169,257	112,475
Equity in losses of equity method investees, net	253,889	198,863
Impairment loss on long-term investments	43,928	107,199
Cash dividends from equity method investees	23,102	8,400
Amortization of discount on long-term bond investments	(100)	(300)
Gain on sales of long-term investments, net	(600,590)	(171,672)
Loss on disposal of properties, net	33,730	50,652
Loss on disposal of land	-	70,010
Deferred income tax (benefit) expense	(808,968)	1,037,498
Amortization of discount on commercial paper issued	3,418	8,161
Foreign exchange loss (gain) from convertible bonds payable	289,022	(408,784)
Foreign exchange loss (gain) from long-term bank loans	47,520	(110,216)
Issuance costs of the early redemption of convertible bonds	-	318
Net changes in operating assets and liabilities		
Accounts receivable	(823,898)	(1,044,465)
Other receivables	(235,056)	(79,466)
Inventories	(2,219,436)	(1,658,320)
Prepaid expenses	(60,511)	(355)
Forward contract receivable	172,721	(61,620)
Other current assets	(184)	(8,701)
Accounts payable	1,044,039	1,486,418
Accrued expenses	(387,381)	1,345,185
Other current liabilities	116,723	9,472
Accrued pension costs	(18,123)	13,692
Net cash provided by operating activities	<u>20,807,380</u>	<u>34,890,113</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease (increase) in short-term investments	(1,676,636)	55,723
Decrease in restricted deposits	910,841	942,797
Acquisition of		
Long-term investments	(2,364,794)	(1,692,489)
Properties	(41,532,454)	(29,019,851)

(Continued)

	2005	2004
Deferred charges	\$ (1,290,360)	\$ (3,003,709)
Other assets	(9,770)	(1,034)
Proceeds from disposal of		
Long-term investments	989,428	283,003
Properties	235,261	10,786
Increase in refundable deposits	(1,680)	(1,352)
Increase in spare parts	<u>(14,271)</u>	<u>(112,825)</u>
Net cash used in investing activities	<u>(44,754,435)</u>	<u>(32,538,951)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in short-term bank loans	773,534	(582,500)
Proceeds from:		
Issuance of convertible bonds	15,098,080	5,299,417
Long-term bank loans	13,000,000	11,898,714
Issuance of capital stock	5,989,200	9,581,532
Exercise of employee stock option	859,953	1,621,651
Sales of treasury stock	181,746	316,279
Repayments of long-term bank loans	(4,419,385)	(6,382,913)
Redemption of convertible bonds	-	(17,650)
Decrease in capital lease obligation	(165,110)	(185,123)
Increase (decrease) in guarantee deposits	(919)	2,121
Cash bonus paid to employees	(639,837)	-
Cash dividends paid for common stock	(4,167,245)	-
Remunerations to directors and supervisors	(575,853)	-
Reacquisition of issued stock	<u>(1,327,922)</u>	<u>(264,637)</u>
Net cash provided by financing activities	<u>24,606,242</u>	<u>21,286,891</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	659,187	23,638,053
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>35,025,469</u>	<u>11,387,416</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 35,684,656</u>	<u>\$ 35,025,469</u>
SUPPLEMENTAL INFORMATION		
Interest paid (excluding amounts capitalized of \$131,208 thousand in 2005 and \$97,449 thousand in 2004)	<u>\$ 632,199</u>	<u>\$ 608,965</u>
Income tax paid	<u>\$ 47,108</u>	<u>\$ 21,265</u>
Noncash investing and financing activities		
Current portion of long-term liabilities	<u>\$ 7,606,667</u>	<u>\$ 4,687,656</u>
Transfer of long-term investments to short-term investments	<u>\$ 102,512</u>	<u>\$ 58,455</u>
Land transfer in payment for long-term investments	<u>\$ -</u>	<u>\$ 241,500</u>
Reclassification of properties to deferred charges	<u>\$ 935</u>	<u>\$ -</u>
Conversion of bonds	<u>\$ 1,480,972</u>	<u>\$ 4,928,234</u>
Reclassification of properties to assets leased to others	<u>\$ -</u>	<u>\$ 183,038</u>
Cash paid for acquisition of properties		
Total acquisition	\$ 40,547,315	\$ 27,860,922
Payable, beginning of year	14,716,266	15,875,195
Payable, end of year	<u>(13,731,127)</u>	<u>(14,716,266)</u>
	<u>\$ 41,532,454</u>	<u>\$ 29,019,851</u>

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

(With Deloitte & Touche audit report dated January 26, 2006)

(Concluded)

POWERCHIP SEMICONDUCTOR CORPORATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2005 AND 2004

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

1. ORGANIZATION AND OPERATION

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

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

As of December 31, 2005 and 2004, the Corporation had 4,648 and 3,728 employees, respectively.

2. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Current/Noncurrent Assets and Liabilities

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

Cash Equivalents

Commercial papers purchased with maturities of three months or less are classified as cash equivalents. The carrying amount of cash equivalents approximate their fair value.

Short-term Investments

Short-term investments are mainly listed stocks, bonds purchased under resale agreements, credit-linked notes with unfixed interest income, convertible bonds and mutual funds. Bonds purchased under resale agreements are stated at cost. Costs of bonds sold are determined by the specific identification method. Other short-term investments are carried at the lower of aggregate costs or market value. Costs of such investments sold are determined by the moving average method. 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 values of the listed stocks, close-end mutual funds and convertible bonds are the average closing price for the last month of the accounting period; credit-linked notes with unfixed interest income and open-end mutual funds are based on their net asset value at the end of year.

Allowance for Doubtful Accounts

Allowance for doubtful accounts 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. Estimated losses on scrap and slow-moving items are recognized and included in the allowance for losses.

Long-term Investments

Stock investments in which the Corporation exercises significant influence on investees' operating and financial decisions are accounted for by the equity method. The difference between the investment cost and the Corporation's equity in the investee's net assets on the acquisition date is amortized on the straight-line method over five years. This amortization and the Corporation's equity in the investees' net income or net losses are recognized as investment income or loss. Stock dividends received are recorded as an increase in the number of shares held on the ex-dividend date and do not affect investment income or the carrying amount of the investment. Cash dividends received are 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 impairment loss.

If an investee issues additional shares and the Corporation subscribes to these shares at a percentage different from its existing equity, the resulting difference in the Corporation's equity in the investee's net assets is recorded as an adjustment to capital surplus as well as to 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.

Investments in companies wherein the Corporation does not exercise significant influence 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. The costs of investments sold are determined by the moving-average method. 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 at the time of reclassification is lower than the book value, loss should be recognized and the market price should be used as the new cost basis.

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 or losses on sales generated from the Corporation to the equity method investee companies are deferred in proportion to the Corporation's stock ownership percentage in the investee companies at the year end until realized through transactions with third parties. The entire amount of the gains or losses on sales to subsidiaries is eliminated until such gains or losses are realized through the subsequent sales of the related products to third parties.

Gains or losses on sales generated from equity method investee companies to the Corporation are deferred in proportion to the Corporation's equivalent stock ownership in the investee companies until realized through transactions with third parties.

Gains or losses from sales between equity method for investee companies are deferred in proportion to the multiplier of the Corporation's equivalent stock ownership in both investee companies until realized through transactions with third parties.

Properties and Assets Leased to Others

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

Depreciation is calculated using the straight-line method over service lives which are initially estimated as follows: buildings, 3 to 20 years; machinery and equipment, 2 to 5 years; research and development equipment, 2 to 5 years; facility equipment, 3 to 15 years; transportation equipment, 5 years; office equipment, 3 to 5 years; equipment under capital lease, 5 years; miscellaneous equipment, 2 to 5 years; and assets leased to others, 10 to 20 years. Properties and assets leased to others still in use beyond their initially estimated service lives are further depreciated over the newly estimated service lives.

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, 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 are accounted for in accordance with the interpretations issued by Accounting Research and Development Foundation of the Republic of China. The Corporation adopted the intrinsic value method and any compensation cost is charged to expense over the employee vesting period specified in the stock option plans.

Treasury Stock

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

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

Revenue Recognition and Allowance for Sales Discount

Sales are recognized when titles to products are transferred to customers, primarily upon shipment, since the major part of the earnings process is completed and revenue is realized or realizable. The Corporation does not recognize sales on transactions involving the delivery of materials to subcontractors since the ownership over the materials is not transferred. Allowance for sales discounts is estimated based on any known factors that would affect the allowance and are deducted from sales in the period the products are sold.

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

Classification of Expenditure and Capitalization

Expenditures incurred for the amount of \$60 thousand and above are recorded as assets if the expected periods of their related future benefit are more than 2 years; 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 enterprises are recognized by the flow-through method.

Adjustments of prior years' accrued tax are added to or deducted from the current year's tax provision.

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

Foreign-currency Transactions

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

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

The notional amounts of the foreign-currency option contracts entered into for hedging purposes are not recognized as either assets or liabilities on the contract dates. Any resulting gain or loss upon settlement is credited or charged to income in the year of settlement. 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, the receivable or payable computed pursuant to the contracts on each settlement date or the balance sheet date is recorded as adjustment to interest income or expense associated with the hedged item.

Reclassifications

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

3. CASH AND CASH EQUIVALENTS

	December 31	
	2005	2004
Time deposits	\$ 31,839,926	\$ 27,448,429
Commercial paper	2,631,390	7,507,010
Demand deposits	1,192,065	63,525
Checking accounts	21,175	6,385
Cash on hand	<u>100</u>	<u>120</u>
	<u>\$ 35,684,656</u>	<u>\$ 35,025,469</u>

As of December 31, 2005 and 2004, overseas bank deposits are summarized as follows:

	December 31	
	2005	2004
Luxembourg - US\$2,652 thousand in 2005 and US\$2,581 thousand in 2004	\$ 87,109	\$ 82,381
Japan - JPY248,994 thousand	69,693	-
Singapore - US\$5 thousand	178	-
Hong Kong - US\$1 thousand	<u>8</u>	<u>38</u>
	<u>\$ 156,988</u>	<u>\$ 82,419</u>

4. SHORT-TERM INVESTMENTS, NET

	December 31	
	2005	2004
Listed stocks	\$ 2,518,796	\$ 1,140,414
Beneficiary certificates		
Open-end mutual funds	449,059	200,000
Close-end mutual funds	200,000	-
Credit-linked notes with unfixed interest income	-	43,293
Convertible bonds	<u>-</u>	<u>5,000</u>
	3,167,855	1,388,707
Allowance for decline in value	<u>(254,033)</u>	<u>(421,606)</u>
	<u>\$ 2,913,822</u>	<u>\$ 967,101</u>

The market values of open-end mutual funds and credit-linked notes with unfixed interest income as of December 31, 2005 and 2004 were \$453,640 thousand and \$251,317 thousand, respectively, based on their net asset value as of December 31. The market values of listed stocks, close-end mutual funds and convertible bonds on December 31, 2005 and 2004 were \$2,460,182 thousand and \$715,784 thousand, respectively, based on average closing price in December 2005 and 2004.

The listed stocks above with carrying amount of \$7,931 thousand and \$17,415 thousand as of December 31, 2005 and 2004, respectively, have been placed in the Centralized Securities Depository Enterprise for those investee companies who are applying for the first time for stocks to be listed or traded on the stock exchange market.

5. INVENTORIES

	<u>December 31</u>	
	<u>2005</u>	<u>2004</u>
Finished goods	\$ 821,884	\$ 487,124
Work in process	5,217,060	3,659,167
Materials and supplies	<u>1,328,511</u>	<u>1,102,678</u>
	7,367,455	5,248,969
Allowance for losses	<u>(175,963)</u>	<u>(123,594)</u>
	<u>\$ 7,191,492</u>	<u>\$ 5,125,375</u>

6. LONG-TERM INVESTMENTS

	<u>December 31</u>			
	<u>2005</u>		<u>2004</u>	
	<u>Amount</u>	<u>% of Ownership</u>	<u>Amount</u>	<u>% of Ownership</u>
<u>Investment in shares of stock</u>				
Equity method				
Quantum Vision Corp. (Quantum)	\$ 1,567,813	99.99	\$ 1,237,881	99.99
Li-Hsin Investment Corp. (Li-Hsin)	834,820	99.89	660,053	99.86
Paramax Corp. (Paramax)	659,455	99.99	451,109	99.99
Lu-Chu Development Corp. (Lu-Chu)	584,037	27.18	242,564	13.21
Novax Technologies, Inc. (Novax)	280,511	24.66	162,438	18.64
Zhi-Li Investment Inc. (Zhi-Li)	185,305	37.30	-	-
Deutron Electronics Corp. (Deutron)	152,267	9.78	115,265	10.29
Optimicro Corp. (Optimicro)	141,279	29.40	-	-
Luxxon Technology Corp. (Luxxon)	134,089	20.73	118,139	18.10
Smart Art Corp. (Smart Art)	119,989	48.00	-	-
Neo Solar Power Corp. (Neo-Solar)	95,247	16.00	-	-
Syntronix Corp. (Syntronix)	88,658	26.96	128,293	47.04
Artrix International Corp. (Artrix)	85,279	23.36	59,949	30.00
Deutron Japan Corp. (Deutron - Japan)	79,635	38.98	88,753	38.98
Astel Electronics Inc. (Astel)	78,151	40.00	-	-
Synage Technology Corp. (Synage)	76,547	20.17	-	-
Zentel Electronics Corp. (Zentel)	72,348	36.80	86,670	36.80
Tekmax Development Corp. (Tekmax)	72,107	15.77	58,496	16.00
AVAC Systems, Inc. (AVAC)	41,128	23.31	-	-
Luxchip Technology Corp. (Luxchip)	37,966	19.00	-	-
PowerFlash Semiconductor Corp. (PowerFlash)	30,631	32.00	40,151	32.00
Silicon Optronics, Inc. (Silicon)	29,152	12.14	14,672	17.00
Smartic Technology Inc. (Smartic)	19,671	25.00	29,410	25.00
PowerGate Optical, Inc. (PowerGate)	10,303	9.35	8,127	10.00
MaxEdge Electronics Corp. (MaxEdge)	3,719	13.55	40,116	13.89
Maxium Technologies, Inc. (Maxium)	-	-	100,927	30.37
Telmax Technologies Corp. (Telmax)	-	-	81,666	21.21
Synage (eliminated)	-	-	<u>9,623</u>	10.00
	<u>5,480,107</u>		<u>3,734,302</u>	
Cost method				
Listed stocks				
Optimax Technology Corp. (Optimax)	84,910	1.04	84,913	1.22
Powertech Technology Inc. (Powertech)	-	-	87,298	1.77

(Continued)

	December 31			
	2005		2004	
	Amount	% of Ownership	Amount	% of Ownership
Unlisted stocks				
Asia Pacific Broadband Telecommunications Co., Ltd. (APB)	\$ 114,635	0.18	\$ 114,635	0.18
PowerWorld Fund Inc. (PowerWorld Fund)	102,324	9.09	138,688	9.09
Besteam Technology Inc. (Besteam)	58,454	9.84	58,454	10.03
Universal Venture Fund, Inc. (Universal)	38,093	4.76	68,087	4.76
e-Phocus, Inc. (e-Phocus), Series B - preferred shares	31,520	50.00	-	-
Terax Communication Technologies Inc. (Terax)	29,152	6.26	5,464	1.62
eMemory Technology Inc. (eMemory)	28,961	7.90	28,961	8.10
TwinMOS Technologies Inc. (TwinMOS)	23,109	1.34	23,109	1.34
Great Taipei Broadband Co., Ltd. (GTB)	22,693	1.67	22,693	1.67
Advanced Chip Engineering Technology Inc. (ACE)	20,169	2.94	39,352	2.94
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	12,252	1.83
Area East Technology Corp. (Area East)	11,692	18.81	11,692	19.97
Venglobal International Fund	11,217	2.83	11,217	2.83
e-Phocus, Inc. Series A-preferred shares	10,950	33.33	11,460	33.33
CHIPSHIP Technology Co., Ltd. (CHIPSHIP)	9,452	10.61	25,000	10.61
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
A-Optronics Technology Inc. (A-Optronics)	8,000	8.00	-	-
Powerchip Japan Corporation (Powerchip-Japan)	6,065	3.42	-	-
DRAMeXchange Tech. Inc. (DRAMeXchange)	3,089	4.03	3,089	4.03
Phitech Corp. (Phitech)	1,552	1.27	1,552	1.27
Miluku Entertainment Corp. (Miluku)	931	1.80	5,000	1.80
Jade Pacific Corp. (Jade)	211	1.35	1,313	1.35
e-Phocus, Inc.	-	8.52	-	8.52
Billions of Operations Per Second, Inc. Series A - preferred shares	-	1.41	-	1.41
Billions of Operations Per Second, Inc. Series D - preferred shares	-	1.12	-	1.12
Globalgate.com, Inc.	-	0.93	-	0.93
E-Tech, Inc. (E-Tech)	-	-	-	2.26
Ardentec Corp. (Ardentec)	-	-	60,580	2.06
Actrans System Inc. (Actrans)	-	-	28,760	8.28
Emerging Memory & Logic Solution Incorporation (EMLSI)	-	-	<u>18,924</u>	4.75
	<u>679,441</u>		<u>912,503</u>	
<u>Investment in bonds</u>				
Veutron Corp. (Veutron) - issued in 2005 (I)	80,000		-	
Credit Link Note issued by Yuanta Assets Management Limited (CLN-Yuanta)	55,845		-	
Credit Link Note issued by Credit Suisse First Boston International (CLN-Credit Suisse)	49,275		-	
MaxEdge - issued in 2005 (II)	30,000		-	
MaxEdge - issued in 2005 (I)	30,000		-	
Veutron - issued in 2003 (I)	25,000		25,000	
MaxEdge - issued in 2005 (III)	20,000		-	
Veutron - issued in 2002 (II)	20,000		20,000	
Veutron - issued in 2002 (I)	-		89,900	
MaxEdge Electronics Corp. - issued in 2002 (II)	-		80,000	
MaxEdge Electronics Corp. - issued in 2002 (I)	-		<u>60,000</u>	
	<u>310,120</u>		<u>274,900</u>	
	<u>\$ 6,469,668</u>		<u>\$ 4,921,705</u>	

The information related to the bond investments is as follow:

	Principal Amount	Range of Interest Rate	Maturity Date
<u>Held as of December 31, 2005</u>			
Veutron - issued in 2005 (I)	\$ 80,000	3.50%	April 2009
CLN-Yuanta (US\$1,700 thousand)	55,845	7.75%-7.90%	December 2006
CLN-Credit Suisse (US\$1,500 thousand)	49,275	6.37%	February 2007
MaxEdge - issued in 2005 (II)	30,000	3.25%	October 2008
MaxEdge - issued in 2005 (I)	30,000	3.25%	August 2008
Veutron - issued in 2003 (I)	25,000	3.50%	February 2006
MaxEdge - issued in 2005 (III)	20,000	3.25%	December 2008
Veutron - issued in 2002 (II)	20,000	3.50%	30% of principal repayment in November 2006, and the remaining 70% in November 2007
<u>Matured in 2005</u>			
Veutron - issued in 2002 (I)	90,000	3.95%	April 2005
MaxEdge - issued in 2002 (II)	80,000	4.48%	December 2005
MaxEdge - issued in 2002 (I)	60,000	4.48%	October 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 and Credit Suisse First Boston, 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 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.

In the forth quarter of 2005, the Corporation and its subsidiaries invested in Neo-Solar, AVAC and Luxchip, which were accounted for by the equity method.

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

In the forth quarter of 2004, the Corporation invested in Artrix and Smartic, which were accounted for by the equity method.

In the fourth 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.

As of December 31, 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:

	December 31	
	2005	2004
Lu-Chu	-	22%
	(Note)	
Novax (before the merger)	-	
	(Note)	43%
Deutron	20%	21%
Luxxon	-	31%
	(Note)	
Neo-Solar	22%	-
Tekmax	35%	32%
Luxchip	39%	-
Silicon	22%	30%
PowerGate	27%	30%
MaxEdge	48%	47%
Synage	-	35%

Note: As of December 31, 2005, the Corporation alone owned more than 20% of the investees' outstanding shares, thus, the combined holding percentages were not separately disclosed.

The stocks of Ardentec and EMLSI have been traded on the Taiwan GreTai Securities Market and KOSDAQ in Korea, respectively, during the six months ended June 30, 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 six months ended June 30, 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 six months ended June 30, 2004. The shares of CY were listed on the New York Stock Exchange. Thus, this investment was reclassified to short-term investment.

Except for the income (loss) of Maxium and Terax in 2005, all other investment income (loss) accounted for by the equity method was based on the audited financial statements of the investees. The Corporation management believed that unaudited financial statements of Maxium and Terax and the resulting income (loss) will not have material effect on the Corporation's financial statements. Also, except for the audits of MaxEdge, Zentel, Silicon, PowerFlash, Syntronix, Luxxon and Neo-Solar were performed by Deloitte & Touche, all others were audited by other auditors. Investment income (loss) is summarized as follows:

	For the Years Ended	
	December 31	
	2005	2004
Quantum	\$ 48,135	\$ (77,463)
Li-Hsin	(137,153)	(35,203)
Paramax	(73,501)	(49,952)
Lu-Chu	(41,557)	(5)
Novax	(933)	588
Zhi-Li	(1,150)	-
Deutron	60,815	74,212
Optimicro	(5,226)	-
Luxxon	(40,466)	(26,141)
Smart Art	(11)	-
Neo-Solar	(77)	-
Syntronix	26,142	13,208
Artrix	(2,459)	(51)
Deutron - Japan	(217)	(1,285)
Astel	(1,849)	-
Synage	(24,303)	-
Zentel	(13,657)	(3,789)
Tekmax	8,496	8,233
AVAC	(2,872)	-
Luxchip	(34)	-
PowerFlash	(9,527)	(1,632)
Silicon	14,349	(2,328)
Smartic	(9,739)	(590)
PowerGate	(6,795)	(1,668)
MaxEdge	(45,702)	(92,103)
Maxium	6,364	4,820
Terax	(962)	-
Telmax	-	(6,378)
Synage (eliminated)	-	(1,336)
	<u>\$ (253,889)</u>	<u>\$ (198,863)</u>

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

	December 31	
	2005	2004
Cost method		
Optimax	\$ 292,324	\$ 338,805
Powertech	-	412,036
	<u>\$ 292,324</u>	<u>\$ 750,841</u>

The results of operations of all the subsidiaries were included in the consolidated financial statements for the Corporation as of and for the year ended December 31, 2005.

7. PROPERTIES

Accumulated depreciation on properties consisted of the following:

	December 31	
	2005	2004
Buildings	\$ 1,873,038	\$ 1,523,802
Machinery and equipment	48,003,451	34,332,978
Research and development equipment	310,049	147,839
Facility equipment	8,312,267	6,870,576
Transportation equipment	8,408	6,324
Office equipment	217,313	194,179
Equipment under capital lease	-	268,045
Miscellaneous equipment	377,915	199,347
	<u>\$ 59,102,441</u>	<u>\$ 43,543,090</u>

Total depreciation expense in 2005 and 2004 were \$15,940,466 thousand and \$11,335,236 thousand, respectively.

Information on interest capitalization was summarized as follows:

	For the Years Ended	
	December 31	
	2005	2004
Total interest expenses	\$ 779,611	\$ 665,265
Capitalized amount	131,208	97,449
Rates used in capitalizing interests	3.34%-3.77%	3.73%-4.62%

The Corporation is currently expanding its third manufacturing plant ("FAB 12B") for an estimated total cost of approximately \$65,000,000 thousand. As of December 31, 2005, a total cost of \$34,862,280 thousand had been incurred.

In December 2002, the Corporation entered into an equipment sale-leaseback agreement with a domestic leasing company under terms that qualify as capital lease. The lease term is from December 2002 to December 2005.

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

8. DEFERRED CHARGES, NET

	December 31	
	2005	2004
Technical know-how	\$ 2,932,661	\$ 3,162,806
Computer software system	171,903	125,430
Test-run costs	120,562	186,322
Issuance costs of the convertible bonds	46,965	47,926
Patent	20,000	25,000
Others	215,335	152,458
	<u>\$ 3,507,426</u>	<u>\$ 3,699,942</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. SHORT-TERM BANK LOANS

Nature	Annual Rate	Expiry Date	Amount
December 31, 2005			
Working capital loans - JPY2,160,079 thousand, US\$2,534 thousand and EUR2,199 thousand	0.02%-4.35%	January 5, 2006	<u>\$ 773,534</u>

10. CONVERTIBLE BONDS PAYABLE

	December 31	
	2005	2004
Overseas		
Issued in 2001 (1) US\$22,605 thousand	\$ -	\$ 721,484
Issued in 2003 (4) US\$6,242 thousand	-	199,226
Issued in 2004 (5) US\$158,050 thousand	5,191,942	5,044,482
Issued in 2005 (6) US\$142,250 thousand	<u>4,672,913</u>	<u>-</u>
	<u>9,864,855</u>	<u>5,965,192</u>
Domestic		
Issued in 2005 (1) NT\$4,000,000 thousand	4,000,000	-
Issued in 2005 (2) NT\$6,000,000 thousand	<u>6,000,000</u>	<u>-</u>
	<u>10,000,000</u>	<u>-</u>
	19,864,855	5,965,192
Current portion	<u>(5,191,942)</u>	<u>(920,710)</u>
	<u>\$ 14,672,913</u>	<u>\$ 5,044,482</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) between June 23, 2001 and April 24, 2006 and will mature on May 24, 2006. At the holders' option, Bonds 2001 may also be repurchased on May 24 of each year (from 2002) before maturity at 100% of their principal amount. Under certain conditions, either the holders of Bonds 2001 or the Corporation may opt for early bond redemption. As of December 31, 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\$54,075 thousand had requested to convert these bonds into 82,979 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) 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 December 31, 2005, holders of Bonds 2003 with principal amount of US\$110,000 thousand had requested to convert these bonds into 210,658 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\$24.09 per share as of December 31, 2005) between July 17, 2004 and May 18, 2009 and will mature on June 17, 2009. At the holders’ option, Bonds 2004 may also be repurchased on June 17, 2006 at 100% of their principal amount. Under certain conditions, either the holders of Bonds 2004 or the Corporation may opt for early bond redemption.

On February 2, 2005, the Corporation issued five-year unsecured, zero-coupon convertible bonds (“Bonds 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 December 31, 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 December 31, 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.

11. LONG-TERM BANK LOANS

	<u>December 31</u>	
	<u>2005</u>	<u>2004</u>
Long-term secured syndicated loans (1)		
U.S. dollars - US\$37,500 thousand	\$ -	\$ 1,196,888
Long-term secured syndicated loans (2) - New Taiwan dollars	2,625,000	4,375,000
Long-term secured syndicated loans (3) - New Taiwan dollars	5,075,000	5,800,000
Long-term secured syndicated loans (4) - New Taiwan dollars	15,000,000	5,000,000
Long-term secured syndicated loans (5) - New Taiwan dollars	3,000,000	-
Medium to long-term loans (including commercial paper issued) - New Taiwan dollars	<u>1,266,667</u>	<u>1,963,333</u>
	26,966,667	18,335,221
Current portion	(7,606,667)	(3,993,554)
Unamortized discount of commercial paper issued	<u>(360)</u>	<u>(467)</u>
	<u>\$ 19,359,640</u>	<u>\$ 14,341,200</u>

The loans are payable quarterly or semiannually at varying amounts. They will be fully repaid by December 2010. They bear interest rates ranging from 2.57% to 4.89% and from 2.00% to 6.38% for the years ended December 31, 2005 and 2004, respectively.

The long-term secured loans were obtained several financial institutions as syndicated loans. In accordance with the syndicated loan agreements, the Corporation is required, among others, to maintain certain financial ratios in its annual financial statements. As of December 31, 2005, the Corporation was in compliance with those financial covenants.

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

12. PENSION PLAN

The Labor Pension Act (the "Act") became effective on July 1, 2005. The employees who were subject to the Labor Standards Law prior to the July 1, 2005 were allowed to choose to be subject to the pension mechanism under this Act or may continue to be subject to the pension mechanism under the Labor Standards Law. For those employees who were subject to the Labor Standards Law prior to July 1, 2005 and still work for the same company after July 1, 2005 and have chosen to be subject to the pension mechanism under the Act, their seniority as of their respective enrollment date shall be maintained. Employees hired after July 1, 2005, can only elect to join the pension mechanism under the Act, which is deemed a defined contribution plan. Pursuant to the Act, the Corporation made monthly contributions to employees' pension accounts per month at 6% of each employee's monthly salary and recognized pension costs. Under the Act, the pension costs for the six months ended December 31, 2005 were \$65,131 thousand.

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 last 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 information on the defined benefit is summarized as follows:

	For the Years Ended December 31	
	2005	2004
a. Pension cost		
Service cost	\$ 48,017	\$ 43,391
Interest cost	12,880	7,534
Projected return on plan assets	(5,105)	(5,397)
Amortization	<u>5,011</u>	<u>3,701</u>
	<u>\$ 60,803</u>	<u>\$ 49,229</u>
	December 31	
	2005	2004
b. Reconciliation of the fund status of the plan and accrued pension cost:		
Benefit obligations		
Vested benefit obligation	\$ 10,430	\$ 1,331
Unvested benefit obligation	<u>284,788</u>	<u>219,192</u>
Accumulated benefit obligation	295,218	220,523
Effect of salary increase	<u>167,080</u>	<u>117,257</u>
Projected benefit obligation	462,298	337,780
Fair value of plan assets (including projected interest)	<u>(223,002)</u>	<u>(177,802)</u>
Funded status	239,296	159,978
Unrecognized prior service cost	(44,078)	(47,469)
Unrecognized net transition obligation	(8,344)	(8,869)
Unrecognized net (loss) gain	(113,286)	(48,525)
Additional liability	<u>-</u>	<u>-</u>
Accrued pension cost	<u>\$ 73,588</u>	<u>\$ 55,115</u>
c. Vested benefit	<u>\$ 12,537</u>	<u>\$ 1,480</u>
d. Actuarial assumptions:		
Discount rate used in determining present values	3.50%	3.50%
Future salary increase rate	3.00%	2.50%
Expected rate of return on plan assets	2.50%	2.50%
	For the Years Ended December 31	
	2005	2004
e. Contributions to pension fund	<u>\$ 42,329</u>	<u>\$ 34,571</u>
f. Payments of fund	<u>\$ -</u>	<u>\$ -</u>

13. 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 and bonus.

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>(NT\$)</u>	
	<u>For Fiscal</u> <u>Year 2004</u>	<u>For Fiscal</u> <u>Year 2003</u>	<u>For Fiscal</u> <u>Year 2004</u>	<u>For Fiscal</u> <u>Year 2003</u>
Legal reserve	\$ 2,131,508	\$ 1,308	\$ -	\$ -
Special reserve	252	-	-	-
Cash dividend - 10%	4,167,245	-	0.99	-
Stock dividend - 20%	8,334,490	-	1.97	-
Employees' profit sharing - in cash	639,837	-	-	-
Employees' profit sharing - in stock	1,279,673	-	-	-
Remuneration to directors and supervisors	<u>575,853</u>	<u>-</u>	-	-
	<u>\$ 17,128,858</u>	<u>\$ 1,308</u>		

If the bonus paid to employees and remuneration to directors and supervisors were to be charged to earnings in 2004 (stock bonus recognized at par value), the after tax basic earnings per share for the year ended December 31, 2004, adjusted retroactively for issuance of stock dividends and stock bonuses, would have decreased from \$4.56 to \$4.03. The shares distributed as a bonus to employees represented 3.05% of the Corporation's total outstanding common shares as of December 31, 2004.

As of January 26, 2006, the Board of Directors of the Corporation has not resolved the appropriation for earnings of 2005. The above information about the appropriations of bonus to employees and remuneration to directors and supervisors is available at Market Observation System website.

14. EMPLOYEE STOCK OPTION

On May 28, 2001, June 28, 2002 and April 22, 2003, the SFC approved the Corporation's employee stock option plans hereinafter referred to as "2001 Plan", "2002 Plan", and "2003 Plan" respectively. The 2001 Plan, 2002 Plan and 2003 Plan have reserved 150 thousand, 150 thousand and 120 thousand of options, respectively, with each unit representing 1,000 shares of common stock, for a total of 420,000 thousand shares for issuance. These options generally vest over a period of two years, at a certain percentage each year, from two years after the date of grant. They may be exercised within four years from two years after the date of grant. As of December 31, 2005, 197,007 options had been exercised.

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

	<u>2003 Plan</u>		<u>2002 Plan</u>		<u>2001 Plan</u>	
	Number of Outstanding Stock Option Rights	Weighted Average Exercise Prices (NT\$/Per Share)	Number of Outstanding Stock Option Rights	Weighted Average Exercise Price (NT\$/Per Share)	Number of Outstanding Stock Option Rights	Weighted Average Exercise Prices (NT\$/Per Share)
For the year ended <u>December 31, 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	(43,341)	7.75	(19,323)	9.63	(22,589)	14.96
Options cancelled	<u>(1,751)</u>	7.51	<u>(1,438)</u>	9.54	<u>(365)</u>	17.57
Ending balance	<u>80,048</u>	6.84	<u>81,081</u>	8.70	<u>32,178</u>	13.98
For the year ended <u>December 31, 2004</u>						
Beginning Balance	112,406	\$ 8.13	135,123	\$ 10.75	120,596	\$ 17.45
Options granted	970	23.87	-	-	-	-
Options exercised	-	-	(45,991)	10.75	(64,703)	17.42
Options cancelled	<u>(2,286)</u>	8.09	<u>(1,605)</u>	10.75	<u>(761)</u>	17.40
Ending balance	<u>111,090</u>	8.27	<u>87,527</u>	10.75	<u>55,132</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 year ended December 31, 2005, additional 28,365 options have been granted to reflect the appropriation of dividends and stock bonuses.

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

Exercise Price (NT\$/Per Share)	<u>Options Outstanding</u>			<u>Options Exercisable</u>	
	Number Outstanding (Per Option)	Weighted Average Remaining Contractual Life (in Years)	Weighted Average Exercise Price (Per Share)	Number Exercisable (Per Option)	Weighted Average Exercise Price (Per Share)
\$13.90	31,195	1.58	\$13.90	31,195	\$13.90
17.60	565	2.24	17.60	313	17.60
14.80	418	2.37	14.80	168	14.80
8.70	81,081	2.74	8.70	44,483	8.70
6.50	76,442	3.32	6.50	16,852	6.50
12.10	849	3.50	12.10	224	12.10
14.10	227	3.58	14.10	60	14.10
11.50	1,134	3.78	11.50	550	11.50
11.60	239	3.90	11.60	90	11.60

(Continued)

Exercise Price (NT\$/Per Share)	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)
14.20	657	4.02	\$14.20	-	-
22.20	261	4.23	22.20	-	-
27.80	<u>239</u>	4.30	27.80	<u>-</u>	<u>-</u>
	<u>193,307</u>			<u>93,935</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 year ended December 31, 2005 and 2004 was zero since the stock options were granted at an exercise price equal to the closing price of the Corporation's common shares on the measurement dates. Had the Corporation applied the fair value based method to evaluate compensation cost for the employee stock options granted, the assumptions and pro forma results of the Corporation for the year ended December 31, 2005 and 2004 is as follows:

	Year Ended December 31, 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>	
	Years Ended December 31	
	2005	2004
Net income:		
Net income as reported	<u>\$ 6,431,998</u>	<u>\$ 21,335,355</u>
Pro forma net income	<u>\$ 6,425,078</u>	<u>\$ 21,329,603</u>
Earnings per share (EPS, NT\$):		
Basic EPS as reported	<u>\$ 1.20</u>	<u>\$ 4.56</u>
Pro forma basic EPS	<u>\$ 1.20</u>	<u>\$ 4.56</u>
Diluted EPS as reported	<u>\$ 1.04</u>	<u>\$ 4.14</u>
Pro forma diluted EPS	<u>\$ 1.04</u>	<u>\$ 4.13</u>

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 pro forma basic and diluted EPS after income tax for the year ended December 31, 2004 to decrease from \$5.62 and \$5.08 to \$4.56 and \$4.13, respectively.

15. TREASURY STOCK

Purpose of Purchase	(Shares in Thousands)			
	Beginning Shares	Increase	Decrease	Ending Shares
<u>Year ended December 31, 2005</u>				
For subsequent transfer to employees	45,069	72,100	33,069	84,100
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>72,758</u>	<u>33,069</u>	<u>88,092</u>
<u>Year ended December 31, 2004</u>				
For subsequent transfer to employees	46,614	12,000	13,545	45,069
Parent's issued shares held by subsidiaries	<u>3,334</u>	<u>-</u>	<u>-</u>	<u>3,334</u>
	<u>49,948</u>	<u>12,000</u>	<u>13,545</u>	<u>48,403</u>

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

Starting from December 31, 2002, the Corporation accounted for its issued shares amounting to \$53,820 thousand held by subsidiaries as treasury stock. As of December 31, 2005 and 2004, the carrying values of such stock were \$80,878 thousand and \$86,618 thousand; the market values were \$80,878 thousand and \$86,618 thousand, respectively.

Under the regulation of the Securities and Future Commission, a corporation should acquire no more than 10% of all its issued shares. The corporation should not pledge treasury shares and should not exercise shareholders' rights on these shares before their transfer. In addition, the aggregate reacquisition cost should not exceed the combined balance of the retained earnings and certain capital surpluses. However, the subsidiaries holding the Corporation's issued shares retain shareholders' rights and privileges on these shares, except that starting from June 24, 2005, in accordance to the revised Company Law, the holders are no longer entitled to the right to vote.

16. INCOME TAX BENEFIT (EXPENSE)

- a. A reconciliation of income tax currently payable for the year ended December 31, 2005 and 2004 were as follows:

	2005	2004
Tax on pretax income at statutory rate (25%)	\$ 1,408,452	\$ 5,594,559
Tax-exempt income	(27,139)	(1,655,167)
Permanent differences	(107,279)	80,020
Temporary differences	<u>(1,122,349)</u>	<u>(851,748)</u>
Income tax currently payable	<u>\$ 151,685</u>	<u>\$ 3,167,664</u>

b. Income tax benefit (expense) for the years ended December 31, 2005 and 2004 consisted of:

	2005	2004
Income tax currently payable	\$ (151,685)	\$ (3,167,664)
Additional 10% tax on unappropriated earnings	(201,215)	-
Loss carryforwards	-	1,913,711
Tax credits	352,900	1,253,953
Net change in deferred income tax assets and liabilities		
Loss carryforwards	(199,632)	(1,885,511)
Investment tax credits	3,868,693	1,409,687
Temporary differences	(1,111,548)	(855,069)
Valuation allowance	(1,748,545)	293,395
Tax on interest income on short-term bills	<u>(10,779)</u>	<u>(5,381)</u>
	<u>\$ 798,189</u>	<u>\$ (1,042,879)</u>

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

	December 31	
	2005	2004
Current		
Deferred income tax assets		
Investment tax credits	\$ 700,480	\$ 899,629
Loss carryforwards	-	596,371
Unrealized provision for loss on inventories	43,991	30,899
Others	181,404	86,879
Deferred income tax liabilities	<u>(1,362)</u>	<u>(680)</u>
	<u>\$ 924,513</u>	<u>\$ 1,613,098</u>
Noncurrent		
Deferred income tax assets		
Investment tax credits	\$ 10,764,852	\$ 6,697,010
Loss carryforwards	412,661	15,922
Others	161,455	133,876
Deferred income tax liabilities		
Unrealized foreign exchange gain	(52,415)	(41,738)
Depreciation	<u>(3,317,283)</u>	<u>(2,081,898)</u>
	7,969,270	4,723,172
Valuation allowance	<u>(6,652,346)</u>	<u>(4,903,801)</u>
	<u>\$ 1,316,924</u>	<u>\$ (180,629)</u>

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

	December 31	
	2005	2004
Shareholders' imputed tax credits	<u>\$ 40,177</u>	<u>\$ 53,348</u>

The expected and actual tax creditable ratio for 2005 and 2004 were 0.38% and 0.31%, respectively.

The imputation credits allocated to the shareholders are based on its balance as of the date of dividend distribution. The expected creditable ratio for 2005 may be adjusted when the distribution of the imputation credits are made.

- e. The unappropriated retaining earnings as of December 31, 2005 and 2004 had no unappropriated earnings generated on and before 1997.
- f. The effective tax rate for deferred income taxes as of December 31, 2005 and 2004 was 25%.
- g. As of December 31, 2005, the tax credits and loss carryforwards were as follows:

Regulation	Items	Total Creditable Amounts	Remaining Creditable Amounts	Expiry Year
Income Tax Law	Loss carryforwards	<u>\$ 412,661</u>	<u>\$ 412,661</u>	2008
Statute for Upgrading Industries	Purchase of machinery and equipment	\$ 166,341	\$ -	2005
		576,469	418,190	2006
		3,462,047	3,462,047	2007
		2,756,756	2,756,756	2008
		<u>3,566,685</u>	<u>3,566,685</u>	2009
		<u>\$ 10,528,298</u>	<u>\$ 10,203,678</u>	
Statute for Upgrading Industries	Research and development expenditures	\$ 25,697	\$ -	2005
		278,527	278,527	2006
		322,877	322,877	2007
		261,992	261,992	2008
		<u>380,781</u>	<u>380,781</u>	2009
		<u>\$ 1,269,874</u>	<u>\$ 1,244,177</u>	
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>3,833</u>	<u>3,833</u>	2009
		<u>\$ 15,004</u>	<u>\$ 12,421</u>	
Statute for Upgrading Industries	Investments in important technology-based enterprises	<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.
- j. As the Alternative Minimum Tax (AMT) becomes effective on January 1, 2006, the Corporation would be required to pay at least the minimum income tax calculated in accordance with AMT annually. Such effect has already been taken into consideration in the evaluation of whether the unused deferred tax assets could be realized.

17. LABOR COST, DEPRECIATION AND AMORTIZATION EXPENSE

	For the Years Ended December 31					
	2005			2004		
	Classified as Cost of Sales	Classified as Operating Expenses	Total	Classified as Cost of Sales	Classified as Operating Expenses	Total
Labor cost						
Salary	\$ 2,367,846	\$ 699,782	\$ 3,067,628	\$ 2,298,397	\$ 668,200	\$ 2,966,597
Labor/health insurance	157,687	39,889	197,576	117,696	28,709	146,405
Pension	97,421	28,513	125,934	38,317	10,912	49,229
Others	150,606	29,826	180,432	123,957	23,525	147,482
	<u>\$ 2,773,560</u>	<u>\$ 798,010</u>	<u>\$ 3,571,570</u>	<u>\$ 2,578,367</u>	<u>\$ 731,346</u>	<u>\$ 3,309,713</u>
Depreciation	<u>\$ 15,683,265</u>	<u>\$ 257,201</u>	<u>\$ 15,940,466</u>	<u>\$ 11,155,620</u>	<u>\$ 176,794</u>	<u>\$ 11,332,414</u>
Amortization	<u>\$ 143,475</u>	<u>\$ 1,275,942</u>	<u>\$ 1,419,417</u>	<u>\$ 197,418</u>	<u>\$ 697,225</u>	<u>\$ 894,643</u>

18. EARNINGS PER SHARE

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

	Amounts (Numerator)		Weighted Average Number of Shares Outstanding (Denominator) (Thousand)	EPS (Dollars)	
	Before Income Tax	After Income Tax		Before Income Tax	After Income Tax
<u>Year ended December 31, 2005</u>					
Net income	\$ 5,633,809	\$ 6,431,998			
Basic EPS					
Income of common shareholders	5,633,809	6,431,998	5,350,585	<u>\$ 1.05</u>	<u>\$ 1.20</u>
Effect of dilutive securities					
- Convertible bonds	-	-	675,806		
- Stock options	-	-	129,271		
Diluted EPS					
Income of common and potential common shareholders	<u>\$ 5,633,809</u>	<u>\$ 6,431,998</u>	<u>6,155,662</u>	<u>\$ 0.92</u>	<u>\$ 1.04</u>

(Continued)

	<u>Amounts (Numerator)</u>		<u>Weighted Average Number of Shares Outstanding (Denominator) (Thousand)</u>	<u>EPS (Dollars)</u>	
	<u>Before Income Tax</u>	<u>After Income Tax</u>		<u>Before Income Tax</u>	<u>After Income Tax</u>
<u>Year ended December 31, 2004</u>					
Net income	\$ 22,378,234	\$ 21,335,355			
Basic EPS					
Income of common shareholders	22,378,234	21,335,355	4,676,139	\$ 4.79	\$ 4.56
Effect of dilutive securities					
- Convertible bonds	-	-	275,819		
- Stock options	-	-	206,673		
Diluted EPS					
Income of common and potential common shareholders	\$ 22,378,234	\$ 21,335,355	5,158,631	\$ 4.34	\$ 4.14

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 year ended December 31, 2004 to decrease from \$5.62 and \$5.08 to \$4.56 and \$4.14, respectively.

19. RELATED-PARTY TRANSACTIONS

a. Related parties

<u>Related Party</u>	<u>Relationship</u>
Powertech	Quantum, a subsidiary of the Corporation, is its director
Veutron	Same chairman
eMemory	Same chairman
PowerWorld Capital Management Corp. (PowerWorld Management)	Same chairman
Elpida (Note 1)	Director (since April 12, 2005)
Elpida Memory (Taiwan) Co., Ltd. (Elpida-Taiwan) (Note 1)	Subsidiary of Elpida
Renesas (Note 2)	Director (until January 7, 2005)
Renesas Technology (Taiwan) Co., Ltd. (Renesas-Taiwan) (Note 2)	Subsidiary of Renesas
PowerFlash	Subsidiary
Zentel	Subsidiary
Zentel Japan Corp. (Zentel-Japan)	Subsidiary of Zentel
Tekmax	Equity method investee
Novax	Equity method investee
Deutron	Equity method investee
Syntronix	Equity method investee
Silicon	Equity method investee

(Continued)

<u>Related Party</u>	<u>Relationship</u>
MaxEdge	Equity method investee
Lu-Chu	Equity method investee
Zhi-Li	Equity method investee
Others	Related parties with whom the Corporation has substantial influence but without any material transactions. Please see Note 22.

Note 1: The Company started to be the Corporation's related parties during the year ended December 31, 2005; the transactions made as of and for the year ended December 31, 2004 are disclosed only for reference.

Note 2: The Company ceased to be the Corporation's related parties as of December 31, 2005; the transactions made as of and for the year ended December 31, 2005 are disclosed only for reference.

b. Related-party transactions:

	<u>2005</u>		<u>2004</u>	
	Amount	%	Amount	%
<u>For the year</u>				
1) Net sales				
Deutron	\$ 10,951,617	21	\$ 13,700,591	24
Elpida	6,657,425	13	6,301,466	11
Novax	2,963,294	6	3,549,282	6
Renesas-Taiwan	1,014,734	2	-	-
Silicon	198,198	-	95,964	-
Syntronix	159,217	-	116,757	-
Zentel	97,295	-	-	-
Elpida-Taiwan	50,470	-	1,473,114	3
eMemory	26,906	-	11,694	-
PowerFlash	26,794	-	-	-
Others	1	-	128	-
	<u>\$ 22,145,951</u>	<u>42</u>	<u>\$ 25,248,996</u>	<u>44</u>
2) Purchase				
Renesas-Taiwan	\$ 358,422	3	\$ -	-
Renesas	-	-	32,381	-
	<u>\$ 358,422</u>	<u>3</u>	<u>\$ 32,381</u>	<u>-</u>
3) Properties				
Veutron	\$ -	-	\$ 63,000	-
Others	-	-	450	-
	<u>\$ -</u>	<u>-</u>	<u>\$ 63,450</u>	<u>-</u>

(Continued)

	2005		2004	
	Amount	%	Amount	%
4) Technical know-how, patent and royalty				
Elpida	\$ 280,801	14	\$ 1,549,500	41
Renesas	88,163	4	188,822	5
Zentel	53,537	3	-	-
eMemory	33,466	2	25,000	1
	<u>\$ 455,967</u>	<u>23</u>	<u>\$ 1,763,322</u>	<u>47</u>
5) Manufacturing expenses - subcontract costs, indirect materials, expensed properties, repairs and maintenance, etc.				
Powertech	\$ 2,376,239	6	\$ 1,549,520	6
Elpida	12,545	-	-	-
Renesas	10,436	-	-	-
Others	33	-	786	-
	<u>\$ 2,399,253</u>	<u>6</u>	<u>\$ 1,550,306</u>	<u>6</u>
6) General and administrative expenses				
Tekmax	\$ 34,561	2	\$ -	-
PowerWorld Management	20,489	1	-	-
Others	10,233	1	7,188	1
	<u>\$ 65,283</u>	<u>4</u>	<u>\$ 7,188</u>	<u>1</u>
7) Research and development expenses				
Syntronix	\$ 62,364	4	\$ 61,986	6
Renesas	36,076	2	-	-
Zentel	29,933	2	67,800	6
Zentel-Japan	9,423	1	-	-
Others	3,747	-	5,093	-
	<u>\$ 141,543</u>	<u>9</u>	<u>\$ 134,879</u>	<u>12</u>
8) Interest income				
MaxEdge	\$ 6,184	1	\$ 6,272	3
Veutron	4,742	1	5,430	3
	<u>\$ 10,926</u>	<u>2</u>	<u>\$ 11,702</u>	<u>6</u>

(Continued)

	2005		2004	
	Amount	%	Amount	%
9) Other income				
eMemory	\$ 7,618	9	\$ 6,542	10
Syntronix	6,085	7	4,822	8
Zentel	2,005	2	1,899	3
Silicon	1,648	2	821	1
Veutron	1,390	2	4,012	6
PowerFlash	1,318	2	-	-
Powertech	826	1	2,223	3
Others	237	-	365	1
	<u>\$ 21,127</u>	<u>25</u>	<u>\$ 20,684</u>	<u>32</u>
<u>At end of year</u>				
10) Accounts receivable, net				
Deutron	\$ 968,788	21	\$ 576,380	15
Elpida	755,986	16	670,854	17
Novax	309,054	7	69,152	2
Renesas-Taiwan	185,510	4	-	-
Zentel	41,807	1	-	-
Silicon	22,979	-	50,988	1
Syntronix	12,609	-	2,013	-
PowerFlash	10,243	-	-	-
Elpida-Taiwan	-	-	181,972	5
Others	1,230	-	2,501	-
	<u>\$ 2,308,206</u>	<u>49</u>	<u>\$ 1,553,860</u>	<u>40</u>
11) Accounts payable				
Powertech	\$ 993,565	16	\$ 397,608	8
Renesas-Taiwan	58,144	1	-	-
	<u>\$ 1,051,709</u>	<u>17</u>	<u>\$ 397,608</u>	<u>8</u>
12) Accrued expenses				
Elpida	\$ 559,800	25	\$ 1,135	-
Zentel	30,867	1	-	-
eMemory	20,893	1	-	-
Syntronix	13,985	1	2,011	-
Others	7,977	-	1,159	-
	<u>\$ 633,522</u>	<u>28</u>	<u>\$ 4,305</u>	<u>-</u>

The Corporation also purchased (sold) the following long-term investments from (to) related parties in 2005 and 2004:

1) Stocks

Related Parties	Investee	Shares Purchased (Sold) (in Thousands)	Costs (Proceeds)	Profit (Loss)
<u>2005</u>				
Veutron	Lu-Chu	11,300	\$ 113,000	\$ -
Renesas	Syntronix	(2,000)	\$ (36,000)	\$ 11,572
Deutron	Syntronix	(1,050)	\$ (16,800)	\$ 3,982
Tekmax	Syntronix	(400)	\$ (6,400)	\$ 1,517
Zhi-Li	Syntronix	(400)	\$ (6,400)	\$ 1,517
Others	Syntronix	(320)	\$ (5,120)	\$ 1,213
<u>2004</u>				
Veutron	PowerWorld Fund	8,000	\$ 140,000	\$ -

2) Bonds

Related Parties	Investee	Units Purchased (Matured)	Amount	Rate
<u>2005</u>				
Veutron	Veutron Bonds	16	\$ 80,000	3.50%
MaxEdge	Max Edge Bonds	20	\$ 20,000	3.25%
MaxEdge	Max Edge Bonds	30	\$ 30,000	3.25%
MaxEdge	Max Edge Bonds	30	\$ 30,000	3.25%
Veutron	Veutron bonds	(18)	\$ (90,000)	3.95%
MaxEdge	MaxEdge Bonds	(16)	\$ (80,000)	4.48%
MaxEdge	MaxEdge Bonds	(12)	\$ (60,000)	4.48%

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

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

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 and the ownership transfer was completed.

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

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

20. PLEDGED OR MORTGAGED ASSETS

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

	December 31	
	2005	2004
Properties, net	\$ 49,566,119	\$ 41,746,487
Restricted deposits	1,212,376	2,123,217
Accounts receivable	<u>260,440</u>	<u>375,545</u>
	<u>\$ 51,038,935</u>	<u>\$ 44,245,249</u>

21. COMMITMENTS AND CONTINGENCIES

- a. Under a patent license agreement made with A Company in February 1999, the Corporation should pay royalty for 10 years from January 1, 1998 at an agreed percentage of the selling prices of the licensed products.
- b. Under several license and technology transfer agreements executed or amended with B Company, the Corporation should pay a certain amount of license fee and royalties at agreed percentages of the selling prices of certain licensed products from June 1998 to 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 starting from 2003.
- g. Under a product design and license agreement of DDR II products with G Company made in December 2003, the Corporation should pay a certain amount of license fee and royalty at an agreed percentage of the selling prices of the licensed products.
- h. Under a product development and license agreement of DRAM products with H Company made in July 2004, the Corporation should pay a certain amount of development fee and royalty at an agreed percentage of the selling prices of the licensed products.

- i. Under several product design and license agreements with I 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 I Company.
- j. Under a Non-Recurring Engineering agreement with J Company made in September 2005, the Corporation should pay a certain amount of development fee quarterly from September 2005 to September 2007.
- k. Under a technology development and transfer agreement with K 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.
- l. The Corporation signed a Memorandum Of Understanding (MOU) with Micronix (MXIC) for purchasing its 12 inches fab ("FAB 12M"), cleaning room and other related facilities, which is expected to be consummated on April 1, 2006. Both parties also agreed, within the site, to jointly develop 90nm and below process technologies for manufacturing NVM Flash Memory products, and a certain percentage of FAB 12M's capacity will be reserved for MXIC should such technologies been developed, in return, a certain amount of royalty should be paid by MXIC.
- m. Unused letters of credit amounted to approximately US\$18,535 thousand, JPY442,847 thousand and EUR1,500 thousand as of December 31, 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.

As of December 31, 2005, future lease payments were as follows:

Year	Amount
2006	\$ 68,483
2007	68,483
2008	68,483
2009	68,483
2010	68,483
2011 and thereafter	<u>481,700</u>
	<u>\$ 824,115</u>

22. DERIVATIVE FINANCIAL INSTRUMENTS

a. Outstanding contracts and credit risk:

1) Forward exchange contracts:

As of December 31, 2005, all forward exchange contracts have been expired.

Amounts in Thousands

Items	Contract Amount (Nominal Amount)	Credit Risk
<u>December 31, 2004</u>		
Forward exchange contracts	JPY21,018,600 (US\$ v.s. JPY) US\$30,000 (US\$ v.s. NT\$)	\$ 131,682 42,388

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 December 31, 2005, all foreign-currency option contracts were expired and the related gains (losses) were insignificant. Out-standing foreign-currency option contracts as of December 31, 2004 were as follows:

Amounts in Thousands

<u>December 31</u>						
Type	Buy/Sel	Option	Contract Amount	Book Value	Fair Value	Expiry Date
	I					
<u>2004</u>						
European	Sell	Call	US\$ 10,000	\$ (3,564)	\$ (582)	\$106.15-\$106.20 (US\$ v.s. JPY)

3) Interest rate swaps

The Corporation entered into interest rate swap contracts to manage related interest rates for its long-term loans. Net increase and decrease of interest expense on these transactions for the years ended December 31, 2005 and 2004 were \$23,993 thousand and \$5,301 thousand, respectively. Outstanding contracts as of December 31, 2005 and 2004 were as follows:

Contract Date	Period	Amounts in Thousands	
		Contract Amount (Nominal)	
		December 31 2005	December 31 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	-	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	-	800,000
June 4, 2004	June 8, 2004 to March 24, 2009	-	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	-	200,000
June 30, 2004	July 2, 2004 to May 20, 2007	300,000	500,000
June 30, 2004	July 2, 2004 to May 20, 2007	300,000	500,000
June 30, 2004	July 2, 2004 to May 20, 2007	300,000	500,000

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

c. Liquidity risk, cash flow risk and uncertainty of amount and term of future cash demand

As of December 31, 2005, all of forward contracts and foreign-currency option contracts have been expired and the interest rate of the 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

A receivable of \$172,721 thousand as of December 31, 2004 generated from forward exchange contracts was presented under other receivables.

Interest payable from interest rate swap contracts were presented under accrued expenses or other receivables. Such payable were \$1,594 thousand and \$380 thousand as of December 31, 2005 and 2004, respectively. The realized gain derived from expired or settled forward exchange contracts, foreign-currency option contract and interest rate swap contracts were \$200,008 thousand and \$84,863 thousand as of December 31, 2005 and 2004, respectively. Such gain and loss were presented under nonoperating income and expenses, and summarized as follows:

	For the Years Ended December 31	
	2005	2004
1) Net gains from foreign currency option contracts and forward exchange contracts (shown as foreign exchange gains)	<u>\$ 265,143</u>	<u>\$ 87,122</u>
2) Net premiums paid for foreign currency option contracts (shown as others)	<u>\$ -</u>	<u>\$ 2,259</u>
3) Net losses from interest rate swap contracts (shown as financial expenses)	<u>\$ 65,135</u>	<u>\$ -</u>

23. FAIR VALUE OF FINANCIAL INSTRUMENTS

	December 31			
	2005		2004	
	Book Value	Fair Value	Book Value	Fair Value
<u>Nonderivative instruments</u>				
Assets				
Cash and cash equivalents	\$ 35,684,656	\$ 35,684,656	\$ 35,025,469	\$ 35,025,469
Accounts receivable	4,663,823	4,663,823	3,903,278	3,903,278
Short-term and long-term investments	9,383,490	9,696,073	5,888,806	6,507,095
Other receivables	494,215	494,215	431,880	431,880
Restricted deposits	1,212,376	1,212,376	2,123,217	2,123,217
Refundable deposits	25,107	25,107	23,427	23,427
Liabilities				
Short-term bank loans	773,534	773,534	-	-
Accounts payable and payable on equipment	19,772,736	19,772,736	19,713,836	19,713,836
Convertible bonds payable (including current portion)	19,864,855	20,449,097	5,965,192	6,003,882
Obligation under capital lease	-	-	165,110	165,110
Long-term bank loans (including current portion)	26,966,307	26,966,307	18,334,754	18,334,754
Guarantee deposits	4,653	4,653	5,572	5,572
<u>Derivative instruments</u>				
Interest rate swap contracts	(1,594)	(65,439)	(380)	(66,007)
Forward exchange contracts	-	-	172,721	174,070
Foreign currency option contracts	-	-	(3,564)	(582)

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

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

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.

24. ADDITIONAL DISCLOSURES

Except for the following, the Corporation has no other significant transactions or any investees and investments in Mainland China for which disclosure is required by the 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 22 and 23.

25. SEGMENT FINANCIAL INFORMATION

- a. Industry: The Corporation is only engaged in the manufacture and sale of semi-conductor products.
- b. Geographic information: The Corporation operates only in the Republic of China.

- c. Export sales: The export sales in 2005 and 2004 were \$8,038,169 thousand and \$9,253,490 thousand, respectively.
- d. Customers accounting for more than 10% of net sales:

Customer	For the Years Ended December 31			
	2005		2004	
	Amount	%	Amount	%
A	\$ 10,951,617	21	\$ 13,700,591	24
B	6,657,425	13	6,301,466	11
C	6,324,559	12	8,017,469	14

POWERCHIP SEMICONDUCTOR CORPORATION AND INVESTEEES

MARKETABLE SECURITIES HELD

DECEMBER 31, 2005

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

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2005				Note
				Shares (Thousands/Units) (Note 7)	Carrying Value	Percentage of Ownership (%)	Market Value or Net Asset Value	
Powerchip Semiconductor Corporation	<u>Stock</u>							
	Quantum Vision Corp.	Subsidiary	Long-term investments	160,990	\$ 1,567,813	99.99	\$ 1,570,240	
	Li-Hsin Investment Corp.	Subsidiary	Long-term investments	133,850	834,820	99.89	914,600	
	Paramax Corp.	Subsidiary	Long-term investments	83,994	659,455	99.99	659,455	
	Lu-Chu Development Corp.	Investee	Long-term investments	63,499	584,037	27.18	584,037	
	Novax Technologies, Inc.	Investee	Long-term investments	24,658	280,511	24.66	280,511	
	Zhi-Li Investment Corp.	Investee	Long-term investments	18,650	185,305	37.30	185,870	
	Deutron Electronics Corp.	Investee	Long-term investments	4,998	152,267	9.78	160,080	
	Optimicro Corp.	Investee	Long-term investments	14,700	141,279	29.40	141,279	
	Luxxon Technology Corp.	Investee	Long-term investments	20,733	134,089	20.73	134,089	
	Smart Art Corp.	Subsidiary	Long-term investments	12,000	119,989	48.00	119,989	
	Neo Solar Power Corp.	Investee	Long-term investments	9,600	95,247	16.00	95,247	
	Syntronix Corp.	Investee	Long-term investments	7,290	88,658	26.96	88,658	
	Artrix International Inc.	Investee	Long-term investments	8,760	85,279	23.36	85,279	
	Deutron Japan Corp.	Investee	Long-term investments	2,891	79,635	38.98	79,635	
	Astel Electronics Corp.	Investee	Long-term investments	8,000	78,151	40.00	78,151	
	Synage Technology Corp.	Investee	Long-term investments	10,084	76,547	20.17	76,547	
	Zentel Electronics Corp.	Subsidiary	Long-term investments	9,200	72,348	36.80	86,693	
	Tekmax Development Corp.	Investee	Long-term investments	5,520	72,107	15.77	72,346	
	AVAC Systems, Inc.	Investee	Long-term investments	4,000	41,128	23.31	41,128	
	Luxchip Technology Corp.	Investee	Long-term investments	3,800	37,966	19.00	37,966	
	PowerFlash Semiconductor Corp.	Subsidiary	Long-term investments	4,160	30,631	32.00	30,631	
	Silicon Optronics, Inc.	Investee	Long-term investments	1,700	29,152	12.14	29,152	
	Smartic Technologies Inc.	Investee	Long-term investments	3,000	19,671	25.00	19,671	
	PowerGate Optical, Inc.	Investee	Long-term investments	1,870	10,303	9.35	10,303	
	MaxEdge Electronics Corp.	Investee	Long-term investments	3,372	3,719	13.55	3,719	
	Optimax Technology Corp.	Corporation is its director	Long-term investments	5,105	84,910	1.04	292,324	
	Asia Pacific Broadband Telecommunications Co., Ltd.	-	Long-term investments	12,000	114,635	0.18	114,635	Note 1
	PowerWorld Fund Inc.	Same chairman	Long-term investments	4,364	102,324	9.09	102,324	Note 1
	Besteam Technology Inc.	-	Long-term investments	6,430	58,454	9.84	58,454	Note 1
	Universal Venture Fund, Inc.	Same chairman	Long-term investments	3,810	38,093	4.76	38,093	Note 1
	e-Phocus, Inc., Series B - preferred shares	-	Long-term investments	667	31,520	50.00	31,520	Note 1
	Terax Communication Technologies Inc.	Same chairman	Long-term investments	3,065	29,152	6.26	29,152	Note 1
eMemory Technology Inc.	Same chairman	Long-term investments	2,648	28,961	7.90	28,961	Note 1	
TwinMOS Technologies Inc.	-	Long-term investments	2,757	23,109	1.34	23,109	Note 1	
Great Taipei Broadband Co., Ltd.	Corporation is its director	Long-term investments	2,500	22,693	1.67	22,693	Note 1	
Advanced Chip Engineering Technology Inc.	-	Long-term investments	3,435	20,169	2.94	20,169	Note 1	
Venglobal Capital Fund L.P.	-	Long-term investments	-	16,590	5.18	16,590	Note 1	

(Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2005				Note
				Shares (Thousands/Units) (Note 7)	Carrying Value	Percentage of Ownership (%)	Market Value or Net Asset Value	
	EUDAR Technology Inc.	-	Long-term investments	600	\$ 15,420	2.20	\$ 15,420	Note 1
	Lightsonic Optoelectronics Inc.	Same chairman	Long-term investments	1,700	12,252	1.83	12,252	Note 1
	Area East Technology Corp.	-	Long-term investments	1,300	11,692	18.81	11,692	Note 1
	Venglobal International Fund	-	Long-term investments	1	11,217	2.83	11,217	Note 1
	e-Phocus, Inc., Series A - preferred shares	-	Long-term investments	333	10,950	33.33	10,950	Note 1
	CHIPSHIP Technology Co., Ltd.	Corporation is its director	Long-term investments	2,000	9,452	10.61	9,452	Note 1
	Taiwan Lipsome Co., Ltd.	Quantum Vision is its director	Long-term investments	300	9,000	2.39	9,000	Note 1
	CDIB High Tech Investment Inc.	Corporation is its director	Long-term investments	900	9,000	2.11	9,000	Note 1
	A-Optronics Technology Inc.	Same chairman	Long-term investments	800	8,000	8.00	8,000	Note 1
	Powerchip Japan Corporation	-	Long-term investments	1	6,065	3.42	6,065	Note 1
	DRAMeXchange Tech. Inc.	-	Long-term investments	330	3,089	4.03	3,089	Note 1
	Phitech Corp.	-	Long-term investments	305	1,552	1.27	1,552	Note 1
	Miluku Entertainment Corp.	Quantum Vision is its director	Long-term investments	400	931	1.80	931	Note 1
	Jade Pacific Corp.	-	Long-term investments	250	211	1.35	211	Note 1
	e-Phocus, Inc.	-	Long-term investments	700	-	8.52	-	Note 1
	Billions of Operations Per Second, Inc., Series A - preferred shares	-	Long-term investments	833	-	1.41	-	Note 1
	Billions of Operations Per Second, Inc., Series D - preferred shares	-	Long-term investments	658	-	1.12	-	Note 1
	Globalgate.com, Inc.	-	Long-term investments	500	-	0.93	-	Note 1
	Bonds							
	Veutron Corp. - issued in 2005 (I)	Same chairman	Long-term investments	16	80,000	-	80,000	Note 1
	Credit Link Note issued by Yuanta Assets Management Limited	-	Long-term investments	-	55,845	-	55,845	Note 1
	Credit Link Note issued by Credit Suisse First Boston	-	Long-term investments	-	49,275	-	49,275	Note 1
	MaxEdge Electronics Corp. - issued in 2005 (II)	Investee	Long-term investments	30	30,000	-	30,000	Note 1
	MaxEdge Electronics Corp. - issued in 2005 (I)	Investee	Long-term investments	30	30,000	-	30,000	Note 1
	Veutron Corp. - issued in 2003 (I)	Same chairman	Long-term investments	5	25,000	-	25,000	Note 1
	MaxEdge Electronics Corp. - issued in 2005 (III)	Investee	Long-term investments	20	20,000	-	20,000	Note 1
	Veutron Corp. - issued in 2002 (II)	Same chairman	Long-term investments	4	20,000	-	20,000	Note 1
	Stock							
	Shinkong Financial Holding Co., Ltd.	-	Short-term investments	30,231	895,944	-	766,062	
	Elpida Memory Inc.	-	Short-term investments	438	460,536	-	419,669	
	Macronix International Co., Ltd	-	Short-term investments	58,032	270,000	-	260,564	
	Hua Nan Financial Holdings Co., Ltd.	-	Short-term investments	8,821	199,055	-	187,717	
	Taiwan Cooperative Bank	-	Short-term investments	6,950	168,650	-	136,984	
	China Steel Corporation	-	Short-term investments	3,250	87,107	-	79,202	
	First Financial Holding Co., Ltd.	-	Short-term investments	3,125	76,985	-	74,125	
	Siliconware Precision Industries Co., Ltd.	-	Short-term investments	1,400	65,163	-	57,330	
	ProMos Technologies Inc.	-	Short-term investments	3,001	62,933	-	32,647	
	Silicon Integrated System Corp.	-	Short-term investments	2,500	59,597	-	59,075	
	Fullerton Technology Co., Ltd.	-	Short-term investments	3,000	49,587	-	50,790	
	China Development Financial Holding Corp.	-	Short-term investments	3,000	35,406	-	36,180	
	Yang Ming Marine Transport Corp.	-	Short-term investments	1,000	24,854	-	20,890	
	Holy Stone Enterprise Co., Ltd.	-	Short-term investments	450	23,996	-	23,269	
	Power Quotient International Co., Ltd.	-	Short-term investments	2,000	18,812	-	29,060	

(Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2005				Note
				Shares (Thousands/ Units) (Note 7)	Carrying Value	Percentage of Ownership (%)	Market Value or Net Asset Value	
	Silicon Storage Technology Inc.	-	Short-term investments	68	\$ 4,314	-	\$ 12,265	
	Veutron Corp.	Same chairman	Short-term investments	809	3,955	-	3,155	
	NewSoft Technology Corp.	Same chairman	Short-term investments	180	3,767	-	1,595	
	Depo Auto Parts Ind. Co., Ltd.	-	Short-term investments	29	2,795	-	3,601	
	Hung Sheng Construction Ltd.	-	Short-term investments	116	2,793	-	2,667	
	Nanya Technology Corporation	-	Short-term investments	75	1,695	-	1,377	
	Emerging Display Technologies Corp.	-	Short-term investments	20	492	-	442	
	Quanta Computer Inc.	-	Short-term investments	6	350	-	305	
	Formosa Petrochemical Corporation	-	Short-term investments	-	10	-	11	
	<u>Equity</u>							
	Fubon Ju-I II Fund	-	Short-term investments	7,003	100,000	-	100,662	Note 2
	Fubon Ju-I Bond Fund	-	Short-term investments	6,422	100,000	-	100,648	Note 2
	Fuhwa Commercial Bank Common Trust Fund	-	Short-term investments	10,000	100,000	-	101,131	Note 2
	Polaris Global ABS Fund - A	-	Short-term investments	8,002	80,000	-	79,871	Note 2
	Fuh-Hwa Omni Fund	-	Short-term investments	5,000	50,050	-	51,600	Note 2
	UPAMC Select Guaranteed No.1 Fund	-	Short-term investments	1,000	10,000	-	9,900	Note 2
	Fuh-Hwa Heirloom No. 2 Balance Fund	-	Short-term investments	639	8,008	-	8,619	Note 2
	Fuh-Hwa Small Capital Fund	-	Short-term investments	54	1,001	-	1,209	Note 2
	Shinkong Number One Real Estate Investment	-	Short-term investments	20,000	200,000	-	201,200	
Li-Hsin Investment Corp.	<u>Stock</u>							
	MaxEdge Electronics Corp.	Investee	Long-term investments	3,972	3,906	15.96	3,906	
	Synage Technology Corp.	Investee	Long-term investments	10,749	81,594	21.50	81,594	
	Novax Technologies, Inc.	Investee	Long-term investments	5,246	59,719	5.25	59,719	
	Luxxon Technology Corp.	Investee	Long-term investments	1,363	8,797	1.36	8,797	
	Tekmax Development Corp.	Investee	Long-term investments	1,610	21,103	4.60	21,103	
	Smartic Technology Inc.	Investee	Long-term investments	480	3,147	4.00	3,147	
	Lu-Chu Development Corp.	Investee	Long-term investments	24,337	223,902	10.42	223,902	
	Artrix International Inc.	Investee	Long-term investments	1,695	16,501	4.52	16,501	
	Optimicro Corp.	Investee	Long-term investments	2,118	20,375	4.24	20,375	
	Smart Art Corp.	Investee	Long-term investments	3,000	29,997	12.00	29,997	
	Luxchip Technology Corp.	Investee	Long-term investments	1,800	17,984	9.00	17,984	
	LoanSky.Net Corp.	Investee	Long-term investments	400	3,869	8.00	3,869	
	Neo Solar Power Corp.	Investee	Long-term investments	1,500	14,882	2.50	14,882	
	Deutron Japan Corp.	Investee	Long-term investments	289	7,882	3.89	7,882	
	Optimax Technology Corp.	Corporation is its director	Long-term investments	120	1,638	0.02	6,871	
	AIPTEK International Inc.	-	Long-term investments	1,000	11,000	0.47	10,690	
	Explore Technology Electronics Inc.	-	Long-term investments	500	-	4.17	-	Note 1
	Gatetech Technology Inc.	-	Long-term investments	187	2,963	0.31	2,963	Note 1
	Aero Vision Avionics, Inc.	Same chairman	Long-term investments	1,000	6,960	1.85	6,960	Note 1
	Giga Solution Tech. Co., Ltd.	-	Long-term investments	962	5,817	0.76	5,817	Note 1
	PowerWorld Capital Management Corp.	Same chairman	Long-term investments	671	12,077	1.40	12,077	Note 1
	Getsilicon net, Inc.	-	Long-term investments	400	-	2.20	-	Note 1
	Powerchip Japan Corp.	-	Long-term investments	-	297	0.17	297	Note 1

(Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2005				Note
				Shares (Thousands/ Units) (Note 7)	Carrying Value	Percentage of Ownership (%)	Market Value or Net Asset Value	
Quantum Vision Corp.	<u>Bonds</u>							
	Veutron Corp. - issued in 2002 (II)	Same chairman	Long-term investments	3	\$ 15,000	-	\$ 15,000	Note 1
	Veutron Corp. - issued in 2003 (I)	Same chairman	Long-term investments	3	15,000	-	15,000	Note 1
	Veutron Corp. - issued in 2003 (II)	Same chairman	Long-term investments	3	6,000	-	6,000	Note 1
	Veutron Corp. - issued in 2005 (I)	Same chairman	Long-term investments	4	20,000	-	20,000	Note 1
	MaxEdge Electronics Corp. - issued in 2005 (III)	Investee	Long-term investments	15	15,000	-	15,000	Note 1
	MaxEdge Electronics Corp. - issued in 2005 (I)	Investee	Long-term investments	10	10,000	-	10,000	Note 1
	<u>Stock</u>							
	Powerchip Semiconductor Corp.	Parent company	Short-term investments	3,992	95,561	-	80,878	
	NewSoft Technology Corp.	Same chairman	Short-term investments	1,126	28,518	-	9,966	
	Fullerton Technology Co., Ltd.	-	Short-term investments	1,045	18,755	-	17,693	
	Huaku Construction Co., Ltd.	-	Short-term investments	-	1	-	1	
	Taiwan Cooperative Bank	-	Short-term investments	200	4,984	-	3,942	
	Yang Ming Marine Transport Corp.	-	Short-term investments	100	2,802	-	2,089	
	Eon Silicon Solution Inc.	-	Short-term investments	195	4,515	-	2,555	
	Macronix International Co., Ltd.	-	Short-term investments	4,000	21,127	-	17,960	
	<u>Equity</u>							
	New Light Taiwan Bond Fund	-	Short-term investments	11,279	114,014	-	114,087	Note 2
	<u>Stock</u>							
	Network Holdings Limited	Investee	Long-term investments	90	2,086	30.00	2,086	
	PowerFlash Semiconductor Corp.	Investee	Long-term investments	850	6,260	6.54	6,260	
	Deutron Electronics Corp.	Investee	Long-term investments	5,236	168,738	10.24	168,738	
	MaxEdge Electronics Corp.	Investee	Long-term investments	2,883	2,834	11.58	2,834	
	Luxxon Technology Corp.	Investee	Long-term investments	9,670	62,549	9.67	62,549	
	PowerGate Optical, Inc.	Investee	Long-term investments	2,344	12,915	11.72	12,915	
	Syntronix Corp.	Investee	Long-term investments	649	7,892	2.40	7,892	
	Zentel Electronics Corp.	Investee	Long-term investments	2,100	19,789	8.40	19,789	
	AVAC Systems Inc.	Investee	Long-term investments	2,237	22,990	13.03	22,990	
	Novax Technologies, Inc.	Investee	Long-term investments	12,735	144,805	12.73	144,805	
	Lu-Chu Development Corp.	Investee	Long-term investments	7,327	67,472	3.14	67,472	
	Silicon Optronics, Inc.	Investee	Long-term investments	900	15,440	6.43	15,440	
	Tekmax Development Corp.	Investee	Long-term investments	4,025	52,757	11.50	52,757	
	Synage Technology Corp.	Investee	Long-term investments	1,836	13,928	3.67	13,928	
	Artrix International Inc.	Investee	Long-term investments	3,785	36,835	10.09	36,835	
	Smart Art Corp.	Investee	Long-term investments	5,000	49,996	20.00	49,996	
	Smartic Technology Inc.	Investee	Long-term investments	720	4,721	6.00	4,721	
	Optimicro Corp.	Investee	Long-term investments	3,987	38,299	7.97	38,299	
	Astel Electronics Corp.	Investee	Long-term investments	1,000	9,769	5.00	9,769	
	Luxchip Technology Corp.	Investee	Long-term investments	2,200	21,980	11.00	21,980	
	LoanSky.Net Corp.	Investee	Long-term investments	1,000	9,671	20.00	9,671	
	Neo Solar Power Corp.	Investee	Long-term investments	1,800	17,859	3.00	17,859	
	Optimax Technology Corp.	Corporation is its director	Long-term investments	299	12,868	0.06	17,132	
	Powertech Technology Inc.	Quantum Vision is its director	Long-term investments	2,776	29,017	0.69	289,000	
Terax Communication Technologies Inc.	Same chairman	Long-term investments	3,715	15,712	7.58	15,712	Note 1	
Powervision Technologies, Inc.	Quantum Vision is its director	Long-term investments	520	3,859	11.87	3,859	Note 1	

(Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2005				Note
				Shares (Thousands/Units) (Note 7)	Carrying Value	Percentage of Ownership (%)	Market Value or Net Asset Value	
	Besteam Technology Inc.	-	Long-term investments	3,388	\$ 24,187	5.19	\$ 24,187	Note 1
	eMemory Technology Inc.	Same chairman	Long-term investments	880	-	2.63	-	Note 1
	Great Taipei Broadband Co., Ltd.	Corporation is its director	Long-term investments	1,500	12,945	1.00	12,945	Note 1
	Aero Vision Avionics, Inc.	Same chairman	Long-term investments	1,500	10,440	2.78	10,440	Note 1
	Universal Venture Fund, Inc.	Same chairman	Long-term investments	3,119	24,984	3.90	24,984	Note 1
	SAMHOP Electronics Corp.	-	Long-term investments	720	9,432	3.00	9,432	Note 1
	Impac Technology Co., Ltd.	-	Long-term investments	200	2,106	0.53	2,106	Note 1
	Lightsonic Optoelectronics Inc.	Same chairman	Long-term investments	1,500	10,811	1.62	10,811	Note 1
	Miluku Entertainment Corp.	Quantum Vision is its director	Long-term investments	400	5,000	1.80	5,000	Note 1
	Taiwan Liposome Co., Ltd.	Quantum Vision is its director	Long-term investments	200	6,000	1.59	6,000	Note 1
	PowerWorld Capital Management Corp.	Same chairmen	Long-term investments	1,200	16,483	2.50	16,483	Note 1
	Chipking Electronic Co., Ltd.	Quantum Vision is its supervisor	Long-term investments	800	8,000	16.00	8,000	Note 1
	TVbean Co., Ltd.	Quantum Vision is its director	Long-term investments	300	4,500	1.60	4,500	Note 1
	A-Optronics Technology Inc.	Same chairmen	Long-term investments	1,000	10,000	10.00	10,000	Note 1
	Billions of Operations Per Second, Inc.	-	Long-term investments	200	-	0.33	-	Note 1
	Nobex Corp.	-	Long-term investments	50	-	-	-	Note 1
	Magna Chip.	-	Long-term investments	1	-	-	-	Note 1
	MAXXAN Corp.	-	Long-term investments	403	-	0.25	-	Note 1
	e-Phocus, Inc. Series B - preferred shares	-	Long-term investments	133	6,311	-	6,311	Note 1
	<u>Bonds</u>							
	Veutron Corp. - issued in 2002 (II)	Same chairman	Long-term investments	5	25,000	-	25,000	Note 1
	Veutron Corp. - issued in 2003 (I)	Same chairman	Long-term investments	5	25,000	-	25,000	Note 1
	Veutron Corp. - issued in 2003 (II)	Same chairman	Long-term investments	13	26,000	-	26,000	Note 1
	Veutron Corp. - issued in 2005 (I)	Same chairman	Long-term investments	4	20,000	-	20,000	Note 1
	MaxEdge Electronics Corp. - issued in 2005 (I)	Investee	Long-term investments	10	10,000	-	10,000	Note 1
	MaxEdge Electronics Corp. - issued in 2005 (II)	Investee	Long-term investments	20	20,000	-	20,000	Note 1
	MaxEdge Electronics Corp. - issued in 2005 (III)	Investee	Long-term investments	10	10,000	-	10,000	Note 1
	<u>Stock</u>							
	Shinkong Financial Holding Co., Ltd.	-	Short-term investments	624	11,348	-	15,822	
	NewSoft Technology Corp.	Same chairman	Short-term investments	473	7,172	-	4,188	
	Veutron Corp.	Same chairman	Short-term investments	500	7,001	-	1,950	
	Phoenix Silicon International Corp.	-	Short-term investments	218	2,399	-	1,076	
	Silicon Storage Technology Inc.	-	Short-term investments	183	8,556	-	30,375	
	Fullerton Technology Co., Ltd.	-	Short-term investments	3,060	50,619	-	51,807	
	Huaku Construction Co., Ltd.	-	Short-term investments	-	1	-	1	
	Taiwan Cooperative Bank	-	Short-term investments	200	4,984	-	3,942	
	Yang Ming Marine Transport Corp.	-	Short-term investments	100	2,802	-	2,089	
	Eon Silicon Solution Inc.	-	Short-term investments	195	4,515	-	2,555	
	Macronix International Co., Ltd.	-	Short-term investments	16,955	71,153	-	76,128	
	<u>Equity</u>							
	Capital Cash Reserves Bond Fund	-	Short-term investments	1,133	13,000	-	13,102	Note 2
	Fuhwa Advantage Bond Fund	-	Short-term investments	3,912	40,000	-	40,253	Note 2
	Yuan Ta Fixed Income II	-	Short-term investments	5,562	80,067	-	80,236	Note 2
	ABN AMRO Bond Fund	-	Short-term investments	2,164	32,034	-	32,161	Note 2

(Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2005				Note
				Shares (Thousands/Units) (Note 7)	Carrying Value	Percentage of Ownership (%)	Market Value or Net Asset Value	
Paramax Corp.	<u>Stock</u>							
	Deutron Japan Corp.	Investee	Long-term investments	351	\$ 9,584	4.73	\$ 9,584	
	PowerFlash Semiconductor Corp.	Investee	Long-term investments	500	3,685	3.85	3,685	
	MaxEdge Electronics Corp.	Investee	Long-term investments	1,680	1,439	6.75	1,439	
	Luxxon Technology Corp.	Investee	Long-term investments	5,728	37,064	5.73	37,064	
	PowerGate Optical, Inc.	Investee	Long-term investments	1,282	7,063	6.41	7,063	
	Novax Technologies, Inc.	Investee	Long-term investments	4,042	45,956	4.04	45,956	
	Lu-Chu Development Corp.	Investee	Long-term investments	5,294	48,777	2.27	48,777	
	Silicon Optronics, Inc.	Investee	Long-term investments	500	8,573	3.57	8,573	
	Tekmax Development Corp.	Investee	Long-term investments	1,000	13,120	2.86	13,120	
	Synage Technology Corp.	Investee	Long-term investments	2,081	15,787	4.16	15,787	
	Artrix International Inc.	Investee	Long-term investments	1,197	11,646	3.19	11,646	
	Smart Art Corp.	Investee	Long-term investments	5,000	49,996	20.00	49,996	
	Smartic Technology Inc.	Investee	Long-term investments	720	4,721	6.00	4,721	
	Optimicro Corp.	Investee	Long-term investments	800	7,689	1.60	7,689	
	LoanSky.Net Corp.	Investee	Long-term investments	400	3,869	8.00	3,869	
	Optimax Technology Corp.	Corporation is its director	Long-term investments	80	1,268	0.02	4,580	
	Terax Communication Technologies Inc.	Corporation and investee have same chairman	Long-term investments	770	6,302	1.57	6,302	Note 1
	Powervision Technologies., Inc.	Quantum Vision is its director	Long-term investments	260	1,929	5.94	1,929	Note 1
	Besteam Technology Inc.	-	Long-term investments	261	3,120	0.40	3,120	Note 1
	Aero Vision Avionics, Inc.	Corporation and investee have same chairman	Long-term investments	1,290	8,978	2.39	8,978	Note 1
	Universal Venture Fund, Inc.	Corporation and investee have same chairman	Long-term investments	1,405	11,252	1.76	11,252	Note 1
	SAMHOP Electronics Corp.	-	Long-term investments	440	7,040	1.83	7,040	Note 1
	Lightsonic Optoelectronics Inc.	Corporation and investee have same chairman	Long-term investments	1,000	7,207	1.08	7,207	Note 1
	PowerWorld Capital Management Corp.	Corporation and investee have same chairman	Long-term investments	818	8,334	1.70	8,334	Note 1
	Powerchip Japan Corp.	-	Long-term investments	-	297	0.17	297	Note 1
	<u>Bonds</u>							
	Veutron Corp. - issued in 2002 (II)	Corporation and investee have same chairman	Long-term investments	2	10,000	-	10,000	Note 1
	Veutron Corp. - issued in 2003 (I)	Corporation and investee have same chairman	Long-term investments	2	10,000	-	10,000	Note 1
	Veutron Corp. - issued in 2003 (II)	Corporation and investee have same chairman	Long-term investments	7	14,000	-	14,000	Note 1
	Veutron Corp. - issued in 2005 (I)	Corporation and investee have same chairman	Long-term investments	4	20,000	-	20,000	Note 1
	MaxEdge Electronics Corp. - issued in 2005 (I)	Investee	Long-term investments	5	5,000	-	5,000	Note 1
	MaxEdge Electronics Corp. - issued in 2005 (III)	Investee	Long-term investments	5	5,000	-	5,000	Note 1
<u>Stock</u>								
Shinkong Financial Holding Co., Ltd.	-	Short-term investments	198	3,527	-	5,028		
Veutron Corp.	Corporation and investee have same chairman	Short-term investments	10,430	46,513	-	40,677		

(Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2005				Note
				Shares (Thousands/Units) (Note 7)	Carrying Value	Percentage of Ownership (%)	Market Value or Net Asset Value	
	Eon Silicon Solution Inc.	-	Short-term investments	209	\$ 4,838	-	\$ 2,738	
	Macronix International Co., Ltd.	-	Short-term investments	4,000	21,134	-	17,960	
	<u>Equity</u>							
	New Light Taiwan Bond Fund	-	Short-term investments	5,963	60,000	-	60,316	Note 2
	Fuhwa Advantage Bond Fund	-	Short-term investments	9,721	100,000	-	100,028	Note 2
	Fu-Hwa Bond Fund	-	Short-term investments	2,282	30,000	-	30,009	Note 2
Smart Art Corp.	<u>Equity</u>							
	Capital Cash Reserves Bond Fund	-	Short-term investments	6,082	70,000	-	70,338	Note 2
	Polaris De-Li Bond Fund	-	Short-term investments	4,049	60,031	-	60,278	Note 2
Zentel Electronics Corp.	<u>Stock</u>							
	Zentel Japan Corp.	Subsidiary	Long-term investments	2	9,682	99.92	9,682	
	PowerFlash Semiconductor Corp.	Investee	Long-term investments	650	4,786	5.00	4,786	
	Novax Technologies, Inc.	Investee	Long-term investments	734	8,370	0.73	8,370	
	<u>Equity</u>							
	PCA Wellpool Fund	-	Short-term investments	295	3,500	-	3,645	Note 2
PowerFlash Semiconductor Corp.	<u>Stock</u>							
	Artrix International Inc.	Investee	Long-term investments	400	3,894	1.07	3,894	
	Zhi-Li Investment Corp.	Investee	Long-term investments	600	5,980	1.20	5,980	
	Zentel Electronics Corp.	Investee	Long-term investments	320	3,015	1.28	3,015	
	Shinkong Financial Holding Co., Ltd.	-	Short-term investments	1,597	47,793	-	40,480	
	<u>Bonds</u>							
	Veutron Corp. - issued in 2005 (I)	Corporation and investee have same chairman	Long-term investments	1	5,000	-	5,000	Note 1

Note 1: The market value is based on carrying value as of December 31, 2005

Note 2: The market value is based on net asset value of the fund as of December 31, 2005.

Note 3: As of December 31, 2005, the above marketable securities had not been pledged or mortgaged, except for those placed in the centralized securities depository enterprise due to application for the first time for the investee companies' stocks to be listed or traded on the stock exchange market.

Note 4: 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 5: The investment in credit link note issued by Yuanta Assets Management Limited and Credit Suisse First Boston could not be transferred before the maturity date, except the early redemption required by the issuer.

Note 6: Prepayment of long-term investment of Quantum Vision and Li-Shin are excluded.

Note 7: 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 YEAR ENDED DECEMBER 31, 2005
(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		Acquisition		Disposal				Ending Balance	
					Shares (Thousands)	Amount	Shares (Thousands)	Amount	Shares (Thousands)	Amount	Carrying Value	Gain (Loss) on Disposal	Shares (Thousands)	Amount
Powerchip Semiconductor Corporation	<u>Stock</u> Quantum Vision Corp.	Long-term investments	-	-	131,990	\$ 1,237,881	29,000	\$ 290,000	-	\$ -	\$ -	\$ -	160,990	\$ 1,567,813
	Li-Hsin Investment Corp.	Long-term investments	-	-	104,850	660,053	29,000	290,000	-	-	-	-	133,850	834,820
	Paramax Corp.	Long-term investments	-	-	54,994	451,109	29,000	290,000	-	-	-	-	83,994	659,455
	Lu-Chu Development Corp.	Long-term investments	-	-	24,255	242,564	39,244	392,440	-	-	-	-	63,499	584,037
	Zhi-Li Investmet Corp.	Long-term investments	-	-	-	-	18,650	186,500	-	-	-	-	18,650	185,305
	Optimicro Corp.	Long-term investments	-	-	-	-	14,700	147,000	-	-	-	-	14,700	141,279
	Smart Art Corp.	Long-term investments	-	-	-	-	12,000	120,000	-	-	-	-	12,000	119,989
	Powertech Technology Inc.	Long-term investments	-	-	5,975	87,298	371	-	6,346	656,685	87,298	569,387	-	-
	Shinkong Financial Holding Co., Ltd.	Short-term investments	-	-	937	17,414	29,294	896,372	-	-	17,842	-	30,231	895,944
	ProMos Technologies Inc.	Short-term investments	-	-	34,996	802,005	2,238	-	34,233	403,353	739,072	(335,719)	3,001	62,933
	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	-	-	-	-	7,100	209,401	3,850	128,687	122,294	6,393	3,250	87,107
	Taiwan Semiconductor Manufacturing Company Ltd.	Short-term investments	-	-	-	-	4,550	250,001	4,550	254,141	250,001	4,140	-	-
	Hua Nan Financial Holding Co., Ltd.	Short-term investments	-	-	-	-	9,321	216,043	500	17,241	16,988	253	8,821	199,055
	Taiwan Cooperative Bank	Short-term investments	-	-	-	-	6,950	168,650	-	-	-	-	6,950	168,650
	Siliconware Precision Industries Co., Ltd.	Short-term investments	-	-	-	-	2,800	110,818	1,400	43,483	45,655	(2,172)	1,400	65,163
	Macronix International Co., Ltd	Short-term investments	-	-	-	-	58,032	270,000	-	-	-	-	58,032	270,000
	Emerging Memory & Logic Solution Incorporation	Short-term investments	-	-	-	-	279	18,924	279	209,706	18,924	190,782	-	-
	Elpida Memory Inc.	Short-term investments	-	-	-	-	438	460,536	-	-	-	-	438	460,536
Li-Shin	<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	-	-
	Shinkong Number One Real Estate Investment	Short-term investments	-	-	-	-	20,000	200,000	-	-	-	-	20,000	200,000
	New Light Growth Fund	Short-term investments	-	-	-	-	14,740	149,000	3,461	35,000	34,986	14	11,279	114,014
Quantum Vision	<u>Equity</u> Yuan Ta Fixed Income II	Short-term investments	-	-	-	-	9,030	130,000	3,468	50,000	49,933	67	5,562	80,067
Paramax	<u>Equity</u> Fuhwa Advantage Bond Fund	Short-term investments	-	-	-	-	9,721	100,000	-	-	-	-	9,721	100,000

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 YEAR ENDED DECEMBER 31, 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 - December 27, 2005	\$542,197	\$407,225	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 YEAR ENDED DECEMBER 31, 2005

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

Company Name	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Note/Accounts Receivable (Payable)		Note
			Purchase/Sale	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total	
Powerchip Semiconductor Corporation	Deutron Electronics Corp.	Investee	Sales	\$ 10,951,617	21	Note 3	-	-	\$ 968,788	21	-
	Elpida Memory Inc.	Director	Sales	6,657,425	13	Note 2	-	-	755,986	16	-
	Novax Technologies, Inc.	Investee	Sales	2,963,294	6	Note 3	-	-	309,054	7	-
	Renesas Technology (Taiwan) Co., Ltd.	Subsidiary of the director	Sales	1,014,734	2	Note 2	-	-	185,510	4	-
	Silicon Optronics, Inc.	Investee	Sales	198,198	-	Note 2	-	-	22,979	-	-
	Syntronix Corp.	Investee	Sales	159,217	-	Note 2	-	-	12,609	-	-
	Powertech Technology Inc.	Quantum Vision is its director	Note 1	2,376,239	6	Note 4	-	-	(993,565)	(16)	-

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

DECEMBER 31, 2005

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

Company Name	Related Party	Nature of Relationship	Ending Balance (Note 1)	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	\$ 968,788	14.18	\$ -	-	\$ 527,480	\$ 25,027
	Elpida Memory Inc.	Director	755,986	9.33	-	-	-	19,620
	Novax Technologies, Inc.	Investee	309,054	15.67	-	-	286,450	7,970
	Renesas Technology (Taiwan) Co. Ltd. (Note 2)	Subsidiary of Renesas Technology Corp. (Until January 7, 2005)	185,510	10.94	-	-	-	6,215

Note 1: Netting values of allowance for doubtful accounts and sales discount.

Note 2: The Company ceased to be the Corporation's related party as of December 31, 2005; the transactions made as of and for the year ended December 31, 2005 are disclosed only for reference.

POWERCHIP SEMICONDUCTOR CORPORATION AND INVESTEEES

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE
FOR THE YEAR ENDED DECEMBER 31, 2005
(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2005			Net Income (Loss) of the Investee	Investment Gain (Loss)	Note	
				Dec. 31, 2005	Dec. 31, 2004	Shares (Thousands)	Percentage of Ownership (%)	Carrying Value				
Powerchip Semiconductor Corporation	Quantum Vision Corp.	Taipei, Taiwan	Investment	\$ 1,582,900	\$ 1,292,900	160,990	99.99	\$ 1,567,813	\$ 48,280	\$ 48,135		
	Li-Hsin Investment Corp.	Taipei, Taiwan	Investment	1,338,500	1,048,500	133,850	99.89	834,820	(139,440)	(137,153)		
	Paramax Corp.	Taipei, Taiwan	Investment	839,940	549,940	83,994	99.99	659,455	(73,508)	(73,501)		
	Lu-Chu Development Corp.	Taipei, Taiwan	Transaction of real estate	634,990	242,550	63,499	27.18	584,037	(187,441)	(41,557)		
	Novax Technologies, Inc.	Taipei, Taiwan	Electronic components manufacturing	287,476	154,389	24,658	24.66	280,511	12,794	(933)		
	Zhi-Li Investment Corp.	Taipei, Taiwan	Investment	186,500	-	18,650	37.30	185,305	(1,688)	(1,150)		
	Deutron Electronics Corp.	Taipei, Taiwan	Electronic components manufacturing	21,300	21,300	4,998	9.78	152,267	648,779	60,815		
	Optimicro Corp.	Taipei, Taiwan	Optical components manufacturing	147,000	-	14,700	29.40	141,279	(17,096)	(5,226)		
	Luxxon Technology Corp.	Taoyuan, Taiwan	Electronic components manufacturing	207,331	144,760	20,733	20.73	134,089	(205,867)	(40,466)		
	Smart Art Corp.	Taipei, Taiwan	Transaction of artistry	120,000	-	12,000	48.00	119,989	(22)	(11)		
	Neo Solar Power Corp.	Taipei, Taiwan	Solar cells manufacturing	96,000	-	9,600	16.00	95,247	(4,706)	(77)		
	Syntronix Corp.	Hsin-Chu, Taiwan	Design of electronic related products	81,516	142,000	7,290	26.96	88,658	55,625	26,142		
	Artrix International Inc.	Taipei, Taiwan	Investment	87,600	60,000	8,760	23.36	85,279	(9,765)	(2,459)		
	Deutron Japan Corp.	Japan	Electronic components manufacturing	90,020	90,020	2,891	38.98	79,635	(558)	(217)		
	Astel Electronics Corp.	Taipei, Taiwan	Electronic components manufacturing	80,000	-	8,000	40.00	78,151	(4,622)	(1,849)		
	Synage Technology Corp.	Taipei, Taiwan	Electronic components manufacturing	101,212	-	10,084	20.17	76,547	(120,492)	(24,303)		
	Zentel Electronics Corp.	Hsin-Chu, Taiwan	Design of electronic related products	92,000	92,000	9,200	36.80	72,348	1,870	(13,657)		
	Tekmax Development Corp.	Taipei, Taiwan	Investment	58,640	50,000	5,520	15.77	72,107	61,470	8,496		
	AVAC Systems, Inc.	Hsin-Chu, Taiwan	Digital camera manufacturing	44,000	-	4,000	23.31	41,128	1,451	(2,872)		
	Luxchip Technology Corp.	Taoyuan, Taiwan	Lighting manufacturing	38,000	-	3,800	19.00	37,966	(177)	(34)		
	PowerFlash Semiconductor Corp.	Taipei, Taiwan	Design of electronic related products	41,600	41,600	4,160	32.00	30,631	(29,771)	(9,527)		
	Silicon Optronics, Inc.	Hsin-Chu, Taiwan	Electronic components manufacturing	17,000	17,000	1,700	12.14	29,152	113,826	14,349		
	Smartic Technologies Inc.	Taipei, Taiwan	Design of electronic related products	30,000	30,000	3,000	25.00	19,671	(38,955)	(9,739)		
	PowerGate Optical, Inc.	Taipei, Taiwan	Optical components manufacturing	18,700	10,000	1,870	9.35	10,303	(71,079)	(6,795)		
	MaxEdge Electronics Corp.	Taoyuan, Taiwan	PCB manufacturing	436,874	428,394	3,372	13.55	3,719	(332,262)	(45,702)		
	Li-Hsin Investment Corp.	MaxEdge Electronics Corp.	Taoyuan, Taiwan	PCB manufacturing	500,369	490,377	3,972	15.96	3,906	(332,262)	(51,399)	
		Synage Technology Corp.	Taipei, Taiwan	Electronic components manufacturing	124,409	-	10,749	21.50	81,594	(120,492)	(26,093)	
		Novax Technologies, Inc.	Taipei, Taiwan	Electronic components manufacturing	58,512	43,632	5,246	5.25	59,719	12,794	(8,600)	
Luxxon Technology Corp.		Taoyuan, Taiwan	Electronic components manufacturing	13,079	-	1,363	1.36	8,797	(205,867)	(4,282)		
Tekmax Development Corp.		Taipei, Taiwan	Investment	17,120	14,600	1,610	4.60	21,103	61,470	2,548		
Smartic Technologies Inc.		Taipei, Taiwan	Design of electronic related products	4,800	4,800	480	4.00	3,147	(38,955)	(1,653)		
Lu-Chu Development Corp.		Taipei, Taiwan	Transaction of real estate	243,371	157,405	24,337	10.42	223,902	(187,441)	(18,814)		
Artrix International Inc.		Taipei, Taiwan	Investment	16,950	8,000	1,695	4.52	16,501	(9,765)	(384)		
Optimicro Corp.		Taipei, Taiwan	Optical components manufacturing	21,177	-	2,118	4.24	20,375	(17,096)	(590)		
Smart Art Corp.		Taipei, Taiwan	Transaction of artistry	30,000	-	3,000	12.00	29,997	(22)	(3)		
Luxchip Technology Corp.		Taoyuan, Taiwan	Lighting manufacturing	18,000	-	1,800	9.00	17,984	(177)	(16)		
LoanSky.Net Corp.		Taipei, Taiwan	Design of electronic related products	4,000	-	400	8.00	3,869	(1,641)	(131)		
Neo Solar Power Corp.		Taipei, Taiwan	Solar cells manufacturing	15,000	-	1,500	2.50	14,882	(4,706)	(118)		
Deutron Japan Corp.		Japan	Electronic components manufacturing	9,067	9,067	289	3.89	7,882	(558)	(133)		
Quantum Vision Corp.	Network Holdings Limited	Samoa	Investment	2,825	-	90	30.00	2,086	(2,892)	(851)		
	PowerFlash Semiconductor Corp.	Taipei, Taiwan	Design of electronic related products	8,500	8,500	850	6.54	6,260	(29,771)	(2,240)		
	Deutron Electronics Corp.	Taipei, Taiwan	Electronic components manufacturing	22,800	22,800	5,236	10.24	168,738	648,779	52,626		
	MaxEdge Electronics Corp.	Taoyuan, Taiwan	PCB manufacturing	240,170	229,614	2,883	11.58	2,834	(332,262)	(35,241)		
	Luxxon Technology Corp.	Taoyuan, Taiwan	Electronic components manufacturing	124,256	96,699	9,670	9.67	62,549	(205,867)	(19,019)		
	PowerGate Optical, Inc.	Taipei, Taiwan	Optical components manufacturing	23,440	12,000	2,344	11.72	12,915	(71,079)	(10,643)		
	Syntronix Corp.	Hsin-Chu, Taiwan	Design of electronic related products	7,380	7,380	649	2.40	7,892	55,625	1,302		
Zentel Electronics Corp.	Hsin-Chu, Taiwan	Design of electronic related products	21,000	21,000	2,100	8.40	19,789	1,870	28			

(Continued)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2005			Net Income (Loss) of the Investee	Investment Gain (Loss)	Note
				Dec. 31, 2005	Dec. 31, 2004	Shares (Thousands)	Percentage of Ownership (%)	Carrying Value			
	AVAC Systems, Inc.	Hsin-Chu, Taiwan	Digital camera manufacturing	\$ 24,321	\$ 2,321	2,237	13.03	\$ 22,990	\$ 1,451	\$ (1,321)	
	Novax Technologies, Inc.	Taipei, Taiwan	Electronic components manufacturing	133,479	112,466	12,735	12.73	144,805	12,794	5,168	
	Lu-Chu Development Corp.	Taipei, Taiwan	Transaction of real estate	73,268	-	7,327	3.14	67,472	(187,441)	(5,743)	
	Silicon Optronics, Inc.	Hsin-Chu, Taiwan	Electronic components manufacturing	9,000	8,000	900	6.43	15,440	113,826	6,321	
	Tekmax Development Corp.	Taipei, Taiwan	Investment	42,800	36,500	4,025	11.50	52,757	61,470	6,726	
	Synage Technology Corp.	Taipei, Taiwan	Electronic components manufacturing	17,250	-	1,836	3.67	13,928	(120,492)	(3,949)	
	Artrix International Inc.	Taipei, Taiwan	Investment	37,850	24,000	3,785	10.09	36,835	(9,765)	(1,014)	
	Smart Art Corp.	Taipei, Taiwan	Transaction of artistry	50,000	-	5,000	20.00	49,996	(22)	(4)	
	Smartic Technologies Inc.	Taipei, Taiwan	Design of electronic related products	7,200	7,200	720	6.00	4,721	(38,955)	(2,479)	
	Optimicro Corp.	Taipei, Taiwan	Optical components manufacturing	39,873	-	3,987	7.97	38,299	(17,096)	(1,318)	
	Astel Electronics Corp.	Taipei, Taiwan	Electronic components manufacturing	10,000	-	1,000	5.00	9,769	(4,622)	(231)	
	Luxchip Technology Corp.	Taoyuan, Taiwan	Lighting manufacturing	22,000	-	2,200	11.00	21,980	(177)	(19)	
	LoanSky.Net Corp.	Taipei, Taiwan	Design of electronic related products	10,000	-	1,000	20.00	9,671	(1,641)	(526)	
	Neo Solar Power Corp.	Taipei, Taiwan	Solar cells manufacturing	18,000	-	1,800	3.00	17,859	(4,706)	(141)	
Paramax Corp.	Deutron Japan Corp.	Japan	Electronic components manufacturing	11,031	11,031	351	4.73	9,584	(558)	(162)	
	PowerFlash Semiconductor Corp.	Taipei, Taiwan	Design of electronic related products	5,000	5,000	500	3.85	3,685	(29,771)	(1,315)	
	MaxEdge Electronics Corp.	Taoyuan, Taiwan	PCB manufacturing	123,474	108,642	1,680	6.75	1,439	(332,262)	(15,969)	
	Luxxon Technology Corp.	Taoyuan, Taiwan	Electronic components manufacturing	57,428	37,928	5,728	5.73	37,064	(205,867)	(13,800)	
	PowerGate Optical, Inc.	Taipei, Taiwan	Optical components manufacturing	12,820	8,000	1,282	6.41	7,063	(71,079)	(6,423)	
	Novax Technologies, Inc.	Taipei, Taiwan	Electronic components manufacturing	44,505	44,735	4,042	4.04	45,956	12,794	577	
	Lu-Chu Development Corp.	Taipei, Taiwan	Transaction of real estate	52,936	-	5,294	2.27	48,777	(187,441)	(4,266)	
	Silicon Optronics, Inc.	Hsin-Chu, Taiwan	Electronic components manufacturing	5,000	5,000	500	3.57	8,573	113,826	3,468	
	Tekmax Development Corp.	Taipei, Taiwan	Investment	14,000	-	1,000	2.86	13,120	61,470	(882)	
	Synage Technology Corp.	Taipei, Taiwan	Electronic components manufacturing	21,641	-	2,081	4.16	15,787	(120,492)	(5,709)	
	Artrix International Inc.	Taipei, Taiwan	Investment	11,973	7,000	1,197	3.19	11,646	(9,765)	(318)	
	Smart Art Corp.	Taipei, Taiwan	Transaction of artistry	50,000	-	5,000	20.00	49,996	(22)	(4)	
	Smartic Technologies Inc.	Taipei, Taiwan	Design of electronic related products	7,200	7,200	720	6.00	4,721	(38,955)	(2,479)	
	Optimicro Corp.	Taipei, Taiwan	Optical components manufacturing	8,000	-	800	1.60	7,689	(17,096)	(274)	
	LoanSky.Net Corp.	Taipei, Taiwan	Design of electronic related products	4,000	-	400	8.00	3,869	(1,641)	(131)	
Zentel Electronics Corp.	Zentel Japan Corp.	Japan	Design of electronic related products	38,322	38,322	2	99.92	9,682	(4,568)	(4,564)	
	PowerFlash Semiconductor Corp.	Taipei, Taiwan	Design of electronic related products	6,500	6,500	650	5.00	4,786	(29,771)	(1,715)	
	Novax Technologies, Inc.	Taipei, Taiwan	Electronic components manufacturing	8,400	8,400	734	0.73	8,370	12,794	593	
PowerFlash Semiconductor Corp.	Artrix International Inc.	Taipei, Taiwan	Investment	4,000	-	400	1.07	3,894	(9,765)	(129)	
	Zhi-Li Investment Corp.	Taipei, Taiwan	Investment	6,000	-	600	1.20	5,980	(1,688)	(20)	
	Zentel Electronics Corp.	Hsin-Chu, Taiwan	Design of electronic related products	2,880	-	320	1.28	3,015	1,870	135	