

# **Powerchip Semiconductor Corporation**

**Financial Statements for the  
Three Months Ended March 31, 2006 and 2005 and  
Independent Accountants' Review Report**

## **INDEPENDENT ACCOUNTANTS' REVIEW REPORT**

The Board of Directors and Shareholders  
Powerchip Semiconductor Corporation

We have reviewed the accompanying balance sheets of Powerchip Semiconductor Corporation as of March 31, 2006 and 2005, and the related statements of income and cash flows for the three months then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to issue a report on these financial statements based on our reviews.

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

As stated in Note 11 to the financial statements, we did not review the financial statements for the three months ended March 31, 2006 and 2005 of investees accounted for by the equity method. The carrying values of those investments as of March 31, 2006 and 2005 were NT\$6,262,691 thousand and NT\$3,710,042 thousand, respectively, and the related net investment losses for the three months ended March 31, 2006 and 2005 were NT\$37,518 thousand and NT\$76,730 thousand, respectively. These investment amounts, as well as related information disclosed in Note 27 to the financial statements, were based on unreviewed financial statements of the investees for the same reporting periods as those of the Corporation.

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

As disclosed in Note 3 to the accompanying financial statements, effective January 1, 2006, the Corporation adopted the recently released Statements of Financial Accounting Standards (“Statements”) No. 34 - “Accounting for Financial Instruments” and No. 36 - “ Disclosure and Presentation of Financial Instruments” and related revisions of previously released Statements.

April 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 review such financial statements are those generally accepted and applied in the Republic of China.*

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

**POWERCHIP SEMICONDUCTOR CORPORATION**

**BALANCE SHEETS**

**MARCH 31, 2006 AND 2005**

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

(Reviewed, Not Audited)

ASSETS	2006		2005		LIABILITIES AND SHAREHOLDERS' EQUITY	2006		2005	
	Amount	%	Amount	%		Amount	%	Amount	%
<b>CURRENT ASSETS</b>					<b>CURRENT LIABILITIES</b>				
Cash and cash equivalents (Notes 2, 4 and 23)	\$ 32,993,079	21	\$ 36,335,985	27	Financial liabilities at fair value through profit or loss (Notes 2, 3, 5 and 23)	\$ 73,194	-	\$ 1,309	-
Financial assets at fair value through profit or loss (Notes 2, 3, 5 and 23)	3,671,170	2	1,792,769	1	Accounts payable (Notes 23 and 24)				
Available-for-sale financial assets - current (Notes 2, 3, 6 and 23)	184,817	-	172,211	-	Related parties	1,319,208	1	369,718	-
Held-to-maturity financial assets - current (Notes 2, 3, 9, 23 and 24)	6,000	-	254,975	-	Third parties	5,505,672	3	4,600,800	4
Accounts receivable, net (Notes 2, 7, 23, 24 and 25)					Accrued expenses (Notes 2, 3 and 24)	2,177,746	2	2,212,645	2
Related parties	3,485,160	2	1,578,721	1	Payable on equipment (Note 23)	12,639,139	8	17,554,357	13
Third parties	2,596,209	2	1,926,153	2	Convertible bonds payable (Notes 2, 14 and 23)	9,747,738	6	789,574	-
Other receivables (Notes 3 and 23)	229,165	-	300,986	-	Current portion of long-term bank loans (Notes 15 and 23)	7,606,667	5	3,656,667	3
Inventories, net (Notes 2 and 8)	7,883,603	5	5,140,192	4	Current portion of long-term obligation under capital lease (Notes 2, 12 and 23)	-	-	123,833	-
Prepaid expenses	201,784	-	146,959	-	Other current liabilities	<u>122,007</u>	-	<u>25,018</u>	-
Deferred income tax assets - current (Notes 2 and 20)	885,922	1	1,567,130	1					
Restricted deposits (Notes 23 and 25)	1,353,617	1	2,356,027	2	Total current liabilities	<u>39,191,371</u>	<u>25</u>	<u>29,333,921</u>	<u>22</u>
Other current assets	<u>50,689</u>	-	<u>17,858</u>	-					
Total current assets	<u>53,541,215</u>	<u>34</u>	<u>51,589,966</u>	<u>38</u>	<b>LONG-TERM LIABILITIES</b>				
<b>LONG-TERM INVESTMENTS</b>					Convertible bonds payable (Notes 2, 14 and 23)	10,000,000	6	10,028,117	7
Held-to-maturity financial assets - noncurrent (Notes 2, 3, 9, 23 and 24)	199,000	-	20,000	-	Long-term bank loans, net of current portion (Notes 15 and 23)	<u>23,482,969</u>	<u>15</u>	<u>17,452,069</u>	<u>13</u>
Financial assets carried at cost (Notes 2, 3, 10 and 23)	720,338	1	685,857	-					
Equity-method investments (Notes 2, 11 and 24)	<u>6,262,691</u>	<u>4</u>	<u>3,742,613</u>	<u>3</u>	Total long-term liabilities	<u>33,482,969</u>	<u>21</u>	<u>27,480,186</u>	<u>20</u>
Total long-term investments	<u>7,182,029</u>	<u>5</u>	<u>4,448,470</u>	<u>3</u>	<b>OTHER LIABILITIES</b>				
<b>PROPERTIES (Notes 2, 12, 21 and 25)</b>					Accrued pension cost (Notes 2 and 16)	33,658	-	60,262	-
Cost					Guarantee deposits	4,799	-	5,613	-
Buildings	7,789,030	5	6,358,474	5	Deferred income tax liabilities - noncurrent (Notes 2 and 20)	-	-	<u>232,529</u>	-
Machinery and equipment	121,236,921	77	83,702,482	62					
Research and development equipment	634,419	-	332,500	-	Total other liabilities	<u>38,457</u>	-	<u>298,404</u>	-
Facility equipment	16,232,941	10	11,783,825	9					
Transportation equipment	16,845	-	18,722	-	Total liabilities	<u>72,712,797</u>	<u>46</u>	<u>57,112,511</u>	<u>42</u>
Office equipment	379,634	-	329,907	-	<b>SHAREHOLDERS' EQUITY (Notes 17 and 18)</b>				
Equipment under capital lease	-	-	761,708	1	Capital stock, \$10 par value				
Miscellaneous equipment	<u>910,628</u>	<u>1</u>	<u>548,793</u>	-	Authorized -7,500,000 thousand shares in 2006 and 5,500,000 thousand shares in 2005				
Accumulated depreciation	<u>(63,718,942)</u>	<u>(40)</u>	<u>(46,772,881)</u>	<u>(35)</u>	Issued - 5,613,958 thousand shares in 2006 and 4,179,245 thousand shares in 2005	56,139,584	35	41,792,449	31
Advance payments and construction in progress	83,481,476	53	57,063,530	42	Capital surplus (Notes 2 and 17)				
Net properties	<u>92,102,628</u>	<u>58</u>	<u>74,465,200</u>	<u>55</u>	Paid-in capital in excess of par value	12,743,897	8	9,759,530	7
					Arising from treasury stock	3,290	-	-	-
<b>OTHER ASSETS</b>					Arising from long-term investments	28,312	-	17,998	-
Assets leased to others, net (Note 2)	156,336	-	174,140	-	Arising from conversion of bonds	4,031,771	3	3,395,732	3
Refundable deposits	25,269	-	23,443	-	Retained earnings				
Deferred charges, net (Notes 2, 13, 21, 24 and 26)	3,209,531	2	4,057,845	3	Appropriation for legal reserve	2,132,816	2	1,308	-
Deferred income tax assets - noncurrent (Notes 2 and 20)	1,346,440	1	-	-	Appropriation for special reserve	252	-	-	-
Spare parts, net	403,647	-	374,758	1	Unappropriated earnings	11,503,080	7	23,370,923	17
Others	<u>23,425</u>	-	<u>8,860</u>	-	Others				
Total other assets	<u>5,164,648</u>	<u>3</u>	<u>4,639,046</u>	<u>4</u>	Cumulative translation adjustments (Note 2)	(14,122)	-	(5,044)	-
					Unrealized gains on financial assets (Notes 2, 11 and 23)	372,631	-	-	-
<b>TOTAL</b>	<u>\$ 157,990,520</u>	<u>100</u>	<u>\$ 135,142,682</u>	<u>100</u>	Treasury stock (at cost) - 89,674 thousand shares in 2006 and 15,334 thousand shares in 2005 (Notes 2 and 19)	<u>(1,663,788)</u>	<u>(1)</u>	<u>(302,725)</u>	<u>-</u>
					Total shareholders' equity	<u>85,277,723</u>	<u>54</u>	<u>78,030,171</u>	<u>58</u>
					<b>TOTAL</b>	<u>\$ 157,990,520</u>	<u>100</u>	<u>\$ 135,142,682</u>	<u>100</u>

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

(With Deloitte & Touche review report dated April 26, 2006)

**POWERCHIP SEMICONDUCTOR CORPORATION**

**STATEMENTS OF INCOME**

**THREE MONTHS ENDED MARCH 31, 2006 AND 2005**

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

**(Reviewed, Not Audited)**

	2006		2005	
	Amount	%	Amount	%
GROSS SALES	\$ 15,213,174		\$ 13,543,349	
SALES RETURNS AND ALLOWANCES	<u>434,385</u>		<u>787,995</u>	
NET SALES (Notes 2 and 24)	14,778,789	100	12,755,354	100
COST OF SALES (Notes 21 and 24)	<u>12,743,051</u>	<u>86</u>	<u>9,334,708</u>	<u>73</u>
GROSS PROFIT BEFORE REALIZED INTERCOMPANY GROSS PROFIT	2,035,738	14	3,420,646	27
REALIZED (UNREALIZED) INTERCOMPANY PROFIT (Note 2)	<u>(426)</u>	<u>-</u>	<u>4,827</u>	<u>-</u>
GROSS PROFIT	<u>2,035,312</u>	<u>14</u>	<u>3,425,473</u>	<u>27</u>
OPERATING EXPENSES (Note 21)				
Selling	91,155	1	74,423	1
General and administrative (Note 24)	331,232	2	569,557	4
Research and development (Note 24)	<u>492,228</u>	<u>3</u>	<u>375,885</u>	<u>3</u>
Total operating expenses	<u>914,615</u>	<u>6</u>	<u>1,019,865</u>	<u>8</u>
OPERATING INCOME	<u>1,120,697</u>	<u>8</u>	<u>2,405,608</u>	<u>19</u>
NONOPERATING INCOME AND GAINS				
Interest (Notes 2 and 23)	133,861	1	129,623	1
Gain on disposal of properties (Note 2)	31,864	-	12,506	-
Gain on sales of investments, net (Note 2)	25,365	-	-	-
Foreign exchange gain, net (Notes 2)	16,745	-	-	-
Valuation gains on financial assets, net (Notes 2, 3, 5 and 23)	11,434	-	345,566	3
Others	<u>14,650</u>	<u>-</u>	<u>43,193</u>	<u>-</u>
Total nonoperating income and gains	<u>233,919</u>	<u>1</u>	<u>530,888</u>	<u>4</u>

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**POWERCHIP SEMICONDUCTOR CORPORATION**

**STATEMENTS OF INCOME**

**THREE MONTHS ENDED MARCH 31, 2006 AND 2005**

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

**(Reviewed, Not Audited)**

	<b>2006</b>		<b>2005</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
<b>NONOPERATING EXPENSES AND LOSSES</b>				
Interest (Notes 2, 12 and 23)	\$ 217,088	2	\$ 151,614	1
Impairment loss on financial assets (Note 2)	46,198	-	-	-
Equity in losses of equity method investees, net (Notes 2 and 11)	37,518	-	76,730	1
Provision for loss on inventories and spare parts (Note 2)	14,779	-	316,985	2
Valuation loss on financial liabilities, net (Notes 2, 5 and 23)	7,756	-	-	-
Loss on disposal of properties (Note 2)	1,066	-	29,141	-
Loss on sales of investments, net (Note 2)	-	-	62,741	1
Foreign exchange loss, net (Note 2)	-	-	14,842	-
Others	<u>23,630</u>	<u>-</u>	<u>12,283</u>	<u>-</u>
Total nonoperating expenses and losses	<u>348,035</u>	<u>2</u>	<u>664,336</u>	<u>5</u>
INCOME BEFORE INCOME TAX	1,006,581	7	2,272,160	18
INCOME TAX EXPENSE (Notes 2 and 20)	<u>(26,068)</u>	<u>-</u>	<u>(102,386)</u>	<u>(1)</u>
NET INCOME BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	980,513	7	2,169,774	17
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES (NET OF TAX BENEFIT OF \$16,388 THOUSAND) (Notes 3 and 20)	<u>32,920</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET INCOME	<u>\$ 1,013,433</u>	<u>7</u>	<u>\$ 2,169,774</u>	<u>17</u>
	<b>2006</b>		<b>2005</b>	
	<b>Before Income Tax</b>	<b>After Income Tax</b>	<b>Before Income Tax</b>	<b>After Income Tax</b>
EARNINGS PER SHARE (Note 22)				
Basic	<u>\$ 0.18</u>	<u>\$ 0.18</u>	<u>\$ 0.44</u>	<u>\$ 0.42</u>
Diluted	<u>\$ 0.15</u>	<u>\$ 0.15</u>	<u>\$ 0.40</u>	<u>\$ 0.38</u>

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**POWERCHIP SEMICONDUCTOR CORPORATION**

**STATEMENTS OF INCOME**  
**THREE MONTHS ENDED MARCH 31, 2006 AND 2005**  
**(In Thousands of New Taiwan Dollars, Except Earnings Per Share)**  
**(Reviewed, Not Audited)**

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The pro forma net income and earnings per share after income tax 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:

	<b>2006</b>	<b>2005</b>
NET INCOME	<u>\$1,013,433</u>	<u>\$2,167,143</u>
EARNINGS PER SHARE		
Basic	<u>\$ 0.18</u>	<u>\$ 0.42</u>
Diluted	<u>\$ 0.15</u>	<u>\$ 0.38</u>

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

(With Deloitte & Touche review report dated April 26, 2006)

(Concluded)

**POWERCHIP SEMICONDUCTOR CORPORATION**

**STATEMENTS OF CASH FLOWS**  
**THREE MONTHS ENDED MARCH 31, 2006 AND 2005**  
(In Thousands of New Taiwan Dollars)  
(Reviewed, Not Audited)

	2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 1,013,433	\$ 2,169,774
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	4,797,097	3,373,767
Amortization	410,804	315,456
Unrealized (realized) intercompany profit	426	(4,827)
Valuation gains on financial assets	(11,434)	(345,566)
Valuation loss on financial liabilities	7,756	-
Foreign exchange loss on financial assets	1,248	-
Amortization of discount on held-to-maturity financial assets	-	(75)
Provision for doubtful accounts	19,238	6,039
Provision for loss on inventories and spare parts	14,779	316,985
Equity in losses of equity method investees, net	37,518	76,730
Impairment loss on financial assets	46,198	-
Loss (gain) on disposal of investments, net	(25,365)	62,741
Loss (gain) on disposal of properties, net	(30,798)	16,635
Deferred income tax expense	9,075	97,868
Amortization of discount on commercial paper issued	827	868
Foreign exchange gain on convertible bonds payable	(117,117)	(124,443)
Foreign exchange loss on long-term bank loans	-	47,520
Net changes in operating assets and liabilities		
Held-for-trading financial instruments	(570,549)	(289,689)
Accounts receivable	(1,436,784)	392,365
Other receivables	265,050	(41,827)
Inventories	(698,054)	(331,120)
Prepaid expenses	48,510	42,824
Other current assets	(39,405)	(6,758)
Accounts payable	783,271	(27,052)
Accrued expenses	(30,603)	(384,299)
Other current liabilities	(27,490)	(1,275)
Accrued pension cost	262	8,743
Net cash provided by operating activities	<u>4,467,893</u>	<u>5,371,384</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Increase in restricted deposits	(141,241)	(232,810)
Acquisition of:		
Held-to-maturity financial assets	(25,000)	-
Equity-method investments	(597,498)	(73,571)
Financial assets carried at cost	(182,164)	(31,520)
Properties	(9,799,056)	(11,350,187)
Deferred charges	(112,987)	(673,080)
Other assets	(4,795)	-

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**POWERCHIP SEMICONDUCTOR CORPORATION**

**STATEMENTS OF CASH FLOWS**  
**THREE MONTHS ENDED MARCH 31, 2006 AND 2005**  
(In Thousands of New Taiwan Dollars)  
(Reviewed, Not Audited)

	2006	2005
Proceeds from disposal of:		
Available-for-sale financial assets	\$ 1,948	\$ -
Held-to-maturity financial assets	25,000	-
Equity-method investments	33,499	-
Financial assets carried at cost	8,973	-
Properties	40,602	196,859
Decrease (increase) in spare parts	(9,911)	28,799
Increase in refundable deposits	<u>(162)</u>	<u>(16)</u>
Net cash used in investing activities	<u>(10,762,792)</u>	<u>(12,135,526)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Decrease in short-term bank loans	(773,534)	-
Proceeds from:		
Issuance of convertible bonds	-	5,098,080
Long-term bank loans	5,000,000	4,000,000
Exercise of employee stock option	254,208	110,474
Sales of treasury stock	-	181,746
Repayments of long-term bank loans	(877,498)	(1,274,406)
Increase in guarantee deposits	146	41
Decrease in capital lease obligation	<u>-</u>	<u>(41,277)</u>
Net cash provided by financing activities	<u>3,603,322</u>	<u>8,074,658</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>(2,691,577)</u>	<u>1,310,516</u>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<u>35,684,656</u>	<u>35,025,469</u>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<u>\$32,993,079</u>	<u>\$36,335,985</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Interest paid (excluding amounts capitalized of \$20,954 thousand in 2006 and \$25,656 thousand in 2005)	<u>\$ 208,797</u>	<u>\$ 150,478</u>
Income tax paid	<u>\$ 14,100</u>	<u>\$ 13,599</u>
Cash paid for acquisition of properties		
Total acquisition	\$ 8,707,068	\$14,188,278
Payable, beginning of period	13,731,127	14,716,266
Payable, end of period	<u>(12,639,139)</u>	<u>(17,554,357)</u>
	<u>\$ 9,799,056</u>	<u>\$11,350,187</u>

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**POWERCHIP SEMICONDUCTOR CORPORATION**

**STATEMENTS OF CASH FLOWS**  
**THREE MONTHS ENDED MARCH 31, 2006 AND 2005**  
**(In Thousands of New Taiwan Dollars)**  
**(Reviewed, Not Audited)**

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	2006	2005
NONCASH INVESTING AND FINANCING ACTIVITIES		
Current portion of long-term liabilities	<u>\$ 7,606,667</u>	<u>\$ 3,780,500</u>
Treasury stock - parent's stock held by its subsidiaries	<u>\$ 33,141</u>	<u>\$ -</u>
Transfer of financial assets carried at cost to available-for-sale financial assets	<u>\$ 1,804</u>	<u>\$ -</u>
Reclassification of deferred charges into properties	<u>\$ 78</u>	<u>\$ -</u>
Reclassification of properties into deferred charges	<u>\$ -</u>	<u>\$ 935</u>
Conversion of bonds	<u>\$ -</u>	<u>\$ 120,482</u>

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

(With Deloitte & Touche review report dated April 26, 2006)

(Concluded)

## **POWERCHIP SEMICONDUCTOR CORPORATION**

### **NOTES TO FINANCIAL STATEMENTS**

**THREE MONTHS ENDED MARCH 31, 2006 AND 2005**

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

**(Reviewed, Not Audited)**

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#### **1. ORGANIZATION AND OPERATIONS**

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 subcontracting), testing, assembling and selling various integrated circuit products.

As of March 31, 2006 and 2005, the Corporation had 5,111 and 4,062 employees, respectively.

#### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **Basic of Presentation**

The accompanying financial statements have been 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 make certain estimates and assumptions on the amounts of allowance for doubtful accounts; allowance for sales discounts, allowance for loss on inventories and spare parts, depreciation of properties, amortization of deferred charges, and pension expenses. Actual results could differ from these estimates.

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 unrestricted cash and cash equivalents and other assets to be converted to cash, consumed or sold within one year from the balance sheet date. Current liabilities are those to be settled within one year from the balance sheet date. All other assets and liabilities are classified as noncurrent.

##### **Cash Equivalents**

Commercial paper and bonds under repurchase agreements, acquired with maturities of three months or less from the date of purchase, are classified as cash equivalents. Their carrying amount approximates fair value.

### **Financial Assets/Liabilities at Fair Value Through Profit or Loss**

Financial instruments at fair value through profit or loss have two categories: (1) held for trading and (2) designated on initial recognition as at fair value through profit or loss. These financial instruments are initially recorded at fair value with transaction costs that are directly attributable to the acquisition. When subsequently measured at fair value, the changes in fair value are recognized as earnings. Cash dividends received, including the amount received in the same year that the related investments are acquired, are recognized as income. A regular way purchase or sale of financial assets is recognized and derecognized using trade date accounting.

Derivatives that do not meet the criteria for hedge accounting are treated as financial assets or liabilities held for trading. When the fair value is a positive amount, the derivative is treated as a financial asset; when the fair value is a negative amount, the derivative is treated as a financial liability.

The fair values of listed stock, convertible bonds and close-end mutual funds are the closing price as of the balance sheet date; open-end mutual funds are based on their net asset value at the balance sheet date. For those instruments without quoted market prices in an active market, the fair value is based on valuation techniques incorporating estimates and assumptions that are consistent with prevailing market conditions.

Hybrid instruments are designated at fair value through profit or loss.

### **Available-for-sale Financial Assets**

Investments classified as available-for-sale financial assets are initially recognized at fair value plus transaction costs that are directly attributed to investment acquisition. When subsequently measured at fair value, the changes in fair value are reported as a separate component of shareholders' equity. The accumulated gains or losses are recognized when the financial asset is derecognized from the balance sheet. A regular way purchase or sale of financial assets is recognized and derecognized using trade date accounting.

Cash dividends are recognized as investment income upon resolution of the shareholders of an investee but are accounted for as reductions of the original investment cost if these dividends are declared on the earnings of the investees attributable to periods before the purchase of the investments. Stock dividends received are recorded as an increase in the number of shares held and do not affect investment income. The cost per share is recalculated on the basis of the new number of shares after the receipt of stock dividends.

If there is objective evidence that a financial asset (equity security) is impaired as of the balance sheet date, a loss is recognized. If the impairment loss decreases, the impairment loss is reversed to the extent of the decrease and recorded as an adjustment to shareholders' equity.

### **Allowance for Doubtful Accounts**

Allowance for doubtful accounts is provided on the basis of the aging of receivables and periodic review of the collectibility of receivables.

### **Inventories**

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

### **Held-to-maturity Financial Assets**

Debt securities for which the Corporation has a positive intent and ability to hold to maturity are categorized as held-to-maturity financial assets and are carried at the amortized cost using the straight-line method. Those financial assets are initially recognized at fair value plus transaction costs that are directly attributed to the acquisition. Gains or losses are recognized at the time of derecognition, impairment or amortization. A regular way purchase or sale of financial assets is recognized and derecognized using trade date accounting.

If there is objective evidence of financial asset impairment, a loss is recognized. If the impairment loss decreases and the decrease is clearly attributable to an event that occurred after the impairment loss was recognized, the previously recognized impairment loss is reversed to the extent of the decrease. However, the increased carrying amount of an asset due to reversal of impairment loss should not exceed the carrying amount that would have been determined (the amortized cost) had no impairment loss been recognized for the asset.

### **Financial Assets Carried At Cost**

Investments without quoted market prices in an active market and whose fair value cannot be reliably measured, such as nonpublicly traded stocks, are carried at their original cost. The accounting treatment for cash and stock dividend arising from financial assets carried at cost is the same as that for available-for-sale financial assets.

If there is objective evidence of financial asset impairment, a loss is recognized. This impairment loss is irreversible.

### **Equity-method Investments**

Stock investments in which the Corporation exercises significant influence on investees' operating and financial decisions are accounted for by the equity method, except for the financial statements as of and for the periods ended March 31 and September 30, in which the Corporation accounts for its investment income or loss when it holds a controlling interest in the investees.

The difference between the investment cost and the Corporation's equity in the investee's net assets on the acquisition date was previously amortized using the straight-line method over 5 years. However, based on the revised Statement of Financial Accounting Standards No. 5 - "Long-term Investments in Equity Securities," effective January 1, 2006, investment premium, representing goodwill based on analysis of the acquisition cost, is no longer required to be amortized. In addition, goodwill should be assessed for impairment annually or whenever an event or circumstances would result in the goodwill reduction. Further, the unamortized differences on investments, acquired before January 1, 2006 are treated in the same way as goodwill.

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 are accounted for as a reduction of carrying value of the investment.

If an investee is identified as significantly impaired, the carrying amount of the investment in excess of its recoverable amount is recognized as impairment loss. For those investees over which the Corporation exercises significant influence on their operating and financial decisions, the assessment of impairment is based on carrying value.

If an investee issues additional shares and the Corporation subscribes for these shares at a percentage different from its current equity in the investee, 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 earnings.

Gains or losses on sales by the Corporation to equity-method investees that are not majority owned are deferred in proportion to the Corporation's equity interest in the investees at period-end. However, the entire amount of the gains or losses on the Corporation's sales to subsidiaries are deferred.

Gains or losses on sales generated from equity method investees to the Corporation are deferred in proportion to the Corporation's equivalent equity interest in the investees.

Gains or losses from sales among all equity-method investees are deferred in proportion to the product of the Corporation's equity in one investee multiplied by its equity in the other investee.

All of the above deferred gains and losses are realized upon the sale of the related products to third parties.

#### **Properties and Assets Leased to Others**

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

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

If significant asset impairment is determined on the balance sheet date, the carrying amount of an asset in excess of its recoverable amount is recognized as a loss. If the recoverable amount increases, the impairment loss reversal is recognized as a gain. However, the increased carrying amount of an asset due to impairment loss reversal should not exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognized for the asset 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 (a) the market value of the leased equipment at the start of the lease or (b) the present value of the future minimum lease payments plus the bargain purchase price. 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 patents - 5 years; and others - 2 to 5 years.

If significant asset impairment is determined on the balance sheet date, the carrying amount of an asset in excess of its recoverable amount is recognized as loss. If the recoverable amount increases, the impairment loss reversal is recognized as gain. However, the increased carrying amount of an asset due to impairment loss reversal 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 Corporation records total proceeds from the issuance of convertible bonds solely as a liability. 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 bondholder exercises the put option, the difference between payment and book value of the bonds and other assets and liabilities related to such convertible bonds is credited or charged to current income.

#### **Employee Stock Option**

Compensatory employee stock option plans that are granted or amended on or after January 1, 2004 must be accounted for in accordance with the interpretations issued by the Accounting Research and Development Foundation of the Republic of China. The Corporation uses the intrinsic value method to evaluate the compensation cost of employee stock options and charges any compensation cost 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.

The Corporation accounts for its stock held by its subsidiaries as treasury stock. The recorded cost of these treasury shares are based on the carrying value of the investments as shown in the subsidiaries' book as of January 1, 2002, or the date later than January 1, 2002, the investees starting to be the subsidiaries.

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

#### **Capitalized and Other Expenditures**

Expenditures of \$60 thousand or more that will benefit periods of more than two years are capitalized. Other expenditures are recorded as expenses or losses.

#### **Pension Costs**

The Corporation has two types of pension plans: Defined contribution and defined benefit.

On July 1, 2005, the Corporation's employees had to choose between the two pension plans. Under the defined contribution plans, pension costs are recorded on the basis of the Corporation's monthly contributions to employees' individual pension accounts. Under the defined benefit plan, pension costs are recorded on the basis of actuarial calculations.

#### **Income Tax**

The Corporation applies intra-period and inter-period allocation for its income tax, as follows: (1) a portion of current period income tax expense is allocated to the cumulated effect of changes in accounting principles; and (2) deferred income tax assets and liabilities are recognized for the tax effects of temporary difference, unused tax credits and operating loss carryforwards. 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 basis of the expected reversal date of the temporary difference.

Tax credits for certain purchases of machinery, equipment and technology, research and development expenditures, personnel training and investments in important technology-based enterprise are recognized by the flow-through method.

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

Income taxes (10%) on undistributed earnings generated since January 1, 1998 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. Exchange gains or losses derived from foreign-currency transactions or monetary assets and liabilities denominated in foreign currencies are recognized as current income. On the balance sheet date, the balances of nonmonetary assets and liabilities, except those carried at cost be valued at the historical rate of the trade date, are restated at prevailing exchange rates, and the resulting differences are recorded as follows:

- a. Financial instruments at fair value through shareholders' equity - as an adjustment component under shareholders' equity;
- b. Financial instruments at fair value through profit or loss - credits or charges to current income; and
- c. Long-term investments accounted for by the equity method - as cumulative translation adjustments under shareholders' equity.

### Reclassification

Certain accounts in the financial statements as of and for the three months ended March 31, 2005 have been reclassified to be consist with the financial statements as of and for the three months ended March 31, 2006.

### 3. ACCOUNTING CHANGES

On January 1, 2006, the Corporation adopted the recently released Statements of Financial Accounting Standards (“Statements” or SFAS) No. 34 - “Accounting for Financial Instruments” and SFAS No. 36 - “Disclosure and Presentation for Financial Instruments” and related revisions of other previously released Statements.

- a. Effect of adopting the SFAS Nos. 34 and 36 and related revisions of other previously released Statements

Under the Corporation’s adoption of SFAS Nos. 34 and 36, its financial assets and liabilities, including derivatives, were categorized in accordance with these Statements. In addition, the adjustments made to the carrying amounts of the financial instruments categorized as financial instruments at fair value through profit or loss were included in the cumulative effect of changes in accounting principles. On the other hand, the adjustments made to the carrying amounts of those categorized as available-for-sale financial assets were recognized as adjustments to shareholders’ equity.

Furthermore, the adjustments made to the foreign-currency equity instruments, previously accounted for by the cost method and categorized as financial assets carried at cost, were revaluated at the historical rate of the trade date, which resulted in the reversal of cumulative translation adjustments under shareholders’ equity.

The effects of adopting the recently released SFAS Nos. 34 and 36 are summarized as follows:

	<b>Recognized as Cumulative Effect of Changes in Accounting Principles (Net of Tax)</b>	<b>Recognized as a Separate Component of Shareholders’ Equity (Net of Tax)</b>
Financial assets at fair value through profit or loss - current	\$ 80,803	\$ 1,706
Available-for-sale financial assets - current	-	201,492
Financial assets carried at cost - noncurrent	-	644
Financial liabilities at fair value through profit or loss - current	<u>(47,883)</u>	<u>-</u>
	<u>\$ 32,920</u>	<u>\$ 203,842</u>

The accounting changes resulted in an increase of \$32,920 thousand in net income, and an increase of NT\$0.01 in basic and diluted earnings per share (after income tax) for the three months ended March 31, 2006.

b. Reclassifications

Based on the interpretation issued by the Accounting Research and Development Foundation of the Republic of China, certain accounts in the financial statements as of and for the three months ended March 31, 2005 were reclassified to be consistent with the financial statements as of and for the three months ended March 31, 2006. The previously issued financial statements as of and for the three months ended March 31, 2005 need not be restated but should include disclosures of the changes in valuation method for the same accounts.

Certain accounting principles applied before the adoption of SFAS Nos. 34 and 36 are summarized as follows:

1) Short-term investments

Short-term investments are mainly listed stocks, convertible bonds and mutual funds. These investments are carried at the lower of aggregate costs or market value. Cash dividends received are recognized as investment income in the year received but are accounted for as reductions of the carrying amount of the short-term investments if the dividends 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 listed stocks, convertible bonds and closed-end mutual funds are the average closing prices in the last month of the accounting period.

2) Long-term investments

Investments in companies in which the Corporation does not exercise significant influence over the investees are accounted for by the cost method.

Any reclassification of a long-term investment in listed stocks into 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.

3) Foreign-currency investment accounted for by the cost method

At period-end, the balances of the foreign-currency investments are remeasured at prevailing exchange rates. If the translated New Taiwan dollar amount are lower than cost, the differences are recorded as cumulative translation adjustments under shareholders' equity; if higher, no adjustment is made.

4) Derivative financial instruments

Forward exchange contracts, which are used for hedging purposes, 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 on the contract starting date and the contracted forward rate is amortized over the contract period. On the balance sheet dates, the gains or losses on the contracts are computed by multiplying the foreign-currency amounts of the contracts by the difference between the spot rates on the contract starting dates and the balance sheet date rates and are credited or charged to income.

The receivables or payables on forward contracts open as of the balance sheet date are translated at prevailing exchange rates and are netted out. The net contract receivable or payable is presented as an asset or a liability in the balance sheet.

The notional amounts of the currency option contracts, which are 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, which are used for nontrading purposes, are recorded through memorandum entries on the contract dates since there is no exchange of notional principals. The receivable or payable on a contract on each settlement date or the balance sheet date is recorded as adjustment to the interest income or expense associated with the hedged item.

Certain accounts in the financial statements as of and for the three months ended March 31, 2005 have been reclassified to be consistent with the classifications prescribed under SFAS Nos. 34 and 36. The reclassifications of the entire balances or a part of the balances of certain accounts are summarized as follows:

	<b>Before Reclassification</b>	<b>After Reclassification</b>
<u>Balance sheet</u>		
Short-term investment, net	\$ 1,767,773	\$ -
Other receivables	24,996	-
Long-term investment accounted for by the cost method	858,068	-
Long-term bonds investments	274,975	-
Accrued expenses	(1,309)	-
Financial assets at fair value through profit or loss - current	-	1,792,769
Available-for-sale financial assets - current	-	172,211
Held-to-maturity financial assets (including current and noncurrent portion)	-	274,975
Financial assets carried at cost - noncurrent	-	685,857
Financial liabilities at fair value through profit or loss - current	-	(1,309)
<u>Statement of income</u>		
Reversal of allowance for decline in value of short-term investments	345,566	-
Valuation gains on financial assets	-	345,566

Effective January 1, 2006, the Corporation adopted the recently revised SFAS No. 1 - "Conceptual Framework for Financial Accounting and Preparation of Financial Statements," SFAS No. 5 - "Long-Term Investment in Equity Securities" and SFAS No. 25 - "Business Combinations-Accounting Treatment under Purchase Method." The amendments of these Statements include the following: (1) goodwill is no longer amortized but it should be assessed for impairment, and (2) investment premiums, representing goodwill based on analysis of the acquisition costs, should be assessed for impairment instead of being amortized. The adoption of these revised Statements had no impact on net income for the three months ended March 31, 2006.

#### 4. CASH AND CASH EQUIVALENTS

	<u>March 31</u>	
	<u>2006</u>	<u>2005</u>
Time deposits	\$ 24,560,610	\$ 29,729,941
Bonds purchased under resale agreements	6,926,351	200,668
Demand deposits	1,497,579	325,674
Checking accounts	8,439	5,304
Cash on hand	100	120
Commercial paper purchased	-	6,074,278
	<u>\$ 32,993,079</u>	<u>\$ 36,335,985</u>

Overseas bank deposits as of March 31, 2006 and 2005 are summarized as follows:

	<u>March 31</u>	
	<u>2006</u>	<u>2005</u>
Luxembourg - US\$2,652 thousand in 2006 and US\$2,594 thousand in 2005	\$ 86,074	\$ 81,791
Japan - JPY248,994 thousand in 2006 and JPY124,142 thousand in 2005	68,822	36,609
Hong Kong - US\$1 thousand and HK\$8,900 thousand	37,214	-
Singapore - US\$22 thousand and JPY35,625 thousand	10,546	-
	<u>\$ 202,656</u>	<u>\$ 118,400</u>

#### 5. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial instruments held for trading as of March 31, 2006 and 2005 are summarized as follows:

	<u>March 31</u>	
	<u>2006</u>	<u>2005</u>
Financial assets		
Domestic listed stocks	\$ 2,358,672	\$ 1,593,039
Foreign listed stocks - US\$296 thousand and JPY1,957,360 thousand in 2006; US\$541 thousand, JPY114,469 thousand and KRW604,920 thousand in 2005	550,631	69,749
Mutual funds	657,991	100,000
Convertible bonds	-	4,985
Forward exchange contracts	-	24,996
	<u>\$ 3,567,294</u>	<u>\$ 1,792,769</u>
Financial liabilities		
Interest rate swap contracts	<u>\$ 73,194</u>	<u>\$ 1,309</u>

The domestic listed stocks above with carrying amount of \$20,119 thousand as of March 31, 2005 had been placed in the Centralized Securities Depository Enterprise for those investees that are applying for first-time listing on the stock exchange or OTC exchange.

The Corporation used forward exchange contracts and interest rate swap contracts in the three months ended March 31, 2006 and 2005 to manage exposures related to fluctuations of foreign exchange rate and interest rate. The purpose of such transactions, which did not meet the criteria for hedge accounting prescribed in SFAS No. 34, is to hedge market risks and cash flow risks.

As of March 31, 2006, all forward exchange contracts had expired. Outstanding forward exchange contracts as of March 31, 2005 were as follows:

Items	Currency	Maturity	Contract Amount (In Thousands)
<u>March 31, 2005</u>			
Buy US\$	NT\$ vs. US\$	May 9, 2005 - July 5, 2005	NT\$8,664,400/US\$280,000
Buy JPY	US\$ vs. JPY	April 7, 2005 - May 6, 2005	US\$165,155/JPY17,300,000

Outstanding interest rate swap contracts as of March 31, 2006 and 2005 were as follows:

Contract Amount (In Thousands)	Period	Interest Payment Rates	Interest Income Rates
<u>March 31, 2006</u>			
\$ 600,000	May 31, 2004 - March 24, 2009	1.70%	1.46%-1.52%
600,000	June 1, 2004 - March 24, 2009	1.85%	1.46%-1.52%
600,000	June 3, 2004 - March 24, 2009	1.60%	1.46%-1.52%
600,000	June 16, 2004 - March 24, 2009	3.32%-3.75%	1.46%-1.52%
300,000	July 2, 2004 - May 20, 2007	1.50%-4.77%	1.45%-1.51%
300,000	July 2, 2004 - May 20, 2007	3.32%-3.72%	1.45%-1.51%
300,000	July 2, 2004 - May 20, 2007	3.32%-3.72%	1.45%-1.51%
<u>March 31, 2005</u>			
\$ 800,000	May 31, 2004 - March 24, 2009	1.70%	1.19%-1.24%
800,000	May 31, 2004 - March 24, 2009	1.45%-1.98%	1.19%-1.24%
800,000	June 1, 2004 - March 24, 2009	1.85%	1.19%-1.24%
800,000	June 3, 2004 - March 24, 2009	1.60%	1.19%-1.24%
800,000	June 4, 2004 - March 24, 2009	-	1.19%-1.24%
800,000	June 8, 2004 - March 24, 2009	1.28%-1.81%	1.19%-1.24%
800,000	June 16, 2004 - March 24, 2009	1.33%-1.86%	1.19%-1.24%
200,000	June 17, 2004 - March 24, 2009	-	1.19%-1.24%
500,000	July 2, 2004 - May 20, 2007	1.50%	1.19%-1.23%
500,000	July 2, 2004 - May 20, 2007	1.29%-2.01%	1.19%-1.23%
500,000	July 2, 2004 - May 20, 2007	1.29%-2.01%	1.19%-1.23%

Net gains arising from financial assets held for trading were \$17,373 thousand and \$107,786 thousand for the three months ended March 31, 2006 and 2005, respectively. Net losses arising from financial liabilities held for trading were \$15,019 thousand and \$2,729 thousand for the three months ended March 31, 2006 and 2005, respectively.

Financial instruments designated at fair value through profit or loss were as follows:

	<b>March 31, 2006</b>
Financial assets	
Credit-linked notes (CLNs)	<u>\$ 103,876</u>

Other CLNs information are as follows:

CLN Issuer	Principal Amount (in Thousands)	Interest Rate	Maturity
Yuanta Assets Management Limited	US\$1,700	8.18%-8.33%	December 2006
Credit Suisse First Boston International	US\$1,500	6.33%	February 2007

Under the CLNs transaction terms, the investment can be transferred before the maturity date only through the exercise of the early redemption right by Yuanta Assets Management Limited and Credit Suisse First Boston International. The issuers will settle CLN at a price equal to the market value of the related obligation as the specific credit event occurred. On the other hand, CLN will be settled at face value on maturity, or at a certain price if the issuers exercise early redemption rights. Net gains on the CLNs, which are financial assets designated at fair value through profit or loss, was \$621 thousand for the three months ended March 31, 2006.

## 6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	<u>March 31</u>	
	2006	2005
Domestic listed stocks	\$ 184,298	\$ 172,211
Foreign listed stocks - HK\$124 thousand	<u>519</u>	<u>-</u>
	<u>\$ 184,817</u>	<u>\$ 172,211</u>

## 7. ACCOUNTS RECEIVABLE

	<u>March 31</u>	
	2006	2005
<u>Related parties</u>		
Accounts receivable	\$ 3,553,758	\$ 1,608,787
Allowance for doubtful accounts	(37,098)	(16,145)
Allowance for sales discounts	<u>(31,500)</u>	<u>(13,921)</u>
	<u>3,485,160</u>	<u>1,578,721</u>
<u>Third parties</u>		
Accounts receivable	2,688,037	1,979,961
Allowance for doubtful accounts	(33,328)	(37,729)
Allowance for sales discounts	<u>(58,500)</u>	<u>(16,079)</u>
	<u>2,596,209</u>	<u>1,926,153</u>
	<u>\$ 6,081,369</u>	<u>\$ 3,504,874</u>

## 8. INVENTORIES

	<b>March 31</b>	
	<b>2006</b>	<b>2005</b>
Finished goods	\$ 1,310,915	\$ 692,612
Work in process	5,376,782	3,761,871
Materials and supplies	<u>1,377,812</u>	<u>1,125,606</u>
	8,065,509	5,580,089
Allowance for losses	<u>(181,906)</u>	<u>(439,897)</u>
	<u>\$ 7,883,603</u>	<u>\$ 5,140,192</u>

## 9. HELD-TO-MATURITY FINANCIAL ASSETS

	<b>March 31</b>	
	<b>2006</b>	<b>2005</b>
Veutron Corp. (Ventron) - issued in 2005 (I)	\$ 80,000	\$ -
MaxEdge Electronics Corp. (MaxEdge) - issued in 2005 (I)	30,000	-
MaxEdge - issued in 2005 (II)	30,000	-
Veutron - issued in 2006 (I)	25,000	-
MaxEdge - issued in 2005 (III)	20,000	-
Veutron - issued in 2002 (II)	20,000	20,000
Veutron - issued in 2002 (I)	-	89,975
MaxEdge - issued in 2002 (II)	-	80,000
MaxEdge - issued in 2002 (I)	-	60,000
Veutron - issued in 2003 (I)	-	<u>25,000</u>
	205,000	274,975
Current portion	<u>(6,000)</u>	<u>(254,975)</u>
	<u>\$ 199,000</u>	<u>\$ 20,000</u>

Bond investments were as follows:

	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Maturity</b>
<u>Held as of March 31, 2006</u>			
Veutron - issued in 2005 (I)	\$ 80,000	3.50%	April 2009
MaxEdge - issued in 2005 (I)	30,000	3.25%	August 2008
MaxEdge - issued in 2005 (II)	30,000	3.25%	October 2008
Veutron - issued in 2006 (I)	25,000	3.50%	February 2010
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 as of March 31, 2006</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
Veutron - issued in 2003 (I)	25,000	3.50%	February 2006

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

#### 10. FINANCIAL ASSETS CARRIED AT COST - NONCURRENT

	<u>March 31</u>	
	<u>2006</u>	<u>2005</u>
Domestic unlisted common stocks	\$ 462,991	\$ 616,057
Foreign unlisted common stocks - US\$880 thousand and JPY21,670 thousand in 2006 and US\$880 thousand in 2005	34,007	27,760
Foreign unlisted preferred stocks - US\$1,333 thousand in 2006 and US\$333 thousand in 2005	42,980	10,510
Prepayment	<u>180,360</u>	<u>31,530</u>
	<u>\$ 720,338</u>	<u>\$ 685,857</u>

The above investments did not have quoted prices in an active market and their fair value could not be reliably measured. Thus, they were carried at original cost.

#### 11. EQUITY-METHOD INVESTMENTS

	<u>March 31</u>			
	<u>2006</u>	<u>% of</u>	<u>2005</u>	<u>% of</u>
	<u>Amount</u>	<u>Owner-ship</u>	<u>Amount</u>	<u>Owner-Ship</u>
Quantum Vision Corp. ("Quantum")	\$ 2,013,088	99.99	\$ 1,191,097	99.99
Li-Hsin Investment Corp. ("Li-Hsin")	812,320	99.89	655,553	99.86
Paramax Corp. ("Paramax")	657,560	99.99	431,194	99.99
Lu-Chu Development Corp. ("Lu-Chu")	584,037	27.18	242,564	13.21
Zhi-Li Investment Inc. ("Zhi-Li")	295,445	37.08	35,000	35.00
Novax Technologies, Inc. ("Novax")	280,511	24.66	162,438	18.64
Deutron Electronics Corp. ("Deutron")	153,345	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
Artrix International Inc. ("Artrix")	125,279	25.52	65,949	24.00
Smartic Technology Inc. ("Smartic")	121,084	51.00	29,410	25.00
Smart Art Corp. ("Smart Art")	119,992	48.00	-	-
Neo Solar Power Corp. ("Neo-Solar")	95,247	16.00	-	-
Deutron Japan Corp. ("Deutron-Japan")	79,635	38.98	85,250	38.98
Astel Electronics Inc. ("Astel")	78,151	40.00	-	-
Syntronix Corp. ("Syntronix")	77,666	20.97	127,150	47.04
Synage Technology Corp. ("Synage")	76,547	20.17	101,101	20.17
Tekmax Development Corp. ("Tekmax")	72,107	15.77	58,496	16.00
Zentel Electronics Corp. ("Zentel")	69,493	36.80	84,236	36.80
Signia Technologies Co., Ltd. ("Signia")	60,258	20.71	-	-
Retronix Technology Corp. ("Retronix")	50,000	25.00	-	-

(Continued)

	<b>March 31</b>			
	<b>2006</b>		<b>2005</b>	
	<b>Amount</b>	<b>% of Owner- ship</b>	<b>Amount</b>	<b>% of Owner- Ship</b>
AVAC Systems, Inc. ("AVAC")	\$ 41,128	23.31	\$ -	-
Luxchip Technology Corp. ("Luxchip")	37,966	19.00	-	-
PowerFlash Semiconductor Corp. ("PowerFlash")	30,291	32.00	38,857	32.00
Silicon Optronics, Inc. ("Silicon")	29,152	12.14	14,672	12.14
MaxEdge Electronics Corp. ("MaxEdge")	16,718	13.39	40,116	13.89
PowerGate Optical, Inc. ("PowerGate")	10,303	9.35	8,127	10.00
Maxium Technologies, Inc. ("Maxium")	-	-	100,927	30.37
Terax Communication Technologies Inc. ("Terax")	-	-	4,501	1.62
	<u>6,262,691</u>		<u>3,710,042</u>	
Prepayments				
Luxxon	-		32,571	
	<u>\$ 6,262,691</u>		<u>\$ 3,742,613</u>	

(Concluded)

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 fourth quarter of 2005, the Corporation and its subsidiaries invested in Neo-Solar, AVAC and Luxchip, which were 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; thus, this investment was accounted for by the equity method.

In May 2005, Novax merged with Maxium, with Novax as the survivor company. As a result of the merger, the Corporation owned 25% of Novax; thus, this investment was accounted for by the equity method.

In the first quarter of 2006, the Corporation invested in Signia and Retronix, which were accounted for by the equity method.

As of March 31, 2006 and 2005, the Corporation and its subsidiaries owned more than 20% of the following investees' outstanding shares. Thus, the investments were accounted for by the equity method. The combined holding percentages are summarized as follows:

	<b>March 31</b>	
	<b>2006</b>	<b>2005</b>
Lu-Chu	(Note)	22%
Novax (before the merger)	(Note)	43%
Deutron	20%	23%
Luxxon	(Note)	31%
Neo-Solar	22%	-
Tekmax	35%	32%
Luxchip	39%	-
Silicon	22%	22%
MaxEdge	48%	47%
PowerGate	27%	30%

Note: As of March 31, 2006, the Corporation alone owned more than 20% of the investees' outstanding shares, thus, the combined holding percentages were not separately disclosed.

The investment incomes (losses) recognized on the basis of unreviewed financial statements are summarized as follows:

	<b>Three Months Ended</b>	
	<b>March 31</b>	
	<b>2006</b>	<b>2005</b>
Quantum	\$ (10,468)	\$ (46,728)
Li-Hsin	(22,782)	(4,500)
Paramax	(586)	(19,915)
Smartic	(1,081)	-
Smart art	3	-
Syntronix	-	(1,143)
Zentel	(2,332)	(2,188)
PowerFlash	(272)	(1,294)
Terax	-	(962)
	<u>\$ (37,518)</u>	<u>\$ (76,730)</u>

The Corporation had controlling interests only in the above investees. Thus, the Corporation did not account for investment income or loss of the other equity-method investees for the period.

Adjustments to the long-term investment account and unrealized gains on available-for-sale financial assets, which were recognized on the basis of the changes in shareholders' equity of investees, are summarized as follows:

	<b>Three Months Ended</b>
	<b>March 31, 2006</b>
Quantum	\$ 268,811
Li-Hsin	2,691
Paramax	<u>1,620</u>
	<u>\$ 273,122</u>

The difference between the cost of the investment and the Corporation's share in investees' net assets was recognized as goodwill. The change in goodwill for the three months ended March 31, 2006 was as follow:

Item	Beginning Amount	Increase	Decrease	Ending Amount
Goodwill	\$ <u>          -</u>	\$ <u>  49,471</u>	\$ <u>          -</u>	\$ <u>  49,471</u>

## 12. PROPERTIES

Accumulated depreciation on properties was as follows:

	March 31	
	2006	2005
Buildings	\$ 1,967,057	\$ 1,596,334
Machinery and equipment	51,918,730	37,094,824
Research and development equipment	385,492	158,814
Facility equipment	8,793,559	7,112,715
Transportation equipment	8,262	6,904
Office equipment	234,629	206,789
Capital lease equipment	-	300,241
Miscellaneous equipment	<u>411,213</u>	<u>296,260</u>
	<u>\$ 63,718,942</u>	<u>\$ 46,772,881</u>

Total depreciation expenses for the three months ended March 31, 2006 and 2005 were \$4,792,523 thousand and \$3,369,535 thousand, respectively.

Information on interest capitalization is summarized as follows:

	Three Months Ended	
	March 31	
	2006	2005
Total interest expenses	\$ 238,042	\$ 177,270
Capitalized amount	20,954	25,656
Rates used in capitalizing interests	3.31%-3.46%	3.60%-3.77%

The Corporation is currently expanding its third manufacturing plant ("FAB 12B") for an estimated total cost of \$65,000,000 thousand. As of March 31, 2006, a total cost of \$41,395,708 thousand had been incurred.

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

The details of properties pledged as collateral are shown in Note 25.

### 13. DEFERRED CHARGES, NET

	March 31	
	2006	2005
Technical know-how	\$ 2,683,819	\$ 3,469,425
Computer software system	165,083	120,072
Test-run costs	104,121	169,882
Issuance costs of the convertible bonds	33,790	89,116
Patent	18,750	23,750
Others	<u>203,968</u>	<u>185,600</u>
	<u>\$ 3,209,531</u>	<u>\$ 4,057,845</u>

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

### 14. CONVERTIBLE BONDS PAYABLE

	March 31	
	2006	2005
<u>Overseas</u>		
Issued in 2001 (1) US\$19,955 thousand	\$ -	\$ 629,181
Issued in 2003 (4) US\$5,087 thousand	-	160,393
Issued in 2004 (5) US\$158,050 thousand	5,130,303	4,983,317
Issued in 2005 (6) US\$142,250 thousand in 2006 and US\$160,000 thousand in 2005	<u>4,617,435</u>	<u>5,044,800</u>
	<u>9,747,738</u>	<u>10,817,691</u>
<u>Domestic</u>		
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>
	19,747,738	10,817,691
Current portion	<u>(9,747,738)</u>	<u>(789,574)</u>
	<u>\$ 10,000,000</u>	<u>\$ 10,028,117</u>

In the second quarter of 2001, the Corporation issued five-year unsecured, zero-coupon convertible bonds (“Bonds 2001”) with an aggregate face value 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) 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 March 31, 2006, 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 bought back and canceled Bonds 2001 from the open market with face value 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 face value 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 face value. Under certain conditions, either the holders of the Bonds 2003 or the Corporation may opt for early bond redemption. As of March 31, 2006, holders of Bonds 2003 with face value 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 face value of US\$158,050 thousand. Bonds 2004 are listed on the Luxembourg Stock Exchange. They are convertible into the Corporation’s common shares or GDS at NT\$33.88 per share (at an exchange rate of US\$1.00 to NT\$33.53; conversion price is adjustable and the conversion price was NT\$24.09 per share as of March 31, 2006) 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 face value. 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 face value 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; conversion price is adjustable and the conversion price was NT\$20.83 per share as of March 31, 2006) 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 face value. Under certain conditions, either the holders of Bonds 2005A or the Corporation may opt for early bond redemption. As of March 31, 2006, holders of Bond 2005A with face value 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 face value 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 and the conversion price was NT\$20.48 per share as of March 31, 2006) 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 face value. 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 face value 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 and the conversion price was NT\$20.03 per share as of March 31, 2006) 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 face value. Under certain conditions, either the holders of Bonds 2005C or the Corporation may opt for early bond redemption.

## 15. LONG-TERM BANK LOANS

	<u>March 31</u>	
	<u>2006</u>	<u>2005</u>
Long-term secured syndicated loans (1)	\$ 2,625,000	\$ 4,375,000
Long-term secured syndicated loans (2)	4,350,000	5,800,000
Long-term secured syndicated loans (3)	15,000,000	9,000,000
Long-term secured syndicated loans (4)	8,000,000	-
Medium-to long-term loans (including commercial paper issued)	<u>1,115,000</u>	<u>1,934,167</u>
	31,090,000	21,109,167
Current portion	(7,606,667)	(3,656,667)
Unamortized discount of commercial paper issued	<u>(364)</u>	<u>(431)</u>
	<u>\$ 23,482,969</u>	<u>\$ 17,452,069</u>

The loans are payable quarterly or semiannually at varying amounts. They will be fully repaid by December 2010. Their interest rates ranged from 2.62 % to 4.95 % and from 2.69% to 5.57% for the three months ended March 31, 2006 and 2005, respectively.

The long-term secured loans were obtained from several financial institutions as syndicated loans. Under the syndicated loan agreements, the Corporation is required to maintain certain financial ratios in its annual financial statements.

The assets pledged as collateral are listed in Note 25.

## 16. PENSION PLAN

The Labor Pension Act (the "Act") took effect on July 1, 2005. Employees subject to the Labor Standards Law before July 1, 2005 were allowed to choose to be subject to the pension mechanism under this Act or to continue to be subject to the pension mechanism under the Labor Standards Law. For Corporation employees subject to the Labor Standards Law before July 1, 2005 chose to be subject to the pension mechanism under the Act, their seniority as of their respective enrollment date will not be canceled. Those hired on or after July 1, 2005 automatically become subject to the Act, which provides for a defined contribution plan. Based on the Act, the Corporation makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages, and these contributions are recognized as pension costs. Thus, the pension costs based on the Act for the three months ended March 31, 2006 were \$35,109 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 amounts equal to 2% of salaries and wages. The fund is administered by a pension fund committee and the contributions to the fund are deposited in the Central Trust of China under the committee's name. In addition, the portion of projected benefit obligation in excess of the plan assets is contributed to the fund in five-year installments.

Pension costs based on actuarial calculation in the three months ended March 31, 2006 and 2005 were \$11,831 thousand and \$19,638 thousand, respectively.

Fund balances were \$236,066 thousand and \$188,477 thousand as of March 31, 2006 and 2005, respectively.

## 17. SHAREHOLDERS' EQUITY

Under the ROC Company Law, capital surplus (excluding that from long-term investments, which cannot be used for any purpose) may only be used to offset a deficit or be transferred to capital as a stock dividend. This 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 total sum of capital surplus capitalized per annum may not exceed a certain percentage of the Corporation's paid-in capital.

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 final remainder as bonus to shareholders.

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

Under the regulations promulgated by the Securities and Futures Bureau (SFB, formerly the Securities and Futures Commission before July 1, 2004), 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 Corporation's paid-in capital. This reserve may be used to offset a deficit. In addition, when the reserve exceeds 50% of the Corporation's paid-in capital, up to the portion in excess of 25% of the paid-in capital thereof can be distributed as stock dividend.

Under the Integrated Income Tax System, which took effect on January 1, 1998, resident shareholders (including corporate shareholders) are allowed a tax credit for the income tax paid by the Corporation on earnings generated since 1998. An imputation credit account (ICA) is maintained by the Corporation to monitor the balances of the income tax paid and the tax credit allocated to each shareholder. The maximum credit available for allocation to each shareholder cannot exceed the ICA balance on the dividend distribution date.

The appropriations of earnings for 2005 and 2004 were approved in the Board of Directors' meeting on April 25, 2006 and the shareholders' meeting on April 12, 2005, respectively. The appropriations and dividend per share were as follows:

	<u>Appropriation of Earnings</u>		<u>Dividend Per Share</u> (NT\$)	
	<u>For Fiscal Year 2005</u>	<u>For Fiscal Year 2004</u>	<u>For Fiscal Year 2005</u>	<u>For Fiscal Year 2004</u>
Legal reserve	\$ 641,736	\$ 2,131,508	\$ -	\$ -
Special reserve	31,314	252	-	-
Cash dividend	3,042,429	4,167,245	0.55	0.99
Stock dividend	3,042,429	8,334,490	0.55	1.97
Employees' profit sharing - in cash	287,215	639,837	-	-
Employees' profit sharing - in stock	287,215	1,279,673	-	-
Remuneration to directors and supervisors	<u>172,329</u>	<u>575,853</u>	-	-
	<u>\$ 7,504,667</u>	<u>\$ 17,128,858</u>		

As of April 26, 2006, the date of the accompanying auditors' report, the appropriation of the 2005 earnings had not yet been resolved by the shareholders. Information on the appropriation of bonus to employees and remuneration to directors and supervisors can be accessed online through the Market Observation Post System on the Web site of the Taiwan Stock Exchange.

On April 25, 2006, the Board of Directors resolved to raise the Corporation's capital to \$90,000,000 thousand and approved the issuance of up to 600,000 thousand shares of capital stock in the form of common shares or GDS. This resolution will be submitted to the shareholders in their meeting on June 9, 2006.

## 18. EMPLOYEE STOCK OPTION

On May 28, 2001, June 28, 2002 and April 22, 2003, the Securities and Futures Commission 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 option units, respectively, with each unit representing 1,000 shares of common stock, for a total of 420,000 thousand shares for issuance. These options generally vest over a period of two years, at a certain percentage each year, from two years after the date of grant. They may be exercised within four years from two years after the date of grant. As of March 31, 2006, there were 220,821 options that 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>	
	<u>Number of Outstanding Stock Option Rights</u>	<u>Weighted-average Exercise Prices (NT\$/Per Share)</u>	<u>Number of Outstanding Stock Option Rights</u>	<u>Weighted-average Exercise Price (NT\$/Per Share)</u>	<u>Number of Outstanding Stock Option Rights</u>	<u>Weighted-average Exercise Prices (NT\$/Per Share)</u>
Three months ended <u>March 31, 2006</u>						
Beginning balance	80,048	\$ 6.84	81,081	\$ 8.70	32,178	\$13.98
Options exercised	(2,171)	7.42	(12,069)	8.70	(9,574)	13.90
Options canceled	<u>(760)</u>	6.50	<u>(514)</u>	8.70	<u>-</u>	-
Ending balance	<u>77,117</u>	6.83	<u>68,498</u>	8.70	<u>22,604</u>	14.01

	<u>2003 Plan</u>		<u>2002 Plan</u>		<u>2001 Plan</u>	
	<b>Number of Outstanding Stock Option Rights</b>	<b>Weighted-average Exercise Prices (NT\$/Per Share)</b>	<b>Number of Outstanding Stock Option Rights</b>	<b>Weighted-average Exercise Price (NT\$/Per Share)</b>	<b>Number of Outstanding Stock Option Rights</b>	<b>Weighted-Average Exercise Prices (NT\$/Per Share)</b>
Three months ended March 31, 2005						
Beginning balance	111,090	\$ 8.27	87,527	\$10.75	55,132	\$17.48
Options exercised	-	-	(4,893)	10.75	(3,322)	17.42
Options canceled	<u>(491)</u>	7.95	<u>(555)</u>	10.75	<u>(368)</u>	17.40
Ending balance	<u>110,599</u>	8.27	<u>82,079</u>	10.75	<u>51,442</u>	17.49

The number of shares and exercise prices of outstanding options have been adjusted to reflect the appropriations of dividends, stock bonuses and issuance of capital stock specified under the Plans.

As of March 31, 2006, the outstanding stock options is as follows:

<b>Exercise Price (NT\$/Per Share)</b>	<u>Options Outstanding</u>			<u>Options Exercisable</u>	
	<b>Number Outstanding (Per Option)</b>	<b>Weighted Average Remaining Contractual Life (in Years)</b>	<b>Weighted Average Exercise Price (Per Share)</b>	<b>Number Exercisable (Per Option)</b>	<b>Weighted Average Exercise Price (Per Share)</b>
\$13.90	21,638	1.33	\$13.90	21,638	\$13.90
17.60	565	1.99	17.60	565	17.60
14.80	401	2.12	14.80	151	14.80
8.70	68,498	2.49	8.70	32,028	8.70
6.50	73,779	3.07	6.50	14,569	6.50
12.10	820	3.25	12.10	195	12.10
14.10	227	3.33	14.10	60	14.10
11.50	1,134	3.53	11.50	550	11.50
11.60	239	3.65	11.60	90	11.60
14.20	418	3.77	14.20	90	14.20
22.20	261	3.98	22.20	131	22.20
27.80	<u>239</u>	4.05	27.80	<u>-</u>	-
	<u>168,219</u>			<u>70,067</u>	

In accordance with the interpretations issued by the Accounting Research and Development Foundation of the Republic of China, the Corporation uses the intrinsic value method to evaluate the compensation cost of employee stock options granted on or after January 1, 2004. The compensation cost recognized for the three months ended March 31, 2006 and 2005 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 the compensation cost, the assumptions and pro forma results of the Corporation for the three months ended March 31, 2006 and 2005 would have been as follows:

Method:	Black-Scholes model	
Assumptions:		
Risk-free interest rate	3.00%-3.86%	
Expected life (in years)	6	
Expected stock price volatility	86.61%-90.10%	
Expected dividend yield	-	
Fair value per option (NT\$/thousand shares)	<u>\$13,535-\$26,369</u>	
	<b>Three Months Ended</b>	
	<b>March 31</b>	
	<b>2006</b>	<b>2005</b>
Net income:		
Net income as reported	\$ 1,013,433	\$ 2,169,774
Pro forma net income	<u>\$ 1,012,611</u>	<u>\$ 2,168,044</u>
Earnings per share(EPS, NT\$):		
Basic EPS as reported	<u>\$0.18</u>	<u>\$0.42</u>
Pro forma basic EPS	<u>\$0.18</u>	<u>\$0.42</u>
Diluted EPS as reported	<u>\$0.15</u>	<u>\$0.38</u>
Pro forma diluted EPS	<u>\$0.15</u>	<u>\$0.38</u>

The average number of shares outstanding for EPS calculation was adjusted retroactively for the issuance of stock dividend and stock bonuses. The retroactive adjustment caused the pro forma basic and diluted EPS after income tax for the three months ended March 31, 2005 to decrease from NT\$0.52 to NT\$0.42 and from NT\$0.47 to NT\$0.38, respectively.

## 19. TREASURY STOCK

(Shares in Thousands)

Purpose of Purchase	Beginning Shares	Increase	Decrease	Ending Shares
<u>Three months ended March 31, 2006</u>				
For subsequent transfer to employees	84,100	-	-	84,100
Parent's issued shares held by subsidiaries	<u>3,992</u>	<u>1,582</u>	-	<u>5,574</u>
	<u>88,092</u>	<u>1,582</u>	-	<u>89,674</u>
<u>Three months ended March 31, 2005</u>				
For subsequent transfer to employees	45,069	-	33,069	12,000
Parent's issued shares held by subsidiaries	<u>3,334</u>	-	-	<u>3,334</u>
	<u>48,403</u>	-	<u>33,069</u>	<u>15,334</u>

As of March 31, 2006 and 2005, the information about the Corporation's issued shares held by the subsidiaries is as follows:

Company	Shares (Thousand)	Original Carrying Value (in Thousands)	Market Value (in Thousands)
<u>March 31, 2006</u>			
Li-Hsin	3,992	\$ 95,561	\$ 75,849
Smartic	2,330	<u>46,600</u>	<u>44,270</u>
		<u>\$ 142,161</u>	<u>\$ 120,119</u>
<u>March 31, 2005</u>			
Li-Hsin	3,334	<u>\$ 95,561</u>	<u>\$ 83,951</u>

On January 1, 2002, the Corporation accounted for its issued shares amounting to \$53,820 thousand and held by Li-Hsin as treasury stock. As of January 25, 2006, Smartic became one of the Corporation's subsidiaries. Thus, the Corporation accounted for its shares held by Smartic as treasury stock in accordance with its stock ownership percentage of Smartic, which resulted in an increase of 1,582 thousand treasury shares with a carrying amount of \$33,141 thousand.

For the three months ended March 31, 2005, the Corporation transferred 7,321 thousand treasury shares to employees at a price of NT\$24.9 per share. 25,748 thousand treasury shares were retired on March 15, 2005.

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 on June 24, 2005, under the revised Company Law, the holders, majority-owned subsidiaries holding the Corporation's shares are no longer entitled to the right to vote.

## 20. INCOME TAX EXPENSE

- a. A reconciliation of the income tax currently payable for the three months ended March 31, 2006 and 2005 was as follows:

	<b>Three Months Ended March 31</b>	
	<b>2006</b>	<b>2005</b>
Tax on pretax income at statutory rate (25%)	\$ 251,645	\$ 568,040
Tax-exempt income	-	(97,267)
Permanent differences	7,197	(54,240)
Temporary differences	<u>(350,076)</u>	<u>(297,899)</u>
Income tax currently payable	<u>\$ (91,234)</u>	<u>\$ 118,634</u>

b. Income tax benefit (expense) for the three months ended March 31, 2006 and 2005 was as follows:

	<b>Three Months Ended</b>	
	<b>March 31</b>	
	<b>2006</b>	<b>2005</b>
Income tax currently payable	\$ -	\$ (118,634)
Tax credits	-	118,634
Net change in deferred income tax assets and liabilities		
Loss carryforwards	91,234	-
Investment tax credits	407,878	503,023
Temporary differences	(350,076)	(296,515)
Valuation allowance	(174,499)	(304,376)
Tax on interest income on short-term bills	<u>(605)</u>	<u>(4,518)</u>
	<u>\$ (26,068)</u>	<u>\$ (102,386)</u>
Cumulative effect of changes in accounting principles	<u>\$ 16,388</u>	<u>\$ -</u>

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

	<b>March 31</b>	
	<b>2006</b>	<b>2005</b>
<b>Current</b>		
Deferred income tax assets		
Investment tax credits	\$ 700,480	\$ 780,994
Loss carryforwards	-	596,371
Unrealized provision for loss on inventories	45,476	109,974
Others	140,656	80,048
Deferred income tax liabilities	<u>(690)</u>	<u>(257)</u>
	<u>\$ 885,922</u>	<u>\$ 1,567,130</u>
<b>Noncurrent</b>		
Deferred income tax assets		
Investment tax credits	\$ 11,172,730	\$ 7,318,668
Loss carryforwards	503,895	15,922
Others	180,986	137,223
Deferred income tax liabilities		
Depreciation	(3,595,120)	(2,307,729)
Unrealized foreign exchange gain	<u>(89,206)</u>	<u>(188,436)</u>
	8,173,285	4,975,648
Valuation allowance	<u>(6,826,845)</u>	<u>(5,208,177)</u>
	<u>\$ 1,346,440</u>	<u>\$ (232,529)</u>

d. Information on the Integrated Income Tax System is as follows:

Shareholders' imputed tax credits	<u>\$ 40,828</u>	<u>\$ 58,012</u>
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The expected and actual tax creditable ratios for 2005 and 2004 were 0.39% and 0.31%, respectively.

The imputation credits allocated to the shareholders are based on the balance of the imputation credit account (ICA) as of the date of dividend distribution. The expected creditable ratio for 2005 may be adjusted depending on the ICA balance on the date of dividend distribution.

- e. The unappropriated retained earnings as of March 31, 2006 and 2005 had no unappropriated earnings generated before 1998.
- f. The effective tax rate for deferred income taxes as of March 31, 2006 and 2005 was 25%.
- g. As of March 31, 2006, the tax credits and loss carryforwards were as follows:

Regulatory Basis of Tax Credits	Items	Total Creditable Amounts	Remaining Creditable Amounts	Expiry Year
Income Tax Law	Loss carryforwards	\$ 412,661	\$ 412,661	2008
		<u>91,234</u>	<u>91,234</u>	2011
		<u>\$ 503,895</u>	<u>\$ 503,895</u>	
Statute for Upgrading Industries	Purchase of machinery and equipment	\$ 418,190	\$ 418,190	2006
		3,462,047	3,462,047	2007
		2,756,756	2,756,756	2008
		2,921,058	2,921,058	2009
		<u>1,221,711</u>	<u>1,221,711</u>	2010
		<u>\$ 10,779,762</u>	<u>\$ 10,779,762</u>	
Statute for Upgrading Industries	Research and development expenditures	\$ 278,527	\$ 278,527	2006
		53,111	53,111	2007
		261,992	261,992	2008
		380,781	380,781	2009
		<u>101,034</u>	<u>101,034</u>	2010
		<u>\$ 1,075,445</u>	<u>\$ 1,075,445</u>	
Statute for Upgrading Industries	Personnel training expenditures	\$ 2,803	\$ 2,803	2006
		3,058	3,058	2007
		2,727	2,727	2008
		3,833	3,833	2009
		<u>526</u>	<u>526</u>	2010
		<u>\$ 12,947</u>	<u>\$ 12,947</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 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 2003 had been examined by the tax authorities. However, the Corporation is contesting the tax authorities' assessment of its 1998, 2000 and 2001 returns. The Corporation believes that any additional assessment will not have a material effect on its financial statements.
- j. Under the Alternative Minimum Tax (AMT) system, which took effect on January 1, 2006, the Corporation should pay at least the minimum income tax calculated in accordance with the AMT system annually. This requirement was taken into consideration in evaluating whether the unused deferred income tax assets could be realized.

## 21. LABOR COST, DEPRECIATION AND AMORTIZATION EXPENSE

	Three Months Ended March 31					
	2006			2005		
	Classified as Cost of Sales	Classified as Operating Expenses	Total	Classified as Cost of Sales	Classified as Operating Expenses	Total
Labor cost						
Salary	\$ 776,940	\$ 223,504	\$ 1,000,444	\$ 510,707	\$ 242,795	\$ 753,502
Labor/health insurance	45,701	11,114	56,815	30,264	13,223	43,487
Pension	35,763	11,177	46,940	13,385	6,253	19,638
Others	42,351	7,835	50,186	30,386	10,541	40,927
	<u>\$ 900,755</u>	<u>\$ 253,630</u>	<u>\$ 1,154,385</u>	<u>\$ 584,742</u>	<u>\$ 272,812</u>	<u>\$ 857,554</u>
Depreciation	<u>\$ 4,717,291</u>	<u>\$ 75,232</u>	<u>\$ 4,792,523</u>	<u>\$ 3,316,536</u>	<u>\$ 52,999</u>	<u>\$ 3,369,535</u>
Amortization	<u>\$ 34,914</u>	<u>\$ 362,715</u>	<u>\$ 397,629</u>	<u>\$ 38,426</u>	<u>\$ 270,444</u>	<u>\$ 308,870</u>

## 22. EARNINGS PER SHARE (EPS)

	Three Months Ended March 31			
	2006		2005	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
Basic EPS (NT\$)				
Income before cumulative effect of changes in accounting principles	\$ 0.18	\$ 0.17	\$ 0.44	\$ 0.42
Cumulative effect of changes in accounting principles	-	0.01	-	-
Income for the period	<u>\$ 0.18</u>	<u>\$ 0.18</u>	<u>\$ 0.44</u>	<u>\$ 0.42</u>
Diluted EPS (NT\$)				
Income before cumulative effect of change in accounting principles	\$ 0.15	\$ 0.14	\$ 0.40	\$ 0.38
Cumulative effect of changes in accounting principles	-	0.01	-	-
Income for the period	<u>\$ 0.15</u>	<u>\$ 0.15</u>	<u>\$ 0.40</u>	<u>\$ 0.38</u>

The numerators and denominators used in calculating basic and diluted EPS were as follows:

	<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>Three months ended March 31, 2006</u>					
Net income	\$ 1,006,581	\$ 1,013,433			
Basic EPS					
Income of common shareholders	\$ 1,006,581	\$ 1,013,433	5,515,842	\$ 0.18	\$ 0.18
Effect of dilutive securities					
Convertible bonds	-	-	932,443		
Stock options	-	-	101,476		
Diluted EPS					
Income of common and potential common shareholders	\$ 1,006,581	\$ 1,013,433	6,549,761	\$ 0.15	\$ 0.15
<u>Three months ended March 31, 2005</u>					
Net income	\$ 2,272,160	\$ 2,169,774			
Basic EPS					
Income of common shareholders	\$ 2,272,160	\$ 2,169,774	5,119,321	\$ 0.44	\$ 0.42
Effect of dilutive securities					
Convertible bonds	-	-	360,402		
Stock options	-	-	169,392		
Diluted EPS					
Income of common and potential common shareholders	\$ 2,272,160	\$ 2,169,774	5,649,115	\$ 0.40	\$ 0.38

The average number of shares outstanding for EPS calculation was adjusted retroactively for the issuance of stock dividends and stock bonuses. The retroactive adjustment caused the basic and diluted EPS after income tax for the three months ended March 31, 2005 to decrease from NT\$0.52 to NT\$0.42 and from NT\$0.47 to NT\$0.38, respectively.

## 23. DISCLOSURES FOR FINANCIAL INSTRUMENTS

a. Fair values of financial instruments were as follows:

	March 31			
	2006		2005	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<u>Nonderivative instruments</u>				
Assets				
Cash and cash equivalents	\$ 32,993,079	\$ 32,993,079	\$ 36,335,985	\$ 36,335,985
Financial assets at fair value				
through profit or loss - current	3,671,170	3,671,170	1,792,769	1,792,769
Available-for-sale financial assets				
- current	184,817	184,817	172,211	172,211
Held-to-maturity financial assets				
(including current portion)	205,000	205,000	274,975	274,975
Financial assets carried at cost -				
noncurrent	720,338	-	685,857	-
Accounts receivable	6,081,369	6,081,369	3,504,874	3,504,874
Other receivables	229,165	229,165	300,986	300,986
Restricted deposits	1,353,617	1,353,617	2,356,027	2,356,027
Liabilities				
Accounts payable and payable on				
equipment	19,464,019	19,464,019	22,524,875	22,524,875
Convertible bonds payable				
(including current portion)	19,747,738	20,389,112	10,817,691	10,988,584
Obligation under capital lease				
(including current portion)	-	-	123,833	123,833
Long-term bank loans (including				
current portion)	31,089,636	31,089,636	21,108,736	21,108,736
<u>Derivative instruments</u>				
Assets				
Forward exchange contracts	-	-	24,996	(14,086)
Liabilities				
Interest rate swap contracts	73,194	73,194	1,309	122,220

Effective January 1, 2006, the Corporation adopted Statement of Financial Accounting Standards No. 34. -“Accounting for Financial Instruments.” Before this change, certain derivative instruments were not recognized in the financial statements. The effect of this accounting change is disclosed in Note 3.

b. Methods and assumptions used in determining fair values of financial instruments

- 1) The carrying amounts reported in the balance sheets for cash and cash equivalents, accounts receivable, other receivables, restricted deposits, accounts payable and payable on equipment approximate their fair values.
- 2) Fair values of financial instruments at fair value through profit or loss, available-for-sale and held-to-maturity financial assets are based on their quoted prices in active markets. For those instruments not traded in active markets, their fair values are determined using valuation techniques incorporating estimates and assumptions that are consistent with prevailing market conditions.

In applying discounted cash flow analysis, the Corporation uses discount rates approximating the prevailing return rates of financial instruments under similar conditions, such as the credit quality of the debtors, the remaining periods over which the contractual interest rates are fixed, the remaining terms to repayment of principals and the currency to be used for payments. Discount rates used to evaluate held-to-maturity financial assets were 3.25% to 3.50% and 3.50% to 4.48% for the three months ended March 31, 2006 and 2005, respectively.

Fair values of derivatives were determined using valuation techniques incorporating estimates and assumptions consistent with prevailing market conditions.

- 3) 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 with floating interest rates is equivalent to their carrying value. Fair value of convertible bonds payable is based on quoted market prices. Fair value of capital lease obligation is determined using the present value of forecasted cash flows discounted at interest rates for obtaining equipment under capital lease.
- c. Fair values of financial assets and liabilities, based on quoted market prices or valuation techniques, were as follows:

	<u>Quoted Market Prices</u>		<u>Valuation Techniques</u>	
	<u>March 31</u>		<u>March 31</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
<u>Nonderivative instruments</u>				
Assets				
Financial assets at fair value through profit or loss	\$ 3,567,294	1,767,773	\$ 103,876	\$ -
Available-for-sale financial assets				
- current	184,817	172,211	-	-
Held-to-maturity financial assets (including current portion)	-	-	205,000	274,975
Liabilities				
Convertible bonds payable (including current portion)	20,389,112	10,988,584	-	-
Obligation under capital lease (including current portion)	-	-	-	123,833
Long-term bank loans (including current portion)	-	-	31,089,636	21,108,736
<u>Derivative instruments</u>				
Assets				
Forward exchange contracts	-	-	-	(14,086)
Liabilities				
Interest rate swap contracts	-	-	73,194	122,220

- d. Loss recognized for the changes in fair value of financial instruments using valuation techniques was \$7,752 thousand for the three months ended March 31, 2006.

- e. As of March 31, 2006 and 2005, financial assets (liabilities) exposed to fair value interest rate risk and cash flow interest rate risk were as follows:

	<u>March 31</u>	
	<u>2006</u>	<u>2005</u>
Fair value interest rate risk		
Financial assets	\$ 33,034,642	\$ 38,640,874
Financial liabilities	(20,070,568)	(11,192,402)
Cash flow interest rate risk		
Financial assets	1,612,391	325,674
Financial liabilities	(30,840,000)	(20,859,167)

- f. As of March 31, 2006 and 2005, interest income (expenses) arising from the financial assets (liabilities), excluding those at fair value through profit and loss, were as follows:

	<u>Three Months Ended</u>	
	<u>March 31</u>	
	<u>2006</u>	<u>2005</u>
Total interest income	\$ 131,996	\$ 129,623
Total interest expenses	(230,768)	(174,533)

The Corporation recognized an unrealized loss of \$101,982 thousand in shareholders' equity for the changes in fair value of available-for-sale financial assets for the three months ended March 31, 2006.

- g. Financial risks

- 1) Market risk. The financial instruments held by the Corporation are exposed to interest rate, foreign exchange rate and price risks.

Interest rates on bond investments and interest rate swap contracts were already determined. Thus, interest rate fluctuations would result in changes in fair values of these financial instruments.

Fair values of credit-linked notes (CLNs) denominated in foreign currency and forward exchange contracts are influenced by exchange rate fluctuations.

Fair values of available-for-sale and held-for-trading security investments are affected by fluctuations of quoted prices.

- 2) Credit risk. The Corporation will incur a loss if the counter-parties or third-parties breach the contracts, which are affected by such factors as the concentrations of counter parties, components of financial instruments, contract amounts, and the receivables on the contracts. Thus, contracts with positive fair values on the balance sheet date are evaluated for credit risk. As of March 31, 2006 and 2005, credit risks of the financial assets, except those approximate to their carrying values, were as follows:

	<u>March 31</u>			
	<u>2006</u>		<u>2005</u>	
	<u>Carrying</u>	<u>Credit</u>	<u>Carrying</u>	<u>Credit</u>
	<u>Amount</u>	<u>Risk</u>	<u>Amount</u>	<u>Risk</u>
<u>Held-for-trading financial assets</u>				
Forward exchange contracts	\$ -	\$ -	\$ 24,996	\$ 91,565

(Continued)

	<b>March 31</b>			
	<b>2006</b>		<b>2005</b>	
	<b>Carrying Amount</b>	<b>Credit Risk</b>	<b>Carrying Amount</b>	<b>Credit Risk</b>
<u>Financial assets designated at fair value through profit or loss</u>				
CLN	\$ 103,876	\$ 103,876	\$ -	\$ -
<u>Held-to-maturity financial assets</u>				
Corporate bond	<u>205,000</u>	<u>205,000</u>	<u>274,975</u>	<u>274,975</u>
	<u>\$ 308,876</u>	<u>\$ 308,876</u>	<u>\$ 299,971</u>	<u>\$ 366,540</u> (Concluded)

- 3) Liquidity risk. The Corporation has sufficient operating capital to meet the cash demand upon settlement of financial instruments. Therefore, the cash flow risk is low.

Investments in bonds, CLNs and financial assets carried at cost do not have an active market. Thus, the liquidity risk of these investments is material. On the other hand, held-for-trading and available-for-sale security investments are expected to be settled rapidly at amounts approximating their fair values in active markets.

All forward exchange contracts have been expired and the interest rates of interest rate swap contracts are already determined. Thus, the fund-raising and cash flow risks are not material.

- 4) Cash flow interest rate risk. Long-term bank loans mainly bear floating interest rates. Thus, the fluctuations of market interest rates will result in changes in the Corporation's future cash flows.

## 24. RELATED PARTY TRANSACTIONS

- a. Related parties

<u>Related Party</u>	<u>Relationship with the Corporation</u>
Powertech Technology Inc. ("Powertech")	Quantum, a subsidiary of the Corporation, is its director
eMemory Technology Inc. ("eMemory")	Same chairman
PowerWorld Capital Management Corp. ("PowerWorld Management")	Same chairman
Veutron	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
Zentel	Subsidiary
Tekmax	Equity-method investee
Novax	Equity-method investee
Deutron	Equity-method investee
Syntronix	Equity-method investee
Silicon	Equity-method investee
Others	Related parties with which the Corporation had no material transactions. Please see Note 27.

Note 1: The Company started to be the Corporation's related parties after March 31, 2005; the transactions made as of and for the three months ended March 31, 2005 are disclosed only for reference.

Note 2: The Company ceased to be the Corporation's related parties before March 31, 2006; the transactions made as of and for the three months ended March 31, 2006 are disclosed only for reference.

b. Related-party transactions:

	<b>Three Months Ended March 31</b>			
	<b>2006</b>		<b>2005</b>	
<u>For the period</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
1) Net sales				
Elpida	\$ 2,642,262	18	\$ 1,686,199	13
Deutron	1,713,511	12	3,298,162	26
Novax	1,109,477	8	589,347	5
Elpida-Taiwan	1,014,250	7	48,691	-
Renesas-Taiwan	587,017	4	-	-
Syntronix	168,885	1	13,617	-
Silicom	47,930	-	34,328	-
Zentel	28,550	-	-	-
eMemory	15,073	-	2,516	-
Others	<u>1,869</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 7,328,824</u>	<u>50</u>	<u>\$ 5,672,860</u>	<u>44</u>
2) Purchase				
Renesas-Taiwan	<u>\$ 194,331</u>	<u>6</u>	<u>\$ 38,100</u>	<u>1</u>
3) Technical know-how and royalty				
Renesas	\$ 83,590	25	\$ 88,129	11
Others	<u>16,839</u>	<u>5</u>	<u>-</u>	<u>-</u>
	<u>\$ 100,429</u>	<u>30</u>	<u>\$ 88,129</u>	<u>11</u>
4) Manufacturing expenses - subcontract costs, indirect materials, expensed properties, repairs and maintenance, etc.				
Powertech	\$ 1,124,028	10	\$ 392,545	5
Others	<u>389</u>	<u>-</u>	<u>7,207</u>	<u>-</u>
	<u>\$ 1,124,417</u>	<u>10</u>	<u>\$ 399,752</u>	<u>5</u>

(Continued)

	<b>Three Months Ended March 31</b>			
	<b>2006</b>		<b>2005</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
5) General and administrative expenses				
Tekmax	\$ 8,573	3	\$ -	-
PowerWorld Management	7,680	2	-	-
Others	<u>2,193</u>	<u>1</u>	<u>301</u>	<u>-</u>
	<u>\$ 18,446</u>	<u>6</u>	<u>\$ 301</u>	<u>-</u>
6) Research and development expenses				
Elpida	\$ 94,667	19	\$ -	-
Renesas	24,350	5	-	-
Syntronix	6,027	1	15,000	4
Zentel	3,215	1	13,204	4
Others	<u>5,816</u>	<u>1</u>	<u>1,873</u>	<u>-</u>
	<u>\$ 134,075</u>	<u>27</u>	<u>\$ 30,077</u>	<u>8</u>
<u>At end of period</u>				
1) Accounts receivable, net				
Elpida	\$ 1,085,451	18	\$ 422,942	12
Deutron	1,016,078	17	932,576	27
Novax	641,187	11	195,316	6
Elpida-Taiwan	391,574	6	-	-
Renesas-Taiwan	223,464	4	-	-
Syntronix	74,685	1	4,338	-
Zentel	19,825	-	-	-
Silicon	18,515	-	15,740	-
eMemory	12,510	-	2,708	-
Others	<u>1,871</u>	<u>-</u>	<u>5,101</u>	<u>-</u>
	<u>\$ 3,485,160</u>	<u>57</u>	<u>\$ 1,578,721</u>	<u>45</u>
2) Accounts payable				
Powertech	\$ 1,220,913	18	\$ 350,800	7
Renesas-Taiwan	<u>98,295</u>	<u>1</u>	<u>18,918</u>	<u>-</u>
	<u>\$ 1,319,208</u>	<u>19</u>	<u>\$ 369,718</u>	<u>7</u>
3) Accrued expenses				
Elpida	\$ 552,800	25	\$ -	-
eMemory	22,690	1	-	-
Zentel	14,386	1	13,865	1
Syntronix	12,605	1	-	-
Others	<u>14,404</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 616,885</u>	<u>28</u>	<u>\$ 13,865</u>	<u>1</u>

(Concluded)

The Corporation also purchased (sold) the following stocks and bonds from (to) related parties for the three months ended March 31, 2006 and 2005:

1) Stocks

<b>Related Parties</b>	<b>Investee</b>	<b>Shares Purchased (Sold) (in Thousands)</b>	<b>Costs (Proceeds)</b>	<b>Profit (Loss)</b>
<u>2006</u>				
Deutron	Syntronix	(600)	\$ (16,800)	\$ 9,454

2) Bonds

<b>Related Parties</b>	<b>Investee</b>	<b>Units Purchased (Matured)</b>	<b>Amount</b>	<b>Rate</b>
<u>2005</u>				
Veutron	Veutron Bonds	(5)	\$ (25,000)	3.50%
Veutron	Veutron Bonds	5	\$ 25,000	3.50%

The stocks sold to Deutron were based on specifically negotiated price.

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

The terms of the sales made to Novax and Deutron were to be paid on the 45th day after the month of shipment.

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

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

## 25. PLEDGED OR MORTGAGED ASSETS

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

	<u>March 31</u>	
	<u>2006</u>	<u>2005</u>
Properties, net	\$ 46,932,730	\$ 39,333,394
Restricted deposit	1,353,617	2,356,027
Accounts receivable	433,782	235,510
	<u>\$ 48,720,129</u>	<u>\$ 41,924,931</u>

## 26. COMMITMENTS AND CONTINGENCIES

- a. Under a patent license agreement made with Company A 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 Company B, 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 Company C on products using DRAM technologies in their manufacture. Under the agreement, the Corporation should reserve a certain percentage of production capacity for Company C.
- d. In August 2003 and March 2005, the Corporation entered into license and technology transfer agreements with Company C. Under the agreements, the Corporation should pay Company C, 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 Companies D and E. Under the agreements, the Corporation should pay Companies D and E royalty at an agreed percentage of the selling prices of the licensed products over 5 years after the technology transfer.
- f. Under a patent license agreement made with Company F in October 2003, the Corporation should pay royalty annually for 5 years from 2003.
- g. Under a product design and license agreement on DDR II products with Company G 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 on DRAM products with Company H 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 Company I 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 Company I.
- j. Under a non-recurring engineering agreement with Company J 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 Company K 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 in the second quarter of 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 be developed, in return, a certain amount of royalty should be paid by MXIC.

- m. In February 2006, the Corporation entered into license and technology transfer agreement on flash memory products with Company G. Under the agreement, the Corporation should pay Company G a certain amount of license fee and royalty at an agreed percentage of the selling prices of the licensed products.
- n. Unused letters of credit amounted to approximately US\$54,805 thousand, JPY986,307 thousand and € 150 thousand as of March 31, 2006.
- o. The Corporation leases several parcels of land from the Science-Based Industrial Park Administration under renewable operating leases agreements expiring on various dates from March 2015 to December 2025.

As of March 31, 2006, future lease payments were as follows:

<b>Year</b>	<b>Amount</b>
2006 (2 <sup>nd</sup> to 4 <sup>th</sup> quarter)	\$ 53,341
2007	71,122
2008	71,122
2009	71,122
2010	71,122
2011	71,122
2012 and thereafter	<u>442,424</u>
	<u>\$ 851,375</u>

## 27. ADDITIONAL DISCLOSURES

Except for the following, the Corporation had no other significant transactions, 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. Total purchase from or sale to related parties amounting to at least \$100 million or 20% of the paid-in capital: Table 3 (attached)
- d. Receivables from related parties amounting to at least \$100 million or 20% of the paid-in capital: Table 4 (attached)
- e. Names, locations, and related information of investees on which the Corporation exercises significant influence: Table 5 (attached)

## POWERCHIP SEMICONDUCTOR CORPORATION AND INVESTEEES

## MARKETABLE SECURITIES HELD

MARCH 31, 2006

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

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	March 31, 2006				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	Investment accounted for using equity method	179,990	\$ 2,013,088	99.99	\$ 2,018,304	Note 1
	Li-Hsin Investment Corp.	Subsidiary	Investment accounted for using equity method	133,850	812,320	99.89	889,291	Note 1
	Paramax Corp.	Subsidiary	Investment accounted for using equity method	83,994	657,560	99.99	660,349	Note 1
	Lu-Chu Development Corp.	Investee	Investment accounted for using equity method	63,499	584,037	27.18	584,037	Note 2
	Zhi-Li Investment Corp.	Investee	Investment accounted for using equity method	29,664	295,445	37.08	295,445	Note 2
	Novax Technologies, Inc.	Investee	Investment accounted for using equity method	24,658	280,511	24.66	280,511	Note 2
	Deutron Electronics Corp.	Investee	Investment accounted for using equity method	4,998	153,345	9.78	153,345	Note 2
	Optimicro Corp.	Investee	Investment accounted for using equity method	14,700	141,279	29.40	141,279	Note 2
	Luxxon Technology Corp.	Investee	Investment accounted for using equity method	20,733	134,089	20.73	134,089	Note 2
	Artrix International Inc.	Investee	Investment accounted for using equity method	12,760	125,279	25.52	125,279	Note 2
	Smartic Technology Inc.	Subsidiary	Investment accounted for using equity method	15,300	121,084	51.00	144,790	Note 1
	Smart Art Corp.	Subsidiary	Investment accounted for using equity method	12,000	119,992	48.00	119,992	Note 1
	Neo Solar Power Corp.	Investee	Investment accounted for using equity method	9,600	95,247	16.00	95,247	Note 2
	Deutron Japan Corp.	Investee	Investment accounted for using equity method	2,891	79,635	38.98	79,635	Note 2
	Astel Electronics Corp.	Investee	Investment accounted for using equity method	8,000	78,151	40.00	78,151	Note 2
	Syntronix Corp.	Investee	Investment accounted for using equity method	6,390	77,666	20.97	77,666	Note 2
	Synage Technology Corp.	Investee	Investment accounted for using equity method	10,084	76,547	20.17	76,547	Note 2
	Tekmax Development Corp.	Investee	Investment accounted for using equity method	5,520	72,107	15.77	72,107	Note 2
	Zentel Electronics Corp.	Subsidiary	Investment accounted for using equity method	9,200	69,493	36.80	82,748	Note 1
	Signia Technologies Co., Ltd.	Investee	Investment accounted for using equity method	4,980	60,258	20.71	60,258	Note 2
	Retronix Technology Corp.	Investee	Investment accounted for using equity method	5,000	50,000	25.00	50,000	Note 2
	AVAC Systems, Inc.	Investee	Investment accounted for using equity method	4,000	41,128	23.31	41,128	Note 2
	Luxchip Technology Corp.	Investee	Investment accounted for using equity method	3,800	37,966	19.00	37,966	Note 2
	PowerFlash Semiconductor Corp.	Subsidiary	Investment accounted for using equity method	4,160	30,291	32.00	30,353	Note 1
	Silicon Optronics, Inc.	Investee	Investment accounted for using equity method	1,700	29,152	12.14	29,152	Note 2
	MaxEdge Electronics Corp.	Investee	Investment accounted for using equity method	4,671	16,718	13.39	16,718	Note 2
	PowerGate Optical, Inc.	Investee	Investment accounted for using equity method	1,870	10,303	9.35	10,303	Note 2
	Optimax Technology Corp.	Corporation is its director	Available-for-sale financial assets	5,105	184,298	1.04	184,298	-
	China National Building Material Company Limited	-	Available-for-sale financial assets	24	366	-	366	-
Golden Eagle Retail Group Limited	-	Available-for-sale financial assets	8	129	-	129	-	
Hunan Nonferrous Metals Corporation Limited	-	Available-for-sale financial assets	2	24	-	24	-	
Jade Pacific Corp.	-	Financial assets carried at cost	250	211	1.35	211	Note 2	
Phitech Corp.	-	Financial assets carried at cost	305	1,552	1.27	1,552	Note 2	
Asia Pacific Broadband Telecommunications Co., Ltd.	-	Financial assets carried at cost	12,000	114,635	0.18	114,635	Note 2	
eMemory Technology Inc.	Same chairman	Financial assets carried at cost	2,648	28,961	7.90	28,961	Note 2	
Advanced Chip Engineering Technology Inc.	-	Financial assets carried at cost	1,891	18,914	2.94	18,914	Note 2	

(Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	March 31, 2006				Note
				Shares (Thousands/Units) (Note 7)	Carrying Value	Percentage of Ownership (%)	Market Value or Net Asset Value	
	Universal Venture Fund, Inc.	Same chairman	Financial assets carried at cost	3,810	\$ 38,093	4.76	\$ 38,093	Note 2
	Lightsonic Optoelectronics Inc.	Same chairman	Financial assets carried at cost	1,700	12,252	1.83	12,252	Note 2
	Besteam Technology Inc.	-	Financial assets carried at cost	6,430	58,454	9.84	58,454	Note 2
	TwinMOS Technologies Inc.	-	Financial assets carried at cost	2,757	23,109	1.34	23,109	Note 2
	Great Taipei Broadband Co., Ltd.	Corporation is its director	Financial assets carried at cost	2,500	22,693	1.67	22,693	Note 2
	Area East Technology Corp.	-	Financial assets carried at cost	1,300	11,692	18.81	11,692	Note 2
	DRAMeXchange Tech. Inc.	-	Financial assets carried at cost	330	3,089	3.59	3,089	Note 2
	Taiwan Liposome Co., Ltd.	Quantum Vision is its director	Financial assets carried at cost	300	9,000	2.39	9,000	Note 2
	EUDAR Technology Inc.	-	Financial assets carried at cost	600	15,420	2.20	15,420	Note 2
	Miluku Entertainment Corp.	Quantum Vision is its director	Financial assets carried at cost	400	931	1.80	931	Note 2
	PowerWorld Fund Inc.	Same chairman	Financial assets carried at cost	4,364	57,381	9.09	57,381	Note 2
	CHIPSHIP Technology Co., Ltd.	Corporation is its director	Financial assets carried at cost	2,000	9,452	10.61	9,452	Note 2
	Terax Communication Technologies Inc.	Same chairman	Financial assets carried at cost	3,065	29,152	6.26	29,152	Note 2
	A-Optronics Technology Inc.	Same chairman	Financial assets carried at cost	800	8,000	4.00	8,000	Note 2
	Globalgate.com, Inc.	-	Financial assets carried at cost	500	-	0.93	-	Note 2
	Venglobal Capital Fund L.P.	-	Financial assets carried at cost	-	16,590	5.18	16,590	Note 2
	Venglobal International Fund	-	Financial assets carried at cost	1	11,217	2.83	11,217	Note 2
	Powerchip Japan Corporation	-	Financial assets carried at cost	1	6,200	3.42	6,200	Note 2
	e-Phocus, Inc.	-	Financial assets carried at cost	700	-	8.52	-	Note 2
	Billions of Operations Per Second, Inc., Series A - preferred shares	-	Financial assets carried at cost	833	-	1.41	-	Note 2
	Billions of Operations Per Second, Inc., Series D - preferred shares	-	Financial assets carried at cost	658	-	1.12	-	Note 2
	e-Phocus, Inc., Series B-preferred shares	-	Financial assets carried at cost	667	31,520	50.00	31,520	Note 2
	e-Phocus, Inc., Series A-preferred shares	-	Financial assets carried at cost	333	11,460	33.33	11,460	Note 2
	NewSoft Technology Corp.	Same chairman	Financial assets at fair value through profit and loss	180	1,433	-	1,433	-
	Shinkong Financial Holding Co., Ltd.	-	Financial assets at fair value through profit and loss	29,918	798,820	-	798,820	-
	ProMos Technologies Inc.	-	Financial assets at fair value through profit and loss	3,001	33,307	-	33,307	-
	Veutron Corp.	Same chairman	Financial assets at fair value through profit and loss	809	4,045	-	4,045	-
	Power Quotient International Co., Ltd.	-	Financial assets at fair value through profit and loss	2,000	23,500	-	23,500	-
	Hua Nan Financial Holdings Co., Ltd.	-	Financial assets at fair value through profit and loss	14,291	322,268	-	322,268	-
	Nanya Technology Corporation	-	Financial assets at fair value through profit and loss	75	1,402	-	1,402	-
	Depo Auto Parts Ind. Co., Ltd.	-	Financial assets at fair value through profit and loss	1	117	-	117	-
	First Financial Holding Co., Ltd.	-	Financial assets at fair value through profit and loss	5,549	128,737	-	128,737	-
	Taiwan Cooperative Bank	-	Financial assets at fair value through profit and loss	7,645	139,139	-	139,139	-
	Quanta Computer Inc.	-	Financial assets at fair value through profit and loss	6	330	-	330	-
	Emerging Display Technologies Corp.	-	Financial assets at fair value through profit and loss	20	442	-	442	-
	Yang Ming Marine Transport Corp.	-	Financial assets at fair value through profit and loss	1,000	19,800	-	19,800	-
	Silicon Integrated System Corp.	-	Financial assets at fair value through profit and loss	2,700	50,220	-	50,220	-
	Siliconware Precision Industries Co., Ltd.	-	Financial assets at fair value through profit and loss	1,700	71,825	-	71,825	-
	Fullerton Technology Co., Ltd.	-	Financial assets at fair value through profit and loss	3,000	40,950	-	40,950	-
	China Development Financial Holding Corp.	-	Financial assets at fair value through profit and loss	3,000	36,000	-	36,000	-
	Macronix International Co., Ltd	-	Financial assets at fair value through profit and loss	60,532	248,787	-	248,787	-
	Holy Stone Enterprise Co., Ltd.	-	Financial assets at fair value through profit and loss	450	26,595	-	26,595	-
	Hung Sheng Construction Ltd.	-	Financial assets at fair value through profit and loss	800	15,080	-	15,080	-
	BENQ Corporation	-	Financial assets at fair value through profit and loss	1,500	40,425	-	40,425	-
	Yaego Corporation	-	Financial assets at fair value through profit and loss	1,500	18,675	-	18,675	-

(Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	March 31, 2006				Note
				Shares (Thousands/Units) (Note 7)	Carrying Value	Percentage of Ownership (%)	Market Value or Net Asset Value	
	Mega Financial Holding Co., Ltd.	-	Financial assets at fair value through profit and loss	6,950	\$ 169,927	-	\$ 169,927	-
	Wafer Works Corp.	-	Financial assets at fair value through profit and loss	5,056	166,848	-	166,848	-
	Elpida Memory Inc.	Director of the Corporation	Financial assets at fair value through profit and loss	438	510,887	-	510,887	-
	Silicon Storage Technology Inc.	-	Financial assets at fair value through profit and loss	68	9,616	-	9,616	-
	Sony Corporation	-	Financial assets at fair value through profit and loss	20	30,128	-	30,128	-
	<u>Bonds</u>							
	Veutron Corp. - issued in 2005 (I)	Same chairman	Held-to-maturity financial assets	16	80,000	-	80,000	Note 2
	MaxEdge Electronics Corp. - issued in 2005 (I)	Investee	Held-to-maturity financial assets	30	30,000	-	30,000	Note 2
	MaxEdge Electronics Corp. - issued in 2005 (II)	Investee	Held-to-maturity financial assets	30	30,000	-	30,000	Note 2
	Veutron Corp. - issued in 2006 (I)	Same chairman	Held-to-maturity financial assets	5	25,000	-	25,000	Note 2
	MaxEdge Electronics Corp. - issued in 2005 (III)	Investee	Held-to-maturity financial assets	20	20,000	-	20,000	Note 2
	Veutron Corp. - issued in 2002 (II)	Same chairman	Held-to-maturity financial assets	4	20,000	-	20,000	Note 2
	Credit Link Note issued by Yuanta Assets Management Limited	-	Financial assets at fair value through profit and loss	-	55,182	-	55,182	-
	Credit Link Note issued by Credit Suisse First Boston	-	Financial assets at fair value through profit and loss	-	48,694	-	48,694	-
	<u>Equity</u>							
	Fuhwa Commercial Bank Common Trust Fund	-	Financial assets at fair value through profit and loss	10,000	101,454	-	101,454	-
	UPAMC Select Guaranteed No. 1 Fund	-	Financial assets at fair value through profit and loss	1,000	9,920	-	9,920	-
	Fubon Ju-I Bond Fund	-	Financial assets at fair value through profit and loss	6,422	100,919	-	100,919	-
	Fubon Ju-I II Fund	-	Financial assets at fair value through profit and loss	7,003	100,927	-	100,927	-
	Fuh-Hwa Omni Fund	-	Financial assets at fair value through profit and loss	5,000	52,500	-	52,500	-
	Fuh-Hwa Heirloom No. 2 Balance Fund	-	Financial assets at fair value through profit and loss	639	8,774	-	8,774	-
	Polaris Global ABS Fund - A	-	Financial assets at fair value through profit and loss	8,002	79,297	-	79,297	-
	Shinkong Number One Real Estate Investment	-	Financial assets at fair value through profit and loss	20,000	204,200	-	204,200	-
Li-Hsin	<u>Stock</u>							
Investment Corp.	MaxEdge Electronics Corp.	Investee	Investment accounted for using equity method	5,572	19,906	15.97	19,906	Note 2
	Synage Technology Corp.	Investee	Investment accounted for using equity method	10,750	81,594	21.50	81,594	Note 2
	Novax Technologies, Inc.	Investee	Investment accounted for using equity method	5,246	59,719	5.25	59,719	Note 2
	Tekmax Development Corp.	Investee	Investment accounted for using equity method	1,610	21,103	4.60	21,103	Note 2
	Smartic Technology Inc.	Investee	Investment accounted for using equity method	1,430	13,542	4.77	13,542	Note 2
	Lu-Chu Development Corp.	Investee	Investment accounted for using equity method	24,337	223,902	10.42	223,902	Note 2
	Artrix International Inc.	Investee	Investment accounted for using equity method	2,295	22,501	4.59	22,501	Note 2
	Luxxon Technology Corp.	Investee	Investment accounted for using equity method	1,363	8,797	1.36	8,797	Note 2
	Optimicro Corp.	Investee	Investment accounted for using equity method	2,118	20,375	4.24	20,375	Note 2
	Smart Art Corp.	Investee	Investment accounted for using equity method	3,000	29,998	12.00	29,998	Note 2
	Luxchip Technology Corp.	Investee	Investment accounted for using equity method	1,800	17,984	9.00	17,984	Note 2
	LoanSky.Net Corp.	Investee	Investment accounted for using equity method	400	3,869	8.00	3,869	Note 2
	Neo Solar Power Corp.	Investee	Investment accounted for using equity method	1,500	14,882	2.50	14,882	Note 2
	Deutron Japan Corp.	Investee	Investment accounted for using equity method	289	7,882	3.89	7,882	Note 2
	AIPTEK International Inc.	-	Financial assets carried at cost	1,000	11,000	0.47	11,000	Note 2
	Explore Technology Electronics Inc.	-	Financial assets carried at cost	500	-	4.17	-	Note 2
	Gatetech Technology Inc.	-	Financial assets carried at cost	187	2,963	0.31	2,963	Note 2

(Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	March 31, 2006				Note
				Shares (Thousands/Units) (Note 7)	Carrying Value	Percentage of Ownership (%)	Market Value or Net Asset Value	
	Aero Vision Avionics, Inc.	Same chairman	Financial assets carried at cost	1,000	\$ 6,960	1.85	\$ 6,960	Note 2
	Giga Solution Tech. Co., Ltd.	-	Financial assets carried at cost	962	5,817	0.76	5,817	Note 2
	PowerWorld Fund Inc.	Same chairman	Financial assets carried at cost	671	8,822	1.40	8,822	Note 2
	Eon Silicon Solution Inc.	-	Financial assets carried at cost	195	4,515	0.34	4,515	Note 2
	Ili Technology Corp.	-	Financial assets carried at cost	500	7,500	2.13	7,500	Note 2
	Getsilicon net, Inc.	-	Financial assets carried at cost	400	-	2.20	-	Note 2
	Powerchip Japan Corp.	-	Financial assets carried at cost	-	297	0.17	297	Note 2
	Umax System GmbH	-	Financial assets carried at cost	-	9,353	6.00	9,353	Note 2
	<u>Bonds</u>							
	Veutron Corp. - issued in 2002 (II)	Same chairman	Held-to-maturity financial assets	3	15,000	-	15,000	Note 2
	Veutron Corp. - issued in 2003 (II)	Same chairman	Held-to-maturity financial assets	3	6,000	-	6,000	Note 2
	Veutron Corp. - issued in 2005 (I)	Same chairman	Held-to-maturity financial assets	4	20,000	-	20,000	Note 2
	Veutron Corp. - issued in 2006 (I)	Same chairman	Held-to-maturity financial assets	3	15,000	-	15,000	Note 2
	MaxEdge Electronics Corp. - issued in 2005 (II)	Investee	Held-to-maturity financial assets	10	10,000	-	10,000	Note 2
	MaxEdge Electronics Corp. - issued in 2005 (III)	Investee	Held-to-maturity financial assets	15	15,000	-	15,000	Note 2
	<u>Stock</u>							
	NewSoft Technology Corp.	Same chairman	Financial assets at fair value through profit and loss	1,126	8,964	-	8,964	-
	Fullerton Technology Co., Ltd.	-	Financial assets at fair value through profit and loss	1,045	14,265	-	14,265	-
	Taiwan Cooperative Bank	-	Financial assets at fair value through profit and loss	220	4,004	-	4,004	-
	Yang Ming Marine Transport Corp.	-	Financial assets at fair value through profit and loss	100	1,980	-	1,980	-
	Macronix International Co., Ltd.	-	Financial assets at fair value through profit and loss	12,000	49,320	-	49,320	-
	Optimax Technology Corp.	Corporation is its director	Available-for-sale financial assets	120	4,332	-	4,332	-
	Powerchip Semiconductor Corp.	Parent company	Available-for-sale financial assets	3,992	75,849	-	75,849	-
	<u>Equity</u>							
	New Light Taiwan Bond Fund	-	Financial assets at fair value through profit and loss	2,186	22,186	-	22,186	Note 2
Quantum Vision Corp.	<u>Stock</u>							
	MaxEdge Electronics Corp.	Investee	Investment accounted for using equity method	3,883	12,834	11.13	12,834	Note 2
	Deutron Electronics Corp.	Investee	Investment accounted for using equity method	5,236	168,738	10.24	168,738	Note 2
	Syntronix Corp.	Investee	Investment accounted for using equity method	649	7,892	2.13	7,892	Note 2
	Zentel Electronics Corp.	Investee	Investment accounted for using equity method	2,100	18,888	8.40	18,888	Note 2
	Synage Technology Corp.	Investee	Investment accounted for using equity method	1,836	13,928	3.67	13,928	Note 2
	Novax Technologies, Inc.	Investee	Investment accounted for using equity method	12,735	144,805	12.73	144,805	Note 2
	Luxxon Technology Corp.	Investee	Investment accounted for using equity method	9,670	62,549	9.67	62,549	Note 2
	AVAC Systems Inc.	Investee	Investment accounted for using equity method	2,237	22,990	13.03	22,990	Note 2
	PowerGate Optical, Inc.	Investee	Investment accounted for using equity method	2,344	12,915	11.72	12,915	Note 2
	Tekmax Development Corp.	Investee	Investment accounted for using equity method	4,025	52,757	11.50	52,757	Note 2
	Silicon Optronics, Inc.	Investee	Investment accounted for using equity method	900	15,440	6.43	15,440	Note 2
	PowerFlash Semiconductor Corp.	Investee	Investment accounted for using equity method	850	6,203	6.54	6,203	Note 2
	Smartic Technology Inc.	Investee	Investment accounted for using equity method	1,800	17,034	6.00	17,034	Note 2
	Artrix International Inc.	Investee	Investment accounted for using equity method	4,985	48,835	13.29	48,835	Note 2
	Optimicro Corp.	Investee	Investment accounted for using equity method	3,987	38,299	7.97	38,299	Note 2
	Lu-Chu Development Corp.	Investee	Investment accounted for using equity method	7,327	67,472	3.14	67,472	Note 2
	Astel Electronics Corp.	Investee	Investment accounted for using equity method	1,000	9,769	5.00	9,769	Note 2

(Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	March 31, 2006				Note
				Shares (Thousands/Units) (Note 7)	Carrying Value	Percentage of Ownership (%)	Market Value or Net Asset Value	
Smart Art Corp.		Investee	Investment accounted for using equity method	5,000	\$ 49,997	20.00	\$ 49,997	Note 2
LoanSky.Net Corp.		Investee	Investment accounted for using equity method	1,000	9,671	20.00	9,671	Note 2
Luxchip Technology Corp.		Investee	Investment accounted for using equity method	2,200	21,980	11.00	21,980	Note 2
Neo Solar Power Corp.		Investee	Investment accounted for using equity method	1,800	17,859	3.00	17,859	Note 2
Retronix Technology Corp.		Investee	Investment accounted for using equity method	1,000	10,000	5.00	10,000	Note 2
Network Holdings Limited		Investee	Investment accounted for using equity method	90	2,086	30.00	2,086	Note 2
Terax Communication Technologies Inc.		Same chairman	Financial assets carried at cost	3,715	15,712	7.58	15,712	Note 2
Powervision Technologies, Inc.		Quantum Vision is its director	Financial assets carried at cost	520	3,858	11.87	3,858	Note 2
Besteam Technology Inc.		-	Financial assets carried at cost	3,388	24,187	5.19	24,187	Note 2
eMemory Technology Inc.		Same chairman	Financial assets carried at cost	880	-	2.63	-	Note 2
Great Taipei Broadband Co., Ltd.		Corporation is its director	Financial assets carried at cost	1,500	12,945	1.00	12,945	Note 2
Aero Vision Avionics, Inc.		Same chairman	Financial assets carried at cost	1,500	10,440	2.78	10,440	Note 2
Universal Venture Fund, Inc.		Same chairman	Financial assets carried at cost	3,119	24,984	3.90	24,984	Note 2
SAMHOP Electronics Corp.		-	Financial assets carried at cost	720	9,432	3.00	9,432	Note 2
Impac Technology Co., Ltd.		-	Financial assets carried at cost	200	2,106	0.53	2,106	Note 2
Lightsonic Optoelectronics Inc.		Same chairman	Financial assets carried at cost	1,500	10,811	1.62	10,811	Note 2
Miluku Entertainment Corp.		Quantum Vision is its director	Financial assets carried at cost	400	5,000	1.80	5,000	Note 2
Taiwan Liposome Co., Ltd.		Quantum Vision is its director	Financial assets carried at cost	200	6,000	1.59	6,000	Note 2
PowerWorld Fund Inc.		Same chairman	Financial assets carried at cost	1,200	15,778	2.50	15,778	Note 2
Chipking Electronic Co., Ltd.		Quantum Vision is its supervisor	Financial assets carried at cost	800	8,000	16.00	8,000	Note 2
TVbean Co., Ltd.		Quantum Vision is its director	Financial assets carried at cost	300	4,500	1.84	4,500	Note 2
A-Optronics Technology Inc.		Same chairmen	Financial assets carried at cost	1,400	14,400	7.00	14,400	Note 2
Eon Silicon Solution Inc.		-	Financial assets carried at cost	195	4,515	0.34	4,515	Note 2
Phoenix Silicon International Corporation		-	Financial assets carried at cost	218	2,399	1.09	2,399	Note 2
Ili Technology Corp.		-	Financial assets carried at cost	1,000	15,000	4.26	15,000	Note 2
Billions of Operations Per Second, Inc.		-	Financial assets carried at cost	200	-	0.33	-	Note 2
Nobex Corp.		-	Financial assets carried at cost	50	-	-	-	Note 2
Magna Chip.		-	Financial assets carried at cost	1	-	-	-	Note 2
MAXXAN Corp.		-	Financial assets carried at cost	403	-	0.25	-	Note 2
e-Phocus, Inc. Series B - preferred shares		-	Financial assets carried at cost	133	6,311	-	6,311	Note 2
Umax System GmbH		-	Financial assets carried at cost	-	10,912	-	10,912	Note 2
<b>Bonds</b>								
Veutron Corp. - issued in 2002 (II)		Same chairman	Held-to-maturity financial assets	5	25,000	-	25,000	Note 2
Veutron Corp. - issued in 2003 (II)		Same chairman	Held-to-maturity financial assets	13	26,000	-	26,000	Note 2
Veutron Corp. - issued in 2005 (I)		Same chairman	Held-to-maturity financial assets	4	20,000	-	20,000	Note 2
Veutron Corp. - issued in 2006 (I)		Same chairman	Held-to-maturity financial assets	5	25,000	-	25,000	Note 2
MaxEdge Electronics Corp. - issued in 2005 (I)		Investee	Held-to-maturity financial assets	10	10,000	-	10,000	Note 2
MaxEdge Electronics Corp. - issued in 2005 (II)		Investee	Held-to-maturity financial assets	20	20,000	-	20,000	Note 2
MaxEdge Electronics Corp. - issued in 2005 (III)		Investee	Held-to-maturity financial assets	10	10,000	-	10,000	Note 2
<b>Stocks</b>								
Shinkong Financial Holding Co., Ltd.		-	Financial assets at fair value through profit and loss	437	11,678	-	11,678	-
NewSoft Technology Corp.		Same chairman	Financial assets at fair value through profit and loss	473	3,767	-	3,767	-
Veutron Corp.		Same chairman	Financial assets at fair value through profit and loss	500	2,500	-	2,500	-
Silicon Storage Technology Inc.		-	Financial assets at fair value through profit and loss	183	26,033	-	26,033	-
Fullerton Technology Co., Ltd.		-	Financial assets at fair value through profit and loss	3,060	41,770	-	41,770	-

(Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	March 31, 2006				Note	
				Shares (Thousands/Units) (Note 7)	Carrying Value	Percentage of Ownership (%)	Market Value or Net Asset Value		
Paramax Corp.	Huaku Construction Co., Ltd.	-	Financial assets at fair value through profit and loss	-	\$ 1	-	\$ 1	-	
	Taiwan Cooperative Bank	-	Financial assets at fair value through profit and loss	220	4,004	-	4,004	-	
	Yang Ming Marine Transport Corp.	-	Financial assets at fair value through profit and loss	100	1,980	-	1,980	-	
	Macronix International Co., Ltd.	-	Financial assets at fair value through profit and loss	17,955	73,795	-	73,795	-	
	Hua Nan Financial Holdings Co., Ltd.	-	Financial assets at fair value through profit and loss	1,000	22,550	-	22,550	-	
	Optimax Technology Corp.	Corporation is its director	Available-for-sale financial assets	299	10,787	-	10,787	-	
	Powertech Technology Inc.	Quantum Vision is its director	Available-for-sale financial assets	2,776	302,603	-	302,603	-	
									-
									-
		<u>Equity</u>							
		Fuhwa Advantage Bond Fund	-	Financial assets at fair value through profit and loss	1,487	15,348	-	15,348	-
		Yuan Ta Fixed Income II	-	Financial assets at fair value through profit and loss	1,267	18,329	-	18,329	-
		<u>Stock</u>							
		MaxEdge Electronics Corp.	Investee	Investment accounted for using equity method	2,479	9,439	7.11	9,439	Note 2
		Synage Technology Corp.	Investee	Investment accounted for using equity method	2,081	15,787	4.16	15,787	Note 2
		Novax Technologies, Inc.	Investee	Investment accounted for using equity method	4,042	45,956	4.04	45,956	Note 2
		Luxxon Technology Corp.	Investee	Investment accounted for using equity method	6,728	44,824	6.73	44,824	Note 2
		PowerGate Optical, Inc.	Investee	Investment accounted for using equity method	1,282	7,063	6.41	7,063	Note 2
		Silicon Optronics, Inc.	Investee	Investment accounted for using equity method	500	8,573	3.57	8,573	Note 2
		PowerFlash Semiconductor Corp.	Investee	Investment accounted for using equity method	500	3,652	3.85	3,652	Note 2
		Smartic Technology Inc.	Investee	Investment accounted for using equity method	1,800	17,034	6.00	17,034	Note 2
		Artrix International Inc.	Investee	Investment accounted for using equity method	1,897	18,646	3.79	18,646	Note 2
		Lu-Chu Development Corp.	Investee	Investment accounted for using equity method	5,294	48,777	2.27	48,777	Note 2
		Smart Art Corp.	Investee	Investment accounted for using equity method	5,000	49,997	20.00	49,997	Note 2
		Optimicro Corp.	Investee	Investment accounted for using equity method	800	7,689	1.60	7,689	Note 2
		LoanSky.Net Corp.	Investee	Investment accounted for using equity method	400	3,869	8.00	3,869	Note 2
		Tekmax Development Corp.	Investee	Investment accounted for using equity method	1,000	13,120	2.86	13,120	Note 2
		Zhi-Li Investment Corp.	Investee	Investment accounted for using equity method	5,500	55,000	6.88	55,000	Note 2
		Deutron Japan Corp.	Investee	Investment accounted for using equity method	351	9,584	4.73	9,584	Note 2
		Retronix Technology Corp.	Investee	Investment accounted for using equity method	1,000	10,000	5.00	10,000	Note 2
		Terax Communication Technologies Inc.	Corporation and investee have same chairman	Financial assets carried at cost	770	6,302	1.57	6,302	Note 2
		Powervision Technologies, Inc.	Quantum Vision is its director	Financial assets carried at cost	260	1,929	5.94	1,929	Note 2
		Besteam Technology Inc.	-	Financial assets carried at cost	261	3,120	0.40	3,120	Note 2
	Aero Vision Avionics, Inc.	Corporation and investee have same chairman	Financial assets carried at cost	1,290	8,978	2.39	8,978	Note 2	
	Universal Venture Fund, Inc.	Corporation and investee have same chairman	Financial assets carried at cost	1,405	11,252	1.76	11,252	Note 2	
	SAMHOP Electronics Corp.	-	Financial assets carried at cost	440	7,040	1.83	7,040	Note 2	
	Lightsonic Optoelectronics Inc.	Corporation and investee have same chairman	Financial assets carried at cost	1,000	7,207	1.08	7,207	Note 2	
	PowerWorld Fund Inc.	Corporation and investee have same chairman	Financial assets carried at cost	818	8,333	1.70	8,333	Note 2	
	Eon Silicon Solution Inc.	-	Financial assets carried at cost	209	4,839	0.37	4,839	Note 2	
	Ili Technology Corp.	-	Financial assets carried at cost	1,000	15,000	4.26	15,000	Note 2	
	Powerchip Japan Corporation	-	Financial assets carried at cost	-	297	0.17	297	Note 2	

(Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	March 31, 2006				Note
				Shares (Thousands/Units) (Note 7)	Carrying Value	Percentage of Ownership (%)	Market Value or Net Asset Value	
	<u>Bonds</u>							
	Veutron Corp. - issued in 2002 (II)	Corporation and investee have same chairman	Held-to-maturity financial assets	2	\$ 10,000	-	\$ 10,000	Note 2
	Veutron Corp. - issued in 2003 (II)	Corporation and investee have same chairman	Held-to-maturity financial assets	7	14,000	-	14,000	Note 2
	Veutron Corp. - issued in 2005 (I)	Corporation and investee have same chairman	Held-to-maturity financial assets	4	20,000	-	20,000	Note 2
	Veutron Corp. - issued in 2006 (I)	Corporation and investee have same chairman	Held-to-maturity financial assets	2	10,000	-	10,000	Note 2
	MaxEdge Electronics Corp. - issued in 2005 (I)	Investee	Held-to-maturity financial assets	5	5,000	-	5,000	Note 2
	MaxEdge Electronics Corp. - issued in 2005 (III)	Investee	Held-to-maturity financial assets	5	5,000	-	5,000	Note 2
	Shinkong Financial Holding Co., Ltd.	-	Financial assets at fair value through profit and loss	137	3,669	-	3,669	-
	Veutron Corp.	Corporation and investee have same chairman	Financial assets at fair value through profit and loss	10,430	52,150	-	52,150	-
	Macronix International Co., Ltd.	-	Financial assets at fair value through profit and loss	12,000	49,320	-	49,320	-
	Optimax Technology Corp.	Corporation is its director	Available-for-sale financial assets	80	2,888	-	2,888	-
	<u>Equity</u>							
	Fuhwa Advantage Bond Fund	-	Financial assets at fair value through profit and loss	1,663	17,167	-	17,167	-
Smartic Technology Corp.	<u>Stock</u>							
	Optimax Technology Corp.	Investee	Investment accounted for using equity method	702	7,023	1.40	7,023	Note 2
	Retronix Technology Corp.	Investee	Investment accounted for using equity method	2,000	20,000	10.00	20,000	Note 2
	Zhi-Li Investment Corp.	Investee	Investment accounted for using equity method	1,500	15,000	1.88	15,000	Note 2
	Artrix International Inc.	Investee	Investment accounted for using equity method	200	2,000	0.40	2,000	Note 2
	Powerchip Semiconductor Corp.	Parent Company	Available-for-sale financial assets	2,330	44,270	-	44,270	-
	<u>Equity</u>							
	KGI Victory Fund	-	Financial assets at fair value through profit and loss	222	2,365	-	2,365	-
	President Homerun Fund	-	Financial assets at fair value through profit and loss	3,607	50,112	-	50,112	-
	Fuhwa Bond Fund	-	Financial assets at fair value through profit and loss	2,508	33,102	-	33,102	-
	PCA Well Pool II Fund	-	Financial assets at fair value through profit and loss	3,257	50,109	-	50,109	-
	Cathay Bond Fund	-	Financial assets at fair value through profit and loss	3,600	41,105	-	41,105	-
	Capital Income Fund	-	Financial assets at fair value through profit and loss	486	7,156	-	7,156	-
Smart Art Corp.	<u>Equity</u>							
	Capital Cash Reserves Bond Fund	-	Financial assets at fair value through profit and loss	6,082	70,586	-	70,586	-
	Polaris De-Li Bond Fund	-	Financial assets at fair value through profit and loss	1,768	26,390	-	26,390	-
Zentel Electronics Corp.	<u>Stock</u>							
	Zentel Japan Corp.	Subsidiary	Investment accounted for using equity method	4	27,719	99.96	27,719	Note 2
	PowerFlash Semiconductor Corp.	Investee	Investment accounted for using equity method	650	4,743	5.00	4,743	Note 2
	Novax Technologies, Inc.	Investee	Investment accounted for using equity method	734	8,370	0.73	8,370	Note 2
	<u>Equity</u>							
	PCA Wellpool Fund	-	Financial assets at fair value through profit and loss	295	3,657	-	3,657	-

(Continued)

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	March 31, 2006				Note
				Shares (Thousands/Units) (Note 7)	Carrying Value	Percentage of Ownership (%)	Market Value or Net Asset Value	
PowerFlash	<u>Stock</u>							
	Artrix International Inc.	Investee	Investment accounted for using equity method	600	\$ 5,894	1.20	\$ 5,894	Note 2
	Zhi-Li Investment Inc.	Investee	Investment accounted for using equity method	960	9,580	1.20	9,580	Note 2
	Zentel Electronics Corp.	Investee	Investment accounted for using equity method	320	2,878	1.28	2,878	Note 2
	Smartic Technologies Inc.	Investee	Investment accounted for using equity method	120	1,136	0.40	1,136	Note 2
	Shinkong Financial Holding Co., Ltd.	-	Financial assets at fair value through profit and loss	1,597	42,653	-	42,653	-
	<u>Bond</u>							
Veutron Corp. - issued in 2005 (I)	Corporation and investee have same chairman	Held-to-maturity financial assets	1	5,000	-	5,000	-	

Note 1: The net asset value is based on unreviewed financial data as of March 31, 2006.

Note 2: The market value is based on carrying value as of March 31, 2006.

Note 3: As of March 31, 2006, 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: Prepayments of long-term investments of the Corporation are excluded.

Note 7: In thousands, except for bond investments which are units.

(Concluded)

## POWERCHIP SEMICONDUCTOR CORPORATION AND INVESTEEES

MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL  
FOR THE THREE MONTHS ENDED MARCH 31, 2006  
(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	Stock Quantum Vision Corp.	Investment accounted for using equity method	-	-	160,990	\$ 1,567,813	19,000	\$ 190,000	-	\$ -	\$ -	\$ -	179,990	\$ 2,013,088
	Smartic Technologies Inc.	Investment accounted for using equity method	-	-	3,000	19,671	13,050	130,500	750	-	-	-	15,300	121,084
	Zhi-Li Investment Corp.	Investment accounted for using equity method	-	-	18,650	185,305	11,014	110,140	(Note 2)	-	-	-	29,664	295,445
	Hua Nan Financial Holdings Co., Ltd.	Financial assets at fair value through profit and loss	-	-	8,821	190,981	5,470	124,154	-	-	-	-	14,291	322,268
	Mega Financial Holding Co., Ltd.	Financial assets at fair value through profit and loss	-	-	-	(Note 3)	6,950	168,206	-	-	-	-	6,950	169,927
	Wafer Works Corp.	Financial assets at fair value through profit and loss	-	-	-	-	5,056	164,503	-	-	-	-	5,056	166,848

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: Result from investee's capital reduction.

Note 3: The retroactive amounts caused by the adoption of SFAS No. 34.

Note 4: The ending balance included the valuation gains (losses) on financial assets.

## POWERCHIP SEMICONDUCTOR CORPORATION

TOTAL PURCHASE FROM OR SALE TO RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL  
FOR THE THREE MONTHS ENDED MARCH 31, 2006

(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	Elpida Memory Inc.	Director	Sales	\$ 2,642,262	18	Note 2	-	-	\$ 1,085,451	18	-
	Deutron Electronics Corp.	Investee	Sales	1,713,511	12	Note 3	-	-	1,016,078	17	-
	Novax Technologies, Inc.	Investee	Sales	1,109,477	8	Note 3	-	-	641,187	11	-
	Elpida Memory (Taiwan) Co., Ltd.	Subsidiary of Elpida	Sales	1,014,250	7	Note 2	-	-	391,574	6	-
	Renesas Technology (Taiwan) Co., Ltd. (Note 5)	Subsidiary of Renesas	Sales	587,017	4	Note 2	-	-	223,464	4	-
	Syntronix Corp.	Investee	Sales	168,885	1	Note 2	-	-	74,685	1	-
	Renesas Technology (Taiwan) Co., Ltd. (Note 5)	Subsidiary of Renesas	Purchase	194,331	6	Note 2	-	-	(98,295)	(1)	-
	Powertech Technology Inc.	Quantum Vision is its director	Note 1	1,124,028	10	Note 4	-	-	(1,220,913)	(18)	-

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.

Note 5: The Company ceased to be the Corporation's related party as of March 31, 2006; the transaction made as of and for the three months ended March 31, 2006 are disclosed only for reference.

**POWERCHIP SEMICONDUCTOR CORPORATION**

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

**MARCH 31, 2006**

**(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	Elpida Memory Inc.	Director	\$ 1,085,451	11.48	\$ -	-	\$ -	\$ 21,901
	Deutron Electronics Corp.	Investee	1,016,078	6.91	-	-	360,435	20,582
	Novax Technologies, Inc.	Investee	641,187	9.34	-	-	144,262	13,015
	Elpida Memory (Taiwan) Co., Ltd.	Subsidiary of Elpida	391,574	20.72	-	-	216,290	7,936
	Renesas Technology (Taiwan) Co., Ltd.	Subsidiary of Renesas	223,464	11.48	-	-	-	3,445

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 March 31, 2006; the transaction made as of and for the three months ended March 31, 2006 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 THREE MONTHS ENDED MARCH 31, 2006

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

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of March 31, 2006			Net Income (Loss) of the Investee	Investment Gain (Loss)	Note	
				Mar. 31, 2006	Dec. 31, 2005	Shares (Thousands)	% of Ownership	Carrying Value				
Powerchip Semiconductor Corporation	Quantum Vision Corp.	Taipei, Taiwan	Investment	\$ 1,772,900	\$ 1,582,900	179,990	99.99	\$ 2,013,088	\$ (10,469)	\$ (10,468)		
	Li-Hsin Investment Corp.	Taipei, Taiwan	Investment	1,338,500	1,338,500	133,850	99.89	812,320	(22,807)	(22,782)		
	Paramax Corp.	Taipei, Taiwan	Investment	839,940	839,940	83,994	99.99	657,560	(586)	(586)		
	Lu-Chu Development Corp.	Taipei, Taiwan	Transaction of real estate	634,990	634,990	63,499	27.18	584,037	-	-	Note	
	Zhi-Li Investment Corp.	Taipei, Taiwan	Investment	296,640	186,500	29,664	37.08	295,445	-	-	Note	
	Novax Technologies, Inc.	Taipei, Taiwan	Electronic components manufacturing	287,476	287,476	24,658	24.66	280,511	-	-	Note	
	Deutron Electronics Corp.	Taipei, Taiwan	Electronic components manufacturing	21,300	21,300	4,998	9.78	153,345	-	-	Note	
	Optimicro Corp.	Taipei, Taiwan	Optical components manufacturing	147,000	147,000	14,700	29.40	141,279	-	-	Note	
	Luxxon Technology Corp.	Taoyuan, Taiwan	Electronic components manufacturing	207,331	207,331	20,733	20.73	134,089	-	-	Note	
	Artrix International Inc.	Taipei, Taiwan	Investment	127,600	87,600	12,760	25.52	125,279	-	-	Note	
	Smartic Technology Inc.	Taipei, Taiwan	Design of electronic related products	160,500	30,000	15,300	51.00	121,084	(2,454)	(1,081)		
	Smart Art Corp.	Taipei, Taiwan	Transaction of artistry	120,000	120,000	12,000	48.00	119,992	6	3		
	Neo Solar Power Corp.	Taipei, Taiwan	Solar cells manufacturing	96,000	96,000	9,600	16.00	95,247	-	-	Note	
	Deutron Japan Corp.	Japan	Electronic components manufacturing	90,020	90,020	2,891	38.98	79,635	-	-	Note	
	Astel Electronics Corp.	Taipei, Taiwan	Electronic components manufacturing	80,000	80,000	8,000	40.00	78,151	-	-	Note	
	Syntronix Corp.	Hsin-Chu, Taiwan	Design of electronic related products	71,664	81,516	6,390	20.97	77,666	-	-	Note	
	Synage Technology Corp.	Taipei, Taiwan	Electronic components manufacturing	101,212	101,212	10,084	20.17	76,547	-	-	Note	
	Tekmax Development Corp.	Taipei, Taiwan	Investment	58,640	58,640	5,520	15.77	72,107	-	-	Note	
	Zentel Electronics Corp.	Hsin-Chu, Taiwan	Design of electronic related products	92,000	92,000	9,200	36.80	69,493	(9,299)	(2,332)		
	Signia Technologies Co., Ltd.	Taipei, Taiwan	Design of electronic related products	60,258	-	4,980	20.71	60,258	-	-	Note	
	Retronix Technology Corp.	Taipei, Taiwan	Design and transaction of software	50,000	-	5,000	25.00	50,000	-	-	Note	
	AVAC Systems, Inc.	Hsin-Chu, Taiwan	Digital camera manufacturing	44,000	44,000	4,000	23.31	41,128	-	-	Note	
	Luxchip Technology Corp.	Taoyuan, Taiwan	Lighting manufacturing	38,000	38,000	3,800	19.00	37,966	-	-	Note	
	PowerFlash Semiconductor Corp.	Taipei, Taiwan	Design of electronic related products	41,600	41,600	4,160	32.00	30,291	(850)	(272)		
	Silicon Optronics, Inc.	Hsin-Chu, Taiwan	Electronic components manufacturing	17,000	17,000	1,700	12.14	29,152	-	-	Note	
	MaxEdge Electronics Corp.	Taoyuan, Taiwan	PCB manufacturing	449,874	436,874	4,671	13.39	16,718	-	-	Note	
	PowerGate Optical, Inc.	Taipei, Taiwan	Optical components manufacturing	18,700	18,700	1,870	9.35	10,303	-	-	Note	
	Li-Hsin Investment Corp.	MaxEdge Electronics Corp.	Taoyuan, Taiwan	PCB manufacturing	516,369	500,369	5,572	15.97	19,906	-	-	Note
		Synage Technology Corp.	Taipei, Taiwan	Electronic components manufacturing	124,409	124,409	10,749	21.50	81,594	-	-	Note
Novax Technologies, Inc.		Taipei, Taiwan	Electronic components manufacturing	58,512	58,512	5,246	5.25	59,719	-	-	Note	
Tekmax Development Corp.		Taipei, Taiwan	Investment	17,120	17,120	1,610	4.60	21,103	-	-	Note	
Smartic Technologies Inc.		Taipei, Taiwan	Design of electronic related products	15,500	4,800	1,430	4.77	13,542	(2,454)	(112)		
Lu-Chu Development Corp.		Taipei, Taiwan	Transaction of real estate	243,371	243,371	24,337	10.42	223,902	-	-	Note	
Artrix International Inc.		Taipei, Taiwan	Investment	22,950	16,950	2,295	4.59	22,501	-	-	Note	
Luxxon Technology Corp.		Taoyuan, Taiwan	Electronic components manufacturing	13,079	13,079	1,363	1.36	8,797	-	-	Note	
Optimicro Corp.		Taipei, Taiwan	Optical components manufacturing	21,177	21,177	2,118	4.24	20,375	-	-	Note	
Smart Art Corp.		Taipei, Taiwan	Transaction of artistry	30,000	30,000	3,000	12.00	29,998	6	1		
Luxchip Technology Corp.		Taoyuan, Taiwan	Lighting manufacturing	18,000	18,000	1,800	9.00	17,984	-	-	Note	
LoanSky.Net Corp.		Taipei, Taiwan	Design of electronic related products	4,000	4,000	400	8.00	3,869	-	-	Note	
Neo Solar Power Corp.		Taipei, Taiwan	Solar cells manufacturing	15,000	15,000	1,500	2.50	14,882	-	-	Note	
Deutron Japan Corp.		Japan	Electronic components manufacturing	9,067	9,067	289	3.89	7,882	-	-	Note	
Quantum Vision Corp.		MaxEdge Electronics Corp.	Taoyuan, Taiwan	PCB manufacturing	250,170	240,170	3,883	11.13	12,834	-	-	Note
		Deutron Electronics Corp.	Taipei, Taiwan	Electronic components manufacturing	22,800	22,800	5,236	10.24	168,738	-	-	Note
	Syntronix Corp.	Hsin-Chu, Taiwan	Design of electronic related products	7,380	7,380	649	2.13	7,892	-	-	Note	
	Zentel Electronics Corp.	Hsin-Chu, Taiwan	Design of electronic related products	21,000	21,000	2,100	8.40	18,888	(9,299)	(781)		
	Synage Technology Corp.	Taipei, Taiwan	Electronic components manufacturing	17,250	17,250	1,836	3.67	13,928	-	-	Note	
	Novax Technologies, Inc.	Taipei, Taiwan	Electronic components manufacturing	133,479	133,479	12,735	12.73	144,805	-	-	Note	
	Luxxon Technology Corp.	Taoyuan, Taiwan	Electronic components manufacturing	96,699	96,699	9,670	9.67	62,549	-	-	Note	
	AVAC Systems, Inc.	Hsin-Chu, Taiwan	Digital camera manufacturing	24,321	24,321	2,237	13.03	22,990	-	-	Note	
PowerGate Optical, Inc.	Taipei, Taiwan	Optical components manufacturing	23,440	23,440	2,344	11.72	12,915	-	-	Note		

(Continued)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of March 31, 2006			Net Income (Loss) of the Investee	Investment Gain (Loss)	Note
				Mar. 31, 2006	Dec. 31, 2005	Shares (Thousands)	Percentage of Ownership (%)	Carrying Value			
	Tekmax Development Corp.	Taipei, Taiwan	Investment	\$ 42,800	\$ 42,800	4,025	11.50	\$ 52,757	\$ -	\$ -	Note
	Silicon Optronics, Inc.	Hsin-Chu, Taiwan	Electronic components manufacturing	9,000	9,000	900	6.43	15,440	-	-	Note
	PowerFlash Semiconductor Corp.	Taipei, Taiwan	Design of electronic related products	8,500	8,500	850	6.54	6,203	(850)	(56)	
	Smartic Technologies Inc.	Taipei, Taiwan	Design of electronic related products	19,800	7,200	1,800	6.00	17,034	(2,454)	(147)	
	Artrix International Inc.	Taipei, Taiwan	Investment	49,850	37,850	4,985	9.97	48,835	-	-	Note
	Optimicro Corp.	Taipei, Taiwan	Optical components manufacturing	39,873	39,873	3,987	7.97	38,299	-	-	Note
	Lu-Chu Development Corp.	Taipei, Taiwan	Transaction of real estate	73,268	73,268	7,327	3.14	67,472	-	-	Note
	Astel Electronics Corp.	Taipei, Taiwan	Electronic components manufacturing	10,000	10,000	1,000	5.00	9,769	-	-	Note
	Smart Art Corp.	Taipei, Taiwan	Transaction of artistry	50,000	50,000	5,000	20.00	49,997	6	1	
	LoanSky.Net Corp.	Taipei, Taiwan	Design of electronic related products	10,000	10,000	1,000	20.00	9,671	-	-	Note
	Luxchip Technology Corp.	Taoyuan, Taiwan	Lighting manufacturing	22,000	22,000	2,200	11.00	21,980	-	-	Note
	Neo Solar Power Corp.	Taipei, Taiwan	Solar cells manufacturing	18,000	18,000	1,800	3.00	17,859	-	-	Note
	Retronix Technology Corp.	Taipei, Taiwan	Design and transaction of software	10,000	-	1,000	5.00	10,000	-	-	Note
	Network Holdings Limited	Samoa	Investment	2,825	2,825	90	30.00	2,086	-	-	Note
Paramax Corp.	MaxEdge Electronics Corp.	Taoyuan, Taiwan	PCB manufacturing	103,894	123,474	2,479	7.11	9,439	-	-	Note
	Synage Technology Corp.	Taipei, Taiwan	Electronic components manufacturing	21,641	21,641	2,081	4.16	15,787	-	-	Note
	Novax Technologies, Inc.	Taipei, Taiwan	Electronic components manufacturing	44,505	44,505	4,042	4.04	45,956	-	-	Note
	Luxxon Technology Corp.	Taoyuan, Taiwan	Electronic components manufacturing	65,189	57,428	6,728	6.73	44,824	-	-	Note
	PowerGate Optical, Inc.	Taipei, Taiwan	Optical components manufacturing	12,820	12,820	1,282	6.41	7,063	-	-	Note
	Silicon Optronics, Inc.	Hsin-Chu, Taiwan	Electronic components manufacturing	5,000	5,000	500	3.57	8,573	-	-	Note
	PowerFlash Semiconductor Corp.	Taipei, Taiwan	Design of electronic related products	5,000	5,000	500	3.85	3,652	(850)	(33)	
	Smartic Technologies Inc.	Taipei, Taiwan	Design of electronic related products	19,800	7,200	1,800	6.00	17,034	(2,454)	(147)	
	Artrix International Inc.	Taipei, Taiwan	Investment	18,973	11,973	1,897	3.79	18,646	-	-	Note
	Lu-Chu Development Corp.	Taipei, Taiwan	Transaction of real estate	52,936	52,936	5,294	2.27	48,777	-	-	Note
	Smart Art Corp.	Taipei, Taiwan	Transaction of artistry	50,000	50,000	5,000	20.00	49,997	6	1	
	Optimicro Corp.	Taipei, Taiwan	Optical components manufacturing	8,000	8,000	800	1.60	7,689	-	-	Note
	LoanSky.Net Corp.	Taipei, Taiwan	Design of electronic related products	4,000	4,000	400	8.00	3,869	-	-	Note
	Tekmax Development Corp.	Taipei, Taiwan	Investment	14,000	14,000	1,000	2.86	13,120	-	-	Note
	Zhi-Li Investment Corp.	Taipei, Taiwan	Investment	55,000	-	5,500	6.88	55,000	-	-	Note
	Deutron Japan Corp.	Japan	Electronic components manufacturing	11,031	11,031	351	4.73	9,584	-	-	Note
	Retronix Technology Corp.	Taipei, Taiwan	Design and transaction of software	10,000	-	1,000	5.00	10,000	-	-	Note
Smartic Technology Corp.	Optimicro Corp.	Taipei, Taiwan	Optical components manufacturing	7,023	7,023	702	1.40	7,023	-	-	Note
	Retronix Technology Corp.	Taipei, Taiwan	Design and transaction of software	20,000	-	2,000	10.00	20,000	-	-	Note
	Zhi-Li Investment Corp.	Taipei, Taiwan	Investment	15,000	-	1,500	1.88	15,000	-	-	Note
	Artrix International Inc.	Taipei, Taiwan	Investment	2,000	-	200	0.40	2,000	-	-	Note
Zentel Electronics Corp.	Zentel Japan Corp.	Japan	Design of electronic related products	66,322	38,322	4	99.96	27,719	(8,547)	(8,544)	
	PowerFlash Semiconductor Corp.	Taipei, Taiwan	Design of electronic related products	6,500	6,500	650	5.00	4,743	(850)	(42)	
	Novax Technologies, Inc.	Taipei, Taiwan	Electronic components manufacturing	8,400	8,400	734	0.73	8,370	-	-	Note
PowerFlash Semiconductor Corp.	Artrix International Inc.	Taipei, Taiwan	Investment	6,000	4,000	600	1.20	5,894	-	-	Note
	Zhi-Li Investment Corp.	Taipei, Taiwan	Investment	9,600	6,000	960	1.20	9,580	-	-	Note
	Zentel Electronics Corp.	Hsin-Chu, Taiwan	Design of electronic related products	2,880	2,880	320	1.28	2,878	(9,299)	(119)	
	Smartic Technology Inc.	Taipei, Taiwan	Design of electronic related products	1,200	-	120	0.40	1,136	(2,454)	(10)	

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

(Concluded)